

---

**REPORT 2**  
(1215/52/IM)

## **2007/08 CAPEX PROGRAMME**

---

### **1. Purpose of Report**

The purpose of this report is to seek agreement that the 2007/08 CAPEX Projects and Programmes contained in Appendix 1 be included in the Draft Annual Plan (DAP) for 2007/08.

### **2. Executive Summary**

Business Units have developed their business as usual CAPEX budgets and financial forecasts for incorporation into the draft annual plan. These budgets are prepared on the basis that current planned service levels continue unless there is an approved / planned change in an activity / service (for example, if a project is scheduled to cease in 2008/09).

This year Council Business Units have faced significant pressure in managing forecast increases in their cost base. Cost pressures have been most significant around asset ownership (depreciation arising from increased construction costs, interest, maintenance etc.) and labour market price implications (principally salaries and wages). At the same time the Council has attempted to manage its OPEX and CAPEX budgets within a level that is affordable to ratepayers.

As the Council's Long Term Council Community Plan (LTCCP) forecast that the 2007/08 CAPEX programme would exceed the annual \$20 million new borrowing allowance a CAPEX review was undertaken to address the potential funding gap. The CAPEX review has resulted in a reprioritised CAPEX and loan funding programme for 2007/08 of \$93.371 million (including forecast loans to external organisations of \$2.000 million). This forecast has been prepared based on the assumption that all of the CAPEX reprioritisations outlined in section 5.5 of this paper are accepted.

In the event that any of the proposed reprioritisations are rejected, or if additional CAPEX initiatives are added to the programme, the Committee will need to review and consider further options in order to maintain the CAPEX programme within the funding levels available.

### **3. Recommendations**

It is recommended that the Committee:

- 1. Receive the information.*

2. *Agree that the inflation adjusted CAPEX project and programmes, as detailed in appendix one, be included in the draft annual plan for 2007/08.*
3. *Note that any approved amendments to the CAPEX projects and programmes will be incorporated into the final schedule of CAPEX projects and programmes to be presented to Council.*

#### **4. Background**

As part of the planning process business units have completed the preparation of their business as usual CAPEX budgets. Business as usual CAPEX budgets assume the continuation of existing planned service levels, updated as appropriate to take account of planned future year changes in the current 2006/07 LTCCP and Asset Management Plans.

As discussed at the Councillor workshop on 14 February 2007, the Council's forecast business as usual LTCCP CAPEX and borrowing programme for 2007/08 exceeded the target required to comply with the annual \$20 million new borrowing funding allowance.

At the Councillor workshop, Officers presented the preliminary results of an internal CAPEX review that had been undertaken to address the funding gap, and agreed to provide further information on the recommended reprioritised and realigned CAPEX programme. Councillors agreed that the proposed reprioritisation of CAPEX projects should be reflected in the schedule of CAPEX projects presented at the DAP deliberations. If the CAPEX reprioritisations outlined in section 5.5 of this report are accepted in their entirety then the Council will have managed its CAPEX programme within the funding available for 2007/08.

#### **5. Discussion**

##### **5.1 CAPEX Budget Position**

The business as usual CAPEX programme for 2007/08 – 2015/16 is detailed in Appendix One. The proposed business as usual CAPEX programme for 2007/08 is \$83.787 million (excluding the Indoor Community Sports Centre (ICSC) project). The forecast 2007/08 budget for the ICSC is \$7.584 million.

The proposed CAPEX programme has been built up from the 2006/07 LTCCP plus the approved Asset Management Plans, adjusted for price / cost increases. In addition, business units have forecasted the position of their current 2006/07 CAPEX programme to 30 June 2007 and assessed the impact of any timing variances in the current programme on future periods. While the forecasted 2006/07 carry-forward projects may impact on the deliverability of the 2007/08 CAPEX programme, business units have focused on the overall deliverability of the consolidated CAPEX programme (the consolidated CAPEX

programme will ultimately include; 2007/08 LTCCP projects, forecasted 2005/06 carry-forward projects and new initiatives). Where appropriate, timing adjustments have been made to ensure that the forecast CAPEX programme for the LTCCP is realistic and deliverable/achievable.

