

Review of Capital Works Programme 2011/12

Purpose

The purpose of this report is to seek Auckland Transport Board approval to:

- 1) submit a revised 2011/12 capital project portfolio to Auckland Council's Strategy and Finance Committee to be programmed within the constraints of the available fiscal envelope; and
- 2) include the EMU procurement and associated Depot projects into the capital project Portfolio.

Executive Summary

In May 2011, a submission was made to Auckland Council outlining an overallocated capital project portfolio for 2011/12 based on previous project prioritisation work and the understanding of the available fiscal envelope at that time. This was used to inform Auckland Council's Annual Plan and identified the fiscal envelope of \$546m (\$395m AC; \$151m NZTA) and an overallocated project portfolio to \$600m. The concept of over programming was introduced to ensure that the annual and long term capital works are achieved in a more effective and reliable manner. It reflects that individual projects have uncertainty about timing and if the list of projects being worked on is the same as the expected capital spend, then the expected spend is unlikely to be achieved. This rationale was accepted by the AT Board and Auckland Council and was reflected in the respective planning documents.

Since May a number of changes have occurred which impact on the funding of the programme and the list of works within the programme. Those changes are:

- Less capital work was completed in the previous year and so some projects need to be added to the list (this does not impact on funding)
- Continuing evaluation of individual risks to project items indicates that the actual capital spend will be lower by \$50m and that projects should be added to the list to achieve the lower target (this has a favourable impact on funding required)
- AT has agreed in principle to a request to modify the Financial Assistance Rates (FAR) over the next 4 years to reduce NZTA subsidy in 2011/12 and 2012/13 and increase it in 2013/14 and 2014/15 (this has a negative impact on 2011/12 funding required from Council).
- Acquisition of EMUs have been agreed. This will increase funds required, which was identified and agreed through the process.

The net impact of these is to expand the list of capital works to \$670m excluding EMUs with a spend target of \$496m. Subsidy from NZTA will be \$50m less, to be made up in future years, and funding from Council will be within the expected Council funding envelope due to the lower capital spend. EMU spending is expected to add \$110m or \$190m, depending on where KRG FX exposure and incurred costs reside.

While the total over-allocated capital project portfolio at \$670m is substantially larger than the \$496m fiscal envelope the identified risks are large and many of the higher priority projects are not ready to implement and as such will be programmed back in time. This will effectively constrain spend to within the fiscal envelope and we remain confident that the capital programme available for delivery can be achieved within the fiscal envelope.

Original Fiscal Envelope 2011/12

The available fiscal envelope for capital projects comprises principally of two funding sources:

- Capital funding from Auckland Council
- Balance of the three year Government Policy Statement (GPS) funding from New Zealand Transport Agency (NZTA)

In May 2011 the initial assessment of capital project funding and therefore the available fiscal envelope for 2011/12 comprised:

Funding Source	Budget (Range)	Initial Assessment
Auckland Council	\$366m - \$406m	\$395m
NZTA	\$140m - \$180m	\$151m
Total	\$546m	\$546m

The key determinants for the total fiscal envelope are the availability of NZTA subsidy and mix of projects to deliver.

Funding approval from NZTA was expected to range between \$140m and \$180m for 2011/12 with an initial assessment of \$151m. The Auckland Council share was expected to range between \$366m to \$405m depending on NZTA share, with the initial assessment being \$395m.

NZTA Funding Assistance Rate Variance

The AT Board has recently agreed in principle a proposal to amend the Financial Assistance Rate for transport activities over the period 2011/12 to 2014/15 to effectively defer NZTA subsidy from the current NLTP to be drawn from future year NLTP. This will allow projects to progress now which otherwise would have been delayed without NZTA subsidy. The implication of this, for the 2011/12 financial year is a decrease in the level of NZTA subsidy to Auckland Transport of \$50m for renewals and \$50m for the capital works programme over 2 years. At this stage we are working on the basis that the support will be even between the 2 years but shifts between the years would be able to be accommodated as the cost of funds is built into the Assistance Rates proposal. This shortfall in subsidy of \$100m will be reimbursed in future funding years, but would need to be provided by Auckland Council in the 2011/12 and 2012/13 year within the Auckland Council fiscal envelope.

