Proactive Release

This document is proactively released by Te Manatū Waka the Ministry of Transport. This document has been proactively released by the Ministry of Transport alongside other appendices that are listed in the Auckland Light Rail Business case. It should be noted that the Auckland Light Rail project was cancelled and will not be progressing in any form. This cancellation occurred before the completion of the appendices of the Detailed Business Case (of which this document forms a part). This document does not, therefore, represent government policy. This document must not be relied on in any way or treated as a finished product. A complete peer review process has not been undertaken of this document, and any analysis or conclusions contained in this document may contain errors and omissions. The Ministry accepts no responsibility for the consequences of this document being relied upon by any other party, or being used for any other purpose, or containing any error or omission.

Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

Section	Description of ground
6(a)	as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government
6(b)	as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation
6(c)	prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
9(2)(a)	to protect the privacy of natural persons
9(2)(b)(ii)	to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information
9(2)(ba)(i)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public
9(2)(ba)(ii)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
9(2)(f)(ii)	to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty
9(2)(h)	to maintain legal professional privilege
9(2)(i)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities
9(2)(j)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

Financing Methodology & Analysis

WORKING DRAFT FOR DISCUSSION

4 July 2023

Auckland LIGHT RAIL
Bringing us closer

Purpose & scope

Background

Through the 2019 Indicative Business Case (IBC), a list of potential financing structures was developed for ALR, including procurement/commercial options, financing of individual funding sources, and structural financing models for the relevant organisations.

Since the IBC, Sponsors have provided additional guidance in relation to financing, which is set out in the **DRAFT Sponsor letter to the Auckland Light Rail Unit**. These are outlined on page 13. However, the key takeaways from the guidance are:

- focus/priority is on the funding sources - financing will flow from that
- private finance must represent value for money and be priced efficiently
- having the delivery entity raise finance independently is unlikely to be beneficial
- proposed structure must consider:
  - value for money
  - innovation
  - demonstrate efficient risk allocation
  - support financial discipline and accountability.

Purpose & scope

The purpose of this paper is to outline:

- the approach/methodology
- the potential financing options, including opportunities to independently finance specific funding tools/scope items
- initial evaluations of the different options
- indicative shortlist/preferred option(s) pending the market sounding and confirmation of the procurement and funding solutions.

Contents page

Executive summary

Executive summary

- An initial evaluation of a longlist of financing options was assessed during the IBC phase, which focused on the extent of Crown financing or support required.
- The IBC noted that financing is ultimately driven by the delivery entity, funding and procurement workstreams, and therefore, would need to be developed and explored further during the DBC.
- The focus for financing in the DBC is on:

4

Developing & assessing financing options

Develop structural financing options and identify private finance opportunities.

Assessment of the finance options to identify preferred financing options (e.g. structural model, private finance, etc.).

5

Recommending funding & financing packages

Bring together financing analysis into a comprehensive funding & financing package(s).

- The proposed approach for developing and assessing financing options is as follows:
  - assess whether there are any **scope elements** that should be privately financed *(Note: led by the Procurement Workstream)*
  - assess whether there are any **funding tools/sources** that should be privately financed
  - determine the most appropriate **structural financing option** for the remaining financing requirement
  - determine what **financing sources** should be used *(note: this will be a 'Partner' decision under certain structural models)*
  - develop a comprehensive **funding & financing package**, which combines all of the above.
- A common set of evaluation criteria was developed, based on the evaluation criteria established during the IBC (refer page 11), which cover value for money, deliverability, system impacts and Māori/Mana Whenua outcomes.
- The evaluation criteria reflects Sponsor Guidance from the Draft Sponsors and IMS Letters.
- Private finance opportunities have been identified where there is the potential for the model to deliver additional value for money relative to traditional methods. ALR Ltd would like to engage with Sponsors on these opportunities to confirm whether the opportunities should be developed in further detail.

Executive summary

Are there any scope items that should be privately financed?

- Sponsors guidance was a key factor in the assessment of potential scope elements that could be delivered via private finance. Based on this guidance, standard form PPPs and private ownership of the core transport components were not assessed.
- Commercial partnerships and innovate private finance solutions that did not involve private ownership (e.g. leases, development partnering) were considered.
- Urban development (stations, ISD, OSD, etc.) were identified as the opportunities most likely to be appropriate and deliver value for money.
- Generally, the only private finance opportunities implemented globally have been packaging a large civils component (tunnelling, depot, etc.) with operations and/or maintenance and contracting via a PPP model. This is considered to be inconsistent with Sponsor Guidance, and therefore has not been developed further in this paper.

The leasing model for rollingstock/fleet may be inconsistent with Sponsor guidance, given it would involve private ownership of the core transport solution. However, it has been taken forward as a potential model, given the prevalence of the model internationally.

Project scope elements

- **Track & Civils**
- **Tunnelling**
- **Stops/Stations**
- **Depot**
- **Rollingstock/Fleet**
- **Urban development**

Stops/stations have been identified as an opportunity for private finance, noting that an opportunity will generally only arise where it is packaged alongside an OSD/ISD.

Recommend developing further

Recommend considering further, noting potential limitations.

Are there any funding tools/sources that should be privately financed?

- A three-stage assessment framework was used to identify the funding tools and sources that could be appropriate for finance and deliver additional value for money:

1 **Initial 'screening'**

Shortlist funding options assessed through an initial 'screening' process on a 'critical failure' basis to identify the options that may be appropriate for private finance.

2 **Assessment against criteria**

Remaining funding options assessed against the evaluation criteria to determine whether they should be developed further and tested through the market sounding.

3 **Other considerations**

Identify any other relevant considerations that could inform or change the determination of whether private finance should be used.

Ongoing development and iteration of funding shortlist option and preferred funding solution.

- There are four funding tools/sources (IFF, congestion charge, premium farebox, Land Value Uplift Mechanism (LVUM)) that are likely to be worth developing a detailed private finance model for assessment.
- The IFF levy model is likely to be the most appropriate source for private finance, given the domestic precedent and magnitude of financing.
- **Developing a private finance solution in more detail for the four funding tools identified is recommended.**

Executive summary

Illustrative financing models

- Three illustrative financing models were developed to demonstrate how the overall financing solution can be packaged together (e.g. with certain scope elements and funding tools financed separately).
- These models make assumptions on the underlying revenue sources to illustrate the impact on financing. They are not intended to presuppose any decisions made through the Funding workstream.
- Each of the models prioritises a particular criteria (e.g. Model 1 is focused on implementation and system alignment, Model 2 focuses on minimises borrowing costs through the Crown's cost of capital, and Model 3 focuses on pushing private finance opportunities to reduce cash flow impacts.
- The appropriateness/value that can be extracted from each value depends on the underlying funding tools and extent to which private finance is used (e.g. Auckland Council debt capacity means that Model 1 is unlikely to be deliverable without a significant IFF transaction to reduce the debt burden on the Council).
- Partner appetite will ultimately determine whether the models can be implemented successfully, particularly Model 1, which relies on a high degree of support from both Auckland Council and the Crown.
- Defining responsibilities for specific scope elements (e.g. enabling infrastructure v core transport) is a critical part of the financing solution.

Illustrative financing models	Explanation of the model
Model 1: Partner organisations with an IFF levy	• Funding partner organisations are responsible for financing their contributions for the project. ALR Ltd is responsible for invoicing each partner for their respective share based on its cash outflows for construction. • Majority of local/regional contribution secured through an IFF levy.
Model 2: Larger Crown financing role	• Crown loan/facility available for the IFF SPV and ALR Ltd. to minimise overall borrowing costs. • Auckland Council required to finance specific scope elements for the transport solution (noting the IFF contribution is assumed to be a significant portion of the local/regional share) and enabling infrastructure.
Model 3: Privately financed solution	• Similar to Model 1, however, both a congestion charge and LVUM are imposed and privately financed to reduce the cashflow burden on funding partners (particularly Auckland Council). • Council is still responsible for the enabling infrastructure required that sits within its remit (i.e. open space and community facilities).

Background & approach

Background & context

By its nature, the financing workstream is underpinned by the development of delivery entity, funding and procurement options. During the Indicative Business Case (IBC), the specific focus was on narrowing to potential approaches to financing to support advice to Ministers. This analysis has been further developed through DBC and is outlined on the following pages.

1

Development of longlist of financing options

Full range of potential financing options, focusing on project specific opportunities.

Domestic & international precedent used to inform shortlist.

Consider financing sources and options for different phases of the project.

2

Development of evaluation framework

A multi-criteria evaluation framework is proposed, covering the core financing objectives & implications.

3

Initial evaluation of financing options

High level evaluation of each of the financing options and approaches against the multi-criteria to obtain a short list.

Consider whether (and to what extent) Crown support is provided for financing or finance-related risks.

Completed during the Indicative Business Case

4

Develop & assess financing options

Build out further detail on structural financing options and consider opportunities for private/structured finance.

More detailed consideration of trade-offs and implications for short listed options, working through to a recommended approach for the IBC.

5

Funding & financing packages

Bring together financing analysis into a comprehensive funding & financing package(s).

Approach - Develop financing models

The development of the financing solution has been broken down into four steps. The Financing workstream is required to respond to decisions made in other workstreams and will require iteration as the business case develops.

1.Are there any scope items that should be privately financed?

- Track & Civils
- Tunnelling
- Stops/Stations
- Depot
- Rollingstock/Fleet
- Urban development
- [Other]

Pages 12 - 17

Transport & Urban Commercial Workstreams to inform any scope items that are independently financed

2.Are there any funding tools that should be privately financed?

- General / targeted rates
- Development contributions
- Farebox
- Modified Windfall Gains Tax
- National infrastructure levy
- Hypothecated tax
- [Other]

Pages 18 - 24

Funding workstream to inform the preferred funding tools that will be used for the project, which will inform the opportunities for independent financing

3.What is the most appropriate 'structural' model?

- Partner organisations
- Crown / DMO lending
- ALR Ltd borrows directly
- Separate Project SPV (incl. UDA)
- [Other]

Pages 25 - 32

4.What financing sources should be used?

- Bank debt
- Bonds/Bills
- LGFA
- Private placements/reverse inquiry
- Commercial paper
- Sustainable finance
- Equity

Pages 33 -35

Delivery Entity workstream to determine the role, scope, function, powers, etc. for the Delivery Entity, which will inform its role in financing.
Assume that organisations will 'own' the financing strategies for their respective strategies (i.e. the Crown/DMO will determine its optimal Bond/Bill programme within its existing programme).

5. Financing Strategy

Pages 36 - 40

Approach - Assessment framework

A general set of evaluation criteria has been developed to support the four stage assessment approach, noting that there are other specific considerations that may inform the individual assessments. The IBC criteria has been used as the starting point, which has been refined and updated based on the principles discussed in the Mega Projects workstream of the Revenue Review.

An overview of how the criteria were applied is provided in the Appendix

IBC evaluation criteria

Implementation and deliverability	The extent to which the financing options could be easily implemented and delivered, with minimal execution risk and maximum financing certainty. Factors such as potential to be impacted by the then state of financial markets will be considered
Value for money	Assessment of the extent the financing options provide value for money. This criteria will include minimising the cost of capital to drive value but will also consider how value of funding sources is maximised
Flexibility	The extent to which the financing options are sufficiently flexible to allow different technical options, decisions, phases of the project, responses to market liquidity/illiquidity, market changes (e.g. sector reform). A key consideration under this criteria will be the flexibility of options to respond to future project requirements (e.g. if further augmentations or extensions to the ALR project were undertaken)
Impact on financing organisations	The extent to which the financing options impacts partner organisations. Key considerations under this criteria will include impact on the Partner's balance sheet, fiscal indicators, the amount of Crown support required and how costs are able to be spread over a period of time so as to reduce any upfront burden.
Risk transfer	The extent to which the financing option mitigates both project and financing risks
Wider considerations	The wider considerations and impacts of each option will also be considered, including ability to leverage different sources of capital or to further leverage funding streams

Removed   Updated   Unchanged

Proposed DBC evaluation criteria

Implementation and deliverability	Extent the option is implementable/deliverable when considering alignment to current legislation/policy/frameworks, public acceptability/ sensitivity, complexity, establishment time/cost and market appetite/capacity.
Value for money	Extent the option delivers value for money when considering both the associated cost of capital and potential benefits (i.e. innovation, etc.).
Alignment to funding & system efficiency	Extent the option aligns to the underlying funding sources (i.e. Council funding sources should generally be financed by the Council and Crown sources financed by the Crown) and promotes overall system efficiency. This includes developing a core set of repeatable financing tools.
Financing capacity & other financial impacts	The extent the option fits within organisational constraints (e.g. Debt to Revenue, Fiscal measures, etc.) and minimises the level of additional Government support (e.g. underwrite). This includes an assessment of the potential accounting and credit rating impacts on organisations.
Risk transfer	Extent the option allocates risks to the party best able to manage them, and where possible reduces overall risk.
Iwi/Mana Whenua participation	Extent the option enables participation from iwi/Mana Whenua investors and/or otherwise promotes Māori outcomes and the Māori economy.
ESG considerations	Extent the option can harness sustainable lending and incentivise the achievement of environmental and social outcomes (incl. Māori). This includes whether the option helps to grow and develop the sustainable lending market in NZ.

