

**Audit, Finance & Risk Committee**

11 June 2024

**Report for Agenda Item | Rīpoata moto e Rāraki take [8]**

**Department: Property & Infrastructure**

**Title | Taitara: Alliance Lessons Learnt Report**

**Purpose of the Report | Te Take mō te Pūroko**

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The purpose of this report is to provide the Audit, Finance & Risk Committee (the Committee) with the independent lessons learnt review report of the performance of the Whakatipu Transport Programme Alliance undertaken by Mr Dave Brash following an April 2022 Council resolution, and to make recommendations to address the findings of the review.

**Executive Summary | Whakarāpopototaka Matua**

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In approving a request from the Whakatipu Transport Programme Alliance (the Alliance) for additional funding to complete the arterials project at a Council meeting on 27 April 2023, Council also resolved to direct the Chief Executive (CE) to undertake a lessons-learnt review of the performance of the Alliance. The review was to focus on (at minimum) lessons learnt from the use and operation of the Alliance model, Queenstown Lakes District Council's (QLDC) management of risk and opportunity in major projects and the key considerations when entering into third party (eg: Government) funding agreements. The aim was to understand the root causes of any issues and to make findings which drew out the lessons on how these could be better managed in the future and to report those findings to the Audit, Finance and Risk Committee.

The CE commissioned Mr Brash to undertake the review and he reported his findings in a workshop setting to Council on 21 May 2024.

**Recommendation | Kā Tūtohuka**

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That the Audit, Finance & Risk Committee:

1. **Note** the contents of this report;
2. **Note** the independent lessons learnt review report of the performance of the Whakatipu Transport Programme Alliance;
3. **Note** the proposed actions in response to the recommendations made in the report.

**Prepared by:**



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**Title:** General Manager – Property & Infrastructure  
5 June 2024

**Reviewed and Authorised by:**



**Name:** Mike Theelen  
**Title:** Chief Executive  
5 June 2024

**Context | Horopaki**

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1. During the early stages of the initial COVID-19 lockdown (quarter two of 2020), the Government made available funding for “shovel ready” projects. QLDC applied for funding for a number of projects and was successful in gaining offers of part funding for two projects, namely the Queenstown Town Centre Street Upgrades project (the Street Upgrades project) and the Queenstown Town Centre Arterial Stage 1 project (the Arterial project).
2. In August 2020 the Council entered into a funding agreement with Crown Infrastructure Partners (CIP) to fund the “shovel ready” projects. The Street Upgrades and Arterial were funded at \$35m and \$50m respectively. The agreement capped CIP funding at this amount, which means QLDC had 100% of the risk on any cost increases above CIP funding. There were also strict milestone requirements that needed to be met.
3. In September 2020, QLDC entered into a Memorandum of Understanding (MoU) with the New Zealand Transport Agency (Waka Kotahi or NZTA) to deliver the two projects (Lakeview was added to scope in March 2021), alongside the NZUP project on SH6 from Frankton to the Town Centre. After a procurement workshop with Councillors which discussed a range of models, there was an informal consensus that an Alliance was the preferred contracting approach. The Council delegated the development of the procurement plan and formation of the Alliance to the CE.
4. In late 2020 the partners went to the open market to establish an Alliance and a consortium of engineering consultant companies (Beca and WSP) and contractors (Downer and Fulton Hogan) were appointed. There was one bid. The successful consortia (the Non-Owner Participants or NOPs), along with QLDC and NZTA (the Owner Participants or OPs), then collectively formed the Whakatipu Transport Programme Alliance.
5. The initial Target Outturn Costs (TOC) for the QLDC projects were agreed in June, July and September 2021. The initial estimate for the Arterial of \$66m used in the CIP bid was based off the business case. The first TOC estimate by the Alliance was based off a 30% design and set at \$70.1m (\$5m higher than the original estimate and reconciled with an Independent Estimator). On 28 October 2021, Council agreed to a total project budget of \$88.23 million. This was based

on the negotiated Target Outturn Cost (TOC) for the project of \$70.11 million, plus additional provisions for QLDC's share of the Alliance's management overheads and non-Alliance delivered project costs (e.g. land acquisition, independent advisory and project support services).

6. The Council has subsequently agreed to additional budget to fund the further cost increases for the Arterial on two separate occasions: in April 2023 and February 2024 -
  - i. October 2021 – Council approved a total budget of \$88.23m.
  - ii. April 2023 - a budget increase of \$20.61m for the Arterial Stage One project budget, establishing a revised total 2021/22 – 2030/31 Ten Year Plan project budget of \$108.84m;
  - iii. February 2024 – a budget increase of \$17.65m for the Arterial Stage One project budget, establishing a revised total budget of \$128.02m.
7. There have also been delays in delivery of the projects when compared against the initial proposals: Street Upgrades (six months), Lakeview (seven months) and Arterial (10 months). The Street Upgrade and Lakeview projects have now been largely completed. Construction work has been ongoing for at least 2.5 years on the Arterial project, with a current target date for starting operation in December 2024 and final completion of side roads, stormwater and other construction works by March 2025. The NZUP project was only at the concept stage in 2020, however, while scoping and design have been delayed multiple times, there is now agreement to proceed. The Minister announced a \$250m funding package in April 2024 and early works have commenced.
8. It was against this background that Council asked for a lessons learned review of the Alliance to be reported to the Audit, Finance and Risk Committee.

