Reference: 20200357

TE TAI ŌHANGA
THE TREASURY

18 December 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 21 October 2020. You requested the following:

> *"1. Documents relating to Cabinet decisions on the $3 billion 'shovel ready' infrastructure fund. Specifically:*
> *b. Documents provided to Ministers for these cabinet meetings, including but not limited to, Cabinet papers.*
> *c. The Cabinet minutes for these meetings.*
>
> *2. Documents relating to the wider decision-making process for the shovel ready infrastructure fund. Specifically:*
> *a. The names of all Ministers involved in deciding which of the 802 projects on the short list were to be funded.*
> *b. All briefing documents concerning the shovel ready infrastructure fund that were provided to Ministers*
> *c. Documents related to the full criteria used by Ministers in the ministerial decision-making process for the shovel ready infrastructure fund.*
> *d. A list of all the ministries, agencies, non-governmental organisations and consultants involved in providing advice to Ministers on the shovel ready infrastructure fund decisions and information on their role in the decision-making process.*
> *e. Any documents relating to consideration given to the Climate Change Response (Zero Carbon) Amendment Act 2019 in the decision-making process for the shovel ready infrastructure fund.*
> *f. Any documents relating to the use of the Sustainable Development Goals in the decision-making process by Ministers for the shovel ready infrastructure fund.*
> *g. Any documents relating to the Living Standards Framework in the decision-making process by Ministers for the shovel ready infrastructure fund.*
>
> *3. I also specifically request the Cabinet paper and Treasury report T2020/1275 – the assessment of the top ten shovel-ready projects identified through the Crown Infrastructure Partners."*

The Treasury extended your request by 21 working days on 17 November 2020.

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https://treasury.govt.nz

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	24 April 2020	Cabinet Paper: DEV-20-SUB-0056: Infrastructure Reference Group (IRG) establishment and work to date	Release in part
2.	29 April 2020	Cabinet Minute: DEV-20-MIN-0056: Infrastructure Reference Group: Establishment and Work to Date	Release in part
3.	21 May 2020	Joint Report T2020/1497: Infrastructure Reference Group Report - initial assessment and next steps	Release in part
4.	26 May 2020	Aide Memoire T2020/1656: Further advice on an assessment framework for IRG 'shovel-ready' projects	Release in full
5.	24 June 2020	Cabinet Minute: DEV-20-MIN-0114: Infrastructure Reference Group (IRG): Update on Infrastructure Projects	Release in part
6.	24 June 2020	Cabinet Paper: DEV-20-SUB-0114: Update on Infrastructure Reference Group (IRG) Infrastructure Projects	Release in part
7.	26 June 2020	Aide Memoire T2020/2168: Meeting with Crown Infrastructure Partners (CIP)	Release in part
8.	17 July 2020	Aide Memoire T2020/2503: Cabinet Item - Talking Points: 'Delivering the 'Shovel Ready' Infrastructure Projects'	Release in part
9.	17 July 2020	Joint Report T2020/2488: Appropriations for Infrastructure Reference Group Projects	Release in part
10.	20 July 2020	Cabinet Minute: CAB-20-MIN-0341: Delivering the 'Shovel Ready' Infrastructure Projects	Release in part
11.	20 July 2020	Cabinet Paper: CAB-20-SUB-0341: Delivering the ‘Shovel Ready’ Infrastructure Projects	Release in part
12.	30 July 2020	T2020/2653: IRG Projects - final project approval process	Release in full
13.	31 July 2020	T2020/2690: Changes to the Shortlist of 'Shovel Ready' Infrastructure Projects	Release in part
14.	15 September 2020	T2020/3018: Further Appropriation Changes Relating to the Infrastructure Reference Group (IRG) Shovel Ready Projects	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment,
- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information,
- section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage,
- section 9(2)(j) – to enable the Crown to negotiate without disadvantage or prejudice,
- section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information publicly available

The information listed in the table below is also covered by the request and available on the Treasury website. Accordingly, we recommend you refuse the request for this information under section 18(d) of the Official Information Act.

Item	Date	Document Description	Website Address
1.	1 March 2020	Treasury Report T2020/1275: 'Shovel-ready' Infrastructure Projects – possible early announcements	https://www.treasury.govt.nz/publications/information-release/shovel-ready-infrastructure-projects
2.	9 October 2020	Supporting the economy	https://covid19.govt.nz/updates-and-resources/legislation-and-key-documents/proactive-release/supporting-the-economy/

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

David Taylor
Manager, National Infrastructure Unit

20200357
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Office of the Minister for Infrastructure

Office of the Minister for Economic Development

Office of the Minister for Infrastructure

Chair, Cabinet

Infrastructure Reference Group (IRG) establishment and work to date

Proposal

1. This paper outlines the Terms of Reference and proposed approach for the newly established Infrastructure Reference Group (IRG) in response to the COVID-19 crisis. The IRG has been tasked with developing a report of possible infrastructure and construction projects and programmes that are ready, or close to ready, to get under way. The IRG has been told to seek projects that have high labour intensity, create economic and/or public benefit nationally or regionally and could be deployed as part of a stimulatory package, should Cabinet desire.

Executive summary

2. The ability to execute any Government supported pipeline that is developed in an efficient and effective manner will require central Government to pull several levers, including legislative changes and funding.

3. The IRG was established due to concerns of a large downturn in the infrastructure and construction sector as a result of COVID-19. The overall sector is approximately 13 per cent of GDP, employs well over 500,000 people and many more indirectly, plays a crucial role in respect of a number of nationally important projects, and has the potential to stimulate the economy if managed well.

4. The IRG is providing advice to the Government on issues affecting the infrastructure and construction sector as a result of the COVID-19 situation. Its initial task is to identify 'shovel ready/near ready' infrastructure projects from local government, the public sector and (where projects can be repurposed for public/regional benefit) the private sector that have, in each case, been or will likely be impacted by COVID-19. The IRG will report back to the Ministers of Finance, Economic Development and Infrastructure with its findings in May.

5. Importantly, the IRG is not deciding on projects or making any final recommendations.

Office of the Minister for Infrastructure

6. The objectives it has been asked to consider in collating its report align are threefold:

   6.1. an increased focus on immediate job creation and income growth;

   6.2. construction activity that will be underway within the next 12 months, and;

   6.3. a high degree of visibility to the community, to give the public confidence that renewed economic activity is underway.

7. These are the same three focuses guiding the reprioritisation of the Provincial Growth Fund to ensure its investments are best able to support our economic recovery.

8. The work of the IRG will not cut across Government agencies' ability to progress worthwhile projects through the COVID-19 Response and Recovery Fund. These may be projects that may have longer lead-in times or meet different criteria to the proposed pipeline the IRG has been asked to develop. Treasury will provide guidance to agencies on how decisions on the COVID-19 Response and Recovery Fund will be made.

7. The IRG will provide a list of projects which are not included in the final report to the relevant agency for consideration by relevant portfolio Ministers. The portfolio Minister may then seek to support the initiative through the COVID-19 Response and Recovery Fund. Some projects may be relevant to more than one portfolio and will be provided to more than one Minister. For example, cross-cutting portfolios like urban development, primary industries, climate change, and infrastructure are likely to be relevant to a significant number of projects.

8. Furthermore, Treasury and the Ministry of Business, Innovation and Employment are preparing advice for the Minister of Finance and Minister of Economic Development on a broader assessment framework for COVID-19 Response and Recovery Fund and post-COVID economic strategy to inform Cabinet's decision making. The Ministry for the Environment is also preparing advice for the Minister for Climate Change and Cabinet about opportunities for alignment between the COVID-19 Response and Recovery Fund and the transition to a clean, green and carbon neutral New Zealand as outlined in the Economic Plan.

9. The IRG is working alongside the Infrastructure Commission and the Construction Accord who are both represented on the IRG Review Board. A close working relationship with Provincial Development Unit (PDU) will ensure there is no duplication of projects – any project less than $10 million in a region is transferred to PDU and where the project is less than $20 million and more suited to PGF funding then it is transferred to the PDU.

10. The IRG will also provide independent advice on other matters impacting the construction industry, including proposed emergency consenting powers and fast tracking of procurement by the public sector.

Office of the Minister for Infrastructure

Background

11. We were tasked by the Minister of Finance to prepare a report on potential infrastructure projects for consideration by Budget Ministers and Cabinet (*refer Budget Cab paper para 22.1*).

12. In order to have this report prepared, we asked Mark Binns, the Chair of Crown Infrastructure Partners (CIP), to prepare the report alongside a new Infrastructure Reference Group (IRG) comprising Rosie Mercer, Brian Roche, Alan Bollard, Greg Miller and Andrew Crisp (nominee; representing the Construction Accord). Mr Binns will chair the IRG. CIP will act as secretariat for the IRG and provide support and resource for the report's preparation.

13. Importantly, the IRG Report is not deciding on specific projects or making any final recommendations. The IRG report will summarise the project information received, grouping this by construction readiness, employment intensity, economic and/or public benefit, by Government assistance (including funding) requested, environmental impact and mapping to the Government Economic Plan's eight focuses. The report is not intended to be an investment decision making paper. Ministers will have a further opportunity to consider any final recommendations on investment parameters in an accompanying paper.

14. An accompanying paper to the IRG Report, informed by the IRG Report, will propose options for the Government to consider on which infrastructure sectors with a regional focus the Government may consider supporting (including financial), the possible outcomes of supporting those sectors/regions and the parameters to be considered in selecting projects to support in those sectors and regions.. The broad types of Government financial support being sought will also be outlined.

15. The IRG was established due to concerns of a large downturn in the infrastructure and construction sector as a result of COVID-19. Many projects have been deferred or stopped as commercial revenues dry up or funding lines are difficult to access, hence large numbers of contractors (large and small) and sector supply chains are in distress and employees likely to be out of work.

16. IRG has canvassed the infrastructure and construction sector to understand the degree of impact that COVID-19 is having on the future project pipeline. Initial results show about 23 per cent of existing planned projects are now in jeopardy, making up about 20 per cent of the total value. This is a significant problem in terms of value and employment. This number is likely to increase and many projects in the pre-funding stage are likely to be shelved, causing longer term issues.

17. Infrastructure construction and maintenance is a highly labour-intensive industry, so maintaining and accelerating projects where possible will create/ maintain substantial direct and indirect employment opportunities, helping to offset the redundancies and job losses that will be seen in other sectors.

18. The infrastructure sector is approximately 13 per cent of GDP, employs well over 500,000 people, is strategically important for nation building purposes, and is well placed to help stimulate our economy if managed effectively.

Infrastructure Reference Group (IRG)

19. The IRG, supported by CIP, is seeking to identify 'shovel ready' or 'near shovel ready' (i.e. within 12 months) infrastructure projects from local government, the public sector and (where projects can be repurposed for public/regional benefit) the private sector that have, in each case, been impacted by COVID-19.

20. The IRG terms of reference are set out in the Annex One.

21. On 1 April 2020, CIP released a project information request to the industry and stakeholders (including construction companies, engineering and project management firms, commercial property owners/developers, local Government, central Government agencies and Iwi corporations) in order to identify projects that may be suitable for any potential Government support. The project information request responses were due to CIP on 14 April 2020.

22. Both private and public agencies have been invited to submit responses and will be included in the IRG Report provided they meet certain criteria as set out in this paper, a key one being construction ready within 12 months, projects outside this timeframe will not be included. The invitation takes a very broad view of infrastructure and includes maintenance work on infrastructure – for example three water pipe replacement, road resealing/refurbishing, safety improvements and so on.

23. The IRG is focused on 'shovel ready' or 'near ready' (within 12 months) projects continuing to be implemented, and the available work force and contractors being redeployed to (and supply chains utilised for) new projects or deferred maintenance work. It is important for the economy that the infrastructure and construction sector capability and capacity is maintained during the economic recovery, so that a total rebuild of the sector does not need to occur. It could be argued that the industry is still suffering from the prolonged slow-down in the early 1990s and associated exit of skilled tradespeople.

24. The IRG has also provided independent advice and feedback on the issues impacting the construction sector that will need to be considered by Government in order for projects to be successfully procured at speed. IRG will also advise:

    24.1. The Minister for the Environment on any proposed changes to the Resource Management Act 1991;

    24.2. The Minister of Economic Development on any changes to the Government Procurement Rules; and

    24.3. The Minister for Infrastructure on any streamlining or fast tracking of Government Better Business Case process.

25. The IRG report will include discussion of key issues and levers needed to rapidly deploy projects. The may form the basis of a second Cabinet paper from the IRG should Ministers require one.

Potential extent of downturn in the infrastructure and construction industry

26. As part of preparing its report, the IRG has canvassed a number of medium and large scale commercial construction companies to understand the degree of impact that COVID-19 is having on the future project pipelines.

27. Initial projections[1] across these combined organisations show that the extent of existing or planned projects that are now either 'dead' (no longer proceeding), or unlikely to proceed, is 23% overall by number and 20% by value, which is significant for the industries in terms of value and employment lost. s9(2)(b)(ii) [redacted]

28. [redacted]

29. The majority of employees likely to be impacted (or potentially impacted) – and consequently the largest excess capacity – are employees from vertical (buildings) projects s9(2)(b)(ii) [redacted]

30. A key market in the construction industry is for private residential housing development and construction – this is a very large market of ~$12.9 billion value (excluding Kainga Ora and recommended Housing and Urban Development proposals[2]), with ~35,000 houses and ~15,000 apartments/units constructed in the last 12 months[3]. New Zealand's total construction value for 2019 was approximately $40 billion (~13% of GDP)[4]. The sector employs large numbers of tradespeople and labourers, and supports large construction firms down to very small owner/operator builders/tradespeople.

[1] Note these are based on very preliminary information provided from sector participants and may not provide a complete picture at this stage. The IRG report will provide a comprehensive analysis.
[2] We note the state represents a small percentage of the overall housing market.
[3] Source: BCI Residential Construction report on constructed dwellings year ended January 2020.
[4] Source: National Construction Pipeline Report 2019.

31. The residential construction/development sector also supports a considerable supply chain, supports economic activity associated with equipping a new home and land development, and provides substantial government revenues in the form of GST and income tax. It is key for construction to continue at capacity to assist in addressing New Zealand's housing affordability issue. CIP has advised that discussions with the large house building firms have noted that they are seeing their forward pipeline reduce by at least half, and some as high as a 70% reduction. Such a significant loss of capacity and capability in this sector will have material impacts on the wider economy and the ability to meet key housing policy goals for housing affordability and reducing homelessness.

Project procurement sources

32. The 'shovel ready'/'near ready' projects that will be identified as meeting the necessary focus areas and capable of being deployed as part of a stimulatory package, will generally fall within one of three broad areas:

    32.1. Central government projects are likely to be those which are 'shovel ready'/'near ready' but currently outside Vote funding;

    32.2. Local government projects are likely to include local transport projects and refurbishment/maintenance, and three water projects including replacement of aged pipe networks and new water plants to meet safe water/environmental standards. Local Government proposed transport projects will be reviewed by NZTA and three water projects by water sector expertise. IRG will liaise with the Department of Internal Affairs to ensure that advice on potential investment in water infrastructure considers the Government's broader water reform agenda; and

    32.3. Private sector projects could be wide ranging, with some being at the high public benefit end and purely commercial development projects with no or little public benefit other than employment. Any private sector projects should not be seen as a transfer of value from the Government to the private sector; only where there is a public/regional benefit can a form of support be provided to ensure the project continues until markets normalise with no transfer of value.

IRG report and process

33. The report will set out potential projects that could be progressed quickly and meet the eligibility criteria.

34. The success of executing any infrastructure pipeline will rely heavily on our ability to streamline RMA processes as well as various other systems, such as the Public Works Act and the Building Act.

35. Inclusion of projects in the report does not mean there will necessarily be any Government support for these projects, nor does exclusion preclude any project from being progressed through the COVID-19 recovery fund.

36. The report will (*note some components below may differ in the final report*):

36.1. include both private and public sector projects, including those projects which may not require financial support by the Government but would benefit from non-financial support, such as consenting and/or procurement fast-tracking;

36.2. set out the intervention logic and the basis on which projects have been prioritised, and the impact of COVID-19 on that workforce or the likelihood of redeployment to that sector;

36.3. set out how the projects on a sector basis in the report complement existing programmes and Government policies;

36.4. outline and group the types of the Government intervention being sought for each project (funding, consenting etc.);

36.5. ensure there are options for every region across New Zealand to be considered by Ministers; and

36.6. provide an indicative assessment of projects based on criteria which is focussed on:

36.6.1. construction readiness, employment/public benefit outcomes, economic and regional/national impact, as discussed below; and

36.6.2. mapping to the Economic Plan's key shifts (i.e. the transition to a clean, green, carbon-neutral and low-waste New Zealand).

37. Once this report is received, The Treasury and MBIE[5] can provide advice on the report and their view on the above. Budget Ministers will receive the report prior to Cabinet to help ensure alignment with the broader Budget process and priorities.

38. We note that this is not designed to cut across other processes which will be going to Budget Ministers at the same time as this, such as Minister Woods' housing work (refer Budget Cabinet paper 22.2) or Minister Mahuta's three waters work. However, those agencies should feel free to feed that work into it this process as well.

Initial project assessment

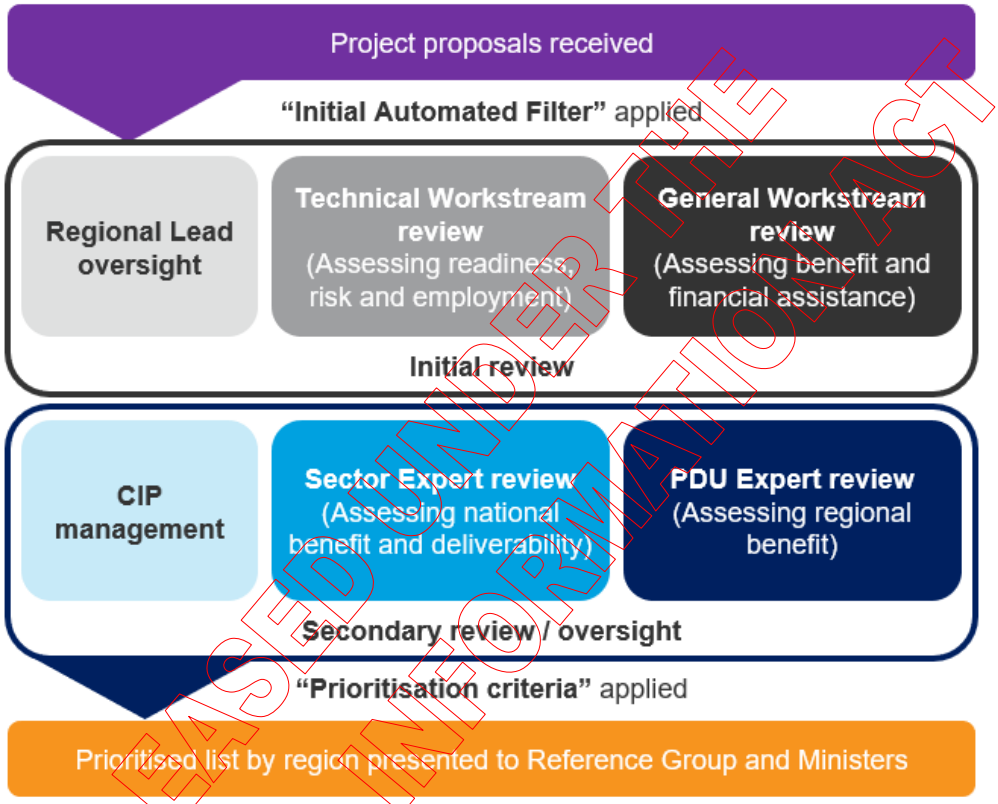
39. All projects with a value of less than $10 million in a region will be sent PDU for consideration. Projects between $10 million and $20 million in a region will be discussed between the PDU and IRG to ascertain which agency is best suited to consider it. Projects of $20 million or more will be assessed by the IRG. IRG regional leads will consult PDU regional leads on all projects in PGF regions to mitigate double ups, understand any priority considerations, and to take advantage of regional knowledge.

40. CIP will support the IRG by first assessing projects against a set of specified criteria and will put forward projects that satisfactorily meet the criteria to IRG

[5] In consultation with other relevant agencies – for example the Department of Internal Affairs.

for further assessment and potential inclusion in a project list to be provided to Ministers.

41. The process established and overseen by CIP for assessing projects is summarised in the following diagram.



42. The criteria to assess projects is summarised in the below:

42.1. **Construction readiness** risk adjusted (within 6 months (list 1), within 12 months (list 2), and any project outside 12 months will be parked and not assessed) – adjustment will be made to timing where such projects would benefit from any Resource Management Act/consenting fast-tracking legislation;

42.2. **Direct Employment** – continuous and new employment as a direct outcome of the project, as a ratio of project capital expenditure with prioritisation given to the most employment-intensive projects; and

42.3. **National and Regional benefit** – the overriding priorities for grouping projects in the IRG Report being economic stabilisation, stimulation and rebuild in ways that are mapped with the Government's Economic Plan including the transition to a carbon-neutral New Zealand, prioritising projects that have cross-cutting benefits to a range of sectors, e.g. housing construction, hospitals and medical facilities, transport, energy, ecosystem services/nature, access to economic and other amenities. This assessment will be made by an initial ranking based on whether the generic project type is expected to enable economic stimulation (multiplier impacts) across multiple sectors with, two further assessments also being made as follows:

42.3.1. Multi-regional or national benefit over time: Reflecting greater potential for multiplier impacts throughout New Zealand which should prioritise projects that will deliver a substantial stream of benefits to their location and the nation over time; and

42.3.2. Growth or new infrastructure: Reflecting the benefit from unlocking of capacity constraints or addressing unmet need.

43. Projects will also be grouped (but not prioritised) by the types of Government assistance requested, such as non-financial assistance, underwrite or guarantee, commercial co-funding, concessionary funding, grant funding and not specified. This will provide insight into the types of Government assistance being requested by projects. The IRG report to Ministers will consider how these types of Government assistance could apply if the Government decides to support the higher-benefit projects.

44. As noted earlier, the IRG prioritisation process is to provide Government with a view based on highest benefit of the projects received that are construction ready or near ready. This process is not a business case review of projects or a recommended list of projects for Government to immediately invest in. The latter would be decided by Responsible Ministers on the basis that Government made a decision to fiscally support the infrastructure sector.

Governance and resourcing

45. The IRG will report to a sub-committee of Ministers being the Minister of Finance and the Ministers for Economic Development and Infrastructure. This sub-committee will in turn involve Budget Ministers, to ensure alignment with the broader Budget priorities.

46. The IRG Review Board comprises Mark Binns as Chair (also Chair of CIP), Rosie Mercer (deputy chairperson of the PGF's independent advisory panel and sustainability manager at Ports of Auckland), Brian Roche (Chair NZTA and CRL), Greg Miller (CEO Kiwirail), Alan Bollard (Chair of the Infrastructure Commission, Te Waihanga) and Andrew Crisp (nominee; CEO Ministry of Housing and Urban Development, representing the Construction Accord). The IRG also has representation from the Infrastructure Commission ensure alignment when assessing projects.

47. CIP is supporting the IRG. CIP was selected for this role given its proven track record on delivery of complex nationwide infrastructure projects such as the Ultra-fast Broadband programme (~$5.5 billion), experience engaging and transacting with the private sector for infrastructure delivery, being independent, and its close working relationship with Government.

48. CIP will be utilising engineering consulting firms (BECA and Motts Macdonald) to assess technical aspects of each project submitted through the project information request process and these reviews will be undertaken by their regional teams. KPMG and a financial adviser will review the general benefit aspects of the projects. As noted above, the PDU will provide the regional perspective and sector experts (for example in transport (NZTA), rail (Kiwirail), housing (nominated by Kainga Ora/the Ministry of Housing and Urban Development), health (nominated by Ministry of Health) and water infrastructure will provide the sector perspective. The Infrastructure Commission is also providing resource to assist with other Government projects and in national benefit reviews.

49. Other sectors which will involve needing expert advice include telecommunications, three waters, environment, tourism, airports/ports and agriculture.

50. CIP are overseeing and managing the process on behalf of IRG and is intending to liaise with Treasury officials as the report findings develop.

Consultation

51. The Treasury, the Ministry for Housing and Urban Development, the Ministry of Business, Innovation and Employment, the Provincial Development Unit, NZTA and the Infrastructure Commission have been consulted in preparation of this paper. The Department of the Prime Minister and Cabinet [PAG] has been informed.

Financial Implications

52. CIP can utilise its existing Bulk Housing Infrastructure appropriation for the IRG work, however this funding will need to repurposed and The Treasury will finalise this for the approval of the Minister of Finance. CIP will also have its purpose as set out in its company constitution expanded to include the activities it is undertaking to support the IRG, and this will be approved by CIP's shareholding Ministers.

Legislative Implications

53. There are no legislative implications arising from this paper.

Impact Analysis

54. No Impact Analysis is required as there are no legislative implications arising from this paper.

Human Rights

55. There are no human rights implications.

Gender Implications

56. The Ministry for Women has commented that women (especially wāhine Maori) are a vulnerable labour force. Consideration of women as a specific labour market population group needs to be considered in order to assess whether any benefits will flow to women and other vulnerable groups as a result of any decisions by Government as a result of the IRG Report.

Disability Perspective

57. There are no disability implications.

Publicity

58. The communications approach will be managed by my office, in consultation with other entities as appropriate. I expect a low level of business and media attention.

Proactive Release

59. I intend to publicly release a copy of this paper in accordance with Cabinet's proactive release policy.

Office of the Minister for Infrastructure

Recommendations

The Minister for Economic Development and the Minister for Infrastructure recommend that the Cabinet:

1. **Agree** that the Infrastructure Reference Group (**IRG**), established in response to the current COVID-19 situation, will 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.
2. **Note** that the IRG is not a decision making body, nor will it attempt to rank projects.
3. **Note** that the three guiding principles being used by the IRG are the same as the ones being used in the repurposing of the Provincial Growth Fund.
4. **Agree** the Terms of Reference for the IRG and Crown Infrastructure Partners (**CIP**) assisting the IRG.
5. **Agree** the scope of work proposed for the IRG.
6. **Note** that the report is expected to be presented to Ministers in May 2020.
7. **Invite** the Minister of Economic Development and Minister of Infrastructure to report back on the Infrastructure Reference Group's report in May 2020.
8. **Note** that Budget Ministers' views will be sought prior to the report back in recommendation 5, to help ensure alignment with the broader Budget process and priorities.
9. **Note** that the IRG will provide a full list of projects which are not included in the final report to the relevant agency for consideration by relevant portfolio Ministers.
10. **Note** that some projects are likely to be relevant to more than one portfolio Minister and Ministers with cross-Government portfolio interests (e.g. primary industries, climate change, urban development, etc) will therefore be provided with extensive lists of projects relevant to their cross-cutting portfolios.
11. **Note** that The Treasury and the Ministry of Business, Innovation and Employment are preparing advice for the Minister of Finance and Minister of Economic Development on a broader assessment framework for COVID-19 Response and Recovery Fund and post-COVID economic strategy.
12. **Note** that infrastructure investments have the potential to support several of the Government's other goals as outlined in the Economic Plan and across a broad range of portfolios including housing, primary industries, conservation, energy and resources, and climate change.
13. **Note** the Ministry for the Environment is preparing advice for the Minister for Climate Change and Cabinet about opportunities for alignment between the COVID-19 Response and Recovery Fund and the transition to a clean, green and carbon neutral New Zealand as outlined in the Economic Plan.

Office of the Minister for Infrastructure

14. **Note** that the IRG has provided feedback and recommendations for consideration on the Ministry for the Environment's proposed emergency Resource Management Act/Public Works Act legislative framework, and will provide recommendations on the fast-tracking of government procurement rules and Government business case processes in response to the COVID-19 situation.

15. **Note** that further advice from the IRG including recommendations on how a co-ordinated and centralised approach can be adopted to enable projects to be accelerated may form the basis of a second Cabinet paper should Ministers desire it.

16. **Note** that any operational funding required by IRG and CIP to seek project information from the industry and prepare the report for Ministers can be funded from within existing appropriations, although a portion of the appropriation will need to be repurposed.

Authorised for lodgement

Hon Phil Twyford
Minister for Economic Development

Hon Shane Jones
Minister for Infrastructure

DEV-20-MIN-0056

Cabinet Economic Development Committee

Minute of Decision

Infrastructure Reference Group: Establishment and Work to Date

Portfolios **Economic Development / Infrastructure**

On 29 April 2020, the Cabinet Economic Development Committee (DEV):

1 **agreed** that the Infrastructure Reference Group (IRG), established in response to the current COVID-19 situation, will 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;

2 **noted** that the IRG is not a decision-making body, nor will it attempt to rank projects;

3 **noted** that the three guiding principles being used by the IRG are the same as the ones being used in the repurposing of the Provincial Growth Fund;

4 **agreed** to the Terms of Reference for the IRG and Crown Infrastructure Partners assisting the IRG, as set out in Annex 1 to the submission under DEV-20-SUB-0056;

5 **agreed** to the scope of work proposed for the IRG, as outlined in the paper under DEV-20-SUB-0056;

6 **noted** that the report being prepared by the IRG of possible infrastructure and construction projects and programmes that are ready, or close to ready, to get underway is expected to be presented to Ministers in May 2020;

7 **invited** the Minister for Economic Development and the Minister of Infrastructure to report back to DEV on the IRG report in May 2020;

8 **noted** that Budget Ministers' views will be sought prior to the report referred to in paragraph 7 above, to help ensure alignment with the broader Budget process and priorities;

9 **noted** that the IRG will provide a full list of projects that are not included in the final report to the relevant agency for consideration by relevant portfolio Ministers;

10 **noted** that some projects are likely to be relevant to more than one portfolio Minister, and that Ministers with cross-government portfolio interests (e.g. Primary Industries, Climate Change, and Urban Development) will therefore be provided with extensive lists of projects relevant to their cross-cutting portfolios;

DEV-20-MIN-0056

11 **noted** that the Treasury and the Ministry of Business, Innovation and Employment are preparing advice for the Minister of Finance and the Minister for Economic Development on a broader assessment framework for COVID-19 Response and Recovery Fund and post-COVID economic strategy;

12 **noted** that infrastructure investments have the potential to support several of the government's other goals as outlined in the Economic Plan and across a broad range of portfolios, including Housing, Primary Industries, Conservation, Energy and Resources, and Climate Change;

13 **noted** that the Ministry for the Environment is preparing advice for the Minister for Climate Change and Cabinet about opportunities for alignment between the COVID-19 Response and Recovery Fund and the transition to a clean, green and carbon neutral New Zealand, as outlined in the Economic Plan;

14 **noted** that the IRG has provided feedback and recommendations for consideration on the Ministry for the Environment's proposed emergency Resource Management Act/Public Works Act legislative framework, and will provide recommendations on the fast-tracking of government procurement rules and government business case processes in response to the COVID-19 situation;

15 **noted** that further advice from the IRG, including recommendations on how a co-ordinated and centralised approach can be adopted to enable projects to be accelerated, may form the basis of a further paper to Cabinet;

16 **noted** that any operational funding required by IRG and Crown Infrastructure Partners to seek project information from the industry and prepare the report for Ministers can be funded from within existing appropriations, although a portion of the appropriation will need to be repurposed.

Janine Harvey
Committee Secretary

Present:
Hon Grant Robertson (Chair)
Hon Kelvin Davis
Hon Phil Twyford
Hon Dr Megan Woods
Hon Chris Hipkins
Hon Carmel Sepuloni
Hon David Parker
Hon Nanaia Mahuta
Hon Stuart Nash
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Damien O'Connor
Hon Kris Faafoi
Hon Shane Jones
Hon Poto Williams
Hon James Shaw
Hon Eugenie Sage

Officials present from:
Office of the Prime Minister
Officials Committee for DEV

TE TAI ŌHANGA
THE TREASURY

Joint Report: Infrastructure Reference Group report - initial assessment and next steps

Date:	21 May 2020	**Report No:**	T2020/1497 and BR3375 19/20
		File Number:	SH-1-6-1-3-3-7 (Infrastructure)

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**agree** to make initial decisions on funding IRG projects as part of the next CRRF process, the timing and details of which are currently being developed (The Treasury and MBIE recommended option) **OR** **agree** to make some decisions on funding IRG projects in advance of the next CRRF process. **agree** to consider the information in this report as the next CRRF funding process is being developed and the Government objectives for Wave 3 are being considered.	28 May 2020
Hon Phil Twyford **Minister for Economic Development**	**agree** to make initial decisions on funding IRG projects as part of the next CRRF process, the timing and details of which are currently being developed (The Treasury and MBIE recommended option) **OR** **agree** to make some decisions on funding IRG projects in advance of the next CRRF process.	
Hon Shane Jones **Minister for Infrastructure**	**agree** to make initial decisions on funding IRG projects as part of the next CRRF process, the timing and details of which are currently being developed (The Treasury and MBIE recommended option) **OR** **agree** to make some decisions on funding IRG projects in advance of the next CRRF process.	

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
s9(2)(g)(i)	Senior Analyst, National Infrastructure Unit (NIU), Treasury	s9(2)(g)(ii)	✓
David Taylor	Manager, National Infrastructure Unit (NIU), Treasury	s9(2)(k)	
Kerryn Fowlie	Policy Director, Economic Strategy Branch, MBIE		✓

Minister's Office actions (if required)

Return the signed report to the Treasury and Ministry of Business Innovation and Employment.

Refer a copy of this report and attached material to the Minister for the Environment and the Minister for Local Government

Enclosure: **Yes** (attached)

Joint Report: Infrastructure Reference Group report - initial assessment and next steps

Executive Summary

The final Infrastructure Reference Group (IRG) report was received by Ministers on May 17. This report includes 802 infrastructure projects from central government, local government, the private sector and other entities requesting $33 billion in government financial support.

Ministers have options in regards to when they make decisions on the projects and the process they follow to make these decisions. The $3 billion infrastructure tagged contingency agreed by Cabinet on 11 May requires decisions to be taken either through a future iteration of the CRRF process, or a bespoke process involving Cabinet approval.

Officials recommend that decisions are made as part of the next COVID-19 Response and Recovery Fund (CRRF) process. The Treasury is preparing advice for the Minister of Finance for 21 May outlining options for the next CRRF funding process including choices around the scope, process and timing of future funding rounds, and how this relates to Wave 3 of the recovery.

Alternatively, Ministers may want to make some decisions in advance of the next CRRF process.

Officials recommend that any early announcements should focus on sectors with pre-existing infrastructure deficits that will remain after (or have been exacerbated by) COVID-19; or where the evidence base is relatively robust and assessment work is underway, such as in urban development (covering housing, transport and other relevant portfolios) and health.

In addition to the primary objectives of shovel readiness and employment creation, there are also more specific assessment criteria related to market capacity, supply chain constraints and available workforce skills that officials will need to have high confidence can be met. Consideration could also be given to how projects support the Government in delivering on its wider objectives, such as improving the environment, reducing emissions and delivering better outcomes for Māori and Pasifika.

The Treasury's recommended approach to assessing the IRG projects in the next CRRF process is set out in Annex 1. This involves assessing up to 200 central government projects and, instead of assessing the other 600 projects individually, considering the case for broader based packages of support for projects from local government, the private sector and other entities.

Ministers may benefit from other advice from officials in the lead up to these decisions including: regional impact assessments, alternative procurement arrangements, the case for broader based support packages for local government, and approaches to supporting other community, social and environmental projects that may fall outside the initial areas of focus.

The fast-track resource consenting legislation being proposed by the Minister for the Environment may offer processes for these projects to be considered for acceleration.

Decisions on significant investment in three waters infrastructure should also be considered in the context of the reform being proposed by the Minster of Local Government.

The Minister for Economic Development and the Minister for Infrastructure are invited to report back to Cabinet on the IRG report. This offers an opportunity to confirm the timing and

decision-making process for the IRG projects, and seek agreement to any projects that Ministers want to proceed with in advance of the CRRF process.

Recommended Action

We recommend that you:

Background

a **note** the final Infrastructure Reference Group (IRG) Report was received by Ministers on May 17 and includes 802 infrastructure projects from central government, local government, the private sector and other entities requesting government financial support of $33 billion.

b **note** Cabinet agreed on 11 May to a $3 billion infrastructure tagged contingency to provide for investment in infrastructure to support the economic recovery from COVID-19 and that decisions on what to fund will be taken either through a future iteration of the COVID-19 Response and Recovery Fund (CRRF) process or a bespoke process involving Cabinet approval.

Options for taking decisions on IRG projects

Either

c **agree** to make initial decisions on funding IRG projects as part of the next CRRF process, the timing and details of which are currently being developed (The Treasury and MBIE recommended option)

agree / disagree Minister of Finance	*agree / disagree* Minister for Economic Development	*agree / disagree* Minster for Infrastructure

OR

agree to make some decisions on funding IRG projects in advance of the next CRRF process

agree / disagree Minister of Finance	*agree / disagree* Minister for Economic Development	*agree / disagree* Minster for Infrastructure

Considerations for the assessment of IRG projects

d **note** that infrastructure investments that fit with the longer-term economic transformation of the economy are likely to be under-represented in the IRG process, given its focus on shovel readiness and jobs, but could be considered in a future CRRF process.

e **note** that officials recommend decisions to fund IRG shovel-ready projects should:

- focus initially on sectors with pre-existing infrastructure deficits that will remain after (or have been exacerbated by) COVID-19, where the evidence base is relatively robust and work to assess proposals is already underway, such as urban development (including housing, transport and other related portfolios), and health

- achieve the primary objectives of shovel readiness and employment creation, while also supporting impacted regions and long-term economic transformation (towards a productive, sustainable and inclusive economy)
- not include significant investment in three waters infrastructure until Cabinet has made decisions on three waters reform (except where water infrastructure is related to agreed urban development projects and will not conflict with the goals of the reform).

f **note** that the Treasury's recommended approach to assess the IRG projects in the next CRRF process is set out in Annex 1. This involves assessing up to 200 central government projects and considering the case for broader based packages of support for local government and the private sector.

g **direct** officials to report back on specific assessment criteria that will need to be applied within particular focus areas for investment.

h **indicate** what additional advice Ministers would like officials to provide in assessing the IRG projects in the lead up to decisions, such as the approach outlined in Annex 1.

Other related issues to consider

i **note** MBIE will report back to you on possible interventions, including infrastructure investments, to support those regions identified as the worst impacted by COVID-19, to help inform decisions.

j **note** the Treasury and MBIE officials will engage with Te Arawhiti on the approach to projects submitted by Iwi.

k **indicate** if Ministers want officials to provide advice on broader based support packages for community, social and environmental projects submitted by local government, private companies, Iwi, Trusts or Charities and other NGOs.

l **indicate** if Ministers want officials to provide advice on support for commercial projects submitted from the privates sector, such as the establishment of a 'rapid response fund' considered by the IRG.

m **indicate** if Ministers want officials to provide advice on alternative procurement arrangements for particular projects, as suggested in the IRG report, and for officials to advise on this in the lead up to the next CRRF process.

n **direct** officials (DIA, MoT and the Treasury) to report back on the case for broader based support packages for local government including the case for funding for NZTA to provide higher Financial Assistance Rates to support local government transport projects.

o **agree** to consider the information in this report as the next CRRF funding process is being developed and the Government objectives for Wave 3 are being considered.

Agree / disagree
Minister of Finance

p **note** the Minister for Economic Development and the Minister for Infrastructure are invited to report back to Cabinet on the IRG report. This could be used to confirm the timing and decision-making process for the IRG projects, and seek agreement to any projects that Ministers want to proceed with in advance of the CRRF process.

Referrals

q **refer** a copy of this report and the IRG report to the Minister for the Environment to ensure that IRG projects can be considered as part of the fast-track resource consenting processes in draft legislation.

Refer/not referred
Minister of Finance

r **refer** a copy of this report to the Minister for Local Government.

Refer/not referred
Minister of Finance

David Taylor
Manager, National Infrastructure Unit

Kirsty Flannagan
General Manager, Economic Strategy Branch, MBIE

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister for Economic Development

Hon Shane Jones
Minister for Infrastructure

Joint Report: Infrastructure Reference Group report – initial assessment and next steps

Purpose of Report

1. This report provides you with advice on the final Infrastructure Reference Group report ('IRG Project Readiness Report') received on 17 May. In particular, it provides you with:

   - an initial summary of the IRG list of 802 infrastructure projects and associated recommendations on procurement and fast-track consenting
   - recommended focus areas and objectives for the consideration of the IRG projects, and
   - a proposed process for making decisions on the IRG projects, seeking Minsters' agreement.

2. Annex 1 sets out the Treasury's recommended approach to assess the IRG projects in the next CRRF process with further consideration given to project categories.

3. This report should be read alongside the IRG Project Readiness Report.

Background

4. On 1 April 2020, Ministers announced the establishment of the Infrastructure Reference Group (IRG) headed by Crown Infrastructure Partners (CIP) Chairman Mark Binns. The IRG was tasked with delivering a list of recommended infrastructure projects from the private and public sector that are 'shovel-ready' (or likely to be within six to 12 months).

5. The objectives the IRG were asked to consider in collating its report align with the short-term objectives agreed in the repurposing of the Provincial Growth Fund (PGF):

   - an increased focus on immediate job creation and income growth
   - construction activity that will be underway within the next 12 months, and
   - a high degree of visibility to the community, to give the public confidence that renewed economic activity is underway.

6. The Treasury previously provided Ministers with a report on how officials planned to advise Ministers on the IRG work (T2020/1241 refers).

7. In establishing the IRG and process, Cabinet invited the Minister for Economic Development and the Minister for Infrastructure to report back to DEV on the IRG report in May 2020 (DEV-20-MIN-0056 refers).

8. In advance of the final IRG report, Ministers also requested that the IRG deliver a 'top 10' list of projects for advanced consideration in the lead up to the 11 May Cabinet decisions on allocating funding from the CRRF (T202/1275 refers). No projects from the 24 projects put forward by the IRG were taken forward by Cabinet on 11 May.

9. Cabinet agreed on 11 May 2020 to establish a $3 billion tagged contingency from the COVID-19 Response and Recovery Fund (CRRF) for infrastructure investment during the recovery [CAB-20-MIN-0219.04 refers]. The following aspects were agreed:

   - the purpose of the tagged contingency is to provide for investment in infrastructure to support the economic recovery from COVID-19, and
   - decisions on funding projects from the tagged contingency will be taken either through a future iteration of the CRRF process, or a bespoke process involving Cabinet approval.

10. The scope of the tagged contingency is not limited to projects identified in the IRG report. Final decisions may include other projects, for example those put forward by departments through the next CRRF process.

11. The Treasury is preparing advice for the Minister of Finance for 21 May outlining options for the next CRRF funding process, including choices around the scope, process and timing of future funding rounds and how this relates to Wave 3 of the recovery (T2020/1569 refers).

12. We recommend that decisions on projects in the IRG report are considered as part of the next CRRF process. Annex 1 sets out the Treasury's recommended approach to assess the IRG projects in the next CRRF process, with further considerations given to project categories. This involves assessing up to 200 central government projects and considering the case for broader based packages of support for local government and the private sector.

13. However, Ministers may wish to make some decisions earlier. We have suggested below some initial focus areas where there are well-established, pre-existing infrastructure deficits, and where opportunities and projects are well understood.

Summary of IRG projects and the IRG assessment process

802 projects across all regions and sectors requesting various support

14. The IRG Project Readiness Report identifies 802 projects with an estimated total capex of $51 billion and total employment of 132,000 Full time Equivalents (FTEs). As summarised in section 3 of the report, these projects vary across:

   - **'Project owners'** – projects have been submitted by central government agencies/entities, local government authorities, iwi, trusts, charities, NGOs and private sector entities.

     The most represented type of project owner (by number of Projects) is local authorities (48%) and central government (17%).

   - **Forms of requested government support** – projects include a range of requests for government financial support, subsidies, fast-tracking building and resource consents, changes to procurement practices, and land acquisitions.

     In aggregate, a total of $33 billion of government financial assistance (excluding guarantees) has been requested. Many projects have also requested more than one form of government support.

   - **Regions of New Zealand** – all regions are represented across the projects, with 54 'nation-wide' projects/programmes also submitted (representing $7.8 billion in capital expenditure).

- **Sectors** – the most represented sectors by project capital expenditure are Transport ($14 billion) and Social ($8 billion). Projects within these categories are estimated to result in the employment of approximately 33,000 FTEs and 24,000 FTEs respectively.

- **Construction readiness** – the projects include $12.2 billion of projects currently (or previously) in the construction phase and $18.7 billion estimated to be ready to commence in the next six months. These two categories represent 484 of projects, with the remaining 318 projects construction-ready within 12 months.

- **Project size and labour employment** – projects and programmes range from under $10 million to over $1 billion (e.g. the KiwiRail submission for $2,679 million).

15. We note that around 300 of the projects have a capital expenditure value of below $20 million and could also be considered by the Provincial Development Unit as suitable for the Provincial Growth Fund.

Many projects have assumed to be accelerated with fast-track resource consenting

16. Around 400 of the IRG projects request fast-track resource consenting. The IRG and CIP have made assumptions about what projects will be granted this under proposed fast-tracking resource legislation, advancing construction-readiness dates. They have based these assumptions on the experience from the Kaikōura earthquake rebuild legislation.

17. Specifically, on the basis of fast-track consenting, 69 projects that were originally construction-ready in 12 months were advanced to within 6 months. Likewise, 51 projects that were construction-ready beyond 12 months were advanced to within 12 months.

18. The proposed processes for accelerating resource consents under the 'COVID-19 Recovery (Fast-track Consenting) Bill' and how this process relates to these projects is discussed in paragraph 46 below.

The IRG assessment process is based on limited information and the report recommends further considerations

19. The assessment process that the IRG used to score and rank projects is largely driven by assigning a 1-5 score for the sector to which a project belongs, a measure of labour intensity and other small adjustments.

20. While this suggests some precision around rankings, there are further considerations that officials and Ministers should assess before making decisions on projects including, further due diligence, alignment with other initiatives, the most appropriate form of government support, and regional impact and capacity. Sections 8 and 9 of the IRG Project Readiness Report discuss these considerations.

21. A key consideration outlined by the IRG is that in order to avoid the risk of making poor investment decisions, additional information (such as business cases) should be considered to confirm the costs and benefits of a project and the procurement plan.

22. How quickly Ministers wish to make decisions on the IRG projects will influence how much consideration can go into managing these risks, and the benefits gained from further information and advice. Some agencies have started to assess projects related to their portfolio areas in parallel to the IRG process, which may mitigate some, but not all, of this risk.

Focus areas and objectives for decisions on infrastructure projects

23. Given the $33 billion of requested financial assistance across the IRG projects is over 10 times the funding available in the $3 billion tagged contingency, the Government will need to make some choices regarding the portfolio of IRG investments it wishes to support.

24. In addition to shovel readiness, key criteria the Government will need to consider are:

    - employment
    - supporting impacted regions, and
    - long-term economic transformation (productive, sustainable and inclusive economy).

25. Within particular focus areas, there are also more specific criteria that the Government would need to have confidence they could meet such as market capacity, supply chain constraints, and workforce skills. Consideration could also be given to how projects support the Government in delivering on its wider objectives, such as improving the environment, reducing emissions and delivering better outcomes for Māori and Pasifika. This consideration could include whether it is possible to procure for these outcomes in an efficient and effective way. Particular focus areas are discussed below.

26. The Government will also need confidence that these projects deliver value for money.

27. Decisions on significant investment in three waters infrastructure should also be considered in the context of the reform being proposed by the Minster of Local Government. This issues is discussed further in Annex 1.

Pre-existing infrastructure deficits such as housing, transport and urban development,

28. There is a strong emphasis in the IRG Project Readiness Report on infrastructure projects in sectors that have pre-existing infrastructure deficits that will remain after (or have been exacerbated by) COVID-19, in particular urban development and its related portfolios of housing, transport and water.

29. The evidence base for infrastructure investment across central government agencies in these sectors is relatively compelling and includes insights gained from urban growth partnerships and deep dive housing assessments in areas like Rotorua and Hastings.

30. We judge that projects in these sectors could be identified relatively quickly and expedited for early decisions if Ministers wished. The Ministry of Housing and Urban Development (HUD) is providing some initial advice to the Minister of Housing on 21 May on projects that could progress housing and urban developments in places with high housing needs, and deliver jobs.

31. A similar case could be made for investments in social infrastructure, such as health, where existing infrastructure deficits persist and COVID-19 is unlikely to have negatively impacted underlying demand.

Significantly impacted regions

32. Our understanding and evidence base of the regional impacts of COVID-19, and the long-term needs of regions worst impacted, is still developing. In the short-term, decisions on infrastructure investment in these regions is likely to be more inherently risky than in areas where the evidence base is more robust.

33. MBIE is developing regional factsheets, informed by consultations with regional representatives, which will help officials better understand the relative impact of COVID-19 across New Zealand. Based on the evidence we have to date, including an Infometrics report commissioned by the IRG, it seems likely that Otago, the West Coast and Northland will be disproportionately impacted, reflecting their high employment share in COVID-impacted sectors, such as activities related to tourism and construction. In absolute terms, Auckland is likely to experience the biggest impact.

34. The range of interventions that the Government could take to support these regions extends beyond infrastructure investment. In addition to supporting jobs, interventions would also need to facilitate diversification and strengthen community resilience, or risk a more disruptive structural adjustment in the future.

35. MBIE will report back to you on possible interventions to support those regions identified as worst-impacted in the lead up to the next CRRF round. In addition to support for infrastructure identified through the IRG process, this could also leverage existing government announcements around re-deployment packages, the re-purposing of the PGF and the Tourism Recovery Fund. This could form the basis of a proposed package of initiatives to be considered as part of the next CRRF process.

Long-term recovery and economic transformation

36. Given the scale of adjustment required to rebuild the economy, short-term fiscal stimulus will need to be well integrated with the desired long-term economic transformation towards a more productive, sustainable and inclusive economy.

37. The choices we make about infrastructure today will have implications for the shape of the future economy for a number of decades, including our resilience to natural and physical events, our ability to integrate new technologies and our long-run aspirations for the environment. These choices can also better position us to take advantage of opportunities that will present themselves in a post-COVID environment.

38. As part of their decisions on the Wave 3 recovery objectives, the Macroeconomic Response Ministers Group should consider the role of infrastructure in delivering on these long-term objectives, beyond job creation and immediate stimulus. We consider that proposals that fit with these longer-term objectives are likely to be under-represented in the IRG process given its focus on shovel readiness and jobs. Such proposals could be submitted from sources outside the IRG, in particular key portfolio Ministers, in a future CRRF process.

39. For example, infrastructure that supports better digital connectivity will be a key enabler for a number of industries the Government is looking to foster through its industry strategy such as digitech, agritech, advanced manufacturing and creative industries. Government support for green infrastructure, such as clean energy, could also help mitigate the risks of a longer term net increase in emissions during the recovery as a result of increased demand for building materials for physical infrastructure projects, heightened global demand for our primary products, and low oil prices.

Procurement issues and work underway by officials

40. The IRG Project Readiness Report identifies the importance of efficiently procuring and contract projects in the short and medium-term. Their recommendations include the consideration of alternative procurement arrangements for projects that are not being procured by an 'experienced government procurement agency'.

41. A number of procurement and commercial reform initiatives are underway or are the subject of forthcoming advice, including from MBIE and the New Zealand Infrastructure Commission Te Waihanga (Te Waihanga). These include:

- **Practice guidance** – from MBIE and Te Waihanga that has legal and commercial implications for all agencies.
- **Rapid delivery procurement models** – from MBIE and the Construction Sector Accord.
- **Market interventions** – fixed risk pricing, fixed margins proposals from Te Waihanga and CIP, and potential firm support.
- **System interventions** – a new Procurement Working Group (described below).
- **Product interventions** – proposals to align NZ PPP contracts to an Australasian standard (so we have a better chance of attracting global market players). CIP and MBIE are also pushing for a faster form of business case process.
- **Social procurement –** proposals to facilitate access by Māori and/or Pacific firms to Government contracts (including infrastructure).

42. The Treasury is establishing a Procurement Working Group made-up of key advisors from across government to ensure the proposed reforms deliver as intended, and improve the sustainability of the sector and the Government's investment programmes. This will include members from the Treasury, Te Waihanga, and MBIE. The Treasury has also invited a CIP representative to contribute to this group.

43. These procurement and commercial initiatives will help ensure any projects identified from the IRG Project Readiness Report are procured well. In addition, the focus areas recommended by officials in this report across transport, housing and urban development largely represent projects procured by experienced government procurement agencies identified in the IRG Project Readiness Report.

Further advice on alternative procurement arrangements for some projects

44. If Ministers wish to consider alternative procurement arrangements for particular projects, as suggested in the IRG Project Readiness Report, officials can advise on this in the lead up to the next CRRF process.

45. One option is to leverage existing arrangements for the New Zealand Upgrade Programme (NZUP) to give Ministers greater visibility, monitoring and assurance over the delivery of projects. Additional support could also be considered for individual projects if any specific procurement or delivery issues arise.

Resource consenting fast-track processes under new proposed legislation

46. The COVID-19 (Fast-track Consenting) Bill will provide temporary powers to fast-track resource consenting and designating processes for specific developments and infrastructure projects. These temporary powers are proposed to be available for two years.

47. A draft LEG paper and draft Bill will be distributed this week for Ministerial consultation by 25 May. Two processes to fast-track resource consenting are currently proposed:

- **Projects listed in the legislation:** eligible large-scale Government-led projects will be listed in the legislation, these projects will proceed direct to a Panel for consideration.
- **Projects confirmed through Orders in Council:** any persons with eligible projects will be able to apply to the Minister for the Environment to use the fast-track process, with the Minister being able to refer a project to a Panel if the Minister considers the project meets the purpose of the legislation**.**

48. The IRG projects requesting fast-track resource consenting are likely to be considered through these processes. We recommend that you refer a copy of this report and the IRG Project Readiness Report to the Minister for the Environment to help ensure that the IRG projects are considered as part of these processes.

Next Steps

The lead up to the decisions on the IRG projects

49. If you wish to consider the IRG projects as part of the next CRRF process, the Treasury's recommended approach is outlined in Annex 1. This involves assessing up to 200 central government projects and considering the case for broader based packages of support for local government and the private sector.

50. If you wish to make some early decisions on the IRG proposals, we propose that you direct MHUD, the Ministry of Transport (MoT), the Department of Internal Affairs (DIA), and the Ministry of Health to work together to develop a draft package of IRG projects that would address long-standing infrastructure deficits (in particular those that support urban development or directly address place-based health or housing needs) in close consultation with the Treasury.

51. Projects within the package would need to stand-up on their own merits and be complementary, as well as leverage any inter-dependencies. The Treasury could provide additional guidance on assessment criteria and Vote team assessments. You may also wish to consider assigning a fiscal envelope for any decisions that are announced ahead of the next CRRF round.

52. Officials will deliver the following advice in the coming weeks that may help Ministers make decisions on the IRG projects:

    - MoT and The Treasury advice on the National Land Transport Fund funding shortfall.
    - MBIE advice on regions most impacted by COVID-19 and potential interventions, including but not limited to, IRG infrastructure projects and the PGF re-purposing process to support these regions.
    - MHUD advice on the impact of Covid-19 on the residential construction markets, and options to support the sector including projects that could progress housing and urban developments in places with high housing needs.

53. MBIE and Treasury officials will also engage with Te Arawhiti on the approach to projects submitted by Iwi.

54. Ministers may also want to direct officials to provide additional advice in the following areas:

    - broader based support packages for community, social and environmental projects submitted by local government, private companies, Iwi, Trusts or Charities and other NGOs
    - support for commercial projects submitted from the privates sector such as the establishment of a 'rapid response fund' considered by the IRG
    - alternative procurement arrangements for particular projects, as suggested in the IRG Project Readiness Report

- broader based support packages for local government including the case for funding for NZTA to provide higher Financial Assistance Rates to support local government transport projects, and
- the use of the Capital Investment Committee and Health Infrastructure Unit in supporting the health sector to achieve the objectives of the IRG report.

55. The Minister for Economic Development and the Minister for Infrastructure were invited to report back to Cabinet on the IRG Project Readiness Report. This Cabinet paper should confirm:

- the decision-making process agreed in this paper for the IRG projects, and
- any decisions on the IRG projects that are to be made before the next CRRF process from the $3 billion infrastructure tagged contingency (as Cabinet agreement is currently required (CAB-20-MIN-0219.04 refers).

The IRG and CIPs ongoing role

56. The IRG have now delivered the advice set out in their Terms of Reference. We recommend against any further work being commissioned from the IRG at this stage. We will work with CIP to access specific project information in preparation to provide advice to Ministers in the lead-up to decisions on the IRG projects.

Annex 1: The Treasury's recommended approach to assessing the IRG projects in the next CRRF process

57. As outlined in the report, we recommend that decisions on the projects in the IRG report be made as part of the next CRRF process. This will support alignment between infrastructure investment decisions and the Government's wider COVID-19 economic recovery objectives, including future investment and reform under Wave 3 of the response.

58. The Treasury's recommended approach to this process is outlined below. We recommend that some project assessments are conducted by officials for consideration in the next CRRF process. However, we propose that this approach differs across the three main 'project owner' categories in the IRG report (central government, local government and private sector), as set out in this section.

Central government projects

Project assessments by officials leading into the next CRRF process

59. For the circa 200 central government projects seeking financial support, we recommend officials conduct project assessments to inform infrastructure investment decisions in the next CRRF process. This will include:

- government departments and agencies providing relevant additional information on the IRG projects, such as business case information
- Treasury Vote teams assessing the projects to form recommendations (similar to a Budget process) including a focus on value for money
- project assessment and recommendations from the Capital Panel coordinated by Treasury[1], and
- departments submitting any additional infrastructure projects in the CRRF process, that weren't included in the IRG Project Readiness Report to be considered alongside the IRG projects, but that satisfy the objectives of the CRRF process.

60. Treasury officials could start assessing individual central government projects next week and report back to the Minister of Finance as the next CRRF process is developed. This will include projects from the 'Central Government' and 'Other public Entity' categories from the IRG lists (around 200 projects).

61. Some infrastructure projects in the IRG report, and in the CRRF process will represent programmes of projects.

A coordinated approach that captures project interdependencies

62. It will be important for central government projects considered in the CRRF process to identify interdependencies with other projects, or funding from other entities, that are required to enable the project and realise benefits. For example, urban development projects (such as Kainga Ora's Large Scale Projects) that require local transport and water infrastructure from local government.

[1] The Capital Panel includes representatives from system roles critical to government investment including: the Government Chief Digital Officer (GCDO), Government Chief Data Steward (GCDS), Te Waihanga - New Zealand Infrastructure Commission (TW) and New Zealand Government Procurement and Property (NZGPP).

63. In the project assessments conducted by the Treasury vote teams, these interdependencies will be identified with departments and considered as part of the CRRF process.

64. Funding decisions for projects will also need to be coordinated with decisions on the fast-track consenting process through the new legislation discussed below.

Transport and the NLTF funding shortfall

65. 102 road and 137 transport projects are identified in the IRG Project Readiness Report. Many of these are within scope of possible funding by the NZTA, who's Board ordinarily has responsibility for selecting projects (within the parameters of the Government Policy Statement on Land Transport (GPS).

s9(2)(g)(i)

66. [redacted]

67. As such, we recommend that the NZTA projects funded from the NTLF submitted to the IRG are not assessed individually in the CRRF process. However, for those central government transport projects not funded by NLTF, such as airports, ports and KiwiRail projects, we suggest including these for assessment in the CRRF process. MoT is also assessing, and will report on, the funding pressures across these projects.

<u>Local government projects</u>

68. For the circa 380 local government projects seeking financial support, we recommend against assessing each project in the CRRF process. Instead we recommend considering advice in the first instance on:

- the case for broader based support for local government, to be considered in the CRRF process, and
- the case for funding for NZTA (in addition to existing shortfall discussed above) to support local government projects.

69. This advice can be used to inform what proposals for local government support could be included in the CRRF process, as discussed below.

70. In addition, we may also learn more over the next few weeks about the COVID-19 impact on Council revenue and capex pipelines as Councils finalise their annual budgets. This may help clarify the case for government support in some areas.

71. Any central government urban development projects that are submitted in the CRRF process should also identify any local transport and water infrastructure requirements , so these costs can be considered as part of these projects.

Funding for NZTA should be also be considered to support local government

72. Local council land transport projects (local roads, public transport and active mode projects) are normally co-funded through the NLTF with council's qualifying for a Financial Assistance Rate (FAR) which varies but for many projects is about 50% (the FAR rate is not subject to government policy decisions and is decided by the NZTA Board).

73. The IRG report includes many of these local transport projects submitted by local government authorities. We recommend that these projects are not assessing individually in the CRRF process. s9(2)(g)(i) [redacted]

Funding for significant local government water infrastructure should be considered in line with Cabinet decisions on three waters reform

75. The Minister of Local Government recently brought a paper to the Cabinet Economic Development Committee (DEV) seeking agreement to a reform approach to three waters infrastructure. On 13 May 2020, DEV delayed consideration of the cabinet paper pending further consultation with Ministers (DEV-20-MIN-0079refers). s9(2)(g)(i) [redacted]

76. We recommend that any decisions on three waters projects in the IRG report that fall within the scope of the proposed three waters reform are delayed until Cabinet has made decisions on those reforms and considered as part of the process proposed by the Minister of Local Government.

