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Strategic Risks Associated with Externally Led Mega Rapid Transit Network Projects

For decision: For noting:

Te tūtohunga / Recommendation

That the Auckland Transport Board (board):

- a) Notes the addition of an externally led Mega Rapid Transit Network Projects (MRTNP) risk area will be included in the 18 key risk areas that are monitored by the board and the Finance and Assurance Committee (committee) on a quarterly basis.
- b) Notes that the risk appetite for this risk area will be presented to the committee and board for endorsement.

Te whakarāpopototanga matua / Executive summary

1. There are currently four externally led MRTNPs underway in Auckland that will have significant impact on the future of the Auckland transport system, and therefore on the future of Auckland Transport (AT). AT is the statutory entity responsible co-ordination, integration, and management of Auckland's transport system but AT currently has no sponsorship role for any MRTNP and its role within each project is inconsistent and there is no cross MRTNP governance body.
2. These projects, and their governance arrangements present financial, integration, resources, environmental and stakeholder risks to AT's ability to discharge its statutory obligations and its role as kaitiaki for the Auckland transport system.
3. There are also several other complex projects on the horizon such as Integrated Ticketing and Time of Use Charging that are likely to present similar challenges and risks.
4. These risks have significant, long-term impacts across the organisation and the transport system. Accordingly, the risk area needs to be incorporated into the 18 key risk areas within the AT corporate risk framework, with progress to be monitored by the board and committee on a quarterly basis.

Ngā tuhinga ō mua / Previous deliberations

Date	Report Title	Key Outcomes
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<p>16 August 2023 Design and Delivery Committee</p>	<p>Strategic Risks Associated with Externally Led Mega Rapid Transit Network Projects</p>	<p>Directors observed that AT’s resources are consistently drawn on as a technical resource for these types of projects, yet AT is not provided with appropriate opportunity to play a governance role and to undertake its functions as kaitiaki of the transport system.</p> <p>Directors received additional advice on recent deliberations by the Ministry of Transport on the future arrangements for owning and operating Light Rail in Auckland.</p> <p>Directors also noted that in addition to the four projects noted in the report, intervention into Auckland’s heavy rail system over the next 30 years also needs to be considered, as did other significant potential interventions such as Integrated Ticketing and Time of Use Charging.</p>
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Te horopaki me te tīaroaro rautaki / Context and strategic alignment

5. AT works closely with Auckland Council (AC), Waka Kotahi New Zealand Transport Agency (Waka Kotahi) and the Ministry of Transport (MoT) to develop and implement transport plans and policies that meet the needs of Auckland's growing population and support the city's economic, social, and environmental objectives. The relationship between AT and these organisations is defined by a range of legal and statutory documentation, including the Local Government (Auckland Council) Act 2009 and the Land Transport Management Act 2003, which establishes AT as the statutory body responsible for "the co-ordination, integration, and management of Auckland’s transport systems, infrastructure, facilities, and services."
6. To effectively discharge these responsibilities, AT requires the ability to influence activities that may materially impact its ability to do so, now or in the future, particularly where AT will have ongoing accountabilities and/or responsibilities from these activities.
7. Within the Auckland Region, there are currently four Mega Rapid Transit Network Projects (MRTNPs) being funded, governed and managed externally to AT, but for which AT will have long term accountabilities and/or responsibilities once the projects are completed over the next 10 – 30 years. A mega project refers to a large-scale and complex undertaking that typically involves investment over \$1b, extensive planning, and considerable resources. Mega projects are characterised by their cost, size, scope, and impact on multiple aspects of society, such as infrastructure, economy, environment, and social dynamics. The MRTNPs are City Rail Link (CRL), Auckland Light Rail (ALR), Waitematā Harbour Connections (WHC) and Northwest Rapid Transit (NWRT).
8. There is a further MRTNP associated with the development of the Auckland rail network, which will be included within this risk category, however AT is working in partnership with Kiwirail to develop this programme of work.
9. While mega projects is the nexus of this risk, it is applicable to any externally led complex projects that will have strategic transport system implications, such as the introduction of Integrated Ticketing and Time of Use Charging. The development of risk class, appetites and mitigations will be developed to include such projects.

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10. AT has no sponsorship role on any of the MRTNPs. AC has sponsorship roles on ALR and CRL through the Mayor and Councillors. AT is providing technical advice to each project individually as a stakeholder but AT's roles within the management and governance are inconsistent. Additionally, there is no oversight function across the MRTNPs. The governance structure of each MRTNP is shown at Attachment 1.
11. The MRTNPs are progressing with key milestone decisions planned to be taken on preferred route option for WHC and ALR in July 2023, with final investment decisions to take place early in 2024
12. MoT is currently facilitating discussions with AT, KiwiRail, Waka Kotahi and ALR to determine the future owner/operator for light rail as a new asset class within New Zealand. Should AT not be the future owner and/or operator, AT still requires stronger role in the MRTNPs to be able to effectively function as the integrator of the Auckland transport system.
13. There is a need to understand and manage the long-term strategic risks the MRTNPs collectively pose to AT such that appropriate mitigation responses can be developed and implemented to influence the MRTNPs to achieve best outcomes for the wider Auckland transport system.

