

The Treasury

Delivery of 'shovel ready' infrastructure projects – Ministerial instructions and expectations Information Release

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Cc: Hon Grant Robertson and Hon James Shaw

Tēnā koutou,

Delivery of 'shovel ready' infrastructure projects – Ministerial instructions and expectations

During the Level 4 lockdown, the Government established the Infrastructure Reference Group (IRG) to identify a pipeline of shovel-ready projects to support the economy during the COVID-19 rebuild.

In Budget 2020, \$3 billion was allocated for infrastructure investment in the wake of the COVID-19 health crisis and subsequent lockdown.

The IRG, supported by Crown Infrastructure Partners (CIP), received a total of 1924 submissions across approximately 40 sectors of the economy. Those submissions were scrutinised under criteria set by the Government and a short list of 802 projects presented to Ministers in mid-May.

On July 1, the Minister of Finance and I announced the global allocations and regional distribution of this funding totalling more than 150 projects and approximately \$2.6 billion in Crown funding. The pipeline is expected to deliver more than 20,000 jobs and unlock a total project value of more than \$5 billion.

IRG Ministers^[1] focused on sectors central to our Government's economic plan – housing and urban development, climate resilience, energy and community and social development.

Both CIP and the Provincial Development Unit have major roles to play in delivering these projects but several other agencies are also required to contract, manage, monitor and report on a variety of projects.

^[1] IRG Ministers are the Ministers of Finance, Minister for Infrastructure and Associate Ministers of Finance.

On 20 July 2020, Cabinet approved [CAB-20-MIN0341] the transfer of funding and responsibility for managing and monitoring of projects to a number of agencies.

You are receiving this letter as an agency you are responsible for has been given responsibility for a certain project(s).

Funding and management of costs

Approximately \$2.5 billion has been appropriated for agencies to proceed with managing and delivering these contracts. A contingency has been set aside to manage any cost overruns, on the agreement of Joint Ministers. Ministers have agreed to the establishment of a new annual appropriation which can be drawn down to fund the work.

All project funding agreements must clearly state that the recipient is solely responsible for any cost overruns, and agencies are expected to manage the agreements accordingly. As with any projects, particularly those in their pre-implementation stages, there is an element of cost escalation which may ultimately fall to the Crown. The following principles should guide any such funding decision-making:

If a potential cost overrun is identified, the delivery agency must advise Joint Ministers as soon as practicable, including on potential funding, scaling, timing and scoping options.

For cost overruns on a specified project, funds should first come from underspends or savings made against the agency's other projects it is responsible for.

Where cost overruns are identified that cannot be managed in this way, I expect the delivery agency to contribute to joint advice from Crown Infrastructure Partners and the Treasury, on the size of and the reasons for the shortfall. The advice to Joint Ministers will include potential funding options or solutions to reduce costs.

Cost savings that do not impact on project scope or timing as outlined can be managed by the delivery agency and used to fund any overruns across projects it is responsible for. In the case of net savings across all these projects, Ministers will be responsible for decisions as to the appropriate course of action.

However, any change and consequences relating to this should be communicated to Joint Ministers as soon as it materialises. The increase in building and construction will also add pressure in the longer term on operational budgets.

Operational requirements for delivering the 'shovel ready' infrastructure projects transferred by IRG Ministers

Responsible agencies have a number of roles to play in the management and delivery of these projects. Specifically, delivery agents must:

- Undertake appropriate due diligence, contract negotiations and funding arrangements

- Seek IRG Ministers final approval before funding is distributed. Advice is sought on the overall project viability (including scope and intended benefits), final funding decisions, timelines, risks and employment creation. This is to ensure that government funding is appropriate to enable the project and represents value for money to the Crown
- Provide monitoring and reporting data fortnightly during contract negotiations, and then monthly
- Seek IRG Ministers' approval for any reprioritisation, changes to the form of government support, allocation of cost contingency decisions

Advice to IRG Ministers should:

- for simple contracts, focus on the five points as outlined above,
- for more complicated contracts, provide a greater level of detail. This should include how the contract will be structured, including the funding instrument, terms and conditions, and
- be provided to the relevant portfolio Minister, Minister of Finance and Infrastructure Minister on an ad hoc basis once these five points have been addressed.

