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Crown investment in freshwater clean-up



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Overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

The quality of freshwater in New Zealand's lakes, rivers, streams, and wetlands is important to our well-being, national identity, and contributes to our clean and green reputation. Human intervention (for example, agriculture and deforestation) and the effects of climate change have degraded freshwater quality in some areas. To restore, improve, and preserve freshwater quality for future generations, the Crown contributes significant funding to national freshwater clean-up projects.

However, restoring freshwater quality is a challenge that involves a wide range of communities and stakeholders. Furthermore, several factors make it difficult to attribute improvements in freshwater quality to specific clean-up projects. This includes the length of time for improvements to come into effect, which can take up to 100 years in some regions. Therefore, it is difficult to demonstrate how effective specific freshwater clean-up projects have been. Despite these challenges, it is important that the allocation and monitoring of Crown freshwater clean-up funding contributes to national efforts to restore, improve, and preserve freshwater for future generations.

We examined how the Ministry for the Environment (the Ministry) administered four Crown freshwater clean-up funds (the four funds) for improving lakes, rivers, streams, and wetlands. Our primary objective was to assess whether Crown funding was being used effectively to improve freshwater quality. Collectively, the four funds provided more than \$190 million of investment from 2008 to 2032. We assessed:

- how effectively the Ministry administers Crown funds;
- whether robust processes for selecting projects were applied; and
- the effectiveness of the Ministry's monitoring processes during a project's funding period.

We considered what outcomes each of the four funds aimed to achieve. We also considered whether the projects that were funded targeted specific areas or whole catchments, and whether they used a collaborative approach with a range of stakeholders.

In order to provide a different perspective and improve our understanding of common challenges and lessons regarding freshwater clean-up, we also examined how the Waikato River Authority manages its freshwater clean-up projects.

Main findings

Parliament and the public rightly expect that any investment in freshwater clean-up will make the best use of available funding. However, there is currently no national framework to guide or inform freshwater clean-up funding. This is partly because the science available to support decisions about improving freshwater quality is complex and continues to evolve. Although each fund was able to demonstrate some progress towards their intended outcomes, the Ministry cannot yet demonstrate the overall effectiveness of its freshwater clean-up funds. Therefore, it is difficult to tell whether the money invested has been targeted as effectively as it could have been.

The Ministry only recently commissioned its first evaluation to assess the effectiveness and outcomes of the Fresh Start for Freshwater Clean-up Fund after all of its funded projects were completed. Implementing a more formative evaluation process during a freshwater clean-up fund's life (as well as for individual projects) would further support the Ministry to demonstrate effectiveness. This could inform the Ministry on what is going well and what might require improvement.

Through the Ministry's latest fund, the Freshwater Improvement Fund, it is focusing on improving water bodies in catchments showing signs of stress. This is a more targeted and strategic approach to selecting projects and planned evaluations of the Fund, which should help improve the effectiveness of investment in freshwater clean-up.

Notwithstanding the difficulties in assessing the effect of specific freshwater clean-up projects, the Ministry has progressively improved its administration of freshwater clean-up funds through applying knowledge and experience from managing earlier funds. We saw a range of innovative practices, such as harvesting lake weeds and projects aimed at supporting iwi relationships with their awa and other waterways. We also saw several examples of freshwater clean-up projects under each fund achieving planned milestones and programme outputs during the funding period.

The Ministry needs to improve co-ordination and collaboration with other funders of freshwater clean-up projects to achieve long-term and sustainable improvements.

My audit also identified further improvements that could be made to existing administration arrangements. These relate to how the Ministry administers its fund application processes, data management systems (including the reporting of voluntary contributions), and how it ensures that project benefits are maintained after the project funding period ends.

My view

In my view, it is likely that the overall Crown investment would have been more effective if a more co-ordinated approach had been taken. The Ministry's ability to effectively manage freshwater investment has been further limited because there is no national freshwater clean-up framework to guide clean-up efforts. Setting clear national short-, medium-, and long-term priorities and goals would support prioritisation and collaboration, and help improve the effectiveness of Crown funding.

I am, however, encouraged by a report from the Ministry and the Ministry for Primary Industries, *Essential Freshwater: Healthy Water, Fairly Allocated*, published in October 2018. The report aligns with international good practice, introduces the Essential Freshwater work programme, and records the Government's intention to establish a "freshwater taskforce" of advisory groups to co-ordinate water users and organisations responsible for managing freshwater funding. The report also discusses implementing a framework for freshwater policy to give the Government clearly defined goals to work towards. I endorse the recommendation to implement a national framework or strategy.

I thank the Ministry, the Waikato River Authority, the individual iwi and community groups, and the Horizons, Canterbury, Bay of Plenty, and Waikato Regional Councils for their co-operation in this audit.

Nāku noa, nā Greg



Greg Schollum
Deputy Controller and Auditor-General

18 September 2019

Our recommendations

We endorse the recommendation made in the *Essential Freshwater: Healthy Water, Fairly Allocated* report, which sets out the Government's work programme to make long-term improvements in freshwater quality.

We further recommend that the Ministry for the Environment:

1. improves collaboration and co-ordination with other organisations involved in freshwater clean-up to increase information sharing and ensure that freshwater clean-up projects are complementary and integrated;
2. promotes greater public visibility and understanding of freshwater clean-up efforts and shares lessons from freshwater clean-up projects nationally;
3. prioritises current freshwater clean-up projects to develop national freshwater cultural monitoring indicators, including developing actions to improve waterways for swimming;
4. implements processes designed to ensure that the benefits of freshwater clean-up projects are maintained after funding ends;
5. improves the contestable funding application process by:
 - having timelines (or a phased approach) to allow sufficient time to promote high-quality applications and provide guidance and support;
 - having transparent and easy to understand criteria that support a consistent quality of applications; and
 - carrying out rigorous due diligence processes, including for organisations that have previously received funding, to assess all applicants' suitability to manage Crown funds.
6. considers implementing an automated data and fund management system that is compatible with other organisations to improve its existing capacity to use and analyse the data it collects about the use of freshwater clean-up funding and contribute to providing a national freshwater picture; and
7. improves the accuracy of reporting voluntary (in-kind) contributions alongside financial information in order to recognise those contributions and improve the national picture of their importance to freshwater clean-up efforts.

Introduction

- 1.1 In this Part, we discuss:
- the importance of freshwater quality;
 - the Ministry for the Environment’s role in freshwater clean-up;
 - the scope and focus of our audit;
 - how we carried out our audit; and
 - the structure of our report.

The importance of freshwater quality

- 1.2 New Zealanders rightly expect to be able to safely swim in rivers and lakes, maintain cultural relationships with their awa, and collect kai. They also want to know that New Zealand’s clean and green image is maintained. In a nationwide poll carried out for Fish and Game New Zealand, which surveyed 1000 New Zealanders, pollution of rivers and lakes was the survey respondents’ top concern.¹
- 1.3 As a result of human intervention (for example, agriculture and deforestation) combined with the effects of climate change, freshwater quality has come under significant pressure in some places. The Crown contributes significant funding to national freshwater clean-up efforts to restore, improve, and preserve freshwater quality for future generations.
- 1.4 Parliament and the public require any investment in freshwater clean-up to be effective and efficient.

