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Tumuaki o te Mana Arotake

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Ministry for Primary Industries: Managing the Primary Growth Partnership

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Contents

Auditor-General's overview

In 2009, the then Minister of Agriculture and Forestry launched the Primary Growth Partnership initiative (PGP). The purpose of PGP is to increase overall investment in innovation, and the economic growth and sustainability of primary sector industries.

As at 30 November 2014, the Crown and industry partners together had committed $680 million to PGP. The Crown had committed $322 million to 18 multi-year programmes, $129.5 million of which had been spent up to 30 November 2014.

The Primary Production Committee asked my Office to consider looking at PGP. In particular, the Committee was concerned about PGP's transparency, including how well it was being managed and was achieving its objectives.

PGP got off to a mixed start and initially encountered a number of challenges. In my view, PGP partnerships are now generally working well and the management of them has improved in the past five years. More is required, in particular, to achieve clear, simple, and understandable public reporting on individual programmes and the PGP portfolio.

The objective of PGP is to bring together the public and private sectors in partnerships to innovate and generate value for the New Zealand economy. Innovation by its nature cannot be a "paint by numbers" exercise. Our audit took this into account.

We audited how the Ministry for Primary Industries (the Ministry) has implemented and managed PGP so far. The six programmes that we reviewed have a combined Crown and industry commitment of $491.3 million. These programmes are showing some encouraging results. For example, a prototype fishing net has been tested that aims to harvest high-value fish in a low-fatigue, low-damage way. There are direct supply contracts in place for fine and mid-micron wool, and seed trials have resulted in increased crop production under conditions of high drought and disease stress.

PGP was set up quickly but was not always smooth. There have been learnings along the way, some positive and some less so. I hope the lessons learned will be useful to other public entities. In the six programmes we reviewed, we saw examples of partnerships that appeared to work well from the beginning and others that experienced difficulties. These difficulties included prolonged business case development, long contract negotiations, and staffing shortages.

The Ministry has taken a flexible approach to setting up and managing partnerships with industry to take account of the diverse nature of the work and the people involved. Examples include introducing good-faith clauses to contracts, agreeing to programme activities starting before the programme contract is confirmed because the activities needed to be carried out in a specific season, and sharing intellectual property with the industry partner to save time and money.

This flexibility is appropriate. In my view, when forming new partnerships, managing new relationships between partners in a way that fosters trust and appropriately manages risk is more important than rigidly keeping to a set formula.

In our audit, we focused on transparency by reviewing how the Ministry supported the assessment of proposals and business cases, whether it used good information to support the governance of programmes, and importantly how it shared results with the public.

The Investment Advisory Panel is responsible for assessing proposals for PGP funding against conditions and criteria approved by Cabinet. The Panel made decisions about whether proposals met the conditions and criteria for PGP funding and made recommendations to the Director-General about whether to approve business cases. However, the Ministry did not always clearly or comprehensively record the underpinning rationale.

Before 2012, understanding of how to apply the conditions and criteria when assessing proposals and business cases continued to evolve. The Ministry assisted the Panel in reaching a view about how to apply some of the conditions and criteria, and made other improvements to better support management of PGP.

To date, PGP monitoring has focused on individual programmes. Internal information and reporting has appropriately supported governance of those programmes. Since late 2013, the Ministry has been introducing a system to measure and report on PGP programmes as a portfolio. The Ministry expects this system to be operating by mid-2015.

In my view, the public reporting of the results of individual partnerships started late and, to date, has not been suitable for a public audience because it is inconsistent and too technical. Public reporting needs to be simpler and more readily understandable to appropriately inform members of the public about the performance of PGP programmes. I recommend improvements to this reporting to aid transparency and accountability.

It is too soon to observe the economic benefits of PGP programmes, and it will be at least five to 10 years before we see the extent to which New Zealand's primary industries achieve the anticipated economic benefits.

When we reviewed the business cases of the six programmes, we saw a range of economic benefits expected to be achieved by 2019 and beyond. The results being delivered now do indicate some progress towards the expected long-term benefits. For example, in the programmes we reviewed:

- direct supply contracts have been enhanced to supply products to domestic and international markets;
- prototype products have been made and tested; and
- some consumer products and new brands have been launched.

I thank the Ministry and its staff for their time and co-operation during our audit.

Lyn Provost
Controller and Auditor-General

2 February 2015

Our recommendations

To improve transparency and accountability for the Primary Growth Partnership, we recommend that the Ministry for Primary Industries:

1. improve current documentation of Investment Advisory Panel discussions and decisions so that there is a clear, comprehensive, and easy-to-follow trail connecting how Primary Growth Partnership criteria have been considered by the Ministry and the Investment Advisory Panel in informing decision-making that aligns programmes with Primary Growth Partnership objectives;
2. ensure that the work it has under way results in reliable tracking and evaluation of the long-term outcomes and economic benefits that Primary Growth Partnership programmes and the Primary Growth Partnership portfolio achieve; and
3. use a consistent and easily understood format to publicly report the progress and achievements of Primary Growth Partnership programmes and the Primary Growth Partnership portfolio.

Introduction

1

1.1 In this Part, we discuss:

- why we did our audit;
- the purpose and scope of our audit;
- what we did not cover;
- how we carried out our audit; and
- the structure of this report.

Why we did our audit

1.2 During consultation on our draft 2013/14 work programme, the Primary Production Committee asked us to consider looking at the Primary Growth Partnership (PGP). In particular, the Committee was concerned about the transparency of PGP, including how well it was being managed and was achieving its objectives.

1.3 The Auditor-General decided to do a performance audit because of the:

- potential significance of PGP to New Zealand's economic growth;
- emphasis on the Government working in partnership with industry;
- risk and opportunity inherent in innovation; and
- large amount of public and private money involved.

The purpose and scope of our audit

1.4 We set out to assess how effectively the Ministry for Primary Industries (the Ministry) introduced and has managed PGP to achieve its intended outcomes, and we focused on how the Ministry measures and reports progress towards the outcomes.

1.5 Specifically, our audit reviewed how well the Ministry:

- supports the assessment of proposals for PGP funding and business cases to enable sound decision-making;
- builds and maintains partnerships with industry partners;
- measures progress towards PGP's objectives; and
- shares the results of the programmes with the public.

What we did not cover

1.6 We did not audit the industry partners involved in the PGP programmes that we reviewed because, with one exception, they are not public entities and so are not audited by the Auditor-General. We also did not audit the quality of investment decisions.

1.7 We did not include PGP funding allocated to the Centre for Agricultural Greenhouse Gas Research in our audit. A separate group in the Ministry manages the Centre for Agricultural Greenhouse Gas Research, which is distinct from PGP and has different funding arrangements and a separate governance structure.

How we carried out our audit

1.8 We reviewed six PGP programmes. We selected programmes that were approved in different funding rounds, were in different industries, and had significant Crown funding committed to them. Figure 1 sets out the programmes we selected, including the programme's goals and industry partners. The six programmes were funded for periods of five to seven years.

Figure 1
The Primary Growth Partnership programmes that we selected for our audit

Programmes	Programme goals	Industry partners	Funding duration
FarmIQ – Demand-driven value chain for red meat	To tailor farming systems and supply products that meet customer preferences; the implementation of electronic identification and traceability systems to enable the performance of individual animals to be measured from on the farm through to meat quality at the point of processing.	FarmIQ Systems Limited	7 years 2010-2017
The New Zealand Sheep Industry Transformation Project (NZSTX)	To increase production of market-driven sheep, change the balance between New Zealand strong and fine wool production, and generate better grower returns for fibre, meat, and other products such as leather.	The New Zealand Merino Company Limited	5 years 2010-2015
Transforming the Dairy Value Chain (Dairy Value Chain)	To create new dairy products, increase on-farm productivity, reduce environmental impacts, and build the capability and capacity to meet the future needs of New Zealand's dairy industry.	DairyNZ Incorporated and Fonterra Co-operative Group Limited	7 years 2011-2018
Precision Seafood Harvesting (PSH)	To create a new wild-fish harvesting technology that will result in more precise catches, allowing fish to be landed fresher, in better condition, and of higher value.	Precision Seafood Harvesting General Partner Limited	6 years 2012-2018

Programmes	Programme goals	Industry partners	Funding duration
FoodPlus – Generating more value from the red meat carcase (FoodPlus)	To identify opportunities to create new higher-value products from red meat, with a focus on new food, ingredients, and healthcare products.	ANZCO Foods Limited	7 years 2012-2019
Seed and Nutritional Technology Development (Seeds)	To develop technologies to improve pasture establishment, reduce the impact of pests and diseases, overcome animal health disorders, and reduce greenhouse gas emissions and losses from drought stress.	PGG Wrightson Seeds Limited and Grasslanz Technology Limited	6 years 2013-2019

1.9 For each programme, we reviewed:

- a range of documents, from the initial proposal to the ongoing monitoring and managing of the programme;
- documents that showed how the programme would work and the results it would achieve; and
- meeting minutes of the Investment Advisory Panel and Programme Steering Groups.

