Staff Advice to support the Mayoral Proposal

6 December 2023

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Contents

Attachment A: Budget advice to support Mayoral Proposal

Purpose

1. To set out staff budget advice to inform the Mayoral Proposal for consultation items for the Long-term Plan 2024-2034.

Summary

- Direction for the Long-term Plan 2024-2034 (LTP) was provided to staff by the Mayor and Councillors, following wide-ranging discussions in Budget Committee workshops.
- The council continues to face significant financial challenges both from the external economic environment and a legacy of having taken short-term measures to address budget shortfalls, which will need more permanent solutions.
- Auckland requires some tough choices. Several key trade-off decisions will need to be made to arrive at a proposed budget, and budget options, that can support quality consultation with Aucklanders.
- Trade-offs should be considered using the principles agreed at the start of this process and all budget choices should also be assessed against four criteria of being credible, sustainable, affordable, and implementable.
- To inform trade-off discussions and the preparation of the Mayoral Proposal staff have modelled a reference budget scenario. This provides a clear benchmark or starting point from which to assess the impact of trade-offs and budget options.
- The council might choose to take a scenario-based approach to budget options in its consultation document. Staff advise that presenting a range of options to the community for consultation will best support flexibility in decision-making for the final budget decisions once feedback has been received.
- Any budget consultation via the LTP will need to meet legislative requirements and audit expectations, and should maintain the council's strong commitment to prudent and sustainable financial management.

Context

Financial challenges

2. The council continues to face significant financial challenges both from the external environment and as a result of previous decisions.
3. Key external environmental factors include:
   a. Global economic factors with the re-emergence of high levels of inflation and interest rates leading to significant pressure on the costs to deliver existing and new services.
   b. The recovery of some revenue streams from the impacts of the COVID-19 pandemic.

c. The devastating storm events that hit Auckland in early 2023 causing significant damage to council assets and also impacting Aucklanders' lives and homes.
d. The recent general election and change of government has heightened the level of uncertainty around a number of key budget factors, including water reform and the Regional Fuel Tax (RFT). The fact that the new government is a coalition arrangement adds to the uncertainty and complexity.

4. Previous decisions that are driving financial challenges over the next few years include:
   a. Decisions in the last Annual Budget to use temporary measures to address a structural, long-term budget gap. These included the use of $85 million of borrowing and also the use of existing reserves to fund natural environment and water quality programmes, enabling a temporary reduction in targeted rates.
   b. The City Rail Link (CRL) is forecast to be complete and open in 2026. Once open the full operating costs will need to be funded from operating revenue, including maintenance costs, interest on thethe council's share of capital costs, depreciation on assets that will be owned by Auckland Transport, running facilities such as new stations, track access charges from Kiwirail, and the operational costs of running the increased services that the project will enable.
   c. Decisions made to support homeowners severely impacted by the 2023 storm events through the voluntary buy-out scheme, the Category 2P grant scheme, and the investment in community infrastructure. Despite co-funding from central government this will still result in significant costs.

Process requirements

5. Auckland Council is required to prepare a long-term plan (LTP) every three years. The purpose of this plan is to provide a long-term focus for the council's decisions and activities, and then to provide a basis for the community to hold the council accountable.
6. To meet its statutory obligations and to enable quality decision-making, the council will need to agree on items for consultation for this LTP on 6 December 2023.
7. Staff will then prepare consultation material for adoption by the Budget Committee in February 2024.
8. The consultation material will need to be audited by Audit New Zealand ahead of Budget Committee adoption.

Prudent financial management

9. A key requirement of financial management for a local authority is that it maintains financial prudence[1]. Focusing on prudence and long-term financial sustainability is crucial to ensuring we are not placing an unsustainable debt burden on future ratepayers.
10. Maintaining a strong commitment to long-term financial prudence is critical to ensuring the council can maintain ongoing and cost-effective access to the capital it needs to fund its investments and to be able to respond to any future shocks.
11. The key policy settings that ensure financial prudence are the debt-to-revenue limit and balanced budget approach included in the council's Financial Strategy, and the depreciation funding policy included in the council's Revenue and Financing Policy. The Revenue and Financing policy states that the council does not generally use borrowings to pay for operating costs and sets annual targets for the

[1] Local Government Act 2002, s.101

proportion of operating expense (including depreciation) that the council will fund from current operating revenue.

Staff consider that given the financial circumstances the council is currently facing, any softening from these key financial policies at this point would raise significant concerns for the council's bondholders, rating agencies and other external stakeholders. We therefore strongly recommend that the council does not consider any such policy changes through this LTP.

Our Approach

A new approach

12. To ensure that this LTP provided a real opportunity to set the political direction for the next decade a new approach, directed by the Mayor, was taken to the process.
13. The first step in the process was a series of workshops between the mayor and councillors to enable wide-ranging discussions about the long-term future of Auckland and the council group. The workshops followed an initial briefing outlining the context and process for the LTP. Supporting collateral was also prepared for the series of workshops. The collateral was constructed using publicly available information and provided some context for the discussions.
14. The workshops were designed to develop a shared understanding of the Budget Committee's expectations and principles for the LTP development process and to identify and agree direction to the council group as it prepared its advice for the Mayor's Proposal.

Direction document

15. The workshops culminated in the *Long-term Plan 2024-2034: Direction to council group from the Mayor and Councillors* document which had the following components:
    - *Mayor's statement on policy direction* including a new vision for Auckland and Auckland Council's role, strategic priorities, and policy initiatives for the LTP and issues to be investigated by Political Working Groups
    - *The Mayor and Councillors' directions* including approach and principles for the LTP, requirements for staff advice, direction on engagement for the LTP and direction for staff advice in each of 7 areas of investment across the group. These are:
        - Transport
        - Drinking water, wastewater and stormwater
        - Built environment
        - Natural environment
        - Community
        - Economic and cultural development
        - Well-managed local government

Investment options

16. In the direction document, the council group was instructed to investigate and provide advice where needed on 18 investment options. Twelve options were developed in full and shared with the Budget Committee. The remaining six options will be progressed in various ways, including outside of LTP decision-making.

Other workshops

17. In addition to the investment options, staff provided a programme of workshops for the Budget Committee over the period from August to November on other key LTP issues. Material from these workshops is published on the agenda for the Budget Committee meeting on 6 December 2023.

Criteria / Principles

18. The direction document issued to staff in August 2023 identified 12 guiding principles to shape the approach towards the LTP.
    - Councillor and mayor-led direction
    - Prioritisation and trade-offs
    - Make the most of what we have
    - Clarify the council's role
    - Empowering local boards
    - Stronger partnership with government
    - Outcomes-focus
    - Priorities within existing direction
    - Future-focused decision making
    - Sustainable funding
    - Build flexibility
    - Systems thinking
19. In terms of budget decision-making a key principle from the above list is the need for prioritisation and trade-off decisions. Given the budget challenges the council faces, it will need to make significant trade-off decisions through this long-term plan and to discuss these with Aucklanders through the consultation process.
20. In considering trade-off options it is crucial that the council maintains the confidence of key external stakeholders including investors, credit rating agencies, auditors and central government.
21. It is recommended that the council continues to use the following four criteria to consider budget options and solutions:
    a. Credible – levers should build external stakeholders' confidence in the council's financial management and items for public consultation should only be included if, and to the extent that the council can credibly follow through and realise the financial benefits.
    b. Sustainable – trade-off options selected need to be ones that provide ongoing benefits and don't contribute to bigger budget challenges or unintended service level challenges for future years.
    c. Affordable – options selected need to avoid unacceptable shocks for ratepayers, both now and in the future. Substantial rates increases for the first few years could create affordability challenges for some ratepayers, but other mitigation actions may serve just to delay this impact and may result in larger rates increases in subsequent years.
    d. Implementable –it is crucial that the benefits from trade-off options are able to be delivered within the planned timeframe. Some options that are more significant or more complex might be more credibly implemented in later years of the LTP. Other options that rely on changes in government policy and/or legislative change may need to be progressed outside of the LTP process for now.

Dimensioning our budget challenge

Reference scenario

22. To inform trade-off discussions and the preparation of the Mayoral Proposal staff have modelled a reference budget scenario.
23. The aim of the reference scenario is not to act as a staff recommendation, or to anticipate what the mayor might propose, but to provide an indication of the extent to which key funding and financing levers (rates and debt) would need to be used to ensure a balanced budget under a specific set of investment conditions.
24. Key features of the reference scenario are:
    a. A $16 billion Auckland Transport capital programme as well as significant year-on-year increase in public transport operating costs
    b. A $4 billion community investment capital programme based around a transition to delivering community services differently over time
    c. A movement to fairer funding of local boards, including increases to both operating and capital budgets from 2025/2026 of $10 million and $15 million respectively.
    d. Additional capital and operating costs associated with storm response
25. Details of the reference scenario, including cost drivers and investment option selections are included in Attachment B.
26. Additionally, the modelling of this scenario includes the following rates settings:
    a. The Natural Environment Targeted Rate and the Water Quality Targeted Rate are both returned to their previous levels following the temporary reduction last year. This would result in an additional average year-on-year increase in rates to residential ratepayers of 2.5 per cent.
    b. That the Long-term Differential Strategy is restarted which would continue to reduce the share of rates paid by business, with an impact of around 0.5 per cent on residential rates each year.
27. Modelling of the reference scenario indicated that, if the council chose to balance the budget solely by increasing general rates, the projected rates path would be as below.

	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Overall average increase to general rate for existing ratepayers	11.0%	8.5%	8.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Impact of targeted rates and the differential strategy	3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Average increase to total rates for residential ratepayers	14%	9%	9%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Water reform

28. A key consideration in the preparation of the LTP budget is the government's water reform programme. While current legislation states that Auckland Council's LTP should be prepared without the inclusion of any content relating to water services, the position of the new government is that this legislation will be repealed.

29. Water supply and wastewater services are currently delivered in Auckland by Watercare Services Limited with costs funded from water charges and infrastructure growth charges. This funding structure was likely to continue under the reform process.
30. Stormwater services are currently funded from rates and delivered by Auckland Council. The new entity was expected to use a similar tool to recover the cost of these services. The cost to Aucklanders is therefore unlikely to be impacted.
31. For these reasons, the outcome of water reform decisions is unlikely to impact key trade-off decisions with respect to the level of rates (or rates equivalent charges).
32. A key consideration, however, is the impact of the inclusion or exclusion of water services on the council's group debt position. The large debt and revenue positions of Watercare Services, and comparatively high debt-to-revenue position, mean that the inclusion of water services in the LTP creates upward pressure on the group debt-to-revenue position.
33. To address this impact the council, which provides treasury services to Watercare, has traditionally set Watercare a debt-to-revenue ratio limit. Most recently this has been 340 per cent.
34. The National Transition Unit at the Department of Internal Affairs has prepared an Asset Management Plan and capital programme for the new entity, with support from Watercare. This does not, however, necessarily represent the views of the Watercare Board.
35. In preparation for a potential change of direction from government relating to the water reform programme (with a short timeline prior to LTP consultation decision-making) Watercare staff have prepared an investment and pricing plan based on the Asset Management Plan approved by their board in December 2022 and updated for the Annual Budget 2023/2024.

Balancing considerations

36. In developing a budget proposal for consultation with Aucklanders the council needs to balance levels of rates and debt that are affordable with delivering the services Aucklanders want and making progress with improving the region.
37. The mayor's statement on policy direction noted:

    "The council is at risk of not being able to affordably meet the expectations of Aucklanders about basic delivery of infrastructure and services to them, meaning we will slip on the things that really make a difference to people while we try to juggle less important work. Some trade-offs and focus are required to put us on a sustainable financial path. We must be clear about what really matters, the standard of service we will deliver and our financial strategy for delivering."

Considering trade-off options and budget levers

Investment options

38. As noted above, staff were directed to investigate and provide advice on 18 investment options. Twelve options were developed in full and shared with the Budget Committee (the remaining six options will be progressed in various ways, including outside of LTP decision-making).
39. Investment options were discussed at Budget Committee workshops on 1, 8 and 13 November. Pre-read material was circulated ahead of each workshop. Elected members were also directed to the specific parts of their direction document relevant to the option presented.
40. A summary of the key investment options is included in the below table (with the options included in the reference scenario noted):

41. Details of the options, including the associated trade-offs, are included in Attachment D.

Changes to capital investment programmes

42. One of the key trade-off options for the council to reduce rates or debt increases is the size and timing of its capital programme.
43. Reductions in the capital programme would reduce borrowing requirements and also deliver consequential reductions in operating costs such as interest, running costs, maintenance, and depreciation.
44. If the programme changes are limited to timing (i.e. short-term deferrals) then the operating cost changes will only be temporary. Given the structural nature of the funding challenges the council is facing, changes to the capital investment programmes that provide only temporary benefit are unlikely to represent a large or sustainable solution.
45. It is also important to note that the consequential operating costs of a capital project do not impact the operating funding balance until the project is completed. Therefore, any operating savings impacts lag

the changes to the capital programme. For this reason, changes to the capital programme are unlikely to materially address operating challenges for year one of the LTP.

46. Therefore, to make material improvements to the council's operating position by adjusting capital investment, any reductions would need to be large, early and enduring.
47. The key considerations with capital programme options are sustainability and ability to implement:
    - Reductions to capital programmes will likely have impacts on planned or current levels of service. If renewals programmes are continually reduced or deferred, then consideration of whether current service levels can be sustained is required.
    - Where significant changes to a capital programme are considered, an assessment of whether the change is implementable must be made. Decisions about reductions need to consider the level of contractual or public commitment to the projects while decisions about increases need to consider whether and how quickly the organisation can "tool up" to deliver a larger programme.

Operating cost reductions

48. Permanent reductions in operating spending, either through improved efficiency or a reduction in services, provide a sustainable option to help address an ongoing operating budget gap.

    The council group has continued to set and implement savings targets in each annual and long-term planning process. Any further operating cost reductions included in this LTP would be in addition to existing savings committed through previous budgets. The Annual Budget 2023/2024 included $83 million of operating spend reductions.These were over and above the target of $90 million of annual cost reductions for Auckland Council that were locked in as part of the Recovery Budget (10-year Budget 2021-2031). Council Controlled Organisations have also managed internal savings targets, generally to mitigate the impact of cost pressures for which the council has not provided additional funding.

49. Some of these existing savings targets agreed as part of the Annual Budget were temporary in nature, and replacement operating cost reductions for future years still need to be identified. There is currently a remaining savings target of around $22 million for Auckland Council, of which around $10 million is identified but not yet implemented, and the remaining $12 million is still to be found. In addition, there are widespread inflationary cost pressures across the group that CCOs and council departments are looking to manage within existing budgets
50. Just meeting these existing targets while continuing to absorb inflationary cost pressures is difficult and an ongoing challenge right across the council group.
51. While some capacity for increased efficiency will always exist, operating expenditure is primarily a function of quantity and quality of the services delivered and how those services are delivered. Ongoing budget reductions are increasingly impacting service levels and the larger the size of any further reduction, the greater the service impact is likely to be.
52. A key consideration in respect to operating cost reductions is that, and when, they are implementable. While some savings and service level reductions might be implementable in the first year of the LTP, others may take some time to identify, plan, and deliver and cannot be realised until subsequent years of the plan. Some of the efficiency opportunities considered as part of this LTP would also require some significant upfront investment before they can be achieved.
53. Attachment E includes a discussion of the sorts of efficiency initiatives and service level reductions that might be needed to deliver different levels of cost reduction.

Major investments

54. An Investment Political Working Group was established for this LTP to consider options around the council's largest financial investments, being shareholdings in Port of Auckland Limited and Auckland International Airport Limited.
55. This working group has carried out work to inform the long-term plan on items relating to these major investments, in line with a resolution made by Governing Body during Annual Budget 2023/2024 decision-making. This includes the ownership objectives of the shareholding of AIAL and other steps that should be taken in relation to its investments that could maximise their contribution to Auckland and to the council's long-term financial position.
56. Any decisions on options for these major investments could have significant implications for the council's financial position.

Asset sales

57. The Auckland Council balance sheet includes over $70 billion of assets. In acting as good stewards of these assets for the people of Auckland it is important that we continually ensure we are getting best value from them.
58. In reviewing the council's asset portfolio, particularly land and buildings, staff have identified assets where the best outcomes for the city would be realised through asset sale and recycling the capital into other assets, or into debt reduction.
59. Attachment G discusses options for the setting of asset sale targets and also a decision-making framework to support the efficient achievement of these targets.

Government funding

60. A key source of council revenue is government funding, particularly for transport expenditure.
61. The co-funding agreement for storm response will result in a new stream of government funding revenue over the next few years as they support our investments to support homeowners and build resilience following the 2023 storm events.
62. The newly elected government has expressed an intention to cancel the current Auckland Regional Fuel Tax (RFT) that provides around $150 million per annum to fund investment in transport infrastructure. Given this, budget projections exclude any future RFT revenue from 1 July 2024.
63. The impact of this assumption is that if the council chooses to continue with the projects planned to be funded from the RFT then it will need to identify other funding sources for these investments. Additionally, the loss of the $150 million per annum in revenue will increase the council's debt-to-revenue ratio and reduce its capacity to borrow.
64. While the council continues to advocate for further funding from government (including through the Mayor's Manifesto for Auckland), there is not sufficient certainty to support an assumption of any increase to funding for this consultation budget. However, it is intended that the draft Financial Strategy (which will form part of the consultation materials for this LTP) will outline some potential changes that government funding could make to funding levels and funding mechanisms. Such changes could help Auckland Council to work in partnership with government agencies to make greater progress towards outcomes that are important at both the regional and national level.

Debt

65. The council's approach to borrowing is defined in the Financial Strategy and Revenue and Financing Policy. Debt is generally used to spread the cost of investments over the period where the benefit of that spend is realised.
66. The prudent use of debt is a key measure of the council's overall financial sustainability.
67. The existing Financial Strategy sets a limit on debt defined by its relationship to revenue. The current limit is a debt-to-revenue ratio of 290 per cent. The council has also set a long-term target of maintaining a ratio below 270 per cent.
68. These limits will be reset through the new Financial Strategy that will be consulted on and adopted as a part of this LTP. Direction from the Mayor has been for lower debt limits, and this aligns with an expectation that debt levels would be lower than they would otherwise be following the council's decision to sell part of its shareholding in Auckland International Airport.
69. Managing debt is a key trade-off when looking at the level of capital investment (generally funded from borrowing) and asset sales (where the proceeds are used to reduce debt).
70. While debt has been used in past budgets to close a budget gap it does not address the ongoing operating cost challenge but merely postpones its mitigation.
71. Operating within the policy limit is important in terms of demonstrating prudent financial management and giving confidence to our bondholders, rating agencies and external investors. However, it is becoming increasingly important to ensure that we don't just stay within the limit, but that we ensure there is plenty of headroom against it. The need for this has been amply demonstrated through the COVID-19 pandemic, the cost escalations for the City Rail Link and the recent storm events. Looking ahead, the uncertainty in economic and climate conditions show no signs of abating. Therefore, staff recommend that whatever debt limit the council decides to set, the aim should be to stay well within that limit and see the available debt headroom increase over time.
72. A key factor when considering group debt is whether Watercare debt will be included and, if so, the direction given by the council around Watercare's debt-to-revenue ratio.
73. The investment and pricing plan prepared by Watercare is based on the above debt principle of spreading investment over its useful life but this, due to the capital-intensive business and extremely long-life nature of the assets, results in a debt-to-revenue ratio that grows from 397 per cent to over 500 per cent over the period of the plan.
74. For Watercare to reduce this ratio it must increase its pricing levels (for water charges and/or growth charges) and/or reduce the level of capital investment. This choice (which sits with the Watercare Board) would involve a balance of sustainability in terms of asset maintenance and outcomes, and affordability for water users and developers. Watercare presented to the Budget Committee in a workshop on the trade-offs and choices that would be involved in reducing their debt-to-revenue ratio. This presentation is included in the material on the agenda of the 6 November Budget Committee meeting.
75. If the council is required to include water services in its LTP then it must carefully consider the trade-off of requiring the Watercare Board to set higher prices and/or reduce proposed capital investment levels against managing overall group debt within appropriate limits and maintaining headroom to deal with shocks.

Rates

76. Rates are the largest individual funding source for the council and rates settings are a key component of any trade-off decisions.
77. In preparing a proposal, or scenarios, for consultation the council will need to consider the levels of both general and targeted rates across the full 10-year period.
78. The key considerations around rating options are credibility, sustainability, and affordability:
    - The council needs to ensure that it is credible that rates settings projected, particularly in outer years of the plan, would be implemented and not unrealistically high or low.
    - The ongoing, and compounding, impacts of rates increases on the council's operating income means they provide a sustainable mitigation against the ongoing nature of the budget challenges faced.
    - Affordability of rates need to be considered across the full period of the long-term plan and some options may improve affordability in the short-term at the expense of the longer-term.
79. Further advice on options around settings for the Natural Environment Targeted Rate, the Water Quality Targeted Rate, and the Long-term Differential Strategy is attached to this report as Attachment F. This advice includes options which could enable the existing planned targeted rate programmes to continue to be delivered (with some increased investment in the case of water quality), with a much lower impact on the overall rates increase for residential ratepayers in 2024/2025 than previously planned.
80. The key change would be to amend how the capital investment in the water quality programme is funded. Rather than continuing to repay the capital costs over ten years, the capital expenditure would be funded like any other capital expenditure with rates covering the associated annual operating costs (including interest, depreciation and ongoing operational and maintenance costs). This change in funding approach more appropriately spreads the cost over time given that the assets created will have useful lives much longer than ten years. This approach would have a minor impact on overall council borrowing but would mean the targeted rates will have a 0.5 per cent overall impact on residential rates increases, rather than 2.5 per cent.
81. Advice on the Long-term Differential Strategy provides for options including the status quo, which would increase residential rates by around 0.5 per cent extra each year, or fixing the split of rates revenue at the current level which would mean no extra annual increase for residential ratepayers.
82. Taken together, these two changes could see the impact of these rating policy changes on residential ratepayers reduce from 3 per cent to 0.5 per cent for 2024/2025 without impacting the underlying programmes.

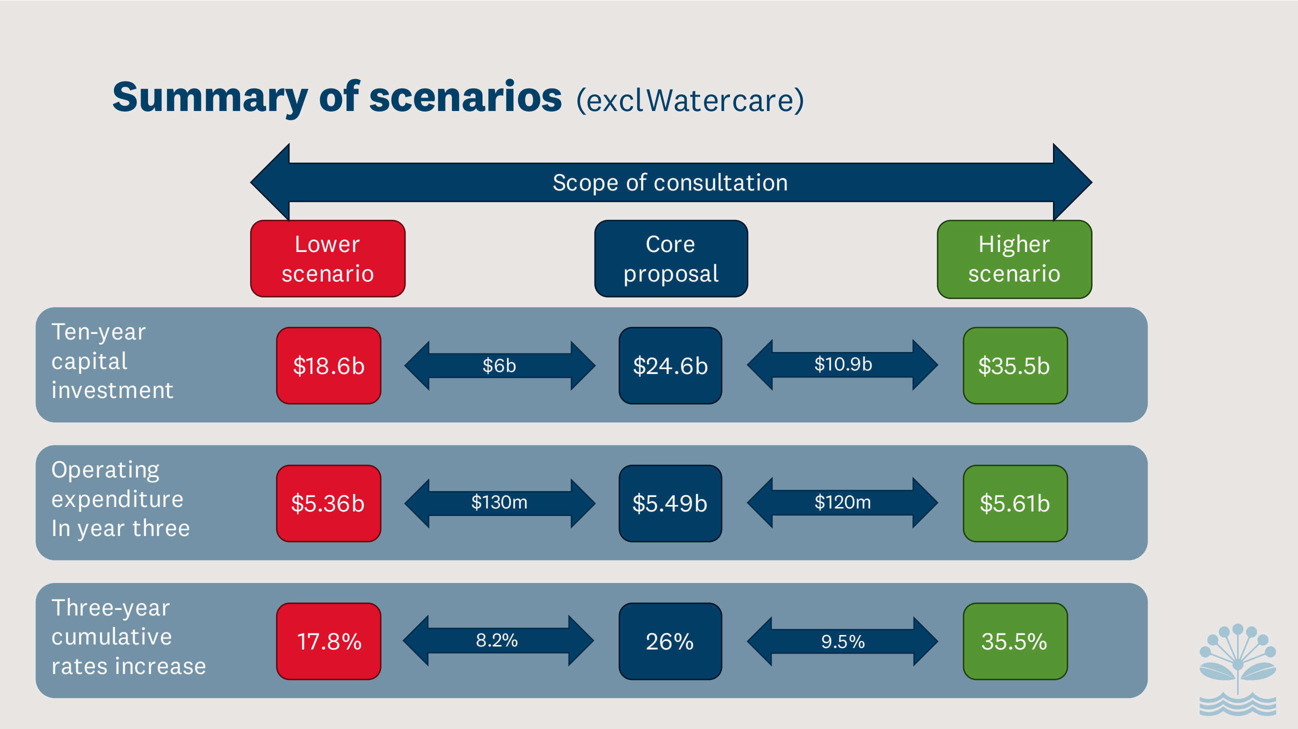
Framing our consultation

The proposed budget

83. The Budget Committee needs to agree a core set of proposed budgets for the council group to support public consultation on the LTP. It is the role of the mayor to lead this via the Mayoral Proposal. Developing and agreeing a draft budget for consultation will require careful consideration of the key trade-offs and budget options discussed in this report. This includes balancing the required levels of investment with the affordability of charges for Aucklanders, as part of a credible, sustainable and implementable plan for the next decade.
84. The proposed budget and associated budget options/choices put forward to the public for consultation should be simple, clear, evidence-based and auditable. This will enable the public to provide informed feedback that can support the final decisions for the council.

Scenario-based approach

85. To ensure a good quality conversation with Aucklanders around trade-offs, and to provide the council with flexibility to respond to consultation feedback and to any unexpected events in final budget decisions, the council could take an options and scenario-based approach to its LTP consultation.
86. Under this approach, the LTP Consultation Document would describe two additional budget scenarios alongside the core budget proposal. These could be described as:
    a. A higher “pay more, get more” scenario which provides for more investment and higher service levels, with associated higher levels of rates increases and debt.
    b. A lower “pay less, get less” scenario that requires significant reductions in both operating and capital spend, resulting in lower levels of service, as well as higher asset sales targets. This would require lower levels of rates increases and result in lower forecast debt levels.
87. It would not be intended that submitters only express a preference for one of the three scenarios, but rather that this is used as a frame to help them understand the options and trade-offs. Submitters would be invited and encouraged to provide feedback on any combination or mix of budget options, provided that it is helpful in moving the council toward a balanced position (i.e. feedback that people would just like to “pay less, get more” would be discouraged as it will not help with making tough trade-off decisions).
88. Indications of how these scenarios might provide for an appropriate frame for consultation were presented to the Governing Body in a workshop on 22 November (material available on the agenda of the 6 November Budget Committee meeting).
89. For this presentation staff prepared:
    a. A Core Proposal that was based on the reference scenario but with a slightly lower transport capital programme, a group savings assumption, an asset sales target, and incorporating the funding change for the Water Quality Targeted Rate programme.
    b. A lower "pay less, get less” scenario that looked to deliver General Rates increases of 2 per cent above inflation for the first three years, using the levers notes in 87 ii. above.
    c. A higher “pay more, get more” scenario with more investment and higher services levels, with total rates increases of 11 per cent for the first two years and 10 per cent for year three of the LTP.
90. The diagram below shows these three scenarios and the consultation scope they provide.



Impact on residential rates

91. Under the reference scenario, it was estimated that the rates increase for residential ratepayers would need to be 14 per cent next year and 9 per cent for each of the following two years.
92. The main drivers of the 14 per cent increase next year were rapid rises in the cost of delivering public transport services, additional costs associated with the storm response, the use of debt as a temporary measure to solve part of the budget gap in the Annual Budget 2023/2024 and the impact of previous rating policy decisions as described above. Changes to rating policy however could see the residential rates increase for next year reduce by 2.5 percentage points down to 11.5 per cent without impacting the underlying programmes.
93. The main driver of the need for a high rates increase well above in inflation in the third year of the plan is the need to fund ongoing operational costs associated with the CRL project.
94. The following table shows the year-by-year estimates of the residential rates increase required under each of the scenarios presented to the Budget Committee on 22 November. Here the lower scenario was projected to result in residential rates increases of only 2 per cent more than the projected rate of CPI inflation each year, by implementing substantial operating and capital costs reductions to partially offset the substantial increase in operational funding requirements associated with the CRL in year three.

Scenario	FY25	FY26	FY27
Higher “pay more, get more”	11.0%	11.0%	10.0%
Core scenario	8.5%	7.0%	8.5%
Lower “pay less, get less”	7.7%	4.8%	4.2%

Impact on our borrowing

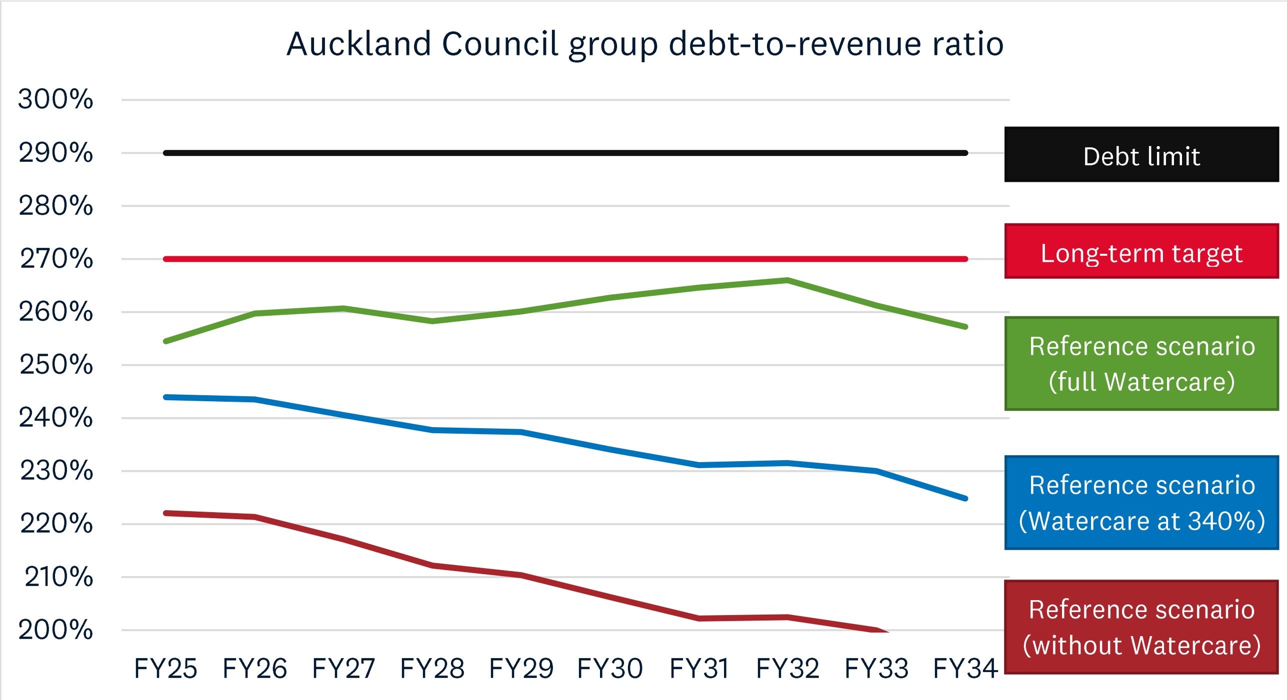
95. Under the reference scenario, the council group's debt is projected to grow by around $2.5 billion over the decade.

96. The below chart shows the projected group debt-to-revenue profile if water services were to be included. The different profiles shown reflect the projections if:

   a. Watercare's Asset Management Plan was included as proposed

   b. the council were to require Watercare to continue to maintain a debt-to-revenue ratio of no more than 340 per cent

   c. Watercare's debt was somehow able to be effectively separated from the council's group ratio as calculated by our credit rating agencies.



97. While the above chart shows debt-to-revenue within our current limits under all Watercare scenarios it is important to note that there is an expectation of a reset of these limits at lower levels through a refreshed Financial Strategy and enabled by the partial sale of airport shares as part of the Annual Budget 2023/2024.

98. Alongside consideration of the impact of including Watercare debt in group ratios, another factor in the debt-to-revenue ratio setting is that the overall ratio has been raised by around 4-7 per cent by the removal of the RFT revenue. If the council chooses to continue the RFT projects and fund them from debt the impact would be even greater.

99. It is also important to note that the reference scenario includes cumulative total rates increases of over 35% over the first three years. A lower rates trajectory than this would result in lower overall revenue and a rates path projected to exceed our long-term target.

100. This demonstrates some of the key considerations the council must make when looking at trade-offs and preparing scenarios for consultation. Increases to revenue streams, such as rates, will have a benefit to the debt-to-revenue ratio, whereas an equivalent reduction in operating costs will not impact the ratio.

101. Maintaining adequate headroom below the prudential limit is crucial to ensuring the council is able to respond to challenges and shocks that present themselves.

Conclusion

102. On 6 December 2023, the Budget Committee will need to agree a core proposed budget for consultation and agree to any budget options it wants to consult on to support public discussion and debate on key trade-offs for the Long-term Plan 2024-2034.

103. Auckland needs to make some tough choices to face some difficult financial challenges. These are the result of having to absorb some recent chunky investment decisions, the reemergence of higher inflation, the inheritance of running costs for new assets and a legacy of having taken short-term measures to address budget shortfalls that will need more permanent solutions.

104. Taking an options and scenario-based approach to budget consultation would support a high-quality approach to public engagement on key trade-offs and choices. Maintaining a broad scope of possible trade-offs and choices is also crucial to maintaining flexibility post consultation. Things may change in the external environment (as evidenced by the COVID-19 pandemic and the severe storms this year) and the council also needs to be ready to respond to the policy direction of the new government.

105. Prudent financial management needs to be at the core of budget decision-making, balancing affordability for current ratepayers with the delivery of services and investments, and with the needs of and affordability for future ratepayers. The plan needs to be credible and implementable and must comply with all relevant legal requirements and audit expectations.

Attachment B: Budget Analysis

Purpose

1. To outline the process and inputs to arrive at the reference scenario budget for the Long-term Plan 2024-2034. This scenario is a compilation of the latest budget projections and proposals from across the council group prior to political decision-making on key budget trade-offs.

Direction to council group

2. The mayor and councillors' direction setting document to the council group outlined the priorities and expectations for the development of the Long-term Plan 2024-2034 (LTP). This included a request for greater visibility and political oversight of year-on-year operating budget changes.
3. For the purposes of updating financial forecasts, the group was directed to move towards an annual budget process based on the central government system of fixed nominal baselines. This meant that as a starting point, operating expenditure budgets were not automatically increased each year by the rate of inflation and council-controlled organisations (CCOs) and council departments were encouraged to seek out savings to offset inflationary cost pressures.
4. The document also stated that exceptions would likely apply for spending increases that are unavoidable due to contractual or similar commitments, or where the costs are necessary to implement specific Governing Body decisions.
5. Proposals for new discretionary expenditure or requests for inflationary adjustments to avoid undesirable service reductions would be subject to scrutiny and trade-off decisions through each year's annual plan process.

Staff guidance

6. Staff prepared guidance to the council group which outlined the key messages, timeline and key forecasting assumptions to ensure consistency of the outputs and advice from each area. The key points of the guidance were:
   - There would be no automatic inflationary increases to operational (opex) budgets.
   - The focus should be on unavoidable opex pressures with justification for movements from the current approved Annual Budget 2023/2024 year.
   - No new investment proposals or "budget bids" other than advice requested on the investment options that were included in the direction setting document.
7. This process, complemented by the development of the Service Profile pack, has provided elected members with the greater visibility and political oversight of the year-on-year operating budget changes that they requested. The Service Profile pack provides an inventory of the currently funded services provided to Aucklanders by CCOs and council departments and links the funding provided with inputs, outputs and outcomes.

Key forecasting assumptions

Inflation

8. Auckland Council does not have a central inflation rate for the different business areas to apply to their costs and revenues. However, in order to ensure the group took a consistent view of the economy, a set of indices (based on adjusted BERL 2022 indices) were provided per the table below:

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PPI inputs- Local govt admin	2.9%	2.4%	2.5%	2.3%	2.2%	2.1%	2.1%	2.0%	2.0%	2.0%
PPI inputs- Arts and recreation services	3.5%	2.4%	2.2%	2.0%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%
PPI inputs – Water, sewer, drainage and waste services	4.4%	3.3%	3.3%	3.1%	2.9%	2.8%	2.7%	2.7%	2.7%	2.7%
CGI – Earthmoving and site work	5.7%	3.7%	2.9%	2.1%	1.5%	1.0%	0.5%	0.1%	-0.4%	-0.4%
CGI – Pipelines	4.7%	3.5%	3.5%	3.3%	3.1%	3.0%	2.9%	2.8%	2.7%	2.7%
CGI – Reclamation and river control	3.5%	2.5%	2.4%	2.2%	2.1%	2.1%	2.0%	2.0%	1.9%	1.9%
CPI (prior Dec) -staff costs	5.2%	2.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

9. Each area within the group considered the area-specific information / indices for their industry and contracts to forecast indicative revenue and cost pressures on their budgets.

Growth

10. The group was advised to continue using the forecasts from i11 v6 (council's core growth forecasting model). Further information will be provided if and when any updates to the Future Development Strategy result in changes to the i11 v6 assumptions.

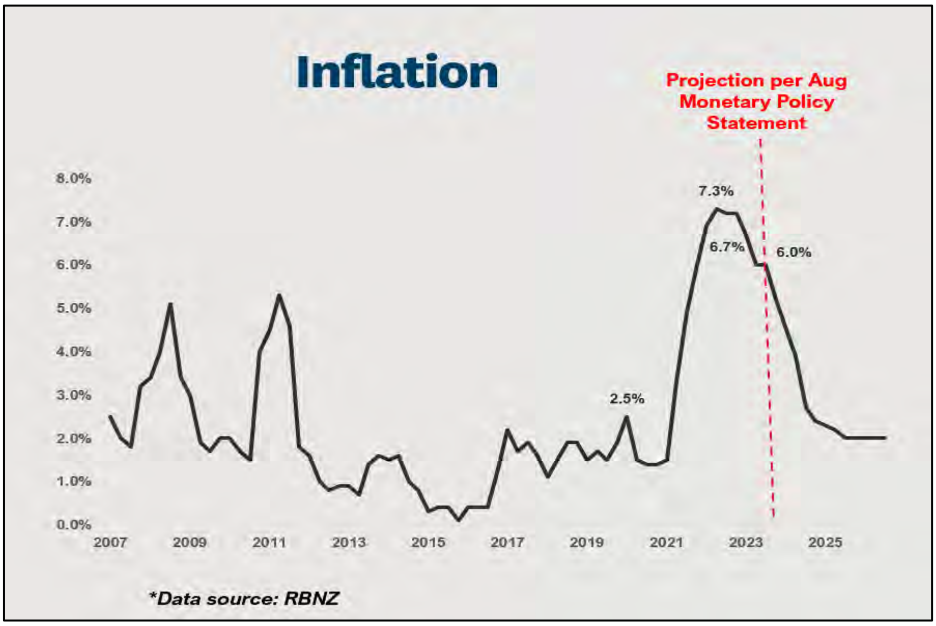
11. Further considerations of growth assumptions and their impacts on council budgets will be reconsidered during the Budget Refresh process (where forecasts are reviewed and updated post consultation) in the new year when the implications of the Future Development Strategy are modelled and changes to the i11 v6 assumptions are completed.

Legislative settings regarding water services

12. Under current legislation, the council group will no longer be responsible for water supply, wastewater and urban stormwater services from 1 July 2024, and is prohibited from including content relating to these services in its Long-term Plan 2024-2034.
13. However, because of the extreme weather events in early 2023 significant change to stormwater activities are necessary. Work on stormwater budgets and funding requirements has therefore been progressed on the basis that this exercise would remain relevant even if responsibility for delivery shifts from Auckland Council to a new water entity.
14. Given the uncertainty about the future of the water reform programme and potential changes to legislation under the direction of the new government, some work has been undertaken to update Watercare's operating and capital budget projections in case this may need to input into the Long-term Plan 2024-2034 at some point.
15. Even in the absence of water reform, adjustments to Watercare's operating budgets will not impact council rates as it funds its activities separately through water charges. Watercare's operating costs have therefore been excluded from the analysis set out in this report.
16. However, without water reform Watercare's pricing and capital investment decisions will have a material impact on the council's group debt position. Watercare's capital investment forecasts have therefore been included in the capital investment section of this report based on their Annual Plan 2023/2024 asset management plan.

Financial context

17. The context for this LTP is that there are a range of financial and economic challenges that need to be balanced against the desire to maintain or enhance the services and activities offered by council.
18. The council continues to face rising investment demand due to rapid growth, changing community needs and expectations, ageing assets, a need to support recovery from recent storm events and mitigate and adapt to climate change.
19. At the same time, the council operates in an environment of reduced investment capacity due to reduced revenue (due to the lingering impacts of COVID-19 and behavioural change) and existing commitments to spend. Central Government is also changing our operating environment, centralising regulatory settings, imposing additional costs, and removing some functions and decision-making powers from local government.
20. Cost increases in recent years have also been driven by higher inflation and interest rates and increased supply chain costs. Inflation has increased on average 2.4 per cent over the past ten years but then peaked at 7.3 per cent in June 2022. While trending down from this peak, inflation remains high and isn't expected to return to around 2 per cent until 2026/2027 financial year:



21. The high level of inflation leads to an increase in council's costs directly impacting key items like:

- staff costs across the group (increases are generally contractually linked to CPI)
- contracted costs for outsourced services such as public transport provision, utilities, maintenance and waste services.

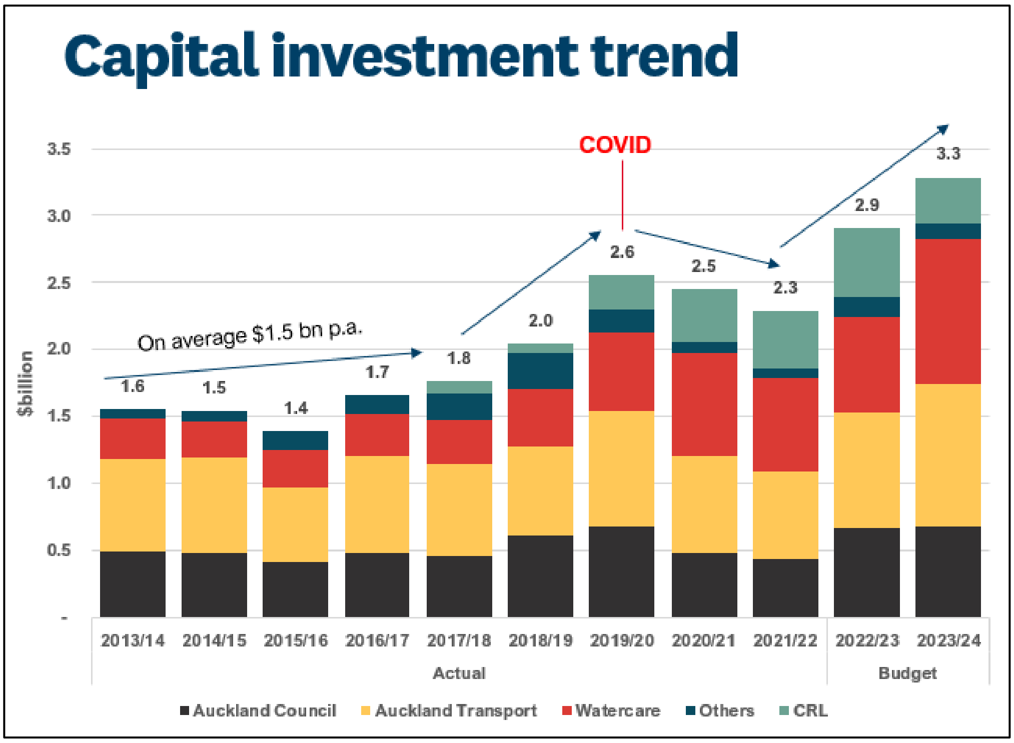
Population growth

22. Population growth is a significant macro-level factor that drives demand for infrastructure. Auckland's population has grown substantially over the past decade, from 1.4 million to over 1.7 million at an average of 2 per cent annually.

