

Capital Achievability Statement

Council is very aware of the historical capital expenditure deficit that arises from having an overly ambitious capital programme that is further impacted by carrying forward incomplete work at year end.

Over the last eighteen months the IAM team has been working towards a new model of capital planning and delivery. In 2019-20 it was recognised that if the planning for capital works didn't change, then we would continue on the downhill slope of non-achievement. It was also recognised that the work that needed to be done BEFORE a project could commence needed to be factored into the operational budgets as the lack of planning at this point was a major contributor to delays.

A slide deck was put together for a Council workshop and the information below has been extracted from that information to provide background support for the process change Council has been through.

Planning and Delivery – 2019-20

2018/19 capital budgets

- Total for the year:

LTP year 1	\$62,478,567
Carry forwards	\$ 8,861,644
Total budget	\$71,340,211
- Total individual projects of 350+
- The Capital Works Programme in Years 1 – 3 of the LTP 18/28 does not accurately reflect deliverable projects supported by robust planning
- Very few projects have Indicative Business Cases
- Project Budgets seem to be overly optimistic around when they can be achieved
- Project Budgets don't include enough contingency to reflect the level of uncertainty / unknown scope of works

High level road map

- The planning line is the work that needs to be completed PRIOR to the project moving to the delivery team (develop IBC to better inform cost and duration of effort required e.g define the need for investment, confirm asset condition, high level scope of work, options, indicative costs, identify high level project cost breakdown, RMA/Legal, consultation and engagement approach)
- In each year are the break points for completing delivery
 - Detail planning needed by 1 November if the project is going to commence in year.
 - This is a good practice approach of up front planning with strict cut off dates

What does this mean?

- We keep putting values into the plan without any real idea what they are for (an IBC)
- If we don't break the cycle now – nothing will change
- Delivery will continue to be compromised due to a lack of planning - always playing catch up to understand what it is the Capital Delivery Team are required to deliver??
- Projects will continue to be underfunded/ resourced
- Carry forwards will continue to be high year on year

Recommendations

Undertake a Business Process Re-Engineering (BPR) exercise to identify an Organisational approach to manage this cross-departmental change.

Appoint a Business Analyst / Project Planner in PMO / IAM: This resource works closely with subject matter experts, Finance, managers and leads, to help plan and co-ordinate the initiation of major organisational projects efficiently prior to LTP inclusion.

Done

Appoint a Project Coordinator in the Capital Delivery Team to manage the administrative tasks, such as document and information distribution, report collation and communication support. This role would act as link to LTP / Finance / PMO process.

Done

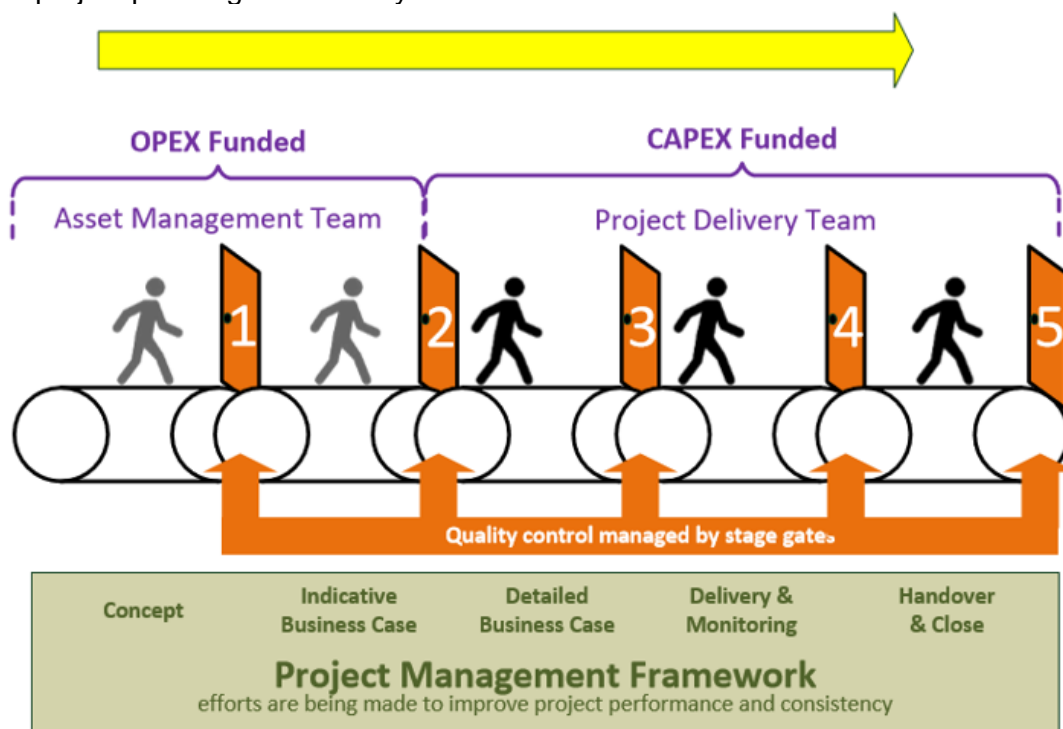
Continue Implementation of project management framework with clear lines of responsibilities and accountability. This will require a culture change in how FNDC delivers Capital programme.