77. As Cabinet decisions may not have occurred by the time of the next CRRF process, if Ministers want to ensure that some local government water projects are considered for that process, we recommend the Department of Internal Affairs be directed to identify those projects that are not dependant, or would not compromise, the Cabinet decisions on three waters reform. These projects could be considered in the next CRRF process, or as part of broader based support packages for local government, discussed below.

78. Where water infrastructure is related to agreed central government urban development projects (such as Kainga Ora Large Scale Projects) and won't conflict with goals of the three waters reform, these projects could be considered in the CRRF. Ministers may want to consider conditionality of any support provided for local government infrastructure (discussed below in paragraph 86).

79. DIA have also noted that there is an interagency work programme on community resilience that includes consideration of flood risk management (CAB-19-MIN-0588 refers). DIA's preference is that all flood risk projects should be assessed as a package with reference to the policy work they are undertaking.

Financial impacts on local government and the case for broader based support packages

80. In the 2018/19 financial year councils reported capital expenditure of just over $5.7 billion split between replacement of existing assets (42%), improvements to levels of service (37%), and accommodating growth (21%).

81. The Department of Internal Affairs (DIA) are assessing the impact of COVID-19 on Local and Regional Councils infrastructure pipelines. Preliminary scenario testing suggest that total Local Government revenues could drop up to 7.6% for 2020/21.

82. DIA have also suggested that up to 9 Councils could expect to exceed their debt/revenue covenants with the Local Government Funding Authority (LGFA) in the next three years without significantly lowering planned capital expenditure.

83. The LGFA shareholder council is seeking shareholder approval in June to increase the net debt/revenue covenant for rated councils from 250% to 300% for the 2020/21 and

2021/22 years, decreasing 5% in subsequent years and reaching a new limit of 280% in 2026. This would alleviate some of the pressure caused by reduced revenue, and, based on DIA's scenario testing, could allow for councils to continue with planned capital expenditure without being likely to breach their debt/revenue covenants.

Broader-based support packages for local government and conditionality

84. Outside of the NZTA funding and three waters reform, support for local government should be considered in the broader context of the Government's approach to the recovery.

85. We recommend Ministers could direct DIA and Treasury officials to prepare advice on the case for broader based support packages for local government, to be considered as part of the next CRRF process. This could include the option to support borrowing capacity, or granting funding directly to local government.

86. This advice should also consider the conditionality that local government support could most usefully include, such as:

- environmental outcomes – many of the local government projects are related to climate change resilience environmental outcomes, central government funding could be conditional on these projects being procured
- enabling housing outcomes – including possible conditions around district/regional plan changes or coordinating local government transport and water investment towards enabling more housing development
- co-funding – encouraging, where possible, for councils to also use their own funding and financing tools to deliver infrastructure for their communities, such as targeted rates
- better joint spatial planning – encouraging better coordination between central government agencies and on spatial planning outcomes, for example Kainga Ora's Large Scale Projects, and
- partnership – working with their local communities, including Māori, to develop joint solutions, including, potentially, co-funding and co-governance.

<u>Private sectors projects and support for the residential housing market</u>

87. For the 179 commercial and community projects submitted by private sector companies, trusts and charities, Iwi and other NGOs, we recommend against assessing each project in the CRRF process. Instead we recommend:

- considering upcoming advice HUD and Kainga Ora advice on options to support the residential housing sector, that may inform options that could be considered in the CRRF process
- considering Kainga Ora Large Scale Projects in the CRRF process, which have interdependencies with some projects in the IRG report and that could provide significant demand to the residential housing sector, and
- directing officials to consider broader based support packages for the private sector, trusts and charities, Iwi and other NGOs.

The existing broad-based measures for private sector support

88. The approach to direct government support for the private sector has focused on broad-based measures for firms and employees such as the Wage Subsidy Scheme, the Business Finance Guarantee and the Small Business Loan Scheme.

89. Large construction projects represent a complex web of suppliers, financiers and subcontractors across the industry, and existing projects will be well targeted by these broad-based measures.

90. However, the existing broad-based support schemes are mostly aimed at supply-side support, and are not well placed to remedy a demand-side deficit in the construction sector.

91. As part of Budget 2020 the Government did, however, announce significant demand stimulus to the sector, with 8,000 new public and transitional homes, including borrowing by Kainga Ora over the next 4-5 years of $5 billion. This also includes $13 million for Māori Housing Supply, and $3 million for Māori Housing.

The IRG case for further demand stimulus for the residential building market

92. The IRG report estimates that over the next five years (2021-25), the impact of the lower residential consent volumes will be a cumulative $23 b lower than the total work over the last five years (before accounting for the Budget 2020 announcements).

93. The residential home building market (except apartments) is identified by the IRG as the most vulnerable within the sector with the strongest case for support, given:

- the low concentration of suppliers, comprising a large number of small businesses (the largest market player only has about 5% market share and is in itself a franchise operation)
- the heavy dependency on general consumer confidence to drive demand for new residential houses, and
- the large employment base, making up approximately 55% of the labour employed in the construction sector.

94. The IRG report also identifies the commercial building market (commonly referred to as vertical construction) as an area where demand is likely to be significantly impacted in the long run.

HUD and Kainga Ora advice on demand stimulus options and Large Scale Projects

95. HUD has work underway to provide the Minister of Housing with advice on the impact of COVID-19 on the residential construction sector and options to support the sector. HUD is leading this work and undertaking it jointly with Kāinga Ora, with involvement from other government agencies. Advice has also been provided to on recommend targeted changes to KiwiBuild. The work has two objectives:

- to ensure there continues to be a viable residential construction sector so we can maintain housing supply through and post COVID-19, and
- to look for opportunities to resolve some of the long-standing system issues we have been grappling with.

96. The residential construction work is a critical component of the Construction Sector Accord work that is being led by MBIE. The advice also forms part of HUD's wider housing and urban response.

97. Further advice will be provided to Minister of Housing at the end of May, outlining a cascade of support options, when they would be needed, and seeking agreement to undertake further work on a recommended sub-set of options.

98. As well as sectoral support options, HUD is providing advice to the Ministers of Housing on 21 May on projects that could progress housing and urban developments in places with high housing needs.

99. This advice will inform options for sectoral support that could be considered in the CRRF process. In addition, have specific projects (such as Kainga Ora submit Large Scale Projects) included in the CRRF process will also provide options for significant demand stimulus to the market.

Other commercial, community social and environmental projects

100. If Ministers want to consider community, social and environmental projects submitted by local government, private companies, Iwi, Trusts or Charities and other NGOs, in the next CRRF process, we recommend officials provide advice on broader based support packages.

101. The IRG also makes a case for a government 'rapid response fund' to take over distressed private sector construction projects where the owner has become insolvent, and if it is in the public interest to do so.

102. If Ministers want officials to consider commercial projects in the next CRRF process, we recommend officials provide advice on broader based support packages including the establishment of a dedicated fund.

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/1656 SH-1-6-1-3-3-7 (Infrastructure)

Date: 26 May 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 27 May 2020
(if any)

An assessment framework to consider projects put forward by the Infrastructure Reference Group: Aide Memoire 2020

You are meeting with Ministers Jones and Twyford on Wednesday 27 May to discuss the joint report you received from the Treasury and the Ministry of Business Innovation and Employment (MBIE) [T2020/1497 refers] on options to assess the 'shovel-ready' projects put forward by the Infrastructure Reference Group (IRG).

We understand that at your Pre-Cabinet meeting on Monday 25 May you discussed the joint report, and that Ministers want officials to provide an assessment framework that will identify the infrastructure projects from the IRG report for Ministers to progress.

This aide-memoire provides you with the Treasury's initial thinking on the assessment framework to inform your discussion with Ministers Jones and Twyford. Over the next three weeks officials will provide with you further advice on the assessment framework.

We also understand that Ministers are interested in making decisions on some projects in advance of the next round of COVID-19 Response and Recovery Fund (CRRF) considerations. Over the next three weeks, as the assessment framework is developed, officials will report back on what projects would be most appropriate for early announcement.

Our advice remains that folding the assessment of the bulk of the IRG projects into future iterations of the CRRF process provides you with a better opportunity to assess these projects alongside other recovery decisions.

Thoughts on an assessment framework

Our advice is to build on the initial assessment undertaken by the IRG that focuses on sectors, jobs and regional/national benefit. We propose that an initial filter of these projects is undertaken to focus on higher rated IRG projects.

Further, we would recommend that the initial filter considers projects that are in sectors with pre-existing infrastructure deficits that will remain after (or have been exacerbated by) COVID-19. There are also other draft criteria, which can be used to help prioritise that list of projects, as noted in the table below.

You may wish to discuss with Ministers Jones and Twyford the proposed approach to developing an initial list of projects including specific sectors that they consider have pre-existing infrastructure deficits, and in which they think further investment (whether individual investment or pipelines of projects) is required. Any direction on these issues that Ministers can provide to officials will help to refine the number and types of projects that are subject to assessment from the list of the 802 IRG projects.

Initial assessment criteria

Initial filter
Higher rated IRG projects and sectors with an identified shortfall in infrastructure, and agreed with Ministers. Other criteria below to assist with prioritisation.
Additional criteria
Sectors What level of investment is required? (is this a priority investment to support our economic recovery? Is this a medium- to long-term investment to close our infrastructure deficit?). Are there supply-side capacity constraints within this sector?
Job creation What is the estimated number of jobs that this project could create in specific sectors/regions most impacted by COVID-19? Is this project within a region that has underutilised labour/sector capacity?
Impacted regions Is this project within a region that has been hard hit by COVID-19, or is forecast to be hit by the impacts of COVID-19 in the near, medium or long-term? Is there an opportunity to consider this project as part a regional investment pipeline?
Project delivery How is this project or collection of projects sequenced to be construction ready over the next 6 to 12 months? Is the delivery timeframe realistic? What is the capability and capacity of the procuring party to procure and deliver this project?

What market and supply chain issues are likely to arise in this region during project delivery? What options are appropriate for funding and project delivery?
Value for money What is the cost-benefit analysis associated with this project? What is the net public benefit and/or value for money associated with this project (including whole of life costs, where applicable)?
Investment readiness and planning How investment ready is this project? What planning is already in place (e.g. what business case stage is the investment in)? How reliant is this project on other sector investments (multi-agency dependency)? Is the intervention being sought likely to be addressed by other mechanisms (fast-track RMA consenting and designation processes)? How does investment in this project avoid unnecessarily crowding out of private sector investment or activity?
Wider government objectives How does the project support the Government's wider objectives towards a productive, sustainable and inclusive economy (e.g. improving the environment, reducing emissions, and delivering better outcomes for Māori and Pasifika)?

Fiona Stokes, Senior Analyst, National Infrastructure Unit (NIU), s9(2)(k)
David Taylor, Manager, National Infrastructure Unit (NIU), s9(2)(k)

DEV-20-MIN-0114

Cabinet Economic Development Committee

Minute of Decision

Infrastructure Reference Group (IRG): Update on Infrastructure Projects

Portfolios **Finance / Infrastructure**

On 24 June 2020, the Cabinet Economic Development Committee, having been authorised by Cabinet to have Power to Act [CAB-20-MIN-0304]:

Background

1 **noted** that on 17 May 2020, the final Infrastructure Reference Group (IRG) Report was received by the Minister of Finance, Minister for Economic Development, Minister for Infrastructure and Associate Ministers of Finance;

2 **noted** that the final IRG report includes 802 infrastructure projects from central government, local government, the private sector and other entities requesting government financial support of $33 billion;

3 **noted** that through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package, Cabinet has agreed to a $3 billion Tagged Contingency to provide for investment in infrastructure to support the economic recovery from COVID-19 [CAB-20-MIN-0219.04];

The shortlist of projects

4 **noted** that Ministers have requested further advice from Crown Infrastructure Partners (CIP) and officials, and have established a shortlist of 177 projects seeking an estimated $3.3 billion government funding, as outlined in Attachment A to the paper under DEV-20-SUB-0114 (Attachment A), which focus on the following key sectors:

4.1 housing and urban development;

4.2 energy;

4.3 community development;

4.4 waste and water;

4.5 other central and local government infrastructure;

5 **noted** that the projects in Attachment A achieve a wide distribution of investment across the regions of New Zealand, including a focus on those regions most impacted by COVID-19, such as the Bay of Plenty, the West Coast and Otago;

6 **noted** that this shortlist of projects is estimated to enable 26,000 jobs and a total value of projects worth $6.6 billion;

Delegation of final decisions

7 **authorised** the Minister of Finance and the Minister for Infrastructure, together with the Associate Ministers of Finance (IRG Ministers), to make final decisions on projects in the shortlist in Attachment A to be funded from the $3 billion Infrastructure Tagged Contingency, including decisions on timing and announcements;

8 **agreed** that IRG Ministers take into consideration the following criteria when making final decisions on which IRG infrastructure projects to fund from the $3 billion Infrastructure Tagged Contingency:

8.1 the number of jobs created;

8.2 regional impact and distribution of projects;

8.3 project achievability and readiness;

8.4 net public benefit;

8.5 alignment with wider government objectives;

9 **agreed** that when making final decisions on projects from the shortlist in Attachment A, IRG Ministers prioritise 'preferred' projects over 'reserve' projects in the first instance, on the basis that they are more likely to achieve the government's objectives;

s9(2)(i)

10

11

12 **authorised** IRG Ministers and the relevant portfolio Minister to make the necessary changes to appropriations (including establishing any new appropriations) to deliver projects following decisions from IRG Ministers;

Delivery agencies

13 **agreed** that for those projects progressed by IRG Ministers that are best delivered by relevant central government agencies, those agencies will be funded to deliver those projects including, where applicable, New Zealand Transport Agency, Kainga Ora and Ministry for the Environment;

14 **invited** the relevant portfolio Ministers to engage with central government agencies on the delivery of projects described in paragraph 13 above;

15 **agreed** that the Provincial Development Unit (PDU) within MBIE be responsible for delivering projects progressed by IRG Ministers that are under $20 million where they are best placed to do so, such as those within the scope and objectives of the Provincial Growth Fund;

16 **noted** that Cabinet agreement may be needed to allow the PDU to deliver projects that are currently outside its mandate (for example, social infrastructure in districts currently outside the scope of the Provincial Growth Fund) but that it is best placed to deliver;

17 **agreed** that CIP be responsible for delivering other local government and non-government (including private sector) projects progressed by IRG Ministers, but that do not have an existing central government delivery agency best placed to deliver them;

18 **agreed** that the PDU and CIP roles include:

18.1 carrying out any necessary due diligence, negotiations, funding arrangements, establishment of investment objectives, and appropriate risk-sharing arrangements;

18.2 procuring projects directly where necessary;

18.3 administering the funding to those entities directly procuring projects (such as local government authorities);

18.4 monitoring projects until their completion;

19 **directed** the shareholding Minsters of CIP (the Minister for State Owned Enterprises and the Minister of Finance) to direct CIP under the company constitution to carry out the role referred to in paragraphs 17 and 18 above;

s9(2)(i)

Programme governance and monitoring

23 **noted** that IRG Ministers propose to establish a monitoring approach to track the progress of these projects similar to the approach to the New Zealand Upgrade Programme (NZUP), incorporating lessons from other successful approaches such as Stronger Christchurch Infrastructure Rebuild Team (SCIRT);

24 **noted** that this monitoring approach could also have an Oversight Group to provide the IRG Ministers with rigorous, independent and integrated advice on the risks and delivery performance of the selected projects;

25 **invited** IRG Ministers to report back to Cabinet on the programme governance and monitoring arrangements after final decisions on projects have been made;

Project announcements

26 **noted** that:

26.1 IRG Ministers plan to make announcements on projects from the week commencing 29 June 2020;

26.2 all early announcements will be in-principle, and will require negotiations and funding agreements to be put in place following announcement (similar to how Provincial Growth Fund announcements are made);

27 **noted** that IRG Ministers will seek additional information from CIP and PDU where necessary ahead of announcements, which will be coordinated by IRG Ministers' offices and the Prime Minister's Office.

Janine Harvey
Committee Secretary

Present:
Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Phil Twyford
Hon David Parker
Hon Nanaia Mahuta
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Damien O'Connor
Hon Kris Faafoi
Hon Ron Mark
Hon Shane Jones
Hon James Shaw
Hon Eugenie Sage

Officials present from:
Office of the Prime Minister
Officials Committee for DEV

Hard-copy distribution:
Minister of Finance
Minister for Infrastructure

Office of the Minister of Finance
Office of the Minister for Infrastructure

Chair
Cabinet Economic Development Committee

Update on Infrastructure Reference Group (IRG) Infrastructure Projects

Proposal

1. This paper seeks Cabinet's agreement to:

- authorise the Minister of Finance and the Minister for Infrastructure together with the Associate Ministers of Finance (IRG Ministers) to make final decisions on projects in the shortlist in Attachment A to be funded from the $3 billion Infrastructure Tagged Contingency including decisions on timing and announcements.

- the role of government agencies to deliver the IRG projects, including:

  i. the relevant central government procurement agencies (such as New Zealand Transport Agency, Kainga Ora and Ministry for the Environment), for those projects best delivered by these agencies.

  ii. the Provincial Development Unit (PDU) within MBIE for projects that are under $20 million and where they are best placed to deliver (such as those within the scope and objectives of the Provincial Growth Fund).

  iii. Crown Infrastructure Partners (CIP) for other local government and non-government (including private sector) projects that do not have an existing central government delivery agency that is best placed to deliver them.

- authorise delegated Ministers and the relevant portfolio Minister to make the necessary changes to appropriations (including establishing new appropriations) to implement decisions to be taken around funding projects.

Relation to government priorities

2. While the immediate public health threat from COVID-19 has diminished, the economic impact remains significant. There is further work we must do now to support New Zealand's economic recovery.

3. Infrastructure is an important enabler of economic, environmental and social outcomes, and will play a key role in New Zealand's long-term economic recovery from COVID-19.

4. Investment in construction ready projects will inject fresh capital, confidence and jobs into our economic recovery. This investment will provide much needed stimulus and fill the gaps in economic activity that we are starting to see. This investment will also help

to advance some of our wave three recovery objectives around energy, community development, housing and urban development.

Executive Summary

5. Infrastructure investment will play a key role in New Zealand's longer-term economic recovery from the impacts of COVID-19. As a result, Ministers announced the establishment of the Infrastructure Reference Group (IRG) to provide a list of infrastructure projects that are ready (or near ready) for construction and could be deployed as part of a stimulatory package. The IRG was directed to focus on immediate job creation and income growth, and providing public confidence that economic activity is back underway.

6. On 11 May 2020, Cabinet agreed to a $3 billion tagged contingency to provide investment in infrastructure to support New Zealand's economic recovery as part of the COVID-19 Response and Recovery Fund (CRRF) Foundation Package (CAB-20-MIN-0219.04 refers).

7. The IRG has now provided its final report to Ministers, which includes a total of 802 projects seeking $33 billion in funding or financial support. Following the receipt of this report, Ministers directed CIP and officials to identify a shortlist of projects to fund from the Infrastructure Tagged Contingency, with a focus on the following sectors: housing and urban development; energy; community development; water and waste; and other central and local government projects.

8. This shortlist of projects is set out in Attachment A and includes 177 number of projects seeking $3.3 billion of funding and financial support and is estimated to enable 26,000 jobs and a total value of projects worth $6.6 billion.

9. This investment offers an opportunity for new employment, the preservation of jobs and the redeployment of workers in our hardest hit communities and sectors. We are also focused on investing in the direction that we want New Zealand to move towards in the future - transitioning towards a more productive, sustainable and inclusive economy, enabling our regions to grow, and supporting a modern and connected New Zealand.

10. We are seeking Cabinet authorisation for the Minister of Finance and the Minister for Infrastructure together with the Associate Ministers of Finance and the Minister of Economic Development (IRG Ministers) to make final decisions on which projects to fund from the shortlist in Attachment A (including decisions on timing and announcements). We are also seeking Cabinet agreement to the following criteria that IRG Ministers will use to make these final decisions:

    - The number of jobs created
    - Regional impact and distribution
    - Project achievability and readiness
    - Net Public benefit
    - Alignment with wider government objectives.

11. When making final decisions on projects from the shortlist in Attachment A, we are seeking Cabinet's agreement for IRG Ministers to prioritise "preferred" projects over

"reserve" projects in the first instance, on the basis that they are more likely to achieve the Government's objectives.

12. We are also seeking Cabinet's agreement to the agencies responsible for delivering these projects including existing central government procurement agencies (such as New Zealand Transport Agency, Kainga Ora and Ministry for the Environment), the Provincial Development Unit (PDU) and Crown Infrastructure Partners.

13. We plan on making decisions on these projects as soon as possible to enable projects to quickly get underway. We also plan to make announcements on projects as soon as next week. All early announcements will be in principle and will require negotiations and funding agreements to be put in place following announcement (similar to how Provincial Growth Fund announcements are made).

Background

Infrastructure Reference Group

14. On 1 April 2020, the Minister for Economic Development and the Minister for Infrastructure announced the establishment of the Infrastructure Reference Group (IRG) headed by CIP Chairman Mark Binns.

15. The IRG was established in response to the current COVID-19 situation and concerns of a large downturn in the infrastructure and construction sectors. The IRG was tasked with preparing 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.

16. On 29 April 2020, DEV agreed to the establishment of the IRG process including a Terms of Reference (DEV-20-MIN-0056 refers). Cabinet also invited the Minister for Economic Development and the Minister for Infrastructure to report back to DEV on the final IRG report.

17. The objectives the IRG were asked to consider in collating its report align with the short-term objectives agreed in the repurposing of the Provincial Growth Fund (PGF):

- an increased focus on immediate job creation and income growth
- construction activity that will be underway within the next 12 months, and
- a high degree of visibility to the community, to give the public confidence that renewed economic activity is underway.

18. The IRG delivered their final report to Ministers on 17 May, identifying 802 projects across central government, local government and the non-government sector (including the private sector). The IRG report also ranks projects with a score, largely driven by assigning a 1-5 score for the sector to which a project belongs, a measure of labour intensity and other small adjustments. The original IRG report is attached in Attachment B.

19. One of the key observations in the IRG report is that the home building and commercial building sectors are the most vulnerable in the recovery. These sectors make up the majority of employment in the construction sector and comprise a large number of small business, especially in the home building sector.

20. Across the 802 IRG projects, a total of $33 billion of government financial assistance (excluding guarantees) was requested. Requests for other forms of assistance included subsidies, fast-tracking building and resource consents, changes to procurement practices, and land acquisitions.

21. From the 802 IRG projects, IRG Ministers requested the CIP and officials to identify a shortlist of projects that could be funded from the $3 billion Infrastructure Tagged Contingency.

$3 billion Infrastructure Tagged Contingency

21. On 11 May 2020, as part of COVID-19 Response and Recovery Fund (CRRF) Foundation Package decisions, Cabinet agreed to a $3 billion tagged contingency to provide investment in infrastructure to support New Zealand's economic recovery (CAB-20-MIN-0219.04 refers). Cabinet also:

    a. agreed that the purpose of the Tagged Contingency was to provide for investment in infrastructure to support the economic recovery from COVID-19, and

    b. noted that decisions on funding projects from the Tagged Contingency would be taken either through a future iteration of the CRRF process, or a bespoke process involving Cabinet approval.

The shortlist of projects (Attachment A) and delegation of final decisions

The shortlist of projects for Cabinet agreement (Attachment A)

22. Attachment A shows the shortlist of 177 projects that we have identified primarily from the IRG list of 802 projects. In finalising this shortlist we considered advice from CIP and officials.

23. This shortlist represents $3.3 billion of requested government financial assistance and is estimated to enable 26,000 jobs and a total value of projects worth $6.6 billion.

24. This investment offers an opportunity for new employment, the preservation of jobs and the redeployment of workers in our hardest hit communities and sectors. It also signals to the construction sector that the Government sees infrastructure as playing a key role in New Zealand's economic recovery, which should bolster demand and market confidence over the coming months.

25. We are also focused on investing in the direction that we want New Zealand move towards in the future in the future - transitioning towards to a more productive, sustainable and inclusive economy, enabling our regions to grow and supporting a modern and connected New Zealand.

26. This shortlist represents a focus on the following key sectors:

    26.1. **Housing and Urban Development:** Projects or packages that are consistent with the Urban Growth Agenda and the key economic shift to transform our housing market to unlock productivity growth and make houses more affordable. This includes horizontal and vertical infrastructure necessary to support increased housing supply.

26.2. **Energy:** Projects or packages that are consistent with the key economic shift to sustainable and affordable energy systems.

26.3. **Community:** Development **(including small scale projects**): Projects or packages that support strong and revitalised communities in both cities and regions

26.4. **Water and Waste:** Projects or packages that are consistent with the key economic shift so that land and resource use delivers greater value and improves environmental outcomes, which could include flood protection, irrigation and waste infrastructure.

26.5. **Other key:** Central **and Local Government infrastructure**: Projects that achieve the Government's wider objectives, and support the recovery.

27. The decision to focus on these key sectors has also been made with reference to the other large infrastructure investments this Government has made, including the $12 billion New Zealand Upgrade Program (NZUP) that included significant investment in roads, rail, public transport, health and education.

28. In addition to these key sectors, the list represents a distribution of projects across regions including those regions worst impacted by COVID-19 (or those with pre-existing infrastructure deficits) such as Bay of Plenty, the West Coast and Otago.

29. The IRG report emphasised regions with a high concentration of tourism and construction, relative to the size of the total workforce, having the greatest need for additional investment to support the local economy.

30. Annex 1 shows CIP's estimates of the regional impact from COVID-19 on jobs and GDP. Employment and GDP in the West Coast and Otago regions are estimated to decline significantly with GDP estimated to decline around 10% in the year to March 2021 in the West Coast and Otago.

31. Annex 1 also shows an indication of the possible ranges for what proportion of the Tagged Contingency could be allocated to reach region taking into account population and COVID-19 impact.

32. The shortlist also includes projects proposed by Māori and/or projects that will have significant benefits for Māori.

33. We have also worked with officials and departments to ensure that these projects are coordinated with existing funding programmes and programmes of work to ensure integration and consistency.

34. s9(2)(i) [redacted]

35. Cabinet recently agreed to redeploy and accelerate the Provincial Growth Fund (CAB-20-MIN-0197 refers). The shortlist in Attachment A also reflects advice received from the Provincial Development Unit (PDU) which has a role in prioritising projects under $20 million and has been working alongside the IRG and CIP in assessing projects.

Delegation of final decisions

36. We propose that the Minister of Finance and the Minister for Infrastructure, in consultation with the Associate Ministers of Finance (IRG Ministers) to make final decisions on projects in the list in Attachment A to be funded from the $3 billion Infrastructure Tagged Contingency including decisions on timing and announcements.

37. In making final decisions on what projects are funded from the shortlist in Attachment A, we recommend that Cabinet agrees to IRG Ministers using the following criteria:

Criteria	**Key questions**
Job creation	What is the estimated number of jobs that this project could create? Is the project within a region that has underutilised labour/sector capacity or could benefit from labour redeployment as a result of new projects?
Impacted regions and regional distribution	Is the project within a region that has been hard hit by COVID-19, or is forecast to be hit by the impacts of COVID-19 in the near, medium or long-term? Is there an opportunity to consider this project as part of a regional investment pipeline?
Project achievability and readiness	How is this project or package sequenced to be construction ready over the next 6 to 12 months? Is the delivery timeframe realistic? What is the capability and capacity of the procuring party to procure and deliver this project?
Net public benefit	What is the net public benefit associated with this project (including value-for-money and, where applicable, whole of life costs)?
Wider government objectives	How does the project support the Government's wider objectives towards a productive, sustainable and inclusive economy, including enabling a step change for Māori and Pacific economies?

s9(2)(i)

39. We recommend that, when making final decisions on projects, IRG Ministers prioritise preferred projects over optional projects in the first instance, on the basis that they are more likely to achieve the Government's objectives.

40. In the following situations, we recommend that IRG ministers consider the reserve projects for delivery:

- information arises for a preferred project that means it is less beneficial or more costly than originally estimated, or the requirement for government support has

otherwise changes, and IRG Ministers want to consider different projects that can better meet the Government's objectives set out in this paper,

- there is sufficient unallocated funds in the Tagged Contingency to allow for consideration of more projects than those on the preferred list, or

s9(2)(i)

[redacted]

43. We also intend to make global allocations across the following project categories:

- **River management for flood protection ($200m)** – investment in to river management to protect communities, towns and rural land from flooding.

  This represents a systemic nationwide investment in river management to deliver integrated flood protection systems through upgrades and renewals in all regions. This will future proof flood management for climate change and other contemporary causes of flooding and create close to 1000 jobs.

  Around the country there is a need to invest in river management for flood protection, to protect communities living alongside rivers in towns and cities and to protect our productive and significant rural land. This is needed now and into the future to ensure flooding, our most common natural hazard, does not undermine our way of life. This investment in river management will ensure New Zealand's flood management system is substantially upgraded or renewed to meet contemporary challenges. This includes adaptation to cope with more frequent and intense climate change induced flood events.

- **Digital connectivity ($50m)** – to address rural connectivity issues that arose during COVID-19 lockdown, including increased broadband capacity to areas that experienced congestion and further funds to connect broadband to more Marae that can provide a rural digital hub.

  This investment would be across most regions with an emphasis on Tai Tokerau (Northland), Bay of Plenty, Waikato, Top of South and Canterbury, and, secondly, Gisborne, Manawatu-Wanganui, Auckland rural area and Otago and thirdly Hawkes Bay, West Coast, Taranaki, Wellington (rural), and Southland.

- **Fire stations (around $50 million)** – this would provide funding to upgrade 16 fire stations in **areas** eligible for PGF funding related to seismic strengthening or upgrades to rural fire stations that are not fit for purpose and three FENZ bids submitted to the IRG in the large metros.

Delivery of projects

Delivery agencies

44. For those projects progressed by IRG Ministers that are best delivered by relevant central government agencies, we recommend those agencies are funded to deliver those projects including, where applicable, New Zealand Transport Agency, Kainga Ora and Ministry for the Environment.

45. For central government projects, we propose that the Treasury works with the relevant central government agency and puts in place the necessary steps to finalise support for projects, including reporting back to Ministers if project details have changed (for example, if costs are higher than first indicated).

46. For local government or non-government projects, we have less visibility of the capacity and capability of project Owners to deliver these projects. For these projects we recommend the following:

    - The PDU within MBIE deliver projects that are under $20 million and where they are best placed to deliver (such as those within the scope and objectives of the Provincial Growth Fund).

    - CIP for other local government and non-government (including private sector) projects that do not have an existing central government delivery agency that is best placed to deliver them.

47. Both the PDU and CIP roles should also include:

    - Carrying out any necessary due diligence, negotiations, funding arrangements, establishment of investment objectives and appropriate risk-sharing arrangements,

    - Procuring projects directly where necessary,

    - Administering the funding to those entities directly procuring projects (such as local government authorities), and

    - Monitoring projects until their completion.

48. For the procurement of large construction projects from local government or the non-government sectors, CIP is proposing the following approach:

    - ensuring that the obligation to procure remains clearly with the project owner who will be responsible for all pre-construction costs associated with getting the project started within an agreed timeframe,

    - CIP retaining the right to withdraw funding if delays are seen to be as a result of the project owner or the emergence of some obstacle that has not been disclosed to CIP – funds will not be disbursed to project owners until the project has

commenced and will likely be disbursed in accordance with an agreed schedule of milestones,

- all risks of cost overruns will sit with the project Owner,
- any exceptions to these principles would be brought to the IRG Ministers for approval.

Project announcements, due diligence and construction readiness

49. We plan to make announcements on projects as soon as next week, as these are agreed. All early announcements will be in principle and will require negotiations and funding agreements to be put in place following announcement (similar to how Provincial Growth Fund announcements are made).

50. Treasury advises that central Government projects on the shortlist are the most announcement-ready, as they are less likely to be subject to the risks outlined above.

51. IRG Ministers will seek additional information from CIP and PDU where necessary ahead of announcements, which will be coordinated by IRG Ministers' offices and the Prime Minister's Office.

52. In most instances, the shortlist also references the expected timing of when the projects will be ready to commence construction within the next 12 months. This builds from the IRG report that assessed and defined projects in three categories of construction readiness:

- Category A: Projects that are, or were, already in construction.
- Category B: Projects that have a high expectation of commencing in the next six months, where the six-month period is defined as up to 31 October 2020.
- Category C: Projects that are expected to commence construction in the next 12 months, where the 12-month period is defined as up to 30 May 2021.
- Category D: Projects that are not in Category A, B or C.

53. Government construction projects can face delays for many reasons, both external (consenting, business case reviews, and contractor challenges) and internal (challenges related to governance and decision-making, and cumbersome procurement processes). Fast-track consenting and/or designation may be needed to accelerate some of the projects, to enable projects to get underway as quickly as possible and to maximise the stimulatory effect of the Government's infrastructure investment.

54. The COVID-19 (Fast-track Consenting) Bill will provide temporary powers to fast-track resource consenting and designating processes for specific developments and infrastructure projects. These temporary powers are proposed to be available for two years. The IRG projects requesting fast-track resource consenting could be considered through this fast-track process.

55. The Construction Sector Accord ('the Accord') has been working with senior leaders across the sector to identify common pitfalls in project delivery and share lessons from the effective use of rapid mobilisation in the past (such as the mobilisation following Kaikōura and Christchurch earthquakes). To support agencies to learn from these lessons and understand how to follow best practice project delivery and procurement

methodologies, the Accord is currently producing a playbook ('the Rapid Mobilisation Playbook'), which will:

a. help project owners to understand what resources and expertise they need at different stages of the project,

b. share project delivery methodologies that are fast, safe and will enable the project to deliver economic, social and environmental outcomes,

c. promote the behavioural change required to achieve the Accord goals and outcomes, such as a more productive sector, improving resilience and restoring confidence, pride and reputation.

Programme governance and monitoring

56. The projects in Attachment A have been submitted by a range of entities across central government, local government and the non-government sector (including the private sector).

57. Regardless of which projects are progressed by IRG Ministers, there are common factors that need to be in place to ensure project success. The most important factors are clear governance and reporting arrangements; clear objectives about what we are trying to achieve through each project; and clear expectations about how risks are managed over the life of the project.

58. As we move forward on these infrastructure projects, we will therefore need to establish appropriate governance and oversight arrangements. These arrangements will be necessary to ensure that we know how projects are tracking against Cabinet's expectations.

59. We propose to establish a monitoring approach to track the progress of these projects similar to our approach to the New Zealand Upgrade Programme (NZUP), incorporating lessons from other successful approaches such as Stronger Christchurch Infrastructure Rebuild Team (SCIRT). This approach could have an Oversight Group to provide IRG Ministers with rigorous, independent and integrated advice on the risks and delivery performance of the selected projects.

60. IRG ministers will report back to Cabinet on the programme governance and monitoring arrangements after final decisions on projects have been made.

61. Relevant portfolio Ministers will also have an important role in overseeing the alignment of construction ready projects with other investment programmes underway or being commissioned through the CRRF. They also have a potential role in intervening, where necessary, to ensure the selected projects stay on track and deliver the agreed outcomes. Relevant portfolio Ministers will be consulted over any required changes to appropriations as the projects proceed.

62. The Treasury, MBIE (through NZGPP) and the New Zealand Infrastructure Commission, Te Waihanga, have well established support networks with central government key delivery agencies. The Infrastructure Commission and MBIE can provide procurement support for these agencies where necessary and appropriate, and there is an expectation that the Accord's Rapid Mobilisation Playbook will be utilised.

63. The governance and support networks are less well established for projects that may be selected for funding in the local government and non-government sectors. It will be

important for PDU and CIP to feed into the Oversight Group to provide IRG Ministers with the right information to monitor the delivery of projects.

64. The agencies involved in delivering third sector projects must ensure there is a consistent application of centre-led good practice guidance, tools and processes, and timely referral of any procurement issues back into the centre for resolution. The Treasury, MBIE (through NZGPP) and the New Zealand Infrastructure Commission can provide support for these agencies, where necessary and appropriate. This expectation is designed to keep the selected third sector projects on track and supported for success.

Alignment with future CRRF funding decisions

65. Infrastructure projects funded through the $3 billion Infrastructure Tagged Contingency are part of a broader package of infrastructure investment, which will support New Zealand's economic recovery and further the Government's wider objectives. This includes providing support to enable continuation of the Government's large transport investment programme through the National Land Transport Fund.

66. As part of CRRF funding decisions to be taken on 6 July, Budget Ministers will consider proposals that relate to housing and urban development, three waters, energy and waste. As part of this process, we will ensure investments are aligned with projects and packages funded through the Tagged Contingency so we can achieve the best outcomes for the Government's investment.

Financial Implications

68. On 11 May 2020, as part of COVID-19 Response and Recovery Fund (CRRF) Foundation Package decisions, Cabinet agreed to a $3 billion tagged contingency to provide investment in infrastructure to support New Zealand's economic recovery [CAB-20-MIN-0219.04 refers]. Cabinet also:

- agreed that the purpose of the Tagged Contingency was to provide for investment in infrastructure to support the economic recovery from COVID-19, and
- noted that decisions on funding projects from the Tagged Contingency would be taken either through a future iteration of the CRRF process, or a bespoke process involving Cabinet approval.

69. This paper seeks Cabinet agreement to:

- authorise the Minister of Finance, and the Minister for Infrastructure, together with the Associate Ministers of Finance (IRG Ministers) to make final decisions on projects in the shortlist in Attachment A to be funded from the $3 billion Infrastructure Tagged Contingency.
- the role of government agencies to deliver the IRG projects, including:

    iv. the relevant central government procurement agencies (such as New Zealand Transport Agency, Kainga Ora and Ministry for the Environment), for those projects best delivered by these agencies

    v. the Provincial Development Unit within MBIE for projects that are under $20 million and where they are best placed to deliver (such as those within the scope and objectives of the Provincial Growth Fund).

vi. Crown Infrastructure Partners for other local government and non-government (including private sector) projects that do not have an existing central government delivery agency best placed to deliver.

- authorise IRG Ministers and the relevant portfolio Minister to make the necessary changes to appropriations (including establishing new appropriations) to implement decisions to be taken around funding projects.

70. We note that, depending on the projects chosen, the phasing of expenditure and split between operating and capital expenditure could alter what is included in the forecasts.

Legislative Implications

71. This paper has no legislative implications.

Impact Analysis

Regulatory Impact Statement

72. The Treasury Regulatory Quality team has been consulted and has confirmed that a regulatory impact statement is not required for this proposal.

Climate Implications of Policy Assessment

73. The Ministry for the Environment has been consulted and confirms that the CIPA requirements do not apply to this proposal.

Population Implications

74. Population implications are considered in the table below.

Population group	How the proposal may affect this group
Māori	Māori and Pacific peoples make up a high proportion of the construction workforce. The Government is focused on investing in projects that would support immediate job creation, distributed across different regions. This investment should provide employment opportunities that would benefit Māori and Pacific peoples. This impact could be further enhanced through the application of social procurement practices to facilitate Māori and Pacific people's access to business and employment opportunities. Social procurement practices are also being considered for PGF projects. A number of projects identified on the shortlist attached to this paper have been proposed by Māori and/or will have significant benefits for Māori.
Women	Women are under-represented across all levels of the construction industry, but are over represented in the sectors hardest hit by COVID-19, such as tourism, hospitality and retail. Infrastructure projects may provide redeployment opportunities for workers impacted by COVID-19, including women. However, this may not be realised unless women are actively targeted as a population group. Women are overrepresented in NEET statistics, so

	represent a significant latent source of labour, including for construction.
Disabled people	The proposals in this paper are not expected to have a significant impact on disabled people.

Human Rights

75. The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

76. This paper was prepared by the Treasury in consultation with the Ministry of Business, Innovation, and Employment. This paper includes information provided by the IRG and Crown Infrastructure Partners. The Ministry of Housing and Urban Development, the Ministry of Transport and the Department of Internal Affairs were consulted as part of the evaluation of projects. The Department of the Prime Minister and Cabinet was informed.

Communications

77. IRG Ministers will determine the approach to communications, taking into account other COVID-19 announcements.

Proactive Release

78. We propose to release a copy of this paper within 30 days with any redactions we consider appropriate under the Official Information Act 1982.

Recommendations

The Minister of Finance and the Minister for Infrastructure recommend that the Committee:

Background

1 **note** that on 17 May, the final Infrastructure Reference Group (IRG) Report was received by the Minister of Finance, Minister for Economic Development, Minister for Infrastructure and Associate Finance of Minister.

2 **note** the final IRG report includes 802 infrastructure projects from central government, local **government**, the private sector and other entities requesting government financial support of $33 billion.

3 **note** that through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package, Cabinet agreed to a $3 billion Tagged Contingency to provide for investment in infrastructure to support the economic recovery from COVID-19.

The shortlist of projects

4 **note** that we requested further advice from CIP and officials and have established a shortlist of 177 projects seeking an estimated $3.3 billion government funding in Attachment A, which focus on the following key sectors: housing and urban development, energy, community development, waste and water, and other central and local government infrastructure.

5 **note** that the projects in Attachment A achieve a wide distribution of investment across the regions of New Zealand, including a focus on those regions most impacted by COVID-19 such as the Bay of Plenty, the West Coast and Otago.

6 **note** that this shortlist of projects is estimated to enable 26,000 jobs and a total value of projects worth $6.6 billion.

Delegation of final decisions

7 **authorise** the Minister of Finance and the Minister for Infrastructure together with the Associate Ministers of Finance (IRG Ministers) to make final decisions on projects in the shortlist in Attachment A to be funded from the $3 billion Infrastructure Tagged Contingency including decisions on timing and announcements.

8 **agree** that IRG Ministers take into consideration the following criteria when making final decisions on which IRG infrastructure projects to fund from the $3 billion Infrastructure Tagged Contingency:

8.1 The number of jobs created

8.2 Regional impact and distribution of projects

8.3 Project achievability and readiness

8.4 Net public benefit

8.5 Alignment with wider Government objectives.

9 **agree** when making final decisions on projects from the shortlist in Attachment A, IRG Ministers prioritise "preferred" projects over "reserve" projects in the first instance, on the basis that they are more likely to achieve the Government's objectives.

s9(2)(j)

[redacted]

12 **authorise** IRG Ministers and the relevant portfolio Minister to make the necessary changes to appropriations (including establishing any new appropriations) to deliver projects following decisions from IRG Ministers.

Delivery agencies

13 **agree** that for those projects progressed by IRG ministers that are best delivered by relevant central government agencies, those agencies will be funded to deliver those projects including, where applicable, New Zealand Transport Agency, Kainga Ora and Ministry for the Environment.

14 **invite** the relevant portfolio Ministers to engage with central government agencies on the delivery of projects described in recommendation 13 above.

15 **agree** for the Provincial Development Unit (PDU) within MBIE to be responsible for delivering projects progressed by IRG Ministers that are under $20 million where they are best placed to do so such as those within the scope and objectives of the Provincial Growth Fund.

16 **note** that Cabinet agreement may be needed to allow PDU to deliver projects that are currently outside its mandate (for example, social infrastructure in districts currently outside the PGF scope) but that it is best placed to deliver.

17 **agree** to appoint Crown Infrastructure Partners (CIP) to be responsible for delivering other local government and non-government (including private sector) projects progressed by IRG Ministers but that do not have an existing central government delivery agency best placed to deliver them.

18 **agree** for the PDU and CIP roles to include:

18.1 carrying out any necessary due diligence, negotiations, funding arrangements, establishment of investment objectives and appropriate risk-sharing arrangements,

18.2 procuring projects directly where necessary,

18.3 administering the funding to those entities directly procuring projects (such as local government authorities), and

18.4 monitoring projects until their completion.

19 **direct** the shareholding Minsters of CIP (the Minister for State Owned Enterprises and the Minister of Finance) to direct CIP under the company constitution to carry out the role in recommendations 17 and 18 above.

s9(2)(i)

[redacted]

Programme Governance and Monitoring

23 **note** we propose to establish a monitoring approach to track the progress of these projects similar to our approach to the New Zealand Upgrade Programme (NZUP) incorporating lessons from other successful approaches such as Stronger Christchurch Infrastructure Rebuild Team (SCIRT).

24 **note** this monitoring approach could also have an Oversight Group to provide the IRG Ministers with rigorous, independent and integrated advice on the risks and delivery performance of the selected projects.

25 **invite** IRG ministers will report back to Cabinet on the programme governance and monitoring arrangements after final decisions on projects have been made.

Project announcements

26 **note** that IRG Ministers plan to make announcements on projects as soon as next week and all early announcements will be in principle and will require negotiations and funding agreements to be put in place following announcement (similar to how Provincial Growth Fund announcements are made).

27 **note** IRG Ministers will seek additional information from CIP and PDU where necessary ahead of announcements, which will be coordinated by IRG Ministers' offices and the Prime Minister's Office.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Shane Jones
Minister for Infrastructure

Date:

Annex 1 – CIP estimates of the regional impact from COVID-19 on jobs and GDP and an indication of the possible ranges for what proportion of the Tagged Contingency could be allocated to reach region

District / Region	Population 2020	Population %	Pre-Covid Jobs (2020)	Pre-Covid GDP $m (2020)	CIP Estimated job losses post COVID-19	CIP Estimated GDP losses post COVID-19	Possible allocation of Tagged Contingency
Tai Tokerau / Northland	189,734	3.80%	74,728	6,466	9.4%	7.2%	up to 10%
Auckland	1,685,124	33.75%	923,587	99,894	10.1%	8.4%	20-40%
Waikato	483,778	9.69%	223,683	20,829	9.1%	6.6%	up to 20%
Bay of Plenty	332,485	6.66%	157,167	12,550	8.9%	6.8%	up to 10%
Gisborne	49,434	0.99%	22,230	1,662	7.4%	5.6%	up to 10%
Hawke's Bay	174,707	3.50%	83,494	6,473	8.3%	6.2%	up to 10%
Taranaki	123,697	2.48%	58,550	7,439	8.9%	7.9%	up to 10%
Manawatu-Whanganui	250,509	5.02%	117,042	9,449	8.4%	6.0%	up to 10%
Wellington	532,428	10.66%	294,909	34,345	8.8%	7.1%	up to 20%
Top of the South	158,822	3.18%	82,421	6,512	9.6%	7.6%	up to 10%
West Coast	32,508	0.65%	16,050	1,486	11.7%	9.5%	up to 10%
Canterbury	637,846	12.77%	330,997	31,152	10.4%	8.3%	up to 20%
Otago	241,172	4.83%	131,003	11,141	13.0%	10.4%	up to 20%
Southland	101,276	2.03%	53,423	5,151	9.3%	6.7%	up to 10%
Total	**4,993,520**	**100.00%**	**2,569,284**	**254,549**	**9.8%**	**7.9%**	

Data source: Crown Infrastructure Partners

Attachments (see separate documents)

s9(2)(j)

IRG Project Readiness Report

18 May 2020

Public version

IRG
Infrastructure Reference Group

Table of Contents

1 Executive Summary

1.1 Establishment and Purpose of the Infrastructure Reference Group (IRG)

1.1.1 The Infrastructure Reference Group (**IRG**) was established by the Government in response to the COVID-19 (**CV19**) crisis and the likely negative impact on the infrastructure and construction sectors. It has been asked to prepare a list of projects that can be in construction within 12 months. These projects are to be in the public or local government sectors or, where there is public benefit or the project can be repurposed, from the private sector.

1.1.2 Ministers advised that they wish to understand the availability, benefits, geographical spread and scale of 'shovel ready' projects in New Zealand. These projects will be considered in the context of any potential Government response to support the construction industry, and to provide certainty on a pipeline of projects.

1.1.3 The Government has asked the IRG to consider the following objectives in preparing this report (**Report**):

(a) an increased focus on immediate job creation and income growth;

(b) construction activity that will be underway within the next 12 months; and

(c) a high degree of visibility to the community, to give the public confidence that renewed activity is underway.

1.1.4 The Government appointed Crown Infrastructure Partners Limited (**CIP**) to act as the IRG's secretariat.

1.2 Process and Rating Criteria

1.2.1 On 1 April 2020, the IRG issued a Project Information Form (**PIF**) template and Guidelines seeking submission of project information from the public, local government and private sector project owners (**Project Owners**) for the IRG to consider.

1.2.2 The Guidelines noted that the criteria the IRG would consider were:

(a) construction readiness - the project being construction ready now or within a realistic 6 - 12 months;

(b) size ($10m+) and material employment benefits; and

(c) the overall benefits and risks of the project.

1.2.3 The Project Lists contained in this Report have been prepared applying the Rating Criteria developed by the IRG taking into account the Government's priorities. The Rating Criteria applied has a 60/40 weighting for public benefit and employment. The IRG also considered Rating Criteria with a weighting of 80/20 for public benefit and employment. This had the effect that projects with lower employment numbers but strong public benefit rated higher on the Project Lists (e.g., 3 waters projects). If Government wishes to alter the weightings, which increases/ decreases the ranking of labour intensive work in the Project Lists, that can be readily arranged.

1.2.4 Project selection is for the Government and it may have a different view as to applicable criteria or the need to support regions which have been hardest hit by CV19 or segments of the population that have been disproportionately affected. Potential additional factors for consideration by Government when selecting projects such as what co-funding conditions should be imposed are detailed in Section 9 of this Report.

1.2.5 It should also be noted that the Rating Criteria have been applied to projects per se which ignores the market dynamics that might apply. An example being renewable energy projects where there is a sophisticated market and price signals are given to the company with the lowest cost generation project as to when a project may be viable. The large participants in the industry have the balance sheets to undertake the projects themselves and most large projects are unlikely to proceed until Rio Tinto, the owner of Tiwai Point aluminium smelter indicates whether it wishes to close the facility or not. s9(2)(g)(i)

1.2.6 The Project Lists in this Report do not contain all of the projects held in the IRG database. If Ministers would like access to this additional information, that can be arranged.

1.3 The Projects

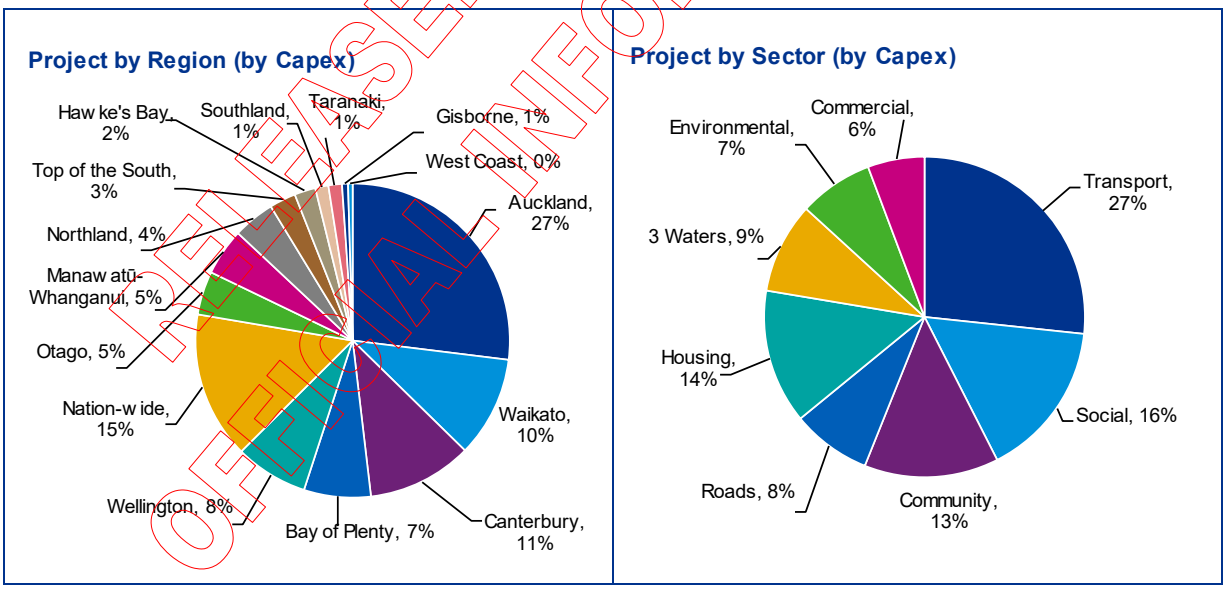
1.3.1 After completion of the review process (as detailed below) a total of 802 Projects with an estimated Capex of $51 billion have been included in the Project Lists in this Report.

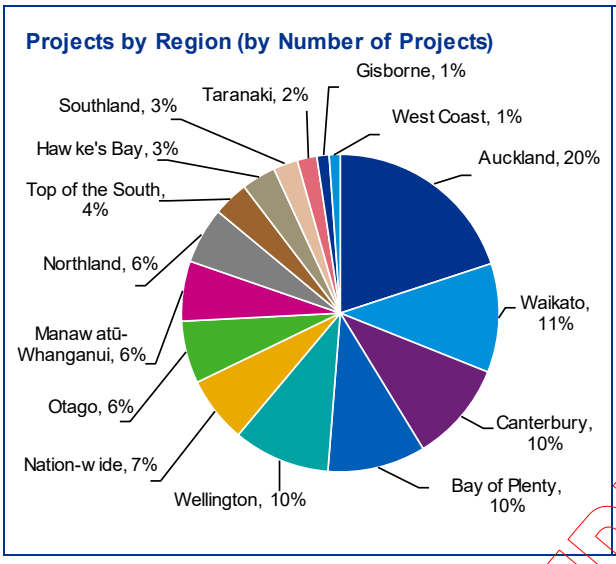
1.3.2 The distribution of the Projects by Region and by Sector:

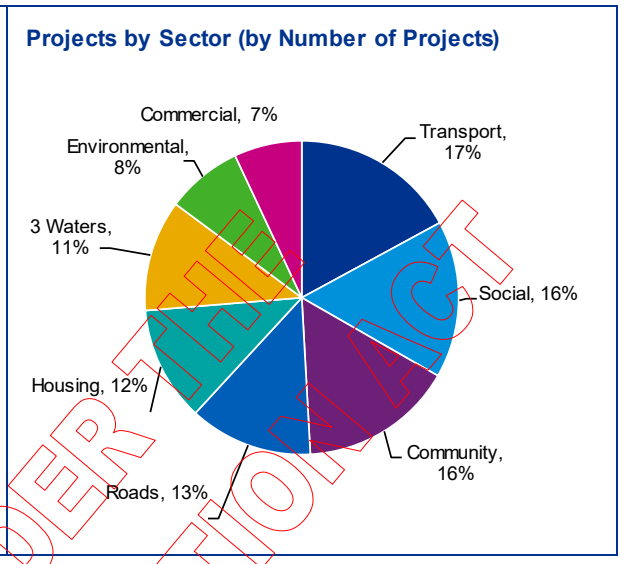
(a) by estimated Capex; and

(b) by number of Projects,

are summarised in the following four pie charts:







1.3.3 Project Owners were asked to identify the extent of assistance required. This ranged from assistance with RMA, other consenting issues and procurement processes (non-financial assistance) to concessionary loans, underwrites and grants (financial assistance). In total 95% of Projects sought financial assistance, totalling $33 billion in financial assistance across all Projects. Those Projects not requiring financial assistance (over and above any already appropriated funds in the case of Government agencies) are separately identified in Annexure A (By Sector) and B (By Region).

1.3.4 Project Owners were asked to confirm the Capex and direct employment numbers on a full time equivalent (FTE) basis for each Project. The Capex information presented in this Report relies on the information as supplied. The direct FTE employment numbers provided by Project Owners' were tested against benchmarks provided by BECA for the nature of the construction involved and the FTE employee information presented in this Report has been moderated accordingly.

1.3.5 The direct employment FTE by Sector can be seen in the following table:

Projects by Sector	No. of Projects		Employment		Capex	
	#	%	FTE	%	$B	%
Transport	137	17%	32,598	25%	$13.7	27%
Social	130	16%	23,737	18%	$8.1	16%
Community	127	16%	22,478	17%	$6.9	14%
Roads	102	13%	14,737	11%	$4.1	8%
Housing	95	12%	15,927	12%	$6.9	14%
3 Waters	92	11%	5,936	4%	$4.7	9%
Environmental	63	8%	8,242	6%	$3.8	7%
Commercial	56	7%	8,689	7%	$2.9	6%
Total	**802**	**100%**	**132,344**	**100%**	**$51.2**	**100%**

1.3.6 Some Projects offer a higher degree of employment intensity than others due to relatively low mechanisation. Rail would be a case in point where there are a number of Projects that require a high level of semi and unskilled labour (e.g., track clearing in some instances).

1.4 Enabling Legislation

1.4.1 The IRG was asked to advise on the changes in relevant legislation that would be necessary if Projects were to be procured under urgency. This is discussed in Section 7.4 and a summary of this advice is included in Schedule 2 (Fast-track Consenting Legislation). At writing, the Minister for the Environment has announced proposed changes to the Resource Management Act 1991 (**RMA**). However, we have flagged the need to amend the Public Works Act 1981 (**PWA**) processes and to ensure Building Act consents are processed in a timely manner, if a number of Projects are to be made construction ready in the timeframes indicated.

1.5 Procurement

1.5.1 Encouraging Government agencies and Local Authorities to adopt efficient fast-track procurement methods is imperative to achieving momentum. MBIE is leading this process. The IRG agrees with MBIE's view that there is no need to change the Government Procurement Rules as there is already sufficient flexibility. What is needed is for those Project Owners that are subject to the Government Procurement Rules, to proactively adopt fast-track procurement methods to meet the construction commencement dates that have been indicated.

1.6 Recommended Approach

1.6.1 The IRG's Terms of Reference are such that it has a short term (12 month) focus. The Government should recognise that in all likelihood this current crisis will have longer term implications (as noted below) for New Zealand and its ability to deliver quality infrastructure in the future for nation building purposes.

1.6.2 In selecting any Projects for inclusion in any possible stimulus package, the Government should consider the following principles:

(a) the private sector offers Projects with public benefit where no financial contribution from the Government is requested, just a quicker path to completing the RMA or other legislative processes. If the Projects meet the standard required by Government for acceleration, then the Government should consider making these Projects automatically eligible to proceed through the Order In Council process for fast track consenting contemplated by the proposed Covid 19 Recovery (Fast-track Consenting) Bill, as the Projects achieve the Government's aims of employment and public benefit without it having to provide financial support and all risks of building in this environment are assumed by the private sector owner.

(b) the funds the Government will be able to apply in supporting Projects will almost certainly be less than the aggregate demand. The Government should look to leverage its position by supporting Projects where the financial support requested or that can be negotiated is significantly less than the construction value of the Project, as– all things being equal – it will significantly generate more jobs for each dollar of support.

(c) a number of roading projects are already in advanced planning and a number of significant projects were named in the $12.1b stimulus package announced in January this year. Consideration should only be given to roading Projects included in the Project Lists where the Projects bring multiple potential benefits, over and above capacity improvements, which may help the Government achieve its policy goals. This is particularly applicable with the opening up of housing developments in areas identified by Government as areas of high demand and affordable housing opportunities. s9(2)(b)(ii)

(d) in a similar vein, Government should look for Projects that deliver on multiple policy fronts such as affordable/ social housing, Māori welfare/ economic interests and "surge" area investment.

(e) the Government needs to be mindful of the underlying skills shortage that has plagued the industry for years and seen some unsatisfactory outcomes. This shortage is regional and by construction discipline. An evaluation of the capacity of the regions to accommodate new projects by discipline is attached as Schedule 3 (Regional/ Sector Capacity). These commentaries have been put together by Regional Leader who have been seconded from professional firms in the industry, is anecdotal and based on discussions with industry participants in the region. The Government should avoid overloading any particular Region, causing inflationary cost pressures in the selection and timing of Projects.

(f) the Government also needs to consider the mix of work it wants to support, to ensure that initial assistance is to those parts of the construction sector and regions that are most likely to see the largest and quickest decline in workloads and those regions which are likely to suffer the most from a general economic decline (e.g., those regions with a high percentage of regional GDP dependent on tourism). The Market Assessment discussion in Section 2.1 below highlights the fact it will be more challenging to provide stimulus in the commercial building segment. The reduction in available work is likely to be more significant than in the civil engineering (or horizontal) sector. It is also a more intense employer of people. This will require special focus.

(g) the home building sector is probably the most difficult sector to address. Initiatives to up the Government's aggregate build rate of affordable homes should be strongly considered. However, it is suggested that the Government should also encourage the completion of land subdivisions in areas where the private sector sees underlying demand, is prepared to spend capital in these uncertain times and there is public benefit (meets Government social and affordable housing objectives). This can be done in a commercial manner that minimises the Government's risk while increasing section supply in particular regions (hopefully decreasing prices). There are a number of such opportunities in the Project List.

The IRG is also aware that a number of suggestions have been put forward on ways to stimulate demand, which are or have been considered by Treasury. If any of these are workable the IRG would be supportive if they had the effect of lifting aggregate demand.

(h) s9(2)(g)(i)

We note that the Infrastructure Commission is mandated to assist local authorities and other agencies in handling these procurement and other processes better.

