Controller and Auditor-General
Tumuaki o te Mana Arotake

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Making infrastructure investment decisions quickly

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Auditor-General's overview

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

The 2020 Budget Policy Statement published on 11 December 2019 stated that the Government was planning a significant capital investment package to:

> *...build clarity around our future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy.*

On 29 January 2020, the Government announced a $12 billion investment in infrastructure. The New Zealand Upgrade Programme (the NZUP) would fund transport, hospitals, schools, decarbonisation initiatives, and telecommunications infrastructure projects. The Prime Minister described it as "a once-in-a-lifetime opportunity to invest in New Zealand".

On 1 April 2020, shortly after the start of New Zealand's first Alert Level 4 lockdown, the Government announced that, to reduce the economic effects of the Covid-19 pandemic, it had asked a group of industry leaders to seek out infrastructure projects that were "shovel ready" – in other words, ready (or near ready) to start as soon as the construction industry resumed normal activity.

This $3 billion fund, which we refer to as the Shovel-Ready Programme (the SRP) in this report, focused on projects that would immediately support jobs and provide income, and that could begin construction within the next 12 months. The Government sought applications from both public and private organisations for projects to be included in the SRP.

For both programmes, Ministers decided to act quickly in anticipation of deteriorating economic conditions.

I decided to look at how the Government made these infrastructure investment decisions because of the speed of the decision-making, the scale of the investments, and their long-term and potentially inter-generational impacts.

When my staff started this work, we intended to focus primarily on the role public organisations played in supporting the investment decisions. However, as our work progressed, the significance of the role that Ministers played in the process became clearer.

What we found

My audit focused on the processes that were used to make decisions about which projects to fund. We did not assess, and I do not comment on, the merits of the selected projects.

The Cabinet-mandated Investment Management System is meant to guide the Government's investment decision-making. The Investment Management System is a mix of policies, processes, rules, requirements, and expectations that are described in various documents and summarised on the Treasury's website.

The Investment Management System seeks to optimise value from new and existing investments and assets for current and future generations of New Zealanders. The requirements and guidance that make up the Investment Management System are there for good reasons, and they have informed our expectations of the investment decision-making process followed for the NZUP and SRP.

These investments were a response to significant economic uncertainty

During the second half of 2019, the Government received advice about deteriorating economic conditions and whether some form of government intervention would be needed if those conditions worsened further.

In early 2020, the Covid-19 pandemic emerged, and the Government anticipated significant negative economic impacts. In the months and years that followed, the Government announced a range of significant investments to support individuals, families, and businesses to manage the effects of the Covid-19 pandemic on their livelihoods.

In both situations, the Government felt that, given the uncertainty, it needed to act quickly to strengthen economic conditions. It also considered that it needed to signal the plan as soon as possible to shore up economic confidence.

Officials worked hard to meet expectations and provided advice about the risks

Both the NZUP and the SRP were developed rapidly. The process to identify and announce funding for NZUP projects took only a few months. Setting up the application process for the SRP took only weeks.

For the NZUP, agencies were given high-level direction and expected to quickly provide lists of projects that Ministers could announce. They worked hard to provide as much information as they could given the time constraints.

For the SRP, this was at the same time as officials were working in difficult and constrained circumstances to support the Government and the public during the Covid-19 pandemic.

At several points, officials advised Ministers of risks to value for money for both the NZUP and the SRP. The New Zealand Infrastructure Commission (Te Waihanga) told the Government that "large scale infrastructure projects are not effective mechanisms for economic stimulus due to the time needed for planning, design and procurement".

Te Waihanga warned of several constraints associated with infrastructure. It also said that accelerated projects are not without risks and could lead to increased costs and related inefficiencies.

For the transport projects in the NZUP, officials advised Ministers that certain factors – such as capacity in the construction sector – meant that "there is a real risk of cost overruns, both at a project and package level, as well as delays to projects". Ministers decided to proceed with the transport projects, which were announced on 29 January 2020.

The Ministry of Health and the Treasury jointly advised Ministers that many of the proposed health projects under consideration for the NZUP were not ready to be announced. Treasury officials said that, "due to the time and information available", they had "low confidence" that the proposed projects for investment would be able to be implemented quickly, in line with Ministers' objectives.

On 29 January 2020, about one week after this advice was provided, the Minister of Health and Associate Minister of Health publicly announced several health projects. These included some projects that officials had advised were not ready to be announced.

Ministers did not have enough information to be sure that decisions supported value for money

Beyond the Government's broad intention for NZUP to "build clarity around our future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy", my staff could not identify specific investment criteria to assist agencies in identifying appropriate projects to be considered for funding.

Agencies developed investment options for Ministers within extremely tight time frames. It is not clear whether they had an opportunity to adequately consider priorities, achievability, value for money, interdependencies, or other considerations – such as regional impacts or impacts for Māori, Pasifika, or other communities. My staff saw very little information about these considerations in the NZUP documentation that they were provided with.

Ministers made decisions to progress some NZUP projects even though those projects were not fully scoped or planned. Full business cases were not always available or up to date even when the project's planning was more advanced, such as for transport projects that were already part of the National Land Transport Programme.

Some of the NZUP decisions caught key stakeholders by surprise. Auckland Transport and Te Waihanga both told us that they learned about the NZUP through media coverage. Auckland Transport was not asked for information about, or business cases for, projects that it was responsible for.

More information about projects that sought funding from the SRP was provided to Ministers making decisions. Crown Infrastructure Partners, the public organisation responsible for administering the SRP, set up a process quickly which started well.

An Infrastructure Reference Group was formed to make recommendations to Ministers. It drew on a wide range of expertise at various points to inform assessments of whether applications were eligible. There were clear investment criteria for determining eligibility. Once it was determined, Ministers' offices and officials refined the list of eligible projects.

However, as with the NZUP, Ministers had limited information about whether SRP projects were aligned with government strategies or whether they represented value for money. When Crown Infrastructure Partners and the Infrastructure Reference Group presented a longlist of eligible projects to Ministers, they were transparent about the limitations of their advice.

During the process of longlisting, shortlisting, and Ministers making final decisions about projects, many changes were made to the list of projects under consideration. There were frequent discussions between Ministers' offices and officials during this time, and some projects were added from outside of the Infrastructure Reference Group process.

My staff found it difficult to determine how or why these changes were made. A lack of documentation about this part of the process meant that my staff were unable to establish whether new projects were assessed consistently, fairly, or on a similar basis to the work that the Infrastructure Reference Group carried out.

In my view, to support transparency and accountability when spending public money, decision-makers are responsible for ensuring that there are adequate records of how and why decisions were made.

The government carried out due diligence after announcements were made

When SRP projects were announced, it was clear that a subsequent due diligence process was expected to be carried out before funding would be confirmed and released to a project. This was signalled in press releases.

There was not the same clarity about subsequent due diligence when the NZUP projects were announced. This was despite many projects that were announced having limited business cases – or, in some instances, no business case – available.

By mid-2020, Ministers decided to take steps to strengthen the risk management and oversight of the NZUP transport investments. An Oversight Group of officials was set up to provide programme-level assurance and regular reporting to Ministers.

The Oversight Group identified that the original transport component of the programme could not be delivered within the allocated funding of $6.8 billion. On 31 May 2021, Cabinet approved additional Crown funding of $1.9 billion. This would fund agreed projects at their new cost estimates and provide a contingency fund for transport projects in the NZUP.

The Implementation Unit in the Department of the Prime Minister and Cabinet also carried out work to provide some assurance about aspects of both programmes. It has reported on work that agencies are doing to strengthen programme governance, monitoring, and oversight for NZUP transport projects, and it has provided a progress update on the SRP.

It is not clear how Parliament and the public will know whether this money was well spent

When my staff carried out their work, the Treasury was required to report periodically on the performance of all significant investments that have had or that require Cabinet consideration. Similarly, agencies were required to report on their investment intentions and performance to the Treasury.

Crown Infrastructure Partners co-ordinates regular public reporting about projects in the SRP. This provides a good level of information about the projects in the programme and spending in the programme to date.

The Treasury told us that, from November 2023, it will be making its quarterly reports on medium and high-risk investments to the Minister of Finance available to Cabinet and the reports will be published on the Treasury's website.

Although some information on the progress of the NZUP-funded transport projects is reported publicly, no public reporting for the entire programme is available. This makes it difficult for Parliament and the public to understand the full scope of the programme and what is being delivered for the investment that has been made.

What we concluded

These decisions were made in challenging circumstances.

Ministers told us that they had to act urgently to strengthen economic conditions both before, and in the wake of, the Covid-19 pandemic. The need for early announcements to provide confidence to the public appears to have influenced how quickly these processes were carried out.

I accept that in some circumstances decisions need to be made quickly and processes might need to be adapted. However, careful consideration should be given to ensuring that trade-offs between good process and speed are proportionate to the scale of investment and risk. The advice agencies gave to Ministers was consistent with this approach.

In my view, the scale of these investments, the limited information available to Ministers, and the multi-generational impact of the investments warranted more rigour before the NZUP announcements were made.

The SRP was a largely well-run process, and there is good reporting on the programme's delivery. However, the process was let down by the absence of clear records and a rationale of how and why some decisions were made after the Infrastructure Reference Group provided its report to Ministers.

I have made similar observations about aspects of the Strategic Tourism Investment Programme, the Cost of Living Payment, the Provincial Growth Fund, and – most recently – the reprioritisation of the Provincial Growth Fund. It concerns me that significant spending of public money continues to occur without appropriate processes for ensuring value for money and transparent decision-making.

Ministers told us that NZUP decisions were made "in principle", subject to business cases being prepared and due diligence processes being completed. They subsequently directed officials to gain more assurance about projects and to strengthen monitoring and oversight.

Costs for some NZUP projects have increased significantly. Some NZUP projects have been delayed or rescoped. Some SRP projects have also been discontinued.

Although the subsequent steps the Ministers took to strengthen oversight are positive, that work has also highlighted that even good monitoring and oversight cannot fully mitigate the value-for-money risks of investment decisions made with limited information.

Although the briefings, Cabinet papers, and minutes we were provided with record the final decisions made, there are not adequate records to enable proper scrutiny for some aspects of these processes, including why advice from officials was not followed, how risks were managed, and the funding priority given to some projects and sectors.

Ministers have the authority to make significant decisions. In my view, this power comes with an obligation to Parliament and the public to be transparent about how and why they made those decisions and whether those investments deliver what was intended.

A lack of transparency and documentation about how and why decision-makers made significant decisions can also create the perception that processes lack integrity. In a country that prides itself on the integrity of its public sector, we should all be concerned about this matter.

Infrastructure projects are complex and challenging. In my view, Parliament and the public have a right to expect more for spending of this scale – what the Prime Minister had called "a once-in-a-lifetime opportunity to invest in New Zealand".

What I recommend

I have made three recommendations aimed at supporting improved decision-making and accountability for decisions.

I recommend that the Treasury ensure that there is regular public reporting on the progress of all significant investments that have had or that require Cabinet-level consideration, including NZUP projects. In my view, this is critically important so that Parliament and the public can form a view on whether those investments are delivering value and so that the government can be held accountable for the decisions it makes.

I am pleased to see that the Treasury has recently prepared new guidance on expedited decision-making. This guidance is intended for situations where investment decisions might need to be made more quickly than usual – such as during a crisis.

This guidance was not available when the NZUP and SRP investment decisions were made but should assist future decision-making in these types of circumstances. This is a positive initiative.

I have also recommended that the Treasury seek feedback from relevant agencies on how useful they find the Treasury's guidance on expediting decision-making and regularly review that guidance so that it remains fit for purpose.

This performance audit has raised yet again the importance of clear and adequate investment criteria and appropriate documentation of decision-making processes, including when setting up contestable funds. For this reason, I have also recommended that the Treasury, in its role as steward of the public finance system, consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

Final comments

This review has taken longer to finalise than we initially planned. This is because my Office has prioritised other work looking at the Government's response to the Covid-19 pandemic. This extended time has shown that both programmes have made some good progress with delivering projects. However, it has also shown that some of the risks that officials highlighted to Ministers have been realised.

I remain interested in the performance of the NZUP and SRP, and I will likely carry out further work to understand the progress of these significant investments in infrastructure.

I thank the many officials who engaged with my Office during this work, including past Ministers, for their co-operation with my review.

Nāku noa, nā

John Ryan
Controller and Auditor-General | Tumuaki o te Mana Arotake

7 December 2023

Our recommendations

We recommend that the Treasury:

1. establish regular public reporting on the progress of the full New Zealand Upgrade Programme and periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration;
2. seek feedback from relevant agencies on how useful they find the Treasury's guidance on expediting decision-making and review that guidance regularly to ensure that it remains fit for purpose; and
3. consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

1 Introduction

1.1 Establishing, managing, and maintaining infrastructure is complex and expensive. A wide range of organisations and individuals are involved in planning, building, funding, and operating New Zealand's publicly owned infrastructure.

1.2 The state of New Zealand's infrastructure is poor compared to similar countries.[1] It is widely acknowledged that governments have underinvested in infrastructure over many decades. The Treasury's 2022 Investment Statement puts New Zealand's combined historical and future infrastructure gap at $210 billion during the next 30 years.[2]

1.3 In recent years, the Government announced substantial and wide-ranging investment in infrastructure. This included two significant infrastructure investment programmes: the New Zealand Upgrade Programme (NZUP) and what we have termed the Shovel-Ready Programme (SRP).[3] Together, these programmes represent more than $15 billion of direct government investment. The SRP also involved significant co-funding from applicants.

1.4 Both programmes were designed to stimulate economic activity at a time when the Government was expecting economic conditions to deteriorate. Both the NZUP and the SRP were developed rapidly, and initial decisions about which infrastructure projects would be included and receive funding were made quickly.

1.5 In late 2019, the Treasury provided advice to the Minister of Finance that the economic and fiscal outlook had weakened because of slower global growth and increased business investment uncertainty. The Treasury advised that fiscal stimulus could support the economy through a period of anticipated weaker growth rates.

1.6 When the Government released the 2020 Budget Policy Statement in December 2019, it signalled its intention to invest an additional $12 billion in building a more productive, sustainable, and inclusive economy. It said that this new investment would take capital spending in New Zealand to the highest level in more than 20 years.

1.7 In late January 2020, the Government announced that it would invest this $12 billion in infrastructure as part of the NZUP. This included a $6.8 billion investment in transport and other investments in hospitals, schools, decarbonisation, and telecommunications.

1 Te Waihanga (2021), *He tūāpapa ki te ora – Infrastructure for a better future: Aotearoa New Zealand Infrastructure Strategy consultation document* (2021), page 28, at tewaihanga.govt.nz.

