

In Confidence

Office of the Minister of Regional Development and Associate Minister of Transport

Chair

Cabinet

## **Upper North Island Supply Chain Strategy**

### **Proposal**

1. This paper proposes to establish a comprehensive Upper North Island logistics and freight review, with the goal of creating a robust supply chain action plan that delivers to New Zealand's interests over the next 30 years. This review includes a focus on:
  - 1.1. the long-term future of ports in the Upper North Island, with a particular focus on Ports of Auckland and Northport
  - 1.1 priorities for investment in rail and road.
2. This work would be led by an independent working group of experts.

### **Executive summary**

3. Cabinet is asked to agree a Terms of Reference (ToR) for a review that will guide the development and delivery of a freight and logistics (supply chain) strategy for the Upper North Island, including ports. This work will also advise on the priorities for investment in rail, roads and other supporting infrastructure.
4. A group of independent experts will lead this work, with support from the Ministry of Transport.
5. I intend that the independent working group will commence their work as early as possible in 2018, and report on:
  - 5.1. the findings of the supply chain review, and specifically in the Upper North Island including ports by July 2018
  - 5.2. a proposed Upper North Island Supply Chain Strategy (the Strategy) by December 2018; and
  - 5.3. a feasibility study to explore options for moving the location of the Ports of Auckland, including giving Northport serious consideration by December 2018. I will also explore options with the Chair of the independent working group to bring forward this date.

## **Drivers for a review and the development of the Upper North Island Supply Chain Strategy**

6. The government has signalled a strong interest in:
  - 6.1 the future of New Zealand's ports, freight services and coastal shipping. This is critical to lifting and securing the economic well-being of New Zealanders, and promoting opportunities for regional development and employment.
  - 6.2 developing an efficient and effective transport and logistics infrastructure that works in the national interest
  - 6.3 ensuring the best use of scarce resources such as land, especially in metropolitan areas.
7. Freight is a key enabler of our economy, and we rely on our international freight links to connect our goods to the world. New Zealand's freight volumes are expected to continue to grow, and all parts of the freight system will be impacted by this growth. New Zealand's freight task is projected to increase by about 50 percent over the next 30 years. Understanding the drivers of, and uncertainties around, future freight and logistics demand is critical to ensure that New Zealand's supply chain is fit for purpose in the longer-term.
8. The attached terms of reference (ToR) guides the review of New Zealand's freight and logistics sector, and development and delivery of a freight and logistics (supply chain) strategy for the Upper North Island. It will also advise on the feasibility of moving the Auckland Port, with serious consideration to be given to Northport, and to make well targeted investments in regional rail and roads.
9. The overall direction of the ToR reflects initial discussions with port and freight stakeholders, who have indicated to transport officials that they support the creation of a ports, freight and logistics strategy. Stakeholders have raised concerns that a study on its own may not move forward discussion on the supply chain system.
10. The first part of any work to inform the Strategy should be a review to determine current and expected information about the Upper North Island ports, freight and logistics supply chain. This would update information from previous studies and factor in new developments - including changes in the pattern of forestry activity arising from the government's commitment to afforestation.
11. Moving the Ports of Auckland would have significant implications for other ports, coastal shipping, road freight, and KiwiRail. Given the potential significant flow-on effects, an investigation could usefully consider the Ports of Auckland and Northport as part of an assessment of the freight and logistics system in the Upper North Island.
12. A system wide view of the Upper North Island supply chain is important because about 55 percent of New Zealand's freight originates in or is destined for, the Northland, Auckland, Waikato and Bay of Plenty Regions. Auckland is also currently the gateway for many imports destined for the rest of New Zealand. The freight task in the Upper North Island is predicted to grow by 45 percent by 2032/33.<sup>1</sup> However,

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<sup>1</sup> National Freight Demand Study, Ministry of Transport, 2014.

uncertainties around changing trade patterns and technology, and the way in which these can be addressed will need to be considered.

