



I hereby give notice that an ordinary meeting of the Finance and Performance Committee will be held on:

Date: Thursday, 21 August 2014
Time: 9.30am
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Finance and Performance Committee OPEN ADDENDUM AGENDA

MEMBERSHIP

Chairperson	Cr Penny Webster	
Deputy Chairperson	Cr Ross Clow	
Members	Cr Anae Arthur Anae	Cr Calum Penrose
	Cr Cameron Brewer	Cr Dick Quax
	Mayor Len Brown, JP	Cr Sharon Stewart, QSM
	Cr Dr Cathy Casey	Member David Taipari
	Cr Bill Cashmore	Member John Tamihere
	Cr Linda Cooper, JP	Cr Sir John Walker, KNZM, CBE
	Cr Chris Darby	Cr Wayne Walker
	Cr Alf Filipaina	Cr John Watson
	Cr Hon Christine Fletcher, QSO	Cr George Wood, CNZM
	Cr Penny Hulse	
	Cr Denise Krum	
	Cr Mike Lee	

(Quorum 11 members)

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20 August 2014

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ITEM	TABLE OF CONTENTS	PAGE
15	Monthly Budget Update	5

Monthly Budget Update

File No.: CP2014/16825

Purpose

1. This report is provided on a monthly basis as required. It collates decisions required of the Finance and Performance Committee on changes to the budgets, and provides a financial context within which the decisions can be made.

Executive summary

Alternative Transport Funding Project Budget

2. On 24 July 2014, the Finance and Performance Committee requested an update on the budget for the Alternative Transport Funding project.
3. The project was established to provide advice on the options to address the \$10 billion to \$15 billion funding gap identified to deliver Auckland's transport priorities. The work is complex and working towards tight timeframes. Without the work, there will be no options to address the significant funding shortfall for transport projects in the Long-term Plan (LTP) 2015-2025.
4. The following table identifies the budget for Phase Two of the project.

	Actual FY 2013-14	Budget FY 2014-15	Total FY 2013-15
Core Project Team & Project Office	\$230,000	\$988,600	\$1,218,600
Independent Advisory Body		\$99,000	\$99,000
Design and Evaluation of Funding Pathways			
Modeling the funding pathways		\$22,000	\$22,000
Design and costing of schemes		\$248,800	\$248,800
Research on Impacts and Mitigation Strategies		\$375,060	\$375,060
Economic Evaluation of Alternatives		\$27,000	\$27,000
Communications, Public Engagement and Market Research		\$105,000	\$105,000
Alternative Funding Research Projects		\$140,220	\$140,220
Contingency		\$164,320	\$164,320
Total	\$230,000	\$2,170,000	\$2,400,000

5. The project will provide preliminary advice to councillors by December 2014 to inform the LTP 2015-2025. The project will complete the analysis, evaluation, reporting and engagement necessary to enable the Governing Body to make an informed and robust decision with respect to transport funding by 30 June 2015
6. Any further work beyond Phase Two will be subject to the Governing Body deliberations when councillors receive advice by 30 June 2015.

2014/2015 capital programme deferral

7. Operating budgets for 2015/2016 (the first year of LTP 2015-2025) would need to be reduced by about \$90 million to achieve a 2.5 per cent average rates increase. The lagged impact of changes in the capital programme on operating budgets means that deferring capital expenditure (capex) in 2014/2015 is desirable in order to address 2015/2016 operating budget pressures.
8. Auckland Transport have reviewed their 2014/2015 capex programme and identified an opportunity to reduce their council rates funded capex in 2014/2015 by \$100 million. Regional Facilities Auckland and Waterfront Auckland have identified \$5.3 million and \$2.8 million of potential deferrals respectively.

