

New Zealand Upgrade Programme - Final Establishment Reports and Delegations

Reason for this briefing	To provide you with: <ul style="list-style-type: none"> • advice on the final Establishment Reports for the transport aspects of the New Zealand Upgrade Programme • draft letters to the Waka Kotahi NZ Transport Agency and KiwiRail Boards that outline how decision-making will be delegated.
Action required	Accept the updated Establishment Reports noting the risks and concerns for individual projects and across the Programme. Sign the attached delegation letters to the Waka Kotahi NZ Transport Agency and KiwiRail Boards.
Deadline	20 July 2020.
Reason for deadline	To provide the delegation letters to the Boards before the New Zealand Upgrade Programme Oversight Group meeting on 23 July 2020.

Contact for telephone discussion (if required)

To protect the privacy of individuals

Name	Position	Telephone	First contact
Robert Anderson	Acting Manager, Governance and Commercial, Ministry of Transport	██████████	✓
Marcus Sin	Senior Advisor, Investment, Ministry of Transport	██████████	
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MINISTER'S COMMENTS:

Date:	16 July 2020	Briefing number:	OC200503 (MoT) T2020/2205 (TSY)
Attention:	Hon Grant Robertson Minister of Finance Hon Phil Twyford Minister of Transport	Security level:	In-confidence

Minister of Transport's office actions

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 Withdrawn | 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

Purpose of report

1. This briefing provides you with:
 - 1.1. advice on the Waka Kotahi NZ Transport Agency (Waka Kotahi) and KiwiRail Establishment Reports under the New Zealand Upgrade Programme (the Programme);
 - 1.2. proposed parameters for delegating project level decisions to the Waka Kotahi and KiwiRail Boards that would both support project momentum and manage the Crown's risk as funder and Programme owner.

The Programme provides a significant investment in New Zealand's infrastructure

2. As you are aware, the transport element of the Programme provides \$6.8 billion of Crown capital to accelerate investment in road, rail, public transport and walking and cycling infrastructure. The Programme investment will modernise infrastructure, and future proof and grow the New Zealand economy. The Programme also now provides an important fiscal stimulus to respond to the economic impacts of COVID-19.
3. The Programme differs to other transport projects in that the Crown plays the role of 'funder' and 'Programme owner', by directly funding the projects and taking on project risk. As a result of this, there are several key objectives for the Crown:
 - 3.1. **Successful delivery** – projects are successfully delivered in a way that contributes to the overarching objectives of the Programme;
 - 3.2. **Delivery momentum** – projects are delivered within expected timeframes;
 - 3.3. **Cost management** – projects are delivered within the fiscal envelope, and risks are appropriately managed and mitigated to reduce future calls for further Crown funding.
4. On 29 January 2020, the Minister of Finance and the Minister of Transport (Joint Ministers) wrote to Waka Kotahi and KiwiRail (the agencies) outlining the Crown's expectations for the Programme. The respective letters reflected the considerations above and the primary objective to deliver the projects as efficiently and effectively as possible.
5. The letters outline that the Crown is purchasing a specified list of projects that the respective agencies are responsible for delivering. The agencies were therefore asked to prepare Establishment Reports to set a baseline for project monitoring and reporting, outlining:
 - 5.1. the proposed cost of the projects, including underlying assumptions;
 - 5.2. the scope of the project, including core project assumptions and design details;
 - 5.3. the project timeframes and milestones;
 - 5.4. potential risks or challenges to the successful delivery of the project.
6. As this is the Crown's largest infrastructure investment, it was also acknowledged that appropriate governance, monitoring, and reporting would be required to provide oversight and confidence in the delivery of the Programme. This would provide for clear roles and responsibilities, ensuring that key investment decisions sit with the right decision makers, and provide for assurance at both the project and programme level.

7. Since the Programme was announced, Waka Kotahi and KiwiRail have been progressing the transport projects in the Programme, consistent with the Ministerial direction signalled in the letter of 29 January 2020 to progress with the work at pace.

The Establishment Reports provide a starting point to establish the Programme baseline

8. The Establishment Reports were delivered to Joint Ministers in June 2020. Officials have reviewed the reports and consider that they outline the key features that were requested (as outlined in paragraph 5 above).

A number of projects are close to construction

9. There are four projects with clearly defined scope, cost, and timeframes in the Establishment Reports. They are:
- Wiri to Quay Park
 - Papakura to Pukekohe electrification
 - Tauranga Northern Link
 - SH58 Safety Improvements.
10. There are three additional projects with significant scope issues to resolve which are discussed in further detail below:
- SH1 Papakura to Drury South (Stage 1)
 - Northern Pathway
 - Penlink.
11. These seven projects in the Programme are effectively committed and close to commencing (or have already commenced) procurement and construction.

Property purchase decisions are required for Penlink and Mill Road

12. The agencies have indicated that further decisions are required in the coming months to maintain the delivery momentum of the Programme. This includes the transfer of properties from Auckland Transport to advance the next stages of Penlink and Mill Road.
13. Waka Kotahi has negotiated with Auckland Transport to pay \$95 million for the property transfer in accordance with the compensation provisions of the Public Works Act 1981. Waka Kotahi have advised us that this amount is within the allowance of \$102 million that was factored in when the Programme budget was announced in January 2020.
14. Officials consider that this is consistent with the standard process of transferring a local road to Waka Kotahi for delivery, which is aligned with our previous advice for the treatment of the two projects (OC191252 refers). The Waka Kotahi Board is now expected to make a decision on the property transfer in August 2020. It is unable to do so until it is delegated the authority to make this decision by Joint Ministers.
15. We recommend Joint Ministers endorse the Board's upcoming decision so Waka Kotahi can continue to progress with the delivery of the two projects. This enables Waka Kotahi to make its decision in-principle while Joint Ministers' approve the delegations. Decisions such as these, which are in line with estimates in the Establishment Reports, would be delegated to agencies' once our proposed approach (described below) is in place.

There is still a lot of uncertainty in aspects of the Programme

16. At a Programme level, an independent external review of the Establishment Reports has identified a number of risks that present significant challenges for Programme delivery within the funding allocation, as the table below outlines. These are consistent with the risks and concerns raised in our earlier advice (OC200307 refers), which we noted would require ongoing attention.