2 The Treasury (2022), *He puna hao pātiki: 2022 Investment Statement*, page 51, at treasury.govt.nz.

3 "Shovel ready" was terminology that was sometimes used early in the programme to describe the nature of the projects intended to be funded. However, elsewhere, the collective term for projects approved through this fund is "Infrastructure Reference Group projects". See "Infrastructure Reference Group", at crowninfrastructure.govt.nz.

1.8 In a press release dated 29 January 2020, the Prime Minister said that the programme was a "once-in-a-lifetime opportunity to invest in New Zealand – modernising our infrastructure, preparing for climate change and helping grow the economy".

1.9 By March 2020, Covid-19 had arrived in New Zealand and the Government was anticipating negative economic impacts. In the months and years that followed, the Government announced a range of significant investments to support individuals, families, and businesses to manage the effects of the Covid-19 pandemic on their livelihoods.

1.10 The Government also considered the impact that the Covid-19 pandemic would have on the construction sector. On 1 April 2020, the Ministers for Infrastructure and Economic Development announced that, to reduce the economic impact of the pandemic, the Government had asked a group of industry leaders to seek out infrastructure projects that would be ready to start as soon as the construction industry resumed normal activity.

1.11 The Government allocated $3 billion to fund these projects. The SRP was targeted towards infrastructure investments that would immediately stimulate the construction industry, its workforce, and the economy. The Government sought applications from both public and private organisations for projects to be included in the SRP.

Why we did this audit

1.12 Any spending of public money should deliver good value for New Zealanders. Investment of the scale associated with the NZUP and the SRP has significant opportunity cost and, given the increased borrowing by the Government to fund these types of investments, these decisions could affect generations of New Zealanders to come.

1.13 It is reasonable for Parliament and the public to expect investment decisions to follow a fair, transparent, and robust process, be based on sound advice, and support value for money.

1.14 Ministers have broad discretion to make investment decisions. However, they must also be accountable for the decisions they make. In our view, this means that the basis for their decision-making should be transparent.

1.15 For Parliament and the public to have confidence in the decisions that are made on their behalf, they must be able to understand the rationale for the investment, how much has been invested, what purpose it has been invested for, what benefits are expected to be delivered, and whether those benefits have been realised.

1.16 The Investment Management System usually guides government decision-making about significant investments. The Investment Management System is a Cabinet-mandated mix of policies, processes, rules, requirements, and expectations that are described in various documents and summarised on the Treasury's website. The Investment Management System seeks to optimise value from new and existing investments and assets for current and future generations of New Zealanders.

1.17 We carried out this audit to understand how consistent the decision-making processes for investments in the NZUP and the SRP were with the Government's guidelines and the public's expectations that public money is well managed.

1.18 We chose these two programmes because of the significance of these investments, because of the level of public interest in them, and because they were developed quickly. We were interested in how agencies and Ministers navigated the requirements of the Investment Management System in these circumstances and what lessons could be learned.

How we carried out this audit

1.19 We analysed a large amount of documentation and spoke with people from a range of public organisations and other central government, local government, and non-government stakeholders. The documentation we analysed included Cabinet papers, Ministerial briefings, project assessment reports, assessment and process guidance, email correspondence between officials, and publicly available information on both investment programmes.

1.20 However, there were significant gaps in documentation. For the NZUP, there was a lack of documentation about the criteria used to allocate funding between sectors. For the SRP, there was a lack of information on how, why, or when certain projects were introduced into the process and prioritised.

1.21 Interviews with a wide range of officials and stakeholders helped us to understand how decisions were made and some of what took place. The people we spoke with included staff from:

- the Treasury;
- the Ministry of Business, Innovation and Employment (MBIE);
- Crown Infrastructure Partners;
- the Ministry of Transport;
- the New Zealand Transport Agency (Waka Kotahi);
- the Ministry of Health;
- the Ministry of Education;

- the New Zealand Infrastructure Commission (Te Waihanga);
- KiwiRail;
- the Department of the Prime Minister and Cabinet;
- the Energy Efficiency and Conservation Authority;
- Statistics New Zealand;
- a selection of local authorities; and
- Infrastructure New Zealand.

1.22 When we started this work, we intended to focus primarily on the role public organisations played in supporting the investment decisions. However, as our work progressed, the significance of the role that Ministers played in the process became clearer.

1.23 The Minister of Finance and some of the Associate Ministers of Finance were Budget Ministers and key decision-makers for the NZUP.[4] The Infrastructure Reference Group Ministers and the Minister of Economic Development were the principal investment decision-makers in the SRP.[5]

1.24 We spoke with the Minister of Finance about both programmes during the early stages of our work. We then invited key Ministers who had been involved in the programmes to meet with us and provide any information that they held. Ministers involved in the process had an opportunity to review and comment on relevant parts of our draft report.

1.25 We looked at decision-making processes up until substantive investment decisions were made, including:

- the advice Ministers sought and received about setting up these programmes;
- what direction Ministers gave to officials; and
- the advice officials provided to Ministers and Cabinet about how the programmes should be designed, which types of projects to include, and associated risks.

1.26 We also looked at how individual projects within both programmes were identified, prioritised, selected, and approved for funding.

4 The Prime Minister and Deputy Prime Minister were also Budget Ministers for the NZUP but did not appear to be heavily involved in the design or set-up of the programme.

5 The Infrastructure Reference Group Ministers were the Minister of Finance, the Minister for Infrastructure, and the Associate Ministers of Finance. Initially, the Infrastructure Reference Group was made up of the Chair of Crown Infrastructure Partners Limited, the Deputy Chairperson of the Provincial Growth Fund's independent advisory panel, the Chair of the Waka Kotahi New Zealand Transport Agency Board, the Chief Executive of KiwiRail, the Chair of the Infrastructure Commission Board, and the Chief Executive of the Ministry of Housing and Urban Development.

1.27 Our work did not focus on the delivery of individual projects but we were interested in whether adequate monitoring and reporting arrangements were considered as part of developing both programmes. Because Crown Infrastructure Partners was responsible for the SRP's overall monitoring and reporting, our work focused more on its role than on those of the other delivery agencies (see paragraph 3.26), including MBIE.

1.28 We also make some general observations about the relationship between decision-making processes and the likely value for money of investments.

1.29 We do not comment on policy decisions, including the merits of individual investments. We have not carried out or reviewed any cost–benefit analysis of individual projects, and we did not assess in detail any due diligence or other risk management processes that might have been carried out after decisions to fund projects had been made.

1.30 The procurement associated with any of the investments that form part of the NZUP or the SRP was also out of the scope of our work.

Our expectations

1.31 We wanted to understand how effective the decision-making processes underpinning the NZUP and the SRP were. We were interested in what insights they might provide for how the government makes decisions about significant infrastructure investments more generally – especially when it wants to make decisions quickly.

1.32 We were interested in:

- how investments were identified and prioritised;
- how decisions were informed;
- how stakeholders were engaged throughout the process;
- how well decisions were recorded and communicated; and
- how monitoring and evaluation was considered.

1.33 Our expectations were informed by the requirements of the Investment Management System and other relevant guidance (see Appendix 1). In summary, our expectations are that:

- Investments align to broader government and organisational strategies, where applicable.
- Expected outputs and outcomes (benefits) are clearly identified and connected to New Zealand's current and future infrastructure priorities, where known.

- Appropriate expertise is used to support the decision-making process when needed.
- Decision-making processes are transparent, reasonable, and proportionate to the scale of the investments being made.
- Risks to the integrity of the process, including conflicts of interests, are identified, appropriately assessed, and managed.
- Decision-making criteria are effective and consistently and fairly applied.
- Full and accurate records of decision-making processes are maintained to ensure transparency about why decisions were made.
- There are appropriate communications and engagement during the decision-making process to keep stakeholders informed and provide transparency about the process and outcomes.
- Appropriate monitoring, reporting, and evaluation arrangements are considered in the early stages of setting up the programmes and planned to be in place as soon as projects start.

1.34 These expectations informed the findings set out in Parts 4, 5, and 6.

1.35 In November 2021, the Treasury published guidance about expediting investment decisions on its website. The guidance recognises that there are situations where investment decisions need to be made rapidly for reasons outside of a public organisation's control.

1.36 The guidance identifies some principles for using an expedited approach. These include:

- consulting with stakeholders and government partners early;
- providing transparent advice to Cabinet about the risks and potential implications of making fast decisions; and
- explaining how much (or little) risks can be mitigated and the intended processes for mitigation.

1.37 The guidance was not available to Ministers or officials when initial investment decisions about the NZUP and the SRP were made or when we set our audit expectations.

1.38 We make some observations about this guidance in Part 7.

Structure of this report

1.39 Parts 2 and 3 describe the background to the NZUP and the SRP.

1.40 Parts 4, 5, and 6 set out our main findings about both programmes.

1.41 Part 7 discusses the guidance the Treasury has prepared about expedited decision-making.

About the New Zealand Upgrade Programme

2

2.1 In this Part, we describe:

- why the NZUP was set up;
- the scope of the NZUP;
- how projects were selected to receive funding; and
- what projects were funded.

Setting up the New Zealand Upgrade Programme

2.2 In September 2019, the Treasury briefed the Minister of Finance on options for changing the fiscal strategy to address a weakening economic outlook. It recommended developing a fiscal stimulus package that could begin within the next three months. Among the options discussed were investment in large-scale capital projects and projects that could be completed rapidly.

2.3 In October 2019, the Treasury provided further advice to the Minister of Finance that a significant capital investment plan could support the economy through a period of anticipated weaker growth rates.

2.4 On 4 November 2019, Cabinet agreed to $12 billion of capital investment to be announced as part of the 2020 Budget Policy Statement published in December 2019. The capital investment package was intended to:

> *...build clarity around the government's future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy.*[6]

2.5 The Cabinet paper considered at the 4 November meeting also noted that:

- the Treasury was already consulting with agencies about initiatives that could be announced in a capital package;
- initiatives were to be finalised in consultation with the relevant agencies and Ministers;
- an announcement would include the total amounts that would be allocated to different portfolios and some specific initiatives that were to be implemented; and
- several announcements about specific initiatives would then be made after the release of the Budget Policy Statement but before Budget 2020.

2.6 The Budget Policy Statement published on 11 December 2019 confirmed the Government's intention to invest $12 billion. It indicated that most of the capital package would consist of investment in transport, education, health, regional investment opportunities, carbon reduction, and justice.

6 The Treasury (4 November 2019), *Cabinet paper: Fiscal strategy for the Budget Policy Statement 2020*, at treasury.govt.nz.

Scope of the New Zealand Upgrade Programme

2.7 The $12 billion capital package comprised an $8.1 billion spending package and $3.9 billion to increase the multi-year capital allowance for capital spending.[7]

2.8 On 9 December 2019, Budget Ministers met to allocate amounts from the $8.1 billion spending package to specific categories. Those allocations included:

- transport projects – for medium- to long-term capital projects with a broad distribution throughout New Zealand and that supported public transport and emissions reduction (up to $6.8 billion);
- school property – to bring forward urgent school property improvements from existing planning processes (up to $400 million);
- district health board asset renewal – for short- to medium-term capital projects that were near investment-ready based on early findings of the National Asset Management Plan and for district health board infrastructure plans with a broad distribution throughout major urban and provincial centres (up to $300 million);
- regional investment opportunities – for short- to medium-term capital projects that were near investment-ready and that supported regional economic development and aspirations but that did not meet the funding criteria of the Provincial Growth Fund (up to $300 million);
- public estate decarbonisation – for short- to medium-term capital projects that reduced the government's carbon footprint, with a focus on "process heat" and energy efficiency measures (up to $200 million); and
- replacing the Tauranga courthouse (up to $90 million).

2.9 Ministers told us that the allocations of funding were guided by general Government priorities, which they said were "transport, health, education, decarbonisation, providing jobs, and improving productivity".

2.10 Apart from this, we have not seen any records that clearly explain the basis for the allocation of these amounts or why specific categories were chosen. We discuss the alignment with Government priorities in more detail in Part 4.

How projects were selected

2.11 The programme of investment was developed quickly. This appears to have been, at least in part, to enable public announcements to be made as soon as possible. We saw references to early announcements in briefings and Cabinet papers, and correspondence between Ministers' offices and agencies.

7 Cabinet authorised Budget Ministers to make decisions on the final details of the capital package, along with any associated operating funding, including the needed increases to the multi-year capital allowance.

2.12 In late 2019, the Treasury asked government agencies to identify potential projects that could be considered, prioritised, and approved for funding. We saw briefings from agencies to Ministers suggesting initiatives or packages of initiatives for them to consider.

2.13 We understand that many of the proposed transport projects were already included in the 2018-21 National Land Transport Programme or had been identified through earlier work. Even so, the business cases for these projects were at different stages of development.

2.14 In September 2019, the Ministry of Education provided the Minister of Education with some high-level information about infrastructure investment options that could stimulate the economy.

2.15 On 12 December 2019, the Treasury and MBIE provided joint advice to the Minister of Finance with options for how the $200 million decarbonisation allocation could be used. The briefing proposed a contestable fund of capital for state sector organisations to apply to. It also proposed that the scope of eligible investments include low-emissions heating, vehicles, and energy-efficient lighting.

2.16 On 21 January 2020, the Ministry of Health and the Treasury provided joint advice to Ministers about options for health projects that could be funded from the $300 million allocation for renewing district health board assets.

2.17 The briefing proposed 46 different investments in maternity and child health facilities, mental health facilities, improving service access in regions, and remediation of assets to address risk, condition, or compliance issues. These projects had been drawn from the National Asset Management Plan, district health board capital plans, and other sources.

2.18 The briefing indicated that some projects were well scoped and "amenable to immediate announcement". However, it said that others would require further investigation to have full confidence in scope, cost, timing, and expected benefits.

2.19 The Ministry of Health advised that completing projects within the short- to medium-term (12-24 months) depended on district health boards having enough capacity to support the projects. This is because, at that time, district health boards were responsible for many of these types of projects.

2.20 On 22 January, the Minister of Health agreed to $265 million of funding for projects that the Ministry of Health considered "near investment ready". The Minister agreed that district health boards be asked to prepare business cases for those projects.

