

27 October 2017

Briefing to the Incoming Government

Dear Prime Minister and Ministers,

Congratulations on your election to the 52nd Parliament, and on forming the incoming Government. Being elected to Government is both a privilege and a huge responsibility.

As you consider the challenges which confront you in this role, I am grateful for the opportunity to draw to your attention the contribution that Auckland makes, and can make, to New Zealand and the challenges we need to address together to enable this to happen.

Auckland's contribution to New Zealand

You will be aware that Auckland currently contributes over half of the country's growth, 38 % of New Zealand's GDP and 34% of our population. Over the last year we have grown by close to 50,000 people. We are forecast to reach two million people by 2028, and every three years to grow by population equivalent to the city of Tauranga.

From Government's perspective this growth provides some significant advantages. Auckland's growing population contributes strongly to the Government's revenue through both income and company tax, and GST. More importantly, population growth contributes to giving New Zealand a city of scale, which can compete globally and retain and attract talented people who contribute to our skills and entrepreneurial base. Auckland's size in relation to New Zealand means that it needs to succeed for New Zealand to succeed.

Māori economic growth has the potential to realise significant benefits for regional enterprise and communities, and turn around the socio-economic disadvantage facing many Māori.

We note the strong influence of Māori in your Cabinet. We would encourage your Ministers to engage with mana whenua and Council on development and other issues.

Infrastructure challenges

While welcome, growth also presents major challenges for us. Both hard and soft infrastructure needs to grow in parallel with population growth, for the city to be able to maintain a high quality of life and ease of doing business.

Regrettably, this has not happened for many years. Infrastructure has failed to keep up with demand. The normal source of funding for infrastructure as an inter-generational asset is borrowing. The need for infrastructure, however, has outstripped the ability of Auckland Council to borrow without breaking the debt-to-revenue ratio, which the rating agencies have set to determine our credit rating. With huge costs such as our \$1.7 billion share that Council is paying towards the City Rail Link, and the billions of dollars required to fund new water and waste-water infrastructure, we are now at the limit of prudential borrowing. Auckland's AA credit rating underpins the Local Government Funding Agency, and therefore almost all New Zealand Councils' borrowing rates. If we lose this high rating it could impact on all other councils.

The problems created by inadequate access to revenue, and infrastructure shortages are the critical issues facing Auckland and the priority for Government and Auckland Council to address. The World Economic Forum data just released rates New Zealand as the world's 13th most competitive economy. That is an excellent rating for our small country. Interestingly, however, we rate only 24th when it comes to infrastructure. That is surely a signal that the Crown's investment in infrastructure needs to remain a top priority for a sustained period - which should be possible given the significant operating surpluses that are forecast.

Broadening Auckland's Revenue Base

To leverage more borrowing, we need to increase our revenue. Our main source of revenue is rates. Recent high rates increases have reduced the tolerance of ratepayers for further steep rates hikes. Rates are paid in quarterly instalments which make increases politically sensitive.

Property rates are not a particularly equitable source of funding and bear little relationship to use of much of the infrastructure that they fund.

When the Super City was created in 2010, little thought was given to creating a modern and effective portfolio of revenue sources to meet the large responsibilities a city of over a million-and-a-half people faces.

In Australia, cities with which Auckland might most usefully compare itself, like Brisbane, Sydney and Melbourne, can fund their infrastructure through a range of revenue sources. Much of their infrastructure is funded by state government, which enjoys the devolution of GST from Federal Government, and independent taxes such as stamp duty and payroll tax.

Auckland, and indeed some of New Zealand's other higher growth cities, need a broader revenue base, rather than constantly having to approach Central Government for funding on an ad hoc basis.

We also need a better form of revenue sharing. During the election campaign, two parties talked about the devolution of GST to local authorities – in one case in relation to returning GST on tourism, in the other returning GST paid by the construction industry.

Another alternative would be to return to local government the GST imposed on rates. Government originally decided to impose GST across the board for reasons of consistency, even though GST on rates represented a tax on a tax. The increase in GST to 15% imposes an extra tariff on rates bills, which goes not to councils, but to central government.

I am not advocating exempting rates from GST and breaking the requirement for consistency. However, I am suggesting returning the GST collected to Council as a rational way of devolving revenue to local government on a proportionate basis. The cost across the country may be in the vicinity of \$700 million, but this would allow councils to pay for needed infrastructure which they currently cannot afford, or rely on central government to pay for on an ad hoc basis.

