

22 October 2021

OC210840

Hon Michael Wood
Minister of Transport**Action required by:**
Tuesday, 26 October 2021

AUCKLAND LIGHT RAIL - INFORMING THE CABINET PAPER

Purpose

To provide further advice following our review of the Auckland Light Rail Indicative Business Case, highlighting some of the key issues that Ministers will need to consider when determining a preferred way forward. We are seeking further direction from you on specific matters to inform the content of the Cabinet paper we are currently drafting.

Key points

- We are drafting a Cabinet paper to seek agreement on the preferred way forward for the Auckland Light Rail project.
- This will set out a delivery pathway for the next detailed planning phase and get agreement from Cabinet on specific matters relating to project scope (e.g. mode and route), project governance and oversight, and a policy work programme.
- We have completed our review of the Indicative Business Case. There are risks associated with making firm decisions at this stage, and you may wish for the Cabinet paper to outline how you propose to manage these risks in the next phase of work.
- To inform the development of the paper, we need a steer from you on the nature of the decisions you wish Cabinet to take. Your guidance is particularly required on:
 - Your intended approach to agreeing a preferred mode and route,
 - Your preferences around future public announcements
 - How you intend to partner with Auckland Council to give Ministers the confidence that the urban development benefits that are enabled by the scheme will be brought to fruition.
 - Your preferred governance arrangements for the entity that will progress the detailed planning phase.
 - Your preferred approach to funding the next phase of work.
- We are available to discuss these, and other outstanding issues, at your convenience, but we recommend this discussion occurs at some point during the week commencing 26th October so that departmental and caucus consultation can commence at the beginning of November.

Recommendations

We recommend you:

- | | | |
|---|---|----------|
| 1 | Agree to discuss the contents of this briefing with officials prior to providing feedback, week commencing 26 October 2021 | Yes / No |
|---|---|----------|

Gareth Fairweather
Acting Director Auckland Light Rail

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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

Contacts

Name	Telephone	First contact
Bryn Gandy, Deputy Chief Executive System Strategy & Investment	██████████	
Gareth Fairweather, Acting Director System Strategy & Investment	██████████	✓
Chris Gulik, Auckland Strategic Adviser	██████████	

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AUCKLAND LIGHT RAIL - INFORMING THE CABINET PAPER

We are preparing a Cabinet paper for your review and feedback

- 1 We are preparing a draft Cabinet paper for your consideration, with the expectation that this is considered by the Economic Development Committee on 24 November.
- 2 The paper emphasises that Auckland Light Rail (ALR) is an ambitious project with the potential to transform Auckland and address a range of complex challenges in the City Centre to Māngere (CC2M) Corridor.
- 3 Cabinet will need to make bold, cross-government commitments to deliver these outcomes. In order to progress, the Cabinet paper will need to support you in seeking support from your colleagues, ensuring that there is a shared understanding of the risks as well as the commitments required to deliver the potential benefits.
- 4 Primarily, the paper will seek agreement on a preferred way forward for the delivery of the project. We understand your intention that this will include decisions on mode and route, and we are drafting the paper on that basis.
- 5 We envisage the paper will need to seek agreement to an integrated programme of work covering technical project development, policy implementation and decision making. Agreement is also needed on the optimal governance arrangements to provide for appropriate Crown oversight, ensure alignment with Auckland Council and mana whenua, and incorporate the necessary skills to set the project up for success.
- 6 Annex 1 contains an early draft of the paper's Executive Summary. You may wish to consider whether the content and tone of this meets your expectations at this stage.

We have undertaken a review of the Indicative Business Case (IBC)

- 7 We have recently undertaken a review of the Establishment Unit's outputs, including the IBC which we received throughout October. We are currently finalising a document that records our findings, and we are happy to make this available to you.
- 8 There are a number of significant contextual and inherent risks that you may wish to highlight to Cabinet:
 - **Timeframes to develop the IBC** - the business case was developed in a very short timeframe of six months, including time to procure and stand up the Establishment Unit. Working within such compressed deadlines has meant that a number of workstreams have been run in parallel that ideally would have been sequential and iterative.
 - **Decision making at IBC stage** - The role of the IBC and this stage gate is to provide an early opportunity for decision makers to stop a project if it is deemed to represent a poor value for money, before significant funds are expended. Decisions and announcements on route, mode and delivery entity are not usually made at this early stage and typically require more detailed analysis. This has placed a higher requirement on the Unit than would otherwise have been required.

