FISCAL - DOING MORE WITH LESS

POLICY ANNOUNCEMENT

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PHIL GOFF FOR A BETTER AUCKLAND

The first responsibility of the Mayor is to ensure that the City is managed in a fiscally responsible way. It must work within its budget, keep rates low and affordable, and get the best value for money for each dollar it receives from ratepayer and other sources.

One of the principal goals of establishing a super city for Auckland was to end duplication, waste and inefficiency from having eight Councils manage what was effectively one city. Six years on, the level of trust and confidence in Council has fallen to a very low level. The perception of Council is of a body that has not captured the efficiencies it was expected to achieve. Council is regarded as an organisation that needs to cut fat from its system, become more responsive to the needs of its residents and ratepayers, and to be more transparent in how it spends its money.

Major changes are needed in how Council operates in order to restore the confidence of its ratepayers and persuade the Government, from which it needs further funding, that it is an efficient and high performing organisation. Things need to be done differently and there needs to be a change in Council culture.

- ✓ **RATE RISES KEPT AT AN AVERAGE OF 2.5 PERCENT PER ANNUM OR LESS (BASED ON COUNCIL FISCAL AND INFLATION PROJECTIONS), LOWER THAN THE CURRENT RATES INCREASES SET OUT IN THE LONG TERM PLAN.**
- ✓ **LAUNCH 3-6 PERCENT EFFICIENCY DRIVE ACROSS COUNCIL.**
- ✓ **CHANGE COUNCIL CULTURE TO MAKE IT MORE EFFECTIVE AND RESPONSIVE.**
- ✓ **RETAIN COUNCIL STRATEGIC ASSETS WHILE CONSIDERING SALE OF SURPLUS, NON-STRATEGIC ASSETS.**
- ✓ **WORK WITH CENTRAL GOVERNMENT TO EXAMINE INFRASTRUCTURE BONDS AS A MECHANISM TO MEET COSTS OF INFRASTRUCTURE REQUIREMENTS.**

Rates

- ✓ Rate rises will be kept low and affordable at an average of 2.5 percent per annum or less, if current Council fiscal projections are correct and the CPI stays low.
- ✓ Costs of expensive infrastructure should not in the main be funded from rates.

- ✓ More than 50 percent of New Zealand's growth is currently in Auckland and Auckland has to meet the costs of providing the infrastructure to cope with that growth. Yet the extra GST and income tax arising from the growth goes to central government. Auckland needs a fair share of the additional revenue to offset the costs of meeting growth.
- ✓ The flat levy on all rates to pay for a shortfall in transport funding should be removed and replaced by a road charge so that those who benefit from use of the roads contribute to the costs of reducing congestion. This may initially be in the form of a petrol tax, later replaced by a congestion charge or toll, to help service debt raised for infrastructure and to influence commuter behaviour.
- ✓ To keep rates low and affordable Council needs to do more with less. That means cutting fat, eliminating waste and duplication, and finding efficiencies.

Operating Expenditure

- ✓ As part of doing more with less, Council will be required to examine the cost effectiveness and necessity for all aspects of operational expenditure.
- ✓ First and foremost a change in Council culture will be implemented to make it more efficient, responsive and flexible in how it operates. The skills of top executives who have successfully achieved transformational cultural change in the private sector will be called on to assist in this transition.
- ✓ The CEO and senior management team will be tasked with identifying and reporting on poor quality spending, and underperforming programmes and initiatives as a priority.
- ✓ A more strategic approach to budgeting that requires prioritisation will replace the "cost plus" mentality that has been the historic approach to Council budgeting. As a first step each department within Council will be set an efficiency target, averaging 3-6 percent across total Council expenditure to contribute toward future cost pressures. Areas where staffing and expenditure are very high or have increased disproportionately, such as in governance and communications, will be expected to find higher levels of savings.
- ✓ Where new expenditure is sought, the expectation will be that funding should be secured by the discontinuation of lower value activity, rather than simply assuming the continuous growth in functions and expenditure.
- ✓ Achieving incremental improvements across all of the Council's service lines will be a minimum expectation. This will be reinforced through the benchmarking of service costs and performance with other councils offering comparable services. For some service lines, however, incremental improvements will be insufficient. Profound transformation will be needed to achieve better value at lower cost. Achieving this will require the Council to tap the talents, wisdom and creativity of both its employees and the wider community - businesses, NGOs and individual ratepayers. A contestable Innovation Fund financed by efficiency savings will be established to support this process. Anyone with a promising idea will have the opportunity to apply to the Fund to develop their idea to the point a decision on whether to proceed to implementation is taken. Priority will be given to "invest to save" innovations that deliver both better value and also lower the forecast trajectory of future spending.

- ✓ Further investment in procurement systems is needed to deliver savings for ratepayers. When combined, the Council and CCOs purchase $2.4 billion of goods and services each year. This comprises 68 percent of total Council spending and provides significant opportunities to achieve lower prices through economies of scale. Achieving these economies, however, requires the Council to build a sophisticated, commercial procurement capability to counter the perception that publicly funded institutions are a 'soft touch' for providers and contractors.

