



# Kaipara Package

Reason for this briefing	We have identified opportunities where Government investment in the Kaipara District could unlock economic productivity in the region.
Action required	Discuss the transport components of the Kaipara Package at the Regional Economic Development Ministers' meeting on 29 January 2019 and, if Ministers agree, approve the transport components of the Kaipara Package to be funded through the Provincial Growth Fund.
Deadline	29 January 2019.
Reason for deadline	The next Regional Economic Development Ministers' meeting is on 29 January 2019.

# Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Helen White	Manager, Investment	Redacted - Privacy	<b>\</b>
Redacted - Privacy	10	37	

## MINISTER'S COMMENTS:

Date:	23 January 2018	Briefing number:	OC181233
Attention:	Hon Shane Jones (Minister for Regional Economic Development)  Hon Grant Robertson (Minister of Finance)  Hon Phil Twyford (Minister of Transport)	Security level:	In-Confidence
00	Hon David Parker (Minister for Economic Development)		

Wilnister of Transport's off	ice actions	
□ Noted	☐ Seen	☐ Approved
☐ Needs change	☐ Referred to	
☐ Withdrawn	☐ Not seen by Minister	☐ Overtaken by events

#### Purpose of report

 This briefing seeks Regional Economic Development (RED) Ministers' approval to fund \$19.41 million of the transport components of the Kaipara Package through the Provincial Growth Fund (PGF).

#### **Executive Summary**

- 2. There are significant opportunities to unlock economic productivity in Northland, particularly in the Kaipara District. Kaipara District Council (KDC) has developed the Kaipara Kickstart (a programme of works to develop its economic productivity via investment in transport and primary industries) in response to these opportunities. The Kaipara Kickstart is comprised of three legs: Moana (wharves and ferries), Roads, and Kai (primary industries).
- 3. Drawing on the Kaipara Kickstart, the Provincial Development Unit (PDU), Ministry for Primary Industries (MPI), and the New Zealand Transport Agency (NZTA) have developed the Kaipara Package, a suite of projects that could be funded through the PGF (\$28.24 million in total). The Kaipara Package is also divided into Moana, Roads, and Kai to reflect the Kaipara KickStart. The Kai component of the Kaipara Package (\$0.98 million) was approved by Senior Regional Officials (SROs). However, RED Ministers' approval is required for the Moana and Roads components (transport components).
- 4. The National Land Transport Fund (NLTF) will assist in delivering some of the transport components of the Kaipara Package (\$6.84 million) alongside contribution from KDC (\$1 million) and Te Roroa iwi (\$0.01 million). However, given the strong case for PGF funding, we consider that the remaining funding could be met from the PGF (\$19.41 million).
- 5. We propose Ministers agree to release the funding for immediate physical works, investigations, and programme support. Funding for the remaining physical works should be held as a tagged contingency and released by the Minister for Regional Economic Development, Minister of Finance and Minister of Transport once conditions have been met.
- 6. We recommend Ministers approve funding up to \$19.41 million for the transport components of the Kaipara Package from the PGF.

# There are significant opportunities for economic growth in the Northland region, particularly in the Kaipara District

- 7. The Northland Region has substantial agricultural, horticultural, and tourism assets with development potential. Northland has been identified as a surge region for the PGF, where increased investment from the Government could maximise the region's potential.
- 8. The Te Tai Tokerau Northland Action Plan identifies transport as one of the "game changers" underpinning business growth in the Northland region. Roading in particular is critical for Northland's development, as it affects virtually every part of the region's economy. A number of projects identified in the Action Plan are underway including investigation into the Twin Coast Discovery Route and construction of the Puhoi to Warkworth motorway.
- 9. While recognising the critical role roads play in enabling economic activity in Northland, KDC has been unable to fund upgrades and new infrastructure due to financial constraints. Additional funding would enable investment in infrastructure to better connect the more remote communities of the Kaipara District, help improve economic activity, including

- tourism, and reduce the cost of doing business by enabling improved access for heavy vehicles such as logging and freight trucks.
- 10. Parts of the Kaipara District have relatively poor accessibility, and options for water transport on Kaipara Harbour are currently limited. The transport investment outlined in this briefing also includes an investigation into opportunities for better wharves and ferry infrastructure and services within Kaipara Harbour, including the possibility of direct services to the Auckland region.

