

# The Treasury and Office of the Minister of Finance

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Chair  
Cabinet Economic Development Committee

## **ADDITIONAL FUNDING FOR THE AUCKLAND CITY RAIL LINK PROJECT**

### **Proposal**

1. We propose that the Committee agree to policy decisions related to additional funding for the Auckland City Rail Link (CRL) project of up to \$405.5 million required due to reforecast project costs. We also request that the Committee note that the decision to approve additional funding will be made by Cabinet on 15 April 2019 as part of the Budget 2019 package.

### **Executive summary**

2. The CRL is a 3.5 km rail tunnel connecting the Britomart and Mt Eden stations due to open in early 2024. The CRL is expected to generate significant benefits including reduced travel times, improved access to employment and education opportunities, reduced traffic congestion, and the opportunity for commercial and residential development around stations. The entire Auckland rail network is expected to run more efficiently, allowing a doubling of capacity with more trains running more often. This will support the ever-growing demand for public transport in Auckland and will relieve pressure on the bus network which is nearing capacity. City Rail Link Limited (CRL), a company jointly owned by the Crown and Auckland Council is responsible for delivering the CRL project.
3. The agreed budget for the CRL was \$3.405 billion, with the Crown and Auckland Council as joint Sponsors each contributing a half share of required funding (\$1.703 billion from the Crown). This is a 'P50' estimate, which represents a mid-point estimate of anticipated project costs.
4. In July 2018, Sponsors agreed to provide an additional amount of up to \$268 million (\$134 million from the Crown, agreed by Cabinet) for additional future-proofing work to increase capacity in light of revised passenger projections and to allow for the operation of 9-car trains compared with the original plan for 6-car trains. This raised the total cost of the CRL project to \$3.673 billion.
5. An independent reforecast of total project cost received in March 2019 has estimated the total project cost as \$4.484 billion (at P50), an increase of \$811.0 million. A large part of the increase arises from forecast increases in committed and forecast construction costs, contingencies for unexpected costs such as delays or ground conditions, and a provision for cost escalation due to inflation. The original provision for cost escalation (inflation provision) was budgeted to be \$285 million in the overall project budget of \$3.405 billion. The reforecast total project cost now indicates that

the original provision is insufficient given the impact of current market conditions such as labour shortages.

6. An update of project benefits to 2018 values by PricewaterhouseCoopers has confirmed that the benefit-cost ratio for the CRL project remains positive ( $> 1$ ) at this new cost level.
7. At the same time, CRL has received bids for the tunnels and stations contract (Contract C3), which represents a large part of the works programme. While the exact figures are not available as there is a live procurement process, we are advised that the costs of the bids are indicatively consistent with the reforecast. For the CRL to be built to provide the original functionality and benefits, additional funding of \$811.0 million will be required with half required from each Sponsor, in this case \$405.5 million from the Crown.
8. We have considered asking CRL to build the CRL with no funding increase. CRL has also considered options to save significant costs by reducing the scope of the CRL. However, these options are not desirable as they would limit functionality, benefits, and customer experience. KiwiRail and Auckland Transport, which are likely to operate the CRL upon completion as part of the wider Auckland rail network, do not support the options presented to reduce the project scope.
9. Cabinet will make a decision to approve any additional funding on 15 April 2019 as part of the Budget 2019 package. An initiative for the additional funding has been included in the draft Budget 2019 package for up to \$405.5 million to cover the Crown's share. This amount has been revised down from an original initiative of <sup>[38]</sup> in the draft budget package.
10. We are currently considering options for phasing the Crown's funding contribution to the CRL project over the next five years. Due to borrowing limits, the Council has requested that the Crown contribute more in the early years, with the Council paying a greater share in the later years. <sup>[38]</sup>  
<sup>[38]</sup>
11. We recommend that Sponsors ask CRL to investigate all possible cost savings and to present options to remove or change some features of the CRL that do not severely affect its function. Any significant change to scope would require Sponsor approval.
12. Although we consider that the independent forecast project cost is robust, there remains a risk that the cost of the CRL may increase between now and the 2024 end date. We will work with the Council and the board of CRL to put in place further measures to control costs and to deliver value for money.

### **Benefits of the CRL**

13. CRL, a company owned and funded in equal shares by the Crown and Auckland Council, is delivering the CRL project in central Auckland. The Sponsors of the CRL project are the Crown and Auckland Council, represented by the Minister of Finance and Minister of Transport and the Mayor and Deputy Mayor of Auckland.

