

## Implementing the Capital Investment Package

|                                 |   |
|---------------------------------|---|
| <b>Reason for this briefing</b> | To provide you with the final advice required to enable the announcement of the transport aspects of the Capital Investment Package.  |
| <b>Action required</b>          | <b>Agree</b> to the appropriations, project details and the process for implementing the package.<br><br><b>Sign</b> the attached letters to the Chairs of the NZ Transport Agency and KiwiRail, and the Mayor of Auckland. |
| <b>Deadline</b>                 | 21 January 2020.  |
| <b>Reason for deadline</b>      | To ensure that the necessary details are finalised to support announcements by the Prime Minister in January 2020.  |

### Contact for telephone discussion (if required)

To protect the privacy of individuals

| Name            | Position  | Telephone  | First contact |
|-----------------|---|------------|---------------|
| Helen White     | Manager Investment, Ministry of Transport                           | ██████████ | ✓             |
| Matt Skinner    | Senior Adviser, Investment, Ministry of Transport                   | ██████████ |               |
| Matthew Gilbert | Director, Commercial, Infrastructure and Urban Growth, The Treasury | ██████████ |               |
| Gerald Lee      | Analyst, National Infrastructure Unit, The Treasury                 | ██████████ | ✓             |

|                   |   |                         |                        |
|-------------------|---|-------------------------|------------------------|
| <b>Date:</b>      | 17 January 2020   | <b>Briefing number:</b> | OC191303<br>T2019/4158 |
| <b>Attention:</b> | Hon Grant Robertson (Minister of Finance)<br>Hon Phil Twyford (Minister of Transport) | <b>Security level:</b>  | SENSITIVE              |

### Minister of Transport's office actions

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> <i>Noted</i>        | <input type="checkbox"/> <i>Seen</i>                 | <input type="checkbox"/> <i>Approved</i>            |
| <input type="checkbox"/> <i>Needs change</i> | <input type="checkbox"/> <i>Referred to</i>          |   |
| <input type="checkbox"/> <i>Withdrawn</i>    | <input type="checkbox"/> <i>Not seen by Minister</i> | <input type="checkbox"/> <i>Overtaken by events</i> |

## Purpose of report

1. In our previous advice (OC191252 and T2019/4016 refers), the Ministry of Transport and Treasury undertook to provide Joint Ministers with further advice to enable announcement of the Capital Investment Package (the package). This includes:
  - 1.1. finalising the details of the package
  - 1.2. letters to the Chairs of Waka Kotahi NZ Transport Agency (the Transport Agency) and KiwiRail directing them to implement the package
  - 1.3. setting out the expectations for the Transport Agency and KiwiRail in relation to the delivery of the package
  - 1.4. developing a governance and monitoring approach for the delivery of the package
  - 1.5. establishing the required appropriations.

## Further advice on the list of projects

2. In response to our previous advice, you confirmed the list of projects for delivery. However, we seek further decisions from you on the list as we understand a new project has been added and some aspects of other projects require consideration.

*The Wellington rail project has been added to the list*

3. On 13 January 2020, KiwiRail and the Transport Agency were advised that Ministers requested that a new project be added to the list. KiwiRail has provided advice on the project, which includes three main components, totalling \$211 million.
  - 3.1. Wellington Metro Upgrade Programme VI (\$70 million) – to improve the efficiency of the approaches to Wellington station.
  - 3.2. Wairarapa and Capital Connection infrastructure improvements (\$126 million) – to improve and increase the frequency of services between Wellington and Masterton/Palmerston North.
  - 3.3. Refurbishment of Wairarapa and Capital Connection rolling stock (\$15 million) – to ensure sufficient levels of service before the above infrastructure improvements are implemented.
4. These are the next priority improvements available on the Wellington metro rail network, and are signalled as such in the Draft New Zealand Rail Plan. However, they are not included in the Resilient and Reliable scenario that is prioritised for funding over the next 10 years. We recommend prioritising this project only if the Government is fully committed to deliver the Rail Plan's higher priority aspects through other Government funding sources.

*There are some aspects of projects that require further consideration*

5. In preparing the communications material to support announcements, the Transport Agency has provided information that requires further decisions from Joint Ministers on the composition and treatment of the package. The following information might impact on the final list of projects for delivery.

