

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2016/2149 DH-40

Date: 7 November 2016

To: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: 8 November 2016

Aide Memoire: Waikeria Prison Development Business Case

Purpose

The Minister of Corrections is seeking your views on a draft Cabinet paper seeking approval to:

- take the proposed Public Private Partnership (PPP) for the development of Waikeria Prison to market, and
- provision for the cost of this development from Budget 2017.

We understand that the Minister of Corrections intends to lodge the paper on Thursday 10 November for consideration at SEC on 16 November. We recommend you support the recommended option in the paper.

Background

On 17 October, Cabinet approved a Programme Business Case for additional prison capacity, and agreed in principle to a proposal to significantly expand the current Waikeria prison by approximately 1500 places in order to meet expected demand. The Minister of Corrections signalled that she would seek Cabinet approval of a detailed business case for this development before the end of the year. This paper seeks that approval.

Prison muster forecasts

The Programme Business Case was based on a long-term forecast for the prison population produced by the Ministry of Justice in July 2016, which incorporated known factors at that time and an allowance for the expected impact of recent decisions to amend Family Violence legislation.

Since that time, the prison muster has continued to rise above the levels predicted in this forecast. As at October, the actual muster was approximately 500 above the

muster predicted for October in the July planning forecast. The Ministry of Justice is currently developing the next forecast, which is due for release in December this year. We understand that this forecast is likely to be higher, reflecting both an adjustment in the starting position of the forecast, and further increases in future years. This is without factoring in any impact of decisions to increase Police numbers, which could have an additional impact.

Implications for preferred option for Waikeria

The Programme Business Case proposed that the Waikeria project could be approved in two stages, in order to provide the flexibility to scale the second stage of the development, up or down in line with demand. This was recommended as a way to balance the higher costs associated with staging the development on the one hand, against the risk of overbuilding and the desirability of avoiding committing resources too early on the other.

The implication of the continued rise in the muster is that it appears increasingly likely that the second stage of the Waikeria development will be needed, so there would appear to be little benefit from the higher cost option of staging the development. However, proceeding with the whole development at this time would have a bigger impact on Budget 2017, as the costs would no longer be spread across two Budgets.

[33]

Business Case options

[33] [38]

The Programme Business Case (PBC) recommended a Design Build Finance and Maintain PPP as the procurement method for the project. Operations was excluded from the procurement model based on the need to retain flexibility over total prisoner numbers and cohort mix. A PPP including operations was considered unlikely to deliver good value for money for the flexibility required for the project.

While Corrections is now recommending proceeding with both stages of the project, we consider that this assessment still holds. The role of the site in the prison network as a release valve for demand fluctuations, and the need to hold open the possibility of further additions to the site should the prison forecast continue to rise, means flexibility remains key to the project.

Fiscal implications

The table below outlines the 10 year cost of both options, and the funding required from Budget 2017.

[38]

In addition to the reduction in cost associated with not staging the project, the total estimated cost of the project under either option has reduced from the estimates produced for the Programme Business Case. This reflects:

- refinement of design assumptions, in particular relating to the proposed cohort mix for the site, which has resulted in one less accommodation block being required
- lower resulting depreciation costs, and
- lower estimated facility maintenance costs across the whole project.

As we have previously advised [T2016/1476 and T2016/1700 refer], given that the project will be a PPP, our recommended approach to treatment of the development is that:

- we provision for the cost of the development at the time that Cabinet commits to the project (November 2016), reflecting the principle of provisioning for costs at the time that decisions to incur those costs are made, based on the best current

estimates of the cost of the development using a traditional procurement approach

- appropriations are established when a preferred bidder has been identified (November 2017), at which point appropriations can reflect the expected cost profile associated with the PPP arrangement, involving payments over 25 years
- final projected costs are confirmed at financial close of the contract (April 2018).

[38]

While the Waikeria Development is the largest item in the Prison Capacity Programme, there are further implications for Vote Corrections in Budget 2017. In particular, Corrections is:

- likely to seek further operational funding to reflect the 'demand-related' costs of the rising prison muster (i.e. costs that would be incurred whether or not additional capacity is built)
- working on contingency plans for the scenario in which the muster continues to rise such that the additional capacity will not be sufficient, or not available in time.

We have not seen the detail of contingency plans yet, but these are likely to involve additional costs if they were required.

We have provided feedback on the draft Cabinet paper and business case, including some recommended changes to the financial recommendations to reflect the approach outlined above. These changes were not captured in the version forwarded for Ministerial consultation, but will be reflected in the version of the paper for lodging.

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