## KDC has developed the Kaipara Kickstart in response to opportunities in the region

- 11. In response to the opportunities identified above, KDC developed the Kaipara Kickstart, a programme of works designed to provide a step-change in regional economic development by providing the foundation for further growth. The proposed programme of works has been developed by KDC in conjunction with a range of local stakeholders, including consultation with local iwi. The Kaipara Kickstart is comprised of three legs: Moana (wharves and ferries), Roads, and Kai.
- 12. KDC has applied for funding through the PGF for a number of projects within the Kaipara Kickstart. Te Uri O Hau have endorsed the KDC's application, and Te Roroa iwi jointly submitted an application for one project alongside KDC.
- 13. From these applications the PDU, MPI, and NZTA have developed a package of works that strongly aligns with the intention and criteria of the PGF. The total cost of the Kaipara Package is expected to be \$28.24 million.

## 14. The Kaipara Package is:

	PGF (\$ millions)	Other sources (\$ millions)	Total (\$ millions)
Kaipara Moana (\$4.95 million)		-	
Wharves analysis	0.95	-	0.95
Implementation of Wharves analysis (wharves and roads dependent on the outcome of Wharves analysis)	4.00	-	4.00
Kaipara Roads (\$22.31 million with \$14.46	million expected through	h the PGF)	
Road re-metalling	3.15	4.91	8.06
50MAX High Productivity Motor Vehicle (HPMV) network extension	0.23	2.93	3.16
Pouto Road phase 1	5.05		5.05
Pouto Road phase 2	3.13	-	3.13
Waipoua River Road widening and sealing	1.60	0.01	1.61
Programme support	1.30	-	1.30
Kaipara Kai (\$0.98 million)			
Establishment of Kaipara Kai Transformation	0.98	7	0.98

15. The Kai component of the Kaipara Package (\$0.98 million) was approved by SROs on 12 December 2018. However, funding for the Kaipara Moana and Roads components (transport componets) exceed SRO's delegation.

#### The Kaipara Package aligns well with the Government's vision for regional development

- 16. The transport components of the Kaipara Package are expected to support regional economic development in Kaipara by:
  - improving links between the district and major transport hubs and markets
  - safeguarding and expanding visitor and business access to and within the district
  - generating employment opportunities through facilitated capability development, the pipeline of work, and increased investments in the district.
- 17. The transport components of the Kaipara Package will also increase resilience, connectivity, and access to communities by providing alternative routes that are fit for purpose.
- 18. For example, by extending the HPMV networks and providing alternative modes of transport, the transport components will provide a cost-effective link to the market and will improve resilience in the transport network. With products able to travel more efficiently from origin to the market, the opportunity to increase productivity is created.
- 19. The transport components also provides wider economic benefits and links to other regional initiatives. For example, the transport complements and builds on the wider economic benefits currently identified in existing and planned regional activities, such as the Twin Coast Discovery Route.

#### Arguments for PGF funding for the transport components of the Kaipara Package are strong

- 20. In February 2018, Cabinet agreed that the NLTF should continue as the primary source of central government funding for land transport projects and noted the importance of integrated regional planning, with Regional Land Transport Plans (RLTPs) as the key mechanism for regions to prioritise their land transport needs.
- 21. Cabinet also agreed that the PGF can play a complementary role to the NLTF, and can support a wider span of transport projects in the regions by:
  - providing a source of funding for local authorities that face significant difficulty in meeting their local share
    - bringing forward projects that are strategically important to a region's productivity potential, which are unable to be funded in a sufficiently timely way through the National Land Transport Programme (NLTP)
  - providing a source of funding for projects where funding is not secured through the NLTF, but which otherwise meets the government's criteria and objectives for the PGF.