The funding for some projects is spread over two or more financial years. In exceptional circumstances the work associated with these projects may need to be completed ahead of the budgeted timeframe. This may be due to a decision to schedule work to fit in with a time of low usage or it could be due to a contractor completing work ahead of schedule. In these circumstances part of an annual plan budget may need to be bought forward from one financial year to fund the required works. As a consequence of this reprioritisation and / or rescheduling the Council would need to consider options for deferring another CAPEX project to ensure that the overall annual funding allocation for the CAPEX programme (including the provision of \$20m of new borrowings) is not exceeded.

## **5.2 Forecast CAPEX Budgets**

Appendix 1 details the individual CAPEX project and programme budgets for 2007/08, and forecast budgets for the periods covered by the current LTCCP. In adopting the Annual Plan the Council will approve the budgets for each CAPEX project for 2007/08. However, unless amended, the LTCCP budgets (for the periods 2008/09 – 2015/16) remain the Council's "official" approved financial plan for the remaining financial years. In comparing the schedule of Project budgets in Appendix 1 to the schedule of LTCCP Projects the Committee should note that the current forecast will vary from the LTCCP budgets because of the reassessment of the timing and costing of projects (which the council undertakes on an annual basis). In addition, the forecast budgets incorporate the effect of updates to the Council's assessment of future annual inflation rates. The Council's budget assumptions have been updated to take account of current information on future price increases. The reassessment of the timing, costing and inflation assumptions ensures that the Council has an up-to-date position of its long term CAPEX programme and borrowing position. However, updated forecasts do not, in themselves, result in an amendment to the LTCCP. Notwithstanding this, all information reported to Councillors and the Committee will be based on current forecast information.

## **5.3 CAPEX funding cap**

The target 2007/08 CAPEX/Loan programme is derived from the available funding sources. These funding sources include depreciation, LTNZ capital subsidy funding, development contributions and the previously agreed annual \$20 million new borrowings allowance. Table 1 provides a summary of these funding sources.

**Table One: Target CAPEX/Loan Funding Programme - 2007/08**

Funding Sources / Provisions	\$million
Total Depreciation Expenditure	63.043
Less Non-Funded Depreciation	(9.963)
LTNZ Capital Subsidy Funding	9.828
Development Contributions	1.220
New Borrowings Allowance	20.000
Funding from Bequests / Trusts	0.450
Preliminary CAPEX & Loan Funding Programme	84.578
Provision for Funding of ICSC	7.584
"Recycled" funding from reprioritisation of 2006/07 Project	1.400
Target CAPEX / Loan Funding Programme	93.562

The target CAPEX/loan funding programme is compared to the forecasted CAPEX/Loan programme to determine if the overall CAPEX funding programme available will be exceeded.

**Table Two: Forecasted CAPEX Programme - 2007/08**

Annual Plan Budget / Funding Programme	\$million
2007/08 BAU Annual Plan Budget (excl. ICSC)	83.787
2007/08 Forecast ICSC Budget	7.584
Forecast 2007/08 BAU CAPEX Budget	91.371
Proposed loans to external organisations	2.000
Forecast 2007/08 BAU CAPEX / Loan Programme	93.371

Table 2 provides a summary of the forecasted CAPEX/loan programme for 2007/08. This table demonstrates that the proposed CAPEX/loan programme can be funded from the loan / funding programme available in 2007/08.

Notes:

1. The BAU Annual Plan budgets include all new initiatives, amendments to Asset Management Plans and the consequential impact of the proposed reprioritisation of CAPEX project.
2. The BAU CAPEX budget excludes any potential carry forward of 2006/07 or 2005/06 CAPEX projects both of which have separate funding allocated to them.

#### **5.4 Prioritisation/ Realignment - method and approach**

During the 14 February 2007 workshop Councillors were briefed on the impact of the CAPEX programme on forecasted borrowings and the subsequent requirement to reprioritise the CAPEX programme to achieve compliance with the previously agreed \$20 million funding cap. A prioritisation framework was

used to provide a consistent method and approach for reviewing and prioritising the capital expenditure programme given the current budget funding gap. This framework has been used to adjust the CAPEX programme to fit within the agreed limits.