Auckland Council's savings programme

Over the last year, Auckland Council has embarked on a programme to find more savings and efficiencies in our operations from the Mayor's office down. Auckland Council has taken steps to sell off non-strategic assets, such as selling off its Diversified Assets Portfolio, worth \$350 million in stocks and shares. It has also sold \$200 million in surplus properties. Council is also cash funding 74% of depreciation, moving to 100% by 2025.

Auckland Council now has an operational saving just shy of quarter of a billion dollars a year compared to legacy Council budgets, and has decreased staff FTE per capita. In the last year, Council has also embarked on a series of value-for-money reviews across Council and the CCOs to find cost effectiveness for Aucklanders. The first tranche of reviews are due to be reported in the coming weeks. A rolling programme of value for money reviews will be completed throughout this term of Council. Council has also saved over \$100 million through group procurement this year.

Transport infrastructure

In relation to transport infrastructure, I believe that some form of road pricing is inevitable if we are to meet the demand for additional expenditure. In Auckland, with 800 additional cars being added to our roads every week, congestion is getting steadily worse, notwithstanding huge efforts Auckland Council and Government have been making to address it in a collaborative way.

The joined-up approach between central and local government through the Auckland Transport Alignment Project (ATAP) is a sensible one, which we support fully. Recently, Government and Auckland Council agreed jointly to increase the level of transport investment over the next 10 years to \$26.9 billion to reflect population growth 3-4 years ahead of what had been forecast. That increase however creates a larger funding gap of \$5.9 billion. If this gap is not addressed, congestion will continue to worsen as Auckland grows.

Prior to the election, the former Transport Minister acknowledged that the largest share of this deficit would be met by central government, which had the headroom to do so given the increased revenue from fuel excise tax and road user charges it was receiving.

The precise share needing to be met by Auckland Council has not yet been agreed upon – this is a key priority for Auckland Council. Whatever that share, meeting it will pose immense problems for Auckland - for reasons outlined earlier the Council has exhausted its capacity to borrow further.

The Interim Transport Levy (ITL) imposed by the previous Council was put in place under a commitment that it would not be extended beyond three years. In any case, the ITL produces only \$60 million per year, when Council requires four times that revenue. It is also inequitable in that it imposes a flat levy paid at the same real level by a multinational corporation as a pensioner.

Council and Government have set up a working party to look at smarter transport pricing. That would offer the advantage of helping manage demand as well as raising revenue. However, it is widely accepted that this would take some years to put in place. We need this revenue now.

We welcome your Government's commitment to implementing a regional fuel tax for Auckland which would be used to fund transport infrastructure necessary to relieve congestion and the pressure on roads. This would provide Auckland with the revenue we need now and would serve as an interim solution until such time as smarter transport pricing could be implemented.

A fuel tax, because it already exists at the national level, is easy, quick and administratively cheap to put in place. Avoidance of the tax would be difficult. The Auckland region runs from Te Hana in the North, to Waiuku in the South. Motorists will not travel tens of kilometres to avoid a low regional fuel tax such as ten cents per litre. In any case, fuel costs in the rural areas adjacent to Auckland tend to be higher than in Auckland. Within Auckland itself, prices between competing service stations are often higher than ten cents.

Auckland Council is prepared to take responsibility for imposing the regional fuel tax, if Government passes enabling legislation. During the mayoral campaign, I ran on this policy as a means to fund infrastructure, as you did during your campaign. Public opinion surveys indicate that Aucklanders prefer this form of revenue to other funding options. While not as effective a tool of demand management as smarter transport pricing, it is more effective in this regard than funding from rates, which does not have the same user-pays connection.

Without an effective form of revenue, Auckland cannot fund ATAP, despite its importance. Aucklanders are prepared to pay their share but must be given the means to do so. Doing nothing is a poor option and is not our preference. As the recent NZIER analysis shows, congestion is costing not just Aucklanders in terms of time wasted and frustration, but financially New Zealanders as a whole – to the tune of billions of dollars a year.

A further option for meeting transport infrastructure costs already agreed with Government is for Government to take over ownership and funding of major arterial roads and rapid transit projects. These are routes that are nationally significant, often carrying more traffic than most state highways which are fully funded centrally. The previous government has expressed interest in taking over the new Mill Road highway, AMETI, the costs of the North Western busway and Penlink. This is a decision which Council supports.