1.7 Guiding Principles for Recipients of Government Financial Support

1.7.1 Government should set minimum expectations of Project Owners that it supports. These are set out in Schedule 4 (Guiding Principles for Recipients of Government Financial Support), however, the key points are that any offers of financial assistance should be time limited (Projects should be made construction ready within agreed timeframes) and Project Owners should be expected to act in a manner that does not heighten the risks of poor industry behaviours and project outcomes s9(2)(g)(i)

1.8 Future Considerations

1.8.1 As noted the focus of the IRG has been short term. However, it notes the need for a longer term view to be adopted given the likelihood of an extended construction downturn. In particular:

(a) the taking of a holistic view of the construction supply chain;

(b) the adequacy of skills training;

(c) the prioritisation of projects and an understanding of the potential effects of one or two large Projects on a small industry by international standards; and

(d) the developing views as to what infrastructure is required to best position New Zealand in a post CV19 world.

The longer terms issues flagged together with the information produced in this report and the database created should be picked up by the Infrastructure Commission in planning for a more extended downturn in the construction sector and the longer term infrastructure New Zealand requires.

2 Key Observations

2.1 Key Observations

A. Market Assessment

2.1.1 The full effect of CV19 on the construction industry will only be known at some point further into the construction cycle but the following general comments can be made from observations:

(a) current civil engineering projects in horizontal infrastructure (e.g., roads, bridges, water etc.,) will largely continue to completion given the owners are mainly Government agencies or Local Authorities. The possible exception being residential subdivision projects. The large number of projects in the planning phase from Government agencies such as NZTA and KiwiRail would suggest that something close to full employment can be maintained in this sector by the judicious roll out of projects supported by the Government. A caveat to this is the financial position of Local Authorities which collectively traditionally provide a significant share of the work let in any one year. Pressure on their ratings base will see future projects reduce in number and value, if not supported by Government.

(b) commercial building projects (commonly referred to as vertical construction) will be more problematic with a number of projects currently in construction either stopped or under review. Projects near completion will probably be completed but may not be utilised (e.g., hotels in Queenstown may not open). The sector has traditionally been very reliant on the private sector (>60%) for workflow and this will almost certainly dry up as confidence is hit, demand for end product evaporates and banks reduce credit to the sector with a tightening of lending criteria. So while short term turnover may stay at pre-CV19 levels for some companies as backlog is worked through, the long project lead times (18-24 months at best) will cause a real problem further into the cycle. As an indicator of what may be to come the Property Council of NZ released a media statement on 4 May 2020 indicating that it had polled its members on their intentions for projects in the preconstruction pipeline - 50% of residential projects were rated as uncertain and 70% of commercial/industrial projects. The commercial building sector is a far more intensive employer of skilled trades people and people generally compared to civil engineering.

(c) the home building sector (except apartments which are generally considered as commercial building projects) is comprised of a large number of small businesses (the largest market player only has about 5% market share and is in itself a franchise operation). It is probably the most vulnerable sector given there are not large one off projects that can be used to provide stimulus and it deeply depends on general consumer confidence to drive it. It is the principal employer in the whole construction sector with approximately 55% of the labour employed, has the highest multiplier effect (i.e., furnishings, appliances, garden supplies, landscaping), and is the most difficult to address. With the level of redundancies already announced in the economy and the over hang of more to come, consumer confidence will probably remain fragile for some time.

2.1.2 The shape of any recovery in the sector is impossible to predict given the global nature of the CV19 pandemic and the unknown course it will take. s9(2)(g)(i) [redacted]

s9(2)(g)(i)

B.

2.1.3

2.1.4 This programme or fund would need to be run by a Government agency with the requisite commercial skills to negotiate commercial arrangements and administer it.

C. Guiding Principles

s9(2)(g)(i)

2.1.5

2.1.6

2.1.7 The sanction for willing failure to abide by the guidelines, other than withdrawal of assistance if a Project did not commence in the timeframes the Government has been told, would be potential exclusion from any further funding.

2.1.8 The set of the IRG's proposed Guiding Principles are set out in more detail in Section 9 (Recommendations to Government) and Schedule 4 (Guiding Principles for Recipients of Government Support).

D. Impact of CV19 on New Zealand economy and the regions

2.1.9 Infometrics was commissioned by the IRG to examine the impact of CV19 on different parts of New Zealand, identifying the key industry drivers of local economic activity, how different regional economies will perform throughout the pandemic and associated economic downturn, with a particular focus on the tourism and construction sectors (the report is attached as Schedule 7 (Economic Impact of Covid 19)).

2.1.10 It should be noted that the Infometrics report (attached as Schedule 7 (Economic Impact of Covid 19)) and the BECA/ RCP capacity analysis (attached as Schedule 3 (Regional/ Sector Capacity)) were prepared before the 2020 Budget announcement and do not take into account the full extent of the stimulus announced in the 2020 Budget.

2.1.11 Overall key findings of potential forecast economic impact:

(a) CV19 presents the greatest economic shock in living memory. Infometrics is currently forecasting an 8% contraction in economic activity and more than 250,000 jobs to be lost over the year to March 2021.

(b) Infometrics focus on the importance of tourism and construction, where they forecast GDP in Otago to decline by more than 10%, the West Coast GDP by 9.5%, similarly due to a high concentration of international tourism activity.

(c) Meanwhile, regions with large agricultural and food processing sectors including Hawke's Bay, Manawatu-Whanganui, and Gisborne are expected to experience much less declines.

(d) The five Local Authorities with the largest decline in output are expected in the South Island. Infometrics forecast GDP in Queenstown-Lakes and Mackenzie District to decline by more than 20%.

(e) Areas with high concentrations of tourism and construction will take the hardest relative declines in job losses, however, the largest job losses will occur in the large metropolitan areas. Infometrics forecast more than 130,000 jobs to be lost in Auckland, Wellington and Christchurch cities.

(f) Nationally, Infometrics estimate the value of residential building work put in place to decline by 19% and the value of non-residential work put in place to decline by 18% over the year to March 2021. Residential consents are set to decline by 35% over the year to March 2021 (non-residential consents are forecast to decline 17%) together with an 11% drop in average house prices nationally between mid-2020 and the end of 2021.

(g) Over the next five years (2021-25) it is forecast that there will be a cumulative $23b reduction in total work placed versus the previous five years (2016-20) due to lower residential consent volumes. Even with already announced pre-budget infrastructure investment factored in, construction volumes will be $15.5b lower over the next five years compared to the previous 5 years. These declines will leave spare capacity in the construction industry in these areas.

(h) The regional impacts outlined below and the sector impacts above indicate where the main focus on supporting construction activities should be directed. Focus in metros should be on Auckland and Christchurch in particular due to reductions in construction activity and to a lesser extent Hamilton and Tauranga. Key regional focuses should be on the regions and Local Authorities most heavily impacted by tourism and construction down turns in particular Queenstown Lakes, West Coast, parts of Canterbury and Northland.

2.1.12 Key regional and metro impacts:

(a) South Island areas face the largest declines due to tourism and construction. Job losses in tourism alone will account for a 20% decline in employment in Mackenzie District and 19% in Queenstown. Other districts experiencing large overall declines in employment due to tourism job losses are Westland (13%) and Kaikōura (13%).

(b) Queenstown's huge reliance on tourism and its secondary dependence on construction will result in a 23% reduction in economic activity. As a result of lower tourism and related construction activity it

is expected that a quarter of jobs will be lost in the Queenstown Lakes District. Tourism employment is expected to fall by ~31% and tourism economic activity by ~70% driven by reductions in visitor spends by similar magnitudes.

(c) The West Coast with its high dependency on tourism, especially Westland will see a 12% overall reduction in economic activity and a ~9.5% loss of employment.

(d) Other parts of the lower South Island, particularly in Canterbury such as Selwyn (10.4% economic decline due to residential housing contraction) and the two other major international tourism markets Kaikōura (13% economic decline) and Mackenzie (22% economic decline) are also significantly impacted.

(e) 1.9% of Northland's pre-pandemic total workforce is expected to be lost due to reduced construction activity alone. Overall employment in Northland is expected to contract by over 9% on top of already higher levels of unemployment, and the highest rate of Jobseeker Support claims nationally. The result highlights Northland's higher concentration of construction workers relative to the total workforce, alongside declines in construction efforts, lower tourism activity (particularly in the Far North), and lower output from Marsden Point Refinery in Whāngārei.

(f) The major metropolitan areas will not be hit as hard as the above areas in relative terms, but the sheer size of metropolitan workforces means that most job losses will be in the main centres, on a total employment basis. Auckland is expected to lose upwards of 90,000 jobs, Hamilton and Tauranga approximately 7,000 each (which is lower than Queenstown at 8,000) and Christchurch at approximately 23,000.

(g) Construction activity will decrease in residential and non-residential work placed in the major metros (Auckland, Wellington, Tauranga, Hamilton and Christchurch) by $4.0b (Dunedin is supported by the Hospital construction) over the next three years compared to the previous three years resulting in employment losses in 2021 of ~13,500.

(h) Ōtorohanga District is a key exception to a decline in construction activity, with two large projects – the Happy Valley Milk factory and the Waikeria Prison upgrade – adding construction jobs over the next year, illustrating the value of the wider economic benefits of construction within a targeted area.

E. Regional and Sector capacity

2.1.13 IRG asked BECA and RCP to prepare a brief summary of the state of the construction sector's capacity across New Zealand, and specifically in each Region (see Schedule 3 (Regional/ Sector Capacity)). It should be noted that these summaries have been prepared on the basis of a degree of regional knowledge, but are general and anecdotal in nature. These have been prepared by BECA and RCP personnel working on this process and input has been incorporated from some of the larger construction companies and Local Authorities in some of the Regional summaries.

2.1.14 Key observations from this construction sector capacity review include the following:

(a) residential is the hardest hit sector, in particular "mum and dad" developers/builders who are the most vulnerable and forecast to be under-utilised across all Regions;

(b) horizontal is the most resilient market relative to vertical and residential, largely due to road and rail projects continuing without major funding concerns. This is also the market with the greatest skill need;

(c) Northland, Bay of Plenty, Taranaki, Canterbury and Queenstown are the hardest hit Regions with forecast reduced pipeline across all sectors – horizontal, vertical and residential;

(d) Queenstown in particular has gone from a high demand in accommodation and vertical markets to under-utilisation;

(e) Auckland and Manawatu are both forecast to see a significant drop in vertical and private residential uptake resulting in under-utilisation;

(f) Waikato, Gisborne and Top of South are forecast to see a modest drop in all sectors but relatively resilient compared to other Regions;

(g) West Coast and Otago (excl. Queenstown) are the most resilient relatively to other Regions;

(h) Otago, Queenstown and Southland areas share and move resourcing around the region so there is likely to be significant constraint if all these three areas have multiple projects at the same time; and

(i) roading in Gisborne and vertical in Otago (excluding Queenstown) (due to the Dunedin hospital project) are the only Regions/ Sectors where a significant shortfall in capacity is predicted to continue over the next 12 months (without any additional Projects being supported through this process).

3 Project Lists

3.1 Introduction

3.1.1 A total of 1,926 projects were submitted with a total Capex of $134 billion. After the filters described in Section 6.3 were applied, a total of 802 Projects remained and are listed in the tables in Annexure A (by Sector) and Annexure B (by Region). The information below relates only to those Projects on the Project Lists.

3.1.2 In the Project Lists:

(a) there are 802 Projects in total which involve total Capex of $51 billion and total employees of 132k FTEs;

(b) of these 484 Projects are in Construction Readiness Category A or B and 318 Projects are in Construction Readiness Category C;

(c) in aggregate the Projects seek a total of $33 billion of Government financial assistance (excluding guarantees);

(d) there are 44 Projects requiring no Government financial assistance (excluding guarantees) but which sought non-financial assistance from the Government (such as lowering regulatory barriers, adjusting Government procurement practices and fast-tracking resource consent processes);

(e) the most represented type of Project Owner (by number of Projects) are Local Authorities (48%) and Central Government (17%); and

(f) the most represented Sectors (by Capex) are Transport ($14 billion) and Social ($8 billion) and by FTEs are Transport (33k) and Social (24k).

3.1.3 In the Project Lists and Project information presented elsewhere in this Report:

(a) the Capex information relied on the information as supplied by Project Owners, but in some cases needed to be moderated in the Technical Review for consistency with their view on the project;

(b) the direct FTE employment numbers provided by Project Owners were tested against benchmarks provided by BECA for the nature of the construction involved and were moderated accordingly;

(c) the financial assistance relied on the information as supplied by Project Owners, but in some cases was moderated so that it did not exceed the Capex; and

(d) in cases where information was not provided or was clearly presented in error, a best estimate was used based on the judgements of the Technical Review and Moderation.

3.1.4 In running this process, we have had to categorise projects and use generic labels for those categories. A significant amount of effort was applied in assessing and understanding the projects (as set out in this Report). However, inevitably the categorisation and labelling will not always reflect the broad range of nuances or specifics of every project.

3.1.5 The IRG has a small number of projects that have been submitted late and that, after preliminary consideration, warrant further scrutiny. Details on these will be provided to Ministers in due course.

3.2 Projects Overview

3.2.1 The table below summarises Project numbers, Capex and FTEs by a) Project Owner type and b) Sector. The far right column provides the average Final Rating for Projects in each Sector. As illustrated below, the highest rating Sectors were Social (primarily healthcare and education), Housing and Environmental.

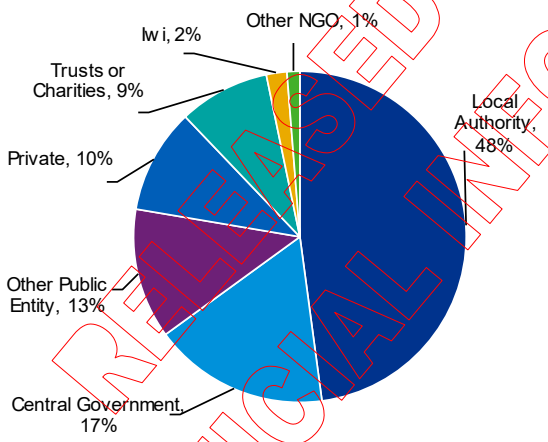
Project Information Table

	Central Government			Local Authority			Other Public Entity			Private			Trusts or Charities			Iwi			Other NGO			Total			Average Final Rating
	#	$m	FTE	#	$m	FTE	#	$m	FTE	#	$m	FTE	#	$m	FTE	#	$m	FTE	#	$m	FTE	#	$m	FTE	
3 Waters				86	$3,533	5,191	6	$1,151	745													92	$4,684	5,936	3.2
Commercial	6	$651	1,390	16	$441	1,288	11	$624	1,817	11	$893	2,835	8	$222	931	3	$91	405	1	$10	23	56	$2,931	8,689	2.8
Community	2	$418	872	81	$3,350	11,100	9	$1,295	5,383	3	$210	420	22	$1,154	3,248	4	$346	930	6	$166	525	127	$6,939	22,478	3.4
Environmental	3	$180	332	30	$1,266	2,641	5	$446	705	16	$1,156	2,655	5	$557	1,314	4	$228	595				63	$3,833	8,242	3.5
Housing				43	$2,938	5,622	2	$81	176	26	$2,957	7,024	19	$637	2,140	4	$302	776	1	$31	189	95	$6,945	15,927	3.6
Roads	38	$2,323	8,971	62	$1,708	5,540	1	$28	151				1	$42	75							102	$4,101	14,737	2.9
Social	54	$3,615	11,884	3	$127	418	37	$2,707	6,811	19	$900	2,530	16	$510	1,775	1	$250	319				130	$8,109	23,737	3.8
Transport	34	$7,547	18,246	63	$3,953	8,573	31	$1,706	4,437	7	$429	1,206							2	$30	136	137	$13,665	32,598	3.4
Total	**137**	**$14,733**	**41,695**	**384**	**$17,315**	**40,373**	**102**	**$8,039**	**20,225**	**82**	**$6,545**	**16,670**	**71**	**$3,121**	**9,483**	**16**	**$1,217**	**3,025**	**10**	**$237**	**873**	**802**	**$51,206**	**132,344**	**3.4**

3.3 Distribution by Project Owner

3.3.1 The following pie chart shows the distribution of Projects by the type of Project Owner.

Project by Project Owner (by Number of Projects)



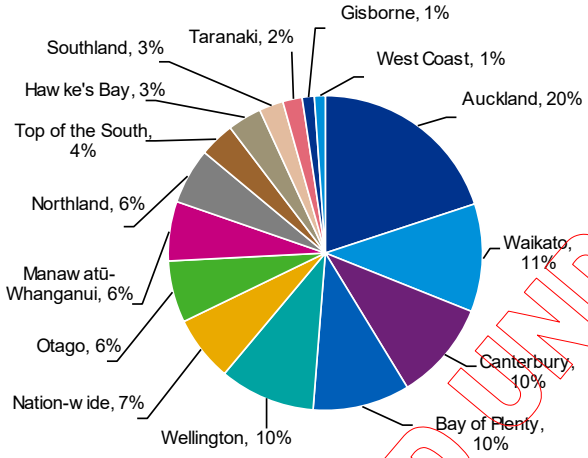
Project Owner	No. of Projects #	%	Employment FTE	%	Capex $B	%
Local Authority	384	48%	40,373	31%	$17.3	34%
Central Government	137	17%	41,695	32%	$14.7	29%
Other Public Entity	102	13%	20,225	15%	$8.0	16%
Private	82	10%	16,670	13%	$6.5	13%
Trusts or Charities	71	9%	9,483	7%	$3.1	6%
Iwi	16	2%	3,025	2%	$1.2	2%
Other NGO	10	1%	873	1%	$0.2	0%
Total	**802**	**100%**	**132,344**	**100%**	**$51.2**	**100%**

s9(2)(b)(ii)

3.4 Distribution by Region and Sector

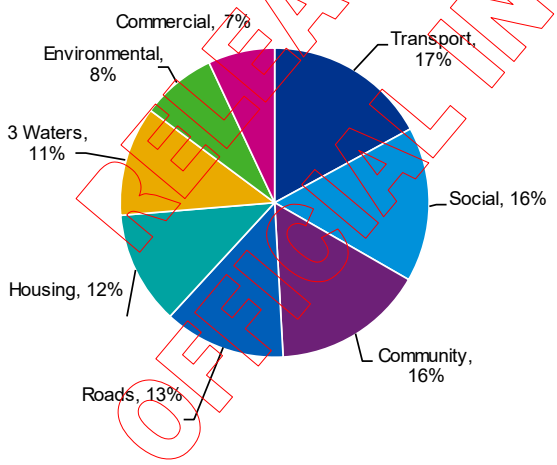
3.4.1 The following pie charts illustrate the distribution of the Projects by Region and by Sector (by number of Projects). The accompanying tables provide the breakdown of a) number of Projects and b) FTEs and c) Capex by Region and Sector:

Projects by Region (by Number of Projects)



Projects by Region	No. of Projects #	%	Employment FTE	%	Capex $B	%
Auckland	160	20%	33,956	26%	$13.8	27%
Waikato	89	11%	12,176	9%	$5.3	10%
Canterbury	82	10%	15,295	12%	$5.5	11%
Bay of Plenty	80	10%	9,699	7%	$3.5	7%
Wellington	79	10%	9,376	7%	$3.9	8%
Nation-wide	54	7%	24,173	18%	$7.8	15%
Otago	51	6%	6,386	5%	$2.3	4%
Manawatū-Whanganui	49	6%	5,703	4%	$2.5	5%
Northland	46	6%	5,477	4%	$2.2	4%
Top of the South	29	4%	2,468	2%	$1.4	3%
Hawke's Bay	28	3%	2,833	2%	$1.1	2%
Southland	20	2%	1,828	1%	$0.7	1%
Taranaki	16	2%	1,632	1%	$0.7	1%
Gisborne	10	1%	869	1%	$0.3	1%
West Coast	9	1%	473	0%	$0.2	0%
Total	**802**	**100%**	**132,344**	**100%**	**$51.2**	**100%**

Projects by Sector (by Number of Projects)



Projects by Sector	No. of Projects #	%	Employment FTE	%	Capex $B	%
Transport	137	17%	32,598	25%	$13.7	27%
Social	130	16%	23,737	18%	$8.1	16%
Community	127	16%	22,478	17%	$6.9	14%
Roads	102	13%	14,737	11%	$4.1	8%
Housing	95	12%	15,927	12%	$6.9	14%
3 Waters	92	11%	5,936	4%	$4.7	9%
Environmental	63	8%	8,242	6%	$3.8	7%
Commercial	56	7%	8,689	7%	$2.9	6%
Total	**802**	**100%**	**132,344**	**100%**	**$51.2**	**100%**

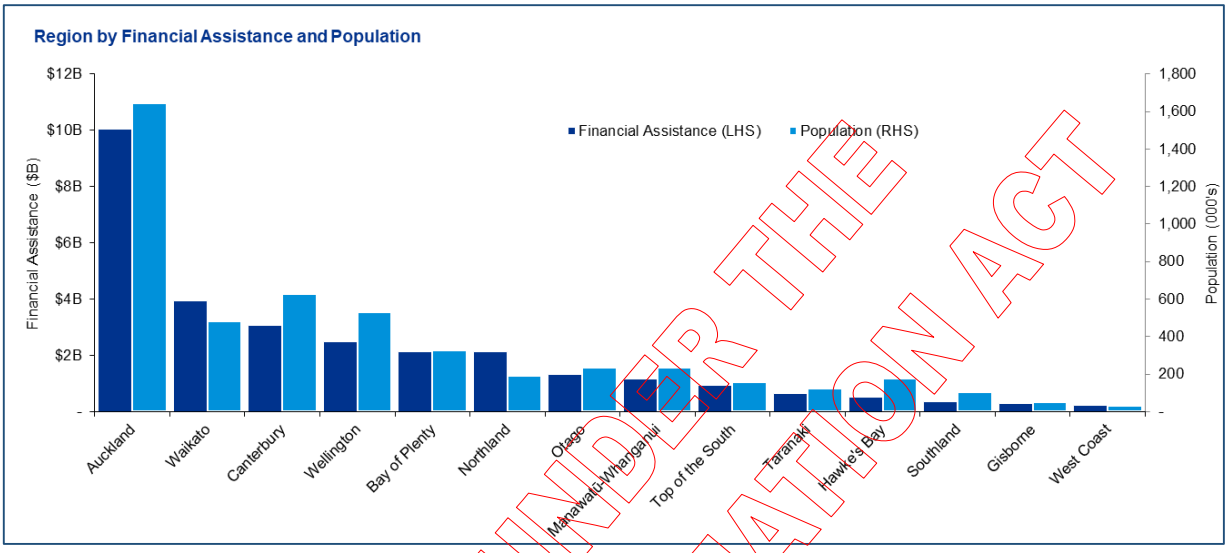
3.5 Financial Assistance Distribution

3.5.1 The following chart compares the financial assistance requested by the Project Owner with the population distribution in each Region.

3.5.2 In some cases, the financial assistance is not reflective of the relative population in that Region. For example, Waikato and Northland are over represented in terms of financial assistance requested whereas Wellington and Canterbury are under-represented.

3.5.3 This is because the Project Lists reflect the information as it was received. The IRG has assessed projects in accordance with the Methodology set out in Section 5, however, there has been no attempt to moderate the results to ensure a proportionate distribution across the country.

3.5.4 The IRG has assumed that the Government will consider the distribution by Region and by Sector in the selection of Projects it supports in addition to the factors outlined in Section 1.6 and Section 9.



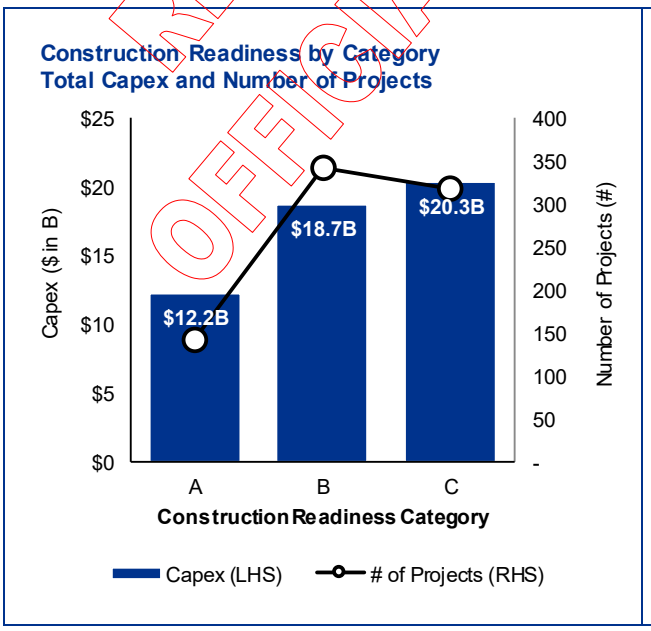
3.6 Construction Readiness

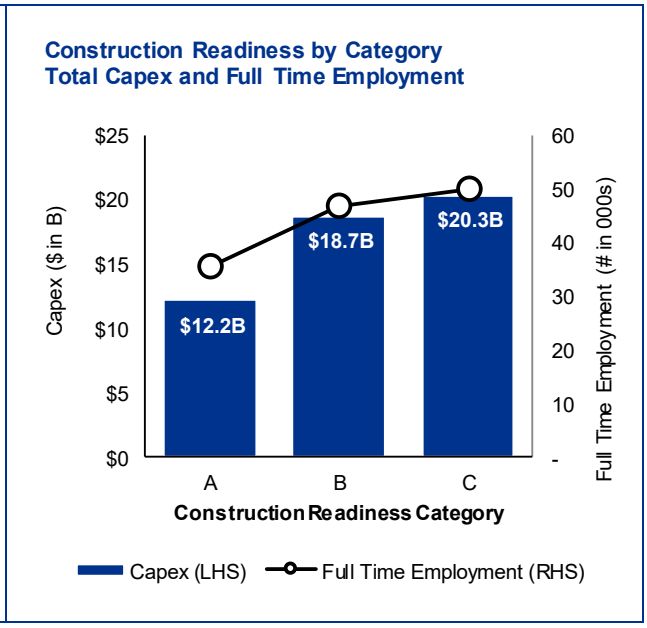
3.6.1 The following charts illustrate the distribution of the Projects between the following construction readiness categories (by Capex, number of Projects and FTEs):

(a) Construction Readiness Category A (Projects which currently are (or were) in the construction phase);

(b) Construction Readiness Category B (Projects which have a high expectation of commencing the construction phase within the next six months (by 31 October 2020); and

(c) Construction Readiness Category C (Projects which could have been expected to commence the construction phase within the next 12 months (by 30 May 2021).





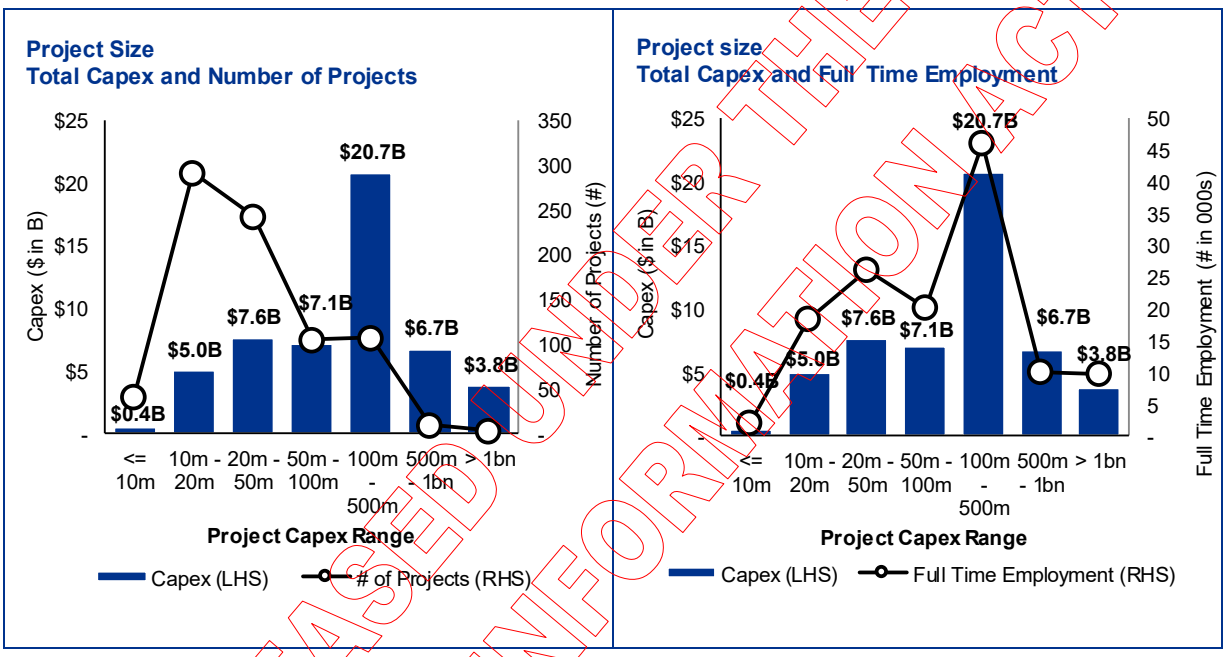
3.7 Size of Projects

3.7.1 The following charts illustrate the distribution of the Projects by Capex and FTE showing:

(a) the total Capex of all Projects within each Capex range;

(b) the total number of Projects within each Capex range; and

(c) the total number of FTEs created within each Capex range.



3.8 Government Assistance

3.8.1 Information on the financial assistance and non-financial assistance sought from Government for the Projects is contained in Section 7.

3.9 Project Lists Annexed

3.9.1 Projects are listed in the following Annexures:

(a) Annexure A – sets out all Projects by Sector; and

(b) Annexure B – sets out all Projects by Region.

3.9.2 It is important to note:

(a) all Projects are included in each of Annexure A and Annexure B;

(b) the Final Rating has been used to order the Projects in Annexures A and B– with the Projects with the highest Final Rating at the top of each table;

(c) each table in Annexure A and Annexure B is split into three parts:

(i) Part 1 (Projects that fall within Construction Readiness Category A and B and request Government financial assistance);

(ii) Part 2 (Projects that fall within Construction Readiness Category C and request Government financial assistance); and

(iii) Part 3 (Projects that do not request Government financial assistance); and

(d) the level of detail provided on each Project in Annexures A and B is brief (by necessity, given the number of Projects).

3.9.3 The IRG's database holds a further level of detail on all Projects on the Project Lists and all other projects submitted. This information can be provided on request by Ministers and officials and further interrogation/ presentation of data can be undertaken as required. In addition, key officials can be provided with access to an online data visualisation tool (which presents IRG's project database information) if that is appropriate. Note that:

(a) a table listing the variables in the project database for each Project is set out in Schedule 6 (Variables in the Project Database); and

(b) any access to additional information must be for the purpose of progressing the Government's initiative to identify and consider suitable shovel ready projects for a potential construction industry recovery response. Protocols for accessing and using the data will be provided to those officials that require access to ensure that the information will be used in this manner.

4 Assumptions

4.1 Introduction

4.1.1 In assessing projects against the Rating Criteria and ultimately:

(a) identifying the Projects to include in this Report and the Project Lists in Annexures A and B; and

(b) presenting this Report for consideration by Government,

the IRG has had to make a number of key assumptions.

4.1.2 The key assumptions made by the IRG are set out in this section.

4.2 Reliance on the Project Information Forms (PIFs)

4.2.1 In order for a project to be assessed by the IRG, a Project Owner had to submit the project to the IRG by completing a PIF and sending that PIF to the IRG.

4.2.2 Given the time constraints associated with the preparation of this Report, the IRG has had to base its assessment of projects on the basis of:

(a) the PIFs as submitted; and

(b) a short form request for clarification of requested Government financial support and non-financial assistance – sent to Project Owners of 941 Projects on 3 May 2020 (**Support Clarification Request**).

4.2.3 The PIFs submitted to the IRG took varying approaches relation to matters such as Capex, project duration and employees and were of varying quality and completeness. For example, approximately 4% of PIFs received did not complete the key field related to construction readiness. In addition, the Support Clarification Request was initiated because approximately 25% of the PIF responses did not provide a type of financial assistance and approximately 50% did not specify an amount.

4.2.4 For the purposes of assessing projects and presenting Project information in the Project Lists and elsewhere in this Report:

(a) the Capex information relied on the information as supplied by Project Owners, but in some cases needed to be moderated in the Technical Review for consistency with their view on the project;

(b) the direct FTE employment numbers provided by Project Owners were tested against benchmarks provided by BECA for the nature of the construction involved and the FTE employee information presented in this Report has been moderated accordingly;

(c) the financial assistance relied on the information as supplied by Project Owners, but in some cases was moderated so that it did not exceed the Capex; and

(d) in cases where information was not provided or was clearly presented in error, a best estimate was used based on the judgements of the Technical Review and Moderation.

4.2.5 The same approach was adopted for the purposes of applying the Rating Criteria, with the exception that, as with the FTE employment numbers, the Capex and construction period information was tested against benchmarks provided by BECA for the nature of the construction involved and the Capex numbers used for that purpose have been moderated accordingly.

4.2.6 The IRG has therefore endeavoured to complete the assessment of all projects submitted fairly and equitably in accordance with its processes and policies, notwithstanding the varying quality of the individual PIFs received and the different approaches to the PIF content taken by submitters.

4.3 Enabling Legislation

4.3.1 The Technical Review considered whether Government assistance for regulatory relief for RMA consenting (in response to CV19) would adjust the construction readiness categorisation for projects, for example move a Construction Readiness Category D project to Construction Readiness Category C or move a Construction Readiness Category C project to Construction Readiness Category B.

4.3.2 69 or 20% of the Projects currently in Construction Readiness Category B were originally Construction Readiness Category C, and 51 or 16% of the Projects currently in Construction Readiness Category C were originally Construction Readiness Category D. The collective Capex of these Projects is $7.2b and FTEs is 18.4k.

4.3.3 The assumption applied in the Technical Review was that any acceleration through Government assistance for CV19 would follow similar timeframes for granting RMA consents to the approach adopted in enabling legislation passed for the Kaikōura earthquake rebuild, where consent decisions were made within 21 working days of the application being lodged.

4.3.4 The proposed CV19 recovery fast-track RMA consent legislation (**Proposed CV19 Fast-track Legislation**) provides for consenting decisions to be made within 25 working days (potentially 50 working days for complex projects) of the expert consenting panel (to be established under the Proposed CV19 Fast-track Legislation) receiving comments on the application (with a yet to be specified reduced timeframe for comments to be received).

4.3.5 Assuming comments are required within a short truncated period under the Proposed CV19 Fast-track Legislation, the accelerated consenting timeframes under the proposed legislation and the Kaikōura earthquake rebuild legislation are similar.

4.3.6 This supports the validity of adjustments made to construction readiness categorisation under the Technical Review.

4.3.7 Note that in making adjustments to construction readiness categorisation for projects:

(a) s9(2)(g)(i)

(b)

4.4 Due Diligence and Negotiations

4.4.1 Given the reliance on PIFs and responses to the Support Clarification Request, it has been assumed that prior to confirming the selection of a Project as a recipient of Government support, Government will want to ensure that:

(a) the Project undergoes subsequent due diligence (where appropriate) to confirm the details and validity of the Project (including the Regional capacity of the industry to deliver the Project), the Project Owner's ability to deliver the Project and the Project's ability to support the Government's objectives; and

(b) it negotiates and documents key aspects of any Government support for the Project including:

(i) the co- funding obligations of the Project Owner – if any;

(ii) the nature and scope of any Government support to be provided;

(iii) the appropriate delivery agency and delivery model for the Project; and

(iv) core obligations of the recipients of the Government support, including obligations to undertake construction within agreed timetables, deliver specified employment benefits and deliver public benefit.

4.4.2 This topic is addressed in greater detail in Section 9 (Recommendations to Government).

4.5 CV19 Alert Levels

4.5.1 It has been assumed that New Zealand will move to and maintain a CV19 alert level which allows for reasonably unconstrained construction activities for at least the next 12 months, including continued access to construction sites and efficient (while safe) work practices on site.

4.6 Recommended Considerations

4.6.1 Prior to confirming the selection of a Project as a recipient of Government support, it has been assumed that the Government will consider various matters, including those recommended by the IRG in Section 9.

5 Rating Criteria and Methodology

5.1 Introduction

5.1.1 As Chair of the IRG, Mark Binns released a letter to the sector on 25 March 2020 in connection with the project information gathering process and the types of projects to which it would relate. The four criteria identified in the letter were:

(a) **Criteria 1:** The extent to which the project is construction ready now or within a realistic 6 to 12 months - construction readiness;

(b) **Criteria 2:** the project is of an infrastructure nature, either horizontal or vertical, and that the project is public or regional benefit infrastructure;

(c) **Criteria 3:** Whether the project is of a size ($10m+) and has material employment benefits; and

(d) **Criteria 4:** The overall benefits and risks of the project.

5.1.2 On 1 April 2020 CIP issued Guidelines which outlined the process that CIP and the IRG would follow (See Schedule 1 (Guidance on Nature of Projects)). Relevant to the Rating Criteria and Methodology it stated:

Step 2: Review and Categorisation of Projects

Step 2A: Criteria 1, Construction Readiness Assessment

CIP will consider the ***construction readiness*** of the project based on the PIF. We propose to adopt the following categorisation:

- **Category A -** Projects which currently are (or were) in the construction phase, but have been put on hold due to COVID 19 and are likely not to progress, or to progress at a much slower rate or scale/scope, if not supported post COVID 19.
- **Category B -** Projects which have a high expectation of commencing the construction phase within the next six months (by 31 October 2020), but are unlikely to do so due to COVID 19.
- **Category C -** Projects which could have been expected to commence the construction phase within the next 12 months (by 30 May 2021) but are unlikely to do so due to COVID 19.

Step 2B: Project classifications: infrastructure type, value and employment benefits

Criteria 2: Consideration will be given to whether the project has a ***public or regional benefit.***

Criteria 3: Whether the project is of a ***size and has material employment benefits*** of $10m+.

Step 2C: Overall Benefits national and regional

CIP will also categorise by the ***overall benefits* of** the project. The matters which will be considered under this heading include:

- Economic/Social/Environmental benefits; and
- Regional/Nationwide benefits.

This will include any project, either public or private, that will benefit the wider public or a particular regional area due to its nature. Given the breadth of infrastructure it is acknowledged this may include private sector projects that demonstrate wider public benefits.

Please note you should not submit any project that does not demonstrate some wider public benefit.

Step 2D: Project risks

Risks will be categorised in three groupings:

- risk of the project not commencing within the advised timescale;
- risk the project will not be completed on time, to cost or to specification; and
- risk the project will not obtain the benefits outlined in the Overall Benefits section above.

5.2 Overview

5.2.1 Three Rating Criteria were used in order to present the Project Lists in this Report:

(a) Criterion 1: Construction Readiness;

(b) Criterion 2: Direct Employment Benefit; and

(c) Criterion 3: National/ Regional Benefit.

5.2.2 The Rating Criteria adopted by the IRG are consistent with the criteria outlined in the Guidelines referred to above.

5.2.3 The Rating Criteria are also based on the Government's overriding priorities and objectives being economic stabilisation, stimulation and rebuild.

5.2.4 The Rating Criteria and Methodology the IRG has adopted in order to present the Project Lists are focussed on these objectives and are summarised below.

Criteria	Purpose	Rating	Weighting
Criterion 1: Construction Readiness	Determine if the Project is construction ready (A) now (B) within a realistic 6 months or (C) within a realistic 12 months.	Used to categorise projects	0%
Criterion 2: Direct Employment Benefit	Rates Projects according to labour intensity for a FTE on site during the construction period.	Scale 1-5	40%
Criterion 3: National/ Regional Benefit	**Initial Rating** (1 - 4) based on whether the generic project type is expected to deliver economic, social and environmental national and regional benefits, with the **adjustments** set out below (see Section 5.5.3).	Scale 1-5	60%
Leverage Adjustment	An adjustment to reflect the quantum and form of financial assistance requested from the Government.	Scale 0 – 1.5	Added to score following application of Criteria 2 &3
Final Rating	**The Leverage Adjustment is added to Criterion 2 & 3 score to get the Final Rating (maximum of 5).**	0-5	

5.2.5 The IRG adopted the above Rating Criteria and Methodology 'settings' as they were viewed to be consistent with the Guidelines and the overall objective of this process. Settings such as the Weightings, the Initial Rating for Criterion 3 and the Leverage Adjustment scale can be easily modified to produce various views of the Project Lists if required.

5.2.6 Modifying the Weightings will shift the focus between Criterion 2: Direct Employment Benefit and Criterion 3: National/ Regional Benefit. As an example, 3 waters Projects tend to have lower labour intensity than other Projects. This means that if the Weightings were shifted in favour of Criterion 3 that 3 waters Projects in general will have a higher ordering than in the current Project Lists.

5.2.7 Modifying the Initial Rating for Criterion 3 will shift the baseline score for the Criterion 3: National/ Regional Benefit of generic projects. As an example, public transport, shared use and general roading Projects have an Initial Rating of 4.0, 3.0 and 2.0 respectively. This means that currently public transport Projects will generally be ordered higher than general roading Projects in the current Project Lists. If the Initial Rating for general roading Projects was increased from 2.0, then general roading Projects will have a higher ordering than in the current Project Lists.

5.2.8 Modifying the Leverage Adjustment scale will shift the focus more or less on those Projects which have 'leverage'. Leverage refers to where the Crown is only required to fund a portion of the Project or the form means the funding is likely to be returned. As an example, if the current sliding scale of 0 – 1.5 for the Leverage Adjustment is reduced to 0 – 1, then Projects with leverage with have a lower ordering than in the current Project Lists.

5.3 Criterion 1 – Construction Readiness

Criteria	Purpose	Rating	Weighting
Criterion 1: Construction Readiness	Determine if the Project is construction ready (A) now (B) within a realistic 6 months or (C) within a realistic 12 months.	Used to categorise projects	0%

5.3.1 In relation to Criterion 1 the PIFs sought submitters' own views on construction readiness and information about milestones in the Project lifecycle.

5.3.2 The Technical Workstream made an independent assessment of the Construction Readiness Category (A, B or C) that applies:

(a) where no non-financial Government assistance is provided to the Project; and

(b) where the requested non-financial Government assistance is provided to the Project (capped at the powers granted during the Kaikōura earthquake).

5.4 Criterion 2 – Direct Employment Benefit

Criteria	Purpose	Rating	Weighting
Criterion 2: Direct Employment Benefit	Rates Projects according to labour intensity (based on FTEs on site) during the construction period	Scale 1-5	40%

5.4.1 Criterion 2 rates more highly Projects which are labour intensive during the construction phase. Direct construction employment also serves as a proxy for the immediate regional employment benefit of a Project.

5.4.2 Criterion 2 relies on the following raw score which can be interpreted as construction employees per $1m capex per annum:

(a) average number of direct construction FTEs working on the Project over the duration of the construction period; divided by

(b) annualised Project Capex (calculated as total Project Capex divided by the expected construction period in years).

5.4.3 Each of the above inputs (based on PIF information) were reviewed during the Technical Review to assess consistency against industry standards and across Projects. The Technical Review provided estimates/adjustments where the inputs were not considered reflective of the project and associated risks. This assessment involved professional judgement and adjustments applied were at a high level. While the assessment placed some reliance on the underlying PIF information, the output is based on professional assessment and therefore the outputs differ from those that which would be obtained by using the information as stated in the PIF (including Capex presented in the Project Lists which is the based on the PIF information).

5.4.4 In cases where any of the inputs into the raw score described in 5.4.2 above was not provided or was clearly presented in error, a best estimate was used based on the judgements of the Technical Review and Moderation.

5.4.5 The resulting distribution of raw scores was considered during Moderation and outliers were reviewed and (where necessary) adjusted through an additional Technical Review.

5.4.6 The raw scores after Moderation were stratified to create a scale from 1-5 which was used for Criterion 2.

5.4.7 The FTE numbers provided in this Report and the Project Lists reflects the above adjustments and therefore may not reconcile with the employee estimates provided in the PIF.

5.5 Criterion 3 – National/ Regional Benefit

Criteria	Purpose	Rating	Weighting
Criterion 3: National/ Regional Benefit	**Initial Rating** (1 - 4) based on whether the generic project type is expected to deliver economic, social and environmental national and regional benefits, with the **adjustments** set out below.	Scale 1-5	60%

5.5.1 Criterion 3 rates projects according to the benefits it is expected to deliver. It does this by applying an Initial Rating based on the Sector classification of the project which is then subject to adjustments for growth, regional benefit and risk according to the specifics of that project.

5.5.2 Details of the Sector classifications and the Initial Ratings are set out in Schedule 5 (Initial Ratings – Detailed List). This includes the mapping of the Sector classifications to the priorities set out in the Government's Economic Plan[1] and Budget Policy Statement 2020[2].

5.5.3 Adjustments to the Criterion 3 Initial Rating (maximum of 5) were then applied:

(a) growth or new infrastructure (-0.5 to +0.5): Reflecting the relative benefit from projects which cater for growth and/or deliver improved services;

(b) key regional or national benefit over time (+0.5): Reflecting transformational projects that have greater potential for benefit in a region or New Zealand; and

(c) benefit risk (-1.0 to +0.5): Adjustment to reflect where the risk of benefit realisation is either higher or lower than a generic project (based on independent professional judgement).

[1] https://www.beehive.govt.nz/sites/default/files/2019-09/Economic%20Plan.pdf
[2] https://treasury.govt.nz/publications/budget-policy-statement/budget-policy-statement-2020-html

5.5.4 The initial judgements in relation to Criterion 3 were made by the Regional Leads and the General Review Team. The resulting Criterion 3 score was then assessed / stress tested by the Sector Experts. The PDU's views were also taken into account where available. Further detail is provided in Section 6.

5.5.5 The application of Criterion 3 to a hypothetical Project is set out below. It assumes a Project with the following characteristics:

(a) a social housing Project (Initial Rating = 4.0);

(b) the Project is a new build and caters for growth and/or deliver improved services (Growth Adjustment = +0.5);

(c) it does not have regional or national benefits over time (Regional Adjustment = 0); and

(d) the risk of benefit realisation is assessed as being significantly higher than a generic project (Benefit Risk Adjustment = -1.0).

The Criterion 3 rating for this hypothetical Project is set out below:

Project Number	Project Name	Project Description	Sector Category	Region	Initial Rating	Growth adj	Regional adj	Benefit Risk adj	Criterion 3 rating
P677	Project Name	Description	Social housing	Auckland	4.0	0.5	-	(1.0)	3.5

5.5.6 Based on the application of Criterion 2 and Criterion 3, each Project received a weighted average score between 1 (lowest) and 5 (highest) (**Criteria 2 & 3 Score**).

5.6 Leverage Adjustment

5.6.1 This Criteria 2 & 3 Score was then adjusted for the amount of financial assistance requested from the Crown as a proportion of Capex (**Leverage Adjustment**).

Criteria	Purpose	Rating	Weighting
Leverage Adjustment	An adjustment to reflect the quantum and form of financial assistance requested from the Government. **The Leverage Adjustment is added to Criterion 2 & 3 score to get the Final Rating (maximum of 5).**	0 – 1.5	Added to score following application of Criteria 2 &3.

5.6.2 The Leverage Adjustment depends on the predominate request for form and quantum of financial Government assistance requested as set out in the following table:

Incremental Rating Points added for Leverage						
Financial Assistance / Capex	**Grant / Budget Allocation**	**Loan-Concessionary**	**Loan - Commercial**	**Equity**	**Guarantee**	**Other / Not-Specified**
None			+1.50			
>0-20%	+ 0.50	+ 1.00	+ 1.00	+ 1.00	+ 1.00	+ 0.50
20-40%	+ 0.375	+ 0.75	+ 0.75	+ 0.75	+ 0.75	+ 0.375
40-60%	+ 0.25	+ 0.50	+ 0.50	+ 0.50	+ 0.50	+ 0.25
60-80%	+0.125	+0.25	+0.25	+0.25	+0.25	+0.125
80% +	-	-	-	-	-	-

5.6.3 The form and quantum of the financial Government assistance requested was taken from the information provided in the Support Clarification Request. Where no information was provided or where financial assistance was requested, but no amount specified, it was assumed 100% of the Capex was sought by way of grant.

5.6.4 In relation to the Leverage Adjustment:

(a) scoring is in bands depending on the amount of Financial Assistance as a proportion of Capex (as assessed by the Technical Review team); (i) no financial assistance requested, (ii) 0-20% of Capex, (iii) 20-40% (iv) 40-60% of Capex (v) 60-80% of Capex and (vi) 80% +;

(b) the adjustment differentiates between financial assistance type: Loans and Equity (where capital is expected to be recycled) and Guarantees (where the obligation is contingent) score twice high as a Grant / Budget Allocation;

(c) the highest adjustment is +1.5 marks if no assistance is requested. This equates to the maximum adjustments applied in Criterion 3;

(d) leverage is measured from the view point of this process only i.e., if the Project Owner has Crown funds already committed for a Project, it will receive the Leverage Adjustment; and

(e) regardless of Leverage Adjustment, the Final Rating is capped at 5.

5.7 Final Rating

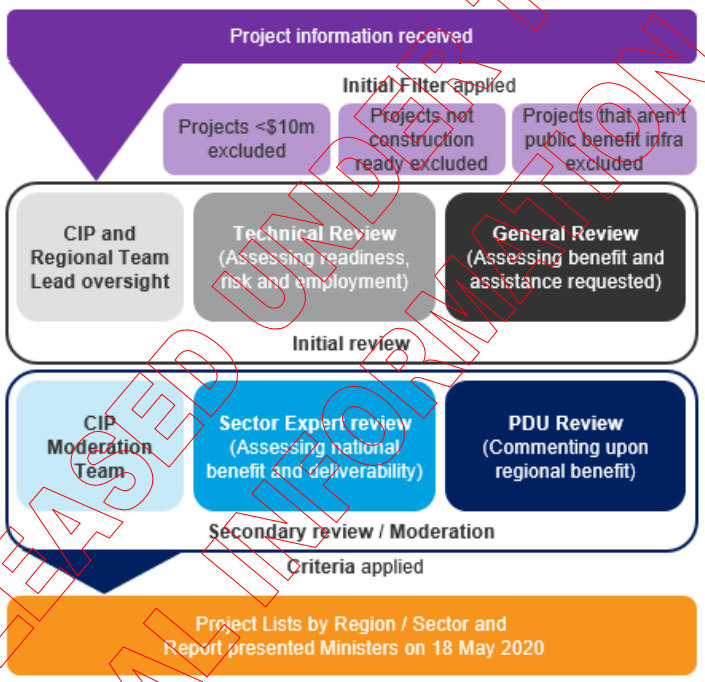
5.7.1 The Criteria 2 & 3 Score, plus the Leverage Adjustment following Moderation as described in Section 6.10 provides the **Final Rating** (0-5).

6 Process

6.1 Overview

6.1.1 This section of the Report provides an overview of the process the IRG implemented to receive and review project information in order to apply the Criteria Rating and prepare the Project Lists and other aspects of the process adopted by the IRG.

6.1.2 The diagram below demonstrates the process:



6.2 Receive Project Information

6.2.1 A form and database was developed to collect the information required to assess each project received against the Rating Criteria.

6.2.2 On 1 April 2020, the PIF and Guidelines were distributed to several mailing lists including to infrastructure industry members, central government chief executives, local authorities and to iwi groups available through CIP's mailing lists. A press release was also released by the Beehive in an effort to ensure that all interested parties would be made aware of the process.

6.2.3 The deadline to receive project information was 5pm 14 April 2020, although some PIFs were received after this date.

6.2.4 A total of 1,926 projects were submitted with a total Capex of $134 billion.

6.3 Project Filters

6.3.1 Once projects were received and entered into a database, a number were filtered out for one of the reasons outlined below (reflecting core criteria for the process as set out in the Guidelines). This was based on the information contained in the PIF in the first instance or following the reviews outlined in Sections 6.4-6.10:

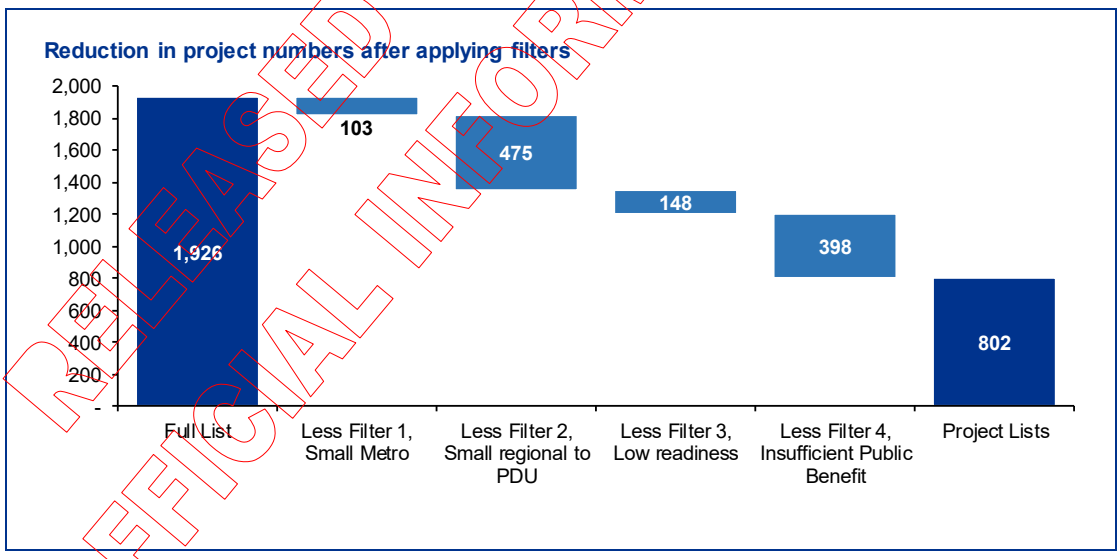
(a) Small, Metro: projects located in the major metro centres (Auckland, Wellington (incl. Hutt, Upper Hutt and Porirua) and Christchurch) that have a Capex of less than $10m (which were excluded from further review);

(b) Small, Regional: projects located outside the major metro centres that have a Capex of less than $10m were excluded from further review (noting that the Projects in this category have been forwarded to the PDU to be considered by the PDU for possible support outside of this process);

(c) Low Readiness: projects which did not meet the construction readiness criteria were excluded from further review; and

(d) Insufficient Public Benefits: projects which were (i) not considered to be infrastructure projects, (ii) not promoted by the relevant project sponsor, or (iii) not considered to have sufficient public benefit for inclusion in the Project Lists, were excluded from further review.

6.3.2 802 Projects remained after this filtering process (as demonstrated by the following chart). These 802 Projects are presented in the Project Lists:



6.3.3 Projects located outside the major metro centres that have a Capex of between $10m and $20m (inclusive) have been included in this process and the Project Lists. Projects in that category (other than those relating to 3 waters, healthcare, education and flood protection) have been brought to the attention of the PDU as part of this process. If the PDU subsequently decides to support one of those Projects then the Project would cease to be eligible for Government support under this process.

6.4 Initial Reviews

6.4.1 Three initial desktop reviews were conducted on each project not already excluded according to the filters outlined above. These were the Technical Review, General Review and Regional Lead Benefit Reviews. These reviews (described below) were generally limited to the information provided in the completed PIF and undertaken in line with the Rating Criteria and Methodology.

6.5 Technical Review

6.5.1 Projects were channelled to Technical Review teams made up of engineering consultants with relevant sector expertise from RCP, BECA, and Mott Macdonald. The primary purpose of the Technical Review was to provide an independent assessment of:

(a) construction readiness;

(b) cost confidence;

(c) reasonableness of employment assumptions, based on the project information provided; and

(d) risks of the project not commencing within the advised timescale and the risk a project not been completed on time, to cost or to specification.

6.5.2 The Technical Review considered:

(a) the construction readiness of the project based on the information provided in the PIF regarding risk, programme, design, consenting and procurement deliverables, particular requirements sought and the reviewer's judgment to determine the readiness based on the adopted categorisation (Construction Readiness Category A, B, and C);

(b) the duration of construction programmes or milestones identified; and

(c) whether Government assistance for regulatory relief for RMA consenting would adjust the construction readiness categorisation, for example move a Construction Readiness Category C project to a Construction Readiness Category B. This assessment was determined based on professional judgement on the certainty of the information provided in the PIF.

6.5.3 The Technical Review also provided a high level review of Capex and its reasonableness (including material cost risk) to establish the project cost confidence (at a high level). The review of Capex information provided in the PIFs involved assessing this information against estimates provided by industry experts for each segment (i.e., civil engineering, commercial or residential development).

6.5.4 The Technical Review also assessed the reasonableness of direct construction employment FTE assumptions in the PIFs. This involved assessing this information against estimates provided by industry experts for each segment. The FTE used in this Report and applying the Criteria Rating is based on this assessment (although also has a degree of reliance on the underlying information as submitted in the PIFs).

6.5.5 Project information submitted by NZTA and KiwiRail did not receive a full Technical Review in relation to construction readiness and Capex. The IRG made a decision to rely on the NZTA and KiwiRail technical information as it was provided (rather than undertake Technical Reviews referred to above). In relation to assessing the FTEs, the process described in Section 6.5.4 was applied.

6.6 General Review

6.6.1 The General Review was conducted by a team with financial and commercial experience from CIP, KPMG and Mafic Partners Limited, who assessed the benefits and funding requirements of projects as set out in the PIF.

6.6.2 The General Review sought to confirm that the projects aimed to deliver public benefit and/or were regionally significant infrastructure. The review assessed the level of confidence that can be placed in the benefits described in the PIF based on the supporting evidence provided.

6.6.3 The General Review also considered the availability of existing funding to the Project, previous applications for Government support, and the quantum and type of financial and non-financial assistance requested from the Crown based on the PIF submission.

6.7 Regional Lead Benefits Review

6.7.1 In the Regional Lead Benefits Review, consideration was given at a high level to the benefit of projects from the perspective of the importance of a project to a Region. This benefits assessment was first undertaken by the Regional Leads within the Technical Review teams who reviewed the PIFs and supporting information.

6.7.2 The Regional Leads considered this information and provided an assessment of the benefits for the purposes of Criterion 3 based on their understanding of the project and its importance to a particular region based on the likely benefit outcomes.

6.8 Sector Experts

6.8.1 Sector Experts reviewed the Sector classification of projects and the Criterion 3 (National/ Regional Benefit) ratings emerging from the reviews referred to above.

6.8.2 The Sector Experts were selected by the IRG as being suitable qualified and experienced experts in their respective sectors (such as roads, rail, health, Māori interest, education etc.,) from both the public and private sector.

6.8.3 Sector Experts were asked to apply their experience and judgement to provide an impartial "NZ Inc" perspective on the classification of the project, the benefits associated with the relevant project, alignment with relevant Government policy and deliverability of the project in a Region.

6.8.4 More specifically, Sector Experts were asked to conduct a desktop review to:

(a) assess the Criterion 3 (National/Regional Benefit) overall rating: Sector Experts assessed whether they disagree with the Criterion 3 overall rating assigned for a project in the desktop review, or whether they disagree with the Criterion 3 overall rating assigned for a project relative to other projects in the Sector Expert's Sector of expertise;

(b) consider alignment with Government policy: Sector Experts were asked to note:

(i) whether they disagreed with the assessment in the desktop review of how a project maps to the "key economic shifts" needed to achieve the Government's Economic Plan; and

(ii) whether a project aligns with Government policy/ies applicable to a Sector Expert's Sector of expertise e.g., for roading – NZTA Government Policy Statement, for housing – Urban Growth Agenda;

(c) consider Regional deliverability: Sector Experts were also asked to comment on issues with the deliverability of multiple projects in the relevant Sector in each Region in New Zealand; and

(d) provide any further comments: Sector Experts were asked to provide any further comments to give context to their assessment or other comments to help us understand material issues that the Sector Expert believed, from their perspective, might impact on how IRG should rate a particular Project e.g., material project risk items, timetable concerns or other issues connected with readiness or deliverability.

6.9 Provincial Development Unit

6.9.1 The PDU was asked to provide comments on the projects from a regional perspective which were taken into account in the Moderation review referred to below.

6.10 Moderation Review

6.10.1 A moderation review team was established with representatives of CIP, lead partners of Mott MacDonald, KPMG and Mafic Partners Limited.

6.10.2 This team reviewed the outputs from the various reviews to ensure the Rating Criteria and Methodology was being applied correctly and consistently and reviewed the Final Ratings of the Projects for consistency. Where considered appropriate, moderations were made.

6.11 Outcome of Reviews

6.11.1 Once the Final Rating for each Project was determined, the resulting Project Lists were reported to the Project Steering Group for consideration and were in turn considered by the IRG for inclusion in this Report.

6.12 Quality Assurance

6.12.1 Checks and reviews occurred during the process to ensure that only projects which met the Rating Criteria remained in the review process.

6.12.2 Likewise, checks and reviews occurred at each exit stage of the process to ensure no projects were incorrectly removed from the process.

6.13 Standards and Conflicts of Interests

6.13.1 This is not a procurement process, however the IRG sought to ensure the similar high public sector standards were applied. This included treating all parties who provided a PIF fairly and consistently, both when corresponding with them and when dealing with the information provided.

6.13.2 The IRG also ensured appropriate confidentiality and conflicts of interest policies and protocols were implemented across the IRG and project team. Each of the IRG member's disclosed their potential conflicts of interest and these were recorded and managed in accordance with the conflict of interest protocols.

7 Government Assistance Sought

7.1 Introduction

7.1.1 The PIF requested that submissions briefly outline the top 2-3 things that the Government could do to help progress the project, including both financial and non-financial levers (such as lowering regulatory barriers, adjusting Government procurement practices and fast-tracking resource consent processes).

