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Some information has been withheld on the basis that it would not, if requested under the Official Information Act 1982 (OIA), be released. Where that is the case, the relevant section of the OIA has been noted and no public interest has been identified that would outweigh the reasons for withholding it.

Listed below are the most commonly used grounds from the OIA.

<u>Section</u>	<u>Description of ground</u>
6(a)	as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government
6(b)	as release would be likely to prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by <ul style="list-style-type: none"> (i) the Government of any other country or any agency of such a Government; or (ii) any international organisation
6(c)	prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
9(2)(a)	to protect the privacy of natural persons
9(2)(b)(ii)	to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information
9(2)(ba)(i)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public
9(2)(ba)(ii)	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
9(2)(f)(ii)	to maintain the constitutional conventions for the time being which protect collective and individual ministerial responsibility
9(2)(f)(iv)	to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty
9(2)(h)	to maintain legal professional privilege
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
9(2)(j)	to enable a Minister of the Crown or any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)



12 February 2025

OC250000

Hon Chris Bishop

Action required by:

Minister of Transport

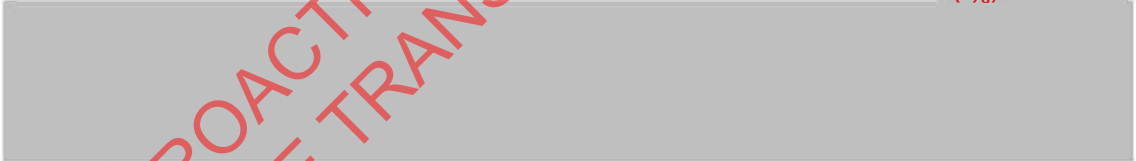

Monday, 17 February 2025

CABINET PAPER: PUBLIC PRIVATE PARTNERSHIP (PPP) PROCUREMENT FOR SH1 WARKWORTH TO TE HANA

Purpose

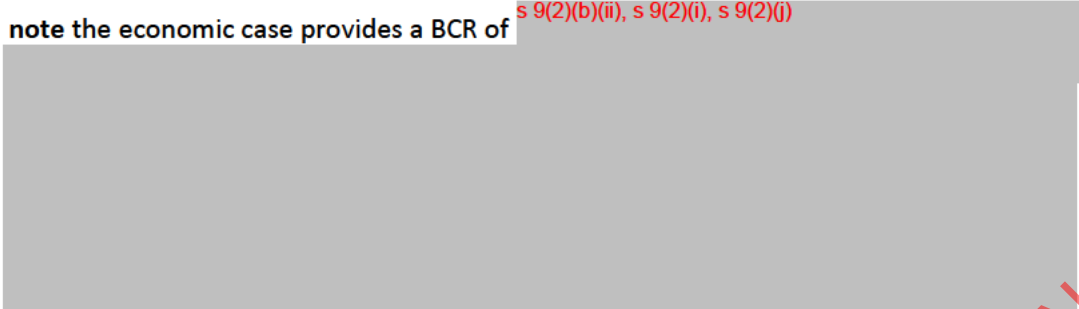
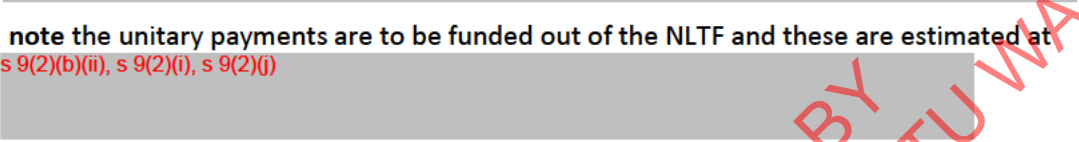

This briefing seeks your feedback on a Cabinet paper requesting endorsement to proceed with an Expression of Interest (EOI) for a Public Private Partnership (PPP) procurement for SH1 Warkworth to Te Hana (Annex 1). Subject to your feedback we recommend you undertake abbreviated Ministerial and Departmental consultation from 18 to 25 February to support lodgement on 27 February 2025.

Key points

- GPS 2024 identifies a number of Roads of National Significance (RoNS) and the attached Cabinet paper advances the section of State Highway 1 from Warkworth to Te Hana (W2TH).
- Treasury and the Ministry of Transport have reviewed the advance copy of the Investment Case and provided you with our assessment (T2025/260 / OC250092 refers). ^{s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)}

- At your officials meeting on 11 February 2025, you indicated that you and the Minister of Finance intend to progress the Cabinet paper noting the concerns above. We consider there is sufficient information for you to proceed to Ministerial and Departmental consultation on your Cabinet paper, noting that some information may change between now and lodgement as the NZTA Board are meeting on 21 February.
- Given the high cost and risk associated with this project, we recommend you require a report back to the Infrastructure and Investment Ministers Group at the end of EOI with any material changes that could impact Cabinet approval at financial close. We also recommend you request NZTA provide you with the information gathered through EOI and ^{s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)}

- The accelerated timeframe for this project has highlighted areas that require further attention for future RoNS to help mitigate risks as projects progress through their lifecycle – the Ministry intends to work with the Treasury and NZTA on how we can improve future processes.

Recommendations

We recommend you:

- 1 **note the economic case provides a BCR of** s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

- 2 
- 3 **note the unitary payments are to be funded out of the NLTF and these are estimated at** s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

- 4 **provide feedback on the draft Cabinet paper by Monday 17 February 2025**
- 5 **agree to include a report back to the Infrastructure and Investment Ministers Group at the end of EOI with any material changes that could impact Cabinet approval at financial close** Agree / Disagree
- 6 **agree, given the above risks, and subject to your feedback under recommendation 4 above, to begin abbreviated Ministerial and Departmental consultation on 18 February ahead of lodgement on 27 February** Agree / Disagree
- 7 **note that prior to lodgement, amendments may be required to the Cabinet paper depending on the NZTA Board's decision on 21 February**
- 8 **refer this briefing to Hon Nicola Willis, Minister of Finance.** Yes / No



David Wood
Deputy Chief Executive, Investment & Monitoring

..... / /

Hon Chris Bishop
Minister of Transport

..... / /

Minister's office to complete:

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
David Wood, Deputy Chief Executive, Investment & Monitoring	s 9(2)(a)	
Mark Hodge, Manager, Transport Financing		✓
Duncan Wilson, Principal Advisor, Transport Financing		

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MINISTRY OF TRANSPORT TE MANATU WAKA

CABINET PAPER: PUBLIC PRIVATE PARTNERSHIP (PPP) PROCUREMENT FOR SH1 WARKWORTH TO TE HANA

Context

- 1 You are due to take a Cabinet paper endorsing W2TH to Economic Policy Committee (ECO) on 5 March, ahead of the Infrastructure Investment Summit on 13 and 14 March. This will require lodging the Cabinet paper by 27 February. A draft Cabinet paper is attached for your feedback.
- 2 NZTA provided the Ministry with updated information on the benefits and PPP efficiencies on 12 February. ^{s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)}

These numbers differ to previous advice we have provided you. Given the timing, we have been unable to interrogate these numbers but have incorporated them into the attached Cabinet paper and will follow up with NZTA during the Ministerial consultation period.

The NZTA board has yet to approve the Investment Case

- 3 Given the timing of the Infrastructure Investment Summit, it has been necessary to develop the attached Cabinet paper in advance of NZTA Board approval of the Northland Corridor Investment Case. The attached draft Cabinet paper is based on advance copies of material NZTA officials are preparing for their Board.
- 4 The Board's decision is due on 21 February with Cabinet paper Lodgement on 27 February. Any resultant modifications to the paper will need to be made in the short time between Ministerial consultation and Cabinet paper lodgement.
- 5 It is possible the NZTA Board may ask for capital contributions from the Crown to reduce the whole-of-life cost of the PPP or to mitigate capacity constraints in the private finance market that could impact the procurement process. NZTA have not yet provided a preferred contribution approach to the Treasury to be assessed.
- 6 Any analysis of a capital contribution will need to take into account multiple factors (including the impact on value for money, risk allocation, market capacity, competition, and preservation of the benefits of a PPP) to determine whether it's appropriate for the project. If the NZTA Board at their 21 February Board meeting decides to seek a Crown capital contribution, we will work with the Treasury to provide you urgent advice that takes Budget 2025 processes into account.

There have been two significant changes since the previous Cabinet paper

- 7 NZTA's preferred delivery strategy for the whole Northland Corridor has changed since the previous Cabinet paper [CAB-24-MIN-0259 refers]. The previous strategy of a single staged PPP was deemed by the market to have low viability, and NZTA has amended its preferred approach to now include three separate PPPs that may be agreed with different consortia.

This better reflects market capacity to take on projects this size and increases supplier competition.

- 8 Whole of life integration between design, construction, and maintenance is one of the major benefits of a PPP arrangement and separate PPPs may reduce the incentive for quality on the design and construction for later sections of the corridor. To mitigate this NZTA is developing a "Corridor Integration Agreement" so that corridor efficiencies could still be achieved despite having three separate PPP contracts.
- 9 For example, NZTA may elect to use the maintenance and operations provider from Section 1 across the corridor as a corridor-wide M&O provider (by mandating that the Section 2 and Section 3 tenderers partner with the Section 1 M&O provider). This does not bind NZTA into a corridor agreement and retains flexibility to proceed with a bespoke M&O approach for future stages. The Northland Corridor RFP will include some submissions relating to the M&O provider to allow this option to be triggered.

The Cabinet paper recommends proceeding, noting risks

- 10 We have prepared a draft Cabinet paper that seeks endorsement to progress to EOI. The Cabinet paper recommends proceeding given there is sufficient scope for efficiencies, wider economic benefits (including through attracting new capability and capacity), and risk management to achieve value for money through a PPP (T2025/260 / OC250092 refers). However, the Cabinet paper also outlines some of the key risks with proceeding:

10.1 The economic case presents a BCR of s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

10.2

10.3 W2TH requires a significant long-term financial commitment. Estimated annual availability payment of s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

- 11 Noting the risks above, we recommend as part of your Cabinet approval that:

11.1 s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

This could include a requirement to report back to the Infrastructure and Investment Ministers Group after the EOI process on any

material with any material changes that could impact Cabinet approval at financial close;

- 11.2 the EOI process retains sufficient flexibility for the market to put forward a range of proposals (including non-PPP proposals) to ensure the best value for money options are presented.

12

s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

Financial implications

- 13 The current EOI process does not include an option for tolling as part of the PPP contract as market feedback indicated low interest and current economic analysis does not recommend tolling. This does not preclude NZTA tolling at a later stage, however, it is unclear how this would interact with a concessions model (eg, usually both PPP and concessions contracts include maintenance and operations).
- 14 As the project is being delivered by NZTA, the liability of the future PPP availability payments over 25 years would sit on NZTA's balance sheet – this does not need to be managed against the capital allowance and therefore has no impact on the Budget 2025 process.
- 15 However, as with previous transport PPP transactions, the Minister of Finance will still need to approve an indemnity for NZTA for the future availability payments, which will represent a contingent liability for the life of the project. If called upon, this would require funding from future Budget allowances.
- 16 We are currently working with NZTA's Finance Team to understand any potential impacts progressing with a PPP may have on NZTA's forecasts.

Lessons for future RoNS

- 17 This process has highlighted some concerns that, due to timing, may not be able to be resolved for this project, but should be inform the process for future RoNS.
- 18 For example, recent Treasury guidance released in November 2024 recommends the use of a discount rate of 2% from 2024-53 and 1.5% from 2054-83 for non-commercial projects under the "social rate of time preference" methodology. This changes the value for money proposition of all long-term infrastructure projects (essentially lifting all BCRs). NZTA has not yet done analysis to consider the updated relative value between this project and alternatives to ensure it is the best value for money spend available.
- 19 Given the size of the RoNS, PPP financing risks creating significant future liabilities. One way to reduce this is by providing Crown capital contributions to take advantage of the lower costs of government borrowing s 9(2)(b)(ii), s 9(2)(i), s 9(2)(j)

- 20 However, no set policy or assessment process has been developed for considering when capital contributions should or should not be made. The PPP Policy Blueprint released in 2024 indicated that capital contributions and their application for PPP projects in New Zealand would be explored. The Treasury is in the process of developing a policy for when capital contributions should be considered and how they should be applied to ensure benefits of the PPP model are retained.
- 21 The accelerated timeframes for this project have resulted in several processes taking place simultaneously rather than sequentially as is preferred (eg, Gateway review and Board decisions are not finalised prior to Cabinet paper consultation). As a result, insufficient time is available to assess the proposal in detail and, given the size of the potential investment, introduces significant risk.
- 22 We recommend the timeframes for the remaining RoNS be given more flexibility to allow for the required checks and balances and more consideration being given to the off-ramps to any specific project if they are deemed not worthwhile investments. We will work with the Treasury and NZTA to improve the processes for future RoNS to try and mitigate the challenges and risks identified through this current process.

Next Steps

- 23 Officials are working to the following next steps:

Milestone	Timing
Minister of Transport reviews the draft Cabinet paper (this briefing, OC250000)	12 to 17 February 2025
Minister of Transport provides feedback on Cabinet paper to Ministry of Transport	17 February 2025
Officials update drafts to the Minister of Transport, seeking approval to move to departmental and Ministerial/coalition consultation	17 to 18 February 2025
Minister provides approval for departmental and Ministerial/coalition consultation to start	18 February 2025
Departmental, Ministerial/coalition consultation	18 to 24 February 2025
Officials update Cabinet paper following Ministerial and coalition partner consultation, and provide updated draft to Minister of Transport	25 February 2025
Minister of Transport considers revised paper and provides approval to lodge with the Cabinet Office	26 February 2025
Submission of Cabinet paper to Cabinet Office	27 February 2025
Consideration by Cabinet Economic Policy Committee (ECO)	5 March 2025
Cabinet confirmation	10 March 2025
Infrastructure Investment Summit	13 March 2025

ANNEX 1

Draft Cabinet (ECO) paper: *PPP procurement for SH1 Warkworth to Te Hana*

The draft Cabinet paper annexed to this briefing was the consultation version of the document that did not go through Cabinet Committee. Changes between this version and the subsequent post consultation version, available on the Ministry's website here: <https://www.transport.govt.nz/assets/Uploads/Public-Private-Partnership-Procurement-for-Section-1-of-the-Northland-Corridor-Warkworth-to-Te-Hana.pdf> were not substantial.

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