

Memorandum

To: Executive Team

From: [REDACTED] s 7(2)(a) – Privacy

Date: 3 July 2020

Subject: Annual Plan : Requests for new budget and additional capital project carryforward

Purpose

The purpose of this memo is to gain executive approval for inclusion of additional budget for operations and capital projects in the annual plan deliberations report. Overall the operational adjustments will be funded by rates funding carried forward from 2019-20. The capital carryforward and additional project costs are funded by increased debt and some offsetting savings and deferrals.

Background

The 2019-20 annual plan budget for capex was \$203m. This included a capital adjustment (non-funded portion of capex) of \$60m giving a total capital programme of \$263m. The \$60m capital adjustment reflected an expectation that at least \$60m of the proposed capex would not be delivered in the financial year. At 30 June the spend on capex is \$154.5m so a further \$48m of budgeted capital programme was not delivered over and above the \$60m unbudgeted capex. Closing net debt at 30 June is \$525m consistent with forecasts.

The 2020-21 draft annual plan assumes an opening net debt position of \$525m increasing to \$672m by year end. This movement is based on a proposed capital programme that includes \$35m of carryforwards, \$170m of funded capex, and \$39m of unfunded capex. The broad assumption in the draft annual plan budget was that all but about \$5m of year-end carryforwards would be rebudgeted to later years. The actual capex adjustment requests are higher as outlined below.

Proposed Changes to capital budgets for the draft annual plan

A net increase in the 2020-21 capital budget of \$12.3m has been requested. This includes carry forward of budget into next year of \$16.5m, offset by other capex adjustments including timing adjustments, cost increases, and cost savings. These other adjustments net out to an overall budget reduction of \$4.2m.

The key budget movements are highlighted below with the detail in the spreadsheet attached.

1. Increase in existing project budgets based on new projects and cost increases:
 - \$2.14m increase for Omanawa Falls Track establishment budget in 2020-21 from \$1.71m to \$3.85m. Cost escalations have arisen from additional information regarding rockface instability. There is \$1m of TIF funding associated with this project which TIF has advised will not be increased in the light of the cost escalations.
 - Additional \$240k for remediation work around the Mauao base track. Mauao Base track repairs completed in 2020 resulted in a saving of \$176k. Subsequent assessment of the adjacent slopes

which carry large Pohutakawa trees has led to the recommendations for additional works to improve resilience of the surrounding slopes.

- \$1.1m new project for Water Supply line to TBE & Tauriko West. This project is to lay the water supply pipe at the same time as the interim wastewater solution.
- \$700k increase to Water Pipe Renewals for Elizabeth Street works which were not included in the renewal programme budget in the draft annual plan.

2. Significant deferrals compared to the draft are listed below:

- \$1.3m deferral of Marine Precinct budget some of which has been rephased into 2021/2022 with only design, consents and commencement of construction expected in 2021. Completion of construction will be in 2022.
- deferral of \$900k budget for Mount Visitor Information Centre: This budget has been rephased to push the majority of construction costs to 2022. \$450k has been included in 2021
- Moving \$1.4m of the budget for the Emergency Public Alerting project out to 2021-22

3. Permanent Cost savings include:

- Saving of \$1.5m as a result of re-allocation of spaces and places land purchase development contributions to instead fund a number of reserve development projects, focussing on delivering walkway and cycleway projects on reserves
- Reduction of \$0.9m in Oropi water capacity pgrade in \$2020-21 with further savings also in 2022.

The detail of carryforward requests and other budget adjustments are included as an attachment to this memo.

Impact on Financials of requested capital adjustments

Further work is required to determine how the additional requested \$12.3m of carry forward and cost increases will affect closing debt projections at June 2020-21. It is expected the closing net debt position will increase to around \$680m, up \$8m on the draft. The debt to revenue ratio would be about 242%, which is up 3% on the draft. This ratio remains within the debt to revenue limit of 250% that was set by council for the year.

Operational expenditure and funding adjustments

A number of adjustments to budget are proposed to be actioned which increase expenditure budgets from the draft but are offset by funding adjustments including carryforward of rates funding from 2020-21 These include:

- Budget for the living wage and contractually agreed salary adjustments (eg, union agreements)
- Various projects and grants budgeted in 2019-20 for which budget is proposed to be carried forward as listed in the attachment

Recommendation

It is recommended that the executive approve the inclusion of these adjustments in the revised financials to be presented as part of deliberations and that a summary of these movements be included in the deliberations report.