Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29[20e]

Managing the Provincial Growth Fund

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Managing the Provincial Growth Fund

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Contents

Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

In December 2017, the Government announced that it was setting up the Provincial Growth Fund (the Fund) to increase growth and development in regional New Zealand. The Fund was launched in February 2018 with $3 billion to invest over a three-year period.

Although the Fund is usually described as a single investment fund, it is actually a collection of separate initiatives and hundreds of projects that several government departments manage separately. Included in the Fund's $3 billion was $155 million set aside for administering the Fund and $215 million that was already going to be spent on regional economic development. Co-funding is a common feature of the Fund.

The main three government departments responsible for administering the Fund are the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, and the Ministry of Transport. The Provincial Development Unit, a business unit of the Ministry of Business, Innovation and Employment, is responsible for administering, monitoring, and reporting on the Fund as a whole.

There has been a high level of public interest in the Fund. It was established at pace and included a range of different types of funding arrangements. Therefore, as well as completing additional annual audit work on the three departments, we decided to do a more in-depth review of the systems and processes for managing, monitoring, and evaluating the Fund.

During the last two years, as well as briefing select committees about aspects of the Fund, we have provided several reports to the departments involved and made many recommendations (see Appendix 1). We did this to provide early and ongoing feedback on ways to improve Fund management. Despite the significant pressures they were under to achieve the Fund's objectives, the departments have responded positively to our recommendations, and there have been many improvements to the way the Fund operates.

The inherent complexity of the Fund, coupled with the evolving nature of its systems and processes, has created challenges for the departments and for our work.

This report brings together the results of all of our work to date on the Fund.

Systems and processes have improved over time

Because the Fund was established at pace, it was initially administered using systems and processes in place at the time. This led to some deficiencies in the Ministry of Business, Innovation and Employment's systems and processes in the Fund's early stages. For example, improvements were needed in how appropriations were administered, how conflicts of interest and contracts were managed, and how investments were tracked and reported. These systems and processes have improved over time.

Achieving balance in investments when funding criteria are broad

Cabinet set broad criteria for assessing applications to the Fund. I understand that this was to encourage and support a wide range of ambitious and innovative proposals. Because the Fund has broad criteria, applications for funding have been diverse.

The Fund was intended to develop a portfolio of investments spread throughout the regions, with particular focus on six "surge regions". An Independent Advisory Panel was expected to provide, among other things, advice to Ministers on the overall balance of investments across regions and sectors. However, it has been difficult to see how consideration was given to the overall balance of investments, in terms of the Fund's objectives and regional coverage, and therefore whether the balance sought has been achieved.

Manifesto commitments to the regions

Soon after the Fund was established, $30 million was approved by Cabinet and set aside for "manifesto commitments to the regions". After the first year, Cabinet approved adding another $40 million to this allocation for "emerging priorities".

By May 2020, seven projects totalling more than $45 million had been approved from this part of the Fund.

We were interested in the processes used to apply for and approve access to this funding. It was not always clear from the documentation why certain projects were considered for funding from this part of the Fund.

For these funding applications, the Provincial Development Unit provided the Regional Economic Development Ministers with information about the proposed projects. However, it was difficult to find evidence of how projects had fully met the normal criteria for the Fund. And, unlike other areas of the Fund, the Provincial Development Unit did not provide the Regional Economic Development Ministers with a recommendation for a decision. Ultimately, the Regional Economic Development Ministers made decisions on these projects in accordance with delegated authority given by Cabinet. However, given the different way these projects were considered, "manifesto commitments to the regions" were in effect operating as a "fund within a fund".

In my view, in the interests of the transparency of the overall process, it is important for the public and Parliament to have better visibility of how all the parts of the Fund operate.

Reporting on the Fund as a whole could be further improved

Cabinet saw the Fund as a single investment fund and set objectives for it as a whole. In my view, this means that Parliament and the public should expect to see how the Fund works, where money from it is being invested, and what it is achieving, both regionally and nationally. Despite recent enhancements to reporting, there are still improvements needed.

We acknowledge that the departments that administer the Fund have each reported on the parts of the Fund they are responsible for, in accordance with the requirements of the Public Finance Act 1989. They have also made publicly available additional information at the project level and by region. While all of this is necessary and helpful, it is not yet sufficient for a fund of this nature.

Although there have been many Fund announcements relating to individual projects, there needs to be full and relevant reporting about the nature and purpose of the Fund's investments and the impact of those investments against the objectives set for the Fund when it was established. In my view, this will strengthen the trust and confidence that the public has in how the Fund is being administered.

What has been achieved so far?

Cabinet asked officials to evaluate the Fund in 2020. The evaluation was expected to focus on the operation of the Fund to date, and assess the early impacts of projects, where these are available.

A draft evaluation plan was being finalised by the Provincial Development Unit as we prepared this report. The scope of the plan covers evaluation of only the investments administered by the Provincial Development Unit. The Provincial Development Unit's current draft plan will therefore not result in an evaluation of the Fund as a whole.

We understand that Ministers have been advised that an evaluation of the Fund, originally timed for 2020, will be delayed because of Covid-19 until mid-2021. In my view, evaluation is critical, given the Fund's ambition, size, and profile. The public is entitled to know how well the Fund has met its objectives and what benefits have been achieved for the public money spent.

I have recommended that a plan for evaluating the overall effectiveness of the Fund be completed and published as quickly as possible. We need to see how officials plan to give assurance to Parliament and the public about how the Fund's investments will affect regional and national outcomes.

I acknowledge that evaluating the outcomes of some projects can be difficult. This includes the challenge of working out how soon to evaluate projects' results after their completion. The extent to which observed changes can be attributed to specific investments can also be difficult. Covid-19 is likely to create even more challenges for officials evaluating the effectiveness of the Fund as a whole. Given the broad objectives that the Fund is seeking to achieve, this will require careful consideration. However, there is scope for evaluating and reporting on how well individual projects' contracts have been fulfilled, whether outputs announced when the projects were committed to were delivered, and early signs of the results being achieved by each project.

Despite the difficulties involved, I expect officials to demonstrate, to the extent possible, the effectiveness of the $3 billion investment.

In my view, the basis on which public money is allocated and spent, and what value is obtained from that expenditure, should be transparent to the public whose taxes are being spent.

Our ongoing focus on the Fund

The next phase of our multi-year work on the Fund will focus on how the three departments manage the Fund after a decision to redirect up to $600 million from the Fund to the Covid-19 response package. We then intend to examine how officials evaluate the Fund's overall effectiveness and the results of that evaluation.

Acknowledgements

Before becoming Auditor-General, I was a Deputy Director-General at the Ministry for Primary Industries. Matters involving that Ministry have been dealt with by the Deputy Controller and Auditor-General, in keeping with the policy of my Office.

I thank the many staff working in the government departments for their co-operation as we carried out our work and their responsiveness to the recommendations we have already made.

Nāku noa, nā

John Ryan
Controller and Auditor-General

31 July 2020

Our recommendations

We recommend that:

1. the Ministry of Business, Innovation and Employment further strengthen transparency about the operation of all parts of the Provincial Growth Fund's application, assessment, and decision-making processes;
2. the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, and the Ministry of Transport work together to continue to enhance consolidated reporting and more meaningfully report to Parliament and the public on the Provincial Growth Fund as a whole; and
3. the Ministry of Business, Innovation and Employment complete and publish, as quickly as possible, a plan for evaluating the overall effectiveness of the Provincial Growth Fund to ensure transparency of how officials plan to give assurance to Parliament and the public about what it is achieving, both regionally and nationally.

The Provincial Growth Fund at a glance

What is the Provincial Growth Fund?

The Provincial Growth Fund is an investment fund of $3 billion to be spent over three years, and it was launched in February 2018.

The focus is on six surge regions (shaded on the map). Projects in Auckland, Wellington, and Christchurch are ineligible for funding.

The Fund's objectives for regional New Zealand are to:

- create jobs, leading to sustainable economic growth;
- increase social inclusion and participation;
- enable Māori to realise aspirations in all aspects of the economy;
- encourage environmental sustainability and help New Zealand meet climate change commitments alongside productive use of land, water, and other resources; and
- improve resilience, particularly of critical infrastructure, and diversify our economy.

What is being funded?

The four largest sectors, by amount committed as at 31 March 2020, were:

- rail – $533.4 million;
- forestry – $437.3 million;
- tourism – $376.5 million; and
- roads – $244.9 million.

Who manages the Fund?

The Fund is primarily managed through a unit in the Ministry of Business, Innovation and Employment (MBIE) and also through several government departments.

The unit in MBIE is called the Provincial Development Unit. The other government departments mainly responsible for parts of the Fund include:

- the Ministry of Transport for road and rail projects;
- a different part of MBIE for tourism infrastructure;
- the Ministry for Primary Industries for the One Billion Trees programme; and
- the Department of Conservation for conservation projects.

How is the money paid out?

As well as grants, there can be:

- loans (where the applicant is expected to pay back the Crown);
- equity (where the Crown will take up an interest in the project, becoming a part owner);
- underwriting (where the Crown will buy an asset or guarantee the applicant funding if the applicant cannot dispose of the asset); and
- bespoke contracts (for example, contracts involving leasing land to plant trees as part of the One Billion Trees programme).

Spending by region, as at 31 March 2020

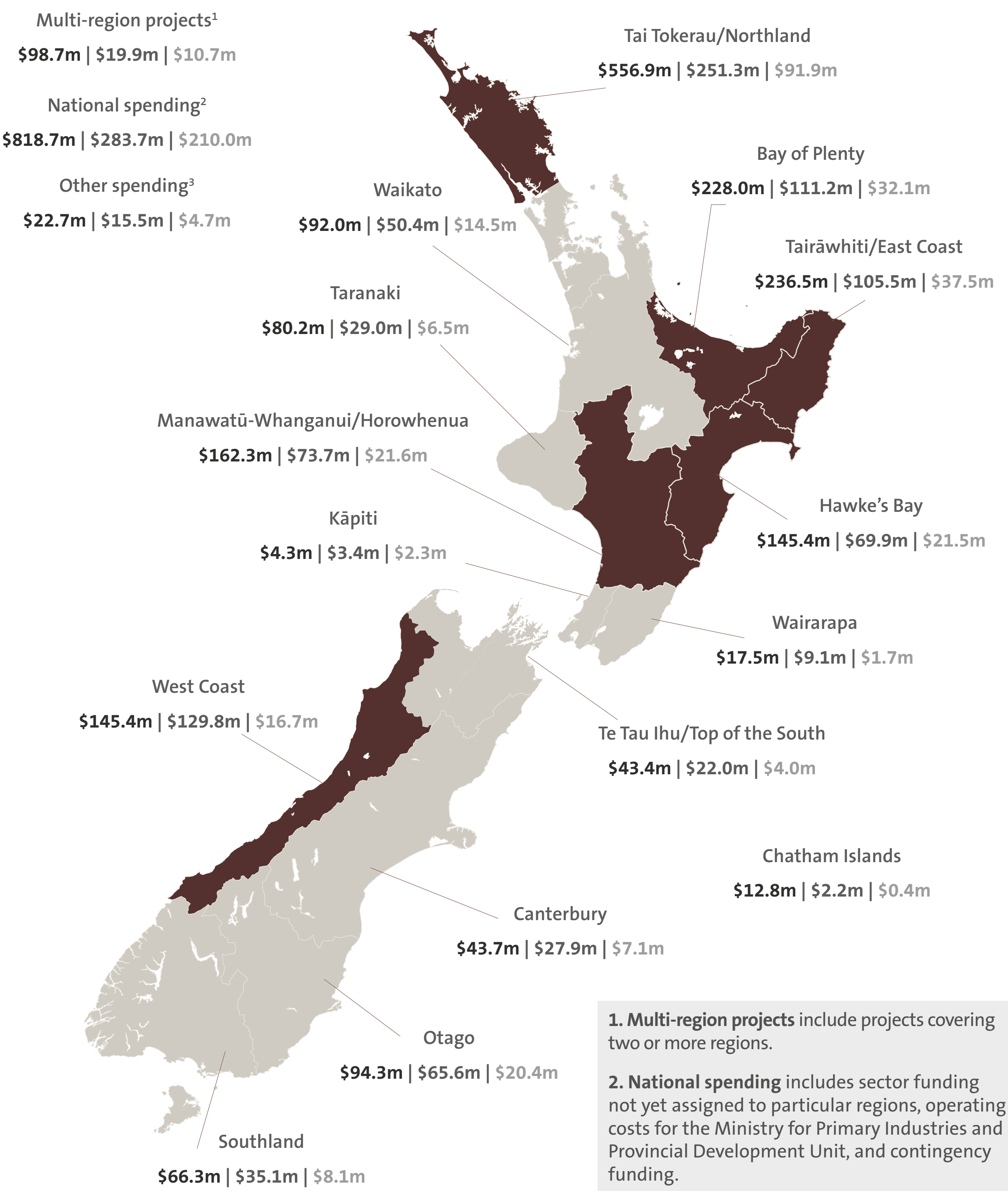
Key: Committed | Contracted | Spent to 31 March 2020

Committed funding has been "ring-fenced" for a particular purpose. Once specific projects are approved, contracts are agreed for those projects.

