

# Funding Memo

*Project / Programme Name:*

*Waikeria Prison - business interruption  
infrastructure response following riot ended 3  
January 2021*

Senior Responsible Owner: Andrew  
Robertson, DCE Infrastructure & Digital  
Assets

Benefits Realisation Owner: Terry Buffery,  
Regional Commissioner

Prepared by: Andrew Robertson

Date: 8 March 2021

Version: 1.0

Status: Final

RPA rating: Low

Template Version: 1.4





**1. Endorsement Status**

Name	Date & Signature
Senior Responsible Owner (SRO): Andrew Robertson	 5/3/21
Benefits Realisation Owner (BRO): Terry Buffery	
Finance Business Partner: s9(2)(a)	s9(2)(a)  10/3/21.
EPMO Investment Management Lead: s9(2)(a)	s9(2)(a)  11/03/21

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Category	Rating
Scale Assessment	Select from drop down..
Risk Assessment	Select from drop down..
Hōkai Rangi Alignment	Select from drop down..
EPMO Recommendation	Select from drop down..
Comments	<Insert Text>

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## Background and Investment Purpose

The purpose of this memo is to secure funding from the Investment Committee for administration by the Waikeria Programme Board as it considers and approves individual infrastructure recovery elements required after the riot.

The 6-day Waikeria riot that ended on 3 January 2021 required a large initial infrastructure emergency response to secure the Top Jail and to deliver improvised levels of service to key functions in new locations around the site.

On 12 January 2021 the ELT instructed the existing Waikeria Programme Board to take on the governance of the infrastructure recovery as an addition to its existing role. This included leveraging the underlying capability of the Waikeria Programme Team already deployed to deliver the new Waikeria facility and to consolidate site infrastructure.

The Board has considered options in each infrastructure area where levels of service and functionality have been impaired and has determined preferred options in most areas. To undertake its role efficiently, the Board requires the ability to assign funding to preferred options so that budgets can be set up and implementation can start.

## 2. Current status

Where is the recovery process at currently?	<p>In the immediate aftermath urgent work was required to isolate services, manage immediate hazards and access at Top Jail, reconfigure site IT backbone, and replicate minimum viable Receiving Office, Health, ICT, ESS and Master Control functionality. Approximately \$3.7m work has been performed or commissioned in these areas, mainly using Downer, Honeywell, and Spark.</p> <p>Since then, preferred solutions have been determined by the Board for kitchen, laundry, AVL, and office accommodation. In addition, a decision has been made to write-off and demolish the entire Top jail complex.</p>
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## 3. Funding

### 3.1 Overview

Is the initiative on the Capital Plan?	No
Why is it necessary?	To restore minimum viable levels of service and functionality following the Waikeria riot, until the new facility enters service in early 2023.

### 3.2 Waikeria Programme Board funding requirement

What is the funding requirement?	Inclusive of a 30% contingency for relatively high levels of uncertainty, the funding pool required to cover costs incurred or committed in the immediate response, and the costs required for the implementation of preferred solutions, is \$8.99m. This is outlined in table 1 below and includes both capex and opex.
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The Board therefore requests that a business interruption infrastructure response pool of \$7.15m inclusive of \$0.8m contingency. This allocation provides capital funding certainty to engage and conduct site works.

Operating costs of \$1.84m have been signalled. These costs are phased across three financial years (the 24-month business interruption period). Costs this year will be incurred using existing delegations and ringfenced to the Waikeria business interruption cost centre (1716).

The Board requests that it receives delegated authority to manage the allocation of funding to committed works and preferred options poised for implementation, with total allocation not to exceed the total of the pool.

### 3.3 Response element summary

The operational response resulted an immediate response now largely complete (to secure and make safe) and a second phase to restore and return the site to interim self-sufficiency. The cost to restore services including the receiving office, master control, kitchen, laundry, court AVL and office accommodation have now been assessed (refer table 1 below).

