Date: Tuesday 11 August 2020
Time: 2.00pm
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Kōmiti ā Pūtea, ā Mahi Hoki / Finance and Performance Committee

OPEN ATTACHMENTS

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11 | Summary of Finance and Performance Committee information memoranda and briefings, including the Forward Work Programme - 11 August 2020 |
B. | 23 July 2020 - Memo from Programme Lead Value for Money regarding Emergency Budget FY2020/2021 – asset recycling – next steps | 3

Note: The attachments contained within this document are for consideration and should not be construed as Council policy unless and until adopted. Should Councillors require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.
**Memo**

23 July 2020

To: Finance and Performance Committee members, all Local Board Members

From: Ross Chirnside, Programme Lead Value for Money

cc: Kevin Ramsay, Acting Group Chief Financial Officer, Louise Mason, General Manager Local Board Services

Subject: **Emergency Budget FY2020/2021 – asset recycling – next steps**

**Purpose**

1. The purpose of this memo is to:
   a) provide an overview of Emergency Budget asset recycling decisions made by the Finance and Performance Committee and Governing Body; and
   b) outline the next property rationalisation steps in implementing the asset recycling budget for FY2020/2021.

**Background**

2. Asset recycling is an important lever for the council allowing capital to be invested in the most strategically important activities with the 10-year budget including financial targets.

3. A key consideration for asset recycling is the opportunity cost of holding an asset which is not providing a service or generating an appropriate financial return against the opportunity of investing in new assets which deliver council services. In some cases, properties represent significant liabilities for council rather than assets.

4. The Emergency Budget includes $244m proceeds to be realised from asset recycling in FY21. This is an increase of $220m from the 10-year budget and will be achieved from 2 focus areas – property rationalisation and alternative commercial arrangements.

5. The below table shows a range of financial parameters for the respective focus areas. This is because to achieve the budget a pipeline of opportunities greater than the budget is required.

<table>
<thead>
<tr>
<th>Focus area</th>
<th>Low ($m)</th>
<th>High ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property rationalisation pipeline</td>
<td>100</td>
<td>150</td>
</tr>
<tr>
<td>Alternative commercial arrangements</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>(leasing, sale of lease interests) including car parks</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>350</strong></td>
</tr>
</tbody>
</table>

6. Previously, staff had a plan for a pipeline to achieve the LTP budget of $24m. The context of the Emergency Budget required the rapid development of a pipeline of opportunities noting some of the investigation and engagement processes were compressed into a short timeframe.

7. The consultation document for the Emergency Budget included details of how this budget would be achieved, including the identification of properties which may be disposed of. This provided the community early visibility and opportunity to provide feedback. There were also provided to local boards as part of their Emergency Budget briefings.
8. Covid-19 has required different ways of working with many people successfully transitioning to working from home. The council has looked at this and the consultation document also highlighted that different ways of working would be required to meet the budget.

9. Transparency of the property rationalisation pipeline and early elected member feedback was identified as very important. However, equally important was approvals to be achieved in the first quarter of the financial year to provide sufficient time for staff to implement elected member decisions and balance cash flow challenges.

10. Delays to achieving the agreed budget will have negative effects on council cashflow. Asset recycling funds capital expenditure and a key metric has been identified comparing the percentage of capital expenditure spent to the percentage of asset recycling budget realised.

What is property rationalisation?

11. Property rationalisation is a process operating across the Group which identifies property (land and buildings) which do not have a current or future service. These properties may no longer be required for future services (or public work) purposes and may be suitable for sale, and development if appropriate.

12. The property rationalisation process is well developed. Once a property has been identified as no longer required for a current or future service use, discussions occur with the appropriate parts of council and its CCOs to establish whether the property must be retained for a strategic purpose or is required for a future funded public work.

13. The rationalisation process also includes direct engagement with ward councillors, local boards and mana whenua. Local board views and preferences are considered but the decision-making rests with the Finance and Performance Committee.

Decisions already made by the Governing Body

14. Feedback from elected members (councillors and local board chairs) during Emergency Budget workshops indicated that a principled-based approach should be applied to asset recycling.

15. Elected members also needed increased confidence in the process. To that end the Governing Body requested that the Audit and Risk Committee review the property rationalisation process. This will take place before the next Finance and Performance Committee decisions.