Key risk	Description
Scope amendments	A number of projects highlight either potential or proposed scope changes that have not been fully costed.
COVID-19	Potential for impacts on the availability of materials, access to offshore skillsets (as a result of travel and border restrictions), and stakeholder engagement.
Delivery partner support	This relates to the need for support from other government agencies which, if not forthcoming, would cause delays to the delivery of projects.
Escalations of project cost estimates	As a result of: <ul style="list-style-type: none"> • certain projects at the early stages, with their business cases still in development (further detail is below) • scope changes and delays to expected timeframes • increases to construction costs due to constraints on industry capacity or cost inflation • interim cost volatility (over the next 12 months) as a result of COVID-19 impacts.
Property purchases / stakeholder engagement	A number of the projects feature the need for significant property purchases, which could materially impact the expected project cost and duration. The need for substantial stakeholder engagement was also highlighted as a key risk on certain projects.
Consenting	The timeframes for consenting are uncertain in the Establishment Reports.
Construction sector	Financial stability of the construction industry, including sub-contractors.
Supporting projects	There is a coordination risk as a result of the uncertainty in timeframes for supporting projects that may be required to realise the full benefits of the Programme. These projects are led by local authorities or Waka Kotahi, and could be delayed or not funded as a result of recent financial constraints, or alternatively accelerated as part of an economic stimulus, which could enhance the outcomes of the Programme. Future work on defining the outcomes and benefits of the Programme will provide greater clarity on the supporting projects needed to realise the full benefits of the Programme.
Timeframes	The timeframes in the Establishment Reports are ambitious, particularly around consenting and property purchases.

17. We note that Waka Kotahi and Kiwirail have been requested to provide project progress updates, in addition to the Establishment Reports, to the Minister of Transport. This will outline the current status of each project.

Specific scope concerns have been identified and Joint Ministers' decisions will be required

The SH1 Papakura to Drury South project has scope and cost issues to resolve

18. The scope for the SH1 Papakura to Drury South (Stage 1) project was agreed by Joint Ministers in late 2019 with a Crown funding allocation of \$423 million. However Waka Kotahi's Establishment Report extends the scope for this project to include Stage 2 (Drury to Drury South).
19. As a result of this, there is now a misalignment between the scope and funding allocations of the project by approximately \$250 million to \$300 million.
20. Waka Kotahi have indicated in their Establishment Report that Stage 2 of the project is to ensure that Mill Road has safe and coherent travel connections into the SH1 corridor at its interchange at Drury South, the nearby Drury interchange, the wider upgraded corridor and network beyond this area. This will reduce the duration of disruption on this critical corridor, which has already occurred as part of the Southern Corridor Improvements project, through a less piece-meal upgrade approach to the project.
21. We currently have no record of Joint Ministers considering or agreeing a scope change for this project. Because there is currently no corresponding funding allocation to cover the additional costs of this project, this means that trade-offs may be needed elsewhere in the Programme in order to meet this increase in cost if Ministers wish to confirm this scope change.

The scope of the Drury rail stations project will require confirmation

22. The Drury rail stations have a number of decisions on project scope that have yet to be made. This includes whether this project includes a third station (the Paerata rail station). This is a decision that sits with Joint Ministers given the significant scope change this would encompass.
23. Officials' preliminary view is that it is likely that the two stations (Drury West and Drury Central) could be delivered at a lower cost based on informal discussions with Waka Kotahi and Kiwi Rail. This is because there is a road component included in the project scope that could be delivered by Auckland Transport through the National Land Transport Programme.
24. We understand that the Minister of Transport has sought advice from the Ministry of Housing and Urban Development on whether the Paerata station should be included within the scope, from an urban design perspective.
25. The agencies are also preparing a report to clarify the scope and outcomes of this project. This is expected to be discussed at the Waka Kotahi-led Programme governance board meeting in August 2020, and shared with the New Zealand Upgrade Programme Oversight Group (the Oversight Group) in September 2020. Officials will then provide advice to Joint Ministers to make final decisions on the scope of the project.

Joint Ministers need further information before decisions are made on the scope for these projects

26. While some information is provided in the Establishment Reports with respect to the decisions above, it is officials' view that there is insufficient information to enable Joint Ministers to make an informed decision at this time on the scope revisions for the SH1 Papakura to Drury South project and the Drury rail stations project. For the two projects:
- 26.1. there is not enough information on the outcomes being sought by the proposed scope changes to enable Joint Ministers to weigh up the marginal cost against the marginal benefits (or outcomes) that will be delivered
- 26.2. there is not enough information to make an informed decision as to how these changes would impact on the delivery of the Programme as a whole, such as the impact on the other projects in the Programme that have greater uncertainty.
27. We therefore recommend that Joint Ministers request:
- 27.1. Waka Kotahi to report back to Joint Ministers on possible scope and cost options for the SH1 Papakura to Drury South project, including:
- the impact on the outcomes if Stage 2 of the project is not included within the project scope
 - a detailed breakdown of costs, and possible options for where the additional cost will be met from, including any impact on other aspects of the Programme as a result of this.
- 27.2. KiwiRail (as the lead agency) and Waka Kotahi as a supporting partner, in conjunction with other relevant parties (such as Auckland Transport), to provide scope options for the Drury rail stations project, including advice on the marginal costs, benefits and outcomes of the relevant options, including advice on the costs, benefits and outcomes of the options

Further work is being done to understand the cost escalations across the Programme

28. As we previously advised (OC191303 refers), there is significant potential for cost pressures across the Programme. The two projects above are examples of project scope changes with no corresponding funding made available to cover the additional costs.
29. In addition to this type of cost pressure, there is the issue of cost escalation (i.e. the effect of inflation on costs). The projects outlined in the Establishment Reports are based on 2020 dollars, and over time, as a result of inflation, it is likely that the actual cost to deliver the Programme will be above the funding envelope. This sort of thing is inevitable with a Programme such as this which spans a decade.
30. Ministry and Treasury officials are now working with the agencies to better understand the potential cost escalations and impact of any potential delays to construction start dates across the Programme. We will report back to you with further advice on this issue to seek any required decisions.

We recommend Joint Ministers accept the Establishment Reports as a starting point for the Programme

31. Officials recommend Joint Ministers accept the Establishment Reports as a starting point for making progress on the Programme. The reports summarise the projects, signal the plan for less well-defined projects, and provide the information that was requested by Joint Ministers.

32. Given the high level of uncertainty on some of the projects, it will be important that communication to agencies on acceptance of the Establishment Reports reflects that the Crown needs to maintain some control to manage its exposure to risk.
33. The Ministry of Transport (the Ministry) and the Treasury are engaging with Waka Kotahi and KiwiRail to better understand how risks on scope, cost and timeframes across the Programme will be managed to provide assurance of Programme delivery to Joint Ministers.
34. As part of this engagement, officials have been clear that the Crown does not need to do a deep dive into the projects. We recognise that to support momentum, the agencies should be sufficiently empowered to deliver the projects in a timely and cost effective manner. The Crown does not need to have a role in project level decisions that the agencies are best placed to make.
35. However, we consider that Joint Ministers need to have sufficient confidence that project delivery is being undertaken in a way that ensures the projects deliver on the Crown's objectives, and manage the overarching risks to the Crown as funder and Programme owner. The SH1 Papakura to Drury South project is an example of where project scope decisions can pose a direct risk to the Programme, and where Joint Ministers need sufficient information to consider the trade-offs at the Programme level.

