



18 May 2022

BRIEFING

OC220394/ T2022/986 / BRF21/22051333

Hon Michael Wood
Minister of Transport

Action required by:
Wednesday, 25 May 2022

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Minister of Housing

AUCKLAND LIGHT RAIL - INVESTMENT MANAGEMENT SYSTEM

Purpose

The draft Investment Management System (IMS) Letter provides the Auckland Light Rail Board and Unit with clarity on Sponsor expectations related to the business case and investment decision-making process in the detailed planning phase.

The purpose of this cover briefing is to provide Sponsoring Ministers with a final draft of the IMS letter for approval.

Once any final amendments are made and the letter is approved, officials propose that the Minister of Transport sends the IMS letter to the Auckland Light Rail Board Chair on behalf of Sponsoring Ministers.

Key points

- The Auckland Light Rail Sponsors have been consulted on the draft IMS Letter and feedback was shared during the 16th of May 2022 Sponsors meeting.
- The IMS covering paper provided to the Sponsors on the 16th of May 2022 meeting is attached to this briefing in Appendix 1, for additional context.
- The draft IMS letter is attached in Appendix 2 and has been updated to reflect Sponsor feedback on the need to balance a robust evidence base with avoiding relitigating Cabinet decisions, as well as confirmation of point of entry options relating to route alignment and the extent of tunnelling.

Recommendations

We recommend you:

	Minister of Transport	Minister of Finance	Minister of Housing
1 Note that officials from Sponsoring agencies, as well as the Auckland Light Rail Unit and Te Waihangā have been consulted on the Investment Management System Letter	Yes / No	Yes / No	Yes / No
2 Note the Investment Management System Letter has been updated to reflect Sponsors' feedback from the 16 th May Sponsors meeting	Yes / No	Yes / No	Yes / No
3 Approve the Investment Management System Letter attached to this briefing in Appendix 2	Yes / No	Yes / No	Yes / No
4 Delegate to the Minister of Transport to send the Investment Management System Letter to the Auckland Light Rail Board Chair on behalf of Sponsoring Ministers		Yes / No	Yes / No

C. Gulik

Chris Gulik
Acting Director Auckland Light Rail,
Ministry of Transport



Saskia Patton
Manager, Policy and Legislation
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Development

Hon Grant Robertson
Minister of Finance

..... / /

Fiona Stokes

Fiona Stokes
Acting Manager, National Infrastructure
Unit, the Treasury

Hon Michael Wood
Minister of Transport

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Hon Dr Megan Woods
Minister of Housing

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Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments:

Contacts

Name	Telephone	First contact
Chris Gulik, Acting Director, Auckland Light Rail, Ministry of Transport	s 9(2)(a)	
Damien Looi, Senior Adviser, Investment, Ministry of Transport		✓
Ben Wells, Principal Advisor, National Infrastructure Unit, Treasury		
Mary Barton, Senior Policy Advisor - Places and Partnerships, Ministry of Housing and Urban Development		

AUCKLAND LIGHT RAIL - INVESTMENT MANAGEMENT SYSTEM COVER BRIEFING

Background

- 1 In December 2021, Cabinet authorised “the Minister of Transport, Minister of Finance and Minister of Housing, in consultation with Auckland Council and mana whenua, to take decisions as required in relation to the detailed parameters of the next phase, the scope of the business case and the mandate to the new ALR Unit”.
- 2 Sponsors have been consulted on the IMS letter and have provided feedback through the Auckland Light Rail Sponsors meeting on the 16th of May 2022. Mana whenua representatives are still being confirmed for the Sponsors group, Sponsor consultation has occurred with Crown and Auckland Council Sponsors.

Feedback from Sponsors

- 3 Sponsors provided three key items of feedback which have been reflected in the updated draft IMS letter attached in Appendix 2.
- 4 Feedback from Sponsors primarily related to the need to balance a robust evidence base with avoiding relitigating previous Cabinet decisions, as well as confirmation of point of entry options on route alignment and grade separation / tunnelling. Detail on the changes made to the draft IMS letter are provided in the following sections.
- 5 Sponsors also reiterated the importance of exploring options to stage the project. Officials believe this is adequately captured by the letter and no updates are required.