- 22. The transport components of the Kaipara Package align well with Cabinet's intentions for the PGF and the transport-specific PGF principles. In particular, the transport components of the Kaipara Package:
  - facilitate economic growth/activity, as well as social connectedness
  - provide a source of funding for local authorities with difficulty meeting local share requirements
  - provide a source of funding for projects that do not secure funding through the NLTF,
     but which otherwise meet the Government's criteria and objectives for PGF.
- 23. The transport components of the Kaipara Package are a good candidate for full funding through the PGF. An independent assessment confirms that KDC is unable to reprortise its funding for transport projects and we are satisfied that the transport components of the Kaipara Package demonstrate:
  - that the proposal aligns with the region's transport strategy economic strategy/action plan (the Kaipara Package aligns with the Kaipara Kickstart, and most projects are included in the Northland's RLTP)
  - that the proposal will unlock economic potential for the region
  - alignment with the objectives of the PGF.

### While the National Land Transport Fund can assist, PGF funding is required

- 24. The Government Policy Statement on Land Transport 2018 (GPS 2018) sets out the Government's transport priorities and guides the NLTF. The GPS 2018 has a strong focus on improving access in the regions. Funding available for regional improvement activities was increased to give effect to the Government's strategic priorities.
- 25. While the shift in strategic priorities in GPS 2018 means regional transport projects have a higher chance of attracting funding through the NLTF, Kaipara District is likely to face two key challenges in delivering their regional priority projects:
  - 25.1. KDC faces financial constraints and is likely to struggle to contribute its local share for co-funded transport improvement projects. This means that although projects may be prioritised for delivery through the National Land Transport Programme (NLTP), the works would not progress if local contribution were not provided.
  - 25.2. The regional projects identified in Kaipara may not be prioritised for funding once they are assessed on a national basis (against other regional projects). This is because the relatively low volumes of vehicle kilometres travelled across the Kaipara roading network may result in priority projects in Kaipara struggling to demonstrate, relative to other regions, the level of return required to be included in the NLTP.
- 26. The total cost of the Moana and Roads components of the Kaipara Package is expected to be \$27.26 million. We expect that \$7.85 million will be funded through the NLTF and local contributions (from KDC and Te Roroa iwi). Given the opportunity to unlock economic potential in the regions and the strong alignment of the Kaipara Package with PGF objectives, we recommend Ministers fund the remaining \$19.41 million through the PGF to deliver the Moana and Roads components of the Kaipara Package.

#### Delivering the transport components of the Kaipara Package

- 27. An outline of the transport components of the Kaipara Package is attached as Appendix 1 to this briefing. The transport components are divided into:
  - immediate physical works (\$11.22 million)
  - physical works pending investigations (\$14.74 million)
    - o investigations (\$1.41 million)
    - physical works (\$13.33 million)
  - programme support (\$1.3 million).
- 28. The transport components of the Kaipara Package includes two activities that can progress immediately to physical works. These are the 50MAX HPMV network extension and road remetalling. The NLTF and PGF funding for these projects will be transferred to KDC for execution once final decisions on the individual projects are confirmed by KDC and the NZTA (following standard NZTA processes for NLTF components). Decisions on PGF investment will be endorsed by the Kaipara Kickstart oversight group co-chaired by the Kaipara Mayor and the Northland SRO.
- 29. For all other projects within the transport components of the Kaipara Package, KDC will undertake further investigations before moving onto physical works. We recommend that PGF funding is set aside as a contingency until investigations are complete. In particular, individual projects and the final cost of the physical works for the Kaipara Moana (wharves and ferries) will be determined following the results of the Wharves analysis.
- 30. There may also be further opportunities for projects to receive NLTF funding as investigations and wharves analysis are finalised and progressed through the NZTA's assessment for NLTF. If NLTF funding is approved, PGF contributions for the projects may be reduced by the corresponding amount, although this will depend on any increases in the overall level of costings.
- 31. We recommend the Minister for Regional Economic Development, Minister of Finance, and the Minister of Transport approve the drawdown of the contingency funding for the physical works if the following criteria are met:
  - completion of the relevant investigation
  - exclusion from the NLTP following assessment against NLTP priorities, or KDC is unable to meet its local share for projects included in the NLTP
  - alignment with PGF criteria and objectives.