New criteria added   Renamed/refocused criteria

Are there any scope items that should be privately financed?

Sponsor guidance on financed scope elements

Ministers/Sponsors have provided guidance on the scope elements that may be appropriate for private finance, which are summarised below. Based on that guidance, an initial shortlisting exercise was completed to identify the key scope elements that may be appropriate for private finance.

Guidance from Sponsors

ALR IMS Letter (7 June 2022):

"A Public Service Delivery Model explicitly **excludes delivery of the ALR project under a Public Private Partnership model or private financing options similar to the model presented by CDPQ** ...."

Draft Sponsor letter to the ALR Unit (November):

"We have previously signalled our preference for a … model that **explicitly excludes the standard form PPP model or private ownership of the delivery entity**. We expect … models for core transport components that are very **close to the standard form PPP model, such as the BOOT, BOT, and BOO models are also excluded**."

"The Unit **should consider** … the commercial partnering arrangements described below, where these **include the private sector delivering some part of the core transport solution** [and] any **other innovative/novel arrangements that utilise private finance** …"

"… the Unit will **likely need to consider** broader commercial relationships … that **may, in the broader sense, be public-private partnerships**. We expect these are **likely to occur at the intersection of the transport solution and urban development**."

"The commercial arrangements should, in general, **not include the private ownership of the core transport solution**, but consideration may be given to:

- arrangements such as leases for components of the project that have shorter economic lives, may be subject to technological change or where there are other reasons where it is not in the public service's interest to maintain ownership
- arrangements such as leases with other public agencies and/or Māori organisations.

Shortlisted scope elements for private finance

- **Track & Civils**
- **Tunnelling**
- **Stops/Stations** — Stops/stations have been identified as an opportunity for private finance, noting that an opportunity will generally only arise where it is packaged alongside an OSD/ISD.
- **Depot**
- **Rollingstock/Fleet** — The leasing model for rollingstock/fleet may be inconsistent with Sponsor guidance, given it would involve private ownership of the core transport solution. However, it has been taken for as a potential model, given the prevalence of the model internationally.
- **Urban development**
- **[Other]**

Recommend developing further (Urban development)

Recommend considering further, noting potential limitations. (Stops/Stations, Rollingstock/Fleet)

Key urban development opportunities

Our analysis focuses on the six key catchments or “precincts” that have been identified. Other catchments/stations are currently being considered for inclusion.

- CBD (Aotea, University)
- **CBD fringe** (DJ and Kingsland)
- **Balmoral**
- Wesley
- **Onehunga**
- Māngere

The City Centre and City fringe catchments include several potential station locations and discrete Transit Oriented Development (TOD) opportunities, while the balance catchments relate to single stations / TOD opportunities.

Auckland Airport is a unique catchment given the employment (particularly industrial) focus and the large, single-ownership, landholding. Opportunities for urban regeneration partnerships within the airport catchment will be considered alongside the key catchments.

Spectrum of market opportunities for the different catchments

The spectrum of ALR key urban regeneration precincts			
• Māngere	• Wesley	• Kingsland	• CBD (Aotea, Uni)
		• Balmoral	• Dominion Junction

Decreasing market risk →

← **Increasing social return (lower private return on investment)**

- Lower demand
- Harder to attract private funds
- Higher ratio of public financing
- Public interventions required to de-risk (e.g. catalyst projects)
- Limited private returns

- Higher demand (market attractive)
- Easier to attract private funds
- Lower ratio of public financing
- Private sector led
- “Full” returns

Illustrative only (adapted from Swinney P and Wilcox Z (2013): Developing interest The future of Urban Development Funds in the UK and London Centre for Cities)

Stops/stations: approaches & opportunities

Australian precedent indicates that underground stations are typically packaged with tunnelling; and station infrastructure/fit out packaged with rail systems, operations and maintenance. These larger aggregated package (e.g. major tunnelling and stations) are unlikely to meet Sponsor expectations in relation to private finance, and therefore, it is likely to be the packages integrated with ISD/OSD that are the most appropriate to incorporate private finance.

Precedent projects	Underground Stations?	ISD?	Packaging	Commentary
City Rail Link	Yes	No	Included with tunnels and systems	While all rail projects include stations, the scope for this component **varies significantly** between projects and, sometimes, within the same project. • Where new stations are to be underground, the excavation works are typically packaged with the tunneling contract(s) • Station infrastructure and fitout is typically packaged with rail systems, operations and/or maintenance • Upgrades to existing stations are sometimes procured separate to the new station scope, potentially recognising the different risk profile associated with 'brownfield' assets (and/or operating rail) • Where a station is to be part of an Integrated Station Development, NSW has adopted an approach of procuring the station component of each ISD and the over-station development through separate contracts Where the broader procurement strategy for a project includes a PPP (or other integrated DCOM/DCM style contract), **station structures and fitout is typically packaged into the PPP.**
Melbourne Metro Tunnel	Yes	No	Included with tunnel, systems and maintenance PPP	
Sydney Metro - City and Southwest, & West	Some	Some	• Upgrades included with rail upgrades • New non-ISD stations packaged alone • ISD stations procured as separate station and overstation contracts	
Sydney Metro - Northwest and Western Sydney Airport	Some	No	• Station boxes included with tunnel excavation • Station construction included with systems, fleet and O&M PPPs	
Cross River Rail	Yes (new) No (upgrades)	One station	• New stations included in tunnel and structures PPP • Upgrades included in systems and rail integration alliance	
Gold Coast Light Rail	No	No	• Included in DCOM PPP	

Evaluation of shortlisted scope elements

The table below outlines the indicative evaluation of whether any of the shortlisted scope elements should be privately financed. This is based on a qualitative assessment of the options relative to financing the scope element via traditional finance methods. It will need to be refined following market engagement (August) and the development of the Transport Delivery Strategy.

Evaluation criteria	Stops/Stations	Depot	Rollingstock/Fleet	Urban development
Implementation and deliverability				
Value for money				
Alignment to funding & system efficiency				
Financing capacity & other financial impacts				
Risk transfer				
Iwi/Mana Whenua participation				
ESG considerations				
Other considerations				

Privately financing the scope element would deliver a reduced impact relative to traditional finance.

Privately financing the scope element would deliver a similar impact relative to traditional finance.

Privately financing the scope element would deliver an enhanced impact relative to traditional finance.

Recommendation/conclusion & next steps

The urban development and major stations are likely to provide the best opportunities to realise the benefits of private finance and are aligned to the types of opportunities Sponsors have indicated they are open to considering. Rollingstock leasing opportunities which could also be considered, however, haven't been as successful in the precedent Australian projects.

Recommendation/conclusions

General conclusion:

- Other than ISD/OSD, most private finance solutions for 'greenfield' metro/rail projects have been packaging a civils component (depot, stations, tunnels) with operations and/or maintenance.

Urban development:

- Likely to provide the best value for money/outcome opportunities.
- Spectrum of options to be developed up through the Urban Commercial Workstream.

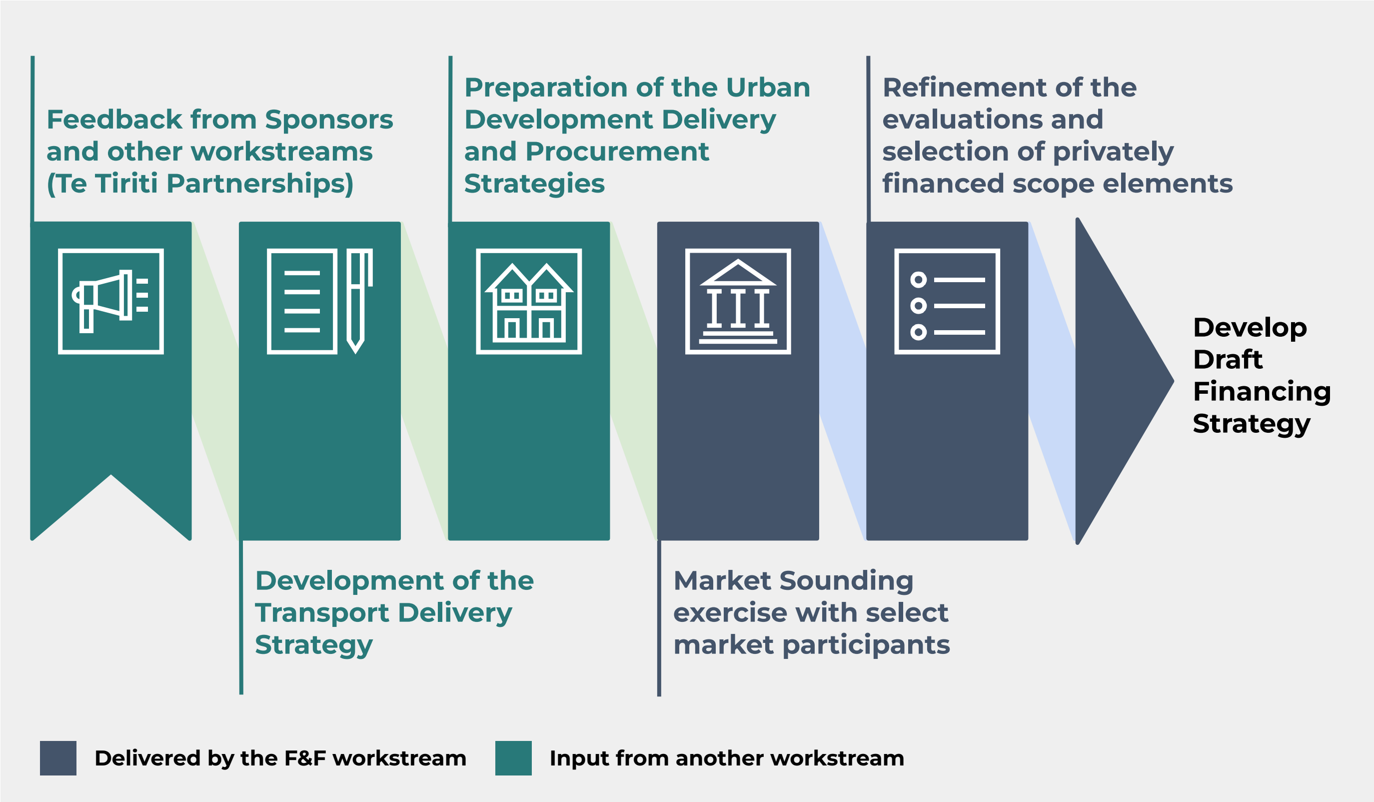
Stop/stations:

- Delivery Strategy and packaging approach are critical interfaces.
- Precedent project have packaged stations with the tunnelling (major underground) or systems, operations and maintenance (station fit out). **Given Sponsor appetite for large aggregated packages with private finance, these may not be appropriate.**
- Focus on opportunities where stations are aggregated/aligned with ISD/OSD.

Rollingstock/fleet:

- Fleet leasing model common internationally (e.g. UK). However, Australian precedent is less positive, given the lack of secondary market and may not meet Sponsor guidance.
- Key opportunity to bring in private capital, including from Māori

Next steps



Are there any funding tools that should be privately financed?

When should funding tools be private financed?

Private finance is well suited to large complex projects, where the additional risk transfer can bring additional innovation and expertise. However, it relies upon having highly certain underlying revenue streams. Usually, structured finance will only take a portion of the total financing structure in the case of something of the size and complexity of mega projects.

Funding tools should be privately financed when:

- There is a **highly certain underlying revenue stream** that the private sector is willing to assume risk on. Typically, the private sector is unwilling to assume demand risk on new services, which means the underlying revenue stream needs to have minimal demand risk or have a partial underwrite prior to demand being established.
- There are **opportunities for the private sector to deliver value** through additional innovation, due diligence, and expertise.
- It is likely to **deliver greater value for money relative to public sector borrowing** (eg through innovation, diligence, and expertise). This should be evidenced through an assessment against the Public Sector Comparator (PSC).
- Where the **procuring entity has the necessary skills, capacity, and expertise** to appropriately administer the contract. Most of the value erosion through these types of arrangements occurs through subsequent renegotiations or variations.
- Where it facilitates the **risk transfer in accordance with best practice principles for risk allocation** (ie risks allocated to the party best able to manage them).
- Where **sufficient control can be safely transferred to the private sector** to enable a commercial structure that may achieve more optimal balance sheet treatment.