We propose to delegate decision making authority within clear parameters to support the delivery momentum of the Programme

36. We understand Joint Ministers want to delegate further decision making authority to maintain the delivery momentum of the Programme. We consider it is appropriate to delegate the individual project level decisions to the Boards where those decisions do not increase the risk to the Crown as funder and Programme owner. This will provide the agencies with the certainty they need to deliver the projects and maintain the momentum of the Programme.
37. Our previous advice (OC191252 refers) and the Ministerial letter of 29 January 2020 contained a set of decision making processes for managing cost overruns and savings across the Programme. Our proposed approach clarifies these processes, and builds on the previous expectations of Joint Ministers.
38. We recommend that the key parameters for the delegations are:
- 38.1. **Scope** – any significant changes to scope, where outcomes, outputs and expected benefits are significantly impacted, reduced or changed from those identified in the Establishment Report (e.g. a two lane road vs a four lane road). This includes any reprioritisations that would remove a project from the Programme;
 - 38.2. **Costs** – any significant changes to cost estimates that are expected to impact the delivery of the Programme within the Crown funding envelope. This is to ensure that any decisions to reprioritise do not put unnecessary fiscal strain on other projects;
 - 38.3. **Timing** – any significant changes to timing where there is a forecast delay to the construction start or construction completion dates. An appropriate time period will need to be agreed based on the indicated delivery date set out in the Establishment Reports (e.g. overall delay of more than six months).
39. This means that if these thresholds are met, we will seek any required decisions from Joint Ministers. We are working to define what 'significant' means to ensure that this is clear to all parties (and will do so by September 2020). Before September 2020, the agency Boards will receive project decision making delegations but will report on any concerns that may impact the Crown's objectives and decisions that may breach the thresholds.

40. This approach will enable the agencies to make decisions at the appropriate level to maintain delivery momentum of the Programme and manage the risk to the Crown by ensuring decisions of a substantive nature are escalated to Joint Ministers.
41. The agencies have advised us that they will have a much clearer idea of the detailed scope, costs and timeframes across the Programme by December 2020. We propose to review these parameters and thresholds at this time to ensure they remain fit for purpose.

The Oversight Group will monitor and report on the progress of the Programme

42. The Oversight Group is being established to monitor and report on the Programme on behalf of the Crown. The group includes senior officials from the Ministry, the Treasury, and the Infrastructure Commission. We have appointed Brian Wood as Chair, who was the former chair of the Kaikōura Re-instatement Oversight Steering Group. Two further appointments of external members that bring deep infrastructure delivery, governance and assurance expertise to the Programme have also been made. The first Oversight Group meeting will be on 23 July 2020.
43. The Oversight Group is not a decision making body. The risks within the Programme are to be managed by the agencies in the first instance. Waka Kotahi and Kiwi Rail have established a separate governance board with an independent chair to oversee and manage the delivery of projects within the Programme.
44. The Oversight Group will provide additional assurance to Joint Ministers on the delivery of the Programme. Its role is to provide high level strategic oversight and regular reporting to ensure Joint Ministers are receiving integrated and independent advice. It is responsible for drawing any significant risks or concerns across the Programme to the attention of Joint Ministers.
45. A monitoring and reporting framework is currently in development by the Oversight Group, which will help to assist with the early identification of issues, assessment of any mitigation strategies, and the management of risks across the Programme. The standard monitoring and reporting processes used by the agencies will be adopted (and reviewed by the Oversight Group) to avoid any unnecessary burdens and duplication of systems. This will support the agencies in the delivery of their respective projects in the Programme.
46. This monitoring and reporting approach is designed to provide Joint Ministers with confidence over the delivery of individual projects and the Programme as a whole. The approach set out above will ensure that only the most significant concerns are escalated to Joint Ministers for a Ministerial decision. This approach enables agencies to continue at pace with the Programme, and is a similar monitoring and reporting approach for the other non-transport aspects of the New Zealand Upgrade Programme.
47. As outlined above, a particular role we consider the Oversight Group should have is one where it can identify risks to scope, cost, and timeframes, and escalate decisions to Joint Ministers if thresholds are met.
48. This approach will provide an escalation pathway so that, where risks are identified in line with the thresholds, there is a clear mechanism for ensuring Joint Ministers are involved in the decision making process. The thresholds will help to support the agencies to make project level decisions in an expeditious way while also ensuring that decisions that pose risks to the Crown's objectives are appropriately dealt with by Joint Ministers.

Next steps

49. We have prepared the attached letters to give effect to:
 - 49.1. our recommended approach to delegate an appropriate level of decision making authority to the respective agency Boards
 - 49.2. the ongoing monitoring and reporting of risks across the Programme by the Oversight Group
 - 49.3. our recommended approach to request KiwiRail and Waka Kotahi to report back to Joint Ministers on possible scope and cost options for the Drury rail stations project and the SH1 Papakura to Drury South project.
50. If you agree with this approach, we recommend you sign the attached letters. Ministry and Treasury officials will then discuss with Waka Kotahi and KiwiRail the specific reporting requirements of the Programme, including the agreement of thresholds.

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and Treasury

Recommendations

51.	We recommend that you:	Minister of Finance	Minister of Transport
(a)	endorse the Waka Kotahi NZ Transport Agency (Waka Kotahi) Board's upcoming decision to transfer \$95 million worth of properties from Auckland Transport to Waka Kotahi for Penlink and Mill Road	Yes/No	Yes/No
(b)	note the risks and concerns of possible cost escalations, scope changes and project delays across the New Zealand Upgrade Programme (the Programme)		
(c)	note that the New Zealand Upgrade Programme Oversight Group (the Oversight Group) will use the final Establishment Reports as a starting baseline for monitoring projects and the Programme as a whole		
(d)	request Waka Kotahi to report back to Joint Ministers on possible scope and cost options for the SH1 Papakura to Drury South project, including: <ul style="list-style-type: none"> <li data-bbox="320 929 1094 999">• the impact on the outcomes if Stage 2 of the project is not included within the project scope <li data-bbox="320 1010 1094 1153">• a detailed breakdown of costs, and possible options for where the additional cost will be met from, including any impact on other aspects of the Programme as a result of this. 		
(e)	request KiwiRail (as the lead agency) and Waka Kotahi as a supporting partner in conjunction with other relevant parties (such as Auckland Transport), to provide scope options for the Drury rail stations project, including advice on the costs, benefits and outcomes of the options		
(f)	agree to the Oversight Group working with the Ministry of Transport, the Treasury, Waka Kotahi and KiwiRail to update the Programme baseline as project information improves	Yes/No	Yes/No
(g)	agree to the Oversight Group working with the Ministry of Transport, the Treasury, Waka Kotahi and KiwiRail to establish a set of thresholds to escalate decisions of significant risk to the Minister of Transport and Minister of Finance	Yes/No	Yes/No

- (h) **sign** the attached letters delegating authority for individual project level decisions to the Waka Kotahi and KiwiRail Boards, and requesting further information and scope options on SH1 Papakura to Drury South and Drury rail stations.