6. The Transport Agency has indicated that the \$33 million Baypark to Bayfair walking and cycling project is already underway, being delivered through the existing associated road project, funded through the National Land Transport Fund (NLTF). We recommend removing it from the package.
7. The package has been developed on the basis that it includes only capital expenditure. From an accounting perspective, this means only Crown assets (state highways and KiwiRail-owned parts of the rail corridor) are eligible for investment. However, the Transport Agency has identified that some of the projects on the previous list include investment in local authority assets. This constitutes operating expenditure. If it remains a priority to only include capital expenditure, we recommend the following.
  - 7.1. Ladies Mile Park and Ride facilities (Queenstown) — this is a small project (\$5 million) relative to the other investment in Queenstown projects (a total of \$85 million). If Ministers wish to ensure the Crown's investment in the package remains capital expenditure only, the Park and Ride facilities would need to be removed. It remains an integral part of Queenstown's transport improvements and we expect that Queenstown Lake District Council (QLDC) would support and progress the Park and Ride facilities through its Regional Land Transport Plan, with delivery through the National Land Transport Programme in a timeframe that is consistent with the delivery of the wider package. We therefore recommend it be left off the list of projects being delivered through the package.
  - 7.2. Melling Bridge over the Hutt River — the existing bridge is a local road. The Transport Agency advises that it can assume ownership of the new bridge by declaring it as a state highway. This means any investment into it would be capital expenditure, not operating expenditure. This is the same process that will be used for the Crown to assume ownership of the Penlink and Mill Road projects in Auckland. A consequence of this is that that future maintenance of the projects will be the Transport Agency's responsibility.
  - 7.3. Drury railway stations — Auckland Transport (AT) would traditionally be the asset owner and currently has the Requiring Authority to place a designation over the land under the Resource Management Act 1993 (RMA). Contributing to AT's investment in these projects would therefore be operating expenditure. However, we understand that the Transport Agency or KiwiRail could assume responsibility for building, owning, and operating these stations, but the mechanism for doing so and appropriate ownership arrangements require further investigation. We also note that this would be more complex from an operational standpoint compared to AT owning and operating the stations. We will provide you with further advice on options for the Crown to retain ownership of these assets. The project would still form part of the forthcoming announcements.
8. If you agree to the changes we have recommended, the total package would be \$6.706 billion, made up \$5.809 billion of roading, public transport, and walking and cycling projects to be delivered by the Transport Agency (which includes the funding for the Drury railway station projects), and \$0.897 billion of rail projects delivered by KiwiRail. The remaining \$0.094 billion would be held as contingency to help manage any cost increases across the Transport Agency's aspects of the package, and will only be used upon agreement by Joint Ministers.

## Letters to the Chairs of the Transport Agency and KiwiRail are attached

9. We have drafted letters to the Boards of the Transport Agency and KiwiRail requesting implementation of the package, and setting out Ministerial expectations. The draft letters assume you have agreed to the changes we have recommended to the list of projects. They also reflect the advice set out in the remainder of this report, as well as previous decisions you took in December 2019.

## There are cost escalation risks associated with the package

10. The package includes different types of projects that are at various stages of development. For example, some already have complete detailed business cases, and will therefore have relatively reliable cost estimates, while others have further pre-implementation, consenting and design work, and are therefore subject to greater scope and cost changes. The Transport Agency has varying confidence in the cost estimates given the considerations above. It estimates an overall cost risk of \$200–\$300 million above the total currently allowed for the projects it will be responsible for.
11. KiwiRail advises that it has reasonable confidence in its cost estimates given there has been a large level of design and pre-implementation work already undertaken on all of its projects in the package.
12. Despite the above, we consider that transport infrastructure projects have a high tendency for cost increases over the project's lifetime. As a result, there are significant cost escalation risks associated with the package, particularly when the available funding is fixed rather than a range or flexible target.
13. The previous briefing assumed a \$300 million contingency to help manage cost risks, which would have provided some mitigation against cost increases. Given the addition of the Wellington rail project, there is now a contingency of \$94 million, or around 1.5 percent of the total package.
14. A contingency of this size is small relative to the cost risk the package faces. You previously agreed to an initial approach for managing cost overruns associated with the package. This process is reflected in the attached letters, and includes the ability for Ministers to consider prioritising through the Government Policy Statement on land transport (GPS) 2021 up to \$200 million from the NLTF per year towards cost increases from the package. While this reflects the fact that the package results in savings over the 10 years of GPS 2021 of around \$2 billion, using this mechanism could put some of the other GPS 2021 priorities at risk. There is a possibility that further Crown funding may be required in order to deliver the package whilst achieving your broader transport priorities.
15. Establishing a clear governance and monitoring approach will allow officials to identify cost escalation risks early and provide you with options on how to deal with these (as outlined below).

