



GROUP

To: Project Sponsors
From: Auckland Light Rail Group
CC: Minister Woods
Meeting date: 20 September 2021

A. Purpose

1. This paper is to provide information to sponsors for the third meeting with the Auckland Light Rail Group. We have a further meeting scheduled for 4 October, where we will present the overall findings of our work.

B. Background

2. Appendix A contains the strategic context and a recap on previous sponsors' meetings.
3. Sponsors have requested that this meeting should include:
 - A list of the expected recommendations that we will be putting forward from the business case and associated work – this should cover:
 - decisions for Cabinet consideration in November
 - decision pathway post November that will be needed to progress the project (to ensure this is signposted to Cabinet, and the appropriate Ministerial delegations can be put in place)
 - an indication of the Board's position on some of the key issues including on scope of the project, route options and mode choices, and delivery entity recommendations
 - any feedback from the assurance panel on the key matters for decisions, and/or should be highlighted to Sponsors

4. In this paper, we cover:

- The scope of the project – route options and mode choices
- How urban form opportunities inform the choice of route and mode – and the range of levers that would need to be pulled in order to achieve the urban objectives
- Delivery entity and next phases of the project
- Funding and value capture
- Media
- Assurance

5. Appendix B is a list of the nature of the recommendations that the Establishment Unit Board will be putting forward to Sponsors from the business case and associated work, to inform Cabinet decisions.

6. This paper presents the emerging views of the Establishment Unit. It is a high level and we do not provide all the evidence and analysis to support our preliminary guidance. The recommendations have been discussed with the ALR Group Board, but the Board is yet to reach its final decisions. For this reason, the emerging views may be refined, or change, as we progress to submission of the business case and final report of the Independent Chair for the Sponsors' meeting on 4 October.

C. Recommendations

7. We recommend that the Sponsors:

- **Note** the preliminary preferred option for *route and mode*;
- **Note** the *urban context* and the potential levers, including policy changes and complementary investments and initiatives to be implemented by partners, including Kāinga Ora, Auckland Council, Eke Panuku, iwi and the private sector.
- **Note** that decision-makers will need to understand Council's willingness to use tools available to it to recover the costs for enabling infrastructure for urban development within the wider CCM2 catchment.
- On the *Delivery Entity*:
 - **Note** that the Board will consider two possible options for the Delivery Entity, either Waka Kotahi (potentially through a subsidiary), or a new Schedule 4A company. In any case, we will recommend that

flexibility is maintained around the final form and scope of the Delivery Entity.

- **Note** that for both potential options, partnership will be at the heart of the delivery model, with clear roles for Auckland Transport (likely to own and operate the asset) and Kāinga Ora, Auckland Council, Eke Panuku, iwi and the private sector.
- **Note** that in order to maintain project momentum, we will likely recommend that the project is taken forward via an operating unit, based on the Establishment Unit and housed in Waka Kotahi, with updated governance arrangements to ensure the necessary level of oversight required by Ministers, Auckland Council and mana whenua.
- **Note** the nature of the decisions Cabinet will need to make in November.
- **Note** that we will provide funding and value capture advice to inform decisions by Cabinet.
- **Note** the media update.
- **Note** the assurance arrangements and early insights from the assurance panel (comprising overseas experts).

D. Scope of the Project – route options and mode choices

Objectives and weighting

8. Sponsors have previously endorsed the investment objectives and weighting for the project.

Unlocking significant urban development potential, supporting a quality compact urban form and enabling integrated and healthy communities.	40%
A rapid transit service that: - Is attractive, reliable, frequent, safe and equitable - Is integrated with the current and future active and public transport network - Improves access to employment, education and other opportunities.	40%
A transport intervention that embeds sustainable practice and reduces Auckland’s carbon footprint.	20%

Options

9. At our last meeting, we advised that the final short list options for assessment were:
 - Light Rail option (Sandringham or Dominion)
 - Light Metro option (Sandringham or Dominion)
 - Hybrid mode option (Light Metro on Sandringham with Light Rail in Onehunga and Māngere).

