
REPORT 3
(1215/52/IM)

2008/09 CAPEX PROGRAMME

1. Purpose of Report

The purpose of this report is to seek agreement that the 2008/09 CAPEX Projects and Programmes contained in Appendix 1 be included in the Draft Annual Plan (DAP) for 2008/09.

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.

As discussed at the Councillor workshop on 25 February 2008, the Council's forecast CAPEX and borrowing programme for 2008/09 exceeds the target required to comply with the annual \$20 million new borrowing funding allowance.

The total proposed CAPEX programme, including all recommended AMP changes, New Initiatives and Carter Observatory funding is \$137.056 million. This exceeds the available funding allowance by \$12.256 million.

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 2008/09. 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. Approve the recommended CAPEX reprioritisations as listed in Table 5.*

3. *Agree that the inflation adjusted CAPEX project and programmes, as detailed in appendix one, be included in the draft annual plan for 2008/09 subject to recommendation 4.*
4. *Note that any approved amendments to the CAPEX projects and programmes (including the approved CAPEX re-prioritisations, New Initiatives, Asset Management Plans, Carter Observatory funding and any other approved amendments) 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 cost/price pressures.

As discussed at the Councillor workshop on 25 February 2008, the Council's forecast CAPEX and borrowing programme for 2008/09 exceeds 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.

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 2008/09.

5. Discussion

5.1 Proposed CAPEX/Loans Programme

The business as usual CAPEX programme for 2008/09 – 2015/16 is detailed in Appendix One. The proposed business as usual CAPEX programme for 2008/09 is \$133.329 million (including the Indoor Community Sports Centre (ICSC) project and Housing capital expenditure programme). Note that this is business as usual only and excludes AMP changes, New Initiatives, and the impact of proposed Carter Observatory funding. The total proposed capex programme, including all recommended AMP changes, New Initiatives and Carter Observatory funding is \$137.056 million. Note that this excludes the financial impact of any recommendations of the Strategy and Policy Committee of 6 March in relation to the Courtenay Place project.

Table one provides a summary of our proposed business as usual CAPEX/loan funding programme, and our total proposed CAPEX and Loan Funding Programme (incorporating new initiatives and AMP changes as agreed.) Note that the BAU CAPEX budget excludes any potential carry forward of 2007/08 CAPEX projects which have separate funding (from within the cap in prior years) allocated to them.

Table One: Proposed CAPEX/Loans Programme - 2008/09

Annual Plan Budget / Funding Programme	\$million
2008/09 BAU Annual Plan Budget (excl. ICSC and Housing)	100.705
2008/09 Housing Project Budget	14.635
2008/09 Forecast Indoor Community Sports Centre (ICSC) Budget	11.989
Forecast 2008/09 BAU CAPEX Budget	127.329
Proposed loans to external organisations	6.000
Forecast 2008/09 BAU CAPEX / Loan Programme	133.329
Proposed capex new initiatives	1.472
Proposed amendments to Asset Management Plans	1.355
Proposed Carter Observatory CAPEX	0.900
Proposed CAPEX and Loan Funding Programme	137.056

The proposed CAPEX programme has been built up from the amended LTCCP adjusted for price / cost pressures. In addition, business units have forecasted the position of their current 2007/08 CAPEX programme to 30 June 2008 and assessed the impact of any timing variances in the current programme on future periods. While the forecasted 2007/08 carry-forward projects may impact on the deliverability of the 2008/09 CAPEX programme, business units have focused on the overall deliverability of the consolidated CAPEX programme (the consolidated CAPEX programme will ultimately include; 2008/09 CAPEX projects, forecasted 2007/08 carry-forward project, Asset Management Plans and New Initiatives). Where appropriate, timing has been adjusted to ensure that the forecast CAPEX programme is realistic and deliverable/achievable.

The Housing and ICSC CAPEX budgets have been re-phased to reflect latest expectations on delivery of the overall CAPEX programme. This has resulted in a significant reduction in the budgets for 2008/09 with consequential increases in out-years.

The Carter Observatory CAPEX amount reflects the decisions of Council on 19 December 2007. This has been treated as CAPEX as the funding is dependent on the repeal of the Carter Observatory Act 1938, and subsequent transfer of assets to the Council.

New Initiatives are considered in Report 4, and Asset Management Plans in Report 2.

5.2 Target CAPEX/Loan Funding Programme

The target 2008/09 CAPEX/Loan Funding programme is derived from the available funding sources. These funding sources include depreciation, LTNZ capital subsidy funding, bequest and trust funding, asset proceeds, development contributions and the previously agreed annual \$20 million new borrowings allowance. Table two below provides a summary of these funding sources.

Table Two: Target CAPEX/Loan Funding Programme - 2008/09

Funding Sources / Provisions	\$million
Total Depreciation Expenditure	69.577
Housing depreciation (ring-fenced)	(4.960)
Less Non-Funded Depreciation	(11.290)
LTNZ Capital Subsidy Funding	10.579
Development Contributions	2.356
Bequests/trusts/external funding	2.080
Bequests and trusts - prior year	1.884
Asset proceeds	3.900
New Borrowings Allowance	20.000
Preliminary CAPEX & Loan Funding Programme	94.126
Provision for Funding of ICSC	11.989
Housing funding	14.635
Temporary funding provision for WWP	4.050
Target CAPEX / Loan Funding Programme	124.800

The Housing and ICSC CAPEX programmes, and temporary funding for the Waterfront Project are funded outside the \$20 million borrowing cap.

5.3 CAPEX Gap to close

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 three shows a \$12.256 million gap to close.