Funding arrangement parameters

Structuring contracts

Where applicable, delivery agencies will aggregate multiple projects into a single contract. The Cabinet paper states that contract terms will include:

- regular reporting, consistent with the approach that will be developed by both CIP and PDU across all agencies responsible for delivering shovel-ready projects
- verification that works will be initiated within 12 months
- a requirement that contracted parties will document and follow their procurement processes, material input and the number of additional workers hired to undertake these activities, and
- a requirement that delivery agencies 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.

Standardised documentation will be provided by CIP to assist with the contracting process. All delivery agencies should use these as base documents, recognising that project circumstances will vary and changes may need to be made. I recommend that your agency engage directly with Graham Mitchell, Chief Executive Crown Infrastructure Partners, [39] [35]

Disbursement of funds

Funding for projects that require simple contracts will 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 or in the case of transport projects that are within NZTA mandate on a basis consistent with NZTAs approach for NLTP FAR funding.

Monitoring and reporting requirements

The broader IRG oversight and monitoring arrangements will be coordinated by CIP, who will deliver progress reports to IRG Ministers. CIP will provide these reports to IRG Ministers fortnightly during the contracting phase, and monthly thereafter. CIP is currently in the process of establishing reporting templates to ensure a consistent approach across agencies, who in turn will be required to furnish reporting to CIP in a timeframe which enables CIP to meet Ministers requirements.

The Cabinet paper outlined that agencies need to provide fortnightly data for every project approved by IRG Ministers, including, but not limited to, the following:

- The number and percentage of projects that have been contracted
- The rate of disbursement, including funding paid out and forecasts of expected funding paid out over the life of the projects
- How projects are tracking against budget, and any cost overruns
- Specific information sought on projects that Ministers identify as priorities
- 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
- 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
- If applicable, progress on gaining relevant consents
- Key milestones and deliverables, and how each project is performing against these milestones,
- Key risk and issues, including proposed mitigations, and;
- The establishment and ongoing management of loans, equity or other instruments and contracts that are used to enable the projects.

Agencies should take a practical approach to the reporting framework approved by Cabinet, which is designed to accommodate the full range of funded projects and, as such, will not always apply to every project at every stage of its lifespan. Fulsome reporting should not result in unnecessary delays to delivery of projects - guidance from CIP should be sought on this point as necessary.

Communications

Ministerial offices are already working on announcing project approvals in principle, in coordination with the Prime Minister's Office and Deputy Prime Minister's Office.

However, it is not our intent to delay any work on projects pending announcements.

The reasons the complete list has not yet been publicly released is to protect the Crown's negotiating position, ensure applicants are aware of the approval in principle and to allow due diligence on projects.

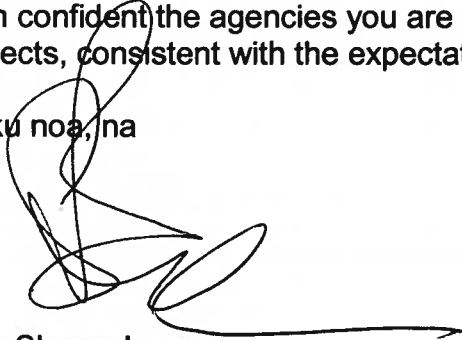
Significant milestones, such as the decision to proceed to construction, the receipt of consenting approval, or ground breaking, are opportunities to re-emphasise our commitment to this work-stream and to provide confidence to New Zealanders that our economy is performing well, despite unprecedented circumstances.

We expect that agencies will provide advanced notice of opportunities of this nature and provide information to support media announcements from the Offices of the IRG Ministers.

Operational communications on any aspects of the package will be undertaken by the agencies themselves in accordance with usual practices.

I am confident the agencies you are responsible for will be able to deliver these projects, consistent with the expectations set out above.

Naku noa, na

A handwritten signature in black ink, appearing to be 'Shane Jones', with a long horizontal line extending to the right.

Hon Shane Jones
Minister for Infrastructure

Copy to: Andrew Crisp, CEO of MHUD, Andrew McKenzie, CEO of Kainga Ora, Carolyn Tremain, CEO of MBIE, Rhys Jones, CE of FENZ, Andrew Caseley, CEO of EECA, Greg Miller, Group Chief Executive KiwiRail, Andrew Coleman, CEO of Heritage New Zealand, Nicole Rose, CEO of NZTA, Andrew Kibblewhite, CEO of MoJ, Andrew Coster, Commissioner of Police, Air Marshal Kevin Short, Chief of NZDF, Graham Mitchell, CEO of CIP, Robert Pigou, CEO of PDU