10. This list was narrowed to three options:
 - Option 1B – Dominion Road Light Rail
 - Option 2A – Sandringham Road Light Metro
 - Option 3 – Light Rail, segregated (tunnel) from Wynyard to Mt Roskill (Hybrid)

11. All three options deliver the investment objectives sought. This means that we can, while still identifying a preference, offer sponsors alternative options differentiated by the desired levels of affordability and city shaping opportunities. Overall the Light Metro option performs best against the investment objectives, followed closely by Hybrid, and then Light Rail.

12. The key trade offs (other than cost) include:
 - Scale of urban growth - (Light Metro and Hybrid deliver more growth than Light Rail, particularly when supported by implementing a range of interventions)
 - Disruption - (Light Rail would result in disruption along the whole route, Light Metro disruption would be localised at stations and tunnel portals, with Hybrid being a mix, but closer to Light Metro)
 - Life span - (Light Rail capacity possibly reached as early as 40 years, Hybrid with capacity for 60+ years and Light Metro with capacity for 80+ years).
 - Ability to integrate into a future rapid transit network - (surface light rail could not be extended to the North Shore because of capacity constraints – albeit a transfer could be made from a future North Shore light metro tunnel at Wynward or Aotea station)

13. Capital cost ranges for the 3 options are set out in the table below. These are early estimates and we continue to refine the costs, as we complete the business case. While the costs differ considerably our analysis indicates the benefits are commensurate to the costs so the draft BCRs end up broadly similar and are not a significant differentiator.

14. As noted, each of the options delivers the investment objectives and benefits increase commensurate with costs. While there are a number of trade-offs to consider, the decision for Sponsors, and in turn Cabinet, is essentially one of affordability versus aspiration.
15. Following a discussion of the Board on 14 September, it is likely that the Board will recommend the Hybrid option be taken forward to the detailed business case, noting Light Rail remains a good option, if decision-makers do not want commit to a very high level of expenditure.
16. The detail of the trade-offs involved when making decisions between mode and route will be made clear in our advice, allowing Sponsors to make choices and agree a preferred way forward.
17. In the interim the Unit and Board would appreciate any initial steer on affordability versus aspiration based on the costs outlined above.

E. Urban

Context

18. The Cabinet paper¹ asked what city shaping function CC2M should serve, what level of commitment can be given to delivering on the urban development opportunities unlocked by CC2M and what level of complexity the Government and stakeholders are prepared for.
19. At the last meeting, sponsors:
 - Advised that their aspiration for urban development and growth in the corridor is high; and
 - Noted that interventions would need to be implemented through a range of initiatives, which could include collaboration across multiple agencies and organisations.

¹ Paragraphs 44.1, 44.3 and 44.4

20. At its meeting on 2 September 2021, the Auckland Council Planning Committee passed a number of recommendations, demonstrating support for the project (**see separate attachment**). These are confidential until after Cabinet's decision. Broadly, Council is supportive of the project, understands the benefits, agrees in principle to the further investigate the range of urban interventions available, including the application of a more prescriptive planning approach to achieve greater levels of intensification, delivery of affordable housing, a quality-urban form, and goals to give effect to Te Tāruke-ā-Tāwhiri Auckland's climate plan. The Council endorsed a partnering approach to the delivery of Auckland Light Rail where Council and Crown are partners, but the precise nature of Auckland Council's role in the project going forward was not discussed.

The choice of route and mode will be informed by the scale, mix and potential outcomes of urban development opportunities in the corridor, but further interventions will be required to deliver on those opportunities.

