

QLDC Council

23 March 2023

Report for Agenda Item | Rīpoata moto e Rāraki take [8]

Department: Assurance, Finance & Risk

Title | Taitara : Capital Works 2022-23 March Reforecast

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to seek approval of proposed amendments to Queenstown Lakes District Council's capital works programme budgets as set out in the 2022/23 Annual Plan.

Executive Summary | Whakarāpopototaka Matua

As part of the 2023-24 Annual Plan budget setting process, it was necessary to further reduce existing 2022-23 budgets due to funding constraints across the Ten Year Plan. In order to prudently manage our debt levels in light of high market inflation, increasing interest rates and the impact of settlement of the defective building legal claims, the 3 Waters capital programme was reviewed with a target to decrease the capital budgets in 2022/23 and 2023/24.

If approved, the changes in this report will deliver a further decrease of \$7.0M to the 2022/23 capital plan budgets to a revised position of \$225.9M. The reduction to 2022/23 is largely offset with increases to future years. Changes to 2023/24 and beyond have been proposed as part of the 2023/24 Annual Plan process. The resulting adjustments will ensure a sound base for the 2023-24 Annual Plan and development of the next Long Term Plan.

Recommendation | Kā Tūtohu

That Council:

1. **Note** the contents of this report and;
2. **Approve** all proposed budget changes in accordance with Attachment A of the 'March 2023 Capital Works Reforecast' report; and
3. **Note** that approval of recommendation (2) will deliver a net reduction of \$7.0M to 2022/23 as per Attachment A.

Prepared by:



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Title: Senior Management Accountant - Projects

3 March 2023

Reviewed and Authorised by:



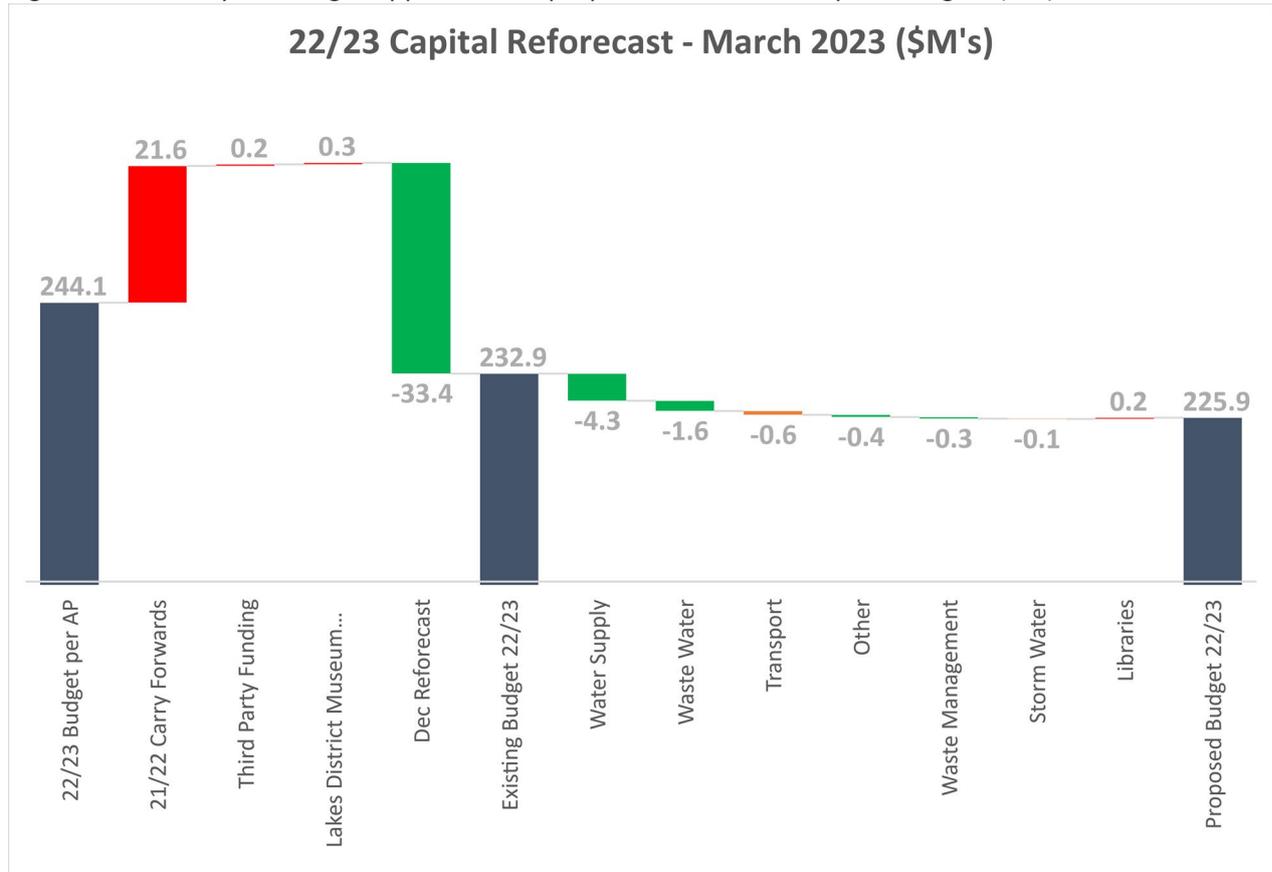
Name: Stewart Burns
Title: General Manager, Assurance, Finance & Risk