Done

Structural change to an asset condition-based renewals/ LOS programme opposed to current financial depreciation model. Benefit in supplier's confidence, minimised risk and a valued client from an external supplier perspective resulting in cost reduction.

In progress

The move towards a stage gate approach was taken and this has been regularly discussed with Elected Members. The diagram below outlines the process that has now been adopted for project planning and delivery.



Outcomes

Clearly identifying where the project is in relation to the project management framework.

Stage gates identified and ensuring all boxes have the right labels, instructions, and parts before they transition to next stage in framework.

Benefits is a more informed and achievable LTP capital programme.

At the same time, Council understood that it didn't necessarily know the condition of the assets it was trying to plan to renew and acknowledged the fact that reliance on the financial information generated by the fixed asset register was not the ideal basis for modelling future asset renewal information.

Work commenced to develop an asset management system, and this soon developed into Programme Darwin as it was recognised that a system to manage asset information was only part of the puzzle.

Programme Darwin

Programme Darwin is about evolving asset management so that Council has an enterprise-wide view (ie. from strategy to operation) of how we manage the assets we own. The intention of Programme Darwin is to move Council from reactive asset management and into proactive asset management. This will be done by:

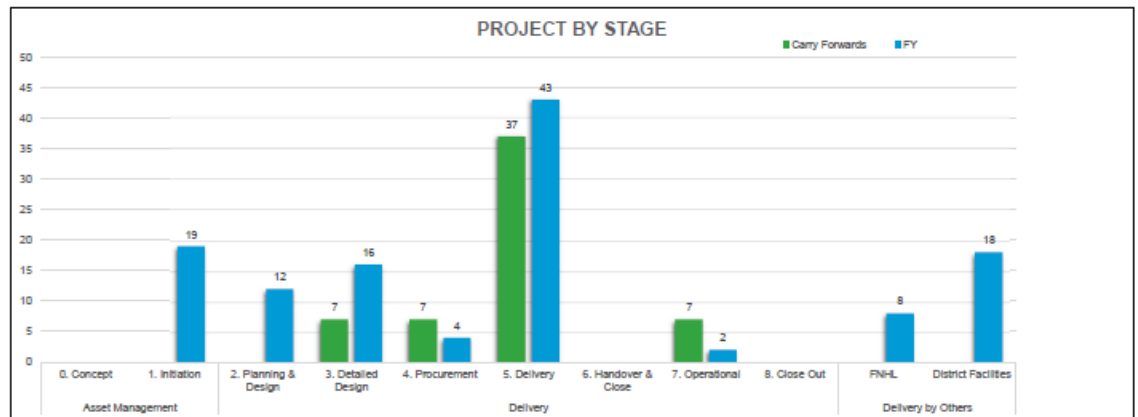
- Implementing an asset management system that will integrate with our other core systems
- Analysing the data in the system to provide better information to decision makers so that we make the best financial decisions and ensure better outcomes for our communities
- Having an asset condition programme, so our assets are regularly inspected, and we know how our assets are functioning at any point in time
- Delivering a Living Asset Management Plan which is easy to navigate, uses real time data and informs the plans for our assets
- Establishing an enterprise management culture, where roles and responsibilities regarding assets are clear across the organisation.