While more expensive than government financing (on a nominal basis), private capital can bring other benefits (depending on structure) that deliver better overall value for money or otherwise justify the higher price.

The following characteristics were used to identify/evaluate the shortlist of funding sources to determine the sources that may be appropriate for private capital. These characteristics reflect the underlying drivers of the benefits of private capital (i.e. Can the structure deliver value for money? What can the private capital provider bring? Optimised risk transfer? Off-balance sheet treatment?, etc.):

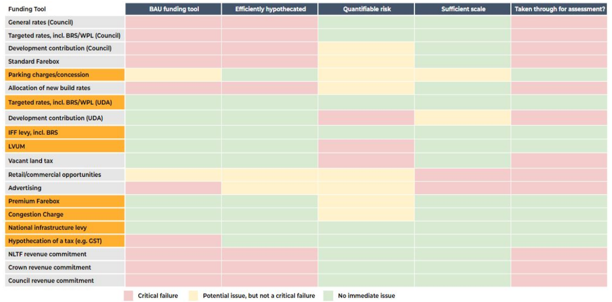
- Funding source **does not** form part of the current BAU funding mix **or can be efficiently hypothecated.**
- There is an opportunity for the private sector to **quantify, price and assume risk** (e.g. private capital provider assuming demand risk).
- **'Control'** over the funding source can be transferred to the private sector to access private innovation / expertise.
- Sufficient **size / scale** to make the additional administration / transaction costs worthwhile.

Assessment framework for funding tools

Each of the funding tools were assessed based on the three-stages outlined below to identify the funding tools that are likely to be appropriate for private finance. The multi-stage process was used to efficiently 'cull' the options that had 'critical failures', which meant they wouldn't be appropriate.

1 Initial 'screening'

Shortlist funding options assessed through an initial 'screening' process on a 'critical failure' basis to identify the options that may be appropriate for private finance.



2 Assessment against criteria

Remaining funding options assessed against the evaluation criteria to determine whether they should be developed further and tested through the market sounding.

3 Other considerations

Identify any other relevant considerations that could inform or change the determination of whether private finance should be used.

- Local & international precedent
- Use alongside one of the other projects
- Opportunity to increase the financing 'toolkit' for future projects
- Wider policy considerations (e.g. grow the private finance market)

Ongoing development and iteration of funding shortlist option and preferred funding solution.

Initial 'screening' of potential funding tools

Potential funding tools were assessed on a 'critical failure' basis against an initial set of 'screening' criteria.

Funding Tool	BAU funding tool	Efficiently hypothecated	Quantifiable risk	Sufficient scale	Taken through for assessment?
General rates (Council)					
Targeted rates, incl. BRS/WPL (Council)					
Development contribution (Council)					
Standard Farebox					
Parking charges/concession					
Allocation of new build rates					
Targeted rates, incl. BRS/WPL (UDA)					
Development contribution (UDA)					
IFF levy, incl. BRS					
LVUM					
Vacant land tax					
Retail/commercial opportunities					
Advertising					
Premium Farebox					
Congestion Charge					
National infrastructure levy					
Airport levy					
Hypothecation of a tax (e.g. GST)					
NLTF revenue commitment					
Crown revenue commitment					
Council revenue commitment					

Critical failure

Potential issue, but not a critical failure

No immediate issue

Assessment of funding tools to be financed

The table below outlines the indicative assessment of whether any of the shortlisted funding options should be privately financed. Certain assessment criteria are difficult to assess without developing the solution and testing it with the market (e.g. risk transfer, value for money).

		Taken forward						
Evaluation criteria	**Targeted rates, incl. BRS/WPL (UDA)**	**IFF levy, incl. BRS**	**LVUM**	**Premium Farebox**	**Congestion Charge**	**National infrastructure levy**	**Airport levy**	**Hypothecation of a tax (e.g. GST)**
Implementation and deliverability								
Value for money								
Alignment to funding & system efficiency								
Financing capacity & other financial impacts								
Risk transfer								
Iwi/Mana Whenua participation								
ESG considerations								

Privately financing the scope element would deliver a reduced impact relative to traditional finance.

Privately financing the scope element would deliver a similar impact relative to traditional finance.

Privately financing the scope element would deliver an enhanced impact relative to traditional finance.

Other considerations

A summary of the other relevant considerations for private financing of specific funding tools is provided in the table below. Note, the focus of this is on the private financing of the funding tool, rather than the implementation of the funding tool itself (e.g. while Victoria has imposed a windfall gains tax, there is currently no private finance attached).

Evaluation criteria	Local & international precedent	Use alongside one of the other projects	Opportunity to increase the financing 'toolkit' for future projects	Wider policy considerations (e.g. grow the private finance market)
IFF levy, incl. BRS	• **Tauranga City Council** - Transport System Plan (~$175m) • **Wellington City Council** - Moa Point Sludge Minimisation Facility ***(hasn't reached financial close)***	Risk of additional complexity where there are multiple overlapping IFF levies (e.g. a region-wide for WHC and NWR, and a local ALR IFF).	Already in the financing 'toolkit', however, an opportunity to push the boundary/ limits.	N/a - No major wider considerations.
LVUM	Some examples of direct value capture tools being implemented, however, these are not currently being privately financed.	Risk of additional complexity where there are multiple overlapping LVUMs, however, given localised benefit, there is less risk of there being an overlap.	Opportunity to develop a model that could be used more broadly for major transport investments.	N/a - No major wider considerations.
Premium Farebox	Premium charges/station access fees have been implemented in Australia, with mixed success, E.g. Airport Link (NSW) where the State Government is paying compensation (~$22m p.a.) to the concessionaire after having to reduce/remove the fees.	Similar model could be relatively easily and equitably used for a premium fare/station access fee for another project.	Opportunity to develop a model that could be used more broadly for major transport investments.	Potential equity issues with transferring pricing control to private sector, which may be required to achieve value for money.
Congestion Charge	Congestion charge revenue is traditionally used for public finance. New York City is currently looking at securing US$15b of bonds through a new congestion charge to invest in transport infrastructure.	As not project specific, would need to work through how proceeds were allocated between competing projects.	More difficult to replicate within Auckland given the funding source is not project specific. However, could be a test case for other regions (e.g. LGWM/Wellington).	N/a - No major wider considerations.

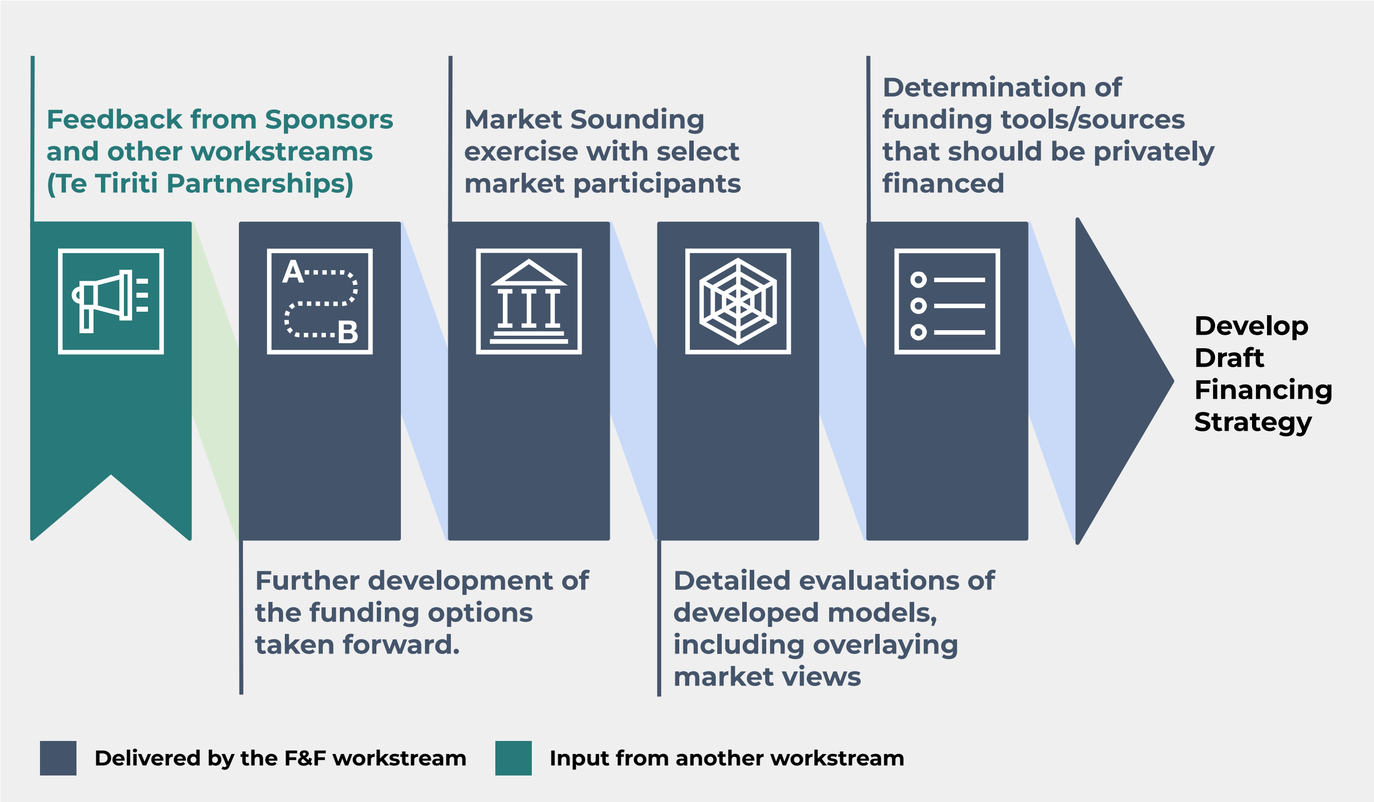
Recommendation/conclusion & next steps

A small number of funding tools/sources could be financed and provide value for money for the project and be priced efficiently.

Recommendation/conclusions

- There are four funding tools/sources that may be worth developing a detailed private finance model for assessment.
- The IFF levy model is likely to be the most appropriate funding source for private finance, given the existing domestic precedent and potential magnitude of financing that could be achieved, noting this may be limited to private ‘debt’ rather than private ‘equity’.
- The implementation of a premium farebox provides a good opportunity to leverage private capital. This could be in the form of raising private debt against the long-term revenue, or giving a private sector party (e.g. AIAL) the right to charge a higher fee in return for the delivery of a stop/station.
- There may be an opportunity to develop a private finance solution for a congestion charge, which could enable greater risk transfer and private sector innovation in the charging technology. However, there are broader policy considerations, given the ‘greenfield’ nature of the tool and the fact it is not project specific.
- **IFF advisor will develop financing strategy, structure and approach for IFF. If required, additional work can be undertaken to develop private finance solutions for other shortlisted tools if taken through to the preferred solution.**

Next steps



What is the most appropriate structural model?

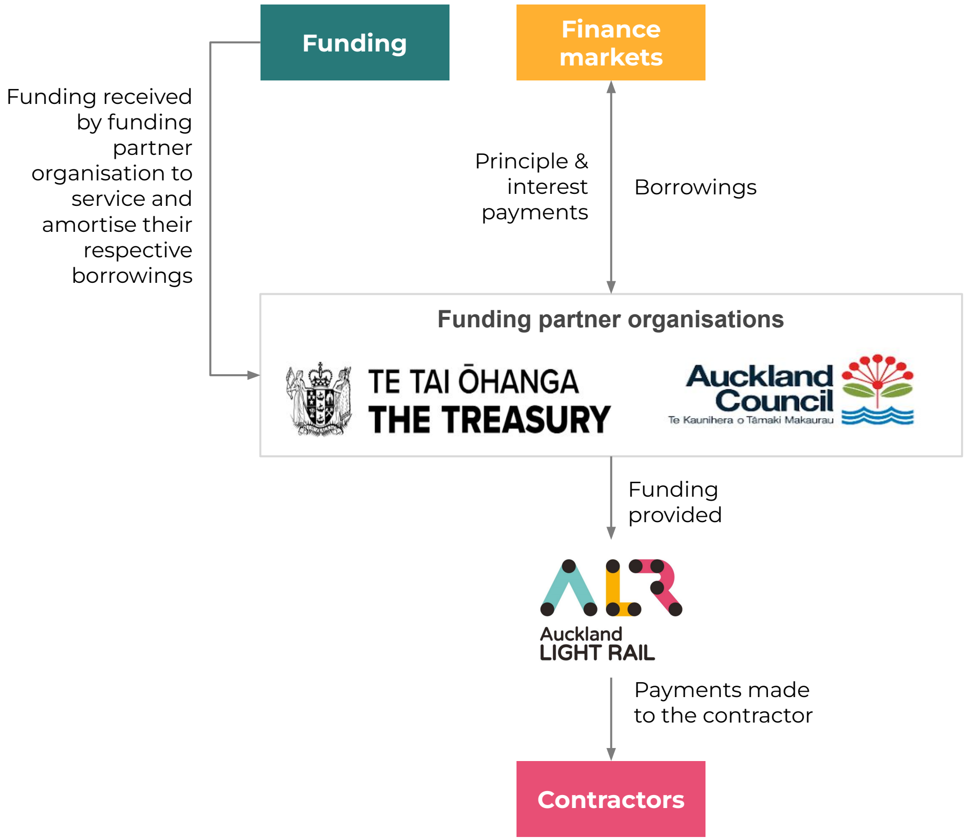
Overview of the options

Three structural financing models are identified and assessed in this section. The structural models, reflects the baseline financing approach (i.e. after any specific project elements such as rollingstock or funding tools such as an IFF levy have been financed). A high-level explanation for each model is provided in the table below.

