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Governance of the City Rail Link project

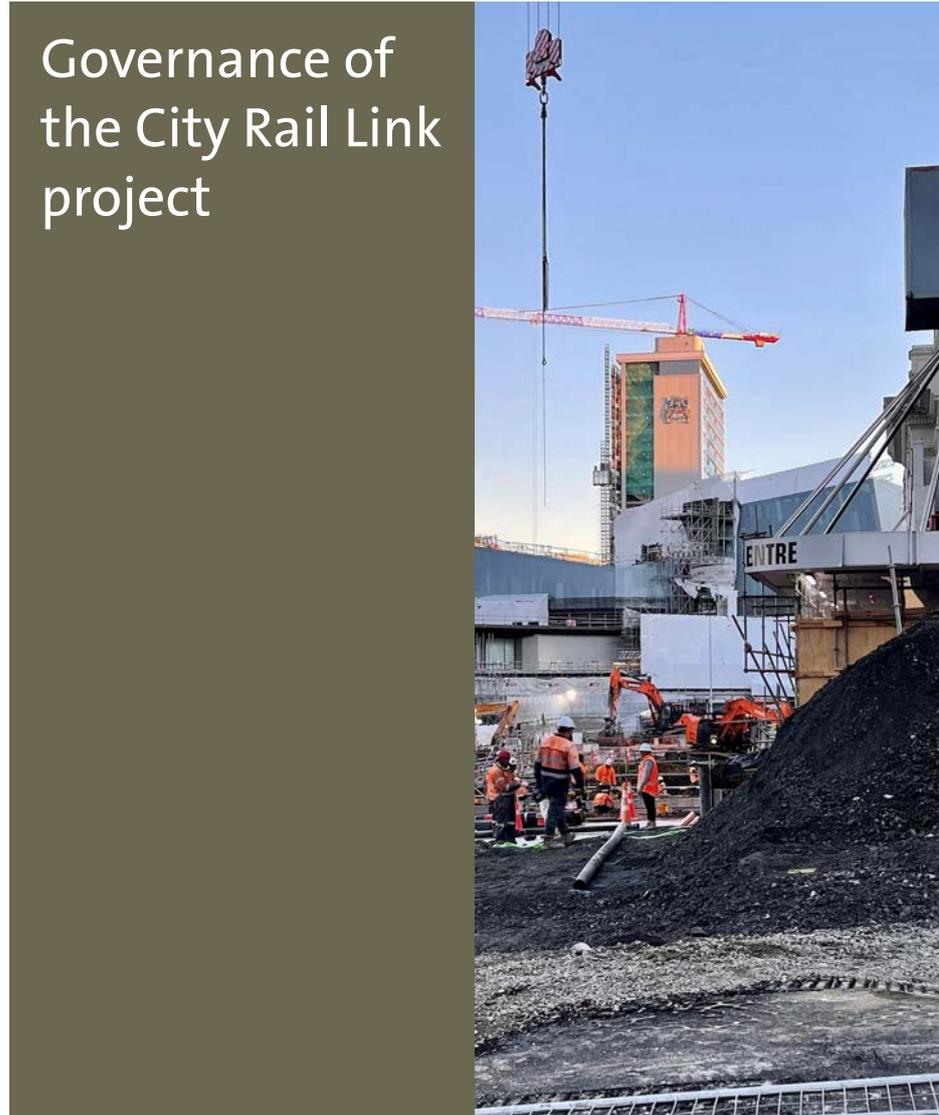


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Governance of the City Rail Link project

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June 2022

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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

The City Rail Link is a 3.45km twin-tunnel underground rail link that will be up to 42m below Auckland's city centre. It will transform Britomart station into a two-way through station. This will better connect the Auckland rail network and create New Zealand's first underground metropolitan rail service.

Auckland Transport expects the City Rail Link to double the number of Aucklanders living within 30 minutes' travel of the central city and improve transport around the city.

Auckland Transport prepared the business case for the City Rail Link in 2015. The Government and Auckland Council (the Council) worked together to establish the City Rail Link project (the CRL project) during 2016 and 2017. The CRL project's objectives include increasing economic productivity, a sustainable transport solution that provides for population growth, and a positive contribution to a liveable, vibrant, and safe city.

The CRL project is challenging. It is the country's largest and costliest transport infrastructure project ever. It involves digging under central Auckland, moving existing underground stormwater piping and other utilities, and disruptive above-ground activity. The CRL project also includes the building of new stations and redevelopment of existing stations so they can accommodate longer trains.

In July 2017, the Government established City Rail Link Limited (CRL Ltd), a special purpose Crown company, to deliver the CRL project. CRL Ltd's shareholders are the Crown (represented by the Ministers of Transport and Finance) and the Council. The Crown and the Council co-fund CRL Ltd and are also the CRL project's Sponsors.

So far, the Sponsors have committed to investing about \$4.42 billion in CRL Ltd to deliver the CRL project. When they made that commitment, the Sponsors understood that there was a 50% chance that the CRL project would cost more. The Covid-19 pandemic has exacerbated this.

As well as the CRL project, Auckland Transport and KiwiRail Holdings Group (KiwiRail) are responsible for the wider network improvements needed to integrate the City Rail Link into the existing transport network in Auckland. These wider network improvements include new trains, removing level crossings, and the Wiri to Quay Park upgrade.

The budget for these wider network improvements is about \$1.11 billion. This brings the current total estimated cost of the work to enable the City Rail Link to start passenger services to about \$5.53 billion. These works will provide capacity for 27,000 passengers each hour during peak times.

Separate from the CRL project and the associated wider network improvements, Auckland Transport and KiwiRail have also signalled that, between now and 2036, additional investment of about \$7.5 billion in the Auckland Rail Network Development Programme could enable up to 54,000 passengers to travel through the City Rail Link each hour during peak times.

In our work, we often identify poor governance as the reason why major projects have problems. Therefore, I wanted to provide Parliament and the public with assurance that the CRL project's governance was effective and likely to support its successful completion. I also wanted to provide observations on how central and local government have worked together to deliver significant infrastructure projects. These observations might be useful to other public organisations that are setting up similar projects.

What we found

Aspects of governance arrangements are working well, despite challenging circumstances

The governance arrangements have changed during the CRL project's different stages. Although these governance arrangements are complex, many aspects appear to be working well.

CRL Ltd's Board (the CRL Ltd Board) has a clear understanding of its mandate and authority. It has an appropriate mix of skills and operates well.

The CRL Ltd Board has shown that it can handle significant challenges, such as overseeing the establishment of an alliance to deliver the CRL project's main works. The CRL Ltd Board and management have also been agile in responding to challenges arising from the Covid-19 pandemic, which are expected to continue for some time.

However, even with effective governance and best efforts from all parties to deliver the CRL project as planned, it is likely that this project will exceed its current budget and take longer than originally planned.

CRL Ltd has publicly advised that it has a pending claim for additional costs from the Link Alliance, which is responsible for delivering the main works, for matters related to the Covid-19 pandemic. When I finalised my report, the CRL Board considered that it could not reliably estimate what the agreed amount of the claim would be. However, the CRL Board has acknowledged that the agreed claim could be significant.

I understand that the claim is expected to be resolved by the end of 2022.

When the claim has been settled, I expect CRL Ltd to provide the Sponsors advice on options for addressing the challenges to cost and time frames, and on the potential effects on the CRL project's intended benefits.

In the meantime, it is important that the CRL Board continues to regularly update the Sponsors on how the situation is developing so that there are no surprises and the Sponsors can factor these risks into wider investment decisions.

The Sponsors' officials have carried out some of their responsibilities well

We found that the Sponsors' officials (from the Council, the Ministry of Transport, and the Treasury) have carried out some of their responsibilities well. We found examples of them providing useful support in response to issues. For example, they supported efforts to secure priority funding for the wider network improvements to prevent delays to the CRL project.

Officials have recognised the need for specialist expertise on the CRL project and have contracted an external Assurance Manager for independent advice. However, my staff could not conclude from the documents they reviewed how well officials are responding to the Assurance Manager's advice or whether all critical issues had been addressed.

When this report was being finalised, the Sponsors' officials were working with CRL Ltd to improve the tracking of how recommendations were addressed. This is encouraging, but the work is happening much later than I would have expected.

The Sponsors and their officials assured us that they are appropriately informed about the CRL project and the wider network improvements. However, the quality of some reports provided to the Sponsors between mid-2019 and April 2021 was not at the level I would expect for a project of this scale and complexity. For example, reporting to the Sponsors on how well risks were being mitigated was not always adequate.

More recent reports that my staff reviewed were better. I encourage officials to sustain these improvements to ensure that there is clear and reliable information about the CRL project and the wider network improvements and about how risks to delivery are being mitigated.

Governance Boards need to be more involved in resolving issues with dependencies

The CRL Ltd Board is accountable for successfully completing the CRL project. However, it does not have authority over all the work needed to achieve this, such as the wider network improvements that Auckland Transport and KiwiRail are responsible for.

In 2019, the Delivery Partner Steering Committee was set up. The Committee is a forum for senior managers from five agencies to co-ordinate the works that the delivery partners (CRL Ltd, Auckland Transport, and KiwiRail) need to complete for the rail system to operate effectively on opening day.

However, I am not yet satisfied that there is an effective forum for the delivery partners' governing Boards to resolve issues that the Delivery Partners Steering Committee cannot.

In my view, as the CRL project moves into its next phase, there needs to be effective and timely processes that enable the delivery partners' governing Boards to help with resolving problems and take the "best for Auckland" approach that the Sponsors require.

Planning for benefits realisation needs to be prioritised

During this audit, my staff observed that there was confusion about which agency is responsible for planning, managing, and reporting progress in achieving the benefits of the CRL project in the context of the wider Auckland transport network. In my view, this is concerning for a project of this significance.

The City Rail Link's benefits need to be defined and quantified further, responsibilities need to be assigned, and suitable measures need to be agreed on.

Improvements are already under way

The recommendations we make in this report are intended to further strengthen the CRL project's governance arrangements. This will help ensure that the CRL project is successfully completed in conjunction with the wider network improvements. This will enable the City Rail Link to operate effectively from opening day and achieve its intended benefits over the long term.

I understand that the Ministry of Transport, the Treasury, and the Council have largely accepted our recommendations and have already started implementing them.

Throughout our audit, the Sponsors' officials and the delivery partners have worked to address our concerns. This includes completing the first stage of a comprehensive benefits realisation plan, clarifying responsibility for benefits management, agreeing to track the Assurance Manager's recommendations, and improved reporting to Sponsors. Together, these measures should strengthen the existing governance arrangements.

I thank CRL Ltd, the Council, Auckland Transport, KiwiRail, the Ministry of Transport, and the Treasury for their support and co-operation during our audit. Despite the considerable challenges these organisations face, including the continuing impacts of the Covid-19 pandemic, they supplied us with all the information that we asked for and made time available for answering our questions. I also thank Bruce McLean for his support of the audit team during fieldwork.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMRyan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General
21 June 2022

Our recommendations

1. To provide greater transparency of how well they are carrying out their oversight role, we recommend that the Sponsors' Forum and Joint Sponsors Team prioritise improvements to the way they manage the Assurance Manager's recommendations.
2. We recommend that the Sponsors of the City Rail Link project ensure that officials prioritise completing an agreed comprehensive benefits realisation plan that:
 - clearly defines and quantifies the benefits expected from the City Rail Link, with measures that are specific, measurable, and realistic;
 - assigns responsibility for managing benefits; and
 - assigns accountability for co-ordinating reporting on realising benefits over time.
3. We recommend that the Sponsors of the City Rail Link project review the governance arrangements to ensure that there is an appropriate mechanism for Boards of City Rail Link Limited, Auckland Transport, and KiwiRail Holdings Group to have collective oversight of project dependencies and support the Delivery Partners Steering Committee with joint decision-making where appropriate.
4. We recommend that officials from Auckland Council, the Ministry of Transport, and the Treasury ensure that they sustain improvements in reporting to the Sponsors of the City Rail Link project to promote accountability, improve governance, and gain the confidence of stakeholders.

