

MINISTERIAL BRIEFING NOTE

Subject	NZ Upgrade Programme – Takitimu North Link Stage 1 Update
Date	12 March 2021
Briefing number	BRI-2108

Contact(s) for telephone discussion (if required)				
Name	Position	Direct line	Cell phone	1 st contact
Brett Gliddon	General Manager, Transport Services	s9(2)(a)		✓

Action taken by Office of the Minister

- Noted
- Seen by Minister
- Agreed
- Feedback provided
- Forwarded to
- Needs change [please specify]
- Withdrawn
- Overtaken by events

12 March 2021

Minister of Transport

Minister of Finance

TAKITIMU NORTH LINK STAGE 1 PROJECT UPDATE

Purpose

1. This briefing provides you with an update on the current status of the Takitimu Northern Link project, as requested in your letter to Sir Brian Roche dated 22 February 2021.
2. This briefing also requests your approval for the Waka Kotahi Board to make a decision on awarding the design contract for Takitimu North Link Stage 1, preventing a delay to the project and enabling the project to be ready for construction in October 2021. Approval is requested by 16 April 2021 to ensure the Waka Kotahi Board can make a decision at its April Board meeting.

Background

3. In December 2020, Waka Kotahi provided Joint Ministers with a briefing that set out a number of significant decisions that need to be made prior to the baselining exercise being completed in March 2021 and subsequently reported back to Ministers [BRI-2090 refers].
4. In response to that briefing, you wrote to Sir Brian Roche, Waka Kotahi Board Chair, setting out the decisions that Joint Ministers are comfortable with being progressed. You also requested a full briefing for the Takitimu North Link project to inform your decision for what work can be progressed for this project ahead of the baseline reporting.
5. The NZ Upgrade Programme is being delivered over 10 years, so any decisions made about project scope and trade-offs now need to be considered within the context of a decade-long programme of work.
6. Our report to Joint Ministers following completion of the baselining exercise in March will provide significantly more information about our current understanding of the programme and the projects, including the impact that decision making at this stage of programme may have on the deliverability of the projects.

Takitimu North Link (Stage 1)

7. For the purposes of this briefing and to inform decisions around the Stage 1 Physical Works Design Contract Award, this briefing covers Stage 1 only. The decisions being sought in this briefing do not commit Waka Kotahi to proceeding with Stage 2 or have an impact on the deliverability of Stage 2. However, it should be noted Stage 2 will deliver significant safety improvements in one of New Zealand's highest risk and worst performing safety corridors. It will also deliver benefits for housing and growth in an already constrained Tauranga market.
8. Takitimu North Link Stage 1 is a new 6.8km four lane highway between Tauranga and Te Puna. It is one of two NZ Upgrade Programme projects in the Bay of Plenty and connects directly to the Takitimu North Link Stage 2 project between Te Puna to Ōmokoroa. See Attachment 1 for a map of the project stages.

9. Taking into account the increased cost estimate, this project still has a positive benefit cost ratio of 1.5, indicating this project remains value for money.
10. Takitimu North Link Stage 1 will deliver benefits for the community as part of the SH2 Waihi to Tauranga corridor (assessed in 2018), including:
 - Improved road safety between Te Puna and Tauranga.
 - 15% of the safety benefits to be gained from the SH2 Waihi to Tauranga corridor investment objectives.
 - a 3.5-star or greater road on the KiwiRAP national road safety risk rating system, where 1-star is the lowest and 5-star is the highest.
 - Supporting greater travel choice through public transport prioritisation (proposed to include one managed lane in each direction for public transport, freight, and high occupancy vehicles) and a shared path, which are both mode shift options that currently don't exist.
 - Provision of an alternative route to the existing SH2 between Tauranga and Te Puna in the event that there is a state highway road closure.
 - Removal of state highway traffic from the townships of Te Puna and Bethlehem where there are currently facilities, services and population on both sides of the state highway. This will allow greater cross connection and improve local access for the communities.
 - Supporting economic development and population growth in the Western Bay of Plenty in line with the Urban Form and Transport Initiative.
 - Improved travel time reliability.
11. Takitimu North Link will be a significant investment in the region and realises the Government's commitment to delivery, economic stimulus and job creation. At a minimum, the project is expected to create 102 direct and 271 indirect jobs, with more expected further down the supply chain. The project is also focused on creating opportunities for Māori owned businesses.
12. The project has been high profile and on the horizon for several years, resulting in significant expectations of delivery from community, partners and stakeholders.

