

QLDC Council
29 July 2021**Report for Agenda Item | Rīpoata moto e Rāraki take : 14****Department: Corporate Services****Title | Taitara Lakeview Infrastructure Programme – Budget Adjustment****PURPOSE OF THE REPORT | TE TAKE MŌ TE PŪRONGO**

- 1 The purpose of this report is to seek a budget adjustment to reflect recently received Wakatipu Transport Programme Alliance/ Kā Huanui a Tāhuna pricing to deliver the Lakeview infrastructure programme. For completeness the adjustment includes forecast site clearance costs, ancillary project costs and subdivision works.

EXECUTIVE SUMMARY | WHAKARĀPOPOTOTANGA MATUA

- 2 The Council is committed to the development agreement(s) it entered into relating to the Lakeview precinct to complete certain capital works to effect a subdivision of the site, including site (and asbestos) clearance and installation of infrastructure (three waters and roading/public realm). The Lakeview project has also broadly extended to include completing works in the wider locality which while not strictly part of the Lakeview project benefit from parallel investment; these have broadly been called the Ancillary Lakeview projects.
- 3 Funding for the Lakeview subdivision works and additional network capital works (ancillary projects) was included in the Ten-Year Plan. The Kā Huanui a Tāhuna has recently priced construction of the subdivision and ancillary projects under the proposed Programme Alliance Agreement between the Council, Waka Kotahi and the consortium of suppliers.
- 4 The Council is being asked to consider its approval of additional budget to complete the subdivision and ancillary projects and the additional uplift in asbestos site clearance.
- 5 It seemed appropriate to bring these matters to Council in one combined budget adjustment.

RECOMMENDATION | NGĀ TŪTOHUNGA

That Council:

1. **Note** the contents of the report.
2. **Approve** the proposed budget adjustments for Lakeview and Associated works as per Schedule A which equate to a net increase in capital budget of \$8.2 million for the 2021-31 Ten-Year Plan.

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18/07/2021

Reviewed and Authorised by:



Mike Theelen
Chief Executive

21/07/2021

CONTEXT | HOROPAKI

- 6 On 17 August 2017, the Council approved several development objectives for the Lakeview site, which revolve around maximising financial return and minimising risk to ratepayers and developing a well-designed residential focused mixed-use precinct quickly and efficiently.
- 7 The primary benefit in implementing the Lakeview capital works has always been seen from a broader perspective than pure financial return, namely being the opportunity to support the Queenstown town centre, and to deliver an integrated urban development form, within walking distance of the town centre.
- 8 The Council also elected to credit 5% of its Lakeview land receipts to the Queenstown Community Housing Trust.
- 9 In October 2019, the Council executed a development agreement with QT Lakeview Developments for the development of seven land parcels within the precinct. The balance (two) land parcels have been sold to Well Smart.
- 10 On 12 March 2020, the Council approved to undertake additional network service connections and transportation infrastructure (ancillary) projects concurrently with the Lakeview subdivision infrastructure projects.
- 11 On 18 March 2021, the Council delegated authority to the Chief Executive to enter into necessary agreements with the Kā Huanui a Tāhuna to deliver the Lakeview infrastructure programme. The estimated budget for this work was \$43 million. The infrastructure team recently received target out-turn pricing from Kā Huanui a Tāhuna for the Lakeview and ancillary works infrastructure programme (including site clearance works) at approximately \$55 million.
- 12 Ongoing works to remove the asbestos on the site has also continued to uncover further quantities of asbestos which the Council is obliged to remove. This also indicates that the site was at some point deliberately used to bury asbestos as the quantities involved far exceed normal expected amounts, as has been previously communicated to the Council.
- 13 On 19 July, the Kā Huanui a Tāhuna commenced early site works under a NZS 3910 contract because timing is now critical to complete the subdivision infrastructure projects before the Lakeview subdivision works completion sunset date of September 2023 to deliver the infrastructure in order to achieve the Council's commercial and legal obligations.

ANALYSIS AND ADVICE | TATĀRITANGA ME NGĀ TOHUTOHU

The commitment to developer partners

- 14 The Council's obligations to complete the Lakeview subdivision works are essential terms under the development agreement with QT Lakeview Developments and will enable it to progress development of the subdivision land parcels.

15 The Council has always maintained that it (rather than any developer) would complete the Lakeview subdivision works and went to market on that basis. QT Lakeview Developments and Well Smart, in progressing their development planning, design and resource consent application(s), have relied on this representation. This reflected both commercial advice but assisted the progressive sell down approach of each lot and de-risked the Council's future ownership of the land or any balance of land should the developer at any time fail to meet its development agreement obligations.