**Table 1 – Waikeria response capex & opex requirements phased by financial year.**

Recovery Costs:	Spend \$		CAPEX/OPEX		Likely spend phasing			
	Totals	Capex	Opex	2020/21	2021/22	2022/23	Totals	
Initial Response Costs	\$0.39		\$0.39	\$0.39			\$0.39	
Miro - receiving office	\$0.65	\$0.65		\$0.65			\$0.65	
Miro - addittional works	\$0.10	\$0.10		\$0.10			\$0.10	
Master Control	\$1.48	\$1.48		\$1.48			\$1.48	
IT response costs	\$1.07	\$0.85	\$0.22	\$1.07			\$1.07	
Kitchen	\$1.35	\$1.00	\$0.35	\$1.05	\$0.20	\$0.10	\$1.35	
Laundry re-instatement	\$0.60	\$0.60		\$0.60			\$0.60	
Court/AVL	\$1.50	\$1.40	\$0.10	\$1.40	\$0.08	\$0.03	\$1.50	
Office Accommodation	\$0.59	\$0.28	\$0.31	\$0.50	\$0.05	\$0.04	\$0.59	
Demolition & Asbestos Assessment	\$0.27		\$0.27	\$0.27			\$0.27	
Contingency 30%	\$1.00	\$0.80	\$0.20	not yet forecast				
<b>Programme Totals</b>	<b>\$8.99</b>	<b>\$7.15</b>	<b>\$1.84</b>	<b>\$7.50</b>	<b>\$0.32</b>	<b>\$0.17</b>	<b>\$7.99</b>	
<b>Summary - excluding performance</b>				<b>Phasing</b>				
				<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>		
Capital	\$7.15			\$7.15			\$7.15	
Opex	\$1.84			\$1.35	\$0.32	\$0.17	\$1.84	
<b>Programme Totals</b>	<b>\$8.99</b>			<b>\$8.50</b>	<b>\$0.32</b>	<b>\$0.17</b>	<b>\$8.99</b>	

#### Funding sources:

**Capital:** The \$7.15m in capital funding inclusive of the \$0.8m contingency will be sourced from the I&F Asset Management current year budget through the application of current forecast underspend against this programme area. Upon approval a WBS will be created with a capital budget enabling expenditure to be incurred, reported and governed by the Waikeria Programme Board. The full year capital forecast will be updated to reflect these costs to be incurred this financial year. The Investment Committee will receive a progress update including any out-year impacts on capital planning at the May meeting.

**Operating Costs:** There are some operating costs impacts associated with these site operational restoration choices. This paper signal \$1.84m in operating cost impact is phased across the 24-month business interruption period. These costs are currently being incurred by the lead business group utilising the appropriate expertise and application of existing budgets and delegation frameworks. The Waikeria Programme board govern and monitor expenditure being incurred. Note, for reporting purposes finance has been routinely assessing and sweeping these costs to the Waikeria business interruption cost centre (1716) located within the CS business



grouping under the National Commissioner. The out-year expenditure impacts associated with this business interruption and recovery will be assessed and captured by functional planning.

These 'mobilisation' funding pathways and costs have been captured and reflected in the insurance claim and in Budget 21 external funding bids. The outcomes of these processes will provide a future underwrite of the commitments being made through this mobilisation period.

#### 4. Governance

<p>Describe how the Waikeria Prison business interruption infrastructure response pool will be administered</p>	<p>This scope of this governance work is a special-purpose addition to the existing Terms of Reference of the Waikeria Programme Board. In respect of this special purpose work only, new and over-riding requirements are:</p> <ul style="list-style-type: none"><li>• Voting membership expanded to include DCE FPA</li><li>• Voting quorum requirement includes all of:<ul style="list-style-type: none"><li>○ Andrew Robertson (Chair)</li><li>○ Jo Perez</li><li>○ s9(2)(a)</li><li>○ Terry Buffery</li></ul></li></ul> <p>A report will be prepared for the Investment Committee once all the necessary response elements have been commissioned (expected in May 2021). Normal project control disciplines will apply for each element and delivery will be overseen by the Board. The offsetting of individual element variances will be permitted under the capped total of the pool, meaning that a single capital contingency and a single operating contingency can be used to manage uncertainty and minor scope changes. Any surplus in the pool will be returned to the Investment Committee once all elements have been completed.</p> <p>Due to the cost, complexity, and size of the Top Jail demolition, the main demolition contract award and funding will be subject to additional specific Investment Committee approval. However, a funding allowance for procurement and methodology planning related to Top jail demolition is included in the pool in Table 1.</p>
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## 5. Recommended Actions & Approvals

