

2023/24 Budget

For decision: For noting:

Te tūtohunga / Recommendation

That the Auckland Transport Board (board):

- a) Approve Auckland Transport's (AT) 2023/24 budget.
- b) Note this budget delivers on AT's existing \$24 million cost challenges and a \$22.5 million reduction in Auckland Council (AC) funding (previously \$32.5 million).
- c) Note that AT is sufficiently funded for the 2023/24 financial year, subject to Waka Kotahi New Zealand Transport Agency (Waka Kotahi) confirmation of co-funding, however significant funding uncertainty exists beyond 30 June 2024.
- d) Note that we are still finalising budget allocations and requirements to reflect the agreed organisational changes and while the overall budget requirements will not change, there may be some minor movements between cost categories in the final published budget.
- e) Note the need to continue to identify further cost savings and revenue growth opportunities and to report back on those by September 2023. Work will be undertaken to identify potential opportunities.
- f) Note that this budget has been aligned to the Letter of Expectation (LoE) and AT's draft Statement of Intent (SOI).

Te whakarāpopototanga matua / Executive summary

1. On 9 June 2023 the AC Governing Body approved the Auckland Council Group (Council Group) 2023/24 budget.
2. The approved Council Group budget includes AT's draft budget presented at the 28 March 2023 board meeting with the following subsequent operating budget changes:
 - AC have provided an additional \$10 million funding for progressive reinstatement of public transport (PT) services. With Waka Kotahi co-funding this allows for an additional \$20.4 million PT contract costs.
 - A reduction in AC funding of \$0.7 million for the Long Term Plan (LTP) climate action package work suspended for 2023/24.
 - Provision of an additional \$13.5 million budget allowance for ongoing storm damage remedial work funded by Waka Kotahi at a 91% Funding Assistance Rate (FAR).

3. Changes announced in the Government’s May 2023 budget providing free PT for children aged 5 to 12, half-price PT fares for 13 to 24 year-olds, and half-price fares for Total Mobility Scheme passengers have also been reflected in the final AT budget. It is estimated these Government funded changes will reduce farebox revenues by \$44.8 million with lost revenue topped up by the Government via Waka Kotahi.
4. The budget assumes a core Full Time Equivalent (FTE) requirement of 1,798 plus allows for an additional 39 FTE that are fully externally funded taking total FTE to 1,837 (down from 1,950 as at the end of April 2023).
5. AT’s 2023/24 budget submitted to AC on 21 April 2023 had a \$1,058 million capital programme. The final budget remains the same, however significant reprioritisation has been required to accommodate additional storm repair activity estimated at \$125 million following the January/February storm events.
6. A revised baseline capital programme scenario for 2023/24 has been developed which incorporates AT’s storm related response and is consistent with the LoE. This programme is reviewed in more detail in a separate board paper on this agenda.

Ngā tuhinga 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 agree the proposed budget.
28 February 2023 – board	2023/24 Budget Overview	The board noted the budget challenges and targeted savings
28 March 2023 – board	2023/24 Draft Budget	The board endorsed AT’s draft operating and capital budgets and delegated approval of AT’s high level budget template submission (due back to AC by 21 April) to the Chair of the committee.

Te horopaki me te tīaroaro rautaki / Context and strategic alignment

7. AC's 2021/31 LTP and AT's 2021/31 Regional Land Transport Plan (RLTP) were approved and published in July 2021. The LTP sets out ten year operating and capital programmes and budget for the Council Group. AT prepared its own 10 year operating and capital programmes and budget that supported the LTP and RLTP planning processes.
8. 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 required for input into the AC Annual Plan process.
9. AT's high level budget refresh template submission was provided to AC on 21 April 2023.
10. AC reviewed the public submission feedback along with other council entities budget refresh submissions (including AT's) in determining the final 2022/23 Annual Plan budgets which were issued in the Mayoral proposal on 1 June 2023.
11. AC's Governing Body met on 8 and 9 June and approved an updated Mayoral budget proposal for 2023/24.

