

Audit, Finance & Risk Committee
17 June 2021

Report for Agenda Item | Rīpoata moto e Rāraki take 1

Department: Finance, Legal & Regulatory

Title | Taitara 2020:21 March Year To Date Financial Overview

PURPOSE OF THE REPORT | TE TAKE MŌ TE PŪRONGO

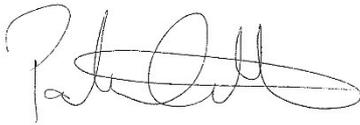
- 1 The purpose of this report is to present the 2020:21 March Year to Date (YTD) Actual to Budget financial results, Quarter 3 Re-forecast to Full Year Budget review, Capital Expenditure financial results and March 2021 Debtors Analysis and Statement of Financial Position and to report on any significant transactions and/or variances to budget.

RECOMMENDATION | NGĀ TŪTOHUNGA

- 2 That the Audit, Finance & Risk Committee:

1. **Note** the contents of this report.

Prepared by:



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Finance Manager

3/06/2021

Reviewed and Authorised by:



Stewart Burns
General Manager – Finance,
Legal & Regulatory
3/06/2021

CONTEXT | HOROPAKI

- 3 The main objective of this report is to give the Committee an overview of how the Council is performing from a financial perspective. The approach taken is one of management by exception, whereby officers are required to provide explanations when actual expenditure or revenue does not match the budget.

ANALYSIS AND ADVICE | TATĀRITANGA ME NGĀ TOHUTOHU

2020:21 OPEX March YTD Actuals to March YTD Budget Overview:

- 4 The 2020:21 March YTD net operating deficit (\$15.0M) shows as \$4.6M favourable to the budget operating deficit of (\$19.7M.)
- 5 The March YTD revenue has additional \$1.1M of Operational income, \$0.3M NZTA External Cost Recoveries and \$0.3M Grants and Subsidies which is offset by less-than-budgeted Consent income (\$0.6M) and Regulatory income (\$0.4M).
- 6 The March YTD actuals has additional expenses within Infrastructure Maintenance (\$2.3M) and Legal (\$0.7M) which is offset by lower Interest expense \$3.2M, Net Personnel Expenditure \$1.1M, Professional Fees \$1.0M, Other Expenses of \$0.9m and Parks and Reserves Maintenance \$0.6m.
- 7 Further in-depth commentary is provided within attachment A.

2020:21 OPEX March Full Year Forecast to Budget Overview:

- 8 The 2020:21 forecast net operating deficit (\$22.8M) shows as \$4.3M favourable to the budget operating deficit of \$27.1M.
- 9 Additional revenue of \$0.9M includes additional \$1.3M of Operational income, \$0.3m NZTA External Cost Recoveries and \$0.4m Grants and Subsidies which is offset by less-than-budgeted Consent income (\$0.8m) and Regulatory income (\$0.5m).
- 10 Reduced total expenditure of \$3.2M includes additional operating expenses within Infrastructure Maintenance (\$2.4M) and Legal (\$1.2M) which is offset by lower Interest expense \$3.7M, Net Personnel Expenditure \$1.0M, Other Expenses of \$0.9M, Parks and Reserves Maintenance \$0.8M and Professional Services \$0.5M.
- 11 Further in-depth commentary is provided within attachment B.

2020:21 March YTD Capital Expenditure Reporting Overview:

- 12 At the end of March 2021, Council had 277 capital projects with an approved 2020-21 adjusted budget of \$151.3M. This is a \$35.0M decrease from the 2020:21 Annual Plan budget of \$186.3M. The \$35.0M decrease is made up of:
 - \$67.8M increase from projects carried forward from 2019:20 (current projects);

- \$44.9M increase of projects externally funded via Shovel Ready Projects, Provincial Growth Fund, Tourism Infrastructure Fund and 3 Waters Reform Stimulus Delivery Plan;
- Offset with:
- \$117.2M net reduction from the September 2020 reforecast and;
- \$32.6M net reduction from the March 2021 reforecast and;
- \$2.2M of other approved adjustments.

