Full Council

15 February 2024

Report for Agenda Item | Rīpoata moto e Rāraki take [1]

Department: Property & Infrastructure

Title | Taitara: Arterial Stage 1 Project – Additional Budget Required to Complete the Project

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is:

- To brief Council on the increase in the forecast cost to complete for the Arterial Stage One project ("Arterial project" or "the project"); and
- to secure a decision from Council regarding the associated recommendation to increase the budget to allow for the completion of the balance of the Arterial Project.

Recommendation | Kā Tūtohuka

That the Council:

1. **Note** the contents of this report;
2. **Approve** a budget increase of $17.65 million for the Arterial Stage One project budget, establishing a revised total budget of $128.02 million;
3. **Note** the advice in the financial section of this report that if the increase is approved that it would be accommodated by:
   a. The adjusted QLDC budget for 2023/24 increasing by $16.65M to become $198.08M;
   b. Funding of the additional borrowing which will be serviced primarily by the Wakatipu Roading Rate (C 80%); with the balance by the Wakatipu Stormwater Rate; Queenstown Water Supply and Wastewater Rates;
   c. Consideration of further opportunities to mitigate the cost increase on QLDC's overall expenditure position will be explored through upcoming financial planning and adjustment processes;
4. **Note** the estimated net LTP cost to QLDC of the Arterial Stage 1 project will be $79.14 million after Crown Infrastructure Partners funding is uplifted and offsets associated with the transfer and/or sale of properties acquired through the project are realised;

5. **Note** the contractual obligations of the Crown Infrastructure Partners Funding agreement and the funding risks associated with not completing the Arterial Project;

6. **Note** that the revised project budget of $128.02 million may be subject to further adjustments for future construction and supply market uncertainty and cost escalation; and

7. **Delegate** authority to the Chief Executive to manage the Arterial Stage One project up to the budget values provided in the LTP, or as may be amended by the Annual Plan process.

Prepared by:	Reviewed and Authorised by:
Name: Geoff Mayman	**Name:** Tony Avery
Title: Owner Interface Manager	**Title:** General Manager Property & Infrastructure
31 January 2024	**31 January 2024**

Context | Horopaki

Shovel Ready Projects, Crown Infrastructure Partners, and the formation of the Alliance

1. In 2020, during the early stages of the initial Covid lock-down, the Government made available funding for "Shovel Ready projects". QLDC applied for funding for a number of projects. Queenstown Lakes District Council's (QLDC) submission was successful in gaining offers of part funding for two projects, being the Street Upgrades Project and the Arterial Project.

2. The Crown Infrastructure Partners (CIP) funding agreement, the associated Council Report and the Queenstown Integrated Transport Business Case summarise the following key objectives associated with delivering the Arterial project:

   - Support liveability, visitor experience and amenity while supporting a pedestrianised town core by limiting through traffic within the town centre
   - To develop an alternative route enabling increased priority for pedestrians, urban environment, introduce traffic calming and reduce traffic volume on Stanley Street
   - Completion of the project will enable the creation of a new transport hub on Stanley Street, by removing general traffic from Stanley Street, vastly improving pedestrian experience, safety and connections
   - The economic benefit from the expected creation of 190 direct jobs.

3. On 4 August 2020 Council approved budgets and delegated authority to the Chief Executive to enter into funding agreements with CIP. The CIP funding agreements provided for funding of $50 million for the Arterial Project (and $35 million for the Street Upgrades project).

4. The CIP funding agreement for the Arterial project provides that:

   a. The Total Maximum Amount Payable by CIP $50 million, this means that all project costs incurred above $50 million are the responsibility of QLDC ("co-funding").

   b. That each month QLDC must confirm it has the funds to complete the project (the cost to complete test).

   c. CIP may suspend funding if QLDC, in CIP's reasonable opinion, is unable to fund the estimated costs of the Arterial project that exceed CIP's Total Maximum Amount Payable.

   d. CIP can terminate funding if QLDC fails to contribute co-funding, and/or abandons the project.

   e. CIP may recover funding already paid if QLDC abandons the project.

5. On 3 September 2020, Council delegated authority to the Chief Executive to enter into a Memorandum of Understanding covering the relationship (the MoU) and procurement planning processes with Waka Kotahi for the delivery of the Street Upgrade project, the Arterial project, and Central Government funded/Waka Kotahi managed New Zealand Upgrade Programme (NZUP) projects.