Totals: $2,869.0 million | $1,305.0 million | $511.7 million

Surge regions: **Shaded**

Exclusions: Auckland, Wellington, Christchurch



Source: Provincial Development Unit.

1. **Multi-region projects** include projects covering two or more regions.

2. **National spending** includes sector funding not yet assigned to particular regions, operating costs for the Ministry for Primary Industries and Provincial Development Unit, and contingency funding.

3. **Other spending** includes those projects that by their nature or location do not fit elsewhere (see paragraph 1.23).

1 Introduction

1.1 We are carrying out a multi-year programme of work looking at the Provincial Growth Fund (the Fund). This report focuses on our work looking at the systems and processes used to manage the Fund.

1.2 The Fund was launched in February 2018. It was announced as a $3 billion fund "to invest in raising the productivity potential of regional New Zealand" over a three-year period.[1] The costs of administering the Fund were expected to be funded from within the $3 billion.

1.3 From 2018 to 2020, the Government made further announcements that presented the Fund as a single investment fund[2] consisting of "a range of projects [and] larger sector-led initiatives and infrastructure investments".[3] The Fund is administered principally by the Ministry of Business, Innovation and Employment (MBIE), the Ministry for Primary Industries, and the Ministry of Transport (the three departments). Cabinet gave the Provincial Development Unit (PDU), a business unit of MBIE, the responsibility for administering, monitoring, and reporting on the Fund as a whole.[4]

1.4 The Fund's investments have a common purpose: to accelerate regional development, increase regional productivity, and help create more and better-paying jobs in the regions. To support this purpose, the Fund has several objectives:

- Create jobs, leading to sustainable economic growth.
- Increase social inclusion and participation.
- Enable Māori to realise their aspirations in all aspects of the economy.
- Encourage environmental sustainability and help New Zealand meet its climate change commitments while productively using land, water, and other resources.
- Improve resilience, particularly of critical infrastructure, and diversify our economy.[5]

1.5 The Fund was intended to develop a portfolio of investments during its three years that were to be spread throughout the regions, with particular focus on six regions (see paragraph 1.7). Cabinet expected an Independent Advisory Panel (IAP)

1 Provincial Development Unit (2018), *Investment Statement for the Provincial Growth Fund* at page 21. The Fund's proposed purpose, structure, and operation were set out in three Cabinet papers in December 2017, February 2018, and August 2018.

2 See www.beehive.govt.nz and Provincial Development Unit (2018), *Investment Statement for the Provincial Growth Fund* at page 21.

3 Provincial Development Unit (2018), *Investment Statement for the Provincial Growth Fund* at page 21.

4 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, at page 2.

5 Ministry of Business, Innovation and Employment, *Powering up Aotearoa – New Zealand's regions: The guide to the Provincial Growth Fund*, Wellington at page 5. The objectives for the Fund have not changed – see CAB-20-MIN-0197, *Provincial Growth Fund: COVID-19 Response: Redeployment and Acceleration*.

to provide advice on the balance of investments throughout the Fund[6] and senior regional officials to advocate for their regions and co-ordinate government support.[7]

1.6 In July 2018, the Minister for Regional Economic Development released an investment statement and guidance for the Fund that described the categories and process for applications. The investment statement acknowledged that, to avoid a "first come, first served" situation, less well-resourced regions would need support to develop proposals to access the Fund and that they would need to submit those proposals before the funding ran out.[8] Such support has been given by the senior regional officials[9] in the regions, and by the PDU.

1.7 Projects in Auckland, Wellington, and Christchurch are not eligible for funding. Six regions, called "surge regions", were identified as most in need of government investment to address social and infrastructure deficits.[10] The surge regions are:

- Tai Tokerau/Northland;
- Bay of Plenty;
- Tairāwhiti/East Coast;
- Hawke's Bay;
- Manawatū-Whanganui; and
- West Coast.

1.8 Although the Fund's criteria gave priority to applications from the surge regions, the criteria did not specify the amount of funding they would receive. Applications from all regions were still considered based on their individual merits.

1.9 The Fund has been presented as a new initiative and a single investment fund. However, it is made up of several different allocations of money in different appropriations that different government departments manage. Some of the announced funding is not new. In its first year, the Fund included about $215 million that was already going to be spent in regional New Zealand on forestry and tree planting, tourism infrastructure, and road and railway projects. Those funds are now considered part of the Fund's $3 billion.

6 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, pages 2 and 13.

7 Cabinet paper (December 2017), *The Provincial Growth Fund*, page 7.

8 Provincial Development Unit (2018), *Investment Statement for the Provincial Growth Fund* at page 10.

9 MBIE has relied on the small network of nine senior regional officials to help potential applicants transition to the new fund, to develop regional plans, and to help with their applications. The senior regional officials make decisions about applications for funding of up to $1 million.

10 Cabinet paper (December 2017), *The Provincial Growth Fund*, page 1.

Our work to date

1.10 Because of the Fund's scale and profile, there has been a high level of public interest in it. We paid particular attention to the processes and controls for allocating, monitoring, and evaluating the effect of funding distributed through the Fund.

1.11 Much of that work has focused on the three departments: MBIE, the Ministry for Primary Industries, and the Ministry of Transport. Within MBIE, we focused specifically on the PDU.

1.12 Figure 1 sets out the work we have done to date. We have further work planned, some of which will be part of the annual audits of the three departments and some of which will be looking at the changes to the Fund and its management in response to Covid-19. We will report on this work when it is complete.

Figure 1
Our annual audit and other work to date on the Provincial Growth Fund

	2017/18		2018/19				2019/20			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual audits in the three departments	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Additional annual audit work in the three departments	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Review of the PDU's work				✓	✓	✓	✓	✓	✓	✓
Advice to Parliament		✓		✓		✓				✓

1.13 Because of the speed with which the Fund was established, we wanted to answer two questions:

- Is there a framework that supports good decision-making throughout the term of the Fund?
- Is there an appropriate evaluation framework and plan for properly assessing the effectiveness of the Fund?

1.14 We expected the decision-making framework to include:

- clear roles and responsibilities for the Fund;
- clear and appropriate policies and guidelines that all the government departments and agencies managing the Fund use to support consistent administration;
- fit-for-purpose systems and processes for managing and monitoring the Fund and that hold recipients of funding accountable, including consistent assessment criteria and due diligence in approving applications;

- fit-for-purpose systems and processes for dealing with potential conflicts of interest; and
- clear guidance for applicants.

1.15 Our work was designed to give officials timely recommendations about the arrangements needed to strengthen how the Fund is managed. We wanted, where possible, to highlight any concerns early rather than comment on matters once issues had arisen or when it would have been too late for officials to take corrective action.

1.16 After the Fund was announced, we carried out preliminary work to review how MBIE, through the PDU, was administering the Fund. Acknowledging the short time frame that MBIE had to set up the necessary systems, processes, and controls, we made our first recommendations in December 2018. These recommendations were aimed at improving the overall management of the Fund as it developed.[11]

1.17 During 2018 and 2019, and for the first half of 2020, we continued to focus on how MBIE (specifically, the PDU), the Ministry for Primary Industries, and the Ministry of Transport implemented and administered the Fund.

1.18 We advised Parliament on the composition of appropriations[12] for the Fund and on the performance of the three departments in administering the Fund. We also carried out additional work alongside the annual audits of the three departments and reviewed processes and systems for the Fund as a whole.

1.19 During this period, we continued to look at whether systems and processes were sound. We made recommendations to provide the three departments with timely feedback on their systems and processes, including those used to administer the Fund as a whole.

1.20 Appendix 1 lists the recommendations that we made to the three departments as a result of our 2017/18 and 2018/19 annual audits. We made recommendations about a range of matters. For example, we recommended that MBIE improve how appropriations were administered, how conflicts of interest and contracts were managed, and how investments were tracked and reported.

11 The recommendations are listed in our December 2018 paper to the select committee, which is available on Parliament's website at parliament.nz. See *Annual Review briefing to the Economic Development, Science and Innovation Committee: 2017/18 Financial Year*.

12 An appropriation is an authority given by Parliament to the Crown or an Officer of Parliament to spend up to the amount of the appropriation for a specified purpose.

What we did not look at

1.21 For this report we focused on the systems and processes used to assess and administer the Fund. We did not:

- evaluate the merits of individual applications or whether the decisions made about them were the right ones;
- evaluate the costs and benefits of projects in terms of their contribution to the Fund's objectives; or
- assess the effectiveness of the Fund as a whole.

1.22 So far, our work has not involved dealing directly with funding recipients.

Further audit work

1.23 We plan to complete further work to examine the nature of, and processes supporting, "other spending" (see page 9).

1.24 By 31 March 2020, through Ministerial decisions, Cabinet papers, and policy positions, almost all of the Fund had been "ring-fenced" for a particular purpose. In early April, the Minister for Regional Economic Development announced that the PDU "is working through applications and projects to see where the Fund's money can be repurposed for initiatives deemed more critical to fighting the economic impacts of the COVID-19 pandemic".[13] A further announcement in May 2020 signalled that the amount for investments in infrastructure would be "up to $600 million" for projects with more immediate economic benefits.[14]

1.25 The newly formed Infrastructure Implementation Reference Group[15] and the PDU have advised Ministers on proposals for infrastructure and other projects to assist in the Covid-19 recovery. We understand that the PDU will continue to review existing investments and reinvest any funding that is unused, no longer delivering the agreed services, or invested in a project that is no longer relevant. This funding is expected to support recovery from Covid-19 in regional New Zealand.

1.26 As we were preparing this report, the PDU was developing systems and processes to manage this reallocation of funding. As a result, we expect to review and report on this reset in 2020/21. This work will assess the effectiveness of the reprioritising process, the management of any additional funding, and how it has affected the achievement of the Fund's objectives.

13 Media release (April 2020), "Work to repurpose PGF funds begins" at www.beehive.govt.nz.

14 Media release (May 2020), "PGF reset helps regional economics" at www.beehive.govt.nz.

15 Announced 1 April 2020, the Infrastructure Implementation Reference Group is a group of industry leaders tasked with advising the Government on projects that are ready to start as soon as the construction industry returns to normal in order to reduce the economic effects of Covid-19.

1.27 Once more projects have been fully implemented, we also plan to assess the work done by officials to assess the overall effectiveness of the Fund in delivering the expected benefits.

Structure of this report

1.28 In Part 2, we discuss how the PDU, the Ministry for Primary Industries, and the Ministry of Transport have implemented the Fund.