21. Investment in light rail alone will not fully optimise the urban and transport objectives and therefore additional urban transformation of the current built form will be critical to delivering against the wider project objectives.
22. The transformation will include changing the current residential and commercial land use in terms of densities, mix of uses and urban form alongside improvements in urban quality necessary to enable integrated and healthy communities. Done well, this will have a substantial positive impact on shaping the urban form of the city including its ability to reach its climate change goals. Policy changes allowing greater heights and densities will not however be enough to ensure these outcomes are achieved and may not optimise the potential benefits of a more synergistic approach between the project and the Crown Auckland Housing Program.
23. Whilst the business case only includes the costs associated with the proposed transport project, our advice will canvass the range of urban levers that could be applied in order to deliver the full urban and transport benefits, beyond the designation.
24. These levers could include a range of policy changes and complementary investments and initiatives implemented by partners including Kāinga Ora, Auckland Council, Eke Panuku, iwi and the private sector.
25. Decision-makers will need to understand Council's willingness to use tools available to it to recover the costs for enabling infrastructure for the urban development.

26. To support decision-makers, our advice will include analysis of what process, intervention frameworks and levers would need to be applied and by whom. Examples include:

- **All of government partnership** as the leader for urban development: Establish a framework for commercial partnership with Kāinga Ora and Eke Panuku, including the utilisation of the Crown and Council property to unlock and deliver urban development opportunities (see delivery entity section below on recommended governance and project phasing)
- Establish **partnership arrangements with Auckland Council** for the development of a corridor master plan, engagement plans and coordinating and establishing infrastructure, amenity upgrade and placemaking investment plans to support intensification and enhance urban quality
- Maximise **iwi and private sector investment**: establish a framework and process to develop critical early transit oriented development precinct plans, including the potential role of iwi commercial interests and the private sector
- **Planning and policy responses**: provide a planning framework that supports the desired urban development outcomes
- **Partnership and procurement that creates housing choice and improves housing affordability**

F. Delivery entity, governance and next phases of the project

Delivery Entity

27. CC2M is large, complex project and the first of its kind in New Zealand. The project has a broad set of transport and urban outcomes including high expectations of what it will deliver and how it will work with others. Deciding on the right structure for planning and delivering the Project is important to ensure it is successfully delivered within the target timetable. The key variable is the extent to which urban outcomes will be delivered (vs enabled) by the Delivery Entity, which is a question to be determined once detailed planning has been undertaken.
28. Our assessment finds that CC2M could be delivered by either an existing or a new entity. Each of the options considered has benefits and limitations and there will be significant challenges to capability and capacity under any of the options considered, particularly as the CC2M develops.
29. An existing entity is more efficient to establish as systems, processes, and some existing capability, can be leveraged. It would, however, require significant changes to render an existing entity fit-for-purpose to deliver CC2M. Risk would remain

around the ability of these entities to manage and govern CC2M alongside existing activities.

30. A new entity does require time and cost to establish, however, it can be created to suit CC2M's exact needs, functions and to provide the balance of operational autonomy and Ministerial / Sponsor oversight needed. It can be flexible to adapt as required.
31. The Delivery Entity recommendations were discussed at the Board meeting on 14 September. The Board has asked for a further discussion at its meeting on 28 September, based on the analysis of two possible options: project to be taken forward by Waka Kotahi (potentially through a subsidiary), or a new Schedule 4A company. Partnership will be at the heart of any delivery model, with clear roles for Auckland Transport (likely to own and operate the asset) and Kāinga Ora, Auckland Council, Eke Panuku, iwi and the private sector.
32. Either way, we will likely recommend that flexibility is maintained around the final form and scope of the Delivery Entity. The detailed business case (DBC) stage will provide further clarity on route and mode, urban development opportunities, and the role of the Delivery Entity and its partners.
33. This will provide Sponsors with the opportunity to reassess the form of the Delivery Entity to ensure the right entity is used to deliver CCM2.

Governance

34. Governance is critical. We are likely to recommend that sponsors for the next phase should continue to act as in this role with the addition of the Minister of Housing and mana whenua representation.
35. The Board has asked the unit to provide more detail on the proposed governance for the next phase of the project to ensure a clear line of sight between decision-makers and the project and clarity as to where decisions/ accountability sit.
36. A skills-based project board will be required, noting that there are risks related to governance capacity and capability.
37. The development of the governance arrangements going forward will be led by the Crown, as will any legal agreements of which the Crown/Sponsors are partners. Sponsors will need to be satisfied that the preferred way forward achieves the right level of ministerial influence, and manages risk to those accountable for the delivery of the project and its outcomes. We are working closely with Treasury and the Ministry of Transport to ensure alignment on the decisions that will need to be taken

by the Crown and the decisions that can be taken to ensure that the project maintains momentum.