13 The capital expenditure forecast outturn is \$110M for the 2020:21 financial year. This is an increase to the previous 2019:20 financial year actuals \$58.3M and the 2018:19 financial year actuals \$75.6M.

Commentaries for High Profile Project groupings are as follows:

High Profile Projects – CIP Crown Infrastructure Fund/Shovel Ready Projects: Queenstown Town Centre Street Upgrades

14 The Queenstown Town Centre Street Upgrades project includes upgrades of the existing road reserve of Brecon Street, Rees Street, Beach Street and Park Street. The upgrades will include new 3 Waters services renewals, paving, street furniture, planting and lighting.

15 These streets were identified as high priority active travel routes within the town centre and are part of a larger transport programme for the Wakatipu.

16 Part funding (\$35m of the total \$60.6m) sourced from Crown Infrastructure Partners requires monthly reporting and progress payment requests aligning to delivery milestone dates included within the funding agreement. We have met the first three milestones as per below and monthly payments to Council are being made promptly.

- 7 September 2020 – Commencement of Enabling Works;
- 17 November 2020 – Practical Completion for Enabling Works;
- 18 January 2021 – Commencement of Main Contract Works.

17 CIP has been advised of the Alliance procurement process and progress as follows:

- Interim Programme Alliance Agreement (IPAA) was signed on 23 March 2020;
- Main Contract Works commenced on 18 January 2021 with construction services being undertaken under the IPAA until the Target Outturn Cost (TOC – approved budget) is agreed;
- Programme Alliance Agreement (PAA) to be executed once the TOC is agreed – this is anticipated to be July 2021.

18 Original budget forecasting did not allow for the following activities which have delayed the construction programme and associated spend:

- Impacts of COVID-19 on businesses and the need to delay construction to mid-February within the historic core streets 2021;
- Impacts of COVID-19 on private/Council developments which were integrated with the design requiring re-design;

- Asbestos contamination within the ground in Park St;
- Delays due to the Recreation Ground Pump Station project change in methodology and ongoing interface;
- Delays due to community reaction to removal of trees associated with the Hotops Cycleway.
- Delays due to working around the protected Wellingtonian tree on Brecon St.

Queenstown Town Centre Arterial (Stage 1)

- 19 The Queenstown Town Centre Arterial (Stage 1) project includes the development of a roading link from the intersection of Henry Street / Gorge Road/ Shotover Street to SH6A just east of the Suburb Street intersection. The work involves a combination of upgrading some existing road corridors and development of a completely new roading link from Henry Street to the intersection of Melbourne Street and Beetham Street. The upgrade will include 3 Waters Renewals, signalised intersections, cul-de-sac turning heads, a pedestrian overpass, paving, traffic signals, line markings, street furniture, planting and lighting.
- 20 The project is the first of three stages and provides an alternative route around the periphery of the town centre to remove general traffic from Stanley Street, enabling the creation of a new Public Transport Hub and the ability for the town centre to grow. It is also part of a larger transport programme for the Wakatipu.
- 21 Part funding (\$50m of the total \$65.9m) sourced from Crown Infrastructure Partners requires monthly reporting and progress payment requests aligning to delivery milestone dates included within the funding agreement. We have made progress claims towards the first milestone as per below and monthly payments to Council are being made promptly.
- 01 July 2021 – Commencement of Enabling Works
 - 27 September 2021 – Commencement of Main Contract Works
- 22 CIP has been advised of the Alliance procurement process and progress as follows:
- Council's fast-track consenting application was approved 16 April 2021;
 - Interim Programme Alliance Agreement (IPAA) was signed on 23 December 2020;
 - Detailed design commenced on 18 January 2021 and the 30% design deliverable has been approved;
 - Design services are being undertaken under the IPAA until the Programme Alliance Agreement (PAA) is executed - anticipated June 2021;
 - The Target Outturn Cost (TOC – approved budget) process has commenced and is anticipated to be agreed prior to commencing the main contract works on 27 September 2021.
- 23 There is risk associated with land acquisition negotiations, but this is being mitigated by undertaking construction in this area at the latter end of the programme.

