

## Mt Messenger Bypass Price Level Adjustment

Commercially sensitive

<b>Meeting Date</b>	<b>23 February 2021</b>
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<b>Pages</b>	5

### Purpose

This paper seeks approval for a Price Level Adjustment for the Te Ara o Te Ata Mt Messenger Bypass project.

### Recommendations

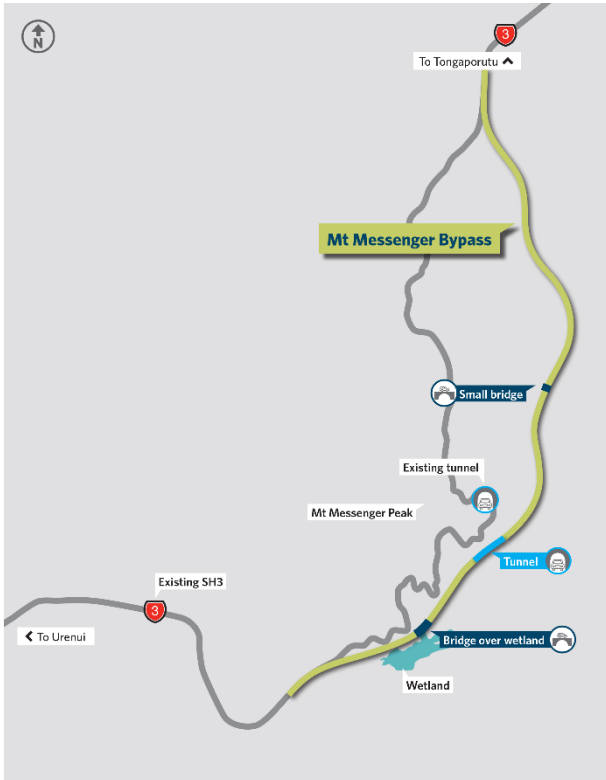
It is recommended the Committee recommends the Board:

- **Notes** the requirement in the 2021/22 Letter of Expectations to advise the Minister about the use of the NLTF in projects where Crown funding is involved.
- **Approves** a funding increase of up to \$88.4m for the Te Ara o Te Ata Mt Messenger Bypass project from the National Land Transport Fund State Highway Improvements Activity Class, raising the total approved funding to \$288.0m (P95), subject to advising the Minister.
- **Notes** the revised expected cost is \$280.8m (P50), an increase of \$81.2m over the previously approved \$199.6m.
- **Notes** the increased P50 funding will be spread over two NLTP periods with \$22.6m out of NLTP 2021-24 and \$58.6m out of NLTP 2024-27.
- **Notes** that the State Highway Improvements Activity Class is over-subscribed for 2021-24 and that approval of this funding will increase the pressure to use financing to meet the costs of State Highway improvements and/or other NLTP projects.
- **Delegates** to the Waka Kotahi Chief Executive authority to release funding above the revised P50 amount of \$280.8m, up to the maximum approved P95 value of \$288.0m.
- **9(2)(g)(i)** [REDACTED]

## Strategic relevance

The Te Ara o Te Ata Mt Messenger Bypass (the Project) will deliver on the key objectives in the Government Policy Statement on Land Transport 2021, which aims to create a transport system that reduces deaths and serious injuries (DSI's) and improves social, environmental and economic outcomes. Since the current funding allocation was confirmed, there have been additions to the project's scope as a result of protracted iwi and property negotiations, resource consent requirements, time delays, increased managed costs and escalation. These and the associated supporting activities have resulted in the need for additional funding.

## Background



The project re-aligns SH3 in North Taranaki between Uriti and Ahititi, and consists of 5.2km of new road, two bridges and a 230m tunnel. The project replaces the existing road, which is windy, steep and prone to slips. SH3 is a high freight route and any closure at Mt Messenger causes significant delays with the main detour adding approximately four hours of travel.

The project has been through a lengthy consenting process involving appeals to the Environment and High Courts. It has an environmental mitigation package that sees 3,650 hectares of native bush placed into pest mitigation in perpetuity. This will be one of the largest and most comprehensive ecological packages developed for a new road in New Zealand.

The project requires purchase of land from two main landowners: local iwi, Ngāti Tama, and private landowners, Tony and Debbie Pascoe. Waka Kotahi has reached agreement with Ngāti Tama, while negotiations with the Pascoe's and their supporters have hampered progress with their appeals to court decisions.

