

Delivery Entity Transition

DRAFT

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Agenda

1. Transition principles
2. Transition activities
3. Transition progress, decisions, and funding commitments
4. Options for transition 'Shadow Delivery Entity'
5. Why and when transition to final DE?

This paper was prepared to inform the discussion on the 25 August hui on DE transition for the IBC.

Minor changes to this paper have been made to reflect discussion and input from the 25 August hui.

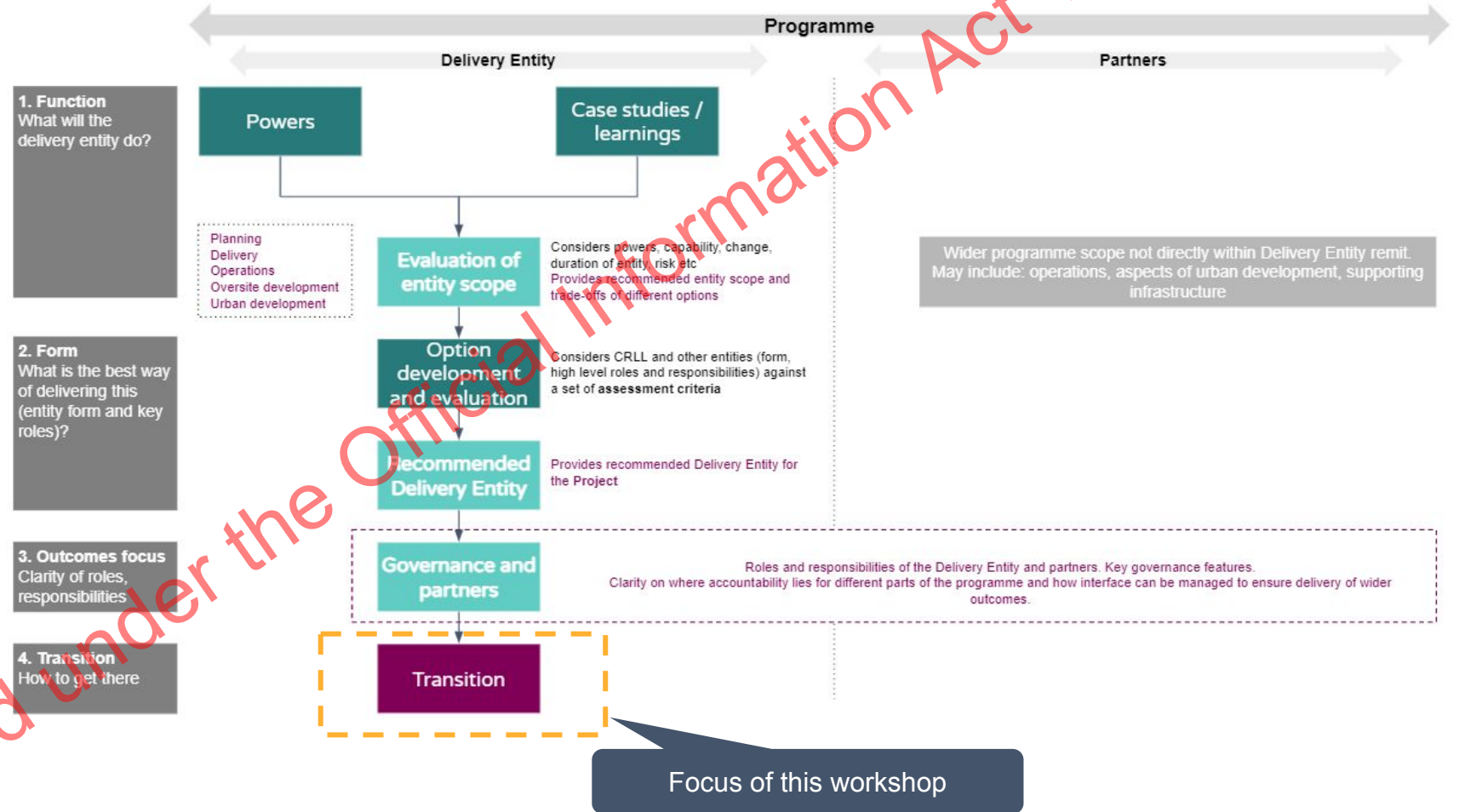
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Introduction

The purpose of this workshop is to discuss 'what next'. What is the best way to take this important project forward in a way that is robust and ensures momentum can be maintained?

