

Reference: 20150062

8 April 2015



Thank you for your Official Information Act request, received on 2 March 2015. You requested the following:

- “- Any advice prepared by officials regarding adjustments to the Public Sector Comparator for the Public Private Partnership Schools Project 2;*
- Any communications, including e-mails, between Treasury and Ministry of Education officials regarding adjustments to the Public Sector Comparator for the Public Private Partnership Schools Project 2;*
- Any communications, including e-mails, between Treasury officials and Ministerial offices regarding adjustments to the Public Sector Comparator for the Public Private Partnership Schools Project 2;*
- A copy of the Treasury guidance for Public Private Partnership projects, as reviewed in 2014”*

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	20 June 2014	Email: PPP PSC Adjustment report –for comment	Release in part
2.	23 June 2014	Email: Updated Education Report	Release in part
3.	24 June 2014	Email: RE: Updated Education Report	Release in part
4.	24 June 2014	Aide Memoire: Schools PPP Project 2 Adjustments to PPP cost calculations	Release in part

5.	27 June 2014	Email: RE: Schools 2 PSC sign off paper	Release in part
6.	30 June 2014	Email: FW: PPP Ed Report	Release in full

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(a) – to protect the privacy of natural persons, including deceased people
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions
- section 9(2)(j) – enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations), and
- document withheld under section 18(d) – the information is or will soon be publicly available.

Information to be Withheld

There is one additional document covered by your request that I have decided to withhold in full under the following section of the Official Information Act, as applicable:

- Document to be withheld under section 18(d) – the information requested is or will soon be publicly available.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Stacey Wymer
Manager, Commercial Advice

Information Being Released

TOIA 20150062

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From: Craig Cliff [Craig.Cliff@minedu.govt.nz]
Sent: Friday, 20 June 2014 5:16 p.m.
To: Rob Giller; Jason Wozniak; Daniel Soughtton [TSY]
Cc: Alan Collins
Subject: PPP PSC Adjustment report - for comment
Attachments: [Withheld under s9(2)(g)(i)]

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Rob, Jason, Daniel

Please find attached a draft Report seeking Ministers' approval to adjust the PSC for the PPP School Project 2.

As this approval is required before releasing the RFP, we'd like this to get moving as soon as possible next week.

Happy to discuss.

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
DDI +64 4 463 8488
45-47 Pipitea St, Wellington

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www.minedu.govt.nz

We get the job done *Ka oti i a mātou nga mahi*
We are respectful, we listen, we learn *He rōpū manaaki, he rōpū whakarongo, he rōpū ako mātou*
We back ourselves and others to win *Ka manawanui ki a mātou me ētahi ake kia wīkitoria*
We work together for maximum impact *Ka mahi ngātahi mo te tūkinga nui tonu*

Great Results are our bottom line *Ko ngā huanga tino pai a mātou whāinga mutunga*

From: Craig Cliff [Craig.Cliff@minedu.govt.nz]
Sent: Monday, 23 June 2014 4:58 p.m.
To: Daniel Soughtton [TSY]; Jason Wozniak
Cc: Alan Collins
Subject: Updated Education Report
Attachments: [Withheld under s9(2)(g)(i)]

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Daniel, Jason

Updated Ed Report attached taking account of Daniel's comments.

This will get a peer review in the morning to clean up any lingering typos and inconsistencies then should be good to go through management.

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
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From: Craig Cliff [Craig.Cliff@minedu.govt.nz]
Sent: Tuesday, 24 June 2014 10:26 a.m.
To: Daniel Soughtton [TSY]
Cc: Jason Wozniak
Subject: RE: Updated Education Report
Attachments: [Withheld under s9(2)(g)(i)]

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Daniel

Latest version, peer reviewed. Let me know if any last minute changes required from your side.

Cheers

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
DDI +64 4 463 8488

From: Daniel Soughtton [TSY] [<mailto:Daniel.Soughtton@treasury.govt.nz>]
Sent: Monday, 23 June 2014 8:08 p.m.
To: Craig Cliff
Subject: RE: Updated Education Report

Also, feedback from our Vote team is that we need to signal how the scope increase (which will have a (small) impact on the unitary charge) will be funded – I think that the DBC indicated that Ministry would use a mix of baseline funding and new funding to meet the payments so probably best to indicate how this would affect that.

