

Attachment B - Capital Prioritisation Framework

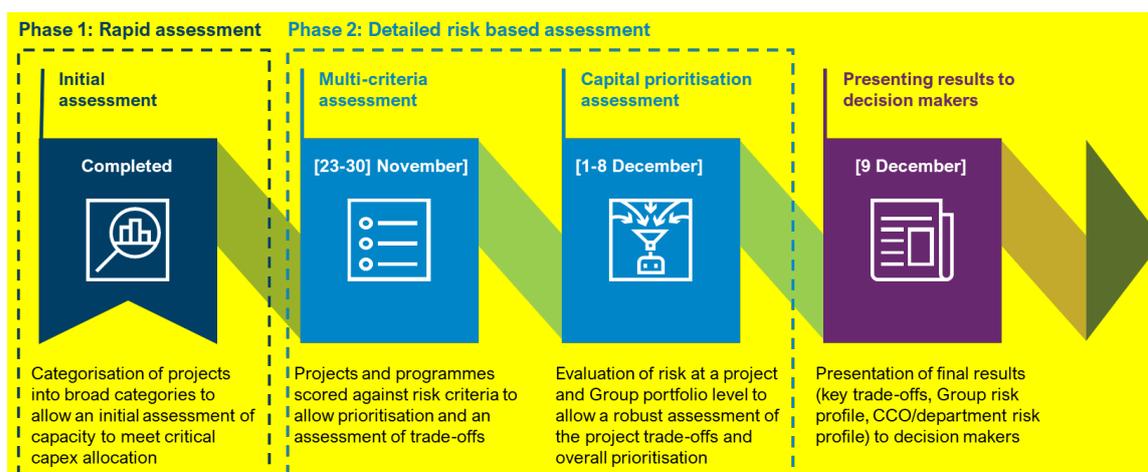
Purpose

1. To outline the Capital Prioritisation Framework (the Framework), which will be used to assess the trade-offs of deferring projects within the aggregated capital investment requirement for the 10-year Budget 2021-2031.

Overview of the Framework

2. The Framework includes two distinct phases, which are outlined in Figure 1 below.

Figure 1 – Capital Prioritisation Framework - Process and Methodology



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

Figure 2 – Rapid Assessment – Categories and Associated Methodology

	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

4. 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 'improve service levels' or 'contractually committed' would be categorised as 'contractually committed'.

5. Each CCO/Council Department was tasked with completing the categorisation for each of its projects. Auckland Council staff reviewed each of the categorisations to provide additional assurance that the CCOs/Council Departments had accurately allocated its projects and to provide a level of consistency across the Council Group.
6. Based on the indicative risk profile associated with each category, projects were split into “must do”, “should do” and “could do”, reflecting the colour shading on Figure 2. This enabled a high level prioritisation to support an assessment of the level of risk that could be managed under the highly constrained scenario.
7. While the Rapid Assessment Phase supported this high level assessment, the underlying data did not have a sufficient level of granularity to support a more robust assessment of the risks associated with deferring capital investment.
8. A more detailed risk based assessment is underway as a second phase, which will allow greater scrutiny over individual projects and trade-offs.
9. Rather than categorising projects, each project will be scored against a series of multi-criteria (refer to Figure 3 below) to determine an implied risk score. The multi-criteria framework covers the full range of potential risks (e.g. financial risks, environmental risks, social risks, asset failure risk, strategic alignment risks, etc.). This approach will provide greater transparency over the specific trade-offs resulting from deferring individual projects.

