

CASE STUDY

Investing in Domestic Infrastructure: Auckland Light Rail

Bidding to be the New Zealand Government's preferred delivery partner for the high-profile Auckland City Centre to Māngere light rail project was a significant focus for the Guardians over the year.



A visualisation of the Réseau Express Métropolitain (REM). Led by CDPQ Infra, the project involves construction of a new automated light-rail network serving the Greater Montréal area.

While our interest in this potential investment had developed over a number of years, the partner selection process ramped up and came to a head during 2019/20. We committed significant resource to developing our proposal as part of the NZ Infra entity, a joint venture with our peer fund from Canada, CDPQ Infra.

Our involvement effectively started back in 2017 when we explored other established international models for infrastructure delivery that would allow the Guardians to invest our domestic New Zealand public capital into local (and international) infrastructure investment opportunities.

Infrastructure is an attractive investment category for the NZ Super Fund because of its consistent, competitive returns and yields, defensive characteristics and diversification benefits. It also has the potential to deliver the scale we require of our active investments in order to be meaningful within what is a NZD45 billion and growing portfolio. In addition, infrastructure is a scalable way in which the Guardians can deliver on the direction we received from the Minister of Finance in 2009, to consider opportunities to increase the allocation of New Zealand assets in the NZ Super Fund, in a manner consistent with our investment mandate and objectives.

The infrastructure investment model is based on long-term investment in large-scale infrastructure by publicly-owned but commercially-run investors, in partnership with central and local governments. It shares some attributes with models such as the 'Alliance' model that has been used occasionally to fund infrastructure in New Zealand, but is fundamentally different to the more common Public-Private Partnership (PPP) funding model.

Late in 2017, we considered a range of potential infrastructure projects. Auckland light rail, with the potential to be the biggest and among the most transformational infrastructure investments in New Zealand's history, was an obvious and compelling place for us to start. We determined that it was a good fit with the infrastructure investment model and of the various projects considered had the most potential to be commercially attractive.

It was then that we selected and partnered with leading global infrastructure investor and light rail experts CDPQ Infra to develop the unsolicited proposal for a light metro model which was delivered to the Minister of Transport in April 2018.

Initially, Cabinet directed the New Zealand Transport Agency (NZTA) to lead the development of a single-stage business case, establish a process to engage with a range of potential

partners and report back on procurement options, including partnership opportunities. NZTA commenced a market engagement, and NZ Infra submitted a proposal. With this approach failing to gain traction, however, from August 2019 the Ministry of Transport was instructed to lead a process whereby we would further develop our model, in a contestable process, for consideration against NZTA's approach. Proposals were delivered in November, with a view to a preferred delivery partner being chosen by Cabinet in early 2020.

The Government process outlined the following objectives:

1. Access and Integration - Improved access to employment, education and other opportunities through enhancing Auckland's rapid transit network and integration with Auckland's current and future transport network.
2. Environment - Optimised environmental quality and embedded sustainable practices.
3. Urban and Community - Enabling of quality integrated urban communities, especially around Māngere, Onehunga and Mt Roskill.
4. Customer Experience - A high quality service that is attractive to users, with high levels of patronage.

As a result of the extensive work undertaken during the proposal period, and the quality of the contribution and depth of experience of our partner, CPDQ Infra, we were able to develop a comprehensive, detailed, credible and deliverable proposal in what was an exacting process and within a demanding short time frame. Similar to a light rail project CPDQ Infra is involved with in Montreal, our proposal involved delivering an automated and driverless fast 'metro'-style service, completely separated from road and pedestrian traffic, with safe, reliable trains every few minutes, easy user access, integration with other public transport modes and adherence to strong environmental values.

After the competing bids were lodged in November 2019, the Ministry led an across-government appraisal process to identify a preferred delivery partner for recommendation to Ministers and Cabinet. That NZ Infra emerged from the process as the preferred partner was testament to our proposal's high quality.

The delivery partner decision was initially due to go to Cabinet in February 2020, but the Covid-19 pandemic, and resulting lockdown, understandably caused this to be delayed.

A Cabinet decision in relation to the project was eventually taken in late June, with the government parties unable to reach agreement on a preferred proposal. Cabinet then decided to end the light rail partner selection process without accepting either of the bids. The Government did announce that it was asking officials to report back on a public sector delivery model for the project after the General Election.

While we did not achieve the outcome we desired, we participated in the Government's process, well aware of the risks involved, and have learnt a lot from the work we have done. We tapped into, and learned from world class expertise, we built quality working relationships with highest quality local advisors available, gained invaluable insights into stakeholder engagement and developed extremely high value intellectual property.

In the infrastructure sector, there are many more projects that don't make it from investigation to construction than there are that do. We were entirely realistic in relation to that in our decision-making about the Fund's involvement.

The outcome of this process does not represent an end to our interest in investing in strategic infrastructure, which remains an attractive and compelling investment class in our real assets risk basket for the Fund both in New Zealand and internationally. We will continue to look for opportunities and value within the infrastructure sector.