

11. Item 4: Capital Reforecast December 2022

PURPOSE OF THE REPORT | TE TAKE MO TE PURONGO

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

EXECUTIVE SUMMARY | WHAKARAPOTOTANGA MATUA

2. Changes to some approved 2022/23 Annual Plan budgets are recommended to align budgets more closely with Council's expected forecast expenditure and to meet immediate business needs. If approved, these changes will deliver a total decrease of \$33.4M to the 2022/23 capital plan budgets to a revised position of \$232.6M. The reduction to 2022/23 is largely offset with increases to future years.

3. Following approval in September of the carry forward budgets totalling \$21.7M from 2021/22 to 2022/23, budgets for 2022/23 and beyond have now been realigned based on revised project delivery timeframes taking into account internal resource capabilities, contractor availability and pricing, unprecedented inflation, interdependencies across programmes, business case developments, funding opportunities and anticipated 3 Waters Reforms.

4. In order to prudently manage our debt levels in light of high market inflation; increasing interest rates and the potential impact of leaky building legal claims, the 3 Waters capital programme is being reviewed with a target to decrease the capital budgets by \$54M in 2022/23 and \$65M in 2023/24. This will result in a series of proposed capital deferrals in both the current financial year and for the 2023/24 Annual Plan. The total 3 Waters capital changes in this report total to \$40.7M with a further \$1.7M under the 'Other' programme for Queenstown Priority Growth Corridors. Changes to 2023/24 and beyond will be discussed with the 2023/24 Annual Plan process.

RECOMMENDATION | NGA TUTOHUNGA

5. That Council:

1. Note the contents of this report;
2. Approve all proposed capex budget changes in accordance with Attachment A of the December 2022 Capital Works Reforecast Report; and
3. Note that approval of recommendation (2) will deliver a net reduction of \$33.4M to 2022/23 capex budgets.

	Prepared by:	Reviewed and Authorised by:
Name	Jeremy Payze	Stewart Burns
Position	Senior Management Accountant - Projects	General Manager - Finance, Legal and Regulatory
Signature		

	Prepared by:	Reviewed and Authorised by:
Date	18/11/2022	18/11/2022

REPORT CONTENT & ATTACHMENTS | NGA TAPIRIHANGA

Number	Title of Attachment
A	Covering Report Context & Analysis
B	Attachment A: Summary of Proposed Changes - December 2022 Capital Works Reforecast

Attachment 1 - Capital Reforecast Dec 2022 - Context & Analysis

DXP MEETINGS COUNCIL REPORT DRAFTING TEMPLATE

PURPOSE OF THE REPORT | HOROPAKI

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

EXECUTIVE SUMMARY | WHAKARĀPOPOTOTANGA MATUA

- 2 Changes to some approved 2022/23 Annual Plan budgets are recommended to align budgets more closely with Council's expected forecast expenditure and to meet immediate business needs. If approved, these changes will deliver a total decrease of \$33.4M to the 2022/23 capital plan budgets to a revised position of \$232.6M. The reduction to 2022/23 is largely offset with increases to future years.
- 3 Following approval in September of the carry forward budgets totalling \$21.7M from 2021/22 to 2022/23, budgets for 2022/23 and beyond have now been realigned based on revised project delivery timeframes taking into account internal resource capabilities, contractor availability and pricing, unprecedented inflation, interdependencies across programmes, business case developments, funding opportunities and anticipated 3 Waters Reforms.
- 4 In order to prudently manage our debt levels in light of high market inflation; increasing interest rates and the potential impact of leaky building legal claims, the 3 Waters capital programme is being reviewed with a target to decrease the capital budgets in 2022/23 and 2023/24. This will result in a series of proposed capital deferrals in both the current financial year and for the 2023/24 Annual Plan. The total 3 Waters capital changes in this report total to \$40.7M with a further \$1.7M under the 'Other' programme for Queenstown Priority Growth Corridors. Changes to 2023/24 and beyond will be discussed with the 2023/24 Annual Plan process.

RECOMMENDATION | NGĀ TŪTOHUNGA

- 5 That Council:
 1. **Note** the contents of this report;
 2. **Approve** all proposed capital budget changes in accordance with Attachment A of the 'December 2022 Capital Works Reforecast' report; and
 3. **Note** that approval of recommendation (2) will deliver a net reduction of \$33.4M to 2022/23 capital budgets.