Structural financing options	Explanation of the model	Crown/DMO finance	Council finance	ALR Ltd finance
Option 1: Partner organisations	• Funding partner organisations are responsible for financing their contributions for the project. ALR Ltd is responsible for invoicing each partner for their respective share based on its cash outflows for construction.	✔	✔	
Option 2: Crown/DMO lending	• ALR Ltd is responsible for raising finance, however, this is managed through a Crown loan/facility with the DMO (i.e. ALR Ltd draws down on the Crown facility to meet its cash outflow obligations during construction and then repays the finance over time through the project revenues and partner funding contributions). • Funding partners provide funding, however, contributions are smoothed, rather than reflecting the cash flow requirements.	✔		✔ **(via the Crown)**
Option 3: ALR Ltd borrows directly	• ALR Ltd is responsible for raising finance directly from DCM financing markets, including determining the appropriate debt tenor, composition, structure, etc. • Finance is based on the long-term cash flows for ALR, including the funding partner contributions. • Funding partners provide funding, however, contributions are smoothed, rather than reflecting the cash flow requirements.			✔

Option 1: Status quo - Partner organisations

Under the status quo model, project funding partners are responsible for financing their own contributions to the project, which are repaid through the funding tools that they have available (e.g. general/targeted rates and development contributions for the Council). The 'Delivery Agency' / ALR Ltd, would invoice partners based on pre-agreed percentage splits as required. Specific funding tools can be financed separately with this used as the base model.



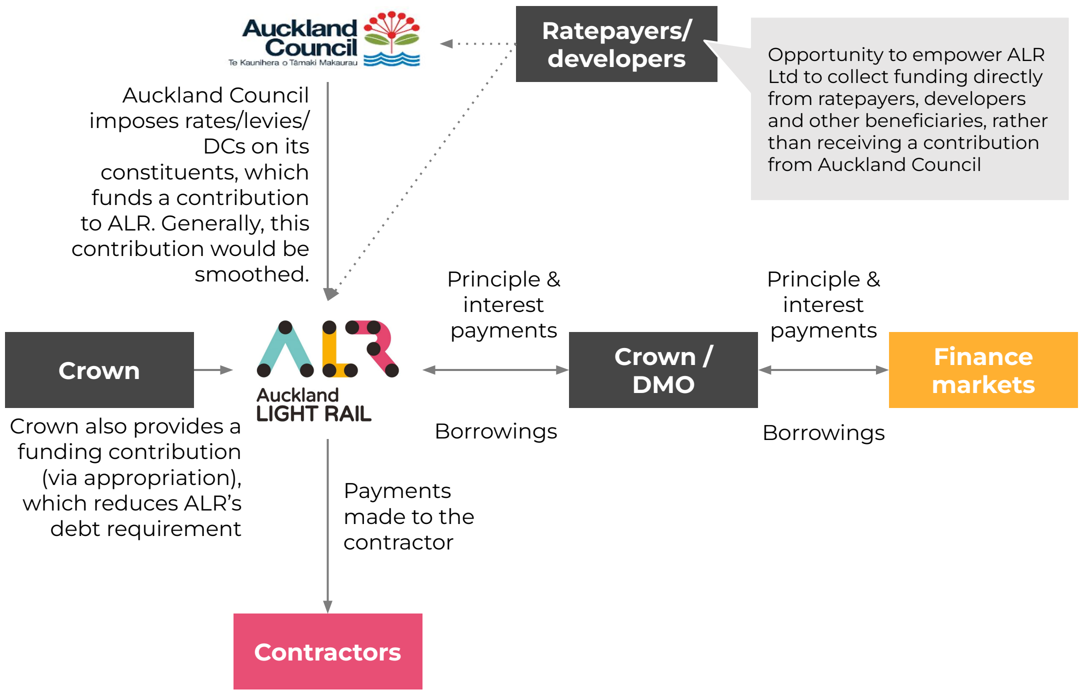
Under the status quo, funding partner agencies are responsible for financing their respective funding shares. The financing capacity for the project is based upon the ability for each agency to raise and service the necessary financing to meet their contributions.

A funding agreement is, typically, used to govern the financing roles and responsibilities between the funding partner agencies, which would set out the contributions (fixed/ percentages), process for funding requests, scope of activities that the finance can be applied to, etc.).

Participant	Roles and responsibilities
Auckland Light Rail Ltd (as the delivery entity)	No direct financing responsibility. Makes funding requests to funding partner organisations that finance their own contributions.
Crown / DMO	DMO used to finance the Crown's contribution to the project, which would be ultimately repaid through tax revenues (e.g. PAYE, GST, etc.). The DMO would be responsible for determining its preferred financing tenor and terms.
Auckland Council	Auckland Council would finance its contribution via its usual treasury and debt management practices (i.e. via the LGFA and direct DCM issues). It would be responsible for determining the preferred tenor and terms of the financing, which would be 'general obligation', rather than being specific to the ALR project. Council funding tools would be used to fund the debt servicing costs and amortisation, which may (or may not) be specific to the ALR project. **We note the potential for the IFFA to be used to reduce the financing contribution from Auckland Council.**

Option 2: Crown/DMO lending

Under this option, ALR Ltd is responsible for financing its construction phase costs, but accesses finance through a Crown loan/facility with the DMO (i.e. rather than directly issuing into the market). The DMO is then responsible for raising the finance from DCM markets. Auckland Council and the Crown as funding partners are required to impose and collect funding from beneficiaries and then make contributions to ALR Ltd, however, these payments are smoothed via ALR Ltd's loans. ALR Ltd could be empowered to impose the funding tools directly.



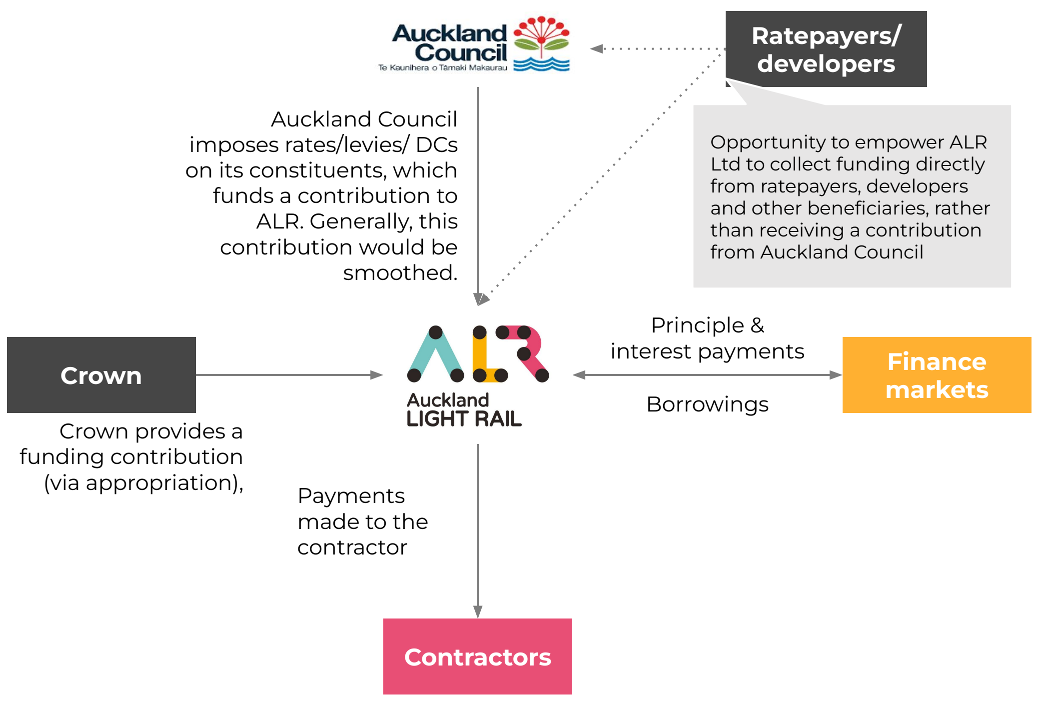
Under this option, ALR Ltd. receives funding from the relevant funding agencies and any revenue streams it is responsible for.

Borrowing is raised centrally by the Crown / DMO, and subject to the Public Finance Act. Any Crown loan provided to ALR Ltd. is required to be aligned with the Government's overall fiscal strategy, and have regard to the principles of responsible fiscal management.

Participant	Roles and responsibilities
Auckland Light Rail Ltd (as the delivery entity)	ALR Ltd. raises finance through a Crown loan/facility with the DMO. It repays this debt through funding from project funding partners and any direct revenue streams it collects. Flexibility to structure the loan as a facility or as a more structured product with fixed drawdowns, repayments, etc.
Crown / DMO	**Financing role:** Provides financing to ALR Ltd through its existing bond/bill programme. Finance offered on commercial terms.
	Funding role: Crown is still responsible for its funding contribution to the project, which could be completed on a 'net' basis (i.e. reduces financing requirement).
Auckland Council	Responsible for setting and collecting local/regional funding tools/sources (except for a possible IFF levy) to fund a contribution. Likely to be a 'smoothed' funding contribution (i.e. unlike in Option 1).

Option 3: ALR Ltd borrows directly

This option has a similar structure to Option 2, however, ALR Ltd raises the finance directly from DCM markets, rather than through a Crown loan/facility. Would need to work through whether some form of underwrite/guarantee was required to enable ALR Ltd to borrow efficiently and at a competitive price.



Under this option, ALR Ltd. receives funding from the relevant funding agencies and any revenue streams it is responsible for.

Borrowing is raised directly from DCM markets based on underlying revenue streams. ALR Ltd would be responsible for managing the cash flow timing differences between the Council and Crown contributions and outflows for construction. ALR would also be responsible for managing debt tenor, composition, etc.

Participant	Roles and responsibilities
Auckland Light Rail Ltd (as the delivery entity)	ALR Ltd. raises finance directly through DCM markets, relying on the underlying revenue streams (e.g. Crown appropriation, Council contribution and any direct project revenue streams). Under this model, ALR Ltd is responsible for determining appropriate terms and tenor.
Crown / DMO	Responsible for setting and collecting national tools/sources to fund the 'national' contribution. Likely to be a 'smoothed' funding contribution (i.e. unlike in Option 1).
Auckland Council	Responsible for setting and collecting local/regional funding tools/sources (except for a possible IFF levy) to fund a contribution. Likely to be a 'smoothed' funding contribution (i.e. unlike in Option 1).