1.29 In Part 3, we discuss how the three departments have been managing applications and contracts.

1.30 In Part 4, we discuss managing and reporting on the Fund as a whole.

1.31 In Part 5, we describe the next steps for the Fund and the further work that we are considering.

1.32 Appendix 1 sets out the recommendations that we made to the three departments as a result of our 2017/18 and 2018/19 annual audits, and Appendix 2 provides more background information about the Fund.

2 Implementing the Provincial Growth Fund

2.1 In this Part, we discuss how the PDU, the Ministry for Primary Industries, and the Ministry of Transport implemented their particular responsibilities for administering the Fund.

2.2 In particular, we comment on:

- meeting early implementation challenges;
- managing appropriations;
- managing risk;
- data management and progress reporting by departments; and
- managing demand and ongoing investment.

2.3 In our view, there were some deficiencies in processes and systems, particularly those of the PDU, in the early stages of the Fund. Improvements have since been made to how the Fund is managed at the department level, and we have suggested further improvements.

Meeting early implementation challenges

Setting up – capability and capacity challenges

2.4 Setting up the Fund needed a different approach than most funding programmes. The Fund was implemented at speed and encouraged innovation. It had broad and ambitious objectives, a three-year time frame, and a substantial amount of money to invest. The Fund made investments throughout the country, with the exception of Auckland, Christchurch, and Wellington. Its governance and accountability responsibilities were shared between several government departments. The Fund used loans and equity arrangements, as well as the more usual grants to deliver funding.

2.5 The Fund benefited from the regional economic development programme and regional support structure (a group of senior regional officials) already in place, albeit on a much smaller scale.[16] The capability and capacity of the PDU and the other departments administering the Fund had to increase rapidly after the Fund was launched.

2.6 The number of staff in the PDU increased from fewer than 30 in March 2018 to more than 130 in August 2019. There was also a gradual increase in the number of contractors, from fewer than 10 in March 2018 to just over 20 in August 2019. As at 30 April 2020, the PDU had 132 staff and 10 contractors.

2.7 From the $3 billion, $155 million was allocated to fund the administration costs. By 31 March 2020, $81.9 million had been spent.

16 Details of the meetings of the senior regional officials are available through www.growregions.govt.nz.

Support while setting up the Fund

2.8 At the outset, the three departments did not work together as closely as we expected. This affected the speed with which some basic processes were set up.

2.9 We talked to the PDU about shared administrative funding arrangements early in the setting-up stage, but it was some months before the PDU was able to implement them. We expected the three departments and the Treasury, which advises departments on funding arrangements, to work more closely with the PDU and provide it with the advice and support it needed to set up robust and appropriate systems and processes that promoted collaboration.

Managing appropriations

2.10 Spending money in the Fund is authorised through appropriations approved by Parliament as part of the Government's budget. Appropriations are fundamental elements of New Zealand's constitutional framework and the public sector financial management system. If expenditure is incurred without an appropriation, or is not in keeping with the approved timing, scope, and amount of the appropriation, the expenditure is unlawful ("unappropriated expenditure"). The unappropriated expenditure would need subsequent approval from Parliament.

2.11 Appropriation management was not as robust as we expected at the start. In early 2018/19, MBIE incurred one instance of unappropriated expenditure. Although it is not unreasonable to expect changes to appropriations as the Fund progresses, we consider that there should have been better systems and processes from the beginning to prevent unauthorised expenditure.

2.12 Parliamentary scrutiny has been made more difficult by:

- significant increases in appropriations made during the year, after Parliament has approved the resources needed for the Fund as part of the Government's budget; and
- the lack of consolidated reporting of the various elements of the Fund.

2.13 The regional economic development appropriations for the Fund increased significantly during each year, as part of the Supplementary Estimates process.[17] Figure 2, shows these increases during the year in the *Regional Economic Development: Provincial Growth Fund MCA*[18] appropriation. This raises questions about the accuracy of forecasting the Fund's requirements.

17 Supplementary Estimates provide members of Parliament with details of the terms of changes to existing appropriations and of new appropriations proposed since the Estimates were finalised.

18 This is a multi-category appropriation covering both operating and capital expenditure.

2.14 The "actual" or "estimated actual expenditure" is also significantly lower than the amounts appropriated. This means that the forecasts do not provide Parliament with an accurate picture when it is asked to approve the Budget.

2.15 For example, as shown in Figure 2, a budget of $986.8 million for 2019/20 was sought during the Budget process. An increase to $1,274.8 million was sought during the year, and it was approved in May 2020, as part of the Supplementary Estimates process. However, it was estimated that only $683.7 million of the $1,274.8 million would be spent by 30 June 2020. A similar pattern is evident in previous years.

Figure 2
Regional Economic Development: Provincial Growth Fund MCA

	2017/18 $million	2018/19 $million	2019/20 $million
Approved by Parliament in the Budget process at the start of the financial year	-	373.7	986.8
Final budget (increased during year, approved by Parliament 12 months later)	123.8	550.0	1,274.8
Actual or estimated actual spending	3.8 (actual)	91.6 (actual)	683.7 (estimated actual)

2.16 Ongoing monitoring and reporting against appropriations are important to show that all of the spending has been lawful. The three departments are individually monitoring and reporting this to meet their obligations under the Public Finance Act 1989.

2.17 Although reporting on aspects of the Fund has improved, there is still no easy way for Parliament to scrutinise the appropriations for the Fund as a whole. There has been no consolidated monitoring and reporting against appropriations for the Fund as a whole to bring the story of funding and performance together. We consider that this is needed to provide transparency to Parliament and the public about what the $3 billion has been spent on. We discuss this further in Part 4.

2.18 The PDU is now reporting to Ministers against all appropriations and is working on improving this reporting. However, we consider this to be late, given the public and Parliament's interest in the Fund from the beginning.

Managing risk

2.19 The three departments each have processes to manage risks to the Fund-related projects or programmes that it manages. We expected the departments to identify risks in their processes, generally, as part of their risk management practices. We observed and commented on those processes during our annual audits, with a particular focus on the Fund's management:

- The PDU commissioned an external review in late 2018 that made several recommendations for improving risk management when assessing applications. The PDU uses MBIE's risk management tools for managing projects and is considering how to improve this as part of its continuous improvement process. In our report to MBIE's Chief Executive at the conclusion of our 2018/19 audit, we recommended that MBIE take a more Ministry-wide approach to identifying and mitigating risks. This would ensure that the strategic risk identification process is consistent throughout MBIE and that PDU-related risks are escalated appropriately within MBIE.
- The Ministry for Primary Industries' risk framework has gone through a period of change during the last 12 to 18 months. Te Uru Rākau (a business unit of the Ministry for Primary Industries) has largely led the risk management of the One Billion Trees programme, using risk management tools where appropriate. Its risk management approach is evident in its annual report on the programme.[19]
- The Ministry of Transport has a risk policy and matrix in place. The Ministry identified strategic risks and put in place an analysis of threats and opportunities, mitigations, and a mitigation lead for each risk. However, improvements could be made to further refine the approach to risk management to ensure that risks are managed at both a strategic level and an operational level.

2.20 We will continue to monitor and comment where appropriate on risk management during our annual audits of the three departments.

Data management and progress reporting by departments

2.21 Because of the scale of the Fund, and the considerable public interest, public reporting on its progress is important. We looked at how much information about the Fund was publicly available and what analysis the departments have done of it.

2.22 Individually, the three departments proactively publish information about the investments they are making at a project level. The PDU tracks individual project milestones (which are linked to payments) and has designed a process to collect reporting information for the Fund's projects. Applicants are required to report on how their project contributes to the Fund's objectives. The PDU told us that, as with the other departments administering the Fund, it maintains close relationships with funding recipients. This will help it to collect the information needed for reporting on an ongoing basis.

19 See, for example, Te Uru Rākau (2020), *One Billion Trees Fund 12 Month Monitoring and Evaluation Report*, at www.mpi.govt.nz.

2.23 The Ministry for Primary Industries publishes its grants, partnerships, and joint ventures information each month, as well as six-monthly and annual reports on the One Billion Trees programme. This process was agreed by the Minister of Forestry in March 2019. Its reporting includes comment on the overall One Billion Trees programme and the expected broad outcomes.[20]

2.24 The Ministry of Transport reports high-level information on the transport packages supported by the Fund.

Information availability

2.25 The PDU makes a significant amount of information available on the Grow Regions website.[21] This includes the following information:

- all announced projects, published monthly, with a large data set of information (including funding contracted and funding paid);
- a summary position of the Fund, published quarterly, showing total appropriations and committed, approved, and amount spent by agency; and
- regional dashboards with information on specific projects, by region.

2.26 We were told that the minutes of meetings of the senior regional officials, the IAP, and the Regional Economic Development (RED) Ministers[22] and weekly reports are publicly released in batches every three to four months. We found that papers are now available on MBIE's website – not the Grow Regions website – and that it was harder to find Cabinet papers, advice to Ministers, review reports, and decision-making minutes as a consequence.

2.27 The PDU redacts some information because of commercial sensitivity about proposals that have been declined, agreed but not yet announced, or announced but not yet contracted. It also redacts all loan details to protect the PDU's ability to negotiate.

2.28 Although we understand the need for commercial sensitivity in individual cases, the PDU could consider whether more aggregated data, such as analyses of trends with the type of proposals, approval rates, and funding allocations might be useful for future regional growth initiatives.

Regional reporting

2.29 Public reporting about regional investments from the Fund could be improved by providing information about how the investments will contribute to the Fund's objectives. Although regional dashboards provide a comprehensive picture of

20 See, for example, Te Uru Rākau (2020), *One Billion Trees Fund 12 Month Monitoring and Evaluation Report*, at www.mpi.govt.nz.

21 See www.growregions.govt.nz.

22 The RED Ministers group consists of Ministers with portfolios for Finance, Regional Economic Development, Economic Development, and Transport. The group has the highest level of delegation for making funding decisions.

funding announced for projects and sectors, the dashboards could also include analysis of how the investments made to date support the objectives of the Fund. We comment in Part 4 on public reporting on the Fund as a whole.

Analysis of the databases

2.30 Databases of individual Fund programmes are available on the Grow Regions website, which the PDU usually updates monthly. However, the data does not clearly show the time it takes for applications to be assessed, and the factors affecting that. Based on this reporting, and without evidence as to how many applications might still have been awaiting a decision, to the end of March 2020, we calculated that 42% of applications to the PDU had been approved.

Managing demand and ongoing investment

Demand and supply management

2.31 Excess demand for funding is not addressed in the investment statement. The PDU told us that the IAP and the senior regional officials consider this possibility only for certain sectors and regions.

2.32 As at 31 March 2020, only $140 million of the Fund had not been ring-fenced. However, in March 2020, applications to the PDU alone totalled just over $149 million ($1.5 billion in the year to 31 March 2020). Although there might have been more than $140 million in funding available through reallocating existing ring-fenced funding, it concerned us that applicants could be wasting their time, effort, and resources on applications that have little chance of being considered because all of the available funding was nearly fully ring-fenced.

2.33 We were told that, despite demand outstripping supply, there was no intention to stop accepting applications because of uncertainties about regional economic development policy once the Fund is fully allocated. The policy for regional economic development could change significantly because funding is now available outside the Fund, and through reallocation of the Fund, in response to Covid-19.

Reprioritisation of investments in the Covid-19 recovery phase

2.34 On 24 May 2020, the Government announced that up to $600 million of funding was being repurposed from the Fund to support the Covid-19 recovery.[23] The PDU reviewed investments to identify funding available to invest in supporting the recovery from Covid-19, and is developing the systems and processes to manage this reallocation of funding.

23 Media release (2020), “PGF reset helps regional economics” at www.beehive.govt.nz.

3 Managing applications and contracts

3.1 In this Part, we discuss how the PDU, the Ministry for Primary Industries, and the Ministry of Transport managed applications and contracts.