23. Along with investment in infrastructure to support this level of growth, the council is also faced with increased demand on service levels to deal with existing issues such as congestion, asset condition, environment degradation and climate resilience, and to respond to changing community needs. These changes impact both our capital investment levels and operating costs, and also have a range of implications for our existing asset base.

Capital investment

24. The graph below shows the group's capital investment trend. There has been a 110 per cent overall increase in capital investment planned this financial year compared to 2013/2014. This increase has been driven by population growth, a drive to catch up on historical underinvestment in growth infrastructure, increased investment to address ageing assets and to fund mega projects such as City Rail Link and Central Interceptor.



25. While this increased level of investment supports Auckland's development, it also elevates operating expenditure, specifically interest and depreciation costs, which have grown considerably in recent years as a result of this investment (in addition to increases due to higher interest and inflation rates).

Storm impacts

26. The sudden and unexpected large-scale weather events of early 2023 have had a significant financial impact for the council. The more immediate short-term costs will be incurred in the current year while the major remediation and renewal related capital costs will need to be funded over the next few years.

27. Auckland Council has agreed to a cost sharing deal with the Crown to fund more than $2 billion of flood recovery and resilience works, including buying-out Category 3 properties.

28. The council share of costs will need to be funded in the LTP which further constrains our ability to invest in other activities. Higher operating costs for things like geotechnical investigations, enhanced stormwater management, flood risk intelligence and improving community-led flood resilience will also need to be funded.

Existing savings targets

29. Since amalgamation Auckland Council has achieved over $2 billion of operating savings and the impact of these prior savings programmes is that general rates are around 14 per cent less than they would be without the intervention.

30. In the Annual Budget 2023/2024 the council agreed to $83 million of additional operating expenditure reductions across the council group. These were over and above the target of $90 million of annual cost reductions for Auckland Council that were locked in as part of the Recovery Budget (10-year Budget 2021-2031).

31. The CCOs have also managed internal savings targets, generally to mitigate the impact of cost pressures for which council has not provided additional funding.

32. Some of these existing savings targets agreed as part of the most recent Annual Budget were temporary in nature, and replacement operating cost reductions for future years still need to be identified.

33. There is currently a remaining savings target of around $22 million for Auckland Council, of which around $10 million is identified but not yet implemented, and the remaining $12 million still needs to be found. In addition, there are widespread inflationary cost pressures across the group that CCOs and council departments are looking to manage within existing budgets.

Updated financial forecasts – reference scenario

34. Throughout the process elected members have received briefings on financial pressures related to current services as well as information and advice on the investment options that they requested.

35. Staff have taken an indicative selection of the investment options and overlaid the costs and benefits over the base "business as usual" activities. The reason for taking this approach was to provide a clear starting point for trade-off discussions.

36. This reference scenario does **not** represent the Mayoral Proposal or staff recommendations for the budget. It is simply a benchmark to assist political discussion and debate.

37. The graphic below shows which options (indicated by ticks) have been included in the reference scenario:

LTP operating budget challenges

38. The table below shows an updated view of net opex[1] following the work on the budget process undertaken to date, comparing the year-on-year movements from the current year (2023/2024) with the first three years of the next LTP by entity under the reference scenario.

$million	2023/2024 Annual plan	2024/2025 Forecast	Change	2025/2026 Forecast	Change	2026/2027 Forecast	Change
Auckland Council	1,237	1,302	65	1,371	69	1,399	28
Auckland Transport	439	550	111	603	53	593	(10)
Tātaki Auckland Unlimited	86	88	2	90	2	93	3
Eke Panuku	23	24	1	25	1	22	(3)
Port of Auckland	(52)	(60)	(8)	(70)	(10)	(75)	(5)

Note: figures presented in the above table are net direct expenditure for Auckland Council, Tātaki Auckland Unlimited, Eke Panuku; Auckland Council's share of opex funding for Auckland Transport and Net Profit After Tax for Port of Auckland.

Year-on-year 2023/2024 to 2024/2025 key budget movements

39. This section of the report focusses on the key budget movements by entity that were submitted as unavoidable pressures or required to implement an investment option that is included in the reference scenario.

40. The tables below provide the key drivers for the increase in opex that has been forecast from 2023/2024 to 2024/2025 for the Auckland Council Group under the reference scenario:

Entity	Key drivers	$million
Auckland Council	Staff cost inflation based on CPI forecasts	12
	Central government driven or legally required including: • Auckland Unitary Plan review • National policy statements	20

[1] Net opex here refers to operating expenditure minus operating revenues, but excluding items such as rates revenue, interest costs and depreciation. Non-cash adjustments such as vested asset revenue and accounting provisions are also generally excluded. It represents the amount of council funding provided to each entity to deliver day-to-day services.

Entity	Key drivers	$million
	• Animal management • Increasing legislative requirements in Water Services Act to ensure water quality	
	Storm response including costs for Recovery Office, Making Space for Water and Category 3 property buy-outs	54
	Net reductions including consequential opex savings for delivering community services differently	(21)
	Total	65

Entity	Key drivers	$million
Auckland Transport	Higher public transport operating costs driven by indexation, new services, southern line electrification	98
	Open loop and National Ticketing Solution (NTS)	48
	Higher maintenance costs to better align with asset management plan requirements	18
	Track and access charges	24
	Information Technology costs with move to cloud-based services and increasing network optimisation using technology	13
	Offset by growth in activity income, parking and enforcement revenue, and Waka Kotahi co-funding assumed for the proposed cost increase	(90)
	Total	111

Entity	Key drivers	$million
Tātaki Auckland Unlimited	Inflationary pressure on staff costs and utilities	2
Eke Panuku	Net increase of inflationary pressure on staff costs partially offset by additional revenue	1
Port of Auckland	Improvement in net profit in line with Statement of Corporate Intent	(8)

Year-on-year key budget movements 2024/2025 – 2026/2027

41. The key budget movements for year 2 and 3 of the LTP are outlined as follows.

Auckland Council

- Increased operating cost in delivering community services differently - $33 million in 2025/2026 to deliver non-asset based community services and to enable more capital grants and lease payments to be paid to partner organisations as an alternative to council building, owning, operating and maintaining new or upgraded community facilities.

- Equitable funding for local boards - $10 million additional operating provision per annum starting in 2025/2026 to support the move to fairer funding for local boards.
- Other increases are primarily due to inflation forecasts, with staff and other contracted services tied to the CPI, projected at 2.7 per cent and 2 per cent for 2025/2026 and 2026/2027 respectively.

Auckland Transport

42. The funding request for 2025/2026 is $53 million higher than 2024/2025, due to a continuation of the same contributing factors as well as some early costs associated with the integration and commencement of new rail services through the City Rail Link tunnels and stations.
43. The funding for the 2026/2027 decreased by $10 million in comparison to the 2025/2026, primarily caused by reduction in transition costs for NTS upon completion.

City Rail Link (CRL)

44. Once the CRL is fully operational the council will face significant additional costs to provide more rail services and maintain new infrastructure. The council also will need to fund a substantial amount of interest and depreciation each year. The specific amount of depreciation the council would need to fund remains highly uncertain and won't be confirmed until the allocation of ownership of relevant assets is confirmed and valued.
45. It is currently estimated that the council will need to fund around $220 million of operating costs in relation to the CRL in the first full year of operations which is expected to be the 2026/2027 financial year.
46. The table below provides a summary view of the estimated annual net costs the council would need to fund:

$million	By 2026/2027
Revenue (incl. Waka Kotahi co-funding)	(44)
Operating costs	64
Interest	160
Funded depreciation	41
Forecast total AC share of net CRL operating costs	221

47. The $64 million of operating costs in the table include:
    - Ongoing facility operations, encompassing the management and maintenance of new stations and related infrastructure.
    - Incremental track charges resulting to be paid to KiwiRail.
    - Net expenses associated with the expansion of rail services, reflecting the comprehensive costs of increased operational activity.

Capital investment

48. The current Long-term Plan 2021-2031 included a $32 billion package of capital investment to enable continued delivery of key services and strong investment in new and renewed assets as well as helping stimulate the economic recovery of Auckland.

49. Key changes that the council group have proposed for the Long-term Plan 2024-2034 include:

    - Accelerating planned flood management works through the Making Space for Water programme to build resilience to storms and respond to climate change.
    - The costs of supporting storm-affected homeowners through the Category 3 voluntary buy-out scheme and the Category 2P grant scheme.
    - The need for enhanced mode shift and emission reduction outcomes through investment in the bus and ferry network.
    - Providing support for housing growth objectives.
    - Increased asset renewal requirements.
    - Changing the approach to how we deliver community services that is less reliant on council assets.
    - Proposed changes to the Tātaki Auckland Unlimited stadium network.
    - Construction cost escalations, including for projects like the CRL.
    - Updated Watercare asset management plan projections.

50. The composition of capital investment under the reference scenario is based on the following selection of investment options:

    - A $16 billion Auckland Transport capital programme to support existing commitments, improvements to the public transport network, renewals and growth.
    - Parks and Community capital investment package of $4 billion by reducing assets through consolidation and not renewing all assets when required, adding new land and assets where needed, and shifting to a different delivery model.
    - $0.7 billion of capital investment for the Making Space for Water (MSFW) strategic option to respond to flooding and mitigate future flood risks.
    - Stadium upgrades fully funded through rationalisation of stadium assets (North Harbour Stadium) with net realisable proceeds from the asset sales expected to be $130 million.
    - Status quo/maintaining current level of capex budget provision for regeneration activities and restoration of the Strategic Development Fund.
    - A steady and transitional change to council's technology platforms (Option C).
    - $17 million capital expenditure towards a more integrated and cohesive approach to service delivery for group shared services (i.e., Finance, ICT, HR, Corporate Services) to eliminate duplication and enhance efficiency (Option C).
    - Higher investment levels to support the Water Quality Targeted rate programme. Since the rate was established the program cost has risen substantially due to cost escalation and changes in scope required to deliver the intended outcomes. More information on this programme can be found in Attachment F – Rates Policy.

51. Details of specific investment options and associated trade-offs can be found in Attachment D – Overview of Investment Options.

52. A detailed capital expenditure pack is also available showing granular project and programme level detail for each area, as well as some additional information on the investment options that are not included in the reference scenario.

53. Even though Watercare is currently required to be excluded from the council's LTP, the investment levels projected by Watercare during the previous Annual Budget (based on their asset management plan) is included for information and completeness.

54. The table below provides a high-level comparison of the investment approved in the current LTP with the levels proposed under the reference scenario by entity:

$million	Current Long-term Plan 2021-2031	Proposed Long-term Plan 2024-2034
Auckland Council	7,437	8,510*
Auckland Transport	11,373	16,042
Tātaki Auckland Unlimited (incl. managed activity)	554	797
Eke Panuku (incl. managed activity)	777	897
Watercare	9,653	13,691
City Rail Link	1,272	466
Port of Auckland	741	582
Total	31,806	40,985

**Includes increased capital provision of $15 million per annum from year 2 of the LTP to support fairer funding for local boards.*

Further funding requests from third parties

55. In prior LTPs and Annual Budgets the council has received funding requests from third party organisations who provide community services throughout the region. Some of these funding agreements are either terminating or are anticipated for review between now and the finalisation of the LTP in June 2024.

56. The current inventory of funding agreements that may require political consideration as part of the LTP are as follows.

Coastguard New Zealand

57. In July 2020, Coastguard Northern Region amalgamated with its national body, Coastguard New Zealand. As a result, it is no longer considered a regional "specified amenity" under the Auckland Regional Amenities Funding Act (ARAFA) and can no longer seek funding through that mechanism.

58. Since amalgamation Coastguard New Zealand has applied directly to the council for funding for services provided in the Auckland region.

59. As part of the Annual Plan 2023/2024, $765,000 of operating funding was granted for Coastguard New Zealand to support the provision of services in the Auckland region. The reference scenario assumes an operating budget of around $800,000 per annum ongoing.

60. Alternatively, not funding this request would allow for the budget allowance to be released providing a further saving for the operating budgets.

Mangere Mountain Education Trust

61. The Recovery Budget approved funding of $300,000 per annum for the first three years, made up of $96,000 from local board funding and the remaining $204,000 from regional funding. Further funding for future years was to be considered as part of the Long-term Plan 2024-2034.

62. The agreement for the $204,000 portion of regional funding will end this financial year and is not included in the reference scenario. The local board funded portion is assumed to continue but will need to be approved by the local board when budgets and work programmes are adopted.

Surf Life Saving Northern Region

63. Surf Life Saving Northern Region (SLSNR) is a regional “specified amenity” under the Auckland Regional Amenities Funding Act (ARAFA). SLSNR receives around $1.5 million per annum for operational costs from the Auckland Regional Amenities Funding Board.

64. In August 2023 SLSNR outlined a request for additional funding of $10.46 million for clubhouse redevelopment. Since this was submitted (24 Aug 2023), the Orewa Surf Life Saving Club has received a grant allocation of $2 million from the council’s Sport and Recreation Investment Fund which funds the Orewa surf club redevelopment, reducing the total SLSNR request for funding support to $8 million.

65. No budget provision has been assumed for this request in the reference scenario. If the Governing Body agrees to fund this request, additional funding or cost reductions would be required.

66. There could be the potential for some funding for this activity to be secured by individual clubs by making an application to the existing Sport and Recreation Investment Fund.

Auckland Marine Rescue Centre (AMRC) Trust

67. In the 2018 - 2028 LTP a grant of $2 million was allocated to enable the rebuild of the Auckland Marine Rescue Centre (AMRC). This facility also houses Coastguard NZ, Harbour Master, Maritime Police, Auckland Volunteer Coastguard and Surf Life Saving Northern Region NZ. A development funding agreement was put in place however the terms were not met before the agreement’s expiry date.

68. The AMRC presented to the Governing Body in August 2023, after the Trust had been advised that the $2 million grant funding had lapsed and was no longer available for future developments.

69. A new ‘application’ has since been provided by AMRC seeking funding to be allocated over multiple years to enable a refurbishment of the AMRC facility. It is seeking $486,000 as soon as practicable (2025), and a further $2 million for further works as part of a more extensive redevelopment at a later date (2025-2030).

70. No budget provision has been assumed for this request in the reference scenario. If the Governing Body agrees to fund this request, additional funding or cost reductions would be required.

Mount Albert Grammar School Community Swimming Pool Trust (Mt Albert Aquatics)

71. The lease expires at the end of this financial year and an alternative accessway to the Mt Albert Aquatics Centre is likely to be required to renew the lease. The cost of this accessway is estimated to be $1 million. As this would not be a council asset, any funding provided would need to be in the form of a grant.
72. No budget provision has been assumed for this request in the reference scenario. If the Governing Body agrees to fund this request, additional funding or cost reductions would be required.

The Auckland Citizens' Advice Bureau (ACABx)

73. The current three-year funding agreement, as confirmed in the Long-term Plan 2021-2031, ends on 30 June 2024. While the funding agreement is for a three-year period, it noted that the funding was subject to annual budget decision-making.
74. Council staff and the ACABx board are working together to implement enhanced reporting and development of the service model. Action is being taken through the Mayor's office and Customer and Community Services staff to determine whether central government funding can be sought to reduce the amount of council investment by 50% in time for the implementation of the LTP 2024-2034.
75. The board of ACABx has confirmed that the national body, CABNZ, is in the advanced stages of an agreement with key central government agencies on a model to support increased central government funding for the services nation-wide.
76. ACABx has presented a draft service model and action plan for the region, which staff in Customer and Community Services have reviewed and provided feedback on. This is now going to further consultation within the wider CAB network, including staff and volunteers, and will be presented back to council. The reference scenario assumes $2 million of funding per annum for ACABx.

Hibiscus Coast Youth Centre

77. Three-year funding of $100,000 per annum provided for in the Long-term Plan 2021-2031 will end at the end of this financial year.
78. The Youth Centre have recently taken on an Alternative Education contract, which is both needed in the area but also something that will help with the financial stability.
79. The Hibiscus and Bays Local Board have signalled that they do not have the funding to support the current level of funding paid to the centre of $100,000 per annum. The reference scenario assumes no funding for the centre.

Q Theatre

80. Auckland Council has a funding relationship with Q Theatre extending back to opening of the complex in 2011.
81. Governing body decisions made at the 2021 Long-term Plan recognised operational grant levels were insufficient to sustain Q Theatre's operations. A three-year restructuring of the Q Theatre

investment by Council was agreed alongside the adoption of the 2021-2031 Long-term plan to increase operational funding allocation and to ensure regular investment in asset maintenance.

82. It was intended that the three-year restructuring of funding would support a shift in the financial performance of Q Theatre.

83. The current term of governing body decision and funding agreement ends in June 2024. Q Theatre have signalled a desire for ongoing consideration of Council financial support. This is likely to require consideration of both restructuring existing funding and a request for additional funding.

84. The reference scenario assumes provision of ongoing funding at around $1 million per annum. Not funding this request would allow for the budget allowance to be released, providing an operating budget cost saving.

Attachment C: Investment Impact Assessment

Direction to Council Group from the Mayor and Councillors

1. The principles in the *Long-term Plan 2024-2034 Direction to Council Group from the Mayor and Councillors* directed that analysis and advice to elected members include prioritisation of activities and services across the council group.
2. In the mayor's statement on policy direction for the Long-term Plan 2024-2034, Mayor Brown requested that all spending across council departments and Council Controlled Organisations be assessed against a robust criteria-based prioritisation framework and involve consideration of potential trade-offs.
3. Direction for criteria-based prioritisation was covered under "Option 17. Criteria-based prioritisation" against a robust framework that involves consideration of potential trade-offs. The *Investment Impact Assessment tool* was used to respond to this option and direction.

Purpose

4. The purpose of the Investment Impact Assessment is to support decision-making on group capital and operational expenditure budgets for the Long-term Plan 2024-2034.
5. The Investment Impact Assessment tool provides information to support decision-making as it is one of the only places where an 'apples-with-apples' comparison can be made between investments across the council group and assists in the understanding of trade-offs at the budget envelope, entity, and outcomes level. This is achieved by subjecting all expenditure to a common set of criteria.
6. The process and analysis also support council departments and CCOs to demonstrate comparative alignment of planned investments with key council risk areas, strategic direction, and Long-term Plan priorities.

Overview of the Investment Impact Assessment

7. The Investment Impact Assessment framework is the evolution of the Capital Investment Prioritisation tool used in the last three rounds of group annual budgeting.
8. The criteria of the Investment Impact Assessment were designed to capture dimensions of associated risk, financial implications and outcomes delivered by each line item of expenditure. For example, the health and safety criterion assesses both the likelihood and estimated impact of the health and safety risk that is mitigated by the investment.
9. The criteria have been updated, reviewed, and improved each year through input by council subject matter experts to improve the robustness of the assessment.

10. Planned capital and operational expenditure is included in the assessment and scored against the criteria by asset managers and service delivery departments of the council group.
11. Following the completion of the assessment, a review was completed centrally by staff for each criterion on each project, programme, or service area, to ensure consistency in assessment across the group.
12. The Investment Impact Assessment tool offers significant benefits:
    a) A centralised assessment of the group's proposed investments for the Long-term Plan.
    b) A consistent view to support elected members on budget development and trade-offs across the group.

Key outputs of the Investment Impact Assessment to support decision-making

13. Staff have used the Investment Impact Assessment framework to enable examination of the trade-offs between reducing capital and operational investment, and to understand the strategic alignment and value delivery provided by that investment.
14. Table 1 (in methodology section) describes the tests of the investment against priorities to order the programmes, projects, and service areas, outputs are shown in Figures 1 to Figure 4.
15. Figures 1 to Figure 4 provide the 10-year and first three years planned capital and operational expenditure rated in the investment impact assessment and ordered based on the mayoral priorities. Three budget scenarios were applied to, as closely as possible, match the lower, core and higher operational and capital levels in each scenario.
16. The outputs have been used to support Councillors and Mayor understand the trade-offs in two important ways:
    a) **The extent to which programmes, projects and service areas that perform well against the mayor's priorities would be impacted by reduction in expenditure:** the analysis indicated only a very small amount of "Residual" investments meaning any reductions in operational or capital programmes would start to impact delivery of our most important strategic investments. Where potential reductions are proposed, as in the core and lower scenarios, our most important council strategic aligned investments that haven't been captured in the earlier tests are impacted. In the capital programme, at the scale of $3 billion reduction over 10 years, some of our most important investments tested for positive return on investment or investments that manage cost escalations (a large quantum of which is renewals related) would be impacted. This is also illustrated in Figures 1 to Figure 4.
    b) **The types of programmes, projects and service areas that would be considered lower priority (noting that very few residual or poorly performing programmes were identified):** in the higher scenario a $35m reduction over 3-years to non-transport operational expenditure potentially impacting levels of service, in the core scenario a $100m reduction over 3-years to non-transport operational expenditure impacting levels of service, and in the lower scenario $3 billion over 10-

year capital expenditure reduction impacts non-transport critical renewals such as Tātaki and Healthy Waters and a $210m over 3-years operational expenditure reduction impacting significant reduction in levels of service across all non-transport departments including community, parks, and healthy waters.

17. The exact reductions proposed, their impact on the different parts of the council programmes and services, and description of the impact on service levels would need to be done in consultation with the group and is the recommended next step of the Investment Impact Assessment tool following the finalisation of the Mayoral Proposal.

18. Note that the quantum of savings for operational expenditure have been outlined for 3-years but will have on-going impacts over the 10-years. Figure 2 shows the year 3 impacts extrapolated to year 10 to illustrate an on-going impact.

19. Note the assessment has been completed for the council group (excluding Watercare). The data presented here exclude Auckland Transport and CRL due to operational and capital programmes being revised separately to deliver on the Mayoral Proposal.

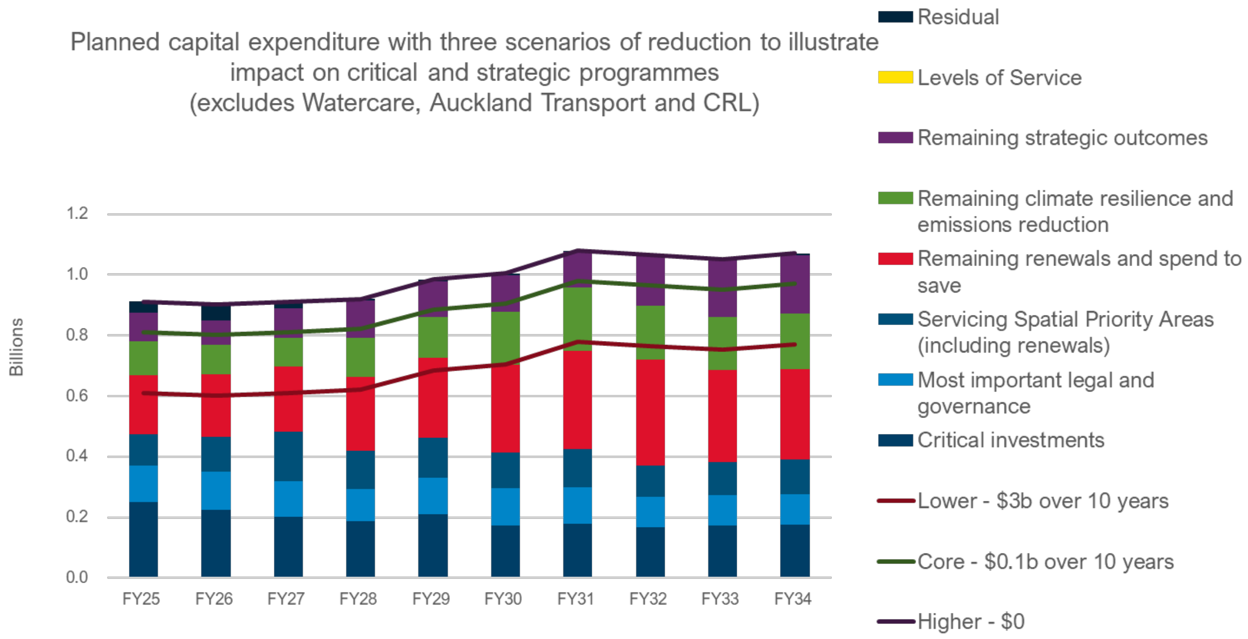


Figure 1 – Planned 10-year Capital Expenditure rated on the Investment Impact Assessment Criteria and tested against the Mayor's order of priorities

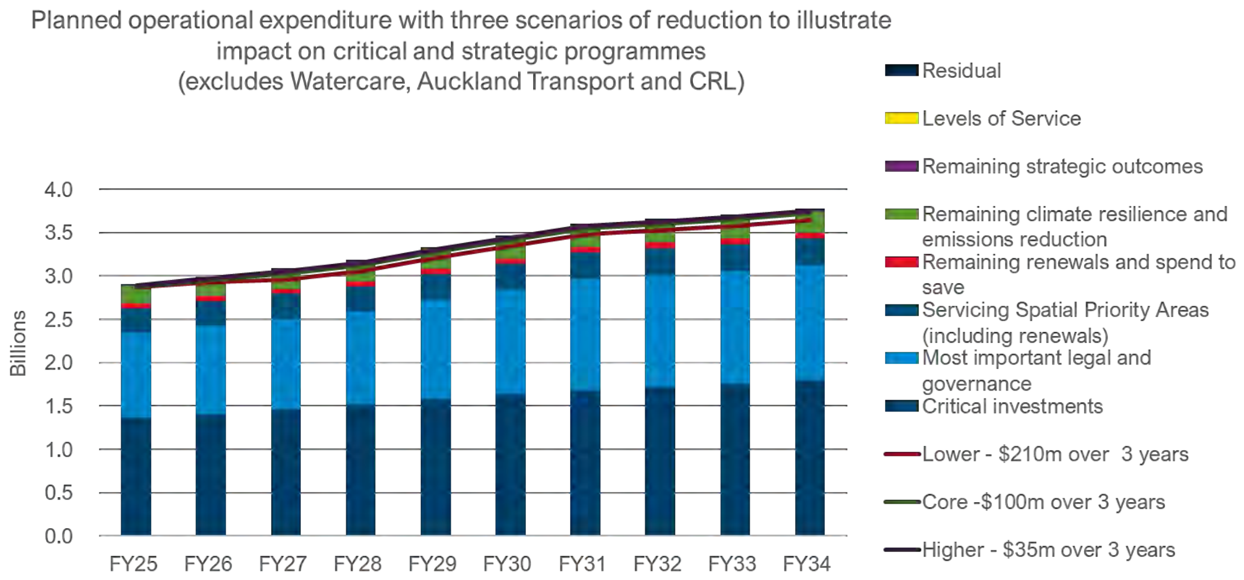


Figure 2 – Planned 10-year Operational Expenditure rated on the Investment Impact Assessment Criteria and tested against the Mayor's order of priorities

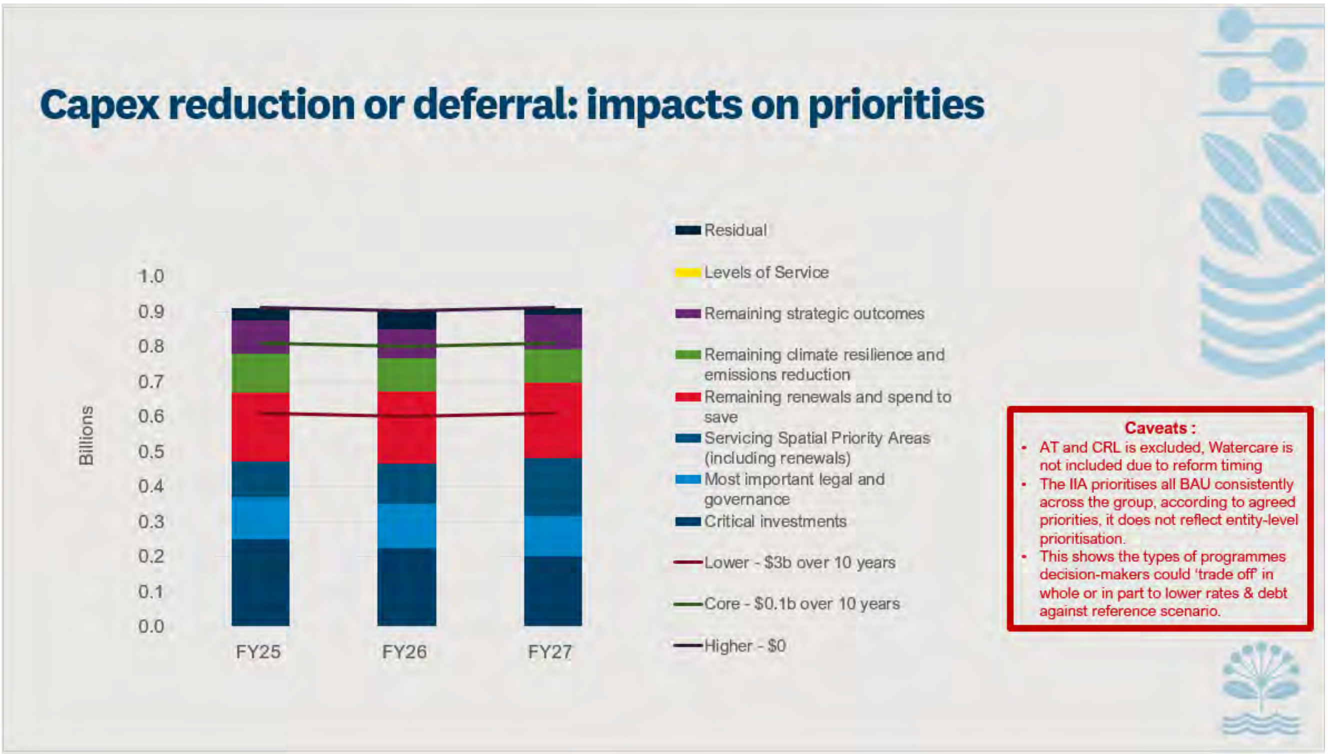


Figure 3 - Planned 3-year Capital Expenditure rated on the Investment Impact Assessment Criteria and tested against the mayor's order of priorities

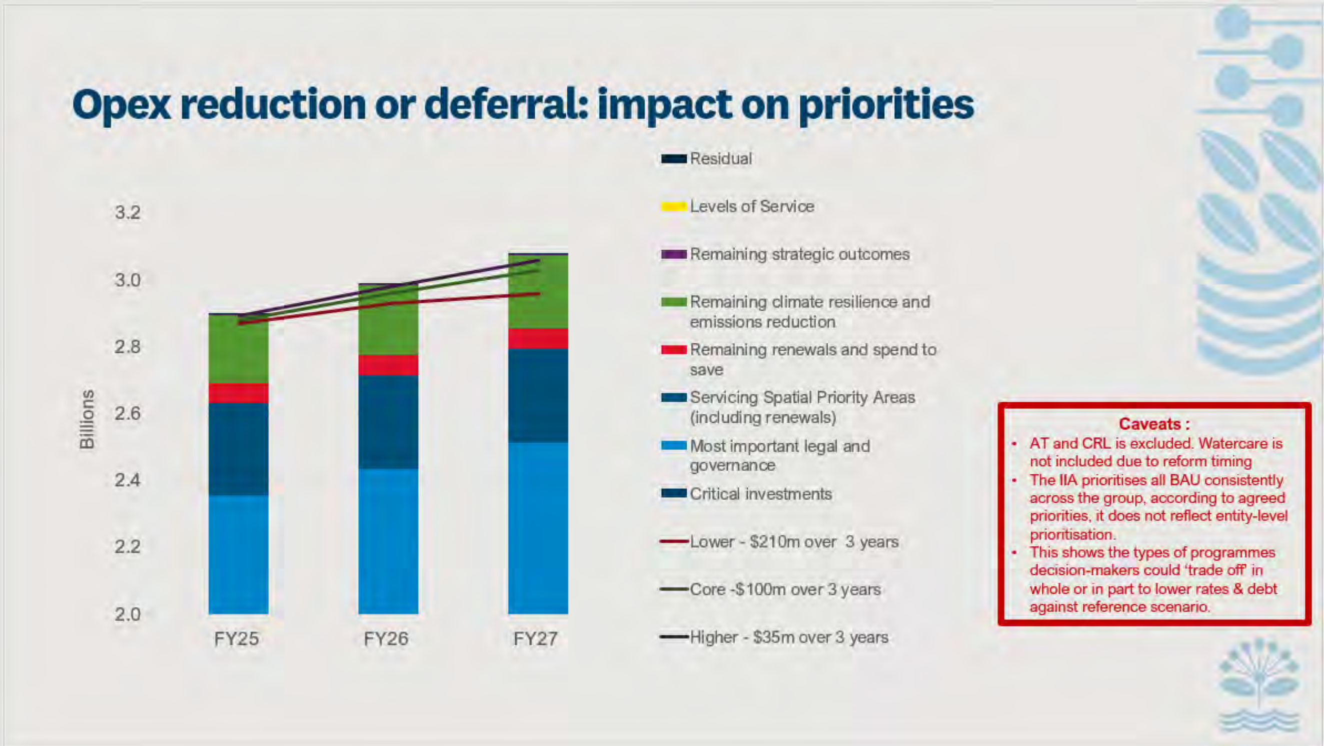


Figure 4 - Planned 3-year Operational Expenditure rated on the Investment Impact Assessment Criteria and tested against the mayor's order of priorities

Investment Impact Assessment Methodology

20. The Investment Impact Assessment tool's predecessor, the Capital Investment Prioritisation tool, was developed in 2020. The criteria have been updated, reviewed, and improved each year through input by council subject matter experts.

21. The criteria were designed to capture dimensions of risk, financial implications and strategic outcomes delivered by each line item. For example, the health and safety criterion assesses both the likelihood and estimated impact of the health and safety risk that is mitigated by the investment.

22. For the 2024-2034 Long-term Plan, the updates to the criteria include:

    a) Two new criteria: Democratic Local Governance and Efficient Local Government.

    b) Changes to criteria definitions that are appropriate for operational expenditure.

    c) Additional data collection points for Investment Hierarchy, GHG emissions calculations and hazard types that the investments are exposed to.

    d) Minor text changes for clarity.

23. All planned expenditure is included in the assessment, but only broken down into major programmes, projects, and service profile levels. Each expenditure line item is scored against the criteria by asset managers and service delivery departments of the council group.

24. This is the first time that the tool has been used for operational expenditure, and as such, only a high-level assessment of operational expenditure data has been possible at this time.

25. Following the completion of the assessment, a review was completed by staff for each criterion on each project, programme or service area, to ensure consistency in assessing the risk of deferral or strategic misalignment across the group.

Data Collection and Analysis for the Investment Impact Assessment

26. Data collection and analysis of Investment Impact Assessment are split into two Phases:
    - Phase 1: First view - A high-level assessment presented to elected members with the value of the planned group investment against agreed priorities. This was a starting point for costs and phasing, as well as scores for each investment.
    - Phase 2: Detailed view - The group were asked to update some of their investment plans during Phase 2 as per the requests from options and scenarios.
    - The preliminary greenhouse gas (GHG) emissions and cost analysis had also been carried out by the Chief Sustainability Office during Phase 1 and Phase 2. This analysis identified climate-

positive investments and where significant opportunities lie to further reduce emissions through investment

Figure 5 - IIA data collection and analysis process

Phase 1: First View Data Collection

27. For each of council departments and CCOs, data collected for each investment by the Investment Impact Assessment was:

- Expenditure Type – Opex | Capex
- Investment Title
- Activity Class – Group of Activities in the LTP
- Funding Source and percentage funded – Targeted Rate | Local Board
- Investment Area – the LTP Seven Investment Areas
- Investment Hierarchy – integrated planning, demand management and best use of existing assets, before carefully planned new investments.
- Cost certainty – a range from contracted, to cost based on historical spend.
- Planned investment by year for each year of the 10-year budget
- Cost to break contracts (where contracted)
- If climate emissions are assessed on the project, and net emissions if available.
- Investments that are in green infrastructure, green and blue public space, or have sustainability ratings.
- Assessment against each of the 18 criteria across 4 categories – Service Delivery | Financial | Governance | Strategic Alignment.

Phase 1 Data Analysis

28. Five scenarios were developed to provide elected members with a consistent group-wide view of investment options. The five scenarios were:

- Focus on the mayor's priorities.
- Focus on delivering minimum statutory requirements.
- Prioritise investment that increases resilience and reduces emissions.
- Focus investment on what the council group has and limit asset growth.
- Prioritise regional strategies the council group has committed to.

29. Each scenario tested the potential risks and opportunities by weighting certain criteria. The five scenarios and outputs were presented to elected members in late September, where elected members provided feedback on their preferred directions and requested further information on a number of areas.

30. A preliminary Greenhouse Gas (GHG) Emissions and cost analysis had also been carried out by the Chief Sustainability Office. This analysis identified climate positive expenditure and investments where significant opportunities lie to further reduce emissions through investment.

Phase 2: Data Analysis

31. Phase 2 data collection sought further detail, focussing on larger areas of investment and criteria where elected members asked for more granular information. Other necessary budget updates since the original submission were also reflected (e.g. government funding decisions, cost pressures updates, etc,).

Phase 2 Data Analysis

32. Phase 2 data analysis focuses on the Mayor's Long-term Plan priorities. The Mayor's five LTP priorities were linked to strategic areas and matched to the criteria and reflected in the Investment Impact Assessment criteria (see Figure 5 and Table 1).

Figure 6 - High level matching Mayors LTP priorities to criteria

33. The IIA model largely relies on a waterfall approach, using four tests that align with the Mayor's five priorities by weighting different criteria. The investment line items were filtered out into different "buckets" depending on whether they meet the thresholds of certain criteria under each test or not. The buckets were then ordered based on weighted criteria. This approach helped to build up the relative budget position of each investment based on how it is scored on the criteria and on how it related to the priorities.

Table 1 - Waterfall approach to test investment

Description	Impact
Test 1 – Get Auckland Moving	Transport infrastructure is tested first. Transport investment which hits the first three levels of the Investment Hierarchy (see Figure 2) are automatically "in" the back-to-basics package. Along with any transport investment that is tagged as "New infrastructure" that: • maintains transport levels of service • supports growth in our spatial priority areas • funds critical asset maintenance and renewals • completes projects that are underway

	New Transport investment that isn't delivering on the first three levels of the Investment Hierarchy or meets the above thresholds, is considered along with the entirety of the remainder of the group planned investment.
Test 2 – Anything working against strategic priorities	New transport investment and the remaining group planned investment are tested for anything that is working against the eight strategic criteria, and Democratic Local Government, Efficient Local Government.
Test 3 – Fix Auckland's infrastructure and resilient assets	Group expenditure that supports: • Completion of projects already in construction. • funding our most critical asset maintenance and renewals • funding most critical H&S investments • non-transport investment that supports growth in our spatial priority areas • significant revenue generation and funding partnerships
Test 4 – Critical outcomes within the remaining investment	Remaining group expenditure that (in this order): • covers critical legal risk and governance role • Supports spatial priority areas • reduces the risk of cost escalation • investments tested for positive return on investment • delivers our most important emissions reduction and resilience investments • delivers our most important strategic investments • permanent level of service reduction
Residual	Any remaining investment is ordered by total scores of weighted criteria.

34. The outputs were used to indicate the cost of group-wide packages built using proposed priorities in three potential consultation scenarios (Figures 1-4) and they were also used to show the existing investment in relation to other decisions being made on options and the resulting rates impacts (over 3 years) (Figure 7).

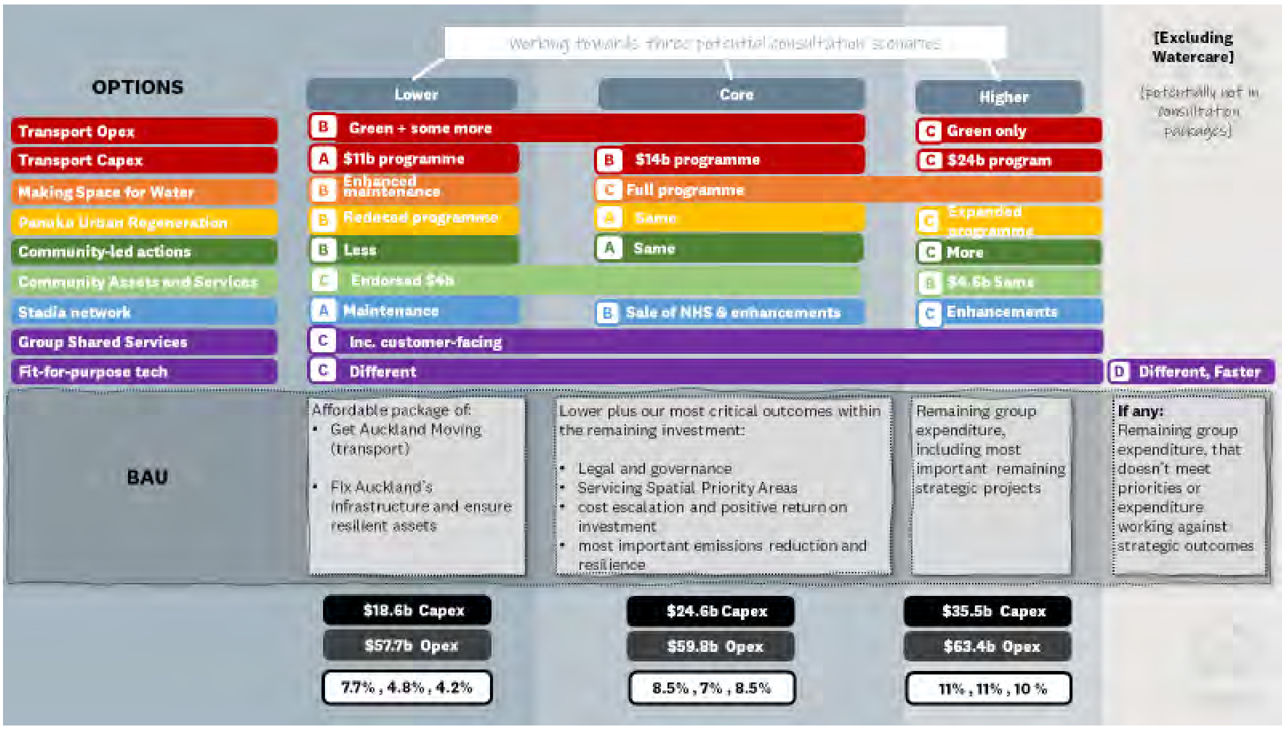


Figure 7 - Illustration of priorities included in the Investment Impact Assessment to build Back-to-Basics, Mayor's Scenario and Maintaining Regional Strategic Direction

Investment Impact Assessment Criteria and Score Definitions

Service Delivery

Criteria	5	4	3	2	1
Health and Safety	Investment includes mitigation of H&S risk where >1 fatality is probable (i.e. with a likelihood of 21% - 60% within 12 months, or once in 3 years).	Investment includes mitigation of H&S risk where >1 considerable harm/illness incident is probable (i.e. with a likelihood of 21% - 60% within 12 months, or once in 3 years).	Investment includes mitigation of H&S risk where >1 considerable harm/illness incident is possible (i.e. with a likelihood of 6% - 20% within 12 months, or once in 5 years).	Investment includes mitigation of H&S risk where >1 harm/illness incident is possible (i.e. with a likelihood of 6% - 20% within 12 months, or once in 5 years).	Investment does not include mitigation of H&S risk.
Contractual	Investment is contracted and underway.	Investment is contracted and a financial penalty will be incurred to pause.	Investment is in procurement phase but could be paused or stopped.	Investment is in dependent phase (without consecutive stages, no benefit if realised) or publicly committed.	Investment is not contracted or committed.
Legal	Investment necessary to avoid or mitigate risk of Council breaching a legal obligation where that breach could result in Council being exposed to legal action or administrative, governmental, regulatory or other intervention, proceedings or investigation.	Investment is driven by a time-bound legal obligation (including statutory timeframes) and no mitigation is available, for example: - earthquake strengthening investment that could not be mitigated by building sales; - statutory processes (e.g. long-term plan, annual plan, planning or regulatory processes) that cannot be carried out beyond the year where investment is identified.	Investment is driven by a legal obligation with an extended timeframe, for example: - statutory processes (ie. value for money reviews, planning or regulatory processes) that could be carried out one or more years after the year where investment is identified.	Investment is driven a time-bound legal obligation and mitigation is available, for example: - earthquake strengthening investment could be mitigated by building sales.	Investment is not driven by any legal obligation.
Level of Service	Deferral of investment would result in permanent reduction to existing levels of service.	Deferral of investment would result in temporary reduction to existing levels of service.	Deferral of investment would result in a permanent change to services delivered, but would not impact the agreed levels of service.	Deferral of investment would result in a temporary change to services delivered, but would not impact the agreed levels of service.	Deferral of investment does not impact services delivered.