This high-profile project has strong support from the community, councils, local business and the public. Along with achieving important safety and resilience outcomes it will bring a much-needed economic boost to Taranaki and the Waikato regions by way of improving a critical freight route, job creation and business stimulus.

The project has been delayed by three years by the protracted land negotiations and Environment and High Court proceedings.

### Key Dates:

August 2017 – Business case and IQA approved which outlined preferred alignment option, Crown funding (\$89m) approved with remaining funding of \$110M sought from the NLTP.

December 2017 – Waka Kotahi Board approved increase of funding to \$199.6M after agreement is reached with the Mt Messenger Alliance (MMA) to reduce their target outturn cost (TOC) from \$218.7M.

December 2017 – Resource consent application lodged. Mitigation package established

December 2018 – Resource consent and Notice of Requirement (NoR) granted.

December 2019 – Favourable Interim Decision from Environment Court on consents and designation. Final decision subject to acceptance of property agreement with Ngāti Tama.

May 2020 – Ngāti Tama, iwi-wide vote with 83% in favour of the agreements with Waka Kotahi.

August 2020 – High Court appeal hearing (delayed due to Covid 19). Appeals dismissed.

February 2021 – Currently waiting on the final decision from the Environment Court and outcome from the appeal to the High Court to recall their decision.

## Key issues

### Price Level Adjustment

The price level increase allows for the increased costs of ecological and environmental mitigation as a result of negotiations with the Department of Conservation (DOC), delay costs due to court appeals, increased cultural mitigation and property costs, escalation, legal fees, property negotiations, increased tunnel safety systems costs, and Waka Kotahi managed costs. The updated cost at completion is \$280.8m. This cost has been reviewed externally.

Te Ara o Te Ata Mt Messenger Bypass – PLA Summary		
Delay related	Cost escalation, cableway mitigation, Preliminaries and General, Limb 2	<b>\$37.9m</b>
Ecological mitigation and conditions	Pest Management Area, Resource consent conditions, Limb 2	<b>\$15.5m</b>
Detailed Design	Further design development	<b>\$2.8m</b>
Agency costs	Increased Agency costs	<b>\$5.6m</b>
Agency escalation costs	Realised risk at PAA agreed rates.	<b>\$7.0m</b>
Property and Mitigation agreements	Property purchase, cultural mitigation and Ngāti Tama support	<b>\$8.5m</b>
Risk	Independent review reconciliation, includes COVID risk	<b>\$3.9m</b>
	<b>Total</b>	<b>\$81.2m</b>

### Value Engineering

9(2)(g)(i)

There has been a reduction in earthworks and rockfall protection as a result of geotechnical investigations. This has brought about \$3.8M in savings. Further potential value engineering is being investigated including tunnel fire life safety reductions, and reduction in embankment depth.

### Other options considered

All options for the realignment were assessed through a Multi Criteria Analysis (MCA) prior to

existing funding being awarded (see Attachment One). Funding was awarded on this option having the lowest environmental impact of the offline options and is lower cost than stabilising and reconstructing the existing alignment.

The Crown approved direct funding of \$212m for a list of projects under the Accelerated Regional State Highway Programme (ARSHP) including Mt Messenger. ARSHP was a commitment from the previous Government. Up to the end of 19/20, \$178m of the approved funding had been used on other ARSHP projects. Most of the remaining funding (\$33m) is forecast to be used in 20/21 to complete ARSHP projects, principally SH3 Awakino Tunnel Bypass (\$20m).

As a result, there is very limited ARSHP funding remaining 9(2)(b)(ii) to meet the increase in project costs for Mt Messenger and funding is being sought from the NLTF.

The Government has not been approached for further Crown funding to meet the increased costs of ARSHP. However, the Minister has delivered his Letter of Expectations to Waka Kotahi for 21/22. This states that “where the Crown invests directly in transport activities other options should be considered and brought to my attention before considering use of the NLTF to cross-subsidise supporting activities or cost overruns”<sup>1</sup>.