Evaluation of structural models

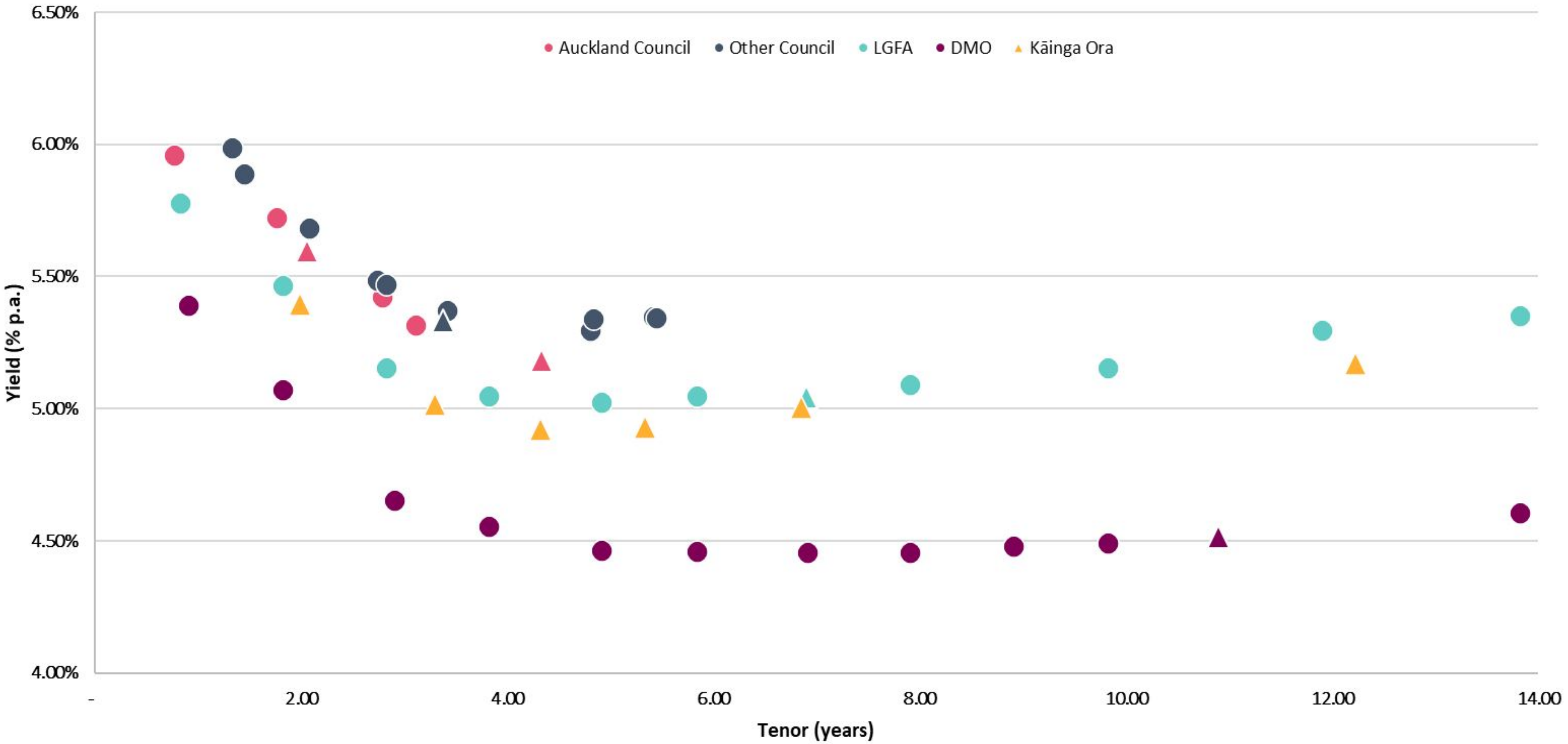
A high-level evaluation of the three structural models is outlined in the table below. Based on the initial scoring, it is recommended that Option 3 is not progressed further, which is consistent with Sponsor Guidance. The decision between Options 1 and 2 is likely to be a trade-off between pricing/value for money (refer following page), Partner support (particularly Auckland Council) and the preference for overall system efficiency. The extent of independent finance (e.g. IFFA) will have a material impact on the trade-offs, particularly the degree of pricing benefit that could be achieved.

Evaluation criteria	Option 1: Partner organisations	Option 2: Crown/DMO lending	Option 3: ALR Ltd borrows directly
Implementation and deliverability			
Value for money			
Alignment to funding & system efficiency			
Financing capacity & other impacts			
Risk transfer			
Iwi/Mana Whenua participation			
ESG considerations			

Does not meet criteria | Partially meets criteria | Meets criteria

Indicative costs of capital for different sources

The illustrative financing costs associated with different organisations is outlined in the figure below, which was used to evaluate the value for money that could be achieved under each of the structural options (refer previous page).



Source: BNZ Corporate Portfolio, 19 June 2023

Key takeaways

- The Crown/DMO has the lowest secondary market pricing for its existing bond programme (~50-60 bps lower than Auckland Council). The spread tends to widen (increase) for longer tenor bonds.
- LGFA bonds trade at a ~15-20bps discount (cheaper) relative to the Council, however, are still materially above the Crown (~45-55bps).
- While a Crown agency and having a credit rating anchored to the Crown, Kāinga Ora bonds trade at an ~40bps premium (expensive) relative to the Crown. This indicates that if ALR were to borrow directly it would trade at a premium (new issuer, liquidity, etc.).
- There is a slight pricing benefit (~5 bps) for sustainability linked lending.

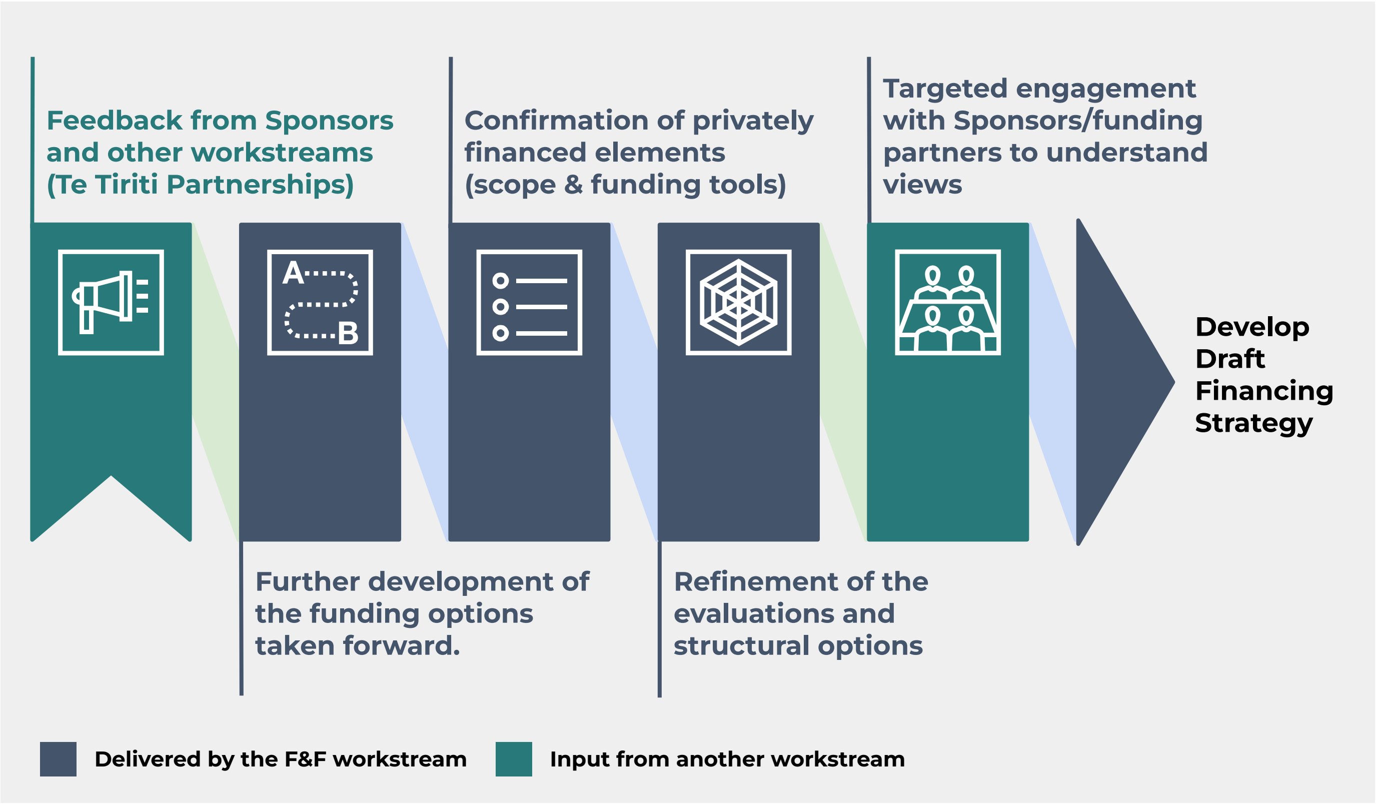
Recommendation/conclusion & next steps

In order to determine the preferred structural financing option, greater understanding of the potential use of private finance for specific scope elements or funding tools/sources is required, as it may fundamentally change the relative weightings of the evaluation criteria (e.g. financing capacity becomes less important if the IFFA is the primary financing source for the local/regional contribution).

Recommendation/conclusions

- The structural options address the financing requirements after privately financed scope elements and funding tools/sources have been removed. Accordingly, the extent to which these are used will have a material impact on the evaluations of the different models. For example,
- A Crown/DMO financed solution may be more appropriate where the local/regional contribution is primarily financed through the IFF (i.e. rather than the Council).
- The Crown/DMO financed model is likely to deliver the lowest weighted average cost of capital, relative to the other structural models (up to ~60bps p.a.). Where minimising financing costs is a primary objective for Sponsors, the Crown may consider its role in the financing for models such as the IFF (including for targeted purposes, e.g. postponement).
- The pricing benefit is equivalent to $6m p.a. for every $1bn financed through Auckland Council, which assuming a 30-year amortisation period is ~$100m in additional interest costs.
- Sponsor appetite/'buy-in' will be a critical determinant of the most effective financing strategy, with Option 1: Partner organisations which is likely to be the most administratively simple to establish and administer and best align to the current system, reliant on support from both the Crown and Auckland Council.
- **Option 3: ALR Ltd borrows directly shouldn't be progressed further based on the assessment.**

Next steps



Financing instruments

Financing instruments

The final part of the financing strategy is the instruments used to actually raised the finance (e.g. bank debt, bond, etc.). The decision on what instruments to use ultimately depends on the body responsible for the financing, which reflects the structural models outlined in the previous section. Where the financing is wrapped up into an organisation's BAU treasury/debt management (i.e. Partner organisations), it will be for that organisation to determine the appropriate financing instrument.

	Bank debt	Bonds	LGFA	Placement/reverse inquiry & iwi	Commercial paper/Bills	Sustainable finance	Equity
Option 1: Partner organisations	✔ Auckland Council has existing bank facilities, however, these are typically solely for liquidity purposes.	✔ Both the Crown/DMO have well established bond programmes.	✔ Auckland Council can borrow a portion of its financing requirement, noting its proportion of LGFA borrowing is capped.	✔ Possible source that could be used if desired	✔ Already part of BAU treasury/debt management for the Crown/DMO and Auckland Council.	✔ Both the Crown/DMO and Auckland Council have established a sustainable finance programme.	— Can only be achieved through establishing a partially private owned subsidiary (i.e. CCTO).
Option 2: Crown/ DMO lending	X Cashflow managed through DMO programme, rather than bank facilities.	✔ The Crown/DMO has a well established bond programme.	X The Crown/DMO cannot borrow through the LGFA.	— Theoretically possible, but likely to be inefficient and costly.	✔ Already part of BAU treasury/debt management for the Crown/DMO.	✔ The Crown/DMO has an established a sustainable finance programme.	— Can only be achieved through establishing a partially private owned subsidiary.
Option 3: ALR Ltd borrows directly	✔ ALR Ltd could establish a bank facility, however, a DMO facility is likely to deliver better outcomes..	✔ ALR Ltd could be established such that it could directly issue bonds.	X Unless converted to a CCO, ALR Ltd could not raise finance through the LGFA.	✔ ALR Ltd could be established to raise finance through reverse inquiry.	✔ ALR Ltd would be able to establish a Commercial Paper programme.	✔ ALR Ltd would need to establish a sustainable lending programme.	X Sponsors/Ministers have been clear ALR is a public delivery model, with ALR Ltd not being privately owned.
Option 4: Separate financing SPV	✔ SPV could establish a bank facility.	✔ SPV could establish a bond programme.	X Unless it was a a CCO, the SPV would not be able to access the LGFA.	✔ SPV could access the private placement/ reverse inquiry market.	✔ SPV could establish a Commercial Paper programme.	✔ SPV could establish a Sustainable lending framework and issue sustainable bonds.	X Depends on structure and appetite from Sponsors. May be more feasible where the SPV only covers a discrete funding tool/revenue stream.

Evaluation of financing instruments

An indicative assessment of the different financing instruments against the evaluation criteria is outlined in the table below. There isn't a lot of differentiation between the different instruments under many of the criteria, with value for money (price/costs of capital) and implementation (complexity/establishment effort) the key differences.

Evaluation criteria	Bank debt	Bonds	LGFA	Placement/reverse inquiry & iwi	Commercial paper/Bills	Sustainable finance	Equity
Implementation and deliverability							
Value for money							
Alignment to funding & system efficiency							
Financing capacity & other impacts							
Risk transfer							
Iwi/Mana Whenua participation							
ESG considerations			Assuming part of LGFA's SLL programme				

Does not meet criteria
Partially meets criteria
Meets criteria

What could an overall solution look like?

