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Office of the Minister of Finance
Office of the Minister of Transport

Cabinet Economic Development Committee

New Zealand Upgrade Programme - report back

Proposal

- 1 This paper provides an update on further decisions taken and being considered by the Minister of Finance and the Minister of Transport (Joint Ministers) since Cabinet's approval of the revised New Zealand Upgrade Programme (Programme) following re-baselining.

Relation to government priorities

- 2 This paper satisfies the invitation to report back on Cabinet's previous agreement to the re-baselining of the Programme [CAB-21-MIN-0192 refers].

Executive Summary

- 3 Joint Ministers have agreed arrangements to take the Programme forward following Cabinet's previous decisions. These arrangements balance delivery momentum with managing risks to the Crown, and include:
 - 3.1 a risk-based model for managing contingency funds
 - 3.2 new oversight and assurance arrangements that place an increased emphasis on the internal governance and assurance processes of Waka Kotahi, the New Zealand Transport Agency (Waka Kotahi) and KiwiRail Holdings Limited (KiwiRail), collectively referred to as the Delivery Agencies.
 - 3.3 escalation thresholds for managing risks to cost, schedule and scope
 - 3.4 business case requirements for higher-risk and rescoped projects
- 4 Joint Ministers have also considered and discussed the Climate Implications of Policy Assessments (CIPAs) for the Programme and are satisfied that additional contingency funds can now be drawn down for projects where CIPAs have been completed.
- 5 Joint Ministers have re-considered the proposed Northern Pathway investment and levels of public support for the project. In light of current fiscal pressures and ongoing work regarding an Alternative Waitematā Harbour Crossing, Ministers have decided to proceed with an alternative mix of investments, including setting aside funding to deliver the Seapath

project and investigating and implementing a way for cyclists to cross the harbour. This will free up extra funding for other investments.

- 6 We propose to ring-fence the funding originally allocated to the Northern Pathway project within the Programme tagged capital contingency to be reallocated towards three high-priority categories of investment, subject to further decisions by joint Ministers regarding scope, amount, and fiscal implications. This funding will:

- 6.1 support Auckland Transport Alignment (ATAP) funding pressures alongside the National Land Transport Fund. We intend for this funding to support the Eastern Busway project, [REDACTED]

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[REDACTED]

- 6.2 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

- 6.3 provide support for regional projects that support climate change and housing objectives.

- 7 Waka Kotahi will work with the Ministry of Transport (the Ministry) and the Treasury, and report back to joint Ministers on options, scope, and cost implications, as well as management and governance arrangements. This report-back will enable decisions by Joint Ministers before 1 July 2022.

Background

- 8 As part of Cabinet's approval of the revised Programme following re-baselining, Cabinet invited Joint Ministers to report back on several matters (CAB-21-MIN-0192 refers), including:

- 8.1 parameters for managing and accessing tagged contingency funds (including business case requirements)

- 8.2 developing a future model for oversight and monitoring.

- 9 In addition, Cabinet agreed that drawdown of tagged capital contingency funding was subject to 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.

- 10 The Ministry of Transport (the Ministry), the Treasury, along with the Delivery Agencies have undertaken further work, and we are reporting back now on our proposed decisions and next steps.

- 11 Since the previous update, Joint Ministers have directed Delivery Agencies continue to progress projects as much as possible, based on previous decisions, settings, and using existing appropriated funding.
- 12 Following consideration of this paper, Joint Ministers will issue new delegations to Delivery Agencies to reset some of the agreed monitoring, oversight, and decision-making arrangements, and establish future processes for accessing tagged contingency funds.

Parameters for managing and accessing tagged contingency funds

- 13 Cabinet previously agreed to provide an additional \$1.926 billion of Crown funding in a tagged capital contingency, on top of the \$6.8 billion already made available for the Programme. Further work was required to set out how the contingency is accessed [CAB-21-MIN-0192 refers].
- 14 We propose a risk-based model for allocation of contingency across the projects. We have differentiated between higher risk, lower risk, and rescoped projects, as set out in Table 1. We propose that:
 - 14.1 for lower risk projects, including Takitimu North Link Stage 2 route protection, Delivery Agencies have discretion to manage the project-level contingency
 - 14.2 for higher risk projects and rescoped projects, Delivery Agencies will have discretion up to an agreed amount (equivalent to the previously calculated P50 levels of the higher risk projects, and an initial allocation for the rescoped projects), with the remaining project allocation released upon agreement by Joint Ministers
 - 14.3 a 'portfolio level' contingency will be held separately, to be released upon agreement by Joint Ministers.

