

The Treasury

DEV-18-SUB-0163: Christchurch Regeneration Acceleration Facility

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Office of the Minister for Greater Christchurch Regeneration

Chair, Cabinet Economic Development Committee

Christchurch Regeneration Acceleration Facility

Proposal

1. This Government announced a \$300 million Christchurch Regeneration Acceleration Facility in Budget 2018. The Facility's purpose is to provide certainty, confidence and demonstrable progress towards Christchurch's ultimate regeneration. I seek Cabinet's agreement to a two-stage investment decision-making and approvals process, and to focus investment in three particular areas.

Executive Summary

2. This Government announced the \$300 million Christchurch Regeneration Acceleration Facility in Budget 2018 (Acceleration Facility) to progress key regeneration activities in the city, as part of work towards transitioning projects and decision-making back to local leadership. The Acceleration Facility is expected to make contributions towards capital investments in:
 - A stadium / multi-use arena (stadium)
 - Residential red zone projects
 - Roading, three waters, and land drainage projects (horizontal infrastructure)
3. I propose to put in place a two-stage investment decision-making and approvals process:
 - An initial expedited investment proposal stage to ensure fit with objectives while providing confidence and certainty to Christchurch / the Christchurch City Council (Council) by earmarking funds to eligible projects in a streamlined manner, subsequently supported by:
 - A robust investment case stage to meet Cabinet expectations for investment decisions, set projects up for success, and ensure the

Acceleration Facility both achieves its objectives and represents value for money.

4. Using the proposed two-stage process will progress two critical aims:
 - It will allow the Council to inform the Crown on how to direct the capital to the projects it considers will best achieve the facility's objectives, and thus represents a tangible step in increasing local leadership of the recovery
 - It will provide the Crown with sufficient assurance that investments are strategically aligned with regeneration objectives, provide value (including social, cultural, environmental, and economic), are well managed, and should deliver the benefits intended
5. I understand the Council will provide its prioritised bids for the Acceleration Facility in late September. Announcing the earmarking of funds will show the people of Christchurch that real progress is being made.
6. The Crown and the Council will soon enter into negotiations for a full and final settlement between them (the Global Settlement). It will be important to manage the relationship between the Global Settlement and the Acceleration Facility, so that the negotiations can occur on a principled basis and the Crown and the Council can reach a fair deal.

Background

The Acceleration Facility

7. This Government announced the Acceleration Facility in Budget 2018. It is a \$300 million facility, with \$298.5 million appropriated as capital funding in 2018/19. The balance was provided as operating funding for the Facility's development and establishment. The Acceleration Facility's aims are to develop the red zone, contribute towards a new stadium, and deal with any gaps in the horizontal infrastructure programme, in partnership with the Christchurch City Council as part of the Global Settlement.

The relationship between the Acceleration Facility and the Global Settlement

8. The Global Settlement is intended to return the Crown and the Council to their normal roles in relation to Christchurch. Due to the need to regenerate Christchurch, and the inevitable blurring of lines and responsibilities following the Christchurch earthquake, the Crown has provided – and is still providing – a significant level of support to

Christchurch regeneration. Equally, the Crown and Council have been in cost-sharing negotiations almost constantly from 2010 to the present day, in part because the conditions on the ground have been changing.

9. As the transition to full local leadership of regeneration approaches, it is a high priority for the Government and the Council to reach a fair agreement. This will mean confirming final investments and divestments required to support regeneration, and moving back to a 'new normal' relationship.
10. I will seek a mandate from Cabinet on negotiating parameters for the Global Settlement with the Council. Briefly, however, I will seek to sequence negotiations about the Global Settlement, and appropriating funds under the Acceleration Facility, to ensure a full and final settlement can be reached.
11. I also propose to seek Cabinet's agreement that no funds should be appropriated under the Acceleration Facility until the Crown and the Council have executed the Global Settlement. One exception, as a matter of good faith, would be an appropriation of up to \$20 million, as a contribution to early works for the stadium (discussed further in paragraph 34).

Eligibility criteria for the Acceleration Facility

12. The intended purpose of the Acceleration Facility is to provide certainty, confidence and demonstrable progress towards Christchurch's ultimate regeneration. It will do this through making funds available to the Council, for investment in regeneration. Projects are likely to be in the residential red zone, for a new stadium, and for roading, three waters, and land drainage. Council is free to bid for other projects, but those will be funded within the \$298.5 million cap.
13. As part of transitioning to local leadership, the Council will be able to choose the capital projects for which it prepares investment proposals.

Category 1: Residential red zone

14. To meet the Category 1 eligibility criterion, projects must be located in (or predominantly in) the geographically defined residential red zone in Christchurch City (Avon River Corridor, Port Hills, Southshore, South New Brighton, and Brooklands), and not be inconsistent with the eligibility approach to Category 3 projects, set out in paragraphs 16 and 17.

Category 2: Stadium

15. To meet the Category 2 eligibility criterion, investment proposals must be a contributing component of the stadium project.

Category 3: Three waters, land drainage, and roading

16. To meet the Category 3 eligibility criterion, projects must be related to three waters (drinking water, storm water, waste water), land drainage, or roading, must be consistent with wider central government policy (for example, with regard to wider emergency management policy and practice regarding essential infrastructure), and

Three waters and land drainage

- must have direct links to Christchurch earthquake regeneration outcomes;
- must be for new three waters or land drainage infrastructure; and
- cannot be related to renewing, repairing, improving, operating, or maintaining existing three waters or land drainage infrastructure, or other business as usual local authority responsibilities for three waters or land drainage

Roading

- must have significant direct links to Christchurch earthquake regeneration outcomes, particularly as set out in *An Accessible City*; and
 - cannot be predominantly or solely related to renewing, repairing, or maintaining existing roading, or other business as usual local authority responsibilities for roading
17. If the Council wishes to access National Land Transport Fund funding, it must follow normal NZTA procedures, including the projects meeting NZTA's investment criteria, and having the projects supported into the Regional Land Transport Plan and the National Land Transport Programme.
 18. The Category 3 criteria are necessary to ensure that projects under this category are linked to regeneration outcomes under the Greater Christchurch Regeneration portfolio, and not related to the business as usual responsibilities of the local authority for infrastructure. This will ensure that investment in Christchurch is equitable in comparison to investment in other local areas.

19. To ensure that the Crown does not unintentionally become a part owner of three waters, land drainage, or roading horizontal infrastructure, all funding provided under Category 3 will be operating funding for capital works, not capital. That will also clarify that maintenance costs related to that infrastructure will be for the Council.

Other capital investments

20. It is possible that Council may wish to use the Acceleration Fund for projects other than the three categories above, although early soundings suggest this is unlikely. I propose to signal to the Council that other projects are eligible for funding, but would need a very compelling case, and that funding for other projects would reduce the amount of funds available for the three preferred categories.

Accessing the funds

21. I propose to establish a two-stage process through which the Council may access the Acceleration Facility.

Stage One: investment proposals

22. The investment proposal will be a short, templated summary of the project and proposed investment. It will provide clarity about why Crown funding is being requested for the project and provide information so the Crown can assess the proposal and earmark funding under the Acceleration Facility. The earmarking process will provide a higher level of confidence and certainty to the Council so that it can proceed with developing the robust investment case (stage two).
23. The template investment proposal seeks brief and succinct descriptions outlining the case for investment in the project, including its value proposition and public benefits, total anticipated costs, financial support sought from the Crown, management considerations and anticipated project milestones. It will be only four to five pages in length.
24. The Council will prepare investment proposals (the Crown will work closely in conjunction with the Council, to eliminate crossed wires). The Treasury and DPMC will check them, to ensure bids meet the eligibility criteria in paragraphs 12 - 20, and the template has been completed correctly.
25. Officials will then assess the proposals and provide advice to me on potential earmarking of funding. I and the Minister of Finance will either approve earmarking on the basis of the investment proposal, or bring the decision to Cabinet for further consideration and a decision.

26. I seek Cabinet's agreement that I and the Minister of Finance, acting jointly, can earmark funds within the tagged contingency for the Acceleration Facility, and report back to Cabinet orally on that earmarking. Earmarking will be a public sign to the people of Christchurch that progress is being made.
27. Decisions on appropriating portions of the Acceleration Facility to particular projects will require approved investment cases. For large projects such as the stadium, the Minister of Finance and I will seek Cabinet's agreement at the appropriate time, given the quantum of Crown funding involved.

Prioritisation Criteria at Stage One

28. My preference is to see the Acceleration Facility fund projects that provide the greatest benefit to Christchurch's regeneration momentum. To that end, I have developed prioritisation criteria. The Council will indicate for each proposed project the extent to which it meets the criteria, using a high / medium / low rating system.
29. The criteria focus on the public benefit of the proposed project, the extent to which it will drive regeneration in Christchurch, and how the project advances local leadership.
30. Using these criteria will help the Council and the Crown focus on why the particular proposed project is a good use of public funds, a matter which will be important for the development of the business case.

Stage Two - Investment Cases

31. Investment choices and decisions need to be informed by disciplined processes, to optimise value generated by new investments and enable investments to achieve their specific objectives.
32. However, to meet the desire for a streamlined process that does not cause undue delay, investment cases will require no more compliance than necessary to meet the expectations of *Cabinet Office Circular CO (15) 5: Investment Management and Asset Performance in the State Services*.
33. Investment cases will be flexible in their structure and presentation, provided they justify the social, cultural, economic and environmental rationale for the proposed investment, and provide confidence that the investment will be managed effectively. In particular, they will need to deal with project and delivery risks and mitigations, and the delivery of the project.

Stadium-specific matters

34. The design and construction of the stadium will be a lengthy process. We have an opportunity to open the doors earlier by starting some works in advance of final design. Therefore, I seek Cabinet delegation to the Minister of Finance and me to appropriate up to \$20 million, for site decontamination, early site groundworks, and some initial design work.
35. The 2018/19 Estimates contains a multi-category appropriation, which includes approximately \$3.0 million for the development of the investment case.

Project monitoring and future considerations

36. The Acceleration Facility is a tagged contingency for capital funding. Providing the funding as capital requires the Crown to receive an asset for the invested funds. If the Crown does not wish to own the resulting asset, it can provide the funding as operating funding for capital works, as suggested for Category 3 expenditure. Doing so means there will be no need to write off the value of the asset in a future budget. Providing the funding as operating expense will impact OBEGAL, but will have no net impact on debt.
37. Investment cases should address whether the funding will be provided as capital or operating funding. They should also address long-term costs.
38. Approved projects will be subject to monitoring during their construction and for the duration of the Crown's ownership interest. For significant projects, the Crown will provide progress payments, subject to satisfactory progress being made.

Consultation

39. The Department of the Prime Minister and Cabinet (Greater Christchurch Group, Security and Intelligence Group, Policy Advisory Group), the Ministry for Business, Innovation and Employment, the Ministry for the Environment, the Department of Internal Affairs, Land Information New Zealand, and the New Zealand Transport Agency have been consulted on this paper.
40. The Christchurch City Council has been consulted on the proposals contained within this paper. It considers the criteria for Category 3 (roading, three waters, and land drainage) is overly restrictive, and that it should be free to use funds in that category for maintenance and repair; it is otherwise in agreement with the paper.

41. I disagree with the Council's view on the criteria for Category 3 projects. The Crown currently meets 60% (above low thresholds) of a local authority's costs of restoring existing essential infrastructure after an emergency. Essential infrastructure includes three waters networks, electrical and gas facilities, and river management systems. The local authority funds the remaining 40%.
42. The 60/40 cost sharing arrangement has been in place since 1991. As such, expectations have been set around the level of financial preparedness local authorities need for emergencies. The policy helps councils with their financial planning, and places incentives on them to invest in risk and asset management, including insurance. For smaller councils especially, it helps them to plan for and meet the costs of recovery without placing significant financial stress on their communities.
43. If the Crown signalled it was prepared to take greater responsibility for the costs of essential infrastructure restoration it might lessen incentives for local authorities to invest in risk and asset management. Providing additional funding for the Council for restoration and maintenance would send such a signal. It is worth noting that the Crown to date has spent more than \$1.3 billion on restoration of Category 3 assets in Christchurch.

Financial Implications

44. This paper has no immediate financial implications. Funding of \$298.5 million has been set aside in a tagged contingency as part of Budget 2018. This funding will be drawn down and appropriated by Cabinet for investment in individual projects, as these are approved through the business case process described in this paper. The first draw down is likely to be \$20 million for stadium site works and early design.

Human Rights and gender implications, and disability perspective

45. This paper has no human rights or gender implications. Equally, there are no disability issues arising from this paper. Specific projects funded by the Acceleration Facility are likely to increase disabled access around and enjoyment of Christchurch.

Legislative implications and regulatory impact analysis

46. This paper has no legislative implications. No regulatory impact analysis is required.

Publicity

47. I propose to make an announcement about the Acceleration Facility with the Mayor of Christchurch.

48. I intend proactively to release this paper, subject to appropriate redactions, both directly to the Council and on the DPMC website.

Recommendations

I recommend that this Committee:

1. **note** the Government announced the Capital Regeneration Acceleration Facility, a tagged contingency, of \$300 million in Budget 2018 (Acceleration Facility), to provide certainty, confidence and demonstrable progress towards Christchurch's ultimate regeneration;
2. **note** the Acceleration Facility is being established at the same time as the Crown is entering into negotiations over a full and final settlement (Global Settlement) with the Christchurch City Council (Council);
3. **invite** the Minister for Greater Christchurch Regeneration to seek a mandate for the Global Settlement negotiations;
4. **agree** funds from the Acceleration Facility should be available for expenditure on capital projects in the following four categories:

Category 1: Residential red zone

To meet the Category 1 eligibility criteria, projects must be located in (or predominantly in) the geographically defined residential red zone in (and only in) Christchurch City, and not be inconsistent with the eligibility approach to Category 3.

Category 2: Stadium

To meet the Category 2 eligibility criterion, investment proposals must be a contributing component of the stadium project.

Category 3: Three waters, land drainage, and roading

To meet the Category 3 eligibility criterion, projects must be (i) related to three waters (drinking water, storm water, waste water), land drainage, or roading; (ii) consistent with wider central government policy (for example, with regard to wider emergency management policy and practice regarding essential infrastructure); and

Three waters and land drainage

- must have direct links to Christchurch earthquake regeneration outcomes; and

- must be for new three waters or land drainage infrastructure; and
- cannot be related to renewing, repairing, improving, operating, or maintaining existing three waters or land drainage infrastructure, or other business as usual local authority responsibilities for three waters and land drainage

Roading

- must have significant direct links to Christchurch earthquake regeneration outcomes, particularly as set out in *An Accessible City*; and
- cannot be predominantly or solely related to renewing, repairing, or maintaining existing roading, or other business as usual local authority responsibilities for roading

Category 4: Other

To meet the other eligibility criterion, projects must be compelling, and the Council must agree that funds made available for projects in this Category will reduce the amounts of funds made available in Categories 1 – 3;

5. **note** the Minister for Greater Christchurch Regeneration's intention (subject to later Cabinet agreement) to indicate to the Council that no funds from the Acceleration Facility will be appropriated until the Crown and Council have executed the Global Settlement agreement, with the exception of any funds made available pursuant to rec. 12;
6. **agree** that funds from the Acceleration Facility should be available through a two-stage process;
7. **agree** that Stage 1 (the investment proposal) will be a brief outline of the case for investment in the proposed project, which will result in assessment against the criteria and earmarking of funds from the tagged contingency for the project concerned;
8. **agree** the Minister of Finance and the Minister for Greater Christchurch Regeneration may earmark funds, and report orally on earmarks made;
9. **agree** that Stage 2 (the investment case) will meet the expectations for investment management and asset performance in the state sector, set out in CO (15) 5;

10. **note** that following acceptance of an investment case, the Minister of Finance and the Minister for Greater Christchurch Regeneration will seek Cabinet approval for appropriation of funds from the tagged contingency to the projects concerned;
11. **note** that investment proposals and investment cases will require consideration of the social, cultural, environmental, and economic rationale for the proposed investments;
12. **authorise** the Minister of Finance and the Minister for Greater Christchurch Regeneration jointly to approve up to \$20 million for the stadium, for site decontamination, early site groundworks, and some initial design work;
13. **note** that the investment case for the stadium will be bespoke, and will recognise the substantial amount of work that has gone in to considering whether there is a need for a stadium in Christchurch; and
14. **note** the Minister for Greater Christchurch Regeneration intends to release this paper in full (subject to any appropriate redactions) directly to the Council and on the DPMC website, and make a joint public announcement with the Mayor of Christchurch.

Authorised for lodgement

Hon Dr Megan Woods

Minister for Greater Christchurch Regeneration