Evolution of the Lakeview infrastructure programme

16 During the design development for the subdivision infrastructure projects opportunities for upgrades to the wider network were identified. These identified ancillary or network projects were subsequently added to the Lakeview infrastructure programme after approval by the Council at its March 2020 meeting.

17 The ancillary projects fall into three main areas: three waters upgrades; transport upgrades to Isle Street; and transport upgrades to the Thompson Street/Man Street stage three arterial corridor (including Brunswick Street retaining wall).

18 The justification for undertaking the ancillary projects concurrently with the subdivision infrastructure projects was saving future costs and/or averting works being done, in the short to medium term.

19 The three waters upgrade in particular, being in-ground services, were described in the March 2020 report as being significantly more difficult and disruptive to undertake at a later date. The transport upgrades to a short section of Isle Street would create an upgraded connection between the Lakeview precinct and the streetscape upgrades occurring on Brecon Street (consistent with the Plan Change 50).

20 The Thompson Street/Man Street arterial corridor was described in the March 2020 report as a key section of the stage three arterial project. The transport upgrades to this section (including Brunswick Street retaining wall) would be highly beneficial to undertake at the same time as the subdivision infrastructure projects.

21 The ancillary transport upgrades to the Thompson Street/Man Street arterial corridor are primarily to allow for a raised five metre wide shared pedestrian/cycle "promenade" or active travel route extending (between Glasgow Street and Hay Street on the Lakeview precinct side) along Thompson Street and Man Street toward the Queenstown Town centre. These works exceed the minimum required to assist the Lakeview subdivision but future proof the investment in a manner that is consistent with Council's intention for the later stages of the arterials project.

22 Since the March 2020 decision of the Council the infrastructure team have progressed design of the subdivision infrastructure projects and ancillary projects as a complete package. The Council has also participated in the fast track consenting process to allow resource consent to be issued.

Reforecast Lakeview Infrastructure and Subdivision

- 23 The optimal path for the Council is to finalise the target out-turn cost (‘TOC’) and enter the Lakeview Infrastructure programme into the Programme Alliance Agreement, so that the intended benefits of the delivery model can be realised. One of the key advantages of the model is being able to distribute overheads across multiple projects of the Council, thus reducing the percentage of overheads to each project.
- 24 A project level summary of the Lakeview infrastructure programme capital costs is provided as the Lakeview Budget Variance **Attachment A**.
- 25 For clarity, a breakdown of each of the elements that make up the proposed budget adjustment, the budget, cost, variance and what the adjustment entails follows:

Site Clearance – Subdivision

Budget	\$1.5M
Forecast Cost to Complete	\$3.2M
Variance	\$1.7M

Table 1

- 26 The increase in costs are due to the additional discovery of unforeseen quantities of asbestos containing material (ACM). An ACM removal prioritisation and risk management assessment is currently underway together with a cost mitigation and/or reduction actions aimed at safe containment on-site. The project team has and will continue to approach ACM removal in accordance with Ministry for the Environment (MfE) contaminated land management guidelines.
- 27 The increase in budget will be funded ultimately by Lakeview land sales and will be carried in the interim as a capital cost of sale.

Site Clearance – Ancillary Works (land taken for road reserve)

Budget	\$0.0M
Forecast Cost to Complete	\$1.4M
Variance	\$1.4M

Table 2

- 28 The increase in costs are due to the additional and unforeseen discovery of asbestos containing material (ACM). An ACM removal prioritisation and risk management assessment is currently underway together with a cost mitigation and/or reduction actions aimed at safe containment on-site. This is targeted at areas which require significant fill and is generally on reserve land. The project team has and will continue to

approach ACM removal in accordance with Ministry for the Environment (MfE) contaminated land management guidelines.

29 The additional budget required will be loan funded and ultimately recovered by a combination of rates and development contributions (see financial implications section).

Subdivision Works

Budget	\$32.0M (including Plaza \$4.5M in design)
Forecast Cost to Complete	\$35.2M (including Plaza \$4.5M not currently priced)
Variance	\$3.2M

Table 3

30 The increase in costs have been partly attributed to increases across all rates includes escalation on labour, plant, materials, and subcontracts in part due to COVID related constraints and impacts. In addition to escalation costs the original estimates failed properly account for:

- Services works by others (gas/telco/power)
- Costs for traffic management
- Cut to waste costs and supply/backfill for trenches
- Overhead costs

31 The increase in budget will be funded ultimately by Lakeview land sales and will carried in the interim as a capital cost of sale.