Fiona Stokes
**Acting Manager, National Infrastructure
Unit
The Treasury**

Robert Anderson
**Acting Manager, Governance and Commercial
Ministry of Transport**

MINISTER'S SIGNATURE:

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

DATE:

DATE:

Appendix one: Projects and current business case status from the Establishment Reports

Eight projects have fully or well developed business cases:

- Fully developed scope with cost estimates.
- The key risks have been identified and the contribution to outcomes are well understood.
- These business cases still have a range of uncertainties that impact on deliverability, albeit more well quantified than those with business cases still in development.

Projects with fully or well developed business cases	NZUP Allocation (\$ million)
Tauranga Northern Link	478
SH1 Papakura to Drury South improvements**	423
Penlink*	411
Papakura-to-Pukekohe electrification	371
Northern Pathway**	360
Third line – Wiri-to-Quay Park	315
Melling Interchange	258
SH58 safety improvements	59
Total allocation	2,675

* Business cases not complete but well developed. Delivery readiness plan is in progress. No plans to review the preferred option.

** Business case has been completed but some significant scope issues to resolve.

Seven projects have business cases still in development

- These have indicative estimates for: scope, cost, and key risks, but all subject to confirmation.
- There are likely to be movements in project detail and cost as the business case progresses, which increases the uncertainty for these projects.

Projects with business case still in development	NZUP Allocation (\$ million)
Mill Road	1,354
Ōtaki to north of Levin (Ō2NL)	817
SH2 Te Puna to Ōmokoroa	455
Drury rail stations	247
Rail upgrades – North of Wellington	211
SH1/SH29 intersection	58
SH1 Walnut Avenue intersection improvement	11
Total allocation	3,153

Nine projects have business cases in early stages or not yet started:

- These are in preliminary planning with no confirmed scope so that the costs cannot be estimated with any certainty as the design and risks are yet to be determined.
- They are subject to wide-ranging changes to project information.

Projects with business case in early stages or not started	NZUP Allocation (\$ million)
SH1 Whangārei to Port Marsden Highway	692
Rolleston access improvements	60
Brougham Street improvements	40
Ladies Mile corridor improvements	30
SH6 Grant Road to Kawarau Falls improvements	30
SH6a corridor improvements	30
SH75 Halswell Road improvements	25
West Melton improvements	12
SH1 Tinwald corridor improvements	11
Total allocation	930

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and Treasury

Brian Corban
Chair
KiwiRail
PO Box 593
WELLINGTON 6140

Dear Brian

Thank you for providing me with your final Establishment Report.

We want to extend our appreciation to KiwiRail for the substantive role it is playing in delivering the New Zealand Upgrade Programme (the Programme). As you are aware, the Programme is a significant investment in New Zealand's infrastructure which will save lives, get our cities moving and boost the level of productivity in our country's seven main growth areas. Delivery of the Programme will also provide a much needed economic stimulus to respond to the impacts of COVID-19.

We want to enable efficient decision-making for Programme delivery to provide a much needed pipeline of work for the industry. This means ensuring the Kiwi Rail Board has the flexibility to utilise its existing capabilities to deliver its projects while recognising the Crown's role as funder and over-arching owner of the Programme, and the reporting requirements that apply.

This letter sets out that the Minister of Finance and Minister of Transport (Joint Ministers) agree to delegate individual project level decisions to the KiwiRail Board for the projects outlined in KiwiRail's final Establishment Report, and in doing so, the expectations that we have of the Board. Joint Ministers may review, amend or revoke the delegations and conditions at any time.

Joint Ministers' acceptance of the Establishment Report as a starting baseline

We have reviewed KiwiRail's Establishment Report and accept this as the starting point for advancing your aspects of the Programme. This baseline signals the direction of travel for many of the projects and, as we requested, includes the proposed cost, scope, timeframes and milestones, and potential risks and challenges to each of the projects.

In accepting the Establishment Report as a starting point for the baseline, we have considered the Crown's role as the Programme funder and owner, and consider that an appropriate decision-making and oversight framework is required that reflects the Crown's objectives for the Programme, which are:

- **Delivery** – projects are successfully delivered in a way that contributes to the overarching goals of the Programme, such as modernising infrastructure, and future proofing and growing the New Zealand economy;
- **Timeliness/momentum** – projects are delivered within expected timeframes;

- **Cost** – projects are delivered within the fixed funding envelope for the Programme and risks are appropriately managed and mitigated.

As the Crown's single largest infrastructure investment, the governance, monitoring, assurance, and decision-making framework needs to be tailored to ensure Joint Ministers have sufficient oversight and confidence in the delivery of the Programme.

On this basis, we have agreed governance, monitoring, reporting and assurance arrangements to support the delivery of the Programme. As part of these arrangements, the New Zealand Upgrade Programme Oversight Group (the Oversight Group) will be established with responsibility for providing assurance (for the Crown as funder) in respect of the transport aspects of the Programme.

Delegating project level decisions to the KiwiRail Board

It is recognised that to support momentum, KiwiRail should be sufficiently empowered to deliver its projects in a way that enables project momentum and cost effectiveness. To achieve this in a manner that is consistent with the Crown's objectives above, we agree to delegate the individual project level decisions to the KiwiRail Board. This is to provide us with confidence that project level decisions will support the delivery momentum of the Programme.

Given the Crown's objectives and its role as Programme funder and owner, this delegation is subject to certain parameters. The need for parameters reflects the fixed funding envelope and timeframe commitments for the Programme. Therefore, Joint Ministers must be involved in decisions where there are:

1. any significant changes to scope, where outcomes and outputs are significantly impacted, reduced, or changed from those identified in the Establishment Report
2. any significant changes to cost estimates that are expected to impact the delivery of the Programme within the Crown funding envelope
3. any significant changes to timing where there is a forecast delay to the construction start or construction completion dates

We have instructed Ministry of Transport (the Ministry) and Treasury officials to work with Waka Kotahi and KiwiRail to develop and agree thresholds for determining when the above decision making points are triggered. We expect these thresholds to be agreed by Joint Ministers by September 2020.

The purpose of these thresholds is not for Joint Ministers to intervene in project level decisions that KiwiRail is best placed to make, but rather to ensure that Joint Ministers have a role when project level decisions impact the Crown objectives for the Programme.