The Ministry for the Environment’s role in freshwater clean-up

- 1.5 The mission of the Ministry for the Environment (the Ministry) is “environmental stewardship for a prosperous New Zealand”. Its main activities are policy development, commissioning environmental research, and providing advice to the Government and its agencies and public bodies on environmental matters. The Ministry also works with stakeholders to support the implementation of the policies it prepares.
- 1.6 The Ministry also directly administers some funds targeted at improving freshwater quality.
- 1.7 Other central government organisations have responsibility for managing environmental funds, including the Ministry for Primary Industries (MPI) and the Department of Conservation (DOC).
- 1.8 MPI administers funds such as the Afforestation Grant Scheme, Erosion Control Funding Programme, the Hill Country Erosion Fund, and the One Billion Trees Programme (part of the Provincial Growth Fund).

1 See *Water pollution is now New Zealanders’ Number One Concern* at fishandgame.org.nz.

- 1.9 DOC administers environmental funds, such as Ngā Whenua Rāhui, which provides funding for the protection of biodiversity on Māori-owned land, and the DOC Community Fund, which supports community-led conservation projects on public and private land.

The four freshwater clean-up funds we looked at

- 1.10 We looked at four freshwater clean-up funds managed by the Ministry:
- Rotorua Te Arawa Lakes Programme;
 - Fresh Start for Fresh Water Clean-up Fund;
 - Te Mana o Te Wai Fund; and
 - Freshwater Improvement Fund.
- 1.11 The Appendix provides an overview of each of the four funds.
- 1.12 We chose projects in Canterbury, Manawatu, and the Rotorua Lakes because they received the largest Crown funding commitment under the freshwater clean-up funds managed by the Ministry.
- 1.13 In order to provide a different perspective and improve our understanding of common challenges and lessons, we also looked at how the Waikato River Authority (the Authority) manages its freshwater clean-up projects. We do not draw direct comparisons between the Ministry and the Authority's processes because both operate differently, including their governance arrangements and the geographical areas for which they are responsible. Instead, we considered the challenges and lessons they have in common and looked at differences in approach to help us better understand and share good practice.
- 1.14 To help distinguish between our findings on work of the Ministry and the perspective we gained by looking at the Authority's work, information that relates to the Authority is presented in text boxes throughout this report (as follows).

The Waikato River Authority's approach

The Waikato River Authority (the Authority) is a small, statutorily independent public organisation. It receives annual Crown funding to cover its operating costs (\$910,000 in 2017 and in 2018). The Authority was set up in November 2010 under section 22(1) of the Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010 (the Act) and section 23(1) of the Ngāti Tuwharetoa, Raukawa, and Te Arawa River Iwi Waikato River Act 2010.

The Act creates a co-governance and co-management framework between the Crown and river iwi. The Authority's purpose is to co-ordinate the clean-up, and protect the health and well-being, of the Waikato River for future generations.

Under the Act, the Authority receives \$220 million in contestable clean-up funding over 30 years. The Authority runs an annual contestable funding round and specifies the criteria and types of projects it seeks to fund in its annual Waikato River Clean-up Trust Funding Strategy. The Waikato River Clean-up Trust is the funding arm of the Authority. The Authority specifies the amount it will contribute to annual project funding and works with other organisations and individuals for additional co-funding.

The scope and focus for our audit

- 1.15 The Ministry does not currently measure improvements in freshwater quality as a result of clean-up initiatives. This is because of “lag times” – the complexity of accurately attributing improvements to specific projects and the significant time it takes to realise improvements.
- 1.16 This makes it difficult for freshwater clean-up funders to assess the effect of specific clean-up projects. Instead, freshwater clean-up funders usually measure improvements by outputs (for example, how many kilometres of fencing completed or the number of trees planted).
- 1.17 However, Parliament and the public need assurance that any investment in freshwater clean-up is contributing to improved water quality. Although this report is limited to reviewing the effective allocation and monitoring of the Ministry's freshwater clean-up funds, we wanted to provide some assurance about the Ministry's performance in this matter.
- 1.18 We looked at the Ministry's management of four Crown funds for improving lakes, rivers, streams, and wetlands. Collectively, these four funds provide more than \$190 million of investment from 2008 to 2032.
- 1.19 For each Crown fund, we looked at whether the Ministry could demonstrate that:
- it effectively administers Crown funds;
 - rigorous project selection processes were applied; and
 - effective monitoring processes were implemented during a project's funded term.

- 1.20 To help us to draw conclusions and make recommendations, we considered:
- the outcomes each fund aimed to achieve;
 - whether projects addressed specific areas or whole catchments; and
 - whether an approach collaborated with a range of stakeholders (including communities and iwi).
- 1.21 We were not able to assess the effect of the individual projects we looked at.

How we carried out our audit

- 1.22 We reviewed more than 600 documents, including:
- Cabinet papers;
 - funding applications;
 - funding deeds;
 - strategy group papers;
 - briefings to Ministers;
 - due diligence documents; and
 - project reports.
- 1.23 We interviewed a range of staff from throughout the Ministry (including freshwater investment, legal, finance, science, and strategy staff) to help us understand the project management, reporting, and monitoring processes applied to funded projects.
- 1.24 We also interviewed individual project staff, including staff from Environment Canterbury and Horizons, Bay of Plenty, and Waikato Regional Councils.
- 1.25 We talked to individual project managers, community members, and iwi staff and volunteers from these regions.
- 1.26 We visited some of the project clean-up sites to get a better understanding of the areas.

Structure of our report

- 1.27 In Part 2, we describe some of the freshwater clean-up projects we saw during our fieldwork and how they have progressed towards achieving agreed milestones. We also discuss how funded projects reflect good practice for freshwater clean-up.
- 1.28 In Part 3, we discuss the progress of the Ministry's administration of the four funds we looked at and identify areas for further improvement.

The effectiveness of clean-up funding

2

- 2.1 In this Part, we discuss:
- the effectiveness of the four freshwater clean-up funds; and
 - improving the integration and engagement in freshwater clean-up efforts.

Summary of findings

- 2.2 We saw examples of freshwater clean-up projects funded under the four freshwater clean-up funds meeting planned milestones and outputs during their funding periods. Although each fund was able to demonstrate some progress towards their intended outcomes, the Ministry cannot yet demonstrate the overall effectiveness of its freshwater clean-up funding. This is partly because the science available to support decisions about improving freshwater quality is complex and continues to evolve.
- 2.3 We consider that a more complementary and integrated national approach (for example, across organisations responsible for freshwater clean-up and land-based initiatives) would help support long-term outcomes. This would allow funding to be directed and prioritised more strategically and ensure that projects complement each other and build towards achieving long-term and integrated environmental goals.
- 2.4 In our view, implementing a formative evaluation process during a freshwater clean-up fund's funding period (as well as for individual projects) would further support the Ministry to monitor effectiveness. This could inform the Ministry on what is going well, as well as matters that might require improvement.

How effective are freshwater clean-up funds?

The challenge of improving freshwater quality

- 2.5 Restoring freshwater quality is challenging. It is widely accepted that there is no “one-size-fits-all” solution. Improving the quality of freshwater requires a range of stakeholders to work together. Speaking at a Freshwater Symposium hosted by Local Government New Zealand, Professor Sir Peter Gluckman in his previous role as Chief Science Advisor, stated that “multiple actions are needed, requiring partnerships between central and local authorities, iwi, citizens and businesses including farmers” to improve freshwater quality.
- 2.6 The Ministry cannot yet demonstrate the overall effectiveness of its freshwater clean-up funds. This is partly because the science available to support decisions to improve freshwater quality is complex and still evolving. Freshwater environments are made up of complex systems that are affected by land, air, and

marine environments. Catchments also vary in size and degrees of complexity. This means that it is difficult to attribute improvements in freshwater quality to specific projects.

