

City Centre to Māngere Update

In confidence/ Legally privileged (as indicated)

| | |
|-----------------------|--|
| Meeting Date | 25 March 2021 |
| ELT Sponsor | Matthew Walker, GM Corporate Support |
| Prepared By | Lucy Riddiford, General Counsel Strategic Projects |
| Legal Reviewer | Anna Moodie, Group General Counsel |
| Version | Final |
| Date | 12 March 2021 |
| Pages | 7 |

Purpose

This paper asks the Board to approve funding for the City Centre to Māngere Establishment Unit.

Recommendations

It is recommended the Board:

- **Notes** that the Minister is taking a paper to Cabinet, seeking approval to set up an establishment unit (Establishment Unit) to progress the City Centre to Māngere (CC2M) project through a public service delivery approach.
- **Authorises** the Chair to agree the final terms of reference for the Establishment Unit.
- **Notes** that the Chief Executive or a senior Waka Kotahi representative will be on the Establishment Unit Board and **authorises** that individual to represent Waka Kotahi.
- **Notes** that it is expected that there will be a high level of transparency and co-operation between the Establishment Unit and the organisations represented on the Establishment Unit Board. Reflecting this there will be one or more briefings to the Waka Kotahi Board on the likely recommendations of the Establishment Unit Chair and an opportunity for the Waka Kotahi Board to provide feedback to the Waka Kotahi representative on the Establishment Unit Board.
- **Notes** that the Establishment Unit will be housed in Waka Kotahi and that the Minister may give a direction to Waka Kotahi creating a new function for Waka Kotahi to provide support and assistance to the Establishment Unit.
- **Approves** funding to Waka Kotahi for the City Centre to Māngere of \$60 million at a funding assistance rate of 100% for the Establishment Unit phase, subject to approval by Cabinet to set up an Establishment Unit to progress the CC2M project.
- **Notes** that the total expenditure to date on the CC2M project since 2018 has been in the order of \$35 million.

- **Notes** that the funding will be drawn from the Rapid Transit activity class in the current National Land Transport Programme and then from the Public Transport Infrastructure activity class in the 2021-2024 National Land Transport Programme.
- **Notes** that the Minister of Finance and the Minister of Transport may also approve funding from the NLTF for a policy workstream to be led by the Ministry of Transport.
- **Notes** that the Establishment Unit Board will be accountable for the Establishment Unit's deliverables and that the Waka Kotahi Board will have a residual role to monitor the performance of activities it is funding.
- **Notes** that Management will seek financial delegations from the Board to individuals in the Establishment Unit.
- **Notes** the reason for this funding decision is that a joint process is required to determine the route and mode for the City Centre to Māngere project including the involvement of stakeholders to inform a Cabinet decision.

Strategic relevance

Cabinet has prioritised progressing light rail from the City Centre to the airport in the next decade, as the first spine of a wider rapid transit network for Auckland. This reflects the commitments the Government has made through the Auckland Transport Alignment Project (ATAP). A commitment to the project was made in the 2020 Labour Party Election Manifesto.

Background

At the Board's February meeting, Management informed the Board of the Minister's intention to take a paper to Cabinet to progress the CC2M project in the following way:

- **Set up an Establishment Unit** to provide the visible face of the project, and take forward work to resolve key outstanding questions in relation to project scope and delivery entity;
- **Take forward a business case**, initially led by the Establishment Unit, to ensure a robust process for determining the mode and alignment of a rapid transit solution, and as a basis for consultation, prior to detailed planning and investment decisions; and
- **Develop an inclusive governance structure** to oversee the first phase of a business case, involving key partners and with a strong focus on building social licence.

This paper was due to go to the Development Committee of Cabinet (DEV) on 17 March 2021 and to Cabinet on 22 March 2021. This timeframe has slipped by a week, so it will go to Cabinet on 29 March 2021.

Management has been working closely with the Ministry of Transport and Treasury to develop the Minister's proposal and we have also been engaging with Auckland Council and Auckland Transport to ensure that the project is set up for success.

This paper seeks the funding and delegations necessary to implement the Minister's proposal, assuming that it is approved by Cabinet.

The Board has previously approved two tranches of pre-mobilisation funding for Auckland Light Rail from the rapid transit activity class, \$15m (2018/04/1234) and \$30m (2018/11/1296). This has been used to fund the development of the business case work undertaken in 2018, fund the development of the Waka Kotahi proposal as part of the parallel process and fund the management of the process by MoT via a MOU. There is approximately \$9 million remaining from this previously approved funding.

Key issues

This phase of the project will have an inclusive governance structure to drive consensus

The Minister has expressed a strong desire to build consensus through this phase.

The proposed governance differs from standard project governance. It is appropriate for this phase of the project, which has a key objective to build consensus on mode and alignment. A more orthodox governance structure, with a skills-based Board, will be required as the project moves into delivery.