13. Establishing a single national freight strategy would take some time, but a focused Upper North Island exercise would be more straightforward and gain buy-in from stakeholders. It could form part of the work towards a national freight strategy, which is a government priority.
14. This work will provide evidence and options to inform the configuration of ports, rail and roading that is most likely to meet our national interests, that encourages investment in the regions, and that the government might need to invest in. The ToR for this work includes a process to report on the feasibility of Ports of Auckland location.
15. The ToR acknowledges the significant role of the market in New Zealand's supply chain configurations, and that many aspects of the supply chain are in private or Council ownership.

### **Scope of the work**

16. The review will consider national and regional economic development outcomes and transport outcomes. The review will also consider the extent to which the government may need to invest to achieve these outcomes. The work will set out:
  - 16.1 the current and future drivers of freight and logistics demand, including the impact of technological change
  - 16.2 a potential future location or locations for Ports of Auckland, with serious consideration to be given to Northport
  - 16.3 supporting priorities for other transport infrastructure, across road, rail and other modes and corridors such as coastal shipping
  - 16.4 potential priorities for transport-related infrastructure investment from a national economic and regional development perspective
  - 16.5 the optimal regulatory settings, and planning and investment frameworks across government to give effect to the findings of the review
  - 16.6 future challenges on which government and industry will need to work together
  - 16.7 key actions to be taken over the next five years.
17. The Minister of Transport and I will work with the Chair of the working group to agree the detailed work programme that will deliver on the scope above.
18. Cabinet will determine how it will respond to the above, and it is anticipated that subject to the government's endorsement of the view, that it will form the basis of a government strategy.

### **Proposed governance and approach**

19. I intend to set up a working group of experts who will provide advice on the matters outlined in the scope section above. The working group will report to the Ministers of Finance, Transport, and Regional Development.
20. The working group will be supported by officials from the Ministry of Transport, the New Zealand Transport Agency and Ministry of Business, Innovation and Employment.
21. Membership will include between three and five individuals (including a Chair) with a mix of skills that can best assist the government to develop an Upper North Island Supply Chain Strategy, and champion the work identified in the ToR.
22. Individuals with the following skills sets are preferred:
  - 22.1 economics and business development
  - 22.2 regional development
  - 22.3 Māori development
  - 22.4 transport and logistics, including freight
  - 22.5 infrastructure management, investment and planning.
23. The Chair will need to be someone who is independent from the transport sector; a credible leader who is recognised by transport industry players. Ideally the Chair should also have extensive networks / existing relationships with the business community and the transport sector; and ideally within the North Island / Upper North Island.
24. I will work with key Ministers to agree the membership of the working group.

*Representativeness and conflicts of interest*

25. Before I appoint the Chair and Members of the Working Group, I will consult with the Minister of Finance, Minister of Transport, and other Ministers as appropriate on potential candidates, and confirm that they have the right skill sets and profiles required.
26. I will also ensure that appropriate enquiries are carried out to ensure that the Chair of the Working Group has no material conflicts of interest. I note that members of the Working Group may potentially have some personal conflicts of interest, given the skill sets outlined in paragraph 22 (including in transport, logistics and freight). Confirmation of any identified conflicts of interest, and mechanisms put in place to manage these conflicts will be agreed at the outset of the members term on the Working Group. The Chair of the Working Group will be expected to manage any conflicts of interest.
27. Once the Chair and the members have been identified, I intend to ask the Appointment and Honours Committee (APH) to consider my proposed appointments – though due to the limited number of APH meetings before Christmas recess, and alternative consultation process may be required.

## *Remuneration*

28. The Working Group will be established as a Group 4 Level 1 body under the Cabinet Fees Framework. I propose that the Chair be paid a daily rate of \$902.00, and the members be paid a daily rate of \$680.00 (which is consistent with the fees framework).
29. These rates reflect the mix of skills, knowledge and experience that I am seeking of the group's chair and members, as well as the scope and complexity of the work, and the high level of industry interest expected in the work. I will also seek the advice of the State Services Commission on the level of remuneration before I confirm the final fees.
30. I propose that appointment of the Chair and members be effective once APH has considered the appointments until end February 2019.