14. Currently the main Britomart station in central Auckland is a dead end. The construction of a tunnel from Britomart to Mt Eden will enable through journeys, with new stations planned at Aotea (at Wellesley and Victoria Streets) and Karangahape Road. Passengers will be able to travel between Britomart and Mt Eden in under 10 minutes.
15. When opened in early 2024, the CRL is expected to provide immense benefits for Aucklanders, including:
  - trains at least every 10 minutes during peak times
  - reduced travel times (for example, up to a 17-minute saving from Henderson to central Auckland)
  - improved access to employment and education opportunities, with economic and productivity benefits as access to the city centre improves
  - reduced traffic congestion
  - opportunities to develop commercial and residential properties around and above stations
  - ability to double capacity on the rest of the Auckland rail network, relieving pressure on the bus network
  - more affordable housing with improved transport links to outer areas.

### **Initial cost and funding**

16. The previous Government allocated \$1.703 billion through Budget 2017 as the Crown's half share toward the cost of the CRL project. In July 2018 Cabinet agreed to establish a capital tagged contingency in Vote Transport of up to \$134 million as a pre-commitment against the Budget 2019 capital allowance [DEV-18-MIN-0145].
17. This extra funding reflected revised patronage projections given significant growth in rail use in Auckland. Additional work during the construction phase would enable a 50 per cent increase in CRL capacity to handle peak-time passenger movements, including the ability to accommodate 9-car trains (compared with the previous provision for 6-car trains). Without such future-proofing work now the CRL system would likely reach capacity within ten years of opening. Any future work to increase capacity would be costlier and would require temporary closure.

### **Cost increase**

18. In March 2019 CRL received bids from two consortia for Contract C3. C3 (tunnels and stations) represents a large part of the work programme for the CRL project.
19. Also in March 2019, Sponsors received an independent reforecast of total project cost. The new reforecast project cost (P50 mid-point estimate) is \$4.484 billion. The cost increase is made up of the following elements.

**Breakdown of total project cost increase (\$ billion) (numbers are rounded)**

Original total project cost	\$3.405
+ Contingency agreed by Cabinet (July 2018) for future-proofing work	\$0.268
<b>Before reforecast of total project cost</b>	<b>\$3.673</b>
+ Forecast construction costs	[38]
Additional cost of tunnelling and other construction costs.	
+ Contingency	
Provisions for unexpected costs through delays, ground conditions, re-design work etc.	
+ CRLC costs	\$0.152
Additional costs for purchase of properties required for the works, building strengthening work, procurement, project management, design, and corporate costs.	
+ Provision for cost inflation	[38]
Cost escalation due to inflation and impact of market conditions on cost (such as labour shortages and exchange rate movements).	
+ Committed construction costs	
Additional costs for work already under way.	
+ Future-proofing	
Additional provision of [38]	
<b>Reforecast total project cost</b>	<b>\$4.484</b>

20. An update of project benefits to 2018 values by PricewaterhouseCoopers (PwC) has confirmed that the benefit-cost ratio for the CRL project will remain positive (> 1) at this new cost level. PwC states that, as long as the total project cost remains below \$5.1 billion, the CRL base case remains justified based on an economic assessment.
21. Consequently, we have a clearer picture of the amount of funding needed to complete the project. The Crown and Council are now required to decide whether to provide additional funding if we wish CRLC to deliver the CRL project without severely impacting the intended benefits and functionality.

## **Options in light of increased cost**

22. Given that the reforecast total project cost exceeds currently agreed funding, we have considered asking CRL to deliver the CRL project within the currently agreed funding amount. We do not consider that this is a plausible option as it would deliver a system with limited functionality and benefits, including the probable elimination of stations.
23. CRL has considered options to save significant costs by reducing the scope of the CRL, including removing a station (for example, Karangahape Rd), delivering a single tunnel, or simplifying the connection with the Western Line. In assessing options, CRL has engaged closely with KiwiRail and Auckland Transport, which are likely to operate the CRL upon completion as part of the wider Auckland rail network. While the options could deliver savings, in all cases they would have significant negative patronage impacts, with the adverse business case impact outweighing financial benefits. KiwiRail and Auckland Transport have indicated that they will not support the single tunnel and simplified connection options from an operational feasibility perspective.
24. We were unable to identify any options that we could recommend. All scenarios had negative impacts on capacity, operations, and resilience, while introducing new risks and uncertainties to the overall programme. However, this work has been undertaken in a compressed time period, and further work may identify feasible options to reduce cost for a modest loss of benefit, such as possibly smaller scale.