Introduction

- 1.1 In this Part, we discuss:
- why we did the audit;
 - what we looked at;
 - what we did not look at;
 - how we carried out our audit; and
 - the structure of this report.
- 1.2 Auckland Council (the Council) considers that the City Rail Link will help transform Auckland and support its vision of Auckland as the world's most liveable city.
- 1.3 The City Rail Link is a 3.45km twin-tunnel underground rail link that will be up to 42m below the city centre. The City Rail Link is expected to improve journey times for road and public transport users. It is also expected to double the number of Aucklanders living within 30 minutes' travel time of the central city.
- 1.4 Figure 1 shows how the City Rail Link transforms Britomart station into a two-way through station that better connects the rail network and provides improved travel choices. The City Rail Link will expand the existing rail network's capacity and make it possible to add new lines in the future.
- 1.5 The City Rail Link project (the CRL project) involves building the City Rail Link and other works, such as building new stations and redeveloping existing stations.
- 1.6 The CRL project is part of the Auckland Transport Alignment Project. Set up in 2015,¹ the Auckland Transport Alignment Project represents the Council and the Government's joint plan to maximise opportunities from Auckland's population growth.²
- 1.7 In 2015, Auckland Transport began early works in preparation for the City Rail Link, such as moving a major stormwater line in Albert Street and lifting the Chief Post Office building on to new foundations.
- 1.8 In 2016 and 2017, the Crown and the Council agreed to fund the CRL project equally. They set up City Rail Link Limited (CRL Ltd) as a time-limited special purpose Crown company to deliver the CRL project.³ The Crown and the Council are shareholders in CRL Ltd and are also the CRL project's joint Sponsors.

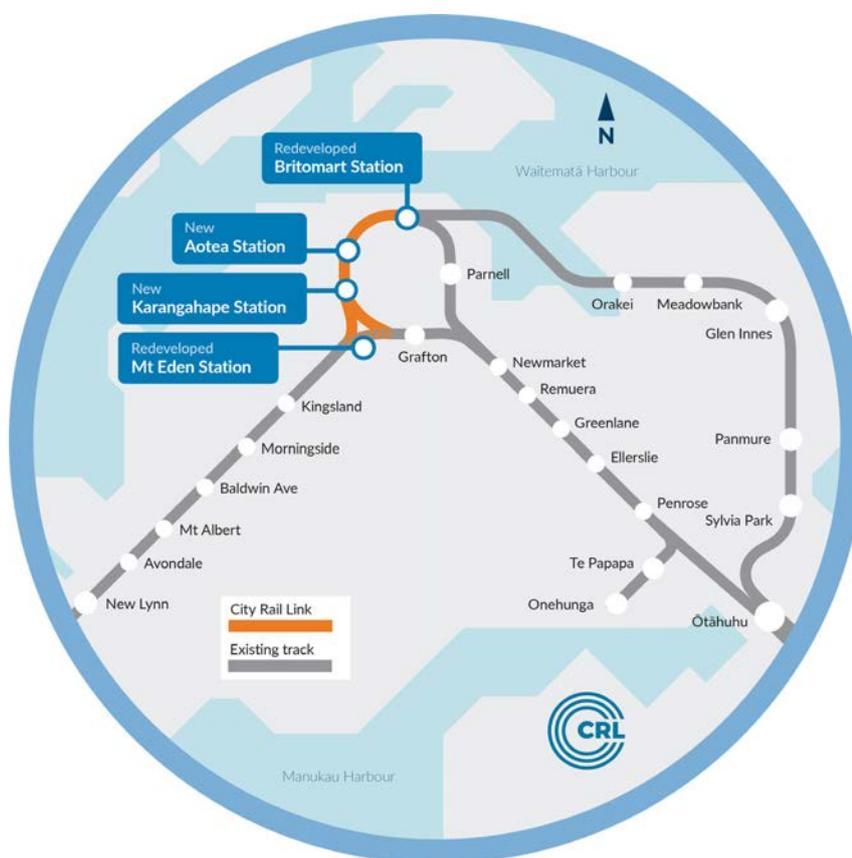
1 The signatories to the Auckland Transport Alignment Project are the Ministers of Transport and Finance, the Mayor and Deputy Mayor of Auckland, the Council's Planning Committee chairperson, and the Council's Independent Māori Statutory Board chairperson. More information about the Auckland Transport Alignment Project is on the Ministry of Transport's website at transport.govt.nz.

2 New Zealand Government (8 September 2015), *Business Growth Agenda: Towards 2025*, www.beehive.govt.nz.

3 Other examples of special purpose infrastructure companies are Crown Infrastructure Partners Limited and Ōtākaro Limited (both wholly owned by the Crown) and Tāmaki Redevelopment Company Limited (jointly owned by the Crown and the Council). These companies and CRL Ltd were established under Schedule 4A of the Public Finance Act 1989.

Figure 1
How the City Rail Link connects the Auckland rail passenger network more effectively

The City Rail Link connects the stations at Britomart and Mount Eden through new stations at Aotea and Karangahape.



Source: City Rail Link Limited.

- 1.9 CRL Ltd's Board (the CRL Ltd Board) is responsible for the CRL project and CRL Ltd's day-to-day governance. The CRL Ltd Board has all the powers it needs to manage, direct, and supervise CRL Ltd. It must ensure that CRL Ltd acts consistently with its objectives, functions, Statement of Intent, and Statement of Performance Expectations.
- 1.10 As well as the CRL project, Auckland Transport and KiwiRail Holdings Group (KiwiRail) are responsible for the wider network improvements that are needed to integrate the City Rail Link into the existing transport network in Auckland.

1.11 CRL Ltd, Auckland Transport, and KiwiRail are separately responsible for their respective works. However, CRL Ltd's Board is accountable for successfully completing the CRL project.⁴ This involves delivering a railway capable of commercial operation for immediate public use.

1.12 The works that CRL Ltd, Auckland Transport, and KiwiRail need to deliver must be built and working together properly to successfully complete the CRL project. The City Rail Link's opening day (known as Day 1) was originally planned for December 2024. Day 1 is when the first paying passengers are expected to use the City Rail Link. Because of project delays caused by the Covid-19 pandemic, CRL Ltd now expects to announce a new date for opening the City Rail Link by the end of 2022.

1.13 CRL Ltd will stop operating when it successfully delivers the CRL project unless its shareholders decide otherwise. CRL Ltd is expected to progressively hand over the assets that it has built to new owners – chiefly Auckland Transport and KiwiRail. They will be the owners and operators of the expanded railway system. The Council will also take over some assets. Some assets have already been transferred.

1.14 So far, the Crown and the Council have jointly committed to invest about \$4.42 billion in CRL Ltd to fund the CRL project.

Why we did our audit

1.15 The CRL project is New Zealand's largest and costliest transport infrastructure project.

1.16 The CRL project is complex and challenging. The construction phase involves digging under central Auckland, moving existing underground stormwater piping and other utilities, and disruptive above-ground activity. Multiple agencies are involved in integrating the new infrastructure with the existing rail system and the wider transport network in Auckland.

1.17 The CRL project relies heavily on expertise that does not normally exist in New Zealand, and there are not enough people with the appropriate skills in the country to support the works.

1.18 Internationally, these kinds of projects are difficult to complete on time and within budget. Delays, cost over-runs, and failure to realise all intended benefits are

How CRL Ltd's shares are split

The Crown is the majority shareholder in CRL Ltd, holding 20 more shares than the Council. Cabinet authorised the Ministers of Transport and Finance to represent the Crown. The Ministers hold the Crown's shares in CRL Ltd equally between them.

The people who act for the Sponsors

Cabinet authorised the Ministers of Transport and Finance to perform the Crown's duties as Sponsors of the CRL project. The Ministers can delegate authority to perform those duties.

The Council's governing body is the other Sponsor. The governing body has authorised the Mayor and Deputy Mayor of Auckland to sign documents on its behalf.

⁴ Schedule 8 of the Project Delivery Agreement sets out and describes what constitutes project completion. Schedule 8 can be read in full at issuu.com/cityrailinkltd/docs/pda.

common. As well as being the first of its type in New Zealand, the CRL project has been managed during the Covid-19 pandemic.

- 1.19 The CRL project is also the first time that joint Sponsors from central and local government have created a special purpose Crown company to support a complex transport infrastructure project involving three “delivery partners” – CRL Ltd, Auckland Transport, and KiwiRail.
- 1.20 The significant challenge that CRL Ltd faces in delivering the CRL project reinforces the need for effective governance by the CRL Ltd Board. CRL Ltd also needs to manage interdependencies with other delivery partners responsible for the wider network improvements.
- 1.21 In our other work, we often find that poor governance is the cause of many problems with major projects. Therefore, we wanted to find out whether the CRL project’s governance was effective and likely to support successful completion of the CRL project.
- 1.22 We also wanted to provide observations about how central and local government work together to deliver significant infrastructure projects. These observations could be useful for public organisations considering setting up similar projects in the future.

What we looked at

- 1.23 We focused on the CRL project’s governance and oversight arrangements and practices from mid-2019 on. We looked at:
- the CRL Ltd Board’s governance of CRL Ltd and the CRL project, including the steps to deliver the CRL project as planned, on time, and within budget;
 - the Crown and the Council’s oversight of the CRL project as joint shareholders in CRL Ltd and as the project’s Sponsors, including the Crown’s monitoring of CRL Ltd that the Ministry of Transport is responsible for leading;
 - the extent to which the delivery partners’ governing Boards are involved in resolving issues with dependencies between the CRL project and the wider network improvements; and
 - whether it is clear who is responsible for realising and reporting on the long-term benefits of the investment in the City Rail Link.

What we did not look at

- 1.24 We did not look at:
- the Government's decision to set up CRL Ltd to deliver the CRL project;
 - whether CRL Ltd, Auckland Transport, and KiwiRail have properly scoped, designed, built, or procured their elements of the CRL project and the wider network improvements;
 - whether the costs and benefits set out in the business case for the City Rail Link were appropriate or accurately estimated, or whether the CRL project represents value for money;⁵
 - the Project Alliance Board's governance (because the Link Alliance is not a public entity);
 - the Project Control Group (because it is a technical working group); or
 - the governance by the Boards of Auckland Transport and KiwiRail of the:
 - wider network improvements; or
 - other works needed to realise the benefits of the investment in the City Rail Link over the longer term.

How we carried out our audit

- 1.25 We used a framework for effective governance to guide our fieldwork and analysis. The framework has eight elements, which we identified in our 2016 publication *Reflections from our audits: Governance and accountability*. The Appendix describes the framework's eight elements of good governance.
- 1.26 We applied the elements of good governance to the governance arrangements for the CRL project, adapting them to accommodate each party's roles and responsibilities as defined in formal terms of reference or agreements. We discuss the governance arrangements in Part 2.
- 1.27 The Covid-19 pandemic began while we were in the early stages of our audit. The Government's actions to manage the spread of the virus affected the CRL project and had implications for our audit.
- 1.28 We carried out most of our fieldwork in 2020. We carried out more fieldwork in 2021 and 2022 to make sure that our understanding of the impacts of the Covid-19 pandemic and of the context for our audit findings were up to date.
- 1.29 We reviewed more than 1000 documents. We also interviewed 60 people to confirm or clarify our understanding of the documents and add to the evidence. The Appendix lists the sorts of documents we looked at.

⁵ The 2015 business case is available on CRL Ltd's website at cityraillink.co.nz and Auckland Transport's website at at.govt.nz.

Structure of this report

- 1.30 In Part 2, we discuss why the City Rail Link and the wider network improvements are being built and give details about the CRL project and its governance arrangements.
- 1.31 In Part 3, we discuss the CRL Ltd Board's governance of the CRL project and of CRL Ltd.
- 1.32 In Part 4, we discuss the Sponsors' oversight of the CRL project. We also discuss the governance of the CRL project's dependencies.

About the City Rail Link project

- 2.1 In this Part, we describe:
- how the CRL project came about;
 - the City Rail Link's objectives and intended benefits;
 - how the CRL project's scope has changed over time;
 - the wider network improvements needed to integrate the City Rail Link into the existing transport network;
 - the CRL project's governance arrangements; and
 - the governance arrangements for continuing development of the network, which includes the wider network improvements.