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Table 1: Revised Project Funding Allocations by Sub-Programme and Risk Category

Risk category agreed by Ministers	Project	Total approved funding (\$m)	Delivery Agency allocation (\$m)	Delivery Agency Contingency (\$m)	Joint Ministers' Tagged Contingency (\$m)
Lower	SH58	105			
Lower	SH1/29	40			
Lower	Takitimu North Link Stage 1	655			
Lower	Papakura to Drury South Stage 1	655			
Lower	Canterbury Package	300			
Lower	Queenstown Package	115			
Lower	Melling	420			
Higher	Penlink	830			
Higher	Active mode and public transport investments (including Waitemata cycling link and ATAP support)	785			
Higher	Otaki to North of Levin	1,500			
Lower - Route protection	Takitimu North Link Stage 2	57			
Rescope	South Auckland	874			
Rescope	Whangārei to Port Marsden*				
Sub total- Waka Kotahi Projects					
Lower	Wiri to Quay Park	318			
Lower	Papakura to Pukekohe electrification	375			
Lower	Wellington Railway Station safety	88			
Lower	Wairarapa Rail Upgrades	156			
Lower	Capital Connection rolling stock	26			
Lower	Drury Rail Stations (three stations)	495			
Lower	Otiria to Whangārei				
Rescope	Marsden Point Link*				
Sub total- KiwiRail Projects					
Portfolio Contingency					
Total		8,726			

*allocations to be finalised once Business Cases for rail and road projects have been completed (estimated to be February 2022)

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- 15 To give effect to the project allocations in Table 1, \$6.617 billion will be appropriated, and \$ [REDACTED] retained in the tagged capital contingency [REDACTED] as portfolio level contingency, and \$ [REDACTED] held against projects).

Developing a future model for oversight and monitoring

- 16 Delivery Agencies and officials have developed potential arrangements to reflect a balance of delivery momentum and oversight for the Crown on several areas including key risk factors. The key principles of this approach are:
- 16.1 *Decision-making* — Joint Ministers will retain decision-making rights at key points in higher risk and rescoped project lifecycles, while lower risk projects will largely proceed as planned. This will ensure proposed projects are consistent with Joint Ministers' expectations on outcomes, benefits, and cost, and that any substantive variations are clearly acknowledged and agreed to.
 - 16.2 *Assurance* — Delivery Agencies will follow their own internal processes as required, including Treasury Gateway reviews (where appropriate), internal assurance reviews, Board oversight and decision making.
 - 16.3 *Progressing higher risk and rescoped projects* — for projects still in their Detailed Business Case (DBC) stage, DBCs will be provided to Joint Ministers for approval after being approved by the respective Delivery Agency Board. Delivery Agencies have been directed to not revisit decisions within these business cases, meaning that the DBC for Marsden Point Link rail project will not revisit the strategic case, economic case, or option selection.
- 17 Details of the arrangements will be documented between the relevant parties to maintain clear expectations about areas such as scope, roles and responsibilities, and information sharing requirements.
- 18 Cabinet noted [CAB-21-MIN-0071 and CAB-21-MIN-0192 refer] that the Programme will be monitored by the Implementation Unit within the Department of the Prime Minister and Cabinet, and that Cabinet will receive regular updates on the delivery of the Programme. The Implementation Unit is still in its establishment stage and is currently not focussed on the Programme.

Thresholds for escalation

- 19 Officials and Delivery Agencies have worked collaboratively to develop a set of thresholds that will determine escalation points to Joint Ministers. These reflect the principles to:
- 19.1 enable Joint Ministers to retain control over key decisions, particularly for higher risk projects

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- 19.2 empower Delivery Agencies to deliver the projects in line with their delegated authority
 - 19.3 incentivise discipline across the parameters of scope, cost and schedule
 - 19.4 not unnecessarily delay project delivery
 - 19.5 provide a transparent structure that clearly lays out expectations for all parties.
- 20 Table 2 summarises the thresholds that trigger escalation to Joint Ministers.

Table 2 – Escalation Thresholds

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 rescoped projects (\$██████████ for Waka Kotahi; ██████████ for KiwiRail)*
	Project EAC exceeds Delivery Agency funds appropriated for the project
Schedule	For projects that <u>have not</u> yet awarded the main construction contract: <ul style="list-style-type: none"> - Construction <u>start</u> is delayed by 6 months - Construction <u>end</u> is delayed by 6 months
	For projects that have awarded the main construction contract: <ul style="list-style-type: none"> - Construction start is delayed by 3 months - Construction end is delayed by 3 months

**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*

- 21 Escalation will involve a two-step process whereby:
- 21.1 Delivery Agencies will notify Joint Ministers and officials that a threshold has been triggered as soon as practicable
 - 21.2 following notification of a threshold being triggered and advice from officials, Joint Ministers will consider directing Delivery Agencies to provide comprehensive information and options to Joint Ministers for possible decisions.
- 22 We will set out clear expectations in a delegation letter to Delivery Agencies about the escalation thresholds and obligations following the triggering of an escalation threshold.

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- 23 Where a contract with a value of over \$100 million is to be approved by the respective Delivery Agency Board, Delivery Agencies will brief Joint Ministers, for their information. This will include confirmation that awarding the contract is within the expected cost of the project, with reference to previously agreed project allocations [CAB-21-MIN-0192 refers].

