

Entered by Board Secretary

Reshaping Auckland Transport: Tackling the long-term implications of Covid-19

For decision:

For noting:

Ngā tūtohunga / Recommendations

That the Auckland Transport Board (board):

1. Approves the scope and approach of the two proposed workstreams and the governance arrangements for the programme of activities required to reshape Auckland Transport (“AT”) as a result of the implications of the Covid-19 pandemic (“C19”)

Te whakarāpopototanga matua / Executive summary

1. C19 has had unprecedented impact across public-health, lives and livelihoods, and economy at a global scale. AT’s financial position has been and will continue to significantly be impacted by C19. Customer and commercial revenues, AT’s largest contributor to operational activities, have seen dramatic reductions. The revenues and debt position of our shareholder, Auckland Council (“Council”), and Waka Kotahi – New Zealand Transport Agency’s (“Agency”) National Land Transport Fund (“NLTF”), are under pressure.
2. The societal and behavioural changes are potentially seismic with technical and cultural barriers to working from home having been broken down, physical distancing having profound implications for many industry sectors (including public transport), and the further acceleration of the digital economy being just a few of the likely changes. Impacts on travel demand and behaviour are uncertain.
3. The impacts of C19 are likely to have impacts on the New Zealand economy, Auckland’s growth, AT’s ecosystem, the preferences of the mobility customer and AT’s revenue and finances in FY20, FY21 and beyond.
4. Rapid intervention by management and the board, combined with an operating surplus of \$18m to the end of March 2020 means that, with the continued support of the Agency public transport fare underwrite at alert level 2 up to 30 June 2020, the foreshadowed operating deficit of over \$40m for FY20 will be largely mitigated. Continued efforts, during what we have termed ‘*Horizon One*’, to manage short time financial impacts will continue to be reported to the board in May and June but are otherwise not dealt with further in this paper.
5. Development of a revised C19 budget for FY21 has been approved by the board to enable a second round of consultation by Council with respect to the Annual Plan. If Governing Body agrees to defer for one year the need to have a ‘balanced budget’ then there is a risk that

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fundamental changes in the financial position of Council and society as a result of C19 may not be addressed as part of the budget process. The FY21 budget is not otherwise dealt with as part of this paper.

6. Alongside the short-term activities set out in para 4 and 5 above it is proposed to establish two agile workstreams to address the strategic business implications of C19. One agile workstream will consider the impact of C19 on mobility needs and how these might be achieved by AT as part of a broader ecosystem in terms of planning, funding and delivery. A second agile workstream would consider the implications of C19 in terms of the day to day operational implications from customer, community, capability and cost perspectives.
7. The scope and approach of the two agile workstreams for tackling the strategic implications of C19 are the focus of this paper.

Te horopaki me te tīaroaro rautaki / Context and strategic alignment

8. Section 39 of the Local Government (Auckland Council) Act 2009 provides that the legislative purpose of AT *'is to contribute to an effective, efficient, and safe Auckland land transport system in the public interest'*.
9. The organisational purpose of AT, which was created with the people of AT in order to galvanise their efforts for the benefit of Aucklanders, is *'Easy Journeys: Connecting people and communities'*.
10. The discussion and recommendations in this paper are entirely consistent with both our legislative and our organisational purpose. The paper recognises that the context in which we operate has dramatically changed and as a result it is appropriate that AT considers how it delivers on its purpose.

Ngā matapakinga me ngā tātaritanga / Discussion and analysis

11. Save for the timeline to develop a vaccine or other cure the scale and impact of C19 in a public health sense on Auckland Council's ("Council") financial position are becoming clearer.
12. Against these contextual factors the economic implications of C19 are also beginning to be felt broadly although the depth and length of any recession, or depression, may not be known for some time. Early insights from academics, leading consulting firms, and transport agencies globally and AT itself highlight changes in consumer behaviour, new lifestyle habits, and sentiment to working from home and travel choices.
13. Alongside the urgent crisis management activities that AT has undertaken to support the public health response and tackling our own dramatic drop in user pays or, customer sourced revenue, the Executive Leadership Team ("ELT") has been giving consideration about how AT needs to adapt in the mid-term in response to the context in which we operate.
14. It is proposed to set up two workstreams working in a connected way to consider and execute changes that AT must make in the light of C19 to fulfil our purpose and still enable the relevant outcomes in the Auckland Plan and the Government Policy Statement on Land Transport.

