

Auckland Light Rail update

In confidence/Commercially sensitive

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ELT Sponsor	Matthew Walker, General Manager Corporate Support
Prepared By	Lucy Riddiford, Auckland Light Rail Governance and Policy
Legal Reviewer	Lucy Riddiford
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Purpose

To provide an update on the work of the Auckland Light Rail Group and to provide feedback to the Chief Executive in her capacity as a member of the Auckland Light Rail Group Board.

Recommendations

It is recommended the Board **notes** the contents of this paper.

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

We have previously advised the Board of Cabinet's decision 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. The Establishment Unit is tasked with taking forward a business case, 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. A significant part of the work is also to build social licence.

We provided an update to the Board at its August meeting. That paper set out the governance structure, progress and budget and key workstream updates.

This paper focuses on budget, the business case, the delivery entity recommendation from the unit and proposed transitional arrangements and the funding and value capture work.

Key issues

Budget

At its 25 March 2021 meeting, the Board approved a budget of \$60m from the NLTF (to be allocated to the rapid transit activity class in the previous NLTP and the public transport infrastructure activity class in the 2021-2024 NLTP). This funding was to cover the work of the Establishment Unit, noting that it is likely that there will be transitional work and it is anticipated that the unit will be in place for up to 12 months. This is supported by the fact that the Independent Chair and Project Director have been appointed until March 2022.

The Auckland Light Rail Group is working to a budget of \$14.6m to the end of September 2021. Our estimate of cost to date, as of 31 August, is \$10.61m. At the time of writing this paper, we were still waiting for a large portion of invoices for August, so we have used the forecast figure (as an estimate of Cost to Date) in place of the actual.

Work will continue beyond September, for example there is a Treasury Gateway review scheduled for October. Updated budgets will be provided once this work has been scoped, programmed and contracted. These costs will be captured separately, so we have an accurate picture of the costs of this phase of the project.

An internal audit is scheduled for Q2, to provide comfort to the Waka Kotahi board and management that the funding is being appropriately controlled and prudently managed.

Route and mode

At the last board meeting, we reported that the final short list options for assessment are:

- 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 Mangere).

The Auckland Light Rail Group Board will be discussing the preferred option at its meeting on 14 September and we can provide a verbal update to the Board.

Delivery entity

CC2M is large, complex and the first of its kind project in New Zealand. It has a broad set of outcomes and 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 the project is successfully delivered within the target timetable.

The assessment finds that CC2M could be delivered by either an existing or a new entity. Each of the options considered has benefits and limitations, but there will be significant challenges to capability and capacity under any of the options considered, particularly as the CC2M develops.

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.

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.

On balance, based on the options considered, the unit's preferred option is for a new purpose-designed Schedule 4A company (S4A). As compared to other options, the S4A:

- enables a greater focus on CC2M's outcomes with other entity options currently limited by existing remits or legislative constraints;
- enables clear accountability given its focused remit on delivering CC2M without the distraction of other projects, or broader remits beyond delivery of specific transport projects. It provides dedicated focus and lower risk for any single Board to manage. This is critically important given the scale, complexity and importance of CCM2;
- allows for operationally independent decision-making as a stand-alone entity without constraints of parent company oversight restrictions;
- allows for flexibility to adapt to different funding, financing, procurement and partnership options and to evolve over time as the project does. Given long term nature and mix of transport and urban outcomes, flexibility is important; and
- while there is a process for establishing a S4A, there is also complexity in retrofitting other existing entities, and therefore this option is considered no less deliverable.

Whilst, the preferred option is for a new S4A company, we 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.

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. In addition, uncertainty around the exact decision-making and funding pathway, makes it difficult to provide a firm recommendation on the Delivery Entity. Arguably, at this stage there is no one 'right answer'.

Transition

Transition is the process of changing from the Establishment Unit to the Delivery Entity. The transition period effectively ends when the final Delivery Entity is stood-up and fully operational. Transition will likely occur in a phased manner with announcements, triggers or achievement of milestones to support progression to the next phase.

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 the right transition arrangements are put in place.

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.