The framework was based on the application of the following filters:

- Project Management - has the project commenced? Is Council irrevocably committed? Has the project been fully planned, scheduled and resourced?
- Operational Assessment - what are the political, reputational and operational risks of deferring or not continuing with the project?
- Strategic Alignment – does the project have a strong linkage to the three year priorities described in the 2006/07 – 2015/16 Long Term Council Community Plan (LTCCP)?
- Level of Discretion - is there scope to review the timing or budgeted amount of the project?

A final check of “Other Contextual Items to Consider” was applied across these filters to ensure an acceptable level of realistic achievement. For example the relative spend by activity and the split between renewal and upgrade expenditure was also considered. The application of the filters results in the allocation of all projects to a priority grouping. The categories were then worked through sequentially to confirm project deferrals/savings within the recommended priority groupings and close the funding gap.

### **5.5 Proposed CAPEX realignments/savings**

After application of the prioritisation framework adjustments totalling \$14.916 million, as outlined in table 3, are now recommended to the Committee for approval. The CAPEX programme contained in Appendix 1 includes these adjustments. If these adjustments are not fully approved then Appendix 1 will need to be adjusted and further savings will be required to ensure that the revised CAPEX programme complies with the \$20 million funding cap.

Table 3 contains a description of the projects where CAPEX realignment/savings changes are proposed and provides the rationale for the proposed change.

Table 4 details the current forecast budgets for those CAPEX projects where amendments to 2007/08 budgets are proposed, the proposed amendment/reprioritisation and the updated forecast after reprioritisation.

**Table three: Summary of proposed CAPEX realignments**

Strategy	Project	Project Name	Recommended change	LTNZ Subsidy contributions	Project Description	Reason for recommendation
Council	<b>Council</b>	Corporate savings	(2,115,282)		This capital expenditure funds information technology hardware and systems, replacement of vehicles and equipment, and health and safety requirements.	The corporate work programme has been reviewed and a number of non-critical renewals and enhancements are proposed to be deferred to 2008/09. The deferrals primarily relate to non-urgent technology upgrades and renewals.
Cultural Well-being	<b>CX497</b>	Te ara o nga tupuna - Maori heritage trails	(68,000)		This project is for the extension of the Maori heritage trail.	This funding could be delayed to 2008/09 due to timing delays arising from ongoing discussions with local iwi.
Economic Development	<b>CX275</b>	Wellington Convention Centre renewals	(100,000)		This project funds the work required to maintain the Michael Fowler Centre, Wellington Town Hall and TSB Bank Arena.	It is proposed to defer non-urgent works to the start of the 2008/09 financial year.
Environment	<b>CX084</b>	Southern landfill improvements	(225,000)		This project funds the stage four development and infrastructure associated with the Southern landfill.	Some of the costs associated with obtaining resource consent for the stage four development are now expected to be incurred in the 2008/09 financial year.
Environment	<b>CX127 (06/07)</b>	Water reservoir/pump station renewals	(3,000,000)		The budget funds the construction of the Messines Road Water reservoir.	Further work is being done on optimising the Cost:Benefit options for the reservoir which has delayed the start of construction. Consequently it is recommended that this funding be transferred to 2008/09.