  Every 1 percent of procurement savings could release up to $24 million that will contribute to lower cost pressures on rates. A minimum annual targets of 3 percent must be achieved when the policy is fully implemented.

- ✓ The contracting out of functions should normally occur when the Council lacks specialist staff to do a job and where it costs more for the Council to build and retain an in-house capability than to purchase it from the market. Council has found that in some instances, such as animal control, bringing Council services back in house has saved hundreds of thousands of dollars. This illustrates that a pragmatic, case-by-case assessment of out-sourcing decisions is needed.

Council Controlled Organisations (CCOs)

While CCOs have been established as arms-length entities, clear expectations will be established for all CCOs with respect to their revenues, expenditure and financial management. This will include:

- ✓ An expectation that all CCOs will participate in the collaborative procurement of non-specialised inputs to maximise the economies of scale from the Group procurement spend, with this activity being led by the Council's team.
- ✓ An expectation the Council and CCOs will progressively move together as a Group towards a shared services environment for other back office functions, including computing, finance, payroll and HR.
- ✓ Investigate adopting a fair level of user-pays where there are demonstrable private benefits generated from CCO operations. For example, Auckland Tourism, Events and Economic Development (ATEED), a CCO with expenditure of around $70 million a year, generates benefits for the city as a whole, but it also generates benefits for specific industries, such as tourism and hospitality providers. This could generate savings and better focused programmes more responsive to businesses.
- ✓ The elimination of duplication with other organisations with a presence in Auckland, including central government. For example, both ATEED and New Zealand Trade & Enterprise (NZTE) have a strong presence in Auckland. Wherever practical these two organisations should be run like a joint venture so they can leverage their respective strengths, achieve common goals, and control their combined expenditure.

Capex and Debt Management

To support the development of the future urban land necessary to accommodate Auckland's growth an additional $17-$20 billion is needed for core infrastructure to support future urban land areas. This is on top of the $18.7 billion already budgeted for in the Long Term Plan.

Limits on borrowing capacity and the inequity and inappropriateness of using rates as a major funding mechanism means alternative funding sources for infrastructure are necessary. Options include: government revenue sharing with Council, private-public partnerships, and build, own, operate and transfer projects or the raising of infrastructure bonds by Government or Council with mechanisms to service the interest on and repayment of those bonds.

The size and rapidity of Auckland's growth, and the importance to New Zealand as a whole in managing and optimising that growth, means that inevitably there needs to be a coordinated, partnership approach to capital and infrastructure needs by local and central government. The Auckland Transport Alignment Project is a positive response to the previous uncoordinated efforts of both tiers of Government.

The Infrastructure Fund, which makes $1 billion of interest-free capital available to high growth areas repayable over 10 years, is an acknowledgement by central Government of the role it must play. That fund, however, shared across New Zealand growth areas would meet about one fortieth of Auckland's capital needs -and would need major expansion to have a meaningful impact.

As Mayor I will work constructively with central Government to address Auckland's infrastructure needs. Auckland makes up 35 percent of the population and 37 percent of production of New Zealand. Auckland first must succeed for New Zealand to succeed.

- ✓ Funding may come in part from the sale of non-strategic surplus assets. Assets surplus to needs or not producing an adequate return to Auckland ratepayers should be considered for sale on a case-by-case basis.
- ✓ Key strategic assets will not be sold. Both Treasury and Cameron Partners examined the future of Auckland's assets and concluded their sale is not an answer to Auckland's infrastructure investment needs.
- ✓ The 22 percent shareholding in Auckland International Airport Ltd will be retained in public ownership. This is a strategic shareholding in an asset important to Auckland's role as New Zealand's gateway city. It has produced a significant income stream for Auckland ratepayers.
- ✓ Watercare is a $9 billion asset. It currently pays no dividend, which allows for its earnings to be reinvested in providing infrastructure for the growing population and to upgrade facilities. It will not be sold.
- ✓ Auckland Port's land is its most valuable asset. Its current land belongs to and should be owned permanently by the people of Auckland. The Port's operation should continue within Council ownership pending long-term decisions on the future of the Port.
- ✓ Auckland must continue to manage its debt responsibly with the objective of maintaining its AA credit rating. We will work with Government to further develop the Infrastructure Fund as a mechanism to meet the costs of new infrastructure requirements. Our goal will be to bring forward the capital investment needed to deal with transport gridlock and the housing crisis.
- ✓ We will work with Government to examine infrastructure bonds as a mechanism to keep down initial new housing costs by spreading the cost of infrastructure needed for new housing developments over time, with costs met from targeted rates.
- ✓ We will work with Government to allow capital costs of transport infrastructure to be met out of a road pricing model.

- ✓ We will win the confidence of both ratepayers and Government that Auckland has achieved excellence in its expenditure performance and that capital invested in Auckland is money well spent both for its citizens and the country as a whole.

Phil Goff
For a Better Auckland