Mayoral Proposal

10-Year Budget 2021-2031

1 December 2020

Auckland Council
Te Kaunihera o Tāmaki Makaurau

10-year Budget 2021-2031 Mayoral Proposal

Foreword

The situation we face

Auckland Council's last 10-year Budget, adopted in 2018, started to make strong inroads into the infrastructure deficits that have plagued our city for decades. Councillors, with the support of Aucklanders, agreed the biggest-ever infrastructure investment in Auckland's history – $26.2 billion – which meant we were able to address or accelerate work on cleaning up our waterways, building much-needed transport infrastructure and protecting our natural environment. At the beginning of this year, we expected that the new 10-year Budget would continue to build strongly on that work.

However, we are ending 2020 on a very different note to where we started. This year was supposed to be the year that Auckland got ready for 2021 – 'The year of Auckland'. However, just like everyone else around the world, Auckland Council's year has been dominated by COVID-19.

Putting together the 10-year Budget for the Long-term Plan (LTP) 2021-2031 has been the most challenging in the life of this Council.

The COVID-19 pandemic is the principal cause of the difficulties in this process. We celebrate being one of the most successful countries in the world in managing to stop the spread of the virus; we have prevented thousands of deaths and the overwhelming of our hospital system and we have regained the freedoms of living normally. However, the cost to jobs, incomes, businesses and Council itself in financial terms has been very real.

In this financial year, Auckland Council has projected to lose revenue of $450 million and the latest projections for the next three years would see this increase to a cumulative total of around $1 billion.

On top of this, weather and climate change and the worst drought in Auckland's history this year necessitated the bringing forward of a substantial capital investment of $224 million in new water supply treatment facilities to ensure the resilience of water supply to our city.

This compounded the pressure on our city's finances last year from the need to future proof the City Rail Link project requiring Council to inject an additional $500 million in it.

The financial hits that these together present to Auckland Council require not only the measures implemented in this year's Emergency Budget but an extension of this response for the first three years of this 10-year Budget.

Business as usual is simply not an option. Tough measures have been taken to cut our expenditure including a significant loss of staff, constraints on salaries and cutting out lower-priority projects. However, this is not the time for a slash and burn austerity budget that would cause long-term damage to the services and infrastructure projects Auckland needs and compound the COVID-19 recession, causing further retrenchment and job losses.

While prudent and responsible management of our finances is essential, we have chosen not to take an austerity path. That would slow our recovery, put our services and the condition of our assets at risk and further delay the construction of infrastructure needed to catch up with the city's population growth. Aucklanders have told us they want their services maintained and infrastructure renewed and expanded to meet their needs.

Mayoral Proposal

After months of extensive discussion with councillors, local board members and members of the Independent Māori Statutory Board, with advice from staff, I am recommending a budget focused on ensuring Council continues to deliver key services and maintains strong investment in the renewal of our assets and the construction of infrastructure critical to our city's transport, housing and environment. It is a recovery budget.

As part of our response, I am first proposing we continue and intensify our search for savings and value for money. I support locking in at least $90 million of the savings achieved in this year's Emergency Budget as continued annual savings.

Second, I propose continuing to sell surplus properties in order to reinvest the proceeds to meet Auckland's critical infrastructure needs. I support increasing the sale of properties to return $70 million a year over the next three years.

Third, I propose increasing our borrowing to a temporarily higher ratio of up to 290 per cent for the first three years, gradually returning to 270 per cent thereafter. This would be prudent and appropriate given the circumstances of the impact of COVID-19 and advice from our credit rating agencies indicates that this is unlikely to impact negatively on our credit rating.

Fourth, I am proposing that we should retain our long-term commitment to a 3.5 per cent rate increase but help meet the crisis caused by COVID-19 with a one-off increase in the average general rates for the next financial year of 5 per cent before returning to 3.5 per cent from the following year onwards. The cost of the one-off increase represents approximately $36 a year on a residential property valued at $1 million, in addition to the currently planned increase of 3.5 per cent. The ability to leverage additional borrowing off the income raised would allow $450 million extra investment over the next 10 years.

Funding raised by lifting the debt to revenue ratio to up to 290 per cent for three years and the one-off 5 per cent rate increase will enable Council to deliver up to $900 million more for infrastructure projects, priority renewals of transport assets and community facilities. It will also enable us to start to tackle the challenges of climate change, which will pose serious economic and environmental problems for the city long after COVID-19 ceases to be a problem. I also propose to extend the term of the Water Quality Targeted Rate by three years to enable us to start to address water quality issues in the Manukau Harbour and Eastern Isthmus. The Natural Environment Targeted Rate will also be extended for the same period to invest further in measures such as addressing the spread of kauri dieback, and predator and weed control.

I am conscious that COVID-19 has affected not only Council finances but also those of city residents and businesses.

The recommendations in this budget reflect the need to avoid adding unreasonable pressure on our ratepayers while assuring Aucklanders that we will continue to deliver the key services they rely on, renew assets requiring maintenance, build needed new infrastructure and make progress on addressing the challenges of climate change and environmental sustainability.

Phil Goff

Mayor of Auckland

Overview

1. The first three years of the 10-year Budget 2021-2031 are of necessity an extension of the Emergency Budget 2020/2021. Including $450 million revenue loss projection in 2020/2021, the cumulative financial impact of COVID-19 on Auckland Council is forecast to be up to $1 billion loss in cash revenue by 2023/2024.

