I hereby give notice that an ordinary meeting of the Finance and Performance Committee will be held on:

Date:	**Thursday, 1 June 2017**
Time:	**9.30am**
Meeting Room:	**Reception Lounge**
Venue:	**Auckland Town Hall 301-305 Queen Street Auckland**

Finance and Performance Committee

OPEN ADDENDUM AGENDA

MEMBERSHIP

Chairperson	Cr Ross Clow	
Deputy Chairperson	Cr Desley Simpson, JP	
Members	Cr Dr Cathy Casey	Cr Mike Lee
	Deputy Mayor Bill Cashmore	Cr Daniel Newman, JP
	Cr Fa'anana Efeso Collins	Cr Dick Quax
	Cr Linda Cooper, JP	Cr Greg Sayers
	Cr Chris Darby	Cr Sharon Stewart, QSM
	Cr Alf Filipaina	IMSB Chair David Taipari
	Cr Hon Christine Fletcher, QSO	Cr Sir John Walker, KNZM, CBE
	Mayor Hon Phil Goff, CNZM, JP	Cr Wayne Walker
	Cr Richard Hills	Cr John Watson
	IMSB Member Terrence Hohneck	
	Cr Penny Hulse	
	Cr Denise Lee	

(Quorum 11 members)

Mike Giddey
Senior Governance Advisor

30 May 2017

Contact Telephone: (09) 890 8143
Email: mike.giddey@aucklandcouncil.govt.nz
Website: www.aucklandcouncil.govt.nz

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

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Final Annual Budget 2017/2018 - Mayoral Proposal

File No.: CP2017/10041

Purpose

1. To present the Mayoral proposal for the final Annual Budget 2017/18 for deliberation and decision-making.

Executive summary

2. The Governing Body adopted the annual budget consultation document in February this year which identified the key issues on which the council was seeking feedback before adopting the Annual Budget 2017/18.
3. The mayoral proposal for the Annual Budget 2017/18 places high priority on rating stability to restore public confidence in the council, supporting vulnerable Aucklanders and on implementing a more equitable revenue strategy that creates the financial headroom for the acceleration of infrastructure investments to relieve transport and housing pressures in the region.
4. The Annual Budget 2017/18 includes $208 million additional capital expenditure on infrastructure, primarily for transport. This provides a strong signal of my future priorities for next year's Long Term Plan with a core focus on infrastructure that supports housing construction, particularly transport and water. To enable this there will be a continued emphasis on alternative funding sources such as targeted rates, road pricing and the government's Housing Infrastructure Fund.
5. The key issues for consultation were that the general rates increase be limited to 2.5 percent in 2017/18. Achieving this requires the Uniform Annual General Charge to increase by 2.5 percent and the business-residential rating differential to be held at its 2016/17 level. Targeted rates for funding ATEED's tourism promotion and for growth infrastructure were also consulted on, as was a living wage for council staff who provide important services to Auckland but struggle to afford to live in the region.
6. The Annual Budget 2017/18 proposal seeks to share the burden of growth more fairly among those who live and benefit from working in Auckland, to continue to generate savings across the council group and to allow ratepayer funds to be redirected into much needed infrastructure projects that will relieve the growing pressure on our region.
7. It is a budget that allows the council to begin to address the primary pressures of housing affordability and transport congestion in Auckland within the confines of the council's borrowing constraints. And it indicates to Government and Auckland residents that Auckland Council is doing everything it can to raise revenue, address Auckland's most pressing challenges and operate efficiently with the limited tools it has available.

Recommendation/s

That the Finance and Performance Committee:

a) recommends that the Governing Body adopts an average increase to both the fixed and variable portions of the general rate for existing ratepayers of 2.5 per cent for the final Annual Budget 2017/18

b) recommends that the Governing Body agrees to amend the council's Revenue and Financing Policy to pause the Long-Term Differential Strategy for the 2017/18 year and extend the time to reach the target proportion of 25.8 percent of rates from the business sector until 2037/38

c) recommends that the Governing Body, as part of the final Annual Budget 2017/18, agrees to a targeted rate on commercial accommodation providers to fund a proportion of the visitor attraction and major events expenditure of Auckland Tourism, Events and Economic Development (ATEED) as follows:

i) the amount of the targeted rate is set at 50 percent of ATEED's budgeted expenditure on visitor attraction and major events, being $13.45 million

ii) in consideration of the distribution of benefits and affordability for commercial accommodation providers, they be categorised by type into three tiers:

- Tier 1 comprising hotels and serviced apartments
- Tier 2 comprising motels, lodges and motel-like accommodation in campgrounds
- Tier 3 comprising other accommodation providers such as backpackers, campgrounds and hostels

iii) in further consideration of the distribution of benefits for commercial accommodation providers, they be categorised by location into three zones:

- Zone A comprising the local board areas of Albert-Eden, Devonport-Takapuna, Mangere-Otahuhu, Maungakiekie-Tamaki, Orakei, Waitemata
- Zone B comprising the local board areas of Henderson-Massey, Hibiscus and Bays, Howick, Kaipataki, Manurewa, Otara-Papatoetoe, Puketapapa, Upper Harbour, Waiheke, Whau
- Zone C comprising the local board areas of Franklin, Great Barrier, Papakura, Rodney and Waitakere Ranges

iv) the targeted rate is applied on a differential basis based on the type and location as set out in the following table:

Differential ratios		Provider type		
		Hotels and serviced apartments	Motels and Lodges (including motel-like accommodation at campgrounds)	Other (Backpackers, campgrounds, hostels)
Location	Zone A	1.0	0.6	0.0
	Zone B	0.5	0.3	0.0
	Zone C	0.0	0.0	0.0

Note: The change from the original proposal is set out in paragraph 21.

v) the council will consider applications for remission under its existing rate remission scheme (Remission of rates for miscellaneous purposes), for example where the owner/ratepayer are separate from the accommodation operator and the nature of the relationship between the parties means the targeted rate is unable to be passed on to the accommodation operator

vi) staff report back on the development of a more targeted remission scheme as part of the Long Term Plan 2018-28

vii) staff report back on a proposal for 2018/19 for the inclusion of informal accommodation providers currently being rated as residential properties

viii) staff report back on a proposal for the introduction of alternative governance arrangements of ATEED, including greater participation for commercial accommodation providers appropriate to their level of funding of ATEED's activities

ix) the council's Revenue and Financing Policy be amended to provide for targeted rates to be used to fund visitor and external relations, destination and marketing and major events in the Economic Growth and Visitor Economic activity

x) the $13.45 million of general ratepayer funding no longer required to fund ATEED be used to fund transport infrastructure projects, specifically mass transit to the airport and other airport access improvement projects

xi) note that ATEED's future role and activities will be considered as part of the Long Term Plan 2018-28

xii) note that the Mayor is open to discussing with the industry any proposals it wishes to put forward for an industry-led and funded regional tourism organisation as a partial or complete alternative to using a targeted rate to fund ATEED's tourism promotion activities

d) recommends that the Governing Body agrees to amend the council's Revenue and Financing Policy to facilitate future proposals to the Governing Body on the use of targeted rates to fund growth infrastructure

e) recommends to the Governing Body that Auckland Council group implements a living wage policy over the council term to October 2019 as follows:

i) the rate will initially be based on the reference living wage published by the Living Wage Movement Aotearoa New Zealand for 2017 being $20.20, and thereafter will be calculated based on council wage inflation

ii) the living wage applies to Auckland Council and its substantive council-controlled organisations and excludes contractors and volunteers

iii) a phased implementation approach be employed to ensure the greatest benefit is received by people earning lower than a living wage in priority to addressing relativity issues

iv) a complementary Trainee, Cadet, Intern and Apprenticeship rate is developed

v) the operating budget for the final Annual Budget 2017/18 include costs of $1.9 million for living wage policy implementation and that this be offset by savings

f) recommends that the Governing Body agrees to the operating and capital budgets incorporating the above rating and other changes and the following other key changes to rates policy and capital and operating budgets for the final Annual Budget 2017/18 as below:

i) $500,000 operating budget to fund collaborations on homelessness

ii) $10 million of Auckland Transport operating budget to fund mass transit network investigations

iii) updated capital budgets for City Rail Link which reflect an increase of $240 million in council's share of net capital investment by 2024/25 (revised total council investment of $1.7 billion)

iv) an additional $161 million capital budget to accelerate transport investment (including $30 million for mass transit land acquisition)

v) $7.2 million of additional capital budget for works on either side of the Skypath construction

vi) $10 million of capital budget for cruise ship infrastructure

vii) $20 million of stormwater capital budget brought forward from future years to address weather event resilience

viii) additional capital budget of $10.2 million for Regional Facilities Auckland to construct a shared plant facility for services to the Town Hall and Aotea Centre

ix) waste management services and charges be standardised in accordance with staff recommendations

x) Manukau, Uptown and Wiri business improvement districts be expanded in accordance with staff recommendations

Comments

Background

8. Auckland has benefited from unprecedented population growth, but it has placed the region and its people under immense pressure. Traffic congestion turning to gridlock is costing Auckland and New Zealand billions in lost productivity each year. That and housing unaffordability are the challenges that must be addressed as priorities for Auckland.

9. Although Auckland Council has a limited suite of tools with which to address the challenges facing Auckland, the Annual Budget 2017/18 sets out a number of proposals which will ensure the council restricts general rate rises and provides value for money to Aucklanders, develops new revenue streams which allows for ratepayer funds to be redirected to much needed infrastructure projects and helps the most vulnerable Aucklanders.

10. The budget was proposed on 30 November 2016 and accepted as a proposal for consultation by the Governing Body on 15 December 2016.

11. In February this year the Governing Body adopted a consultation document which set out for the community the key issues to receive feedback on before adopting the Annual Budget for 2017/18. The consultation issues reflected the desire to reinforce the rating stability that has arisen from the standardisation of rating policy across the Auckland region. A core objective of the mayoral proposal is that both residential and business ratepayers receive an average general rates increase of 2.5 percent in 2017/18.

Rating policy

Note officer reports on these issues are attached to this report

Rating stability

12. Public submissions received were strongly supportive of the rating stability policies of setting the average general rates increase for both residential and business ratepayers at 2.5 percent, and of pausing the implementation of the long-term differential strategy for business and residential rates for one year. The officers' report notes "clear majority support for rebalancing how services and capital investment in Auckland is funded to shift some of the burden from general ratepayers to those who more directly benefit from the expenditure".

13. The updated budget prepared by council staff based on a 2.5 percent general rates increase contains efficiency savings for both the council parent and CCOs, which can be achieved without reducing service levels and without compromising the council's prudential limits.

14. Importantly, a general rates increase of 2.5 percent, while delivering the services Aucklanders expect of their Council, maintains pressure on the Council group of organisations to achieve ongoing savings of at least 3 percent across this term of Council.

15. From 2018/19 general rate rises will be influenced by the future path of inflationary pressures. The Consumer Price Index increased by 2.2 percent in the March 2017 quarter, though consumer price inflation is forecast to remain subdued. Nevertheless, the council will need to take into account the impact of inflationary pressures in critical areas, such as the construction sector.

Accommodation provider targeted rate

16. The use of targeted rates provides the council with an opportunity to better and more fairly allocate the funding for specific expenditure between different groups of ratepayers. The visitor attraction and major events expenditure of ATEED has contributed to the growth in the visitor economy of Auckland. This growth provides both general benefits for Auckland and clear and direct benefits for the tourism industry. In particular, it directly benefits commercial accommodation providers, whose customers are overwhelmingly visitors to Auckland.

17. The consultation process has provided significant feedback, showing strong support from ratepayers and providing information from the detailed submissions of industry participants. I have continued to engage with the hotel industry during the period after consultation closed, meeting a number of key industry players, both owners and management.

18. In consideration of the staff report on this matter (attached as Attachment A), along with workshops and discussions with councillors and industry participants, I have revised my proposal for the accommodation provider targeted rate.

19. The revised proposal reflects the weighing of a number of factors as set out in the staff report in paragraph 76. As a result, the revised proposal retains a significant proportion of general rates funding of ATEED's visitor attraction and major events expenditure. The revised proposal also differentiates the application of the rate based on accommodation provider types and their location. It also takes into account a judgement regarding the relative affordability of the rate on different accommodation provider types, including the providers' ability to pass it on to their customers, if they decide to do so. More broadly, the overall impact on the community (general ratepayers) of meeting the region's revenue needs is an important consideration.

20. The revised proposal is for half of the $26.9 million ATEED visitor attraction and major events expenditure to continue to be funded by general rates, and for half to be funded by the accommodation provider targeted rate. This 50/50 apportionment is a political judgement applying a "stand back" evaluation of the factors set out in the staff report, including consideration of ATEED expenditure that has less direct benefit for accommodation providers.

21. The table below shows how the modified accommodation provider targeted rate differential ratios will be applied and includes additional information as to how this compares to the original proposal.

Differential ratio and estimated rates increase		**Provider type**		
		Hotels and serviced apartments	Motels and lodges (including motel-like accommodation at campgrounds)	Other (campgrounds, backpackers, hostels)
Location	**Zone A**			
	Differential ratio	**1.0**	**0.6**	**0.0**
	Average rates increase	64%	58%	
	% of original proposal	60%	36%	
	Average $ per room per night	$3-$6	$2-$3	
	Zone B			
	Differential ratio	**0.5**	**0.3**	**0.0**
	Average rates increase	36%	30%	
	% of original proposal	30%	18%	
	Average $ per room per night	$2-$4	$1-$2	
	Zone C			
	Differential ratio	**0.0**	**0.0**	**0.0**

NOTE: Amounts are estimates only and are stated exclusive of GST

22. A rate collecting $13.45 million would create capacity for about an additional $100 million of capital investment in transport infrastructure over the next six years.

23. As set out in the staff report, the revised proposal includes the use of the council's existing rate remission scheme and provision for the development of a bespoke scheme. Submissions provided information about certain accommodation operating models, such as some strata-title serviced apartments owned by investors, where the nature of the relationship between the owner and accommodation operator means in some cases the targeted rate is unable to be passed on to the operator.

