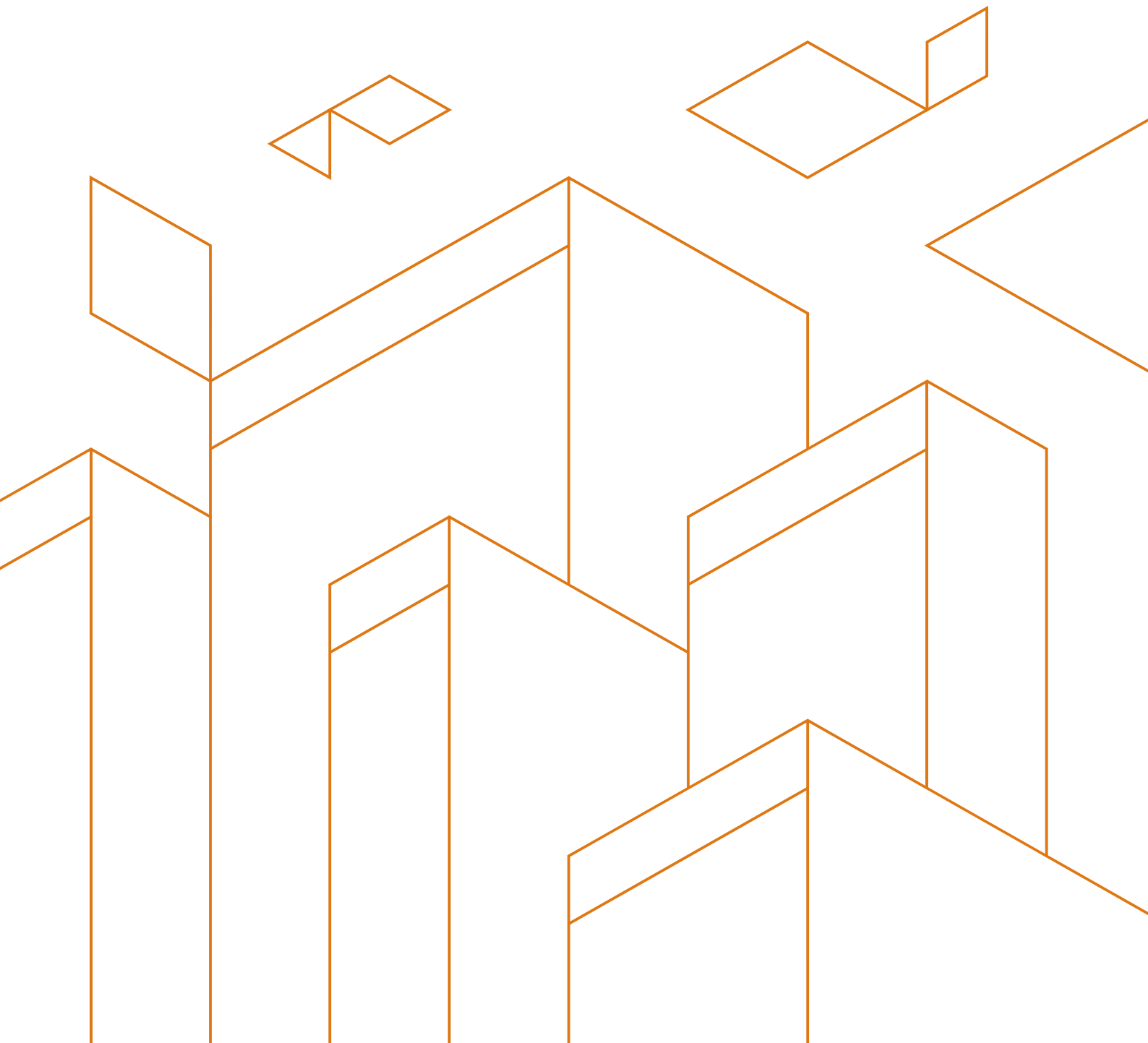


City Rail Link

22 March 2023

Briefing for Elected Members

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Background

The City Rail Link (CRL) is a 3.5 km twin-tunnel underground rail link below the Auckland CBD. New Zealand's largest-ever transport infrastructure project, the CRL is intended to double rail capacity and has been under construction since 2018. As of December 2022, the total cost of the CRL was estimated to be \$5.5 billion, a 62% increase on the original estimate provided to Cabinet in 2017.

What happened?

- In 2015, an Auckland Transport business case estimated that the CRL would cost a total of \$3.4 billion with a cost-benefit ratio of 1.6¹
- However, earlier work by Auckland Transport in 2011 had calculated a cost-benefit ratio of between 0.4 and 0.9
- Both the Treasury and the Ministry of Transport advised Ministers in 2015 that the economic case for the CRL was weak. However, this advice was not provided to Cabinet
- In 2022, a review by the Auditor-General found that the 2015 business case did not include \$1 billion in wider network improvements assumed by the economic evaluation used to calculate a cost-benefit ratio
- Worse still, the Auditor-General found that KiwiRail and Auckland Transport would need to spend an additional \$6.7 billion between 2022 and 2036 before the full benefits of the CRL could be realised
- With rail patronage down 30-40% on pre-COVID levels it is unlikely that the supposed travel time savings will ever be realised
- It is now clear that the business case developed by Auckland Transport was flawed
- In 2019, when this became apparent, Cabinet and the Council should have requested options for reducing the cost
- Furthermore, decision-makers should have considered a more simplified governance structure, with market incentives
- A public-private partnership would have been less likely to result in cost overruns because of the profit-motive

A failure of governance

¹ In other words, for every dollar spent, the CRL would return \$1.6 of benefits.

Aucklanders weren't told the real cost

- There were big discrepancies in official advice provided to Cabinet and the Governing Body of Auckland Council
- While Cabinet ministers were cautioned in 2019 that the economic case for proceeding was much weaker than the 2015 business case had claimed, Auckland councillors were reassured of the benefits
- The decision by Cabinet to approve tunnelling work assumed that total project costs would remain below \$5.1 billion, though the cost-benefit ratio was now much lower
- On the other hand Auckland councillors were told that the project still had a \$1.5-2 billion benefit-costs ratio buffer

Higher taxes, more debt

- In 2019, CRL Limited reported a cost overrun of \$1 billion. In late 2022, the total estimated cost had reached \$5.5 billion
- These big cost overruns have put enormous financial pressure on Auckland Council, which is liable to pay for 50% of the project
- Auckland Council has already projected a \$295 million funding gap for the 2023/24 financial year. However, this does not include the additional \$500 million that the Council must pay for the CRL
- Advocates of the CRL are now arguing for a combination of higher rates and more borrowing to avoid big cuts in Council spending
- Regardless of how costs are distributed between central and local government, the consequences of bad decision-making around the CRL are going to fall on taxpayers

Conclusion

- With costs now running at \$5.5 billion, the CRL has exceeded any reasonable estimate of its benefits
- The CRL is a white elephant, a monument to future generations of the sunken cost fallacy
- There is an urgent need for decision-makers to heed the lessons of this report and ensure that future projects, such as Auckland Light Rail, do not repeat history