It is worth noting that heavy rail is fully-funded across New Zealand with the exception of Auckland's City Rail Link. Government could also consider fully meeting the cost of this, consistent with its practice elsewhere, if it wished to create more headroom for Auckland Council to invest in other critical infrastructure in the city for which it currently cannot meet the cost.

Housing infrastructure

Housing is a critical issue in Auckland, with housing shortages and unaffordability a major election issue. House price rises in Auckland have resulted in house prices massively

higher in our city than elsewhere in New Zealand. Home ownership has dropped and the current levelling off of house sale prices simply reflects the constraints of total unaffordability. High costs for houses are also reflected in rent rises well above the overall level of inflation. This costs taxpayers an ever increasing amount in accommodation subsidies. Homelessness is a serious and worsening problem in the city.

The Auckland Unitary Plan has increased the commercially feasible capacity across the city to over 420,000 new dwellings over the next 30 years. New consenting processes have been introduced, supported by developers, to achieve quicker and more efficient consenting. The Mayoral Housing Task Force drawing on central and local government and the private sector has made recommendations which have received support from across the political spectrum.

Auckland Council will be looking for a close and collaborative relationship with the new Government to ensure implementation of the recommendations of the Taskforce including those that apply to Central Government. We also look forward to working with the Government to build on support for the Housing First initiative involving central and local government and housing NGO's which has been effective in addressing the needs of the homeless. Its success justifies further input of central government funding and an early decision to increase this funding would help us achieve our shared objectives.

The Future Urban Land Supply Strategy identifies the sequencing and timing for when new greenfields land will be development-ready. The Unitary Plan allows for more intensive brownfields development. The key to success in promoting housing supply to match demand is Government collaboration in ensuring funding for infrastructure. Light Rail would encourage intensive development along its route between the city and airport, which in turn would provide significant value uplift for Housing New Zealand properties in the vicinity of these routes.

Council's property agency, Panuku, is ready to work in close collaboration with Housing New Zealand on Unlock and Transform regeneration projects.

One symptom of the severity of housing affordability is the growing concern expressed by professional groups such as teachers, nurses and police officers at its effect on recruitment and retention of staff in Auckland. Recently, a delegation of experienced and respected school principals made a submission to Council on the impact of housing on teaching staff retention. All of them described the situation as critical, and the worst that they had ever experienced. One said that in the last year, a sixth of his staff had left for elsewhere in New Zealand, citing the unaffordability of housing as the reason. If our reasonably paid professionals are finding housing unaffordable, those on lower incomes are clearly in an even worse situation.

Employers are also increasingly commenting on problems they find in recruitment when housing costs have resulted in Auckland being rated as the fourth least affordable city in the world.

We welcome your commitment to a rent-to own scheme. In Auckland, the Waimahia scheme was iwi-led but involved central government, NGOs, and Maori organisations. We are aware that mana whenua are interested in being involved in further schemes. We would welcome further discussion on this issue.

Other infrastructure

An important option for raising revenue, while avoiding the constraint of our debt-to-revenue ratio, is the use of a special purpose vehicle (SPV) through the newly formed Crown Infrastructure Partners. This vehicle was mutually devised by Auckland Council and Government, and has so far been used to raise \$600 million for housing infrastructure mainly in South Auckland.

Another suitable application of the SPV may be to apply it to water infrastructure needs, which will require around \$7 billion in spending over the next decade. Part of the need for this is in response to our growing demands for water, storm-water and wastewater disposal resulting from a rapidly growing population. The other pressing need is to deal with the historical problem of storm-water infiltration into wastewater, causing wastewater overflows each time it rains. This has damaging effects on the water quality in our streams and at our beaches, as well as reputational damage to the city as a whole. It is time to address this problem definitively, and not leave it as a problem for future generations. SPV funding would be serviced by a targeted rate on water and water rates through Watercare.

Asset sales have been suggested as an alternative mechanism to fund new infrastructure and to that extent, Auckland Council has sold non-strategic assets. It is not, however, able to sell strategic assets such as Auckland Airport shares (22% shareholding), Watercare or Ports of Auckland. The financial case to sell shares in strategic assets which return considerable revenue to the city is not compelling, nor does it make sense to privatise areas where there is a monopoly provider of services. Aucklanders have shown overwhelming opposition to doing so. Such sales would be opposed by a majority of Council, and retention of these assets was a campaign commitment that I made to the people of Auckland. It also represents a one off solution when the revenue need is an ongoing one. Treasury has not promoted this as a solution.