Critical Asset Maintenance and Renewal	Investment, or programme of investments, scores 5 on the condition / age / criticality matrix (see attached). **OR**	Investment, or programme of investments, scores 4 on the condition / age / criticality matrix (see attached). **OR**	Investment, or programme of investments, scores 3 on the condition / age / criticality matrix (see attached). **OR**	Investment, or programme of investments, scores 2 on the condition / age / criticality matrix (see attached). **OR**	Investment, or programme of investments, scores 1 on the condition / age / criticality matrix (see attached) or investment is not related to renewals. **OR**
	Critical asset failure probability 21-60% within 12 months (or once in 3 years), and/or population affected >100,000.	Critical asset failure probability 21-60% within 12 months (or once in 3 years), and/or population affected >50,000.	Critical asset failure probability 6-20% within 12 months (or once in 5 years), and/or population affected >10,000.	Critical asset failure probability 6-20% within 12 months (or once in 5 years), and/or population affected >5,000.	Critical asset failure probability 0-5% within 12 months (or once in 10 years), and/or population affected >1,000.
	Emergency maintenance - Opex investment addresses an immediate safety issue.	Reactive maintenance - Opex investment addresses major failures or faults that impact the asset. OR Proactive maintenance - Opex investment avoids major failures or faults that impact the asset.	Programmed maintenance (short-term) - Opex investment required to prevent deterioration of the asset within 3 months of identifying fault.	Programmed maintenance - Opex investment required to prevent deterioration of the asset beyond 3 months after identifying fault. OR - Opex investment is routine work to support the continued operation of the asset.	Investment is not related to the maintenance of the asset.

Financial & Revenue

Criteria	5	4	3	2	1
Revenue	Investment has external revenue streams, which deliver a short payback period (i.e. less than 1 years).	Investment has external revenue streams, which deliver a long-term payback period (i.e. longer than 1 years and less than 10 years).	Investment generates external revenue sufficient to cover more than 50% of its costs, but does not pay itself back.	Investment generates external revenue, which covers less than 50% of its costs.	Investment does not generate external revenue.
Funding	Investment has significant (i.e. more than 75%) committed external funding (i.e. not Council).	Investment has significant uncommitted external funding (i.e. more than 75%) or moderate committed external funding (i.e. more than 50%).	Investment has some committed external funding (i.e. less than 50%)	Investment has potential to be externally funded but discussions are yet to be held with external parties.	Investment will be fully funded internally (i.e. by Council).

Cost	Additional costs (Capex and/or Opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 100% or greater increase.	Additional costs (Capex and/or Opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 50%-100% increase.	Additional costs (Capex and/or Opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 30%-50% increase.	Additional costs (Capex and/or Opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 15%-30% increase.	Additional costs (Capex and/or Opex) incurred relative to the value of the project if deferred (i.e. by 3 years) - up to 15% increase (inflation).

Governance

Criteria	5	4	3	2	1
Democratic Local Government	Investment contributes **significantly** to delivering one or more of the following governance outcomes: - partnership with Mana Whenua in Council governance activities. - democracy e.g. local board services, supporting elected members, electoral processes, supporting the role of local communities and Mana Whenua in Council decision-making processes and enabling community leadership. - transparency and accountability (internal audits, legal, risk and assurance, compliance frameworks, governance of the wider Council group).	Investment provides a **moderate** contribution to delivering one or more of the governance outcomes.	Investment provides a **minor** contribution to delivering one or more of the governance outcomes.	Investment provides **little or no** contribution to governance outcomes.	Investment **has a negative impact** on governance outcomes.
Efficient Local Government	**Opex** investment that **supports increased efficiency** in the delivery of council services through: - process optimisation e.g. ICT and corporate support, management of standardised of procurement or project development, management of corporate property, staff training and HR processes. **AND** - the efficiency gains delivered by the investment have been quantified and demonstrated that the investment (when compared to BAU) results in cost savings to this or other Council investments.	**Opex** investment **supports the efficient** delivery of council services through: - process optimisation e.g. ICT and corporate support, management of standardised of procurement or project development, management of corporate property, staff training and HR processes.	**Opex** investment provides efficient council services, which has been assessed (in the last 7 years) through: - activities that have been through a 'cost to serve', LGA s17A (delivery of services), or simplification review.	**Opex** investment **has little or no impact** on the efficient delivery of council services.	**Opex** investment **has a negative impact** on the efficient delivery of council services.

	Capex investment that **supports increased efficiency** in the delivery of council services through: - process optimisation e.g. ICT and corporate support, management of standardised of procurement or project development, management of corporate property, staff training and HR processes. **AND** - the efficiency gains delivered by the investment have been quantified and demonstrated that the investment (when compared to BAU) results in cost savings to this or other Council investments.	**Capex** investment **supports the efficient delivery** of council services through: - process optimisation e.g. ICT and corporate support, management of standardised of procurement or project development, management of corporate property, staff training and HR processes.	**Capex** investment **provides efficient council services** as: - activities have been through a competitive market process.	**Capex** investment has **little or no impact** on the efficient delivery of council services as: - investment is a new asset that will not result in significant consequential Opex; **AND** - is yet to go through a competitive market process.	**Capex** investment has a **negative impact** on the efficient delivery of council services as: - investment will result in significant consequential Opex.

Strategic Alignment

Criteria	5	4	3	2	1
Community Wellbeing	Investment focuses on **supporting 5-6** of the following community outcomes: - community connection and resilience - physical and mental health - affordability of access to services for all Aucklanders - skills for the future (workforce transition) - business transformation for resilience and growth - nature in the city (e.g. urban forest, parks that are locally accessible to communities).	Investment focuses on **supporting 3-4** of the community outcomes.	Investment focuses on **supporting 1-2** of the community outcomes.	Investment **does not contribute** to community outcomes directly.	Investment is **opposed to** community outcomes.
Māori Outcomes	Investment has been developed **in partnership with Māori**, and meets one of the following requirements: - delivers on **4 or more** Māori outcomes as described in Kia Ora Tāmaki Makaurau; **OR** - delivers **at least 2 Group 1 priority** outcomes as described in Kia Ora Tāmaki Makaurau Implementation Strategy.	Investment has been developed **with Māori participation**, and meets one of the following requirements: - delivers on **at least 3** Māori outcomes as described in	Investment has been developed **with Māori participation**; **AND** Delivers on **at least 1** Māori outcomes as described in Kia Ora Tāmaki	Investment **does not deliver** on Māori outcomes as described in Kia Ora Tāmaki Makaurau.	Investment **is opposed to** Kia Ora Tāmaki Makaurau outcomes.

		Kia Ora Tāmaki Makaurau; **OR** - delivers **at least 1 Group 1** priority outcomes as described in Kia Ora Tāmaki Makaurau Implementation Strategy.	Makaurau.		
GHG Emissions Reduction	Investment is in line with the commitments under Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan (50% reduction by 2030); **AND** - quantifies whole-of-life GHG emissions according to best practices; and - embodied emissions are minimised and avoided as much as practicable; and - operational emissions are minimised and avoided as much as practicable; and - GHG emissions are negative (removal) or neutral over the lifetime of the asset/investment (i.e. carbon positive or carbon zero).	Investment is in line with the commitments under Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan (50% reduction by 2030); **AND** - quantifies whole of life GHG emissions according to best practices; and - embodied emissions are minimised and avoided as much as practicable; and - operational emissions are minimised and avoided as much as practicable.	Investment is in line with the commitments under Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan (50% reduction by 2030); **AND** - quantifies whole-of-life GHG emissions according to best practices; and - embodied OR operational emissions are minimised and avoided as much as practicable.	GHG emissions of the investment are **not quantified**. **AND** Embodied OR operational emissions are minimised and avoided as much as practicable.	The investment is likely to emit a **significant amount** of GHG emissions over the lifetime of the asset/investment; **OR** GHG emissions are not quantified, nor minimised and avoided.
Climate Adaptation and Resilience	The investment meets one of the following scenarios: **Scenario 1:** - services **communities located outside** a hazard prone area; **AND** - increases resilience of the surrounding community and/or ecosystems to natural hazards and climate change in the long-term (30+ years).	The investment: - services **existing communities located inside** a hazard prone area; **AND**	The investment: - services communities **located outside** a hazard prone area but has **little or no positive impact** on the	The investment: - services **existing communities located inside** a hazard prone area but has **little or no positive impact** on the	The investment: - facilitates growth of new or existing communities inside a hazard prone area; **OR**

	Scenario 2: - services **existing communities located inside** a hazard prone area; **AND** - increases resilience of the surrounding existing community and/or ecosystems to natural hazards and climate change in the long-term (30+ years); **AND** - incorporates a plan to adapt proactively (e.g. DAPP).	- increases resilience of the surrounding existing community and/or ecosystems to natural hazards and climate change in the long-term (30+ years); - but has no plan to adapt proactively.	long-term (30+ years) resilience of the surrounding community and/or ecosystems to natural hazards and climate change.	long-term (30+ years) resilience of the surrounding community and/or ecosystems to natural hazards and climate change.	- reduces the long-term (30+ years) resilience (has a negative impact on resilience) of the surrounding community and/or ecosystems to natural hazards and climate change.
Environment	The investment has **significant positive impacts** on protecting, enhancing, and regenerating biodiversity, ecosystems and habitats, soil and air through the following approaches: - returning mauri to ecosystems (in particular our rivers, streams, wetlands and estuaries); - increasing ecosystem resilience and life supporting capacity; - increasing indigenous vegetation cover and urban ngahere; - enhancing habitats of indigenous species, in particular endangered or threatened species; - protecting and improving soil quality and availability; - improving air quality.	The investment has **moderate positive impacts** on protecting, enhancing, and regenerating biodiversity, ecosystems and habitats, soil and air through the approaches identified under score 5.	The investment has **minor positive impacts** on protecting, enhancing, and regenerating biodiversity, ecosystems and habitats, soil and air through the approaches identified under score 5.	The investment has **little or no positive impacts** on protecting, enhancing, and regenerating biodiversity, ecosystems and habitats, soil and air.	The investment **degrades** the natural environment, i.e. it negatively impacts some or all of the outcomes.
Development	Investment services the Spatial Priority Areas where they are within a focus area for the next 10 years or live zoned. This can include both bulk and local infrastructure.	Investment enables bulk infrastructure or is of regional benefit required to service live zoned land.	Investment provides a solution to service live zoned land (e.g. local infrastructure upgrades).	Investment contributes to planning and design to service future sequenced development when and where it is anticipated (i.e. Future Urban Zone).	Investment supports/ enables out of sequence land development (e.g. investment supports development that contradicts the timing of the Future Development Strategy).
Equity	- Investment is **targeted** to address disparities and serve the wellbeing of communities of greatest need; **AND** - Communities (whānau, hapū, iwi, people) are **supported and**	- Investment is **targeted** to address disparities and serve the wellbeing of communities of greatest need;	- Investment **offers opportunities** to address and serve the wellbeing of communities of greatest need;	- Investment offers **no opportunities** to address and serve the wellbeing of communities of greatest need;	- Investment exacerbates inequity and impacts negatively on communities of greatest need.

	enabled to lead their own responses.	**AND** - Communities (whānau, hapū, iwi, people) are **involved** to respond to the investment.	**AND** - Communities (whānau, hapū, iwi, people) are **involved** to respond to the investment.	**OR** - Communities (whānau, hapū, iwi, people) are **not involved** to respond to the investment.	
Te Mauri o Te Wai (the life supporting capacity of water)	- The investment recognises the impact on mauri through working with Mana Whenua; **AND** - Delivers **significant improvements** to Te Mauri o Te Wai through regenerative infrastructure.	- The investment recognises the impact on mauri through working with Mana Whenua; **AND** - Delivers **moderate improvements** to Te Mauri o Te Wai through regenerative infrastructure.	- The investment recognises the impact on mauri through working with Mana Whenua; **AND** - Delivers **minor improvements** to Te Mauri o Te Wai through regenerative infrastructure.	The investment delivers **little or no impact** on Te Mauri o Te Wai.	The investment delivers **a negative impact** on Te Mauri o Te Wai.

Attachment D: Overview of Long-term Plan 2024 – 2034 investment options prepared in response to the mayor and councillors' direction to council group.

Purpose

1. To provide an overview of staff advice prepared in response to direction from the mayor and councillors in their August direction to the council group. That direction was to investigate and provide advice on 18 investment options. Twelve options were developed in full and shared with the Budget Committee. The remaining six options will be progressed in various ways, including outside of Long-term Plan 2024-2034 decision-making.
2. Investment options were discussed at Budget Committee workshops on the 1st, 8th and 13th of November. Pre-read material was circulated ahead of each workshop. Elected members were also directed to the specific parts of their August direction document relevant to the option presented.
3. Importantly, all pre-read material represents advice at a point in time, therefore some specifics, including indicative numbers may be subject to further refinement.

Context

4. The table below lists the 18 options directed by the mayor and councillors in their direction to the council group. It also notes whether advice was prepared and discussed with the Budget Committee. Full details are available in the direction document.

Area	Number	Option	Developed as investment option and advice prepared
Transport	**1**	*Options to* **substitute direct investment**	*Yes*
	2	*Options to* **accelerate tactical improvements**	*Yes*
	3	*Options to* **expand transport revenues**	*Yes*
	4	*Options to* **accelerate public transport use, walking and cycling**	*Yes*
Water	**5**	*Options for* **'Making Space for Water'**	*Yes*
	6	*Options for* **relationship with new Three Waters Entity**	*No*
Bulit Environment	**7**	*Options for* **urban regeneration programme**	*Yes*
	8	*Options for* **council's planning and regulatory role**	*No – considered as BAU*
	9	*Options for* **policy that supports housing**	*No -ongoing programme*
	10	*Options for* **the future of the port**	*No – separate process in LTP*
Natural Environment	**11**	*Options for* **open space network** (presented combined with 13)	*Yes*
	12	*Options for* **community-led action**	*Yes*
Community	**13**	*Options for* **change to policy positions, community services and asset requirements** (presented combined with 11)	*Yes*
Economic and Cultural Development	**14**	*Options for* **revenue streams from economic development** (APTR, events and venues, CSI)	*Yes, as three topics indicated*
Well-Managed Local Government	**15**	*Options for* **group shared services**	*Yes*
	16	*Options for* **fit-for-purpose technology**	*Yes*
	17	*Options for* **criteria-based prioritisation**	*No – prioritisation process applied as part of LTP*
	18	*Options for* **better financial management and governance oversight**	*No – progressing as part of LTP process and the financial strategy*

5. The following sections briefly summarise the advice developed under each option. Full details of each investment option were as presented as pre-read material and are available at https://infocouncil.aucklandcouncil.govt.nz/ after 1 December 2023.

Overview of Option 1 – Transport - Substitute for direct investment

6. This option responded to the request for options for how non-financial levers like partnerships and regulation could be used as a substitute for direct investment.

Option name	Description
Option A: Time of use charging	• Time of use charging positively impacts travellers experience, faster journey times, and generally more consistent travel times. • Because of the nature of congestion, a small change in people's travel behaviour can result in significant improvements in overall network performance.
Option B: Central Government Delivery model	• The AT capital programme focuses on small-scale and tactical programmes wherever affordable. Securing funding for renewals, committed projects, and annual programmes leaves very little funding for larger scale interventions. • Delivering larger-scale projects will require direct assistance from central government or an alternative funding source.
Option C: Increase requirements on developers	• This option would expand on developers' requirements to build local infrastructure to directly support their development. • Developers would bear a greater requirement for infrastructure delivery above and beyond local roads, extending to arterials, PT stations etc that are necessary to alleviate the impact of the growth on the network.
Option D: Public Private Partnerships	• Options to consider public private partnerships to deliver significant projects

Overview of Option 2: Transport - Accelerate tactical improvements

7. This option responded to the request for options to accelerate tactical improvements including:

- options for capital investment prioritisation, including deferrals for large projects in favour of regional tactical improvements.
- accelerate tactical improvements to promote mode shift and improve the user experience of the transport system across the region with smaller-scale minor infrastructure projects that are delivered quickly.
- interventions that make better use of assets will defer spend required for larger projects, freeing up resources for improvements.

Option name	Description
Option A: Status quo	• Continue to prioritise annual programmes (including renewals) as a generally higher priority than uncommitted strategic/named projects, with a pragmatic and achievable scope/scale for the annual programmes.
Option B: Increase tactical works programme	• Further reprioritisation of the proposed capital programme to increase the allocation to tactical projects and decrease the allocation to medium-sized projects. • To further increase the tactical elements of annual programmes, funding would need to be reprioritised away from medium sized projects
Option C: Adjust the mix of tactical investments	• Adjust the mix of tactical investments to optimise delivery or value, with finite resources.

Option name	Description
	• Rescope the annual programmes to focus solely on tactical improvements (within each annual programme or reducing some programme budgets to increase tactical improvements in others).
Option D: Policy changes for consultation and funding	• For some projects (within defined parameters), it may be practical to commit to delivery without fully addressing public feedback. Alternatively, it may be practical to have an approach to withdraw immediately where Local Boards do not support a proposal (to pursue other projects).
Option E: Pipeline planning and design process	**Option A: Do it Faster:** **Flexible staging of strategic investment projects** • Deliver strategic projects as a series of tactical projects, or plan for sequences of tactical improvements that contribute to longer-term strategic outcomes. **Option B: Do more, cheaper: Revise design standards** • Review design policies for future projects and minimum standards for tactical works such as safety, amenity and tree cover

Overview of Option 3: Transport - Expand transport revenues

8. This option responded to the request for options as to how different combinations of the following levers could be used: policy settings like parking management; fees, charges and fines; transport management approaches, public transport fare structures etc.

Option name	Description
Option A: Grow other revenues	• Currently other revenue streams contribute circa $70 million or 22% of our third-party revenue and are not of a scale to resolve the funding issues. This option considers implementation of new initiatives to grow other revenue.
Option B: Public transport fare increase	• This option includes increasing fares above inflation levels (targeting higher farebox recovery), removal of concession discounts (e.g. Supergold)
Option C: Redirect or increase council funding	• The existing Climate Action Transport Targeted Rate (CATTR) could be used for a different mix of actions around Active Modes, Electric Ferry infrastructure and new low emission Bus services.
Option D: Additional central government co-funding	• AT could advocate for 75% funding assistance (opex and capex) for certain (or all) projects. • Mode shift from private vehicles to public transport is one of the key enablers to meet climate emission reduction targets. Central Government is better placed to fund the growing cost of Public Transport (PT) moving forward
Option E: Explore additional value capture opportunities.	• Value capture includes ensuring those who benefit from investment help fund their delivery. This could include: a) Extension of Development Contribution policy to capture projects outside of current plans regionwide. b) Targeted rates could be applied to fund PT services in select locations such as around RTN stations

Overview of Option 4: Transport - Accelerate public transport use, walking and cycling

9. This option responded to the request for options to accelerate mode shift and safety improvements where it is most practical. Note that broadly walking and cycling infrastructure is cheaper to provide and use; generates less whole-of-life emissions and is more efficient at moving people compared to other modes.

Option name	Description
Option A: Status Quo	• AT is preparing for two potential programmes – the 'Committed and Base' Programme and 'PT and Housing Growth' programme.
Option B: Accelerate public transport patronage growth – short term incentives	• The PT Growth programme includes a range of short-term initiatives to boost our PT recovery and growth
Option C: Increase involvement in public transport, walking and cycling across ten years	• Options to increase involvement through additional investment in PT bus, ferry and rail and walking and cycling
Option D: Reallocating PT services away from 'coverage' to patronage, to ensure maximum patronage growth	• Options of reallocating some services away from providing 'coverage' to focusing on maximising patronage. This would see low-performing services removed, irrespective of gaps this might leave in the network, with the resources reallocated to areas where new or higher frequency services will have greater patronage gains.
Option E: Enhanced travel demand management	• Operational initiatives for active modes include small-scale (non-capital) initiatives to encourage walking and cycling, and PT uptake. • This builds upon our sustainable mobility programmes (Travelwise etc)
Option F: Reduce public transport fares	• Options to reduce PT fares range from government subsidies, targeting a lower farebox recovery ratio, or modern fare approaches.
Option G: Placeholder for Vehicle Kilometres Travelled (VKT) reduction plan	• The VKT Reduction Plan development is underway, with a list of interventions to be provided in the future

Overview of Option 5: Water - Making Space for Water

10. This option responded to the request to understand options for the Making Space for Water programme being developed in response to the devasting January floods and Cyclone Gabrielle.

11. It was also requested that analysis include options that maximise use of regulatory powers (as a substitute for direct investment). All of the options outlined below include a continued commitment to supporting regulatory controls around development in the flood plain and other areas where flood hazard exists.

Option name	Description
Option A (status quo) – Continued planned flood investment and maintenance level of service; maintain existing budget	• Continued planned flood investment and maintenance level of service, utilising the proportion of Healthy Waters budget currently allocated to managing flood risk. • Existing Healthy Waters department budget for 2025-2031 period (total - $1.747 billion).
Option B (some increase) – Enhanced maintenance level of service only	• The enhanced maintenance level of service option provides for investment above the current asset management plan. Additional maintenance along with increased minor capital works will reduce some risks caused by blocked or broken stormwater infrastructure. • Financial increase in this option: o Flood intelligence - $73 million o Increased maintenance and minor capex - $154 million

Option name	Description
Option C (most increase) – Making Space for Water programme	• The council has agreed in principle a cost-sharing arrangement with the Crown for flood recovery and resilience, which includes $820 million available for Making Space for Water and other storm resilience initiatives between now and FY30. This option has been developed to maximise the cost-sharing arrangement. • The seven initiatives proposed for Making Space for Water are: o increased maintenance o flood intelligence o community-led flood resilience o stream and waterways resilience o rural settlements o blue-green network projects o overland flow path management. • Financial increase in this option: o Making Space for Water Programme - $1.003 billion (including consequential opex and inflation)

Overview of Option 7: Built Environment - Urban Regeneration Programme

12. This option responded to the request for options for the future medium-long term urban regeneration programme, including consideration of incentives, funding models and innovative use of council land. Summary of options provided are outlined in the table below.

Option name	Description
Option A (maintain) - Maintain current investment to enable 2-3 locations phased as budget comes available	• Complete approved regeneration programmes in current locations. • Continue current level of opex and capex budget provision for regeneration activities ($26m opex, $70m capex pa).
Option B (less) – Reduced programme	• Two potential approaches to a 'do less' regeneration option have been identified: o Reduce regeneration activity and budget by stopping one or more approved programmes (Option B1). o Reduce regeneration activity and budget over time as approved programmes are completed without starting new programmes (Option B2).
Option C (more) – Expanded programme	• Complete current approved programmes. • Commence more new programmes during the LTP period (than the Option A: Maintain).
Option D (do differently) – Opportunities explored to do things differently	• The mayor and councillors have asked in their direction whether there are any opportunities to do things differently. Eke Panuku understand that this question principally relates to finding new funding streams, increasing revenue, making savings in terms of operations and reducing or changing the council role. • Each of these ideas are explored briefly in the pre-read material.

Overview of Option 11: Natural Environment - Open Space Network

13. This option responded to the request for options to accelerate delivery of council's regional park management plan, local open space network plans, local path plans and Urban Ngahere (urban forest) initiatives that provide balance between the recreational amenities and environmental values. Advice should consider access in areas that experienced the most significant loss of private green spaces (and trees) due to infill development since the adoption of Auckland Unitary Plan.

Option name	Description
Option A (same) - working within current investment	• Continue the delivery of current funded actions and programmes of the Regional Parks Management Plan, local park strategic planning documents, and Urban Ngahere Plans. • No change to existing programme funding.
Option B (more) Accelerate unfunded actions from strategy and plans in priority areas	• Accelerate unfunded actions and programmes from the regional park management plan, local park strategic planning documents and Urban Ngahere Plans in priority areas. This would include improved connections to and between open space, the quality of existing or new open space, and planting programmes to increase the urban tree canopy. • Financial increase in this option: o Regional Parks – would require business case to consider additional funding o Increase in Urban Ngahere planting (10yr) funded through reprioritisation or new funding – CAPEX $32m / OPEX $950k o Infill development (10yr) funded through reprioritisation or new funding – CAPEX $79m - $176m / OPEX $3.5m
Option C (different) - Empower communities to help deliver unfunded actions from strategy and plans in priority areas	• Seek to empower communities to help deliver unfunded actions and programmes from the Regional Parks Management Plan, local open space network plans, local path plans and Urban Ngahere (urban forest). • Financial implications would need to be explored. Refer Option 12 for the nature of increase to deliver this approach.

Overview of Option 12: Community - Community-Led Action

14. This option responded to the request to understand options for communities and volunteers to take a more active role in the development, funding and caring for Auckland's green spaces. The councillors and mayor request policy advice for settings that currently prevent communities from using berms, public land, green spaces etc.

Option name	Description
Option A (maintain) – maintained investment in community stewardship of public and private green spaces and partnership support for mana whenua to exercise kaitiakitanga.	• This option aims to hold the line with no increases in council funding sought (other than inflation adjustments), maintaining the current levels of support for community-led stewardship of green spaces and partnerships with mana whenua to exercise kaitiakitanga. • Financial impact is cost neutral, and comprises existing planned programme funding of $34.6 million over 10 years (2024-2034) including: o existing Natural Environment Targeted Rate (NETR) -funded Expanding Community Action programme o grants provided to community groups through the general-rates funded Regional Environment and Natural Heritage (RENH) contestable grant.

Option name	Description
Option B (reduce) – reduced investment in community stewardship of public and private green spaces and partnership support for mana whenua to exercise kaitiakitanga.	• This option includes a reduction in council-delivered environmental contestable grants (specifically the Regional Environment and Natural Heritage [RENH] Grant) for community-led activity. • Whilst this would reduce cost to council, this option would result in less community-led activity. • Financial impact is a decrease compared to the existing planned programme and comprises $30.6 million over 10 years (2024-2034) including existing NETR-funded Expanding Community Action programme. It does not include the (RENH) contestable grant.
Option C (increase) – increased investment in community stewardship of public and private green spaces and partnership support for mana whenua to exercise kaitiakitanga.	• This option recognises that to amplify current levels of community-led action, and better support mana whenua to exercise kaitiakitanga, increased but scalable investment by the council is required. • This option includes increased general rates grants funding for council to directly support larger, landscape-scale community-led initiatives with high biodiversity outcomes through increased access to contestable funding to align more closely to application levels and need. • Financial impact is an increase compared to the existing planned programme, and comprises $49.5 million over 10 years (2024-2034) including: o existing NETR-funded Expanding Community Action programme o grants provided to community groups through the general-rates funded Regional Environment and Natural Heritage (RENH) contestable grant o increased operational expenditure of $1.49 million per year to further support community-led pest control, a volunteer management tool, and resourcing to develop partnerships to leverage philanthropic investment in community-led projects aligned with council priorities.

Overview of Option 13: Community - Options for change to policy positions, parks and community services and asset requirements

15. This option responded to the request to understand options for changes to policy positions, parks and community services and asset requirements related to the community Investment area.

Option name	Description
Option A (Same) – Maintain existing asset portfolio and add new land and assets where needed	• **Existing assets:** Maintain existing asset portfolio • **New assets:** Add new land and assets where needed • **Services:** Continue to offer the same largely asset-based services, limited capacity for service shifts or flexibility • CAPEX (10yr) - $4.6b • OPEX (10yr) - $6.1b
Option B (Less) – Reduce assets through consolidation and by not renewing all assets when required, and add new land and assets where needed	• **Existing assets:** Reduce assets through consolidation and by not renewing all assets when required • **New assets:** Add limited new land and assets in highest priority areas only • **Services:** Continue to offer the same largely asset-based services, limited capacity for service shifts or flexibility • CAPEX (10yr) - $4.0b

Option name	Description
	• OPEX (10yr) - $6.0b
Option C (Different) - Reduce assets through consolidation and by not renewing all assets when required add new land and assets where needed and shift to different delivery model	• **Existing assets:** Reduce assets through consolidation and by not renewing all assets when required • **New assets:** Add new land and assets where needed, prioritising opportunities to provide these in partnerships - **Services:** Invest $700m budgeted Opex to transition to different, customer-responsive service delivery models. A programme business case will be developed over the next few months in parallel with consultation, to inform LTP decision-making during May/June 2024. - The existing opex provision ($700m from last LTP) for option C, is expected to form grants which will support strategic partnerships and service delivery models that have a reduced reliance on council-owned assets. - Some of the fund is required to resource the transition with the right expertise for portfolio planning and evaluation, asset decommissioning and technology investment. NB: the fund enables a move away from asset-dependency (which carries the $1.75bn unfunded renewals) and mitigates reduction in levels of service. • CAPEX (10yr) - $4.0b • OPEX (10yr) - $6.7b (incl $0.7b from FY24)

Overview of Option 14b: Economic and Cultural Development investment

16. This option responded to the request related to the investment areas of Economic and Cultural Development, including options for revenue streams from economic development focused on trade-offs for community-subsidised events and activities and user-pays. Summary of options provided are outlined in the table below.

Option name	Description
Decreasing the proportion of Tātaki Auckland Unlimited (TAU) costs required from rates revenue	• Analysis provided on opportunities to increase revenue across TAU activities and facilities including Auckland Zoo, Auckland Art Gallery and New Zealand Maritime Museum • Reference to future work underway to review TAU's Auckland Live Theatre and Performance network.
Review of TAU Stadia Network	• Three potential options identified for TAU Stadia Network with detailed costs provided for impact of each option o Status Quo – retain and maintain all three stadia $111.5m required in 24-34 LTP o Rationalise network with enhanced facilities $71m required in 24-34 LTP o Enhance facilities without rationalisation $217m required in 24-34 LTP

Overview of Option 15: Well-managed Local Government - Group Shared Services

17. This option responded to the request for options for consolidation of duplicated services across the council group. The goal is to eliminate duplication and enhance efficiency. By exploring various options, the council aims to optimise resource allocation and improve overall operations. Through this initiative, the council aspires to achieve a more integrated and

cohesive approach to service delivery for the back-office functions (i.e. Finance, ICT, Human Resources, Corporate Services etc). This should include options on the property management function.

Option name	Description
Option A Current work underway – co design shared services model for agreed back-office functions.	• Continue the work underway for shared services for HR, finance, procurement, corporate services and ICT. • Using a collaborative approach, iterative design and agreement across all participants.
Option B Leading practice shared services model across all back-office functions	• This option would apply a consistent leading-practice design approach to produce efficient, simple, scalable and standardised back-office services across all support functions (i.e. HR, Procurement, ICT, Finance, Corporate Property) within the group model with minor exceptions. • Top-down mandate with design based on leading practice standardised processes and systems to maximise efficiency
Option C Enhanced opportunity for shared services to include common customer facing services in addition to back-office	• Full back office shared services plus customer services, digital, contact centres and public engagement. • Deliver most value for money for Aucklanders through elimination of duplication of support functions across the group.

Overview of Option 16: Well-managed Local Government - Fit-for-purpose technology

18. Council group is over ten years old and runs on systems that are at or past their useful life. Taking a whole-of-life view of council's technology platforms, where can we invest to provide better service and save (or get a better return) on spend.

Option name	Description
Option A (same) **Stay on the current course**	• Maintain current systems and service levels with increasing costs to serve as systems age. Some new agreements/systems planned.
Option B (minimal) **Minimal and targeted change where urgent or critical**	• Address urgent pain points. Minimise cost by only addressing critical system issues. Targeted investment in group systems by agreement.
Option C (different) **Steady and transitional change**	• Realistic investment and contained cost of ownership across the enterprise. Focus on enabling customer-centricity, increasing flow/speed of delivery, and lifting system performance. Maintain existing stability while transitioning to new council-enabling technologies.
Option D (different & faster) **Accelerated transformation programme**	• High pace of change, with significant investment and increased risk profile due to high volume of change and disruption. Advance group systems overhaul and urgently replace system inhibitors that stymie Council efficiencies.

Attachment E:

Operating budget reduction options and implications

Context

1. Since amalgamation Auckland Council has achieved over $2 billion of operating savings and the impact of these prior savings programmes is that general rates are 14 per cent less than they would be without the intervention.
2. The operating expenditure (opex) lever is a key mechanism that Auckland Council has often used to manage its budget. In the Annual Budget 2023/2024 the council agreed to $83 million of additional operating expenditure reductions across the council group. These were over and above the target of $90 million of annual cost reductions for Auckland Council that were locked in as part of the Recovery Budget (10-year Budget 2021-2031).
3. These Annual Budget 2023/2024 explained how these 'spending cuts' formed part of an overall budget package to address the council's growing financial challenges.

4. CCOs have also managed internal savings targets, generally to mitigate the impact of cost pressures for which council has not provided additional funding.
5. Some of these existing savings targets agreed as part of the Annual Budget were temporary in nature, and replacement operating cost reductions for future years still need to be identified. There is currently an remaining savings target of around $22 million for Auckland Council, of which around $10 million is identified but not yet implemented, and the remaining $12 million is still to be found In addition, there are widespread inflationary cost pressures across the group that CCOs and council departments are looking to manage within existing budgets.
6. Given the significant challenges with delivering the extent of operating cost reductions already incorporated in the council group's budgets, any further cost reduction targets will be challenging to achieve without material impacts on services delivered to the community.

Direction for this LTP

7. The Mayor's statement on policy direction for this LTP set out the following process requirements:

   Criteria based prioritisation

   All spending across CCOs and council departments should be assessed against a robust prioritisation framework and involve consideration of potential trade-offs. More work is required to design a prioritisation framework that will enable our political priorities to shape our spending decisions and ensure our spending achieves maximum impact.

   Any strategic change proposals must consider the guidance set out in this document and provided elsewhere by elected members. This includes that we want to see strategic change proposals which use regulatory powers, grow partnerships, grow revenue, support local delivery, and show measurable impact. Our prioritisation must factor this in.

   Making "stop, start, change" choices about services

   We also need a process that enables us to make rational decisions about what we do and don't do. We have accumulated a huge number of activities from legacy decisions, often without a great deal of coherence or strategy. But we hardly ever stop doing something. Sometimes it is better to do fewer things really well, rather than lots of things poorly. We need to overcome well-intentioned but unjustifiable calls to keep services just because they were there.

   A Service Prioritisation Framework needs to enable structured decisions about this and I expect that to be part of our LTP too. We need to consider "sunsetting" services, so that decisions to do something have an expiry date unless renewed, and a regular programme of work to review individual services.

Frameworks used

Investment Impact Assessment Tool

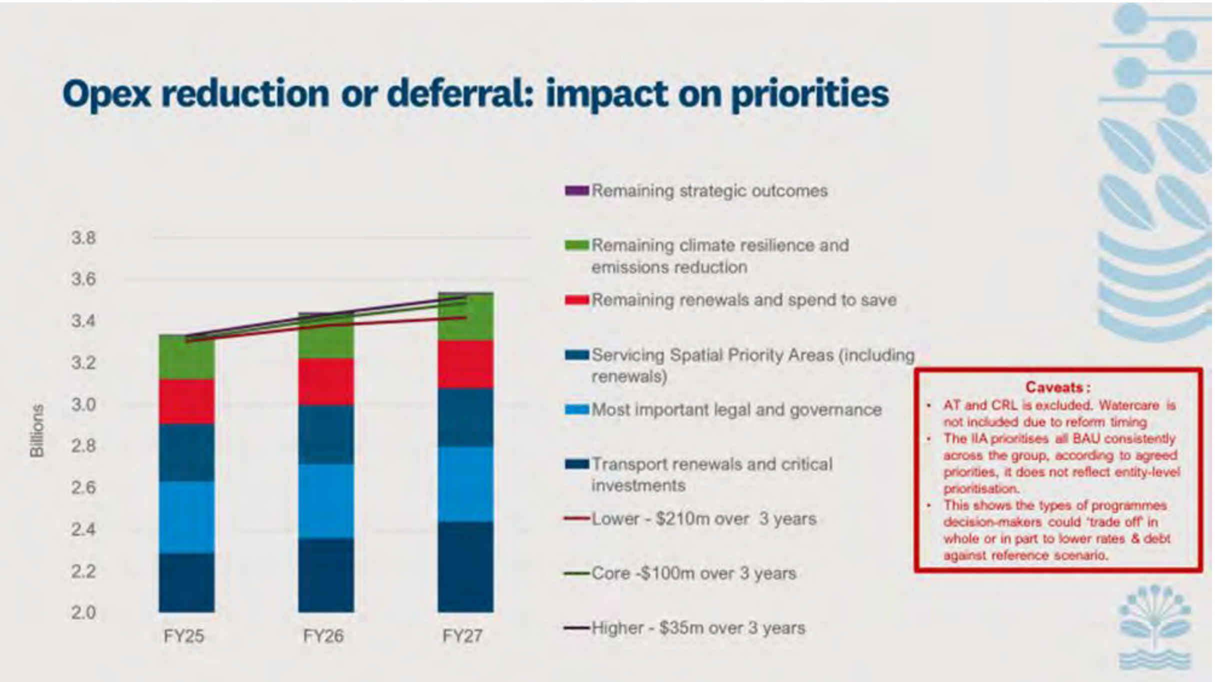
8. Staff have responded to the first part of this direction by developing and applying the Investment Impact Assessment Tool, a prioritisation framework which builds on the risk-based capex prioritisation approach used as part of previous council budget processes.

9. The Investment Impact Assessment tool provides supporting information to elected member decision-making as it is one of the only places where an 'apples-with-apples' comparison can be made between investments across the council group and assists in the understanding of trade-offs at the budget envelope, entity, and outcomes level.

10. The outputs of Phase 2 data analysis indicated that there are a small amount of "Residual" investments with lower scoring across weighted criteria meaning they are less aligned with Mayor's LTP priorities and/or council's strategic directions.

11. The following chart provides the first three years of the 10-year planned operational expenditure rated in the investment impact assessment and ordered based on the mayoral priorities. When budget scenarios were applied to match the lower, core and higher operational and capital levels, all reduction scenarios impact services, programmes and projects that have significant strategic alignment. There

are difficult trade-offs at any scale of reduction. This data excludes Auckland Transport, CRL and Watercare.



12. This methodology for this tool is outlined in Attachment C.

Service prioritisation framework

13. In identifying the proposed additional opex reduction targets for the Annual Budget 2023/2024, an agreed service prioritisation framework was used to assist with focusing on priority services and how they should be delivered (e.g., do more, less, or do differently). Staff have reviewed this framework and concluded that it remains valid for considering any potential further operating cost reductions for the Long-term Plan 2024-2034.

14. Services that are 'could do' and 'should do' deliver on priorities or provide additional services over and above essential services and legal obligations. A reduction of services will therefore impact the target recipients of those services. However, if these services continue to be funded, there is a wider impact on people and communities in the form of higher rates bills.

15. In determining service reductions, the specific impacts need to be considered in relation to wider financial impacts. Consideration also needs to be given to whether there are alternative services available – either via a more standard council service offering, or via an alternate provider. Service prioritisation framework

	WHAT ARE THE THINGS THAT WE:			
	must do?	**should do?**	**could do?**	**won't do?**
These are things that	• Are required by law (including our legal obligations to Māori) • Are essential services	• Deliver on key priorities like climate action. transport, the environment and community development	• Mitigate key risks • Provide additional/ improved services for our customers and communities	• 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 this 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	• 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?			• Stop • Phase out • Leave to others

16. The consultation material for the Long-term Plan 2023/2024 will need to outline any material service impacts associated with any proposed further operating spending reductions.

Potential further operating cost reductions

Potential scale

17. Financial scenario modelling has considered what different levels of capital and operating might mean for council rates and debt. This analysis has focused on the council group excluding Port of Auckland Limited and Watercare Services Limited. Because of the significant financial pressures that the opening of the City Rail Link will place on group operating budgets by 2026/2027, this work has focused on potential savings over a three-year horizon.

18. The levels of operating savings modelled under the three financial scenarios by year were as follows:

	2024/2025	2025/2026	2026/2027
Higher rates scenario	$5m	$10m	$20m
Core scenario	$20m	$30m	$50m
Lower rates scenario	$30m	$60m	$120m

Implications of additional reductions

19. The higher the levels of operating savings, the greater the impact on council services will be. The following table sets out a high-level view of the nature of the service impacts for each of the three scenarios:

Scenario	Annual savings by 2026/2027	Likely nature of service impacts
Higher rates scenario	$20m	In addition to achieving substantial existing savings targets and absorbing rising inflationary cost pressures, achieving additional operating cost reductions would require: • Increased user fees and greater use of commercial revenue opportunities • Further back-office efficiencies, including make faster progress with achieving group shared services benefits • Implementation of section 17A programme findings to deliver more efficient regional and local services (e.g. pools & leisure Value for Money review)

Core rates scenario	$50m	The above plus: • Further increasing the scope and speed of group shared services with a clear governance mandate • Operational efficiency savings targets for local community services to be achieved by improvements in the cost-efficiency of delivery of regionally-networked services. This would be delivered through initiatives such value for money and service reviews, process improvements, procurement opportunities, use of technology etc.. • Delaying the introduction of any new or enhanced discretionary services and only prioritising new initiatives once existing ones are completed. This might include service changes and initiatives in areas such as community, regulatory, environmental and customer services. • Reducing activity and resources in a range of discretionary areas such as planning, strategy, monitoring, education, communication and public engagement and taking a resource-constrained approach so that only highest priority work is undertaken in the near term.
Lower rates scenario	$120m	The above plus: • Delayed or reduced roll out of new public transport services, including bus, rail and ferry services. • Stopping or reducing discretionary economic development, events and urban regeneration services • Stopping or reducing discretionary services delivered by Auckland Council and focussing on meeting statutory minimum requirements. This could impact services such as: o community development, community events, regional grants (contestable and non-contestable), farming, public art o stormwater maintenance, hazard management, biosecurity and environmental monitoring and pest control o public engagement, communication and education activities o strategy, planning, monitoring and enforcement activities o heritage protection and town centre revitalisation o governance support, financial reporting and people and culture initiatives o non-statutory waste services, noting that this may require breaking or renegotiating existing commercial contracts o Māori outcomes with planned enhancements delivered over a longer timeframe

Implementation considerations

20. As more detailed work is undertaken on the specific service changes that might be required, staff will need to investigate key implementation considerations such as the organisation’s capacity to deliver change, any legal or contractual matters that may need to be worked through and appropriate engagement with unions, affected staff and relevant external stakeholders.