Without further funding the project in its current form cannot proceed. A “do nothing” option has been considered for Mt Messenger and was not selected because it did not meet the objectives of achieving safety and resilience on this route. The network objectives, including improving access between Taranaki and Waikato, will not be met with a “do nothing” option on Mt Messenger even with the work that has already been carried out at Awakino Bypass further north. 9(2)(g)(i)

The implications of not proceeding with the project at this stage would result in a profound loss of goodwill from our iwi partners, public reaction, and strong lobbying from stakeholder leaders including our council partners and road user groups. Stabilising and reconstructing the existing route would potentially have a positive impact on DSI’s but would not significantly improve the route resilience and journey travel time, or reduce ongoing maintenance costs. 9(2)(g)(i)

### ***Investment assurance***

A review of the price increase was carried out and concludes that the cost increases are required for the delivery of the project. These cost increases have been assessed under our investment decision-making framework and deemed to be appropriate. The Benefit Cost Ratio (BCR) was recalculated using an updated methodology, which resulted in a BCR of 0.8, an increase from 0.5 in 2017.

The proposed solution is considered to still be the best solution. Alternatives to stop the project or reduce the scope of the project would carry significant risk in terms of addressing stakeholders’ needs.

9(2)(g)(i)

### ***Affordability***

The project is part of the larger Awakino Gorge to Mt Messenger Programme which aims to deliver safety, resilience and travel time benefits on this key transport and freight route between Waikato and Taranaki. While the Awakino bypass is nearing completion and safety improvements are being

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<sup>1</sup> “Letter of Expectations 2021/22 for Waka Kotahi NZ Transport Agency”, dated 27 January 2021, refer para “Land transport funding”

completed north of Mokau, the benefits of the Programme cannot be realised without the Mt Messenger bypass being completed.

A time cost analysis has not been completed, however, allowing for uncertainty of start date, it is anticipated there will be two years of construction after June 2024. Therefore, \$54.7m of this PLA is forecast for the 2024-27 NLTP. There is a risk that some of this spending will need to be brought forward into the 2021-24 NLTP period.

If approved, this funding will be a committed call on NLTF State Highway Improvement funding in the next two NLTPs. The State Highway Improvement Activity Class is already fully subscribed in 21-24 with committed projects exceeding the lower (and affordable) GPS range.

Without additional funding, approval means an increased degree of "overprogramming" which will need to be carefully managed and/or will increase the likelihood of needing to use financing e.g. for a package of State Highway Improvement projects.

## Risks

The following risks are relevant to the decision:

**Cost increases:** This project as a whole has been beset with a substantial cost increase in an activity class that has significant funding constraints this financial year and in the next NLTP. The revised cost estimate has been reviewed by BondCM and is reconciled and factored into the P50/P95.

9(2)(g)(i) and 9(2)(b)(ii)



### **Increased community and stakeholder dissatisfaction if construction is not started this year.**

A decision to not approve the cost increases or reduce the scope of the project would negatively affect the reputation of Waka Kotahi and the ability to address stakeholders' requirements arising from the resource consent and design process.

The project construction start has already been delayed by three years. There is growing impatience from our key stakeholders including media, iwi, councils, community, and road user groups such as the Road Transport Association and the Heavy Haulage Association. We are continuing to engage with our stakeholders and have kept them informed of delays.

## Attachments

**Attachment 1** Alternatives from the Indicative Business Case

# Attachment 1

## Alternatives from the Indicative Business Case

For Mt Messenger, the 2015 IBC recommended the following alternatives be considered:

- Do Nothing
- Minor “on line” improvements (corridor-wide, mostly productivity and supply) including:
  - Vegetation removal;
  - Speed management;
  - Guard rail and shoulder widening;
  - Consistent signs and markings;
  - Variable message signs;
  - Improvements at stopping and pull-off areas;
  - Slope stability improvements;
  - Improved mobile phone reception; and
  - Increased enforcement
- Road-width and safety improvements, active warning signs at the Tunnel;
- Northbound passing lane;
- Southbound passing lane extension; and
- Mt Messenger realignment consisting of a new 6km long route to the west of the existing Mt Messenger that would bypass an 8.3km length of SH3 including the Mt Messenger tunnel.

As a result of the IBC alternatives assessment, there was an assessment of an enhanced asset management programme for the road, involving a series of minor “on line” improvements such as shoulder widening and retaining walls.

However, none of these minor on-line improvements in themselves are sufficient to address the problems identified for the route (poor road geometry, road closures and lack of passing opportunities) or to realise the benefits of investing in SH3 (improved safety, resilience and journey time).

These minor improvements also do not meet the project objectives, particularly objectives around improving safety, resilience and journey time. With this in mind, the realignment option to bypass Mt Messenger was considered the most apt to take forward for further detailed analysis and investigation.

Excerpt from “*SH3 Mt Messenger Bypass Detailed Business Case to proceed from initiation to implementation*”.