Cabinet will delegate authority to the Minister of Transport, the Minister of Finance and possibly the Minister of Housing and Urban Development, in consultation with the Mayor of Auckland, to finalise the governance structure for the Establishment Unit, to provide strategic direction to the Establishment Unit Board and to make recommendations to Cabinet once the Establishment Board has provided its advice to the delegated Ministers. The Mayor of Auckland has been invited to work closely with the delegated Ministers as a joint sponsor of the project, possibly with one other Councillor. Together they will comprise the Project Sponsors group.

The Independent Chair of the Establishment Unit Board, to be appointed by Cabinet, will report directly to the Project Sponsors and will be accountable for making recommendations, including on mode and route.

The Establishment Unit Board will comprise senior representatives nominated by Waka Kotahi, Auckland Council, Auckland Transport, the Ministry of Transport, local iwi, local council Boards, and possibly Kāinga Ora / the Ministry of Housing and Urban Development. Treasury and Te Waihangā are likely to be observers. The precise composition of the Board will be finalised by the Project Sponsors following Cabinet's decision and once full consultation with the relevant parties has taken place.

The Project Director will be appointed by the Independent Chair.

It is expected that there will be a high level of transparency and co-operation between the Establishment Unit and the organisations represented on the Establishment Unit Board. Reflecting this there will be one or more briefings to the Waka Kotahi Board on the likely recommendations of the Establishment Unit Chair and an opportunity for the Waka Kotahi Board to provide feedback to the Waka Kotahi representative on the Establishment Unit Board.

The Board is asked to authorise the Chair to agree the terms of reference and authorise the Chief Executive or a senior representative of Waka Kotahi to represent Waka Kotahi on the Establishment Unit Board.

The Establishment Unit will be set up within Waka Kotahi and it will be a joint endeavour between Waka Kotahi and Auckland Transport

The Establishment Unit will not be a legal entity, its board will not have statutory obligations, and its role will be defined by the terms of reference.

To progress the Project quickly, the Establishment Unit will be set up within Waka Kotahi. This approach provides several advantages over other options, including access to existing back office systems, support/corporate staff resource, and funding through the NLTF.

Whilst the Establishment Unit will be 'hosted' in Waka Kotahi, so that it can quickly leverage Waka Kotahi systems and processes, it will be run as a joint endeavour with Auckland Transport to ensure high levels of operational support and collaboration. The Establishment Unit will be accountable directly to the Establishment Unit Board for its performance and the deliverables that it produces. This distinction will be ensured through the Terms of Reference that outline key points including reporting lines and accountabilities. This is important to give partner agencies assurance that their interests will be equally represented.

As this stage of the project is proposed to be fully funded by Waka Kotahi from the NLTF, Waka Kotahi will have a residual role to monitor the performance of activities it is funding. The detail is to be worked through. It is likely that Waka Kotahi systems and processes will be used and that the Establishment Unit will comply with Waka Kotahi procedures, including procurement procedures (which AT must also comply with).

In addition to resourcing the Establishment Unit with expertise from partner agencies, the Establishment Unit will require significant external resource and technical expertise, including international experts and organisations with experience of developing complex projects of this nature. The Establishment Unit will have a 'one team culture' focused on ensuring that the project achieves the best outcomes for Auckland and New Zealand. The collaborative arrangement proposed recognises the key roles that our partners will need to play and provides them with an environment in which they can work constructively towards a common objective.

An alternative to progressing this work via an establishment unit is a programme office operated by Ministry of Transport, which was proposed in advice to Cabinet in late 2020. This was not the Minister's preferred option. From a Waka Kotahi perspective, this approach would have reduced the opportunity to provide input into this critical project for Auckland and New Zealand. The option of Crown funding (instead of NLTF funding) was pursued but is unlikely to be available.

The consequences of not funding the Establishment Unit and the analysis of mode, route and funding for this project would mean the project would stall and Waka Kotahi would lose the opportunity to provide critical input to a significant transport and urban development initiative in our largest city. There is strategic and reputational risk in not carrying out this work.

The Establishment Unit will have a big job

The Establishment Unit will be charged with undertaking work that will help the Government and its partners to jointly:

- work through key strategic issues and make firm decisions on matters such as scope, delivery entity and funding and finance;
- complete an initial business case for the project, including both an options analysis and a recommended option for mode and route;
- undertake initial iwi, stakeholder and community engagement;
- provide advice on options for the form and governance arrangements of the delivery entity for the project, which will include using the existing City Rail Link or a joint venture arrangement between the Crown and local Government;
- provide advice on the pathway for taking the project forward, including decision gateways and supporting and informing, as required, any parallel supporting policy work undertaken by policy agencies.

The Minister has been clear that at the end of this process, the Project Sponsors will be presented with firm recommendations as to mode and route, which means that more than an indicative business case (which would present a shortlist of options to be progressed) will be required. His objective is the Establishment Unit will build consensus, so that these recommendations will be enduring.

We expect that the Establishment Unit will continue to operate following Cabinet's decisions and will transition the project into the preferred Delivery Entity.

Establishment and funding from the National Land Transport Fund

A direction¹ from the Minister of Transport may be required

s 9(2)(h)



NLTF funding approval for the Establishment Unit phase

It is difficult to estimate the total costs of the Establishment Unit phase. The funding envelope of \$60 million requested represents Management's best estimate of the costs to complete the deliverables outlined in the Cabinet paper and for a transition period before the project is moved into a delivery entity.

