

**Chairperson and Committee Members**  
OPERATIONS & FINANCE COMMITTEE

17 AUGUST 2017

Meeting Status: **Public**

Purpose of Report: For Decision

## **CAPITAL EXPENDITURE PROGRAMME 2017-2018**

### **PURPOSE OF REPORT**

- 1 This report seeks the agreement of the Operations and Finance Committee to a number of proposed changes to the Council's 2017/18 capital expenditure programme.

### **DELEGATION**

- 2 The Operations and Finance Committee has the delegation to consider this matter. The current Governance Structure and Delegations for the 2016-19 triennium states that the Operations and Finance Committee has been delegated:

*the responsibility to deal with monitoring and decision-making on all broader financial management matters.*

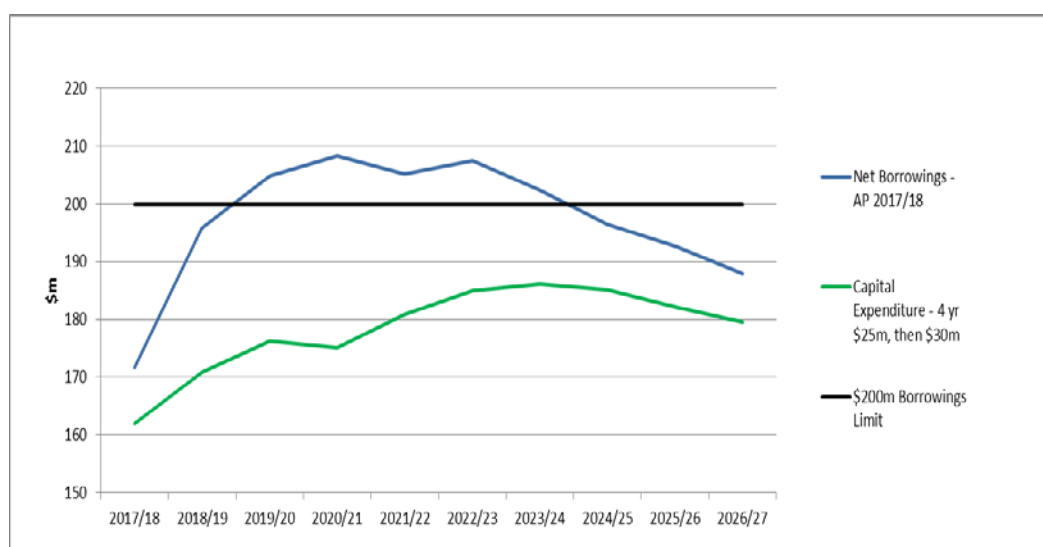
### **BACKGROUND**

- 3 The Council's capital expenditure programme has a significant impact on the Council's finances. Capital expenditure is usually funded through borrowings and external grants, for example, the NZTA and the depreciation on assets arising from the capital expenditure programme is funded by rates revenue.
- 4 In common with most other councils, this Council usually delivers less capital expenditure than it has budgeted for in its annual plan. In the five years to 30 June 2016, the Council budgeted to spend \$163.5 million on its capital expenditure programme and actually spent \$149.3 million. This means that on average, the Council is spending 91% of its planned annual capital expenditure. This level of capital expenditure has also resulted in the Council's debt rising from \$88 million in 2012 to \$142 million in 2016.
- 5 The Council does not have sufficient internal resource to consistently deliver capital expenditure programmes in excess of \$30 million. Furthermore, if this rate of capital expenditure continues, as has been forecast in the 2015/35 Long Term Plan (LTP), the Council will exceed its current borrowing limit of \$200 million, most likely at some point in the 2019/20 year.
- 6 While acknowledging the need to maintain and upgrade essential infrastructural assets and to deliver new assets where necessary, the Council has strongly signalled that this must be managed in a financially sustainable manner. To achieve this, the Council, as part of its 2018 LTP discussions, is considering a short term annual capital expenditure target of \$25 million per annum<sup>1</sup>. It is acknowledged that in some years, specific project requirements could see the target exceeded. This is why the term target is being used instead of benchmark.

---

<sup>1</sup> In the last three to five years, excluding major one-off projects such as the Coastlands Aquatic Centre, the Council has delivered an average of \$25 million worth of capital expenditure projects annually.

- 7 The intention is for the Council to deliver the 25 million per annum capital expenditure target for the next four years, starting in the 2017/18 year. This will also ensure that total borrowings stay under \$180 million, which will leave \$20 million of headroom inside the current borrowings limit of \$200 million. Thereafter the Council will target a maximum of \$30 million per annum capital expenditure. The impacts of these actions on Council's borrowings are shown in the chart below.
- 8 The green line reflects proposed capital expenditure of \$25 million for four years, followed by annual capital expenditure of \$30 million per annum thereafter. The blue line in the chart, with debt exceeding \$200 million for several years reflects the Council's borrowing profile based on it successfully delivering all the forecast capital expenditure reflected in the five year capital programme outlined in the 2017/18 Annual Plan.



