

Update on Draft 2013-2016 Statement of Intent

Recommendations

It is recommended that the board:

- i. Receives this report.

Executive summary

The 2013-2016 Draft SOI was approved by the Board in February, and forwarded to the AC for shareholder comments.

The AC's formal comments have now been received and are summarised in this report, together with proposed responses to the matters raised, for the purpose of initial discussion by the Board.

AT needs to finalise the SOI by 30 June 2013. Subject to Board feedback to this report, an updated SOI will be presented to the Board for adoption at its 25 June meeting. That meeting, which must be open to the public, will include formal consideration of AT's response to the Council's comments.

Alignment with strategy

The SOI is a statutory requirement and needs to be finalised by 30 June 2013. At a strategic level, the SOI sets out the major actions that AT intends to undertake to contribute to the achievement of defined impacts, which in turn contribute to Auckland Plan outcomes.

Background

The Draft 2013-16 SOI was approved by the Board at its February 2013 meeting and was forwarded to the AC for shareholder comment on 1 March. The Draft was considered by the Council Controlled Organisations Strategy Review Committee on 17 April, and the AC's formal comments were conveyed to AT in a letter from the Mayor on 30 April (see Attachment 1).

The Local Government Act requires AT to consider the AC's shareholder comments, and to finalise its SOI by 30 June 2013. The Act also requires the Board meeting to consider the AC's shareholder comments to be open to the public. As noted in the Draft SOI, this meeting is held in June each year.

This report provides an opportunity for the Board to familiarise itself with the AC's comments, and provide its initial response, to enable officers to make any necessary amendments to the SOI ahead of the June meeting.

Council comments

The following table summarises the AC's comments, and a suggested response.

Council comment	Officer comment & suggested response
<p>Ensure that financial information aligns with the Long-term Plan 2012-2022 (LTP) (updated for any adjustments agreed as part of the Annual Plan 2013-2014) and includes:</p> <ul style="list-style-type: none"> i. a breakdown by activity as per the LTP, annual plan and the funding principles outlined in the Shareholder Expectation Guide ii. specific budgets for non-strategic asset sales for relevant CCOs iii. 2012/2013 budget iv. appropriate explanation of material movements in budgets 	<p>The Draft SOI noted that financial projections table would be updated once budget information was finalised.</p> <p><i>Suggested response: Amend financial tables to meet the Council's requests.</i></p>
<p>Ensure that performance information aligns with the LTP (updated for any changes agreed as part of the annual plan) and includes:</p>	
<ul style="list-style-type: none"> i. as a minimum, the CCO measures and targets exactly as worded in the annual plan (these measures should be clearly identified in the SOI) 	<p>Discussions are underway with Council officers to ensure alignment between the wording of measures and targets in the two documents</p>
<ul style="list-style-type: none"> ii. 2011/2012 actual performance and 2012/2013 target for each measure (where applicable) 	<p><i>Suggested response: Add a new column to Table 1 to show the relevant targets for 2012/13 from last year's SOI.</i></p> <p>2011/12 performance is already shown.</p>
<ul style="list-style-type: none"> iii. material movements of targets across years or of any changes to measures and targets from the SOI 2012-2015 must be agreed with Council staff 	<p>As noted above, discussions with Council staff are underway.</p> <p><i>Suggested response: Include footnotes to Table 1 to explain material movements in targets from the previous SOI (and any amendments to measures), using material provided in separate Board reports</i></p>
<ul style="list-style-type: none"> iv. further work to improve the quality of the CCO performance measurement framework, in line with the recommendations of this sub-committee in December 2012 (when the CCO Performance Monitoring Review report was considered) 	<p>Officer discussions are underway on this issue. Any changes to the measurements framework are likely to be made as part of the 2015 LTP and SOI process.</p>
<p>meta data (e.g. the method of data collection and analysis) is provided separately to the SOI for all CCO performance measures and targets included in the annual plan</p>	<p>This has been provided to the Council separately from the SOI</p>
<p>incorporate in the final SOI:</p> <ul style="list-style-type: none"> i. identification of specific actions, performance measures and targets related to furthering Maori outcomes and objectives 	<p>The Council has requested, and received, information on specific actions related to furthering Maori outcomes and objectives.</p> <p><i>Suggested response: Include reference to</i></p>