2. While we avoided austerity in the Emergency Budget, we had to delay some of our plans for improving services and to defer investment of around $320 million in infrastructure that Auckland needs. Notwithstanding that, we continued investing approximately $2.6 billion in the Emergency Budget, including the government's support with shovel-ready project funding. This is considerably higher than the $1.8 billion average over the last five years of Auckland's investment in infrastructure. It represents a major effort to make up a big shortfall in funding infrastructure over many years as the city's population grew.

3. As elected representatives, all of us have a vision for Auckland to be world-class and inclusive. None of us is giving away that vision. However, given the economic conditions due to COVID-19 and the high degree of uncertainty in the future, this 10-year Budget is inevitably constrained because Council needs to manage its finances prudently and responsibly. We have to live within our means.

4. As the city has grown rapidly, infrastructure such as roads, pipes and community facilities have come under pressure to cope with increased demand. New housing developments have added to that pressure. The problem of needing more money to meet infrastructure costs and maintenance has been growing for some time but has become more acute with the financial loss caused by COVID-19.

5. COVID-19 is our current crisis, but it should not obscure ongoing and longer-term challenges. We have to develop new responses to global warming, including both reducing greenhouse gas emissions and adapting to the climate change impacts on our city. We have to focus on renewing aging infrastructure, in which there has been too little investment, and continue the task of new infrastructure investment to meet population growth. While we face the impact of loss of revenue from COVID-19, it is important that we maintain investment in infrastructure to help the city recover from the current recession. This not only stimulates the economy but creates valuable long-term assets for future generations.

$billion	LTP 2018-2028	LTP 2021-2031 (proposed)
Transport	12.0	12.3
Water	7.1	11.1
Parks and community	3.7	4.5
Centres development	1.3	1.1
Other	2.1	2.0
Total	**26.2**	**31.0**

6. How we pay for these priorities needs a carefully balanced combination of debt, rates and asset recycling. This budget proposes expanding our borrowing to up to 290 per cent debt to revenue ratio in the first three years, which in current circumstances we believe is responsible and prudent, and advice from our credit rating agencies indicated that this is not likely to impact

negatively on our credit rating. This will allow us to progress key investments that would otherwise have been deferred because of the revenue impact of COVID-19 on Council.

7. The planned average general rates increase in the current 10-year Budget is 3.5 per cent per annum. The Emergency Budget considered a lower rate rise but evidence showed that this would have long-term negative consequences and cause deep cuts in core services and damaging delays to core infrastructure projects.

8. This budget proposes a one-off 5 per cent increase in average general rates for 2021/2022, returning to 3.5 per cent per annum from 2022/2023 to 2030/2031. For the average value residential property, this would add around $36 extra a year to the rates bill in addition to the 3.5 per cent rates increase. In considering the 10-year Budget, evidence showed that the 3.5 per cent increase by itself would not allow for some important asset renewals and would delay key investment in new infrastructure. As well as allowing important asset renewals and new investment, the $450 million that the higher revenue allows us to leverage will also provide some cushion for work in response to unexpected emergencies and to make progress towards meeting climate change challenges.

9. Increased borrowing capacity and a one-off 5 per cent increase in average general rates will help but are not a silver bullet solution. We will need to continue asset recycling and lift the target from this source to $70 million per annum for the first three years of this 10-year Budget. We also need to tackle the problem of meeting renewals costs for aging community facilities and to consider new ways of delivering some of these services.

10. To summarise, this 10-year Recovery Budget 2021-2031 is about:

    - prudent financial management and maintaining sustainability of our debt and our credit rating.
    - increasing investment to build critical infrastructure and support economic recovery and job creation.
    - renewing priority community assets and finding better ways to deliver services.
    - increasing actions to respond to climate change.

Climate action

11. While COVID-19 has had an immediate impact on Auckland’s economy and Council’s finances, climate change remains a pressing threat to our economy, environment and way of life, particularly for our children and grandchildren. Scientists say we have less than a decade to make major changes to avoid the worst impacts of climate change. In recognition of this urgency, in June 2019, Auckland Council unanimously declared a Climate Emergency.

12. Since then, Auckland Council has finalised Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan. This provides a blueprint for actions across all sectors with a goal of reducing greenhouse gas emissions by 50 per cent by 2030 and to net zero by 2050, while also preparing for the impacts of climate change. Auckland Council is already focused on tackling greenhouse gas emissions, for example, through land use planning that prioritises a compact urban form and through investment in public transport, walking and cycling infrastructure to reduce private vehicle trips. Auckland Council has issued $850 million in Green Bonds with funding being allocated to eligible assets that will help improve our climate and environment. These include public transport infrastructure, cycleways, water infrastructure and rehabilitation of island ecosystems.

Furthermore, Council funded new climate action in the Emergency Budget, including electrifying Council's vehicle fleet and accelerating the phasing-out of gas boilers at our aquatic centres, targeted climate research, and planting an additional 1.5 million trees in this term of Council. However, we know that much more needs to be done.

13. Accordingly, staff have developed options to further support our regional climate goals and accelerate Auckland Council's climate action. Given the critical need to progress climate action within the constrained fiscal environment caused by COVID-19, staff developed options for a climate action targeted rate. This would have created a hypothecated fund for climate action. During discussions on the 10-year Budget, Councillors on balance felt that it was preferable to fund additional action within the overall budget.

