



MP for Te Atatu

Minister for Economic Development

Minister of Transport

Minister for Urban Development

6 August 2020

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.

Proactively released
by the Ministry of Transport

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



Protect the privacy of individuals

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