3 March 2023

Context | Horopaki

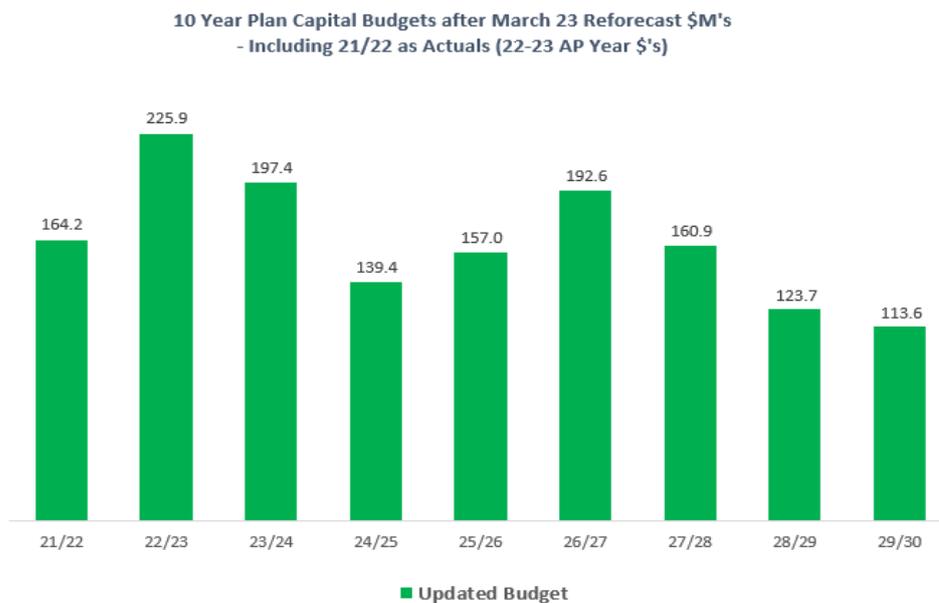
1. Queenstown Lakes District Council uses a structured reforecasting process to ensure its capital expenditure is appropriately managed and transparently reported throughout the financial year. The reforecast process provides visibility of expected changes to the Annual Plan, reasons for such changes, and any arising risks or impacts. This report presents the second reforecast of the 2022/23 financial year.
2. 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 including community engagement on proposed options;
 - The need to reprioritise project spend for urgent initiatives;
 - The impact of interest rates, inflation and the need to manage budgets within overall QLDC wide debt levels;
 - The advancement of shovel-ready initiatives and Kā Huanui a Tāhuna alliance delivery agreement;
3. The timing of this 2022-23 reforecast and subsequent need to reduce budgets as part of the 2023-24 Annual Plan process, was primarily in response to the additional funding constraints brought on by the settlement of the defective building claim. These adjustments help to ensure QLDC has a sound base heading into the next annual and long term plan which remains affordable.
4. The existing approved 2022/23 Annual Plan budget is \$232.9M which includes \$21.6M of carry forwards from 2021/22, reductions of \$33.4M in the December 22 Reforecast, \$0.3M Lakes District Museum Funding and an additional \$0.2M third party funding. It is recommended that the 2023/24 budget be reduced by \$7.0M to \$225.9M.

Figure 1: Summary of changes approved and proposed to 2022/23 capital budgets (\$M):



5. The reductions to 2022/23 (year 2 of the ten year plan) are offset with associated timing change increases across the ten year plan that were presented in the Council Workshop on 15th December. The total revised budget by year is shown in the following chart.

Figure 2: Ten Year Plan after March 23 Reforecast (22-23 AP Year \$'s)



Analysis and Advice | Tatāritaka me kā Tohutohu

Key Changes by Programme

6. A detailed list by project of changes is shown in attachment A. The following table summarises the movement by programme.

