



**Southland District Council  
Around the Mountain Cycle Trail**  
Financial management review report

15<sup>th</sup> August 2016

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# 1. Executive summary

## Background

- 1.1 The Around the Mountains Cycle Trail (**'the ATMCT'** or **'the Project'**) is a cycle trail from Kingston to Walter Peak, with the majority of the trail going through Southland. The ATMCT project was originally conceived in 2008 and initially defined by 2009. Stage One, which is from Kingston to Mossburn, was formally opened in November 2014. Stage Two of the Project, which is from Mossburn to Walter Peak, is still in progress and has been significantly delayed.
- 1.2 After an initial 2010 funding agreement with the Central Government expired, Southland District Council (**'SDC'** or **'the Council'**) entered into a second funding agreement with the Central Government in February 2013 to fund the ATMCT, showing a total project cost of approximately \$8.0 million. The Project is now expected to cost over \$14 million, some \$6 million higher than the estimates the Council approved in 2013.
- 1.3 The Council's original budget assumed the Project would receive \$4 million from Central Government, with the other \$4 million coming from grants, etc, meaning that no Council funds were budgeted to be used constructing the ATMCT. However, the Council's fundraising efforts have been less successful than budgeted. The Council is now forecasting it will generate approximately \$1.3 million from grants.
- 1.4 The combination of costs being higher than budget and funding from grants being lower than expected, has meant that Council's contribution to the ATMCT has increased from nil in the budget to approximately \$9 million in the forecast that Council determined at an internal workshop on 8 December 2015.
- 1.5 In March 2016 Simpson Grierson, acting for SDC, engaged Deloitte to assist with a review of the financial management of the ATMCT project. The scope, approach and limitations of the review are set out in Section 2.

## Key Findings

- 1.6 The ATMCT has appeared to have suffered from poor financial management. We identified the following key themes during our review that have contributed to this:
  - a) **The budget approved by Council appears poorly constructed.** We had expected the budget to be supported by a report from an engineer (or similar) setting out the planned route, specifications and the cost involved, with adjustments by the Council's Finance team to account for additional matters over and above those allowed for by the engineers, such as interest. Somewhat counter-intuitively, the Council did have such a report from an engineering firm dated August 2009 (**'the Initial Engineer's Report'**), when the Council was in the early stages of scoping the Project, but the Council did not seek that engineering firm's input when constructing the Project budget that was approved by resolution of the Council. The engineering firm estimated the cost of the Project in 2009 as being \$11.4 million (excluding consultation, resource consent, detailed design and construction supervision costs) or \$13.7 million with a 20% contingency included.

It is clear from both the documents reviewed and the interviews completed that the Council staff who were involved in the preparation of the budget believed that the Councillors would not approve a budgeted cost of more than \$8 million so reduced the budget to fit within this "cap". We note:

- (i) It is not clear from documents reviewed or the interviews completed where the \$8 million "cap" came from. It is not clear if there was

“messaging” from the Council that they would not approve more than \$8 million, or if the Council staff formed this view in isolation;

- (ii) Some of the people interviewed said “everyone” knew the Project was always going to cost more than \$8 million when the \$8 million budget was approved by the Council. Others told us that they genuinely believed that the Project could be completed for \$8 million.

Refer to Section 4 for further detail

The \$8 million budget approved by the Council in 2013 was prepared at Council’s instruction largely based on figures provided by a contractor to the Council, using unit prices and measurements that were provided in the Initial Engineer’s Report prepared in 2009, and estimates based on actual costs from an existing cycle trail the contractor was involved with. We identified the following issues with the \$8 million budget approved by the Council:

- (i) The budget was not supported by an updated report reflecting the revised route and 2013 costs.
- (ii) There was no explanation as to why the budget should be \$8 million in 2013 when the engineering firm had estimated the cost as being \$11 million in 2009.
- (iii) The \$8 million budget was the total excluding contingencies.
- (iv) The Council’s Finance team did not appear to have any meaningful involvement in establishing the budget.
- (v) The budget for Stage Two was determined based on earlier reports without appropriately assessing the route and/or obtaining quotes for construction cost.

- b) **Actual and forecast vs. budgeted costs were not adequately monitored.** We had expected there would have been a comprehensive monthly report comparing actual and forecast (i.e. actual to date plus estimate to complete) revenue and costs to budgeted revenue and costs. We found no evidence that such a report was prepared on a regular basis. Accordingly, those charged with managing and governing the Project appear to have had a lack of useful information (especially at the early stages) to monitor the financial aspects of the Project.

Refer to Section 6 for further detail

- c) **Poor governance and oversight.** The following groups were involved in the governance and oversight of the Project:
  - (i) The Council approved the budget.
  - (ii) The responsibility for the Project was then delegated to the Activities Performance Audit Committee (**APAC**), which is a sub-committee consisting of the whole of the Council. The APAC discussed the ATMCT along with other projects.
  - (iii) The Council also developed an ATMCT “Project Governance Group” or “Steering Committee” which met on a regular basis. The Governance Group comprised of a councillor, the Chief Executive at the time and council staff.

From the evidence reviewed, the Council did not appear to challenge or test the robustness of the \$8 million budget, despite the budget being

significantly reduced from the estimated \$11 million cost in the Initial Engineer's Report. Further, the budget presented to the Councillors flagged that there was a significant level of uncertainty regarding the cost and there were risks involved that ultimately proved highly prescient. The risks identified were: the risk that the cost of the project would be greater than the amount budgeted, the risk that construction on Stage One would be delayed and not completed within agreed timeframes, and the risk of any challenge to the alignment of the Stage Two route definition. We have not located evidence that these uncertainties or risks were sufficiently allowed for and/or monitored.

Both APAC and the Project Governance Group met on a regular basis and minutes were kept of these meetings. However it appears the focus of these groups was on the progress of the ATMCT and the issues that were arising. There appeared to be little focus on the financial management of the Project. Neither of these groups appeared to insist on receiving a report setting out actual and forecast Project revenues and costs and how these were tracking compared to the budget approved by the Council. At the early stages of the Project we did not identify any significant discussion of alternatives as the forecasted costs of the Project increased.

Refer to Section 9 for further detail

d) **Shortage of appropriate skills to manage the Project.** We identified three key skills that were absent and/or under-utilised during the Project:

- (i) Project Management: At the early (pre-construction) stages of the Project, internal Council resources acted in a Project Manager/Coordinator role.

Following a tender process an individual contractor was the appointed Project Manager. Cost appeared to play an important factor in selecting an individual instead of an engineering firm, such as the firm who had drafted the Initial Engineer's Report, who had previously been involved in designing and scoping the cycle trail. The contracted individual explained that he had expected at the time that the Council would have 'wrapped the other skills required around him'. The contractor is perhaps best described as a "cycle trail subject matter expert" given his involvement in other cycle trails and that he acted as a 'design person' for this project. It appears to us that there was a conflict between the contractor acting as both the "subject matter expert" and Project Manager for what was a complex project of a type that had not been undertaken by the Council in the past. In our view the Council would have been better to have appointed the contractor as the "cycle trail subject matter expert" and someone other than the contractor to undertake the Project Management role. This would have provided Council with clearer separation of duties and a broader and better mix of skills, particularly in project management.

As the Project progressed an individual consultant engineer contractor was also engaged in a 'programme manager' role, we understand this initially primarily involved assisting with developing the tender contracts for Stage One of the Project.

- (ii) Engineering: As noted above the budget approved by Council was not supported by an updated report.
- (iii) Financial: The budgeting and financial reporting in respect of the initial stages of the Project appears to be poor for the reasons outlined above.

Refer to Section 9 for further detail

- e) **Poor project management practices.** During our review we identified and were told by interviewees about a number of project management practices that, in our view, were substandard. These included:
- (i) Not appropriately scoping the Project and understanding or allowing for its complexities. Many of the people we spoke to thought of the Project as “just a roading project” or a “wide footpath”, whereas the Project involved gaining a significant level of consent and/or co-operation from various landowners, which generated a number of difficult issues.
  - (ii) Not developing an accurate ‘bottom up’ budget.
  - (iii) A lack of a defined structure and responsibilities for Project resources, including clear lines of communication with respect to who was responsible for managing the Project.
  - (iv) A lack of appropriate reporting on the financial aspects of the Project.
  - (v) Failing to manage the key risks identified.

Refer to Section 9 for further detail

1.7 We also identified that there was at best “over optimism” about the cost of the Project and the extent to which Council funds would be called on to fund the Project. We note:

- a) There was a very consistent messaging from within Council that the Project was going to cost \$8 million. This messaging continued until at least early-2014, even though by this point there were strong indicators that the Project was going to go over budget. As late as January 2015 the estimated cost was reported as \$8.7 million in The Southland Times.
- b) As late as August 2013 an email from Council to a Mayoral candidate said that ‘hopefully very little of ... [the ATMCT Project] will be funded from rates’. However, internally it appears that Council staff were aware of the risk of raising the \$4 million budgeted. When the budget was approved by Council, staff were aware that the Community Trust of Southland was not providing grants over \$50,000, yet the budget assumed that \$2.5 million would be obtained from that source. In retaining the \$2.5 million budgeted, Council staff relied on ‘in principle’ discussions with the Community Trust of Southland which indicated that a sizeable grant may be able to be provided in the future. Clearly Council funds would be called on in the event that fundraising delivered less than the \$4 million budgeted and/or the costs were greater than the \$8 million budgeted.

Refer to Sections 4 and 7 for further detail

## Lessons learned

1.8 We have included lessons learned for Council in Section 10 of the report.

# 2. Introduction

- 2.1 In this Section of the report, we set out the background, scope, approach and limitations of our review. We also set out the structure of the balance of the report.

