



Meeting of the Corporate and Strategic Committee

LATE ITEMS

Date: Wednesday 5 June 2019
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

ITEM	SUBJECT	PAGE
Information or Performance Monitoring		
13.	Requests to carry forward Capital Expenditure from 2018-19 to 2019-20	3

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 05 June 2019

**Subject: REQUESTS TO CARRY FORWARD CAPITAL EXPENDITURE FROM
2018-19 TO 2019-20**

Item 13

Process

1. All capital expenditure adopted within the LTP (years 1-3 in particular) was supported by business cases which were presented to, and discussed with Council during the workshop development of the LTP. Original LTP business cases are available if requested.
2. More detailed project planning is then completed post adoption of the Long Term Plan which accounts for any other operational impacts which have arisen. These include any changes in the organisations priorities, which could impact timing, and resources available to carry out the project (both capability and capacity).
3. The Project Management Office (PMO) was formed to provide and roll out a consistent approach to project management across the organisation to enable consolidated reporting of project activity, and to provide training and best practice for all staff managing projects. The creation of the PMO was not intended to fully de-centralise project management.
4. A number of factors impacted the ability to complete planned capital expenditure and project work in 2018-19; these are detailed in the table below. From a project management point of view, regular reporting to Council via the PMO pilot status reporting has strongly signalled (via red status reports) an inability to meet planned project spend deadlines. This has also been supported by reporting as a risk, the Councils inability to recruit and replace highly sought technical staff, namely within the Engineering space in 2018-19. This has been a common issue for the sector both locally and nationally, with the result being larger than usually capex carry forwards required. Lastly the organisational restructure which took place last year took longer to bed down than expected, with many staff transitioning into new roles which required policy and process development and at times upskilling and re-training.
5. A greater focus will also be put on financial forecasting and monitoring internal ability to deliver on planned projects in the coming 2019-20 year. This will be aided by the implementation of a new Financial Management Information System which will provide greater functionality to manage both opex and capex on a 'rolling forecast' basis. This will provide a full year estimate at any given time during the financial year and improved reporting which is provided to Councillors periodically. There is certainly room for improvement in forecasting the timing of project deliverables including applying weightings to potential external factors (ie – dependency on external funding, resourcing, incident response, unplanned issues and priorities etc).

Total Capital Expenditure	Original Year 2 LTP	Carried Forward Year 1 LTP	Deferred From LTP Year 2	Total Capex Inc C/Forward	Commentary
Ngaruroro Water Investment (Regional Freshwater Security)	\$ 1,666,000	\$ 1,420,000		\$ 3,086,000	Expected to be matched by Provincial Growth Funding - Wasn't included as Capex in the LTP as allocation of funding was assumed as capex (grants / feasibility etc). Used to leverage central government funding
IT Infrastructure Refresh		\$ 610,000		\$ 610,000	Delayed spend on software solutions - focus on process, capability and business readiness.
Regional Groundwater Research	\$ 575,000	\$ 430,000		\$ 1,005,000	Lack of resource to manage and execute project
Heretaunga Plains Flood & River Control	\$ 1,359,000	\$ 183,000		\$ 1,542,000	Lack of resource to manage and execute project
Bus Service Ticketing System		\$ 154,000		\$ 154,000	Reliant on NZTA - external factors
Data Warehousing		\$ 70,000		\$ 70,000	See IT Infrastructure Refresh
Regional Cycling Project	\$ 145,000	\$ 60,000		\$ 205,000	Largely offset by Territorial Authority Grants
Software & Enhancement Projects	\$ 1,230,000			\$ 1,230,000	
- IRIS Phase 2		\$ 520,000		\$ 520,000	Delay in delivery of phase 1 has impacted timing of phase 2
- Executive Performance Management Tool		\$ 330,000		\$ 330,000	New hire in this role, impact of restructure took longer to bed down than expected
- Environmental Data Management System		\$ 175,000		\$ 175,000	Delays caused by organisational changes
- Customer Relationship Management Tool		\$ 75,000		\$ 75,000	Currently delivering phase 1, organisation was not ready for implementation any earlier
Buildings	\$ 2,000,000	\$ -	-\$ 2,000,000	\$ -	Mechanical Services - planned maintenance spend - deferred
Investment Activities (Forrestry)	\$ 211,000			\$ 211,000	
Integrated Catchment Activities	\$ 1,657,000			\$ 1,657,000	
Sustainable Homes	\$ 2,219,000			\$ 2,219,000	
MV & plant	\$ 781,000			\$ 781,000	
Office Furn & Equip	\$ 25,000			\$ 25,000	
Tech & Science Equip	\$ 1,156,000			\$ 1,156,000	
Infrastructure Assets	\$ 3,584,000			\$ 3,584,000	
				\$ -	
Excluding Ngaruroro Water Investment	\$ 14,942,000	\$ 2,607,000	-\$ 2,000,000	\$ 15,549,000	
Including Ngaruroro Water Investment	\$ 16,608,000	\$ 4,027,000	-\$ 2,000,000	\$ 18,635,000	

