

Title: Analysis of Capital Expenditure to 30 June 2018
Section: Finance & Affordability
Prepared by: Amanda O'Sullivan (Assistant Management Accountant)
Meeting Date: 11 October 2018

Legal Financial Significance = low

Report to FINANCE & AUDIT Committee for information

SUMMARY

This report is intended as a high level view of Council's capital expenditure for the year ending 30 June 2018.

The report includes commentary on:

- Capital projects approved as part of the 2015–2025 Long Term Plan.
- Capital projects that were not included or approved as part of the 2015–2025 Long Term Plan.
- Major projects.

Significant variances are discussed where costs are higher/lower than Annual Plan Budget.

The decisions or matters in this report are considered to be of **low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Finance & Audit Committee:

- 1. Notes the contents of this report.**

Authorised by:



Melanie Grant
Team Leader Management Accountant



Pauline Foreman
Chief Financial Officer

Keywords: capital expenditure, 2015–2025 LTP, capital variances, renewals, major projects

BACKGROUND

1. This report analyses the capital expenditure for 2017/18. It aims to highlight actual spends against what we were planning to do.
2. Timing issues due to resourcing or weather has seen many projects reprioritised throughout the year. These have been addressed through papers to Council notifying of the delays and requests to carry forward projects either from previous years to transferring to future years within the 2018–2028 Long Term Plan.

DISCUSSION

Trends

3. Over the last five years, Council has spent on average 70% of its total capital budget. This is comparable to results from other councils. The Office of the Auditor-General (OAG) stated in their “Local government: results” that most local authorities spend about 70% of what they budgeted. In the 2016/17 audit the OAG reported that the average increased to 78%.
4. For the year ending 30 June 2018 the total capital expenditure was \$30.5m against a budget of \$42m representing 73% of the budget.
5. The dialogue that follows will separate capital project spends into two parts. Part one discusses the application of capital funding by identifying whether the project is a renewal, an increased level of service or a growth based expenditure. Part two considers in more depth major and unplanned projects.

Part One: Overall Total Capital Expenditure

6. Table 1 shows what we spent against what we planned and gives an overall summary of results.
7. Table 2 is an extract taken from the Council Funding Impact Statement (FIS) which is included in the Annual Report. It shows comparisons to last year's results. Effectively, this statements shows what proportion of capital spend is applied to, either maintaining the existing assets, improving or growing the asset base. The FIS extract is where the OAG makes most of their comparisons of how Council performs.
8. It should be noted that Table 1 has been separated further to show major projects and unplanned projects. The Annual Report FIS does not allow this due to its prescriptive definitions.

Overall Total Capital Expenditure

	Actual 2018 \$000s	AP 2018 \$000s	variance	% APB vs Actuals
Renewals *	13,929	19,601	5,672	76%
Increased level of Service/Growth	2,261	5,540	3,280	32%
Major projects	11,801	16,885	5,084	71%
	27,990	42,026	14,036	69%
Unplanned projects - renewals	1,215	0	(1,215)	
Unplanned projects - Increased level of service/growth	1,350	0	(1,350)	
Total Capital Expenditure	30,555	42,026	11,471	73%

* Note: Refer to Appendix 1 to show the relationship and reconciliation of renewals between table 1 and table 2.

Table 1 – Total Capital Expenditure – Actuals against what was planned

Actual 2017 000's	AP 2017 000's		Actual 2018 000's	AP 2018 000's	Actual vs AP 2018 %
Applications of capital funding					
Capital expenditure					
102	284	- to meet additional demand	284	1,299	1%
6,247	12,202	- to improve level of service	12,914	16,357	42%
16,840	21,150	- to replace existing assets	17,357	24,370	57%
23,189	33,636	Total applications of capital funding (D)	30,555	42,026	100%

*Reference extract from Funding Impact Statement Council, Annual Report (page 142)

Table 2 – Funding Impact Statement for the year ended 30 June 2018

Renewals

9. Renewals are the replacement of existing assets, so that the level of service can be maintained. Table 3 shows the split between infrastructure assets and assets within other activities of Council.
10. Overall infrastructure achieved 77% of what was planned in renewals. However, this is an averaged total, and actuals results saw roading and water supply were close to plan (92% to 98%), with wastewater and stormwater significantly below what was planned at 33% and 21% respectively.
11. The wastewater pipeline renewals and Douglas Street stormwater improvements projects were identified at the start of Annual Plan 2017/18 as needing to be deferred and were incorporated within 2018–2028 Long Term Plan Year 1 (or 2018/19).