24. I propose to consider whether the informal sector, such as Airbnb, should be included from the 2018/19 year for the Long Term Plan. A rating policy for these accommodation providers, including their status as business or residential ratepayers, will be developed over the coming months and reported back to the Finance and Performance Committee for consideration.

25. ATEED's future role and functions will be considered as part of the Long Term Plan 2018-28, which is already partly underway in the economic development work stream of the section 17A reviews. Specifically, the visitor attraction expenditure for future years will be significantly influenced by industry participants as part of the governance structure that will be set up.

26. Some industry participants have approached the Mayoral Office with the suggestion of an industry-led and funded regional tourism organisation as an alternative to using a targeted rate to fund ATEED's tourism promotion activities. To date no specific proposal has been submitted by the industry, and it is not possible to gauge whether this idea has significant support within the industry. Notwithstanding this, I am open to discussing with the industry any proposals it wishes to put forward over the coming twelve months.

<u>Growth infrastructure targeted rate</u>

27. The Auckland Unitary Plan has enabled significant intensification of existing urban areas and identified 11,000 hectares of new areas – which could deliver 422,000 new homes by 2040.

28. While urban development can progress quickly, rural land identified for development lacks the required infrastructure such as roads, sewers, water supply and community amenities to support new housing. Currently this infrastructure is funded partly from external sources (such as NZTA) and from council's development contributions and infrastructure growth charges. These lump sum charges are payable when a new dwelling is consented or connected to water and wastewater networks. These funding mechanisms create two particular issues, being that they are often insufficient to pay for the infrastructure that must be built, and secondly that they offer no incentive for landowners to develop their land.

29. 66 percent of written submissions supported this proposal to amend the Revenue and Funding Policy to add growth infrastructure targeted rates to the council's rating toolkit which can be used to affect the acceleration of development of new housing areas and may curb landbanking – a growing issue and outcome from steadily increasing property values in Auckland.

30. The detailed policy of growth infrastructure targeted rates will be developed for inclusion in the Long Term Plan 2018-28. It is envisaged that growth infrastructure targeted rates be used alongside the existing development contributions and infrastructure charges, as an annual payment that spreads the cost of infrastructure over several years and can be levied ahead of development occurring. This would have the advantages of incentivising development of land, reducing the current reliance on ratepayers to subsidise new housing developments, more closely link the rates paid by landowners to the uplift in value of their land as a result of it being available for development, and establishing a more predictable and secure revenue stream for council.

Other budget changes

Living wage policy

31. The 2017/18 budget will mark the first stage of implementing a living wage policy across the Auckland Council group. By raising the minimum wage for our staff to $18.00 an hour in the first year we are setting down the path of making a significant difference to our lowest paid employees. This change also has the benefit of being a positive shift for gender pay equity. 71 percent of the submissions received through the public consultation process were in support of a living wage.

32. Importantly, the officers' report (refer Attachment C) recommends the establishment of a separate wage and guidelines for employees taking part in council's trainee, cadet, apprenticeship and internship programmes to ensure that our commitment to invest in youth and other programmes with social outcomes is maintained.

Homelessness

33. As New Zealand's largest city, Auckland faces significant challenges in relation to homelessness. Council is not best suited to lead efforts to reduce homelessness but can have significant influence on the issue as a facilitator of inter-agency efforts.

34. The annual budget proposes that Council contribute $500,000 a year towards coordinating central government agencies such as Housing NZ, MSD, DHBs and Police with NGOs and private businesses supporting the homeless in Auckland. A significant portion of this investment will go towards implementing the housing first model in the region, where the homeless are provided with a stable and healthy home with support services around them.

35. As a facilitator, Council will be able to best influence and help direct efforts that will have a measurable and positive affect on homelessness in Auckland.

36. Homelessness is not just an Auckland Council problem. The Government has acknowledged the issue by putting $3 million over three years towards community agencies working with the homeless.

Mass Transit Network

37. Auckland continues to face serious transport access issues involving the city centre, the inner suburbs, the airport and the South. An expanded and well-connected mass transit network is at the heart of Auckland Transport's plans for supporting growth in existing and future urban areas. Investigation and design of potential mass transit solutions continues and requires $10 million of increased operating budget in 2017/2018, with $30 million of capital budget for route protection including property acquisition. In addition, general rates funding freed up by the accommodation provider targeted rate will contribute further to airport access improvement projects, including mass transit to the airport.

Attachments

No.	Title	Page
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B⇩	Other rates policy issues	45
C⇩	Implementing a living wage	53

Signatories

Author	Mayor Hon Phil Goff, CNZM, JP

Annual Budget 2017/2018 - Key Budget and Rating issues

Purpose

1. This report considers matters related to the finalising of the budget and the funding of that budget through key rating decisions with particular reference to:
   - Updated budget information
   - Feedback from consultation
   - Options to respond to feedback
   - Analysis of those options

Executive summary

2. The 2017/2018 Annual Budget represents year three of the 10-year budget in the Long-term Plan (LTP) 2015-2025. It is the first opportunity for the newly elected Mayor and Council to review the budgets since the 2016 election. The Mayor, exercising his leadership role as set out in the Local Government (Auckland Council) Act 2009, proposed some changes to year three of the LTP, covering increased infrastructure investment, a living wage policy for council staff, overall affordability of rates and rebalancing the distribution of rates.
3. The LTP 2015-2025 was prepared with an ambitious investment programme, catering for the growth of Auckland, while managing to keep debt ratios in a position to maintain the council's AA credit rating. Rates increases were capped at 3.5 per cent. Since then the population growth of Auckland and the resultant demand for housing and its supporting infrastructure, have exceeded the predictions of the LTP. This in turn is putting further pressure on the investment programme and the balancing of revenue and debt ratios going forward.
4. The Annual Budget 2017/2018 Consultation Document sought public feedback on a range of issues, including several to address rating affordability while allowing investment in Auckland infrastructure to continue.
5. The consultation process ran between 27 February and 27 March 2017. 8058 written submissions were received, 2510 people attended Have Your Say events and 103 items of feedback were received through social media.
6. Consultation feedback supported an average rates increase of 2.5 per cent, and the council's proposal on the four other key issues. There was clear majority support for rebalancing how services and capital investment in Auckland is funded to shift some of the burden from general ratepayers to those who more directly benefit from the expenditure. The proposal for an accommodation provider targeted rate was supported by 66 per cent of submitters and opposed by 20 per cent. Accommodation providers themselves (and associated interest groups) made a significant number of written submissions which opposed the proposal.
7. Review of group budgets identified cost pressures, savings opportunities, assumption updates, project timing changes and proposals to bring to council for decisions. Pressures identified in the budget review were offset by further reductions in projected interest costs and additional efficiency savings targets across the group, resulting in the ability to contain the rate increase to 2.5 per cent.
8. Maintaining the council's credit rating is very reliant on debt to revenue ratios. Agreeing to the proposed budget would result in forward projections for this ratio being slightly above the recommended cap of 265 per cent. It is strongly recommended that action be taken to contain the ratio to below 265 per cent. The accelerating growth of Auckland and the consequent investment in infrastructure will continue to put pressure on these ratios in the next few years. In

order to manage this issue, consideration of selling some non-strategic assets as well as creating additional revenue will be necessary.

9. This report covers three rating policy issues which are relevant to the management of revenue at a level which will support the ongoing investment in infrastructure, while balancing affordability across groups of ratepayers. The three issues are:

- Paying for tourism promotion – the proposal to fund ATEED expenditure on visitor attraction and major events from a targeted rate on commercial accommodation providers.
- Rating stability – the proposal to pause, for one year, the long term differential strategy, which has been shifting the incidence of rates from the business to the non-business sector each year.
- Paying for housing infrastructure – the proposal to allow for targeted rates on new housing developments, alongside current growth charges, to pay for the infrastructure required.

10. In making the decisions on this Annual Budget, the Council needs to consider the balance between:

- The need to continue to invest in key infrastructure for Auckland as the city continues to outstrip growth predictions.
- Reducing debt through the sale of non-strategic assets.
- Maintaining revenue at a level to support the key debt to revenue ratios.
- New approaches to allocating liability for revenue needs between groups of ratepayers, alongside considering the affordability impacts on different parts of the community.

Recommendations to the Mayor

a) That the following key changes to capital and operating budgets for the final Annual Budget 2017/2018 are agreed:

  (i) $1.9 million to support the implementation of a living wage policy for council staff (covered in a separate report on this agenda)

  (ii) $500,000 operating budget to fund collaborations on homelessness

  (iii) $10 million of AT operating budget to fund mass transit network investigations

  (iv) updated capital budgets for City Rail Link which reflect an increase in net capital investment of $240 million by 2024/2025

  (v) an additional $161 million capital budget to accelerate transport investment (including $30 million for mass transit land acquisition)

  (vi) $7.2 million of additional capital budget for works on either side of the Skypath construction

  (vii) $10 million of capital budget for cruise ship infrastructure

  (viii) $20 million of stormwater capital budget brought forward from future years to address weather event resilience

  (ix) additional capital budget of $10.2 million for RFA to construct a shared plant facility for services to the Town Hall and Aotea Square

b) That capital and operating budgets for the final Annual Budget 2017/2018 are agreed as set out in Attachment A1 and A2 with an average increase to both the fixed and variable portions of the general rate for existing ratepayers of 2.5 per cent.

c) That it is noted that the investment decisions for 2017/2018 and the known need for continued investment in the transport network and infrastructure for housing will put pressure on key balance sheet ratios, and that options to reduce this pressure are included in this report.

d) That the Group Chief Financial Officer be authorised to fully withdraw and close the Diversified Financial Asset Portfolio in the 2017/2018 year.

e) That a targeted rate on commercial accommodation providers be established to fund a proportion of the visitor attraction and major events expenditure of Auckland Tourism, Events and Economic Development (ATEED) as follows:

  (i) the amount of the targeted rate is set at a level materially less than the $27.8 million proposed by council in the consultation material, with the balance continuing to be funded by general rates

  (ii) consideration be given to a differential to recognise different categories of commercial accommodation provider:

    i. hotels and serviced apartments
    ii. motels, lodges and motel-like accommodation in campgrounds
    iii. other accommodation providers such as backpackers, campgrounds and hostels

  (iii) consideration be given to a geographic differential to recognise feedback that there are variations in the distribution of benefits between properties in the CBD and airport precincts and other areas, with the differential recognising two categories:

    i. CBD and airport
    ii. others

  (iv) for the 2017/2018 year, the council consider applications for remission under its existing rates remission scheme (Remission of rates for miscellaneous purposes), for example where the owner/ratepayer is separate from the accommodation operator and the nature of the relationship between the parties means the owner/ratepayer does not have the option of passing on the increased costs to the accommodation operator

  (v) staff report back on the development of a more targeted remission scheme along with the LTP 2018-2028

  (vi) staff report back on a proposal for 2018/2019 for the inclusion of informal accommodation providers currently being rated as residential properties

  (vii) staff report back on a proposal for the introduction of alternative governance arrangements of ATEED, including a greater role for commercial accommodation providers appropriate to their level of funding of ATEED's activities

  (viii) the council's Revenue and Financing Policy be amended to provide for targeted rates to be used to fund visitor and external relations, destination and marketing and major events, in the Economic Growth and Visitor Economy activity.

f) That the Long-term Differential Strategy, which lowers rates on the business sector and increases rates on the non-business sector, be paused for one year as follows:

(i) That the council's Revenue and Financing Policy be amended to pause the Long-term Differential Strategy for the 2017/2018 year and extend the time to reach the target proportion of 25.8 per cent of rates from the business sector until 2037/2038.

g) That the council's Revenue and Financing Policy be amended to facilitate future proposals to the Governing Body on the use of targeted rates to fund growth infrastructure.

Background

11. The rapid growth of Auckland continues to present financial challenges for the council. A pattern of underinvestment in the past combined with unprecedented growth in recent years has resulted in real capacity issues for existing infrastructure. The shortfall in housing to accommodate Auckland's growing population is exacerbating the problem with a strong desire at both the local and national level to accelerate the development of new housing and increase investment in the required infrastructure to achieve this.

12. Combined with the additional cost of providing day-to-day services for more people, rising asset ownership pressures are increasing the council's total operating costs faster than the rate of inflation. While efficiency gains and higher growth-related revenue are helping, rates increases higher than the rate of inflation are necessary for Auckland to continue to invest in response to this rapid population growth.

13. In preparing the Long-term Plan 2015-2025 (the 10-year budget or LTP), one of the key issues for consideration was delivering an investment programme which addressed the needs of Auckland while maintaining debt to revenue ratios that ensured council was able to retain its AA credit rating. Setting of rates at an affordable level was also a key consideration. Public feedback both through the LTP process and in subsequent annual budgeting processes has supported the need to continue to invest in Auckland's infrastructure but to also keep rates affordable.

14. The 2017/2018 Annual Budget is the first opportunity for the Mayor, elected in 2016, to lead the financial planning process as provided for in section 9(1) of the Local Government (Auckland Council) Act 2009. In exercising that leadership role, the Mayor proposed reviewing the balance of infrastructure investment and affordability and proposed some changes both to the overall level of rates and to the distribution of rates between ratepayer groups. He also proposed a policy to pay council staff a living wage. These changes were endorsed by the Governing Body for inclusion in the Consultation Document for public feedback. The key changes are included in this report and are set out below. Further rating issues of a more self contained nature which are set to recover direct costs i.e. Waste Management and Business Improvement District targeted rates, are set out in a separate report on this agenda, as is the issue of payment of a living wage to council staff.