What has been funded

2.21 On 29 January 2020, the Government issued a series of press releases announcing new initiatives funded from the $12 billion capital investment (which was now being called the New Zealand Upgrade Programme):

- The Minister of Transport announced $6.8 billion for transport infrastructure in Auckland, Waikato, the Bay of Plenty, Wellington, Canterbury, and Queenstown, including $1.1 billion for rail projects and $2.2 billion for new roads in Auckland.
- The Ministers for Infrastructure and State-Owned Enterprises issued two press releases detailing the $1.1 billion investment in four rail projects and some of the roading investments referred to in the Minister of Transport's release.
- The Minister of Health announced $300 million of capital investment in health. The press release set out an initial investment of $195 million and signalled that further announcements would be made in the coming months.
- The Minister for Climate Change announced $200 million of investment for a "clean-powered public service". This included replacing coal boilers at eight schools and upgrading facilities at Hillmorton Hospital's mental health unit.[8] The press release indicated that more announcements about what would be funded from the $200 million would follow.
- The Minister of Education issued a press release about the schools' investment package. This explicitly linked the schools' investment package to the NZUP.[9]

2.22 The Minister for Regional Economic Development made a further series of announcements on 28 February 2020. These referred to $300 million of investment for "Regional Investment Opportunities" and included a range of other transport initiatives in the regions, all linked to the NZUP.

2.23 These announcements were summarised on a page on the Beehive website.[10] Most of the projects ultimately funded through the NZUP appear to have been included in these initial announcements and on the website. However, it is difficult to determine from publicly available information all the initiatives that have received funding from the NZUP. We discuss this further in Part 6.

2.24 Some projects received relatively small amounts of funding (less than $1 million), while others received funding of more than $100 million.

8 This would be referred to in later related announcements as the "clean-powered public service fund". The fund ultimately became the State Sector Decarbonisation Fund, which the Energy Efficiency and Conservation Authority now administers.

9 This package was first announced on 1 December 2019 but was not linked to the NZUP at that time.

10 New Zealand Government (2020), *The New Zealand Upgrade Programme*, at beehive.govt.nz.

About the Shovel-Ready Programme

3

3.1 In this Part, we describe:

- why the SRP was set up;
- the scope of the SRP;
- how projects were selected to receive funding; and
- which projects were funded.

Setting up the Shovel-Ready Programme

3.2 Covid-19 was first detected in New Zealand in late February 2020. By then, the National Security System had been activated, arrangements for an all-of-government Covid-19 response had been made, and a public health response had been set up at the border.

3.3 As well as the immediate public health response, the Government also considered how it would provide financial assistance to businesses and families to mitigate the economic effects of the pandemic, which it expected to be significant.

3.4 The Minister for Infrastructure considered the impact that the Covid-19 pandemic would have on the construction industry. Further investment in infrastructure was expected to reduce the pandemic's economic impact.

3.5 In March, the chairperson of Crown Infrastructure Partners wrote to a range of industry participants, consultants, local bodies, and public sector chief executives advising that Ministers had asked him to set up and chair an Infrastructure Reference Group. The Infrastructure Reference Group's purpose was to assist with preparing a list of shovel-ready infrastructure projects that could be funded and that could start as soon as construction activity was able to resume.

3.6 The chairperson's letter sought information about projects that could be included for consideration. It stated that Crown Infrastructure Partners would provide support to administer the process but that the Government would make the final decisions.

3.7 The letter was sent on 25 March 2020, the same day a national state of emergency was declared and New Zealand entered the first Alert Level 4 lockdown. Only essential businesses were permitted to operate, and they were restricted in the way they could operate. The border was closed to all but New Zealand citizens and permanent residents.

3.8 On 1 April 2020, the Ministers of Infrastructure and Transport announced publicly that the Government was seeking "shovel-ready" infrastructure projects to invest in. A project information form and guidance were made available on the Crown Infrastructure Partners website at the same time as this announcement. Information about potential projects was sought by 14 April 2020.

Scope of the Shovel-Ready Programme

3.9 On 11 May 2020, Cabinet agreed to establish a $3 billion tagged contingency from the Covid-19 Response and Recovery Fund.[11] This funding was separate from, and intended to build on, the $12 billion investment that the Government had already announced for the NZUP.

3.10 The purpose of this funding was to invest in infrastructure to support the longer-term economic recovery from the Covid-19 pandemic. Funding would be awarded to projects that the Infrastructure Reference Group identified, as well as other projects that government agencies identified.

3.11 Unlike the NZUP, specific criteria were used to identify eligible projects for SRP funds. On 29 April 2020, Cabinet's Economic Development Committee agreed that the Infrastructure Reference Group would:

> *…initially prepare a list of infrastructure projects that are ready (or near ready) for construction, meet certain national/regional benefit criteria, are aligned with government policy, and could be deployed as part of a stimulatory package.*

3.12 The Committee also noted that the Infrastructure Reference Group would also use the three guiding principles used for reprioritising the Provincial Growth fund. These were:

- an increased focus on immediate job creation and income growth;
- construction activity that would be under way within the next six months; and
- a high degree of visibility to the community to give the public confidence that renewed economic activity was under way.

3.13 The Minister of Finance described the SRP as being "about creating jobs as we recover and rebuild from the recession caused by the global Covid-19 pandemic".

3.14 The letter from the chairperson of Crown Infrastructure Partners indicated that projects would need to:

- be truly ready for construction – ready within a realistic six months;
- be of an infrastructure nature, whether horizontal (such as roads and bridges) or vertical (such as schools and hospitals);
- be of a significant size (at least $10 million, either as a single project or as a package of similar projects) and provide material employment benefits for workers; and
- bring real social or economic value to New Zealand as a whole or the region it was located in.

11 During the Budget process, tagged contingencies for specific initiatives are set aside when more work is needed before Cabinet will agree to the funding. Tagged contingencies are also used when an initiative is commercially sensitive or negotiations have yet to take place, such as State-sector wage negotiations. See "Guide to New Zealand Budgeting Practices: Contingencies and between-Budget spending", at budget.govt.nz.

3.15 The project information form and accompanying guidance on the Crown Infrastructure Partners website provided further information about the criteria. Applicants were asked to identify how much financial assistance they needed. They were also asked to confirm the expected total capital expenditure and the number of full-time equivalent workers needed for construction on each project.

How projects were selected

3.16 We identified three main phases of decision-making to select projects for funding:

- The Infrastructure Reference Group led the first phase, supported by Crown Infrastructure Partners with the assistance of a review team. This process culminated in a longlist of projects that the Infrastructure Reference Group considered met the eligibility criteria for funding. The Infrastructure Reference Group reported the longlist to Ministers on 18 May 2020.
- In the second phase, officials worked with staff in Ministers' offices to reduce the longlist to a shortlist. Crown Infrastructure Partners told us that, as part of this process, Ministers asked for a list of all projects submitted to the Infrastructure Reference Group that had not made it into the Infrastructure Reference Group longlist.
- The third phase involved officials carrying out further due diligence checks of proposed projects before a group of Ministers (known as the Infrastructure Reference Group Ministers)[12] ultimately approved funding.

Phase 1 – Developing the Infrastructure Reference Group longlist

3.17 Crown Infrastructure Partners led the initial assessment process on behalf of the Infrastructure Reference Group. They received project proposals and assessed them against three key criteria: construction readiness, direct employment benefit, and national/regional benefit. The assessment process included removing proposals that did not meet the criteria.

3.18 On behalf of the Infrastructure Reference Group, Crown Infrastructure Partners formed a review team to assess project proposals. The team comprised a representative from Crown Infrastructure Partners and lead partners from various professional firms. In total, the review team assessed 1926 proposals with a combined value of $134 billion.

3.19 Kānoa, the Regional Economic Development and Investment Unit within MBIE, was also involved in this initial assessment process. Crown Infrastructure Partners asked Kānoa to provide a regional perspective on project proposals.

12 The Infrastructure Reference Group Ministers were the Minister of Finance, the Minister for Infrastructure, and the Associate Ministers of Finance.

3.20 Crown Infrastructure Partners also forwarded proposals to Kānoa, including projects that were outside major metropolitan areas and that had a value of less than $10 million. This was so it could consider regional projects that might have been more suitable for funding from the Provincial Growth Fund rather than from the SRP.

3.21 Crown Infrastructure Partners then worked with the Infrastructure Reference Group to set out a list of 802 eligible projects seeking a combined $33 billion in funding from the SRP. Projects were grouped according to three categories of construction readiness. These were projects that:

- were in the construction phase but that had been put on hold because of the Covid-19 pandemic;
- had been expected to start the construction phase within the next six months (by 31 October 2020) but that were unlikely to do so because of the Covid-19 pandemic; and
- could be expected to start the construction phase within the next 12 months (by 30 May 2021) but that were unlikely to do so because of the Covid-19 pandemic.

3.22 The longlist was provided to Ministers on 18 May 2020.

Phase 2 – Shortlisting

3.23 Once Ministers had received the longlist from the Infrastructure Reference Group, more work was needed to narrow down the list further. Negotiations took place between several Ministerial offices.

3.24 Crown Infrastructure Partners, MBIE, and Treasury officials provided additional information about projects as needed. Crown Infrastructure Partners and the Treasury also separately provided advice to Ministers on how to prioritise the lists before meeting in early June 2020 to reconcile their advice.

3.25 The paper that was ultimately prepared for the Cabinet Economic Development Committee contained a shortlist of 177 projects seeking an estimated $3.3 billion in government funding. The paper organised the projects into categories. These were:

- housing and urban development – consistent with the Urban Growth Agenda and key economic shift to transform New Zealand's housing market to unlock productivity growth and make houses more affordable;
- energy – consistent with the key economic shift to sustainable and affordable energy systems;
- community development – to support strong and revitalised regions and align with housing and urban development;

- water and waste – consistent with key economic shifts so that land and resource use deliver greater value and environmental outcomes; and
- other key central and local government infrastructure – to support the Government's wider objectives and support the recovery.

3.26 Cabinet authorised the Infrastructure Reference Group Ministers to make final decisions on which projects from that shortlist would be funded. Funding would then be allocated to relevant government agencies (called delivery agencies) for distribution to the parties responsible for the selected projects.[13]

3.27 In addition, Cabinet agreed some important conditions for those approvals. These included the following:

- The Infrastructure Reference Group Ministers were to use some specified criteria when deciding on the final list of projects. These were similar to, but not the same as, the criteria that had been used in Phase 1 of the process (see Figure 1).
- Delivery agencies would be required to first carry out further due diligence about the projects to provide "appropriate assurances" to Infrastructure Reference Group Ministers. The agencies needed to provide assurance about each project's scope and that it could be delivered expediently, that it could achieve the intended benefits and enable jobs, and that the funding was appropriate to enable the project while also representing value for money to the Crown.

Figure 1
Cabinet-approved decision-making criteria used in the Shovel-Ready Programme

Original criteria	Subsequent criteria
Ready (or near ready) for construction Meet certain national/regional benefit criteria Are aligned with government policy Could be deployed as part of a stimulatory package	The number of jobs created Regional impact and distribution of projects Project achievability and readiness Net public benefit Alignment with wider government objectives

Note: The criteria that were included in the letter that initially sought projects to be included in the Infrastructure Reference Group process are listed in paragraph 3.14.

13 A range of government agencies were responsible for contracting, managing, monitoring, and reporting on specific projects. They included the Ministry of Housing and Urban Development, Kāinga Ora, MBIE (including the Provincial Development Unit/Kānoa), the Energy Efficiency and Conservation Authority, Heritage New Zealand, Fire and Emergency New Zealand, KiwiRail, Waka Kotahi, the Ministry of Justice, the New Zealand Police, the New Zealand Defence Force, and Crown Infrastructure Partners.

Phase 3 – Due diligence and final approvals

3.28 Crown Infrastructure Partners co-ordinated briefings seeking the agreement of Ministers to release funding to projects after the delivery agencies had completed the appropriate due diligence for those projects.

3.29 These briefings (except when they were only updates to previous funding decisions) generally included background checks about the project's owner, confirmation of the project's scope, and information about the project's costs, predicted benefits, milestones, employment creation, and risks. The briefings also included information about the recipient's management and delivery capability, a financial capacity and co-funding assessment, and some comments about value for money.

3.30 Each of these elements was assigned a "traffic light" status. Green indicated no issues, orange indicated some issues or risks that could be addressed, and red indicated material issues that were unlikely to be addressed.

What has been funded

3.31 Infrastructure Reference Group Ministers' approval to release funding to projects was sought through a series of briefings starting in mid-August 2020. Each briefing included additional information and recommendations about a set of projects.

3.32 Figure 2 provides information about the number of new projects recommended in each briefing, the number of full-time equivalent jobs that those projects were expected to create, and their costs.

Figure 2
Briefings seeking approval from Ministers to release funding for new projects

Briefing	Date	Number of projects recommended	Government funding $ millions	Anticipated number of FTE jobs created
1	August 2020	32	233.7	Information not included
2	August 2020	7	142.0	844
3	September 2020	11	88.0	208
4	September 2020	88	612.0	2887
5	September 2020	48	414.8	2835

Briefing	Date	Number of projects recommended	Government funding $ millions	Anticipated number of FTE jobs created
6	October 2020	13	320.6	1122
7	November 2020	6	64.3	515
8	December 2020	1	6.5	94
9	February 2021	2	83.1	283
10	April 2021	8	90.6	281
11	June 2021	4	95.4	246
12	August 2021	2	17.0	65
14	December 2021	2	7.7	50
Total		**224**	**2,175.7**	**9430**

Note: There were 19 funding briefings to the Infrastructure Reference Group Ministers. Briefings 13 and 15 to 19 sought approval of changes to existing projects covered in earlier briefings. These changes are not reflected in the funding and employment totals in the table. The total funding approved at the end of August 2023 is provided in paragraph 3.35.

3.33 As with the NZUP, the scale of projects varied significantly, from less than $1 million to more than $100 million.

3.34 As at the end of September 2023, Crown Infrastructure Partners reported that 222 projects had been approved and funding agreements were in place. Of these, 112 projects had been completed and a further 108 had started.

3.35 Crown Infrastructure Partners reported in late October 2023 that 65% ($1.8 billion) of the funding ultimately approved by Ministers as direct government investment in the SRP ($2.7 billion) had been spent to 31 August 2023.

4 Design and set-up of processes

4.1 In this Part, we discuss the importance of designing and setting up a clear and well thought-through process for allocating significant amounts of funding to initiatives. We discuss how:

- the investments in the NZUP and SRP were broadly aligned with the Government's priorities;
- the investments are less clearly aligned with sector and organisational strategies;
- more attention should have been given to investment criteria;
- it is not clear how well risks were assessed or managed; and
- key agencies were not sufficiently involved in these processes.

4.2 Ministers have wide discretion to make decisions about where they will direct investment. However, they still need to ensure good value for money for New Zealanders. The public ought to be able to see why the government is making an investment, what the government is investing in, how much is being spent, and what benefits that investment will provide.