1.10 We reviewed corporate policies and accountability documents. We also reviewed internal review and external evaluation documents.

1.11 We interviewed current and former staff from the Ministry's head office involved in the PGP process, representatives from Programme Steering Groups and the Investment Advisory Panel, and staff from the Ministry of Business, Innovation and Employment and the Treasury. We also spoke with representatives from some of the industry partners.

Structure of this report

1.12 In Part 2, we discuss the purpose of and background to PGP, how PGP was intended to operate, and the conditions and criteria for assessing programmes. We summarise funding commitments made to industries and to the programmes we looked at and the early results of those programmes.

1.13 In Part 3, we discuss how the Ministry set up PGP and supported the assessment of proposals and business cases. We also discuss what the Ministry has done to improve its management of PGP and how the Ministry managed conflicts of interests.

1.14 In Part 4, we discuss partnerships between the Ministry and its industry partners, including the Ministry's flexible approach to forming partnerships, how some of the Ministry's management practices reflected its partnership with industry, and the Ministry's emphasis on collaborating with industry and other government entities.

1.15 In Part 5, we discuss the intended long-term benefits and results of the six programmes we reviewed, how the Ministry uses information about the progress of programmes to support the governance of programmes, and how the Ministry intends to measure what PGP as a whole has achieved.

About the Primary Growth Partnership

2

2.1 In this Part, we discuss:

- the purpose of PGP;
- earlier attempts to support innovation in primary industries;
- how PGP was intended to operate;
- conditions and criteria for assessing programmes;
- a summary of the funding committed to programmes; and
- examples of results achieved so far from the programmes we reviewed.

Summary of findings

2.2 The purpose of PGP is to increase the sustainability and economic growth of the primary and food industries by creating partnerships between the Government and industry that promote and increase private investment in innovation in primary industries.

2.3 Cabinet approved the setting up of PGP in 2009, and provided guidance about the governance of PGP programmes and how PGP was intended to operate. Cabinet also defined the conditions and criteria that were to be used to assess proposals and business plans.

2.4 As at 30 November 2014, the Crown and industry partners together had committed $680 million to PGP programmes. The Crown had committed $322 million to 18 multi-year programmes, $129.5 million of which had been spent up to 30 November 2014.

2.5 Even when all programmes have been completed, and assuming that all of the programmes' goals will be achieved, it will take time for the long-term benefits of the programmes to affect the economy. However, the programmes we reviewed have started to achieve results that indicate progress towards long-term goals.

The purpose of the Primary Growth Partnership

2.6 The purpose of PGP is to increase the sustainability and economic growth of the primary and food industries by creating partnerships between the Government and industry that promote and increase private investment in innovation in primary industries. Programmes are intended to be led by the market and demand, with complementary benefits for the partners.

2.7 The industry partner must equal or exceed government investment in programmes. The combined investment should cover the whole value chain[1] including research, developing products and services, identifying new markets, and commercialisation.

2.8 The Ministry is responsible for introducing, managing, and monitoring PGP. The Ministry considers PGP to be an important way of achieving its goal in June 2012 of doubling the value of primary industry exports by 2025. This goal is part of the Government's Business Growth agenda. The Ministry also wants to encourage more private investment in research and development in New Zealand.

Earlier attempts to support innovation in primary industries

2.9 In 2007, the Organisation for Economic Co-operation and Development reviewed New Zealand's innovation policy and found that, because of the private sector's lack of contributions to research, New Zealand did not invest enough in research, science, and technology.

2.10 Also in 2007, the Primary Industries 20/20 Summit identified that public and private investment was needed to improve the environmental and economic performance of New Zealand's primary industries. The New Zealand Fast Forward initiative (Fast Forward) was developed as a response to this need for investment.

2.11 Fast Forward was a government-industry partnership initiative aimed at transforming the sustainability and productivity of the pastoral and food industries. Fast Forward focused on improving innovation throughout the value chain, such as identifying new markets and responding to consumer trends and opportunities in global markets. It was intended that the pastoral and food industries would be more agile and able to respond more quickly and adapt to demand-driven research and development priorities.

2.12 An up-front government investment of $700 million was to be spent over 10 to 15 years. Some primary industry entities agreed to match this investment over the same time, resulting in an estimated combined investment of between $1.5 billion and $2 billion. The Government and industry would work together through a jointly configured governance body, which would agree on priorities and make strategic investment decisions. Fast Forward was expected to be in place by 1 July 2008. On 3 July 2008, the Crown and six main investor groups signed a heads of agreement.

2.13 In November 2008, the Government changed. The Treasury advised the new Government that, although Fast Forward seemed "unwieldy", it had got

1 A value chain is the sequential set of primary and secondary activities that an enterprise performs to turn inputs into value-added outputs for its external customers.

industry buy-in and the industry had pledged significant funding.[2] The Treasury recommended retaining Fast Forward or, alternatively, funding innovation in primary industries through annual appropriations. The Treasury recommended that, if Fast Forward were dismantled, the Government work with industry to retain their commitment to pastoral and food innovation.

2.14 The new Government discontinued Fast Forward in February 2009 and developed a new innovation initiative for primary industries. The May 2009 Budget announced that PGP was a new government-industry partnership initiative.

How Cabinet intended the Primary Growth Partnership to work

2.15 In this section, we describe what Cabinet approved for how PGP would be set up and operated. There were some differences in putting PGP into practice. In Part 3, we assess what was done in practice.

2.16 In 2009, Cabinet approved setting up PGP. It assigned the following roles:

- An Investment Advisory Panel (IAP) assesses proposals and business plans.[3] The IAP recommends to the Director-General of the (then) Ministry of Agriculture and Forestry whether to invest government funds.[4]
- Programme Steering Groups (PSGs) are made up of representatives from the Government and the industry co-investor. Every programme has a PSG. PSGs were to develop the programme's business plan and are responsible for overseeing programmes.
- The Director-General of the Ministry of Agriculture and Forestry (Director-General)[5] approves government investment and is a point of contact for relationships between industry partners and the Crown.

2.17 The process for applying for and allocating PGP funding set out in the Cabinet minute was:

- The IAP calls for expressions of interest for programmes and considers all PGP proposals received. The IAP assesses proposals and determines which proposals will move forward to the business plan stage.

2 The Treasury (2008), Briefing to the incoming Minister of Finance 2008, Wellington, page 22.

3 In this Part, we refer to "business plans" because this reflects the language used in the Cabinet minute that approved the establishment of PGP. In all other Parts, we refer to "business cases" because this reflects the Ministry's preferred terminology.

4 In 2012, a restructure involving the Ministry of Agriculture and Forestry led to the creation of the Ministry for Primary Industries. Since then, the Director-General of the Ministry for Primary Industries has accountability for PGP. In this report, we refer to both ministries as "the Ministry".

5 In this report, "Director-General" refers to both the Director-General of the Ministry of Agriculture and Forestry and the Director-General of the Ministry for Primary Industries.

- PSGs were to be formed to develop proposals into business plans for the IAP to consider further.
- The IAP assesses business plans and recommends whether the Director-General should approve government investment in them.
- The Director-General decides whether to approve government investment and, if so, the subsequent contracting of programmes commences.
- When business plans are approved, the PSGs were to arrange for contracts to be entered into and become responsible for overseeing the programme.