2019-20 Requested Capex Carry Forwards

- The Executive Team have, when considering whether to request the carry forwards to expenditure, given consideration to factors such as resourcing, delays in funding approvals etc, with the expectation that planned work can and now will take place in the 2019-20 year.
- A significant amount (approx \$1.4m) of the total carry forward relates to Ngaruroro Water Investment (Regional Freshwater Security). This was not originally budgeted as a capex item due to the uncertainty of the allocation of funds i.e. grant funding/feasibility. Staff are requesting the carry forward of \$1.4m to leverage as co-funding for the PGF application.
- Of the total requested to carry forward, a significant amount (approx \$1.4m) reflects IT project work or spend. With the recruitment of a new IT Manager this year a conscious decision to slow down the implementation of IT software solutions was made. Traditionally, the feedback from within the organisation was that the IT Department had a tendency to deliver software solutions that the business either did not want or was not ready for. A full review of the approach to IT transformation has taken place, and greater priority has been placed on ensuring the organisation has the correct processes, resources and disciplines in place to warrant or benefit from system implementation before work begins. This should ensure that as projects are initiated, spend is reduced due to the organisation being ready and that up-take of solutions is optimised.

9. Total capex requested to carry forward to 2019-20 is \$4,027,000.

Proposed Carry Forwards CAPITAL		Expenditure
8.1	Ngaruroro Water Investment (Regional Freshwater Security)	(\$1,420,000)
8.2	IT Infrastructure Refresh	(\$610,000)
8.3	IRIS Resource Management System Phase 2	(\$520,000)
8.4	Regional Groundwater Research	(\$430,000)
8.5	Executive Performance Management Tool	(\$330,000)
8.6	Heretaunga Plains Flood and River Control	(\$183,000)
8.7	Environmental Data Management System	(\$175,000)
8.8	Bus Service Ticketing System	(\$154,000)
8.9	Customer Relationship Management (CRM)	(\$75,000)
8.10	Data Warehousing	(\$70,000)
8.11	Regional Cycling Project	(\$60,000)
TOTAL CAPITAL		(\$4,027,000)

Ngaruroro Water Investment (Regional Freshwater Security)

10. Seek a total of \$1,420,000 to be carried forward from the 2018-19 Regional Income budget for the Ngaruroro Water Investment 995 to 2019-20.
11. Staff have spent a considerable amount of time and effort attempting to secure Provincial Growth Fund (PGF) funding for a programme of work that aligns with the objectives of the council-approved Regional Freshwater Security Policy. Although we anticipate a favourable outcome with the PGF, we are still waiting on formal confirmation. That being the case we have not progressed the work programme apart from initiating pre-feasibility work on Managed Aquifer Re-charge for the Ruataniwha aquifer. Anticipating a total of approximately \$200,000 actual expenditure by EOFY (\$156,000 YTD) against \$1,619,000 budgeted we accordingly request a \$1,420,000 carry forward.

Effect on Plan

12. An increase in funding of \$1,420,000 for the 2019-20 year funded from unexpended funds in 2018-19.

Recommendation

13. That Council approves the carry forward of \$1,420,000 from 2018-19 to 2019-20 to preserve the local share of funding for the Regional Freshwater Security Programme.

IT Infrastructure Refresh – Hardware for the Core Council Computer Environment

14. Seek a total of \$610,000 to be carried forward from 2018/19 capital funding for the core IT environment.
15. The funds are required to complete key IT infrastructure projects. These include: Regional Aerial Photography (\$363,000), SAN replacement (\$56,000), Core Switch Replacement (\$66,000), Server replacements (\$35,000), GIS Platform Upgrade (\$60,000), New telephone system (\$30,000).
16. Regional Aerial Photography funds are required to complete regional urban and rural aerial photography in 2019/20. These funds were not spent in the 2018/2019 year because the imagery captured only included rural imagery not urban imagery for Wairoa, Napier City, Central Hawke's Bay and Hastings areas. The reason for partial completion was to ensure rural imagery was captured before winter 2019 and not delayed by urban imagery capture. A subsequent benefit is better alignment of future

regional rural and urban imagery. Rural Imagery covers the whole region at a lesser resolution whereas urban covers specific areas of interest at a higher resolution.

17. The remaining projects funds were not spent in the 2018/19 year because implementation for these bodies of work has been delayed by other activities.
18. Currently indicative pricing for the SAN replacement and Core Switch Replacements has been supplied from vendors and due diligence on purchasing procedures currently has these items with the HBRC tenders committee for approval.
19. The failure of any of these core infrastructure components will have a significant effect on the majority of the Council's staff ability to function. The SAN, core switches and some of the servers are now so old that they are no longer warrantable by their manufactures, and parts supply is no longer guaranteed within any timeframe at all. As such priority will be given to this project early in the next financial year.

