

Implementing the New Zealand Upgrade Programme

Reason for this briefing	To provide you with a submission for a late Budget initiative to fund the establishment and delivery of a governance and monitoring approach for the New Zealand Upgrade Programme.
Action required	Submit a new cost pressure for the New Zealand Upgrade Programme in your letter to the Minister of Finance on late Budget initiatives, and share this briefing with the Minister of Finance.
Deadline	28 February 2020.
Reason for deadline	The Treasury has requested that all late Budget initiatives are submitted as soon as possible so they can complete final assessments and provide advice to the Minister of Finance by 28 February 2019.

To protect the privacy of individuals

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Helen White	Manager, Investment	[REDACTED]	✓
Marcus Sin	Senior Advisor, Investment	[REDACTED]	
Paul Laplanche	Chief Financial Officer	[REDACTED]	

Date:	26 February 2020	Briefing number:	OC200119
Attention:	Hon Phil Twyford (Minister of Transport)	Security level:	In-Confidence

Minister of Transport's office actions

- Noted*
 Seen
 Approved
- Needs change*
 Referred to
- Withdrawn*
 Not seen by Minister
 Overtaken by events

Purpose of report

1. In our previous advice (OC191303 refers), we agreed to provide the Minister of Finance and Minister of Transport (Joint Ministers) with further advice to support implementation of the New Zealand Upgrade Programme (NZUP). The purpose of this briefing is to:
 - 1.1. advise on our approach for governance and monitoring for the NZUP
 - 1.2. outline the Ministry's resourcing needs to ensure the Crown has effective governance and monitoring of the NZUP
 - 1.3. seek your approval to lodge a late Budget initiative for consideration in Budget 2020.
2. We will provide Joint Ministers with further advice in March 2020 covering the other aspects of the NZUP that you need to consider.

The existing proposals for governance and monitoring do not provide Joint Ministers with a sufficient level of assurance

3. The \$6.8 billion NZUP package will be the largest single Crown contribution to transport projects in recent years. A robust governance and monitoring framework for the programme is critical to ensure that this investment is used in an effective and efficient way.
4. The NZUP is Crown investment and accountability for its use sits with Joint Ministers through the Ministry of Transport. For similar transport investment programmes, the Ministry of Transport, on behalf of Ministers, have put in place governance arrangements to provide oversight of the expenditure of funding and delivery of projects.
5. We understand Waka Kotahi the NZ Transport Agency (the NZTA) and KiwiRail have had initial discussions about their internal governance and monitoring approach for the NZUP. While this is encouraged, given the nature and scale of the investment, we recommend additional arrangements are put in place to provide Ministers with assurance that the programme will deliver the expected outcomes.
6. The Ministry and Treasury have agreed in principle an assurance based oversight approach for the NZUP.
7. The Ministry has seen the previous benefit of using assurance based oversight groups in supporting the delivery of large scale, Crown funded infrastructure projects. This was the case in the Kaikoura Rebuild project, where the Ministry supported the implementation of an oversight group and a framework for independent assurance to ensure the delivery of Ministerial outcomes.
8. This arrangement enabled the delivery of cost savings and supported a more holistic approach to identifying and managing the risk across the programme. Through active monitoring, risk assessment and regular reforecasts of expenditure, agencies were able to secure up to \$300 million of additional cash flow funding to support KiwiRail expenditure and reallocate \$100 million within the original budget to additional works in the project.
9. The Kaikoura Rebuild Oversight Group has carried out a lessons-learned process which included all the agencies and the Ministry would incorporate many of these lessons in the new governance arrangements for the NZUP.

The Ministry is developing its assurance based oversight approach

10. We consider the key principles for the governance and monitoring approach of the NZUP are to:
- maintain oversight while not duplicating or crossing over the agencies' respective roles in the programme
 - focus on a general level of governance and assurance and not on decision making
 - identify key issues across the programme, particularly around governance, delivery, cost escalation and management
 - recognise the Ministry of Transport's 'purchaser' role in the programme on behalf of Joint Ministers.
11. We consider that the key feature of an assurance based oversight approach is that it can interrogate the delivery agencies' own governance and reporting material. Additional assurance would be commissioned through an experienced external person only in cases where the reporting to the delivery agencies' own governance structure is not sufficient. How this approach would work in practice:

Initial considerations	Ministry advice
A NZUP Oversight Steering Group	<p>The purpose of the Oversight Group is to provide general assurance. The group would:</p> <ul style="list-style-type: none"> • monitor and advise Joint Ministers on overall delivery, expenditure and risk across the programme • ensure projects and the programme is delivering on the intended outcomes Joint Ministers are seeking • commission any external assurance that may be required either across the programme as a whole or individual projects where concerns arise • receive any notifications where Gateway reviews identify concerns or risks that need to be actively managed.
	<p>The Oversight Group will:</p> <ul style="list-style-type: none"> • be led by the Ministry of Transport • include representatives from Treasury, NZTA and KiwiRail • have an external expert with infrastructure and investment experience • consider involving New Zealand Infrastructure Commission officials.
	<p>The Oversight Group would have the ability to seek more assurance, advise Joint Ministers on risks and concerns, and provide advice on approval and the release of funding.</p>
	<p>The Oversight Group would identify projects of high risk or interest and tailor a more targeted level of oversight and assurance for these projects.</p>
Appointment of an external independent assurance advisor	<p>The role of the external advisor is to report to the Oversight Group. The focus of this role is not to directly manage projects but to provide advice on general risk, assurance and delivery issues in order to support the governance conversations on both the portfolio (i.e., all projects) and high risk projects or projects of interest that has been identified by the NZUP Oversight Group.</p>

Initial considerations	Ministry advice
Technical experts and support	The Ministry would need to take on internal resources to support its assurance capability, including a Programme Manager, advisory support and administration support.
A requirement to ensure Gateway is consistently applied	All projects will need to go through a Risk Profile Assessment which will determine what projects need to be Gateway reviewed. Gateway would also be applied to the overall programme and the Ministry of Transport's role in the programme as a whole.

