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# November 2015 Budget Realignment

## Recommendation

That the Board:

i) Receives this report.

## Operating Expenditure

This report discusses the budget realignment of operating expenditure and the capital programme for 2015/16.

A number of factors have needed to be accommodated since original budgets were set. The only required changes to outputs for the year as a result of the proposed changes are positive; additional PT patronage is being achieved and some additional work will be delivered.

Considerable savings will need to be achieved within AT to absorb cost increases and revenue reductions and deliver the same net result for the year.

An initial set of factors totalling almost $14.5 million has been managed within the business through savings or additional revenue. A table of required changes is included as Attachment 1.

Changes to budget have arisen from three factors:

1) Additional outputs being delivered
    - Growing rail patronage has increased fare box recovery and has also increased the consequential operating cost (e.g. additional six car units in use)
    - The establishment of a joint venture between AT, AC and the NZ Transport Agency (JMAC), and the Auckland Transport Alignment Project (ATAP) required additional resources
2) Issues with the original budget needed to be addressed
    - Adjustment to the EMU interest budget
    - Staff recoveries adjustment
    - Some consequential opex on previous projects, particularly Business Technology

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Changes have occurred since the original budget

- Parking revenue initiatives identified as unachievable this year due to the delay in completion of their enabling capital work
- Release of some Light Rail operating budget
- Savings have been achieved in public transport
- Better than expected property rental receipts

Reporting against the new budget will occur from 1 January 2016.

Other consequential changes are:

- **Changes to Transport Agency revenue:** Operating co-investment is down by $2.3 million resulting from delayed drawdown of EMU loans, and a reassessment of the Transport Agency revenue budget
- **Vested Assets income:** Increase of $16 million for assets vested to AT

# Mid-Year Review Capital

The mid-year refresh proposes to return some ring fenced funding to AC that will not be required this year. It also proposes to accelerate a number of items on the three year plan to ensure more of the LTP work programme is construction-ready earlier. There are some consequential changes to other projects which do not have a material impact on budget or delivery. The net change is from an original budget of $620 million to a revised $608 million. Transport Agency co-investment reduces by $17 million due largely to an increased portion of property. AC's funding requirement increased by $4 million.

## Ring-fenced funding

AC has ring-fenced some projects. These include Local Board projects, CRL, EMUs and the Growth and Infrastructure Fund (GIF) (for infrastructure associated with new housing areas).

AC has yet to identify specific initiatives associated with the GIF. The GIF has $35 million pa allocated over the next three years. If AC were to identify areas requiring new infrastructure now, it would be difficult to be through an approval and procurement process and incurring significant design spending prior to 30 June. It is proposed to move the bulk of this money into future years.

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CRL had a budget of $113 million this year covering further property purchases, design, the pipe jack contract and the commencement of enabling work. Delivery against the programme is on track, however, the likely cost for property purchases in the current year will be lower than originally forecast. It is proposed to reduce the property budget by $34 million.

## Remaining Programme

Last year AT addressed the shortfall at mid-year by accelerating some projects and initiating some new ones. Otahuhu bus interchange and Parnell Station are examples of projects not in the original 2014/15 budget that were brought forward this time last year. Last year was the final year of the previous LTP.

Part of the reason for the slow start to 2015/16 has been the uncertainty around the Basic programme versus Auckland Plan network inherent in the LTP debate. Now this is settled, AT needs to shift its focus to delivering a three year programme. That is, to ensure AT optimises the benefits from the capital programme AT needs to move from a somewhat stop/start process built around financial years and AC processes, to having the entire programme design or construction ready.

In the event the Auckland Transport Alignment Project delivers additional funding, AT needs to be ready to deliver key projects. AT has delivered a $730 million programme of work over the past two years. The under-spend to date and revised $607 million programme for 2015/16 does not reflect capacity issues within AT.

Accordingly it is proposed to prioritise the following projects:

### AMETI

The budget for AMETI over the three years of the LTP is broadly $10 million, $20 million, and $30 million. This allows very little progress in any one year or altogether. Subject to Board approval of the revised programme it is proposed to bring forward the approved programme, starting with detailed design for Stage 2A, Panmure to Botany busway. This will have very little impact on this year or next given the focus will be on consenting and design. Some property purchases will be required.

