

# The Treasury

## Auckland Light Rail Project Information Release

March 2022

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SH-8-4-1-4

Date: 17 September 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: By 4:00pm, Monday 20 September 2021

## **Aide Memoire: City Centre to Māngere Project Sponsors meeting 20 September 2021**

**Purpose:** To provide you with commentary and talking points to support your discussion at the City Centre to Māngere/Auckland Light Rail Project Sponsors meeting, scheduled for Monday 20 September, 4:00-5:00pm via Zoom.

### **Attendees for the meeting:**

Hon Grant Robertson, Minister of Finance  
Hon Michael Wood, Minister of Transport  
Phil Goff, Mayor of Auckland  
Bill Cashmore, Deputy Mayor of Auckland

Leigh Auton, Chair of the CC2M Establishment Unit Board and Tommy Parker, Mobilisation Lead for Establishment Unit will attend to speak to the agenda items. Officials from Ministry of Transport, Waka Kotahi and the Treasury will also be attending.

The background and purpose of the Project Sponsors is set out in annex two for your reference.

### **Agenda for 20 September meeting**

The Establishment Unit has provided a paper on the following matters:

- Scope of the project – route options and mode choices
- Urban form opportunities
- Delivery entity and next phases of the project
- Funding and value capture
- Media update
- Assurance

We have focused our commentary below, against these agenda items, on the key issues where you may wish to provide direction or where focus needs to be as the project progresses. Suggested talking points are provided in annex one for your reference.

### **Scope of project, and urban form opportunities**

*The value proposition of the project hasn't been well articulated*

Our initial assessment, based on the draft CBA analysis we have been provided, is that the project's benefits will largely fall locally, primarily reflected in higher land values along the corridor. This is a result of increased accessibility and amenity along the corridor due to the new transport infrastructure; and improved development potential due to higher demand.

Based on a beneficiary pays principle, it is equitable and efficient for these land value increases to contribute to funding the project. The most feasible way to recoup funding from this land value increase is through local land taxes/rates (which can be done through the normal local government tools, through use of the Infrastructure Funding and Financing Act 2020 or the Urban Development Act 2020).

We would expect that the strategic, economic and funding cases for the indicative business case would be structured around this defining characteristic of the project. We are concerned that, based on the analysis to date, that the Establishment Unit will not be in a position to clearly articulate this in time for decisions in November.

We recommend that you ask the Establishment Unit how this issue will be addressed in the next phase of the project (detailed business case phase) and whether there are any consequential implications (of not adequately addressing this) for decisions to be taken in November.

### **Funding and value capture**

*Better understanding where benefits and costs lie is critical to identify funding sources*

Based on the documentation we have been provided, it appears that the Establishment Unit has not undertaken analysis on willingness to pay or affordability for the local beneficiaries (i.e. landowners whose land value has increased) and instead assumed that the Crown would be the first port of call to fund the project.

Our view is that the team needs to consider maximising revenue from all beneficiary and user groups, as well as other potential commercial forms of revenue, with the Crown being the funder of last resort. At this stage of the business case process, it is important that these principles are agreed, rather than all the detail being worked out.

If you agree with these principles, you may wish to provide this direction to the Establishment Unit that you expect that the detail of these funding sources will be developed in the DBC phase.

*We are still awaiting much of the analysis to fully understand the validity of the conclusions being reached*

We have requested the underlying analysis and methodology to better understand the likely recommendations that the Establishment Unit will be making. Over the coming weeks we expect to see more detailed analysis in the following areas:

- Principles on beneficiary identification and willingness to pay analysis (as mentioned above)
- Assumptions underlying the land use scenarios that clearly demonstrate how these specific benefits are derived
- Acknowledgement that the project will create wider transport and urban development-related costs that will need to be estimated in the DBC phase—analysis on how these costs will be developed and funded
- Clear identification at a principle level of what is required to catalyse and activate urban development potential
- Clear outline of assumptions that underpin cost and general affordability estimates and specific areas of risk that affect cost

We have provided this feedback to the Establishment Unit on these areas, to support completion of a satisfactory indicative business case.

Once we've received the final business case material, we will brief you in October to support Ministerial and Cabinet decisions on next steps for the project. We will focus on outlining the critical gaps or issues that may impact decisions that Cabinet wishes to take in the November report back.

### **Delivery entity form and next phases of the project**

*We're focusing on ensuring governance for the DBC meets key critical success factors*

At the Board meeting on 14 September, the Establishment Unit recommended a Schedule 4a company as the delivery entity form. The Board has requested the Establishment Unit also consider options under the Waka Kotahi umbrella (either as a subsidiary with its own Board or as a unit under the existing Waka Kotahi Board). The Ministry of Transport is also looking at options where the project sits within a New Zealand mass transit delivery entity.