## **Request for additional funding**

25. The decision to approve additional funding of \$405.5 million will be made by Cabinet on 15 April 2019 as part of the Budget 2019 package, representing the Crown's half share of the additional amount required in line with the reforecast total project cost.
26. Sponsors will ask CRL, nevertheless, to explore all possible opportunities to reduce the amount required through cost savings and by undertaking a cost management exercise given that the options analysis has been undertaken in a very restricted timeframe. As CRL will be required to ask for Sponsor approval before any further major contracts are let, this will provide an opportunity for Sponsors to review and agree on options.

## **Auckland Council funding contribution**

27. The Council's Governing Body is due to meet on 2 May 2019 to discuss additional funding, with workshops planned beforehand on 17 and 29 April 2019. Council officers will provide elected representatives with information similar to that in this paper.
28. [34]

29. Following a request from the Council, we are considering options for changing the timing of Crown and Council contributions over the next five years. This may provide a solution to the Council's borrowing capacity limits as the Crown would contribute more in the early years, with the Council paying a greater share in the later years.
30. [38]

### **Continuation of works**

31. The CRLL board will shortly make a decision on its preferred bidder for C3. Awarding of the C3 contract is subject to Sponsor approval and confirmation of available funding. CRLL has proposed that, in the meantime, Sponsors provide approval for it to notify its preferred bidder and to enter into a contract for early works only, up to a value of [38]. To manage risks associated with this approach, Sponsors would want assurances and evidence from CRLL that it has run a robust procurement process and will make clear that no guarantee can be given to the preferred bidder as to the extent of future work under the C3 contract.
32. Once final funding is agreed, CRLL will enter into a project alliance agreement with its preferred bidder, which will be subject to Sponsor approval. Sponsors will also enter into a new Project Delivery Agreement with the board of CRLL to deliver the CRL project in line with the agreed funding amount.

[38]

### **Risks**

35. There is an immediate risk that CRL's negotiations with its preferred bidder for the C3 package of works may arrive at a target output cost (final cost) higher than that in the

revised P50 cost forecast. If the cost differential is minor, we would ask the CRL board to confirm whether it can continue to deliver the CRL project within the reforecast total project cost, potentially drawing on the contingency and cost escalation provisions. If the cost differential is significant, we will report back to Cabinet.

36. There is a risk that, as the opening date of the CRL is still five years away, project costs may continue to increase, as occurs with many similar infrastructure projects. While we expect that CRL will do its best to manage costs, we will report back to Cabinet on any need for further additional funding. As the budget is set at P50, there is a 50 per cent chance that the budget is exceeded. <sup>[38]</sup>

[38]

[38]

37. <sup>[34]</sup>

38. There is a significant risk that lack of adequate funding will mean that the CRL will fail to deliver the desired the anticipated benefits. For example, this could be in the form of lack of integration with the rest of the Auckland rail network, slower travel times, over-crowding, and reduced development opportunities along the CRL corridor if, for example, fewer stations are built.

### **Project monitoring and future cost control**

39. Sponsors and the board of CRL entered into a Project Delivery Agreement (PDA) in June 2017. The PDA sets out funding levels and expectations around the management, delivery, and completion of the CRL project. It also includes a range of interventions available to Sponsors if certain cost increase levels are breached. The interventions include requesting the CRL board to provide a remedial action plan, appointing an observer(s) to the board, or replacing one, more, or all directors. <sup>[34]</sup>

[34]

40. <sup>[34]</sup>

41. Sponsors will also consider further measures to manage the ongoing cost of the CRL project <sup>[34]</sup> during the process to update the Project Delivery Agreement between Sponsors and CRL.

## **Consultation**

42. The Department of the Prime Minister and Cabinet has been advised of this paper. Treasury and Ministry of Transport officials have consulted with Auckland Council officers.

## **Financial implications**

43. Financial implications will be included in the Budget 2019 package. Cabinet will make a decision to approve the additional funding of \$405.5 million on 15 April as part of the Budget 2019 package.

## **Human rights, legislative, and gender implications**

44. There are no implications.

## **Regulatory Impact Analysis**

45. A regulatory impact analysis is not required.

## **Publicity**

46. Publicity relating to funding of the CRL project will be managed through the Budget 2019 communications process.
47. It is anticipated that there will be a press release on reforecast total project cost and CRLL's selection of a preferred bidder to engage in early works around the time of the Council Governing Body's workshop scheduled for 17 April 2019. This release is expected to cover also CRLL's engaging with its preferred bidder on early works. This, and any other publicity around the CRL project itself, will be managed between Crown and Council officials and CRLL.

