

QLDC Council
16 December 2021

Report for Agenda Item | Rīpoata moto e Rāraki take : 5

Department: Property & Infrastructure

Title | Taitara 2021 Ten Year Plan Capital Expenditure Changes

PURPOSE OF THE REPORT | TE TAKE MŌ TE PŪRONGO

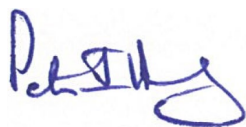
- 1 The purpose of this report is to seek approval of proposed changes to Queenstown Lakes District Council's 2021 Ten Year Plan capital expenditure budgets.
- 2 This report only presents changes that cannot wait until draft 2022/23 Annual Plan budgets are presented early next year. A full reforecast of 2021/22 expenditure will be prepared to coincide with the development of the Annual Plan.

RECOMMENDATION | NGĀ TŪTOHUNGA

That Council:

1. **Note** the contents of this report;
2. **Approve** all proposed changes in accordance with Attachment A of the '2021 Ten Year Plan Capital Expenditure Changes' report; and
3. **Note** that approval of recommendation (2) will result in a net increase of \$627k from the current adjusted 2021 Ten Year Plan.

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8/12/2021

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CONTEXT | HOROPAKI

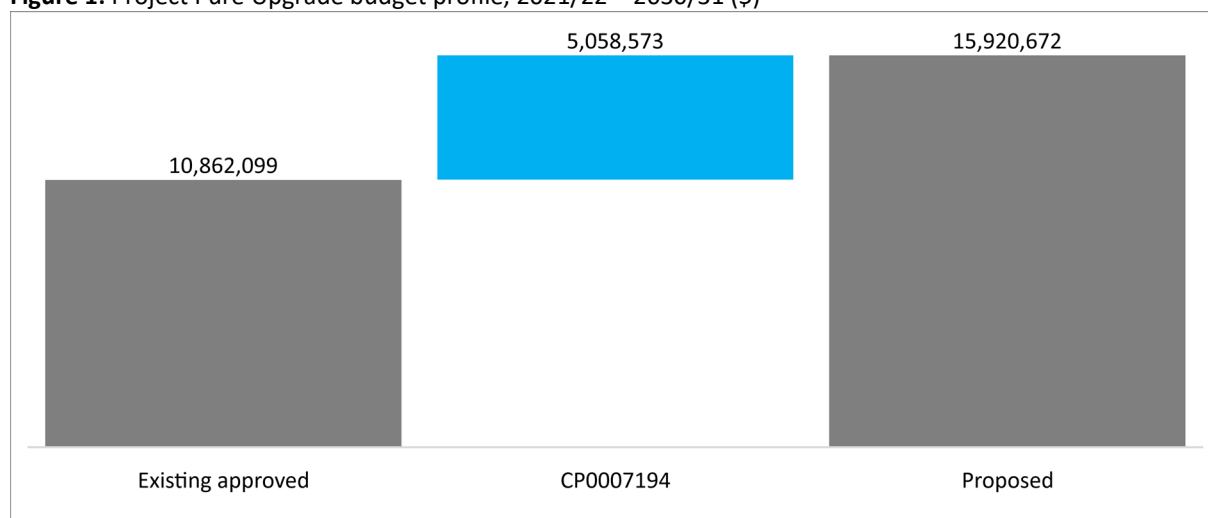
- 3 Queenstown Lakes District Council (QLDC) uses structured financial adjustment processes to ensure capital expenditure is appropriately managed and transparently reported throughout the financial year. This report proposes changes to the TYP, providing reasons for such changes, and any resulting material risks or impacts.
- 4 QLDC’s debt must remain within predetermined limits that are set in accordance with projected revenue. QLDC cannot forecast to breach these debt limits without risking the ability to secure ongoing funding. Prudent internal debt controls are prescribed by the Chief Financial Officer, ensuring sufficient headroom is maintained to respond to unplanned expenditure needs.
- 5 Financial adjustments should, wherever practicable, occur within activity and programme types. This ensures ongoing consistency with QLDC’s approved rates composition. For example, it is preferable that a three waters new capital budget be used to offset another three waters new capital budget.
- 6 To ensure a robust re-prioritisation of approved expenditure can occur within the constraints described above, a full capital reforecast has been deferred to February 2022. This report only presents urgent budget change requests where it is deemed imprudent to wait for the next full reforecast to occur.
- 7 The next full reforecast will coincide with the confirmation of draft Annual Plan budget. Changes presented in this report have been factored into the preparation of the draft February reforecast and Annual Plan budgets.

