

## Attachment B2: Capital Prioritisation Framework

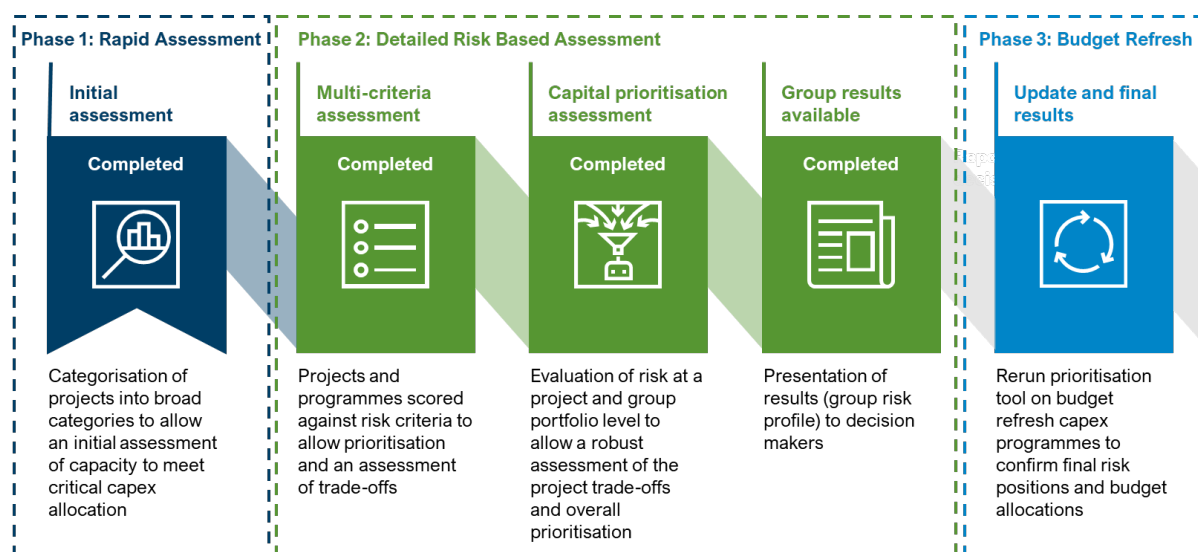
### Purpose

1. To provide an update on the Capital Prioritisation Framework (the Framework) which was applied to support decision making for the 2021-2031 Long Term Plan (LTP). A key focus of the Framework is identifying the impact, on residual risk, of different investment scenarios.

### Overview of the Framework

2. The process that was undertaken is outlined in Figure [1] below.

**Figure [1] – Capital Prioritisation Framework - Process and Methodology**



### Phase 3: Budget refresh

3. Through the Budget Refresh process, which commenced in March 2021, the Group's financial position was updated, including changes to operating expenditure and revenue, key assumptions (e.g. inflation forecasts) and updated operating and capital cost pressures.
4. A detailed overview of the updated capital investment position and challenges is provided in Attachment A: Group budget overview and analysis of changes.
5. Each of the capital cost pressures identified were assessed under the Multi-Criteria Framework to understand the level of inherent risk associated with each pressure and how these would be prioritised against other projects funded under the consultation budget.
6. A number of the identified capital cost pressures scored highly against the Multi-Criteria Framework (e.g. Auckland Unlimited venue renewals and closed landfill remediation works), which implies a greater risk associated with deferring investment. Accordingly, these projects should be prioritised under a risk-based prioritisation approach.
7. Several operating cost pressures were also identified through the Budget Refresh process, compounding upon the capital cost pressures. A detailed summary of the key changes to the Group's revenue and other financial information is provided in Attachment A: Group budget overview and analysis of changes.
8. The operating cost pressures need to be considered alongside the proposed capital investment programme, because of the impact on achieving the fully funding depreciation target. Accordingly,