9. Within the council parent, a high level of existing contractual commitments combined with the need to complete a large renewals programme means that just achieving the \$207 million assumed capital delivery deferral assumption in the 2014/2015 Annual Plan will be challenging.
10. In order to develop a realistic capex programme for 2014/2015 and contain pressure on rates in 2015/2016, staff recommend that the capex projects included in Attachment A for the council parent be explicitly deferred from 2014/2015 to 2015/2016, and be included as part of the LTP prioritisation process. Council staff will then carefully manage actual capital spend over the course of the year with the aim of finding sufficient capex efficiencies and further deferrals of regional programmes to stay within the annual plan funding parameters.
11. At the start of engagement with local boards and finalising our 2013/2014 year end deferral process, the estimated total for projects to be deferred was \$116 million. Regional projects amounted to \$74 million and local projects amounted to \$42 million. Attachment A reflects the updated proposed deferral list taking into account the feedback from local boards and our 2013/2014 year end deferral process.
12. The proposed deferral lists have been workshopped with local boards. In some cases the proposed list has been updated as further information about specific projects has come to light that precludes them from being able to be deferred (for example, projects which have recently been committed or identified as health and safety issues).
13. Local boards have also identified projects that are discretionary and could be deferred, but which are very important to their local community. Rather than making decisions about removing any high-priority discretionary projects from the deferral list at this point, staff recommend deferring the full list now and then allowing local boards to report back to this committee via this monthly budget report over the course of this year seeking exceptions on a case-by-case basis. This approach would allow more time to assess the priority of these projects and to identify further offsetting deferrals, and would enable items to be considered closer to the time when financial commitments are required.
14. Staff recommend that the committee only agree to budget adjustments that represent timing changes. Any decisions to drop or reprioritise projects should be made as part of developing the LTP 2015-2025, which will involve full local board and public consultation.

Recommendation/s

That the Finance and Performance Committee:

- a) note the status of the Alternative Transport Funding project budget.
- b) agree that Auckland Transport reduce or defer \$100 million of council funded capex from 2014/2015, noting that the gross reduction (including NZTA funded capex) will be approximately \$150 million. Auckland Transport are required to provide a modified Statement of Intent to the CCO Governance and Monitoring Committee in November.
- c) agree that Auckland Transport ensure that in determining which projects to defer, specifically exclude ring-fenced projects and take into account the council's priority towards maintaining public transport and active mode outcomes.
- d) agree that Regional Facilities Auckland defer \$5.3 million of capex from 2014/2015. Regional Facilities Auckland are required to provide a modified Statement of Intent to the CCO Governance and Monitoring Committee in November.
- e) agree that Waterfront Auckland defer \$2.8 million public capex from 2014/2015. Waterfront Auckland are required to provide a modified Statement of Intent to the CCO Governance and Monitoring Committee in November.
- f) with respect to the council parent capex projects in Attachment A,
 - i) agree to defer the capex budget amounts listed to 2015/2016. These projects will be included in prioritisation discussion in forming the draft LTP 2015-2025

in September / October 2014, and

- ii) note that any projects where timing has been deferred, but project planning is underway should be given high priority in the 2015/2016 capital programme.
- g) require management to exercise financial constraint and put controls in place around procurement to minimise further commitments of outer year capital expenditure prior to decisions being made with regards to the LTP 2015-2025.
- h) require management to find efficiencies and work through the regional capex programme to identify further deferrals with a target of achieving the remaining 2014/2015 Annual Plan deferral assumption, and
- i) agree that the council's budgets be updated to reflect the financial implications of the above decisions.

Comments

Background

- 15. The Finance and Performance Committee has delegated authority to approve changes to budgets during a financial year. Occasionally, it may be necessary for this committee of the whole to make urgent decisions on the budgets for future years, which would ordinarily be made by the Budget Committee as part of the annual/long-term planning processes.
- 16. Rates for 2013/2014 and 2014/2015 have been set with no provision made for accommodating new or additional expenditure items. Any new expenditure committed to will either require reprioritisation of existing budgets or increased borrowing. When considering requests, the impact on 2014/2015 and 2015/2016 operating expenditure also needs to be considered.