- **Assurance** - The IBC was subject to assurance including independent peer review and advice, as well as a robust process involving Officials. Compressed timeframes created challenges and there was little opportunity for feedback to be built into the Establishment Unit Board's decision-making on the final recommendations. A Gateway Review process is scheduled to take place during the week commencing 1 November. Any issues that are likely to be identified will not be incorporated into an updated IBC prior to decisions by Cabinet in November.
- 9 Whilst we feel that the business case has generally followed a robust process and presents a case for the project to progress to the next stage of development, there are significant risks associated with making firm commitments on mode and route at IBC stage. This risk is further exacerbated by the following key points.
- 10 You may wish to highlight these to Cabinet, along with your preferred approach to managing these risks as the project progresses.
- **Limited understanding of the urban development perspective** – The IBC is focused on the transport interventions required to enable urban development and intensification, but does not assess the constraints, risks and dependencies or the range of interventions needed to achieve the high intensification scenario used in the analysis. Both the costs and benefits of these interventions are yet to be determined but are likely to be significant and could result in an improvement or deterioration in the project's overall value for money. Auckland Council's appetite for accommodating the scale of urban development has not been fully tested, nor has there been any significant engagement with communities on this aspect of the project. This will need to be tested further in the next phase of work.
 - **Integrated urban and transport planning will influence the detailed scope of the transport investment** – assessment of the urban perspective could result in different costs and benefits for route and mode options when assessed holistically, for instance if it was determined that a particular location required significantly higher levels of water infrastructure investment to enable intensification, or if there were geotechnical costs / constraints. Given that this represents a significant proportion of the benefits, and the delivery of the project outcomes, Ministers will need certainty that this development potential can be realised. This reinforces the need for strong alignment with Auckland Council to ensure the integrated delivery of the transport investment alongside the urban development opportunities that the project is intended to support.
 - **Costs are indicative and subject to significant variation** – the early stage of scope development, design, and understanding of risks means costs are subject to significant variation. For example, the P50 to P95 capital cost range for the Hybrid option ranges from of \$14.6bn [REDACTED]. This excludes any change to scope that takes account of stakeholder requirements, which will be identified in future stages.

Withheld to enable commercial activities

- **Benefits are indicative and subject to significant variation** – There is a heavy reliance on Wider Economic Benefits (WEBs) to reach a BCR of >1, accounting for up to 50% of benefits. Forecast WEBs are generally considered to be subject to a higher margin of error than typical transport benefits such as journey time, as they rely on actions outside of the transport system.
 - **The BCR of all options are marginal at 1.1 to 1.2** - Any increase in forecast costs and/or deterioration of benefits could reduce value for money below the typical “hurdle rate” of 1. This may make it difficult to justify a significant investment, although there may be strategic considerations and benefits that aren't quantified that you may deem sufficient to assess the project as good value for money.
 - **Further consideration needs to be given to the future Rapid Transit Network (RTN)** - The choice to run ALR at surface grade or tunnel will impact connections to the future RTN, particularly the Auckland Second Harbour Crossing. It will be important that ALR decisions do not commit future projects by proxy.
- 11 Taking the above points into account, Officials believe the IBC indicates that the project meets the minimum requirements to progress to the next stage and that further funding could be committed to develop the project further, but that there are material gaps which need to be addressed in the short term to set the project up for success.

To complete the paper, we need direction from you on a number of matters

- 12 There are a number of areas on which we require direction from you prior to sending you a draft Cabinet paper for review. We invite you to meet and discuss these with Officials next week, so that departmental and caucus consultation can commence at the beginning of November.
- 13 The areas on which we require a steer are:
- Your preferred way forward on mode and route*
- 14 Officials request that you provide direction on the approval of the IBC and your preferred project option.
- 15 Based on our assessment above, we believe that the difference in BCRs between the three options at this stage is negligible (1.1-1.2).
- 16 While the information presented in the IBC is sufficient for the project to progress to the next phase, the inherent uncertainty in data and paucity of information provided creates risks when making decisions on a preferred route and mode, around which we recommend you engage with your colleagues.
- 17 Building of social license has focused on engagement with the public about rapid transit in the corridor but hasn't tested specific mode options with the public. This presents a risk that the options taken forward to Detailed Business Case stage to not reflect stakeholder perspectives.

- 18 Project costs and value for money will be critical to the social licence and legacy of the project, and this must be tested in greater detail in the next phase of work. This follows a best-practice approach to developing major infrastructure projects of this nature.

