NOTICE OF MEETING

Notice is hereby given of the Meeting of the Risk and Assurance Committee to be held in the Council Chamber, First Floor, Te Hīnaki Civic Building, 101 Esk Street, Invercargill on Tuesday 20 February 2024 at 8.30 am

Mr B Robertson (Chair)
Mayor W S Clark
Cr R I D Bond
Cr T Campbell
Cr G M Dermody
Mr R Jackson
Cr D J Ludlow
Cr I R Pottinger
Cr L F Soper

MICHAEL DAY
CHIEF EXECUTIVE

A5208248

Risk and Assurance Committee - Public

20 February 2024 08:30 AM

Agenda Topic Page

Public Excluded Session

Moved , seconded that the public be excluded from the following parts of the proceedings of this meeting, namely:

a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 21 November 2023
b) Health, Safety and Wellbeing Update
c) Ombudsman Investigations
d) Council Litigation Update
e) Chief Executive Risk Update (Verbal)

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 21 November 2023	**Section 7(2)(a)** Protect the privacy of natural persons, including that of deceased natural persons **Section 7(2)(g)** Maintain legal professional privilege **Section 7(2)(b) (ii)** Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information **Section 7(2)(h)** Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities **Section 7(2)(i)** Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

		commercial and industrial negotiations)	
b)	Health, Safety and Wellbeing Update	**Section 7(2)(a)** Protect the privacy of natural persons, including that of deceased natural persons	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
c)	Ombudsman Investigations	**Section 7(2)(g)** Maintain legal professional privilege	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
d)	Council Litigation Update	**Section 7(2)(g)** Maintain legal professional privilege	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
e)	Chief Executive Risk Update (Verbal)	**Section 7(2)(i)** Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

MINUTES OF RISK AND ASSURANCE COMMITTEE, HELD IN THE COUNCIL CHAMBERS, FIRST FLOOR, TE HĪNAKI CIVIC BUILDING, 101 ESK STREET, INVERCARGILL ON TUESDAY 21 NOVEMBER 2023 AT 8.30AM

Present:	Mr B Robertson (Chair) Mayor W S Clark Cr I R D Bond Cr T Campbell Cr G M Dermody Mr R Jackson Cr D J Ludlow Cr L F Soper
In Attendance:	Mr M Day - Chief Executive Mrs P Christie - Group Manager - Finance and Assurance Mr J Shaw - Group Manager - Consenting and Environment Mr M Waters - Acting Group Manager - Community Spaces and Places Mr A Cameron - Chief Risk Officer Ms R Suter - Manager - Strategy and Policy Ms T Anderson – Risk Specialist Ms L Knight - Manager - Strategic Communications Mr G Caron - Digital and Communications Advisor Mrs L Williams - Team Leader Executive Support

1. Apology

Cr Pottinger

Moved Mr Robertson, seconded Cr Dermody and **RESOLVED** that the apology be accepted.

2. Declaration of Interest

Mr Robertson advised that in the paper, Financial Risks Update in Public Excluded referred to Napier City Council. He is Chair of their committee, however this does not preclude him from discussion.

3. Public Forum

Nil.

4. Minutes of the Risk and Assurance Committee Meeting held on Tuesday 19 September 2023

A4877577

Moved Cr Campbell, seconded Cr Soper and **RESOLVED** that the Minutes of the Risk and Assurance Committee meeting held on Tuesday 19 September 2023 be confirmed.

5. Minutes of the Risk and Assurance Committee Meeting held on Wednesday 25 October 2023

A4964272

Noted that action point not completed yet around a programme and will be done for the New Year.

Moved Cr Campbell, seconded Cr Soper and **RESOLVED** that the Minutes of the Risk and Assurance Committee meeting held on Wednesday 25 October 2023 be confirmed.

6. Internal Audit and Continuous Improvement Update

A4998143

Mrs Patricia Christie spoke to the report.

Mr Robertson asked if this Committee had seen a summary of the reports for example payroll and building control. Mrs Christie noted that some were being prepared now and the payroll one would not come back as purely a transactional one and noted she would look into the ones listed in the report.

A query was raised around LGOIMA, and if there were any concern, it was noted that work was being done by both the governance and information management teams around the workflow used to manage this. A paper would come around the workshop report released by the Ombudsman.

A query was raised around the numbers in the report, it was noted that ‘10’ related to the number of issues / improvements which had been identified.

The Mayor queried the issue of workshops and that council had workshops and councillor only sessions and what was needed in terms of minutes; what was public excluded. Mr Morris confirmed that a report was being prepared for Council and provided a summary of the report and assumptions. Where staff attend it became a workshop, if the Chief Executive attended it did not become a workshop in the Ombudsman’s definition.

Moved Cr Dermody, seconded Cr Ludlow and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report “Internal Audit and Continuous Improvement Update”.

7. Financial Risks Update

A5036567

Mrs Patricia Christie spoke to the report and noted that this covers off Treasury risks and where we are at against our policy and contained the report from Fitch confirming our credit rating, it was clear that council's credit rating was predicated on the conservative debt cap and the ability to tax, i.e. have ability to rate. This applied to all councils but not all councils had the same credit rating. Council's level of liquidity was held specifically to support the ability / need to fund 40% of assets in a natural disaster.

The Treasury policy breach in relation to fixed rate interest coverage, it was advised that offices were watching the market around fixed interest, looking at what borrowing would look like before specifically addressing the breach. It was noted that this breach had been present for approximately 18 months.

A query was raised around ability to tax, this applied to all councils it was answered in the affirmative, but not all councils have the same credit rating.

How much additional debt could council take before falling to A-, difficult to answer, Fitch were aware of the projected future debt numbers but that council still had conservative levels and remained at the same credit rating. Assumption if went to $180 million would possibly maintain the rating, this was just one factor.

Mr Cameron advised that Fitch could see that Council had a plan and was comfortable this could be managed.

Cr Soper also noted the $20 million cash reserves and that this would have assisted in maintaining the rating.

The Chair noted the key drivers that Fitch use and that they were useful to look at. We control and need to be cognisant of the drivers and parameters.

The Mayor noted that when talking about debt reference to percentages not dollars, could be confusing for some when listening to discussion around debt.

The Chair congratulated the team on the rating.

The Chair noted the low cost of debt which was 2.93% whereas most other council were in the high 4%, and queried interest rate cover gap.

Mrs Christie advised reviewing markets and rates and looking at world markets and would keep watch, with the new government may impact. Have not taken cover at this stage. Also noted that the coverage policy limits would be reviewed given the change in interest markets.

Moved Mr Robertson, seconded Cr Soper and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Financial Risks Update".
2. Report to be prepared for the next meeting of Risk and Assurance Committee to set out the plan/advice to address the Policy Cover breach.

8. Audit New Zealand Update

A5036759

Mr Chris Genet and Ms Jenna Hills joined the meeting via zoom. Mrs Christie spoke to the report and noted council had received draft audit management letter for annual report. Responses to that would come to this Committee in the New Year. Audit New Zealand was not in a position to discuss the fee for LTP audit at this stage.

Mr Genet spoke to the letter and noted five significant matters relating to the Annual Report audit and revaluation that occurred and outlined that no further valuations were required.

Key things re investment in ICL was that audit agreed with treatment and the loan impairment. Drinking water regulation, DIA to provide guidance on compliance in that space.

Planning was underway for the LTP audit and key dates noted in the report. Self-assessment, those areas covered in the appendix to the letter. Confirmed not in a position to complete engagement letter until fees had been calculated.

A concern was raised that council had no fees at this stage, the Mayor noted that he had spoken to both LGNZ and the Auditor General, further concern around the level of fee being charged. A number of councils were concerned.

The Chair asked Mr Genet about the LTP audit the core emphasis on the work was in the week starting 15 January 2024 and confirmed that would be ready for this to start. Under the annual audit the qualitative was that it gave effect to purpose of the act, if didn't met would be a qualified opinion? Mr Genet said it was a significant assumption and would treat like any other significant assumption and would be established for the sector as the audit office goes through their process and knew would be a higher bar this year. Could not give definitive answer.

Climate change assumptions relate to the current LTP.

It was confirmed that strategies and activity management plans will be brought back to the December council meeting.

It was noted around climate change and that with a new government there may be a change in this space; may take away standard climate change work and push towards regional councils, so there is uniformity of approach.

It was further noted that in Southland there was a regional group led by Environment Southland and so doing collaboratively in our region anyway.

Mr Genet was asked how issues were fed up to central government, was it an aggregated and sent through to central government to form a view on key issues. Mr Genet noted that a sectorised report came out annually and at reasonably aggregated level and brought out a summary of issues and outcomes across councils. Mr Genet was happy to send though a copy of the reports for councillors information. A report by the auditor general was tabled at parliament.

Moved Cr Soper, seconded Cr Ludlow and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Audit New Zealand Update".

9. Risks – Long-Term Plan Decision Making

A5038821

Mr Andrew Cameron and Ms Rhiannon Suter spoke to the report, and noted a number of pressures that impact on Council's decision making. Asking for confirmation around process and was there anything that should be done differently.

Cr Campbell noted the inflexibility to Long-term Plans and especially given the unknowns in the next 10 years and was a concern. Ability to respond.

It was noted that when LTP's were brought in, their purpose was that they had to consult with the community and the inflexibility was around the need to be able to go back to the community around assumptions and changes. It was added that that was why reports had the structure they did around significance and also implications.

Query around residual risk and controls. A control was put in place to mitigate however some outside our control, particularly from Central Government. Need to accept that there are a range of changes that may occur. Consequences could be high but council were a "receiver".

Ms Suter noted that with 3 Waters, Council had put those activities into the budget for the two years and had included addendums from the NTU as a means to deal with that issue in terms of a "control".

Mr Cameron noted that the Government was likely to prescribe how to deal with Climate Change to get consistency across the sector.

Risk around changing priorities and the impact of that to BAU e.g. the need to go back out to the community to consult had an impact on staff resourcing and also had a political risk.

Greatest value was the process that you go through to prepare the LTP.

Concern raised that the organisation gets to the stage that fear of risk or adherence to the LTP and conflicting priorities. Ability to be nimble and respond quickly.

It was noted that Council had the ability to react, there was a process and there was /could be a need to consult. Change could be brought about by many factors.

The 28 November was a key date as it was the final workshop for the LTP and coming to the crunch point in terms of finalising budgets.

Recommendation 4, discussion that have had a good audit and also the rating from Fitch. May need to think about what the further actions are and currently in the place where watching brief. Discussion around the risks and felt not major.

Moved Mr Roberson, seconded Cr Soper and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Risks – Long-term Plan Decision Making".
2. Notes the difference between decision making under uncertainty versus risk and the implications for decision making.
3. Confirm the appropriateness of the current controls to manage decision making risks through the Long-term planning process.
4. Confirm the current residual risk rating and not recommend further action be taken to reduce the residual risk to the Long-term Plan development at this stage, but subject to ongoing review.

10. Public Excluded Session

Moved Mr Robertson, seconded Cr Bond and **RESOLVED** that the public be excluded from the following parts of the proceedings of this meeting, namely:

a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 19 September 2023
b) Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 25 October 2023
c) Health, Safety and Wellbeing Update
d) Council Litigation Update
e) Financial Risk Update – Procurement Risk and Policy Compliance Report
f) Draft ICC Internal Audit Plan 2023 – 2025
g) Group Risk Discussion - Verbal Update
h) Verbal Update from Chief Executive

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 19 September 2023	**Section 7(2)(i)** Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) **Section 7(2)(a)** Protect the privacy of natural persons, including that of deceased natural persons	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

		Section 7(2)(g) Maintain legal professional privilege **Section 7(2)(b) (ii)** Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information **Section 7(2)(h)** Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities	
b)	Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 25 October 2023	**Section 7(2)(b)(ii)** Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
c)	Health, Safety and Wellbeing Update	**Section 7(2)(a)** Protect the privacy of natural persons, including that of deceased natural persons	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
d)	Council Litigation Update	**Section 7(2)(g)** Maintain legal professional privilege	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
e)	Financial Risk Update – Procurement Risk	**S7(2)(b)(ii)**	**Section 48(1)(a)**

	and Policy Compliance Report	Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
f)	Draft ICC Internal Audit Plan 2023 – 2025	**Section 7(2)(h)** Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
g)	Group Risk Discussion - Verbal Update	**Section 7(2)(i)** Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
h)	Verbal Update from Chief Executive	**Section 7(2)(a)** Protect the privacy of natural persons, including that of deceased natural persons	**Section 48(1)(a)** That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

There being no further business, the meeting finished at 12.09 pm.

ANNUAL REPORT 2023 – AUDIT NEW ZEALAND MANAGEMENT REPORT

To:	Risk and Assurance Committee
Meeting Date:	Tuesday 20 February 2024
From:	Stephanie Roberts – Manager – Financial Services
Approved:	Patricia Christie - Group Manager - Finance and Assurance
Approved Date:	Wednesday 14 February 2024
Open Agenda:	Yes

Purpose and Summary

The purpose of this report is to provide the Committee and Council with the Management Report provided by Audit New Zealand on issues noted during their completion of the audit of the June 2023 annual report for Council and its subsidiaries, which was completed in October 2023.

Recommendations

That the Risk and Assurance Committee:

1. Receive the report 'Annual Report 2023 – Audit New Zealand Management Report'.
2. Note the recommendations raised by Audit New Zealand and management's response to those issues.
3. Thank the Chair and Independent member for their support working through the issues associated with the 2023 Annual Report.

Background

At the completion of the interim and year end audits, Audit New Zealand provides the Council with a report which outlines issues of risk and non-compliance that were identified during the audit progress and recommends the action which management should take.

Management reviewed the report prior to issue and provide comments on the issues identified.

Audit New Zealand manage audits on a three year cycle with audit fees set by the Office of Auditor General for a three year period.

Issues

Management Report

The purpose of the management report is to report back to both management and governors, the findings from the audit and also the areas which Audit New Zealand consider that improvements need to be made.

The key issues and recommendations identified in the report are:

- The issuing of an 'except for' opinion in relation to the 2022 comparative asset revaluation movement recognised in the other comprehensive revenue and expense section of the statement of comprehensive revenue and expense, and in the statement of changes in equity. This was due to the auditors being unable to obtain sufficient audit evidence, and follows on from the 'except for' opinion issue for the 2021 and 2022 Annual Reports.

  The auditors were also unable to obtain assurance over the accuracy of traffic count data used to calculate the performance measure for smooth travel exposure. This was because source records were not maintained to support all traffic counts.

- Nine new recommendations were made of which one was urgent and eight are necessary. Eleven previous recommendations have been closed.
- There was one uncorrected misstatement noted in relation to internal charging. This was minor in nature and the decision not to correct it was done in conjunction with Audit New Zealand and being mindful of materiality limits.

The 2023 audit went reasonably smoothly on the financial side, however there were some issues with source data held to support some of the performance measures. There were also time constraints in actioning recommendations from the 2022 audit due to the late sign off of the 2022 Annual Report in March 2023.

The urgent recommendation identified by Audit New Zealand relates to source data not being maintained for all traffic counts in relation to the smooth travel exposure performance measure. A staff training session has been held for all staff responsible for capturing information relating to performance measures and a follow up session is to be held soon. Internal audit also now has a programme in place to review source documentation held for performance measures and the calculation methods being used. This programme will systematically review the data collection for all performance measures over the next 12-18 months.

Next Steps

Officers will continue with actioning open audit recommendations and the detailed planning for the 2024 Audit.

Attachments

Annual Report 2023 - Audit New Zealand Management Report (A5189239)

A5189239

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Invercargill City Council group

For the year ended 30 June 2023

Contents

Key messages

We have completed the audit of Invercargill City Council (the City Council) and group for the year ended 30 June 2023. This report sets out our findings from the audit and draws attention to areas where we have made recommendations for improvement.

Audit opinion

We issued a qualified “except for” audit report on 31 October 2023. Our audit report was qualified in relation to two matters:

- We were unable to obtain sufficient audit evidence to support the comparative year revaluation movement of the City Council and group’s revalued property, plant and equipment. This was a result of the 2021 qualified audit opinion where we considered that there were reliable indicators that there could be a material increase in the fair value of classes of property, plant and equipment during the 30 June 2021 financial year, despite no revaluation being undertaken.

- We were unable to obtain assurance over the accuracy of traffic count data used to calculate the smooth travel exposure performance measure in the statement of service performance. This was due to source records not being maintained for all traffic counts.

Without further modifying our opinion our audit report also contained an emphasis of matter paragraph. This drew readers’ attention to the disclosures in the financial statements relating to the effects of the Government’s affordable water services reform programme on the City Council.

Areas of audit focus and matters identified during the audit

Our audit plan outlined the areas of focus identified for the audit. We discuss these matters and the outcome of our procedures in section 3 of this report. In addition, we identified other matters during the course of our audit, these are also outlined in section 4 of this report. The matters of most significance were:

- ***Carrying value of property, plant and equipment*** – This year the City Council revalued it’s roading asset class. The asset class increased on revaluation by $5.06 million to $302.2 million. The valuation undertaken was an indexed revaluation, therefore movements are reflective of the underlying published indices relevant to the assets. We reviewed the revaluation process including source data collection, methodology of the indexed valuation report and reasonableness of assumptions and concluded the valuation was appropriate for inclusion in the financial statements. For asset classes which were not revalued we agreed with management’s assessment that no further revaluations were required.

- ***Investment in Invercargill Central Limited*** – The investment in Invercargill Central Limited was written down to nil in the group financial statements following the investment property revaluation of the shopping centre development. Previously there had been differences in accounting between the City Council and Invercargill City Holdings Limited due to differences in public benefit entity and for-profit accounting standards. We reviewed and agreed with management's assessment that this year the accounting should be consistent. Accordingly, the investment was written down to nil.

- ***Loan to Invercargill Central Limited*** – The loan to Invercargill Central Limited increased from $12.8 million to $25.81 million during the financial year. Given the increase in loan value and Invercargill Central Limited's financial position management prepared an assessment of impairment based on the expected future credit losses on the loan. We reviewed the impairment assessment, with a focus on methodology and the key assumptions. Overall, we concluded the impairment of $2.48 million was fairly stated in the financial statements.

- ***Drinking water quality performance measures*** – The regulatory regime in place over the safety of drinking water transitioned in the current year from the Drinking Water Quality Standards 2005 to the new Drinking Water Quality Assurance Rules which came into effect on 14 November 2022. The change in standards initially created uncertainty over what should be reported in local authority annual reports as the mandatory performance measure for drinking water quality did not change. Guidance was subsequently issued by the Department of Internal Affairs, which allowed the City Council to report for the whole period under the existing Drinking Water Standards 2005. The City Council engaged an external expert to confirm their level of compliance against the standards. We reviewed the expert's report including scope of their procedures, methodology, and reasonableness of any judgements applied and concluded the expert's work was appropriate for use as audit evidence. Overall, we concluded drinking water quality performance measures were fairly reflected in the statement of service performance.

Our report also makes nine new recommendations for improvement. These recommendations are summarised in section 1.1 below and detailed in sections 4 and 5 of this report.

Thank you

We would like to thank members of the Committee, Councillors, management and staff for their assistance and engagement during the audit

Chris Genet
Director
2 February 2024

1 Recommendations

Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Explanation	Priority
Needs to be addressed *urgently* These recommendations relate to a significant deficiency that exposes the City Council to significant risk or for any other reason need to be addressed without delay.	Urgent
Address at the earliest reasonable opportunity, *generally within six months* These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.	Necessary
Address, *generally within six to 12 months* These recommendations relate to areas where the City Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.	Beneficial

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Smooth travel exposure performance measure • Maintain source data for all traffic counts. Retrospectively review traffic counts from 1 July 2024 to the date at which system improvements are made.	4.3	Urgent
Performance measures which rely on the customer service request system • Review the system to record information for performance measures which rely on the customer service request system. • Establish guidance for staff responsible for data input and conduct training on the guidance. • Perform periodic internal review of customer service request data to ensure it is accurate and consistent with the guidance issued.	4.5	Necessary

Recommendation	Reference	Priority
Internal charges • Reconsider the practice of the City Council raising and processing invoices to itself. • Perform a formal reconciliation of all internal charges to ensure these have been appropriately eliminated from external reporting.	4.6	Necessary
Rates revenue overcharge Implement a post input review of rates per the rates information database back to the rates resolution to ensure rates loaded in the system are accurate.	4.7	Necessary
Payroll related disclosures and Councillor overpayments • Establish and agree information requirements for payroll related disclosures between finance and the Human Resources departments. • Perform appropriate quality review of payroll related information before it is incorporated in the annual report. • Engage with the Remuneration Authority to determine the appropriate course of action in relation to Councillor remuneration overpayments.	4.8	Necessary
Review of user access and generic user accounts • Implement a periodic review for all user access in TechOne to ensure employee access is consistent with the employee's role and responsibilities. • Remove generic test accounts.	5.1	Necessary
Payroll system segregation of duties • Review and reassign roles for controls within the payroll system. • Enforce segregation of duties by limiting access so it is consistent with individuals' roles and responsibilities.	5.2	Necessary
Use of three-way match control in the expenditure system Ensure as many transactions as possible use purchase orders and are subject to the three-way match control.	5.3	Necessary

Recommendation	Reference	Priority
Review of reports and reconciliation controls • Ensure variances and anomalies from all reconciliation controls are appropriately followed up and corrective action occurs. • Review reconciliations and system reports in a timely manner, and ensure independent reviews are appropriately evidenced.	5.4	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations	-	11	3	**14**
Implemented or closed recommendations	-	11	-	**11**
Total	**-**	**22**	**3**	**25**

2 Our audit report

2.1 We issued a qualified audit report

We issued a qualified "except for" audit report on 31 October 2023. Our audit report was qualified in relation to two matters, these are outlined in 2.1.1 and 2.1.2 below.

Except for the impact of these matters we were satisfied that the financial statements and statement of service performance present fairly the City Council's activity for the year and its financial position at the end of the year.

Without further modifying our opinion our audit report also contained an emphasis of matter paragraph. This drew readers' attention to the disclosures in the financial statements relating to the effects of the Government's affordable water services reform programme on the City Council.

2.1.1 Comparative year revaluation movement of the City Council and Group's revalued property, plant and equipment

Our audit report on the 30 June 2021 financial statements was qualified because we considered that there were reliable indicators that there could be a material increase in the fair value of asset classes not revalued during the 30 June 2021 financial year. However, because the City Council did not carry out a revaluation as at 30 June 2021, it was impracticable to determine the amount of the adjustment required.

As disclosed in note 11 to the financial statements, the City Council valued its property, plant and equipment asset classes held at fair value as at 30 June 2022 resulting in a revaluation movement of $215.177 million recognised in the statement of comprehensive revenue and expense for the year ended 30 June 2022. While we obtained sufficient appropriate evidence over the valuation as at 30 June 2022, any misstatement of the City Council's property, plant and equipment's carrying value as at 30 June 2021 would consequently affect the revaluation movement recognised in the statement of comprehensive revenue and expense for the year ended 30 June 2022, presented as comparative information in the 2023 financial statements.

As a result, we are unable to obtain sufficient audit evidence to support the comparative asset revaluation movement recognised in the other comprehensive revenue and expense section of the statement of comprehensive revenue and expense, and in the statement of changes in equity.

2.1.2 Performance measure for smooth travel exposure

The City Council is required to report against the performance measures set out in the *Non-Financial Performance Measure Rules 2013* made by the Secretary for Local Government. These mandatory performance measures include the average quality of ride on the local sealed road network measured by smooth travel exposure. This measure is important because road smoothness is indicative of the quality of service provided to the community.

We were unable to obtain assurance over the accuracy of traffic count data used to calculate the performance measure. This was because source records were not maintained to support all traffic counts.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Trade payables	**1**		1,179,621		
Trade receivables		(1,179,621)			
Total parent		**(1,179,621)**	**1,179,621**		
Total group		**(1,179,621)**	**1,179,621**		

Explanation of uncorrected misstatements

1 To recognise the overstatement of trade and other payables and trade and other receivables balances relating to internal charges.

2.3 Corrected misstatements and disclosure deficiencies

We also identified misstatements and disclosure deficiencies that were corrected by management. The corrected misstatements and disclosure deficiencies are listed in Appendix 2.

2.4 Quality and timeliness of information provided for audit

Management is required to provide information for audit relating to the annual report. This includes the draft annual report with supporting working papers. We provided a listing of the information we required to management through our AuditDashboard file sharing and request platform. This included the dates we required the information to be provided to us.

At an overall level we observe that the preparation process has improved this year and commend management for the efforts that have gone into these improvements. This has meant the financial information, performance information and supporting work papers were broadly delivered to us in a timely manner. We have also appreciated the collaborative issue resolution which occurred during the audit.

There were a small number of requested items that were provided later than originally agreed (for example the peer review of the indexed valuation, accounting papers in relation to Invercargill Central Limited and the drinking water quality expert report). The achievability of timeframes was discussed in advance of our final audit visit and revised timeframes were agreed. The revised timeframes for these items were substantially met.

We also observed improvements in the quality of preparation, of most impact were the improvements made to the consolidation process. We thank management for taking action in relation to previous feedback provided in this area. There still however remain areas where further improvements can be made. These generally relate to discrete areas, for example service performance information (see sections 4.3 and 4.5) and payroll related information (refer to section 4.8). We understand from discussions with management, improvements to these areas are recognised and will be prioritised in advance of the 2024 audit.

Overall, we would like to thank management for the collaborative engagement that occurred during the audit, and the improvements made to the preparation process.

3 Matters raised in the audit plan

In our audit plan we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Carrying value of property, plant and equipment	
The City Council periodically revalues its property, plant and equipment. *PBE IPSAS 17, Property, Plant and Equipment*, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ from fair value. The City Council revalued all asset classes which apply the revaluation model last year. Due to a qualification in relation to the 2021 closing carrying values of property, plant and equipment a qualification was included in last year's audit report. This was in relation to the comparative balances and resulting 2022 revaluation increase. We expect the qualification will again be required but will solely refer to the 2022 revaluation increase. For assets measured using the revaluation model which are not planned to be revalued this year, we expect the City Council will demonstrate that the carrying value of the asset class is not materially different to its fair value. This will need to be considered for both the City Council and group financial statements. The carrying value of property, plant and equipment is an audit risk due to the significance of the carrying values to the financial statements, and the complexity of judgements involved. Of specific risk is the current inflationary pressures and their impact on estimating replacement costs. We encourage the City Council to perform this assessment early so that if a revaluation is required, there is sufficient time to engage a valuer.	This year the City Council revalued it's roading asset class. The asset class increased on revaluation by $5.06 million to $302.2 million. The valuation undertaken was an indexed revaluation, therefore movements are reflective of the underlying published indices relevant to the assets. We reviewed the revaluation process including source data collection, methodology of the indexed valuation report and reasonableness of assumptions and concluded the valuation was appropriate for inclusion in the financial statements. For asset classes of property, plant and equipment which were not valued in 2023 we considered whether the carrying value in the financial statements is materially different from the asset's fair value. We reviewed the City Council's assessment and confirmed the expected movements to applicable published cost indices, and support provided from the City Council's valuers. We concluded the expected fair value of the applicable assets was not materially greater than their carrying value. Therefore, we agreed with the City Council's conclusion that no further asset revaluations were required this year. As anticipated in audit planning our audit report contained a qualification in relation to the comparative year revaluation movement. This matter is discussed in 2.1.1 above.

Audit risk/issue	Outcome
Group accounting and consolidation	
The City Council has a complex group structure, which consists of entities with varied functions and includes entities with both public benefit and for-profit objectives. Inconsistency in how balances are accounted for occur from differences in accounting standards which apply to for-profit entities and public benefit entities, and entities within the group choosing to apply different accounting policies. The most significant of these differences in the City Council group include (but are not limited to): • different accounting policy choices by the City Council and Invercargill City Holdings Limited Group (and its subsidiaries) in relation to the revaluation of land and buildings; and • different requirements regarding impairment of assets between public benefit and for-profit standards. In 2022, this resulted in the impairment of Invercargill Central Limited recognised in Invercargill City Holdings Limited Group's financial statements being reversed in the City Council's financial statements. Where valuation policies are different, the City Council needs to consider these in assessing the group's carrying value of its fixed assets. In certain circumstances this will require valuations to be obtained and recognised by the City Council in the group financial statements. The City Council should continue to identify and assess different accounting treatments and adjust for them in their group financial statements. This is to ensure consistency of reporting and compliance with public benefit entity accounting standards.	The most significant matter pertaining to group accounting was accounting for the City Council's investment in Invercargill Central Limited arising from differences in Invercargill Central Limited and the group's accounting policies. Further detail on this matter is provided in section 4.1 of this report. We concluded the investment was fairly stated in the group financial statements. We also considered the different accounting policy choices by the City Council and Invercargill City Holdings Limited Group (and its subsidiaries) in relation to the revaluation of land and buildings. As part of reviewing the fair value assessment we considered the impact of assets within the group which are part of a revalued asset class but are not revalued. This consideration was given with reference to relevant published indices, and comparable valuation information of similar assets. Overall, we concluded the impact was not material and therefore the expected fair value of the applicable assets was not materially greater than their carrying value for the group.

Audit risk/issue	Outcome
Affordable waters reform	
Legislation passed in December 2022 established four publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities. A water services Bill to enable the transfer of these assets and liabilities to the water services entities, is currently before Parliament. On 13 April 2023, the Government announced further proposed amendments to the number of water services entities and to stagger their establishment dates, with all the water services entities to be established by 1 July 2026. The timing of the transfer of assets and liabilities is therefore uncertain until amendments to existing legislation is passed. Given the significance of the reforms, we expect the City Council will disclose any known impacts and any related uncertainties in the annual report.	Given the significance of the reforms and the related uncertainty, the City Council disclosed the matter in the notes to the financial statements. We reviewed the disclosure and concluded it was appropriate. Consistent with all other territorial local authorities and given the significance of the matter to readers of the annual report, we included an emphasis of matter paragraph in the opinion drawing readers attention to the City Council's disclosure.
First time adoption of *PBE FRS 48 Service Performance Reporting*	
The City Council is required to adopt *PBE FRS 48 Service Performance Reporting* for the first time this year. The standard replaces the performance reporting elements included in *PBE IPSAS 1 Presentation of Financial Statements.* *PBE FRS 48* requires service performance information to provide contextual information on why a public organisation exists, what it intends to achieve in broad terms, and what was done during the reporting period towards its broader aims and objectives. It also imposes additional reporting obligations on reporting entities. These include: • disclosing those judgements that have the most significant effect on the selection, measurement, aggregation	As part of our review of service performance information we reviewed the City Council's disclosures for compliance with *PBE FRS 48.* Our initial review identified additional disclosure was required to comply with the new standard. This predominantly related to ensuring appropriate disclosures are made in regard to the significant judgements the City Council makes in selecting, measuring, aggregating and presenting performance information. Disclosures were subsequently updated and enhanced as necessary. From review of the updated performance information, we concluded the City Council had complied with the standard appropriately.

Audit risk/issue	Outcome
and presentation of service performance information; • requirements to enhance comparability of service performance reporting, including the need for comparative information, and disclosure requirements for the correction of material prior period errors; and • requiring linkages between financial information and service performance information. This is to convey a coherent picture about the performance of the entity and link this to the costs of goods and/or services an entity delivers. We expect the City Council to prepare an impact assessment against the new standard to facilitate a smooth transition. We welcome the opportunity to review and comment on the assessment.	
Investment property	
The City Council holds a significant investment property portfolio, this includes industrial, commercial and residential leased properties, in addition to a small amount of vacant land. The fair value of the City Council's investment properties need to be valued annually in accordance with the requirements of PBE IPSAS 16, *Investment Property.* The City Council will also need to monitor changes in the use of its property as these can cause changes in accounting classification. Investment property is an area of audit risk, due to the expert judgements required, estimation uncertainty, and the assumptions used to determine fair value and accounting classification.	The Investment Property portfolio increased on valuation by $395,000 million to $26.96 million. The valuation movement was consistent with relevant comparable sales and yield information. We reviewed the revaluation process including source data collection, methodology of the valuation report and reasonableness of assumptions and concluded the valuation was appropriate for inclusion in the financial statements. We also reviewed disclosures for compliance with *PBE IPSAS 16, Investment Property.* Overall, we concluded investment property is fairly stated in the financial statements.

Audit risk/issue	Outcome
The risk of management override of internal controls	
There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a significant risk on every audit.	To address this risk, during the audit we: • tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewed audit estimates for bias (including valuations) and evaluated if there was any risk of material misstatement due to fraud from bias; and • evaluated the business rationale of any significant transactions that were outside the normal course of business, or that otherwise appeared to be unusual given our understanding of the City Council. We found no indications of management override that would result in a material misstatement in the financial statements due to fraud.

4 Matters identified during the audit

Below we outline the other matters we identified during the audit and where relevant any recommendations for improvement.

4.1 Investment in Invercargill Central Limited

The City Council through its ownership of Invercargill City Holdings Limited holds a 45.8% shareholding in Invercargill Central Limited, a joint venture with Crown Regional Holdings Limited and private sector investors. Invercargill Central Limited developed and owns a shopping centre within the Invercargill central business district. The shopping centre commenced trading in July 2022.

Last year an independent corporate finance valuation demonstrated the carrying value of the investment was not supported by its expected future cash flows. This valuation result was expected due to the desired outcomes of the investment being broader community outcomes alongside economic ones, rather than purely commercial objectives. Based on the valuation, the Invercargill City Holdings Limited Group impaired its investment in Invercargill Central Limited to a carrying value of $0.5 million. This impairment was able to be unwound at the ICC Group level when considered against the impairment factors for Property, Plant and Equipment in public sector accounting standards, which are different to those in for profit accounting standards.

With the commencement of trading in the current year, we anticipated Invercargill Central Limited would reclassify the development in its balance sheet to investment property. Invercargill Central Limited elected to apply the cost model for investment property, rather than apply the City Council and Invercargill City Holdings Limited Group's fair value accounting policy.

This meant that there was inconsistency in application of the City Council and Invercargill City Holdings Limited Group's accounting policies to that applied by Invercargill Central Limited. To address this the Invercargill City Holdings Limited Group procured a valuation so that any inconsistency could be remedied by recognising the valuation in their own financial statements.