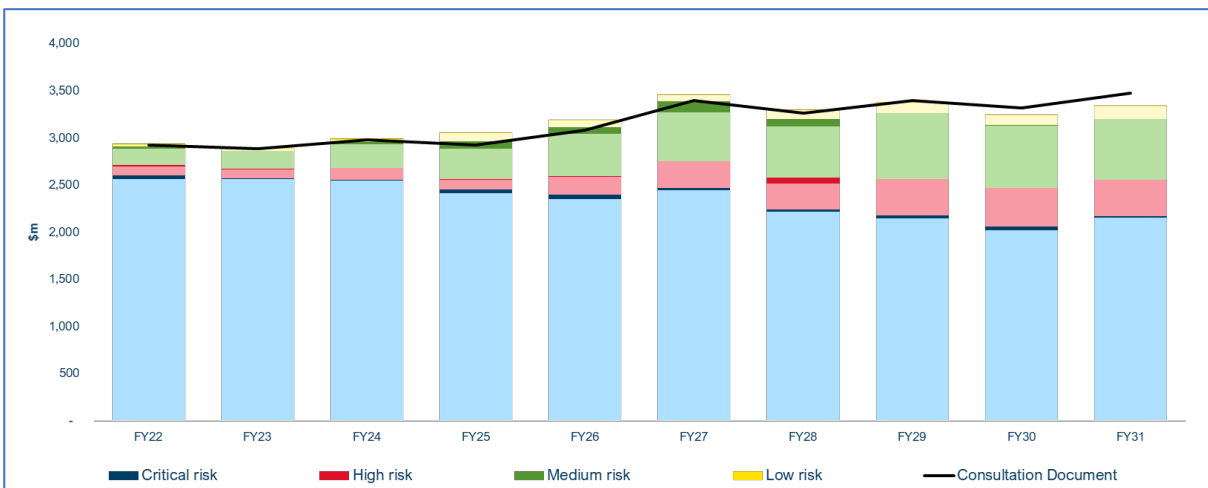
the additional depreciation and debt servicing costs associated with the capital programme need to be considered against the risk of not funding operating cost pressures and potential to delays to achieving the fully funding depreciation target.

9. Staff prepared a couple of different scenarios to demonstrate the trade-off between funding the identified cost pressures to mitigate operational risks and minimising financial risks. A summary of these scenarios is provided below.

Updated Base Scenario

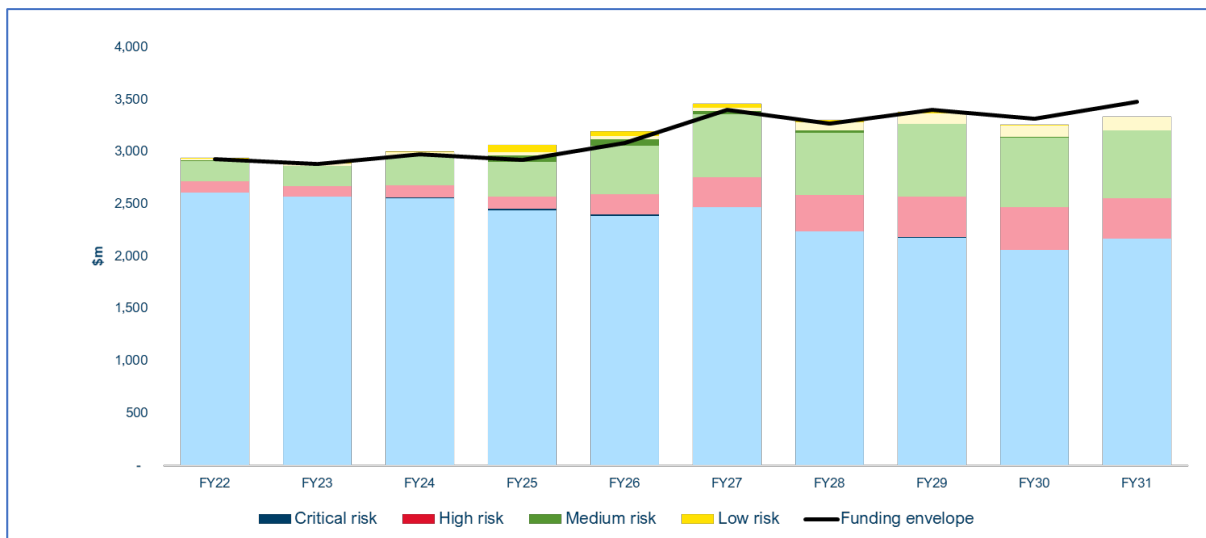
10. Budget changes that are a result of factors such as updated assumptions, market changes, or contracts have been incorporated into the proposed budget to establish an Updated Base Scenario.
11. Critical residual risks remain within the capital investment programme under the ‘Updated Base’ scenario, as result of capital costs pressures not being funded. The residual is identified on Figure [4] below through the darker shaded areas, which represent unfunded projects.