Strategy	Project	Project Name	Recommended change	LTNZ Subsidy contributions	Project Description	Reason for recommendation
Environment	<b>CX334</b>	Sewerage network renewals	(250,000)		This project funds the annual renewal of a proportion of the wastewater pipelines, as determined by the AMP.	There is scope for 'smoothing' out the spend over the next two years by deferring \$250,000 of expenditure to 2008/09.
Environment	<b>CX348</b>	Botanic gardens renewals	(500,000)		This project covers the replacement of the nursery buildings at the Botanic Gardens.	Negotiations with the World Wildlife Fund have taken longer than anticipated and the deferral to 2008/09 will allow for greater integration of the environmental educational strategy into the physical works undertaken.
Social and Recreation	<b>CX055</b>	Aquatic facility upgrades	(450,000)		This component of the budget will fund the addition of the hydro slide at the Karori pool.	This deferral to 2008/09 is proposed to ensure that the work programme doesn't conflict with the shallow water play extension at the Wellington Regional Aquatic Centre.
Social and Recreation	<b>CX269</b>	Computer replacement upgrades	(15,000)		The project funds enhancements to Whekenui, the library's operating system.	It is proposed to defer minor improvements to Whekenui to the 2008/09 financial year.
Social and Recreation	<b>CX364 (06/07)</b>	Housing Reconfiguration	(1,400,000)		This project is for reconfiguration of the housing stock.	The budget was carried forward on the basis that a demonstration project would be progressed with Housing New Zealand Corporation. Ongoing negotiations have superseded this.
Social and Recreation	<b>CX369</b>	Burials and crematoria upgrades and renewals	(153,000)		This project funds maintenance and enhancements to the Makara and Karori cemeteries.	It is proposed to defer construction of a new roadway to 2008/09.

Strategy	Project	Project Name	Recommended change	LTNZ Subsidy contributions	Project Description	Reason for recommendation
Social and Recreation	<b>CX370</b>	Housing Upgrade	(2,140,000)		This project is for upgrade of the housing stock as identified through the asset management plan.	AMP requested upgrades will be covered by the Housing New Zealand Corporation partnership.
Social and Recreation	<b>CX371</b>	Housing renewals	(1,000,000)		This project is for renewal of the housing stock as identified through the asset management plan.	The proposed deferrals are subject to agreement with Housing New Zealand Corporation on investment into the housing stock.
						The proposed deferrals to 2008/09 relate to renewals that would be more effectively covered within the overall investment programme.
Transport	<b>CX094</b>	Pedestrian network footpath renewals	(250,000)		This project funds the annual renewal of a proportion of the footpaths, as determined by the AMP.	There is scope for 'smoothing' out the spend over the next two years by deferring \$250,000 of expenditure to 2008/09.
Transport	<b>CX098</b>	Road corridor new walls	(500,000)	(129,000)	This project funds the construction of new walls, resulting from failures of unrestrained slopes.	The prioritisation work programme has been completed and it is proposed that some of this budget is used to offset the cost of Rangoon bridge in project CX165 Tunnels and Bridges Improvements.
Transport	<b>CX377</b>	Road capacity projects	(1,500,000)	(795,000)	This project will fund the widening of Riddiford Street in front of the Hospital, as part of the Hospital's Resource Consent.	It is proposed to adjust the timing of this project to reflect the anticipated completion timetable for associated works.
Urban Development	<b>CX409</b>	Central city squares and parks	(1,000,000)		The 2007/08 Budget is for the upgrade of Cobblestone Park.	The delayed start to the construction of the West Courtenay Park necessitates a deferral of the Cobblestone Park upgrade to 2008/09.





**\*\* Project CX127 Water reservoir/pump station renewals**

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CAPEX Programme before realignment	4,106,000	1,715,038	1,597,439	1,647,020	1,698,151	1,747,732	1,797,313	1,846,894	1,894,925	1,944,506
Reprioritisation	(3,000,000)		3,093,000	-	-	-	-	-	-	-
CAPEX Programme after realignment	1,106,000	1,715,038	4,690,439	1,647,020	1,698,151	1,747,732	1,797,313	1,846,894	1,894,925	1,944,506
LTNZ funding impact		-	-	-	-	-	-	-	-	-

\*\* Includes \$3m carried forward from 2006/07 to 2007/08 (CX127\_CF) then deferred to 2008/09

**Project CX334 Sewerage network renewals**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CAPEX Programme before realignment	7,612,732	7,500,848	7,537,479	7,771,475	7,998,379	8,225,283	8,452,188	8,672,001	8,898,906
Reprioritisation	(250,000)	257,750	-	-	-	-	-	-	-
CAPEX Programme after realignment	7,362,732	7,758,598	7,537,479	7,771,475	7,998,379	8,225,283	8,452,188	8,672,001	8,898,906
LTNZ funding impact	-	-	-	-	-	-	-	-	-