Summary

- 2.2 The first business case for the City Rail Link was prepared in 2010 but was not funded. However, the Government committed to preparing another business case jointly with the Council. The Government's commitment to this business case was dependent on growth in employment and the number of people who use the rail network in central Auckland.
- 2.3 In 2015, Auckland Transport prepared the *City Rail Link Business Case 2015* (the business case). CRL Ltd was set up in 2017. At that time, the Sponsors jointly committed to investing \$3.4 billion to deliver the CRL project. In 2019, the Sponsors increased their committed investment to \$4.42 billion to widen the CRL project's scope (to include, for example, constructing nine-car platforms at three stations), fund the rising costs of construction, and increase contingency in the CRL project's budget.
- 2.4 Auckland Transport and KiwiRail must also deliver some wider network improvements to successfully complete the CRL project and integrate the City Rail Link into Auckland's existing transport network. These network improvements are budgeted to cost a further \$1.11 billion.
- 2.5 Together, the CRL project and the wider network improvements will provide capacity for 27,000 passengers each hour during peak times.
- 2.6 The delivery partners need to work together to align and co-ordinate the design, construction, testing, and commissioning of their respective works in time for passenger services to start on Day 1.
- 2.7 The CRL project and its governance arrangements are complex. Several distinct arrangements support and oversee different aspects of the CRL project and provide the Sponsors with advice and assurance about the management of the work.
- 2.8 Auckland Transport and KiwiRail have set up separate joint governance arrangements over the wider network improvements.

- 2.9 However, to enable the City Rail Link to accommodate its maximum capacity of 54,000 passengers per hour by 2036, the Auckland rail network will need even more investment.

Planning for the City Rail Link started in 2010

- 2.10 In 2010, the first business case for the City Rail Link was prepared for KiwiRail and the Auckland Regional Transport Authority. In 2012/13, the Ministry of Transport completed a review of the business case. The review also involved the Treasury and Waka Kotahi New Zealand Transport Agency (Waka Kotahi).
- 2.11 In 2013, the Government committed to a joint business case with the Council for the City Rail Link. The CRL project was intended to begin in 2017 and start construction in 2020. The Government stated that it would consider an earlier start date if the rate of employment and number of people using the rail network in central Auckland increased faster than anticipated.
- 2.12 In 2015, Auckland Transport prepared another business case for the City Rail Link for the Council. This business case led to the Council allocating \$2.5 billion to Auckland Transport to start early works for the City Rail Link.
- 2.13 In December 2015, Cabinet authorised the Ministers of Finance and Transport to enter into negotiations with the Council to formalise the Government's commitment to provide funding for the City Rail Link.
- 2.14 In 2016, the Government decided that it would establish CRL Ltd to deliver the CRL project and fund it equally with the Council. CRL Ltd was established on 1 July 2017.
- 2.15 The Sponsors have committed to fund the CRL project with a percentile value of "P50". This means there is a 50% chance that CRL Ltd can deliver the CRL project within the committed funding and a 50% chance that it will cost more.
- 2.16 We understand that various considerations influenced the decision to fund the CRL project at P50. We were told that the Council was mindful of its debt levels. Funding the CRL project to a higher percentile value would have carried a risk that CRL Ltd would not need all the funding set aside for the CRL project. In that scenario, the unused funding would be unavailable for the Council's other projects.
- 2.17 The CRL project carries a specific fiscal risk for the Crown (as required under the Public Finance Act 1989).⁶ This recognises the likelihood that the Crown might need to commit further investment.

What is a percentile value?

The percentile value (or P value) represents confidence that a project can be delivered within budget. It is based on an assessment of risks when the budget was set. The higher the P value, the greater the confidence that a project can be delivered within budget.

Significant benefits are expected from the City Rail Link

- 2.18 Auckland Transport's business case describes the City Rail Link as the Council's top priority project to help achieve the Government's aims for higher economic productivity and the Council's vision of Auckland as the world's most liveable city.
- 2.19 The business case sets out five objectives for the City Rail Link. They are to:
- improve transport access in and around the city for a rapidly growing Auckland;
 - improve the efficiency and resilience of the transport network for urban Auckland;
 - significantly contribute to lifting and shaping the city's economic growth;
 - provide a sustainable transport solution that minimises environmental impacts; and
 - positively contribute to a liveable, vibrant, and safe city.
- 2.20 The business case estimated that, in monetary terms, the City Rail Link would deliver undiscounted benefits of about \$13.2 billion over 40 years.⁷ Discounted benefits included:
- \$1.3 billion of travel time savings for public transport users (both existing and new);
 - \$866 million of wider economic benefits – in particular, improved economic productivity from increased density of employment and improved accessibility (also referred to as agglomeration);
 - \$317 million of benefits generated from increased reliability in travel times;
 - \$136 million of travel time savings for road users and trucks;
 - \$125 million of health benefits for new public transport users from walking to and from the train stations;
 - \$94 million residual value of the infrastructure associated with the City Rail Link because it is a significant economic investment and will have a significantly longer life than the 40-year evaluation period;
 - \$42 million of additional public transport user benefits associated with improving public transport infrastructure and services;
 - \$14 million of additional time savings for road users from decongestion;
 - \$10 million of vehicle operating cost-reduction benefits – from the improvements in travel speeds (for vehicles on the road) and fewer vehicles on the roads (because more people are taking the train); and
 - \$6 million emission reduction benefits from the faster travel times and more people taking the train.

⁷ These are gross undiscounted benefits based on a medium growth scenario. Discounted benefits were estimated at \$2.9 billion. These estimates are now likely to be out of date. For example, benefits were estimated based on the City Rail Link starting operations in 2023.

- 2.21 The 2015 business case has a cost-benefit ratio of 1.6.⁸ This means that every dollar spent is expected to produce \$1.60 of benefits.
- 2.22 Although we have not audited the business case, we note that the costs of the wider network improvements were not included. However, we also understand that at least some of these works are required to realise the intended monetary and other benefits described in the business case.
- 2.23 The City Rail Link is intended to support Auckland's population and economic growth by making it easier for large numbers of people to move around the city on high-capacity trains.
- 2.24 Because trains will be frequent, passengers can ride at peak times without having to know timetables. CRL Ltd says that journey times will be faster – from the Mount Eden station, it will take three minutes to get to the Karangahape station, six minutes to Aotea station, and nine minutes to Britomart station.
- 2.25 Auckland Transport expects the City Rail Link to increase access between Auckland's central city and its outer areas. Providing effective transport choices that support population growth and reduce road congestion is expected to make affordable housing in outer areas more feasible.
- 2.26 Auckland Transport also expects the City Rail Link to stimulate investment and development around the stations at Aotea, Karangahape, and Mount Eden. This activity is expected to support higher economic productivity and planned economic and land-use changes. In turn, Auckland Transport expects these developments should further increase the number of people using the City Rail Link.

The City Rail Link project's scope has changed over time

- 2.27 In 2017, the Sponsors' joint committed investment in the CRL project was about \$3.4 billion (at P50). At that time, the CRL project's scope involved:
- building the City Rail Link;
 - building two new stations at Aotea and Karangahape and redeveloping the stations at Britomart and Mount Eden;
 - new train stabling and turn-back facilities at four locations on the rail network; and
 - new rail systems and information and communications technology to safely run modern rapid-transit passenger services.

⁸ The cost-benefit ratio was calculated by dividing the discounted benefits by the discounted costs. The business case calculated discounted benefits as \$2,889 million and discounted costs as \$1,853 million, giving a cost-benefit ratio of 1.6.

- 2.28 In 2019, the Sponsors increased their joint committed investment in the CRL project to \$4.42 billion (at P50). This was to:
- increase the CRL project's scope by making the platforms at Aotea, Karangahape, and Mount Eden stations longer to allow for nine-car trains and adding a second entrance to Karangahape station to improve access for people with mobility impairments and improve station safety and resilience;⁹
 - fund the increased costs of construction; and
 - increase contingency in the CRL project's budget.
- 2.29 Further economic analysis was done on the increased scope and investment. That analysis concluded that the CRL project's increased scope still had a positive cost-benefit ratio of 1.39.
- 2.30 The Sponsors' officials also commissioned a separate economic analysis, which confirmed that the cost-benefit ratio would remain above 1.
- 2.31 As noted in paragraphs 1.24 and 2.22, we did not audit the business case, and we have not audited the updated analysis of benefits.

The CRL project has three broad phases

- 2.32 The CRL project's first phase started in July 2017, when CRL Ltd was set up. In this first phase, CRL Ltd took over Auckland Transport's early works and assumed control of related assets. Relevant employees were transferred to CRL Ltd to carry on with those works. CRL Ltd also set up the Link Alliance to finalise designs and deliver the main works. We discuss the Link Alliance in more detail in paragraphs 2.80-2.86.
- 2.33 The first phase ended in October 2020, when the Link Alliance signed the contracts to build the main works.
- 2.34 The main works that the Link Alliance will deliver currently make up about \$2.9 billion (about 68%) of the total funding the Sponsors have committed to the CRL project so far. The main works include building the tunnels and stations and putting in the rail systems.
- 2.35 The CRL project's second phase is the main delivery phase. This phase started in October 2020 and will end when the main works have been completed.
- 2.36 The third phase is the testing and commissioning phase, which includes operational readiness testing. In this phase, agencies will need to ensure that the rail systems (such as signalling and life safety systems) work as planned.

⁹ The number of people using public transport had increased faster than Auckland Transport expected. Auckland Transport considered that it was more efficient to extend the platforms during the CRL project rather than afterwards.

2.37 Auckland Transport, KiwiRail, and Auckland Transport’s contracted rail operator will do most of the testing and commissioning work. Auckland Transport and KiwiRail will also need to carry out trial operations and training as part of the CRL project. CRL Ltd will need to ensure that pre-determined project completion requirements are satisfied in agreement with the Sponsors.

Other agencies must deliver wider network improvements

2.38 Cabinet recognised that wider network improvements were needed for Day 1 but decided not to include them in the CRL project’s scope. Instead, Auckland Transport and KiwiRail are responsible for resourcing and delivering the wider network improvements.

2.39 The wider network improvements are currently budgeted at about \$1.11 billion. This brings the total budget for the works needed for Day 1 to about \$5.53 billion.

2.40 Figure 2 gives a high-level description of the works needed for Day 1, their budgeted costs, funding sources, and the organisations responsible for delivering them. The improvements include removing level crossings, resilience and asset maintenance programmes, and increasing the number of trains.

Figure 2
The wider network improvements needed for Day 1, as of June 2021

The wider network improvements are currently estimated to cost about \$1.11 billion. CRL Ltd is responsible for the CRL project, which is funded by the Crown and the Council through the Auckland Transport Alignment Project at an estimated cost of \$4.42 billion (net).^{*} This brings the Crown and the Council’s total investment for the works needed for Day 1 to about \$5.53 billion.

Funding source	Responsible organisations	High-level description	Estimated costs (\$million)
The Crown and the Council through the Auckland Transport Alignment Project	Auckland Transport	New trains to maximise operation	404
		Level crossing removal	220
		Maintenance, operation, and renewals	9
		Roadside projects	7

Funding source	Responsible organisations	High-level description	Estimated costs (\$million)
National Land Transport Fund**	KiwiRail	Infrastructure package – Additional traction feed (West)	57
		Resilience and asset maintenance programme – Integrated rail management centre and emergency management systems	36
		Resilience and asset maintenance programme – Infill signalling	15
		Infrastructure package – Electronic train control system Level 2	4
New Zealand Upgrade Programme***	KiwiRail	Wiri to Quay Park upgrade	318†
Auckland Council	CRL Ltd	Urban realm improvements††	40
Subtotal for the wider network improvements			1110

Sources: CRL Ltd, Auckland Transport, Ministry of Transport, KiwiRail, The New Zealand Upgrade Programme: Update on Programme Options (CAB-21-MIN-0192), the Auckland Transport Alignment Project 2021-31 Investment Programme (12 March 2021), KiwiRail's Rail Network Investment Programme (June 2021), and the Auckland Regional Land Transport Plan 2021-31 (June 2021).

