



Release of contingency funding for the Tairāwhiti Roothing Package

Reason for this briefing	Waka Kotahi NZ Transport Agency has developed an acceleration pathway intended to deliver three projects in the Tairāwhiti Roothing Package ahead of the timeframe agreed to at the time Cabinet approved funding for them under the Provincial Growth Fund.
Action required	Approve the draw down of \$ <small>Commercial Information</small> from tagged contingency funds to Vote Transport for the implementation of three projects in the Tairāwhiti Roothing Package.
Deadline	17 December 2019
Reason for deadline	To allow decisions to be made before the Christmas holiday period that would enable the accelerated timeframes to be met.

Contact for telephone discussion (if required)

Name	Position	Telephone	First contact
Marian Willberg	Acting Manager, Investment	<small>Privacy of natural persons</small>	✓
<small>Privacy of natural persons</small>	Adviser, Investment	<small>Privacy of natural persons</small>	

MINISTERS' COMMENTS:

Date:	11 December 2019	Briefing number:	OC191256
Attention:	<p>Hon Grant Robertson Minister of Finance</p> <p>Hon Phil Twyford Minister of Transport Minister for Economic Development</p> <p>Hon David Parker Minister for Trade and Export Growth</p> <p>Hon Shane Jones Minister for Regional Economic Development</p>	Security level:	In confidence

Minister of Transport's office actions

- | | | |
|--|--|---|
| <input type="checkbox"/> <i>Noted</i> | <input type="checkbox"/> <i>Seen</i> | <input type="checkbox"/> <i>Approved</i> |
| <input type="checkbox"/> <i>Needs change</i> | <input type="checkbox"/> <i>Referred to</i> | |
| <input type="checkbox"/> <i>Withdrawn</i> | <input type="checkbox"/> <i>Not seen by Minister</i> | <input type="checkbox"/> <i>Overtaken by events</i> |

Purpose of report

1. This briefing recommends Regional Economic Development Ministers approve (out of session) a draw down of \$Commercial Information tagged contingency in the Provincial Growth Fund (PGF) to Vote Transport, to accelerate work on three state highway projects in the Tairāwhiti¹ Roothing Package (the Package).
2. The Waka Kotahi NZ Transport Agency (Transport Agency) has advised that it and the Provincial Development Unit (PDU) (within Ministry of Business, Innovation and Employment) have followed the processes approved by Cabinet in August 2018 to an extent that officials can recommend Ministers draw down from tagged Provincial Growth Fund (PGF) contingency funding.

Background to the Tairāwhiti Roothing Package

3. On 20 August 2018, Cabinet agreed to allocate up to \$151.7 million from the PGF to the Package, acknowledging that the total amount was expected to decrease after finalisation of the 2018-21 National Land Transport Programme (NLTP) [DEV-18-MIN-0171 refers].
4. Following adoption of the 2018-21 NLTP by the Transport Agency Board on 31 August 2018, the two funding sources were reconciled and the total PGF investment was confirmed as up to \$137 million, with a contribution of \$Commercial Information from the Commercial Information [REDACTED].
5. The Package is made up of four components:
 - 5.1. a two-year physical works programme totalling \$Commercial Information
 - 5.2. funding support for emergency repairs up to \$2.2 million
 - 5.3. delivery of a five-year pipeline consisting of \$3.9 million for investigations and up to \$108.1 million for implementation (totalling \$112 million), with construction scheduled to commence in the Commercial Information
 - 5.4. resource support up to \$1 million.
6. All components of the Package are on schedule; investigations for the Transport Agency's state highway projects are at least six months ahead of schedule.
7. As part of the \$137 million of PGF funds allocated to the Package, Cabinet agreed to \$108.1 million being tagged as contingency that can be drawn from to implement projects in the five-year pipeline once certain conditions have been met. The three state highway projects that are the focus of this briefing were allocated \$Commercial Information of this contingency.
8. On 9 December 2019, Cabinet agreed to reprioritise \$Commercial Information of the total \$49 million tagged PGF contingency for the State Highway 2 Waikare Gorge [CAB-19-MIN-0652 refers]. This involved transferring it from contingency to the general PGF, for future use on projects that benefit Tairāwhiti. The PDU is seeking your approval (in a separate briefing) to allocate \$Commercial Information of these funds for five local road projects in Tairāwhiti.