## Establishment Report to define an agreed understanding for the package

16. We recommend directing the Transport Agency and KiwiRail to develop an Establishment Report that will be used as an initial understanding between Ministers and departments of what the package entails. The report should set out for each project:
  - 16.1. the cost of the project, including any underlying assumptions

- 16.2. the scope of the project, including:
    - 16.2.1. core project assumptions
    - 16.2.2. route and design details
  - 16.3. the key project timeframes, including:
    - 16.3.1. next milestones
    - 16.3.2. construction start
    - 16.3.3. construction completion
  - 16.4. any potential risks or challenges to the successful delivery of the project
17. We expect that details in the Establishment Report will change as projects are further developed. However, regular updates through future reporting can compare any changes against the initial Establishment Report. This will ensure that Ministers have a clear understanding of what has changed relative to what was signed up to, including for future cost increases.

**We recommend a clear governance and monitoring approach to ensure efficient delivery**

18. Robust governance and monitoring arrangements are critical to ensure this investment is used in an effective and efficient way. This is particularly important given the significant scale and size of investment being progressed, including the potential risks associated with these types of programmes (e.g. scope adjustment, sector capability, financial overruns).
19. The Transport Agency has a strong track record in the delivery of complex transport infrastructure projects. However, the investment programme will involve the expenditure of significant Crown funding outside of the Transport Agency's normal investment process. In this case, the Transport Agency's primary role will be as the delivery agent for the package.
20. Some of the rail investment is part of what was already planned as part of the Draft New Zealand Rail Plan. The increase in capability requirements is already recognised as a step up within KiwiRail, and will present challenges that will require robust governance and monitoring arrangements. This is particularly the case for this package, where it will be important to deliver on the specific projects tagged for Crown investment.
21. We consider the following issues require consideration as part of the overall approach to enabling the delivery of the investment programme.
  - 21.1. **Governance and oversight structure** – for similar land transport investment programmes, the Ministry, on behalf of Ministers, has put in place governance arrangements to provide oversight of the expenditure of funding and delivery of projects. This is important where funding is Crown based and accountability for its use sits with Ministers as opposed to the relevant Board (for example, City Rail Link and the North Canterbury Transport Infrastructure Recovery).
  - 21.2. **Investment decision making and approval** – appropriate decision making processes will need to be put in place to support the approval of investment cases under the package. This includes ensuring that there is clarity on business case requirements that apply to the package, including where the approval for progressing



investment sits. As the funding for the package is coming directly from the Crown, it may be appropriate that the approval for progressing investments sits with Joint Ministers on advice from a supporting governance group. This also applies to managing potential cost increases across the package.

- 21.3. **Programme and project assurance** – as with similar investment programmes, we recommend that consideration be given to using external assurance expertise to monitor the delivery of projects. This approach has been used for the City Rail Link and the North Canterbury Transport Infrastructure Recovery. We will also need to ensure that Gateway assurance requirements are met as investment through the package is progressed.
- 21.4. **Capability and capacity** – it is important that both the Transport Agency and KiwiRail have a clear plan and the supporting capability to deliver the package. Additionally, the Transport Agency's 2018 Investor Confidence Rating highlighted issues around the Transport Agency's portfolio and programme management capability, which require ongoing focus.
22. Further work is required to develop a potential governance structure to support the programme, including determining the capability and funding to put this structure into place. Given the timeframes, we recommend developing and implementing the process after the announcements take place, and making it clear to the Transport Agency and KiwiRail in the meantime that there will be robust new processes. We will report back with further advice on monitoring following the completion of the Establishment Report.
23. The governance and monitoring of the \$6.8 billion package will increase operating expenses for the relevant departments. We will report back as part of the advice on the monitoring approach as to whether it will require funding increases, and how these might be implemented.

#### **We have set out the project by-project impact on the Auckland Transport Alignment Project (ATAP)**

24. As we advised in December 2019, the package will deliver a number of projects that would otherwise have been delivered through both the first and second decades of ATAP. ATAP sets expectations of what will be delivered and who will pay for Auckland transport projects. The package will directly impact the ATAP agreement. While the package is likely to be well received by Auckland Council and AT, the partnership nature and intent of ATAP means that these parties should be advised before announcing the funding for ATAP-related projects.
25. We recommend you write to the Mayor of Auckland to set out the ATAP projects that will be funded as part of the package and the need to review ATAP as a result of the package. ATAP agencies have already formed a view that ATAP needs a review in light of a number of policy changes including Auckland Council's Climate Action Framework, the recently published mode shift plan for Auckland, progress on identifying transport needs in the Drury area, and other housing and urban development priorities. We have drafted a letter which sets out these matters.
26. The numbers used in the ATAP agreement were modelled based on assumed projects, phasing and cost, which recognised that these factors were all subject to change. Using those initial assumptions (from early 2018) we can show the estimated impact of the package on ATAP.

