

11 November 2020

OC200892

Hon Michael Wood
Minister of Transport

NEW ZEALAND UPGRADE PROGRAMME SEPTEMBER 2020 UPDATE – COVER NOTE

Purpose

Officials are providing you with the September 2020 update on the New Zealand Upgrade Programme's transport component (the Programme), which was provided to the previous Minister. This cover note summarises for you the context around the oversight, assurance and monitoring arrangements for the Programme, key challenges the Programme is facing, and the Programme-level baselining work underway.

Key points

- The Ministry of Transport (the Ministry) and the Treasury has recently established an Oversight Group to oversee the delivery of the Programme on behalf of Joint Ministers (Finance and Transport). This Oversight Group was established to provide Ministers with an increased level of oversight of the Programme.
- With Joint Ministers as clients, establishment of an appropriate, client-side monitoring arrangement is expected good practice, and reflects that risks arising from the Programme will be borne by the Crown rather than delivery agencies Waka Kotahi and KiwiRail. Arrangements like this are not used for the Government Policy Statement on land transport (where the Waka Kotahi Board is the client for projects, and must manage risks within the National Land Transport Fund), or KiwiRail's business as usual spending where it operates as a commercial entity.
- Representation on the Oversight Group include senior officials from the Ministry, Treasury, Infrastructure Commission, and three independent external members who bring significant industry and technical skills. The delivery agencies also attend the Oversight Group. You may want to consider meeting officials and the Chair of the New Zealand Upgrade Programme Oversight Group to discuss the current status of the Programme soon. There is also an opportunity for you to attend a part of the next Oversight Group meeting on 9 December 2020 to meet the full Oversight Group.
- Early advice from officials has identified some challenges around the overall affordability and scope of the Programme. Officials provided the previous Minister with an update on the Programme in September 2020, which is attached. Provisional estimates from the independent advisors to the NZUP Oversight Group indicate that overruns for the Programme could amount to around \$1.7 billion, or expenditure that is 25 percent over the total available funding for the Programme. Updated advice will be provided to you shortly, but it will not indicate a reduction in this figure.

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- Officials recognise the importance of progressing the Programme at pace, but careful consideration is needed to make early decisions, particularly on procurement and contracting, while there remains significant uncertainty over some parts of the Programme, as well as the wider funding challenges.
- Officials have agreed with the delivery agencies to progress the development of a baseline for the transport component of the Programme. This exercise is designed to provide a common and up-to-date view on the overall scope and cost of the Programme as it currently understands. The delivery agencies have committed to having a completed baseline for the Programme by the end of March 2021. At this point, officials will be able to advise you on the total set of choices or trade-offs that may be required to deliver the Programme, though officials can discuss the potential nature of these choices as soon you are ready.
- The Ministry will be providing a further update to you next week on the overall status of the Programme, including emerging risks and issues you may need to consider. This advice will include an update on major decisions that the delivery agencies are progressing through to March 2021. Draft letters to the Chairs of the delivery agencies' boards, conveying your expectations on the baselining work, will also be included for you to consider and sign. This report will be consulted on with the delivery entities, in the same way that the attached September 2020 update also underwent agency consultation.

Recommendations

We recommend you:

- 1 **note** that a further update will be provided to you next week on the Programme's emerging risks, major decisions that delivery agencies are progressing, and draft letters on the baselining work to the chairs of the delivery agencies' boards
- 2 **agree** to meet with the Chair of the Oversight Group and officials to discuss the current status of the Programme Yes / No
- 3 **indicate** whether you would like to attend a part of the Oversight Group meeting on 9 December 2020 to meet the full Oversight Group

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

12 / 11 / 2020

Hon Michael Wood
Minister of Transport
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Minister's office to complete:

Approved

Declined

Seen by Minister

Not seen by Minister

Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Bryn Gandy, Deputy Chief Executive, System Strategy & Investment	[REDACTED]	✓
Robert Anderson, Acting Manager, Governance and Commercial	[REDACTED]	
Weiyi Zhang, Adviser, Governance and Commercial	[REDACTED]	

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