Alternative Transport Funding Project Budget

- 17. On 24 July 2014, this committee requested an update on the budget for the Alternative Transport Funding project.
- 18. The project was established to provide advice on the options to address the \$10 billion to \$15 billion funding gap identified to deliver Auckland's transport priorities. The work is complex and working towards tight timeframes. Without the work, there will be no options to address the significant funding shortfall for transport projects in the next LTP.
- 19. The following table identifies the budget for Phase Two of the project.

	Actual FY 2013-14	Budget FY 2014-15	Total FY 2013-15
Core Project Team & Project Office	\$230,000	\$988,600	\$1,218,600
Independent Advisory Body		\$99,000	\$99,000
Design and Evaluation of Funding Pathways			
Modeling the funding pathways		\$22,000	\$22,000
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Contingency		\$164,320	\$164,320
Total	\$230,000	\$2,170,000	\$2,400,000

- 20. The project will provide preliminary advice to councillors by December 2014 to inform the LTP 2015-2025. The project will complete the analysis, evaluation, reporting and engagement necessary to enable the Governing Body to make an informed and robust decision with respect to transport funding by 30 June 2015.

21. Any further work beyond Phase Two will be subject to the Governing Body deliberations when councillors receive advice by 30 June 2015.

2014/2015 capital programme deferral

22. As reported on 7 July 2014, operating budgets for 2015/2016 (the first year of the LTP 2015-2025) would need to be reduced by about \$90 million to achieve a 2.5 per cent average rates increase. The key drivers of the 2015/2016 rates requirement are:
- interest and depreciation costs from the capex programme
 - first step towards fully funding depreciation by 2025
 - introduction of electric trains
 - other Auckland Transport cost and revenue pressures.
23. On 26 March, staff provided the results of financial modelling in response to the mayoral direction for the LTP 2015-2025. One conclusion from this analysis was that it is not possible to reduce the average rates increase for 2015/2016 down to 2.5 per cent solely by reducing or deferring capex in that particular year.
24. The lagged impact of changes in the capital programme on operating budgets means that reducing or deferring capex in 2014/2015 will have a greater impact on rates for 2015/2016. The Budget Committee therefore agreed on 8 May 2014 to request the Chief Executive undertake an immediate review of 2014/2015 capex programme with a target of reducing or deferring \$300 million of capex.

Auckland Transport

25. Auckland Transport have reviewed their 2014/2015 capex programme as part of their work for the LTP. By applying their prioritisation criteria, Auckland Transport have determined the impact of reducing council funded capex in 2014/2015 by \$100 million. Factoring in the resulting reduction in NZTA subsidy, their gross capex spend would need to reduce by about \$150 million.
26. The targeted reduction can be achieved via the reduction of budget across all transport activities. Projects such as Parnell Station, the Pukekohe Station upgrade and bus and transit lane improvements may have to be deferred to the LTP period. The Auckland Transport Board will consider the current capital programme to confirm which projects may be stopped, reduced or deferred to the LTP in order to minimise negative impacts on Auckland Plan outcomes. An updated 2014/2015 capital programme will be provided to the CCO Governance and Monitoring Committee in November.

Regional Facilities Auckland

27. Regional Facilities Auckland have identified \$5.3 million of capex that could be deferred for 2014/2015 to the next LTP period. This is from a 2014/2015 capex budget of \$27.5 million, including prior year deferrals. The impacted projects are Aotea Centre weathertightness, Auckland Town Hall acoustics improvements, upgrades to Auckland Art Gallery CCTV, Mt Smart Stadium Arena 2 works and smaller facility renewal projects.

Waterfront Auckland

28. Waterfront Auckland's planned public capex programme for 2014/2015 of \$21.7 million is significantly lower than in recent years. Nevertheless, Waterfront Auckland have identified a further \$2.8 million of lower priority capex that could be deferred to the next LTP period.
29. The projects identified are in early stages of design such as the construction of Madden and Jellicoe Street, Waitemata Plaza, Tram extensions and Headland Park.