3.2 In particular, we comment on:

- the implications of using broad criteria for funding applications;
- due diligence in assessing applications;
- value for money considerations;
- timeliness of processing applications;
- managing conflicts of interest in assessing applications;
- manifesto contingency funding; and
- contract management processes.

Implications of using broad criteria for funding applications

3.3 The way that the Fund was designed and set up has created particular challenges for how it has been administered. The Fund's criteria, set deliberately broadly, has resulted in a diverse range of applications. This makes the task of assessing applications challenging, which increases the importance of robust assessment and approval processes and effective risk management.

Due diligence needed strengthening

3.4 The PDU included due diligence steps as part of its assessment process. Due diligence validates aspects of the application and provides a level of assurance about the risks to an investment. We would normally expect to see due diligence taking place before any commitment is made or announcement of an application's approval. In our early work, we found instances where "in principle" announcements had signalled approved funding for a project before due diligence was complete, funding arrangements were worked out, and contracts signed.[24] In one instance, a decision was reversed because not enough due diligence had been done earlier.

3.5 We found that sometimes there was not enough evidence about how, when, and where the PDU addressed questions raised during due diligence processes. In the early stages of the Fund, the PDU sought an external review of its processes to verify that it was following good practice, including matters of probity.

3.6 The PDU has since responded to recommendations that we and others have made about due diligence processes. To further strengthen the processes, we have suggested that the PDU systematically track matters raised during due diligence that require following up.

24 These announcements were made on the Grow Regions website during the first year. The website no longer reports data on progress on "announced" funding. It now reports data on approved projects.

Assessing value for money is challenging

3.7 Because of the variability in the types of projects and the different risks, values, and complexities associated with them, the three departments have focused on developing assessment processes to establish the merits of each application guided by the overall objectives of the Fund.

Business case requirements

3.8 Cabinet required projects that cost more than $10 million over the life of the project to have detailed business cases that use the Treasury's Better Business Cases methodology.[25] The methodology includes a formal cost-benefit analysis. As at 31 January 2020, 55 (8.8%) of the Fund's active projects were approved for a whole-of-life cost of $10 million or more.

3.9 Although most applications would not have been required to use the Treasury's Better Business Cases methodology, the PDU has worked to ensure that its analysis of costs and benefits of proposed projects of all sizes is fit for purpose. To achieve this, it incorporated the main aspects[26] of the Treasury's Better Business Cases methodology into the Fund's application form, the project assessment process, and advice templates for all projects.

3.10 Applicants were expected to outline the strategic case (in particular, how well the project matches the Fund's overall objectives, industry strategies, and regional plans), and the commercial, financial, and management cases for individual projects. Well-established frameworks for cost-benefit analysis, such as the New Zealand Transport Agency's approach to evaluating transport investments, were applied wherever relevant.[27]

Verifying applicants' claims for their projects

3.11 We expected a robust assessment process in place that would test whether assertions made by applicants about future benefits were reasonable. We checked whether, from the outset, those assertions were thoroughly assessed.

3.12 The assessment process relies heavily on individual assessors to determine to what extent applicants' claims about estimated

One application initially claimed nine sustainable jobs and nine temporary jobs would be created. At the contract phase, it was six and five jobs. We could not see documentation to support how the PDU satisfied itself about the claimed job numbers.

Another application claimed it would increase local employment, productivity, and growth, providing a year-round visitor attraction. We could not see whether or how these claims had been assessed.

25 See the "Business Cases" section on the Treasury's website at treasury.govt.nz.

26 The PDU took the view that the economic case section of the Better Business Cases methodology is not applicable to individual investments because this was incorporated at the programme level.

27 Provincial Development Unit (2018), *Investment Statement for the Provincial Growth Fund* at page 22.

benefits – such as the number of jobs to be created – were achievable. The process also includes elements of peer review at various stages, including technical advice from other government agencies, internal consultation and review by the PDU, consultation with senior regional officials, and the IAP's review of proposals that go to the RED Ministers for approval. We saw evidence of a high degree of interaction with applicants about the expected benefits. However, there was not always enough documented evidence for us to determine how the assessor had considered the claims made in the applications.

Recommendation 1

We recommend that the Ministry of Business, Innovation and Employment further strengthen transparency about the operation of all parts of the Provincial Growth Fund's application, assessment, and decision-making processes.

Timeliness of processing applications

3.13 It is good practice to have target turnaround times and to track the timeliness of an application process. This gives applicants some idea of when their application will be processed. During the setting-up phase, the PDU focused on giving appropriate attention to establishing effective assessment and contract negotiation processes. This was particularly important because the scale and complexity of applications varied significantly.

3.14 The PDU told us that it now has staff dedicated to reducing the time it takes for the applications it manages to go from approval to contract. The PDU reports to the RED Ministers weekly on approved projects to show progress towards a signed contract.

3.15 The Ministry for Primary Industries is focused on timeliness when processing applications and has a target turnaround time. It is also working on several initiatives (simplification of application forms, clearer guidelines, and a web-based spatial application tool) to improve the application process.[28]

3.16 The Ministry of Transport is also focused on timeliness when processing applications. It has targets that cover both the average number of days to provide feedback to applicants and the average number of days to providing infrastructure funding once approved.

Managing conflicts of interest in assessing applications

Officials

3.17 We expected conflicts of interest to be managed using a three-step process:

- recognising that there is an actual, potential, or perceived conflict;

28 Te Uru Rākau (2020), *One Billion Trees Fund 12 Month Monitoring and Evaluation Report*, page 19, at www.mpi.govt.nz.

- disclosing it; and
- managing the risks that might arise.

3.18 Each department and agency has its own systems, processes, and practices for managing conflicts of interest. The PDU has relied on the conflict of interest processes in departments and agencies that participate in the application assessment process.

3.19 We are satisfied that MBIE has well-established policies and processes to manage conflicts of interest. During our annual audit of MBIE, we recommended that the PDU continue to reinforce expectations about managing conflicts appropriately. This includes reinforcing expectations to other departments that the PDU relies on to manage conflicts well. During our audit, the PDU was working with those departments about managing conflicts of interest and had shared some training material.

3.20 In March 2019, an internal audit report on the Crown Forestry Joint Ventures Programme identified risks with conflict of interest processes and systems for officials and contractors. The Ministry for Primary Industries told us that it has addressed these risks in the Joint Ventures Programme and in other parts of its business that involve funding for the One Billion Trees programme. We will review the robustness of these systems in our ongoing annual audits of the Ministry.

3.21 The Ministry of Transport has well-established policies and processes to manage conflicts of interest. We understand that its conflicts register was to be updated after a review in November 2019. In the meantime, no issues have been brought to our attention. We will follow up progress on this in our ongoing annual audits of the Ministry.

Advisory panel members

3.22 In meetings of the IAP set up by Cabinet to advise on the Fund, we saw evidence that appropriate action was taken to review members' conflicts.

3.23 The three departments also used other advisory panels to help decision-makers consider applications for funding. We did not examine the processes these panels use. However, it is important that advisory panels manage conflicts of interest so they can demonstrate that the advice they give is independent.

Potential conflict between advisory/support and decision-making roles

3.24 There is a potential systemic conflict between the advisory/support and decision-making roles of the senior regional officials.

3.25 Senior regional officials and others do extensive work to engage with regional and local councils, iwi, and business groups. The PDU has relied on the senior regional officials to help potential applicants transition to the Provincial Growth Fund and develop regional plans. Those officials might be involved in preparing applications and making decisions about those applications.

3.26 The Ministry for Primary Industries told us that this was not the case with the funding it manages, where there is a separation between its funding assessment processes and the senior regional officials.

3.27 For the funding administered by the PDU and the Ministry of Transport, senior regional officials make decisions about applications for projects up to $1 million. Therefore, there is a risk (actual and/or perceived) to the fairness of the process if the person helping with the application also participates in, and has influence on, the decision to award funding.

3.28 The PDU told us that it has strengthened its processes for managing conflicts of interest. The senior regional officials manage fairness and impartiality through separating their pre-application, assessment, and decision-making activities, and make decisions as a group. However, if a senior regional official with a conflict of interest is present during the decision-making, they could, or could be perceived to, exercise their influence. We consider that MBIE needs to continue to strengthen its management of this type of potential conflict.

Manifesto contingency funding

3.29 In April 2018, Cabinet approved $30 million of the Fund to be set aside as contingency funding for "manifesto commitments to the regions".[29] In June 2019, Cabinet approved an additional $40 million for "emerging priorities", making a total of $70 million for manifesto commitments to the regions.[30] This was to be funded out of the existing appropriations for the Fund. By May 2020, seven projects totalling more than $45 million had been approved from this part of the Fund. As part of the Fund reset, on 4 May 2020, Cabinet agreed that the remaining manifesto contingency funding (almost $25 million) was to be drawn down to contribute to the Fund's Covid-19 response.[31]

3.30 It was not always clear from the documentation why these projects were considered for funding from this part of the Fund.

3.31 For these funding applications, the PDU provided the RED Ministers with information about the proposed projects. However, unlike other parts of the Fund, the PDU did not provide the RED Ministers with a recommendation for a decision. We were also told that the IAP was generally not asked to advise on the applications for the manifesto contingency funding.

29 CAB-18-MIN-0158.03, *2018 Budget Package: Vote Business, Science & Innovation.*

30 DEV-19-MIN-0178, *Provincial Growth Fund: Amendment to Contingency Funding for Emerging Priorities.*

31 CAB-20-MIN-0197, *Provincial Growth Fund: COVID-19 Response: Redeployment and Acceleration.*

3.32 It was difficult to find evidence that these seven projects had fully met the criteria that projects are normally assessed against. These projects required the approval of the RED Ministers who made decisions in accordance with delegated authority given by Cabinet.[32]

3.33 In the interests of the transparency of the overall process, it is important for the public and Parliament to have better visibility of how all the parts of the Fund operate. We have recommended that MBIE further improve its transparency about the operation of all parts of the application, assessment, and decision-making processes of the Fund. This would include processes for manifesto commitments to the regions.

Contract management processes

3.34 Contract management is now a major focus for Fund administration. As at 31 March 2020, 1130 of the 1416 approved PDU projects were under contract. Of the contracted projects, 741 had received some funding, with a little more than 21% of the approved amount paid out.

3.35 Each department or business unit involved in administering the Fund has its own contract management process.

Provincial Development Unit contract management

3.36 There were several instances of poor contract management described in the PDU's early reports on the projects it manages. This included projects under way before the contract was signed (although payments were made after the contract was signed and payment requirements were subsequently met). The PDU finalised its contract management guidelines in June 2019, more than a year after some contracts were drafted and signed.

3.37 We recommended in our earlier work that the PDU:

- inform the contracted parties of their reporting and monitoring obligations;
- expand the contract management plan to include information on how frequently the contract will be monitored and what form that should take; and
- explicitly state expectations about contract management responsibilities and agree them with other departments administering the Fund.

3.38 The PDU has improved its processes and provided its contract managers with further guidance, templates, and training. It is sharing these improvements with the other departments and has reinforced expectations about good contract management with them. This should help the PDU and other departments to manage contracts more consistently and effectively.

32 CAB-18-MIN-0158.03, *2018 Budget Package: Vote Business, Science & Innovation.*

3.39 Most PDU funding agreements require the party receiving funding to monitor and report on post-contract outcomes that align with the Fund's objectives. However, the PDU's reporting requirements in the first funding agreements were only about "deliverables" (for example, numbers of training courses to be delivered) and not on achieving the Fund's objectives (for example, the number of trainees getting a job). There is a risk that recipients of this early funding will not report on outcomes without a contractual obligation to do so.

3.40 The PDU is aware of this risk. It intends to ask those funding recipients that are not contractually required to report outcomes how the project has performed in terms of the Fund's outcomes.