Previous Cabinet decisions

- 6 Sponsors reiterated the need to balance providing a robust evidence base for decision making, while respecting decisions made by Cabinet and not unnecessarily revisiting them.
- 7 Officials believe that this primarily relates to the Tunnelled Light Rail mode option and there are two sections in the draft IMS letter that are relevant. Officials have reviewed both sections in light of Sponsor feedback and believe they remain valid with no updates required.
- 8 The sections of note in the draft letter are:
 - “it is not the purpose of the business case to relitigate Cabinet decisions. It is however vital that the business case contains sufficient analysis to confirm that the final recommended route and mode remains the best value investment option for New Zealand. To this end the business case should assess updated option information where appropriate to confirm that the IBC recommendation remains valid.”
 - “if any information is identified that challenges the Light Rail mode recommendation from the IBC we expect this to be raised with Sponsors”.

Route alignment

- 9 Sponsors confirmed that the December 2021 Cabinet decision did not require the route to follow a Sandringham Road alignment and that there is flexibility to explore the alignment further within the corridor.
- 10 This is consistent with the draft wording included in the draft IMS letter and to further strengthen this, the reference to the Sandringham Road alignment has been removed and a more general reference to the corridor included.
- 11 The specific wording now included is:
- **“Route alignment** – Cabinet chose to progress a Tunnelled Light Rail solution with further detailed work to refine the route within the corridor. I expect that the final route alignment options, especially the tunnelled sections, should be the subject of further exploration and refinement to ensure value for money and benefit realisation.”

Grade separation / tunnelling

- 12 Feedback from the Minister of Transport and the Mayor at the Sponsors meeting was clear that the December 2021 Cabinet decision gave preference to the tunnelled section running through the central isthmus to Mt Roskill and that this should be reflected in the IMS letter.
- 13 The draft IMS letter has been updated to confirm the tunnelling of the central isthmus to Mt Roskill should not be revisited, but that grade separation options further south may be explored.
- 14 The specific wording now included is:
- **“Grade separation** – is integral to the decision made by Cabinet and the tunnelled section through the central isthmus to Mt Roskill should not be revisited, but grade separation options further south may be reconsidered, in particular when considering whole of system impacts.”
- 15 Officials note that in the Indicative Business Case (IBC), the Tunnelled Light Rail option on which Cabinet based its December 2021 decision, was not conclusive on the optimal tunnelling option (for instance length and alignment) due to the early-stage nature of the work, and included the following description:
- “The exact route of the Tunnelled Light Rail option remains flexible and so the final route through the central isthmus (including the length of tunnelling) can be explored with the community during the next phase.”
- 16 Treasury officials note that ruling out any further consideration of the length of tunnelling in the Sandringham Road / Dominion Road corridor through the business case will limit the breadth of further analysis contemplated in the IBC.

Next steps

- 17 Once any additional feedback from Sponsoring Ministers has been incorporated into the IMS letter, officials propose that the Minister of Transport sign the letter on behalf of Sponsoring Ministers and send it to the Auckland Light Rail Board Chair.

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

APPENDIX 1: SPONSORS MEETING - DRAFT INVESTMENT MANAGEMENT SYSTEM LETTER COVER PAPER

16 May 2022

Purpose

The purpose of this paper is to provide Sponsors with a draft Investment Management System Letter and seek endorsement and any feedback before the Minister of Transport sends the letter

The draft Investment Management System Letter provides the Auckland Light Rail Board and Unit with clarity on Sponsor expectations related to the business case and investment decision-making process

Recommendations

ALR Sponsors are invited to:

- **Note** that Sponsoring Ministers were delegated responsibility to confirm the approach to investment management by Cabinet in December 2021
- **Note** that officials intend for Sponsoring Ministers to send the Investment Management System Letter to the Auckland Light Rail Unit Board Chair following any feedback from this Sponsors meeting
- **Note** that the draft Investment Management System Letter has been drafted on behalf of Crown and Council ALR Sponsors
- **Note** that officials from Sponsoring agencies, as well as the Auckland Light Rail Unit and Te Waihanga have been consulted on the Investment Management System Letter
- **Endorse** the draft Investment Management System approach outlined in this briefing and the Investment Management System Letter