¹ Tairāwhiti covers the same area as the Gisborne District Local and Territorial Authorities. It is a surge region for the Provincial Growth Fund, requiring early investment to enable economic growth in the region.

Accelerating the delivery of the Tairāwhiti Roading Package is dependent on accessing PGF funds ahead of the scheduled allocation

9. One of the operational objectives for the PGF is to have the \$3 billion fund mostly committed and the majority of projects underway by 2020 [CAB-17-SUB-0554 refers]. Ministers therefore requested that an acceleration pathway be explored for the Package to enable a higher level of funding to be contracted and physical works to start in Tairāwhiti in 2020. The Transport Agency advised that projects associated with the \$108.1 million contingency for implementation of the Package's five-year pipeline are the most appropriate to be accelerated.
10. There are six projects in the five-year pipeline:
 - State Highway 35 Resilience
 - State Highway 35 and State Highway 2 Passing Opportunities
 - State Highway 2 Waikare Gorge
 - Tiniroto Road Route Security
 - East Cape Road Route Security
 - Kings Road/Harper Road Upgrade.
11. Officials will provide advice to Ministers in early 2020 about the progress of exploring acceleration pathways for the three local road projects.
12. The Transport Agency has developed acceleration pathways for the three state highway projects that would have them delivered sooner than originally planned and enable a higher level of funding to be committed in 2020. This pathway is dependent on PGF contingency funds being made available in early 2020, engagement with iwi and landowners taking place (as planned), and sufficient and appropriate contractors available to carry out the works within the accelerated timeframe.
13. While the Waikare Gorge project can be accelerated by awarding contracts for pre-implementation work sooner than planned, the Transport Agency recommends that standard business case processes apply for the remainder of the required work, given the size and nature of this project.
14. Therefore, officials are seeking release of tagged contingency funds to Vote Transport amounting to:
 - 14.1. \$Commercial Information for the State Highway 35 Resilience, and State Highway 35 and State Highway 2 Passing Opportunities projects (\$Commercial Information and \$Commercial Information respectively)
 - 14.2. \$Commercial Information for the State Highway 2 Waikare Gorge project to commence pre-implementation work earlier in 2020 than planned (including land purchases and developing a specimen design), and enable the project to be 'investment ready' for future funding.

Accessing tagged contingency in the PGF

15. Authorisation for releasing the contingency funds has been delegated by Cabinet [DEV-18-MIN-0171] to the Minister of Finance, the Minister of Transport, the Minister for Regional

Economic Development, and the Minister of Economic Development on the grounds that the following conditions are met:

- 15.1. completion of the relevant investigation for each project
 - 15.2. confirmation that NLTF funding is not available for the project
 - 15.3. confirmation that the project aligns with PGF criteria.
16. The investigations have been substantively completed and final reports are due in [redacted]. Completion of the business case for each project will first require:
- refinement of Multi-Criteria Analysis and the proposed package based on consultation responses, safety review, and travel time reliability analysis
 - finalisation of the current assessment against PGF criteria
 - endorsement of the procurement strategy
 - production of final business case documents.
17. Based on the current level of information from the investigations, the Transport Agency has confirmed that there is no NLTF funding available for these projects in the current NLTP period, due to the projects' relatively low priority level (compared to other projects across the country) and the current pressures on the NLTF.
18. Furthermore, the PDU has confirmed that the scope of the projects has not changed since they were allocated funds from the PGF, and that they continue to align with PGF criteria and objectives. Officials in the Transport Agency are also confident in the strong potential for these projects to improve outcomes for local communities and industry.
19. Therefore, we consider the conditions set out in paragraph 15 have been sufficiently met to allow Ministers to consider this request to access the tagged contingency for the following projects:
- State Highway 35 Resilience
 - State Highway 35 and State Highway 2 Passing Opportunities
 - State Highway 2 Waikare Gorge.
20. Table 1 outlines current funding components of the three projects in the five-year pipeline.