<p>ii. identification of budgets and tracking of expenditure against Maori specific projects/ actions and Maori engagement, Maori technical advice and koha</p>	<p><i>these actions in the SOI.</i></p>
<p>include a mihi (Maori language greeting) at the very beginning of the document</p>	<p><i>Suggested response: Include as requested</i></p>
<p>review the SOI where required for any legislative changes emanating from enactment of the Land Transport Management Amendment Bill currently before the House</p>	<p><i>Suggested response: Include a reference to the Bill in the Introduction.</i></p>
<p>note in Section 1.2 that Auckland Council is the sole shareholder of Auckland Transport</p>	<p><i>Suggested response: Include this reference in section 1.2</i></p>
<p>acknowledge in section 2.2 the Auckland Plan outcome “ A Maori identity that is Auckland’s point of difference in the world”. Elsewhere in the SOI, this outcome should be acknowledged through an action to include appropriate Te Reo signage on walkways and cycleways</p>	<p>The current SOI refers to 5 of the 7 Auckland Plan outcomes. If the Maori identity outcome is added, it would be logical to refer to all 7 in the SOI.</p> <p><i>Suggested response: refer to all Auckland Plan outcomes in section 2.2</i></p>
<p>include the Auckland Plan Principles which were included as attachment B in the previous (2012-2015) SOI</p>	<p>The Auckland Plan principles were removed from the Draft SOI to reduce the size of the document.</p> <p><i>Suggested response: reinstate Attachment</i></p>
<p>include in Section 3.1.2 that Auckland Transport will contribute to transport planning in the greenfield areas of investigation in the Auckland Plan</p>	<p><i>Suggested response: Add to the list of actions in section 3.1.2</i></p>
<p>review Section 4.6 Maori Engagement Framework to:</p> <ul style="list-style-type: none"> i. include the statement “We will contribute to the Auckland Council’s commitment to Maori by giving effect to the Maori Responsiveness Framework” ii. include the statement “We will ensure that any relationships and formalised relationship agreements with Maori are consistent with any Auckland Council policy on relationship agreements with Maori” iii. note that council has relationships with 19 iwi authorities 	<p><i>Suggested response: Amend section 4.6 to include the Council’s proposed additions</i></p>
<p>Work with council officers to provide further explanation of proposed changes to performance measures, baselines and targets (see below for context)</p>	<p>As noted above, this process has already commenced.</p>
<p>There have also been a number of changes to measures, baselines and targets from the previous SOI with limited explanation. Further information and review is required to understand whether these changes are acceptable to Council, and aligned to funding decisions. This information needs to be provided by Auckland Transport as soon as possible, so that Council can assess the proposed changes.</p>	<p>Relevant information on the rationale behind changes to measures and targets has been provided to the Council. Some measures have been changed to reflect improved data collection processes; in other cases, targets have been adjusted (up or down) to take account of recent performance. As noted above, where there have been material changes from the previous SOI, this will be noted as a footnote to Table 1.</p>

Next Steps

Subject to the Board's feedback on the matters raised in this report, the SOI will be amended and reported to the June Board meeting, when the SOI is required to be formally adopted.

Attachments

Number	Description
1	Letter from Mayor of Auckland: shareholder comments

Document Ownership

Prepared by	Barry Mein Strategic Advisor	
Recommended by	Peter Clark GM Strategy and Planning	
Approved for Submission	David Warburton Chief Executive	

30 April 2013

Dr Lester Levy
Chair
Auckland Transport
BY EMAIL

Dear Lester,

RE: Shareholder comments on the draft 2013-2016 statement of intent

The Council Controlled Organisations Strategy Review Subcommittee considered Auckland Transport's draft 2013-2016 Statement of Intent (SOI) at its 17 April meeting.