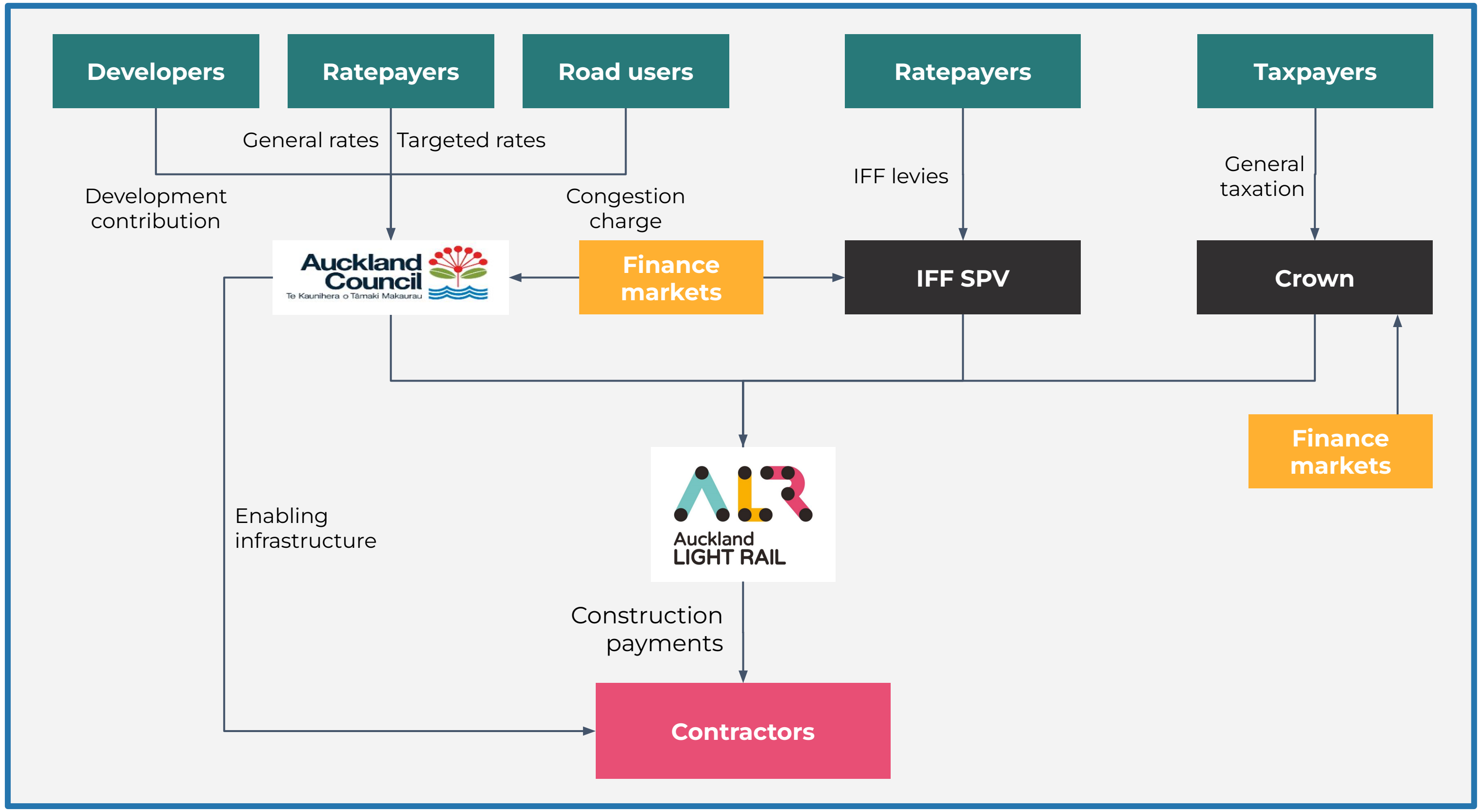
Overview of the illustrative financing models

Three illustrative financing models are outlined in this section, which demonstrate how the overall financing solution can be packaged (i.e. with certain scope elements/funding tools being financed separately and using one of the underlying structural models. These models make assumptions on the underlying revenue sources, which are purely to illustrate how a financing model could work, noting there is not currently a preferred funding package/solution.

Illustrative financing models	Explanation of the model	Structural model	Crown/DMO finance	Council finance	ALR Ltd finance	Private finance
Model 1: Partner organisations with an IFF levy	• Funding partner organisations are responsible for financing their contributions for the project. ALR Ltd is responsible for invoicing each partner for their respective share based on its cash outflows for construction. • Majority of local/regional contribution secured through an IFF levy.	**Option 1** (page 39)	✔✔	✔✔		✔ **(IFF)**
Model 2: Larger Crown financing role	• Crown loan/facility available for the IFF SPV and ALR Ltd. to minimise overall borrowing costs. • Auckland Council required to finance specific scope elements for the transport solution (noting the IFF contribution is assumed to be a significant portion of the local/regional share) and enabling infrastructure.	**Option 2** (page 40)	✔✔✔	✔ **(via the Crown)**	✔ **(via the Crown)**	
Model 3: Privately financed solution	• Similar to Model 1, however, both a congestion charge and LVUM are imposed and privately financed to reduce the cashflow burden on funding partners (particularly Auckland Council). • Council is still responsible for the enabling infrastructure required that sits within its remit (i.e. open space and community facilities).	**Option 1** (page 39)	✔✔	✔		✔ **(via the Crown)**

Partner organisations with an IFF levy

This model largely reflects the Option 1: Partner Organisations model, with the inclusion of an IFF levy, which is the primary financing mechanism for the local/regional share. The use of IFF mitigates the Council's financing challenges, with the Council using available debt capacity to finance investment in enabling infrastructure and (to the extent there is capacity) a specific scope element from the transport solution (e.g. certain stops/stations), which would be subject to development contributions and Council rating tools.



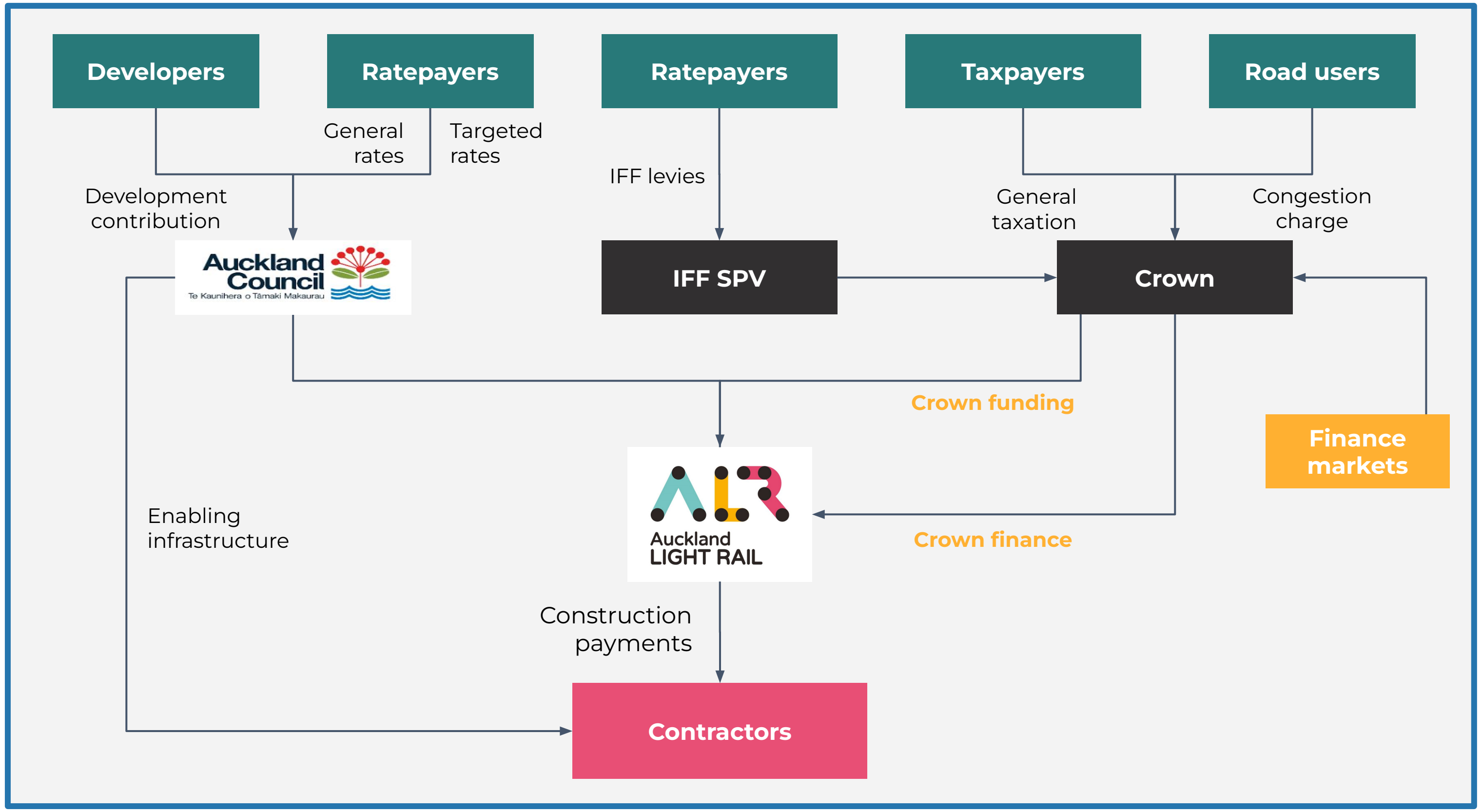
Explanation & key takeaways

- Partner organisations are responsible for financing their individual contributions, noting that an IFF levy is used for the majority of the local/regional contribution.
- Auckland Council is shown as accessing finance markets directly, noting this would include finance raised through the LGFA.
- Model largely reflects Option 1: Partner Organisations, with the inclusion of the IFF SPV for the IFF levy.
- No private finance included in the model, with the exception of the IFF component. Other revenue streams (e.g. Congestion charge) are assumed to just form part of the Council's operating revenues.
- Model assumes all core transport infrastructure is delivered/contracted by ALR Ltd, with the exception of some of the enabling infrastructure, which is contracted directly by Auckland Council.
- IFF SPV is likely to have a high cost of borrowing (Recommendation Report for the Tauranga TSP Levy assumed an 'all-up' financing cost of ~7.73%[1], including the equity return for Crown Infrastructure Partners).

1 Tauranga Transport System Plan Levy - IFF Act Recommendation Report. Te Tūāpapa Kura Kāinga Ministry of Housing and Urban Development (November 2022).

Larger Crown financing role

This model seeks to minimise the Project's borrowing costs through utilising the Crown's balance sheet and access to cheaper pricing. This is achieved through the Crown lending into the IFF SPV and into ALR Ltd. The congestion charge is also assumed to be collected by the Crown (rather than the Council) to reduce the portion of finance attributable to the Council. To the extent Auckland Council is responsible for enabling infrastructure, it is assumed to be responsible for the associated finance.