## Risks and dependencies

- The NZTA has considered how the NLTF can support the Kaipara Package. Although current information on the transport components is aligned with the PGF objectives, further evidence is needed to meet the threshold for NZTA assessment and additional funding through the NLTF.
- 33. We expect our proposed approach outlined in paragraphs 27 to 31 (i.e. PGF provides funding for investigations that require further work) will ensure investigations are completed to demonstrate if projects deliver expected outcomes and value for money. These investigations will occur prior to physical works being carried out, and allows the NZTA to assess which projects could receive additional NLTF funding.

- 34. If the transport components of the Kaipara Package are approved, the first step will be to undertake detailed scoping and scheduling of the works to refine cost and time estimates. However, two key risks that remain will need to be managed:
  - 34.1. That available funds are not sufficient to cover all projects and/or investigations, including cost adjustments (such as scope and escalation). Where this occurs, the KDC in consultation with the Kaipara Kickstart oversight group will determine the priorities for investment within the available funds (i.e. \$19.41 million available through the PGF). The Kaipara Kickstart oversight group will endorse the projects identified by KDC and report back to RED Ministers on these priorities.
  - 34.2. That normal project risks impact on approved timeframes and costs. Normal project risks can include consenting, property, geotechnical risks and unforeseen complexities during construction. KDC, with support from the NZTA, will manage these risks if and when they arise. But it is expected that, impacts on costs and timeframes cannot be completely mitigated.
- 35. The Te Tai Tokerau Northland Growth Study mentions the potential for more freight to be moved by rail, and the Government has indicated its intention to invest further in Northland's rail infrastructure. The Kaipara Package has emphasised the opportunities to move freight via water connections. Therefore, there is a risk that the two approaches may not be aligned. This will be mitigated by determining alignment and value once the staged business case on wharves and ferries has been completed.
- 36. Capacity within KDC is stretched to deliver the large scale of the transport components of the Kaipara Package. We have included the funding for programme support within the Kaipara Package to assist KDC and help deliver the programme as well as building long term and sustainable skills, and capability for the council.

#### **Next steps**

- 37. Following RED Ministers' approval the PDU will prepare materials to support the Prime Minister and the Minister for Regional Economic Development's announcement of the Kaipara Package at the Otamatea Marae on 3 February 2019.
- 38. Officials will set up the Kaipara Kickstart oversight group co-chaired by the Mayor and the SRO in relation to the transport components of the Kaipara Package. The PDU can reflect this as it enters into funding agreements with KDC.

#### Consultation

39. The Treasury, PDU, MPI, Ministry of Foreign Affairs and Trade, Ministry for Culture and Heritage, and the NZTA have been consulted in the development of this paper.

#### Recommendations

- 40. The recommendations are that you:
  - (a) **note** that there are economic growth opportunities in the Northland region, particularly in the Kaipara District
  - (b) note that Provincial Development Unit, Ministry for Primary Industries, and the New Zealand Transport Agency have developed the Kaipara Package, which consists of:
    - i. Kaipara Moana (wharves and ferries): \$4.950 million
    - ii. Kaipara Roads (physical works and investigations): \$22.310 million of which \$14.460 million is funded from the PGF
    - iii. Kaipara Kai: \$0.980 million
  - (c) **note** that the proposed Moana and Roads components of the Kaipara Package is estimated to cost up to \$27.260 million, consisting of
    - i. immediate physical works of up to \$11.220 million;
    - ii. investigations of up to \$1.410 million and physical implementation costs of up to \$13.330 million (total \$14.740 million);
    - iii. programme support of up to \$1.300 million
  - (d) **note** that National Land Transport Fund (NLTF) and local contribution (Kaipara District Council and Te Roroa iwi) will provide \$7.850 million to support immediate physical works (up to \$7.84 million) and investigations (up to \$0.01 million)
  - (e) agree that the Provincial Growth Fund (PGF) provides up to \$19.410 million Yes/No to support the Moana and Roads components of the Kaipara Package, consisting of:
    - i. immediate physical works of up to \$3.380 million;
    - ii. investigations of up to \$1.400 million and physical implementation costs of up to \$13.330 million (total \$14.730 million);
    - iii. programme support of up to \$1.300 million
  - (f) **note** that funding for the Kai component of the Kaipara Package has been approved by Senior Regional Officials
  - (g) **note** that \$13.330 million is currently projected to fund the physical implementation, but the final amounts required may change depending on the outcome of the investigations (referenced in recommendation (d)(ii)) and how much is funded from the NLTF, or from the local share of funding