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Agile Workstream One: 'Adapting Auckland's Transport System'

15. The scope of this agile workstream is;

- Identifying the opportunities to adjust the mobility system of Tamaki Makaurau to deliver rapidly against our core legislative and organisational purposes while accelerating where feasible agreed change strategies such as integrated mobility, active mode and micromobility, and shared mobility outcomes, including review and re-engineer as necessary integration and adaptation of conventional public transport modes and commercial and delivery models.
- Rethinking current planning, funding and delivery models to increase pace, reduce waste and deliver integrated spatial and transport system outcomes

16. Underlying the first scope element is recognition that C19 has introduced significant disruption into the real time operation and delivery of the transport system, and uncertainty and debate as to what a post C19 mobility system will need to be, deliver, and look and feel like. There is a risk of multiple and differing views on how the transport system should respond and a risk of short-term tactical responses that are not aligned to longer term objectives. It will be important to quantify what enhanced, or changed delivery looks like from a resource use and cost perspective, a safety perspective, customer experience perspective, and responsiveness to communities.

17. Therefore an opportunity exists to define clearly what a post C19 mobility system needs to be for Tamaki Makaurau, in terms of the role it plays in minimizing the risk of C19 spreading again; in supporting the region's economic recovery; and consequently in the longer term the nature and form of services delivered; additional infrastructure investment priorities, and develop some strategic choices/markers about the direction to take that can guide tactical service planning and investment direction particularly over the next 6-12 months.

18. The second scope element acknowledges that C19 has introduced additional disruption and complexity, overlaying new uncertainties around funding availability, accountabilities, strategic direction and demand uncertainty, which will challenge future delivery. There is an opportunity to use the COVID 19 disruption as a catalyst for changes to the planning, funding, delivery and governance arrangements to deliver efficiencies in the system both in the mid and longer term.

19. Key inputs into this work include, but are not limited to;

- the work being overseen by LEK, and involving the Auckland Forecasting Centre, which was introduced to some Directors at the briefing on the move to Alert Level 2 on Friday 8 May
- key insights being gathered from across the world and from AT's own customer insights team
- scenario based analysis

20. Two outputs would be 'white papers' targeted for release in late July 2020 focused on the transition of the transport system to a post C19 mobility system and opportunities around the planning, funding, and delivery ecosystem to implement this transition.

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Agile Workstream Two: 'Re-shaping AT'

21. The scope of the second workstream recognises that AT must take the opportunity to accelerate efficiency, customer service and customer experience gains, and improve engagement with local boards, communities and stakeholders through simplification of our business. This includes automation, digitalisation, self-service and reducing friction to reduce costs. Opportunities of closing any gaps in current cost recovery and revenue gain will also be explored.
22. The scope of the second workstream recognises that subject to the Annual Plan process, discussions between the Crown and Auckland Council, the Stimulus Package Process, and outcome of discussions amongst Crown agencies to top-up the NLTF, AT's capital programme may be significantly less than forecast two months ago. If that eventuates then changes to AT's resourcing make-up will need to be made.
23. The ELT has considered two pathways to tackle our financial challenges. The first is to action immediate and drastic cost savings that sacrifices long term value. The second is to take a purposeful approach to the re-shaping of AT for the future, reduce our cost base while preserving value in the long term. The latter option would better position AT to support our shareholder and Government kick start economic recovery through FY21 and beyond.
24. It is proposed that we implement workstream two at pace. This includes initiatives to be delivered in the first three months of FY21, while progressing medium term initiatives. This would include a second round of 'people initiatives' such as right-sizing our organisation, undertaking a rapid review of organisation design against our agreed design principles, and otherwise looking to shift existing permanent employees into roles which are needed short term at the expense of contingent labour.
25. This workstream would be strongly aligned with AT's Purpose '*Easy Journeys - connecting people and communities*'. It focuses on reshaping AT's ways of working across the domains of Customer, Communities Culture and Capability, which sequentially feeds into the make-up of our cost base and will be designed to both deliver operational cost savings and continue momentum in creating better experiences for our customers and communities. More detail on the scope and outcomes are included in Attachment 1.
26. Initial work to discover automation, digitalisation, and self-service opportunities is well progressed with a view to developing a prioritised programme by the end of June 2020. The workstream will also incorporate recent operating model reviews, the recommendations of business improvement reviews, and where relevant the recommendations of the CCO Review.

