

**QLDC Council
28 April 2022****Report for Agenda Item | Rīpoata moto e Rāraki take : 3****Department: Finance, Legal & Regulatory****Title | Taitara: April 2022 Capital Works Reforecast****PURPOSE OF THE REPORT | TE TAKE MŌ TE PŪRONGO**

- 1 The purpose of this report is to seek approval of proposed amendments to Queenstown Lakes District Council's capital works programme as set out in the 2021/22 Annual Plan.

EXECUTIVE SUMMARY | WHAKARĀPOPOTOTANGA MATUA

- 2 Changes to some approved 2021/22 Annual Plan budgets are required to meet immediate business needs. If approved, these changes will deliver a total decrease of \$17.1M to the 2021/22 capital plan budgets to a revised position of \$209.4M. The reduction to 2021/22 is largely offset with increases to future years.
- 3 The purpose of this second reforecast is predominantly a realignment based on expected forecast expenditure for the current year. There continue to be numerous challenges in meeting the original timing of planned capital expenditure for the current year which the following issues highlight:
 - Implementation of some projects in conjunction with developers continue to be delayed. Some are pending agreements with landowners, whilst other projects are being delivered by developers with payment due on completion. The specific impact is \$3.7M deferred including Cardrona Water Supply, Hanleys Farm Wastewater and Quail Rise Roding.
 - The subsidised transport programme, along with the late notification of approved budgets has increased complexity associated with understanding what can be delivered within the approved budgets and additional signoffs are now required by Waka Kotahi to progress designs. Specific Impact is \$4.2M deferred for Low Cost Low Risk and Active Travel Projects.
 - The impact of staff turnover limits the capability of existing staff resources to cover gaps. Transition planning for the 3 Waters Reform has already impacted. Specific impact is \$0.5M across projects including Biosolids Disposal, Water Supply Demand Management, Storm Water Modelling/Management Plans and Public Transport Investigations.
 - It is also evident that lead times for new projects are becoming longer with contractor capacity becoming an issue. This is coupled with cost escalations and scarcity of resources, due to the ongoing impact of COVID-19 on supply chains. The impact is \$1.0M deferred for Wānaka Airport Runway.

- With Cost Escalations, budget reallocations are often required which can be a trigger for reprioritisation of works across the various programmes to offset changes.
- It is also important to remain agile and be able to respond to new information such as critical renewal works identified and associated minor reallocations.

RECOMMENDATION | NGĀ TŪTOHUNGA

That Council:

1. **Note** the contents of this report;
2. **Approve** all proposed budget changes in accordance with Attachment A of the 'April 2022 Capital Works Reforecast' report; and
3. **Note** that approval of recommendation (2) will deliver a net reduction of \$17.1M to 2021/22 budgets offset with net budget adjustment increases of \$6.1M to 2022/23, \$10.0M to 2023/24, \$0.5M to 2024/25, \$0.4M to 2025/26 and (\$0.1M) reduction to 2027/28 as per Attachment A.

Prepared by:



Jeremy Payze
Senior Management Accountant
25/03/2022

Reviewed and Authorised by:

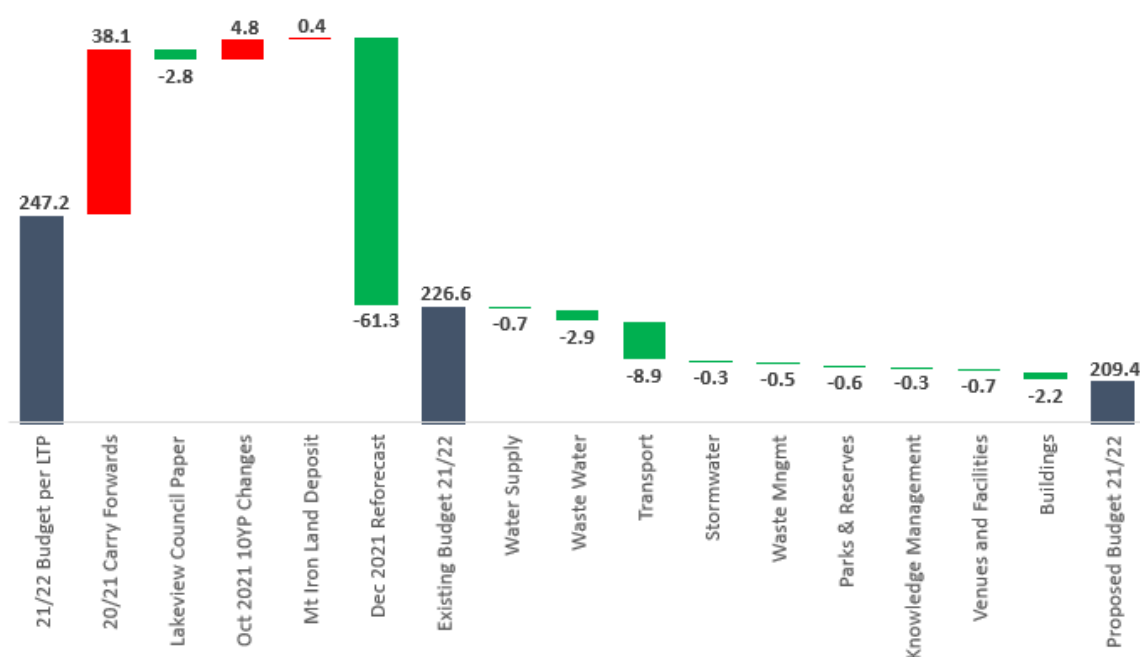


Stewart Burns
GM, Finance Legal & Regulatory
25/03/2022

CONTEXT | HOROPAKI

- 4 Queenstown Lakes District Council uses a structured reforecasting process to ensure its capital expenditure is appropriately managed and transparently reported throughout the financial year. The reforecast process provides visibility of expected changes to the Annual Plan, reasons for such changes, and any arising risks or impacts. This report presents the second full reforecast of the 2021/22 financial year (Note critical adjustments for 2021/22 were included in the Ten Year Plan Capital Expenditure Changes council report in October).
- 5 The need to reforecast is driven by a number of factors, including but not limited to:
 - Impacts arising from COVID-19 and associated supply chain availability and pricing;
 - Dependencies with third-party activity and funding (in particular Waka Kotahi [NZTA], MBIE and developers);
 - Unforeseen delays or scope changes during planning and design; and
 - The need to reprioritise project spend for urgent initiatives, to manage budgets within overall QLDC wide debt levels, the advancement of shovel-ready initiatives and Kā Huanui a Tāhuna alliance delivery agreement.
- 6 The existing approved 2021/22 Annual Plan budget is \$226.6M which includes \$38.1M of carry forwards from 2020/21, a reduction of (\$2.8M) as per the Lakeview July Council paper, an increase of \$4.8M approved through the October 2021 Ten Year Plan Capital Expenditure Changes report, a decrease of \$61.3M within the December 2021 Reforecast and \$400k added for the Mt Iron Land Purchase deposit. It is recommended that this budget be reduced by \$17.1M to \$209.4M.