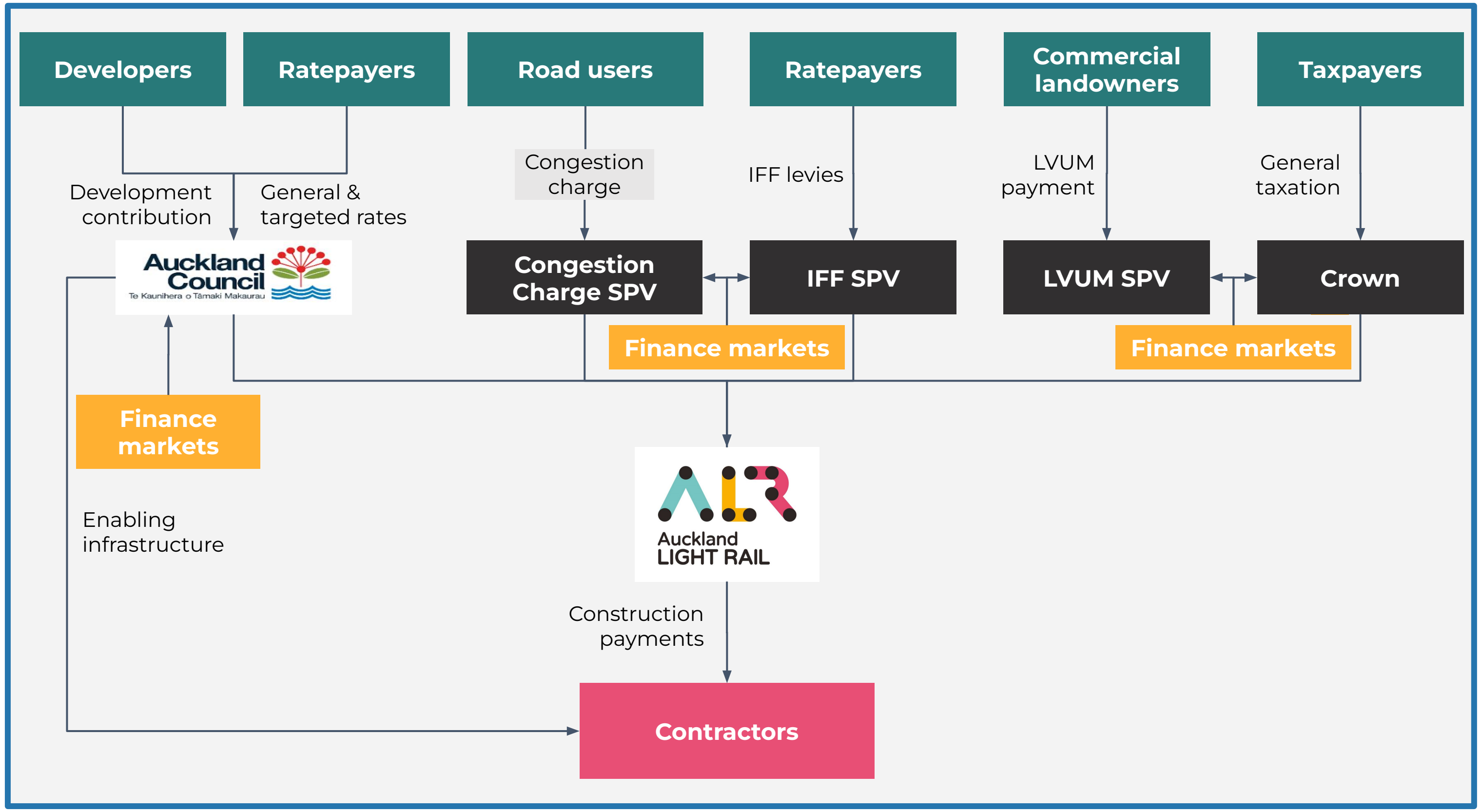


Explanation & key takeaways

- Significant Crown financing role, which will have a material impact on its fiscal measures (e.g. Debt to GDP, etc.). This will need to be tested with Sponsors.
- Auckland Council still required to provide funding for the core transport solution, noting this is expected to be a relatively small contribution targeted towards specific scope elements. Further, the transport contributions would be smoothed via the financing the Crown is providing to ALR Ltd.
- While Auckland Council is still likely to recognise a financial liability in respect of its funding commitment for the project, it will be a prudential indicator (i.e. debt to revenue) rather than a cash flow impact, which may be more palatable (i.e. the Council's primary issue is its balanced budget/revenue, rather than debt capacity).
- Lower borrowing costs is the primary focus for the model, however, the trade-off is the significant cash flow and fiscal impact on the Crown that is required to raise the majority of the finance. Enhancements to the model are likely to be through identifying areas where finance can be raised through private markets.

Privately financed solution

This model considers the opportunities to incorporate private finance into the funding and financing solution to reduce the cashflow impact on funding partners. Structurally, this model still resembles Option 1: Partner Organisations, with partners required to finance their contributions. Rather than having fixed percentage contributions, the split is intended to reflect specific scope elements to enable the optimisation of the funding approach.

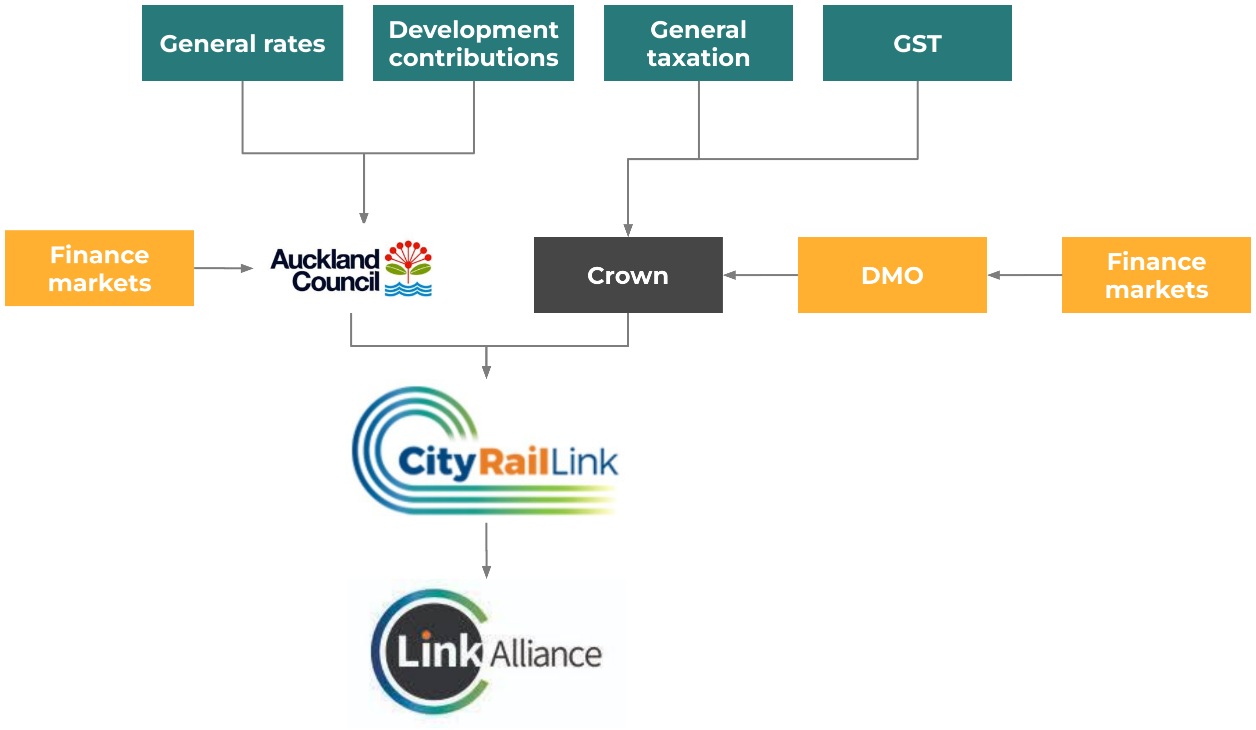


Explanation & key takeaways

- IFF and congestion charging both used to reduce the funding and financing burden on the Council (i.e. contribute to the local/regional split).
- Both are financed independently to reduce the cash flow impact on funding partners, particularly the Council. Potential to also get the congestion charge 'off-balance' sheet for the Council to also manage debt capacity impacts.
- Limited Crown support assumed for the IFF and Congestion Charge SPVs (i.e. kept to 'tail-risks'), with the exception of considering the role of postponement..
- Given the reliance on private finance under this model, there is likely to be a higher overall weighted average cost of borrowing. Key to generating value for money will be through cash flow/debt capacity impact and the ability to meaningfully transfer technology risk for the congestion charge to incentivise private sector innovation.
- As with previous models, Auckland Council still assumed to finance certain enabling infrastructure, leveraging BAU funding tools.

Appendix A - Precedent/case studies

City Rail Link



Considerations	Explanation
Crown	• 50% financing/funding contribution agreed via the Heads of Agreement. • DMO used to finance the Crown's contribution as part of its BAU bond/bill programme.
Council	• Financed its 50% contribution through its existing borrowing programme/treasury management. • General rates and development contributions used to fund debt servicing costs and amortisation. Targeted rates and other revenue sources were considered, but ultimately not implemented. • Costs spread equally across the region through general rates and a regional development contribution.
Balance sheet	• Fully on balance sheet for both the Crown and Auckland Council, given financing structure (i.e. through existing programmes and using existing BAU funding tools). • Balance sheet impact has been material for Auckland Council, however, the operational funding requirements depreciation, debt servicing) is currently more of a challenge for the Council.
Cost effectiveness	• Achieved a low cost of borrowing through the use of the Crown/Council's existing debt programmes.. • Risk transfer challenging (hence the change to an alliance model), which meant private finance wasn't really an option.
Other	• 50%/50% financing split to reflect proportionate commitment, to share the risks evenly. • Financing/funding contribution for the latest round of cost overruns currently being worked through.

Sydney Metro - City and Southwest

The focus of this case study is to highlight private financing options for Integrated Station Developments (ISD's). An ISD allows for construction of a new metro station to be be integrated with an over station building or development.

The City and Southwest Line of the Sydney Metro includes 16.5km of new metro line and links into the wider 66km network, providing capacity for a train every two minutes. The scope of works for one of the two components of Sydney Metro City and Southwest is for Chatswood to Sydenham. New stations on the Chatswood to Sydenham Line involve ISDs:

- Crows Nest Station
- Victoria Cross
- Martin Place
- Pitt Street
- Waterloo

Crows Nest Station

- AW Edwards was awarded the Crows Nest Station contract for AUD 370m. The contract includes enabling works for future OSDs.
- A contract (Project Delivery Agreement) for air rights across two additional sites has been awarded to a JV between Third.i Group (Australia) and Phoenix Property Investors (Hong Kong) which includes a 17 storey residential building (OSD) and a 21 storey commercial office (wider precinct). The JV acquired the sites via private treaty (undisclosed sum). Completion is expected c. 2027.

Source: https://www.sydneymetro.info/station/crows-nest-station

Victoria Cross ISD

- Lendlease was awarded the Integrated Station Development contract (AUD $476m) to develop the station and also the building above, including retail space and public realm improvements. Lendlease reportedly paid the NSW State Government over AUD $200m for the development rights (part of the value capture agreement for the Sydney Metro project).
- Lendlease sold a 25% stake in the development in 2019 to one of its wholesale unlisted property trusts (Australian Prime Property Fund Commercial) in an c. AUD $300m deal. Lendlease was reportedly seeking to sell another 25% interest in late 2022.

Martin Place ISD

- Macquarie Group has been awarded the AUD $379m contract to deliver the Martin Place station and ISD including new underground pedestrian connections and improvements to the public domain.
- The NSW Government will receive $355 million from Macquarie Group for the air rights above the new metro station.

Victoria Cross Station

Martin Place Station

Source: Project Summary - OTS2 PPP, 3 March 2020
https://www.sydneymetro.info/station/martin-place-station

Sydney Metro - City and Southwest/ Western Sydney Airport Line

Pitt Street

- Grocon Developments, together with Oxford Properties Group and CPB Contractors form the consortium that has been awarded a contract for the development of the Integrated Station Development for Pitt Street Station. Oxford Properties Group is the lead developer.
- It is reported that the NSW Government will receive $369m from the consortium for the air rights to develop the two buildings above the station.

Waterloo ISD

- A JV between John Holland and Mirvac was awarded the AUD $299m contract to deliver the Waterloo Station and Metro Quarter project. The consortium is to construct the station, 3 towers and 2 mid-rise buildings above and adjacent to the station.
- The NSW Government will reportedly receive AUD $106m from the JV for the air rights to develop the site.

Pitt Street Station

Waterloo Station

Western Sydney Airport Line

The Western Sydney Airport Line consists of a new rail line from St Mary to the Western Sydney Aerotropolis near Bringelly, via Western Sydney Airport. Six stations have been announced as part of the line.

- The contract will be procured as a Public Private Partnership (PPP) and the scope of the package comprises provision of private equity in the delivery of the package.
- National Australia Bank Ltd has been engaged as Agent and Security Trustee for the projects debt financiers.

Western Sydney Airport Line - St Marys Station

Source: https://www.sydneymetro.info/station/st-marys-metro-station

Source: *Project Summary - OTS2 PPP, 3 March 2020*
https://johnholland.com.au/what-we-do/our-projects-and-specialisations/waterloo-integrated-station-development

Melbourne Metro Tunnel and Cross River Rail

Melbourne Metro Tunnels, Stations and Development

- The Metro Tunnel will create a new rail line from Sunbury to Cranbourne/ Pakenham with 5 new underground stations.
- Melbourne Metro Tunnel is being delivered by The Cross Yarra Partnership consortium under a PPP arrangement. The Cross Yarra Partnership is a partnership between four equity investors, namely, Lendlease Infrastructure, John Holland, Bouygues Construction and John Liang.
- Senior debt required for the PPP has been provided by a syndicate of financiers.

Source: https://bigbuild.vic.gov.au/projects/metro-tunnel/stations/arden/station-design

Cross River Rail Station Tunnel, Stations and Development

- Cross River Rail project involved a $5.4 billion investment by the Queensland Government. A PPP delivery model was used for the Tunnel, Stations and Development package (TSD). The PPP involves building four new underground stations.
- The TSD is being delivered by Pulse consortium which is comprised of CIMIC Group companies, Pacific Partnerships, CPB Contractors, and UGL with international partners DIF, BAM, and Ghella Investments and Partnerships.
- Cross River Rail is being funded with financing of $1.5bn secured through a PPP. As the lead sponsor, Pacific Partnerships led development of the project's proposal and provided 49% of the equity finance.

Source: https://crossriverrail.qld.gov.au/precincts/albert-street-station-precinct/

Appendix B - Key concepts & pricing

Approach - Scoring options against the criteria

The table below outlines the approach to scoring against the evaluation criteria. Options are scored on a relative basis against traditional financing methods, which reflects the framing from the Draft Sponsors Letter (i.e. onus is on the project to demonstrate that private finance can deliver a clear benefit relative to traditional methods).

