

CONFIDENTIAL

2023/24 Budget Overview

For decision: For noting:

Reason for inclusion in closed board meeting session	
1. Please state why this report is being considered in the closed board meeting as opposed to the open board meeting. Please refer to the 'reasons for confidentiality' and provide a direct reference to one of these reasons.	To protect information that will soon be publicly available
2. Please provide an estimated date for release of this report.	May 2023

Te tūtohunga / Recommendation

That the Auckland Transport Board (board):

- a) Note this report.

Te whakarāpopototanga matua / Executive summary

1. Auckland Transport (AT) is facing significant pressure in the 2023/24 operating budget to meet revenue challenges, an existing efficiency target, higher inflationary cost pressures and a lower level of funding available from Auckland Council (AC). The National Land Transport Fund (NLTF) is also becoming increasingly constrained.
2. AT is required to find at least \$56 million of savings and efficiencies to meet these pressures and deliver funding challenges allocated by AC.
3. AC and Council Controlled Organisations (CCOs) are being asked to focus on core services and to get back to basics.
4. AT proposed a draft operating budget that delivered \$49 million of the required savings and was used by AC to develop its draft budget for public consultation. An additional \$7.5 million savings target was subsequently imposed in the Mayoral budget proposal.
5. The Executive Leadership Team (ELT) is also seeking to determine whether up to \$10 million of additional savings can be found to reinvest in frontline public transport (PT) services and maintenance services. This is not included in the draft operating budget proposed to AC.

CONFIDENTIAL

6. During February 2023, AT has completed targeted review and challenge sessions within the business to identify the additional savings and efficiencies proposed.
7. The AC 2023/24 consultation budget has a capital budget of \$1,058 million in line with the programme developed as part of last year's budget process but is less than the original Regional Land Transport Plan (RLTP) capital budget for 2023/24 of \$1,186 million.
8. A key consideration will be to what extent a portion of the 2023/24 capital programme needs to be redirected more towards renewals and resilience work.

Ngā tuinga ō mua / Previous deliberations

Date	Report Title	Key Outcomes
11 November 2022 – board	2023/24 Draft Budget presentation	The board noted the budget challenges and AC operating funding scenarios.
31 January 2023 – Finance & Assurance Committee (committee)	2023/24 Budget Challenges presentation	The committee noted the budget challenges and the internal budget processes underway to land the proposed budget.

Te horopaki me te tīaroaro rautaki / Context and strategic alignment

9. AC's 2021/31 Long Term Plan (LTP) and AT's 2021/31 RLTP were approved and published in July 2021. The LTP sets out ten-year operating and capital programmes and budgets for the Auckland Council Group. AT prepared its own 10-year operating and capital programmes and budgets that supported the LTP and RLTP planning processes.
10. Every three years a new ten-year LTP and RLTP are prepared. 2023/24 is the last of the two intervening years when AC prepares an Annual Plan as an update of the respective budget year in the LTP. AT's budget is a required input into the AC Annual Plan process.
11. AC approved its draft 2023/24 consultation budget in December 2022 which is being released for public consultation during March 2023.
12. The operating budget developed by AC for consultation was based on the 2023/24 year in the adjusted LTP developed as part of last year's budget process, updated for:
 - Additional costs reflecting PT contract, road maintenance and wage inflationary risks.
 - The inclusion of a \$25 million AC funding savings target.
 - A late additional efficiency target in the Mayoral budget proposal of \$7.5 million.

CONFIDENTIAL

13. The consultation capital budget developed by AC:

- Maintains capital envelopes at adjusted LTP levels developed as part of last year's budget process and requires AT to absorb inflationary impacts.

14. In parallel with public consultation on the draft Annual Plan, AC requires AT to undertake a detailed budget refresh exercise to reflect changes in the operating environment or underlying assumptions. Any significant changes in the year will be reflected across the remaining years of the LTP in high level templates to allow AC to update its long-term funding models. These templates are not due back to AC until 21 April 2023.

15. AC will not finalise its funding envelopes for CCOs until late May / early June with the adoption of the 2023/24 Budget in late June.

