

25 March 2019

Meriana Johnsen
Journalist
Radio New Zealand
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Ref. OIA-4704

Dear Meriana

Request made under the Official Information Act 1982.

Thank you for your email of 15 February 2019 requesting the following information under the Official Information Act 1982 (the Act):

1. *When is the Kaikoura highway rebuild expected to be completed?*
2. *What was the budget for the Kaikoura highway, broken down by each year since the rebuild began in 2016 and broken down by individual costings?*
3. *What is the actual cost of the Kaikoura highway rebuild, broken down by each year and by individual costing?*
4. *What deadlines have contractors on the Kaikoura highway rebuild missed?*
5. *What liquidated damages are or have been necessary? If so, please specify what contractor it involved, what part of the project it related to, and what the revised finish date is for it?*
6. *Please provide a list of revised finish dates for each part of the project not yet completed.*
7. *If liquidated damages are not being used, what measures are NZTA using to ensure the project is completed within budget and within the timeframe?*

On 19 February 2019, we contacted you about the level of detail you were seeking about individual costings (part 3). On 8 March 2019, we contacted you again to explain the large amount of information that fell within scope of this part of your request. During the phone conversation you refined the scope of this part and confirmed you are seeking the below information:

*How can we be sure this NCTIR programme of work is good value for the dollars spent and people/particular contractors are not benefiting unreasonably off the back of this work?
How does the NCTIR collaborative alliance model work to ensure the process is honest and fair?*

Please note that the North Canterbury Transport Infrastructure Recovery (NCTIR) Alliance has several projects within its programme of work, including State Highway 1 (SH1) recovery, SH1 safety improvements, KiwiRail recovery, Route 70 recovery, Cyclone Gita repairs, Kaikoura Harbour and improvements to the alternate route. The answers set out below relate to SH1 Recovery (the "highway rebuild").

1. *When is the Kaikoura highway rebuild expected to be completed?*

The SH1 recovery work is expected to be completed before December 2019. Other work (of which some may be further rebuild work) in the NCTIR programme will continue in to 2020.

2. *What was the budget for the Kaikoura highway, broken down by each year since the rebuild began in 2016 and broken down by individual costings?*

Crown reinstatement of State Highway 1

Description	2016/17	2017/18	2018/19	Total
	\$m	\$m	\$m	\$m
Appropriation	93	325	297	715
SPE Budget	0	325	237	562
Actual	93	433	74*	600

*Actual for the period 1 July 2018 to 31 January 2019 i.e. January YTD.

The Transport Agency had an initial appropriation of \$812m to reinstate SH1 between Picton and Christchurch. As more information became available as the reinstatement work progressed, the initial costings were revised and have resulted in the current appropriation of \$715m.

In its Statement of Performance Expectations, the Transport Agency budgets separately for the expected costs from 2017/18. The forecast is expected to be under the total \$715m appropriation.

3. *How can we be sure this NCTIR programme of work is good value for the dollars spent and people/particular contractors are not benefiting unreasonably off the back of this work? How does the NCTIR collaborative alliance model work to ensure the process is honest and fair?*

Background on establishing NCTIR

The NCTIR Alliance is a partnership between the Transport Agency, KiwiRail and four contractors (Fulton Hogan, Downer, Higgins, and HEB Construction).

Following the Kaikōura earthquake in November 2016, KiwiRail and the Transport Agency jointly developed a high-level commercial approach to encompass the programme of recovery works. This took into account the dual need to reopen the transport networks as quickly as possible, while achieving value for money in the long-term.

An overarching programme of works to reinstate the transport network was developed. There were two distinct phases of work and objectives to address the short-term need to re-open safe and reliable transport corridors, followed by the longer-term provision of an improved and resilient network.

Given the project's inherent complexities and uncertainties, KiwiRail and the Transport Agency jointly endorsed adopting an alliance contracting model – NCTIR – to capitalise on the relationships between the participants and to deliver an emergency response faster than would normally be the case. The alliance model undertakes work in a manner that is coordinated, expedited, efficient, safe, timely and as cost-effective as practical.

Benefits of an alliance model for the recovery

Alliance contracting incentivises the parties to work co-operatively to complete the project within the time and budget forecasts in the Business Case, to find the best solutions for the project and to work quickly and collaboratively to resolve issues as they arise.

A fundamental driver for establishing NCTIR was the ability to expedite re-opening the road and rail in some form as quickly as possible. A traditional tender model would have slowed the re-opening and, arguably, no contractor would have been prepared to take on the risks that were unknown at the start of the project to complete works with very limited design.

Compared with a conventional contracting model, the South Island Transport Corridor (SITC) reinstatement project allowed procurement activities to start earlier and run in parallel with early consenting, design and construction activities.