(h) agree to establish a tagged contingency of \$13.330 million as set out in the table below, with an expiry date of 1 January 2021, for the purpose of funding physical implementation as set out in recommendation (f)(ii) and with a corresponding impact on the operating balance:

Yes/No

Yes/No

	\$ million – increase/(decrease) on operating balance					
Forecast fiscal impact	2018/19	2019/20	2020/21	2021/22		
Kaipara Physical Works Implementation Tagged Contingency	-	13.330	-	٨		

(i) agree that the Minister for Regional Economic Development, Minister of Transport, and Minister of Finance acting jointly can transfer up to \$13.330 million of funding from Vote Business, Science and Innovation to Vote Transport for the physical implementation of the Kaipara Package, once the following conditions have been met:

i. the relevant investigation is completed;

- ii. the project (or portion of the project) is excluded from the National Land Transport Programme (NLTP) following assessment against NLTP, or if the project (or portion of the project) is included in the NLTP but Kaipara District Council is unable to meet its local share funding; and
- iii. the project (or relevant portion of the project) aligns with PGF criteria and objectives.

approve the following changes to appropriations, to transfer funding from (j) Vote Business, Science and Innovation to Vote Transport to support immediate works, investigations, and programme support (referenced in recommendation (f)), with a corresponding impact on the operating and debt balances:

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agree that the proposed changes to appropriations for 2018/19 above be (k) Yes/No included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply. Ben Dalton Helen White Head of Regional Development Manager, Investment Provincial Development Unit **Ministry of Transport** MINISTERS' SIGNATURES: Hon Grant Robertson Hon Shane Jones Minister of Finance Minister for Regional Economic Development ..... / ...... / ...... ..... / ...... / ...... Hon Phil Twyford Hon David Parker

**Minister of Transport** 

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Minister for Economic Development

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## Appendix 1: Kaipara Transport Package

Total package: Business Cases and Physical Works and Programme Support of \$27.26m (\$19.41m PGF funded)

- 1. Immediate Physical Works = \$11.22m (\$3.38m PGF)
- 2. Total Investigations and potential physical works = \$14.74m. Of this, \$1.41m is investigations (\$1.40m PGF) and \$13.33m is enveloped funding for physical works (\$13.33m PGF)
- 3. Programme Support = up to \$1.30m (\$1.30m PGF)

## **IMMEDIATE PHYSICAL WORKS**

Outcome	Activity	Description	Expected outcome	Dependency	Funding source: NLTF or PGF	Total Cost	PGF compared
Improved level of service	Physical Works	Road Re-metalling Improving the quality of existing road surfaces	Remediation and upgrade of existing roads to improve levels of service	Cily	Recommend NLTF with PGF to cover local share  Rationale:  Local roads. Still requires local share.	\$8.06m NZTA could fund up to \$4.91m	\$3.15m <sup>1</sup>
Reduced cost of doing business	Physical Works	50MAX HPMV network extension Extending the ability of 50 Max and HPMV freight vehicles to access the Kaipara road network	<ul> <li>Consistent level of access for freight vehicles on local road network routes with current or future economic activities</li> <li>Upgrading structures to be 50MAX capable would allow larger loads to be transported on fewer trucks, resulting in more productive and efficient movement of goods through the region</li> </ul>		Recommend NLTF with PGF to cover local share  Rationale:  Local roads. Still requires local share.	\$3.16m  NZTA up to \$1.93m <sup>2</sup> \$1.0m KDC contribution	\$0.23m <sup>2</sup>
Total						\$11.22m	\$3.38m

Total cost of Kaipara package physical works is \$11.22m with PGF spending up to \$3.38m

Kaipara District Councils revised Funding Assistance Rate is 61%. Local Share is 39%
 The PGF to be used to cover the shortfall in the local share component of the NLTF

