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Infrastructure New Zealand’s Submission to the Finance and Expenditure Committee – Report of the Controller and Auditor-General, Making infrastructure investment decisions quickly

1. About Infrastructure New Zealand

- 1.1 Infrastructure New Zealand (INZ) welcomes this opportunity to submit to the Finance and Expenditure Committee on the report of the Controller and Auditor-General, Making infrastructure investment decisions quickly.
- 1.2 INZ is New Zealand’s membership organisation for the infrastructure sector. We promote best practice in national infrastructure development through research, advocacy, and public and private sector collaboration. Our members come from diverse sectors across New Zealand and include infrastructure service providers, investors, operators, and owners.
- 1.3 This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations. We have also encouraged our members to make their own submissions raising those issues specific to their areas of interest or expertise.

- 1.4 INZ requests the opportunity to appear before the Select Committee in due course to present our submission.

2. General Remarks

- 2.1 It is important to note the context that the Shovel Ready Projects and New Zealand Upgrade Programme funds: 'these investments were in response to significant economic uncertainty'. In early 2020 the Covid-19 pandemic emerged, and the Government anticipated significant negative economic impacts and looked to soften the impact.
- 2.2 This is particularly the case for the infrastructure sector. In April 2020, INZ wrote to the then Minister of Infrastructure, Shane Jones, and noted that COVID-19 would have a severe impact on the New Zealand economy and wider wellbeing, and that infrastructure investment and construction would play a major role in the economic recovery programme. This sentiment was shared across the sector and our members at the time.
- 2.3 The Government pulled many levers to respond, including a significant fiscal stimulus package that included the Shovel Ready Projects and the New Zealand Upgrade Programme (NZUP). These were set up at pace to provide the sector with certainty and provided a confidence signal to the sector.
- 2.4 Many infrastructure projects that were in the early stages of development were able to get underway with this funding. Some of the completed projects through Shovel Ready include:
 - 2.4.1 Ruakura Superhub - \$40m (expanded below)
 - 2.4.2 Northcote Development Stormwater Trunk Provision - \$13m
 - 2.4.3 Puhinui Interchange (Bus-Rail) – \$22m
 - 2.4.4 Invercargill Inner City Redevelopment - \$10m
 - 2.4.5 Queenstown Town Centre Street Upgrade - \$35m
- 2.5 In total, \$1.049 billion worth of government funding has resulted in the completion of 122 projects through Shovel Ready.

Case study: Ruakura Superhub

The Ruakura Superhub project is an inland port along with an industrial precinct in Hamilton.

Government invested \$56.8 million in public infrastructure at Ruakura through the Provincial Growth Fund and Infrastructure Reference Group Programmes, together with Tainui Group Holdings and Hamilton City Council.

The Ruakura precinct is estimated to accommodate 6000-12,000 jobs once it is fully developed and will have significant social and economic benefits for Waikato iwi, Hamilton, the region and New Zealand as a whole.

Hamilton Mayor Paula Southgate said at the time, that the Ruakura Superhub is fundamental to Hamilton and the wider region's economic growth, and that government funding effectively press the go button on the development after years of extensive planning.

2.6 While we have seen success stories of the projects that received funding, we do note that many lessons can be learned, including the need to:

- 2.6.1 be clear about outcomes being sought from investment
- 2.6.2 have clear project scoping and due diligence, and
- 2.6.3 have greater transparency about how projects are tracking

2.7 We discuss these points further below in response to your specific questions.

3. Specific comments and feedback

3.1 You have asked for specific comment on:

- 3.1.1 the three recommendations the Controller and Auditor-General has made in his report
- 3.1.2 how the process for government infrastructure investment could be improved
- 3.1.3 how public reporting on government infrastructure investment could be improved
- 3.1.4 how the Investment Management System could be improved.

Respond to the three recommendations

Recommendation 1: Establish regular public reporting on the progress of the full New Zealand Upgrade Programme

3.2 The report recommends 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. Part of this is about ensuring Parliament and the public can form a view on whether investments are delivering value, so that the government can be held accountable for the decisions it makes.

- 3.3 INZ agrees that there needs to be a way for parliament and the public to understand whether investments are delivering value for major investments. We agree that one way to do this is to ensure regular and standardised reporting mechanisms so that Ministers, parliament and the public can understand how projects are tracking.
- 3.4 We note the comment in the report that, *'we could not identify a complete list of projects that is publicly available'*. We agree and note that many of the projects funded through these large cross-sector funds were reported on individual agency websites, in line with their responsibilities. This has made it difficult to get a full sense of the funding, and the projects supported.
- 3.5 A single repository of information would be useful and an agency like the Infrastructure Commission or Treasury would be ideally placed to hold a repository of this information. Central coordination will help ensure that information is made available in an easy and accessible way for accessing delivery updates.
- 3.6 We also agree with the comment that, *'it is sometimes difficult to reconcile publicly available information with the original announcements made by the Government'*. Many of the earlier announcements do not reflect where the projects ended up, and how their scope or packaging had changed.
- 3.7 However, any reporting needs to be done in a way that doesn't create cumbersome processes that slow down or overly burden projects. There needs to have a clear objective and approach on the reporting requirements needed from the outset, so that projects and programmes can plan and know what is expected of them. This reporting should be a subset of already existing reporting requirements for agencies and Cabinet.
- 3.8 Further, reporting requirements need to be proportional to the size and risk of projects. For example, the reporting requirements for high-risk and/or high-value projects should look different from a smaller and lower risk project – even if they are from the same fund.
- 3.9 And finally, there is a need to be clear on the objectives of these funds, and what the projects and programmes are setting out to achieve. Wherever possible, outcome statements need to include measures for the benefits set out to be achieved. This is the only way to understand whether investments are delivering value and ensuring that reporting is useful.
- 3.10 As noted in the report, *'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.'* Being clear on what the intent of the funding is, and how this project contributes to that is essentially for then setting up a reporting regime.

