

Proactive Release

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Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

<u>Section</u>	<u>Description of ground</u>
6(a)	as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government
6(b)	as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by <ul style="list-style-type: none"> (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation
6(c)	prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
9(2)(a)	to protect the privacy of natural persons
9(2)(b)(ii)	to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information
9(2)(ba)(i)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public
9(2)(ba)(ii)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
9(2)(f)(ii)	to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty
9(2)(h)	to maintain legal professional privilege
9(2)(i)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities
9(2)(j)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

Commercial in-confidence

Office of the Minister of Transport

Cabinet Economic Policy Committee

Public Private Partnership Procurement for Section 1 of the Northland Corridor (Warkworth to Te Hana)

Proposal

- 1 This paper seeks:
 - 1.1 Endorsement of the Implementation Investment Case for the Warkworth to Te Hana (**W2TH**) section of the Northland Corridor; and
 - 1.2 Approval for the New Zealand Transport Agency (**NZTA**) to commence formal procurement of W2TH through a Public Private Partnership (**PPP**).
- 2 NZTA will update the Infrastructure and Investment Ministers Group (**IIMG**) quarterly from April 2025 until financial close of W2TH (expected to be in July 2026) on the PPP procurement.

Relation to government priorities

- 3 The Government Policy Statement on Land Transport 2024-34 (**GPS 2024**) sets the Government's expectation that NZTA will prioritise delivery of 17 Roads of National Significance (**RoNS**), including the Northland Corridor.
- 4 Delivering the Northland Corridor, including W2TH, supports the coalition agreement commitment to build a four-lane highway alternative for the Brynderwyn Hills (Section 2 of the Northland Corridor) and investigate the use of private finance to accelerate construction (Coalition Agreement National Party/NZ First).

Executive summary

What the investment delivers

- 5 The Northland Corridor is a key state highway connection and is of strategic importance to the Northland region and the national economy. However, increasing commercial, freight and tourist traffic is causing congestion along the corridor. The corridor has a disproportionately high incidence of serious injuries and deaths and is increasingly prone to closures as a result of weather-related events.
- 6 I consider that investment in W2TH represents value-for-money, s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j) and a Benefit Cost Ratio (BCR) s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

- 7 Using NZTA's Investment Prioritisation Methodology, the Northland Corridor is in the top RoNS merit-order group due to its relative benefits in economic efficiency, strategic fit, readiness for investment, and is ready to proceed to delivery.

Procurement and delivery strategy

- 8 In July 2024, Cabinet agreed in principle to use an accelerated delivery strategy for the Northland Corridor [CAB-24-MIN-0259 refers], comprising a progressive (or staged) PPP model.
- 9 The NZTA Board has approved the Implementation Investment Case and the use of a PPP as the appropriate delivery model for W2TH. The Board is confident the PPP model will deliver value for money in delivering W2TH due to its scope, scale and a range of other benefits, including wider economic benefits for New Zealand's infrastructure sector by attracting new, overseas infrastructure capability and capacity to our local infrastructure market.
- 10 The NZTA Board has approved, in accordance with the *Land Transport Management Act 2003* and subject to Cabinet endorsement of the Implementation Investment Case and commitment to a Crown indemnity, the formal procurement process of W2TH to commence through release of Expression of Interest (EOI) documentation.
- 11 Subject to this endorsement and approval, I will announce NZTA intends to commence procurement at the Infrastructure Investment Summit on 13 March 2025.

Financial and funding implications

- 12 s 9(2)(b)(iii), s 9(2)(i), s 9(2)(j)
- 13 Availability payments to service the debt, and maintenance and operations of the PPP, will be paid from the National Land Transport Fund (NLTF). However, the NLTF does not have sufficient funding beyond 2027 to cover business-as-usual activities and its existing debts. This investment will add to the projected NLTF funding gap.
- 14 The Ministry of Transport is developing the Government Policy Statement on Land Transport 2027 (GPS2027), which will address the funding gap for land transport from 2026/27. This will require increases in user charges and/or Crown grants.
- 15 s 9(2)(b)(iii), s 9(2)(i), s 9(2)(j)
- 16 I will return to Cabinet for approval prior to NZTA signing the W2TH PPP contract to provide an update on the value for money of the PPP transaction, maximum borrowing amount, indemnity, and any interest rate swaps provided by the Treasury.