Council Parent

30. Since amalgamation the quantum of planned projects each year has exceeded the council parent's capacity to deliver. While delivery capacity is now increasing, a significant bow wave has built up. Including unspent capex from 2013/2014, \$670 million of projects are

planned for 2014/2015 within the council parent. In contrast, the council parent delivered about \$395 million last year¹.

31. This historical underspend is acknowledged in the Annual Plan and factored into council's rates and debt projections by way of a \$207 million assumed underspend. However, the individual projects that will not be delivered are not explicitly identified in the Annual Plan as they have not yet been identified.
32. Council staff have reviewed 2014/2015 capex budgets to identify work that must be completed this year as a matter of practical necessity, or where not doing the project in this timeframe would negatively impact existing service levels, external revenue or the realisation of efficiency savings.
33. A high level of existing contractual commitments combined with the need to complete a large renewals programme means that just achieving the \$207 million assumed capital delivery deferral assumption will be challenging.
34. The specific categories used to assess the 2014/2015 council parent capex programme were:
 - a) Legally committed – Legislative or contractual commitment for delivery in 2014/2015
 - b) Growth related – Development contribution funded capex but not committed
 - c) Urgent health and safety renewal – A significant health and safety risk that must be addressed in 2014/2015
 - d) In tender process – Signed procurement plan, currently under tender or about to go to tender
 - e) Cost savings – Capital works that support cost savings
 - f) Revenue generating – The investment will be offset by associated revenue
 - g) Renewals – To maintain existing levels of service
 - h) Discretionary – Projects have flexibility to be deferred and reconsidered through the LTP process

For some projects the total cost may have been allocated across more than one category. For example, phase 1 may be committed, but phase 2 remains discretionary.

35. The capex in categories a) to g) above, at the start of local board engagement, amounted to about \$554 million, with the remaining \$116 million falling into the discretionary category.
36. In order to develop a realistic capex programme for 2014/2015 and contain pressure on rates in 2015/2016, staff recommend that the capex projects included in Attachment A for the council parent be explicitly deferred from 2014/2015 to 2015/2016, and be included as part of the LTP prioritisation process. Council staff will then carefully manage actual capital spend over the course of the year with the aim of finding sufficient capex efficiencies and further deferrals of regional programmes to stay within the annual plan funding parameters.
37. At the start of engagement with local boards and finalising the 2013/2014 year-end deferral process, the estimated total for projects to be deferred was \$116 million. Regional projects amounted to \$74 million and local projects amounted to \$42 million. Attachment A reflects the updated proposed deferral list taking into account the feedback from local boards and the 2013/2014 year-end deferral process.
38. The proposed deferral lists have been workshoped with local boards. In some cases the proposed list has been updated as further information about specific projects has come to light that precludes them from being able to be deferred (for example, projects which have recently been committed or identified as health and safety issues).

¹ Excluding a \$61m property acquisition for Colin Maiden Park

39. Local boards have also identified projects that are discretionary and could be deferred, but which are very important to their local community. Rather than making decisions about removing any high-priority discretionary projects from the deferral list at this point, staff recommend deferring the full list now and then allowing local boards to report back to this committee via this monthly budget report over the course of this year seeking exceptions on a case-by-case basis. This approach would allow more time to assess the priority of these projects and to identify further offsetting deferrals, and would enable items to be considered closer to the time when financial commitments are required.
40. Staff recommend that the committee only agree to budget adjustments that represent timing changes. Any decisions to drop or reprioritise projects should be made as part of the LTP process following full public consultation.