2.7 We describe our findings on each of the four freshwater clean-up funds we looked at.

The Rotorua Te Arawa Lakes Programme (2008-32)

2.8 In 2008, the Crown committed \$72.1 million to implement the Rotorua Te Arawa Lakes Programme. The Programme's purpose is to restore the water quality of four Te Arawa lakes – Rotorua, Rotoiti, Ōkāreka, and Rotoehu (the four lakes). It is a partnership arrangement between The Crown, Rotorua Lakes Council, Te Arawa Lakes Trust, and Bay of Plenty Regional Council. The Crown's contribution was 50% of the total cost of the Rotorua Te Arawa Lakes Programme for the four lakes over 10 years (which was increased to a 24-year period after a deed variation).

2.9 Projects funded by the Rotorua Te Arawa Lakes Programme used a combination of innovative and traditional methods. These included:

- phosphorus-locking through aluminium sulphate dosing (alum-dosing) in Lake Rotorua (see Figure 1);
- the Ohau diversion wall and sewage system upgrades in Lake Rotoiti (see Figure 2); and
- lake weed harvesting and phosphorus-locking through alum-dosing in Lake Rotoehu.

2.10 In April 2012, Independent Quality Assurance New Zealand (IQANZ) carried out the first audit of the Rotorua Te Arawa Lakes Programme. The audit report confirmed that, although improved governance and project management arrangements were needed, "strong progress was being made towards achieving Trophic Level Index (TLI) targets"². IQANZ also reported the Rotorua Te Arawa Lakes Programme achieved some success in meeting its objective to address nutrient run-off into the four lakes.

2.11 In 2017, the Ministry's Approval Briefing Note of the 2017/2018 Annual Work Plan outlined the long-term trend in improving freshwater quality as a result of funded interventions in Lakes Rotorua, Rotoiti, and Rotoehu and described the next steps for each lake. Lake Ōkāreka remains below freshwater quality targets, but it was reported that this lake did not show further deterioration in 2017.

2 The Trophic Level Index is a measure used to indicate lake water quality. These were set by Bay of Plenty Regional Council for the Rotorua Te Arawa Lakes Programme. For more information see www.rotorualakes.co.nz.

Figure 1
Alum-dosing in Lake Rotorua

Treating Lake Rotorua's incoming streams with low levels of aluminium sulphate has effectively reduced the amount of phosphorus entering the lake and reduced algal blooms. One of the people we interviewed told us:

[Before the dosing] I didn't take my kids out to the lake, but now I do. When I was a child, we would swim in Lake Rotorua, but we started to notice the smell that the water would leave on us and we stopped. In some of the lakes, you would notice the weed and the gross feeling – but now that has changed.



Photo of Lake Rotorua courtesy of Bay of Plenty Regional Council.

Figure 2
Ohau diversion wall

The Ohau diversion wall was constructed on Lake Rotoiti with \$4 million of funding from the Crown. It was completed in 2008. The wall was designed to divert nutrients flowing from Lake Rotorua through the Ohau Channel away from Lake Rotoiti. This is part of a programme to improve Lake Rotoiti's freshwater quality.



Photo of the Ohau diversion wall courtesy of Rotorua District Council.

- 2.12 Although the Rotorua Te Arawa Lakes Programme primarily addressed the four lakes, some effort was also made to address land-based issues. This is evident in the Ministry's efforts to address nutrient run-off from land through a programme that would convert gorse to trees, shrub, or native bush. The gorse programme also imposes a 999-year encumbrance on land that converted gorse to trees. This demonstrates the Ministry's efforts to ensure that project benefits are retained and results are enduring for Crown-funded clean-up initiatives. However, when we spoke to the Ministry about this, it said that, for small projects and relatively small project values, land owners were reluctant to commit to a 999-year encumbrance on their land. This has led to slower uptake on the gorse programme (particularly for smaller projects).
- 2.13 Efforts were also made to co-ordinate with a range of stakeholders (including communities and iwi), as evidenced through the Rotorua Lakes Strategy Group, a partnership arrangement between Rotorua District Council, Te Arawa Lakes Trust, and Bay of Plenty Regional Council, which reflects accepted good practice.

Fresh Start for Fresh Water Clean-up Fund

- 2.14 The Fresh Start for Fresh Water Clean-up Fund provided funding to regional councils and their project partners to help clean up nationally significant freshwater bodies affected by pollution. The Ministry allocated \$14.5 million to seven projects between 2011 and 2014.
- 2.15 This fund was part of a first tranche of reforms to freshwater management announced on 9 May 2011, under the Fresh Start for Fresh Water programme in collaboration with the Irrigation Acceleration Fund (managed by MPI) and the National Policy Statement for Freshwater Management 2011.
- 2.16 In considering the overall effectiveness of the Fund, a 2013 Cabinet paper on the performance of the Fresh Start for Fresh Water Clean-up Fund noted that most of the Fund's projects focused on reducing contaminant inflows at the source (see Figure 3). A 2013 AgResearch report (produced for the Ministry) concluded that this is more cost effective than reducing contaminants further downstream, although it also stated that "there is 'no silver bullet'". This confirms our understanding of freshwater clean-up strategies.
- 2.17 However, the 2013 Cabinet paper was less certain on cost effectiveness for individual projects because of the differences between catchments, which can increase or decrease costs. This is consistent with our understanding of the complexities of freshwater clean-up.

Figure 3
Wainono Coastal Lagoon Project, as part of the Fresh Start for Fresh Water Clean-up and Te Mana o Te Wai Funds

The Wainono Coastal Lagoon Project received \$800,000 from the Fresh Start for Fresh Water Clean-up Fund from 2012 to 2015. The funding was used to fence streams flowing into the lagoon, build culverts, bridges, and alternative stock water sources at important sites, plant native vegetation, and complete some erosion and sediment control works.

The Wainono Coastal Lagoon Project received more than \$500,000 of increased funding through the Te Mana o Te Wai Fund, awarded to Te Rūnanga o Waihao Incorporated. As well as fulfilling the Te Mana o Te Wai Fund's objective of improving iwi environmental capacity, the Project also allowed iwi and hapū to influence freshwater management of the lagoon, which is an important mahinga kai and cultural site for rūnanga.



Photo of Wainono Lagoon courtesy of Environment Canterbury.

- 2.18 In terms of adopting good practice, the Fresh Start for Freshwater Clean-up Fund resulted in seven separate projects nationally, which were in different catchments. However, within the individual projects we looked at, we saw evidence of efforts being made to integrate stream and river tributaries that flowed into the source being funded. For example, in the Lake Horowhenua and Wainono Coastal Lagoon Projects, funding was used to treat tributaries and connecting water sources (see Figure 3).
- 2.19 The Fresh Start for Fresh Water Clean-up projects provided an opportunity for local government and iwi to work together. Although this required both parties to accommodate differences in each other's operating practices, these projects achieved positive results. Volunteer contributions (such as riparian planting and other operational clean-up tasks) also significantly reduced labour costs and increased local community capability, engagement, and collaboration.

- 2.20 The Fresh Start for Fresh Water Clean-up Fund's original investment of \$14.5 million to clean up six freshwater bodies was increased to a total of \$48 million. Through attracting additional funding from regional and district councils, industry, and private land-owners, this represented a considerable increase in the Crown's initial investment.
- 2.21 In our view, the Fresh Start for Fresh Water Clean-up Fund successfully supported regional councils and their partners in targeting the freshwater clean-up of seven nationally significant freshwater bodies affected by pollution. However, because the Fund addressed individual contestable applications received, rather than a more holistic targeted approach, it was not as effective as it could have been. Current developments in freshwater clean-up suggest that a more effective way of using funding is to focus on vulnerable catchments (see paragraph 2.37).