6. The Procurement Plan developed by QLDC and Waka Kotahi contemplated multiple delivery options and recommended the use of an alliance delivery model to optimise programme opportunities, and to better manage risk and the implications of the Central Government funding.

7. An NZTA compliant procurement planning and go-to-market process was undertaken for an alliance delivery model that resulted in the award to a consortium of engineering consultant companies (Beca and WSP) and contractors (Downer and Fulton Hogan) (the Non Owner Participants). The Non Owner Participants, along with QLDC and Waka Kotahi, then collectively formed Kā Huanui a Tāhuna, Whakatipu Transport Programme Alliance ("the Alliance").

8. An Interim Programme Alliance Agreement (IPAA) was executed on 23 December 2020. The IPAA enabled the Alliance to mobilise and commence delivery in January 2021, a key deliverable for the CIP Street Upgrades project.

9. The Programme Alliance Agreement (PAA) including the management overhead structure and the Street Upgrades project was developed, based on the delegated authority provided in the 3 September 2020 Council meeting. The 3 September 2020 report also provided for the Arterial project to be included in the PAA. The PAA was executed on 17 September 2021.

Key dates for the Arterial project

10. A summary of the key dates within the Arterial project follows:

- 30 July 2021 – Target Out-turn Cost[1] (TOC) Reconciled. TOC Proposal presented. QLDC provisional agreement of TOC at $71.11 million for Arterial project, subject to funding.
- 27 September 2021 - Early works construction commenced meeting the CIP Target Date
- 28 October 2021 - Council approved a revised 2021 Long Term Plan (LTP) Arterial Stage One project budget of $88.23 million and delegated authority to the Chief Executive to have the Arterial project delivered by the Alliance.
- 27 April 2023 - Council approved a budget increase of $20.61 million for the Arterial Stage One project budget, establishing a revised total 2021 LTP project budget of $108.84 million[2]. This budget was subsequently escalated to $110.37 million through the annual process.
- 24 December 2024 – The Arterial Road is planned to be open and operational.
- 31 March 2025 - The Arterial project is planned to be fully construction complete.

[1] The Target Out-Turn Cost (TOC) is the expected cost at completion for the alliance scope, and is the basis from which the pain/gain mechanisms are applied. It is not the Owners budget. The process as it applied to the Arterial project is summarised below.
[2] A summary of the rationale for the increase and the resolution is provided below.

Estimating and establishing the Target Out-turn Cost for the Arterial Project

11. A parallel estimating process was used to develop the initial TOC. This process involved the Alliance Non Owner Participants preparing detailed price estimates in parallel with an Independent Estimator. Bond Construction Management Ltd was selected though a competitive closed RFP to represent QLDC and Waka Kotahi in this process. The final negotiated TOC was $70.11 million.

12. The price estimates underpinning the TOC were based on an assumed 30% design[3]; this level of design detail generally provides a sufficient degree of certainty to enable risk to be assessed, quantified, and priced. Additionally, the design is not so far progressed that the construction team is precluded from the opportunity to innovate, plan, and undertake early procurement activity.

13. Within the TOC there is provision for design progression to cover the delta between the assumptions made and priced at 30%, compared to the final design, pricing and construction.

14. The Non Owner Participants and the Independent Estimator undertook the TOC reconciliation process and this was completed within industry norms.

15. In the Arterial project however, the assumptions made by both Non Owner Participants and the Independent Estimator at the TOC stage materially under-estimated the extent and complexity of the eventual works.

Alliance Reforecast and 27 April 2023 Council Meeting

16. At last year's 31 January 2023 meeting of the Programme Alliance Board (PAB), the Alliance Programme Manager presented a report noting that a re-forecast of the Arterial project had resulted in a material increase to the estimated cost to complete the project.

17. Key issues were identified that contributed to the increase in the estimated cost to complete.

18. The resultant increase in the estimated cost to complete necessitated a report to Council seeking additional budget to enable the project to continue. approve the increase in budget approve the budget increase was reported publicly at that time, but the report was not released. As part of the preparation of this report, the 27 April 2023 report has been reviewed and been released with commercially sensitive material redacted. This is Attachment B.[4]

19. The 27 April 2023 report identified a number of cost drivers experienced by the Alliance since setting the TOC and these are covered paragraphs 23 to 34.

