

Hon Michael Wood

Minister of Transport
Minister for Workplace Relations and Safety



7 June 2022

Dame Fran Wilde
Chair, Auckland Light Rail Establishment Unit Board

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Dear Fran,

On behalf of the Auckland Light Rail (ALR) Sponsors, I would like to thank you and the ALR Unit for continuing to work with officials from the Ministry of Transport, the Treasury, the Ministry of Housing and Urban Development, and Auckland Council to advance the scope of the detailed planning phase for the Auckland Light Rail Programme (the Programme).

As you are aware, one of the main deliverables of the ALR Board during the next phase is a business case, to help develop the Programme and inform final investment decisions. The purpose of this letter is to document the high-level expectations for the scope of the business case, and the Investment Management System (IMS) more generally, and to help ensure the scoping of the wider workstreams is consistent with these expectations. I believe it is valuable to highlight these as the Board moves towards finalising the scope of work and procurement of professional services.

These IMS expectations are not intended to be exhaustive; they comprise areas of emphasis, lessons from the Indicative Business Case (IBC) stage, and discussions between the officials and the ALR Unit that Sponsors see benefit in capturing formally. Likewise, while the business case is a significant workstream, there are many other related but separate workstreams that officials have discussed with the ALR Unit, in the context of the forthcoming Sponsors Agreement. I expect the ALR Board to integrate these work streams to ensure the business case achieves the expectations set out, and in the broader business case guidance referenced, in this letter.

As part of planning this work, Sponsors would like to see a plan of what, how and when the respective elements contained within this letter will be delivered. This would include consideration of the roles and responsibilities split between partners such as Auckland Council, Kāinga Ora, Auckland Transport, and other relevant organisations, with reference to the policy workstreams being developed by the Ministry of Transport, the Treasury and the Ministry of Housing and Urban Development. This may be included as part of a full programme plan, or a more specific plan in response to this letter.

Annex 1 outlines expectations and points of clarification developed with officials. I encourage you to discuss these expectations with officials in the first instance as you continue to work with them to scope the next phase.

I look forward to seeing progress on these aspects of the business case in future Sponsors meetings as part of the Programme reporting. There is much work to do, and the efforts made now to establish a clear set of expectations will facilitate moving forward through more detailed planning and towards delivery.

Yours sincerely



Hon Michael Wood
Minister of Transport

Copy: Hon Grant Robertson
Minister of Finance

Hon Megan Woods
Minister of Housing

Phil Goff
Mayor of Auckland

Bill Cashmore
Deputy Mayor of Auckland

Tommy Parker
Project Director – Auckland Light Rail

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ANNEX 1 – EXPECTATIONS FOR THE BUSINESS CASE AND RELATED WORKSTREAMS

Annex 1 provides expectations for the ALR Unit to produce the outputs required to inform a Final Investment decision (FID). These expectations are not exhaustive but are intended as a base from which to enable scoping of the work and associated programme.

Investment Logic Map

Ensuring that the mapping of problem definitions, benefits and solutions in the Investment Logic Map (ILM) are reflective of Auckland Light Rail Board and Sponsor objectives will be critical for shaping the business case, wider workstreams within this phase and for the longer-term life of the project.

As directed in the December 2021 Cabinet paper, an increased level of focus on the urban development aspects of the project is required, on which a significant proportion of the benefits of the project rely. This ILM should explicitly include consideration of the urban development aspects. We expect that the updated ILM and associated problems and opportunities produced from this work will incorporate this direction.

I encourage you to progress the ILM work as soon as practicable to enable early input from officials and Sponsors, to establish a shared view across partner organisations of what is to be achieved and to resolve any residual concerns about the role urban development must play.

It is anticipated that there is some pre-work required to develop supporting evidence to make the most of the ILM workshop. Please work with officials to frame up supporting information for the ILM workshop, select and confirm the ILM facilitator, participants and observers from relevant organisations.

Business case guidance

The business case should follow Treasury's Better Business Case (BBC) framework and the government's wider Investment Management guidance, unless departures from this are agreed with Sponsors. The business case should also follow industry best practice and be of a sufficiently high quality to inform a FID and advance to the delivery phase.

The business case should be an integrated business case covering all scope required to deliver Sponsors desired objectives, outcomes and benefits. The approach to the business case must reflect a fully integrated transport, urban and land use investment proposal and Sponsors would welcome hearing how you plan to achieve this. The underlying methodology will likely need to be tailored to deliver the integrated business case and will require the ALR Unit to consult with officials to inform this scope.