**Figure [4] – Residual Risk in the Capital Programme under the ‘Updated Base’ Scenario**



12. Reprofiting of the capital investment programme, through deferring lower risk projects to accommodate the delivery of higher risk projects, is one way of mitigating critical risks in the programme, without changing any of the investment settings (i.e. debt levels, rates setting).
13. The results of the capital prioritisation work indicate that there are some lower risk projects funded under the current risk allocations. The lower risk scoring indicates that the risk associated with deferring these projects would be relatively lower than the unfunded critical and high risk projects.
14. Figure [5] provides an overview of the level of residual risk that could be mitigated through reprofiling of the capital investment programme. Delivery risks (e.g. significant ‘ramp ups’/‘ramp down’) were considered when completing the reprofiling.

**Figure [5] – Residual Risk in the Capital Programme following a Risk-Based Reprioritisation**



15. Changes to the investment settings (e.g. debt position, rates position, depreciation targets) could be used to further mitigate the level of residual risk in the capital investment programme.

#### 'Partially Funded' scenario

16. Staff presented an indicative 'Partially Funded' scenario to demonstrate the impact of partially mitigating risks in the capital investment programme. Under this scenario, the capital cost pressures were fully funded over the ten-year period, however rephasing in the middle years of around \$200 million of the lower risk projects would be required to mitigate capacity constraints.

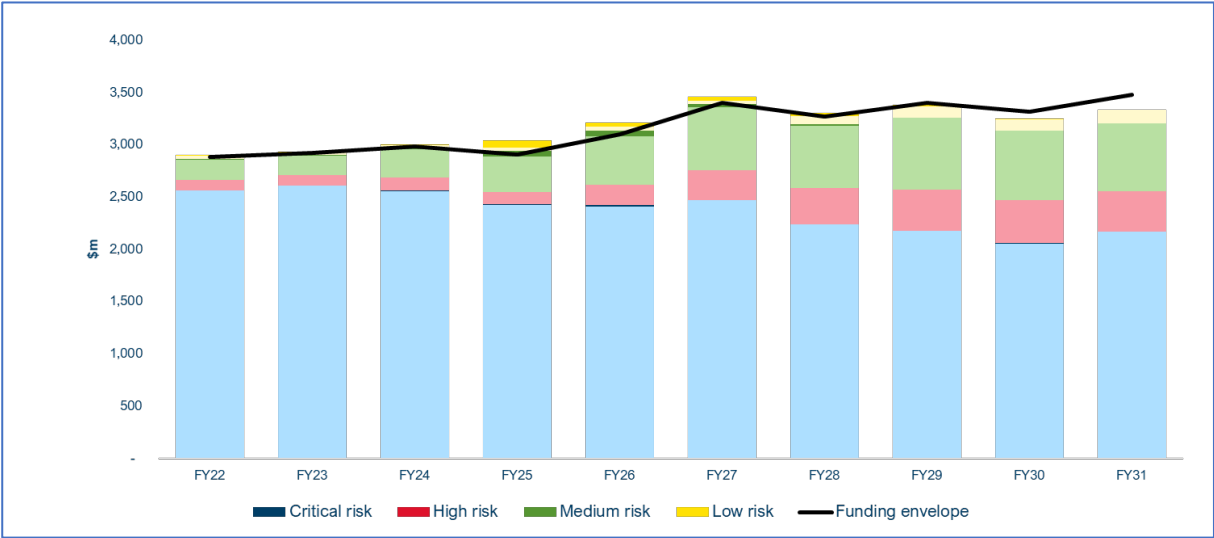
17. Under the 'Partially Funded' scenario, critical and high risk projects could be mitigated, however there would still be residual risk in relation to lower risk projects that were deferred. Figure [6] below provides an overview of the residual risk (indicated by the darker shading) in the capital investment programme.