Table Three: Forecasted CAPEX Gap – 2008/09

	\$million
Proposed CAPEX/Loan Funding Programme	137.056
Target CAPEX and Loan Funding Programme	124.800
CAPEX gap to close	12.256

5.4 Prioritisation/ Realignment - method and approach

During the 25 February 2008 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 \$12.471 million are now recommended to the Committee for approval. If these adjustments are not fully approved then further savings will be required to ensure that the revised CAPEX programme complies with the \$20 million funding cap.

Table Four: Recommended options to close the CAPEX gap - 2008/09

	\$million
Proposed CAPEX/Loan Funding Programme	137.196
Target CAPEX and Loan Funding Programme	124.800
CAPEX gap to close	12.396
Recommended CAPEX prioritisation options - Appendix 1	12.471
Less consequential impact on LTNZ subsidies	-0.215
Recommended options to close gap	12.256

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

Table five: Summary of proposed CAPEX realignments

Strategy	Project	Project Name	Recommended Change	Project Description	Reason for Recommendation	LTNZ Subsidy Contributions	Deferral/Saving?
Transport	CX094	Pedestrian network footpath renewals	-\$300,000	This project funds the footpath reconstruction and replacement programme	Proposed decreased funding with no service level impacts following pending contractual negotiations		Saving
Transport	CX098	Road corridor new walls	-\$500,000	This project relates to the construction of new walls resulting from failures of un-retained slopes.	The prioritisation work programme has been completed and potential savings have been identified to align the work programme to \$1.2 million annually	\$215,000	Saving
Transport	CX311	Vehicle network new roads	-\$2,350,000	This project relates primarily to the construction of Westchester Drive as part of the northern growth framework	John Sims and Westchester Drive may experience some delays due to negotiations and resource consents		Defer to 09/10
Transport	CX492	Bus priority plan	-\$1,680,000	Bus priority measures across the city are funded by this	Dixon St and Victoria St work programmes confirmed for 2008/09 with the		Defer to 09/10

Strategy	Project	Project Name	Recommended Change	Project Description	Reason for Recommendation	LTNZ Subsidy Contributions	Deferral/Saving?
				project	remaining funding delayed		
Environment	CX084	Southern Landfill improvements	-\$700,000	This relates to the access to the landfill after stage 3 of the continuing improvement project	Tunnel works as part of the southern landfill development renegotiated and savings identified		Saving
Environment	CX127	Water reservoir/pump station renewals	-\$1,000,000	This renewal programme ensures access to safe and reliable water supplies and waste disposal systems that protect public health and ecosystems	Realignment to reflect planned work programme - Final stage of Messines Rd water reservoir is now planned for 2009/10.		Defer to 09/10
Environment	CX336	Water reservoir/pump station upgrades	-\$50,000	This project funds the upgrade of water supplies and waste disposal systems	Potential delays to water pump station projects in 2007/08 with consequential delays to the 2008/09 work programme		Defer to 09/10
Environment	CX348	Botanic gardens renewals	-\$1,000,000	This budget funds renewals of the nursery buildings at the	Work programme reviewed and re-aligned. Heritage status is yet to be		Defer to 09/10

Strategy	Project	Project Name	Recommended Change	Project Description	Reason for Recommendation	LTNZ Subsidy Contributions	Deferral/Saving?
				botanic gardens	confirmed.		
Social and Recreation	CX055	Aquatic facility upgrades	-\$2,450,000	Funding for 2008/09 relates to the proposed Keith Spry upgrade, the Thorndon pool access and the Karori hydroslide and water features	Keith Spry pool needs to be considered as part of the Johnsonville development with the scope and level of funding requiring public consultation with the Thorndon pool access and Karori water features deferred to 2009/10		Defer to 09/10
Social and Recreation	CX077	Library materials upgrades	-\$177,000	This annual funding level provides for the purchase of new materials for the city's libraries	Proposal to reduce the new materials spend by 10%		Saving
Social and Recreation	CX338	Central library upgrades	-\$100,000	This funding allows for the ongoing purchase of safe and functional furniture and equipment	Proposal to fund furniture and equipment for the central library that meets health and safety criteria from the Council's health and safety fund		Saving
Organisational Projects	Council	Council	-\$1,164,000	This capital expenditure	The corporate work programme has been		Defer to 09/10

Strategy	Project	Project Name	Recommended Change	Project Description	Reason for Recommendation	LTNZ Subsidy Contributions	Deferral/Saving?
				funds information technology hardware and systems, replacement of vehicles and equipment and health and safety requirements	reviewed and prioritised and non-critical renewals and enhancements are proposed to be deferred to 2009/10		
Loans to external organisations		Karori Wildlife Sanctuary	-\$1,000,000	This project relates to the \$8m loan to Karori Wildlife Sanctuary Trust for the	Proposal to defer the final \$1 million into early 09/10. Note this is subject to agreement with the funding partner.		Defer to 09/10
Total 2008/09 proposed capital expenditure programme savings/deferrals identified to date			-\$12,471,000				
LTNZ Impact (Reduction in subsidy due to proposed savings/deferrals)						\$215,000	

5.6 Approval process

In adopting the Annual Plan the Council will approve the budgets for each CAPEX project for 2008/09. However, unless amended, the LTCCP budgets (for the periods 2009/10 – 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.

6. Conclusion

The recommended business as usual CAPEX programme for 2008/09 – 2015/16, as detailed in Appendix 1, is presented to the Committee for adoption. Any approved amendments to the CAPEX projects and programmes (including the approved CAPEX re-prioritisations, New Initiatives, Asset Management Plans, and Carter Observatory funding) will be incorporated into the final schedule of CAPEX projects and programmes to be presented to Council.

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 2008/09.

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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 proposed 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 2008/09 – 2015/16