20. Additionally the full impact from the Covid pandemic had not fully reached world and New Zealand supply chains. This combined with increases in interest rates and construction cost

[3] There is no exact measure to arrive at a "30% Design", it is an indicative value.
[4] Sections of the report are redacted pursuant to the Local Government Official Information and Meetings Act 1987 sections 7(2)(h) and (i) on the grounds that the withholding of the information is necessary to protect the commercial positions and relationships of Queenstown Lakes District Council (QLDC) and the participants of Kā Huanui a Tāhuna, the Whakatipu Transport Programme Alliance (the Alliance).

escalation not seen for decades, the extreme shortage of staff, and subsequent NZ law changes, contributed to the need for the Alliance to undertake a reforecast.

21. The full resolution from the 27 April 2023 Council meeting follows:

On the motion of the Mayor and Councillor Guy it was resolved that the Queenstown Lakes District Council:

1. *Note the contents of this report;*

2. *Approve a budget increase of $20.61 million for the Arterial Stage One project budget, establishing a revised total 2021/22 – 2030/31 Ten Year Plan project budget of $108.84 million;*

3. *Delegate authority to the Chief Executive to manage the Arterial Stage One project up to the value of $108.84 million, or as may be amended by the Annual Plan processes;*

4. *Note the estimated net cost to QLDC of the Arterial Stage 1 project will be $58.84 million after Crown Infrastructure Partners funding is uplifted and offsets associated with the transfer and/or sale of properties acquired through the project are realised;*

5. *Note the contractual obligations of the Crown Infrastructure Partners Funding agreement;*

6. *Direct staff to work with the Alliance to seek further savings and/or value engineering opportunities in the project;*

7. *Note that the revised Ten Year Plan project budget of $108.84 million will be subject to further adjustments for future construction and supply market uncertainty, and cost escalation, as part of Council's regular capital re-forecasting processes and the 2024- 2034 Long Term Plan budgeting process;*

8. *Agree that the report should remain confidential until one year after the completion of the Kā Huanui a Tāhuna, the Whakatipu Transport Programme Alliance;*

9. *Direct staff to undertake a "lessons learned" process which at a minimum should include the use and operation of the alliance model, QLDC's management of risk and opportunity in major projects and the key considerations in entering into third party (e.g. Government) funding agreements;*

10. *That staff provide an update on the scope and initial findings to the Audit Finance & Risk Committee at its next meeting; and*

11. *Delegate authority to the Chief Executive to release non-confidential information as deemed appropriate, to make a public statement on the budget adjustment and the reasons for the adjustment.*

Motion carried with Councillor Bartlett voting against the motion.

22. In respect of resolutions 9 and 10, that staff undertake a "lessons learned" process of the Alliance operations to date, a consultant has recently been appointed to undertake this review which will be reported back to Council and the Audit, Finance and Risk Committee when complete. The findings of that review will not be available in time for consideration of this report.

December 2023 – Increase in Cost to Complete

23. At the 5 December 2023 meeting of the Programme Alliance Board (the Board), the Alliance Programme Manager reported to the Board that as a result of further work undertaken in re-forecasting the remaining works in the Arterial project, the projected cost to complete would increase by a further $16.00 million, to a total of $97.00 million (Limb 1 only[5]).

24. The Board Report summarised the movements/increases since the previous (31 January 2023) re-forecast presented to the Board. They key movements are summarised below:

    a. Retaining Walls $4.3m
    b. 3 Waters $3.9m
    c. Escalations $3.2m
    d. Preliminaries & General $2.6m
    e. Traffic Management $1.9m
    f. Pavement $1.0m

25. QLDC subsequently requested a report from the Alliance Programme Manager to provide additional information, setting out:

    a. The rationale for the increases since the previous 31 January 2023 re-forecast; and

    b. The impact on the Arterial project if additional funding was not made available.

The Alliance Arterial Report

26. The resultant Alliance Arterial Report: Increase in Cost to Complete and Impact of Funding Decisions (the Alliance Report), is summarised below and attached as Attachment A. The Alliance Report should be read in conjunction with this report and be referred to for fuller detail than summarised below. The detail has not been repeated in this report.

27. The Alliance Report identifies the key drivers of the increase in the Cost to Complete being that at the date of the previous January 2023 reforecast, while the final design had been re-quantified, not all components had been priced at current market rates.