Programme oversight arrangements

- 24 We propose changing the Programme's current oversight arrangements to enable efficient delivery while also ensuring sound monitoring and assurance processes. We will disestablish the existing independent oversight group, instead relying on the Delivery Agencies' own governance arrangements to identify and manage risks and provide assurance to Ministers. We are not expecting the Ministry to be accountable for assurance, or the identification of project risks. Instead, the Ministry will undertake its typical role as per standard Vote Transport accountability monitoring, with an additional ability to review reporting and escalate as appropriate.
- 25 Our delegation letters will outline a clear governance construct, including applicable delegations and monitoring roles, and responsibilities. The letters will emphasise that Ministers are expecting a high level of assurance from Delivery Agencies' Boards; and will actively hold those Boards to account for the successful delivery of the Programme. The letters will also include requirements for information provision to the Ministry, so that the Ministry is able to carry out its Vote Transport monitoring role.
- 26 Under this approach, the Ministry will not be resourced or expected to fulfil its current role to the extent of providing additional assurance, deep dives, and external independent review. These functions will be the responsibility of the respective Delivery Agency Boards.

Re-prioritising the Northern Pathway

- 27 Joint Ministers have re-considered the proposed Northern Pathway investment and we now consider that for the proposed amount, \$785 million, there are other transport infrastructure investments that would better support our desire to increase progress towards our emissions reduction objectives at this time.
- 28 We have also listened carefully to the views of the public and interested groups. We acknowledge that a link across the Waitematā is critical, multiplying the benefits of the strategic walking and cycling investment in Tāmaki Makaurau Auckland to date. However, we have more fully considered the alternative options for this connection. In light of the current fiscal pressures and ongoing work regarding an Alternative Waitematā Harbour Crossing, Ministers have decided to set aside the funding for a different mix of investments. This will include the Seapath project and investigating a way for cyclists to cross the Waitematā Harbour.

29 Alternative options for cyclists to cross the Waitematā Harbour that can be implemented in the short term are primarily a dedicated ferry service or a dedicated bike bus for active mode users. Waka Kotahi has previously investigated dedicated ferry service, operating from 6am to 12am daily on a 15 min frequency from Northcote to Wynyard or a dedicated bus for active mode users, operating 6am to 12am daily on a 10 min frequency from Stafford to Westhaven. [REDACTED]

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30 We propose to ring-fence the remaining funding within the Programme's tagged capital contingency to investigate three high-priority categories of investment to:

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30.1 support Auckland Transport Alignment (ATAP) funding pressures alongside the National Land Transport Fund. We intend for this funding to support the Eastern Busway project, which together with funding from the NLTF will see Government [REDACTED]

30.2 support additional priority investments in the Auckland cycle network, with Waka Kotahi to report-back with proposals and governance arrangements

30.3 provide for support for regional projects that support climate change and housing objectives, with Waka Kotahi to report-back with proposals and governance arrangements.

31 Waka Kotahi will work with the Ministry and the Treasury to provide advice on the options, scope, and cost for the areas outlined in paragraph 29 above, as well as management and governance arrangements for these revised investments. Waka Kotahi will report back to joint Ministers on the outcome of this work. This report-back will enable decisions by Joint Ministers before 1 July 2022.

32 It is important to note that final amounts for the SeaPath and a way for cyclists to cross the Waitematā Harbour are still being developed by Waka Kotahi. This will determine how much is made available for the other investments listed above. We expect that there will also be additional costs associated with not proceeding with the Northern Pathway standalone option.

33 Depending on the options presented for the proposed categories of investment in paragraph 29 above, it is possible that a proportion of this re-allocated funding will need to be swapped from capital to operating expenditure. 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 based on our decisions before 1 July 2022. CIPAs will also be prepared for these proposed investments before draw-downs can proceed.

Climate Implications of Policy Assessment

- 34 Cabinet previously agreed that drawdown of tagged capital contingency funding will be subject to CIPAs being completed for individual projects and the Programme as a whole, with those CIPAs being considered by Joint Ministers and the Minister for Climate Change [CAB-21-MIN-0192 refers].

Advice from Officials

- 35 The Ministry for the Environment worked with the Ministry, Waka Kotahi, and KiwiRail, to ensure a consistent and robust approach to emissions modelling and assessment was used. However, this is the first time CIPA requirements have been applied to a land transport programme and associated projects, which has identified various limitations with the assessment in how emissions enabled by project (or intervention) within a broader system context are considered.
- 36 The Ministry of Transport and Waka Kotahi note it is important to consider emissions at a system level, and not necessarily on a project-by-project basis. It is also important to consider the imperative to reduce emissions alongside the other Programme outcomes, such as supporting growth, improving safety, and providing accessible and affordable travel choices.
- 37 Quantification of the Programme emissions impact is challenging as only some of the individual projects are specifically intended to support emission reduction, while other projects within the programme are more focussed on delivering other outcomes, such as improving safety. The CIPA information also represents high level emission estimates only, which have been completed at a single, early point in the project lifecycle.
- 38 A CIPA has only been partially completed for Takitimu North Link Stage 1 project due to the availability of traffic modelling data, and has not been completed for the re-scoped Whangārei to Port Marsden (road), the South Auckland project, and the Northern Pathway replacement projects as the scope of these projects are yet to be confirmed.
- 39 The Delivery Agencies have developed emissions analysis for all projects except for the rescoped projects (which need to go through further development before emissions analysis is possible).
- 40 This means it has not been possible to complete a programme-level CIPA which includes all the projects – instead the programme-level CIPA excludes the three projects being rescoped and the Takitimu North Link Stage 1 project (for which the CIPA has only been partially completed).