12. There are major projects which have a renewals component with spends of \$2,213k. These include the Waipaoa River Flood Control Scheme, Lawson Field Theatre and Redevelopment of the Olympic Pool. Table 5 indicates major project costs.

	Actual 2018 \$000s	AP 2018 \$000s	variance	% APB vs Actuals
Infrastructure				
Rivers, Land & Coastal	325	0	(325)	0%
Storm Water	320	1,511	1,191	21%
Solid Waste	85	108	23	79%
Tairāwhiti Roads	9,584	9,732	148	98%
Water Supply	1,019	1,102	83	92%
Waste Water	1,251	3,831	2,579	33%
	12,584	16,283	3,699	77%
Other				
Animal Control	33	0	(33)	0%
Arts & Culture	67	32	(35)	212%
Commercial Operations	236	242	6	98%
Emergency Management	0	236	236	0%
Environmental Services	88	89	1	99%
libraries	163	195	33	83%
Parking	18	0	(18)	0%
Parks & Open Spaces	1,010	1,372	362	74%
Support services	946	1,152	206	82%
	2,560	3,318	758	77%
Subtotal	15,144	19,601	4,457	77%
Major projects	2,213	4,769	2,556	46%
TOTAL	17,357	24,370	7,013	71%

Table 3 - Renewals "To Replace existing assets"

Increased Level of Service/Growth

13. The projects associated within this area are new projects or projects with a scope which increases levels of service. For instance, a paved walkway capital project would be considered as increasing the level of service if previously there had been no walkway.
14. Infrastructure achieved 39% of what was planned to increase levels of service. The main variance is from Tairāwhiti Roads which completed 35% of the planned program, where the Tauwhareparae Link Road project was put on hold early in 2017/18 as the cost of repair exceeded the budget of \$2m.
15. Other activities achieved 117% of what was planned, mostly due to increased external funding being received.

	Actual 2018 \$000s	AP 2018 \$000s	variance	% APB vs Actuals
Infrastructure				
Solid Waste	0	10	10	0%*
Storm Water	204	143	(61)	143%
Tairāwhiti Roads	1,208	3,410	(2,202)	35%
Waste Water	0	101	101	0%*
Water Supply	47	32	(15)	146%
	1,459	3,696	(2,167)	39%
Other				
Arts & Culture	232	0	(232)	0%*
Commercial Operations	179	0	(179)	0%*
Environmental Services	2	0	(2)	0%*
Parks & Open Spaces	994	852	(141)	117%
Pools	4	6	3	59%
Support services	741	985	245	75%
	2,151	1,844	(307)	117%
major projects	9,588	12,116	3,983	79%
TOTAL	13,198	17,656	1,509	75%

* Refer to Unplanned or reprioritised capital expenditure section for further details

Table 4 – Increased Level of Service/Growth

Part Two: Further Analysis of Major Projects and Unplanned Projects

Major Projects

16. Table 5 shows that \$11.8m of actual expenditure was achieved against \$16.9m Annual Plan. The main differences are due to the timing of when they were set in the 2015–2025 LTP, in particular Lawson Field Theatre, the Olympic Pool expansion project and walking and cycling projects. These projects were identified early as having to be re-phased and were incorporated into the 2018–2028 LTP.

Lawson Field Theatre – Reconstruction

17. The War Memorial Theatre Trust was successful in obtaining a \$1m grant from Eastland Community Trust towards the earthquake strengthening of the Lawson Field Theatre. Further fundraising is being undertaken by War Memorial Theatre Trust for the outstanding balance. The tender closed in April 2018 with work commencing in the 2018/19 financial year. Council has committed \$1.1m to the project through the 2018–2028 LTP.

Tairāwhiti Navigations

18. Council received funding from the Eastland Community Trust of \$1.12m. Total costs for 2017/18 were \$1.62m.

Libraries - HB Williams Memorial Library Expansion

19. The 2017/18 budget suggested expenditure of \$3.70m. This was reforecast to \$5.37m due primarily to slippage in the timeframe of delivery, meaning payments to construction contractors moved into the 2017/18. This is consistent with actual spend of \$5.15m.

Olympic Pool Upgrade

20. The Council preferred concept has been included in the 2018–2028 LTP. A total of \$21.6m will be completed between 2018–2021 with an additional \$6.9m between 2025–2026. Council have proposed to contribute \$5.65m with the remainder to come from external grant funding.

Waipāoa River Flood Control Scheme

21. Additional funding was approved by Council on 29 June 2017 (Report 17–285) to bring forward future funds into 2017/18 to allow for land purchases over one year instead of multiple years. Due to a delay in resource consents for the construction phase to proceed, approval by the Assets & Infrastructure Committee on 3 May 2018 (Report 18–214) to move \$600k into 2018/19 was granted.