<u>Consultation Document</u>

15. The consultation document for the Annual Budget 2017/2018 included five key consultation issues:

- Rates increases – setting the level of general rates increase
  - Public feedback was sought on the level of general rate increase. Savings had been identified that would enable the overall rate increase to be held at 2.5 per cent without impacting on service levels. Alternatives of leaving the rate increase at 3.5 per cent and using the savings to increase investment in areas such as transport,

walking and cycling and sportsfield development or reducing the rates below 2.5 per cent with consequent impacts of lower levels of service were also canvassed.

- Rating stability
    - Over the last five years the council has been gradually changing the distribution of rates between the business sector and the residential/rural sector. It was considered that the proportion of rates paid by the business sector should be higher than non-business, but the current proportion was too high and a long-term strategy of reducing this to 25.8 per cent by 2036/37 has been implemented. Concerns about affordability and stability for residential ratepayers resulted in a proposal for feedback that paused the strategy for one year and allowed all ratepayers to receive the same level of general rate increase for 2017/2018.
- Paying for tourism promotion
    - The council consulted on a proposal to fund $27.8 million of visitor attraction and major events expenditure by Auckland Tourism Events and Economic Development (ATEED) with a targeted rate on commercial accommodation providers. This expenditure is part of the economic growth and visitor economy activity. Liability for the rate would be assessed on the portion of capital value attributable to the provision of accommodation (excluding facilities accessible to non-guests). The proposal included a new advisory body with representation from the accommodation and tourism sectors to provide direction on expenditure of the revenue raised from the rate.
    - Commercial accommodation was defined as including hotels, serviced apartments, motels, backpackers and bed and breakfast providers. Emergency or social housing, and parts of otherwise commercial accommodation premises used for long-term residential accommodation, were excluded.
    - The proposal involves an amendment to the Revenue and Financing Policy to provide for targeted rates to be used to fund visitor and external relations, destination and marketing and major events, in the Economic Growth and Visitor Economy activity.
- Paying for housing infrastructure
    - Public feedback was sought on whether to also change the Revenue and Financing Policy to allow for infrastructure for new housing developments to be funded by targeted rates alongside existing growth charges. The key beneficiaries of investment into infrastructure for new development are the developers and future owners of those properties. This tool would relieve existing ratepayers from carrying the short to medium term costs of these developments.
- Paying council staff a living wage
    - Public feedback was sought on whether the Auckland Council group should implement a living wage policy for council and substantive council controlled organisation staff over the council term to October 2019. A living wage is defined as the income necessary to provide workers and their families with the basic necessities of life. The rate will initially be based on the reference living wage published by the Living Wage Movement Aotearoa New Zealand for 2017 being $20.20, and thereafter will be calculated using council projected inflation indicators. This proposal would affect approximately 2064 council group employees (contractors and volunteers are excluded).

16. The Consultation Document did not propose any major new projects, or changes to services provided, compared to what we set out in the 10-year budget (LTP). It did, however propose that any additional general rates revenue made available through the adoption of a targeted rate on accommodation providers would be allocated to additional investment in key infrastructure such as transport. The Consultation Document also proposed changes related to:

- waste management and charges
- mass transit network
- Business Improvement District rates
- Skypath implementation
- collaborations on reducing homelessness
- rural fire service.

17. In preparing material for the Consultation Document, council staff updated the LTP budgets for 2017/2018 to reflect decisions that had been made subsequent to the adoption of the LTP and for latest forecasts of core budgeting assumptions. The consultation document also signalled that the council would continue to review budgets to ensure the delivery of value for money. This would include reviewing cost and revenue projections, further reviewing assumptions about interest and inflation rates and reviewing the latest information about the timing of our large construction projects and planned land acquisitions.

18. Local priorities for 2017/2018 were consulted on through the Annual Budget 2017/2018 Consultation Document. Decisions made by local boards will be incorporated into final budgets, and where Governing Body decisions are required, these have been referred to the Finance and Performance Committee elsewhere on this agenda.

<u>Consultation Process</u>

19. The overview report on this agenda sets out the process that has been followed for consultation. A full report on feedback received is attached to the overview report.

    Key elements of the consultation process undertaken are set out below.

    - Consultation items were agreed by the Governing Body on 15 December 2016. The Consultation Document and Supporting Information were adopted by the Governing Body on 9 February 2017.
    - Public consultation ran between 27 February and 27 March 2017.
    - Feedback was received across three broad feedback channels – written, in-person and digital. In summary:
        - 8058 written submissions were received (7,849 related to regional matters and 4708 related to local matters)
        - 2510 people attended 70 Have Your Say events and existing community events
        - 103 feedback points were provided through digital channels (Twitter and Facebook)

<u>Feedback received</u>

20. Feedback from consultation supported, by varying majority, the council's proposals across the five key questions in the Consultation Document. The strongest majority was for the living wage for council employees (71 per cent) and the lowest for a rates increase of 2.5 per cent (57 per cent). The three rating policy proposals (Rating stability, Paying for tourism promotion and Paying for housing infrastructure) all had levels of support of 66 per cent.

21. The comments from those in support of the council proposals were themed around the need to keep rates affordable for the general ratepayer and showing support for allocating rates to those perceived to receive the benefit of some specific council activities. Issues raised in relation to the three specific rating policy proposals are dealt with separately later in this report.

Decision Making

Budgets

22. In preparing budget material for the Consultation Document council staff updated the LTP budgets for 2017/2018 to reflect decisions that had been made subsequent to the adoption of the LTP; actual performance in 2014/2015 and 2015/2016; the timing of capital projects and, latest forecasts of external variables such as interest rates and inflation. The updated position included capital investment of $2 billion and operating expenditure of $3.8 billion. This projection included additional savings of around $15 million that could be used to reduce the rates increase for 2017/2018 from 3.5 per cent to 2.5 per cent.

23. The Consultation Document noted that the council would review group budgets to ensure that best value for money is delivered to ratepayers. This process identified cost pressures, savings opportunities, assumption updates, project timing changes and proposals to bring to council for decisions. The resulting budgets are included in Attachments A1 and A2 to this report.

24. The pressures identified in the budget review were offset by further reductions in projected interest costs and additional efficiency savings targets across the group such that the rates increase could remain at 2.5 per cent.

25. In approving operating budgets the key decisions that need to be made are:

    - Applying a Living Wage Policy to council staff.

      This is discussed in a separate report on the agenda for this meeting but the $1.9 million of additional costs are included in the budget and offset against additional efficiency savings.

    - Collaborations on reducing homelessness

      Auckland faces a significant challenge in relation to homelessness. The council proposes additional operating expenditure to support the coordination role with agencies such as Housing New Zealand, Ministry of Social Development, District Health Boards, the Police, non-government organisations and groups representing the homeless. A budget of $500,000 is proposed.

    - Mass transit network investigations

      Auckland continues to face serious transport access issues involving the city centre, the inner suburbs, the Airport and the south. Auckland Transport is working to determine an effective public transport solution to this issue. Investigation and design of potential mass transit solutions continues and requires $10 million of increased operating budget in 2017/2018.

26. In addition to the key issues for decision-making outlined above there were 13 public submission funding requests, of these six related to regional non-contestable grants. Attachment A3 contains a schedule of these requests and includes the amount requested (where stated) and background information (including current funding arrangements).

27. In approving capital budgets, key decisions will include:

    - City Rail Link

      Updated budgets for the City Rail Link have been provided with a total project cost of $3.4 billion and a 50/50 split between council and government. The overall impact of this update is an increase in the net capital investment by council of $240 million over the life of the project.

    - Additional transport investment

      With transport one of the key issues for Aucklanders, additional capital budget is proposed to accelerate programmes such as AMETI, the Manukau Interchange and public transport infrastructure, $30 million to support route protection for Mass Transit and timely property acquisition for future projects. An additional $161 million capital budget in 2017/2018 will be required.

- Skypath related projects

  Following the Governing Body decision to proceed with Skypath, the inclusion of capital budgets is required for the landing on each side of the Harbour Bridge. This includes Harbour Bridge Park, moving the maintenance yard, and the northern landing pedestrian path. $7.2 million additional capital budget will be required in 2017/2018.

- Cruise ship infrastructure

  Auckland needs an immediate berthing solution in order to accommodate larger cruise ships. It is therefore proposed that the council enables this by building a mooring structure, adjacent to the northern end of Queen's Wharf, known as an the Inner Dolphin. This will require $10 million capital budget to be funded from existing Panuku budgets and recovered from cruise passenger levies over time.

- Storm damage

  Recent extreme weather events highlighted the need to replace and/or strengthen storm water infrastructure. It is proposed to bring forward $20 million of capital budgets to 2017/2018:
  - $7 million from 2018/2019
  - $7 million from 2019/2020
  - $6 million from 2020/2021

- Aotea precinct plant

  Additional capital budget is proposed for RFA to construct a shared plant facility to ensure essential services are supplied to the Town Hall and Aotea Centre. An additional $10.2 million capital budget is required in 2017/2018.

Local Board funding requests

28. A separate report to the Finance and Performance Committee will detail the outcomes of local board consideration of their budgets. This will include requests for confirmation of the Locally Driven Initiative (LDI) funding amounts for Waiheke and Great Barrier and approval for the release of reserves to fund capital expenditure.

Impact and rates increase

29. The overall implications of approving all of the above budget changes would be capital investment for 2017/2018 of $2 billion and operating expenditure of $3.8 billion.

30. These changes enable the council to set rates at a level whereby the overall average general rates increase to existing ratepayers would reduce from 3.5 per cent as projected in the 10-year Budget to 2.5 per cent. However, dependent on other decisions made within this Annual Budget, there are implications for council's debt to revenue ratios and these are covered below.

Borrowing limits and looking beyond 2017/2018

31. A core tenet of the council's financial management approach is maintaining our AA credit rating. This credit rating underpins the council's access to international credit markets and competitive interest rates.

32. A key measure used by credit rating agencies to assess debt level prudence is the group debt to revenue ratio. If this ratio were to exceed 270 per cent there would be a significant risk of a credit rating downgrade. Re-forecast projections would result in the projected group debt to revenue exceeding 265 per cent in 2021/2022 and 2022/2023. Staff advice is that a level of 265 per cent needs to be maintained as a maximum ceiling to provide a prudent buffer.

33. When considering these prudential measures and assessing possible responses the council needs to consider the budget pressures beyond 2017/2018 that will need to be addressed in the next LTP.

34. The LTP 2015-2025 set out to achieve the right balance between making progress for Auckland and ensuring that it is an affordable place to live, work and do business. This included a capital investment programme of $18.7 billion over the ten years but the plan accepted that this fell well short of what was needed to address Auckland's long-term transport needs. The plan signalled the need to identify additional revenue sources to address these needs. Subsequent collaborative work with government to define the investment required (the Auckland Transport Alignment Project (ATAP) identified a $4 billion funding gap across the period of the next LTP.

35. Population growth has continued to outstrip projections included in both the last LTP and ATAP. This has contributed to additional pressure on the transport network through added congestion, significant pressure on housing and, for council, on the supply of infrastructure to support new housing development. Work on the Future Urban Land Supply Strategy has also identified close to $20 billion of investment (including state highways) required over the next 30 years just to service greenfield development.

36. Early work to inform the LTP process has included updated projections from Watercare of over $200 million of additional investment required to support the Water Supply and Wastewater networks, from Auckland Council Investments Limited of additional capital expenditure planned by Ports of Auckland, and from Panuku Development Auckland of pressure on their targets for sale of non-strategic assets in outer years.

37. The Housing Infrastructure Fund offers potential support from central government to assist in financing housing infrastructure. The council has made an application to this fund but whilst the financing rates are favourable, acceptance would still increase pressure on Auckland Council's balance sheet.

38. A number of options are available to council to reduce the projected debt to revenue ratio below the internal ceiling and to create capacity for additional investment either in 2017/2018, the next LTP, or through mechanisms such as the Housing Infrastructure Fund. These are trade-offs with a substantial policy component that need to be made by elected members as a matter of political judgement. Options include:

Option	Impact
Agree smaller operating budgets	Further reductions to operating expenditure would necessitate decisions around reductions to service levels.
Agree to lower capital investment levels	Additional capital investment, particularly in the area of transport, is driven by the accelerated growth that Auckland is experiencing. A reduction in the level of investment will put additional strain on current infrastructure and reduce our ability to cater for growth.
Agree to sell the remainder of the Diversified Financial Assets Portfolio	Agreeing to sell the remaining $130 million of assets in the portfolio would create capacity for an additional $80 million of borrowing over the next six years. Discussion of this option is included below
Agree to a higher general rates increase	Setting the general rates increase in 2017/2018 at 3 per cent rather than 2.5 per cent would create capacity for an additional $75 million of borrowing over the next six years. The level of rates increase was directly addressed in the Consultation Document and public feedback supported

	keeping a rates increase at 2.5 per cent
Agree to an accommodation provider targeted rate	The capacity created would depend on the level of targeted rate set. A rate collecting between $10-15 million would create capacity for an additional $85-130 million of borrowing over the next six years. Further discussion of this option is included later in this report.

Diversified Financial Assets Portfolio

39. On 11 April 2017 the Finance and Performance Committee endorsed a further review of the long-term viability of the Diversified Financial Assets Portfolio (DFAP), given current balance sheet constraints and the need for capital to fund infrastructure development. It also noted that staff would report back on this no later than 30 June 2017.

40. Council staff have reviewed the long-term viability of the portfolio against its primary objectives and the opportunity that might be provided to relieve balance sheet pressure and support infrastructure investment.

Status

41. The DFAP is currently valued at $230 million.

42. The Finance and Performance Committee at its meeting on 13 May 2016 "recommended to the Governing body that the Chief Executive, Group Chief Financial Officer and the chair of the Finance and Performance Committee be authorised to drawdown, if required up to $100 million per annum of the Diversified Financial Asset portfolio for the 2016/17 and 2017/2018 financial years in order to manage the debt ratios within prudent limits".

43. Following required approval, $100 million was drawn down in August 2016.

44. It is forecast that the $100 million approved in last year's budget will be required to be drawn down in the 2017/2018 financial year. Following this drawdown, around $130 million will remain in the DFAP.