Effect on Plan

20. A carry forward of \$610,000.

Recommendation

21. That Council approves the carry forward in ICT capital expenditure \$610,000 of expenditure from 2018/19 to 2019/20 to cover costs associated with completing these replacements.

IRIS Resource Management System (Phase 2)

22. Seek a total of \$520,000 to be carried forward from 2018-19 system integration budget to 2019-20 to cover costs associated with the IRIS project Phase 2. The funds are required to complete Phase 2 elements of this project's work programme:
 - 22.1. Water Information Systems, Catchment Services and Catchment Management
23. These funds were not spent in the 2018/19 year because of flow-on effects of the delays in IRIS Phase 1 (Consents & Compliance Modules) as reported six monthly to the Finance Audit and Risk Committee.

Effect on Plan

24. An increase in funding for project 913 system integration in 2019-20 funded from unexpended funds in 2018-19.

Recommendation

25. That Council approves the carry forward in project 913-001 of \$520,000 of expenditure from 2018/19 to 2019/2020 to cover costs associated with undertaking Phase 2 of the project. Noting that external loan funding to fund this capital has been drawn down in the 2017-18 year.

Regional Groundwater Research

26. Seek a total of **\$430,000** to be carried forward from the 2018-19 science capital budget to 2019-20. These funds were originally set aside for drilling of groundwater monitoring bores, Ruataniwha groundwater modelling and a SkyTEM airborne aquifer survey. This carry forward is requested because:

\$170,000 from budget for Drilling

27. \$110,000 of \$280,000 Capex funding set aside for drilling in 2018-19 has been invested in priority projects, including new telemetered bores at Ongaonga and Tikokino. The remaining \$170,000 drilling budget is to be strategically invested following a review of the groundwater monitoring network, by the Principal Scientist – Groundwater Quality. This position was filled in May 2018 and priority tasks for the Principal Scientist included drafting a five-yearly groundwater quality state and trends report (*completed* – will be published by December 2019). This task was a pre-requisite for the groundwater monitoring network review, which will be undertaken in 2019-20. Deferring \$170,000 remaining capital expenditure will ensure that drilling is informed by the monitoring network review, so that the drilling programme is strategically designed and executed.

\$100,000 for SkyTEM

28. Bulk funding for the airborne aquifer survey was deferred in the LTP to 2019-20. Therefore, the \$100k contribution set aside in 2018-19 is requested to be deferred, to align with the LTP funding. It can be confirmed that these funds will be spent in the 2019-20 financial year.

\$160,000 from budget for Ruataniwha Groundwater Modelling

29. \$35,000 of \$195,000 Capex set aside in 2018-219 has been invested in reviews of existing models, along with preparing data for input to the new groundwater models. Modelling objectives have been identified during 2018-19 and progress is underway for engaging a service provider to develop a suite of groundwater models that are fit for the purpose of meeting these objectives. The remaining \$160,000 from 2018-19 is requested to be carried forward to 2019-20, when model development is scheduled.
30. The team is aiming to complete the modelling in 2019-20 but there is no guarantee is won't spill over for a few months into 2020-21. The nature of the modelling is likely to throw up some anticipated challenges that add time to the project. At a best guess it is estimated around 20 percent of time may carry through to the 2020-21 year.

Effect on Plan

31. An increase in funding of 2019-20 science capital expenditure, sourced from unexpended funds in 2018-19.

Recommendation

32. That Council approves the carry forward of a total \$430,000 from 2018-19 to cover costs associated with:
- 32.1. Drilling of groundwater bores
 - 32.2. Ruataniwha groundwater modelling
 - 32.3. A contribution to the SkyTEM aquifer survey.

Executive / Performance Management Tool

33. Seek a total of \$330,000 to be carried forward from project 913-010 (Executive/Performance Management Tool). The funds are required to scope and implement an Executive / Project Performance Management tool.
34. These funds were not spent in the 2018/19 year because of delays caused by organisational changes and a transition to fully implement organisation performance management and reporting was not completed. There are various aspects of this workstream which incorporate our ability to report on planned non-financial outcomes and aligning strategic objectives to current year targets and KPI's, and then reporting on progress against these. There is also a strong alignment between organisation performance and employee performance and an opportunity to link strategic outcomes with employee KPI's. Therefore this budget encompasses organisation reporting and potential HR functionality.

Effect on Plan

35. A carry forward of \$330,000 for this project.

Recommendation

36. That Council approves the carry forward in project 913-010 (Executive/Performance Management Tool) of \$330,000 of expenditure from 2018/19 to 2019/2020 to cover costs to scope and implement process changes and a technology solution.