## Background to the review

- 2.2 The Around the Mountains Cycle Trail (**'the ATMCT'** or **'the Project'**) is a cycle trail from Kingston to Walter Peak. The ATMCT project was originally conceived in 2008 and further developed through to late 2009. Stage One was formally opened in November 2014. Stage Two of the Project is still in progress and has been significantly delayed.
- 2.3 After an initial 2010 funding agreement with the Central Government expired, Southland District Council (**'SDC'** or **'Council'**) entered into a second funding agreement with Central Government in February 2013 to fund the ATMCT, showing a project cost of approximately \$8.0 million. The Project is now expected to cost over \$14 million, some \$6 million higher than the estimates the Council approved in 2013.
- 2.4 The Council's original budget assumed the Project would receive \$4 million from Central Government, with the other \$4 million coming from grants, etc, meaning that no Council funds were budgeted to be used constructing the ATMCT. However, the Council's fundraising efforts have been less successful than budgeted. The Council is now forecasting it will generate approximately \$1.3 million from external grants.
- 2.5 The combination of costs being higher than budget and funding from grants being lower than expected, has meant that Council's contribution to the ATMCT has increased from nil in the budget to approximately \$9 million in a forecast that Council reviewed at an 8 December 2015 Council Workshop.
- 2.6 The Project has been high profile, and has generated a lot of interest. This includes significant support for the Project, and also opposition to the Project. To help understand the history of the Project, the key people involved and key events, we developed a list of key parties and a timeline of the key events and hold this on file.

## Scope of the Deloitte engagement

- 2.7 In March 2016 Simpson Grierson, acting for SDC, engaged Deloitte to assist with a review of the financial management of the ATMCT.
- 2.8 Deloitte was engaged to provide an independent review of the management of the ATMCT with a particular focus on the financial aspects of the Project. Specifically, the primary scope of the review was defined in Simpson Grierson's Terms of Reference dated January 2016:

*The review should, in the first instance, investigate and give an independent view in regard to:*

*a) the Council's approach to managing and overseeing the financial aspects of the project including:*

*(i) the initial scoping of the project, its likely costs and consideration as to how these might be funded*

- (ii) the approach used to develop a formal project budget for approval by the Council*
- (iii) the approach used to negotiate the funding agreements with the Crown in 2009/10 and 2012/13*
- (iv) the monitoring and reporting of actual expenditure and forecast outturns against the approved budget*
- (v) the strategies pursued to secure funding for the project*
- (vi) whether there has been an overrun in project costs and the reasons for any overruns*
- (vii) an assessment of the reasonableness of the overall process used to manage the financial aspects of a project of this nature.*

*The review should also report any findings that can be made in the course of reviewing the matters ... [above], relating to:*

- b) the Council's planning and decision-making processes in scoping, approving and subsequently managing the project through its different stages*
- c) the governance, management, oversight and contracting arrangements put in place for the project and the extent to which these met good practice expectations for a project of this nature*
- d) the Council's approach to the management of project risks*
- e) The overall suitability and cost-effectiveness of the cycle trail that has/is been constructed relative to the original objectives and good practice for a trail of this nature.*

## **Statement of responsibility and limitations of our work**

- 2.9 Our assessments are based on observations from our review undertaken in the time allocated. Assessments made by our team are matched against our expectations and good practice guidelines.
- 2.10 The scope of our work was designed to provide an assessment report specifically in accordance with our engagement letter. The procedures that we performed did not constitute an assurance engagement in accordance with New Zealand Standards for Assurance Engagements, nor do they represent any form of audit under New Zealand Standards on Auditing, and consequently, no assurance or audit opinion is provided.
- 2.11 The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- 2.12 This report has been prepared for distribution to Simpson Grierson which we understand will share the report with SDC. We disclaim any assumption of responsibility for any reliance on this report to any other persons or users, or for any purpose other than that for which it was prepared.

2.13 Suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

2.14 Without limiting the foregoing, this engagement was subject to the following key specific limitations:

#### Scope

- a) We were not required to provide quantity surveyor and/or engineering expertise;
- b) We were not required to complete data analytics or other work to identify currently unknown relationships and/or conflicts of interest, apart from reviewing the documents provided;
- c) Our review relied on the evidence assembled and reviewed. This comprised certain document sources and people we interviewed as identified by the Council. We were specifically not required to meet with members of the public;
- d) We have not audited or otherwise verified (beyond the scope of this review) the information provided and/or the representations made to us (including through other parties) by SDC. Without limiting the foregoing, this specifically includes the Council's assessment of forecast vs. budgeted costs which is included as **Appendix A**;
- e) We are not qualified to provide legal advice and are not responsible for any legal issues associated with or arising during this engagement;

#### Electronic documents

- f) We applied the Deloitte Forensic Standard Discovery process for processing the documents. We note the limitations to the Standard Discovery process were outlined in our engagement letter.
- g) The Council has an email archiving system, and where emails have been archived only the subject-line of the email is visible. This means the content of these documents was not available for review. However this only applies to emails that were archived and it does not to copies of the emails that were saved in the G Drive or on the TRIM system.
- h) Given the high volume of potential evidence we relied on some or all of experience, judgement and document filtering techniques to determine which documents and areas we reviewed and focused on. Accordingly, there is therefore, an unavoidable risk that some issues may remain undiscovered.

#### Other

- i) Deloitte is not responsible for ensuring Simpson Grierson and/or SDC comply with any law including compliance with the Privacy Act 1993 in Simpson Grierson and/or SDC providing any information to us.

2.15 The following matters were specifically out of scope:

- a) The merit of the Project and/or the decision to complete the Project;
- b) Determining the cause of the delays in the Project given it was first mooted in 2009;

- c) Considering the Council's efforts to secure alternative funding. We have however commented on the availability of funding, difficulties in obtaining it, and what was being told to Council and/or the public;
- d) The ongoing costs of maintaining and operating the track;
- e) The arrangement in respect of the 5% commission charged on bookings to fund the maintenance of the track; and
- f) Completing a detailed assessment of Council's actual approach to managing this Project against best-practice frameworks (e.g. PRINCE2 for project management). We have commented, however, on shortfalls against best-practice where these were observed within the evidence obtained.

## Work completed

### Electronic evidence

#### Receiving and processing for review the electronic data set

- 2.16 We were provided with four key data sources for this review:
- a) Relevant background documents identified by the Council (**'the Background Documents'**);
  - b) Documents from the Council's shared drive (the "G Drive") in the ATMCT folder;
  - c) Documents from the Council's document management system (**'TRIM'**) in the ATMCT folder; and
  - d) Email mailboxes for six key parties involved in the ATMCT Project.
- 2.17 We processed the data according to the Deloitte Forensic standard discovery process as set out in Appendix A of our engagement letter.
- 2.18 We then uploaded the documents to our review platform.

#### Reviewing initial key documents

- 2.19 Once the documents were processed and uploaded for review, we reviewed 100% of the Background Documents.

#### Determining filters

- 2.20 Given the volume of documents, it was necessary to apply filters to these documents in order focus the review resource. We agreed a keyword list for filtering the further documents for the review with the Council and its legal advisors. These keywords were refined based on the findings from reviewing the Background Documents and our understanding of SDC's potential concerns.
- 2.21 After reviewing a significant number of documents, we further refined the keywords by identifying those with the highest relevance to the review.
- 2.22 In total, we reviewed 100% of the key high priority keywords, and a significant sample of the others.

#### Substantive document review

- 2.23 The goal of the document review was to build the factual picture in respect of the financial management of the Project.

- 2.24 We recorded our findings by marking documents for relevance and by coding documents to specific issues. We also specifically recorded which documents may be relevant to certain interviews.
- 2.25 In total we reviewed 6,293 documents (noting however for some documents we relied on 'near duplicate' and 'email threading' technology to lighten the review load).

### **Interviews**

- 2.26 Alongside completing a substantive document review, we spoke with a number of key individuals who were involved with the Project. The various individuals we spoke with were involved in different aspects of the Project and had involvement at different levels, including elected members and Council staff. Some of the interviewees had been involved with the Project from conception, and others were only involved with parts of it.
- 2.27 During April and May 2016 we interviewed eleven people who were involved in the Project.
- 2.28 The purpose of the interviews was to hear from the key people involved in the ATMCT to understand what occurred. Where appropriate, we asked interviewees to comment on certain documents we had identified.

### **Further analysis**

- 2.29 Part of our review focused on understanding the key areas where actual and forecast costs were significantly higher than the \$8 million budget.
- 2.30 To achieve this, Council provided us with an updated Project Reconciliation and supporting documentation that outlines the 'budget versus actuals' for the Project. We also asked Council to:
- a) Compare the most up-to-date actuals and forecasts with the specific budget that was approved by Council in May 2013;
  - b) Provide us with the underlying General Ledger support for the actual figures;
  - c) Provide a forecast for completing the Project; and
  - d) Provide us with the supporting documentation for where the figures in the budget versus actuals reconciliation were sourced from.

### **Reporting**

- 2.31 We completed this report following the document review and the interviews. The balance of the report sets out our findings and is structured as follows:
- a) Sections 3 to 8 sets out our findings in respect of the core scope, being:
    - (i) Scoping the Project (Section 3);
    - (ii) Developing a formal budget (Section 4);
    - (iii) Negotiating the funding agreements (Section 5);
    - (iv) Monitoring and reporting actual expenditure (Section 6);
    - (v) Funding strategies (Section 7); and
    - (vi) Project Overruns (Section 8).

- b) Section 9 sets out our findings in respect of the additional areas we were asked to report on where findings could be made following completion of the core scope:
  - (i) Council planning and decision-making;
  - (ii) Governance, management, oversight and contracting arrangements;
  - (iii) Managing Project Risks; and
  - (iv) Overall suitability and cost-effectiveness of the cycle trail.
- c) Section 10 includes lessons learned.

2.32 We provided the draft report to the people we interviewed for comment. We considered the comments and amended our final report where we considered it appropriate to do so.

# 3. Scoping the ATMCT

- 3.1 In this section of the report, we set out our findings in respect of how the ATMCT was initially scoped in 2009 and the changes made thereafter leading up to the budget being set in 2013.

## How was the ATMCT initially scoped in 2009?

- 3.2 We were told during the interviews that the idea for a cycle trail that went 'around the mountain' was initially conceived by an individual contractor to the Council (who was subsequently engaged to manage the Project). The individual contractor was involved from the beginning with determining the route and definition of the cycle trail. We understand that in 2008 and 2009 there were a number of meetings and discussions with various interested parties, including SDC, Venture Southland and other Councils where the idea was further refined. It was determined that because the vast majority of the cycle trail fell within Northern Southland, that Southland District Council would be responsible for the Project.
- 3.3 The Government had announced the New Zealand Cycle Trail Project, an initiative supporting cycle trails throughout New Zealand. SDC (and others in the Southland region) were interested in being a part of this. At this stage, Council was already considering various cycle trail options in the region.
- 3.4 The initial scoping of the ATMCT was completed in 2009. As part of this process an engineering and management consulting firm was engaged to produce a scoping and design report, which was delivered in August 2009 (**'the Initial Engineer's Report'**). The Initial Engineer's Report included a design and cost analysis of the ATMCT. In consultation with SDC, the individual contractor also worked with the engineering firm to determine the appropriate design, route and budget. The Initial Engineer's Report estimated the total cost of constructing the ATMCT at approximately \$11.4m (or \$13.7m with a 20% contingency). We return to these costs in Section 4 when we discuss the budget for the Project.
- 3.5 On Council's request, the individual contractor then prepared an addendum to the Initial Engineer's Report, dated 20 December 2009 (**'the Addendum'**). The Addendum was produced with a view to making the items in the Initial Engineer's Report more cost effective where possible. During the interviews we were told that the individual contractor amended the estimate and specification in the Initial Engineer's Report by removing various boardwalks and bridges as they were not required. We were also told that doing so was not an engineering issue as it was more an ecology issue choosing whether boardwalk was needed or not. Removing these objects resulted in a reduction in the overall project cost – we discuss these reductions in the following section.
- 3.6 The Addendum also included a revised estimate of cost. At this point, there was a clear link between the trail scope and estimated cost in the Initial Engineer's Report and the Addendum. Shortly thereafter a business case was submitted to the Ministry of Tourism applying for Central Government funding.

## How was the ATMCT scoped thereafter?

- 3.7 From this point, we understand that a Project Steering Committee was established within Council to further refine the Project. The Project Steering Committee looked at the overall project cost, and we were told that they 'completed some trimming to reduce the cost to somewhere in the region of \$8m'.
- 3.8 We have not been able to identify specific documentation outlining changes in scope or route, but we were told that the Steering Group reduced the overall estimate for the Project further. We return to how this impacted the budget in Section 4. However we were told that the methodology around reducing costs included 'doing things differently, designing things differently, and doing some of the work in-house at Council'. We understand that this scope reduction did not include an external engineer, but involved Council employees (including a former

engineer) and taking advice from the individual contractor who had previous experience with cycle trails.

- 3.9 We were told that the individual contractor also produced various 'savings' documents, in which he identified savings that could be made on the Cycle Trail by, for example, not using additional gravel or by replacing a planned shelter with an old farm shed.

### **Our observations**

- 3.10 The Project involved a high level of engineering input during the initial scoping in 2009, but the level of engineering input relating to further scoping the Project thereafter appears to be limited. In 2013, an engineer from another engineering consulting firm was appointed as the engineer to the contract, and from this point on there was significantly more engineering input in the Project.

# 4. Developing a formal budget

4.1 In this section we set out our findings in respect of how the budget for the Project was developed. We first outline the estimated cost prepared in 2009 when Council believed Central Government was funding 100% of the Project and then contrast this with the estimated cost approved by the Council in May 2013.

## What was the estimated cost in 2009 when Council believed Central Government was funding 100% of the Project?

- 4.2 The Council applied for funding from the Central Government in 2009. The key background events leading up to the Council applying for Central Government funding include:
- a) The Initial Engineer's Report prepared in August 2009 estimated total construction costs at \$11.4m or (\$13.7m when including a 20% allowance for contingencies). This figure specifically excluded consultation, submission of and processing resource consents, design costs and construction supervision costs.
  - b) The Addendum, which was prepared in December 2009 and was based on the Initial Engineer's Report, had a revised cost of \$11m (or \$13.2m including a 20% contingency). The Addendum noted that an additional 10% cost had been added to cover surveying, legal, engineering, project management, RMA, DOC concessions, and consultation.
  - c) The Council issued a business case to the Central Government for funding in 2009, noting \$11m to \$13m being the revised cost in the Addendum. At this stage Council believed that Central Government would provide funding for 100% of the Project cost.
  - d) In February 2010 the Ministry of Tourism wrote a letter to Council explaining that the 'Quick Start Grants' were limited to \$4m and anything above that would need to be funded from other sources (including the Council).
- 4.3 Accepting that the Addendum to the Initial Engineer's Report was accurate, we have not identified any evidence to support specifically reducing the budget from \$11m on 20 December 2009 down to \$8.9m on 4 March 2010 (as described in a letter to the Ministry of Tourism).
- 4.4 A \$4m estimate to complete Stage One was included in a June 2010 Funding Agreement with the Central Government for \$4m to complete Stage One (at this point in time being Walter Peak to Mossburn) ('**2010 Funding Agreement**'). This was the approved budget (for Stage One only) against which the Council progressed its work between 2010 and early 2013. A report submitted to Council to support entering the 2010 Funding Agreement noted that "*it is estimated the capital funding balance required to complete the Trail required is \$4,000,000 (i.e. \$8 m total)*". The \$8m figure provided in support of signing the 2010 Funding Agreement is likely to have set a 'benchmark' against which any variations would need to be explained and negotiated.
- 4.5 We were advised that in 2012 and 2013, the 2010 Funding Agreement was renegotiated as the Council was not able to obtain resource consent for part of the trail and the 2010 Funding Agreement expired before any works could be progressed.

## What was the Council's budget in 2013 when Council understood Central Government funding was limited to \$4m?

- 4.6 The Council approved a budgeted cost of \$8m for the cycle trail in May 2013 ('**the May 2013 Budget**').
- 4.7 The May 2013 Budget was considered by Council on 15 May 2013. It was included as an appendix to the report 'Around the Mountain Cycle Trail Initiation of Construction'. We were provided with the more detailed breakdown of the figure that was provided to Council. The budget estimated \$3,407,601 for Stage One and \$4,357,118 for Stage Two, totalling an estimated project cost of \$7,764,719 (excluding financing and historical costs). We were advised that costs incurred at that point in time were approximately \$300,000; the amount already claimed under the 2010 Funding Agreement. Council was provided with an appendix showing the \$8m estimate and an additional \$1.4m as contingency.
- 4.8 The \$8m budget approved by Council in May 2013 is a significant reduction in cost from the Addendum produced in December 2009. The Addendum (which was tightly based on the Initial Engineer's Report) estimated the cost as being \$11m or \$13.2m including contingencies, whereas the May 2013 Budget estimated the cost as being \$8m (or \$9.4 million including contingences noting the Council did not approve the contingency amount).
- 4.9 The budget assumed that Central Government would fund \$4m, with the Council raising \$4m from other sources. We discuss the funding further in Section 7.
- 4.10 Importantly, the May 2013 ATMCT report highlighted three key risks, that ultimately proved highly prescient:
- a) The risk the cost of the project will be greater than the amount budgeted.
  - b) The risk that construction on Stage One will be delayed, for whatever reason, and the Council is unable to complete it within the agreed timeframes.
  - c) Dependent on the final route definition of Stage Two, any challenge to the alignment of the tail that was originally sought but was not granted by the commissioner.
- 4.11 This report also noted "of course much more certainty than this is required in order to give a high level of confidence to the Council about the project estimate. This is needed to enable a decision to proceed or not to be made. Once started the Council is committed to completing the project".
- 4.12 We return to the management of these risks in Section 9.

## How was the May 2013 Budget of \$8 million determined?

### What was the approach to building the May 2013 Budget?

- 4.13 It is clear from both the documents reviewed and the interviews completed that the Council staff who were involved in the preparation of the May 2013 Budget believed that the Council would not approve a budgeted cost of more than \$8 million, so reduced the budget to fit within this "cap". We say this based on:
- a) 2010 Funding Agreement – an \$8 million estimate (being approximately \$4 million for each of the two stages) was provided in support of the Council entering this funding agreement. How the estimate for completing the second stage of the Trail was established was not explained in any detail. However, this is likely to have set a baseline figure, as any increase to this would need to be explained to the Council and renegotiated with the Crown for any funding agreement.

- b) 31 January 2013 - Comments in the minutes of an ATMCT Project Team meeting recorded "...if it is over the \$4 million, you will scare Council away.", "We have to be realistic and anything over \$4 million will not be a go-er." and "...\$4 million is the figure but we will not have certainty on figures."
- c) 13 February 2013 – Council agreed to sign the 2013 Funding Agreement. The total cost of the Project reported to Council was \$8m, and Council agreed to underwrite \$4m. Critically, we have not located a finalised budget or similar that supports the \$8m total cost prepared at that point. The last estimate of cost prepared appears to be the Addendum prepared in December 2009 that estimated the cost at \$11m, or \$13.2m including a 20% contingency. Given the following, it appears that the \$8m budget was finalised and approved after the Council signed the Funding Agreement.
- d) February to May 2013 – An accountant at the Council, produced a project 'cashflow' spreadsheet (this is an earlier version of the total cost estimate that formed the budget approved by Council) using figures provided by the individual contractor and a consultant engineer. Only draft versions of this estimate / cashflow were produced before 14 May 2013, and these all included a significant amount of incomplete information. The estimated costs provided were approximately \$8.5m.
- e) March 2013 - The individual contractor produced at least two 'savings' documents in March 2013 noting in the cover email the '*attached report is the accumulation the last few months consulting, i.e. getting the construction cost of developing Around The Mountain Cycle Trail within the \$8 m budget.*' The savings listed total \$771,000 and \$1,026,000. One of the documents also noted '*Subsequent changes to the route and specifications hypothetically set construction cost at \$8.8 m with contingencies*'.
- f) 14 May 2013 - Minutes of a 14 May 2013 meeting (the day before the budget was provided to Council) of the ATMCT Project Team stating if "...we are going to go and say it is over \$4M to Council tomorrow – it's a problem".
- g) An October 2015 email, where a Council employee was reporting on historical estimate information he had found, noted:

*"Draft estimated cashflow 14/05/2013 - \$4.8M - \$6.2M (without interest, staff time and historical costs)*

*Final estimated cashflow 15/05/2013 - \$4.1M - \$5.5M (without interest, staff time and historical costs)*

*Note that the above estimates were/could not be verified to a reasonable level **and were targeted for \$4.0M**" [emphasis added]*

- h) Comments made by various people we interviewed, including:
- (i) There was a view shared that the ATMCT Project Team were only ever going to ask Council for \$4m (i.e. Central Government funding of \$4m plus Council funding of \$4m).
  - (ii) At least one interviewee told us that they were told at a meeting that the budget was to be set at \$8m.
  - (iii) We were told that Council had asked for a reduction on the total cost of the trail.
  - (iv) Interviewees' views that Council was 'not happy looking at a figure of \$11m-13m' and would be unlikely to have approved the Project if the budget was significantly higher than \$8m.

(v) The \$8m was an exactly 1:1 commitment from Central Government (\$4m funding) and other sources (Council and any other external funding).

- 4.14 It is not clear from documents reviewed or the interviews completed where the \$8 million 'cap' came from. It is not clear if there was 'messaging' from the Council that they would not approve more than \$8 million, or the Council staff somehow formed this view in isolation.
- 4.15 The May 2013 Budget did however benefit from having received Stage One tenders. Stage Two costings were extrapolated from the Stage One tenders. This assumed that Council would achieve the same pricing as Stage One tenders, without considering the potential for increased construction costs in Stage Two. The Stage Two budget was also developed without a detailed review of the route, and we were told it was primarily based off of aerial maps. There were, however, significant differences with Stage Two construction, including the complexity of the route and construction required from the topology of the geographic area.

#### **Who was involved in building the May 2013 Budget?**

- 4.16 The ATMCT Project Team appears to have had a significant role in setting what the overall budget would be (i.e. \$8 million). From the documents we have reviewed it appears that the "line by line" figures for the May 2013 Budget were primarily provided by the individual contractor with the consultant engineer having very limited involvement.
- 4.17 We were told during the interviews that the majority of the construction costings and other specifications for the May 2013 Budget were uplifted from the Initial Engineer's Report produced in 2009, some four years earlier.
- 4.18 The consultant engineer explained to us during a phone interview that his involvement in developing the May 2013 Budget was limited, and that he was engaged to assist with developing the tender contracts for Stage One of the Project. He further told us that he was not aware of the Initial Engineer's Report. This is surprising, as the Initial Engineer's Report provided what was likely to be a sound estimate for constructing the trail in 2009. The documents we reviewed were consistent with the consultant engineer having limited involvement in preparing the May 2013 Budget. For example, the consultant engineer sent an email to a Council employee and the individual contractor explaining:

*"[The individual contractor] will need to provide feedback on estimated costs and contingencies as I would only be taking a stab in the dark."*

- 4.19 Another email from the consultant engineer relating to developing the May 2013 Budget stated:

*"[The individual contractor] asked that you be informed of his estimate from viewing, not walking, the possible track alignment on the true right of the river on Section 12 namely Oreti Crossing to Mavora carpark.*

*\$1.0M e/o section 12 costs i.e. total \$1.67M for Section 12.*

*Saving of \$0.5M in Section 11 as bridge not required.*

*I.e. \$0.5M increase in total trail cost."*

- 4.20 We have noted a potential conflict of interest of the individual contractor in Section 9.

#### **Did the \$8m estimate include all costs or only construction costs?**

- 4.21 A number of the interviewees told us they believed that the \$8m May 2013 Budget did not include 'everything'. A number of interviewees further told us that the \$8m estimate was not intended to represent 100% of the Project costs, believing that it was construction costs only. However, we note that the May 2013 Budget approved by Council is presented as a "whole-of-project" cost estimate. The line-by-line budget clearly includes estimates for professional fees, project management, and consenting – not only construction costs.
- 4.22 The budget specifically did not include internal Council and Venture Southland staff costs and related disbursements.
- 4.23 Please see the budget versus actuals analysis completed by Council included as Appendix A for more detail.

#### **Did Council believe that the May 2013 Budget was realistic?**

- 4.24 Given the level of the reduction in the estimated cost from the Addendum in 2009 to the May 2013 Budget, the manner in which the Council set an \$8 million limit to the budget and the lack of engineering input into the May 2013 Budget, it raises the question as to whether Council believed that the \$8m estimated cost in the May 2013 Budget was realistic.
- 4.25 We were told by at least one interviewee that no one challenged the accuracy and reasonableness of the estimates provided for either Stage One or Stage Two. We were, however, also told that Council had rigorous debate about the total Project cost and proceeding with the Project.
- 4.26 Some of the people interviewed said "everyone" knew the Project was always going to cost more than \$8m when the \$8m budget was approved by the Council and that \$8m was the highest figure that was considered to be 'palatable' by Council, or would not scare them off. Others told us that they genuinely believed that the Project could be completed for \$8 million.
- 4.27 One factor supporting the latter view is that the tenders for the Stage One construction were lower than that allowed for in the May 2013 Budget. We were told that a reason that the tenders came in under-budget was because the contractors at the time did not have much work on, and therefore priced competitively. We understand that the timing of tenders was deliberate to capitalise on the 'down time' period for the contractors.
- 4.28 However, it is clear that some Council employees were concerned about the reliability of the May 2013 Budget at the time:
- a) The Report accompanying the May 2013 Budget highlighted the high level of uncertainty of the cost estimate, noting much more certainty was required to give a high level of confidence;
  - b) One Council employee raised concerns in April 2013 about the "savings documents" produced by the individual contractor. It was explained in an email to two Council employees:

*"I think referring to these as "savings" is very mis-leading as Council has not "saved" anything, it is also not factual and again uses equally bad assumptions and estimates.*

*Also to state setting construction costs at \$8.8m is not appropriate given this was not the value reported to Council.*

*This appears to be a result of bad budget setting and lack of due diligence at the start of the project."*

- c) Email correspondence from one Council employee noted that he was not comfortable with the budget figures provided noting to another Council employee, for example:

*"After assessment of the information supplied by [the individual contractor] I will not be able to substantiate the values included in the cashflow. In my opinion there are too many "gaps" in the information and basically relies "word of mouth" rather than substance.*

*Reasons for the gaps are not formally resolving certain contracts and failure to supply suitable documentation justifying estimates."*

- d) This Council employee with responsibility for compiling the May 2013 Budget noted on the budget documentation:

*"... Stage 1 estimates for bridges, project management, signs and fencing have been based on information supplied by external consultants without verification*

*All general expenditure (incl consents, reports etc) have been included as advised without verification*

*All other estimates have been based on unit rate information from the tenders"*

## Our observations

- 4.29 We had expected the May 2013 Budget to be supported by a report from an engineer or similar setting out the planned route, specifications and the cost involved, with adjustments by the Council's Finance team to account for additional matters over and above those allowed for by the engineers, such as interest.
- 4.30 The Council did have such a report for the initial scoping stage (i.e. the Initial Engineer's Report), but the Council did not seek that engineer firm's (or an alternative provider's) input when building the May 2013 Budget of \$8m that was approved by the Council. Instead the May 2013 Budget of \$8m approved by Council was largely based on figures provided by the individual contractor. We identified the following issues with the \$8m budget approved by the Council:
- a) The budget was not supported by an updated engineer's report reflecting the revised route and 2013 costs.
  - b) There was no explanation as to why the budget should be \$8 million in 2013 when the engineering firm had estimated the cost as being \$11m in 2009, some four years earlier.
  - c) The \$8m budget excluded contingencies and Council staff costs.
  - d) The Council's Finance team did not appear to have any meaningful involvement in establishing the budget.
  - e) The budget for Stage Two was determined without appropriately assessing the route and/or obtaining quotes for construction cost.
- 4.31 There is evidence that Council's May 2013 Budget was made to fit what appears to have been an arbitrary figure of \$8m. It is less clear as to whether the Council genuinely believed this budget was achievable or not, however the earlier Initial Engineer's Report with an estimated cost of \$11.4m or \$13.7 including a 20% allowance for contingencies should have raised considerable doubt about the reliability of the estimated cost of \$8m in the May 2013 Budget in our opinion, particularly as the estimated cost in the Initial Engineer's Report specifically

excluded consultation, submission of and processing resource consents, design costs and construction supervision costs, whereas the May 2013 Budget included these costs.

- 4.32 Given the above and that the notes supporting the May 2013 Budget describe it as not being verified, that the Stage Two estimated figures were not based on a detailed investigation of the intended route, and that estimates for bridges, project management, signs and fencing were not verified, we would have expected Council to request due diligence to be completed to understand the reason for the significant differences in cost from the Initial Engineer's Report and to reduce the level of uncertainty in cost before the commitment was made.

# 5. Negotiating the funding agreements

5.1 Central Government provided a significant portion of the funding for the ATMCT. In this section we outline the key events in respect of the Central Government funding agreements and our observations.

## What were the key events in respect of the Central Government funding agreements?

5.2 The key events surrounding the Funding Agreements were:

- a) Late 2009 – The Business Case was drafted and shared with the Ministry of Tourism. At this stage Council believed the whole Project would be funded by the Central Government.
- b) Various 2010 dates – Council liaised with the Ministry of Tourism to discuss the Funding Agreement – Council was told that government funding would be limited to a \$4m 'Quick Start' grant.
- c) June 2010 – the Council entered the 2010 Funding Agreement with the Central Government for \$4m to complete Stage One (at this point in time being Walter Peak to Mossburn).
- d) February 2011 – completion date in the 2010 Funding Agreement, however construction had not started.
- e) July 2012 – the Ministry of Business, Innovation and Employment informed Council that the 2010 Funding Agreement had expired and it would not consider whether funding would be continued until it was satisfied that all consents and other permissions required had been secured.
- f) August to September 2012 – Council emailed the Ministry of Tourism noting that Council had decided to focus on Stage One as a priority. Another email noted Stage One and Two were now reversed in order of construction.
- g) October to November 2012 – Council's focus for the Project was on re-securing the \$3.7m remaining funding. The Council corresponded with a local Member of Parliament asking for help with securing funding from the Ministry of Business, Innovation and Employment. Council representatives meet with the Ministry of Business, Innovation and Employment and discussed a revised draft funding agreement.
- h) February 2013 – Council agreed to enter the 2013 Funding Agreement, noting Council guaranteed a financial commitment of up to \$4m. A new funding agreement was signed, including indicative costs totalling \$7.7m ('**2013 Funding Agreement**').
- i) February 2014 – Council secured an additional \$0.5 million from the Government to support completing Stage One.

## What was Council's approach to the 2010 Funding Agreement?

- 5.3 In 2008 and 2009, when the Project was first conceived, Council was first corresponding with the Ministry of Tourism and the Ministry of Economic Development regarding funding from Central Government. Council initially thought that the Project could be 100% funded by Central Government.
- 5.4 We were told during the interviews that at this stage, Council was optimistic about receiving 80%-100% of the total funding from this grant. However in a letter dated 3 February 2010, the Ministry of Tourism informed the Council that Quick Start grants (of which the Council was going to be funded under) were limited to \$4m.
- 5.5 The 2010 Funding Agreement was signed in June 2010; the key terms being:

<b>Term (Schedule 1)</b>	<b>Summarised text of term</b>
3. Funding	The maximum amount of Funding available for the Project was \$4,000,000 (plus GST).
4. Project	The Council will complete construction of Stage One – being Walter Peak to Mossburn
9.Completion Date	28 February 2011
Appendix 1	Estimated the total cost of 'Stage One' at \$4,000,000

- 5.6 The 2010 Funding Agreement was signed but funding did not proceed as construction for the Project did not commence, except for \$300,000 spent on initial Project investigation and consenting costs.

## What was Council's approach to the 2013 Funding Agreement?

- 5.7 We were told during the interviews that Central Government gave Council an ultimatum that Council had to underwrite the other \$4m of the trail cost to secure the Second Funding Agreement. In reality, Council was required to pass a binding resolution guaranteeing a financial commitment to underwrite the cost of completing both Stage One and Stage Two.
- 5.8 Council described the total Project cost as \$8m to the Central Government funders. As discussed above in Section 4, this was not a reliable estimate. This is important for reasons discussed below.
- 5.9 The 2013 Funding Agreement was signed in February 2013, the key terms being:

<b>Term (Schedule 1)</b>	<b>Summarised text of term</b>
1. Context	Council is to obtain or provide funding for Stage two up to a maximum of \$4 million plus GST. Council must pass a binding resolution that guarantees a financial commitment to underwrite the cost of completing both Stage one and Stage two, to the extent that the cost exceeds the Central Government's contribution.
3. Funding	The maximum funding available for the Project was \$3,700,000 excluding GST (plus the \$300,000 received under the 2010 Funding Agreement).
4. Project	Council will complete construction of the ATMCT in two stages. Stage one by 31 October 2013 and Stage two by 31 December 2015.

## How did Council secure an additional \$500,000 funding from Central Government to support completing Stage One

- 5.10 In February 2014 the Prime Minister announced up to \$500,000 of additional Central Government funding for the ATMCT Project. The funding was to allow for the preferred route into Athol to be built, that required additional bridges.

### Our Observations

- 5.11 Critically the operation of clauses 1 and 4 (i.e. Central Government funding was conditional on both stages being completed) and clause 3 (that Central Government funding was limited to \$3.7m) of the 2013 Funding Agreement meant that Council was committed to building the entire trail and it was absorbing 100% of the risk of cost overruns and/or funding shortfalls.
- 5.12 This contractual position was at odds with some of the communication we have seen. For example, some Council documents, including an email to a mayoral candidate dated 2 August 2013 refer to a \$4m maximum exposure for the Council, with the Council limiting its responsibility to \$4 million. The 15 May 2013 report to Council to initiate construction of the Project stated that the 2013 Funding Agreement says 'Southland District Council to obtain or provide funding for Stage Two up to a maximum of \$4M plus GST'. As we have outlined, this is not the correct interpretation of the 2013 Funding Agreement, which required Council to both build the whole Project, and to underwrite the cost of completing both stages to the extent that any cost exceeded the Central Government's contribution.
- 5.13 A key theme we identified during this review is that Council was committed to securing the available funds from Central Government for building the Cycle Trail. We were told during the interviews that Council was 'chasing the free money'. There was a consistent message that turning the Central Government funding down was not a good option, and that Council worked very hard to secure this funding.
- 5.14 Council signed the 2013 Funding Agreement in February 2013 before Council had finalised and approved the May 2013 Budget. While contractually the Council was not committed to building the ATMCT until making the first funding claim, it was clearly in a weaker negotiating position having signed the agreement, both with Central Government, but perhaps more importantly, with other councils and funding agencies, which we discuss in Section 7. Simply put, the signing of the 2013 Funding Agreement all but meant the ATMCT would be built and the Council was responsible for funding it, except for the \$4m from Central Government.
- 5.15 In our view Council would have been in a stronger negotiating position if it had first developed a robust budget in respect of the costs involved in constructing the ATMCT, then had a discussion with the various potential funders including Central Government. It may well have been that Central Government would have not increased its funding, but there appeared to be little downside to Council in proceeding in this manner.
- 5.16 Further, if Central Government had declined to increase the funding at that point, Council could have made a more informed decision as to whether it proceeded with ATMCT or not.

# 6. Monitoring and reporting actual expenditure

6.1 In this section we outline our findings in respect of how the Council monitored the ATMCT costs.

## How was actual expenditure monitored and reported?

6.2 We found evidence that the Project Team / governance group and others involved were meeting regularly and there were minutes recorded for those meetings. However, these meetings seem to largely focussed on reporting progress and issues with the Project as opposed to focussing on the financial aspects, including how the Project's actual and forecast (i.e. actual to date plus estimate to complete) revenues and expenses were tracking against the May 2013 Budget.

6.3 This was consistent with what we were told during the interviews.

6.4 During both the document review and the interviews we tried to understand at what point it was clear the overall cost of the Project would be more than \$8m. Many interviewees could not recall exactly when the Project was known to cost more than \$8m, and when the forecasted spend would exceed this.

6.5 Many of the interviewees explained to us that they were not aware of any significant budget overrun until very late in the Project, for example identifying reports to the Council in 2015 as the first time serious overruns were reported. We do, however, note that some overruns were reported at least in 2014.

6.6 During our review we did not identify comprehensive monitoring and reporting of actual expenditure in a meaningful way to the Project Team. The May 2013 Budget approved by Council does not appear to have been used to report against actual expenditure. This should have been used as a basis for ongoing reporting, but this did not happen.

6.7 It appears that the Project only had limited involvement from the Council's Finance team. The Council's Finance team described their role in the Project as more 'bookkeepers' than 'advisors'. During the interviews we were told that some of the people in SDC's Finance team did not want to get involved with the Project due to concerns they had with how the Project was being run.

6.8 We asked Council to reconcile the current costs incurred on the Project (to 31 March 2016) against the May 2013 Budget. We note that this could not be completed line-by-line easily by Council as some of the costs have now been recorded in different ways. The Council's reconciliation is included in **Appendix A**.

## Were there any warning signs that actual expenditure would exceed that budgeted?

6.9 In our view there were possible 'warning signs' of the potential for actual costs to exceed budget, even without a report setting out actual and forecast revenues and expenses compared to budget. These warning signs, which in our view should have put the Council 'on notice' included:

- a) The estimate in the 2009 Initial Engineer's Report;
- b) The fact that Fish & Game were uncomfortable with cycle numbers increasing alongside the Oreti River was known before the date of the Initial Engineer's Report in September 2009.

- c) As early as the Initial Engineer's Report, some landowners had already proposed significant deviations around their properties rather than using the rail embankment. The Initial Engineer's Report further noted that the time taken to secure necessary land access and easement agreements would impact on the overall timeline.
- d) The Initial Engineer's Report also noted that resource consent and concession application process timing and potential requests for further information may impact on project timing.
- e) Reported increases in some project costs as early as September 2012. For example, \$400,000 on project management services against an initially indicated \$144,000.
- f) Concerns raised about the estimates not being verified (see Section 4).