Interim Delivery Entity

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 that a Shadow Delivery Unit be established based on the existing Establishment Unit, and that it should continue to be housed within Waka Kotahi (either as a unit or subsidiary).

During the transition period the Shadow Delivery Entity should be responsible for the following activities:

- Governance

- Org Design - People/Systems and Processes
- Urban Form – Commercial Development Strategy
- Master planning
- Design/technical tenders to the market (also to support urban form and master planning above)
- Partnering
- Mana Whenua

The Shadow Delivery Entity governance structure will be determined by Ministers, 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.

The recommendation to establish the Shadow Delivery Entity 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.

Transition to Final Delivery Entity

The transition to the final Delivery Entity will likely occur at a point in time when there is sufficient certainty around the Project, roles and responsibilities, governance required for key decisions and potential contracts to be entered into. At this stage there is no absolute target date for the Delivery Entity to be established.

For the next phase, decision-makers 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
- The optimal **governance and partnership arrangements**, recognising that many decisions in the next phase will sit with appropriately reflect the Crown's interests in the next phase, which may evolve over time as the project transition 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 (note this will not include funding decisions for the delivery of the project, which will come at a future stage)
- The best **form** for the operational unit to take in the next phase.

Governance of the Operating Unit Board will be led by the Crown, as will any legal agreements of which the Crown/Sponsors are partners. The Ministry of Transport will lead the legal establishment of the Delivery Entity. The table below is a working draft of the decisions that will likely need to be made in the next 18 months, assuming a decision by Cabinet in November, and the respective roles of different entities.

Post October 2021 - Central Government/Sponsor Transition (assume 18 months) Decisions							
	Activity	Date (indicative)	Cabinet	Sponsors*	Crown	Council	Delivery Entity*
1	Provide feedback from IBC process and direction on next steps	Nov-21	X				
2	Set a clear vision and specific requirements for the transition entity	By 31 Jan 2022		X			
3	Approve Transition scope	By 31 Jan 2022			X		
4	Agree structure to progress project through transition	By 31 Jan 2022			X		
5	Develop independent assurance and monitoring plan	By 31 Jan 2022		Approve			Develop / Recommend
6	Board - Agree Board Strategy, skills matrix	By 31 March 2022			X		
7	Appoint Chair	By 31 March 2022			X		
8	Agree DE form	?? By 30 June 2022	X	Approve			Develop / Recommend
9	Appoint Board	By 30 June 2022			X		
10	Option refinement - Appoint PD, Agree preferred scheme, confirm asset owner, operator, partner involvement in UD	?? By 30 June 2022 and later?			X		Recommend
11	Approve Sponsors Agreement and relevant legal documentation	By 30 Sep 2022		X			Recommend if DE is a partner
12	Approve Partnering Agreements	By 30 Sep 2022		X			Recommend
13	Agree UD ambition (incl. up zoning / land use / minimum density requirements)	By 31 December 2021			X	X	
14		31-Mar-23					
*Delivery Entity (includes any precursor entity)							
Note: Council could be removed from above table (as covered by Sponsors) if no independent actions/decisions required							
Assumptions:							
Assume current NLTF funding exhausted 30 June 2022							
Indicative timing assumes no decisions delayed							

Funding & value capture

As we noted in our last paper, our advice will include options for funding and value capture, but we will not recommend a single solution. The scope of the funding and value capture advice is in the appendix.

It is too early at this stage to say what the impact on the NLTF will be and we expect that Treasury and the Ministry of Transport will work with Waka Kotahi the source of funding for the next phase of work, as well as the ultimate funding solution for the project.

There will be significant policy components to the ultimate decision and, to this end, we are working closely with Treasury, Ministry of Transport and other policy agencies, who see this as having a precedent effect for other mega projects.

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, the public and other stakeholders, and the environment.

The greatest risks and opportunities in this phase of the project relate to social licence.

Related documents

City Centre to Māngere – next steps 24 February 2021 Board paper

City Centre to Māngere Update 25 March 2021 Board paper

Auckland Light Rail update 19 August 2021 Board paper

Appendix

Funding & value capture scope