The unique feature of a project alliance is the synergy created between selecting commercial participants, the core alliance principles, the clarity and alignment of project objectives and the commercial framework, which all drive the delivery of results.

Commercial oversight

Commercial terms were fundamental to driving the right outcomes and performance of NCTIR. Cost models reflected the agreed commercial strategy, i.e. comprised open book, cost reimbursable terms for Phase 1 (initial recovery to open transport networks), followed by a Target Out-turn Cost (TOC) for Phase 2 (ongoing improvements and safety and resilience). Collective risk sharing occurred once the Phase 2 commercial model was in place from 1 July 2018.

At the direction of ministers, an Oversight Group (OSG) was also established. The objective of this group was to provide ministers with confidence that the project is well coordinated between the Transport Agency and KiwiRail; involves delivery choices that are consistent with Cabinet's intentions; and is on track to be delivered on time and on budget.

The owner organisations instigated a process in March 2017 for independent and confidential peer reviews to occur at key points in the life of the SITC project, which are undertaken in accordance with the Treasury Gateway process.

The boards of the Transport Agency and KiwiRail receive monthly project reports detailing both project progress, as well as expenditure against forecast. This provides a high level of scrutiny and provides a forum for clear direction to the Owner Project Alliance Board (PAB) members. Approvals were sought from the owner organisations in accordance with their respective delegated authority processes.

Day-to-day management

Appointed representatives from the Alliance owner participants (the Transport Agency and KiwiRail) and non-owner participants (Fulton Hogan, Downer, Higgins and HEB Construction) make up the Project Alliance Board (PAB). The PAB has the primary responsibility for the governance of the Alliance and the appointment of the Project Director.

The Alliance Management Team (AMT) is led by the Project Director, who develops the Project Governance Plan (approved by the PAB) and administers the project in accordance with this. The Project Governance Plan describes and defines the expected behaviours and processes required to achieve the Alliance project outcomes.

The day-to-day management of the work under the Alliance is the responsibility of the AMT. This team is made up of people from the Alliance participants, selected on a best-for-project basis by the Project Director and endorsed by the PAB.

From January 2017, the owner organisations engaged independent engineers to provide independent cost assurance services. The assurance processes include benchmarking and audit of costs; evaluation and approval of cost rates for NOP labour, salaried staff and plant; productivity rates; competitive pricing; and contract tendering. The rapid ramp up of monthly expenditure over Phase 1, in line with expediting works and the physical nature of the works (e.g. seawall construction), created commercial risk around ensuring that appropriate checks and balances were in place to provide assurance that taxpayer money was being spent wisely and to mitigate payment of fraudulent expense claims. The independent engineers are also providing independent cost assurance services.

To date, the Alliance model worked well through Phase 1 to meet the target dates. Phase 2 with the TOC in place is also working well with NCTIR delivering the projects at lower than the TOC budget.

Other governance

The Restoration Liaison Group (RLG) consists of the Transport Agency, KiwiRail, local councils, Department of Conservation, Environment Canterbury, Heritage NZ, iwi, and Ministry for the Environment. The RLG helps to inform the design, management and monitoring of all construction works. The RLG group meets monthly and as required.

4. What deadlines have contractors on the Kaikoura highway rebuild missed?

As at January 2019, contractors have achieved all but two milestones set for Kaikoura SH1. The late milestones were due to the increase in size of the road tunnels, South of Kaikoura, which was completed two months later and the setting of the TARP (Trigger Action Response Plan) back to business as usual – this is now regularly revised since December 2018.

5. What liquidated damages are or have been necessary? If so, please specify what contractor it involved, what part of the project it related to, and what the revised finish date is for it?

NCTIR is an alliance contract and liquidated damages therefore do not apply, as all parties work together to achieve the same end goals.

6. Please provide a list of revised finish dates for each part of the project not yet completed.

The SH1 recovery work is expected to be completed before December 2019. Other work (of which some may be further rebuild work) in the NCTIR programme will continue in to 2020.

7. If liquidated damages are not being used, what measures are NZTA using to ensure the project is completed within budget and within the timeframe?

In our alliance framework, we use Key Result Areas (KRAs) and Key Performance Indicators (KPIs) to determine the Overall Performance Score (OPS) that drives performance. All our work is underpinned by value for money and monthly financial reports. This reporting includes details around each project's variance to the agreed Target Outturn Cost, which was set at the time of the NCTIR Variation Agreement being signed. Milestones are clearly defined and again this is monitored via the overall programme. At this stage, all SH1 recovery work will be completed on time and within budget.

If you would like to discuss this matter further with the Transport Agency, you are welcome to contact Frances Adank, Media Manager by email at Frances.Adank@nzta.govt.nz or on (021) 705 613.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'W. Oldfield', with a long horizontal stroke extending to the right.

Wayne Oldfield
Senior Manager, System Management