Approval to Proceed		
1.	<b>Note</b> that the Waikeria Programme Board has been instructed by ELT to manage the business interruption infrastructure response at Waikeria Prison following the riot.	<b>YES/NO</b>
Financial Approvals		
2.	<b>Approve</b> the allocation of Capital of \$7.15m inclusive of contingency of \$0.8m in FY2020/21 from the I&F Asset Management capital budget forecast underspend. Upon approval a new capital plan line 'the Waikeria Business Interruption Response Pool will be created and the capital forecast updated to reflect this spend.	<b>YES/NO</b>
3.	<b>Note</b> the approach regarding the incurring and ring-fencing of operating expenditure in 2020/21 and the requirement to assess and provide out-year budgets through the functional planning process.	<b>YES/NO</b>
4.	<b>Note</b> the requirement to provide an update to the Investment Committee on site recovery and out year capital plan impacts at the May meeting.	<b>YES/NO</b>
Delegation Approvals		
5.	<b>Authorise</b> the Waikeria Programme Board to expend the approved Waikeria Prison business interruption infrastructure response pool to implement the elements outlined in section 3.3.	<b>YES/NO</b>
6.	<b>Note</b> the special purpose governance arrangements that will be applied and followed by the Waikeria Programme Board in administering the pool.	<b>YES/NO</b>

Name	Role	Date
Rachel Leota, Acting Chief Executive	<b>Acting Investment Committee Chair</b>	
Signature & Date		



## Appendix One: Document Control

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Document Information	
<b>Document ID</b>	<CM9 Document Number>
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Document History		
Version	Issue Date	Changes
<insert version number e.g. v0.1>	<insert issue date>	<insert summary of changes for this version>

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Date: 30 March 2021

To: s9(2)(a), Marsh Insurance

From: s9(2)(a), Portfolio Manager, Insurance

## **RE: Waikeria Insurance Claim**

The Department's representation of losses supporting our claim arising from the event at Waikeria Top Jail is attached.

The Department has taken a reasonable and conservative approach to estimating losses arising from the event. In generating these estimates at a fundamental level it is apparent that the losses exceed the sum insured by a comfortable margin (even after allowing for adjustments or alternative methodologies to calculate these estimates). This supports the claim of the maximum sum insured. We appreciate the timely and practical approach adopted by all parties which allows resolution of the claim quickly.

An overview of the approach taken and supporting schedules follow.

### **Buildings - Demolition Only (Schedule 1)**

While a tender process is yet to be completed to fully establish an approach to site demolition and costs, it is generally accepted that demolition costs exceed the sum insured due to the size and complexity of the works required. Each structure on the site is functionally integrated into the whole site such that it can only provide utility to the Department if all structures are extant. Further the Waikeria site Designation does not allow for any construction works or reinstatement of any building on the top jail site. As such the Department's position is that the Top Jail is a constructive total loss. The estimate provided per Schedule 1 is a reasonable approach to supporting a claim of the maximum sum insured.

Estimated Loss

s9(2)(b)(ii)

### **Plant and Contents (Schedule 2)**

#### Plant and Contents (2A)

Accounting records were used as the primary basis for obtaining a value for plant and contents. This approach utilises actual acquisition costs which provides verifiable and conservative values. In total this amounts to \$7.5m and, applying some reasonable estimate to this figure to derive replacement cost values (as provided for under the policy) will likely produce a figure close to the maximum sum insured. To derive actual replacement costs for this extensive list of assets would take some time and resources to manage and is not deemed necessary at this time.

The plant and contents accounting information extracted did not provide a complete itemised list of fixtures and fittings. We advise that fixtures and fittings includes significant specialist fabricated custodial furniture and fittings which have been reasonably derived from the accounting records.

Estimated Loss                      \$8.1M

Electronic Security Plant (2B)

The plant and contents accounting information extracted did not provide a complete itemised list of electronic security and IT plant. This has therefore been compiled and estimated at capitalizable value (replacement cost plus costs to install).

Estimated Loss                      \$9.08M

Staff and Prisoner property

This is the best estimate at this time. The Department's view is that Prisoner Property falls within the scope of the policy. Property held for 844 prisoners was lost in this event.

Estimated Loss                      \$1.35M

In total the Plant and Contents loss estimate exceeds the claim limit by a significant margin and, for the purpose of supporting a claim, we are comfortable that this figure is fit for purpose.

Total                                      \$18.53M

**Business Interruption (Schedule 3)**

The approach taken quantifies losses under three tranches:

- Initial incident response costs incurred
- Estimated costs to restore site services
- Estimated ongoing increased opex costs to service interim operating model.

Incident response costs

Total costs are still to be finalised as some invoices and other costs attributed to this cost category are still to be received. Therefore this is a conservative figure at this time.

Estimated Loss                      \$1.3 M

Estimated costs to restore site services

This comprises one off facilities solutions and excludes plant and equipment which falls under Material Damage policy.

Estimated Loss                      \$6.9M

Estimated increased OPEX for interim operating model.