18. Staff worked alongside asset managers across the Auckland Council Group to understand how each CCO/division would reprioritise and rephase its capital investment programmes, and what the associated residual risks would be. The key residual risks are outlined below:

- Parks & Community - programme budgets in years 1-3 remain as previously workshopped. Rephasing of \$86 million of some programme budgets from years 4-6 to years 8-10 means that:
  - i. Budgets for renewal for existing portfolio continue to be prioritised
  - ii. Local Discretionary Initiatives (LDI) budget return to pre-Emergency Budget levels in years 4-7, with the deferred programme budget from years 1-3 available from year 8-10
  - iii. There is reduced budget capacity to:
    - Progress the OLI programme in year 4
    - Develop local parks to meet the needs of growth in years 4 and 5
    - Develop in regional parks in years 4 and 5
    - Acquire new open space in years 5 and 6

- Auckland Unlimited - \$28 million of rephasing means a minor timing change of commercial growth initiatives and some lower risk venue renewals. These deferrals result in a smoother investment profile over the ten-year period.
- Panuku - \$25 million of rephasing of Onehunga Wharf and Waterfront funding. Overall investment in the middle years will be higher than the consultation budget allowing Panuku to focus more on investment in Priority Locations.
- Healthy Waters – \$25 million of rephasing of lower priority stormwater projects to outer years.
- Council support – \$33 million of rephasing will delay investment in business enablement and ICT lifecycle management. The Built Heritage Fund will be deferred into the back of the LTP period.

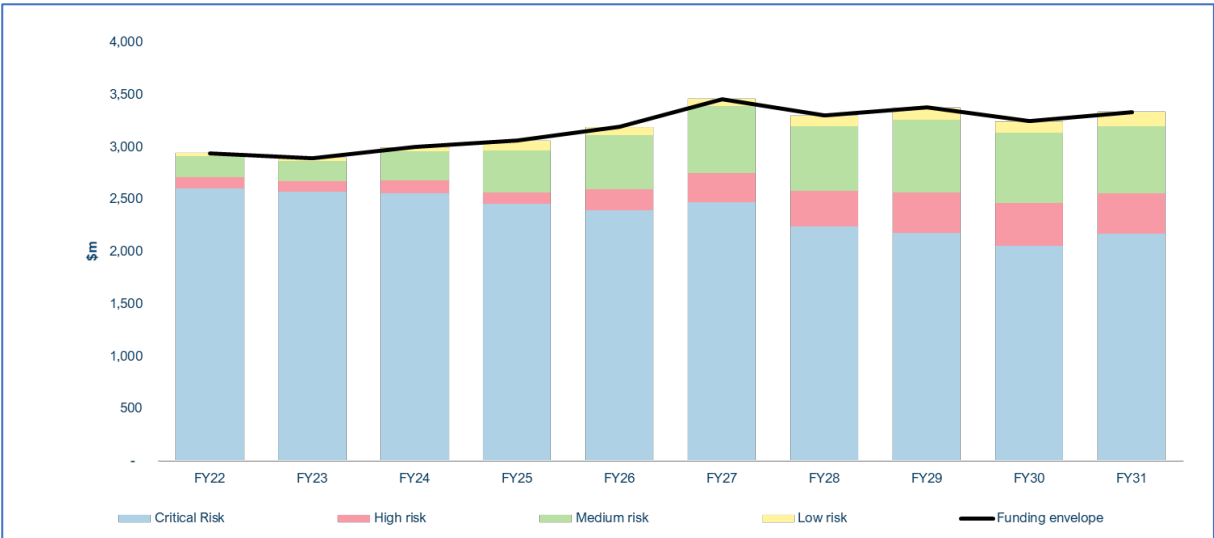
**Figure [6] – Residual Risk in the Capital Programme under the ‘Partially Funded’ Scenario**