27. The following table sets out the Auckland projects that are in the package, and how those projects were assumed to be funded in the initial ATAP modelling. The Crown package investment of \$3.481 billion in Auckland includes cost increases for some projects, compared to the cost assumptions when ATAP was agreed in April 2018. This totals \$0.74 billion, which is comprised of general cost increases, changes to projects and other assumed funding mechanisms (e.g. tolling and alternative funding for Penlink).

| Project  | Total cost in package (\$m) | ATAP decade 1 assumptions |                        | ATAP decade 2 (not yet agreed) |                        |
|--|-----------------------------|---------------------------|------------------------|--------------------------------|------------------------|
|  |                             | AT share (\$m)            | NLTF/Crown share (\$m) | AT share (\$m)                 | NLTF/Crown share (\$m) |
| Third Rail-Wiri to Quay Park Rail Corridor Improvements              | 315                         | 0                         | 173                    | 0                              | 0                      |
| Papakura to Pukekohe electrification                                 | 371                         | 0                         | 232                    | 0                              | 0                      |
| SkyPath & SeaPath  | 360                         | 0                         | 143                    | 0                              | 0                      |
| Drury Rail station development                                       | 247                         | 0                         | 0                      | 0                              | 247                    |
| Penlink  | 411                         | 98                        | 102                    | 0                              | 0                      |
| Mill Road  | 1,354                       | 242                       | 258                    | 416                            | 433                    |
| Papakura to Bombay stage 1 (Papakura to Drury including interchange) | 423                         | 0                         | 394                    | 0                              | 0                      |
| <b>Total</b>   | <b>3,481</b>                | <b>340</b>                | <b>1,302</b>           | <b>416</b>                     | <b>680</b>             |

28. The assumptions above show that the implementation of the package will result in \$3.481 billion of Crown investment in Auckland that aligns with ATAP. It directly saves Auckland a local share of \$340 million in decade 1 based on initial ATAP modelling.
29. It also reduces required NLTF expenditure by \$1.3 billion in decade 1 while still meeting ATAP commitments. We seek your guidance around the treatment of additional Crown investment in Auckland, and what the funding that is freed up from the NLTF should be prioritised towards. Options include:
- 29.1. treating the package as additional to the NLTF (i.e. the NLTF still funds \$16.3 billion of ATAP projects for decade 1)
- 29.2. using the package to create flexibility for the Transport Agency to reallocate funding to the next highest national priorities (i.e. NLTF plus Crown funding through the package for ATAP projects totals \$16.3 billion for decade 1).
30. The Ministry of Transport recommends that the Minister of Transport discuss this with officials at an upcoming meeting.

### Next steps

31. Following the announcements, we will engage with AT, the Transport Agency and KiwiRail to develop a proposed funding approach for the Drury rail stations, and will report back to Joint Ministers once this is complete.
32. The draft letters to the Transport Agency and KiwiRail direct them to report back to Ministers by 31 March 2020 with an Establishment Report setting out expectations for all of the projects in the package.

33. The Ministry of Transport and the Treasury will work together with the Transport Agency and KiwiRail to report back to you on a proposed governance and monitoring approach for the package by 30 April 2020.

### Recommendations

34. The recommendations are that you: Minister of Finance    Minister of Transport

#### *Adjustments to the list of projects*

- |     |   |        |        |
|-----|---|--------|--------|
| (a) | <b>agree</b> to remove the Baypark to Bayfair walking and cycling project from the package  | Yes/No | Yes/No |
| (b) | <b>agree</b> to remove the Ladies Mile Park and Ride project from the package   | Yes/No | Yes/No |
| (c) | <b>agree</b> to add the Wellington rail projects to the package   | Yes/No | Yes/No |
| (d) | <b>agree</b> that the remaining \$94 million be included in the Transport Agency's appropriation as contingency, but may only be used upon agreement by Joint Ministers upon advice from the governance group | Yes/No | Yes/No |
| (e) | <b>note</b> that officials will provide you further advice regarding options for progressing the Drury rail stations project as capital expenditure, following public announcements                           |        |        |