Ngā matapakinga me ngā tātaritanga / Discussion and analysis

Operating Budget

12. AT was initially requested to reduce AC funding by \$32.5 million, comprising an initial \$25 million reduction in the Mayoral proposal, plus a further \$7.5 million of savings to be identified with AC's Expenditure Control and Procurement Committee. Due to AT's co-funding model a \$32.5 million reduction in AC funding requires bigger reductions in costs.
13. As part of this process, AT has developed a plan to deliver on the \$32.5 million requested funding reductions, solution \$24 million of existing cost challenges and identified a further \$10 million of cost savings to reinvest into PT services.
14. The 2023/24 draft budget endorsed by the board at the 28 March 2023 board meeting formed the basis of AT's high level budget refresh templates submitted to AC on 21 April 2023.
15. Since the 21 April submission, AT has participated in a number of AC Governing Body workshops discussing AT's budget submission, and public consultation feedback. These workshops and discussions have resulted in the following changes to the 2023/24 draft budget that was submitted:
 - The Mayoral proposal reduced the initially requested \$25 million funding reduction to \$15 million, with the \$10 million reduction being reinvested into PT services. With Waka Kotahi co-funding this allows for an additional \$20.4 million PT contract costs. This additional funding will allow AT to start progressively reinstating services once additional bus drivers are available and to increase bus driver wages to \$30 hour.
 - A reduction in AC funding of \$0.7 million for LTP climate action package work, specifically The Vibrant Street Programme which has been suspended for 2023/24.

- Provision of an additional \$13.5 million opex budget for ongoing storm damage remedial work, funded by Waka Kotahi at a 91% FAR and 9% by AC.
16. The Government announced a number of PT changes in its May 2023 budget which have also been incorporated into AT's final budget. It is estimated these will reduce farebox revenue by \$44.8 million with lost revenue being topped up by the Government via Waka Kotahi. Government initiatives include:
- a) Extending the Community Connect scheme to include free PT for children aged 5 to 12;
 - b) Half-price PT fares for 13 to 24 year-olds; and
 - c) Half-price fares for Total Mobility Scheme passengers.
17. In developing the 2023/24 budget AT undertook an organisational review of resourcing and FTE requirements. The final FTE profile has a core FTE requirement of 1,798 plus allows for an additional 39 FTE that are fully externally funded taking total FTE to 1,837 (down from 1,950 as at the end of April 2023). This final FTE profile was endorsed by the People & Culture Committee on 19 May 2023.
18. AT is expected to report back to AC on further potential revenue growth or cost savings opportunities by September 2023. AT will incorporate this activity with the LTP process which will be initiated imminently.
19. Attachment 1 provides a summary of the 2023/24 operating budget. We are still finalising budget allocations and requirements to reflect the agreed organisational changes and any other late budget adjustments so while the overall budget requirements will not change there may be some final movements between cost categories in the final published budget.

Capital Budget

20. AT's draft 2023/24 budget submitted to AC on 21 April 2023 had a capital programme of \$1,058 million, a 10% reduction from the original RLTP capital budget for 2023/24 of \$1,186 million.
21. With the January/February storm events a significant reprioritisation exercise has been undertaken to accommodate the additional expected storm repair activity.
22. The 2023/24 capital programme also needs to consider the cost pressures and funding constraints which are expected to cause a pinch point in 2024/25 and 2025/26 – and the extent to which AT can start new projects that extend beyond the end of June 2024.
23. A revised baseline capital programme scenario for 2023/24 has been developed which prioritises AT's storm related response and is consistent with the LoE. This scenario is shown in Attachment 2, which compares the proposed budget to the RLTP, the draft consultation budget and the draft budget endorsed by the board on 28 March 2023. The revised scenario:
- a) Allows \$293 million for renewals, which is around 87% of the RLTP.
 - b) Allows for additional storm recovery capital expenditure of \$125 to \$150 million. Central Government funding levels for the storm recovery work is to be confirmed based on available National Land Transport Fund (NLTF), but it is expected to be up to 71%.