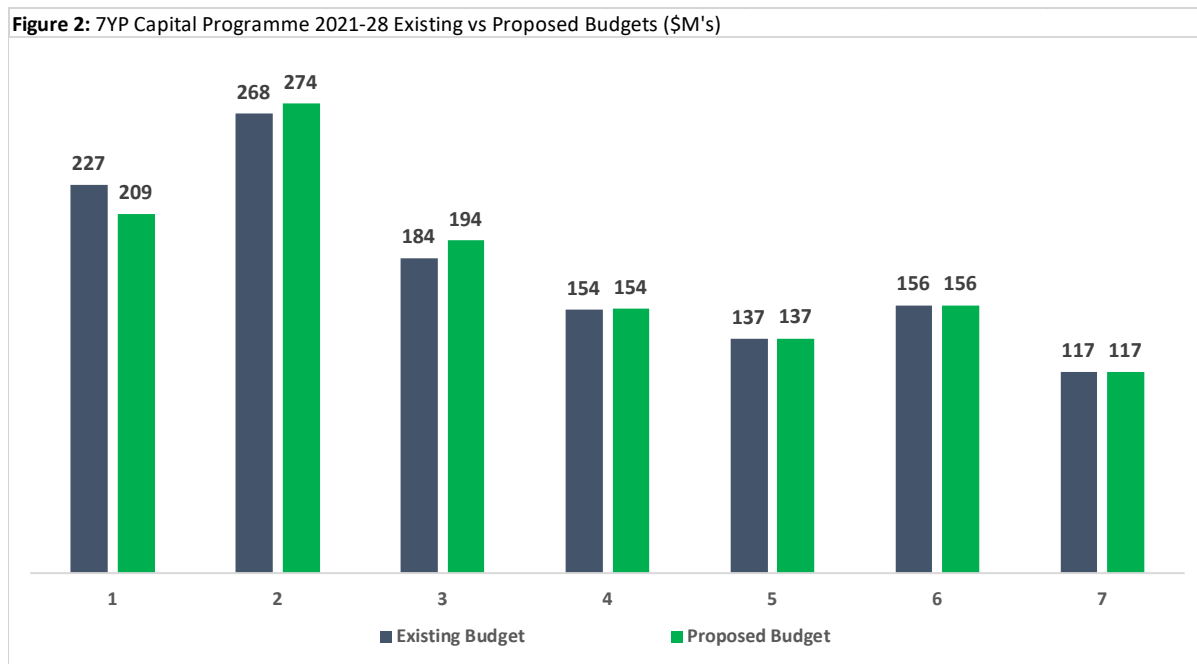
Figure 1: Summary of changes approved and proposed to 2021/22 capital budgets (\$M):



- 7 The reductions to 2021/22 (year 1 of the ten year plan) are offset with associated timing change increases across the following years within the Ten Year Plan. The total movement by year is shown in the following table and chart. Note there are no changes beyond year 7 and only minor changes beyond year 3.

Table 1: Existing Vs Proposed Budgets (\$M's)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
Existing Budget	227	268	184	154	137	156	117
Proposed Budget	209	274	194	154	137	156	117
Variance	-17	6	10	0	0	0	-0



- 8 Options to mitigate the high budget in year 2 by deferring budgets from year 2 to later years have been reviewed and will be considered through the 2022/23 Annual Plan Internal Submissions process. The changes proposed in 2021/22 are based on more realistic cashflow forecasts rather than deferring the actual programme of works. Due to debt funding constraints, the first 3 years of the Long Term Plan are particularly restricted with total spend and can result in programme deferrals to manage within the funding envelope.
- 9 Actual spend in recent years was \$76M in 2018/19, \$58M in 2019/20 and \$105M in 2020/21. Forecast actual spend for the current year 2021/22 is \$180M, of which \$77M is being delivered by the Alliance for Lakeview and the Crown Infrastructure Partners funded projects Queenstown Arterials and Street Upgrades. The Alliance delivery projects forecast is \$83M for the next financial year 2022/23.
- 10 A further review is currently being undertaken on the impact of escalation costs in the market, with supply chains under significant pressure due to the ongoing impact of COVID-19. The results of the review and potential impact will be presented and discussed in the coming months.

ANALYSIS AND ADVICE | TATĀRITANGA ME NGĀ TOHUTOHU

Summary of Changes

- 11 The attached schedule of proposed changes in Attachment A 'April 2022 Capital Reforecast' summarises movements into the following groupings:

Table 2: summary of 2021/22 capital budget changes (Council-wide)

Category	Description	Impact (\$m)
Budget Transfer	The project has, or is forecast to exceed, (or be below) the budget allocated through the Annual Plan process. The explanation of overspend / underspend and the proposed reallocation of funding between projects is contained within Attachment A.	0.0
Brought Forward	The project is complex or has a longer lead-time and with available resource capacity, it is recommended to bring part of the expenditure forward from future years to enable work to commence ahead of the projects planned start date.	4.4
Budget Deferred	Delivery timeframes have been extended. Reductions to the current year will be offset with corresponding increases to future years within the same project.	-21.2
Surplus	Budgets reduced without specific transfers identified, to help offset indirectly against increases proposed across the ten year plan.	-0.3
Total		-17.1