#### *Appropriation changes*

- |     |  |        |        |
|-----|--|--------|--------|
| (f) | <b>agree</b> to establish the following new appropriation: | Yes/No | Yes/No |
|-----|--|--------|--------|

| Vote      | Appropriation Minister | Title  | Type                                 | Scope  |
|-----------|------------------------|--|--------------------------------------|--|
| Transport | Minister of Transport  | Transport projects to support the Capital Investment Package | Non-Departmental Capital Expenditure | This appropriation is limited to investment in specified roading, walking, and cycling projects that support the objectives of the Capital Investment Package. |



- (g) **approve** the following changes to appropriations to give effect to the transport aspects of the investment package, with a corresponding impact on net core Crown debt: Yes/No Yes/No

|   | \$m - increase/(decrease) |                |                 |                 |               |                 |               |
|---|---------------------------|----------------|-----------------|-----------------|---------------|-----------------|---------------|
|   | 2019/20                   | 2020/21        | 2021/22         | 2022/23         | 2023/24       | 2024/25         | 2025/26       |
| <b>Non-Departmental Capital Expenditure:</b>            |                           |                |                 |                 |               |                 |               |
| Capital Investment Package – Roads, Walking and Cycling | 34.46                     | 298.75         | 754.89          | 815.51          | 878.63        | 1,010.99        | 766.37        |
| Rail – KiwiRail Holdings Limited                        | 30.54                     | 192.31         | 313.39          | 244.37          | 93.49         | 22.90           | -             |
| <b>Total Capital</b>                                    | <b>65.00</b>              | <b>491.06</b>  | <b>1,068.28</b> | <b>1,059.88</b> | <b>972.12</b> | <b>1,033.89</b> | <b>766.37</b> |
|   | <b>2026/27</b>            | <b>2027/28</b> | <b>2028/29</b>  | <b>2029/30</b>  |               |                 |               |
| <b>Non-Departmental Capital Expenditure:</b>            |                           |                |                 |                 |               |                 |               |
| Capital Investment Package – Roads, Walking and Cycling | 650.88                    | 217.34         | 116.33          | 111.86          |               |                 |               |
| Rail – KiwiRail Holdings Limited                        | -                         | -              | -               | -               |               |                 |               |
| <b>Total Capital</b>                                    | <b>650.88</b>             | <b>217.34</b>  | <b>116.33</b>   | <b>111.86</b>   |               |                 |               |

- (h) **agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply: Yes/No Yes/No
- (i) **agree** that the capital expenditure incurred in recommendation (g) above be funded from the previously agreed Capital Investment Package [CAB-19-MIN-0572 refers], rather than being charged against Budget allowances. Yes/No Yes/No
- (j) **agree** that a further \$247 million be appropriated once decisions have been taken on how to progress the Drury rail stations project Yes/No Yes/No

*Governance and monitoring*

- (k) **note** that a robust governance and monitoring approach will be required but will be developed following the announcement of the package

*Letters for signature*

- (l) **sign** the attached letter to the Chair of the Transport Agency Yes/No
- (m) **sign** the attached letter to the Chair of KiwiRail Yes/No Yes/No
- (n) **sign** the attached letter to the Mayor of Auckland Yes/No

*Funding*

- (o) **note** that there is a risk of cost increases for both individual projects and across the package as a whole that may not be able to be managed within the \$94 million (1.5 percent) contingency
- (p) **discuss** the preferred treatment of the package with respect to Auckland with Ministry of Transport officials to inform the review of the Auckland Transport Alignment Project and the Government Policy Statement on land transport 2021/22–2030/31 Yes/No

Helen White  
**Manager Investment  
Ministry of Transport**

Matthew Gibber  
**Director, Commercial, Infrastructure and  
Urban Growth  
The Treasury**

**MINISTERS' SIGNATURES:**

Hon Grant Robertson  
**Minister of Finance**

**DATE:** \_\_\_\_/\_\_\_\_/\_\_\_\_

Hon Phil Twyford  
**Minister of Transport  
Minister for Economic Development**

**DATE:** \_\_\_\_/\_\_\_\_/\_\_\_\_

Phil Goff  
Mayor of Auckland

Dear Phil

### **Transport infrastructure investments in Auckland**

As you will be aware, in December 2019 the Government announced \$12 billion of infrastructure investment, including \$6.8 billion for transport projects.

I am pleased to inform you that a significant amount of this new funding will be for transport projects in Auckland, totalling \$3.48 billion.

The Government is planning on announcing these projects on 29 January 2020, but I wanted to inform you, in confidence, beforehand given the significance of these investments to Auckland.