16. The purpose of this paper is to provide an update on the budget process and workstreams in progress to set the 2023/24 budget.

Ngā matapakinga me ngā tātaritanga / Discussion and analysis

Operating Budget

17. The Auckland Council Group has disclosed a \$295 million operating budget funding hole driven by a slower than planned recovery from the COVID-19 pandemic (COVID-19) and significantly higher inflationary pressures. To address this:

- AC and CCOs are being asked to focus on core services and getting back to basics.
- AC allocated savings targets for AC and CCOs with AT allocated a \$25 million reduction in required AC funding. The Mayor's budget proposal subsequently allocated an additional \$7.5 million savings challenge on top of this.

18. AT's starting budget included a \$24 million challenge that sits on top of the \$295 million. This is proposed to be addressed through:

- New rail contract efficiency savings.
- Internal AT cost and efficiency savings (including accepting a \$10 million net personnel cost challenge).

19. In total AT need to find savings of \$56 million (depending on co-funding implications the value can be up to double this amount). This can be delivered via revenue increases and cost reductions.

CONFIDENTIAL

20. AT proposed a budget to AC, which they used to develop their consultation budget, that delivered \$49 million of the required savings by:

Action	Key consequence	Reason for action
Reducing net personnel costs by \$10 million	Prioritised activity and delivery	To mitigate \$24 million internal challenge
Holding maintenance cost in line with 2022/23	Absorb 15% inflation – decline in service levels on network	To mitigate \$24 million internal challenge
Holding professional services in line with 2022/23	Minimal	To mitigate \$24 million internal challenge
Delivering IT data centre consolidation benefits	Already implemented	To mitigate \$24 million internal challenge
Other reductions including sublet of L5 VHA, insurance savings, marketing	Individual consequences	To mitigate \$24 million internal challenge
Delivering new rail contractor model savings	Nil	To mitigate \$24 million internal challenge
Increasing PT fares by 6.5% rather than 4%	Customer perception	To meet \$25 million AC target
Holding PT services around existing reduced levels	Lower than planned service levels	To meet \$25 million AC target

- 21. This does not cover the additional \$7.5 million savings target subsequently allocated in the Mayor’s budget proposal which needs to be found. The ELT also agreed to find up to \$10 million of additional savings to provide funding to reinvest in frontline PT services and maintenance services.
- 22. Given the recent weather events, AT will need to revisit the proposal to hold maintenance costs.
- 23. During February 2023, targeted review and challenge sessions were completed to identify the additional savings and efficiencies proposed, including an action plan to reduce FTE.
- 24. Each function has been allocated an FTE target and a share of the additional \$17.5 million savings AT needs to find. Individual budget review and challenge meetings have been held during February to review proposed functional budgets, resourcing requirements, proposed actions and implications in order to deliver the additional savings and efficiencies required.
- 25. An ELT workshop held on 15 December 2022 identified a number of strategic initiatives for removing duplication across the organisation and longer-term opportunities for revenue increases.

CONFIDENTIAL

- 26. Attachment 1 provides a summary of the key operating budget movements between the starting AC adjusted LTP budget for 2023/24 and the 2023/24 AC consultation budget.
- 27. Attachment 2 provides more details on the 2023/24 operating budget submitted to AC which was used in developing the draft AC consultation budget.
- 28. A list of the key assumptions is detailed in Attachment 3.

Capital Budget

- 29. The AC 2023/24 consultation budget has a capital programme of \$1,058 million, in line with the adjusted LTP developed as part of last year’s budget process but less than the original RLTP capital budget for 2023/24 of \$1,186 million. A key consideration will be to what extent a portion of the 2023/24 capital programme needs to be reprioritised towards renewals and resilience work following recent storm events. Reprioritisation will need to be undertaken once robust costs estimates are available.
- 30. The programme in the near term will reflect ‘getting the basics right’ and includes a significant amount (circa 80%) of already committed spend on fewer large programmes (including Eastern Busway, Electric Multiple Unit purchase and an increasing focus on renewals).
- 31. These assumptions are being tested via a bottom up build of the capital programme. There is potential for further under-delivery in certain disruption scenarios and also potential for higher inflationary pressure. It is unclear at this stage what the impact of a reduction in FTE will have on delivery of the capital programme.
- 32. It should be noted that in parallel AC will need to make an assessment at an Auckland Council Group level as to whether a capital programme of this size is affordable, within the context of inflationary pressures and programme commitments across the AC family.

