

The Treasury

Budget 2018 Information Release

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Reference: T2017/2961

SH-11-1-9

Date: 19 December 2017

To: Minister of Finance
(Hon Grant Robertson)

Deadline: None

Aide Memoire: Funding for the 36th America's Cup - Information Ahead of CBC

We understand that the Minister for Economic Development, Hon Parker, will seek up to \$100 million of funding for the 36th America's Cup (the Cup) at the Cabinet Business Committee meeting (CBC) later this week. This aide memoire alerts you of an issue with the cost benefit ratios identified in the CBC paper and the Treasury's high level assessment of the paper. Further background information on the Cup can be found in Annex One.

Funding Sought for the 36th America's Cup

Funding of up to \$100 million is sought from the Cabinet Business Committee to support Auckland with the infrastructure and event delivery costs associated with New Zealand hosting the 36th America's Cup.

The funding would establish a \$100 million tagged contingency as a pre-commitment against Budget 2018. Decisions on the allocation of the funding will be jointly made by the Minister of Finance and the Minister for Economic Development, after consulting with the Minister for Maori Development, with decisions on allocation expected in March 2018. Any unspent contingency will be returned to Budget 2018.

The funding is required ahead of Budget 2018 to allow the Government and Auckland Council to progress necessary consents in order to meet event delivery timeframes. It is acknowledged that hosting would not be possible without a significant government contribution.

The event is likely to deliver a range of benefits to New Zealand (leverage and legacy benefits; and cultural and national pride). However, since the writing of the CBC paper, the preliminary Cost Benefit Analysis undertaken by Market Economics (on behalf of the Ministry of Business, Innovation and Employment) has been revised down from a positive Cost Benefit Ratio of between 1.2 and 1.8 to a ratio of 0.997 and 1.14.

Cost Benefit Ratios Discrepancy

To inform and support government's decision making, MBIE engaged Market Economics to undertake an evaluation of the potential benefits associated with Auckland hosting the Cup, including a Cost Benefit Analysis (CBA) which was to be compliant with the Treasury's CBA guidance. This report provided a Cost Benefit Ratio in the range of 1.2 – 1.8 which indicated that, even if the assumptions were incorrect, at the margin, positive benefits were still likely to accrue. However, subsequent to the publication of this report, Market Economics was alerted to an issue in the methodology. The CBA was subsequently revised on Friday 15th December. The revision has resulted in the Cost Benefit Ratios being revised down. The error does not affect the other estimated economic impacts such as adding \$0.6 – 1.0 billion in economic value over 2018 – 2022.

Table One: Cost Benefit Ratio Revisions

Scenario	Original published ratio	Revised ratio
Low ¹	1.6	1.1
Medium	1.2	0.997
High	1.8	1.14

The revised Cost Benefit Ratios are significantly lower than originally published and raise doubt as to whether net economic benefits would accrue to New Zealand should Auckland host the Cup. The revised ratios mean that marginal changes to cost assumptions could have a material impact on net economic benefits and indeed there could be a net economic cost. The Treasury further expects that, should net benefits accrue it is likely that they would be concentrated in Auckland.

Additional Considerations

For investments such as the Cup, government's analysis needs to distinguish between the more easily quantifiable benefits such as those represented above, and the more subjective measures such as wellbeing. Using the *Living Standards Framework* and contemplating its *Social Capital* to think about wellbeing benefits associated with the Cup we can provide consideration to the positive and material wellbeing benefits that accrue to New Zealanders – national and cultural pride and sense of belonging. On the other side if the equation, some may consider things like incursion into the harbour as a material dis-benefit due to potential loss of amenity value. There is also likely to be some level of negative impact on our environmental capitals as a result of any wharf infrastructure being constructed. However the *Living Standards Framework* has not been applied to the work undertaken thus far and as such these considerations should not be over- or under-stated.

