

# The Treasury

## Auckland Light Rail Project Information Release

March 2022

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Reference: T2021/2470 SH-8-4-1-4

Date: 28 September 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: By 8:00am, Friday 1 October 2021

## **City Centre to Māngere/Auckland Light Rail – upcoming Ministerial and Sponsors meeting**

**Purpose:** To provide you with commentary and talking points to support discussion at the following two meetings:

- Meeting between you and the Minister of Transport, Hon Michael Wood, scheduled for Friday 1 October, 8:00am.
- City Centre to Māngere (CC2M)/Auckland Light Rail Project Sponsors meeting, scheduled for Tuesday 5 October, 4:30-5:30pm. This will be the first Sponsors meeting that the Minister of Housing will attend. Leigh Auton, Chair of the CC2M Establishment Unit Board and Tommy Parker, Mobilisation Lead for the Establishment Unit will attend alongside officials from Ministry of Transport, Waka Kotahi and the Treasury.

Given the short timeframe between the two meetings, we have provided one briefing to cover both meetings as the content to be covered in the meeting is the expected to be the same.

### **Content of November Cabinet report back**

As a reminder, the Cabinet Business Committee, having been authorised by Cabinet to have Power to Act [CAB-21-MIN-0094 refers], invited the Minister of Transport, in consultation with relevant portfolio Ministers, to report back to DEV in November 2021 with:

- Further advice based on the business case and recommendations on a preferred way forward, including route, mode, funding and financing, and the form of the delivery entity;
- Recommendations based on the detailed policy positions developed with respect to the project, including legislative and regulatory changes that are needed to take implementation of the project forward [CBC-21-MIN-0036].

### **Update from the Auckland Light Rail Establishment Unit Board**

The Establishment Unit (Unit) has almost finalised the Indicative Business Case (IBC) and prepared draft recommendations for the Sponsors. The IBC has been subject to a high-level assurance review from international light rail experts (Assurance Review) and will a Gateway Review will be undertaken during October with findings aiming to be available to support Cabinet decisions in November.

The Establishment Unit Board (the Board) met on 28 September 2021 to consider the draft IBC and draft recommendations. A Board majority endorsed a preferred route and mode option to progress to the detailed business case stage, the recommended delivery entity option and value capture mechanisms. The Unit will provide a paper for Sponsors which sets out this detail and the rationale for these decisions. The positions of the Board, with accompanying Treasury views, are also set out below.

In providing our views, we appreciate that the IBC has been finalised in a relatively shorter period than we would typically expect. Notwithstanding, the IBC enables a clear definition of the strategic need, the identification of several options to address the need and both qualitative and quantitative analysis to support comparison to determine a preferred option.

In respect of the latter outcome, we want to highlight that the estimated benefits and costs are very high level and indicative only. This is level of estimation is appropriate for the IBC. Whilst providing an order of magnitude indication for comparative analysis, we note there is significant risk of actual benefits and costs being realised at the estimated levels and therefore, as is typical, should not be relied upon to represent what the actual benefits and costs will be. The work undertaken during the Detailed Business Case (DBC) phase will endeavour to bring this risk down and produce more reliable benefit and cost estimates to support ultimate investment decisions.

## **Route and mode option**

### *Board decisions*

The Board considered three options for preferred route and mode and deemed that all options would address the strategic need for a transport and urban outcome for the City to Mangere corridor of Auckland.

The Board has endorsed, as a majority decision<sup>1</sup>, the recommended option of 'partly tunnelled light rail':

- Segregated (tunnel) from Wynyard to Mt Roskill, with the balance of the route (to the airport precinct) running on the surface
- Underground stations in the city centre and on the Isthmus, including the university precinct
- The exact route remains flexible – the final route through the central Isthmus (e.g., Sandringham Road or Dominion Road) and length of tunnelling should be explored with the community during the next project phase (noting that a tunnel would not need to follow an exact road alignment)
- Estimated, nominal capital costs of \$14.6 billion on a P50 basis [25]

The following key factors strongly influenced this decision:

- Urban growth potential
- Level of disruption
- Ability to integrate with the future rapid transit network to the North Shore and North West of Auckland

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<sup>1</sup> Some members either abstained from supporting the recommended option or supported the surface running light rail option.

The Board acknowledges that this option may raise concerns about affordability. It therefore also supports the (surface running) light rail option as an attractive scheme which could deliver on the investment objectives at a lower estimated capital cost of \$9 billion on a P50 basis [25]

We also note that whilst conducted at a high level, the Assurance Review did not consider the case for the tunnelled options was strong enough to discount the light rail option.