- 12 Brought forward budget of \$4.4M includes \$3.9M Shotover Country WS new WTP (due to be completed by August) and \$0.4M for Hawea Wastewater Management (to further progress concept design, assessments and business case work).
- 13 Deferred budget of (\$21.2M) includes \$2.2M within Buildings, \$0.2M for Knowledge Management, \$0.6M within Parks & Reserves, \$0.7M within Venues & Facilities, \$0.4M within Waste Management, \$8.9M within Transport and \$8.3M within the 3 Waters programme to align with latest project delivery timeframes.

Key Changes by Programme

Buildings

- 14 Reduction of (\$2.2M) includes deferrals of \$1.0M for Lakeview Demolition (21/22 programme completed with the balance ring fenced for potential future asbestos works), \$0.5M for Healthy Homes (physical works to commence 22/23) and \$0.7M for Mitre 10 Youth & Community Centre (alternative options being considered due to pricing).

Knowledge Management

- 15 Reduction of (\$0.3M) includes \$0.2M deferred for ICT projects (eLearning and Self-service kiosks to be delivered 22/23) and \$0.1M surplus for ICT Network (IoT platform completed under budget).

Parks & Reserves

- 16 Reduction of (\$0.6M) includes \$0.4M deferred for Lake Hayes Estate Park Improvements and Lake Hayes Countryside Trail Renewal (to be bundled with other projects for delivery 22/23), \$0.2M deferred to year 2 for Parks and Reserves Roding Minor Improvements

Wakatipu (Contractor unavailable to complete 21/22) along with minor transfers within existing projects.

Venues & Facilities

17 Reduction of (\$0.7M) due to QEC New Indoor Court deferred (no resource to undertake at present) and a minor transfer for Wānaka Recreation Centre equipment.

Waste Management

18 Reduction of (\$0.5M) includes \$0.3M deferred for New Wakatipu Waste Facilities and \$0.2M Surplus for Solid Waste Large Asset Renewals Wānaka. Organic Waste Management has \$0.1M allocated to support a Ministry funded project for community composting.

Transport

19 Reduction of (\$8.9M) includes deferrals of \$3.3M for Road to Zero Minor Improvements projects (programme start delayed due to late notification of Waka Kotahi NLTP budgets), \$2.9M for Queenstown Town Centre Arterials CIP Stage 1 (based on latest programme cashflow), \$1.0M for Wānaka Airport (contractor unavailable to complete prior to winter), \$0.9M for Wānaka Active Travel & \$0.5M for HIF Quail Rise. \$0.5M has been reallocated to the Caltex Land Road Encroachment project from Frankton Track Improvement.

Storm Water

20 Reduction of (\$0.3M) due to deferrals across Wakatipu Storm Water Catchment Management Plans and Modelling (planning underway this financial year but bulk of expenditure now anticipated in 22/23).

Waste Water

21 Reduction of (\$2.9M). \$3.8M deferrals include \$2.5M for North Wānaka New Waste Water Conveyance Scheme, \$0.5M for CBD to Frankton Waste Water Reticulation and \$0.4M for Park St PS Mechanical Upgrade (based on current forecast programme) offset with \$0.4M brought forward for Hawea Waste Water Management (to further progress concept design, assessments and business case work). Transfers include \$0.6M to Lake Hayes Renewals for critical works identified.

Water Supply

22 Reduction of (\$0.7M). \$4.2M of deferrals include \$2.1M for Hanleys Farm and \$1.5M for Cardrona WS (Developer led projects with payment only due on completion) offset with \$3.9M brought forward for the Shotover Country WS new WTP (due to be completed by August).