Notes:

* CRL Ltd's budget also relies on revenue that will likely come from other public organisations and from sales of land around the stations. This revenue is extra to the Sponsors' investment in the CRL project. We do not detail third-party revenue because some of the information is commercially sensitive until the Crown and the Council have decided what they will use the land for and sell the land.

** The National Land Transport Fund is revenue collected from fuel excise duty, road user charges, vehicle and driver registration and licensing, state highway property disposal and leasing, and road tolling. These funds are used to pay for investment in land transport activities under the National Land Transport Programme.

*** The Government announced the New Zealand Upgrade Programme in January 2020. It is a \$12 billion infrastructure investment programme that includes investments in roads, rail, hospitals, and schools. In 2021, the Government increased the Programme's funding to about \$14 billion.

† The *Auckland Transport Alignment Project Investment Programme 2021-31*, released on 12 March 2021, committed \$315 million for the Wiri to Quay Park upgrade. In May 2021, Cabinet approved \$318 million for it. In June 2021, the *Rail Network Investment Programme* stated that the upgrade's budget is \$317.6 million.

†† "Urban realm" refers to the publicly accessible spaces between buildings in an urban environment. The urban realm encompasses streets, squares, station entrances, and laneways.

- 2.41 The delivery partners need to align and co-ordinate the design, construction, testing, and commissioning of their respective works to effectively integrate them into the existing transport network in Auckland.
- 2.42 Their assets, technology, and systems need to be compatible so the transport network can be safely, effectively, and efficiently run after the CRL project is completed.
- 2.43 To successfully complete the CRL project, the delivery partners need to:
- deliver their works on schedule and in the correct sequence to keep the CRL project on time and cause the least practicable disruption to the public and businesses during construction;
 - complete the works to a standard that allows Waka Kotahi to issue the licences the rail network needs to operate;¹⁰ and
 - plan how they will transition the new assets that CRL Ltd will deliver to the existing network and operations, which includes addressing how the assets will be accounted for in the financial statements of the Council, Auckland Transport, and KiwiRail.
- 2.44 Additional investment in the wider Auckland rail network will also be needed to enable the City Rail Link to reach its maximum capacity by 2036.

The Auckland Rail Network Development Programme

- 2.45 The works that are needed to fully realise the City Rail Link's benefits are an important part of the Auckland Rail Network Development Programme.
- 2.46 The Auckland Rail Network Development Programme is an indicative infrastructure plan that aims to bring the rail transport network up to a modern metropolitan standard that will improve the efficiency and reliability of freight and passenger train services by 2045.
- 2.47 The Auckland Rail Network Development Programme's objective is to provide the needed rail capacity to serve Auckland's future needs and help achieve Auckland's urban development objectives. The rail network needs to be modernised to support the additional services that will be introduced when the City Rail Link starts operating.
- 2.48 The Auckland Rail Network Development Programme includes currently funded projects and future projects in the Auckland Transport Alignment Project. It aims to deliver all the upgrade work as one programme rather than as individual projects.
- 2.49 The Boards of Auckland Transport and KiwiRail are responsible for governing the projects that make up the Auckland Rail Network Development Programme.

¹⁰ Organisations need licences to operate a railway. Waka Kotahi can issue a range of licences, including for owners, operators, access providers, premise owners, premise managers, and maintenance.

Although the CRL project is also part of the Auckland Rail Network Development Programme, its governance arrangements are separate.

- 2.50 When we finalised our report, funding for the Auckland Rail Network Development Programme was yet to be confirmed. KiwiRail has been funded to plan the Auckland Rail Network Development Programme and to prepare its business case. Preparing the business case will help KiwiRail to clarify the works, set priorities, and further refine estimates of costs.

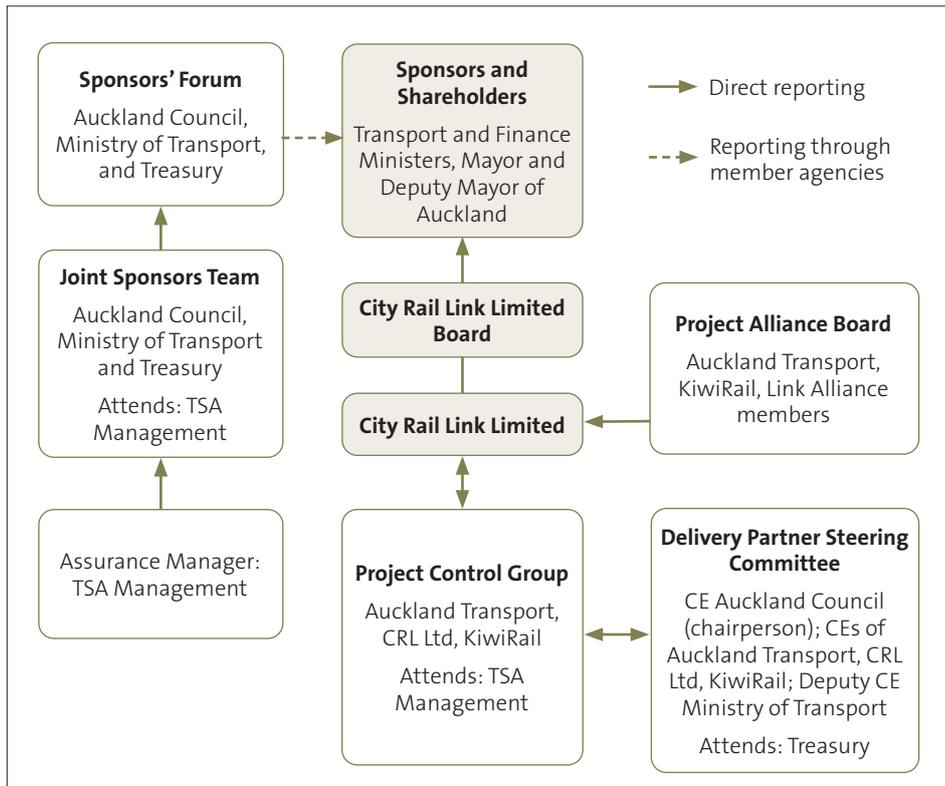
The three steps of investment in the wider Auckland rail network

- 2.51 There are three steps of investment needed for the City Rail Link to achieve maximum passenger capacity by 2036. All works associated with the three steps are part of the Auckland Rail Network Development Programme.
- 2.52 For step 1, both the CRL project and the wider network improvements summarised in Figure 2 need to be completed. These works will provide capacity for 27,000 passengers each hour during peak times.
- 2.53 Auckland Transport and KiwiRail are also progressing other works alongside the wider network improvements required to integrate the City Rail Link. Examples include three new stations at Drury and the Papakura to Pukekohe upgrade and electrification. KiwiRail plans to complete these works to coincide with Day 1, but they do not need to be completed for Day 1 to be successful.
- 2.54 Step 2 involves new trains to increase frequency and capacity, introducing a fourth main line between Wiri and Westfield, upgrading the Onehunga line to enable more and longer trains, and upgrading signalling systems and crossings.
- 2.55 These improvements will support the more frequent and longer trains that are needed to carry 40,500 passengers through the City Rail Link each hour during peak times.
- 2.56 Step 3 involves extra main lines south of Wiri. These will enable increases in passenger services, including introducing limited-stop services. Auckland Transport might also need more railway vehicles.
- 2.57 These improvements will enable even more frequent trains. This will allow the rail network's maximum passenger capacity to gradually increase to 54,000 passengers through the City Rail Link each hour during peak times.
- 2.58 In August 2020, Auckland Transport and KiwiRail estimated that they would need to invest a further \$7.5 billion to deliver steps 2 and 3. However, the timing of steps 2 and 3 depends on the increase in passenger demand and how Auckland Transport decides to cater for it.

The City Rail Link project’s governance arrangements are complex

- 2.59 The CRL project is made up of nine distinct packages of work that involve several contractors and contract types. There are several distinct governance arrangements designed to support and oversee all the different parts of the CRL project and provide advice and assurance about the work’s management to the Sponsors.
- 2.60 Figure 3 sets out the governance arrangements for the CRL project. We assessed the effectiveness of these arrangements, except for the aspects described in paragraph 1.24.

Figure 3
Governance arrangements for the City Rail Link project



Note: Auckland Transport and KiwiRail staff provide technical and operational support to the CRL project. For example, they are members of various working groups related to the Link Alliance, such as the Project Control Group (shown on the chart above), the Technical Control Group, Rail Safety Case Working Group, and Operational Readiness Management Group.

CRL Ltd also has a client-contractor relationship with firms delivering those works that are outside the Link Alliance’s scope.

2.61 Auckland Transport and KiwiRail have set up separate arrangements to govern the Auckland Rail Network Development Programme. This includes the wider network improvements that Auckland Transport and KiwiRail need to deliver to complete the CRL project, but do not include the CRL project.

The Sponsors' role is clearly defined

2.62 The Crown and the Council, in their roles as both the CRL project's Sponsors and as shareholders in CRL Ltd, agreed to work together by consensus. They defined their role as Sponsors as:

- setting the CRL project's scope and providing funding and oversight;
- approving significant strategic decisions for the CRL project; and
- ensuring that CRL Ltd delivers the CRL project as the Sponsors expect.¹¹

2.63 The Sponsors are not responsible for detailed project decisions. These are the responsibility of CRL Ltd, the Link Alliance, and other contractors.

The Sponsors work together through two officials' groups

2.64 The Sponsors agreed that they would engage with the CRL project primarily through two officials' groups – the Sponsors' Forum and the Joint Sponsors Team.

2.65 These groups do not report to the Sponsors directly, but provide advice through the usual channels that the Ministry of Transport, the Treasury, and the Council officials use for reporting to the Ministers and the Council's governing body.

2.66 The Sponsors' Forum's terms of reference define it as the highest-level officials' forum for discussing and co-ordinating issues about the City Rail Link and for assisting the Sponsors to make decisions about those issues. Its role includes governing the Sponsors' investment in the City Rail Link so that the CRL project realises its benefits.

2.67 The Sponsors' Forum includes a mix of senior officials from the agencies that are working on the Sponsors' behalf. Since June 2020, the Sponsors' Forum has consisted of two officials from the Council (including an executive team member) and an official from the Treasury, and a deputy chief executive from the Ministry of Transport.

2.68 The Joint Sponsors Team acts as the secretariat for the Sponsors' Forum. Its terms of reference describe its core role as ensuring that the Sponsors have enough information for all matters needing "their review, approval, or consent".

2.69 The Joint Sponsors Team also helps to facilitate the best possible outcomes of the Sponsors' investment in the CRL project through:

11. Cabinet paper (2017), *Establishment of City Rail Link Limited*, page 4.

- administering the Project Delivery Agreement and the Sponsors' Agreement;¹²
- facilitating co-ordination between agencies and between the Sponsors; and
- supporting communication and the exchange of information between the Sponsors and CRL Ltd.

2.70 The Joint Sponsors Team has four main functions. These functions are to advise and support the Sponsors on matters about:

- the Sponsors' governance;
- the Sponsors' approvals for certain matters;
- assurance and monitoring; and
- policy and integration.

2.71 Up to six representatives from the Crown and the Council make up the core membership of the Joint Sponsors Team. Other staff can be seconded into the team or attend meetings as needed.

2.72 The Sponsors have contracted TSA Management to be their Assurance Manager.¹³ TSA Management's role is to provide independent expert advice to the Joint Sponsors Team on risks and on whether CRL Ltd is delivering the CRL project as expected. The Assurance Manager attends the Joint Sponsors Team's meetings.

2.73 The chairperson of the Joint Sponsors Team acts as the Sponsors' Representative and the main liaison with CRL Ltd.¹⁴ Officials who are members of the Joint Sponsors Team or Sponsors' Forum can also attend meetings of the Delivery Partner Steering Committee (see paragraphs 2.77-2.79) as observers or fill in for an absent committee member.