Ancillary Works – Roading

Budget	\$7.7M
Forecast Cost to Complete	\$12.9M
Variance	\$5.2M

Table 4

32 The increase in costs have been partly attributed to increases across all rates includes escalation on labour, plant, materials, and subcontracts in part due to COVID related constraints and impacts. In addition to escalation costs the original estimates failed properly account for:

- Costs for retaining structures (Brunswick Street wall replacement).
- Very high escalation on concrete and steel associated with retaining structures.
- Costs for traffic management.
- Safety barrier on Thompson Street.

- Interface works required between Lakeview and other adjacent projects which were not previously captured or well defined have now been included.
- Overhead costs.

33 It is proposed to transfer budget from CP0006766 “Arterials Balance of Route” (Year 7) to the value of \$3.8 million to offset the increased budget required in years 1 and 2. This transfer covers the roading work within the scope of the arterial, the balance of the work will require new budget (\$1.4 million) and will be loan funded and ultimately recovered by a combination of rates and development contributions (see financial implications section).

Ancillary Works – Three waters

Budget	\$1.8M
Forecast Cost to Complete	\$2.3M
Variance	\$0.5M

Table 5

34 The increase in costs have been partly attributed to increases across all rates includes escalation on labour, plant, materials, and subcontracts in part due to COVID related constraints and impacts. In addition to escalation costs the original estimates failed properly account for:

- Cut to waste costs and supply/backfill for trenches.
- Overhead costs.

35 The additional budget required will be loan funded and ultimately recovered by a combination of rates and development contributions (see financial implications section).

OPTIONS

Option 1: Approve the recommendation.

Advantages:

- 36 Kā Huanui a Tāhuna can move to the TOC contract arrangements immediately.
- 37 All identified three waters upgrades and transport upgrades can be implemented/realised.
- 38 The current site clearance contaminated land management protocols i.e. removal from the site can continue in accordance with Ministry for the Environment (MfE) contaminated land management guidelines.

39 This collective approach enables the overall increase to be funded by a variety of sources which does not have a significant impact on the forecast overall financial position of the Council.

Disadvantages:

40 Will require additional capital expenditure and funding assumptions to the Ten Year Plan through the Annual Plan process but the impact is not significant.

41 **Option 2:** Do nothing – status quo.

Advantages:

42 Ten Year Plan Budget assumptions are not amended through the Annual Plan process and a 0.25% increase would not be applied.

43 The Council would not invest in further (beyond existing budget) ACM removal on the Lakeview site.

Disadvantages:

44 Requires reprioritising, redesigning and repricing aspects of projects with the Kā Huanui a Tāhuna under the TOC process.

45 Likely to extend period under standard NZ 3910 contract with Kā Huanui a Tāhuna.

46 Unlikely that the ancillary transport upgrades to the Thompson Street/Man Street arterial corridor i.e. the active travel route/promenade (including Brunswick Street retaining wall) can be implemented/realised in the short to medium term.

47 The Council would have to accept the risk and liability regarding future use of the land by failing to invest in any more ACM removal at Lakeview.

48 **Option 3:** Direct officers to reconsider and recommend a reduced budget adjustment.

Advantages:

49 The financial impact may be reduced.

Disadvantage:

50 As with Option 2

51 This report recommends **Option 1** for addressing the matter because it will enable the Council to meet its contractual obligations with QT Lakeview Developments and Well Smart; and realise its broader objectives.

CONSULTATION PROCESS | HĀTEPE MATAPAKI:

> SIGNIFICANCE AND ENGAGEMENT | TE WHAKAMAHI I KĀ WHAKAARO HIRAKA

- 52 This matter is of low significance, as determined by reference to the Council's significance and engagement policy because the increase will be funded by a variety of sources and will not have a significant impact on the forecast overall financial position of the Council. The minor impact on rates (0.25%) will be included as an update to the Ten Year Plan through the 2022/23 Annual Plan.
- 53 In consideration of the recommendation the Council has previously acknowledged the asbestos challenge and the unavoidable cost and obligation to public safety.
- 54 In consideration of the arterial budget adjustment, the arterials have been a matter of public consultation and engagement since the early 2000's, included in successive Ten Year Plans, and culminating in consultation through the Queenstown Town Centre Masterplan. All stages of the arterials have resource consent. The adjustment does not deliver the stage three arterial ahead of schedule but will be pragmatic response to undertaking subdivision infrastructure works to a standard that future-proofs or is better enabling of stage three.