This includes the potential scope change for the Drury rail stations to include the Paerata rail station, which is a decision that will continue to sit with Joint Ministers under these delegations.

Process for escalating to Joint Ministers for decision-making

Reporting to the Oversight Group will occur on a monthly basis, which will form part of the monthly reporting to Joint Ministers. This reporting will include identification of variances or potential variances that may trigger the thresholds for escalating decisions to Joint Ministers. Where a threshold is expected to be triggered, Ministry and Treasury officials will advise on the issues, impacts, options and decisions required by Joint Ministers.

Oversight and assurance arrangements for the Programme

Any large Crown-funded projects should expect a high level of scrutiny both from Ministers and the public. KiwiRail is expected to comply with its existing frameworks, as well as completing Risk Profile Assessments (RPA) and providing these to the Treasury. All proposals that are determined high risk by the RPA will have an appropriate level of assurance applied, including Gateway reviews. We see this assurance regime as a standard Government requirement, which has been right-sized for the Programme.

Joint Ministers expect to be kept well briefed on progress, and the Oversight Group will provide the Ministry and the Treasury with rigorous independent advice on delivery performance and key risks across the transport aspects of the Programme. This does not change the Board's responsibilities for delivery governance of its own projects and reporting to Shareholding Ministers in accordance with Owners Expectations, and we appreciate that the Board will apply the highest levels of scrutiny of delivery performance and report to the Oversight Group regularly.

We ask that KiwiRail is transparent on any concerns or risks in the delivery of its projects with Ministry and Treasury officials and the Oversight Group. Any variations to the final Establishment Report will need to be reported to the Oversight Group. If KiwiRail operates (or expects that it may operate) outside of its responsibilities in this letter, we expect KiwiRail to inform the Oversight Group as soon as practicable to resolve any matters or concerns in a timely manner.

We encourage KiwiRail to work closely with the Oversight Group to find pragmatic solutions on any matters that arise. The Oversight Group will look to leverage your existing systems and processes as much as possible. Ministry and Treasury officials will contact KiwiRail in the coming weeks to discuss the specific reporting requirements of the Programme.

Release of Crown funding

The arrangements for drawdown of Crown funding for KiwiRail projects is dependent on the provision of forecast monthly cashflows and agreed supporting information from the KiwiRail Board. The drawdown of Crown funding for this Programme will follow existing arrangements for share subscription and release of equity funding between KiwiRail and Treasury.

Next steps

We believe the matters outlined in this letter appropriately balance the interests of the Crown while providing support to KiwiRail in its role in the Programme.

We ask that KiwiRail works with Ministry and Treasury officials to provide us with advice on the details of thresholds for escalating significant decisions to Joint Ministers by September 2020.

We also ask that KiwiRail works with Waka Kotahi, Auckland Transport, and Ministry and Treasury officials to provide Joint Ministers with possible scope and cost options for the Drury rail stations, including:

- the impact on expected outcomes if the Paerata rail station is not included within the scope of this project
- advice on the marginal costs, benefits and outcomes of the different scope options, compared to the base case of not including the Paerata rail station in the project.

There is scope for Government to add further projects to the governance of the Programme and we will provide you with further advice should we choose to do this. We would appreciate confirmation in writing that the delegated authority and the reporting requirements set out in this letter are acceptable to the KiwiRail Board.

Thank you again for your involvement in this infrastructure investment programme. We are confident that KiwiRail will be able to deliver its projects, consistent with the expectations set out above, and we look forward to your favourable response.

Yours sincerely

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

Copy: Rt Hon Winston Peters
Minister for State Owned Enterprises

Greg Miller
Group Chief Executive Officer, KiwiRail

Peter Mersi
Chief Executive, Ministry of Transport

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

Dear Sir Brian

Thank you for providing me with your final Establishment Report.

I want to extend our appreciation to Waka Kotahi NZ Transport Agency (Waka Kotahi) for the substantive role it is playing in delivering the New Zealand Upgrade Programme (the Programme). As you are aware, the Programme is a significant investment in New Zealand's infrastructure which will save lives, get our cities moving and boost the level of productivity in our country's seven main growth areas. Delivery of the Programme will also provide a much needed economic stimulus to respond to the impacts of COVID-19.

I want to enable efficient decision-making for Programme delivery to provide a much needed pipeline of work for the industry. This means ensuring the Waka Kotahi Board has the flexibility to utilise its existing capabilities to deliver its projects while recognising the Crown's role as funder and over-arching owner of the Programme, and the Cabinet Circular CO(19)(6) requirements that apply.

This letter sets out that the Minister of Finance and I (as Joint Ministers) agree to delegate individual project level decisions to the Waka Kotahi Board for the projects outlined in Waka Kotahi's final Establishment Report, and in doing so, the expectations that we have of the Board – Joint Ministers, may review, amend or revoke the delegations and conditions at any time.

Joint Ministers acceptance of the Establishment Report as a starting baseline

The Minister of Finance and I (as Joint Ministers) have reviewed Waka Kotahi's Establishment Report and accept this as the starting point for advancing your aspects of the Programme. This baseline signals the direction of travel for many of the projects and, as we requested, includes the proposed cost, scope, timeframes and milestones, and potential risks and challenges to each of the projects.

In accepting the Establishment Report as a starting point for the baseline, we have considered the Crown's role as the Programme funder and owner, and consider that an appropriate decision-making and oversight framework is required that reflects the Crown's objectives for the Programme, which are:

- **Delivery** – projects are successfully delivered in a way that contributes to the overarching goals of the Programme, such as modernising infrastructure, and future proofing and growing the New Zealand economy;

- **Timeliness/momentum** – projects are delivered within expected timeframes;
- **Cost** – projects are delivered within the fixed funding envelope for the Programme and risks are appropriately managed and mitigated.

As the Crown's single largest infrastructure investment, the governance, monitoring, assurance, and decision-making framework needs to be tailored to ensure Joint Ministers have sufficient oversight and confidence in the delivery of the Programme.

On this basis, we have agreed governance, monitoring, reporting and assurance arrangements to support the delivery of the Programme. As part of these arrangements, the New Zealand Upgrade Programme Oversight Group (the Oversight Group) will be established with responsibility for providing assurance (for the Crown as funder) in respect of the transport aspects of the Programme.

Delegating project level decisions to the Waka Kotahi Board

It is recognised that to support momentum, Waka Kotahi should be sufficiently empowered to deliver its projects in a way that enables project momentum and cost effectiveness. To achieve this in a manner that is consistent with the Crown's objectives above, we agree to delegate the individual project level decisions to the Waka Kotahi Board. This is to provide us with confidence that project level decisions will support the delivery momentum of the Programme.

