

I hereby give notice that an ordinary meeting of the Expenditure Control and Procurement Committee will be held on:

Date: Tuesday, 21 March 2023
Time: 10.00am
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

**Komiti mō te Kaitaonga me te Whakahaere i ngā
Whakapaunga Pūtea / Expenditure Control and
Procurement Committee**

OPEN ADDENDUM AGENDA

MEMBERSHIP

Chairperson	Cr Maurice Williamson	
Deputy Chairperson	Cr Greg Sayers	
Members	Cr Angela Dalton	IMSB Member Tony Kake, MNZM
	Cr Julie Fairey	Cr Mike Lee
	Cr Alf Filipaina, MNZM	Cr Daniel Newman, JP
	Cr Shane Henderson	IMSB Chair David Taipari
Ex-officio	Mayor Wayne Brown	
	Deputy Mayor Desley Simpson, JP	

(Quorum 5 members)

Duncan Glasgow
Kaitohutohu Mana Whakahaere Matua /
Senior Governance Advisor

20 March 2023

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ITEM TABLE OF CONTENTS

PAGE

8 Discretionary spend

5

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

Discretionary spend

File No.: CP2023/02292

Item 8

Te take mō te pūrongo

Purpose of the report

1. To define the scope of discretionary spend and advise on options for managing or controlling discretionary spend, while the impacts of the recent flooding and cyclone events are assessed and quantified.

Whakarāpopototanga matua

Executive summary

2. On 23 February 2023, the Governing Body resolved to encourage the council group to closely scrutinise and manage any spending and, where possible, consider stopping or limiting new discretionary expenditure. The Governing Body also requested staff to report to this committee on defining the scope of discretionary spend, options for managing or controlling discretionary spend and any implications of stopping or limiting such spend.
3. Discretionary expenditure is inherently difficult to define as it is situational and subjective in nature. Non-discretionary or essential expenditure is defined with reference to the service prioritisation framework “must do” category, and also to the essential services defined during the Covid level 4 lockdowns. These activities primarily relate to the provision of essential infrastructure and legislatively prescribed services such as civil defence and regulation. All other expenditure could be considered discretionary, however a practical approach to maintaining service levels and upholding contractual obligations is what has been put in place.
4. There are already expenditure savings targets and actions in place to reduce spend, such as recruitment and purchasing controls. Further actions undertaken to reduce discretionary expenditure include a directive from the Group Chief Financial Officer to all people leaders, a review of purchasing card holders and expenditure, and a further tightening of procurement controls. Capital expenditure is also subject to these controls and, in addition, is currently undergoing a prioritisation process as part of the Annual Budget 2023/2024 process.

Ngā tūtohunga

Recommendation/s

That the Expenditure Control and Procurement Committee:

- a) tuhi ā-taipitopito / note the discretionary spend control measures being progressed by management prior to the next annual budget.

Horopaki

Context

5. At its meeting on 23 February 2023, the Governing Body passed the following resolution when considering agenda item 7 (Chief Executive and Chief Financial Officer monthly update):

Resolution number GB/2023/11

- d) *tono / request staff to report back to the next meeting of the Expenditure Control and Procurement Committee on defining the scope of discretionary spend, options for managing or controlling discretionary spend and any implications of stopping or limiting such spend.*

6. This resolution was created within the context of the financial burden the council will face following the recent flooding and cyclone events. An update was provided to the Governing Body on 15 March 2023 via memo indicating that while still uncertain, initial estimates suggest the cost of the council group's operational response and recovery from these events could cost between \$900 million and \$1.2 billion over a number of years. These estimates include some short-term impacts on revenue, operational costs such as immediate cleaning, maintenance and repairs, as well as capital costs to renew damaged assets. The costs in the current financial year will largely be addressed through reductions in other expenditure, insurance recoveries, and some increase in debt compared to the outlook prior to the weather events. The council group is continuing to assess the impacts of these events and estimate the associated costs. It is noted that subsequent to the 23 February Governing Body decision, the council has received a request from City Rail Link Limited for an increased funding commitment to the City Rail Link project adding to the council's financially constrained context¹.
7. Given the weather event driven costs are largely unbudgeted, the Governing Body resolved to request advice on managing or controlling discretionary expenditure as an interim measure to create some additional financial capacity within the already constrained council finances.
8. In addition to resolution d) above, the Governing Body also passed a resolution encouraging the Chief Executive, local boards and council-controlled organisations (CCOs) to closely scrutinise and manage any spending, and where possible consider stopping or limiting new discretionary expenditure.