Management has used two inputs to estimate the costs:

- The costs estimated by the Ministry of Transport to take the project forward via a Programme Office in the Ministry of Transport assumed a funding envelope of \$50m - \$65m. The Programme Office approach developed by the Ministry does not reflect the work required by Ministers and the proposed timeframe is different.
- The Waka Kotahi run rate of \$4m per month during the parallel process, which is a more realistic benchmark to develop a funding envelope for the Establishment Unit. The work to be undertaken is broadly similar, albeit the Establishment Unit will need to consider two options in detail and not one, with the addition of the iwi, stakeholder and community engagement workstream.

¹ Section 95(1)(j) Land Transport Management Act; section 112 Crown Entities Act

Using these inputs and noting the additional work required, we expect funding of \$60m will be required to fund the Establishment Unit for the 12-month period, with up to \$10m of this to be spent in this financial year.

The funding will be drawn from the Rapid Transit activity class during the current National Land Transport Programme and the Public Transport Infrastructure activity class in the 2021-2024 National Land Transport Programme.

While this funding decision hasn't been assessed in accordance with usual processes, advice has been received that this funding decision meets the requirements of section 20 of the Land Transport Management Act. This is on the basis that: the additional \$10m expenditure in this NLTP is within the funding range for the rapid transit activity class; and we expect NLTF expenditure by 30 June 2021 to be within the available revenue, noting that the overall cash position is under significant pressure at the end of the NLTP.

The subsequent expenditure in the next NLTP period can be accommodated within the funding range for the public transport infrastructure activity class. Much of the activity class remains "uncommitted" at this stage albeit that there are expected to be significant bids for Let's Get Wellington Moving, City Rail link related projects and other existing projects, including transitional rail. There are ongoing discussions with the Ministry of Transport and Treasury to explore financing and Crown funding options to deliver the National Land Transport Plan in accordance with the GPS 2021.

We expect the Establishment Unit to be in place for up to 12 months. The Establishment Unit will likely play a transition role, once Cabinet has made its decisions about the future delivery of the project, until the Delivery Entity is formally in place.

Anticipated risks include delay, insufficient advice to inform a decision, need to change the scope or increase funding, and insufficient cooperative involvement from stakeholders to reach a broad consensus on a fundable solution. These risks will partially be mitigated through having terms of reference that will provide clarity on roles and responsibilities and on the scope of the Establishment Unit's tasks.

Financial delegations will be required for the Establishment Unit

It is anticipated that Management will seek financial delegations to the Independent Chair of the Establishment Unit Board, with the ability to sub-delegate. This delegation will require the approval of the Minister. At that time, Management will propose appropriate reporting and controls so that the Board can discharge its obligations to monitor the performance of the activities that are being funded.

The Ministry is seeking funding for its policy work programme

In the February board paper, we said that the Ministry was seeking funding from the National Land Transport Fund for a cross-government workstream to support policy changes that might be required to support the delivery of CC2M. It was proposed that this would be funded via "top-slicing"², with the approval of the Minister of Transport and the Minister of Finance. Board approval is not required for funding via this mechanism.

² Section 9(2)(c), Land Transport Management Act

The Cabinet paper has flagged that the Ministry may seek NLTF funding for the policy workstream. We do not yet know the quantum of this.

Given the eventual scale of the project additional funding or financing will need to be in place prior to commencing final project delivery

Even with the notional \$1.8 bn seed funding in the ATAP package, and if all potential revenue sources available to CC2M are fully exploited, there will remain a funding shortfall requiring Crown funding either to fund the project during the delivery phase or support repayment of any financing. These are not matters for now, but will require resolution during the next 6 to 12 months to enable the Establishment Unit to make recommendations on the most appropriate Delivery model to take the project forward beyond this phase.

Making a fast start

The Minister will expect the Establishment Unit to be up and running as soon as possible following Cabinet's decision and the funding approval sought in this Board paper.

Some things necessarily need to wait for Cabinet's decision and the appointment of the Independent Chair. However, work has already commenced with the Ministry and Auckland Transport on the appropriate organisational structure for the Establishment Unit and a workshop with key Auckland stakeholders is proposed to outline some of the thinking that supported Waka Kotahi proposing a light metro scheme in response to the parallel process. Management does not have any fixed views on mode or alignment, which will be informed by the business case process, but it is helpful to capture available thinking from the previous process to inform how best to take the CC2M project forward.

Health & safety, customer/ stakeholder & environmental impact

The impact of this decision is considered by Waka Kotahi to be neutral in terms of health and safety, and the environment.

It is expected to be positive in terms of the public and other stakeholders. A critical role for the Establishment Unit will be to be the public face for the project, to build social licence and to start to lay out in a fulsome and transparent way some of the critical trade-offs to be made when deciding the best way to take this project forward.

The Minister's office will be leading the communications about this phase of the CC2M project and we'll work closely with the Minister's office and the Ministry to support announcements about the Establishment Unit.

Related documents

City Centre to Māngere – next steps dated 24 February 2021