



1 October 2021

OC210794

Hon Michael Wood
Minister of Transport

Action required by:
 Tuesday, 5 October 2021

AUCKLAND LIGHT RAIL - FOURTH SPONSORS MEETING

Purpose

- 1 Support you in your attendance at the next meeting of the Auckland Light Rail (ALR) Sponsors forum on 5 October 2021.
- 2 Highlight some of the critical choices you will need to make before a Cabinet paper is finalised, which you may choose to discuss with Officials at the meeting we have scheduled with you on 6 October 2021.
- 3 Confirm key activities between now and a Cabinet decision.

Background

- 4 The Establishment Unit has provided Project Sponsors with advice in advance of their meeting on 5 October 2021. The Minister of Housing, Hon Dr Megan Woods, will join this meeting of the Project Sponsors.
- 5 The paper asks Sponsors to 'receive' and provide feedback on the draft recommendations from the Establishment Unit Board. Feedback from Sponsors will be incorporated into the Unit's final advice.
- 6 The Cabinet decision in March 2021, which set up the Establishment Unit set out a clear expectation that it was to report to Sponsors with recommendations on mode and route, based on a business case process, alongside advice on the form of a delivery entity and an approach to funding and finance.
- 7 Prior to the previous Sponsors meeting earlier this month, we confirmed that you could expect further advice from Officials on the choices you have in relation to the recommendations being made by the Establishment Unit.
- 8 These choices relate to decisions you will be asking Cabinet to make in November 2021, notably in relation to the adequacy of the business case, the selection and announcement of a preferred mode and route, and the role, accountabilities and governance arrangements for the next phase of work.
- 9 As we become clearer on the recommendations likely to be made by the Establishment Unit, this briefing provides an overview of some of these choices. We invite you to discuss these directly with Ministry Officials at our meeting on 6 October 2021.

The 'indicative' nature of the business case means that there are risks when making firm commitments at this stage

- 10 The Establishment Unit's work on an Indicative Business Case (IBC) is almost complete, and we are expecting a final version to be issued towards the end of the week ending 8 October 2021.
- 11 The Ministry has been involved in the development of the business case throughout the lifetime of the Establishment Unit, providing input and feedback at various stages. This has drawn on policy and technical expertise within the Ministry, and we have worked closely with the Treasury, MHUD and other departments. Our work has aimed to identify gaps in the analysis, ensure a clear investment logic is developed, and highlight critical areas that could impact on Ministers' ability to make decisions with confidence.
- 12 Generally, the purpose of an IBC is to 'provide an early indication of the preferred way forward'¹ which demonstrates at a high level that a viable project could be developed, and to allow decision makers to initiate more detailed planning and option development work through a Detailed Business Case (DBC).
- 13 Once the DBC is complete and a preferred option is identified, approval to initiate procurement and finalise implementation arrangements may be requested.
- 14 Depending on the arrangements specified by Cabinet, a further stage may be required to complete an Implementation Business Case (ImBC) before investment in an option is approved. The ImBC confirms that the project can be successfully delivered, remains good value for money and is affordable.
- 15 This follows the investment management process defined by Treasury and represents a best practice approach to reduce risk and ensure value for money from investments.
- 16 Based on information provided to date, we believe that the Establishment Unit has followed required processes. Nevertheless, the nature of the analysis and evidence developed for this IBC stage means that there are inevitably gaps in our understanding of investment logic, costs and benefits.
- 17 The critical constraints that will impact on the decisions that Cabinet can make in November 2021 relate to:
 - The extent to which the scope of the project could change prior to a final investment decision, once stakeholder requirements, urban development scope, detailed design, design optimisation and affordability constraints are better understood.
 - The urban development opportunity is only understood at a high level and there is a risk that more detailed analysis at a node/precinct level will identify better value for money alignments or mode options. The exact scale of urban development that can be enabled may also go up or down significantly, and the costs and complexity of delivering this growth is also largely unknown.
 - The risk that small changes to project scope, costs and benefits may reduce the benefit-cost ratio for the project's value for money below one. The current BCRs for all shortlisted options are considered to be marginal.
 - Costs could vary by -50% to +100% due to the early stage of design.
- 18 Decisions by Ministers on how to proceed should therefore reflect this early stage of design, the fact that stakeholder requirements are also not fully understood, nor is there a detailed understanding of the project's interactions and dependencies.