2.18 The Ministry received the role of secretariat. Its role was to ensure that processes and documentation are of the highest quality, which would support the IAP to make recommendations to the Director-General with confidence.

Primary Growth Partnership conditions and criteria

2.19 When Cabinet approved PGP, it agreed to the following conditions for investment programmes:

- Industry and government investment is to be in line with, but in addition to, existing initiatives and work programmes. Programmes are expected to be "beyond business as usual".
- Programmes will contain complementary and mutually supporting projects targeted at a range of points along the value chain.
- There will be an overall "matched investment" from industry and the Government for each programme.
- Partners will come to a binding agreement about securing government and private investment during the programme.

2.20 Cabinet also agreed the following criteria that business plans were required to show:

- how the activity would result in economic growth and increased sustainability;
- how the proposal fits with the sector's overall strategic direction and activities;
- the new activities that must take place throughout the value chain, from research to commercialisation;
- key performance indicators (KPIs) that can be used to measure outcomes;
- the likely beneficiaries and their contributions; and
- why the Crown needs to invest in this activity or aligned activity – the public good aspects of the proposal.

2.21 Cabinet stated that the IAP would assess programme proposals against those conditions and criteria. Cabinet also stated that, in determining "additionality" of investment, acceptance of in-kind contributions will be at the discretion of the IAP.

Summary of committed funding and results

Summary of funding committed to industries and programmes

2.22 As at 30 November 2014, the Crown and industry partners had invested in 18 programmes in nine primary industries. Two programmes were completed[6] and 16 were under way. Figure 2 shows the number of programmes and the funding that the Crown and the industry partners together had committed as at 30 November 2014 to each primary industry.

Figure 2
The number of Primary Growth Partnership programmes and funding committed to each primary industry, as at 30 November 2014

Sector	Number of programmes	Budget $million
Wool	1	30.3
Dairy	2	173.7
Fishing and aquaculture	2	74.1
Meat	4	315.8
Pastoral	3	44.5
Beekeeping	1	2.9
Forestry	3	12.8
Viticulture	1	17.0
Horticulture	1	8.6
Total	**18**	**679.7**

Source: Ministry for Primary Industries.

2.23 Figure 3 shows the Crown, industry, and combined commitment to each of the programmes we reviewed as part of our audit.

6 The two completed programmes are Stakeholders in Methyl Bromide Reduction Incorporated (STIMBR) and Stump to Pump – forest waste to liquid fuels. These programmes were not part of our six selected programmes. For further details of these programmes, see the Ministry's website, www.mpi.govt.nz.

Figure 3
Crown, industry, and combined commitment over time to the six Primary Growth Partnership programmes we reviewed, as at 30 November 2014

Programme	Crown commitment $million	Industry commitment $million	Total $million
FarmIQ	59.3	91.3	150.6
NZSTX	15.15	15.15	30.3
Dairy Value Chain	84.6	85.7	170.3
PSH	24.0	24.0	48.0
FoodPlus	38.7	38.7	77.4
Seeds	7.15	7.48	14.63
Total	**228.9**	**262.33**	**491.23**

Source: Ministry for Primary Industries.

Examples of results

2.24 Although the intended long-term benefits of the programmes have not yet been realised, the results indicate progress towards achieving them. Figure 4 lists some examples of recent results of the six programmes that we reviewed. This is not an exhaustive list of all results achieved within these programmes.

Figure 4
Examples of results achieved by the six Primary Growth Partnership programmes we reviewed

Programme funded	Examples of results achieved
FarmIQ	An end-to-end integrated value chain for beef is now operational, with market launches of cuts backed by the Beef Eating Quality System, and premium payments and information being fed back to supplying farmers. Ten new, premium, fast-moving, consumer-good retail products and four hotel and restaurant-focused brands have been launched. Electronic tracking systems have been installed through participating plants, enabling the capture of quality and yield information for cattle, deer, and sheep. Farm Management System launched commercially as "FarmIQ System" in August 2014. All Landcorp farms went live on the FarmIQ System in May 2014 and are providing positive feedback. Eleven IQ Farms are acting as exemplars for the programme and sharing knowledge and experience with other farmers in their region. 10,000 individual sheep have been genotyped and predictions developed for several meat quality traits.

NZSTX	Enhanced direct supply contracts are in place with market partners from New Zealand, the United States, the United Kingdom, China, Japan, Germany, and Italy for fine and mid-micron wool. Uptake by fine-wool ram breeders, who provide about 75% of fine-wool rams sold in New Zealand, of the tools required to generate estimated breeding values. Forage trials have identified legume options for increasing fine-wool sheep production in difficult high-country farming areas. The establishment of SILERE alpine merino as a branded programme for merino meat, with supply contracts with farmers to support the programme. Progress in the development of breeding for resistance to footrot in merino sheep.
Dairy Value Chain	Improved production and resilience of cows within the national dairy herd. On-farm technologies and information systems provide information to farm managers to improve their practices. Training, certification, and accreditation programmes have been developed and are operating for farmers and rural professionals to strengthen industry skills in nutrient, effluent, animal welfare, people, and farm system management. New prototype statistical tools are in use in Fonterra factories to improve control of product quality. Science outputs from the programme being used in new product development projects are expected to lead to commercialisation of new mozzarella and cream products.
PSH	Prototype nets and new trawling techniques are performing well against the objective of delivering low-fatigue, low-damage, and high-value fish. The first trawl prototype net has been tested under commercial conditions.
FoodPlus	Prototype food products have been produced. Six new products have moved from development within the programme to acceptance by ANZCO Foods Limited for commercialisation. Prototype products are being evaluated for stability, microbiology, and storage/shelf life. This is an important step in determining the viability of new products. Functionality of protein from a variety of sources has also been investigated for using in novel food products.
Seeds	Increased the production from seed trials under conditions of high drought and disease stress. The first seed crop containing a fungus with improved bioactivity. Demonstration of the improved water-use efficiency of a particular plant species (Hybrid Brassica).

3 Assessing proposals and business cases, and managing conflicts of interest

3.1 In this Part, we discuss:

- how PGP was set up;
- how PGP proposals and business cases were assessed; and
- how the Ministry managed conflicts of interest.

Our expectations

3.2 We expected that the Ministry would support the IAP to assess proposals and business cases. In particular, we expected to find that the Ministry had:

- set clear expectations for potential PGP applicants;
- ensured that assessments were based on clearly understood criteria;
- established clear and consistent processes for assessing proposals and business cases; and
- recorded openly and transparently the rationale for decisions about successful and unsuccessful proposals and business cases.

3.3 We also expected that the Ministry would effectively manage conflicts of interest when they arise.

3.4 To assess whether the Ministry's performance met our expectations, we reviewed documents about programme assessments and decisions to see whether criteria had been applied consistently and assessments recorded transparently. We analysed the process from proposal to the signing of the contract in the six programmes we reviewed. This included reviewing programme proposals, business cases, and minutes of governance group meetings. We reviewed correspondence between the IAP and the Ministry, and we discussed PGP processes and expectations with Ministry staff.

Summary of findings

3.5 The Ministry moved quickly to set up programmes with industry and, during early funding rounds, did not assign enough staff to support the introduction of PGP.

3.6 The Ministry followed the steps in the assessment process that Cabinet defined. However, the conditions and criteria for PGP funding were loosely defined during early funding rounds and were open to interpretation.

3.7 Over time, understanding of how to apply the conditions and criteria to assessments evolved. By 2012, the Ministry had assisted the IAP in reaching a view about how to apply some PGP conditions and criteria and made other improvements to better manage PGP.

3.8 In practice, the IAP's decisions were stated clearly. However, the Ministry did not always clearly and comprehensively record the reasons for the IAP's decisions, including how proposals and business cases met the conditions and criteria for PGP funding. Our review of six programmes showed one example where, in our view, Cabinet's requirement for KPIs in business cases was relaxed. The Ministry did not record clear and comprehensive explanations of why this requirement was relaxed.