14. This budget will significantly increase expenditure by around $150 million to reduce greenhouse gas emissions and deal with the impacts of climate change. Funding priorities will include:

    - bringing forward the decision to stop the purchase of any new diesel buses from 2021 rather than 2025 as previously planned, with all new buses purchased from the commencement of this budget being electric or potentially hydrogen powered.
    - working with the government to achieve 50 per cent of the bus fleet being electric or hydrogen buses by 2030.
    - prioritising the Queen Street Valley, currently the country's most polluted black carbon area, to become a zero-carbon zone.
    - planting 11,000 more street trees and establishing a nursery to grow 200,000 seedlings a year.
    - planting an additional 200 hectares of native forest to offset emissions.
    - substantially increasing Council's Zero Waste resource recovery network.
    - directly assisting Aucklanders to reduce household emissions through advice, tools and engagement in community networks.
    - increasing the energy efficiency of Council facilities, including the installation of solar panels.
    - improving our planning for coastal change and our ability to respond to worsening natural hazards.
    - forming regional partnerships to tackle our biggest emissions challenges, including partnering with Māori to deliver Māori-led climate action.
    - providing targeted support to disadvantaged communities to access support and advice to reduce their energy costs.

15. These proposals will help us meet our commitment to mitigating carbon emissions but much more will need to be done to halve carbon emissions by 2030 and achieve net zero carbon emissions by 2050. We will be seeking to work with the government, which has the biggest levers to achieve changes, to progress goals such as incentivising the purchase of electric and low-emission cars, increasing investment in public transport and promoting mode change and other major initiatives achievable only through central government policy changes and funding.

Transport

16. Rapid population growth in Auckland and historic urban planning, which encouraged the outward sprawl of the city and reliance on private motor vehicle use rather than public transport, have created a legacy of serious traffic congestion in Auckland.

17. In the last 10-year Budget, we reported that with population growing by 40,000 a year and an extra 800 cars being added to Auckland roads each week, congestion was getting steadily worse. The Auckland Transport Alignment Project (ATAP) was an effort by central government and Auckland Council to jointly solve this problem.

18. The initial ATAP agreed by the government and Council in 2015 was seriously underfunded. In 2018, Council reached an agreement with the government to lift the 2018-2028 ATAP budget by billions of dollars to a record $28 billion investment. Councillors agreed to a Regional Fuel Tax (RFT) of 10 cents a litre plus GST to raise the Council's share of this budget to over $11 billion and the government contributed over $16 billion. The RFT raises $150 million a year which with government and other contributions leverages this to $4.3 billion over the decade.

19. The government has made further contributions to Auckland through the New Zealand Upgrade Programme (NZUP) of almost $3.5 billion for projects such as the third main trunk rail line, electrification of rail from Papakura to Pukekohe and state highway and arterial road widening and construction. It will fund the Northern Pathway walking and cycleway across the Auckland Harbour Bridge and has made contributions of over $100 million through shovel-ready transport projects.

20. Significant progress is being made with the Eastern Busway between Panmure and Pakuranga to be completed by 2021, with further stages to Botany and thereafter to Manukau. The Puhinui Interchange will allow a fast rail and bus connection to the airport. The Northern Busway is being extended and a bus shoulder lane completed on the North-Western motorway. The City Rail Link is due for completion by the end of 2024 and will double rail capacity. The downtown ferry terminal construction will increase capacity for ferry services.

21. These and other projects are disruptive but will ensure real benefits for the city. Without them, we would be gridlocked. But much more needs to be done.

22. A serious threat to progress has been created by the impact of COVID-19 in undermining the income Council needs to meet its share of transport infrastructure costs. We faced the need to defer $400 million worth of investment in transport projects in a highly constrained scenario, which in turn would entail a reduction of government funding subsidies worth around $200 million to the city.

23. The outcome would have been deferrals for major and necessary road projects such as Lincoln Road, Lake Road and Glenvar Road. Roading infrastructure needed for new housing developments would have been delayed, contributing to housing shortages. The construction of urban cycleways would have slowed significantly, and seal extensions would have stopped. Road renewals, new safety initiatives and local board transport capital projects would have been seriously curtailed. The combined impact of all of these would have had serious and lasting effects on the city.

24. The measures proposed in this budget, including the one-off 5 per cent rates increase and raising our borrowing threshold, will allow us to put as much as $550 million more into transport projects in the first three years. This means that we can continue with the projects outlined

above as being at risk, which Aucklanders want and need. Without the proposed measures to increase revenue, we could not.

25. The additional expenditure on construction will help stimulate recovery and jobs, and will be important in helping us tackle longer-term critical transport and housing issues facing the city.

Infrastructure for growth

26. Auckland has had the fastest population growth in New Zealand with its population growing on average by 30,000 to 40,000 people a year, equivalent to adding the population of a city the size of Whanganui or Gisborne to Auckland every year.

27. While Auckland Council does not have the power to control the growth of its population, it is required to meet the cost of providing services to an increasing population. It has taken radical steps to expand zoning for residential housing through the Auckland Unitary Plan, enabling the development of more than 1 million additional homes in existing residential zones and 137,000 through managed expansion into planned future urban areas.

28. While zoning is not a constraint on building more houses to overcome a housing shortage, the funding of infrastructure to enable that development is a real constraint.

29. Auckland's Development Strategy through the Auckland Plan and the Future Urban Land Supply sets out how, where and when Auckland will grow, and where and when investment in infrastructure is needed.

30. Considerable uncertainty currently exists around the level of demand for new housing given current immigration and emigration restrictions and their impact on population growth. However, Auckland is still deemed to suffer from a backlog of housing shortages and new housing should help slow rising house prices.

31. Constraints on funding of new infrastructure for housing development means Council will need to adopt a much more focused approach to providing that infrastructure. Council cannot under current constraints meet the demand for infrastructure in all areas.

32. Priorities will most likely be in areas which Council has agreed with the government in the Auckland Housing Programme, which includes Mt Roskill, Māngere, Tāmaki, Oranga and Northcote. Areas which have received considerable government investment such as the investment in rail electrification and station construction under the NZUP in Drury and the Northwest assisted through shovel-ready funding and the Housing Infrastructure Fund have also been prioritised by Government. In addition, we will have the opportunity to support development around jointly funded and regionally significant projects like City Rail Link and align with future investment decisions in ATAP.

33. The Infrastructure Funding and Financing Act 2020 may be used to allow some development to be brought forward through development levies placed on properties to pay for infrastructure. A pilot of this concept in Milldale has proved successful.

34. In this proposed budget lifting the level of revenue available to Council from a one-off 5 per cent rate increase and a raised debt to revenue borrowing threshold will enhance our ability to provide additional infrastructure for housing development.

35. Over the next three years, funding for transport infrastructure would increase by $550 million, Watercare by $145 million and Healthy Waters for stormwater by $54 million, and Community

Facilities by $65 million. Part of this additional funding will facilitate accelerated infrastructure investment for new housing over the next three years.

36. It will, however, still meet only a part of the demand for infrastructure. Discussions with the government and the private sector will need to focus on the scale and pace of the development as well as find ways of funding infrastructure to more fully meet demand for new housing.

Community services and facilities

37. Councils have traditionally provided community services through building and then operating fixed assets. Auckland Council inherited a large network of community facilities after amalgamation, and this legacy approach to serving the community remains largely unchanged.

38. The consequence of this approach is that Council provides for both the initial investment as well as the ongoing operational costs to maintain those assets. As the portfolio of assets has grown over time, so too has the level of funding needed to support those assets. Similar to transport and three-waters infrastructure, the community facilities network has been under considerable pressure. This is caused by an aging asset base and a growing population. As well as financial concerns, around renewals, fixed assets have also hindered flexibility in response to changing demands.

39. As our communities grow in both size and diversity, the services we provide and the way we provide them must be able to adapt in response. Prior to COVID-19, the overall number of visits to many community facilities was trending down, whereas use of online services continued to grow. This was accentuated by the COVID-19 lockdowns. Alongside this, some of our assets are in poor condition, and are no longer suitable for meeting community needs.

40. We want to ensure our communities continue to receive council services. However, the traditional asset-based approach means we would need to maintain and renew a large portfolio of facilities that may or may not be well utilised or fit for service. Under normal circumstances this would have been difficult to sustain and in a COVID-19 context it is not sustainable.

41. We need to consider how services can be provided differently. Councillors in principle support the focused investment approach staff recommended. It envisages tailored services that focus on areas of greatest needs, alternative service delivery through partnerships, grants, digital and other non-asset approaches, and a reduction in Council's asset portfolio to consolidate a fit for service network. An example is the new Takanini Library and Community Hub which is leased rather than owned by Council.

42. While this proposed way forward by staff does not envisage additional funding until year four of the 10-year Budget, I am of the view that in order to be successful for our communities, staff need to further develop the policy details of this approach, including the parameters of alternative service delivery and the criteria for disposing of underperforming assets. In the meantime, we need to address the most critical needs.

43. Local boards have a key role in local community services provision and asset management. Further work on the alternative approach needs to involve local boards, and to take place alongside the service level and funding workstream of the Governance Framework Review, as there are clear connections between the two pieces of work.

44. We heard local boards advocate for their One Local Initiatives (OLIs) to be fully funded as a part of this 10-year Budget. We should consider incentivising local boards to decommission

underperforming local assets by ensuring that some of the proceeds are used to fund new development such as the OLIs that we cannot otherwise afford in the medium term.

45. The proposed budget would allow Council to potentially increase funding for community services and facilities by $65 million over the next three years. Without the increased funding recommended in this proposed budget, there is an increased risk of failure of facilities for which there is inadequate renewal funding. The one-off 5 per cent rates increase and expanded borrowing for the next three years would allow more timely renewal and support the progress of high-priority growth projects, such as the Scott Point sustainable sports park and the Flatbush combined library, community centre and arts centre at Ormiston.

46. It would provide new neighbourhood space in greenfield areas and support Kāinga Ora development areas and sports park investment in areas of greatest need, and allow progress on coastal protection areas such as the Orewa Seawall. Without the proposed revenue increases, these projects would be stopped or deferred.

Social investment

47. Our communities look to Council to empower and support programmes, events and initiatives that benefit our region. A social investment package to support our communities would increase wellbeing, encourage prosperous communities and grow resilience.

48. The proposed budget includes reinstating the contestable Regional Events Fund, Regional Community Development Grant, and Regional Arts and Culture Grant, which support organisations and communities in arts, culture and event spaces.

49. It also allows us to sustain:

    - the Sport and Recreation Facilities Investment Fund, which proactively invests in changing sport and recreation preferences, and enables more Aucklanders to be more active, more often.
    - the contestable Regional Environment and Natural Heritage Grant, which supports community-led conservation and low-carbon living projects, and
    - the Waterway Protection Fund, which supports rural landowners with riparian planting and fencing.

50. Council's Emergency Budget 2020/2021 recognised the continued need to protect our most vulnerable communities, such as the homeless. Throughout 2020, our collaborative efforts with community partners and central government have seen a record number of people move into permanent and emergency accommodation, and receive the wrap-around support they need for lasting change.

51. A $500,000 homelessness operational fund has enabled Council to work with other agencies in an agile and responsive way. Embedding this annual fund into the first three years of the 10-year budget will mean that Council can continue supporting early intervention, targeted outreach, dedicated city centre initiatives, and research and innovation. It enables Council to act as a connector, facilitator and enabler across government, private and not-for-profit organisations.

52. Examples of this work programme include supporting early intervention and prevention initiatives for young people, improved practice and services for rainbow youth, provision of a

referral pathway for welfare concerns submitted to council and seed funding for pilot programmes.

53. Despite financial pressures, we continued in the Emergency Budget to support in this term the extension of the Living Wage to our contracted cleaners and enable a fair day's wages for a fair day's work.

54. The impact of COVID-19 and the recession will be greatest on already disadvantaged sections of our community, in particular on those whose jobs and incomes have been directly impacted. We need to continue to support The Southern Initiative and The Western Initiative to work with these groups, and to support initiatives such as skills training and employment pathways through those programmes and through partnerships with central government.

55. Auckland Unlimited has been tasked with including in its economic development programmes initiatives aimed to support job creation and job skill programmes focused on prosperity for all.

56. In terms of Māori and Pasifika support, Amotai, formerly He Waka Eke Noa, is leveraging opportunities to promote social procurement, connect buyers with businesses, identify industry gaps and provide training and support. The organisation now has nearly 300 Tāmaki Makaurau Māori and Pasifika businesses registered. Amotai businesses have accessed contracts worth more than $40 million, with $20 million of these secured since the first lockdown, and a pipeline of contracts estimated at $900 million.

Māori outcomes

57. Council is committed to Treaty-based partnerships with Māori. Continued investment of $150 million over 10 years will enable Council to drive delivery against the 10 Māori outcomes strategic priorities.

58. As well as supporting Maori-led and community-based initiatives, this funding enables continuation of Council's Marae Infrastructure Programme, which aims to support marae to be healthy and sustainable cultural hubs.

59. The Māori Outcomes Fund also provides for the contestable Cultural Initiatives Fund (CIF), supporting marae and papakāinga with feasibility and concept design, strategic financial planning, governance and asset management.

60. The Māori Outcomes Fund enables incubation of initiatives, with a view to finding long-term alternative funding sources, co-funding opportunities or transition into business-as-usual activity. Examples include Whau Cafe at Maungawhau and Ngā Kete Akoranga, Council's cultural capability programme. It also includes Te Kete Rukuruku, which is returning names to Tāmaki Makaurau's whenua and ensuring Māori language is seen and heard in everyday life.

Environmental protection

61. Our current 10-year Budget includes a programme to clean up our beaches and harbours at an accelerated rate, allowing us to undertake in 10 years what would otherwise have taken 30 years. This programme is partly funded by the Water Quality Targeted Rate (WQTR). In its first two years, the targeted rate has enabled a Council contribution of $10 million towards a six-year, $200 million clean-up of the Kaipara Harbour, infrastructure to stop wastewater overflowing into our harbours and on to our beaches, proactive regional septic tank monitoring, and network investigations which led to the re-opening of five beaches that had been permanently closed because of public health concerns.

62. The initial focus of the WQTR has been on the Western Isthmus where many of the worst and most frequent wastewater overflows in the Waitematā Harbour have occurred. Work has begun on the St Mary's Bay and Daldy Street outfalls and Picton Street separation projects to stop wastewater and other contaminants going into the harbour.

63. We need next to expand measures to improve water quality elsewhere in the city by extending the water quality targeted rate from 2028 to 2031. The extension would initially fund projects in the Manukau Harbour and Eastern Isthmus catchments where we need also to address poor water quality. In order to deliver these new major projects some planning and design must begin prior to years when budget is available for construction. The early planning and design can be prioritised within the Healthy Waters regional planning budgets if the budgets available for construction are certain.

64. The current 10-year Budget also includes the Natural Environment Targeted Rate (NETR) to address the spread of kauri dieback disease and tackle the pests that are killing our native birds and trees. This rate has already enabled the re-opening of 60 kilometres of tracks in our regional and local parks after improvements to avoid them contributing to the spread of kauri dieback disease, animal pest control on more than 88,000 hectares of reserve and park land, more than 1500 traps set across Waiheke to eliminate stoats on the island, and the kōkako management programme in the Hunua Ranges, which has increased bird numbers to around 340 adult birds — up from 232 in 2018.

65. In this 10-year Budget, we want to extend the NETR from 2028 to 2031, to continue our natural environment protection programmes. Ongoing investment in pest control is required to lock in the benefits from past efforts.

A resilient water supply

66. Auckland delivers the best quality fresh water and wastewater treatment services in New Zealand and a recent report by the Water Commission for Scotland judged Watercare to be by far the most efficient and effective water authority in New Zealand.