Objectives

45. The DFAP is a diversified investment portfolio of New Zealand and global equities, bonds and cash initially established by Auckland Regional Council. It is governed by a Statement of Investment Policy and Objective (SIPO) and managed by eight external fund managers with oversight from JANA Investment Advisers (JANA), an independent investment advisor.

46. The primary objective under the SIPO is "to form part of the liquidity policy of Council that comprises cash, standby facilities and the DFAP. This provides a reserve (or "rainy day") fund that Council can utilize".

47. Liquidity policy forms part of Councils Treasury Management Policy contained in the LTP. It requires liquidity (cash and liquid investments plus headroom under committed funding facilities) to equal a minimum 6-month period of forecast net cash outflow including maturing debt on a rolling basis.

48. If the DFAP was liquidated due to a "rainy day" event, it is likely that global financial markets would also be affected. Therefore, when the funds are needed the most, there would be likely downward pressure on the value of the DFAP, meaning DFAP is a less preferred form of liquidity when compared to cash or committed standby facilities.

49. If the DFAP was withdrawn, Council will still meet the liquidity policy requirement for rolling 6-month periods over the next 12 months. Some additional liquidity may, however, still be required to meet operating limits.

Administration

50. Given its relatively small size ($130 million following the next withdrawal), overhead costs (both internal and external) of administrating the DFAP become a more significant percentage of the fund size.

51. The refined Responsible Investment Policy also requires significantly more oversight of the DFAP, adding additional cost and diverting council staff focus away from more material matters such as managing the council's debt portfolio, interest rate expense and credit rating profile.

External reviews

52. Reviews in 2015 of funding opportunities by both EY and Cameron Partners identified DFAP as a commercial rather than strategic asset, meaning continued ownership is not required to ensure delivery of key services or outcomes. It was noted that the rationale for holding DFAP is weak and it is unusual for an organisation with the purposes of Auckland Council to hold such an asset.

53. Staff agree with EY and Cameron Partner's opinion and their conclusions remain valid. Without a strategic purpose, the portfolio size and investment approach bear little relationship to the strategic direction of Council.

Opportunity

54. If the Finance and Performance Committee were to approve a full withdrawal of the DFAP the funds could be used to repay borrowings and/or fund acceleration of necessary infrastructure investment.

55. The implementation of a managed withdrawal could be achieved by the end of the 2017 calendar year.

Rating issues

56. There are three specific rating policy issues for consideration – the proposed accommodation provider targeted rate, rating stability and paying for housing infrastructure. These issues are related to the overall budget considerations addressed in this report and need to be considered in that context.

Accommodation Provider Targeted Rate

Proposal

57. The consultation process canvassed two options for funding the tourism promotion activities of ATEED, being general rate funded (status quo) or a targeted rate on accommodation providers. Three other options were discussed in the supporting information to the Consultation Document as having been considered but discarded. These were: a targeted rate on all businesses, a targeted rate on CBD businesses and a targeted rate on the tourism sector as a whole.

58. The consultation materials discussed how a targeted rate on commercial accommodation providers could be applied, including whether:
    - some or all of ATEED's visitor attraction and major events expenditure should be included
    - to use capital value or other methods such as land value for assigning rating liability
    - the rate should apply to the informal accommodation sector e.g. AirBnB
    - to apply the rate differentially based on provider type or geographical location
    - to introduce alternative governance arrangements including a greater role for the sector

59. The proposal involves amending council's Revenue and Finance policy to provide that targeted rates may be set to fund visitor attraction and major events.

60. At the time of consultation the proposed targeted rate was based on ATEED's expenditure in the LTP for 2017/2018 ($27.852 million). Since then budgets have been updated and the table below sets out ATEED's budget for visitor economy and major events expenditure. More detail on ATEED spending is set out in Attachment A4.

Category	Expenditure $million
International Education	$0.7
External Relations	$0.2
Brand and Marketing	$0.7
Major Events	$13.0
Auckland Festivals	$3.1
Tourism	$5.8
i-SITEs	$1.2
Auckland Convention Bureau	$2.2
Total	**$26.9**

Feedback

61. The council received 5626 feedback responses related to funding tourism promotion. 3713 (65 per cent) supported the proposal of funding tourism promotion from a targeted rate on accommodation providers. 21 per cent did not support the proposal (most of these from accommodation providers and industry groups). A full report on feedback is attached to the overview report on this agenda.

62. Of the total 5626 feedback responses received regarding the proposed targeted accommodation rate, there were 114 from providers as follows:

- 72 from hotels or motels
- 13 from hostels, backpackers, and camping grounds
- 19 from business groups including Business Improvement Districts (BID's)
- 10 from tourism or accommodation industry organisations.

63. Of the 114 feedback responses received from accommodation providers and industry bodies, there were 44 detailed written submissions. The main themes of these submissions were:

- Whether it was fair that the rate be only applied to commercial accommodation providers. There is a view that all businesses benefit (especially those associated with the tourism sector) and that the direct benefit enjoyed by the accommodation sector is only 9.3 per cent, according to certain Statistics NZ figures. There is also a view that the community as a whole benefits from the economic activity generated by visitors. Submitters also raised concern that informal accommodation providers were not included in the proposal.
- Some of the expenditure included in the rate was more for the benefit of locals rather than attracting visitors e.g. Diwali and the Lantern festival.
- The targeted rate would be an unbudgeted cost that would have a significant financial impact on providers and be unaffordable for some.
- Some accommodation providers may have contractual impediments to passing on the rate through higher prices
    - Some providers have entered into forward contracts for some of their future capacity which means they cannot raise prices

- Some owners of serviced apartments have long-term arrangements with hotel operators under which they are liable for the payment of rates but cannot influence the price for which rooms are sold.
- A view that the rate would act as a disincentive to further, much needed, investment in the market.

Local Board feedback

64. The proposal was supported by eight local boards; Albert-Eden, Henderson-Massey, Kaipātiki, Ōrākei, Puketāpapa, Rodney, Waitematā, and Whau. Several of these boards qualified their support based on consideration being given to amendments to the proposal to address concerns raised by submitters. Seven local boards did not support the proposal; Devonport-Takapuna, Great Barrier, Manurewa, Maungakiekie-Tāmaki, Papakura, Waiheke and Waitākere Ranges. These boards raised a number of concerns with the proposal. Four local boards (Hibiscus and Bays, Māngere-Ōtāhuhu, Ōtara-Papatoetoe and Upper Harbour) noted support for some of the principles behind the proposal, but identified the need for some amendment.

Consideration of statutory criteria

65. 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.

66. For the proposed targeted rate to fund expenditure on visitor attraction and major events, council must consider, in relation to this activity:
    - the community outcomes to which the activity primarily contributes
    - the distribution of benefits between the community as a whole; any identifiable part of the community; and individuals
    - the period over which the benefits are expected to occur
    - the extent to which individuals or a group contribute to the need to undertake the activity
    - the costs and benefits (including consequences for transparency and accountability) of funding the activity distinctly from other activities.

67. Having considered these matters, the council must stand back and consider the overall impact of any allocation of liability for revenue needs on the community. This involves elected members exercising their political judgement and considering the proposal in the context of council's funding decisions as a whole.

The community outcomes to which the activity primarily contributes

68. The community outcomes to which the activity (visitor attraction) primarily contributes is set out in the LTP 2015-2015 as:

    1. An Auckland of prosperity and opportunity
        - through promoting Auckland as a business and leisure visitor destination and attracting visitors to attend events that are unique to Auckland
    2. A culturally rich and creative Auckland
        - providing opportunities to showcase Auckland's unique arts and culture through support for and delivery of a portfolio of major events including the annual Auckland Diwali, Lantern and Pasifika Festivals
        - growing Auckland's visitor economy through promotion of and support for a range of culturally focussed visitor products
    3. Te hau o te whenua, te hau o te tangata
        celebrating and showcasing Māori culture and identity through major sporting and business events including a Māori Signature Festival for Auckland

69. The activities that ATEED undertakes in the visitor attraction area strongly support these outcomes:
    - Expenditure under the headings of Tourism, Major Events, the Auckland Convention Bureau and Brand and Marketing are all undertaken to build the visitor economy and create Auckland as a destination.
    - Auckland festivals support the "culturally rich and creative" component of the outcomes and add to the overall attractiveness of Auckland.
    - The External Relations and International Education categories of expenditure involve working with central government to attract business and build the education sector.

70. Some of these outcomes relate to the overall prosperity and cultural richness of the city, and suggest a general rate mechanism may be appropriate. Others are more focused on the visitor economy and support the concept of a targeted funding mechanism.

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

71. The intent of the proposal is to make an appropriate shift of the burden of paying for visitor attraction and major events from the general ratepayer. Commercial accommodation providers derive direct benefit from the expenditure and they can decide whether to absorb the increased cost or pass it on to their customers. Whether or not they choose to pass on the increased cost, and how, is entirely up to each accommodation provider to decide individually.

72. Submitters in support of the proposal pointed to the direct benefit received by businesses in the tourism industry and felt that general ratepayers should not be subsidising the promotion of these businesses. There was also a view expressed that additional visitors imposed extra costs on the city and residents through competition for services, congestion and pressure on infrastructure capacity.

73. Feedback from accommodation providers on this factor included:
    - There is no evidence of the effectiveness of ATEED's expenditure.
    - Some of the ATEED expenditure included in the proposal is not targeted at visitor attraction and is more for the benefit of local residents.
    - Other businesses (such as retail, food and beverage, and other tourism businesses) benefit from the activity, rather than just the accommodation providers.
    - Auckland as a whole benefits from the economic activity generated by visitors.
    - Some accommodation providers are excluded from the proposal i.e. informal providers such as AirBnB.
    - Accommodation providers further away from the city centre to do not benefit as much from the activity.
    - Only 26 per cent of visitors to Auckland stay in commercial accommodation.

74. ATEED's activity in this area is focused on and measured by increased number of visitors to Auckland. One of the key measures of ATEED's Statement of Intent is "visitor nights".

75. Most of the expenditure in this part of ATEED's activities is targeted at attracting visitors to Auckland and growing the visitor economy. The Tourism, Major Events, Brand and Marketing and Auckland Convention Bureau activities are designed to bring in visitors, international and domestic, who will stay in the Auckland region, which directly benefits accommodation providers.

76. Data collected by ATEED supports the proposition that its activities are in fact attracting visitors to Auckland (refer to discussion in Attachment A4). For example:

- Auckland Convention Bureau 2015/2016 – estimated 107,195 visitor nights generated
- Major Events 2015/2016 – estimated 282,150 visitor nights generated.

77. Figures quoted by Tourism Industry Aotearoa show that more than 87 per cent of accommodation provider revenue is from visitors to Auckland (over 90 per cent when campgrounds are excluded).

78. One of the issues raised in feedback is that national statistics show that only 10 per cent of visitor spending is on accommodation. This feedback referred to the following statistics (which were included in the consultation materials)[1].

Industry category	Auckland visitor expenditure (int. and domestic) $m	Share of Auckland visitor expenditure
Accommodation	$724	10%
Cultural, recreation and gambling	$133	2%
Food and beverage	$1,206	16%
Other passenger transport	$1,229	17%
Other tourism	$981	13%
Retail	$3,148	42%
Total	**$7,420**	**100%**

79. However, these statistics include visits for all reasons - business, holidays, education and visiting friends and relatives. Business and leisure travellers are the primary targets of ATEED's visitor attraction and major events expenditure. Historical data on overnight domestic visitors to Auckland for the year ending December 2012 shows the proportion of visitor spending on accommodation for these visitors is higher at around 22 per cent[2]

Expenditure category	Reason for visit					
	All	Business	Education	Holiday	Other	Visiting Friends or Relatives
Accommodation	18.9%	21.9%	28.2%	22.4%	23.8%	10.9%
Alcohol	5.3%	3.8%	5.3%	5.8%	5.0%	6.5%
Food and Beverages	18.8%	13.9%	15.5%	20.9%	20.6%	22.0%
Gambling	0.5%	0.3%	0.2%	0.5%	0.7%	0.6%
Gifts	2.5%	1.5%	1.8%	2.6%	3.2%	3.4%
Other	11.9%	8.3%	7.7%	12.8%	13.4%	15.0%
Recreation	5.8%	3.5%	4.0%	6.1%	8.1%	7.9%
Transport	36.4%	46.8%	37.4%	28.9%	25.2%	33.7%

80. The feedback highlights that there are significant direct benefits to other businesses that operate tourism based activities. There are also indirect benefits to other businesses and the community as whole from the increased economic activity.

[1] Figures drawn from the Monthly Regional Tourism Estimates prepared by Ministry of Business Innovation and Employment for 2016.

[2] Statistics New Zealand, Domestic Travel Survey, 2012. Note this data is not strictly comparable to the preceding table from Statistics New Zealand as the data source and categorisation of expenditure are different.

81. There was also considerable feedback on who benefited from events. Major events (e.g. the Lions series, the NRL Auckland Nines, NZ fashion week) strongly support the visitor economy in attracting international and domestic visitors, while also benefitting the wider community who attend them. Data suggests that 40 per cent of visitors to Auckland for the ITM Supersprint 2016 and 50 per cent of visitors to Auckland for the Auckland Nines in 2017 stayed in commercial accommodation (see attachment A5).

82. Auckland Festivals are of benefit to the wider Auckland community but also support the Auckland brand as a culturally diverse and vibrant city. It is acknowledged that expenditure on these festivals primarily benefits Auckland residents.

83. It is also acknowledged that informal accommodation providers may benefit from the expenditure and that there may be variations in the degree of benefit sustained depending on geographical location. These points are discussed under “Modification of proposed option based on feedback”.

84. In terms of the distribution of benefits factor it is clear that commercial accommodation providers receive an immediate direct benefit from ATEED’s expenditure in attracting visitors to Auckland, but other businesses also benefit, as does the wider community.