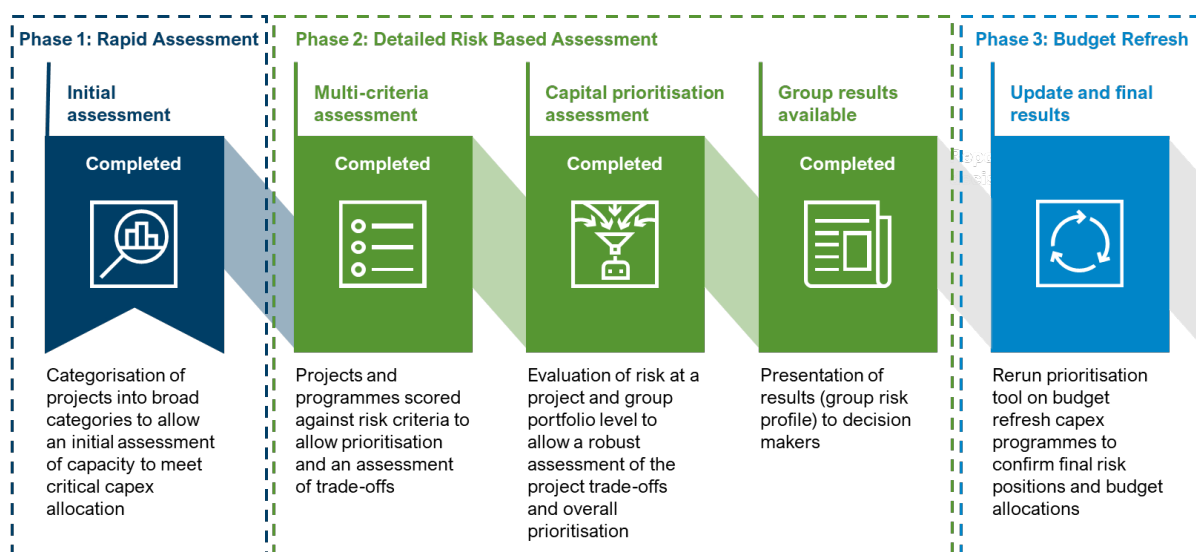
**‘Fully Funded’ Scenario**

19. A ‘Fully Funded’ scenario was also considered, where all the operating and capital cost pressures identified through the Budget Refresh were funded. Under this scenario, all key residual risks were mitigated in the capital investment programme (refer Figure [7]).

**Figure [7] – Residual Risk in the Capital Programme under the ‘Fully Funded’ Scenario**



## Appendix: Capital Prioritisation Framework Methodology



20. The first phase (the Rapid Assessment Phase) of the Framework was to complete a rapid assessment of the unconstrained capital investment requirement for each of the CCOs and Council Divisions. Through this phase, projects were categorised into one of eleven categories (refer Figure [2]), each of which had an associated indicative risk profile.