Given the Crown's objectives and its role as Programme funder and owner, this delegation is subject to certain parameters. The need for parameters reflects the fixed funding envelope and timeframe commitments for the Programme. Therefore, Joint Ministers must be involved in decisions where there are:

4. any significant changes to scope, where outcomes and outputs are significantly impacted, reduced, or changed from those identified in the Establishment Report
5. any significant changes to cost estimates that are expected to impact the delivery of the Programme within the Crown funding envelope
6. any significant changes to timing where there is a forecast delay to the construction start or construction completion dates.

We have instructed Ministry of Transport (the Ministry) and Treasury officials to work with Waka Kotahi and KiwiRail to develop and agree thresholds for determining when the above decision-making points are triggered. We expect these thresholds to be agreed by Joint Ministers by September 2020.

The purpose of these thresholds is not for Joint Ministers to intervene in project level decisions that Waka Kotahi is best placed to make, but rather to ensure that Joint Ministers have a role when project level decisions impact the Crown objectives for the Programme.

This includes the potential scope change to the Papakura to Drury project to include Stage 2 (Drury to Drury South), which is a decision that will continue to sit with Joint Ministers under these delegations.

Process for escalating to Joint Ministers for decision-making

Reporting to the Oversight Group will occur on a monthly basis, which will form part of the monthly reporting to Joint Ministers. This reporting will include identification of variances or potential variances that may trigger the thresholds for escalating decisions to Joint Ministers. Where a threshold is expected to be triggered, Ministry and Treasury officials will advise on the issues, impacts, options and decisions required by Joint Ministers.

Oversight and assurance arrangements for the Programme

Any large Crown-funded projects should expect a high level of scrutiny both from Ministers and the public. To give effect to this, Waka Kotahi will deliver its projects in accordance with Cabinet Circular CO(19)(6). This includes completing Risk Profile Assessments (RPA) and providing these to the Treasury. All proposals that are determined high risk by the RPA will need to have an appropriate level of assurance applied, including Gateway reviews. We see this assurance regime as a standard Government requirement, which has been right-sized for the Programme.

Joint Ministers expect to be kept well briefed on progress, and the Oversight Group will provide the Ministry and the Treasury with rigorous independent advice on delivery performance and key risks across the transport aspects of the Programme. This does not change the Board's responsibilities for delivery governance of its own projects, and we appreciate that the Board will apply the highest levels of scrutiny of delivery performance and report to the Oversight Group regularly.

We ask that Waka Kotahi is transparent on any concerns or risks in the delivery of its projects with Ministry and Treasury officials and the Oversight Group. Any variations to the final Establishment Report will need to be reported to the Oversight Group. If Waka Kotahi operates (or expects that it may operate) outside of its responsibilities in this letter, we expect Waka Kotahi to inform the Oversight Group as soon as practicable to resolve any matters or concerns in a timely manner.

We encourage Waka Kotahi to work closely with the Oversight Group to find pragmatic solutions on any matters that arise. The Oversight Group will look to leverage your existing systems and processes as much as possible. Ministry and Treasury officials will contact Waka Kotahi in the coming weeks to discuss the specific reporting requirements of the Programme.

Release of Crown funding

The arrangements for drawdown of Crown funding for Waka Kotahi projects is dependent on the provision of actual expenditure incurred, forecast financial information, and an appropriately completed funding request, including agreed supporting information.

Next steps

We believe the matters outlined in this letter appropriately balance the interests of the Crown while providing support to Waka Kotahi in its role in the Programme.

We ask that Waka Kotahi works with Ministry and Treasury officials to provide us with advice on the details of thresholds for escalating significant decisions to Joint Ministers by September 2020.

We also ask that Waka Kotahi works with Ministry and Treasury officials to provide Joint Ministers with possible scope and cost options for Stage 2 of the Papakura to Drury project, including:

- the impact on expected outcomes if Stage 2 (Drury to Drury South) is not included within the scope of this project
- a detailed breakdown of costs and possible options to meet the additional cost of Stage 2, including an assessment of any impacts this has on other aspects of the Programme as a result of this.

We are aware decisions are required by the Waka Kotahi Board to transfer the properties from Auckland Transport for Penlink and Mill Road. The Minister of Finance and I approve this decision, provided the payment amount is within the funding allocation for the property transfer for these projects.

There is scope for Government to add further projects to the governance of the Programme and we will provide you with further advice should we choose to do this. We would appreciate confirmation in writing that the delegated authority and the requirements set out in this letter are acceptable to the Waka Kotahi Board.

Thank you again for your involvement in this infrastructure investment programme. We are confident that Waka Kotahi will be able to deliver its projects, consistent with the expectations set out above, and we look forward to your favourable response.

Yours sincerely

Hon Phil Twyford
Minister of Transport

Copy: Hon Grant Robertson
Minister of Finance

Nicole Rosie
Chief Executive, Waka Kotahi NZ Transport Agency

Peter Mersi
Chief Executive, Ministry of Transport

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

Dear Sir Brian

Thank you for providing me with your final Establishment Report.

I want to extend our appreciation to Waka Kotahi NZ Transport Agency (Waka Kotahi) for the substantive role it is playing in delivering the New Zealand Upgrade Programme (the Programme). As you are aware, the Programme is a significant investment in New Zealand's infrastructure which will save lives, get our cities moving and boost the level of productivity in our country's seven main growth areas. Delivery of the Programme will also provide a much needed economic stimulus to respond to the impacts of COVID-19.

I want to enable efficient decision-making for Programme delivery to provide a much needed pipeline of work for the industry. This means ensuring the Waka Kotahi Board has the flexibility to utilise its existing capabilities to deliver its projects while recognising the Crown's role as funder and over-arching owner of the Programme, and the Cabinet Circular CO(19)(6) requirements that apply.

This letter sets out that the Minister of Finance and I (as Joint Ministers) agree to delegate individual project level decisions to the Waka Kotahi Board for the projects outlined in Waka Kotahi's final Establishment Report, and in doing so, the expectations that we have of the Board – Joint Ministers may review, amend or revoke the delegations and conditions at any time.

Joint Ministers acceptance of the Establishment Report as a starting baseline

The Minister of Finance and I (as Joint Ministers) have reviewed Waka Kotahi's Establishment Report and accept this as the starting point for advancing your aspects of the Programme. This baseline signals the direction of travel for many of the projects and, as we requested, includes the proposed cost, scope, timeframes and milestones, and potential risks and challenges to each of the projects.

In accepting the Establishment Report as a starting point for the baseline, we have considered the Crown's role as the Programme funder and owner, and consider that an appropriate decision-making and oversight framework is required that reflects the Crown's objectives for the Programme, which are:

- **Delivery** – projects are successfully delivered in a way that contributes to the overarching goals of the Programme, such as modernising infrastructure, and future proofing and growing the New Zealand economy;

- **Timeliness/momentum** – projects are delivered within expected timeframes;
- **Cost** – projects are delivered within the fixed funding envelope for the Programme and risks are appropriately managed and mitigated.