Attachment F: Rates Issues

Purpose

1. The advice in this report addresses the key rating and funding issues relating to the decisions the council made to manage the impact on ratepayers of the general rates increase for the 2023/2024 year. The decisions were for the one year, 2023/2024, to:
    - pause the gradual reduction in the share of the general rate paid by businesses, the Long-term Differential Strategy (LTDS)
    - lower the Water Quality Targeted Rate (WQTR)
    - lower the Natural Environment Targeted Rate (NETR).
2. The advice also considers the options for Tataki Auckland Unlimited's (TAU) expenditure on destination marketing and major events (DME) and economic development (ED) and the options for funding this.

Executive summary

Business rates

3. The council has a long-standing policy of gradual lowering of the proportion of rates collected from business, the Long-Term Differential Strategy (LTDS) This policy means non-business rates rise by around 0.5 per cent more each year than the overall general rates increase, and business rates rise by around 1.0 per cent less.
4. Officers consider that there are two options for the LTDS:
    1. reinstate the policy and extend the end point to 2038/2039 with businesses paying 30.64 per cent of the general rates revenue requirement in 2024/2025
    2. remove the policy and continue to collect 31 per cent of the general rates revenue requirement from businesses – no impact on the overall general rates increase.
5. Officers note that businesses place more demand on, and impose more cost on, transport and stormwater services. Rates are 0.24 per cent of average business income, but 3.29 per cent of the median household income for 2022/2023. Businesses can claim back GST on rates and expense rates against tax.
6. The council's business differential ratio, 2.63 times the residential rate in the dollar, is comparable to other metropolitan centres which range from 2.1 in Tauranga (who also fund economic development with a rate on businesses) to 3.7 in Wellington.
7. Decisions on the business differential are general taxation matters and this requires the exercise of political judgement after weighing the information set out in this report. As the Water Quality and Natural Environment Targeted Rates are generally applied targeted rates, the business share of their revenue requirement should reflect the LTDS decision.

TAU expenditure and funding options

8. Tataki Auckland Unlimited's (TAU) expenditure and funding sources for the current 2023/2024 financial year for both destination marketing and major events (DME) and economic development (ED) are set out in the table below.

Funding source	DME	ED
General rates	$7m	$11m
Destination Partner Program (DPP)	$2m	
Covid-19 Recovery Regional Events Fund (CRREF)	$5m	
Total	$14m	$11m

9. Going forward, officials consider there are three options for replacing the CRREF funding of DME which expires at the end of 2023/2024:
    1. reduce expenditure by $5 million and only support local events like Diwali
    2. reduce expenditure by $2.5 million and increase general rates funding by $2.5 million. This would retain a limited capacity to support events that draw visitors, and associated economic benefits, to Auckland – adds 0.11 to the general rates increase
    3. maintain current expenditure and increase general rates funding by $5 million with a greater capacity to attract events – adding 0.22 per cent to the general rates increase.

10. As businesses are the immediate direct beneficiaries of DME and ED investment[1] an alternative is to increase the business share of the general rates requirement to cover these costs. This would free up around $9.4 million of general rates funded from non-business ratepayers to invest in other services or to mitigate the rates increase impact on them in 2024/2025.

Water Quality Targeted Rate

11. The Annual Budget 2023/2024 reduced the Water Quality Targeted Rate (WQTR) by 77.7 per cent for one year from the planned $49.9 million to $11.1 million, with unspent reserve funds enabling the planned programme for 2023/2024 to be fully delivered.

12. The WQTR funds investment to improve the water quality in Auckland's harbours and streams. Key programmes are stormwater upgrades and wastewater/stormwater separation in the Western and Eastern Isthmus.

13. Officers considered four options for the WQTR set out in the table below which shows the revenue and rates impact for the average value residential property:

Option	10-year Revenue	Rates impact 2024/2025		Additional increase 2025/2026 onwards
		Rate	Additional overall rates increase	
1. Retain at 2023/2024 level, rises 3.5% per year, ends 2030/2031 repay of capex over 7 years	$96m	$16.88	0.02%	Around 0.02%
2. Resume as planned, rises 3.5% per year, ends 2033/2034, repay of capex over 10 years	$674m	$76.88	1.68%	Around 0.07%
3. Rate set to fund programme and repay of capex over 30 years rising at 3.5% per year	$253m	$28.88	0.35%	Around 0.03%
4. Rate set to cover only annual programme operating and interest costs in each year	$233m	$10.52	-0.16%	Between 0.06% and 0.23%

14. Options 3 and 4 would fund all the outcomes for which the rate was established and better align payment with the period over which the investments deliver benefits. However, debt would rise under either of these two options by around $660 million in 2034/2035.

15. Option 2 would deliver on the Western and Eastern Isthmus but with lower operational programme investment. Option 1 would only deliver part of the Western Isthmus programme.

[1] Activities such as destination marketing and major events and economic development are primarily undertaken to increase economic activity. In the first instance this will benefit business. The benefits of both DME and ED also flow through to residents in the form of increased employment opportunities and greater availability/choice of services.

16. As the expenditure is ongoing for Options 3 and 4, the council could choose to consult via the 10-year budget on transferring the funding requirement to the general rate with no impact on the total amount of rates collected from ratepayers.

17. Alternatively, the council could choose to consult on including the Making Space for Water (MSFW) into the WQTR as both are funding major new stormwater investments. Again, as this would effectively just be a transfer from one rate to another, it wouldn't affect the total amount of rates collected from ratepayers.

Natural Environment Targeted Rate

18. The Annual Budget 2023/2024 reduced the Natural Environment Targeted Rate (NETR) by 48.8 per cent for one year from the planned $31.6 million to $16.2 million, with unspent reserve funds enabling the planned programme for 2023/2024 to be fully delivered.

19. The NETR funds protection of native ecosystems and species, the Regional Pest Management Plan (RPMP) and the obligations in the National Policy Statement - Indigenous Biodiversity (NPS-IB). Key programmes include kauri dieback, pest management, and marine and freshwater biosecurity.

20. Officers considered four options for the NETR set out in the table below which shows the expenditure funded and rates impact for the average value residential property:

Option	10-year Revenue	Rates impact 2024/2025		Additional increase 2025/2026 onwards
		Rate	Additional overall rates increase	
1. Retain at 2023/2024 level	$176m	$23.69	n/a	n/a
2. Resume at $30 in 2024/2025	$245m	$30.00	0.17%	Around 0.02%
3. Resume at previously planned	$350m	$47.02	0.65%	n/a
4. Resume at previously planned	$412m	$47.02	0.65%	Around 0.04%

21. Option 4 would deliver the proposed full programme and have capacity to respond to emerging threats. Option 3 would deliver most of the original intentions but with limited capacity for community-led initiatives or to deal with emerging threats. Options 1 and 2 would be insufficient to deliver the currently planned programme and would mean significant scaling back of existing programmes and consequently reduced the council's ability to deliver on the RPMP.

22. As the expenditure is ongoing for Options 3 and 4, consideration should be given to consulting on a transfer of the funding requirement to the general rate with no impact on ratepayers.

Context

23. The council is required to consult on changes to its rating policy. The council is required to consult on changes to the Revenue and Financing Policy when proposing changes to sources of funding.

Analysis

24. This section sets out detailed background on, and analysis, of the reasonably practical options to address each of the issues covered in this report:

- Business rates differential, LTDS
- TAU DME and ED expenditure and funding options
- Water quality targeted rate
- Natural environment targeted rate.

25. The analysis includes an assessment against the key funding decision making criteria in the Local Government Act 2002 for the level of business rates and the funding options for TAU's DME and ED investment. The key considerations for this analysis are the relative distribution of benefits, drivers of costs, and affordability between differential groups. A summary of the analysis in the report is presented in the form of the criteria in section 101(3) of the LGA 2002 and attached as Appendix A: Assessment against statutory criteria.

26. All rates impact numbers included in this report are estimated based on budget and property information available to officers as at the time the report is written. These may change following the setting of rates in June 2024.

Business rates differential

Background: Long-term differential strategy

27. The LTDS provides for a gradual lowering of the share of general rates revenue requirement paid by businesses from 31 per cent in 2022/2023 to 25.8 per cent by 2037/2038. The council paused the LTDS in the 2023/2024 year keeping the business share of the rates revenue requirement at 31 per cent to manage the impact of rates increases on non-business properties. To collect this share from business properties urban businesses, pay a cents in the dollar of capital value around 2.63 times that of urban residential properties.

28. The business differential was originally adopted in 2012/2013 as part of the adoption of a standardised rating policy following amalgamation. In setting the differential the council considered businesses:
    - benefited more from council services
    - imposed more cost on council service provision
    - were better able to afford rates than other properties.

29. However, while the council considered business rates should be higher than non-business, they also decided they were too much higher and should be gradually lowered over time. The council accordingly adopted the first LTDS. In 2017/2018 the council introduced the WQTR and NETR and then in 2022/2023 the council introduced the Climate Action Transport Targeted Rate (CATTR). As these targeted rates were generally applied all three included a business differential. The business differential for these rates was set to collect 25.8 per cent of the revenue requirement being the ultimate target of the LTDS.

30. Business differentials are also commonly applied by the other large urban councils in New Zealand. The table below shows the comparative general rates business differential ratios for these councils. The actual share of rates paid by business in these councils will vary depending on the respective size of the business sector in the underlying rating base and the application of targeted rates.

Council	General rates business differential ratio 2023/2024
Auckland	2.63
Tauranga	2.1 (also fund ED with a targeted rate on business)
Hamilton	2.98
Wellington	3.7 (also fund ED with a targeted rate on business)
Christchurch	2.2
Dunedin	2.47

Options for the business differential

31. There is no optimum level for setting the business differential. As with all matters that relate to rates setting, decisions on the business differential require the application of political judgement. Officers consider that there are two options for the approach to the level of the business differential from 2024/2025, these are:

    1. continue with the reduction of the business differential (either through continuing with the LTDS (status quo) or a move straight to the target level of 25.8 per cent)

    2. hold the business differential at the current level of 31 per cent (stopping the LTDS)

32. The following sections sets out the impacts for each of the options. Stopping the LTDS will require amending the Revenue and Financing Policy to reflect council's new approach to the business differential.

Option 1: Continue with the reduction of the business differential

33. Resuming the LTDS would result in a slow reduction of the business differential until it reaches the current target of 25.8 per cent in 2038/2039. This would see residential rates increase by around 0.5 per cent more each year and business rates to increase by around 1.2 per cent less each year.

34. An alternative would be to move straight to the 25.8 per cent in 2024/2025. This would see residential rates increase by around 7.1 per cent more in 2024/2025 and business rates to increase by around 17.7 per cent less in 2024/2025. From 2025/2026 non-business and business rates would generally see the same overall rates increase each year.

Option 2: Hold the business differential at the current level

35. Holding the business differential at 31 per cent would see non-business and business rates having generally the same overall rates increase each year from 2024/2025.

Conclusion

36. In determining which option to adopt the council will need to weigh the matters set out in the following sections which discuss the relative benefits received and costs imposed, and affordability, between business and non-business properties. Those sections are followed by a note on the extent to which a change in rates would impact on business development.

37. One of the reasons for the original introduction of the LTDS was that lowering business rates would encourage business development. Rates are a small proportion of business income, 0.24 on average, and as a form of land tax, movements in rates will ultimately flow through to land prices. The scale of reduction in rates will at best only have a very small impact on business development in the long term. Officers do not consider that this should form a material element in a decision on the business differential and the LTDS options.

Benefits received from council services and cost imposed

38. This section considers the relative benefit that business and non-business properties receive from council services and the costs these properties impose on the council to deliver the services.

39. Assessing the level of benefit the business sector receives is a subjective process. In 2012/2013, benefits were assessed based on usage, availability, and proximity to particular sectors and locations. Consideration was also given to the impact on property values that arise from access to council provided services.

40. General rates funded council services are public goods. They are provided for the benefit of the community as a whole rather than for individuals. As such there is no direct relationship between

the amount of rates an individual pays and the benefits they receive. However, to some extent the benefits of council services are already partly capitalised in property values.

41. Properties in closer proximity to services will tend to have higher property values than those that do not. However, developing a rating system based on this assumption would not reflect the levels of benefit received. This is because the supply of council services is not the primary driver of property values. Market forces of supply and demand, and the relative desirability of locations (e.g., seaside locations) have a greater impact.

42. In 2012/2013 an assessment of the distribution of benefits between sectors was undertaken. The analysis used information and statistics from asset management plans and other sources from council and Waka Kotahi. It then attributed benefits to the broad rating differential categories approximating both the benefits and the costs of provision accrued to each group. Due to the nature of assessing benefits outlined above the resulting analysis only provides an indication of the relative magnitude of benefit and cost provision between the groups. It should not be taken as providing an absolute assessment. The table below shows the results of this analysis.

Activity	Urban		Rural		Farm/ lifestyle
	Business	Residential	Business	Residential	
Roads	36%	55%	1%	3%	5%
Footpaths and cycleways	27%	65%	2%	4%	2%
Parking	37%	55%	2%	4%	2%
Public transport	37%	50%	3%	5%	5%
Community resources	13%	70%	6%	6%	5%
Regional and local facilities	18%	70%	2%	5%	5%
Building consents	38%	52%	2%	3%	5%
Stormwater	46%	48%	2%	2%	2%
Other	17.0%	67.5%	2.4%	4.2%	8.9%

43. This assessment was then compared, at an aggregate level, to the proportional size of each sector in the underlying rating database. The table below shows this comparison.

Category	Benefit	Property count	Property value
Metro – business	26%	7%	17%
Metro – residential	61%	81%	68%
Rural – business	3%	0.5%	2%
Rural – residential	4%	6%	4%
Farms and lifestyle	6%	5.5%	8%

44. This comparison showed that the business sector was receiving a higher level of benefit from council services relative to their proportion of the rating base. Examples of higher use of council services associated with the business sector include:

- a larger impact on the cost of transport infrastructure due to heavy vehicles

- increased stormwater infrastructure related to the larger impervious surface areas for businesses when compared to other property types, although some residential properties also allow for higher impervious surface areas.

45. Officers have revisited the work that was undertaken in 2012/2013. While the business share of property value and numbers of property has fallen slightly, they continue to place greater demand on council services. Officers therefore consider that the original analysis continues to hold true.

46. Analysis of the rating database shows that the proportional size of business sector capital value has reduced from 19 per cent in 2012/2013 to 16.5 per cent in 2023/2024 while the proportional size of the business sector SUIP's has reduced from 9.8 per cent in 2012/2013 to 9.3 per cent in 2023/2024.

47. Officers have also revisited the assessment of benefits for residential and business land and have found that:

    - business continue to place greater demand on transport infrastructure
    - business continue to place greater demand on stormwater infrastructure.

48. The Ministry of Transport's Household Travel Survey[2], undertaken between July 2019 and Aug 2022 shows that across New Zealand there has been a decline of around 10 per cent (from 47 per cent to 37 per cent) in business-generated travel for shopping, social entertainment, and services. This is shown in both total kilometres and trip duration. This has been largely due to COVID-related lockdowns and shifts in consumer shopping behaviour. However, the proportion of business-generated trips (37 per cent) continues to be higher than the overall proportion of business sector capital value (16.5 per cent).

49. Since 2013 there has also been an increase in truck road freight distances travelled by 22.8 per cent and an increase of freight activity (tonne-kilometres) by 25.5 per cent. Heavy vehicles, primarily serving business require roads designed to higher engineering standards. Heavy vehicles also accelerate deterioration of road infrastructure increasing maintenance and requiring more frequent renewal. This increases the costs of roading infrastructure and the costs of maintaining roads.

50. Unitary Plan rules allow for business land to be developed to a greater extent than most residential land. This results in a greater proportion of business land being covered in impervious surface area in comparison to non-business land. This contributes to increased run-off from the land during heavy rain events which places increased demand on stormwater infrastructure.

51. In response to changes in the Unitary Plan, there has been an increase in high intensity development of residential land. New multi-unit homes account for 58 per cent of building consents issued within the Auckland since 2013. Increasing urban density for both business and residential purposes creates increased demand on stormwater infrastructure requiring additional investment by council. However, the proportion of highly developed residential land remains relatively low in relation to all residential land while the majority of business zoned land can be developed to high intensity.

Affordability

52. In general, a rating system based on property value reflects ability to pay to the extent that people with higher value properties usually have higher incomes. The fairness of the distribution of rates can be considered in the following three different ways:

    - the differing ability to pay between different sectors

[2] https://www.transport.govt.nz/statistics-and-insights/household-travel/ This is a nationwide survey and does not provide a breakdown of activity by region, however we assume that the same impacts shown nationally would also apply to Auckland.

- the relationship of distribution of rates by household income for the residential sector
- the relationship between the changes of incidence of rates and household income for the residential sector.

53. There are two main reasons that differentiate the ability to pay between the business and residential sectors. These are:
    - the business sector can claim back the GST component on rates
    - the business rates are an expense and paid out of pre-tax earnings.
54. Both these reasons also apply to the portion of the residential sector used for residential tenancies or at home occupations. Approximately 40 per cent of Auckland's residential properties are tenanted. However, it is administratively prohibitive to apply business sector rates in these circumstances.
55. The legal incidence of rates usually falls upon the property owner. However, the economic incidence depends on who actually pays the rates. The standard practice for commercial leases of business properties requires tenants to pay the rates. However, if the property is untenanted then the property owner will be required to pay the rates.
56. Analysis of residential rates affordability is undertaken against the 5 per cent threshold proposed in the Report of the Local Government Rates Inquiry 2007, referred to as the Shard Report. The table below shows the median rates and water costs as a percentage of median household income for owner-occupied households.

Financial year	Estimated annual rates and water costs ($)	Median household income for homeowners ($)	Costs as a % of household income
2012/2013	2,494	86,600	2.88%
2013/2014	2,568	87,600	2.93%
2014/2015	2,690	90,500	2.97%
2015/2016	2,907	95,100	3.06%
2016/2017	2,993	99,200	3.02%
2017/2018	3,048	102,900	2.96%
2018/2019	3,085	110,200	2.80%
2019/2020	3,186	113,800	2.80%
2020/2021	3,294	112,700	2.92%
2021/2022	3,507	114,500	3.06%
2022/2023	3,801	115,645	3.29%

57. This analysis shows that, in general, Auckland Council rates and water and wastewater charges are currently well within the affordability threshold as set out in the Shand Report. Decisions on shifting the level of the business differential would not materially affect this assessment.
58. It is not possible to undertake the same type of analysis for business properties as earnings/profit information is not collected at a granular enough level. Additionally, earnings and profit vary considerably between business sectors and between businesses within a sector. However overall business income information is available through the Annual Enterprise Survey.
59. The analysis of business affordability below focusses on relative affordability through time rather than absolute affordability at a point in time. The table below shows the proportion of rates, as a

whole, in comparison to total business income. It includes general rates and targeted rates set across the region. It excludes targeted rates assessed on specific locations such as Business Improvement Districts and City Centre.

Financial Year	**Total Business Income ($ b)**	**Total Business Rates ($ m)**	**Rates as a portion of total income (%)**
2015/2016	$206.5	$476.9	0.231%
2016/2017	$211.1	$490.7	0.232%
2017/2018	$225.5	$511.9	0.227%
2018/2019	$242.2	$537.9	0.222%
2019/2020	$254.9	$553.1	0.217%
2020/2021	$256.6	$577.0	0.225%
2021/2022	$265.1	$607.1	0.229%
2022/2023	$296.5	$724.0	0.244%

60. There are no metrics for assessing what is an affordable level of rates for business. However, what this analysis shows is that generally the level of business rates in relation to income is very small and that it hasn't materially changed since 2015/2016. As with the affordability assessment for residential properties, decisions on shifting the level of the business differential would not materially affect this assessment.

TAU DME and ED expenditure and funding options

Introduction

61. Tātaki Auckland Unlimited (TAU) invests in economic development, destination, and major events. This drives prosperity through creating jobs, attracting international and domestic visitors, and building Auckland's brand. Public investment in economic development unlocks additional returns to Auckland that would otherwise be lost if left to private investment. However, providing ongoing investment in Economic Development (ED) and Destination and Major Events (DME) activity requires certainty of future funding.

62. TAU's expenditure and funding sources for 2023/2024 are set out in the table below.

Funding source	**DME**	**ED**
General rates	$7m	$11m
Destination Partner Program (DPP)	$2m	
Covid-19 Recovery Regional Events Fund (CRREF)	$5m	
Total	$14m	$11m

63. From 2024/2025 there will be a funding gap to current spend of around $5 million as the COVID-19 Recovery Regional Events Fund ends. Prior to COVID-19 investment in DME was around $28 million, funded 50/50 from the Accommodation Provider Targeted Rate and general rates. The 2024/2025 funding gap to pre-COVID levels would be around $19 million inclusive of the loss of the CRREF.

Services funded

64. DME currently includes funding a range of initiatives to attract visitors to Auckland and the delivery of cultural festivals including the Lantern, Diwali, and Pasifika Festivals. In 2022/2023 delivery of the DME programmes helped contribute to around $74 million in regional GDP from

support for events like the Auckland Boat Show, Synthony in the Auckland Domain, Women's Rugby World Cup 2021, and New Zealand: World Rally Championships.

65. ED encompasses a wide range of activities aimed at facilitating growth of the Auckland economy and the creation of new jobs. Services funded through economic development include investment attraction with a focus on screen production activity and facilitating job creation and growth of Auckland's innovation ecosystem through involvement in planning processes and innovations hubs like GridAKL and GridMNK. In 2022/2023 ED activity helped in attracting $325 million of investment into the Auckland economy through feature films, television, construction, and manufacturing.

TAU DME and ED expenditure options

66. The expenditure considered for ED in 20224/2025 is the same as the $11 million level funded in 2023/2024. This would deliver similar outcomes to 2023/24 which included attracting of $100m investment, delivery of Tech Tamaki Makaurau Year 2, delivery of Screen Auckland services, film studio management, economic research and insights.

67. Three expenditure options for TAU's DME investment in 2024/2025 are set out below:

    1. $9 million investment (existing general rates funding of $7 million and $2 million from the DPP).
    2. $11.5 million investment (funded by $9.5 million of general rates, a $2.5 million increase and $2 million from the DPP).
    3. $14 million investment maintain existing expenditure levels (funded by general rates funding of $9.5 million, a $5 million increase and $2 million from the DPP).

68. The table below sets out the likely DME programmes that would be delivered in 2024/2025 under each of these options and the forecast impact that this would have on outcomes achieved.

Option	Programmes delivered	Impact on outcomes
1. Lower investment maintaining existing general rates funding	**Economic Development (ED)** Similar ED programmes to those delivered in 2023/24 (half the 2022/23 ED programme) **Destination & Major Events (DME)** Delivery of Auckland focused festivals only (e.g., Lantern, Diwali, Pasifika, Moana Festivals). No funding available to support anchor Auckland events (e.g., Auckland Marathon, ASB Classic, Synthony in the Domain) No funding available to support national sport content or major one-off events (e.g., The Ocean Race).	**Destination and Major Events (DME)** Significant reduction in Auckland major events calendar Reduction in GDP (approximately $20m) and visitor nights Decreased regional destination promotion
2. Moderate increase in general rates funding	**Economic Development (ED)** As above **Destination & Major Events (DME)**	**Destination and Major Events (DME)** Reduction in Auckland major events calendar

	Delivery of Auckland focused festivals (e.g., Lantern, Diwali, Pasifika, Moana Festivals). Limited funding available to support some anchor Auckland events (e.g., Auckland Marathon, ASB Classic, Synthony in the Domain) No funding available to support national sport content or major one-off events (e.g., The Ocean Race).	Reduction in GDP (approximately $10m) and visitor nights Decreased regional destination promotion
3. Maintain existing investment levels and higher general rates funding	**Economic Development (ED)** As above **Destination & Major Events (DME)** Delivery of Auckland focused festivals (e.g., Lantern, Diwali, Pasifika, Moana Festivals). Funding available to support full suite of anchor Auckland events (e.g., Auckland Marathon, ASB Classic, Synthony in the Domain) No funding available to support national sport content or major one-off events (e.g., The Ocean Race).	**Destination and Major Events (DME)** Maintained Auckland major events calendar Maintained GDP and visitor nights Maintained regional destination promotion

69. Funding to support major sporting and one-off events cannot be accommodated under any of these options. This activity would only be able to proceed through the use of significant new funding sources, such as those discussed in the following section.

TAU DME and ED funding options

70. The benefits from TAU activity accrue to:

- Businesses – particularly those in the accommodation, tourism and hospitality sectors
- Wider regional economy – increased business activity and resulting employment.

71. Where possible it would be desirable for funding sources for ED and DME to have a clear alignment and connection to benefits generated from that investment. Ideally council would have access to funding tools such as bed taxes and share of the tax income generated from increased economic activity i.e.: a share of GST and income tax. Accessing these funding sources would require central government agreement and legislative changes. Seeking this agreement and progressing with any necessary legislative changes are a medium-term solution to TAU funding needs. Any additional revenue from the DPP, commercial partnerships and increased user charges will be uncertain and will not replace the revenue reduction in 2024/2025 caused by the COVID-19 Recovery Regional Events Fund ending. To maintain current levels of funding an immediate solution is still required.

72. The re-introduction of the APTR would require a fresh consideration of the policy rationale given the changes since pre-COVID TAU investment levels and economic conditions. There is currently insufficient time to undertake the level of analysis required to meet the deadlines for consultation on the 10-year Budget 2024-2034. As the APTR lacks industry support it would

likely lead to industry pulling out of the DPP increasing the gap to current funding levels to round $7 million. Additionally, as the APTR is set on capital value it is not as directly related to revenue as the council's preferred funding sources noted above.

73. Expanding the APTR to include other tourism related business would have the same issues identified above. However, it also has significant implementation issues with identifying business that specifically benefit from tourism related activity.

74. As the preferred funding tools noted above are not presently available officers consider there are currently only two reasonably practicable options for funding TAU's investment in ED and DME in the short to medium term. These are:

- General rates funding
- Increasing the level of the business differential beyond any decision on the LTDS to fund some or all of the costs of DME and ED (community events would continue to be funded from non-business properties).

75. Increasing the business differential to fund the costs of ED and DME will have different impacts on the level of business differential and the impact on business ratepayers depending on the expenditure option chosen. The base starting position will be that the business differential is 31 per cent plus an amount added to the reflect the TAU expenditure levels. Under this approach community events (around $3 million) would continue to be funded from non-business properties while the balance of TAU funding need is met from business ratepayers. The exact increase in the differential for business properties will depend on the overall general rates increase for 2024/2025 and the TAU expenditure option chosen.

76. The following analysis shows the impact on the business differential under existing general rates levels combined with the TAU expenditure options for ED and DME discussed above:

- Option 1. ($9 million DME and $11 million ED) business differential increases to around 31.37 per cent and business rates increase by around 1.3 per cent
- Option 2. ($11.5 million DME and $11 million ED) business differential increases to around 31.44 per cent and business rates increase by around 1.6 per cent
- Option 3. ($14 million DME and $11 million ED) business differential increases to around 31.51 per cent and business rates increase by around 1.8 per cent

77. Each option could free up an amount of up to about $9.4 million of general rates funded from non-business ratepayers. This would ultimately mitigate any rates increase for non-business properties in 2024/2025 and support higher levels of activity for which non-business ratepayers would be the direct beneficiaries.

78. The actual level of the business differential will depend on the level of expenditure decided on for these activities and the decision on the total level of general rates for all other activities this year and in future years.

Water Quality Targeted Rate

Introduction

79. In 2018 the council introduced a Water Quality Targeted Rate (WQTR) to fund an accelerated program of investment to improve the water quality in Auckland's harbours and streams. The rate was to run for 10 years to 2028, be set on capital value, and collect 25.8 per cent of the rates requirement from business properties.

80. The 10-year Budget 2021-2031 included an extension of the targeted rate to 2030/2031 and for the rate to increase by 5 per cent for the 2021/2022 year, and at 3.5 per cent per year thereafter. The rate raised $47.4 million in the 2022/2023 year and was $70.87 for the average value residential property.

81. To manage the impact on ratepayers of changes to rates in 2023/2024 the council temporarily reduced the WQTR by 77.7% for one year (GB/2023/100) from the planned $49.9 million to $11.1 million. The rate for the average value residential property in 2023/2024 was $16.31.

Services funded

82. The program provides for:

- stormwater upgrades and wastewater/stormwater separation in 7 catchments in the Western Isthmus
- infrastructure for stormwater contaminant removal across the region - e.g., Kaipara
- rehabilitation of urban and rural streams – e.g., Omaru creek in East Tamaki
- introduction of a proactive regional septic tank monitoring programme
- in 2021 the program was extended for 3 years until 2031 and provided for the first stage of investment in the Eastern Isthmus.

83. The programme delivers improved water quality in harbours and streams across the region. Key outcomes from the Western Isthmus investments will be a reduction in wastewater overflows into the Waitematā Harbour from hundreds of events to six or less each year. The Eastern Isthmus investments will deliver improved water quality in the following catchments: Hobson Bay to St Heliers, Manukau Harbour, and Tāmaki Estuary.

84. Since the rate was last adjusted as part of the 10-year Budget 2021-2031 the cost of delivering the stated outcomes has increased. The full-scale separation projects in Herne Bay and St Mary's Bay are being replaced with the Pt Erin storm water tunnel project. The Pt Erin tunnel project cost exceeds the previously planned budget but is well below what the cost of the alternative full separation is now understood to be. In addition, the original budget provided for only the first three years, from 2029, of the Eastern Isthmus costs. The next three years of those costs are now included.

Future funding source and term of rate

85. The programmes funded by the WQTR are primarily capital expenditure. The rate originally provided for the capital to be repaid over 10 years. This reduced the council's longer term borrowing requirements. If the term of the rate is extended or the rate is made permanent consideration should be given to transferring the funding requirement to the general rate. Any such change would require public consultation via the 10-year Budget.

86. A specific targeted rate was proposed in 2018 to promote more active public discussion of the proposed increase in expenditure and rates than would have been the case if the additional charges were part of a wider general rates increase. There was strong public support for increased investment. Consultation on the options above as part of consultation on the draft 10-year Budget 2024-2034 will support similar active discussion of these tradeoffs.

87. Once the council has considered the feedback from consultation the retention of a separate funding stream is no longer required. However, as part of the general rate the expenditure will no longer be protected from potential future prioritisation. This will treat it in the same way as other council expenditure. This is not the only expenditure providing valuable benefits to the community, and it would be prioritised alongside these when council was making funding decisions.

88. Transferring the funding from one rate to another would not impact the total rates paid by ratepayers. Rather it would just change how it is itemised on their rates bill and how it is presented in council plans and reports.

89. If the funding is moved to the general rate the cost will no longer appear separately on rates bills or be discussed as a rate in council annual and 10-year budget consultations. However, the council will still report on its performance in delivery of harbour and stream water quality and

any material changes to the budget will be required to be part of annual and 10-year budget consultations.

90. The council is now proposing to include a major new stormwater-related programme with a large capital investment over the next 10-years known as Making Space for Water (MSFW). As an alternative to the change suggested above, the council could instead choose to consult on broadening the scope of the WQTR to include MSFW. This could be described as a "Stormwater Enhancement Targeted Rate" and would support consideration by the public of these two major stormwater expenditure proposals that aim to accelerate the delivery of both water quality and flood risk reduction outcomes.

91. Again, transferring the funding from one rate to another would not impact the total rates paid by ratepayers.

92. Under Option 4 the funding approach for the WQTR is aligned to the budgeting and rates modelling for the Making Space for Water that has been undertaken to date. The two programmes with similar funding models could fit well together under a single targeted rate. If this proposal is considered further, it should be assessed in light of the matters noted above about targeted rate and general rate funding.

Options

93. Officers considered four options for the WQTR and the level of expenditure it funds. Options 1, 2, and 3 repay the capital expenditure funded by the rate over the life of the rate. Option 4 does not repay the capital expenditure. These are set out in the table below which shows the expenditure funded and rates impact, absolute and impact on overall rates increase, for the average value residential property in 2024/2025:

Option	10-year Revenue	Rates impact 2024/2025		Additional increase 2025/2026 onwards
		Rate	Additional increase	
1. Retain at 2023/2024 level plus a 3.5 per cent increase, with expiry in 2030/2031	$96m[3]	$16.88	0.02%	Around 0.02%
2. Resume at previously planned level and extend to 2033/2034	$674m	$76.88	1.68%	Around 0.07%
3. Rate set to fund programme and repayment over 30 years	$253m	$28.88	0.35%	Around 0.03%
4. Rate set to cover only annual programme operating and interest costs in each year	$233m	$10.52	-0.16%	Between 0.06% and 0.23%

94. The rates impact on business and farm/lifestyle properties is set out in Appendix D: Rates impact on business and farm/lifestyle properties of options for the Water Quality Targeted Rate and Natural Environment Targeted Rate.

95. The table below shows an estimate of the level of investment/expenditure in each element of the programme that can be funded from the revenue raised by each option. The difference between the revenue raised over the ten-year period and expenditure it can fund for options 3 and 4

[3] This is the revenue over a seven-year period as the targeted rate will expire at the end of 2030/2031 under this option, consistent with the timeframe adopted as part of the 10-year Budget 2021-2031.

reflects the longer period over which options 3 and 4 operate taking into account the higher interest costs incurred.

WQTR programme expenditure	Option 1	Option 2	Option 3	Option 4
Western Isthmus - Pt Erin tunnel	$65m	$65m	$65m	$65m
Western Isthmus except Pt Erin	$28m	$354m	$354m	$354m
Eastern Isthmus	-	$202m	$202m	$202m
Water quality improvement works non capitalisable	-	$38m	$118m	$118m
Water quality planning	-	$6m	$6m	$6m
Contaminant management	-	-	$25m	$25m
Safe networks (Illicit discharges)	$3m	$9m	$9m	$9m
Total	**$96m**	**$674m**	**$779m**	**$779m**

96. Each option is discussed below. Further detail on the expenditure options is set out in Appendix B: Water Quality Targeted Rate expenditure options.

Option One: Retain current rate with expiry in 2030/2031

97. Option 1 has minimal impact on ratepayers. Option 1 also has no impact on debt as the capital expenditure it can fund is repaid within the term of the rate.

98. Option 1 would deliver the Pt Erin extension component of the Western Isthmus programme, but all other planned separation for the Western Isthmus programme would be stopped. This would achieve Safeswim outcomes for the Herne Bay and St Mary's Bay catchments, i.e., the beaches of Herne Bay, Home Bay, Sentinel Road Beach and St Mary's Bay. However frequent wet-weather overflows would persist in most of the remaining Western Isthmus catchments, and continue to affect the beaches of Pt, Chevalier, Meola and Cox's Bay, as well as other coastal environments. Under this scenario, there is a risk that Watercare may not achieve its overflow reduction targets set out in in the Central Interceptor consent.

99. Option 1 would also require ceasing almost all projects outside of the Western Isthmus. The Eastern Isthmus programme would be unable to proceed, which will compromise outcomes from Watercare's planned wastewater investment in this area. The urban contaminant management programme would also be stopped. Sufficient funding would be available to continue some operational programmes such as Safe Networks or Safe Septics at reduced levels. Funding for rural sediment reduction programmes would also likely cease or reduce to very low levels of investment.

Option two Resume rate at previously planned level and extend to 2033/2034

100. Under Option 2 the rate in 2024/2025 for the average value residential property would be $76.88, adding 1.68 per cent to the overall rates increase. For the average value business property in 2024/2025 the rate would be $357.94, adding 1.48 per cent to the overall rates increase. Option 2 also has no impact on debt as the capital expenditure it can fund is repaid within the term of the rate.

101. Option 2 would raise around $674 million. Due to increases in cost and scope of the work required to deliver on the original program this option would not deliver all the originally intended outcomes.

102. Option 2 would allow for the completion of the Western Programme; achieving Safeswim outcomes at all beaches from Pt Chevalier to St Mary's Bay and ensuring all Central Interceptor consent conditions are met.

103. The Eastern Isthmus Programme could also proceed according to plan within this 10-year period. Operational programmes such as Safe Networks and Safe Septics; as well as rural sediment reduction programmes would likely be able to continue at reduced levels, Urban contaminant management programmes would likely be significantly reduced or stopped.

Option three: Resume rate at previously planned level and extend over 30 years

104. Under Option 3 the rate in 2024/2025 for the average value residential property would be $28.88, adding 0.35 per cent to the overall rates increase. For the average value business property in 2024/2025 the rate would be $13447, adding 0.31 per cent to the overall rates increase.

105. Option 3 would raise around $1.32 billion. As the recovery of the investment is spread over 30 years this includes $542 million interest costs and borrowing increases by $660 million in 2033/2034 and then gradually reduce for the remainder of the rate. It should also avoid the issue of having unspent targeted rates reserves building up in the years prior to the large construction projects commencing.

106. Option 3 would allow for delivery of the full programme. This includes the completion of the Western Isthmus programme, with all outcomes as above. The Eastern Isthmus Programme would proceed supporting all related Watercare investment. The extended period in this option also ensures funding for the full Eastern Isthmus separation work programme which extends beyond the current 2030/2031 expiry date for the rate. Operational and rural sediment reduction and urban contaminant reduction programmes would continue as planned.

Option four: Rate set to cover only annual programme operating and interest costs in each year

107. Under Option 4 the rate in 2024/2025 for the average value residential property would be $10.52, reducing by 0.16 per cent the overall rates increase. For the average value business property in 2024/2025 the rate would be $48.96 reducing by 0.14 per cent the overall rates increase.

108. This option treats the capital investment like investments funded by the general rates. The rate does not provide for capital investment to be repaid. As a result, debt would rise to $661 million by 2033/2034. There will be ongoing interest costs from 2034/2035. It should also avoid the issue of having unspent targeted rates reserves building up in the years prior to the large construction projects commencing.

109. Like Option 3, Option 4 funds the full program.

WQTR business differential

110. The WQTR is applied to all properties across the region. The rate funds an activity that generally benefits properties across the region. When introduced it was decided that as a generally applied rate it should have a business differential. The business differential for the WQTR was set to raise the share of the revenue requirement from business that was the ultimate target of the LTDS (25.8 per cent).

111. If the activity is shifted to general rates funding the business share will reflect the decisions made on the LTDS discussed earlier in this report. If the council retains the WQTR but makes changes to its LTDS it would also be appropriate to consider amending the share of the WQTR. The impact of these options on rates increases and level of WQTR paid by the average value residential property are set out below.

WQTR option	**LTDS option**	
	Retain LTDS	Bus differential 31%

	% increase $ in 2024/2025	% increase $ in 2024/2025
1. Retain at 2023/2024 level plus a 3.5% increase, with expiry in 2030/2031	0.02% $16.88	-0.02% $15.7
2. Resume at previously planned level and extend to 2033/2034	1.68% $76.88	1.53% $71.51
3. Rate set to fund programme and repayment over 30 years	0.35% $28.88	0.29% $26.86
4. Rate set to cover only annual programme operating and interest costs in each year	-0.16% $10.52	-0.18% $9.78

Conclusion

112. Option 4 would fund the delivery of all the outcomes for which the rate was established at a lower immediate cost to ratepayers[4] and better aligns payment, via depreciation and interest costs, with the period over which the capital investments deliver benefits. As the capital is treated like other council investments and not repaid the council will have an increased borrowing requirement with the additional debt required to fund the program rising to $661 million in 2034/2035. It should also avoid the issue of having unspent targeted rates reserves building up in the years prior to the large construction projects commencing.

113. Option 3 would also fund the delivery of all the outcomes for which the rate was established and better align the payment period with the period over which the capital investments will deliver benefits. Option 3 has a higher cost to ratepayers than Option 4 and also leads to higher debt which rises to $660 million by 2034/2035 and then gradually reduces over the remainder of the term of the rate. It should also avoid the issue of having unspent targeted rates reserves building up in the years prior to the large construction projects commencing.

114. Option 2 would deliver on the Western and Eastern Isthmus programmes but investment in operational programmes like urban sediment reduction and Safe Septics would be substantially reduced. Option 1 while having no immediate rates impact would only deliver the Pt Erin tunnel and a small investment in Safe networks.

115. If Options 3 or 4 are adopted consideration should be given to transferring the funding requirement to the general rate.

116. If changes are made to the LTDS then it would also be appropriate to consider amending the business share of the WQTR.

Natural Environment Targeted Rate

Introduction

117. In 2018 council introduced a Natural Environment Targeted Rate (NETR) to fund an accelerated investment programme to improve outcomes for the natural environment. The rate was first set in 2018 and does not increase over time except for growth in the rating base (GIRB),

[4] Overall costs will be higher as the recovery of the investment is spread out over 30 years and incurs additional interest until the capital is fully recovered.

unlike the WQTR which rises at 3.5 per cent per year in addition to the GIRB. The rate is set on capital value with 25.8 per cent of the revenue requirement from businesses.

118. The 10-year Budget 2021-2031 included an extension of the targeted rate to 2030/2031. The rate raised $31.05 million in the 2022/2023 year and was $46.43 for the average value residential property.

119. To manage the impact on ratepayers of changes to rates in 2023/2024 the council temporarily reduced the NETR by 48.8% for one year (GB/2023/100) from the planned $31.6 million to $16.2 million.

Services funded

120. The targeted rate funds the protection of native ecosystems and species and delivery of council's biodiversity-related legal obligations, including implementation of the Regional Pest Management Plan (RPMP) 2020-2030 (a statutory plan under the Biosecurity Act 1993). Council consulted on the introduction of the NETR and the current RPMP in tandem because the Biosecurity Act required council to be satisfied that there was likely to be adequate funding for the implementation of the plan. The NETR has positioned council well in terms of meeting obligations set out in the recently adopted National Policy Statement -Indigenous Biodiversity (NPS-IB) under the RMA. The NPS-IB contains relatively prescriptive requirements for councils including large-scale monitoring and assessment of land, and various requirements relating to the maintenance of indigenous species and ecosystems.

121. The NETR also funds programmes which meet biodiversity-related obligations under the Resource Management Act 1991 (including implementation of the recently adopted National Policy Statement for Indigenous Biodiversity[5]); and (to a lesser extent) other legislation including the Reserves Act and the Waitakere Ranges Heritage Act.

122. The programmes funded are:

- pest plant management in parks
- managing kauri dieback
- maintaining the pest-free status of Hauraki Gulf Islands
- controlling possums across the region
- protecting threatened species and high priority ecosystems
- community-led action through the provision of advice, grants, and tools.

123. Management of the natural environment requires ongoing investment to maintain the benefits gained through the programmes above. Contractual costs have increased over the last few years and on average by 6.3% in the current financial year. Without adequate management of pest species and other pressures, biodiversity outcomes can be quickly lost, particularly as environmental pressures increase. New pressures include additional work required to manage low incidence pest plant infestations, new invasive species such as exotic Caulerpa, and increased demand for support from communities. This would be inconsistent with the overall objective of

[5] The National Policy Statement for Indigenous Biodiversity (NPSIB) It provides direction to councils to protect, maintain and restore indigenous biodiversity requiring at least no further reduction overall from the commencement date (4 August). The key obligations require the council to:

- work in partnership with tangata whenua on protecting ecologically significant areas
- promote the restoration of indigenous biodiversity and indigenous vegetation cover.
- have a regional biodiversity strategy setting out their native biodiversity priorities.
- monitor our native species.

There are some areas – particularly associated with requirements to monitor native species and protect ecologically significant areas that will require additional work to be compliant.

the NPS-IB to "maintain indigenous biodiversity across Aotearoa New Zealand so that there is at least no overall loss in indigenous biodiversity" and could lead to slower or incomplete delivery of the RPMP commitments. Contractual costs have increased over the last few years and on average by 6.3% in the current financial year.