Ngā tūraru matua / Key risks and mitigations

Key risk	Mitigation
Inflation and key contract indexation are higher than assumed in the budget.	Net operating costs would need to be optimised to meet available funding. Delivery of a smaller capital programme.
Slower than expected recovery from COVID-19 impacts adversely on farebox revenue or parking and enforcement revenues.	Net operating costs would need to be optimised to match available revenue and/or additional revenue sought.
It has been assumed Waka Kotahi New Zealand Transport Agency (Waka Kotahi) will co-fund all qualifying operating and capital	Work with Waka Kotahi and Central Government to confirm funding options or manage services to available funding levels.

CONFIDENTIAL

Key risk	Mitigation
expenditure with no caps applied. The NLTF is becoming increasingly constrained, and this would require top-ups from Central Government.	
Misalignment between stakeholder expectations and what is delivered	Clear alignment between agreed budgets and Statement of Intent (SOI) outcomes. Clear messaging to stakeholders. Priority needs to be maintaining existing assets and core services at acceptable levels

Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

33. The 2023/24 budget allocates the available funding to support delivery of outcomes contained in the LTP, RLTP and SOI.

Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

34. The current capital budget contains investment in infrastructure and services to support mode shift away from private vehicles and towards PT and active modes. Increased investment may be required in climate resiliency work following recent storm events.

Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives

Mana whenua

35. AC is issuing the draft budget for consultation with stakeholders and the community in March 2023. The budget is based on the 2023/24 year in the LTP. The LTP was consulted on with mana whenua and an opportunity to provide feedback on the draft budget will be provided during the consultation period and subsequent AC workshops.

Ngā mema pōti / Elected members

36. Budget decision workshops will take place in May, with a Mayoral budget proposal workshop at the beginning of June and approval of the final document planned for mid-June.

Ngā rōpū kei raro i te Kaunihera / CCOs

37. Any CCO feedback from the consultation will be considered by AC and, where appropriate, incorporated into the final budgets.

CONFIDENTIAL

Ngā kiritaki / Customers

38. Stakeholders and community have the opportunity to provide feedback on the draft budget during the consultation period in March 2023

Ngā whaiwhakaaro haumarū me ngā whaiwhakaaro hauora / Health, safety, and wellbeing considerations

39. The budget contributes to reduced harm from the transport system through the adoption of Vision Zero principles along with:

- Investment in AT's Safety programme.
- An investment in mode shift, to encourage a greater uptake of this safer mode of travel.
- The delivery of new or improved cycling infrastructure.
- The promotion of a number of policy levers to make the transport system safer.

Ā muri ake nei / Next steps

- Complete AT review and challenge sessions to agree FTE levels and cost savings activities required to deliver the proposed budget by end February 2023.
- Remodelling AT's capital programme – February/March 2023.
- Public consultation on the AC budget runs during March 2023.
- AC budget templates are due to AC 21 April 2023.
- AC budget decision workshops will be held in May 2023.
- Budget update to the 30 May 2023 AT board meeting.
- Mayoral budget proposal workshop and final AC budget decisions in early June 2023.
- AC budget approved mid-June 2023.
- AT board approve budget – 27 June 2023.