Te Mana o Te Wai Fund

- 2.22 The Te Mana o Te Wai Fund was established in 2014 and provided up to \$5 million to "help Māori improve the water quality of freshwater bodies (including lakes, rivers, streams, estuaries and lagoons)". A single contestable funding round in 2015 allocated \$4.6 million to nine projects.
- 2.23 The Te Mana o Te Wai Fund aimed to:
- support iwi and hapū to take an active role in improving the quality of their local freshwater sources;
 - enable iwi and hapū to actively participate in managing their local freshwater sources;
 - develop partnerships and encourage project staff to work collaboratively with others; and
 - assist iwi and hapū and the wider community to recognise the importance of freshwater in supporting a healthy ecosystem, including supporting human health.
- 2.24 This was the first fund that had a primary focus on targeting Māori partnerships and collaboration. For freshwater clean-up projects led by regional councils to succeed, it is important to actively involve iwi and hapū as partners.
- 2.25 With regard to following good practice, and as part of the contestable application process, an independent assessment panel considered whether applications had identified next steps after project completion. This demonstrates the Ministry's efforts to try to encourage long-term benefits of Crown investment. This was supported by the requirement for comprehensive project reporting, including analysis of project benefits throughout the project funding period.

- 2.26 Through recognising the importance of iwi and hapū being central to effective freshwater clean-up projects, the Te Mana o Te Wai fund successfully promoted forging positive relationships between iwi and hapū and their respective regional councils (see Figure 4). Some of the innovative projects that were funded will benefit current and future generations and encourage them to maintain relationships with their local awa.

Figure 4
Tu te Manawa Project, as part of the Te Mana o Te Wai Fund

The Tu te Manawa Project was managed by Rangitāne o Tamaki nui a Rua Incorporated and involved constructing eight whare at cultural and historic points along the Manawatu River.

Representatives of Rangitāne o Tamaki nui a Rua Incorporated told us that the project was:

“... amazing for iwi and the wider community and has drawn together the iwi of the Manawatu River. People are connecting more with the river through planting days and school trips to the completed whare and people can see the work needed to clean it up.”



Photo taken by Jo Sheffield, Office of the Auditor-General.

Freshwater Improvement Fund

- 2.27 The Freshwater Improvement Fund aims to improve the management of New Zealand’s freshwater bodies by supporting users to move towards managing within environmental limits. The Ministry advocated targeting freshwater bodies in catchments judged “at risk” or “vulnerable”. Ministers were advised that domestic and international experience indicates that the most effective way to maximise return on investment is to focus on intervening where freshwater shows early signs of stress.

- 2.28 The Freshwater Improvement Fund committed \$100 million for 10 years to projects that improve freshwater management. The first funding round focused on freshwater lakes, rivers, streams, wetlands, and groundwater in “vulnerable catchments”.³
- 2.29 The Freshwater Improvement Fund aims to support a range of projects of different costs and time frames. This includes one-off short-term projects as well as longer-term projects taking up to five years (see Figure 5).
- 2.30 The Ministry initially planned to allocate about \$24.5 million in the first funding round. However, the Minister for the Environment ended up approving \$47 million to 34 projects based on the quality of applications received. Figure 5 provides an example of one of the projects. The first funding round was completed in 2017, and time frames for the funded projects range from two to five years.

Figure 5
Lake Horowhenua Project, as part of the Freshwater Improvement Fund

The Lake Horowhenua Project was granted up to \$842,750 to support a range of projects, including shallow groundwater monitoring and implementing two cultural monitoring programme efforts.

The focus for the funding is on stormwater management and to increase cultural and scientific information to assess the movement and quality of groundwater within the catchment. The funding will also contribute towards establishing a silt interceptor and complement the Lake Horowhenua Accord’s main aims of addressing toxic algal blooms, sedimentation, reducing nutrients entering the lake, and improving native fish habitat.



Photo of Lake Horowhenua courtesy of Horizons Regional Council.

³ Vulnerable catchments are those that are “showing signs of stress” but that are not yet at the point where cleaning up the water body would involve significant investment and time.

- 2.31 Because these projects are still in progress, we were not able to assess whether the Freshwater Improvement Fund has achieved its objectives. However, in our view, the Ministry's approach to its latest fund indicates not only a willingness to learn from previous experience and international good practice, but also its efforts to move towards a more strategic and integrated approach to freshwater management.
- 2.32 Part 3 discusses how the Ministry administers funds.

Improving integration and engagement in freshwater clean-up efforts

A national framework would improve the effectiveness of freshwater clean-up

- 2.33 There is currently no national framework to guide or inform freshwater clean-up funding. This results in a range of projects that:
- are assessed individually (against specific qualifying criteria for each fund) and that have individual project objectives and deliverables;
 - lack integration and collaboration, creating potentially conflicting objectives for different projects; and
 - miss the opportunity to maximise support and improve engagement through a national approach to communicating freshwater clean-up efforts and updates.
- 2.34 In our view, overall Crown investment in freshwater clean-up funds would have been more effective if a more co-ordinated approach had been taken.
- 2.35 The Ministry has taken a more strategic approach to managing the Freshwater Improvement Fund. This fund follows international good practice by considering a co-ordinated and catchment-based approach when selecting projects to fund. However, the time frames for the projects under this fund remain relatively short (five years is the longest funding period).
- 2.36 Preparing a national freshwater clean-up framework would support the Organisation for Economic Co-operation and Development's 12 principles on water governance.⁴ New Zealand's current contestable funding approach goes only some way to achieving them.
- 2.37 Of the 12 principles on water governance, principle 8 recommends promoting "the adoption and implementation of innovative water governance practices across responsible authorities, levels of government and relevant stakeholders". Principle 11 promotes "water governance frameworks that help manage trade-offs across water users, rural and urban areas, and generations".

4 Organisation for Economic Co-operation and Development (2015), *OECD Principles on Water Governance*, at oecd.org.

The Waikato River Authority's vision and strategy

The Authority's vision and strategy provides guidance and a plan to ensure that funding decisions are informed and complemented by a five to 15-year clean-up Restoration Strategy. In our view, this supports freshwater clean-up projects to be integrated, prioritised, co-ordinated, and likely to have a long-term and cumulative effect on freshwater quality. We believe that this will ultimately increase overall funding effectiveness for the Waikato region.

- 2.38 We agree with the Ministry and MPI's October 2018 report, *Essential Freshwater: Healthy Water, Fairly Allocated* (the Essential Freshwater report). The report states that "to achieve the Government's goal of healthier waterways and freshwater ecosystems, New Zealand needs a coherent policy framework that will lead and drive widespread change in behaviour".⁵ We look forward to this framework being developed as a foundation for future freshwater clean-up objectives.