Future funding source and term of rate

124. The programmes funded by the NETR are primarily operating expenditure which needs to be maintained over time if the outcomes for the natural environment including those set out in the RPMP are to be delivered. Accordingly, consideration should be given to the rate either being made permanent or the funding requirement being transferred to the general rate. Any such change would require public consultation via the 10-year Budget.

125. A specific targeted rate was proposed in 2018 to promote more active public discussion of the proposed increase in expenditure and rates than would have been the case if the additional charges were part of a wider general rates increase. There was strong public support for increased investment. Consultation on the options above as part of consultation on the draft 10-year Budget 2024-2034 will support similar active discussion of these tradeoffs.

126. Once the council has considered the feedback from consultation the retention of a separate funding stream is no longer required. However, as part of the general rate the expenditure will no longer be protected from potential future prioritisation. This will treat it in the same way as other council expenditure. This is not the only expenditure with a statutory basis, and if funded from the general rate would be prioritised with other council services providing equally valuable benefits to the community.

127. Transferring the funding from one rate to another would not impact the total rates paid by ratepayers. If the funding is moved to the general rate the cost will no longer appear separately on rates bills or be discussed as a rate in council annual and 10-year budget consultations. However, the council will still report on its performance in delivery of the RPMP and any material changes to the budget will be required to be part of annual and 10-year budget consultations.

128. If the council wished to move the funding to the general rate it would need to consider the matters set out in s100T of the Biosecurity Act 1993. These primarily require an assessment of the relative beneficiaries from and drivers of the expenditure to be funded. These matters were considered when the targeted rate was originally introduced, and it was determined that it should be applied generally.

Options and analysis

129. The costs of providing the services are ongoing operating costs. As noted above it is therefore appropriate to either make the rate permanent or transfer the funding requirement to the general rate. The total revenue and expenditure for the options below are therefore presented over a ten-year period. The impact on ratepayers is similar whether it is general rate or targeted rate funded.

130. Officers considered four options for the NETR and the level of expenditure it funds. These are set out in the table below which shows the expenditure funded and rates impact, absolute and impact on overall rates increase, for the average value residential property in 2024/2025:

Option	**10-year Revenue and Expenditure**	**Rates impact 2024/2025**		**Additional increase 2025/2026 onwards**
		Rate	Additional increase	
1. Retain at 2023/2024 level	$176m	$23.69	n/a	n/a
2. Resume at $30 in 2024/2025 for average	$245m	$30	0.17%	Around 0.02%

value residential property and increase at 2.0 per cent per year				
3. Resume at previously planned level	$350m	$47.02	0.65%	n/a
4. Resume at previously planned level and increase at 3.5% per year	$412m	$47.02	0.65%	Around 0.04%

131. The rates impact on business and farm/lifestyle properties is set out in Appendix D: Rates impact on business and farm/lifestyle properties of options for the Water Quality Targeted Rate and Natural Environment Targeted Rate.

The table below shows an estimate of the level of investment in each element of the programme under the expenditure level in each option.

NETR programme expenditure	10-year total			
	Option 1	**Option 2**	**Option 3**	**Option 4**
Mainland: plant and pest management	$85m	$115m	$173m	$198m
Plant pathogens: kauri dieback, myrtle rust	$48m	$63m	$80m	$91m
Islands: plant and animal pest management	$19m	$22m	$24m	$28m
Marine pest pathways and biosecurity	$10m	$13m	$13m	$25m
Marine ecology	$3m	$3m	$4m	$6m
Enabling tools: monitoring/data collection	$3m	$3m	$4m	$4m
Expanding community-led action	$4m	$18m	$40m	$46m
Biodiversity focus areas: priority ecosystems	$4m	$8m	$12m	$14 m
Total	**$176m**	**$245m**	**$350m**	**$412m**

132. Each option is discussed below. Further detail on the expenditure options is set out in Appendix C: Natural Environment Targeted Rate expenditure options.

Option 1. Retain at 2023/2024 level

133. Retaining the rate at its current level would raise around $16.4m in 2024/2025 and grow over time at around 1.35 – 1.7 per cent per year in line with growth in the rating base. The NETR for the average value residential property would be $23.69 per year with no impact on the overall rates increase. For the average value business property, the rate would be $110.27 with no impact on the overall rates increase.

134. This level of funding would result in significant scaling back or non-delivery of commitments made through the RPMP.

135. This level of funding would mean that the council would not be able to meet its current obligations under the Regional Pest Management Plan. The council would need to review the plan and consult on amendments that reflected the available funding.

136. As a result, fewer pest species, priority ecosystems, and threatened species would be managed meaning some environmental gains made in the last few years would be lost compromising the council's commitments to protecting indigenous biodiversity. There would also be significantly reduced support for community-delivered outcomes. The council would have no ability to respond to new biosecurity issues (e.g., marine incursions such as exotic Caulerpa).

137. If council makes a decision on the NETR that will have consequences significantly inconsistent with the RPMP, then in making that decision, the Council will need to expressly identify that inconsistency, the reasons for it, and any intention to amend the RPMP to accommodate this.

Option 2. Resume rate at $30 per year for the average value residential property and increase it by 2 per cent annually

138. Reinstating the rate to this level would raise around $20.8m in 2024/2025 and grow by around 3.5 per cent per annum in line with the 2 per cent annual increase and the growth in the rating base. The overall rates increase would be 0.17 per cent higher in 2024/2025 for the average value residential property. For the average value business property in 2024/2025 the rate would be $139.65, adding 0.16 per cent to the overall rates increase.

139. The increased level of funding over option one would allow additional investment in possum control, managing kauri dieback, and community led action. However, these investments would still be below the original goals.

140. While providing for additional investment option 2 still presents similar risks to the delivery of the RPMP with the consequent potential for amending the plan as noted above.

Option 3. Resume rate at previously planned level

141. Reinstating the rate at previously planned levels would raise around $32.6m in 2024/2025 and grow over time in line with growth in the rating base. The NETR for the average value residential property would be $47.02 per year and the overall rates increase would be 0.65 per cent higher in 2024/2025. For the average value business property in 2024/2025 the rate would be $218.91 adding 0.57 per cent to the overall rates increase.

142. This level of funding would generally allow for the maintenance of current programmes, but some programmes will need to be scaled back due to cost increases and to accommodate the delivery peaks in the programme, previously addressed through reserves. This option does not have capacity to support landscape-scale community-led initiatives such as the Tu Mai Tonga programme or emerging threats. The timeframe for the delivery of the some of the programmes committed to in the RPMP would also need to be extended to manage the impact of cost pressures. There would be no funding allow for the management of any emerging threats such as new marine and pest animal incursions.

Option 4. Resume rate at previously planned level and increase at 3.5%

143. Reinstating the rate at previously planned levels and providing for it to increase at 3.5 per cent per year would raise around $32.6m in 2024/2025 and grow over time at around 5 per cent per year in line with the 3.5 per cent increase and growth in the rating base. The NETR for the average value residential property would be $47.02 per year and the overall rates increase would be 0.65 per cent higher. For the average value business property in 2024/2025 the rate would be $218.91 adding 0.57 per cent to the overall rates increase. Subsequent increases would be in line with, or lower than, the forecast increases in the general rate being considered as part of the draft 10-year Budget 2024-2034.

144. This would provide the level of funding required to deliver all the programmes committed to in the RPMP, maintain support for community initiatives, and have provision for response to new

threats and. It would also support the delivery of new obligations including those under the National Policy Statement for Indigenous Biodiversity.

NETR business differential

145. The NETR is applied to all properties across the region. The rate funds an activity determined to generally benefit properties cross the region. When introduced it was decided that as a generally applied rate it should have a business differential. The business differential for the NETR was set to raise the share of the revenue requirement from business that was the ultimate target of the LTDS.

146. If the activity is shifted to general rates funding the business share will reflect the decisions made on the LTDS discussed earlier in this report. If the council retains the NETR but makes changes to its LTDS it would also be appropriate to consider amending the share of the NETR. The impact of these options on rates increases and level of NETR paid by the average value residential property are set out below.

NETR option	LTDS option	
	Retain LTDS	Bus differential 31%
	% increase $ in 2024/2025	% increase $ in 2024/2025
1. Retain at 2023/2024 level	0% $23.69	-0.05% $22.03
2. Resume at $30 in 2024/2025 for average value residential property and increase at 2.0 per cent per year	0.17% $30	0.12% $27.90
3. Resume at previously planned level	0.65% $47.02	0.55% $43.73
4. Resume at previously planned level and increase at 3.5% per year	0.65% $47.02	0.55% $43.73

Conclusion

147. The funding level proposed in Option 4 would impact on rates only marginally more than Option 3 in 2024/2025. Option 4 would enable the delivery of the:

- original commitments made when the NETR was introduced
- National Policy Statement for Indigenous Biodiversity which has come into effect post-NETR
- maintenance of existing environmental outcomes
- responses to new and emerging biosecurity issues.

148. Option 3 would deliver most of the original intentions with some scaling back due to cost increases and does not have capacity to deal with emerging threats or to support any new investment in landscape-scale community-led initiatives.

149. Option 2 provides for additional investment beyond Option 1 in particular for possum control and management of kauri dieback. However, these levels are still below that required to deliver the RPMP and some of the National Pest Management Plan requirements for kauri dieback management or to progress new obligations under the National Policy Statement for Indigenous Biodiversity and would result in poorer environmental outcomes.

150. While option 1 does not increase rates it would mean the council would not be able to deliver the workplan set out in the RPMP, some of the National Pest Management Plan requirements for kauri dieback management, new obligations under the National Policy Statement for Indigenous Biodiversity, potentially other legal obligations, and would result in significantly poorer environmental outcomes.

151. Under both Options 1 and 2 staff consider that non-delivery of the statutory obligations raises the risk legal challenge. For both these options the investment levels identified in the table above are indicative. Further work would be required to refine budgets pending additional officer investigation of legal and contractual obligations. If this option is pursued, officers will provide further advice prior to decision-making in June.

152. Consideration should be given to transferring the funding requirement to the general rate.

153. If changes are made to the LTDS then it would also be appropriate to consider amending the business share of the NETR.

Council group impacts and views guidance

154. The analysis in this report have been agreed on by the following departments or business units of the Auckland Council group:

- Chief Economist Unit
- Tautaki Auckland Unlimited
- Healthy Waters
- Environmental Services.

155. The advice in this report has been reviewed by Legal Services.

Appendices

No.	Title
A	Assessment against statutory criteria
B	Water Quality Targeted Rate expenditure options
C	Natural Environment Targeted Rate expenditure options
D	Rates impact on business and farm/lifestyle properties of options for the Water Quality Targeted Rate and Natural Environment Targeted Rate

Appendix A: Assessment against statutory criteria

When deciding from what sources to meet its funding needs, council must consider the matters set out in section 101(3) of the Local Government Act 2002, see below. This involves elected members exercising their political judgement and considering the proposal in the context of council's funding decisions as a whole.

101(3) The funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of,—

a) in relation to each activity to be funded,—

   (i) the community outcomes to which the activity primarily contributes; and
   (ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
   (iii) the period in or over which those benefits are expected to occur; and
   (iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
   (v) the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and

b) the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

The following section considers the proposal to change the business differential and the long-term differential strategy in the general rate against the criteria in section 101(3) of the Local Government Act 2002.

The community outcomes to which the activity primarily contributes

General rates fund a broad range of council activities that contribute towards the outcomes set out in the Auckland Plan. General rates are used as general revenue and can fund the operating and capital costs of any activity that council undertakes. Where practicable, and cost-effective, the council will seek to recover the cost of providing its services from individuals or groups of beneficiaries (or causers of costs) where they directly benefit from, or impose costs on, the council undertaking an activity.

The council uses general rates to fund activities:

- which have a 'public good' element, e.g., civil defence
- where it wishes to subsidise the provision of services because of the wider social benefits they provide e.g., pools, libraries, and other community facilities, these are called merit goods
- where the application of fees and charges causes affordability issues.

The outcomes of council's general activities affect owners of business land in different ways to owners of non-business land. Both business and non-business land receive the benefits of council provided public good services. However, the council generally only subsidises merit goods for services provided to residents while it requires user charges to fully recover the costs for services provided to business. The nature of activities therefore provides rationale for distinguishing between the two.

The distribution of benefits between the community as a whole; any identifiable part of the community; and individuals

Assessing the benefits of general rates funded council services is largely a subjective process. There is no way to objectively measure the benefits received from public and merit goods.

The provision of roads and public transport benefit both business and non-business land by providing accessibility and connectivity. Stormwater services protect all land from flooding and ensure the maintenance of connectivity by protecting the transport network.

Other services such as parks and community services primarily benefit residents. However, businesses also benefit when co-location attracts more customers and from a happier and healthier workforce. Businesses also benefit from the availability of a workforce and more customers attracted to the city for the lifestyle provided by the availability of these services.

Activities such as Destination Marketing and Major Events (DME) and Economic Development (ED)are primarily undertaken to increase economic activity. In the first instance this will benefit business. DME expenditure is primarily focussed on attracting visitors to Auckland and the resulting benefits accrue to tourism related business. ED expenditure generally benefits business across Auckland. The benefits of both DME and ED also flow through to residents in the form of increased employment opportunities and greater availability/choice of services.

Cultural events component of DME, such as Lantern Festival, Pasifika and Diwali make up around $3 million of the combined $25 million DME plus ED spend. These are community focussed and primarily benefit residents.

From a benefits perspective any rationale for general rates business differential comes down to the weighting applied to how the benefits accrue. A detailed assessment of benefits was carried out when the rating policy was adopted in 2012/2013. Findings from this analysis have been supported by recent analysis.

The period in or over which the benefits are expected to occur

General rates fund the operating costs of services and consequential operating costs of assets in line with the period over which the benefits are received. Changing the level of the business differential has no impact on the relationship between the funding of services and period over which benefits are received.

The extent to which the actions or inactions of particular individuals or as a group contribute to the need to undertake the activity

Owners of business land place more demand on council roading and stormwater infrastructure. Roads serving business land are more expensive to develop and maintain. Heavy vehicles serving business land require roads designed to higher engineering standards and incur greater maintenance and replacement costs as a result of the damage caused.

Unitary Plan rules allow for business land to be developed to a greater extent than most residential land. This results in a greater proportion of business land being covered in impervious surface area in comparison to non-business land. This contributes to increased run-off from the land during heavy rain events which places increased demand on stormwater infrastructure. Some residential land is also allowed to develop to the same level as business land. However, this land is a relatively small proportion of all residential land.

Owners of non-business land place more demand on the need for council to provide community services, such as parks, pools, libraries, and other community facilities. These services are primarily provided for residents. Businesses place relatively little demand on these services.

From a causation perspective there is rationale for having a general rates business differential.

The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities

General rates raise revenue that can be used to fund any of council's activities. General rates do not add transparency or accountability to the extent that user fees and targeted rates can. Changing the level of the business differential has no impact on the transparency or accountability for funding services and will not affect administration costs.

Changing the general rates business differential will not result in any additional ongoing administrative issues for council as it already forms part of council's rating policy.

Consideration of overall impact

Having considered the above criteria, the council needs to consider the proposal in terms of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community. This involves elected members exercising their judgement and considering the proposal in the context of council's funding decisions as a whole, not just in relation to this activity.

Matters for council to consider as include:

c) General rates fund council services which generally benefit all ratepayers. There is no way of objectively measuring the level of benefits received between business and non-business properties and ultimately decisions on the level of the business differential require the application of political judgement

d) Business place more demand on some council services, such as transport and stormwater infrastructure. However, businesses place less demand on other council services, such as parks, libraries, and pools

e) The level of business rates has no material impact on the incentives for owning and developing business land in Auckland. Rates are a relatively low cost for businesses in relation to other costs

f) Estimated annual rates and water charges make up around 3.29 per cent of the median income for a median value residential property. On average business rates make up around 0.24 per cent of total business income and have remained around this level since 2015/2016. Changes to the business differential will not have a material impact on the level of affordability of rates for either category.

g) Businesses receive tax advantages that owners of residential land generally do not. Businesses are able to reclaim the GST portion of rates and rates are treated as a pre-tax expense. In comparison residents are unable to claim GST and are an expense that is paid after taxation has been applied. Tax advantages also apply to residential land used as rental accommodation or where part of the property is used for business purposes. Farm land also benefits from the same tax advantages as business

h) Adding the cost of DME and ED to the business share of rates under the business differential will increase business rates by around 1.3 to 1.8 per cent and free up around $9.4 million of general rates from non-business ratepayers. This would help mitigate the impact of any proposed rates increase on non-business properties in 2024/2025.

Appendix B: Water Quality Targeted Rate expenditure options

Introduction

1. In 2018 the council introduced a Water Quality Targeted Rate (WQTR) to fund an accelerated program of investment to improve the water quality in Auckland's harbours and streams. The rate was to run for 10 years to 2028, be set on capital value, and collect 25.8 per cent of the rates requirement from business properties. The 10-year Budget 2021-2031 extended the WQTR to 2030/2031. The rate raised $47.4 million in the 2022/2023 year and was $70.87 for the average value residential property.
2. To manage the impact on ratepayers of changes to rates in 2023/2024 the council temporarily reduced the WQTR by 77.7% for one year (GB/2023/100) from the planned $49.9 million to $11.1 million. The rate for the average value residential property in 2023/2024 was $16.31.
3. The WQTR program provides for:
   - Wastewater upgrades and stormwater separation in the *Western Isthmus* and *Eastern Isthmus* areas
   - *Safe Networks* and *Safe Septics* programmes which track cross-connections and contamination in urban and rural areas, respectively.
   - *Rural Sediment Reduction* projects - *e.g.,* in the Kaipara harbour
   - *Urban Contaminant Reduction* projects
   - *Water Quality Planning* initiatives
4. The programme delivers improved water quality in harbours and streams across the region. Key outcomes from the *Western Isthmus* investments will be a reduction in wastewater overflows into the Waitematā Harbour from hundreds of events to six or less each year. The *Eastern Isthmus* investments will deliver improved water quality in the following catchments: Hobson Bay to St Heliers, Manukau Harbour, and Tāmaki Estuary.
5. Since the rate was last adjusted as part of the 10-year Budget 2021-2031 the cost of delivering the stated outcomes has increased. The full-scale separation projects in Herne Bay and St Mary's Bay are being replaced with the Pt Erin tunnel project. The Pt Erin tunnel project cost exceeds the previously planned budget but is well below what the cost of the alternative full separation is now understood to be. In addition, the original budget provided for only the first three years, from 2029, of the Eastern Isthmus costs. The next three years of those costs are now included.
6. Officers considered four options for the WQTR and the level of expenditure it funds. The table below shows an estimate of the level of investment in each element of the programme under the expenditure level in each option over the 10-year period.

WQTR programme expenditure	Option 1	Option 2	Option 3	Option 4
Western Isthmus – Pt Erin tunnel	$65m	$65m	$65m	$65m
Western Isthmus except Pt Erin	$28m	$354m	$354m	$354m
Eastern Isthmus	-	$202m	$202m	$202m
Water quality improvement works non capitalizable – sediment management	-	$38m	$118m	$118m
Water quality planning	-	$6m	$6m	$6m

Urban Contaminant management	-	-	$25m	$25m
Safe Networks (Illicit discharges)	$3m	$9m	$9m	$9m
Total	**$96m**	**$674m**	**$779m**	**$779m**

7. The services delivered under each option and the impact on the water quality outcomes for each option are discussed below.

Option 1.

8. Under this option, total expenditure would be $96 million. An initial assessment of best-value investment under this scenario would be likely to only deliver the following:

   Western Isthmus - Pt Erin tunnel
   Healthy Waters cost-share (with the balance from Watercare) of the Pt Erin extension with completion of only current small-scale separation projects in the *Western Isthmus* – the remainder of the *Western Isthmus* separation programme could not occur in this 10-year period. This would deliver wet-weather overflow reduction targets and Safeswim outcomes to the beaches of Herne Bay, Home Bay, Sentinel Road Beach and St Mary's Bay. Frequent wet-weather overflows would persist in most of the remaining Western Isthmus catchments, and continue to affect the beaches of Pt, Chevalier, Meola and Cox's Bay, as well as other coastal and freshwater environments. Under this scenario, there is a risk that Watercare may not achieve its overflow reduction targets set out in in the Central Interceptor consent.

   Safe Networks
   A scaled-back *Safe Networks* programme may be able to continue.

9. Note that under this option:
   - Auckland Council may be unable to fund the sediment reduction projects in the Kaipara harbour, which is currently co-funded with the Crown.
   - *Safe Septics* programme, the *Urban Contaminant Management* programme and all *Water Quality Planning* initiatives would likely need to be discontinued.

Option 2.

10. Under this option, total expenditure would be $674M. An initial assessment of best-value investment under this scenario would be likely to deliver the following, in addition to Option 1:

    Western Isthmus (in addition to Pt Erin)
    This will achieve all the Safeswim outcomes at beaches from Pt Chevalier to St Mary's Bay and ensuring all Central Interceptor consent conditions are met.

    Eastern Isthmus
    The separation programme will proceed as planned within this 10-year period; noting that planned investment will continue past this 10-year period.

    Safe Networks and *Safe Septics* programmes
    These programmes will continue at current levels.

    Rural Sediment Reduction
    This programme could continue but at a reduced level. This level of investment would enable the council to meet its funding obligations for co-funded projects in the Kaipara harbour. Regional reduction of planned scope would be required elsewhere in the programme.

    Water quality Planning

Initiatives could continue but at a reduced scale.

11. Note that, under this option, the Urban Contaminant Management programme would likely need to be discontinued.

Option 3 & 4.

12. Under these options, total expenditure would be $779 million. This would enable the delivery of the entire current scope of the WQTR, including all the following:

    Western Isthmus (both elements)
    Both elements of the programme would proceed. This will achieve the programme's overflow reduction targets and Safeswim outcomes for all beaches from Pt Chevalier to St Mary's Bay.

    Eastern Isthmus
    This will allow the separation programme to proceed at the pace necessary to integrate with key Watercare wastewater projects for best overflow reduction outcomes.

    Rural Sediment Reduction
    This programme will proceed as currently scoped, including all co-funded projects with the Crown.

    Safe Septics
    Delivering this programme across the region will provide ongoing improvements in swimmability.

    Safe Networks
    This will continue the constant improvement in dry-weather water quality, which is not addressed by wet-weather overflow reduction initiatives, such as the *Western Isthmus* and *Eastern Isthmus* programmes.

    Urban Contaminant Management
    This provides a budget source to retrofit treatment into high contaminant generating urban areas.

Appendix C: Natural Environment Rate expenditure options

Introduction

1. In 2018 council introduced a Natural Environment Targeted Rate (NETR) to fund an accelerated investment programme to improve outcomes for the natural environment. The rate was first set in 2018 and does not increase over time except for growth in the rating base (GIRB). The rate is set on capital value with 25.8 per cent of the revenue requirement from businesses.
2. The 10-year Budget 2021-2031 included an extension of the targeted rate to 2030/2031. The rate raised $31.05 million in the 2022/2023 year and was $46.43 for the average value residential property.
3. To manage the impact on ratepayers of changes to rates in 2023/2024 the council temporarily reduced the NETR by 48.8% for one year (GB/2023/100) from the planned $31.6 million to $16.2 million. The rate for the average value residential property in 2023/2024 was $23.69. While the collected rate was reduced, the planned NETR work programme has largely been able to be delivered through utilization of reserve funds which had been accumulated to support "delivery peaks" across the life of the work programme.
4. NETR funding is used to meet council's biodiversity-related legal obligations, carry out enforcement and monitoring activity, and deliver operational programmes under a range of legislation, including the:
    - Biosecurity Act 1993 (including in relation to the Regional Pest Management Plan under it),
    - Resource Management Act 1991 (RMA) (including the National Policy Statement on Indigenous Biodiversity (NPS-IB) under it),
    - National Pest Management Plans, and to a lesser extent,
    - Reserves Act 1977 and the Waitakere Ranges Heritage Area Act 2008.
5. The Biosecurity Act requires council to develop and implement a Regional Pest Management Plan that sets out (amongst other things) council's pest management objectives, the measures that council will take to meet these objectives, and how council will measure achievement of those objectives (Biosecurity Act, s 73(3)(a) – (c)). Council also has obligations to contribute to the management of pest species that are subject to National Pest Management Plans, for example kauri dieback disease.
6. Council consulted on the introduction of the NETR and the current Regional Pest Management Plan (RPMP) in tandem. The Biosecurity Act required council to be satisfied that there was likely to be adequate funding for the implementation of the RPMP. The scale of proposed activities in the RPMP could not go ahead without additional funding from the NETR.
7. Management of the natural environment requires ongoing investment to maintain the benefits gained through the programmes above. The NETR has positioned council well in terms of meeting obligations set out in the recently adopted NPS-IB under the RMA. The NPS-IB contains relatively prescriptive requirements for councils including large-scale monitoring and assessment of land, and various requirements relating to the maintenance of indigenous species and ecosystems.
8. Without adequate management of pest species and other pressures, biodiversity outcomes would be quickly lost. This would be inconsistent with the overall objective of the NPS-IB to "maintain indigenous biodiversity across Aotearoa New Zealand so that there is at least no overall loss in indigenous biodiversity".

9. The existing NETR programme does not provide for responding to new-to-New Zealand pest incursions or for managing existing pests at new locations, including expansion of weed infestations on the mainland and in marine environment that are likely to occur as a result of the January/February storm events.

10. Officers considered four options for the NETR and the level of expenditure it funds. The table below shows an estimate of the level of investment in each element of the programme under the expenditure level in each option.

NETR programme expenditure	10-year total			
	Option 1	**Option 2**	**Option 3**	**Option 4**
Mainland: plant and pest management	$85m	$115m	$173m	$198m
Plant pathogens: kauri dieback, myrtle rust	$48m	$63m	$80m	$91m
Islands: plant and animal pest management	$19m	$22m	$24m	$28m
Marine pest pathways and biosecurity	$10m	$13m	$13m	$25m
Marine ecology	$3m	$3m	$4m	$6m
Enabling tools: monitoring/data collection	$3m	$3m	$4m	$4m
Expanding community-led action	$4m	$18m	$40m	$46m
Biodiversity focus areas: priority ecosystems	$4m	$8m	$12m	$14 m
Total	**$176m**	**$245m**	**$350m**	**$412m**

11. The sections below provide detail on the programmes that could be delivered under expenditure level funded by each of the rating options discussed in the report.

Option 1.

12. Retaining the rate at its current level would raise around half the funding of currently planned levels over the period of the 10-year Budget 2024-2034. In 2024/2025 this would raise around $16.4 million of a planned budget of $30.9 million. This would be a significant reduction in funding required to deliver the NETR work programme and would mean that the council would not be able to meet its commitments set out in the Regional Pest Management Plan or progress obligations set out in the NPS-IB.

13. The table below shows the key outputs the council would deliver for each programme element under this option. This is an initial assessment of implications on the NETR work programme. This level of reduction in operating budget would require a full review of current work programmes taking into account legal obligations, contractual commitments and loss on investment if programmes are reduced or ceased.

NETR Programme	Budget 10-year total	Delivery

Mainland: plant and pest management	$85m	Continued possum control across the region at approximately half the area initially planned (between 10,000 to 12, 000 ha annually). This will result in a reduction in the overall area under sustained management. Continue protection of priority species and ecosystems on regional and local parks at a reduced level with focus on a smaller number of sites, for example Hunua and Waitakere Ranges and Aotea. Continue pest plant control in buffer areas around a reduced number of high priority parks and or at a reduced level, for example Waitākere Ranges and Tāwharanui Regional Parks. Ceasing efforts to eradicate some low-incidence pest species. Reduced surveillance and prevention of deer, pig, and goat incursions into the Waitākere and Hunua Ranges. Not commencing pest control on new species programmes set out in the Regional Pest Management Plan (for example cockatoo management).
Plant pathogens: kauri dieback, myrtle rust	$48m	Continuing kauri track maintenance and compliance activity but at reduced level which may not consistently meet requirements to keep these open to the public. Kauri health monitoring would be conducted in the Hunua and Waitakere Ranges only with no monitoring on Aotea, and research to inform future management would cease.
Islands: plant and animal pest management	$19m	Continuing some elimination of low incidence plant species at Aotea, Waiheke, and mainland sites. Sites not managed will become established or require ongoing management. Ceasing financial support to community organisations we have partnered with to deliver multi-species landscape scale pest eradication including Te Korowai o Waiheke (Waiheke) and Tū Mai Taonga (Aotea/Great Barrier).
Marine pest pathways and biosecurity	$10m	A significantly scaled back programme of underwater inspection of commercial and non-commercial vessel hulls to assess compliance with allowable hull biofouling standards. A lower proportion of commercial sailings to Aotea Great Barrier and Waiheke Islands inspected to detect and eliminate any potential pest incursions.
Marine ecology	$3m	Reprioritised marine species protection, including seabirds and habitat mapping.
Enabling tools: monitoring/data collection	$3m	No new investment in conservation data collection and management tools.
Expanding community-led action	$4m	Continue volunteer coordination on parks at a reduced level. Ceasing support for community-led initiatives, including the Community Coordination and Facilitation funds, supply of traps/bait and training.

		Continuing native re-vegetation on parkland, riparian and high erosion areas at a reduced level.
Biodiversity focus areas: priority ecosystems	$4m	Continuing monitoring activity at a reduced level that may not meet the needs of the NPS-IB. Some of this work also informs other activities in Council. Reduced number of threatened species and priority ecosystems being managed.

14. Under Option One there is no funding to support the current response to the exotic Caulerpa seaweeds or any emerging threats. Examples of these include new marine and pest animal incursions or increased weed infestations as a result of the January/February storm events.
15. Proceeding with this option would require a review of the Regional Pest Management Plan with consultation on amendments that reflected the available funding. Officers have commenced preparatory work on the 2030-2040 Regional Pest Management Plan with a view to commencing public consultation in 2025.
16. Officers consider that this option poses a potential risk of someone seeking to challenge council through legal proceedings. Officers are aware that there are members of the community with a strong interest in council delivering on the objectives set out in the RPMP and delivering on other biodiversity-related obligations. The investment levels identified in the table above are indicative. Further work would be required to refine budgets pending additional officer investigation of legal and contractual obligations. If this option is pursued, officers will provide further advice prior to decision-making in June.

Option 2.

17. A partial resumption of the rate would raise around 70 per cent the funding of currently planned levels over the period of the 10-year Budget 2024-2034. This would raise around $20.8 million in 2024/2025. This would enable more activity than Option One but still require significant reductions in activity for some parts of the NETR work programme. As per Option One, council would not be able to meet its commitments set out in the RPMP or substantially progress obligations as set out in the NPS-IB.

18. The table below shows the key outputs the council would deliver for each programme element under this option. This is an initial assessment of implications on the NETR work programme. This level of reduction in operating budget would require a full review of current work programmes taking into account legal obligations, contractual commitments and loss on investment if programmes are reduced or ceased.

NETR Programme	Budget 10-year total	Delivery

Mainland: plant and pest management	$115m	Continue sustained possum control across the region at approximately two-thirds of the area initially planned. Continue protection of priority species and ecosystems on regional and local parks at a reduced level. Continue pest plant control in buffer areas around a reduced number of high priority parks and or at a reduced level, for example Waitākere Ranges and Tāwharanui Regional Parks Ceasing efforts to eradicate some low-incidence pest species. Reduced surveillance and prevention of deer, pig, and goat incursions into the Waitākere and Hunua Ranges. Not commencing pest control on new species programmes set out in the Regional Pest Management Plan (for example cockatoo management).
Plant pathogens: kauri dieback, myrtle rust	$63m	Continuing kauri track maintenance and compliance activity but at reduced level. No new investment in kauri health monitoring or research to inform future management.
Islands: plant and animal pest management	$22m	Limited support for multi-species landscape scale pest eradication programmes being delivered in partnership with community organisations including Te Korowai o Waiheke (Waiheke) and Tū Mai Taonga (Aotea/Great Barrier) but at a significantly scaled back level. Continuing the elimination of low incidence plant species being eliminated at Aotea, Waiheke, and mainland sites at a reduced level. This will likely result in these plant species establishing and requiring ongoing control.
Marine pest pathways and biosecurity	$13m	A scaled back programme of underwater inspection of commercial and non-commercial vessel hulls to assess compliance with allowable hull biofouling standards. A lower proportion of commercial sailings to Aotea Great Barrier and Waiheke Islands inspected to detect and eliminate any potential pest incursions.
Marine ecology	$3m	As per Option One.
Enabling tools: monitoring/data collection	$3m	As per Option One.
Expanding community-led action	$18m	Some support for community-led initiatives, including the Community Coordination and Facilitation funds, supply of traps/bait and training, volunteer coordination on parks but at a significantly reduced level. Continuing native re-vegetation on parkland, riparian and high erosion areas at a reduced level.
Biodiversity focus areas: priority ecosystems	$8m	Continuing monitoring activity at a reduced level that may not meet the needs of the NPS-IB. Some of this work also informs other activities in Council. Reduced number of threatened species and priority ecosystems being managed.

19. No funding to support the current response to the exotic Caulerpa seaweeds or any emerging threats such as new marine and pest animal incursion or increased weed infestations as a result of the January/February storm events.

20. Similar to Option One, staff consider that non-delivery under this option raises the risk of someone seeking to challenge council through legal proceedings. The investment levels identified in the table above are indicative. Further work would be required to refine budgets pending additional officer investigation of legal and contractual obligations. If this option is pursued, officers will provide further advice prior to decision-making in June.

Option 3.

21. Resuming the rate at previously planned levels would raise most of the funding initially planned for the 10-year Budget 2024-2034[1]. This would raise around $32.6m in 2024/2025 and grow over time at around 1.35 - 1.7 per cent per year in line with forecast growth in the rating base.

22. The NETR rate had previously been set at a level that does not increase each year for existing ratepayers. NETR revenue only increases through growth in the underlying ratepayer base. Since 2018 there have been significant increases to programme costs (materials and contracted services) over recent years and additional costs incurred to some activity as a result of the storm events. These costs have been managed through making adjustments to the work programme, scaling back some activity, pushing out the delivery timeframes and procurement efficiencies.

23. In 2023/2024 an additional pressure has been placed on the programme through the utilisation of NETR budget reserves to reduce the overall impact on ratepayers. These reserves had accumulated to enable higher levels of delivery in some years where cyclical pest management is being carried out (for example the aerial control of rats and possums in the Hunua Ranges which occurs every three to four years).

24. Resuming the NETR at its previously planned level would allow for the funding for maintenance of current programmes but require scaling back of some activity to absorb these cost increases and the programme peaks. Additional adjustments to timeframes for programmes committed to in the RPMP would need to be made.

25. The current assessment of implications on the NETR work programme under this option include continued delivery of programmes to exclude, eradicate, progressively contain, or control priority pest animals, pest plants and pest pathogens across the region year on year. Some adjustments to programmes will be required for example reducing pest plant control in buffer areas around high priority parks and pushing out the timeframes for the management of some priority species and ecosystems on regional and local parks, noting that this could ultimately result in increased costs with pest infestations expanding in the meanwhile.

26. The table below shows the key outputs the council would deliver for each programme element under this option.

NETR Programme	Budget 10-year total	Delivery

[1] There will be a slight reduced in revenue from previously planned levels due to lower than forecast growth in the rating base.

Mainland: plant and pest management	$173m	Continue sustained possum control across the region as planned. Continue protection of priority species and ecosystems on regional and local parks with some reductions. Continue pest plant control in buffer areas around high priority parks, for example Waitākere Ranges and Tāwharanui Regional Parks. Continued focus on eradicating low-incidence pest species. Not commencing pest control on new species programmes set out in the Regional Pest Management Plan (for example cockatoo management).
Plant pathogens: kauri dieback, myrtle rust	$80m	Continued investment in kauri health monitoring to inform management decisions and targeted compliance to deliver on national pest management plan objectives. Increased levels of track maintenance to meet standards.
Islands: plant and animal pest management	$24m	Continued focus on eradicating low-incidence pest species. No new support/investment in multi-species landscape scale pest eradication programmes being delivered in partnership with community organisations including Te Korowai o Waiheke (Waiheke) and Tū Mai Taonga (Aotea/Great Barrier).
Marine pest pathways and biosecurity	$13m	Underwater inspection of approx. ~1,000 commercial and non-commercial vessel hulls to assess compliance with allowable hull biofouling standards. Inspection of approx. 75-80% of commercial sailings to Aotea Great Barrier and Waiheke Islands to detect and eliminate any potential pest incursions, and response capability for island incursions.
Marine ecology	$4m	Expanded marine habitat mapping to support management and reporting. Seabird monitoring and protection programmes delivered.
Enabling tools: monitoring/data collection	$4m	Tools used for monitoring, data capture and reporting are kept current and investment into new technology to improve conservation management efficiencies is enabled.
Expanding community-led action	$40m	Support for community-led conservation through Conservation Coordination and Facilitation Grant funding, scaled-back provision of tools and resources, training, advice, and volunteer coordination support.
Biodiversity focus areas: priority ecosystems	$12m	Management, and monitoring of an increased number of high priority ecosystems and indigenous species.

27. Under this option there is no funding to support the current response the exotic Caulerpa seaweeds or any emerging threats such as new marine and pest animal incursions.

28. If costs continue to increase, further reductions across these programmes could be required.

Option 4.

29. Resuming the NETR at previously planned levels and providing for it to increase at 3.5 per cent per year would provide additional funding over the 1-year Budget to meet the cost pressures discussed in Option Three. NETR revenue raises from around $32.6m in 2024/2025 and grow over time at around 5 per cent per year in line with the 3.5 per cent increase and forecast growth in the rating base.

30. This level of investment would enable higher levels of delivery in some years where cyclical pest management is being carried out (for example the aerial control of rats and possums in the Hunua Ranges which occurs every three to four years) and would provide the funding required to deliver the programmes originally committed to the public. The table below shows the key outputs the council would deliver for each programme element under this option.

NETR Programme	Budget 10-year total	Delivery
Mainland: plant and pest management	$198m	The sustained management of possum control across rural Auckland and areas of high biodiversity value The sustained management of pest plants across approximately 65% of priority native habitats on regional parks Control of small mammal pests, including mustelids, rats, rabbits, and pigs, across offshore islands and eighteen of our Regional Parks and in areas of high biodiversity value. Ongoing surveillance and prevention of deer, pig, and goat incursions into the Waitākere and Hunua Ranges. Inspection and educational visits to commercial entities to ensure sellers are aware of and compliant with the rules in regard to sale, breeding and distribution of high-risk pest species
Plant pathogens: kauri dieback, myrtle rust	$91m	Mitigation of human induced spread of kauri dieback disease across the majority of kauri areas managed by Council. Kauri health surveys include Aotea/Great Barrier. Kauri tracks maintained to meet standards and remain open to the public. Development of tools to support more effective management.
Islands: plant and animal pest management	$28m	Management of pest plant and animal pests in accordance with the Regional Pest Management Plan objectives.
Marine pest pathways and biosecurity	$25m	Underwater inspection of ~1,500 commercial and non-commercial vessel hulls to assess compliance with allowable hull biofouling standards. Inspection of 90-100% of commercial sailings to Aotea Great Barrier and Waiheke Islands to detect and eliminate any potential pest incursions, and response capability for island incursions.

Marine ecology	$6m	Expanded marine habitat mapping to support management and reporting. Seabird monitoring and protection programmes delivered.
Enabling tools: monitoring/data collection	$4m	As per Option Three.
Expanding community-led action	$46m	Support for community-led conservation through current levels of Conservation Coordination and Facilitation Grant funding, provision of tools and resources, training, advice, and volunteer coordination support.
Biodiversity focus areas: priority ecosystems	$14m	Management, and monitoring of a representative range of high priority ecosystems and indigenous species.

31. This option would enable the council to provide some funding towards the management of exotic Caulerpa species and better position council to respond to any new biosecurity incursions. It would support the delivery of obligations (for example the National Pest Management Plan for Kauri Dieback Disease) and those under the National Policy Statement for Indigenous Biodiversity.
32. This option would provide some additional funding towards community-led landscape scale pest control programmes (up to around $500k annually). It is anticipated there will be increased demand from community groups for support as a number are facing a significant reduction in funding with the expiry of the central government funded Jobs for Nature scheme. In Auckland Jobs for Nature boosted funding for the region’s environment by over 82 million dollars over the past 4 years. Community-led entities received around $33.5 million.

Appendix D: Rates impact on business and farm/lifestyle properties of options for the Water Quality Targeted Rate and Natural Environment Targeted Rate

Business property impacts

Impact of WQTR options on the average value business property

Option	Rates impact 2024/2025		Additional increase 2025/2026 onwards
	Rate	Additional increase	
1. Retain at 2023/2024 level plus a 3.5 per cent increase, with expiry in 2030/2031	$78.58	0.01%	Around 0.01%
2. Resume at previously planned level and extend to 2033/2034	$357.94	1.48%	Around 0.06%
3. Rate set to fund programme and repayment over 30 years	$134.47	0.31%	Around 0.02%
4. Rate set to cover only annual programme operating and interest costs in each year	$48.96	-0.14%	Between 0.05% and 0.20%

Impact of WQTR and LTDS options on the average value business property

Option	LTDS option	
	Retain LTDS	Bus differential 31%
	% increase $ in 2024/2025	% increase $ in 2024/2025
1. Retain at 2023/2024 level plus a 3.5% increase, with expiry in 2030/2031	0.01% $78.58	0.10% $94.38
2. Resume at previously planned level and extend to 2033/2034	1.48% $357.94	1.86% $429.87
3. Rate set to fund programme and repayment over 30 years	0.31% $134.47	0.45% $161.49
4. Rate set to cover only annual programme operating and interest costs in each year	-0.14% $48.96	-0.09% $58.80

Impact of NETR options on the average value business property

Option	Rates impact 2024/2025		Additional increase 2025/2026 onwards
	Rate	Additional increase	
1. Retain at 2023/2024 level	$110.27	n/a	n/a
2. Resume at $30 in 2024/2025 for average value residential property and increase at 2.0 per cent per year	$139.65	0.16%	Around 0.01%
3. Resume at previously planned level	$218.91	0.57%	n/a
4. Resume at previously planned level and increase at 3.5% per year	$218.91	0.57%	Around 0.04%

Impact of NETR and LTDS options on the average value business property

Option	LTDS option	
	Retain LTDS	Bus differential 31%
	% increase $ in 2024/2025	% increase $ in 2024/2025
Retain at 2023/2024 level	n/a $110.27	0.12% $132.43
Resume at $30 in 2024/2025 for average value residential property and increase at 2.0 per cent per year	0.16% $139.65	0.30% $167.71
Resume at previously planned level	0.57% $218.91	0.80% $262.91
Resume at previously planned level and increase at 3.5% per year	0.57% $218.91	0.80% $262.91

Farm/lifestyle property impacts

Impact of WQTR options on the average value farm/lifestyle property

Option	Rates impact 2024/2025		Additional annual increase 2025/2026 onwards
	Rate	Additional increase	
1. Retain at 2023/2024 level plus a 3.5 per cent increase, with expiry in 2030/2031	$27.35	0.02%	Around 0.02%
2. Resume at previously planned level and extend to 2033/2034	$124.59	2.60%	Around 0.09%
3. Rate set to fund programme and repayment over 30 years	$46.81	0.54%	Around 0.04%
4. Rate set to cover only annual programme operating and interest costs in each year	$17.04	-0.25%	Between 0.08% and 0.31%

Impact of WQTR and LTDS options on the average value farm/lifestyle property

Option	LTDS option	
	Retain LTDS	Bus differential 31%
	% increase $ in 2024/2025	% increase $ in 2024/2025
1. Retain at 2023/2024 level plus a 3.5% increase, with expiry in 2030/2031	0.02% $27.35	-0.03% $25.44
2. Resume at previously planned level and extend to 2033/2034	2.60% $124.59	2.37% $115.89
3. Rate set to fund programme and repayment over 30 years	0.54% $46.81	0.45% $43.53
4. Rate set to cover only annual programme operating and interest costs in each year	-0.25% $17.04	-0.28% $15.85

Impact of NETR options on the average value farm/lifestyle property

Option	Rates impact 2024/2025		Additional annual increase 2025/2026 onwards
	Rate	Additional increase	
1. Retain at 2023/2024 level	$38.38	n/a	n/a
2. Resume at $30 in 2024/2025 for average value residential property and increase at 2.0 per cent per year	$48.61	0.27%	Around 0.02%
3. Resume at previously planned level	$76.20	1.00%	n/a
4. Resume at previously planned level and increase at 3.5% per year	$76.20	1.00%	Around 0.06%

Impact of NETR and LTDS options on the average value farm/lifestyle property

Option	LTDS option	
	Retain LTDS	Bus differential 31%
	% increase $ in 2024/2025	% increase $ in 2024/2025
Retain at 2023/2024 level	n/a $38.38	-0.07% $35.70
Resume at $30 in 2024/2025 for average value residential property and increase at 2.0 per cent per year	0.27% $48.61	0.18% $45.21
Resume at previously planned level	1.00% $76.20	0.86% $70.88
Resume at previously planned level and increase at 3.5% per year	1.00% $76.20	0.86% $70.88

Attachment G: Auckland Council Group: Options for Asset Sales

Context

1. As part of development of the long-term plan, there needs to be a careful consideration of all of council's financial levers, including rates, balance sheet optimisation, debt, fees and charges, and services.
2. Balance sheet optimisation is an important lever for the council to release capital from poorly performing and/or non-service assets to allow greater investment in more strategically aligned activities without pulling financial levers (mainly debt) further.
3. Previously council has set budgets from the proceeds of the sale of assets, and there is a $800 million target in the current 2021-2031 Long-term Plan: asset recycling ($480 million), Transform and Unlock ($361 million), and Corporate Property ($47 million).
4. Once assets have been identified for potential sale, a robust framework for decision-making needs to be in place to ensure asset recycling targets are achieved in the most efficient and effective way.
5. There is an opportunity for the 2024-2034 Long Term Plan to include an asset sales target.
6. This report does not consider strategic options which exist for Ports of Auckland Limited and shares in Auckland International Airport Limited.