CONFIDENTIAL

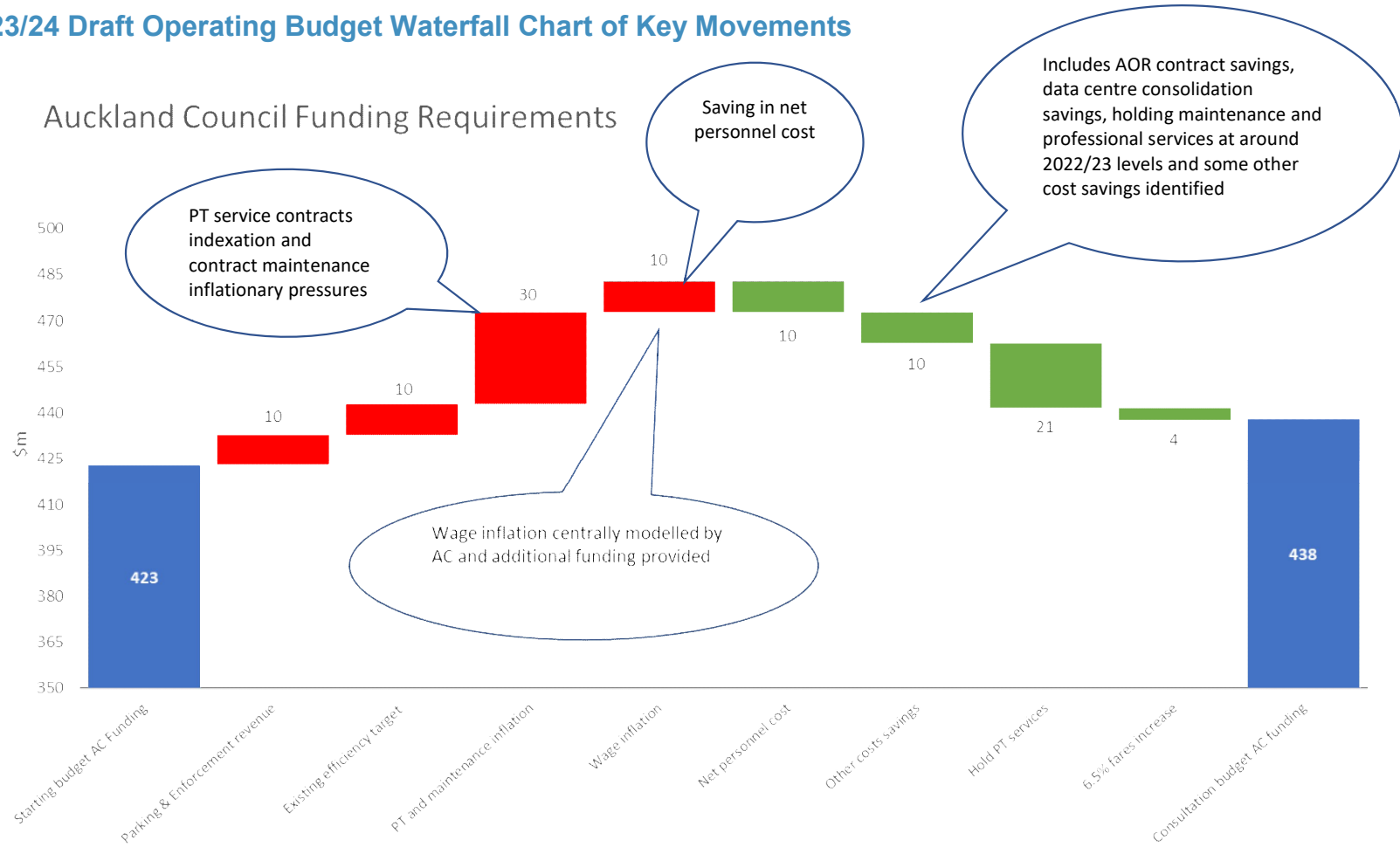
Ngā whakapiringa / Attachments

Attachment number	Description
1	2023/24 Draft operating budget waterfall chart of key movements
2	2023/24 Draft operating budget
3	Key budget assumptions

Te pou whenua tuhinga / Document ownership

Submitted by	Grant Smith Financial Planning & Performance Manager	
	David Bardsley Group Manager, Finance	
Recommended by	Mark Laing Executive General Manager, Finance	
Approved for submission	Mark Lambert Interim Chief Executive	

2023/24 Draft Operating Budget Waterfall Chart of Key Movements



- Additional savings of \$17.5 million being targeted (i) \$7.5 million efficiency target and (ii) up to \$10 million to reinvest in PT and maintenance