High Profile Projects: Lakeview Development:

- 24 In 2017 the Council settled on several objectives for the land, which revolve around maximising financial return and minimising risk to ratepayers and developing a well-

designed residential focused mixed-use precinct quickly and efficiently. In 2019, the Council executed a Development Agreement (DA) with a developer for development of serviced subdivision lots within the precinct.

- 25 The project scope includes the required site clearance and demolition works of the existing structures on site, followed by the construction of the required roading and services infrastructure necessary to deliver the subdivision. During the design process opportunities were identified to include additional scope adjacent to the site which could be delivered concurrently with Lakeview to enable financial efficiencies and to minimise disruption to the area and residents.
- 26 The project has developed an interface function to assist in coordination works between the different work streams and the potential ongoing usages of lots prior to their handover to developer partners. A variation to the subdivision consent has been lodged to address some minor changes occurring during design and to incorporate a change of the internal road to a one-way road with transactional parking provisions.
- 27 The first stage of the site clearance work is primarily complete, and the second stage commenced on 1 February. There have been additional discoveries of buried asbestos fragments on site which has impacted the programme for site clearance and resulted in additional costs. The site clearance work is continuing and anticipated to be complete before the end of September 2021.
- 28 An updated infrastructure works cost reforecast based on the detailed design package (previously 50% detailed design) and a traditional PMO delivery model has been undertaken. The subdivision works programme was to be taken to market in late March 2021 with construction services procured via the 3-Waters PMO Panel, and contractor establishment on site in June 2021.
- 29 In March 2021 the Council approved that the subdivision works projects be allocated to the Wakatipu Transport Programme Alliance, as part of a new Work Package under the Project Alliance Agreement (PAA).
- 30 The infrastructure team have also been in dialogue with the developer around the timing of various works on the fringes of the Lakeview site, notably the S-curves on Thompson Street, which may see these delivered later than the sunset clause dates. The Council is also working to achieve the early settlement and payment for lots 7 and 8 (being Stages 1 and 2) of the development which will enable the developer to begin their construction works.
- 31 The project team are closely engaging with the developer and their contractor Naylor Love to achieve the most efficient delivery programme. The infrastructure costs and programme will be better understood once reviewed under the Wakatipu Transport Programme Alliance PAA and a turn out cost (TOC) agreement is established.

High Profile Projects: Manawa (Project Connect and Civic Heart):

- 32 In June 2019, Council executed a partnering agreement (PA) with Ngāi Tahu Property Limited (NTP) for development of the Stanley Street site (the Site). The project delivery

team is currently operating under a Terms of Reference (ToR) in order to meet Council's obligations under the PA and specifically developing (with NTP) the Foundation Documents. Before any development can proceed, the following foundation documents need to be prepared:

- A programme which meets the needs of both Council and NTP;
- A site development plan which provides sufficient detail to articulate the approach to each development on the site and the project as a whole; and
- A feasibility model which develops sufficient detail to understand the costs, expenses and returns to each party in undertaking the development of all or part of the Site.

33 Agreement between the parties of key commercial terms, with respect to the feasibility model, has been unsuccessful to date however discussions with NTP regarding the commercial terms and programme are ongoing. Work on the wider site programme work streams continues with lead personnel from other related Council projects. There is a current focus to review delivery options for the Council office (Project Connect); and to integrate design of the balance of the site, with Stage 1 of the new arterial and CIP programme/commitments. The design team is yet to report on key Project Connect design elements which requires further exploration such as structural options, sustainable design, seismic importance level and costings.