Next phases of the project

38. The history of this project is that there have been intensive periods of work, with long pauses for critical decisions to be made to enable the next phase to commence. When this occurs, there is an inevitable delay to programme, critical resources are lost, there is a lag for teams to be re-established and resourced appropriately and costs increase. This can be avoided if we understand and plan for the next phases of the project.
39. We are working closely with the Ministry of Transport and Treasury on the critical decisions that will need to be taken by Cabinet at the end of the year to enable the project to move forward, as well as signposting future decisions and where those should sit.
40. The imperative of maintaining project momentum and the recognition that final decisions around the form and scope of the Delivery Entity are not finalised, mean that we propose an operating unit be established based on the existing Establishment Unit for the next phase, and that it should continue to be housed within Waka Kotahi (either as a unit or subsidiary).
41. The following (non-exhaustive) list sets out the focus areas for the next 12 – 15 months:
 - Urban Form – Commercial Development and Partnership Strategy
 - Corridor master and station precinct planning
 - Scheme design/technical tenders to the market (also to support urban form and master planning above)
 - Developing partnering roles, responsibilities and agreements
 - Continued partnership with Mana Whenua
 - Consenting and designations
 - Property acquisitions
 - Procurement strategy and engagement
 - Continued community and stakeholder engagement
 - Progression of the detailed business case
 - Organisation Design - People/Systems and Processes

42. The governance of the next phase is critical, reflecting the nature and significance of the strategic and policy decisions needing to be made in the coming months, including in relation to funding, urban development scope, land acquisition, final ownership and investment decisions. It is therefore vital that whatever entity takes forward the next phase, the appropriate governance arrangements are in place to enable the necessary level of oversight required by Ministers, Auckland Council and mana whenua. This will need to be agreed by Cabinet in November.
43. The transition unit governance structure will be determined by Ministers. We recommend it should have an operationally independent project Board and a forum for partner involvement. Resourcing will be drawn primarily from the existing Establishment Unit supplemented by specialist external advisors. Funding and back-office services will continue to be provided by Waka Kotahi. We note that Sponsors have previously provided guidance that they wish to make announcements around governance and entity structure sooner rather than later – we think this proposal will allow this to happen.
44. The recommendation to establish the operational unit within Waka Kotahi is based on their existing role in the CC2M project, as well as their responsibilities as the national transport agency. In addition, Waka Kotahi has significant experience delivering large, multi-stakeholder capital transport projects in New Zealand, and comprehensive relationships with agencies and the community that can be leveraged.
45. A decision whether the project should remain part of Waka Kotahi, or transition to a schedule 4A company, will likely occur at a point in time when there is sufficient certainty around the Project, roles and responsibilities, and governance required for key decisions and potential contracts to be entered into. At this stage there is no absolute target date for this to occur although in working with the Ministry of Transport and Treasury, a date of no later than 23 March 2023 has been suggested.
46. In November, Cabinet will need to decide:
- A **future work programme** for the next phase of the project, the key activities involved, the associated decisions needed during this programme (based on the unit's recommendations)
 - The optimal **governance and partnership arrangements**, recognising that many decisions in the next phase will sit with the Crown and will evolve over time as the project transitions from detailed planning, through funding decisions to delivery and construction

- The **mandate** that is given to the operational unit that is responsible for taking forward a programme of work in the immediate next phase
- The **funding** that is needed to deliver this next phase, and the source of that funding (whilst this will not include funding decisions for the delivery of the project, which will come at a future stage, the project will need certainty of funding over a number of years so that it can make contractual commitments)
- The best **form** for the operational unit to take in the next phase.