This workshop explores:

- Principles for the next stage
- Overview of key transition activities
- Key decisions to be made over the period, funding commitments and what can be announced
- Options for the potential form of the transitional entity
- When transition to the final DE could occur (if required).



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Transition overview

Transition is the process of changing from the current state (i.e. the Establishment Unit) to the future state (i.e. the Delivery Entity) – The transition period effectively ends when the Delivery Entity is finally stood-up and fully operational

Transition phase principles

- **Maintaining momentum** – continue to build on this important project, efficient to progress rather than re-start. Transition can't interfere with progress of the Project.
- **Maintain continuity** - provides comfort to mana whenua, stakeholders and the market and ensure social license isn't compromised. Continuity of capability ensures efficiency and drives ownership and accountability for decisions made during the transition stage into delivery.
- **Seamless transition** - elevate ALR brand and stand up "quietly in the background". No visible change from the outside.
- **Right capability and capacity** - to undertake activities needed. This includes human, financial and operational aspects (e.g. systems).
- **Clear accountability and responsibility** - clarity of who is responsible for what, appropriate oversight for scale of project, appropriate delegations and day-to-day operational autonomy to progress with clarity.
- **Partnership approach** - focus on whole-of-life, whole-of-government approach and sets the tone for the final Delivery Entity. Collaborative, trusting and open approach.
- **Adaptability to changing circumstances** - set targets for what we need to achieve but ensure flexibility to adjust as the solution develops.
- **Best for project** - to drive the best outcomes for Aucklanders and New Zealanders. This includes integration with the wider network and broader outcomes being sought by central and local government.

Approach adopted

What needs to happen next?

Key activities, milestones and decision points



How is it structured?

Options for form, capability and governance

Structure could be a '**shadow DE**' to ensure momentum, continuity and seamless transition.

Important to provide a stable environment to attract and retain people. Continuity of team (management and governance) from transition to final form will drive ownership and accountability for work and decision making.