These are all projects that would otherwise have been delivered through both the first and second decades of the Auck and Transport Alignment Project (ATAP). Given the scale of funding that will be provided as part of the Government's infrastructure package and the impact this has on ATAP projects and funding sources, I consider this will require a review of ATAP.

The package includes some Auckland projects that will no longer require a local share as a result of the Government's investment. The package is about increasing total investment and I expect Auckland will continue to invest any funding it saves as a result of the package into transport projects.

I am aware that ATAP agencies have already formed a view that ATAP needed a review in light of a number of policy changes including Auckland Council's Climate Action Framework, the recently published mode shift plan for Auckland, progress on identifying transport needs in the Drury area, and other housing and urban development priorities.

I look forward to hearing from you and continuing to progress our ambitions for Auckland.

Yours sincerely

Hon Phil Twyford  
**Minister of Transport**  
**Minister of Economic Development**

Brian Corban  
Chair  
KiwiRail  
PO Box 593  
**WELLINGTON 6140**

Dear Brian

### **Delivery of the Capital Investment Package**

This letter seeks the Board's agreement to implement the Capital Investment Package (the Package), and provides the terms and conditions for implementation. We would appreciate confirmation in writing that these are acceptable to the KiwiRail Board.

As you will be aware, the Government has committed \$6.8 billion of appropriated funding to accelerate the construction of transport infrastructure projects.

This Crown funding is for a specific set of important projects where funding constraints mean construction would likely be delayed due to other priorities.

Due to KiwiRail's lead and expert role in procuring rail improvements, we would be grateful for it to act as the Government's agent for the rail aspects of the package.

### **Projects to be delivered**

KiwiRail projects to be delivered through the package are as follows.

- Third Rail – Wiri to Quay Park Rail Corridor Improvements
- Papakura to Pukekohe electrification
- Wellington rail projects

The Transport Agency is leading the Rolleston access improvements, as part of the Canterbury package, which includes some improvements to the rail network. KiwiRail will need to engage with the Transport Agency on the delivery of the rail aspects of this project, but the project and its reporting will be led by the Transport Agency.

The Drury rail stations project will also be delivered, but details will be finalised following the announcement of the package upon determining the delivery mechanism, and whether it will be led by the Transport Agency or KiwiRail. We expect KiwiRail to work with the Transport Agency, the Ministry of Transport, and the Treasury to identify options to progress the Drury rail stations project as capital expenditure.

## Establishment of the package

To ensure we have an agreed base for monitoring and reporting throughout implementation, it would be helpful for you to provide me with an Establishment Report by 31 March 2020. This will confirm KiwiRail's current expectations for each project, including:

- the cost of the project, including any underlying assumptions
- the scope of the project, including:
  - core project assumptions
  - route and design details
- the key project timeframes, including:
  - next milestones
  - construction start
  - construction completion
- any potential risks or challenges to the successful delivery of the project.

The Establishment Report will ensure a shared understanding between KiwiRail and Ministers of what the package will deliver. We acknowledge that given the early stages of some of the projects in the package, there may be changes to projects relative to what is currently expected. The Establishment Report ensures all parties are clear about current intentions, and enables monitoring of how and why these have changed over time.

## Funding and management of costs

The package includes \$0.897 billion to progress the projects listed above. Ministers have agreed to the establishment of a new annual appropriation, which you can draw down on to fund the work.

The necessary funding for the Drury rail stations project (\$0.247 billion) has not been appropriated, and Joint Ministers will approve the spending for that project once an adequate means to progress it is agreed.

Total costs have been estimated by KiwiRail officials, and the funding appropriated is expected to be sufficient to complete the full list of projects based on those estimates.

As with any project, particularly those at a pre-implementation stage, there is an element of cost risk. The following principles should guide funding decision-making.

- If a potential cost overrun is identified in which the cost exceeds the estimated cost outlined in the Establishment Report, KiwiRail must advise Joint Ministers as soon as practicable, including on potential funding, scaling, timing and scope options.
- For cost overruns on a specific project, funds should first come from underruns or savings made against other projects in the package.
- Where cost overruns are identified that cannot be managed across the package, we expect joint advice from KiwiRail, working closely with the Ministry of Transport and the Treasury, on the size of and reasons for the shortfall. The advice to Joint Ministers will include potential funding options, which should consider:

- supporting funding from the National Land Transport Fund where applicable (up to a maximum of \$200 million per year)
- other options, such as project or scope changes to reduce costs
- increased funding from the Crown.

Cost savings that do not impact on project scope or timing as outlined in the Establishment Report can be managed by KiwiRail and used to fund any overruns across the package. In the case of net savings across the package, Ministers will be responsible for decisions as to the appropriate course of action.