As the Crown's single largest infrastructure investment, the governance, monitoring, assurance, and decision-making framework needs to be tailored to ensure Joint Ministers have sufficient oversight and confidence in the delivery of the Programme.

On this basis, we have agreed governance, monitoring, reporting and assurance arrangements to support the delivery of the Programme. As part of these arrangements, the New Zealand Upgrade Programme Oversight Group (the Oversight Group) will be established with responsibility for providing assurance (for the Crown as funder) in respect of the transport aspects of the Programme.

Delegating project level decisions to the Waka Kotahi Board

It is recognised that to support momentum, Waka Kotahi should be sufficiently empowered to deliver its projects in a way that enables project momentum and cost effectiveness. To achieve this in a manner that is consistent with the Crown's objectives above, we agree to delegate the individual project level decisions to the Waka Kotahi Board. This is to provide us with confidence that project level decisions will support the delivery momentum of the Programme.

Given the Crown's objectives and its role as Programme funder and owner, this delegation is subject to certain parameters. The need for parameters reflects the fixed funding envelope and timeframe commitments for the Programme. Therefore, Joint Ministers must be involved in decisions where there are:

- any significant changes to scope, where outcomes and outputs are significantly impacted, reduced, or changed from those identified in the Establishment Report
- any significant changes to cost estimates that are expected to impact the delivery of the Programme within the Crown funding envelope
- any significant changes to timing where there is a forecast delay to the construction start or construction completion dates.

We have instructed Ministry of Transport (the Ministry) and Treasury officials to work with Waka Kotahi and KiwiRail to develop and agree thresholds for determining when the above decision-making points are triggered. We expect these thresholds to be agreed by Joint Ministers by September 2020.

The purpose of these thresholds is not for Joint Ministers to intervene in project level decisions that Waka Kotahi is best placed to make, but rather to ensure that Joint Ministers have a role when project level decisions impact the Crown objectives for the Programme.

This includes the potential scope change to the Papakura to Drury project to include Stage 2 (Drury to Drury South), which is a decision that will continue to sit with Joint Ministers under these delegations.

Process for escalating to Joint Ministers for decision-making

Reporting to the Oversight Group will occur on a monthly basis, which will form part of the monthly reporting to Joint Ministers. This reporting will include identification of variances or potential variances that may trigger the thresholds for escalating decisions to Joint Ministers. Where a threshold is expected to be triggered, Ministry and Treasury officials will advise on the issues, impacts, options and decisions required by Joint Ministers.

Oversight and assurance arrangements for the Programme

Any large Crown-funded projects should expect a high level of scrutiny both from Ministers and the public. To give effect to this, Waka Kotahi will deliver its projects in accordance with Cabinet Circular CO(19)(6). This includes completing Risk Profile Assessments (RPA) and providing these to the Treasury. All proposals that are determined high risk by the RPA will need to have an appropriate level of assurance applied, including Gateway reviews. We see this assurance regime as a standard Government requirement, which has been right-sized for the Programme.

Joint Ministers expect to be kept well briefed on progress, and the Oversight Group will provide the Ministry and the Treasury with rigorous independent advice on delivery performance and key risks across the transport aspects of the Programme. This does not change the Board's responsibilities for delivery governance of its own projects, and we appreciate that the Board will apply the highest levels of scrutiny of delivery performance and report to the Oversight Group regularly.

We ask that Waka Kotahi is transparent on any concerns or risks in the delivery of its projects with Ministry and Treasury officials and the Oversight Group. Any variations to the final Establishment Report will need to be reported to the Oversight Group. If Waka Kotahi operates (or expects that it may operate) outside of its responsibilities in this letter, we expect Waka Kotahi to inform the Oversight Group as soon as practicable to resolve any matters or concerns in a timely manner.

We encourage Waka Kotahi to work closely with the Oversight Group to find pragmatic solutions on any matters that arise. The Oversight Group will look to leverage your existing systems and processes as much as possible. Ministry and Treasury officials will contact Waka Kotahi in the coming weeks to discuss the specific reporting requirements of the Programme.

Release of Crown funding

The arrangements for drawdown of Crown funding for Waka Kotahi projects is dependent on the provision of actual expenditure incurred, forecast financial information, and an appropriately completed funding request, including agreed supporting information.

Next steps

We believe the matters outlined in this letter appropriately balance the interests of the Crown while providing support to Waka Kotahi in its role in the Programme.

We ask that Waka Kotahi works with Ministry and Treasury officials to provide us with advice on the details of thresholds for escalating significant decisions to Joint Ministers by September 2020.

We also ask that Waka Kotahi works with Ministry and Treasury officials to provide Joint Ministers with possible scope and cost options for Stage 2 of the Papakura to Drury project, including:

- the impact on expected outcomes if Stage 2 (Drury to Drury South) is not included within the scope of this project
- a detailed breakdown of costs and possible options to meet the additional cost of Stage 2, including an assessment of any impacts this has on other aspects of the Programme as a result of this.

We are aware decisions are required by the Waka Kotahi Board to transfer the properties from Auckland Transport for Penlink and Mill Road. The Minister of Finance and I approve this decision, provided the payment amount is within the funding allocation for the property transfer for these projects.

There is scope for Government to add further projects to the governance of the Programme and we will provide you with further advice should we choose to do this. We would appreciate confirmation in writing that the delegated authority and the requirements set out in this letter are acceptable to the Waka Kotahi Board.

Thank you again for your involvement in this infrastructure investment programme. We are confident that Waka Kotahi will be able to deliver its projects, consistent with the expectations set out above, and we look forward to your favourable response.

Yours sincerely

Hon Phil Twyford
Minister of Transport

Copy: Hon Grant Robertson
Minister of Finance

Nicole Rosie
Chief Executive, Waka Kotahi NZ Transport Agency

Peter Mersi
Chief Executive, Ministry of Transport

Brian Corban
Chair
KiwiRail
PO Box 593
WELLINGTON 6140

Dear Brian

Thank you for providing me with your final Establishment Report.

We want to extend our appreciation to KiwiRail for the substantive role it is playing in delivering the New Zealand Upgrade Programme (the Programme). As you are aware, the Programme is a significant investment in New Zealand's infrastructure which will save lives, get our cities moving and boost the level of productivity in our country's seven main growth areas. Delivery of the Programme will also provide a much needed economic stimulus to respond to the impacts of COVID-19.

We want to enable efficient decision-making for Programme delivery to provide a much needed pipeline of work for the industry. This means ensuring the Kiwi Rail Board has the flexibility to utilise its existing capabilities to deliver its projects while recognising the Crown's role as funder and over-arching owner of the Programme, and the reporting requirements that apply.