#### *Treasury comment*

#### **Urban growth potential:**

We acknowledge, as encouraged by the Ministers, that the Unit has been ambitious in determining the urban growth potential of the corridor as a result of the proposed transport intervention. In determining its recommendation, the Board has therefore supported the option with the highest urban growth potential.

Based on the analysis provided, we are not convinced that the urban growth potential is a key differentiator between options:

- Across all options, there is significant growth anticipated across the corridor: 51,000 dwellings (light rail option) to 66,000 dwellings (Board endorsed partly tunnelled light rail option) over the next 30 years, noting the Unit's assumption that most of this will occur in the second and third decades (approximately 3,000 dwellings per year for 20 years). These figures include growth that is anticipated without the project, as well as growth that will be enabled by the project.
- Up to 70 percent of the urban growth potential is attributable to urban development interventions, not the proposed transport intervention. That is, regardless of what route or mode option is chosen, significant central and local government commitment (such as zoning to facilitate proposed levels of intensification) will be required to achieve the proposed potential.
- The enabled urban capacity is location specific along the corridor. However, in areas likely to be of higher demand (Sandringham and Dominion Road), the Unit has advised that there is little difference in urban capacity enabled between options.
- We have not seen the methodology or assumptions used by the Unit to calculate the intensified land use scenario which is the basis of its analysis. However, at face value, even with government interventions, the approach and assumptions appear highly ambitious and may be difficult to realise.

#### **Level of disruption:**

In its deliberations, the Unit has focussed on the level of disruption on Queen Street and Dominion Road (for the surface light rail option), and discounted the level of disruption associated with the tunnelled options. We note that tunnelling also creates significant disruption, as is the case with City Rail Link at present, and experiences from international examples.

Disruption can be managed and mitigated in various ways beyond tunnelling to minimise surface disruption, including through how the construction programme is managed and phased, as well as through compensation policies.

We do not consider that the level of disruption should be a deciding factor on which option to choose, as it would create a precedent effect for other, future projects, (where

large additional costs are added to projects to avoid disruption through the construction phase of a project). As tunnelling costs represent approximately 45 percent of the current cost estimates for the Board endorsed option, it is difficult to justify that the benefits of avoiding the disruption through adopting a tunnelling option over other disruption minimisation approaches will clearly outweigh the costs.

### **Ability to integrate with the future rapid transit network:**

In making its recommendation, the Unit has assumed that the additional harbour crossing to the North Shore will be tunnelled, and that a tunnel is the most efficient way to provide a rapid transit line in the city centre, to provide integration with the assumed North Shore tunnel. We acknowledge that this is the preferred option to support a metro transport solution for the North Shore based on the views of Auckland Council (AC), Waka Kotahi and Auckland Transport to address the growth in patronage originating from this area.

However, the business case for the additional harbour crossing is still in very early stages of development, and a preferred option (such as a tunnel or a bridge, and where this will connect in the city centre) is some time away from being agreed. In our view, the tunnelled options for this project could remove the option of the additional harbour crossing being a bridge, as it would likely be difficult to 'daylight' the tunnel in the city centre, to integrate well with a bridge crossing. We note that the Unit recommends that in the next phase of the project, the team should work closely with the additional harbour crossing project to consider these issues, which we strongly support.

### **Costs:**

The cost information provided by the Establishment Unit notes that the cost estimates across all options have an accuracy range of -50% to 100% as they are based on a very low level of design (i.e. the costs for the preferred option could range between \$7.3 billion and \$29.2 billion).

We have requested further information about key areas of sensitivity in these costs (including which elements, such as tunnelling, may be more likely to change). As noted above, the current level of cost estimation is usual for the current IBC phase of the project, and these costs should not be relied upon to provide an accurate indication of likely final cost of the project.

### **Delivery entity:**

#### *Board decisions*

The Board has endorsed the Unit's recommendations on delivery entity:

- The preferred choices for delivery entity for a new purpose-designed Schedule 4a company or Waka Kotahi (through an internal business unit or a subsidiary)
- Keep open the choice of final delivery entity at this point, with a 'shadow' delivery entity housed within Waka Kotahi to progress the project during a transition period

#### *Treasury comment*

We are working on separate advice on delivery entity options, in consultation with the Ministry of Transport and Waka Kotahi. This work is aimed at supporting you to take into account broader system considerations as you consider the options provided by

the Unit. We are approaching this advice by considering the functions that the delivery entity will require as well as considering the current entities in the system to determine whether it is possible to successfully leverage an existing entity, rather than establish a new entity from scratch. We are focusing on Waka Kotahi and City Rail Link Limited as the likely existing entities which could take on the project. We will assess these against criteria including resource capacity and capability (noting that there is a general absence of light rail expertise in New Zealand, so this is an area where any entity will need to upskill); cost, time and complexity to establish; and level of integration with wider network planning.