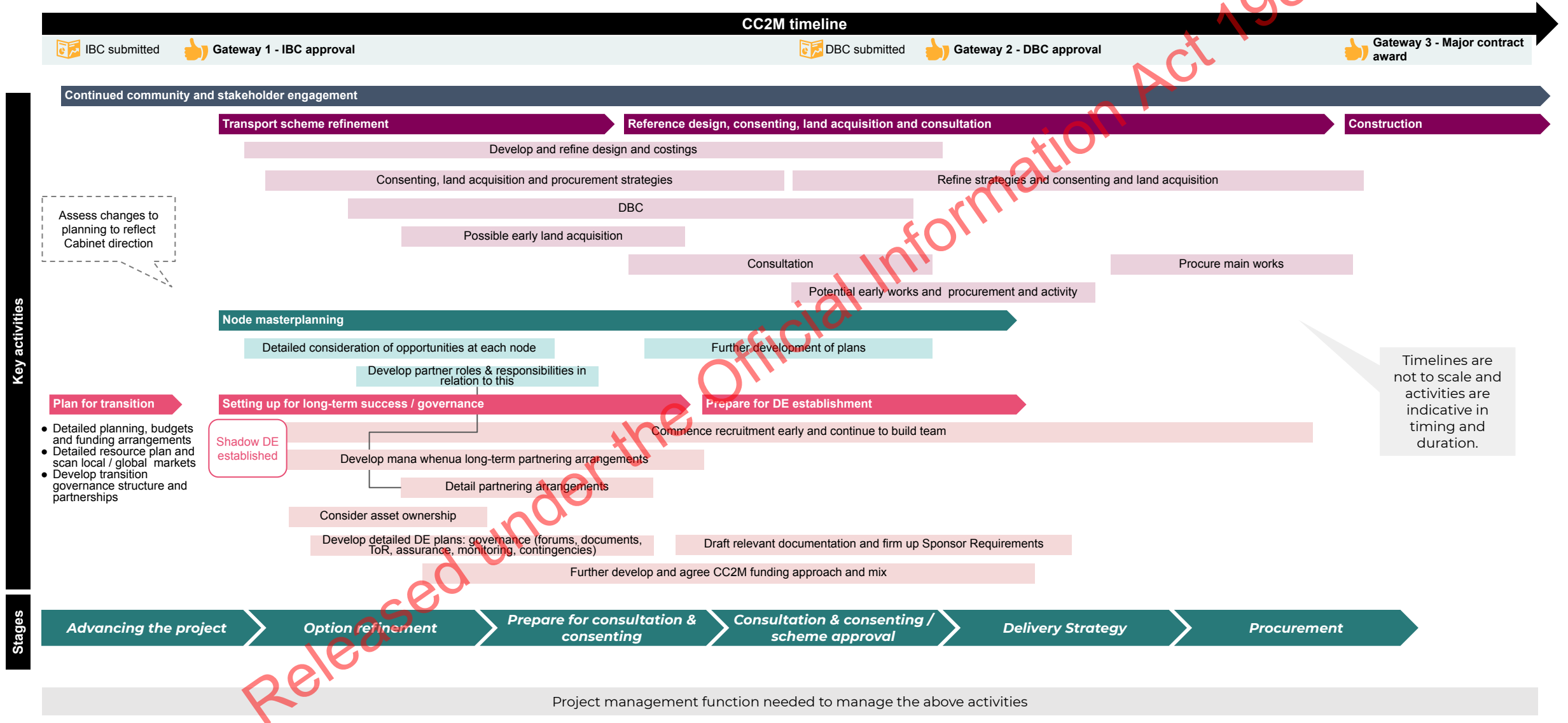
Focus on ensuring clear accountability and responsibility and a partnership approach can be built into this.

What happens in the next stage?

Following Cabinet decisions and direction, further progress can be made on work commenced during the IBC period. Progress on refining the transport solution should continue in parallel to other important activities. The purpose of this stage is to:

Continue community and stakeholder engagement	<ul style="list-style-type: none">• Continue to develop social licence with communities, wider stakeholders and the market.• Continue to update the community and ask for feedback as scheme designs develop (at DBC).
Gain greater certainty on scheme design, cost and schedule	<ul style="list-style-type: none">• Following guidance from Cabinet, further develop the route and mode designs and costings. With a view to agreeing a preferred route as soon as possible.• Develop consenting, land acquisition and procurement strategies to help better understand costs and risks and how to manage these.• Integration with urban development masterplanning given inherent physical overlap.• Ultimately this workstream will focus on better understanding what is being built, potential costs and risks and ensuring continued momentum on developing the solution for this complex transport scheme.
Greater clarity on urban development opportunities and each node and partner roles in developing this	<ul style="list-style-type: none">• Working assumptions have been made around the DE's role in TOD urban development to inform the IBC work and how it will work with partners to deliver this.• The opportunity will vary from node-to-node depending on the nature of the site and the land holdings at each node. The DE and partner roles in this will also depend on the outcomes being sought from each location (control of urban outcomes and / or capturing value), the degree of risk deemed acceptable and the availability of upfront capital to fund land acquisition and any development opportunity.• Combined masterplanning of the nodes is critical to understanding the opportunity and which partner will be responsible for what (who will acquire land, who will develop it etc). This will be presented to Sponsors and be reflected in ultimate governance and partnering arrangements.
Setting up for long-term success	<ul style="list-style-type: none">• Establish governance that will robustly govern this stage in the process and evolve into the ultimate governance bodies.• Building the shadow DE team to become the ultimate team to deliver the project. Consider local and international options, border restriction issues and potential need for a delivery partner.• Confirm arrangements for ultimate asset ownership and operations.• Develop governance, monitoring, assurance, contingency arrangements to reflect the project and associated risks as they become clearer as the solution is further developed.• Develop partnering agreements, terms, monitoring and accountability mechanisms as clarity is gained on TOD and land acquisition strategy.• Confirm need for a stand alone DE and the preferred form.• Develop funding processes for the project as it continues (sources, process, monitoring).• Develop clear stop/go and decision points to provide Sponsors with comfort over progress and outcome being sought.