The Board of CRL Ltd has a clear role

2.74 The CRL Ltd Board is responsible for the CRL project and CRL Ltd's day-to-day governance. It has five members – the chairperson and four directors.

2.75 The CRL Ltd Board governs, directs, and supervises CRL Ltd. CRL Ltd's objectives are to manage, deliver, and complete the CRL project as set out in the Project Delivery Agreement.

2.76 We discuss the Board's role in more detail in Part 3.

¹² The Project Delivery Agreement sets out the processes for providing the Sponsors with assurance on the CRL project's delivery, the key delivery objectives, and other terms and conditions that CRL Ltd is required to meet to deliver the CRL project. The agreement also sets out the procedures for altering the CRL project's scope. The Sponsors' Agreement sets out the arrangements between the Sponsors for the CRL project's governance and their relationship as co-Sponsors.

¹³ TSA Management was formerly known as Advisian.

¹⁴ During our audit, the Director, Infrastructure and Environmental Services at Auckland Council was the Sponsors' Representative and the main liaison with CRL Ltd.

The Delivery Partner Steering Committee supports operational decision-making

- 2.77 In 2019, the Delivery Partner Steering Committee was set up to provide a forum for the agencies that are responsible for the CRL project and the wider network improvements. Its role includes:
- ensuring that the delivery partners recognise the interdependencies between their works;
 - integrating the CRL project with the wider network improvements; and
 - resolving matters referred by the Project Control Group.
- 2.78 The Delivery Partner Steering Committee makes decisions by consensus. Its members are the chief executives of the delivery partners and the Council. KiwiRail's Chief Operating Officer for Capital Projects and Asset Development represents their chief executive.
- 2.79 A Crown representative (from either the Ministry of Transport or the Treasury) is also a member. During our audit, the Crown representative was the Deputy Chief Executive, System Performance and Governance, at the Ministry of Transport.¹⁵

The Link Alliance works through a Project Alliance Board

- 2.80 The Link Alliance is responsible for delivering the CRL project's main works (see paragraphs 2.32-2.35). Looking at the Link Alliance and associated governance arrangements were not within scope of our audit because they involve organisations that are not public entities. However, we note that the Link Alliance adds another layer of complexity to the CRL project.
- 2.81 Alliances are a form of collaborative procurement where parties work together to deliver projects and share project risks and rewards. They are sometimes used for highly complex or large infrastructure projects that would be difficult to effectively scope, price, and deliver under a more traditional delivery model.
- 2.82 Alliances can enable innovation and improved risk management because parties can work together to solve problems without needing to renegotiate the contract with the principal. However, the downsides of an alliance can be that they do not always offer certainty on costs and, if things go wrong, can lead to protracted negotiations about cost sharing.
- 2.83 The Link Alliance has a Project Alliance Board. The Project Alliance Board's role is to:
- provide leadership for the Link Alliance;
 - set policy and strategic direction for the Link Alliance;
 - issue directions, approvals, and make decisions about its scope of works;

¹⁵ A Treasury official attends meetings as an observer. If a Treasury official were a member of the Delivery Partner Steering Committee, then a Ministry of Transport official would attend the meetings as an observer.

- resolve any commercial issues; and
 - co-ordinate between the Link Alliance participants, Auckland Transport, and KiwiRail.
- 2.84 The Project Alliance Board must vote on its decisions, and all decisions must be unanimous.
- 2.85 Auckland Transport and KiwiRail each have representatives on the Project Alliance Board because they will be the assets' eventual owners and operators. The rest of the Project Alliance Board consists of senior representatives from members of the Link Alliance. These are:
- CRL Ltd;
 - AECOM New Zealand Limited;
 - Downer New Zealand Limited;
 - Soletanche Bachy International (NZ) Limited;
 - Tonkin & Taylor Limited;
 - Vinci Construction Grands Projets S.A.S. (registered in New Zealand as HEB Construction Limited); and
 - WSP New Zealand Limited.
- 2.86 When we refer to the Link Alliance, we also include the Project Alliance Board.

There is joint governance for continuing network development

- 2.87 In 2022, Auckland Transport and KiwiRail set up a Joint Governance Group to provide governance over the works that sit under the Auckland Rail Network Development Programme. This includes the wider network improvements that Auckland Transport and KiwiRail need to deliver for Day 1 and the other works, such as the three new stations at Drury. However, it excludes the CRL project, which is CRL Ltd's responsibility.
- 2.88 The Joint Governance Group will oversee and direct the various above-ground and underground rail programmes. This includes enabling, co-ordinating, and optimising the delivery of current projects and future works outside of the CRL project.
- 2.89 Auckland Transport and KiwiRail are members of the Joint Governance Group.
- 2.90 The Auckland Rail Network Development Programme's Joint Governance Group has no direct relationship with the CRL project's governance arrangements.

The City Rail Link Board's governance

- 3.1 In this Part, we discuss:
- the Board's governance of the CRL project and CRL Ltd;
 - the challenges that have affected the CRL project and how the CRL Ltd Board has handled them; and
 - how well placed the CRL Ltd Board is to govern the rest of the CRL project.
- 3.2 We assessed the Board's governance of CRL Ltd and the CRL project against the eight elements of effective governance (see the Appendix). In summary, we expected the CRL Ltd Board to:
- have a clear focus on its core purpose of governing the CRL project, understand its role, and have the right mix of people, capability, and experience;
 - set a constructive tone from the top and have effective relationships;¹⁶
 - have good information systems and controls to support effective decision-making and accountability; and
 - be clear about accountabilities and transparent about performance.
- 3.3 We also considered how well the CRL project is keeping to the approved time frames and budget and the Board's role overseeing this.

Summary of findings

- 3.4 The CRL Ltd Board has a clear understanding of its mandate and authority. It is capable and demands a high level of performance from CRL Ltd and, through CRL Ltd, the Link Alliance. The CRL Ltd Board uses a "trust but verify" approach to assessing the quality and extent of the information that it gets.
- 3.5 The CRL Ltd Board has also ensured that CRL Ltd has the underlying systems and processes it needs to support the CRL project.
- 3.6 The CRL Ltd Board has also shown that it can handle significant challenges, such as getting the Sponsors to agree to widen the CRL project's scope and funding in 2019 and dealing with the effects of the Covid-19 pandemic.
- 3.7 CRL Ltd has not provided a fully updated delivery schedule (or confirmed time frame) for the whole CRL project for some time. However, the CRL Ltd Board has been closely involved in ensuring that CRL Ltd's management addresses the effects of the Covid-19 pandemic by trying to keep the CRL project progressing and avoiding delays wherever practicable. However, the biggest challenges to the CRL project might come in the testing and commissioning phase.
- 3.8 The Covid-19 pandemic is expected to continue to affect the CRL project. CRL Ltd has publicly advised that it has a pending claim for additional costs from the Link Alliance for matters related to the Covid-19 pandemic.

16 "Tone at the top" refers to leaders demonstrating the behaviour that they expect to see in their organisation.

- 3.9 When we finalised our report, the CRL Ltd Board considered that it could not reliably estimate what the agreed amount of the claim would be. However, the CRL Ltd Board has acknowledged that it could be significant. CRL Ltd says that it will have a clearer idea of the CRL project's completion date and costs by the end of 2022.
- 3.10 Although this is a difficult situation, it is important to resolve this issue as soon as possible.

The CRL Ltd Board is governing the CRL project under difficult circumstances

The CRL Ltd Board has a clear understanding of its mandate and authority

- 3.11 The CRL Ltd Board is clear on its strategic purpose and accountabilities to the Crown and the Council in their roles as joint shareholders of CRL Ltd and as the CRL project's Sponsors.
- 3.12 The CRL Ltd Board is meeting its responsibilities, including:
- requirements to get approval from Ministers and the Council for its significant decisions, such as to release tender documents or enter significant contracts; and
 - implementing and monitoring compliance with any conditions that the Sponsors attach to their approvals.
- 3.13 Each Board member we spoke with was strongly aware of CRL Ltd's mandate and boundaries. This included the dependencies between the CRL project and the wider network improvements.
- 3.14 Although the CRL Ltd Board can monitor Link Alliance's performance and compliance with its contract, the CRL Ltd Board is clear that the Project Alliance Board makes decisions about the main works.
- 3.15 Although CRL Ltd's purpose is delivering the CRL project, it has also taken on related projects at the Sponsors' request. These were funded separately to the CRL project and include:
- carrying out urban realm improvements at Lower Albert Street for the Council; and
 - doing some early work on the urban development programme for the wider station precincts for the Crown and the Council.¹⁷

- 3.16 These related projects do not appear to have unduly taken time or resources away from the CRL project.

The CRL Ltd Board is capable and is focused on the right matters

- 3.17 We found that the CRL Ltd Board is well set up for governing the CRL project and CRL Ltd. The Sponsors have appointed qualified directors to the Board. The directors have relevant and diverse experience, including infrastructure experience in New Zealand or overseas (such as installing a metropolitan underground rail network).
- 3.18 The CRL Ltd Board papers that we looked at focused on the right matters, such as emerging issues, project delivery and assurance, risk management, financial management, health and safety, and corporate accountability. The Board's meeting minutes include directors' declarations of interests. Discussions are recorded in enough detail to show what matters were considered in reaching decisions and determining follow-up actions.
- 3.19 The CRL Ltd Board reviewed its performance in 2021, which is good practice. As a result, the Sponsors approved changes to CRL Ltd's constitution to allow an additional director with strong experience in rail systems and integration to be appointed. Appointing a director with this experience should complement the Board's experience as the CRL project enters the testing and commissioning phase.

The CRL Ltd Board questions and challenges advice appropriately

- 3.20 The ability to govern well and make good decisions relies on getting good-quality information at the right time.
- 3.21 We found that the CRL Ltd Board requires CRL Ltd's management to provide it with good-quality and timely reporting that contains robust analysis and recommendations. The CRL Ltd Board regularly tests, questions, and challenges the advice it receives.
- 3.22 We saw that the CRL Ltd Board actively seeks extra information when it is unsatisfied with the information that CRL Ltd's management provides. At times, the CRL Ltd Board has directed management to review its performance against good practice (such as for risk management and health and safety) in New Zealand or overseas organisations.
- 3.23 The CRL Ltd Board has asked for improvements to the reports it receives from CRL Ltd's management. For example:

- The CRL Ltd Board receives regular reports on the status of the CRL project delivery programme. In early 2021, the CRL Ltd Board asked management to chart the critical path with commentary on “hotspots, traffic lights, and what is creating heat on the critical path” in the report.¹⁸
 - To provide a more integrated picture, the CRL Ltd Board asked for an assurance report that combines previously separate reporting on rail, systems, programme, delivery, forecasts, and risk.
- 3.24 The CRL Ltd Board does not rely only on the information CRL Ltd provides about the CRL project's progress and the Link Alliance's performance. The CRL Ltd Board invited the Link Alliance's Project Director to attend Board meetings to directly tell it about the progress of, and risks to, the Link Alliance's works.
- 3.25 CRL Ltd has appointed an Alliance Performance Coach. Their role includes providing the CRL Ltd Board with a second opinion on how well the Link Alliance is performing. This includes how well the Link Alliance is working with Auckland Transport and KiwiRail.
- 3.26 In our view, the approach that the CRL Ltd Board takes has the right balance of “trust but verify” towards the information and advice it receives, especially given the CRL project's scale and its importance to Auckland and the country.

The CRL Ltd Board has used contractual remedies when necessary

- 3.27 CRL Ltd's management works closely with the Link Alliance. There is evidence that the relationships in the Link Alliance and with Auckland Transport and KiwiRail have supported improved performance.
- 3.28 Nevertheless, the CRL Ltd Board has intervened to improve performance when there have been concerns about the way the Link Alliance is operating. The CRL Ltd Board has not hesitated to use contractual remedies when the Link Alliance does not improve quickly enough.
- 3.29 For example, CRL Ltd issued two improvement notices to the Link Alliance, one in 2020 and in 2021. Among other improvements, this led to:
- changes in the Link Alliance's organisational structure to make it more effective and efficient and to provide better assurance over delivery; and
 - improvements in the quality (including the reliability of some data) and responsiveness of the Link Alliance management team's reporting to the Project Alliance Board.
- 3.30 Issuing improvement notices could have damaged the relationship between CRL Ltd and the Link Alliance. However, we were told that these notices improved their

¹⁸ The critical path is the longest sequence of tasks to complete a project. The tasks on the critical path are critical because if they are delayed, the project's completion will be delayed.

shared understanding of what they each must do to deliver the CRL project and work together more productively.