## **Deliverables and milestones**

31. The Working Group will report to Ministers as follows.
  - 31.1. Report on the findings of the supply chain study, and specifically in the Upper North Island including ports by July 2018
  - 31.2. A proposed Upper North Island Supply Chain strategy by December 2018
  - 31.3. A feasibility study to explore options for moving the location of the Ports of Auckland, including giving Northport serious consideration by December 2018.
32. I will discuss with the Chair of the Working Group the timetable above, including whether there is any capacity to bring forward the report back dates on the deliverable described in paragraph 31.3 above.

## **Engaging with stakeholders**

33. The working group will consult with key interest groups and stakeholders.

## **Consultation**

34. The New Zealand Transport Agency, the Treasury, and the Ministry of Business, Innovation and Employment have been consulted. The Department of Prime Minister and Cabinet and Maritime New Zealand were informed.

## **Financial implications**

35. Funding for this work will involve the reprioritisation of funding from the existing "Vote Ministry of Business, Science and Innovation Economic Development: Regional Growth Initiatives" to the Ministry of Transport. The funding would cover both the direct costs of running the Working Group, and additional costs of travel, accommodation and expenses. The Ministry of Transport would also seek costs in

relation to setting up the group. We currently estimate that total funding of approximately \$850,000 is required.

36. This work is a key way in which the government can activate its approach to regional development. Therefore I will consider whether funding from the Regional Development (Provincial Growth) Fund should be sought for the feasibility study around moving the Ports of Auckland, with serious consideration to be given to Northport.
37. In addition, the Ministry of Transport intend to allocate up to 3 existing full-time equivalent staff to provide full-time secretariat support to the Working Group at a cost of up to \$500,000 dollars. These costs will be met within the existing Ministry of Transport baseline.

### **Human rights, gender and disability perspective implications**

38. There are no human rights, gender, or disability perspective implications associated with this paper.

### **Legislative implications**

39. There are no legislative implications associated with this paper.

### **Regulatory Impact Analysis**

40. The proposals in this paper do not require regulatory impact analysis.

### **Publicity**

41. An overall communications package will be developed. In the interim a press release announcing the Working Group's Chair, members and ToR will be issued once the Chair and Members have been confirmed.

### **Recommendations**

42. The Associate Minister of Transport recommends that the Committee:
  1. **agree** that a Working Group be established to review New Zealand's freight and logistics sector for the Upper North Island, including ports and develop a proposed Upper North Island Supply Chain Strategy
  2. **note** that the Terms of Reference for the Working Group guides the development and delivery of a freight and logistics (supply chain) strategy for the Upper North Island, including ports. It will advise on the priorities for investment in rail, roads and other supporting infrastructure. It will also advise on the feasibility on options for moving the location of the Ports of Auckland, including giving Northport serious consideration
  3. **agree** the proposed summary Terms of Reference for the Upper North Island Supply Chain Strategy attached to this Cabinet paper

4. **authorise** the Minister of Transport and Minister of Regional Development to make minor editorial changes to the Terms of Reference as necessary, before they are published
5. **delegate** approval to the Associate Minister of Transport, Minister of Transport, and Minister for Economic Development to agree a more detailed work programme for the Upper North Island Supply Chain Strategy based on the summary referred to in recommendation 2 above
6. **note** the Associate Minister of Transport, Minister of Transport and Minister of Economic Development to identify a Chair and members for the Working Group
7. **note** the Associate Minister of Transport's intention to ask the Appointments and Honours Committee to consider the appointment of the proposed members for the Working Group once they have been identified, but that, due to the limited number of Committee dates before Christmas recess, an alternative consultation process may be required
8. **note** the Associate Minister of Transport proposes a daily remuneration rate of \$902.00 for the Working Group Chair and \$680.00 for the members, and that this is consistent with the Cabinet Fees Framework
9. **agree** to re-prioritise \$850,000 from the existing Vote Business, Science and Innovation Economic Development: Regional Growth Initiatives, to Vote Transport, to be actioned in March Baseline Update, to undertake the work in recommendation 1 above
10. **approve** the following fiscally neutral adjustment to give effect to recommendation 9 above, with no impact on the operating balance and debt:

	\$m – increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 & Outyears
<b>Vote Transport</b>					
<b>Minister of Transport</b>	0.850	-	-	-	-
Multi-Category Expenses and Capital Expenditure:					
Policy advice and related outputs MCA					
Departmental Output Expense:					
Policy advice (funded by revenue Crown)					

	\$m – increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22 & Outyears

<b>Vote Business, Science and Innovation</b> Minister for Economic Regional Development Appropriation: <b>Economic Development: Regional Growth Initiatives (2016-2021)</b>	(0.850)	-	-	-	-
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11. **agree** that the proposed change to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.
12. **note** that the Associate Minister of Transport will determine whether additional funding from the Regional Development (Provincial Growth) Fund will be sought for the feasibility study of moving the Ports of Auckland, with serious consideration to be given to Northport.



# Upper North Island Supply Chain Review

## **A review of New Zealand's freight and logistics sector, including ports for the Upper North Island**

### ***Context***

The government has a strong interest in the future of New Zealand's ports, freight services and coastal shipping. We see this as critical to lifting and securing the economic well-being of New Zealanders, and in promoting opportunities for regional development and employment. We have a strong interest in developing an efficient and effective transport and logistics infrastructure that is resilient and works in the national interest. We are also mindful of the need to ensure the best use of scarce resources such as land, especially in metropolitan areas.

Freight is a key enabler of our economy, and we rely on our international freight links to connect our goods to the world.

New Zealand's freight volumes are expected to continue to grow, and all parts of the freight system will be impacted by this growth. New Zealand's freight task is projected to increase by about 50 per cent over the next 30 years. Understanding the drivers of, and uncertainties around, future freight and logistics demand is critical to ensure that New Zealand's supply chain is fit for purpose in the longer-term.

This terms of reference guides the development and delivery of a freight and logistics (supply chain) strategy for the Upper North Island, including ports. It will advise on the priorities for investment in rail, roads and other supporting infrastructure. It will also advise on the feasibility of moving the Ports of Auckland, with serious consideration to be given to Northport. It will consider a range of impacts including transport, land use and urban planning, as well as national and regional economic growth.

### ***Governance and approach***

The government is setting up an independent working group of experts who will provide advice on the matters outlined in the scope section below. The working group will report to the Ministers of Finance, Transport, and Regional Development.

The working group will be supported by officials from the Ministry of Transport, the NZ Transport Agency and the Ministry of Business, Innovation and Employment.

### ***Scope***

The review will consider national and regional economic development outcomes and transport outcomes. The review will also consider the extent to which the government may need to invest to achieve these outcomes.

It will set out the independent working group's joint view of:

- the current and future drivers of freight and logistics demand, including the impact of technological change
- a potential future location or locations for Ports of Auckland, with serious consideration to be given to Northport.<sup>2</sup> As ports are long term assets, the work needs to take a view that is 30-50 years or longer
- supporting priorities for other transport infrastructure, across road, rail and other modes and corridors such as coastal shipping<sup>3</sup>
- potential priorities for transport-related infrastructure investment from a national economic and regional development perspective<sup>4</sup>
- the optimal regulatory settings, and planning and investment frameworks across government to give effect to the re view findings
- future challenges on which government and industry will need to work together
- key actions to be taken over the next five years.

This view will be put to government, for it then to determine how it will respond. It is anticipated, that subject to the government's endorsement of the view, that it will form the basis of a government strategy.

### **Deliverables and milestones**

The working group will report to Ministers as follows:

- Report on the findings of the supply chain study, and specifically in the Upper North Island including ports by July 2018
- Priorities for investment in rail, roads and other supporting infrastructure, and future challenges on which government and industry will need to work together by December 2018
- A feasibility study to explore options for moving the location of the Ports of Auckland, including giving Northport serious consideration by December 2018. The Minister for Regional Development will explore options with the Chair of the working group to bring forward this date.

### **Engaging with stakeholders**

The working group will consult with key interest groups and stakeholders.

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<sup>2</sup> This assessment should be based on value for money considerations, including non-monetary and intangible costs and benefits.

<sup>3</sup> These assessments should be based on value for money considerations, including non-monetary and intangible costs and benefits.

<sup>4</sup> As above.