Is it also worth setting down some next steps in the paper? I.e. all going well we will be back to gain Ministers approval to sign the contract and MoF's approval to borrow under the PFA, at which point the actual financial impacts based on the preferred bidders proposal will be known and set out in detail.

Daniel Soughtton | Senior PPP Advisor | **The Treasury**
Tel: +64 4 890 7445 [Withheld under s9(2)(a)] | Daniel.Soughtton@treasury.govt.nz

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From: Daniel Soughtton [TSY]
Sent: Monday, 23 June 2014 8:04 p.m.
To: 'Craig Cliff'
Subject: RE: Updated Education Report

Thanks Craig

The section explaining the discount rate impacts has lost an important para (old para 10) explaining that this change only impacts our view of the economic value of the PSC relative to the payments to a PPP provider and doesn't change the underlying capital and operating costs of the PSC or the annual payments to the PPP provider.

In your review tomorrow I think there is an opportunity to rationalise the number of recs.

Keep me posted on progress.

Daniel Soughtton | Senior PPP Advisor | **The Treasury**

Tel: +64 4 890 7445 | [Withheld under s9(2)(a)] | Daniel.Soughtton@treasury.govt.nz

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From: Craig Cliff [<mailto:Craig.Cliff@minedu.govt.nz>]

Sent: Monday, 23 June 2014 4:58 p.m.

To: Daniel Soughtton [TSY]; Jason Wozniak

Cc: Alan Collins

Subject: Updated Education Report

Hi Daniel, Jason

Updated Ed Report attached taking account of Daniel's comments.

This will get a peer review in the morning to clean up any lingering typos and inconsistencies then should be good to go through management.

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
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Reference: T2014/1182

SH-11-5-12-12-2-7

Date: 24 June 2014

To: Minister of Finance
(Hon Bill English)

Deadline: 30 June 2014

Aide Memoire: Schools PPP Project 2 Adjustments to PPP cost calculations

You have received a report from the Ministry of Education seeking your and the Minister of Education's approval to increase the Public Sector Comparator (PSC) for The Ministry of Education's Schools PPP Project 2.

We recommend that you approve the increase, which takes into account recent changes to our guidance on discount rates for use in PPP projects and modest changes to the scope of the Ministry's requirements.

This aide memoire provides some additional information on the changes, particularly the change in PPP discount rate methodology.

Change in discount rate methodology

Background

Previously, we used the general Public Sector Discount Rate to evaluate the value for money of PPPs by comparing the present value of the PSC to the present value of the proposed payments to the PPP provider. The Public Sector Discount rate is currently set at 8 percent (real)¹ and is not updated frequently to reflect changes in interest rates within the economy. It is also a generalised approximation of the opportunity cost of capital and does not reflect the unique investment risk profile of specific projects, like PPPs.

The discount rate we use to compare the costs of a PPP against the PSC needs to be flexible to account for changes in underlying interest rates. Underlying interest rates impact on borrowing costs for both the Crown and the private sector. Therefore, these changes by themselves should not impact on our view of the value for money of procuring projects as PPPs relative to traditional, public sector financed projects.

¹ Or approximately 10.6% nominal.

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For example, if general interest rates increase without a corresponding increase in the discount rate, it would reduce our view of the value for money of a PPP project relative to the PSC. This is not reasonable given the Crown faces the same underlying interest rates as investors in PPPs.

New discount rate methodology for PPPs

We recently undertook a review of the discount rate methodology for PPPs.

Our new methodology for estimating the discount rate for PPP projects is based on a Weighted Average Cost of Capital (WACC) model. The approach involves specifying time- and project-specific assumptions that build up the rate. We have retained some assumptions used in determining the Public Sector Discount Rate to ensure consistency where it is appropriate.

The benefits of the new approach are that the discount rate is updated more frequently to take into account changes in underlying interest rates. It also allows us to more closely match the discount rate with the risk allocation that is achieved under the PPP model, ensuring that we are not under- or over-compensating the private sector financiers for the risks that they bear.

An overview of the WACC model is provided in the appendix to this aide memoire.

The Ministry of Education estimates that the change in discount rate methodology increases the PSC for Schools Project 2 by [Withheld under s9(2)(j)]. It should be noted that this is only an impact on the present value of the PSC and that, except for the scope changes outlined below, forecast nominal expenditure remains unchanged.