3.9 The Ministry has suitable policies and practices to identify and manage any potential conflicts of interest with its staff, members of the IAP, and members of PSGs.

Moving quickly to set up the Primary Growth Partnership

3.10 When Cabinet approved the setting up of PGP, it noted that, in order for PGP to operate in "a timely and pragmatic manner", the governance of PGP will be "relatively light" and will make maximum use of existing mechanisms to deliver investment programmes.

3.11 The Ministry moved quickly to set up programmes. It assessed 69 proposals in the first two years of operation and has received 105 proposals to date.

3.12 In 2012, the Ministry commissioned an independent review (the 2012 review)[7] to identify potential improvements to PGP processes. The 2012 review acknowledged that the evolution of PGP in its first two years was a notable achievement. However, it concluded that PGP was introduced without "adequate preparatory work in the areas of policy and practice development". The 2012 review stated that, although the Ministry was addressing this, the lack of support had led to some problems, including "ad hoc and inconsistent practices".

3.13 For example, capacity for PGP was initially inadequate. Support for introducing PGP was shared by up to 20 policy analysts, who also had other responsibilities in the Ministry. In 2013, the Ministry commissioned an internal learnings review of PGP (the 2013 learnings review)[8] to identify how the management of PGP could be improved. The 2013 learnings review noted that Ministry staff felt that they were "helping out", which meant that staff did not feel accountable for the delivery of PGP or always follow proper process.

3.14 In our view, the Ministry did not adequately support the introduction of PGP. This is likely to have affected the Ministry's ability to adequately support the IAP to assess programme proposals and business cases during early funding rounds.

7 Broom, F. (2012), *Primary Growth Partnership – Process and Management Recommendations.*

8 Ministry of Agriculture and Forestry (2013), P*rimary Growth Partnership – Building the plane while flying it.*

3.15 The Ministry underestimated the size and complexity of commercial negotiations. A theme to emerge from our interviews was that it was sometimes challenging for the Ministry to achieve an equitable balance of skills and experience on PSGs between the representatives of the Ministry and the representatives of the industry partner.

3.16 Over time, the Ministry built capacity and capabilities to support PGP. For example, in 2013, the Ministry set up a PGP Directorate to help manage PGP. The Ministry has also sought an equitable balance of skills and experience by appointing senior Ministry managers to PSGs.

3.17 Additionally, there are independent chairs for some programmes appointed in conjunction with industry partners – for example, FarmIQ and PSH. For other programmes, the Ministry has appointed senior industry specialists as Ministry representatives on PSGs, including a chair on, for example, the PSG for NZSTX. Representation is different for different programmes, depending on the complexity of the programme, the state of the relationship between the partners, and how the partners want to operate together.

Assessing proposals and business cases

3.18 Our review of the six programmes showed that assessments of proposals and business cases followed the steps in the process that Cabinet approved in 2009.

3.19 In practice, the Ministry set up informal working groups known as Business Case Development Groups (BCDGs) of Ministry and industry co-investor representatives to prepare business cases. These BCDGs had no formal authority or formal meetings. Cabinet intended for PSGs, made up of industry representatives and Ministry staff, to be set up to prepare programme business cases.

3.20 The Ministry preferred the BCDGs because they allowed the industry partner to lead the preparation of business cases. The groups also gave the Ministry some distance for assessing completed business cases. The Ministry felt that using BCDGs to prepare business cases addressed Cabinet's intention for the Ministry to prepare business cases with industry partners.

The conditions and criteria for PGP funding were loosely defined during early funding rounds and were open to interpretation

3.21 Until 2012, proposals had a particularly low success rate. The 2012 review attributed the high failure rate of proposals to their low quality. The 2013 learnings review found that there was a lack of understanding in the Ministry about PGP, its intent, and its limitations. The IAP also told us that they were strong in judging intended outcomes of programmes and ensuring that key criteria were met, such as programmes being truly innovative.

3.22 Ministry staff told us that the Ministry failed to explain to industry applicants what PGP was in simple, understandable terms. The Ministry also failed to explain the nature of the partnership that industry was going to be part of.

3.23 In 2011, the Ministry and the IAP identified that helping applicants understand the nature of PGP and what they were looking for in proposals remained a significant challenge. We were told that different interpretations of what the criteria for PGP funding meant contributed to a wide variety and quality of applications.

3.24 The responsibility for helping industry with programme applications was unclear. When the Ministry and the IAP discussed who should help industry with proposals, there was concern that the IAP offering too much help might stifle the ideas and innovation of participants. The IAP and the Ministry decided that it was better for the Ministry to work with applicants. They considered that the IAP becoming too involved in the process could compromise its decision-making.

3.25 By June 2012, the Ministry had revised the conditions and criteria for PGP funding. It published the revised criteria and included them in written guidance to industry before subsequent funding rounds. Until the Ministry provided that clarification, it would have been difficult for industry participants to gain a full understanding of what was expected during early funding rounds. In our view, until June 2012, the conditions and criteria for PGP funding were loosely defined and open to interpretation.

Changing understanding of how to apply the conditions and criteria for PGP funding

3.26 The IAP is made up of representatives who provide the commercial knowledge and expertise to assess proposals and business cases.

3.27 The IAP considers all PGP proposals received. To ensure that programmes respond to market demand, the Ministry does not identify preferred areas for investment.

3.28 The IAP makes recommendations to the Director-General on whether business cases should be approved, based on how well the business cases meet the conditions and criteria that Cabinet approved (see paragraphs 2.19 to 2.21).

3.29 IAP minutes show that, on occasion, the IAP asked the Ministry to assist them in reaching a view about how to apply some programme conditions and criteria in certain circumstances. In particular, the IAP asked for assistance in deciding how to apply “in-kind spending”, “public good”, and “additionality” to its assessments of some proposals and business cases.

3.30 The Ministry discussed the IAP's questions at subsequent IAP meetings. The Ministry assisted the IAP in reaching a view about these matters in the first three years while programme proposals and business cases were assessed.

3.31 The IAP found the concept of additionality to be particularly difficult to apply. In the context of PGP, the Ministry's interest in additionality is about showing the need to invest public money and avoiding giving the appearance that it is subsidising industry by showing that funded programmes are additional to the usual work of the industry partner.

3.32 In May 2010, after three funding rounds had closed, the IAP was still asking the Ministry to clarify additionality and how to interpret and apply it in terms of the inputs and outputs of the programmes.

3.33 In May 2010, the IAP considered a paper that the Ministry had prepared about additionality. The IAP stated that additionality is not testable and is easier to describe than to measure. In our view, there are ways in which additionality can be measured. Over time, the Ministry has sought to assist the IAP in reaching a view about what is meant by additionality and how it can be assessed. The IAP told us that there needs to be some flexibility around how additionality is assessed to reflect different circumstances and that there are good, clear "ground rules" for judging additionality.

3.34 Our review of IAP minutes showed that the IAP last asked for assistance with deciding how to apply conditions and criteria to its assessments in December 2011. This suggests that, over time, the IAP's understanding of how to apply conditions and criteria has improved.

3.35 The Ministry considered advice from the various reviews and evaluations of PGP, addressing recommendations incrementally while managing PGP. For example, the Ministry accepted and addressed 51 of the 63 recommendations made in the 2012 review. In our view, this was necessary.

3.36 Of the remaining 12 recommendations, the Ministry noted that seven were out of scope or reflected current practice. The Ministry disagreed with the other five recommendations.

3.37 Other actions included setting up the dedicated PGP Directorate in 2013 to manage PGP. The Directorate enabled the Ministry to better focus its efforts (such as engaging with applicants and industry partners) and to manage critical PGP elements (such as process improvements and interpretation of programme conditions and criteria).

Clear assessment decisions were reached, but reasons for decisions were not always clearly and comprehensively recorded

3.38 Our review of proposal and business case assessment documents showed that the IAP reached clear decisions about whether to approve proposals and whether to recommend business cases for approval to the Director-General. Assessment documents also included clear statements about whether, in the IAP's judgement, the proposal or business case met the criteria for PGP funding.