As part of this advice, we will also provide advice on how the governance arrangement can be established to set the project up for success, as we noted in our meeting briefing for the last Sponsors meeting (T2021/2359 refers).

### **Value capture:**

#### *Board decisions*

The Board endorsed the use of an Infrastructure Funding and Financing Act (IFF) levy and noted:

- Local and regional beneficiaries can make a meaningful funding contribution through leveraging existing, or new, value capture tools
- Nevertheless, the Crown will be required to fund the majority of the costs of the project
- There are opportunities to seek to recover some of that Crown funding contribution through urban redevelopment

#### *Treasury comment*

In its deliberation, the Board noted that there is a range of value capture tools that could contribute to the funding of the project (upfront and/or over time to repay Crown funding contributed upfront). The Board also noted that there may be varying degrees of appetite from the organisations who control the use of these levers to implement them. Notwithstanding the appetite consideration, the tools identified in the IBC are considered appropriate for detailed investigation in the DBC phase.

We highlight that the value capture tools include an additional IFF levy, requiring appetite from central and local government, which we agree should be investigated. However, we also note that the costs that the Unit has provided do not include any enabling infrastructure that will be needed to realise the additional urban development capacity (such as three waters infrastructure, other utilities, or other transport infrastructure), which is what an IFF levy is usually used to fund. There may be an opportunity for incremental use of an IFF levy to contribute to the costs of the light rail project, but there is a need to understand the full costs (including all enabling infrastructure) before the decision can be made on the appropriateness of this tool to contribute to the funding of the project.

We also note that the Unit has focused on capital costs. There is a need to seek agreement to how the operating and maintenance (O&M) costs will be funded. We recommend the starting position is that O&M costs are funded through the normal public transport operating funding model (which is split between local government, the National Land Transport Fund and fare payers). We do however note that it may be possible to consider options where value capture tools are used to fund operating costs, which may require consideration of a Crown underwrite. This detail will be

developed further through the detailed business case phase of the project which is a standard approach.

### **Communications approach**

We understand that Ministers have requested that the Establishment Unit provides an announcement strategy for discussion at the Sponsors meeting on 5 October. You may wish to consider the following matters as this is developed and finalised:

- To be able to capture the land value uplift to contribute to the costs of the project, it is vital that this is clearly signalled when further announcements are made on the project
- The current cost estimates are primarily for the purpose of economic analysis, not to provide an indication of what the likely final cost will be for the project; We recommend that any information on cost estimates provided in announcements reflects this
- From the Establishment Unit's engagement summary, we note that while there appears to be social licence for a rapid transit solution, this is not the case for urban intensification (especially along Sandringham and Dominion Road). This will need to be a key area of focussed engagement as the project progresses

### **Commitment needed from Auckland Council**

As we noted in our meeting briefing for the previous Sponsors meeting (T2021/2359 refers), it will be critical to the success of the project that AC is committed to undertaking actions to realise the benefits of the project. These areas are set out again below for ease of reference. You may wish to raise these at the Sponsors meeting, and signal that the commitment between the Crown and AC will need to be formalised in the coming months.

- 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

### **Possible options to progress the project**

In endorsing one option to take through the DBC phase (the partly tunnelled light rail option), the Board also canvassed other approaches to the DBC phase:

1. Light rail, with a decision on tunnelling reserved at this point
2. Two options initially, reduced to one option following further community engagement

While the Board's preference is to maintain momentum by progressing with one preferred option, it noted that it would support the first option above (light rail, with decision on tunnelling reserved).

We are supportive of consideration of options to progress the project, and note the full suite of options also include:

1. Stopping the project
2. Undertaking more analysis on the indicative business case, before moving to detailed business case

Following receipt of the draft business case, we have requested further information to better understand the methodologies and assumptions underpinning the results of the analysis, and the criticality of gaps we have initially identified. We will finalise our analysis and advice, working with the Ministry of Transport and Te Waihanga Infrastructure Commission, for your consideration and to support decisions to be taken.

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.

- Thank the team for the significant amount of work it has undertaken in a short period of time
- Seek clarification of the key areas where Board members had differing views on the recommended options
- Seek clarification on how the Establishment Unit has made changes to the business case following the feedback from the Assurance Review
- Seek more information about the level of intervention required to enable the ambitious urban growth scenario, including likely costs, and how much is directly attributable to the project
- Signal to the Mayor and Deputy Mayor that significant commitment will be required from Auckland Council and its Council Controlled Organisations to realise the benefits of the project
- Outline that you will be receiving advice from your officials to ensure you fully understand the robustness of the business case before decisions are made