Key considerations

Balance Sheet Optimisation

1. To achieve balance sheet optimisation, council must regularly review its asset portfolio to ensure that assets are disposed in a timely manner if they are not fit-for-purpose to deliver services, not receiving an appropriate return on investment and are underperforming.
2. Previous budgets have largely focused on new assets. There has been consideration of existing assets but there has not been ongoing consideration of the ownership assets and whether that capital could be redeployed towards higher value uses.
3. Council currently has an asset optimisation programme through the 2021-2031 Long-Term Plan.
4. Progress on achieving the target was reported to the Revenue, Expenditure and Value Committee in November 2023 and six-monthly updates on the asset sales programme will continue to be provided to the committee.
5. There is an opportunity now to reset the budget parameters and approve a new target for the upcoming 10-year budget.

Developing an asset sales target for 2024 - 2034

6. It is proposed that council continues to optimise the use of its balance sheet and include an asset sales target in the Long-Term Plan 2024- 2034.

7. To achieve any asset sales target, there are certain conditions that need to be in place to ensure targets are able to be met. These include:

   - Principles for Asset Ownership applied to the property portfolio;
   - Asset optimisation framework identifying roles and responsibilities including clear decision-making rights;
   - Optimised and streamlined property transaction processes
   - Adequate resourcing; and
   - Portfolio monitoring by the Revenue, Expenditure and Value Committee

8. The table below outlines different scenarios for potential asset sales targets. Due to commercial sensitivity, the opportunities below are described in general terms only with the approach guided by the council's Significance and Engagement Policy.

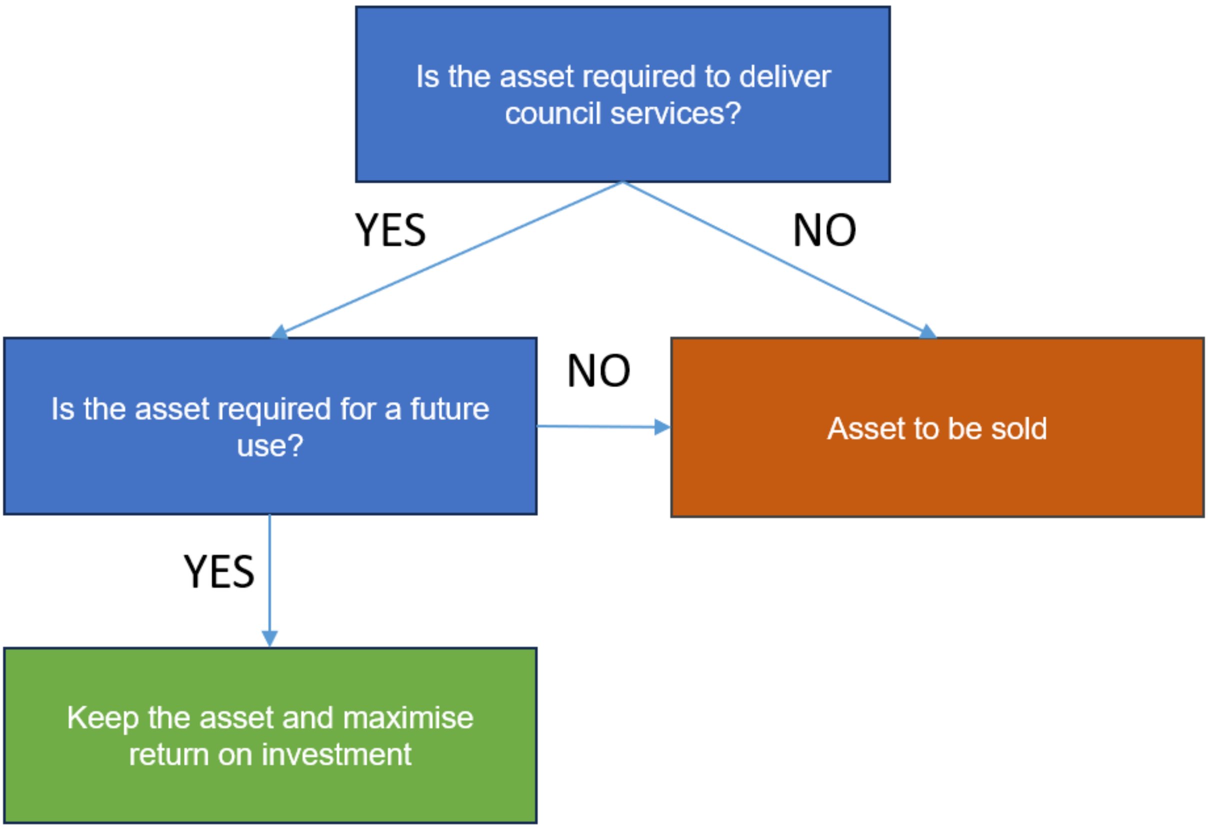
Options	Asset Sales Target 2024-2027	Conditions to be in place to achieve target	Examples of assets to be sold	Risk
Potential Higher Rates Proposal	Under this scenario there is **not an asset sales target**, but balance sheet optimisation principles should still be implemented and adopted.	Decision-making framework agreed and confirmed. Balance Sheet Optimisation principles implemented.	Sale of assets where proceeds will be fully reinvested in new assets that have clear benefits for the community.	**Financial** – maintaining the current asset portfolio will impact the other financial levers (e.g. increased debt, rates and/or fees and charges). **Reputational** – inefficient council that does not deliver value for money.
Potential Core Proposal	$90 million over three years $300 million over ten years	Decision-making framework agreed and confirmed. Balance Sheet Optimisation principles implemented.	• Sale of non-strategic property and residual property from infrastructure projects • Sale of business interests that are not core to delivery of council services	**Reputation** – negative response to increased divestment of what are seen as community assets

Potential Lower Rates Scenario	$300 million over three years	All strategic and non-strategic assets assessed for optimisation.	May include items in **core proposal** plus: • Accelerated sale of non-strategic property and residual property from infrastructure projects • Golf courses • Marinas • Sale and leaseback of office and community facilities • Sale or long-term lease of city centre and town centre carparks	**Community Impact** – potential decrease in levels of service **Reputational** – negative response to increased divestment of what are seen as community assets

9. There are potentially positive and negative impacts on the operating position (reduced revenue or reduced cost) which will be considered on an asset-by-asset basis.

A framework for making better asset decisions

10. To be able to achieve any agreed asset sales target, a clear decision-making framework and principles are required to discern whether council needs to retain ownership of assets for the delivery of services and/or future use requirements and enable effective and efficient transactions. Below is a series of questions that the assets will be assessed against to determine whether they should be sold or optimised:



Asset optimisation framework

11. A clear framework for decision-making will enable decisions to be taken at the appropriate level to ensure that divestment is not unduly delayed, subsequently resulting in targets not being met.

12. Auckland Council's Significance and Engagement Policy sets out how the council will assess the significance of asset-based decisions. This includes decisions to transfer ownership or control of an asset to or from the council. The policy identifies two classes of assets: strategic and non-strategic (see Attachment A for further information).

13. Balance sheet optimisation requires the assessment of both strategic and non-strategic assets identified above for potential recycling. To assist with efficient decision-making, the framework below identifies the asset classes and the associated decision-maker.

Decision-making Framework

	Transactional	Local	Regional (Strategic and Non-strategic)

What	• Residual land and property which has been acquired for infrastructure purposes.
	• Operational (E.g. council offices, fleet vehicles)
	• Property acquired for and included in Eke Panuku priority location programmes
		• As per the allocation table (e.g. libraries, parks, reserves, local street environments, community facilities).
		• Service properties only (e.g. a building currently used as a library or community centre, an open space that is currently open to the public)
			• **Strategic assets** as set out in section 3.2 of the Significance and Engagement policy
			• **Non-strategic regional assets** that:
			  • Promote well-being for all of Auckland - part of a 'network'
			  • Enables prudent financial management of council's assets and finances

How	• Infrastructure project automatically releases land back for sale under officer delegation • Public Works Act considerations	• Advice to Local Boards on how to options to optimise portfolio • Programme to implement	• Programme to achieve agreed asset sales targets
Who	**Officer Delegation**	**Local Board**	**Governing Body**
Examples	• Eastern Busway residual property	• Local parks • Local community facilities • Local arts and culture facilities	• Ports • Carparks • Marinas
Financial Impact	• Reduction in capital programme cost	• Contribution to funding new assets (reduce debt requirement) • Funding source for new local assets (reduce debt requirement) (without sales some new local assets unlikely to be affordable) • Reduces future operating costs	• Potential debt reduction • Capital to redeploy to higher value assets • Diversified investment fund
Budget	Regional	Local	Regional

Impact Investment Assessment and scenarios

Mayor's Priorities

14. This aligns with the Mayoral Priority of 1. Stop wasting money.

Local decision-making

15. The proposed decision-making framework clarifies the role of the Governing Body and Local Board in the asset sale process. This includes the budgets that the sale of the assets goes towards and supports the Governance Framework Review, including the ability of local boards to optimise local assets in their own area.

Climate

16. Assets that emit high emissions or restrict our ability to reach our climate goals will be considered as part of the divestment assessment and may be disposed accordingly.

17. Change of use of an asset (rather than ownership) can impact emissions. Council has limited control once sold.

Implementation considerations

18. To enable the optimisation of Auckland Council's asset portfolio, staff are seeking the below:
    - Agree an asset sales target
    - Approve the decision-making framework for asset disposal aligned with existing delegations and decision-making allocation table.
19. Staff also request:
    - That the principles for the ownership of property are endorsed. Once these principles are in place, staff will continually review the council balance sheet and identify opportunities to improve the effectiveness of the balance sheet and any assets that could be a part of the potential future investment fund if approved.
20. This work is also dependant on sufficient resources to support asset sales and enable local boards to optimise their property portfolios.
21. A detailed programme will be agreed with and monitored by the Revenue, Expenditure and Value Committee.

Appendix

No.	Title
A	Definition of Strategic and non-strategic assets
B	Decision-making framework – further detail

Appendix A: Definition of Strategic and non-strategic assets

22. Assets that council owns that are defined as strategic assets under section 5 of the LGA. Part 3.2 of the Significance and Engagement Policy identifies these as:
    - Shares in Auckland International Airport Limited
    - Shares in Port of Auckland Limited
    - The council's interest in Housing for Older People managed via Haumaru Housing
23. The council has also determined the following to be strategic assets given they are critical to deliver services:
    - Roading and footpath assets
    - The public transport network
    - The water supply, wastewater, and stormwater networks
    - The network of parks and open spaces
    - The community Facilities network
    - Cemeteries
    - The heritage and general library collections
    - The network of stadiums and venues
    - Auckland Zoo
    - Auckland Art Gallery, including the associated art collection
    - Freehold interests in central Auckland waterfront land
    - Shares in substantive Council-controlled organisations
24. Council also owns a portfolio of assets that are considered to be non-strategic as they are not integral to the delivery of core services. These assets may still have high public and political interest and/or significance.

Appendix B: Decision-making framework – further detail

Category	Rationale for Potential Disposal	Examples	Decision-Maker	Notes / Rules	Budget
Regional	Strategic Regional Assets where ownership or control of the asset is no longer needed to provide the long-term provision of services where are critical to achieving or promoting the council's community outcomes, including those identified in the Auckland Plan.	**Strategic Regional Assets:** As set out in sec 3.2 of the S&E policy: • AIAL shares • POAL shares • Haumaru Housing • Roading and footpath network • Public transport network • Water supply, wastewater, and stormwater network • Parks and open spaces network • Community facilities network • Cemeteries • Heritage and general library collections • Stadiums and venues network • Auckland Zoo	GB decision to go towards Asset Recycling Programme.[1]	Where a decision is made to transfer ownership or control of a strategic asset from Auckland Council, this must be explicitly provided for in the long-term plan (section 97, Local Government Act 2002). Some of council's service delivery assets have strategic significance as an overall network or group – in these cases, it is the group of assets or the network as a whole that is the strategic asset, rather than each individual asset or component of the network. Where an asset is, on its own, integral to the functioning of the network as whole, it may be considered a strategic asset on its own. Where a strategic asset is managed by a CCO, the CCO must comply with the CCO Accountability Policy when making decisions in relation to that asset.	Regional

[1] Unless water infrastructure (Watercare decision)

Category	Rationale for Potential Disposal	Examples	Decision-Maker	Notes / Rules	Budget
		• Auckland Art Gallery, including the associated art collection • Freehold interests in Auckland waterfront land • Shares in substantive CCOs		Must enable Local Board input.	
		Non-strategic Regional Assets that: Promote well-being for all of Auckland - part of a 'network' – see principles for allocation in	GB decision to go towards Asset Recycling Programme.[2]	Must consider the principles for allocation of decision-making .responsibility in section 17(2) of the LGA.* [3] Must enable Local Board input.	Regional

[2] Unless water infrastructure (Watercare decision)

[3] Decision-making sits with the Governing Body where the nature of the activity is such that decision-making on an Auckland-wide basis will better promote the well-being of the communities across Auckland because:

(i) the impact of the decision will extend beyond a single local board area; or

(ii) effective decision making will require alignment or integration with other decisions that are the responsibility of the governing body; or

(iii) the benefits of a consistent or co-ordinated approach across Auckland will outweigh the benefits of reflecting the diverse needs and preferences of the communities within each local board area.

The Governing Body is responsible, under s 15(1)(d) of the Local Government (Auckland Council) Act 2009, for decision-making in relation to compliance with section 101 of the Local Government Act 2002, which requires the council to manage it revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

Category	Rationale for Potential Disposal	Examples	Decision-Maker	Notes / Rules	Budget
		section 17(2) of the Local Government (Auckland Council) Act 2009. Enables prudent financial management of council's assets and finances in accordance with section 101 of the Local Government Act 2002.			
Local	An asset that: • Non-strategic - is not necessarily critical for the continued delivery of significant council services • Service – but under-utilised or no longer fit-for-purpose	As per the allocation table (e.g. libraries, parks, reserves, local street environments, community facilities).	Land exchange (TBC either allocation or delegation) *Or* Service Property Optimisation (Delegation)	Where a local asset also provides for regional activities (e.g. stormwater management), Governing Body approval is required for decisions that would impact the ability to deliver those activities. An asset must meet Service Property Optimisation criteria to be considered for sale, with sales proceeds reinvested into a local project that aligns with existing strategic documents.	Local Board
Transactional	An asset that: • has been acquired or held	Property acquired for infrastructure purposes and residual land from those	Staff decision (Delegation) with monitoring	Existing general delegation to the Auckland Council Chief Executive	Regional

Category	Rationale for Potential Disposal	Examples	Decision-Maker	Notes / Rules	Budget
	to provide for future use • is surplus to requirement following project completion • does not have a current or identified funded future use (non-service) • has little or no impact on frontline or delivery services.	infrastructure projects e.g. Eastern busway Operational – council offices, fleet vehicles etc. Property acquired for and included in Eke Panuku priority location programmes.	oversight through the Revenue, Expenditure and Value Committee.	from the Governing Body enables this mechanism for disposal. Must consider constraints of the Public Works Act. Must enable GB / LB input **Note: Where a high level of political risk is identified, or revenue exceeds the CE delegated financial authority, a Governing Body Committee decision will be required.**	

Attachment H: Discussion paper on local board funding equity

Purpose of the report

1. To provide a summary of the discussion paper on local board funding equity. This report and the discussion paper will be attached to the mayor's proposal for LTP 2024-2034.

Context

2. The Governance Framework Review (GFR) identified that the current mechanism of funding local community services based on the assets in each local board is inequitable.
3. On 28 October 2021 the Governing Body adopted a new funding approach for a more equitable funding model (GB/2021/138), with implementation planned over 10-15 years.
4. This approach allocates funding based on population, deprivation, and land area. To achieve funding equity 80 per cent of the funding should be allocated based on the proportion of the population in each local board, 15 per cent based on deprivation and 5 per cent based on land area. The decision was to implement these proposals through the Long-term Plan 2024-2034 (LTP).
5. Analysis against the equitable funding criteria shows that some local boards are currently funded above their equitable funding levels, while others are funded below.
6. Through the LTP 2024-2034 the Council, under the Mayor's direction, is proposing to address local board funding equity in local community services within a reduced timeframe, the first three years of the LTP.
7. This cover report summarises the attached discussion paper, which explains the scope of the equitable funding approach, analysis, and options to improve local community services funding equity.

Analysis and advice guidance

Scope of the analysis

8. Local boards now have greater decision-making over all of their local community services funding since 1 July 2022 (GB/2022/53) similar to their locally driven initiatives (LDI) funding. They do not have much decision-making outside of local community services activity. Hence, the scope of this work is limited to local community services activity, and locally driven initiatives (LDI) funding.
9. Funding such as coastal renewals and slips remediation, growth, discrete projects, specific funds such as targeted rates, and indirect expenses such as interest, depreciation, and overheads are out of scope of this analysis. This funding will be excluded from the 80:15:5 funding distribution and will remain separate.
10. Operating and capital funding has been analysed separately.
11. The Governing Body meeting on 28 October 2021 has approved in-principle (GB/2021/138) allocating local community services funding based on the three factors population (80%), deprivation (15%), and land area (5%) as the equitable approach.

12. When current local board funding is compared to funding based on the equitable model, some local boards are funded above the equitable level and some local boards are funded below.
13. Options to achieve local board funding equity are explained in the discussion paper. They range from utilising only new funding to various combinations of funding reallocation between local boards. Options that include reallocation were introduced in response to the financial operating constraints faced by Auckland Council.
14. The discussion paper also assesses the funding implications of achieving complete equity versus significant equity in the first three years of the LTP.
15. A summary of the proposed options is provided in the tables below. Both tables show the amount of new funding required based on the percentage of surplus funding (funding above the equitable level) reallocated from local boards currently above the equitable level.
16. It is important to note that the numbers in the table below, the discussion paper, and the attachments are based on budgets as of 07 June 2023. These will change through the adoption of the LTP 2024-2034 and may require updating. The figures in these documents are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets.
17. Table 1 demonstrates that as the percentage of reallocation increases, the amount of new funding required decreases. For example, if 25% of the funding comes from a reduction in surplus from those boards which are being funded over the equitable level then the new funding required to achieve complete funding equity in three years is $125 million opex and $160million capex.

Table[1] 1. Options to achieve complete funding equity for all local boards

Option	% reduction of surplus from all LBs funded above calculated equitable level	Total new funding required to achieve complete funding equity across three years
New funding	0%	Opex: $170 m Capex: $210m
Combination – 10% reallocation	10%	Opex: $150 m Capex: $190m
Combination – 25% reallocation	25%	Opex: $125m Capex: $160m
Combination – 50% reallocation	50%	Opex: $80m Capex: $110m
Combination – 75% reallocation	75%	Opex: $40m Capex: $50m

[1] The figures in the table are based on local board budgets as of 07 June 2023 and hence are illustrative. The figures in these documents are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. The analysis will be updated through the LTP process and final figures will be provided through the adoption of the LTP.

18. Table 2 shows the reduced amount of new funding needed at the same reallocation percentages with 18 local boards getting to significant (within 5%) equity within three years. For example, if 25% of the funding comes from a reduction in the surplus from those boards which are being funded over the equitable level, then $40 million of opex and $50 million of capex will achieve significant equity for 18 local Boards in three years.

Table 2. Options to achieve significant funding equity for 18 local boards

Option	% reduction of surplus from all LBs funded above calculated equitable level	Total new funding required to achieve significant funding equity across three years
New funding	0%	Opex: $65m Capex: $75m
Combination – 10% reallocation	10%	Opex: $55m Capex: $65m
Combination – 25% reallocation	25%	Opex: $40m Capex: $50m
Combination – 50% reallocation	50%	Opex: $20m Capex: $30m
Combination – 75% reallocation	75%	Opex: $0 Capex: $10m

19. Council is proposing staged implementation of these proposals, with preparation in year one and the funding changes proposed to come into effect from year two of the LTP 2024-2025, i.e., from 1 July 2025.

20. Local boards provided formal feedback on all the proposals in the discussion paper through their August 2023 business meetings, with the majority of local boards supporting these proposals. This feedback was presented to the Budget Committee on 25 October 2023.

Local impacts and local board views

21. If one of these proposed options is adopted for implementation, future local community services funding will be provided to local boards based on the adopted option.

22. This will result in changes to local board funding levels compared to their current funding levels. Local boards will be supported with advice on options to invest in community services and associated assets, or to deliver differently within their new funding envelope.

Financial implications

23. If one of these options is adopted, future local community services funding for local boards will be based on that option, with effect from 1 July 2025. Any changes to existing funding levels and new funding introduced will continue into the future.
24. Through the adoption of the LTP the council will have to decide the source of new funding, depending on which option is adopted for implementation. Funding could come from rates increase (opex), borrowing (capex) or repurposing funding from other activities.

Risks and mitigations

25. These are detailed in the discussion paper.

Next steps

26. The Budget Committee meeting on 6 December 2023 will decide if these options will be included in the LTP 2024-2034 public consultation material.

Appendices

No.	Title
A	Discussion paper on local board funding equity
B	Current equity rankings
C	Impact of Growth projects
D	Option (ii) - New Funding
E	Transition approach
F	Impact of MBS

Discussion Paper - Local Board Funding Equity

Joint Governance Working Party

11 July 2023

Table of Contents

Purpose

1. To seek feedback from the Joint Governance Working Party (JGWP) and the local boards on the proposals to achieve local board funding equity, which are to be implemented through Long Term Plan (LTP) 2024 – 2034. This feedback will be considered by the Governing Body before these proposals are considered for consultation and decision making through the LTP process.

Context

2. Staff have been working on proposals to implement the October 2021 Governing Body decisions on local board funding equity through LTP 2024 -2034. In early 2023, the Mayor's office directed staff to investigate a new direction to achieve local board funding equity and for this to be considered by the JGWP and the local boards prior to implementation. This discussion paper covers:

   (i) previous Governing Body decisions to address local board funding inequity.

   (ii) direction from the Mayor to investigate alternative options for achieving local board funding equity in a shorter timeframe.

   (iii) summary of discussions with, and directions from, the JGWP

   (iv) scope and impact of the alternative options

   (v) multi-board services (MBS) and its impact on local board funding

   (vi) implementation analysis

   (vii) risks and implications of the funding options.

Governance Framework Review and 28 October 2021 Decisions

3. Following a report in 2016 on the state of governance of Auckland Council, the Governance Framework Review (GFR) was initiated by the Governing Body in 2017. The aim of the GFR was to investigate Auckland Council's current governance structure and recommend improvements.

4. The Governing Body established a political working party (the JGWP) to investigate the GFR recommendations. For the last two terms, the JGWP has been functioning as the primary forum for staff to discuss proposals and receive feedback and direction on the GFR, before taking the proposals to the Governing Body.

5. Following extensive investigation and consideration of options by the JGWP, on 28 October 2021 the Governing Body agreed to increase local board decision-making responsibilities to all local community services within the funding envelope allocated to each local board (GB/2021/137).

6. A key part of the Governing Body decision was to address the inequity of local boards' funding to provide these local community services, as current funding is based on the assets in each local board area, most of which were built pre-amalgamation, and have variable distribution across local boards.

7. The Governing Body agreed in principle to address this situation through the forthcoming Long-term Plan process, by:

   (i) establishing an alternative service level equity and funding policy, that seeks to achieve funding equity for local boards within 10-15 years.

(ii) allocating Long-term Plan (LTP) outer year funding for growth and future renewals to local boards which are underfunded, starting with the most underfunded local boards. A key aspect of this decision was that no local board would lose funding.

(iii) approving the funding allocation based on the 80% population, 15% deprivation and 5% land area (80:15:5) formula.

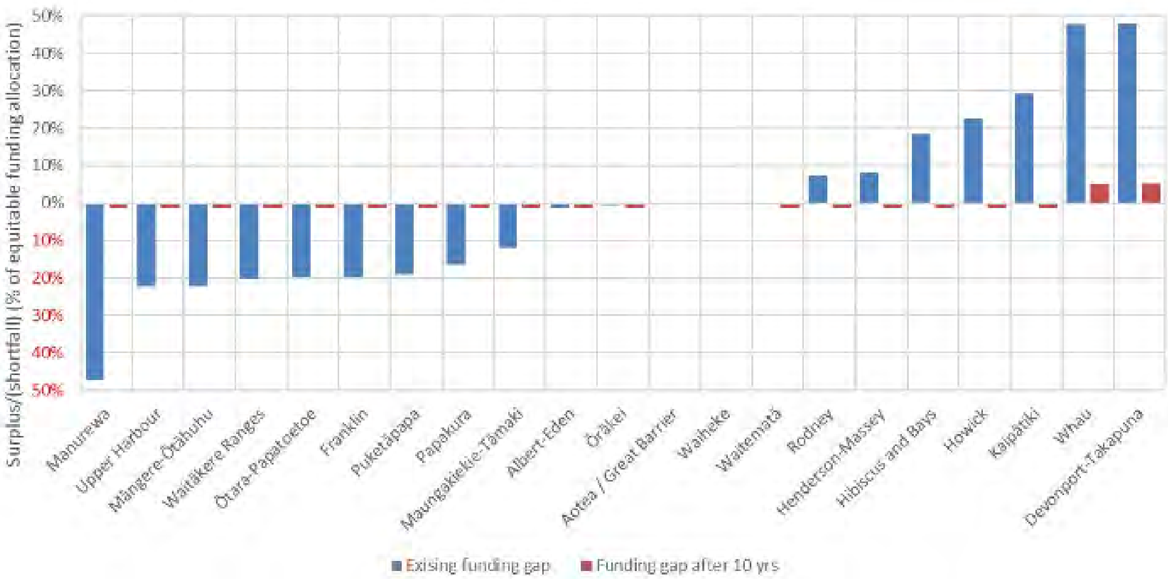
8. A fixed amount or percentage of funding to be provided for Waiheke and Aotea-Great Barrier local boards based on that used in Locally Driven Initiatives funding.

9. Although reallocation of funding from local boards that are currently funded over an equitable funding level (based on the 80:15:5 model) was considered, this was not supported. Hence the 2021 GFR decision aimed at uplifting all local boards to an equitable funding level that aligns with the highest funded local board.

Original GFR Scope

10. The scope of the 2021 GFR investigation into local board funding equity was limited to local community services activity asset based services (ABS) budgets, as this is the majority of funding local boards have decision-making over. This included growth funding and discrete projects but excluded slips remediation and coastal renewals and locally driven initiatives (LDI) funding.

11. The GFR analysed budgets across ten years of LTP 2021 – 2031 and considered operating expenditure (opex) and capital expenditure (capex) as one funding pool. This analysis is reflected in the graph below which ranked where local boards sit in terms of the equity of their funding based on ten years of LTP 2021 – 2031 funding. This graph was part of the 28 October 2021 report to the Governing Body on which in-principle decisions to address local board funding inequity were made and has been widely seen and understood by local board members.



Change in funding gap over 10 years 2021/2022 – 2030/2031

New Direction and Alternative Options 2023

12. Since the October 2022 election, the Mayor has expressed his interest in addressing issues he sees with local board funding as a priority this term, including giving local

boards more authority and autonomy over local matters and providing them with a more equitable funding allocation.

13. On 21 April 2023, the Mayor wrote to all local board members outlining his wish to simplify the council's governance structure, to move closer to a genuine shared governance model, and enable more decisions to be made locally where possible. The Mayor indicated that this would involve changes to local board funding policies and addressing equity issues to enable local boards to exercise more control and make decisions about asset ownership and use, and to make it easier for local boards to raise revenue for specific projects. The Mayor reiterated this position in his address to the JGWP on 2 May 2023.

14. In particular the Mayor also outlined his expectation that staff would develop a plan to achieve local funding equity in a much shorter timeframe, than the 10-15 years agreed upon by the Governing Body in 2021, and ideally within 1-3 years. The Mayor indicated his preference that this be achieved by reallocating funding between local boards and potentially using new funding (if available) as opposed to the existing approach which relied on using LTP outer years renewals and growth funding.

Summary of work this term with the JGWP

15. In response to the Mayor's request, the Mayor and Council's Executive have agreed to continue using the JGWP to advance further discussions on addressing local board funding equity.

16. The JGWP was reconstituted after the 2022 elections. It consists of six councillors and six local board members, five of whom are returning from the last term and providing continuity to this discussion.

17. At the first JGWP meeting for this term on 2 May 2023 staff presented an initial report in response to direction from the Mayor's office, consisting of the following three alternative options on how local board funding equity could be achieved in a shorter timeframe (first three years of LTP 2024 – 2034):

    a) providing new funding to bring all local boards to equity,

    b) reallocating all existing local board funding,

    c) a combination of options (a) and (b).

    These options are in addition to the original option decided by the Governing Body in October 2021. All of these options are explained further in Table 1 below.

Table 1: Local Board Funding Options

Option	Description	Time Required to Achieve Funding Equity
(i) Governing Body October 2021 (original in-principle decision)	Achieving local community services funding equity by reallocating future unallocated growth and renewals budgets to local boards with funding gaps	10 – 15 years
(ii) providing new funding to bring all	Achieving local board funding equity by allocating new funding, provided through LTP 2024-2034, to local boards with funding gaps	3 years

Option	Description	Time Required to Achieve Funding Equity
local boards to equity		
(iii) reallocating all existing local board funding	Achieving local board funding equity by reallocating existing local board funding (both capital and operational funding)	3 years
(iv) a combination of options (ii) and (iii)	Achieving local board funding equity by redistributing some existing local board funding and allocating some new funding, provided through LTP 2024-2034, to local boards with funding gaps	3 years

18. The Mayor attended the 2 May JGWP meeting and outlined his proposal. The JGWP supported the staff's intention to complete a more detailed analysis on these options for further consideration. This detailed analysis was presented to and discussed with the JGWP on 30 May 2023.

19. The analysis to support the options being considered included current budgets that reflected budget changes that had been made after the October 2021 decision. These budget changes created some confusion with JGWP members. Staff were asked to provide the reasons behind these changes and reconfirm the scope change requested by the Mayor and this is covered in paragraphs 37 to 40.

20. The JGWP directed staff to focus future work on options (ii) and (iv) as it was considered that option (iii) would be politically unacceptable.

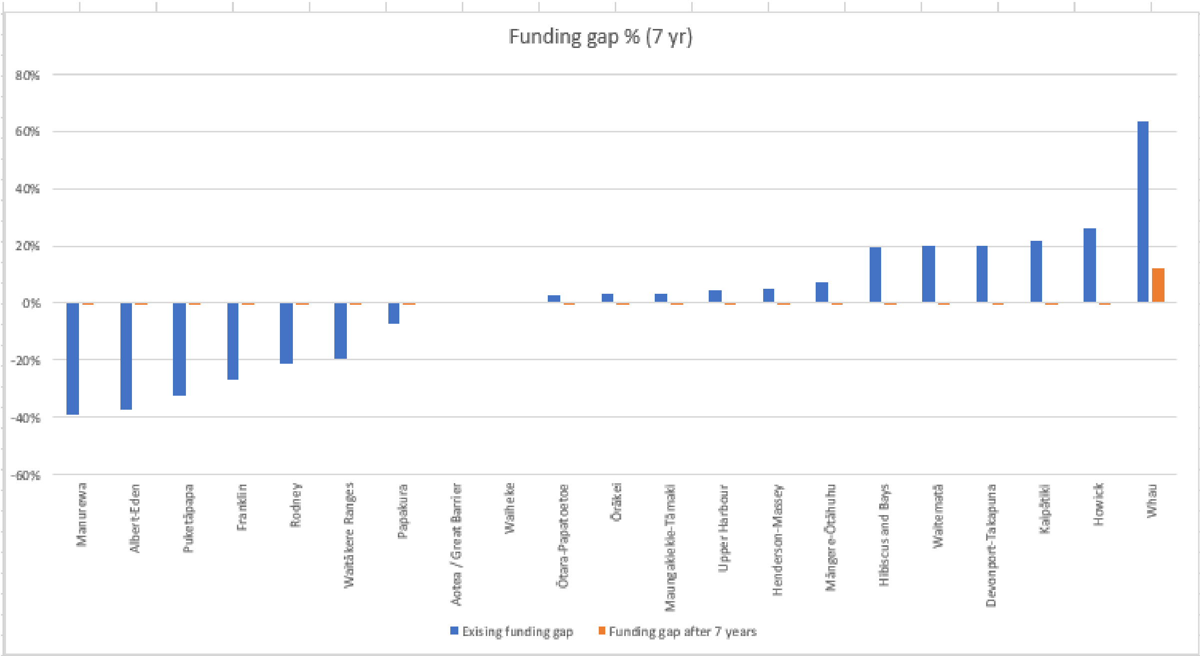
21. Further information was requested on the implications of different scenarios in relation to:

(i) identifying the specific impacts of the components of the expanded scope e.g., impact of removing growth funding (see paragraphs 41 to 46)
(ii) analysis of the funding effects of removing regional, sub-regional and multi-board services and facilities from funding allocations (see paragraphs 80 to 98)
(iii) possible advantages and disadvantages of different percentages for a mix of reallocation and new funding, to inform principle-based decision on percentages, noting the impact of Annual Budget 2023/2024 decisions (see paragraphs 64 to 71)
(iv) resourcing implications for funding changes, given the shorter timeframe for implementation. (See paragraphs 101 to 103)
(v) analysis on transition requirements for implementation, for both opex and capex (see paragraphs 92 to 100).

Scope

Updated funding equity analysis based on the original GFR scope

22. The following graph shows the funding equity standings using the current budgets and budgets for the remaining seven years of the current LTP (2024 – 2031).



Change in funding gap over 7 years 2024/2025 – 2030/2031

23. Some of the local board equity rankings have changed when compared to 2021 analysis due to the following reasons:

    (i) the 2021 GFR model had 10 years of data (2021/2022 to 2030/2031) and the updated model only has 7 years, i.e., 2024/2025 to 2030/2031. Our current financial data only extends to 2030/2031, which is the final year of the current LTP.

    (ii) there have been refinements to local board budgets through annual plans since 2021:

    a. With opex this mainly relates to refinements in the repairs and maintenance budgets as Council incorporated updated, more accurate information from its suppliers.

    b. Capex budgets have changed to respond to the savings targets and capex prioritisation decided through 2021/2022 and 2022/2023 annual plans.

24. The updated 2023 graph also shows the change in equity in these seven years based on the allocation of unallocated growth and renewals budget. Analysis based on the current budget data shows that there is $783 million of unallocated budget[1] in these seven years.

25. If the council decides to prioritise this unallocated budget for other purposes (e.g. storm response) prior to or through LTP 2024 -2034, achieving local board funding equity under this proposal will be delayed, unless additional funding is made available for this purpose.

26. Most of this unallocated budget is currently set aside for investment in growth. Repurposing funding intended for growth investment will delay the council's investment in growth and may require the amendment of Auckland Council's

[1] these budgets are yet to be allocated to a local board and are kept aside for future renewals and growth-related investment. This is explained in more detail in paragraphs 46 to 52.

Development Contributions (DCs) policy and the refund of some of the DCs collected.

27. Local boards that receive additional funding in the form of growth funding under this approach will be restricted in what and where they invest as investment of growth funding is guided by legislation (various sections of the Local Government Act 2002) and the DC policy.

Scope for Alternative Options

28. Staff have analysed budgets for the three financial years 2024/2025, 2025/2026 and 2026/2027 as these are the first three years of LTP 2024-2034, through which local board funding equity is proposed to be implemented under the new direction.

29. Staff have used the scope of option (i) (GFR) as a starting point for this investigation with three key changes. For the investigation of alternative options staff have:

(i) considered opex and capex separately for the following reasons:

(a) the differences in opex funding across local boards is reasonably consistent, regardless of the timeframe of analysis. However, differences in capex varies considerably depending on the timeframe of analysis. This is due to the finite and lumpy nature of capex projects as opposed to opex which is ongoing. Discrete capex budgets only appear in certain years when the project is delivered, and this affects funding equity calculations. To better understand the impacts of capex funding on equity, it is useful to consider them separately.

(b) creates an opportunity to understand opex and capex funding inequities separately and therefore address them differently. This is especially relevant when we consider the strategy of delivering differently, with less reliance on assets for service delivery adopted through LTP 2021-2031[2]

(c) if a decision is made to provide new funding to achieve local board funding equity, the mechanisms to raise new opex and capex are different. Opex is generally funded through operating revenue such as rates and user charges, and capex is generally funded through debt (Auckland Council Revenue and Financing Policy).

(d) in the current financial environment, there is limited flexibility in changing the funding mix (i.e., changing between opex and capex), for new funding, in the short term. The GFR decision of providing local boards with new funding and letting local boards decide the capex/opex funding mix is unlikely to be practical in Council's current financial environment. If an option for new funding is identified it is more feasible to provide local boards with a fixed split of new opex and capex, in the short-term.

It should be acknowledged that investment in capital projects will have an impact on future opex requirements through service and maintenance costs. Once local boards are allocated funding equitably, the future opex-requirements of new capital investment will have to be managed by the local boards from within their opex budget allocation. Staff will ensure that any future

[2] *a three-year transition towards a more sustainable investment approach to delivering community services that is less reliant on council assets and focuses more on provision through alternative ways such as partnerships, digital channels and multi-use facilities (FIN2021/49)*

investment advice provided on capital investment will include the whole of life costs of the asset which includes future opex requirements.

(ii) included budgets funded through fees and charges, general rates and debt in the equity calculations. Some budgets were excluded due to limitations for reallocation of their funding sources, as detailed in the table below.

Table 2: Limitations of some funding sources

Funding Sources	Scope (Y/N)	Reason for being out of scope
Growth	N	Growth funding is allocated to specific projects within funding areas based on the Development Contributions (DC) policy and expected future growth population growth across Auckland. Reallocation of this budget is not possible without a change to the DC policy. Risks in changing this policy could result in growth investment being delayed in high growth areas, as inequity ranking, and growth projections do not align. This could also result in council being required to refund some DCs already collected if not able to deliver agreed growth projects in a timely manner.
External/specific funding/targeted rates	N	This is funding received to support specific purpose projects in specific local boards. This funding cannot be pooled together for reallocation.

(iii) included LDI budgets, which funds projects across all local activities, in the scope for analysis. In October 2021 the Governing Body approved the 80:15:5 formula as an equitable allocation formula. LDI is currently allocated based on a 90:5:5 formula. Prior to implementation of increased local board decision-making local boards' discretion over ABS was limited. Under increased decision-making local boards have decision-making over both ABS and LDI.
Hence staff recommend including LDI in the scope for alternative options and analysing it based on the 80:15:5 model. Once this is implemented there would be no distinction between ABS and LDI, there would only local boards' opex and capex.

Consideration of local activities for alternative options

30. Staff also analysed asset-based services budget within all four local activities:

(i) Local community services
(ii) Local environment management
(iii) Local planning and development
(iv) Local governance

For potential inclusion in the alternative options to achieve local board funding equity.

31. Staff propose to only consider the budget within local community services activity for these alternative options. The table below explains the reasons for excluding the other three activities.

Table 3: Analysis of other local activities

Local activity	Reason for being out of scope
Local Environment Management ABS	The ABS budget in this activity is comprised of a targeted rate collected for drainage purposes and an allocation for solid waste. These funds are collected and allocated for a specific purpose and in specific locations. The targeted rate is set by legislation and cannot be reallocated. The solid waste allocation is the budget for a regional service delivered in the local board areas. These do not fall within local board decision-making and cannot be considered for reallocation.
Local Planning and Development ABS	99 percent of the ABS opex budget in this activity is the BID targeted rates budget. These targeted rates are collected from the businesses on behalf of various business associations and are paid to these business associations. Local boards do not have decision-making over the allocation of these budgets. This activity also includes the Waitākere Ranges and Foothills Protection opex budget which is a legislative requirement under the Waitākere Ranges Heritage Area Act 2008 and cannot be considered for reallocation. Currently there is only one capital project under this activity which has a budget of $19,000 in 2024/2025. This is a multi-year project which ends in 2024/2025. Hence, staff recommend not to include this activity in the scope.
Local Governance	The majority (55%) of the budget under this activity cover staff and other operational costs that support the local boards. Staffing is currently a statutory responsibility of the chief executive (s 42(2)(g) of the Local Government Act). The remaining budget under this activity relates to local board members such as elected member honorariums (40% of the total budget), training, etc. Elected member honorariums are set by legislation (Local Government Members Determination) and local boards do not have any decision-making over this.

32. **Funding for other activities** such as for corporate property, transport and other CCOs are out of scope for this investigation. These are currently outside the local board allocation of decision-making or significant influence. The Mayor has indicated his preference to expand local board decision-making over some or all these activities. However, until a decision is made on this, these activities remain out of scope for this analysis. Also, any investigation that requires the inclusion of these activities would require collaboration of multiple agencies of the council, and additional resources and time.

33. **Gulf Island local boards**: For the alternate funding options, staff have followed the GFR decisions to provide fixed funding to the Gulf Island local boards. The fixed percentages are 1 percent and 2 percent of the total budgets for Aotea Great Barrier and Waiheke, respectively, which is consistent with the Local Board Funding Policy.

34. Local boards are allocated a share of the overhead costs such as interest, depreciation and corporate overheads based on the local board funding policy. Local boards do not have direct decision-making over these budgets. Hence, these will be out of scope for this analysis.

Equity analysis based on the proposed scope for alternative options

35. The opex and capex equity rankings based on the scope for alternative options as discussed in the previous sections and based on current budget data is provided in Appendix B.

