



TE TAI ŌHANGA
THE TREASURY

Joint Report: Upper North Island Supply Chain Strategy: Advice on final report

Date:	7 November 2019	Report No:	T2019/3506 (TSY) OC191143 (MoT)
		File Number:	SH-8-8

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree for officials to draft a Cabinet paper.	11 November 2019
Minister of Transport (Hon Phil Twyford)	Agree for officials to draft a Cabinet paper.	11 November 2019
Associate Minister of Transport (Hon Shane Jones)	Agree for officials to draft a Cabinet paper.	11 November 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Erin Wynne	Director, Rail Transformation – Ministry of Transport	[REDACTED]	✓ (MoT)
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Withheld under section 9(2)(a) of the Official Information Act 1982

Minister's Office actions (if required)

Return the signed report to Treasury.

Enclosure: No

Joint Report: Upper North Island Supply Chain Strategy: Advice on final report

Executive Summary

1. We expect Ministers will receive the final report of the Upper North Island Supply Chain Study (UNISCS) Working Group (the Working Group) in the week ending Friday 8 November 2019. The final report recommends the progressive managed closure of the freight operations at Ports of Auckland, the development of Northport, and the continuation of freight operation at the Port of Tauranga. This would enable redevelopment of the Ports of Auckland site.
2. On 11 November at 9:30am, Rail Ministers are meeting to discuss the final report, potential investment of Provincial Growth Fund in the North Auckland Line and the process to take these issues to Cabinet for decision. This briefing provides advice to support this meeting.
3. The Working Group has set out a roadmap to implement its recommended option, requiring significant Crown investment and possible regulatory and legislative intervention, if necessary.
4. We have engaged with the Working Group, which has provided further insights into its thinking. We see there are potentially some good strategic arguments to support further examination of a port move from Auckland. Perhaps the most important of these arguments is the potentially significant city-shaping and congestion-reduction benefits in Auckland, and land value gains.
5. The Working Group has advised that more detailed work is needed to support particular areas of its proposal. We consider this involves resolving uncertainties in relation to the case for change, including demand for rail on the North Auckland Line, timing and sequencing of road infrastructure costs, effect on the supply chain and land use effects in Auckland. Further work is also needed on implementation options including scoping the full cost of implementation, and potential funding sources.
6. It is important to recognise that Government has a limited share of the decision rights in realising the Working Group's recommendation. Cooperation from a number of cornerstone partners will also be crucial to the success of this complex initiative.
7. There are also risks with a more directive approach that the Working Group is recommending, such as implications for private property rights.
8. We therefore recommend that Ministers agree to direct officials to develop a joint work programme, with central and local government, port companies and private enterprise, to address these uncertainties as well as options and issues related to implementation. This work would enable Ministers to be in a better position to take decisions in relation to the UNISCS and the Working Group's final report.
9. Dependent on the speed of engagement with key partners, we would provide Ministers with a draft work programme for review by March 2020. We recommend that interim operating funding of \$1 million in 2019/20 is provided to the Ministry of Transport for the consultancy and other external costs, and scoping the work programme by the April

2020 report back date. This expenditure would be charged against the Provincial Growth Fund.

10. If you agree, we will draft a Cabinet paper for your review that seeks approval for officials to develop this work programme and report back in April 2020.

Provincial Growth Fund investment in the North Auckland Line

11. In parallel, the Provincial Development Unit (PDU) has been working with KiwiRail on possible Provincial Growth Fund (PGF) investment in the North Auckland Line (NAL), including the Marsden Point Link (MPL), using the remaining regional rail funding agreed as part of Budget 2019 [DEV-19-MIN-0213 refers].
12. We understand that Cabinet will be asked in parallel to make decisions on the final UNISCS report and the PGF investment in the NAL. However, the benefits from full investment in the NAL are linked to decisions that Cabinet will make on the UNISCS and the Working Group's final report.
13. If Ministers wish to make an investment in the interim, we recommend the following staged options for Ministers for PGF investment in the NAL and MPL:
 - a. Seek Cabinet agreement to fund the remaining work on the NAL for 2019-21 totalling \$69.7 million (this includes work to bring the line up to minimum viable import-export container standards with further work particularly on tunnels).
 - b. Seek Cabinet agreement to funding the acquisition of the remaining land along the MPL, totalling \$40 million.
14. We consider these two investments as the lowest risk at this point given the work still required to secure partner support and better understand the impact of the option of a full move to Northport.

Communications

15. The Working Group notes that cooperation of Councils and port companies is critical for any transition. Engagement with these parties has been limited to date. Given their key roles in this process, we recommend that Ministers engage with at least the Mayor of Auckland, and the Chairs of Northland and Bay of Plenty Regional Councils, and potentially the Chairs and CEOs of affected ports, prior to making any announcement on the UNISCS.