Proposed Way of Progressing

27. Our people have demonstrated excellent adaptability and commitment over the last 8-10 weeks. Our people have successfully handled and executed various crisis management measures with clear leadership, rapid decision making, cross-function collaboration and autonomy. We propose that we adopt and replicate the positive ways of workings exhibited in recent weeks to drive our effort in both workstreams.
28. Each of the two workstreams will involve a subset of the ELT and specialists across the organisation. It is likely that several squads will be formed within each workstream to drive focus and completion of outcomes.

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29. Workstream one '*Adapting Auckland's Transport System*' is likely to achieve improved outcomes through collaboration with Council's Strategy Team, the Tamaki Makaurau Road Safety Governance Group, and so far as any consideration of changes to planning, funding and delivery models are concerned, dialogue with Waka Kotahi – The Transport Agency, the Ministry of Transport, and potentially KiwiRail.
30. The establishment of these two workstreams will have direct implications on prioritisation of both people resource and allocation of operational expenditure and business technology capital expenditure for FY21 and FY22. As well as a continued focus on initiatives that deliver 'customer, safety, community, people experience' improvements' investments that deliver financial benefits will be prioritised over those whose benefits are primarily socio-economic.

Ngā tūraru matua / Key risks and mitigations

| Risk | Mitigation |
|---|--|
| Loss of ground in terms of cultural change | How any changes are made will be just as important as what the changes are themselves. The approach to C19 in terms of engagement with our people has given us a good platform and provides a pathway to continue. Change must be executed quickly and as soon as possible in Q1 in FY21. Robust change management and communication plans will be required. |
| Talent retention and engagement | The proposed approach seeks to engage our Tier 3 and 4 talent and build upon their involvement on a cross functional basis to date. Prioritisation of development of internal talent and looking after our own employees is also proving a positive point of difference. |
| Buy-in from external agencies | Early engagement and involvement of external agencies will be important particularly with respect to workstream one if the proposed way forward is to gain traction. The role of the Chair and Liaison Councillors will be critical in terms of execution |
| Lack of cost savings to reinvest in programme | Ensure a strong ongoing focus on cash cost-out throughout the programme so we can reinvest in the future. |
| Trust and reputation | Ensure that trust, confidence and reputation is the most important consideration with any decision point or action with the programme supported by a strong communications programme. |

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Ngā reo o mana whenua rātou ko ngā mema pooti, ko ngā roopu kei raro i te maru o te Kaunihera, ko ngā hāpori katoa / Voice of mana whenua, elected members, Council Controlled Organisations, customer and community

31. The proposed approach is founded in how we deliver on the outcomes of the Auckland Plan and GPS in a new context and how we take the next step in our transformation for customers, community and our people. The proposed pathway forward will also consider the impact to AT's permanent workforce, contractors and the wider impact to their families, communities and Auckland. Our principles focus on the long-term sustainability, retaining talent for an economic recovery and our commitment to our people and most vulnerable employees specifically.