A more integrated approach is important

- 2.39 During our fieldwork, the Ministry recognised a need to improve co-ordination with other freshwater grant managers. There are currently different ways of managing funds between different funders. For example, the Ministry accepts co-funding arrangements with other agencies, but other funders do not. This means that applicants cannot always apply for funding from more than one fund, which could limit the benefits of applying additional funding to broaden project objectives.
- 2.40 In our view, improving collaboration between local and central government and non-government funders would lead to better co-ordination of funded projects. This means that funders need to align national and regional priorities and synchronise individual project timings with funding availability. This could help increase the effective and efficient use of available funds.
- 2.41 A more co-ordinated approach should lead to improved effectiveness in achieving freshwater clean-up goals. This includes improving co-ordination between land and freshwater funding projects, and can support a national framework for guiding freshwater clean-up.
- 2.42 The Essential Freshwater report recognises the importance of Parliament, central and local government, iwi and other stakeholders working together to get greater engagement with the new freshwater work programme so it is more effective. A "freshwater taskforce", which includes a broad range of stakeholders, has been established for the essential freshwater work programme.⁶

5 Ministry for the Environment and Ministry for Primary Industries (2018), *Essential Freshwater: Healthy Water, Fairly Allocated*, Wellington, page 21.

6 The freshwater taskforce includes representatives from the Ministry for the Environment, the Ministry for Primary Industries, the Treasury, Te Puni Kōkiri, the Māori Crown Relations Unit, the Department of Internal Affairs, the Department of Conservation, and the Ministry of Business, Innovation and Employment, and expertise from local government.

- 2.43 In our view, efforts to improve cross-agency co-ordination and integration would improve funds' effectiveness and transparency. It would increase opportunities in national catchments, local communities, and central government to share information, learn from each other, and work in partnership to maximise the effectiveness of Crown funding.

Recommendation 1

We recommend that the Ministry for the Environment improves collaboration and co-ordination with other organisations involved in freshwater clean-up to increase information sharing and ensure that freshwater clean-up projects are complementary and integrated.

The Waikato River Authority's funding strategy

The Authority publishes an annual funding strategy that describes the priority projects for the Waikato River Clean-up Trust and the Authority each year. It publishes this funding strategy before the funding round for that year.

The funding strategy aims to provide clarity and transparency about clean-up priorities. It also demonstrates the importance of a regulatory framework to support the Authority's vision and strategy, and promotes a cohesive, prioritised, and co-ordinated approach to freshwater clean-up.

Keeping everyone informed about freshwater will help increase engagement

- 2.44 Communication and sharing success stories and lessons learned are regarded internationally as positive strategies to increase engagement in freshwater clean-up work.
- 2.45 Several funding recipients told us that a hui organised in the first year of the Te Mana o Te Wai Fund was a useful way to share lessons from other funding recipients. Despite seeing value in this event, it was not repeated during the remainder of the Te Mana o Te Wai Fund.

The Waikato River Authority's communication approach

The Authority's approach is consistent with its vision and strategy and demonstrates a good understanding of the importance of communicating its approach and building its reputation. The Authority uses newsletters, media releases, local events, and face-to-face interaction to provide updates.

The newsletter (see Figure 6) and news section on the Authority's website demonstrate a proactive approach to sharing news with a wide audience and promotes itself as an approachable and collaborative organisation. The Authority provides details of upcoming funding rounds, reminds potential applicants of important time frames for applications, and requests feedback on its policies and approaches.

- 2.46 In our view, the Ministry has an opportunity to increase engagement and support for freshwater clean-up efforts. This would improve awareness and understanding of the freshwater clean-up efforts it funds and help share lessons between organisations involved in freshwater clean-up. There might also be opportunities to work with other freshwater clean-up funders to reach a wider audience.

Recommendation 2

We recommend that the Ministry for the Environment promotes greater public visibility and understanding of freshwater clean-up efforts and shares lessons from freshwater clean-up projects nationally.

Improving the evaluation of funds

- 2.47 The Ministry has recently contracted an organisation to evaluate the effect and outcomes of the Fresh Start for Fresh Water Clean-up Fund. It also plans to evaluate the Te Mana o Te Wai Fund when all projects are complete. It will use the results to inform the development of future freshwater clean-up funds and secure improved environmental outcomes.
- 2.48 The Ministry said that it is also working towards implementing an evaluation framework for the Freshwater Improvement Fund to establish outcomes achieved and possibly carry out follow-up surveys to help measure progress.
- 2.49 Until the latest Freshwater Improvement Fund, the Ministry generally evaluated freshwater clean-up funds by assessing whether they achieved planned outputs, as opposed to taking a more integrated and overall approach.
- 2.50 The Ministry's upcoming evaluation reports are a positive step towards improving the effectiveness of freshwater clean-up and establishing the success of current and previous clean-up funds. We acknowledge that this is a challenging issue but encourage the Ministry to establish a manageable strategy to effectively minimise this potential risk to the long-term effectiveness of Crown funding.

Figure 6
Excerpts from the Waikato River Authority's *Maunga Ki Tai* newsletter,
December 2018

The largest project to be funded this year is a continuation of the Waipā Catchment Plan implementation which will involve working with approximately 70 farmers and landowners within identified priority catchments. The \$1.6 million of funding will work towards reducing sediment levels going into the Waipā River and its tributaries. Sediment from the Waipā River is a major factor in reducing the water quality in the lower Waikato River.



Other activity highlighted in this issue of the newsletter included:

Landmark hui

A large representation of River Iwi, together with the Crown and the Waikato River Authority, took part in a landmark hui on the future of the Waikato and Waipā rivers last month.

The hui took place in Hamilton on November 7.

The hui looked at ways in which river iwi, the Crown and the Authority can work more closely together on a range of issues for the benefit of the Waikato River and its catchment.

The facilitated workshop discussion was attended by staff and governance representatives.



3

Progress in administering freshwater clean-up funds

- 3.1 In this Part, we discuss:
- how the Ministry has continuously improved its administration of freshwater clean-up funds; and
 - actions the Ministry could take to further improve its administration of the freshwater clean-up funds.

Summary of findings

- 3.2 The Ministry has taken a proactive approach to improving its administration of the freshwater clean-up funds. There is clear evidence of the Ministry implementing recommendations made in independent project reviews, audits, and evaluations. The Ministry has also revised its funding deed documents so they have clearer guidelines and governance arrangements for project managers.
- 3.3 However, the Ministry could further improve existing administration arrangements. These include how the Ministry administers its funding application processes, data management systems (including the reporting of voluntary contributions), and how it ensures that project benefits are maintained after the project funding period ends.

Administration of freshwater clean-up funds has continuously improved

The Ministry's funding deeds

- 3.4 For the four freshwater clean-up funds we looked at, we saw evidence of funding deeds for individual projects improving as the Ministry gained experience in administering funding. These changes show the Ministry's commitment to improving administration processes and providing more flexibility.
- 3.5 After the Minister approves a freshwater clean-up project for funding, the Ministry's Freshwater Investment team prepares a funding deed with assistance from the Ministry's legal team. This funding deed is a legal agreement between the funding applicant and the Crown. It includes administrative requirements such as contract term, project description, reporting requirements, funding conditions, and payment conditions.
- 3.6 The Ministry's legal team reviews all funding deed documentation to ensure that the deeds clearly define the Ministry's terms of funding. This review also protects the Crown from legal risks associated with the Ministry funding a third party and entering into a funding deed.
- 3.7 We discuss the improvements to the Ministry's funding deeds for each freshwater clean-up fund we looked at below.

