Auckland Transport
An Auckland Council Organisation

Annual Plan

Executive Summary

The budget reflects a savings target indicated from Auckland Council of $11.2m. This has been deducted from operating costs as a provision and will be managed throughout the year through the forecasting process. As each quarter ends a portion of the efficiency target will be moved from the provision to the budget areas as savings are made.

Two issues of concern remain. The first is that the budget for staffing costs is insufficient to meet the expected costs of the agreed staffing complement. This is about $4m of variance. This can be worked through, we believe, with capitalisation of staff costs to projects; however some of that scope has been reduced by the smaller work programme. While we have staffing cost savings in the first eight months, the reason for that is we are significantly below the agreed staffing numbers. Even remaining below establishment we will have pressure on staffing costs. The other item is that we expect to get $16m less operating subsidy from NZTA. Our options with that are to seek more funds from Auckland Council or to reduce the operating costs, and service levels, to work within identified funding. The concern with these items combined is that the impact on levels of service and efficiency is effectively a reduction in spending on transport services of $31.2m, on a service that is already under-funded for the work programme being considered in the public domain. Relatively small under spending on maintenance has a very large impact in the medium term on assets and the Asset Management Programme will be critical in this area.

We will be raising these budget pressures with Auckland Council, but they have a short term focus of keeping the rates rise down, and may not be aware of the long run implications of these decisions, indeed we are not fully aware of the implications other than to say that the reduction in spending of $32.1 will have a compounding impact on a service which is recognised to need more funding, rather than less.

Background

Staff have been working on the 2011/2012 Financial Budget, since February. The process has been complicated by the identification of a number of “mapping” errors as staff have become more familiar with their budget areas. We have worked through these with Auckland Council and have resolved these issues.

Auckland Council is consulting on its Annual Plan and Auckland Transport (AT) will be presenting on its funding to the Strategy and Finance Committee on 17 May. Our plan will be finalised when we have an indication from Auckland Council on the funding it will provide to AT. If Auckland Council responds as we expect the organisation will need to address staffing cost, which will not pose a major problem in the short term, and reduce the level of maintenance and services to cope with the reduction in expected NZTA subsidy of $16m. Again this is not likely to pose a significant problem for a single year, however a reduction of that level on top of efficiency targets is a big stretch for an organisation and service that is recognised to need significantly more funds over the next decade. These issues will be able to be worked through in the Long term plan being prepared this calendar year, but it means that the organisation will be starting even further behind a sustainable funding level.

Next Steps

Staff have worked with Auckland Council to resolve a number of major areas where budgets on the original plans were “mapped” from legacy organisations into the wrong area. While many very big changes have occurred they have a netting effect and the overall impact on Auckland Council funding is not major.

In the Auckland Council Long Term Plan (LTP) assembled by the ATA our funding for operations was $225m now the sum is $227m. There are a number of changes to get to that minor change. They are:

Increase in funding to cover the Rail funding gap		$12.3m
Reduced by the Efficiency target allocated to AT		-$11.2m
Plus Identified item mismapped:		
Labour recoveries	+$4.7m	
Asset Management planning	+$3.9m	
Petrol tax now in Revenue	-$7.7m	
		$0.9m
Total change in Grant funding		$2m

You will notice in the attached financial information (Attachment 1) that total operating revenue is significantly down on the expectations. When we worked through the capital works prioritisation process we covered reasons why capital subsidies were not what were originally planned. The same rationale flows through to NZTA operating subsidy

Staff costs are expected to be higher than allowed for in the Auckland Council LTP, as insufficient funds were provided in the original plan. While we are under budget for the eight months for staff costs, this is because we are staffed more than 10% below our staff establishment numbers. We are planning for a number of those roles to be filled in the next financial year and that will cost more than the allocated funds. We have some options to deal with this around capitalisation of staff costs to projects which will bridge some of the gap, but probably not all of it. The difference in this area would be able to be managed but it will put pressure on staff and on programmes for the next year, and will ultimately need to be filled. A difficulty in reducing this figure is that the organisation would be working from a low base at all times and this will almost certainly reflect in staff cost variances until it is addressed. If we need to make the efficiency I would recommend that the efficiency is made as an addition to the savings provision in operating costs rather than remain in staff costs.

Operating costs have a range of items impacting on it. It is reduced by an undistributed provision for efficiency gains which has been allocated to AT. There are a number of items which have added pressure on operating costs including the items above which have impacted on the Operating grant also.

Other changes in operating costs are:

- $308k for Communications for RWC
- $205k for Risk and Audit to undertake the assurance programme.
- $516k to allow the Strategy team to undertake the various studies for the forward programme
- $2,167k to cover under provision for cost in Roading Corridor access.
- $5,025k in Road Corridor operations for route optimisation $1,000k, TMU and Signals maintenance $1,570k, Insufficient Minor safety budget $2,2000 and other minor maintenance items make up the difference.

- $2,013k for IT budgets. These are believed to be an under provision in the original budgets provided but we are not able to verify that the expenditure was mapped to other organisations within the group. The quantum is above budgets but is lower than 2010/11 on a pro-rata basis. The IT area did not have significant sums spent on it during the transition, and so there is much still to be done.

Revenue from activities is showing an increase which looks good on the surface but does hide the reality in that it includes the unbudgeted Petrol Tax revenue, when this is factored out the increase is $400k. This is made up of some increases and decreases as follows:

- Property revenue is expected to be $2.3m higher
- Parking expects to recover $3.108m less as the budgets included some unrealistic revenue initiatives.
- Fare box revenue expectations are $2.373m higher.
- Asset Management miscellaneous income is unknown and therefore will not be recovered. This is a reduction of $1m.

Summary

Our financial plan for 2011/2012 is achievable as a single year, however when viewed in light of a long term business with significant addition expenditure over the next 10 to 20 years, it does not lay a robust foundation. Funding for capital is negligible compared to the total capital spend and indeed the organisation, as a group, is borrowing in excess of $60m to fund renewal of assets. If the debt for the Transport activity were to be reflected in AT it would show that the increase in operating funding going into debt servicing is higher than the increase in other operating costs. We have asked Auckland Council to reflect the debt into AT but they have not responded.

The LTP has commenced development and this will consider all funding and costs over a longer time horizon. That plan will likely reflect higher levels of Transport funding requirement than is contained in the current LTP. Funding for this year reflect significant reductions in service if AT needs to reduce spending to balance the books. This can be done for a short period of time but we need to be very conscious that the funding into Transport will need to double over the next 10 years, and any reductions will only exacerbate those long term funding issues.

Recommendation

That this report be received.

Attachments

Attachment 1 - Financial Statements / Balance Sheet

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