Ministry for Primary Industries' contract management

3.41 When the One Billion Trees programme was set up, the Ministry for Primary Industries already had processes for managing the Crown's forest assets and administering grants programmes. The Ministry has amended these processes to match the objectives of the One Billion Trees programme so they can be used for that programme. They include a process for monitoring contracts and forestry investments over time.

3.42 Commercial forestry investments in trees typically last up to 30 years, so contracts need to be managed for a longer period than most other investment types. Funding for administering forestry investments and the One Billion Trees programme has generally been allocated for 10 years, giving some capacity to manage contracts in the longer term. Our annual audit work will continue to make recommendations where appropriate about managing contracts under the One Billion Trees programme.

3.43 Our 2018/19 audit of the Ministry identified, as a risk, delays to an upgrade of the Ministry's grant management system, because the One Billion Trees programme's spending on grants and partnerships was expected to increase in 2019/20 from $29 million to a proposed $213 million. We did not identify any issues with the processing of grant payments through existing systems in our 2018/19 audit. We will continue to check in subsequent audits on the robustness of these systems when managing significantly higher volumes of transactions.

Ministry of Transport contract management

3.44 We are satisfied that the Ministry of Transport has appropriate systems and controls for Fund-related payments to the New Zealand Transport Agency as project milestones were met. It has agreements and processes that support its administering of funding for transport-related projects, using the standard PDU contract templates.

Managing and reporting on the Provincial Growth Fund as a whole

4

4.1 In this Part, we set out our observations and findings about managing the Fund as a whole. We looked at:

- how the Fund was expected to operate;
- whether there is evidence of a balanced portfolio;
- Fund-wide risk management; and
- reporting on the Fund.

4.2 In February 2018, Cabinet established the PDU as a central business unit to administer, monitor, and report on the Fund. There has been a tension between the roles of the PDU and the other departments that have a mandate to administer and report on the appropriations and projects they are responsible for. In our view, reporting on and evaluating the effectiveness of the Fund as a whole has not received the focus it needs.

How the Provincial Growth Fund was expected to operate

4.3 Cabinet recognised the need for the Fund to be managed as a whole when it gave the PDU responsibility for administering, monitoring, and reporting on it.

4.4 However, Cabinet papers from 2018 also directed other departments to administer parts of the Fund. The departments largely responsible for parts of the Fund include:

- MBIE, for capacity building and local projects as well as tourism infrastructure;
- the Ministry for Primary Industries, for the One Billion Trees programme;
- the Ministry of Transport, for road and rail projects; and
- the Department of Conservation, for conservation projects.

4.5 These departments manage the Fund in two ways: within the structure and authorities of the particular department and between departmental and agency boundaries.

4.6 The ways public sector accountability is managed within a department are well established. Departments either set up new systems or expand their existing systems to manage the extra funding.

4.7 Appendix 2 describes the processes used by the three main departments to manage the portions of the Fund that each is responsible for.

4.8 There was pressure to set up the Fund and respond to funding requests quickly. There were several areas where we recommended to the three main departments changes to systems and processes (see Appendix 1). The departments responded positively to these recommendations and improved how they managed specific components of the Fund over time.

4.9 The departments also needed to operate collaboratively across many regions, organisations, groups, and individuals. In our view, effective management – operating both within and outside central government – is fundamental to operating the Fund as a co-ordinated and cohesive set of investments to achieve its objectives.

4.10 We describe in Part 5 our intention to review the officials' evaluation of the effectiveness of the Fund.

Is there a balanced portfolio?

4.11 The Fund is unified by a set of broad objectives. It has Cabinet decisions, an investment statement, and accompanying guidance, particularly for applications, that sets out at a high level how the Fund will be allocated. Cabinet expected the IAP to provide advice on the balance of investment throughout the three-year period of the Fund.[33]

4.12 The Fund's investment statement was released in July 2018. The investment statement is supported by various regional strategies and subsequent position papers. The investment statement focuses more on providing guidance to applicants for funding than it does on setting out the desired balance of investments across different regions and sectors.

4.13 We understand from the IAP that balance is sought more as an iterative process and relies on what applications are received rather than an active consideration of what the optimal balance might be. In our view, the lack of specificity of what balance means makes it difficult to see how consideration was given to the balance of investments in terms of both the Fund's objectives and coverage across the regions, particularly the surge regions.

Fund-wide risk management

Cross-agency risk management

4.14 A cross-agency risk management group was established to discuss risks in common for the Fund. This included Fund-wide risks, such as those around attaining a balance of projects within each region aligned to the strategic objectives of the Fund.

4.15 However, it is unclear from the meeting minutes how the departments mitigated or even considered the Fund-wide risks identified in the risk register, either individually or collectively.

4.16 Risk management is critical to an investment fund. In our view:

- cross-agency risk management arrangements should have been set up when the Fund was first launched and the PDU established; and

33 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund* at pages 2 and 13.

- Fund-level risks – such as the risk to an effective evaluation process across the whole programme – need to be constantly identified, assessed, and mitigated. We expected that, in their ongoing management of the Fund, the PDU and the other departments would collectively identify and manage risks for the Fund as a whole.

Co-ordinated management of conflicts of interest

4.17 In Part 3, we described how the three departments managed the Fund, including how they managed conflicts of interest. In this Part, we note how Ministerial conflicts of interest are managed in the context of the Fund as a whole.

4.18 Effectively managing conflicts of interest with the Fund is not straightforward, given the range of individuals and organisations involved in submitting, assessing, and making decisions about applications.

4.19 Ministers make decisions on some applications for funding, particularly the larger ones. In our view, this makes it necessary to declare and manage any potential conflict or the perception of a conflict[34] as soon as it arises.

4.20 Ministers manage their conflicts of interest through the processes set out in the *Cabinet Manual 2017*.[35] Those processes are not the responsibility of the PDU or the other departments.

4.21 From time to time, questions are raised about Ministers' alleged conflicts of interest related to the Fund. The *Cabinet Manual 2017* describes processes for handling these. They include the Minister instructing officials to not give them official papers or reports about a matter for which they have declared a conflict.[36]

4.22 Concerns were raised with us in one instance about whether a declared Ministerial conflict of interest in a Fund decision was managed appropriately. We concluded that, overall, we did not consider that the Minister's involvement raised any significant concerns about the decision made. However, we also said that it might have been better for the Minister not to have expressed a view on the particular project at the meeting where funding was decided for it. If he was going to express a view, it would have been better for minutes of that meeting to have been kept.[37]

34 The risk of a perceived conflict of interest is heightened by the Fund's public profile, the involvement of Ministers in decision-making, and the range of individuals and organisations applying for funding. See Controller and Auditor-General (2020), *Managing conflicts of interest: A guide for the public sector*, Wellington, page 10.

35 Department of the Prime Minister and Cabinet (2017), *Cabinet Manual 2017*, Wellington at chapter 2.

36 Department of the Prime Minister and Cabinet (2017), *Cabinet Manual 2017*, Wellington at paragraph 2.74.

37 See Controller and Auditor-General (2019), *Request to inquire into decision to grant funds to the Manea Footprints of Kupe Cultural Heritage and Education Centre* at oag.parliament.nz.

4.23 When multiple parties are involved in decision-making, the process for Ministers to manage their own conflicts of interest relies on robust channels of communication between departments and between departments and Ministers. This is not an area that we looked at in detail. Our focus was more on departments' systems and processes. However, other than the incident noted above, we have not been made aware of other issues involving conflicts of interest.

4.24 It remains good practice, in complex programmes such as this, to closely monitor all sources of possible conflicts of interest to ensure that real or perceived conflicts are well managed.

Reporting on the Provincial Growth Fund

Reporting on the Fund as a whole

4.25 Cabinet saw the Fund as a single investment fund and set objectives for it as a whole. This means that Parliament and the public should expect to see how the Fund works, where money from it is being invested, and what it is achieving both regionally and nationally. Despite recent enhancements to reporting, there are still improvements needed.

4.26 We acknowledge that the departments that administer the Fund have each reported on the parts of the Fund they are responsible for, in accordance with the requirements of the Public Finance Act 1989. They have also made publicly available additional information at the project level and by region. Although all of this is necessary and helpful, it is not yet sufficient for a fund of this nature.

4.27 Although there have been many Fund announcements relating to individual projects, there needs to be full and relevant reporting about the nature and purpose of the Fund's investments and the impact of those investments against the objectives set for the Fund when it was established. This will strengthen the trust and confidence that the public has in how the Fund is being administered.

Collaboration on consolidated reporting

4.28 Cabinet gave the PDU the responsibility to administer, monitor, and report on the Fund as a whole.

4.29 However, it took some time for officials to set up informal mechanisms to collectively support the PDU to provide consolidated financial reporting at a project and appropriation level. The PDU is now collecting whole-of-Fund data from the departments that are responsible for specific parts of it.

4.30 The PDU has been working at improving the timeliness and accuracy of the data. The PDU told us that it "sense-checks" the data and raises any obvious anomalies as part of this process. The whole-of-Fund data is reported to the RED Ministers, but these reports are not made public. However, a high-level report of funding by agency, as at 31 March 2020, was made public.[38]

4.31 In our view, timely and accurate analysis of the data needed to be available throughout the Fund's three-year period.

Reporting on the Fund's performance

4.32 Information about the Fund's performance is reported to Parliament at a department or agency level. However, we found that no clear responsibility was assigned for reporting to Parliament on the performance of the Fund's investments. It was left to us to bring together information to provide a picture of the Fund as a whole for Parliament's select committees when they were considering the Estimates for 2019/20.[39]

4.33 In our view, there needs to be a transparent mechanism for reporting to Parliament. This will allow Parliament to track the spending on, and assess the effectiveness of, large and flexible multi-agency, multi-year initiatives such as the Fund. No such mechanism was available to Parliament when it was considering the Fund as part of Budget 2019 or Budget 2020. This made it difficult for Parliament to scrutinise the Fund as a whole.

4.34 Select committees have a particular interest in tracking the Fund's performance as a whole. At present, Parliament's scrutiny of the Fund involves several committees, depending on the Vote or department involved.

4.35 The Economic Development, Science and Innovation Committee noted in August 2019 that reporting on the Fund was more difficult because the funding was spread between several departments. The Committee agreed that improved and consolidated reporting would be beneficial.[40]

4.36 An improved and consolidated reporting mechanism would be able to report on the financial and non-financial performance of the Fund as a whole. The Minister for Regional Economic Development told the Committee that the PDU would evaluate the effectiveness of the Fund's investment activity by the end of 2020, with ongoing measurement and evaluation over the longer term to capture the long-term effects of its projects.[41] The PDU told us it has advised Ministers that, as a result of Covid-19, the evaluation of the Fund will be delayed until mid-2021.

38 Status of Provincial Growth Fund Appropriations and Funds Committed to date by Agencies at www.growregions.govt.nz.

39 For example, our briefing to the Economic Development, Science and Innovation Committee on Vote Business, Science and Innovation: Regional economic development appropriations, 13 June 2019 (see the Committee's paper at parliament.nz).

40 Economic Development, Science and Innovation Committee, 2019/20 Estimates for Vote Business, Science and Innovation, August 2019, page 23.

41 Economic Development, Science and Innovation Committee, 2019/20 Estimates for Vote Business, Science and Innovation, August 2019, page 26.

4.37 The PDU prepares monthly reports for Ministers that now include information about:

- the amount of the Fund that has been allocated for particular purposes;
- funding approved for individual projects;
- appropriations to departments to spend in those areas;
- numbers and value of contracts for the projects; and
- funding that has been spent so far.

4.38 The PDU also produces a monthly dashboard that provides a summary of the Fund as a whole, from inception to date. This dashboard is for the Minister for Regional Economic Development, the State Services Commission, and the Department of the Prime Minister and Cabinet. However, this reporting is not publicly available.