3.39 Programmes proposals and business cases are assessed against PGP criteria. This is reflected in various documents, including the Ministry's letter to applicants summarising the IAP's assessment of proposals, the Ministry's advice to the IAP on business cases, and the Ministry's advice to the Director-General following the IAP's assessment of business cases. What is not clear from the minutes of IAP discussions and the IAP's letter to the Director-General following their assessment of business cases is how the IAP have considered advice on the criteria and taken alignment with the criteria into account in their assessments to reach their decisions.

3.40 In our view, current documentation of IAP discussions and decisions needs to be improved to provide a clearer, more comprehensive, and easier-to-follow trail connecting how PGP criteria have been considered by MPI and the IAP in informing decision-making. This will improve transparency and accountability.

3.41 The 2012 review recommended using the programme criteria as a quantitative tool. It also recommended that the Ministry develop scores or weighting for each criterion, to make IAP decisions more robust and transparent.

3.42 The Ministry did not agree to the recommendation for a quantitative tool to support assessments because it did not want to make the assessment process too prescriptive. It wanted ideas and discussion to continue to flow.

3.43 In our view, it is important to take account of the differences between proposals. Innovation is not a "paint by numbers" exercise. It is reasonable for the IAP to decide that a programme is worthy of funding even if, in its opinion, the programme does not meet all criteria equally, because different proposals and programmes have different objectives.

3.44 For example, environmental benefits appeared to feature more heavily in the PSH programme proposal than in the NZSTX proposal. The IAP considered that both programmes were eligible for PGP funding.

3.45 However, it is important to clearly record consideration of all of the conditions and criteria used to make a decision. This provides more transparency to the industry partners and other applicants, and enables accountability.

3.46 We expected to see clear and consistent processes for assessing programme proposals and business cases. When processes were not applied consistently, we expected the Ministry to clearly record the reasons for the inconsistency.

3.47 For one of the programmes we reviewed, the IAP recommended the business cases for approval with, in our view, underdeveloped KPIs. KPIs are a Cabinet requirement and indicate performance against milestones, which in turn indicates progress towards intended outcomes.

3.48 In its briefing on the funding approval for the Dairy Value Chain business case, the Ministry recommended that the Director-General approve government investment in the programme. The Ministry also noted that the business case "provides a good feel for what the programme will deliver but [the Ministry] will be seeking more clarity around robust and meaningful milestones and KPIs" should the business case progress to the contracting phase. In our view, the level of underdevelopment of the KPIs when the business case was approved was inconsistent with Cabinet's instructions. There might have been reasons for this. However, the Ministry did not clearly and comprehensively record the reasons for working differently with these industry partners.

3.49 Contract negotiations took nine months to complete and the initial programme contract contained KPIs in the form of milestones and achievement measures. In our view, some of these KPIs were still underdeveloped. Since the start of the programme, additional KPIs have been identified and models have been developed that seek to demonstrate the path between the programme investment and the eventual benefits expected. The Ministry told us that it is working with industry partners to further improve some of the KPIs for this programme.

3.50 The Ministry told us that it expects programme objectives and intermediate outcomes to be well defined before PGP contracts are finalised. This includes having measures of progress towards outcomes for the first few years of programmes. All contracted programmes are required to have these measures, which are published on the Ministry's website. However, the Ministry considers that it is not always cost-effective to develop longer-term KPIs in advance of programmes starting, as measures are sometimes dependent on future activity. In our view, this practice seems pragmatic and sensible.

Recommendation 1

We recommend that the Ministry for Primary Industries improve current documentation of Investment Advisory Panel discussions and decisions so that there is a clear, comprehensive, and easy-to-follow trail connecting how Primary Growth Partnership criteria have been considered by the Ministry and the Investment Advisory Panel in informing decision-making that aligns programmes with Primary Growth Partnership objectives.

Managing conflicts of interest

3.51 New Zealand's small population and the interwoven nature of our primary industries and the people involved mean that conflicts of interest related to PGP or the respective programmes are likely. The Ministry has a duty to effectively manage conflicts of interest when they arise.

3.52 The Ministry has policies and practices in place to identify and manage any potential conflicts of interest with its staff, the IAP, and the PSGs.

Managing conflicts of interest of IAP members

3.53 IAP minutes show that, at the start of every meeting, IAP members would declare any conflicts of interest they might have. The IAP would discuss these possible conflicts and decide how best to manage them. This practice has been applied consistently.

3.54 We saw an example of an IAP member declaring a conflict of interest before the IAP considered a proposal. The IAP agreed that the member would contribute to discussions about the proposal but not participate in decision-making.

3.55 We saw another example where an IAP member declared a conflict of interest and left the room on three occasions while discussions about the proposal took place.

3.56 In 2010, the then Minister of Agriculture and Forestry wrote to us asking for advice on the way that the Ministry was managing conflicts of interest of IAP members within PGP. We found the Ministry's systems to be suitable and offered advice about how it could strengthen its systems to make them more transparent. We encouraged the Ministry to make conflict of interest systems and situations public, to ensure that there is greater transparency. The Ministry now publishes a register of IAP members' interests on its website and updates this as interests are declared.

Managing conflicts of interest of PSG members

3.57 The PGP Operational Policy Statement on Programme Governance (the policy) includes details about managing conflicts of interest of PSG members. The policy states that members must declare any potential conflicts of interest at the outset of the programme, and at any stage during the programme should conflicts of interest arise.

3.58 The policy provides for either partner to object to the appointment of a member if it believes, on reasonable grounds, that the member has a conflict of interest. Reasonable grounds for considering that a PSG member has a conflict of interest include whether a member:

- has links to a competitor organisation of the industry partner;
- poses a risk to the reputation of the programme; or
- is not considered to be a suitable person to be a member of the PSG.

3.59 In our review of the six programmes, we saw no examples where PSG members needed to declare a conflict of interest.

Managing conflicts of interest of Ministry staff

3.60 The Ministry's code of conduct refers to its organisational conflict of interest guidelines. The conflict of interest guidelines provide Ministry staff with guidance on how to identify and manage conflicts of interest.

3.61 During our audit, the Ministry indicated that it would adopt a new practice to support its management of conflicts of interests relating specifically to PGP. The Ministry will require members of the PGP Directorate to review any conflicts of interest before allocating responsibilities for working on newly received proposals.

3.62 In our review of the six programmes, we saw no examples where Ministry staff members needed to declare a conflict of interest.

Building partnerships

4

4.1 In this Part, we discuss:

- partnerships between the Ministry and industry;
- the Ministry's flexible approach to building partnerships;
- how some of the Ministry's management practices reflect partnership;
- the Ministry's focus on collaborating with industry and with other government entities; and
- the need to ensure that partnerships are successful over the long term.

Our expectations

4.2 We expected each partnership between the Ministry and its industry partner to be unique, meaning that the Ministry would not take a "one size fits all" approach to partnerships.

4.3 We expected that the Ministry would have a clear understanding of partnership and that partnership practices would be evident throughout PGP activities. Specifically, we expected that the Ministry would be responsive and supportive, to ensure that industry partners would achieve the intended long-term benefits of the programmes.

4.4 We expected that the Ministry would show that it was flexible, showed good faith towards the industry partner, and allocated appropriate resources to support the partnership. We also expected contracts to contain clear provisions about the management and ownership of intellectual property resulting from the programmes.

4.5 To assess whether the Ministry's performance met our expectations about how it built and maintained partnerships, we looked at evaluations and reviews of PGP, programme contracts, Ministry correspondence, IAP minutes, PSG minutes, and programme business cases. We reviewed evidence from our interviews about PGP programmes and how those partnerships were built and maintained.

Summary of findings

4.6 Partnerships are in place that are working for the benefit of programmes. Although some partnerships have experienced difficulties and needed to improve over time, some difficulties between partners are to be expected during a programme. Improved partnerships over time were a feature of all six programmes we reviewed.

4.7 The Ministry takes a flexible approach to partnerships. Over time, the Ministry has taken steps to better manage PGP and to better support its partnerships with industry.

4.8 PGP contracts include provisions that reflect how the Ministry and industry intend to work in partnership. When needed, the Ministry works with industry towards mutually agreeable solutions. The Ministry is prepared to hold its industry partners to account for meeting their obligations under PGP contracts.