The substantial part of the estimated loss, as a result of having to open and support additional capacity in the network, is \$12.8M being the associated personnel costs required to support increased prisoner numbers in alternative prisons. Where appropriate, existing staff have been seconded to these facilities. This capacity will be utilised until the new facility becomes available. Maintaining core staffing capability is the optimal solution which will enable the new Waikeria facility to be brought into service once completed in 2022. Network capacity lost as a result of the riot (293 beds) comprises 2.9% of the network.

Estimated Loss	\$12.2M
<b>Total Estimated Loss</b>	<b>\$20.4M</b>

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## Schedule 1

s9(2)(b)(ii)



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## Schedule 2 A

<b>Material Damage</b>	<b>Sum Insured</b>	<b>Plus 10%</b>	<b>Loss Estimate s</b>	<b>Value basis</b>
<b>Plant/Contents</b>				
<b>Fittings, Fixtures and Equipment (F, F &amp; E)</b>	12,563,340	13,819,674		
<b>Site Services</b>				
Electronic Security - Audio Visual Link Facilities	52,900	58,190	58,190	
Electronic Security - Waikeria - Centralised Pegging	12,400	13,640	13,640	
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<b>Fixed Asset Register</b>				
High Security (Cell Blocks), Health (M02), Bakery (M14), Laundry (M09)			5,327,430	Acquisition
High Security Kitchen (M16) - Less Potential Salvage of \$350K			684,424	Acquisition
ISU Kotuku (At Risk Unit)			807,723	Acquisition
<b>Fixed Asset Register - Minor Assets</b>				
High Security (Cell Blocks), Health (M02), Bakery (M14), Laundry (M09)			123,264	Acquisition
High Security Kitchen (M16)			40,420	Acquisition
ISU Kotuku (At Risk Unit)			10,850	Acquisition
High Security Furniture			100,300	Acquisition
<i>It Equipment</i>			243,861	Replacement
<b>Misc</b>				
Dental			TBA	
Kitchen Stock (Food)			18,413	Replacement
Bakery Stock (Food)			7,741	Replacement
Programmes Room & Chaplain			11,557	Replacement
Uniforms			20,000	Replacement
Offender Clothing (Stock)			80,584	Replacement
Cell Inventory (174 Cells @ \$1,000 each)			174,000	Replacement
<b>Lease Equipment</b>				
Downer - Equipment			TBA	
Spark - Equip (Prisoner Payphones & Courts AVL)			194,804	Replacement
Honeywell Electronic Security - Equipment			25,580	Replacement
Ricoh - 35 Printers			152,250	Replacement
Big Blue - 31 x \$300 Water Coolers			9,300	Replacement
OCS Bathroom/Cleaning Equipment			TBA	
<b>Total Plant and Contents excluding Electronic Security</b>			<b>8,104,329</b>	
<b>Electronic Security (Schedule 2 b)</b>			<b>9,076,411</b>	Replacement
<b>Employees &amp; Directors Effects Policy Memoranda - 190 Staff</b>	50,000	N/A	50,000	Estimated
<b>Offender Pers. Effects incl. in Sum Ins'd</b>			<b>1,300,000</b>	Estimated
<b>Totla Employees and Prisoner Personal Effects</b>			<b>1,350,000</b>	
	<b>12,628,640</b>	<b>13,891,504</b>	<b>18,530,740</b>	<b>Total Loss</b>