67. However, weather and climate change, population growth and aging assets have created challenges and the need to bring forward investment in our water services.

68. This year, Watercare through Auckland Council's borrowing capacity has received a funding boost of $224 million to pay for expanded water treatment facilities to take more water from the Waikato River and new water treatment plants in Pukekohe and Papakura. These efforts are vital to ensure the city does not run short of water.

69. This need has significantly contributed to pressure on Auckland Council's debt and budget this year and in the 10-year Budget. Funding of $1.2 billion, for example, is needed for the Central Interceptor project, which enables Auckland to cut wastewater overflows into our harbours by 80 per cent. Funding is also needed to upgrade or replace aged assets like the Huia water treatment plant and waste and freshwater infrastructure in other parts of the city. The investment needed over the next 10 years runs into additional billions of dollars and is not affordable under the debt to revenue constraints that Council has to operate within.

70. Negotiations are currently underway with the government to explore as part of the government's major Three Waters Reform programme whether a government guarantee over debt would enable this to be taken off Council's books, enabling Watercare to bring forward its

investment programme. However, until this process occurs and decisions are made, this potential outcome cannot be assumed in the 10-year Budget.

71. To invest more in infrastructure now would require a decision by the board of Watercare to lift its revenue through water prices to ensure growth in borrowing is within a 340 per cent debt to revenue ratio for the next three years.

72. The proposed budget, which allows for a higher borrowing limit and higher revenue, could enable Watercare to further increase expenditure on infrastructure by around $145 million in the next three years to $2.3 billion.

73. This would enable Watercare to deliver more network renewals in Central Auckland, and to bring forward design work on a new Huia water treatment plant and an upgrade of the Rosedale wastewater treatment plant. It would allow Watercare to improve leak detection and progress infrastructure for new development. It would allow the continuation of Watercare's contribution to the Western Isthmus Water Quality Improvement Programme, which, along with targeted rate funding, will reduce wastewater overflows.

74. Without these budgetary changes, network renewals and provision of infrastructure for new housing would be delayed, progress slowed on leak reduction and risk of asset failure would increase. This emphasises the importance of supporting the revenue measures contained in the 10-year Budget proposal.

Level of spending and how we pay for it

75. The capital investment for the next 10 years is proposed to be $31 billion, significantly higher than the $26 billion in the current 10-year Budget. While we look to carry on with as many key infrastructure projects as possible, and act urgently on climate change, the impact of COVID-19 means the next few years would necessarily still be constrained. This is prudent given the high degree of uncertainty ahead and the need to set aside headroom for future shocks.

76. The operating expenditure is proposed to be around $55 billion over the next 10 years. This reflects the need to maintain and operate the growing asset base and increasing demand for Council services. In the Emergency Budget, Auckland Council set a $120 million operational savings target and is on track to achieve it. Some of these savings are temporary reductions or deferrals for one year, such as grants, events funding and preventative maintenance, and will be reinstated. $90 million of annualised saving will be permanent. Group shared services is an area where we can achieve further efficiencies, which is also recommended by the CCO review. Furthermore, the Value for Money programme will continue to assess improvement opportunities in service delivery.

77. Local government has limited funding tools to pay for the services and investment needed. While Auckland Council’s rates revenue accounts for approximately 36 per cent of total revenue, non-rates revenue accounts for 64 per cent, which has contributed to a more severe fiscal impact because COVID-19 adversely affected non-rates revenue more. Similar to the Emergency Budget, Council will need to apply a combination of levers to navigate through the next few years of uncertainty.

<u>General rates</u>

78. General rates increase because the Council needs to meet increasing costs of providing services, and maintain assets such as the transport network, stormwater network, parks and community

facilities. To meet population growth and expectations of better services, Council has increased its assets, the value of which rose from $51 billion in 2018 to $56 billion in 2020. While positive in that this shows the Council is providing more to Aucklanders, additional assets also result in higher costs to operate and maintain the expanded asset base. Council is moving towards fully funding depreciation so that asset renewals can be paid increasingly from cash rather than debt.

79. In the Emergency Budget, despite Council's $450 million projected loss of revenue, we did not increase rates beyond the previously planned rate rise of 3.5 per cent. We recognised that, like Council, many individuals and businesses in the current financial year had incurred income losses because of COVID-19. However, with further losses in revenue amounting to $1 billion over four years, keeping rates at the projected levels became an unviable option if we were going to maintain essential services and keep the city moving forward.

80. In recent years, rate increases in Auckland have been at a significantly lower percentage than elsewhere in the country. However, it is also important that Council continues to be able to deliver the services and the infrastructure Aucklanders need. Not to maintain our assets properly to prevent asset failure and not to spend on infrastructure to deal with problems such as congestion, housing shortage, and environmental threats would be irresponsible.

81. With the impact of COVID-19, the 3.5 per cent increase in current general rates setting will not allow us to operate and invest at a level we need to. Transport assets such as roads, for example, will deteriorate without renewal. There will be reduced investment in safety initiatives, roading, walking and cycling, and public transport projects. Reduced renewal funding will also increase degradation of community facilities and risk of failure until an alternative delivery approach is fully developed. Approved sports field redevelopment will need to be postponed, and the breadth and availability of library and art collections will be reduced. Importantly, Council will not be able to take new climate actions outlined earlier to contribute to the region's efforts to respond to climate change.