Tātaritanga me ngā tohutohu Analysis and advice

Defining discretionary spend

9. In determining what is discretionary spending, one approach is to first establish what is essential or non-discretionary spending. The Merriam Webster Dictionary defines essential as something basic, necessary, indispensable or unavoidable.² Essential or non-discretionary expenditure therefore refers to spending considered to be critical for basic needs or that is mandatory.
10. The service prioritisation framework adopted during the Annual Budget 2022/23 outlines a category of activities that council must do due to a legislative requirement (see Figure 1).

¹ The 15 March 2023 memo to the Governing Body addressed both the CRL funding request as well as the initial estimates of the recent flooding and cyclone events on the council group.

² <https://www.merriam-webster.com/dictionary/essential>

WHAT ARE THE THINGS THAT WE:

	must do?	should do?	could do?	won't do?
These are things that	<ul style="list-style-type: none"> are required by law (including our legal obligations to Māori) are essential services 	<ul style="list-style-type: none"> deliver on key priorities like climate action, transport, the environment and community development 	<ul style="list-style-type: none"> mitigate key risks provide additional/improved services for our customers and communities 	<ul style="list-style-type: none"> don't align to key priorities don't deliver value can be provided just as well by others
How we will prioritise	We will do these first	We will do these to the extent that we can afford to	Of these, we will do the things that deliver the most value or reduce the most risk	We will look to stop doing these
Opportunities to improve value for money	<ul style="list-style-type: none"> Should we do more / less? Could we do this differently? Can we do this better? Can we partner with someone else to get better outcomes? 			<ul style="list-style-type: none"> Stop Phase out Leave to others

Item 8

Figure 1: Auckland Council Service Prioritisation Framework

11. Another method for defining essential services would be to rely upon the definition of essential services during the Covid pandemic which identified those services which staff could leave self-isolation to deliver. Expenditure on these services and assets **combined** with those that we are required by law to deliver could therefore be defined as essential or non-discretionary spending and are set out in the following table:

Storm water infrastructure repair and maintenance and water treatment	Resource management and environmental planning and monitoring
Waste collection and management services	Governance activities (including co-governance)
Auckland Emergency Management	Official information and privacy
Cremation and burial services	Obligations to Māori
Animal welfare management	Employer obligations
Hazard monitoring and resilience	Health and Safety compliance
Biosecurity	Financial planning and compliance
Building and resource consenting	Rates and property valuations
Licencing and regulatory compliance	

12. Discretionary spending by contrast may be defined as activities paid for that are not considered completely necessary, or money spent on these things.³ A discretionary expense is a cost that a business or household can survive without if necessary; a want rather than a need.
13. The above enables an objective definition for what are essential/legislated activities but the distinction between other non-discretionary (such as contracted services or critical asset maintenance and renewals) and distinctly discretionary activities is more subjective. It varies depending on the specific situation. In this respect, both the uncertainty about the financial impact of the weather events and the time period over which we are looking to control or manage discretionary spend provide important context.

³ Cambridge Dictionary - <https://dictionary.cambridge.org/dictionary/english/discretionary>

14. The time period is relevant because some spend can be paused for a short period of time without significant implications, however if it was paused for a longer period or stopped entirely that would have a larger impact. For example, a short-term pause of staff training would have minimal effect, however over the longer term it would affect staff retention and capability. The relevant timeframe is until the end of the current financial year, after which the Annual Budget 2023/2024 (incorporating the appropriate budget for storm recovery and mix of financial levers to balance the budget) will be in place. Usual controls around compliance with and monitoring of that budget can resume.
15. Also relevant is the context that council has a role to deliver a certain set of minimum public services to the community. Defining that set is the subjective part. In the absence of any directive from the Governing Body or local boards, temporarily stopping or curtailing services we provide to the community in order to reduce expenditure has not been considered (e.g. operation and maintenance of our parks and community facilities).
16. There will also be other circumstances where it is considered appropriate or prudent even within the current context to continue with expenditure such as:
 - non-essential services and activities with contractual obligations where there would be significant cost implications for stopping or pausing
 - critical asset maintenance and renewals
 - response and recovery to the flooding and cyclone events
 - necessary expenditure to ensure the operation and maintenance of our parks, community facilities and corporate buildings
 - to continue a major project when putting it on hold would significantly jeopardise the overall delivery of the project or that of other interdependent major projects or a key strategic priority
 - property transactions that are due to settle
 - externally funded projects/programmes where the funder has directed that the project is to continue
 - works about to commence where contract or funding agreements or award letters commit us to proceeding now and/or start date cannot be deferred
 - spend that supports revenue generation if revenue would be jeopardised
 - expenditure necessary to deliver the substantial savings programme in the annual budget consultation document
 - support services required to support and enable essential services to continue (e.g. payroll, ICT, communications, corporate property, customer call centres, etc.).
17. Even if an activity is not discretionary, council could reduce the scope or service level of that provision for a period of time in order to reduce expenditure. Decisions about whether or not to provide services will be considered as part of the long-term plan process utilising the service prioritisation framework.