Our view is that the delivery entity decision will rest upon advantages and disadvantages of using an established Crown entity (e.g. Waka Kotahi or City Rail Link Limited) or establishing a new entity. We expect the considerations will include broader capacity and capability issues to ensure:

- resources are not just being moved from one project to another, resulting in delays or resource gaps to deliver the infrastructure pipeline of projects for New Zealand
- projects are integrated appropriately, both within the Auckland network but also at a national level

We will work with the parties to agree on a preferred entity form for November, as it is important that the November decision indicate the intended delivery entity form so that the work to set this up can be completed in the next phase.

Our view is that, regardless of which entity takes the project forward, the critical success factors to ensure appropriate governance arrangements are:

- clear line of sight from Unit/entity to Ministers to enable appropriate Ministerial influence and oversight
- a forum for key stakeholders to engage appropriately in the project development (for example, Auckland Council, Auckland Transport, mana whenua)
- clear roles, responsibilities, and expectations amongst all parties;
- a competency-based Board and Chair that can hold the Unit/entity accountable

There are various levers you have at your disposal to achieve these critical success factors, including letters of expectation and clear terms of reference; Board appointments; funding agreements (if Crown funding); and assurance mechanisms.

### **Commitment will be needed from Auckland Council to make the project a success**

We note in the papers from the Establishment Unit that the Auckland Council (AC) Planning Committee has endorsed a partnering approach to the project where AC and the Crown are sponsors.

To fully realise the benefits of the project, AC (and its Council Controlled Organisations such as Auckland Transport) will need to undertake activities and make commitments, which include (but not limited to):

- commitment to land use change decisions (upzoning; consenting; designations etc)
- commitment to leading/partnering on master planning along the corridor
- commitment to changes to support wider network integration (transport infrastructure and service changes)
- agreement to ownership and operation of the transport assets, including operating and maintenance costs
- commitment to work with the Crown to develop appropriate Crown and/or Council tools to recoup funding (general rates, targeted rates, development contributions etc) to help pay for the project and associated enabling infrastructure for urban development

We've had initial informal discussions with Council staff who understand our perspective on this, seem to largely agree with AC's areas of responsibility, and are ready to engage further to support Sponsors to agree on these matters.

We recommend that you request the Establishment Unit secure AC's in-principle agreement to the relevant activities needed to progress the project. We would expect that this would form the basis of a partnership agreement with AC in due course.

We will provide further advice on the status of this in October.

### **Additional commentary against Establishment Unit paper provided**

#### *Scope of the project – route options and mode choices*

The Establishment Unit is endeavouring to recommend one preferred route and mode to take forward to the detailed business case phase. We strongly support the Establishment Unit in recommending one preferred option. The Establishment Unit Board is weighing up value for money versus ultimate transport and urban outcomes for Auckland. Guidance from Sponsors regarding affordability will facilitate the Establishment Unit's ability to land on a preferred option.

#### *Assurance*

We agree with the insights from the assurance panel. You may wish to ask the Establishment Unit how it has factored these insights into its analysis, to ensure the lessons are being applied.

Erana Sitterle, Senior Analyst, National Infrastructure Unit (NIU), [35]

David Taylor, Manager, National Infrastructure Unit (NIU), [39]

## **Annex One: Suggested talking points**

Below are suggested talking points you may wish to refer to.

- Confirm your preference for the Unit to provide a clear recommendation for a preferred mode and route option to take forward
- Request that the Establishment Unit will need to ensure the trade-offs are articulated in a way that options can be clearly differentiated
- Confirm that you wish to maximise revenue from all sources (including landowners along the corridor and other direct beneficiaries), before we consider how much Crown funding should be provided
- Emphasise the importance to understand the full costs of the project and the role that AC will play in catalysing and activating this urban development potential (including, for example, direct funding, use of revenue and rating tools, and land use planning changes).
- Advise of your preference that the governance arrangements for the next phase should provide a clear line of sight from the project to Ministers; clear roles, responsibilities and expectations amongst all parties; and clear accountabilities
- Confirm that in recommending a delivery entity form, the Establishment Unit needs to clearly outline the costs, benefits and risks of establishing a new entity compared to housing the project within an existing entity, and outline how the governance arrangements can be optimised regardless of the entity form
- While not discussed in this paper, you may wish to request that the Establishment Unit prepare, for the next Sponsors meeting, an announcement strategy for any decisions made in November.

## **Annex Two: Purpose of the CC2M Project Sponsors**

The Cabinet Business Committee, authorised by Cabinet to have power to act, had agreed that the Ministers of Transport and Finance (the Ministers) be Project Sponsors for the Establishment Unit, alongside representation from Auckland local government [CBC-21-MIN-0036 refers].

The role of the project sponsors is to:

- Set the strategic direction of the Establishment Unit Board
- Provide direction on other key strategic, policy or systems matters as required
- Maintain political cooperation between central government and Auckland Council with regards to the project
- With the benefit of advice from the Establishment Unit Board, enable Ministers to take back to Cabinet proposed decisions to inform the next stage.

The Minister of Housing should also be consulted on significant matters or decisions.