28. This means that where procurement was complete, current market rates were used to develop the cost to complete. Where procurement had not yet been undertaken, rates from the original TOC price build were used, plus a contingency provision for escalation. As was noted in the April

[5] As the Actual Out-turn cost will be materially above the TOC, no Limb 2 (the corporate overhead and profit) will be paid to the Non Owner Participants. The Alliance have therefore focused on Limb 1 costs.

2023 Council report, the industry as a whole has experienced significant cost escalations over that time.

29. As procurement was undertaken through 2023, it became apparent that the contingencies included in the previous re-forecast were insufficient to cover the:

   a. Complexities and construction methodologies needed to deliver the works
   b. Risks that materialised
   c. Changes in the specification for temporary traffic management; and
   d. Levels of cost escalation experienced.

30. The Alliance Report (section 5) also notes that the updated Cost to Complete includes $5.7m of contingency, being 13% of the remaining forecast cost. The Alliance Report identifies how that contingency is apportioned across the various disciplines and trades. The Alliance Report also notes that a number of risks are not included in the re-forecast as, while likely, the consequences are impractical to attempt to quantify.

31. As an ongoing process to deliver value for money, value engineering and cost saving workshops have been undertaken by the Alliance and QLDC. The Alliance report addresses this and notes:

   a. At section 6 those savings that were previously considered and were either accepted or declined, but which are no longer available for consideration due to the progress of works which has overtaken those options
   b. Section 7 the possible savings which are still available for consideration
   c. However, it states that while savings will continue to be sought and actioned where possible prudent, none of the cost saving options will reduce the Cost to Complete to deliver the Arterial project within QLDC's current budget.

32. In considering the response to the increased Cost to Complete, the current status of the works and the implications of the various options will need to be considered. Full details of the current status are provided in the Alliance report in section 8.1 and summarised below:

   a. Frankton Road – Upslope, 3W and utilities works nearly complete. Downslope (Lake side), small volume underground scope remains. Significant roading work about to start.
   b. Melbourne Street – underground scope complete. Downslope, 90% complete including final asphalt layer. Upslope (Hill side) and Sydney Street intersection, above ground works underway and excluding final asphalt all works complete prior to winter.
   c. St Joseph's to Henry St – 10 of 12 large retaining walls commenced. Underground work approx. 45% complete. No aboveground works have commenced.
   d. Gorge Rd – all underground scope complete, remaining items – final asphalt surfacing, median island & Turner St intersection.
   e. Ballarat stormwater – not commenced.

33. A significant amount of work has been completed and to date this equates approximately 54% by value of construction. It should also be noted that some 30% of the re-forecast costs are associated with 3 Waters assets and utilities. This work has involved, renewals, relocations and the installation of new 3 Water assets. While the extent of that work will not be visible once the

Arterial project is completed, the upgrades and connections will provide a material benefit and future proofing of the 3 Waters Network.

34. The Alliance was asked to include in their report the implications if additional funding was made available or not (the two options considered below). This is covered in section 10 of the Arterial report.

Revised Budget Requirement for the Arterial project

35. With the updated Alliance estimate cost to complete for the Arterial project, the Alliance Management Fee, and the QLDC internal costs, the budget for the Arterial project is insufficient to fund completion of the project.

36. This means that there is a need for the Council to consider a further increase to the budget for the Arterial project.

37. A revised budget of $128.02 million will be required to complete the project. The revised budget is needed to fund:

a.	Estimate for the Alliance direct costs for the Arterial project	$97.00 million
b.	Estimate for the Arterial Allocation of the Alliance Management Fee	$14.55 million
c.	Estimate for QLDC net costs	$16.47 million

38. The Estimate for QLDC net costs include:

    a. Property costs (including land purchases and resale, apartment remediation, etc)
    b. Professional Services (Property, Legal, Valuers, Independent Estimator, Alliance Auditor)
    c. Variations
    d. Staff time; and
    e. Contingency.

39. While the Alliance cost to complete provides for contingency against identified risks, uncertainty remains and it is prudent for QLDC to continue to also hold contingency. The QLDC contingency will cover those project risks that sit directly with QLDC, plus the unpriced risks the Alliance has identified, but by their very nature they are difficult to quantify.

40. The current construction programme for the Arterials project is budgeted to spend circa $4.00 million per month in order to be able to deliver the finalised project within the current timeframes. With each month therefore, there is less opportunity for savings and the ability to reprioritise becomes less meaningful.

tAnalysis and Advice | Tatāritaka me kā Tohutohu

41. 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.