Meaningful reporting

Useful reporting about the Fund would take the needs of different audiences into account. For example, potential applicants might need to know how long each stage of the application process is likely to take. Residents in different regions might want reports about the amount of funding their region was likely to get – in which industries, when and where, and to meet which of the Fund's objectives. Ideally, different communities would also see how the various initiatives would complement each other to get the best results for that region.

4.39 In our view, regularly publishing a dashboard for the Fund as a whole would be a more meaningful way of reporting to the public than what is currently publicly available. The PDU should also consider including, both at the regional and the whole of Fund level, information on the expected contribution of the projects and investments to the key indicators of the Fund's performance (for example, the number of jobs created compared with the number they were expected to create).

4.40 We note that in the case of the Student Loans Scheme, another cross-agency initiative, there is consolidated reporting to the public. The PDU could consider this as a model as it improves on current reporting.

Reporting on key indicators can be complicated

4.41 We looked at the key indicator "job creation". The Fund is expected to contribute to "increased employment and earnings (in general and for Māori particularly)".[42]

4.42 The objective is not just an increase in job numbers but:

> *... high quality jobs ... and sustainable economic development over the long term, particularly in regions and sub-regions where unemployment is high and there are significant social challenges* [and] *social inclusion through effective training, work preparation and support that enables more people to fully participate in work and society*.[43]

42 Cabinet paper (August 2018), *Further decisions on the Provincial Growth Fund* at page 5.

43 Cabinet paper (December 2017), *The Provincial Growth Fund* at page 4.

4.43 We understand that the PDU expects that, in the longer term, measures such as the employment rate (by region) and median incomes will indicate whether that outcome is being achieved. In the meantime, "number of jobs created" is one of a range of indicators that the PDU will use to measure the Fund's effectiveness.

4.44 However, this indicator is not straightforward, and several complications need to be resolved. The PDU is addressing these by considering matters such as:

- What counts as a job? – Is a job permanent and full-time or can it be temporary, contracted, or part-time?
- Sustainability of the job – How long does it need to continue to be counted as a job created by the project or initiative? The Fund's objective is longer-term sustainable development and social inclusion.
- The period for collecting job numbers – Jobs will continue to be created as projects mature and end.
- Does the skill level of the job need to be reported?

4.45 The number of people employed in Fund-supported projects is published on the Grow Regions website each quarter. Currently, part-time and full-time jobs in projects that are under way are counted at the end of each month. However, they might not be the same jobs as those counted a month later.

4.46 Given the importance of job creation as an objective of the Fund, and the complexity in defining what should be counted as a job, the PDU and the other departments need to consider these employment variables and plan for them when determining evaluation criteria. The PDU is aware of this and is designing a process for reporting on job creation that addresses these matters.

4.47 In our view, the PDU should have established this process much earlier, both for recipients of funding and for reporting to Parliament and the public. The integrity of data about job creation is even more important now given the effect of Covid-19 on unemployment.

4.48 Parliament and the public will be better served by definitions and explanations that support clear reporting on the Fund's short-term and longer-term objectives. This is true for all of the key indicators, not just job creation.

Recommendation 2

We recommend that the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, and the Ministry of Transport work together to continue to enhance consolidated reporting and more meaningfully report to Parliament and the public on the Provincial Growth Fund as a whole.

5 Where to next?

5.1 In this Part, we describe the next steps for the Fund and the further work that we are planning to do on:

- repurposing of funding for the Covid-19 recovery;
- evaluating the Fund;
- contract management; and
- ongoing management of riskier and longer-term contracts.

Repurposing of funding for the Covid-19 recovery

5.2 As part of the planning for the Covid-19 recovery, the Minister for Infrastructure announced that funding would be made available for investments in infrastructure after the lockdown was lifted. The PDU reviewed existing investments and proposed reinvestment of any unused funding.

5.3 On 4 May 2020, Cabinet decided to redeploy funding to accelerate investment to support the Covid-19 recovery. Relevant financial authorities were agreed by Cabinet.[44] By this stage, $113.1 million of the Fund was unallocated.[45] To accelerate investment to support the Covid-19 recovery, Cabinet increased the proportion of a loan facility that is available on contract signing to a minimum of 50% and changed the expected time frames for applicants to complete contract negotiations to 30 working days.[46]

5.4 On 24 May 2020, the Government announced that up to $600 million of funding was being repurposed from the Fund to support the Covid-19 recovery.[47] The PDU reviewed investments to identify funding available to invest in supporting the recovery from Covid-19, and is developing the systems and processes to manage this reallocation of funding.

5.5 In May 2020, the Government announced contingency funding from the Covid-19 Response and Recovery Fund for another $3 billion in Vote Business, Science and Innovation for infrastructure projects for Covid-19 recovery.[48] An initial list of projects using the $3 billion earmarked for infrastructure projects was released on 1 July 2020.[49] It is not yet clear to us what role the PDU will have in administering this additional funding.

5.6 In 2020/21, our focus will be looking at the repurposing of some of the Fund for Covid-19 projects. We will carry out further work to review the reprioritising

44 CAB-20-MIN-0197, *Provincial Growth Fund: COVID-19 Response: Redeployment and Acceleration*.

45 CAB-20-MIN-0197, *Provincial Growth Fund: COVID-19 Response: Redeployment and Acceleration*.

46 CAB-20-MIN-0197, *Provincial Growth Fund: COVID-19 Response: Redeployment and Acceleration*.

47 Media release (2020), "PGF reset helps regional economics" at www.beehive.govt.nz.

48 *The Wellbeing Budget 2020*, Wellington at page 6. Speech available on the Treasury's website at treasury.govt.nz.

49 Media release (2020), "Infrastructure investment to create jobs, kick-start COVID rebuild" at www.beehive.govt.nz.

process, the implications of the reset of the Fund for management of its funding, and the likely effect of the reset on achieving the Fund's objectives. In our annual audit work, we will look at contract management and follow up on the other matters noted in this report.

5.7 In 2021/22, we intend to examine the work done by officials to evaluate the effectiveness of the Fund.

Evaluating the Provincial Growth Fund

5.8 In 2018, Cabinet agreed on an evaluation framework of broad objectives and regional indicators. Cabinet also directed officials to track a set of 25 regional indicators (for example, regional gross domestic product (GDP) growth by industry, median earnings, regional productivity, and returns on Māori assets). There is baseline data for some outcome indicators, such as the regional economic development indicator data collected by Statistics New Zealand.[50] It would be useful for the PDU's detailed evaluation information to be reported at both a national and a regional level.

5.9 Cabinet noted that officials would do further work to prepare robust indicators in areas where these were lacking. They would also prepare a plan for evaluating the Fund's performance, with substantive evaluation completed by the end of 2020.[51]

5.10 The PDU and the other departments have been planning how to evaluate the Fund's investments. The PDU provided us a copy of the draft evaluation plan that it commissioned and is in the process of finalising it. The scope of the plan is evaluating investments that the PDU administers, and not the investments administered by the other departments or, more importantly, the Fund as a whole. We understand that the PDU will focus on processes and early results rather than outcomes at this point. This is because many projects are still under way.

5.11 The PDU, as part of its work to develop an evaluation plan, has been working on how to show the links between individual projects and the Fund's broad objectives. In our view, the time taken to prepare an evaluation plan has affected the PDU's ability to demonstrate clear links between the projects and the Fund's objectives. In the interim, the PDU could improve transparency by providing information

Reporting overall success

For example, the number of marae connected to broadband networks and the effect on local communities could be used to help evaluate the benefits from Fund investments in digital connectivity. Lessons learned from these projects can be shared with others.

50 Ministry of Business, Innovation and Employment (2017), *Briefing for the Incoming Minister for Regional Economic Development*, Wellington.

51 Cabinet paper (August 2018), *Further decisions on the Provincial Growth Fund* at page 6.

to the public about how individual projects are performing and what effect the Fund's investments as a whole are having, based on key indicators.

5.12 The Ministry for Primary Industries has a draft evaluation framework in place. It is satisfied that its systems and procedures for evaluation will provide evidence of grants and partnerships meeting the sustainability, social, environmental, and economic objectives of the One Billion Trees programme.

5.13 The PDU needs to incorporate the available information across the Fund from all three departments into a plan to evaluate the Fund as a whole.

5.14 Our future interest will be in how well the evaluation plans address the ability to report on the overall success of projects and the effectiveness of the Fund as a whole.

5.15 We acknowledge that there are significant practical challenges with evaluating the outcomes and benefits of individual projects, as well as the whole Fund. These challenges include:

- identifying when best to evaluate projects' outcomes (Cabinet noted that it would be at least two to three years after investments had been made before improvements in regional outcomes would be observable to measure the effectiveness of Fund investments);[52]
- having adequate measures and data, including baselines, with which to make evaluations; and
- difficulties with the degree to which observed changes with some indicators can be attributed to projects' specific interventions.

5.16 The PDU had not completed its work on the evaluation plan by the end of March 2020, when it was interrupted by Covid-19. The PDU now has the draft evaluation plan, and has advised Ministers that the evaluation will be delayed until mid-2021.

5.17 Covid-19 will make it more difficult to obtain consistent data and evaluate the effectiveness of the Fund's investments. There is some risk that officials will not be able to establish the extent to which the $3 billion of investment represents value for money or contributes to improved regional and national outcomes.

5.18 There is nevertheless still scope for evaluating the Fund's investments. This includes assessing whether the projects, as an aggregate, have delivered on the objectives as contracted, and what we can learn from individual projects and the implementation of the Fund.

5.19 We will also continue to provide feedback on the systems and processes for managing and monitoring the Fund, including those for managing maturing investments, and any additions to the Fund.

52 Cabinet paper (August 2018), *Further decisions on the Provincial Growth Fund* at page 4.

Recommendation 3

We recommend that the Ministry of Business, Innovation and Employment complete and publish, as quickly as possible, a plan for evaluating the overall effectiveness of the Provincial Growth Fund to ensure transparency of how officials plan to give assurance to Parliament and the public about what it is achieving, both regionally and nationally.

The increasing pressure on contract management

5.20 A high proportion of the projects are already under contract. At the same time, much of the funding is yet to be paid out. This is because the funding is linked to projects being implemented and contract milestones being achieved.

5.21 As a result, contract management capability in the PDU and the three departments administering the Fund will come under more pressure. We have commented elsewhere that contract management is an important aspect of procurement that the broader public sector needs to pay more attention to.

5.22 We have discussed contract management capability with the PDU in the context of our suggestion that MBIE consider better integrating its appropriation and risk management as part of a Ministry-wide approach to contract management. We will focus on contract management capability in our further audit work with MBIE and the other departments.

5.23 Although the initial $3 billion is expected to have been fully allocated by the end of the Fund's three-year period, there will be ongoing contractual and project management responsibilities for the three departments. Continued monitoring and reporting on all projects after 2020 will be important for evaluating whether the Fund achieves its longer-term objectives. Some funding should also come back – from loan repayments, for example – and that will need to be managed and possibly reinvested.

5.24 A new entity, Provincial Growth Fund Limited, was established by the Government to hold loan and equity investments made through the Fund. It is not yet clear how ongoing contractual obligations for grants and possible reinvestment will be managed. As we were preparing this report, the PDU was working through what its own and Provincial Growth Fund Limited's future could be after the Fund's three-year period ends.

Ongoing management of riskier and longer-term contracts

5.25 When setting up the Fund, Cabinet acknowledged the risk that some projects would not deliver the benefits expected when they were approved. The PDU acknowledges that individual projects might fail. We accept that seeking innovation will always involve a level of risk that projects might fail. These projects might need to be replaced by other projects, or their remaining funding might need to be diverted to projects with a lower risk profile. This will require ongoing management.