Background

- 1 In December 2021, Cabinet authorised *“the Minister of Transport, Minister of Finance and Minister of Housing, in consultation with Auckland Council and mana whenua, to take decisions as required in relation to the detailed parameters of the next phase, the scope of the business case and the mandate to the new ALR Unit”*.
- 2 While Ministers of Transport, Finance and Housing (Sponsoring Ministers) are accountable and responsible for decision making in this area, the intent of the collaborative governance arrangements consistent with Cabinet direction and in the Heads of Terms of the ALR Sponsors Agreement, is to seek the views of the current ALR Sponsors before providing direction to the ALR Board, and to speak to the ALR Board as ‘one-sponsor’. In doing so we note that the mana whenua Sponsors have not yet been appointed.

Confirming the Investment Management System and associated processes

- 3 Auckland Light Rail (ALR) is a unique project that sits outside of Government's traditional transport project Investment Management System (IMS) for transport projects. This includes different approaches to governance, investment decision making, business case, funding and financing.
- 4 Officials recommend that Sponsors clarify with the Auckland Light Rail Board (the Board) expectations around the IMS to be applied, specific areas the business case is expected to include, and to direct the ALR Unit to consult with Crown officials as work progresses. A draft letter to effect this is attached to this briefing (appendix 1).
- 5 There are two sections of the Investment Management System Letter officials would like to direct Sponsors attention to:
 - **The point of entry for the business case** – the range of options and decisions that are expected to be within scope of the business case to be explored further
 - **Funding and financing options** – confirming a public service delivery model which rules out Public Private Partnerships (PPP's) and other programme level private financing options

ALR business case point of entry

- 6 The Tunnelled Light Rail (TLR) option with indicative Sandringham Road alignment was one of three options assessed in the Indicative Business Case. Cabinet agreed that the TLR option would be taken forward into the detailed planning phase with further work required to confirm the scope of the project in advance of a final investment decision.
- 7 This section of the letter seeks to provide expectations on what options and decisions are in scope for exploration in the business case and those that do not require revisiting given the decisions made by Cabinet. The presentation of options in the business case will be critical to allow Sponsors to be properly exposed to the trade-offs across important aspects of the project and wider programme.
- 8 Officials recommend that a wide set of options are explored in the business case, in order to help ensure the best possible outcomes are considered for the final investment decision. This approach is reflected in the attached draft IMS Letter.
- 9 Ahead of finalising the IMS letter for signing and sharing with the Auckland Light Rail Board Chair, officials seek feedback from Sponsors on its content.
- 10 The areas of optioneering expected in the business case and included in the draft IMS Letter are described in the following sections.

Mode options

- 11 The Cabinet decision and subsequent announcements specifically highlighted TLR as the preferred mode to be taken forward. The choice of mode defines the speed, capacity and design requirements for the tunnels and other structures, materially impacting costs and benefits.

- 12 While it is not the purpose of the business case to relitigate the Cabinet decision on the TLR mode and other aspects, it is vital that it contains sufficient analysis to confirm the final recommended mode is the best value investment option for New Zealand and provides a robust evidence base that stands up to challenge.
- 13 To this end officials recommend in the business case:
- if any information is identified that challenges the Light Rail mode recommendation from the IBC, we expect this to be raised with Sponsors
 - assessing the range of mode options within the Light Rail definition.

Route alignment

- 14 The TLR option recommended through the IBC and approved by Cabinet assumed an alignment that followed Sandringham Road. Limited analysis of different route options within the Sandringham and Dominion corridor was undertaken due to the breadth of options already under consideration and associated time constraints.
- 15 Tunnelling, as opposed to surface running, allows for variations to the TLR alignment that may serve different locations, optimising costs and benefits both for the transport and urban development components.
- 16 Officials recommend that flexibility is provided to develop the optimum alignment, noting the associated impact on station locations (described in the following section), along the identified corridor, particularly for the tunnelled sections.