ANALYSIS AND ADVICE | TATĀRITANGA ME NGĀ TOHUTOHU

Project Pure Upgrade (WW)

Increase: \$5.06m

Figure 1: Project Pure Upgrade budget profile, 2021/22 – 2030/31 (\$)



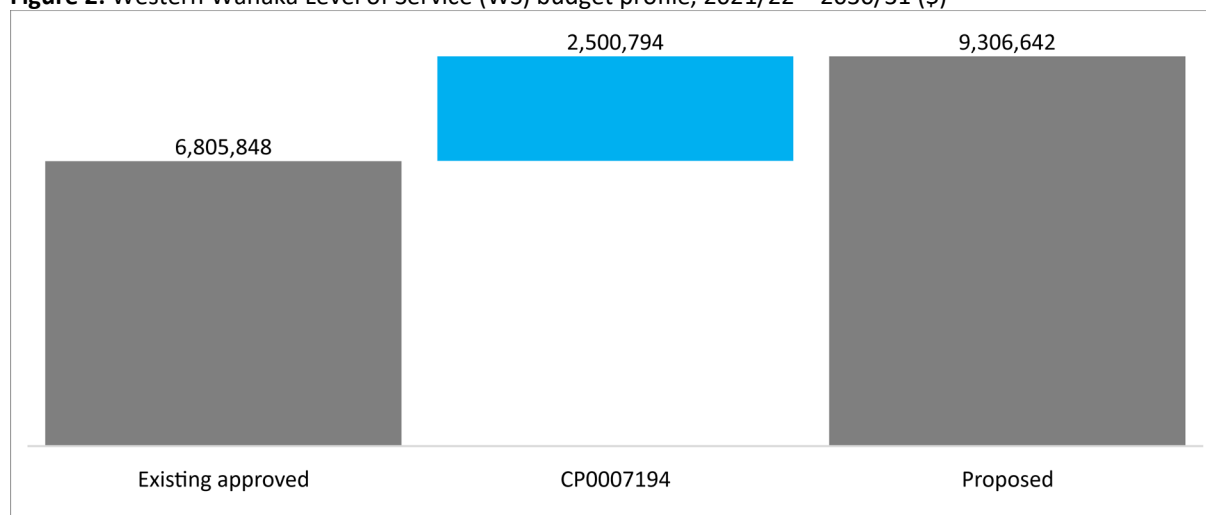
- 8 Additional funding of \$5.06m is required to execute a delivery contract for the Project Pure Wastewater Treatment Plant upgrade (Fig. 1 refers). This upgrade will provide additional redundancy and future treatment capacity.

- 9 The project cost increase is attributable to: (1) the inclusion of new design elements i.e. disposal field upgrade, a second centrifuge, tertiary filtration, third UV building, new plant operators' building, and decant transfer pipe; (2) changes to the specification and quantities of materials e.g. lower carbon concrete; (3) material and supply cost escalation; and (4) increased contractor overheads arising from the relative remoteness of the site and the need for some staff to fly in/out for parts of the project.
- 10 The additional funding required will be offset with the Wanaka Water Treatment budget (Table 1 refers).¹ The Wanaka Water Treatment budget was indicatively based on a solution with 30 years of projected demand capacity, utilising a relatively expensive treatment technology (i.e. the budget was adjusted for some uncertainty/worst case). A lower cost solution is still expected to achieve compliance with New Zealand Drinking Water Standards; however, it is unlikely to provide capacity for 30 years, and may utilise a technology that has higher performance risks.

Western Wanaka Level of Service (WS)

Increase: \$2.5m

Figure 2: Western Wanaka Level of Service (WS) budget profile, 2021/22 – 2030/31 (\$)



- 11 Additional funding of \$2.50m is required to execute a delivery contract for the Western Wanaka Level of Service improvement project (Fig. 2 refers). The revised budget is based on recent market pricing.
- 12 The project cost increase is attributable to: (1) higher traffic management and preliminary and general costs associated with a longer delivery programme than originally anticipated; and (2) increased trench width requirements to accommodate trench shields.
- 13 The additional funding required will be offset with the Wanaka Water Treatment budget (Table 1 refers).² The implications of reducing the Wanaka Water Treatment budget are summarised in above in paragraph nine (9) of this report.