Evaluation criteria	Low	Moderate	High
Implementation and deliverability	The option is likely to encounter **materially greater barriers** to implement/delivery than traditional financing methods when considering legal, policy, public and market conditions.	The option is likely to encounter **similar barriers** to implement/delivery than traditional financing methods when considering legal, policy, public and market conditions.	The option is likely to encounter **materially lesser barriers** to implement/delivery than traditional financing methods when considering legal, policy, public and market conditions.
Value for money	The option is likely to deliver **materially less value for money** than traditional methods when accounting for the cost of capital, private sector innovation and risk transfer benefits.	The option is likely to deliver **similar value for money** to traditional methods) when accounting for the cost of capital, private sector innovation and risk transfer benefits.	The option is likely to deliver **materially greater value for money** than traditional methods when accounting for the cost of capital, private sector innovation and risk transfer benefits.
Alignment to funding & system efficiency	The option is likely to **materially reduce the alignment between the funding source and financing** or reduces overall system efficiency.	The option is **unlikely to to impact the alignment between the funding source and financing** or impact the overall system efficiency.	The option is likely to **materially improve the alignment between the funding source and financing** or reduces overall system efficiency.
Financing capacity & other impacts	The option is likely to have a **materially greater impact** than traditional methods on the **organisation's financing capacity** and/or have a greater **accounting/credit rating** impact.	The option is likely to have a **similar impact** to traditional methods on the organisation's **financing capacity** and/or have a similar **accounting/credit rating** impact.	The option is likely to have a **materially lesser impact** than traditional methods on the **organisation's financing capacity** and/or have a **lesser accounting/credit rating** impact.
Risk transfer	The **allocation of risks** under the option is likely to be **materially less aligned to the party best able to manage** them than under traditional methods.	The **allocation of risks** under the option is likely to be **aligned to the party best able to manage** them than under traditional methods.	The **allocation of risks** under the option is likely to be **materially more aligned** to the party best able to manage them than under traditional methods.
Iwi/Mana Whenua participation	The option is likely to provide **materially less opportunities for iwi/Mana Whenua** to invest in the project than under traditional methods	The option is likely to a **similar level of opportunities for iwi/Mana Whenua** to invest in the project than under traditional methods	The option is likely to provide **materially more opportunities for iwi/Mana Whenua** to invest in the project than under traditional methods
ESG considerations	The option is **materially less likely to incentivise the delivery of environmental and social outcomes** or develop NZ's sustainable financing market relative to traditional methods	The option is **unlikely to materially change the incentives to deliver environmental and social outcomes** or develop NZ's sustainable financing market relative to traditional methods	The option is **materially more likely to incentivise the delivery of environmental and social outcomes** or develop NZ's sustainable financing market relative to traditional methods

What is private finance?

Private finance options typically range from low to high priority, with varying degrees of risk.

What is Private Finance?

- A structured financing arrangement based on an activity's long-term cash flows
- Financing is raised through an SPV based on the long-term predictability of project cash flows in accordance with a structure of fixed contracts with its customers, suppliers, market regulators, etc.
- Non recourse borrowing with repayment limited to the assets of the project being financed
- Private financing is generally achieved through the procurement model

Different sources of private finance

Senior Debt	**Highest priority financing source. Typically provides 70% to 90% of project financing** **Sources:** Commercial banks, retail bonds, wholesale bonds, private placements **Characteristics:** Fixed source of financing for a certain period (this may or may not cover the total project term). Interest expense is typically capitalised during construction. The loan is fully amortised during the operations phase **Risk and returns:** Lowest risk financing source.
Subordinated Debt	**Source of debt financing with loss absorption features** **Sources:** Retail bonds, institutional investors **Characteristics:** Lower repayment priority than senior debt with terms of financing that are more favourable for the borrower. Financing can be obtained for longer periods **Risk and returns:** More expensive than senior debt as investors expect compensation for a higher risk allocation
Equity	**Lowest priority financing source** **Sources:** Construction companies, infrastructure investors, institutional investors **Characteristics:** Will always bear project losses ahead of debt, as payments to equity are always subordinated to the service of debt **Risk and returns:** Benchmarked on an Internal Rate of Return (IRR) basis. These investors take the highest level of risk and therefore seek a higher level of return.

Revenue v general obligation lending

The majority of borrowing in New Zealand is currently completed on a general obligation basis, where the principal and amortisation costs are paid through general funding sources, with full recourse back to the borrowing entity. The nature of mega projects means that there is an opportunity to utilise more revenue based lending, where specific project revenue streams are used to support financing.

Type of tool	Type of debt	Description
Revenue lending	Non-recourse	Most revenue bonds are non-recourse, which means repayments are limited to the relevant project assets and associated revenue streams. In an event of default, the lender would be given step-in and other rights to liquidate assets to recover the money they had lent. However, there is no opportunity for the lender to recover its debts from any other sources or government agencies, unless there is an underwrite, indemnity, or guarantee in place. Non-recourse lending means equity is required to truly assume project risks, which incentives better diligence and scrutiny over the project economics and relevant revenue stream(s). For a non-recourse loan to be 'bankable' the cashflows will generally need to be identifiable, predictable, priceable, and certain. Given the level of complexity associated with mega projects, the parties may agree to having a degree of recourse to make the revenue stream more 'bankable', for example underwriting certain risks or providing a guarantee for a short period of time, which is discussed below.
	Recourse	Recourse revenue lending occurs when one (or more) of the relevant agencies provides a guarantee or underwrite in relation to the lending (or a portion of the lending), or otherwise agrees to incur liabilities in relation to the project. The degree of recourse will depend on the individual project and can be tailored to suit the different project phases (eg the recourse is limited for a period of time until demand can be substantiated for a toll road). Even where revenue based lending has been used, there has typically been guarantees (or equivalent) put in place or the underlying revenue has been a Crown source (eg the availability payments under the PPPs). Further, rather than enforcing contractual rights, agencies have typically stepped-in to provide additional funding to prevent an event of default. This has reduced the effectiveness of the revenue based lending.
General obligation	Recourse	Most public sector borrowing in New Zealand is currently completed on a general obligation basis, where the principal and amortisation payments are paid through general revenue streams, with lenders having full recourse back to the relevant agency.

Typical benefits of private finance

While more expensive (on a nominal basis), there are a number of benefits that private capital can bring, which can deliver an overall solution that delivers better value for money. An overview of the primary benefits of private capital are outlined below, noting that these are impacted by project specific factors (e.g. structure of the project financing transaction).

Balance sheet / accounting treatment

Debt associated with the private capital may be 'off-balance sheet' from an accounting and credit rating perspective, which mitigates / minimises the impact on the government agency (e.g. Crown, Auckland Council).

The private capital provider generally has to assume a high degree of control and risk to achieve an 'off-balance sheet' outcome, which can be an issue (e.g. for a farebox concession to be 'off-balance sheet' the concessionaire is often required to set fares and assume demand risk).

Risk allocation / transfer

Private capital providers can assume certain project / transaction risks that can provide greater certainty to the government (e.g. over costs), delivering value to the project.

Critical that the private sector can appropriately quantify, price and manage any risks they are required to assume to achieve value for money.

Extent of risk transfer flows through to balance sheet / accounting treatment

Experience / capability

Private capital can come with detailed domestic and / or international expertise providing another layer of skill insights to the project.

Investment returns / requirements can be accompanied by performance / reporting and other requirements that ensure rigour is provided to the project.

Due diligence / discipline

Private capital, typically, brings a higher level of due diligence to projects / transactions and strong commercial discipline (e.g. ongoing management, etc.).

The elevated due diligence / discipline provides additional assurance around the quality of the project / transaction's revenue streams and associated expenses.

Innovation

Incentives and experience can drive innovation.

Upfront capital

Provides upfront capital to fund the project ensuring investment can be made earlier and with greater certainty, with less of a burden on government financing sources.

Balance sheet impact critical, as even capital that is not directly financed by the government can impact its borrowing capacity.

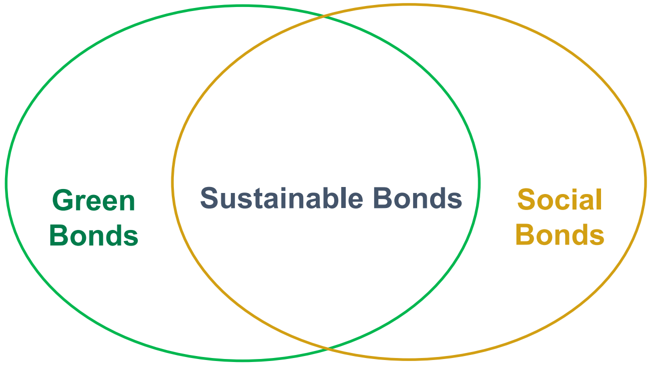
Appendix C - Sustainable financing

Green & Social Bond Principles by ICMA

The Green Bond Principles

- Exclusively to finance/refinance projects with **clear environmental benefits..**
- Examples of **project categories** include: renewable energy, energy efficiency, Pollution prevention and control, clean transportation, climate change adaptation, biodiversity conservation, green buildings, etc.

The Sustainability Bond Guidelines



The Sustainability Bond Guidelines

The Social Bond Principles

- Exclusively to (re) finance projects with **clear social benefits**.
- Examples of **project categories** include: affordable basic infrastructure (e.g. clean drinking water, sanitation, etc.), affordable housing, food security, Financial inclusión, etc.
- Examples of **target population** include: e.g. underserved, undereducated, people with disabilities, etc.

ICMA
International Capital Market Association

Four core components of a Green/Social/ Sustainability Bond Framework:

1. Use of Proceeds
2. Evaluation and selection of projects
3. Management of Proceeds
4. Reporting

Typical green and social project categories

Green Categories

- Renewable energy
- Energy efficiency
- Pollution prevention & control
- Environmentally sustainable management of living natural resources & land use
- Terrestrial & aquatic biodiversity
- Clean transportation
- Sustainable water & wastewater management
- Climate change adaptation
- Green buildings
- Circular economy

Social Categories

- Affordable basic infrastructure
- Access to essential services
- Affordable housing
- Employment generation
- Food security and sustainable food systems
- Socioeconomic advancement and empowerment

Examples of target populations include, those that are:
1. Living below the poverty line
2. Excluded and/or marginalised populations and/or communities
3. People with disabilities
4. Migrants and/or displaced persons
5. Undereducated
6. Underserved, owing to a lack of quality access to essential goods and services
7. Unemployed
8. Women and/or sexual and gender minorities
9. Aging populations and vulnerable youth
10. Other vulnerable groups, including as a result of natural disasters

Transition Sectors

- Power
- Steel
- Cement
- Aviation
- Shipping

The benefits of sustainability bonds

Why issue sustainability bonds?

Access to capital
Sustainability bonds are much like traditional bonds and provide an alternative source of debt capital.

Increasing demand
According to BBVA, global annual sustainability bond issuance increased by 49% between 2018 and 2019. This is expected to increase by a further 28% in 2020.

Lower cost
Bonds are generally a lower cost form of capital raising compared to other financing methods

Improved investor relations
Issuers of sustainability bonds are able to articulate their sustainability strategies to investors and expand and improve relationships with them.

Diversified investor base
Sustainability bonds attract both investors driven by financial return and those driven by broader environmental and social outcomes
.

Positive brand and marketing story
Increasingly, consumers, employees and investors actively seek to engage with businesses which drive sustainable outcomes

They are relatively simple
As sustainability bonds are a variation of traditional bonds, corporate finance teams are often well-equipped to manage them in comparison to other sustainability financing tools which require significant upskilling.

Broaders insights for Finance teams
Collaboration between Finance and Sustainability teams allows Finance to attract new investors and build an understanding of wider business risks and opportunities.

Broader insights for Sustainability teams
Collaboration with Finance teams allows Sustainability teams to improve their understanding of investor perspectives and more clearly communicate the financial value of a company's sustainability efforts.

What's in it for investors?

Contribution to positive sustainability outcomes and signalling to the market and government
Sustainability bonds provide one of the most direct ways for investors to make a measurable, positive impact on a given sustainability issue.

Less volatility when traditional markets are volatile
Sustainability bonds are less exposed to highly regulated or cyclical sectors that are often impacted by market changes, economic downturns or crises.

Lower risk
Investors generally find sustainability bonds to be less risky than regular bonds, indicated by a tighter yield curve. For traditional bonds, non-disclosed environmental and social risks are left off of the balance sheet and can later culminate into significant losses, while sustainability bonds factor these in.

Greater transparency allows more informed investment decisions.
Sustainability bonds are subject to increased verification, monitoring and reporting which provides investors with greater transparency of the success of the underlying investment

Thank you

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