4.9 The Ministry has introduced a stronger focus on collaborating with industry by promoting more engagement with and between industry partners. The Ministry is also putting more emphasis on working with other government entities.

4.10 Ensuring that partnerships are successful over the long term will be an ongoing challenge for the Ministry.

Partnerships between the Ministry and industry

Some partnerships have experienced difficulties after a pragmatic but challenging start

4.11 In the six programmes we reviewed, we saw examples of some partnerships that appeared to work well from the beginning and others that experienced difficulties and needed to improve over time. Prolonged work on business cases and long contract negotiations characterised early difficulties between partners.

4.12 Evidence from interviews and IAP correspondence showed that some relationships between partners were strained. We were told that some relationship difficulties were caused by partners talking past each other or not understanding the nature of the relationship they were supposed to be working in.

4.13 We recognise that forming effective partnerships can take time. Therefore, some relationship difficulties between partners are inevitable, particularly during the formative stages of a programme when the partners are learning to work together.

4.14 Some difficulties could have been avoided. For example, the 2013 learnings review found that the Ministry initially had inadequate capacity for introducing PGP and underestimated the size and complexity of some commercial negotiations (see paragraphs 3.13 to 3.16). In our view, this sometimes affected how the Ministry worked with its industry partners.

A flexible approach to partnerships

4.15 Ministry staff told us that the Ministry failed to explain to industry applicants what the nature of the partnership was that industry would be expected to work in. The 2012 review stated that the concept of partnership was being used in different ways. It recommended that the Ministry define what partnership meant and work partnership principles into all PGP practices and policies.

4.16 The Ministry did not accept this recommendation because it did not want to risk dictating the terms of partnership to industry applicants. It did not want to lose the "spirit of partnership" before the partnership had begun. However, Ministry staff said that industry partners often ended up defining partnership anyway.

4.17 We understand the Ministry's position. Each partnership between the Ministry and its various industry partners will be different because of the diverse nature of the programmes. Therefore, the Ministry needs to tailor its approach to partnerships, taking into account the nature of the work and the people involved. In our view, when forming new partnerships, managing human relationships between partners in a way that fosters trust and appropriately manages risk is more important than rigidly keeping to a set formula.

Taking steps to better manage PGP and better support partnerships with industry

4.18 In paragraphs 3.35 to 3.37, we discussed how the Ministry addressed 51 of the 2012 review's 63 recommendations. Although not all of these recommendations were specifically about partnership, we consider that many of the recommendations that the Ministry accepted support engagement between partners. For example, improved written guidance to applicants for PGP funding increases the likelihood of the proposal succeeding. The improved guidance also supports the relationship between potential partners from the beginning of their relationship.

4.19 The PGP Directorate set up in 2013 also improved how the Ministry managed PGP. As well as improving the Ministry's ability to manage critical PGP elements, the PGP Directorate supported partnerships by increasing the Ministry's ability to work effectively with industry partners.

4.20 The PGP Directorate is made up of one director, one manager, one principal adviser, one portfolio adviser, one business support analyst, one development adviser, and five investment managers. The PGP Directorate seeks input from other Ministry staff to help with assessments and draws on industry expertise throughout the Ministry. Investment managers seek to provide consistent support to PGP by sitting on PSGs and working with programmes. The principal adviser and development adviser work with industry parties as they develop proposals and business cases.

4.21 In our view, providing continuous and consistent support for PGP from the beginning would have helped the Ministry and industry to build more effective partnerships.

Management practices and working in partnership

4.22 We observed several instances where, in our opinion, the Ministry's management practices reflected its partnership with the respective industry partners.

Management of PGP Agreements

4.23 PGP agreement is the preferred Ministry terminology for the contract between the Ministry and its industry partner. These contracts include provisions that reflect how the Ministry and industry intend to work in partnership. For example, provisions about how the partners will work together in good faith, dispute resolution processes, and the ownership and management of intellectual property (IP).

Introducing good faith clauses to contracts over time

4.24 To achieve the programme's long-term benefits and an effective partnership relationship between the Ministry and industry, contracts need to reflect the obligations of the parties. The contracts for the six programmes we reviewed showed continued improvement to appropriately reflect partnership.

4.25 An example of programme contracts reflecting the idea of partnership was the inclusion of a "good faith" clause. The PSH, Seeds, and FoodPlus contracts include a good faith clause that sets out how the partners will work together during the programme. The clause outlines how each party shall, acting reasonably and in good faith, work together to satisfy the requirements of the contract and work towards successful completion of the programme.

4.26 Early contracts did not include a good faith clause. At first, the Ministry used contract templates from the Foundation for Research, Science and Technology (FRST) for programmes. Because they were designed for a different purpose, the contract templates were not suitable for PGP. As a result, discussing matters about contract style instead of about the content and delivery of the programme delayed contract negotiations.

4.27 The Ministry recognised that the FRST contract templates were not suitable for PGP and began changing the template to better suit the needs of the Ministry and industry partners. This included introducing the good faith clause, which is now included in the PGP contract template.

Contracts defined a clear dispute resolution process

4.28 If the Ministry had significant concerns with the performance or delivery of a programme, it took a three-step approach:

1. At first, the Ministry can raise any concerns about a programme with the respective PSG.
2. If the PSG does not resolve the concerns, the chief executives of the Ministry and the industry partner discuss them.
3. If the concerns are not resolved after discussions between chief executives, an independent performance review may be commissioned.

4.29 This process shows that the Ministry is willing to talk about performance concerns with partners and arrive at mutually agreeable solutions. In our view, this could avoid unnecessary conflict between partners and disruption to programme activities. We saw no examples of concerns between partners leading to an independent performance review.

All contracts contained clear provisions about the ownership and management of intellectual property

4.30 All contracts we reviewed clearly define the ownership of existing IP and provided guidance about how partners will work out the ownership of IP resulting from the programme. Arrangements for the ownership of IP differed between programmes.

4.31 All contracts we reviewed contained schedules to guide the management of IP. These principles are tailored for each programme and each partnership. Generally, the principles cover aspects such as how partners will work out the ownership of new IP and, where appropriate, the period during which the industry partner has exclusive use of new IP. For FarmIQ, the principles include guidance about how partners will manage unanticipated benefits arising from new IP.

4.32 Creating certainty about the ownership of new IP is unlikely until the partners fully understand the nature of any new IP. A principles-based approach to managing the ownership of new IP is appropriate as long as the principles are clearly understood.

4.33 In some instances, certainty about particular aspects of managing new IP was achievable. For example, the PSH contract describes the arrangements for sharing IP between the Ministry and the industry partner. The contract clearly shows ownership of new IP that the programme generates.

4.34 The arrangements for ownership of IP are different for different programmes. These differences are to be expected because each programme and each partnership is unique. However, it is important for the transparency of PGP that the Ministry clearly records the reasons for its agreements about the ownership of IP. For the six programmes we reviewed, the reasons for the decisions about the ownership of IP were not consistently recorded.

4.35 In our view, the reasons for decisions need to be recorded to ensure that PGP programmes are transparent. In practice, this enables the Ministry to demonstrate that decision-making has been considered, reasoned and rigorous.

Sharing intellectual property with an industry partner

4.36 We saw an example of the Ministry sharing its IP with an industry partner. We mention this because it shows how the partners arrived at a suitable solution to benefit the programme.

4.37 The Ministry shared specialist software with the PSH industry partner, to collect data while testing new fishing net designs. Sharing the software ensured that the information collected met government regulations and was compatible with the Ministry's data. The industry partner did not have to waste time and money creating similar software and could concentrate on other tasks.

Agreeing to exceptions to standard practices to support success

4.38 For four of the six programmes we reviewed, activities began before their respective contracts were confirmed. For example, the FarmIQ and Seeds programmes started early to account for the seasonally dependent nature of the programmes. To avoid risking the success of the two programmes, the Ministry agreed to start programme activities during contract negotiations. The partners agreed that, if a contract was not settled, the respective industry partner would meet the full cost of the activities.

4.39 Agreeing to start programme activities before the PGP contract had been confirmed showed how the Ministry effectively protected the public's investment in these programmes while, at the same time, being flexible enough to ensure that programmes would have the best chance of success.

Being prepared to hold industry partners to account for meeting contract obligations

4.40 Having a good partnership with industry is a delicate balance for the Ministry. It has to be flexible when working with industry to achieve programme results, enabling the partners to develop solutions to problems as they arise and maintain a good working relationship.

4.41 On the other hand, the Ministry is accountable for public money that has been committed to programmes and needs to know when to step in and escalate matters as needed.

4.42 The Ministry can seek to enforce contract requirements in several ways. These include inviting the industry partners to meet with the IAP to discuss any performance concerns, engaging in the dispute resolution process, or withholding funding when other avenues have been exhausted.

4.43 We looked for examples of the Ministry enforcing contract requirements.

4.44 We found that NZSTX had funding suspended between July and September 2012 because finalising the annual plan for 2012/13 was delayed as the Ministry and the industry partner worked through how World Trade Organisation obligations affected the eligibility of some activities for PGP funding (see paragraph 4.48).

4.45 We also found that the Dairy Value Chain programme had funding suspended for a project between July and December 2012 because of delays in submitting an annual plan for 2012/13. Industry partners are required to submit an annual plan, which could include variations to the programme activities and annual budget for review and approval by the relevant PSG, by 31 May each year. If this time frame is not met, the programme is in breach of contract.

World Trade Organisation obligations are actively considered, and programmes are being managed accordingly

4.46 The Ministry, the IAP, and PSGs have to be careful that programmes comply with World Trade Organisation (WTO) obligations to ensure that there is no perception of, or actual, government subsidising of industries, which is not permitted under WTO obligations of promoting fair competition in trading. For example, in July 2013, the IAP noted that it needed to be aware of WTO obligations when considering overseas marketing activities of programmes.

4.47 Our review of the six programmes showed that consideration of WTO obligations is a high priority for the IAP and the Ministry.

4.48 When we reviewed IAP minutes about the NZSTX 2012/13 business case addendum, we found that the IAP had noted that almost $2 million for branded marketing activities was ineligible for PGP funding because of WTO obligations. To take account of this, the PSG agreed that the industry partner would fully fund the branded marketing activities. The Ministry suspended paying invoices for programme activities until the business case addendum was finalised and the contract variation had been signed off.

4.49 Another example of how WTO obligations were managed was the PSH programme's approach to net-testing. The most effective way to test fishing nets is to use them. The Ministry and the IAP were uncomfortable with funding PSH to catch fish during testing, which could be seen as subsiding industry.

4.50 To ensure that there was no perception of subsidising industry, the value of the fish caught was used to offset the cost of the net-testing. This meant that industry could not profit from government funding. On-board Ministry observers were involved in tracking the amount of fish caught. A further benefit of this approach was that fish caught for testing purposes were used rather than disposed of.

4.51 In our view, WTO obligations are being actively considered as part of the management of PGP and programmes are being managed accordingly.

Encouraging collaboration

The Ministry has introduced a stronger focus on collaborating with industry by promoting engagement with and between industry partners

4.52 The Ministry told us that it is encouraging relationships between industry partners and, since 2013, has been working with them as a "community" by promoting more engagement. This includes regular communications with industry partners, annual PGP meetings, and thematic workshops. These workshops are intended to support collaborative action and thinking on matters and opportunities that have been identified during PGP programmes.

4.53 The Ministry hosted the first partner's workshop in April 2014, which identified themes for subsequent workshops.

4.54 In the second half of 2014, the Ministry hosted four thematic workshops – about intangible assets and IP, extension strategies, technology transfer, and data systems and databases. The workshops were attended by representatives of current PGP programmes, and several Ministry staff. These workshops provide an opportunity for primary industries to share ideas about ways to maximise collaboration among the programmes. The Ministry plans to continue holding thematic workshops and has a workshop scheduled in January 2015 on Māori agribusiness.

More emphasis on collaborating with other government entities

4.55 Ministry staff said the Ministry was putting more emphasis on working with other public entities. Its main relationships are with New Zealand Trade and Enterprise and the Treasury. It also wants stronger relationships with Callaghan Innovation and the Ministry of Business, Innovation and Employment. The Ministry wants to act as a broker that can connect applicants and PGP industry partners with other relevant services offered by other public entities.

Ensuring that partnerships succeed in the long term

4.56 PGP partnerships underpin the successful achievement of programme outcomes in the long term. The Ministry needs to ensure that it engages effectively with its industry partners on an ongoing basis.

4.57 This means that the Ministry is continually looking at the health of its partnerships and for opportunities to strengthen and promote partnerships to ensure that they are effective. In Parts 3 and 4, we discussed how the Ministry has been doing this by taking a flexible approach to partnerships, seeking to ensure that it has adequate representation on PSGs, and setting up a dedicated PGP Directorate, which improved the Ministry's ability to engage with industry partners.

4.58 Among other things, it is important that the Ministry ensure that there is an appropriate balance of skills, experience, and influence between the partners in the programmes.

5 Measuring progress towards Primary Growth Partnership objectives

5.1 In this Part, we discuss:

- long-term benefits and results;
- how the Ministry monitors the progress of PGP programmes;
- the Ministry's intention for measuring PGP's achievements as a whole; and
- how the Ministry shares results with the public.

Our expectations

5.2 We expected that the Ministry would use good information to govern programmes effectively. Effective governance includes monitoring whether programmes are being delivered, using information to achieve programme goals, and reporting results in an open and transparent way. We also expected the Ministry to have systems to evaluate programme results.

5.3 We expected that the Ministry would be able to monitor and report progress on programmes and on PGP as a whole. We also expected the Ministry to have tools that would enable it to:

- assess how well investments were tracking;
- manage risk;
- view milestones and results; and
- report in an open and transparent way on the progress of each programme and PGP as a whole.

5.4 To assess these aspects, we reviewed strategic planning and risk documents, quarterly reports, IAP minutes, and Ministry accountability documents. We also talked with Ministry staff. We were given documents and presentations about new tools the Ministry is preparing.

Summary of findings

5.5 To date, the Ministry has focused its monitoring of PGP on individual programmes. Public reporting of results started late and, in our view, has been unsuitable because reports are inconsistently presented and sometimes too technical, which makes them hard to understand.

5.6 The Ministry has not yet been able to show what PGP as a whole has achieved. Since late 2013, the Ministry has been adopting a broader approach to managing PGP by introducing portfolio management to better demonstrate the value over time of PGP investment. The Ministry expects the portfolio management system to be operating by mid-2015.

5.7 It is too soon to observe any economic benefits of the six programmes we reviewed. However, results are being achieved that indicate progress towards the expected long-term benefits.

5.8 At the programme level, progress is being monitored and measured. Quarterly reports on the respective programmes provide a comprehensive view of programme activities and progress. These reports enable PSGs to track the progress of programmes and to carry out their governance role effectively.

5.9 The Ministry began public reporting about the progress and achievements of individual programmes in 2013. This was well into the life of some of the programmes and should have started earlier to provide transparency. Public reporting needs to be simpler and more readily understandable to appropriately inform members of the public about the performance of PGP programmes. The Ministry has not yet reported to the public about the achievements of PGP as a whole.

Long-term benefits and results

5.10 The six programmes we reviewed are multi-year and have long-term goals. One programme will be completed in 2015. The remainder will be completed before or by 2019. Even when all programmes have been completed, and assuming that all of the programme goals will be achieved, there will need to be time for the long-term benefits of the programmes to affect the economy.

5.11 The business cases of the six programmes showed that a range of economic benefits were expected to be achieved by 2019 and beyond.

5.12 In 2014, the Ministry asked the New Zealand Institute of Economic Research (NZIER) to investigate PGP's economic effects and analyse potential growth in exports and gross domestic product and other economic measures. The report shows that PGP could add up to $6.4 billion to New Zealand's GDP from 2025, with the possibility of a further $4.7 billion if all the research and development is successful, the aspirational stretch of programmes is achieved, and the innovations are taken up widely. The NZIER found that the estimated effect on GDP has a high benefit-cost ratio, which it said indicates that PGP is a worthwhile investment of government funds.