¹ The 'low' scenario assumed costs of \$100m are significantly less than the anticipated event delivery costs so is ignored for our purposes. One of the key drivers of the difference in Cost Benefit Ratios across the different scenarios is the level of spend by Auckland Council and government which is assumed to be \$100m in the 'low' scenario and \$200m in the medium and high scenarios.

In summary, the revised Cost Benefit Ratios highlight the importance of ensuring that the leverage and legacy benefits, and cultural and national pride benefits to New Zealand, are planned and realised. We expect that the net benefits (as represented by the above Cost Benefit Ratios) are likely to be either marginally positive or negative. The analysis above of subjective measures of benefit and wellbeing is high-level and illustrative only, but does demonstrate that the decision to invest or not in the Cup is finely balanced.

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Annex One: Background Material

Background

Following, Emirates Team New Zealand's (ETNZ) success early this year, ETNZ alongside the Challenger of Record, Luna Rossa, wish to host the Cup in Auckland between January and March 2021. On July 3rd, the previous government directed officials to prepare advice for Ministers on the preparations necessary within government and with Auckland Council and Emirates Team New Zealand for possible hosting of the Cup in 2021. [CAB-17-MIN-0343 refers].

Auckland Council officers, with extensive support from the Ministry of Business, Innovation and Employment and other central government officials, have been working to find an appropriate location in Auckland to host the syndicates and base infrastructure for the Cup. Auckland Council's Governing Body last week (December 14th) decided that it wishes to progress with the 'Wynyard Basin' option (refer Annex Two) and is working to lodge a resource consent application on January 15th 2018 in order to meet event delivery timeframes. Minister Parker has also asked officials to examine the 'Wynyard Point' option (refer Annex Two) and may instruct officials to lodge a separate resource consent application on behalf of the Crown. Officials across Council and government are working cooperatively together to ensure that work on these options is carried out efficiently, thoroughly and cooperatively through shared use of experts.

Regardless of which location option is progressed, base infrastructure development costs are likely to exceed \$150 million. Further adding to these costs is the likelihood that any Host City Agreement (HCA) will likely include a host city fee. This is outlined in more detail in the CBC paper but officials expect total event delivery costs to be in the vicinity of \$200 million. It is acknowledged that without financial support from the government, the Cup is unlikely to be held in New Zealand.

Basis for the level of funding sought

The CBC paper seeks funding to enable the Crown to fund half of the anticipated event delivery costs. Initially, it was assumed that the costs associated with the Cup would be borne by central government, local government and third parties (the private sector). However officials are of the view that third party funding is unlikely given the timeframes and location options shortlisted. Consequently, the working-level assumption has been that central and local government would 'split' the costs associated with the Cup. This was informed by a high level assessment undertaken by MBIE of where the benefit from the event accrues, the ability of both parties to pay, and established precedents around infrastructure and major event spend.

We are of the view that on-balance, the split proposed is reasonable and sufficient precedent is available to support this view.

Annex Two: Details on Location Options

America's Cup 36 Base Options WYNYARD BASIN (CLUSTERED MODEL)

● HIGH RISK ● MEDIUM RISK ● LOW RISK



DELIVERY



Primary risk:

- 1 Construction and event occurring across multiple locations with multiple stakeholders involved. Stakeholder opposition to a wharf extension

Construction

- 2 Wharf extension length (Halsey 75m, Hobson 70m). Extension area (Wynyard 3,000m², Halsey 16,000m², Hobson 6,600m²). Area total (25,600m²). Approx. 10-12 months construction duration.
- 3 Dredging material (37,000m³) needs to be removed – limited disposal options.
- 4 Infill of wharf structure on Wynyard Point.