The development was valued as at 30 June 2023 at $69.8 million. The carrying value prior to valuation was $173.5 million. Given the carrying value of the investment property exceeded its recoverable amount, an impairment expense of $103.7 million was recognised in Invercargill Central Limited's financial statements for the year ended 30 June 2023.

Our review of the valuation focussed on the methodology, key assumptions, and reliability of source data. In reviewing assumptions, the discount rate was assessed for consistency with discount rates for similar entities, and whether property yields were supported by market information. Because the measurement at cost less impairment (based on the revaluation) is the same as what would have occurred had a revaluation policy been applied, we were able to accept the carrying value for the Invercargill City Holdings Limited Group's financial statements under its revaluation accounting policy.

Because of the significant impairment, Invercargill Central Limited is now in a negative equity position of $13.135 million. As a result of this the carrying value of the investment was written down to nil in the Invercargill City Holdings Limited Group financial statements.

We then considered whether there should continue to be any differences in accounting between the Invercargill City Holdings Limited Group financial statements and ICC financial statements. We concluded the Invercargill Central Limited investment property should be recognised at fair value under both for profit and public sector accounting standards. Accordingly, the investment in Invercargill Central Limited was also written down to nil in the ICC Group financial statements.

Overall, we concluded the carrying value of the joint venture is fairly stated in the financial statements.

4.2 Loan to Invercargill Central Limited

During 2022 the City Council provided a loan to Invercargill Central Limited. The loan provides finance for the shopping centre development. As at 30 June 2022 the loan balance was $12.8 million, subsequent drawdowns of $13.01 million have occurred this year, bringing the total loan balance to $25.81 million as at 30 June 2023.

The development loan facility is a joint agreement between HWR Finance (HWRF) and the City Council to provide a loan to Invercargill Central Limited of up to $60 million ($50.6 million has been drawn down as at 30 June 2023). The City Council and HWRF fund 50:50 for the first $45.5 million and 60:40 for the final $14.5 million. Security on the loan is provided by a $45.5 million first mortage to the City Council and HWRF over the shopping centre development. Following this first mortage, there is a second subordinated security arrangement to seperate loan providers, with the remaining $14.5 million of the facility ranking below these loans.

Invercargill Central Limited holds $80.6 million in debt as at 30 June 2023, with the shopping mall asset valued at $69.8 million (as established in 4.1 above). Because of this position there is increased credit risk to the City Council's loan and a reasonable likelihood of default.

Given this position the City Council prepared an assessment of impairment based on the expected future credit losses on the loan. The assessment was seperated between the secured portion of the loan (ICC share $22.75 million) and the subordinated portion which is unlikely to be covered by security given the valuation of the shopping centre assets ($3.06 million).

We reviewed the impairment assessment, with a focus on methodology and the key assumptions (the loss given default and default rates which had been applied). We initialliy disagreed with management's position on the $3.06 million portion of the loan, specifically we considered their assumptions were slightly optimistic given the performance and financial position of Invercargill Central Limited. Accoridngly, management revised their assessment, and we agreed with the proposed $2.48 million impairment.

We also reviewed disclosures for compliance with *PBE IPSAS 41 Financial Instruments* and concluded appropriate disclosures had been made in compliance with the standard.

Alongside this matter we are also aware the City Council was consulting on restructuring the finance for Invercargill Central Limited. The consultation included two options for raising further finance. These were:

- Invercargill City Holdings Limited purchasing an additional $10 million in share equity, and the City Council increasing its loan to Invercargill Central Limited by $8.55 million; or
- Invercargill City Holdings Limited purchasing an additional $20 million in share equity and no increase of the City Council's loan occurring.

These proposals also include a private sector partner contributing further equity alongside Invercargill City Holdings Limited.

Given this proposal occurred after balance date and remained under consultation at the time of signing the audit opinion we assessed it was a non-adjusting subsequent event. Accordingly, no changes to measurement of the impairment occurred as a result of the consultation.

A subsequent event was disclosed in the notes to the financial statements in relation to this matter, we reviewed the disclosure and concluded it is fairly reflected and compliant with relevant accounting standards.

4.3 Smooth travel exposure performance measure

Recommendations

- maintain source data for all traffic counts; and
- retrospectively review traffic counts from 1 July 2024 to the date at which system improvements are made.

Finding

Smooth Travel Exposure (STE) is a mandatory performance measure under the Non-Financial Performance Measures Rules 2013 and is required to be reported by all territorial local authorities in their annual report.

There are two main inputs to the STE measure, being road roughness surveys and traffic counts. The City Council contracts the road roughness survey to an external expert and undertakes its own traffic counts.

As part of our audit procedures, we sample test the traffic count source data to the City Council's records in Road Assessment and Maintenance Management (RAMM) database to gain assurance over the accuracy of input. From our sample testing we identified that 6 of 15 samples we reviewed were unable to be verified to source records. The City Council investigated the matter further and identified that source data could only be verified for 20 traffic counts out of the full population of 39 for the year ended 30 June 2023.

Because RAMM is a live system (it cannot be used to analyse scenarios or report retrospectively) and there is complexity involved in calculating the STE, analysis could not be performed to determine the impact of the missing records on the City Council's performance measure.

Because we were unable to obtain sufficient appropriate audit evidence for a material performance measure, and the possible effects of the misstatements could be material we issued a qualified opinion in relation to this matter.

The City Council will need to ensure it maintains all source data in relation to its traffic counts in future. In order to understand the impact of the matter on reporting for 2024 the City Council should perform a retrospective review of counts made from 1 July 2023 to the date at which system improvements are implements. We understand the City Council intends to make improvements to this process by including it within their data integrity and maintenance and internal assurance programmes. We support this course of action being undertaken.

Management comment

Council has commenced an internal audit process to support improved delivery of performance management data. The first six months of this process have been completed and the findings of this and the Audit New Zealand findings included in the management letter are being used together to develop an improved management response to data collection, integrity and presentation for quarterly performance and annual reporting.

Training on this new system is taking place in December with all managers, team leaders, finance and assurance business partners and data process officers.

A continuous improvement approach is being taken.

Enhanced data management and integrity processes are being implemented for the current year including:

- *Data source mapping in the quarterly collection spreadsheet.*
- *Data source storage in our document management system for annual reporting.*
- *Implementation of specific findings for improvement for specific KPIs – e.g. data calculation methods.*
- *Enhancement of the current annual sign off from two tier to three tier.*

Specific improvements for the items raised by Audit New Zealand include:

- *Smooth Travel Exposure performance measure: Council have engaged WSP to develop a Traffic Count Strategy and Programme. WSP will work with Council and Fulton Hogan to ensure that traffic count data process is robust, documented and has an internal review process, with all system improvements in place.*

4.4 Drinking water quality performance measures

The regulatory regime in place over the safety of drinking water transitioned in the current year from the Drinking Water Quality Standards 2005 (DWS) to the new Drinking Water Quality Assurance Rules (DWQARs) which came into effect on 14 November 2022.

Despite the change in regulatory regime, the City Council's mandatory performance measure under the Non-Financial Performance Measure Rules 2013 (the rules) remains to report compliance against the DWS. This created uncertainty over what should be reported in City Council annual reports.

Guidance was issued by the Department of Internal Affairs (DIA) who are the administering department for the rules. This required the City Council to report compliance against the DWS for the period 1 July 2022 to 13 November 2022. For the period 14 November 2022 to 30 June 2023, the City Council was able to elect whether it reported compliance against the DWS or DWQARs. The City Council elected to report compliance against the DWS for the full year.

The City Council engaged an external expert to confirm their level of compliance against the DWS. We reviewed the expert's report including scope of their procedures, methodology, and reasonableness of any judgements applied and concluded the experts report was appropriate for use as audit evidence. We also confirmed the appropriateness of disclosures made in the statement of service performance.

Overall, we concluded drinking water quality performance measures were fairly reflected in the statement of service performance.

Management comment

We will continue to implement the required expert review report process for 2023/2024, while utilising the new drinking water standards (DWQARs).

The wording for the new LTP KPIs has been adjusted to reflect the new standards.

Council adopted the previous wording at the 31 October Council meeting so we will have a resolution for the changed wording at the 19 Dec Council meeting (it will be part of the Asset and Activity Plans report).

For Level of Service 9(a):

The extent to which the Council's drinking water treatment complies with the Drinking Water Quality Assurance Rules - rule T3 Bacterial Rules for Water Disinfected with Chlorine.

And for Level of Service 9(b):

The extent to which the Council's drinking water treatment complies with the Drinking Water Quality Assurance Rules - rule T3 Protozoal Rules for Coagulation, Flocculation, Sedimentation and Filtration & rule T3 Protozoal Rules for Ultraviolet Light Disinfection [minimum 4 log in total].

4.5 Performance measures which rely on the customer service request system

Recommendations

- review the system to record information for performance measures which rely on the customer service request system;
- establish guidance for staff responsible for data input and conduct training on the guidance; and
- perform periodic internal review of customer service request data to ensure it is accurate and consistent with the guidance issued.

Findings

The customer service request system is a pivotal recording system for many of the City Council's performance measures, most of which relate to customer satisfaction with the performance of the City Council's infrastructure.

As part of the audit, we perform detailed testing over performance measures which are assessed as material. This included reviewing the following mandatory performance measures which rely upon data from the customer service request system:

- The total number of complaints received by the City Council about any of the following:
  - drinking water clarity;
  - drinking water taste;
  - drinking water odour;
  - drinking water pressure or flow;
  - continuity of supply; and
  - the City Council's response to any of these issues.

expressed per 1000 connections to the City Council's networked reticulation system.

- The number of dry weather sewerage overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system.
- The total number of complaints received by the TA about any of the following:
  - sewage odour;
  - sewerage system faults;
  - sewerage system blockages; and
  - the TA's response to issues with its sewerage system

  expressed per 1000 connections to the TA's sewerage system.
- The number of complaints received by the TA about the performance of its stormwater system, expressed per 1000 properties connected to the TA's stormwater system.

Our testing of these measures identified a significant level of error in relation to the initial recording of the information. Examples of this included:

- the recording of drinking water complaints not being classified in a manner which is consistent with the Department of Internal Affairs (DIA)'s guidance for recording the performance measure. This related to water leaks being incorrectly recorded as being to a loss of pressure or flow, or a loss of continuity of water supply;
- stormwater blockages relating to issues with private property being recorded as complaints about the City Council's network;
- stormwater blockages and leaks being recorded as sewerage blockages; and
- general enquiries for information or contractors requesting to on-invoice works for a private landowner being recorded as complaints.

Because our procedures are performed on a test basis, we requested management to review the full populations of data for each measure. The purpose of this was to identify and reclassify all errors in the population. We then performed further audit procedures over each test population to gain assurance management's corrections were accurate.

Following correction of the reported results for each of the measures we were able to conclude the performance measures are fairly stated in the statement of service performance.

We expect the City Council will review the system to record information for each of these measures. This should include creating guidance for staff responsible for data input, training of the guidance, and periodic internal review of the data to ensure it is accurate.

Management comment

Review the system to record information for performance measures which rely on the customer service request system

This is a focus of both the Infrastructure team and Internal audit. The Infrastructure team will complete this work in Q3 and it will be reviewed by internal audit in Q4.

The customer service RFS form will be amended to reduce the manual processing requirements within the three waters team. The Customer service team will be trained in the updated RFS form.

Data will be produced monthly in some areas in order to enable quality assurance to take place on a more regular basis and reduce workload at quarterly reporting periods.

Establish guidance for staff responsible for data input and conduct training on the guidance

Training for all managers and data process officers will take place in December 2023. This will be followed up with KPI specific training for KPIs utilising the customer service request system on a team by team basis.

Perform periodic internal review of customer service request data to ensure it is accurate and consistent with the guidance issued

Internal audit plan will include this. In addition the Three Waters Contract Manager will spot check a pre-determined number to ensure more regular quality control.

Further improvements are planned for 2024/2025 including;

- *Process mapping for all data collection, calculation, storing and management – via promapp.*
- *Data source storage in our document management system for quarterly reporting*
- *Three tier sign off for quarterly performance reporting – linked to mapped process steps.*

4.6 Internal charges

Recommendations

- Reconsider the practice of the City Council raising and processing invoices to itself.
- Perform a formal reconciliation of all internal charges to ensure these have been appropriately eliminated from external reporting.

Finding

As part of our review of accounts payable we identified the City Council had recorded invoices to itself as a creditor. On further investigation we identified the City Council is invoicing itself for certain costs through accounts receivable, and then processing these invoices through accounts payable as it would for external suppliers.

This process creates increased risks for external reporting. Specifically, there is a risk the City Council recognises an internal charge as an external charge thereby overstating its revenue and expenditure, and accounts receivable and account payable balances.

Following identification of this issue we confirmed the relevant invoices had no impact on the City Council's recorded revenue and expenditure. However, accounts payable and receivable balances remained overstated by up to $1.179 million. This was not corrected in the financial statements and is presented as an uncorrected misstatement in section 2.2 above.

In addition to the reporting risks the City Council invoicing itself also results in additional accounts receivable and accounts payable processing time and cost. The City Council should reconsider the practice of invoicing itself and ensure all internal charges are appropriately reconciled and not recognised as external transactions in the financial statements.

Management comment

The processing of Internal charges via accounts receivables and payables were introduced in the past to eliminate the manual processes previously used and to have an audit trail of the approval by the managers. This was at the time more time effective and improved record keeping than the manual forms previously used. ICC will continue to investigate ways to improve processing of internal charges.

An additional step will be introduced at year end going forward to remove the ICC to ICC accounts payables and receivables balances from year end balances.

4.7 Rates revenue overcharge

Recommendation

Implement a post input review of rates per the rates information database back to the rates resolution to ensure rates loaded in the system are accurate.

Finding

Rates Revenue is the City Council's largest source of revenue. It is therefore important systems and controls are sufficiently robust to ensure revenue is collected accurately.

As part of our review of rates revenue we identified the Sewerage Residential (Vacant) rate was incorrectly recorded in the rates information database at a value higher than the rate in the rates resolution. This resulted in a minor overcharge of rates revenue to over 700 properties. We understand this resulted from a transposition error from a budgeting spreadsheet which is used to load rates into the system.

Whilst the quantum of the overcharge was not material, it highlights the importance of ensuring information in the system is accurate. The City Council should implement a post input review of the rates loaded into the system back to the rates resolution to ensure the accuracy of rates charged.

Management comment

Management agree with the recommendation and will add further checks of the rates decimals to the rates setting procedure.

In future hard coded numbers in the budgeting spreadsheet will be replaced by formulas where possible.

4.8 Payroll related disclosures and Councillor overpayments

Recommendations

- Establish and agree information requirements for payroll related disclosures between finance and the human resources departments.
- Perform appropriate quality review of payroll related information before it is incorporated in the annual report.
- Engage with the Remuneration Authority to determine the appropriate course of action in relation to Councillor remuneration overpayments.

Findings

The City Council is required to prepare a number of legislative disclosures in the annual report which rely upon payroll related information. This includes disclosures for key management personnel, severance payments and Councillor remuneration.

Our review of these disclosures identified numerous errors or omissions. Examples of these included:

- provision of information which has been prepared on a cash basis rather than an accrual basis;

- omission of employees from the key management personnel disclosure;
- incorrect interpretation of the dates which Councillors started and finished around the October Local Body elections resulting in a minor overpayment to eight Councillors; and
- omission of severance payments from the draft severance payment disclosure.

We observe the errors generally resulted from a lack of appropriate quality review of information that had been prepared, or information not being appropriately communicated between finance and people and culture.

To ensure accuracy in the future the City Council should ensure information requirements are clear and agreed between departments and appropriate quality review has occurred before information is incorporated into the annual report.

Because Councillor remuneration is limited by the Local Government Members Determination the City Council should engage with the Remuneration Authority to determine the appropriate course of action in relation to the overpayments.

Management comment

We acknowledge that insufficient quality checks were carried out on the information provided by Payroll before it was incorporated in the Annual Report. Additional checks will be included in future.

Workpapers are being amended to ensure that changes in KMP roles and remuneration are clearly defined in the future.

We are currently engaging with the Remuneration Authority to ensure that councillor overpayments are dealt with correctly.

5 Assessment of internal control

The City Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to prepartion of the financial statements We review internal controls relevant to the audit, to design audit procedures that are appropriate in the circumstances. Our findings relate to our normal audit work, and may not include all weaknesses in internal control.

Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the City Council and management to establish and maintain effective management procedures and internal controls.

No matters have come to our attention that we consider would affect the culture of honesty and ethical behaviour of the City Council. The elements of the control environment provide an appropriate foundation for other components of internal control.

Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the City Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

We have identified areas detailed below where we believe processes can be improved. We have also set out the status of internal control matters from previous years' reports to the Council in Appendix 1. This includes control findings we must report to you under audit standards where management may have previously accepted the risk of the finding.

5.2 Review of user access and generic user accounts

Recommendations

- Implement a periodic review for all user access in TechOne to ensure employee access is consistent with the employee's role and responsibilities.
- Remove generic test accounts.

Findings

Our review of information technology general controls includes reviewing whether appropriate controls are in place to manage employee access to the City Council's financial systems. The assignment of appropriate access is critical in ensuring appropriate segregation of duties is maintained for key financial systems and helps prevent the opportunity for fraud or error.

Our review identified the following:

- there is no formal periodic review of users and their access rights;
- some members of the finance team hold system administrator access who do not require this level of privileged access for their role; and
- there are unused generic accounts which are test accounts.

This matter creates the risk that users access rights do not remain current to the duties or responsibilities of individual users. Equally, generic accounts create the risk changes may occur in appropriately or cannot be assigned to a user.

Good practice would be for the City Council to implement a periodic review of user access and remove unused generic accounts.

Management comment

Information Services have a six monthly review of Pathway users set up in Scooter.

At the moment the Access Management Project is underway, once this is handed over to BAU there will be the same recursive ticket in Scooter for OneCouncil (TechOne) around User Access.

Some Finance users access have been modified but not all, this will be addressed in the future within the Access Management Project.

We recently moved OneCouncil to only use SAML authentication so all test and generic accounts are now no longer accessible.

5.3 Payroll system segregation of duties

Recommendations

- Review and reassign roles for controls within the payroll system.
- Enforce segregation of duties by limiting access so it is consistent with individuals' roles and responsibilities.

Finding

A key principle to ensuring effective systems of internal control is to ensure systems have appropriate segregation of duties. Segregation of duties is achieved by assigning different users the responsibility for various processes or controls. This is necessary to reduce the opportunity that one person is in the position whereby they have the ability to both perpetrate and conceal errors or fraud.

Where possible we seek to rely on the City Council's systems of internal control in order to reduce other substantive work and increase audit efficiency. Unfortunately, we were unable to rely upon the City Council's payroll controls for the purpose of the audit because appropriate segregation of duties is not in place.

Controls pertaining to the review of hours from the payroll system to timesheets, review of masterfile changes, and exception reports are performed by people who both perform the task and act as reviewers also. This creates the risk a person may both perform a task and act and act as the reviewer of it. We observe our findings are consistent with recent internal audit review of the payroll system.

To improve controls the City Council should review and reassign roles for each control to ensure segregation of duties is maintained. Where possible this should include limiting system access, so it enforces segregation of duties.

Management comment

Within a small team the suggestion is not practical with our current system and process. There is a cross-over in the duties of the Payroll Team in order to ensure that there is business continuity in the team. This means that in the event of staff absence or turnover everyone can do all the functions. It is essential that knowledge of the Payroll system is shared amongst the team members.

During the checking phase of payroll processing, a different staff member reviews the work to the one that performs the task.

The Internal Auditor also undertakes a number of checks including Masterfile changes after each pay cycle.

5.4 Use of three-way match control in the expenditure system

Recommendation

Ensure as many transactions as possible use purchase orders and are subject to the three-way match control.

Finding

A three-way match is a key system control in the accounts payable system that ensures the validity of expenditure. The control automatically compares a purchase order, invoice and goods receipt note. This ensures that expenditure has been requested and approved appropriately and confirms that the good has been received or service occurred.

The City Council uses an automated three-way match within TechOne for purchases of goods. It has also introduced a three-way match for services expenditure from May 2023. Before this time no services receipt was in place, but an invoice was still compared to the approved purchase order.

As part of the audit, we sought to rely on this control as it is commonly very effective in confirming the validity of expenditure and reducing our substantive work. Our review of the control itself confirmed it was effective, unfortunately only approximately 20% of expenditure transactions are subject to the control. This is because purchase orders are not used for all transactions. As a result, we performed additional substantive testing of expenditure invoices to gain assurance over expenditure.

The City Council should seek to ensure as many transactions as possible use purchase orders and are subject to the three-way match control.

Management comment

Purchase Orders are highly recommended, however are yet to become a mandatory requirement for Council. The delay in mandating is to ensure that we have appropriate process and change management documentation in place and system processes to ensure efficient processing.

It is expected that purchase order or contract numbers will become mandatory on invoices prior to 30 June 2024.

5.5 Review of reports and reconciliation controls

Recommendations

- Ensure variances and anomalies from all reconciliation controls are appropriately followed up and corrective action occurs.
- Review reconciliations and system reports in a timely manner, and ensure independent reviews are appropriately evidenced.

Findings

As part of our interim audit, we reviewed key systems of internal controls which are significant to the audit. From review of key systems of internal control we identified a number of areas where reviews were not occurring or controls had not been performed as they are designed. Specifically, we observed:

- there was no evidence of review of suspense account reconciliations;
- review of the masterfile change report had not occurred for a significant period of the year (from September 2022 to the time of our interim audit in June 2023); and
- variances in the reconciliation between the general ledger and rates subsidiary ledger had not been investigated for corrective action at the time. There was also no evidence of review of the reconciliation.

We understand the matters above were a result of resource constraints, which have subsequently been addressed.

Management comment

The process of implementing regular reconciliation and review of suspense accounts has continued to be impacted by vacancies and absences in Financial Accounting roles, and the flow on effect from the additional work generated from the late sign off of the 2022 Annual Report. Management is aware that this work is important and are working to ensure that processes are implemented as soon as possible.

6 Public sector audit

The City Council is accountable to their ratepayers and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the City Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the City Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the City Council carrying out its activities effectively and efficiently;
- waste being incurred as a result of any act or failure to act by the City Council;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the City Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by the City Council or by one or more of its members, office holders, or employees.

There are no new other matters we have identified to bring to your attention in relation to the matters above. For follow up of matters raised previously please refer to Appendix 1.

7 Group audit

The group comprises the following subsidiaries, associates and joint ventures:

- Subsidiaries: Invercargill City Holdings Limited Group (100% owned), Invercargill City Charitable Trust (100% owned) and Invercargill Community Recreation and Sports Trust (100% owned).
- Associates: Southland Regional Development Agency (48.7% share), Emergency Management Southland (28.3% share) and Southland Regional Heritage Committee (63% share).
- Joint ventures and operations: WasteNet (55% share).

We have not identified any of the following during our audit for the year ended 30 June 2023:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

We comment below on matters arising from significant components of the City Council group and highlight any matters which may be of relevance to the City Council group audit.

7.1 Invercargill City Holdings Limited Group

Invercargill City Holdings Limited Group recorded a profit of $4.67 million increasing from a loss of $36.2 million in 2022. The Invercargill City Holdings Limited Group's profitability has been affected by the impairment in Invercargill City Holdings Limited's investment in Invercargill Central Limited. The group profit excluding the impact of the impairment has remained consistent with the prior year (2023: $5.173 million, 2022: $5.64 million).

Invercargill City Holdings Limited Group is the only significant component to the Invercargill City Council Group except for the Council itself. As Invercargill City Holdings Limited is a holdings company the key issues and risks arising for the Invercargill City Holdings Limited Group arise from its subsidiaries and associate entities. We have comment on each of these separately below.

7.1.1 Invercargill Airport Limited (IAL)

IAL recorded a net profit of $1.119 million increasing from $0.203 million last year before the change in fair value of investment property. Passenger numbers slightly increased from 375,412 in 2023 compared to 277,081 in 2022. We issued an unmodified opinion on 7 September 2023. There were no significant matters to the Group in the IAL audit relevant to the City Council group audit.

7.1.2 Electricity Invercargill Limited (EIL) Group

The EIL Group net surplus after tax was $4.787 million, down from $5.731 million last year. The change in surplus was due to higher operating expenses and a decrease in share of profit of profit of associates and joint ventures.

The significant matters relevant to the Group audit in relation to the EIL Group audit were the revaluation of property, plant and equipment, and a proposed sale of a subsidiary entity.

EIL revalued its network assets as at 31 March 2023. The valuation resulted in a gain on valuation of $11.8 million. Review of the valuation focussed on the methodology, key assumptions and reliability of source data. We concluded the revaluation was appropriate for inclusion in the financial statements and adequate disclosures have been made.

Following consultation by the City Council it was expected EIL's investments in Roaring Forties Energy Limited to be purchased by Invercargill City Holdings Limited. The proposed transaction did not materialise during the year, and accordingly there were no impacts on the group financial statements.

7.1.3 Invercargill City Property Limited (ICPL)

ICPL reported a net deficit of $389k, down on a breakeven after-tax profit last year. There were no significant matters in the ICPL audit to bring to your attention.

7.1.4 Invercargill Central Limited

Invercargill Central Limited recorded a loss of $104.6 million. The loss primarily relates to the $103.7 million revaluation decrement on investment property following valuation of the shopping centre.

The significant matters in relation to the Invercargill Central Limited audit which are of significance to the group audit are covered in 4.1 and 4.2 above. There were no other significant matters to bring to your attention.

Appendix 1: Status of previous recommendations

Open

Recommendation	First raised	Status
Necessary		
Sensitive expenditure Necessary training needs to be provided to all relevant staff and those charged with governance to ensure full acceptance and implementation of the new policy and practices. Implement robust controls over the review and approval of sensitive expenditure. Implement processes to ensure that breaches of the Sensitive Expenditure Policy are adequately addressed.	2018	**Issues remains open** We continued to note breaches of the policy. **Management comment** *The policy has been updated and the focus is now on implementation and training.*
A new version of RAMM should be used in the next roading valuation To implement a new version of RAMM in the next roading valuation.	2022	**Issues remains open** **Management comment** *The Transport Sector is implementing AMDS (data standard). The Think Project Team (RAMM) have advised that we are best to delay implementing the new roading valuation approach until after AMDS has been implemented which is Q2-3 2024. The older version still operates on the same basis.*
Council to carry out a review of accuracy and completeness of RAMM data To perform a review of RAMM database to ensure completeness and accuracy. To include all the existing roading assets in the next valuation.	2022	**Issues remains open** **Management comment** *In the 2022 Roading Valuation a representative sample of data was reviewed. AECOM completed the last review of data confidence in 2017. It would be Council intention to update and revalidate this in 2024. A Roading Revaluation is being undertaken for the 2024 year end.*

Recommendation	First raised	Status
Asset condition in IPS database To include information of condition of an asset and the date when the assessment was conducted in Infor IPS.	2022	**Issues remains open** **Management comment** *Condition Assessment is carried out by CCTV processes. Currently 22% of the foul~~s~~ sewer network has been assessed, and 8% of the stormwater network has been assessed. These are targeted on parts of the network that are older. So, this is done, but not for the entire network. The cost to assess the entire network with this method would be prohibitively expensive. The information on the parts of the network already assessed is currently in Infor.*
Council to review and improve the Statement of Service Performance reporting process To implement a process to accurately capture Council's performance in relation to the performance measures in place. To implement a quality control process to ensure the accuracy of the data provided to audit.	2022	**Issues remains open** Refer to section 4 for more details. **Management comment** *Please refer to management comments for 4.3 to 4.5 above.*
Prudent expenditure decisions To ensure that expenses incurred by the Chief Executive (CE) are approved on a one-up basis. For example, the Chair of the Audit and Risk (A&R) Committee could be the one-up approver. To ensure that the expenses/service fees to the Chair of the A&R Committee are approved by the CE as stated by the Sensitive Expenditure Policy.	2022	**Issues remains open** We continued to note several situations during the 2024 audit whereby the Group Manager – Finance and Assurance approved the CE expenses. This is not in line with the policy nor is it best practice. We also note situations whereby the Chair of the audit and risk and mayors expenditure was not appropriately approved. **Management comment** *Since the election of the new mayor - approval is sought for the CE travel and accommodation and is*

Recommendation	First raised	Status
		held by Group Manager – Finance and Assurance and EA prior to booking. *Risk and Assurance chair expenses are booked to the Governance or cost centres depending on the services provided. The governance team are aware of the services being provided so can assess whether the services have been received in line with the contract.*
General ledger reconciliations Reconciliations across all aspects of the financial system need to be performed and independently reviewed in a timely manner, with evidence of the reviews occurrence to be appropriately retained. All reconciliations should be independently reviewed in a timely manner.	2017 Interim audit	**Issue remains open** Refer to section 5 for more details. **Management comment** *Regular reconciliation procedures are being implemented as staff resource becomes available.* *It is noted that this item was raised prior to the implementation of TechnologyOne and a number of the now system checks did not occur.*
Performance reporting We recommend that the City Council ensures all information relating to customer satisfaction/ complaints relating to drinking water is accurately recorded in Pathway and that Pathway is complete. In addition Pathway should be reconfigured to ensure the six categories of the customer satisfaction measure are matched in order to reduce an element of bias and judgement.	2020	**In progress** **Management comment** *We have identified that there are a number of system issues in Pathway which make it difficult to assess customer requests in line with the DIA prescribed manner.*
Accounts payables processes and procedures to improve • Evidence of review of masterfile changes and reviews should be performed in a timely manner and be retained to ensure identification of anomalies and their timely resolution. • Implement the internal audit recommendations raised by Deloitte.	2021 final audit and re-raised in 2022 interim audit	**Issue remains open** Refer to section 5 for more detail. **Management comment** *Masterfile changes are now being reviewed and signed off by the Team Leader – Processing on a monthly basis.* *Any changes to the master file for AP require a form which is*

Recommendation	First raised	Status
		reviewed by a member of the financial planning team prior to actioning.
Operating lease commitments Perform a thorough review of leases and ensure that lease commitments include the possibility of a renewal only where it is likely both parties to a lease agreement will exercise the renewal option.	2021 final audit	**Issue remains open** We noted that one of the sample selected used the final expiry date rather than the next renewal date to calculate the lease term. The error was below our clearly trivial threshold so no correction required. **Management comment** *Training and guidance continues to be ongoing.*
Non-compliance with certain sections of the Local Government Act 2002 Ensure all council-controlled organisations are publishing their annual reports, half yearly reports and statement of intents on the City Council's website. Prior years' annual reports should be uploaded to ensure compliance with the above-mentioned sections.	2021 final audit	**Issues remains open** We observe that the annual reports of the following council-controlled entities are not published on City Council's website: • Southland Regional Development Agency; and • Invercargill City Property Limited. Note: This is not an exhaustive list. Further assessment should be performed by City Council to ensure compliance with the legislation. **Management comment** *SRDA – a link is included on the ICC website in the CCO section entitled "visit greatsouth.nz" under the heading Southland Regional Development Agency.* *The ICPL Annual Report is available via a link to the ICHL Website under the section Holdco – Invercargill City Holdings.*

Recommendation	First raised	Status
Beneficial		
Implementation of asbestos management plan Develop an asbestos management plan to review and reduce the impact of asbestos. Continue performing regular assessments of the carrying value of the buildings to ensure these are appropriate.	2019 Final audit	**Issue remains open** **Management comment** *Our Asbestos management is based on the use of the BMIS (Building Materials Information System) software which is used for recording and reporting all related information.* *Our current processes are documented in section 4.3.9 of the Building AMP, however ENGEO have been asked to assist with producing a document that would formalise our management plan on the 22nd November. At this stage we expect this in early 2024.*
Bribery and corruption Develop a policy specifically relating to bribery and corruption in the workplace. Consider where the City Council is most at risk for bribery and corruption. Provide training for staff on key policies and procedures. Implement a process for handling instances of attempted bribery and corruption. Ensure the policy covers areas such as allegations, investigations and training relating to bribery and corruption. Complete a review to ensure there are adequate controls in place to reduce the risk of bribery and corruption occurring.	2019 final audit	**Issue remains open** Fraud policy is currently under review and should cover the aspects outlined in this recommendation. **Management comment** *See comment as above.*
Review of policies Review all out of date policies as resourcing allows.	2022 interim audit	**Issue remains open** **Management comment** *All policies are now up to date or scheduled for review.*

Implemented or closed recommendations

Recommendation	First raised	Status
Annual report preparation process including the consolidation of accounts to improve • Review the consolidation model to ensure that any flaws in the model are rectified before the preparation of the FY23 financial statements. • Consider establishing an automated process for the consolidation model, which can limit the number of errors and manual updates. • Ensure sufficient quality checks/reviews are performed over the consolidation model while preparing the FY23 financial statements. • Ensure the accounting treatment of investment in joint ventures are accurate after considering the effect of the group eliminations. Any investments in joint ventures and associates going into negative should be capped at nil. • Complete a detailed workpaper to ensure that the group balance of property, plant and equipment are fairly stated at fair value and comply with the group accounting policy. • Key members of management as outlined in your business process to perform a quality internal review of the draft annual report and evidence such review before it is provided to the auditors for the annual audit. Update your business process to include an appropriate and quality review process for those charged with governance, including Council.	2022	**Closed** We observed improvement in the quality of the information (including consolidation) provided to the audit team. Where there is still room for further improvement we have highlighted this in our comments in section 2.4 of this report.
Fraud risk management Include in the Fraud Policy a process for undertaking regular review of transactions,	2018 Interim audit	**Closed** The fraud policy does not include a process for transactional reviews.

