

16 December 2020

OC201001

Hon Michael Wood
Minister of Transport

cc Hon Robertson
Minister of Finance

NEW ZEALAND UPGRADE PROGRAMME -PRE-HOLIDAY UPDATE AND INTERIM COMMITMENTS

Purpose

Provide you a brief update on the New Zealand Update Programme and an updated letter to send to Delivery Agencies requesting they consult with you on any major commitments across the programme happening early in the New Year that might limit the ability to make trade-offs in 2021.

Key points

- The NZUP Oversight Group (OSG) met on 9 December. You will receive a more detailed report early in the New Year after consultation with Delivery Agencies.
- Costs and risks have increased since the November update. At the December OSG meeting it was noted the total preliminary estimated cost across four of the “first five” projects has increased to \$1.842 billion since November, nearly 40 percent over the initial allocation of \$1.320 billion. The four projects are Takitimu North Link Stage 1, Northern Pathway, State Highway One Papakura to Drury South, and State Highway 58 Safety Improvements. Penlink, which has an allocation of \$411 million, is undergoing a review and emerging findings suggest significant cost pressures to the project as well. If no more funding is to be made available, then delivering these projects under current estimates means trade-offs are required in the Programme’s remaining 22 projects.
- At the December meeting of the OSG, Delivery Agencies also set out some more moderate expectations for the baselining process. We will update you on this in the New Year, but it is possible that the information available by the end of March will be less detailed than initially expected.
- Alongside the baselining process, a number of commitments are scheduled for the coming months that may be significant in the context of the wider programme. These include business case decisions, advance property purchases, committing to contracts, public announcements, and board decisions.
- For example, in February, Waka Kotahi will award the physical works design contract for Takitimu Northern Link Stage 1. This project has recently experienced a cost increase of approximately 20% taking it to over \$500m and still has significant design work to

complete. This may result in additional costs being incurred as the design progresses and the scope is fully resolved. Progressing this project could limit options across the Programme overall and it may be costly to walk this decision back (through cancelled or amended contracts). This may also impact public and market perception of both the project and the Programme. Before any such commitments are made, you may wish to ensure that at a minimum you are informed and consulted on any such decisions any provided with clear implications on project and programme impact.

- We understand that momentum is a high priority and Delivery Agencies are proceeding with this direction. In addition to being informed and consulted, you may also wish to set some updated preferences for how the balance between risk and momentum is struck, and this paper provides an option to set this expectation in the near term.
- We have attached the previously provided letter to Delivery Agencies (Annex 1 of OC200807 refers) with an additional paragraph that indicates a preference that Delivery Agencies maintain momentum, but either avoid making commitments that could limit your choices in the baselining process, or inform and consult with you on any major commitments that cannot reasonably be avoided. The obligation would be on Delivery Agencies to do this consistent with the 6 August 2020 delegation letter, which requests that Joint Ministers are involved in decisions with any significant changes to cost estimates that are expected to impact the delivery of the Programme within the Crown funding envelope. The objective of this is not to intervene in Project level decisions that Delivery Agencies are best placed to make, but ensure decision rights are preserved around decisions that impact Crown objectives across the Programme.
- As an alternative, you may wish to require that any such decisions are undertaken following baselining, when there will be a better understanding of the scope, costs, benefits, and schedule of this project and the wider Programme.
- We have engaged with Waka Kotahi and they are providing advice to you that sets out upcoming decisions and commitments. This advice could provide background to engage with Waka Kotahi on balancing momentum with risks regarding significant decisions if you wish.

Recommendations

We recommend you:

- | | |
|---|----------|
| 1 forward the attached letters to the Minister of Finance's office for his signature | Yes / No |
| 2 sign the attached letters and send them to the Delivery Agencies | Yes / No |

Bryn Gandy
**Deputy Chief Executive, System
Strategy and Investment**

..... / /

Hon Michael Wood
Minister of Transport

..... / /

IN CONFIDENCE

- Minister's office to complete:
- Approved Declined
- Seen by Minister Not seen by Minister
- Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Tim Holland, Senior Advisor, Investment	[REDACTED]	✓
Bryn Gandy, Deputy Chief Executive, System Strategy and Investment	[REDACTED]	

To protect the privacy
of individuals

ANNEX 1

Sir Brian Roche
Chair
Waka Kotahi NZ Transport Agency Board
Private Bag 6995
WELLINGTON

Dear Sir Brian

New Zealand Upgrade Programme – Transport baselining and delegation

We (Joint Ministers) would like to acknowledge Waka Kotahi NZ Transport Agency's (Waka Kotahi) ongoing work on the delivery of the transport component of the New Zealand Upgrade Programme (NZUP). The NZUP will deliver a number of critical projects that will help future proof the economy, get our cities moving, and make our roads safer.