Impact on business as usual

- 5 Relocation of marine commercial tenants at Halsey Wharf, North Wharf and Wynyard Wharf at start of construction phase.
- 6 Relocation of Willem C Daldy and steam crane Rapaki on Hobson Wharf.
- 7 Construction phase impacts on Maritime Museum and Viaduct Events Centre to be managed.
- 8 Construction phase impacts on Wynyard Quarter generally – large volume of construction activity to be coordinated.
- 9 Construction of associated relocation infrastructure that would be required on the eastern side of Wynyard Point.

Staging

- 10 Base construction can overlap with wharf construction, however bases cannot be fully operational until all dredging and wave protection works are completed
- 11 Possible to stage construction depending on entry numbers.

Delivery Construction Cost: \$ 128,000,000
Relocation costs \$ 16-18m

EVENT



Village: denotes public access

- 12 Village clustered over wider area. May mean some duplication of operational and security requirements. Public and fanzone access in close proximity over an east-west access connecting people to boats, bases, and events. Village is close to existing food and beverage offering.
- 13 Event spaces provided on Te Wero Island and Eastern Viaduct (carpark is removed in February 2018).
- 14 Jellicoe Street carpark could also be used as an event space if needed. These areas could be connected with a strong linear event pathway along North Wharf. Use of the carpark would require replacement car parking to be found elsewhere in Wynyard Quarter for the duration of the event.
- 15 Viaduct Events Centre able to be utilised as media centre or other event space. Impact on BAU during pre-event and event period.

Base configuration

- 16 Meets land-space and water-space requirement of 5 double bases and 3 single bases

Water space for support vessels

- 17 Sufficient space for support, media, and official vessels within the village area

Superyachts

- 18 Can provide for 8 J class yachts and 9 super yachts in Wynyard Basin (approx.) Additional superyacht berthage in viaduct harbour or silo park (remote from village).

Impact on business as usual

- 19 Relocation of marine commercial tenants required.
- 20 Reduces length of Wynyard wharf for major vessels.

Event Construction Cost: \$ 4,100,000
Infrastructure construction required to support event such as support vessels and superyachts.

LEGACY



Water space legacy

- 22 A wharf structure in this location consistent with the intent of the Waterfront Plan 2012. Delivers a new attractive space for locally driven events and activities, **increasing public access to and on the water.**
- 23 Would provide some enhanced wave protection in the Viaduct.
- 24 Could provide for a permanent home for ETNZ.
- 25 This option enables business as usual for other waterfront operations (cruise, ferries, freight) on other central wharves.

Land space legacy

- 26 Event and activity introduces public access to Wynyard Point as signalled in the Waterfront Plan.
- 27 Provides public access to additional water front areas that could be activated.
- 28 Increased pedestrian activity provides an opportunity to **accelerate other projects** as part of the downtown programme.
- 29 Between events, the extension could be used for a marine hard stand.
- 30 Potential relocation of commercial tenants to Wynyard Point west could further encourage a marine cluster as part of the Wynyard Point redevelopment.
- 31 Site 18 could provide superyacht haul-out/refit space. To service growing industry.
- 32 Potential future commercial redevelopment of Hobson Wharf.
- 33 Wynyard Wharf breakwaters limit the length of vessel that can berth on the wharf if these were to remain. But creates a new sheltered water basin for marine activities i.e. ferries.

Legacy Construction Cost: \$ TBC



America's Cup 36 Base Options

WYNYARD POINT 3.4F (VARIED OPTION)

● HIGH RISK ● MEDIUM RISK ● LOW RISK



DELIVERY



Primary risk:

- 1 Construction occurring across multiple locations. Requires negotiation with commercial tenants. Requires road stopping - considered unachievable in timeframe.

Construction

- 2 Wharf extension length (Halsey 15m, Hobson 70m). Extension area (Wynyard 3,250m², Halsey 2,900m², Hobson 6,600m²). Area total (12,750m²). Approx. 16-18 months construction duration.
- 3 Dredging material (37,000m³) needs to be removed - limited disposal options.
- 4 Infill of wharf structure on Wynyard Point.

