Reforecast of Operating and Capital Spend

Executive Summary

This report discusses the updated forecast for operating and capital spend across the organisation for the remainder of this year.

Overall, the reforecast indicates that our forecast revenue from operations and subsidies/grants will cover our operating spend. Cuts to operating spend are planned to offset forecast reductions in parking revenue and lower than expected revenue from AC for streetscapes contracts. Operating expenditure in these areas will be monitored to ensure that the required reductions are made.

The organisation's forecast capital programme is also within the funding envelope set by the forecast NZTA subsidy and agreed AC capital funding for 2012/13. Forecast capital spend is decreasing, and indications are that there may be an underspend at year end. AT staff are looking at other projects which can be brought in for 2012/13 in line with the project prioritisation programme.

Recommendations

It is recommended that the Board:

i. Receive the report.

ii. Approves the Reforecast of Operating and Capital Expenditure set out in Attachment 2

Strategic Context

The LTP established an operating budget and capital programme for AT, fitting within the funding constraints imposed by our principal funders AC and NZTA. This budget was subsequently revised as part of the 2012/13 AP process.

AT undertook reforecasts in September 2012 and December 2012, capturing material changes which had come to light at those times. The current reforecast is based on the organisation's spend to the end of January, and reforecasts expected operating and capital spend to the end of the financial year.

Background

Operating Expenditure Reforecast

Attachment 2 provides details of all of the forecast changes. **Attachment 1** shows the impact of the reforecast on AT's financial statements. The major changes identified are as follows:

- **Reduction in parking revenue:** A number of factors have contributed to a significant reduction in parking revenue. Tariffs for both on and off-street parking have been reduced, and demand has been less than expected. Compliance with bus lanes and Grafton Bridge restrictions has been good (which results in reduced enforcement revenue), and some proposed new revenue initiatives have not been progressed, such as the delay of the bay marking initiative, to standardise the number of cars which can be parked on a street. This has led to a further downward forecast in parking revenue of $5.2m, following on from the $1.5m reduction in December. Considerable work has been done to find ways of reducing costs to offset this revenue reduction. These include reducing planned maintenance, reducing forecast salary costs due to unfilled vacancies, reducing professional fees and forecasting on-going savings in Court and Baycorp costs. More scrutiny is occurring in this area of the business to make explicit the financial implications of decisions impacting on parking tariffs and revenue. A mitigation plan is incorporated into the forecast for 2012/13 and a programme for 2013/14 is currently being worked on. Changes to the parking tariffs will be a key component of increasing revenue in this area. Analysis of these options is underway.

- **Change to valuation of vested assets:** The former state highways vested by NZTA to AT/AC have been revalued to $385m

- **Reduction in depreciation:** The assumptions underpinning AT's depreciation calculation have been reviewed, resulting in a $14.2m reduction in forecast depreciation

- **Changes to NZTA revenue**: Staff have revised the estimates of the NZTA subsidy being received this year, based on the reforecast capital and operating programme.

The following issues identified in the previous reforecast have now been resolved:

- **Reduction in rental revenue:** AC's Strategy & Finance Committee agreed at its February meeting to increase AT's operating grant by $7m for 2012/13 to reflect the reduction in rental revenue for AT from changes to the property purchase profile for the City Rail Link project

- **Reduction in forecast revenue for streetscape contracts:** AT is responsible for contracts for maintenance of streetscapes of around $20m per annum. We had been expecting to recover the majority of this cost from AC, but the outcome of recent discussions is that they will probably provide only around $7m. The unbudgeted Streetscape expense of $13m net of AC contributions is currently being worked through with the Road Corridor Maintenance Group and it is expected that savings within professional services and the physical works contracts will be made to meet this expense. This figure is $4m higher than AT anticipated. We are working with AC to reconcile the relevant budgets for this work historically as both parties believe that funding for aspects of the work were included in the others budget. We are working on the basis that our savings for the period will need to recoup the higher amount.

We remain confident that AT will come in within the operational and capital funding envelopes available. Our management regime to ensure this occurs has tightened and includes:

- A new process for approval of consultancy costs
- Closer liaison with the Operational Managers which has been the result of the Finance Team restructure
- The Value Management Programme and greater procurement capacity which is improving our contract and procurement capacity

Next Steps

Finance staff and Managers will closely monitor spend against the forecast for the remainder of the year, and will take steps to manage costs.

Attachments

Number	Description
1	Financial Statements showing comparison of forecast to budget
2	Table showing detail of first, second and third reforecasts
3	Forecast capital changes greater than $1m

Document Ownership

Prepared by	Nicki Lucas **Revenue & Analysis Manager**	
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Approved for Submission	David Warburton **Chief Executive**	

Forecast Capital Changes Greater than $1m

Project	December approved forecast	Current Reforecast	Change	Explanation
AIFS (Integrated Ticketing)	$35.5m	$32.5m	($3.0m)	Spend has been deferred to 2013/14.
AMETI Package 1 – Panmure Phase 1	$76.6m	$74.1m	($2.5m)	Spend has been deferred to 2013/14.
AMETI Package 4 – Pakuranga - Ti Rakau/ Reeves Road	$10.3m	$17.0m	$6.7m	Bring forward of property purchases to facilitate start of construction for Package 4.
Manukau Bus/Rail Interchange	$10.8m	$7.0m	($3.8m)	Delays due to contractor going into liquidation
Manukau Double Tracking	0	$2.6m	$2.6m	Completion of double tracking of southern line at Wiri junction, recently approved by AT Board and AC
Mt Albert Train Station Upgrade	$5.3m	$7.6m	$2.3m	Bring forward of 2013/14 budget and cost increase due to design changes
NORSGA	$23.2m	$19.6m	($3.6m)	Delays in property purchases
Regional Road Reconstruction	$16.5m	$13.3m	($3.2m)	The programme was delayed while we waited for decisions by NZTA. They eventually decided not to fund this area of work.
Total of Other Smaller Changes			($0.6m)	
Total Change to Capital Spend Forecast			**($5.1m)**	