Suburban & Township Upgrades

22. The 2017/18 budget was brought forward into 2016/17 for the Tokomaru Bay township upgrade. A Council directive to spend on township upgrades has been rectified in the 2018–2028 LTP.

Walking and Cycling

23. The actual spend was funded 100% from New Zealand Transport Agency. The Rutene Road cycleway \$1.8m has been reprioritised into 2018/19.

Wastewater Treatment Plant - Further Treatment

24. Total capital of \$132k was incurred towards further treatment options.

	Actual 2018 \$000s	AP 2018 \$000s	variance	% APB vs Actuals
Inner Harbour Redevelopment	1,729	1,550	(179)	112%
Lawson Field Theatre - Reconstruction	287	3,000	2,713	10%
Tairāwhiti Navigations Project	1,620	825	(795)	196%
Library - Building Expansion	5,158	3,704	(1,454)	139%
Redevelopment Of Olympic Pool Complex Phase 1 Ltp18-28	56	4,000	3,944	1%
Ruatoria Flood Protection - Provide A Means Of Halting/slowing Down Erosion	0	11	11	0%
Waipaoa River Flood Control Scheme Resilience Improvements	1,949	1,658	(291)	118%
Suburban & Township Upgrades	517	0	(517)	0%
Walking And Cycling (intersection And Route Safety Improvements)	353	1,870	1,517	19%
Wastewater Treatment Plant Further Treatment	132	267	135	49%
Grand Total	11,801	16,885	5,084	70%

Table 5 - Major Projects

Unplanned or Reprioritised Capital Expenditure

25. Unplanned capital expenditure for 2017/18 was \$2.6m, of which \$850k had external funding.
26. Tairāwhiti Roads Regional Economic Plan (100% funded by the Transport Agency) (\$324k); Parks and Open spaces East Coast Toilets (68% funded by Ministry of Business and Innovation and Employment) (\$295k), Arts & Culture Cook Landing Site (Department of Conservation) (\$232k) make up the external funding.
27. Within infrastructure the three waters funding was provided from unutilised funds from the Douglas Street project that was deferred into 2019/20 and reprioritised to include the improvements to the septage site at Te Araroa, replacement of the raw water pipeline in Waingake, the Turanganui River revetment and the Lloyd George Road stormwater upgrade.
28. Other unplanned projects include the Te Puia Service centre \$26k, the Ballance Street revitalisation \$61k, Awarua reconfiguration and security changes \$179k.
29. Appendix 2 captures details of all unplanned capital projects.

	Actual 2018 \$000s	AP 2018 \$000s	variance
Infrastructure			
Rivers, Land and Coastal	325	0	(325)
Storm Water	287	0	(287)
Tairawhiti Roads	325	0	(325)
Waste Water	174	0	(174)
Water Supply	326	0	(326)
	1,436	0	(1,436)
Other			
Animal Control	33	0	(33)
Arts & culture	232	0	(232)
Commercial Operations	179	0	(179)
Parks & Open Spaces	509	0	(509)
Parking	20	0	(20)
Pools	4	0	(4)
Support Services	152	0	(152)
	1,129	0	(1,129)
TOTAL	2,565	0	(2,565)

Table 6 - Unplanned Capital Projects

ASSESSMENT of SIGNIFICANCE

Criteria	This Report	The Process Overall
The effects on all or a large part of the Gisborne district	Low	Low
The effects on individuals or specific communities	Low	Low
The level or history of public interest in the matter or issue	Medium	Medium
Inconsistency with Council's current strategy and policy	Low	Low
Impacts on Council's delivery of its Financial Strategy and Long Term Plan.	Low	Low

30. The decisions or matters in this report are considered to be of **low** significance in accordance with Council's Significance and Engagement Policy.

COMMUNITY ENGAGEMENT

31. The projects have previously been consulted on in the 2015–2025 LTP and no further community engagement has been required for this report.

CONSIDERATIONS

Financial/Budget

32. The year to date total capital expenditure spend was \$30.5m against the Annual Plan Budget of \$42m (73%), including costs from unplanned projects.

Legal

33. There are no legal risks or obligations within this report.

NEXT STEPS

Date	Action/Milestone
January/February 2019	Incorporate Capital Expenditure report and analysis within the Governance work program, Interim and full year

APPENDICES

- Appendix 1 – Relationship and reconciliation of renewals between Table 1 and Table 2.
- Appendix 2 - Unplanned or Reprioritised Capital Projects undertaken in the 2017/18 financial year.