As work commenced on the 2021-31 LTP, the IAM department developed a series of workshops with the Elected Members that reviewed capital work plans across all functional areas (District Facilities, Solid Waste, Water, Wastewater, Roading, Stormwater)

A concept register was developed, and the asset managers worked to prioritise plans for the work that was needed, using the condition information that was to hand. This provided a basis for the elected members to decide which projects had to be done and that if they were different to those recommended by the asset managers, what could be done to accommodate the changes. It was made very clear that there would be a \$\$ limit applied to core infrastructure capital (this excluded areas such as Corporate services etc) in order to ensure that the plan was deliverable.

At the start of the 2020-21 financial year, the project delivery team were able to commence work earlier than ever before as the upfront planning and scoping, as per the stage gates, had been done and the projects were in a "go ready" state. This has resulted in better performance as indicated below:

PROJECT DELIVERY REPORT - DECEMBER 2020



Capital Spend Analysis

as at 31-Dec-2020

	YTD (\$000's)	Full Year (\$000's)						
LTP Group	YTD Actual	Commitments	Total Annual Budget	Actual vs Budget %	Total Annual Forecast	Actual vs Forecast %	Actual + commitment s vs budget	Actual + commitments vs forecast
District Facilities	1,785	2,095	13,392	13.3%	12,967	13.8%	29.0%	29.9%
Wastewater	3,141	3,125	11,696	26.9%	11,552	27.2%	53.6%	54.2%
Water Supply	230	1,597	6,549	3.5%	8,675	2.6%	27.9%	21.1%
Stormwater	795	101	1,844	43.1%	1,636	48.6%	48.6%	54.8%
Solid Waste	16	80	421	3.8%	421	3.8%	22.8%	22.8%
Project Delivery Team Subtotal	5,966	6,998	33,903	17.6%	35,251	16.9%	38.2%	36.8%
Roading & Footpaths	14,389	22,595	45,362	31.7%	42,464	33.9%	81.5%	87.1%
IAM Total	20,355	29,593	79,265	25.7%	77,716	26.2%	63.0%	64.3%
Environmental Management	518	956	1,182	43.8%	1,471	35.2%	124.8%	100.2%
Governance & Strategic Administration	2,177	918	4,286	50.8%	4,357	50.0%	72.2%	71.0%
Customer Services	394	56	1,467	26.8%	1,557	25.3%	30.7%	28.9%
Strategic Planning	0	0	0	0.0%	40	0.0%	0.0%	0.0%
Other Total	3,089	1,930	6,934	44.5%	7,424	41.6%	72.4%	67.6%
Sub Total	23,444	31,523	86,199	27.2%	85,140	27.5%	63.8%	64.6%

This report shows that at the end of December, 64.3% of capital works forecast for the year were “in flight” and a significant number of projects were in the final stages of planning to allow delivery to commence. This is a greater percentage than was achieved overall in any of the last three financial years. Careful monitoring of the projects is taking place and whilst it is understood that projects will always be inflight at year end, it is anticipated that this will be much lower, in relation to core infrastructure, than in previous years.

Condition Assessments and Capacity Modelling

Council clearly understands that the condition and capacity of the assets is key to achieving better outcomes for the community. A programme of condition assessments has been put in place and funding of \$1.6m for this work is planned over a number of years to ensure that current and future decisions are based on asset condition and not simply age as in the past.

Work has also been commenced to establish the capacity of key strategic assets to inform the future requirements for development contributions. Using the data from .iD, the work has been prioritised to review the current areas of growth along the East Coast of the Far North. This work will enable the asset management team to determine growth work requirements and provide the necessary

information for Council to re-activate the Development Contribution policy, which is currently suspended.