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

85. The period over which benefits are expected to occur is current. The expenditure on visitor attraction is funded from operating revenue on the basis that the benefits primarily accrue in the period in which the activity occurs. Expenditure on Major Events and Auckland Festivals in particular attract visitors at the time of the event expenditure. Tourism expenditure will have an impact both in the period in which the expenditure is incurred and in the next few years. Other categories of spend will have both a shorter and medium term impact.

Accordingly, given the short to medium term impact of the expenditure, rates (whether targeted or general), rather than borrowing, are an appropriate funding source.

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

86. Visitor attraction is funded to support the community outcomes as described above. It is not undertaken to offset any action or inaction of individuals or groups.

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

87. Transparency and accountability for this activity could be enhanced through a targeted rate, in conjunction with new governance arrangements that give commercial accommodation providers a role in determining how the revenue is spent. As funders, accommodation providers would have a strong incentive to scrutinise the expenditure and provide advice on how to get best value for money.

88. It is administratively possible to implement a targeted rate for commercial accommodation providers. Most of the relevant information is already held and there would be only a small one-off administrative cost to establish and apply any differentials and also in assessing the apportionment between accommodation provision and other commercial activities in a property.

89. In contrast, applying the targeted rate to the wider tourism sector (for example) would have considerable administrative challenges. It is not practically possible to identify all relevant businesses in the tourism sector. It would require arbitrary geographic and economic distinctions to be made between retail and food and beverage industries, some of whom will benefit more and others less from the visitor economy. An extreme example would be CBD restaurants compared to suburban takeaways.

Consideration of overall impact

90. Having considered the above criteria, the council needs to consider the proposal in terms of the overall impact on 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.

91. Matters for council to consider as part of this overall political judgement could include:

   a) **The pressing need for infrastructure investment while keeping general rates affordable**. The rapid growth of Auckland, which continues to present financial challenges for the council. As discussed above, since the 2015-2025 LTP was prepared, the population growth of Auckland, and the resultant demand for housing and its supporting infrastructure, have exceeded the predictions of the LTP. This in turn is putting further pressure on the investment programme and the balancing of the revenue and debt ratios. Allocation of liability for revenue needs should be considered in light of the pressing infrastructure demands and the desire to keep rates increases affordable for Aucklanders.

   Feedback from the general public on the proposed targeted rate indicated a desire to keep rates increases to 2.5 per cent or less, and noted a preference that general rates funding made available through a targeted rate on accommodation providers should be spent on infrastructure projects. By freeing up general rates funding, the proposed targeted rate provides additional capacity to address Auckland's critical infrastructure requirements that would not otherwise be available.

   b) **The affordability of the proposed rate**. The targeted rate (as originally proposed, funding $27.8 million of ATEED expenditure) would result in significant rates increases for commercial accommodation providers, averaging 117 per cent. However, council proposed the rate on the basis that individual accommodation providers could decide whether to absorb the increased cost or pass it on to their customers (without any significant impact on demand). Whether or not they choose to pass on the increased cost, and how, is entirely up to each accommodation provider to decide individually.

   The council has reviewed several studies[3] that measure the elasticity of hotel rooms and travel to New Zealand. The council drew from the results of these studies a range of elasticities to assess the market impact of providers passing on the cost of a targeted rate through higher prices. The likely impact was assessed using the highest elasticity to take a conservative approach. The results demonstrated that the commercial accommodation market is relatively price inelastic.

   Recent statistics and future forecasts[4] show strong growth in visitor numbers, occupancy rates and revenue.

   Accordingly, as a general proposition, the relatively small price increases required to recover the cost of the proposed rate are unlikely to have a significant effect on demand. However, the submissions made it clear that some categories of accommodation providers do not have the same flexibility as others. Demand for motels is likely to be less price inelastic than hotels; and backpackers and campgrounds will be less inelastic again. In addition, some particular accommodation providers may not have the option of passing on the increased cost because of contractual commitments. These complexities are addressed in "Modification of proposed option based on feedback".

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[3] Canina, L., & Carvell, S. A. (2005). *Lodging demand for urban hotels in major metropolitan markets,* Cornell University, School of Hospitality Administration
Auckland Visitor Plan Funding Options, PWC, 20 July 2011
Effects of an increases in travel ticket price on New Zealand tourism, Sapere Research Group, 9 September 2015

[4] Revenue estimates for Auckland's commercial accommodation sector, Fresh Info Co, July 2016; Commercial Accommodation Monitor, Statistics New Zealand – various months; Accommodation Survey, Statistics New Zealand – various months; Regional Hotel Market Analysis and Forecasting May 2016, Fresh Information Company.

c) **The impact of the proposal on the general ratepayer**. The proposal is to shift the burden of funding this activity off the general ratepayer. As noted above, Auckland residents expressed support for this in their feedback. Applying the rate to the commercial accommodation sector achieves this desired outcome. Individual accommodation providers can decide whether to absorb the increased cost or pass it on to their customers. Whether or not they choose to pass on the increased cost, and how, is entirely up to each accommodation provider to decide individually. If they do choose to pass on the increased cost to their customers, very little of the impact of the cost of visitor attraction will fall on Auckland residents, as nearly all of the sector's revenue is from visitors.

This desired allocative outcome cannot be as effectively achieved by other options

d) **Impact on investment in accommodation.** The market for accommodation is strong, as evidenced by recent actual and projected growth in visitor numbers and occupancy. Future demand is likely to exceed supply even taking into account planned investments[5]. Given the relative inelasticity of accommodation it is expected that investment in accommodation will continue to prove attractive. Bed night taxes are common in overseas cities, as discussed in the Supporting Information, and hotel investment has continued in those cities.

Modification of proposed option based on feedback

92. There are five aspects of the preferred option that could be modified in response to feedback:

a) Reducing the amount that is collected from the targeted rate to recognise a different distribution of benefits.

One of the key issues raised in opposition to the proposal was that general economic benefits of ATEED's visitor attraction and major events expenditure extended to the whole city, and that significant direct benefits accrued to other sectors, including retail, food and beverage, and other tourism providers. It is clear that the benefits of the expenditure extend beyond the commercial accommodation sector.

In addition, further analysis of the ATEED spend in the visitor attraction activity has identified that several components are of less direct benefit to the commercial accommodation sector, in particular the following:

- International education
- External relations
- Auckland festivals
- I-sites

These components represent $5.2 million or 19 per cent of the total ATEED budget on visitor attraction and major events. Although there is some benefit to accommodation providers from these components (such as commercial accommodation booked through I-sites), they might be expected to be funded from the general rate, rather than the targeted rate.

In addition, while the remaining components of the budgets have a greater direct benefit to the accommodation sector, council could recognise the wider benefit to the tourism sector, other businesses and the community through a sharing of the costs between the general rate and the targeted rate.

Accordingly, staff recommend that the council sets the amount of the targeted rate at a level materially less than the $27.8 million originally proposed, which recognises the factors discussed above.

b) Recognition that some providers are less able to pass on cost increases than others

[5] Regional Hotel Market Analysis and Forecasting, Fresh Info Co and Colliers International, May 2016

The consultation material was prepared on the understanding that individual accommodation providers would have the option of passing on the increased cost from a targeted rate without any significant impact on demand. However, feedback through the submission process has raised concern that the ability to pass on costs may differ for some categories of provider.

Motels generally offer services in a similar price band to budget hotels, and submitters considered they benefited less from visitor attraction and major events expenditure. The average occupancy rate for motels is also lower than for hotels. As a result, the demand for motel services will be less price inelastic than hotels.

Backpackers and campgrounds are targeted at the more budget conscious traveller. Demand for their services will be much more price-sensitive than hotel or motel accommodation.

A differential could be applied to these categories of providers to reduce the impact of the targeted rate.

c) Recognition that the geographic location of some accommodation providers mean that they do not benefit to the same degree from the visitor attraction activities.

Feedback from providers in more suburban locations, particularly those further from the CBD, indicated that they felt that they did not receive significant benefit from activities that were often centred in the city. While capital values (on which the rate would be applied) do to some extent reflect the distance from the city centre, consideration could be given to a differential based on geographic location.

d) Recognition of the inability of some accommodation providers to pass on the cost due to contractual commitments.

Feedback highlighted that one of the key operating models for the provision of commercial accommodation is serviced apartments owned by investors who are liable for rates. They are made available for short term accommodation through a variety of contractual arrangements. The nature of these arrangements varies widely, varying from profit sharing to fixed returns, and lease terms from three months to 30 years. Staff estimate that there may be between 600 and 800 properties, out of 2800, with long term leases. Only some of these will have long-term restrictive leases with no ability to leave the hotel pool or pass on the rate.

Staff recommend that for the 2017/2018 year, the council consider applications for remission under its existing rate remission scheme (Remission of rates for miscellaneous purposes), for example where the owner/ratepayer is separate from the accommodation operator and the nature of the relationship between the parties means the owner/ratepayer does not have the option of passing on the increased costs to the accommodation operator and ultimately the visitor. A more targeted remission scheme should be developed along with the LTP 2018-2028.

e) Applying the targeted rate to informal providers

Another consistent theme from feedback was the perceived unfairness of informal providers of accommodation being excluded in the application of the rate. The proposal was clear that the targeted rate would apply only to those properties identified as businesses for rating purposes. Staff agree that inclusion of the informal sector not currently rated as business should be addressed from 2018/2019 for other properties (staff will report back on the process for this as part of the Long-term Plan 2018-2028).

Governance

93. The proposal made provision for the introduction of a revised governance mechanism with greater involvement of commercial accommodation providers. Only a few submissions made reference to this element of the proposal. They all supported much greater involvement by providers in decision-making.

94. Staff consider that the degree of industry involvement in decision-making should be reflective of the expertise they can bring to decision-making and the proportion of funding they provide. Governance arrangements are in place to manage current expenditure, and commitments have already been made for the 2017/2018 year. It is recommended that staff work with commercial accommodation providers on the appropriate structure for future governance of this expenditure and the timeframe and process for its implementation if the proposal is adopted. This advice will be based on the decisions taken on the final form of the rate. A report back should be scheduled for the end of September 2017.

Rating stability

Proposal

95. The community was asked if business and residential ratepayers should have the same rates increase in 2017/2018. This would be achieved by pausing for one year the council's policy of gradually lowering the share of rates paid by businesses over time, which results in slightly higher annual increases for residential ratepayers.

Consultation Feedback

96. 66 per cent of written submissions supported the proposal and 20 per cent were opposed. Analysis of submission by local board area showed all areas supported pausing the long-term differential strategy for a year.

97. 152 organisations made submissions, 67 were in support, and 62 were not in support. Included amongst these groups were 123 businesses or business associations of which 49 were in support and 54 were opposed.

98. Of the 17 feedback comments received from business or organisations, 14 disagreed with the proposal. They considered that small businesses were unfairly weighted in the rating system and any extra demand they put on services such as transport does not justify an increase in rates.

Local Board Feedback

99. 16 local boards resolved in support of pausing the long-term differential strategy for a year.

Comment

100. The Long-term Differential Strategy (LTDS) lowers general rates (UAGC and value-based general rate) for businesses in equal steps from 32.7 per cent of the total requirement in 2016/2017 to 25.8 per cent by 2036/2037. The rate of reduction is set so that the additional increase in rates for residential and farm/lifestyle properties above the underlying general rates increase is around 0.5 per cent each year.

101. The current differential rating policy proceeds on the basis that businesses are better placed to afford rates than other ratepayers. Pausing the policy will retain a slightly greater burden on business ratepayers than contemplated by the policy but only for short period of time. Conversely other ratepayers will benefit by a small amount.

102. If the proposal is adopted

    a) all ratepayers will have the same rates increase

    b) business rates will increase by 1.0 per cent more than they would otherwise be if the current policy was retained and residential rates 0.5 per cent less

    c) the date for achieving the target share of rates for business ratepayers will be extended to 2037/2038.

Paying for Housing Infrastructure

Proposal

103. The council sought the community's views on whether to change the Revenue and Finance Policy to allow for infrastructure for new housing developments to be funded by targeted rates alongside existing growth charges.

Feedback

104. 66 per cent of written submissions supported the proposal and 15 per cent were opposed. Feedback was received from 147 organisations with 59 in support, and 37 not in support. Around 115 of these organisations were deemed as business or business associations with 38 were in support and 36 not in support.

105. Of the 19 feedback comments received from relevant businesses and groups, 13 were in disagreement with the proposed change to the funding policy. Of those that disagreed, most felt it was not suitable for the Annual Budget but should be a discussion left for the LTP. Concerns were also raised over the lack of detail regarding the potential targeted rate and sought that council continue to use existing funding tools until such time the public are provided with a fully detailed consultation document.

Local Board feedback

106. 15 local boards supported the proposal with four resolving in principle support and one against due to concerns with how it might impact on future home owners

Comment

107. A full consideration of section 101(3) of the Local Government Act 2002 will be undertaken when a specific proposal is considered by council. The details of any specific proposal would need individual analysis against the criteria.

Key considerations are that implementation of a targeted rate would:

- assist the council in meeting the challenges it faces with funding future growth related infrastructure
- provide a stronger link between those who benefit/create demand and the growth related infrastructure provided
- provide an added incentive for developers to convert land into built homes faster.

Consideration

Local board views and implications

109. Local board views and key advocacy items were discussed with the Finance and Performance Committee in recent joint workshops.

110. Separate reports to the Finance and Performance Committee meeting 1 June 2017 will capture key advocacy items and proposed budget changes that require approval.

Māori impact statement

111. Te Toa Takitini is a cross council portfolio of activities to lead and influence better outcomes with and for Māori. This includes driving a shift in culture, by modelling high performance leadership behaviours and transforming the way the council plans, prioritises and delivers for Māori.

112. The Te Toa Takitini programme enables the identification and tracking of progress on activities and budgets that contribute to significantly lifting Māori economic, social and cultural wellbeing, strengthen council's effectiveness for Māori, and optimise post-Treaty settlement opportunities for the benefit of mana whenua and the wider public of Auckland. Any updates on the Māori transformational initiatives across the four programmes of action will be reported back to Finance and Performance Committee after year end.