It is expected the final contract could be awarded by the NZTA in July 2026, with construction commencing soon afterwards.

Background

- 17 The Northland corridor is a key connection and is of strategic importance to the regional and national economy. This corridor is currently four-laned from Auckland to Warkworth. The remaining three sections of the corridor will be delivered as a part of the RoNS programme. These three sections are:
 - 17.1 **Section 1:** Warkworth to Te Hana: This section extends the current “Auckland motorway” from its existing terminus at Warkworth to just north of Wellsford (Te Hana). It is the most advanced and “investment ready” section of the Northland Corridor as it is already designated and has regional consents.
 - 17.2 **Section 2** – Te Hana to Port Marsden (alternative to the Brynderwyns): This is the longest and least advanced section, with an unconfirmed bypass alignment.
 - 17.3 **Section 3** – Port Marsden to Whangārei: an indicative design for a four-lane carriage way has been identified.
- 18 In July 2024, Cabinet [CAB-24-MIN-0259 refers] agreed in-principle to:
 - 18.1 use an “accelerated delivery strategy” for the Northland Corridor, comprising a progressive PPP model for all three sections of the road;
 - 18.2 investigate corridor-specific legislation and other practice improvements to provide greater delivery certainty [CAB-24-MIN-0259 refers]; and
 - 18.3 a report back in November on project updates.

Accelerated delivery strategy

- 19 The proposed accelerated delivery strategy for the Northland Corridor comprised a progressive (or staged) PPP model. This strategy involved contracting a preferred delivery agent for the entire corridor, investigating the necessity for corridor-specific legislation, and considering any other improvements that could accelerate delivery.
- 20 As a result of market engagements in December 2024 NZTA is now proposing to procure each section of the Northland Corridor separately. Each section has sufficient size and scale to be attractive to international construction and equity markets and acceleration of the Brynderwyns can be achieved through other methods such as the consenting process and land acquisition.
- 21 The introduction of competition through individual procurements for each section will support the Crown to achieve the best value, certainty, and procurement outcomes. NZTA will leverage lessons learnt and efficiencies from W2TH into subsequent procurement and ensure efficient work scheduling and integration between stages.

Investigation of corridor-specific legislation

- 22 Following advice from my officials, I have decided that bespoke legislation is not necessary. The Government’s proposed updates to the *Public Works Act 1981* in

relation to delivering critical infrastructure, in tandem with the new fast-track approvals legislation, is likely to generate the desired project delivery certainty.

November 2024 report-back

- 23 Due to the technical nature of the update, the report-back to Cabinet was delegated to the IIMG meeting on 10 December 2024. IIMG indicated continued support for progressing W2TH as quickly as practicable.

NZTA Board Approvals

- 24 The NZTA Board approved the detailed business case (referred to as the Implementation Investment Case) for W2TH on 21 February 2025.
- 25 The NZTA Board also approved, in accordance with its responsibilities under the Land Transport Management Act 2003 and subject to Cabinet approval, that formal procurement process of W2TH commence.

Estimated costs

- 26 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)
- 27 The cost estimate of Section 1 is based on a 2019 estimate, inflated by updated construction costs benchmarked to similar projects, notably the Mount Messenger bypass and the Pūhoi to Warkworth road. Geotechnical sampling, further design work and value engineering may change this estimate prior to financial close.

Public sector comparator/affordability threshold

- 28 The Public Sector Comparator (PSC) is the estimated cost if W2TH was delivered by NZTA as a Design and Construct contract with separate Maintenance and Operations. It is used to set the Affordability Threshold (AT) PPP bids must pass.
- 29 s 9(2)(b)(iii), s 9(2)(i), s 9(2)(j)
- These estimates may change as further geotechnical investigations and updated cost estimates take place. I will update Cabinet before final approval if the PSC increases. The PPP procurement process will be paused, and the method reassessed if it becomes evident at any stage that PPP procurement does not meet the AT.

Lower cost options for delivering corridor improvements

- 30 NZTA Board has confirmed the current scheme is the best mix of outcomes and costs. However, there remains significant opportunities for exploring ways to reduce the cost of W2TH as part of the procurement process. This includes reviewing scope and

specification options as part of the process of setting the AT for the RFP and using the RFP process to solicit opportunities for further innovation and value.