42. **Option 1** - Approve a revised budget of $128.02 million to enable the completion of the Arterial project.

43. Under this option, the works would proceed with the arterial road becoming operational from December 2024 and the project being construction complete for the remaining works by March 2025, (which includes Ballarat stormwater outfall which cannot be constructed until after the Arterial Road is open to traffic).

Advantages:

- Ensures that outcomes sought from the Arterial project are achieved.
- That the substantial work already completed and committed to of the Arterial project delivered to date is not unproductive.
- Maintains $50.00 million of CIP funding. See the legal section for the commercial provisions in the CIP contract.
- Provides continuity of funds flowing into and through the regional economy (a key goal from CIP funding).

Disadvantages:

- QLDC finances are further constrained.
- Reduced ability to respond to uncertainty in other projects or increase debt and rates.
- Further increases in funding may still be required to fund escalation and risk.

44. **Option 2** - Do not approve the additional budget necessitating the descoping and structured demobilisation of the Arterial project at the most practical point prior to the current budget being consumed.

45. Under this option, additional budget would not be required and spending would be managed within existing budgets.

46. This option would look to rationalise the remaining work to complete some areas and make safe other areas until future funding supports completion.

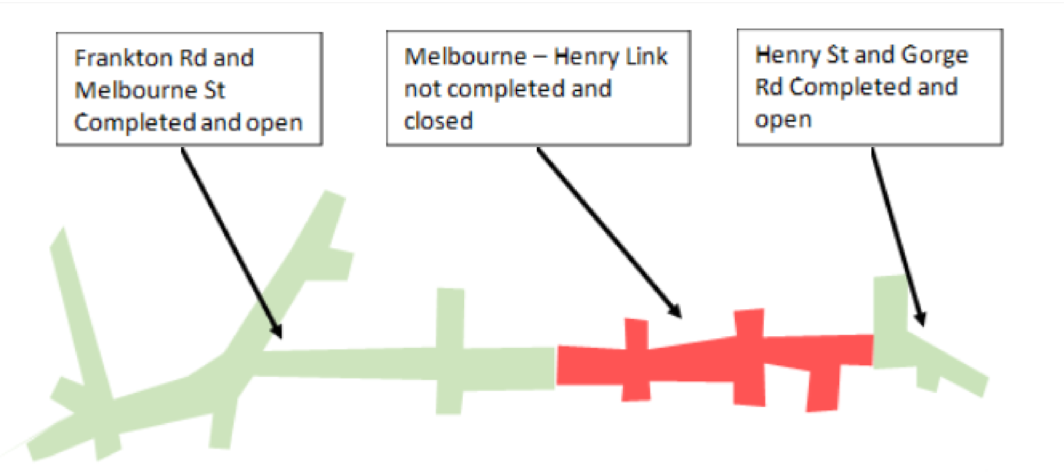
47. Further investigations would be undertaken to assess the options of what would, and would not, be completed. These investigations would also need to consider and seek to quantify:

- the consequences of completing / not completing various project components
- what project components could be deferred until a later date

- ensuring that the unfinished works were made safe and appropriate environmental controls put in place, with an ongoing maintenance budget to ensure the unfinished works did not degrade or place the environment at risk.

48. Under this option, initial thinking, further detailed in the Arterial Report section 10.2, provides for:

- SH6A Frankton Rd, including Dublin and Suburb Streets complete
- Melbourne St complete
- Slopes stabilised / made safe with retaining walls finished in the Melbourne – Henry link section (in red below)
- Melbourne St to Henry St link not finished and not useable.
- Beetham, Ballarat and Malaghan remain closed and uncomplete – no rubbish trucks up and down to the cul-de-sacs due to turning heads not finished.
- Permanent pedestrian links from up slope to down slope along Beetham, Ballarat and Malaghan not complete
- Possible temporary pedestrian links – possible temporary timber steps and asphalt ramps.



Advantages:

- No additional funding required
- The remaining funds would be targeted on completing prioritised works
- QLDC finances are less constrained

Disadvantages:

- Stage 1 of the Arterials not completed

- Risk to CIP funding agreement, with implication of needing to repay $50 million if the Arterials project is not able to be completed under the current arrangements as outlined in paragraph 4 and the Risk and Legal sections.