It is expected that as you progress work through the detailed planning phase that the ALR Board will have a responsibility to ensure that the necessary analysis and input across all work streams is sufficient to feed into the business case and support the FID, as appropriate. As far as possible, information presented in the business case should be at a Detailed Business Case or equivalent level. I understand that this may not be achievable for some aspects of the urban development programme, for example in the detailed planning and costing of bulk infrastructure over a 60-year forecast period, however I expect this information to be of a high enough quality to inform the FID including how the long-term benefits can be achieved.

This will also be important as agreements are put in place between the ALR Unit and partners such as Auckland Council the Ministry of Housing and Urban Development, Kāinga Ora and Auckland Transport to progress delivery of the Programme.

I understand that the Unit has also been in touch with the Gateway team within the Treasury. I expect that the appropriate Gateway reviews during the next phase will also be a critical tool to help ensure the business case is of the highest quality. I expect to see how the ALR Unit are planning to best use the Gateway process as part of reporting to Sponsors.

Investment appraisal methodology

The investment appraisal methodology for a fully integrated transport and urban development business case sits outside of the business case framework typically used by Waka Kotahi and KiwiRail in the transport sector. Sponsors would like to clarify expectations in relation to Auckland Light Rail programme.

The investment appraisal presented in the IBC had some limitations including a lower-level understanding of the urban outcomes, options, associated development requirements and local bulk infrastructure needed to enable appropriate urban development along the corridor. By not including this, the assessment did not present a complete and integrated picture of the funding decisions necessary to achieve the benefits of the Programme over time.

In particular, the cost-benefit assessment in the current business case will need to enhance previous analysis by taking a new approach for New Zealand, integrating both urban development and transport appraisal. To do this, an appropriate framework and methodology is required to quantify, and where possible monetise, costs and benefits. This will ensure a healthy tension between urban development and transport options for robust assessment, ultimately leading to the identification of the optimum solution for New Zealand.

This presents a unique opportunity for the ALR Board, Unit and partners to develop a methodology that can be used more widely throughout New Zealand and for other major projects with significant urban development and transport components.

Waka Kotahi's Monetised Benefits and Costs Manual (MBCM) should form the basis of the transport aspects of this framework, while noting that some variation to the approach may be required to better fit policy objectives, such as those relating to climate change adaption and mitigation and the whole of system transport and urban form shifts that ALR will contribute to. It is understood that Kāinga Ora is in the process of developing an investment appraisal framework and consideration should be given to how both the Unit and Kāinga Ora could work together on a joint approach, while still enabling the Programme to deliver in a timely fashion.

To make the most of this opportunity, it is expected that an open, transparent and collaborative approach be taken by the Unit and Crown organisations, with The Treasury, Ministry of Housing and Urban Development, Te Waihangā and Ministry of Transport providing active support.

The framework should align with key guidance documents such as Te Aro Waiora, Living Standards Framework (LSF), MBCM, Treasury's guidance on cost benefit analysis and any relevant MHUD frameworks or guidance, for example.

Benefits management

Building on the objectives, problems and benefits identified in the ILM, consideration should be given to the development of a combined urban development and transport benefits framework that provides an integrated approach to managing the full scope of works required to deliver Sponsor's objectives.

The Treasury's benefits management guidance¹ states that benefits management should follow the four phases of the benefits framework including:

- **Identification** – identify, define measures and identify owners of benefits.
- **Analysis** – quantify the scale of benefits, compare options, assess attribution, prove identified measurements will work – via analysis such as a cost benefit analysis or benefit cost ratio.
- **Planning** – schedule how much of the benefits will be realised, by whom, and by when
- **Realisation & Reporting** – track, monitor, report on and optimally realise planned benefits, including:
 - reporting on both benefit realisation and risks to benefits not being realised
 - lessons learned (ensuring any lessons are actively incorporated in benefits realisation and as inputs to future benefits analysis to increase accuracy); and a feedback loop to inform the organisation's benefits management performance system and its strategy when this is refreshed.

This aligns with Cabinet expectations (in Cabinet circular CO (19)6) by ensuring the many costs and benefits across the Programme are identified, as an important first step on this path, to best understand what benefits can be delivered, how and by who.

For instance, there may be spatial differences to the benefits and impacts to be delivered in the central business district versus the communities along the corridor. It will be important to identify these in order to target the right investments in the right areas to deliver value for money and where required, mitigations to those affected.