4.3 The amount of funding that was allocated through both the NZUP and the SRP was significant. The risks associated with large complex infrastructure projects are also well known.[14] Therefore, we expected that these processes had been carried out in a way that would, at a minimum, ensure that:

- the objectives and outcomes sought from these programmes would be clearly identified and connected to New Zealand's current and future infrastructure priorities, where known, as well as wider government and organisational strategies, where applicable;
- decision-making criteria would be clear and robust enough for the investments to be effectively analysed, prioritised, and selected;
- risks would be identified and assessed, and appropriate mitigation or management strategies would be defined; and
- key decisions and their rationale would be documented.

4.4 To achieve this, we expected Ministers to seek and consider advice from relevant officials. Although Ministers are not obliged to follow advice from officials, they have an obligation to give fair consideration and due weight to free and frank advice provided by the public service.[15]

4.5 We also expected effective engagement and communications during the decision-making process to keep stakeholders informed and to provide transparency about the process and its outcomes.

14 Infrastructure projects are often large scale and complex, with issues, risks, and challenges that might require sophisticated project planning, management, procurement, and governance approaches. See "Guidance" at tewaihanga.govt.nz.

15 See "Cabinet Manual" at dpmc.govt.nz.

Summary of findings

4.6 Both the NZUP and the SRP are aligned with the Government's broad intentions to address New Zealand's infrastructure deficit and stimulate the economy.

4.7 However, how well these programmes advance specific government, sector, or organisational strategies is unclear.

4.8 Many projects included in the NZUP were already part of multi-year investment plans that agencies had prepared or had been working on, or they had been included as part of other investment processes but had not yet received funding. Ministers appear to have relied on this to satisfy themselves that these projects were good investments.

4.9 Beyond the Government's broad intention for the NZUP to "build clarity around our future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy", we were not able to identify specific investment criteria to assist agencies in identifying appropriate projects to be considered for funding.

4.10 Officials consistently raised risks and uncertainties with both investment programmes to Ministers. Ministers chose to proceed quickly, despite the concerns that had been raised. It is unclear to us how these risks were considered and what steps, if any, were taken to manage or mitigate those risks.

4.11 The desire to make early announcements appears to have been a factor. Ministers told us that these decisions were made "in principle" and were subject to further due diligence. In our view, decision-makers should be cautious when announcing projects before they make final funding decisions. Once project funding is announced, it can be difficult to withdraw funding, even when costs increase or risks to benefits are identified.

4.12 The first phase of decision-making for the SRP was well organised. Applications for funding were sought through a contestable process with clear investment criteria and reasonable assessment of cost, benefits, achievability, and risk. The process was transparent, and good records about decisions were kept.

4.13 During the process of longlisting, shortlisting, and Ministers making final decisions about projects, many changes were made to the list of projects under consideration. This included adding and removing projects from the list. There are not clear records to explain how or why some of these changes were made. It is not always clear what criteria were applied or how consistently projects were assessed in this phase.

4.14 We sought information from agencies about how they managed conflicts of interest. Agencies confirmed to us that they are guided by their internal conflict of interest policies. For Ministers, the Cabinet Manual explains the standards of personal conduct expected and provides options for managing conflicts of interest.

4.15 We did not assess the quality of these processes. However, except for information that Crown Infrastructure Partners provided, the documentation we were given did not contain information about how conflicts of interest were managed. In our view, it would be prudent, when making significant funding decisions like these, for Ministers and officials to make proactive declarations about actual and potential conflicts and for these to be recorded in the documentation relating to investment decisions.

4.16 The involvement of key agencies in the design and set-up varied between the two programmes. It is likely that the design of these processes could have been improved if more of the relevant agencies were given the opportunity to work together to provide advice at the outset.

Investments were broadly aligned with the Government's priorities

4.17 In general, we expect that significant investment will align with the priorities the Government has set – for example, through government strategies and plans, the fiscal strategy, and budget policy statements. For the NZUP and the SRP, we expected that outputs, benefits, and outcomes of investments would be clearly identified and connected to New Zealand's current and future infrastructure priorities.

4.18 Te Waihanga was set up in September 2019. One of its first priorities was to prepare an infrastructure strategy for New Zealand. The strategy was not available when the NZUP and the SRP started.

4.19 On 16 September 2018, the Government published *Our plan: The Government's priorities for New Zealand*, which signalled an intention to invest $42 billion in net capital spending over five years to help rebuild New Zealand's infrastructure and critical public services.

4.20 The 2020 Budget Policy Statement, published in December 2019, stated that major investments would continue to be made in health, education, housing, and social programmes to address New Zealand's long-term challenges. The Budget 2020 priorities would be:

> *Just Transition – Supporting New Zealanders in the transition to a climate-resilient, sustainable, and low-emissions economy*

Future of Work – Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation

Māori and Pacific – Lifting Māori and Pacific incomes, skills and opportunities

Child Wellbeing – Reducing child poverty and improving child wellbeing

Physical and Mental Wellbeing – Supporting improved health outcomes for all New Zealanders.

4.21 Both the NZUP and the SRP were aligned with the Government's broad intentions to start to address New Zealand's infrastructure deficit and stimulate the economy.

4.22 The NZUP was intended to clarify the government's future capital programme, speed up the transition to a low-emissions economy, support business confidence, and move towards a more productive, sustainable, and inclusive economy. The NZUP includes investments in education, health, and decarbonisation, but most investments have been in transport projects.

4.23 The purpose of the SRP was to invest in infrastructure to support the economic recovery from the Covid-19 pandemic, with a particular focus on supporting jobs. The SRP includes investments in housing and urban development, projects targeting environmental outcomes (energy, waste, and water), and a range of other infrastructure projects designed to support employment outcomes.

Investments are less clearly aligned with sector and organisational strategies

4.24 To develop the NZUP, the Treasury worked with relevant agencies to identify investment options for Ministers to consider within the broad categories Ministers had identified (see paragraph 2.12).

4.25 We saw evidence that some agencies considered alignment to sector and organisational strategies. Some relevant information was included in advice to Ministers about potential investment options.

4.26 For example, a briefing to the Minister for Education about potential funding options referred to the Government's commitment to improving the condition of the school property portfolio by 2030. The briefing presented options informed by the Education Infrastructure Service's draft strategic objectives as well as wider organisational commitments.

4.27 A briefing from the Ministry of Health proposed categories of projects based on existing capital plans, the health National Asset Management Plan, and other sources.

4.28 Many projects included in the NZUP, especially the transport projects (see paragraph 2.13), were already part of multi-year investment plans that agencies had prepared or had been working on, or they had been included as part of other investment processes but had not yet received funding.

4.29 Guidance issued by the Treasury as part of the Investment Management System indicates that significant projects should consider alignment to corporate and business strategies and long-term investment plans. In some instances, the processes for considering this alignment are comprehensive.

4.30 For example, legislation guides the process for developing the National Land Transport Programme. Waka Kotahi uses a comprehensive investment prioritisation method to align transport investment decisions with the Government Policy Statement on land transport and to consider regional priorities set out in Regional Land Transport Plans.

4.31 In our view, it was reasonable for the Government to rely on this process to assure itself of the strategic alignment of the transport investment in the NZUP.

4.32 For other projects, little information was provided to Ministers about how strategic alignment had been assessed.

4.33 Applicants for the SRP were required to comment in their applications on how their proposal "brings real value" to specific government strategies, frameworks, and commitments. These included the Living Standards Framework, the Sustainable Development Goals, and the draft 2021 Government Policy Statement on land transport.

4.34 However, it does not appear that the Infrastructure Reference Group was able to form a clear view of the strategic alignment of projects, other than at a high level. When the initial shortlist was presented to Ministers, there was a high-level assessment of the strength of each sector's alignment with categories in the Government's Economic Plan and 2020 Budget Policy Statement categories.

4.35 Despite that assessment, the advice to the Government was that the "Government should consider the extent to which projects support, or are aligned with, existing Government or Local Authority initiatives and priorities". The Treasury and MBIE jointly provided Ministers with further advice on how that might be carried out, with a particular focus on alignment with the Government's Covid-19 economic recovery objectives.

4.36 Ministers told us that the outcome of their decision-making reflected the Government's priorities. They said that, during the decision-making process, some projects were prioritised based on their potential to "achieve the Government's objectives".

4.37 The documentation we were provided with contains only high-level references to strategic alignment. We cannot determine whether it was tested comprehensively.

4.38 In our view, the scale of investment that has been made as part of both the NZUP and the SRP required a more robust approach.

More attention should have been given to investment criteria

4.39 Criteria aligned to investment objectives and robust selection processes are necessary to match investment to need, to prioritise, and to maximise the probability of achieving the benefits sought from investment.

4.40 Criteria need to be clear and include enough guidance for people to determine whether they meet the criteria, so they can make informed decisions about whether it is worthwhile applying. Consistently and transparently evaluating projects against effective criteria will provide assurance to applicants and the public that the process is fair and transparent.

4.41 Criteria also need to be effective in assisting decision-makers to identify whether investments are likely to help achieve objectives and to prioritise between investments as necessary.

The New Zealand Upgrade Programme had only broad investment criteria

4.42 Beyond the broad intention of the NZUP set out in paragraphs 2.4 and 2.6, we were not able to identify specific investment criteria to assist agencies in identifying and prioritising projects to be considered for funding.

4.43 As we discussed in paragraph 2.12, the Treasury worked with agencies to identify potential projects within the broad categories Ministers had identified. It is not clear to us how the amount of funding assigned to these categories was determined (see paragraphs 2.9 and 2.10).

4.44 An internal Treasury review found that the NZUP lacked a systematic or quantitative framework to prioritise between sectors (such as housing, education, and transport), beyond stating that spending should be "high quality".

4.45 As we discussed in paragraphs 4.30-4.31, some transport projects were already part of the National Land Transport Programme, and Ministers relied on those processes as a basis for ensuring quality in that investment.

4.46 Non-transport projects might also have been part of multi-year investment plans that agencies had planned or had been working on. The Ministry of Education has confirmed that it used NZUP funding for the School Investment Package. That package included capital and maintenance works in schools.

4.47 The Ministry of Health confirmed that some health projects were identified from district heath board capital plans. Investment criteria might have been used in those processes, but this was not clear in the documentation that was provided to Ministers or that we were provided with.

4.48 When agencies briefed their Ministers on the range of projects that could be considered for inclusion, the information provided in these briefings varied. None of the briefings we saw set out any specific investment criteria that had been used to identify investment options.

4.49 Ministers told us that, in many instances, they were funding projects that had been talked about and planned for a long time. They said that they ran the decision-making process in the same manner as the Budget process.

4.50 However, in a Budget process, agencies are usually required to meet requirements that do not appear to have been tested here. *Budget 2020: Guide for agencies* required an appropriate Better Business Case to support all capital investment proposals.[16] If an initiative seeking significant capital investment did not have a business case, it would likely be assessed as "not investment ready" and deprioritised.[17]

4.51 We acknowledge that officials were under pressure to give advice to Ministers. They would have had little opportunity to do detailed analysis if it had not previously been carried out.

4.52 How well projects proposed for investment through the NZUP had been properly scoped, planned, and costed was variable. Some did not have well-advanced or completed business cases. This means that, in some instances, Ministers did not have adequate information to draw on. We discuss this further in Part 5.

16 *Budget 2020: Guide for agencies* referred to Cabinet Office Circular CO (15) 5, which sets out Cabinet's expectations for investment management. This is one of the documents we used to inform our audit expectations. See the Treasury (2015), *Cabinet Office Circular CO (15) 5: Investment management and asset performance in the state services*, at dpmc.govt.nz. The Treasury told us that it is now making changes to the business case, reporting, and assurance requirements in the Investment Management System to reflect the requirements of *Cabinet Office Circular CO (23) 9: Investment management and asset performance in departments and other entities*. This is an updated version of Cabinet Office Circular CO (19) 6, which applied at the time of the decision-making.

17 The Treasury (2019), *Budget 2020: Guide for agencies*, paragraph 6.41, at treasury.govt.nz.

4.53 We acknowledge that the process to identify what would be included in the NZUP was not the same as a contestable investment fund. The Government was not seeking applications for funding or prioritising between large numbers of projects, as it was for the SRP.

4.54 Even so, it is not clear to us how agencies were able to make informed judgements about which investments to propose or how Ministers determined what they would prioritise.

4.55 It would have been helpful to have investment criteria within each of the funding categories to provide some assurance to Ministers that proposed projects were achievable and would deliver the appropriate level of value for the very significant amounts of public money being spent.

4.56 Ministers made a trade-off between speed and a more rigorous process. Although we accept that there was some justification for speed, we do not consider that the right balance was found, given the scale and importance of these decisions.

The investment criteria and assessment process for the Shovel-Ready Programme evolved over time

4.57 Unlike the NZUP, the SRP was a contestable fund that was open to both public and private sector projects. Investment criteria were particularly important to assist applicants in determining whether they would be eligible for funding. The criteria also assured applicants that applications would be assessed consistently and fairly.

4.58 Crown Infrastructure Partners worked fast to set up a process to receive and assess project applications while New Zealand was in Level 4 lockdown. Investment criteria were clearly communicated in the letter that the chairperson of Crown Infrastructure Partners sent to relevant organisations.

4.59 These same criteria were set out in the SRP guidelines and project information form published on the Crown Infrastructure Partners website. Crown Infrastructure Partners also published the method it would follow to assess projects. These steps reflect good practices.

4.60 The assessment method was well documented. It included planning for regular meetings between Crown Infrastructure Partners' management and those reviewing applications to make sure that the process was followed consistently.

4.61 Projects were:

- filtered by location, type, and value to remove those that did not meet the criteria;
- organised into categories according to:
  - construction readiness;
  - overall benefits (economic/social/environmental benefits and regional/nationwide benefits); and
  - risks of the project not starting within the advised timescale, of it not being completed on time, to cost, or to specification, or of it not obtaining the overall benefits; and
- scored against each requirement (which were weighted) to develop an overall project rating.[18]

4.62 Crown Infrastructure Partners assessed 1926 projects against the criteria, with a combined value of $134 billion. It identified 802 eligible projects seeking $33 billion of financial assistance from the Government. All 802 projects were included in the Infrastructure Reference Group longlist presented to Ministers on 18 May 2020.

4.63 The longlist of projects involved funding that was more than 10 times the funding Cabinet had agreed to.

4.64 The Minister of Finance directed officials to identify a shortlist of projects with a focus on five "macro sectors": housing and urban development, energy, community development, water and waste, and other central and local government projects.