Ā muri ake nei / Next steps

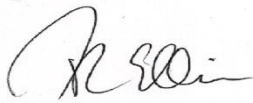
32. Next steps:

- a. Formalise membership of workstreams, develop programmes which consider integration between the two workstreams, and commence engagement where appropriate with external parties.
- b. Report back to a relevant sub-committee of the Board on or before 30 June with a progress report and seeking guidance where required.

Te whakapiringa / Attachment

| Attachment number | Description |
|-------------------|---|
| 1 | Scope and Outcomes of Workstream Two – 'Reshaping AT' |

Te pou whenua tuhinga / Document ownership

| | | |
|-------------------------|----------------------------------|---|
| Approved for submission | Shane Ellison Chief Executive |  |
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Attachment 1: Scope and Outcomes of Agile Workstream 2 (Reshaping AT)

| | Defining our scope | Potential outcomes |
|--|--|---|
| <p>CUSTOMER AND COMMUNITIES <i>Delivering our promise and value to our customers and communities</i></p> | <ul style="list-style-type: none"> • What friction points cause the most effort and frustration for customers? And decisions closer to customers? • What services or service offerings could be radically simplified? What customer or community “journeys or episodes or experiences” could be radically digitised? • What value could we create that would be transformative in the eyes of our customers and stakeholders? This could include co-design/ placemaking for local areas? • How might AT enable / fast track economic recovery and enable safe and sustainable mobility across the Auckland region? | <ul style="list-style-type: none"> • Continue to deliver customer promises and values support by new ways of working – contactless, accelerate self-service • Rapidly improve frictions and improve our products, supporting mobility, safety improvements • Redesign processes from the customer back. Frictionless customer operations • Accelerate improvements in trust and confidence with Aucklanders by fostering relationships to enable change |
| <p>CULTURE <i>Driving a thriving, inclusive and high performing culture</i></p> | <ul style="list-style-type: none"> • How do we use this crisis to accentuate the behavioural strengths or suppress the behavioural weaknesses from the AT Viewpoint Survey? • What does the future of work look like and how do we harness the crisis to transform quickly? • What is the role of our leader in building our desired culture and how do we engage our people in an agile way? | <ul style="list-style-type: none"> • Ensure an adaptive culture and transformation strategy to support reshaping for the future and continue our cultural journey. Further create a culture of leadership. • Build a culture of learning and a business which grows capabilities that enable our people to deliver to our strategy. • Make AT a great place to work. Build a sustainable workforce to attract, grow and retain talent. |

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| | Defining our scope | Potential outcomes |
|---|--|--|
| CAPABILITIES <i>Our skills, workforce, systems, processes, and technology</i> | <ul style="list-style-type: none"> • What products, core business or backend processes could be made more efficient through automation, intelligent transport system (ITS), cloud, data analytics and / or removed? This includes those that span the Council whanau and delivery partners? • How can we further build our critical capabilities (identified as safety, customer experience, leadership, reputation and engagement, change agility and commercial acumen)? • What roles could be repurposed, cross skilled or insourced? • How can we accelerate pieces of work we have already built the foundations for? | <ul style="list-style-type: none"> • Implement quick wins in to streamline current internal processes. Organically build key capabilities across safety, cx, leadership, change agility, reputation and engagement, and commercial acumen. • Remove blockages, speed up cadence and improve decision making. • Redesign core business processes. Simplify, automate and digitise. |
| COSTS <i>Our cost base and revenue streams</i> | <ul style="list-style-type: none"> • How can we get back to a balanced budget given impact on external revenue streams? • How can we adapt key changes in assumptions to capital programme and funding? • How can we continue to sufficiently maintain a growing asset base given available funding? | <ul style="list-style-type: none"> • Identify and implement quick wins to reduce variable cost base over the short term • Achieve cost savings through simplification, automation, digitisation and self-service. • Right size resourcing to fit capital programme • Redesign AT ways of work to reduce AT's cost base. Utilise savings to provide opportunity to reinvest |