Table 1. Tairāwhiti Roding Package: five-year pipeline

<i>Project</i>	<i>PGF funding for investigation (\$ millions)</i>	<i>NLTF funding (\$ millions)</i>	<i>PGF contingency funding (\$ millions)</i>	<i>Requested PGF contingency funding release for project acceleration (\$ millions)</i>
SH 35 Resilience	2.0	-	11.5	[redacted]
SH2 and SH35 Passing Opportunities	-	[redacted]	32.6	[redacted]
SH2 Waikare Gorge	-	1.0	49.0	[redacted]

Risks

21. There are risks in agreeing to draw down from the contingency before the final steps outlined in paragraph 16 have been completed. The business cases have, however, been completed to the extent that they provide surety in what the final recommendations will be and the projects can be assessed against the PGF criteria. It is therefore unlikely that the final recommendations will differ from officials' expectations and the criteria for PGF funding would no longer be met upon completion of the steps in paragraph 16.
22. There is also a risk in not agreeing to draw down from the contingency before the final steps outlined in paragraph 16 have been completed. The risk of not meeting the milestones in the accelerated pathway increase significantly if authorisation for accessing the contingency funding is delayed to 2020. Approving the allocation of funds this year will allow contracts for the projects to be awarded from **Commercial Information** and the accelerated timeframe to be met.
23. General project risks related to procurement, property, consent, geotechnical and unforeseen complexities may affect costs and delivery dates. However, these are ordinary project risks and will be managed through standard mechanisms.

Next steps

24. Should Ministers agree to draw down from contingency funds, the Transport Agency will be able to accelerate the State Highway 35 Resilience, SH2 and SH35 Passing Opportunities, and SH2 Waikare Gorge projects.
25. This would involve establishing a funding agreement between the Ministry and the Transport Agency, which would enable the awarding of contracts from **Commercial Information**.

Consultation

26. The Ministry of Business, Innovation and Employment, Treasury, and the Transport Agency have been consulted on this briefing.

Recommendations

27. The recommendations are that you:
 - (a) **note** that delivery of the Tairāwhiti Roading Package is progressing ahead of schedule
 - (b) **note** that Waka Kotahi NZ Transport Agency has developed acceleration pathways to enable a higher level of funding to be committed and physical works started in Tairāwhiti in 2020
 - (c) **note** that to achieve the acceleration pathway, access to tagged contingency in the Provincial Growth Fund for the Tairāwhiti Roading Package is required
 - (d) **note** that on 20 August 2018, Cabinet [CAB-18-0399 refers]:
 - 1.1 **agreed** to allocate up to \$151.7 million of Provincial Growth Fund funding to the Tairāwhiti Roading Package, with \$108.1 million allocated to the delivery of a five-year pipeline of works

- 1.2 **agreed** to establish a tagged contingency of \$108.1 million, with an expiry date of **Commercial Information**, for the purpose of funding the pipeline implementation:

	\$million – increase/(decrease)			
	2018/19	2019/20	2020/21	2021/22
Tairāwhiti Rooding Package Future Pipeline Implementation Tagged Contingency	-	108.100	-	-

- 1.3 **authorised** the Minister of Finance, Minister of Transport, Minister for Regional Economic Development, and Minister of Economic Development to jointly draw down the tagged operating contingency funding in recommendation 1 above, subject to their satisfaction that the conditions set out in paragraph 15 have been met;

- (e) **agree** that conditions have been met for drawing down contingency, to the extent that delegated Ministers can release contingency funding for physical works Yes/No
- (f) **agree** that implementation of the State Highway 35 Resilience, and State Highway 2 and State Highway 35 Passing Opportunities projects be funded through the Provincial Growth Fund Yes/No
- (g) **agree** that pre-implementation work on the State Highway 2 Waikare Gorge project be funded through the Provincial Growth Fund Yes/No
- (h) **approve** the following changes to appropriations to provide for the decision in recommendation 27(f) above, with a corresponding impact on net core Crown debt: Yes/No

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Multi-Category Expenses and Capital Expenditure: Tuawhenua Provincial Growth Fund – Transport Projects Non-departmental Capital Expenditure: Infrastructure Projects	Commercial Information	Commercial Information	-	-	-

Approved/Not approved

- (i) **agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply Yes/No

- (j) **agree** that the expenses incurred under recommendation (g) above be charged against the Tairāwhiti Roothing Package Future Pipeline Implementation Tagged Contingency in Vote BSI, described in recommendation (d)1.2 above.

Marian Willberg
Acting Manager, Investment

MINISTERS' SIGNATURES:

Hon Grant Robertson
Minister of Finance

Date

Hon Phil Twyford
Minister of Transport
Minister for Economic Development

Date

Hon David Parker
Minister for Trade and Export Growth

Date

Hon Shane Jones
Minister for Regional Economic Development

Date