4.65 Crown Infrastructure Partners developed a more detailed assessment framework to support the shortlisting process. That framework included the following four parts:

- Part A – Projects must be in a subsector that falls within the five "macro sectors".
- Part B – The Crown Infrastructure Partners Working Group applied judgements on the general attributes of projects, such as speed to market, criticality of government assistance, and a high degree of visibility to the community to give the public confidence that renewed activity is under way.
- Part C – The Treasury applied judgements on wider contextual considerations, including value for money and alignment with the Government's wider objectives.
- Part D – Ensuring an appropriate regional and sector spread.

18 A leverage adjustment to reflect the amount and form of financial assistance requested from the Government was also applied to each project.

4.66 Both Crown Infrastructure Partners and the Treasury prepared prioritised lists. They then worked together to reconcile the lists into one set of advice to Ministers. We saw documentation that indicated that scoring was used.

4.67 MBIE, the Ministry of Housing and Urban Development, the Treasury, the Ministry of Transport, and the Department of Internal Affairs were also consulted as part of evaluating the projects. We understand that this was to co-ordinate these projects with existing funding programmes, including other large infrastructure investments that the Government had made, such as the NZUP.

4.68 On 24 June 2020, the Cabinet Economic Development Committee (with power to act from Cabinet) considered a joint paper from the Ministers of Finance and Infrastructure that proposed a shortlist of 177 projects seeking $3.3 billion of financial support. This list was estimated to enable 26,000 jobs and projects worth $6.6 billion.[19]

4.69 The list sought to achieve a wide distribution of investment throughout the regions of New Zealand, including a focus on those regions most economically affected by the Covid-19 pandemic, such as the Bay of Plenty, the West Coast, and Otago.

4.70 The Cabinet Economic Development Committee authorised the Infrastructure Reference Group Ministers to make final decisions about which projects from the shortlist would be funded using criteria that were similar to, but not the same as, the original criteria used in the Infrastructure Reference Group process (see paragraph 3.27 and Figure 1). The new criteria were:

- the number of jobs created;
- regional impact and distribution;
- project achievability and readiness;
- net public benefit; and
- alignment with wider government objectives.

4.71 A joint press release issued by the Ministers of Finance and Infrastructure on 1 July 2020 announced that Cabinet had made initial decisions about the sectors that it would like to support and the general regional distribution of funds.

4.72 The press release also stated that more than 150 projects worth $2.6 billion had been approved in principle and that officials were carrying out final due diligence to ensure that the projects were viable and that they offered the benefits that applicants stated.

19 Many projects that sought financial assistance from the Government through the SRP already had some project funding.

4.73 A few weeks later, on 20 July 2020, Cabinet:

- agreed that the Infrastructure Reference Group Ministers could choose to progress projects from outside the 24 June shortlist;
- invited the Infrastructure Reference Group Ministers to report back if the projects from outside the shortlist they chose to progress exceeded 25 projects or $500 million in government funding; and
- agreed that, before any delivery agency distributed funding to enable a project, the delivery agency would seek final project approval from the Infrastructure Reference Group Ministers and provide appropriate assurances that the project could achieve the intended benefits and enable jobs, that it could be delivered within scope and expediently, that the government funding would be appropriate to enable the project, and that it represented value for money to the Crown.[20]

4.74 At the request of the Minister of Finance, Crown Infrastructure Partners co-ordinated this next stage of the process. Kānoa, MBIE's Regional Economic Development and Investment Unit, took responsibility for assessing proposals of less than $20 million where it was best placed to do so, including those proposals more suitable for funding from the Provincial Growth Fund. We discuss the due diligence process further in Part 5.

It is not clear how consistently criteria were applied to reach final decisions

4.75 The Infrastructure Reference Group Ministers were sent a series of briefings that sought agreement to funding for projects (see Figure 2).

4.76 A total of 19 briefings have been provided to date. MBIE told us that it also provided individual project briefings to Ministers as needed.

4.77 By 30 July 2021, funding for 215 projects had been approved.

4.78 Many projects were added or changed during the process of delivering the initial longlist to Ministers, presenting the shortlist of 177 projects to Cabinet, and the final approval of sets of projects by the Infrastructure Reference Group Ministers.

4.79 Crown Infrastructure Partners told us that it was not part of the process that involved selecting projects from outside of the Infrastructure Reference Group process. It told us that it was advised of these decisions after Ministers had made them.

20 Cabinet also agreed that for small low-risk projects the Infrastructure Reference Group Ministers could lower the requirements for due diligence and assurances, if appropriate.

4.80 The information available to us indicates that projects to the value of about $260 million were introduced from outside of the Infrastructure Reference Group process. The criteria and processes used to identify those projects is not clear.

4.81 Some of the projects ultimately selected for funding had not received the highest ratings against criteria, and we were told that some prioritised projects did not appear to be "shovel ready".

4.82 In our view, the lack of documentation explaining why these projects were prioritised exposes the process to potential criticism of a lack of transparency and fairness.

It is not clear how well risks were assessed or managed

4.83 With both programmes, we expected to see risk considered at the following levels:

- Risks to the decision-making process – Given how quickly these processes were set up and progressed, we expected officials to clearly identify the risks that decisions made at speed might present (for example, to the quality of information available for decision-makers, which we discuss in Part 5).
- Risks to the investment objectives – Given the scale of infrastructure investment, we expected to see some consideration of supply chain risks and sector capacity or workforce constraints.
- Project-level risks – We expected to see consideration of risks to achievability, costs, and benefits and whether other requirements needed to be met (for example, to comply with the Resource Management Act 1991).

4.84 We also expected to see processes set up to manage integrity risks (for example, processes to identify and manage conflicts of interests).

4.85 Good decision-making is underpinned by "free and frank" advice from officials. Free and frank advice is designed to help Ministers to achieve their objectives and to inform them of the benefits, risks, and uncertainties inherent in their decisions.

4.86 Ministers have a duty to give fair consideration and due weight to the advice from officials. However, it is not unusual, or inappropriate, for Ministers not to follow that advice.

4.87 In our view, given that these decisions involved significant amounts of public money, the decision-making rationale should have been clearly recorded so that those decisions could be scrutinised and the public could have confidence in the integrity of the decisions made. This is especially important when decisions are contrary to advice provided by officials.

4.88 The Cabinet Manual requires Ministers to create full and accurate records of their Ministerial affairs, in accordance with normal prudent business practice. This is important to ensure appropriate Ministerial accountability and to ensure that decisions can be defended if they are challenged.

4.89 Officials identified risks and uncertainties with both investment programmes and informed Ministers of them. In particular:

- the risks associated with making quick decisions outside of the Budget process featured in the Treasury's advice to Ministers;
- advice to Ministers from Te Waihanga identified supply chain risks; and
- project-level risks featured in the briefings from officials seeking Ministers' agreement to release funding for SRP projects.

4.90 However, it is unclear how Ministers assessed, managed, mitigated, or considered risks in their final decisions.

Risks were highlighted at several points during the development of the New Zealand Upgrade Programme

4.91 The Treasury advised that there were risks to value for money if decisions about the capital package were made outside the rigour of the annual Budget process. Ministers chose to proceed before the Budget process.

4.92 In December 2019, the Ministry of Transport and the Treasury informed Ministers that 11 of 27 transport projects that were being considered for the NZUP either did not have a business case or had significant necessary work outstanding.

4.93 They also advised Ministers that "there is a real risk of cost overruns, both at a project and package level, as well as delays to projects". Sector capacity was limited, and many projects were in the early stages.

4.94 Despite this, Ministers chose to go ahead. Announcements about these projects were made on 29 January 2020.

4.95 In January 2020, the Ministry of Health and the Treasury jointly advised Ministers that many of the proposed health projects under consideration for the NZUP were not ready to be announced. Treasury officials said that, "due to the time and information available", they had "low confidence" that the proposed projects for investment would be able to be implemented quickly in line with Ministers' objectives.

4.96 About one week after the advice was provided, the Minister of Health and Associate Minister of Health publicly announced several health projects. Six of these (worth a total of $62.4 million) were projects that officials had advised were not ready to announce.

4.97 By February 2022, seven of eight of the mental health projects (worth a total of $101.9 million) that were approved as part of NZUP still had no estimated "go live" dates, and business cases for at least three of those projects were not expected to be approved until mid-2022. The Ministry of Health has subsequently told us that, as at October 2023, one mental health project (Whakatane) still does not have a business case approved.

4.98 Ministers told us that they expected that, where projects had funding approved but an adequate business case was not available, this would be remedied before funding could be drawn down. None of the public announcements we saw referred to these decisions being made subject to business cases being developed further.

4.99 In our view, although it is positive that Ministers recognised the need for more analysis before funding was drawn down, the decision to push forward with announcements likely created other risks.

4.100 Preparing a robust business case can identify changes to a project's scope, costs, benefits, risks, and timing. It is not clear whether or how Budget Ministers proposed to confirm that these projects were still high enough priority to justify investment when compared to other potential investments.

4.101 In our view, announcing projects that might then be significantly delayed or might not proceed risked undermining two key objectives of the NZUP: "to build clarity around the government's future capital pipeline" and provide economic stimulus.

Other risks to the integrity of decisions do not appear to have been specifically considered in the New Zealand Upgrade Programme

4.102 We expect that, at a minimum, agencies have organisational policies for routinely identifying and managing conflicts of interest.

4.103 We sought information from specific agencies about how they managed conflicts of interest in these processes. KiwiRail and Waka Kotahi confirmed that they had policies and processes. The Ministry of Education also said that the education component of the NZUP was subject to the Ministry of Education's established conflict of interest processes. The Ministry of Health indicated that district health boards would have had to manage conflicts of interest as part of project delivery.

4.104 As we discussed in paragraph 4.28, some NZUP projects had previously been considered as part of other investment processes. We expect the management of conflicts of interest to have been considered as part of those processes.

4.105 We did not examine the conflict of interest policies or processes of each agency involved or of other investment processes that projects might have been involved in before receiving funding from the NZUP. Therefore, we are not able to form a view about the quality of those processes or how much these were followed for the NZUP.

4.106 Cabinet guidelines at the time set out how Ministers should manage conflict of interests:

> *Ministers themselves are responsible for proactively identifying and reviewing possible conflicts of interest and ensuring that any conflicts of interest are addressed promptly.*

4.107 The guidelines establish that "[m]ost conflicts can be managed" using one or a combination of:

- a declaration of the interest;
- not receiving papers;
- transferring responsibility to another Minister; and
- transferring responsibility to the agency.

4.108 We did not seek information from the Cabinet Office or the Prime Minister about conflict of interest disclosures that Ministers might have made. We have no evidence to indicate that the processes described in paragraph 4.107 were not followed.

4.109 However, we did not see any reference to conflicts of interest in any of the documentation we were provided with. Further, when making significant funding decisions like these, it would be prudent for both officials and Ministers to make proactive declarations about actual and potential conflicts, even when none have been identified, and to record them in the documentation relating to investment decisions.

4.110 This would assist in making sure deliberate and appropriate consideration is given to these matters and would support the robustness and integrity of the decision-making process.

4.111 In June 2023, the Prime Minister announced several changes to the way that Ministerial conflicts of interest are managed, including that conflict disclosures will become a standing item at the start of each Cabinet or Cabinet Committee meeting. We support this.

4.112 We encourage the Government to consider the findings in this report as well as other work we have carried out about managing conflicts of interest.[21] We suggest that it consider whether further steps might be appropriate and whether any new requirements should be incorporated into the Cabinet Manual.

21 For example, *Getting it right: Supporting integrity in emergency procurement*, at oag.parliament.nz.

More attention was given to identifying risks to the Shovel-Ready Programme, particularly during the Infrastructure Reference Group process

4.113 On 17 March 2020, when Te Waihanga was asked for advice about potential responses to a decline in economic activity and, in particular, a slow-down in the construction sector, it warned of several constraints associated with infrastructure investments. These were:

- long lead-in times for complex projects, including design, consenting, approval, and procurement activities;
- the constrained nature of the domestic construction workforce and difficulty in training and upskilling large numbers of workers quickly;
- already apparent supply chain bottlenecks for internationally sourced materials (because of factory or port closures); and
- the future effect of Covid-19 on workforce availability, either directly or through mandated site closures.

4.114 Te Waihanga also warned that accelerated projects could lead to increased costs and related inefficiencies.

4.115 Crown Infrastructure Partners and the Infrastructure Reference Group also highlighted risks to Ministers. The Infrastructure Reference Group report provided to Ministers on 18 May set out the longlist of projects and included several pages of information on key risks for the Government to be aware of.

4.116 In our view, the risk information in the Infrastructure Reference Group report was comprehensive and of reasonable quality. Consideration was given to risks to central and local government, risks to the industry, risks arising from early announcements of government support, and the risk that the rating criteria and selection process could be criticised.

4.117 Specific risks identified included project cost increases and delays caused by reduced competition, skills shortage, productivity loss, price inflation, and contractor/supplier insolvencies. Mitigation options were provided for each identified risk.

4.118 Crown Infrastructure Partners told us that:

> *...the largest risk identified was cost overruns. The Grant Funding Agreements clearly set out that cost overruns were the responsibility of the project owner* ... [Regarding] *schedule: the funding agreements clearly set out all milestones and required the project owner to report against these milestones. If they were missed, Crown Infrastructure Partners had the right to suspend payment until this was remedied.*

4.119 To inform their final decisions, the Infrastructure Reference Group Ministers continued to receive advice about risks to individual projects in the later stages of the process. We discuss the quality of information to support decision-making further in Part 5.

Crown Infrastructure Partners took reasonable steps to manage conflicts of interest in its assessment

4.120 Crown Infrastructure Partners recognised the importance of having clear processes for conflicts of interest. Processes for the Infrastructure Reference Group's review team were well documented. The firms assessing project applications were also expected to identify conflicts of interest. Conflicts were expected to be recorded in a register.

4.121 Where conflicts were identified, this was expected to be managed by reallocating projects to a different team member or firm. We saw evidence that some project assessments were reallocated in response to declared conflicts.

4.122 SRP project applicants were asked about previous funding applications and any interactions that they had previously had with ministries and officials. As with the NZUP, Ministers were expected to follow Cabinet guidelines about conflicts of interest.

4.123 Concerns about a potential conflict of interest for a project that was considered as part of the SRP were raised with us in October 2022. We carried out an inquiry, and we published our response in May 2023.[22] We found that, although an actual conflict had not eventuated, a potential conflict had not been identified when investment decisions were being considered.

4.124 In our view, given the speed and volume of decisions Ministers were being asked to make, more thought could have been given to whether managing conflicts according to usual Cabinet Office guidance would be enough. As we discussed in paragraph 4.112, we encourage the Government to consider whether it could take additional steps to strengthen the management of Ministerial conflicts of interest more generally.