The package, along with the Government's other ambitions for rail, represents a step change in rail construction. This could add pressure in the longer term on rail maintenance and operations budgets. This will be taken into account in taking future funding decisions.

### **Governance, monitoring and reporting**

As this is the Crown's largest infrastructure investment, the governance, monitoring and reporting approach will be tailored to ensure Ministers have sufficient oversight and confidence in the delivery of the package. The Minister of Transport has directed the Ministry of Transport to work with the Treasury, the Transport Agency and KiwiRail to develop an enduring approach that will ensure the Crown's funding is spent efficiently and effectively.

Core components of the approach will include:

- a governance and oversight structure that will ensure clear roles and responsibilities
- ensuring that key investment decisions sit with the right decision makers
- programme and project assurance across the package
- clear oversight of capability of departments and the sector to deliver.

We expect KiwiRail to contribute to the development of this approach, and will advise you of the enduring arrangements by 30 April 2020.

### **Timing**

The primary objective of the package is to complete the identified projects as efficiently and effectively as possible. Prior to fully establishing the governance, monitoring and reporting arrangements, sufficient funding will be made available immediately to make as much progress as possible until the enduring processes are developed and in place.

### **Communication**

The package demonstrates the Government's commitment to support the development of the New Zealand transport network, and is the largest Crown transport infrastructure investment package for transport in recent history. Significant milestones, such as the decision to proceed to construction, the receipt of consenting approval, or ground breaking, are opportunities to reinforce this purpose. KiwiRail will provide advanced notice of opportunities of this nature and provide information to support media announcements from the Office of the Minister of Transport.

Operational communications on any aspect of the package will be undertaken by KiwiRail in accordance with its usual practice.



We are confident KiwiRail will be able to deliver the package, consistent with the expectations set out here, and look forward to your favourable response.

Yours sincerely

Hon Grant Robertson  
**Minister of Finance**

Hon Phil Twyford  
**Minister of Transport**

**Copy:** Rt Hon Winson Peters  
**Minister of State Owned Enterprises**

Greg Miller  
**Group Chief Executive Officer, KiwiRail**

Peter Mersi  
**Chief Executive, Ministry of Transport**

Proactively released by the  
Ministry of Transport  
and Treasury

Sir Brian Roche  
Chair  
New Zealand Transport Agency Board  
Private Bag 6995  
**WELLINGTON**

Dear Sir Brian

### **Delivery of the Capital Investment Package**

This letter seeks the Board's agreement to implement the Capital Investment Package (the Package), and provides the terms and conditions for implementation. I would appreciate confirmation in writing that these are acceptable to the Waka Kotahi NZ Transport Agency (Transport Agency) Board.

As you will be aware, the Government has committed \$6.8 billion of appropriated funding to accelerate the construction of transport infrastructure projects. This funding supplements that administered by the Transport Agency under the Government Policy Statement on land transport (GPS).

This Crown funding is for a specific set of important projects where constraints on the National Land Transport Fund mean construction would likely be delayed due to other priorities.

Due to the Transport Agency's lead and expert role in procuring state highway improvements, I would be grateful for it to act as the Government's agent for the road elements of the package.

### **Projects to be delivered**

Transport Agency projects to be delivered through the package are as follows.

- SH58 Safety Improvements (stage 2)
- Auckland Harbour Bridge Shared Path and SeaPath
- Tauranga Northern Link
- SH1/SH29 Intersection upgrade (Waikato)
- SH1 Whangarei to Port Marsden
- SH2 Te Puna to Omokoroa (including Omokoroa Intersection)
- Penlink
- Mill Road full proposal (stage 1, 2 & 3 and Drury South Interchange)
- Melling
- Otaki to North of Levin
- Papakura to Bombay (stage 1 – Northern section)

- Canterbury package:
  - Brougham Street improvements
  - Rolleston access improvements
  - SH75 Halswell Road
- Queenstown package
  - SH6A corridor improvements
  - SH6A Ladies Mile corridor improvements
  - Grant Road to Kawarau Falls Bridge

The Drury rail stations project will also be delivered, but details will be finalised following the announcement of the package upon determining the delivery mechanism, and whether it will be led by the Transport Agency or KiwiRail. I expect the Transport Agency to work with KiwiRail, the Ministry of Transport, and the Treasury to identify options to progress the Drury rail stations project as capital expenditure.

