

# NZ TRANSPORT AGENCY BOARD PAPER

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<b>Title of Paper</b>	<b>Auckland Light Rail Update</b>
<b>Paper Sponsor(s)</b>	Carl Devlin
<b>Prepared By</b>	Carl Devlin, GM Rail and Mass Transit
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## Purpose

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This paper provides an update on the Auckland Light Rail process and updates the Board on next steps.

## Recommendations

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It is recommended that the NZ Transport Agency Board resolves to:

- **Note** the contents of this paper.

## Strategic Relevance

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The delivery of light rail in Auckland is of considerable strategic importance to Waka Kotahi NZ Transport Agency (the Transport Agency) and the Minister of Transport. The Transport Agency is committed to exploring any intervention that achieves a sustainable mode shift in Auckland. Light rail will be developed so that it forms an integrated part of a long-term public transport solution. This, along with confirmation of the mode of transportation required across the network, will define Auckland's rapid transit strategy and ensure capital is deployed in the most effective manner.

The Crown is seeking to appoint a preferred delivery partner to deliver the City Centre to Māngere (CC2M) project, which will be the first light rail project in Auckland. A decision is expected from Cabinet in February 2020.

## Background

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In May 2018, the Minister tasked the Transport Agency with leading the development of the Auckland Light Rail (ALR) project, preparing a business case for the CC2M project, and setting a process to be used to evaluate all potential proposals.

At about this time the Government received an unsolicited proposal from NZ Infra to deliver an alternative light rail solution.

The Transport Agency drafted a single stage business case that was not taken forward, as the stakeholders identified several areas that required further work and this process was overtaken by the Ministry's process.

In May 2019, the Minister received Cabinet approval to progress with a dual process, whereby both the Transport Agency and NZ Infra were to prepare proposals for Ministers to consider in February 2020.

In early August 2019, the Ministry issued a Response Requirements Document (RRD) detailing the process and requirements for the two respondents to submit a proposal. The RRD sought a level of detail that is more closely aligned to appointing a delivery partner, than making an investment decision.

The Transport Agency submitted its response to the RRD (Proposal) on 29 November 2019.

Management provided the Board with a summary of the proposed solution at its October 2019 meeting, when it sought authorisation for the Chair to approve the submission of the Proposal. At its November meeting, the Board viewed the "flythrough", which provides a high-level overview of the Proposal.

In late December 2019, the Ministry proposed a preferred delivery partner MOU (MOU). As advised in the Chair's email of 24 January 2020, this sets out the process that would be followed if the Transport Agency is selected as the preferred delivery partner for light rail in Auckland, essentially allowing for a period of exclusive negotiation to develop the next level of detail. By signing the MOU, the Transport Agency is not committing to anything over and above what has been committed to. Management understands that the Ministry has asked both the Transport Agency and NZ Infra to execute similar MOUs and the Crown would execute the MOU with the preferred delivery partner once selected. The Transport Agency executed the MOU on 31 January 2020. A copy of the MOU is available in the resource centre.

This paper provides more detail about the Proposal and outlines the next steps.

## Key issues

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### The Proposal

The Chair's cover letter and the executive summary are available in the resource centre, with a high-level overview of the key elements of the Proposal below.

#### **Technical solution**

- While the public conversation has been about light rail, in order to meet the desired outcomes, we have proposed a light metro style service (Auckland Rapid Transit, or ART), fully segregated, with automated trains, providing frequent, safe and flexible services.
- Capacity can expand, reducing from 3 minutes headways to 90 second headways, with 5,800 passenger capacity per direction per hour on opening, rising to 11,600. At those usage rates, at opening ART will eliminate 5,300 cars per hour from Auckland roads, the equivalent of 14

lanes of surface traffic, 6 lanes of motorway or 145 buses per hour. Those numbers double at ultimate capacity.

- We have proposed 14 stations across 23km of track, opening up a rapid transit corridor between the airport and the city centre. The ultimate alignment will be subject to the Government's decision, public engagement and the resource consenting process.
- The technical solution provides for extension to the northwest, north and to Manukau and it is likely if appointed preferred bidder that we would be asked to develop the northwest project, as it has been included in the MOU.

### **Urban renewal**

- ART will support the development of thriving urban communities that are well connected to rapid transit through revitalisation and strengthening the quality of urban environments. High capacity rapid transit will enable transit oriented developments (TODs) in existing urban areas by improving access to employment and education opportunities.
- We would partner with Kāinga Ora, who would take the lead on master planning in Mt Roskill and Māngere.
- ART will also allow intensified development at key nodes, with the delivery entity using compulsory acquisition powers to acquire land at Dominion Junction, Balmoral and Onehunga. It would then partner with the private sector to develop TODs where risk is not appropriately held by the Crown.