Key agencies were not sufficiently involved in the establishment of these processes

4.125 The Cabinet Manual sets an expectation that an initiating department or agency with policy responsibility and the portfolio Minister for significant proposals must ensure that all agencies affected by the proposal are consulted at the earliest possible stage. Consultation with agencies that have an advisory role is sometimes needed.

22 See "Letter in response to concerns about funding for the Port Nelson Slipway project" at oag.parliament.nz.

4.126 Therefore, we expected to see relevant agencies integrally involved in preparing these investment programmes, providing advice to Ministers on the design of the process, providing advice on the relative merits and effects of different proposals, and facilitating communications and engagement with key stakeholders.

4.127 In our view, the design of, and decisions made about, both programmes could have been improved if relevant agencies were given greater opportunity to work together to provide the right advice at the outset.

Agencies had limited involvement in developing the New Zealand Upgrade Programme

4.128 The Treasury had a central role in the early stages of determining that there would be a capital spending package that would ultimately become the NZUP. It provided initial advice on the case for, and amount of, a capital spending package and gave some initial advice on how the process for considering investments should be run.

4.129 Te Waihanga was set up in September 2019. Its statutory functions include advising the government on current and future infrastructure needs and priorities.

4.130 Te Waihanga told us that it first became aware of the NZUP from media announcements, although it had provided some advice to the Treasury about specific infrastructure projects in late 2019. At that stage, Te Waihanga was not aware that a wider programme of work or spending was being prepared.

4.131 We acknowledge that Te Waihanga had only just been set up when Ministers were considering the capital package. However, given that the NZUP was described as a "once-in-a-lifetime" investment in infrastructure, we expected Te Waihanga to have been involved more.

4.132 Most of the NZUP funding was allocated to transport projects. Waka Kotahi and KiwiRail had proposed possible projects directly to Ministers. The Ministry of Transport was not given an opportunity to advise on the approach to selecting projects. The Ministry of Transport told us that by the time it was asked for advice Ministers had already largely agreed to a list of projects costing an estimated $6.7 billion.

4.133 When the Ministry of Transport and the Treasury did brief the Ministers of Finance and Transport, officials felt that proposals would result "in a significant change to project scope, timing, costs and funding sources" for projects that were already part of the Auckland Transport Alignment Project.

4.134 Auckland Transport also told us it learned about the NZUP through the media.[23] It had not been formally advised of Cabinet's decisions. It had no knowledge of how the decisions to select projects were made, and it was not asked for business cases or information about the projects or what the impact might be if they were included in the NZUP.

4.135 Auckland Transport told us that it would have recommended prioritising different projects because, in its view, some that were selected were too complex to be progressed quickly or were of a low priority.

4.136 We were also told that subsequent changes to the Regional Land Transport Plan were needed and that this meant additional public consultation had to be carried out about the use of the regional fuel tax.

4.137 Ministers told us that they considered that local authorities had already been involved in identifying projects through regional transport plans that feed into the National Land Transport Programme.

4.138 Information about the process was limited to a small number of officials. Ministers told us that confidentiality was critical to ensure that financial information could be published in Budget documents – and Budget information is sensitive. However, we note that the Government made several pre-Budget announcements about the NZUP in January and February 2020 (see paragraphs 2.21-2.22).

In contrast, the Shovel-Ready Programme was a more open process

4.139 For the SRP, the decision to set up a fund and design an approach to allocating it happened even more quickly. Despite the country being in lockdown, a process was set up in little more than a few weeks.

4.140 The Treasury was not involved in developing the initial concept. Te Waihanga was asked for advice and provided an initial briefing to the Minister for Infrastructure on 17 March 2020. This advised that an infrastructure response should focus on less complex capital initiatives with a short lead time (such as maintenance acceleration for existing assets and road resurfacing) that could be brought to market relatively quickly.

4.141 The briefing noted that "large scale infrastructure projects are not effective mechanisms for economic stimulus due to the time needed for planning, design and procurement".

23 Auckland Transport is a council-controlled organisation of Auckland Council. It is responsible for designing, building, and maintaining Auckland's roads, ferry wharves, cycleways, and walkways; co-ordinating road safety and community transport initiatives; and planning and funding bus, train, and ferry services throughout Auckland.

4.142 Te Waihanga also suggested forming a Construction Intervention Taskforce throughout the government to support the preparation of an infrastructure-led stimulus package. It said that was because “no single Government agency may have the combination of resources and skills to deliver on the scale of response required to deliver confidence and certainty to the market at this time”.

4.143 The Minister for Infrastructure did not act on this advice from Te Waihanga. Instead, Ministers asked the chairperson of Crown Infrastructure Partners to set up and run an investment process.

4.144 However, one recommendation from Te Waihanga was reflected in the assessment criteria – that the programme should favour pre-approved, pre-assessed, and “shovel-ready” projects.

4.145 Our discussions with some stakeholders indicated that this presented challenges, particularly for local government. They felt that central government did not understand how existing funding arrangements and consultation requirements for the long-term planning process work,[24] specifically that projects of a certain size and outside of existing long-term plans would typically trigger community consultation requirements.[25]

24 We were also told that this is not an isolated issue and were referred to other similar funds (for example, the Strategic Tourism Assets Protection Programme).

25 See sections 82-97 of the Local Government Act 2002 for the consultation requirements.

5 Quality of information and due diligence

5.1 In this Part, we discuss the importance of good-quality information to inform investment decisions. We discuss how:

- information to support the NZUP was limited; and
- there was better information to support the SRP.

5.2 The Investment Management System aims to optimise value from new and existing investments and assets for current and future generations of New Zealanders. To achieve this, it is expected that agencies prepare all significant investment proposals in keeping with published guidance from the Treasury about business cases (the Better Business Case model).

5.3 Even for smaller scale or lower-risk projects, agencies will generally need to prepare at least a single-stage business case that encompasses all five aspects of the Better Business Case model.[26] Significant capital expenditure usually requires a two-stage approval process and both an indicative and detailed business case.

5.4 We accept that there will be trade-offs to these processes in circumstances where decisions need to be made quickly. In our view, it is important that those trade-offs are proportionate to the scale of the investment and the risks involved.

5.5 We expected that:

- decision-makers would have been given adequate information about proposed projects to make good investment decisions; and
- due diligence would have been carried out to a level that was reasonable and proportionate to the level of funding being allocated.

Summary of findings

5.6 For both programmes, it appears that Ministers relied on an assumption that most projects would be "investment ready" or "shovel ready". This means that business cases would have already been prepared and projects could be announced and started quickly.

5.7 We were told that for NZUP this was not the case. Where there were business cases, they were at varying stages of development and quality.

5.8 Consequently, the information that was available to Ministers to make investment decisions was limited.

26 The Better Business Case model includes consideration of five cases:
- Strategic Case – What is the compelling case for change? What are the benefits?
- Economic Case – What are the options? What is the best option for New Zealand?
- Commercial Case – Is the proposed procurement commercially viable? Can the market deliver?
- Financial Case – Is the investment proposal affordable? How will we fund it?
- Management Case – How will the project organise for successful delivery?

5.9 This was particularly so for NZUP investments. Ministers relied on many transport projects already being part of the National Land Transport Programme, which meant that they had already been prioritised but not yet funded.

5.10 In our view, the lack of good-quality information meant that the risks to delivery and value for money might not have been well understood when funding decisions were made.

5.11 This has already had consequences. In mid-2020, an officials' Oversight Group was set up to provide programme-level assurance and regular reporting to joint Ministers on the progress of transport projects within the NZUP. The Oversight Group identified significant risk and uncertain delivery.

5.12 This led to Cabinet approving additional Crown funding of $1.9 billion to fund agreed projects at their new cost estimates and provide contingency for transport projects within the NZUP.

5.13 Similarly, the speed of the process carried out to select projects for the SRP meant that much of the initial project information that applicants provided had to be taken at face value.

5.14 However, Crown Infrastructure Partners worked hard to test applications as best it could. It drew on advice from a range of government agencies as well as engineers and other experts from the private sector.

5.15 Engineers were asked for advice on project achievability, costs, and benefits. They were also asked for advice on regional capacity to support the work.

5.16 Even so, Crown Infrastructure Partners was not able to carry out formal value-for-money assessments of the projects given the available time frames. Instead, it weighed up the level of employment that was likely to be generated, any co-funding or other contributions by the project owner, and the likely public benefit of the programmes.

5.17 Delivery agencies were also involved in due diligence processes carried out as part of the SRP. Once Ministers had decided to support a project, delivery agencies collected additional due diligence information and carried out further analysis.

5.18 Crown Infrastructure Partners collated the information from delivery agencies and provided it to Ministers to seek their agreement to release funding. This additional process was an important risk management step. Delivery agencies could not spend any of their appropriated funds until Ministers had received advice and agreed to funding being drawn down.

Information to support New Zealand Upgrade Programme investment decisions was limited

5.19 To identify projects for inclusion in the NZUP, agencies were given high-level direction and were expected to quickly provide Ministers with lists of projects that could be announced.

5.20 The nature and intent of the NZUP suggests that the projects that agencies proposed needed to be "investment ready". This usually means that a business case has been prepared and appropriate due diligence completed. This ensures that, if selected, the project could be announced and started quickly. As we discussed in Part 4, this was not the case for some projects.

5.21 Agencies told us that they generally do not have unfunded projects that have reached the stage where an appropriate business case has been prepared.

5.22 For example, the Ministry of Health told us that it does not have investment-ready capital projects waiting to be approved and funded. It told us that this is largely because of the complexity and expense associated with planning health infrastructure investments.

5.23 Some agencies were better positioned to provide lists of potential projects within the required time frames. Waka Kotahi and KiwiRail were better positioned because existing planning and funding processes had already identified a pipeline of future high-value projects.

5.24 Waka Kotahi and KiwiRail also had experience with receiving Crown funding from a range of sources outside normal budget processes and the National Land Transport Fund. However, the extent and currency of the business cases for proposed projects were variable. Waka Kotahi told us that some of the information it relied on was up to 10 years out of date.

5.25 As we discussed in paragraph 4.143, a limited number of officials were involved in the decision-making that led to setting up the NZUP. It is not clear whether agencies were able to adequately identify interdependencies or other considerations, such as regional impacts or impacts for Māori, Pasifika, or other communities.

5.26 The lack of good-quality information to support initial investment decisions has meant that some risks about the NZUP that officials raised are now being realised.

5.27 An Oversight Group was established in mid-2020 to strengthen risk management and provide greater assurance for transport investments. Te Waihanga was involved in the group, along with the Ministry of Transport, the Treasury, and three independent sector experts.[27]

5.28 Ministers told us that the Oversight Group's purpose was to provide programme-level assurance and regular reporting to joint Ministers about the transport components of the NZUP Programme.

5.29 At the Oversight Group's initial meeting in August 2020, it assessed that there was significant risk and uncertainty throughout the transport component of the NZUP.

5.30 In April 2021, the Treasury and the Ministry of Transport highlighted a range of issues with the original decision-making process for the NZUP. They noted that "overall, confidence in the baseline information is much lower than would be expected from the Crown's normal capital management process" and that the NZUP "should include more of the Crown's usual steps for management of risk".

5.31 The Treasury and the Ministry of Transport also advised that "there are no projects where there is clarity on all of benefits, scope, costs and schedule information". All but one of the projects were assessed as having medium or high levels of risk and uncertainty.

5.32 Significant cost increases and uncertainties were identified through a "re-baselining" exercise on the transport projects that had been announced. Ministers were advised that, of the 26 transport projects in the NZUP that had been announced, 21 projects could not be delivered within the funding amounts that had been allocated. They were also advised that the original programme could not be delivered with the $6.8 billion of funding.

5.33 Some projects were rescoped, and cost estimates for others were revised. On 31 May 2021, Cabinet agreed to provide additional Crown funding of $1.926 billion to take forward a revised package of transport investments that "balances the delivery of the majority of projects in line with their original scope and manages the fiscal cost for taxpayers".

5.34 Cabinet also authorised joint Ministers to make further investment decisions on rescoped versions of three projects in the transport programme subject to "more satisfactory information regarding scope, cost and schedule" and "the completion of a satisfactory Detailed Business Case".[28]

5.35 These projects were the Whangārei to Port Marsden Highway Project, Mill Road, and State Highway 1 Papakura to Drury South Stage 2 transport projects. These projects had a combined funding allocation of $1.566 billion.

27 The Oversight Group's external members collectively brought significant engineering, construction, and infrastructure experience to the group.

28 The joint Ministers were the Minister of Finance and the Minister of Transport.

5.36 Waka Kotahi advised that detailed business cases for the Whangārei to Port Marsden Highway and various South Auckland projects have subsequently been completed and submitted to Ministers.

5.37 Cabinet approved the disestablishment of the Oversight Group in September 2021. We were told that this was because of concerns that the Oversight Group arrangements were complicated, duplicative, and inadvertently slowing down progress.

Much better information was provided for Shovel-Ready Programme projects

5.38 Applicants to the SRP were asked to provide a range of information in a project information form. Appendix 2 summarises the application requirements set out in the form.

5.39 The speed of the SRP process meant that much of the initial project information that applicants provided had to be taken at face value. However, Crown Infrastructure Partners worked hard to test applications as best it could.

5.40 For example, although time constraints meant that Crown Infrastructure Partners did not engage formally with experts in Māori economic development or with iwi and hapū in the relevant regions where projects were being considered, it sought advice from the Director of Te Ao Māori Strategy and Performance at the Treasury. Similarly, it asked Kānoa to provide a "regional" view on investments.

5.41 These might have been reasonable steps to take given the time constraints, but they had limitations.

5.42 Although Crown Infrastructure Partners contracted engineers and other experts from the private sector to support the rapid assessment of projects, some expert reviewers were assigned multiple projects to assess within a matter of days. Expert reviewers and officials worked hard to meet very tight deadlines. Despite these efforts, the speed of the process meant that, at times, it lacked depth.

5.43 Crown Infrastructure Partners also commissioned advice on the regional effects of the Covid-19 pandemic and on the capacity that different sectors and regions had to deliver projects. It provided this advice to Ministers to help inform subsequent decision-making about how projects should be distributed throughout the country.

5.44 For example, advice from Crown Infrastructure Partners noted that the Otago region would suffer the sharpest reduction in regional gross domestic profit because of the pandemic, with Queenstown being heavily affected.

5.45 Crown Infrastructure Partners prepared specific advice about the effects of the Covid-19 pandemic on Queenstown before the Infrastructure Reference Group longlist was completed. The first specific announcement of projects to be funded from the SRP was an announcement of two infrastructure projects in the Queenstown district on 26 June 2020.