Recommendation 2: Feedback should be sought on how useful they find the Treasury’s guidance on expediting decision-making.

3.11 The report recommended 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.

We have not commented on this guidance.

Recommendation 3: Minimum requirements and guidance for setting up and running contestable funding processes.

3.12 The report recommends that the Treasury consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

3.13 INZ agrees with the problem that this recommendation is trying to address. INZ has long noted the issue with a number of contestable funds being established. As noted in our Position Paper on [Simplifying Capital Funds](#), over the last decade central government has invested over \$32 billion in the direct provision of infrastructure through around 17 different infrastructure-related capital funds. Some of the largest funds have included the \$1b Housing Infrastructure Fund, the \$3b Provincial Growth Fund, the \$14b New Zealand Upgrade Programme, the \$3b COVID-19 Response and Recovery Fund, the \$3.8b Housing Acceleration Fund, and the \$1.5b Better Off Funding.

3.14 These different funds are cutting across the same areas of investment but with different priorities and criteria. There has been no strategic approach from central government towards infrastructure investment, rather it has been ad hoc and lead by different whims of the day.

3.15 Therefore, while we support the intent of further guidance for agencies asked to carry out these processes by Ministers, we are cautious about any *requirement* for contestable funds to use the Investment Management System. However, where logistically appropriate, there is value in ensuring that high risk or high value projects are continuing to use the investment management system, to ensure public funds on a project-by-project basis are achieving value for money, and achieving the ambitions of the fund from which they draw.

How the process for government infrastructure investment could be improved

3.16 There are significant duplication and inefficiencies with how government provides capital investment through funds. While this investment has resulted in many successful infrastructure projects, each fund established has had its own:

3.16.1 administration bodies who are responsible for the funds

- 3.16.2 application process (including forms, information requirements, assessment processes)
 - 3.16.3 repayment terms (such as grants versus loans), and
 - 3.16.4 and reporting requirements.
- 3.17 Agencies, sometimes with limited initial capability, have had to establish and disestablish teams/units and systems to administer these funds. Cross government sharing of expertise and resource has not been effectively harnessed. As a result, we have seen infrastructure expertise spread thinly across agencies where these funds are located. There is a need to be strategic about how it is allocated to enable agencies to retain capability. It is important to reduce time by avoiding establishing multiple funds with different governance and reporting approaches and focus on funding infrastructure through existing systems.
- 3.18 Aligned with the Infrastructure Commission’s recommendation in the New Zealand Infrastructure Strategy, INZ recommends that over the longer-term a consolidation occurs, and a set of clear infrastructure funds are established. This would enable the Government to prioritise investments based agreed priorities, with a focus on national significance and net benefits, and enable greater public transparency of infrastructure capital funding decisions. A strategic approach to central government investment has occurred overseas – with examples in Australia and Canada.
- 3.19 Further, a clear, certain and deliverable pipeline is essential for the wellbeing of Aotearoa New Zealand – as outlined in our Position Paper on [Pipeline Certainty](#). The infrastructure sector needs better clarity of when projects will be brought to market and confidence that timeframes and priorities will be predictable. This means minimising the influence of political changes on the delivery of infrastructure. A clear and certain pipeline will enable our infrastructure sector to meet the challenge and to do so faster and more efficiently.

How public reporting on government infrastructure investment could be improved

- 3.20 As noted above, government reporting on infrastructure investment needs to be:
- 3.20.1 **be transparent**, so that the value of investment can be actively monitored
 - 3.20.2 **be proportional** to the project, so that reporting requirements for high-risk and/or high-value projects looking different from a smaller and lower risk project, and
 - 3.20.3 have a **clear objective** at the programme and project level

How the Investment Management System could be improved

- 3.21 We must continue to ensure that proportionate pre-work is completed for the project investment. Thresholds for requiring more extensive business case development should be periodically reviewed, and publicly reported on by Treasury.
- 3.22 As part of the initial risk assessment profile the approach to pre-work should be agreed with The Treasury, the relevant agency, and the Minister. Business Casing processes need to be timebound, salient and delivery focused.
- 3.23 When establishing and investigating new projects, care should be taken by Ministers and officials to house the investigation and development work in the most appropriate parts of government – for example, it is often not suitable to ask policy officials to prepare businesses cases.
- 3.24 This submission process presents an opportunity to build in adaptive project management principles from the start, including in the Investment Management System. This will empower project managers/leaders to design their project management to be nimble to more changes in requirements for their projects and may see fewer projects stop.

4. Conclusion and recommendations

- 4.1 We thank the Finance and Expenditure Committee for the opportunity to submit on the report of the Controller and Auditor-General, Making infrastructure investment decisions quickly.
- 4.2 We wish to appear before the Committee to present our submission.

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Infrastructure New Zealand