Summary of key transition activities



Transition progress, decisions, and funding commitments

	Advancing the project	Option refinement	Prepare for consultation & consenting	Consultation & consenting / scheme approval	Delivery Strategy	Procurement
Key decisions	<ul style="list-style-type: none"> Approval to proceed with the next stage of the project Agree funding for DBC Agree structure to progress the project through the transition <p>Stop-Go point</p>	<ul style="list-style-type: none"> Appoint Project Director and DE Board Agree preferred scheme Agree extent of DE and partner involvement in urban development Confirm asset owner and operator 	<ul style="list-style-type: none"> Approve DBC Agree notional funding envelope and funding mix (both opex and capex) Agree early land acquisition Agree to progress to transition to a final DE <p>Stop-go point</p>	<ul style="list-style-type: none"> Funding and financing strategy agreed 	<ul style="list-style-type: none"> Agree procurement strategy 	<ul style="list-style-type: none"> Agree to award main works
Funding	<ul style="list-style-type: none"> Funding for option refinement stage and preparation for consultation and consenting No firm project spend commitment required 	<ul style="list-style-type: none"> Funding for activities to support public consultation and consenting Potential for some land acquisition funding No firm project spend commitment required 	<ul style="list-style-type: none"> Funding for activities to support public consultation and consenting Potential for some land acquisition funding No firm project spend commitment required 	<ul style="list-style-type: none"> Confirmation of funding for next phase (procurement phase up to investment decision and for land acquisition) No firm project spend commitment required 	<ul style="list-style-type: none"> Investment decision (subject to parameters) <p><i>At this point there will be a sufficient level of certainty to make an informed investment decision. This decision will be needed to ensure the market will participate in the procurement process.</i></p>	<ul style="list-style-type: none"> Confirm funding arrangements for scheme as contracted. BaU project delivery commences
Announcements	<ul style="list-style-type: none"> Key problems looking to solve, key benefits from IBC phase and EU engagement phase shared with the public - showcase benefit to Auckland and New Zealand Outline high-level options being considered and what is being progressed 	<ul style="list-style-type: none"> Share emerging thinking including benefits of preferred mode (travel times, emissions reductions etc) 	<ul style="list-style-type: none"> Key features of the preferred solution can be shared including vision for nodes and the corridor 	<ul style="list-style-type: none"> Formal full public announcement of solution, release concept designs 	<ul style="list-style-type: none"> Provide further detail including timing of specific sections of the alignment and more detailed masterplan visions 	<ul style="list-style-type: none"> Announcement of preferred partners and date shovel in the ground

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What is needed for a successful next stage?

- The current Establishment Unit has shown the significant benefits of bringing together representatives from relevant partner agencies and Ministries. The combined knowledge and perspectives has been invaluable in shaping options and refining this in a way that works for the various organisations involved.
- The Establishment Unit has benefited from the ability to use Waka Kotahi systems and processes to ensure rapid mobilisation to deliver the IBC in extremely tight timeframes over the past four months.
- The Establishment Unit Board has been helpful to provide insights, understanding of local and central government needs and to challenge the Establishment Unit as the options have been developed.
- The next stage of the project is critical to making sure that there is clarity on the project, on the programme and the roles of all the players in delivering this and the outcomes.
- As the project moves into the next stage, the current structure needs to evolve to a structure (the Shadow DE) that:
 - Continues to allow for collaboration and bringing together the best people from within existing organisations
 - Provides greater certainty and ability to get these people to commit to the project, as well as to recruit new capability and capacity required to move the project forward
 - Provides separation from agencies' BaU
 - Can continue to develop its own identity to take the project forward
 - Can be lifted into an ultimate Delivery Entity with no / limited disruption at the appropriate point in time
 - Flexibility to adapt as the solution is developed
 - A Board that is independent of any single organisation and has expertise in planning and delivering mega projects
 - Ability for Sponsors / Ministers to continue to oversee the solution as it develops
 - Clarity of objectives, expectations and decision making (who approves what). This requires clear terms of reference.