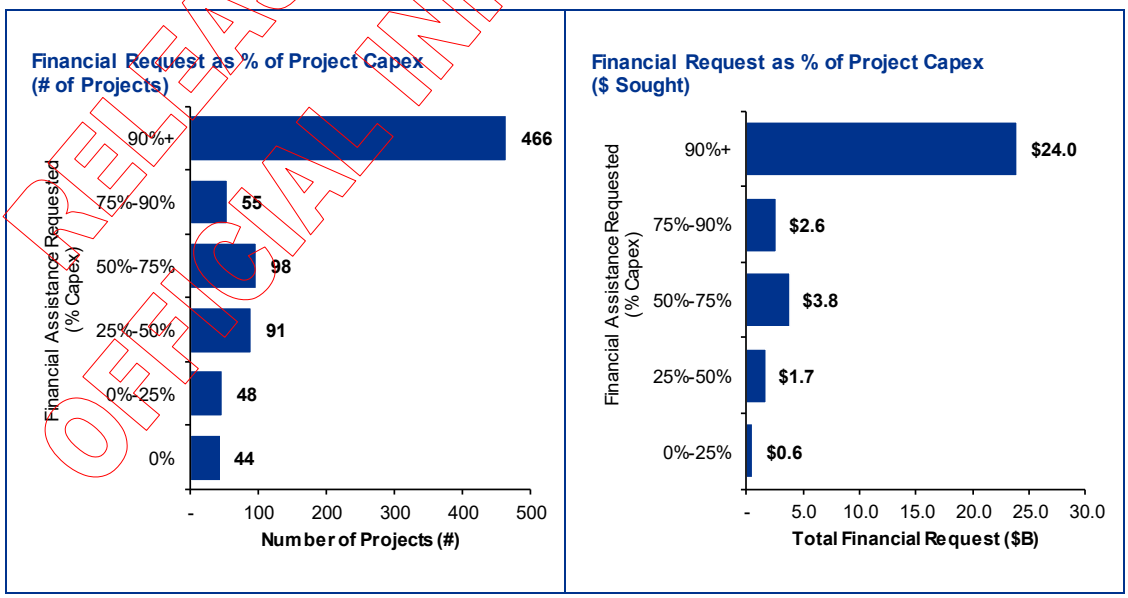
7.1.2 Additional detail on the Government assistance sought for the Projects was requested via a supplementary Support Clarification Request sent to relevant Project Owners on 3 May 2020.

7.1.3 The charts below summarise the responses to these Government assistance questions for the Projects. We note that the amount of the Government financial assistance actually provided for any Project will be a matter for negotiation with the Project Owner.

7.2 Financial Assistance Sought - Overview

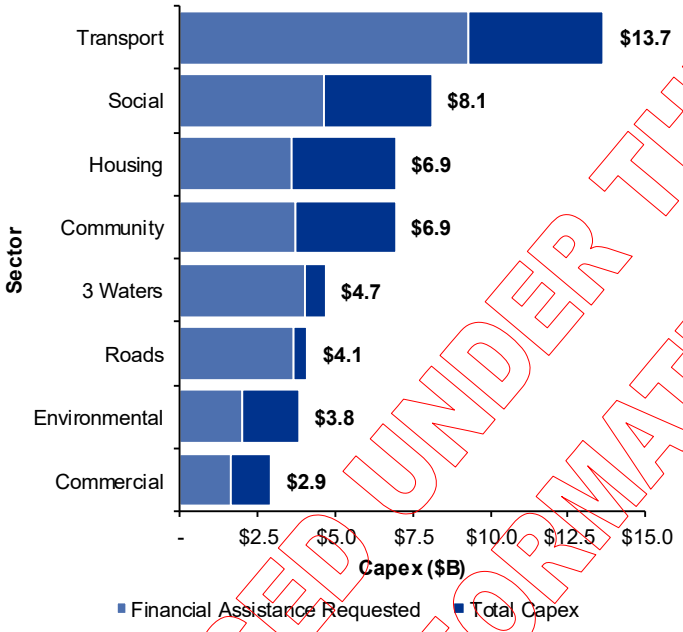
7.2.1 The majority of Projects (95%) asked for financial assistance (excluding guarantees) totalling $33 billion contribution towards Capex, defined as the amount of funding sought from Central Government as part of this process (excluding any other sources of funding that remain available to the Project).

7.2.2 The charts below illustrate the proportion of financial assistance sought relative to total Capex (assistance requested/Capex as a %). The majority of Projects (466 out of 802, (or 58%) requested financial assistance of 90% or more of total Capex. These figures exclude requests for Government guarantees or underwrites.



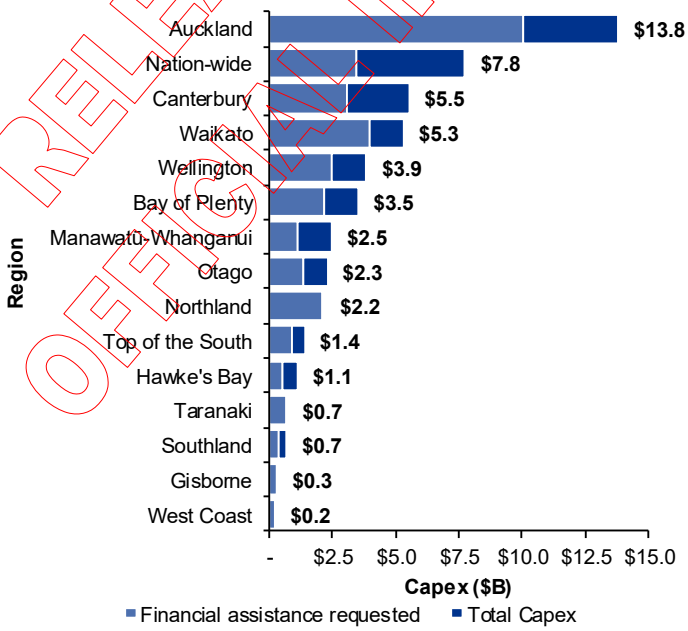
7.2.3 The dollar amount of financial assistance sought by Sector, Region and Project Owner type (out of total Capex) is shown in the charts below.

Financial Request and Capex by Sector ($B)



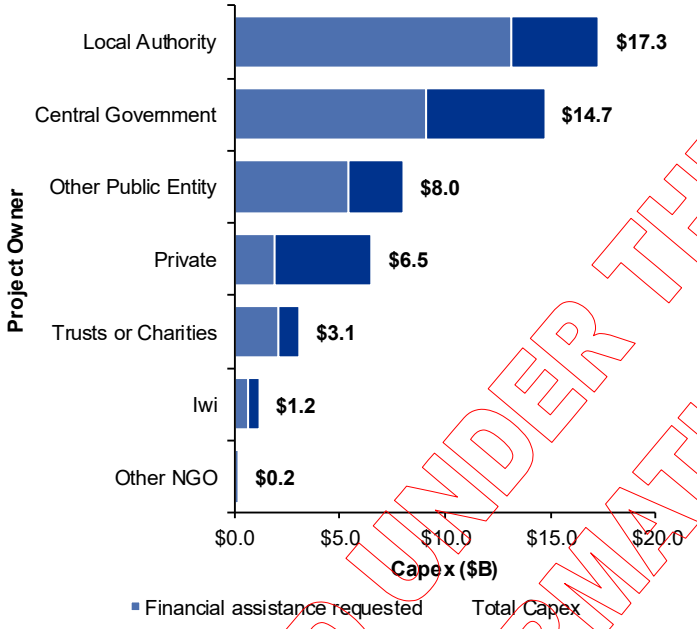
Sector	Fin. Request $B	Fin. Request % Capex	Capex $B
Transport	$9.3	68%	$13.7
Social	$4.6	57%	$8.1
Housing	$3.6	52%	$6.9
Community	$3.7	54%	$6.9
3 Waters	$4.0	86%	$4.7
Roads	$3.7	90%	$4.1
Environmental	$2.0	52%	$3.8
Commercial	$1.6	56%	$2.9
Total	**$32.6**	**64%**	**$51.2**

Financial Request and Capex by Region ($B)



Region	Fin. Request $B	Fin. Request % Capex	Capex $B
Auckland	$10.0	73%	$13.8
Nation-wide	$3.4	44%	$7.8
Canterbury	$3.1	56%	$5.5
Waikato	$3.9	74%	$5.3
Wellington	$2.5	65%	$3.9
Bay of Plenty	$2.1	61%	$3.5
Manawatū-Whanganui	$1.2	47%	$2.5
Otago	$1.3	57%	$2.3
Northland	$2.1	96%	$2.2
Top of the South	$0.9	66%	$1.4
Hawke's Bay	$0.5	45%	$1.1
Taranaki	$0.7	91%	$0.7
Southland	$0.3	50%	$0.7
Gisborne	$0.3	92%	$0.3
West Coast	$0.2	97%	$0.2
Total	**$32.6**	**64%**	**$51.2**

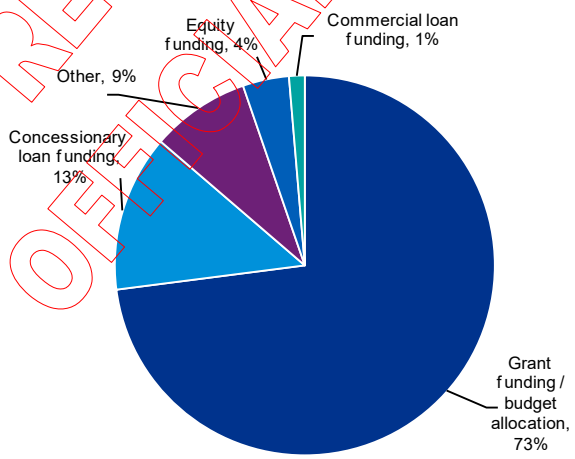
Financial Request and Capex by Project Owner ($B)



Project Owner	Fin. Request $B	Fin. Request % Capex	Capex $B
Local Authority	$13.2	76%	$17.3
Central Government	$9.1	62%	$14.7
Other Public Entity	$5.4	67%	$8.0
Private	$2.0	30%	$6.5
Trusts or Charities	$2.1	67%	$3.1
Iwi	$0.7	54%	$1.2
Other NGO	$0.2	86%	$0.2
Total	**$32.6**	**64%**	**$51.2**

7.2.4 The split of the type of financial assistance sought is illustrated in the chart below, with the most commonly requested type of financial assistance being (i) grant funding (or budget allocation in relation to Central Government agencies) (73%) and (ii) concessionary loan funding (13%).

Financial Assistance Request by Category



Category	Fin. Request $B	Fin. Request %
Grant funding / budget allocation	$23.8	73%
Concessionary loan funding	$4.4	13%
Other	$2.7	8%
Equity funding	$1.3	4%
Commercial loan funding	$0.4	1%
Total	**$32.6**	**100%**

7.2.5 The table below provides a breakdown of financial assistance sought by category and Project Owner.

Financial Assistance by Project Owner

$m	Central Government	Local Authority	Other Public Entity	Private	Trusts or Charities	Iwi	Other NGO	Total
Grant funding / budget allocation	$7,696	$10,960	$3,012	$536	$1,164	$266	$175	$23,809
Concessionary Loan funding	$2	$1,502	$1,065	$919	$543	$295	$29	$4,354
Other	$357	$582	$1,215	$358	$152	$85		$2,749
Equity funding	$1,082	$29	$93	$39	$32	$9		$1,285
Commercial Loan funding		$110	$14	$107	$205			$436
Total	**$9,137**	**$13,182**	**$5,399**	**$1,959**	**$2,097**	**$655**	**$204**	**$32,633**

7.2.6 The table below provides further detail on financial assistance requested and FTEs created by Project Owner type and Sector. The table also presents the ratio of FTEs created to financial assistance sought.

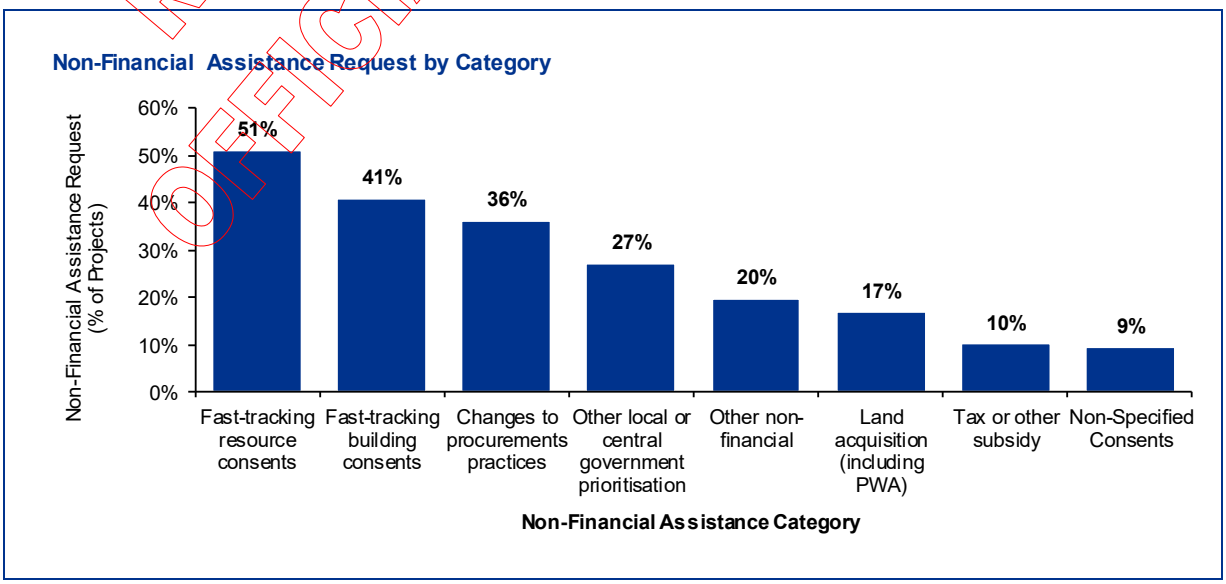
Financial Assistance/Employment by Project Owner and Sector

	Central Government			Local Authority			Other Public Entity			Private			Trusts or Charities			Iwi			Other NGO			Total		
	$m	FTE	FTE/$m	$m	FTE	FTE/$m	$m	FTE	FTE/$m	$m	FTE	FTE/$m	$m	FTE	FTE/$m	$m	FTE	FTE/$m	$m	FTE	FTE/$m	$m	FTE	FTE/$m
3 Waters				$2,914	5,191	1.8	$1,124	745	0.7													$4,038	5,936	1.5
Commercial	$352	1,390	4.0	$243	1,288	5.3	$496	1,817	3.7	$356	2,835	8.0	$126	931	7.4	$59	405	6.9		23		$1,631	8,689	5.3
Community	$63	872	13.9	$2,073	11,100	5.4	$417	5,383	12.9	$54	420	7.9	$733	3,248	4.4	$257	930	3.6	$143	525	3.7	$3,739	22,478	6.0
Environmental	$100	332	3.3	$811	2,641	3.3	$67	705	10.5	$389	2,655	6.8	$536	1,314	2.5	$107	595	5.5				$2,010	8,242	4.1
Housing				$2,326	5,622	2.4	$81	176	2.2	$583	7,024	12.0	$369	2,140	5.8	$212	776	3.7	$31	189	6.1	$3,602	15,927	4.4
Roads	$2,323	8,971	3.9	$1,283	5,540	4.3	$28	151	5.3				$42	75	1.8							$3,677	14,737	4.0
Social	$1,926	11,884	6.2	$97	418	4.3	$2,040	6,811	3.3	$255	2,530	9.9	$291	1,775	6.1	$20	319	16.0				$4,628	23,737	5.1
Transport	$4,375	18,246	4.2	$3,434	8,573	2.5	$1,147	4,437	3.9	$323	1,206	3.7							$30	136	4.5	$9,308	32,598	3.5
Total	**$9,137**	**41,695**	**4.6**	**$13,182**	**40,373**	**3.1**	**$5,399**	**20,225**	**3.7**	**$1,959**	**16,670**	**8.5**	**$2,097**	**9,483**	**4.5**	**$655**	**3,025**	**4.6**	**$204**	**873**	**4.3**	**$32,633**	**132,344**	**4.1**

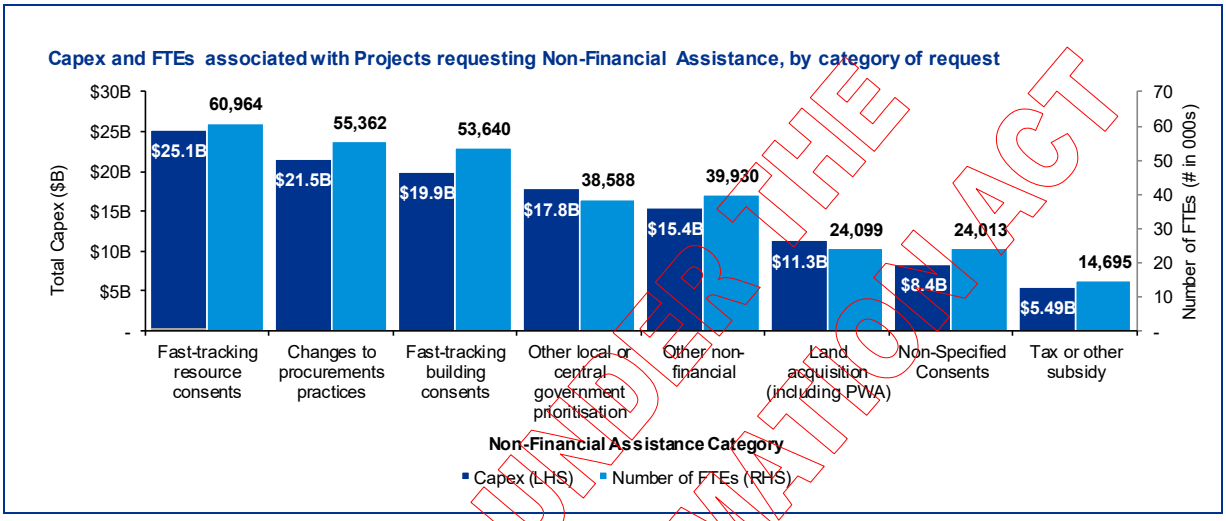
7.2.7 16% of Projects also requested financial assistance in the form of a government guarantee or underwrite (over and above the financial assistance detailed above). A total of $4.7 billion in the form of guarantees or underwrites was requested.

7.3 Non-Financial Assistance Sought - Overview

7.3.1 90% of Projects also requested at least one type of non-financial assistance, with the most commonly requested non-financial assistance being fast-tracking resource consents (requested by 51% of Projects) and fast-tracking building consents (requested by 41% of Projects), as illustrated in the chart below.



7.3.2 The chart below illustrates the total Capex and FTEs associated with Projects requesting each type of non-financial assistance. Please note, as most Projects requested more than one type of non-financial assistance, total Capex and FTEs across all categories shown in the chart below exceed total Capex and FTEs for all Projects.



7.3.3 The table below illustrates the total number of requests for non-financial assistance by category. The total number of non-financial assistance requests was 1,695 (more than twice the number of Projects). The right hand columns in the table below also illustrate the number of Projects that requested only one type of non-financial assistance. For example, 58 Projects requested fast-tracking resource consents only.

Non-Financial Assistance, by category of request	Total requests #	Total requests %	Unique requests #	Unique requests %
Fast-tracking resource consents	409	51%	58	7%
Fast-tracking building consents	328	41%	30	4%
Changes to procurements practices	291	36%	53	7%
Other local or central government prioritisation	218	27%	41	5%
Other non-financial	158	20%	68	8%
Land acquisition (including PWA)	134	17%	4	0%
Tax or other subsidy	81	10%	3	0%
Non-Specified Consents	76	9%	22	3%
Total	**1,695**	**211%**	**279**	**35%**

7.4 Fast-track Consenting Legislation

s9(2)(g)(i)

7.4.1

7.4.2

7.5 Rapid Procurement Response

7.5.1 Ensuring Government agencies and Local Authorities adopt effective and efficient fast-track procurement methods is imperative to achieving momentum. Project Owners will need to rapidly procure Projects to meet the construction commencement dates that have been indicated in their PIFs and this can be achieved through a number of mechanisms, including the efficient use of supplier panels, standard form contracts, sustainable contract price and delivery models (e.g., alliances, shared risk models, cost reimbursement, stipulated rates and margins, etc.).

7.5.2 Government will need to assess central and local government agencies' capability, capacity and maturity to procure Projects at speed, and should provide direction and support to agencies on appropriate procurement methods and contract delivery models, to ensure the Government's risk position is applied consistently, and sustainable models are adopted for suppliers in an environment of heightened risk resulting from CV19. We understand MBIE is identifying the processes and guidelines required to achieve rapid procurement, and these will need to be implemented in time to enable Projects to be accelerated as intended.

s9(2)(g)(i)

7.5.3

7.5.4 Procurement plays an integral role with respect to any funding released to support the construction of any Projects under the proposed economic stimulus package for two key reasons:

(a) public value - robust procurement processes ensure the selection of the right supplier under the most appropriate contract delivery model to go a long way to ensuring best public value from the investment; and

(b) acceleration - the faster projects reach physical construction the faster economic stimulus can be activated through the deep supply chains construction projects offer.

8 Risks

8.1 Introduction

8.1.1 In considering which Projects to support there are a number of key risks that the Government needs to be aware of. These risks, and the associated implications for selecting which Projects the Government will support are set out below.

8.2 Risks that could Increase Central and/or Local Government Exposure

8.2.1 The key risks to Government in providing financial support through central and local government agencies to the construction industry are tabled below. We have put forward potential mitigation measures that would assist with the rapid procurement of Projects in the short term (some of which we understand are in the process of being considered or adopted).

8.2.2 We understand that MBIE is currently working on identifying and developing a set of initiatives to assist central and local government agencies that will require support, to efficiently procure and contract Projects in the short term. A medium to longer term approach to procurement will also need to be considered once the impacts of CV19 on the industry are more clearly understood.

Risk	Caused By	Mitigated By
s9(2)(g)(i)		

Risk	Caused By	Mitigated By
		].

8.3 Risks to Industry

8.3.1 The key risks to the construction industry resulting from CV19 are tabled below. The mitigation measures, if and to the extent available, will assist projects funded and procured through Government agencies and local government. The private sector remains significantly exposed given the competing interests of principals / contractors to manage their respective risks.

Risk	Caused By	Mitigated By
s9(2)(g)(i)		

Risk	Caused By	Mitigated By

8.4 Risks from Early Announcement of Government Support

8.4.1 Once the Government publicly announces that it is going to support a particular Project (or even that it intends to support a particular Project) the expectations of the public and the Project Owner will be set.

8.4.2 s9(2)(g)(i)

8.4.3 These matters and associated mitigations are addressed further in Section 9 (Recommendations to Government).

8.5 Risk that the Rating Criteria and Process are Criticised

8.5.1 There is a risk that the Rating Criteria, this process and its results are subject to criticism.

8.5.2 Key factors giving rise to this risk and mitigations are set out are set out below:

Key Factor	Mitigation(s)
s9(2)(g)(i)	

9 Recommendations to Government

9.1 Introduction

9.1.1 The IRG has used the Final Rating to establish a baseline ranking of the Projects in the tables in Annexures A and B. The Projects that deliver the highest combined score taking into account Criterion 2: Direct Employment Benefit and Criterion 3: National/Regional Benefit as adjusted by the Leverage Criteria are at the top of each table. As noted above the Rating Criteria take into account the Government's overriding priorities and objectives being economic stabilisation, stimulation and rebuild.

9.1.2 The IRG recognises that Government may want to consider additional factors not included in the Rating Criteria to determine which Projects should receive Government support (if any). Particularly it should be noted that the IRG has not included any weighting for Regions that may suffer disproportionately from CV19 or any capacity constraints by Region and construction discipline (i.e., horizontal, vertical or home building). We have, however, provided information relating to the expected impact of CV19 on the Regions (see Part D and Part E of Section 2, Schedule 3 (Regional/ Sector Capacity) and Schedule 7 (Economic Impact of Covid 19)). Government will need to undertake the assessment of which, if any, Projects should be selected for Government support as viewed through the lens of the Government's overall financial capacity, objectives and priorities and its views on issues such as those noted above.

9.1.3 In this section of the Report, we set out the IRG's recommendations to Government on:

(a) Matters to be considered by Government when selecting which Projects should receive Government support (if any) - see Section 9.2 below; and

(b) The nature of the support to be provided and how it should be provided (including conditions that should be placed on the provision of support) - see Section 9.3 below.

9.2 Considerations when Selecting Projects to Support

9.2.1 The IRG recommends that the Government consider a broad range of factors when considering which Projects to support. The following is a summary of key factors that the IRG specifically wants to draw to the Government's attention.

9.2.2 It should be noted that the IRG has not had sufficient time to investigate all of the factors noted below in depth and the IRG recommends that the Government seek guidance from its specialist agencies on factors as appropriate. At the same time though, the IRG recognises that the purpose of this report is to prepare a list of projects that can be in construction within 12 months so this may require Government to take a pragmatic approach to considering these other factors so it can conclude its deliberations on a timely basis.

A. Impact of non-central Government Projects

9.2.3 A number of Projects would, if supported by Government, be delivered by entities outside of central Government (including private sector, iwi and Local Authorities) (**Non-Government Projects**). All Non-Government Projects on the Project Lists have an identifiable public benefit.

9.2.4 In many cases Non-Government Projects offer the Government opportunities and benefits that cannot be obtained through Projects delivered by central Government (**Government Projects**), including the ability to:

(a) highly leverage the Government's contributions (if any) – i.e., the commitment of Government support results in a disproportionately higher level of benefits achieved through the consequential commitment of the Project Owner's capital to the Project (noting many Non-Government Projects

do not request any financial support from the Government and many involve the commitment of private capital);

(b) avoid the cost and resourcing commitments associated with procuring and delivering projects (subject to our comments below regarding successful project delivery); and

(c) require the commitment of private capital into projects in advance of Government support (de-risking the delivery of the project and associated benefits for the Government) – i.e., back end finance.

9.2.5 It should also be noted that Government support for Non-Government Projects could have the unintended consequence of passing value to the private sector or crowding out private finance that would have otherwise been available and utilised for the Project.

9.2.6 The Government should view Non-Government Projects positively if maintaining and protecting construction jobs is the priority and, where they offer opportunities, benefits and risk reduction such as those identified above, then the Government should consider prioritising Non-Government Projects in preference to Government Projects.

B. Regional v metropolitan employment impacts

9.2.7 As noted in Part D of Section 2 (and set out in more detail in Schedule 7 (Economic Impact of Covid 19), the available data indicates that the impact of CV19 on employment levels will not be evenly felt between New Zealand's metropolitan and regional areas, with regional areas and districts (e.g., Queenstown) being much harder hit in relative terms.

9.2.8 The Government should consider how it's selection of Projects can best alleviate the disproportionate negative impact of CV19 on employment across the Regions.

C. Regional and discipline capacity

9.2.9 We expect that the Government's overall objectives and priorities will drive the distribution of Projects supported across Regions and construction discipline (i.e., horizontal versus vertical).

9.2.10 However, when selecting which Projects to support the Government should consider the infrastructure delivery capacity of each Region (including by construction discipline).

9.2.11 If these factors are not adequately considered on a regional basis by Government, then there is a very real risk that:

(a) unnecessary inflationary cost pressure in the Region will be created – this will have a negative impact not only on the Projects selected for the Region, but all construction activity in the Region (and could have the perverse unintended effect of causing the failure of construction projects in the Region); and

(b) the ability of the industry to successfully deliver the Projects (in the required timeframe) will be endangered and consequently the delivery of the very benefits the Government is seeking to achieve.

9.2.12 When considering capacity, it will be important to consider all aspects of the supply chain, including consultants and indirect suppliers.

9.2.13 We note available capacity in most (if not all) Regions is expected to increase due to the impact of CV19 on existing pipeline projects and labour substitution between sectors and industries (e.g., from tourism to construction).

9.2.14 To assist the Government in its assessment of Regional capacity:

(a) we have, as noted above, prepared a brief summary of the state of capacity across New Zealand, and specifically in each Region (see Part E of Section 2 and Schedule 3 (Regional/ Sector Capacity); and

(b) we provided the "Assessment of the Impact of CV19 on Current New Zealand Infrastructure Projects" report to Ministers on 8 April – which included observations on the capacity of the industry in a CV19 environment.

D. Benefits of selecting a diverse range of Projects (Projects types /Regions)

9.2.15 By supporting a Project, the Government will:

(a) save the jobs of the individuals that will work on constructing the project;

(b) provide support to the entities that employ those individuals;

(c) help preserve the infrastructure industry and its capacity to deliver for New Zealand in the years to come;

(d) promote labour retraining and substitution from sectors and industries hard hit by CV19 (e.g., tourism); and

(e) secure the delivery of associated public benefits.

9.2.16 In order to maximise those benefits for New Zealand, it will be important for the Government to support a breadth of Projects across:

(a) Regions;

(b) construction discipline (horizontal and vertical); and

(c) sectors.

E. Impact on iwi

9.2.17 The Government should consider the extent to which Project selection may advantage or disadvantage iwi.

9.2.18 The selection of iwi owned Projects is a straight forward mechanism to enable iwi to leverage their asset base and benefit directly from this process. Examples of iwi owned Projects included in the Project List include the following (noting that these examples are provided for illustrative purposes only):

Project Number	Project Name	Project Owner	Project Owner Type	Sub Sector	Construction Employment (FTE)	Total Capex	Assistance		Final Rating
							Financial (excl. Guarantees)	Other[3]	
s9(2)(b)(ii)									

[3] See Annexure A for a definition of terms.

9.2.19 In addition, consideration should be given to how Projects can indirectly advantage iwi. Examples of such project types would include social housing, irrigation/ water storage projects that benefit iwi owned land and projects delivering significant employment benefits to Regions with high iwi unemployment rates. s9(2)(b)(ii)

Project Number	Project Name	Project Owner	Project Owner Type	Sub Sector	Construction Employment (FTE)	Total Capex	Assistance		Final Rating
							Financial (excl. Guarantees)	Other[4]	

9.2.20 In the time available to the IRG we have not been able to prepare more detailed guidance on how Māori issues should be considered, however, we understand that the PDU has done work in this area of project selection and impact on Māori development (in the context of the PDU's work) which may be of assistance to Ministers. Senior Officials in the Whenua Māori fund should be utilised to bring their existing knowledge of existing areas of opportunities to increase the opportunity for a positive outcome for Māori entities. This may include a variable acceptance criteria for projects that will enhance Māori outcomes. s9(2)(g)(i)

F. Alignment with other initiatives and priorities

9.2.21 Government should consider the extent to which Projects support, or are aligned with, existing Government or Local Authority initiatives and priorities. In addition, Government should consider the impact of existing, funded capital projects that will continue to be pursued outside of the IRG initiative by Government. Ensuring that there is co-ordination from a whole of Government perspective (not only in relation to any projects pursued under the IRG initiative) will be to key to ensuring that the risks outlined paragraph 9.2.11 above are mitigated.

9.2.22 Examples would include:

(a) identifying Projects that align with Regional apprenticeship programmes supported by the PDU or other parts of Government;

(b) liaising with the New Zealand Infrastructure Commission to confirm whether they are aware of factors relevant to the selection of individual Projects (such the Project being inconsistent with New Zealand's longer term infrastructure strategy);

(c) alignment with current Government commitments relating to environmental outcomes; and

(d) confirming whether Regional Projects are consistent with relevant Economic Strategy Documents (including economic action plans).

G. Projects as part of a wider programme

9.2.23 Government should consider the extent to which a Project may form part of, or facilitate, a wider programme which taken as a whole, gives rise to greater benefits than those created by the Project when viewed on a standalone basis.

[4] See Annexure A for a definition of terms.

9.2.24 An example of this would be where the delivery of a roading Project allows adjoining land to be developed or intensified for social and/or affordable housing development. s9(2)(b)(ii)

Project Number	Project Name	Project Owner	Project Owner Type	Sub Sector	Construction Employment (FTE)	Total Capex	Assistance		Final Rating
							Financial (excl. Guarantees)	Other[5]	

H. Training

9.2.25 The CV19 crisis provides an opportunity for the training/ retraining of New Zealand's workforce to support employment and the delivery of Projects and New Zealand's future infrastructure requirements over the years to come.

9.2.26 There will be sections of the labour market that suffer significantly as a result of the CV19 crisis (for example the tourism sector).

9.2.27 Consideration should be given to how selection of Projects can be aligned with existing apprenticeship programmes and support new programmes (including requiring Projects supported by Government to provide minimum levels of support to apprenticeships as further set out in the Guiding Principles).

I. The post CV19 economy

9.2.28 While it is obviously challenging (or impossible) to accurately predict the nature of the post CV19 New Zealand economy, there are some reasonable assumptions that can be made relating to the short to medium term to guide Government's decision making.

9.2.29 For example, there are sectors that will likely remain depressed for some time post CV19 including domestic and international tourism (including airports). Any potential Government support in such areas should be carefully considered.

J. Environmental/ sustainability considerations

9.2.30 The IRG expects the Government's overall environmental and climate change objectives will impact on any decision making. The Government should consider sustainability and the extent to which Projects may have positive or negative impacts on the environment.

9.2.31 s9(2)(b)(ii)

Project Number	Project Name	Project Owner	Project Owner Type	Sub Sector	Construction Employment (FTE)	Total Capex	Assistance		Final Rating
							Financial (excl. Guarantees)	Other[6]	

[5] See Annexure A for a definition of terms.
[6] See Annexure A for a definition of terms.

9.2.32 Some State Governments in Australia have adopted an "Infrastructure Sustainability" rating to ensure sustainability issues will be considered through construction. This could be considered but the IRG could not do so within the timeframe.

K. Ability of entities to successfully deliver projects

9.2.33 The Government is aware that there is a broad range in the ability of organisations (both public and private) to successfully procure and deliver infrastructure projects (noting this was a key factor in the Government's decision to establish the New Zealand Infrastructure Commission).

9.2.34 In light of this, the IRG recommends that in deciding whether to support a Project, the Government must consider, and where necessary determine, the organisation that will procure and deliver the project (as a condition of receiving Government support). In some instances, this may result in an entity other than the entity that submitted the Project (the Project Owner) being given these responsibilities.

L. Consideration of risks

9.2.35 In its consideration of which Projects to support and the delivery of those Projects, the Government needs to consider the key risks set out in Section 7 (Risks), particularly those risks that go directly to:

(a) the costs of delivering Projects when the Government itself has cost overrun exposure;

(b) the level of the Government's exposure in choosing to support Projects;

(c) the likelihood of successful delivery of selected Projects; and

(d) the likelihood of the Project delivery timetable being delayed.

M. Other potential funding sources

9.2.36 The Government should consider the extent to which Projects are eligible (or indeed already benefitting from) other existing Government funding sources (such as the New Zealand Green Investment Finance Limited fund and the PGF).

9.2.37 To the extent that a Project is eligible for funding under another source it may be an opportunity for Government to highlight that alternative source and use it to fund the Project.

9.3 Guidance on Providing Support

A. Mandating competent Government agencies

9.3.1 There are a number of core Government agencies that obviously possess the ability to successfully progress the procurement and delivery of the Projects they have submitted into the IRG process (**Experienced Government Procuring Agencies**). Examples of Experienced Government Procuring Agencies include:

(a) the New Zealand Transport Agency;

(b) KiwiRail;

(c) the Department of Corrections; and

(d) Kāinga Ora.

9.3.2 The IRG recommends that the Government mandate Experienced Government Procuring Agencies to progress the procurement and delivery of selected Projects and make provision for fast-tracking associated funding mechanisms to those agencies.

B. Alternative delivery agent/ mechanisms

9.3.3 In relation to any Project that is not being procured and delivered by an Experienced Government Procuring Agency (i.e., where the Government has concerns about the Project Owner's delivery model or capabilities), the Government should consider the appropriate organisation to be tasked with procuring and delivering the project and the delivery model or assistance that needs to be provided to the Project Owner. As noted above, this may require Government to insist that an entity other than the Project Owner be given those responsibilities or that an alternative delivery model be used (as a condition of receiving Government support).

9.3.4 This could extend to certain Government Projects being delivered with private sector assistance through a variety of procurement/ delivery models.

9.3.5 However, in considering the use of alternative procurement/ delivery models sight should not be lost of the fact that the range of models realistically available will, to an extent, be constrained by:

(a) the fact that this process is intended to result in construction commencing within 12 months on all selected Projects (making the negotiation and implementation of complicated or bespoke models challenging in the timeframes); and

(b) the CV19 environment, including the risks set out in Section 8 (Risks).

C. Selection of Projects and negotiating Government support

s9(2)(g)(i)

9.3.6 [redacted]

9.3.7 [redacted]

(a) [redacted]

(b) [redacted]

(i) [redacted]

(ii) [redacted]

(iii) [redacted]

(iv) [redacted]

9.3.8 We note that:

(a) there is no need for due diligence, negotiation and documentation in relation to Experienced Government Procuring Agencies;

(b) the need for due diligence, negotiation and documentation obviously has greater significance for Non-Government Projects; and

(c) we expect the required level of due diligence, negotiation and documentation to be generally lower in relation to other Government Projects (noting the inherently greater level of control Government will have over those projects).

D. Guiding Principles

s9(2)(g)(i)

9.3.9 [redacted]

s9(2)(g)(i)

9.3.10

9.3.11

9.3.12 A suggested set of Guiding Principles is set out in Schedule 4 (Guiding Principles for Recipients of Government Support).

E. Non-financial Government support

9.3.13 As noted above, a significant number of Projects requested assistance from Government in relation to:

(a) consenting; and

(b) procurement rules.

9.3.14 The Government asked the IRG what changes, if any, should be made to both consenting legislation and Government procurement rules to enable Projects to proceed at pace and release the associated benefits to New Zealand.

9.3.15 The IRG recommends Government consider the IRG's comments on these matters as set out in Section 7.4 and 7.5 respectively.

10 Next Steps

10.1 Introduction

10.1.1 We set out below our suggestions to Government for next steps following the Government's consideration of this Report and the Projects.

10.2 Next Steps to Confirm Selection of Projects

10.2.1 Government to confirm whether it needs any further information regarding Projects from the IRG and instruct the IRG to provide that information.

10.2.2 Once the Government has identified the Projects it wants to support (based on the information available to the Government), we recommend that the Government:

(a) communicate to the Experienced Government Procuring Agencies:

(i) the relevant Projects that they are to progress;

(ii) the Government's key expectations in relation to the delivery of those Projects; and

(iii) associated matters including funding arrangements.

(b) in relation to all other Projects the Government wants to support:

(i) appoint an agency to undertake the appropriate due diligence, a business case (where appropriate) and negotiation exercises recommended in this Report; and

(ii) provide clear guidance to that agency on the Government's expectations regarding:

- timeframes for the due diligence and negotiation exercises;
- extent of available Government support;
- minimum expected benefits;
- suitable procurement model and delivery agencies; and
- delegated authority and process for Government approval of any negotiated arrangements.

(c) confirm whether it intends to announce the Guiding Principles and, if it does, instruct an agency to further develop the Guiding Principles for approval by Government and implementation.

10.3 Fast-track Consenting Legislation

10.3.1 s9(2)(g)(i)

10.4 Rapid Procurement Response

s9(2)(g)(i)

10.4.1 [redacted]

10.5 Appointment of Delivery Agent

10.5.1 Where appropriate, we recommend that the Government appoint an agency or agencies to undertake or oversee the procurement and delivery of individual Projects where the Government has material concerns about the Project Owner's delivery model or capabilities that cannot be overcome by the appointment of appropriate resources by the Project Owner.

10.6 Continuing Oversight of Shovel Ready Programme

10.6.1 We recommend that the Government appoint an agency to have continuing oversight of the procurement and delivery of all Projects that benefit from Government support as a programme to ensure and oversee:

(a) delivery of agreed Government support;

(b) achievement of the benefits the Government expects in return for its support of Projects; and

(c) that Crown funds are appropriately applied to the purpose intended.

10.7 Communications

10.7.1 Following the provision of this Report to Ministers, the IRG will send out letters to all entities that submitted project information as part of this process.

10.7.2 The letter will confirm whether or not the project was included in the Project Lists in this Report. The letter will also provide an update on process and next steps.

10.7.3 The IRG has worked with the offices of Minister for Infrastructure and Minister for Economic Development to prepare the draft letters and will await confirmation from the Minister for Infrastructure before sending these letters out.

10.7.4 All media enquiries will be directed to the offices of the Minister of Infrastructure and the Minister for Economic Development.

Glossary

Term	Definition
Alert Level	Alert levels under New Zealand's CV19 4-level alert system specifying measures to be taken against CV19 at each level.
Capex	Capital expenditure related to the Project.
CIP	Crown Infrastructure Partners Limited.
Construction Readiness Category	Construction Readiness Category A, Construction Readiness Category B or Construction Readiness Category C.
Construction Readiness Category A	Projects which currently are (or were) in the construction phase.
Construction Readiness Category B	Projects which have a high expectation of commencing the construction phase within the next six months (by 31 October 2020).
Construction Readiness Category C	Projects which could have been expected to commence the construction phase within the next 12 months (by 30 May 2021).
Construction Readiness Category D	Projects which are not in Category A, B or C.
Criteria 2 & 3 Score	The weighted average score between 1 (lowest) and 5 (highest) following the application of Criterion 2 and Criterion 3 (as described in Section 5.5).
Criterion	A criterion set out in Section 5.
Criterion 2: Direct Employment Benefit and **Criterion 2**	The Criterion set out in Section 5.4.
Criterion 3: National/ Regional Benefit and **Criterion 3**	The Criterion set out in Section 5.5.
CV19	COVID-19.
Economic Strategy Document	A document that is produced with the support of central Government in partnership between a Local Authority and regional stakeholders, which sets out the economic initiatives of the regional economy to which the relevant Local Authority relates, including any of the following: I. economic action plans; II. regional growth strategies; and III. economic development strategies.
Experienced Government Procuring Agencies	Core Government agencies that possess the ability to successfully progress the procurement and delivery of the Projects they have submitted into the IRG process.
Final Rating	The final rating score for a Project determined through the application of the Rating Criteria and the Methodology (as described in Section 5.7).
FTE	The average number of direct full time equivalents (FTEs) (based on a 40 hour week) working on the Project over the duration on the construction period (noting that the number of FTEs may vary week to week over the construction period).
General Review	The review exercise described in Section 6.6.
General Review Team	The individuals that performed the General Review.

Term	Definition
Government's Economic Plan	The Government's Economic Plan for a Productive, Sustainable and Inclusive Economy (September 2019).
Government Procurement Rules	The Government procurement rules published by MBIE (4th edition, effective from 1 October 2019), and any amendments to such rules.
Government Projects	Projects delivered by central Government.
Guidelines	The guidelines issued on 1 April 2020 which outlined the nature of the projects sought and the process that the IRG would follow (as set out in Schedule 1).
Initial Review	The review and moderation exercise set out in Section 6.4.
IRG	The Infrastructure Reference Group.
Leverage Adjustment	The adjustment made to the Criteria 2 & 3 Score set out in Section 5.6.
Local Authority and Local Authorities	Any Regional Council, Territorial Authority or Organisation.
MAR	"Money at Risk".
MBIE	Ministry of Business, Innovation and Employment.
Methodology	The methodology the IRG has adopted in order to present lists of Projects as set out in Section 5.
Moderation	The review and moderation exercise set out in Section 6.10.
Non-Government Project	Entities outside of central Government, including private sector, iwi and Local Authorities.
Organisation	Any company or entity that is a "council-organisation", "council-controlled organisation" or "council-controlled trading organisation" within the meaning of section 6 of the Local Government Act 2002.
PDU	The Provincial Development Unit, which administers the PGF.
PGF	The Government's Provincial Growth Fund.
PIF	A Project Information Form, or equivalent project information provided by Project Owners.
PWA	Public Works Act 1981.
Project	A project included in the Project List.
Project List	The list(s) of Projects set out in Annexures A and B of the Report.
Project Owner	An entity that submitted a PIF in relation to a project.
Proposed CV19 Fast-track Legislation	The proposed COVID-19 Recovery (Fast-track Consenting) Bill 2020 currently being developed by Government.
Rating Criteria	All the Criterion set out in Section 5.
Region and Regions	New Zealand wide (NZ), Northland (North), Auckland (Akld), Waikato, Bay of Plenty (BoP), Hawke's Bay (HB), Gisborne/ Tairawhiti (G/T), Taranaki, Manawatu-Whanganui (M-W), Wellington (Wgtn), Top of the South (ToS), Canterbury (Ctby), West Coast (WC), Otago and Southland/ Murihiku (S/M).
Regional Council	A "regional council" as listed in Part 1 of Schedule 2 of the Local Government Act 2002.
Regional Lead Benefit Review	The review exercise set out in Section 6.7.

Term	Definition
Regional Leads	The regional lead members of the Technical Review teams which undertook the Regional Lead Benefit Review.
Report	This report, prepared by the IRG for the Government and dated 18 May 2020.
RMA	The Resource Management Act 1991.
Sector	A sector listed in the table in Section 3.2.1. Details of the sub-sectors included in each Sector (for the purposes of this Report) can be found in Annexure A.
Sector Expert Review	The review exercise set out in Section 6.8.
Sector Experts	The experts described 6.8.1.
Support Clarification Request	The short form request for clarification of requested Government financial support and non-financial assistance sent to Project Owners on 3 May 2020 as further set out in Section 4.2.3.
Technical Review	The review exercise set out in Section 6.5.
Territorial Authority	A city council or a district council as listed in Part 2 of Schedule 2 of the Local Government Act 2002.
The Construction Sector Accord	A joint commitment from Government and industry to work together to create a high performing construction sector for a better New Zealand.
Weighting	The relative importance between Criteria 2 and Criteria 3 used to determine the Criteria 2 & 3 Score as shown in Section 5.2.

Schedules

Schedule 1

Guidance on Nature of Projects

'Shovel Ready' Infrastructure Projects: Project Information Guidelines

Introduction

The Government is seeking to identify *'shovel ready'* infrastructure projects from the public sector and (where projects can be repurposed for public benefit) the private sector that have, in each case, been impacted by COVID-19.

Ministers have advised that they wish to understand the availability, benefits, geographical spread and scale of *'shovel ready'* projects in New Zealand. These projects will be considered in the context of any potential Government response to support the construction industry, and to provide certainty on a pipeline of projects to be commenced or re-commenced, once the COVID 19 Response Level is suitable for construction to proceed.

The Infrastructure Industry Reference Group (Reference Group), chaired by Mark Binns, is leading this work at the request of Ministers, and is supported by Crown Infrastructure Partners Limited (CIP).

CIP is now seeking project information from relevant industry participants on projects/programmes[1] that may be suitable for potential Government support.

These Guidelines outline the approach CIP will adopt in categorising the project information it receives.

Mark Binns released a letter to the sector on 25 March 2020 in connection with this information gathering process and the types of projects to which it would relate. The four criteria identified in the letter were:

- Criteria 1: The extent to which the project is construction ready now or within a realistic 6 - 12 months - ***construction readiness;***
- Criteria 2: the project is of an infrastructure nature, either horizontal or vertical, and that the project is ***public or regional benefit infrastructure;***
- Criteria 3: Whether the project is of a ***size and has material employment benefits*** (i.e., $10m+); and
- Criteria 4: The ***overall benefits and risks*** of the project.

As an initial task the Reference Group has been asked to prepare a report to Ministers on infrastructure projects/programmes that are ready for construction and that could, if the Government deemed it appropriate, be deployed as part of a stimulatory package.

[1] We refer to "projects" throughout. This term includes programmes of work in all cases.

To support this process, CIP will provide a report to the Reference Group summarising the projects and their key attributes, categorised in terms of the criteria referred to above based on the information provided by, and on any subsequent discussions with, participants.

It should be noted that the full impact of COVID 19 on the economy will not be known for some time, and the Government's decision to accelerate any construction-related spend will be determined by its assessment of priorities at the time. This information is being sought in good faith, but no undertaking can be made that the criteria or other considerations will not change or that any projects coming forward from the Reference Group will be accelerated, or any of the Reference Group's recommendations adopted. This situation we all find ourselves in is truly dynamic.

Process

The process that CIP will follow is outlined below.

Step 1: Receipt of project information

CIP has prepared a Project Information Form (PIF) to enable relevant industry participants to nominate project(s) for consideration. All responses are to be provided using the attached PIF and sent to: projectinformation@crowninfrastructure.govt.nz **by 5.00pm on Tuesday 14 April 2020.**

If you are providing PIFs for more than one project, please also provide, in your covering email, your own views on the relative priorities of these projects.

Step 2: Review and Categorisation of Projects

Step 2A: Criteria 1, Construction Readiness Assessment

CIP will consider the ***construction readiness*** of the project based on the PIF. We propose to adopt the following categorisation:

- **Category A -** Projects which currently are (or were) in the construction phase, but have been put on hold due to COVID 19 and are likely not to progress, or to progress at a much slower rate or scale/scope, if not supported post COVID 19.
- **Category B -** Projects which have a high expectation of commencing the construction phase within the next six months (by 31 October 2020), but are unlikely to do so due to COVID 19.
- **Category C -** Projects which could have been expected to commence the construction phase within the next 12 months (by 30 May 2021) but are unlikely to do so due to COVID 19.

  This may include projects currently in a procurement phase including where:
  - a suitable Tender has been completed;
  - a Tender Evaluation is in progress;
  - a Request for Tender is in the market; or
  - the principal is about to put out a Request for Tender to the market.

  This may also include maintenance and asset replacement projects which require little design or consenting, such as local/regional roading and three waters projects.

Step 2B: Project classifications: infrastructure type, value and employment benefits

Criteria 2: Consideration will be given to whether the project has a ***public or regional benefit.*** CIP will categorise projects based on the following categories:

- Transport
- Three waters
- Buildings and Structures
- Other infrastructure

The infrastructure will be classified as

- Critical infrastructure
- New infrastructure
- Replacement/refurbished infrastructure
- Repurposed infrastructure

Criteria 3: Whether the project is of a ***size and has material employment benefits*** of $10m+.

While we have referred to a minimum project size of $10m, we recognise that this might be too high a threshold for some of the smaller regions or districts in NZ. Note that this could include programmes of work, for example a series of road maintenance/resealing projects or a series of three-water pipe renewals/replacements. PIF's for projects under the $10m threshold in smaller (by population) territorial authorities' areas can be submitted to CIP and CIP will provide them to the Provincial Development Unit (PDU) for consideration given the PDU is best equipped to consider those projects.

The threshold would remain for larger regions.

Step 2C: Overall Benefits national and regional

CIP will also categorise by the ***overall benefits*** **of** the project. The matters which will be considered under this heading include:

- Economic/Social/Environmental benefits; and
- Regional/Nationwide benefits.

This will include any project, either public or private, that will benefit the wider public or a particular regional area due to its nature. Given the breadth of infrastructure it is acknowledged this may include private sector projects that demonstrate wider public benefits. Examples include (but are not limited to) transport (including public transport, roads, cycling infrastructure and bridges), wastewater treatment, potable water, stormwater, schools, hospitals, tertiary education, community facilities, energy, regionally or nationally significant infrastructure such as airports and ports or infrastructure that supports our key industries such as tourism and agriculture. Projects that have a strong regional benefit will also be considered.

Ministers will be particularly interested in investments that modernise the economy and set it up to enhance sustainable productivity into the future rather than those that replicate the current economic arrangements.

In line with Treasury's Living Standards Framework[2] and Sustainable Development Goals[3] consideration will also be given at a high level to whether a project brings real value (in an economic, social and/or environmental sense) to New Zealand as a whole or the region in which it is located.

[2] https://treasury.govt.nz/information-and-services/nz-economy/higher-living-standards/our-living-standards-framework

[3] https://www.mfat.govt.nz/en/peace-rights-and-security/work-with-the-un-and-other-partners/new-zealand-and-the-sustainable-development-goals-sdgs/

The Government Policy Statement on land transport, and the priorities that it establishes, will also be taken into account

These benefits should be readily identifiable and determined by an assessment such as a Business or Investment Case that supported the decision to deliver the project.

Please note you should not submit any project that does not demonstrate some wider public benefit.

Step 2D: Project risks
Risks will be categorised in three groupings:

- risk of the project not commencing within the advised timescale;
- risk the project will not be completed on time, to cost or to specification; and
- risk the project will not obtain the benefits outlined in the Overall Benefits section above.

Each risk should be ranked as high, medium or low and include a short explanation as to why it was given that risk rating.

Step 2E: Impacts of Covid-19

We seek to obtain a general understanding of the impacts that COVID 19 has had on the project. We are therefore seeking information in relation to:

- the likelihood of that project recommencing once the COVID 19 Response Level is suitable for construction to proceed, whether it would recommence but required to be scaled down or stopped indefinitely;
- an estimate of the financial implications of COVID 19 on the project; and
- confirmation whether the project has already, or is likely to benefit from already announced Government led financial support for businesses (e.g. wage subsidy scheme/business finance guarantee scheme).

Step 3: Clarifications
CIP may seek any additional clarification on the project information received, and will require responses no later than 5 pm on Monday 27 April 2020.

Step 4: Next steps

CIP and the Reference Group will provide information on the projects to Government.
CIP intends to contact all parties that provide Project Information once Government has advised what the next steps are.

Use of information

a. *Each party that completes a PIF agrees that the information it provides may be used or referred to in preparation of reports to the Reference Group and central Government and for other associated purposes. Any such reports may be publicly disclosed (in whole or in part). Publically released versions of any such reports will be redacted or anonymised to exclude any specific information identified, in the PIF response, as being commercially sensitive. Information may also be disclosed as required by law, including under the Official Information Act 1982.*
b. *The request for project information is not a Notice of Procurement nor does it form part of any procurement process.*

Schedule 2

Fast-track Consenting Legislation

s9(2)(g)(i)

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Schedule 3

Regional/ Sector Capacity

Construction Sector Market View

Executive Summary

Pre-COVID, the New Zealand construction industry was buoyant with the announcement of further additional pipelines of work associated with infrastructure upgrades (NZUP), social infrastructure and housing supply looking to push the industry peak out past 2021 closer towards 2025. This was positive considering a number of major projects (e.g. Transmission Gully, Christchurch motorway projects, Waikato Expressway and Auckland's Commercial Bay) were coming to an end in the next 12 – 24 months.

COVID-19 has disrupted this market and negatively impacted investor confidence. We are already seeing a stop to a number of projects associated with tourism, local government, commercial and housing. This paper provides a summary view of the impact of COVID-19 to each region's current and projected project pipeline.

The residential market should be discussed separately to the horizontal and vertical market. There are two markets in residential sector, social housing and private ownership housing. Development of social housing under Kāinga Ora is moving at pace with the main constraint getting land ready for development. In the private housing market, the insecurity in employment and therefore household income is impacting on the ability to raise finance and/or service loans. Financial Agencies are wanting surety of uptake in presales before lending to developers thereby producing a spinning circle of uncertainty.

Key Observations

- Residential is the hardest hit sector, in particular mum and dad developers who are the most vulnerable and forecast to be under-utilised across all regions.
- Horizontal is the most resilient market relative to vertical and residential, largely due to road and rail projects continuing without major funding concerns. This is also the market with the greatest skill need
- Northland, Bay of Plenty, Taranaki, Canterbury and Queenstown are the hardest hit regions with forecast reduced pipeline across all sectors – horizontal, vertical and residential.
- Queenstown in particular has gone from a high demand in accommodation and vertical markets to under-utilisation.
- Auckland and Manawatu are both forecast to see a significant drop in vertical and private residential uptake resulting in under-utilisation.
- Waikato, Gisborne and Top of South are forecast to see a modest drop in all sectors but relatively resilient compared to other regions.
- West Coast and Otago (excl. Queenstown) are the most resilient relatively to other regions.
- Otago, Queenstown and Southland areas share and move resourcing around the region so there is likely to be significant constraint if all these three areas have multiple projects at the same time.

Project Pipeline and Industry Capacity by Region

The following pages provide further details on the pre-COVID project pipeline and the forecast impact of COVID-19 on this pipeline in the next 12 months for each region. The forecast future pipeline does not include any Government stimulus support. The Auckland commentary has been provided by RCP and the rest of the country by Beca who also sort input from council executives and main contractors for each region.

A summary table of the current and future pipeline accompanies each region's commentary with a 1 – 5 rating. These represent:

Rating	Description
5	Overheated market – significant shortfall in capacity, pipeline has too many projects
4	Moderately overheated market – insufficient capacity, pipeline has some excess projects
3	Balanced – sufficient capacity to meet pipeline demand
2	Moderately under-utilised – insufficient pipeline, industry has some excess capacity
1	Under-utilised – significant shortfall in pipeline, industry has significant excess capacity

Northland

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	[Medium]	[Medium]	[Medium]
General Labour (Labourers)	[High]	[High]	[High]
Labour available from other industry hard hit from CV19.	[High]	[High]	[High]

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	Positive outlook on capacity to take on new projects across Northland. Labour resources that are currently engaged in Auckland development are likely to return to the Far North due to the expected downturn in Auckland vertical and residential infrastructure. Local labour

resources are able to also turn to infrastructure with a likely downturn in private residential construction.

Experienced professional services sub-contractors in the region are limited, with either a small workforce or limited experience for large, complex projects. Government agencies and large commercial developers tend to opt for out-of-region companies for professional services. Opportunity and desire to develop local pool of contractors but skills need to be imported to deliver an expanded programme.

Tier 1 contractors (with Tier 2 sub-contractors) able to take on a 50% increase in workload to cope with an economic stimulus package of works. Constraints around design, consenting, and procurement – but this can be managed.

Fulton Hogan view on depth of skills: there is labour available but is the skill set of the labour that is the issue. With increasing confidence in the pipeline, the industry sees an opportunity to invest in skills development / apprenticeships etc. Building this into contracts and co-invest provides opportunities in increasing social sustainability. Generally positive view about being able to re-train and redeploy local labour displaced from other industries (such as tourism and hospitality). Also, on training as per above unemployed labour.

Small-scale and boutique contractors are a dominant presence in the region and do have track record. Need to partner with other sub-contractors to deliver larger projects. Most delivering contracts of less than $10m. Only 20 or so contractors can deliver projects in the $10 - $20m range. Even then will need project management support for delivery and will charge on hourly rates.

Oversupply of accommodation currently and would benefit from projects. No material constraints expected locally. Resourcing projects with a local workforce does not increase strain on existing accommodation.

The CCNZ Regional Branch is a very strong forum in Northland and is a good active channel for communication and collaboration.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	$45m current FNDC capital works. Level of current capital works is moderate. Pre-COVID a Fulton Hogan and NZCC view was one of increasing optimism or cautious confidence in the pipeline. With recent PGF funding decisions, longer term pipeline funded through the "Up" programme the industry was looking to gear up. Councils had strong capital programmes on the back of steady population growth. Currently 4 local 'Tier 1' contractors in Northland working on the local road and State Highway maintenance contractors. Range of specialist and generalist Tier 2 contactors (approx. 10) who subcontract to the Tier 1 in civil engineering, bridging, sealing, road marking, and services. Existing relationships between the Tier 1 and Tier 2 contractor, as road maintenance contracts require at least 30% of contract value to local subcontractors. Workload for other TLAs has been adequate to keep most Tier 1 and 2 contractors busy. Across the region there is a general inability to complete	Demand for Tier 1 contractors may be competing against Auckland-based development in specialised fields (bridge design for example). Earthworks, drainage contractors present in region and ready to take on work. These contractors have robust management structures that can and have expanded to meet funding fluctuations. There are several capable companies' resident in Northland and Auckland North. A need to bring on site management personnel to boost productivity on site. Some larger scale projects that are coming to an end in the short-term would enable security for contractors to remain and move onto the next local project. KDC looking at projects that empower local community groups, iwi, and businesses (including contractors), including developing walking and cycling trails, river stop banks, and primary resource industries. Broadspectrum, Downers and Fulton Hogan have been in discussion with WDC Council about getting

	programmes from year to year with only 85% completion. There is a critical lack of work for Tier 3 contractors who have little visibility of the current programme. The pipeline needs to be well signalled and additional resource applied to deliver core workloads, a strong need for innovative procurement to consistently deliver core programmes.	prepared to gear up if WDC is successful with their CIP applications. General confidence to do this and how to involve the 2nd tier contractors and get them involved. Intention to do this which will increase capacity. View is that there is good capability in this 2nd tier that could be utilised. Previous underperformance on core workload suggests a need to allow innovative procurement such as alliances to deliver core programmes to optimise use of skilled personnel. Need to guard against delivery of the CIP programme but exacerbate under-delivery of the core programme.
Vertical	Growth in tourism had given confidence to the accommodation sector and a new hotel was in the pipeline (Copthorne in Whangarei). Whangarei District Council's civic centre was a major project that was also building confidence. Other civic projects include development within Whangarei city that has already been awarded and/or can be undertaken through local services.	Demand for housing and retail. Port and transport infrastructure projects are already causing growth in Kerikeri. Capacity as a result of slow-down in this sector and the residential sector could be redeployed. They also were waiting from projects to come on stream in 12 months so there has been concern about what to do with this sector in the lead in.
Residential	Expected drop in residential building consent applications of 20 – 30% in short term with an increase expected following commencement of large-scale infrastructure projects. Banks are still lending and increased workforce required to complete infrastructure and large-scale commercial projects. Understand a significant retirement village development is likely to go on hold. This sector had only just picked up in the last 3-years post-GFC (GFC hammered the market) along with historical over supply. Population growth over the last 3 years has driven more activity in the sector to cater for housing new residents. Recent activity by Kainga Ora is also driving confidence in the potential pipeline. Fulton Hogan – smaller player in this sector because of lack of or consistency of opportunity. Any funding support would help sure up projects or development which might now be marginal.	Small but steady flow of residential development. Indicative drop in residential development in Whangarei, but noted development in Kerikeri.