### **Establishment of the package**

To ensure we have an agreed base for monitoring and reporting throughout implementation, it would be helpful for you to provide me with an Establishment Report, by 31 March 2020. This will confirm the Transport Agency's current expectations for each project listed above, including:

- the cost of the project, including any underlying assumptions
- the scope of the project, including:
  - core project assumptions
  - route and design details
- the key project timeframes, including:
  - next milestones
  - construction start
  - construction completion
- any potential risks or challenges to the successful delivery of the project.

The Establishment Report will ensure a shared understanding between the Transport Agency and Ministers of what the package will deliver. I acknowledge that given the early stages of some of the projects in the package, there may be changes to projects relative to what is currently expected. The Establishment Report ensures all parties are clear about current intentions, and enables monitoring of how and why these have changed over time.

### **Funding and management of costs**

The package includes \$5.562 billion to progress the projects listed above, plus an additional \$0.094 billion flexibility to manage any cost overruns on agreement of Joint Ministers. Ministers have agreed to the establishment of a new annual appropriation which you can draw down on to fund the work.

The necessary funding for the Drury rail stations project (\$0.247 billion) has not been appropriated, and Joint Ministers will approve the spending for that project once means to progress it have been agreed.

Total costs have been estimated by Transport Agency officials, and the funding appropriated is expected to be sufficient to complete the full list of projects based on those estimates.

As with any projects, particularly those in their pre-implementation stages, there is an element of cost risk. The following principles should guide funding decision-making:

- If a potential cost overrun is identified in which the cost exceeds the estimated cost outlined in the Establishment Report, the Transport Agency must advise Joint Ministers as soon as practicable, including on potential funding, scaling, timing and scope options.
- For cost overruns on a specific project, funds should first come from underruns or savings made against other projects in the package.
- Where cost overruns are identified that cannot be managed across the package, I expect the Transport Agency to contribute to joint advice from the Ministry of Transport and the Treasury, on the size of and reasons for the shortfall. The advice to Joint Ministers will include potential funding options, which should consider:
  - supporting funding from the National Land Transport Fund (up to a maximum of \$200 million per year)
  - other options, such as project or scope changes to reduce costs
  - increased funding from the Crown.

Cost savings that do not impact on project scope or timing as outlined in the Establishment Report can be managed by the Transport Agency and used to fund any overruns across the package. In the case of net savings across the package, Ministers will be responsible for decisions as to the appropriate course of action.

The package represents a significant step change in road construction. Advice from Transport Agency officials is that the construction sector will have capacity to deliver it, but any change and consequences relating to this should be communicated to Joint Ministers as soon as it materialises. The increase in construction will also add pressure in the longer term on road maintenance and operations budgets. This will be taken into account in developing future activity class funding ranges for the GPS.

### **Governance, monitoring and reporting**

As this is the Crown's largest infrastructure investment, the governance, monitoring and reporting approach will be tailored to ensure Ministers have sufficient oversight and confidence in the delivery of the package. I have directed the Ministry of Transport to work with the Treasury, the Transport Agency and KiwiRail to develop an enduring approach that will ensure the Crown's funding is spent efficiently and effectively.

Core components of the approach will include:

- a governance and oversight structure that will ensure clear roles and responsibilities
- ensuring that key investment decisions sit with the right decision makers
- programme and project assurance across the package
- clear oversight of capability of departments and the sector to deliver.

I expect the Transport Agency to contribute to the development of this approach, and I will advise you of the enduring arrangements by 30 April 2020.

## Timing

The primary objective of the package is to complete the identified projects as efficiently and effectively as possible. Prior to fully establishing the governance, monitoring and reporting arrangements, sufficient funding will be made available immediately to make as much progress as possible until the enduring processes are developed and in place.

## Communication

The package demonstrates the Government's commitment to support the development of the New Zealand transport network, and is the largest Crown transport infrastructure investment package for transport in recent history. Significant milestones, such as the decision to proceed to construction, the receipt of consenting approval, or ground breaking, are opportunities to reinforce this purpose. The Transport Agency will provide advanced notice of opportunities of this nature and provide information to support media announcements from the Office of the Minister of Transport.

Operational communications on any aspect of the package will be undertaken by the Transport Agency in accordance with its usual practice.

I am confident the Transport Agency will be able to deliver the package, consistent with the expectations set out here, and look forward to your favourable response.

Yours sincerely

Hon Phil Twyford  
**Minister of Transport**

**Copy:** Hon Grant Robertson  
**Minister of Finance**

Mark Ratcliffe  
**Chief Executive, NZ Transport Agency**

Peter Mersi  
**Chief Executive, Ministry of Transport**