Table 1: Summary of Movement by Programme:

Programme	Change \$M's	Comment
LIBRARIES	\$0.2	\$0.2M added for Frankton Library as brought forward from 2023/24 for fitout of additional space/extension.
WASTE MANAGEMENT	-\$0.3	\$0.2M deferred to 2024/25 for Product Stewardship which has been rephased to align with timing of government funding initiatives along with minor surplus in master planning budgets.
TRANSPORT	-\$0.6	Part deferrals of \$0.2M for Travel Demand Management, \$0.1M for Monitoring & Benefits Realisation and \$0.3M for Wanaka Masterplan based on current work programme.
STORM WATER	-\$0.1	Deferral of \$0.1M for Wanaka Improvements High Risk to 2027/28 due to funding constraints.
WASTE WATER	-\$1.6	Deferral of \$1.0M to 2024/25 for the Project Shotover Wastewater Treatment Plant Upgrade which is currently in construction procurement. The procurement process will inform an Implementation Business Case that will seek final approval to commence construction. Subject to council approval, construction is expected to commence by May 2023. \$0.6M has been deferred for Pump Station Emergency Storage Wanaka to 2031/32 (pump station upgrades to be delivered under the Upper Clutha Conveyance Scheme project). \$2.0M has been brought forward for CBD to Frankton Conveyance (sewer relining to be completed 2022/23). Transfer of \$1.0M from PS Emergency Storage Queenstown to Hanleys Farm Pump Station Upgrade (redesign and consenting delays expected to result in increased cost).
WATER SUPPLY	-\$4.3	Decrease of \$4.3M includes deferrals to 2023/24 of \$1.3M for Beacon Point New Reservoir and \$1.4M for Cardrona Water Supply Scheme Pipeline based on current delivery programme; and reduction of \$0.9M for Telemetry Districtwide (reduced to minimum scope including internal business case for a districtwide strategy).
OTHER	-\$0.4	Deferrals of \$0.2M for Digital Masterplan to 2025/26 and \$0.2M for Resilient Infrastructure Networks to 2029/30, due to funding constraints.
	-\$7.0	

Options

7. Option 1 Approve the changes to the 2022/23 proposed capital works programme as proposed in Attachment A.

Advantages:

- 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.
- Ensures Council remains agile and able to respond to changed circumstances by realigning and signalling early what its preferred programme is as circumstances change.
- Allows the Long Term Plan budgets to be a rolling forecast, reducing the need to start over at each 3 year budget cycle.
- Ensures Council is able to maintain debt levels within prescribed funding parameters across all years of the Long Term Plan.

Disadvantages:

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

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

Advantages:

- Maintains the existing programme which was signalled to be delivered.

Disadvantages:

- 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.
- Council would be in the less favourable financial position to address the emerging cost and other issues faced with delivering on the current programme.

9. Option 3 Approve only some of the changes to the 2022/23 proposed capital works programme.

Advantages:

- 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:

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

10. This report recommends **Option 1** for addressing the matter. This allows Council to maintain a more accurate forecast across years, ensuring that Council has a sound base for the 2023/24 Annual Plan and associated Ten Year Plan budget setting processes and to maintain debt levels within prescribed funding parameters.

11. Adjusting the budgets as identified in Attachment A will ensure Council can continue to deliver the agreed programmes in the Ten Year Plan, maximise external funding and respond to delivery critical works required.

Significance and Engagement | Te Whakamahi i kā Whakaaro Hiraka

12. 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.
13. This series of deferrals has been included in the 2023-24 Draft Annual Plan and is able to be consulted on as part of that process.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

14. This matter relates to the Financial risk category. It is associated with RISK00024 Unexpected Change in Costs within the QLDC Risk Register. This risk has been assessed as having a moderate inherent risk rating.
15. The approval of the recommended option will support the Council by allowing the risk to be managed by ensuring capital expenditure is appropriately prioritised based on the most current information available.

Financial Implications | Kā Riteka ā-Pūtea

16. Approval of the recommended option will reduce planned 2022/23 capital expenditure to \$225.9M (a \$7.0M reduction from the existing adjusted Annual Plan budget of \$232.9M). Resulting deferrals and brought forward budgets have been reprogrammed within the 2023/24 Annual Plan process. These proposed changes will be considered within the 2023/24 Annual Plan process and will be subject to the normal consultation.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

17. 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.
18. 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-Kiaka

19. 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 help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses by ensuring that the right projects are completed at the right time.
20. 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 | Kā Tāpirihaka

A	Summary of Proposed Changes – March 2023 Capital Works Reforecast
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