Auckland – Vertical Sector

Construction Sector Market View

Prior to Covid-19, non-residential activity was forecast to peak in 2021 with a gradual decline in activity through to 2024. Non-residential construction comprises a minor share of total construction, sitting slightly more than infrastructure within the national pipeline at 22%. Within the non-residential sector the leading typology both in terms of numbers and value was commercial office buildings followed by education and industrial.

Following Covid-19 there is likely to be a decrease in the development of commercial projects due to a variety of factors. Financial institutions will likely constrain development lending as a result of decreased economic confidence, uncertainty over tenant commitment and cashflows and a mandatory requirement to increase capital reserves prompting a larger focus on deposits and servicing of existing customers.

The impact on construction costs is yet to be seen, however, a weaker NZ dollar and a disrupted supply chain will impact both margins and construction timeframes adding additional risk for both developers and contractors who will likely see a number of projects suspended. It should be noted that prior to Covid-19 Tier 1 contractors were exiting vertical construction projects given high contract risks and low margins which presented resource servicing risks for projects going forward and would ultimately trickle down the contractor supply chain.

These issues have the potential to reduce the number of projects seen through to completion in the current environment which will increase contractor capacity. If construction activity lessens this may impact contract margins across the various tiers and amplify the existing recessionary issues. Government and financial underwrite would alleviate some of these underlying concerns.

In the short term, construction activity for projects with secured funding will likely proceed however, moving forward it is anticipated that economic uncertainty and recessionary conditions will see a larger number of projects across all vertical sectors suspended, ultimately increasing contractor capacity.

What is the region's current capacity with respect to Auckland Region – Vertical Sector:

	Auckland Region – Vertical Sector
Skilled Labour (Trades)	Low
General Labour (Labourers)	Medium
Labour available from other	Medium
Professional Services	Medium

What is the region's current and projected project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5

What is the region's current project activity/pipeline?

	Current Activity (include # Tier 1, 2, 3 contractors and capacity)	Future view of Market Capacity (within 12 months)
Commercial	Prior to Covid-19, commercial office construction was active as a result of heightened demand by both domestic and international investors. This demand was supported by a low interest rate environment, a stable political climate, a weakened NZ dollar and a current undersupply prompting a solid pipeline of projects within Auckland. Numerous office developments were being designed and built both with tenant	In the short term, well advanced projects will proceed with proposed projects likely to be suspended. We foresee reduced activity in this sector in the medium term which will likely impact the pipeline for all tier 1 and tier 2 contractors who will have increased capacity.

	Current Activity (include # Tier 1, 2, 3 contractors and capacity)	Future view of Market Capacity (within 12 months)
	commitment and on a speculative basis with a general perception that the market would absorb quality product as it was constructed in the short term given an existing undersupply. Following Covid-19, projects that are well advanced will likely proceed by larger developers with strong balance sheets, whereas participants in the middle tier of the market are holding off progressing projects given cashflow impacts, decreasing valuations and concerns around absorption. There will be a reduced capacity to develop given uncertainty around workplace habits and its impact on occupancy demand and rental growth projections. Tenants will likely reassess their property needs anticipating softer cashflow projections which will lessen demand in this sector. Impacts to the overseas supply chain may impact construction costs and ultimately feasibility which would adversely impact the construction pipeline. Furthermore, financing constraints are likely to increase over the medium term as financial institutions look to hedge against investment/development risk limiting the number of new entrant developers into the market and instead focusing on serving existing clientele. The impacts of financing conservatism will be evident in projects which have proceeded to date without securing strong tenant commitment.	
Industrial	Prior to Covid-19, the industrial sector was considered to be highly active prompted by growth from ancillary industries and anticipated infrastructure investment. Pent up demand and the lower quantum of construction exposed the industry to a variety of contractors and developers. The sector was rapidly expanding, albeit shifting south towards the golden triangle network in anticipation of infrastructure upgrades over the coming years. Following Covid-19, we anticipate disruptions in the international supply chain will see an increased focus on local manufacturing and production. This will potentially prompt further investment into industrial projects particularly in areas where underlying and post Covid-19 land values allow feasible developments.	Industrial construction projects are considered to be simpler with a lower capital requirement than other sectors and will likely see an increased demand from tier 2 and tier 3 contractors and sub-contractors who will look to take these relatively low risk projects on given increased capacity. Nevertheless, there will be capacity in this sector given its relative size.
Retail	Prior to Covid-19, demand for retail construction was considered to be operating at a moderate level. Auckland has been exposed to an unprecedented number of large-scale retail developments in progress with a number being near completion supported by increasing migration and ancillary demand from residential developments. Following, COVID-19 this sector is predicted to be the most affected sector and will	This sector will have increased construction capacity as existing projects approach completion and the market approaches supply saturation. There will be significant capacity from all contractors given lessened demand in this sector.

	Current Activity (include # Tier 1, 2, 3 contractors and capacity)	Future view of Market Capacity (within 12 months)
	likely see a reduction in construction going forward as changes to consumer behaviour begin to take their impact. Rises in unemployment and recessionary market conditions will impact consumer spending and ultimately construction for new retail stock. The current pandemic crisis has highlighted a need for an online presence by retailers, ultimately, this may prompt some retailers to reduce their need for physical stores which would impact demand for retail construction going forward. Existing retail stock (both constructed and under constructed) was considered to be pushing market absorption limits within Auckland prior to Covid-19 so it is unlikely that after the impacts of Covid-19 begin to resonate this sector will see a high level of construction activity.	
Education	Prior to Covid-19, the education sector was serviced by projects comprising of both educational facilities and purpose-built student accommodation. International student numbers have been steadily growing over the last decade with New Zealand globally providing one of the lowest ratios of student housing indicating an existing undersupply. The major universities were well underway with significant developments in this area and these projects are likely to be completed irrespective of Covid-19 to ensure these organisations provide the appropriate infrastructure for future demand. Projects within this sector typically secure commitment prior to construction commencement and will likely continue to construct and engage tier 1 and 2 contractors in the short term. Smaller scale developers operating within a secondary market will rapidly reduce as a result of international travel restrictions and risks to project feasibility. Given the strong balance sheets of major participants in this sector we believe there will be ample activity in the short term whilst proposed projects will be halted as a result of the current border restrictions. This will free up capacity for tier 1 and 2 contractors in addition to a number of sub-contractors.	Projects in the short term will benefit from strong balance sheet funding however this sector will have capacity in the medium term as larger projects approach completion and the impacts of border closures affect projected growth. We anticipate capacity for tier 1 and 2 contractors.
Health	The healthcare sector prior to Covid-19 was expecting a steady level of activity given the anticipated pressure on existing services by a growing population. Major district health boards throughout Auckland had begun planning a number of projects which were expected to progress into the medium term. These projects are regionally funded and likely to proceed unless funding becomes directed elsewhere.	Limited change to current capital spend is expected in this sector within the region given their significance for the region going forward. Contractors may find capacity if projects become halted.

Auckland – Residential Sector

Construction Sector Market View – Auckland

Pre-Covid-19, Auckland's residential activity was forecast to continue its strong growth while nationally this trend was forecast to level out. The residential market in Auckland forms the most significant proportion of the total construction value for the region (compared to non-residential and infrastructure), with multi-unit consents (inclusive of apartments, townhouses and retirement village units) being the current primary driver for residential growth. The sector provides the majority of construction activity for the majority of SME contractors.

Due to Covid-19, the resulting economic recession and unexpected drop in population growth (due to a significant decrease in net migration arising from ongoing border controls) will impact demand and supply for new housing and development. Auckland has an existing undersupply of residential property which will not alter in the short term and may be further amplified by lowered confidence, construction abandonment, an inability of developers to reach pre-sale targets and conservatism from the financial lending institutions. The removal of loan to value ratios will prompt some demand in the short term however it is widely expected that banks will maintain strict lending criteria given the economic climate and that decreased confidence and rising unemployment will adversely impact demand. This will lead to a significant amount of capacity from small and medium sized contractors.

The general expectation is that many builders have been keen to hit the ground running now that lockdown has lifted. However, few residential builders appear to be reporting a full pipeline of work, with many subcontractors expected to be affected in the short term by cashflow problems, tightened margins, and plant and equipment (for larger projects) potentially being stuck on some project worksites.

Broadly speaking, masterplanning, design and consenting has continued during lockdown for both private and public sector developers alike where funding has permitted, with the former often heavily reliant on secured funding to progress works into construction phase post-lockdown (e.g., presales, other investment). Efficient consenting and streamlined procurement processes will be required to mitigate additional costs incurred through the delays currently experienced which will help to support project continuity and therefore employment in this sector.

In the short-term (6 months), active construction projects are likely to resume with some resource capacity available arising from those projects unable to proceed (e.g., due to funding).

In the medium term (up to 12 months), more resource capacity will become available arising from market uncertainty, decreased consumer confidence, rising unemployment and limited financial lending affecting a clear pipeline of upcoming construction work. Longer term, resource capacity could be expected to diminish due to a recovery in the residential sector coupled with suppressed population growth.

What is the region's current capacity with respect to the Residential Sector?

	Auckland Region – Residential Sector
Skilled Labour (Trades)	Low / Medium
General Labour (Labourers)	Low / Medium
Labour available from other industry hard hit from CV19.	Low / Medium
Professional Services	Medium

What is the region's current and forecast project activity / pipeline with respect to the Residential Sector?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current project activity/pipeline with respect to the Residential Sector?

	Current Activity (include # Tier 1, 2, 3 contractors and capacity)	Future can absorb – what is available from a project perspective &* can the market handle it.
Mum & Dad Builds	In the short term, active construction projects are likely to resume post-lockdown. However, projects that had previously been awarded and now deferred will result in an increase in market capacity for smaller-scale home builders.	Single unit builds, up to 4 units, are subject to standard (non-commercial) lending criteria which removes a barrier to funding. This category will likely be impacted by "mum and dad" investors appetite for risk in the short to medium-term in an uncertain post-covid environment. As a result there may be a notable increase in capacity from smaller-scale home builders and subcontractors, including smaller-scale spec. and/or D&B builds by group Home Builders.
House and Land Package Developers	In the short term, there will likely be a downturn from larger-scale house and land package type developers as a result of pre-sales impacted by Covid-19. This will result in an increase subcontractor capacity in the market.	While it is expected that these larger developers will have the ability to rebound more quickly than their smaller- to medium-scale counterparts, the risk of oversupply coupled with uncertainty around lending still remains in the short- to medium-term. As a result, the market capacity may increase initially but reduce as the market recovers. It's important to note that many builders, particularly subcontractors, in this category and the Mum & Dad builds category are likely to be "shared" resource depending on where the work is coming from.
Apartments	Pipeline projects are likely still being advanced however uncertainty exists regarding the quantum of these that will proceed to construction given uncertainty around local lending / financial institutions. Projects may need to be underwritten from secure offshore investment or by government to proceed. In the short-term, active construction projects will likely resume (dependent on funding availability). As a result, there may be some increase in contractor capacity in the short term.	Future market absorption will likely be entirely dependent on the project pipeline and developers' ability to secure funding on projects. Larger-scale contractors will likely follow the work across multiple sectors (i.e., non-residential) but will also likely be able to resource to satisfy demand. Notwithstanding, ongoing border controls and suppressed migration may impact the availability of some skilled personnel, plant and materials from offshore.
Retirement / Aged Care Facilities	Most major retirement providers have put a hold on projects during the covid-19 lockdown period and this is likely to continue until at least the end of the calendar year; however, the retirement subsector is intrinsically linked to the housing market. As a result, this will provide an increase in market capacity for those larger-scale contractors / subcontractors involved in these projects pre-covid-19 (typically Tier 2). It is important to note that many of these larger-scale contractors operate across multiple sectors and so resourcing will be dependent on where the work is coming from.	As with apartment builds, future market absorption will likely be entirely dependent on the project pipeline and developers' ability to secure funding on projects. Larger-scale contractors will likely follow the work across multiple sectors (i.e., non-residential) but will also likely be able to resource to satisfy demand. Notwithstanding, ongoing border controls and suppressed migration may impact the availability of some skilled personnel, plant and materials from offshore. Long term, demand should remain strong given New Zealand's aging population although focus may turn to Auckland based developments rather than regions.

Auckland – Horizontal Sector

Construction Sector Market View

The Auckland construction market, prior to COVID, was running at an acceptable and balanced level meaning the market was responding at a level that provided reasonable value and was maintaining a suitable level of industry engagement within projects. While there has been announcement of a significant infrastructure investment by the Crown towards the end of 2019, the effect of this investment is yet to be seen within the construction sector.

As a result of COVID, a number of material impacts have been experienced within the horizontal industry, specifically:

- The majority of capital works projects at Auckland Airport have been put on hold and terminated, the total impact of this construction freeze is understood to be c$2bn.
- While the land development market has been under-utilised in comparison to prior years, we understand a number of developments have been put on hold due to uncertainty in relation to demand, particularly due to reduction in population growth and recession speculation.

Moving forward, it is our understanding that the following impacts are anticipated to occur within the following horizontal sub-sectors:

- Both transport (roading and rail) sectors are anticipated to continue at a similar level of market utilisation as prior to COVID. While significant investment has been proposed under the NZ Upgrades programme, these effects are not anticipated to enter the construction market in the next 12 months.
- While Watercare investment is anticipated to continue at a similar level to prior to COVID, council investment in water assets has been minimal and is expected to remain at a similar level into the upcoming 12-month period.
- Due to a significant decrease in demand through Auckland Airport, it is expected very little capital works spend will be made in this sector, creating additional horizontal capacity within the market.

What is the region's current capacity with respect to Auckland Region – Horizontal Sector:

	Auckland Region - Horizontal Sector
Skilled Labour (Trades)	Low
General Labour (Labourers)	Medium
Labour available from other industry hard hit from CV19.	Medium / High
Professional Services	Medium

What is the region's current and projected project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5

What is the region's current project activity/pipeline?

	Current Activity (include # Tier 1, 2, 3 contractors and capacity)	Future view of Market Capacity (within 12 months)
Roading	**Current market position** Several significant NZTA-funded roading projects are nearing their completion providing availability in the market in the short term. Notwithstanding,	Auckland roading projects funded through the NZ Upgrade programme are scheduled to commence within a two-year window and are planned to inject c$3.5bn into the sector throughout their

	several significant NZTA and AT contracts continue absorbing market capacity or are scheduled to come to market in the near term. **COVID Impacts and risks** Due to projects being put on hold or terminated at Auckland Airport and uncertainty around funding of AT's Capex programme, some market capacity exists in Tier 1 and 2 roading/civil contractors.	construction duration of three to five years. Provided other NZTA and AT works continue as planned, it is anticipated these works will continue to occupy a large degree of tier 1 and 2 contractor resource.
Rail	**Current market position** City Rail Link continues to absorb significant civil contractor resource within central Auckland. While KiwiRail are advancing track and bridge improvement projects, these draw upon relatively specialist resource within the market. **COVID Impacts and risks** No material COVID related impacts or risks.	Light Rail has continued to make limited progress and given a project of this scale and infancy, it is not anticipated to be undertaken in a period of time that will influence decision making for shovel ready projects. KiwiRail's programme of track improvements continue, however their spend in construction sector is not considered a significant draw on the construction market within the region.
Three Waters	**Current market position** Watercare's current programmes of construction work are understood to be largely continuing including Central Interceptor. A number of Healthy Waters (Council) projects are underway however the future Capex programme is uncertain. It is understood suitable capacity existing in the market for the delivery of these projects. **COVID Impacts and risks** The key risk relates to uncertainty around the Healthy Waters Capex programme due to funding shortfalls. There are a number of designed, yet unfunded, Healthy Waters and related projects which could be brought to market quickly.	Future market capacity is challenging to define given the number of projects not funded for construction, creating the risk the tier 2 and 3 contractor market may no longer have sufficient pipeline of project. It is anticipated Watercare's capital works programme will continue at a similar level to previous years.
Land Development	**Current market position** The private land development market on entry to the COVID crisis had been under-utilised comparative to previous years. Kainga Ora have begun to take being steps forward in brownfield development, however, have not filled the place of the previous private land development market. **COVID Impacts and risks** COVID appears to have had an impact on a number of projects both in construction or approaching construction from a private land development perspective. Equally, confidence in the market from a private perspective appears to be low.	Land development, as we have seen in the private market over the 2 years, is anticipated to dramatically reduce in the medium term. Notwithstanding, a demand for housing remains with Kainga Ora anticipated to increase their brown-field land development projects. This will have a material impact on Tier 2 and 3 contractors given the scale of neighbourhood-sized projects.
Energy	**Current market position** The Auckland region market is primarily focused on reticulation rather than generation. The construction sector is geared toward supplying Vector / Transpower on their scheduled capital works and maintenance/improvements programme. **COVID Impacts and risks** Limited material COVID related impacts or risks.	Limited change to current capital spend is expected in this sector within the region, generally specialist contractors suitably resourced for the Auckland region energy works.

Airports / Seaports	**Current market position** A significant capital works programme was ramping up at the point the COVID crisis impacted. Significant horizontal infrastructure projects were underway including terminal infrastructure, passenger access (carparking/roading) or specific airside projects. **COVID Impacts and risks** Auckland International Airport have put the majority of their development projects related either to terminal infrastructure, passenger access (carparking/roading) or specific airside projects on hold due to COVID impact. The magnitude of these projects is understood to be c$2bn and will leave a significant gap in the market.	Airport related projects are anticipated to have only a minor draw on the construction market within Auckland in the medium term as high confidence in significant passenger throughput is required to justify and fund airport infrastructure projects. Most contractors previously involved with Airport works have transferrable skills to core areas such as roading, civils or vertical construction, albeit the volume of work previously being delivered at AIAL will be hard to replace.
Urban Regeneration / Streetscapes	**Current market position** Significant urban regeneration and streetscape projects continue including America's Cup associated works and the Downtown Infrastructure programme. The regeneration programme being delivered by Kainga Ora is also building momentum. **COVID Impacts and risks** A risk resides around the medium to long term streetscapes programme being delivered by Auckland Council due to possible funding constraints.	It is understood from the market following the completion of current significant capital works projects, little investment is expected by Auckland Council. Counter to this, we understand Kainga Ora have made proactive move to accelerate their wider development programme which will provide new market opportunities.

Waikato

Construction Sector Market View

What is the region's current capacity with respect to labour ?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	High	Medium	Medium
General Labour (Labourers)	High	Medium	Medium
Labour available from other industry hard hit from CV19.	High	Medium	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	The Waikato's geographical advantage means that it is able to access a broader resource pool for delivery of its projects and can connect with firms in Auckland and the Bay of Plenty for resourcing. The region has been a strong one over the past decade when it comes to development and therefore there has been growth in the provision of skilled labour across the horizontal, vertical and residential markets. Strongest performing markets have been the horizontal and residential areas though the horizontal infrastructure projects have had the biggest drop off in the recent year.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	The last decade has been dominated by the Waikato Expressway (now largely complete) and urban subdivisions. Current activities include the Hamilton section of WEX (18 months to go – Fletcher and Higgins); unlocking of the Peacockes Growth Cell (currently out for tender) and current construction of the Dixon Road roundabout.	There is significant capacity, albeit it is likely that the industry has also contracted. Capacity is seen in a number of ways, both in talking to the main contractors and also seeing the equipment sitting in the yards of firms such as Porters and C&R in Cambridge. There is a strong future pipeline of needed horizontal infrastructure, including the Ruakura, Rotokauri and Peacocke growth cells in Hamilton for urban growth, and the C1 to C3 growth cells in Cambridge. Most however are subject to local government funding which is under review through the annual planning process.

Vertical	There are limited major vertical building projects in the region with an absence of 'cranes in the skyline'. The KMART and Waikato Regional Council headquarter developments are the major development at the moment with a long tail, whilst the APL and Dairy Goat developments in the industrial sector are both nearing completion. There is some strong short-term pipeline though with the Waikato DHB and University of Waikato having a strong building programme, and the Waikato theatre which is due for contract award shortly (subject to funding). There is a general shortfall of office and commercial development in the Hamilton CBD with a number of projects approved for development.	Demand for vertical infrastructure is strong with a number of planned developments including the Mental Health and Oncology Buildings (DHB), Pa building (University of Waikato), and the ACC and Union Square developments in the Hamilton CBD by private developers. Taupo has a few developments in the pipeline, both for hotels and civic buildings. However, none of them have funding secured and all firms will be going through due diligence to consider their financial viability. There is evidence to demonstrate the demand in the market and there is capacity to deliver these.
Residential	Building consents have remained strong and residential growth has been higher than the national average in the region. The mix of development is evident from lifestyle, urban single dwellings, duplexes to townhouses and apartments. Concern will be over the risk builders / housing companies are willing to take on with a number of the current developments being spec housing.	The availability of greenfield subdivisions for development has reduced in recent years and there is a need for another wave of new development areas. This will be achieved through Rotokauri, Peacockes (both Hamilton) and C1 to C3 (Cambridge) in particular. The initial horizontal infrastructure will unlock the potential for the residential sector. There is capacity in the residential building market. However, as this is largely driven by private sector funding, the growth may well slow due to COVID. Public sector investment by the likes of Kainga Ora could potentially be a stimulus in the residential sector.

Bay of Plenty

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium	Medium	Medium
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	Medium	Medium	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	Labour force is generally well positioned to meet future project resourcing. There is a high level of availability for the immediate delivery of smaller local projects ($1-5M). This is dependant on contractors having the confidence to retain existing staff in the short term. Strong regional ability to upskill or train employees changing sectors.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State of Pipeline and Capacity
Horizontal	Tier one Contractors have capacity now, NZUP programme will provide opportunity for some. NZUP works will take some time to get physically started on site, could be 8 to 12 months away. Contractors have workload for 3 to 4 months then drops off over 6 to 8 months. Some longer-term contract works in place - NZTA Safe Network Programme Safety works.	Contractors would like to see smaller local authority projects and programmes of work continue to fill short term workload and keep resources utilised. Contractors keen to see a co-ordinated approach between different organisations with reasonable timeframes to tender and establish on site. Contractors have capacity now (provided that early government stimulus signals allow existing staff to be retained) and will start recruiting again once work has been secured. NZUP projects will provide a significant workload for those who are successful and will pass on work to tier 2 and 3 contractors.

		Just going into winter season so normally reduce capacity at this time, particularly earthworks and sealing works.
Vertical	Tier one contractors have mixed current activity / pipeline. In general, there is immediate capacity to respond to new projects coming to market. A number of larger projects are at/nearing completion. Note also many tier one contractors operate as a combined Waikato/BOP region with flexibility of resources between these regions.	All tiers generally well placed to respond to a co-ordinated approach for bringing projects to market. Supply chain strength yet to be determined as there will be a lag to seeing the economic impact of the current situation on sub-contractors. There is a growing expectation that larger more complex projects will have an increasingly smaller pool of Contractors able to respond, compared to smaller less complex projects that will generate high interest, assuming that balance sheet strength will become increasingly important to clients for the more complex projects. Commercial oversight and governance may be constrained if tendering activities are streamlined.
Residential	The BOP housing market has recently been busy however the supply of land will severely constrain this market in 6-12 months.	Land development may be impacted by funding and land availability. Also, without major infrastructure changes in place (delivered by NZTA and TCC) development may be restricted. While there is a medium level of short-term workload, with the progressive release of further land, contractors will grow to meet future demand.

Gisborne

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium/Low	Medium / Low	Medium / Low
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	Low	Low	Low

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	N/A					N/A				
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	N/A					N/A				
Retirement & Aged Care Facilities	N/A					N/A				

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	Tourism industry significantly impacted by COVID travel restrictions. This may have a benefit of making tourism accommodation available for workforce if necessary (finding accommodation in the rental market is difficult in BAU). Timing of successful PGF projects is unknown but the funding of those projects has influenced the future view of the market capacity (particularly in the health, roading, and industrial markets). Note that the scale of development in Gisborne is low scale, therefore the impact of COVID on some of these markets is balanced in comparison to BAU. The success of the rollout of these projects and the positive impact on the community will be realised if this programme is coordinated with current GDC and NZTA commitments in the region. If not, the regional capacity to take on new work/supply accommodation etc would be constrained if projects were all awarded at the same time. Some specialist skills for horizontal and vertical projects may need to be imported from outside region – if other regions have tight market it will be difficult to get lead staff to the region (it is typically difficult in BAU to get staff to the region). Note that the forestry workers are returning to work under Level 3 (provided there are jobs to go to), so the assumption that redeploying the forestry industry not a likely labour force. Tier 1 contractors Fulton Hogan/Downer, Tier 2/3 – Ritchie Civil, Currie Construction and Earthworx

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State of Pipeline and Capacity
Horizontal	Tier 1 contractors Fulton Hogan/Downer, Tier 2/3 – Ritchie Civil, Curries Construction and Earthworx Current project include NOC contracts and emergency works and flood damage.	Skill set in the region for the specialised water plants requires a vertical type of construction resource and would need a national level contractor for the WWTP (outside of the region resource). Historically main

	Agriculture/Horticulture (including wine industry) continuing. BAU Activities (roading, horticulture/agriculture typically has market at or near capacity).	contractor has brought in lead personnel/specialist staff but subcontracted local services. Note that local services available would be limited on top of BAU work. Concrete, steel fixing and structural steel services can be provided in the region. Some package equipment brought in from offshore via larger ports TGA/Auckland, still needs to be transported in. Pipe work is also imported into the region. Smaller pipe upgrade or flood control work could be undertaken by local contractors, would not require specialised equipment and no additional accommodation needs required. Port redevelopment may require some specialised services from outside the region. Linear transport projects could utilise existing contractors only bringing in specialist services from other regions if needed. Note that the market can typically only provide for BAU.
Vertical	Food processing/wineries – skilled labour located in the region would be in M&E maintenance space rather than construction of these types of development. Airport upgrade substantially complete (construction completed by a Tauranga company).	If several vertical projects were to be funded at once the market could easily be constrained for skilled labour. Also, local concrete and steel suppliers may not be able to provide timely supply. Bringing additional staff into the region to service multiple vertical projects could put additional pressure on available accommodation.
Residential	No substantial growth at present (BAU)	No capacity constraints.

Hawke's Bay

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium	Low	Medium
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	High	Medium	High

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	There is good capacity in the region for new projects particularly in the horizontal and residential sectors. Less certainty on capacity in the vertical space, particularly if the vertical project pipeline continues to remain strong. Accommodation likely to be available in motels and hotels due to lower tourist numbers. Some contractors will have cashflow issues.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	Road construction projects are modest in the region. Typically, maintenance and safety improvements activity at present. Three waters type work is modestly busy.	Road Contractors will be keen for new construction projects and will have good capacity. Other infrastructure Contractors should have medium capacity for more work.
Vertical	Non-residential building consents increased in the Hawkes Bay to end of 2019 indicating an increased pipeline of vertical construction. Particularly in health, education and industrial.	There was a good existing pipeline in vertical space, and if these projects continue, there could be low levels of capacity in the region. There is uncertainty on these projects starting given private funding and lower confidence/economic effects of COVID 19. Some vertical projects were starting again in Level 3 to secure contractor resource (where they can).
Residential	Considered high level of activity in the past few years. However, uncertainty of on-going private	Consider that sales may have been impacted by lower confidence and economic effects due to

	investment means unknown if this pipeline will continue, creating additional capacity in this market.	COVID 19. The uncertainty of on-going private investment means unknown if the pre-COVID pipeline will continue, creating additional capacity in this market. Consider that capacity in residential Medium to high.

Taranaki

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	High	High	Medium
General Labour (Labourers)	Medium	High	Medium
Labour available from other industry hard hit from CV19.	High	Medium	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	▪ Contractors are clearing backlogs, halted by COVID-19 lockdown. Some projects are unable to be executed with COVID-19 restrictions. ▪ There are concerns that investor uncertainty in private and energy sectors will see projects cancelled - prospects for the next year or two being suppressed. Contracting firms are keen to see some of the larger local projects come to market that they already had plans to service. ▪ There is desire from Councils to invest in a development programme to increase workforce – lots of work behind the scenes between local councils, training and education providers and partner contractors. A large programme of work would likely be a catalyst for this. ▪ Energy sector generally expected to contract further compared to current activity. ▪ Accommodation supply is not expected to be problematic – significant supply exists within the region and largely services the domestic market. ▪ Limited material and plant to site logistic issues are expected, apart from some specialist materials and equipment.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	▪ Programmes of maintenance, upgrade and/or renewal works across council infrastructure (road, waste, stormwater and water supply, including reservoirs). ▪ Planned major upgrade and maintenance works on SH3 and SH43 (Forgotten Highway).	▪ Predictable loss in productivity and delays due to COVID-19 compliance. ▪ Those with existing long-term maintenance contracts expecting work to steadily continue. ▪ Indications that public space and NZTA projects are postponed till next summer. Contractors therefore struggling to make up the revenue lost.

	▪ Cycleways and trails proposed across the district (e.g. Taranaki Traverse, Kaitake Trail and Te Whakakotahi).	▪ Private market has greater uncertainty.
Vertical	▪ New Plymouth Airport is almost complete. 62 Gill Street (CBD high-rise) and Green School are currently under construction. ▪ Major New Plymouth centric projects likely to start within 6-12months, include Base Hospital (New East Wing Building), Yarrow Stadium and the former Ravensdown site (out of town shopping centre). Non-New Plymouth based projects, include Arts & Cultural Centre (Hawera) and Stratford Aquatic Centre (possibly >12months).	▪ Several projects have been cancelled and energy companies have gone back to planning stage to reassess what is critical. Some further project cancellations can be expected. ▪ Expecting the real impact to be 2021 and the following year, depending on whether the larger projects go ahead (e.g. Stadium / Hospital). ▪ Contractors have enough committed projects pre-lockdown. It is the tendering and pre-tendering stage prospects that are a concern. ▪ COVID-19 effect on subcontractors is significant, especially specialist subcontractors. Many were banking on projects like the Stadium, Hospital and some Fonterra projects going ahead.
Residential	▪ Taranaki residential market (single unit, multi-unit, some social and residential care homes) as a whole has been bullish. Largely private investor driven and expected to tail off.	▪ Significant concern in the small to medium residential and commercial sector about forward workload. ▪ COVID-19 has disrupted this market - forward prospect is of concern as investors re-evaluate risks. ▪ Indications are that the real impact has not hit yet (working through backlog, with impact likely in approximately 3 months).

Manawatu-Whanganui

Construction Sector Market View

What is the region's current capacity with respect to labour ?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium / Low	Medium / Low	Medium
General Labour (Labourers)	Medium / Low	Medium / Low	Medium / Low
Labour available from other industry hard hit from CV19.	Medium / Low	Low	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	There has been a fair amount of work in the pipeline pre-COVID in the Manawatu region, particularly in the civil and infrastructure space. Over the past few years, there has been a number of contractors who have established themselves in this region in consideration of this pipeline. The following companies have presence in the region - Downer/Hawkins, Maycroft, McMillan & Lockwood, Alexanders (ex-Mainzeal staff), Colespec, Humphries, Isles Construction, Wells & Wadsworth and Stead. The horizontal market is dominated by Higgins/ Fletchers in Manawatu who have been well established in the region. The vertical services sub-contractors are generally relatively small companies and their projects have been suddenly halted by COVID 19. There are concerns that some of the projects cannot be executed with COVID restrictions.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	Programmes of maintenance, upgrade and/or renewal works across all council infrastructure including new ring road to enable regional freight. Upgrade of three waters infrastructure across all councils in Manawatu – Whanganui area, including reservoir. Manawatu Tararua Highway – development of SH3 (Ashhurst Traffic Mitigation, Saddle Road	The contractors (Higgins) with existing long-term maintenance contracts are expecting work to steadily continue. The contractors BAU pipeline was enough to keep the market flowing. However, if there is a drastic change to current anticipation in projects pipeline, there could be a potential for skills to be lost from the region. The forward programme of work is essential for region development.

	improvements), ongoing maintenance work, road safety improvements and urban cycling projects. Rail – the freight relocation and improvement of the multi modal connection. NZDF – Infrastructure upgrade programmes in Linton, Ohakea and Wairouru. Renewable Energy - Turitea Wind farm.	Notwithstanding the above, if several large horizontal projects were to come to market at once (e.g. NZDF regeneration plan and Tararua Highway) the market could easily be constrained for skilled and general labour. Bringing additional staff into the region to service multiple projects could put additional pressure on available accommodation. However, with the possible travel/events limitation, there could be a number of temporary accommodations becoming available within the tourism industry.
Vertical	NZDF – Regeneration programme will provide a project pipeline for the next five years. Councils – Seismic improvements of councils' buildings portfolios, Palmerston North Library, Serjeant Gallery. Education segment – Vet school, Manawatu Library, new health and hospitability campus and schools improvements. Health – Ongoing maintenance and upgrade of the aged hospital, including new mental health unit, ED restructure and renal unit. Food HQ – food and science sector development plan.	The contractors can respond dynamically to the region BAU pre-COVID demand. However, if several vertical projects were to come to market (e.g. NZDF regeneration plan) at once, the market could easily be constrained for skilled labour. Bringing additional staff into the region to service multiple projects could put additional pressure on available accommodation. However, with the possible travel limitation there will be number of temporary accommodations available from the tourism industry.
Residential	Residential market (single unit, multi-unit, social) as a whole has been strong. Mix of private investor and council social housing projects.	This has been a very strong market with a high demand for both private homes and social housing. The market confidence might be affected by COVID-19 yet with the anticipated influx of residents in the near future through the NZDF regeneration programmes and long-term infrastructure projects such as Tararua Highway. The residential contractors and their workforce were unable to keep up with the market demand pre-COVID level, hence out of town resource will be required to keep up with the market demand driven by the population expansion. However, if there is a drastic change to current anticipation in project pipeline, there could be a potential for skills to be lost from the region without a forward programme of work.

Wellington

Construction Sector Market View

What is the region's current capacity with respect to labour ?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Low	Medium	Medium
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	Medium	Low	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	**Three Waters**: There is a long-term shortage of skilled workers, which has impacted capital programmes. The largest areas of activity are for Local Government. Some projects are led by Central Government agencies, such as, transport. These programmes are expected to be at similar spend levels to previous years. There are some Tier 2 and 3 water industry contractors who do a lot of work for residential land developers. These projects are expected to stall. However, the major Kainga Ora Porirua East development may well soak up this capacity and more. Overall, the expectation is that public sector investment remains strong and represent the majority of pipeline for three waters projects. **Transport Infrastructure**: This primarily involves Tier 1 contractors with lower tier organisations as sub-contractors. The major transport project pipeline in Wellington in the short term is looking weak. Most	**Three Waters**: Capacity to take on new projects is limited due to the lack of skilled people in the industry, and lack of people with appropriate work-readiness to provide general labour. There are short-term issues with concrete supply. Pipe material supply seems OK. **Transport Infrastructure**: There is good capacity available. The Transmission Gully and PP2O projects are moving to paving phase so those areas will be fairly busy but not at capacity. Earthworks, civil structures and civil areas have plenty of capacity. Aggregate supply continues to be an issue. Bitumen supply and rebar could be constrained due to imports.

	major projects are either in their final stages (e.g. PP2O, Transmission Gully), or progressing through business case or early design phase (e.g. KiwiRail, LGWM, Petone to Grenada, airport extension). The Petone Ngauranga cycleway is going through consenting and could be accelerated with proposed planning changes. SH58 could start shortly. With the tourism and travel downturn, Wellington Airport is expected to put its runway extension plans on hold.	
Vertical	There is a moderate level of ongoing construction activity across commercial buildings, apartments, and some institutional properties. The largest current projects are Wellington Convention Centre, Victoria Lane mixed use development, Wakefield Hospital, Wellington Children's Hospital and Queensgate re-build. Several large projects are due to commence over next 12 months, including Whitmore Z site (commercial), Taranaki Street mixed use development, new Archives building and possibly some further commercial new builds. With the tourism and travel downturn, Wellington Airport is likely to put its terminal expansion plan on hold and hotel development will cease.	Some capacity definitely exists for new projects, with most main contractors having gaps to fill. There will be some key pressure points: ▪ Skilled sub-trades, particularly mechanical ▪ Materials availability: Concrete, steel and imported secondary components The larger main contractors (group of 3 or 4) will be needed for larger projects and there is some constraint here. There is plenty of capacity in the smaller and lower tier contractors for small to medium sized projects.
Residential	There is a high level of construction activity across all sectors, predominately resourced by Tier 2 & 3 contractors. Current major projects include: ▪ Social Housing – Kainga Ora Redevelopment programme across all councils ▪ Subdivisions – Kenepuru Landings, Northern Gateway (Woodridge/Churton Pk etc.), Wallaceville Estate ▪ Housing – Building Companies e.g. G.J Gardner, Jennian etc. all very busy ▪ Retirement Villages – Number of Residential & Vertical projects under construction, Kenepuru, Croften Downs The next 12 – 18 months will be driven by market forces and social housing demand. Potential projects include: ▪ Social Housing – Kainga Ora Porirua East (opportunity for Tier 1 contractor) and an increased number of redevelopment projects. ▪ Subdivisions – These be driven by market demand post-COVID. Resource consent will need to be fast tracked to speed up delivery. Land development also constrained due to under-capacity with horizontal infrastructure. ▪ Housing – Future capacity will be driven by market demand. ▪ Retirement – Summerset & Rymans both have two large villages each in the pipeline, which will be constrained by under-capacity and resource consent process.	Subdivisions and housing are expected to be impacted by reduction in demand due to COVID. However, with delays in the resource consent process and under capacity infrastructure, developers have struggled to keep up with the current demand. Hence the number of shovel ready subdivisions is moderate. Projects like Lincolnshire, Stebbings and Plimmerton Farm are all in the resource consent phase. Social housing and retirement village developments are expected to remain close to pre-COVID levels. New projects such as East Porirua, Bolcott, Waikanae and Kaori are all tied up in the resource consent phase. Tier 2 and 3 civil contractors have been stretched with few new players coming into the market. They have been helped by the slower pipeline. Bulk earthworks contractors have plenty of capacity based on current demand (note this is seasonal work). Housing developers have ramped up to meet demand and will be nimble enough to move across sectors to fill any gaps. Due to no large-scale developments, Tier 1 contractors have stayed away from the residential sector. This will change with projects like East Porirua Redevelopment and large-scale retirement projects coming to market in the future. Private development is also currently constrained by the availability of funding finance.

Top of the South

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	High	Medium	High
General Labour (Labourers)	High	High	High
Labour available from other industry hard hit from CV19.	Medium	Medium/Low	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	Te Tau Ihu (Top of the South) has good capacity for new projects and to restart stalled projects. Access to sites in Marlborough, Nelson and Tasman is good. Golden Bay is more remote and therefore more constrained. Accommodation likely to be available in motels/hotels due to lower tourist numbers. Some contractors will have cashflow issues.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State of Pipeline and Capacity
Horizontal	Road construction projects are generally quiet in the region, where there is mostly maintenance activity at present. Three waters type work is modestly busy.	Road contractors will be keen for new construction projects and will have very good capacity. Other infrastructure contractors have medium capacity for more work.
Vertical	No major works underway at present. Nelson Airport Terminal recently completed.	For the likely scale of vertical projects (generally only 2 or 3 storey high), there is plenty of capacity in the region. Only major works like a new hospital would require significant out-of-town resources.
Residential	There has been high level of activity for past few years, so the industry is well-geared for this type of work.	This has been a boom market for both individual homes and for rest homes developments. Sales are likely to be impacted by lower confidence and economic effects of COVID. The workforce is available to continue at pre-COVID levels, but

		unlikely to be able to increase output (local market would require out-of-town extra resources if an increase is necessary).

West Coast

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium	Medium	Medium
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	Medium	Medium	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	General Commentary
General (across all sectors)	There is a good range of local sub-contractors and no significant issues with sourcing materials or equipment for the type and scale of projects undertaken in the region. With larger projects, it is likely that the local market would need to be supplemented from the wider South Island. Unemployment is generally high in the region due to the limited number of industries, other than mining and tourism. This is further exacerbated by the region being fairly isolated. Investment would provide opportunity for upskilling of local residents. Personnel from the mining industry have transferable skills and can be redeployed to other sectors, if the mining industry is adversely affected. Environmental sensitivity and approvals have been noted as significant issues with proposed projects (e.g. Waitaha Hydro and Waste to Energy). The environmental approvals for these are complex and cannot be fast tracked.

	Current Activity (include # Tier 1, 2, 3 contractors and capacity)	Future State
Horizontal	The Westland Milk Products Ocean Outfall is currently being delivered. There are no other significant projects at present. Fulton Hogan (Tier 1 contractor) is present at Greymouth. Several Tier 2 contractors (e.g. Westroads, Truline Civil) are present in the region.	Once Westland Ocean Outfall is complete, there are no other known significant infrastructure projects planned, with approval to proceed. As such, there is capacity for works, but it is noted that there is potential for skills to be lost from the region without a forward programme of work.

Vertical	Greymouth Hospital (by Fletchers) is nearing completion, so increased future capacity is expected. No other significant projects in the pipeline after completion of the hospital.	As with horizontal projects, once Greymouth Hospital is completed, there will be greater capacity in the vertical market. However, there is potential to lose skills from the region if further pipeline of work is not present.
Residential	No known significant developments at present or proposed.	No significant supply and demand issues observed.

Canterbury

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	High	High	High
General Labour (Labourers)	High	High	High
Labour available from other industry hard hit from CV19.	High	High	High

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	In General terms the construction sector in Canterbury (primarily focussed on Christchurch) is going through a downsizing as the post-earthquake boom is now rescinding (2017 onwards). Consultants and Contractors appear to be looking to the larger areas of South Island (or northwards). Sub-Contracting is one area which is still considered at capacity. But this is probably only short term – 3 months look ahead. Supply of materials, plant and equipment from overseas could be a challenge. Alternative options of transporting to NZ need to be considered along with time frames, increased costs and availability. Alternatives need to be considered e.g.: lifts, external cladding, and so on. Seeing positive outcomes from the Construction Accord, concern is that in this current environment flooding the market with work to help stimulate the economy might overturn these positives and reset the industry into its 'bad old ways'. Construction companies are grappling with the challenges of maintaining efficient and effective operations on site due to the COVID-19 impact and the requirements around social distancing. The impact on this on project costs through inefficient productivity and prolongation, more H&S policies and equipment on site to satisfies the rules are still being worked through and could have major consequences on projects going forward around affordability.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	Overall construction in Canterbury is trending down since the peak following the EQs. Local civil construction companies very concerned about the lack of opportunities and the larger ones seem to be	Difficulty in getting visibility of upcoming projects in the South Island. Prospects (Woodend Bypass, Ashburton 4-laning, Rolleston fly-over) look to be some way off.

	focusing on the upper north island for their workload going forward. Particular concern around Canterbury after the completion this year of two major roading projects (CSM Stage 2 and NCA). Nothing significant to follow. What happens to all the subs that are on these projects? Elsewhere contractors are currently primarily using their own staff as not enough work to need to use subbies.	Precast concrete market fallen away. Plenty of civil contractor capability and capacity in the South Island and especially in Canterbury. Civil contractors concerned by the lack of prospects and are seeing most of their opportunities in the upper north. QLDC and Dunedin may offer some opportunities and people will travel to this.
Vertical	Many companies and those who are running them have never seen a downturn like this before i.e.: last 15 years of operating: unprecedented times. A lot of construction projects have stopped indefinitely, more than had initially been imagined and particularly those associated with private investment or funded by overseas investment (i.e.: travel, tourism, education). This statistic includes projects that are both in construction or in the pipeline and due to come to the market. This has resulted in a lot of capacity being available immediately in the industry. There are already rumours in the market that some of the larger construction companies down scaling with potential redundancies.	Most Construction companies have the capacity to deliver projects immediately. The larger Tier 1 companies in this region could deliver 3 to 4, $30-$80m projects in the region at once with a hand full of smaller scale projects, or they could deliver 1 to 2 (max) $150m+ projects with a hand full of smaller scale projects. Most Contractors have strong relationships with their 'supply chain' and will look at ways to continue to support this going forward. The 'pinch point' will be the supply chain; currently gainfully employed and working but without new opportunity and work this will quick reduce in approx. 3months. Most sub-contractors are smaller companies and not structured to weather a tight recession; most live week to week or month to month issuing invoices and paying wages and bills – they do not have much equity in the business or large cash reserves to support their staff and their business irrespective of the government grants. Several construction companies have managed to retain their immigrant workers who came to NZ following the earthquake for work and are continuing to keep them gainfully employed in the short term.
Residential	Ongoing need for social housing otherwise market is stable.	There were not many residential applications made – retirement Villages seeming to be the main applicants. Indications are that the residential construction market will reduce significantly over the coming 6 months. As a result of this, the small-scale companies that tend to work in this environment will really struggle, hence capacity will be good. If work load permitted in the vertical buildings environment there could be a migration of trades that could easily transfer their skills from residential to commercial type work – however this will not the possible for all trades as this sectors relies on many small businesses and business owners who do not have the mentality to operate in the larger scale environment or work for/under others.

Otago (excl. Queenstown)

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium	Low	Low
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	Medium	Medium	Medium

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	The Otago market is intrinsically linked to Queenstown, Southland and Canterbury and therefore projects in these regions will affect Otago (and vice versa). Major projects in Invercargill (City Centre Redevelopment) and Queenstown should be considered. The major pressure on the Otago market is the future Dunedin Hospital that will need to draw additional resources, supply chains and materials to the region, and will undoubtedly affect the capacity in the wider South Island. Once construction commences on this project, the market will be saturated. There will be significant benefits of undertaking projects in Otago (and Southland) between now and the start of the hospital build to establish resources, supply chain, accommodation etc. in the region before the hospital commences.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	Some reasonably significant projects in Dunedin, including Dunedin City Council (DCC) commencing works on 3 water projects (circa $40M) and transport road safety and renewals (circa $20M). Other significant projects in Dunedin (Central City Plan utilities works etc.) and Wanaka have been or may be postponed due to COVID-19. Therefore, greater availability at present, but Dunedin Hospital	The market has capacity until commencement of the Hospital, and projects to bridge the gap to that time would help build the supply chain.

	(see below) will limit timeframe of available resource i.e. capacity until this project commences.	
Vertical	University of Otago currently undertaking some significant projects (accommodation circa $100M) . Current work pipeline is reasonable at present with all contractors actively pricing works in Otago and Southland. As with horizontal, some projects have been delayed opening up capacity in the short term until Dunedin Hospital commences.	Limited capacity in the short term noting other major vertical builds in Dunedin and Southland, and limited capacity once the Dunedin Hospital starts.
Residential	Limited major projects underway. Demand for housing in the area remains high and this will be exacerbated by the Dunedin Hospital works. Lack of significant subdivisions has limited new housing development.	The current developments are limited and are unlikely to address current demand or future pressures from the Dunedin Hospital. No significant new central subdivisions in the pipeline will limit the residential development market. There are available residential subdivisions in neighbouring Mosgiel which could provide housing development.

Queenstown

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium	Low	Low
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	High	High	High

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	N/A					N/A				
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	The Queenstown market is intrinsically linked to the wider Otago, Southland and Canterbury regions and therefore projects in these regions will affect Queenstown (and vice versa). Major projects in Invercargill (City Centre Redevelopment) and Dunedin Hospital need to be considered. The tourism industry has been significantly impacted and this will provide an increase in the workforce for low-skilled employment. There will however be a lag to develop skilled labour, noting Ngai Tahu have a trades training programme, and QLDC is working with Panel Contractors to look at training schemes. This will benefit Queenstown and the wider Otago long term by developing and retaining skills in the region ahead of the Dunedin Hospital project which will require extensive resources. It is noted that for horizontal, vertical and residential, unless there is some certainty of future pipeline of work, the supply chain and skilled labour is likely to withdraw from the region. Once lost, it is difficult to re-establish these, which may in turn impact the ability to deliver Dunedin Hospital.

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	Horizontal work in Queenstown generally falls into three categories – infrastructure for vertical and residential build, QLDC programme of roads (Arterial Road, Streetscapes and maintenance) and QLDC 3-waters projects. The uncertainty in the vertical and residential market due to COVID-19 will have a knock-on effect to horizontal works. Tier 1, 2 and 3 contractors are well established in the area.	The most significant future projects are the road and streetscape projects, and 3-water projects proposed by QLDC (submitted under CIP). As these are projects already known to the industry, CIP support would not change the future demand in the local area (i.e. would not overload the capacity). Possible future works at the airports have been postponed, although it is considered unlikely that

		these would have been resourced fully from the local market (specialist skills are required).
Vertical	The Queenstown market prior to COVID-19 was saturated, and Tier 1, 2 and 3 contractors were well-established. Due to the impact to tourism, many of the large-scale developments have been put on hold or cancelled due to issues with financing the projects. Current and future pipeline is highly uncertain.	There is huge uncertainty in the vertical market. Before COVID-19, the market was large and saturated, but with a significant number of major projects now being put on hold indefinitely, there is significant capacity. Without certainty of forward pipeline, there is potential for contractors to withdraw from the region.
Residential	Many of the current residential projects that were already underway in Queenstown prior to COVID-19 have recommenced and are likely to be completed, but others which had not yet started have been put on hold. Whilst there are ongoing projects, this is considered a short-term peak in workload only.	As with vertical, there is significant uncertainty in the residential market. Prior to COVID-19 demand was extremely high, but this has now significantly reduced, and the market is unlikely to be profitable for the short or medium term.

Southland

Construction Sector Market View

What is the region's current capacity with respect to labour?

	Horizontal	Vertical	Residential
Skilled Labour (Trades)	Medium	Medium	Medium
General Labour (Labourers)	Medium	Medium	Medium
Labour available from other industry hard hit from CV19.	Medium	Low	Low

What is the region's current and future project activity/pipeline?

	Pre-COVID Pipeline					Future 12 Months Pipeline (impact of COVID)				
Horizontal										
Road	1	2	3	4	5	1	2	3	4	5
Rail	1	2	3	4	5	1	2	3	4	5
Three Waters	1	2	3	4	5	1	2	3	4	5
Land Development	1	2	3	4	5	1	2	3	4	5
Energy	1	2	3	4	5	1	2	3	4	5
Airport & Seaport	1	2	3	4	5	1	2	3	4	5
Urban Regeneration & Streetscapes	1	2	3	4	5	1	2	3	4	5
Vertical										
Commercial	1	2	3	4	5	1	2	3	4	5
Industrial	1	2	3	4	5	1	2	3	4	5
Retail	1	2	3	4	5	1	2	3	4	5
Education	1	2	3	4	5	1	2	3	4	5
Health	1	2	3	4	5	1	2	3	4	5
Residential										
Mum & Dad Builders	1	2	3	4	5	1	2	3	4	5
House & Land Package Developers	1	2	3	4	5	1	2	3	4	5
Apartments	1	2	3	4	5	1	2	3	4	5
Retirement & Aged Care Facilities	1	2	3	4	5	1	2	3	4	5

What is the region's current and future project activity/pipeline?

	Future State - General Commentary
General (across all sectors)	The industry in Southland is intrinsically linked with central Otago. Contractors operate between Queenstown and Southland markets. Therefore, demands in Queenstown will impact capacity in Southland (and vice versa). It is also considered likely that the Dunedin Hospital will affect the market in Southland once construction commences. There is a good representation of large contractors (e.g. Fulton Hogan, Downer, Southroads, Amalgamated Builders and Leighs) in Invercargill (again noted that this is supplemented as required by resources from wider Otago), and no issues have been identified with the supply chain or access to plant, materials and equipment. Limitations have been noted by Invercargill City Council (ICC) in relation to professional skills i.e. Building Consent Officers, rather than a lack of trade skills. They have historically had to supplement the Building Consent process by outsourcing to other Councils (i.e. Christchurch).

	Current Pipeline (include # Tier 1, 2, 3 contractors and capacity)	Future State Pipeline and Capacity
Horizontal	Majority of proposed works are smaller projects to improve current infrastructure rather than significant new build. No current capacity issues identified.	It was noted by ICC that they have historically struggle with getting roading crews to Invercargill but consider that the capacity is available in the region to deliver the forecast infrastructure projects. Southland District Council has indicated that in small regional centres, smaller projects have struggled to attract attention from contractors, but this is

		considered to be more in line with location and size of project. SDC considers that there is adequate to good resource availability in horizontal infrastructure contractors in Southland.
Vertical	The Langlands Hotel, Invercargill City Centre Redevelopment, PacknSave supermarket, and SIT teaching space are the most significant vertical projects in the region. All projects have started but may be stalled due to COVID. No market capacity issues identified.	The Langlands Hotel and Invercargill City Centre are the most significant vertical projects in the market. As these projects have already started, additional projects from potential Government stimulus will not significantly impact demand and capacity in the region.
Residential	No known significant developments. Supply and demand currently balanced. Current market can support the quantum of delivery required.	Supply and demand for accommodation in the region is currently considered well balanced due to recent changes in the market. There has historically been a higher demand for rental accommodation which was in part driven by the presence of international students at Southern Institute of Technology (SIT) but the uncertainty around tertiary education is limiting demand for further development. There is some demand for low cost housing, but this is considered manageable within current local capacity.

Schedule 4

Guiding Principles for Recipients of Government Financial Support

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Schedule 5

Initial Ratings – Detailed List

Sector Classification	Description	Government's Economic Plan[1] category	Strength of link	Budget Policy Statement 2020[2] category	Strength of link	Rating
Education - Primary/Secondary	Schools and teaching facilities for primary/secondary education	People	Very strong	Child Wellbeing / P&M Wellbeing / Māori & Pacific	Very strong	4.0
Social housing	Residential development (or bulk housing infrastructure) where the primary purpose is provision of social housing (excludes affordable housing)	People	Very strong	Child Wellbeing / P&M Wellbeing / Māori & Pacific	Very strong	4.0
Three waters – H&S	Potable waters infrastructure where the primary purpose is to meet new water regulations for public health	Productivity / People	Strong	Child Wellbeing / P&M Wellbeing	Very strong	4.0
Healthcare - Public	Public hospital or medical facilities (including hospice mental health facilities and radiology/Xray facilities etc)	Productivity / People	Strong	Child Wellbeing / P&M Wellbeing / Māori & Pacific	Very strong	4.0
Public transport	Public transport projects (includes commuter/light rail, busways/stations, ferries)	Productivity / Energy	Very strong	Just transition / P&M Wellbeing	Very strong	4.0
Green energy	Energy sector infrastructure which supports "just transition" (e.g., solar, wind, hydro generation)	Energy	Strong	Just transition	Very strong	4.0
Affordable housing	Residential development (or bulk housing infrastructure) where the primary purpose is provision of affordable housing (excludes social housing)	People	Very strong	Child Wellbeing / P&M Wellbeing / Māori & Pacific	Strong	3.5
Social housing improvements	Heat and energy efficiency programs directed at social housing	People	Very strong	Child Wellbeing / P&M Wellbeing / Māori & Pacific	Strong	3.5

[1] https://www.beehive.govt.nz/sites/default/files/2019-09/Economic%20Plan.pdf
[2] https://treasury.govt.nz/publications/budget-policy-statement/budget-policy-statement-2020-html

Sector Classification	Description	Government's Economic Plan[1] category	Strength of link	Budget Policy Statement 2020[2] category	Strength of link	Rating
Māori interest	Community infrastructure with a specific Māori focus including development of Marae (and associated facilities)	Māori and Pacific	Very strong	Māori & Pacific / Child Wellbeing / P&M Wellbeing	Strong	3.5
Climate resilience	Infrastructure where the primary purpose is climate resilience (includes stop banks, flood protection, sea walls etc)	Land / Productivity	Moderate	Just transition	Very strong	3.5
Environmental infrastructure	Infrastructure aimed at protecting the environment, achieving NZ's zero carbon objectives or managing natural resources (including replacing coal fired boilers with electricity etc), excludes waste related projects	Land / People	Moderate	Just transition	Very strong	3.5
Waste	Infrastructure used to process/sort/divert waste or focused on achieving a circular economy (includes waste to energy plant, resource recovery centres)	Land	Moderate	Just transition	Very strong	3.5
Three waters - General	Three waters or other water related infrastructure with a primary purpose other than catering for urban development, irrigation/water shortages or health and safety	Land	Very strong	P&M Wellbeing	Strong	3.5
Emergency services	Infrastructure supporting Police, FENZ and Ambulance	Productivity / People	Moderate	P&M Wellbeing	Very strong	3.5
Rail	Freight/heavy rail (includes above and below track infrastructure)	Productivity / Energy	Very strong	Just transition / P&M Wellbeing	Strong	3.5
Urban regeneration and residential development	Residential development including broader urban development / mixed development (e.g., education, commercial, retail, hotels, office space) includes associated infrastructure (e.g., roading and three waters)	Housing	Very strong	P&M Wellbeing	Moderate	3.0
Healthcare - Private	Private hospital or medical facilities (including hospice mental health facilities and radiology/Xray facilities etc)	Productivity / People	Strong	Child Wellbeing / P&M Wellbeing	Strong	3.0
Education - Tertiary	Tertiary education facilities (includes university teaching facilities, further learning, research and development)	Productivity / People	Very strong	P&M Wellbeing	Moderate	3.0
Digital connectivity	Ultra-fast broadband network infrastructure (includes fibre, wireless broadband, backbone fibre links)	Productivity	Strong	Future of work	Strong	3.0
Justice and defence	Infrastructure supporting defence, security intelligence, prison population, courts, offenders rehabilitation etc	Productivity / People	Moderate	P&M Wellbeing	Strong	3.0

Sector Classification	Description	Government's Economic Plan[1] category	Strength of link	Budget Policy Statement 2020[2] category	Strength of link	Rating
Distribution centres	Distribution centres associated with freight / heavy rail	Productivity	Strong	Just transition	Strong	3.0
Public transport - Shared use	Cycleways and footpaths	Productivity / Land	Very strong	P&M Wellbeing	Moderate	3.0
Port	Port infrastructure and associated facilities/services	Productivity	Very strong	N/A	N/A	3.0
Aged care	Residential care for elderly or disabled individuals (includes medical facilities where the primary purpose is to support the provision of aged care)	People	Moderate	P&M Wellbeing	Strong	3.0
Convention /event centre	Convention/event centres and associated facilities	Productivity / People	Very strong	N/A	N/A	3.0
Film studio	Film Studios and other filmography related facilities/services	Productivity / People	Very strong	N/A	N/A	3.0
Education - Ancillary	Facilities which support tertiary education (includes student accommodation)	People	Strong	P&M Wellbeing	Moderate	2.5
Town centre regeneration	Projects where the primary purpose is regenerating town centres	Land	Strong	P&M Wellbeing	Moderate	2.5
Community facilities – Operating	Community facilities that have a material ongoing operational or revenue aspect (e.g., library, museum, pools, community halls etc)	People	Strong	P&M Wellbeing	Moderate	2.5
Roading – H&S	Local road or state highway projects primarily relating to health and safety improvements	Productivity / People	Strong	P&M Wellbeing	Moderate	2.5
Airport	Core airport infrastructure (excludes ancillary services)	Productivity	Strong	N/A	N/A	2.5
Irrigation/water storage	Water related infrastructure with a primary purpose of addressing water shortages in drought prone areas or providing irrigation	Productivity / Land	Strong	N/A	N/A	2.0
Roading – General	Roading projects with a primary purpose other than enabling urban development and/or health and safety improvements	Productivity / Land	Strong	N/A	N/A	2.0
Tourism	Infrastructure to support industry related to domestic and international visitors (e.g., vehicle parking, freedom camping grounds, DOC tracks, attractions)	Productivity	Strong	N/A	N/A	2.0

Sector Classification	Description	Government's Economic Plan[1] category	Strength of link	Budget Policy Statement 2020[2] category	Strength of link	Rating
Agriculture	Infrastructure supporting the primary sector (e.g., growing crops, livestock farming, fishing)	Productivity / Land	Strong	N/A	N/A	2.0
Community facilities – Passive	Community facilities or reserves that do not have a material operating or revenue aspect (e.g., sports fields, town centres, parks)	People	Moderate	P&M Wellbeing	Moderate	2.0
Social associated facilities	Supporting facilities to social infrastructure (e.g., hospital car parks)	People	Moderate	Child Wellbeing / P&M Wellbeing	Moderate	2.0
Commercial property	Property development for business activities (e.g., retail, office space, manufacturing/industrial property, hotels)	Land	Moderate	N/A	N/A	1.5
Airport - Ancillary	Non-core airport facilities/services	Productivity	Moderate	N/A	N/A	1.5
Manufacturing and industrial	The production and distribution of goods (this category includes businesses in the industrial and manufacturing sector)	Productivity	Moderate	N/A	N/A	1.5
Other utilities	Electricity and gas networks (includes distribution and transmission networks)	Productivity	Moderate	N/A	N/A	1.5

Schedule 6

Variables in the Project Database

Bold = those variables presented in the Annexures A&B

Sources

PIF = Information provided in the Project Information Form, or equivalent project information provided by Project Owners.

Support Clarification Request = Information provided by the Project Owner in the short form request for clarification of requested Government financial support sent to Project Owners on 3 May 2020 as further set out in Section 4.2.3.