**Figure [2] – Rapid Assessment – Categorisation of Projects**

	Categorisation	Explanation
Higher risk ↑ Lower risk	Contractually committed	In construction or contract in place (financial penalties associated with deferring)
	Legal	There is a legal obligation to complete this project
	Critical Health & Safety	H&S is the primary driver of this project
	Renewal of critical assets	Severe and immediate consequences from deferring investment
	Other critical obligation	Severe consequences if council didn't proceed with investment e.g. clear expectations of water infrastructure for live zoned land
	Other renewals	Other investment to maintain asset condition
	Maintain service levels	This project will maintain current levels of service with existing asset provision
	High strategic importance	This project contributes (Māori outcomes, climate action, development outcomes, Covid), high potential to leverage external investment
	Supports revenue / ring-fenced funding	This project support revenue generation or is funded from a ring-fenced funding source (TR)
	Other growth	This project contributes to growth
	Improve service levels	This project improves on the current level of service

21. Projects could only be classified under a single category, and were placed in the category that had the highest associated indicative risk profile (e.g. a project that could be classified as 'other critical obligation' or 'contractually committed' was categorised as 'contractually committed').
22. Each CCO/Council Division was required to complete the categorisation for each of the projects within its programme. Auckland Council staff reviewed each of the categorisations to provide additional assurance that the CCOs/Council Divisions had accurately allocated projects and to provide for a level of consistency across the Auckland Council Group.
23. Based on the indicative risk profile associated with each category, projects were split into "must do" (red shaded categories on Figure [2]), "should do" (yellow shaded categories on Figure [2]) and "could do" (green shaded categories on Figure [2]). These categories were used to determine a high level indicative view of the residual risk in the capital investment portfolio.

24. The Rapid Assessment Phase did not have sufficient granularity to support a more robust assessment of the risks associated with deferring capital investment. Accordingly, a detailed risk based assessment, which provided an increased level of detail and specificity, was undertaken as a second phase of work.
25. Under the Risk Based Assessment Phase, each project was scored against an agreed set of criteria (refer to Figure [3] below). The criteria were developed to capture the broader range of potential risks (e.g. financial risks, environmental risks, social risks, asset failure risk, strategic alignment risks, etc.) and provide for a consistent risk evaluation across the Auckland Council Group. Auckland Council’s strategic objectives were leveraged to ensure the criteria gave effect to those objectives.
26. An overview of the Multi-Criteria Framework is provided in Figure [3] below, with the detailed criteria included as an Appendix.

**Figure [3] – Detailed Risk Based Assessment – Multi-criteria Framework**

Category	Risk Criteria	Explanation
Service Delivery	Health and Safety	Assessment of severity and probability of occurrence
	Contractual	Spectrum from ‘in construction’ to ‘not committed’. Public commitments assessed, but would score relatively low
	Legal	Timeframe for compliance and availability of a mitigation considered, includes consent conditions
	Level of Service	Considered whether the reduction is permanent or temporary, and the extent of public acceptability
	Critical Asset Renewal	Probability, severity and time to failure considered
Financial & Revenue	Revenue	Extent of available external revenues
	Funding	Quantum of funding and extent it is committed
	Cost	Probability and quantum of consequential capex/opex implications of deferral
Strategic Alignment	COVID Recovery	Aligns with strategic outcomes agreed for emergency budget
	Māori Outcomes	Aligned to Kia Ora Tāmaki Makaurau framework
	Climate Outcomes: Mitigation	Focus on emissions
	Climate Outcomes: Adaptation	Focus on adaptability/resiliency to climate change
	Environment Outcomes	Spectrum from improvement to degradation
	Development Outcomes	Criticality of project and alignment to live zoned land

27. Asset managers from each of the CCOs/Council Divisions were responsible for scoring each of their projects between one and five against each of the criteria to reflect the magnitude of the associated risk. The criteria were designed to capture each of the dimensions of the associated risk (e.g. the critical renewals criteria, assessed both the likelihood of failure and the estimated impact of a failure).
28. Auckland Council staff then reviewed the scoring for each project to ensure a consistent scoring approach was used across the Auckland Council Group. Feedback sessions with each CCO and Division were used to test individual scores and confirm the criteria had appropriately captured the risk in each programme.
29. A ‘total risk score’ was calculated for each project, based on the sum of its scores against each of the criteria. Equal weightings were applied to each of the criteria, however various weighting sensitivities were assessed to determine the impact on risk of different weighting scenarios. An equal weighting scenario was found to reflect residual risk most consistently across the Auckland Council Group, and was therefore selected as the base scenario.
30. To reflect the severity of some risks (i.e. Health & Safety), projects that scored highly against the following criteria were treated as critical risks and given the highest total risk score, irrespective of how they scored against the other criteria.