This letter sets out that the Minister of Finance and Minister of Transport (Joint Ministers) agree to delegate individual project level decisions to the KiwiRail Board for the projects outlined in KiwiRail's final Establishment Report, and in doing so, the expectations that we have of the Board. Joint Ministers may review, amend or revoke the delegations and conditions at any time.

Joint Ministers acceptance of the Establishment Report as a starting baseline

We have reviewed KiwiRail's Establishment Report and accept this as the starting point for advancing your aspects of the Programme. This baseline signals the direction of travel for many of the projects and, as we requested, includes the proposed cost, scope, timeframes and milestones, and potential risks and challenges to each of the projects.

In accepting the Establishment Report as a starting point for the baseline, we have considered the Crown's role as the Programme funder and owner, and consider that an appropriate decision-making and oversight framework is required that reflects the Crown's objectives for the Programme, which are:

- **Delivery** – projects are successfully delivered in a way that contributes to the overarching goals of the Programme, such as modernising infrastructure, and future proofing and growing the New Zealand economy;
- **Timeliness/momentum** – projects are delivered within expected timeframes;

- **Cost** – projects are delivered within the fixed funding envelope for the Programme and risks are appropriately managed and mitigated.

As the Crown's single largest infrastructure investment, the governance, monitoring, assurance, and decision-making framework needs to be tailored to ensure Joint Ministers have sufficient oversight and confidence in the delivery of the Programme.

On this basis, we have agreed governance, monitoring, reporting and assurance arrangements to support the delivery of the Programme. As part of these arrangements, the New Zealand Upgrade Programme Oversight Group (the Oversight Group) will be established with responsibility for providing assurance (for the Crown as funder) in respect of the transport aspects of the Programme.

Delegating project level decisions to the KiwiRail Board

It is recognised that to support momentum, KiwiRail should be sufficiently empowered to deliver its projects in a way that enables project momentum and cost effectiveness. To achieve this in a manner that is consistent with the Crown's objectives above, we agree to delegate the individual project level decisions to the KiwiRail Board. This is to provide us with confidence that project level decisions will support the delivery momentum of the Programme.

Given the Crown's objectives and its role as Programme funder and owner, this delegation is subject to certain parameters. The need for parameters reflects the fixed funding envelope and timeframe commitments for the Programme. Therefore, Joint Ministers must be involved in decisions where there are:

- any significant changes to scope, where outcomes and outputs are significantly impacted, reduced, or changed from those identified in the Establishment Report
- any significant changes to cost estimates that are expected to impact the delivery of the Programme within the Crown funding envelope
- any significant changes to timing where there is a forecast delay to the construction start or construction completion dates.

We have instructed Ministry of Transport (the Ministry) and Treasury officials to work with Waka Kotahi and KiwiRail to develop and agree thresholds for determining when the above decision-making points are triggered. We expect these thresholds to be agreed by Joint Ministers by September 2020.

The purpose of these thresholds is not for Joint Ministers to intervene in project level decisions that KiwiRail is best placed to make, but rather to ensure that Joint Ministers have a role when project level decisions impact the Crown objectives for the Programme.

This includes the potential scope change for the Drury rail stations to include the Paerata rail station, which is a decision that will continue to sit with Joint Ministers under these delegations.

Process for escalating to Joint Ministers for decision-making

Reporting to the Oversight Group will occur on a monthly basis, which will form part of the monthly reporting to Joint Ministers. This reporting will include identification of variances or potential variances that may trigger the thresholds for escalating decisions to Joint Ministers. Where a threshold is expected to be triggered, Ministry and Treasury officials will advise on the issues, impacts, options and decisions required by Joint Ministers.

Oversight and assurance arrangements for the Programme

Any large Crown-funded projects should expect a high level of scrutiny both from Ministers and the public. KiwiRail is expected to comply with its existing frameworks, as well as completing Risk Profile Assessments (RPA) and providing these to the Treasury. All proposals that are determined high risk by the RPA will have an appropriate level of assurance applied, including Gateway reviews. We see this assurance regime as a standard Government requirement, which has been right-sized for the Programme.

Joint Ministers expect to be kept well briefed on progress, and the Oversight Group will provide the Ministry and the Treasury with rigorous independent advice on delivery performance and key risks across the transport aspects of the Programme. This does not change the Board's responsibilities for delivery governance of its own projects and reporting to Shareholding Ministers in accordance with Owners Expectations, and we appreciate that the Board will apply the highest levels of scrutiny of delivery performance and report to the Oversight Group regularly.

We ask that KiwiRail is transparent on any concerns or risks in the delivery of its projects with Ministry and Treasury officials and the Oversight Group. Any variations to the final Establishment Report will need to be reported to the Oversight Group. If KiwiRail operates (or expects that it may operate) outside of its responsibilities in this letter, we expect KiwiRail to inform the Oversight Group as soon as practicable to resolve any matters or concerns in a timely manner.

We encourage KiwiRail to work closely with the Oversight Group to find pragmatic solutions on any matters that arise. The Oversight Group will look to leverage your existing systems and processes as much as possible. Ministry and Treasury officials will contact KiwiRail in the coming weeks to discuss the specific reporting requirements of the Programme.

Release of Crown funding

The arrangements for drawdown of Crown funding for KiwiRail projects is dependent on the provision of forecast monthly cashflows and agreed supporting information from the KiwiRail Board. The drawdown of Crown funding for this Programme will follow existing arrangements for share subscription and release of equity funding between KiwiRail and the Treasury.

Next steps

We believe the matters outlined in this letter appropriately balance the interests of the Crown while providing support to KiwiRail in its role in the Programme.

We ask that KiwiRail works with Ministry and Treasury officials to provide us with advice on the details of thresholds for escalating significant decisions to Joint Ministers by September 2020.

We also ask that KiwiRail works with Waka Kotahi, Auckland Transport, and Ministry and Treasury officials to provide Joint Ministers with possible scope and cost options for the Drury rail stations, including:

- the impact on expected outcomes if the Paerata rail station is not included within the scope of this project
- advice on the marginal costs, benefits and outcomes of the different scope options, compared to the base case of not including the Paerata rail station in the project.

There is scope for Government to add further projects to the governance of the Programme and we will provide you with further advice should we choose to do this. We would appreciate confirmation in writing that the delegated authority and the reporting requirements set out in this letter are acceptable to the KiwiRail Board.

Thank you again for your involvement in this infrastructure investment programme. We are confident that KiwiRail will be able to deliver its projects, consistent with the expectations set out above, and we look forward to your favourable response.

Yours sincerely

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

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Minister for State Owned Enterprises

Greg Miller
Group Chief Executive Officer, KiwiRail

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Chief Executive, Ministry of Transport