#### Analysis and Advice | Tatāritaka me kā Tohutohu

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9. The report of the independent reviewer is provided to the Committee for review and discussion. The report is not summarised and reported here in any detail and it should be read in its totality.
10. Mr Brash completed his review in early May 2024 and held a workshop with Councillors where the lessons learnt were outlined and discussed. The report has also been shared with the other Alliance partners (NZTA, Fulton Hogan, Downers, Beca, WSP) for their awareness and so that the findings from the review can be shared and discussed. For completeness, the Councillors also met directly with the Alliance Board on 7 May 2024.
11. The report author considers:
  - i. The decision to establish the programme of works
  - ii. The decision to establish an Alliance
  - iii. The performance of the Alliance against several parameters
  - iv. The counterfactual of what other options were available at the time
  - v. And makes conclusions and recommendations.

12. Under each of those sections the report goes into some detail about the situation at the time and the basis for the decisions made by the Council, as well as the performance of the Alliance over time. As part of his investigation, Mr Brash includes comment about the counterfactual – what would the outcome have been if an alternative delivery mechanism had been chosen by Council. He also notes that there have been numerous other large-scale infrastructure construction projects underway during the same period which have similarly experienced cost increases and time delays, reflecting the radically changed funding and construction landscape post-Covid.
13. At the same time, the report does comment that at the time the decision was made, that there seemed to be little discussion by Council of the nature and scale of risks of the investment arrangements and the programme itself, and especially how best to manage them. There appears to have been an early assumption that procuring via an Alliance would be sufficient to manage this risk.
14. The report author identifies a number of long-term lessons under each of those sections which would be relevant for Council to consider in the future if an Alliance model or other similar large procurement model was being considered. The recommendations arising from the long-term lessons are:
  1. That governance arrangements at Council and senior management levels should better reflect the risk profile of large infrastructure projects, and ensure there is adequate capability to support it
  2. Council's Audit and Risk or Infrastructure Committees could be delegated an oversight role for such large and complex investment programmes which are above and beyond business as usual
  3. That the CE and GM Property and Infrastructure regularly review progress on the programme and budget for such projects and escalate to Council as appropriate
  4. That for large and complex work programmes, reporting systems to the CE be put in place to ensure risks are understood, that there are no surprises, and that appropriate mitigations are applied in a timely way. This could usefully be presented as a monthly risk dashboard and presented to Council as appropriate.
  5. That, for transparency on major high-risk projects, the CE report back to Council on the outcome of the procurement plan process (including pros and cons of options and rationale for preferring an Alliance).
  6. That governance and decision making within QLDC needs to be adapted and resourced to suit an Alliance. In particular, it should be clear how it integrates with business-as-usual project oversight, budget control, and is to be synced with Alliance decision making. An internal oversight group to support the GM Property and Infrastructure should be considered.
  7. There needs to be greater incentive on the owners to work together and share their expertise and experience on all projects (not just their own), perhaps some owner pain/gain sharing across the whole programme could be included in the future.

8. That greater effort needs to go into ensuring Councillors and key Council staff fully understand the Alliance model and how to implement it successfully. This up-skilling should include an understanding of how various scenarios could play out (eg: the exhausting of pain/gain) and formal mentoring or capability building of staff (eg: experiencing other Alliances in practice).
  9. That any future Alliance agreement consider what happens when pain (Limb3) exceeds the overheads and profit margin (Limb2) and there is no longer risk sharing incentives on NOPs – perhaps some residual risk sharing arrangement could be developed.
  10. That for major and high-risk projects, QLDC agree how the Alliance provides QLDC staff decision makers with early heads-up on cost any major cost escalation, options to keep within budget, and the benefits as well as costs of such options - such reporting would enable the CE to escalate significant issues in a timely way to the Council.
  11. That both the QLDC senior management and Alliance Board prioritise management of their key person and recruitment risks throughout the project – this could include a risk register of critical personnel and the development of a workforce plan to endure the recruitment and retention of the right capability.
15. The eleven recommendations point to a number of actions that Council should consider when considering the available options to deliver future major projects, particularly if considering an Alliance type model. While the likelihood of a future Alliance involving the Council may be small, because they require a scale and complexity of project with design and construction parties needing to be involved, many of the recommendations would be relevant when considering Council led major projects in the future. Council has previously instructed staff to develop a new Policy on Development Agreements and these recommendations can usefully be incorporated into that project as both guidance and matters to be considered in any potential future Alliance based project.
16. The report then identifies a number of short-term lessons under each section which the report author suggests should be considered at this time for managing the Alliance relationship from a Council perspective going forward. The recommendations arising from the short-term lessons are:
1. That the Council’s Infrastructure Committee be delegated oversight for remainder of the Arterial Project and a risk dashboard be reported to its regular meetings.
  2. That the CE and GM Property and Infrastructure regularly review progress on the Arterial Project and budget and escalate to Council as appropriate.
  3. Refresh the Stakeholder and Engagement Plan and role of Community Liaison Group (CLG) and QLDC staff in communication and engagement for the remainder of Arterial and the NZUP projects.
  4. Consider negotiating a risk sharing arrangement with NOPs for the remainder of the Arterial project where there is enough time to make a difference (eg: create a “risk pool” with some of the contingency budget to incentivise completion on ahead of time and budget).