Business case point of entry

The point of entry for the business case is built on the content and findings from the IBC, Cabinet decisions in December 2021, Ministerial announcements, and the areas of focus in this letter. It is important to capture what options and decisions are in scope for exploration in the business case and those that do not require revisiting given the decisions made to date.

I would like to confirm that the indicative route and significant grade separation identified in the 'Tunnelled Light Rail' IBC option is integral to the decisions made by Cabinet in December 2021, and it is not the purpose of the business case to relitigate Cabinet decisions. It is however vital that the business case contains sufficient analysis to confirm that the final recommended route and mode remains the best value investment option for New Zealand. To this end the business case should assess updated option information where appropriate to confirm that the IBC recommendation remains valid.

Sponsors would also like to confirm expectations around what options are explored and refined further through the business case. The presentation of options in the business case

¹ <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/plan-investment-choices/benefits-guidance>

will allow Sponsors to be properly exposed to the trade-offs across critical aspects of the Programme. Sponsors welcome the Unit's feedback on these areas, particularly if there are significant issues or value-for-money benefits in refining decisions.

Further exploration and refinement of options are expected in the following areas:

- **Mode choice** – plays a significant role in defining characteristics of the services, such as speed and capacity, as well as design of the underlying infrastructure. While the Light Rail mode has been recommended through the IBC, Sponsors expect:
 - if any information is identified that challenges the Light Rail mode recommendation from the IBC, we expect this to be raised with Sponsors
 - assessing the range of mode options within the Light Rail definition (for instance the rollingstock type).
- **Route alignment** – Cabinet chose to progress a Tunnelled Light Rail solution with further detailed work to refine the route within the corridor. I expect that the final route alignment options, especially the tunnelled sections, should be the subject of further exploration and refinement to ensure value for money and benefit realisation.
- **Station locations** – should be further developed, balancing the costs and benefits of related transport and urban development infrastructure, with consideration given to interfaces with Auckland Council's and Kāinga Ora's urban developments where earlier certainty may be beneficial. Noting these interfaces, sponsoring agencies should also be consulted on relevant community engagement.
- **Staging** – staging of the project is to be explored to identify opportunities for earlier delivery of benefits, reduced risk and to manage affordability.
- **Grade separation** – is integral to the decision made by Cabinet and the tunnelled section through the central isthmus to Mt Roskill should not be revisited, but grade separation options further south may be further explored, in particular when considering whole of system impacts.
- **Integration with AWHC** – for the avoidance of doubt, ALR and AWHC are two currently separate projects but we expect that the underlying information, growth scenarios, and design options presented are consistent between the two business cases. The ALR business case does not need to include the full scope of the AWHC solutions, but it should clearly show how the two projects integrate so Sponsors can make informed decisions around the options for ALR at the end of the detailed planning phase and at critical points through the business case.
- **Urban development and local bulk infrastructure** – presenting different and transparent options around: zoning densities within the corridor, distribution of housing within the corridor, local bulk infrastructure investment, and the dynamics of housing enablement over time.

Please work with officials and partners on the detail these point of entry parameters.

It will also be important for the economic appraisal to include the appropriate span of options to be assessed within the CBA. This will allow Sponsors to be exposed to the trade-offs between significant aspects of the project and allow them to make the best possible decisions on the most important aspects of ALR as part of the FID.

Scope of private sector financing options

I wish to reconvey the Cabinet expectation that the ALR project will be delivered using a 'Public Service Delivery Model', as agreed by Cabinet in June 2020. For the avoidance of doubt, a Public Service Delivery Model explicitly excludes delivery of the ALR project under a Public Private Partnership model or private financing options similar to the model presented by CDPQ and the New Zealand Super Fund. This means that these delivery models need not be included in the scope of the business case.

I note that a funding and financing policy workstream is progressing alongside development of the business case by the Unit. Sponsors' expectations are that, jointly, these work streams should examine a comprehensive range of remaining funding and financing opportunities for the Programme outside of the immediate transport Capex, to achieve the best outcomes and ensure value for money. This includes private financing options such as the use of the IFF levy SPV model, urban development options under the Urban Development Act 2020, and development partnerships. It will be important that the funding and finance opportunities are embedded in the business case to assist option selection as these may influence the viability of certain options over others.

Officials are working on specific guidance and expectations on these and other matters in the funding and financing policy workstream and I expect to communicate these with you in coming weeks.

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