## Schedule 2 B: Electronic Security

<b>Labour:</b>	Honeywell Labour cost covers Implementation Planning & Administration, Engineering, Design, Programming & Commissioning of the Equipment			
<b>Honeywell Markup:</b>	Standard agreed Rate			
<b>Quantified Risk Assessment:</b>	Generic Risk on Materials, Contractor Costs, Honeywell Labour, Warranty/DLP Costs & Foreign Exchange Risk.			
<b>Management:</b>	Honeywell's Project Management, Administration & Consultants/Contractors Fees			
<b>TOC No:</b> 3854				
<b>To:</b> s9(2)(a)				
<b>Project Title:</b> Waikeria Upper Prison Refit				
<b>Site ID &amp; Facility Name:</b> P22: Waikeria Prison				
<b>Requested By:</b> s9(2)(a)				
<b>Date:</b> 17 February 2021				
<b>Status:</b> Draft				
<b>Estimator Name:</b> s9(2)				
<b>Budgetary Price Only</b>	CCTV	CCTV	\$ 390,400.00	
	VIDEO TRANSMISSION & RECORDING	VIDEO TRANSMISSION & RECORDING	\$ 27,960.00	
	IMS	SMS	\$ 616,800.00	
	NETWORK	NETWORK	\$ 26,400.00	
	CONTROLS	CONTROLS	\$ 1,549,100.00	
	SES	SES	\$ -	
	PEGGING	PEGGING	\$ 6,310.00	
	KEYWATCHER	KEYWATCHER	\$ -	
	INTERCOMS	INTERCOMS	\$ 200,113.57	
	POWER / UPS	POWER / UPS	\$ -	
	MATV	MATV Coaxial Distribution System	\$ 500,000.00	
	MISCELLANEOUS	MISCELLANEOUS	\$ 215,000.00	
	CONSUMABLES	CONSUMABLES	\$ 35,320.84	
		<b>Hardware Total</b>	<b>\$ 3,567,404.41</b>	54% of Cost
	HVL PURCHASED INSTALLATION	HVL PURCHASED INSTALLATION	\$ 1,750,000.00	26% of Cost
HONEYWELL LABOUR	HONEYWELL LABOUR	\$ 1,287,500.00	19% of Cost	
ON-SITE OVERHEADS	ON-SITE OVERHEADS	\$ -		
<b>PROJECT COST</b> \$ <b>6,604,904.41</b>				
<b>HONEYWELL MARKUP</b> 20% \$ <b>1,320,980.88</b>				
<b>TARGET COST (exc QRA and MNGT)</b> \$ <b>7,925,885.29</b>				
<b>QRA</b> 5.1% \$ <b>401,896.99</b>				
<b>TARGET COST (inc QRA)</b> \$ <b>8,326,982.28</b>				
<b>MANAGEMENT (9% of Target Cost inc QRA)</b> 9% \$ <b>749,428.41</b>				
<b>TOTAL TARGET COST</b> \$ <b>9,076,410.68</b>				
<b>FOREX last updated 17 Feb 2021 - 30 days ago</b>				
<b>Reason for Project:</b>				
Due to Civil unrest at Waikeria Prison - Upper Jail. The Electronic Security Systems installed have been destroyed and a break down of the cost to reinstate these assets has been requested.				
This TOC is a high level budget covering the cost of procurement of damaged hardware and the cost of installation, configuration and commissioning to a fully functioning system of the equal size of the old Upper prison				
<b>Description of Work:</b>				
Supply and Install:				
All field hardware including cabling, CCTV, Intercom, Door controls, UPS and MATV equipment in the accommodation wings				
All Control equipment located in the MER including Core system, equipment room racks, cabinets, power supplies and PLCs				
All equipment in the Master Control Room including monitor wall SMS stations and Intercom Masters				
A new 900 meter Gallagher Power fence around the perimeter of the Upper Prison				
All Contraband detection equipment including X-Ray machines and Walk Through Metal Detectors				

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## Schedule 3 A

Business Interruption	Sum Insured	Losses incurred & ongoing Est.
<b>Additional Costs</b>		
Additional costs reasonably incurred in resuming or maintaining normal operation or service.	10,000,000	
<b>Initial Response Costs - Downer, Staff &amp; Fleet</b>		
Downer - Clean-up, Site Safe etc		394,000
Additional Staff & Travel Costs (Cost Centre 1716)		931,128
<b>Resuming normal operations</b>		
<b>Restoring Receiving Office</b>		
- Miro Unit converted to house Property & Receiving Office		646,000
- Miro Unit - Additional Works		115,115
<b>Restoring Master Control</b>		
- Health Admin repurposed to house Master Control		1,497,000
<b>Restoring IT Services</b>		
		468,000
<b>Food (Kitchen) &amp; Laundry</b>		
- Food & Laundry services from SHCF until June 2021		168,351
- Kitchen : Lease s9(2)(a) until Dec 2022		1,136,408
- Laundry : Repurpose Rata Block L28		503,010
<b>Court/AVL Services</b>		
Re-purpose existing space within Totara Block		1,500,000
<b>Restoring Office Accommodation (Staff Facilities)</b>		
- Combination of Lease & Purchase of Portable Buildings		585,392
<b>Demolition &amp; Asbestos Assessment</b>		
		270,000
<b>Ongoing Anticipated Costs</b>		
<b>Offender Movements</b>		
- Increased Offender Movements until June 2021		64,144
<b>Additional Staff Costs until Dec 2022</b>		<b>12,179,648</b>
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<b>Contractors impacted/Savings</b>		
<b>Downer - AM/FM Contract</b>		
Extra Costs		incl. above
Cost savings		-
<b>Power Supplier</b>		
Waikeria Cost Savings estimate	-	80,000
<b>Honeywell - Electronic Security</b>		
Extra Costs/Cost savings		-
<b>Spark - IT Services</b>		
Extra Costs/Cost savings		-
	<b>10,000,000</b>	<b>20,378,196</b>