Existing processes in place to manage expenditure

18. Each year the annual budget sets the activities, services and investments that council and the CCOs should deliver and the amount of money allocated for those purposes. Items that are unbudgeted or are outside the Chief Executive's delegation are brought back to the Governing Body for approval.
19. Monthly financial reporting processes are in place to monitor spending against budget and take action on areas of concern. Financial reports outlining performance against approved budget are provided to the Governing Body at its monthly meetings.

20. Staff have been continuing the process in place for achieving the current \$90 million savings target, with \$76.3 million achieved at 28 February 2023. Initiatives include:
- contract procurement cost reductions through working with contractors to identify the most cost-efficient way to perform a project
 - locking in capital contracts early and arranging the pre-purchasing of required components
 - simplification and automation of processes to improve efficiency and reduce cost, for example in building consenting for private swimming pools
 - additional Finance approvals for contracts over \$300,000 to challenge value for money
 - zero-based budgeting to identify and reduce budget that has been underspent and may not be needed
 - a revenue project to identify and implement additional revenue opportunities, such as additional fees for services and advertising at council facilities.
21. In light of the financial challenge, the organisation has already been taking additional steps to improve the situation in advance of the next financial year. Additional scrutiny and restrictions on recruitment have been in place since late October 2022. A review of contractors is in progress to determine whether savings can be achieved by bringing/using resource in-house or whether it is discretionary and can be paused or stopped. The executive leadership team undertook management reviews and stopped or reduced some activities, for example the printing of OurAuckland magazine and reduction in corporate strategy work. Staff advice on additional areas of cost reduction for the 2023/2024 budget was presented to the Governing Body in October 2022 and since then many of those initiatives have been progressed, including vehicle fleet reduction, holding staff vacancies and sub-leasing vacant property space.

Further actions for controlling/managing discretionary spend

22. Since the size of the weather event challenges has become clearer, the following actions have been undertaken to further manage spend:
- communication from the Group Chief Financial Officer to all people leaders, to further reduce our spending until 30 June 2023 (when the new FY24 budget will come into effect) including the following restrictions:
 - staff training to only meet minimum role requirements
 - stop non-essential spend such as travel, catering and entertainment
 - no new spend on professional services or from unallocated fund budgets e.g. Business Change Fund
 - not commencing any new opex and pausing projects where spend is not yet contracted (excluding local board Locally Driven Initiative (LDI) and Asset Based Services (ABS) budgets)
 - not commencing any new capital expenditure projects (including lower priority asset renewals) and pausing projects where spend is not yet contracted (excluding local board LDI and ABS budgets).
 - initiated a review of purchasing cards (“P-cards”) to consider whether the policy and process is still fit-for-purpose. Various options will be considered. An immediate action is underway to re-assess whether current P-card holders meet the current policy criteria (council employees who make regular low-value purchases; travel regularly on council business; make frequent one-off purchases; or need to make purchases outside normal business hours).

- Any spend requests (e.g. purchase orders and contract requisitions), which do not conform to the exceptions outlined in the communications from the Group Chief Financial Officer, are subject to checking by the Procurement team. Confirmation of whether or not expenditure should go ahead is sought from an appropriate staff member (for example, Commercial Finance Manager or General Manager) before being able to proceed.
23. It would be possible to further tighten purchasing and procurement controls by requiring additional reviews and approvals. There is a trade-off between the use of staff time to perform these controls, which is onerous and diverts time from other initiatives, and the amount of additional expenditure they may prevent.
24. Regarding capital expenditure, there is already a process underway to reprioritise/reassess the capital programme in light of the recovery required from the flooding and cyclone events. This information will be workshopped with the Governing Body in May as part of the annual budget process. However, as part of our efforts to further reduce spending, staff have been instructed not to commence any new capex projects (including lower priority asset renewals) and pause projects where spend is not yet contracted (excluding local board LDI and ABS budgets). Exceptions can be agreed with the relevant Executive Leadership Team member where the circumstances are considered appropriate or prudent to continue such as those listed in paragraph 16.
25. Where funding is ring-fenced for specific work programmes such as the Māori outcomes fund and targeted rates (water quality; natural environment), staff have been asked to reconsider the existing programme and whether this is the best use of the budget when it is possible that changes or deferring some funding to FY24 may better support the recovery required from the weather events if required.
26. In addition, the following material has been provided to support the Expenditure Control and Procurement Committee with identifying savings during February and March:
- an update on the service prioritisation framework and a case study to demonstrate its use
 - a current state review of all council services that are delivered by the Auckland Council Group
 - budgeted expenditure data for FY23 and FY24 and historical expenditure actuals for FY19-FY22 within a user-friendly tool to provide members with context and an easy interface.
27. Staff will continue to review services and investigate savings opportunities suggested by the committee and report these back to enable direction and decisions around potential savings.