Ngā matapakinga me ngā tātaritanga / Discussion and analysis

14. The MRTNPs are intergenerational, city shaping projects with delivery lifecycles of 10-30 years and subsequent operating lifecycles of more than 50 years. They will define the future of the Auckland transport system and therefore the future of AT. AT's overarching interest in the MRTNPs is that they positively contribute to best transport system outcomes for Auckland, deliver best whole of life value and enable sustainable delivery of the level of service expected from Aucklanders.
15. The risk is divided into the following subclasses: Financial, Integration, Resource, Environmental and Stakeholders (FIRES).
16. From a financial perspective - the whole of life cost of the MRTNP and the subsequent investment required to adapt the wider Auckland transport system, will impact the future financial sustainability and strategic performance of AT.
 - a. The collective capital cost of the MRTNPs is estimated at more than \$50b. This is double the current value of AT's asset base. The opportunity cost of this money against the needs of the wider Auckland transport system needs consideration. Particularly when current capital deficit means AT cannot address the needs of existing infrastructure and customers or address existing level of service and policy expectations, for example climate targets.
 - b. The incidental whole of life costs of the MRTNP assets, assuming an annual operations and maintenance expenditure in the range of 3-5% of the capital cost, could see the average annual operations and maintenance expenditure demand in the order of \$2b over the asset lifetime. Accordingly, it is prudent that the future owner operator should have a significant role in ensuring the solutions delivered optimises the costs for which they will be liable.
 - c. The benefits of the MRTNPs will be reliant on AT investing significantly to adapt the wider transport system. For example, to realise the capacity of the CRL, AT must invest approximately \$3.5 billion into the wider rail system over the next 10 years. Without additional

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funding, AT must prioritise this against its other strategic priorities, compromising the ability to deliver the wider transport system strategic outcomes.

17. From an integration perspective - AT does not have a role within the MRTNPs that is reflective of its responsibility as either the future owner and/or operator of the assets or as kaitiaki of the transport system and there no oversight across the MRTNPs to ensure that decisions are being made to the benefit of the wider Auckland transport system. This is particularly relevant where there are critical dependencies between the MRTNPs, for example, the mode choice for ALR will determine the mode, and therefore cost for WHC and NWRT. These should technically be delivered as a single programme, in accordance with Treasury's Better Business Case and P3M3 guidance, with programme level governance to make decisions in consideration of the wider benefits and outcomes.
18. From a resource perspective - there is and will be increasing demand on key AT resources as the MRTNPs progress. There will be competing demand on the same resources from the market as it gears up to support the MRTNPs and looks to demonstrate "local knowledge". If there is not an appropriate capability and capacity plan there is risk to the quality of contribution and therefore outcome of the MRTNPs. There is a companion risk to ATs capacity to deliver business as usual activities.
19. From an environmental perspective - the MRTNP's are currently aligned with the national Emissions Reduction Plan (ERP). AT is required to meet the Council's Transport Emissions Reduction Pathway (TERP) which has more stringent targets. AT's target for reducing emissions associated with construction and materials is 50% by 2031, which forms part of the Auckland Council target of 50% reduction in emissions by 2030. Construction of MRTNPs will materially impact AT's ability to achieve this target as the sheer volume of concrete/steel in the MRTNP assets AT will inherit will significantly increase the overall embodied carbon and potentially offset any improvements made prior to their delivery.
20. Finally, from a stakeholder perspective - with multiple MRTNPs being delivered by different entities there is a significant risk that Aucklanders will not have clear and consistent pathways to engage. Additionally, the MRTNPs do not have the statutory obligation to consult as comprehensively as AT or the requirement to deeply understand and respond to what matters most to Aucklanders. However, as has been evident with the CRL project, Aucklanders will assume that AT is responsible for the projects, resulting in significant reputational risk from any adverse impacts to public transport services, project delays or cost increases.
21. These risks have significant, long-term impacts across the organisation. As such, the strategic risks from MRTNPs are proposed to be established as one of the 18 key risk areas within the AT corporate risk framework to be monitored by the board and Finance and Assurance Committee on a quarterly basis.

Ngā tūraru matua / Key risks and mitigations

Key risk	Mitigation
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Failure to recognise, plan for and respond to the key risk area associated with MRTNPs has a significant impact on AT's ability to effectively discharge its future statutory obligations and its role as the kaitiaki of the Auckland transport system.

Once established as a key risk area, appropriate mitigation actions will then be developed and implemented.

Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

22. There are no financial impacts of adding this risk area to the organisational risk framework.

Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

23. There are no environment and climate change impacts of adding this as a key risk area to the organisational risk framework.

Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives

Mana whenua

24. There are no mana whenua impacts of adding this as a key risk area to the organisational risk framework.

Ngā mema pōti / Elected members

25. There are no impacts of adding this as a key risk area to the organisational risk framework.

Ngā rōpū kei raro i te Kaunihera / Council Controlled Organisations

26. There are no impacts of adding this as a key risk area to the organisational risk framework.

Ngā kiritaki / Customers

27. There are no impacts of adding this as a key risk area to the organisational risk framework.

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Ngā whaiwhakaaro haumarū me ngā whaiwhakaaro hauora / Health, safety and wellbeing considerations

28. There are no impacts of adding this as a key risk area to the organisational risk framework.

Ā muri ake nei / Next steps



29. Once established as a key risk area, a deep dive will be conducted into the cause, consequences and risk appetite so that appropriate mitigation actions can be developed and implemented.

30. Quarterly updates will be provided to the board and Finance and Assurance Committee.

Te whakapiringa / Attachment

Attachment number	Description
1	Governance arrangement for the MRTNPs
2	Draft Cabinet paper

Te pou whenua tuinga / Document ownership

Submitted by	Chris Watson Group Manager Investment Development	
Recommended by	Jenny Chetwynd Executive General Manager Planning and Investment Rodger Murphy Executive General Manager Risk and Assurance	
Approved for submission	Dean Kimpton Chief Executive	

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