During the meeting, the subcommittee resolved a number of general shareholder comments that relate to all of the CCOs. Each CCO is asked to work with Council officers in finalising their SOI to ensure that:

- a. financial information aligns with the Long-term Plan 2012-2022 (LTP) (updated for any adjustments agreed as part of the Annual Plan 2013-2014) and includes:
 - i. a breakdown by activity as per the LTP, annual plan and the funding principles outlined in the Shareholder Expectation Guide
 - ii. specific budgets for non-strategic asset sales for relevant CCOs
 - iii. 2012/2013 budget
 - iv. appropriate explanation of material movements in budgets
- b. performance information aligns with the LTP (updated for any changes agreed as part of the annual plan) and includes:
 - i. as a minimum, the CCO measures and targets exactly as worded in the annual plan (these measures should be clearly identified in the SOI)
 - ii. 2011/2012 actual performance and 2012/2013 target for each measure (where applicable)
 - iii. material movements of targets across years or of any changes to measures and targets from the SOI 2012-2015 must be agreed with Council staff

- iv. further work to improve the quality of the CCO performance measurement framework, in line with the recommendations of this sub-committee in December 2012 (when the CCO Performance Monitoring Review report was considered)
- c. meta data (e.g. the method of data collection and analysis) is provided separately to the SOI for all CCO performance measures and targets included in the annual plan
- d. incorporate in the final SOI:
 - i. identification of specific actions, performance measures and targets related to furthering Maori outcomes and objectives
 - ii. identification of budgets and tracking of expenditure against Maori specific projects/ actions and Maori engagement, Maori technical advice and koha.

In addition to the general shareholder comments, the CCO Strategy Review Subcommittee also resolved the following specific shareholder comments on the Auckland Transport SOI:

- a. include a mihi (Maori language greeting) at the very beginning of the document
- b. review the SOI where required for any legislative changes emanating from enactment of the Land Transport Management amendment bill currently before the house
- c. note in Section 1.2 that Auckland Council is the sole shareholder of Auckland Transport
- d. acknowledge in section 2.2 the Auckland Plan outcome “ A Maori identity that is Auckland’s point of difference in the world”. Elsewhere in the SOI, this outcome should be acknowledged through an action to include appropriate Te Reo signage on walkways and cycleways
- e. include the Auckland Plan Principles which were included as attachment B in the previous (2012-2015) SOI.
- f. include in Section 3.1.2 that Auckland Transport will contribute to transport planning in the greenfield areas of investigation in the Auckland Plan
- g. review Section 4.6 Maori Engagement Framework to:
 - i. include the statement “We will contribute to the Auckland Council’s commitment to Maori by giving effect to the Maori Responsiveness Framework”
 - ii. include the statement “We will ensure that any relationships and formalised relationship agreements with Maori are consistent with any Auckland Council policy on relationship agreements with Maori”
 - iii. note that council has relationships with 19 iwi authorities.
- h. work with council officers to provide further explanation of proposed changes to performance measures, baselines and targets.

There are a number of changes to measures, baselines and targets from the previous SOI with limited information. Further information and review is required to understand whether these changes are acceptable to Council, and aligned to funding decisions. This information needs to be provided by Auckland Transport as soon as possible, so that

Council can assess the proposed changes. If Auckland Council agrees to the proposed changes, this may impact on the finalisation of the Annual plan, as funding levels must be aligned to targets. This is particularly important for Public Transport patronage targets.

The CCO Strategy Review Subcommittee also approved changes to Section 5 (Financial Governance) of the current Shareholder Expectation Guide (August 2012). The updated version has been included as an attachment.

In line with continuous improvement, Auckland Council Officers will also be working with your teams to review the future year SOI process and governance framework with a key focus on templates and guidance. The objective is to further improve usefulness, consistency and conciseness of SOIs whilst also reducing compliance costs.

I look forward to receiving the final SOI by 30 June 2013.

Yours sincerely,



LEN BROWN
MAYOR
AUCKLAND COUNCIL

cc. Richard Northey, Chair, Accountability and Performance Committee
cc. Doug McKay, Chief Executive Auckland Council
cc. David Warburton, Chief Executive, Auckland Transport

Proposed updated version of Financial governance section of the Shareholder Expectation Guide for CCOs

CCOs are accountable to the Council for the financial governance of their operations in accordance with legislative requirements, SOIs, the broader governance and monitoring requirements outlined in this guide, and the specific principles detailed below. In the case of any doubt regarding the interpretation of these principles, CCOs should consult with the council.

Value for money

CCOs must be able to demonstrate efficiency and value for money in their service delivery and must develop and report against performance measures and targets in support of this.