Prepared by:



Jeremy Payze
Senior Management Accountant
21/11/2022

Reviewed and Authorised by:



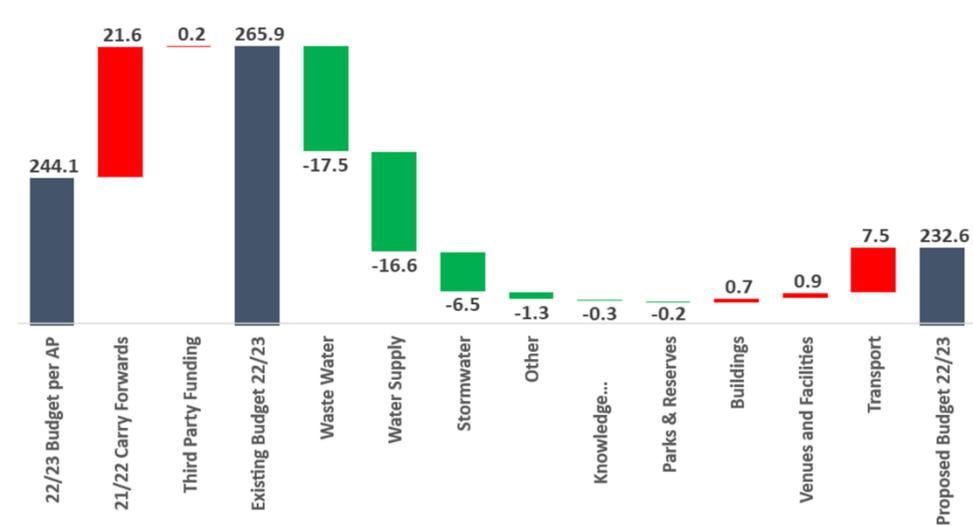
Stew Burns
GM, Finance Legal & Regulatory
21/11/2022

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 first 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 unprecedented inflation costs across all sectors, labour market challenges, 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, the need to reprioritise project spend for urgent initiatives, to manage budgets within overall QLDC wide debt levels, the advancement of shovel-ready initiatives and Kā Huanui a Tāhuna alliance delivery agreement. The emerging scope and schedule of the New Zealand Upgrade Programme (NZUP) works also continues to influence realignment of QLDC budgets.
- 3 The existing approved 2022/23 Annual Plan budget is \$265.9M which includes \$21.6M of carry forwards from 2021/22 and additional \$0.2M third party funding. It is recommended that this **budget be reduced by \$33.4M** to \$232.6M.

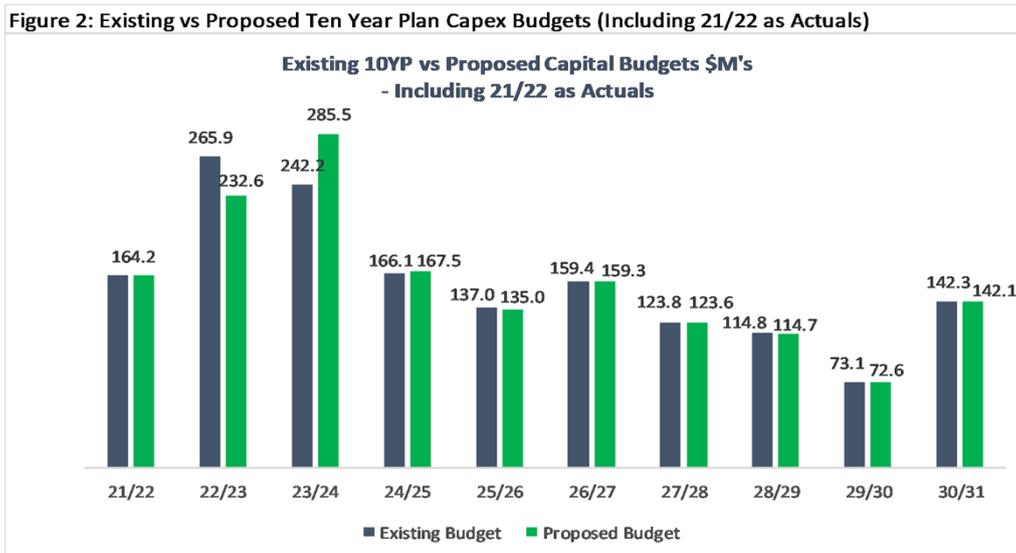
Figure 1: Summary of changes approved and proposed to 2022/23 capital budgets (\$M):

22/23 Capital Reforecast - December 2022(\$M)



4 The reductions to 2022/23 (year 2 of the 2021-31 ten year plan) are offset with an increase proposed to year 2 through the 2023/24 Annual Plan process (to be adopted in March 2023 for public consultation) along with associated offsets across the ten year plan. The changes at a project level are detailed in attachment A. The total movement by year is shown in the following table and chart. Note changes to 2023/24 (year 3 of the 2021-31 ten year plan) and beyond will be dealt with through the 2023/24 Annual Plan process.