5.26 Some projects will not finish before the end of the Fund's three-year period. The Ministry for Primary Industries already has ongoing arrangements, for management of forestry contracts, which it will use for the One Billion Trees programme that will continue after the Fund's three years. We understand that long-running projects will not require any special arrangements, when the Fund ceases to provide funding for operational support. It will continue to report on these to the relevant Cabinet committee.

5.27 The PDU is currently considering the provision for managing contracts after the Fund's three-year period. We understand that any funding requirements will be considered as part of future Budget processes. We will draw this matter to Parliament's attention when advising select committees during future Budget processes.

Appendix 1
Summary of our 2017/18 and 2018/19 annual audit recommendations to the three departments

Recommendations to the Ministry of Business, Innovation and Employment

During our 2017/18 audit, we recommended that MBIE:

- strengthen processes for the various funding arrangements allowed for in the Fund;
- set up appropriation structures, including between government departments, to ensure that investments were recorded correctly;
- improve how conflicts of interest are managed by all the organisations involved with the Fund;
- set up independent probity assurance, to avoid, mitigate, or manage risk, given the high-value, high-risk, and/or complex proposals and the range of organisations and stakeholders involved;
- set up processes and systems for monitoring and managing contract deliverables and post-contract outcomes;
- set up systems and processes for tracking and reporting investments made by the Fund; and
- continue work on preparing an appropriate evaluation framework, baseline indicators, and performance measures, and set up suitable data collection arrangements to support and inform the evaluation framework.

During our 2018/19 audit of MBIE, we noted that it had made progress in addressing our recommendations from our review of the PDU in 2018. During our audit work and review of the PDU's systems and processes since then, we observed further progress. We also noted the following:

- Better integration in appropriation and risk management would benefit the PDU in terms of its efficiency, effectiveness, and avoidance of potential duplication of systems and processes, as MBIE moves to a Ministry-wide approach to contract management.
- MBIE's decentralised approach to financial management led to initial errors in the PDU's recognition of grant expenditure, which was not in line with MBIE's overall accounting policies.

We also suggested that MBIE integrate units such as the PDU into its performance framework.

Recommendations to the Ministry for Primary Industries

During our 2017/18 audit of the Ministry for Primary Industries, we made no recommendations specific to the Fund.

During our 2018/19 audit of the Ministry for Primary Industries, we reported on the allocation to the Ministry for commercial forestry investment and grants and partnerships funding, to be delivered over multiple years as part of the Fund. We noted that the Ministry had identified a significant volume of interest in these initiatives. However, it was still in the early stages of contracting the funding, with only $10.1 million of grant and partnership expenditure recognised during 2018/19, and signed grant and partnership agreements committing the Crown to a combined contract value of $27.6 million. We recommended that the Ministry:

- implement and use its new grant management system as soon as possible for recording all key information (milestones, approvals, and total commitments) related to Fund partnership and grant arrangements; and
- formalise and implement a process to incorporate appropriate checks and reviews on a regular and timely basis throughout the term of the Fund.

Recommendations to the Ministry of Transport

During our 2017/18 audit of the Ministry of Transport, we made no recommendations specific to the Fund.

During our 2018/19 audit of the Ministry of Transport, we noted our intent to review the systems and processes the Ministry uses to address key risks associated with the Fund, including:

- having appropriate systems and controls around the review of project proposals and making recommendations to the PDU;
- disbursing the funds under the control of the Ministry of Transport, and managing the appropriations tracking and monitoring of investments; and
- the appropriate accounting treatment to apply, such as whether funding is a grant or a capital injection.

We concluded that the Ministry of Transport had the appropriate systems and controls in place for Fund-related expenditure and that it was fairly reflected in the financial statements.

As well as our annual audit report recommendations and observations, our auditors and review team provided feedback in the course of their day-to-day discussions with the three departments.

Appendix 2
About the Provincial Growth Fund

What is the Provincial Growth Fund?

The Fund is a three-year programme that was launched in February 2018. When it was set up, three stages were planned:[53]

- Stage 1 (pre-investment) – a focus on generating investment opportunities, work and employment readiness, and building a pipeline of infrastructure investments.
- Stage 2 (funding decisions) – when most investment decisions would be made (once feasibility studies and business cases had been prepared).
- Stage 3 (project delivery) – when most projects would be under way.

Some funding has been invested in projects (such as forestry projects) that are not expected to be completed in three years and in loans and other funding arrangements that might not be concluded in three years. Some arrangements might involve funds being returned and re-invested or written off.

Provincial Growth Fund Limited, a Crown-owned company, has been set up to manage loan and equity investments that will continue beyond the Fund's three-year period. As the Fund enters its third year, and investments are reviewed to see whether funding is invested where it has most effect, the mandate of the company is also being reconsidered in light of the potential role it might play in the Government's infrastructure programme.

The Fund has been allocated through a combination of initiatives prioritised by the regions, proposals brought forward by sector groups, and manifesto and infrastructure initiatives prioritised by the Government. There is no set period for applications to be submitted, nor are there funding rounds for applications. Applications that meet the Fund's criteria are considered on their merits, as they are submitted.

As Figure 3 shows, as at 31 March 2020:

- Of the $3 billion, the total funding **committed**[54] was nearly $2.9 billion.
- Of the committed funding, just over $1.3 billion had proceeded to a signed **contract**.[55]
- Of the funding under contract, the total funding **distributed** was just over $500 million.

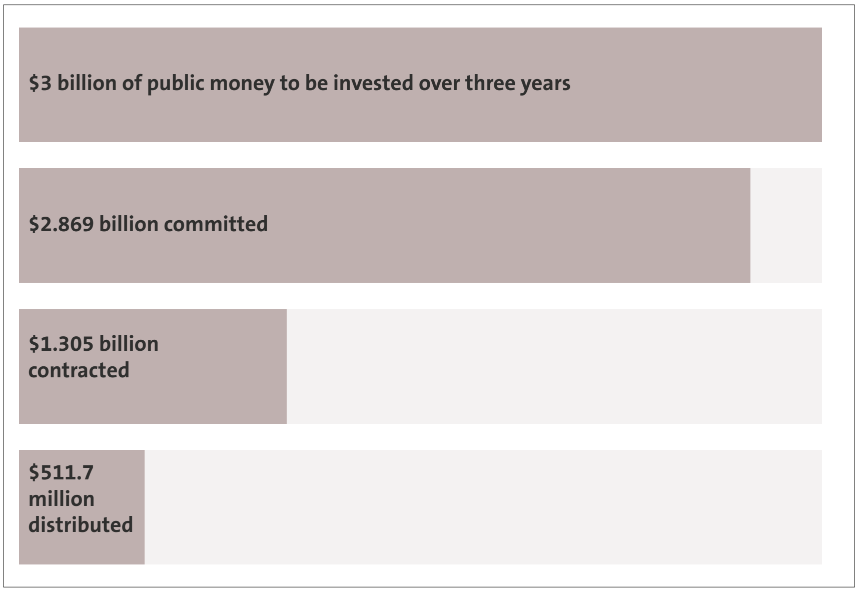
53 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, at pages 4-5.

54 "Committed funding" is the sum of approved projects (announced and unannounced), unspent allocations, contingencies, and operating expenditure. "Allocations" are determined by Cabinet and/or Ministers.

55 Data provided by MBIE. The amounts shown are for the Fund's duration to date and include departmental costs for the PDU and the Ministry for Primary Industries.

Figure 3
Total funding committed, contracted, and distributed, as at 31 March 2020, including the costs of administering the Provincial Growth Fund

This figure shows that, of the $3 billion of public money to be invested over three years, $2.869 billion was committed, $1.305 billion had been contracted, and $511.7 million had been distributed.



Source: Ministry of Business, Innovation and Employment.

Where is the money going?

As at 31 March 2020, about 51% of the nearly $2.9 billion committed funding was to projects in the surge regions:

- Tai Tokerau/Northland – $556.9 million (19.4% of the total amount committed);
- Bay of Plenty – $228.0 million (7.9% of the total amount committed);
- Tairāwhiti/East Coast – $236.5 million (8.2% of the total amount committed);
- Hawke's Bay – $145.4 million (5.1% of the total amount committed);
- Manawatū-Whanganui – $162.3 million (5.7% of the total amount committed); and
- West Coast – $145.4 million (5.1% of the total amount committed).

The amount committed at that stage to the other regions (excluding multi-regional and national projects, and other spending) was $454.5 million (15.8%).

Another $98.7 million (3.4%) was committed to multi-regional projects (that is, projects spanning more than one region), and $22.7 million to "other spending". We plan to complete further work to examine the nature of, and processes supporting, "other spending". There was also $818.7 million (28.5%) categorised as "national". Of this, just more than $584 million was ring-fenced for use in particular areas, and just less than $234.5 million for specific projects. "National" includes:

- $155.2 million in operating costs for the Fund's three-year period, which is for the PDU ($112 million) and the Ministry for Primary Industries ($43.2 million). As at 31 March 2020, $81.9 million had been spent: PDU ($47.6 million) and the Ministry for Primary Industries ($34.3 million);
- funding for projects that, although benefitting regions, are national in application (such as $5.7 million for a project to protect the term "Manuka honey");
- funding that has been ring-fenced for a particular purpose such as energy or waste/recycling, or the Whenua Māori programme, and is held nationally by the PDU, until it is drawn down for particular projects. As particular projects are approved and contracted, the funding for it "migrates" from the ring-fenced "national" category to the region involved (as at 31 March 2020, $232.9 million was still in the "national" category);
- funding for sectors including rail ($191.5 million), forestry ($147.8 million), tourism ($21.6 million), information communications technology (ICT) and digital connectivity ($19.8 million), and conservation (Predator-free 2050, $19.5 million), which is under the administrative control of the relevant agencies, not the PDU; and
- $30 million that was approved by Cabinet in 2018 for "manifesto commitments to the regions" and was increased in 2019 by another $40 million for "emerging priorities through the Provincial Growth Fund".[56]

Managing the Provincial Growth Fund

In February 2018, Cabinet agreed operational details for the Fund, including setting up the Regional Economic Development Unit (now called the PDU) in MBIE. The PDU was created from a group that had managed regional economic growth work in MBIE before the Fund was announced.

Cabinet tasked the PDU with "overseeing all the remaining design work for the Fund, administering the Fund and monitoring its operation, working with other government agencies",[57] maintaining a complete picture of all initiatives that are supported by the Fund.[58] It was to:

56 About two-thirds of this funding has been drawn down for projects that are agreed by the RED Ministers. As at 31 March 2020, there was $24.7 million remaining in the contingency funding. Cabinet agreed that the remainder would be drawn down by the PDU for pandemic response initiatives. The funding has been drawn down.

57 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, page 2.

58 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, page 13.

> *... develop a plan for evaluating the operation and effectiveness of the Fund, including further work on Fund outcomes and baseline performance measures. A substantive evaluation of the Fund is intended to be completed by the end of 2020, to inform Ministers of progress in the context of making funding decisions for Budget 2021.*[59]

Managing major forestry and road and rail projects

The Ministry for Primary Industries manages the One Billion Trees programme, which is part of the Fund. Te Uru Rākau, a business unit in the Ministry for Primary Industries, supports the delegated responsibility for the One Billion Trees programme to the Minister of Forestry. One of Te Uru Rākau's responsibilities is managing the One Billion Trees programme. Te Uru Rākau "designs, administers and monitors the One Billion Trees Fund, in consultation with other government agencies",[60] using "criteria and performance measures aligned with the Fund, plus some additional criteria specific to the programme".[61]

Ministers:

> *... will set clear direction on criteria and performance measures that are consistent with those of the Fund as a whole, and will include requirements to deliver training and employment opportunities and address infrastructure impacts of the investment in the sector. The Ministry for Primary Industries will report to Ministers on its achievement against these criteria as part of the Fund's regular reporting.*[62]

Existing decision-making processes are used, where possible, for infrastructure investments such as rail and roading projects.