Recommendation	First raised	Status
activities, or locations that may be susceptible to fraud. Undertake regular review of transactions, activities, or locations that may be susceptible to fraud once the process is established.		Management have accepted the risk of this finding and it therefore has been closed.
Formal disaster recovery plan A disaster recovery plan should be developed to ensure that the IT systems can be recovered in the event of a disaster. These plans should be tested and should be available in multiple locations to ensure they can be accessed if required.		**Closed** There is a disaster recovery plan in place.
Sensitive expenditure The Sensitive Expenditure Policy should be reviewed and updated.		**Implemented** The Sensitive expenditure policy has been updated. This policy is now included in the Financial Risk Management Policy
Access to the cost allocation model To investigate placing access and edit restrictions over the cost allocation model.	2022 interim audit	**Closed** Council has changed method of cost allocation in the current year, therefore the issue is no longer applicable.
Process for matching invoices and purchase orders To consider altering the matching requirements to add in a restriction based off the lower of a fixed value and a percentage of the purchase order.	2022 interim audit	**Implemented** Audit has confirmed through compliance testing that matching process now in place.
Investment property register To provide the valuer with the most up to date investment property and fixed asset register together and supplement this with a lease schedule for those assets.	2022 Final audit	**Implemented** Investment Property Fixed Asset Register was sent to the valuer during the year. No issues identified.
Formal timely review of fixed asset register reconciliations To document and evidence, the review of the reconciliation between the fixed asset register and the general ledger in a timely manner throughout the financial period.	2022 Final audit	**Implemented** Reconciliation between the fixed asset register and the general ledger are performed and reviewed in a timely manner.

Recommendation	First raised	Status
Application of group accounting policies • to review the accounting treatment applied to subsidiaries fixed assets and identify inconsistencies with the group accounting policies; and • to ensure group accounting policies are consistently applied across the group entities where possible.	2018 interim audit	**Closed** Council has carried out: • a fair value assessment on the revalued asset class for Council and group property, plant and equipment; and • an asset valuation on investment property held by Invercargill Central Limited to ensure that it is recorded at fair value.
Performance reporting Complete an internal review of the systems and controls in place to accurately record the number of customer complaints relating to drinking water. Regularly monitor and accurately report on all performance measures.	2019 interim audit	**Closed**
Efficiency, waste, and lack of probity or financial prudence To Implement recommendations that have arisen from the internal audits conducted during the year i.e. we noted that the City Council maintained a debtors account for the former Mayor.	2021 final audit	**Closed**

Appendix 2: Corrected misstatements

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
General expenditure	1				784,606
Payroll expenditure					(784,606)
Management fees revenue	2				203,615
Accrued revenue		(203,615)			
Trade and other payables	3		38,465		
General expenses					(38,465)
Subsidies and grants	4				696,020
Other Revenue					(696,020)
Amortised cost financial assets – Non-current	5	25,810,000			
Amortised cost financial assets - Current		(25,810,000)			
Impairment loss on financial asset	6				2,492,297
Provision for expected credit losses on Invercargill Central Limited loan		(2,492,297)			
Total parent		**(2,695,912)**	**38,465**	**-**	**2,657,447**
Reversal of revaluation loss	7				696,353
Revaluation reserve					(696,353)

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Direct Charges Revenue	8				3,420,000
General expenses					(3,420,000)
Impairment of investment in joint venture	9				41,885,000
Investments in joint venture		(41,885,000)			
Investments in joint venture	10	2,252,000			
Share of Joint venture surplus/deficit					(2,252,000)
Equity attributed to Council	11			1,834,000	
Equity attributed to the minority interests				(1,834,000)	
Total group		**(42,328,912)**	**38,465**	**0**	**42,290,447**

Explanation of corrected misstatements

1 To reclassify payroll expenditure (i.e. those relating to elected members) to general expenditure.

2 To correct error regarding Southland Museum and Art Gallery Trust Board transaction. The transaction was incorrectly processed as if City Council paid for the expenditure on behalf of the Trust and on-charged the cost in a form of management fees. This has been correctly reversed out.

3 To correct to overstatement of accruals relating to audit fee.

4 To recognise Waka Kotahi State Highway maintenance invoices as other revenue from subsidy and grant revenue.

5 To reclassify loan to Invercargill Central Limited to non-current due to an extension of the loan term.

6 To recognise an impairment loss on the loan to Invercargill Central Limited.

7	To reclassify the Invercargill City Charitable Trust revaluation gain from profit and loss to other comprehensive revenue and expense.
8	To correct the overstatement of a consolidation elimination entry relating to inter-entity transactions.
9	To remove an elimination entry reversing the impairment of Invercargill Central Limited.
10	To adjust carrying value of investment in joint ventures.
11	To adjust the minority interest share within equity.

Corrected disclosure deficiencies

Detail of disclosure deficiency
Note 1 Statement of Accounting Policy **Implementation of new accounting standards and standards issued not yet effective** • Update of disclosure regarding the implementation of new accounting standards and standard issued but not yet effective. **Note 2 Revenue** • Correction of amount of Three Waters Better Off Funding recognised during the year. • Correction to the value of rates charged to the City Council from $1.97 million to $2.3 million. • Added accounting policy on impairment of financial assets in relation to loan to Invercargill Central Limited. **Note 3 Employee Expenses** • Additional disclosure added to identify that certain expenditure items have been reclassified between functional categories. **Note 5 Net Finance costs** • Correction of loan balance in disclosure from $2.58 million to $25.8 million. **Note 6.1 Remuneration of auditors** • Correction of Auditor's remuneration to align with audit proposal letter. • Correction of group audit remuneration to align to signed financial statements of subsidiary entities. • Addition of disclosure to disclose PwC consulting fees and add a footnote to explain the nature of the fees. **Note 10 Payables** • Addition of following wording to accounting policy "Short-term payables are recorded at the amount payable".

Detail of disclosure deficiency
Note 11 Property, plant and equipment • Corrections to or additions of depreciation ranges disclosed for IT equipment, furniture and fittings, monument and statues, buildings-plant, plant and equipment, and hard surfaces and appurtenance. • Correction of "land under roads" balance. • Correction to Note 11.3 – Roading replacement cost estimate updated for consistency with the 2023 revaluation. • Update of Note 11.4 Revaluation – corrections made to reflect the revaluations carried out during the year for the Council and group. Specifically, addition of note disclosure around the Invercargill Charitable Trust valuation of Rugby Park, additional wording for the City Council valuation of roading, and corrections to group notes so that group network asset revaluation disclosures were consistent with the Electricity Invercargill Limited Annual Report. **Note 13 Biological assets** • To update the label from “forest assets held for sale” to “Change in fair value less estimated point of sale costs”. • To update the valuer’s name as there was a change in valuer during the year. • To update the discount rate used in the valuation. • To update disclosure of significant assumptions that is; method of valuation and compounded costs method assumption. **Note 14 Capital Commitments and operating leases** **Note 14.1 Capital commitment** To reduce capital commitments by $3 million, due to a commitment being originally disclosed where the contract was yet to be signed. **Note 14.2 Operating leases as lessor – investment property** To update the disclosure in relation to active leases, lease terms, and the number of leases which range between terms. **Note 14.3 Operating leases as lessee** To update the operating lease as lessee balance to agree to the final lease schedule. **Note 17.1 Investment in Associates** • For movement in carrying value of associates, to insert the line to disclose revaluation gain on network assets $928,000 and share of profit and loss of $94,000. • To update the numbers disclosed in relation to associates’ financial performance and financial position so that they are in line with their respective signed financial statements. **Note 17.2 Investment in Joint Venture** • To update the numbers disclosed in relation to Joint Venture’s financial performance and financial position so that they are consistent with their respective signed financial statements. • To update the prior year numbers in relation to Joint Venture’s financial performance so that they agree to audited financial statements.

Detail of disclosure deficiency
• To insert in a note disclosure outline the devaluation of Invercargill Central Limited's investment property and update the disclosure so it is oriented to the City Council's group's perspective. **Note 18 Other financial assets** To insert in an accounting policy -> Shares in subsidiaries (at cost) – "The investment in subsidiaries is carried at cost in the City Council's parent financial statements" **Note 19 Derivatives and Borrowing** **Note 19.2 Borrowing** • To adjust disclosure of LGFA loans relating to incorrectly classified accrued interest. • To update the effective interest rate on borrowing. • To update the amount of bonds and notes issued by Council. **Note 19.3 Hedging activities and derivatives** To add a comparative percentage for an average fixed interest rate. **Note 19.4 Classification and fair value of financial instruments** • To update the note disclosure to only include financial instruments and remove those that are not (for example; biological assets, infrastructure assets, investment property, land and building and library books). • To add additional accounting policy on the financial assets and liabilities categories, and subsequent measurement of gains and losses. **Note 23 Contingent liabilities and assets** • To correct that the City Council is one of 70 not 71 local authority guarantors of the LGFA as per the LGFA annual report 2023. • To correct the LGFA balances disclosed to \$17.7 billion from \$16.21 billion. • To correct that the Council has borrowed a total of \$121.86 million, which was originally disclosed as \$123.170 million. • To correct the Council and group's cross guarantee to other local authorities to \$17.56 billion from \$18.57 billion. • To update the wording in the LGFA note that Council is not a shareholder and is a guarantor (with other shareholders guarantors) to all LFGA's borrowing. • To include the disclosure in relation to an ongoing obligation relating to NZ Mutual Liability Riskpool scheme. • To insert in contingency note disclosure reflecting Invercargill City Holdings Limited contingencies. • To add in property lease disputes note. **Note 25 Related Parties** • To update the amount outstanding to WasteNet from \$0.6 million to \$0.9 million.

Detail of disclosure deficiency
• To broaden the related party note in relation to the Invercargill City Holdings Limited Group from "provision of accounting services" to "related party transactions" to also include related party loan to Invercargill Central Limited. **Note 26 Major Budget variation (Council only)** To add in variance explanations for material variances/ movement and remove those with no material variances/ movements. **Note 27 Remuneration** **Note 27.1 Key Management Personnel, 27.2 Chief Executive, 27.3 Executive Leadership Team and 27.4 Elected members and Mana Whenua representatives – Council** • Update of key management personnel balances disclosed to reflect all KMP and prepare on an accrual basis. • To update the legislative requirement to the correct section in the LGA – section 31 Of schedule 8 to section 32 of schedule 10 LGA 2022. • To update the disclosure around the former and current mayor vehicles. • To update the disclosure on the appointment of the new representatives. **Note 27.5 Council employees/ Salary banding** To correct the annual report in relation to the salary banding so it meets the grouping requirements under schedule 10 clause 32A (3) of the Local Government Act 2022. **Note 29 Subsequent events** • To include cross reference to Note 23 Contingency in relation to Council decision to transfer the Rugby Park Stadium from Invercargill City Charitable Trust to the City Council. • To include additional subsequent events from City Council group entities annual reports (HWCP, Invercargill City Holdings Limited and Great South). • To include additional information on the subsequent event for public consultation relating to consultation regarding Invercargill Central Limited capital structure and financing. **Note 30 Critical Judgements, estimates and assumption in applying Council's account policies** To remove section that does not relate to critical estimates. **Statement of changes of Equity** To remove the restatement of opening equity line in the first draft annual report, as no restatement was made. **Council Controlled Organisations** • Invercargill Venues and Events Management Limited (IVEM) – to specifically mention that IVEM is an exempt Council Controlled Organisation. • Bluff Maritime Museum Trust – to add in additional performance story of what the trust has done in relation to performance, where measures previously only stated achieved. • Invercargill City Holdings Limited – to include additional performance measures from the Invercargill City Holdings Limited financial statements.

Detail of disclosure deficiency
• Great South – to update that the entity one subsidiary and one joint venture investment rather than two subsidiaries. **Consolidation** **Note 11 Property, plant and equipment** To correct the depreciation policy for plant and equipment do the Invercargill City Holdings Limited and City Council policies are consistent. **Note 14.1 Capital commitment** To add in additional commitments from joint ventures (PowerNet and OtagoNet). **Note 27 Remuneration** Note 27.1 Key management personnel – To correct the consolidated group's employee benefits disclosure. **Local Government Regulations 2014 - Prudence Benchmark** **Rates (Increases) Affordability Benchmark** To update the disclosure and remove the reference to the limit of 7.5% on rate increase as per the financial strategy as limited per the long-term plan (LTP) was 8.5%.

Corrected performance reporting misstatements

Detail of misstatement
***FRS-48 Service Performance reporting* compliance** To meet the requirements under FRS 48, additional disclosure was added in relation to: • accounting policy; • compliance with GAAP statement and page numbering; • key judgement (such as selection, measurement, aggregation and presentation); • linkages to broader outcomes); • explanation as to why measures are not achieved (contextual information); and • a reconciliation between the expenses in the financial statements and the total goods and services costs for each group of the activity in the Statement of Service Performance Information. **Sewerage/wastewater fault response times performance measure** The narrative was updated to comply with Department of Internal Affairs Non-Financial Performance measure rules and supplementary guidance. **Sewerage - DIA Performance Measure (customer satisfaction)** The number of complaints received about sewerage odour, system faults, system blockages, Council's responsiveness – to update the results from 0.93 to 1.88 complaints per 1,000 connections. **Stormwater - DIA Performance Measure (customer satisfaction)**

Detail of misstatement

the number of complaints received about the performance of stormwater system – to update the results from 1.41 to 2.25 complaints per 1,000 connections.
 	
Drinking water - The total number of complaints received by Council per 1,000 connections about any of the following: - Drinking water clarity - Drinking water taste - Drinking water odour - Drinking water pressure of flow
 	
To update the reported results from 8.32 to 1.82.
 	
Stormwater - DIA Performance Measure 2 (discharge compliance)
 	
To update the narrative from "sewerage system" to "stormwater system" and "convictions" to "successful prosecution".
 	
Road safety - The number of and change from the previous financial year in the number of fatalities and serious injury crashes on the local road network expressed as a number
 	
To update the narrative to make clear what the numbers represent.
 	
General / miscellaneous amendments made:
 	
• Update of various targets so performance measures consistent with the wording used in the LTP.
 	
• To add in an explanation for the performance measures where previous year result has been updated:
 	
  ○ Collective risk (crash density).
 	
  ○ Personal risk – average annual fatal and serious injury.

Appendix 3: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. The audit of the financial statements does not relieve management or the Council of their responsibilities. Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.
Auditing standards	We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.
Auditor independence	We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners,* issued by New Zealand Auditing and Assurance Standards Board. For the year ended 30 June 2023 and subsequently, a Director of the Board of Directors of Companies within the group is a member of the Auditor-General's Audit and Risk Committee. The Auditor-General's Audit and Risk Committee is regulated by a Charter that specifies that it should not assume any management functions. There are appropriate safeguards to reduce any threat to auditor independence, as a member of the Auditor-General's Audit and Risk Committee (when acting in this capacity) has no involvement in, or influence over, the audit of the City Council and group. In addition to our audit and our report on the disclosure requirements, we have carried out other audit and assurance engagements, and regulatory training and advisory services for the group. These engagements are described in note 6 of the annual report on page 114 and note 6.1 on page 115 and, are compatible with those independence requirements. Other than these engagements, and the relationship with the Auditor-General's Audit and Risk Committee, we have no

Area	Key messages
	relationship with or interests in the City Council or any of its subsidiaries and controlled entities.
Fees	The audit fee for the year is $262,000 as detailed in our audit proposal letter. Other fees charged in the period are $117,000 relating to the additional cost recovery for the 2022 audit of $95,000 and $8,000 in relation to a limited assurance engagement over the City Council's Debenture Trust Deed.
Other relationships	We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council or its subsidiaries that is significant to the audit. We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council or its subsidiaries during or since the end of the financial year.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Level 3, 335 Lincon Road
PO Box 2
Christchurch 8140
www.auditnz.parliament.nz

INTERNAL AUDIT AND CONTINUOUS IMPROVEMENT UPDATE

To:	Risk and Assurance Committee
Meeting Date:	Tuesday 20 February 2024
From:	Peter Patton, Manager – Quality Assurance and Procurement
Approved:	Patricia Christie - Group Manager - Finance and Assurance
Approved Date:	Tuesday 13 February 2024
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

The purpose of this report is to provide an update on audits conducted as part of the approved Internal Audit programme, additional audits/reviews and the current status of recommended actions/recommendations tracked via the continuous improvement system.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report "Internal Audit and Continuous Improvement Update"

Internal Audit Programme

The internal audit plan for 2023/24 continues as scheduled. The short-term focus for November 2023 – January 2024 continues to be Building and Environmental regulatory audits, regular Payroll access and Masterfile data audits in accordance with Council pay cycles. The Quality Assurance team will continue to support the Environmental Health Services (EHS) and Building Services (BCA) teams as they prepare for external audits in March (EHS) and July (BCA) 2024. The results of these will be reported and monitored once received.

An annual documentation review for Infrastructure Contracts post the Deloitte Contract Compliance review has been implemented.

Since August 2023 an additional long-term focus has been the Annual Plan Quarterly KPI data audits for Strategy, Policy and Engagement. These audits will include a review of data collation, integrity, documentation and compliance to Strategy, Policy and Engagements spreadsheet 'Annual Report KPI and Contents 2023-24' for report of quarterly data. This review will systematically audit all areas of Council that report KPI's to the Long-term (LTP) and Annual Plans over a two year period.

Audits completed 24 October 2023 to 19 January 2024:

- Environmental Health (Food Regulations 110 (2) n and e – 2
- Building Services (Building Regulations 7 (2) d (v), 12, 17 (3) A and 17 (5) – 4
- Payroll Audits, including Quarterly System Access Audit, System Masterfile – 10
- Infrastructure Contract Documentation (contract Compliance) Reviews – 2
- Annual Plan Quarterly KPI data audits (Roading and Building Services) – 2

Continuous Improvement Programme

The Infrastructure, Solid Waste and Drainage teams have worked hard to close most actions from the external audits. The update to the Building Consent Authority's Quality Manual resulted in a number of improvement actions being closed.

The Information Management and Governance teams are continuing to progress the improvement actions relating to the LGOIMA and Proactive Release processes. Due to staff shortages the initial focus has been on progressing the actions regarding the Proactive Release process. With reallocation of work amongst staff the focus is now on completing the outstanding actions regarding the LGOIMA actions. The main area has been re-promulgating the LGOIMA Policy and educating staff on the policy/process which will close a number of the high risk actions.

Work has commenced with the Strategy, Policy and Engagement team on auditing the processes for collecting KPI data for the LTP and Annual Plans. The recommendations from these audits will be added to the Continuous Improvement system for monitoring and internal reporting.

Table 1 – Continuous Improvement Update

Improvement Area			
	Made	**Closed**	**Open**
Audit NZ – Annual Report 2022	15	11	4 (moderate)
Building Services (including IANZ)	67	40	27 (moderate)
Building Administration	7	6	1 (minor)
Building Compliance	10	9	1 (moderate)
Environmental Compliance	9	6	3 (minor)
Environmental Health – Animal Services	1	0	1 (moderate)
Environmental Health Services (including IANZ)	15	9	6 (moderate)
Information Management - LGOIMA	32	16	16 (10 high, 4 mod, 2 minor)
Information Management – Maturity Framework	10	4	6 (1minor, 5 moderate)
Quality Assurance	6	5	1 (moderate)
Invercargill Transfer Station	10	5	5 (moderate)

Table 2 – External Audit Recommendations

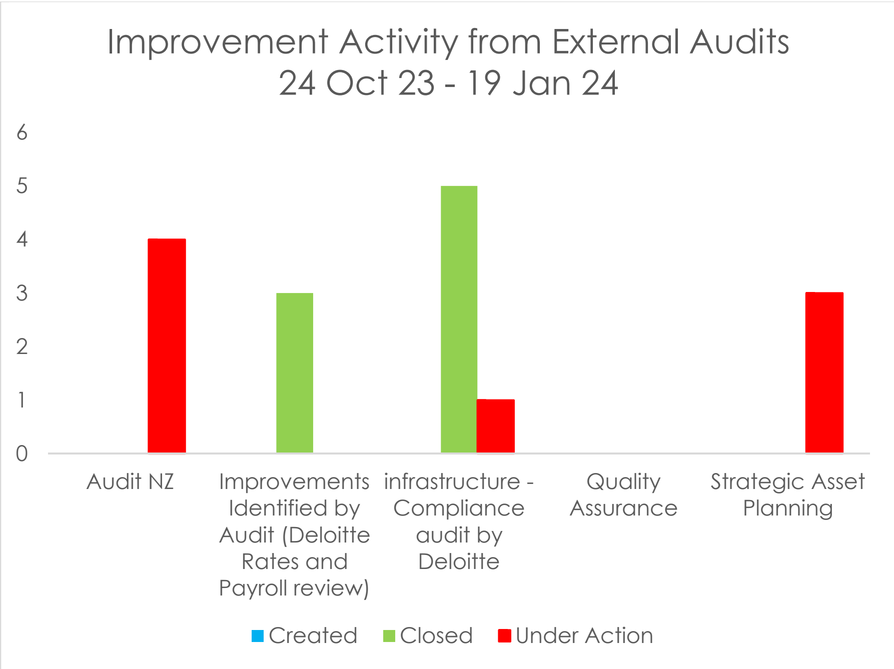


Table 3 – Internal Audit Recommendations

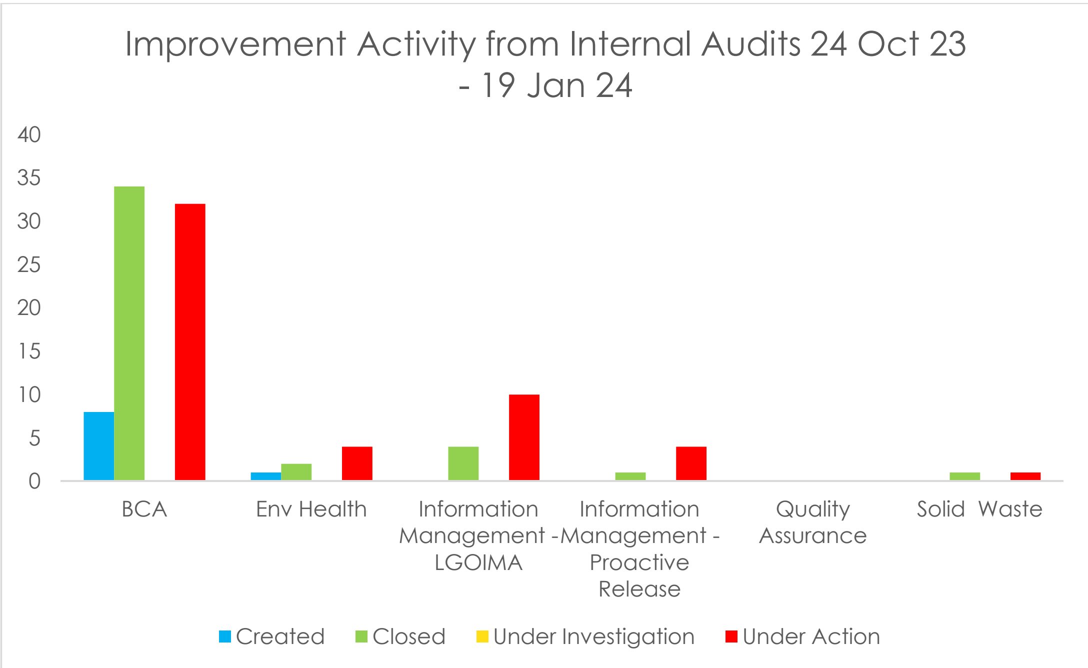
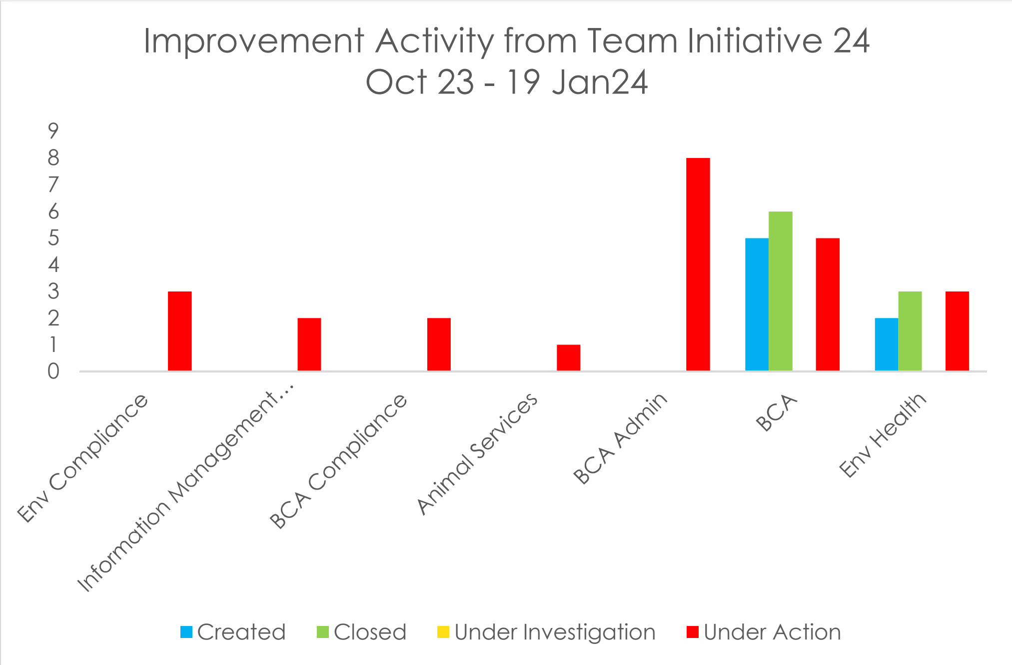


Table 4 – Internally Initiated Improvements



ICC Continuous Improvement Risk Rating Scale

The findings from each internal audit / review will include a risk rating based on the perceived risk Council may be exposed to.

Table 5 – ICC Continuous Improvement Risk Matrix

Very High	Issue represents a severe control weakness. This could cause or is causing severe disruption to process/service, or severe adverse effect on the ability to achieve objectives.
High	Issue represents a significant control weakness. This could cause or is causing significant disruption to process/service, or significant adverse effect on the ability to achieve objectives.
Moderate	Issue represents a moderate control weakness. This could cause or is causing some disruption to process/service. There may be a level of short-term tolerance due to compensating controls or remedial plans underway.
Low	Issue represents a minor control weakness. This could cause or is causing inefficiencies in process, or is a lack of formality in documentation or process.
Process Improvement	Observation represents an identified opportunity to improve process/service efficiency.

Next Steps

The continuous improvement requests, recommendations and actions from audits/reviews will be monitored and reported using the Process Manager – Improvement module.

Attachments

None.

RISK UPDATE

To:	Risk and Assurance Committee
Meeting Date:	Tuesday 20 February 2024
From:	Andrew Cameron – Chief Risk Officer
Approved:	Michael Day - Chief Executive
Approved Date:	Tuesday 13 February 2024
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

Council should periodically review its risks.

The Long-term Plan is a key part of Council direction setting. It is appropriate that we now reconsider the risks to the achievement of those objectives.

The Executive Leadership Team has reviewed the risks that they consider relevant to reflect the activities being undertaken to comply with and in support of the Long-term Plan and has added a number of additional risks.

The Executive Leadership Team has also noted an additional control to be applied to people working with the Youth Council. This additional control requiring police checks has been included in the updated Child Protection Policy approved by the Chief Executive.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report "Risk Update".

2. Notes the additional risks identified by the Executive Leadership Team.

3. Confirms the risk assessment associated with the identified risks for addition to the Council Risk Register.

4. Notes changes to the Child Protection Policy requiring those who work with the Youth Council to have completed Police checks through Invercargill City Council.

Background

This Committee has discussed with the Chief Executive the Council risks previously identified.

Council have reviewed those risks in light of the:

- Current projects in the Long-term Plan;
- Council's financial resilience; and
- Transformational activities within Council.

This has resulted in the addition of four additional risks discussed in this paper. The risks were also reviewed in light of changes to the external environment.

Issues and Options

Analysis

Risks should be reviewed following any change to strategy. In a local government context the Long-term Plan process is one appropriate trigger for that review.

Long-term Plan

ICC is required to promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future. The Long-term Plan was designed to improve the future focus of Council and mitigate the effects of the electoral cycle.

The most recent iterations of the Long-term Plan have had, and continue the theme of a roadmap for renewal. ICC has also increased the emphasis on the four well-beings. The current draft of the consultation on the Long-term Plan provides:

Social wellbeing

One Community – our youth, older people and different neighbourhoods and communities' basis needs are met, and they feel valued and proud to live here.

Cultural wellbeing

A vibrant, safe city centre that meets out people's diverse cultural needs.

Environmental wellbeing

A healthy, resilient environment where the city is well positioned to navigate climate change.

Economic wellbeing

A future focused economy delivered through innovation and partnership and supported by appropriate infrastructure.

The current risks were reviewed as to whether they appropriately identify all the issues that are required to be managed to achieve the outcomes set out in the Long-term Plan? Discussion on housing, and the impact that it may have on economic, social and the environment highlighted some areas where the current risks are inadequate.

Council

The Long-term Plan is externally focussed. This in part reflects the different responsibilities of Councillors and the Chief Executive. There are a number of other risks which might be described as internal but go to the heart of the ability of Council to deliver the Long-term Plan. Some of these are touched on in other risks and/or assumptions but these risks should be included so that they can be managed.

Our Council – achieving Council transformation

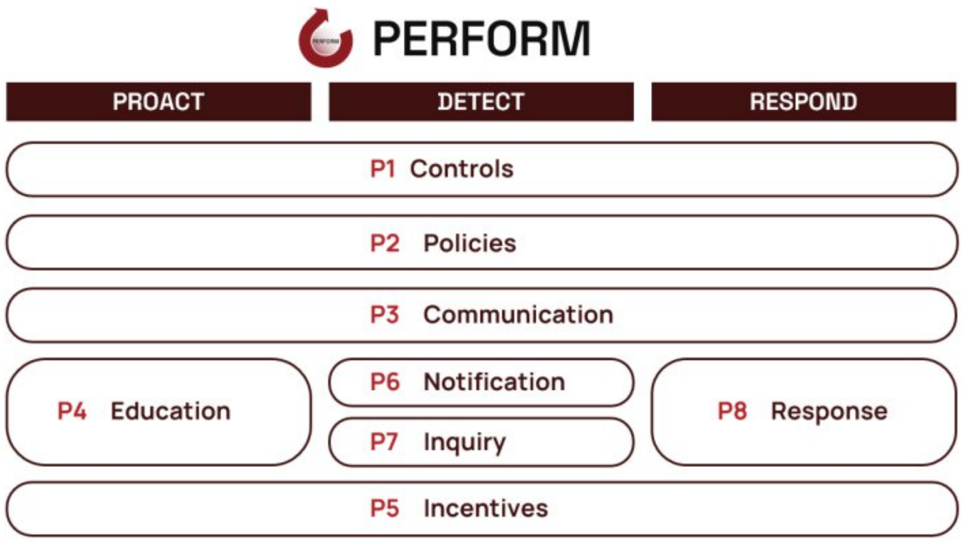
This information technology programme is part of what could be described as a period of significant change and transformation, from back office through to front end delivery. These changes include but are not limited to:

- Our Council – better use of technology and digital platforms.
- A workforce that is managed by outcomes and delivery (possibly) physical changes in buildings as well as virtual interactions.
- Continuing collaboration, partnership and joint ventures with public and private entities.

There is a risk that Council will not achieve this transformation. Some of these risks will be captured in individual project risks but the combination and cumulative effect and/or impact on these changes should be actively managed to ensure the best outcomes for Council.

Ensuring efficient and effective internal control/compliance

Our Council is part of a process to improve monitoring and accountability. In order to ensure performance a governance model must include a programme to deal with performance. Performance includes the following parts.



This risk focuses on the potential failure of our internal controls to not only prevent loss, but also enable Council to achieve its objectives. Mitigation of this risk requires ongoing review of the design and application of controls and ensuring that internal audit and other assurance activities are appropriately focussed.

Recent reviews highlight some concerns around the current effectiveness of internal controls and procedures.

Achieving future financial resilience

A number of the Long-term Plan assumptions touch on/impact this risk and have been touched on in the separate paper on Governance Risks.

Councils historically have a high credit rating due to the ability to tax. What this Council experienced was the political limitations of an unfettered ability to raise revenue. Councillors have also identified the risk of an ageing and/or declining population on the ability to raise revenue. Council should consider this risk to the ability to raise rates to ensure financial resilience.

Creating the right culture, capacity and capability

This is partly captured in the Council transformation risk however Council should include it is a stand-alone ongoing risk. It captures learning and development issues that are mitigants/controls for a number of Council risks.

Significance

The changes are not significant in terms of the Council policy on Significance and Engagement.

Options

Council needs to continue with the risk maturity improvements commenced with Health and Safety. Considering and finalising these risks is part of that process.

Community Views

The Community has an interest in ensuring risks are appropriately managed.

Implications and Risks

Strategic Consistency

Management of risk is consistent with the achievement of ICC's strategic objectives.

Financial Implications

There is limited additional cost in recognising and recording the controls in place to manage the identified risks. Where there are controls missing and/or failures there may be increased costs to manage the risk to within Council appetite.

Legal Implications

There are no legal implications from risk identification. Controls and/or other actions may have legal consequences.

Climate Change

There are no climate change implications from this decision.

Risk

Failure to identify and manage risks is a risk.

Next Steps

Complete the revised risk schedule and commence the process of monitoring and reporting against those risks.

Attachments

Appendix 1 - Council Risks (A5214731)

Appendix 2 - Child Protection Policy (A5175567)

A5214731

Risk Register

Filter: Portfolio(s): Council

RESIDUAL **6.0** MEDIUM

INHERENT **6.0**

R00191

COUNCIL, STRATEGIC - LONG TERM

Failure to establish and maintain relationships and communication channels with key stakeholders

If ICC does not maintain effective relationships with key stakeholders (territorial authorities, central government, business partners, funding providers, media, the public and tangata whenua) this could impact the council's ability to successfully deliver its strategic objectives.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	7/19/2023 4:41:26 PM
CONSEQUENCE	Moderate
LIKELIHOOD	Possible
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Medium

CONTROL MC00693

•Mayoral Forum
•Engagement with Central Government at all levels to manage funding and support required
•CEO engagement with stakeholders to ensure alignment of plans and programmes

SIGNOFF(S):	**Michael Day**
DUE DATE:	**21 Feb 2024**
FREQUENCY:	**The first Wednesday of every 3 months**

RESIDUAL **6.0** MEDIUM

INHERENT **12.0**

R00192

COUNCIL, STRATEGIC - LONG TERM

Councilor and Executive governance may not be adequate.