5.46 Cabinet agreed to a shortlist of projects in June 2020 and authorised the Infrastructure Reference Group Ministers to make final decisions about projects. In July, Cabinet agreed that the delivery agency would need to seek final project approval from the Infrastructure Reference Group Ministers before it distributed funding to a project.

5.47 Delivery agencies were also to provide "appropriate assurances that the project can achieve the intended benefits, enabled jobs, scope and expedient delivery, and that the government funding is appropriate to enable the project and represents value for money to the Crown".[29]

5.48 The Treasury recommended this additional process, which was a key risk management step. Delivery agencies could not spend any of their appropriated funds without Ministers receiving advice and agreeing to draw down the funding. Advice from delivery agencies was developed and provided to Crown Infrastructure Partners, which co-ordinated briefings to Ministers.

5.49 Ministers were advised about the limitations of some of the due diligence work. For example, on value for money, approval briefings stated:

> [Crown Infrastructure Partners] *has not undertaken a formal value for money assessment of the projects given the available timeframes and the fact that the* [Infrastructure Reference Group] *is an economic stimulus programme.* [Crown Infrastructure Partners] *has assessed the amount of likely employment to be generated, any co-funding or other contributions by the project owner and the likely public benefit of the programme. These are key factors to be considered with respect to value for money, given the policy framework* [Infrastructure Reference Group] *was established under – with higher employment and/or public benefit projects representing the highest value for money under this approach. For private sector projects, where loans or equity are used, this improves overall value for money as the funds will likely at a future date be returned to the Crown.*

5.50 We saw evidence that some projects were discontinued. We were told in late November 2023 that five projects had been withdrawn after shortlisting and approval, and six projects were shortlisted but then not approved for funding. We understand that $8.35 million was spent on the withdrawn projects prior to their

29 Cabinet also agreed that for small low-risk projects the Infrastructure Reference Group Ministers could lower the requirements for due diligence and assurances, if appropriate.

withdrawal. However, Crown Infrastructure Partners told us that some of this funding has already been recovered, and more might yet be recovered.

5.51 Although the decisions to stop projects might have been sensible, they took place after the decisions to fund those projects had already been announced (albeit subject to some subsequent checks).

5.52 Stopping or descoping projects after investment decisions have been announced or when funds have already been spent is potentially a waste of public resources. Making decisions to stop or reduce a project's scope is also more difficult to do when public expectations have already been set by announcing investment in a project.

6

Transparency and accountability

6.1 In this Part, we discuss the importance of transparency and accountability to build public confidence in the quality of investment decisions. We discuss how:

- decisions were not always well documented; and
- improved reporting on progress and performance is needed.

6.2 The Cabinet Manual requires that Ministers create full and accurate records of their Ministerial affairs in accordance with normal prudent business practice.[30] In our view, good record-keeping of the reasons for decisions and the processes that were followed is especially important when extraordinary steps need to be taken, quick action is needed, or the action is contrary to official advice provided to decision-makers.

6.3 For the SRP, the Government was making choices about funding projects from both public organisations and private organisations. This increases the risks that decisions could be challenged. In this context, it is important that there are clear records of how decisions were made so those decisions can be defended.

6.4 Clear and publicly available information about the progress of projects is also essential for Parliament and the public to be able to hold the government to account for getting the best value from those investments.

6.5 At the time of the decision-making discussed in this report, the Investment Management System required agencies to report back to Cabinet on the benefits achieved from any Cabinet-approved investment. It also required that agencies provide information to the Treasury at agreed intervals.

6.6 The Treasury was required to periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration.

6.7 We appreciate that the decision-making processes that are the focus of this report were developed quickly in the extraordinary circumstances of a pandemic. Nevertheless, given the scale of the investments, we expected that:

- full and accurate records of decision-making processes would be maintained to ensure transparency about how and why those decisions were made; and
- the approach to monitoring, reporting, and evaluation would be proportionate to the scale of investment, and considered during the decision-making process.

Summary of findings

6.8 In our view, Ministers were not provided with enough information to be confident that the projects selected for the NZUP would meet the overall investment objectives or provide value for money. We did not see evidence that value for money was substantively considered when these funding decisions were made.

30 See Department of the Prime Minister and Cabinet (2023), *Cabinet Manual 2023*, paragraph 8.108, at dpmc.govt.nz.

6.9 Although much of the process for the SRP was clearer, there were still gaps. After the Infrastructure Reference Group longlist was given to Ministers, project shortlists were developed and frequently amended. From the documentation we were provided with, it is difficult to trace each of these amendments to determine the basis for those decisions.

6.10 In our view, this is not acceptable for the scale of funding that was distributed through these two programmes, regardless of the circumstances the decisions were made in.

6.11 For the NZUP, some information on the progress of the funded transport projects has been publicly reported. However, there does not appear to be a complete list of projects.

6.12 Even where information is available, it is sometimes difficult to reconcile that information with the Government's original announcements. It is also not clear to us how the government intends to determine whether the overall objectives of the programme have been met or how effective they have been in improving the overall state of New Zealand's infrastructure.

6.13 Crown Infrastructure Partners co-ordinates the SRP reporting, bringing together a significant amount of information from a range of delivery agencies. The reporting has improved over time and, in our view, largely meets the reporting expectations that Ministers set.

Decisions were not well documented

6.14 Despite the lack of a clearly documented process, we were able to piece together the events that led to the decisions about the NZUP. However, there is no complete record of how or why Ministers determined the allocation of funding into sector categories or how agencies prioritised the investment options that they presented to Ministers.

6.15 In our view, Ministers were not provided with enough information to be confident that the projects selected for the NZUP would meet their overall investment objectives or provide value for money. We did not see evidence that value for money was substantively considered when these funding decisions were made.

6.16 Ministers told us that they treated decisions about the final details of the funding package as a "Budget-like process" and that discussions at Cabinet meetings are confidential. We accept that this is the case while deliberations are in progress. However, in our view, once decisions are made and announced, Ministers must be prepared to explain their rationale and justify those decisions to the public.

6.17 To ensure transparency, the method for deciding the amount of funding awarded and the reasons for awarding or not awarding the funding should be clearly explained and well documented.

6.18 Although much of the process for the SRP was clearer, there were still gaps. From the documentation we were provided with, it is difficult to determine the basis for some decisions that were made after the Infrastructure Reference Group longlist was given to Ministers and projects were added to, and removed from, the initial approved list.

6.19 A full record of why Ministers approved certain projects, or how specific investment criteria for each project were met, is not available for either programme. In our view, this is not acceptable for the scale of funding that was distributed through these two programmes, regardless of the circumstances that decisions were made in.

Improved reporting on progress and performance is needed

6.20 We expected that a proportionate approach to monitoring, reporting, and evaluation would be considered during the decision-making process and established early. As we have commented on previous occasions, it is too often left for Parliament and the public to try to piece together information to determine what has been spent and what has been achieved with that spending.

6.21 Although some information on the progress of the funded transport NZUP projects was publicly reported, we could not identify a complete list of projects that is publicly available.

6.22 In our view, when investments are packaged together as a programme or portfolio designed to meet specific objectives, the whole programme or portfolio needs to be monitored and reported against. This supports transparency and accountability to the public for the progress and outcomes of the investments.

6.23 Agencies hold information about their sectors in different forms, and some publish this information on their websites. For example, the Ministry of Education published a list of schools and the funding they received from the NZUP. Waka Kotahi reports publicly about a range of transport initiatives, and the Energy Efficiency and Conservation Authority publishes a list of all projects that have been funded through the State Sector Decarbonisation Fund.

6.24 We were not able to find any publicly available information about the package of initiatives for the health sector funded through the NZUP. The Ministry of Health was able to provide us with some internal reporting that indicates that further investments were made on top of those announced in January 2020. We were not able to find a record of those investments being publicly announced.

6.25 We were not able to find any publicly available reporting or list of projects that were funded from the regional economic development allocation of the NZUP, aside from the announcements made in early 2020.

6.26 Additionally, it is sometimes difficult to reconcile publicly available information with the original announcements made by the Government. As projects have progressed, they have sometimes changed in scope or have been packaged in different ways.

6.27 For example, about half of all the health projects were announced in January 2020. That announcement indicated that a further set of announcements would be made. We have not been able to find out whether these projects were ever publicly announced.

6.28 The Ministry of Health confirmed that, after the initial announcement, ad hoc public announcements occurred for some investments when business cases were approved or at other key delivery points. The Ministry also told us that Ministers received regular reporting on the projects' performance. However, there is no public reporting on the health package.

6.29 We have highlighted similar issues previously. In our 2020 report *Managing the Provincial Growth Fund*, we recommended that MBIE, the Ministry for Primary Industries, and the Ministry of Transport work together to continue to enhance consolidated reporting and more meaningfully report to Parliament and the public on the Provincial Growth Fund as a whole.[31]

6.30 We have seen some improvements. For example, the Treasury has put in place ways to track expenditure and initiatives funded through the Covid-19 Response and Recovery Fund and after the recent severe weather events in the North Island.

6.31 We note that, in late 2021, the Implementation Unit, which is part of the Department of the Prime Minister and Cabinet, carried out reviews of the progress of the transport projects within the NZUP (referred to as a New Zealand Upgrade Programme Transport Assessment) and projects within the SRP (referred to as an Infrastructure Reference Group Programme Status Update). The Department of the Prime Minister and Cabinet has since reported on these reviews publicly.[32]

6.32 The Implementation Unit's work also considered opportunities to strengthen programme reporting for transport projects in the NZUP. It noted that agencies had agreed to provide additional information in their reports about "impact and materiality of issues and risk at a project level and cumulatively across the Programme". Although the Implementation Unit's work is not regular reporting, it

31 Controller and Auditor-General (2020), *Managing the Provincial Growth Fund*, at oag.parliament.nz.

32 Department of the Prime Minister and Cabinet (2022), *Proactive release: Progress report on Implementation Unit assignments*, at dpmc.govt.nz.

is encouraging that steps are being taken to strengthen programme monitoring and oversight.

6.33 Nonetheless, it is not clear to us how the government intends to determine whether the overall objectives of the NZUP have been met or how effective these investments have been in improving the overall state of New Zealand's infrastructure.

6.34 Under Cabinet Office Circular (19) 6, the Treasury was required to periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration.[33]

6.35 Those reports were required to cover:

- the status of current significant investment intentions;
- an evaluation of actual benefits achieved compared with those expected from investments; and
- the lessons learned from investment management practice.

6.36 Our understanding is that, when we published this report, the Treasury had provided its most recent report to the Minister of Finance on 5 September 2023.

6.37 Cabinet Office Circular (19) 6 was recently updated and replaced with Cabinet Office Circular (23) 9. The requirements set out above are no longer included. The replacement circular acknowledges the need for "high quality information about investments across the investment lifecycle". The circular also requires agencies to "report to the Treasury regularly on their investments across the investment lifecycle as required from time to time by the Treasury".

6.38 The Treasury told us that it provides quarterly reports on medium- and high-risk investments to the Minister of Finance. The Treasury also indicated that, from November 2023, these reports will be made available to Cabinet and subsequently published on the Treasury's website.

6.39 The Treasury told us that, on balance, it sees limited value in setting up bespoke reporting on the NZUP as reporting on those projects should be reflected in the quarterly reporting described above and that the Treasury is reviewing the extent to which the NZUP is reflected in this reporting to ensure visibility of the programme. In our view, given the scale and importance of the programme, it is essential that Parliament and the public can access information that allows them to understand the progress and performance of the programme as a whole.

33 Department of the Prime Minister and Cabinet (2019), *Cabinet Office Circular CO (19) 6: Investment management and asset performance in the state services*, at dpmc.govt.nz.

6.40 Although this is a positive development, we consider that, when governments announce significant investments as a programme, reporting on those investments should also be made available at the whole-of programme level. This is important to ensure accountability for delivering outcomes from spending public money, and it is a concern that we have raised on many occasions.

6.41 We strongly encourage the Government to continue to closely monitor the implementation and benefits of projects in the NZUP and publicly report on progress.

Recommendation 1

We recommend that the Treasury establish regular public reporting on the progress of the full New Zealand Upgrade Programme and periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration.

6.42 For the SRP, Cabinet set expectations in June 2020 that monitoring and reporting arrangements would be put in place. Crown Infrastructure Partners was allocated the task of co-ordinating and producing fortnightly and monthly reports to Ministers.

6.43 The Treasury and Crown Infrastructure Partners worked together to set up monitoring and reporting quite early in the process and have improved this over time. Crown Infrastructure Partners told us that it also used the recommendations we made about the Provincial Growth Fund to inform what was in the briefings.

6.44 Crown Infrastructure Partners brings together a significant amount of information from a range of agencies to produce the SRP reporting. The Treasury comments on the SRP reports. It helps identify data errors, ensures better visibility of the contingency funding's status, and reinforces the importance of ensuring accurate baseline data (in line with previous recommendations we made about the Provincial Growth Fund).

6.45 Once SRP projects had been announced, Crown Infrastructure Partners included them in a regularly updated list on its website. These lists of government-announced projects included the project name, owner, sector, region, total value, and funded amount.

6.46 These lists remained the primary source of public information on the individual SRP projects, other than press releases from Minister's offices, until the first regular Infrastructure Reference Group Quarterly Update Report was published in May 2021. We have reproduced summary information from the most recent of these quarterly reports in Appendix 3.

6.47 SRP reporting has improved over time and, in our view, largely meets the reporting expectations Ministers set. These expectations were that:

- Crown Infrastructure Partners would co-ordinate and provide fortnightly progress reports to the Infrastructure Reference Group Ministers and the Treasury, with information on how the suite of infrastructure investments was performing as a whole;
- during the contracting phase, each delivery agency would provide fortnightly data to Crown Infrastructure Partners for every project approved by the Infrastructure Reference Group Ministers; and
- once contracting was complete, reporting would be monthly.

6.48 The SRP reports could provide better information about changes in the number of full-time equivalent jobs supported by individual projects over time.

6.49 It is important that the Government be transparent with Parliament and the public about what it plans to achieve and how it is performing against those plans, including when there are changes to those plans.

6.50 Crown Infrastructure Partners told us that, beginning with its September 2023 quarterly report, it would include the following additional information for completed projects in the reports:

- full-time equivalent jobs supported against the target (the original target recorded in Ministerial reports) for completed projects; and
- changes to scope or benefits (although Crown Infrastructure Partners told us that these have been minimal).

6.51 In our view, portfolio-level reporting is an important aspect of supporting public accountability for investment decisions and programme delivery. Effective accountability means that New Zealanders can see what governments are seeking to achieve, what is being spent, and what progress is being made.