Review Output = Information as a result of the review process outlined in this Report.

Note that in cases where information was not provided or was clearly presented in error, a best estimate was used based on the judgements of the Technical Review and Moderation.

Source	Variable	Description
PIF	Response date	Date application received
PIF	**Project Name**	**Name and title of the project**
PIF	**Organisation**	**Name of the applicant and categorisation of the organisation entity (e.g., private, trust & charities etc)**
PIF	Contact details	Key contact details and role
PIF	Project Description	A brief description of the scope of the project
PIF	Territorial authority	Territorial authority district the project applies to
PIF	**Region**	**The Region the project is based in**
PIF	Economic Sector	Economic sector the project is relevant to (e.g., Energy, Tourism, Construction etc)
PIF	Type	Project type (e.g., New infrastructure, critical infrastructure or replacement infrastructure)
PIF	Total cost (NZ$'m)	Total cost of the project and high level cost break down of major project component
PIF	Construction jobs	Number of construction jobs the project is anticipated to create
PIF	Operation / wider jobs	Other jobs the project is anticipated to create
PIF	Intended funding	How the project is/was intended to be funded
PIF	Applied for government funding	Whether the applicant has applied for previous government funding before. If so, the government body, contact and outcome
PIF	Project status	A general description of the current project status
PIF	Status category	Three categories of construction readiness (A. Under construction; B. Within 6 months; C. Within 6-12 months)
PIF	Milestones	Description of the status of key milestones; — Procurement — Detailed design — Designations / Consents — Land Acquired — Business Case
PIF	Project benefits	A high level overview of project benefits
PIF	Employment contribution	Number of employment opportunities as a result of the project

Source	Variable	Description
PIF	Key risks	A. The risk of the project not commencing within the advised timescale B. The risk the project will not be completed on time, to cost or to specification C. Risk the project will not realise the benefits outlined above
PIF	COVID-19 impact on project	A high level overview of COVID-19 impact on the project
PIF	Benefit from announced Govt support	Statement whether the project benefited from Government support already
PIF	Support details	Level of support received if the project benefited from announced Government support
PIF	What the Government can help with	A high level overview of top 2-3 ways the Government can help
Review output	**Financial Assistance amount ($m)**	**The dollar amount of Financial Assistance requested by the submitter as part of the Support Clarification Request but in some cases was moderated so that it did not exceed the Capex, or was assumed to equal Capex where no information was provided**
Support Clarification Request	Financial Assistance Type	Form of financial assistance: **Guarantee,** Grant, Concessionary Loan, Commercial Loan, Equity, Other
Support Clarification Request	**Non-Financial Assistance Type**	**Fast-tracking building consents, Non-Specified Consents, Other, Other local or central government prioritisation, Changes to procurements practices, Land acquisition (including PWA), Fast-tracking resource consents, Tax or other subsidy**
Review output	**Sector**	**High level sector (Social, Transport etc)**
Review output	**Sub-sector**	**Sub-sector (as per Criteria 3)**
Review output	Readiness Assessment (pre-regulatory change)	Three categories of construction readiness based on professional review (A. Under construction; B. Within 6 months; C. Within 6-12 months)
Review output	**Readiness Assessment (post-regulatory change)**	**Three categories of construction readiness based on professional review assuming there is regulatory change (A. Under construction; B. Within 6 months; C. Within 6-12 months)**
Review output	Construction Programme/Period.	Construction Programme/period as stated in the PIF in Months
Review output	Reasonableness of project duration.	Based on the reviewer's judgement of the stated constriction programme and assessment of the project completion risk
Review output	**Moderated Construction Programme/Period.**	**Construction Programme/period moderated for the reviewers' assessment of reasonableness above**
Review output	**Total Capex ($m) and breakdown**	**Total Capex costs associated with the project and high level breakdown**
Review output	Cost confidence.	Reviewer's confidence level based on the level of detail provided in the Capex breakdown
Review output	Confirm reasonableness of capital cost estimate	Reviewer's judgement of the Capital Cost Total, the provided cost breakdown and cost confidence
Review output	Moderated Capital Cost	Capital Cost Total moderated for the reviewers' assessment of reasonableness above

Source	Variable	Description
Review output	Stated construction phase employment.	Number of FTEs employed during construction phase
Review output	Confirm reasonableness or direct employment estimate.	Reviewer's judgement on the direct employment estimate
Review output	**Moderated Employment (FTE)**	**Construction employment (FTE) moderated for (i) the reviewers' assessment of reasonableness above and (ii) on an industry benchmark basis**
Review output	Impact of COVID and requested Government assistance has had on delivery of the project.	Reviewer's view based on project information given
Review output	Vertical or Horizontal project.	Reviewer's view based on project information given

Schedule 7

Economic Impact of Covid 19

Economic impact of COVID-19 on the New Zealand economy and implications for the regions

for Infrastructure Reference Group

May 2020

Infometrics
Economics put simply

Authorship

This report has been prepared by Brad Olsen, Andrew Whiteford, and Andrew Beattie, with the input of David Friggens, Gareth Kiernan, and Dr Adolf Stroombergen.

Email:

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Executive summary

Examining the impact of COVID-19 on NZ economy and the regions

Infometrics has been asked by Infrastructure Reference Group (IRG) to examine and report on the impact of COVID-19 on different parts of New Zealand. This report details some of the key industry drivers of local economic activity, how different regional economies will perform throughout the pandemic and associated economic downturn, and finally some recommendations on some areas to best target for investment.

The greatest economic shock in living memory

COVID-19 presents the greatest economic shock in living memory, and although the full extent of the shock is still to play out, it is clear that the economy will be irrevocably changed by this pandemic. Infometrics is currently forecasting an 8% contraction in economic activity in the New Zealand economy over the year to March 2021. This contraction is set to be at least four times larger than anything seen before. We expect more than 250,000 jobs to be lost over the year, a decline of nearly 10%. Under these conditions the unemployment rate will push towards double digits.

We describe our key assumptions on which our modelling is based.

The outcomes of various forces are different for regional areas

New Zealand's regional and local economies encompass a range of employment concentrations and structural differences. These differences play a key part in determining the expected economic fortunes across different areas. Although many regional trends can be broadly explained by contribution from tourism, construction, or the primary sector, there are other forces that can play key localised roles.

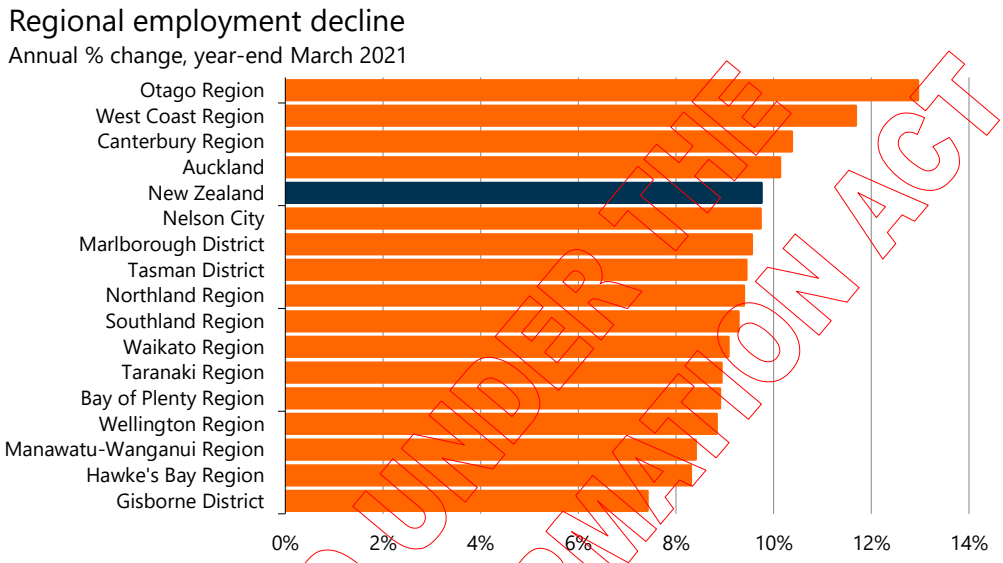
Given the importance of tourism and tourism-related construction, we expect GDP in Otago to decline by more than 10% over the year to March 2021. West Coast GDP is expected to decline by 9.5%, similarly due to a high concentration of international tourism activity. Meanwhile, regions with large agricultural and food processing sectors including Hawke's Bay, Manawatu-Whanganui, and Gisborne are expected to experience much less severe declines.

Focusing on territorial authorities, the top five declines in output are expected in the South Island. We expect GDP in Queenstown-Lakes and Mackenzie District to decline by more than 20%.

Job losses, relative to the size of the workforce, demonstrate some of the areas in greatest need of additional investment to reinvigorate the local economy. Although areas with high concentrations of tourism and construction will take the hardest relative hit, the largest job losses will occur in the large metropolitan areas. We expect more than 130,000 jobs to lost in Auckland, Wellington and Christchurch cities. A full list of employment declines by local council area is set out in Appendix B.

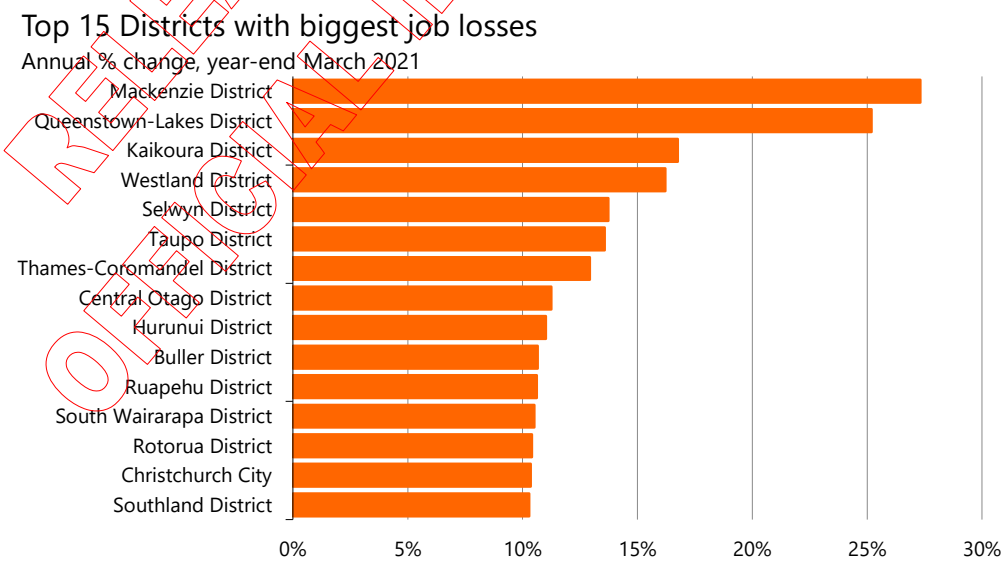
Graph 1 shows the expected regional decline in employment across New Zealand over the March 2021 year. A more detailed regional assessment is outlined on Page 24.

Graph 1



Graph 2 shows the top 15 local declines in employment across New Zealand. Further details are outlined on Page 25.

Graph 2



Key areas should be focussed on for additional investment and assistance

Our regional economic analysis provides an evaluation of the expected economic declines across New Zealand's regions and local areas. Some areas stand out as requiring additional investment and assistance.

- **Queenstown**'s huge reliance on tourism will substantially reduce economic activity in the area. Lower tourism activity is expected to see a quarter of jobs lost in the District.
- Aligned to this tourism focus, the **West Coast** also clearly demonstrates a need for additional investment, with a significant concentration of tourism-based activities in the regional economy.
- **Parts of the Lower South Island**, with a focus on southern Canterbury around **Selwyn**, and support for investment around **Tīmaru** and **Mackenzie** to provide additional stimulus to counter declines in tourism and construction.
- **Northland Region** appears as an area with a high concentration of construction employment which is set to see a considerable fall in building activity. With Northland already facing higher levels of unemployment, and the highest rate of Jobseeker Support claims, additional investment is likely required.

  Alongside lower construction activity, higher tourism exposure in the Far North, the concentration of the Whāngārei economy on the Marsden Point Refinery, and continued drought concerns highlight the potential for additional investment in water storage options, alongside evaluation of other projects such as the proposed Dry Dock in Whāngārei.
- The **metropolitan areas** will not be hit as hard as the above areas in relative terms, but the sheer size of metropolitan workforces means that the majority of job losses will be in the main centres, on a total employment basis.

Some industries will be hit hardest

The COVID-19 pandemic and resulting economic downturn will impact industries differently. We expect the fortunes of regional economies to be determined by their relative exposure to a range of key industries.

The impact of the economic downturn will be felt most keenly by the tourism sector[1]. This translates through to the accommodation and food services industry showing the greatest loss in employment, with just over 56,000 jobs expected to be lost. Retail and wholesale trade are also negatively affected by the loss of tourism activity generally, as well as lower household spending due to job losses and low consumer confidence, with more than 44,000 jobs expected to be lost. Lower house prices and lower drivers of building activity is set to impact the construction industry, which is expected to lose around 29,000 jobs.

[1] Tourism is not defined as a unique industry. It comprises parts of various industries including accommodation, food services, transport and retail trade.

In the report we outline the main drivers behind the impact on each of the 18 broad industry categories.

We focus on tourism....

With foreign tourism arrivals expected to decline by 91% and domestic tourism by 21% the impact on tourism is the single biggest driver of economic decline in the regions. Tourism has become a critical component of New Zealand's economic fortunes in recent years, with some regional areas having a heavy reliance on tourism activity.

Infometrics expect more than 48,000 jobs to be lost in the tourism sector over the year to March 2021. The biggest losses are expected in Auckland and Otago regions (-13,000 and -7,500, respectively). However, the impact will be most severe in parts of the country in where tourism employment makes up a large portion of total employment. Job losses in tourism alone will account for a 20% decline in employment in Mackenzie District and 19% in Queenstown. Other districts experiencing large overall declines in employment due to tourism job losses are Westland (13%) and Kaikoura (13%).

.... and construction

Construction has been the fastest growing industry over the past five year and is a key industry in many parts of the country. The expected decline in construction will impact some regional areas more than others. Nationally, we estimate the value of residential building work put in place to decline by 19% and the value of non-residential work put in place to decline by 18% over the year to March 2021. Residential consents are set to decline by 35% over the year to March 2021, with a 17% drop in non-residential consents.

In contrast, prospects for civil construction are positive outside Level 4 lockdown conditions, with a greater share of funding stemming from public funds (central or local government investment). We anticipate that there is limited scope to significantly bolster the volume of infrastructure activity in the short-term.

The decline in construction employment in some parts of the country will have a significant impact on total employment. The decline will leave spare capacity in the construction industry in these areas. Over the next five years (2021-25), residential consent volumes will be a cumulative $23b lower than the total work over the last five years (2016-20). Even with already announced infrastructure investment factored in, construction volumes will be $15.5b lower over the next five years compared to the previous 5 years.

Northland comes out as the hardest hit region for employment declines, with 1.9% of the region's pre-pandemic total workforce expected to be lost due to reduced construction activity. Other areas, like Otago are easier to immediately interpret, with lower tourism activity in Queenstown a driving factor behind the Otago region's decline. Mackenzie District is expected to lose nearly 8% of total employment and Selwyn more than 7%.

Targeting effective support

Infometrics has been asked by Infrastructure Reference Group (IRG) to examine and report on how the economic downturn from COVID-19 will impact different parts of New Zealand. These insights will be used to inform the Government's approach to investment and support as the economy is rebuilt.

To best target interventions and achieve the greatest return on investment, understanding the key challenges and expected fortunes of different parts of New Zealand is important.

This report details some of the key industry drivers of local economic activity, how different regional economies will perform throughout the COVID-19 pandemic and associated economic downturn, and finally some recommendations on some areas to best target for investment.

The greatest economic shock to New Zealand in living memory

COVID-19 presents the greatest economic shock in living memory, and although the full extent of the shock is still to play out, it is clear is that the economy will be irrevocably changed by this pandemic. The speed with which the economic outlook changed during March far exceeded anything experienced during the Global Financial Crisis (GFC) of 2008/09.

Infometrics is currently forecasting an 8% contraction in economic activity in the New Zealand economy over the year to March 2021, with most of the decline occurring in the June 2020 quarter due to the Level 4 lockdown. This contraction is set to be at least four times larger than anything seen before, so there is understandably considerable scope for error in this estimate.

We expect more than 250,000 jobs to be lost over the year to March 2021, a decline of nearly 10%. Under these conditions the unemployment rate will push towards double digits.

By March 2022, we expect quarterly GDP to be 6.6% below its December 2019 level. We estimate the unemployment rate will peak at 9.5% in the September 2021 quarter, and will remain above 8% until the December 2023 quarter. In addition, underemployment is set to rise, while some of the unemployed will drop out of the labour force or seek out education opportunities in order to reskill. These factors will contribute to a decline in the labour participation rate, which we predict could fall to its lowest level since 2001.

Our key assumptions

We have made the following assumptions when modelling the effects of the COVID-19 pandemic, the economic downturn, and the government's policy responses on the New Zealand economy.

- **Lockdown is 4½ weeks at Level 4 and 2 weeks at Level 3** - we have based our industry employment and output modelling on Level 4 being in place for 4½ weeks and Level 3 being in place for two weeks, with implicitly lower economic activity throughout the rest of the period.

- **Economic activity is constrained across the entire economy** - we estimate that, nationally, approximately 65% of economic activity can take place under Level 4. This estimate includes people that can work from home and those people working in essential services. Under Level 3, our estimate of potential economic activity taking place rises to 82%.

- **Global demand for food products will hold up but non-food exports will take a hit** – people still need to eat during a recession, which will limit the reduction in our food exports. We have allowed for a 16% contraction in non-food manufacturing export volumes over the coming year, and a 9.5% reduction in international demand for unprocessed forestry exports such as logs.

- **Foreign tourism tanks** – we have estimated a 91% reduction in foreign tourist spending in New Zealand over the coming year, and a similarly sized reduction in New Zealand tourists spending money overseas.

- **Domestic tourism spending will drop** – despite more New Zealanders choosing to have domestic holidays rather than travel overseas, we estimate a 21% decline in domestic tourism spending from the previous year.

- **International education revenue halves** – we estimate the number of international students at schools and tertiary education provider this year to be 79% of normal levels and predict a 49% reduction in international education revenue during the year to March 2021.

- **Domestic education demand will increase** – we have allowed for a lift in total demand for tertiary training from domestic students over the coming year of 8.3%, which is similar to what we saw following the GFC.

- **The housing market takes a hit** – our assumptions include an 11% drop in average house prices nationally between mid-2020 and the end of 2021.

- **Construction is also hit hard** – the housing market downturn will drag down the rate of residential construction nationally by nearly 20%, while non-residential construction activity will decrease by a similar magnitude. In contrast, prospects for civil construction are positive outside Level 4 lockdown conditions.

- **Government comes to the party** –our modelling includes a $10b wage subsidy scheme and a further injection of $2.5b through a one-off increase in social welfare benefits of $25 per week.

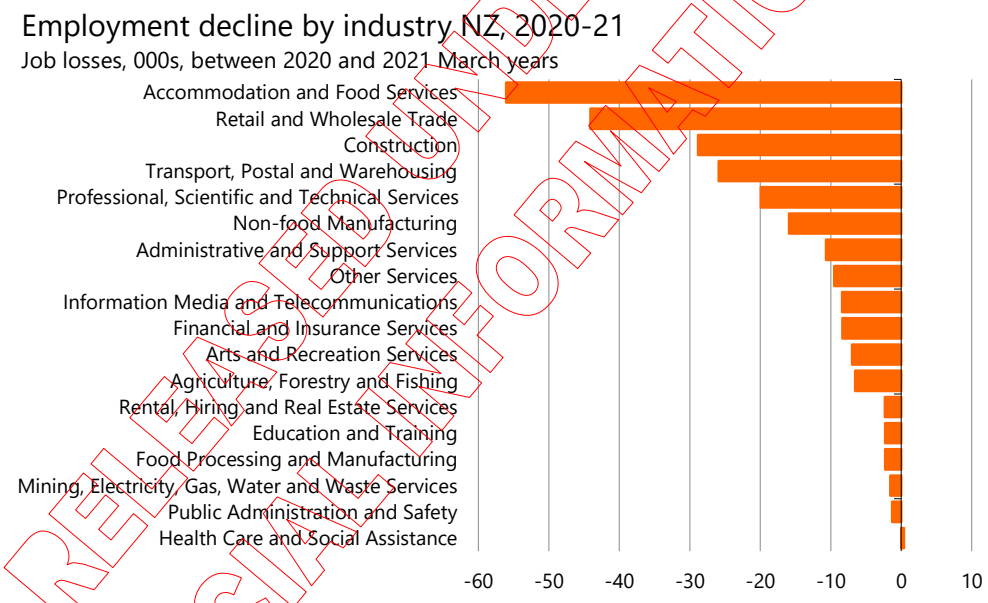
Industry impacts will vary

The COVID-19 pandemic and resulting economic downturn will impact industries differently. For some industries, demand for goods and services will hold up. Others will see demand evaporate. Supply chains are being substantially disrupted both domestically and globally, which will result in a reorientation of New Zealand's economy.

More than 250,000 jobs to be lost

Graph 3 outlines the expected job losses by industry over the year to March 2021.

Graph 3



The impact of the economic downturn will be felt most keenly by the tourism sector, with a reduction in international tourist spending, and lower household incomes restricting domestic activity. Tourism is not defined as a unique industry. Instead, it comprises parts of various industries including accommodation, food services, transport and retail trade.

Although the full impact on the tourism sector is detailed later in this report, the hit to the tourism sector translates through to the accommodation and food services industry showing the greatest loss in employment, with just over 56,000 jobs expected to be lost. Retail and wholesale trade are also negatively affected by the loss of tourism activity generally, as well as lower household spending due to job losses and low consumer confidence, with more than 44,000 jobs expected to be lost. Lower house prices and lower drivers of building activity is set to impact the construction industry, which is expected to lose more than 29,000 jobs making it the third hardest among the 18 broad categories.

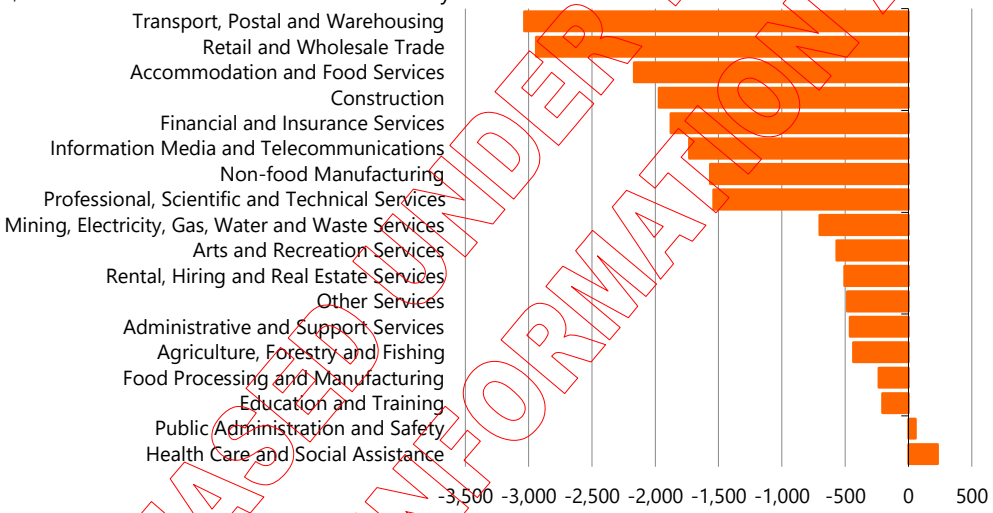
Lower economic activity felt most in transport

The impact of the pandemic on economic output (or gross domestic product, "GDP") differs from the impact on employment, which reflects the differences in labour productivity among industries. The largest impact to GDP will be on transport, postal and warehousing which has high productivity, especially air travel which is capital intensive. Graph 4 outlines the expected declines in GDP.

Graph 4

GDP decline by industry NZ, 2020-21

$m decline between 2020 and 2021 March years



Although accommodation and food services will shed the most jobs, it is a low productivity industry and it ranks at number three in terms of impact on GDP.

Examining the key drivers of industry fortunes

Noting that not all industries will be affected to the same degree by the economic downturn facing New Zealand, we have summarised the key drivers of industry fortunes.

- **International education**. We expect the amount of spending brought into New Zealand by international students will be greatly diminished over the next year, which will cause a decline in both education-related revenue, but also consumer spending from international students.
- **Tourism activity**. Infometrics expects a substantial decline in tourism spending, as domestic tourism activity is subdued over the next year, and international tourism levels remain severely limited. Lower tourism activity is likely to be felt most in the accommodation and food services industry.
- **Transport**. Lower tourist numbers will reduce the need for some transport activities, with a greatly reduced aviation sector expected. Lower transport volumes will also occur due to weaker household spending, with reduced volumes of goods freight as spending declines.

- **Retail and wholesale trade**. With lower demand from households, who have weaker incomes (because of job losses, reduced hours, or pay cuts), general spending activity is expected to remain softer. Weaker business activity will also dampen spending levels from suppliers.
- **Non-food based manufacturing**. Lower business activity, and softer global trading conditions, will reduce manufacturing output demanded.
- **Energy and mining**. Lower energy needs in New Zealand, with fewer businesses operating, and lower spending by households, will reduce energy needs. Lower international demand and production will also reduce demand for mining outputs and the value that is added by New Zealand energy production to valuable manufacturing processes.
- **Food-based primary sector and manufacturing**. Infometrics expects food-related sectors to hold up better during the COVID-19 downturn. The world, and New Zealand, still need to eat, and trade data confirms that our food-based exports are holding up.
- **Forestry**. With lower global demand, and a drop of more than 20% in prices recently, forestry and logging are set to see a softer period of activity. Exports over the February to April 2020 period are already down more than 40% compared to a year earlier.
- **Health and social assistance**. In the midst of a pandemic, health care and social assistance activity is likely to hold up relatively well although some parts of private health have a discretionary component. The industry provides a stable base of employment that will react less to substantial changes in economic conditions.
- **Construction**. We anticipate that higher unemployment, lower house prices, lower net migration, and softer business investment will see construction levels decline from current peaks.

Key industries will determine regional declines

We expect the fortunes of regional economies to be determined by their relative exposure to a range of key industries. Some industries will provide more economic support to a local area, whereas others will be significantly weaker and be a drag on local economic activity. Infometrics has assessed the regional changes expected for two key areas – tourism and construction – that will see significant declines in employment which signal towards a need for investment: tourism and construction.

Tourism facing a substantial hit

The sections below describe our outlook for tourism over the year to March 2021.

Foreign tourism tanks by 91%

We expect New Zealand's borders to effectively remain closed for a year, with either complete closures or, at a minimum, a mandatory 14-day quarantine requirement for people arriving from overseas. However, we also recognise that there is scope for a trans-Tasman or wider Polynesian travel "bubble" to be introduced later in the year if COVID-19 infection conditions allow. We have assumed that this "bubble" could be implemented from December onwards, and could result in 50% of usual tourist travel on NZ-Australia and NZ-Pacific Island routes.

Travel up until November will be very limited – we have allowed for visitor numbers to be at just 0.8% of their usual levels. This figure allows for a small amount of non-holiday travel, and it is equivalent to total international arrival numbers (including returning New Zealanders) for the week to 14 April 2020. We have also maintained this assumption for countries outside Australia and the Pacific Islands beyond November 2020, on the basis that COVID-19 case numbers overseas will warrant ongoing strict controls. The allowance for small visitor flows in and out of New Zealand recognises there will be some people who are required to travel for work purposes.

Taken together, these assumptions result in an estimated 91% or $11.6bn reduction in foreign demand for tourism over the coming year, and a similarly sized reduction in New Zealand demand for international tourism.

Domestic tourism spending drops by 21%

With New Zealanders effectively unable or unwilling to travel overseas during the coming year, at least some of the pool of $5.4b that was spent on international tourism during 2019 is likely to be spent on holidays within New Zealand instead.

Having looked at domestic and international tourism spending patterns, we estimate that total spending on a holiday in New Zealand is likely to be about 69% of what would be spent on an equivalent holiday overseas. Some of this gap arises because a domestic holiday will naturally involve less spending on airfares. Furthermore, people on holiday within their own country also tend to spend less, on average, on both accommodation and eating out.

Reallocating this proportion of overseas tourism spending by New Zealanders to domestic spending results in a total pool of about $21b of potential spending for the coming year. However, the economic downturn will have a negative effect on people's willingness to spend on travel and holidays. For example, there was an 8.6% drop in annual spending on restaurants and hotels between March 2008 and December 2009 during the GFC.

Furthermore, there have been severe limitations on people's ability to travel domestically during the 6½ weeks of Level 3 and Level 4 lockdown, and these restrictions will only be

partially relaxed when we move to Alert Level 2. We note that The Treasury's Scenario 1 assumes we could remain in Alert Levels 1 and 2 for a total of 10 months, although the specific timings across each of these Alert Levels is not stated.

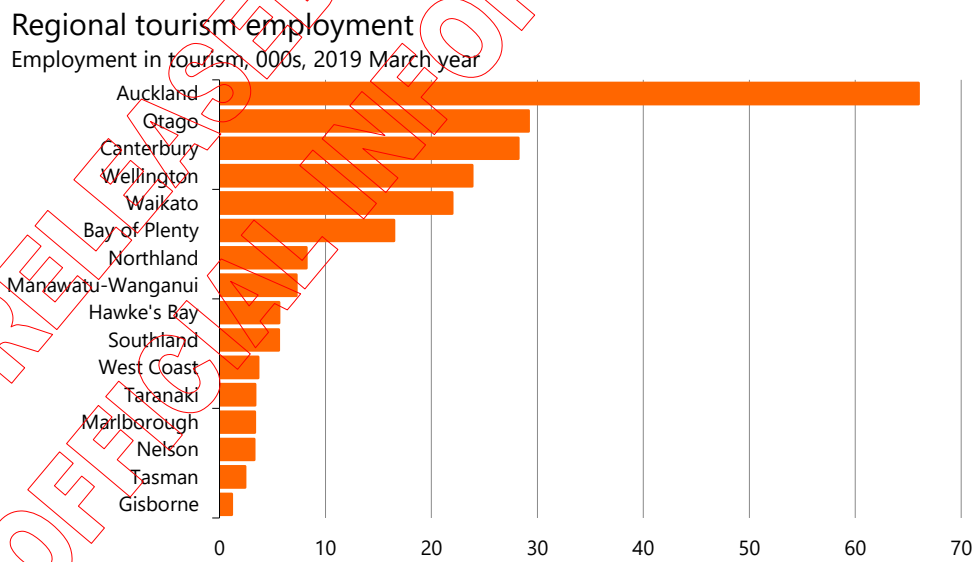
Taking all these considerations together, we estimate that spending on domestic holidays over the coming year could be constrained by 35%. After incorporating the increased pool of potential spending due to a lack of international travel, these constraints imply a 21% decline in domestic tourism spending from the previous year.

Some parts of New Zealand are heavily exposed to tourism

Tourism has become a critical component of New Zealand's economic fortunes in recent years, with some regional areas having a heavy reliance on tourism activity. This section describes the state of the tourism sector in New Zealand prior the COVID-19 pandemic.

Unsurprisingly given its sheer size, Auckland has by far the largest tourism sector, measured in terms of employment, among the 16 regions of New Zealand (see Graph 5). Otago, dominated by Queenstown, has the second largest regional tourism workforce.

Graph 5

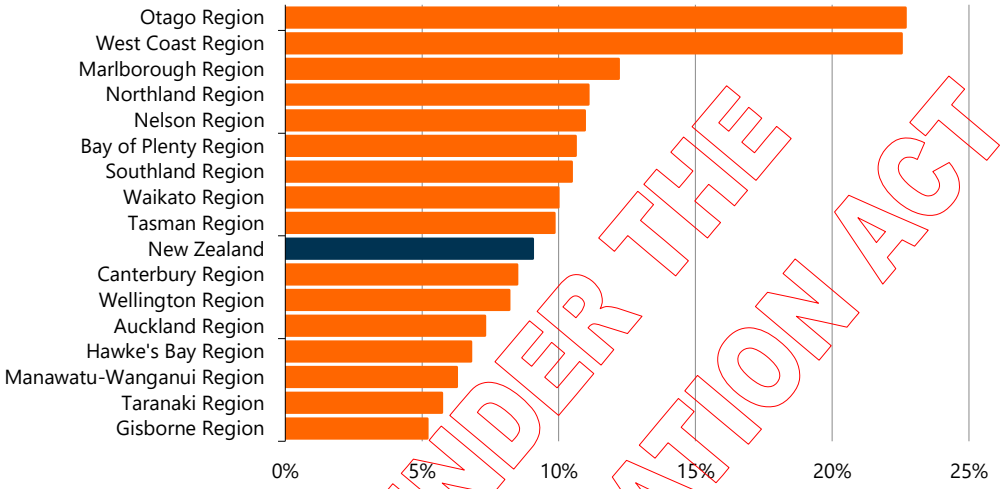


Although Auckland has the largest tourism workforce, the region is less exposed to tourism activity because tourism only makes up a small part of its overall economy. Graph 6 shows the exposure of New Zealand's 16 regions to tourism. Otago and West Coast have the highest exposure, with tourism employment accounting for more than 22% of total employment in both regions.

Graph 6

Regional tourism employment, 2019

Share of total employment



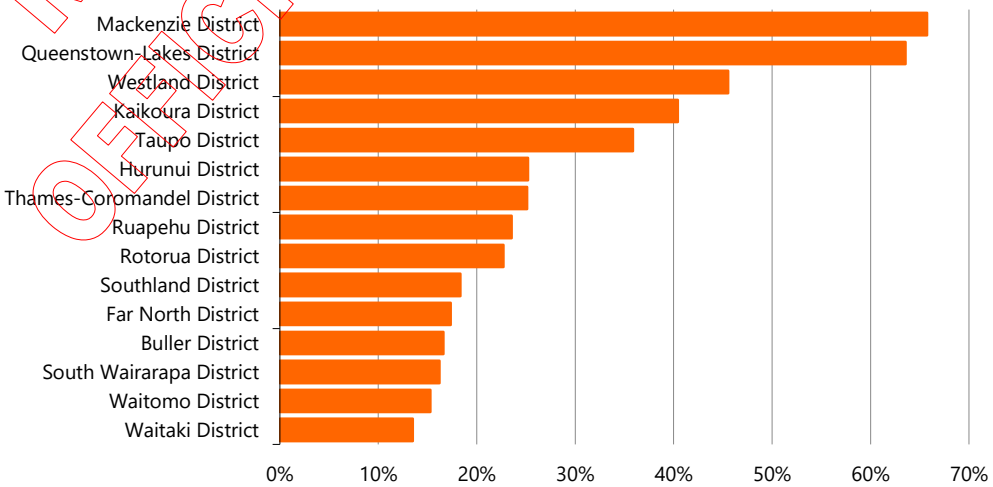
Gisborne has a low exposure to tourism with the sector accounting for slightly more than 5% of employment.

However, regional comparisons of tourism employment can mask the concentrations found in many districts and cities throughout New Zealand. Graph 7 details the top 15 territorial authorities which are most exposed to tourism. Mackenzie District and Queenstown are the standout districts, with tourism accounting for more than 60% of employment in each district.

Graph 7

Top 15 districts for tourism employment, 2019

Share of total employment



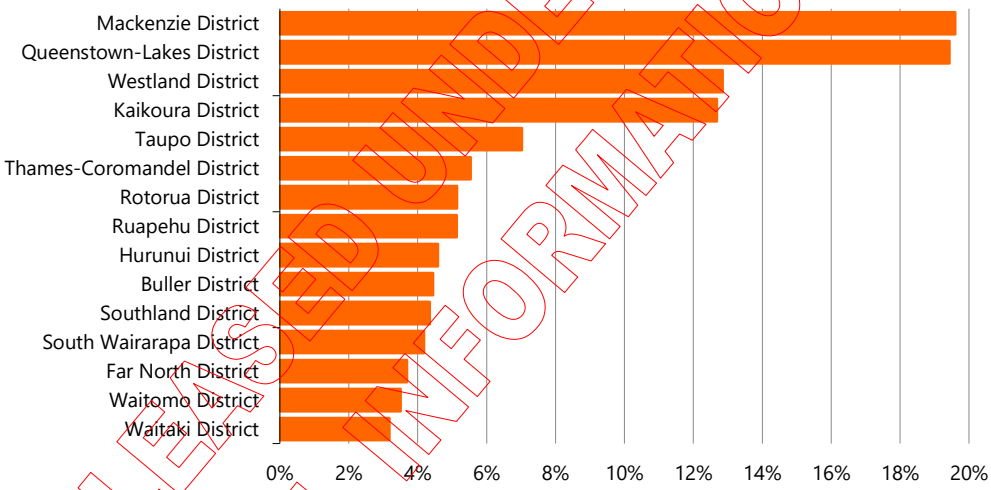
Tourism job losses will be heavy in some parts of the country

Infometrics expect about 48,000 jobs to be lost in the tourism sector over the year to March 2021. The biggest losses are expected in Auckland and Otago regions (-13,000 and -7,500, respectively). The impact will be most severe in parts of the country in where tourism employment makes up a large portion of total employment. Graph 8 shows that job losses in tourism alone will account for a 20% decline in employment in Mackenzie District and 19% in Queenstown.

Graph 8

Tourism employment loss for districts between 2020-21

Employment loss as share of total employment in 2020, top 15 districts



Other districts experiencing large overall declines in employment are Westland (13%) and Kaikoura (13%).

Auckland's position as the largest regional economy in the country (comprising 14% of the total tourism workforce nationally) means the region will face the largest drop in absolute job numbers. Just over 13,000 tourism jobs in Auckland are expected to be lost, a decline equivalent to 1.4% of pre-pandemic employment.

Construction to decline, hitting jobs

Construction is a key industry across the country, and was the fastest growing industryt over the last five years as measured by employment. With expectations for lower residential and non-residential building activity, the construction industry is also vulnerable to the COVID-19 economic downturn and will impact some regional areas more than others.

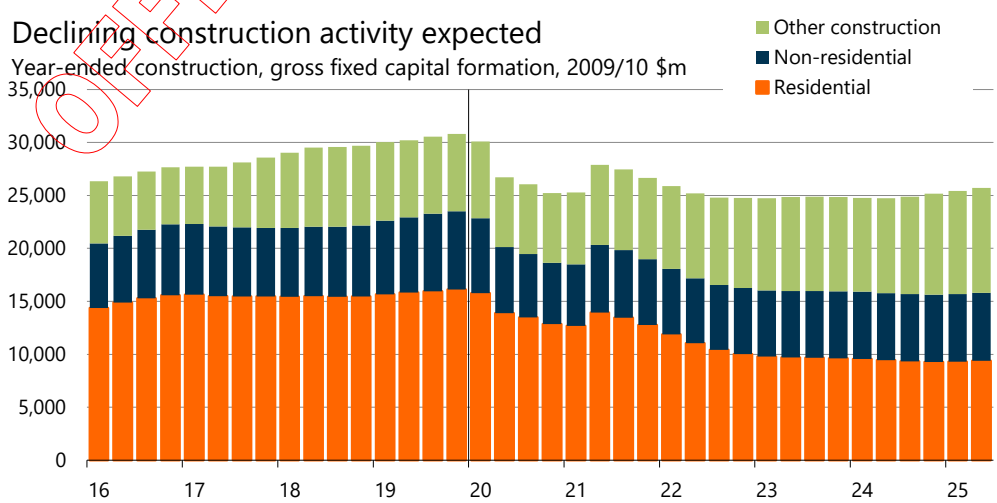
Lower underlying demand and less private investment hits building activity

The substantial rise in unemployment associated with many of the outcomes of the pandemic will have a significant negative effect on the housing market. Lower incomes, a result of job losses, pay cuts, and lower hours, will reduce household income and in turn limit the ability for households to service higher mortgages or rents. Furthermore, border closures for the next year mean that net migration will be close to zero, and population growth is set to drop to a 30-year low of 0.5%pa. These results will considerably reduce underlying demand for new housing.

We estimate an 11% drop in average house prices between mid-2020 and the end of 2021. We note that house price falls in the short-term will be restrained by the mortgage holiday scheme that the government has negotiated with retail banks. Nevertheless, this housing market downturn will drag down the rate of new residential construction, particularly given that banks are likely to be very reluctant to finance property development over the next year.

Lower house prices and constraints on investment will limit private sector property development, with lower incentives than previously to attract and retain development potential. Nationally, we estimate the value of residential building work put in place to decline by 19% over the year to March 2021, with a 35% reduction in consent numbers.

Graph 9

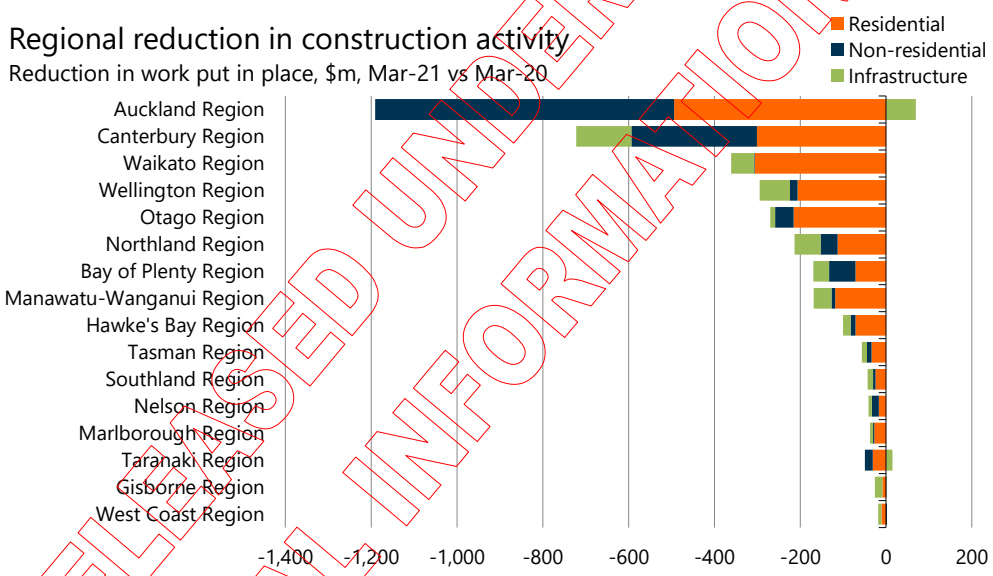


There is a risk that the sudden decline in construction activity will see the supply capacity of the construction sector falls by a greater degree than demand. This risk were to be borne out, the construction sector would likely take longer to regain momentum, which would leave demand in future years above construction supply levels.

Non-residential construction activity will also come under downward pressure given declines in key drivers for private sector investment, including lower employment, household spending, and tourism activity. We estimate the value of non-residential work put in place to decline by 18% over the year to March 2021.

The largest decline in construction activity is expected in Auckland, followed by Canterbury and then Waikato Regions (see Graph 10).

Graph 10



Investment needed to maintain infrastructure capital works

In contrast, prospects for civil construction are positive outside Level 4 lockdown conditions, with a greater share of funding stemming from public funds (central or local government investment). We anticipate that there is limited scope to significantly bolster the volume of infrastructure activity in the short-term. However, we see potential government capital investment, through the Infrastructure Reference Group, as a key driver of ensuring previously planned capital investment continues.

Pressure on funding for capital investment could, during a recession, see previously planned investments deferred or scaled back. But with lower residential and non-residential construction activity and emerging spare capacity, additional investment in construction can both assist regional areas shoulder the economic impact of COVID-19, as well as keep infrastructure commitments viable to resist any further decline in activity.

Immediate funding for shovel-ready projects will ensure current and near-term investments occur, propping up construction workforces around the country. Over the

medium-term, we expect that there is likely to be faster growth in infrastructure activity, given the time lag to fully complete planning, design, and consenting requirements.

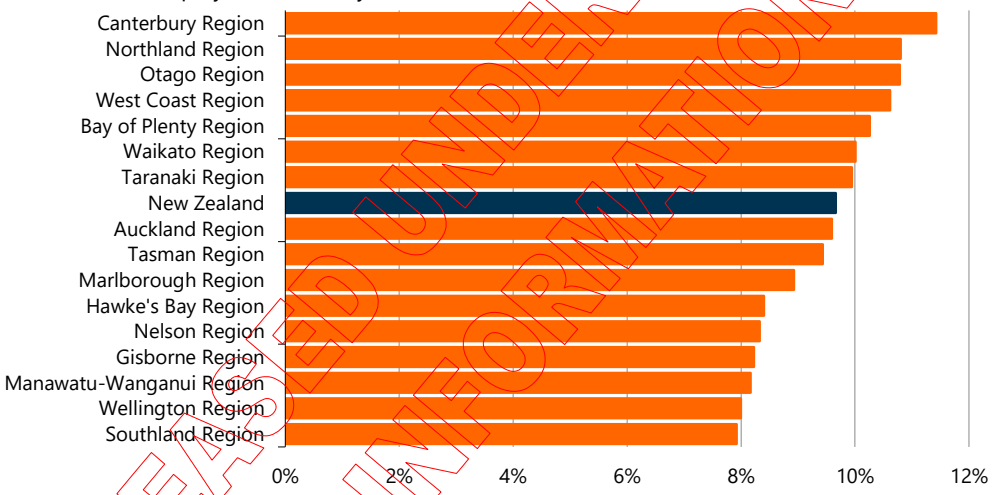
Construction is a significant regional employer

Regionally, the construction industry is a key component of all regional economies. Graph 11 shows that employment in construction accounts for between 11% (Canterbury) and 8% (Southland) of regional economies total employment.

Graph 11

Regional employment in construction, 2019

Share of total employment, March year



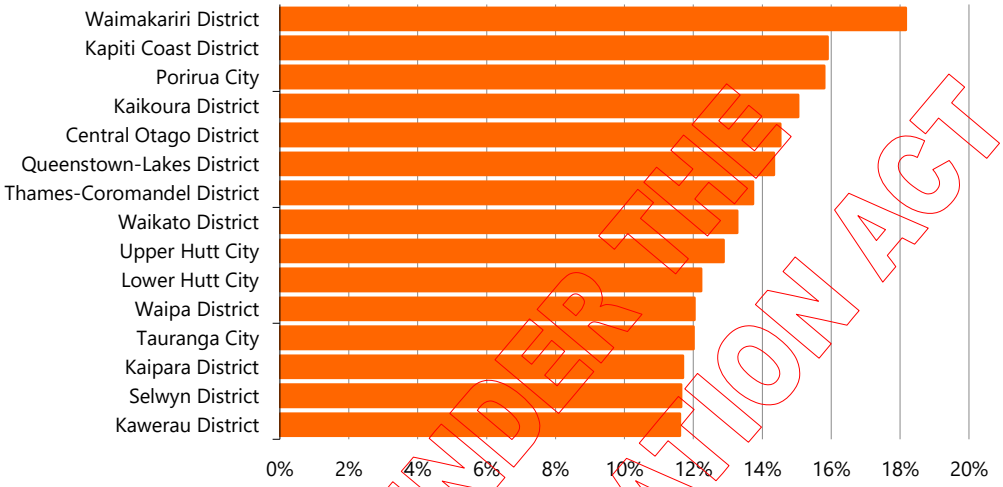
In some parts of the country the construction industry makes up an even greater proportion of the workforce. Graph 12 shows that construction accounts for more than 12% of the workforce in 10 territorial authorities. Waimakariri and Kāpiti Coast have the largest proportions construction industry concentrations, with 18% and 16% respectively. The knock to the construction sector will hit these districts harder than most.

Auckland's share of workers, at 9.6% belies the fact that the region has more than 86,000 construction workers.

Graph 12

Top 15 districts by size of construction industry, 2019

Share of total employment, March year



In general, these areas with a greater concentration of construction employment are more exposed to a downturn in construction activity. This exposure, coupled with the expected declines in actual work put in place, will be key contributor to some regional declines.

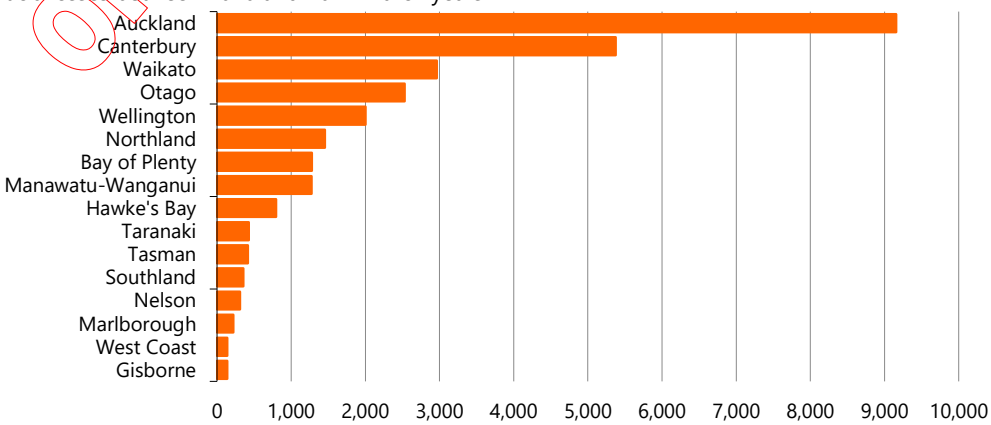
Construction downturn will leave spare capacity

The decline in construction employment in some parts of the country will have a significant impact on total employment. The decline will leave spare capacity in the construction industry in these areas. Metropolitan areas will see the greatest absolute declines in job numbers, with Auckland expected to see around 9,000 fewer construction workers employed in 2021 (see Graph 13).

Graph 13

Regional employment decline in construction, 2020-21

Job losses between 2020 and 2021 March years

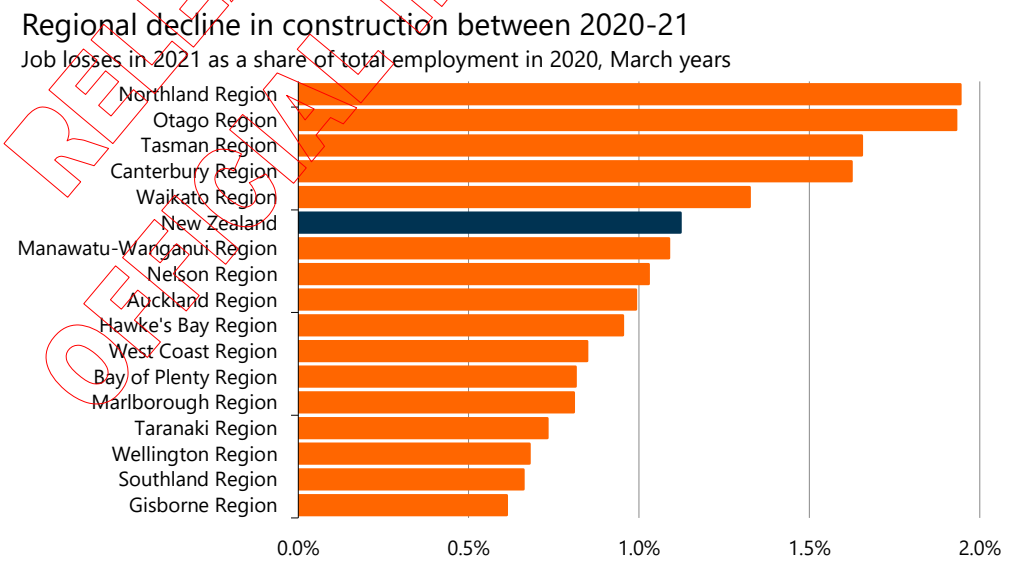


Other areas still show sizable declines, with Christchurch expected to shed nearly 3,000 construction jobs (see Graph 14).

Graph 14

Graph 15 shows the decline in jobs across New Zealand regions as a share of total pre-pandemic employment.

Graph 15



Northland comes out as the hardest hit region for employment declines, with 1.9% of the region's pre-pandemic total workforce expected to be lost due to reduced construction activity. The result highlights Northland's higher concentration of construction workers relative to the total workforce, alongside declines in construction

efforts, lower tourism activity (particularly in the Far North), and lower output from Marsden Point in Whāngārei, which will lower construction efforts.

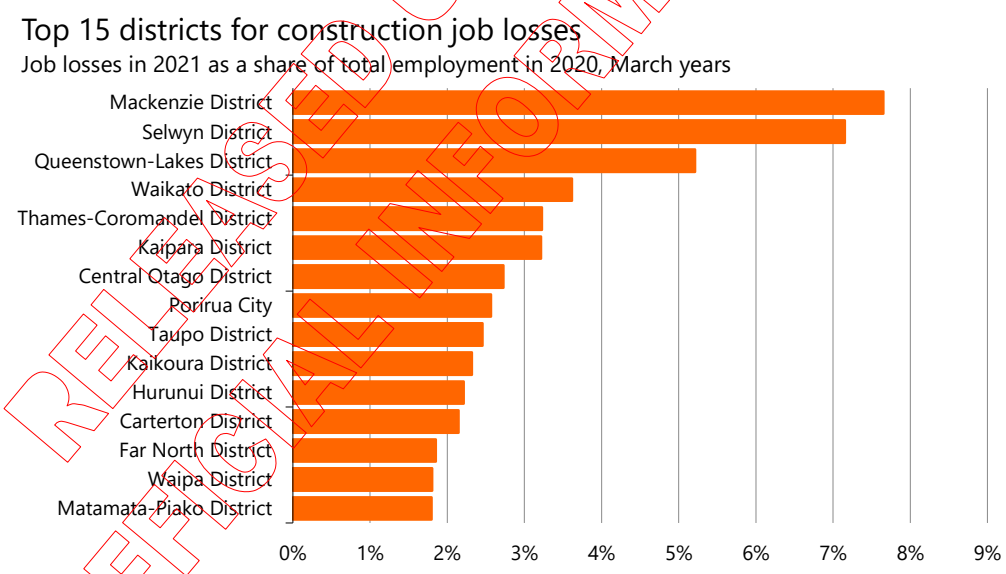
Other areas, like Otago are easier to immediately interpret, with lower tourism activity in Queenstown a driving factor behind the Otago region's construction decline.

Many of these higher regional declines are driven by localised impacts. Graph 16 shows the districts that are expected to lose the largest proportion of their total employment due to the fall in construction activity. Mackenzie District is expected to lose nearly 8% of total employment and Selwyn more than 7%.

Lower activity in Selwyn is a key contributor to Canterbury Region's decline in the construction workforce. The combination of the 14th-largest construction employment concentration and softer forecast construction volumes results in a 7.2% fall in total employment in the District due to construction job losses.

Ōtorohanga District is a key exception to a decline in construction activity, with two large projects – the Happy Valley Milk factory and the Waikeria Prison upgrade – adding construction jobs over the next year.

Graph 16



Similarly, Waikato District's 8th-largest construction employment concentration plays a key role in total expected declines in the District. Previously, Waikato District's construction activity has been driven by an expansion in housing and commercial sites in southern Auckland. Parts of the Waikato District are a key supplier of workers to southern Auckland, particularly around Drury, which contributed to previous growth in construction. However, with lower net migration, and softer private investment expected, we expect the demand for construction in southern Auckland will reduce, contributing to the decline in Waikato District's construction workforce.

Although Tauranga City has a larger construction industry (relative to the size of the workforce), the area does not face the same levels of declines as expected in other areas. The larger sizes of New Zealand's metropolitan areas mean that, as a proportion of total employment, construction declines are not as pronounced. However, in absolute terms,

job losses in these urban centres are sizable, with more than 9,100 job losses in Auckland, and 2,800 in Christchurch.

Social housing investment also viable

Earlier in May, Infometrics released analysis outlining the potential for additional state housing investment to both support the construction sector while also increasing public housing volumes.

Infometrics estimates that if the government were to build 9,400 states houses over the next two years, the state house waiting list would return to 2014/15 levels, prior to a large increase in state housing demand.

Our analysis points towards some areas, like Gisborne, Rotorua, and Napier as areas that would benefit from a coordinated effort to increase the local state housing stock. Our full analysis is provided in Appendix D.

Regional fortunes differ considerably

New Zealand's regional and local economies encompass a range of employment concentrations and structural differences. These differences play a key part in determining the expected economic fortunes across different areas.

Although many regional trends can be broadly explained by contribution from tourism, construction, or the primary sector, there are other forces that can play key localised roles.

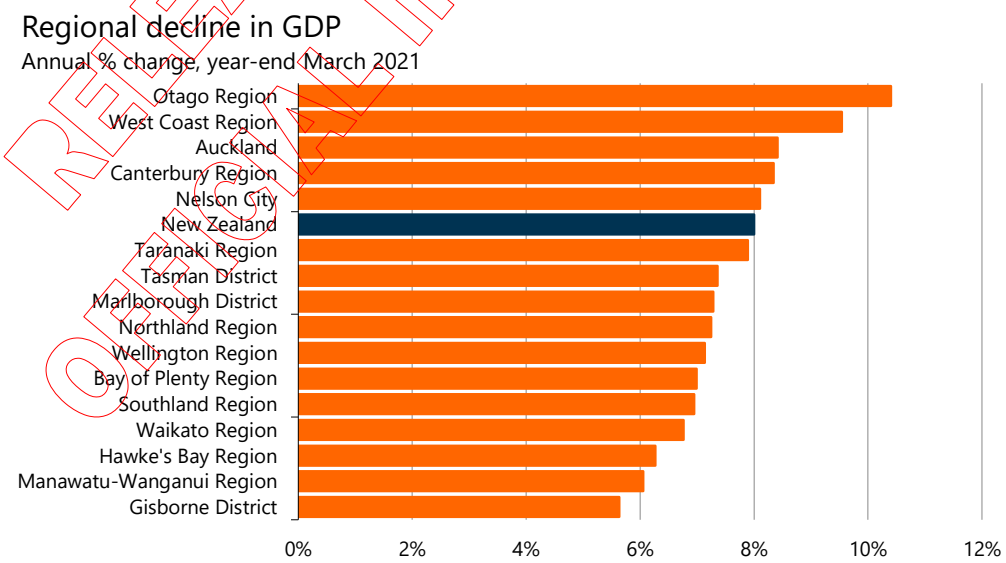
In this section we describe the collective effect of all the forces effecting regions and territorial authorities and identify which areas will take the hardest economic knock.

Otago and West Coast will be the hardest hit

Graph 17 shows the regional economic decline in GDP across New Zealand. The major forces negatively affecting areas are the rapid drop in tourism spending and the decline in construction activity, especially residential construction.

Given the importance of tourism and tourism-related construction, we expect GDP in Otago to decline by more than 10% over the year to March 2021. West Coast GDP is expected to decline by 9.5%, similarly due to a high concentration of international tourism activity.

Graph 17



Meanwhile, regions with large agricultural and food processing sectors including Hawke's Bay, Manawatu-Whanganui, and Gisborne are expected to experience the smallest declines.

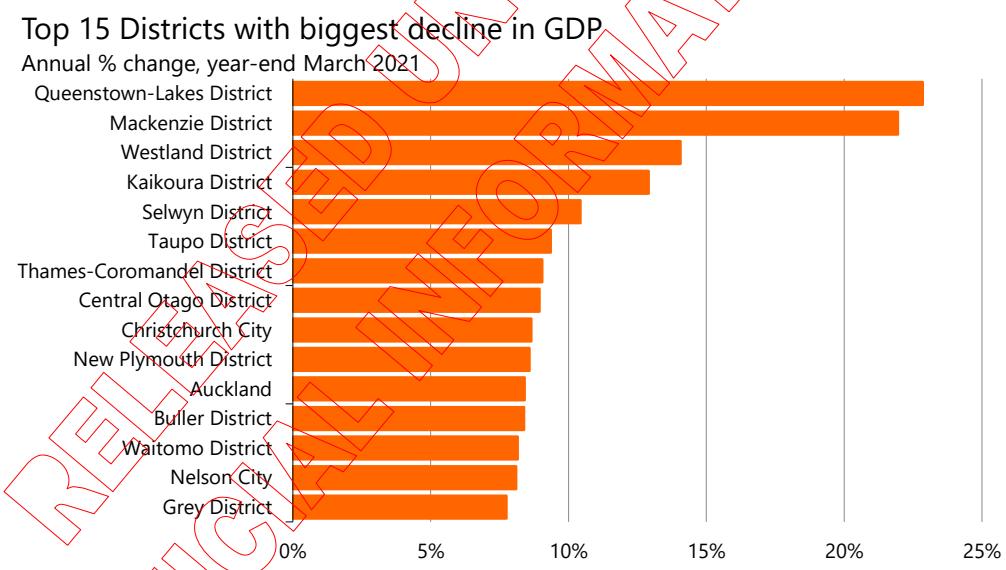
Food manufacturing industries will be cushioned from the impact of the pandemic. Agricultural commodity prices and food exports to the rest of the world are holding up considerably better than other exports, which means that rural-based regional economies will generally be given some relief from the worst impact of the pandemic. However, this will not fully offset tourism, construction, or energy concentrations.

Other regional drivers, such as lower energy, mining, and fuel demands will affect regions such as Taranaki, Waikato Region, and Northland.

South Island areas face largest local declines

Focusing on territorial authorities, the top five declines in output are expected in the South Island. We expect GDP in Queenstown-Lakes and Mackenzie District to decline by more than 20% (see Graph 18). The decline in most of the largest affected districts is driven by lower tourism activity.

