
Item 3

Updated Budgets and Funding Agreement

Purpose

To present the current LGWM budget for 2019/20 and 2020/21 including the key assumptions made and highlight some minor outstanding financial issues.

Recommendations

It is recommended that the Board:

- a) **Approves** the budget for the 2019/20 and 2020/21 years for inclusion in the partnership agreement and the Council papers for Council approval.
- b) **Notes** the assumptions included in key assumptions section.
- c) **Notes** the agreed interim funding splits applied to the budgets.

Background

Initial high-level estimates have been provided by AECOM for the key components of the programme at both the P50 and P95 level of confidence. These initial estimates formed the basis for the financial analysis that informed the cabinet paper and subsequent announcement of the Indicative package in May 2019.

In June 2019 an interim cost sharing arrangement was agreed. At that time detailed budgeting had not been completed but the indication was the existing budgets for the local Councils for the 2019/20 year would be sufficient. In July 2019 the NZTA board approved funding for the early delivery investigation phase, the core programme business case phase, and funding for the IDV subject to a number of conditions precedent.

Current Budget Development

Over the past 2 months the LGWM team has developed detailed budgets and gone through a robust review. This began with the leaders of each package or workstream developing an initial position on activities, timeframes and costs. In the case of the cross-programme workstream several workshops were held with experts from within the partners and the LGWM team. This work was broken down to a sub project level by phase.

We then undertook a detailed testing and review exercise, beginning with initial sense checking back to industry standards by the funding lead and the Programme Director. This progressed through a series of meetings and workshops to test the detail and assumptions and refine the budgets. At this stage we do not have engineers' assessments, so the budgets have used the uninflated P50 AECOM estimates as a base. This is to ensure the programme retains a level of contingency (20%) in addition to project contingencies to manage unforeseen issues. This provides an investment envelope of \$2.55b.

In addition, the programme has agreed to manage a number of costs from the centre. To enable this each project budget has been reduced by 10% to cover these costs and the Early Delivery programme. These costs were anticipated but not separately costed by AECOM. An allocation methodology has been developed and agreed as appropriate with the CFO's of the 3 partners to allocate the central costs back to projects which in turn allows the funding to be tied back to activity classes.

The result of the detailed budgeting is the funding for the two Councils in their current budgets is insufficient for 2019/20 and 2020/21 if the programme is to be able to complete current work programme.

The detail of the budgets prepared for the next two years is provided in the Annex to this paper.

Assumptions

Key assumptions made are as follows:

- The focus of the budget has been on 2019/20 and 2020/21 financial years. Future years are included but are only indicative.
- Assumes all projects in the indicative package are completed. The expectation is the final project listing will be agreed once the business cases are completed.
- Sequencing and duration to complete the substantive works is a placeholder only at this stage. The expectation is this will be agreed once the business cases are completed.
- Excludes any operating or asset renewals costs post implementation (including depreciation and lost parking income).
- Assumes all costs are on a "Pay go" basis and any financing of these costs which partners may choose to do are external to the LGWM budget.
- Assumes all partners will be able to fund their share of the programme.
- Excludes the 20% programme contingency.
- Assumes a 1 month delay in the work programme in years 2019/20 and 2020/21 due to the conservative timing built into the detailed budgets. This is at the funding request level only as any identifiable areas which were unrealistic have already been revised in the budget.
- Costs based on the AECOM estimates at the P50 costing confidence level.
- Inflation excluded.
- NZTA admin fee of 2.6% applied to NLTF share.
- NZTA staffing fee of 2.1% applied to the NLTF share.

Budget for 2019/20 and 2020/21

At a summary level the resulting funding requirements for the 2019/20 and 2020/21 years are as follows:

		2019/20	2020/21
Opex*	NZTA	10,640,334	21,055,791
	GWRC	3,546,778	7,018,597
	WCC	3,546,778	7,018,597
Capex*	NZTA	624,211	8,468,824
	GWRC	0	0
	WCC	599,732	8,136,713
Property	NZTA	0	12,000,000
	GWRC	0	0
	WCC	0	0
Total	NZTA	11,264,545	41,524,615
	GWRC	3,546,778	7,018,597
	WCC	4,146,510	15,155,310

* Note for budgeting purposes and calculation of funding shares we have treated the business case phases as Opex and the pre-implementation and implementation phases as capex.

The current GWRC budget in both years is \$1.225m and therefore there is a \$2.3m and \$5.8m shortfall respectively.

The current WCC budget in both years is \$1.7m and therefore there is a \$2.4m and \$13.5m shortfall respectively.

Agreed interim funding splits

Intended overall funding share

The LGWM indicative package has been announced on the basis of an approximate funding split of 60% Central Government and 40% Local Government. The analysis required to formalise this in detail will be completed through the Detailed Investigation and Development Stage.

“Wash up” payment

To provide the funding to complete the initial phase an interim funding share has been agreed. This is under the understanding a wash up payment will be made between the parties once the final funding shares are agreed. This is to align the overall funding contributions to the final funding split.

Interim funding share

Split between Central and Local share: The interim funding split between central and local government was agreed as follows:

- a) Business case development and LGWM management costs – 60:40;
- b) Early delivery programme – asset owner (for central government-owned assets);
- c) Lost revenue from on street parking – asset owner (Wellington City Council); and,
- d) Advance property purchase costs – case by case basis with the expectation that costs would fall in the interim to the asset owner.