# **INVESTIGATIONS AND PHYSICAL WORKS PENDING INVESTIGATIONS**

Investigation and physical works for Kaipara Roads

Activity	Description	Expected outcome	Dependency	NLTP or PGF	Total cost of investigation	eGP sompenent of Tylestigation	Estimated cost of implementation	Total funding envelope sough from PGFF
esign nen physical works	Pouto Road Phase 1 Sealing of 10km	<ul> <li>Improved operational efficiencies resulting from lower cost operations and maintenance</li> <li>Reduced dust benefiting local residents, schools and tourists</li> <li>Improved efficiency for forestry operations</li> <li>Enables tourism operations associated with Pouto Point</li> <li>Contributes to completing the</li> </ul>		Recommend PGF  Rationale:  No Benefit Cost Ratio available so NLTF funds not certain  Has the potential to enable delivery of multiple PGF outcomes			\$5.05m Physical Works	\$5.05m
Kaipara Moana to e implemented: usiness case then hysical works	Pouto Road Phase 2 Sealing extension to Pouto Point	<ul> <li>'Kaipara Missing Cycle Link'</li> <li>Improved operational efficiencies resulting from lower cost operations and maintenance</li> <li>Reduced dust benefiting local residents, schools and tourists</li> <li>Improved efficiencies for forestry operations</li> <li>Enables tourism operations associated with Pouto Point</li> <li>Contributes to enabling the Kaipara Missing Cycle Link</li> </ul>	Dependent on the wharves analysis and Pouto Road Phase 1	Recommend PGF  Rationale:  No Benefit Cost Ratio available so NLTF funds not certain  Has the potential to deliver some PGF outcomes	\$0.33m Business case	\$0.33m	\$2.80m Physical Works	\$3.13m
usiness case en physical works	Waipoua River Road Widening and sealing 1.5km from State Highway 12 to the Waipoua Visitor Information Centre	Safer and more enticing entry access will enable Te Roroa Iwi the ability to maximise opportunities for its Visitor Information Centre and Camping Ground to deliver upon multiple PGF objectives		Recommend PGF  Rationale:  Iwi Road. Long standing issues with this access road.  No Benefit Cost Ratio available so NLTF funds not certain  Recommend funding for business case as well as implementation subject to a hold point to provide value assurance	\$0.13m Business Case (includes a \$0.01m contribution from Te Roroa iwi)	\$0.12m	\$1,48m Physical Works	\$1.60m

<sup>&</sup>lt;sup>3</sup> Implementation would be first assessed against the NLTP. Where projects are not funded through the NLTP, the PGF funding envelope will be used. Page 13 of 15

Staged business case may unlock funding for specific projects or specific projects  Mharves analysis Staged business case for a series of wharves and ferry services at several sites in the Kaipara Harbour (part of the Kaipara Moana Activation plan)	The business case will outline the costs of constructing a series of inner Kaipara harbour wharves (in proximity to Marae) and associated connecting ferries to determine whether the proposal has merit. It may also determine the relative functions of the wharves (e.g. passenger versus car ferries).	Rationale:  No public transport components proposed so not eligible for NLTF  Recommend staged business case (\$0.20m) to provide value assurance	\$0.95m	\$0.95m	\$4.0m  Physical works  cost estimate and priorities to be confirmed by the business case – current envelope for implementation is for \$4.0m	\$4.95m
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Total cost of Investigations (initial investigation (\$1.41m) and cost of implementation (\$13.33m) = \$14.74m

Total cost of Investigations being sought through PGF (investigation (\$1.40m) and implementation (\$13.33m) = up to \$14.73m

# PROGRAMME SUPPORT

Outcome	Activity	Description	Funding source: NLTF or PGF	Total Cost	PGF component
Increased capability	Programme Support	Programme Support for KDC to assist with implementing the above projects, to include:  • projects scopes, plans and procurement  • project management support over the life of the programme to coordinate, monitor and report on progress  • capability development through training and development of council staff	Recommend PGF  Rationale: Meets PGF criteria	\$1.30m	\$1.30m

Total cost of resource support is \$1.30m with PGF spending of \$1.30m

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Appendix 2: Map of Kaipara Transport Package projects



NOTE: Diagram is indicative only and not to scale

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