### **Commercial solution**

- This will be the largest infrastructure project ever undertaken in New Zealand and the first rail network of its kind for the country. The level of complexity cannot be underestimated. There is no single precedent for the structuring and delivery of a project of this nature. No one entity existing today can deliver all the key project outcomes. A new delivery entity will be established to meet the broader outcomes requested by the Ministry (including urban renewal outcomes). This will likely be a Schedule 4A company, with majority ownership by the Crown. The Transport Agency will remain a key sponsor (alongside the Crown) and will be responsible for the development of the programme while the delivery entity is established and the parties negotiate the key project agreements, which will be a Sponsors Agreement and Funding Agreement.
- In terms of funding and financing, the initial focus is to develop funding streams with predictable cash flows that can be realistically implemented. Both core Crown and funding from the National Land Transport Fund (NLTF) will be required to deliver the project. The Transport Agency may be able to borrow from the Crown as part of this process. The precise make-up of the funding, and the extent to which the project would be funded from the NLTF would be refined during the negotiation period.
- Core to the delivery approach is partnership with others, significantly Kāinga Ora, Auckland Council, Kiwirail and Auckland Transport. We had very constructive early engagement with a number of these parties (to the extent permitted within the rules of the process). We have executed memoranda of understanding with Watercare, Vector and Chorus, relating to the engagement approach for dealing with their infrastructure where it intersects with the alignment. The Proposal included letters of support from several key stakeholders, including:
  - Route interface partners (Auckland airport and City Rail Link)
  - Property developers
  - Utilities

- Finance and equity
  - Construction companies
  - Rolling stock and operations
  - Education and training.
- The emerging preferred procurement approach (which will be subject to market soundings to validate the approach and encourage innovation) involves 3 key elements:
    - An Alliance for the early phase to deliver site surveys, utilities identification and relocation along the entire alignment, with the potential to include other elements of early works where it drives programme risk/ benefit. There will be shared risk in this early phase. This will mitigate some of the issues that the Sydney Light Rail project encountered.
    - A “DSOM” package (Depot, Supply, Operate, Maintain), which will be cover the depot, station fit-out, supply of light rail vehicles and systems and communications, operations and maintenance. The DSOM operator will be brought in early, so that they can inform design and construction.
    - A number of fixed price design and construction agreements to cover core civils, tunnelling and elevated structures. The phasing is yet to be determined. The number of contracts will be dictated by what the market will bear.

### **Preliminary Business Case**

When making the public announcement on 22 August 2019, the Minister of Transport, Hon Phil Twyford, committed that the Business Case would be published in line with normal practices.

We submitted a preliminary Business Case to support the detailed Proposal, but it cannot be approved until the Government has selected its preferred delivery partner and technical details have been agreed.

### **NZ Super Fund**

NZ Infra is a partnership between the NZ Super Fund (NZSF) and CDPQ, which is a global investor, headquartered in Québec. They formed a company in New Zealand on 25 November 2019.

Recognising that the Government may be looking for a solution that would allow NZSF to invest, we have done some preliminary thinking about how our Proposal could be modified to bring in an equity investor. The Proposal currently provides for funding from the Crown and/ or the Transport Agency, with both as sponsors. It would be possible to include an equity investor alongside core Crown funding. That could be NZSF, but there are other potential equity providers, such as ACC and Kāinga Ora. NZSF would have a minority shareholding in the delivery entity. Under this structure NZSF would earn a commercial return and maintain a level of control over its investment. It would fund its proportionate share of the investment and could be subject to further cash calls for any cost overruns and delays.

A concession payment from the core Crown to the delivery entity would be sized to cover NZSF's return during the operating term of the project. Such returns would be in the form of dividends from the delivery entity.

NZSF would have close oversight of the project through its role as Sponsor and would be involved in the governance structure with direct participation in the sponsor forum.

The main implication of including NZSF as an equity provider would be an increase to the overall costs, as NZSF would require a commercial return.

There are benefits to including NZSF in some form:

- A meaningful opportunity for NZSF to invest in a competitive domestic infrastructure project, against a backdrop of growing offshore investments
- Opportunity to develop local expertise in investing in large scale infrastructure projects
- Opportunity for core Crown and NZSF to develop their relationship, which can be leveraged for future large infrastructure projects as a source of additional capital and resource
- Enables a long-term investment in the project, which will provide intergenerational benefits for New Zealanders
- Reduces core Crown upfront capital requirement.