36. Local board funding equity rankings are determined by comparing the existing funding levels (2024/2025-2026/2027) to funding levels based on applying the above 80:15:5 formula to existing funding.

Responding to questions on scope from 30 May JGWP (JGWPC/2023/3 b)

37. At its 30 May 2023 meeting the Joint Governance Working Party also passed the following resolution:

    (b) whakaae / agree to seek clarification from the Mayor in regard to the expanded scope

    to seek clarity on this updated scope.

38. In response to the above JGWP resolution, the Mayor's office has confirmed that the scope outlined in the previous section is consistent with the Mayor's request. In confirming this, the Mayor has also asked that his overall aspiration of "fairer funding" for local boards, for them to be "bulk funded" and to make decisions on all local matters, not just local community services, is clearly signalled.

39. In response, staff advice is that this proposed extension of scope brings in a range of matters that cannot currently be accommodated within existing policy, legislative and/or resource constraints. While that work could be advanced over time, staff consider that a staged approach towards these outcomes is desirable.

40. The Mayor has also signalled his aspiration that there are fewer local boards with even greater decision-making, ideally in place in time for the coming 2025 election. The Governing Body resolved on 22 June 2023, to refer a local board reorganisation proposal to the JGWP. This proposal considers a smaller number of local boards with greater authority, to be implemented ahead of the 2025 or 2028 election. This would impact on this local board funding equity work programme. Staff will closely monitor the progress of this proposal and update the local board funding equity advice promptly.

Responding to the JGWP resolution on the impacts of the components of the scope (JGWPC/2023/3 d(i))

(i) LTP approved discrete local projects

41. These are specific projects approved through each LTP based on the priorities and strategies of the Council. Funding equity was not assessed or considered while approving funding for these projects. These projects' budgets are allocated to a specific local board and are one of the reasons behind disproportionately high funding for some local boards (example: funding for Te Hono community centre in the Whau local board).

42. After considering the benefits and drawbacks of including or excluding these projects in the funding equity analysis (refer table below), staff propose to exclude these projects.

LTP Discrete Projects	Benefits	Drawbacks
Including in the analysis	It provides a more complete picture of funding levels in the local board area	If reallocation progresses as an option to address funding equity, then the local boards may end up with inadequate funding required to complete these LTP discrete projects. This would mean Council is not delivering on past decisions aligned with policy. These discrete projects raise the level of overfunding in the relevant local boards. This increases the amount of reallocation or new funding required to achieve local board funding equity.
Excluding from the analysis	Considers past Council decisions and ensures adequate funding remains to deliver these decisions.	Does not consider all the funding invested in the local board area.

(ii) Growth funding

43. The JGWP requested analysis on the impact of excluding growth from the calculations for equity.

44. Based on current budgets there is $39 million of growth capex funding allocated to various local boards in the first three years of LTP 2024 – 2034. Almost $23 million of this is spread across three local boards – Upper Harbour, Hibiscus and Bays and Maungakiekie-Tāmaki. The remaining is spread across other local boards.

45. Appendix C illustrates the impact, of including or excluding growth funding in the analysis, on equity rankings.

46. However, as mentioned in the table above (Table 2 in para 29 (ii)), including growth funding will have other impacts than just impacting equity calculations. Reallocating growth funding may require a change to our DC policy and there will be limitations on local boards receiving growth funding on the type and location of assets they can invest in. For example, local boards cannot use growth funding for renewals or to invest in assets outside the adopted DC policy. Also, the reallocation of growth funding may trigger the refund of some DCs already collected.

Future unallocated budgets

47. Future unallocated budgets are budgets which are yet to be allocated to specific local boards in the future years (2024/2025 – 2030/2031) of the current LTP 2021-2031. Most of the future unallocated budget relates to growth funding and is proposed to be out of scope for the alternative options.

48. Unallocated opex is the consequential opex provision to cover operating costs of future investments, which mostly relates to growth funding. As growth is proposed to be out of scope in alternative options (ii). and (iv)., staff propose that unallocated consequential opex is also excluded.

49. Once a new growth investment is delivered, the asset and associated consequential opex transfers to the relevant local board's budget, which would then be considered as the local board's budget for any future equity analysis.

50. Unallocated capex (other than growth) mainly consists of response renewals kept aside for unplanned renewals and some funding provision for new investment.

51. These budgets are formulated based on the estimated future asset investments and response renewals requirements. This budget gets approved and allocated to specific local projects through annual plans or long-term plans as we start planning for the relevant financial year.

52. The unallocated capex budget is a local community services budget and can be considered for reallocation under an equitable allocation model. However, once this is allocated to local boards through the funding model, local boards will have to manage any future new investment and unplanned renewals through their allocated budgets.

53. Based on the scope for the alternative options, current budget figures indicate that in the first three years of LTP 2024 -2034 there is $25 million of unallocated capex. The amount of unallocated budget may change as further budget decisions are made prior to or through LTP 2024 -2034 to respond to priorities such as storm response.

Alternative Options and their Impacts[3]

54. At the 02 May JGWP staff presented three alternative options (as explained in para 17. Table 1) to achieve local board funding equity in a shorter timeframe:

   (ii) providing new funding to bring all local boards to equity

   (iii) reallocating all existing local board funding

   (iv) a combination of options (ii) and (iii).

55. At the 30 May JGWP staff presented detailed analysis on these three alternative options. The JGWP at this meeting agreed to move forward with options (ii) and (iv) and requested further information on these options to be brought back to the 11 July JGWP.

56. The following sections provide further analysis on these two options reflecting the scope adjustments as outlined above.

[3] The figures in the tables in this section are based on local board budgets as of 07 June 2023 and hence are illustrative. The analysis will be updated through the LTP process and final figures will be provided through the adoption of the LTP.

Option (ii) - Providing new funding in the LTP 2024-2034 to bring all local boards to equity.

57. This option looks at mitigating local board funding equity through the provision of new funding through the LTP.

58. New funding if any, and the funding sources to enable this will need to be approved through the LTP 2024-2034. There is currently no source of new funding identified. Additional rates or debt is an option to raise new funding, however, this is yet to be decided through LTP 2024 – 2034 which will have multiple priorities requiring new funding.

59. Some local boards are currently overfunded compared to the equitable funding allocation model. If there is no reduction to existing funding levels of overfunded local boards, the level of funding equity to be achieved will be relatively higher.

60. The amount of new funding required to get underfunded local boards to equity relative to the overfunded local boards, without reducing the currently overfunded local boards is approximately $170 million in opex and $210 million in capex across the first three years of the LTP 2024-2034.

61. Opex is generally funded through fees and charges and general rates, and capex is generally funded through debt. As an illustration of how new funding could have an impact on our financial position, for new operational funding required, a 1 percent rates increase raises around $23 million opex and provides some extra capacity for debt. For new capital funding required, $100 million of additional capex has impact of around a 2 percent increase against our debt to revenue ratio. It also has an associated requirement for additional opex funding through interest and depreciation.

62. The table below provides a summary of existing local board funding and new funding required in the first three years of LTP 2024 – 2034 to achieve local board funding equity.

	Existing Funding ($m)	New Funding Required ($m)
Opex	589	170
Capex	244	210

63. Appendix D shows the allocation of new funding to local boards.

Option (iv) - Combination of reallocation of some existing local board funding and new funding

64. This option looks at reallocating a portion (or percentage) of funding from overfunded local boards, with additional new funding to get all local boards to funding equity.

65. Staff have analysed various combinations to provide a clearer understanding of the impacts of each combination as shown in the table below.

Option	% reduction of surplus from LBs funded above an equitable level	Reduction in surplus over 3 years	New funding (including unallocated if any) required to achieve funding equity
iv(A)	10%	Opex: 1 local board reduces in funding by $1m Capex: 1 local board reduces in funding by $1m	Opex: $150 m Capex: $190m
iv(B)	25%	Opex: 1 local board reduces in funding by $2.2m Capex: 1 local board reduces in funding by $2.7m	Opex: $125m Capex: $160m
iv(C)	50%	Opex: 5 local boards reduce in funding ranging from $0.7m to $4.4m Capex: 3 local boards reduce in funding ranging from $0.7m to $5.3m	Opex: $80m Capex: $110m
iv(D)	75%	Opex: 8 local boards reduce in funding ranging from $0.6m to $6.6m Capex: 5 local boards reduce in funding ranging from $1.6m to $8m	Opex: $40m Capex: $50m

66. As is evident from the table above, the higher the reallocation from overfunded local boards, the lesser the amount of new funding required to achieve local board funding equity. However, as the percentage of reallocation increases, the budgetary impact on local boards that are currently funded over their equitable funding levels increases. This is likely to have flow on impacts to their assets and services.

67. Also, given Council's LTP 2021 – 2031 commitment to delivering differently[4], it may not be prudent to provide a large amount of additional capital funding as it may not incentivise lesser reliance on assets.

An alternative transition approach

68. Staff have identified an alternative transition option that is different to the above-mentioned options, i.e., allocating a lower level of new funding to uplift most local

[4] a three-year transition towards a more sustainable investment approach to delivering community services that is less reliant on council assets and focuses more on provision through alternative ways such as partnerships, digital channels and multi-use facilities (FIN2021/49)

boards to within 5% equity. Any new funding and funding sources will have to be approved through LTP 2024 – 2034.

69. Under this approach most local boards could be brought to within 5% of funding equity within the first three years of the LTP 2024 – 2034. This is different to the options described previously as those options aim to achieve complete local board funding equity in the first three years.

70. Further reallocation or new funding will be required in years four to six of the LTP 2024 – 2034 to bring all local boards to complete funding equity and staff will provide advice and options on this through the development of LTP 2027 – 2037

New funding across 3 years (including unallocated if any) ($m)	% reduction of surplus from LBs funded above an equitable level	Funding equity status	Reduction in surplus over 3 years	Funding variation across 3 years compared to an equitable allocation
Opex: 65 Capex: 75	0	18 local boards get to within 5% opex and capex funding equity 16 local boards within 3% opex funding equity	No reduction	Opex & capex – Each of the 18 local boards have shortfalls within a maximum of $1.3m. Opex surpluses range from $0.4m to $5.5m. Capex surpluses range from $0.2m to $7m.
Opex: 55 Capex: 65	10	18 local boards get to within 5% opex and capex funding equity 16 local boards within 3% opex funding equity	Opex: 8 local boards reduce in funding ranging from $0.3m to $1m Capex: 6 local boards reduce in funding ranging from $0.5m to 41m	Opex & capex – Each of the 18 local boards have shortfalls within a maximum of $1.4m. Opex surpluses range from $0.6m to $5m. Capex surpluses range from $0.3m to $6.3m.
Opex: 40 Capex: 50	25	18 local boards get to within 5% opex and capex funding equity 16 local boards within 3% opex funding equity	Opex: 10 local boards reduce in funding ranging from $0.4m to $2.2m Capex: 6 local boards reduce in funding ranging from $0.3m to $2.7m	Opex & capex – Each of the 18 local boards have shortfalls within a maximum of $1.4m. Opex surpluses range from $0.6m to $5m. Capex surpluses range from $0.6m to $6m

New funding across 3 years (including unallocated if any) ($m)	% reduction of surplus from LBs funded above an equitable level	Funding equity status	Reduction in surplus over 3 years	Funding variation across 3 years compared to an equitable allocation
Opex: 20 Capex: 30	50	18 local boards get to within 5% opex and capex funding equity	Opex: 11 local boards reduce in funding ranging from $0.7m to $4.4m Capex: 8 local boards reduce in funding ranging from $0.5m to $5.3m	Opex & capex – Each of the 18 local boards have shortfalls within a maximum of $1.3m. Opex surpluses range from $0.2m to $3.5m. Capex surpluses range from $0.7m to $4m
Opex: 0 Capex: 10	75	20 local boards get to within 5% opex funding equity 18 local boards get to within 5% capex funding equity	Opex: 11 local boards reduce in funding ranging from $1m to $6.6m Capex: 8 local boards reduce in funding ranging from $1m to $8m	Opex shortfalls range from $0.8m to $1.6m. Opex surpluses range from $0.4m to $2.2m. Capex shortfalls are within $0.5m. Capex surpluses range from $0.7m to $4m

71. Appendix E shows the analysis of these options on local board funding equity.

Continuation of the transition - Proposal for allocating new capex funding to local boards beyond 2026/2027

72. Through LTP 2021 – 2031 the Governing Body has agreed to do more in using alternative ways of delivering services, through partnerships and digital channels and multi-use facilities to reduce the reliance and associated costs of a large portfolio of community assets.

73. Over time, implementation of this new approach is expected to result in the sale of ageing local community service assets that are not fit for purpose and reinvest in services and facilities that better meet the needs of our communities.

74. To ensure that any new capital funding aligns with this strategy, staff propose a different approach for capital funding from year 4 of LTP 2024 – 2034 to achieve greater local board equity, once most local boards get to 5% equity by year 3 of LTP 2024 -2034.

75. Staff propose that new capital funding (if any) to address local board funding equity be kept aside as a pool of funding that local boards can access if they meet the below criteria:

(i) the project aligns with Council's plans, strategies, and processes.

(ii) the local board raises funding that satisfies the local board contribution percentage which is based on their equity ranking

76. If the local board meets these criteria a portion of the funding for the new investment will be allocated from this new funding pool by the Governing Body.

77. The funding contribution to the new investment will be based on:

    a) the percentage of new funding for a project a local board is eligible for based on their position on the equity ranking; and

    b) up to a maximum amount of funding that raises the local board to funding equity in the three years of the assessment.

78. The reasons for proposing to implement this approach from year 4 (2026/2027) are:

    (i) in the first three years of LTP 2024 - 2034, some local boards may be more ready than others to tap into this funding. This could create capex inequity.

    (ii) Under this approach it may take longer to achieve local board capex equity which may not be acceptable to local boards that are currently funded below the equitable level.

79. This is a new approach. Further analysis is required to understand the implications of this on equity and funding provisions. If the JGWP supports this approach staff will provide detailed advice on this at its next meeting.

Impact of Multi-board Services

80. This section responds to resolution JGWPC/2023/3 d (ii) from the 30 May JGWP, which requests analysis on the impact of multi-board services (MBS) on local board funding equity.

81. In October 2021 the Governing Body agreed in principle to create an MBS category. This would apply to facilities where at least 50% of users come from outside their local board area.

82. A hybrid approach to multi-board service funding was approved as below:

Approach	Description	Assessment
Hybrid (direct and pooled funding)	Host local board funds 50% Local community services funding pool funds 50%	Relatively simple to administer Reasonable balance of costs

83. Under this approach 50% of the overall opex and capex budget for facilities that are part of the multi-board service programme would be pooled together as MBS funding and not considered as local board funding.

84. Appendix F shows the impacts of including and excluding MBS proposals on opex equity rankings. For this paper, staff have only assessed the impact of MBS on opex equity calculations.

85. Analysis of the impact of MBS proposals on capex equity will require more time and input from subject matter experts, as currently, we do not budget for future capex renewals or investments at such a granular level. Although our asset management

planning identifies the estimated renewal requirement for each facility, the actual renewal budget for each facility is determined through work programme planning for the relevant year based on budget availability and other local board investment priorities.

86. However, the impact of considering the MBS proposal on capex equity calculation will be similar to that of the impact of opex equity, as explained in the example below.

87. Consider Waitematā local board as an example. Before considering MBS, the Waitematā local board was overfunded in opex by $5 million in opex across the first three years of LTP 2024 – 2034. After MBS facilities are taken into consideration, their overfunding reduces to $1 million. Although they remain overfunded, the level of overfunding reduces.

88. However, for a local board that does not have any MBS facilities (Hibiscus and Bays for example) considering an MBS programme would increase their level of relative funding as now the total local community services budget pool they are compared against has reduced, while their budget has not reduced.

Local Board	3 Year Opex budget ($m)	Opex equity ranking	3 Year Opex budget after considering MBS ($m)	Equity ranking after considering MBS
Waitematā	15	15	13	11
Hibiscus and Bays	17	14	17	15

Shared governance

89. The 2021 Governing Body decision requested staff to investigate shared governance proposals for MBS facilities that enable joint decision-making by the local boards and the Governing Body over MBS facilities.

90. Further analysis is required on a shared governance model between affected local boards and the Governing Body to understand if the complexity, logistics, and costs of such a shared governance model justify the benefits achieved.

91. JGWP and local boards' feedback on the inclusion, or otherwise of MBS for funding equity will help guide future work on this.

Implementation Analysis

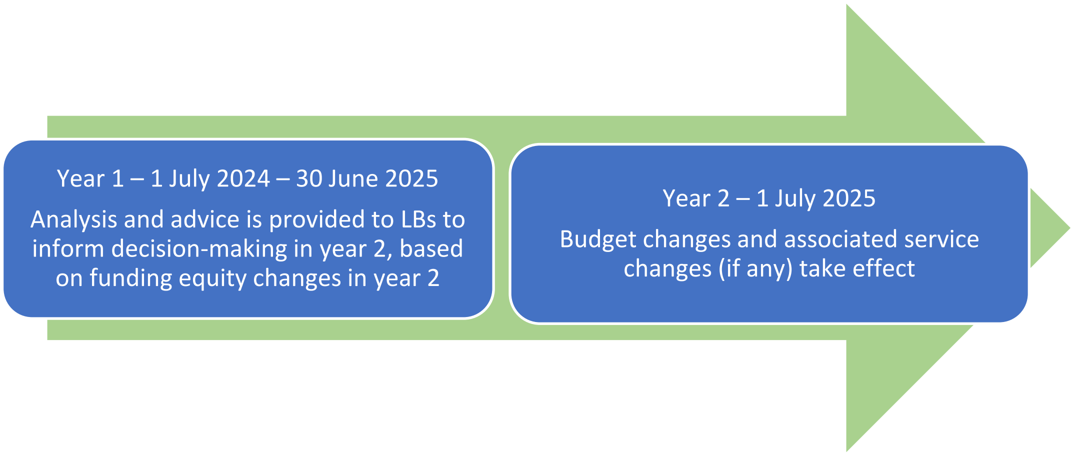
92. The aim of these proposals is to achieve complete or significant local board funding equity in the first three years of the LTP 2024 – 2034.

93. Staff will provide investment advice to the local boards to manage their assets and services based on the adopted funding approach, increased decision-making and their assets and services portfolio. This investment advice will align with local board plans and LTP 2024-2034 priorities and will be similar to the community investment advice provided to the local boards for the development of their 2023 local board plans.

94. Regardless of which option is adopted, staff recommend adopting a transition approach to implementing local board funding equity over the first three years of the LTP. This gives staff and local boards reasonable time to adapt to the changes under equity of funding.

95. This also provides time for Council to assess the budgetary and other impacts of the 2023 storm and flood damage which could have an impact on the equity analysis. The funding provision for storm damage would be excluded from equity analysis but may have an impact on the overall funding availability.

96. Proposed approach:



Impact on LTP 2024 - 2034

97. The level of local board funding equity that is achieved by year three of the LTP 2024 – 2034, is to be considered as the base level of funding for future years.

98. Any new funding provided in the first three years of the LTP 2024 – 2034 to achieve local board funding equity, will have to continue through the remainder of the LTP to maintain local board funding equity.

99. For example, to maintain the levels of equity achieved by the provision of $65m of opex and $75 million capex across the first three years of the LTP, would mean approximately $200 million of opex and approximately $250 million of capex over the 10 years of the LTP.

100. Staff propose to reassess the equity ranking of local boards through each LTP refresh, based on the latest available statistics and local board funding pool. Further advice on the funding implications of achieving or maintaining funding equity will be provided through the development of each LTP.

Resourcing

101. Further analysis is required to understand the resourcing impact of achieving local board funding equity in a shorter time frame.

102. Resourcing requirements would also depend on the option chosen to achieve this.

103. The Governing Body approved $2.8 million per year through annual plan 2022/2023. Resource required to implement increased decision-making has been appointed, with $1 million remaining per year. Any additional resourcing requirement to implement local board funding equity would initially be covered with this remaining budget.

However, resourcing requirements beyond this will require additional budget approvals through the LTP 2024 – 2034.

Risks and Implications

General Risks

Change	Risk	Mitigation
Change in local board funding allocation on elected members and the organisation	Moderate risk: Under an equitable funding approach, local boards may have to consider a lot more complex advice on trade-offs and service prioritisation before making investment decisions.	Ensure that elected members are provided adequate training and there is adequate support (staff and systems) to develop the advice needed to assist local boards with decision-making
	Moderate risk: Inadequate resourcing to support the implementation of funding equity in a shorter timeframe.	Provide analysis of the resource requirements of implementing local board funding equity in a shorter timeframe and ensure adequate resourcing is approved through LTP 2024 -2034 to support the implementation.
	Moderate risk: Lack of understanding and maturity in the organisation about local board decision-making and the impacts of local board decision-making on the Council's operations. Also, some of our systems do not align with or respond well to local board decision-making.	Additional staff resources (using the $2.8m per year approved by the Governing Body) for the implementation of GFR will help in staff training/capability and improvement to our systems
Changes to budget and impact on analysis	Moderate risk: The analysis in this paper is based on currently available budget data. Budget decisions prior to and through LTP 2024 – 2034 will have an impact on this budget data and on the analysis and the equity calculations	Ensure that analysis is regularly updated and reflects the latest available budget data.

104. Other risks and implications are discussed below:

Option	Risks	Mitigation
Any option that involves reallocation	Moderate Risk: Impact on local assets and services – a reduction in funding could lead to the necessary closure of some facilities and an associated reduction in service levels unless feasible alternate delivery methods were supported. Likely to be less support from local boards that may lose funding.	Investment advice from staff will support local boards to consider options to deliver services differently and more cost-effectively, including via partners, technology or the consolidation of services
Any option that involves new funding	Low risk: Risk of unplanned or unjustified investment where local boards receive new capital funding to mitigate inequity, that is not necessarily aligned to adopted policy requirements.	A staged transition approach with whole of life investment advice is necessary to mitigate this risk. Staff will provide advice that aligns with Council's and local boards' plans and strategies.

Option	Financial Implications	Mitigation
Any option that involves new funding	Given Council's current financial conditions and the additional impact of events such as the storm recovery it could be difficult to raise new funding. Any new funding may have impacts on our rates and other financial policies. Future events weather and other events may have further impact on Council's financial position which increases the risk of raising new funding.	Ensure that any new funding is within our financial policies
	Ability to deliver projects within budget timeframes due to inadequate planning time, delays could result in escalating cost.	Capex for new projects is allocated following prudent investment advice through business cases and/or other business processes.

105. **MBS:** The 2021 Governing Body approved in-principle to investigate a shared governance model for MBS. This paper discussed the impacts of MBS on funding equity. However, further analysis is required to understand the costs and complexity of implementing a shared governance model to assess whether the benefits justify the costs involved.

Next Steps

106. Discuss the proposed options included in this paper with all elected members at a joint briefing on 24 July 2023.

107. Following this the discussion paper will be workshopped with local boards in the months of July and August 2023, prior to seeking their formal feedback through August business meetings.

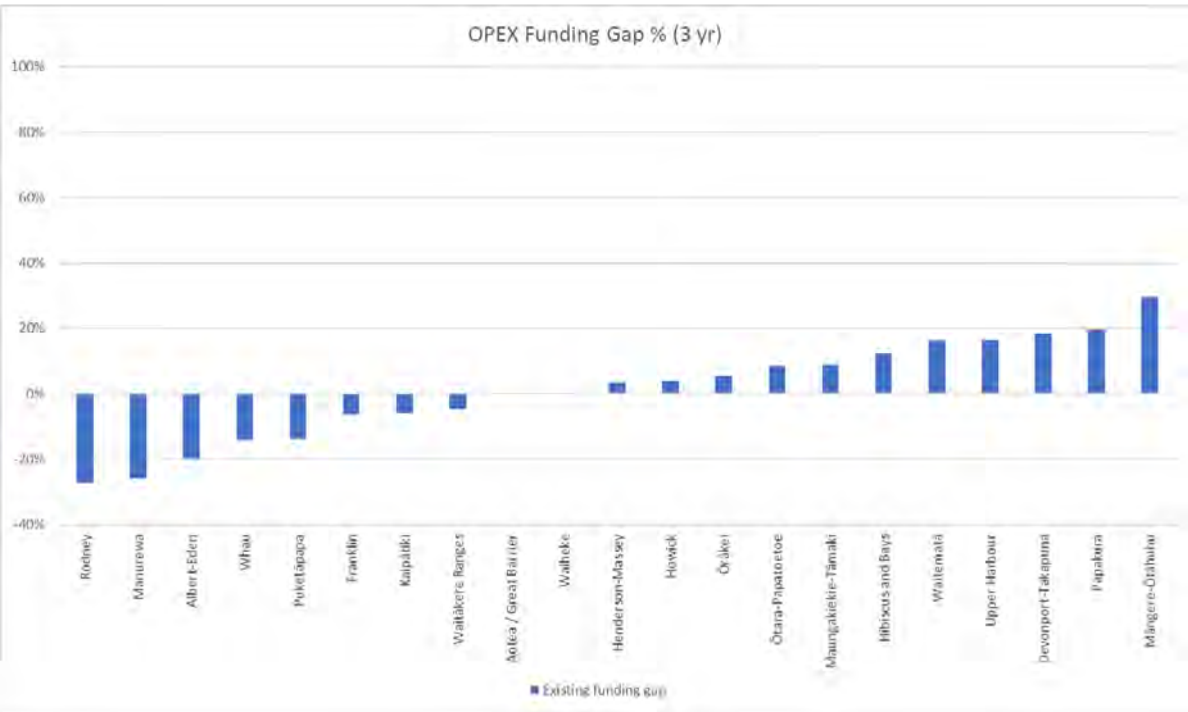
108. Local feedback will be provided to the September 2023 JGWP meeting.

109. JGWP feedback and directions and local board feedback will be presented to the Governing Body in October/November 2023, prior to LTP 2024-2034 Mayoral Proposal being published.

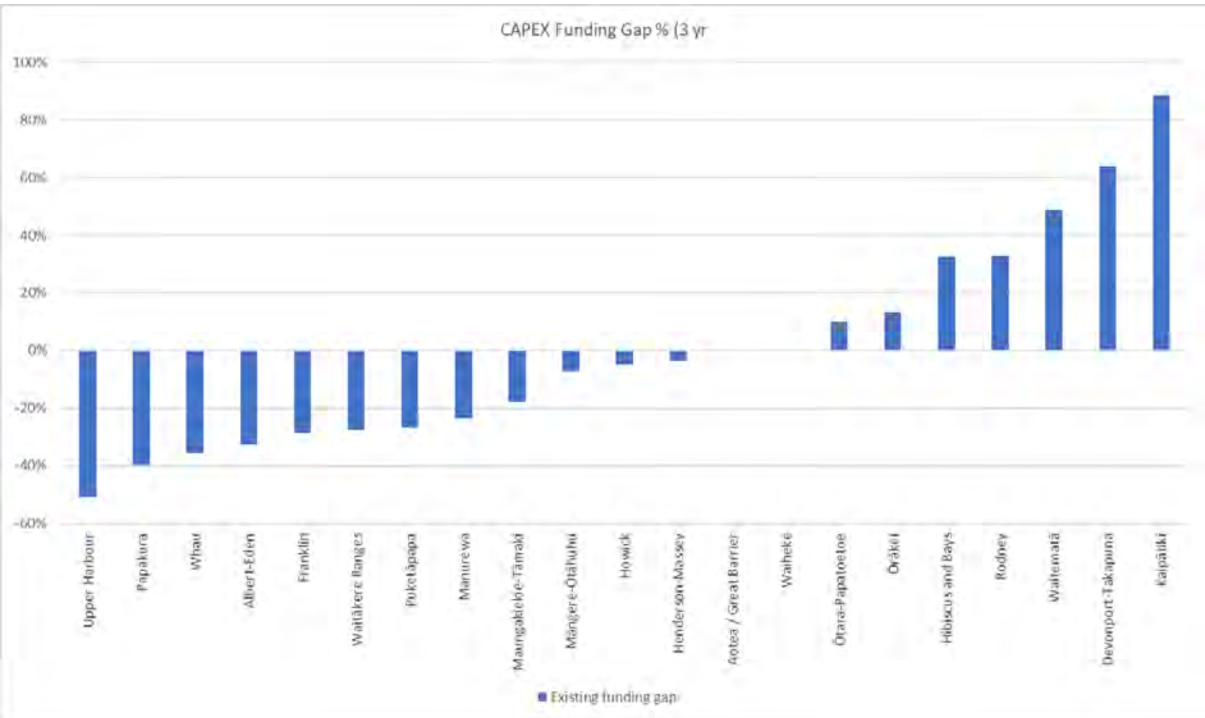
Appendix B: Current funding equity rankings (2024/2025 to 2026/2027)

The below graphs show the percentage of funding variance across three years when existing funding is compared against a funding allocation based on the 80:15:5 (population:deprivation:land area) model

OPEX



CAPEX

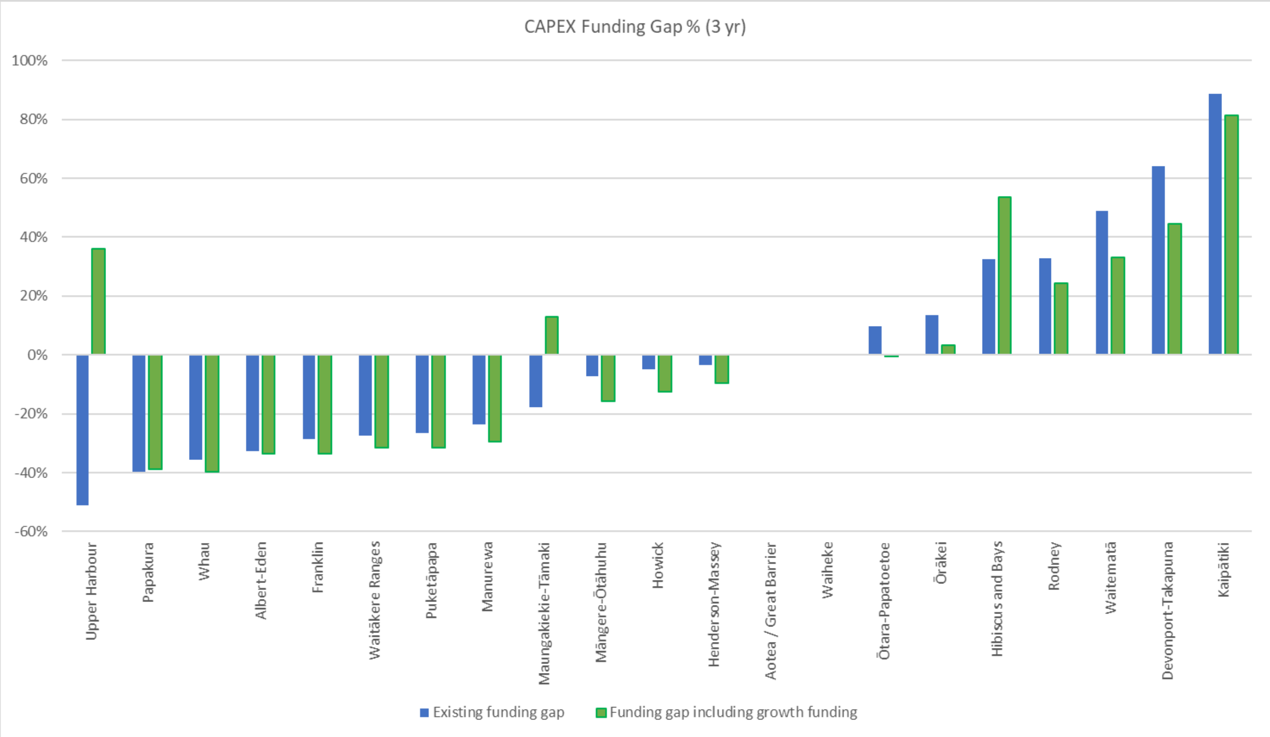


This analysis is based on budget data as of 07 June 2023. LTP 2024 – 2034 decisions will have an impact on this analysis.

Appendix C: Impact of growth funding on equity analysis

The graphs in this attachment show the change in capex equity rankings depending on the inclusion or exclusion of growth funding in the equity analysis

Change in capex equity ranking with and without growth funding



This analysis is based on budget data as of 07 June 2023. LTP 2024 – 2034 decisions will have an impact on this analysis.

Appendix D - Option (ii) - Allocation of new funding to local boards to achieve complete funding equity in 3 years of LTP 2024-2034

The tables in this attachment show the distribution of new funding to achieve local board funding equity in the first three years of LTP 2024 – 2034. Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

OPEX ($m)

	Current 3 year funding	New funding	After 3 Years
Albert-Eden	25.3	15.3	40.6
Aotea / Great Barrier	4.1	3.5	7.6
Devonport-Takapuna	22.7	2.0	24.6
Franklin	31.9	12.0	44.0
Henderson-Massey	42.3	10.4	52.7
Hibiscus and Bays	38.0	5.6	43.6
Howick	47.1	11.2	58.4
Kaipātiki	27.2	10.0	37.2
Māngere-Ōtāhuhu	38.9	0.0	38.9
Manurewa	25.7	19.0	44.7
Maungakiekie-Tāmaki	31.1	5.7	36.8
Ōrākei	27.9	6.2	34.1
Ōtara-Papatoetoe	34.7	6.6	41.3
Papakura	28.9	2.2	31.1
Puketāpapa	18.8	9.3	28.1
Rodney	27.4	21.1	48.5
Upper Harbour	27.4	2.9	30.3
Waiheke	11.1	4.1	15.2
Waitākere Ranges	19.1	6.7	25.8
Waitematā	34.2	3.7	37.9
Whau	24.7	12.4	37.1
	588.5	**170.1**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.

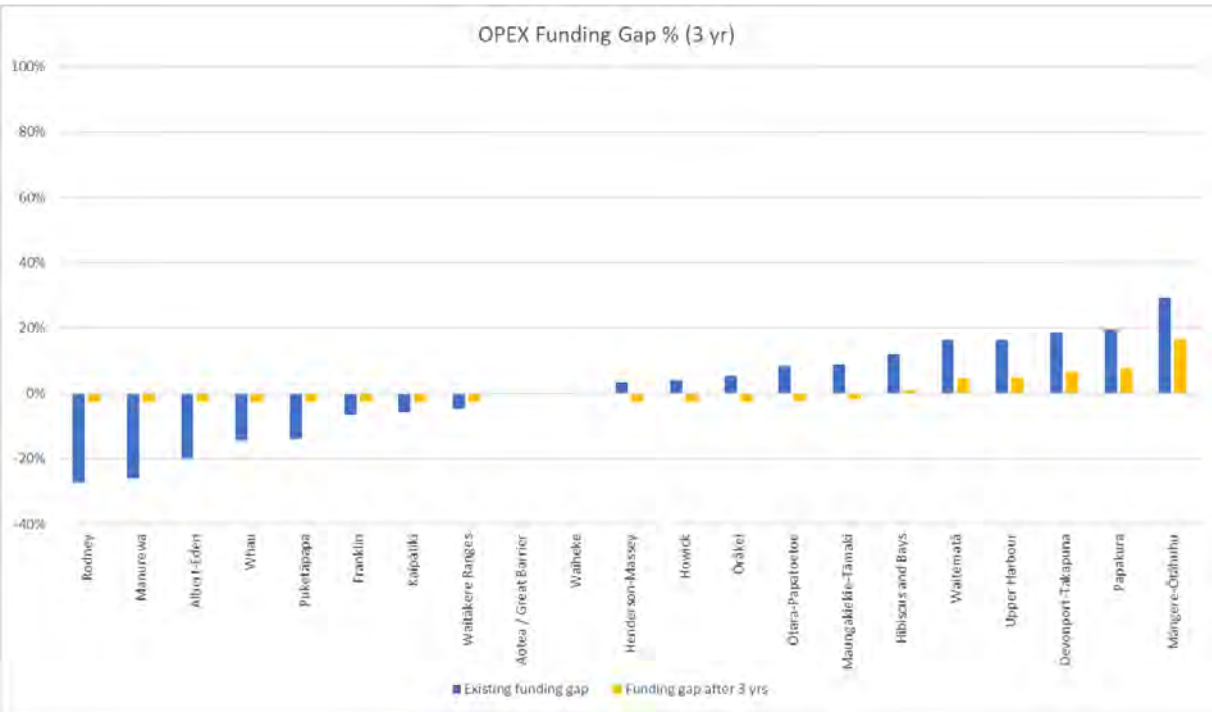
CAPEX ($m)

	Current 3 year funding	New funding	After 3 Years
Albert-Eden	8.8	15.6	24.4
Aotea / Great Barrier	1.3	3.2	4.6
Devonport-Takapuna	13.0	1.8	14.8
Franklin	10.1	16.3	26.5
Henderson-Massey	16.4	15.3	31.7
Hibiscus and Bays	18.6	7.6	26.2
Howick	17.9	17.2	35.1
Kaipātiki	22.6	0.0	22.6
Māngere-Ōtāhuhu	11.5	11.7	23.3
Manurewa	11.0	15.9	26.9
Maungakiekie-Tāmaki	9.7	12.4	22.1
Ōrākei	12.5	8.1	20.5
Ōtara-Papatoetoe	14.6	10.2	24.9
Papakura	6.0	12.7	18.7
Puketāpapa	6.6	10.2	16.9
Rodney	20.8	8.4	29.2
Upper Harbour	4.8	13.5	18.2
Waiheke	5.9	3.2	9.1
Waitākere Ranges	6.0	9.5	15.5
Waitematā	18.2	4.6	22.8
Whau	7.7	14.6	22.3
	244	**212.0**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.

Appendix E - Transition Approach - Allocation of some new funding to local boards to achieve reasonable funding equity for most local boards in three years of LTP 2024 -2034 (new funding - $65m opex and $77m capex)

OPEX

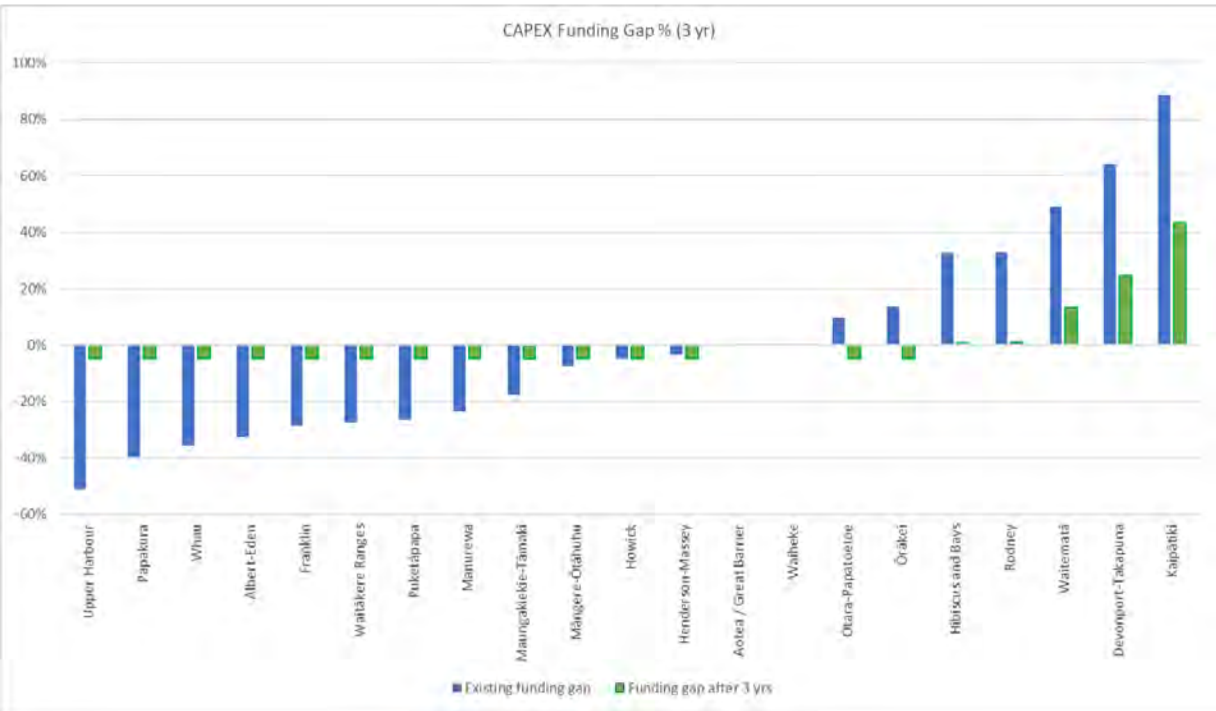


	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	25.3	8.7	34.0
Aotea / Great Barrier	4.1	2.3	6.4
Devonport-Takapuna	22.7	0.0	22.7
Franklin	31.9	5.0	36.9
Henderson-Massey	42.3	1.9	44.2
Hibiscus and Bays	38.0	0.0	38.0
Howick	47.1	1.8	49.0
Kaipātiki	27.2	4.0	31.2
Māngere-Ōtāhuhu	38.9	0.0	38.9
Manurewa	25.7	11.8	37.5
Maungakiekie-Tāmaki	31.1	0.0	31.1
Ōrākei	27.9	0.7	28.6
Ōtara-Papatoetoe	34.7	0.0	34.7
Papakura	28.9	0.0	28.9
Puketāpapa	18.8	4.8	23.5
Rodney	27.4	13.3	40.7
Upper Harbour	27.4	0.0	27.4
Waiheke	11.1	1.7	12.7
Waitākere Ranges	19.1	2.5	21.6
Waitematā	34.2	0.0	34.2
Whau	24.7	6.5	31.1
	588.5	**65**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.

Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

CAPEX

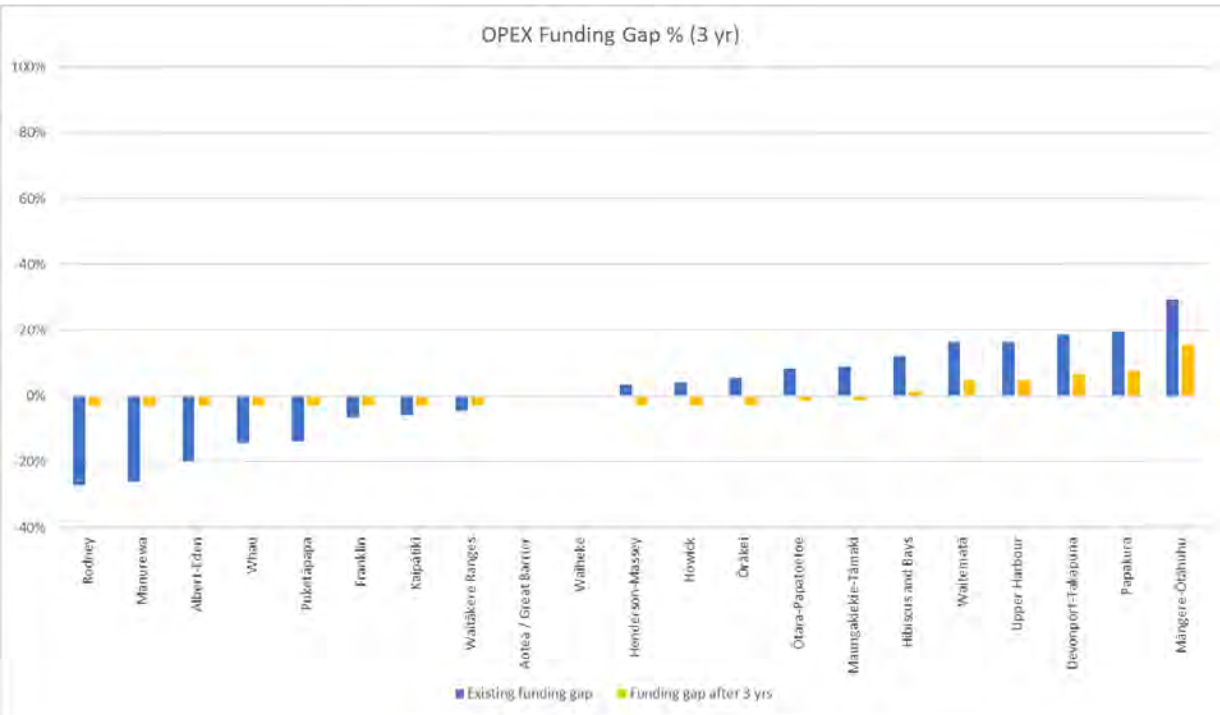


	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	8.8	7.5	16.3
Aotea / Great Barrier	1.3	1.7	3.1
Devonport-Takapuna	13.0	0.0	13.0
Franklin	10.1	7.6	17.7
Henderson-Massey	16.4	4.8	21.2
Hibiscus and Bays	18.6	0.0	18.6
Howick	17.9	5.6	23.5
Kaipātiki	22.6	0.0	22.6
Māngere-Ōtāhuhu	11.5	4.0	15.6
Manurewa	11.0	7.0	18.0
Maungakiekie-Tāmaki	9.7	5.1	14.8
Ōrākei	12.5	1.3	13.7
Ōtara-Papatoetoe	14.6	2.0	16.6
Papakura	6.0	6.5	12.5
Puketāpapa	6.6	4.7	11.3
Rodney	20.8	0.0	20.8
Upper Harbour	4.8	7.4	12.2
Waiheke	5.9	0.2	6.1
Waitākere Ranges	6.0	4.4	10.4
Waitematā	18.2	0.0	18.2
Whau	7.7	7.2	14.9
	244.2	**77**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

Transition Approach - Allocation of some new funding to local boards to achieve reasonable funding equity for most local boards in three years of LTP 2024 -2034 (10% reallocation, new funding - $55m opex and $65m capex)

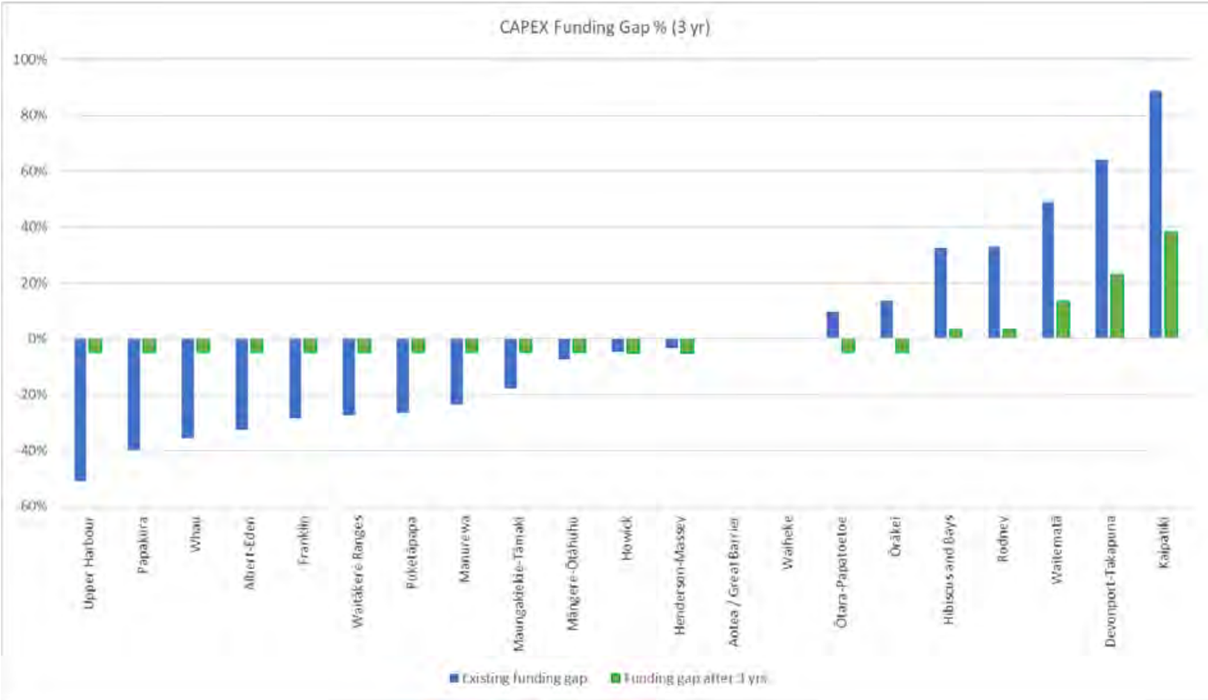
OPEX



	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	25.3	8.2	33.5
Aotea / Great Barrier	4.1	2.2	6.3
Devonport-Takapuna	22.7	-0.4	22.3
Franklin	31.9	4.4	36.3
Henderson-Massey	42.3	1.2	43.5
Hibiscus and Bays	38.0	-0.4	37.6
Howick	47.1	1.0	48.2
Kaipātiki	27.2	3.5	30.7
Māngere-Ōtāhuhu	38.9	-0.9	38.0
Manurewa	25.7	11.2	36.9
Maungakiekie-Tāmaki	31.1	-0.3	30.8
Ōrākei	27.9	0.2	28.2
Ōtara-Papatoetoe	34.7	-0.3	34.5
Papakura	28.9	-0.5	28.4
Puketāpapa	18.8	4.4	23.2
Rodney	27.4	12.6	40.1
Upper Harbour	27.4	-0.4	27.0
Waiheke	11.1	1.5	12.5
Waitākere Ranges	19.1	2.2	21.3
Waitematā	34.2	-0.5	33.7
Whau	24.7	6.0	30.6
	588.5	**55**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

CAPEX

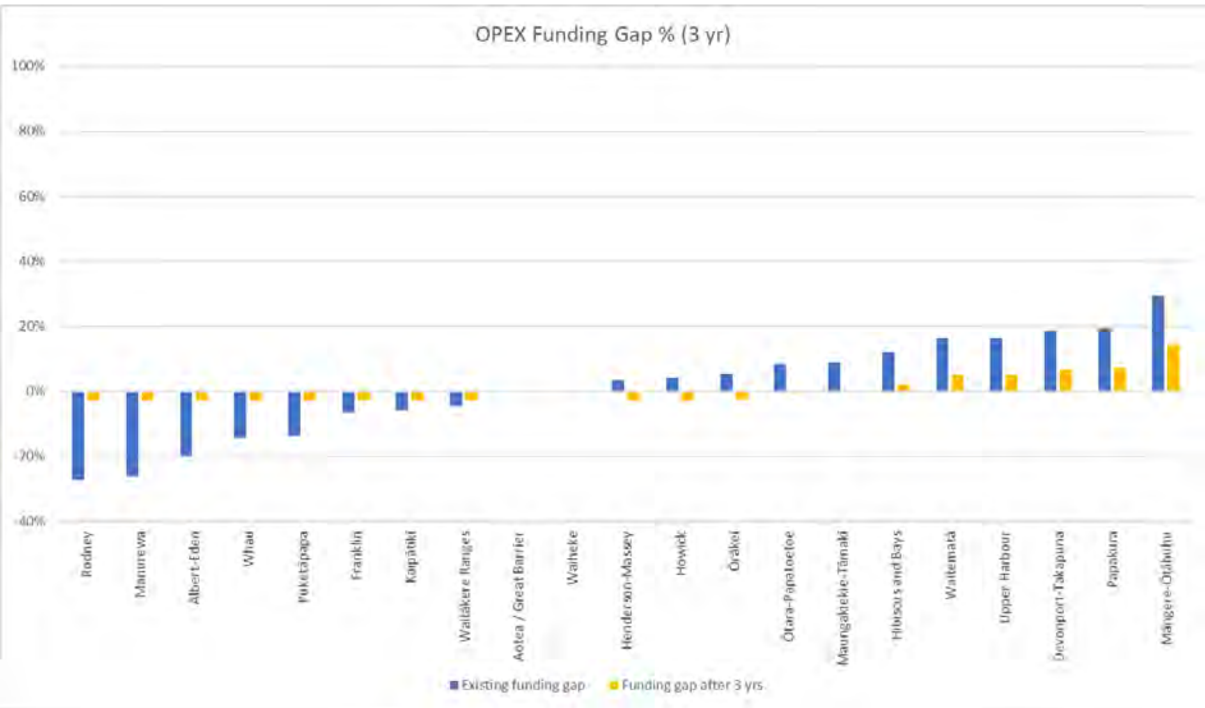


	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	8.8	6.9	15.7
Aotea / Great Barrier	1.3	1.6	2.9
Devonport-Takapuna	13.0	-0.5	12.5
Franklin	10.1	6.9	17.0
Henderson-Massey	16.4	4.0	20.4
Hibiscus and Bays	18.6	-0.5	18.2
Howick	17.9	4.7	22.6
Kaipātiki	22.6	-1.1	21.6
Māngere-Ōtāhuhu	11.5	3.4	15.0
Manurewa	11.0	6.3	17.3
Maungakiekie-Tāmaki	9.7	4.5	14.2
Ōrākei	12.5	0.7	13.2
Ōtara-Papatoetoe	14.6	1.4	16.0
Papakura	6.0	6.0	12.0
Puketāpapa	6.6	4.2	10.9
Rodney	20.8	-0.5	20.3
Upper Harbour	4.8	7.0	11.7
Waiheke	5.9	-0.1	5.9
Waitākere Ranges	6.0	4.0	10.0
Waitematā	18.2	-0.6	17.6
Whau	7.7	6.7	14.4
	244.2	**65**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

Transition Approach - Allocation of some new funding to local boards to achieve reasonable funding equity for most local boards in three years of LTP 2024 -2034 (25% reallocation, new funding - $40m opex and $50m capex)

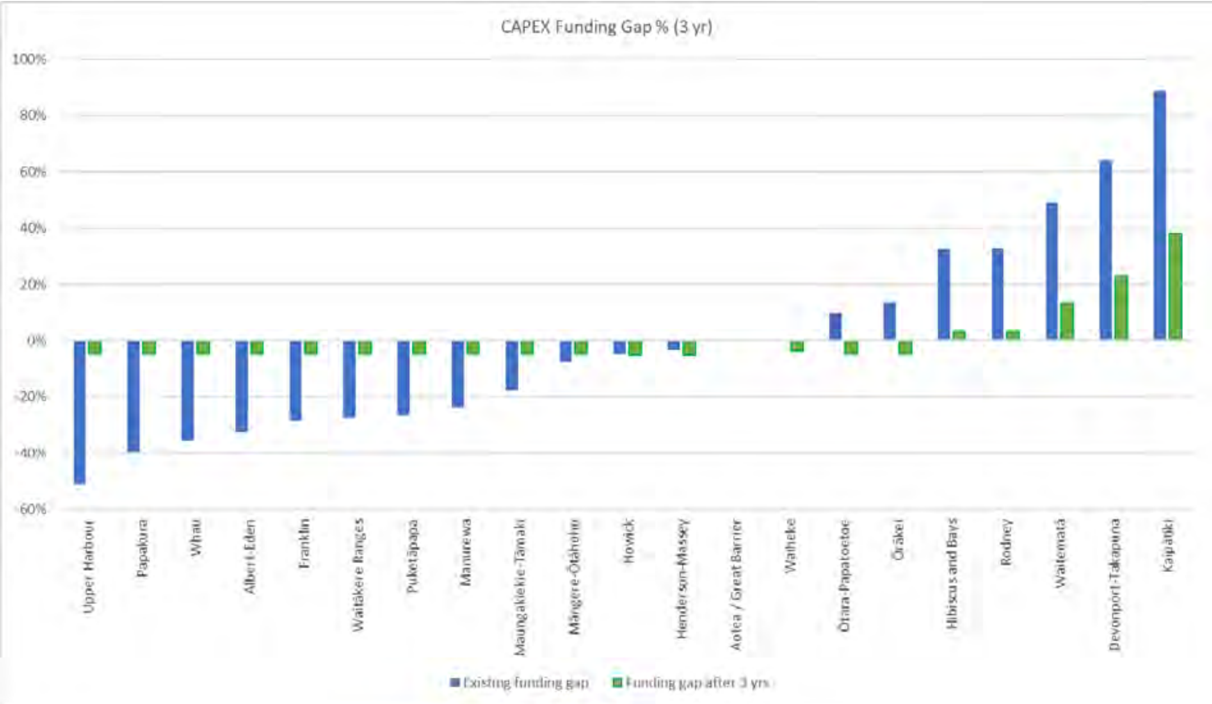
OPEX



	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	25.3	7.4	32.6
Aotea / Great Barrier	4.1	2.0	6.1
Devonport-Takapuna	22.7	-0.9	21.8
Franklin	31.9	3.5	35.4
Henderson-Massey	42.3	0.1	42.4
Hibiscus and Bays	38.0	-1.0	36.9
Howick	47.1	-0.2	47.0
Kaipātiki	27.2	2.8	30.0
Māngere-Ōtāhuhu	38.9	-2.2	36.6
Manurewa	25.7	10.3	36.0
Maungakiekie-Tāmaki	31.1	-0.6	30.5
Ōrākei	27.9	-0.4	27.6
Ōtara-Papatoetoe	34.7	-0.7	34.1
Papakura	28.9	-1.2	27.7
Puketāpapa	18.8	3.8	22.6
Rodney	27.4	11.6	39.1
Upper Harbour	27.4	-1.0	26.4
Waiheke	11.1	1.1	12.2
Waitākere Ranges	19.1	1.7	20.7
Waitematā	34.2	-1.2	33.0
Whau	24.7	5.2	29.8
	588.5	**40**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

CAPEX

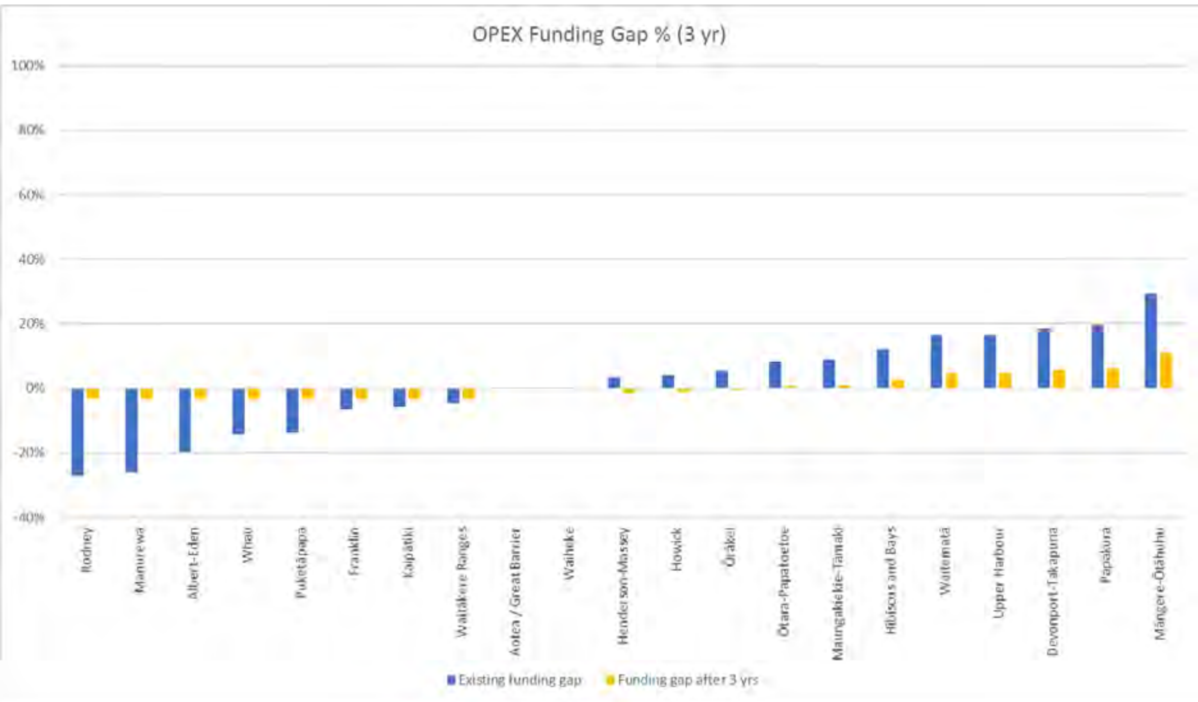


	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	8.8	6.2	15.0
Aotea / Great Barrier	1.3	1.5	2.8
Devonport-Takapuna	13.0	-1.3	11.8
Franklin	10.1	6.1	16.2
Henderson-Massey	16.4	3.1	19.4
Hibiscus and Bays	18.6	-1.1	17.5
Howick	17.9	3.6	21.5
Kaipātiki	22.6	-2.7	20.0
Māngere-Ōtāhuhu	11.5	2.7	14.3
Manurewa	11.0	5.5	16.5
Maungakiekie-Tāmaki	9.7	3.8	13.6
Ōrākei	12.5	0.1	12.6
Ōtara-Papatoetoe	14.6	0.6	15.2
Papakura	6.0	5.4	11.5
Puketāpapa	6.6	3.7	10.3
Rodney	20.8	-1.3	19.5
Upper Harbour	4.8	6.4	11.2
Waiheke	5.9	-0.3	5.7
Waitākere Ranges	6.0	3.5	9.5
Waitematā	18.2	-1.5	16.7
Whau	7.7	6.0	13.7
	244.2	**50**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

Transition Approach - Allocation of some new funding to local boards to achieve reasonable funding equity for most local boards in three years of LTP 2024 -2034 (50% reallocation, new funding - $20m opex and $30m capex)

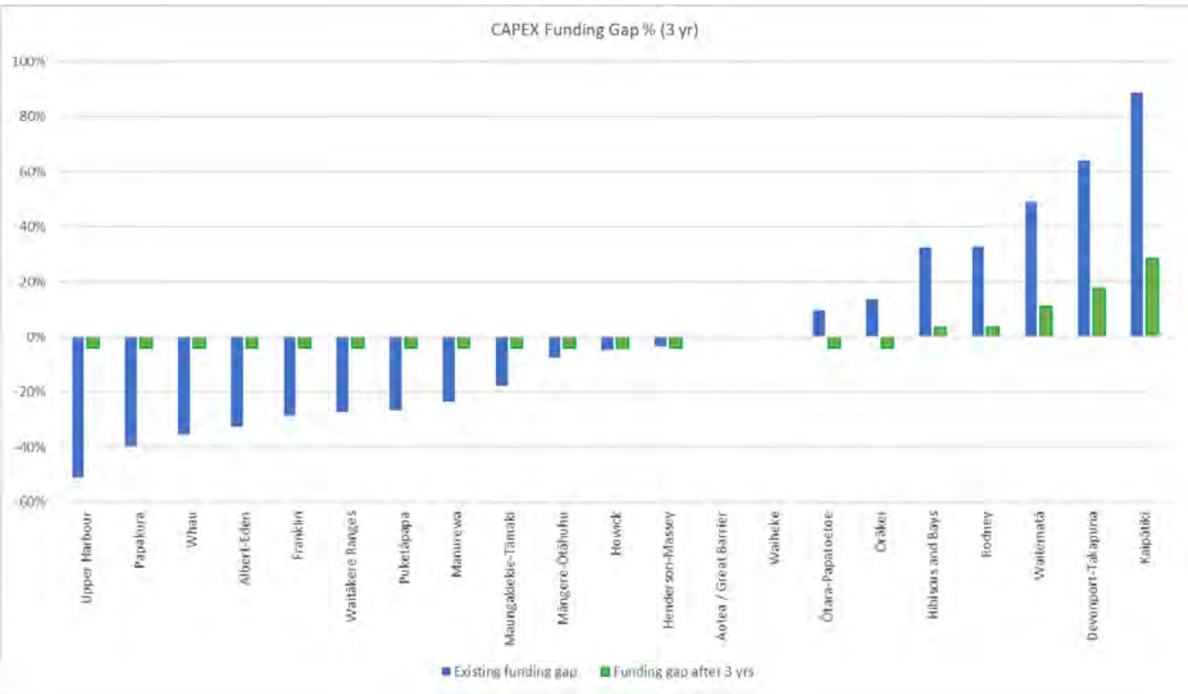
OPEX



	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	25.3	6.2	31.5
Aotea / Great Barrier	4.1	1.8	5.9
Devonport-Takapuna	22.7	-1.8	20.9
Franklin	31.9	2.2	34.1
Henderson-Massey	42.3	-0.7	41.6
Hibiscus and Bays	38.0	-2.1	35.9
Howick	47.1	-0.9	46.2
Kaipātiki	27.2	1.7	28.9
Māngere-Ōtāhuhu	38.9	-4.4	34.4
Manurewa	25.7	9.0	34.7
Maungakiekie-Tāmaki	31.1	-1.3	29.8
Ōrākei	27.9	-0.7	27.2
Ōtara-Papatoetoe	34.7	-1.3	33.4
Papakura	28.9	-2.4	26.5
Puketāpapa	18.8	3.0	21.8
Rodney	27.4	10.2	37.7
Upper Harbour	27.4	-1.9	25.5
Waiheke	11.1	0.7	11.8
Waitākere Ranges	19.1	0.9	20.0
Waitematā	34.2	-2.4	31.8
Whau	24.7	4.1	28.8
	588.5	**20**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

CAPEX

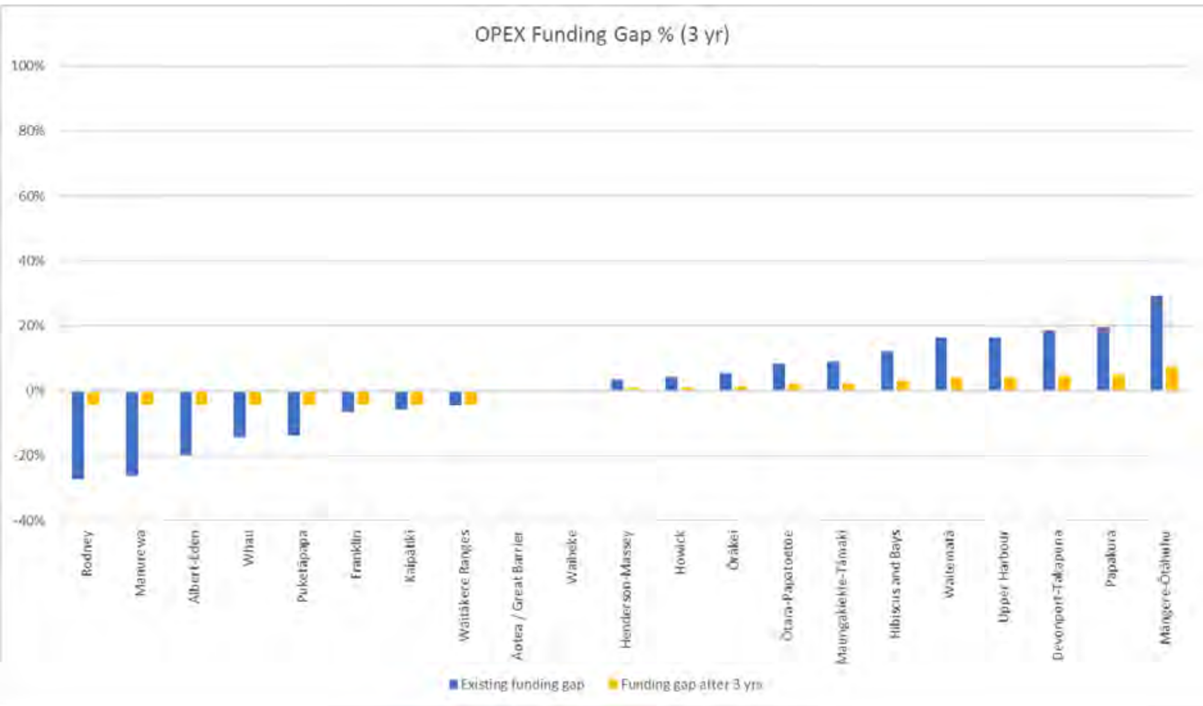


	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	8.8	5.3	14.1
Aotea / Great Barrier	1.3	1.3	2.6
Devonport-Takapuna	13.0	-2.5	10.5
Franklin	10.1	5.1	15.3
Henderson-Massey	16.4	1.9	18.3
Hibiscus and Bays	18.6	-2.3	16.3
Howick	17.9	2.4	20.3
Kaipātiki	22.6	-5.3	17.3
Māngere-Ōtāhuhu	11.5	1.9	13.4
Manurewa	11.0	4.5	15.5
Maungakiekie-Tāmaki	9.7	3.0	12.8
Ōrākei	12.5	-0.6	11.8
Ōtara-Papatoetoe	14.6	-0.3	14.3
Papakura	6.0	4.8	10.8
Puketāpapa	6.6	3.1	9.7
Rodney	20.8	-2.6	18.2
Upper Harbour	4.8	5.8	10.5
Waiheke	5.9	-0.5	5.4
Waitākere Ranges	6.0	2.9	9.0
Waitematā	18.2	-3.0	15.2
Whau	7.7	5.2	12.9
	244.2	**30**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

Transition Approach - Allocation of some new funding to local boards to achieve reasonable funding equity for most local boards in three years of LTP 2024 -2034 (75% reallocation, new funding – no additional opex and $10m capex)

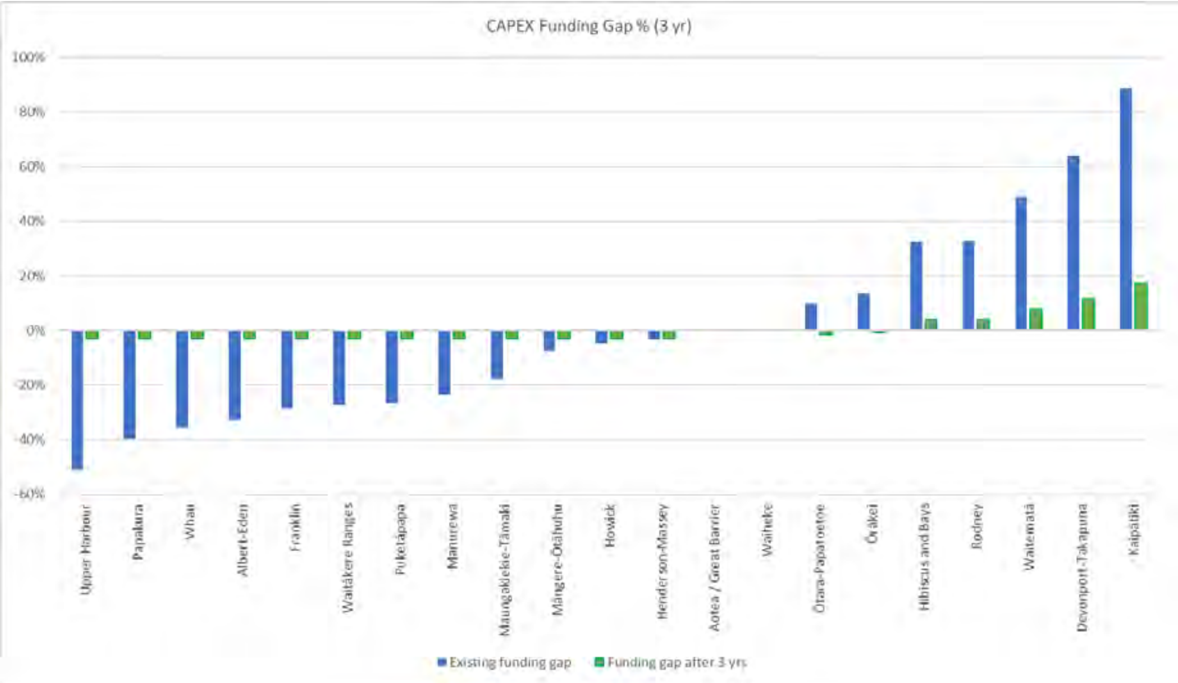
OPEX



	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	25.3	4.9	30.2
Aotea / Great Barrier	4.1	1.8	5.9
Devonport-Takapuna	22.7	-2.7	20.0
Franklin	31.9	0.8	32.7
Henderson-Massey	42.3	-1.1	41.3
Hibiscus and Bays	38.0	-3.1	34.9
Howick	47.1	-1.4	45.8
Kaipātiki	27.2	0.5	27.7
Māngere-Ōtāhuhu	38.9	-6.6	32.2
Manurewa	25.7	7.5	33.3
Maungakiekie-Tāmaki	31.1	-1.9	29.2
Ōrākei	27.9	-1.1	26.8
Ōtara-Papatoetoe	34.7	-2.0	32.7
Papakura	28.9	-3.6	25.3
Puketāpapa	18.8	2.1	20.9
Rodney	27.4	8.7	36.1
Upper Harbour	27.4	-2.9	24.5
Waiheke	11.1	0.7	11.8
Waitākere Ranges	19.1	0.1	19.2
Waitematā	34.2	-3.6	30.6
Whau	24.7	2.9	27.6
	588.5	**0**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

CAPEX



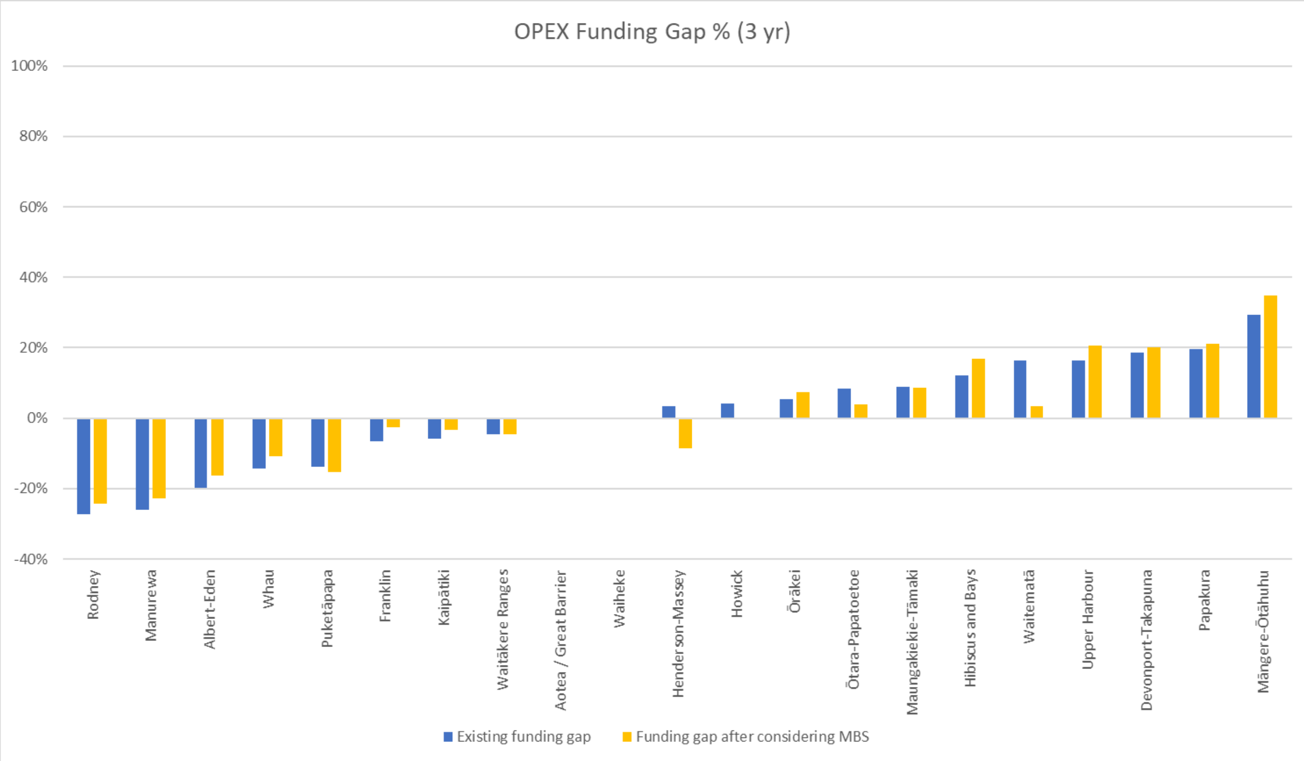
	Current ($m)	Funding Movement ($m)	After 3 Years ($m)
Albert-Eden	8.8	4.4	13.2
Aotea / Great Barrier	1.3	1.1	2.5
Devonport-Takapuna	13.0	-3.8	9.2
Franklin	10.1	4.2	14.3
Henderson-Massey	16.4	0.7	17.1
Hibiscus and Bays	18.6	-3.4	15.2
Howick	17.9	1.1	19.0
Kaipātiki	22.6	-8.0	14.7
Māngere-Ōtāhuhu	11.5	1.0	12.6
Manurewa	11.0	3.5	14.5
Maungakiekie-Tāmaki	9.7	2.2	11.9
Ōrākei	12.5	-1.1	11.4
Ōtara-Papatoetoe	14.6	-1.0	13.6
Papakura	6.0	4.1	10.1
Puketāpapa	6.6	2.5	9.1
Rodney	20.8	-3.8	16.9
Upper Harbour	4.8	5.1	9.8
Waiheke	5.9	-0.8	5.2
Waitākere Ranges	6.0	2.3	8.4
Waitematā	18.2	-4.5	13.7
Whau	7.7	4.4	12.0
	244.2	**10**	

This analysis is based on budget data as of 07 June 2023. The figures are the net present value of the three-year (2024/2025, 2025/2026, 2026/2027) budgets. LTP 2024 – 2034 decisions will have an impact on this analysis.
Aotea / Great Barrier and Waiheke are allocated 1% and 2% of the total funding.

Appendix F - Impact of MBS on Opex Equity

The graphs in this attachment show the change in opex equity rankings depending on the inclusion or exclusion of MBS programme in the equity analysis

Opex equity ranking showing the impact of considering MBS programme



This analysis is based on budget data as of 07 June 2023. LTP 2024 – 2034 decisions will have an impact on this analysis.

Examples of possible MBS facilities

The following list provides examples of services and facilities that may meet the criteria for MBS's. In all cases the service costs are at least $200,000pa to operate and in some cases initial analysis shows that at least half of users come from outside the host local board area.

This list is slightly different to the list presented in 2021 as current budget analysis has revealed that some of the facilities in the previous list do not cost at least $200,000pa to operate.

Further detailed analysis is required to better understand the location of the users of these facilities.

Type	Examples	Host Local Board
Sports fields, courts and stadia	Lloyd Elsmore Park Colin Maiden Park	Howick Ōrākei
Swimming pools	Albany Stadium Pool Glen Innes Pool Parnell Baths Pt Erin Pool Tepid Baths West Wave Aquatic Centre	Upper Harbour Maungakiekie-Tāmaki Waitematā Waitematā Waitematā Henderson-Massey
Other large parks	Barry Curtis Park Bruce Pulman	Howick Manurewa
Libraries and community places	Central City Library Pioneer Hall Te Manawa Multipurpose Facility	Waitematā Waitematā Henderson-Massey
Arts, Culture and Heritage	Corbans Estate Arts Centre Lopdell House Te Uru (Lopdell) Howick Historic Village Otara Music and Art Centre Wallace Art Centre	Henderson-Massey Waitākere Ranges Waitākere Ranges Howick Ōtara-Papatoetoe Puketāpapa

This analysis is based on budget data as of 07 June 2023. LTP 2024 – 2034 decisions will have an impact on this analysis.

Attachment I : Māori Outcomes Fund

Purpose

1. To provide background information about the Māori Outcomes Fund which is part of the current 10-year budget and proposed 10-year Budget 2024-2034.

Summary

2. Māori identity and wellbeing is one of six key outcomes outlined in the Auckland Plan 2050.
3. To advance this outcome, 10 strategic priorities are set in the council's 10-year Budget 2021-2031 with $150 million allocated specifically for supporting delivery of Māori outcome initiatives in addition to baseline budgets. The $150m budget is known as the Māori Outcomes Fund.
4. The Fund supports the delivery of Auckland Council's Māori Outcomes Performance Measurement Framework, Kia Ora Tāmaki Makaurau (KOTM). KOTM aligns these 10 strategic priorities with 10 mana outcomes – areas identified by Māori in Tāmaki Makaurau that matter most to them.
5. In its report to the Governing Body on 28 September 2023, the Māori Outcomes Political Working Group made a series of recommendations, including that (CP2023/14175):
   a. The Māori Outcomes Fund is retained for the 10 years 2024-2034, and that is it increased from $150m to $180m.
6. Notwithstanding an increase to $180m, $43.3m of funding will be required to bring the Fund up to $150m for the 10-year Budget 2024-2034.
7. The Māori Outcomes Fund has been fully allocated each financial year. Underspend has occurred when programmes and projects have encountered delays and delivery issues. Underspend has also occurred because projects have been stopped prematurely where there has been insufficient justification to continue a project, or performance has not been satisfactory.
8. Unspent funds have been either carried forward to enable the completion of projects, or funds have been reallocated to future years of the 10-year Budget.
9. In addition to the Māori Outcomes Fund, Māori outcomes are achieved via council and CCO programmes and projects that are funded through baseline budgets, or other sources including the Water Quality Targeted Rate and Natural Environment Targeted Rate.
10. Auckland Council and CCOs spend with Māori businesses, guided by sustainable procurement processes supports business and employment outcomes. Expenditure through regional and local grants also have aspects that deliver Māori outcomes.

Discussion

11. The $150m Māori Outcomes Fund was established following advocacy from the Independent Māori Statutory Board (IMSB) in the 10-year Budget 2018-2028. $37.9m of additional funding was provided in the 10-year Budget 2021-2031 to reinstate the Fund to $150m.
12. In 2021 the IMSB commissioned a Māori Outcomes Expenditure Review. The report recommended development of a strategy to support the implementation of KOTM.
13. The KOTM Implementation Strategy was developed in 2022, and work began to direct council and CCO resources and efforts to achieve the greatest impact for Māori. The Implementation Strategy will be reviewed periodically.
14. The Implementation Strategy prioritises the following outcomes based on the levers and mandate available to Council that can have the most impact for Māori:
    - Kia Ora te Hononga – Effective Māori participation;
    - Kia Ora te Umanga – Māori business, tourism and employment;
    - Kia Ora te Marae – Marae development;
    - Kia Hāngai te Kaunihera – An empowered Organisation;
    - Kia Ora te Taiao – Kaitiakitanga.

Allocation of the Māori Outcomes Fund

15. The Māori Outcomes Fund operates a rolling three-year investment plan allowing applications for new projects and initatives to apply for available (unallocated) funding annually.
16. The Māori Outcomes Fund budget for financial years 2021 to 2031 has been allocated to existing projects and programmes. These initiatives will be captured in the 10-year Budget 2024-2034, as noted in Table A.
17. To date Ngā Mātārae has managed the Māori Outcomes Fund in line with the available budget provided for in the 10-year Budget. Working within this envelope, while still supporting the delivery of positive Māori outcomes, has meant new initiatives have not been pursued and opportunities have been missed.
18. Ngā Mātārae will be actively exploring how the Māori Outcomes Fund can be leveraged to achieve more and improved outcomes through partnerships with iwi, philanthropic organisations, and other agencies where possible.

Rationale for a CPI increase

19. The Māori Outcomes Political Working Group advocated for an increase to the Māori Outcomes Fund from $150m to $180m to take account of the effect of CPI that has not been accounted for since the inception of the Fund in 2018.
20. Through representation on the Māori Outcomes Political Working Group, the IMSB has advocated for the Māori Outcomes Fund (including any increase) to be allocated towards
    - greater resourcing for iwi to engage with Auckland Council processes
    - Energy Efficient Marae
    - the development of Māori economic innovation hubs

- Māori led funding initiatives, to respond to cost-of-living increases.

21. The new initatives put forward by the IMSB are in addition to a growing interest in the Fund and pipeline of projects particularly in the Kia Ora te Taiao outcome area where there is considerable opportunity for iwi to lead and deliver initiatives.

22. Inflation has eroded Council's ability to provide equal value to all marae that are supported via the Marae Infrastructure Programme. In previous years, Auckland Council was able to address more issues related to the condition of buildings and infrastructure when compared to the current year. This is due to the rising cost of materials and services over time, and this has created an inequality of outcomes for marae.

23. Notwithstanding an increase to $180m, $43.3m of funding will be required to bring the Fund up to $150m for the 10-year Budget 2024-2034. Without this top up the ability to deliver priority outcomes will be further diminished.

Performance of the Māori Outcomes Fund

24. For the financial year 2022/2023, the direct Māori Outcomes Fund spend on activities specific to Māori identity and wellbeing was $10.7 million (61 per cent) of the $17.6 million budget.

25. The primary reasons for the underspend were project capacity constraints leading to delays in the Marae Infrastructure Programme, and constraints delaying the scoping and roll-out of a new programme directly supporting iwi and mataawaka capacity.

26. Prior to the financial year 2022/2023, the average actual spend compared to budget since the inception of the Māori Outcomes Fund was 77%. Underspend has also occurred because projects have been stopped prematurely where there has been insufficient justification to continue a project, or performance has not been satisfactory.

27. Ngā Mātārae is focused on ensuring that the result for financial year 2023/2024 will be considerably improved compared to past performance. Mechanisms that are in place to support this include greater scrutiny of project development through all stages of project development (particularly in the business case phase), and redirecting budgets to alternative projects in the pipeline, in January each year, if there is an unavoidable likelihood of underspend arising.

28. To date, unspent funds have been either carried forward to enable the completion of projects, or funds have been reallocated to future years of the 10-year Budget.

Appendix

No.	Title
A	Table A - Māori Outcomes Fund

Appendix A: Māori Outcomes Fund: Table A – Current programme and project allocations FY2025 to FY2031

Initiative	Alignment to Kia Ora Tāmaki Makaurau	Description	Current Allocations 2025-31 ($m)
Marae Infrastructure Programme	Marae Development	Completing the remaining programme of work supporting the resilience of up to the 33 mana whenua and mataawaka marae infrastructure through maintenance and renewals.	38.2
Māori Cultural Investment Fund	Marae Development / Papakāinga	Providing mana whenua and mataawaka marae with financial assistance to support maintenance and renewals, governance, and consent-related costs. Provide new marae with financial assistance to support business case, feasibility, and master planning. Includes funding to support the capacity and capability of iwi, hapū, whānau and Māori organisations to develop papakāinga.	8.4
Capacity Contracts	Effective Māori Participation	Enabling mana whenua capacity to build relationships with council and contribute to the decision-making process, including the Tāmaki Makaurau Kaitiaki Forum. Includes capacity funding for mataawaka entities.	36.3
Resilient Marae Programme	Marae Development / Te Taiao	The project supports mana whenua to exercise their kaitiakitanga obligations; support marae to lead responses to climate change; and enable resilient Māori communities to create system change. Māori Outcomes funding is used to accelerate the programme that originates in the Natural Environment Targeted Rate programme.	0.8
Marae and Whenua Adaptation Plans	Marae Development / Te Taiao	Support and enable Māori in Tāmaki Makaurau to develop guidance and templates for Adaptive Management Plans in the context of natural hazards and effects of climate change on marae, sites of significance and collectively owned Māori land.	0.3
Puhunui Regeneration Programme	Te Taiao/ Hononga	Support Te Waiohua Iwi (Ngāti Te Ata, Ngāti Tamaoho, Te Ākitai o Waiohua) to develop projects in line with their kaitiakitanga and manaakitanga in the Puhunui catchment.	0.4
Pukekohe Cemetery Project	Whanau	The Pukekohe Cemetery Committee unites the Pukekohe Māori community, represented by Nga Hau e Wha Marae members, with Franklin Local Board members. Its sole purpose is to establish a suitable memorial for those resting in the cemetery's 200 unmarked Māori graves – many of them tamariki.	0.5
Unallocated Opex Funding		Funding to be allocated to further projects and programmes.	47.9
Total (7 yrs)			**$132.8m**