Rotorua Te Arawa Lakes Programme funding deed

- 3.8 The Ministry's earliest funding deed under the Rotorua Te Arawa Lakes Programme did not fully describe the contractual requirements and lacked clarity for the funding recipients, which resulted in issues for the projects being funded.
- 3.9 The first Rotorua Te Arawa Lakes Programme funding deed also did not specify detailed project administration or finance requirements for funding recipients. It incorporated the project's 10-year work plan into the deed. This proved inflexible and left no room for contingency arrangements. For example, a delay to project timelines because of adverse weather or inability to source appropriate contractors would still require a formal amendment to the funding deed (deed variation).
- 3.10 The funding deed created a significant administrative burden for the Ministry and the project team. This burden was alleviated by minor changes to the original 10-year plan and changes to the funding deed, so that changes to the work programme could be made.
- 3.11 The funding deed did not adequately explain the Ministry's financial expectations. It stated that the Ministry would transfer funds to Bay of Plenty Regional Council annually in advance. However, the funding deed did not provide requirements for any funds that the Regional Council had not spent in the previous financial year. A revised deed was issued in 2013 that clarified how funds should be carried over from year to year and how accrued interest should be accounted for. This resulted in greater clarity of expectations and reduced the need for a deed variation for minor matters.

Fresh Start for Fresh Water Clean-up Fund funding deed

- 3.12 In January 2014, an independent audit was carried out on the Lake Ellesmere/Te Waihora project, which was funded by the Fresh Start for Fresh Water Clean-up Fund. The audit made it clear that this was one of the first projects given funding and noted that "the contractual, operational and reporting requirements were not initially as well developed as later funded projects".
- 3.13 The audit report noted that the funding deed was not specific about expectations for co-funding contributions, types of permitted expenditure (for example, whether overheads are allowed), or what constituted reasonable hourly rates for council staff or consultants. Financial reporting and procurement processes were not adequate – for example the audit report noted that "the project is either not using Council procurement, contracting conflict of interest and gift register policies, or these policies are not in place at the Council".

- 3.14 Funding deeds for later projects contained more detailed information about project objectives, record-keeping requirements, and instructions on how to manage Official Information Act requests, insurance, health and safety, risk, and finance statements. The Ministry told us that, since our fieldwork, it has implemented a change management process that can manage minor changes internally without needing a deed variation.

Te Mana o Te Wai Fund funding deed

- 3.15 Some of the iwi and hapū we spoke to reported administrative issues as a result of the funding deeds issued under the Te Mana o Te Wai Fund. This funding deed specified that invoices would be paid in arrears and that any changes to the deed, even if they were minor, needed to be submitted in a deed variation.
- 3.16 This resulted in delays to some project completion dates. It also created cash-flow issues for smaller groups that needed support from their regional council partners to pay supplier invoices because they had not yet received funding from the Ministry.
- 3.17 Several of the Te Mana o Te Wai Fund recipients (including regional councils) also mentioned that applicants needed significant amounts of investment and additional project planning to meet the requirements for implementing the funding deed. In some instances, they received support from the regional council or external consultants, but the funding deed prevented them from using any of the funding to pay for up-front costs.
- 3.18 The Ministry revised subsequent funding deeds for the Fresh Start for Fresh Water Clean-up and Te Mana o Te Wai Funds to address some earlier issues and clarify expectations. The most significant changes related to fund administration. For example, the Te Mana o Te Wai Fund funding deed included a project plan template that was pre-populated with information from the project application form template.

Freshwater Improvement Fund funding deed

- 3.19 The Ministry explained that the latest Freshwater Improvement Fund funding deed has improved the degree of flexibility it can apply to individual projects. It represents the culmination of lessons from earlier funds.
- 3.20 For the Freshwater Improvement fund, the Ministry now contributes towards planning costs at the project planning stage when applications have been approved. There are two different funding deed templates for the Freshwater Improvement Fund. Only projects that receive more than \$1 million of funding are required to include the entire project plan as part of the funding deed.

- 3.21 Reporting and monitoring requirements also vary depending on funding amounts. For example, project managers are required to complete progress reports every six months for projects that receive less than \$0.5 million in funding and quarterly reports for projects of more than \$0.5 million. Projects that cost more than \$1 million require an annual audit. This is further evidence of the Ministry's improving its administration of clean-up funds and its flexibility to promote greater efficiency and clarity for funding recipients.
- 3.22 We did not see evidence of audits carried out for projects funded by the Freshwater Improvement Fund because most projects were still in their first year of operation (the funding deed specifies that an independent audit is an annual requirement for some projects). However, we did see evidence of the Ministry acting on recommendations from earlier audits of projects, leading to greater effectiveness and improved financial controls.
- 3.23 Given the scale of some of the projects funded by the Crown, we consider it prudent that, to manage risk, the Ministry continues to develop its funding deeds to provide effective guidance for funding recipients.

Actions to further improve administration of freshwater clean-up funds

- 3.24 The Ministry could make improvements to its administration and management of freshwater clean-up funds by:
- establishing national cultural monitoring indicators;
 - ensuring that its processes support maintaining benefits after projects are completed;
 - providing sufficient time to develop applications;
 - improving transparency in the funding application process;
 - improving consistency of due diligence processes for funding applications;
 - improving data management and data capability; and
 - improving project reporting to reflect the full effect of voluntary contributions.

Establishing national cultural monitoring indicators

- 3.25 In December 2017, the Ministry briefed the Minister for the Environment on transferring \$1 million from Te Puni Kōkiri to the Ministry to support the Te Mana o Te Wai Fund's freshwater projects.
- 3.26 The Ministry recommended that the \$1 million be used to establish a National Freshwater Cultural Monitoring Programme. It proposed that the programme

would provide funding to iwi and hapū in four regions (identified by the Ministry) to “develop freshwater cultural monitoring indicators and actions by iwi/hapū authorities to improve waterways for swimming”. The Minister for the Environment approved this on 31 January 2018.

- 3.27 In 2015, the then Minister for the Environment had also allocated \$400,000 from the Te Mana o Te Wai Fund to carry out four regional iwi case studies in Gisborne, Southland, Waikato, and Hawkes Bay. These case studies aimed to consider iwi rights and interests in local freshwater management plans.
- 3.28 The Ministry recommended funding the 2017 National Freshwater Cultural Monitoring Programme and considered that this would “allow iwi/hapū groups access to data on cultural indicators that support cultural values in order to deliver on agreed Crown-iwi policy objectives for freshwater management”. It would also support the ability of the Crown and iwi to “implement the National Policy Statement – Freshwater Management and identify local achievements”.
- 3.29 When we asked the Ministry how the National Freshwater Cultural Monitoring Programme was progressing, the Ministry said that the case study funding deeds were still being negotiated.
- 3.30 One of the aims of the Te Mana o Te Wai Fund included enabling iwi and hapū to have an active role in managing their local freshwater sources. It is disappointing that we did not find more evidence of progress with the case studies. We would like to see further progress in this area. However, we note that the Essential Freshwater report contains an intent to establish a Kāhui Wai Māori Group, the Māori Freshwater Forum, to “broaden the conversation with Māori on freshwater”.⁷ This could support the development of cultural monitoring indicators.

Recommendation 3

We recommend that the Ministry for the Environment prioritises current freshwater clean-up projects to develop national freshwater cultural monitoring indicators, including developing actions to improve waterways for swimming.

⁷ Ministry for the Environment and Ministry for Primary Industries (2018), *Essential Freshwater: Healthy Water, Fairly Allocated*, Wellington, page 18.

The Waikato River Authority's promotion of cultural values

Cultural values are integral to the Authority's vision and strategy. The Authority prepared a Restoration Strategy to ensure that the cultural priorities of the five river iwi were included and that all five iwi were able to contribute. The Authority also demonstrates its commitment to iwi capacity and engagement building, through finance workshops to support iwi in completing project applications.

Working with the National Institute of Water and Atmospheric Research and others, the Authority prepared a whole-of-catchment report card that explains the cultural values of the five river iwi. The report card is structured around eight strands (taura) of a rope. Each taura equates to a high-level value set (such as kai) that can be broken down to smaller strands (such as a species of fish). Several indicators are used to describe each strand. The report card provides a baseline from which improvements can be measured.