### Other matters to consider

- 6.10 Some of the people we interviewed said they believe certain costs (such as professional fees) had been (or would be) 'absorbed' into the Council to keep the ATMCT Project cost as low as possible. A possible example given of this was the consultant engineer's professional fees.
- 6.11 However many of the interviewees we spoke to did not believe that any costs were absorbed by Council, other than staff time and associated costs such as stationery and travel costs.
- 6.12 It was outside the scope of our review to determine if the Council's reported costs for the ATMCT capture all relevant costs (excluding employee time and disbursements).

### Our observations

- 6.13 We expected that there would be a regular (say monthly) report comparing actual and forecast revenues and costs for ATMCT against the May 2013 Budget approved by Council. The absence of this type of reporting, the absence of focus on financial matters generally, and the surprise that seemed to occur when significant cost increases for ATMCT were finally identified is indicative of a project that has been poorly managed from a financial point of view.
- 6.14 Further, we would have expected a proficient project accountant to have had more involvement in the Project:
  - a) Preparing the May 2013 Budget. In our view, an experienced project accountant would have insisted on an engineering report or similar to support the May 2013 Budget;
  - b) Ensuring there was reliable actual/forecast vs. budgeted reporting occurring on a regular (say monthly) basis;
  - c) Ensuring that projected overruns were communicated in a timely manner.

# 7. Funding strategies

- 7.1 From conception of the Project there was a largely consistent message that no (or very little) ratepayer funds would be used in the ATMCT Project. The May 2013 Budget projected the Council would generate all of the funding from external sources, with \$4m coming from Central Government (\$3.7m under the 2013 Funding Agreement, and \$300,000 already received under the 2010 Funding Agreement) and the balance coming from other funding bodies. We canvassed the Central Government funding in Section 5.
- 7.2 In this Section we outline the level of funding budgeted and received from these other funding bodies, the approach taken to secure funding from other funding bodies and the representations made to the public about the level of Council funds that would be used on the Project.

## How was the Project intended to be funded?

- 7.3 The May 2013 Budget did not include a breakdown of where funding would be received from beyond the \$3.7m Central Government funding.
- 7.4 A budget reported to the Council on 6 August 2014 noted that the Project would be funded from the following sources:

Source	Amount \$
Central Government	\$4,500,000
Lotteries Commission	\$1,000,000
Community Trust of Southland ('CTOS')	\$2,500,000
<b>Total projected funding in August 2014</b>	<b>\$8,000,000</b>

- 7.5 This breakdown is included in **Appendix A**.
- 7.6 We note that this budgeted funding was reported after the May 2013 Budget was approved. By this stage, the additional \$500,000 had been granted by the Central Government for Stage One (making Central Government's contribution \$4.5m total) and the Lotteries Commission had approved \$1 million (after Council applied for \$2 million in funding).
- 7.7 We were further told during the interviews that the Project was presented to Council on the basis that no (or very little) ratepayer money would be spent.
- 7.8 Aside from the Central Government funding, the Project relied heavily on receiving a large amount of funding from two key sources: the Community Trust of Southland, and the Lotteries Commission.
- 7.9 The reality for Council throughout the Project was that any funding not achieved from external sources (be it Central Government, or other external funders) would then become the responsibility of Council in committing to construct the cycle trail.

## How was the Project actually funded?

- 7.10 The latest forecast records the Council has (or is expecting) to receive funding for the Project as follows:

Source	Funding received to date	Forecast additional funding	6 August 2014 Budget	Projected shortfall
Central Government	\$4,500,000	\$0	\$4,500,000	-
Lotteries Commission	\$500,000	\$500,000	\$1,000,000	-
Community Trust of Southland	\$250,000	\$0	\$2,500,000	(\$2,250,000)
Total projected funding reported in August 2014	\$5,250,000	\$500,000	\$8,000,000	(\$2,250,000)

- 7.11 Over the life of the Project, Council, with assistance from Venture Southland, applied for funding for the Project. The large funding grants achieved (to the date of this report) are from the Lotteries Commission (\$1m) and the Community Trust of Southland (\$250,000). This \$1.25m was significantly under the \$3.5m required to avoid spending council funds on ATMCT, even under the \$8m cost estimate.
- 7.12 Venture Southland and the Council approached CTOS in 2009 and 2010 to discuss funding for the ATMCT Project. After initial meetings, CTOS communicated to Venture Southland and the Council that it was willing to support the Project in principle, but at that point in the Project (where the Project was not yet confirmed) it could not commit to funding. At that stage, Council had indicated to CTOS that it would be looking for \$2.5m in funding.
- 7.13 Council applied for \$2m in funding from the Lotteries Commission. In March 2014, the Lotteries Significant Projects Fund agreed to fund \$1m towards the Project. This was to be paid as \$500,000 upfront and \$500,000 on completion.

## How realistic was it for Council to achieve the levels of funding expected?

- 7.14 During our review we attempted to understand how realistic it was for Council to achieve the levels of funding projected in the May 2013 Budget. Given Council realised \$1m of funding from Lotteries (and we were told this is what was expected), we have focussed on the expected CTOS funding.
- 7.15 During the interviews we were told that Council was optimistic that a significant level of funding could be achieved from CTOS. CTOS was (and is) a significant funder of initiatives in the Southland region. Council was also aware that CTOS had provided \$1.5m for developing the Wakatipu Cycle Trail.
- 7.16 However, we were told by at least one interviewee that at the time of signing the 2013 Funding Agreement (in February 2013), it was starting to become clear that the external funding available would not meet the Council's expectations (i.e. there would be a shortfall in external funding to cover the entire Project cost).
- 7.17 Further, it was clearly outlined in the 13 February 2013 report to Council that grants from CTOS were at the time being limited to \$50,000, due to the financial position of the Trust.

7.18 During our interviews, Council personnel explained that they were optimistic that CTOS would provide at least \$1m in funding for the Project, despite CTOS limiting funding availability. Council personnel explained that they thought CTOS might instead provide funding over a period of time, instead of a lump sum. Council also relied on its earlier 'in principle' discussion with CTOS as being able to still receive \$2.5m in funding from CTOS.

### Were other funding sources considered?

7.19 We were told during the interviews that Council did consider other funding options, but that compared to CTOS and Lotteries Commission these were not significant or well-defined.

7.20 One potential funding option the Council considered was through donations and sponsorships from local businesses, the public, and operators on the Cycle Trail providing funds. We were told during the interviews that these were ideas, and that the options were largely not progressed any further. We have been told that, to date, these have not proceeded in any material way. We were also told that the likelihood of receiving significant funding from these sources is now very low.

7.21 Another option that was actioned was applying for funding from the Queenstown Lakes District Council ('QLDC'). An email was sent to the Chief Executive at QLDC in February 2014 requesting \$200,000 in funding, but this did not result in any funding.

### What representations were made to the public about funding?

7.22 During the interviews and document review we noted what was communicated with the public and SDC ratepayers around the overall cost of the Cycle Trail. We found that the public was told that the goal was that there would be little or no ratepayer funding for the Cycle Trail. This includes:

- a) 18 June 2013 – the minutes of a public meeting record *'our objective is to stretch the government's \$4M so we can have a debt free trail without ratepayers paying anything. That might be optimistic'*.
- b) A 3 July 2013 Southland Times article noted that the *'Council has underwritten Stage Two for \$4 million, but Cr Douglas said they were actively approaching co-funders and hoped to continue straight into stage two once stage one was finished'*.
- c) In August 2013 the Council's Chief Executive at the time noted in an email to a mayoral candidate that in the 2013 Funding Agreement, Council *'has limited its responsibility to \$4 million' and 'this \$4 million will be raised in partnership with both the private and public sector and hopefully very little of it be funded from rates'*. We understand that this was the messaging from the Council around the time of local body elections.
- d) On or around 30 March 2015 responding to an Official Information request, Council noted the following ratepayer funding had been spent to-date on the Project:

*"Ratepayer funding*

*In 2013/2014 \$160,000*

*In 2014/2015 \$125,000*

*This was collected through the Regional Initiative Rate."*

## Our observations

7.23 We note the following observations we made:

- a) **CTOS funding:** In our view, given the significant known risk that CTOS may severely limit the funding available for the Project, Council's view of achieving at least \$1m in funding from CTOS was optimistic, let alone the \$2.5 included in the budget reported to APAC on 6 August 2014. We also note that, because of the optimism of still receiving significant funding from CTOS, the risk of not getting the level of funding expected was not appropriately considered by Council.
- b) **QLDC funding:** Clearly SDC would have had considerably more leverage in seeking the support from QLDC (and other parties) before the Council had committed to the trail.
- c) **Representations to the public:** We note;
  - (i) Council did not expressly disclose to the public that Council funding would be required in the event that:
    - Council was unsuccessful in raising the \$4 million expected to be achieved from these other sources; and/or
    - The actual cost of constructing the ATMCT was in excess of the budgeted amount of \$8 million.
  - (ii) There was a high risk of the events occurring given the nature of the project risks at the same time the Council was making the representations to the public that little or no public funding was required.
  - (iii) The email the Council's Chief Executive at the time sent to a mayoral candidate in August 2013 was inconsistent with the 2013 Funding Agreement where it was clear that Central Government had limited its funding to \$4m and the Council was liable for the balance (not just up to \$4m).

# 8. Project overruns

8.1 In this section we summarise our findings on whether there has been an overrun in project costs and the reasons for these overruns.

