capacity at Northport and the result of a rail focused design for the port, as opposed to detailed analysis of possible future demand for rail. This is one of the key drivers behind the positive Benefit Cost Ratio (BCR) set out in the Working Group's economic analysis, undertaken by EY.

33. EY has suggested that a targeted market sounding needs to be undertaken to better understand the possible demand for rail from Northport to Auckland. The North Auckland Line (NAL) business case, completed in March 2019, also recommended further exploration of the potential rail freight demand. We support this approach and recommend investigation with potential users of an upgraded NAL and Marsden Link.

Avoided road infrastructure costs

34. Our earlier advice (OC190930/T2019/3021 refers) also notes that the Working Group's preferred option assumes $4.3 billion of avoided road infrastructure costs (mainly on Auckland's road network). This was the other key driver behind the positive BCR. EY has since confirmed that these road costs cannot be avoided, but the timing and sequencing of these may change if the Ports of Auckland freight operations are moved.

35. EY notes that transport modelling is required to have more certainty about the timing and sequencing of road projects in a full move to Northport scenario. We recommend that this is undertaken, including further analysis of the potential congestion benefits in Auckland.

Land value uplift

36. The Working Group has advised that it considers more efficient use of land, and the consequent land value uplifts, will be a key benefit of its recommended option. However, the report has not considered the wider economic benefits that alternative use of the land, beyond the Ports of Auckland land, could provide to the wider Auckland region.

37. Further analysis of land use scenarios is needed to more accurately quantify what these benefits might be.

Effects on supply chain

38. The Working Group advises in its final report that it does not believe that moving the Ports of Auckland freight operations to Northport will cause an inflationary effect across the supply chain. This conclusion is based on discussions with industry representatives as well as previous analysis undertaken by the Ministry of Transport in 2010 on transport costs and charges.

39. We note however that the economic analysis, undertaken by EY, states that all move scenarios increase transport costs and environmental impacts relative to the base case (Ports of Auckland remaining on site). EY states that the assumed 70 percent rail mode share will reduce the economic impact of the lengthened logistics and supply chain (due to the modelled rail freight costs being lower than road freight costs).

40. EY caveats that the modelling is extremely sensitive to mode choice, meaning that it is highly dependent on the majority of freight following the enabling investment (meaning that the majority of freight forwarders will use Northport and the upgraded North Auckland Line).

41. Given the potential high costs to the supply chain if these assumptions are not realised, we recommend further scenario and sensitivity testing on the recommended option.

Recommended next steps

42. The Working Group recommends that its recommended option is adopted as government policy, to send a clear signal to local government, port companies and supply chain participants that it accepts the case for change. In addition, it recommends that central government facilitates the process through an appropriate project delivery mechanism that is sufficiently resourced and mandated.

43. It also recommends that a one year deadline is set, and that if significant progress is not made in this timeframe that Cabinet introduces legislation to Parliament to take the necessary steps to make it happen.

44. At this stage, we recommend that Ministers agree to direct officials to develop a joint work programme, with central and local government, port companies and private enterprise, to address the uncertainties and further work outlined above, as well as options and issues related to implementation. This work would enable Ministers to be in a better position to take decisions in relation to the UNISCS and the Working Group's final report.

45. The proposed approach by the Working Group involves significant regulatory intervention by central government if progress is not made within a year. There are risks with such a directive approach, such as implications for private property rights. We recommend that, before Ministers agree in principle to such an approach:

    a. further engagement with local authorities and port companies should be undertaken to determine their willingness to cooperate, and
    b. officials provide further detail of the potential form and feasibility of any regulatory and legislative intervention.

46. We propose to scope further work in relation to the following:

    a. Further refinement of logistics and supply chain analysis, including market response from infrastructure investors, carriers and shippers.
    b. Transport and land use planning impacts, including congestion relief benefits.
    c. Funding and financing options.
    d. Governance and delivery options.
    e. Legislative and regulatory considerations.

47. We propose to report back in March 2020 with a draft work programme, for subsequent Cabinet approval in April 2020. This would be developed jointly with key local government and port company partners.

48. We recommend that Ministers approve an initial budget of $1 million to the Ministry of Transport from the Provincial Growth Fund to enable officials to meet the external consultancy costs to undertake this further work. This initial budget reflects the size and complexity of the work needed. When we report back in March 2020, we will provide more detailed costs and resourcing needs for your consideration.

49. If you agree, we will draft a Cabinet paper for your review, which seeks approval to develop the work programme.

Communications with key partners

50. The Working Group notes that cooperation from the cornerstone partners, particularly the three local government entities and the port companies, is necessary for any

transition. Engagement with these partners has been limited to date. We recommend that Ministers engage with these organisations prior to making any announcement on the UNISCS. It will be critical to work alongside project partners if this complex initiative is to be achieved.

51. Consensus also needs to be built among the key partners on the arguments against other port location options. These include the loss of resilience and competition counting out sole reliance on Port of Tauranga, the safety and insurance constraints against Manukau Harbour, and the significant costs of a Firth of Thames option.

Proposed Provincial Growth Fund investment in North Auckland Line

52. The Provincial Development Unit (PDU) has been working with KiwiRail on possible investment in the North Auckland Line (NAL), and the Marsden Point Link (MPL). As part of Budget 2019, the Government committed $300 million of the PGF to invest in regional rail. In July 2019, Cabinet approved $128 million of projects out of this $300 million allocation, and agreed that decisions related to the unspent balance of $172 million would be made on receipt of the final UNISCS Working Group's report and recommendations [DEV-19-MIN-0213 refers].

53. We understand that Cabinet will be asked to make decisions on the final UNISCS report as well as the PGF investment in the NAL in parallel. A decision on full investment in the NAL is dependent on decisions Cabinet makes on the UNISCS and the Working Group's final report.

54. If Ministers wish to make an investment in the interim, we recommend the following staged options for PGF investment in the NAL and MPL, which we consider are the two lowest risk investments given the work still required to better understand the impact of a full move to Northport.

Remaining work on the NAL for 2019-21 ($69.7 million)

55. This includes work to bring the line up to minimum viable import-export container standards, with further work particularly on tunnels. This is the logical next stage of investment to upgrade the current line.

Land acquisition along the Marsden Point Link ($40 million)

56. Ministers could also seek agreement to fund the acquisition of the remaining land along the Marsden Point Link, totalling $40 million. We consider this is an acceptable investment risk prior to completion of the further detailed work on the port move, as it would be possible sell the land if investment decisions change in the future.

57. We do not recommend any further investment on the NAL or MPL at this stage, as it risks committing the Crown to a currently unknown quantum of costs (both capital and operating costs) related to the Working Group's recommendations and that further detailed work may not support the nature or timing of these investments. As noted above, the full capital cost of the NAL is estimated at $1.2 billion over 10 years. The remaining $172 million from the PGF would only cover a small proportion of this total cost, meaning the Crown would need to fund the remaining amount.

58. [redacted]

[redacted]

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