- 3.31 It is critical that the reports the Link Alliance provides to the Project Alliance Board have clear and reliable information to inform its decision-making. In turn, clear reports from the Link Alliance reports to CRL Ltd will enable its management to provide clearer information to the Board.

The CRL Ltd Board has ensured that CRL Ltd has suitable underlying systems and processes to effectively run the organisation

- 3.32 Under the Board's direction, CRL Ltd has set up the underlying systems and processes for CRL Ltd to meet its statutory accountabilities, including:
- setting up an Audit and Risk Committee and a People and Remuneration Committee;
 - supporting the changes that CRL Ltd's chief executive made to the management team to separate responsibility for project assurance from project delivery;
 - identifying and keeping critical staff during the CRL project to maintain knowledge, skills, and experience and support long-term working relationships with contractors; and
 - over time, adding controls to strengthen CRL Ltd's assurance and governance practices, such as appointing a private firm to act as its internal auditor.

The CRL Ltd Board has shown it can handle significant challenges

- 3.33 The CRL Ltd Board has already led CRL Ltd through some challenging situations. For example, during the CRL project's early phases the CRL Ltd Board needed to recruit a new chief executive for CRL Ltd after the first chief executive left. While recruiting the new chief executive, the CRL Ltd Board supported the interim chief executive by being more closely involved in CRL Ltd's day-to-day operations.
- 3.34 The CRL Ltd Board then supported the new chief executive as he reshaped the senior leadership team and organisation to bring stability to crucial roles and better support the CRL project.
- 3.35 Another challenge the CRL Ltd Board faced was changing how CRL Ltd delivered the CRL project in response to changing market conditions. When one firm withdrew from the CRL project, and another firm became insolvent, the CRL Ltd Board recognised that the delivery model might need to change.
- 3.36 CRL Ltd provided advice to the Sponsors that the best procurement and delivery model for the CRL project's main works was an alliance. Before this, CRL Ltd's approach was to design each set of works in-house and contract out its delivery. The CRL Ltd Board succeeded in getting the Sponsors to approve the new approach.

- 3.37 Between April and June 2019, the CRL Ltd Board secured the Sponsors' agreement to increase the CRL project's budget to support its widened scope (to allow nine-car station platforms), fund increased costs of construction, and increase contingency in the CRL project's budget.
- 3.38 This meant increasing the Crown and the Council's joint committed investment in the CRL project to \$4.42 billion. The proposal was a result of several months' work reviewing the CRL project's scope and budget.
- 3.39 As with other major infrastructure and construction projects, the Covid-19 pandemic has significantly affected the CRL project and could continue to affect it for some time. For example, CRL Ltd is having to manage rising costs of construction and supply chain issues (particularly shipping).
- 3.40 From August 2021 to April 2022, Auckland was in various levels of lockdown. Changes in health and safety procedures affected the CRL project. For example, social distancing affected how work could be done.
- 3.41 The CRL project's specialist nature, complexity, and scale mean that CRL Ltd relies heavily on skills that not many people in New Zealand have. The Covid-19 pandemic has significantly affected the ability of CRL Ltd to recruit skilled international workers for the CRL project.
- 3.42 The Link Alliance has been training New Zealand-based workers on site to help make up for the skills shortages. In other instances, CRL Ltd staff with relevant expertise have helped the Link Alliance with certain tasks. However, international workers are still needed to build up the existing workforce.
- 3.43 During 2020 and 2021, we were told that the Board's chairperson discussed workforce issues affecting the CRL project with the Minister of Transport and the Deputy Mayor of Auckland.¹⁹
- 3.44 The CRL Ltd Board also supported CRL Ltd in working with the Ministry of Transport and the Council to provide the information needed to secure Managed Isolation and Quarantine places and bring in as many needed workers as possible into the country.

The CRL Ltd Board is taking steps to provide increased certainty about the CRL project's time frame and costs

- 3.45 During our audit, CRL Ltd was not always able to provide a fully updated delivery strategy and schedule for all phases of the CRL project. This is a requirement of the Project Delivery Agreement.

¹⁹ The Deputy Mayor of Auckland is responsible for the relationship with the CRL Ltd Board on behalf of the Council. He discusses any issues with the Mayor of Auckland as needed.

- 3.46 It is clearly preferable to have reliable information about the CRL project's schedule. However, the Covid-19 pandemic has created significant uncertainty (we discuss this further in paragraphs 3.61-3.67).
- 3.47 Until a fully updated schedule can be produced and confirmed, CRL Ltd's management provides the CRL Ltd Board with continually updated estimates of time frames for all the individual works.
- 3.48 The Link Alliance contributes to this by carrying out regular reviews of its work programme to continually update the information for the main works. Each review provides updated information on time and costs. It also becomes the new baseline time frame until the next review.
- 3.49 At the time that we finalised our report, CRL Ltd expects the sixth review, due in June 2022, to include time frames for the testing and commissioning phase of the CRL project (see paragraph 2.36). Auckland Transport and KiwiRail need this information to update the plans for their roles in this phase.
- 3.50 This approach enables the Link Alliance and CRL Ltd to have a consistent understanding of the situation. It also allows them to take any action that is possible with the available resources to avoid delays.
- 3.51 CRL Ltd shares these reviews with the Assurance Manager and Joint Sponsors Team so that they have the most up-to-date information. CRL Ltd regularly updates the critical path and cost information and reports the results of the reviews to the Board. We describe what the Sponsors' officials do with the reports in Part 4.
- 3.52 In February 2021, the CRL Ltd Board asked CRL Ltd's management to start providing information on three scenarios for the Link Alliance's work programme – "stretch", "conservative", and "most likely" – to inform its decision-making.
- 3.53 The CRL Ltd Board asked CRL Ltd's management to include commentary on each of the scenarios in the delivery report. In turn, the CRL Ltd Board provides this information to the Joint Sponsors Team as part of its monthly reporting.
- 3.54 The Covid-19 pandemic has created much uncertainty about time frames and cost. It is important that the CRL Ltd Board continues to regularly update the Sponsors as the situation develops. This will ensure that there are no surprises and allow the Sponsors to factor these risks into wider investment decisions.
- 3.55 In our view, it is also important for CRL Ltd to continue being transparent with the public about the challenges that the CRL project faces and the impacts that the Covid-19 pandemic could have on the CRL project's time frames and budget.

- 3.56 The works at Britomart East are some of the last works to be procured. The scope for these works has increased and is likely to have funding implications for the CRL project.
- 3.57 We understand that the Sponsors will address the need for further funding for the Britomart East works when they consider CRL Ltd's recommendations for addressing the pending claim from the Link Alliance for additional costs related to the Covid-19 pandemic (see paragraph 3.61).

The biggest challenges to the CRL project are likely yet to come

- 3.58 In our view, the way the CRL Ltd Board has managed challenges in the past and the way it is monitoring the Link Alliance's performance means that it is well placed to govern the CRL project to completion.
- 3.59 However, there are more challenges ahead. It seems likely that there will be continuing disruptions to supply chains and pressures on the cost of materials.
- 3.60 CRL Ltd is likely to continue having difficulties getting enough expertise from overseas to support the work. This is because of competition from other infrastructure projects in New Zealand and overseas.
- 3.61 CRL Ltd is currently assessing the Covid-19 pandemic's impact on the CRL project's time frame and costs. CRL Ltd has publicly advised that it has a pending claim for additional costs from the Link Alliance for matters related to the Covid-19 pandemic. The claim covers the period from 20 June 2020 to 31 December 2021.
- 3.62 The impact of these matters is currently uncertain. Although the additional project costs cannot be reliably quantified at this point, they could be significant. Settling the claim involves negotiating how increased costs incurred to date will be shared and assessing the impacts of the Covid-19 pandemic on future costs.
- 3.63 After the 2020 Covid-19 lockdowns, CRL Ltd and the Link Alliance worked together to recover as much lost time as possible and negotiate how they would share the costs associated with the delays. That was a relatively straightforward process because the lockdowns were short.
- 3.64 Later lockdowns and workplace restrictions were prolonged, which meant that the pending claim for costs related to the Covid-19 pandemic is more complex and will take longer to resolve.

- 3.65 The Crown and Council recognise that further investment might need to be committed. As we discussed in paragraph 2.17, the CRL project carries a specific fiscal risk for the Crown. In response to the pending claim, the Council's *Group Interim Report for 31 December 2021* includes an unquantified contingent liability related to CRL Ltd.
- 3.66 When the claim is settled, and construction of the main stations and tunnels is largely completed, there will be greater clarity on when and at what cost the CRL project can be delivered.
- 3.67 CRL Ltd told us that it will have more clarity on the CRL project's completion date and costs by the end of 2022.
- 3.68 Project cost and time frame are two fundamental matters that governance needs to maintain its focus on. Once the claim has been resolved, we expect CRL Ltd to provide advice to the Sponsors on options for the CRL project's cost and time frame, and the potential effects of those options on realising the CRL project's benefits.
- 3.69 The Assurance Manager reported to the Sponsors' officials that CRL Ltd's work programme will continue to be under substantial pressure, especially in the latter stages of the CRL project.
- 3.70 Because multiple contracts will be in progress at the same time, the CRL Ltd Board will need to assure itself that CRL Ltd has enough capacity to deliver its work programme, proactively mitigate risks, and address problems as they arise. The Board's meeting minutes show that the CRL Ltd Board is aware of this.
- 3.71 The CRL project's third phase (which includes testing and commissioning) is likely to challenge its governance arrangements. In our view, the current arrangements do not support the delivery partners' Boards to make efficient and joint decisions on matters where alignment is necessary. This could lead to problems. We discuss this further in Part 4.
- 3.72 As well as these challenges, the chairperson of the CRL Ltd Board is stepping down soon and will need to be replaced.
- 3.73 Even with effective governance and everyone's best efforts to deliver the CRL project as planned, the Sponsors' agreement in 2019 to fund the CRL project at P50 meant that there was a 50% chance they would need to commit more funding to deliver the CRL project. The Covid-19 pandemic has exacerbated this risk.

4

The Sponsors' governance and oversight

- 4.1 In this Part, we discuss:
- how the Sponsors' officials have carried out their duties;
 - how the Sponsors' officials have responded to advice from the Assurance Manager;
 - progress in managing benefits realisation;
 - how interdependencies are governed; and
 - reporting from the Sponsors' officials on the CRL project and the wider network improvements.
- 4.2 For the public to remain confident that CRL Ltd can complete the CRL project and achieve the CRL project's longer-term objectives, it is critical that the Sponsors provide suitable oversight and governance. Oversight of any issues with the wider network improvements required for Day 1 is necessary to avoid delays to the CRL project.
- 4.3 In accordance with its terms of reference, we expected that the Sponsors' Forum would effectively govern the Sponsors' investment in the City Rail Link so that the CRL project realises its intended benefits. We expected the Sponsors' Forum to proactively work with the delivery partners to resolve high-level issues affecting the CRL project and its dependencies, such as challenges with scope, budget, and time frames.
- 4.4 We expected the Joint Sponsors Team to effectively advise and support the Sponsors on governance, approvals and reviews, assurance and monitoring, and policy and integration matters.

Summary of findings

- 4.5 The Sponsors' officials have carried out some of their responsibilities well. For example, they reviewed CRL Ltd's proposal to adopt the alliance model and facilitated the Sponsors' approval of the proposal. The Sponsors' officials also supported efforts to secure priority funding for the wider network improvements required to bring the City Rail Link into operation.
- 4.6 The Sponsors' officials have recognised the need for specialist expertise on this work and have contracted an Assurance Manager to provide them with advice. However, we could not conclude whether the officials were addressing the Assurance Manager's recommendations well or whether critical issues have been addressed because the documentation was not adequate.
- 4.7 When we finalised this report, the Sponsors' officials were improving the way they track the Assurance Manager's recommendations and how they have addressed them. These improvements are important to ensure that the Sponsors can have confidence in the independent assurance process.