- Health & safety risk (score of 4 or 5);
- Contractual risk (score of 5);
- Legal risk (score of 4 or 5);
- Level of service (score of 4 or 5); and
- Critical asset renewals (score of 4 or 5).

31. The results from the Detailed Risk Based Assessment Phase were used to support the investment programme outlined in the Consultation Document. The focus was on confirming that there was sufficient capacity at an Auckland Council Group level to mitigate the key residual risks.

32. Key findings from the Phase 2: Detailed Risk Based Assessment are provided below:

- Sufficient capacity at a group level to complete all critical service delivery projects;
- Sufficient capacity to complete all high risk renewals and ~97% of lower risk renewals;
- Most high risk climate mitigation, climate adaption and environmental projects funded; and
- A ‘focused’ approach (i.e. collaboration and spatial alignment) to growth will be required to deliver on development outcomes given funding constraints.

## Detailed Risk Criteria

Risk Criteria	5	4	3	2	1
<b>Health and Safety - risk to the health and safety of persons</b>	Project includes mitigation of H&S risk where >1 fatality is probable (i.e. with a likelihood of 21% - 60% within 12 months, or once in 3 years).	Project includes mitigation of H&S risk where >1 considerable harm/illness incident is probable (i.e. with a likelihood of 21% - 60% within 12 months, or once in 3 years).	Project includes mitigation of H&S risk where >1 considerable harm/illness incident is possible (i.e. with a likelihood of 6% - 20% within 12 months, or once in 5 years).	Project includes mitigation of H&S risk where >1 harm/illness incident is possible (i.e. with a likelihood of 6% - 20% within 12 months, or once in 5 years).	Project does not include mitigation of H&S risk.
<b>Contractual - risk of breaching contractual obligations on committed and inflight projects</b>	Project is in construction.	Project is contracted and a financial penalty will be incurred to pause (enter penalty details under Financial risk (cost of deferral)).	Project is in procurement phase but could be paused or stopped.	Project is in dependent phase (without consecutive stages, no benefit if realised) or publicly committed.	Project is not contracted or committed.
<b>Legal - risk of statutory timeframes or other legal obligations not being met</b>	Project prevents legal action being taken (abatement notices, infringement notices, enforcement orders, and	Project is driven by statutory timeframes and no mitigation available (i.e. building sales).	Project is driven by statutory timeframes and mitigation is available (i.e. building sales)	Project is driven by a legal obligation with an extended timeframe (i.e. >3 years to comply).	Project is not driven by any legal obligation.

Risk Criteria	5	4	3	2	1
	successful prosecutions).				
<b>Level of Service - risk to current levels of service</b>	Permanent reduction to existing levels of service and not considered acceptable to the community.	Temporary reduction to levels of service and not considered acceptable (can be achieved within 3 years).	Permanent reduction to existing levels of service and considered acceptable to the community.	Temporary reduction to levels of service and considered acceptable (can be achieved within 1 year).	Project does not impact levels of service.
<b>Critical Asset Renewal - risk of critical asset failure</b>	Critical asset failure within 1 year and/or population affected >100,000.	Critical asset failure within 3 years and/or population affected >50,000.	Critical asset failure within 5 years and/or population affected >10,000.	Critical asset failure within 7 years and/or population affected >5,000.	Critical asset failure within 10 years and/or population affected >1,000.
<b>Revenue - risk of impact on revenue</b>	Project has external revenue streams, which deliver a short payback period (i.e. less than 3 years)	Project has external revenue streams, which deliver a long-term payback period (i.e. longer than 3 years)	Project generates external revenue sufficient to cover more than 50% of its costs, but does not pay itself back	Project generates external revenue, which covers less than 50% of its costs	Project does not generate external revenue
<b>Funding - risk of losing funding</b>	Project has significant (i.e. more than 75%) committed funding (i.e. not Council).	Project has significant uncommitted external funding (i.e. more than 75%) or moderate uncommitted funding (i.e. 50%).	Project has some committed funding (i.e. less than 50%)	Project has potential to be externally funded but discussions are yet to be held with external parties.	Project will be fully funded internally (i.e. by Council).
<b>Cost - risk of impact on costs</b>	High risk of significant additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years)	Moderate risk of significant, or a high likelihood of material, additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years)	Moderate risk of material additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years)	Limited risk of material, or a moderate risk of minor, of additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years)	Limited risk of incurring minor additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years)
<b>COVID Recovery - strategic alignment risk</b>	Project focuses on all of: community resilience, equitable access to services and social infrastructure (particularly in communities of greatest need), innovative solutions/practices to meet community needs, immediate business needs and supports workforce transition.	Project focuses on some of community resilience, equitable access to services and social infrastructure (particularly in communities of most need), business needs and supports workforce transition.	Project contributes generally to community resilience, communities of most need, business needs and supports workforce transition.	Project contributes to either community resilience, communities of most need, business needs or supports workforce transition.	Project does not contribute to COVID recovery directly.