- 41 The Ministry for the Environment has assessed the modelling that has been completed at a high-level and consider the estimates to follow good practice and use reasonable assumptions.
- 42 However, a comprehensive assurance process for the Programme as a whole has not been completed as estimates have not been completed for the rescope projects. The Ministry for the Environment have therefore considers that the CIPA for the whole of NZUP as a programme to be incomplete.
- 43 The Ministry for the Environment is supportive of the intended investment in projects that will directly or indirectly reduce emissions. However, the Ministry for the Environment are mindful that infrastructure projects result in significant embodied emissions during the initial construction phase, while the subsequent enabled emissions reductions will only manifest years into the future.
- 44 The Ministry for the Environment CIPA team have reviewed the results for the remaining projects in NZUP with completed embodied and enabled emissions estimates and supports the modelling approach taken for the individual projects.
- 45 The Ministry for the Environment are supportive of the intended investment in projects that will directly or indirectly reduce emissions. While the modelling indicates that the infrastructure projects result in significant embodied emissions during the initial construction phase, the subsequent enabled emissions reductions in the long term result in a net decrease in emissions (cumulatively across the projects that have been assessed). The Ministry for the Environment also notes that there is an inherent high level of uncertainty in both the embodied and enabled emissions estimates. Ultimately, broader transport measures (for example, measures to increase public transport and EV uptake), will be much more significant in determining the level of net emissions reductions from transport that will be achieved in New Zealand.
- 46 The Ministry for the Environment are supportive of the consideration given to emissions reductions and consider it likely that the emissions reducing projects contained within this programme align with our intended long-term emissions reduction targets.
- 47 The Ministry for the Environment team will continue to work with the Ministry of Transport and Delivery Agencies to assess the programme emissions impacts as the remaining modelling information and completed CIPA estimates for individual projects becomes available.

Outcome of CIPA consideration by Ministers of Transport, Finance and Climate Change

- 48 The completed CIPA results so far show an overall cumulative emissions reduction across the Programme of 334.5 kilo-tonnes of CO₂-e. While the remaining CIPA results are not yet known Joint Ministers expect that, if

appropriately scoped, they are unlikely to tip the balance of the programme from negative emissions to positive emissions.

- 49 The Ministers of Transport, Finance and Climate Change have considered the completed CIPA information and have agreed that they are comfortable with projects that have complete CIPAs moving forward. Funding from the tagged capital contingency can be drawn down for these as appropriate. Summarised CIPA information is attached in Appendix 1.
- 50 Cabinet agreed that drawdown of tagged capital contingency funding was subject to CIPAs being completed for individual projects and the Programme as a whole. We seek Cabinet's approval to depart from this process and instead Cabinet agree that:
- 50.1 drawdown of tagged capital contingency funding be approved for all projects except the Whangārei to Port Marsden (road), the South Auckland project and those projects/ programmes to be funded from the reallocated Northern Pathway funding.
- 50.2 for the Whangārei to Port Marsden (road), the South Auckland project and for those projects/ programme to be funded from the reallocated Northern Pathway budget, drawdown of tagged capital contingency funding be subject to the CIPAs being completed for the project and being considered by joint Ministers and the Minister for Climate Change.

Financial Implications

- 51 To give effect to the risk-based funding model described above in Table 1, the total amount appropriated across road and rail sub-programmes needs to be increased from \$6.553 billion to \$6.617 billion. The amount in the Programme tagged capital contingency will increase from \$1.926 billion to \$ [REDACTED]
- 52 When the Programme was initially set up, Joint Ministers retained \$247 million to fund the Drury Stations until further decisions could be taken. The full \$247 million can now be appropriated following Cabinet's previous decision to proceed with three Drury Rail Stations [CAB-21-MIN-0192 refers]. This will be funded from the Capital Investment Package [CAB-19-MIN-0572 refers] and is required to give effect to the risk-based funding model.
- 53 Subject to advice from Waka Kotahi, Joint Ministers may re-appropriate funding up to the total Northern Pathway allocation of \$785 million for investigating an alternate cycling crossing over the Waitematā Harbour and the areas of investment outlined at paragraph 29 above. In the interim, \$500 million will be returned to the Programme tagged capital contingency, leaving \$150 million appropriated to cover sunk costs and further work.
- 54 Based on the proposed investments in place of the Northern Pathway, it is possible that a substantive portion of this funding may be required to be

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swapped into operating expenditure, with a corresponding impact on allowances. Following the advice from Waka Kotahi, we will consider options for investments including fiscal implications prior to making a final decision within a timeframe that enables us to consider the implications before 1 July 2022.

55 The overall impact of these funding changes, and the allocation of funding based on risk categories and changes to project funding allocations, means:

55.1 the Waka Kotahi appropriation will decrease by \$726 million, reflecting project allocation changes and Joint Minister's decision to ringfence the Northern Pathway allocation

55.2 the KiwiRail appropriation will increase by \$[REDACTED] million (consisting of an additional \$247 million appropriated to fund the Drury stations and an additional \$[REDACTED] million of additional contingency and transferred funds reflecting project changes)

56 The net impact of these changes results in a return of \$[REDACTED] million to the New Zealand Upgrade Programme – Tagged Capital Contingency [CAB-21-MIN-0192 refers].