High Profile Projects: 3 Waters Reform Stimulus Delivery Plan

34 In August 2020 Council signed a Memorandum of Understanding with the Crown to participate in the initial stage of a central/local government 3 Waters delivery reform programme. The \$5.3m 2020:21 budget is to allow COVID-19-related stimulus works for additional investment into Council's 3 Waters assets. The Reforms funding became available in November and the focus initially has been on establishing contracts to enable delivery, this is reflected in the spend to date. Forecast spend for 2020:21 is \$3.5M. \$1.5M was deferred to 2021:22 in the March reforecast.

High Profile Projects: Tourism Infrastructure Fund (TIF) and Provincial Growth Fund (PGF)

35 TIF funding for toilets (annual budget of \$1.8M) is assigned to specific projects with contracts currently in place and are expected to be completed by the end of this financial year on budget. The Freedom Camping project finishes on 4 April with the budget of \$426k expected to be fully spent. The Freedom Camping budget has mainly been used for responsible camping ambassadors, enforcement and project management by Summit Events. There is a forecast under spend for 2020/21 of (\$74k) for the responsible camping strategy and (\$52k) for freedom camping waste facilities, of which work will continue into 2021:22 (delayed due to the slow-down in tourism).

36 During the current Financial Year Council was successful with a Provincial Growth Fund application. This funding is across four venues including Lake Wānaka Centre, Queenstown Memorial Hall, Lake Hayes pavilion and Arrowtown Hall and has a budget of \$1.2M. Work commenced in October and is comprised mainly of painting, electrical, joinery work and other improvements. \$806k has been spent as at the March year to date with a final claim to be submitted to PGF in May.

Project Management Office (PMO) Commentary.

- 37 A 3 Waters budget adjustment was completed in the March reforecast, reducing the Annual Plan budget by \$15M. The main reason for the budget adjustment on 3 Waters is a delay in the commencement of construction on major projects as scheduled due to constructability (appropriate construction methodology) and consenting issues. The Kingston HIF bundle has also been delayed due to a protracted design programme. Current 3 Waters and Transport CAPEX Programme spend is \$29.4M year to date, with an estimate at completion to be \$44.3M, which is \$12.6M behind approved adjusted budget. Despite programme delays, the Capital investment in 3 Waters infrastructure is significantly greater than has been delivered previously. The reduced spend forecast is predominantly due to:
- 38 Wānaka Stormwater: Alpha Series, Bills Way, Aubrey Rd (an underspend variance of \$1.8M)
- Alpha Series: Behind schedule due to the original concept design not being accepted by the Engineering Challenge Group (ECG), the PMO's Technical Governance Forum. A revised concept design was required.
 - Aubrey St & Bills Way: Behind schedule due to design delays.
- 39 Kingston HIF: Stormwater, Wastewater and Water Supply (an underspend variance of \$1.7m)
- Underspend because of Detailed Design delays
- 40 Beacon Point New Reservoir (an underspend variance of \$1.5m)
- Delay in awarding contract. Significant FY21 spend to be delivered in FY22 because of the delay.
 - All consents have been granted and all land has been acquired, although use of adjacent 'water treatment plant' land still being negotiated.
 - Council have approved a \$2.3M budget reallocation under FY22. Budget changes are to be reflected in TechOne (Financial Management System) next month which will result in no forecasted variance for FY21.
- 41 Queenstown Stormwater: Kawarau Pl, Lucas Pl, Magnolia Pl (an underspend variance of \$1.1m)
- Project construction delayed due to design changes and budget constraints.
 - Approval to move to construction has just been granted.
- 42 North Wānaka new WW conveyance scheme (an underspend variance of \$800k)
- Project delayed due to constructability issues and potential litigation causing subsequent delays in executing the contract and the start of construction
- 43 Spend for Roothing New Capital Projects within the PMO is \$4.0M year to date with an estimate completion of \$8.1 million.
- Ballantyne Road Reseal \$5.6M forecast to be spent 2020:21 against the full year adjusted budget of \$5.9M.