If ICC's Councilors and Executive do not have the necessary governance skills and experience or have conflicting priorities, they may make decisions that are not in the best interest of the council which could impact the council's ability to successfully deliver its strategic objectives.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	7/20/2023 3:06:13 PM
CONSEQUENCE	Major
LIKELIHOOD	Moderate
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Medium

CONTROL MC00694

•Divergence between Council adopted strategy and future Councillor positions
•All major projects considered and approved as part of LTP process
•Background and supporting information provided to Councillors and the public sufficient to enable good decision making
•Understanding of long and short term implications of decisions on capital and operational costs

SIGNOFF(S):	**Michael Day**
DUE DATE:	**21 Feb 2024**
FREQUENCY:	**The first Wednesday of every 3 months**

RESIDUAL
6.0
MEDIUM

INHERENT
6.0

R00194

COUNCIL, STRATEGIC - LONG TERM

Setting Council strategy.

If ICC's strategic direction is not clear or it is not followed, then the council's functions may not deliver what is required. Poor decision making could result in lost opportunities and the public may not benefit from the services offered by the council.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	7/20/2023 3:08:53 PM

CONSEQUENCE	Moderate
LIKELIHOOD	Possible
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Medium

CONTROL MC00695

•Clarity around development of LTP
•All major items included in LTP considerations
•LTP takes into considerations all risks that may arise as a result of uncertainty around outcomes
•Councillors hold staff accountable to the LTP

SIGNOFF(S):	**Michael Day**
DUE DATE:	**21 Feb 2024**
FREQUENCY:	**The first Wednesday of every 3 months**

RESIDUAL
6.0
MEDIUM

INHERENT
16.0

R00761

COUNCIL, STRATEGIC - LONG TERM

Central government reforms

If the objectives between ICC and central government are misaligned as a result of legislative reform for 3 Waters, RMA and the future of local government, this could impact the council's ability to successfully deliver its strategic objectives.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	11/21/2023 8:10:18 AM

CONSEQUENCE	Major
LIKELIHOOD	Likely
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Medium

CONTROL MC00690

•Monitor central government pronouncements
•Anticipate direction of central government reforms
•Manage strategy to ensure that the impact of any uncertainty around reform on achieving objectives is minimised

SIGNOFF(S):	**Michael Day**
DUE DATE:	**01 Mar 2024**
FREQUENCY:	**The first Tuesday of every 3 months**

RESIDUAL
6.0
MEDIUM

INHERENT
16.0

R00801

COUNCIL, STRATEGIC - LONG TERM

Achieving Council Transformation

There is a risk that the Council may not fully realise the planned transformation, encompassing various initiatives such as, Our Council digital platform implementation, Outcome-driven workforce management, Potential physical and virtual infrastructure changes, and continued collaboration with public and private entities.

If the Council fails to achieve the transformation as planned, it could lead to inefficiencies, missed opportunities, and decreased effectiveness in service delivery.

The cumulative impact of not realising these changes could result in suboptimal use of resources, diminished public trust, and a failure to meet evolving worker and community needs.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	2/9/2024 9:10:58 AM

CONSEQUENCE	Major
LIKELIHOOD	Likely
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Medium

Control	Description	SIGNOFF(S):	DUE DATE:	FREQUENCY:
CONTROL MC00775	**Project Management Process and Structure to support Our Council Development**	**Trudie Hurst**	**15 Feb 2024**	**Once**
CONTROL MC00776	**Civic Administration Building - strategic programme included in the project management office and managed in accordance with project management principles.**	**Erin Moogan**	**15 Feb 2024**	**Once**
CONTROL MC00777	**Performance Development Programme which links to appropriate KPI's and Council outcomes**	**Trudie Hurst**	**15 Feb 2024**	**Once**

RESIDUAL
6.0
MEDIUM

INHERENT
16.0

R00802

COUNCIL, STRATEGIC - LONG TERM

Efficient and Effective Internal Control/Compliance

There is a risk that the Council's internal controls may not effectively prevent loss or facilitate the achievement of objectives. Recent reviews have highlighted concerns regarding the current effectiveness of internal controls and procedures.

If the internal controls are not effective, it could lead to various negative outcomes, including financial loss, operational inefficiencies, compliance violations, and reputational damage.

Inadequate internal controls may also hinder the Council's ability to achieve its strategic objectives and fulfil its responsibilities to stakeholders.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	2/9/2024 9:11:57 AM

CONSEQUENCE	Major
LIKELIHOOD	Likely
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Low

Control	Description	SIGNOFF(S)	DUE DATE	FREQUENCY
CONTROL MC00778	Performance Development Process	Libby Wilson	15 Feb 2024	Once
CONTROL MC00779	Internal Audit	Patricia Christie	15 Feb 2024	Once
CONTROL MC00780	External Audit	Patricia Christie	15 Feb 2024	Once
CONTROL MC00781	Development of Process Manager as the source of truth for controls and procedures	Andrew Cameron	15 Feb 2024	Once
CONTROL MC00782	Development of Induction and Training Programme	Andrew Cameron Libby Wilson	15 Feb 2024	Once

RESIDUAL
6.0
MEDIUM

INHERENT
18.0

R00803

COUNCIL, STRATEGIC - LONG TERM

Achieving Financial Resilience

There is a risk that Council may face challenges in achieving future financial resilience. Factors that may increase the risk of this occurring include; population changes, demographic changes and political limitations.

Some of these changes will occur over time and there is a risk that Council does not properly manage the risk of current decisions on the future viability of the community. This risk encompasses uncertainties regarding the Council's ability to raise rates to a level that generates sufficient revenue to maintain financial stability.

Limitations on the ability to raise revenue and implement necessary changes to ensure financial resilience, it could lead to various negative consequences including, budget deficits, reduced capacity to invest in essential services and infrastructure, credit rating downgrades, and long-term financial instability.

Additionally, failure to address these challenges may erode public trust and confidence in the Council's financial management.

OWNER Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED 2/9/2024 9:12:49 AM

CONSEQUENCE	Catastrophic
LIKELIHOOD	Moderate
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Low

CONTROL	DESCRIPTION	SIGNOFF(S):	DUE DATE:	FREQUENCY:
CONTROL MC00783	**Long-term planning process including assumptions and other controls**	**Patricia Christie**	**15 Feb 2024**	**Once**
CONTROL MC00784	**External Audit**	**Patricia Christie**	**15 Feb 2024**	**Once**
CONTROL MC00785	**Monitoring of external trends and developments**	**Rhiannon Suter**	**15 Feb 2024**	**Once**
CONTROL MC00786	**Development financial risk management that takes into consideration the cumulative impact of a range of risks across the organisation.**	**Andrew Cameron**	**15 Feb 2024**	**Once**

RESIDUAL
6.0
MEDIUM

INHERENT
16.0

R00804

COUNCIL, STRATEGIC - LONG TERM

Culture, Capacity and Capability

There is a risk that the Council may struggle to cultivate the right culture, capacity, and capability needed to support its workforce capacity, and skill development with the transformation objective.

If the Council fails to create the right culture, capacity, and capability, it could hinder the progress to achieving a proactive approach of identifying, addressing, and potential mitigation of risk related to learning and development within the Council transformation process.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	2/9/2024 9:14:03 AM

CONSEQUENCE	Major
LIKELIHOOD	Likely
RESIDUAL CONSEQUENCE	Moderate
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Low

CONTROL MC00787

Staff wellbeing initiatives

SIGNOFF(S):	Andrew Cameron Trudie Hurst
DUE DATE:	15 Feb 2024
FREQUENCY:	Once

CONTROL MC00788

Development of clear strategy relating to culture

SIGNOFF(S):	Andrew Cameron
DUE DATE:	15 Feb 2024
FREQUENCY:	Once

CONTROL MC00789

formal assessment of capacity and capability of orgnaisation to inform training and development programme enabling future capability of organisation.

SIGNOFF(S):	Libby Wilson
DUE DATE:	15 Feb 2024
FREQUENCY:	Once

RESIDUAL
4.0
LOW

INHERENT
12.0

R00762

COUNCIL, STRATEGIC - LONG TERM

Health, Safety & Wellbeing of staff and public

If ICC is not committed to eliminating and minimising health and safety risks or does not fulfil its responsibilities (systems, policies, processes), then a fatality or serious injury could occur to staff, contractors or the public.

OWNER	Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED	11/21/2023 8:17:20 AM

CONSEQUENCE	Major
LIKELIHOOD	Moderate
RESIDUAL CONSEQUENCE	Minor
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Low

CONTROL MC00691

•Plan to manage additional demands of BAU
•Time for good decision making and preparation of materials
•Alignment of BAU work plans with LTP as far as practicable

SIGNOFF(S):	Michael Day
DUE DATE:	21 Feb 2024
FREQUENCY:	The fourth Thursday of every 12 months

CONTROL MC00716

Identify Hazards & Update Hazard Risk Register - Eliminate or Minimize Hazards
Identification of Risk and applying Controls to mitigate residual risk rating

SIGNOFF(S):	Deborah Lake Hua Tamariki
DUE DATE:	01 Mar 2024
FREQUENCY:	The fourth Thursday of every 12 months

RESIDUAL
4.0
LOW

INHERENT
6.0

R00190

COUNCIL, STRATEGIC - LONG TERM

Failure to disseminate strategies to the community effectively

If ICC does not implement effective communication on delivery of its strategy, then it may miss opportunities to engage with and inform the public, stakeholders and tangata whenua leading to a breakdown in relationships and lost support.

OWNER Portfolio Managers: Andrew Cameron,Michael Day,Tash Anderson
CREATED 7/19/2023 4:38:56 PM

CONSEQUENCE	Moderate
LIKELIHOOD	Possible
RESIDUAL CONSEQUENCE	Minor
RESIDUAL LIKELIHOOD	Possible
COUNCIL RISK APPETITE/RISK CERTAINTY	Medium

CONTROL MC00692

•Comprehensive engagement approach including pre-engagement
•Clarity around communications
•Appropriate time allowed for engagement

SIGNOFF(S):	**Michael Day**
DUE DATE:	**21 Feb 2024**
FREQUENCY:	**The fourth Thursday of every 12 months**

A5175567

Invercargill
CITY COUNCIL

Child Protection Policy

2024

Purpose

This policy outlines our commitment to child protection. It includes guidelines to ensure appropriate safety checking occurs, so that we create a safe environment for children as per the Children’s Act 2014 (the Act) and related protocols to ensure correct action is taken when child abuse is reported or suspected by us.

Scope

This policy applies to all Invercargill City Council (Council) employees, volunteers, and elected members who are deemed to be “children’s workers”.

Principles

- The interest and protection of the child always comes first
- We are committed to ensuring that our people who work with children as part of their role at Council are able to identify the signs and symptoms of potential neglect, and are able to take appropriate action in response
- We are committed to supporting our people to work in accordance with this policy and alongside relevant agencies and organisations
- We will always comply with relevant legislation
- We are committed to share information in a timely way and to discuss any concerns with the appropriate people
- We are committed to promoting a culture where all our people feel confident that they can constructively challenge poor practice or raise issues of concern without fear of reprisal

Definitions

Children's worker those persons who work with children or who have regular contact with children as part of their roles, as defined in the Act. For the purposes of this policy, elected members who are appointed to Council's Youth Council, and/or who participate in Youth Council events, are also considered to be children's workers.

Designated person the person responsible for providing advice and support to staff where they have a concern about an individual child or who want advice about the Child Protection Policy. At Council all tier three managers of departments that employ children's workers are a designated person.

Child abuse the harming (whether physical, emotional or sexual), ill-treatment, neglect or deprivation of any child.

Neglect the persistent failure to meet a child's basic physical or psychological needs, leading to adverse or impaired physical or emotional functioning or development.

Child any child or young person under the age of 18 years.

Elected member means those persons defined as such in Council's Code of Conduct.

Safety checking

Pre-employment

Due diligence checks will be undertaken for all employees and volunteers who are recruited for roles that are considered to be children's workers. Recruiting managers will complete a risk assessment using the matrix in Appendix D. Our risk assessment will involve collecting information to determine whether the applicant poses any risk to the safety of children as a children's worker, and the extent of any risk.

Our checks may include:

- Application forms and initial applicant screening.
- Interviewing and reference checking process: applicants and referees must be asked at least one question about the applicant's interactions with children and suitability to work with children. Examples of appropriate questions are provided in Appendix C.
- Confirmation of identity.
- Police vetting and / or criminal conviction history checks.

While we endeavour to complete all of these checks before any prospective employees or volunteers are able to commence working with us, the results for some checks such as vetting may take time. During this period you will be unable to commence work as a children's worker. Anyone with convictions for specified offences as outlined in Schedule 2 of the Act will not be able to work as a children's worker, and their conditional offer of employment may be withdrawn or their employment or volunteer agreement may be terminated.

Existing employees and elected members

Ongoing safety checks, namely police vetting, will be carried out at least once every three years for all existing employees and elected members who are considered to be children's workers.

All children's workers have the responsibility to disclose any relevant conviction or pending conviction as soon as practical.

If a children's worker is found to have a conviction for any of the specified offences outlined in Scedule 2 of the Act, they will be suspended from duties while an investigation can take place. For the avoidance of doubt, if the children's worker is an employee of Council they may be suspended from all duties. If the children's worker is an elected member, they will not be permitted to attend any Youth Council event until the matter has been investigated.

Employees or elected members who have convictions for specified offences will not be allowed to continue working with children. For employees, this may result in the termination of their employment.

Privacy

Council recognises and treats seriously the right to privacy of all our employees, prospective employees and elected members. As such, results from any safety checking will be received by People and Culture and will only be disclosed to an employee's manager or the hiring manager, the Manager – People and Culture, and the individual. For elected members, the results will only be disclosed to the Manager – People and Culture, the Chief Executive, the Mayor, and the individual.

Identifying and responding to abuse or neglect

How to identify

Employees, volunteers and elected representatives working with children need to be aware of the indicators of potential abuse and neglect. There are indicators that when found, either on their own or in combination, can point to possible neglect, abuse or family violence.

Indicators can be:

- Physical - such as bruises or burns.
- Behavioural - such as a child flinching if touched unexpectedly or a caregiver constantly calling a child names. These indicators can be displayed by the child or by the alleged abuser.

These indicators do not necessarily prove harm, but they can alert us that the child may require help or protection.

Further detailed information about types and indicators of abuse can be found in Appendix B.

What to do

If it is an emergency and you suspect a child is at serious risk, in immediate danger or a crime has been committed, this should be reported immediately to the manager in charge as the designated person for child protection. You or they will call the emergency services.

Sometimes it may not be obvious that a child is at risk, a children's worker may simply have an uncomfortable feeling about a situation. If so, always put the child first. Report immediately to the manager in charge, they will work with the children's worker on the best course of action. Under no circumstances should the children's worker attempt to deal with the matter alone.

Options could be:

- Offering help to the parent, caregiver or child, or giving information to the caregiver explaining that violence is not OK
- Calling Oranga Tamariki on 0508 326 459 who can provide a trained social worker to give assistance
- Officially reporting concerns to either NZ Police or Oranga Tamariki

If a child discloses abuse, a children's worker should:

- Stay calm
- Listen to the child, giving them time to say what they want
- Ask open ended questions, do not interview the child, make them repeat the story unnecessarily or enquire as to the details of the alleged abuse, and do not make promises that can't be kept
- Thank the child for telling you, and reassure them that they are not in trouble and they have done the right things
- Tell the child they are being taken seriously, explain that you will need to pass on what they have told you, and explain what they can expect to happen next
- As soon as possible record in writing what the child said (using their own words where possible), date and time

Allegations or concerns about employees, volunteers or elected members

Where allegations are made, or concerns arise regarding an employee or volunteer, an investigation will take place as per Council's Discipline and Procedural Fairness Policy. If the allegations or concerns are found to be valid, disciplinary action may be taken, which may result in termination of employment. Where appropriate Oranga Tamariki and / or NZ Police will be notified.

Where an allegation or concern is raised regarding an elected member, an investigation may take place in accordance with Council’s Code of Conduct, and the elected member may be asked not to attend any activities involving children, including Youth Council. Where appropriate, Oranga Tamariki and / or NZ Police will be notified.

Confidentiality

Confidentiality is important when dealing with sensitive information including that of children, and employee / volunteer and elected member privacy. Children's information should not be shared with members of the public to ensure the children's safety.

The Privacy Act 2020 and the Oranga Tamariki Act 1989 allow information to be shared to keep children safe when abuse or suspected abuse is reported or investigated. Generally advice should be sought from Oranga Tamariki and / or NZ Police before identifying information about an allegation is shared with anyone other than the designated person for child protection. It is the responsibility of the designated person to decide if information sharing is warranted.

Safe Working Practices

Council maintains clear and consistent expectations of behaviour to ensure that children, employees, volunteers and elected members are kept safe.

Council employees, volunteers, representatives, and elected members shall:

- Treat children with dignity and respect at all times.
- Conduct themselves in a manner appropriate with their position as a representative of the Council in all of their dealings with children.
- Immediately raise concerns regarding a child's safety or wellbeing with the designated person for child protection.
- Be visible when working with children and wherever possible ensure that another adult is present when working in the proximity of children.
- Listen to children and allow them to be engaged in decisions that may affect them.
- Comply with all relevant New Zealand legislation.
- Follow organisational policy and guidelines regarding the safety of children.

Training

To ensure that all those who will have interaction with children as part of their employment or role within Council understand and apply our Child Protection Policy, all employees will be required to sign a copy of this policy.

Ongoing training will be organised to ensure that children's workers have received training on identifying and responding to abuse or neglect, and responding in accordance with this policy.

Document control

Version

1.0 Approved 5 February 2024

Appendix A

Child Protection Policy Declaration

Employee / Volunteer / Contractor / Elected Member / Other Council Representative

(delete as appropriate)

I ____ (please print your name) hereby acknowledge receipt of the Child Protection Policy (the Policy).

I confirm that I have read this Policy and I accept the terms and conditions. I acknowledge that any breach by me of this Policy may result in disciplinary or other investigative action.

I understand that if I have a conviction specified in Schedule 2 of the Children's Act 2014 I will not be able to work as a "children's worker" or have contact with children in my role with Invercargill City Council

or (for elected members)

I understand that if I have a conviction specified in Schedule 2 of the Children's Act 2014 I will be asked not to attend any Council event involving children, including Youth Council, and that failure to comply may result in Code of Conduct proceedings being initiated against me.

Signed: ____________________________ Date: _______________

Appendix B

Types and Indicators of Abuse

The following tables provide a summary of types of abuse and some indicators of abuse. These physical or behavioural signs act as signals to warn and indicate that something might be happening in the life of that child/youth and must be taken note of. However, it should not be automatically assumed that abuse is occurring; talking to the child/youth may reveal something quite innocent. It's important not to dismiss changes in behaviour, fears, worries and physical indicators a child/youth is showing.

Physical abuse

Physical abuse occurs when a person purposefully inflicts injuries or threatens to injure. This may take the form of slapping, punching, shaking, kicking, burning, shoving or grabbing. Many non-accidental injuries result from excessive physical discipline. The administration of illegal or inappropriate drugs and medications is a form of abuse.

Physical indicators
• Bruises • Burns • Sprains • Dislocations • Bites • Cuts

Behavioural indicators	
• Highly anxious • Fear of new situations • Low self-esteem • Inappropriate emotional responses to painful situations	• Extremes of passivity or aggression • Drug or alcohol abuse • Chronic running away • Compulsive stealing

Emotional abuse

Emotional abuse of child/youth includes constant criticism, belittling, teasing, constant yelling and withholding praise and affection. It can also be caused by a failure to provide the psychological nurturing necessary for the child's/youth physical and emotional growth and development.

Physical indicators
• Delayed speech or sudden speech disorder • Delays in physical, mental, and emotional development

Behavioural indicators	
• Highly anxious • Fear of new situations • Low self-esteem • Inappropriate emotional responses to painful situations	• Extremes of passivity or aggression • Drug or alcohol abuse • Chronic running away • Compulsive stealing

Neglect

Neglect is the ongoing wilful failure to provide the basic physical and emotional necessities of life, including food, clothing, shelter, emotional security, affection, medical care and adequate supervision.

Physical indicators
• Frequent hunger • Poor personal hygiene • Constant tiredness • Inappropriate clothing e.g. summer clothes in winter • Untreated medical problems

Behavioural indicators	
• Frequent lateness or non-attendance at school • Low self-esteem • Poor social relationships • Compulsive stealing	• Alienated from peers, withdrawn, pale, and listless • Begs for food or steals food • Indiscriminate with affection

Sexual abuse

Sexual abuse is when a person uses their power or authority over a child/youth and takes advantage of their position in the relationship to involve the child/youth in sexual activity of any sort. This can take many forms: from sexual jokes, innuendo in conversation, showing pornographic images to children/youth, sexual touching and invasive acts.

Physical indicators
• Injury to genital or rectal area: bleeding or bruising • Frequent urinary tract infections • Signs of sexually-transmitted diseases • Persistent headaches or recurrent abdominal pain • Bruises, bite marks or other injuries to breasts, buttocks, lower abdomen

Behavioural indicators	
• Over attention to adults of a particular gender • Persistent and age-inappropriate sexual activity • Regressive behaviour: bed wetting, speech loss • Delinquent or aggressive behaviour	• Self-injurious behaviour: alcohol abuse, self-mutilation, suicide attempts, prostitution • Signs of depression • Lack of appropriate role boundaries in family: child/youth fulfils parental role

Family violence

Family violence is violent, abusive and intimidating behaviour perpetrated by one person against another in a personal, intimate relationship, causing fear, physical and/or psychological harm. Family violence has a profound effect on children/youth and constitutes a form of harm.

Physical indicators
• Same as signs of physical and emotional abuse

Behavioural indicators	
• Child/youth tells of home situation • Acts out the aggression seen in the home	• Clings to people with whom they feel safe

Bullying

Bullying is defined as unreasonable repeated behaviour towards a person or group of people that creates a health and safety risk.

- Unreasonable behaviour covers actions which a reasonable person wouldn't do in similar circumstances, including but not limited to victimising, humiliating, intimidating, and threatening.
- Repeated behaviour means behaviour that is persistent and can include a range of actions. A single incident isn't considered bullying but can escalate if ignored.

Some of the same indicators of emotional abuse can be seen in victims of bullying.

When bullying is not addressed, victims may feel worthless, at fault for not coping with the bully, defeated and fearful. The message learnt by the bully when their behaviour is minimised or ignored is just as harmful. They learn to use power over people, to control people using fear, that dealing with situations using anger and fear works, and that they have the right to attack anyone weaker than themselves.

Cultural abuse

Allowing – actively or passively – any form or abuse or neglect considering such behaviour and actions as a part of someone's culture.

Discrimination

Limiting choices not based on the needs or ability of someone, but made with prejudice about matters such as ethnicity, race, gender, sexual orientation, or religion.

Institutional abuse
Allowing—actively or passively—any form of abuse or neglect considering such behaviour and actions as a part of a service / programme / treatment.

Material/financial abuse
Improper exploitation or use of funds or other resources that are the property of the service user, this includes deprivation of treatment, food or care.

Vicarious abuse
Bearing witness to another's trauma.

Other abuse
Destruction of treasured possessions, harm to pets, etc.

Appendix C

Example questions for interviews and reference checks

<u>Interview</u>

1. **What are your thoughts about being alone at work with children, young people or their families?**
   Listen for: awareness that these situations can be a cause for concern and there has been evidence of pre-planning prior to the engagement. What safety measures have been thought about and actioned to keep the person and themselves safe, for example, informing their line manager or a colleague, appropriate meeting environment, talking a colleague, etc?

2. **What do you think constitutes professional practice when working with children, young people or their families?**
   Listen for: personal awareness, increased knowledge and insight into the group you are working with, knowing limits of role, consultation with team members and referrals to other organisations if needed.

3. **If you were accepted for the job what are the chances of abuse allegations being made against you?**

4. **What would you do if a child, young person or family member threated you / hit you / was disruptive or made a false allegation against you?**

5. **What would you do if a child, young person or family member disclosed abuse?**
   Listen for: acknowledgement of disclosure, keeping the person safe, getting support, following procedure. Caution if you are hearing attempts to control and manage the situation alone.

<u>Reference</u>

1. **From your knowledge of the applicant, how would they handle incidents where they are under pressure with children or young people?**
2. **Do you have any concerns around the applicant working with children or young people?**
3. **What are your observations around the applicant working with children or young people?**
4. **In what ways is this applicant a positive role model for children and young people?**
5. **Any other information relating to the applicant's suitability that should be known?**

Appendix D

Risk assessment matrix

The following steps are to be completed for all applicants who are applying for roles as a children's worker

Step	Requirement	Completed by	Date	Outcome (concerning, good, excellent)
1.	Two forms of ID checked			
2.	Summary of work history (last five years) checked			
3.	Specific interview question(s) asked			
4.	At least two referees contacted			
5.	Specific reference question(s) asked			

If the outcome of any of the above steps is "concerning", this applicant is not suitable to be employed as a children's worker.
If the outcome of any of the above steps is "good" and the employer wishes to employ the applicant, attach a plan for support and required training/improvement, then complete police check forms.
If the outcome of the above steps is "excellent", complete the police check forms.

6.	Police and / or MoJ check outcome		
7.	Overall risk assessment	*Comments:*	
8.	All documentation saved and sent to P&C		
9.	Completed risk assessment matrix sent to P&C		

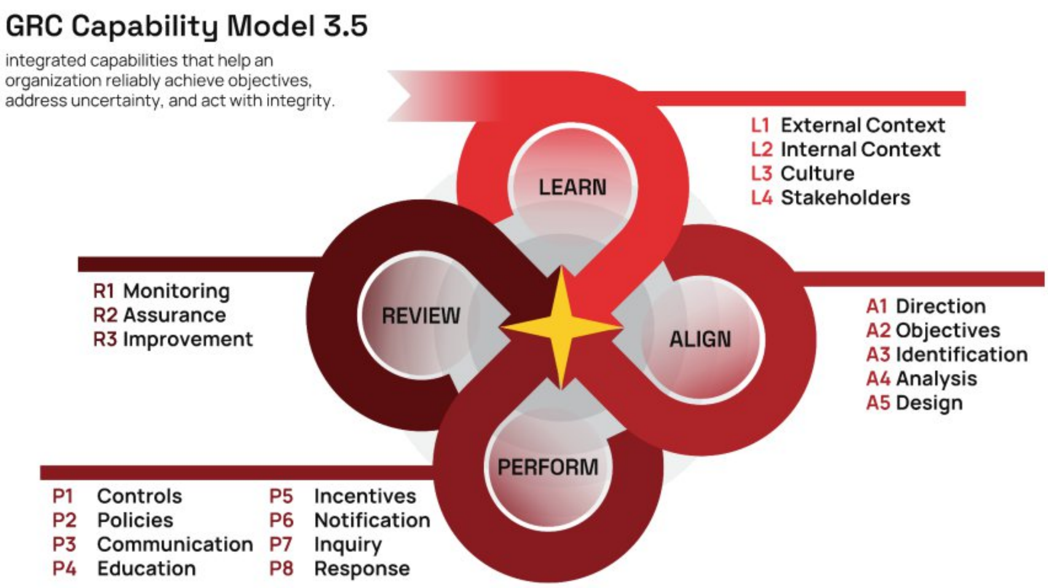
GOVERNANCE RISK

To:	Risk and Assurance Committee
Meeting Date:	Tuesday 20 February 2024
From:	Andrew Cameron – Chief Risk Officer
Approved:	Michael Day - Chief Executive
Approved Date:	Tuesday 13 February 2024
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

Invercargill City Council (ICC) has developed a risk framework. A significant piece of work has been completed around health and safety risks identification and controls.

A useful model for understanding the governance process and risk management generally is provided by OCEG in its governance risk and compliance (GRC) framework.



Council has implicitly undertaken the "learn" actions. There may be merit in a more formal understanding of the internal context as part of future strategic discussions.

Figure - LEARN Component Overview Diagram

The Long-term Plan is a key part of the direction setting for Council. It is appropriate that Council now reconsiders the risks to achievement of those objectives and a review of the process to date.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report "Governance Risk".

2. Notes the review of the risk control effectiveness during development of the Long-term Plan.

3. Notes the changes to risks identified and reviews any additional risks to achievement of the strategic objectives identified in the Long-term Plan and elsewhere.

4. Considers, whether:
    - the controls identified have been as effective as anticipated in the strategic risks identified;
    - there are any additional risks and/or controls that need to be implemented; and/or
    - further information is required as part of a risk workshop/paper for the Committee/Council.

Background

The Long-term Plan is proceeding to schedule.

As determined at the December Council meeting the Chief Executive has agreed with Audit New Zealand that the consultation document will not be audited. Nevertheless the audit of all the supplementary materials has proceeded as usual. The first stage of the audit has been completed and the audit team will return in late May/early June to complete the full audit of the Long-term Plan (LTP).

Areas of focus for the audit team have been adjusting capital figures for inflation, assessing underpinning evidence behind capital projects, adjusting certainty statements on assumptions and aligning references to climate change across the financial and infrastructure strategies.

There are no significant adjustments to the consultation document required as a result of issues identified by Audit at this point. At this point, there are no identified further risks to delivery as a result of the audit.

In November 2023 this Committee considered and approved the "strategic" risks Appendix 1.

As part of that paper the Committee considered the decision making process for the development of the Long-term Plan and the effectiveness of that process to control the identified risk relating to decision making.

If ICC's councillors and executive do not have the necessary **governance skills and experience or have conflicting priorities** they may make decisions that are not in the best interest of Council which could impact Council's ability to successfully deliver its strategic objectives.	Moderate	Major	• Divergence between Council adopted strategy and future Councillor positions • All major projects considered and approved as part of LTP process • Background and supporting information provided to Councillors and the public sufficient to enable good decision making • Understanding of long and short term implications of decisions on capital and operational costs	Partially Effective	

On 19 December 2023 Council, following direction to staff to limit rates increases to below 10%, approved changes to the LTP Budget Direction and Financial Policies. Some of these changes are set out below:

8. Confirm the following changes to be made to the financial strategy:
    a. Adjust the funding levels for depreciation to 87% for three waters, 87% for property, 75% for roading and 100% for corporate assets.
    b. Adjust the debt cap to 180% of revenue for 2024/2025, 2025/2026. 2026/2027, 2027/2028, 200% for 2028/2029, 2029/2030, 2030/2031 and 2031/2032 and then 190% for 2032/2033 and 2033/2034.
    c. Note the alternative debt cap without three waters – 180% of revenue for 2024/2025, 2025/2026 and 200% thereafter until 2032/2033 and 2033/34 when it will reduce to 190%.
    d. Adjust the rates increase limit benchmark to LGCI +7%.
    e. Note addition of three waters in/out alternative net debt positions and benchmarks to be added to the strategy.

This changed the previous direction given by Council during the development of the Long-term Plan.

In December 2023 the Office of the Auditor General released a report *Making infrastructure investment decisions quickly* – Appendix 2. While this report was focussed on the central government funds (New Zealand Upgrade Programme and Shovel-Ready Programme) it provides guidance on decision making generally, particularly those that are of scale and have long-term and potentially intergenerational aspects. As noted in the report similar observations have been made on a number of recent funds developed by central government.

Although on a much smaller scale numerically, the decisions made by Council have similar impacts on a ratepayer to those made by central government. The Auditor General noted that Ministers (Councillors) have the authority to make significant decisions. It was noted however that, in his view, this power comes with an obligation to the public around how and why they made those decisions and consideration of the impact of those decisions.

Issues and Options

Analysis

The effectiveness of controls to manage risks should be reviewed as part of the process identified above. Relevantly risks should be reviewed following any change to strategy potentially at the conclusion of a process and if there is a change in the external environment (including reports or information highlighting changes to risks or risk management).

Long-term Plan

As noted by this Committee in November Council developed a robust process to develop the Long-term Plan. This process was consistent with the recommendations of the Auditor General that:

- Decision-makers would have been given adequate information about proposed projects to make good investment decisions; and
- Due diligence would have been carried out to a level that was reasonable and proportionate to the level of funding being allocated.

The process developed and followed by Council, including the approach to 3 Waters ensured that Council's controls have been effective.

It is less clear that the final decisions were made with the same level of consideration. These decisions have an impact for future generations, and by implication the financial resilience of the community. Clear in the direction from Council to limit rates, based on the advice provided, was that this would increase the risk of transferring costs to future ratepayers.

There is both a political risk regarding the appetite for rate increases in the future, and a demographic risk regarding the capacity of the community to fund future rate increases.

These risks were raised at the Community Wellbeing Committee meeting of 23 January 2024. Council has not sought advice on the future impacts of the changes identified, including the changes required to recoup the shortfall in depreciation funding.

Significance

The adequacy of decision making is not significant in terms of the Council policy on Significance and Engagement.

Options

As noted in the Auditor General's report although the direction has been made to consult on certain options Council could seek further advice before finalising the Long-term Plan process.

Community Views

The Community has an interest in ensuring risks, including those relating to decision making, are appropriately managed.

Implications and Risks

Strategic Consistency

Management of risk is consistent with the achievement of ICC's strategic objectives.

Financial Implications

There is limited additional cost in requesting a further report on the impact of the changes identified and/or a workshop on some of the broader risks facing Council. Where there are controls missing and/or failures there may be increased costs to manage the risk to within Council appetite.

Legal Implications

There are no legal implications from risk identification. Controls and/or other actions may have legal consequences.

Climate Change

There are no climate change implications from this decision.

Risk

Failure to identify and ensure that controls are effectively managing identified risks is a risk.

Next Steps

Complete the revised risk register if any additional risks and/or changes to control effectiveness are identified. Schedule a further workshop on risk if requested and commence the process of monitoring and reporting against the identified risks.