Maintaining benefits after projects are completed

- 3.31 A lack of post-project maintenance can present some risk to the long-term effectiveness of Crown investment in freshwater clean-up. Ensuring that the benefits of individual projects' continue when the funding relationship ends is important to the effectiveness of freshwater clean-up funds.
- 3.32 We wanted to see how effectively the Ministry's processes contribute to protecting the Crown's freshwater clean-up investment to ensure that the benefits of the projects are enduring.
- 3.33 When we talked to the Ministry, it told us that, for the Te Mana o Te Wai Fund and the Freshwater Improvement Fund, the independent assessment panel considers whether funding applications have identified next steps and are able to support enduring outcomes after the project is completed.
- 3.34 For all of the projects that the Ministry funds, it completes a comprehensive project-closure report. It requests a full analysis of the project's objectives and benefits, finances, and any lessons learned. It also asks for information on how the organisation will ensure that the project will continue after funding ends.
- 3.35 The Ministry acknowledges that it has good information on the types of projects funded, but it has limited capacity for capturing or integrating data from funded projects when the funding period ends. The Ministry has relied on data collected for other purposes (such as environmental reporting) to make links between projects and post-project outcomes.
- 3.36 In our view, it is important that the Ministry ensure that benefits continue for as long as reasonably possible, which could involve imposing conditions or covenants as part of project funding deeds.

Recommendation 4

We recommend that the Ministry for the Environment implements processes designed to ensure that the benefits of freshwater clean-up projects are maintained after funding ends.

The Waikato River Authority's approach to ensuring long-term benefits of its freshwater clean-up projects

The Authority's online application form includes a video advising applicants how to plan for long-term improvements after a project is completed. Another section of the form explains that covenant protection is likely to be implemented for projects receiving more than \$100,000 in funding. The form outlines evaluation requirements and confirms that the Authority carries out a final visit to the project to ensure that work has been satisfactorily completed.

Providing sufficient time to develop applications

- 3.37 It is important to provide enough time for funding applicants to apply so that quality applications are received. Several applicants told us that there was a short time frame from announcing the Freshwater Improvement Fund to the deadline for completed applications to be submitted to the Ministry.
- 3.38 Because application requirements are comprehensive, we consider that the short time frame could have prevented less experienced iwi, hapū, or community groups from submitting applications on time. Some regional councils told us that the short time frame created pressure for them to meet the deadline and one regional council representative expressed concern that this could also affect applicants' ability to fully determine the feasibility of their application.
- 3.39 Not giving organisations enough time to make an application for funding affects the quality of applications received and can also prevent, for example, less experienced groups from applying, thereby reducing the size of the selection pool.
- 3.40 We reviewed the Te Mana o Te Wai Fund application form and its guide for applicants, which is supplied to each prospective applicant. These documents clearly demonstrate the Ministry's improvement in providing clear guidelines for funding applications. However, some iwi and hapū we spoke to, who had little experience of applying for freshwater clean-up funding, did not consider that they received sufficient guidance from the Ministry to make a successful application.
- 3.41 Following the recommendation in the Essential Freshwater report to prepare a sustainable and catchment-based framework, we would encourage the Ministry to improve future application processes to support a more timely and transparent approach for funding applicants.

- 3.42 We understand that the Minister for the Environment has discretion on these decisions, which directs the Ministry's actions. However, these are all factors that contribute to the overall effectiveness of Crown funding, and it is important that the planning process for new funds allows applicants sufficient time and instructions on how to make good quality submissions.

Improving transparency in the funding application process

- 3.43 For some funds, we saw evidence of projects being approved that did not fully meet funding criteria or that were approved outside of the contestable application process. Although the Ministry provided us with an acceptable rationale to explain this, we do not consider that this was adequately clarified for funding applicants. This risks the public having a negative perception of the Ministry's transparency and consistency in its management and allocation of Crown funds and undermines the specified criteria established for each fund.
- 3.44 The Ministry has a robust process for recommending funding applications to the Minister for the Environment. Although the Secretary for the Environment made the final decision on whether projects would be funded by the Fresh Start for Fresh Water Clean-up Fund, the Minister for the Environment has been responsible for final approval on all subsequent funds.
- 3.45 When we looked at the Fresh Start for Fresh Water Clean-up Fund, \$6 million of its funding was allocated outside of the contestable funding process. This was a one-off Cabinet decision to support the Lake Ellesmere/Te Waihora project. The remainder of the projects were funded after applications were made through the Ministry's contestable funding process. After the allocation of funding to six projects, \$1 million of the Fresh Start for Fresh Water Clean-up Fund remained unallocated.
- 3.46 An additional application under the Fresh Start for Fresh Water Clean-up Fund was made for Lake Horowhenua about 18 months after the application period closed (in late 2011). The Ministry recommended that, because of the low response for the 2011 funding round and only a small number of enquiries being received since, it was unlikely that other applications for funding would be received.
- 3.47 The Ministry did highlight that other regional councils might question why they did not have the opportunity to apply for Fresh Start for Fresh Water Clean-up funding after the application for funding date had closed. After assessment by an independent panel, the Lake Horowhenua project received approval for funding of up to \$540,000 in 2014. Again, we consider this could have led to negative perception of the Ministry's transparency in applying a consistent contestable funding approach.

- 3.48 Cabinet agreed to a proposal from the Minister for the Environment to reallocate \$475,000 of the Fresh Start for Fresh Water Clean-up funding to the Community Environment Fund to support freshwater reform projects in 2013/14.
- 3.49 The Freshwater Improvement Fund’s eligibility and assessment criteria do not state that council “business-as-usual” responsibilities may not be funded. However, the independent assessment panel for the Freshwater Improvement Fund evaluated the applications it received and decided against projects considered to be council “business-as-usual” responsibilities (such as wastewater upgrades). In most cases, the Minister for the Environment agreed with that approach.
- 3.50 Cabinet papers about the Freshwater Improvement Fund suggested that council “business-as-usual” responsibilities may not be funded, but the Freshwater Improvement Fund’s eligibility criteria for applicants did not make this clear. As a result, there were several applications for wastewater upgrade projects that were considered council “business-as-usual” responsibilities and were unsuccessful.
- 3.51 When we asked the Ministry about this, it told us that there was some discretion with this matter and that some projects were funded (for example, Lake Tarawera). The Rotorua Te Arawa Lakes Programme steering group asked the Ministry whether the Rotorua Te Arawa Lakes Programme was available for reticulation schemes. The Ministry told the steering group that this might be an option.
- 3.52 In our view, because submitting applications for funding is resource and time intensive, the Ministry could have expressed the criteria for the Rotorua Te Arawa Lakes Programme more clearly so applicants could better decide what to include in their application or whether to apply at all.

The Waikato River Authority’s guidance for funding applicants

The Authority publishes an annual funding strategy for the current annual contestable funding round. This provides comprehensive guidance for applicants and outlines the Authority’s funding priorities for the year. It clearly provides application information and directs applicants to the online application template, which contains further guidance material including information videos.

After publication of its annual funding strategy, the Authority carries out funding workshops for iwi that cover funding strategy, matauranga Māori priorities, important dates, and what should be included in funding applications. This is complemented by the online application process and supplementary videos describing the Authority’s requirements.