- Bennetts Bluff Safety Improvements forecast to be completed 2020:21 within budget (with on-charging to DOC for their elements of the work)

Renewals Commentary

Community Services Renewals:

- Community renewal budgets will be fully spent as planned in the March forecast by the end of the financial year. There are upcoming material purchases for \$493k Alpine Aqualand plant and equipment including \$300k for a HVAC unit, and other items which have been specifically identified that make up the current budget underspend.

Transport and 3 Waters Renewals:

- 3 Waters renewals spend is tracking \$1.1M behind year to date budget and is expected that 2020:21 budgets will be fully spent apart from a \$300k underspend expected in Storm Water Wakatipu. Transport actuals are tracking \$2.1M behind year to date budget, but this is anticipated to be caught up with a significant proportion of the budgets being associated with sealed road resurfacing and unsealed road metalling which is programmed to occur through Autumn (so mainly relates to timing of budget phasing). Contracts with Downer and Fulton Hogan are in place to spend the remaining budget for 2020:21.

Other BAU Capital Projects Commentary

Community Services BAU Projects:

- Parks & Reserves includes the Wānaka Lakefront Development Plan which is \$566k behind on year to date spend vs budget (delayed due to the lengthy consultation period and construction tendering process). Stage 3 expected to be completed by end of August and Stage 2 completion now in 2021, due to working closely with the P&I team on civil elements and flood mitigation in the CBD which has now extended the project timeline. The adjusted year end budget reflects the cost the quantity surveyor expected in terms of the spend up to 30th June.
- Campgrounds includes the Frankton Campground upgrade, the redevelopment commenced in February with plans for it to be open in time for November 2021. Remaining budget to be paid as a contribution at the end of the financial year once the infrastructure is installed.

Corporate BAU Projects:

- Information Management are \$507k behind on year to date spend vs budget. GIS Software and projects and Library Systems has scheduled work prior to year-end with timing of some works subject to business prioritisation and internal resource. Enterprise system project had a delayed start due to COVID-19, primarily due to Tech One resource or software availability, so completion of all work may not be delivered by year end. Sentient prioritisation on hold awaiting internal resource and contract register enhancement project in prioritisation stage. Other Information

Management projects have work scheduled and are expected to be delivered this financial year.

Property & Infrastructure BAU Projects:

44 Projects currently in a construction phase consist of 40% or \$12.5M out of an annual budget of \$34.2M, with design making up 53% of projects with annual budgets totalling \$19.6M.

- Buildings includes the Artificial Turf Project at Queenstown Events Centre which is \$0.9M behind on year to date spend vs budget. Construction is underway and expected to be completed by July. Luggate Hall Replacement is \$1.2M behind on actuals vs year to date budget. Construction is due to begin late May 2021 and be completed in 2021:22 financial year.
- Waste Management includes the Wakatipu Transfer Station and Plant Upgrades, which were in a holding pattern while the Long Term Plan was being finalised but has now been agreed. Scoping and design are now underway for the new Eco Park. Spend is \$925k behind year to date budget but a new compactor and polisher is expected to arrive before June for the existing plant.
- Storm Water is behind year to date budget by \$433k with a number of projects not being progressed as planned. \$1.2M was reallocated from Recreation Ground SW new box culverts to the Ladies Mile Storm Water Scheme project in the March reforecast for a contribution to the Queenstown Country Club for the Storm Water pipe that was installed with increased capacity for the new development.
- Wastewater is tracking behind budget by \$877k for the year to date. The Marine Parade Pump Station (\$593k 2020:21 budget) has a forecast spend of \$75k this financial year on design for upgrades for emergency storage and the replacement of the building/electrical gear, with construction to be 2021:22. Hāwea Wastewater Management (\$500k 2020:21 budget) has forecast \$350k 2020:21 spend to continue the business case and investigations.
- Water Supply is tracking \$3.7M behind year to date budget. The Beacon Pt new Water Treatment Plant 2020:21 budget of \$1.3M was held for Land acquisition (now unlikely to spend 2020:21 due to delays with the consent and land designation). Hanley's Farm New Reservoir and Pump Station Rising/Falling Main's (Coneburn) has only \$8k actuals against a full year budget of \$2.4M (negotiations with the developer have protracted and the project is on hold until an agreement can be struck). Luggate New Water Treatment Plant, Pumping Stations and pipeline to airport projects were delayed due to consents and the availability of drillers which is now only starting.
- Transport is tracking \$5.4M behind on spend to the March year to date budget. Significant Projects exist across various Minor Improvements which are programmed to be mostly spent in 2020:21 (including Aubrey Road Cycleway, Lakeside Road New Footpath, Wānaka Town Centre Shared Space and New Footpath Arthurs Point). Queenstown Parking Improvements (\$1.4M 2020:21 budget) spend was delayed

