

The Treasury

Budget 2011 Information Release

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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- [8] 9(2)(h) - to maintain legal professional privilege
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- [10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

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



Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Public Private Partnership Procurement of New School Property: Detailed Business Case

Portfolio: Finance / Infrastructure / Education / Associate Minister of Education (Hon Rodney Hide)

On 21 March 2011, following reference from the Cabinet Economic Growth and Infrastructure Committee (EGI), Cabinet:

Background

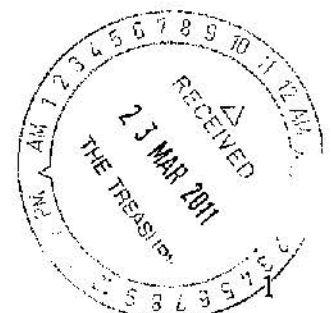
1 noted that:

- 1.1 on 30 June 2010, EGI noted that the Hobsonville primary and secondary schools have been identified as the preferred option for a Public Private Partnership (PPP) project, and noted that the Ministry of Education will report to EGI on the findings of the stage two business case by March 2011 [EGI Min (10) 15/2];
- 1.2 on 15 December 2010, EGI noted that funding approval for the two Hobsonville Point schools will be sought when the stage two business case for a school property PPP is submitted to Cabinet in March 2011 [EGI Min (10) 31/5];
- 1.3 the Ministry of Education, in consultation with the Treasury, has completed a detailed business case on the use of a PPP for new school procurement;

Business case findings

2 **noted** that the detailed business case, attached to the paper under CAB (11) 121, considers the use of a PPP for Hobsonville Point primary and secondary schools in Auckland, which have been established under the Education Act 1989, as these are the only viable schools for inclusion in a school property PPP at this point in time;

3 [6]



- 4 **noted** that the qualitative analysis concludes that a PPP for the Hobsonville Point schools would help the Ministry of Education achieve the following objectives:
- 4.1 to deliver a modern learning environment that is safe, inspiring and provides all young people the opportunity, encouragement and inspiration to achieve their full potential;
 - 4.2 to assess alternative procurement models that provide more time for Board of Trustees and school management to focus on educational outcomes;
 - 4.3 to develop alternative procurement models for future Ministry of Education use that are output and risk focused;
 - 4.4 to improve the Ministry of Education's understanding of planning and delivering projects with a whole of life focus;
 - 4.5 to improve the Ministry of Education's capability to manage complex projects;
- 5 **noted** that the Ministry of Education will apply lessons learned, innovation and efficiencies from the PPP project to procurement and asset management practices across the wider school property portfolio;
- 6 **agreed** that the Ministry of Education proceed to procure a new primary and a new secondary school in Hobsonville Point, Auckland, through a PPP;

7 [6]

Commercial principles

- 8 **agreed** that the term of the New Zealand Schools PPP Project contract, post-commissioning of the schools, will be 25 years;

9 [6]

Risk management

- 10 **noted** that the key risks of proceeding with a PPP for the Hobsonville Point schools are being actively monitored, and that mitigation strategies for these risks have been developed;
- 11 **noted** that there is an established governance structure for the project, including a project Steering Group and a dedicated project team with international experience of school property PPPs;

Procurement phase

- 12 **agreed** that the Ministry of Education release an invitation for Expressions of Interest (EOI) to the market for the New Zealand Schools PPP Project;
- 13 **authorised** the Minister of Finance, the Minister for Infrastructure, and the Minister of Education to act on behalf of the Crown to bring the PPP contract to financial close, provided there are no significant variations;
- 14 **agreed** that the conditions for significant variations are defined as:
- 14.1 significant changes in scope to the project, such as the schools included;
 - 14.2 changes in the timeframe for the project by one or more school years;
 - 14.3 the cost of the PPP contract materially exceeds the maximum amount agreed by Cabinet (ie the adjusted PSC);
- 15 **agreed** that the Ministry of Education's Chief Executive be responsible for approving:
- 15.1 the detailed content of the EOI invitation and its release to the market (subject to Cabinet's agreement to proceed to the tendering phase);
 - 15.2 the selection of a short-list of consortia to progress to the Request for Proposals (RFP) phase;
 - 15.3 the detail of the RFP documentation and its release to short-listed consortia;
 - 15.4 the selection of the Preferred Bidder following assessment of RFP responses (the Ministry of Education will provide noting papers to Joint Ministers and Cabinet at this time);
 - 15.5 the negotiation of contractual terms with the Preferred Bidder;

Financial implications

- 16 **noted** that the cost of the Hobsonville Point schools will not be known with certainty until financial close;
- 17 **noted** that the annual capital and operating impact of a PPP for the Hobsonville Point schools based on the adjusted PSC is as follows:

	\$ million			
	2011/12	2012/13	2013/14	2014/15
Total Capital	[6]			
Total Operating				

18 [6]

- 19 **noted** that the following tagged contingency, established as part of Budget 2010 in order to fund the capital costs of a school PPP project, is due to expire on 30 June 2011:

Initiative Name	\$ million			
	2010/11	2011/12	2012/13	2013/14
School Public Private Partnerships (PPPs) Contingency	[6]			

- 20 **noted** that there remains a shortfall of operating and capital funding, necessary to support the PPP project and complete the Hobsonville Point schools, as outlined in the following table:

	\$ million				
	2010/11	2011/12	2012/13	2013/14	2014/15
Funding shortfall – Capital	[6]				
Funding shortfall – Operating					

- 21 **agreed** to increase expenditure to provide for costs associated with the implementation of a PPP, with the following impacts on the operating balance and debt:

	\$ million – increase / (decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & outyears
Operating Balance Impact	[6]				
Debt Impact					
No Impact					
Total					

- 22 **approved** the following appropriation changes to provide for the implementation of a PPP, sourced from the “School Public Private Partnerships (PPPs) Contingency” and new funding within Budget 2011:

Vote Education Minister of Education	\$ million – increase / (decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & outyears
Departmental Output Expenses:					
School Property Portfolio Management (funded by revenue Crown)	-	-	-	-	2.627
School Property Portfolio Management (funded by revenue Crown)	-	0.813	3.427	4.002	4.140
Net Asset Schedule of Ministry of Education:					
Capital Injection	-	40.627	8.824	2.288	-
Total Operating	-	0.813	3.427	4.002	6.767
Total Capital	-	40.627	8.824	2.288	-

23 [6]

- 24 **authorised** the Minister of Finance and the Minister of Education to increase the operating appropriations in outycars as necessary, within the limits of the adjusted PSC;
- 25 **authorised** the Minister of Finance and the Minister of Education to make any technical adjustments necessary to appropriations at financial close;

Communications

- 26 **noted** that the Minister for Infrastructure and the Associate Minister of Education (Hon Rodney Hide) intend to issue the media release, outlined in Appendix I of the paper under CAB (11) 121, following Cabinet approval and consultation with the Prime Minister.

Secretary of the Cabinet

Reference: CAB (11) 121; EGI Min (11) 4/2

Secretary's note: This minute supersedes EGI Min (11) 4/2.