Our preferred approach would be to bring NZSF in after we have agreed the Sponsors Agreement and Funding Agreement with the Crown, which would give us the greatest ability to frame their role as sponsors. Bringing them in earlier would add complexity to any negotiation.

### Next steps

If the Transport Agency is selected as preferred delivery partner, we anticipate that the next steps will be as follows:

- The Crown would execute the process MOU referred to above. The Transport Agency would be selected as preferred bidder and the parties would enter into an exclusive negotiation period. The target date for the project agreements (a Sponsors Agreement and a Funding Agreement) is July 2020, with a long-stop date of December 2020.
- The Ministry and the Transport Agency would have 20 working days to agree the “mobilisation activities”. This would be a combination of activities to support the negotiation of the project agreements and activities related to the delivery of the project. The activities would include confirming technical requirements (and costs), commencing stakeholder engagement, developing partnering agreements with key partners such as Auckland Council, AT, Kāinga Ora and Kiwirail, starting work on consenting and planning the procurement processes.
- The mobilisation activities will be documented in a further MOU. Board approval will be sought for this MOU, as at this point the Transport Agency would enter into binding commitments to commence the mobilisation activities and to commit the necessary resources to support these activities. Further funding to support the mobilisation activities will be required.

It is difficult to predict timing. However, we expect that approvals will be sought at the Board’s March and/ or April 2020 meetings.

### Governance and decision-making

An Auckland Light Rail steering committee was established in October 2019 to provide the light rail project team with appropriate oversight in relation to the Proposal. This is chaired by the Transport Agency Chair. Other members are Mark Ratcliffe (Interim CEO), Carl Devlin (General Manager, Rail and Mass Transit), Brett Gliddon (General Manager Transport Services) and Nick Woodward (Interim General Manager Corporate Support). The steering committee’s terms of reference provide that membership may include one or more individuals who are external to the Transport Agency if it is considered that additional expertise is required. The purpose of the steering committee is to assist the Board to fulfil its responsibilities in relation to this phase of the project, provide a sounding

board and provide oversight and guidance to the ALR project team. It has no decision-making authority.

Management proposes that the steering committee continue in its current form, replacing the Interim CEO with the CEO. The Chair is in discussion with the Interim CEO about his continued involvement in the Steering Committee after 20 February 2020. If the Transport Agency is selected as the preferred delivery entity, Management will propose governance that reflects the mobilisation activities, including ensuring the interests of the Transport Agency and the future delivery entity are appropriately considered.

It may be necessary to delegate some decision-making authority to the steering committee, given the aggressive timelines that have been proposed for reaching agreements. However, final approvals over the project agreement and funding will be reserved to the Board.

There will also be an Initial Governance Group, comprised of representatives from the Transport Agency and the Ministry, to oversee the mobilisation activities. The membership, scope and terms of reference for the Initial Governance Group are in the MOU. The Initial Governance Group would not have the power to bind any of the parties.

### **Funding**

The Transport Agency is funding this part of the process. Following a request from the Minister, it is also funding the Ministry's costs, via a Memorandum of Understanding. The original funding agreement with the Ministry was capped at \$3M. In late 2019, the Ministry requested a further \$2M and the Transport Agency has agreed to this.

Costs being incurred by the Transport Agency and the Ministry are sourced from the Rapid Transit Activity Class in the Government Policy Statement. The Transport Agency Board approved \$30 million funding for "pre-implementation" in December 2018. Sufficient funding remains while we are in the planning phase.

It is likely that further funding approvals will be required for the mobilisation activities. Management intends to seek funding approvals at the same time as it seeks approval of the mobilisation activities.

### **Resourcing**

At its July 2019 meeting the Transport Agency Board noted that the Transport Agency intended to directly appoint advisers to support this phase because of the challenging timelines to respond to the Ministry's process and the lack of sufficient capability and capacity within the Transport Agency to undertake all the work required.

Management is currently refining its procurement approach for the next phase but notes that many of the same considerations that supported direct procurement for advisory services in the exclusive negotiation period remain: challenging timelines, small market, the potential for conflicts of interest. It is anticipated that we will continue with substantially the same advisers who were involved in the preparation of the Proposal. In addition, continuity of advisers is consistent with the Proposal, the Ministry is familiar with the key advisers through the interactive sessions that occurred during the response phase and their ongoing support will provide comfort to the Ministry that the Transport Agency can deliver on its Proposal.

## **Health & Safety, Customer & Other Stakeholder and Environmental Impact**

The impact of this decision is considered by the Transport Agency to be neutral in terms of health and safety, the public and other stakeholders, and the environment.

## Related Documents

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### Resource Centre

- Cover letter
- Executive summary of the Proposal
- Preferred Delivery Partner MOU

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