Baselining the NZUP

As with a programme of this nature and scale, it's important that we have a sufficient understanding of how the NZUP, and the supporting projects are being scoped and developed, and how this aggregates to the programme level. This will enable us to make timely and critical decisions on programme-level trade offs, and avoid project-level risks.

It is therefore a priority for us to see a full and robust baseline established for NZUP by March 2021. This is required to establish a clearer and better defined view of the scope, benefits, costs, outcomes, and delivery schedules for each of the projects, and the overall programme.

The Ministry of Transport (the Ministry) and the Treasury, advised by the NZUP Oversight Group, will work with you to develop the baseline for the NZUP. As the baseline is being established, we expect Waka Kotahi and KiwiRail (the delivery agencies) to keep us, the Ministry and Treasury informed of risks as they arise and how they are being managed; any significant variations from the Establishment Reports; and of the progress and content of the baselining process.

The Ministry and Treasury, supported by the NZUP Oversight Group, will provide more specific guidance on the level of information that will be required to form a robust baseline for the NZUP.

Delivery agencies must also keep us, the Ministry and Treasury informed of any significant decisions or actions that could impact the overall delivery of the NZUP within the funding envelope. This is important for ensuring that we have confidence that the delivery agencies are not making decisions outside of their delegation, or that will potentially trigger a threshold breach at a future point in time.

As we stated in our letters of January 2020 and August 2020, our expectation is that the transport projects are delivered within the fixed funding envelope of \$6.8 billion across both Waka Kotahi and KiwiRail. We are operating in a fiscally constrained environment, particularly as a result of the impacts from COVID-19. This means that it is critically

important that the NZUP is sufficiently well scoped and defined so we are clear on both what we are purchasing through each of the projects, and the associated costs and benefits.

There are limited alternatives to managing unforeseen funding pressures across the NZUP, given the significant pressures on the National Land Transport Fund and the wider Crown balance sheet more generally. Our letter of January 2020 sets out options that may be considered, including making trade-offs within the NZUP, but you should not presume that any particular one of these would be used at this early stage. Delivery agencies, with the NZUP Oversight Group, will need to discuss these matters with us.

Our expectation is that delivery agencies should maintain momentum in the delivery of the NZUP. However, across the duration of the baselining process, delivery agencies should avoid making commitments that could limit our ability to make decisions on matters such as scope, cost, and schedule later on. Delivery agencies should also advise us of any commitments, such as the awarding of contracts, which cannot be reasonably be avoided.

Strong engagement with the NZUP Oversight Group will be important to ensure officials can support Waka Kotahi and KiwiRail to successfully deliver the programme. Joint Ministers would welcome the Chairs of Waka Kotahi and KiwiRail engaging with the NZUP Oversight Group, particularly as the baseline for the programme is established.

Delegations and sub-delegations

This letter reconfirms, as stated in our letter of 6 August 2020, that we agree to delegate the individual project level decisions in the Programme to the Waka Kotahi Board. For clarity, noting s98(3) of the Land Transport Management Act 2003, the Minister of Transport consents to the Waka Kotahi Board sub-delegating these decisions in accordance with an appropriate delegation framework being in place to manage these decisions.

Thank you again for your continued commitment and support in progressing this nationally significant programme of investment.

Yours sincerely

Hon Grant Robertson
Minister of Finance

Hon Michael Wood
Minister of Transport

Copy: Nicole Rosie
Chief Executive, Waka Kotahi NZ Transport Agency

Peter Mersi
Chief Executive and Secretary for Transport

Dr Caralee McLiesh
Chief Executive and Secretary to the Treasury

ANNEX 2

Brian Corban
Chair
KiwiRail
PO Box 593
WELLINGTON 6140

Dear Brian

New Zealand Upgrade Programme – Transport baselining

We (Joint Ministers) would like to acknowledge KiwiRail's ongoing work on the delivery of the transport component of the New Zealand Upgrade Programme (NZUP). The NZUP will deliver a number of critical projects that will help future proof the economy, get our cities moving, and make our roads safer.

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Thank you again for your continued commitment and support in progressing this nationally significant programme of investment.

Yours sincerely

Hon Grant Robertson
Minister of Finance

Hon Michael Wood
Minister of Transport

Copy: Hon Dr David Clark
Minister for State Owned Enterprises

Greg Miller
Group Chief Executive Officer, KiwiRail

Peter Mersi
Chief Executive and Secretary for Transport

Dr Caralee McLiesh
Chief Executive and Secretary to the Treasury