Change in scope items

The Education Report also identifies a number of areas where new information has come to light which impact on the scope of the PPP and increase the underlying capital and operating costs in the PSC. The changes are as follows:

- Addition of special school satellite units at Aranui, Rolleston and Ormiston (estimated additional [Withheld under s9(2)(j)] with ongoing additional maintenance costs)
- Additional contamination remediation costs at Aranui as a result of further site due diligence [Withheld under s9(2)(j)]
- Relocation of a health facility currently located at Aranui [Withheld under s9(2)(j)]
- Adjustments to the staging of classroom construction at the Aranui campus in response to changes in the initial roll forecasts [Withheld under s9(2)(j)]
- Reallocation of the costs of Furniture, Fittings and Equipment between the PPP provider and the Ministry [Withheld under s9(2)(j)]

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In aggregate, and taking into account capital and operating cost impacts, these changes increase the net present cost of the revised PSC by [Withheld under s9(2)(j)]
[Withheld under s9(2)(j)] These changes are reasonable given that they either reflect new information that was not known at the time of completing the Detailed Business Case or are the result of additional quality assurance and due diligence.

Daniel Soughtton, Senior Advisor - PPP, Commercial Operations - Commercial Advice, 04 890 7445

Stacey Wymer, Manager, Commercial Operations - Commercial Advice, 04 917 6934

[Pages 4 & 5 withheld under s18(d)]

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From: Craig Cliff [Craig.Cliff@minedu.govt.nz]
Sent: Friday, 27 June 2014 3:31 p.m.
To: Daniel Soughtton [TSY]; Jason Wozniak
Subject: RE: Schools 2 PSC sign off paper

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Daniel

I can confirm report has made it to Minister Parata's office. Waiting on word as to why it might not have made it to MOF's office yet.

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
DDI +64 4 463 8488

From: Daniel Soughtton [TSY] [<mailto:Daniel.Soughtton@treasury.govt.nz>]
Sent: Friday, 27 June 2014 2:06 p.m.
To: Jason Wozniak; Craig Cliff
Subject: Schools 2 PSC sign off paper

Guys

I just checked with our Minister's office and they haven't received the Education Report yet. Can you let me know what it's current status is?

Daniel Soughtton | Senior PPP Advisor | **The Treasury**
Tel: +64 4 890 7445 | [\[Withheld under s9\(2\)\(a\)\]](mailto:Daniel.Soughtton@treasury.govt.nz) | Daniel.Soughtton@treasury.govt.nz

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From: Craig Cliff [Craig.Cliff@minedu.govt.nz]
Sent: Monday, 30 June 2014 10:34 a.m.
To: Daniel Soughtton [TSY]
Subject: FW: PPP Ed Report

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Daniel

Here's an update on PPP report's status. I've asked that this gets forwarded to your Minister asap.

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
DDI +64 4 463 8488

From: Sepa Helu
Sent: Monday, 30 June 2014 10:26 a.m.
To: Craig Cliff
Subject: RE: PPP Ed Report

Hi Craig , spoke to Don in Parata's office , Minister hasn't had a chance to look at this. I had given English's copies to Parata's office to forward on (and because Min Parata hasn't seen this , Treasury wouldn't have received their copies).

From: Craig Cliff
Sent: Friday, 27 June 2014 2:09 p.m.
To: Tim Robertson
Cc: Sepa Helu
Subject: RE: PPP Ed Report

Hi Tim

Has the PPP Ed Report gone to Ministers? Treasury says Minister of Finance's office hasn't seen it yet.

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
DDI +64 4 463 8488

From: Tim Robertson
Sent: Tuesday, 24 June 2014 3:20 p.m.
To: Craig Cliff
Subject: RE: PPP Ed Report

Will do. Have updated those two paras so Kim just needs to ok and then it will go – will confirm though.

From: Craig Cliff
Sent: Tuesday, 24 June 2014 3:19 p.m.
To: Sepa Helu; Tim Robertson
Subject: PPP Ed Report

Sepa, Tim

Can you please let me know when the PPP Ed report goes to Ministers. I need to let Treasury know.

Cheers!

Craig Cliff | Chief Policy Analyst | Education Infrastructure Service
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