Response to Audit questions:

a. Impacts on the cost of capital expenditure due to project timing delays

Not considered as part of developing the capital programme, but efforts were taken to make the overall programme more “deliverable” to reduce systemic programme delays. Mostly in raising awareness with Council of the limited ability of organisation and the market to deliver and to ramp up delivery instantaneously.

b. Impacts on the funding sources with the focus being on the borrowings due to delays in Capex delivery

Delays to the delivery of Major and Externally Funded Projects and the potential funding implications for external fund sources were considered a risk for that programme and treatments have been identified for those separately from projects that are ultimately rates/loan funded. We are aware when building the programme of the impact of a delay to capital delivery means increasing (potentially the amount that are loan funded) the duration over which the funding is loaned and therefore incurring greater interest before servicing the loan and interest via rates. Again, emphasis was placed on developing a deliverable programme to reduce the systemic likelihood of this. Other measures have also been taken to shore up deliverability consistency through standard process and practices through the Project Management Framework.

c. Impacts on operational expenditure such as maintenance, where there is an increased asset breakage or failure due to age of assets

Due to our renewals programme being slower to deliver on what is currently perceived to be a ‘bow wave’ of overdue renewals. The bow waves is primarily based on accounting asset-life and not asset condition and so is not a proven renewals need in all cases and remains an assumption. Unplanned renewals capital may need to be higher in the first three years, as renewals programme is ramped up to account for conditional assessments. The existing maintenance and operations budgets align with the status quo, and while there may be spikes to this, over time they will reduce as the renewals programme is undertaken.

d. How the Council will consider the impacts of delays on future CAPEX work programmes.

An area of focus that needs to be considered by Management in terms of planning priorities as we improve asset management and capital planning.

Draft Council Mark assessment (Extract from draft report – grading yet to be confirmed)

Delivering what’s important

Service delivery and asset management

Council has made significant investments in new systems and capability across its asset management and service delivery functions. Now, attention must move to ensure it consistently delivers against service level expectations.

Delivering what’s important

Priority grading

Competent

“Council has made huge progress in the last three years to improve its asset management and service delivery performance.”

Service delivery and asset

Aligning services with vision and strategy

Council's core service delivery and asset management plans are broadly linked to vision and strategy, and these are explained in public documents. However, the long-term strategy is being re-thought as part of FN2100, and significant asset planning and major infrastructure improvements are underway or planned. Consequently, refinements will be required to ensure Council's new strategic direction, asset planning and delivery of core services is explicitly aligned in the future. Council is committed to developing its long-term strategy, and associated infrastructure improvement programmes, in consultation with the community in a transparent manner. Council recognises it is operating in a challenging environment, which has been further complicated by recent drought and flooding emergencies, and the COVID-19 outbreak. Some difficult trade-offs will be required, as Council considers long-term strategy, levels of service and affordability.

Service levels and quality

Council has a comprehensive set of service levels and service level measures covering quality, timelines, value and key deliverables. These are determined in consultation with the community, during the long-term planning process.

Road condition is benchmarked to a peer group of councils via the Road Efficiency Group (REG). Similarly, Council's performance against Resource Management Act (RMA) and Building Act timelines are benchmarked.

Historically, Council has not performed well against its Key Performance Indicators (KPIs). There has been some improvement in recent years, but external factors including COVID-19 and the drought have adversely affected performance in 2020, especially in terms of response times. While overall customer satisfaction levels (as measured by the latest community survey) show some improvement, they remain stubbornly low, although with significant variability across individual functions. This presents a communications challenge for Council: to tell the improvement 'story' as progress is made.

Management of water and roading assets

Asset management plans are in place for three waters, transport and communities. These were developed in 2015, and they are aligned with previous visions and strategies.

Council acknowledges that their Asset Management Plans (AMPs) need to be improved to address weaknesses and ensure they are aligned with emerging strategy. Transport asset management is working well, but other areas are still developing.

Programme Darwin has been instigated to address weaknesses in asset management of three waters and community facilities. Significant progress has already been made to provide a solid foundation for long-term planning and decision-making. Longer-term risks such as the effects of changing climate, rising national freshwater standards and the expectations of iwi around access to resources are all being considered within the work underway.

All asset classes are maintained and monitored in accordance with the KPIs in existing AMPs. However, many of the KPIs have not been consistently met in recent years (especially requests for service timelines). Performance has been further impacted in 2020 due to the effects of significant external events.

All water supply facilities meet national standards, but restrictions necessitated by the recent drought exposed resilience issues that need to be addressed. Wastewater treatment plants have compliance problems from time to time. Nine existing wastewater consents have either expired or will do so before 2024.