Further updating cost estimates

- 31 Further geotechnical investigations are being completed to enable greater cost certainty and improved risk allocation on the critical issue of ground conditions (a key lesson learnt from the Pūhoi to Warkworth PPP). There is a risk that these updates may increase the PSC contained in the Implementation Investment Case. However, NZTA considers this risk is to be well managed through:
 - 31.1 active management through design development (using the latest information);
 - 31.2 the current PSC considering the out-turn cost of Pūhoi to Warkworth and the latest NZTA guidance on contingencies; and
 - 31.3 the outcomes-based approach to procurement designed to maximise competition and innovation, driving value for money.

Benefits of investment in Section 1

- 32 The strategic need for investment in this part of the state highway network has been known for some time. Completion of W2TH is expected to result in:
 - 32.1 A reduction of 145 deaths and serious injuries over the life of the PPP;
 - 32.2 7-10 minutes of travel time savings per vehicle journey; and
 - 32.3 Over 1000 less closure hours due to unexpected (predominantly weather) events over the life of the road.
- 33 NZTA has assessed the present value of the economic benefits of W2TH at s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j) when using a 2% discount rate (Treasury's recently updated recommended rate for non-commercial projects). The major component of these benefits is travel-time savings (78% of total benefits). Minor components include accident reductions, the wider economic benefits generated from the investment, resilience improvements and accompanying reductions in vehicle operating costs. NZTA has calculated the BCR s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j) [note that when an 8% discount rate is applied for sensitivity analysis, the BCR reduces s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)]

Financial and funding implications

- 34 GPS 2027: The NLTF does not have sufficient funding beyond 2027 to cover business-as-usual activities and its existing debts. Addressing NZTA revenue shortfalls across GPS 2024 and the NLTP will be considered by the Ministry of Transport through GPS 2027 and it is likely further increases in road user charges and/or direct grants will be required.
- 35 Tolling: NZTA is exploring options to offset some of the costs through tolling. s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

The case for PPP procurement

Value for money assessment

- 36 I anticipate the PPP will provide quantitative benefits through innovation in design and construction techniques, as well as asset lifecycle optimisation and greater operations and maintenance efficiencies.

Market engagement

- 37 Based on initial discussions with interested consortia, NZTA reports there is adequate capacity, capability and competitive interest to meet the project requirements if individual sections are procured as separate PPPs. NZTA has however noted a reduced appetite for risk since its previous PPP contract.

38 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

Payment mechanism and capital contributions

- 39 The primary method of payment for W2TH will be an “availability” payment. This is a recurring, fixed payment from NZTA to the PPP partner, for 25 years commencing on opening of the road, subject to the road continuing to operate successfully.

- 40 The NZTA Board has requested a Crown capital contribution of between s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j) to strengthen the value proposition of the PPP by a) lowering the dependence on more expensive private sector debt, b) reducing constructor exposure to large liquidated damages arrangements, and c) potentially assisting in management of debt market capacity. This is a mechanism that was recently introduced in the update to the New Zealand PPP framework.

41 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

Project assurance

- 42 The most recent Treasury Gateway Review gave an overall rating of Amber/Green indicating that delivery appears probable but constant attention to risks is required. It recommended NZTA:

- 42.1 Review the Terms of Reference for the Transaction Steering Committee and establish it as soon as possible
- 42.2 Review, update as required and endorse the Northland Corridor Risk Management Plan
- 42.3 Ensure the process to fully develop, document and endorse all Commercial Principles is robust

- 43 NZTA are actioning these recommendations, and I recommend Cabinet direct NZTA to report back to IIMG from April 2025 and quarterly thereafter on the progress of the PPP procurement.
- 44 The project is also subject to additional assurance within NZTA, including a dedicated Mega-Projects Governance Group, and independent peer reviews on costings, benefits identification and development.
- 45 As the project involves private finance NZTA will partner with National Infrastructure Funding and Financing Limited (NIFFCo) [ECO-24-SUB-0168 refers].