2023/24 Draft Operating Budget

\$000	AT total	2023 Budget	2024 AC Adj LTP (starting point)	Agreed adjustments / Savings	Additional AC inflation (modelled centrally)	2024 Proposed
Operating Income						
	Activity income	112,684	162,314	4,500		166,814
	Parking fees	50,906	52,075			52,075
	Infingement income	75,251	77,666	-10,000		67,666
	Rental income	10,562	9,194			9,194
	Petrol tax	10,848	11,048			11,048
	Operator access fees	7,371	9,066			9,066
	Advertising & sponsorships	8,906	9,084			9,084
	Other income	33,696	31,381			31,381
	Sub-total	310,224	361,827	-5,500	0	356,327
	Auckland Council Operating Funding	424,909	456,247	-25,000	6,700	437,947
	NZ Transport Agency Operating Funding	424,286	440,573	-32,552		408,021
	Total Operating Income	1,159,419	1,258,647	-63,052	6,700	1,202,296
Operating Expenditure						
	Salaried staff	219,552	230,717			
	Contract staff	3,878	3,539			
	Other personnel costs	3,611	3,969			
	Personnel costs	227,041	238,224			
	Capitalised personnel costs	-55,557	-52,618			
	Net Personnel costs	171,483	185,606	-10,000	3,000	178,606
	Public transport contracts	575,029	654,607	-50,200	3,100	607,507
	Public transport concessions	23,253	23,529			23,529
	Contractors-maintenance	107,516	113,368	-5,800	600	108,168
	Professional service	31,261	32,325	-1,000		31,325
	Other service delivery costs	20,262	19,323			19,323
	Utilities costs	23,308	23,712			23,712
	Track and ferry access charges	42,404	43,181			43,181
	IT costs	51,066	50,047	-2,500		47,547
	Finance costs	28,495	28,047			28,047
	Other expenditure(excl Internal efficiency target)	77,558	86,526	-3,368		83,158
	Internal efficiency Target	0	-9,816	9,816		0
	Sub-total	1,151,634	1,250,457	-63,052	6,700	1,194,105
	Surplus(deficit) excluding dep	7,785	8,191	0	0	8,191
	EMU Principal Repayment	7,785	8,191	0	0	8,191

Additional savings of \$17.5 million being targeted:

- \$7.5 million to meet efficiency target assigned by Mayor
- Up to \$10 million to reinvest in PT and maintenance activity

Key Budget Assumptions

Operating

- 1) Public transport (PT) patronage for 2023/24 is assumed to be 78 million, 73% of the level assumed in the Long Term Plan (LTP) and 78% of pre COVID-19 levels. (Note - a 5% change in patronage equates to circa \$7.5 million gross or \$3.7 million net revenue impact).
- 2) A 6.5% PT fare increase has been assumed in 2022/23 (2023/24 budget was 4%) and a 2% fare increase assumed in 2023/24.
- 3) PT base contract indexation of 5.0% is assumed in 2023/24 (LTP assumed 1.2%).
- 4) A \$10 million reduction to the Parking and Enforcement revenues was made to the adjusted LTP figure for 2023/24 reflecting the lower levels of revenues being earned in 2022/23. The 2023/24 revenues are \$6.4 million (5.1%) lower than the 2022/23 budget levels reflecting some assumed growth over the actual levels of revenue being earned in 2022/23 but not getting back to 2022/23 budgeted levels.
- 5) Net personnel costs have a 7.5% remuneration increase factored into 2023/24 budget (LTP was 2%). This is based on an Auckland Council (AC) central assumption and AT will remain in close contact with AC and align this assumption to AC's final labour assumption.

Capex

- 1) The AC 2023/24 consultation budget has a capital programme of \$1,058 million vs. AT's 2023/24 Regional Land Transport Plan (RLTP) capital envelope of \$1,186 million. A reprioritisation exercise will need to be undertaken with regards to renewals and resilience work following recent storm events.

Funding

- 1) It has been assumed Waka Kotahi New Zealand Transport Agency (Waka Kotahi) will co-fund all qualifying operating and expenditure in 2023/24.
- 2) We assume Community Connect card will be 100% funded by central Government.
- 3) Assumed 50% funding from Government (Waka Kotahi and other funding sources like Crown Infrastructure Partners) for the 2023/24 base.