7 Guidance on expedited decision-making

7.1 In this Part, we discuss:

- the Treasury's guidance on expedited decision-making; and
- our observations about that guidance.

7.2 When significant investment decisions need to be made quickly, it is important to have a clear and well thought-through process for making those decisions. The quality of information to inform these processes must be balanced against the need to act quickly.

7.3 Treasury officials told us that the Investment Management System provides enough flexibility to support rapid decision-making processes if there has been good business planning.

7.4 We are encouraged that the Treasury published guidance on its website about expediting investment decisions in November 2021.[34] The guidance recognises that there are situations where investment decisions need to be made rapidly for reasons outside of a public organisation's control.

7.5 This guidance was not available to Ministers or agencies when the initial investment decisions about the NZUP and the SRP were made, but we have considered it as we prepared this report.

The Treasury's guidance on expedited decision-making

7.6 The Treasury's guidance recognises the specific risks associated with using an expedited investment approach that need to be identified and managed. These risks include:

- "optimism bias about cost, time and benefits (due to a lack of detailed understanding)";
- "missed opportunities to integrate with other initiatives (due to an urgency-induced narrowing of focus)"; and
- "unforeseen 'downstream' effects leading to additional costs and erosion of benefits".

7.7 The Treasury's guidance also identifies some principles for using an expedited approach that align with many of our own expectations. These principles include:

- consulting early with stakeholders and government partners;
- ensuring that the preferred option is fully justified; and
- providing transparent advice about the risks involved in, and potential implications of, making fast decisions to Cabinet, explaining how much (or little) these risks can be mitigated and how agencies intend to do so.

34 See "Expediting investment decisions" at www.treasury.govt.nz.

7.8 Central to the Treasury's guidance is the idea that good planning remains critical. The guidance emphasises how the Better Business Case model can assist in considering strategic, economic, commercial, financial, and management perspectives. The Treasury also encourages early risk assessments and investment logic mapping to assist with clearly defining the problem and identifying options and benefits.

Our observations

7.9 The findings of our audit highlight some of the risks that the Treasury identified. The absence of good-quality information (business cases or otherwise) when the initial NZUP decisions were made was a key factor in Cabinet needing to approve additional Crown funding to address cost pressures and provide contingency funding for transport projects within the NZUP.

7.10 Similarly, the limited information available to support decision-making in the SRP process has contributed to longer lead-in times for some projects as officials have worked to carry out additional due diligence.

7.11 Crown Infrastructure Partners is reporting good progress on SRP projects as at 31 August 2023. However, two projects are yet to begin construction more than three years after applications closed.

7.12 Although actual project delivery is outside the scope of our audit, Crown Infrastructure Partners told us that 91% of SRP projects began within 12 months of receiving funding but that the median project duration has increased by eight months from the original completion dates.

7.13 The Treasury's guidance on expediting decision-making is a useful addition to the existing Investment Management System material and aligns with many of our own observations. The Investment Management System provides a comprehensive set of requirements that agencies must navigate. However, that set of requirements is becoming increasingly complex.

7.14 For example, it is not always clear through the Investment Management System:

- how different requirements interact – for example, whether requirements are deemed to have been met if an investment decision is made and announced as part of the government's annual Budget process; and
- the extent that investment criteria are needed to assist agencies and Ministers in choosing between investment options when those decisions are made outside the annual Budget process.

7.15 Additionally, we consider the guidance could further emphasise the importance of keeping good records of:

- the steps agencies have and have not followed to develop investment options;
- how agencies have prioritised which options are presented (if not all options are presented to Ministers); and
- if early engagement and consultation with stakeholders is not possible, what steps have been taken to identify and manage the additional risks this might create.

Recommendation 2

We recommend that the Treasury seek feedback from relevant agencies on how useful they find the Treasury's guidance on expediting decision-making and review that guidance regularly to ensure that it remains fit for purpose.

7.16 Currently, the Investment Management System focuses on supporting agencies to plan and manage investments in the form of individual projects and programmes. There is an opportunity for the Treasury to consider whether there is a need for the Investment Management System to consider minimum requirements for setting up and running contestable funding processes such as the SRP.

7.17 The Treasury told us that the minimum requirements of the Investment Management System are flexible enough to accommodate the context of any contestable fund. However, work we have done in recent years on the Provincial Growth Fund, Strategic Tourism Assets Protection Programme, and now the SRP suggests that there might be some benefit in more guidance for agencies asked to carry out these processes by Ministers.

Recommendation 3

We recommend that the Treasury consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

7.18 The former Minister of Finance noted that our recommendations in this report align with work that the Government began before the 2023 general election.

Appendix 1
Guidance for making decisions about infrastructure investments

This appendix outlines the requirements of the Investment Management System and other guidance relevant to how the government approaches significant investment decisions.

These requirements and guidance have informed our expectations of good decision-making processes. We reached the views we present in this report by comparing the evidence we collected through our audit with these expectations.

While our performance audit was in progress, the Treasury updated its advice on expediting investment decisions for officials and public organisations. The updated information on its website now includes guidance for officials on how to prepare for:

> *...occasions when decisions need to be made rapidly for reasons outside agency control – for example in order to keep attractive options open, or because Cabinet is directing officials to expedite decisions.*

In Part 7, we discussed this updated guidance and commented about elements of decision-making processes that should be present even when rapid decisions are needed.

The Investment Management System's requirements

Government investment decision-making is meant to be guided by the requirements of the Investment Management System.

The Investment Management System is a Cabinet-mandated system that aims to optimise value from new and existing investments and assets. The Investment Management System is a mix of policy, process, rules, requirements, and expectations that are described in various documents (including the Cabinet Manual and Cabinet circulars) and summarised on the Treasury's website.

Policy and rules

When the NZUP and SRP investment decisions were made, the Cabinet Office Circular *Investment management and asset performance in the state services* set out Cabinet's expectations of how government departments, Crown entities, and certain Crown-owned companies manage investments.[35]

35 The Treasury (2019), *Cabinet Office Circular CO (19) 6: Investment management and asset performance in the state services*, at treasury.govt.nz.

The aspects that were particularly relevant to decision-making in the NZUP and SRP included that:

- government agencies must adopt and apply the Treasury's guidance – in particular, they must use business cases for all significant investment proposals, and high-risk investments are also subject to Gateway reviews (a Cabinet expectation);[36]
- decision-makers, before committing to further continuing an investment, need to consider:
  – the capability and capacity of agencies or markets to successfully deliver the investment;
  – opportunities to scale, phase, or consolidate investments;
  – alternative ways of financing and funding investments; and
  – the impact of such actions on the expected value of the investment (a Cabinet expectation);
- Ministers and chief executives will support each other to consider the broader implications of agency investments on other parts of the state sector (a Cabinet expectation); and
- the Treasury will periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration. The report will cover:
  – the status of current significant investment intentions;
  – an evaluation of actual benefits achieved compared with those expected from investments; and
  – the lessons learned from investment management practice (Cabinet circular expectation).

The Treasury told us that it is now making changes to the business case, reporting, and assurance requirements in the Investment Management System to reflect the requirements of Cabinet Office Circular CO (23) 9. This is an updated version of Cabinet Office Circular CO (19) 6, which applied at the time of the decision-making.

At the time, the Investment Management System was structured around four key phases of the investment life cycle: thinking, planning, doing, and reviewing. The thinking and planning phases are most relevant for this performance audit because they relate to how investment decisions are made.

The thinking phase was about understanding the factors influencing decision-making, identifying important assumptions, and exploring investment options and possibilities.

36 Gateway is an assurance methodology for major investments that the United Kingdom's Office of Government Commerce developed in 2001.

The planning phase was about further developing investment proposals, assessing these, and prioritising investments according to the value of the proposals – or, as the Treasury's guidance states, "translating the think to the do". A deeper examination of options through business case guidance and the government Budget process was expected during this phase.

Roles and responsibilities

Consistent with this policy and rules, individuals and organisations have specific roles and responsibilities in the Investment Management System. The following summarises the roles and responsibilities most relevant to this performance audit:

- Cabinet has investment decision-making rights on all investment proposals where the investment needs new Crown funding or support. Cabinet must also be given the opportunity to consider investment proposals that have significant fiscal and policy implications that can affect the government's reputation in the marketplace.
- Ministers help create the conditions for effective investment management by setting, and where necessary reconciling, government priorities; supporting chief executives to show system leadership, take a system-wide view, and respect the Investment Management System's objectives, processes, and authorities; challenging prevailing thinking about problems and solutions; and reinforcing expectations of state sector leaders to carry out collaborative investments and work together to support priority agency and cross-agency initiatives to succeed.
- The Treasury is the Government's primary economic and financial advisor. It oversees the Investment Management System and is responsible for establishing and maintaining the Investment Management System's integrity. It has a range of responsibilities and actions, including providing guidance material. The Treasury performs its role in consultation with relevant agencies, as appropriate.
- Department chief executives must ensure that agencies adopt and apply, as good management practice, the Treasury's guidance on the Investment Management System. They can also help create the conditions for effective investment by supporting Ministers to take a system-wide view.
- Boards of Crown entities and companies should adopt and apply, as good management practice, the Treasury's guidance on the Investment Management System.
- The New Zealand Infrastructure Commission, Te Waihanga, has a role to lift the quality of infrastructure strategy, planning, procurement, and decision-making. It provides advice on infrastructure strategy and planning to the government, and to agencies and local authorities responsible for planning, procuring,

and delivering major infrastructure projects (and any innovative and non-traditional approaches to procurement, alternative financing arrangements, or public private partnerships).

Other relevant government requirements

The Cabinet Manual

The Cabinet Manual is the authoritative guide to central government decision-making for Ministers, their offices, and those working in the public service.[37]

Cabinet consultation

Sections 5.11-5.38 of the Cabinet Manual set out the principles of Cabinet decision-making, the types of matters that Ministers must submit to Cabinet for consideration, and how policy proposals should be developed.

Section 5.12(c) provides that proposals that affect the government's financial position or important financial commitments, including proposals seeking additional financial resources, must be submitted to Cabinet (through the appropriate committee).

Record-keeping

Sections 8.104-8.124 of the Cabinet Manual set out how Ministers should manage public records. Ministers are required to create full and accurate records of their Ministerial affairs, in accordance with normal prudent business practice.[38]

Systems must be put in place to ensure that all information that a Minister creates or receives in their official capacity is treated as a public record according to the requirements of the Public Records Act 2005. This means that records are organised and maintained in a way that allows them to be accessed for as long as they are needed and that they are disposed of in a way authorised by the Chief Archivist.

Free and frank advice

The Investment Management System is underpinned by "free and frank" advice. Sections 3.10-3.11, 3.69, and 3.78-3.80 of the Cabinet Manual discuss the provision of free and frank advice from officials. The provision of free and frank advice allows Ministers to make decisions based on the best available evidence and an appreciation of the expected major benefits, costs, risks, and issues.

Ministers have a duty to give fair consideration and due weight to free and frank advice provided by the public service. In the end, it is Ministers who decide on

37 See the Department of the Prime Minister and Cabinet (2023), *Cabinet Manual 2023*, at dpmc.govt.nz.

38 See paragraph 8.108 of the *Cabinet Manual*, at dpmc.govt.nz.

policy, and, once a decision is made, the public service should implement that decision as effectively as possible.

Conflicts of interest

When making and implementing investment decisions, Ministers and officials are expected to identify and manage any conflicts of interest. This is because the public needs to be able to be confident that the people making decisions and spending public funds on their behalf are doing so in the public interest, not to benefit their family, friends, business associates, or themselves.

Chapter 2 of the Cabinet Manual outlines the requirement for Ministers to identify and manage conflicts of interest. The requirement for officials to identify and manage their conflicts of interest is outlined in various legal and policy documents. Various guidance is available on how officials might do that, including *Managing conflicts of interest: A guide for the public sector* at oag.parliament.nz.

The Government's Investment Strategy

The Government's Investment Strategy informed the key *Cabinet Office Circular CO (19) 6: Investment management and assets performance in the state services*. The Investment Strategy:

> ... *outlines the expectations that Cabinet has for the State Sector to manage the Crown's portfolio of assets. It contains 11 principles that are to be used by decision makers and those managing the Government's significant assets across Government. It guides the selection, decision-making, and management of the Government's investment portfolio. The intent is to direct government resources to where they create the most value.*

Ministers are expected to use this strategy to guide their approach to selecting, making decisions about, and managing the government's investment portfolio.

Similarly, chief executives, boards, investment decision-makers, and asset managers are also expected to use the strategy in the same way as Ministers, albeit for their agencies' investment portfolio.

Appendix 2
Application requirements for the Shovel-Ready Programme

Information sought from project applicants for the Shovel-Ready Programme included:

- a project description;
- costs, including a high-level breakdown of spending types;
- the value the project would deliver in terms of employment contribution;
- how the project was to be funded;
- whether the project had previously applied for funding from any part of the government;
- the project's construction readiness;
- a timetable and key milestones;
- social, economic, and/or environmental benefits to the local region and New Zealand, and overall value for money;
- the expected contribution to local/national employment;
- project risks, including a low/med/high rating;
- the likelihood and timing of the project to go ahead once the Covid-19 Response Level was suitable for construction to begin;
- best estimate of the (financial/social/environmental) impact that the Covid-19 pandemic would have on the project and on local industry associated with the project;
- whether the project had already benefited from, or was likely to benefit from, already announced government-led financial support for businesses (such as the wage subsidy scheme/business finance guarantee scheme); and
- the top two to three things that the Government could do to help progress the project, including consideration of both financial and non-financial levers, such as lowering regulatory barriers, adjusting government procurement practices, or fast-tracking resource consent processes.

Appendix 3
Summary of shovel-ready progress report, 30 September 2023

Projects			
222 approved	**222** Government funding agreement	**220** commenced construction	**112** completed

Funding			
$1.84 billion Government spend 66% of projected	**$1.50 billion** co-funded spend 69% of projected	**$3.35 billion** total spend 67% of projected	**$3.40 billion** procurement committed 69% of total value

Workers (full-time equivalent)			
Progress to projected 9463	**Projected** 13,073	**Progress to projected achieved** 72.4%	**On-site FTE end of quarter** 2611

Sectors total funded				
Transport 36 projects $887.8 million	**Housing** 22 projects $369.0 million	**Community** 82 projects $1,374.9 million	**Services** 18 projects $334.3 million	**Environment** 64 projects $379.2 million

Source: *Quarterly Infrastructure Reference Group Update, Q3: To 30 September 2023*, on the Crown Infrastructure Partners website (crowninfrastructure.govt.nz).

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