



# Cabinet

## Minute of Decision

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### New Zealand Upgrade Programme: Report Back

**Portfolios**                      **Finance / Transport**

On 20 September 2021, following reference from the Cabinet Business Committee, Cabinet:

#### Background

- 1        **noted** that in May 2021, as part of Cabinet's approval of the revised New Zealand Upgrade Programme (the Programme) following baselining and reprioritisation, Cabinet invited the Minister of Finance and the Minister of Transport (Joint Ministers) to report back on several matters, including:
  - 1.1      parameters for managing and accessing tagged contingency funds (including business case requirements);
  - 1.2      a future model for oversight and monitoring;

[CAB-21-MIN-0192]

#### Climate Implications of Policy Assessment report back

- 2        **noted** that Cabinet agreed that drawdown of tagged capital contingency funding was subject to Climate Implications of Policy Assessments (CIPAs) being completed for individual projects and the Programme as a whole, and those CIPAs being considered by the Ministers of Transport, Finance and Climate Change [CAB-21-MIN-0192];
- 3        **noted** that CIPAs have been completed for the majority of the Programme and shared with the Minister of Climate Change;
- 4        **noted** that a CIPA has only been partially completed for Takitimu North Link Stage 1 project, and has not been completed for the re-scoped Whangārei to Port Marsden (road) and the South Auckland project and those new projects/ programmes to be funded from the reallocated Northern Pathway funding, as the scope of these projects has not yet been confirmed;
- 5        **noted** that a full CIPA will be completed and quality assured by the Ministry for the Environment for the Whangārei to Port Marsden (road), the South Auckland projects, and those new projects/programmes to be funded from the reallocated Northern Pathway funding, before the tagged contingency can be drawn down;

- 6 **noted** that CIPAs for projects except those noted in paragraphs 4 and 5 above have been completed;
- 7 **noted** that the Ministry for the Environment has been consulted, is confident in the general approach employed, and has provided a qualified quality assurance statement for the whole Programme and assurance that supports individual CIPAs for the projects where estimates have been completed;
- 8 **noted** that the Minister of Finance, Minister of Transport and Minister of Climate Change have considered the completed CIPAs, alongside the Programme level CIPA, and are comfortable with the projects with completed CIPAs moving forward and with funding from the tagged capital contingency being made available when required;
- 9 **agreed** to depart from the requirement referred to in paragraph 2 above, and instead:
- 9.1 **agreed** that drawdown of tagged capital contingency funding be approved for all projects except the Whangārei to Port Marsden (road), the South Auckland project and those new projects/programmes to be funded from the reallocated Northern Pathway funding;
- 9.2 **agreed** that, for the Whangārei to Port Marsden (road), the South Auckland project, and those new projects/programmes to be funded from the reallocated Northern Pathway funding, drawdown of tagged capital contingency funding is subject to the individual project CIPA being completed and considered by Joint Ministers and the Minister of Climate Change;
- 9.3 **agreed** that, in order to draw down the tagged contingency following the assessment by Joint Ministers and the Minister of Climate Change, the overall Programme will need to continue to demonstrate a net reduction in emissions after accounting for the findings of those individual project CIPAs;
- 10 **noted** that Waka Kotahi is exploring potential opportunities to reduce embodied emissions associated with the construction of projects in the Programme, which could help further improve the assessed emissions impact;

### **Parameters for managing and accessing tagged contingency funds**

- 11 **noted** that Joint Ministers have agreed a risk-based approach for allocating contingency funding and managing the Programme going forward;
- 12 **noted** the following principles for contingency management, and the decision making and reporting arrangements for the Programme:
- 12.1 be consistent with the expectations under Cabinet Office Circular CO 19(6) Investment Management and Asset Performance in the State Services;
- 12.2 not unnecessarily slow down progress on the Programme;
- 12.3 take a risk-based approach to the Programme with targeted effort towards, and greater contingency for, higher risk projects;
- 12.4 add value, have clear boundaries, reduce any duplication or delays, and not slow down delivery;
- 12.5 ensure information is transparent and any issues are reported early, to identify risks and appropriate mitigations that support delivery and the achievement of outcomes;

- 13 **noted** that Joint Ministers have directed delivery agencies to continue with lower risk procurement activity and implementation in line with Cabinet’s previous directions, to enable any possible progress before delegation letters are sent;

**Developing a future model for oversight and monitoring**

- 14 **noted** that Joint Ministers have agreed to the following escalation thresholds across the Programme:

Escalation threshold component	Escalation threshold trigger
Scope	Any change to outputs, as defined in the baseline report, that significantly impacts project benefits and outcomes
Cost	Delivery Agency Programme Estimate at Completion (EAC) exceeding available funding for each Delivery Agency, excluding the rescope projects [redacted] for Waka Kotahi; [redacted] for KiwiRail)*
	Project EAC exceeds Delivery Agency allocation for the project plus delivery agency contingency for the project
Schedule	For projects that <u>have not</u> yet awarded the main construction contract: <ul style="list-style-type: none"> <li>- Construction <u>start</u> is delayed by 6 months</li> <li>- Construction <u>end</u> is delayed by 6 months</li> </ul>
	For projects that have awarded the main construction contract: <ul style="list-style-type: none"> <li>- Construction start is delayed by 3 months</li> <li>- Construction end is delayed by 3 months</li> </ul>

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*\*note that the South Auckland package and the re-scoped components of Whangārei to Port Marsden are excluded from this total until their business cases are further progressed*

- 15 **noted** that delivery agencies will notify Joint Ministers when any threshold is triggered, following which Joint Ministers will decide, with advice from officials where appropriate, whether to direct delivery agencies to provide additional information;
- 16 **noted** that for the re-scoped projects, the cost escalation thresholds do not reflect risk adjusted estimates and will be revised when business cases are completed;
- 17 **noted** that officials and delivery agencies have determined fit-for-purpose business case approval processes, which allow Ministers to retain some decision-making rights while not slowing down projects;
- 18 **noted** that the global COVID-19 pandemic poses material risk to the delivery of the Programme and delivery agencies will continue to keep Joint Ministers informed of any impact on project costs and timeframes;
- 19 **noted** that Joint Ministers have agreed a new approach to oversight under the Programme’s new arrangements consisting of:
- 19.1 disestablishing the existing independent oversight group and changing the current oversight arrangements by removing the assurance accountabilities held by the Ministry of Transport;
  - 19.2 relying on Delivery Agencies’ own governance arrangements to identify and manage risks and provide a high level of assurance to Joint Ministers;

- 19.3 communicating these expectations to Agency Boards via letter, emphasising to them that Joint Ministers expect a high level of accountability and assurance, as well as requirements for information provision;
- 20 **noted** that under the changed arrangements, the Ministry of Transport will have a lesser monitoring role limited to standard Vote: Transport accountability monitoring with an additional ability to review reporting and escalate as appropriate;

### Reprioritising the Northern Pathway

- 21 **noted** that Joint Ministers have reconsidered the Northern Pathway proposal and propose ringfencing the original \$785 million allocated for the project to meet costs associated with winding up the project and investigate an alternative mix of investments;
- 22 **agreed** that the Northern Pathway project be stopped, and that the funding allocated towards that project be used for winding up the project and the remaining funding reallocated towards an alternative mix of investments;
- 23 **agreed** that Joint Ministers investigate the Seapath project and alternative ways for cyclists to cross the Waitemata Harbour, in accordance with paragraphs 21 and 22 above;
- 24 **agreed** that, pending further work by officials and Waka Kotahi, to inform Joint Ministers' decisions on the final alternative mix of investments referred to in paragraphs 21 and 22 above, remaining funding from the Northern Pathway allocation will be used to:
- 24.1 support Auckland Transport Alignment (ATAP) funding pressures alongside the National Land Transport Fund (NLTF), with particular support for the Eastern Busway project, [REDACTED]
- 24.2 support additional priority investments in the Auckland cycle network, with Waka Kotahi to report back once this has been endorsed by the ATAP Governance Group;
- 24.3 provide support for regional projects that support climate change and housing objectives;
- 25 **noted** that, across the re-allocations outlined in paragraphs 24.1 and 24.2 above, proactive consideration will be given to projects that support transit-oriented developments in priority growth areas; and for paragraph 24.3, projects that complement other investments made through the NLTF and Infrastructure Acceleration Fund;
- 26 **authorised** Joint Ministers to take final decisions on the alternative investment mix consistent with the decisions in paragraphs 23 and 24 above, and to make consequential changes to appropriations to give effect to those decisions, subject to consultation with the Minister of Housing in relation to projects that relate to housing objectives;
- 27 **noted** that some of the re-allocated funding may need to be swapped from capital to operating expenditure, and officials will work with Waka Kotahi to determine the impact of this, and provide advice to Joint Ministers on the fiscal implications before new funding arrangements are confirmed;

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Section 9(2)(b)  
(ii) of the  
Official  
Information Act  
1982



**Appropriation and Tagged Contingency changes**

28 **noted** that on 31 May 2021, Cabinet:

28.1 agreed to establish a tagged capital contingency of up to the amount below in Vote Transport to provide additional funding for the New Zealand Upgrade Programme following baselining and re-prioritisation:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
New Zealand Upgrade Transport Projects – Tagged Capital Contingency	-	1,926.000	-	-	-