Implementation

113. Once this committee makes its key budget decisions, staff will prepare the final budgets and produce an Annual Budget 2017/2018 document and amended Revenue and Financing Policy for adoption by the Governing Body by 30 June 2017.

Attachments

Attachment A-1	Operating and Capital Budgets for 2017/2018
Attachment A-2	Capital Projects List
Attachment A-3	Public Submission Funding Requests
Attachment A-4	ATEED Spending detail

Signatories

Authors	Michael Burns – Manager Strategic Financial Advice Andrew Duncan – Manager Financial Policy
Authorisers	Matthew Walker – General Manager Financial Strategy and Planning James Hassall – Director Legal and Risk Sue Tindal – Group Chief Financial Officer

Attachment A1: Direct Operating Budgets for 2017/2018

Entity	Operating expenditure		
($000)	Direct expenditure	Non-rates operating revenue	Net direct expenditure
Watercare	213,591	510,969	(297,378)
Auckland Transport	778,033	539,654	238,379
Regional Facilities Auckland	84,659	57,040	27,619
Panuku Development Auckland	48,380	38,715	9,665
Commercial Property Portfolio	13,192	28,562	(15,370)
ATEED	62,826	15,018	47,808
Auckland Council Operations Divison	720,958	300,923	420,035
Auckland Council Support/Other	396,422	17,132	379,290
Total direct operating budgets	**2,318,061**	**1,508,013**	**810,048**

Note: entity budgets excluding interest, depreciation, and group eliminations.

Attachment A2: Capital projects list 2017/2018

Auckland Council Gross Capex ('000)	2017/2018
Auckland development	**201,517**
Local Planning	**33,581**
Community facilities - upgrades and new facilities	59
Priority growth area infrastructure	14,709
Town centre upgrade	18,813
Property development	**90,340**
Commercial property development	71,874
Commercial property renewals	4,594
Housing for older persons development	3,872
Housing for older persons renewals	10,000
Regional Planning	**16,630**
City centre upgrade	10,823
Heritage fund	3,236
Research and monitoring equipment renewals	588
Smoke free signs	469
Town centre upgrade	1,514
Waterfront development	**60,966**
Marina development and renewals	15,434
Waterfront commercial property upgrades	7,018
Waterfront public space upgrades	38,513
Economic and cultural development	**57,460**
Economic growth and visitor economy	**187**
Corporate support	187
Regional Facilities	**57,273**
Art gallery collection and renewals	981
Event centre upgrades and renewals	25,662
Other regional facility renewals	2,660
Stadium upgrades and renewals	15,570
Zoo infrastructure development and renewals	12,400
Environmental management and regulation	**116,619**
Regulation	**195**
Regulatory activity renewals and replacements	195
Solid waste and environmental services	**13,269**
Emergency management asset upgrades and renewals	741
Environmental remediation and improvements	2,845
Solid waste upgrades and renewals	9,682
Stormwater management	**103,154**
Stormwater - Catchment plans	8,400
Stormwater - Environmental improvements	6,439
Stormwater - Flood protection	6,166
Stormwater - Growth	37,218
Stormwater - Renewals	44,931
Governance and support	**159,594**
Investment	**184,271**
Ports of Auckland capital investment	184,271
Organisational support	**65,323**
Corporate property renewals	29,307
IT hardware and software	25,424
Other organisational support investment	57
Transformation capital investment	10,535
Capital delivery phasing	**(90,000)**
Parks, community and lifestyle	**278,889**
Local Community services	**20,917**
Community facilities - upgrades and new facilities	7,643
Community facility renewals	7,681
Library facility and technology renewals	5,592
Local Parks sport and recreation	**132,023**
Aquatic and recreation facilities - upgrades and new facilities	610
Aquatic and recreation facility renewals	10,636

Community facilities - upgrades and new facilities	17,975
LDI fund	19,584
Local and sports parks renewals	46,171
Local park development	12,669
Sportsfield upgrades and development	17,351
Town centre upgrade	5
Walkway and cycleway development	7,023
Regional Community services	**20,196**
Events equipment upgrades and renewals	68
Housing for older persons renewals	2,127
Library collection renewals	12,801
Library facility and technology renewals	2,333
Public art development and renewals	2,867
Regional Parks sport and recreation	**105,753**
City Parks vehicle and plant renewals	3,479
Co-governance entity capital investment	2,610
Land acquisition and development	52,272
Leisure facility developments	1,019
Regional and specialist parks	45,617
Regional heritage development	611
Sportsfield upgrades and development	145
Transport	**844,177**
Organisational support	**7,250**
Organisational support	7,250
Parking and enforcement	**7,560**
Other	3,520
Renewals	4,040
Public transport and travel demand management	**237,123**
City Rail Link	78,281
Electric trains	3,100
Harbour master equipment and mooring renewals and upgrades	145
Public transport and travel demand management	155,598
Roads and footpaths	**592,244**
AMETI	80,987
Flat Bush	34,530
NorSGA	8,275
Other	97,702
Renewals	216,816
Ring fenced: Drury South	14,000
Ring fenced: Local Board Fund	13,703
Ring fenced: Residential Growth Infrastructure Fund	45,745
Safety	27,624
Seal extensions	3,584
Walking and cycling	49,279
Water supply and, wastewater treatment and disposal	**358,464**
Wastewater treatment and disposal	**223,063**
Central Interceptor	2,017
Northern Interceptor	4,626
Other	32,863
Southern Interceptor	5,000
Wastewater treatment	100,826
Water collection	77,731
Water supply	**135,401**
Hunua No. 4 Water Supply	3,360
North Harbour 2 Watermain	5,544
Other	16,041
Treated Water Network	63,662
Waikato Augmentation and Second Pipeline	13,050
Water Treatment Plant	33,743
Total Group Capital Expenditure	**2,016,720**

Attachment A3: Public submission funding requests

Submission number	Submitter Name	Description of Request	Value of Request	One off or ongoing	Current State (existing funding level; confirmed agreements/plans; relevant historic info)	Department	Officer Comment
2637	**MIRA Companions for Development**	Request for funding to support South Titirangi Peninsula, to create a weed and pest free peninsula by 2022. Budgetary commitment from each Council Departments (Auckland Transport, Regional Parks and Local Parks) to partner us.			Council has not worked closely with this group or provided funding to date as it appears to have been established recently.	I & ES	Council endorses pest free objectives of all such groups (consistent with Pest free Auckland) but is not in a position to commit regional funding to such groups until the regional prioritisation exercise is complete. It may be more appropriate to provide funding to this group via grants and local board funds
4950	**Newmarket Business Association**	Request for financing and fast-tracking the following projects: (1) Station Square	$35,000	One-off		Transport	This is currently on hold pending investigation
		(2) Traffic Calming and Signage					Newmarket Laneways is a joint project with AC and AT as joint sponsors so is treated as a capex code. The design phase is now complete and the construction contract to be awarded in May.
		(3) Newmarket Laneways					Traffic Calming and signage is included as part of the Newmarket Laneways as described above. To be funded from City Transformation. The Broadway component within the Traffic Calming query is related to Newmarket crossing which has a budget allocation of $7m for 2017/18 FY.
5706	**Cancer Society**	Request for funding to enable delivery on councils smoke free policy		On-going		Community and Social Policy	A 2016 review of councils Smoke-free Policy found that local board implementation within community facilities, parks and open space has been hindered by lack of funding available for smoke-free signage. Additional capital and operating budget to implement the policy is included in the refreshed budget for the Annual Plan 2017/2018. Ongoing resource for future implementation costs could also be considered as part of the next Long-term Plan.

number			Request	ongoing	(existing funding level; confirmed agreements/plans; relevant historic info)		
5708	**Netball Manurewa Inc**	Request for funding to completeNetball Manurewa redevelopment - various requests. (Please see submission for all funding requests including capital spend for maintenance of playing surfaces, associated carparking, rubbish, toilets and renewals)	$5,500,700	One-off capital investment. Also request for free usage which could have ongoing operational impacts	This was a legacy Manukau City Council project and stages 1 and 2a were funded through the LTP. There is no current funding for future stages in the 2015-2025 LTP or Manurewa Local Board budgets.	PCL	The regional sporting code has not identified this project as one of their priorities for implementation- the centre is considered to be meeting current needs for the sport.
5950	**Waitākere Ranges Protection Society**	Request for funding $232,000 per annum to support WRHA and $100,000 to fund the 5-year monitoring report	$332,000	On-going	$132,000 allocated for 2017/2018, and this amount will be over-subscribed in terms of matters that could be funded	Plans and Places	The Waitākere Ranges Heritage Area (WRHA) Act work programme budget is a regional budget held by the North West and Islands Planning Team in the Chief Planning Office. The biodiversity team of I&ES deliver some parts of the work programme for the North West and Islands Planning Team.
5109	**Norwa Swann**	Request for funding to support a South Auckland fashion show	Not specified	One off	n/a	PCL	Events comment: Funding potentially available through Regional Event grant funding. An application was made by submitter for a fashion show in the 15/16 year. In the form presented event did not have high alignment with Events Policy priorities. Was also requesting very high level of funding for a low level of attendance, with no other funders identified. Further applications would be considered through the contestable process but would need to be on a basis more aligned with priorities and capacity to fund.

Attachment A **Item 12**

Attachment A4: ATEED visitor attraction and major events expenditure

The following table sets out ATEED's expenditure for 2017/2018 for the Visitor economy and major events in the Long-term Plan 2015-2025.

Category	Expenditure $million	Description
Tourism	$5.8	Supports the delivery of the *Auckland Visitor Plan*, with an emphasis on international and domestic marketing joint ventures, attracting high-yielding visitors, facilitating product development and enhancing the tourism offering Advertising campaigns in Australia with partners such as Tourism NZ and Flight Centre Domestic marketing campaigns promoting Auckland
i-SITEs	$1.2	Operating Auckland's network of three i-SITE visitor information centres.
Major Events	$13.0	Build and deliver a portfolio of world class major events that are aligned with Auckland's Major Events Strategy and contribute to the regional economy Major events are also designed to improve the visitor experience and grow visitor numbers Examples of events in the portfolio include the DHL New Zealand Lions Series 2017, Rugby League World Cup 2017, Volvo Ocean Race stopover, Downer NRL Auckland Nines, Supercars ITM Auckland SuperSprint, Priscilla Queen of the Desert, NZ Fashion Week, Headland Sculpture on the Gulf
Auckland Convention Bureau	$2.2	Auckland Convention Bureau is a specialist unit which provides services to an sector membership base, and drives the growth of Auckland as a premium destination for business events such as conferences, meetings, seminars, trade shows and exhibitions Auckland Convention Bureau (ACB) marketing and sales activity Partnering with Tourism New Zealand and the New Zealand International Convention Centre to attract major business events to Auckland
International Education	$0.7	Partnering with Education New Zealand and the education sector to attract students
External Relations	$0.2	Working with external parties such as the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise on hotel investment attraction
Brand and Marketing	$0.7	Promote and develop Auckland as a national and international visitor and business destination, including through the attraction, facilitation, funding and delivery of major events This includes partnering with the cruise sector to promote Auckland as a destination and exchange port
Auckland festivals	$3.1	Tamaki Herenga Waka, Pasifika Chinese Lantern Festival Diwali Range of other smaller local events
Total	**$26.9**	

Auckland Convention Bureau

The Auckland Convention Bureau (ACB) works to attract major conferences & conventions, meetings, employee incentive travel reward events, and exhibitions business events to Auckland. Auckland's Business Events Plan sets a target of growing the business events sector's contribution to the Auckland economy from $236 million in 2013 to $430 million in 2023, and increasing the total number of delegate days to Auckland from 1.98 million to 2.55 million over the same 10-year period.

The following table summarises the opportunities won by ACB in FY2015/16.

Total FY2015/16 Wins	Competitive bids	Client approaches	Total
Number of Opportunities Won	37	61	**98**
Forecast number of Delegates	19,736	10,750	**30,486**
Forecast number of Visitor Nights	90,786	16,409	**107,195**
Estimated Tourism Spend	$ 33,899,929.40	$ 7,886,866.70	**$ 41,786,250.10**

Convention bureaus are a one-stop shop assisting meeting organisers with the organisation of business events in a specific geographical area. Bureaus manage business event bidding processes, secure events for a destination, liaise with clients and manage processes through to completion of the event.

International conventions tend to be CBD based due to the requirement of infrastructure and delegate experience. The majority of accommodation provided to support an opportunity is hotel based. However for large scale conventions accommodation is spread across a number of accommodation providers from 2 star to 5 star including backpackers, student accommodation and apartments.

Major Events

Auckland's Major Events Strategy focuses on four key pillars: expand Auckland's economy (GDP), grow visitor nights, enhance Auckland's liveability, and increase Auckland's international exposure. The strategy not only seeks to draw visitors to Auckland but to use events as a platform for wider promotion of Auckland as a business and visitor destination.

Major events sponsorship investments are subject to performance-based KPIs captured in sponsorship contracts. All ATEED-sponsored events are required to supply information about event outcomes for independent evaluation.

Independent evaluation of ATEED's 2015/2016 event portfolio shows that the key outcomes of the portfolio for the financial year were:

- 124,550 additional visitors
- 282,150 additional visitor nights
- $43.7m additional GDP arising from visitor expenditure.

By supporting event organisers ATEED is able to improve the capability of event organisers and the ability of the industry to develop and run events. This helps to build Auckland's reputation as an event friendly host city. Building and maintaining Auckland's reputation as an event friendly city supports the attraction or development of future events, and capitalises on investment made into building that reputation over previous years.

Depending on the scale of the event ATEED makes a direct investment in developing associated events and promoting other Auckland visitor attractions and business opportunities. An example of this is the leverage and legacy programme around the NRL Auckland Nines.