Recommended Actions

We recommend that you:

- a **note** that the Upper North Island Supply Chain Strategy Working Group's (the Working Group) final report recommends the progressive managed closure of the freight operations at Ports of Auckland, the development of Northport, and the continuation of freight operation at the Port of Tauranga
- b **note** that partnership with local government, port companies and private enterprise is required to successfully implement the Working Group's recommended option and there are risks with a more directive approach using legislative or regulatory levers, such as implications on private property rights

- c **agree** for officials to prepare a Cabinet paper on behalf of the Deputy Prime Minister, Minister of Finance, Minister of Transport and Associate Minister of Transport with the following recommendations:
- o Note that Ministers consider that there are strategic arguments for moving the Ports of Auckland that deserve further work.
 - o Direct officials to develop a work programme in conjunction with key partners around resolving uncertainties in relation to the case for change as well as options and issues related to implementation in order for Cabinet to be in a position to take decisions on the Working Group's final report.
 - o Invite Ministers to report back to Cabinet in April 2020 to seek agreement to the details of that work programme.
 - o Agree to interim operating funding of \$1 million in 2019/20 to the Ministry of Transport for the consultancy and other external costs to scope the work programme by the April 2020 report back date, with this expenditure charged against the Provincial Growth Fund.
- d **note** that the Provincial Development Unit is preparing a related Cabinet paper recommending further investment in the North Auckland Line and Marsden Point Link from the Provincial Growth Fund
- e **note** that the benefits from full investment in the North Auckland Line and Marsden Point Link are linked to decisions that Cabinet will make on the Upper North Island Supply Chain Strategy and the Working Group's final report, and
- f **note** that if Ministers wish to make an investment in the interim, we recommend seeking Cabinet approval to fund the following options as the lowest risk:
- o the remaining upgrade work on the North Auckland Line for 2019-21 totalling \$69.7 million, and
 - o acquisition of the land along the Marsden Point Link, totalling \$40 million.

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Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

Hon Shane Jones
Associate Minister of Transport

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Purpose of Report

16. On 11 November at 9:30am, Rail Ministers are meeting to discuss the final report of the Upper North Island Supply Chain Strategy (UNISCS) Working Group (the Working Group), and the potential investment of Provincial Growth Funding in the North Auckland Line, and the process to take these issues to Cabinet for decision.
17. To support this meeting, this report sets out advice on:
 - a. the working group's recommendations
 - b. proposed next steps, and
 - c. proposed investment via the Provincial Growth Fund in the North Auckland Line.

The Working Group recommends a full move to Northport

18. We expect Ministers will receive the final report of the Working Group in the week ending Friday 8 November 2019. This report recommends the progressive managed closure of the freight operations at the Ports of Auckland, the development of Northport, and the continuation of freight operations at the Port of Tauranga. This would enable the redevelopment of the Ports of Auckland site.
19. We have engaged with the Working Group, which has provided further insights into its thinking. We see there is a case for further work to examine the strategic arguments for a full move of the Ports of Auckland freight operations. Perhaps the most important of these arguments is the potentially significant city-shaping and congestion-reduction benefits in Auckland, and land value gains.
20. There are also potential strategic arguments to support this move to Northport rather than the alternatives under consideration. In the case of Tauranga, these relate particularly to resilience considerations. The Working Group also outlined that there are safety and insurance constraints associated with Manukau Harbour, and significant costs associated with a Firth of Thames option.
21. The Working Group has set out a roadmap to implement its recommended option of a full move to Northport, requiring significant Crown investment and possible regulatory and legislative intervention, if necessary.

Significant Crown investment is required to support the shift

22. Central government investment is needed in road and rail infrastructure to Northland, including but not limited to the North Auckland Line, Marsden Point Link, and accelerated upgrades to State Highway 1 between North Auckland and Northland.
23. In its economic analysis, EY advised that a rail link between Avondale and Southdown in Auckland would be needed to avoid long truck trips from the West Auckland freight hub.
24. The Working Group's second report estimated the total capital cost of the Northport scenario to be \$10.3 billion. Based on our discussions with the Working Group,

indicative infrastructure costs are estimated to be in the order of \$3 to \$4 billion, broken down as follows:

- a. North Auckland Line (including Marsden Point Link): \$1.2 billion over 10 years.
 - b. Avondale to Southdown rail link: \$1 billion.
 - c. Accelerated road costs (assumes these are advanced by 15 years): \$1.2 billion.
 - d. Potential need for equity investment to facilitate the move.
25. These costs are highly indicative and need substantial work to refine. There could be further, as yet unknown, significant costs to the Crown of the recommended option. Given that, as set out in the NAL business case, the benefits accrue to Auckland residents through decongesting Auckland roads and potential land value uplifts, further work will need to clarify funding sources. This is also a lead infrastructure investment and associated support from the infrastructure partners, the shippers and carriers is not guaranteed and risks a stranded investment.
26. The Working Group note that commercial investment would facilitate port and inland freight hub infrastructure (although it notes that KiwiRail may need to invest in the proposed West Auckland inland freight hub).