Heretaunga Plains Flood and River Control

(As a side note this is here because this capital is rates funded not debt or reserve funded).

37. Seek a total of \$183,000 to be carried forward for Project 287. The funds will be carried over to 19/20 financial year to invest in the development of Hawea Park.

38. These funds were not spent in 18/19 as they were budgeted for:
- 38.1. Hawea Park. Hawea Park has progressed slower to plan due to:
- 38.1.1. Maori Land Court extending land transaction timeframe
- 38.1.2. development of the Hawea Park Management Committee
39. Level of Service Upgrade from 1:100 to 1:500. This project did not proceed due to lack of project management resources.

Effect on Plan

40. Deferral of capital to match the timeframe of developing Hawea Park and Level of Service Upgrade. These projects will continue to be developed over 19/20 and beyond.

Recommendation

41. That Council approves the carry forward of \$183,000 in Project 287 from 18/19 to 19/20 financial year.

Environmental Data Management System

42. Seek a total of \$175,000 to be carried forward from 2018-19 system integration budget to 2019-20 to cover costs associated with the Environmental Data Management System.
43. The Environmental Data Management System (EDMS) is the software, processes and procedures that are used for management and analysis of all environmental data. The funds were not spent in the 2018-19 year because of delays caused by organisational changes.

Effect on plan

44. A carry forward for \$175,000 for this project.

Recommendation

45. That Council approves the carry forward of \$175,000 in project 913-008 from 2018-19 to 2019-20 to cover costs associated with the Environmental Data Management System.

(Note – this will likely push the 2019-20 and 2020-2021 allocations out by a year as well)

Bus Service Ticketing System Project

46. Seek a total of \$154,000 to be carried forward from the 2018-19 transport capital budget for the Bus Service Ticketing System to 2019-20.
47. The 2018-19 Annual Plan provided for an amount of \$250,000 (after NZTA subsidy) for the purchase of a replacement bus ticketing system through a joint procurement process with eight other regional councils. The implementation of the new system has been slower than expected and the system will be fully implemented during the 2019-20 year.

Effect on Plan

48. An increase in funding for the bus service ticketing system in the 2019-20 year funded from unexpended funds in 2018-19.

Recommendation

49. That Council approves the carry forward of \$154,000 from 2018-19 to 2019-20 to cover the costs associated with the bus service ticketing system, noting that this is to be funded through internal loan funding.

Customer Relationship Management (CRM)

50. Seek a total of \$75,000 to be carried forward from 2018-19 system integration budget to 2019-20 to cover costs associated with the CRM project.
51. The CRM project has been split into defined sprints to deliver results at regular intervals. The first sprint is under way for stakeholder management. The remaining sprints will

continue in in 2019-20, building on delivering CRM solutions where appropriate for Council.

Effect on Plan

52. An increase in funding for project 913 system integration in 2019-20 funded from unexpended funds in 2018-19.

Recommendation

53. That Council approves the carry forward of \$75,000 in project 913 from 2018-19 to 2019-20 to cover costs associated with the CRM project. Noting that external loan funding to fund this capital has been drawn down in the 2017-18 year.

Data Warehousing

54. Seek a total of \$70,000 to be carried forward for Data Warehousing
55. Establish a professional data warehouse to support reporting, analysis and other business intelligence (BI) functions. Connect the data warehouse to three core systems: regulatory, customer and financial.

Effect on Plan

56. A carry forward of \$70,000 for this project.

Recommendation

57. That Council approves the carry forward of \$70,000 of expenditure from 2018/19 to 2019/2020 to cover costs associating with warehousing Council's data.

Regional Cycling Project

58. Seek a total of \$60,000 to be carried forward from the 2018-19 transport budget for the Regional Cycling Project 798 to 2019-20.
59. Contributions from all territorial authorities in the region have provided some of the local share for an off-road extension to the Landscapes Cycle Trail, in order to resolve safety issues on a section known as The Mad Mile. The remainder of the funding will come from a New Zealand Cycle Trails grant through Ministry for Business, Innovation and Employment and other grants. This project has been delayed due to final negotiations regarding the purchase of the land and planning issues, which Hastings District Council is negotiating.

Effect on Plan

60. An increase in funding of \$60,000 for the 2019-20 year funded from unexpended funds in 2018-19.

Decision Making Process

61. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

1. That the Corporate and Strategic Committee receives the "Requests to carry forward Capital Expenditure from 2018-19 to 2019-20" report.
2. That Council approves the carry forward of \$60,000 from 2018-19 to 2019-20 to cover the local share of funding for the Mad Mile cycle trail improvement, noting that this funding is substantially composed of contributions from the territorial authorities in the region.

Authored by:

Jessica Ellerm

GROUP MANAGER CORPORATE SERVICES

Approved by:

**Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES**

Attachment/s

There are no attachments for this report.