The majority of events take place in more central areas due to the location of appropriate infrastructure (e.g. stadia) or appropriate locations/venues for events (e.g. hosting the Volvo Ocean Race Auckland Stopover event). Some major events are held outside the central city, e.g., the ITM Auckland Supersprint.

Accommodation types used by visitors for larger events is measured through surveys of attendees. The tables below[1] show the results from ITM Auckland Supersprint 2016 and NRL Auckland Nines 2017.

ITM Auckland Supersprint 2016

Accommodation type	Share of visitors
Home of a friend or relative	20%
Hotel, motel or serviced apartment	40%
Guest house or B&B	3%
Hostel or backpacker	1%
Rented house or unit	2%
Camp ground or caravan park	9%
Other	24%

NRL Auckland Nines 2017

Accommodation type	Share of visitors
Home of a friend or relative	35%
Hotel, motel or serviced apartment	50%
Guest house or B&B	4%
Hostel or backpacker	6%
Rented house or unit	5%
Camp ground or caravan park	2%
Other	4%

International Education

ATEED supports the Auckland's International Education sector through a strategic partnership programme that focuses on creating value by working closely with a small number of high quality institutions who are willing and able to attract a high quality of international student.

ATEED is able to leverage central government resources and funding via Education New Zealand to support the growth of the Auckland sector.

There are approx. 450 institutions hosting international students. There are approximately 25,000 international students currently residing in the central city area. This is due to the existence of a cluster of tertiary providers (universities and private training establishments) in this area.

Student spend on accommodation makes up 32.6% of their total spend. Students are more likely to stay in halls of residence and home stay accommodation. Those attending short courses may opt to stay in backpacker accommodation.

[1] Source – Fresh Info April 2015. Sample sizes: ITM Auckland Supersprint 2016: Total online sample = 669, of which 374 were visitors. NRL Auckland Nines 2017: Total online sample = 997, of which 471 were visitors

Data for the number of visitor nights generated by international students is not collected. However the average length of stay for students is 2 years. According to Education New Zealand data[2], international students were reported to be worth $2.2b to the Auckland economy in 2015/16.

International students have friends and relatives visit them in New Zealand, which generates expenditure on accommodation, hire vehicles and attractions. ATEED's research[3] into the short stay Study Auckland cohort from the US showed that half of all students had friends or family visit them during their stay. Family accounted for two-thirds of all visits. One in five (18 per cent) visits included three or more people. Half reported spending more than 25 days travelling the country, typically spending about $8000 during their time in New Zealand, in addition to course fees.

iSITEs

The i-SITE network provides international visitors, domestic travellers and locals with information and a New Zealand-wide booking service for accommodation, activities, attractions and transport. ATEED operates three i-SITES across Auckland located at SKYCITY, Princes Wharf and within the International Airport terminal.

In the year ending June 2016 the Auckland i-SITES serviced 502,026 visitors to Auckland. Research indicates that the main reason for visitation for 16% of all visitors was to book accommodation, attractions or transport. The value of gross financial transactions at the Auckland i-SITES in the year ending June 2016 was $8.16m, of which 5% were for local accommodation. I-SITEs are a profitable revenue channel. The majority of costs relating to i-SITES financial transactions are passed on.

An overall economic impact[4] of the i-SITE network shows that the return on each $1 invested in the Auckland i-SITES (i.e. the net cost of operating the i-SITES) was $13.8 when considering all direct and indirect/induced impacts (i.e. flow on economic activity resulting from the i-SITE initiated transactions).

Tourism

ATEED undertakes a range of activities designed to promote Auckland directly to international and domestic (non-Auckland) visitors, and tourism trade partners. Partnering with local tourism operators and regional cluster groups is a key component of this activity.

This activity includes a specific focus on the cruise sector to ensure Auckland continues to rate highly as a cruise destination and exchange port.

ATEED's strategic approach is to focus its marketing and partnership-based initiatives on high-value visitors, and on Auckland's key international markets. Work with Flight Centre and other partners including Tourism NZ has aimed to grow visitation by a target of 6 per cent. Against the 6% target during the year to date visitation by leisure visitors from Australia has increased by 7.8%. A key example of the benefits of ATEED's visitor attraction is the four year partnership with the Flight Centre. The investment up to this financial year produced an increase in bookings to Auckland via the Flight Centre that was more than 50 per cent greater than the same period of growth in underlying visitor numbers over a four year period. According to sales data from Flight Centre this visitor growth produced an additional $30 million in visitor spending in Auckland.

In the US, ATEED continues to develop its partnerships with Virtuoso, American Express and Travel Leaders and others to attract high-value visitors. One example of this is the marketing and sales

[2] Auckland has a 66% share of the New Zealand market for international students. Source: Infometrics, p.5 - https://www.enz.govt.nz/news-andresearch/ research/the-economic-impact-of-international-education-201516/

[3] Sample: 242 AUT and University of Auckland students

[4] Market economics

partnership with Virtuoso which in the last 3 years has seen growth in spend in Auckland from their clients increase by 36% equating to an incremental spend of NZD$11.67m in Auckland (data supplied by Virtuoso sales system). In China ATEED continues to work with high net worth individuals attracting over 10 business delegations and investor groups to Auckland in the last 3 years using ATEED's Golf, Equine, Marine and Screen (GEMS) Strategy as a hook to generate interest and awareness.

In the year to 30 June, ATEED's programmes contributed to the number of visitors to Auckland from the US growing by nearly 10 per cent; Chinese visitor arrivals in Auckland rising 23 per cent; and from Australia growing by more than 5 per cent. The 2015/2016 growth in the number of visitors from Japan (up 21 per cent year on year), and Korea (up 23 per cent year on year) reflect potential future opportunities which will be explored.

World Masters Games 2017
The World Master Games is not planned expenditure for the 2017/2018 year but an example of the impact that ATEED's activities can have. Investment in the event is broken down as follows:

- ATEED (on behalf of council) $11.75m
- MBIE $11m
- Participant fees and commercial partners - $13.1m

The economic impact study of WMG2017 conducted in 2013 projected that the Games would deliver a GDP impact for Auckland in excess of $30.8 million and visitor nights in excess of 244,000. The distribution of competition venues across Auckland means that the benefits of the Games are expected to be felt region wide.

A full post event evaluation of WMG2017 will be carried out in due course and participant survey data will capture details about the accommodation selected by participants. It should be noted that AOT Group, SKYCITY, AirBnB and Mighway are partners of WMG2017.

Finance and Performance Committee
1 June 2017

Other rates policy issues

Purpose

1. This report considers the feedback received on the proposed changes to the other rates policy issues consulted on for the Annual Budget 2017/2018, and advises on the adoption of changes. The rates increase for 2017/2018, rating stability and the proposed accommodation provider targeted rate are discussed in other reports on this agenda.

Executive Summary

Other proposed changes to rating policy

2. The Consultation Document sought the communities views on the:
   - standardisation of waste management services and charges
   - changes to business improvement districts (BIDs).

Standardisation of waste management charges and services

3. The council proposes to standardise waste management rates for base services at $102 per property. As all areas are now being offered the same service the charge should be set at the same level. This will mean small increases in some former council areas and decreases in others.
4. The standardised recycling service will offer a choice of bin size; 120 litre, 240 litre or 360 litre. Because all customers will be able to manage normal residential recycling volumes with the option of a 360 litre bin it is proposed to:
   - introduce a charge of $62 per annum where an additional recycling bin is requested (this was previously free in some areas):
   - remove the free cardboard collection offered in some commercial areas in the former Waitakere, North Shore and Rodney.
5. A rates funded, 120 litre bin refuse collection service is being introduced in the former Manukau City Council area to replace the current bag pick up. This will improve current issues related to ripped bags, littering, health and safety and encourage greater recycling and waste minimisation. Residents will be able to request a 240 litre bin instead of a 120 litre bin for an additional charge of $55 per annum. The larger bin service will only be available in the former Manukau City Council area (in 2017/2018) and the former Auckland City Council area (in 2018/2019).

Business improvement district rates

6. Expansions to the Manukau, Uptown and Wiri business improvement districts were proposed by the relevant business associations. The proposals were all supported in a ballot of members.

Feedback

7. Only very limited feedback was received from consultation on these proposals and was generally in support. The relevant local boards supported the BID proposals in the consultation materials.

Recommendations

8. Staff recommend that the following proposals be adopted:
   i) standardisation of waste management services and charges
   ii) expansions of the Manukau, Uptown and Wiri business improvement districts.

Comments

Decision making criteria

9. In making decisions on the matters in this report the council is required to consider feedback from consultation, the principles in the Revenue and financing policy and the Local Government Act 2002.

Feedback

10. Feedback from consultation on the proposals discussed in this report was summarised in detail in the report to the Finance and Performance Committee workshop of 26 April entitled “Annual Budget 2017/2018 Consultation – Summary of feedback”. Local board feedback on the Annual Budget is set out in the report “Annual Budget 2017/2018 - local board feedback” also on this agenda. Local board views on the rating issues are summarised in each section of this report.

Standardising waste management services and charges

Proposal

11. The council proposed steps to implement further standardisation of regional waste management services and charges. The proposed changes to services and charges are discussed below.

Proposal and Analysis: Standard rate for base services

12. The council sought the community’s views on:

- waste management rate for base services at $102 per property (or per service) to cover the cost of recycling, inorganic collection and other regional services
- waste management rate for refuse service at $117 per property (or per service) to cover the cost of a standard 120 litre refuse collection in the former Auckland City and Manukau City areas

13. The base services are; recycling, inorganic collection, community recycling centres and the Hauraki Gulf Islands subsidy. The impact of the proposed 2017/2018 base charge is set out in the table below.

14.

Waste management rates							
Waste management rate	**Former council area**						
	Rodney (incl. GST) ($)	**North Shore (incl. GST) ($)**	**Waitakere (incl. GST) ($)**	**Auckland (incl. GST) ($)**	**Manukau (incl. GST) ($)**	**Papakura (incl. GST) ($)**	**Franklin (incl. GST) ($)**
2016/2017	106.51	91.49	91.49	232.72	232.72	104.69	
Proposed base charge 2017/2018	101.63						
Proposed refuse rate 2017/2018	n/a			117.02		n/a	
Change in rates	-4.88	+10.14		-14.07		-3.06	
Estimated cost for the average household using bag service[1]	135 [2]	135		n/a		135	
Total cost for average household	**236.63**	**236.63**		**218.65**		**236.63**	

Notes to the table:

1. Estimated average cost is based on the current council bag price ($2.30) and average bag usage per household per year (58.7 bags).
2. Information on Rodney is limited as the council does not provide a refuse service in the area. The average bag cost in Rodney is estimated based on the bag price and the average bag usage in areas serviced by the council.

15. The costs of service provision are very similar across the region. The table below shows the estimated cost of providing base waste services in each of the former council areas for the 2017/2018 year. The costs no longer provide an exact match to the former council areas. The council now enters into contracts on the most efficient geographic basis for service provision.

	Estimated base waste management costs by former council area (excluding refuse) 2017/2018					
	Rodney	**North Shore**	**Waitakere**	**ACC**	**MCC**	**Papakura Franklin**
Costs per property Including GST	$110.98	$102.13	$103.93	$97.87	$95.34	$104.30

16. The variations in cost are driven in part by the time at which the contracts were entered into reflecting possible movements in costs. Some variation between areas due to timing issues will also occur in the future. Contracts in the Rodney and Franklin areas also contain some rural service which has slightly higher costs. Overall the variation in costs is small and doesn't support setting separate prices on an area basis.

17. The only area where costs are substantially different are on the Hauraki Gulf Islands. The council has previously decided to subsidise these residents. All other ratepayers make a contribution towards the Hauraki Gulf Islands subsidy of around $5.60 in their base charge.

18. The only alternative option is to retain the current disparate charges. The costs are not materially different between areas and may still vary within areas for individual properties. Staff do not consider that it would be equitable to set differing charges geographically.

19. Staff recommend adoption of the proposal to set a standard charge for base waste management services.

Analysis: Changes to rates funded refuse collection in Manukau

20. The council sought the community's views on:
    - rates funded, 120 litre bin refuse collection service in the former Manukau City Council area to replace the current bag pick up
    - an additional charge of $55 per annum for a larger 240 litre refuse bin in the former Manukau City Council area (in 2017/2018) and the former Auckland City Council area (in 2018/2019).

21. The charge for the larger 240 litre bin will be applied to the rates bill. When a 240 litre bin is requested after the rates have been set for the year the ratepayer will be sent a pro-rata invoice for the period (this will not be a rate as a rate can only be set as part of an annual or long-term plan). Their rates will be adjusted to include the charge for the following year. Tenants will require the agreement of the property owner to secure an extra bin. The Residential Tenancies Act 1986 precludes landlords from passing on this rate to the tenant.

22. At present rubbish collection in the Manukau area is a rates funded bag collection service. There is no limit on the number of bags and the type of bags that can be put out for collection. Households in the legacy Manukau area generate the highest amount of rubbish per household.

23. Previous experience shows the majority of residents will be able to manage with the new 120 litre bins. Moving to a 120 litre bin will encourage residents to recycle more and not to use the refuse bin for green waste. In 2001/2002 Auckland City moved from a 240 litre bin for refuse to a 120 litre bin and refuse tonnes fell by 35 per cent[1]. Illegal dumping rose in the year following implementation then reduced to previous levels the year after and has subsequently fallen further. Council staff have put in place plans to manage this. A similar change in household waste management in Manukau would reduce the average refuse tonnage per person to a similar level to that observed in the former Auckland City Council area.

24. The alternative is to provide a larger bin free of charge. Providing a larger bin at not cost would eliminate any incentive to manage refuse volumes by recycling and other means. This option was rejected because the refuse needs of nearly all properties can be met with a 120 litre bin as evidenced by the historical performance of the changeover in the former Auckland City. Where a ratepayer still needs a larger bin they should meet the additional cost.