**Project CX348 Botanic gardens renewals**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CAPEX Programme before realignment	928,450	1,021,391	933,431	890,376	816,578	842,736	865,984	888,505	674,189
Reprioritisation	(500,000)	515,500	-	-	-	-	-	-	-
CAPEX Programme after realignment	428,450	1,536,891	933,431	890,376	816,578	842,736	865,984	888,505	674,189





**Project CX094 Pedestrian network footpath renewals**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CAPEX Programme before realignment	3,500,630	3,629,770	3,763,690	3,902,451	4,038,951	4,165,131	4,280,031	4,391,341	4,506,241
Reprioritisation	(250,000)	257,750	-	-	-	-	-	-	-
CAPEX Programme after realignment	3,250,630	3,887,520	3,763,690	3,902,451	4,038,951	4,165,131	4,280,031	4,391,341	4,506,241
LTNZ funding impact	-	-	-	-	-	-	-	-	-

**Project CX098 Road corridor new walls**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CAPEX Programme before realignment	1,085,860	1,119,522	1,154,269	1,190,103	1,224,850	1,259,598	1,294,345	1,328,007	1,362,754
Reprioritisation	(500,000)	515,500	-	-	-	-	-	-	-
CAPEX Programme after realignment	585,860	1,635,022	1,154,269	1,190,103	1,224,850	1,259,598	1,294,345	1,328,007	1,362,754
LTNZ funding impact	(129,000)	132,999	-	-	-	-	-	-	-

**Project CX377 Roding capacity projects**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CAPEX Programme before realignment	1,500,000	-	-	-	-	-	-	-	-
Reprioritisation	(1,500,000)	1,546,500	-	-	-	-	-	-	-
CAPEX Programme after realignment	0	1,546,500	-	-	-	-	-	-	-
LTNZ funding impact	(795,000)	819,645	-	-	-	-	-	-	-

**\*\* Project CX409 Central city squares and parks**

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
CAPEX Programme before realignment	250,000	1,000,000	10,310	10,630	1,978,675	11,280	11,600	4,237,560	12,230	976,955
Reprioritisation	(250,000)	(1,000,000)	984,718	-	-	-	-	-	-	-
CAPEX Programme after realignment	-	-	995,028	10,630	1,978,675	11,280	11,600	4,237,560	12,230	976,955
LTNZ funding impact	-	-	-	-	-	-	-	-	-	-

\*\* \$250k that was going to be carried forward from 2006/07 to 2007/08 (CX409\_CF) has now been saved as part of the CAPEX realignment

## **6. Conclusion**

The recommended business as usual CAPEX programme for 2007/08 – 2015/16, as detailed in Appendix 1, is presented to the Committee for adoption.

The CAPEX programme incorporates the financial impact of the reprioritisation of individual projects to ensure that the overall CAPEX programme is managed within the funding programme available for 2007/08.

Individual project and programme budgets outline the current forecast cost of completing the CAPEX programme over the remaining period covered by the LTCCP.

Contact Officer: Helen Rogers, Financial Controller

## **Supporting Information**

### **1) Strategic Fit / Strategic Outcome**

*The financial forecasts and budget support the Strategic Outcomes and Priorities of the Council by providing the costing for the projects and programmes in the annual plan.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*The project and programme budgets reflect the propose Annual Plan budgets for 2007/08 and the forecast budgets for the remainder of the LTCCP.*

### **3) Treaty of Waitangi considerations**

*There are no Treaty of Waitangi considerations.*

### **4) Decision-Making**

*The preparation of the Business as Usual budgets require the Council's agreement to include in the draft annual plan and to then consult with ratepayers.*

### **5) Consultation**

#### **a) General Consultation**

*General consultation will occur as part of the annual plan consultation process.*

#### **b) Consultation with Maori**

*Mana whenua will be consulted with during the annual plan consultation process.*

### **6) Legal Implications**

*The preparation of the CAPEX budgets and various financial statements are required under the Local Government Act 2002.*

### **7) Consistency with existing policy**

*The business as usual CAPEX budget is consistent with that planned in the current Annual Plan.*

## **APPENDIX 1**

### **Schedule of CAPEX Projects and Programmes (after inflation) for 2007/08 – 2015/16**