Consideration

Local board views and implications

41. Between 12 and 19 August, staff attended workshops for all 21 local boards to obtain feedback on the proposed capital deferral schedules for 2014/2015. This engagement provided opportunity for local boards to ask questions, reinforce the reason for deferring capital funds and provide feedback on the status of projects in alignment to criteria used to assess proposed deferrals.
42. Although there was significant concern from local boards on proposed deferral schedules, local boards understood the reasoning behind this review and accepted the majority of proposed changes. A key issue raised was the deferral of projects where significant public commitment has been made and poses a major reputational risk for council (e.g. construction due to start based on verbal agreements with suppliers awaiting a contract, major announcements and events held with the local community about the initiative).
43. In light of feedback from local boards and updated project status information from departments, deferral schedules have been revised. A number of projects have been identified as highly sensitive publicly and require further investigation. Staff recommend that these projects, if identified as priority, be brought back to this committee through the year for decision on a case-by-case basis.
44. Individual feedback from Local Boards is set out in Attachment A.
45. Some key feedback themes, along with our comments are set out in the following table:

Local Board feedback theme	Council staff comments
It is the role of local boards not council staff to prioritise projects	Local boards will prioritise projects based on their Local Board Plan priorities as part of the upcoming LTP process. The current exercise is a simple pragmatic process to address a 2014/2015 issue. The advice provided here by staff relates only to objective project-specific factors, not strategic priorities.
Deferrals should be equitable across region	It is not clear that the starting points (in terms of asset values, historic spend or current capex budgets) are equitable. The LTP process is the appropriate place to address equity concerns; this exercise is based on short-term practical considerations such as existing contracts and renewal requirements.
Prioritisation process does not take into account commitments to the community. Some of the proposed deferrals relate to very high priority projects	Acknowledged, there may be some projects on the list of proposed deferrals that are of high priority to local communities. These are to be considered by the committee on a

Local Board feedback theme	Council staff comments
	case-by-case basis during the year if considered priority for 2014/2015.
Shouldn't be changing the capex set out in Local Board Agreements 2014/2015	<p>There are always capital project timing differences that are not reflected in Local Board Agreements.</p> <p>In aggregate, about \$35 million of local board capex was unspent in 2013/2014 and is now planned for 2014/2015. The proposed deferral for all local boards amounted to \$42 million at the start of engagement with them, so that the overall variance to Local Board Agreements 2014/2015 is only about \$7 million across all boards. The \$207 million deferral assumption is also explicitly acknowledged in the local board volume of the annual plan as it applies to all capex projects, regional and local.</p>

46. It is acknowledged that this exercise is a pragmatic approach, rather than a strategic prioritisation exercise. However, the high level of existing contractual commitments combined with the need to complete a large renewals programme means that there is now limited flexibility to reprioritise the programme for this year.
47. The LTP process will provide the opportunity to discuss with the community the relative importance of projects and programmes, based on the priorities identified in Local Board Plans currently being consulted on.
48. Through September and October Local Boards, the Governing Body, CCOs and council staff will all contribute to the development of draft LTP 2015-2025 budgets in response to the Mayoral Proposal. Decisions on discretionary local budgets will be made by Local Boards in October and decisions on regional activities and local asset based services will be made by the Budget Committee on 5-7 November.
49. Local Board Plans, along with the Auckland Plan and the agreed spatial priorities will help inform this prioritisation. Final decisions on which projects are included in the LTP 2015-2025 will be made by 30 June 2015, following full public consultation.

Maori impact statement

50. From discussion with Te Waka Angamua, no individual project proposed for deferral has been noted as significant for delivering the intended Maori outcomes.

Implementation

51. Budgets will be amended in core financial systems and used for internal management reporting, regular reporting to councillors and financial control for the 2014/2015 financial year.

Attachments

No.	Title	Page
A	Auckland Council Parent - List of 2014/2015 projects proposed for deferral until 2015/2016 including Local Board feedback (to be tabled at the meeting)	13

Item 15

Signatories

Authors	Ross Tucker - Team Leader Capital Planning
Authorisers	Matthew Walker - Manager Financial Plan Policy and Budgeting Andrew McKenzie - Chief Finance Officer

Placeholder for Attachment 1

. Monthly Budget Update.DOC

Auckland Council Parent - List of 2014/2015 projects proposed for deferral until 2015/2016 including Local Board feedback (to be tabled at the meeting)