- Costs associated with restarting in the future. Re-mobilisation costs. Cost increases on scheduled and priced items – remaining work pricing will likely end up void and need to be wholly re-priced which will introduce cost increases above current rates.

- The work site is left in the state described above, which has health and safety, as well as amenity and operational issues

- Reputational harm from having an uncompleted roading project in the heart of town.

49. Both options will provide for staff governance and management oversight and work with the Alliance to seek further savings and/or value engineering opportunities in the project.

50. This report recommends Option 1 for addressing the matter as this option enables Council to continue to deliver a key capital project, along with the corresponding economic and social benefits.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

51. This matter is of high significance, as determined by reference to the Council's Significance and Engagement Policy 2021 because it sits at the Higher Impact range when measured against the considerations of: Importance to Queenstown Lakes District, Community Interest and The Impact on Council's capability and capacity.

52. The persons who are affected by or interested in this matter are the residents/ratepayers of the Queenstown Lakes district community, Crown Infrastructure Partners, Waka Kotahi as an Alliance co-owner, and other Alliance participants, subcontractors, and suppliers.

53. Consultation on this matter not been undertaken and is not intended.

Māori Consultation | Iwi Rūnaka

54. The Alliance with QLDC and Iwi support, through Te Ao Marama and Aukaha, have set up the Mana Whenua Liaison Group (MLG) to facilitate programme wide consultation. Whilst the MLG have previously met and discussed the issues QLDC was facing with respect to increasing project costs, the current increased cost to complete has not been discussed.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

55. This matter relates to the Financial risk category. It is associated with RISK10013 Unexpected change in cost or funding within the QLDC Risk Register. This risk has been assessed as having a high residual risk rating.

56. Within the QLDC Risk Register this Tier 1 Risk has two Tier 2 Risks there are two associated tier two risks that separately consider “cost” and “funding”, they are:

    a. RISK20020 Unexpected change in funding; and
    b. RISK20130 Cost of Kā Huanui a Tāhuna delivery of arterial exceeds budget.

57. In relation to RISK20130 Cost of Kā Huanui a Tāhuna delivery of arterial exceeds budget, there is a further chance that the proposed investment in the Arterial project will be at a higher cost than has been reforecast, and/or will be delivered later than currently proposed. The PAB at its 30 January 2024 meeting had robust discussions with the Programme Alliance Manager to test the levels of confidence in the latest reforecast and consider additional ways of demonstrating to the PAB the delivery of the project against programme and cost is on track.

58. In relation to RISK20020 Unexpected change in funding, there is a risk that should QLDC not complete the Arterial project, CIP may terminate funding if QLDC fails to contribute to co-funding, and/or abandons the project; and may recover funding already paid if QLDC abandons the project. This is covered further in the Legal section below. This risk would be mitigated by approving the recommended budget increase, providing CIP with certainty that QLDC has sufficient funding now and in the future to meet its obligations under the agreement.

59. The following Tier 1 risks have also been considered in this risk review:

    a. RISK10003 Economic Impacts and Prosperity
    b. RISK10015 Ineffective Governance
    c. RISK10028 Ineffective Procurement

60. With respect to RISK10003 Economic Impacts and Prosperity, the objectives associated with delivery of the Arterial project identified economic, community and visitor benefits. There is a risk that in not completing the Arterial project, these objectives would not be met.

61. With respect to RISK10015 Ineffective Governance, the full description of this risk covers a range of components, including “a failure in officers to proactively inform elected members”. In this situation the reforecast process commenced in July 2023, once the issues were understood, verbal updates were provided through November, and completed and formalised to the PAB at its 5 December 2023 meeting.

62. With respect to RISK10028 Ineffective Procurement, this risk will be further addressed in the Lessons Learnt considered above.

63. The approval of the recommended option will support QLDC by allowing the risks to be retained at current levels. This shall be achieved by ensuring the completion of the Arterial project, maintaining CIP funding, delivering on the intended objects, and enabling the development of additional reporting and controls to provide effective governance.

64. With the implementation of the above, it is considered that the residual risk will be high.

65. This Risk and Mitigation section has been completed with the support of the Risk and Compliance Manager.

Financial Implications | Kā Riteka ā-Pūtea

66. The current adjusted LTP budget for Arterial Stage 1 is $110.37M (2023/24 $'s). If the recommended increase of $17.65 million is approved by Council, the revised LTP Arterial Stage 1 LTP budget will become $128.02M.

