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THE TREASURY  
Kaitohutohu Kaupapa Rawa

To: Minister of Finance

**AIDE MEMOIRE: AUCKLAND CBD RAIL TUNNEL****Purpose**

This aide-memoire responds to your request for more information on the Auckland CBD Rail Loop Tunnel project. You requested advice on "where it's up to and where it's going".

**Summary**

- The project is currently at the concept design stage.
- The main decision point, at which significant costs will begin to be incurred, is the decision to lodge a Notice of Requirement (NOR) to designate the tunnel route. KiwiRail may be ready to lodge this from December 2010 onwards.
- However, the project will not proceed to the NOR stage until a decision about funding has been made, and in this Ministers will ultimately be able to exercise decision-rights (unless the Auckland region decides to pay for the project in its entirety).
- The National Infrastructure Unit plans to keep a close eye on this project and will advise you further as key decision points arise.
- In particular, we will be monitoring closely the methodology used to determine the costs and benefits of the project, and will be encouraging the Ministry of Transport to develop, with NZTA, a more comprehensive funding framework for metro rail capital projects.

**Background**

The idea for a rail tunnel through the Auckland CBD, creating a loop from Britomart Transport Centre to Mt Eden station, has been mooted for some time (in fact, since about 1914) and is viewed by many Aucklanders — rightly or wrongly — as an inevitability, with the timing being the only unknown. The project forms a key part of Auckland's Regional Land Transport Strategy and is strongly supported by both the mayor of Auckland City and the Chair of the Auckland Regional Council.

At around \$1.5 billion it would be the most expensive single public transport project ever undertaken in New Zealand.

Beyond the contribution that an extension of the metro rail network into Auckland CBD might make to increasing rail patronage, as well as its long-term effect on the the growth of Auckland through facilitating greater residential and commercial intensification along its route, a key rationale for the project is to increase the capacity of Britomart by making it a through station. Currently the capacity of Britomart is constrained by its limited number of platforms and the fact that trains have to both enter and exit out of the same narrow throat. This limits the number of train movements that

can be accommodated and by extension limits the long-term capacity of the entire Auckland metro rail network.

The perceived importance of the tunnel project to the long-term growth of Auckland's rail network was a factor in the decision to proceed with electrification of the Auckland network, as the length of the tunnel would make diesel trains (with their emissions) impractical.

In 2009 the Auckland Regional Transport Authority (ARTA) and KiwiRail jointly commissioned a CBD rail tunnel study. The study is being undertaken by consultants from AECOM, Parsons Brinkerhoff and BECA, and is costing approximately \$6 million. Half of the cost of the study is being paid for by KiwiRail (using the Crown 'Rail Transport Upgrade and Growth' appropriation) and ARTA (with 60% funding assistance from the NZTA).<sup>1</sup>

The purpose of the study is to:

- evaluate options and identify a preferred route for the tunnel;
- undertake concept design for the preferred route;
- undertake an economic assessment (business case); and,
- prepare documentation for a Notice of Requirement (NOR), which is required under the Resource Management Act to designate and protect the preferred route.<sup>2</sup>

A Preliminary report outlining three tunnel options was released in January 2010, and on 11 March 2010 a preferred route incorporating three new stations was announced, bringing to a close the first phase of the study. The preparation of the concept design and business case will be undertaken between now and November, and it is anticipated that the NOR will be ready to be lodged by December 2010.

#### **Key Decision Point: Six Months' Time**

Rail patronage forecasts indicate the tunnel may not be required until 2020 at the very earliest, or more conservatively — and perhaps realistically — 2025 to 2030. The key reason for undertaking this study now is to ensure the route is protected from future development (mainly other below-ground developments), and thus help minimise the future cost of the option.

When to lodge the NOR, which will be ready from December 2010 onwards, represents a key decision point in the life of the project. It is from this point that significant costs will start to be incurred. Even though the project is a tunnel, there will be costs involved in purchasing land or compensating land-owners where the tunnel or stations surface, or where the tunnel impacts on the foundations of buildings. These costs could be in the order of \$50 to \$100 million or more, and will begin to be realised as soon as the designation is confirmed in the District Plan.

The costs of designating and protecting the route are such that it may create a strong expectation that an actual decision has been made to proceed with the tunnel construction. Therefore the decision to designate, once taken, may introduce an

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<sup>1</sup> You will note that this means central government is essentially providing 80% of the cost of this study.

<sup>2</sup> In the case of the rail tunnel, KiwiRail will act as the requiring authority, giving notice to the Auckland City Council that it is seeking to designate land for the purposes of the project.

element of path dependency, making it more difficult to explore alternative public transport options for the Auckland CBD, or to exit from the project altogether.

For this reason, we consider that the business case accompanying the NOR study will need to be as comprehensive and robust as if the decision were being made to effectively construct the tunnel.

We have seen a preliminary report from the consultants on the proposed methodology for assembling the business case. **Withheld under s9(2)(g)(i) and s9(2)(b)(ii).** In doing this we will draw on similar work we are undertaking in preparation for assessing upcoming Roads of National Significance projects.

The Ministry of Transport is leading the government feedback on the business case document. At this stage we are confident that the Ministry is providing the right messages to ARTA, KiwiRail and their consultants, but we will nevertheless be monitoring progress closely.

### Funding Issues

#### 1. 'Who pays?'

This is a major question that will need to be resolved before a decision is made to proceed with designation and route protection. This infrastructure project highlights the fact that there is currently no agreed funding framework for metro rail capital projects.

You may recall that on 9 March 2009 Cabinet decided [CAB Min (09) 8/11-14 refers] that the Crown, rather than the NZTA, would be the sole funder of existing rail capital projects. Consequently, the NZTA has ceased to fund future metro rail capital expenditure.

We consider that, should the business case stack up, the Crown should not be the sole funder of the CBD rail tunnel project (if it is a funder at all), as it was for the DART and Electrification rail projects in Auckland. There is a strong rationale for the new Auckland Council, with the scale of resources available to it, being a significant contributor towards the costs of this project.

#### 2. Transport funding framework

In addition, we suggest that the Ministry of Transport needs to give consideration to developing a funding framework for metro rail capital projects, as it is not adequate for these types of projects to be considered as ad-hoc Budget requests made in isolation from other transport investments. We consider that part of this involves NZTA once again becoming involved in metro rail project assessment and funding. This is important for ensuring metro rail projects are evaluated alongside other transport projects that may deliver the required outcomes, and is important for ensuring those who benefit from the project also contribute towards the costs.

We will be exploring this with the Ministry. In addition we will be conveying the expectation that the project will not proceed to the Notice of Requirement stage until a clear decision about funding has been made. In this you and your Cabinet colleagues will ultimately be able to exercise decision-rights, unless the Auckland region decides to pay for the project in its entirety.

### Other Matters

**IN-CONFIDENCE**

We note that overall cost and value-for-money do not appear to be a consideration in the recent preferred route evaluation. The consultants indicate that there would be, at least relative to the size of the project, a minimal cost variance between the three route options. This is due to the topography and road layout of the CBD which affects all options. The main opportunity for cost savings, beyond not proceeding at all, would be in the number of stations constructed on the route. Although three stations were identified as part of the preferred route, we understand that the more detailed business case will include consideration of the costs and benefits of two- or one-station options as well.

Nevertheless, we note that alternative options to the CBD rail tunnel are no longer being actively considered by the relevant parties. At the point a decision needs to be made, these other options will become a relevant consideration, especially if the benefits of the tunnel do not stack up against the costs.

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