- 4.8 We also found that there was confusion about who is responsible for ensuring that the benefits of the City Rail Link are progressively realised until 2036. In our view, the benefits need to be better defined, updated, and quantified. In response to our concerns, Sponsors' officials have clarified responsibility for realising benefits and intend to complete a benefits realisation plan in early 2023.
- 4.9 In our view, there also needs to be a mechanism to enable the governing Boards of the delivery partners to have greater oversight of the CRL project's dependencies, support efficient joint decision-making, and resolve matters that the Delivery Partner Steering Committee cannot.
- 4.10 The Sponsors and their officials assured us that they are appropriately informed about the CRL project and the wider network improvements. However, we reviewed a selection of reports from mid-2019 to April 2021 and identified some areas for improvement.
- 4.11 More recent reports to the Minsters and the Council's Audit and Risk Committee were more comprehensive, included more analysis, and provided a clearer view on the CRL project's status and risks. We expect officials to sustain these improvements to ensure that there is a clear and reliable record on how well the risks from both the CRL project and the wider network improvements are being mitigated.

The Sponsors' officials have carried out some responsibilities well

- 4.12 The Sponsors' officials have a structure that enables them to have oversight of the CRL project and its dependencies, support parties to achieve their objectives, and facilitate co-ordination between agencies and between the Sponsors.
- 4.13 The Joint Sponsors Team's main role is to provide the Sponsors with enough information for all matters needing their review, approval, or consent.
- 4.14 We found that the Sponsors' officials carried out their responsibilities for the Sponsors' approvals effectively (such as approving CRL Ltd's adoption of an alliance model in 2018). Officials have also provided the Sponsors with recommendations on the conditions that should be attached to approvals.
- 4.15 The Sponsors' officials routinely carry out statutory monitoring functions in relation to CRL Ltd, including providing advice to the Minister of Transport to prepare his annual letter of expectations to the Board's chairperson.²⁰ Officials work together to incorporate advice from the other Sponsors in that letter.

²⁰ Ministers use letters of expectations to inform the Boards of Crown entities about their expectations. Boards are expected to reflect the Minister's expectations in their organisation's corporate documents.

- 4.16 The Sponsors' officials also supported the Sponsors to appoint members to the Board. This included providing advice on how to refresh the CRL Ltd Board without losing continuity and skills. Officials also provided advice on how to respond to the recommendations in the report on the Board's performance, including advice on amending CRL Ltd's constitution to allow an additional director to be appointed.
- 4.17 We found many examples of the Sponsors' officials supporting initiatives to benefit the CRL project. For example, the Sponsors' officials:
- worked with the Sponsors and CRL Ltd to increase the Sponsors' committed investment in the CRL project in 2019 to allow for increased scope, construction costs, and contingency in the CRL project's budget;
 - supported a joint proposal from Auckland Transport and KiwiRail asking that decision-makers prioritise funding the wider network improvements through the Auckland Transport Alignment Project and the New Zealand Upgrade Programme to avoid delays to the CRL project;
 - worked with CRL Ltd and the Ministry of Business, Innovation and Employment to mitigate the effects of the Covid-19 pandemic on the CRL project's programme, supplies, and workforce, including getting approval for some construction to continue during the Alert Level 4 lockdown; and
 - worked with the Minister of Transport and the Council on the policy needed to set up a Business Hardship Programme (because the Albert Street works took longer than planned) and, later, the Target Hardship Fund, which the Minister of Transport and the Mayor of Auckland announced in September 2021.²¹

Sponsors' officials need better systems for managing advice from assurance reviews

- 4.18 The Joint Sponsors Team gets a monthly report from CRL Ltd on the status of its delivery programme. CRL Ltd also provides quarterly reports on progress against its Statement of Performance Expectations, including its progress against delivery milestones. CRL Ltd's reports that go to the Joint Sponsors Team use the most recent information that the CRL Ltd Board has been provided with.
- 4.19 The Sponsors' officials told us that CRL Ltd's reports are useful. For example, the reports have highlighted risks with the Link Alliance and how these are being managed through the Project Alliance Board and the Project Alliance Agreement.
- 4.20 The Assurance Manager reviews and provides separate advice to the Joint Sponsors Team on CRL Ltd's reports. That advice is informed by reviewing other documents and talking to CRL Ltd's staff.

²¹ CRL Ltd managed the Business Hardship Programme and also manages the Target Hardship Fund on behalf of the Sponsors.

- 4.21 The reports that the Assurance Manager provides to the Joint Sponsors Team include recommendations for action, such as officials asking CRL Ltd for more information or to discuss certain matters.
- 4.22 The Sponsors' Representative and other members of the Joint Sponsors Team or the Sponsors' Forum then meet with CRL Ltd's senior management to discuss the reports and any other relevant information about the CRL project. The Assurance Manager usually attends.
- 4.23 Aside from this, it is not clear to us how the Joint Sponsors Team uses the information it is provided with. From the documents provided to us, we could not consistently see:
- whether the Joint Sponsors Team accepted the Assurance Manager's recommendations;
 - what actions were taken in response to the Assurance Manager's recommendations and when they were completed;
 - how CRL Ltd and the Assurance Manager's reports influenced the Sponsors' officials' meetings with CRL Ltd's management or the information that the Sponsors' officials provided to the Sponsors; or
 - whether the Joint Sponsors Team referred any matters to the Sponsors' Forum or the Sponsors.
- 4.24 Because there was not adequate documentation, we could not conclude whether the Sponsors' officials are addressing the Assurance Manager's recommendations well or whether critical issues have been addressed.
- 4.25 In our view, the Sponsors' officials need to have a more systematic approach to addressing the Assurance Manager's recommendations and agreed improvement actions. This should involve documenting:
- whether recommendations have been accepted or rejected;
 - who has been assigned responsibility for an action;
 - a deadline for action;
 - progress in addressing the response to each recommendation that needs action; and
 - when each action has been completed.
- 4.26 The Sponsors' officials accept the need to provide greater transparency of how they are carrying out their oversight role. They are working with CRL Ltd to work out an effective and efficient way of improving their systems. In our view, this is encouraging but very late.

- 4.27 It is important that the Sponsors' officials prioritise these improvements so that they can report to the Sponsors how they have addressed the Assurance Manager's advice and recommendations. This will give the Sponsors confidence in the independent assurance process and enable officials to provide advice on how well CRL Ltd is delivering the CRL project.

Recommendation 1

To provide greater transparency of how well they are carrying out their oversight role, we recommend that the Sponsors' Forum and Joint Sponsors Team prioritise improvements to the way they manage the Assurance Manager's recommendations.

Ongoing benefits management needs to be considered now

- 4.28 In our 2020 report *Inland Revenue Department: Benefits management for the Business Transformation Programme*, we said:
- Benefits management needs an ongoing commitment for the duration of an investment. It should be integrated into an organisation's programme planning, strategic planning, and performance management and reporting systems. ...*
- Effective benefits management helps to ensure that benefits are ultimately realised. It should also support an organisation to continually improve and implement lessons learned.*
- 4.29 Although the comments in that report were about a single organisation, it is even more important to be clear about responsibility for managing benefits when multiple agencies contribute to realising those benefits over many years. This is the case for the City Rail Link.
- 4.30 In our view, it is critically important that the Sponsors' officials understand the processes and expectations for realising the benefits from the City Rail Link. This includes:
- having plans to manage and govern benefits appropriately; and
 - being clear about which agency will be responsible for co-ordinating reporting on benefits over the long term.
- 4.31 We expected the intended benefits from the City Rail Link to be clearly defined. Clearly defined benefits with measurable indicators are needed to:
- help with investment decision-making during the CRL project's design and construction;

- weigh up potential changes to the CRL project's scope (against time and cost) that can better achieve the business case's objectives; and
- support transparency and accountability for the return on the Sponsors' investment when the CRL project is completed and from the City Rail Link's operation to 2036.

- 4.32 The Sponsors' Forum's terms of reference (see paragraph 2.66) make it clear that its purpose is to govern the Sponsors' investment in the City Rail Link so that the CRL project realises the intended benefits.
- 4.33 However, we found that there was confusion over who is responsible for governing benefits. In our view, this is not acceptable for what will be a significant programme of works over many years.
- 4.34 We consider that the business case does not sufficiently define the City Rail Link's intended benefits. To effectively manage and realise the benefits, work on further defining them is needed. They also need to be updated.
- 4.35 The benefits realisation plan should include a benefits mapping framework to show the links between the CRL project's scope and the intended benefits. This would ensure transparency and help agencies manage owning, measuring, and realising benefits.
- 4.36 In response to our concerns, the Sponsors' officials told us that they have started reassessing how the intended benefits from the investment in the City Rail Link will be realised and how this will be overseen until 2036.
- 4.37 The Ministry of Transport is leading this work in consultation with the Council, Auckland Transport, CRL Ltd, KiwiRail, and the Treasury. The Ministry aims to use existing forums set up for the Auckland Transport Alignment Project to co-ordinate and report on progress.
- 4.38 The agencies intend to prepare a benefits realisation plan that will define and quantify targets for the City Rail Link's economic, social, and environmental benefits.
- 4.39 Agencies have made progress in preparing a benefits realisation plan, which they intend to complete in two phases. The first phase of the benefits realisation plan covers the business case's core benefits.
- 4.40 The Ministry of Transport, the Council, Auckland Transport, CRL Ltd, and KiwiRail have agreed the first phase of the benefits realisation plan, which was completed in May 2022. It sets out the accountabilities for achieving benefits and for monitoring the work that agencies need to do. Because the plan has only recently been completed, we have not assessed it.

- 4.41 The second phase of the benefits realisation plan involves incorporating the:
- work that Eke Panuku and Kāinga Ora are doing together to realise urban development opportunities near the Mount Eden station; and
 - outcome of the business case that KiwiRail is preparing for the Auckland Rail Network Development Programme.
- 4.42 Agencies intend to complete and agree the second phase of the benefits realisation plan by February 2023.
- 4.43 When fully complete, the benefits realisation plan is expected to address all of the intended benefits set out in the business case.
- 4.44 The final benefits realisation plan will be provided to the Auckland Transport Alignment Project Governance Group. The agencies consider that, within the context of the whole Auckland transport network, the Auckland Transport Alignment Project Governance Group is the suitable forum to have oversight for realising the intended benefits of the City Rail Link until 2036.
- 4.45 The members of the Auckland Transport Alignment Project Governance Group are the:
- Secretary for Transport (co-chairperson);
 - Chief Executive of the Council (co-chairperson);
 - Deputy Secretary to the Treasury;
 - Deputy Public Service Commissioner for Auckland; and
 - Chief Executives of Auckland Transport, KiwiRail, and Waka Kotahi.
- 4.46 When put in place, these arrangements should contribute to improved benefits management, including supporting decision-making on the additional investment associated with steps 2 and 3 for the City Rail Link.
- 4.47 Multiple agencies are responsible for achieving the long-term benefits of the City Rail Link. Ideally, these agencies would have already confirmed a benefits realisation plan for the City Rail Link and accountabilities and reporting mechanisms would already be in place.
- 4.48 Preparing a benefits realisation plan early would have helped to clarify which works are critical to the delivery of the benefits in the business case. It would have also made clear which benefits each agency will contribute to. It would have required all agencies to have plans for realising the benefits and to measure and report on progress.
- 4.49 We consider that priority should be given to putting in place effective oversight for realising the City Rail Link's intended benefits.