25. Staff recommend adoption of the proposals.

Analysis: Standardisation of recycling services and charges

26. The council sought the community's views on:
    - standardised recycling service offering a choice of bin size; 120 litre, 240 litre or 360 litre
    - removal of the free cardboard collection offered in some commercial areas in the former Waitakere, North Shore and Rodney
    - a charge of $62 per annum where an additional recycling bin is requested (this was previously free in some areas).

27. A standardised recycling service using a 240 litre bin has been introduced across the region. A choice of bin sizes, 120 litre, 240 litre or 360 litre, was made available in Rodney, North Shore, Waitakere, and rural Franklin in 2016/2017. Choice of the bin size will be rolled out in Auckland city, Manukau, Papakura and urban Franklin over the next two years (2017/18 and 2018/2019).

[1] There was an initial increase in illegal dumping in the following year which reduced to previous levels the year after and has subsequently fallen further.

28. The charge for provision of an extra recycling bin will be introduced in areas where the properties have a choice of bin sizes. The charge for the extra recycling bin will be applied to the rates bill. When an extra bin is requested after the rates have been set for the year the ratepayer will be sent a pro-rata invoice for the period (this will not be a rate as a rate can only be set as part of an annual or long-term plan). Rates will be adjusted to include the charge for the following year. Tenants will require the agreement of the property owner to secure an extra recycling bin. The Residential Tenancies Act 1986 precludes landlords from passing on this rate to the tenant. At present there is no charge for an additional recycling bin except in the former Auckland City Council area.
29. The council considers that most of the properties presently receiving an extra bin will be able to manage their additional recycling demands by taking up the 360 litre bin choice funded from their base waste management rate. Waste audits indicate that a 360 litre recycling bin provides enough capacity for the vast majority of residential and commercial properties in Auckland for "domestic type" recycling.
30. An alternative option is to provide an additional recycling bin at no extra charge everywhere in the region. This option was rejected because the cost of providing a second bin is material and the recycling needs of nearly all properties can be met with a 360 litre bin and the additional costs of an extra bin should be met by the ratepayer.
31. The choice of a 360 litre bin will meet the needs of businesses previously receiving free commercial loose cardboard collection producing recycling volumes within the range expected for domestic properties. Businesses producing larger volumes of recycling from trade activities should make provision for a private service and meet these costs as they do elsewhere in the region. The removal of this service will impact on 6,500 properties. The estimated budget saving is $370,000.
32. The alternative is to retain status quo. If the current program is retained businesses in these areas would continue to receive a free service funded by other ratepayers to whom this service is not available.
33. Staff recommend adoption of the proposals.

Consultation Feedback

34. Only a few items of feedback were received on these proposals which were generally in support although the Business North Harbour Inc. submitted in opposition to the removal of free cardboard collection.

Local board feedback

35. Only three local boards commented on these proposals. Hibiscus and Bays supported the standardisation of waste management services and charges and Manurewa was opposed. The Kaipataki Local Board was opposed to removal of the free cardboard collection offered in some commercial areas in the former Waitakere, North Shore and Rodney

Business improvement district targeted rates

Proposal

36. The council sought the community's views on proposals to:
    - establish a new Henderson-Lincoln BID
    - expand the Manukau, Uptown, and Wiri BIDs.

Analysis

37. The council's BIDs policy requires a ballot to be held of the all the ratepayers who would be subject to the BID rate and all the businesses in the targeted rate area. For an extension a ballot must be held of all the ratepayers who would be added to the BID area and all the new businesses in the targeted rate area. In order to proceed these ballots require a 25 per cent return rate and of those over 51 per cent must be in support of the proposal. The results are set out below:
    - Henderson-Lincoln BID establishment – return 24 per cent

- Manukau BID extension – return 31 per cent with 84 per cent for and 16 per cent against
- Uptown BID extension – return 27 per cent with 64 per cent for and 36 per cent against
- Wiri BID extension – return 29 per cent with 75 per cent for and 25 per cent against.

38. The Henderson-Lincoln BID failed to secure the return of enough ballots to proceed. The Manukau, Uptown and Wiri BID extension proposals have all achieved sufficient support under the BID policy to proceed.

39. Staff recommend adoption of the proposals.

Feedback

40. Submissions supported the proposed BID extensions.

Local board feedback

41. The Otara-Papatoetoe Local Board supported the Wiri and Manukau BID extensions and the Albert-Eden Local Board supported the Uptown BID extension.

Implementation

42. The BID expansion proposals and changes to other BID rates will be included in the rates setting report scheduled for 29 June.

Other rating policy matters

43. Feedback received during consultation included commentary on a range of rating matters including:
    - impact of rates increases on pensioners and various suggestions relating to lower rates for pensioners
    - level of UAGC
    - alternative approaches to rates structure, including fixed rates, poll tax, value capture, levy on empty houses, and lower rates for long time ratepayers
    - collection and distribution of targeted rates
    - level of rates compared to level of service received in rural areas
    - liability of utilities for targeted rates e.g. whether Vector infrastructure should attract the City Centre Targeted rate.

44. Some of these suggestions would require legislative change (e.g. a poll tax) or public consultation or were considered in detail in the development of the Long-term Plan 2015-2025. Staff recommend that the council determine whether it wishes to undertake further work on these issues in 2017 when considering the scope of the Long-term Plan 2018-2028. Staff will review the application of targeted rates to utilities along with a number of other issues regarding the application of the current rating policy as part of the Long-term Plan 2018-2028.

Consideration

Local Board views and implications

45. The governing body has decision making authority for setting rates.

46. Local boards considered the proposals for changes to rates at their meetings in April. A summary of their views is included in the appropriate sections of this report.

47. A more detailed report "Annual Budget 2017/2018 - local board feedback" setting out local board views is on this agenda and includes the full text of their resolutions on the issues.

Māori impact statement

48. The council does not hold information on the ethnicity of ratepayers so is not able to identify the exact impact of policy changes on Māori. The impact of the policy options on Māori will be similar to that on other residents in Auckland.

Significance

49. Changes to rates require consultation. The proposals discussed in this report were consulted on as part of the Annual Budget 2017/2018 process.

Implementation

50. Implementation issues are discussed in the report.

Attachments

There are no attachments for this report.

Signatories

Authors	Andrew Duncan - Manager Financial Policy Aaron Matich – Principal Advisor Eric Wen - Advisor
Authorisers	Matthew Walker – General Manager Financial Strategy and Planning Sue Tindal – Group Chief Financial Officer

Implementing a living wage

File No.:

Purpose

1. The purpose of this report is to recommend to the Mayor that his Annual Plan 2017/18 mayoral proposal include that the Finance & Performance Committee recommend to the Governing Body that the Auckland Council group implement a living wage policy over the council term to October 2019. The report provides information, outlines key issues for consideration, a broad policy approach and cost estimate.

Executive summary

2. The proposal was described in the Annual Budget (Annual Plan) 2017/2018 consultation document and included in the public consultation process. Feedback, collated from the responses, was discussed at the Finance and Performance Committee on 26 April 2017.

   The feedback gathered through the public consultation process was positive with 71% of feedback supporting the implementation of a living wage at Auckland Council. The majority of businesses also supported its implementation.

   Staff recommend that the proposal as outlined in the consultation document be adopted along with the additions discussed below. Auckland Council would implement the policy over three years, commencing in late 2017 through to the end of the council term in October 2019.

   The target hourly living wage rate for October 2019 is currently $21.00 based on the $20.20 starting rate and using council projected inflation over the next two years.

Recommendations for the Mayor

3. Staff recommend to the Mayor that his proposal include:

a) The Finance & Performance Committee recommend to the Governing Body that the Auckland Council group implement a living wage policy over the council term to October 2019.

b) The Finance & Performance Committee recommend to the Governing Body that the Living Wage policy includes the following parameters:

   I. The rate will initially be based on the reference living wage published by the Living Wage Movement Aotearoa New Zealand for 2017 being $20.20, and thereafter will be calculated using council projected inflation rates.

   II. The coverage will be Auckland Council and its substantive council-controlled organisations and excludes contractors and volunteers.

   III. A phased implementation approach be employed to ensure the greatest benefit is received by people earning lower than a living wage in priority to addressing relativity issues.

   IV. A complementary Trainee, Cadet, Intern and Apprenticeship rate is developed.

Comments

4. The number of impacted staff currently earning less than $20.20 per hour at 1 May 2017 was approximately 2,064 across the Council family:

Auckland Council – Leisure (Active Recreation)	708
Auckland Council – Libraries and Information	415
Auckland Council – Others (incl. Customer Services and Regulatory Services)	225
Auckland Council – City Park Services	108
CCOs	
Regional Facilities Auckland – Auckland Live	325
Regional Facilities Auckland – Others (incl. the Zoo and Art Gallery)	144
Auckland Transport	88
Watercare Services	45
ATEED	8
Panuku Development Auckland	8
TOTAL	2064

4.1 Council group feedback:

Key impacted business areas, including five CCOs (Regional Facilities Auckland, Auckland Transport, ATEED, Panuku Development Auckland, Watercare Services) as well as Leisure, Libraries and City Parks Services have been consulted on key considerations for their business. The key considerations highlighted were:

a) A need to enable the business to continue to invest in youth and programmes with social outcomes.

b) A need to establish guidelines for trainee, cadet, apprenticeship and intern programmes.

c) The management of pay relativity issues and social equity during the implementation.

d) RFA, Leisure and City Park Services have also considered the need to remain market competitive when implementing a living wage.

The recommendations in this report address these considerations.

4.2 Public consultation comments

82% of the comments received through the public consultation process were in support of a living wage. The top themes were that it is a fair wage given the high cost of living in Auckland, and that it supports people's ability to live with dignity, to buy necessities and provide for their family.

Other comments received included the following:

a) 9% of respondents said that the implementation should be extended Auckland or nation-wide. Auckland Council is taking a key leadership role in implementing a living wage because it believes the benefits will outweigh the investment.

b) 6% of respondents said that council should cut the salaries of higher earners to fund a living wage. Auckland Council will find efficiencies from across the organisation to fund the implementation of a living wage.

c) 2% of respondents said that contractors working for council should also be paid a living wage. The cost of including contractors is considered prohibitive at this time. Following implementation of the initial scope, analysis will be required before consideration can be given to extending the living wage to contractors.

Consideration

Local board views and implications

5. The majority of respondents to the public consultation in every local board area agreed with the proposal to implement a living wage. 19 Local boards supported the implementation with 2 still undecided.

Māori impact statement

6. Maori staff working for the council and earning below a living wage will receive increments in line with the living wage implementation approach ensuring better equity outcomes for the impacted roles. The overall aims and objectives of the Living Wage policy align with Council's strategic commitments to contribute to Maori economic and social wellbeing.

Implementation

7. The Local Government Act 2002 (Schedule 7 clause 36A) says that the local authority (i.e. governing body) may adopt policy in relation to remuneration of employees. It also says (section 42) that the Chief Executive is responsible for employing, on behalf of the local authority, the staff of the local authority (in accordance with any remuneration and employment policy).

8. If the decision is made to support a living wage policy staff recommend that the living wage policy includes the following implementation parameters:

   a) The rate will initially be based on the reference living wage published by the Living Wage Movement Aotearoa New Zealand for 2017 being $20.20, and thereafter will be calculated using council projected inflation rates.

   b) The coverage will be Auckland Council and its substantive council-controlled organisations and excludes contractors and volunteers.

   c) A phased implementation approach will be employed to ensure the greatest benefit is received by people earning lower than a living wage in priority to addressing relativity issues.

   d) A complementary Trainee, Cadet, Intern and Apprenticeship rate will be developed.

9. If the decision is made to support a living wage policy, staff advice is that:

   a) a set of clear guiding principles should be agreed to support fair and consistent practice to guide the implementation of a living wage. These are being developed with the PSA and Living Wage Aotearoa.

   b) a minimum rate of $18.00 per hour be established effective 1 September 2017. This would be applicable to all employees above the age of 16 who do not form part of programmes like Trainees, Cadets, Interns and Apprentices. All CCOs have agreed to the implementation of the minimum rate of $18.00 in year one. The minimum rate should be lifted each year until it reaches the currently estimated $21.00 per hour.

   c) living wage payments are made over and above annual salary increase and social equity payments budgeted over the implementation period.

   d) in relation to a complementary Trainee, Cadet, Intern and Apprenticeship rate; a minimum rate of $16.16 per hour (80% of $20.20) be established effective 1 September 2017. This would align with the recommendation of the Living Wage Advisory Group and the current practice of the minimum wage. The estimated rate would be $16.80 per hour (80% of $21.00) in September 2019. Guidelines should be developed to define Trainees, Cadets, Interns and Apprentices.

10. Based on the above, the cost of implementation in year one is up to $1.9 million. These costs are subject to change, dependant on the final annual salary increases and social equity payments which are currently being determined.

11. In year one of the implementation, over 90% of the salary costs would go to employees earning below $20.20 per hour with the rest to adjust for relativity issues. In addition to salary costs, year one implementation costs for collective employment agreement negotiations, change management, and remuneration and payroll system changes, are included at an estimated $0.37 million.

12. The implementation timeframes will allow for appropriate consideration of necessary changes to council's workforce strategies, business models and collective employment agreements. A set of indicators will be developed, covering both workforce and performance measures, to measure and track the impact of implementing a living wage including engagement, workforce profile and customer satisfaction.

13. If the decision is made to support a living wage policy, the additional cost will be added to the overall costs of running the Council group. The additional cost is included alongside other budget pressures for 2017/2018 and the Council Group is charged with finding savings to offset the total cost increases. Savings targets are allocated across the group and will be met through improved procurement, systems and more efficient operations. This includes optimising our motor vehicle fleet and negotiating better supplier contracts in areas such as legal services.

Attachments

14. There are no attachments to this report

Signatories

Authors	Stephen Davies and Wendell D'Cunha
Authorisers	Patricia Reade