¹ [Project Indicative Business Case \(IBC\) \(treasury.govt.nz\)](https://www.treasury.govt.nz/publications/indicative-business-case)

The costs and benefits of the shortlisted options are indicative and subject to significant change

- 19 Through the IBC, the Establishment Unit has considered five shortlisted mode and route options with three taken forward for more detailed analysis. A summary of the estimated capital costs and benefits (as presented in the Sponsors papers) is below:

	Light Rail (Dominion Road)	Light Metro (nominally Sandringham Road)	Tunnelled Light Rail (including a segregated tunnel section from Wynyard to Mt Roskill)
Estimated Costs	\$9.0bn (NPV \$7.1bn)	\$16.3bn (NPV \$11.2bn)	\$14.6bn NPV (\$10.3bn)
Benefits (NPV values over 60 years)	\$8.0bn	\$14bn	\$11.6bn
BCR	1.1	1.2	1.1

- 20 A number of key assumptions have been made which Officials have not been able to test due to the limited time available.
- 21 Due to the early stage of design, costs have a high margin of error. They are for comparative purposes and may not reflect the full cost of the project, with scope of urban development and other supporting infrastructure yet to be included.
- 22 The benefits delivered are based on a high urban intensification / uplift scenario, which relies on wider interventions outside of the transport project. If these don't occur, the BCR would reduce due to lower ridership and agglomeration benefits.
- 23 Traditional transport benefits make up about 50% of the benefits total, with the remainder made up of Wider Economic Benefits (WEB's) which rely on various other factors not enabled by the transport project itself.
- 24 Officials believe more information is required to reduce the risk of making firm decisions on mode and route at this stage. Further work would include:
- Progression of the urban development aspects to better understand the location, form, density and cost of the urban opportunity.
 - More detailed design and option analysis to reduce the margin of error in the cost and benefit analysis, improving confidence in the preferred option.

The Establishment Unit is recommending tunnelled light rail as the preferred option

- 25 At a meeting on 28 September 2021, the Establishment Unit Board decided to endorse the partly tunnelled light rail option as the preferred option. The reasons for this recommendation are noted in the Sponsors paper and include:
- Delivery of a similar level of urban growth as Light Metro, but at a lower cost
 - The benefits that a tunnel would provide in terms of transport capacity, the segregation from general traffic, minimising disruption during construction and supporting flexibility for future integration with the wider rapid transit network
 - The fact that the precise route can remain flexible, including the length of the tunnel which will be explored further during the next phase

- 26 Whilst this was a majority decision, it was not unanimous. The Secretary of Transport abstained from supporting any particular option, given the need for him to provide you with free and frank advice as part of his stewardship role in respect of the transport system overall. This has been acknowledged by the Board Chair and will be noted in Mr Auton's final report.
- 27 The Sponsors paper also notes that the Board's recommendation decision was made based on the information that has been made available to the Board, and in the time available to the Establishment Unit to appraise alternative options.
- 28 The Ministry has raised the following concerns with the Unit. Some of these (but not all) have been reflected in the Sponsors paper:
- The rationale for this tunnelled light rail option is not clear. The analysis we have seen shows that this option has the lowest BCR and requires the same level of intensification as the Metro scheme to perform comparably.
 - Whilst it appears that cost has been a large feature of the recommendation (costing \$2bn less than Light Metro) we have not seen sufficient analysis of affordability. Given the high costs of both metro and hybrid, and the likelihood that these will change significantly in the future, we do not consider that the difference in costs is material in determining a preferred option at this stage.
 - It assumes that urban uplift is the same for Hybrid as Metro (35,000 dwellings) which is questionable due to the reduction in speed (c. 10 minutes slower) and therefore capacity and level of access. We also understand that a significant proportion of the uplift is delivered by other interventions (e.g. planning policy) rather than the transport project itself.
 - We have not been reassured that this option would not limit the use of the investment put into the tunnel (i.e. street running limits on capacity).
- 29 Decisions on what represents a 'preferred option' can only be made having regard to matters that are the reserve of Ministers and Cabinet, such as the overall affordability of the project, Ministers' appetite for risk, the level of disruption and complexity that Ministers are prepared to commit to, and the level of commitment that can be made in relation to the delivery of urban development opportunities and network integration.
- 30 The Sponsors paper recognises that, in making such decisions, Ministers will need to consider the trade-offs between all options. We have asked the final outputs from the Establishment Unit to make clear all of the assumptions and risks in its final outputs.