Recommendation 2

We recommend that the Sponsors of the City Rail Link project ensure that officials prioritise completing an agreed comprehensive benefits realisation plan that:

- clearly defines and quantifies the benefits expected from the City Rail Link, with measures that are specific, measurable, and realistic;
 - assigns responsibility for managing benefits; and
 - assigns accountability for co-ordinating reporting on realising benefits over time.
-

Boards need to be more involved in resolving issues with dependencies

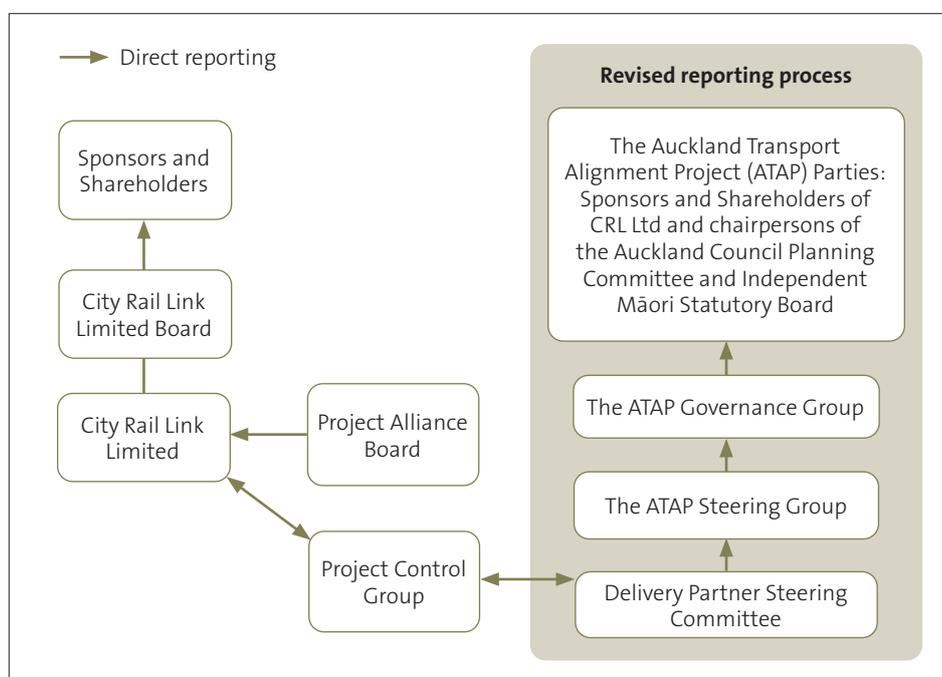
- 4.50 The CRL Ltd Board is accountable for delivering a railway capable of commercial operation for immediate public use on Day 1.
- 4.51 However, the CRL Ltd Board does not have authority over all the works that need completing for Day 1 to succeed. This is because the Boards of Auckland Transport and KiwiRail are responsible for the wider network improvements.
- 4.52 For Day 1 to succeed, the delivery partners need to work together to align and co-ordinate the design, construction, testing, and commissioning of their respective works.
- 4.53 To support this, we expected:
- opportunities for Board-level discussions between the delivery partners so that governors can be assured that they are all suitably resourced to deliver their respective works; and
 - an escalation pathway for those Boards to make decisions on any issues that the Delivery Partner Steering Committee could not resolve or that might need joint action with the Sponsors.
- 4.54 In 2019, the Delivery Partner Steering Committee was set up as a forum for senior managers to co-ordinate their works. However, we could not identify a forum where the delivery partners' Boards can resolve issues about dependencies that the Delivery Partner Steering Committee itself could not.
- 4.55 We found that some issues during the design phase put pressure on the CRL project because the Delivery Partner Steering Committee could not resolve problems efficiently. For example, in May 2021, the Assurance Manager advised the Joint Sponsors Team that it was unclear which agency should be responsible

for funding remedial works at Britomart station. At that time, procedures for resolving these types of situations were not clear.

- 4.56 To avoid delays to the CRL project, CRL Ltd agreed to fund works from the CRL project's contingency even though those works were considered outside the CRL project's scope and budget.
- 4.57 We recognise that the costs involved were not significant in the context of the CRL project's total costs and that the risk of delay was not significant to the critical path. However, in our view, these sorts of issues were predictable and could have been resolved earlier if there were clearly understood ways of resolving such issues and an appropriate escalation path.
- 4.58 The scope and funding for the CRL project were first confirmed in 2016 and 2017. Then or later, the delivery partners' Boards could have agreed on:
- arrangements to confirm that Auckland Transport and KiwiRail had properly budgeted for and planned to deliver any remedial works before CRL Ltd needed to begin work on the asset; and
 - a methodology for deciding which agency would pay for costs when responsibilities are not clear.
- 4.59 In response to our concerns about governing dependencies between the CRL project and the wider network improvements, the Sponsors' officials told us that the Auckland Transport Alignment Project Governance Group is now responsible for reporting on whether the City Rail Link is ready for commercial operation and public use on Day 1. The Auckland Transport Alignment Project Governance Group will do this in co-ordination with the Delivery Partner Steering Committee.
- 4.60 This is because most of the agencies represented on both groups (except for CRL Ltd) have statutory powers to make decisions that affect the transport network. The agencies will need to exercise these powers and commit funding to realise the intended benefits.
- 4.61 The Sponsors' officials also told us that preparing for Day 1 is the main focus for the Delivery Partner Steering Committee.
- 4.62 Figure 4 shows the governance arrangements and the revised reporting process.

Figure 4
Revised governance arrangements for reporting on whether the City Rail Link is ready for commercial operation on Day 1

The Auckland Transport Alignment Project Steering Group is responsible for monitoring all projects funded through the Auckland Transport Alignment Project, but we show only its relationship to the CRL project.



- 4.63 Although we are encouraged by the acknowledgement from agencies that stronger co-ordination is required, this does not fully meet the expectations that we set out in paragraph 4.53.
- 4.64 Our main concern with this approach is that the delivery partners' Boards are not included in decision-making about works that they are responsible for. No-one from the delivery partners' Boards is a member of the Delivery Partner Steering Committee, the Auckland Transport Alignment Project Steering Group, or the Auckland Transport Alignment Project Governance Group.
- 4.65 In our view, governance will need to play an increasing role in helping address risks and issues about dependencies as the CRL project's testing and commissioning phase progresses. The Sponsors have already recognised the potential risks involved because they amended CRL Ltd's constitution to allow the appointment of an additional director to the CRL Ltd Board who has strong experience in rail systems and integration.

- 4.66 We are concerned that any significant problems that the testing and commissioning phase uncovers could severely test the effectiveness and efficiency of the current governance arrangements. For example, decisions could be made too slowly to prevent further problems, such as delays and increased costs.
- 4.67 We consider that there needs to be greater information sharing and alignment between the Boards so that they are aware of, and prepared for, problems of mutual concern and can react to issues when they arise.
- 4.68 In our view, a forum needs to be established (or an existing forum repurposed) so that the delivery partners' Boards have greater oversight of the CRL project's dependencies and can resolve matters that the Delivery Partner Steering Committee cannot.

Recommendation 3

We recommend that the Sponsors of the City Rail Link project review the governance arrangements to ensure that there is an appropriate mechanism for Boards of City Rail Link Limited, Auckland Transport, and KiwiRail Holdings Group to have collective oversight of project dependencies and support the Delivery Partners Steering Committee with joint decision-making where appropriate.

-
- 4.69 Agencies told us that they accept the need for the delivery partners' Boards to work more closely together.

Reporting to the Sponsors has improved

- 4.70 One of the eight elements of good governance is "Be clear about accountabilities and transparent about performance against them" (see Appendix). When applied consistently, transparency can improve governance, promote accountability, and gain the confidence of stakeholders.
- 4.71 Given the CRL project and the wider network improvements' scale, complexity, cost, and importance, we expected a clear and reliable record of what information was provided to the Sponsors and when it was provided.
- 4.72 Currently, there is no joint reporting on the CRL project's status to all of the Sponsors. Instead, the Crown's officials report to the Ministers of Finance and Transport, and the Council's officials report separately to the Council.
- 4.73 A substantial amount of reporting is regularly provided to Ministers about the CRL project. Officials also told us that they consider the frequency and level of detail in reporting to the Ministers of Transport and Finance provide appropriate information on the CRL project's budget, scope, and time frame.

- 4.74 We looked at a selection of reports provided between mid-2019 and April 2021 and identified some improvements that could be made. For example:
- Although the status of the CRL project was regularly reported on, the status of the wider network improvements was not. The Sponsors need this reporting so they can have assurance that all the works needed for Day 1 are co-ordinated.
 - Reporting to the Sponsors on how well the risks to them were being mitigated has not always been adequate.
- 4.75 The reports and advice to Ministers from mid-2019 until April 2021 that we reviewed did not always indicate the significance or consequences of the information provided.
- 4.76 For example, Ministers were told in August 2020 that the original works planned for Henderson would not be procured while Auckland Transport explored alternatives. However, the report did not discuss the significance of this, such as whether the Henderson works:
- were critical for successfully completing the CRL project; or
 - what the effect would be on expected benefits at Day 1 if the planned turnback at Henderson is not completed by then.²²
- 4.77 The Council's Audit and Risk Committee oversees the Council's interest in the CRL project on behalf of the Council's Governing body.²³ The Committee is meant to receive reports every six months. However, the documentation we were provided showed that the Committee has received only three reports between January 2020 and May 2022.
- 4.78 The Sponsors and their officials assured us that they are appropriately informed about the CRL project and the wider network improvements.
- 4.79 We saw evidence that officials have asked CRL Ltd to include further information in their regular reports. For example, officials requested additional information from CRL Ltd on the impact of the Covid-19 pandemic on the main works so they could keep Sponsors better informed.
- 4.80 Later reports to Ministers and the Council's Audit and Risk Committee (from July and August 2021) that we reviewed were more comprehensive, included more analysis, and provided a clearer view on the CRL project's status and risks.

²² As of June 2022, decisions have yet to be made about the scope and design of the Henderson works and which organisation will deliver them.

²³ Council officials also provide information about the CRL project directly to the Council's Governing body and the Finance and Performance Committee.

- 4.81 We acknowledge the improvements made to reporting. We expect officials to sustain these improvements to ensure that there is a clear and reliable record on how well risks from both the CRL project and the wider network improvements are being mitigated.

Recommendation 4

We recommend that officials from Auckland Council, the Ministry of Transport, and the Treasury ensure that they sustain improvements in reporting to the Sponsors of the City Rail Link project to promote accountability, improve governance, and gain the confidence of stakeholders.

Appendix

Details about how we did our audit

Our eight elements of governance

We identified eight elements of good governance in our 2016 report, *Reflections from our audits: Governance and accountability*. We used these eight elements to help guide our fieldwork and analysis.

Our eight elements for effective governance are:

- Set a clear purpose and stay focused on it (this includes setting realistic medium- and long-term outcomes and short-term priorities).
- Have clear roles and responsibilities that separate governance and management.
- Lead by setting a constructive tone.
- Involve the right people.
- Invest in effective relationships built on trust and respect.
- Be clear about accountabilities and transparent about performance against them.
- Manage risks effectively.
- Ensure that you have good information, systems, and controls (to support effective decision-making and accountability).

The sorts of documents we looked at

We received documents from CRL Ltd, the Council, Auckland Transport, KiwiRail, the Ministry of Transport, and the Treasury. The sorts of documents we reviewed included:

- papers to the various Boards of Directors and relevant minutes;
- CRL Ltd's monthly reports to the Sponsors, including financial reporting and the Assurance Manager's reports to the Joint Sponsors Team;
- minutes of meetings between the Sponsors' officials, the Assurance Manager, and CRL Ltd;
- procurement-related information, such as examples of the Sponsors' approvals for major transactions that CRL Ltd wanted to make;
- agendas, papers, and minutes for the Delivery Partner Steering Committee, the Sponsors' Forum, Joint Sponsors Team, and the Project Alliance Board;
- select committee reports about CRL Ltd;

Appendix

Details about how we did our audit

- Cabinet papers about CRL Ltd and the CRL project;
- relevant reports and briefings to the Ministers of Transport and Finance;
- relevant papers and minutes of reports and briefings to Auckland Council's Governing Body and Audit and Risk Committee;
- the legal agreements between the organisations delivering the CRL project;
- reports on Gateway Reviews of the CRL project; and
- relevant information on the organisations' websites.

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