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
Year	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	TOTAL
Existing Budget	164.2	265.9	242.2	166.1	137.0	159.4	123.8	114.8	73.1	142.3	1,588.8
Proposed Budget	164.2	232.6	285.5	167.5	135.0	159.3	123.6	114.7	72.6	142.1	1,597.1
Var	0.0	-33.4	43.3	1.3	-1.9	-0.1	-0.2	-0.2	-0.4	-0.2	8.3



ANALYSIS AND ADVICE | TATĀRITANGA ME NGĀ TOHUTOHU

Summary of Changes

- 5 The attached schedule of proposed changes in Attachment A ‘December 2022 Capital Reforecast’ summarises movements into the following groupings:

Table 2: summary of 2022/23 capital budget changes (Council-wide)

Category	Description	Impact (\$m)
New / Increased Budget:	Where additional or new funding is sought for existing projects or new projects are identified which the Council may consider suitable due to a change in legislation or some other business environment changes to those understood at the time of adopting the Annual Plan. Includes changes where specific offsets were not identified, often due to the finance funding rules around transfers between programmes or activities.	8.4
Surplus	Budgets reduced without specific transfers identified, to help offset indirectly against increases proposed across the ten year plan.	-0.1
Budget Transfer	The project has, or is forecast to exceed, (or be below) the budget allocated through the Annual Plan process. The explanation of overspend / underspend and the proposed reallocation of funding between projects is contained within Attachment A.	0.0
Budget Deferred	Delivery timeframes have been extended. Reductions to the current year will be offset with corresponding increases to future years within the same project.	-49.9
Brought Forward	The project is complex or has a longer lead-time and with available resource capacity, it is recommended to bring part of the expenditure forward from future years to enable work to commence ahead of the projects planned start date.	8.2
Total		-33.4

- 6 The new / increased budget of \$8.4M includes \$5.4M increased cost for Queenstown Street Upgrades CIP (which is offset with \$2.8M to be recovered from the Alliance delivery partners), \$2.0M for the Glenorchy Reservoir Upgrade (increase will be offset by commensurately reducing the Fernhill Reservoir Access budget via the 2023/24 Annual Plan process) and \$1.0M for Shotover Country New Water Treatment Plant (as an appropriate offset cannot be found at this time).
- 7 Surplus budget of \$0.1M is for Willow Place Waste Water Pump Station Rising Main upgrade (project completed under budget so remaining funding is declared as surplus).
- 8 Deferred budget of \$49.9M is largely (\$45.2M) within the 3 Waters programme to align with the latest project delivery timeframes and financial debt constraints.
- 9 Brought forward budget of \$8.2M includes \$2.2M within the 3 Waters programme to align with the latest project delivery timeframes, \$3.3M within Transport including \$1.8M for Brunswick Street retaining wall and \$1.1M for the acceleration of the CCTV programme under the Alliance work programme and \$0.8M within Buildings for the Performing Arts Centre for Manawa site clearance works associated with the temporary carpark.

Key Changes by Programme

Waste Water

- 10 Reduction of \$17.5M includes deferrals of \$6.1M for Kingston HIF New Wastewater Scheme (due to timing of the consent, supplier performance, and the need to resolve the project's funding constraints in order to proceed with certainty), \$5.1M for Project Shotover Wastewater Plant Upgrade (construction delayed to allow for completion of the business case and there is likelihood an associated request to increase the project budget will also come via the 2023/24 Annual Plan process) and \$1.8M for Marine Parade Wastewater Pump Station upgrades (due to a project scope change approved August 2022 to relocate the pump station control building to an alternative location within the Reserve).

Water Supply

- 11 Decrease of \$16.6M includes deferrals of \$5.3M for Kingston HIF New Water Supply Scheme (construction of the water treatment plant has been delayed to provide for water quality testing to occur following completion of the bore head in October 2022), \$5.0M for Cardrona Water Supply Scheme (project being delivered by the developer so payment is not due until completion) and \$2.6M for Luggate Water Supply Scheme (construction timing now forecast to commence June 2023).

Storm Water

- 12 Reduction of \$6.5M includes deferrals of \$4.3M for Stone St Storm Water Upgrades where a value engineering exercise is underway to identify potential mitigations for a significant increase to the forecasted project cost. The need for the investment and the appropriateness

of the designed solution is being revalidated following feedback arising through consenting and public engagement activities. In the interim, increased monitoring and regulatory activity will mitigate any potential risks to the receiving environment. \$2.1M is being deferred for Kingston HIF New Storm Water Scheme (construction procurement is underway, with works expected to commence in December 2022).