Transition phase risks that need to be managed

- Lack of experience at a team, management or governance level to understand importance of this stage and how actions now limit future risks
- Inability to attract or retain talent
- Lack of collaboration:
 - Lack of whole-of-life focus
 - Limited focus on UD outcomes
- Unrealistic timeframes
- Lack of clarity over outcomes
- Partners cannot agree on a solution
- No clear decision maker - who makes what decisions
- Inefficient stakeholder engagement / social licence
- Distraction from progressing the core transport solution with focus on wider programme and / or entity establishment

Options considered for a shadow DE

Structure and Considerations	Dedicated entity	Dedicated Unit		
	<ul style="list-style-type: none"> • New entity established to progress CC2M. • Assumed it is a Waka Kotahi subsidiary (WK Sub) although other options are possible. • Board members are approved by the Crown and appointed with a view to becoming longer term directors. • Board accountable to Ministers although some Waka Kotahi oversight would remain. • Entity employs people directly and is contractual counterparty. <ul style="list-style-type: none"> • May take some time to establish, albeit WK Sub would not be overly complex or time consuming to establish. • Easier to 'lift and shift' to ultimate DE as all employees and contracts would be with the entity. • Provides a contractual counterparty if early works or early land acquisition are required. • Perception of greater project certainty. • May support recruitment and commitment to the project. 	<ul style="list-style-type: none"> • Similar to the existing Establishment Unit, a dedicated unit with roles and direction provided through specific Terms of Reference (ToR) with Ministers • This is an unincorporated group of people brought together to deliver on a specific purpose • Even if the Establishment Unit is preferred to continue as the shadow DE, a new ToR would be required as the EU will have 'completed' initial tasks including the IBC • Project Board members are appointed by Ministers and have a direct line to Ministers • Agency housing the unit would provide back office services • Unit would have its own 'brand', separate to agency. <ul style="list-style-type: none"> • Maintains momentum - no distraction with setting something new up, low complexity and short timeframe to establish. • Unit Project Board can have direct line to Ministers which supports some autonomy. • May have implications on ability to recruit calibre of directors and key management team needed in the absence of clear mandate / certainty for the project. • Complexity around suitability of the structure where contracts, land acquisition, or significant expenditure are required. • Would likely be suitable for a shorter period of time than a more formalised entity structure. Transition to the final DE may need to occur at an earlier stage when there is less certainty around the project, DE scope and roles of partners. • Would require additional work at point of transition to ultimate DE. 		
Options considered	Other entity (refer p20)	WK Sub (refer p19)	Unit housed in Waka Kotahi (next iteration of EU) (refer p18)	Unit housed in MoT <small>Note could alternatively be housed in MHUD, Tsy or CIP</small>
	<i>Refer p 15 for considerations on housing the shadow DE in Waka Kotahi</i>			<small>We understand that this was looked at in 2020 and discounted as an option</small>

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Summary of key considerations