Options

23 Option 1 Approve the changes to the 2021/22 proposed capital works programme as proposed in Attachment A.

Advantages:

24 Ensures Council's capital expenditure is aligned to the most up to date project forecasting. This alignment ensures the allocation of resourcing and expenditure is optimised, overspends and underspends are appropriately managed, and forward planning is based on the most accurate information available.

Disadvantages:

25 Changes to the timing, cost, and/or completion of some previously approved projects may be perceived as disadvantageous by the community and supply market.

26 The deferral of some works into the next ten-year period may require further reprioritisation of expenditure to meet capacity and funding constraints. This is largely mitigated by the significant surplus identified through this reforecast process.

27 Option 2 Do not approve the changes (do nothing option)

Advantages:

28 None identified.

Disadvantages:

29 Investment will not be prioritised to the greatest area of need, and planned projects that do not have sufficient budget will be at high risk of failure.

30 Option 3 Approve only some of the changes to the 2021/22 proposed capital works programme.

Advantages:

31 Provides some ability to manage the impacts of overspends against current budget and, where possible, the opportunity to take steps to keep capital expenditure within overall annual budgets.

Disadvantages:

32 As per option one, though potentially to a lesser extent depending on what projects are approved for reprioritisation.

33 This report recommends **Option 1** for addressing the matter.

34 Adjusting the budgets as identified in Attachment A will ensure Council can continue to deliver the agreed programmes in the long term plan, maximise external funding and respond to delivery of critical works required.

CONSULTATION PROCESS | HĀTEPE MATAPAKI:

> SIGNIFICANCE AND ENGAGEMENT | TE WHAKAMAHI I KĀ WHAKAARO HIRAKA

- 35 This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy because the proposed adjustments are not assessed as having a material impact to the district's environment or people, and will improve alignment of planned expenditure to central government expectations and QLDC's funding constraints.
- 36 Formal consultation on all proposed changes would compromise QLDC's ability to meet existing commitments within the current financial year. Only the items that cannot wait until a full reforecast process have been presented.

RISK AND MITIGATIONS | NGĀ RARU TŪPONO ME NGĀ WHAKAMAURUTANGA

- 37 This matter relates to the financial risk category. It is associated with 'SR1 Current and Future Development needs of the Community' within the QLDC Risk Register. This risk has been assessed as having a high inherent risk rating.
- 38 The approval of the recommended option will support the Council by allowing the risk to be maintained by ensuring capital expenditure is appropriately prioritised based on the most current information available.

FINANCIAL IMPLICATIONS | NGĀ RITENGA Ā-PŪTEA

- 39 Approval of the recommended option will reduce planned 2021/22 capital expenditure to \$209.4M (a \$17.1M reduction from the existing adjusted Annual Plan budget of \$226.6M). Resulting deferrals and brought forward changes proposed to future years are also shown in Attachment A, with a net increase of \$6.1M to 22/23, \$10.0M to 23/24, \$0.5M to 24/25, \$0.4M to 25/26 and (\$0.1M) reduction to 27/28.

COUNCIL EFFECTS AND VIEWS | NGĀ WHAKAAWEAWE ME NGĀ TIROHANGA A TE KAUNIHERA

- 40 The recommended option is consistent with the principles set out in QLDC's Significance and Engagement Policy. Although the decision is in respect to strategic assets (namely three waters, transport, and community services infrastructure), the decision does not involve the transfer of ownership, sale, or long-term lease of these assets.
- 41 This report considers changes to budgets that were consulted and approved through the 2021 Ten Year Plan adoption process.

LOCAL GOVERNMENT ACT 2002 PURPOSE PROVISIONS | TE WHAKATURETURE 2002 O TE KĀWANATAKA Ā-KĀIKA

- 42 Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future. The recommended adjustments

will support these objectives by ensuring that the right projects are completed at the right time.

43 The recommended option:

- Can be implemented through current funding under the Ten Year Plan,
- Is consistent with QLDC’s plans and policies, and
- Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of QLDC, or transfer the ownership or control of a strategic asset to or from QLDC.

ATTACHMENTS | NGĀ TĀPIRIHANGA

A	April 2022 Capital Works Reforecast
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