Tauākī whakaaweawe āhuarangi

Climate impact statement

28. Projects or activities with a positive climate impact may be affected by the current spending controls. Targeted rate spend including the climate action targeted rate should continue as it is required to be spent on the specific purpose for which it was collected. However advice to staff is that this should be subject to review to consider whether the current programme best addresses the needs following the recent weather events.

Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera Council group impacts and views

29. On 23 February, the Governing Body also resolved:

Resolution number GB/2023/10

- c) *tuhi ā-taipitopito / note the financial situation facing Council in light of the forecast \$295 million operational budget shortfall and recent severe weather events and ongoing economic uncertainty*
 - d) *whakaae / agree to encourage the Chief Executive, Local Boards and Council Controlled Organizations to closely scrutinise and manage any spending and, where possible, consider stopping or limiting new discretionary spending*
30. CCOs have been informed of the Governing Body's 23 February resolution for consideration. CCOs are already managing existing internal savings targets for FY23 and are progressing internal saving and efficiency initiatives to be implemented for FY24. In addition, CCOs are considering opportunities to contribute to the further \$12.5 million savings target that the Expenditure Control and Procurement Committee have been tasked with identifying.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe Local impacts and local board views

31. Local boards have responsibility for decision-making and oversight of decisions on local activities (including but not limited to, local community development and facilities, local libraries, local recreation facilities and initiatives, local parks, local environmental management, local arts and culture activities, local events, and business area planning). It therefore follows that in order to stop or pause any planned expenditure in relation to these activities, the approval of the relevant local board would be required.
32. Local boards have been informed of the Governing Body's 23 February resolution for their consideration. In addition, people leaders have been asked through the communication from the Group Chief Financial Officer, to re-check with local boards before commencing any local board projects or non-essential spending relating to local activities.

Tauākī whakaaweawe Māori Māori impact statement

33. Whilst there is no direction to pause or stop spending on projects and programmes funded by the Māori Outcomes Fund, staff have been asked to reconsider the existing programme and whether this is the best use of the budget when it is possible that changes or deferring some funding to FY24 may better support the recovery required from the weather events if required.

Ngā ritenga ā-pūtea Financial implications

34. The purpose of the report is to reduce expenditure on discretionary activities while the impacts of the recent flooding and cyclone events are assessed and quantified. In identifying and implementing actions to control discretionary spending, management have been mindful of the trade-off between the use of staff time to perform these controls, which could be onerous and divert time from other initiatives, and the amount of additional expenditure they may prevent.

35. It is difficult to determine the quantum of savings that can be achieved through the spend control measures that have been implemented or are being progressed, however, applying a level of restraint until the next annual budget is in place is a prudent step to create some additional financial capacity within the already constrained council finances. The savings made would be reported as part of the wider savings achieved for FY23 in the quarter four performance report reported to the Governing Body.

Ngā raru tūpono me ngā whakamaurutanga Risks and mitigations

36. There are risks associated with pausing or stopping operational and capital expenditure such as cost increase implications, impacts to revenue generation or impacts to delivery of other interdependent projects. In determining whether to pause or stop discretionary operational and capital expenditure, staff are managing these risks carefully by considering whether the circumstances are appropriate to make an exception.

Ngā koringa ā-muri Next steps

37. Staff will continue to implement spend control measures until the end of the current financial year, after which the Annual Budget 2023/2024 (incorporating the appropriate budget for storm recovery and mix of financial levers to balance the budget) will be in place. Usual controls around compliance with and monitoring of that budget can resume.

Ngā tāpirihanga Attachments

There are no attachments for this report.

Ngā kaihaina Signatories

Authors	Kerri Foote - Executive Officer : CFO Division Nicola Mills - General Manager Financial and Business Performance
Authoriser	Peter Gudsell - Group Chief Financial Officer