Attachments

Appendix 1 - Strategic Risks (Below)

Appendix 2 - Making infrastructure investment decisions quickly (A5201438)

Strategic Risk	Likelihood	Consequence	Control	Control Effectiveness	Residual Risk
If ICC is not committed to **eliminating and minimising health and safety risks** or does not fulfil its responsibilities (systems, policies, processes), then a fatality or serious injury could occur to staff, contractors or the public.	Moderate	Major	• Plan to manage additional demands of BAU • Time for good decision making and preparation of materials • Alignment of BAU work plans with LTP as far as practicable	Partially effective	
If the **objectives between ICC and central government** are misaligned as a result of legislative reform for 3 Waters, RMA and the future of local government, this could impact Council's ability to successfully deliver its strategic objectives.	Likely	Major	• Monitor central government pronouncements • Anticipate direction of central government reforms • Manage strategy to ensure that the impact of any uncertainty around reform on achieving objectives is minimised	Defective/ negligible	
If ICC does not implement **effective communication on delivery of its strategy**, then it may miss opportunities to engage with and inform the public, stakeholders and tangata whenua leading to a breakdown in relationships and lost support	Moderate	Moderate	• Comprehensive engagement approach including pre-engagement • Clarity around communications • Appropriate time allowed for engagement	Reasonably/ Mostly effective	
If ICC does not maintain **effective relationships with key stakeholders** (territorial authorities, central government, business partners, funding providers, media, the public and tangata whenua) this could impact Council's ability to successfully deliver its strategic objectives.	Likely	Major	• Mayoral Forum • Engagement with Central Government at all levels to manage funding and support required • CEO engagement with stakeholders to ensure alignment of plans and programmes	Partially Effective	
If ICC's councillors and executive do not have the necessary **governance skills and experience or have conflicting priorities** they may make decisions that are not in the best interest of Council which could impact Council's ability to successfully deliver its strategic objectives.	Moderate	Major	• Divergence between Council adopted strategy and future Councillor positions • All major projects considered and approved as part of LTP process • Background and supporting information provided to Councillors and the public sufficient to enable good decision making • Understanding of long and short term implications of decisions on capital and operational costs	Partially Effective	

Strategic Risk	Likelihood	Consequence	Control	Control Effectiveness	Residual Risk
If **ICC's strategic direction is not clear or it is not followed**, then Council's functions may not deliver what is required. Poor decision making could result in lost opportunities and the public may not benefit from the services offered by Council.	Likely	Major	• Clarity around development of LTP • All major items included in LTP considerations • LTP takes into considerations all risks that may arise as a result of uncertainty around outcomes • Councillors hold staff accountable to the LTP	Partially Effective	

A5201438

Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29[23j]

Making infrastructure investment decisions quickly

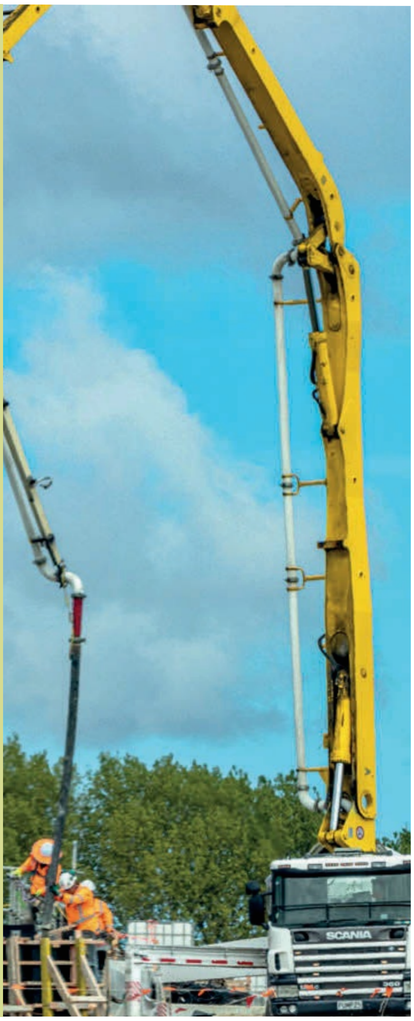


Photo acknowledgement:
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Making infrastructure investment decisions quickly

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

December 2023

Contents

Auditor-General's overview

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

The 2020 Budget Policy Statement published on 11 December 2019 stated that the Government was planning a significant capital investment package to:

> *...build clarity around our future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy.*

On 29 January 2020, the Government announced a $12 billion investment in infrastructure. The New Zealand Upgrade Programme (the NZUP) would fund transport, hospitals, schools, decarbonisation initiatives, and telecommunications infrastructure projects. The Prime Minister described it as "a once-in-a-lifetime opportunity to invest in New Zealand".

On 1 April 2020, shortly after the start of New Zealand's first Alert Level 4 lockdown, the Government announced that, to reduce the economic effects of the Covid-19 pandemic, it had asked a group of industry leaders to seek out infrastructure projects that were "shovel ready" – in other words, ready (or near ready) to start as soon as the construction industry resumed normal activity.

This $3 billion fund, which we refer to as the Shovel-Ready Programme (the SRP) in this report, focused on projects that would immediately support jobs and provide income, and that could begin construction within the next 12 months. The Government sought applications from both public and private organisations for projects to be included in the SRP.

For both programmes, Ministers decided to act quickly in anticipation of deteriorating economic conditions.

I decided to look at how the Government made these infrastructure investment decisions because of the speed of the decision-making, the scale of the investments, and their long-term and potentially inter-generational impacts.

When my staff started this work, we intended to focus primarily on the role public organisations played in supporting the investment decisions. However, as our work progressed, the significance of the role that Ministers played in the process became clearer.

What we found

My audit focused on the processes that were used to make decisions about which projects to fund. We did not assess, and I do not comment on, the merits of the selected projects.

The Cabinet-mandated Investment Management System is meant to guide the Government's investment decision-making. The Investment Management System is a mix of policies, processes, rules, requirements, and expectations that are described in various documents and summarised on the Treasury's website.

The Investment Management System seeks to optimise value from new and existing investments and assets for current and future generations of New Zealanders. The requirements and guidance that make up the Investment Management System are there for good reasons, and they have informed our expectations of the investment decision-making process followed for the NZUP and SRP.

These investments were a response to significant economic uncertainty

During the second half of 2019, the Government received advice about deteriorating economic conditions and whether some form of government intervention would be needed if those conditions worsened further.

In early 2020, the Covid-19 pandemic emerged, and the Government anticipated significant negative economic impacts. In the months and years that followed, the Government announced a range of significant investments to support individuals, families, and businesses to manage the effects of the Covid-19 pandemic on their livelihoods.

In both situations, the Government felt that, given the uncertainty, it needed to act quickly to strengthen economic conditions. It also considered that it needed to signal the plan as soon as possible to shore up economic confidence.

Officials worked hard to meet expectations and provided advice about the risks

Both the NZUP and the SRP were developed rapidly. The process to identify and announce funding for NZUP projects took only a few months. Setting up the application process for the SRP took only weeks.

For the NZUP, agencies were given high-level direction and expected to quickly provide lists of projects that Ministers could announce. They worked hard to provide as much information as they could given the time constraints.

For the SRP, this was at the same time as officials were working in difficult and constrained circumstances to support the Government and the public during the Covid-19 pandemic.

At several points, officials advised Ministers of risks to value for money for both the NZUP and the SRP. The New Zealand Infrastructure Commission (Te Waihanga) told the Government that "large scale infrastructure projects are not effective mechanisms for economic stimulus due to the time needed for planning, design and procurement".

Te Waihanga warned of several constraints associated with infrastructure. It also said that accelerated projects are not without risks and could lead to increased costs and related inefficiencies.

For the transport projects in the NZUP, officials advised Ministers that certain factors – such as capacity in the construction sector – meant that "there is a real risk of cost overruns, both at a project and package level, as well as delays to projects". Ministers decided to proceed with the transport projects, which were announced on 29 January 2020.

The Ministry of Health and the Treasury jointly advised Ministers that many of the proposed health projects under consideration for the NZUP were not ready to be announced. Treasury officials said that, "due to the time and information available", they had "low confidence" that the proposed projects for investment would be able to be implemented quickly, in line with Ministers' objectives.

On 29 January 2020, about one week after this advice was provided, the Minister of Health and Associate Minister of Health publicly announced several health projects. These included some projects that officials had advised were not ready to be announced.

Ministers did not have enough information to be sure that decisions supported value for money

Beyond the Government's broad intention for NZUP to "build clarity around our future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy", my staff could not identify specific investment criteria to assist agencies in identifying appropriate projects to be considered for funding.

Agencies developed investment options for Ministers within extremely tight time frames. It is not clear whether they had an opportunity to adequately consider priorities, achievability, value for money, interdependencies, or other considerations – such as regional impacts or impacts for Māori, Pasifika, or other communities. My staff saw very little information about these considerations in the NZUP documentation that they were provided with.

Ministers made decisions to progress some NZUP projects even though those projects were not fully scoped or planned. Full business cases were not always available or up to date even when the project's planning was more advanced, such as for transport projects that were already part of the National Land Transport Programme.

Some of the NZUP decisions caught key stakeholders by surprise. Auckland Transport and Te Waihanga both told us that they learned about the NZUP through media coverage. Auckland Transport was not asked for information about, or business cases for, projects that it was responsible for.

More information about projects that sought funding from the SRP was provided to Ministers making decisions. Crown Infrastructure Partners, the public organisation responsible for administering the SRP, set up a process quickly which started well.

An Infrastructure Reference Group was formed to make recommendations to Ministers. It drew on a wide range of expertise at various points to inform assessments of whether applications were eligible. There were clear investment criteria for determining eligibility. Once it was determined, Ministers' offices and officials refined the list of eligible projects.

However, as with the NZUP, Ministers had limited information about whether SRP projects were aligned with government strategies or whether they represented value for money. When Crown Infrastructure Partners and the Infrastructure Reference Group presented a longlist of eligible projects to Ministers, they were transparent about the limitations of their advice.

During the process of longlisting, shortlisting, and Ministers making final decisions about projects, many changes were made to the list of projects under consideration. There were frequent discussions between Ministers' offices and officials during this time, and some projects were added from outside of the Infrastructure Reference Group process.

My staff found it difficult to determine how or why these changes were made. A lack of documentation about this part of the process meant that my staff were unable to establish whether new projects were assessed consistently, fairly, or on a similar basis to the work that the Infrastructure Reference Group carried out.

In my view, to support transparency and accountability when spending public money, decision-makers are responsible for ensuring that there are adequate records of how and why decisions were made.

The government carried out due diligence after announcements were made

When SRP projects were announced, it was clear that a subsequent due diligence process was expected to be carried out before funding would be confirmed and released to a project. This was signalled in press releases.

There was not the same clarity about subsequent due diligence when the NZUP projects were announced. This was despite many projects that were announced having limited business cases – or, in some instances, no business case – available.

By mid-2020, Ministers decided to take steps to strengthen the risk management and oversight of the NZUP transport investments. An Oversight Group of officials was set up to provide programme-level assurance and regular reporting to Ministers.

The Oversight Group identified that the original transport component of the programme could not be delivered within the allocated funding of $6.8 billion. On 31 May 2021, Cabinet approved additional Crown funding of $1.9 billion. This would fund agreed projects at their new cost estimates and provide a contingency fund for transport projects in the NZUP.

The Implementation Unit in the Department of the Prime Minister and Cabinet also carried out work to provide some assurance about aspects of both programmes. It has reported on work that agencies are doing to strengthen programme governance, monitoring, and oversight for NZUP transport projects, and it has provided a progress update on the SRP.

It is not clear how Parliament and the public will know whether this money was well spent

When my staff carried out their work, the Treasury was required to report periodically on the performance of all significant investments that have had or that require Cabinet consideration. Similarly, agencies were required to report on their investment intentions and performance to the Treasury.

Crown Infrastructure Partners co-ordinates regular public reporting about projects in the SRP. This provides a good level of information about the projects in the programme and spending in the programme to date.

The Treasury told us that, from November 2023, it will be making its quarterly reports on medium and high-risk investments to the Minister of Finance available to Cabinet and the reports will be published on the Treasury's website.

Although some information on the progress of the NZUP-funded transport projects is reported publicly, no public reporting for the entire programme is available. This makes it difficult for Parliament and the public to understand the full scope of the programme and what is being delivered for the investment that has been made.

What we concluded

These decisions were made in challenging circumstances.

Ministers told us that they had to act urgently to strengthen economic conditions both before, and in the wake of, the Covid-19 pandemic. The need for early announcements to provide confidence to the public appears to have influenced how quickly these processes were carried out.

I accept that in some circumstances decisions need to be made quickly and processes might need to be adapted. However, careful consideration should be given to ensuring that trade-offs between good process and speed are proportionate to the scale of investment and risk. The advice agencies gave to Ministers was consistent with this approach.

In my view, the scale of these investments, the limited information available to Ministers, and the multi-generational impact of the investments warranted more rigour before the NZUP announcements were made.

The SRP was a largely well-run process, and there is good reporting on the programme's delivery. However, the process was let down by the absence of clear records and a rationale of how and why some decisions were made after the Infrastructure Reference Group provided its report to Ministers.

I have made similar observations about aspects of the Strategic Tourism Investment Programme, the Cost of Living Payment, the Provincial Growth Fund, and – most recently – the reprioritisation of the Provincial Growth Fund. It concerns me that significant spending of public money continues to occur without appropriate processes for ensuring value for money and transparent decision-making.

Ministers told us that NZUP decisions were made "in principle", subject to business cases being prepared and due diligence processes being completed. They subsequently directed officials to gain more assurance about projects and to strengthen monitoring and oversight.

Costs for some NZUP projects have increased significantly. Some NZUP projects have been delayed or rescoped. Some SRP projects have also been discontinued.

Although the subsequent steps the Ministers took to strengthen oversight are positive, that work has also highlighted that even good monitoring and oversight cannot fully mitigate the value-for-money risks of investment decisions made with limited information.

Although the briefings, Cabinet papers, and minutes we were provided with record the final decisions made, there are not adequate records to enable proper scrutiny for some aspects of these processes, including why advice from officials was not followed, how risks were managed, and the funding priority given to some projects and sectors.

Ministers have the authority to make significant decisions. In my view, this power comes with an obligation to Parliament and the public to be transparent about how and why they made those decisions and whether those investments deliver what was intended.

A lack of transparency and documentation about how and why decision-makers made significant decisions can also create the perception that processes lack integrity. In a country that prides itself on the integrity of its public sector, we should all be concerned about this matter.

Infrastructure projects are complex and challenging. In my view, Parliament and the public have a right to expect more for spending of this scale – what the Prime Minister had called "a once-in-a-lifetime opportunity to invest in New Zealand".

What I recommend

I have made three recommendations aimed at supporting improved decision-making and accountability for decisions.

I recommend that the Treasury ensure that there is regular public reporting on the progress of all significant investments that have had or that require Cabinet-level consideration, including NZUP projects. In my view, this is critically important so that Parliament and the public can form a view on whether those investments are delivering value and so that the government can be held accountable for the decisions it makes.

I am pleased to see that the Treasury has recently prepared new guidance on expedited decision-making. This guidance is intended for situations where investment decisions might need to be made more quickly than usual – such as during a crisis.

This guidance was not available when the NZUP and SRP investment decisions were made but should assist future decision-making in these types of circumstances. This is a positive initiative.

I have also recommended that the Treasury seek feedback from relevant agencies on how useful they find the Treasury's guidance on expediting decision-making and regularly review that guidance so that it remains fit for purpose.

This performance audit has raised yet again the importance of clear and adequate investment criteria and appropriate documentation of decision-making processes, including when setting up contestable funds. For this reason, I have also recommended that the Treasury, in its role as steward of the public finance system, consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

Final comments

This review has taken longer to finalise than we initially planned. This is because my Office has prioritised other work looking at the Government's response to the Covid-19 pandemic. This extended time has shown that both programmes have made some good progress with delivering projects. However, it has also shown that some of the risks that officials highlighted to Ministers have been realised.

I remain interested in the performance of the NZUP and SRP, and I will likely carry out further work to understand the progress of these significant investments in infrastructure.

I thank the many officials who engaged with my Office during this work, including past Ministers, for their co-operation with my review.

Nāku noa, nā

John Ryan
Controller and Auditor-General | Tumuaki o te Mana Arotake

7 December 2023

Our recommendations

We recommend that the Treasury:

1. establish regular public reporting on the progress of the full New Zealand Upgrade Programme and periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration;
2. seek feedback from relevant agencies on how useful they find the Treasury's guidance on expediting decision-making and review that guidance regularly to ensure that it remains fit for purpose; and
3. consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

1 Introduction

1.1 Establishing, managing, and maintaining infrastructure is complex and expensive. A wide range of organisations and individuals are involved in planning, building, funding, and operating New Zealand's publicly owned infrastructure.

1.2 The state of New Zealand's infrastructure is poor compared to similar countries.[1] It is widely acknowledged that governments have underinvested in infrastructure over many decades. The Treasury's 2022 Investment Statement puts New Zealand's combined historical and future infrastructure gap at $210 billion during the next 30 years.[2]

1.3 In recent years, the Government announced substantial and wide-ranging investment in infrastructure. This included two significant infrastructure investment programmes: the New Zealand Upgrade Programme (NZUP) and what we have termed the Shovel-Ready Programme (SRP).[3] Together, these programmes represent more than $15 billion of direct government investment. The SRP also involved significant co-funding from applicants.

1.4 Both programmes were designed to stimulate economic activity at a time when the Government was expecting economic conditions to deteriorate. Both the NZUP and the SRP were developed rapidly, and initial decisions about which infrastructure projects would be included and receive funding were made quickly.

1.5 In late 2019, the Treasury provided advice to the Minister of Finance that the economic and fiscal outlook had weakened because of slower global growth and increased business investment uncertainty. The Treasury advised that fiscal stimulus could support the economy through a period of anticipated weaker growth rates.

1.6 When the Government released the 2020 Budget Policy Statement in December 2019, it signalled its intention to invest an additional $12 billion in building a more productive, sustainable, and inclusive economy. It said that this new investment would take capital spending in New Zealand to the highest level in more than 20 years.

1.7 In late January 2020, the Government announced that it would invest this $12 billion in infrastructure as part of the NZUP. This included a $6.8 billion investment in transport and other investments in hospitals, schools, decarbonisation, and telecommunications.

1 Te Waihanga (2021), *He tūāpapa ki te ora – Infrastructure for a better future: Aotearoa New Zealand Infrastructure Strategy consultation document* (2021), page 28, at tewaihanga.govt.nz.

2 The Treasury (2022), *He puna hao pātiki: 2022 Investment Statement*, page 51, at treasury.govt.nz.

3 "Shovel ready" was terminology that was sometimes used early in the programme to describe the nature of the projects intended to be funded. However, elsewhere, the collective term for projects approved through this fund is "Infrastructure Reference Group projects". See "Infrastructure Reference Group", at crowninfrastructure.govt.nz.

1.8 In a press release dated 29 January 2020, the Prime Minister said that the programme was a "once-in-a-lifetime opportunity to invest in New Zealand – modernising our infrastructure, preparing for climate change and helping grow the economy".

1.9 By March 2020, Covid-19 had arrived in New Zealand and the Government was anticipating negative economic impacts. In the months and years that followed, the Government announced a range of significant investments to support individuals, families, and businesses to manage the effects of the Covid-19 pandemic on their livelihoods.

1.10 The Government also considered the impact that the Covid-19 pandemic would have on the construction sector. On 1 April 2020, the Ministers for Infrastructure and Economic Development announced that, to reduce the economic impact of the pandemic, the Government had asked a group of industry leaders to seek out infrastructure projects that would be ready to start as soon as the construction industry resumed normal activity.

1.11 The Government allocated $3 billion to fund these projects. The SRP was targeted towards infrastructure investments that would immediately stimulate the construction industry, its workforce, and the economy. The Government sought applications from both public and private organisations for projects to be included in the SRP.

Why we did this audit

1.12 Any spending of public money should deliver good value for New Zealanders. Investment of the scale associated with the NZUP and the SRP has significant opportunity cost and, given the increased borrowing by the Government to fund these types of investments, these decisions could affect generations of New Zealanders to come.

1.13 It is reasonable for Parliament and the public to expect investment decisions to follow a fair, transparent, and robust process, be based on sound advice, and support value for money.

1.14 Ministers have broad discretion to make investment decisions. However, they must also be accountable for the decisions they make. In our view, this means that the basis for their decision-making should be transparent.

1.15 For Parliament and the public to have confidence in the decisions that are made on their behalf, they must be able to understand the rationale for the investment, how much has been invested, what purpose it has been invested for, what benefits are expected to be delivered, and whether those benefits have been realised.

1.16 The Investment Management System usually guides government decision-making about significant investments. The Investment Management System is a Cabinet-mandated mix of policies, processes, rules, requirements, and expectations that are described in various documents and summarised on the Treasury's website. The Investment Management System seeks to optimise value from new and existing investments and assets for current and future generations of New Zealanders.

1.17 We carried out this audit to understand how consistent the decision-making processes for investments in the NZUP and the SRP were with the Government's guidelines and the public's expectations that public money is well managed.

1.18 We chose these two programmes because of the significance of these investments, because of the level of public interest in them, and because they were developed quickly. We were interested in how agencies and Ministers navigated the requirements of the Investment Management System in these circumstances and what lessons could be learned.

How we carried out this audit

1.19 We analysed a large amount of documentation and spoke with people from a range of public organisations and other central government, local government, and non-government stakeholders. The documentation we analysed included Cabinet papers, Ministerial briefings, project assessment reports, assessment and process guidance, email correspondence between officials, and publicly available information on both investment programmes.

1.20 However, there were significant gaps in documentation. For the NZUP, there was a lack of documentation about the criteria used to allocate funding between sectors. For the SRP, there was a lack of information on how, why, or when certain projects were introduced into the process and prioritised.

1.21 Interviews with a wide range of officials and stakeholders helped us to understand how decisions were made and some of what took place. The people we spoke with included staff from:

- the Treasury;
- the Ministry of Business, Innovation and Employment (MBIE);
- Crown Infrastructure Partners;
- the Ministry of Transport;
- the New Zealand Transport Agency (Waka Kotahi);
- the Ministry of Health;
- the Ministry of Education;

- the New Zealand Infrastructure Commission (Te Waihanga);
- KiwiRail;
- the Department of the Prime Minister and Cabinet;
- the Energy Efficiency and Conservation Authority;
- Statistics New Zealand;
- a selection of local authorities; and
- Infrastructure New Zealand.

1.22 When we started this work, we intended to focus primarily on the role public organisations played in supporting the investment decisions. However, as our work progressed, the significance of the role that Ministers played in the process became clearer.

1.23 The Minister of Finance and some of the Associate Ministers of Finance were Budget Ministers and key decision-makers for the NZUP.[4] The Infrastructure Reference Group Ministers and the Minister of Economic Development were the principal investment decision-makers in the SRP.[5]

1.24 We spoke with the Minister of Finance about both programmes during the early stages of our work. We then invited key Ministers who had been involved in the programmes to meet with us and provide any information that they held. Ministers involved in the process had an opportunity to review and comment on relevant parts of our draft report.

1.25 We looked at decision-making processes up until substantive investment decisions were made, including:

- the advice Ministers sought and received about setting up these programmes;
- what direction Ministers gave to officials; and
- the advice officials provided to Ministers and Cabinet about how the programmes should be designed, which types of projects to include, and associated risks.

1.26 We also looked at how individual projects within both programmes were identified, prioritised, selected, and approved for funding.

4 The Prime Minister and Deputy Prime Minister were also Budget Ministers for the NZUP but did not appear to be heavily involved in the design or set-up of the programme.

5 The Infrastructure Reference Group Ministers were the Minister of Finance, the Minister for Infrastructure, and the Associate Ministers of Finance. Initially, the Infrastructure Reference Group was made up of the Chair of Crown Infrastructure Partners Limited, the Deputy Chairperson of the Provincial Growth Fund's independent advisory panel, the Chair of the Waka Kotahi New Zealand Transport Agency Board, the Chief Executive of KiwiRail, the Chair of the Infrastructure Commission Board, and the Chief Executive of the Ministry of Housing and Urban Development.

1.27 Our work did not focus on the delivery of individual projects but we were interested in whether adequate monitoring and reporting arrangements were considered as part of developing both programmes. Because Crown Infrastructure Partners was responsible for the SRP's overall monitoring and reporting, our work focused more on its role than on those of the other delivery agencies (see paragraph 3.26), including MBIE.

1.28 We also make some general observations about the relationship between decision-making processes and the likely value for money of investments.

1.29 We do not comment on policy decisions, including the merits of individual investments. We have not carried out or reviewed any cost–benefit analysis of individual projects, and we did not assess in detail any due diligence or other risk management processes that might have been carried out after decisions to fund projects had been made.

1.30 The procurement associated with any of the investments that form part of the NZUP or the SRP was also out of the scope of our work.

Our expectations

1.31 We wanted to understand how effective the decision-making processes underpinning the NZUP and the SRP were. We were interested in what insights they might provide for how the government makes decisions about significant infrastructure investments more generally – especially when it wants to make decisions quickly.

1.32 We were interested in:

- how investments were identified and prioritised;
- how decisions were informed;
- how stakeholders were engaged throughout the process;
- how well decisions were recorded and communicated; and
- how monitoring and evaluation was considered.

1.33 Our expectations were informed by the requirements of the Investment Management System and other relevant guidance (see Appendix 1). In summary, our expectations are that:

- Investments align to broader government and organisational strategies, where applicable.
- Expected outputs and outcomes (benefits) are clearly identified and connected to New Zealand's current and future infrastructure priorities, where known.

- Appropriate expertise is used to support the decision-making process when needed.
- Decision-making processes are transparent, reasonable, and proportionate to the scale of the investments being made.
- Risks to the integrity of the process, including conflicts of interests, are identified, appropriately assessed, and managed.
- Decision-making criteria are effective and consistently and fairly applied.
- Full and accurate records of decision-making processes are maintained to ensure transparency about why decisions were made.
- There are appropriate communications and engagement during the decision-making process to keep stakeholders informed and provide transparency about the process and outcomes.
- Appropriate monitoring, reporting, and evaluation arrangements are considered in the early stages of setting up the programmes and planned to be in place as soon as projects start.

1.34 These expectations informed the findings set out in Parts 4, 5, and 6.

1.35 In November 2021, the Treasury published guidance about expediting investment decisions on its website. The guidance recognises that there are situations where investment decisions need to be made rapidly for reasons outside of a public organisation's control.

1.36 The guidance identifies some principles for using an expedited approach. These include:

- consulting with stakeholders and government partners early;
- providing transparent advice to Cabinet about the risks and potential implications of making fast decisions; and
- explaining how much (or little) risks can be mitigated and the intended processes for mitigation.

1.37 The guidance was not available to Ministers or officials when initial investment decisions about the NZUP and the SRP were made or when we set our audit expectations.

1.38 We make some observations about this guidance in Part 7.

Structure of this report

1.39 Parts 2 and 3 describe the background to the NZUP and the SRP.

1.40 Parts 4, 5, and 6 set out our main findings about both programmes.

1.41 Part 7 discusses the guidance the Treasury has prepared about expedited decision-making.

About the New Zealand Upgrade Programme

2

2.1 In this Part, we describe:

- why the NZUP was set up;
- the scope of the NZUP;
- how projects were selected to receive funding; and
- what projects were funded.

Setting up the New Zealand Upgrade Programme

2.2 In September 2019, the Treasury briefed the Minister of Finance on options for changing the fiscal strategy to address a weakening economic outlook. It recommended developing a fiscal stimulus package that could begin within the next three months. Among the options discussed were investment in large-scale capital projects and projects that could be completed rapidly.

2.3 In October 2019, the Treasury provided further advice to the Minister of Finance that a significant capital investment plan could support the economy through a period of anticipated weaker growth rates.

2.4 On 4 November 2019, Cabinet agreed to $12 billion of capital investment to be announced as part of the 2020 Budget Policy Statement published in December 2019. The capital investment package was intended to:

> *...build clarity around the government's future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy.*[6]

2.5 The Cabinet paper considered at the 4 November meeting also noted that:

- the Treasury was already consulting with agencies about initiatives that could be announced in a capital package;
- initiatives were to be finalised in consultation with the relevant agencies and Ministers;
- an announcement would include the total amounts that would be allocated to different portfolios and some specific initiatives that were to be implemented; and
- several announcements about specific initiatives would then be made after the release of the Budget Policy Statement but before Budget 2020.

2.6 The Budget Policy Statement published on 11 December 2019 confirmed the Government's intention to invest $12 billion. It indicated that most of the capital package would consist of investment in transport, education, health, regional investment opportunities, carbon reduction, and justice.

6 The Treasury (4 November 2019), *Cabinet paper: Fiscal strategy for the Budget Policy Statement 2020*, at treasury.govt.nz.

Scope of the New Zealand Upgrade Programme

2.7 The $12 billion capital package comprised an $8.1 billion spending package and $3.9 billion to increase the multi-year capital allowance for capital spending.[7]

2.8 On 9 December 2019, Budget Ministers met to allocate amounts from the $8.1 billion spending package to specific categories. Those allocations included:

- transport projects – for medium- to long-term capital projects with a broad distribution throughout New Zealand and that supported public transport and emissions reduction (up to $6.8 billion);
- school property – to bring forward urgent school property improvements from existing planning processes (up to $400 million);
- district health board asset renewal – for short- to medium-term capital projects that were near investment-ready based on early findings of the National Asset Management Plan and for district health board infrastructure plans with a broad distribution throughout major urban and provincial centres (up to $300 million);
- regional investment opportunities – for short- to medium-term capital projects that were near investment-ready and that supported regional economic development and aspirations but that did not meet the funding criteria of the Provincial Growth Fund (up to $300 million);
- public estate decarbonisation – for short- to medium-term capital projects that reduced the government's carbon footprint, with a focus on "process heat" and energy efficiency measures (up to $200 million); and
- replacing the Tauranga courthouse (up to $90 million).

2.9 Ministers told us that the allocations of funding were guided by general Government priorities, which they said were "transport, health, education, decarbonisation, providing jobs, and improving productivity".

2.10 Apart from this, we have not seen any records that clearly explain the basis for the allocation of these amounts or why specific categories were chosen. We discuss the alignment with Government priorities in more detail in Part 4.

How projects were selected

2.11 The programme of investment was developed quickly. This appears to have been, at least in part, to enable public announcements to be made as soon as possible. We saw references to early announcements in briefings and Cabinet papers, and correspondence between Ministers' offices and agencies.

7 Cabinet authorised Budget Ministers to make decisions on the final details of the capital package, along with any associated operating funding, including the needed increases to the multi-year capital allowance.

2.12 In late 2019, the Treasury asked government agencies to identify potential projects that could be considered, prioritised, and approved for funding. We saw briefings from agencies to Ministers suggesting initiatives or packages of initiatives for them to consider.

2.13 We understand that many of the proposed transport projects were already included in the 2018-21 National Land Transport Programme or had been identified through earlier work. Even so, the business cases for these projects were at different stages of development.

2.14 In September 2019, the Ministry of Education provided the Minister of Education with some high-level information about infrastructure investment options that could stimulate the economy.

2.15 On 12 December 2019, the Treasury and MBIE provided joint advice to the Minister of Finance with options for how the $200 million decarbonisation allocation could be used. The briefing proposed a contestable fund of capital for state sector organisations to apply to. It also proposed that the scope of eligible investments include low-emissions heating, vehicles, and energy-efficient lighting.

2.16 On 21 January 2020, the Ministry of Health and the Treasury provided joint advice to Ministers about options for health projects that could be funded from the $300 million allocation for renewing district health board assets.

2.17 The briefing proposed 46 different investments in maternity and child health facilities, mental health facilities, improving service access in regions, and remediation of assets to address risk, condition, or compliance issues. These projects had been drawn from the National Asset Management Plan, district health board capital plans, and other sources.

2.18 The briefing indicated that some projects were well scoped and "amenable to immediate announcement". However, it said that others would require further investigation to have full confidence in scope, cost, timing, and expected benefits.

2.19 The Ministry of Health advised that completing projects within the short- to medium-term (12-24 months) depended on district health boards having enough capacity to support the projects. This is because, at that time, district health boards were responsible for many of these types of projects.

2.20 On 22 January, the Minister of Health agreed to $265 million of funding for projects that the Ministry of Health considered "near investment ready". The Minister agreed that district health boards be asked to prepare business cases for those projects.

What has been funded

2.21 On 29 January 2020, the Government issued a series of press releases announcing new initiatives funded from the $12 billion capital investment (which was now being called the New Zealand Upgrade Programme):

- The Minister of Transport announced $6.8 billion for transport infrastructure in Auckland, Waikato, the Bay of Plenty, Wellington, Canterbury, and Queenstown, including $1.1 billion for rail projects and $2.2 billion for new roads in Auckland.
- The Ministers for Infrastructure and State-Owned Enterprises issued two press releases detailing the $1.1 billion investment in four rail projects and some of the roading investments referred to in the Minister of Transport's release.
- The Minister of Health announced $300 million of capital investment in health. The press release set out an initial investment of $195 million and signalled that further announcements would be made in the coming months.
- The Minister for Climate Change announced $200 million of investment for a "clean-powered public service". This included replacing coal boilers at eight schools and upgrading facilities at Hillmorton Hospital's mental health unit.[8] The press release indicated that more announcements about what would be funded from the $200 million would follow.
- The Minister of Education issued a press release about the schools' investment package. This explicitly linked the schools' investment package to the NZUP.[9]

2.22 The Minister for Regional Economic Development made a further series of announcements on 28 February 2020. These referred to $300 million of investment for "Regional Investment Opportunities" and included a range of other transport initiatives in the regions, all linked to the NZUP.

2.23 These announcements were summarised on a page on the Beehive website.[10] Most of the projects ultimately funded through the NZUP appear to have been included in these initial announcements and on the website. However, it is difficult to determine from publicly available information all the initiatives that have received funding from the NZUP. We discuss this further in Part 6.

2.24 Some projects received relatively small amounts of funding (less than $1 million), while others received funding of more than $100 million.

8 This would be referred to in later related announcements as the "clean-powered public service fund". The fund ultimately became the State Sector Decarbonisation Fund, which the Energy Efficiency and Conservation Authority now administers.