Environmental issues

Council and Government have a shared commitment to environmental sustainability. We look forward to collaborating on projects such as Sea Change to address the state of the Hauraki Gulf, lifting water quality, addressing climate change, waste management – including addressing the issue of plastic bags, increasing the waste levy and working towards a pest-free New Zealand.

Finally, there are five specific issues which require close cooperation between Auckland Council and the Government to address.

i) The Americas Cup

Government and Council have agreed on the importance of Auckland hosting Team New Zealand's defence of the Americas Cup. There are major benefits for New Zealand including showcasing our environment, our cutting-edge technology and our sporting skills, and bringing hundreds of millions of dollars in spending here.

We have agreed to share the costs of providing the base infrastructure for the team village and to encourage private sector contributions towards this. Auckland will alongside government and the private sector, be funding infrastructure that will create a legacy for Auckland beyond the defence of the Cup, as opposed to the event itself or the teams. Council will soon conclude an options and costing paper setting out alternative sites for the team bases. An early discussion in response to these options will be necessary.

ii) APEC

Along with the Americas Cup, hosting the APEC Leaders' Meeting in Auckland in 2021 provides a further opportunity to showcase New Zealand to the world. We look forward to cooperating with Government to make this event a success.

iii) Ports of Auckland

The future location of the Ports of Auckland has been the subject of much debate. As an asset owned by the people of Auckland, and returning it \$50 million in dividends a year, Auckland is a critical partner in determining the future of the Port.

There are advantages over time in freeing up 77 hectares of CBD land space for alternative development, and returning public access to our waterfront.

Before any decision is made around the Port's relocation, there of course needs to be a sound business case, which stacks up economically and environmentally. Auckland's preference would be to find a location proximate to the city since freight arriving here is predominantly for Auckland's growing population. What makes most sense to us, however, is to have commissioned an Upper North Island Ports Study, to determine how best Auckland, the upper North Island and its cities and the country can be served using port assets at North Port, Auckland and Tauranga.

An evidence-driven strategy arising out of this study will ensure that the country will get the best return from the investment needed for the effective and efficient movement of imported and exported goods from the region.

iv) A National Stadium

A report will shortly be released on whether there is a better alternative site for a National Stadium in Auckland in place of Eden Park, and possibly other stadiums. You will be aware that Eden Park is constrained by its location and limits placed on its usage at night. Other sporting codes are reluctant to use it, and its use for concerts is ruled out by noise constraints in a residential area. Eden Park is not economic and cannot set aside any of the \$9 million a year needed for the purposes of depreciation. It is unable to sustain itself, repay debt or make provision for future necessary renovation work.

A replacement stadium would need to be located in an area that would maximise its potential use by all codes and other purposes such as concerts. Given financial constraints, Auckland cannot at present contemplate funding a replacement CBD located stadium, but needs to protect the limited site options for such a stadium.

Alternative options for funding the stadium need to be explored now. In the next few years a decision will need to be made whether to spend hundreds of millions of dollars on upgrading Eden Park. For the reasons given above further big investment on the Eden Park site is questionable. A discussion is needed on options and whether Government, as it did for the World Cup in 2011, is a potential contributor to a National Stadium which will be needed for a future World Cup, or Commonwealth Games.

v) *A Maori Ward for Auckland*

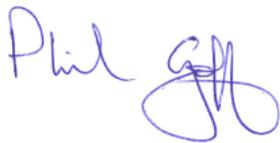
While the Royal Commission on Auckland recommended Maori Wards, Government in 2010 instead legislated for appointed rather than elected representatives.

Maori and a majority of Councillors would prefer a directly elected representation system paralleling the system of Maori seats in parliament. This would be representation based on numbers enrolling on the Maori roll and on the principle of each vote having the same worth and influence.

Auckland Council is the only Council in New Zealand constrained from increasing the number of its wards. As a result, general wards would have to be reduced to create a Maori ward, throwing out the alignment of wards and local board areas, which is undesirable. We would like to talk with Government about the possibility of changing this system.

Thank you for your consideration of the ideas and issues discussed in this letter. We wish you well for the coming term of Parliament and look forward to close engagement and cooperation in interests both of the people of our city and of New Zealand.

Yours sincerely,



Phil Goff
MAYOR OF AUCKLAND