Project cost

13. The cost estimates provided to the Government as part of the NZ Upgrade Programme establishment in late 2019 for Stage 1 were \$442m to \$534m. From this range, the Government selected a funding allocation at the mid-point of the range of \$478m.
14. This cost estimated was based on a pre-tender cost estimate developed for the project in September 2017 and reconciled through a parallel estimate process undertaken in October 2017.
15. Over the past few months, a 'value for money' solution has been confirmed through an extensive independent cost review process which reviewed each pricing component, assumptions and methodology with the tenderer in an open book manner.
16. The estimates have been reconciled and the updated project estimate is \$653m, \$175m over the initial funding allocation.

17. The cost increase is due to several factors, namely:
 - a. Specification changes and changes to standards to align with the latest 2021 requirements.
 - b. Consent compliance and mitigation requirements relating to the Wairoa River Tributary and mitigations works required in relation to property acquisition.
 - c. Increased knowledge through the tender design process, include geotechnical supplementary site investigations and consent conditions compliance requirements.
 - d. s9(2)(g)(i), s9(2)(j)
 - e. Cost escalation, which was not included in the original estimate.
18. The project is currently investigating including the extension to Snodgrass Road, currently part of Stage 2 scope, in Stage 1. Making this extension part of Stage 1 would eliminate the need for a temporary solution in Stage 1 and deliver a SH2 tie in that is in a safer and more practical location. The costs associated with deconstructing the temporary solution when Takitimu North Link Stage 2 progresses would also be eliminated.
19. The Takitimu North Link Stage 1 cost estimate does not include the extension to Snodgrass Road. The specimen design for the extension is expected to be completed mid-2021, which will include a cost estimate. The funding for this extension currently sits within the Takitimu North Link Stage 2 project and funding allocation. However, costs incurred are being separated out so they can be tracked and transferred if the extension progresses as part of Stage 1 (dependent on property, consenting and funding).
20. Given the cost increase for Stage 1, it can be expected that there will be a cost increase for Stage 2, including the Stage 1 extension. Additionally, the estimate used to determine funding allocations for the NZ Upgrade Programme was a 2017 specimen design (pre-implementation) level estimate. The estimate for Stage 2 was at a lower level of detail and was a concept level (detailed business case) estimate.
21. Stage 1 is being delivered as a standalone project, with Stage 2 being the next 7km of the new state highway corridor. The current tender document reserves the right for Waka Kotahi to include the Stage 2 works as a variation to the contract for Stage 1.

Current status

22. The project is in the Implementation phase with Design and Construct Tender Documents released to the sole tenderer in September 2020. The Design and Construct contract has been split into two parts to mitigate the risk of s9(2)(g)(i), s9(2)(j). The current contract award milestone for Part A (Detailed design) is April 2021 and September 2021 for Part B (Construction).
23. s9(2)(g)(i), s9(2)(j)
24. A delay in awarding the Design and Construct Part A contract beyond April 2021 will mean:
 - a. the significant Tauranga City Council water main relocations, which can only be undertaken in winter (in Part A contract) and must be completed before construction starts in 2021 may not be able to proceed as planned.
 - b. the loss of the first earthworks construction season (2021/22) for bulk earthworks, which would delay the project by up to a year and lead to further cost increases. While the

exact cost of a delay has not been estimated, there would be additional escalation costs, as well as additional contractor costs for the extra time on the job.

- 25. The recent independent cost review process confirms a robust value for money solution and contract price. This contract price will only increase with delays to commencing the work.
- 26. We have the confirmed affordability threshold, which we expect to be exactly reflected in the tender price. Waka Kotahi has confidence moving forward that any further changes will only be due to realisation of key risks (for example delay to property, unforeseen ground conditions, COVID etc).
- 27. In order to meet the timeline to enable construction to begin in October 2021, we require approval from you for the Waka Kotahi Board to make a decision on awarding the Takitimu North Link Stage 1 Design and Construct Contract Part A before 16 April 2021.

It is recommended that you:

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| 1. Note the contents of this briefing | Noted | Noted |
| 2. Approve the Waka Kotahi Board to make a decision on awarding the Takitimu North Link Sage 1 Design and Construct Contract Part A at their 20 April 2021 meeting. | Yes / No | Yes / No |

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Brett Gliddon
 General Manager, Transport Services
 Date: 12 March 2021

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Hon Michael Wood, Minister of Transport
 Date:

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Hon Grant Robertson, Minister of Finance
 Date:

Attachment 1: Takitimu North Link Stage plan