## Has there been an overrun in the cost of the ATMCT?

8.2 Yes. Council is now forecasting a total cost of over \$14m, some \$6m higher than the \$8m cost allowed for in the May 2013 Budget. This is based on an updated forecast prepared by Council staff, which is included in Appendix A.

## What are the reasons for these overruns?

8.3 We were given a consistent message that it seemed that no one involved appreciated the complexity of the Project. This message was also combined with statements that a project of this nature was outside of the Council's 'business as usual' activities. We were also told that the Council treated the Cycle Trail Project 'like a roading project', instead of appreciating the different approaches required and complexity.

8.4 We were told that some of the complexities not initially appreciated included:

- a) Dealing with multiple land access agreements;
- b) Dealing with multiple territorial and regional authorities;
- c) Bridge design and complexity;
- d) Gradients; and
- e) Route definition.

8.5 More specifically, during the interviews we were told about three key cost issues causing overruns:

- a) The fact that the Stage One route had to change from the original plan of using the railway line;
- b) A material underestimation in the costs associated with Stage Two of the Project; and
- c) The costs associated with the issues in obtaining consent for the route through the Upper Oreti River.

8.6 A significant portion of the additional costs associated with the Athol deviation (being approximately \$747,000) were covered by the receipt of an additional \$500,000 of funding from Central Government.

8.7 We understand the additional costs from the other two major landowner disputes totalled approximately \$654,000.

8.8 Clearly 8.5 (b) and (c) have both had a significant bearing on the overall cost of the Project as outlined below.

### Stage One

8.9 The overruns for Stage One are well-known to Council and we do not intend to traverse them in any detail. We understand that the Stage One financial summary was reported to the Activities Performance Audit Committee on 16 September 2015 and noted the final forecast for Stage One at \$5.6m, as compared to a budget that was approved by Council of \$3.27m in the May 2013 Budget. This report lists the

key causes of the variances as:<sup>1</sup>

- a) Parawa Property Diversion 1;
- b) Parawa Property Diversion 2;
- c) Athol Deviation;
- d) Consultant Costs;
- e) Fencing; and
- f) Bridges.

## Stage Two

8.10 The largest cost overruns appear to have arisen from the approach to using the estimated costs for building Stage One to estimate costs for Stage Two. There appeared to be little appreciation of the fact that the terrain that the trail was being built on in Stage 2 was materially different to that present in Stage One. This, coupled with the additional costs associated with the consent that has been contested by Fish and Game has resulted in the Stage Two costs increasing from a budgeted figure of \$4.43m per the May 2013 report to Council to a latest forecast of \$8.82m (forecast presented to Council workshop on 8 December 2015).

8.11 It is important to note that this analysis was only prepared after a request by Deloitte for a reconciliation of the May 2013 figures with the current reporting.

8.12 There were a number of unexpected events that lead to cost overruns:<sup>2</sup>

a) **Upper Oreti, consenting application and appeal**

Council has been involved in a protracted legal dispute with Fish and Game over the issue of construction of a 19km section of the trail near the upper Oreti River and Centre Hill Rd. This has resulted in the costs associated with consenting rising from a budgeted figure of \$135,500 for Stage 2 to actuals as at 31 March 2016 of \$780,718, plus \$515,194 for costs (including legal) associated with the appeal.

b) **Gradient and topography**

Potential gradient and topography issues were not appropriately budgeted for in Stage Two. The issues with obtaining consent have resulted in stretches of the trail being constructed on the opposite side of the river to that which was originally planned. This change has resulted in additional costs as increased work has had to be planned in order to ensure that the gradient of the trail remained within required parameters.

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<sup>1</sup> Actual figures to 31 March 2016 are available in **Appendix A**

<sup>2</sup> These figures are sourced from the Forecast Actuals to 30 June 2016 and Actuals to 31 March 2016 figures provided by Council in **Appendix A**

### c) **Increased tenders / contractor costs**

We were informed that because of the significant delays, the contractor prices for Stage Two were significantly higher than expected. The estimates for Stage Two were based off the Stage One tenders received, and those involved assumed that Council would achieve the same competitive pricing for Stage Two. Because of the delays, it appears that the contractor market prices increased due to stronger demand. We were also told that weather and access caused other significant delays and increased costs. Note that these are normal risks when undertaking outdoor construction projects and we would normally expect contingency budgets to address them.

A major increase in the estimate occurred in respect of the costs of bridge construction. The reasons are threefold:<sup>3</sup>

- (i) the number of bridges;
- (ii) the length of the bridges; and
- (iii) the number of boardwalks.

### **Our observations**

- 8.13 In our view, the complexity and scale of the Project, and the nature of the issues faced highlighted the need for the Project to have:
- a) Greater input from an engineer on the route, definition and cost when the May 2013 Budget was being prepared;
  - b) A clear route specification and definition supporting the budget (and provided to the Council);
  - c) A clear detailed outline of the basis and assumptions on which the estimates were based, the risks associated with those assumptions;
  - d) A healthy allowance for contingencies in the budget (the \$8m approved by the Council in the May 2013 Budget did not include any allowance for contingencies);
  - e) Clear separation of the two stages of the Project (reflected in all funding agreements, funds release and back to back contracts), having first understood the risks and potential costs involved in each stage;
  - f) An external project assurance role to raise red flags (especially at the key milestones before significant commitments are made by Council);
  - g) Robust financial reporting of the Project; and
  - h) Strong risk management.

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<sup>3</sup> As reported to Council in a 16 September 2015 report entitled 'Update on the Around the Mountain Cycle Trail'

# 9. Other matters

9.1 We were asked to report any findings that could be made in the course of reviewing the matters in Sections 3 to 8, relating to:

- a) the Council's planning and decision-making processes in scoping, approving and subsequently managing the project through its different stages;
- b) the governance, management, oversight and contracting arrangements put in place for the project and the extent to which these met good practice expectations for a project of this nature;
- c) the Council's approach to the management of project risks; and
- d) The overall suitability and cost-effectiveness of the cycle trail that has/is been constructed relative to the original objectives and good practice for a trail of this nature.

9.2 We set out our findings in respect of these matters below.

## Council's planning and decision making

9.3 There appears to be a lack of clarity about what the Council was agreeing to when it approved the 2013 Funding Agreement.

9.4 In February 2013 Council approved the 2013 Funding Agreement. In the 2013 Funding Agreement, Council agreed to:

- a) Sign the funding agreement;
- b) Underwrite the Project to a cost of \$4m; and
- c) Complete the whole trail.<sup>4</sup>

9.5 We were told that Council agreed to underwrite up to \$4m. This was on the understanding that all (or the vast majority) of this \$4m was likely to be paid through other external funding (such as CTOS and the Lotteries Commission).<sup>5</sup>

9.6 Commercially it was Central Government, not Council that had limited its funding to \$4m. While theoretically Council could have ceased funding the ATMCT once its \$4m budget had been spent, the Council was at risk of the \$4m funding under the Funding Agreement being 'clawed back' if Council did not fulfil all its obligations under the agreement. Further, we would expect the value of a partially built cycle track would be limited.

9.7 Clearly, Council (as owners of the Project) was liable for any costs over and above what it managed to secure as funding, including the significant overrun that has now occurred.

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<sup>4</sup> As discussed earlier, we note that by agreeing, under the Funding Agreement, to complete the whole Cycle Trail; that Council may have been effectively agreeing to underwrite an open-ended figure for the total project cost over and above the \$4m funding received.

<sup>5</sup> We have outlined this earlier in the report.

## Governance, management, oversight and contracting arrangements

- 9.8 We observed significant issues with the governance, management, oversight, and contracting arrangements put in place for the Project, as outlined below.
- 9.9 We note that those involved with the governance of the Project were also largely involved with managing the Project.

### What was the governance structure throughout the Project?

- 9.10 As with all of Council's usual projects, the overall governance of the ATMCT Project was provided by Council. Primarily this was through the Activities Performance and Audit Committee. The whole of Council sits on this committee.
- 9.11 At the early stages (2008 to 2012) of the Project the specific governance structure for the Project was not well defined. We understand that those involved in the Project Team included a number of Council staff and two external individuals. It is not clear to us what role each person undertook or the reporting lines within this group and between this group and APAC. We have been told various conflicting accounts about who had what responsibilities. The documents we reviewed confirm that these individuals were involved as some sort of project team.
- 9.12 This structure was changed in or around September 2012 following a returning Council employee being made responsible for the ATMCT Project.
- 9.13 Later, in 2015, a further 'Governance Group' was established for the Project. This sub-committee included the Mayor and a number of Councillors. The Governance Group's role was to oversee completion of the trail, monitor spending, and be responsible for health and safety (among other roles). The fact that this governance group was established as late as 2015, when the Project had been active for the past 6 years indicates that (at a minimum) before this date the Project was lacking sufficient governance.

### What was the project management structure throughout the Project?

- 9.14 The Project has had a number of 'Project Managers' during its 8+ year duration.
- 9.15 It became clear to us during the interviews and document review that at the early stages of the Project, roles and project management were not well defined. We identified many different people described as 'Project Manager' in the documentation, but during the interviews many of these people described their roles as something different. Two examples of this include:
- a) A Council employee was described as the Project Manager from 2009 to 2012 but his role was more simply coordinating the Project from within Council; and
  - b) An individual contractor won the tender for Project Management, but appears to have acted more as the 'design person' or 'Cycle Trail subject matter expert' than a Project Manager. We note that although this contractor's role continued in one form or another throughout the Project, no contract was signed by Council.
- 9.16 A number of the interviewees told us that the Project was lacking robustness around project management until at least mid-2012 when the newly appointed Group Manager Services and Assets at SDC was given responsibility for managing the Project.
- 9.17 A number of the interviewees shared views that the Project lacked appropriate project management and leadership throughout its duration. We were advised that it appeared that no one at Council took true ownership of the Project to keep it moving forward, especially at the early (2008 to 2012) stages of the Project.