Following the Board decision, and in conjunction with the continuing review and monitoring of the Capital programme risks, staff have concluded that a revised capital spend of \$496 is a more realistic level and enables the deferral of \$50m subsidy to future years to be accommodated within the current AC funding envelope. Allowing the commencement of subsidised projects will effectively prime the 2012/13 programme through completion of design and land acquisition processes, giving greater certainty around construction delivery in future years.

The revised fiscal envelope following this adjustment is therefore:

Funding Source	Budget (Range)	Current Assessment
Auckland Council	\$366m - \$406m	\$395m
NZTA	\$90m - \$130m	\$101m
Total	\$496m	\$496m

EMU Procurement and Depot

The EMU procurement and associated depot projects are progressing with significant procurement milestones on each project being achieved in September. The current expenditure forecast suggests that the total spend for both projects in 2011/12 will be approximately \$190m. It is anticipated that these projects will be funded from outside the fiscal envelope of \$496m identified above.

Allowing for these projects extends the 2011/12 capital funding requirement to \$636m as detailed below:

Funding Source	Budget (Range)	Current Assessment
Auckland Council	\$366m - \$406m	\$395m
NZTA	\$90m - \$130m	\$101m
EMU & Depot		\$110m to \$190m
Total	\$496m	\$606 to \$686m

Annual Plan

Auckland Transport's funding requirements are a significant element of Auckland Council's 2011/12 Annual Plan. A submission was made to Auckland Council during May 2011 outlining an overallocated project portfolio based on previous project prioritisation work and the understanding of the fiscal envelope at that time. A total capital portfolio incorporating property acquisition of \$600 million was submitted, which included an element of overallocation. This overallocation gives Auckland Transport flexibility to pursue additional projects of high priority, if funding or delivery impediments arose for some projects in accordance with the prioritised overallocated portfolio of projects. Note that the prioritisation mechanism adopted is that having been previously endorsed by the Board. The category totals are detailed below:

Project Category	Total Planned Budget (\$000)
Total Capex Projects \$1m and over	372,202
Total Capex Projects under \$1m	27,979
Total Renewal Projects	199,954
Total	600,135

A number of changes have occurred since submitting the 2011/12 capex programme to Auckland Council in May, including identification of the projects not completed in 2010/11, projected project spend profiles, and the assessment of the risk of delivery of some projects in the programme.

These changes have led us to recommend that the capex programme be further over allocated to include a wider number of projects to increase the likelihood that Auckland Transport will be able to fully utilise the funding available to it, in order to achieve transport objectives.

It is proposed that the over allocated project portfolio be expanded to a total conservative value of \$670m, based on the inclusion of projects from 2010/11 and our assessment of the projected spend profile. The revised fiscal envelope of \$496m will be retained and actual expenditure against the fiscal envelope will be monitored, and the risk adjusted programme managed within the fiscal envelope.

The schedule of additional over allocated projects and reforecast project budgets are included in Attachment 1. It is proposed that this revised over allocated project portfolio be submitted to Auckland Council's Strategy and Finance Committee meeting for approval effectively identifying the projects which AT is permitted to progress to optimise transport outcomes within the constraints of the fiscal envelope. Note that these projects are based on the prioritisation process previously approved by the Board.

The most significant implication of this adjustment is that AMETI Package 1 (Phase 1) including land acquisition will be identified for funding in 2011/12. This results from other priority projects being programmed later due to risks such as property and Resource Management Act constraints.

Next Steps / Key Issues

The Auckland Council has included an expectation into the Funding Agreement with Auckland Transport that Auckland Transport will seek Auckland Council's agreement to changes in the capital programme. To adopt the revised overallocated project portfolio it is therefore a requirement to submit it to the Auckland Council's Strategy and Finance meeting in October 2011 for approval.

Recommendation

It is recommended that the Auckland Transport Board:

- i). Receives this report
- ii). Approves the revised overallocated project portfolio being submitted to Auckland Council’s Strategy and Finance Committee meeting for approval, noting that total expenditure will be managed within the available fiscal envelope
- iii). Approves the inclusion of the EMU procurement and associated Depot projects into the capital programme

Attachment

Attachment 1 – Schedule of Additional Over-Allocated Project and Reforecast Project Budgets.

WRITTEN BY	Name : Andy Finch Title : Asset Management and Programming Manager	
RECOMMENDED by	Name : David Foster Title : Chief Finance Officer	
RECOMMENDED by	Name : Dr Kevin Doherty Title : Chief Infrastructure Officer	
APPROVED FOR SUBMISSION by	Name : Dr David Warburton Title : Chief Executive	