Split of the Local share: During the 2019/20 and 2020/21 period the interim funding split (of the above 40%) between the two local government partners was agreed as follows:

- a) Investigations, business cases and LGWM management costs – 50:50;
- b) Early delivery programme – asset owner (for local government-owned assets) with FAR rates applying; and
- c) Advance property purchase costs – case by case basis with the expectation that costs would fall in the interim to the asset owner.

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ANNEX 1: DETAILED BUDGET BREAKDOWN

The following are summaries of the budget for the detailed investment phase only. Please read in conjunction with the key assumptions shown in the paper itself. Note all figures in \$ millions and exclusive of the 1-month funding delay.

Table 1 Budget by Workstream by Phase

Work Stream	Phase	2019/20	2020/21	2021/22	Balance of investment	Total investment
Early Delivery	SSBC	4.1	1.8	-	-	6.0
	Engagement	0.4	0.5	0.0	-	1.0
	Pre Implementation	0.0	2.5	0.6	-	3.2
	Implementation	1.2	8.9	28.2	35.0	73.4
	LGWM allocation*	-	-	-	-	-
	NZTA Overheads	0.2	0.4	0.7	0.8	2.1
Early Delivery Total		6.0	14.2	29.6	35.9	85.6
State Highway	IBC	1.9	3.9	-	-	5.8
	DBC	-	1.6	9.4	1.6	12.5
	Pre Implementation	-	-	1.0	10.3	11.3
	Implementation	-	-	-	417.1	417.1
	Property	-	6.0	8.0	86.4	100.4
	LGWM allocation*	3.1	4.8	3.3	25.0	36.3
	NZTA Overheads	0.1	0.5	0.5	12.9	14.0
State Highway Total		5.2	16.7	22.3	553.2	597.4
Mass Transit	IBC	2.1	4.1	-	-	6.2
	DBC	-	4.0	23.8	4.0	31.7
	Pre Implementation	-	-	-	12.2	12.2
	Implementation	-	-	-	1,101.7	1,101.7
	Property	-	6.0	11.0	98.4	115.4
	LGWM allocation*	3.3	7.1	7.6	81.7	99.8
	NZTA Overheads	0.2	0.6	1.3	40.2	42.3
Mass Transit Total		5.6	21.8	43.7	1,338.2	1,409.4
City Streets	IBC	1.5	0.1	-	-	1.7
	DBC	-	3.2	4.7	25.3	33.1
	Engagement	0.3	1.0	1.7	6.9	10.0
	Pre Implementation	0.1	0.7	4.2	21.7	26.6
	Implementation	-	2.6	5.2	269.6	277.4
	Property	-	-	2.0	3.0	5.0
	LGWM allocation*	2.5	5.8	4.5	31.1	44.0
	NZTA Overheads	0.1	0.4	0.5	8.4	9.5
City Streets Total		4.6	13.8	23.0	366.0	407.4
Travel Demand Management	IBC	0.3	0.8	-	-	1.1
	DBC	-	-	3.0	-	3.0
	Implementation	-	-	-	48.5	48.5
	Legislation	-	-	-	0.5	0.5
	LGWM allocation*	0.5	0.7	1.0	5.0	7.1
	NZTA Overheads	0.0	0.0	0.1	1.3	1.4
Travel Demand Management Total		0.8	1.5	4.1	55.3	61.6
Programme Total		22.1	68.0	122.6	2,348.6	2,561.3

* The LGWM allocation is the reallocation of the costs of the Core Team and the Cross-Programme consultancy to the projects. This allocation is a pro rata based on spend in each year for the 4 main programme work streams against the IBC, DBC, Pre Implementation and Implementation phases

Table 2 Breakdown of the Central Costs (LGWM Allocation)

Work Stream	Category	2019/20	2020/21	2021/22	Balance of investment	Total investment
Core Team	Salary	3.0	5.6	6.2	74.0	88.8
	Contractors	1.6	1.1	1.1	13.9	17.8
	Office costs	0.4	0.6	0.6	7.3	9.0
	Contingency	0.3	1.3	1.3	15.0	17.8
Core Team Total		5.3	8.6	9.2	110.3	133.4
Cross Programme Consultancy	Challenge & Review	0.6	1.2	1.2	1.8	4.8
	Comms & Engagement	0.6	1.4	1.4	16.8	20.2
	Consenting	0.1	0.3	0.2	0.3	0.9
	Cross Programme contingency	-	-	-	4.4	4.4
	Economics (BCA)	0.1	0.4	0.3	-	0.9
	Finance and Funding	0.1	0.4	0.2	0.7	1.4
	Legal	0.1	0.2	0.2	3.4	3.9
	Long Term Delivery	0.3	0.6	0.9	1.0	2.8
	Procurement	0.1	0.3	0.2	0.3	0.9
	Programming	0.2	0.1	0.1	0.4	0.7
	Transport Modelling	0.8	2.2	2.2	2.2	7.4
	Urban Development	0.2	0.9	0.2	0.3	1.5
	Utilities	0.7	1.5	0.2	0.8	3.2
	Value Capture	0.3	0.3	0.2	0.3	1.0
Cross Programme Consultancy Total		4.2	9.7	7.3	32.5	53.8
Total Central Costs		9.5	18.4	16.5	142.8	187.2

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