Your preferred approach to announcements

- 19 Officials request that you provide direction on what is announced and how, reflecting the considerations noted in this briefing.
- 20 Noting the gaps in work to date, officials consider that announcing a specific route and mode option would present significant risk that further work would identify a better value for money option that could conflict with your announcements.
- 21 You may choose to progress with announcements on route and mode, in which case Officials would advise you to consider retaining a degree of flexibility. Previous advice [OC210794 refers] reflects a range of options available to you on what could be announced, following decisions by Cabinet.
- 22 We recommend that the Cabinet paper is transparent around the high degree of uncertainty at this stage. You may choose to use this to engage with your Ministerial and caucus colleagues before determining a preferred way forward.
- 23 We understand that the Treasury has advised the Minister of Finance that a further and more accurate assessment of the benefits and costs should be sought before making a decision.

Your preferred approach to engaging with Auckland Council

- 24 Given the emphasis that needs to be placed on the realisation of urban development and intensification along the Corridor in order to ensure greater value for money, a high degree of alignment with Auckland Council will be needed, given their functions and powers in relation to planning and zoning, infrastructure funding and delivery (including value capture), public engagement, managing business disruption and the planning and funding of Auckland's public transport network.
- 25 For these reasons, we recommend that the next phase of work is framed within a partnership of Crown, Council, and mana whenua.
- 26 We have recommended to your Office that you engage with the Auckland Council Planning Committee in advance of Cabinet making decisions, and there is an opportunity for you to do so on Thursday 4 November. This could enable you to seek the 'in principle' support and assurances you may need to support you at Cabinet.

Project governance and oversight

- 27 The next phase of the project involves moving from a focus on collaboration and inclusivity to one where several significant policy and strategic decisions, that are the reserve of the Crown, will need to be made.

- 28 You have choices on how the governance and oversight of the next phase of work is configured, as we have outlined in earlier advice [OC210845 refers]. Our preferred approach is for the current Governance and oversight arrangements to be adjusted in the following ways:
- Replacing the Establishment Unit Board with a Crown appointed competency-based Board, with specific skills and knowledge required to deliver this project.
 - Formalising a partnership between the Crown, Auckland Council and mana whenua through a Sponsors/Partnership agreement.
 - Creating a Sponsors Forum that has senior representatives from relevant agencies to give effect to a Sponsors Agreement.
- 29 These changes should provide for increased alignment across multiple government outcomes, and ensure Ministerial oversight is safeguarded. The degree of Ministerial oversight is expected to decline over time as the project progresses and the operating environment becomes more stable.



Withheld as information is under active consideration

Next steps

- 32 We are available to discuss the paper with you, and given the timeframes we are working with, we recommend this discussion occurs the week starting 26 October 2021.

ANNEX 1 DRAFT EXECUTIVE SUMMARY OF THE CABINET PAPER

- 1 The Auckland Light Rail project will be transformative, with wide-ranging benefits. It has the potential to deliver increased access to jobs, education and recreation, including for some of the most disadvantaged neighbourhoods in Auckland.
- 2 This investment provides the enabling platform for the development of a significant number of homes and jobs along the corridor, giving effect to this government's commitment to addressing the shortage in housing and improving affordability. It has the potential to enhance our existing investments in the large-scale housing projects in Mt Roskill and Mangere.
- 3 By supporting a new pattern of growth, this significant investment in public transport will support our objectives to increase housing supply and density, and avoid transport emissions by changing the way Aucklanders travel, incentivising people out of their cars and better connecting communities.
- 4 This will be one of New Zealand's biggest infrastructure projects, the scale and complexity of which is unprecedented in New Zealand and is not to be underestimated. To ensure value for money from the project, the integration of transport and land-use investment in an established part of Auckland will require many partners with different priorities to work collaboratively and make commitments over a long period for time.
- 5 The relationship between the Crown and Auckland Council is at the heart of the project's success. We will need to align our aspirations for the shape of Auckland's growth along the corridor and work together to deliver this. This commitment will need to endure through multiple political and investment cycles.
- 6 Our response to climate change is changing the way we prioritise our investment, including an expectation that we build less to achieve more. This means the threshold to progress a mega-project of this nature is higher, and a decision to take the project forward will require bold commitments from the Government and its partners.
- 7 The benefit-cost ratios identified through the work of the Establishment Unit are marginal. Currently, there is uncertainty around the viability and costs of delivering this urban change. Understanding this will be a critical component of the next phase of the project.
- 8 If this Government is to progress this project, Cabinet will need to make bold decisions. There is the potential to realise significant from this project, but they come with challenges and risks, and significant costs. Consistent with the current stage of the project, we can expect costs and benefits to change as more detail is developed and in line with greater community and stakeholder engagement.
- 9 Notwithstanding these challenges, I am confident in the case to progress to the next phase of work. I seek Cabinet's agreement to...etc.