The Working Group suggest possible regulatory intervention to achieve outcomes

27. The Working Group considers that there is nothing to stop the recommended option going ahead without government regulatory intervention. However, it notes that the ownership structures, particularly at Northport, may constrain implementation and so regulatory options may be needed (such as legislation requiring the divestment, purchase and consolidation of shareholdings in relevant ports to enable growth at Northport).
28. It also notes that transition is not possible without Auckland Council's cooperation. Auckland Council through its 100% ownership of Ports of Auckland is a cornerstone partner in any agreement to move. Other partners are the Port of Tauranga, Northport, Marsden Maritime Holdings and the many private investors to develop the required supply chain facilities.
29. The Working Group suggests that regulatory intervention may be needed to enable the recommended shift if cooperation is not forthcoming. We recommend the focus should be on working closely with the key partners to build consensus on a clear upper North Island supply chain strategy. While the exact nature of the regulatory and legislative levers are not clear, they could significantly impact on private property rights. Further work is needed before Ministers should consider using any legislative or regulatory levers.

The Working Group acknowledges further work is needed

30. The Working Group notes that its final report should be seen as the first step towards any change in the Upper North Island supply chain and that further, more detailed work will be required given the complexity of the issues.
31. We have identified the following areas where uncertainties remain, or where further analysis is needed to better understand the impact of a full move to Northport.

Potential rail mode share out of Northport

32. As noted in earlier advice (OC190930/T2019/3021 refers), the Working Group's analysis assumes 70 percent future rail mode share out of Northport in a full move scenario. The Working Group has advised that this assumption is based on future

capacity at Northport and the result of a rail focused design for the port, as opposed to detailed analysis of possible future demand for rail. This is one of the key drivers behind the positive Benefit Cost Ratio (BCR) set out in the Working Group's economic analysis, undertaken by EY.

33. EY has suggested that a targeted market sounding needs to be undertaken to better understand the possible demand for rail from Northport to Auckland. The North Auckland Line (NAL) business case, completed in March 2019, also recommended further exploration of the potential rail freight demand. We support this approach and recommend investigation with potential users of an upgraded NAL and Marsden Link.

Avoided road infrastructure costs

34. Our earlier advice (OC190930/T2019/3021 refers) also notes that the Working Group's preferred option assumes \$4.3 billion of avoided road infrastructure costs (mainly on Auckland's road network). This was the other key driver behind the positive BCR. EY has since confirmed that these road costs cannot be avoided, but the timing and sequencing of these may change if the Ports of Auckland freight operations are moved.
35. EY notes that transport modelling is required to have more certainty about the timing and sequencing of road projects in a full move to Northport scenario. We recommend that this is undertaken, including further analysis of the potential congestion benefits in Auckland.

Land value uplift

36. The Working Group has advised that it considers more efficient use of land, and the consequent land value uplifts, will be a key benefit of its recommended option. However, the report has not considered the wider economic benefits that alternative use of the land, beyond the Ports of Auckland land, could provide to the wider Auckland region.
37. Further analysis of land use scenarios is needed to more accurately quantify what these benefits might be.

Effects on supply chain

38. The Working Group advises in its final report that it does not believe that moving the Ports of Auckland freight operations to Northport will cause an inflationary effect across the supply chain. This conclusion is based on discussions with industry representatives as well as previous analysis undertaken by the Ministry of Transport in 2010 on transport costs and charges.
39. We note however that the economic analysis, undertaken by EY, states that all move scenarios increase transport costs and environmental impacts relative to the base case (Ports of Auckland remaining on site). EY states that the assumed 70 percent rail mode share will reduce the economic impact of the lengthened logistics and supply chain (due to the modelled rail freight costs being lower than road freight costs).
40. EY caveats that the modelling is extremely sensitive to mode choice, meaning that it is highly dependent on the majority of freight following the enabling investment (meaning that the majority of freight forwarders will use Northport and the upgraded North Auckland Line).
41. Given the potential high costs to the supply chain if these assumptions are not realised, we recommend further scenario and sensitivity testing on the recommended option.