82. Finding a balance between the need to look after the city's assets and the ratepayers' ability to pay, I propose that Council consult with the public on a one-off increase of 5 per cent in average general rates for 2021/2022 and 3.5 per cent annually from 2022/2023 to 2030/2031. The Long-term Differential Strategy for business continues, as per the current 10-year Budget. For the average value residential property, a one-off 5 per cent increase would add around $36 extra a year to the current 3.5 per cent rates bill.

<u>Targeted rate</u>

83. A targeted rate is levied for a specific purpose. Targeted rates provide greater transparency for ratepayers to know what their money is being spent on, and greater accountability through identifying clear outcomes. They also provide clarity for consultation and make it easier to ask Aucklanders what they want to invest in and what they are prepared to pay.

Water Quality Targeted Rate and Natural Environment Targeted Rate

84. Both WQTR and NETR are currently planned to expire in 2028. I propose to extend them till 2031 to align with the timeframe of 10-year Budget 2021-2031.

85. The proposed extension of the WQTR will provide an additional $150 million to be invested primarily in projects that address water quality issues in the Manukau Harbour and Eastern Isthmus.

86. The proposed extension of NETR will allow an additional $107 million to be invested to lock in the benefits realised from the past effort in pest control and ensure ongoing protection for indigenous biodiversity within the region, through biosecurity activities and biodiversity protection.

Accommodation Provider Targeted Rate

87. The Accommodation Provider Targeted Rate (APTR) is to ensure the accommodation sector, which benefits from Council's destination marketing and visitor attraction, contributes fairly towards the costs of this work. COVID-19 has resulted in necessary border restrictions, which adversely affected the tourism sector and reduced the effectiveness of some visitor attraction activities.

88. In the Emergency Budget, Council decided to suspend the APTR till 31 March 2021 and reinstate it for the fourth quarter of 2020/2021 (from April to June 2021). When the visitor economy will return remains uncertain and will depend on a range of factors such as how COVID-19 continues to impact the rest of the world, timing and availability of a vaccine, and any formation of international travel bubbles. Nonetheless, the accommodation sector will in the meantime benefit from activities to promote Auckland and attract tourists from the domestic market.

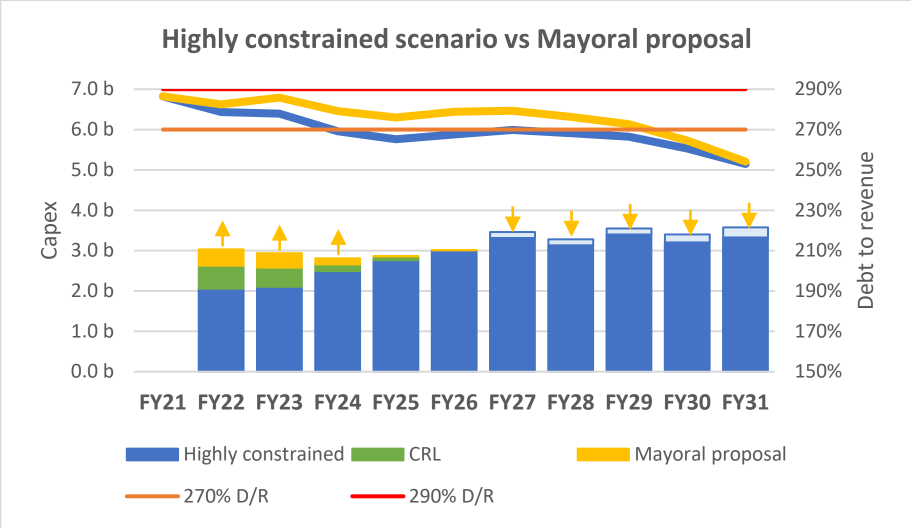
89. Given the high level of uncertainty, it is appropriate Council maintains flexibility in making decisions on the APTR in the final deliberation next year when more information may become known. This may include extending the current suspension.

<u>Borrowing</u>

90. Council uses debt to finance new long-term assets that benefit future generations of Aucklanders. This ensures the upfront cost is fairly shared across generations through debt interest and repayment over time funded by rates. As at 30 June 2020, Council's net debt is around $9.9 billion and total assets amount to approximately $56 billion, representing a debt to asset ratio of around 18 per cent. As an analogy, first home buyers generally borrow 80 to 90 per cent of house value to purchase properties.

91. Council's credit rating represents its credit worthiness, as assessed by credit rating agencies. Lenders use it as an indication for the level of risks associated with their lending (i.e. our borrowing) and decide how much they want to lend us and at what price (i.e. interest rate). Council group's credit ratings with Standard & Poor's Global Ratings (S&P) and Moody's Investors Service (Moody's) are AA and Aa2 respectively, both with a "stable" outlook. Auckland Council has one of the highest credit ratings in New Zealand, second only to the government. This reflects the fact that we are managing our finances prudently. It is important that we maintain this approach and our credit rating.

92. Our Financial Strategy set a limit on the Council borrowing to maintain debt at a prudent and sustainable level. This limit is currently at 270 per cent of revenue. S&P and Moody's also consider a range of factors including our debt to revenue levels when assessing our credit rating. In the Emergency Budget, the sharp revenue reduction forecasted and the need to preserve critical services and investment while also responding to the severe drought resulted in Council's decision to temporarily borrow above this limit and up to 290 per cent. It was assumed that the ratio would return to a sustainable level by June 2021.