9 This package was first announced on 1 December 2019 but was not linked to the NZUP at that time.

10 New Zealand Government (2020), *The New Zealand Upgrade Programme*, at beehive.govt.nz.

About the Shovel-Ready Programme

3

3.1 In this Part, we describe:

- why the SRP was set up;
- the scope of the SRP;
- how projects were selected to receive funding; and
- which projects were funded.

Setting up the Shovel-Ready Programme

3.2 Covid-19 was first detected in New Zealand in late February 2020. By then, the National Security System had been activated, arrangements for an all-of-government Covid-19 response had been made, and a public health response had been set up at the border.

3.3 As well as the immediate public health response, the Government also considered how it would provide financial assistance to businesses and families to mitigate the economic effects of the pandemic, which it expected to be significant.

3.4 The Minister for Infrastructure considered the impact that the Covid-19 pandemic would have on the construction industry. Further investment in infrastructure was expected to reduce the pandemic's economic impact.

3.5 In March, the chairperson of Crown Infrastructure Partners wrote to a range of industry participants, consultants, local bodies, and public sector chief executives advising that Ministers had asked him to set up and chair an Infrastructure Reference Group. The Infrastructure Reference Group's purpose was to assist with preparing a list of shovel-ready infrastructure projects that could be funded and that could start as soon as construction activity was able to resume.

3.6 The chairperson's letter sought information about projects that could be included for consideration. It stated that Crown Infrastructure Partners would provide support to administer the process but that the Government would make the final decisions.

3.7 The letter was sent on 25 March 2020, the same day a national state of emergency was declared and New Zealand entered the first Alert Level 4 lockdown. Only essential businesses were permitted to operate, and they were restricted in the way they could operate. The border was closed to all but New Zealand citizens and permanent residents.

3.8 On 1 April 2020, the Ministers of Infrastructure and Transport announced publicly that the Government was seeking "shovel-ready" infrastructure projects to invest in. A project information form and guidance were made available on the Crown Infrastructure Partners website at the same time as this announcement. Information about potential projects was sought by 14 April 2020.

Scope of the Shovel-Ready Programme

3.9 On 11 May 2020, Cabinet agreed to establish a $3 billion tagged contingency from the Covid-19 Response and Recovery Fund.[11] This funding was separate from, and intended to build on, the $12 billion investment that the Government had already announced for the NZUP.

3.10 The purpose of this funding was to invest in infrastructure to support the longer-term economic recovery from the Covid-19 pandemic. Funding would be awarded to projects that the Infrastructure Reference Group identified, as well as other projects that government agencies identified.

3.11 Unlike the NZUP, specific criteria were used to identify eligible projects for SRP funds. On 29 April 2020, Cabinet's Economic Development Committee agreed that the Infrastructure Reference Group would:

> …*initially prepare a list of infrastructure projects that are ready (or near ready) for construction, meet certain national/regional benefit criteria, are aligned with government policy, and could be deployed as part of a stimulatory package.*

3.12 The Committee also noted that the Infrastructure Reference Group would also use the three guiding principles used for reprioritising the Provincial Growth fund. These were:

- an increased focus on immediate job creation and income growth;
- construction activity that would be under way within the next six months; and
- a high degree of visibility to the community to give the public confidence that renewed economic activity was under way.

3.13 The Minister of Finance described the SRP as being "about creating jobs as we recover and rebuild from the recession caused by the global Covid-19 pandemic".

3.14 The letter from the chairperson of Crown Infrastructure Partners indicated that projects would need to:

- be truly ready for construction – ready within a realistic six months;
- be of an infrastructure nature, whether horizontal (such as roads and bridges) or vertical (such as schools and hospitals);
- be of a significant size (at least $10 million, either as a single project or as a package of similar projects) and provide material employment benefits for workers; and
- bring real social or economic value to New Zealand as a whole or the region it was located in.

11 During the Budget process, tagged contingencies for specific initiatives are set aside when more work is needed before Cabinet will agree to the funding. Tagged contingencies are also used when an initiative is commercially sensitive or negotiations have yet to take place, such as State-sector wage negotiations. See "Guide to New Zealand Budgeting Practices: Contingencies and between-Budget spending", at budget.govt.nz.

3.15 The project information form and accompanying guidance on the Crown Infrastructure Partners website provided further information about the criteria. Applicants were asked to identify how much financial assistance they needed. They were also asked to confirm the expected total capital expenditure and the number of full-time equivalent workers needed for construction on each project.

How projects were selected

3.16 We identified three main phases of decision-making to select projects for funding:

- The Infrastructure Reference Group led the first phase, supported by Crown Infrastructure Partners with the assistance of a review team. This process culminated in a longlist of projects that the Infrastructure Reference Group considered met the eligibility criteria for funding. The Infrastructure Reference Group reported the longlist to Ministers on 18 May 2020.
- In the second phase, officials worked with staff in Ministers' offices to reduce the longlist to a shortlist. Crown Infrastructure Partners told us that, as part of this process, Ministers asked for a list of all projects submitted to the Infrastructure Reference Group that had not made it into the Infrastructure Reference Group longlist.
- The third phase involved officials carrying out further due diligence checks of proposed projects before a group of Ministers (known as the Infrastructure Reference Group Ministers)[12] ultimately approved funding.

Phase 1 – Developing the Infrastructure Reference Group longlist

3.17 Crown Infrastructure Partners led the initial assessment process on behalf of the Infrastructure Reference Group. They received project proposals and assessed them against three key criteria: construction readiness, direct employment benefit, and national/regional benefit. The assessment process included removing proposals that did not meet the criteria.

3.18 On behalf of the Infrastructure Reference Group, Crown Infrastructure Partners formed a review team to assess project proposals. The team comprised a representative from Crown Infrastructure Partners and lead partners from various professional firms. In total, the review team assessed 1926 proposals with a combined value of $134 billion.

3.19 Kānoa, the Regional Economic Development and Investment Unit within MBIE, was also involved in this initial assessment process. Crown Infrastructure Partners asked Kānoa to provide a regional perspective on project proposals.

12 The Infrastructure Reference Group Ministers were the Minister of Finance, the Minister for Infrastructure, and the Associate Ministers of Finance.

3.20 Crown Infrastructure Partners also forwarded proposals to Kānoa, including projects that were outside major metropolitan areas and that had a value of less than $10 million. This was so it could consider regional projects that might have been more suitable for funding from the Provincial Growth Fund rather than from the SRP.

3.21 Crown Infrastructure Partners then worked with the Infrastructure Reference Group to set out a list of 802 eligible projects seeking a combined $33 billion in funding from the SRP. Projects were grouped according to three categories of construction readiness. These were projects that:

- were in the construction phase but that had been put on hold because of the Covid-19 pandemic;
- had been expected to start the construction phase within the next six months (by 31 October 2020) but that were unlikely to do so because of the Covid-19 pandemic; and
- could be expected to start the construction phase within the next 12 months (by 30 May 2021) but that were unlikely to do so because of the Covid-19 pandemic.

3.22 The longlist was provided to Ministers on 18 May 2020.

Phase 2 – Shortlisting

3.23 Once Ministers had received the longlist from the Infrastructure Reference Group, more work was needed to narrow down the list further. Negotiations took place between several Ministerial offices.

3.24 Crown Infrastructure Partners, MBIE, and Treasury officials provided additional information about projects as needed. Crown Infrastructure Partners and the Treasury also separately provided advice to Ministers on how to prioritise the lists before meeting in early June 2020 to reconcile their advice.

3.25 The paper that was ultimately prepared for the Cabinet Economic Development Committee contained a shortlist of 177 projects seeking an estimated $3.3 billion in government funding. The paper organised the projects into categories. These were:

- housing and urban development – consistent with the Urban Growth Agenda and key economic shift to transform New Zealand's housing market to unlock productivity growth and make houses more affordable;
- energy – consistent with the key economic shift to sustainable and affordable energy systems;
- community development – to support strong and revitalised regions and align with housing and urban development;

- water and waste – consistent with key economic shifts so that land and resource use deliver greater value and environmental outcomes; and
- other key central and local government infrastructure – to support the Government's wider objectives and support the recovery.

3.26 Cabinet authorised the Infrastructure Reference Group Ministers to make final decisions on which projects from that shortlist would be funded. Funding would then be allocated to relevant government agencies (called delivery agencies) for distribution to the parties responsible for the selected projects.[13]

3.27 In addition, Cabinet agreed some important conditions for those approvals. These included the following:

- The Infrastructure Reference Group Ministers were to use some specified criteria when deciding on the final list of projects. These were similar to, but not the same as, the criteria that had been used in Phase 1 of the process (see Figure 1).
- Delivery agencies would be required to first carry out further due diligence about the projects to provide "appropriate assurances" to Infrastructure Reference Group Ministers. The agencies needed to provide assurance about each project's scope and that it could be delivered expediently, that it could achieve the intended benefits and enable jobs, and that the funding was appropriate to enable the project while also representing value for money to the Crown.

Figure 1
Cabinet-approved decision-making criteria used in the Shovel-Ready Programme

Original criteria	Subsequent criteria
Ready (or near ready) for construction Meet certain national/regional benefit criteria Are aligned with government policy Could be deployed as part of a stimulatory package	The number of jobs created Regional impact and distribution of projects Project achievability and readiness Net public benefit Alignment with wider government objectives

Note: The criteria that were included in the letter that initially sought projects to be included in the Infrastructure Reference Group process are listed in paragraph 3.14.

13 A range of government agencies were responsible for contracting, managing, monitoring, and reporting on specific projects. They included the Ministry of Housing and Urban Development, Kāinga Ora, MBIE (including the Provincial Development Unit/Kānoa), the Energy Efficiency and Conservation Authority, Heritage New Zealand, Fire and Emergency New Zealand, KiwiRail, Waka Kotahi, the Ministry of Justice, the New Zealand Police, the New Zealand Defence Force, and Crown Infrastructure Partners.

Phase 3 – Due diligence and final approvals

3.28 Crown Infrastructure Partners co-ordinated briefings seeking the agreement of Ministers to release funding to projects after the delivery agencies had completed the appropriate due diligence for those projects.

3.29 These briefings (except when they were only updates to previous funding decisions) generally included background checks about the project's owner, confirmation of the project's scope, and information about the project's costs, predicted benefits, milestones, employment creation, and risks. The briefings also included information about the recipient's management and delivery capability, a financial capacity and co-funding assessment, and some comments about value for money.

3.30 Each of these elements was assigned a "traffic light" status. Green indicated no issues, orange indicated some issues or risks that could be addressed, and red indicated material issues that were unlikely to be addressed.

What has been funded

3.31 Infrastructure Reference Group Ministers' approval to release funding to projects was sought through a series of briefings starting in mid-August 2020. Each briefing included additional information and recommendations about a set of projects.

3.32 Figure 2 provides information about the number of new projects recommended in each briefing, the number of full-time equivalent jobs that those projects were expected to create, and their costs.

Figure 2
Briefings seeking approval from Ministers to release funding for new projects

Briefing	Date	Number of projects recommended	Government funding $ millions	Anticipated number of FTE jobs created
1	August 2020	32	233.7	Information not included
2	August 2020	7	142.0	844
3	September 2020	11	88.0	208
4	September 2020	88	612.0	2887
5	September 2020	48	414.8	2835

Briefing	Date	Number of projects recommended	Government funding $ millions	Anticipated number of FTE jobs created
6	October 2020	13	320.6	1122
7	November 2020	6	64.3	515
8	December 2020	1	6.5	94
9	February 2021	2	83.1	283
10	April 2021	8	90.6	281
11	June 2021	4	95.4	246
12	August 2021	2	17.0	65
14	December 2021	2	7.7	50
Total		**224**	**2,175.7**	**9430**

Note: There were 19 funding briefings to the Infrastructure Reference Group Ministers. Briefings 13 and 15 to 19 sought approval of changes to existing projects covered in earlier briefings. These changes are not reflected in the funding and employment totals in the table. The total funding approved at the end of August 2023 is provided in paragraph 3.35.

3.33 As with the NZUP, the scale of projects varied significantly, from less than $1 million to more than $100 million.

3.34 As at the end of September 2023, Crown Infrastructure Partners reported that 222 projects had been approved and funding agreements were in place. Of these, 112 projects had been completed and a further 108 had started.

3.35 Crown Infrastructure Partners reported in late October 2023 that 65% ($1.8 billion) of the funding ultimately approved by Ministers as direct government investment in the SRP ($2.7 billion) had been spent to 31 August 2023.

4 Design and set-up of processes

4.1 In this Part, we discuss the importance of designing and setting up a clear and well thought-through process for allocating significant amounts of funding to initiatives. We discuss how:

- the investments in the NZUP and SRP were broadly aligned with the Government's priorities;
- the investments are less clearly aligned with sector and organisational strategies;
- more attention should have been given to investment criteria;
- it is not clear how well risks were assessed or managed; and
- key agencies were not sufficiently involved in these processes.

4.2 Ministers have wide discretion to make decisions about where they will direct investment. However, they still need to ensure good value for money for New Zealanders. The public ought to be able to see why the government is making an investment, what the government is investing in, how much is being spent, and what benefits that investment will provide.

4.3 The amount of funding that was allocated through both the NZUP and the SRP was significant. The risks associated with large complex infrastructure projects are also well known.[14] Therefore, we expected that these processes had been carried out in a way that would, at a minimum, ensure that:

- the objectives and outcomes sought from these programmes would be clearly identified and connected to New Zealand's current and future infrastructure priorities, where known, as well as wider government and organisational strategies, where applicable;
- decision-making criteria would be clear and robust enough for the investments to be effectively analysed, prioritised, and selected;
- risks would be identified and assessed, and appropriate mitigation or management strategies would be defined; and
- key decisions and their rationale would be documented.

4.4 To achieve this, we expected Ministers to seek and consider advice from relevant officials. Although Ministers are not obliged to follow advice from officials, they have an obligation to give fair consideration and due weight to free and frank advice provided by the public service.[15]

4.5 We also expected effective engagement and communications during the decision-making process to keep stakeholders informed and to provide transparency about the process and its outcomes.

14 Infrastructure projects are often large scale and complex, with issues, risks, and challenges that might require sophisticated project planning, management, procurement, and governance approaches. See "Guidance" at tewaihanga.govt.nz.

15 See "Cabinet Manual" at dpmc.govt.nz.

Summary of findings

4.6 Both the NZUP and the SRP are aligned with the Government's broad intentions to address New Zealand's infrastructure deficit and stimulate the economy.

4.7 However, how well these programmes advance specific government, sector, or organisational strategies is unclear.

4.8 Many projects included in the NZUP were already part of multi-year investment plans that agencies had prepared or had been working on, or they had been included as part of other investment processes but had not yet received funding. Ministers appear to have relied on this to satisfy themselves that these projects were good investments.

4.9 Beyond the Government's broad intention for the NZUP to "build clarity around our future capital pipeline, speed up the transition to a low emissions economy, support business confidence, and move towards a more productive, sustainable and inclusive economy", we were not able to identify specific investment criteria to assist agencies in identifying appropriate projects to be considered for funding.

4.10 Officials consistently raised risks and uncertainties with both investment programmes to Ministers. Ministers chose to proceed quickly, despite the concerns that had been raised. It is unclear to us how these risks were considered and what steps, if any, were taken to manage or mitigate those risks.

4.11 The desire to make early announcements appears to have been a factor. Ministers told us that these decisions were made "in principle" and were subject to further due diligence. In our view, decision-makers should be cautious when announcing projects before they make final funding decisions. Once project funding is announced, it can be difficult to withdraw funding, even when costs increase or risks to benefits are identified.

4.12 The first phase of decision-making for the SRP was well organised. Applications for funding were sought through a contestable process with clear investment criteria and reasonable assessment of cost, benefits, achievability, and risk. The process was transparent, and good records about decisions were kept.

4.13 During the process of longlisting, shortlisting, and Ministers making final decisions about projects, many changes were made to the list of projects under consideration. This included adding and removing projects from the list. There are not clear records to explain how or why some of these changes were made. It is not always clear what criteria were applied or how consistently projects were assessed in this phase.

4.14 We sought information from agencies about how they managed conflicts of interest. Agencies confirmed to us that they are guided by their internal conflict of interest policies. For Ministers, the Cabinet Manual explains the standards of personal conduct expected and provides options for managing conflicts of interest.

4.15 We did not assess the quality of these processes. However, except for information that Crown Infrastructure Partners provided, the documentation we were given did not contain information about how conflicts of interest were managed. In our view, it would be prudent, when making significant funding decisions like these, for Ministers and officials to make proactive declarations about actual and potential conflicts and for these to be recorded in the documentation relating to investment decisions.

4.16 The involvement of key agencies in the design and set-up varied between the two programmes. It is likely that the design of these processes could have been improved if more of the relevant agencies were given the opportunity to work together to provide advice at the outset.

Investments were broadly aligned with the Government's priorities

4.17 In general, we expect that significant investment will align with the priorities the Government has set – for example, through government strategies and plans, the fiscal strategy, and budget policy statements. For the NZUP and the SRP, we expected that outputs, benefits, and outcomes of investments would be clearly identified and connected to New Zealand's current and future infrastructure priorities.

4.18 Te Waihanga was set up in September 2019. One of its first priorities was to prepare an infrastructure strategy for New Zealand. The strategy was not available when the NZUP and the SRP started.

4.19 On 16 September 2018, the Government published *Our plan: The Government's priorities for New Zealand*, which signalled an intention to invest $42 billion in net capital spending over five years to help rebuild New Zealand's infrastructure and critical public services.

4.20 The 2020 Budget Policy Statement, published in December 2019, stated that major investments would continue to be made in health, education, housing, and social programmes to address New Zealand's long-term challenges. The Budget 2020 priorities would be:

> *Just Transition – Supporting New Zealanders in the transition to a climate-resilient, sustainable, and low-emissions economy*

Future of Work – Enabling all New Zealanders to benefit from new technologies and lift productivity through innovation

Māori and Pacific – Lifting Māori and Pacific incomes, skills and opportunities

Child Wellbeing – Reducing child poverty and improving child wellbeing

Physical and Mental Wellbeing – Supporting improved health outcomes for all New Zealanders.

4.21 Both the NZUP and the SRP were aligned with the Government's broad intentions to start to address New Zealand's infrastructure deficit and stimulate the economy.

4.22 The NZUP was intended to clarify the government's future capital programme, speed up the transition to a low-emissions economy, support business confidence, and move towards a more productive, sustainable, and inclusive economy. The NZUP includes investments in education, health, and decarbonisation, but most investments have been in transport projects.

4.23 The purpose of the SRP was to invest in infrastructure to support the economic recovery from the Covid-19 pandemic, with a particular focus on supporting jobs. The SRP includes investments in housing and urban development, projects targeting environmental outcomes (energy, waste, and water), and a range of other infrastructure projects designed to support employment outcomes.

Investments are less clearly aligned with sector and organisational strategies

4.24 To develop the NZUP, the Treasury worked with relevant agencies to identify investment options for Ministers to consider within the broad categories Ministers had identified (see paragraph 2.12).

4.25 We saw evidence that some agencies considered alignment to sector and organisational strategies. Some relevant information was included in advice to Ministers about potential investment options.

4.26 For example, a briefing to the Minister for Education about potential funding options referred to the Government's commitment to improving the condition of the school property portfolio by 2030. The briefing presented options informed by the Education Infrastructure Service's draft strategic objectives as well as wider organisational commitments.

4.27 A briefing from the Ministry of Health proposed categories of projects based on existing capital plans, the health National Asset Management Plan, and other sources.

4.28 Many projects included in the NZUP, especially the transport projects (see paragraph 2.13), were already part of multi-year investment plans that agencies had prepared or had been working on, or they had been included as part of other investment processes but had not yet received funding.

4.29 Guidance issued by the Treasury as part of the Investment Management System indicates that significant projects should consider alignment to corporate and business strategies and long-term investment plans. In some instances, the processes for considering this alignment are comprehensive.

4.30 For example, legislation guides the process for developing the National Land Transport Programme. Waka Kotahi uses a comprehensive investment prioritisation method to align transport investment decisions with the Government Policy Statement on land transport and to consider regional priorities set out in Regional Land Transport Plans.

4.31 In our view, it was reasonable for the Government to rely on this process to assure itself of the strategic alignment of the transport investment in the NZUP.

4.32 For other projects, little information was provided to Ministers about how strategic alignment had been assessed.

4.33 Applicants for the SRP were required to comment in their applications on how their proposal “brings real value” to specific government strategies, frameworks, and commitments. These included the Living Standards Framework, the Sustainable Development Goals, and the draft 2021 Government Policy Statement on land transport.

4.34 However, it does not appear that the Infrastructure Reference Group was able to form a clear view of the strategic alignment of projects, other than at a high level. When the initial shortlist was presented to Ministers, there was a high-level assessment of the strength of each sector’s alignment with categories in the Government’s Economic Plan and 2020 Budget Policy Statement categories.

4.35 Despite that assessment, the advice to the Government was that the “Government should consider the extent to which projects support, or are aligned with, existing Government or Local Authority initiatives and priorities”. The Treasury and MBIE jointly provided Ministers with further advice on how that might be carried out, with a particular focus on alignment with the Government’s Covid-19 economic recovery objectives.

4.36 Ministers told us that the outcome of their decision-making reflected the Government's priorities. They said that, during the decision-making process, some projects were prioritised based on their potential to "achieve the Government's objectives".

4.37 The documentation we were provided with contains only high-level references to strategic alignment. We cannot determine whether it was tested comprehensively.

4.38 In our view, the scale of investment that has been made as part of both the NZUP and the SRP required a more robust approach.

More attention should have been given to investment criteria

4.39 Criteria aligned to investment objectives and robust selection processes are necessary to match investment to need, to prioritise, and to maximise the probability of achieving the benefits sought from investment.

4.40 Criteria need to be clear and include enough guidance for people to determine whether they meet the criteria, so they can make informed decisions about whether it is worthwhile applying. Consistently and transparently evaluating projects against effective criteria will provide assurance to applicants and the public that the process is fair and transparent.

4.41 Criteria also need to be effective in assisting decision-makers to identify whether investments are likely to help achieve objectives and to prioritise between investments as necessary.

The New Zealand Upgrade Programme had only broad investment criteria

4.42 Beyond the broad intention of the NZUP set out in paragraphs 2.4 and 2.6, we were not able to identify specific investment criteria to assist agencies in identifying and prioritising projects to be considered for funding.

4.43 As we discussed in paragraph 2.12, the Treasury worked with agencies to identify potential projects within the broad categories Ministers had identified. It is not clear to us how the amount of funding assigned to these categories was determined (see paragraphs 2.9 and 2.10).

4.44 An internal Treasury review found that the NZUP lacked a systematic or quantitative framework to prioritise between sectors (such as housing, education, and transport), beyond stating that spending should be "high quality".

4.45 As we discussed in paragraphs 4.30-4.31, some transport projects were already part of the National Land Transport Programme, and Ministers relied on those processes as a basis for ensuring quality in that investment.

4.46 Non-transport projects might also have been part of multi-year investment plans that agencies had planned or had been working on. The Ministry of Education has confirmed that it used NZUP funding for the School Investment Package. That package included capital and maintenance works in schools.

4.47 The Ministry of Health confirmed that some health projects were identified from district heath board capital plans. Investment criteria might have been used in those processes, but this was not clear in the documentation that was provided to Ministers or that we were provided with.

4.48 When agencies briefed their Ministers on the range of projects that could be considered for inclusion, the information provided in these briefings varied. None of the briefings we saw set out any specific investment criteria that had been used to identify investment options.

4.49 Ministers told us that, in many instances, they were funding projects that had been talked about and planned for a long time. They said that they ran the decision-making process in the same manner as the Budget process.

4.50 However, in a Budget process, agencies are usually required to meet requirements that do not appear to have been tested here. *Budget 2020: Guide for agencies* required an appropriate Better Business Case to support all capital investment proposals.[16] If an initiative seeking significant capital investment did not have a business case, it would likely be assessed as "not investment ready" and deprioritised.[17]

4.51 We acknowledge that officials were under pressure to give advice to Ministers. They would have had little opportunity to do detailed analysis if it had not previously been carried out.

4.52 How well projects proposed for investment through the NZUP had been properly scoped, planned, and costed was variable. Some did not have well-advanced or completed business cases. This means that, in some instances, Ministers did not have adequate information to draw on. We discuss this further in Part 5.

16 *Budget 2020: Guide for agencies* referred to Cabinet Office Circular CO (15) 5, which sets out Cabinet's expectations for investment management. This is one of the documents we used to inform our audit expectations. See the Treasury (2015), *Cabinet Office Circular CO (15) 5: Investment management and asset performance in the state services*, at dpmc.govt.nz. The Treasury told us that it is now making changes to the business case, reporting, and assurance requirements in the Investment Management System to reflect the requirements of *Cabinet Office Circular CO (23) 9: Investment management and asset performance in departments and other entities*. This is an updated version of Cabinet Office Circular CO (19) 6, which applied at the time of the decision-making.

17 The Treasury (2019), *Budget 2020: Guide for agencies*, paragraph 6.41, at treasury.govt.nz.

4.53 We acknowledge that the process to identify what would be included in the NZUP was not the same as a contestable investment fund. The Government was not seeking applications for funding or prioritising between large numbers of projects, as it was for the SRP.

4.54 Even so, it is not clear to us how agencies were able to make informed judgements about which investments to propose or how Ministers determined what they would prioritise.

4.55 It would have been helpful to have investment criteria within each of the funding categories to provide some assurance to Ministers that proposed projects were achievable and would deliver the appropriate level of value for the very significant amounts of public money being spent.

4.56 Ministers made a trade-off between speed and a more rigorous process. Although we accept that there was some justification for speed, we do not consider that the right balance was found, given the scale and importance of these decisions.

The investment criteria and assessment process for the Shovel-Ready Programme evolved over time

4.57 Unlike the NZUP, the SRP was a contestable fund that was open to both public and private sector projects. Investment criteria were particularly important to assist applicants in determining whether they would be eligible for funding. The criteria also assured applicants that applications would be assessed consistently and fairly.

4.58 Crown Infrastructure Partners worked fast to set up a process to receive and assess project applications while New Zealand was in Level 4 lockdown. Investment criteria were clearly communicated in the letter that the chairperson of Crown Infrastructure Partners sent to relevant organisations.

4.59 These same criteria were set out in the SRP guidelines and project information form published on the Crown Infrastructure Partners website. Crown Infrastructure Partners also published the method it would follow to assess projects. These steps reflect good practices.

4.60 The assessment method was well documented. It included planning for regular meetings between Crown Infrastructure Partners' management and those reviewing applications to make sure that the process was followed consistently.

4.61 Projects were:

- filtered by location, type, and value to remove those that did not meet the criteria;
- organised into categories according to:
  - construction readiness;
  - overall benefits (economic/social/environmental benefits and regional/nationwide benefits); and
  - risks of the project not starting within the advised timescale, of it not being completed on time, to cost, or to specification, or of it not obtaining the overall benefits; and
- scored against each requirement (which were weighted) to develop an overall project rating.[18]

4.62 Crown Infrastructure Partners assessed 1926 projects against the criteria, with a combined value of $134 billion. It identified 802 eligible projects seeking $33 billion of financial assistance from the Government. All 802 projects were included in the Infrastructure Reference Group longlist presented to Ministers on 18 May 2020.

4.63 The longlist of projects involved funding that was more than 10 times the funding Cabinet had agreed to.

4.64 The Minister of Finance directed officials to identify a shortlist of projects with a focus on five “macro sectors”: housing and urban development, energy, community development, water and waste, and other central and local government projects.

4.65 Crown Infrastructure Partners developed a more detailed assessment framework to support the shortlisting process. That framework included the following four parts:

- Part A – Projects must be in a subsector that falls within the five “macro sectors”.
- Part B – The Crown Infrastructure Partners Working Group applied judgements on the general attributes of projects, such as speed to market, criticality of government assistance, and a high degree of visibility to the community to give the public confidence that renewed activity is under way.
- Part C – The Treasury applied judgements on wider contextual considerations, including value for money and alignment with the Government’s wider objectives.
- Part D – Ensuring an appropriate regional and sector spread.

18 A leverage adjustment to reflect the amount and form of financial assistance requested from the Government was also applied to each project.

4.66 Both Crown Infrastructure Partners and the Treasury prepared prioritised lists. They then worked together to reconcile the lists into one set of advice to Ministers. We saw documentation that indicated that scoring was used.

4.67 MBIE, the Ministry of Housing and Urban Development, the Treasury, the Ministry of Transport, and the Department of Internal Affairs were also consulted as part of evaluating the projects. We understand that this was to co-ordinate these projects with existing funding programmes, including other large infrastructure investments that the Government had made, such as the NZUP.

4.68 On 24 June 2020, the Cabinet Economic Development Committee (with power to act from Cabinet) considered a joint paper from the Ministers of Finance and Infrastructure that proposed a shortlist of 177 projects seeking $3.3 billion of financial support. This list was estimated to enable 26,000 jobs and projects worth $6.6 billion.[19]

4.69 The list sought to achieve a wide distribution of investment throughout the regions of New Zealand, including a focus on those regions most economically affected by the Covid-19 pandemic, such as the Bay of Plenty, the West Coast, and Otago.

4.70 The Cabinet Economic Development Committee authorised the Infrastructure Reference Group Ministers to make final decisions about which projects from the shortlist would be funded using criteria that were similar to, but not the same as, the original criteria used in the Infrastructure Reference Group process (see paragraph 3.27 and Figure 1). The new criteria were:

- the number of jobs created;
- regional impact and distribution;
- project achievability and readiness;
- net public benefit; and
- alignment with wider government objectives.

4.71 A joint press release issued by the Ministers of Finance and Infrastructure on 1 July 2020 announced that Cabinet had made initial decisions about the sectors that it would like to support and the general regional distribution of funds.

4.72 The press release also stated that more than 150 projects worth $2.6 billion had been approved in principle and that officials were carrying out final due diligence to ensure that the projects were viable and that they offered the benefits that applicants stated.

19 Many projects that sought financial assistance from the Government through the SRP already had some project funding.

4.73 A few weeks later, on 20 July 2020, Cabinet:

- agreed that the Infrastructure Reference Group Ministers could choose to progress projects from outside the 24 June shortlist;
- invited the Infrastructure Reference Group Ministers to report back if the projects from outside the shortlist they chose to progress exceeded 25 projects or $500 million in government funding; and
- agreed that, before any delivery agency distributed funding to enable a project, the delivery agency would seek final project approval from the Infrastructure Reference Group Ministers and provide appropriate assurances that the project could achieve the intended benefits and enable jobs, that it could be delivered within scope and expediently, that the government funding would be appropriate to enable the project, and that it represented value for money to the Crown.[20]

4.74 At the request of the Minister of Finance, Crown Infrastructure Partners co-ordinated this next stage of the process. Kānoa, MBIE's Regional Economic Development and Investment Unit, took responsibility for assessing proposals of less than $20 million where it was best placed to do so, including those proposals more suitable for funding from the Provincial Growth Fund. We discuss the due diligence process further in Part 5.

It is not clear how consistently criteria were applied to reach final decisions

4.75 The Infrastructure Reference Group Ministers were sent a series of briefings that sought agreement to funding for projects (see Figure 2).

4.76 A total of 19 briefings have been provided to date. MBIE told us that it also provided individual project briefings to Ministers as needed.

4.77 By 30 July 2021, funding for 215 projects had been approved.

4.78 Many projects were added or changed during the process of delivering the initial longlist to Ministers, presenting the shortlist of 177 projects to Cabinet, and the final approval of sets of projects by the Infrastructure Reference Group Ministers.

4.79 Crown Infrastructure Partners told us that it was not part of the process that involved selecting projects from outside of the Infrastructure Reference Group process. It told us that it was advised of these decisions after Ministers had made them.

20 Cabinet also agreed that for small low-risk projects the Infrastructure Reference Group Ministers could lower the requirements for due diligence and assurances, if appropriate.

4.80 The information available to us indicates that projects to the value of about $260 million were introduced from outside of the Infrastructure Reference Group process. The criteria and processes used to identify those projects is not clear.

4.81 Some of the projects ultimately selected for funding had not received the highest ratings against criteria, and we were told that some prioritised projects did not appear to be "shovel ready".

4.82 In our view, the lack of documentation explaining why these projects were prioritised exposes the process to potential criticism of a lack of transparency and fairness.

It is not clear how well risks were assessed or managed

4.83 With both programmes, we expected to see risk considered at the following levels:

- Risks to the decision-making process – Given how quickly these processes were set up and progressed, we expected officials to clearly identify the risks that decisions made at speed might present (for example, to the quality of information available for decision-makers, which we discuss in Part 5).
- Risks to the investment objectives – Given the scale of infrastructure investment, we expected to see some consideration of supply chain risks and sector capacity or workforce constraints.
- Project-level risks – We expected to see consideration of risks to achievability, costs, and benefits and whether other requirements needed to be met (for example, to comply with the Resource Management Act 1991).

4.84 We also expected to see processes set up to manage integrity risks (for example, processes to identify and manage conflicts of interests).

4.85 Good decision-making is underpinned by "free and frank" advice from officials. Free and frank advice is designed to help Ministers to achieve their objectives and to inform them of the benefits, risks, and uncertainties inherent in their decisions.

4.86 Ministers have a duty to give fair consideration and due weight to the advice from officials. However, it is not unusual, or inappropriate, for Ministers not to follow that advice.

4.87 In our view, given that these decisions involved significant amounts of public money, the decision-making rationale should have been clearly recorded so that those decisions could be scrutinised and the public could have confidence in the integrity of the decisions made. This is especially important when decisions are contrary to advice provided by officials.

4.88 The Cabinet Manual requires Ministers to create full and accurate records of their Ministerial affairs, in accordance with normal prudent business practice. This is important to ensure appropriate Ministerial accountability and to ensure that decisions can be defended if they are challenged.