Recommended next steps

42. The Working Group recommends that its recommended option is adopted as government policy, to send a clear signal to local government, port companies and supply chain participants that it accepts the case for change. In addition, it recommends that central government facilitates the process through an appropriate project delivery mechanism that is sufficiently resourced and mandated.
43. It also recommends that a one year deadline is set, and that if significant progress is not made in this timeframe that Cabinet introduces legislation to Parliament to take the necessary steps to make it happen.
44. At this stage, we recommend that Ministers agree to direct officials to develop a joint work programme, with central and local government, port companies and private enterprise, to address the uncertainties and further work outlined above, as well as options and issues related to implementation. This work would enable Ministers to be in a better position to take decisions in relation to the UNISCS and the Working Group's final report.
45. The proposed approach by the Working Group involves significant regulatory intervention by central government if progress is not made within a year. There are risks with such a directive approach, such as implications for private property rights. We recommend that, before Ministers agree in principle to such an approach:
 - a. further engagement with local authorities and port companies should be undertaken to determine their willingness to cooperate, and
 - b. officials provide further detail of the potential form and feasibility of any regulatory and legislative intervention.
46. We propose to scope further work in relation to the following:
 - a. Further refinement of logistics and supply chain analysis, including market response from infrastructure investors, carriers and shippers.
 - b. Transport and land use planning impacts, including congestion relief benefits.
 - c. Funding and financing options.
 - d. Governance and delivery options.
 - e. Legislative and regulatory considerations.
47. We propose to report back in March 2020 with a draft work programme, for subsequent Cabinet approval in April 2020. This would be developed jointly with key local government and port company partners.
48. We recommend that Ministers approve an initial budget of \$1 million to the Ministry of Transport from the Provincial Growth Fund to enable officials to meet the external consultancy costs to undertake this further work. This initial budget reflects the size and complexity of the work needed. When we report back in March 2020, we will provide more detailed costs and resourcing needs for your consideration.
49. If you agree, we will draft a Cabinet paper for your review, which seeks approval to develop the work programme.

Communications with key partners

50. The Working Group notes that cooperation from the cornerstone partners, particularly the three local government entities and the port companies, is necessary for any

transition. Engagement with these partners has been limited to date. We recommend that Ministers engage with these organisations prior to making any announcement on the UNISCS. It will be critical to work alongside project partners if this complex initiative is to be achieved.

51. Consensus also needs to be built among the key partners on the arguments against other port location options. These include the loss of resilience and competition counting out sole reliance on Port of Tauranga, the safety and insurance constraints against Manukau Harbour, and the significant costs of a Firth of Thames option.

Proposed Provincial Growth Fund investment in North Auckland Line

52. The Provincial Development Unit (PDU) has been working with KiwiRail on possible investment in the North Auckland Line (NAL), and the Marsden Point Link (MPL). As part of Budget 2019, the Government committed \$300 million of the PGF to invest in regional rail. In July 2019, Cabinet approved \$128 million of projects out of this \$300 million allocation, and agreed that decisions related to the unspent balance of \$172 million would be made on receipt of the final UNISCS Working Group's report and recommendations [DEV-19-MIN-0213 refers].
53. We understand that Cabinet will be asked to make decisions on the final UNISCS report as well as the PGF investment in the NAL in parallel. A decision on full investment in the NAL is dependent on decisions Cabinet makes on the UNISCS and the Working Group's final report.
54. If Ministers wish to make an investment in the interim, we recommend the following staged options for PGF investment in the NAL and MPL, which we consider are the two lowest risk investments given the work still required to better understand the impact of a full move to Northport.

Remaining work on the NAL for 2019-21 (\$69.7 million)

55. This includes work to bring the line up to minimum viable import-export container standards, with further work particularly on tunnels. This is the logical next stage of investment to upgrade the current line.

Land acquisition along the Marsden Point Link (\$40 million)

56. Ministers could also seek agreement to fund the acquisition of the remaining land along the Marsden Point Link, totalling \$40 million. We consider this is an acceptable investment risk prior to completion of the further detailed work on the port move, as it would be possible to sell the land if investment decisions change in the future.
57. We do not recommend any further investment on the NAL or MPL at this stage, as it risks committing the Crown to a currently unknown quantum of costs (both capital and operating costs) related to the Working Group's recommendations and that further detailed work may not support the nature or timing of these investments. As noted above, the full capital cost of the NAL is estimated at \$1.2 billion over 10 years. The remaining \$172 million from the PGF would only cover a small proportion of this total cost, meaning the Crown would need to fund the remaining amount.

58. [REDACTED]

[Redacted]

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