whilst the preferred car parking options were considered. Temporary parking options are now being progressed. Public Transport Minor Infrastructure is \$505k behind on year to date budget though the full 2020:21 budget of \$940k is programmed to be spent by June on bus stops.

2020:21 March Debtors Analysis Overview:

- 45 Total outstanding debtors (excluding rates) has increased by \$3.6M compared to March 2020 but most of this increase is in current debtors less than 30 days overdue due to timing of payments from NZTA and for turnover rents and GST.
- 46 There has been a \$0.9M increase in total rates outstanding made up of both an increase in current year and arrears rates. Mortgagee letters were sent to the banks for overdue rates amounts in February. At the time of writing the rates team is currently preparing final demand letters to the banks.
- 47 Our provision for doubtful debts has increased by \$0.6M which accounts for all outstanding debt >6months. \$0.3m of this increase is for infringements.
- 48 Further in-depth commentary is provided within attachment C.

2020:21 Statement of Financial Position Overview:

- 49 Total increase in net assets compared to March 2020 is \$247M which is made of the following significant movements:
- \$296M increase in property, plant & equipment from \$172M revaluation of Roothing infrastructural assets and asset additions in the second half of the FY20 year;
 - Net increase in total borrowings of \$30.8M to fund the capital programme;
 - \$7.3M increase in other current liabilities which includes a \$6.6M increase to the provision for legal claims as at 30 June 2020.
- 50 Further in-depth commentary is provided within attachment D.

Options

- 51 This report identifies and assesses the following reasonably practicable options for assessing the matter as required by section 77 of the Local Government Act 2002:
- 52 The report is for noting, therefore no options are discussed.

FINANCIAL IMPLICATIONS | NGĀ RITENGA Ā-PŪTEA

- 53 As the review of the financial results is an administrative matter, there are no budget or cost implications arising from this report. No anomalies have been identified and it is not proposed to make any significant changes to any internal practices or procedures.

COUNCIL EFFECTS AND VIEWS | NGĀ WHAKAAWEAWE ME NGĀ TIROHANGA A TE KAUNIHERA

54 The following Council policies, strategies and bylaws were considered:

- Council Policies, Strategies and Bylaws

55 The following Council policies, strategies and bylaws were considered:

- Long Term Plan 2018:2028
- Annual Plan 2020:2021
- Refer to online documents here: <http://www.qldc.govt.nz/policies>

56 The recommended option is consistent with the principles set out in the named policy/policies

LOCAL GOVERNMENT ACT 2002 PURPOSE PROVISIONS | TE WHAKATURETURE 2002 O TE KĀWANATAKA Ā-KĀIKA

57 The recommended option:

- The recommended option is consistent with the Council's plans and policies.

ATTACHMENTS | NGĀ TĀPIRIHANGA

A	Finance Management Report – 2020:21 March Opex YTD Actual to March YTD Budget Reporting Overview
B	Finance Management Report – 2020:21 March Opex Full Year Forecast to Budget Reporting Overview
C	Finance Management Report – 2020:21 March Capital Expenditure Reporting Overview
D	2020:21 March 2021 Debtors Analysis.
E	2020:21 March 2021 Statement of Financial Position.