Figure 3 – Detailed Risk Based Assessment – Multi-criteria Framework

Category	Risk Criteria
Service Delivery	Health and Safety - risk to the health and safety of persons
	Contractual - risk of breaching contractual obligations on committed and inflight projects
	Legal - risk of statutory timeframes or other legal obligations not being met
	Level of Service - risk to current levels of service
Financial & Revenue	Critical Asset Renewal - risk of critical asset failure
	Revenue - risk of impact on revenue
	Funding - risk of losing funding
	Cost - risk of impact on costs
	COVID Recovery - strategic alignment risk
Strategic Alignment	Māori Outcomes - strategic alignment risk
	Climate Outcomes: Mitigation - strategic alignment risk
	Climate Outcomes: Adaptation - strategic alignment risk
	Environment Outcomes - strategic alignment risk
	Development Outcomes - strategic alignment risk

10. Projects will be scored between one and five against each of the criteria, reflecting the quantum of risk across the spectrum (e.g. from ‘critical asset failure expected within one year and/or more than 100,000 people affected’ to ‘critical asset failure within 10 years and/or the population affected is more than 1,000 people).
11. The specific definitions for the risk scores associated with each criteria is provided in the Appendix.
12. The intention is for individual CCOs/Council Departments to evaluate each of its projects against the multi-criteria evaluation. Auckland Council staff will review these evaluations to provide a level of assurance.

13. Once all the projects have received a risk score, a more detailed capital prioritisation process will be completed, where higher risk projects are prioritised against lower risk projects. The prioritisation will be subject to three constraints:
 - Total capital investment is within the maximum acceptable level (as defined under the highly constrained scenario) in each financial year and over the LTP period as a whole; and
 - Maintain an acceptable level of risk at the Council Group level; and
 - Maintain an acceptable level of risk at each CCO/Council Department level.
14. The intention is to also capture the level of forecasting certainty associated with each project. While this is not a criteria specifically assessed under the multi-criteria framework, each project will be categorised from 'categorised' to 'reference to historical spend'. Understanding the level of forecasting certainty of each project is unlikely to be determinative when making specific trade-offs between projects, but will be a key consideration when evaluating the overall risk to the portfolio.
15. To improve the veracity of the assessment, different weightings will be assigned to each of the multi-criteria to ensure the methodology is robust across a number of different sensitivities. This analysis will also elucidate the trade-offs at a portfolio level (e.g. prioritising the mitigation of Health & Safety risks may increase the risk of achieving development outcomes).
16. Multiple financial scenarios will also be overlaid to evaluate the level of residual risk inherent in each scenario.
17. The intention is for this framework to inform presentations to decisions makers and, to provide a greater degree of transparency when making key capital investment decisions.

Appendix

Detailed Risk Based Assessment – Multi-criteria Framework

Risk Criteria	5	4	3	2	1
Health and Safety - risk to the health and safety of persons	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.
Contractual - risk of breaching contractual obligations on committed and inflight projects	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.
Legal - risk of statutory timeframes or other legal obligations not being met	Project prevents legal action being taken (abatement notices, infringement notices, enforcement orders, and successful prosecutions).	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.
Level of Service - risk to current levels of service	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.
Critical Asset Renewal - risk of critical asset failure	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.
Revenue - risk of impact on revenue	Project has external revenue streams, which	Project has external revenue	Project generates external	Project generates external	Project does not generate

Risk Criteria	5	4	3	2	1
	deliver a short payback period (i.e. less than 3 years)	streams, which deliver a long-term payback period (i.e. longer than 3 years)	revenue sufficient to cover more than 50% of its costs, but does not pay itself back	revenue, which covers less than 50% of its costs	external revenue
Funding - risk of losing funding	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).
Cost - risk of impact on costs	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)
COVID Recovery - strategic alignment risk	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.
Māori Outcomes - strategic alignment risk	Project focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (more	Project focuses on Māori outcomes as described in Kia Ora Tāmaki	Project focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (2 -	Project does not focus on Māori outcomes as described in Kia Ora Tāmaki	Project does not focus on Māori outcomes as described in Kia Ora Tāmaki Makaurau (no

Risk Criteria	5	4	3	2	1
	than 5 outcomes are addressed).	Makaurau (4 - 5 outcomes are addressed).	3 outcomes are addressed).	Makaurau (less than 2 outcomes are addressed).	outcomes are addressed).
Climate Outcomes: Mitigation - strategic alignment risk	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).
Climate Outcomes: Adaptation - strategic alignment risk	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.
Environment Outcomes - strategic alignment risk	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.
Development Outcomes - strategic alignment risk	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.