



City Centre to Māngere Light Rail business case update

Reason for this briefing	We have been working with the NZ Transport Agency on their development of the Auckland City Centre to Māngere (CC2M) Light Rail business case. This briefing provide Ministers with an update on the business case, including outstanding issues.
Action required	Discuss this briefing with officials and agree that the outstanding issues around funding, governance and ownership need to be resolved before a Cabinet paper can be completed.
Deadline	9.30am, Monday 17 December 2018.
Reason for deadline	The Minister of Transport is meeting with transport officials at this time.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Karen Lyons	Director Auckland, Ministry of Transport	[REDACTED]	✓
[REDACTED]	Principal Advisor, Treasury	[REDACTED]	✓
[REDACTED]	Senior Adviser Investment, Ministry of Transport	[REDACTED]	

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MINISTER'S COMMENTS:

Date:	14 December 2018	Briefing number:	OC181054 / T2018/3689
Attention:	Hon Phil Twyford (Minister of Transport) Hon Grant Robertson (Minister of Finance)	Security level:	In Confidence

Ministers' office actions

- | | | |
|---------------------------------------|---|--|
| <input type="checkbox"/> Noted | <input type="checkbox"/> Seen | <input type="checkbox"/> Approved |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Referred to | |
| <input type="checkbox"/> Withdrawn | <input type="checkbox"/> Not seen by Minister | <input type="checkbox"/> Overtaken by events |

Executive Summary

1. Cabinet has asked the NZ Transport Agency to lead the development of a single stage business case for the Auckland City Centre to Māngere (CC2M) Light Rail project. As part of this process Cabinet agreed that [DEV-18-MIN-0059 refers]:

- the business case would be considered by the Government
- the Minister of Transport would report back to Cabinet on governance, funding and financing arrangements
- the NZ Transport Agency, in conjunction with the Ministry of Transport and the Treasury, would report back to the Minister of Finance and Minister of Transport on potential procurement options.

2. The costs of the project range from [REDACTED] in uninflated terms. The inflated costs range from [REDACTED]. This represents an increase from previous Auckland Transport estimates, due to more detailed cost assessments that account for factors like utility risks and more detail on the southern part of the route.

3. [REDACTED]
4. [REDACTED]

5. [REDACTED]

6. Cabinet will need to consider the business case before it can make funding decisions. [REDACTED] We have also advised the NZ Transport Agency that Cabinet approval will be required prior to any formal confirmation to the market on the preferred procurement strategy, due to Cabinet's direction to report back on funding and governance [REDACTED]

7. The outstanding issues that need to be resolved before Cabinet can consider the business case are:

- [REDACTED]
- **the strategic governance arrangements for the project** – the management case needs to set out effective governance arrangements that reflect the scale, complexity and broader outcomes sought for the project
- [REDACTED]

Recommendations

8. The recommendations are that you:

a) **discuss** this briefing with officials

Yes/~~No~~

Minister of Transport

Yes/No

Minister of Finance

b) **direct** officials to work with the NZ Transport Agency to resolve the outstanding issues around funding, governance and ownership before reporting back to Cabinet.

Yes/~~No~~

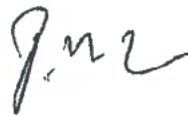
Minister of Transport

Yes/No

Minister of Finance



Karen Lyons
Director Auckland



David Taylor
Manager National Infrastructure Unit

MINISTER'S SIGNATURE:



Hon Phil Twyford
Minister of Transport

Hon Grant Robertson
Minister of Finance

DATE: 18.12.18

Purpose of report

9. This briefing provides you with an update on the development of the business case for the CC2M light rail project and seeks your agreement to the outstanding issues that need to be addressed prior to Cabinet consideration of the business case.

Background

10. On 2 May 2018 the Cabinet Economic Development Committee agreed [DEV-18-MIN-0059 refers]:

“that the New Zealand Transport Agency (The NZ Transport Agency) will lead the preparation of a single stage business case (including economic, financial and commercial aspects) for the city-to-airport link and all subsequent projects within the RTN programme, for consideration by the government”

11. Cabinet also noted that the Minister of Transport would report back to the Cabinet Economic Development Committee seeking approval of funding and governance arrangements, following advice from officials and Ministerial consultation.
12. We have been working with the NZ Transport Agency to support your report back to Cabinet. This has involved reviewing and providing feedback on the business case as it is being developed.

Decisions for Cabinet

Consideration of the business case

13. A significant amount of work from the NZ Transport Agency has gone into developing the business case. However, further work on funding and governance is needed before we can report back to Cabinet for it to consider the business case. We will continue to work with the NZ Transport Agency on these issues.
14. It is appropriate that Cabinet considers the business case before the NZ Transport Agency commences any procurement. [REDACTED] it is important that Cabinet has confidence in the overall case for the project before any components are progressed.