5. Review the handover and practical completion process for the Arterial drawing on lessons learnt from the Street Upgrades project.

17. The following actions are intended in response to each of the 5 recommendations:

1. There are two actions from this:
  - i. Develop a reporting template and report quarterly to the Council meeting as part of the CE report on progress on the Arterial project, in terms of timeframes, expected cost to complete and emerging risks. This proposal is made in lieu of the recommendation to report to the Infrastructure Committee as this would provide greater visibility to all Councillors.
  - ii. Implement a regular (circa 6-weekly) catch up between the Mayor and Chair of the Infrastructure Committee with the Chairperson of the Alliance Board and relevant Board representative.
2. There are two actions from this:
  - i. Enhanced review of the Alliance performance is already underway and will be reported through the council reporting recommended above.
  - ii. As agreed with the Alliance Board; regular board minutes be made available to Councillors following each Alliance board meeting.
3. There are two actions from this:
  - i. The Stakeholder and Engagement Plan for the Arterials will be reviewed to ensure it is appropriate for the remaining project life, with a specific focus on regularly updating Councillors on the programme, and any planned remedial works.
  - ii. The Council will continue to work with NZTA as they develop and implement a comprehensive Stakeholder and Engagement Plan for their \$250m project upgrading the Frankton BP intersection. This is programmed to be a four-year project and it will be critical that strong community engagement is led by NZTA with Council being an integral part of those communications. This will need to include Council and Councillors being kept well informed of any planned communications and consultations by NZTA.
4. The Council has already increased funding to achieve the current timelines and there has been sufficient funds provided to complete the works. The other partners are already well incentivised to complete the work so that they can move on from their current pain sharing position and therefore no risk sharing arrangement is appropriate.
5. Improved handover procedures are underway as a result of the internal lessons learnt discussions between the Alliance and Council.

18. Options have not been presented as this report is for noting purposes only.

[Consultation Process | Hātepe Matapaki](#)

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**Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka**

19. This matter is of medium significance, as determined by reference to the [Council's Significance and Engagement Policy](#) 2021 because the Alliance is a significant undertaking for the Council delivering significant capital projects which still has approximately a year to go in the case of the Arterials project and up to four years for the NZTA BP intersection upgrade project.
20. The persons who are affected by or interested in this matter are the wider community as a whole given the disruptive impact of the Arterials during construction but also its positive benefit when completed.
21. The Council will continue to provide regular updates to the community on progress on the Arterials and will ensure that NZTA has an active consultation programme in place for the BP intersection upgrade.

### **Māori Consultation | Iwi Rūnaka**

22. The Council has not consulted with Iwi in the preparation of this report.

### **Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka**

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23. This matter relates to the Community & Wellbeing risk category. It is associated with RISK10027 Inadequate construction management causing failure of infrastructure service or property damage within the [QLDC Risk Register](#). This risk has been assessed as having a moderate residual risk rating.
24. The approval of the recommended option will allow Council to implement additional controls for this risk. This will be achieved by considering and implementing the recommendations that will reduce and help manage future risk and better manage current risk.

### **Financial Implications | Kā Riteka ā-Pūtea**

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25. There are no financial implications arising from this report. Any financial implications associated with the Alliance are reported separately.

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

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26. The suite of projects undertaken for Council under the Alliance programme were informed by the Queenstown Town Centre Masterplan and the Queenstown Integrated Transport Programme Business case. The Council sought funding for the projects the Governments Crown Infrastructure Partners led Shovel Ready Infrastructure Programme and the Covid-19 Recovery (Fast Track Consenting) Act 2020.

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

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27. There are no legal considerations arising from accepting the report.

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

28. 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.

29. 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	Independent Lessons-Learnt Review of Whakatipu Transport Programme Alliance
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