Managing risks

CCO directors are responsible for managing risks and are required to establish processes and practices within the CCO in support of this. CCOs must keep council informed of significant risks and strategies for managing these.

Tax planning

CCOs must work with the Council to optimise tax arrangements for the Group (within applicable legislation).

Optimal capital structure

CCOs must work with the Council to maintain an optimal capital structure taking into account economic efficiency, the fiduciary responsibilities of the directors/trustees, and the broader public benefit objectives of the Group.

Borrowing

CCOs are required to borrow through the Council to deliver the lowest cost of borrowing to each CCO and the Group. All treasury activities are centralised to reduce costs and minimise risk across the Group.

CCO funding principles¹

There are three high-level funding principles:

1. As a general principle, funding provided for a specific purpose must be applied to that purpose
2. The role of the Council is to specify the overall mix and level of services, prioritise funding across the Group, and to hold CCOs accountable for the use of funding from all sources
3. Boards must be empowered with sufficient flexibility to determine the best use and allocation of funding to meet required levels of service.

To address the inherent tension between principles 2 & 3, the council has adopted an activity based funding model. However, the second principle must prevail where there is conflict.

Activity based funding

Unless otherwise specified, CCOs are funded at an activity level as set out in the Group's long-term plan and annual plans. In general, this funding will be provided on a net basis (that is, cost of delivery less any external or third party revenue or budgeted surpluses from other activities).

The total budgeted funding for a CCO will generally be net of any budgeted surpluses from any specific activity the CCO may deliver.

¹ These principles do not apply to Watercare as it is self funding and prohibited from paying a dividend although it must present its financial information on an activity basis as per the LTP and annual plan. Most of these principles do not apply to ACIL which distributes a dividend each year. However, if ACIL was to consider a new project the principle regarding council approval of an investment proposal would apply.

CCOs generally have the flexibility to reallocate funding within activities provided they act consistently with the following:

- a. requirements for shareholder engagement and/or approval for certain decisions (see below)
- b. agreed service levels (ie CCOs cannot unilaterally decide to change service levels)
- c. restrictions associated with specific funding sources (eg development contributions, targeted rates, capital funding, operational funding)
- d. public funds are not to be used to subsidise commercial activities
- e. funding for projects specifically identified and funded as council priorities cannot be reprioritised without council approval (eg City Rail Link, Visitor Plan)
- f. the ability to operate within overall funding envelopes for current and future years.

Funding related decisions requiring shareholder engagement or approval include (but are not limited to) decisions:

- a. that trigger the Council's significance policy such as decisions likely to generate high levels of public or political interest
- b. involving the Council's legal or future ownership of assets (including the vesting of assets that impose funding obligations on the Council)
- c. regarding the funding of new projects (see below)
- d. regarding the use of commercial revenue to fund public good outcomes.

Any reprioritisation must be transparent and reported to the Council through quarterly reporting including any implications from the change. In addition, CCOs (in particular Auckland Transport) must report to local boards on any material changes that will affect local board areas.

Funding of new projects

Funding of new projects not included in an approved Asset Management Plan, LTP or annual plan seeking to (even in part) improve service levels, or otherwise over \$1m operating expenditure or \$2m capital expenditure must be approved by council following the submission of an investment proposal. This requirement applies regardless of the source of funding for the project.

Investment proposals in excess of \$10m capital expenditure and/or \$1m million per annum operating expenditure or deemed to be significant under the Council's significance policy must be supported by a detailed business case and will be subject to peer review by council officers prior to submission for a Council decision. This requirement applies regardless of funding source.

Treatment of surpluses

All surpluses, including surpluses from commercial activities and asset sale proceeds, must be returned to council unless otherwise agreed or prevented due to legal requirements. The Council may decide to reinvest part or all of the surplus into the CCO if the CCO establishes a compelling investment proposal.

In determining funds that are 'surplus' the council will consider the operating result against budget including the accounting surplus, the underlying cash surplus, and surpluses generated from particular activities.

In the event that the level of surplus generated from an activity (e.g. surpluses generated from parking activities) exceeds that budgeted this will generally result in a reduction in the net funding for other activities provided by the CCO. In the event of a CCO budgeting for deficits, a reduced operating deficit (for example through the receipt of unbudgeted revenue) will be treated as a funding surplus.