Funding and financing

15. [REDACTED]

16. [REDACTED]

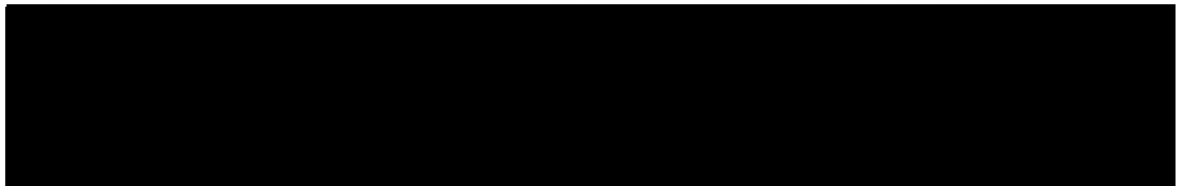
Update on the development of the business case

17. The comments in this paper reflect the draft components of the business case that have been shared with us by the NZ Transport Agency, and the discussions we have had with them over the last three months. We have broken down our comments based on the five component cases that make up a business case, namely:
- the strategic case, which makes the case for change
 - the economic case, which explores and evaluates options
 - the commercial case, which sets out the plan for the potential deal
 - the financial case, which ascertains affordability and funding requirements, and;
 - the management case, which outlines the proposed project management arrangements.

Strategic case

18. The strategic case strongly aligns with the commitments made by the Government and Auckland Council through the Government Policy Statement on land transport (GPS) 2018 and ATAP. It also reflects the outcomes sought by Auckland Council through its Auckland Plan and the Unitary Plan.
19. The strategic case makes a strong case for an improvement in access in the Māngere to City Centre corridor, and it is clear that light rail has been endorsed by the Government and Auckland Council as the preferred mode of rapid transit along this corridor.

20.



Next steps

21. We are not envisaging further work on the strategic case and are turning our attention to the commercial, financial and management cases in the New Year.

Economic case

22. Officials have provided technical feedback to the project team on the analysis that has gone into the economic case, mainly focused on confirming that the assumptions are evidence-based, ensuring there is no double-counting of benefits or costs, and centred on the national welfare impacts of the project. We are yet to have a further discussion with the NZ Transport Agency on how it has taken account of our feedback.
23. Central to the economic case is a cost-benefit analysis (CBA) of the project, which seeks to identify the net impacts on New Zealand as a whole. CBA should take into account all costs and benefits directly attributable to the project.
24. The CBA approach in the economic case mostly follows the standard procedures and values for calculating benefits and costs of transport projects set out in the NZ Transport Agency's Economic Evaluation Manual (EEM). This includes consideration of conventional transport benefits, such as travel time savings and reliability, as well as wider economic benefits such as the increased productivity arising from improved accessibility to jobs. Other economic

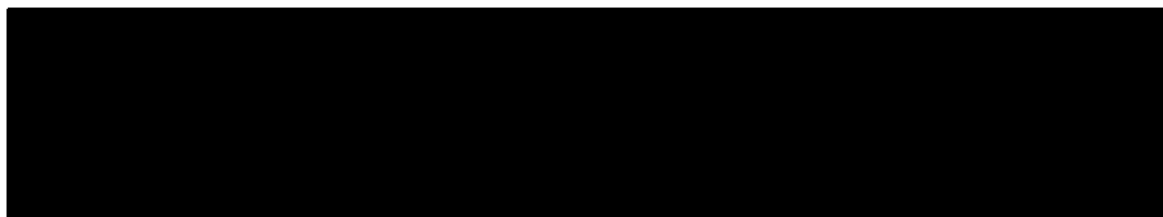
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benefits not traditionally covered by the EEM, including the dynamic effects of people moving to more productive jobs and social wellbeing benefits, have also been included. While there are no guidelines at present for evaluating these, this is one of the areas the review of the EEM is seeking to address.

25. These wider benefits are particularly relevant given the broad objectives of the project. The consideration of urban development and social objectives and benefits presents a challenge in undertaking an evidence-based CBA that quantifies all relevant aspects. This is also something we are expecting the review of the EEM to address.

26.