### East/ West Connections

A separate paper is included in the Board agenda on East/ West Connections. This paper proposes that AT commences delivery of the elements of this programme for which AT is responsible. A small amount of additional design spending is proposed this year.

### Rosedale Road Bus Station

The Transport Agency has indicated they intend to begin design of the Northern Busway extension on the eastern side of SH1 beyond Constellation Drive. This will entail a new busway station at Rosedale Road. AT will begin work on this now to align with the Transport Agency's programme.

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**Tamaki/ Ngapipi Intersection**

The original LTP had this work in years two and three. This work will begin immediately, incurring $650,000 this year.

**Murphy's Road Bridge**

It is intended to start design this year to enable earlier delivery of this project. The budget this year will increase from $309,000 to $909,000.

**Warkworth Western Collector (Stage 1)**

This project will help address congestion issues at Warkworth especially around the State Highway/Hill Street intersection. An additional $1 million brought forward from 2016/17 will enable construction to commence earlier than envisaged in the LTP.

### Other consequential changes

The realignment provides the opportunity to assess likely progress on project delivery and align this with the annual budget. There is no intention to accelerate or slow down projects to achieve a budgetary outcome in 2015/16; the focus is on the optimal delivery of the three year programme.

Some changes include:

- Lower than expected outturn for the Otahuhu and Manukau bus interchanges
- Earlier delivery of the Albany highway project
- The LTP budget under-estimated the amount of land purchases required this year
- An additional $1 million into each of PT security and bus infrastructure
- Acceleration of the LED lighting programme to enable earlier achievement of savings
- Development of the new pier at the Down Town Ferry Terminal

## Attachment

| Attachment Number | Description |
|---|---|
| 1 | Operating Funding shortfall analysis – Schedule of changes |

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# Document ownership

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|---|---|---|
| **Submitted by** | Fiona Rees<br>**Financial Planning Accountant** | |
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| **Approved for submission** | David Warburton<br>**Chief Executive** | |

# Glossary

| Acronym | Description |
|---|---|
| AC | Auckland Council |
| AT | Auckland Transport |
| GIF | Growth and Infrastructure Fund |

**ATTACHMENT 1**

## Operating Funding shortfall analysis – Schedule of changes

| | $000 |
|---|---|
| **Cost increases:** | |
| BT current commitments, upcoming contracts and consequential opex | 1,600 |
| Auckland Transport Alignment Project (ATAP) | 600 |
| JMAC Project | 400 |
| Rail: CAF cost increase to provide for revenue achievement bonus, higher than budgeted EMU electricity operating cost; unbudgeted security cost for retired DMU's | 1,896 |
| Bus: Increase in SuperGold cost $1.1 million, offset by saving in Leasing and Repairs & Maintenance costs | 607 |
| Reversal of previous requirement to reduce analytical ability post LTP / RLTP | 2,581 |
| 2015 Remuneration round | 1,500 |
| Staff cost recoveries adjustment | 1,900 |
| Consequential opex on other Capital | 756 |
| | 11,839 |
| **Revenue reduction:** | |
| Transport Agency subsidies for EMU interest and principal, reduction partly due to delayed drawdown of loans | 1,529 |
| Delayed start of the Parking revenue initiatives due to the capital work necessary to set these up not yet completed and AT HOP card price delay from the budgeted date | 1,135 |
| | 2,664 |
| **Total Operating Funding Shortfall** | **14,503** |
| **Savings found:** | |
| Ferry: As the Transport Agency are no longer funding the CFS for Devonport and Waiheke, AT has cut the rates in half across these services, thus reduced the Senior, Child and Tertiary CFS cost. The new cleaning contract has generated savings across the wharves | 955 |
| Release of Light Rail budget to reflect appointment of PTA. Equivalent budget may need to be found for next year | 5,696 |
| Bus cost savings | 3,000 |
| Revenue increase from better than expected rental receipts from properties | 1,794 |
| Rail Patronage and fare box revenues tracking ahead of budget | 1,753 |
| Other operational and internal support savings | 1,305 |
| **Total savings found** | **14,503** |