Other

- 13 Decrease of \$1.3M includes \$1.7M deferred for Queenstown Priority Growth Corridors (the timing of this initiative has been adjusted to manage financial and resourcing constraints within the current funding year) offset with \$650k increase to 3 Waters Reform Stimulus Delivery Plan (the work programme was deliberately overcommitted to ensure the full value of the fund could be utilised within the time horizons set by the Department of Internal Affairs).

Knowledge Management

- 14 Minor decrease of \$0.3M due to deferrals of \$0.1M for ICT Projects (self-service kiosks not progressing and budget reprioritised for community property projects) along with \$150k for Enterprise System (for Technology One CIAnywhere migration backfill).

Parks & Reserves

- 15 Minor reduction of \$0.2M includes \$0.6M deferred for Parks & Reserves Roding Minor Improvements (to undertake condition assessments this financial year and deliver through the roading reseal program in 2023/24 to obtain better contract rates) offset with \$350k brought forward for Wānaka Lakefront Development Plan (due to topsoil pricing, the historic pathway tile layout and Marina tie in for Stage 3 – footpath). \$193K transfer request from Coronet Forest Revegetation to new project Wild Fire Reserve Sensors Wakatipu for the establishment of wild fire sensors in Ben Lomond Reserve for resilience against the threat of wild fires.

Buildings

- 16 Buildings increase of \$0.7M is predominantly due to \$0.8M allocated to the Performing Arts Centre being brought forward to enable the temporary carpark (Kā Huanui a Tāhuna Alliance to be engaged under the current Programme Alliance Agreement to undertake design, site clearance, and carpark construction works associated with Stage 1A for the delivery of temporary parking on the Manawa Stanley Street site).

Venues & Facilities

- 17 Increase of \$0.9M includes \$1.5M brought forward from 2025/26 for the Frankton Golf Course Reconfiguration (critical works are required to re-align the Frankton Golf Course due to the planned NZUP programmed works at BP roundabout and Queenstown Airport fence realignment to be recovered from Queenstown Airport Corporation) offset with \$0.5M

deferred for QEC New Indoor Court (to enable the design of the courts to be aligned with the wider Queenstown Event Centre master planning exercise).

Transport

- 18 Increase of \$5.7M includes \$5.4M new funding for Queenstown Street Upgrades - CIP (Crown Infrastructure Partners) due to delays arising primarily from labour shortages, COVID lockdown provisions, statutory changes to sick leave, price escalation, and supply chain issues. While an increase of \$5.4M is requested, the net impact to QLDC is estimated to be approximately \$2.6M as approximately \$2.8M will be recovered from the Alliance delivery partners by way of a credit in the 23/24 financial year. Brought forward budgets include \$1.8M for Lakeview Ancillary Brunswick Street retaining wall (scheduled for completion April 2023) and \$1.5M for CCTV Crime Prevention & Safety from years 4-10 in the ten year plan (Improvements to the Queenstown town centre's CCTV arrangements will be delivered through the current Kā Huanui a Tāhuna (Whakatipu Transport Programme Alliance) upgrade projects.

Options

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

Advantages:

- 20 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.

Disadvantages:

- 21 Changes to the timing, cost, and/or completion of some previously approved projects may be perceived as disadvantageous by the community and supply market.
- 22 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.

- 23 Option 2 Do not approve the changes (do nothing option)

Advantages:

- 24 None identified.

Disadvantages:

- 25 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.
- 26 Option 3 Approve only some of the changes to the 2022/23 proposed capital works programme.
- Advantages:*
- 27 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:*
- 28 As per option one, though potentially to a lesser extent depending on what projects are approved for reprioritisation.
- 29 This report recommends **Option 1** for addressing the matter.
- 30 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.

CONSULTATION PROCESS | HĀTEPE MATAPAKI:

> SIGNIFICANCE AND ENGAGEMENT | TE WHAKAMAHI I KĀ WHAKAARO HIRAKA

- 31 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.
- 32 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

- 33 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.
- 34 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

35 Approval of the recommended option will reduce planned 2022/23 capital expenditure to \$232.6M (a \$33.4M reduction from the existing adjusted Annual Plan budget of \$265.9M). Resulting deferrals and brought forward budgets will be reprogrammed within the 2023/24 Annual Plan process. Property & Infrastructure are leading this process (excluding Community/Corporate projects) which will propose a significant amount of deferrals from 23/24 to later years. 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 | NGĀ WHAKAAWEAWE ME NGĀ TIROHANGA A TE KAUNIHERA

36 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.

37 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

38 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,

39 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 | NGĀ TĀPIRIHANGA

A	Summary of Proposed Changes – December 2022 Capital Works Reforecast