4.89 Officials identified risks and uncertainties with both investment programmes and informed Ministers of them. In particular:

- the risks associated with making quick decisions outside of the Budget process featured in the Treasury's advice to Ministers;
- advice to Ministers from Te Waihanga identified supply chain risks; and
- project-level risks featured in the briefings from officials seeking Ministers' agreement to release funding for SRP projects.

4.90 However, it is unclear how Ministers assessed, managed, mitigated, or considered risks in their final decisions.

Risks were highlighted at several points during the development of the New Zealand Upgrade Programme

4.91 The Treasury advised that there were risks to value for money if decisions about the capital package were made outside the rigour of the annual Budget process. Ministers chose to proceed before the Budget process.

4.92 In December 2019, the Ministry of Transport and the Treasury informed Ministers that 11 of 27 transport projects that were being considered for the NZUP either did not have a business case or had significant necessary work outstanding.

4.93 They also advised Ministers that "there is a real risk of cost overruns, both at a project and package level, as well as delays to projects". Sector capacity was limited, and many projects were in the early stages.

4.94 Despite this, Ministers chose to go ahead. Announcements about these projects were made on 29 January 2020.

4.95 In January 2020, the Ministry of Health and the Treasury jointly advised Ministers that many of the proposed health projects under consideration for the NZUP were not ready to be announced. Treasury officials said that, "due to the time and information available", they had "low confidence" that the proposed projects for investment would be able to be implemented quickly in line with Ministers' objectives.

4.96 About one week after the advice was provided, the Minister of Health and Associate Minister of Health publicly announced several health projects. Six of these (worth a total of $62.4 million) were projects that officials had advised were not ready to announce.

4.97 By February 2022, seven of eight of the mental health projects (worth a total of $101.9 million) that were approved as part of NZUP still had no estimated "go live" dates, and business cases for at least three of those projects were not expected to be approved until mid-2022. The Ministry of Health has subsequently told us that, as at October 2023, one mental health project (Whakatane) still does not have a business case approved.

4.98 Ministers told us that they expected that, where projects had funding approved but an adequate business case was not available, this would be remedied before funding could be drawn down. None of the public announcements we saw referred to these decisions being made subject to business cases being developed further.

4.99 In our view, although it is positive that Ministers recognised the need for more analysis before funding was drawn down, the decision to push forward with announcements likely created other risks.

4.100 Preparing a robust business case can identify changes to a project's scope, costs, benefits, risks, and timing. It is not clear whether or how Budget Ministers proposed to confirm that these projects were still high enough priority to justify investment when compared to other potential investments.

4.101 In our view, announcing projects that might then be significantly delayed or might not proceed risked undermining two key objectives of the NZUP: "to build clarity around the government's future capital pipeline" and provide economic stimulus.

Other risks to the integrity of decisions do not appear to have been specifically considered in the New Zealand Upgrade Programme

4.102 We expect that, at a minimum, agencies have organisational policies for routinely identifying and managing conflicts of interest.

4.103 We sought information from specific agencies about how they managed conflicts of interest in these processes. KiwiRail and Waka Kotahi confirmed that they had policies and processes. The Ministry of Education also said that the education component of the NZUP was subject to the Ministry of Education's established conflict of interest processes. The Ministry of Health indicated that district health boards would have had to manage conflicts of interest as part of project delivery.

4.104 As we discussed in paragraph 4.28, some NZUP projects had previously been considered as part of other investment processes. We expect the management of conflicts of interest to have been considered as part of those processes.

4.105 We did not examine the conflict of interest policies or processes of each agency involved or of other investment processes that projects might have been involved in before receiving funding from the NZUP. Therefore, we are not able to form a view about the quality of those processes or how much these were followed for the NZUP.

4.106 Cabinet guidelines at the time set out how Ministers should manage conflict of interests:

> *Ministers themselves are responsible for proactively identifying and reviewing possible conflicts of interest and ensuring that any conflicts of interest are addressed promptly.*

4.107 The guidelines establish that "[m]ost conflicts can be managed" using one or a combination of:

- a declaration of the interest;
- not receiving papers;
- transferring responsibility to another Minister; and
- transferring responsibility to the agency.

4.108 We did not seek information from the Cabinet Office or the Prime Minister about conflict of interest disclosures that Ministers might have made. We have no evidence to indicate that the processes described in paragraph 4.107 were not followed.

4.109 However, we did not see any reference to conflicts of interest in any of the documentation we were provided with. Further, when making significant funding decisions like these, it would be prudent for both officials and Ministers to make proactive declarations about actual and potential conflicts, even when none have been identified, and to record them in the documentation relating to investment decisions.

4.110 This would assist in making sure deliberate and appropriate consideration is given to these matters and would support the robustness and integrity of the decision-making process.

4.111 In June 2023, the Prime Minister announced several changes to the way that Ministerial conflicts of interest are managed, including that conflict disclosures will become a standing item at the start of each Cabinet or Cabinet Committee meeting. We support this.

4.112 We encourage the Government to consider the findings in this report as well as other work we have carried out about managing conflicts of interest.[21] We suggest that it consider whether further steps might be appropriate and whether any new requirements should be incorporated into the Cabinet Manual.

21 For example, *Getting it right: Supporting integrity in emergency procurement*, at oag.parliament.nz.

More attention was given to identifying risks to the Shovel-Ready Programme, particularly during the Infrastructure Reference Group process

4.113 On 17 March 2020, when Te Waihanga was asked for advice about potential responses to a decline in economic activity and, in particular, a slow-down in the construction sector, it warned of several constraints associated with infrastructure investments. These were:

- long lead-in times for complex projects, including design, consenting, approval, and procurement activities;
- the constrained nature of the domestic construction workforce and difficulty in training and upskilling large numbers of workers quickly;
- already apparent supply chain bottlenecks for internationally sourced materials (because of factory or port closures); and
- the future effect of Covid-19 on workforce availability, either directly or through mandated site closures.

4.114 Te Waihanga also warned that accelerated projects could lead to increased costs and related inefficiencies.

4.115 Crown Infrastructure Partners and the Infrastructure Reference Group also highlighted risks to Ministers. The Infrastructure Reference Group report provided to Ministers on 18 May set out the longlist of projects and included several pages of information on key risks for the Government to be aware of.

4.116 In our view, the risk information in the Infrastructure Reference Group report was comprehensive and of reasonable quality. Consideration was given to risks to central and local government, risks to the industry, risks arising from early announcements of government support, and the risk that the rating criteria and selection process could be criticised.

4.117 Specific risks identified included project cost increases and delays caused by reduced competition, skills shortage, productivity loss, price inflation, and contractor/supplier insolvencies. Mitigation options were provided for each identified risk.

4.118 Crown Infrastructure Partners told us that:

> *...the largest risk identified was cost overruns. The Grant Funding Agreements clearly set out that cost overruns were the responsibility of the project owner* ... [Regarding] *schedule: the funding agreements clearly set out all milestones and required the project owner to report against these milestones. If they were missed, Crown Infrastructure Partners had the right to suspend payment until this was remedied.*

4.119 To inform their final decisions, the Infrastructure Reference Group Ministers continued to receive advice about risks to individual projects in the later stages of the process. We discuss the quality of information to support decision-making further in Part 5.

Crown Infrastructure Partners took reasonable steps to manage conflicts of interest in its assessment

4.120 Crown Infrastructure Partners recognised the importance of having clear processes for conflicts of interest. Processes for the Infrastructure Reference Group's review team were well documented. The firms assessing project applications were also expected to identify conflicts of interest. Conflicts were expected to be recorded in a register.

4.121 Where conflicts were identified, this was expected to be managed by reallocating projects to a different team member or firm. We saw evidence that some project assessments were reallocated in response to declared conflicts.

4.122 SRP project applicants were asked about previous funding applications and any interactions that they had previously had with ministries and officials. As with the NZUP, Ministers were expected to follow Cabinet guidelines about conflicts of interest.

4.123 Concerns about a potential conflict of interest for a project that was considered as part of the SRP were raised with us in October 2022. We carried out an inquiry, and we published our response in May 2023.[22] We found that, although an actual conflict had not eventuated, a potential conflict had not been identified when investment decisions were being considered.

4.124 In our view, given the speed and volume of decisions Ministers were being asked to make, more thought could have been given to whether managing conflicts according to usual Cabinet Office guidance would be enough. As we discussed in paragraph 4.112, we encourage the Government to consider whether it could take additional steps to strengthen the management of Ministerial conflicts of interest more generally.

Key agencies were not sufficiently involved in the establishment of these processes

4.125 The Cabinet Manual sets an expectation that an initiating department or agency with policy responsibility and the portfolio Minister for significant proposals must ensure that all agencies affected by the proposal are consulted at the earliest possible stage. Consultation with agencies that have an advisory role is sometimes needed.

22 See "Letter in response to concerns about funding for the Port Nelson Slipway project" at oag.parliament.nz.

4.126 Therefore, we expected to see relevant agencies integrally involved in preparing these investment programmes, providing advice to Ministers on the design of the process, providing advice on the relative merits and effects of different proposals, and facilitating communications and engagement with key stakeholders.

4.127 In our view, the design of, and decisions made about, both programmes could have been improved if relevant agencies were given greater opportunity to work together to provide the right advice at the outset.

Agencies had limited involvement in developing the New Zealand Upgrade Programme

4.128 The Treasury had a central role in the early stages of determining that there would be a capital spending package that would ultimately become the NZUP. It provided initial advice on the case for, and amount of, a capital spending package and gave some initial advice on how the process for considering investments should be run.

4.129 Te Waihanga was set up in September 2019. Its statutory functions include advising the government on current and future infrastructure needs and priorities.

4.130 Te Waihanga told us that it first became aware of the NZUP from media announcements, although it had provided some advice to the Treasury about specific infrastructure projects in late 2019. At that stage, Te Waihanga was not aware that a wider programme of work or spending was being prepared.

4.131 We acknowledge that Te Waihanga had only just been set up when Ministers were considering the capital package. However, given that the NZUP was described as a "once-in-a-lifetime" investment in infrastructure, we expected Te Waihanga to have been involved more.

4.132 Most of the NZUP funding was allocated to transport projects. Waka Kotahi and KiwiRail had proposed possible projects directly to Ministers. The Ministry of Transport was not given an opportunity to advise on the approach to selecting projects. The Ministry of Transport told us that by the time it was asked for advice Ministers had already largely agreed to a list of projects costing an estimated $6.7 billion.

4.133 When the Ministry of Transport and the Treasury did brief the Ministers of Finance and Transport, officials felt that proposals would result "in a significant change to project scope, timing, costs and funding sources" for projects that were already part of the Auckland Transport Alignment Project.

4.134 Auckland Transport also told us it learned about the NZUP through the media.[23] It had not been formally advised of Cabinet's decisions. It had no knowledge of how the decisions to select projects were made, and it was not asked for business cases or information about the projects or what the impact might be if they were included in the NZUP.

4.135 Auckland Transport told us that it would have recommended prioritising different projects because, in its view, some that were selected were too complex to be progressed quickly or were of a low priority.

4.136 We were also told that subsequent changes to the Regional Land Transport Plan were needed and that this meant additional public consultation had to be carried out about the use of the regional fuel tax.

4.137 Ministers told us that they considered that local authorities had already been involved in identifying projects through regional transport plans that feed into the National Land Transport Programme.

4.138 Information about the process was limited to a small number of officials. Ministers told us that confidentiality was critical to ensure that financial information could be published in Budget documents – and Budget information is sensitive. However, we note that the Government made several pre-Budget announcements about the NZUP in January and February 2020 (see paragraphs 2.21-2.22).

In contrast, the Shovel-Ready Programme was a more open process

4.139 For the SRP, the decision to set up a fund and design an approach to allocating it happened even more quickly. Despite the country being in lockdown, a process was set up in little more than a few weeks.

4.140 The Treasury was not involved in developing the initial concept. Te Waihanga was asked for advice and provided an initial briefing to the Minister for Infrastructure on 17 March 2020. This advised that an infrastructure response should focus on less complex capital initiatives with a short lead time (such as maintenance acceleration for existing assets and road resurfacing) that could be brought to market relatively quickly.

4.141 The briefing noted that "large scale infrastructure projects are not effective mechanisms for economic stimulus due to the time needed for planning, design and procurement".

23 Auckland Transport is a council-controlled organisation of Auckland Council. It is responsible for designing, building, and maintaining Auckland's roads, ferry wharves, cycleways, and walkways; co-ordinating road safety and community transport initiatives; and planning and funding bus, train, and ferry services throughout Auckland.

4.142 Te Waihanga also suggested forming a Construction Intervention Taskforce throughout the government to support the preparation of an infrastructure-led stimulus package. It said that was because "no single Government agency may have the combination of resources and skills to deliver on the scale of response required to deliver confidence and certainty to the market at this time".

4.143 The Minister for Infrastructure did not act on this advice from Te Waihanga. Instead, Ministers asked the chairperson of Crown Infrastructure Partners to set up and run an investment process.

4.144 However, one recommendation from Te Waihanga was reflected in the assessment criteria – that the programme should favour pre-approved, pre-assessed, and "shovel-ready" projects.

4.145 Our discussions with some stakeholders indicated that this presented challenges, particularly for local government. They felt that central government did not understand how existing funding arrangements and consultation requirements for the long-term planning process work,[24] specifically that projects of a certain size and outside of existing long-term plans would typically trigger community consultation requirements.[25]

24 We were also told that this is not an isolated issue and were referred to other similar funds (for example, the Strategic Tourism Assets Protection Programme).

25 See sections 82-97 of the Local Government Act 2002 for the consultation requirements.

5 Quality of information and due diligence

5.1 In this Part, we discuss the importance of good-quality information to inform investment decisions. We discuss how:

- information to support the NZUP was limited; and
- there was better information to support the SRP.

5.2 The Investment Management System aims to optimise value from new and existing investments and assets for current and future generations of New Zealanders. To achieve this, it is expected that agencies prepare all significant investment proposals in keeping with published guidance from the Treasury about business cases (the Better Business Case model).

5.3 Even for smaller scale or lower-risk projects, agencies will generally need to prepare at least a single-stage business case that encompasses all five aspects of the Better Business Case model.[26] Significant capital expenditure usually requires a two-stage approval process and both an indicative and detailed business case.

5.4 We accept that there will be trade-offs to these processes in circumstances where decisions need to be made quickly. In our view, it is important that those trade-offs are proportionate to the scale of the investment and the risks involved.

5.5 We expected that:

- decision-makers would have been given adequate information about proposed projects to make good investment decisions; and
- due diligence would have been carried out to a level that was reasonable and proportionate to the level of funding being allocated.

Summary of findings

5.6 For both programmes, it appears that Ministers relied on an assumption that most projects would be "investment ready" or "shovel ready". This means that business cases would have already been prepared and projects could be announced and started quickly.

5.7 We were told that for NZUP this was not the case. Where there were business cases, they were at varying stages of development and quality.

5.8 Consequently, the information that was available to Ministers to make investment decisions was limited.

26 The Better Business Case model includes consideration of five cases:
- Strategic Case – What is the compelling case for change? What are the benefits?
- Economic Case – What are the options? What is the best option for New Zealand?
- Commercial Case – Is the proposed procurement commercially viable? Can the market deliver?
- Financial Case – Is the investment proposal affordable? How will we fund it?
- Management Case – How will the project organise for successful delivery?

5.9 This was particularly so for NZUP investments. Ministers relied on many transport projects already being part of the National Land Transport Programme, which meant that they had already been prioritised but not yet funded.

5.10 In our view, the lack of good-quality information meant that the risks to delivery and value for money might not have been well understood when funding decisions were made.

5.11 This has already had consequences. In mid-2020, an officials' Oversight Group was set up to provide programme-level assurance and regular reporting to joint Ministers on the progress of transport projects within the NZUP. The Oversight Group identified significant risk and uncertain delivery.

5.12 This led to Cabinet approving additional Crown funding of $1.9 billion to fund agreed projects at their new cost estimates and provide contingency for transport projects within the NZUP.

5.13 Similarly, the speed of the process carried out to select projects for the SRP meant that much of the initial project information that applicants provided had to be taken at face value.

5.14 However, Crown Infrastructure Partners worked hard to test applications as best it could. It drew on advice from a range of government agencies as well as engineers and other experts from the private sector.

5.15 Engineers were asked for advice on project achievability, costs, and benefits. They were also asked for advice on regional capacity to support the work.

5.16 Even so, Crown Infrastructure Partners was not able to carry out formal value-for-money assessments of the projects given the available time frames. Instead, it weighed up the level of employment that was likely to be generated, any co-funding or other contributions by the project owner, and the likely public benefit of the programmes.

5.17 Delivery agencies were also involved in due diligence processes carried out as part of the SRP. Once Ministers had decided to support a project, delivery agencies collected additional due diligence information and carried out further analysis.

5.18 Crown Infrastructure Partners collated the information from delivery agencies and provided it to Ministers to seek their agreement to release funding. This additional process was an important risk management step. Delivery agencies could not spend any of their appropriated funds until Ministers had received advice and agreed to funding being drawn down.

Information to support New Zealand Upgrade Programme investment decisions was limited

5.19 To identify projects for inclusion in the NZUP, agencies were given high-level direction and were expected to quickly provide Ministers with lists of projects that could be announced.

5.20 The nature and intent of the NZUP suggests that the projects that agencies proposed needed to be "investment ready". This usually means that a business case has been prepared and appropriate due diligence completed. This ensures that, if selected, the project could be announced and started quickly. As we discussed in Part 4, this was not the case for some projects.

5.21 Agencies told us that they generally do not have unfunded projects that have reached the stage where an appropriate business case has been prepared.

5.22 For example, the Ministry of Health told us that it does not have investment-ready capital projects waiting to be approved and funded. It told us that this is largely because of the complexity and expense associated with planning health infrastructure investments.

5.23 Some agencies were better positioned to provide lists of potential projects within the required time frames. Waka Kotahi and KiwiRail were better positioned because existing planning and funding processes had already identified a pipeline of future high-value projects.

5.24 Waka Kotahi and KiwiRail also had experience with receiving Crown funding from a range of sources outside normal budget processes and the National Land Transport Fund. However, the extent and currency of the business cases for proposed projects were variable. Waka Kotahi told us that some of the information it relied on was up to 10 years out of date.

5.25 As we discussed in paragraph 4.143, a limited number of officials were involved in the decision-making that led to setting up the NZUP. It is not clear whether agencies were able to adequately identify interdependencies or other considerations, such as regional impacts or impacts for Māori, Pasifika, or other communities.

5.26 The lack of good-quality information to support initial investment decisions has meant that some risks about the NZUP that officials raised are now being realised.

5.27 An Oversight Group was established in mid-2020 to strengthen risk management and provide greater assurance for transport investments. Te Waihanga was involved in the group, along with the Ministry of Transport, the Treasury, and three independent sector experts.[27]

5.28 Ministers told us that the Oversight Group's purpose was to provide programme-level assurance and regular reporting to joint Ministers about the transport components of the NZUP Programme.

5.29 At the Oversight Group's initial meeting in August 2020, it assessed that there was significant risk and uncertainty throughout the transport component of the NZUP.

5.30 In April 2021, the Treasury and the Ministry of Transport highlighted a range of issues with the original decision-making process for the NZUP. They noted that "overall, confidence in the baseline information is much lower than would be expected from the Crown's normal capital management process" and that the NZUP "should include more of the Crown's usual steps for management of risk".

5.31 The Treasury and the Ministry of Transport also advised that "there are no projects where there is clarity on all of benefits, scope, costs and schedule information". All but one of the projects were assessed as having medium or high levels of risk and uncertainty.

5.32 Significant cost increases and uncertainties were identified through a "re-baselining" exercise on the transport projects that had been announced. Ministers were advised that, of the 26 transport projects in the NZUP that had been announced, 21 projects could not be delivered within the funding amounts that had been allocated. They were also advised that the original programme could not be delivered with the $6.8 billion of funding.

5.33 Some projects were rescoped, and cost estimates for others were revised. On 31 May 2021, Cabinet agreed to provide additional Crown funding of $1.926 billion to take forward a revised package of transport investments that "balances the delivery of the majority of projects in line with their original scope and manages the fiscal cost for taxpayers".

5.34 Cabinet also authorised joint Ministers to make further investment decisions on rescoped versions of three projects in the transport programme subject to "more satisfactory information regarding scope, cost and schedule" and "the completion of a satisfactory Detailed Business Case".[28]

5.35 These projects were the Whangārei to Port Marsden Highway Project, Mill Road, and State Highway 1 Papakura to Drury South Stage 2 transport projects. These projects had a combined funding allocation of $1.566 billion.

27 The Oversight Group's external members collectively brought significant engineering, construction, and infrastructure experience to the group.

28 The joint Ministers were the Minister of Finance and the Minister of Transport.

5.36 Waka Kotahi advised that detailed business cases for the Whangārei to Port Marsden Highway and various South Auckland projects have subsequently been completed and submitted to Ministers.

5.37 Cabinet approved the disestablishment of the Oversight Group in September 2021. We were told that this was because of concerns that the Oversight Group arrangements were complicated, duplicative, and inadvertently slowing down progress.

Much better information was provided for Shovel-Ready Programme projects

5.38 Applicants to the SRP were asked to provide a range of information in a project information form. Appendix 2 summarises the application requirements set out in the form.

5.39 The speed of the SRP process meant that much of the initial project information that applicants provided had to be taken at face value. However, Crown Infrastructure Partners worked hard to test applications as best it could.

5.40 For example, although time constraints meant that Crown Infrastructure Partners did not engage formally with experts in Māori economic development or with iwi and hapū in the relevant regions where projects were being considered, it sought advice from the Director of Te Ao Māori Strategy and Performance at the Treasury. Similarly, it asked Kānoa to provide a "regional" view on investments.

5.41 These might have been reasonable steps to take given the time constraints, but they had limitations.

5.42 Although Crown Infrastructure Partners contracted engineers and other experts from the private sector to support the rapid assessment of projects, some expert reviewers were assigned multiple projects to assess within a matter of days. Expert reviewers and officials worked hard to meet very tight deadlines. Despite these efforts, the speed of the process meant that, at times, it lacked depth.

5.43 Crown Infrastructure Partners also commissioned advice on the regional effects of the Covid-19 pandemic and on the capacity that different sectors and regions had to deliver projects. It provided this advice to Ministers to help inform subsequent decision-making about how projects should be distributed throughout the country.

5.44 For example, advice from Crown Infrastructure Partners noted that the Otago region would suffer the sharpest reduction in regional gross domestic profit because of the pandemic, with Queenstown being heavily affected.

5.45 Crown Infrastructure Partners prepared specific advice about the effects of the Covid-19 pandemic on Queenstown before the Infrastructure Reference Group longlist was completed. The first specific announcement of projects to be funded from the SRP was an announcement of two infrastructure projects in the Queenstown district on 26 June 2020.

5.46 Cabinet agreed to a shortlist of projects in June 2020 and authorised the Infrastructure Reference Group Ministers to make final decisions about projects. In July, Cabinet agreed that the delivery agency would need to seek final project approval from the Infrastructure Reference Group Ministers before it distributed funding to a project.

5.47 Delivery agencies were also to provide “appropriate assurances that the project can achieve the intended benefits, enabled jobs, scope and expedient delivery, and that the government funding is appropriate to enable the project and represents value for money to the Crown”.[29]

5.48 The Treasury recommended this additional process, which was a key risk management step. Delivery agencies could not spend any of their appropriated funds without Ministers receiving advice and agreeing to draw down the funding. Advice from delivery agencies was developed and provided to Crown Infrastructure Partners, which co-ordinated briefings to Ministers.

5.49 Ministers were advised about the limitations of some of the due diligence work. For example, on value for money, approval briefings stated:

> [Crown Infrastructure Partners] *has not undertaken a formal value for money assessment of the projects given the available timeframes and the fact that the* [Infrastructure Reference Group] *is an economic stimulus programme.* [Crown Infrastructure Partners] *has assessed the amount of likely employment to be generated, any co-funding or other contributions by the project owner and the likely public benefit of the programme. These are key factors to be considered with respect to value for money, given the policy framework* [Infrastructure Reference Group] *was established under – with higher employment and/or public benefit projects representing the highest value for money under this approach. For private sector projects, where loans or equity are used, this improves overall value for money as the funds will likely at a future date be returned to the Crown.*

5.50 We saw evidence that some projects were discontinued. We were told in late November 2023 that five projects had been withdrawn after shortlisting and approval, and six projects were shortlisted but then not approved for funding. We understand that $8.35 million was spent on the withdrawn projects prior to their

29 Cabinet also agreed that for small low-risk projects the Infrastructure Reference Group Ministers could lower the requirements for due diligence and assurances, if appropriate.

withdrawal. However, Crown Infrastructure Partners told us that some of this funding has already been recovered, and more might yet be recovered.

5.51 Although the decisions to stop projects might have been sensible, they took place after the decisions to fund those projects had already been announced (albeit subject to some subsequent checks).

5.52 Stopping or descoping projects after investment decisions have been announced or when funds have already been spent is potentially a waste of public resources. Making decisions to stop or reduce a project's scope is also more difficult to do when public expectations have already been set by announcing investment in a project.

6

Transparency and accountability

6.1 In this Part, we discuss the importance of transparency and accountability to build public confidence in the quality of investment decisions. We discuss how:

- decisions were not always well documented; and
- improved reporting on progress and performance is needed.

6.2 The Cabinet Manual requires that Ministers create full and accurate records of their Ministerial affairs in accordance with normal prudent business practice.[30] In our view, good record-keeping of the reasons for decisions and the processes that were followed is especially important when extraordinary steps need to be taken, quick action is needed, or the action is contrary to official advice provided to decision-makers.

6.3 For the SRP, the Government was making choices about funding projects from both public organisations and private organisations. This increases the risks that decisions could be challenged. In this context, it is important that there are clear records of how decisions were made so those decisions can be defended.

6.4 Clear and publicly available information about the progress of projects is also essential for Parliament and the public to be able to hold the government to account for getting the best value from those investments.

6.5 At the time of the decision-making discussed in this report, the Investment Management System required agencies to report back to Cabinet on the benefits achieved from any Cabinet-approved investment. It also required that agencies provide information to the Treasury at agreed intervals.

6.6 The Treasury was required to periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration.

6.7 We appreciate that the decision-making processes that are the focus of this report were developed quickly in the extraordinary circumstances of a pandemic. Nevertheless, given the scale of the investments, we expected that:

- full and accurate records of decision-making processes would be maintained to ensure transparency about how and why those decisions were made; and
- the approach to monitoring, reporting, and evaluation would be proportionate to the scale of investment, and considered during the decision-making process.

Summary of findings

6.8 In our view, Ministers were not provided with enough information to be confident that the projects selected for the NZUP would meet the overall investment objectives or provide value for money. We did not see evidence that value for money was substantively considered when these funding decisions were made.

30 See Department of the Prime Minister and Cabinet (2023), *Cabinet Manual 2023*, paragraph 8.108, at dpmc.govt.nz.

6.9 Although much of the process for the SRP was clearer, there were still gaps. After the Infrastructure Reference Group longlist was given to Ministers, project shortlists were developed and frequently amended. From the documentation we were provided with, it is difficult to trace each of these amendments to determine the basis for those decisions.

6.10 In our view, this is not acceptable for the scale of funding that was distributed through these two programmes, regardless of the circumstances the decisions were made in.

6.11 For the NZUP, some information on the progress of the funded transport projects has been publicly reported. However, there does not appear to be a complete list of projects.

6.12 Even where information is available, it is sometimes difficult to reconcile that information with the Government's original announcements. It is also not clear to us how the government intends to determine whether the overall objectives of the programme have been met or how effective they have been in improving the overall state of New Zealand's infrastructure.

6.13 Crown Infrastructure Partners co-ordinates the SRP reporting, bringing together a significant amount of information from a range of delivery agencies. The reporting has improved over time and, in our view, largely meets the reporting expectations that Ministers set.

Decisions were not well documented

6.14 Despite the lack of a clearly documented process, we were able to piece together the events that led to the decisions about the NZUP. However, there is no complete record of how or why Ministers determined the allocation of funding into sector categories or how agencies prioritised the investment options that they presented to Ministers.

6.15 In our view, Ministers were not provided with enough information to be confident that the projects selected for the NZUP would meet their overall investment objectives or provide value for money. We did not see evidence that value for money was substantively considered when these funding decisions were made.

6.16 Ministers told us that they treated decisions about the final details of the funding package as a "Budget-like process" and that discussions at Cabinet meetings are confidential. We accept that this is the case while deliberations are in progress. However, in our view, once decisions are made and announced, Ministers must be prepared to explain their rationale and justify those decisions to the public.

6.17 To ensure transparency, the method for deciding the amount of funding awarded and the reasons for awarding or not awarding the funding should be clearly explained and well documented.

6.18 Although much of the process for the SRP was clearer, there were still gaps. From the documentation we were provided with, it is difficult to determine the basis for some decisions that were made after the Infrastructure Reference Group longlist was given to Ministers and projects were added to, and removed from, the initial approved list.

6.19 A full record of why Ministers approved certain projects, or how specific investment criteria for each project were met, is not available for either programme. In our view, this is not acceptable for the scale of funding that was distributed through these two programmes, regardless of the circumstances that decisions were made in.

Improved reporting on progress and performance is needed

6.20 We expected that a proportionate approach to monitoring, reporting, and evaluation would be considered during the decision-making process and established early. As we have commented on previous occasions, it is too often left for Parliament and the public to try to piece together information to determine what has been spent and what has been achieved with that spending.

6.21 Although some information on the progress of the funded transport NZUP projects was publicly reported, we could not identify a complete list of projects that is publicly available.

6.22 In our view, when investments are packaged together as a programme or portfolio designed to meet specific objectives, the whole programme or portfolio needs to be monitored and reported against. This supports transparency and accountability to the public for the progress and outcomes of the investments.

6.23 Agencies hold information about their sectors in different forms, and some publish this information on their websites. For example, the Ministry of Education published a list of schools and the funding they received from the NZUP. Waka Kotahi reports publicly about a range of transport initiatives, and the Energy Efficiency and Conservation Authority publishes a list of all projects that have been funded through the State Sector Decarbonisation Fund.

6.24 We were not able to find any publicly available information about the package of initiatives for the health sector funded through the NZUP. The Ministry of Health was able to provide us with some internal reporting that indicates that further investments were made on top of those announced in January 2020. We were not able to find a record of those investments being publicly announced.

6.25 We were not able to find any publicly available reporting or list of projects that were funded from the regional economic development allocation of the NZUP, aside from the announcements made in early 2020.

6.26 Additionally, it is sometimes difficult to reconcile publicly available information with the original announcements made by the Government. As projects have progressed, they have sometimes changed in scope or have been packaged in different ways.

6.27 For example, about half of all the health projects were announced in January 2020. That announcement indicated that a further set of announcements would be made. We have not been able to find out whether these projects were ever publicly announced.

6.28 The Ministry of Health confirmed that, after the initial announcement, ad hoc public announcements occurred for some investments when business cases were approved or at other key delivery points. The Ministry also told us that Ministers received regular reporting on the projects' performance. However, there is no public reporting on the health package.

6.29 We have highlighted similar issues previously. In our 2020 report *Managing the Provincial Growth Fund*, we recommended that MBIE, 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.[31]

6.30 We have seen some improvements. For example, the Treasury has put in place ways to track expenditure and initiatives funded through the Covid-19 Response and Recovery Fund and after the recent severe weather events in the North Island.

6.31 We note that, in late 2021, the Implementation Unit, which is part of the Department of the Prime Minister and Cabinet, carried out reviews of the progress of the transport projects within the NZUP (referred to as a New Zealand Upgrade Programme Transport Assessment) and projects within the SRP (referred to as an Infrastructure Reference Group Programme Status Update). The Department of the Prime Minister and Cabinet has since reported on these reviews publicly.[32]

6.32 The Implementation Unit's work also considered opportunities to strengthen programme reporting for transport projects in the NZUP. It noted that agencies had agreed to provide additional information in their reports about "impact and materiality of issues and risk at a project level and cumulatively across the Programme". Although the Implementation Unit's work is not regular reporting, it

31 Controller and Auditor-General (2020), *Managing the Provincial Growth Fund*, at oag.parliament.nz.

32 Department of the Prime Minister and Cabinet (2022), *Proactive release: Progress report on Implementation Unit assignments*, at dpmc.govt.nz.

is encouraging that steps are being taken to strengthen programme monitoring and oversight.

6.33 Nonetheless, it is not clear to us how the government intends to determine whether the overall objectives of the NZUP have been met or how effective these investments have been in improving the overall state of New Zealand's infrastructure.

6.34 Under Cabinet Office Circular (19) 6, the Treasury was required to periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration.[33]

6.35 Those reports were required to cover:

- the status of current significant investment intentions;
- an evaluation of actual benefits achieved compared with those expected from investments; and
- the lessons learned from investment management practice.

6.36 Our understanding is that, when we published this report, the Treasury had provided its most recent report to the Minister of Finance on 5 September 2023.

6.37 Cabinet Office Circular (19) 6 was recently updated and replaced with Cabinet Office Circular (23) 9. The requirements set out above are no longer included. The replacement circular acknowledges the need for "high quality information about investments across the investment lifecycle". The circular also requires agencies to "report to the Treasury regularly on their investments across the investment lifecycle as required from time to time by the Treasury".

6.38 The Treasury told us that it provides quarterly reports on medium- and high-risk investments to the Minister of Finance. The Treasury also indicated that, from November 2023, these reports will be made available to Cabinet and subsequently published on the Treasury's website.

6.39 The Treasury told us that, on balance, it sees limited value in setting up bespoke reporting on the NZUP as reporting on those projects should be reflected in the quarterly reporting described above and that the Treasury is reviewing the extent to which the NZUP is reflected in this reporting to ensure visibility of the programme. In our view, given the scale and importance of the programme, it is essential that Parliament and the public can access information that allows them to understand the progress and performance of the programme as a whole.

33 Department of the Prime Minister and Cabinet (2019), *Cabinet Office Circular CO (19) 6: Investment management and asset performance in the state services*, at dpmc.govt.nz.

6.40 Although this is a positive development, we consider that, when governments announce significant investments as a programme, reporting on those investments should also be made available at the whole-of programme level. This is important to ensure accountability for delivering outcomes from spending public money, and it is a concern that we have raised on many occasions.