## **Proactive release**

48. This paper and any associated papers will be released following Budget 2019.

## **Recommendations**

49. We recommend that the Committee:

### **Initial cost and funding**

1. **note** that City Rail Link Ltd (CRLL) is building the City Rail Link (CRL) rail system in Auckland, due to open in 2024
2. **note** that the project Sponsors are the Crown and Auckland Council, represented by the Minister of Finance, Minister of Transport, and the Mayor and Deputy Mayor of Auckland

3. **note** that the original estimated cost of the CRL project was \$3.405 billion, with funding to be contributed in equal shares by the Crown and Council
4. **note** that, to date, agreed Crown funding for the CRL project is \$1.836 billion: \$1.702 billion (half share of original project cost) plus \$134 million agreed by Cabinet in July 2018 (as a tagged capital contingency) for the Crown's half share for extra work to future-proof the CRL for future patronage growth

### **Cost increase**

5. **note** that an independent reforecast in March 2019 has estimated total project cost at \$4.484 billion, which exceeds the level of currently agreed Sponsor funding
6. **note** that PricewaterhouseCoopers has confirmed that the benefit-cost ratio for the CRL project remains greater than 1 at this new cost level
7. **note** that most of the increase cost arises from forecast construction cost increases, contingencies for unexpected costs such as delays and ground conditions, and a provision for cost escalation due to inflation and the impact of market conditions such as labour shortages.
8. **note** that CRL has received submissions for Contract C3, which represents a large part of the CRL package of works, and is unable to contract with its preferred bidder (subject to Sponsor approval) until funding is confirmed
9. **note** that we consider that building the CRL restricted to the currently agreed funding amount or funding the project with scope reductions, for example by removing a station, would reduce functionality, benefits, and patronage

### **Request for additional funding**

10. **note** that an initiative for additional funding for CRL of up to <sup>[38]</sup> was included in the draft Budget 2019 package and this has been revised down to \$405.5 million
11. **note** that Cabinet will make a decision to approve the additional funding of \$405.5 million on 15 April 2019 as part of the Budget 2019 package
12. **note** that, in any case, Sponsors will ask CRL to explore all opportunities for cost saving and cost management

### **Future-proofing work**

13. **note** that on 25 July 2018, Cabinet agreed to establish a tagged capital contingency of \$134 million for the Crown's share of future-proofing works as a pre-commitment against the Budget 2019 capital allowance [DEV-18-MIN-0145 refers]

14. **note** that approval for drawdown of the capital tagged contingency, and any resulting financial implications, will be included in the Budget 2019 package for Cabinet on 15 April 2019

### **Auckland Council contribution**

15. **note** that the Governing Body of Auckland Council is due to consider its funding contribution on 2 May 2019, following workshops on 17 and 29 April 2019
16. **note** that, following a request from the Council, to avoid breaching its borrowing limits, we are considering a change to the timing of funding whereby the Crown pays more in the early years and Council pays more in the in the later years,  
[38]
17. **agree** that, subject to Cabinet agreement to provide additional funding through Budget 2019, the Minister of Finance and Minister of Transport (as Crown Sponsors) may make decisions to adjust the timing of the Crown funding
18. [38]

[38]

### **Risks**

21. **note** that failure to provide adequate funding for the CRL project will result in a reduction in functionality, benefits, and customer experience
22. **note** that, although we consider that the independent reforecast of total project cost is robust, there remains a risk that project costs may increase in the future

### **Continuation of works**

23. **note** that, in the meantime, CRL has proposed entering into a contract with its preferred bidder for early works for C3 (up to a value of [38] ) to maintain

project momentum while funding is resolved

24. **note** that the Minister of Finance and Minister of Transport, as Sponsors, will consider granting approval for CRLC to enter into an early works contract with its preferred bidder, subject to satisfaction of certain conditions
25. **note** that, once funding is agreed, CRLC will enter into a project alliance agreement with its preferred bidder, which will be subject to Sponsor approval
26. **note** that, once funding is agreed, Sponsors will enter into a new Project Delivery Agreement with the board of CRLC to deliver the CRL project within the agreed funding amount

[34]

#### **Release of this paper and communication**

28. **note** that publicity regarding CRL funding will be managed through the Budget 2019 communications process
29. **note** that other publicity around the CRL project are being managed between Crown and Council officials and CRLC
30. **note** that this paper will be released following Cabinet agreement.

Hon Grant Robertson  
**Minister of Finance**

Hon Phil Twyford  
**Minister of Transport**