¹ NB: a 20/21 underspend of \$595k was not approved for carry forward on the basis that the 21/22 budget was sufficient and that changes to future years would need to be adjusted and reprioritised against existing budgets in the TYP.

² NB: a 20/21 underspend of \$563k was not approved for carry forward on the basis that the 21/22 budget was sufficient and that changes to future years would need to be adjusted and reprioritised against existing budgets in the TYP.

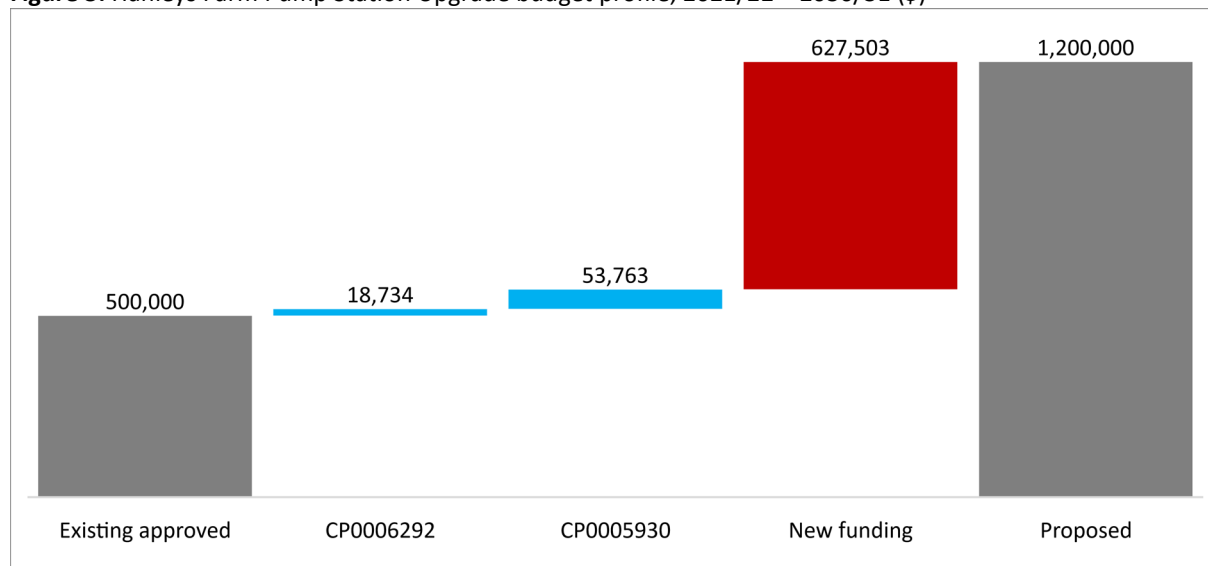
Table 1: proposed offset for Project Pure Upgrade and Western Wanaka LoS, 2021/22 – 2030/31 (\$)

Identifier	Budget name	Approved	Transfer	Proposed
CP0007194	Wanaka Water Treatment (WS)	51,058,871	(7,559,367)	43,499,504

Hanleys Farm Pump Station Upgrade (WW)

Increase: \$700k

Figure 3: Hanleys Farm Pump Station Upgrade budget profile, 2021/22 – 2030/31 (\$)



14 Additional funding of \$700k is required to execute a contract for the Hanleys Farm wastewater pump station upgrade (Fig. 3 refers). The upgrade will (1) provide capacity for projected demand growth, and (2) respond to odour issues in Frankton. The revised budget reflects capacity required to meet the interim servicing requirements of the Southern Corridor.

15 Of the additional funding required, \$72.5k will be met by transfers from other project budgets, with the balance to be new funding (there are no further suitable budgets available for transfer). Proposed transfer amounts are forecast as being surplus to requirement this financial year (Table 2 refers).

Table 2: proposed offsets, 2021/22 – 2030/31 (\$)

Identifier	Budget name	Approved	Transfer	Proposed
CP0006292	Asset Management Improvements (WW)	703,068	(18,734)	684,334
CP0005930	Recreation Ground New WWPS (WW)	3,470,714	(53,763)	3,416,951

OPTIONS

16 **Option 1:** Approve the changes to the 2021 Ten Year Plan capital expenditure budgets as proposed in Attachment A (recommended).

