

Hon Phil Twyford

MP for Te Atatu

Minister for Economic Development

Minister of Transport

Minister for Urban Development



6 August 2020

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 KiwiRail 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



Protect privacy of individuals.

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