28.2 authorised Joint Ministers to draw down the tagged capital contingency funding above on a project-by-project basis subject to:

28.2.1 establishing parameters for managing access to programme and project contingency, based on advice from officials;

28.2.2 CIPA being completed for individual projects and the Programme as a whole (for consideration by Joint Ministers and the Minister of Climate Change);

[CAB-21-MIN-0192]

29 **noted** that the updated parameters for accessing tagged contingency, in addition to completion of the CIPAs, have been agreed by Joint Ministers as:

29.1 a request from the respective delivery agency boards that outlines the need for the additional funding for the project to the satisfaction of Joint Ministers;

29.2 for higher-risk and rescope projects, agreement from Joint Ministers to a fit-for-purpose Business Case;

29.3 for all requests, confirmation from the respective delivery agency boards that:

29.3.1 the project is likely to fall within the approved funding for the project;

29.3.2 there are appropriate processes, capacity and capability in place to successfully manage the project;

30 **agreed** that the conditions specified in paragraph 28.2 above have been satisfied, and that drawdowns from the tagged capital contingency can now proceed;

31 **noted** that Joint Ministers have moved Melling, the Drury Stations projects, and Takitimu North Link Stage 2 Route Protection into the lower-risk category;

32 **noted** that the Minister of Housing must be consulted on the South Auckland package business cases;

33 **agreed** that the risk-based model for managing appropriated and contingency funds be structured as follows:

33.1 [Redacted]

33.2 [Redacted]

33.3 [Redacted]

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34 **agreed** that, to give effect to decisions regarding the Northern Pathway referred to above, \$500 million will be returned to the Tagged Capital Contingency described at paragraph 28.1 above, leaving \$150 million appropriated to cover sunk costs and further work,

35 **agreed** to reduce appropriated funding for Waka Kotahi by \$726 million, and increase appropriated funding for KiwiRail by [Redacted] million, reflecting the change in project make-up in the Programme described in paragraphs 33 and 34 above,

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36 **agreed** that the balance of the funding changes in paragraph 35 above be recognised as a corresponding increase in New Zealand Upgrade Transport Projects – Tagged Capital Contingency in Vote Transport;

37 **approved** the following changes to appropriations to provide for the decisions in paragraph 35 above, with a corresponding impact on net core Crown debt:

	\$m – increase/(decrease)				
Vote Transport Minister of Transport	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Non-departmental Capital Expenditure: Capital Investment Package – Roads, Walking and Cycling (M72)	-	(726.000)	-	-	-
Non-departmental Capital Expenditure: Rail – KiwiRail Holdings Limited (M72)	-	[Redacted]	-	-	-
<b>Total Capital</b>	-	[Redacted]	-	-	-

Withheld under Section 9(2)(b)(ii) of the Official Information Act 1982

38 **noted** that, to give effect to the policy decision in paragraph 35 above, the balance of the New Zealand Upgrade Transport Projects – Tagged Capital Contingency, that may be drawn down by joint Ministers subject to the criteria in paragraph 29 being satisfied and the completion of a satisfactory CIPA, will be as follows:

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	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
New Zealand Upgrade Transport Projects – Tagged Capital Contingency	-	[Redacted]	-	-	-

**Additional appropriation changes**

39 **noted** that in January 2020, Joint Ministers decided to retain \$247 million within the Capital Investment Package pending further decisions relating to the Drury Stations projects;

40 **noted** that:

40.1 in May 2021, Cabinet agreed in principle to proceed with three Drury rail stations subject to Joint Ministers consideration of parameters and a CIPA [CAB-21-MIN-0192];

40.2 the above conditions have been met and funding can now be appropriated;

41 **approved** the following change to appropriations to give effect to the decision in paragraph 40, with a corresponding impact on net core Crown debt:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 and outyears
Non-departmental Capital Expenditure: Rail – KiwiRail Holdings Limited (M72)	-	247.000	-	-	-

42 **agreed** that the changes to appropriations for 2021/22 in paragraphs 37 and 41 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

43 **agreed** that the capital expenditure in paragraph 41 above be funded from the Capital Investment Package, and not the budget allowances;

**Ongoing appropriation management**

44 **noted** that further work will be completed to determine the phasing of the appropriated expenditure, and that appropriated amounts will be adjusted accordingly through future baseline updates;

45 **noted** that Joint Ministers are authorised to make changes to the Programme where no new funding is required, including rescoping projects and re-allocating funds between projects.

Michael Webster  
Secretary of the Cabinet

*Secretary’s Note: This minute replaces CBC-21-MIN-0100. Cabinet agreed to add a new paragraph 25.*