Station locations

- 17 The Cabinet decision did not include specific recommendations about station locations but did note the need for alignment with the Kāinga Ora Large Scale Projects being delivered within the corridor to maximise benefits, with particular reference to Mt Roskill and Mangere.
- 18 Station locations and route alignment are highly dependent, but there are some separate points to note, for instance there may be benefit to providing early certainty to Auckland Council and Kainga Ora (as well as the wider market), about the general location of stations to avoid sub-optimal development in these areas, particularly where investment decisions are made ahead of the Auckland Light Rail Final Investment Decision (FID).
- 19 Officials recommend that flexibility is provided for station location options to be developed along the identified corridor, leaving the number and location open to more detailed analysis, with particular consideration given to how certainty can be provided to planned developments.

Staged approach to delivery

- 20 Cabinet did not make specific recommendations about staging other than to explore staging options as part of the FID for both the transport and urban development components.
- 21 A staged or phased approach to delivery could improve the risk profile, increase speed of benefits realisation and enable optionality to work within any identified constraints, such as affordability.

- 22 Officials recommend that flexibility is provided to the Board to explore staging options.

Grade separation

- 23 Cabinet did not make specific recommendations about grade separation but did note the importance of tunnelling to support connection into the rapid transit network and to reduce disruption to business and residents.
- 24 While the need for a tunnelled section through the central isthmus was integral to Cabinet's decision, there may be benefits in reducing the extent of tunnelling, such as potentially reducing costs and emissions.
- 25 Officials recommend that the Unit notes the importance of tunnelling through the central business district and explore grade separation options further south.

Integration with Auckland Waitemata Harbour Connections (AWHC)

- 26 The Cabinet decision noted the need to align and integrate decision making on the ALR and AWHC projects but did not define the approach.
- 27 This section of the IMS letter clarifies that the projects are separate, but that there is an expectation that information will be shared and the business cases should clearly demonstrate how the projects will integrate with each other and the rapid transit network more broadly.
- 28 Other integration options will be provided when policy decisions are sought on the parameters of the delivery entity for ALR later in 2022.

Urban development and local bulk infrastructure

- 29 Cabinet recommended that the project be planned as an integrated transport and urban development programme but did not make specific decisions, such as in relation to the location and density options to be incorporated.
- 30 It is critical that urban development as well as transport options are developed to optimise investment across both areas.
- 31 Officials recommend that the importance of providing a range of urban development options is made clear and that these are incorporated into the business case work.

Funding and financing options

- 32 Ministry and Treasury officials understand that by agreeing to progress the Auckland Light Rail project using a 'Public Service Delivery' model in June 2020 [CAB-20-MIN-0300 refers] Cabinet was explicitly ruling out delivering the project under the New Zealand Public Private Partnership Model or private financing options similar to the model presented by CDPQ and the New Zealand Super Fund.
- 33 Subsequent to this, a range of funding and financing options were examined in the indicative business case, with further work to be done through the detailed planning phase. The December 2021 Cabinet decisions that confirmed progressing to the DBC stage [CAB-21-MIN-0531], included continuing work to recommend a funding and financing package including exploring Crown, Council and value capture sources. No specific funding or financing sources were ruled in or out in Cabinet's decision.

- 34 In setting its expectations for development of the business case, officials recommend reconfirming, for the avoidance of doubt, Sponsors' expectations of a public service delivery model. This will ensure that the ALR Board has clarity around the scope of their work and as they progress with procuring advisory services.
- 35 Officials do not recommend ruling out the business case investigating other opportunities to utilise a broader range of funding and financing tools at this stage. Some of these options will include private sector financing, such as the use of the IFF levy SPV model, and the urban development funding tools under the Urban Development Act, and development partnerships.
- 36 Further policy work on funding and financing including development of specific guidance and expectations is continuing as part of the ALR policy programme, and officials will seek Sponsor guidance on options, including smaller scale commercial arrangements, in the near term. Further guidance to the Unit on Sponsor preferences to inform the business case can be provided subsequently.

Consultation

- 37 Sponsoring agencies have been involved in related discussions and the development of this letter over the preceding months including consultation on the draft letter attached.
- 38 Te Waihanga and the Auckland Light Rail Unit have also been provided with the draft letter and have provided comment.

Next steps

- 39 Feedback from Sponsors will inform a final draft of the letter which will be given to Sponsoring Ministers for approval. This is expected to take place in May.

APPENDIX 2: INVESTMENT MANAGEMENT SYSTEM LETTER

This information is released separately

PROACTIVELY RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT