

In Confidence

Office of the Minister of Corrections

Chair, Cabinet Social Wellbeing Committee

## **Upgrading Critical Infrastructure: 3 Waters Programme Business Case**

### **Proposal**

1. I seek consideration of the 3 Waters Programme Business Case (Appendix A).

### **Relation to Government priorities and expectations**

2. This proposal supports the following Government Priorities:
  - The Government's 3 Waters Reform programme has identified that risks from underinvestment in this asset class now requires urgent attention.
  - The Government's 5 point Covid-19 Recovery Plan under Priority 2 seeks infrastructure investment to promote jobs.
  - Cabinet Circular (19) 6 sets investment management expectations (including proactive asset stewardship) and invites the identification, prioritisation and planning of investments which deliver benefits to New Zealanders over an agreed timeframe.

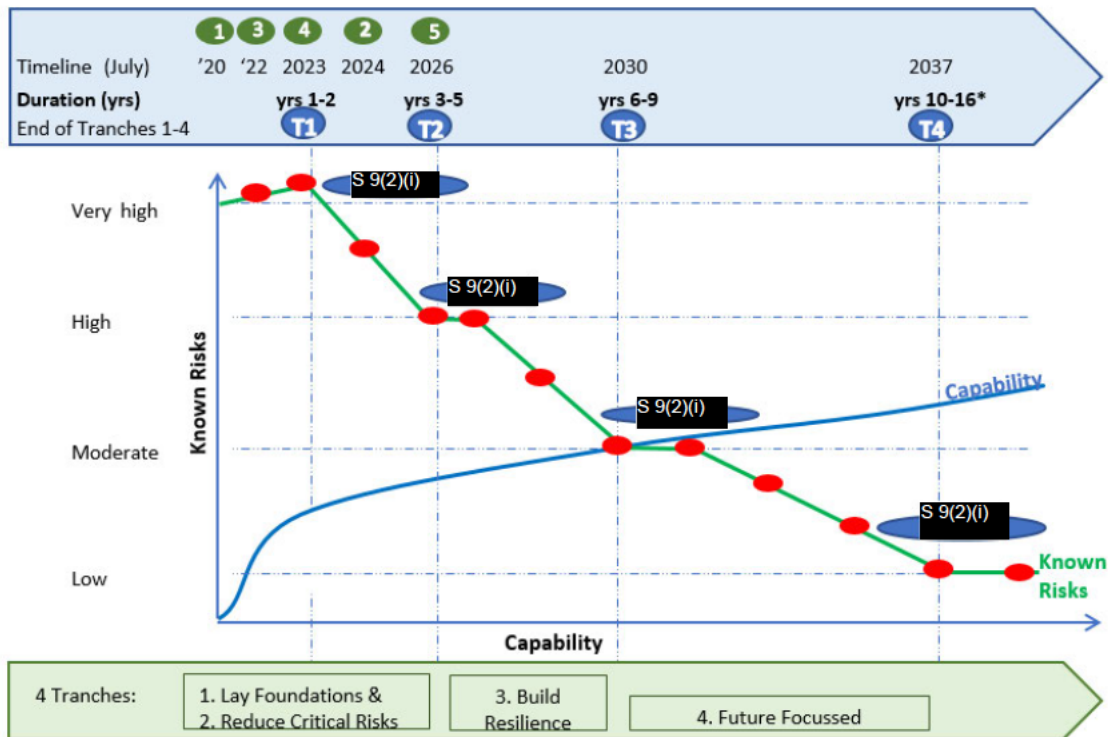
### **Executive Summary**

3. Corrections' extensive 3 Waters infrastructure has high (and increasing) risk of failure which would compromise service delivery, network capacity, safety to staff and people in our care, and regulatory / compliance obligations.
4. Current and pending 3 Waters reforms are likely to impose an increasing regulatory and compliance burden on Corrections and impose higher risks of non-compliance.
5. Corrections has developed a proactive asset stewardship programme to reduce these risks through the 3 Waters Programme Business Case (PBC) which details the planned and prioritised investment in the replacement, repair and upgrade of this infrastructure.
6. Investment detailed in the PBC is prudent to address these risks.

## Background

7. Corrections owns and manages 3 Waters infrastructure and assets with an estimated replacement value of circa \$200 million of which 50% are over 50 years old and 70% have an unacceptable risk rating. Corrections faces an unacceptable risk of loss of prison services and harm to people and the environment, due to infrastructure and compliance failures of these water assets.
8. This PBC recommends a preferred option to meet our 3 Waters service obligations. The option will also materially reduce the Corrections' risk levels of harm to people and the environment by FY 2035/36 while enabling Corrections to meet regulatory requirements for human health and environmental standards by FY 2025/26.
9. The PBC is divided into 4 tranches. The programme starts with an investigation phase upon which subsequent investment strategies can be planned and prioritised.
  - Tranche 1 "Lay Foundations" details investment for investigation and planning, defining and implementing processes, and prioritised asset interventions for critical works, and initiates procurement and design for the next tranche of works.
  - Tranche 2 "Reduce Critical Risk" addresses remaining very high risk infrastructure issues by FY 2025/26.
  - Tranche 3 "Build Resilience" then prioritises the majority of our high risk asset and compliance interventions by FY 2029/30.
  - Tranche 4 "Future Focussed" then addresses the most significant moderate risk issues by FY 2036/37.
10. The Budget 21 bid "Critical Infrastructure & Compliance (3 Waters)" established a Capital Contingency of \$5.4 million and Operating Contingency of \$15.2 million for the Tranche 1 works only.
11. Corrections is engaging with The Department of Internal Affairs and Taumata Arowai as part of their Three Waters Reform Programme consultation processes, which ensures that the PBC outcomes are aligned with the overall reform programme.

12. The Programme is summarised below:



\* Total financial cost of all 4 Tranches over 16 years is \$9(2)(i) includes inflationary pressure

Key to our Risk/Capability Illustration	
1	<b>2020:</b> New Water Services Regulator Taumata Arowai established, new National Policy Statement for Freshwater Management (NPS-FM), new National Environmental Standards for Freshwater (NES-FW) to regulate activities that risk the health of freshwater & freshwater ecosystems, including some farming & horticultural practices.
2	<b>By 2024:</b> Via the NPS-FM, Regional Councils likely to increase requirements on discharges, potentially on water takes also, likely new farming activity restrictions.
<b>2020-21:</b> A new Water Bill introduced, which may lead to:	
3	<b>2022:</b> All supplies registered under new drinking water register. first compliance monitoring and enforcement strategy made. Water Safety Plans in place for supplies serving 500+ consumers for at least 60 days pa.
4	<b>2023:</b> Estimated date to commence provisions relating to wastewater & stormwater
5	<b>2026:</b> all territorial authorities required to become authorised or have their drinking water services delivered by an authorised supplier. Water Safety Plans in place for all supplies. As part of new water reforms, by yr 5 (2026) it's expected councils will have consolidated their water supply operations with neighbouring councils. Eg. following a Wellington Water model. Prisons without onsite wastewater treatment & supply may have a change in supplier.
— (blue line)	<b>Our capability</b> in 3 waters asset management increases after each stage in our programme
— (green line)	<b>Our known risks</b> within our 3 waters asset class decreases after each stage in our programme and/or our knowledge of them increases
● (red dot)	<b>Internal Corrections stage gates</b> to review key steps & update; information, risks, & forward plans
● (blue oval)	<b>Financial Cost of each Tranche</b> individually (not cumulative)

## Financial Overview

13. The PBC details the cost of the preferred programme at <sup>S 9(2)(i)</sup> over the full programme totalling 16 years.

14. The PBC estimated Programme costs as follows:

<sup>S 9(2)(i)</sup>



15. The Budget 21 “Critical Infrastructure & Compliance (3 Waters)” bid set aside funding for Tranche 1 subject to consideration of the PBC by Cabinet and also delegated authority to the Minister of Finance and the Minister of Corrections jointly to draw down Capital Contingency of \$5.44 million and Operating Contingency of \$15.2 million.

16. The balance of Tranche 1 funding, and future funding for Tranches 2 to 4 will be sought from future Budget processes through Single Stage Business Cases as programme scope and costs are derived on the completion of the investigative phase.

## Benefits from this investment

17. The primary benefit of the recommended option detailed in the PBC is to fundamentally reduce infrastructure failure risks and non-compliance risks, across all prisons as per programme scope, by FY 2035/36, while enabling Corrections to meet regulatory requirements for pending 3 waters reform and legislation, and to protect human health and meet environmental standards, by FY 2025/26.

18. Important additional benefits can also be achieved through this investment including: avoided unplanned/emergency works; avoided emergency prisoner relocation costs and associated risks to safety; reduced water consumption; improved capital planning; improved staff wellbeing; improved treatment of water as a taonga within te ao Māori, and improved wellbeing of people managed by Corrections.

19. Other benefits of the Programme are related to protection of the natural environment, decreased risk of reputational damage, and increased trust and confidence in Corrections and the Government.

## **Consultation**

20. Consultation has been undertaken with Treasury and the Infrastructure Commission who are supportive of the PBC.

## **Financial implications**

21. Budget 21 established a \$5.4 million capital contingency and a \$15.2 million operating contingency (CAB-21-MIN-0116.06). Cabinet also authorised the Minister of Finance and Minister of Corrections to jointly draw down from the Critical Infrastructure and Compliance (3 Waters) Contingency after Cabinet has considered the PBC.
22. The initial draw down will support the first Tranche of the programme, and total programme expenditure is expected to be <sup>s 9(2)(a)</sup> [REDACTED] over 16 years.
23. Given the significance of this investment future funding proposals will be submitted through the Budget process seeking programme approval and funding where appropriate.

## **Legislative implications and impact analysis**

24. There are no legislative implications.

## **Population Implications**

25. This Programme will reduce the risk of infrastructure failure and non-compliance, and contribute positively to the health, safety, and wellbeing of all prisoners, staff, and our communities.

## **Human Rights**

26. The proposals in this paper is are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

## **Publicity**

27. No publicity is planned in response to the consideration of this paper.

## **Proactive release**

28. I intend to proactively release this paper within 30 business days, subject to redactions as appropriate under the Official Information Act 1982

## Recommendations

The Minister of Corrections recommends that the Committee:

1. **Note** that on 20 May 2021 Cabinet agreed to set aside contingency funding of \$5.44 million Capital Contingency and \$15.2 million Operating Contingency for Tranche 1 as part of Budget 2021 and delegated the authority to draw down contingency jointly to the Minister of Finance and the Minister of Corrections, subject to consideration of the 3 Waters Programme Business Case to Cabinet.
2. **Note** that Cabinet has considered the 3 Waters Programme Business Case
3. **Note** that joint Ministers will make a decision on draw down of the \$5.44 million Capital Contingency and \$15.2 million Operating Contingency at a later date.
4. **Note** that the future funding for Tranches 2 to 4 will be sought from future Budget processes through Single Stage Business Cases as programme scope and costs are derived on the completion of the investigative phase.

Authorised for lodgement

Hon Kelvin Davis

Minister for Corrections