Improving consistency of due diligence processes for funding applications

- 3.53 By due diligence, we mean formal checks carried out by the Ministry to ensure that successful project applicants have the capacity to effectively govern environmental clean-up projects, manage them (including project management), and provide either relevant support or previous experience to carry them out, including financial capability.
- 3.54 The Ministry could not provide evidence about the extent of due diligence checks it carried out for the Fresh Start for Fresh Water Clean-up Fund. For the Te Mana o Te Wai Fund and subsequent funds, due diligence has not always been consistent, particularly for regional councils the Ministry had worked with before.
- 3.55 For the Te Mana o Te Wai Fund, the Ministry contracted an external company to do due diligence checks on organisations that had projects recommended for funding. This was effective in identifying potential issues facing successful applicants (including lack of experience with environmental clean-up programmes, lack of project management experience, and not being equipped to provide the robust financial control their project needed).
- 3.56 For the Freshwater Improvement Fund, where funding was being supplied to regional councils, rather than smaller iwi and hapū and community groups, the Ministry relied more on its previous experience of working with a particular regional council instead of carrying out due diligence checks.
- 3.57 Although the Ministry might not need to repeat full due diligence checks, we consider it prudent to do at least some additional checking (for example, confirming that there are no changes to a regional council's financial position or to key governance or project management staff or systems).
- 3.58 We consider that the Ministry should put in place a consistent process for carrying out due diligence checks for any organisation that successfully applies for freshwater clean-up funding (including those that have received funding before).
- 3.59 This would record important information, including any organisational changes since previous due diligence checks (for example, checking changes to staff with previous project management or freshwater clean-up experience and confirming that adequate financial controls remain in place).

Recommendation 5

We recommend that the Ministry for the Environment improves the contestable funding application process by:

- having timelines (or a phased approach) to allow sufficient time to promote high-quality applications and provide guidance and support;
 - having transparent and easy to understand criteria that support a consistent quality of applications; and
 - carrying out rigorous due diligence processes, including for organisations that have previously received funding, to assess all applicants' suitability to manage Crown funds.
-

The Waikato River Authority's online portal

The Authority's online applications portal provides comprehensive details of its financial requirements and expectations. It shows evidence that the Authority collects consistent information on all applicants. This should provide the Authority with enough information to secure its investment and minimise project funding risks.

Improving data management and reporting capability

- 3.60 During our discussions with Ministry staff, we learned that the current data management system for freshwater clean-up funding is resource intensive and relies on manual inputting. This reduces the Ministry's ability to take full advantage of the significant amounts of reporting data it collects.
- 3.61 The reporting data collected during a project allows the Ministry to share lessons with other funding recipients, provide timely feedback and guidance to recipients, and potentially improve future-funding programmes. This could also improve the Ministry's integration with other freshwater clean-up funders (see Part 2).
- 3.62 If the current system were updated to provide an automated data and fund management system, applications and reports could be submitted online. This would improve resource capability, reduce the risk of human error, and lead to more accurate and sophisticated data analysis to inform a national freshwater clean-up picture. It would also help to promote more integration and oversight of other freshwater clean-up funding providers and could increase the effectiveness of Crown investment as a result.

Recommendation 6

We recommend that the Ministry for the Environment considers implementing an automated data and fund management system that is compatible with other organisations to improve its existing capacity to use and analyse the data it collects about the use of freshwater clean-up funding and contribute to providing a national freshwater picture.

Improving project reporting to reflect the full effect of voluntary contributions

- 3.63 Although the Ministry acknowledges the importance of “in kind”, or voluntary contributions to individual project effectiveness, its financial reporting does not adequately account for “in-kind” contributions. In our view, this creates uncertainty for project managers and has resulted in confusion and inconsistency in how much detail to provide for reporting purposes. It also leads to inadequate data being available to contribute to a realistic national picture of the scale and importance of voluntary contributions in effective freshwater clean-up.
- 3.64 The success of freshwater clean-up projects supported by Crown funding relies heavily on donations of time and expertise from iwi and hapū, industry partners, individuals and community groups, and, in some cases, professional experts (such as environmental consultants, architects, and lawyers).
- 3.65 The Ministry needs to form a clearer picture of the value and size of voluntary contributions and account for the difference they make in increasing the effectiveness of available Crown funds.
- 3.66 The Ministry accounts for actual dollars spent through its financial monitoring requirements, but we did not see specific reporting of voluntary contributions (either itemised or effectively tracked). For example, for the Lake Ellesmere/Te Waihora Project, the budget summary provides an indication of how Crown funds have been used and itemises financial contributions from other organisations. Voluntary contributions are reflected in the financial summary by acknowledging that voluntary contributions were received from other contributors, but does not identify their value.
- 3.67 During interviews with the Ministry, we asked about voluntary contributions. The Ministry told us that these are not included in the financial statements. According to the Ministry, there is a requirement to disclose what voluntary contributions were made, but only at a nominal level. It is not a critical part of the project receiving payment from the Ministry.

- 3.68 The Ministry told us that “there is consideration for in-kind but it’s difficult to measure”. Co-funding is more important and, although it is different for each project, the more co-funding a project has attracted, the more funding it is likely to receive from the Ministry.
- 3.69 We saw no evidence of any support from the Ministry to help organisations calculate voluntary contributions. To our knowledge, there is no guidance for project managers about how to report voluntary contributions, and we were told during interviews that voluntary contributions tend to be underestimated.

The Waikato River Authority’s approach to voluntary contributions

The Authority’s approach includes voluntary contributions in the application and decision-making processes as a financial contribution that appears alongside financial information. The online funding system also requires reports on co-funding.

We saw evidence of some funded projects having a larger voluntary contribution than the cash contribution. The Restoration Strategy includes some standard costs and assumptions, and the funding workshops that the Authority carries out for iwi also discuss voluntary contributions.

- 3.70 We consider it important to include voluntary contributions in overall project results. Voluntary contributions clearly affect the overall success of freshwater clean-up projects nationally. Because they are currently not accurately measured, it is not possible to fully understand the scale of voluntary contributions or how much they contribute to freshwater clean-up projects.

Recommendation 7

We recommend the Ministry for the Environment improves the accuracy of reporting voluntary (in-kind) contributions alongside financial information in order to recognise those contributions and improve the national picture of their importance to freshwater clean-up efforts.

Appendix

The four freshwater clean-up funds we looked at

Fund	Funding period	Total investment	Purpose	Crown funding	Number of projects approved	Application and approval process
Rotorua Te Arawa Lakes Programme	2008-2032	\$144.2 million	Restoration of four priority lakes (Rotorua, Rotoiti, Ōkāreka, and Rotoehu) by addressing nutrient run-off into the lakes.	\$72.1 million	N/A	Non-contestable Crown commitment administered by the Ministry for the Environment.
Fresh Start for Fresh Water Clean-up Fund	2011-2014	\$48 million	Fund regional councils to restore nationally significant freshwater bodies affected by pollution.	\$14.5 million	7	Contestable fund applications, assessed by an independent panel and approved by the Secretary for the Environment.
Te Mana o Te Wai Fund	2014-2019	Not yet announced	Help Māori improve the quality of freshwater bodies that are of importance to them.	\$4.6 million	9	A single contestable funding round in 2015, assessed by an independent panel and approved by the Minister for the Environment.
Freshwater Improvement Fund	2016-2026	Not yet announced	Support projects costing more than \$400,000 to help communities manage freshwater within environmental limits.	\$100 million over 10 years (\$47 million in 2017 funding round)	34 during 2017 funding round	The first contestable fund was in 2017, assessed by an independent panel and approved by the Minister for the Environment.

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