Risk Criteria	5	4	3	2	1
<b>Māori Outcomes - strategic alignment risk</b>	Project focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (more than 5 outcomes are addressed).	Project focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (4 - 5 outcomes are addressed).	Project focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (2 - 3 outcomes are addressed).	Project does not focus on Māori outcomes as described in Kia Ora Tāmaki Makaurau (less than 2 outcomes are addressed).	Project does not focus on Māori outcomes as described in Kia Ora Tāmaki Makaurau (no outcomes are addressed).
<b>Climate Outcomes: Mitigation - strategic alignment risk</b>	Project significantly decreases Auckland's emissions over the lifetime of the investment (i.e. will result in a >50% emissions reduction against a BAU scenario by 2030 and net zero by 2050).	Project somewhat decreases Auckland's emissions over the lifetime of the investment (i.e. will result in a >20% emissions reduction against a BAU scenario by 2030 and/or net zero by 2050).	Project will have little or no impact on Auckland's emissions over the lifetime of the investment.	Project somewhat increases Auckland's emissions over the lifetime of the investment (i.e. will result in an increase in emissions against a BAU scenario).	Project significantly increases Auckland's emissions over the lifetime of the investment (i.e. will result in a >20% emissions increase against a BAU scenario, or the impact on emissions has not been quantified).
<b>Climate Outcomes: Adaptation - strategic alignment risk</b>	Project significantly increases adaptability and resilience to climate change, particularly the most vulnerable communities.	Project somewhat increases adaptability and resilience to climate change.	Project will have little or no impact on adaptability and resilience to climate change.	Project somewhat decreases adaptability and resilience to climate change.	Project significantly decreases adaptability and resilience to climate change, particularly the most vulnerable.
<b>Environment Outcomes - strategic alignment risk</b>	State and quality of multiple ecosystems (terrestrial, freshwater, and/ or marine) is improved. State = structure (size and components) of the ecosystem. Quality = ecosystem function.	State and quality of an ecosystem (terrestrial, freshwater or marine) is improved.	State and quality of an ecosystem (terrestrial, freshwater or marine) is maintained, or the project has no environmental impact.	Standard and quality of an ecosystem (terrestrial, freshwater or marine) is degraded, but impacts are remedied or mitigated.	State and quality of an ecosystem (terrestrial, freshwater or marine) is degraded, with no remedial or mitigation measures taken/possible.
<b>Development Outcomes - strategic alignment risk</b>	Project is critical (i.e. bulk infrastructure) to service development in live zoned land.	Project services development in live zoned land, but is not critical (i.e. local network).	Project provides a temporary solution to service development in live zoned land, or does not influence if/when land development occurs.	Project contributes to planning and design to service future sequenced development.	Project supports out of sequence land.