6.41 We strongly encourage the Government to continue to closely monitor the implementation and benefits of projects in the NZUP and publicly report on progress.

Recommendation 1

We recommend that the Treasury establish regular public reporting on the progress of the full New Zealand Upgrade Programme and periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration.

6.42 For the SRP, Cabinet set expectations in June 2020 that monitoring and reporting arrangements would be put in place. Crown Infrastructure Partners was allocated the task of co-ordinating and producing fortnightly and monthly reports to Ministers.

6.43 The Treasury and Crown Infrastructure Partners worked together to set up monitoring and reporting quite early in the process and have improved this over time. Crown Infrastructure Partners told us that it also used the recommendations we made about the Provincial Growth Fund to inform what was in the briefings.

6.44 Crown Infrastructure Partners brings together a significant amount of information from a range of agencies to produce the SRP reporting. The Treasury comments on the SRP reports. It helps identify data errors, ensures better visibility of the contingency funding's status, and reinforces the importance of ensuring accurate baseline data (in line with previous recommendations we made about the Provincial Growth Fund).

6.45 Once SRP projects had been announced, Crown Infrastructure Partners included them in a regularly updated list on its website. These lists of government-announced projects included the project name, owner, sector, region, total value, and funded amount.

6.46 These lists remained the primary source of public information on the individual SRP projects, other than press releases from Minister's offices, until the first regular Infrastructure Reference Group Quarterly Update Report was published in May 2021. We have reproduced summary information from the most recent of these quarterly reports in Appendix 3.

6.47 SRP reporting has improved over time and, in our view, largely meets the reporting expectations Ministers set. These expectations were that:

- Crown Infrastructure Partners would co-ordinate and provide fortnightly progress reports to the Infrastructure Reference Group Ministers and the Treasury, with information on how the suite of infrastructure investments was performing as a whole;
- during the contracting phase, each delivery agency would provide fortnightly data to Crown Infrastructure Partners for every project approved by the Infrastructure Reference Group Ministers; and
- once contracting was complete, reporting would be monthly.

6.48 The SRP reports could provide better information about changes in the number of full-time equivalent jobs supported by individual projects over time.

6.49 It is important that the Government be transparent with Parliament and the public about what it plans to achieve and how it is performing against those plans, including when there are changes to those plans.

6.50 Crown Infrastructure Partners told us that, beginning with its September 2023 quarterly report, it would include the following additional information for completed projects in the reports:

- full-time equivalent jobs supported against the target (the original target recorded in Ministerial reports) for completed projects; and
- changes to scope or benefits (although Crown Infrastructure Partners told us that these have been minimal).

6.51 In our view, portfolio-level reporting is an important aspect of supporting public accountability for investment decisions and programme delivery. Effective accountability means that New Zealanders can see what governments are seeking to achieve, what is being spent, and what progress is being made.

7 Guidance on expedited decision-making

7.1 In this Part, we discuss:

- the Treasury's guidance on expedited decision-making; and
- our observations about that guidance.

7.2 When significant investment decisions need to be made quickly, it is important to have a clear and well thought-through process for making those decisions. The quality of information to inform these processes must be balanced against the need to act quickly.

7.3 Treasury officials told us that the Investment Management System provides enough flexibility to support rapid decision-making processes if there has been good business planning.

7.4 We are encouraged that the Treasury published guidance on its website about expediting investment decisions in November 2021.[34] The guidance recognises that there are situations where investment decisions need to be made rapidly for reasons outside of a public organisation's control.

7.5 This guidance was not available to Ministers or agencies when the initial investment decisions about the NZUP and the SRP were made, but we have considered it as we prepared this report.

The Treasury's guidance on expedited decision-making

7.6 The Treasury's guidance recognises the specific risks associated with using an expedited investment approach that need to be identified and managed. These risks include:

- "optimism bias about cost, time and benefits (due to a lack of detailed understanding)";
- "missed opportunities to integrate with other initiatives (due to an urgency-induced narrowing of focus)"; and
- "unforeseen 'downstream' effects leading to additional costs and erosion of benefits".

7.7 The Treasury's guidance also identifies some principles for using an expedited approach that align with many of our own expectations. These principles include:

- consulting early with stakeholders and government partners;
- ensuring that the preferred option is fully justified; and
- providing transparent advice about the risks involved in, and potential implications of, making fast decisions to Cabinet, explaining how much (or little) these risks can be mitigated and how agencies intend to do so.

34 See "Expediting investment decisions" at www.treasury.govt.nz.

7.8 Central to the Treasury's guidance is the idea that good planning remains critical. The guidance emphasises how the Better Business Case model can assist in considering strategic, economic, commercial, financial, and management perspectives. The Treasury also encourages early risk assessments and investment logic mapping to assist with clearly defining the problem and identifying options and benefits.

Our observations

7.9 The findings of our audit highlight some of the risks that the Treasury identified. The absence of good-quality information (business cases or otherwise) when the initial NZUP decisions were made was a key factor in Cabinet needing to approve additional Crown funding to address cost pressures and provide contingency funding for transport projects within the NZUP.

7.10 Similarly, the limited information available to support decision-making in the SRP process has contributed to longer lead-in times for some projects as officials have worked to carry out additional due diligence.

7.11 Crown Infrastructure Partners is reporting good progress on SRP projects as at 31 August 2023. However, two projects are yet to begin construction more than three years after applications closed.

7.12 Although actual project delivery is outside the scope of our audit, Crown Infrastructure Partners told us that 91% of SRP projects began within 12 months of receiving funding but that the median project duration has increased by eight months from the original completion dates.

7.13 The Treasury's guidance on expediting decision-making is a useful addition to the existing Investment Management System material and aligns with many of our own observations. The Investment Management System provides a comprehensive set of requirements that agencies must navigate. However, that set of requirements is becoming increasingly complex.

7.14 For example, it is not always clear through the Investment Management System:

- how different requirements interact – for example, whether requirements are deemed to have been met if an investment decision is made and announced as part of the government's annual Budget process; and
- the extent that investment criteria are needed to assist agencies and Ministers in choosing between investment options when those decisions are made outside the annual Budget process.

7.15 Additionally, we consider the guidance could further emphasise the importance of keeping good records of:

- the steps agencies have and have not followed to develop investment options;
- how agencies have prioritised which options are presented (if not all options are presented to Ministers); and
- if early engagement and consultation with stakeholders is not possible, what steps have been taken to identify and manage the additional risks this might create.

Recommendation 2

We recommend that the Treasury seek feedback from relevant agencies on how useful they find the Treasury's guidance on expediting decision-making and review that guidance regularly to ensure that it remains fit for purpose.

7.16 Currently, the Investment Management System focuses on supporting agencies to plan and manage investments in the form of individual projects and programmes. There is an opportunity for the Treasury to consider whether there is a need for the Investment Management System to consider minimum requirements for setting up and running contestable funding processes such as the SRP.

7.17 The Treasury told us that the minimum requirements of the Investment Management System are flexible enough to accommodate the context of any contestable fund. However, work we have done in recent years on the Provincial Growth Fund, Strategic Tourism Assets Protection Programme, and now the SRP suggests that there might be some benefit in more guidance for agencies asked to carry out these processes by Ministers.

Recommendation 3

We recommend that the Treasury consider whether the Investment Management System should include minimum requirements and guidance for setting up and running contestable funding processes.

7.18 The former Minister of Finance noted that our recommendations in this report align with work that the Government began before the 2023 general election.

Appendix 1
Guidance for making decisions about infrastructure investments

This appendix outlines the requirements of the Investment Management System and other guidance relevant to how the government approaches significant investment decisions.

These requirements and guidance have informed our expectations of good decision-making processes. We reached the views we present in this report by comparing the evidence we collected through our audit with these expectations.

While our performance audit was in progress, the Treasury updated its advice on expediting investment decisions for officials and public organisations. The updated information on its website now includes guidance for officials on how to prepare for:

> *...occasions when decisions need to be made rapidly for reasons outside agency control – for example in order to keep attractive options open, or because Cabinet is directing officials to expedite decisions.*

In Part 7, we discussed this updated guidance and commented about elements of decision-making processes that should be present even when rapid decisions are needed.

The Investment Management System's requirements

Government investment decision-making is meant to be guided by the requirements of the Investment Management System.

The Investment Management System is a Cabinet-mandated system that aims to optimise value from new and existing investments and assets. The Investment Management System is a mix of policy, process, rules, requirements, and expectations that are described in various documents (including the Cabinet Manual and Cabinet circulars) and summarised on the Treasury's website.

Policy and rules

When the NZUP and SRP investment decisions were made, the Cabinet Office Circular *Investment management and asset performance in the state services* set out Cabinet's expectations of how government departments, Crown entities, and certain Crown-owned companies manage investments.[35]

35 The Treasury (2019), *Cabinet Office Circular CO (19) 6: Investment management and asset performance in the state services*, at treasury.govt.nz.

The aspects that were particularly relevant to decision-making in the NZUP and SRP included that:

- government agencies must adopt and apply the Treasury's guidance – in particular, they must use business cases for all significant investment proposals, and high-risk investments are also subject to Gateway reviews (a Cabinet expectation);[36]
- decision-makers, before committing to further continuing an investment, need to consider:
  - the capability and capacity of agencies or markets to successfully deliver the investment;
  - opportunities to scale, phase, or consolidate investments;
  - alternative ways of financing and funding investments; and
  - the impact of such actions on the expected value of the investment (a Cabinet expectation);
- Ministers and chief executives will support each other to consider the broader implications of agency investments on other parts of the state sector (a Cabinet expectation); and
- the Treasury will periodically report on the performance of all significant investments that have had or that require Cabinet-level consideration. The report will cover:
  - the status of current significant investment intentions;
  - an evaluation of actual benefits achieved compared with those expected from investments; and
  - the lessons learned from investment management practice (Cabinet circular expectation).

The Treasury told us that it is now making changes to the business case, reporting, and assurance requirements in the Investment Management System to reflect the requirements of Cabinet Office Circular CO (23) 9. This is an updated version of Cabinet Office Circular CO (19) 6, which applied at the time of the decision-making.

At the time, the Investment Management System was structured around four key phases of the investment life cycle: thinking, planning, doing, and reviewing. The thinking and planning phases are most relevant for this performance audit because they relate to how investment decisions are made.

The thinking phase was about understanding the factors influencing decision-making, identifying important assumptions, and exploring investment options and possibilities.

36 Gateway is an assurance methodology for major investments that the United Kingdom's Office of Government Commerce developed in 2001.

The planning phase was about further developing investment proposals, assessing these, and prioritising investments according to the value of the proposals – or, as the Treasury's guidance states, "translating the think to the do". A deeper examination of options through business case guidance and the government Budget process was expected during this phase.

Roles and responsibilities

Consistent with this policy and rules, individuals and organisations have specific roles and responsibilities in the Investment Management System. The following summarises the roles and responsibilities most relevant to this performance audit:

- Cabinet has investment decision-making rights on all investment proposals where the investment needs new Crown funding or support. Cabinet must also be given the opportunity to consider investment proposals that have significant fiscal and policy implications that can affect the government's reputation in the marketplace.
- Ministers help create the conditions for effective investment management by setting, and where necessary reconciling, government priorities; supporting chief executives to show system leadership, take a system-wide view, and respect the Investment Management System's objectives, processes, and authorities; challenging prevailing thinking about problems and solutions; and reinforcing expectations of state sector leaders to carry out collaborative investments and work together to support priority agency and cross-agency initiatives to succeed.
- The Treasury is the Government's primary economic and financial advisor. It oversees the Investment Management System and is responsible for establishing and maintaining the Investment Management System's integrity. It has a range of responsibilities and actions, including providing guidance material. The Treasury performs its role in consultation with relevant agencies, as appropriate.
- Department chief executives must ensure that agencies adopt and apply, as good management practice, the Treasury's guidance on the Investment Management System. They can also help create the conditions for effective investment by supporting Ministers to take a system-wide view.
- Boards of Crown entities and companies should adopt and apply, as good management practice, the Treasury's guidance on the Investment Management System.
- The New Zealand Infrastructure Commission, Te Waihanga, has a role to lift the quality of infrastructure strategy, planning, procurement, and decision-making. It provides advice on infrastructure strategy and planning to the government, and to agencies and local authorities responsible for planning, procuring,

and delivering major infrastructure projects (and any innovative and non-traditional approaches to procurement, alternative financing arrangements, or public private partnerships).

Other relevant government requirements

The Cabinet Manual

The Cabinet Manual is the authoritative guide to central government decision-making for Ministers, their offices, and those working in the public service.[37]

Cabinet consultation

Sections 5.11-5.38 of the Cabinet Manual set out the principles of Cabinet decision-making, the types of matters that Ministers must submit to Cabinet for consideration, and how policy proposals should be developed.

Section 5.12(c) provides that proposals that affect the government's financial position or important financial commitments, including proposals seeking additional financial resources, must be submitted to Cabinet (through the appropriate committee).

Record-keeping

Sections 8.104-8.124 of the Cabinet Manual set out how Ministers should manage public records. Ministers are required to create full and accurate records of their Ministerial affairs, in accordance with normal prudent business practice.[38]

Systems must be put in place to ensure that all information that a Minister creates or receives in their official capacity is treated as a public record according to the requirements of the Public Records Act 2005. This means that records are organised and maintained in a way that allows them to be accessed for as long as they are needed and that they are disposed of in a way authorised by the Chief Archivist.

Free and frank advice

The Investment Management System is underpinned by "free and frank" advice. Sections 3.10-3.11, 3.69, and 3.78-3.80 of the Cabinet Manual discuss the provision of free and frank advice from officials. The provision of free and frank advice allows Ministers to make decisions based on the best available evidence and an appreciation of the expected major benefits, costs, risks, and issues.

Ministers have a duty to give fair consideration and due weight to free and frank advice provided by the public service. In the end, it is Ministers who decide on

37 See the Department of the Prime Minister and Cabinet (2023), *Cabinet Manual 2023*, at dpmc.govt.nz.

38 See paragraph 8.108 of the *Cabinet Manual*, at dpmc.govt.nz.

policy, and, once a decision is made, the public service should implement that decision as effectively as possible.

Conflicts of interest

When making and implementing investment decisions, Ministers and officials are expected to identify and manage any conflicts of interest. This is because the public needs to be able to be confident that the people making decisions and spending public funds on their behalf are doing so in the public interest, not to benefit their family, friends, business associates, or themselves.

Chapter 2 of the Cabinet Manual outlines the requirement for Ministers to identify and manage conflicts of interest. The requirement for officials to identify and manage their conflicts of interest is outlined in various legal and policy documents. Various guidance is available on how officials might do that, including *Managing conflicts of interest: A guide for the public sector* at oag.parliament.nz.

The Government's Investment Strategy

The Government's Investment Strategy informed the key *Cabinet Office Circular CO (19) 6: Investment management and assets performance in the state services*. The Investment Strategy:

> *... outlines the expectations that Cabinet has for the State Sector to manage the Crown's portfolio of assets. It contains 11 principles that are to be used by decision makers and those managing the Government's significant assets across Government. It guides the selection, decision-making, and management of the Government's investment portfolio. The intent is to direct government resources to where they create the most value.*

Ministers are expected to use this strategy to guide their approach to selecting, making decisions about, and managing the government's investment portfolio.

Similarly, chief executives, boards, investment decision-makers, and asset managers are also expected to use the strategy in the same way as Ministers, albeit for their agencies' investment portfolio.

Appendix 2
Application requirements for the Shovel-Ready Programme

Information sought from project applicants for the Shovel-Ready Programme included:

- a project description;
- costs, including a high-level breakdown of spending types;
- the value the project would deliver in terms of employment contribution;
- how the project was to be funded;
- whether the project had previously applied for funding from any part of the government;
- the project's construction readiness;
- a timetable and key milestones;
- social, economic, and/or environmental benefits to the local region and New Zealand, and overall value for money;
- the expected contribution to local/national employment;
- project risks, including a low/med/high rating;
- the likelihood and timing of the project to go ahead once the Covid-19 Response Level was suitable for construction to begin;
- best estimate of the (financial/social/environmental) impact that the Covid-19 pandemic would have on the project and on local industry associated with the project;
- whether the project had already benefited from, or was likely to benefit from, already announced government-led financial support for businesses (such as the wage subsidy scheme/business finance guarantee scheme); and
- the top two to three things that the Government could do to help progress the project, including consideration of both financial and non-financial levers, such as lowering regulatory barriers, adjusting government procurement practices, or fast-tracking resource consent processes.

Appendix 3
Summary of shovel-ready progress report, 30 September 2023

Projects			
222 approved	**222** Government funding agreement	**220** commenced construction	**112** completed

Funding			
$1.84 billion Government spend 66% of projected	**$1.50 billion** co-funded spend 69% of projected	**$3.35 billion** total spend 67% of projected	**$3.40 billion** procurement committed 69% of total value

Workers (full-time equivalent)			
Progress to projected 9463	**Projected** 13,073	**Progress to projected achieved** 72.4%	**On-site FTE end of quarter** 2611

Sectors total funded				
Transport	**Housing**	**Community**	**Services**	**Environment**
36 projects	22 projects	82 projects	18 projects	64 projects
$887.8 million	$369.0 million	$1,374.9 million	$334.3 million	$379.2 million

Source: *Quarterly Infrastructure Reference Group Update, Q3: To 30 September 2023*, on the Crown Infrastructure Partners website (crowninfrastructure.govt.nz).

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FINANCIAL RISKS UPDATE

To:	Risk and Assurance Committee
Meeting Date:	Tuesday 20 February 2024
From:	Patricia Christie – Group Manager Finance and Assurance
Approved:	Michael Day - Chief Executive
Approved Date:	Thursday 15 February 2024
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

The purpose of this report is to provide an update on the Council's financial risks including Council Credit Rating.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report 'Financial Risks Update'.
2. Notes the intention of officers to enter into forward start swap arrangements to partially correct the policy non-compliance.

Recommend to Council:

3. That the fixed/floating interest policy bands in the Liability Management Policy Interest Rate Exposure section be changed to 0-2 years, 2-4 years and 4-10 years

Background

This report provides the Committee with an update on key financial risks. This quarter's report is focused on Council's compliance with our Treasury policy.

Issues

Treasury risk

Attached as Attachment 1 is the December Quarter Treasury Report from Bancorp.

This report shows that at present, and as has been the case for the last 18 months, that Council is outside its policy limits in relation to the amount of fixed interest rate debt it holds in the 2 – 5 year maturity band and is now also outside the policy limits in the 0 – 2 year maturity.

Council's policy bands are:

Period to Maturity	Minimum	Maximum
0 – 2 years	40%	100%
2 – 5 years	25%	80%
5 – 10 years	0%	60%

Officers continue to monitor this breach. The rates for interest rate swaps, movements in interest rates and ongoing borrowing requirements are all considerations in the decision to purchase interest rate swaps or take on fixed rate borrowing through this maturity period to correct the policy breach. We are also monitoring the overall group position as it may be possible to purchase surplus derivatives from other group companies.

It is noted in the Treasury report that Council's average cost of funds is 3.41%. This is expected to increase in coming years as the very low rate debt matures and is replaced with current rates and the additional borrowing required to fund our capital programme.

New borrowing at present (8 February 2024) is between 5.34% – 5.91% fixed rates depending on the length of borrowing.

Financial Management Policy

Council's Financial Management Policy provides the limits in which officers manage Council's treasury position.

One of the limits in the policy is the interest rate maturity profile limit. This limit determines the minimum and maximum percentage of fixed interest loans that Council can have over different maturities.

After a period of market stability, the current volatility in the financial markets is such that we consider that the 2-5 years and 5-10 years bands in the policy should be adjusted to 2-4 years and 4-10 years. This reflects that the current yield curve favours short to mid-term fixed rate positions.

The policy does provide that the Group Manager – Finance and Assurance can review the limits annually and recommend any changes to Council for approval.

Next Steps

Continue to monitor the breaches. Forward start interest rate swaps will be entered into to reduce the size of the current breaches.

Attachments

1. December Quarter Treasury Report from Bancorp (A5215008)

A5215008

Invercargill
CITY COUNCIL

Quarterly Treasury Dashboard

31 December 2023

STRICTLY PRIVATE AND CONFIDENTIAL

BANCORP
BANCORP TREASURY SERVICES LIMITED

Economic Commentary

Global (for the December 2023 quarter)

The December quarter saw what has been described as epic moves in the benchmark US 10-year Treasury bond. The markets started the quarter with expectations of one further rate increase as the Fed reiterated its commitment to fighting inflation, concerns about the ability of the market to attract sufficient buyers to purchase US bonds as a result of the ever-increasing US deficits and continuing fallout from Fitch's downgrade of the US credit rating in early August.

These factors saw the 10-year yield hit 17-year highs, peaking at 5.02% on the 20th of October, however since then the fall in US bond yields has been startling, with the market moving from 'higher-for-longer' outlook, to one of 'we have seen the top and then to pricing in six rate cuts at one point', the US 10-year bond closed the year at 3.76%, which represented a remarkable 1.26% fall in 72 days.

The Fed released a dovish statement on the 13th of December, where it appeared to pivot from the prospect of raising rates in earlier statements to talk of three rate cuts in 2024, the market then seized on this statement and as indicated above moved to price into six rate cuts at one point. However, many commentators make a good argument that economic data has not yet validated these significant market moves, and it is premature given that the battle against inflation is far from won and that the concerns around government bond issuance and the possibility of further US credit rating downgrades continue.

Despite the above, from a global perspective, the US still stands out as one of the few bright lights as we enter 2024. China continues to struggle to recover from the lifting of its Covid-19 restrictions, with China consumer prices declining for a third month in December, highlighting persistent deflationary pressures. These factors remain a concern for global growth given China's standing as the world's second-largest economy.

European inflation has fallen significantly from the 10.6% highs seen in late 2022, November inflation had fallen to 2.4% (on an annual basis) but increased back to 2.9% in December after seven straight monthly declines as food prices rose and support for high energy bills ended in some countries. The rise in price levels fueled debate over how soon interest rate cuts could be expected from the European Central Bank.

Across the Tasman, the Reserve Bank of Australia continued to increase its cash rate to 4.35% in November. However, at its December meeting, it kept rates unchanged, stating that any further moves would be data-dependent, however, its tone was seen as relatively hawkish. There is a widely held perception that it sits six to twelve months behind the rest of the world in its inflation settings. Like New Zealand though it has high levels of immigration which has increased aggregate demand which may see inflation higher than it would be otherwise.

Geopolitical issues also weigh on the global economy with the Ukraine and Russian war dragging on and with the tragic events in Palestine spilling over into tensions in the Red Sea. The impact on the global economy is strained supply lines and higher shipping costs.

Economic Commentary

New Zealand (for the December 2023 quarter)

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
30 Sep 2023	5.50%	5.74%	5.72%	5.48%	5.22%	5.17%	5.18%
31 Dec 2023	5.50%	5.63%	4.64%	4.32%	4.09%	4.07%	4.14%
Change	+0%	-0.11%	-1.08.%	-1.16%	-1.23%	1.10%	-1.04%

December was a significant quarter, with the shape of the new government being known, a continuing hawkish Reserve Bank of New Zealand ("RBNZ"), a market which is challenging the RBNZ's stance by pricing in multiple rate cuts, poor economic data and a divergence in views amongst economists.

The new coalition government's first piece of legislation was to change the RBNZ's mandate back to a single mandate, requiring the RBNZ's Monetary Policy Committee to target inflation, not price stability and "maximum sustainable employment". The change is not expected to materially impact the RBNZ's monetary policy settings.

On 29th November, the RBNZ's *Monetary Policy Statement* stated that *"The Committee is confident that the current level of the OCR is restricting demand. However, ongoing excess demand and inflationary pressures are of concern, given the elevated level of core inflation. If inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase (rates) further"*.

However, this statement was effectively ignored by the market, as it instead focussed on the sharp fall in US Treasury bonds and then the higher-than-expected local unemployment data (September quarter unemployment up from 3.60% to 3.90%). This was followed by the release in December of the shocking third quarter GDP data which saw GDP contract by 0.3% versus expectations of a 0.3% increase. Even worse, Q2 GDP was revised downwards from 0.9% to 0.5%, occurring in a backdrop of soaring migration (at levels not seen since 1947) and the downward revision to the Q1 data once again put the country into recession for the six months ending 31 March 2023. The market then moved to a stance where it was pricing in 4-5 rate cuts in 2024.

In looking at the bank's economists' views, we have a clear divergence in views, with some banks picking multiple rate cuts in 2024, with others such as Westpac and ANZ being much more cautious on the inflation outlook, particularly the sticky nature of non-tradeable inflation. By the end of December, the markets were pricing in the first OCR cut in May 2024 and for it to fall to 4.0% by May 2025.

Swap rates saw significant levels of volatility, with the reference 5-year swap rate peaking at 5.40% in early October and falling to a low of 4.06% in late December (in very thing trading). The downward momentum was initiated by falling US Treasury bond yields, a change to the Fed's dot plots (which inferred 3 rate cuts in 2024 and then by the shocking NZ Q3 GDP data).

The new government's policy agenda will be of interest with tax cuts potentially providing support to the economy which may see inflation remain higher for longer.

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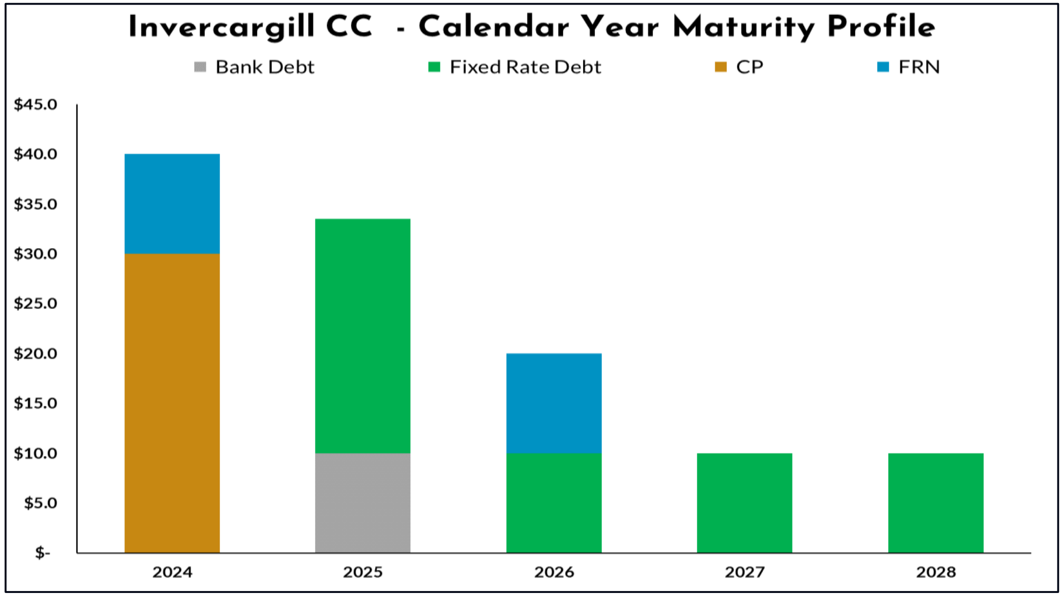
Liquidity and Funding

4



Policy Compliance	Compliant
Have all transactions been transacted in compliance with policy?	Yes
Is fixed interest rate cover within policy control limits?	No
Is the funding maturity profile within policy control limits?	Yes
Is liquidity within policy control limits?	Yes
Are counterparty exposures within policy control limits?	Yes

Core Debt

$103.5m

External Council Drawn Debt

LGFA

$103.5m

Funds Drawn from LGFA

Bank facility headroom + term deposits

$28.2m

Liquidity Ratio

127.25%

Definition: (Term Deposits + Cash in Bank + Lines of Credit + Drawn Debt)/Drawn Debt

Cost of Funds as at 31 December

3.41%

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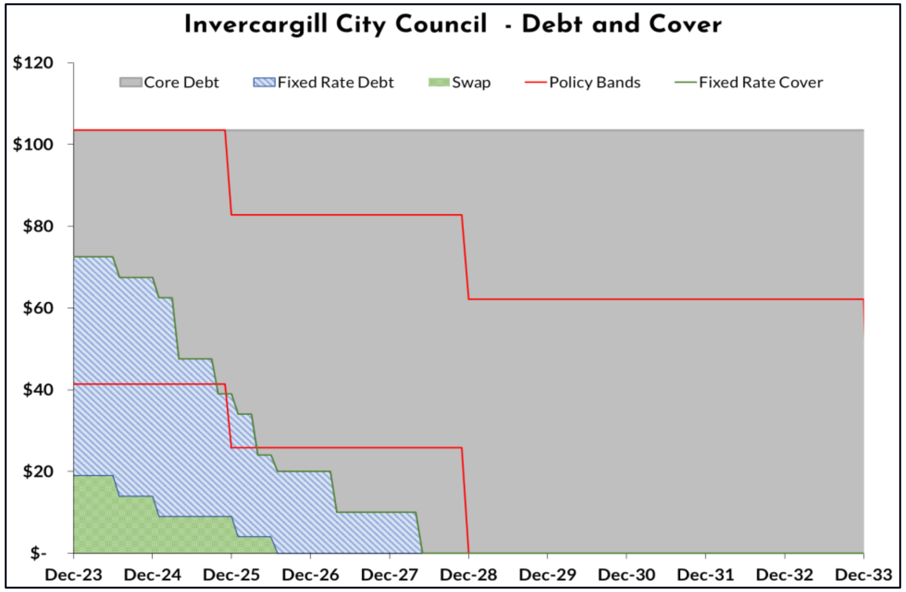
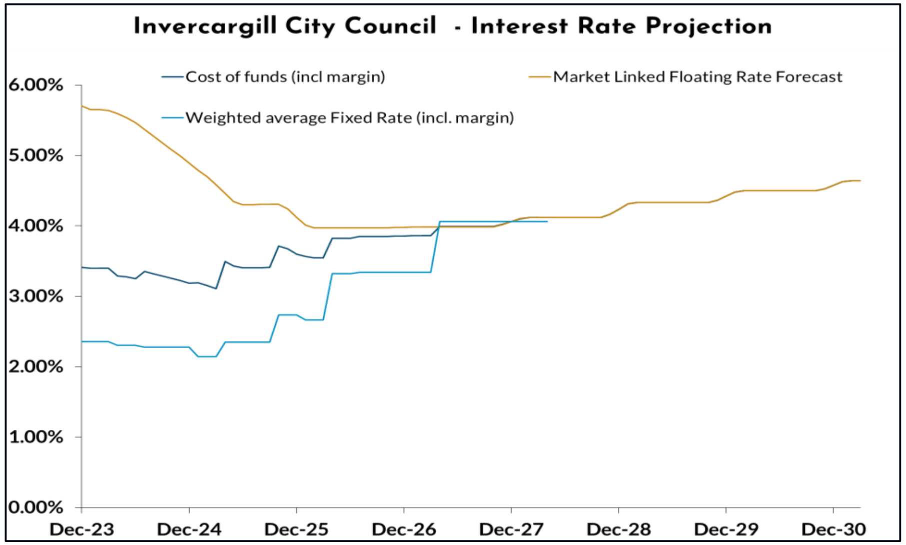
Interest Rate Risk Management

5



Current % of Debt Fixed	70.0%
Current % of Debt Floating	30.0%
Value of Fixed Rate (m)	$72.5
Weighted Average Cost of Fixed Rate Instruments	2.30%
Value of Forward Starting Cover	$0.0
Value of Floating Rate (m)	$31.0
Current Floating Rate	5.70%
All Up Weighted Average Cost of Funds Including Margin	3.41%
Total Facilities In Place	$113.5



Policy Bands			
	Minimum	Maximum	Policy
0-2 years	40%	100%	Breach
2-5 years	25%	80%	Breach
5-10 years	0%	60%	Compliant

For the Fixed Rate Hedging Bands, the non-compliance has been noted by ICC, with it being decided that it would not be addressed until there was more clarity around the water reforms. As the new government is not going ahead with the reforms in the current form, our recommendation is to proceed on a business as usual approach. This means that the non-compliance should be remedied, with the intention to proceed with this in the March 2024 quarter.

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Invercargill City Council - Funding

As at 31 December 2023, ICC had $103.5 million of core debt, all of which is sourced from the Local Government Funding Agency ("LGFA") using Commercial Paper ("CP"), Floating Rate Notes ("FRN"), and Fixed Rate Bonds ("FRB"), which are detailed in the table below.

Instrument	Maturity	Yield	Margin	Amount
LGFA CP	29-Apr-24	5.80%	0.15%	$30,000,000
LGFA FRN	29-Apr-24	6.12%	0.49%	$10,000,000
LGFA FRB	15-Apr-25	1.49%	N/A	$15,000,000
LGFA FRB	15-Oct-25	0.59%	N/A	$8,500,000
LGFA FRB	15-Apr-26	1.09%	N/A	$10,000,000
LGFA FRN	15-Apr-26	6.01%	0.37%	$10,000,000
LGFA FRB	29-Apr-27	2.62%	N/A	$10,000,000
LGFA FRB	15-May-28	4.06%	N/A	$10,000,000
Total				**$103,500,000**

LGFA Funding Rates as at 31 December

Listed below are the credit spreads and applicable interest rates as at 31 December for Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB"), at which ICC could source debt from the Local Government Funding Agency ("LGFA").

Maturity	Margin	FRN (or CP Rate)	FRB
3-month CP	0.15%	5.78%	N/A
6-month CP	0.20%	5.86%	N/A
April 2024	0.29%	5.92%	5.98%
April 2025	0.35%	5.98%	5.78%
April 2026	0.41%	6.04%	5.48%
April 2027	0.51%	6.14%	5.38%
May 2028	0.66%	6.29%	5.39%
April 2029	0.73%	6.36%	5.37%
May 2030	0.77%	6.40%	5.39%
May 2031	0.89%	6.52%	5.51%
April 2033	0.93%	6.56%	5.61%
May 2035	1.02%	6.65%	5.75%
April 2037	1.04%	6.67%	5.86%

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