93. The latest revenue loss projection of $540 million over the next three years means the continued impact of COVID-19 would be felt for some time though shallower in each successive year. This is likely to result in our debt to revenue ratio staying above the 270 per cent limit for longer than envisaged in the Emergency Budget.

94. Staff are working with our credit rating agencies to understand the impact of different debt levels on our credit rating, and specifically at what debt levels our credit rating would be under pressure. In the Emergency Budget, we were not able to obtain this advice because we had to respond to an emergency promptly and there was not enough time to do so.

95. We are expecting that we will be able to borrow more than the current highly constrained scenario in the first three years of this 10-year Budget, at close to 290 per cent debt to revenue ratio for three years, without impacting on our credit rating. However, we would need to keep a careful eye on our interest cost levels, annual cashflow position and the degree of flexibility in our capital programme.

96. This budget proposes to take a balanced approach to any additional debt capacity we may have. We need to ensure that we do not take our debt to revenue ratio to the maximum level consistent with our credit rating but retain some headroom to deal with uncertainties in the medium term (e.g. future lockdowns). We need to focus any additional borrowing capacity on quality capital projects that meet important needs of our community and support Auckland's economic recovery. The proposed one-off 5 per cent increase in general rates for 2021/2022 will help moderate the stretched borrowing in the first three years and allow us to invest more overall.

<u>Asset recycling</u>

97. Asset recycling seeks to release cash from an existing asset that may be surplus to Council requirement or underperforming. The proceeds are generally used to pay down debt to create capacity to finance another asset deemed of higher priority. The financial benefit from selling an asset can only be realised once.

98. Asset recycling is not limited to selling but includes other commercial arrangements such as long-term lease and concessions. For instance, Council may allow a third party to operate a Council asset for a period of time, in exchange for upfront cash payment by the third party for

the right to receive ongoing revenue. The benefit for Council in this scenario is the immediate cash inflow.

99. The Emergency Budget set out a substantial target of $244 million for asset recycling for 2020/2021, amongst other measures, to mitigate the impact of $450 million projected revenue loss and the $224 million needed for drought response. The target is intended to be met from both surplus property sale and commercial arrangements. For the year to October 2020, $191 million of properties have so far been approved for sale. We need to continue to release value from surplus properties for which there is no current need or funded future need.

100. In addition, we also need to look at service assets that are underperforming, such as those that are underutilised, unfit for service but very costly to fix, or not delivering intended policy outcomes. Some of the community facilities canvassed earlier may fall into this category. Under present financial conditions, we need to focus on consolidating our service assets and pursuing optimisation of service properties where it is sensible to do so.

101. Asset recycling is an ongoing process. We will work closely with the local boards as they also hold a stake in the process. With a focus on non-strategic assets, staff have shown a promising pipeline of opportunities. I support a target of $70 million per annum from realising the value of surplus assets for the next three years.

<u>Government support</u>

102. The government is a major player in funding local government projects. We have in New Zealand a highly centralised system of governance which sees central government collect around 93 per cent of all taxation revenue, whereas local government together collect around 7 per cent of total taxation and rates revenue collected in NZ.

103. Major infrastructure funding projects therefore rely on government capital investment. This will continue to be the case until such time as central government decides a system of revenue sharing with local government.

104. While central government created an amalgamated Auckland Council responsible for 1.6 million people, more than a third of the country's population, and generating an estimated 40 per cent of government's tax revenue, it did not create a new revenue system for the city.

105. Therefore, we are required to continue to seek funding from the government for major projects. Our expectation is that Auckland should, as a high-growth city, receive a fair share, neither more nor less, of overall government funding for such projects.

106. We look forward to a collaborative partnership with the new government and I have already had constructive conversations with the Prime Minister, Minister of Finance, Minister of Transport and Minister of Housing.

107. Among the topics relevant to this 10-year Budget, we have discussed how the Infrastructure Funding and Financing Act 2020 can best be applied to fund infrastructure. We have discussed the government's water reform programme and the options of government underwriting borrowing by Watercare to enable it to raise additional capital for investment in infrastructure.

108. We have raised the option of replacing the Accommodation Provider Targeted Rate with a simpler bed tax, which would have to be provided for by government legislation, as it has done for Queenstown already. This would be a replacement rather than additional tax, aimed at raising a similar level of revenue.

109. I have sought to ensure Auckland is able to receive the full 50:50 co-funding arrangement for all local transport projects, as envisaged in ATAP 2018. In recent years particular Waka Kotahi funding rules have made it difficult for Auckland to access the full funding we agreed through the ATAP process.

110. I will continue working with Local Government New Zealand to advocate for a revenue sharing system for all local authorities, such as having funding equivalent to the GST the government receives on local rates returned to local government.

111. We will advocate to the government for stronger government measures to enable our city to reduce its carbon emissions, such as through incentives to purchase electric cars and buses and to support public transport and active transportation modes.

112. We will also look to work with government to encourage more support for economic recovery from COVID-19, including infrastructure projects.

113. Any further government support that may result from these discussions is not included within our budget assumptions for the 10-year Budget. If agreement for such support is reached it would clearly have a positive effect on what Auckland Council is able to achieve, as would more optimistic scenarios around the speed of economic recovery

END