- 9 For the avoidance of doubt it should be noted that all necessary capital renewals must be built into the capital expenditure programme in a timely fashion to reduce the risk of Council assets being compromised. For example, a timely renewals programme will avoid any potential extra costs of replacing failed assets or replacing assets in an emergency. The Council is undertaking a programme of comprehensive condition assessments for all its assets to help inform the timing of proposed asset renewals.
- 10 In the 2016/17 financial year, the Council undertook a first round of reviews, with further reviews planned. The outcome of the first two reviews, one late in the 2016/17 year and the other in July 2017 are discussed in more detail below.

## ISSUES AND OPTIONS

### Review of 2016/17 capital expenditure programme

- 11 At the end of the last financial year, the Council completed the first round of capital expenditure reviews with the aim of reducing the programme to better align with the proposed \$25 million short term target . The budgeted capital expenditure programme in the adopted 2016/17 Annual Plan was \$32 million.

- 12 Initially, by adjusting the timing of some projects, the Council identified \$6.2 million of projects that could be deferred to the 2017/18 and 2018/19 years. Further opportunities, including redirection of resource to emergency works and unforeseen project delays, for example, the Ōtaki pool project having to be retendered resulted in a further \$3.3 million of planned capital expenditure being deferred to the 2017/18 and 2018/19 years.
- 13 In summary, \$9.5 million capital expenditure was deferred from 2016/17 with \$7.1 million now planned for 2017/18 and \$2.4 million now planned for 2018/19.

## Review of 2017/18 capital expenditure programme

- 14 Following the deferral of \$7.1 million of capital expenditure from the 2016/17 year, as well as other changes approved through the Annual Plan process, the adopted 2017/18 Annual Plan now contains \$34.6 million<sup>2</sup> of capital expenditure. Accordingly a review of the 2017/18 capital expenditure programme has been undertaken with the intention of reducing the programme of work for the year.
- 15 The review of the approved 2017/18 capital expenditure programme has identified \$7.5 million of capital expenditure that can be taken out of the 2017/18 year. A small amount relates to adjustments to the final 2016/17 carry forward with the bulk of expenditure being deferred to future years. If the proposed changes are approved the resulting capital expenditure work programme for 2017/18 will be \$27.1 million.
- 16 The proposed changes are not changes to the 2017/18 Annual Plan, rather they are an intentional change to the work programme contained within the Annual Plan.
- 17 The proposed changes have no impact on budgeted depreciation and interest charges in the 2017/18 year. If the changes are approved they will have a more significant impact on interest and depreciation from 2018/19 onwards and these impacts will be calculated once all the changes have been finalised. Individual changes will be publicised through Council's usual processes.
- 18 The full list of proposed changes is attached as Appendix 1 to this report.

## CONSIDERATIONS

### Policy considerations

- 19 The capital expenditure reviews undertaken so far accord with the 2015/35 LTP, and particularly the financial strategy and the limits contained therein. From 2018/19 onwards, the shaping of future capital expenditure will be guided by the 2018/38 LTP and its corresponding limits.

### Legal considerations

- 20 There are no legal considerations at this stage.

### Financial considerations

- 21 The financial considerations are as disclosed in the body of the report.

---

<sup>2</sup> This includes an additional \$1.0 million for the conversion to LED streetlights which is funded almost entirely by the NZTA and will not result in any additional borrowings for Council.

## Tāngata whenua considerations

22 There are no Tāngata whenua considerations.

## **SIGNIFICANCE AND ENGAGEMENT**

### Degree of significance

23 This matter has a low level degree of significance under Council policy, and it is not significant.

### Engagement planning

24 An engagement plan is not needed to implement this decision.

### Publicity

25 Changes to the scope or timing of individual activities will be communicated through the Council's regular communications channel as appropriate.

## **RECOMMENDATIONS**

26 That the Operations and Finance Committee approves the proposed changes to the 2017/18 capital expenditure work programme, noting that this does not change the 2017/18 Annual Plan.

**Report prepared by:**

**Approved for submission by:**

**Ian Clements**  
**Corporate Advisor**

**Wayne Maxwell**  
**Group Manager Corporate Services**

**Approved for submission by:**

**Sarah Stevenson**  
**Group Manager Strategy and Planning**

## **ATTACHMENTS**

Appendix 1 – Capex Prioritisation for Councillors – Summary of Recommended Changes

