Submission

by

THE NEW ZEALAND INITIATIVE

To the Finance and Expenditure Select Committee

on

the Report of the Controller and Auditor-General, *Making Infrastructure Investment Decisions Quickly*

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1. INTRODUCTION AND SUMMARY

1.1 This submission, in response to the Controller and Auditor-General's report *Making Infrastructure Investment Decisions Quickly* (2023), is made by The New Zealand Initiative (the **Initiative**). The Initiative is a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people.

1.2 The Initiative undertakes research that contributes to developing sound public policies in New Zealand and creating a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.

1.3 The Initiative's members span the breadth of the New Zealand economy. Robust public investment practices in infrastructure are important to them. The views expressed in this submission are those of the authors, not those of our members.

1.4 In summary, we submit:

(a) Treasury should adopt the three recommendations the Auditor-General has made in his report.

These are:

i) 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;

ii) 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;

iii) consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

(b) Implementing these changes would help improve decision-making for major projects – a timely intervention given the scale of New Zealand's infrastructure challenges.

Public funds should be invested transparently with a clear focus on value for money. The Auditor-General's recommendations offer practical measures to help address the shortcomings of the $12 billion New Zealand Upgrade Programme (NZUP) and the $3 billion Shovel Ready Programme (SRP).

(c) However, while the recommendations in the Auditor-General's report are positive, they are directed at officials rather than Ministers. We are concerned that major infrastructure and development project investment decisions appear to have been politicised. In particular, we regret that the then-Ministers committed significant government funding to projects without adequate information and sometimes bypassed processes set up to provide that information.

(d) This speaks to a broader problem whereby Ministers lack the right incentives to make commercially sound, fiscally responsible investment decisions. Time constraints only exacerbate this problem, as illustrated by the shortcomings of the NZUP and SRP. Such an approach to public investment should be of concern to this Committee.

(e) We would like to see the Finance and Expenditure Committee address the underlying problems that contributed to the poor investment decisions detailed in the report. In particular, we submit that the Committee should recommend to the Minister of Finance the establishment of an independent Office of Parliament to scrutinise government spending and fiscal prudence. This would place firmer constraints on the Executive Government regarding value for money.

2 CONTEXT

2.1 In recent years, the Government has invested heavily in public infrastructure to address New Zealand's so-called infrastructure deficit. Research commissioned by The New Zealand Infrastructure Commission puts the investment required to address the infrastructure shortfall at $210 billion over the next 30 years.[1]

2.2. The NZUP and the SRP were among the previous Government's most significant infrastructure initiatives. They were launched amid economic uncertainty and fears that the New Zealand economy would deteriorate.

2.3 In the case of the NZUP, the Government was concerned about Treasury advice that pointed to a worsening economic and fiscal outlook, leading to slower global growth and business uncertainty. It responded to this advice in the 2020 Budget Policy Statement by outlining plans to invest an additional $12 billion in capital spending. In January 2020, it announced that this investment would be spent on infrastructure as part of NZUP. The Prime Minister claimed it was a "once-in-a-lifetime opportunity to invest in New Zealand – modernising our infrastructure, preparing for climate change and helping grow the economy."[2]

2.4 SRP was a response to the Covid-19 pandemic. It, therefore, needs to be understood in the context of the Government's pandemic spending, which aimed to support the New Zealand economy during a period of significant turbulence.

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1 Sense Partners, "New Zealand's Infrastructure Challenge: Quantifying the Gap and Path to Close It" (2021).

2 Press Release by Rt Hon Jacinda Ardern, Rt Hon Winston Peters and Hon James Shaw, "Delivering Infrastructure for a Modern NZ," 29 January 2020, https://www.beehive.govt.nz/release/delivering-infrastructure-modern-nz

2.5 The Government was concerned about the impact the pandemic would have on New Zealand's construction sector. In April 2020, the Ministers for Infrastructure and Economic Development announced that the Government had asked industry to advise it on infrastructure projects that would be ready to commence as soon as the construction sector could resume normal activity. $3 billion was allocated to what the Auditor-General has called SRP, otherwise known as Infrastructure Reference Group projects. This initiative aimed to support the construction sector and the broader economy.

2.6 In both cases, the Government believed it necessary to commence the schemes as quickly as possible to shore up economic confidence. While this motivation is understandable, it is questionable whether infrastructure projects are the best way to stimulate the economy, especially in the short-term. The report noted the Infrastructure Commission's warning that "large scale infrastructure projects are not effective mechanisms for economic stimulus due to the time needed for planning, design and procurement."[3] It also noted the constraints and risks of such projects, including potential cost overruns and inefficiencies.

2.7 The report revealed problems in the Government's ability to make sound investment decisions under pressure. These are discussed in the following section.

3. THE PROBLEMS

3.1 The problems outlined in the Auditor-General's report concern the quality of *political* decision making, not the quality of advice tendered by the public service. In general, officials worked efficiently in challenging circumstances to provide high-quality advice to Ministers. It is worth reiterating that both the NZUP and SRP were developed rapidly – over a few months and weeks, respectively. In this context, officials worked hard to meet expectations and provide sound advice about relevant risks.

3.2 For the NZUP, agencies were given high-level direction and expected to provide lists of projects for Ministers to announce. For the SRP, work came while officials operated under constrained circumstances to support the Covid-19 response. At several points, officials advised Ministers of the risks to value for money for both the NZUP and SRP and warned that projects were not ready to be announced. However, this did not stop Ministers from pushing ahead with announcements (e.g., about health projects).

3.3 These announcements were made without sufficient information regarding value for money. Apart from broad intentions, the Auditor-General could not identify specific investment criteria to assist agencies in identifying appropriate projects for NZUP funding.

3 Office of the Controller and Auditor-General, *Making Infrastructure Investment Decisions Quickly* (2023), p. 5.

3.4 Investment options, as noted, were developed within extremely tight timeframes. It remains unclear whether officials had an opportunity to adequately consider priorities, achievability, value for money, interdependence, or other considerations.

3.5 Ministers made decisions to progress several NZUP projects despite them not being fully scoped, planned or supported with business cases. Some decisions surprised key stakeholders, who only learned about them through the media.

3.6 There was more information for the SRP projects, with clear investment criteria for eligibility. However, as with the NZUP, Ministers had limited information on whether SRP projects aligned with the Government's strategic priorities or represented value for money. For instance, Ministers made several changes to the project list during the process of longlisting, shortlisting, and final decision-making. The Auditor-General found it difficult to determine why changes were made. A lack of documentation about this aspect of the process was a particular concern. The report states that Ministers should ensure there are adequate records of how and why decisions were reached.

3.7 When SRP projects were announced, a subsequent due diligence process was expected before funding would be confirmed and released for a given project. There was not the same clarity for NZUP projects – despite many projects relying on limited business cases (or none at all). In mid-2020, Ministers took steps to strengthen risk management and oversight for NZUP transport investments. DPMC also carried out work to provide assurance about both programmes. While a positive step, we regret that proper due diligence was not baked into the process from the start.

3.8 We are also concerned about the lack of transparency regarding value for money. During the work on the audit, Treasury was required to report periodically on the performance of all investments that required Cabinet consideration, while other agencies were instructed to report on investment intentions and performance to Treasury. Crown Infrastructure Partners coordinates regular public reporting on SRP projects. From November 2023, Treasury was to make quarterly reports on medium- and high-risk investments, with reports to be published on the Treasury's website. However, no public reporting is available on the entire NZUP programme. This makes it difficult to understand the full scope of the programme and what is being delivered for the (significant) investment it represents.

4. THE SOLUTIONS

4.1 The Auditor General's report made three recommendations to the Treasury:

(a) 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;

(b) 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;

(c) consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

4.2 The New Zealand Initiative strongly supports these recommendations. They would strengthen the quality of decision-making and accountability.

4.3 The recommendations are directed at officials rather than Ministers. However, the report finds that many, if not most, of the problems identified concern Ministerial decisions. Restoring economic confidence and responding to the pandemic were laudable objectives. However, the challenges encountered during the implementation of the NZUP and the SRP programmes appear, at least in part, to have stemmed from political pressure to move quickly with announcements ahead of the General Election in 2020.

4.4 Addressing this problem will require greater external constraints on Ministerial decision-making. Ministers should follow established processes. They should not interfere in project selection, nor make announcements without sufficient information. Value-for-money, informed by rigorous cost benefit analysis and sound business cases, should be a paramount criterion when considering projects.

4.5 This is not an isolated instance. As noted in the report, similar issues arose from the Strategic Tourism Investment Programme, the Cost-of-Living Payment, and the Provincial Growth Fund. We also note that the Fast Track Approvals Bill could be the next case without stronger checks and balances on Ministerial decision-making.

4.6 The New Zealand Initiative submits that the Committee should recommend to the Minister of Finance the establishment of an independent Office of Parliament to scrutinise government spending and fiscal prudence. This would place firmer constraints on the Executive Government regarding value for money.

5. CONCLUSION

5.1 The Controller and Auditor-General's report on the NZUP and the SRP identifies serious shortcomings in both initiatives. Although the investments were made rapidly, the scale of public funding involved merited greater transparency and consideration of value for money.

5.2 We urge Treasury to adopt all three of the Auditor-General's recommendations. Implementing these measures would improve accountability, transparency, and help ensure that value for money from public investment in infrastructure was front of mind. Lessons must be learned from the failings of the NZUP and the SRP so that the New Zealand public has confidence that the Government is spending taxpayers' money prudently.

5.3 The report also raises larger questions about the quality of *political* decision-making under pressure.

5.4 Ministers' authority to make significant investment decisions is a key feature of New Zealand's democratic system. However, we are concerned that, in recent years, several infrastructure projects have been approved in the absence of proper scrutiny and accountability.

5.5 We submit that the Committee should recommend to the Minister of Finance the establishment of an independent Office of Parliament to scrutinise government spending and fiscal prudence. This would strengthen constraints on the Executive Government regarding value for money.