Procurement process

- 46 The next steps in the procurement process with approximate dates are set out below:

<i>Invitation for Expressions of Interest to market</i>	<i>March 2025</i>
<i>Request for Proposals (RFP) to market</i>	<i>June 2025</i>
<i>Selection of Preferred Bidder</i>	<i>February 2026</i>
<i>Cabinet approval prior to Financial Close</i>	<i>July 2026</i>
<i>Contract Award and Financial Close</i>	<i>July 2026</i>
<i>Implementation Phase commencement</i>	<i>Late 2026</i>
<i>Construction completion, operations commencement and availability payments begin</i>	<i>July 2034</i>
<i>End of contractual term</i>	<i>2059</i>

Enhanced approach to risk

- 47 NZTA is considering a series of enhancements to risk allocation for the PPP Project Agreement for Section 1. These enhancements will address the “*New Zealand PPP Framework: A Blueprint for Future Transactions*” (November 2024), key learnings from recent road PPPs in New Zealand, international experience, best practice (with a specific focus on Australia), and project specific risks.

- 48 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

Financial implications

49 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

50 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

Increasing revenue will be required to maintain investment capacity for additional large projects. I intend to address this through GPS 2027, but increased user charges and/or Crown grants will likely be required.

Implications for Crown debt.

- 52 A PPP is a financial liability which will be treated as debt on the NZTA books, and by extension the Crown's. If PPPs are established for other large transport projects the cumulative effect could have an impact on New Zealand's credit rating.

Indemnity and Interest Rate Swaps

- 53 Consistent with the approach of previous transport PPPs, debt and equity financiers will likely require a Crown indemnity for the project to provide comfort that NZTA will be able to meet its contractual obligations. Prior to Financial Close, NZTA will seek the approval of the Minister of Finance for any indemnity on behalf of the Crown under section 65ZD of the *Public Finance Act 1989*.
- 54 NZTA will likely enter into interest rate swap transactions with the New Zealand Debt Management to manage interest rate risk for this project.

Cost-of-living Implications

- 55 The funding requirements for the W2TH availability payments, if sourced from road users, are approximately equivalent to an additional s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j) on Fuel Excise

Duty (FED) (and the corresponding increase in Road User Charges (RUC)). This would be additional to the FED/RUC increases already scheduled.

Legislative Implications

56 There are no legislative implications arising from this paper.

Impact Analysis

Regulatory Impact Statement

57 Regulatory impact analysis requirements do not apply.

Climate Implications of Policy Assessment

58 The estimated overall emissions impact of this proposed investment is less than 0.5 million tonnes CO₂-e on a net basis, meaning that a CIPA is not required.

Population Implications

59 There are no population impacts from this proposal

Human Rights

60 There are no human rights impacts from this proposal

Use of external Resources

61 The Implementation Investment Case has been developed by NZTA, with input from specialist consultants in PPP procurement, transport planning, property consenting and major project delivery.

Consultation

62 Treasury, NZTA, NIFFCO, the Infrastructure Commission, the Department of Prime Minister and Cabinet (DPMC), the Department of Conservation, Land Information New Zealand, Ministry for the Environment, Ministry of Business, Innovation and Employment, and Te Arawhiti have been consulted in development of this paper. Substantive comments from Treasury, DPMC, and NZTA have been incorporated into this paper.

Communications

63 Subject to Cabinet agreement, I will:

63.1 Announce this project will commence the procurement phase at the Infrastructure Investment Summit on 13/14 March 2025; and

63.2 Issue a press release announcing approval for NZTA to procure delivery of W2TH through a PPP.

Proactive Release

- 64 I intend to proactively release this Cabinet paper with appropriate redaction as appropriate under the *Official Information Act 1982*.

Recommendations

The Minister for Transport recommends that the Committee:

- 1 **note** that on 21 February 2025 the NZTA Board approved the Implementation Investment Case, value-for-money proposition of PPP procurement, and to initiate procurement of Warkworth to Te Hana subject to Cabinet approval
- 2 **note** that Cabinet Office Circular CO (23) 9 requires Cabinet approval of all Public Private Partnerships proposals by Crown agents, including the NZTA
- 3 **note** s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j) [REDACTED] that lower cost options will be investigated through the procurement process
- 4 **note** that the Treasury Gateway Review rated the project amber / green and that NZTA are actioning the recommendations from the Review
- 5 **agree** to endorse the Implementation Investment case and that NZTA may continue to pursue procurement of Warkworth to Te Hana through a PPP
- 6 **note** that the NZTA will seek the approval of the Minister of Finance for any indemnity on behalf of the Crown in support of obligations of the NZ Transport Agency under section 65ZD of the *Public Finance Act 1989*
- 7 **note** that the NZTA will meet the PPP payments through the National Land Transport Fund and that additional revenue is required from 2027 to meet its existing commitments alongside this new commitment
- 8 **direct** NZTA to report back to the Infrastructure and Investment Ministers Group in April and quarterly thereafter
- 9 **agree** that the Minister of Finance and the Minister of Transport will report back to Cabinet prior to financial close to confirm the value for money proposition, any Crown capital commitment or underwrite of the project and the borrowing limit under section 160(1)(b) of the *Crown Entities Act 2004*
- 10 **note** that, subject to Cabinet's agreement to recommendations above, at the 13 March 2025 Infrastructure Investment Summit, the Minister of Transport will announce NZTA will commence procurement of Warkworth to Te Hana.

Authorised for lodgement.

The SH1 Warkworth to Te Hana Investment Case is withheld under sections 9(2)(b)(ii), 9(2)(i) and 9(2)(j).

Hon Chris Bishop
Minister for Transport



Cabinet Economic Policy Committee

Minute of Decision

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Public Private Partnership Procurement for Section 1 of the Northland Corridor (Warkworth to Te Hana)

Portfolio **Transport**

On 5 March 2025, the Cabinet Economic Policy Committee **referred** the submission under ECO-25-SUB-0018 to Cabinet on 10 March 2025 for further consideration.

Rachel Clarke
Committee Secretary

Present:

Hon David Seymour
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Brooke van Velden
Hon Erica Stanford
Hon Paul Goldsmith
Hon Louise Upston
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:

Office of Hon Chris Bishop
Office of Hon Simon Watts
Ministry of Transport
The Treasury
Officials Committee for ECO



Cabinet

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Public Private Partnership Procurement for Section 1 of the Northland Corridor (Warkworth to Te Hana)

Portfolio **Transport**

On 10 March 2025, following reference from the Cabinet Economic Policy Committee, Cabinet:

- 1 **noted** that on 21 February 2025, the New Zealand Transport Agency (NZTA) Board approved the Implementation Investment Case and value for money proposition of Public Private Partnership (PPP) procurement, and to initiate procurement of the Warkworth to Te Hana section of the Northland Corridor, subject to Cabinet approval;
- 2 **noted** that Cabinet Office Circular CO (23) 9 requires Cabinet approval of all PPP proposals by Crown agents, including the NZTA;
- 3 **noted** ^{s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)} [REDACTED] and that lower cost options will be investigated through the procurement process;
- 4 **noted** that the PPP liability will be treated as debt on NZTA's balance sheet with a corresponding impact on total Crown borrowing, but no impact on core Crown debt, ^{s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)} [REDACTED];
- 5 **noted** that the Treasury Gateway Review rated the project amber / green and that the NZTA is actioning the recommendations from the Review;
- 6 **endorsed** the Implementation Investment Case attached under CAB-25-SUB-0054;
- 7 **agreed** that the NZTA may continue to pursue procurement of the Warkworth to Te Hana section through a PPP;
- 8 **noted** that the NZTA will seek approval from the Minister of Finance for any indemnity on behalf of the Crown in support of obligations of the NZTA under section 65ZD of the Public Finance Act 1989;
- 9 **noted** that the NZTA will meet the PPP payments through the National Land Transport Fund, and that additional revenue is required from 2027 to meet its existing commitments alongside this new commitment;
- 10 **noted** that the NZTA will be required to report back to the Infrastructure and Investment Ministers Group in April 2025 and quarterly thereafter;

- 11 **invited** the Minister of Finance and the Minister of Transport to report back to Cabinet prior to financial close to confirm the value for money proposition, any Crown capital commitment or underwrite of the project and the borrowing limit under section 160(1)(b) of the Crown Entities Act 2004;
- 12 **noted** that the Minister of Transport intends to announce that NZTA will commence procurement of the Warkworth to Te Hana section of the Northland Corridor at the Infrastructure Investment Summit on 13 March 2025.

Rachel Hayward
Secretary of the Cabinet

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MINISTRY OF TRANSPORT TE MANATU WAKA