In receiving the recommended preferred option from the Establishment Unit, you may wish to raise the following:

1. The tunnelled light rail option benefits compared to the 'do minimum' are explained, but why is it the best option?
2. Is capital cost affordability the primary reason for selecting the tunnelled light rail option over Light Metro?
3. How much urban uplift could be delivered under the high intensification scenario without a transport intervention (or smaller upgrade)?
4. Is there significant enough daylight between the options, noting the margin of error in cost and benefit forecasts, to select the tunnelled light rail option as the option to be delivered?
5. It is important that the final outputs from the Establishment Unit make clear all of the assumptions and risks associated with each of the shortlisted options.

Considerations regarding announcements

- 31 We understand your firm intention to make announcements by the end of the year on project scope. Having regard to the indicative nature of the IBC and the current gaps that we have identified above, you will have choices on the nature and specific content of the announcements you will make.
- 32 There are a range of options that are available to you when determining what to announce. The below is intended to be illustrative and provide the basis of a discussion with Officials. We note that the precise announcement materials are yet to be prepared and no decisions have yet been made by Ministers.
- i. **Approve the IBC and make firm announcements on mode and route in November 2021.** This would include approving the IBC, announcing a preferred route and mode and a shadow delivery entity. This presents the highest risk that a commitment is made to a sub-optimal solution and/or Final Investment Decisions following a DBC conflict with decisions made in November 2021.
 - ii. **Scaled-back announcement on mode and route.** This would scale back on the detail of what is announced in relation to route and mode in November 2021, reducing risk that the preferred option changes and conflicts with Ministerial decisions. Announcements could speak more broadly to matters of capacity, the broad alignment and nodes of significance, the potential role of tunnelling in certain sections, and your expectations around integration with the future rapid transit network in the CBD.
 - iii. **Approve the IBC but make no announcement on a preferred route and mode.** This could approve the IBC and a shadow delivery entity, but delay any announcement on route and mode. This further reduces the risk that option selection at the end of a DBC conflicts with Ministerial announcement in November 2021.
 - iv. **Delay approval of IBC, with no announcement on route and mode.** This would announce the setting up of a shadow delivery entity, but delay the approval of the IBC until that entity has taken forward more work to confirm a preferred mode and route. This further reduces the option selection risk by incorporating urban development into IBC and creating a strong foundation for DBC stage.
- 33 Again, these are indicative scenarios and we invite you to discuss the announcement strategy with Officials.

Form and governance for progressing the project

Entity form for the delivery phase of the project

- 34 The Ministry strongly supports the Establishment Unit's recommendation that the decision on entity form for delivering the project is kept open at this stage. This recognises that significant decisions are yet to be made that will be influential in determining the best entity to deliver the project.
- 35 The ultimate delivery entity will need to give effect to the governance arrangements for the project, particularly at the project sponsor level. It is proposed that Auckland Council and mana whenua are project sponsors alongside the Crown, although exactly how this arrangement will work will need to be worked through in the detailed planning phase.

Entity form to take forward the next phase of the project

- 36 The Establishment Unit recommends that a 'shadow' delivery entity housed within Waka Kotahi should progress the project through its next phase of work of detailed planning. As noted in our briefing to you in support of the third Sponsors meeting, we have not seen a full assessment of options for how the next phase of the project could be taken forward and which gives consideration to the broader Machinery of Government toolkit.
- 37 We are currently undertaking this assessment as a priority, including further engagement with partner agencies including the Treasury, Public Services Commission, and the Ministry of Housing and Urban Development, as well as the Establishment Unit.
- 38 Our assessment has looked at a range of options and is now focused on a shortlist that includes a Waka Kotahi subsidiary, Waka Kotahi business unit and an evolution of the current arrangements.
- 39 We are assessing these options on the basis of:
- the ability for the Crown to set the direction for, and have oversight of, the project, given the significant strategic decisions to be made in this phase of the project.
 - how conducive the arrangements are to supporting the broad range of transport and urban outcomes of the project.
 - the ability to maintain momentum across the different phases of the project.
 - how effectively they support the joint endeavour project sponsor governance arrangements.
- 40 Given the complexity of the project involving different layers of governance, mana whenua and partners from central and local government, there is no perfect Machinery of Government tool. We will share some of our findings with you when we meet on 6 October 2021 and are keen to understand any views and preferences you may have.