G. Funding and value capture

47. Our last report to sponsors outlined a summary of the approach to the funding and value capture work and some early considerations. We will receive further reports on both funding and value capture, which will inform the final advice.
48. We are progressing additional advice into the funding and value capture options to support the project. This considers the levers that currently exist or could be available to support the project. Ultimately there will need to be choices made by Sponsors on the level of Crown versus wider contributions to both the capital and operating costs for the project. This advice will support Treasury and the Ministry of Transport in their advice on funding and potential value capture tools.

H. Media

49. We are proposing three proactive media articles in the coming weeks. The first article outlines why trackless trams, heavy rail and buses did not progress as modes during the long list assessment and through to the short list. The second article will focus on urban form and trade-offs around greater intensification. The third article will feature an international case study and will focus on transit oriented developments. We are aiming to feature this in the Infrastructure supplement in the NZ Herald.

I. Assurance

50. The ALR Group has an internal and external assurance framework currently containing four different sets of activities targeting different aspects of the work with the project:
 - Treasury Gateway Review – scheduled to take place week commencing 18 October, with the Gateway Report 22 October.

- Assurance panel, comprising 2 independent overseas experts (Anna Chau² and Frank Allen³)
- An internal assurance group, comprising members who are independent from workstream leads, which has been established to ratify key assumptions and decisions.
- A peer review regime within the technical workstreams, to verify technical reports. This has included the use of Treasury clinics for the business case workstream.

51. The Assurance Panel attended the Board meeting on 24th August and provided some preliminary insights. They will attend a special Board meeting on 21st September, following a review of key documents. Their initial insights included three strategic considerations for this phase of the project:

- The importance of problem/ opportunity definition – this is a critical stage of project planning and a clear statement of problem or opportunity definition. Transport/urban or both? This will help drive options, the cost profile, and set of beneficiaries. Also need to look at opportunities. Examples where lack of problem definition caused failure are in Kuala Lumpur.
- Vision of the future light rail project as part of the overall transport network - regardless of size, even if single corridor, the project needs to be integrated with the transport network. Most successful schemes have been well-integrated. Good example is Manchester. What is the compelling view of future network to sell to the community? Having cohesion and commitment to future network is critical.
- Construction disruption and stakeholder consultation - disruption has been the Achilles heel of many projects. For example, in Edinburgh, they dug up the high street and then did not proceed; Sydney has had major issues and still faces opposition. Made worse from delays caused by utility relocations. Deal with these issues early – both physical and stakeholder issues. The best projects have involved extensive consultation/ engagement and management throughout, even after project goes into operation.

² With a career spanning 30 years, Anna is a recognised leading transport economist and a commercial analyst in investment planning and transactional support. Anna is also an experienced senior executive leader with significant government experience, including secondments. She has worked for the public sector in Australia and the UK, global professional services firms, and a major transport group on the FTSE250 in the UK. Anna has worked across the infrastructure sector, including transport, health, the environment (including water, waste), law enforcement and justice, energy and IT. In transport, Anna has extensive experience of all modes in both passenger and freight services, while specialising in passenger rail (including light rail), road and active transport projects. Anna has been involved in ten different light rail schemes around the world, including Auckland LRT Study (2013), Melbourne Trams, Manchester Light Rail (during various stages), Sydney Light Rail CBD and South East extensions, ACT Light Rail Stage1, and Gold Coast Light Rail Stage 3A.

³ Irish Rail/ Iarnród Éireann - Chairperson since 2017, Board Member and Audit Committee Chair (2013-2017). Railway Procurement Agency (RPA), Dublin (2002-2012) - Chief Executive. As first Chief Executive of RPA, he led the planning, design and operation of Dublin Light Rail (Luas) and other transport projects in partnership with the private sector.

