

Reference: 20240054

28 February 2024



Dear 

Thank you for your Official Information Act (OIA) request, partially transferred from the Ministry of Education on 30 January 2024. You requested:

a copy of DEV-22-MIN-0296 (Revised) and the original version plus the full paper prepared that the minute referred to was based on.

Information being released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	7 December 2022	Funding Package to Address Cost Escalation Pressures: DEV-22-MIN-0296 Minute	Released in part

I decided to release the document listed above, subject to information being withheld under the following section of the OIA, as applicable:

- 9(2)(i) - to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities.

Information publicly available

The following information is also covered by your request and is publicly available on the Treasury website:

Item	Date	Document Description	Website Address
2.	1 December 2022	Cabinet Paper: DEV-22-SUB-0296: Funding package to address cost escalation pressures	https://www.treasury.govt.nz/sites/default/files/2023-08/b23-dev-22-sub-0296-4724791.pdf

Accordingly, I have refused your request for Item 2 from the table above, subject to section 18(d) of the OIA:

- the information requested is or will soon be publicly available.

In making my decision, I have considered the public interest considerations in section 9(1) of the OIA. Please note that this letter (with your personal details removed) and enclosed document may be published on the Treasury website.

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

Yours sincerely

Craig Murphy
Manager, Investment Management System

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1.	DEV-22-MIN-0296 Minute
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Cabinet Economic Development Committee

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.

Funding Package to Address Cost Escalation Pressures

Portfolio **Finance**

On 7 December 2022, the Cabinet Economic Development Committee:

Background

- 1 **noted** that the government has made significant progress towards addressing New Zealand's infrastructure deficit and improving the quality of vital public services through a series of substantial investments;
- 2 **noted** that supply chain constraints exacerbated by COVID-19 and the Russian invasion of Ukraine are driving high levels of inflation, and that this is leading to a challenging delivery environment with significant cost volatility;
- 3 **noted** that, based on information from quarterly investment reporting, in May 2022 the Minister of Finance directed the Treasury to carry out an out-of-cycle funding process to evaluate urgent cost escalation pressures appearing across the government's investment portfolio;

Approach to cost escalation claims process

- 4 **noted** that the Minister of Finance invited 19 investments into the cost escalation claims process, requesting additional funding of s9(2)(i) capital and s9(2)(i) total operating;

Overview of funding package

- 5 **noted** that the funding package is focused on addressing cost escalations outside of an agency's control to enable the successful delivery of agreed scope and outcomes;
- 6 **agreed** to a funding package of s9(2)(i) total capital, s9(2)(i) total operating, and a \$58.348 million repayable capital injection to address cost escalation for invited projects, as set out in Appendix One to the paper under DEV-22-SUB-0296;

Ministry of Foreign Affairs and Trade/ Antarctica New Zealand - Our Place in Antarctica, Redevelopment of Scott Base

- 7 **agreed** to provide funding to address cost escalation pressures for Our Place in Antarctica - Redevelopment of Scott Base;

8 **approved** the following changes to appropriations to give effect to the decision in paragraph 7 above, with a corresponding impact on the operating balance and net debt:

Vote Foreign Affairs Minister of Foreign Affairs	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
Non-Departmental Output Expenses: Antarctic Research and Support	-	-	(3.000)	1.000	(2.000)
Non-Departmental Capital Expenditure: New Zealand Antarctic Institute	-	36.000	42.000	(4.000)	75.000
	2027/28	2028/29	2029/30 & outyears		
Non-Departmental Output Expenses: Antarctic Research and Support	24.000	10.000	9.000		
Non-Departmental Capital Expenditure: New Zealand Antarctic Institute	10.000				

9 **directed** Ministry of Foreign Affairs and Trade officials to work with the Treasury to commission an independent quality assurance expert to provide monthly reporting to the Minister of Foreign Affairs and the Minister of Finance on costs and contingency forecasting for the project;

10 **noted** that the above monthly reporting should continue through to project completion, or as otherwise deemed no longer necessary by the Minister of Foreign Affairs and the Minister of Finance, and include the project budget separated as:

- 10.1 escalation above baseline budget;
- 10.2 current risk allowances;
- 10.3 current contingency for project unknowns;

Department of Internal Affairs - Te Ara Manaaki Phase 2

11 **agreed** to a repayable capital injection to the Department of Internal Affairs to provide funding for cost pressures associated with Te Ara Manaaki Phase 2;

- 12 **approved** the following capital injections to the Department of Internal Affairs, to give effect to the policy decision in paragraph 11 above, with a corresponding impact on net debt:

		\$million – increase/(decrease)				
		2022/23	2023/24	2024/25	2025/26	2026/27
Department of Internal Affairs: Capital Injection	-	38.798	19.550	-	-	
	2027/28	2028/29	2029/30	2030/31	2031/32	
	-	-	-	-	-	
	2032/33	2033/34				
	(58.348)	-				

- 13 **noted** that the capital injections outlined above will be fiscally neutral under the current Fiscal Management Approach, as the capital injections will be fully repaid to the Crown within the ten-year capital forecast period;
- 14 **directed** the Department of Internal Affairs to engage with the Government Chief Digital Officer on investment and assurance functions, to provide additional project oversight and to review whether project risks are understood, cost estimates are reasonable, and sufficient escalation and contingency allowances are included;
- 15 **invited** the Minister of Internal Affairs to confirm to the Minister of Finance that the above has been actioned by 31 January 2023;
- 16 **directed** the Department of Internal Affairs to provide the Treasury with updated information on this project as required through the quarterly investment reporting process to maintain visibility of how the project is tracking and to provide an early signal of any risks or issues;

Department of Conservation – Dolomite Point Redevelopment Project

- 17 **agreed** to provide funding to address cost escalation pressures for the Dolomite Point Redevelopment Project;

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- 18 **approved** the following changes to appropriations to give effect to the decision in paragraph 17 above, with a corresponding impact on net on the operating balance and net Crown debt:

Vote Conservation Minister of Conservation	\$m – increase/(decrease)					Total
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears	
Departmental Output Expense: Management of Recreational Opportunities (funded by Revenue Crown)	-	0.257	0.040	-	-	0.297
Multi-Category Expenses and Capital Expenditure: Provincial Growth Fund – Conservation Projects MCA Non-Departmental Capital Expenditure: Infrastructure Projects	3.44 3	11.47 7	-	-	-	14.920

Ministry of Education – Education Resourcing System

- 19 **agreed** to provide additional funding for the Ministry of Education – Education Resourcing System, to ensure the project can meet contractual obligations in January 2023, and continue resource and deliver a replacement core funding system;
- 20 **agreed** to increase appropriations to provide for costs associated with the policy decision in paragraph 19 above, with the following impacts on the operating balance and net debt:

Vote Education	\$m - increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Operating Balance Impact*	0.521	4.686	8.293	5.922	5.337
Net Debt Impact Only	3.947	21.416	16.393	0.195	-
No Impact	0.197	1.268	2.088	2.098	2.098
Total	4.665	27.370	26.774	8.215	7.435

* Unless non-cash, will also impact net debt.

21 **approved** the following changes to appropriations and capital injections to the Ministry of Education to give effect to the policy decision in paragraph 19 above:

Vote Education Minister of Education	\$m - increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Capital Injections:					
Ministry of Education - Capital Injection	3.947	21.416	16.393	0.195	-
Multi-Category Expenses and Capital Expenditure:					
Primary and Secondary Education (MCA)					
<i>Departmental Output Expenses:</i>					
Support and Resources for Education Providers (funded by revenue Crown)	0.521	4.686	8.293	5.922	5.337
Support and Resources for Education Providers (funded by revenue Crown)	0.197	1.268	2.088	2.098	2.098
Total Multi-Category Expenses and Capital Expenditure: Primary and Secondary Education (MCA)	0.718	5.954	10.381	8.020	7.435
Total Operating	0.718	5.954	10.381	8.020	7.435
Total Capital	3.947	21.416	16.393	0.195	-

22 **directed** the Ministry of Education to commission an independent review of the project to ensure the immediate focus is on what is necessary for the new system to provide the essential features, to be reported back to the Minister of Finance by 28 February 2023;

s9(2)(i)

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s9(2)(i)

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s9(2)(i)

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New Zealand Upgrade Programme

34 **noted** that there are \$362 million of cost escalations outside the control of the delivery agencies across the New Zealand Upgrade Programme, as follows:

Transport project	Current approved funding (\$m)	Cost escalations (\$m)
Waka Kotahi projects		
SH58	105	29
Takitimu North Link Stage 1	655	112
Papakura to Drury South	655	59
Canterbury Package	300	19
Queenstown Package	115	15
Melling	420	84
KiwiRail projects		
Papakura to Pukekohe Electrification	375	44
Total	2,625	362

35 **noted** that funding of \$312 million is required for scope changes on the Melling project, and that a further \$190 million may be required for scope changes on other projects before the end of 2022, as follows:

Transport project	Current approved funding (\$m)	Scope Changes Approved (\$m)	Scope Changes Anticipated (\$m)
Waka Kotahi projects			
Canterbury Package	300		36
Queenstown Package	115		80
Melling	420	312	
KiwiRail projects			
Drury Rail Stations	375		74
Total	2,625	312	190

- 36 **noted** that most of the costs in paragraphs 34 and 35 above can be met from:
 - 36.1 the \$240 million New Zealand Upgrade Programme Portfolio Contingency;
 - 36.2 reprioritising \$273 million of tagged contingency Northern Pathway funding, both of which are components of the *New Zealand Upgrade Projects – Tagged Capital Contingency* [CAB-21-MIN-0192 and CAB-21-MIN-0374.01];
 - 36.3 reprioritising \$99 million of appropriated Northern Pathway funding;
- 37 **agreed** to provide funding of \$513 million from the *New Zealand Upgrade Projects – Tagged Capital Contingency* to support addressing the cost increases described in paragraphs 34 and 35 above, noting that \$190 million of this will remain in the tagged contingency until further decisions are made by joint Ministers on scope before the end of 2022;
- 38 **agreed** to reprioritise \$99 million of funding for the Northern Pathway exit costs within the *Capital Investment Package – Funding for Crown assets MYA* to address the cost increases described in paragraphs 34 and 35 above, with no changes to appropriations required;
- 39 **agreed** to provide further funding of \$252 million from the Multi-Year Capital Allowance to ensure there is sufficient funding to support decisions on the New Zealand Upgrade Programme before the end of 2022;
- 40 **noted** that cost increases on larger New Zealand Upgrade Programme projects, as well as any portfolio contingency to manage residual cost risk, will be invited into the Budget 2023 process;
- 41 **approved** the following changes to appropriations to give effect to the decision in paragraph 37 above, with a corresponding impact on net debt:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
Non-departmental Capital Expenditure: Capital Investment Package - Funding for Crown assets MYA	323.000				

- 42 **agreed** that the capital expenditure incurred under paragraph 41 above be charged against the *New Zealand Upgrade Projects – Tagged Capital Contingency* described in paragraph 36 above;
- 43 **noted** that, following the adjustment detailed in paragraph 42 above, the remaining balances and indicative phasing of the capital contingency described in paragraph 36 above will be:

	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
New Zealand Upgrade Transport Projects – Tagged Capital Contingency	255.0 00	262.0 00	289.0 00	518.0 00	258.000

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44 **noted** that the tagged capital contingency described in paragraph 36 above will expire on 1 February 2030;

45 **approved** the following changes to appropriations to give effect to the decision in paragraph 39 above, with a corresponding impact on net debt:

Vote Transport Minister of Transport	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
Non-departmental Capital Expenditure: Capital Investment Package - Funding for Crown assets MYA	208.000				
Non-departmental Capital Expenditure: Rail - KiwiRail Holdings Limited	44.00 0	-	-	-	-

46 **noted** that, following the adjustments detailed in paragraphs 38, 41 and 45 above, the indicative spending profile for the *Capital Investment Package – Funding for Crown Assets MYA*, is as follows:

Indicative annual spending profile	\$m				
	2022/23	2023/24	2024/25	2025/26	2026/27
Capital Investment Package – Funding for Crown Assets MYA	911.73 0	1,117. 630	938.9 90	693.3 70	705.8 80

Supplementary Estimates and impact on allowances

47 **agreed** that the changes to appropriations and departmental capital injections for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

48 **agreed** that the expenses incurred under paragraphs 8, 18, 21, and 27 above be charged against the between-Budget contingency established as part of Budget 2022;

49 **agreed** that the capital expenditure incurred under paragraphs 8, 18, 21, 27 and 45 above be charged against the Multi-Year Capital Allowance;

Managing cost risk going forward

50 **noted** that agencies are expected to provide the Treasury with information on investments in planning and delivery through the quarterly investment reporting process to maintain Ministerial visibility of the government's investment portfolio and signal issues and risks;

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- 51 **noted** that, to bring stronger disciplines to investment delivery, the Minister of Finance intends to implement independent monthly reporting for projects that are of the highest risk and sensitivity;

Jenny Vickers
Committee Secretary

Present:

Hon Grant Robertson
Hon Dr Megan Woods
Hon Nanaia Mahuta
Hon Damien O'Connor
Hon Michael Wood
Hon Dr David Clark
Hon Dr Ayesha Verrall
Hon Meka Whaitiri
Hon Phil Twyford
Rino Tirikatene MP
Dr Deborah Russell MP

Officials present from:

Department of the Prime Minister and Cabinet
Officials Committee for DEV
Office of the Chair of DEV