Population implications

57 There are no population implications arising from this paper.

Impact Analysis

58 Impact analysis requirements do not apply to the proposals in this paper.

Human Rights

59 The proposals in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

60 This paper was prepared by the Ministry of Transport. The Treasury, Waka Kotahi, KiwiRail, and the Ministry for the Environment CIPA team were consulted on this Cabinet paper. The Department of the Prime Minister and Cabinet was informed.

Communications

61 The decisions will be communicated to Delivery Agencies via a delegation letter.

62 A public communications approach will be agreed with the Prime Minister's Office.

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Proactive Release

- 63 This paper will be proactively released within 30 business days of decisions being confirmed by Cabinet, with any appropriate redactions.
- 64 Project-level CIPA information may also be released proactively.

Recommendations

The Ministers of Finance and Transport recommend that the Committee:

- 1 **note** that 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 (CAB-21-MIN-0192 refers), including:
- 1.1 parameters for managing and accessing tagged contingency funds (including business case requirements)
- 1.2 a future model for oversight and monitoring

Climate Implications of Policy Assessment report back

- 2 **note** 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
- 3 **note** that CIPAs have been completed for the majority of the Programme and shared with the Minister for Climate Change
- 4 **note** that a CIPA has only been partially completed for Takitimu North Link Stage 1 project, and has not been completed for the re-scoped Whangarei 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 **note** 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 **note** that CIPAs for projects except those noted in recommendation 4, at the remaining Programme level have been completed
- 7 **note** that the Ministry for the Environment has been consulted and is confident in the general approach employed and have provided a qualified quality assurance statement for the whole Programme and assurance that

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supports individual CIPAs for the projects where estimates have been completed

- 8 **note** that the Ministers of Transport, Finance and 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 **agree** to depart from the requirement outlined in recommendation 2 and instead:
- 9.1 **agree** 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 **agree** 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 for Climate Change.
- 9.3 **agree** that in order to draw down the tagged contingency following the assessment by joint Ministers and the Minister for 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 **note** 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 **note** that Joint Ministers have agreed a risk-based approach for allocating contingency funding and managing the Programme going forward
- 12 **note** 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 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

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- 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 **note** 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 **note** 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 rescoped projects (\$ █████ billion for Waka Kotahi; \$ █████ 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"> - Construction <u>start</u> is delayed by 6 months - Construction <u>end</u> is delayed by 6 months
	For projects that have awarded the main construction contract: <ul style="list-style-type: none"> - Construction start is delayed by 3 months - Construction end is delayed by 3 months

**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 **note** 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 **note** that for the rescoped projects the cost escalation thresholds do not reflect risk adjusted estimates and will be revised when business cases are completed
- 17 **note** 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

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- 18 **note** 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 **note** 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 from them a high level of accountability and assurance, as well as requirements for information provision
- 20 **note** 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 **note** Joint Ministers have re-considered 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 **agree** that the Northern Pathway project is stopped, and 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 **agree** that joint Ministers investigate the Seapath project and alternative way for cyclists to cross the Waitematā Harbour, in accordance with recommendations 20 and 21 above
- 24 **agree** that, pending further work by officials and Waka Kotahi, to inform Joint Ministers decisions on the final alternative mix of investments outlined in recommendations 20 to 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 with particular support for the Eastern Busway project, [REDACTED]

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- 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 **authorise** joint Ministers to take final decisions on the alternative investment mix consistent with recommendations 22 and 23 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
- 26 **note** 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

Appropriation and Tagged Contingency changes

- 27 **note** that on 31 May 2021 Cabinet [CAB-21-MIN-0192 refers]:
 - 27.1 **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	-	-	-

- 27.2 **authorised** the Minister of Finance and Minister of Transport (as Joint Ministers) jointly to draw down the tagged capital contingency funding in recommendation 26.1 above on a project-by-project basis subject to:
 - 27.2.1 Establishing parameters for managing access to programme and project contingency, based on advice from Officials.
 - 27.2.2 Climate Implications of Policy Assessments being completed for individual projects and the Programme as a whole (for consideration by Joint Ministers and the Minister for Climate)
- 28 **note** the parameters for accessing tagged contingency, in addition to completion of the CIPAs (as per recommendations 8-9 above), have been agreed by Joint Ministers as:

- 28.1.1 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
- 28.1.2 for higher-risk and rescoped projects, agreement from Joint Ministers to a fit-for-purpose Business Case
- 28.1.3 for all requests, confirmation from the respective Delivery Agency Boards that:
 - 28.1.3.1 the project is likely to fall within the approved funding for the project
 - 28.1.3.2 there are appropriate processes, capacity and capability in place to successfully manage the project

- 29 **agree** that the conditions specified in recommendation 26.2 above have been satisfied, and drawdowns from the tagged capital contingency can now proceed
- 30 **note** that joint Ministers have moved Melling, the Drury Stations projects and Takitimu North Link Stage 2 Route Protection into the lower-risk category
- 31 **note** that in the case of the South Auckland package business cases, the Minister of Housing and Urban Development must be consulted
- 32 **agree** that the risk-based model for managing appropriated and contingency funds is structured as follows:

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

- 32.1 [Redacted]
- 32.2 [Redacted]
- 32.3 [Redacted]

- 33 **agree** that, to give effect to decisions regarding the Northern Pathway described at recommendation 21 above, \$500 million will be returned to the Tagged Capital Contingency described at recommendation 26.1 above, leaving \$150 million appropriated to cover sunk costs and further work

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

- 34 **agree** to reduce appropriated funding for Waka Kotahi by \$726 million, and increase appropriated funding for KiwiRail by \$ [Redacted] million, reflecting the change in project makeup in the Programme described in recommendations 31 and 32 above

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- 35 **agree** that the balance of the funding changes in recommendation 33 above be recognised as a corresponding increase in New Zealand Upgrade Transport Projects – Tagged Capital Contingency in Vote Transport, described in recommendation 26.1 above
- 36 **approve** the following changes to appropriations to provide for the decisions in recommendation 33 above, with a corresponding impact on net core Crown debt

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

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	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)	-	██████████	-	-	-
Total Capital	-	██████████	-	-	-

- 37 **note** that, to give effect to the policy decision in recommendation 33 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 recommendation 27 being satisfied and the completion of a satisfactory CIPA, will be as follows:

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

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

Additional appropriation changes

- 38 **note** 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
- 39 **note** that Cabinet has decided to proceed with three Drury rail stations [CAB-21-MIN-0192 refers] and funding can now be appropriated
- 40 **approve** the following changes to appropriations to give effect to the decision described in recommendation 38 above, 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 & Outyears
Non-departmental Capital Expenditure: Rail – KiwiRail Holdings Limited (M72)	-	247.000	-	-	-

- 41 **agree** that the proposed changes to appropriations for 2021/22 in recommendations 35 and 39 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply
- 42 **agree** that the capital expenditure described in recommendation 39 above is funded from the previously agreed Capital Investment Package [CAB-19-MIN-0572 refers], and not the budget allowances

Ongoing appropriation management

- 43 **note** that further work will be completed to determine the phasing of the appropriated expenditure and appropriated amounts will be adjusted accordingly through future baseline updates
- 44 **note** that the Minister of Finance and Minister of Transport, acting jointly, are authorised to make changes to the Programme where no new funding is required, including rescoping projects and re-allocating funds between projects.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Michael Wood
Minister of Transport

PROACTIVE RELEASED BY
TE MANATŪ WAKA MINISTRY OF TRANSPORT

APPENDIX 1: CLIMATE IMPLICATIONS OF POLICY ASSESSMENT

CIPA reporting

- 1 On 31 May 2021, Cabinet re-confirmed the NZ Upgrade Programme's projects and funding. It was noted that the decision (Cabinet Office Circular CO(20)3) would ordinarily require a CIPA, officials were still completing CIPAs for individual projects and the programme as a whole. Cabinet further noted the authority of the Joint Ministers to draw down on the tagged capital contingency is not available until the CIPA work has been completed and considered by Joint Ministers and the Minister for Climate Change.
- 2 The assessment of emission changes as required for the CIPA was conducted by Waka Kotahi and KiwiRail on each project in the programme. The results were reviewed by the Ministry for the Environment and the Ministry of Transport.
- 3 The CIPA disclosure reports on projects in the programme as well as the overall programme. All emissions in the first reporting period come from construction and some projects also have construction emissions in the second reporting period.
- 4 Changes in enabled emissions are based on estimates of transport mode and demand change. The CIPA reports on the net emissions changes arising from the projects rather than the gross transport emissions. The estimated changes in transport demand are based on the additional capacity provided by the new infrastructure and any redistribution of demand from the surrounding network.

KiwiRail emissions estimates

- 5 For KiwiRail projects, the additional rail capacity provided is assumed to be realised as mode shift from road to rail for both passenger and freight movements. This results in a reduction of enabled emissions. The forecasts for mode shift are held constant after the initial ten years of operation. The Whangārei to Port Marsden project has a different approach as it is based on more detailed KiwiRail forecasts for freight volumes from Northland and 30-year rail model.
- 6 The simplified CIPA approach used for rail projects is based upon a current fleet model snapshot that does not include future rail and road vehicle fleet efficiency improvements. This omission might overestimate the level of emissions reduction but is countered by the simple mode shift forecasting as described above.

Waka Kotahi vehicle fleet forecasts

- 7 A more sophisticated vehicle fleet forecast is used by Waka Kotahi that includes efficiency and emissions improvements. This means that future road traffic emissions can decrease without road improvements as the fleet improves. This is consistent with the emissions modelling used by the Ministry of Transport.

Waka Kotahi demand forecasts

- 8 Modelling by Waka Kotahi considers land use change to calculate the enabled emissions. These models are used to size the projects to provide an optimal level of capacity, on the basis that new roads do not become congested until well into the future or no worse than the existing network.
- 9 Waka Kotahi as a provider of public road infrastructure has limited ability to manage the traffic demand on the new roads. The enabled emissions arising from these roads is dependent on the land use responses to the additional transport infrastructure. It is important that these land use changes are well managed by local planners to manage the emissions performance. If congestion is induced by land use changes then emissions will increase.

