

Reference: T2021/1407 SE-2-25-2

Date: 1 June 2021

To: Minister of Finance (Hon Grant Robertson)
Minister of Transport (Hon Michael Wood)
Minister for State Owned Enterprises (Hon Dr David Clark)

Deadline: 11.00am, 2 June 2021

Project iReX: Delegated Authority for Potential Further Crown Funding – speaking notes

On Wednesday 2 June 2021, you will be presenting the paper ‘Project iReX: Delegated Authority for Potential Further Crown Funding’ to the Cabinet Economic Development Committee. The following speaking notes have been prepared by the Treasury, in consultation with the Ministry of Transport, to support your presentation at Cabinet.

Speaking notes

1. I propose that Cabinet agree to delegate authority to the Minister of Finance, the Minister of Transport, and the Minister for State Owned Enterprises, to approve up to [37] in further Crown funding, to be allocated towards Project iReX if we are satisfied with the robustness of the detailed business case (DBC). This project involves the replacement of KiwiRail’s Cook Strait ferries and the associated landside infrastructure.
2. The Government has previously signalled the importance of a resilient and reliable rail system through the Future of Rail review. This included the replacement of KiwiRail’s Cook Strait ferry assets.
3. KiwiRail’s ferries are reaching the end of their economic lives, and KiwiRail is currently procuring two new, larger rail-enabled ferries. The ferries are commercial assets and should generate a commercial return over time. However, the Crown needs to invest capital to replace the assets to ensure timely asset replacement and the resilience of the Cook Strait crossing.
4. KiwiRail estimates that the total capital cost of the project is \$1.45 billion. The Crown has already provided \$435.1 million in funding for Project iReX through Budgets 2019 and 2020. It is expected that KiwiRail will seek further Crown funding.
5. KiwiRail will provide Ministers with a Board approved DBC later this week. We expect that the DBC will address a range of concerns and clarify the amount of further Crown funding required. The funding gap is currently estimated at \$257 million.

6. KiwiRail has requested Ministers respond to the DBC by 30 June 2021. KiwiRail has signed a Letter of Intent with a South Korean shipyard for the two new ferries, which expires on 30 June 2021.
7. If the Letter of Intent expires before KiwiRail signs a contract for the ships, the shipyard will be able to renegotiate terms and price. Mainly due to the increase in steel prices, the cost of the ships would likely increase by up to [37]. The delivery dates for the ships may be delayed, which would increase KiwiRail's maintenance costs for the existing fleet.
8. Further Crown funding requires Cabinet's approval. We are seeking delegated authority to provide further funding, if we are satisfied, to ensure that we retain the option value of being able to respond to KiwiRail by 30 June 2021.
9. Given the amount of funding sought, and the overall complexity of the project, it is critical that the DBC is assessed and officials provide Ministers with advice on the viability of the project.
10. The Treasury, the Ministry of Transport and the Infrastructure Commission will advise us before any decision to exercise delegated authority is undertaken. KiwiRail has also confirmed that it will not enter into a shipbuilding contract before Ministers have considered and responded to the DBC.
11. It is important to note that there remains a large number of outstanding risks with Project iReX, which need to be carefully considered as part of the decision to provide further Crown funding. These include:
 - Ongoing commercial negotiations between CentrePort, Port Marlborough and KiwiRail concerning landside infrastructure requirements, [37]
 - [37]
 - Potential competition issues from the Crown's investment in iReX, as there is already a private commercial operator (Bluebridge) across the Cook Strait.
 - Robustness of costs for the road and rail connections and how those will be funded, including potential impacts on the National Land Transport Fund, which is already under significant pressure.
12. All of these factors will be considered when the DBC is assessed, and a decision made on whether to provide further Crown funding. We will report back to Cabinet on our decision.

Daniel Madley, Analyst, Commercial Performance, [35]

Maureena van der Lem, Manager, Commercial Performance, [35]