Impact on business as usual

- 5 Relocation of marine commercial tenants (SeaLink, Sea Plane, Sanford etc.) at Halsey Wharf, North Wharf and Wynyard Wharf at start of construction phase.
- 6 Requires negotiation with existing Stolthaven, BST, ASB leases on Wynyard Point.
- 7 Requires closure of Brigham St & redirection of traffic for bulk storage operations.
- 8 Construction phase impacts on Maritime Museum and Viaduct Events Centre to be managed. Relocation of William C Daldy and steam crane Rapaki on Hobson Wharf.
- 9 Construction phase impacts on Wynyard Quarter generally - large volume of construction activity to be coordinated.
- 10 Construction of associated relocation infrastructure that would be required on the western side of Wynyard Point.

Staging

- 11 Base construction can overlap with wharf infill construction. All bases cannot be fully operational until all dredging and wave protection works are completed.
- 12 Possible to stage construction depending on entry numbers, but staging on Wynyard Point is subject to negotiation with commercial leasehold tenants.
- 13 Decant of ASB, Sanford car parking required and alternative location secured and built Wynyard Quarter (contractual obligations)

Delivery Construction Cost: \$ 112,000,000

Relocation costs \$ 18m (Marine users) + \$21m (Car Park relocation and build)

EVENT



Village: denotes public access

- 13 Village clustered over wider area. May mean some duplication of operational and security requirements. Public and fan-zone access arranged along an east-west access connecting people to boats, bases, and events. Village is close to existing Viaduct Harbour and North Wharf food and beverage offerings.
- 14 Public access to bases 1-4 restricted due to risk profile next to two Bulk Liquid operators. Corporate events to be held in either VEC or on a pop up facility on Jellicoe street carpark.
- 15 Viaduct Events Centre able to be utilised as media centre or other event space.

Base configuration

- 16 Does not meet land-space and water-space requirement of 5 double bases and 3 single bases (only delivers 7 bases)

Water space for support vessels

- 17 Sufficient space for support, media, and official vessels within the village area

Superyachts

- 18 Can provide for 8 J class yachts and 9 additional super yachts in Wynyard Basin. Remaining superyachts would need to use existing berths in Viaduct Harbour or Silo Park.

Impact on business as usual

- 19 Potential impact on vessels using eastern side of Wynyard Point during event.
- 20 Use of ASB carpark site will require sourcing and construction alternative parking facility within the Wynyard Quarter.

Event Construction Cost: \$ 5,800,000

Infrastructure construction required to support event such as support vessels and superyachts.

LEGACY



Water space legacy

- 21 A wharf structure in this location consistent with the intent of the Waterfront Plan 2012. Delivers a new attractive space for locally driven events and activities, increasing public access to and on the water.
- 22 Would provide some enhanced wave protection in the Viaduct.
- 23 Could provide for a permanent home for ETNZ.
- 24 This option enables business as usual for other waterfront operations (cruise, ferries, freight) on other central wharves.
- 25 Wynyard Wharf breakwaters limit the length of vessel that can berth on the wharf if these were to remain. But creates a new sheltered water basin for marine activities i.e. ferries.

Land space legacy

- 26 Event and activity introduces public access to Wynyard Point as signalled in the Waterfront Plan, and additional waterfront area that could be activated.
- 27 Increased pedestrian activity provides an opportunity to accelerate other projects as part of the downtown programme.
- 28 Potential relocation of commercial tenants to Wynyard Point west could further encourage a marine cluster as part of the Wynyard Point redevelopment.
- 29 Potential further commercial redevelopment of Hobson Wharf
- 30 The waterfront plan currently envisages the Headland Park to extend in the area allocated for team bases 2, 3 and 4. Any further AC events beyond 2021 would mean that the Headland Park could not be established as planned or delayed.

Relocation of Hazardous substances industry estimated up to \$100m

Legacy Construction Cost: \$ TBC