Graph 18

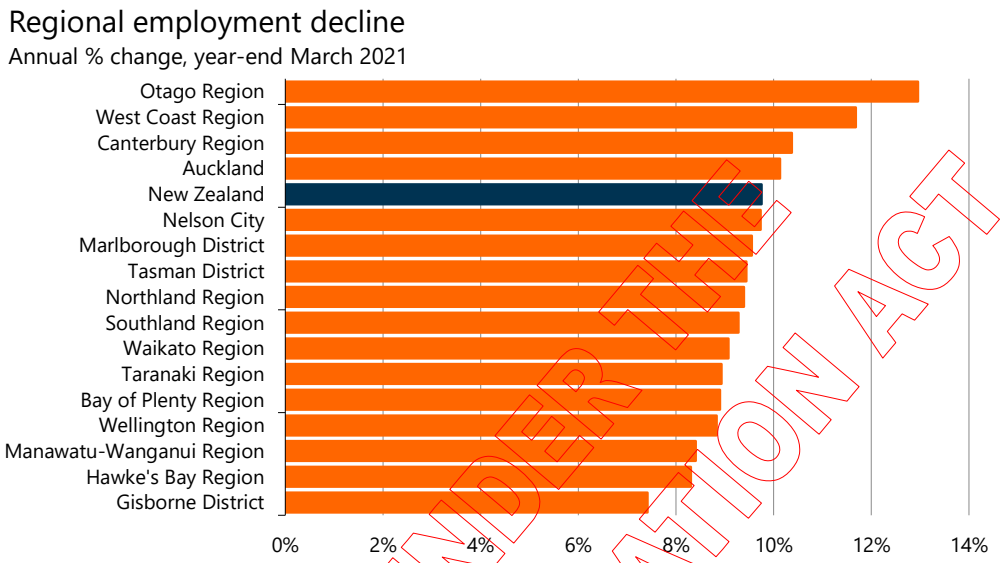


However, some districts are driven predominantly by a decline in construction. An example is Selwyn District which is expected to experience the fifth largest decline in GDP (-10.4%). Nearby Christchurch is one of the key metro centres that shows up in the top declining areas, highlighting a greater focus on tourism than other areas. However, higher construction activity in the post-earthquake environment has limited the scope for additional infrastructure investment to the degree possible in other areas.

Employment losses show a similar pattern

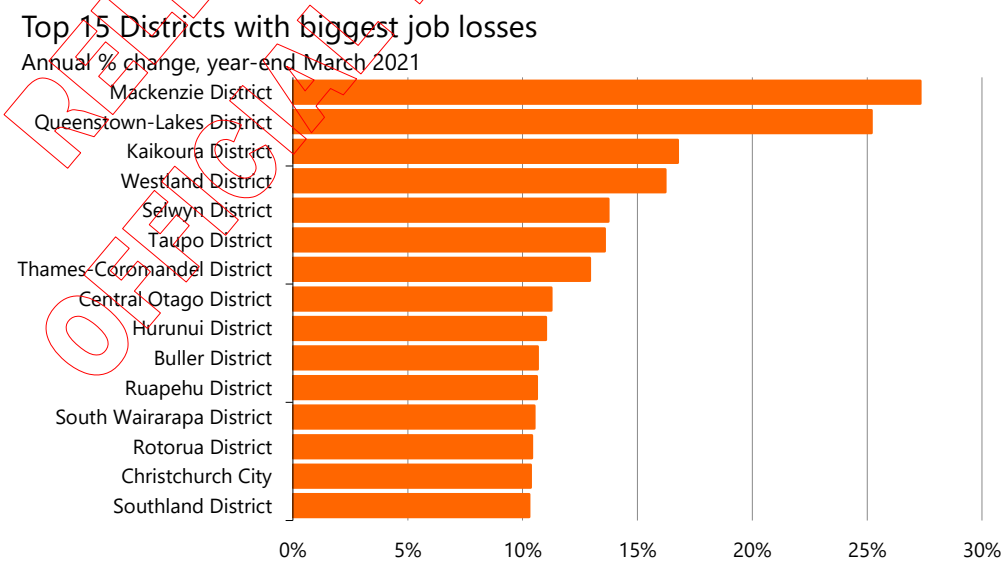
Turning to employment, the trends for regional areas are similar. Graph 19 shows that Otago is facing a 13% decline in employment, with West Coast close behind on 12%.

Graph 19



However, significant differences emerge when the top regional employment declines are examined. As Graph 20 shows, some of the key declines in employment are different from output declines. The top five areas in the South Island remain, as expected due to lower tourism and construction employment expected. But the emergence of Rotorua, Hurunui, Ruapehu, and South Wairarapa demonstrate the larger hit to jobs that tourism contributes.

Graph 20



Job losses, relative to the size of the workforce, demonstrate some of the areas in greatest need of additional investment to reinvigorate the local economy. A full list of employment declines (total, construction, and employment) by local council area is set out in Appendix B, in both graphical and table form.

Areas of greatest need for additional investment and assistance

Our assessments of the regional economic implications of the COVID-19 pandemic and economic downturn are useful to better inform Infrastructure Reference Group about key areas of focus. Determining the best allocation of infrastructure investment will require a wider set of insights, including the full suite of viable projects, strategic alignment, and government decisions. Importantly, some areas entered the economic downturn from a starting point of higher unemployment and greater spare capacity. Although some of these areas may not face the same level of economic declines as other areas, the overall capacity remaining in regional areas, alongside the far larger share of unemployed workers, is also likely an area of further investigation. Areas such as Tairawhiti and Northland emerge as key considerations.

Our regional economic analysis provides a clear evaluation of the expected economic declines expected across New Zealand's regions and local areas. The analysis also highlights some key areas of focus that are readily identified as areas that face more pronounced economic impacts that Infrastructure Reference Group should be aware of. Although these insights are not an exhaustive list and should not be considered as Infometrics' **only** recommended areas of focus, the following areas are more frequently highlighted in our analysis with greater economic declines:

- **Queenstown** stands out as an area in need of additional support with the sheer concentration of tourism set to substantially reduce economic activity in the area. Lower tourism activity is expected to see a quarter of jobs lost locally.
- Aligned to this tourism focus, the **West Coast** also clearly demonstrates a need for additional investment, with a significant concentration of tourism-based activities in the regional economy.
- **Parts of the Lower South Island**, with a focus on southern Canterbury around **Selwyn**, and support for investment around **Tīmaru** and **Mackenzie** to provide additional stimulus to counter declines in tourism and construction.
- **Northland Region** appears as an area with a high concentration of construction employment which is set to see a considerable fall in building activity. With Northland already facing higher levels of unemployment, and the highest rate of Jobseeker Support claims, additional investment is likely required.[2]
- Alongside lower construction activity, higher tourism exposure in the **Far North**, the concentration of the **Whāngārei** economy on the Marsden Point Refinery, and continued drought concerns highlight the potential for additional investment in water storage options, alongside evaluation of other projects such as the proposed Dry Dock in Whāngārei.

[2] Ministry of Social Development. (2020). Income Support and Wage Subsidy Weekly Update – 1 May 2020. Ministry of Social Development.

Appendix A: Industry Insights

Transport, postal, and warehousing has been significantly affected by the pandemic. The largest effects are on air transport and scenic and sightseeing transport due to the downturn in tourism activity. As is the case for accommodation and food services, these effects will continue long after the lockdown ends. Other parts of the transport and logistics industry have been weakened by factors such as reduced commuter travel and cutbacks in distribution and freight requirements caused by the lockdown. Some of these effects will start to reverse out with a pick-up in online spending outside Level 4, but this positive influence on activity is likely to be outweighed by the reduction in overall spending caused by the weaker labour market and incomes.

Retail and wholesale trade has experienced a significant drop in demand under Level 4, and restrictions will remain in place under Level 3 as well. These effects are not being felt equally, with supermarkets enjoying periods of higher-than-usual demand. Other businesses that can sell online will be able to operate under Level 3, although we do not expect spending patterns during this period to be normal. The declines in tourism activity and other discretionary spending will also be felt disproportionately by retailers selling more luxury or higher-end products.

Accommodation and food services will be arguably the most heavily affected part of the economy by the COVID-19 pandemic and its aftermath. The disappearance of international tourism and declines in domestic tourism and other discretionary spending are key factors in the industry's contraction. Activity will continue to be severely constrained under COVID Alert Level 3, while domestic travel will also remain restricted under Alert Level 2.

Construction activity was close to peaking even before the COVID-19 pandemic occurred. Rising unemployment, falling house prices, slower population growth, and tighter bank lending conditions will all weigh on activity over the next 1-2 years across both the residential and non-residential subindustries. Prospects for infrastructure look more promising given the government's desire to use this channel to try and stimulate the economy's recovery. We also note that strong growth in the population and building stock over recent years has increased the baseline level of maintenance work that needs to be done, mitigating the downturn for those parts of the industry that tend to be less cyclical.

Financial and insurance services will be squeezed by the downturn in economic activity. Lockdown conditions are likely to have increased the amount of work being done electronically across parts of this industry, and this shift could potentially hasten the trend towards reduced job numbers for some occupations. More difficult business and financial market conditions could also negatively affect the viability of some firms in this industry. However, we note that the overall strength and robustness of the financial system is much better than it was between 2006 and 2010 when the industry grappled with the finance company collapses and the Global Financial Crisis.

Information media and telecommunications activity will also come under pressure, despite the short-term boost to selected businesses from the increase in remote working that has taken place. Traditional media such as newspapers and magazines were already under significant pressure prior to COVID-19. Substantial drops in advertising revenue have exacerbated this situation and will lead to job losses, despite

government support. Significant job losses in areas such as libraries, movie theatres, and some parts of telecommunications are also possible.

Arts and recreation services are suffering the twin effects of a reduction in discretionary spending and restraints on what services and products can actually be offered to consumers. Performing arts, professional and community sports, horse racing, casinos, and other entertainment and events will continue to be constrained at Alert Levels 2 and 3, with restrictions on gathering numbers at both indoor and outdoor events. Ongoing border restrictions are also set to disrupt the ability of promoters to run events where they are reliant on entertainers or sportspeople coming into New Zealand from overseas.

Professional, scientific, and technical services is the fourth-largest industry by employment in the New Zealand economy. So despite the industry being less directly affected by COVID-19 than many other industries, the forecast drop in job numbers is still large. Cost-cutting by firms and a reduction in business numbers across the economy will negatively influence demand for services within this industry across the board. Areas that are likely to be most heavily affected include those subindustries that are closely linked with construction activity.

Non-food manufacturing tends to be less labour-intensive than many other industries, but the downturn in the global economy will have a significant negative effect on demand for the industry. Manufactured exports are expected to be squeezed by weak demand conditions across much of Europe, North America, and Australia. The Global Financial Crisis also demonstrated the strong links between parts of non-food manufacturing and building work within New Zealand. Consequently, the forecast downturn in construction activity will also contribute to a decline in employment and output in this industry.

Administrative and support services are expected to mirror broader economic trends in business activity, with cost cutting, business failures, and the weak labour market negatively affecting this industry. Given the downturn in tourism, travel agents will be by far the most heavily hit, with modest declines in employment across other parts of the industry.

Appendix B: Regional Insights

Graph 21

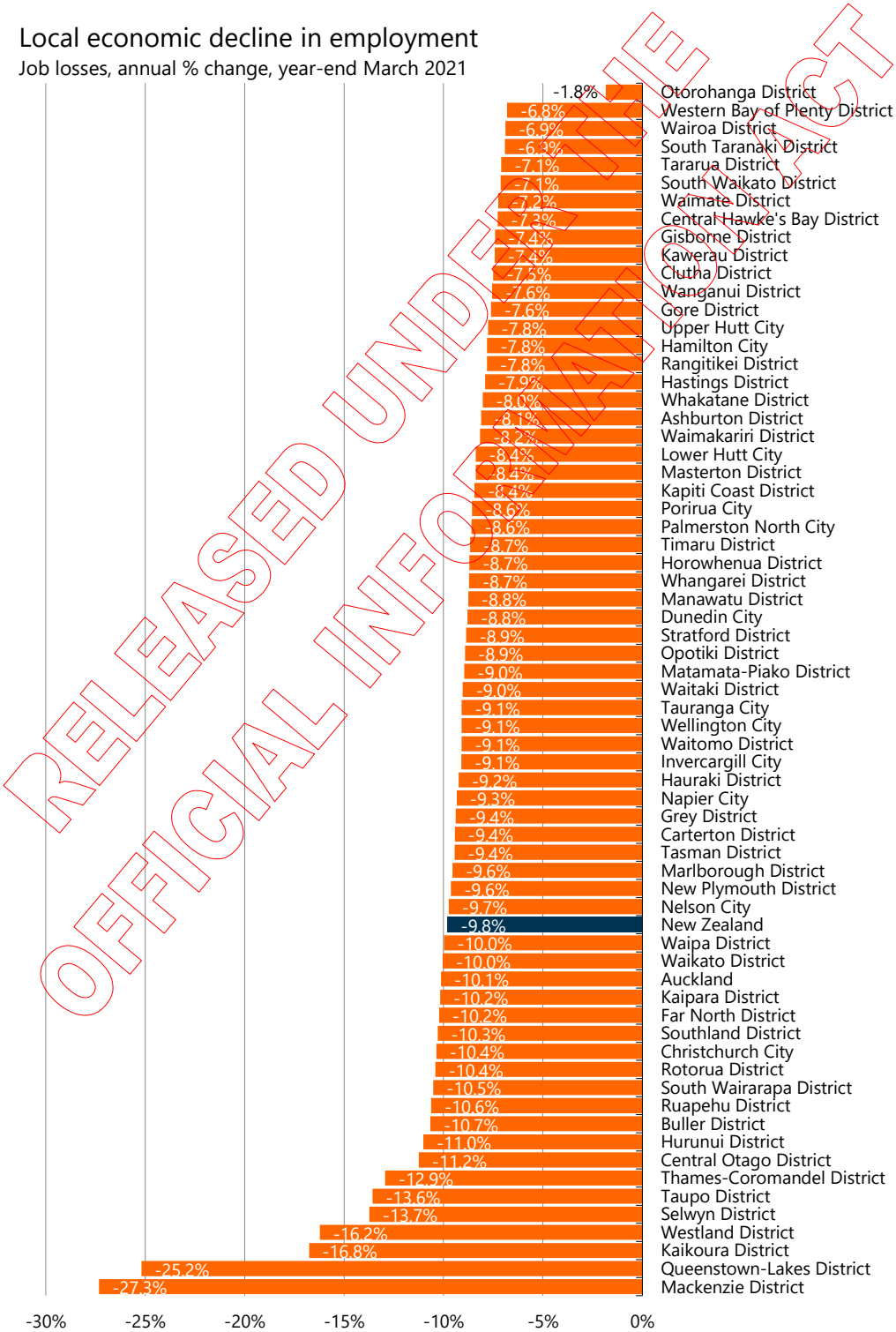


Table 1

Assessing regional impacts of COVID-19

Job losses in 2021, as a share of total employment in 2020, March years

	Employment	Construction Employment	Tourism Employment
Far North District	10.2%	1.9%	3.7%
Whangarei District	8.7%	1.7%	1.2%
Kaipara District	10.2%	3.2%	1.4%
Auckland	10.1%	1.0%	1.4%
Thames-Coromandel District	12.9%	3.2%	5.5%
Hauraki District	9.2%	1.5%	1.6%
Waikato District	10.0%	3.6%	0.6%
Matamata-Piako District	9.0%	1.8%	0.9%
Hamilton City	7.8%	0.6%	1.1%
Waipa District	10.0%	1.8%	0.9%
Otorohanga District	1.8%	-5.5%[1]	1.0%
South Waikato District	7.1%	0.3%	0.8%
Waitomo District	9.1%	0.3%	3.5%
Taupo District	13.6%	2.5%	7.0%
Western Bay of Plenty District	6.8%	1.4%	0.5%
Tauranga City	9.1%	0.5%	1.5%
Rotorua District	10.4%	0.7%	5.1%
Whakatane District	8.0%	1.3%	1.1%
Kawerau District	7.4%	1.1%	0.2%
Opotiki District	8.9%	1.0%	1.1%
Gisborne District	7.4%	0.6%	0.8%
Wairoa District	6.9%	0.9%	0.5%
Hastings District	7.9%	1.1%	0.7%
Napier City	9.3%	0.6%	2.4%
Central Hawke's Bay District	7.3%	1.6%	0.4%
New Plymouth District	9.6%	0.7%	1.4%
Stratford District	8.9%	1.0%	0.9%
South Taranaki District	6.9%	0.6%	0.4%
Ruapehu District	10.6%	1.3%	5.1%
Wanganui District	7.6%	0.8%	0.7%
Rangitikei District	7.8%	1.0%	1.4%
Manawatu District	8.8%	1.7%	0.4%
Palmerston North City	8.6%	1.1%	0.9%
Tararua District	7.1%	0.2%	0.7%
Horowhenua District	8.7%	1.7%	0.7%
Kapiti Coast District	8.4%	1.0%	1.2%
Porirua City	8.6%	2.6%	0.4%
Upper Hutt City	7.8%	1.1%	0.4%
Lower Hutt City	8.4%	0.5%	0.6%

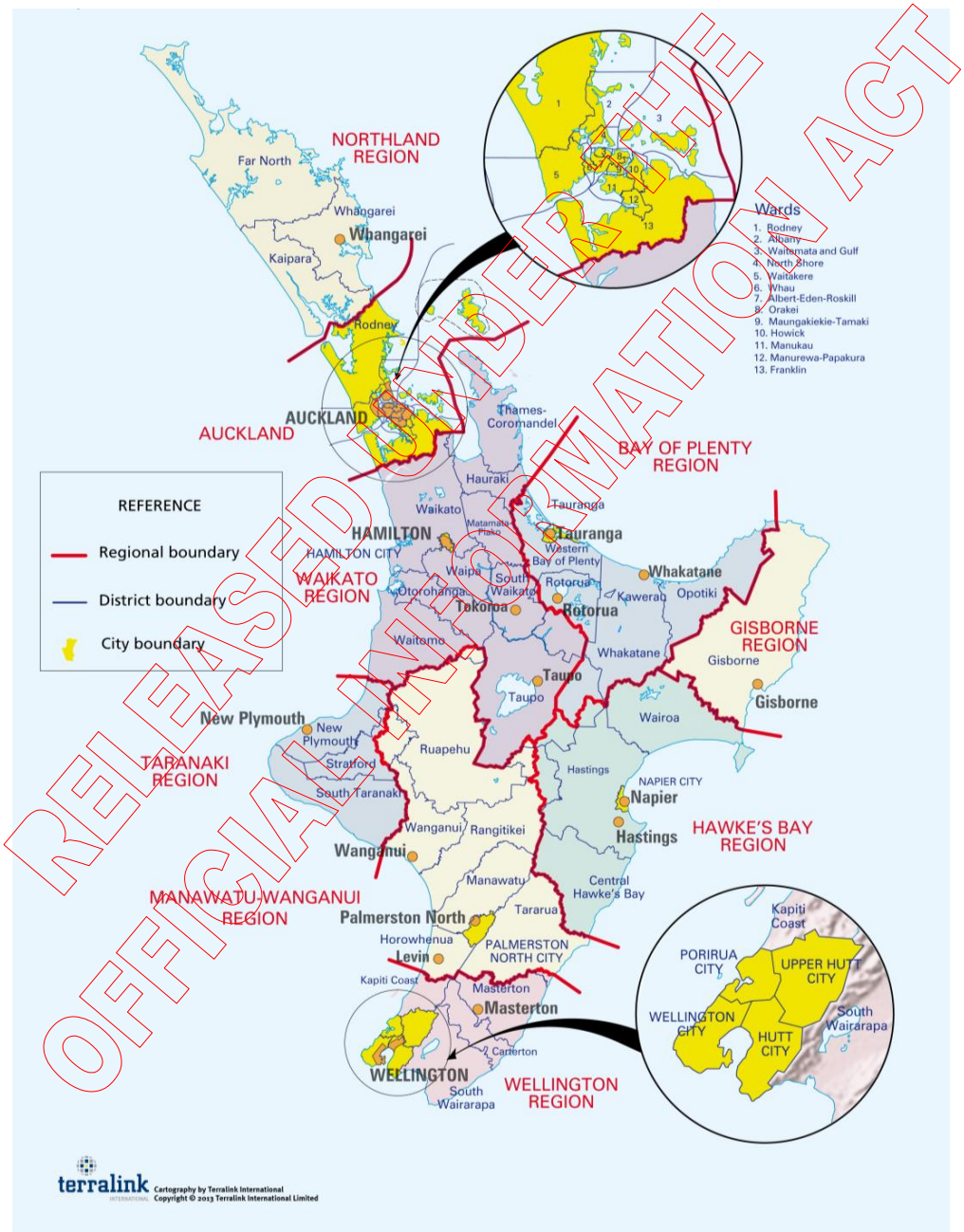
Wellington City	9.1%	0.3%	2.4%
Masterton District	8.4%	1.4%	1.0%
Carterton District	9.4%	2.1%	0.5%
South Wairarapa District	10.5%	1.5%	4.2%
Tasman District	9.4%	1.7%	2.1%
Nelson City	9.7%	1.0%	2.2%
Marlborough District	9.6%	0.8%	2.6%
Kaikoura District	16.8%	2.3%	12.7%
Buller District	10.7%	0.9%	4.5%
Grey District	9.4%	0.6%	2.3%
Westland District	16.2%	1.1%	12.9%
Hurunui District	11.0%	2.2%	4.6%
Waimakariri District	8.2%	1.3%	0.4%
Christchurch City	10.4%	1.2%	1.6%
Selwyn District	13.7%	7.2%	0.7%
Ashburton District	8.1%	0.5%	1.4%
Timaru District	8.7%	0.5%	1.2%
Mackenzie District	27.3%	7.7%	19.6%
Waimate District	7.2%	0.6%	0.4%
Waitaki District	9.0%	0.8%	3.2%
Central Otago District	11.2%	2.7%	2.5%
Queenstown-Lakes District	25.2%	5.2%	19.4%
Dunedin City	8.8%	0.5%	1.9%
Clutha District	7.5%	1.1%	0.9%
Southland District	10.3%	0.9%	4.3%
Gore District	7.6%	-0.6%[1]	1.4%
Invercargill City	9.1%	0.8%	1.3%
New Zealand	**9.8%**	**1.1%**	**1.9%**

Source: Infometrics

[1] *A negative job loss denotes an increase in employment in 2021*

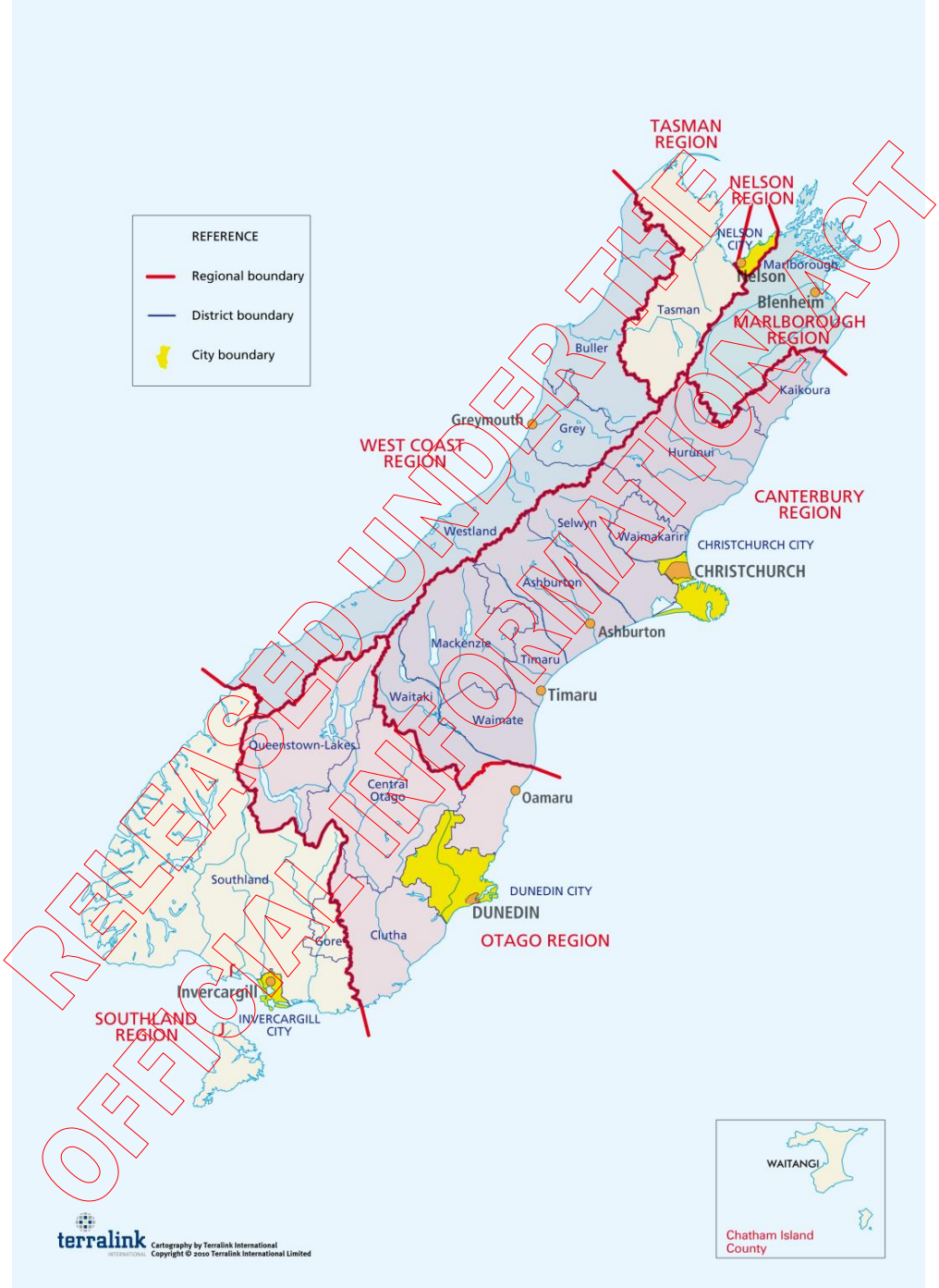
Appendix C: Local Council Maps

Figure 1: North Island



Source: Local Government New Zealand

Figure 2: South Island



Source: Local Government New Zealand

Appendix D: Supporting construction while rectifying state housing

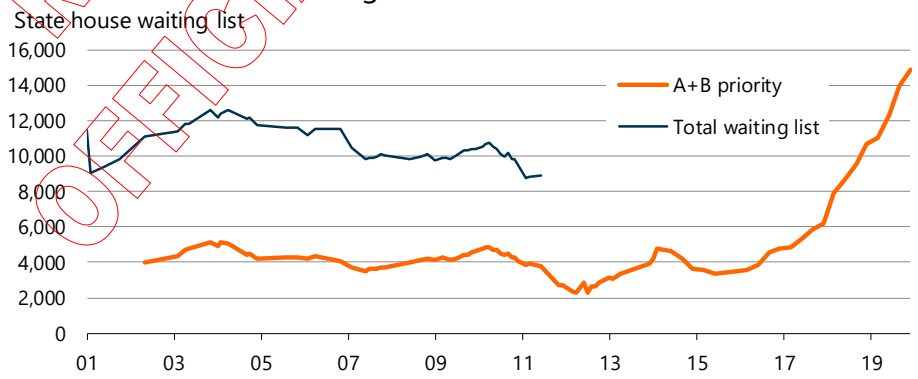
The waiting list for state houses has more than quadrupled over the last four years, in part because rents have consistently risen faster than incomes, leaving more people in vulnerable housing situations and requiring assistance. With a massive spike in unemployment coming between now and the end of 2021, this waiting list is only likely to get longer. At the same time, economic uncertainty will see private sector residential building activity slashed.

A commitment from the government to build an additional 9,400 state houses over the next two years would mitigate the construction sector's downturn, helping to prevent a repeat of the massive loss of capacity that occurred following the Global Financial Crisis. It is also an opportunity for the government to make a real difference in housing outcomes for some of society's most vulnerable people, contributing to better wellbeing in a way that KiwiBuild was never going to do.

The scale of the state house shortage

The number of applicants on the waiting list for a state house has blown out since mid-2015, from 3,352 to 14,869 by the end of last year. Chart 1 shows that this increase is extremely unusual, with the number of applicants never previously getting above 5,200 in the last two decades.[3] Virtually all the increase in the waiting list since 2015 has been for Priority A applicants, deemed to have a severe or urgent housing need.

Chart 1: The critical shortage of state houses



We are not aware of any policy changes regarding the state house waiting list as shown by the Ministry of Social Development's Housing Register. The fact that growth in the

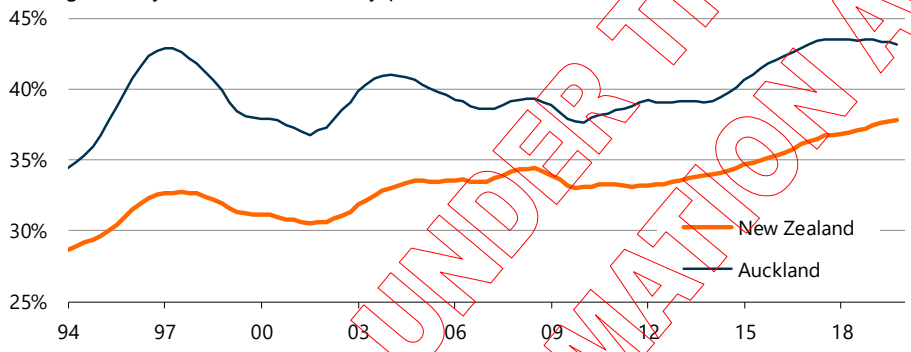
[3] In 2011, the Government changed its waiting list for state housing and no longer assigned applicants to the lowest priority (C and D) groupings.

waiting list has continued for over four years, including through a change of government, suggests that there is a genuine crisis in social housing needs.

Increasing rents are likely to have played a role in this unfolding crisis – and not just in Auckland. Rents have continually risen faster than incomes since 2011, and the nationwide ratio of rents to personal incomes is well above its previous high recorded in 2008 (see Chart 2). Auckland's ratio is also high, although it is at a similar level to where it was in 1997.

Chart 2: Renting gets less affordable

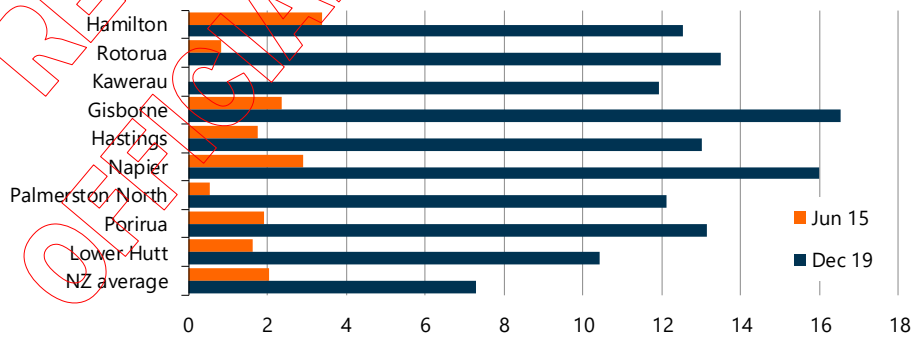
Average weekly rent as a % of weekly personal income (QES)



Although there is a logical connection between rising rents and increasing demand for social housing, the areas with the largest lifts in rents relative to incomes do not fully correlate with the areas that have recorded the biggest jumps in the waiting list for state houses. The latter areas are typically a mix of lower socioeconomic areas across the North Island, with areas down the east coast of the Island and around Wellington overrepresented (see Chart 3).

Chart 3: The biggest waiting list increases

Applicants on state house waiting list per 1,000 houses



An ideal time to support construction activity

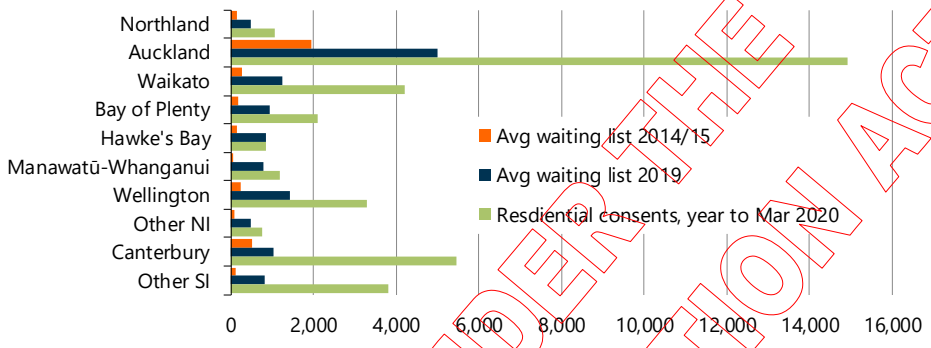
Whatever the drivers, let's turn our attention to the extent of the response required by the government. Chart 4 compares the state house waiting lists by region in 2014/15 and 2019 with the residential build rate over the last year. Two points stand out.

- All regions have recorded a substantial increase in the waiting list.

- The additions to the state housing stock required to meet demand is substantial in some regions, representing between 62% and 102% of a year's worth of residential construction activity in Hawke's Bay, Manawatū-Whanganui, and "Other North Island" (the latter is primarily caused by Gisborne).

Chart 4: Up to a year's worth of building

State house waiting list v residential build rate



This file provides a full breakdown of possible state housing requirements by city and district council area and Auckland local board, compared to the most recent residential build rate for each area.

Reducing the state house waiting list to the "normal" levels that prevailed in 2014/15 would require about 9,400 additions to the state housing stock. Our latest residential construction forecasts predict that residential consent numbers will drop from a peak of 37,882pa in the year to February 2020 to around 24,000pa by mid-2021 and 18,400 by mid-2022. This plunge represents a massive amount of spare capacity that will emerge in the residential construction industry, even recognising how stretched the industry had previously been by strong demand, as well as the potential disruption to the supply of workers from overseas caused by the current border closures.

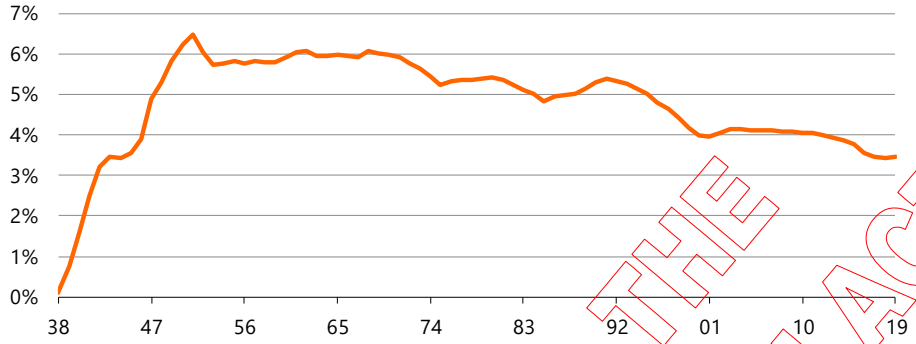
The lack of spare capacity in the construction industry was one of the reasons behind the failure of KiwiBuild. Instead of boosting the supply of housing as it was supposed to do, the policy ended up taking work that was planned by the private sector and simply adding a "Kiwibuild" sticker on. But our forecasts show the government now has scope to announce a major state housing initiative that would support the residential construction industry as well as addressing a significant aspect of the housing crisis. The government might be wary of numerical targets, but if it could successfully commit to building an additional 4,700 state houses over each of the next two years, it would help avoid a repeat of the major loss of workers and capacity in the industry that occurred in the wake of the Global Financial Crisis.

A 1930s-style solution for a 1930s-style downturn

Furthermore, this lift in the number of state houses would not unduly increase the government's role in housing provision. Increasing the stock of state houses by 9,400 would only push the proportion of state houses up to about 4% of the total dwelling stock – the same level as it was back in 2012, and lower than any figure recorded between 1947 and 2000 (see Chart 5).

Chart 5: State housing being left to fade away

State houses as a % of the total dwelling stock



Indeed, the rise in state housing in the aftermath of the Great Depression of the 1930s highlights the increased need for additional state housing capacity. With twin aims of providing housing for those who cannot afford it and keeping more people in employment, the opportunity to boost state housing volumes is a clear area of investigation for the government.

We recognise there are other factors to consider regarding the government's ability to deliver such a large building programme, not least of which is the availability of land. Even if more land becomes available as private sector development dries up, the government will be keen to avoid the early model of state houses being built en masse in one area, which created entire suburbs with poor socioeconomic outcomes. The Tāmaki Regeneration and Porirua Development projects shape as models that can potentially be applied in other areas where large numbers of new state houses are required.

Finally, we note that the surge in unemployment during 2020 and 2021 due to the COVID-19 pandemic and its aftermath has the potential to significantly add to demand for state houses. If the waiting list has increased by almost 10,000 applicants since mid-2015, how much worse might it look by the end of 2021? Bearing that in mind, the current economic downturn is an ideal opportunity for the government to revisit the role it plays in housing New Zealand's most vulnerable citizens.

Annexures

Annexure A

Projects Listed by Sector

s9(2)(b)(ii)

Annexure B

Projects Listed by Region

s9(2)(b)(ii)

IRG
Infrastructure Reference Group

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/2168 SH-1-6-1-3-3-7 (Infrastructure)

Date: 26 June 2020

To: Minister for Urban Development (Hon Phil Twyford)

Deadline: None
(if any)

Aide Memoire: Meeting with Crown Infrastructure Partners (CIP)

You are meeting with Crown Infrastructure Partners (CIP) on Thursday 2 July 2020. CIP have indicated that Mark Binns (Chair), Graham Mitchell (CEO), and Sean Wynne (Deputy CEO) will be in attendance and an information pack will be sent to your office next week in advance of this meeting.

The following information provides updates and suggested talking appoints on the two topics that CIP have indicated they wish to discuss with you:

- removed - out of scope
- the Infrastructure Reference Group (IRG) “shovel-ready” projects.

removed - out of scope

removed - out of scope

It is important to now re-engage with local government and the developer sector

COVID-19 has had a negative impact on the financial position of local authorities. Due to immediate declines in revenue that have resulted in a reduction in debt capacity, many councils are pressing pause on projects that were in the pipeline and nearing investment-ready stages.

However, there is a continued need to invest in infrastructure. In the medium to long term, there continues to be a mismatch between the infrastructure spending needs, currently available funding sources and the capacity for councils to borrow.

In light of the economic challenges COVID-19 is presenting, and constraints on council balance sheets, there is an increased need for CIP to work collaboratively with councils, developers, Kainga Ora and the Crown to explore innovative ways of applying IFF to offer alternative tools to solve the financing challenges of large infrastructure projects.

s9(2)(f)(iv)

s9(2)(g)(ii)

Infrastructure Reference Group "shovel-ready" projects update

CIPs identification and assessment of "shovel-ready" projects helped informed Cabinet decision on the final shortlist of projects to be progressed

On 17 May 2020, the final Infrastructure Reference Group (IRG) Report was delivered to you, as Minister for Economic Development, the Minister of Finance and the Minister for Infrastructure.

CIP, as the secretariat for the IRG, worked with consultants to provide a list of 802 recommended infrastructure projects in the report from central government, local government, the private sector, and other non-government entities such as Iwi. Together these entities requested government financial support of $33 billion.

Ministers requested further advice from CIP and officials to form a shortlist of projects that could be funded from the $3 billion Infrastructure Tagged Contingency announced as part of the COVID-19 Response and Recovery Fund (CRRF).

Cabinet (DEV with the power to act) reached agreement on 24 June to a final shortlist of projects after consideration of advice from IRG, CIP and officials. Cabinet also authorised IRG Ministers to make final decisions on projects from the shortlist. IRG Ministers include the Minister of Finance, the Minister for Infrastructure and the Associate Ministers of Finance [DEV-20-MIN-0114 refers].

The government agencies responsible for delivering projects from the shortlist are now being confirmed and CIP will have a key role to play

CIP will be responsible for delivering a number of projects from the shortlist, with a focus on projects from the local government and non-government sector (including private sector) and projects worth over $20 million.

Delivery agencies for central government-procured projects will include existing established agencies such as NZTA and MHUD. The Provincial Development Unit (PDU) will also be responsible for delivering local government and non-government projects with a focus on projects below $20 million.

CIP shareholding Ministers (The Minister of Finance and the Minister of State-Owned Enterprises) are expected to direct CIP, under their company constitution, in the coming weeks to clarify the expectations of their project delivery role.

> **Suggested talking point** – discuss with CIP their capacity to move quickly to ensure delivery of the projects they are given responsibility to deliver, consistent

with the Government's intention to support the infrastructure sector quickly in the recovery.

Due diligence and establishing governance arrangements are an important next step

The Cabinet decision clarifies that, in its delivery role, CIP will carry out any necessary due diligence, negotiations, funding arrangements, establishment of investment objectives, and appropriate risk-sharing arrangements. CIP will also directly procure projects where necessary, or administer the funding to the entity directly procuring the project (for example, local government). There may also be a role for CIP to monitor the projects until completion.

Suggested talking point – impress the importance of, and seek a view on how CIP will conduct, due diligence and establish best-practice funding agreements with entities (such as local government) to enable projects.

Suggested talking point – seek a view on how CIP would approach allocating the risk of potential project cost overruns to the entity receiving the government funding for the project (such as local government) while ensuring projects are completed.

Suggested talking point – seek a view on how CIP will deliver their role in a cost-effective manner.

Ben Wells, Senior Analyst, National Infrastructure Unit (NIU), s9(2)(k)
David Taylor, Manager, National Infrastructure Unit, National Infrastructure Unit (NIU), s9(2)(k)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/2503 SH-1-6-1-3-3-7 (Infrastructure)

Date: 17 July 2020

To: Minister of Finance (Hon Grant Robertson)
Cc: Minister for Infrastructure (Hon Shane Jones)

Deadline: None

Aide Memoire: Cabinet Item - Talking Points: 'Delivering the 'Shovel Ready' Infrastructure Projects'

This aide memoire provides you with talking points for a paper you are taking with the Minister for Infrastructure to Cabinet on Monday 20 July 2020 regarding the delivery of the 'Shovel Ready' Infrastructure Projects.

Background

- On 24 June 2020, the Cabinet Economic Development (DEV) Committee, with Power to Act, authorised myself and the Minister of Infrastructure, together with the Associate Ministers of Finance (IRG Ministers) to make final decisions on projects from a shortlist to be funded from the $3 billion Infrastructure Tagged Capital Contingency, established in May 2020 as part of the COVID-19 Response and Recovery Fund (CRRF).

Objectives of the Cabinet paper

- This Cabinet paper reflects decisions taken to date by IRG Ministers and seeks agreement to operationalise IRG Ministers' shovel-ready infrastructure funding decisions. This includes:
  - operational changes to the mandate of delivery agencies, where required, so they can manage projects
  - establishing appropriations to enable funding to Crown Infrastructure Partners (CIP), the Provincial Development Unit (PDU) and other government agencies, and
  - establishing the governance and monitoring arrangements for the management and delivery of projects.

Allocation of the $3 billion Infrastructure Tagged Contingency

- s9(2)(f)(iv)

- s9(2)(f)(iv)
- $51.3 million for Fire and Emergency New Zealand (FENZ) to upgrade fire stations,
- s9(2)(f)(iv)
- $3.9 million for the New Zealand Defence Force to maintain its facilities,
- s9(2)(f)(iv)
- $25 million for the Police to upgrade police hubs, and $9.75 million for associated operating costs, and
- $22 million to Heritage NZ for Seddon House.

- s9(2)(f)(iv)
- The paper seeks authorisation for IRG Ministers to make further changes to appropriations as necessary, for and IRG Ministers alongside appropriation Ministers to draw down from the Tagged Operating Contingency.

Provincial Development Unit managed projects

- The paper proposes changes to provide certainty that the PDU can manage and deliver shovel-ready infrastructure projects that do not meet the PGF's criteria. Specifically it seeks agreement for
  - the PDU to manage shovel-ready community, social and flood protection projects transferred by IRG Ministers, which are currently excluded from the PGF, and

- the PDU to manage shovel-ready projects located in New Zealand's metropolitan areas. This change would enable the PDU to manage full packages of projects across the country rather than using different agencies to manage similar projects in different parts of the country.

- These changes do not affect the PGF's criteria, and are limited to the PDU's management of shovel-ready projects IRG Ministers agree it will be responsible for.

- The paper proposes to extend the PDU's mandate in relation to IRG projects to hold projects that are larger than $20 million where the PDU is best placed to deliver.

- The paper also seeks agreement for PGF decisions may be delegated to the Minister of Finance and Minister of Regional Economic Development from August 2020.

Governance and Monitoring

- The paper also seeks agreement that:
  - IRG Ministers will make final decisions on projects.
  - In making final decisions on projects, IRG Ministers may choose to progress projects from outside the shortlist agreed to by Cabinet on 24 June 2020.
  - A key part of the governance arrangements will be clearly establishing the roles and responsibilities of delivery agencies and IRG Minsters will direct the delivery agencies to give effect to these roles and responsibilities.
  - In advance of any delivery agency distributing funding to enable a project, the delivery agency will seek final project approval from IRG Ministers and provide appropriate assurances that the project can achieve the intended benefits, enabled jobs, scope, expedient delivery and that the government funding is appropriate to enable the project and represents value for money to the Crown.
  - That delivery agencies will utilise their existing governance and oversight arrangements to monitor the delivery of their projects and will feed information into the broader IRG oversight and monitoring arrangements.

Rachel Bishop, Analyst, National Infrastructure Unit (NIU), s9(2)(k)
Fiona Stokes, Acting Manager, National Infrastructure Unit (NIU), s9(2)(k)

IN-CONFIDENCE

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TE TAI ŌHANGA
THE TREASURY

Joint Report: Appropriations for 'Infrastructure Reference Group' Projects

Date:	17 July 2020	**Report No:**	T2020/2470
		File Number:	LA-7-53-9 (COVID Economic Response Directorate)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to establish a new multi-category appropriation (MCA) in Vote Business, Science and Innovation for energy related 'shovel ready' infrastructure projects. We seek your agreement before the paper is submitted to Cabinet on 20 July 2020	20 July 2020
Minister of Energy and Resources (Hon Dr Megan Woods)		

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ben Wells	Senior Analyst, National Infrastructure Unit (NIU)	s9(2)(k)	s9(2)(g)(ii)	✓
David Taylor	Manager, National Infrastructure Unit (NIU)			
Justine Cannon	Manager, Energy Markets Policy, MBIE			

Minister's Office actions (if required)

Return the signed report to Treasury and Ministry of Business, Innovation and Employment (MBIE).

Note any feedback on the quality of the report

Enclosure: **Yes** – attached draft Cabinet Paper: "Delivering the 'shovel ready' infrastructure projects"

Joint Report: Appropriations for 'Infrastructure Reference Group' Projects

Recommended Action

We recommend that you:

a **Note** a Cabinet paper (attached) is due to be considered by Cabinet on Monday 20 July that includes establishing appropriations for the delivery of the Infrastructure Reference Group recommended 'shovel ready' infrastructure projects;

b **Note** that Section 7B of the Public Finance Act 1989 (PFA) requires the Minister of **Finance** to approve the establishment of new multi-category appropriations;

c **Note** that MBIE have indicated that a new multi-category appropriation is their preferred funding approach for four 'shovel ready' energy related infrastructure projects, which are:

s9(2)(f)(iv)

d **Agree** to establish the following new multi-category appropriation for the projects in recommendation c:

Vote	Appropriation Minister	Title	Type	Single overarching purpose statement
Vote Business, Science and Innovation	Minister of Energy and Resources	Energy and Resources: Investment in Infrastructure Projects	Multi-category appropriation	The single overarching purpose of this appropriation is to invest in infrastructure projects which support the Energy sector.

e **Agree that** the categories for the multi-category appropriation in recommendation d will be as follows:

Title	Type	Scope
Loans and Equity Investments to support Infrastructure Investments	Non-departmental Capital Expenditure	This category is limited to loans and equity investments for infrastructure projects
Grants to support Infrastructure Investments	Non-departmental Other Expenses	This category is limited to grants for infrastructure projects
Other Activities to support Infrastructure Investments	Non-departmental Other Expenses	This category is limited to activities that support the development of infrastructure projects
Capital Infrastructure Investments – fair value write down	Non-departmental Other Expenses	This category is limited to the initial fair value write-down of loans for infrastructure projects
Capital Infrastructure Investments – Impairment of debt and equity investments	Non-departmental Other Expenses	This category is limited to expenses arising from the recognition of the impaired value of infrastructure investment debts and equity investments, including write down and write offs.
Operational Support of Infrastructure Investments	Non-departmental output expense	This category is limited to the supporting infrastructure projects, including the purchase of ancillary services.

Agree/disagree
Minister of Finance

Agree/disagree
Minister of Energy and Resources

David Taylor
Manager, National Infrastructure Unit
Treasury

Justine Cannon
Manager, Energy Markets Policy
MBIE

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Minister of Energy and Resources

Treasury Report: Appropriations for Infrastructure Reference Group Projects

Purpose of Report

1. This paper seeks your agreement to establish a new multi-category appropriation (MCA) in Vote Business, Science and Innovation. This appropriation will be used to fund Infrastructure Reference Group (IRG) recommended 'shovel ready' infrastructure projects. These projects are due to be considered by Cabinet on Monday 20 July 2020. Under Section 7B of the Public Finance Act 1989 (PFA) the Minister of Finance is required to approve the establishment of new multi-category appropriations.

Cabinet paper and appropriations requiring your agreement

2. The Cabinet paper "Delivering the 'shovel ready' infrastructure projects" has been drafted by the Minister for Infrastructure's office and the Provincial Development Unit (PDU) in MBIE, with input from Treasury. The paper will seek to:

   i) change the mandate of PDU to enable delivery of IRG projects,

   ii) establish appropriations to enable departments to fund projects, and

   iii) establish governance and monitoring arrangements for the delivery agencies for each project.

3. The paper is due to be considered by Cabinet on Monday 20 July 2020 and a current draft is attached to this report. Your office has been engaged in drafting of this paper.

4. As part of this process, MBIE have indicated that a new multi-category appropriation is their preferred funding approach for the following 'shovel ready' infrastructure projects:

   s9(2)(f)(iv)

5. A mixture of grant funding and loans may be required to deliver these projects effectively and the exact delivery mechanisms are uncertain at this stage of project development.

6. As such, we recommend establishing an MCA for these projects, as this will allow for greater flexibility to allocate resources to where they can best contribute to delivery of project outcomes. An MCA will still retain transparency of both what has been delivered and expenditure at the category level.

7. Section 7B of the Public Finance Act 1989 (PFA) requires the Minister of Finance and the relevant appropriation Minister to approve the establishment of new multi-category appropriations.

8. We therefore require your agreement to establish a new MCA for 'Energy and Resources: Investment in Infrastructure Projects' in Vote Business, Science and

Innovation. This MCA will be administered by MBIE with the Minister of Energy and Resources as appropriation Minister.

9. If you do not agree with this approach, the projects listed above will be funded through separate appropriations for each category of expenditure, which may reduce the overall flexibility and effectiveness of delivery for each project.

Next Steps

10. If you agree to establish the new MCA, we will include this in the "Delivering the 'shovel ready' infrastructure projects" Cabinet paper. If you do not agree, we will seek to establish separate appropriations to deliver the four energy related projects specified in this paper.

11. Following the Cabinet meeting on 20 July 2020, officials will provide IRG Ministers with establishment letters, to be sent to all delivery agencies to formally establish governance arrangements for the IRG projects, with delivery agencies.

CAB-20-MIN-0341

Cabinet

Minute of Decision

Delivering the 'Shovel Ready' Infrastructure Projects

Portfolios **Finance / Infrastructure / Regional Economic Development**

On 20 July 2020, Cabinet:

Background

1 **noted** that on 24 June 2020, the Cabinet Economic Development Committee:

1.1 authorised Infrastructure Reference Group (IRG) Ministers to make final decisions on projects from a specified shortlist, to be funded from the $3 billion Infrastructure Tagged Contingency;

1.2 agreed to keep s9(2)(f)(iv) of the $3 billion Tagged Contingency unallocated at this time in case of project cost overruns that could emerge from further due diligence on projects, and for IRG Ministers to make decisions on allocating this contingency, including the timing and announcements of those decisions;

1.3 agreed to appoint Crown Infrastructure Partners (CIP) to deliver projects progressed by IRG Ministers that do not have an existing central government delivery agency;

1.4 agreed that the Provincial Development Unit (PDU) would be responsible for delivering projects progressed by IRG Ministers under $20 million, where it is best placed to do so;

1.5 noted that Cabinet agreement may be needed to allow the PDU to deliver projects that are currently outside its mandate, but that it is best placed to deliver;

1.6 invited IRG Ministers to report back on the programme governance and monitoring arrangements;

1.7 agreed to the high-level PDU and CIP roles to deliver the IRG projects;

[DEV-20-MIN-0114]

CAB-20-MIN-0341

Allocation of the projects and funding

2 **noted** that on 11 May 2020, through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package, Cabinet agreed to establish a $3 billion Tagged Capital Contingency, phased evenly across the next three years as follows, to provide for investment in infrastructure to support the economic recovery from COVID-19 [CAB-20-MIN-0219.04]:

	$m – increase/(decrease)				
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25 & outyears**
COVID-19: Infrastructure Investment – Tagged Capital Contingency	1000.000	1000.000	1000.000	-	-

s9(2)(f)(iv)

[redacted]

4 **approved** the detailed appropriation and related recommendations set out in Annexes A – K of the paper under CAB-20-SUB-0341 and this minute, to give effect to the decisions in paragraph 3 above, with a corresponding impact on the operating balance and net core Crown debt;

CAB-20-MIN-0341

5 **agreed** that the expenses and capital expenditure incurred under the decisions in Annexes A – K, and outlined as follows, be charged against the $3 billion Tagged Contingency described in paragraph 2 above:

s9(2)(f)(iv)

[redacted]

6 **authorised** IRG Ministers and the relevant appropriation Minister to make any necessary further changes to appropriations (including establishing any new appropriations) to deliver IRG projects following final decisions on projects by IRG Ministers;

7 **authorised** the Minister of Finance and the relevant appropriation Minister to approve jointly any changes to appropriations needed to correct any minor errors or inconsistencies that are subsequently identified;

8 **agreed** that the proposed changes to appropriations for 2020/21 in Annexes A – K of this minute be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

9 **noted** that based on the assumptions that delivery agencies have made about the form of funding that will enable projects, the majority of appropriated funding will be in the form of operating expenditure rather than as capital expenditure as assumed in the tagged contingency;

10 **noted** that the final allocation of capital and operating funding will depend on the final form of government funding (such as loans, grants or equity) that is provided to enable IRG projects;

11 **noted** that now that the funding has been allocated to projects, the funding to be drawn down has a different profile to what was agreed for the Tagged Capital Contingency referred to in paragraph 2 above;

12 **agreed** that the remaining s9(2)(f)(iv) from the Tagged Capital Contingency that is not being appropriated be set aside in a newly established Tagged Operating Contingency to provide for possible cost overruns or reprioritisation in relation to IRG projects that may arise during the implementation phase:

	$m – increase/(decrease)			
	2020/21	**2021/22**	**2022/23**	**2023/24 & Outyears**
COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency	s9(2)(f)(iv)		-	-

13 **noted** that this change to an operating contingency reflects that the majority of the allocated projects will likely be funded through operating grants rather than via loans or equity;

14 **authorised** IRG Ministers and the relevant appropriation Minister to draw down the Tagged Operating Contingency funding in paragraph 12 above (establishing any new appropriations as necessary), subject to their satisfaction of the requirement of any cost overruns or reprioritisation in relation to the IRG projects;

15 **agreed** that IRG Ministers will make subsequent decisions on operating expenditure requirements by delivery agencies to deliver the IRG projects, and that these costs will be managed from the COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency in paragraph 12 above;

16 **agreed** that the expiry date for the Tagged Operating Contingency 'COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency' be 30 June 2021;

Provincial Development Unit managed projects

17 **agreed** that the PDU can manage shovel-ready community, social and flood protection projects transferred by IRG Ministers, which are outside the scope of the PGF;

18 **noted** that investment in the 'shovel ready' flood protection infrastructure will be used to leverage longer term change in New Zealand's flood risk management framework and that officials from the Department of Internal Affairs will engage with the PDU to assist with the due diligence of the shovel ready projects related to flood protection infrastructure;

19 **agreed** that the PDU can manage shovel-ready projects transferred by IRG Ministers located in New Zealand's metropolitan areas;

20 **agreed** that the PDU's mandate be expanded to hold projects transferred by IRG Ministers that are larger than $20 million where the PDU is best placed to deliver;

21 **agreed** that PDU managed infrastructure projects transferred from IRG Ministers funded by way of loan or equity will be held by Provincial Growth Fund Limited (PGFL) once the constitution of PGFL is amended;

22 **agreed** that for small projects with low risk, the PDU will administer the government financial support efficiently, in some cases with payment in full upon completion of due diligence and contract negotiations;

Governance and monitoring arrangements

23 **authorised** IRG Ministers, comprising the Minister of Finance, Minister for Infrastructure, together with Associate Ministers of Finance, to make final decisions on projects;

24 **agreed** that, in making final decisions on projects, IRG Ministers may choose to progress projects from outside the shortlist agreed to by Cabinet on 24 June 2020 [DEV-20-MIN-0114];

25 **invited** IRG Minsters to report back to Cabinet if they choose to progress projects outside the shortlist referred to in paragraph 24 above that total more than 25 projects or a cumulative total of $500 million in government funding;

26 **agreed** that, in making final decisions on projects, IRG Minsters establish rigorous governance arrangements to ensure that projects are progressed in a prudent and timely manner during the recovery;

27 **agreed** that where projects are scaled or replaced, IRG Ministers will, where practicable, seek to maintain the broad sectoral and regional split across the infrastructure projects;

28 **agreed** that a key part of the governance arrangements will be clearly establishing the roles and responsibilities of delivery agencies, and that IRG Minsters will direct the delivery agencies to give effect to these roles and responsibilities, including those set out in the paper under CAB-20-SUB-0341;

29 **noted** that IRG Ministers will work with the relevant shareholding and portfolio Ministers to direct delivery agencies in respect of their roles and responsibilities;

30 **agreed** that, in advance of any delivery agency distributing funding to enable a project, the delivery agency will seek final project approval from IRG Ministers and 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;

31 **agreed** that delivery agencies be directed to seek further IRG Ministers' approval in a number of situations, including:

31.1 reprioritisation decisions, including where a delivery agency's due diligence reveals that a project cannot progress with the level of government financial support that was approved;

31.2 changes to the form of government support, including where the form of government financial support approved (such as a loan, grant or equity) is no longer appropriate or adequate to progress the project;

32 **agreed** that CIP be directed to coordinate and deliver fortnightly progress reports to IRG Ministers and the Treasury with information on how the suite of infrastructure investments is performing as a whole;

33 **agreed** that, during the contracting phases, each delivery agency provide fortnightly data to CIP for every project approved by IRG Ministers, including, but not limited to, the following:

33.1 the number and percentage of projects that have been contracted;

33.2 the rate of disbursement, including funding paid out and forecasts of expected funding paid out over the life of the IRG;

33.3 how projects are tracking against budget, and any cost overruns;

33.4 specific information sought on projects that Ministers identify as priorities;

33.5 the number of people currently employed through projects funded by IRG Ministers. This should include the number of people who are currently or have previously worked on each project, and the expected number of workers in the future;

33.6 the number and percentage of projects that are currently under construction, and for projects that are not currently under construction, information about when construction is expected to commence;

33.7 if applicable, progress on gaining relevant consents;

33.8 key milestones and deliverables, and how each project is performing against these milestones;

33.9 key risks and issues, including proposed mitigations;

33.10 the establishment and ongoing management of loans, equity or other instruments, and contracts that are used to enable the projects;

34 **agreed** that once contracting is complete, reporting should take place on a monthly basis;

35 **agreed** that for small, low risk projects, IRG Ministers may lower the requirements for due diligence and assurances, if appropriate;

36 **noted** that delivery agencies will utilise their existing governance and oversight arrangements to monitor the delivery of their projects, and will feed information into the broader IRG oversight and monitoring arrangements;

37 **noted** that the Infrastructure Commission, Te Waihanga, and the Construction Sector Accord will also play a role in providing advice on the procurement of projects, and that this will be reflected in the IRG Ministers' direction to delivery agencies;

Changes to PGF decision-making delegations

38 **agreed** that PGF decisions may be delegated to the Minister of Finance and the Minister of Regional Economic Development from August 2020.

Michael Webster
Secretary of the Cabinet

Pages 8 - 24 have been withheld under s9(2)(f)(iv)

Office of the Ministers of Finance and Regional Economic Development / Infrastructure

Cabinet

Delivering the 'shovel ready' infrastructure projects

Proposal

1 This paper seeks agreement to operationalise Infrastructure Reference Group (IRG) Ministers' shovel-ready infrastructure funding decisions. This includes:

1.1 operational changes to the mandate of delivery agencies, where required, so they can manage projects

1.2 establishing appropriations to enable funding to Crown Infrastructure Partners (CIP), the Provincial Development Unit (PDU) and other government agencies, and

1.3 establishing the governance and monitoring arrangements for the management and delivery of projects.