5.13 It is too soon to observe the economic benefits of PGP programmes, and it will be at least five to 10 years before we see the extent to which New Zealand's primary industries achieve the anticipated economic benefits.

Results indicate progress towards long-term goals

5.14 Each PGP programme is made up of several different projects that together contribute to the programme's overall goals. We assessed whether projects in all six programmes were on track.

5.15 Most projects in the six programmes were on track. However, the status of one project we reviewed was not on track and the industry partner had decided to remove this project from the programme.

5.16 Results are being achieved that indicate progress towards long-term goals. For example, the FoodPlus programme has reported that product development work is progressing and that some new products will be commercialised in the next year. Figure 4 following paragraph 2.24 provides more examples of the results of the six programmes.

Monitoring of programmes

Monitoring information provides a comprehensive view of programme activities and progress

5.17 Industry partners are required to report to their respective PSGs about their programmes, including activities carried out and progress towards achieving results. Effective programme monitoring and reporting allows the Ministry, the IAP, and PSGs to manage risks, provide appropriate oversight of programme activities, and monitor whether programmes are being delivered successfully.

5.18 Quarterly reports that industry partners submit to their respective PSGs are usually in-depth and highly detailed. They provide a comprehensive view of programme activities and progress. Quarterly reports include information about programme progress, human resourcing, communications, financial management, and work the industry partners have done with related parties to build relationships and keep them informed.

Monitoring information allows PSGs to track the progress of programmes and supports PSGs to carry out their governance role effectively

5.19 For the six programmes, PSG minutes showed that monitoring data was discussed and used to keep the Ministry informed, monitor progress, and help to make decisions about managing programmes.

5.20 For example, quarterly reports inform PSG decisions about whether to approve communications about programmes. PSGs also use information taken from quarterly reports to inform their decisions about whether to approve invoices for submission to the Ministry for programme activities.

5.21 Another example of how PSGs use monitoring information is a PSG approving additional programme activities. The Seeds PSG endorsed extra pasture trials to get a clearer understanding of the effectiveness of seed additives. The PSG acknowledged the likely increased expenditure by the industry partner.

5.22 Our 2013/14 annual audit of the Ministry involved auditing a sample of the Ministry's monitoring, control, and governance arrangements for PGP. The audit noted no concerns about the quality or regularity of reporting to relevant PSGs. It noted evidence that PSG members regularly questioned and challenged reported expectations.

5.23 However, during that audit, we found an example where the quality of reporting to a PSG had been inadequate for some time. In 2012, the Ministry raised concerns with one of its industry partners about the quality of reports provided to the respective PSG. In particular, the Ministry raised concerns that not enough details of programme activities were reported, meaning that it was unable to adequately monitor progress towards the programme's original long-term objectives.

5.24 In response, the industry partner prepared a revised reporting template. In 2013, the Ministry noted that the most recent quarterly report had more clearly showed how the programme's activities linked to its long-term objectives.

5.25 In our view, the emphasis the Ministry places on monitoring and reporting allows the PSGs to track the progress of programmes and to carry out their governance role effectively.

Measuring achievement as a whole

The Ministry has not yet been able to show what PGP as a whole has achieved

5.26 The Ministry has taken a programme-by-programme approach to measuring the achievements of PGP, although it began introducing a more strategic approach in late 2013 (see paragraph 5.30). In our view, this programme-by-programme approach has contributed to the Ministry not yet being able to show what PGP as a whole has achieved.

5.27 Our review of individual programme monitoring information, such as quarterly reports, showed that the Ministry has access to the information it needs to measure the progress of PGP as a whole. This includes information about:

- how well investments are tracking;
- money spent on programme activities;
- progress towards milestones and results; and
- risks to programmes and partners.

5.28 However, the respective industry partners prepare the quarterly reports for each programme. Quarterly reports are presented in a range of different formats and reflect the terminology and style of the industry partner that prepared the report. Because of this, the Ministry receives markedly different quarterly reports from programme to programme, making it difficult to compare programmes.

5.29 By focusing on programmes in isolation, the Ministry is unable to generate an overall view of all programmes. It has not yet been able to show what PGP has achieved as a whole, acknowledging the long-term nature of PGP. The Ministry is building systems to enable it to do this.

A more strategic approach to managing PGP

5.30 Since late 2013, the Ministry has been introducing a more strategic approach to managing PGP. This is meant to help the Ministry manage, measure, and report on the PGP portfolio. The Ministry expects that the work it has under way will enable it to track progress towards portfolio-level outcomes and communicate the combined benefits at a portfolio level using categories such as new products, new technologies, and job creation. The Ministry expects to have the portfolio management system operating by mid-2015 and will refine it over time, including integrating it with wider Ministry investment management systems.

5.31 So far, for example, the Ministry has created and is using three portfolio risk registers that consolidate risks from all programmes in three categories:

- risks to programmes;
- risks to industry partners; and
- risks to the portfolio.

5.32 The registers show potential risks, the effects and consequences that they could have, and planned actions to mitigate the risks. By grouping risks in this way, the Ministry is able to consider risks to PGP as a whole as well as to the respective programmes and partners.

5.33 The Ministry also showed us a new tool called a “Strategic Journey Map” (the map). The Ministry told us that this tool would provide an overall view of programmes, bringing together information about the milestones, deliverables, and results from all programmes within PGP. We were told that the map would help the Ministry to track, evaluate, and communicate what the programmes are achieving.

5.34 The Ministry is confident that the map will allow it to track progress and communicate results to the public. The Ministry expects the map to be in place by June 2015. The intent of the map is promising.

5.35 However, the Ministry should have considered making these improvements sooner.

5.36 Because of the potential of PGP to increase the economic and sustainable growth of primary industries, the Ministry must prioritise strengthening the strategic management of PGP.

Recommendation 2

We recommend that the Ministry for Primary Industries ensure that the work it has under way results in reliable tracking and evaluation of the long-term outcomes and economic benefits that Primary Growth Partnership programmes and the Primary Growth Partnership portfolio achieve.

Sharing results with the public

5.37 In July 2013, the Minister for Primary Industries wanted to show PGP's value by increasing its transparency and accountability. One Ministry response to this was to share information publicly about the progress of programmes and what they are achieving. The Ministry did this by providing public reports on its website.

5.38 From a transparency perspective, the move to report publicly is beneficial. However, for some programmes that started in 2010, it was three years before information about them was shared with the public.

5.39 We reviewed how well the Ministry shares information with the public. Public reports on the Ministry's website contain a range of material, including:

- financial expenditure information;
- results from product and prototype testing;
- information about marketing and communication work;
- health and safety information; and
- information about the progress of programmes.

5.40 The information the Ministry currently reports publicly is prepared by the relevant industry partner based on quarterly reports to the respective PSGs. In our view, these reports are unsuitable for the public because they have been prepared for people with specialist knowledge of the relevant programmes. Public reporting needs to be simpler and more readily understandable to appropriately inform members of the public about the performance of PGP programmes.

5.41 The Ministry has not yet reported publicly about the achievements of PGP as a whole. The Ministry expects that the portfolio management work it has under way will enable it to do this over time.

Recommendation 3

We recommend that the Ministry for Primary Industries use a consistent and easily understood format to publicly report the progress and achievements of Primary Growth Partnership programmes and the Primary Growth Partnership portfolio.

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Other publications issued by the Auditor-General recently have been:

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- Government planning and support for housing on Māori land
- Ministry of Social Development: Using a case management approach to service delivery
- Water and roads: Funding and management challenges
- Making the most of audit committees in the public sector
- Accident Compensation Corporation: Using a case management approach to rehabilitation
- Challenges facing licensing trusts
- Annual Report 2013/14
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- New Zealand Transport Agency: Maintaining and renewing the state highway network – follow-up report
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- Ministry of Social Development: How it deals with complaints
- State-owned enterprises: Results of the 2012/13 audits
- Public entities' progress in implementing the Auditor-General's recommendations 2014
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