Appendix 1 - Corp-17-269

			2017/18			
Activity	Capex Type	Project name	Annual Plan 2017/18 (Gross Capex)	2017/18 Recommended Changes	Annual Plan 2017/18 Plus Recommended changes (Gross Capex)	Comments
			23,072,267	-	23,072,267	
Access and Transport	New Assets/Upgrades	1791T CWB NEW PATH DEVELOPMENT	56,155	(56,155)	-	The walkway will still be constructed but from other budgets. Proposed carryover was not moved into 17/18 as budget spent in full in 16/17
Access and Transport	New Assets/Upgrades	179Q1 RAUMATI RD (UCF7 )	200,000	(200,000)	-	It was originally assumed that the project would be completed in 2016/17. Work will now continue into 2017/18 and be completed mid to late August 2017 and therefore a carry forward is required to enable project completion. The budget is available in 2016/17 to be carried forward.
Access and Transport	New Assets/Upgrades	17952 WAITOHU VALLEY ROAD	-	150,000	150,000	Peer review has highlighted unacceptable level of risk with original proposed design. Work now focused on alternative design option which has slowed down the project and delayed start this financial year.
Coastal Management Community Facilities and Community Support	Asset Renewal	18775 COASTAL PROTECTION PAKAKARIKI	5,367,885	(4,417,885)	950,000	Prioritise/spread work over 2 years.
Community Facilities and Community Support	Asset Renewal	01250 EQP BUILDING REMEDIAL WORK - DIST	274,500	(50,000)	224,500	Adjustment to proposed Carry forward
Corporate	Asset Renewal	1483M OTAKI BUILDING RENEWALS	50,436	(1,000)	49,436	Purchase of some Network and Access, Minor Assets, and Servers and Hardware pushed to 2018/19.
Corporate	Asset Renewal	0064K TECHNICAL INFRASTRUCTURE	343,911	(20,000)	323,911	Projects pushed to 2018/19 (ED upgrades \$10,000, NAX Review / Implementation \$50,800 Solicitors Portal \$50,800, and Support Engagement and Communications \$40,000)
Corporate	New Assets/Upgrades	0064F COUNCIL SOFTWARE SYSTEMS	360,684	(151,600)	209,084	Projects pushed to 2018/19 (Mobility \$25,000, Comms and Surveillance \$15,000)
Corporate	New Assets/Upgrades	0064K TECHNICAL INFRASTRUCTURE	132,080	(40,000)	92,080	Adjustment to proposed Carry forward
Economic Development	New Assets/Upgrades	13170 STRATEGIC LAND PURCHASE	786,400	(8,000)	778,400	Adjustment to proposed Carry forward
Economic Development	New Assets/Upgrades	18246 TOWN CENTRE MAJOR CONNECTORS	408,413	(8,000)	400,413	Adjustment to proposed Carry forward
Parks and Open Spaces	Asset Renewal	1218G WEKA PARK	97,728	(75,000)	22,728	One Playground renewal will not proceed. Which playground to be confirmed.
Parks and Open Spaces	Asset Renewal	121A9 MACLEAN PARK BUILT ASSETS	50,900	(40,900)	10,000	Park improvements will be part of the LTP process.
Parks and Open Spaces	New Assets/Upgrades	122B7 WAIKANAE NORTH RESERVE	81,440	(81,440)	-	Playground construction moved to 18/19. Unlikely road stopping process would be complete to start management plan process.
Parks and Open Spaces	New Assets/Upgrades	12379 OTAKI BEACH DEVELOPMENT	50,900	(50,900)	-	Adjustment to proposed Carry forward
Parks and Open Spaces	New Assets/Upgrades	1217J STANJOY TRUST CAPEX	20,027	(3,000)	17,027	Improved accessway revised budget.
Parks and Open Spaces	New Assets/Upgrades	14548 AWA TAPU CEMETERY	81,548	(15,000)	66,548	The walkway will still be constructed but from other budgets.
Parks and Open Spaces	New Assets/Upgrades	1791T CWB NEW PATH DEVELOPMENT	5,090	(5,090)	-	Payment due on completion of centre which is not expected until the 2018/19 year.
Recreation and Leisure	New Assets/Upgrades	13450 PERFORMING ARTS CENTRE	1,628,800	(1,628,800)	-	Adjustment to proposed Carry forward
Recreation and Leisure	New Assets/Upgrades	13454 MAHARA GALLERY - COUNCIL FUNDED	240,000	(15,000)	225,000	2017/18 will see continued work on assessment of options and scope of project so the full budget will not be required this year.
Recreation and Leisure	New Assets/Upgrades	1483W WAIKANAE LIBRARY BUILDING UPGR/	267,734	(217,734)	50,000	Focus on higher risk projects has reduced budget by \$520K. This will mean work stops on Charnwood, Makora, Amohia designs. Also several smaller project will be deferred.
Stormwater Management	New Assets/Upgrades	18418 MAJOR STORMWATER PROJECTS	981,297	(520,000)	461,297	
		<b>Total Changes</b>	<b>11,485,927</b>	<b>(7,455,504)</b>	<b>4,030,423</b>	
		<b>Total</b>	<b>34,558,194</b>	<b>(7,455,504)</b>	<b>27,102,690</b>	