Advantages:

17 QLDC's capital expenditure will be aligned to current estimates and delivery forecasts. This alignment ensures that priority investments can continue, and that forward planning is based on the most accurate information available.

Disadvantages:

18 The budgets used to offset additional funding needs will be more constrained, with reduced ability to respond to uncertainty.

19 **Option 2:** Do not approve the changes (do nothing option)

Advantages:

20 Budgets proposed as offsets will be retained in full, or potentially reallocated to other priority investment needs in the next full reforecast.

21 Officers will have additional time to identify and analyse further funding options.

Disadvantages:

22 QLDC will be unable to execute contracts for delivery of both critical wastewater network upgrades. Both projects will be placed on hold until certainty of funding is obtained. It is likely the cost to complete these projects will increase in response to uncertainty and market escalation.

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

CONSULTATION PROCESS | HĀTEPE MATAPAKI:

> SIGNIFICANCE AND ENGAGEMENT | TE WHAKAMAHI I KĀ WHAKAARO HIRAKA

24 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.

25 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

26 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.

27 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

28 Approval of the recommended option will increase total budgeted TYP capital expenditure by \$627k. Planned 2021/22 capital expenditure will decrease from \$287.4m to \$284.5m.

29 The next full reforecast and draft 2022/23 Annual Plan will consider further changes to approved budgets to ensure budgeted capital expenditure is deliverable, and that QLDC’s forecasted debt levels remain prudent. Indicatively, it is expected that the increases presented in this report will be offset by decreases and deferrals through the 2022 Annual Plan.

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

30 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.

31 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

32 The recommended option:

- 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,
- Is assessed as being manageable within 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.

ACRONYMS AND DEFINITIONS

LoS	Level of Service
QLDC	Queenstown Lakes District Council
TYP	Ten Year Plan (2021 – 2031 unless otherwise stated)
WS	Water Supply
WW	Wastewater
WWPS	Wastewater Pump Station

ATTACHMENTS | NGĀ TĀPIRIHANGA

A	2021 TYP Change Schedule – December 2021 Adjustment
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Attachment A: 2021 TYP Change Schedule - Dec 2021 Adjustment

Project information				Approved 2021 TYP (adjusted)			Proposed Transfer			Revised Budget (after transfer)			Bring Forward/Defer (after Transfer if applicable)			New funding			Proposed 2021 TYP		
Project Name	Approved 2021 TYP	Total Increase / Decrease	Revised 2021 TYP	2021/22	2022/23 - 2024/25	2024/25 - 2030/31	2021/22	2022/23 - 2024/25	2025/26 - 2030/31	2021/22	2022/23 - 2024/25	2025/26 - 2030/31	2021/22	2022/23 - 2024/25	2025/26 - 2030/31	2021/22	2022/23 - 2024/25	2025/26 - 2030/31	2021/22	2022/23 - 2024/25	2025/26 - 2030/31
Project Pure Upgrade (WW)	10,862,099	5,058,573	15,920,672	6,480,023	4,382,075			5,058,573		6,480,023	9,440,648		- 3,553,228	3,553,228					2,926,795	12,993,876	
Western Wanaka Level of Service (WS)	6,805,848	2,500,794	9,306,642	5,406,478	1,399,370			2,500,794		5,406,478	3,900,164								5,406,478	3,900,164	
Wanaka Water Treatment (WS)	51,058,871	- 7,559,367	43,499,504	3,910,000	47,148,871			- 7,559,367		3,910,000	39,589,504								3,910,000	39,589,504	
Hanleys Farm PS Upgrade (WW)	500,000	700,000	1,200,000	500,000			72,497			572,497						627,503			1,200,000		
Asset Mgt Improvements (WW)	703,068	- 18,734	684,334	108,734	191,141	403,192	- 18,734			90,000	191,141	403,192							90,000	191,141	403,192
Recreation Ground New PS (WW)	3,470,714	- 53,763	3,416,951	3,470,714			- 53,763			3,416,951									3,416,951		
Total of changes	73,400,600	627,503	74,028,103	19,875,948	53,121,458	403,192				19,875,948	53,121,458	403,192	- 3,553,228	3,553,228		627,503			16,950,223	56,674,686	403,192