Road projects that generate little change or no additional traffic

- 10 A detailed CIPA assessment for the Melling project was conducted and used as the benchmark for the smaller road projects that have little to no impact on enabled emissions relative to the programme overall. These small projects include SH58, SH1/SH29, the Canterbury package and the Queenstown package, for which embodied emissions only (from construction) have been reported.

Early emissions estimates

- 11 More detailed modelling of project impacts will be available as business cases develop from both KiwiRail and Waka Kotahi. For the simpler projects, with localised impacts and little network interdependencies, the lack of detail is not an impediment for CIPA and assessments have been provided in this paper.
- 12 The CIPA for the Otaki to North Levin project is an early assessment based on available modelling. Further modelling is underway to look at the effects of this project within the wider network that may reduce the estimated enabled emissions.
- 13 The CIPA for the Takitimu North Link Stage 1 project considers construction emissions only. This is due to the complexity of separating the enabled emissions from Takitimu North Link Stage 2. Information on enabled emissions for Stage 1 will be provided when it is available.

Projects not sufficiently settled in scope

- 14 The re-scoped Whangārei to Port Marsden (road), Mill Road and replacement for Northern Pathway projects are unable to be assessed at this time, as scope has not been confirmed. A CIPA will be provided once project scope is sufficiently defined.

Ministry for the Environment CIPA statement

- 15 The CIPA team has assessed the modelling that has been completed at a high-level and consider the estimates to follow good practice and use reasonable assumptions.

- 16 However, a comprehensive quality assurance process for the programme as a whole has not been completed as estimates have not been completed for the Takitimu North Link Stage 1, Takitimu North Link Stage 2, Whangārei to Port Marsden (road), Mill Road and the Northern Pathway replacement projects. The Ministry for the Environment therefore considers that the CIPA for the whole of NZUP as a programme to be incomplete.
- 17 The CIPA team have reviewed the results for the remaining projects in NZUP with completed embodied and enabled emissions estimates and supports the modelling approach taken for the individual projects.
- 18 The Ministry for the Environment is supportive of the intended investment in projects that will directly or indirectly reduce emissions. While the modelling indicates that the infrastructure projects result in significant embodied emissions during the initial construction phase, the subsequent enabled emissions reductions in the long term result in a net decrease in emissions (cumulatively across the projects that have been assessed).
- 19 The Ministry for the Environment also notes that there is an inherent high level of uncertainty in both the embodied and enabled emissions estimates. Ultimately, broader transport measures (for example, measures to increase public transport and EV uptake), will be much more significant in determining the level of net emissions reductions from transport that will be achieved in New Zealand.
- 20 The Ministry for the Environment are supportive of the consideration given to emissions reductions and consider it likely that the emissions reducing projects contained within this programme align with our intended long-term emissions reduction targets.
- 21 The CIPA team will continue to work with the Ministry of Transport to assess the programme emissions impacts as the remaining modelling information and completed CIPA estimates for individual projects becomes available.

The Ministry of Transport's CIPA recommendation

- 22 The CIPA requirements are not intended for assessing individual infrastructure projects. For infrastructure projects there are recognised international approaches that utilise detailed modelling on a fully specified design. These detailed project assessments are important for carbon accounting and complement policy level CIPA. Detailed bottom up emissions assessment (alongside other impacts) will still be required as business case development continues.
- 23 Some of the projects have detailed modelling of network impacts that go beyond what is expected for a CIPA. These have not been quality assured by the Ministry of Transport or the Ministry for the Environment but follow Waka Kotahi standards for independent model calibration and validation.
- 24 While fully specified designs are not yet available, there is sufficient project scope and information for the majority of projects to apply the CIPA top down approach. This allows a CIPA assessment at a sufficient level to understand the emissions

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impacts. Waka Kotahi is developing approaches to assess emissions during business case development, which have been utilised for this current CIPA.

- 25 Whangārei to Port Marsden (road), Mill Road and the Northern Pathway replacement were identified for rescoping and do not have enough supporting evidence to conduct a CIPA. No CIPA is required for Tākitimu North Link Stage 2 as the programme is only funding route protection. The CIPA for Tākitimu North Link Stage 1 is incomplete as no estimate has been provided for enabled emissions.
- 26 The following tables contain the CIPA results. The first two reporting periods for 2021-25 and 2026-30 are dominated by the construction (embodied) emissions of the projects. Subsequent years show a net reduction in emissions from the entire programme but varied contributions across the projects.

Summary in the CIPA reporting format

- 27 Programme Estimated Emissions Changes (tonne of CO₂-e) - By Emissions Budget Period.
Positive numbers are emissions increases. Negative numbers are emissions decreases.

Sector & source	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO ₂ -e)						Cumulative impact
	2021-25	2026-30	2031-35	2036-40	2041-45	2046-50	
Electricity							
Transport – enabled/travel	-36,730	-114,060	-167,820	-210,220	-206,680	-212,280	-947,790
Transport – embedded/construction	368,460	244,790	-	-	-	-	613,250
Industry							
Waste							
Agriculture							
Land use, land use change and forestry							
Total	331,730	130,730	-167,820	-210,220	-206,680	-212,280	-334,540

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28 Project Estimated Emissions Changes (tonne of CO₂-e) - By Emissions Budget Period.
 Project reporting split into embodied (construction) and enabled (use) emissions.
 Positive numbers are emissions increases. Negative numbers are emissions decreases.