16. To support effective decision making the Governing Body agreed the following principles (further details in Appendix):
   a) Effective governance and decision-making
   b) Alternative use considered
   c) Value for money
   d) Transparency
   e) Efficient and effective processes
   f) Statutory obligation

17. The Governing Body approved (subject to completion of statutory processes including mana whenua engagement) the disposal of a group of properties (Schedule A). In making this decision the Governing Body considered the feedback provided by local boards in respect of these proposed properties.

Developing Schedule A and Schedule B

18. Schedule A was developed following a workshop with the councillors. The properties in Schedule A had many of the following characteristics:
   a) No current or future funded service use
   b) No alternative use identified
   c) Low community interest
   d) Supported (or not specifically opposed in Emergency Budget feedback) by the local board.
19. Local boards provided their views on the recycling of the properties in Schedules A and B by resolutions made at business meetings during the week commencing on 6 July 2020.

20. Schedule B listed those properties included in the consultation document that were not Schedule A. For many of these properties local boards had expressed their views and it was agreed focused engagement with relevant local boards was required.

21. Further, the circumstances for some Schedule B properties has changed. They may no longer be considered candidates for sale or further investigation is required.

22. Schedule B will be split into
   a) Properties that are no longer candidates for rationalisation
   b) Properties which are candidates for rationalisation but there are outstanding issues or conditions to be resolved
   c) Properties to be considered by Finance and Performance in September

Approach to Finance and Performance Committee consideration of Schedule B

23. The following process will be used for consideration of Schedule B. As noted above this will require additional input from local boards. Due to the challenges of achieving the budget target the timeframe is required to be short.

<table>
<thead>
<tr>
<th>Task</th>
<th>Date</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review Schedule B splitting into 3 categories identified at 22 above</td>
<td>27th July</td>
<td>Ross Chimside</td>
</tr>
<tr>
<td>Provide property information to ward councillors and local boards</td>
<td>29th July</td>
<td>Ross Chimside</td>
</tr>
<tr>
<td>Elected member questions on specific properties</td>
<td>By 21st August</td>
<td>Local boards</td>
</tr>
<tr>
<td>Responses to elected member questions</td>
<td>Within 72 hours of query</td>
<td>Ross Chimside</td>
</tr>
<tr>
<td>Local board input</td>
<td>By 26th August</td>
<td>Local boards</td>
</tr>
<tr>
<td>Finance and Performance Committee workshop</td>
<td>2nd September</td>
<td>Ross Chimside</td>
</tr>
<tr>
<td>Finance and Performance Committee meeting</td>
<td>17th September</td>
<td>Ross Chimside</td>
</tr>
</tbody>
</table>

Additions to the property rationalisation pipeline

24. Additional property rationalisation opportunities have been identified. These will be collated with a third tranche of properties to be considered in November 2020.
## Attachment - Principles to support the implementation of the asset recycling budget

<table>
<thead>
<tr>
<th>Principle</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Effective governance and decision-making</td>
<td>The Governing Body (delegated to Finance and Performance Committee) after considering the views and preferences of local boards approves any property for disposal.</td>
</tr>
<tr>
<td>2 Alternative use</td>
<td>Consideration will be given as to whether a property has any alternative funded future use prior to disposal.</td>
</tr>
<tr>
<td>3 Value for money</td>
<td>The council will ensure effective stewardship of public funds and resources. Properties may not be disposed of for less than 90 per cent of the valuation without approval of the Finance and Performance Committee.</td>
</tr>
<tr>
<td>4 Transparency</td>
<td>Regular reporting (on public agenda) to Finance and Performance Committee including progress of approved opportunities and potential new opportunities. Decision making in public meetings unless that would disadvantage the council’s commercial or negotiation position.</td>
</tr>
<tr>
<td>5 Efficient and effective processes</td>
<td>Processes will be fit-for-purpose – value-adding, support better informed decision making and not add unnecessary cost or time. Elected members and staff will invest sufficient time to support the processes.</td>
</tr>
<tr>
<td>6 Statutory obligations</td>
<td>The council will meet its statutory obligations.</td>
</tr>
</tbody>
</table>