- c) Prioritises committed projects (Eastern Busway, Northwest Bus improvements), Low Emission Ferries and projects on a critical path such as City Rail Link Day One related projects (Electric Multiple Units (EMUs) and stabling etc).
- d) Provides \$16 million for the start of Eastern Busway Alliance Total Outturn Cost 2.
- e) Ensures essential AT investment programmes are continuing (including safety, customer, and business technology) albeit at reduced levels.
- f) Ensures continued spend, to the extent possible, on projects enabled by targeted funding streams such as the Regional Fuel Tax, the Climate Action Targeted Rate or the Climate Emergency Response Fund.
- g) Results in significantly less budget being available for other non-committed projects.

24. Attachment 2 summarises the proposed capital programme for 2023/24. The capital programme is reviewed in more detail in a separate board paper on this agenda.

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 with a potential reduction in services and activity levels.
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 will co-fund all qualifying operating and capital expenditure with no funding caps applied. The NLTF is becoming increasingly constrained.	Work with Waka Kotahi and Central Government to confirm funding options or manage services to available funding levels. A Cost Scope Adjustment (CSA) has been submitted to Waka Kotahi seeking additional funding for the continuous programmes. We also need to work internally to prioritise available budgets to be able to cover any ongoing weather related event mitigation costs.
Flood / storm response capital costs are higher than anticipated or does not attract co-funding from Central Government at indicated levels.	We would need to reduce non-committed capital expenditure

Key Risk	Mitigation
Misalignment between stakeholder expectations and what is delivered	Clear alignment between agreed budgets, the LoE and SOI outcomes. Will require clear messaging to stakeholders. The priority needs to be maintaining existing assets and core services at acceptable levels. The focus will be on “delivering less stuff, better”.
Ongoing staff recruitment and retention issues due to ongoing cost reduction activities across the AC family	These risks cannot be fully mitigated and will require strong leadership, adaptive recruitment processes and potentially more use of contractors to fill any gaps.

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

- The 2023/24 budget allocates sufficient local share to support delivery of outcomes contained in the LTP, RLTP and SOI (currently being finalised).
- Management is working with Waka Kotahi to determine whether there will be sufficient NLTF funding in 2023/24 to support the progressive reinstatement of PT services. Future years’ indicative funding allocation ranges will be set out in the draft Government Policy Statement, expected to be released in a couple of weeks.

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

- 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

- AC issued 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 was provided during the consultation period and subsequent AC workshops.

Ngā mema pōti / Elected members

- Budget decision workshops were held with elected members in May and June 2023. The Mayoral budget proposal was issued on 1 June and an AC Governing Body meeting approved an updated 2023/24 budget on 9 June 2023.

Ngā rōpū kei raro i te Kaunihera / Council Controlled Organisations (CCO)

30. CCO feedback from the consultation was considered by AC and, where appropriate, incorporated into the final budgets.

Ngā kiritaki / Customers

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

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

32. 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 provide options for other modes of travel.
- The promotion of a number of policy levers to make the transport system safer.
- Renewal of impacted assets from the recent extreme weather events.

Ā muri ake nei / Next steps


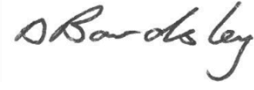

33. Next steps include:

- AC Governing Body meeting on 29 June 2023 to approve final Annual Plan document for publication (including approved 2023/24 budget financials).
- The board approve the budget at the 27 June 2023 board meeting.
- The LoE requires AT to report back to AC with ideas for additional savings initiatives by September 2023.

Ngā whakapiringa / Attachments

Attachment number	Description
1	Proposed 2023/24 Operating Budget
2	Proposed Capital Programme 2023/24 vs. Current RLTP

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	Dean Kimpton Chief Executive	