	WK Sub	Unit housed in Waka Kotahi
Description	New Waka Kotahi subsidiary with entity board. Waka Kotahi board would legally maintain some oversight and accountability.	Continuation (next iteration) of the current Establishment Unit, with a new project board in line with an updated ToR from Ministers.
Maintaining momentum	Given this remains within the Waka Kotahi umbrella, limited impact on momentum.	Establishment Unit continues as it has done over the past four months maintaining momentum and continuity.
Contractual counterparty	Subsidiary would be contractual counterparty and better suited to take on early works contracts and / or any other major financial commitments.	Unit better suited for Advisory work and limited capacity to contract re early works contracts or land acquisition.
Governance / autonomy considerations	WK Sub Board will be accountable to Ministers, however, Waka Kotahi will retain some oversight responsibility.	ToR dictates an independent project board, reporting to Ministers, with some limited oversight responsibility by Waka Kotahi board (as per current arrangements).
Capability and capacity	Perceived independence and greater perceived certainty of a subsidiary compared to a unit may support ability to attract talent and board members.	Potential impact to attract new board members with perceived limited independence from Waka Kotahi or certainty / commitment to the project.
Timing and 'smoothness' of transition to ultimate DE	Better 'lift and shift' potential than a unit and is able to wait until greater project certainty to transition.	Transition will likely occur sooner than subsidiary as project risk profile changes and will require transfer / novation of contracts, etc.

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Key trade-offs

There are trade-offs to be considered in determining the preferred option for the Shadow DE

Key trade-offs between the options relate to:

- Maintaining momentum: Ease / speed of continuing to progress the project
- Ease / smoothness of later transition to ultimate DE (lift and shift)
- Degree of certainty required before transition to ultimate DE
- Certainty and stability that can be provided to attract high calibre board members and management
- Crown oversight preferences
- Degree of Shadow DE autonomy

Ultimately the appropriate form of a shadow DE and the right time to transition in and out of this will depend on preferences in relation to the above trade-offs and the decisions that need to be made during the period.

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Key features of the transition stage

Regardless of which option is selected, the following are assumed to be core to the success of this stage.

- Bringing together of partner capability to further refine the transport and urban aspects of the solution. This involves having dedicated team members from AT, Waka Kotahi, Kāinga Ora and Auckland Council in the unit / entity.
- Governance will seek to mirror the key governance principles as set out in the 'Governance and Partner Roles' report
 - Sponsors should represent a mix of local and national interests and provide both transport and urban focus. Auckland Council, MoT, MoF and MHUD are proposed to be Sponsors.
 - Sponsors are the ultimate decision makers on the outcomes being sought, the nature and scope of the project. They have oversight and monitoring responsibility. They have a dual role to:
 - collectively provide direction, oversight and monitoring to the Delivery Entity; and
 - individually to provide strategic direction and funding to their relevant agencies/subsidiaries to partner with the Delivery Entity in achieving the objectives (e.g. to Waka Kotahi, Kāinga Ora, AT, Panuku).
 - A partnership approach is adopted.
 - The unit / entity will have a skills-based operationally independent Board. The make-up of this Board will evolve over the transition period and may require continuation of some of the current EU Board members for a period of time, particularly to ensure a continued focus on urban development outcomes is considered.
 - A Sponsors forum would provide a single point of oversight and be the channel of communication between the Delivery Entity and Sponsors.
 - A Partner Reference Group would also be established based on the current Establishment Unit Board. This will be forum for Partners and DE to come together and provide timely advice and guidance

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Why transition from a shadow DE and when?

As the risk profile changes and the project matures, it may drive the need for a different structure to take the project through delivery.

As work progresses over the next stage, the risk profile and nature of decision making changes from more strategic (Ministerial / Sponsor) to operational (project focused) which shifts the balance from Sponsor direction to Board management of risks and the project.

International best practice has shown the benefit of discrete standalone entities, separate from shareholders / Sponsors to deliver mega-projects.

The timing of any such shift from the Shadow DE to a final DE could align to the following activities / progress:

- **Key Board and management appointments made and embedded** for a period of time to provide Sponsors with comfort around the capability and process for continue to progress the project and manage its risks
- **Further progress and certainty around the technical solution**, costings and that the project is likely to go ahead / project maturity
- **Clarity and confirmation of partner roles and DE scope in relation to TOD urban development**
- Clarity on **governance and assurance processes** to provide Sponsors comfort around project and risk management
- **Prior to major contractual, procurement and funding decisions** made to ensure the Board and management take ownership of these decisions

Ultimately, depending on the structure of the Shadow DE and the eventual scope of the project (scale, complexity, extent of urban development etc) a decision will need to be made as to whether to remain in the form of the Shadow DE or transfer to an alternative entity form.