- 9.18 An individual contractor won the tender for Project Management of the Project ahead of an engineering firm (such as the others that submitted responses). Those who submitted responses included the engineering firm who had completed the initial scoping of the Project in the Initial Engineer's Report. As noted earlier, it appears that cost was a significant factor in awarding the tender for the Project Management to the individual contractor.

#### **Was best practice project management adopted for the Project?**

- 9.19 Our review observed a lack of good project management disciplines.
- 9.20 Given the nature and scale of this project we also observed a lack of skills and expertise for those assigned certain roles. As a general observation this included:
- a) A lack of Project Management skills and accountabilities (especially in the early stages of the Project);
  - b) Not having appropriate engineering expertise included while refining the Project down from the Initial Engineer's Report – it appears no independent engineer was involved from the date of the Initial Engineer's Report (2009) until 2012 when a consultant engineer was engaged, and that when the consultant was engaged it was for a very limited role. We note that once construction was underway, a large engineering consultancy was appointed to provide engineering oversight;
  - c) Only very limited engineering input was provided into the May 2013 Budget that was eventually established and subsequently approved by the Council;
  - d) A lack of expertise in the actual scoping, design, and construction of a cycle trail;
  - e) Minimal input from the Council's Finance team in setting the May 2013 Budget and reporting on actual/forecast vs. budgeted revenues and costs; and
  - f) A lack of appropriate risk management practices.

#### **What observations can be made about the contracting arrangements put in place?**

- 9.21 We have not reviewed the contracting arrangements put in place in detail as this is outside of the scope of this engagement. However from what was described to us, the construction contracts that were ultimately put in place were on the expected and usual form for New Zealand construction projects (being NZS 3910).
- 9.22 We were told that one arrangement that could have potential issues is around the individual contractor's contract for Project Management services, as this was not signed by Council.
- 9.23 While we have not reviewed the Council's contractual arrangements with the individual contractor in any detail, we do note that this is a potential conflict of interest of the individual. The individual contractor was seemingly incentivised for the Council to complete the trail, as he will be earning revenue from providing cycle tours and exclusively managing the booking system for the trail. From what we have observed, this conflict of interest was known by Council, but it is not clear from the documents we have reviewed that Council fully appreciated this potential risk.

## Risk Management

### What was the Council's approach to Risk Management?

- 9.24 The vast majority of the interviewees we spoke to explained to us that the Project was not well managed from a risk management perspective. Interviewees told us that risk assessments were not completed, and that they did not believe there was an official risk register developed. We could not locate formal risk management documentation for the early stages of the Project (2009 to 2012), such as a risk register.
- 9.25 However critical risks were identified in both the Initial Engineer's Report and in the paper provided to the Council in support of the May 2013 Budget. In both cases, the risks highlighted proved highly prescient:

#### a) Initial Engineer's Report

Three of the key risks that caused significant cost overruns were noted by the engineers in the 2009 Initial Engineer's Report:

- (i) Fish & Game were uncomfortable with cycle numbers increasing alongside the Oreti River.
- (ii) Some landowners had already proposed significant deviations around their properties rather than using the rail embankment. The time taken to secure necessary land access and easement agreements would impact on the overall timeline for construction.
- (iii) Resource consent and concession application process timing and potential requests for further information would impact on project timing.

#### b) Paper supporting the May 2013 Budget

This paper highlighted three risks, two of which proved critical:

- (i) The risk the cost of the Project would be greater than the amount budgeted;
- (ii) The risk that construction of Stage One would be delayed and the Council would be unable to complete the trail within the agreed timeframes under the Funding Agreement; and
- (iii) The risk of a challenge to the alignment of the trail originally sought but not granted by the Commissioner (i.e. the Upper Oreti part of the cycle trail).

- 9.26 Many of the cost increases and overruns on the Project were because of known (but not fully appreciated, and inappropriately managed) risks. These included construction costs for Stage Two and disputes over resource consents. The known risk of not achieving further external funding also materialised, at a significant cost to Council.
- 9.27 In our view, there was insufficient robustness around risk management for the Project. Risks were identified that did eventually play out (for example the significant cost overruns and consenting issues), but these risks were not appropriately considered at the early stages of the Project or managed in the later stages of the Project.
- 9.28 It is possible that with more robust risk management practices that some of the significant cost overruns could have been avoided or, at a minimum, been given early warning. It is also possible that if these risks were appropriately considered, that Council may have made different decisions on the Project.

## The overall suitability and cost-effectiveness of the cycle trail that has been constructed.

- 9.29 Deloitte is not an expert on cycle trails, or on determining suitability and cost effectiveness of cycle trails. We therefore cannot comment specifically on the suitability and cost-effectiveness of the cycle trail.
- 9.30 We have been advised during the interviews that the cycle trail itself is being built to a high standard and is an excellent tourism product. We have not verified these statements. We also note that there have been some concerns raised about the significant number of gates used in certain sections of Stage One of the trail, which was reportedly caused by the unplanned deviations in the cycle trail.
- 9.31 We have made a general observation that the trail has not been 'cost-effective' from the perspective of being built within budget. Clearly the cycle trail project has gone significantly over-budget, and has not been built as an \$8m product, as initially contemplated by Council and the public.
- 9.32 Ultimately, any assessment of the cost-effectiveness of the cycle trail would require considering whether the economic benefits enjoyed by the ratepayers of SDC exceed the costs the SDC incurs in building and maintaining the ATMCT. This was outside the scope of our engagement.

# 10. Lessons learned

## Lessons learned for Council

- 10.1 We understand and acknowledge that Council has spent a considerable amount of time analysing the reasons for the issues that have been experienced during the completion of the Project.
- 10.2 We have also been informed that Council has a view on the weaknesses in the Project that contributed to the issues experienced in terms of cost and time overruns. Accordingly we have briefly summarised below the key lessons learned for Council that have come to light during the course of our work.
- 10.3 We have set out lessons learned under the headings in the Deloitte Project Management Quality Assurance Framework. This framework includes aspects of programme and project management delivery, quality assurance, and elements of industry practice such as Projects in Controlled Environments (Prince 2) and the Project Management Body of Knowledge (PMBOK).
- 10.4 Examination of the following key project management elements enables a picture of project health to be established and to ensure the project has the 'right' ingredients to deliver a successful outcome.



10.5 To a greater or lesser degree, aspects of each of these elements were lacking in the Project. Council should revisit its approach to managing material projects using this or a similar Project Management framework, for both the remainder of this Project and for other projects in future. The specific lessons learned arising out of this Project are:

- a) **Governance.** It is crucial that the right governance structures are in place from day one of the project. The governance body should have the experience and knowledge to be able to provide a robust challenge to the project members. There should be clarity of the various project roles which should articulate the key accountabilities and responsibilities. Having the right make-up of skills and experience is important for governance also, and the appropriate skills and make-up of those charged with governance will differ from project-to-project.
- b) **Resource Management.** There was confusion amongst all as to where responsibility lay for various aspects of the Project; most notably the role of Project Manager. This is a crucial role in any project of this size. The Project Manager must be an individual with the right skills and experience and the right level of seniority. There are key attributes that we would expect of the people placed in important roles such as the Project Manager role, including the skills and experience of those individuals. It is also important that the process for identifying and engaging key resources is robust, best ensuring that the right resource is put in place.
- c) **Risk/Issues Management.** We saw no appropriate consideration of the risks associated with the Project until approximately four years after its commencement. The known risks were not appropriately managed. The construction of a risk register and an issues register are key components of any well managed project. If a risk identification and prioritisation exercise had been conducted at the outset of the Project, it is likely that a number of the issues that arose may have been identified earlier as risks and been managed in a better way.
- d) **Financial Management.** This was one of the key weaknesses of the Project. It is essential that there is strong financial involvement in any major project. The finance specialists must be viewed as advisors, not merely bookkeepers and there needs to be regular and robust reporting of actual spend versus budget, along with explanations for variances. A level of commercial skill is required when developing budgets and this needs to be married with the accounting skills required to track and forecast reported spend against budget. There must be clear escalation protocols for forecast overruns so that the governing body can go back to the business case and develop suitable alternatives or delay/abort the project. We would also expect there to be a standard methodology and standard documentation for financial management and reporting of projects.
- e) **Time/Schedule Management.** We saw no evidence of any detailed project plans setting out how the project was going to be completed and the various milestones that needed to be met and interdependencies that needed to be managed. This is one of the most fundamental aspects of any robust project management process.
- f) **Project Assurance.** For a project of this scale in public sector it is common practice to budget for and execute a suitable assurance programme to routinely audit the project. These audits can occur as early as the business case stage and go through to post audit. The idea is to red flag the problems at the earliest point. Council should considering developing and implementing a project assurance programme for all major capital projects as well as any other project which is significant in terms of its risk framework. There is

considerable guidance from State Services on how public sector entities must execute risky projects.

10.6 We understand that Council has already put significant focus on establishing better practices and processes for the Project and may have remedied a number of the issues highlighted in this report. It was beyond the scope of our review to complete a detailed 'current state' assessment of the Project. However, if we were to assume that the Council had not made any changes, in our view the higher priority areas for the Council to focus on for the remaining stages of the Project are the lessons learned for:

- a) **Governance.** Good governance should ensure many issues are either avoided or identified and resolved at an earlier opportunity.
- b) **Risk/Issues Management.** The Council successfully identified the key risks but did not appear to take steps to adequately manage these risks; and
- c) **Financial Management.** The financial management of the Project was previously substandard.



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