We recommend you submit a late Budget initiative now to meet the anticipated governance and monitoring costs for the programme

12. As we advised in January 2020, the governance and monitoring of the \$6.8 billion package will increase the operating expenses for the Ministry of Transport over and above its existing resources.
13. We are confident that this assurance approach will deliver value to the Crown and support effective delivery of the programme. In order for the oversight approach to be most effective, the governance arrangements would need to be in place as soon as practicable.
14. We recommend that you submit a Budget initiative for tagged contingency funding now so that the initiative can be considered in Budget 2020. The funding sought is outlined below, and further detail is appended in the Budget initiative (which will be submitted to Treasury).

Input – Operating	Funding profile (\$m)					Total
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	
Total	0.68	2.79	2.64	2.68	2.71	11.50

15. This investment will ensure that the Ministry is well placed to provide Joint Ministers with the level of assurance needed on the delivery of Ministerial outcomes in the NZUP, including the specific projects within the programme. The Ministry will also be able to take a more proactive role in identifying and escalating risks, both from a funding and delivery perspective.
16. If additional funding is not secured, we will reassess how oversight and assurance could be provided to Joint Ministers. Our ability to provide suitable and effective governance and monitoring would be limited due to resourcing constraints.
17. Without the right level of oversight, there are risks of cost overruns, scope adjustments, and limited sector capability to deliver the projects. Failure to deliver the projects to its agreed outcomes has the potential to result in the Crown incurring higher costs over the longer-term.

Next steps

18. The Ministry and Treasury will work together with the NZTA and KiwiRail to report back to you on a confirmed approach for governance and monitoring for the NZUP by 30 April 2020.

19. If you support progressing the late Budget initiative, you will need to write to the Minister of Finance seeking approval for the late Budget initiative (and lodge the Budget initiative with the Treasury). We have prepared a draft letter for the Minister of Finance's consideration, which also incorporates the other late initiatives (which you have received separately).
20. The Treasury will assess the late initiatives and submit its assessment and recommendation to the Minister of Finance by 28 February 2019.

Recommendations

21. The recommendations are that you:

- (a) **note** that officials will provide further advice on governance and monitoring of the NZUP by 30 April 2020
- (b) **note** the Treasury agrees in-principle to the Ministry of Transport's approach to governance and monitoring of the New Zealand Upgrade Programme and the submission of a late Budget initiative for resourcing
- (c) **agree** to submit a late Budget initiative for the resourcing needs for governance and monitoring of the New Zealand Upgrade Programme Yes/No
- (d) **sign** the attached letter to the Minister of Finance Yes/No
- (e) **agree** to share this briefing and attached letter with the Minister of Finance Yes/No

Helen White
Manager Investment

MINISTER'S SIGNATURE:

DATE:

BUDGET-SENSITIVE

Hon Grant Robertson
Parliament Buildings
WELLINGTON

Dear Minister,

I am seeking your agreement to include three late initiatives for the Vote Transport portfolio for consideration as part of Budget 2020. The initiatives are:

- City Centre to Māngere light rail – development phase
- Governance and monitoring for the New Zealand Upgrade Programme
- Enhancing access to driver licencing to reduce transport disadvantage

Total amount of funding sought

City Centre to Māngere light rail – development phase

Operating funding sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	Total
	3.000	27.500	-	-	-	30.500

As you are aware, Cabinet will soon be taking decision on the Government's preferred delivery partner to deliver the City Centre to Māngere (CC2M) light rail project. Following this, the Ministry will lead a period of exclusive negotiation with the preferred delivery partner up until contractual close. This process will involve experienced negotiators, applying strong commercial disciplines. The CC2M project will be the largest and most complex infrastructure project ever undertaken in New Zealand and it is critical that the Ministry of Transport is well placed to ensure the project delivers public value and value for money.

Governance and monitoring for the New Zealand Upgrade Programme

Operating funding sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	Total
	0.68	2.79	2.64	2.68	2.71	11.50

The second initiative relates to implementing the preferred governance and monitoring approach for the New Zealand Upgrade Programme (NZUP). As you are aware, the Ministry will be providing you with joint advice on the preferred approach by 30 April 2020. Once this is confirmed, there will be real risks of cost overruns, scope adjustments, and limited sector capability to deliver the projects in alignment with the outcomes and specifications agreed to by Ministers. This will need to be managed by the Ministry of Transport. The \$6.8 billion package is the largest single Crown contribution to transport projects in recent years and it is

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critical that the Ministry of Transport is well placed to ensure that the Crown investment in transport is used in an effective and efficient way.

Enhancing access to driver licencing to reduce transport disadvantage

Operating funding sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears	Total
	0	0.4	0.4	0	0	0.8

This initiative will provide funding for the Ministry of Transport to conduct a review of the driver licensing system. This system-wide review will investigate:

- barriers to the driver licensing system preventing entry to the system and progression, including indirect costs, as well as access to driver training and testing services
- whether the current methods of driver training are adequately preparing novice drivers for the risks they face on New Zealand's roads
- whether the funding of the licensing system and its price setting is simple and equitable; specifically, that the cost of the system is spread fairly across individuals and businesses.

Although not fully scoped, we expect that the review will be completed by December 2021 and will help to inform future policy decisions.

Yours sincerely,

Phil Twyford
Minister of Transport