Major road and rail projects are managed by the New Zealand Transport Agency and KiwiRail, respectively. They use the usual funding processes and systems for other major road and rail projects in selecting which projects to support, and in managing them.

Overseeing the Provincial Growth Fund

Cabinet papers record that the Fund was designed to be "overseen by a group of Regional Economic Development Ministers",[63] "with an Independent Advisory Panel to support assessment of larger applications, ensure sound decision making and provide commercial expertise particularly for the higher value projects".[64]

59 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, page 13.

60 One Billion Trees Fund application form, page 1 at teururakau.govt.nz.

61 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, page 1.

62 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, at page 9.

63 Cabinet paper (December 2017), *The Provincial Growth Fund* at paragraph 34.

64 Cabinet paper (December 2017), *The Provincial Growth Fund* at page 2.

The oversight group consisted of Ministers holding the following portfolios: Regional Economic Development, Economic Development, Agriculture, Tourism, Māori Development, Transport, Environment, Local Government, Climate Change, and Employment. Its main mandate was "to monitor overall performance of the Fund to ensure overall objectives are being met and for Ministers to discuss opportunities in the regions".[65] However, the oversight group met only once.[66]

Since that one meeting, the Cabinet Economic Development Committee has played the oversight role. The PDU reports to that Committee every four months, providing information such as:

- a breakdown of funding by agency, sector, and region to show the balance of the portfolio and the stage of investment activity (that is, committed, approved (awaiting a signed contract), contracted, and distributed);
- major announcements and key activities during the period;
- commentary on how activity/outcomes have contributed to the Fund's indicators of effectiveness (reporting for which is currently under development); and
- the focus of activity for the forthcoming period.

As well as the Cabinet Economic Development Committee, there are standalone meetings between Ministers whose portfolio responsibilities overlap, so that activities and interests can be discussed and co-ordinated (for example, the Fund's investment in waste-related or energy projects).

Making funding decisions

The RED Ministers group consists of Ministers with portfolios for Finance, Regional Economic Development, Economic Development, and Transport. The group has the highest level of delegation for making funding decisions. Decisions are delegated, in every case except for the One Billion Trees programme,[67] according to the size of the proposed project to the:

- senior regional officials for projects up to $1 million; and
- RED Ministers, in consultation with portfolio Ministers, for projects between $1 million and $20 million.

Cabinet makes the decisions about individual applications of $20 million or more. Regional transport projects are subject to the same delegations as the PDU-managed projects.[68]

65 Cabinet paper (December 2017), *The Provincial Growth Fund* at page 6.

66 Cabinet paper (August 2018), *Further decisions on the Provincial Growth Fund* at page 2.

67 The PDU receives and processes applications related to forestry, such as wood processing. But an application that is clearly about planting and managing forests would be referred to the One Billion Trees programme.

68 Cabinet paper (August 2018), *Further decisions on the Provincial Growth Fund* at page 11.

The delegation for the One Billion Trees programme under the Fund operates differently. In February 2018, Cabinet agreed to use existing decision-making processes, where possible, for forestry and infrastructure investments. Cabinet delegated responsibility for the One Billion Trees programme to the Minister of Forestry.[69] For the One Billion Trees programme, grants and "partnership funding"[70] allocation processes:[71]

- the Director-General of the Ministry for Primary Industries makes decisions about grants and partnership fund projects up to $2 million;
- the Minister of Forestry, the Minister for the Environment, and the Minister of Finance, in consultation with other Forestry Ministers, make decisions about partnership fund projects between $2 million and $20 million; and
- Cabinet makes decisions about partnership fund projects that are more than $20 million.

Independent advice to Ministers

Cabinet directed an Independent Advisory Panel (IAP) to be set up, which would support the assessment of applications that were more than $1 million. The IAP would ensure sound decision-making and provide commercial expertise. The Cabinet paper said that the IAP "will provide independent advice on proposed investments, and ... on the balance of the portfolio of investments".[72] The IAP meets monthly and provides advice to the RED Ministers.

How is the money distributed?

The Fund uses a variety of funding arrangements. As well as grants, there can be:

- loans (where the applicant will pay back the Crown);
- equity (where the Crown will take up an interest in the project, becoming a part owner);
- underwriting (where the Crown would buy an asset or guarantee the applicant funding if the applicant cannot dispose of the asset); and
- bespoke contracts (for example, contracts involving leasing land to be able to plant trees as part of the One Billion Trees programme).

69 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, page 1.

70 See Te Uru Rākau's website at www.teururakau.govt.nz. "Partnership funding" is a co-funding arrangement available to any individual, non-government organisation, catchment group, Māori organisation, company, charity, research organisation, or council. Applicants will typically need to contribute 50% of the cost towards the project, either as a financial share or "in kind". Applicants can apply for grant funding at the same time.

71 CAB-18-MIN-0379.01, *The One Billion Trees Programme: Actions and Decisions for Implementation* at page 7.

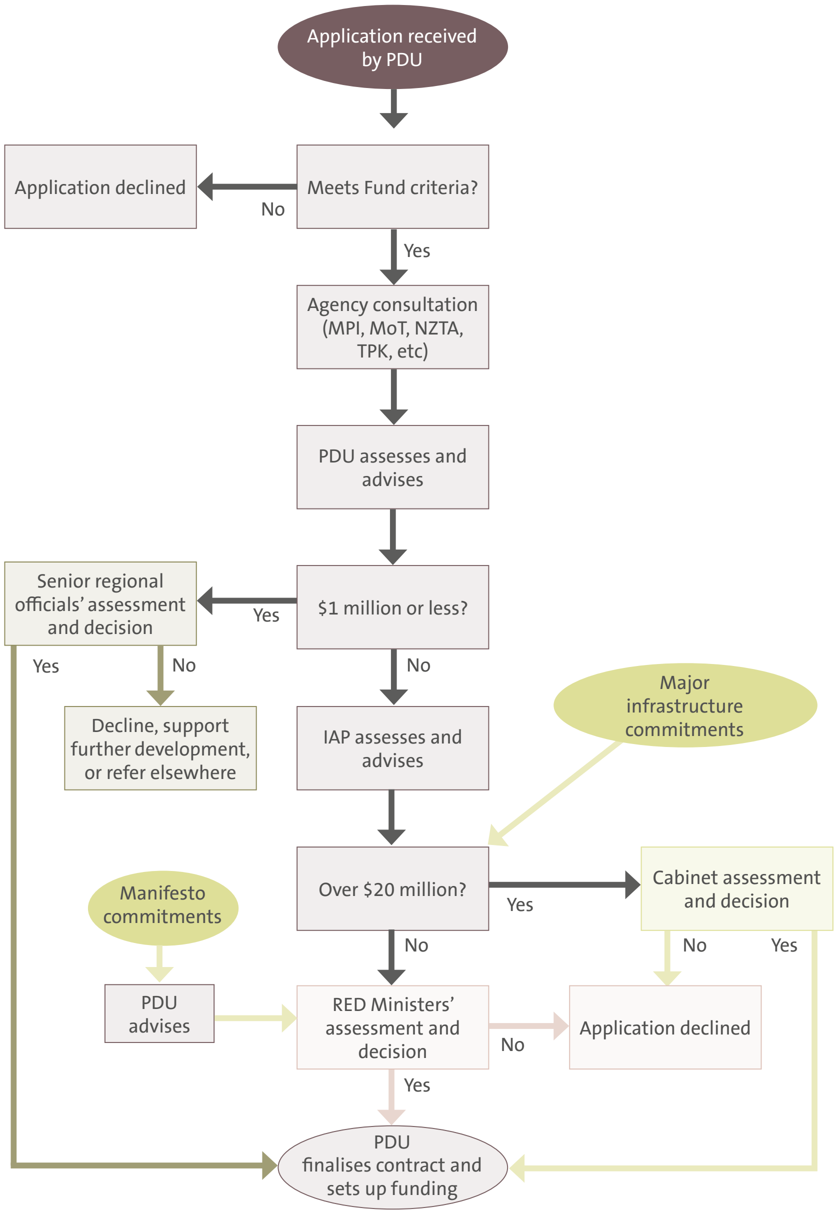
72 Cabinet paper (February 2018), *Operational design of the Tuawhenua Provincial Growth Fund*, page 2.

As at 31 March 2020, almost all the PDU's 490 funding arrangements were grants (85%) and loans (13%), with only nine equity funding arrangements and no underwriting agreements.

Figures 4 and 5 show the processes used by the PDU and the Ministry for Primary Industries (for the One Billion Trees programme) to process applications.

Figure 4
How the Provincial Development Unit processes applications

The flow chart shows how an application is managed by the Provincial Development Unit, up to the point that a contract is signed and funding arrangements are set up.



Manifesto contingency funding was set aside by the Government for commitments made as part of the manifesto/coalition agreements and emerging priorities. The PDU provides advice (but not a recommendation) on projects considered by the RED Ministers for funding from the manifesto contingency.

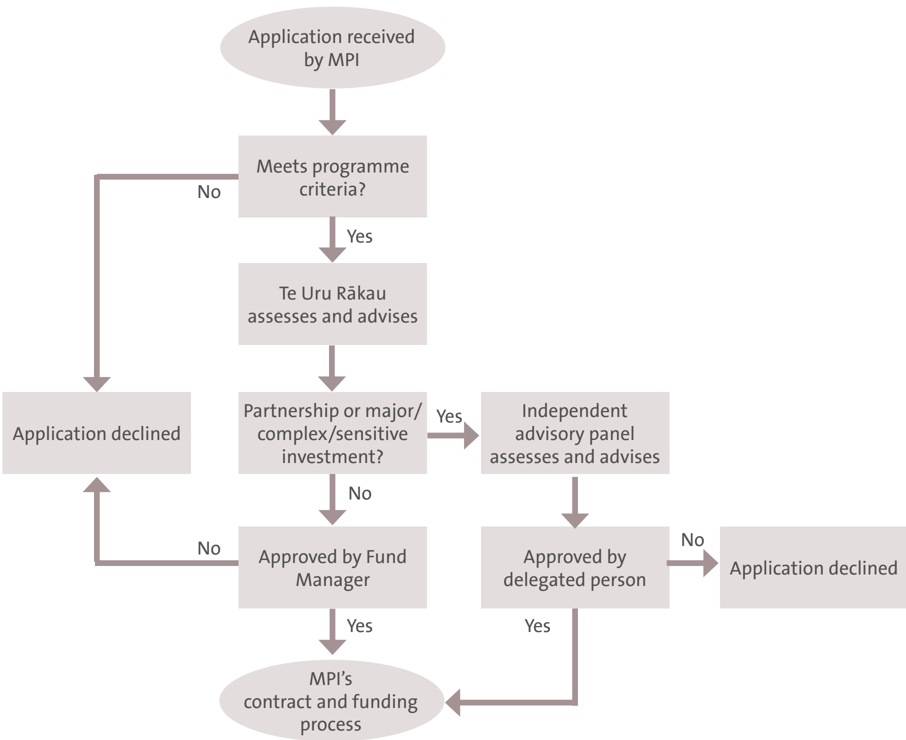
Major infrastructure commitments (principally New Zealand Transport Agency projects and investments in KiwiRail) are supported by existing and extensive business cases, assessment, and funding processes. The usual funding processes and systems for other major road and rail projects are used in selecting which projects to support, and in managing them.

In February 2019, the Government announced that $100 million from the Fund would be allocated towards projects that support Māori landowners to develop their land.[73]

Applications for these Whenua Māori projects are administered by the PDU, and proceed to the RED Ministers, in consultation with the Minister of Agriculture, the Minister for the Environment, and the Minister for Māori Development, for a decision.

Figure 5
How the Ministry for Primary Industries processes applications

The flow chart shows how an application is managed by the Ministry for Primary Industries, up to the point that a contract is signed and funding arrangements are set up.



73 See www.growregions.govt.nz.

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