Project	2021 – 2025	2026 – 2030	2031 – 2035	2036 – 2040	2041 – 2045	2046 – 2050	Cumulative impact	Comments
1. SH58	2,720	680					3,400	Safety project with no additional traffic; no change in enabled emissions
Embodied	2,720	680					3,400	
Enabled								
2. SH1/29	3,800						3,800	Roundabout replaces intersection; emissions reduction immaterial
Embodied	3,800						3,800	
Enabled								
3. Tākitimu North Link Stage 1	63,370		Pending	Pending	Pending	Pending	63,370	Enabled emissions will be available once further modelling complete.
Embodied	63,370						63,370	
Enabled			Pending	Pending	Pending	Pending	Pending	
4. Canterbury Package	9,260	2,800					12,060	Some mode shift and improved flow; emissions reduction immaterial
Embodied	9,260	2,800					12,060	
Enabled								
5. Queenstown Package	2,800						2,800	Some mode shift and improved flow; emissions reduction immaterial
Embodied	2,800						2,800	
Enabled								
6. Wiri to Quay Park	1,110	-18,900	-18,320	-18,320	-18,320	-18,320	-91,070	Road to rail passenger mode shift
Embodied	7,290						7,290	
Enabled	-6,180	-18,900	-18,320	-18,320	-18,320	-18,320	-98,360	
7. Papakura to Pukekohe electrification	-3,330	-27,320	-27,210	-26,340	-25,470	-24,170	-133,840	Replacing diesel with electric traction
Embodied	3,180						3,180	
Enabled	-6,510	-27,320	-27,210	-26,340	-25,470	-24,170	-137,020	
8. Wellington Railway Station safety	420						420	No mode shift, only emissions from construction
Embodied	420						420	
Enabled							-	
9. Wairarapa Rail Upgrades	4,040	-5,270	-5,270	-5,270	-5,270	-5,270	-22,310	Estimates of avoided rail to road mode shift
Embodied	5,090						5,090	
Enabled	-1,050	-5,270	-5,270	-5,270	-5,270	-5,270	-27,400	
10. Capital Connection Interim replacement rolling stock	-15,300	-29,450	-11,780				-56,530	Estimates of avoided rail to road mode shift
Embodied							-	

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Project	2021 – 2025	2026 – 2030	2031 – 2035	2036 – 2040	2041 – 2045	2046 – 2050	Cumulative impact	Comments
Enabled	-15,300	-29,450	-11,780				-56,530	
11. Drury Rail Stations (three stations)	-1,780	-14,980	-14,980	-14,980	-14,980	-14,980	-76,680	Estimates of road to rail mode shift
Embodied	4,210						4,210	
Enabled	-5,990	-14,980	-14,980	-14,980	-14,980	-14,980	-80,890	
12. Melling	6,500	6,500	-2,100	-2,100			8,800	Reduced emissions from congestion relief and small mode shift contribution
Embodied	6,500	6,500					13,000	
Enabled			-2,100	-2,100			-4,200	
13. Penlink (No Toll)	120,000	38,200	-4,500	-1,780	2,300	1,380	155,600	Enabled emissions reduce from shorter route and less congestion than existing routes given planned growth
Embodied	120,000	40,000					160,000	
Enabled		-1,800	-4,500	-1,780	2,300	1,380	-4,400	
14. Papakura to Drury South	49,590	13,410	3,560	7,800	6,780	2,700	83,840	Increase in emissions based on regional model that includes four lane Mill Road
Embodied	49,090	10,910					60,000	
Enabled	500	2,500	3,560	7,800	6,780	2,700	23,840	
15. Northern Pathway replacement	Pending	Pending	Pending	Pending	Pending	Pending	Pending	CIPA available after rescope
Embodied								
Enabled								
16. Whangārei to Port Marsden - Rail	28,530	-17,440	-99,720	-161,130	-161,220	-161,220	-572,200	Estimated road freight to rail mode shift
Embodied	30,730	3,900					34,630	
Enabled	-2,200	-21,340	-99,720	-161,130	-161,220	-161,220	-606,830	
16. Whangārei to Port Marsden - Road	Pending	Pending	Pending	Pending	Pending	Pending	Pending	CIPA available after rescope
17. Otaki to North of Levin	60,000	182,500	12,500	11,900	9,500	7,600	284,000	Enabled emissions based on initial modelling; further modelling will include network impacts on emissions
Embodied	60,000	180,000					240,000	
Enabled		2,500	12,500	11,900	9,500	7,600	44,000	
18. Tākitimu North Link Stage 2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Route protection only
19. Mill Road	Pending	Pending	Pending	Pending	Pending	Pending	Pending	CIPA available after rescope
Total	331,730	130,730	-167,820	-210,220	-206,680	-212,280	-334,540	
Embodied	368,460	244,790	-	-	-	-	613,250	
Enabled	-36,730	-114,060	-167,820	-210,220	-206,680	-212,280	-947,790	

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