> MĀORI CONSULTATION | IWI RŪNANGA

- 55 The Council has consulted with iwi regarding the three waters programme including the Lakeview infrastructure programme. The three waters programme iwi engagement strategy has been developed and implemented.
- 56 Kā Huanui a Tāhuna has commenced discussions with local iwi representative groups Te Ao Marama and Aukaha to establish a Kaitiaki liaison group for the full programme of projects.

RISK AND MITIGATIONS | NGĀ RARU TŪPONO ME NGĀ WHAKAMAURUTANGA

- 57 This matter relates to the financial risk category. It is associated with RISK00020 unexpected change in costs within the Council risk register. This risk has been assessed as having a moderate inherent risk rating.
- 58 The approval of the recommended option will support the Council by allowing us to mitigate and manage the risk. This can be achieved through the budget adjustment as outlined.

FINANCIAL IMPLICATIONS | NGĀ RITENGA Ā-PŪTEA

- 59 The impact of the proposed budget adjustments is a net increase in capital budget of \$8.2 million for the Ten Year Plan. It is intended that this increase will be funded by a variety of sources and will not have a significant impact on the forecast overall financial position of the Council.

60 The financial impact of the proposed budget adjustment for site clearance is split between the subdivision costs at \$1.8 million and the ancillary projects (roading) at \$1.4 million. The proposed budget adjustment required for the subdivision works effectively adds \$1.8 million to the cost of sale for the land.

61 The proposed budget adjustments required for the subdivision works effectively adds \$3.2 million to the cost of sale for the land. This combined with the additional \$1.8 million for site clearance works equates to \$5.0 million, which will reduce the forecast “net surplus” for the Lakeview transaction to approximately \$27 million.

62 The financial impact of the proposed budget adjustment for ancillary works (\$5.7 million) is split between the roading costs at \$5.2 million and three waters at \$0.5 million. This combined with the additional \$1.4 million for site clearance works equates to \$7.1 million. The additional \$7.1 million will be added to the budget for these projects and will be funded initially by loan and subsequently recovered by development contributions and rates.

Summary of funding implications

Capital works	Adjusted Budget	Cost of Sale	DC's	Rates
Lakeview Subdivision projects	\$3.2M	\$3.2M	-	-
Site clearance - subdivision	\$1.8M	\$1.8M	-	-
Site clearance - ancillary	\$1.4M	-	\$0.2M	\$1.2M
Ancillary projects	\$5.7M	-	\$2.0M	\$3.7M
Total:	\$12.0M	\$5.0M	\$2.1M	\$4.9M

Table 6

63 The breakdown of the additional \$7.1 million is that \$2.2 million will be funded by development contributions, with the remaining \$4.9 million being rate funded loans. The impact on rates for this new borrowing will be an annual increase of \$247k, which equates to an approximately 0.25% rates increase from 2022/23 onwards.

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

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

- Vision Beyond 2050: A unique place. An inspiring future. He Wāhi Tūhāhā. He Āmua Whakaohooho, in particular the principles of thriving people | Whakapuāwai Hapori and zero carbon communities | Parakore Hapori.
- Significance & Engagement Policy | Te Kaupapa Here Hiraka Whakapā (2021).
- Disability Policy.
- Financial Contributions Headworks Policy.

- Development Contributions Policy (2021).
- Revenue and Financing Policy.
- Infrastructure Asset Management Strategy.

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

66 This matter is included in the Ten-Year Plan/Annual Plan.

LEGAL CONSIDERATIONS AND STATUTORY RESPONSIBILITIES | KA TURE WHAIWHAKAARO, ME KĀ TAKOHAKA WAETURE

67 The matters discussed in the significance and engagement section (above) relating to the Ten-Year Plan consultation have been considered by legal counsel and the recommended option is consistent with advice.

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

68 The recommended option:

- will promote the social, economic, environmental, and cultural well-being of the Queenstown Lakes district community in the present and for the future, though prudent stewardship and the efficient and effective use of its resources in the interests of its district, including by planning effectively for the future management of its assets;
- can be implemented through current funding under the Ten Year Plan.
- is consistent with the Council's plans and policies; and
- will 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 | NGĀ TĀPIRIHANGA

A	Lakeview Budget Variance
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