67. The budget increase will add $16.65M to the current financial year budget and also add $1.01M across the 2024/25, 2025/26 and 2026/27 financial years LTP budgets as per the table below.

Qtn Town Centre Arterials – CIP Stage 1	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Existing TYP21-31 Budget	26,424,670	35,150,589	27,571,820	21,221,672			**110,368,751**
Adjustment recommended in this report	-	-	16,648,004	(274,931)	896,716	383,600	**17,653,388**
Recommended TYP21-31 Budget	26,424,670	31,131,897	44,219,824	20,946,741	**896,716**	**383,600**	**128,022,139**

68. QLDC's current adjusted budget for 2023/24 financial year is $181.43M. If approved, the adjusted QLDC budget for 2023/24 will increase by $16.65M to become $198.08M.

69. The recommended budget increase will impact the availability of funding within the current financial year 2023/24 Annual Plan and the development of the 2024-34 Ten Year Plan. The increase in cost will be funded by additional borrowing which will be serviced primarily by the Wakatipu Roading Rate (C 80%); with the balance by the Wakatipu Stormwater Rate; Queenstown Water Supply and Wastewater Rates.

70. Budget offsets have not been identified in this paper but the April Capital re-forecast process will identify any that are available. An increased budget provision will also need to be included in Years 1 of the draft 2024/2034 LTP which is currently being formulated (total $1.01M).

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

71. The following Council policies, strategies and bylaws were considered:

- The principles of the Vision Beyond 2050: https://www.qldc.govt.nz/vision-beyond-2050/
- The QLDC Disability Policy

72. The recommended option is consistent with the principles set out in the named policies.

73. This matter is included in the Long Term Plan/Annual Plan.

Legal Considerations and Statutory Responsibilities | Ka Ture Whaiwhakaaro me kā Takohaka Waeture

74. Key legal obligations relating to the Crown Infrastructure Partners (CIP) and Programme Alliance Agreement (PAA) agreements were identified in the April 2023 Council Report.

75. A review of the CIP and PAA agreements, as they relate to the increase in the cost to complete the Arterial project, are summarised below.

76. QLDC has contractual obligations to CIP with include:

    a. CIP's Total Maximum Amount Payable for the Arterial project is $50 million.

    b. QLDC is responsible for all co-funding, this means that all project costs incurred above CIP's Total Maximum Amount Payable is the responsibility of QLDC.

    c. That each month QLDC must confirm it has the funds to complete the project (the cost to complete test).

    d. CIP may suspend funding if QLDC, in CIP's reasonable opinion, is unable to fund the estimated costs of the Arterial project that exceed CIP's Total Maximum Amount Payable, i.e. the co-funding.

    e. CIP can terminate funding if QLDC fails to contribute co-funding, and/or abandons the project.

    f. CIP may recover funding already paid if QLDC abandons the project.

77. The PAA sets out the various obligations of the participants. In the current specific situation, the Alliance identifying an increase in the cost to complete the Arterial project, QLDC has sought a legal review of the PAA.

78. Simpson Grierson supported QLDC in working with Waka Kotahi in the development of the PAA, so were engaged for the legal review. The Simpson Grierson letter is provided as Attachment C.

79. In summary, Simpson Grierson identify two practicable options available to QLDC, they are:

    a. Continue to pay the Alliance to complete the Arterial project; or

    b. Instruct a change to the Alliance to descope the Arterial project so that the QLDC budget is not exceeded.

80. The contractual options identified by Simpson Grierson are aligned with the options provided in the Analysis and Advice section above.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kīaka

79. Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future by achieving the project outcomes described in the CIP application and agreement. As such, the recommendation in this report is appropriate and within the ambit of Section 10 of the Act.

82. The recommended option:

- Can be implemented through current funding under the Long Term Plan and Annual Plan;
- Is consistent with the Council's plans and policies; and
- Would not significantly alter the intended level of service provision for any significant activity undertaken by or on behalf of the Council or transfer the ownership or control of a strategic asset to or from the Council.

Attachments | Kā Tāpirihaka

A	Alliance Arterial Report: Increase in Cost to Complete and Impact of Funding Decisions
B	Council Report 23.04.2023: Arterial Stage 1 – Additional Budget request to Fund the Increase in Cost to Complete (PX report with some redactions)
C	Legal Review of options under the PAA in managing the Increase in Cost to Complete