Relation to government priorities

2 This paper is part of the implementation of IRG Ministers' shovel-ready funding decisions.

Executive Summary

3 On July 1 2020, the Minister of Finance and Minister for Infrastructure announced the global allocation of approximately $2.6 billion from the $3 billion tagged contingency announced as part of Budget 2020. This represents more than 150 individual projects across all regions of New Zealand.

4 On 24 June 2020, the Cabinet Economic Development (DEV) Committee, with Power to Act, noted that sectors that align with our broader economic priorities were a focus for the overall allocation. These included housing and urban development, transport, community and social development and energy and climate resilience projects [*DEV-20-0114* refers].

5 We seek approval for a number of decisions, outlined below, which are required to operationalise shovel-ready infrastructure projects. Specifically, this paper seeks agreement to:

5.1 Change the PDU's mandate to provide certainty that it can manage infrastructure projects that do not meet PGF criteria e.g. community, social, and flood protection projects, and those located in metropolitan areas. It also seeks agreement that the PDU can hold infrastructure projects larger than $20 million where the PDU is best placed to deliver them

5.2 Establish appropriations to enable funding for delivery agencies, including CIP and the PDU, to implement IRG Ministers final decisions

on projects. s9(2)(f)(iv) [redacted] Agencies will then be responsible for contract negotiations, procurement and project management, and s9(2)(f)(iv) [redacted]

5.3 The governance and monitoring arrangements. During the implementation phase, IRG Ministers will likely need to make further decisions relating to final project approval, potential reprioritisation decisions, possible changes to the form of government support and the allocation of s9(2)(f)(iv) [redacted] During the contracting phase, we expect each delivery agency to provide CIP with fortnightly information on every approved project, and for CIP to provide a fortnightly report to IRG Ministers about how the suite of infrastructure investments is progressing. Once contracting is complete, reporting to Ministers will occur monthly.

6 We also seek approval for changes to the Provincial Growth Fund decision-making delegations so that the Ministers of Finance and Regional Economic Development are authorised to make all funding decisions from August 2020. This is to ensure that projects can continue to be approved in a timely manner after the House rises.

Background

7 Cabinet agreed to a $3 billion tagged contingency to provide investment in infrastructure to support New Zealand's economic recovery as part of the 11 May COVID-19 Response and Recovery Fund *[CAB-20-MIN-0219.04 refers].*

8 On 24 June 2020, the DEV Committee, with Power to Act, agreed to Ministerial delegations to make IRG funding decisions, and government agency roles to deliver these projects. Specifically, the DEV Committee:

8.1 authorised IRG Ministers (the Minister of Finance and Minister of Infrastructure, together with the Associate Ministers of Finance) to make final decisions on projects from the attached shortlist to be funded from the $3 billion Infrastructure Tagged Contingency

8.2 agreed to keep s9(2)(f)(iv) [redacted] of the $3 billion Tagged Contingency unallocated at this time in case of project cost overruns that could emerge from further due diligence on projects, and for IRG Ministers to make decisions on allocating this contingency including the timing and announcements of those decisions;

8.3 agreed that for those projects progressed by IRG Ministers that are best delivered by relevant central government agencies, for those agencies to deliver projects

8.4 agreed to appoint Crown Infrastructure Partners (CIP) to deliver projects progressed by IRG Ministers that do not have an existing central government delivery agency best placed to deliver them

8.5 agreed that the PDU would be responsible for delivering projects progressed by IRG Ministers under $20 million where they are best placed to do so

8.6 noted that Cabinet agreement may be needed to allow the PDU to deliver projects that are currently outside its mandate, but that it is best placed to deliver

8.7 invited IRG Ministers to report back on the programme governance and monitoring arrangements, and

8.8 agreed the PDU and CIP's roles to deliver IRG projects. These roles are to carry out any necessary due diligence, negotiations, funding arrangements, establishment of investment objectives and appropriate risk-sharing arrangements; procure projects where necessary; administer funding; monitor projects until their completion [*DEV-20-0114* refers].

CIP-managed projects

s9(2)(f)(iv)

[redacted]

11 CIP will be responsible for managing the shovel-ready infrastructure projects that have a significant Crown financial contribution. The majority of CIP managed projects are over $20 million.

12 The majority of CIP-managed projects will be funded by way of a grant. Some projects will require further consideration as to the funding mechanism used (e.g. loan or equity funding instruments), which will typically be projects put forward by commercial entities.

13 Most CIP-managed infrastructure contracts will be structured using a staged approach with payments disbursed upon meeting negotiated milestones. This will allow CIP to effectively manage contracts, while quickly contributing to local economies.

14 The shareholding Ministers of CIP (the Minister of Finance and the Minister of State Owned Enterprises) can direct CIP under the company constitution to carry out its delivery agency role.

Implementation of CIP-managed projects

15 CIP will establish the appropriate project owning entity that is best placed to deliver each CIP-managed project based on the organisations' financial standing, capability and capacity. This process will be undertaken as discussions with project owners are undertaken;

16 CIP will approach all of the Project Owners for the projects it has responsibility for with draft documentation and where necessary any project verifications (at a high level, with more detailed information following) within 14 days of this paper being considered.

17 Where required, we will ask the CIP to provide advice relating to a project's overall viability, final funding decisions, timelines, risks and employment creation.

18 Where relevant, CIP will aggregate multiple projects into a single contract where the counterparty is the same. This ensures funding will be with organisations as soon as possible. Contract terms will include:

18.1 regular reporting, consistent with the approach that will be developed by both CIP and PDU across all agencies responsible for delivering shovel-ready projects

18.2 verification that works will be initiated within 12 months

18.3 contracted parties will document and verify their procurement processes, material input and the number of additional workers hired to undertake these activities, and

18.4 CIP will monitor projects through regular project reporting, confirming from Project Owners that projects are on track, within budget and scope, and if a project shows an indication of increased risk then CIP will be able to exercise increased oversight and suspension of funding if necessary.

PDU-managed projects

19 IRG Ministers have indicated they will seek to transfer s9(2)(f)(iv) s9(2)(f)(iv) to the PDU to deliver.

20 The PDU will administer projects across a range of sectors that the IRG Ministers have invested in. Specifically, PDU-managed projects will be delivered in packages, of approximately:

s9(2)(f)(iv)

21 Given the PDU's existing relationships with local government and not-for-profit organisations across the country, it is the agency best placed to deliver most regional projects below $20 million. This includes those that are community focused but may currently be outside the current mandate of the Unit. PDU managed IRG projects are located throughout New Zealand and while the majority are in regional New Zealand, some are not. The PDU can currently invest in projects in metropolitan centres where these have a benefit to the regions. Its mandate needs to be extended to allow it to manage projects in metropolitan centres. There will be value in the PDU managing metropolitan projects that are part of a package of similar projects across the country, as set out above, to ensure consistency of management across IRG projects.

22 The majority of PDU-managed projects will be funded by way of a grant. There are a handful of projects which will require further consideration as to the funding mechanism used (e.g. loan or equity funding instruments), which will typically be projects put forward by commercial entities.

23 It is our intention that funding for projects that require simple contracts be administered efficiently, in some cases with payment in full upon completion of due diligence and contract negotiation. Other larger projects will take a staged approach, with payments disbursed upon meeting a small number of milestones negotiated in contracts. This will be consistent with the revised PGF contracting arrangements agreed by Cabinet in May 2020 [*CAB-20-0197* refers], with at least 50% of funding distributed on contract signing. We will ensure funding is able to quickly contribute to local economies while balancing the need to be prudent with public funds.

Establishing an appropriation to hold PDU-managed IRG investments

24 We propose to establish three new multi-year appropriations (MYA) to hold these investments. These appropriation will be administered by the Ministry of Business, Innovation and Employment with the Minister of Regional Economic Development as appropriation Minister.

25 We also propose s9(2)(f)(iv) of the $3 billion infrastructure tagged contingency be initially transferred to the new multi-year appropriations.

Changes to operationalise the PDU to deliver IRG projects

26 We propose a number of changes to provide certainty that the PDU can manage and deliver shovel-ready infrastructure projects transferred from IRG Ministers that do not meet the PGF's criteria. Specifically, we propose that:

26.1 the PDU can manage shovel-ready community, social and flood protection projects transferred by IRG Ministers, which are currently excluded from the PGF. Cabinet previously agreed to exclude the building and maintenance of social assets (including hospitals, and primary and secondary schools) and three waters management from being eligible for PGF funding *[CAB-18-0045* refers]. As part of the PGF response to COVID-19, Cabinet agreed that the PGF could make small scale investments in critical municipal water and flood management schemes *[CAB-20-0197* refers], and

26.2 the PDU can manage shovel-ready projects located in New Zealand's metropolitan areas. Cabinet agreed to exclude Auckland, Wellington and Christchurch from being eligible for PGF funding [*CAB-18-0322* refers]. This change would enable the PDU to manage full packages of projects across the country rather than using different agencies to manage similar projects in different parts of the country.

27 These changes do not affect the PGF's criteria, and are limited to the PDU's management of shovel-ready projects IRG Ministers agree it will be responsible for.

28 We propose to extend the PDU's mandate in relation to IRG projects to hold projects that are larger than $20 million where the PDU is best placed to deliver. When the IRG was established, there were initial discussions in which the role of the PDU included government investments of up to $20 million and those projects already in the PGF pipeline. As outlined above, the DEV Committee, with Power to Act, previously restricted the PDU's role to those lower than $20 million. IRG Ministers intend to transfer [redacted] projects to the PDU where Crown contributions are $20 million or larger. These projects are all in regional New Zealand, and many were known to the PDU before being included in the IRG process.

29 Any PDU managed projects that are funded by way of a loan or equity will be held by Provincial Growth Fund Limited (PGFL). The Constitution of PGFL is currently in the process of being amended, from only being able to hold PGF

investments, so that it can hold projects that provide regional economic development benefits.

Implementation of PDU-managed IRG projects

30 The PDU will determine the entity that is best placed to deliver each PDU-managed project based on the organisations' capability and capacity. These organisations may include local government or relevant industry bodies. This process will be completed within 14 days of this paper being considered. Regional Delivery Leads, established to accelerate the delivery of PGF projects as part of the PGF's response to COVID-19, could help local councils deliver projects on a needs basis.

31 Where required, we will ask the PDU to provide advice relating to a project's overall viability, final funding decisions, timelines, risks and employment creation.

32 Where possible, the PDU will aggregate multiple projects into a single contract, consistent with the approach applied for the PDU's road and rail worker redeployment initiatives. This ensures funding will be with organisations as soon as possible.

33 Contract terms will include:

33.1 regular reporting, consistent with the approach that will be developed by both CIP and PDU across all agencies responsible for delivering shovel-ready projects

33.2 verification that works will be initiated within 12 months

33.3 contracted parties will document and verify their procurement processes, material input and the number of additional workers hired to undertake these activities, and

33.4 the PDU will monitor projects through site visits, reviewing procurement plans and financial and technical information.

34 The PDU will utilise its existing governance and oversight arrangements to monitor the delivery of PDU-managed projects. The PDU will also feed information into the broader IRG oversight and monitoring arrangements, which are outlined in the paper. Cabinet recently agreed to a framework and principles to guide central government intervention in strengthening community resilience including flood protection (DEV-20-MIN- 0120 refers). The investment in flood risk management is the most significant contribution in 30 years from central government. This investment provides an unparalleled opportunity to leverage long-term system change to strengthen the resilience of communities to flood risk. Work on the longer term funding model will be overseen by Community Resilience Ministers as part of the direction agreed by Cabinet.

35 To ensure alignment with the principles and framework for community resilience agreed by Cabinet, the PDU will work with the Department of Internal Affairs to

assist with the due diligence of flood protection projects agreed as part of the shovel ready infrastructure package.

Projects managed by other delivery agencies

36 IRG Ministers have indicated they will approve projects that will be transferred to a government department, Crown agent or Crown company, other than CIP and the PDU. These projects total approximately s9(2)(f)(iv)

37 Projects will be transferred where funding will either upgrade infrastructure managed by another agency, or the agency has the expertise to deliver these projects or a mandate within a certain location. IRG projects to be transferred to other delivering agencies will likely include, approximately:

s9(2)(f)(iv)

[redacted]

38 We propose to transfer funding from the $3 billion infrastructure tagged contingency to the agencies listed above, so that they can begin the delivery of these projects.

Implementation

39 Delivery agencies will be transferred funding for the infrastructure projects that they will deliver. For projects where the delivery agency will upgrade its own infrastructure (e.g. Ministry of Justice courtrooms and FENZ fire stations), we

expect that agencies will use their existing procurement and project management practices, and engage with the Infrastructure Commission as necessary. For projects where the delivery agencies need to contract with another entity, we expect that agencies will utilise the same approach as outlined for CIP and PDU managed infrastructure projects.

40 Delivery agencies should utilise their existing governance and oversight arrangements to monitor the delivery of their projects. Delivery agencies will also feed information into the broader IRG oversight and monitoring arrangements, which are outlined in the paper.

Establishing the programme governance and monitoring arrangements for the management and delivery of IRG projects

41 IRG Ministers have been authorised to make final decisions on projects and this will include establishing appropriate reporting and governance arrangements to ensure that projects are progressed in a prudent and timely manner during the recovery.

42 A key part of the governance arrangements will be clearly establishing the roles and responsibilities of delivery agencies. IRG Minsters will direct the delivery agencies to give effect to these roles and responsibilities, including:

42.1 due diligence and contractual arrangements to ensure that government support of the projects will achieve the intended benefits, jobs, scope, and expedient delivery

42.2 where appropriate, leveraging the government financial contribution to enable contributions from local government or non-government party to maximise the benefits, enabled jobs and scope of the projects and ensure fast delivery

42.3 ensuring the completion of the projects as a result of the government financial support

42.4 allocating the risk of cost-escalation to the local government or non-government party requesting the funding or, where a central government agency has requested the funding, ensuring prudent management of this risk

42.5 utilising good practise establishment and management of loans, grants, or equity investments, to achieve the Government's objectives with this projects

42.6 providing frequent and rigorous reporting on the progression of projects to IRG Ministers, coordinated by CIP and shared with the Treasury, and

42.7 ensuring that projects apply for fast-track resource consenting under the COVID-19 Recovery (Fast-track Consenting) Act, where appropriate.

43 There will be ongoing decisions for IRG Ministers to make during the course of the implementation phase. Delivery agencies will be need to seek IRG Ministers approval in a number of situations, including:

43.1 final project approval before funding is distributed – in advance of a delivery agency distributing funding to any party to enable a project, the delivery agency will seek approval from IRG Ministers and provide the necessary assurances that the project will achieve the intended benefits, jobs, scope and timing of delivery and that the government funding is appropriate to enable the project and represents value for money to the Crown;

43.2 reprioritisation decisions – where a delivery agency's due diligence reveals that a project cannot progress with the level of government financial support that was requested, the delivery agency will present options to IRG Ministers for different levels of support or alternative project, for their approval before progressing.

43.3 changes to the form of government support – where the form of government financial support requested (such as a loan, grant or equity) is no longer appropriate or adequate to progress the project, the delivery agency will request approval from IRG Ministers to an alternative form of financial support, and

43.4 allocation of cost contingency – for any decisions on allocating the 15 per cent of the $3 billion Tagged Contingency that Cabinet agreed to keep unallocated in the first instance, in reserve for cost overruns.

44 It is our intention that for small projects with low risk, delivery agencies will administer the government financial support efficiently, in some cases with payment in full upon completion of due diligence and contract negotiation. For small, low risk projects, IRG Ministers may lower the requirements for due diligence and assurances if appropriate.

45 Larger, more risky projects will take a more staged approach, with payments disbursed upon meeting milestones negotiated in contracts. We want to ensure funding is able to quickly contribute to local economies while balancing the need to be prudent with public funds.

Reporting

46 CIP will be directed to coordinate and deliver fortnightly progress report to IRG Ministers, with information on how the suite of infrastructure investments is performing as a whole. This should include a regional and sectoral split, as well as key achievements and risks that IRG Ministers should be aware of.

47 We expect that, during the contracting phases, each delivery agency will provide fortnightly data to CIP for every project approved by IRG Ministers, including, but not limited to, the following:

47.1 The number and percentage of projects that have been contracted

47.2 The rate of disbursement, including funding paid out and forecasts of expected funding paid out over the life of the IRG

47.3 How projects are tracking against budget, and any cost overruns

47.4 Specific information sought on projects that Ministers identify as priorities

47.5 The number of people currently employed through projects funded by IRG Ministers. This should include the number of people who are currently or have previously worked on each project, and the expected number of workers in the future

47.6 The number and percentage of projects that are currently under construction, and for projects that are not currently under construction, information about when construction is expected to commence

47.7 If applicable, progress on gaining relevant consents

47.8 Key milestones and deliverables, and how each project is performing against these milestones,

47.9 Key risk and issues, including proposed mitigations, and;

47.10 The establishment and ongoing management of loans, equity or other instruments and contracts that are used to enable the projects.

48 Once contracting is complete, reporting should take place on a monthly basis.

Changes to Provincial Growth Fund decision-making delegations

49 The PGF's current delegations are that:

49.1 Cabinet makes funding decisions over $20 million

49.2 Regional Economic Development Ministers make funding decisions between $1 million and $20 million, and

49.3 Senior Regional Officials (SROs) make funding decisions under $1 million.

50 There may still be unapproved funding remaining in the PGF in August 2020. There are only two RED Ministers meetings, and five SRO meetings remaining, with two before the House rises. It is likely that funding decisions will be required after the House rises on 6 August.

51 To ensure that PGF decisions can be made after the House rises, we propose that PGF decisions may be delegated to the Minister of Finance and Minister of Regional Economic Development from August 2020.

Financial Implications

52 Cabinet agreed to a $3 billion tagged contingency to provide investment in infrastructure to support New Zealand's economic recovery as part of the COVID-19 Response and Recovery Fund. This paper seeks to drawdown s9(2)(f)(iv) billion funding from the Tagged Capital Contingency to provide for projects approved by IRG Ministers. This paper authorises IRG Ministers and the relevant appropriation Minister to make any necessary further changes to appropriations (including establishing any new appropriations) to deliver IRG projects following final decisions on projects by IRG Ministers.

Implications

53 There are no legislative, climate, or population implications.

Consultation

54 The Treasury, MBIE, and CIP have been consulted on the paper. Delivery agencies have been consulted on the projects they will manage. The Department of Prime Minister and Cabinet was informed.

Communications

55 Ministers will announce shovel ready infrastructure investments.

Proactive Release

56 This paper will be proactively released within 30 days, subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Finance and Minister for Infrastructure / Regional Economic Development recommend that Cabinet:

1 **note** that on 24 June 2020, the Cabinet Economic Development Committee with Power to Act [DEV-20-MIN-0114 refers]:

1.1 authorised Infrastructure Reference Group Ministers to make final decisions on projects from an attached shortlist to be funded from the $3 billion Infrastructure Tagged Contingency;

1.2 agreed to keep s9(2)(f)(iv) of the $3 billion Tagged Contingency unallocated at this time in case of project cost overruns that could emerge from further due diligence on projects, and for IRG Ministers to make decisions on allocating this contingency including the timing and announcements of those decisions;

1.3 agreed to appoint Crown Infrastructure Partners (CIP) to deliver projects progressed by IRG Ministers that do not have an existing central government delivery agency;

1.4 agreed that the PDU would be responsible for delivering projects progressed by IRG Ministers under $20 million where it is best placed to do so;

1.5 noted that Cabinet agreement may be needed to allow the PDU to deliver projects that are currently outside its mandate, but that it is best placed to deliver;

1.6 invited IRG Ministers will report back on the programme governance and monitoring arrangements and

1.7 agreed the high-level PDU and CIP roles to deliver IRG projects.

Allocation of the projects and funding

2 **note** that through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package on 11 May 2020, Cabinet agreed to establish a $3 billion Tagged Capital Contingency, phased evenly across the next three years as follows, to provide for investment in infrastructure to support the economic recovery from COVID-19 [CAB-20-MIN-0219.04 refers]:

	$m – increase/(decrease)				
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25 & outyears**
COVID-19: Infrastructure Investment – Tagged Capital Contingency	1000.000	1000.000	1000.000	-	-

s9(2)(f)(iv)

3 [redacted]

s9(2)(f)(iv)

4 **approve** the detailed appropriation and related recommendations set out in Annexes A – K, to give effect to the decisions in recommendation 3 above, with a corresponding impact on the operating balance and net core Crown debt;

5 **agree** that the expenses and capital expenditure incurred under the recommendations in Annexes A – K, and outlined as follows, be charged against the $3 billion Tagged Contingency described in recommendation 2 above:

	$m - increase/(decrease)
Vote	s9(2)(f)(iv)

s9(2)(f)(iv)

6 **authorise** IRG Ministers and the relevant appropriation Minister to make any necessary further changes to appropriations (including establishing any new appropriations) to deliver IRG projects following final decisions on projects by IRG Ministers;

7 **authorise** the Minister of Finance and the relevant appropriation Minister to approve jointly any changes to appropriations needed to correct any minor errors or inconsistencies that are subsequently identified;

8 **agree** that the proposed changes to appropriations for 2020/21 in the recommendations in Annexes A – K be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

9 **note** that based on the assumptions that delivery agencies have made about the form of funding that will enable projects, the majority of appropriated funding will be in the form of operating expenditure rather than as capital expenditure as assumed in the tagged contingency;

10 **note** the final allocation of capital and operating funding will depend on the final form of government funding (such as loans, grants or equity) that is provided to enable IRG projects;

11 **note** that now that the funding has been allocated to projects, the funding to be drawn down has a different profile to what was agreed for the Tagged Capital Contingency in recommendation 2 above;

12 **agree** that the remaining s9(2)(f)(iv) from the Tagged Capital Contingency that is not being appropriated be set aside in a newly established Tagged Operating Contingency to provide for possible cost overruns or

reprioritisation in relation to IRG projects that may arise during the implementation phase:

	$m – increase/(decrease)			
	2020/21	2021/22	2022/23	2023/24 & Outyears
COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency	s9(2)(f)(iv)			

13 **note** that this change to an operating contingency reflects that the majority of the allocated projects will likely be funded through operating grants rather than via loans or equity;

14 **authorise** the IRG Ministers and the relevant appropriation Minister to draw down the Tagged Operating Contingency funding in recommendation 12 above (establishing any new appropriations as necessary), subject to their satisfaction of the requirement of any cost overruns or reprioritisation in relation to the IRG projects;

15 **agree** that IRG Ministers will make subsequent decisions on operating expenditure requirements by delivery agencies to deliver the IRG projects and that these costs will be managed from the COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency in recommendation 12 above;

16 **agree** that the expiry date for the Tagged Operating Contingency 'COVID-19: Infrastructure Cost Overruns and Reprioritisation – Tagged Operating Contingency' be 30 June 2021;

Provincial Development Unit managed projects

17 **agree** that the PDU can manage shovel-ready community, social and flood protection projects transferred by IRG Ministers, which are outside the scope of the PGF;

18 **agree** that the PDU can manage shovel-ready projects transferred by IRG Ministers located in New Zealand's metropolitan areas;

19 **agree** that the PDU's mandate be expanded to hold projects transferred by IRG Ministers that are larger than $20 million where the PDU is best placed to deliver;

20 **agree** that PDU managed infrastructure projects transferred from IRG Ministers funded by way of loan or equity will be held by Provincial Growth Fund Limited (PGFL) once the constitution of PGFL is amended;

21 **agree** that for small projects with low risk, the PDU will administer the Government financial support efficiently, in some cases with payment in full upon completion of due diligence and contract negotiations;

22 **agree** that officials from the PDU will engage with the Department of Internal Affairs to assist with the due diligence of the shovel ready projects related to flood protection infrastructure;

Governance and monitoring arrangements

23 **authorise** Infrastructure Reference Group Ministers (IRG Ministers), comprising the Minister of Finance, Minister for Infrastructure, together with Associate Ministers of Finance, to make final decisions on projects

24 **agree** that, in making final decisions on projects, IRG Ministers may choose to progress projects from outside the shortlist agreed to by Cabinet on 24 June 202 [DEV-20-MIN-0114 refers];

25 **invite** IRG Minsters to report back to Cabinet if they choose to progress projects outside the shortlist referenced in recommendation 24 that total more than 25 projects or a value of $500 million in government funding;

26 **agree** that, in making final decisions on projects, IRG Minsters will establish rigorous governance arrangements to ensure that projects are progressed in a prudent and timely manner during the recovery;

27 **agree** that where projects are scaled or replaced, IRG Ministers will, where practicable, seek to maintain the broad sectoral and regional split across the infrastructure projects;

28 **agree** that a key part of the governance arrangements will be clearly establishing the roles and responsibilities of delivery agencies and IRG Minsters will direct the delivery agencies to give effect to these roles and responsibilities, including those set out in this paper;

29 **note** that IRG Ministers will work with the relevant shareholding and portfolio Ministers to direct delivery agencies of their roles and responsibilities;

30 **agree** that, in advance of any delivery agency distributing funding to enable a project, the delivery agency will seek final project approval from IRG Ministers and provide appropriate assurances that the project can achieve the intended benefits, enabled jobs, scope, expedient delivery and that the government funding is appropriate to enable the project and represents value for money to the Crown;

31 **agree** delivery agencies will be directed to seek further IRG Ministers approval in a number of situations, including:

31.1 reprioritisation decisions, including where a delivery agency's due diligence reveals that a project cannot progress with the level of government financial support that was approved

31.2 changes to the form of government support, including where the form of government financial support approved (such as a loan, grant or equity) is no longer appropriate or adequate to progress the project;

32 **agree** that CIP will be directed to coordinate and deliver fortnightly progress report to IRG Ministers and the Treasury with information on how the suite of infrastructure investments is performing as a whole;

33 **agree** that, during the contracting phases, each delivery agency will provide fortnightly data to Crown Infrastructure Partners for every project approved by IRG Ministers, including, but not limited to, the following:

33.1 The number and percentage of projects that have been contracted;

33.2 The rate of disbursement, including funding paid out and forecasts of expected funding paid out over the life of the IRG;

33.3 How projects are tracking against budget, and any cost overruns;

33.4 Specific information sought on projects that Ministers identify as priorities;

33.5 The number of people currently employed through projects funded by IRG Ministers. This should include the number of people who are currently or have previously worked on each project, and the expected number of workers in the future;

33.6 The number and percentage of projects that are currently under construction, and for projects that are not currently under construction, information about when construction is expected to commence;

33.7 If applicable, progress on gaining relevant consents;

33.8 Key milestones and deliverables, and how each project is performing against these milestones; and

33.9 Key risk and issues, including proposed mitigations.

33.10 The establishment and ongoing management of loans, equity or other instruments and contracts that are used to enable the projects.

34 **agree** that once contracting is complete, reporting should take place on a monthly basis;

35 **agree** that for small, low risk projects, IRG Ministers may lower the requirements for due diligence and assurances, if appropriate

36 **note** that delivery agencies will utilise their existing governance and oversight arrangements to monitor the delivery of their projects and will feed information into the broader IRG oversight and monitoring arrangements

37 **note** that the Infrastructure Commission, Te Waihanga, and the Construction Sector Accord will also play a role in providing advice on the procurement of projects, and this will be reflected in the IRG Ministers direction to delivery agencies

Changes to Provincial Growth Fund decision-making delegations

38 **agree** that PGF decisions may be delegated to the Minister of Finance and Minister of Regional Economic Development from August 2020;

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Shane Jones
Minister for Infrastructure/Regional Economic Development

Pages 26 - 30 have been withheld under s9(2)(f)(iv)

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: IRG Projects – Final project approval process

Date:	30 July 2020	**Report No:**	T2020/2653
		File Number:	LA-7-53-9 (COVID Economic Response Directorate)

Action sought

	Action sought	Deadline
Minister for State Owned Enterprises (Rt Hon Winston Peters)	Agree to the recommendations	31 July 2020
Minister of Finance (Hon Grant Robertson)	Send the attached letter directing Crown Infrastructure Partners (CIP) to coordinate the process for final project approvals by IRG Ministers	31 July 2020
Associate Minister of Finance (Hon David Parker)	Agree to the recommendations	31 July 2020
Minister for Infrastructure (Hon Shane Jones)	Agree to the recommendations	31 July 2020
Associate Minister of Finance (Hon James Shaw)	Agree to the recommendations	31 July 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ben Wells	Senior Analyst, National Infrastructure Unit (NIU)	s9(2)(k)	s9(2)(g)(ii)	✓
David Taylor	Manager, National Infrastructure Unit (NIU)		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Send the attached letter to the Chair Crown Infrastructure Partners.

Enclosure: **Yes (attached)**

Treasury Report: IRG Projects - final project approval process

Executive Summary

On 20 July, Cabinet appropriated funding to several delivery agencies from the existing $3 billion Tagged Capital Contingency to enable delivery of the 'shovel ready' projects identified through the Infrastructure Reference Group (IRG) process.

Cabinet also agreed that, in advance of any delivery agency distributing funding to enable a project, the delivery agency will seek final project approval from IRG Ministers and 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.

We recommend directing Crown Infrastructure Partners (CIP) to coordinate the process for final project approvals by IRG Ministers to ensure it is efficient and robust. CIP are well placed to coordinate this process given their detailed knowledge of projects gained through the IRG process and the complementation with their existing monitoring role established in a recent letter to delivery agencies from the Minister for Infrastructure on 24 July.

We recommend sending the attached letter to the Chair of CIP on behalf for IRG Ministers and CIP Shareholding Ministers to direct CIP to carry out this role. CIP have indicated that they are comfortable to take on this role.

Recommended Action

We recommend that you:

a **agree** to direct Crown Infrastructure Partners (CIP) to coordinate the process for final project approvals by IRG Ministers as required by Cabinet on the 20 July.

Agree/disagree Minister for State Owned Enterprises	*Agree/disagree* Minister of Finance	*Agree/disagree* Associate Minister of Finance
Agree/disagree Minister for Infrastructure	*Agree/disagree* Associate Minister of Finance	

b **agree** for the Minister of Finance, on behalf of IRG Ministers and CIP Shareholding Ministers, to send the attached letter to the Chair of CIP directing them to undertake this role.

Agree/disagree Minister for State Owned Enterprises	*Agree/disagree* Minister of Finance	*Agree/disagree* Associate Minister of Finance
Agreed/disagree Minister for Infrastructure	*Agree/disagree* Associate Minister of Finance	

David Taylor
Manager, National Infrastructure Unit

Rt Hon Winston Peters
Minister for State Owned Enterprises

Hon Grant Robertson
Minister of Finance

Hon David Parker
Associate Minister of Finance

Hon Shane Jones
Minister for Infrastructure

Hon James Shaw
Associate Minister of Finance

Treasury Report: IRG Projects - final project approval process

Purpose of Report

1. This report seeks agreement to direct Crown Infrastructure Partners to coordinate the process for final project approvals by IRG Ministers, as required by Cabinet on the 20 July, to enable the 'shovel ready' projects identified through the IRG process.

Analysis

2. On the 20th July, Cabinet appropriated funding to several delivery agencies from the previously $3 billion Tagged Capital Contingency to enable the 'shovel ready' projects identified through the IRG process [CAB-20-MIN-0341 refers]. Cabinet also:

   - **authorised** IRG Ministers, comprising the Minister of Finance, Minister for Infrastructure, together with Associate Ministers of Finance, to make final decisions on projects;
   - **agreed** that, in making final decisions on projects, IRG Ministers may choose to progress projects from outside the shortlist agreed to by Cabinet on 24 June 2020 [DEV-20-MIN-0114 refers];
   - **noted** that IRG Ministers will work with the relevant shareholding and portfolio Ministers to direct delivery agencies in respect of their roles and responsibilities.

3. Before delivery agencies can progress projects, final approval from the IRG Ministers is required and assurances are required to be provided when this approval is sought. Specifically, on the 20th July Cabinet:

   - **agreed** that, in advance of any delivery agency distributing funding to enable a project, the delivery agency will seek final project approval from IRG Ministers and 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
   - **agreed** that for small, low risk projects, IRG Ministers may lower the requirements for due diligence and assurances, if appropriate, and
   - **agreed that** delivery agencies be directed to seek further IRG Ministers' approval in a number of situations, including:
     - reprioritisation decisions, including where a delivery agency's due diligence reveals that a project cannot progress with the level of government financial support that was approved, and
     - changes to the form of government support, including where the form of government financial support approved (such as a loan, grant or equity) is no longer appropriate or adequate to progress the project.

4. On 24 July the Minister for Infrastructure sent a letter to delivery agencies establishing the Ministerial instructions and expectations for the delivery of projects. The letter referenced the requirement for delivery agencies to seek final approval from IRG Ministers before progressing projects.

5. We recommend directing CIP to coordinate the process for final project approvals by IRG Ministers and associated assurances. CIP are well placed to coordinate this process given their detailed knowledge of projects gained through the IRG process and the complementation with their existing monitoring role established in the 24 July letter. CIP have indicated that they are comfortable to take on this role.

6. We recommend that CIP's role should include:

- establishing an 'assurance template' to collate the assurance information described in this letter from delivery agencies for each project, on which IRG ministers will base their final project approval decisions
- delivery of 'approval reports' to IRG Ministers seeking written confirmation of final approval for projects with assurance templates attached (reports should be delivered weekly in the first instance, seeking approval for batches of projects)
- confirming with delivery agencies when their projects have received final approval from IRG Ministers allowing funding to be released for the projects to commence
- coordinating additional information or advice from delivery agencies that IRG Ministers may want during the approval process, and
- sharing all 'assurance templates' and 'approval reports' with the Treasury.

Next Steps

7. We recommend sending the attached letter to the Chair of CIP on behalf for IRG Ministers and CIP Shareholding Ministers to direct CIP to carry out this role.

8. After CIP have received the attached letter, Ministers should expect to receive the first batch of projects seeking final approval in the next few weeks, depending on the time it takes delivery agencies to provide the assurance and due diligence information to CIP.

9. CIP may also share the attached letter with delivery agencies when communicating their role in coordinating the assurance and final IRG Ministers approval process.

10. Following the final approval and subsequent commencement of projects, CIP will begin reporting to you on monitoring of projects, as set out in the 24 July letter.

Hon Grant Robertson

MP for Wellington Central
Minister of Finance
Minister for Sport and Recreation
Minister Responsible for the Earthquake Commission
Associate Minister for Arts, Culture and Heritage

Mark Binns
Chairman
Crown Infrastructure Partners Ltd
L10 PwC Tower 188 Quay Street
AUCKLAND

Dear Mark

COORDINATING THE PROCESS FOR FINAL MINISTERIAL APPROVAL OF 'SHOVEL READY' PROJECTS

I am writing to you on behalf of IRG Ministers and Crown Infrastructure Partner (CIP) Shareholding Ministers to direct CIP in its role to coordinate the process for final Ministerial approval of 'shovel ready' projects.

As you are aware, the Cabinet decision on 27 July outlined that, in advance of any delivery agency distributing funding to enable a project, the delivery agency will seek final project approval from IRG Ministers and 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.

The requirement for final IRG Ministers approval was also set out in the letter to delivery agencies from the Minister for Infrastructure on 24 July establishing the Ministerial instructions and expectations for the delivery of projects. The letter also clarified that the assurance information for Ministerial approval should include advice on overall project viability and risks.

I would like CIP to take responsibility for coordinating this approval and assurance process, working with the delivery agencies outlined in the 24 July letter. The purpose of this role is to ensure that the assurance IRG Ministers receive when considering final project approval is of a sufficiently high quality and projects can be expediently approved and delivered during the COVID-19 recovery, where appropriate. This assurance information will also reflect the due diligence that delivery agencies have been directed to conduct on projects.

To ensure the approval process is robust and efficient, I would like CIP's role to include:

- establishing an 'assurance template' to collate the assurance information described in this letter from delivery agencies for each project, on which IRG ministers will base their final project approval decisions
- delivery of 'approval reports' to IRG Ministers seeking written confirmation of final approval for projects with assurance templates attached (reports should be delivered weekly in the first instance, seeking approval for batches of projects)

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- confirming with delivery agencies when their projects have received final approval from IRG Ministers allowing funding to be released for the projects to commence
- coordinating additional information or advice from delivery agencies that IRG Ministers may want during the approval process, and
- sharing all 'assurance templates' and 'approval reports' with the Treasury.

This assurance and approval role is in addition to the monitoring role you have been already directed to undertake.

Please consult with the Treasury on the development of the 'assurance template' and 'approval reports'. You may also want to share this letter with delivery agencies when communicating your role in coordinating the assurance and final IRG Ministers approval process.

Thank you for CIP's ongoing efforts to coordinate and deliver the Government's significant infrastructure investment in response to COVID-19.

Yours sincerely

Hon Grant Robertson,
Minister of Finance

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Changes to the Shortlist of 'Shovel Ready' Infrastructure Projects

Date:	31 July 2020	**Report No:**	T2020/2690
		File Number:	SH-1-6-1-3-3-7 (Infrastructure)

Action sought

	Action sought	Deadline
Minister of Finance Hon Grant Robertson	Agree to the recommendations	3 August 2020
Associate Minister of Finance Hon David Parker	Agree to the recommendations	3 August 2020
Minister for Infrastructure Hon Shane Jones	Agree to the recommendations	3 August 2020
Associate Minister of Finance Hon James Shaw	Agree to the recommendations	3 August 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Rachel Bishop	Analyst, National Infrastructure Unit (NIU)	s9(2)(k)	s9(2)(g)(ii)	✓
Ben Wells	Senior Analyst, National Infrastructure Unit (NIU)			
David Taylor	Manager, National Infrastructure Unit (NIU)		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury

Enclosure: **Yes (attached)**

Treasury Report: Changes to the Shortlist of 'Shovel Ready' Infrastructure Projects

Executive Summary

On 24 June 2020, the Cabinet Economic Development Committee (DEV) with Power to Act [DEV-20-MIN-0114 refers]:

- **considered** a shortlist of 117 infrastructure projects which were identified through the Infrastructure Reference Group (IRG) 'shovel ready' infrastructure process, and
- **authorised** the Minister of Finance and the Minister for Infrastructure, together with the Associate Ministers of Finance (IRG Ministers), to make final decisions on projects in the shortlist to be funded from the $3 billion Infrastructure Tagged Contingency, established through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package.

On 20 July 2020, Cabinet [CAB-20-MIN-0341 refers]:

- **agreed** to s9(2)(f)(iv) [redacted] enable delivery of the 'shovel ready' projects, with funding only to be spent following final approval of projects by IRG Ministers
- **authorised** IRG Ministers to make final decisions on projects, and
- **agreed** that, in making final decisions on projects, IRG Ministers may choose to progress projects from outside the shortlist agreed to by Cabinet on 24 June 2020.

Between DEV agreement on 24 June and Cabinet consideration on 20 July, some changes were made to the shortlist as a result of Ministerial consultation and due diligence checks. Following Cabinet consideration on 20 July, further changes to the shortlist were made.

This paper outlines changes to the shortlist made between 24 June and 30 July 2020, and seeks IRG Ministers' agreement to these changes.

Recommended Action

We recommend that you:

a **Note** that between 24 June and 30 July 2020 some changes were made to the shortlist of IRG infrastructure projects as a result of Ministerial consultation and due diligence checks.

b **Agree** to the amended shortlist of infrastructure projects in Annex A, on the basis that the changes reflect the projects IRG Ministers now want to progress, subject to due diligence checks and final approval by IRG Ministers.

Agree/disagree Minister of Finance	*Agree/disagree* Associate Minister of Finance	*Agree/disagree* Minister for Infrastructure

Agreed/disagree

Associate Minister of Finance

c **Discuss** the nine 'optional' projects included in Annex B, and advise the Treasury which of these projects you want to include in the amended shortlist in Annex A.

d **Advise** the Treasury of any further changes you want to the amended shortlist of projects in Annex A, including the 'optional' projects in Annex B discussed in recommendation 'c'.

e **Note** the changes to the shortlist of projects between 24 June and 30 July 2020 are set out in Annex B with descriptions of the rationale for the changes provided by the Minister for Infrastructure's office.

f s9(2)(f)(iv)

g **Note** that the Treasury will provide advice to IRG Ministers seeking approval for any further appropriation changes required to reflect the funding required in the amended shortlist.

h **Note** that the Treasury has also sought your approval to direct Crown Infrastructure Partners to coordinate the process for final project approvals by IRG Ministers [T2020/2653 refers].

i **Note** Annex C, which outlines a list of IRG infrastructure projects that:

a. Were supported by the Treasury and/or departments and provided to Ministers on 11 June 2020 [T2020/1756].

b. As requested by Ministers' offices, could be used as a list of alternative projects to the shortlist in Annex A, should the projects on the current shortlist be unable to be progressed.

David Taylor
Manager, National Infrastructure Unit

Hon Grant Robertson
Minister of Finance

Hon David Parker
Associate Minister of Finance

Hon Shane Jones
Minister for Infrastructure

Hon James Shaw
Associate Minister of Finance

Treasury Report: Changes to the Shortlist of 'Shovel Ready' Infrastructure Projects

Purpose of Report

1. This paper seeks Infrastructure Reference Group (IRG) Ministers' agreement to the changes to the shortlist of infrastructure projects that were made since the Cabinet Economic Development Committee (DEV) agreed the initial shortlist on 24 June 2020.

2. This paper also outlines which projects:

   a have been added to the shortlist

   b have been removed from the shortlist

   c have had funding amounts amended, and

   d could be considered as alternatives, should the projects on the current list be unable to be progressed following due diligence checks.

Background

3. On 24 June 2020, DEV with Power to Act considered a shortlist of 117 infrastructure projects which were identified through the IRG 'shovel ready' infrastructure process [DEV-20-MIN-0114 refers].

4. DEV authorised IRG Ministers to make final decisions on projects in the shortlist to be funded from the $3 billion Infrastructure Tagged Contingency, established through the COVID-19 Response and Recovery Fund (CRRF) Foundation Package.

5. Following DEV agreement on 24 June, a number of changes were made to the shortlist as a result of Ministerial consultation and due diligence checks. On 24 June the shortlist included 'preferred' and 'reserve' projects. The 'reserve' projects have now been removed from the shortlist following discussion with Ministers' offices.

6. s9(2)(f)(iv)

7. Cabinet also authorised IRG Ministers to make final decisions on projects, and agreed that, in making final decisions on projects, IRG Ministers may choose to progress projects from outside the shortlist agreed to by Cabinet on 24 June 2020.

8. Following Cabinet consideration on 20 July, further changes to the shortlist were made.

Changes to the shortlist of infrastructure projects

9. The amended shortlist of projects as at 30 July 2020 is included in Annex A. This list has been provided to the Treasury by the Minister for Infrastructure's office.

10. The changes to the shortlist of projects between 24 June and 30 July 2020 are outlined in Annex B with descriptions of the rationale for the changes provided by the Minister for Infrastructure's office.

11. Between 24 June and 30 July:

    a 38 projects were added to the shortlist.

    b 19 projects were removed from the shortlist.

    c Around 20 have had the level of government funding changed by more than 5%.

12. Annex B also outlines nine 'optional' projects for IRG Ministers to discuss and decide whether they should be included in the amended shortlist.

13. The regional breakdown of the amended shortlist in Annex A is outlined in the following table. This breakdown does not include 'optional' projects from Annex B which you may choose to include in the shortlist.

s9(2)(f)(iv)

Next Steps

14. The Treasury will provide further advice to seek IRG Ministers' approval to any appropriation changes required to reflect the funding amounts in the amended shortlist.

15. The Treasury has also sought IRG Ministers' agreement to direct Crown Infrastructure Partners to coordinate the process for final project approvals [T2020/2653 refers].

16. Because many of the projects on the current shortlist still need to undergo due diligence checks and final approval by IRG Ministers, it is likely there will be further changes to the shortlist of projects. Any further changes to the shortlist should be agreed by all IRG Ministers, as required by Cabinet on 20 July 2020.

Pages 8 - 20 of this document have been withheld under s9(2)(f)(iv)

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Further Appropriation Changes Relating to the Infrastructure Reference Group (IRG) Shovel Ready Projects

Date:	15 September	**Report No:**	T2020/3018
		File Number:	SH-1-6-1-3-3-7 (Infrastructure)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to all recommendations in this report	18 September 2020
Minister of Transport (Hon Phil Twyford)	**Agree** to recommendations in this report relating to the Transport portfolio	18 September 2020
Minister of Housing **Minister of Energy and Resources** (Hon Dr Megan Woods)	**Agree** to recommendations in this report relating to the Housing and Energy and Resources portfolios	18 September 2020
Associate Minister of Finance (Hon David Parker)	**Agree** to all recommendations in this report	18 September 2020
Minister for Infrastructure (Hon Shane Jones)	**Agree** to all recommendations in this report	18 September 2020
Associate Minister of Finance (Hon James Shaw)	**Agree** to all recommendations in this report	18 September 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Rachel Bishop	Analyst, National Infrastructure Unit (NIU)	s9(2)(k)	s9(2)(g)(ii)	✓
David Taylor	Manager, National Infrastructure Unit (NIU)		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Further Appropriation Changes Relating to the Infrastructure Reference Group (IRG) Shovel Ready Projects

Executive Summary

This report seeks Infrastructure Reference Group (IRG) Ministers' and relevant Appropriation Ministers' agreement to:

- appropriation changes relating to the IRG Shovel Ready infrastructure projects, and
- agreement to the approach to any further calls on the *COVID-19: Infrastructure Cost Overruns and Reprioritisation - Tagged Operating Contingency*.

Since the original appropriations for IRG projects were established by Cabinet on 20 July 2020, a number of projects have been added and removed from the shortlist of projects.

The appropriation changes in this report reflect the indicative funding amounts required to deliver projects as agreed by IRG Ministers in the shortlist on 11 August, in response to a Treasury Report (T2020/2690 refers), and do not capture changes to project costs that have since sought approval through CIP's fortnightly 'Approval Reports'.

Appropriating at this stage for indicative funding amounts will allow the Treasury to provide better advice to IRG Ministers on:

- whether projects coming through the 'Approval Reports' process are significantly above or below indicative funding amounts, and
- the amount of funding remaining in the Tagged Operating Contingency.

The Treasury expects that further costs will emerge through the due diligence process, and another round of appropriation changes will be required. Treasury officials recommend that the next appropriation changes are sought in November 2020 following the general election, and that in the meantime any cost increases are earmarked to the Tagged Operating Contingency.

The Treasury will provide advice alongside the 'Approval Reports' which monitors how project costs are tracking, how much funding remains in the Tagged Operating Contingency, and seeks Ministers agreement to any necessary earmarking of new project funding against the Contingency where necessary.

Recommended Action

We recommend that you:

a s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

iii authorised IRG Ministers and the relevant Appropriation Minister to make any necessary further changes to appropriations (including establishing any new appropriations) to deliver IRG projects following final decisions on projects by IRG Ministers; and

iv authorised IRG Ministers and the relevant Appropriation Minister to draw down the Tagged Operating Contingency funding in recommendation a.ii above, establishing any new appropriations as necessary, subject to their satisfaction of the requirement of any cost overruns or reprioritisation in relation to the IRG projects.

b **note** that in agreeing to the recommendations on appropriation changes and drawdowns on the Tagged Operating Contingency in this report, IRG Ministers are satisfied the conditions in recommendations a.iii and a.iv above have been met;

s9(2)(b)(ii) and 9(2)(j)

Provincial Development Unit

e s9(2)(f)(iv)

f **note** that this funding has been transferred to three multi-year appropriations to run from 1 July 2020 to 30 June 2025 and is split as follows:

s9(2)(f)(iv)

g **note** that Cabinet agreed that PDU managed IRG projects funded by way of loan or equity will be held by Provincial Growth Fund Limited (PGFL) once the constitution of PGFL is amended [CAB-20-Min-0341 refers];

h s9(2)(f)(iv)

i **note** that following decisions in recommendation h above, the funding held in each of the multi-year appropriations no longer reflects the makeup of the IRG projects being invested in and transfers between appropriations are required;

j **approve** the following fiscally neutral adjustments to provide for the decisions made by IRG Ministers on loan and equity projects:

s9(2)(f)(iv)

[redacted]

Approved/not approved.
Minister of Finance

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure and Regional Economic Development

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

k **note** that the indicative spending profile for the multi-year appropriation in recommendation j above is as follows:

s9(2)(f)(iv)

[redacted]

l s9(2)(f)(iv)

[redacted]

m **Approve** the following changes to appropriations to provide for the decisions in recommendation l above, with a corresponding impact on the operating balance and net core crown debt:

s9(2)(f)(iv)

Approved/not approved.
Minister of Finance

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure and Regional Economic Development

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

n **note** that the indicative spending profile for the multi-year appropriation in recommendation m above is as follows:

s9(2)(f)(iv)

o s9(2)(f)(iv)

p

q

r **agree** to establish the following new multi-year appropriation to provide for the decision in recommendation q above, to run from 1 July 2020 to 30 June 2025:

s9(2)(f)(iv)

Agree/disagree.
Minister of Finance

Agree/disagree.
Associate Minister of Finance (Hon Parker)

Agree/disagree.
Minister for Infrastructure and Regional Economic Development

Agree/disagree.
Associate Minister of Finance (Hon Shaw)

s **approve** the following changes to appropriations to provide for the decisions in recommendations q and r above, with a corresponding impact on the operating balance and net core crown debt:

s9(2)(f)(iv)

Approved/not approved.
Minister of Finance

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure and Regional Economic Development

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

t **Note** that the indicative spending profile for the new multi-year appropriation described in recommendations r and s above is as follows:

s9(2)(f)(iv)

Energy Efficiency and Conservation Authority and Ministry of Business, Innovation and Employment

u s9(2)(f)(iv) [redacted]

v **note** that that since the Cabinet decisions in recommendation u above were made, IRG Ministers have assigned an additional shovel-ready project to EECA and MBIE, necessitating an increased funding requirement of $2.500 million;

w s9(2)(f)(iv) [redacted]

x **approve** [IRG Ministers and the Minister for Energy and Resources] an additional $250,000 in 2020/21 for EECA to deliver IRG projects

Approved/not approved.
Minister of Finance

Approved/not approved.
Minister of Energy and Resources

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

y **agree** [IRG Ministers and the Minister of Energy and Resources] to increase expenditure to provide for costs associated with additional IRG projects and operational support costs, with the following impacts on the operating balance and net core Crown debt:

s9(2)(f)(iv) [redacted]

Agree/disagree.
Minister of Finance

Agree/disagree.
Minister of Energy and Resources

Agree/disagree.
Associate Minister of Finance (Hon Parker)

Agree/disagree.
Minister for Infrastructure

Agree/disagree.
Associate Minister of Finance (Hon Shaw)

z **approve** [IRG Ministers and the Minister of Energy and Resources] the following changes to appropriations to provide for the costs described in recommendations v and x above, with a corresponding impact on the operating balance and net core crown debt:

s9(2)(f)(iv)

[redacted]

Approved/not approved.
Minister of Finance

Approved/not approved.
Minister of Energy and Resources

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

Kāinga Ora and the Ministry of Housing and Urban Development

aa s9(2)(f)(iv) [redacted]

bb **note** that that since the Cabinet decisions in recommendation aa above were made, IRG Ministers have assigned an additional shovel-ready project to Kāinga Ora, necessitating an increase to the multi-year appropriation s9(2)(f)(iv) [redacted]

cc **approve** [IRG Ministers and the Minister of Housing] the following change to appropriations to give effect to the policy decision in recommendation bb above, with a corresponding impact on the operating balance and/or debt:

s9(2)(f)(iv) [redacted]

Approved/not approved.
Minister of Finance

Approved/not approved.
Minister of Housing

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

dd **note** the indicative spending profile for the multi-year appropriation described in recommendation cc above is as follows:

s9(2)(f)(iv) [redacted]

Ōtākaro Limited

ee **note** that on 20 July 2020, Cabinet agreed to establish s9(2)(f)(iv) [redacted]

ff **agree** to extend the timeframe of the multi-year appropriation in recommendation ee above, from 01 June 2023 to 30 June 2025, to ensure funding is available to Ōtākaro Limited over the required period;

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

gg **note** that the indicative spending profile for the appropriation in recommendation ee above, as adjusted by the timeframe extension in recommendation ff above, is as follows:

s9(2)(f)(iv)

Crown Infrastructure Partners

hh s9(2)(f)(iv)

ii **note** that since the Cabinet decisions in recommendation hh above were made, IRG Ministers have assigned additional shovel-ready projects to Crown Infrastructure Partners, necessitating an increase to the multi-year appropriation and an extension to its timeframe to 30 June 2025;

jj s9(2)(f)(iv)

kk

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree..
Associate Minister of Finance (Hon Shaw)

ll s9(2)(f)(iv)

mm **agree** to extend the timeframe of the multi-year appropriation in recommendation hh above, from 01 June 2023 to 30 June 2025, to ensure funding is available to Crown Infrastructure Partners over the required extended period, as described in recommendation ii above;

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

nn **approve** the following fiscally neutral transfer within Vote Finance to provide for the policy decision in recommendation ll.i above, with no impact on the operating balance and net core Crown debt:

s9(2)(f)(iv)

Approved/not approved.
Minister of Finance

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

oo **note** that the indicative spending profiles for the funding changes referenced in recommendation nn above are as follows:

s9(2)(f)(iv)

pp **approve** [IRG Ministers and the Minister of Transport] the following fiscally neutral capital to operating swap between Vote Transport and Vote Finance to provide for the policy decision in recommendation ll.ii above, with the following impacts (indicative spending profile) on the operating balance and net core Crown debt:

s9(2)(f)(iv)

Approved/not approved.
Minister of Finance

Approved/not approved.
Minister of Transport

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

qq **approve** [IRG Ministers and the Minister of Transport] the following changes to appropriations to give effect to the swap in recommendation pp above, reflecting the policy decision in recommendation ll.ii above:

s9(2)(f)(iv)

Approved/not approved.
Minister of Finance

Approved/not approved.
Minister of Transport

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

rr **note** that the indicative spending profiles for the funding changes referenced in recommendation qq above are as follows:

s9(2)(f)(iv)

ss s9(2)(f)(iv)

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Minister of Transport

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

tt **note** that the amount shown in the appropriations changes table in recommendation rr above for the Multi Year Appropriation: "Regional State Highways" is the change to the indicative annual spending profile;

uu **approve** the following changes to appropriations to provide for the decisions in recommendations b and II.iii above, with a corresponding impact on the operating balance and net core Crown debt:

s9(2)(f)(iv)

Approved/not approved.
Minister of Finance

Approved/not approved.
Associate Minister of Finance (Hon Parker)

Approved/not approved.
Minister for Infrastructure

Approved/not approved.
Associate Minister of Finance (Hon Shaw)

vv **note** that the indicative spending profile for the funding change in recommendation uu above is as follows:

s9(2)(f)(iv)

ww s9(2)(f)(iv) [redacted]

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

Current Drawdowns on the Tagged Operating Contingency

xx **agree** that the operating expenditure incurred under recommendations m, q, s, x, y, z, cc, and uu above be charged against the Tagged Operating Contingency referenced in recommendation a.ii above;

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

yy **note** that, to give effect to the policy decision in recommendation xx above, s9(2)(f)(iv) [redacted]

Supplementary Estimates and Imprest Supply

zz **agree** that all the proposed changes to appropriations for 2020/21 in the recommendations above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

Approach to further changes to appropriations and calls on the unappropriated Tagged Operating Contingency

aaa **note** that further changes to appropriations may be required over time to enable projects, notably if:

i IRG Ministers continue to make decisions on projects through the ongoing 'Approval Reports' coordinated by CIP, such as decisions to add new projects or remove existing projects from the agreed 'shortlist',

ii in the case that delivery partners are unable to delivery their current allocated list of projects within existing appropriations, due to cost increases that may emerge through the due diligence process, and further allocation of the tagged operating contingency is sought.

bbb **agree** that, to avoid unnecessary administrative burden, further appropriation changes be planned to only occur intermittently as required, with the next Treasury Report expected in November 2020 following the general election;

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

ccc **agree** that, for any new projects agreed to be added to the shortlist by IRG Ministers, before final appropriation changes are made, delivery agencies may be expected to fund the project from existing appropriations and that these costs will be earmarked against the Tagged Operating Contingency in the interim;

Agreed/disagree.
Minister of Finance

Agreed/disagree.
Associate Minister of Finance (Hon Parker)

Agreed/disagree.
Minister for Infrastructure

Agreed/disagree.
Associate Minister of Finance (Hon Shaw)

ddd **note** that the approach in recommendation ccc above will require close monitoring of the Tagged Operating Contingency and the Treasury will provide this advice, and seek Ministers agreement to any necessary earmarking of funding to the Contingency, alongside future 'Approval Reports' from CIP;

eee **note** that officials will continue to imbed the expectation that delivery agencies are responsible to fund all of their allocated projects from their current appropriations (including the updates in this report) and that this expectation is important to help enable the entire program to be delivered within budget;

Crown Infrastructure Partners Funding Agreement

fff **note** that officials are working with CIP to prepare a drafting funding agreement, which will require an authorised signatory of the Crown and CIP, and officials will provide advice on the funding agreement once discussions with CIP have concluded.

David Taylor
Manager, National Infrastructure Unit

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

Hon Dr Megan Woods
Minister of Housing
Minister of Energy and Resources

Hon David Parker
Associate Minister of Finance

Hon Shane Jones
Minister for Infrastructure

Hon James Shaw
Associate Minister of Finance

Treasury Report: Further Appropriation Changes Relating to the Infrastructure Reference Group (IRG) Shovel Ready Projects

Purpose of Report

1. This report seeks Infrastructure Reference Group (IRG) Ministers' and relevant portfolio Ministers' agreement to:

   a further appropriation changes relating to the IRG Shovel Ready infrastructure projects, and

   b the approach to any further calls on the Tagged Operating Contingency.

Detail of Appropriation Changes

Two delivery agencies require additional operating funding to deliver IRG projects

Energy Efficiency and Conservation Authority (EECA)

2. s9(2)(f)(iv) The Treasury supports this amount in full for the following reasons:

   a Due diligence, contract negotiations, and reporting on projects will be a significant piece of work for EECA in 2020/21.

   b s9(2)(f)(iv)

Provincial Development Unit (PDU)

3. s9(2)(f)(iv) PDU advise that this funding is required because:

   a The PDU is currently operating at capacity and cannot manage the delivery of these projects within baselines, and

   b Current operational funding for the PDU ends at 30 June 2021, while the IRG work is expected to continue until December 2022.

4. The Treasury Vote team has assessed the cost estimates provided by the PDU and s9(2)(f)(iv)

5. The PDU have advised with scaled funding, the assessment and due diligence stage will be broadly the same, however savings would be made around the ongoing monitoring and keeping track of projects. There will be less touch points with the projects and PDU will be less likely to know if individual projects are not on track to meet expected delivery timeframes.

IRG Ministers have allocated new or re-assigned projects to delivery agencies

6. Between 20 July and 11 August 2020, IRG Ministers agreed in principle to further projects to be funded through the IRG Shovel Ready process, subject to due diligence assessments and final sign-off [T2020/2690 refers]. These changes include some re-allocation of projects between delivery agencies between 11 and 14 August, and

s9(2)(f)(iv)

[redacted]

7. Since 11 August, some projects have sought final approval from IRG Ministers through the 'Approval Report' process coordinated by CIP. Some of these projects have sought agreement to minor cost variations following due diligence assessments, and over time these changes will likely necessitate further appropriation changes.

8. The Treasury recommends that at this stage, funding is appropriated based on the projects assigned as at 11 August 2020. This is when Treasury received the list agreed by IRG Ministers following our report seeking formal agreement to the list [T2020/2690 refers].

9. By setting the baseline at this point, funding will be appropriated based on the indicative allocations prior to any due diligence and final sign-off. This will allow Treasury to better advise IRG Ministers of:

   a Whether projects are, on average, requiring more or less funding than initially allocated,

   b The level of available funding remaining in the Tagged Operating Contingency.

The Tagged Operating Contingency

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

12. The Treasury expects that further changes to appropriations may be required over time to enable projects, as:
    a IRG Ministers continue to make decisions on projects through the ongoing ' Approval Reports' coordinated by CIP, such as decisions to add new projects or remove existing projects from the agreed 'shortlist',
    b Frequent cost increases that may emerge through the due diligence process could amount to a large discrepancy between funding appropriated and funding required to deliver the projects, and further allocation of the Tagged Operating Contingency could be required.

13. The Treasury recommends that, to avoid unnecessary administrative burden, further appropriation changes be planned to only occur intermittently as required, with the next Treasury Report expected in November 2020 following the general election.

14. For any new projects added to the shortlist by IRG Ministers, the Treasury recommends that before final appropriation changes are made, delivery agencies should be expected to fund the project from existing appropriations and the additional costs will be earmarked against the Tagged Operating Contingency for appropriation at a later date.

15. Delivery agencies with a large number of projects and a large allocation of funding should be better able to manage variations in project costs from within already allocated funding, as cost variations are more likely to net out. However, over time there will likely be instances where further funding will be required to ensure no delivery agency goes unappropriated.

16. In line with the approach above, the Treasury will provide advice that monitors the Tagged Operating Contingency, and seeks Ministers agreement to any necessary earmarking of funding to the Contingency. This advice will be provided alongside future 'Approval Reports' from CIP.

Next Steps

17. The Treasury will provide advice covering the following matters over the coming weeks:
    a s9(2)(f)(iv)
    b The CIP funding agreement; and
    c Advice on the next CIP Approval Report.