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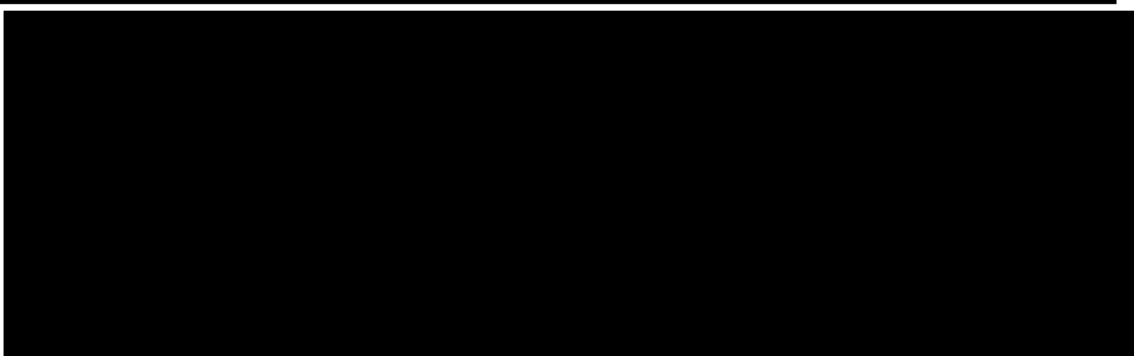


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28. The project's strong alignment with the priorities set out in the GPS means that it receives a "very high" priority assessment through the NZ Transport Agency's Investment Assessment Framework.

Next steps

29. We will discuss with the NZ Transport Agency how it is taking our feedback into account.
30. NZ Transport Agency intends to undertake more detailed traffic modelling of the local network effects, which will be used to update the economic case.

Commercial case

31. The commercial case has taken a robust and logical approach to developing the preferred packaging and procurement models for the project, making use of clear and consistent criteria.
32. The commercial case focuses on a suite of packaging and procurement model options on the assumption that NZ Transport Agency is the delivery entity, as per Cabinet's instruction.

You have received separate advice on a different approach to delivery and funding, as suggested by the NZ Super Fund and Caisse de dépôt et placement du Québec.

Packaging

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33. A long list of packaging options was assessed, ranging from [REDACTED]
34. The packaging analysis uses a robust set of criteria to assess the various options. This includes assessing the customer outcomes, value for money, interface management and flexibility associated with each option.

35. [REDACTED]

36. [REDACTED]

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Procurement model

37. The NZ Transport Agency has considered a number of models for procuring the packages described above.

38. [REDACTED]

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39. [REDACTED]

40. [REDACTED]

Next steps

41. The NZ Transport Agency is undertaking further detailed analysis of the options to determine the preferred procurement model for the main works package. This includes informally

engaging with the market on the project team's current thinking on procurement options, with the intention to investigate further and test with the market before reporting back to the Board for approval.

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42. We have advised the NZ Transport Agency that Ministerial or Cabinet approval will be required prior to any formal confirmation to the market on the preferred procurement strategy. This is due to Cabinet's previous decisions and [REDACTED]

Financial case

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43. The costs of the project range from [REDACTED] in uninflated terms. The inflated costs range from [REDACTED]

44. [REDACTED]

45. Since ATAP concluded, the NZ Transport Agency has commissioned more detailed cost assessments, including risk-based assessment to account for factors like utility risks. [REDACTED]

46. [REDACTED]

Next steps

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47. [REDACTED]

Management case

48. The management case provides a high level summary of the intended delivery arrangements for the project, noting that significant further work will be needed to develop these. [REDACTED]

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Governance and assurance

49. As Cabinet noted,

“the Rapid Transit Network governance arrangements are expected to reflect the standards and practices that have been developed for similar, significant projects in government and elsewhere, including clear decision rights and responsibilities, and independent governors who can work alongside decision-makers and bring a whole-of-project perspective;

and

a partnership approach with key organisations is envisaged for the delivery of the programme”.

50. We commissioned an independent review of an early version of the management case from Tregaskis Brown, a consultancy who has assisted with significant government infrastructure projects. [REDACTED]

51. While the NZ Transport Agency has been charged with funding, planning and delivery of the project, achieving the outcomes of this project will require other partners. In particular, realising the urban development objectives will be reliant on the NZ Transport Agency coordinating the actions of the parties with the relevant responsibilities (including Auckland Council and HLC). We would expect this to involve all parties agreeing to a shared vision for the project, with clear roles and responsibilities.

52. [REDACTED]

[REDACTED]

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[Redacted]

Next steps

57. The NZ Transport Agency is aware of the work needed on the management case, [Redacted]

[Redacted]

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Points to discuss with officials

58. We will be talking to you about the business case as it stands. In particular, we wish to discuss:

- your views on the areas of the business case we think need further work (funding and financing, governance arrangements [Redacted])
- in conjunction with the recommendations on OC180895, any initial thinking on the funding and financing challenges for the project and options for addressing these.

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