Transition phase risks

- Lack of experience at a team, management or governance level to understand importance of this stage and how actions now limit future risks
- Inability to attract or retain talent
- Lack of collaboration:
 - Lack of whole-of-life focus
 - Limited focus on UD outcomes
- Political pressure to progress quickly
- Lack of clarity over outcomes
- Partners cannot agree on a solution
- No clear decision maker
- Inefficient stakeholder engagement / social licence

Delivery phase risks

- Time and cost
- Integration risk (systems / operations)
- Interface risk between packages
- Social licence - disruption
- Health & safety
- Urban development and mode-shift outcomes not achieved
- Future stages compromised

The exact timing of transfer to DE would likely differ from a WK/MoT Unit to a WK Sub option

Last two can be mitigated through integrated planning and whole-of-programme approach in the transition phase



Indicative timeframe

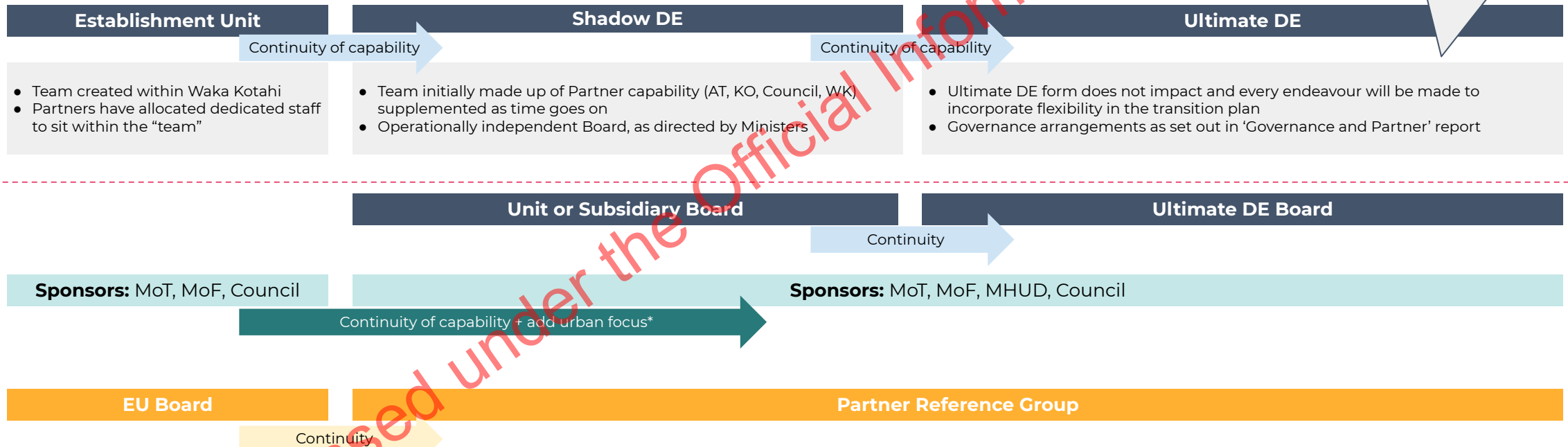
Structure: evolution over time

Intention and preference for shadow DE governance to mirror ultimate DE governance and for involvement of key agencies / departments / entities throughout to ensure whole-of-life, whole-of-network, urban development integrated planning and delivery.

Mana Whenua and Community Partnership

"ALR Group" Brand - consistent entity identity

Continuity noting that skills and composition will need to evolve over different project stages.



*option for MHUD to act as Sponsor during planning stages to focus on integrated planning but drop off from DE Sponsorship at delivery

Next steps

In the 25 August hui it was agreed that further work would be required in relation to:

- developing the programme pathway to get an investment decision. This covers activities and decisions needed along the way.
- funding required to get to this point.

Based on the above, confirm a shadow DE based on the decisions required, and who will make them.

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