Appendix A

Strategic context

52. In March, Cabinet decided to progress work on the City Centre to Māngere project via an “Establishment Unit”, which is a joint endeavour between Waka Kotahi, Auckland Transport, Auckland Council, Kāinga Ora and the Ministry of Transport.
53. The Establishment Unit was tasked with progressing the following work⁴ over a six month period:
- Completing business case work to inform future advice to Cabinet;
 - Undertaking initial iwi, stakeholder and community engagement;
 - Preparing advice on the form and governance arrangements for the delivery entity for the project;
 - Preparing advice on the options to take the project forward, including mode, alignment, and decision gateways; and
 - Supporting and informing, as required, policy work undertaken by policy agencies.
54. Sponsors for this project are the Minister of Transport, the Minister of Finance, the Mayor of Auckland and the Deputy Mayor of Auckland. The Minister of Housing must also be consulted on significant decisions. A copy of this paper will be provided to the Minister of Housing and the Ministry of Housing and Urban Development has had an opportunity to review this paper, alongside the Ministry of Transport, Treasury and Council officials.
55. The role of the Sponsors⁵ includes:
- Setting the strategic direction of the Establishment Unit Board, including on the scope of the business case outputs, including what key decision criteria will be included, such as mode, alignment, funding and financing options, so that the Establishment Unit Board has appropriate guidance on the project sponsors’ objectives and interests sufficient to allow the Establishment Unit to undertake its work;
 - Being regularly informed of progress with the work and provide direction on key strategic, policy or systems matters as required;
 - Maintaining political cooperation between central government and Auckland Council with regard to the project; and
 - With the benefit of the advice from the Independent Chair, enabling Ministers to take back to Cabinet proposed decisions to inform the next stage.

⁴ CAB-20-MIN-0300

⁵ Terms of Reference

Recap on previous sponsors' meetings

56. Sponsors have met twice and we have discussed:

- The role of the project outcomes and investment objectives as the basis for supporting future decision making on the project, alongside the wider policy context
- The scope of the business case and additional advice that the Establishment Unit will prepare to inform decisions by Cabinet at the end of the year. We provided a "Milestones Report" dated 5 July, to provide further detail to Sponsors on the scope of the work
- The Stakeholder engagement plan and the Mana Whenua engagement plan, both of which were endorsed
- The proposed scope of the delivery entity advice
- *Urban form and development* including the possible scale of urban transformation in the corridor; urban interventions to achieve the urban transformation; and recognition that interventions will need to be implemented through a range of initiatives which could include collaboration across multiple agencies and organisations
- *Mana whenua partnership and communications/ engagement*
- the *business case*, including the objectives and proposed weightings for the business case; final short list options for assessment; and the emerging trade-offs
- the proposed approach to progressing the *funding and value capture work* and the early considerations that have been identified
- a general progress update.

Appendix B – draft recommendations to be presented to Sponsors in October

This appendix outlines the high-level recommendations that the Establishment Unit Board will be putting forward to Sponsors from the business case and associated work, to inform Cabinet decisions.

Scope of the project – route option and mode

1. [recommended option to take forward to detailed business case – likely to be Hybrid option (including tunnelling), with direction to optimise through detailed business case]
2. [importance of future network integration, including to the North Shore – possibility to explore optimum phasing for the total network]

Urban

3. [aspiration for higher level of urban intensity in the corridor to achieve quality compact urban form]
4. [recommendation to [delegated Ministers] to work across Government and with Auckland Council to agree commitment to interventions to be implemented to deliver on urban opportunities (including policy levers and complementary investments)]

Delivery Entity and next phases of the project

5. [preferred option for a Delivery Entity, noting that flexibility should be maintained around the final form and scope of the Delivery Entity.]
6. [the imperative of maintaining project momentum and the need for phasing/transition arrangements to progress CC2M pending establishment of the final Delivery Entity.]
7. [transition operating unit for the next phase should be established based on the existing Establishment Unit, and that it should continue to be housed within Waka Kotahi]
8. [mandate/ future work programme of the operating unit]
9. [composition of the sponsors group for the next phase of the project, being the Minister of Finance, the Minister of Transport, the Minister of Housing, the Mayor and Deputy Mayor and mana whenua]

Funding and value capture

10. [funding for the next phase of the project to end of DBC, to ensure funding certainty for next phase of the project]
11. [tbc – may include a direction to officials to develop work on value capture mechanisms and funding tools for the project with Waka Kotahi and Auckland Council]