Funding and value capture

- 41 The Establishment Unit's work on funding and value capture has been undertaken in a way largely independent of the ALR cost estimates. This means that the work of the Unit simply looks at alternative sources of funding, and the trade-offs between different tools.
- 42 There has been limited analysis on the affordability of the project in the context of the funding tools considered because the urban development studies are not progressed enough to identify the households that may benefit from the investment. The Unit uses "what if" analysis to assess the potential to raise funding from different sources, but we have not yet seen this complemented with further affordability commentary for each funding source (i.e. how realistic is it that we would receive that level of funding from that funding source).
- 43 Confirmation of funding sources are not on the critical path for the upcoming Cabinet decision. Future work on funding and finance options needs to quantify and refine the affordability gap as the scope and costs of the project are clarified. This should be a collaborative exercise between the Ministry, the Treasury and the operating unit.

- 44 We agree with the Establishment Unit that the case has been made to use value capture as one source of revenue and that there will be a significant affordability gap for the capital costs that the Crown will need to support. [REDACTED]

[REDACTED] Withheld to enable the Crown to carry out negotiations

- 45 To inform the November 2021 Cabinet decision, the current focus of our work includes:
- Advice on whether the current principles for transport funding and frameworks for metro rail funding are appropriate for ALR and other light rapid transport.
 - Analysis of the system-wide affordability of the NLTF, including other upcoming pressures.
 - Consideration of the impact of current transport revenue policy reviews on ALR.
 - Advice on the Crown risk associated with potential value capture tools, for example the Infrastructure Funding and Financing Act.

Future policy work programme

- 46 As highlighted in our earlier advice, the Ministry's policy function to date has sought to ensure that the recommendations made by the Establishment Unit are appropriately framed in the context of the Crown's wider interests and to ensure any risks to the Crown are highlighted and mitigated.
- 47 Going forward, this function will continue through a long-term policy work programme, which will be a collaborative effort between the Ministry, the Treasury, the entity taking forward the next stage of work, and other agencies within relevant portfolios.
- 48 This is expected to cover a number of policy considerations:
- Supporting future decisions on project scope, confirming the outcomes and deliverables that are being purchased as part of this project, especially in relation to the delivery of transport infrastructure and urban development.
 - Identifying, influencing and implementing further policy interventions that are needed to leverage the investment and deliver broader outcomes, e.g. influencing Kāinga Ora's large-scale projects.
 - Determining and influencing the optimal governance and organisational arrangements for delivering the project.
 - Shaping and confirming the consenting requirements and processes, including the extent of legislative change that may be needed in order to deliver the benefits of the project.
 - Confirming the ultimate owner(s) and operator(s) of the transport assets.
 - Confirming how the project will be funded and financed, confirming the role of existing funding mechanism such as the NLTF, and appraising the use of additional funding tools.
 - Ensuring that the Crown receives the necessary assurance that its Treaty obligations are being met.
 - Supporting the Crown-Council partner relationships.
 - Agreeing the approach to land acquisition

- Agreeing the approach to managing and compensating for business disruption
- 49 To support your 'report back' in November 2021, the Cabinet paper will describe the nature of this policy work programme and identify indicative priorities going forward.

Key activities in advance of a Cabinet decision

- 50 We are currently preparing a draft Cabinet paper and will provide an updated timescale for its development and consultation next week for your review, alongside an emerging set of draft recommendations.
- 51 Whilst we are currently working towards consideration by the Economic Development committee on 17 November 2021, this is an incredibly tight timeframe and is unlikely to provide the time necessary for a full review of the business case before decisions are made by Cabinet. We are keen to discuss this with you.
- 52 Officials will also need to discuss your preferred approach to announcements, so that we are clear on the mandate that you will be seeking from Cabinet. It is also important for us to understand your preferences in relation to the operating unit for the detailed planning phase, so we can work up a preferred option in more detail with the relevant agencies and stakeholders.
- 53 Officials continue to engage with Te Arawhiti and Auckland Council on sponsorship and governance expectations. It will be particularly useful to continue the conversation with you about what the role of the Council could be in the next phase of the project.
- 54 We expect the Cabinet paper to seek a mandate for the Ministry to work with Auckland Council and mana whenua to create a partnering arrangement at Sponsorship level, which formalises a form of joint governance arrangements to guide the next stages of this work.

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TE MANATŪ WAKA MINISTRY OF TRANSPORT

Recommendations

We recommend you:

- 1 **Note** the content this briefing in advance of your meeting with Project Sponsors on 5 October 2021
- 2 **Discuss** the content of this briefing with Ministry Officials on 6 October 2021

Gareth Fairweather
Acting Director, System Strategy & Investment
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Hon Michael Wood
Minister of Transport
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- Minister's office to complete:**
- Approved Declined
 - Seen by Minister Not seen by Minister
 - Overtaken by events

Comments

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Withheld to protect the privacy of Natural Persons