

Report No.	20-166
Information Only - No Decision Required	

RISK MANAGEMENT STRATEGY, SHOVEL READY PROJECT DELIVERY

1. PURPOSE

- 1.1. The purpose of this item is to outline a risk management strategy that specifically addresses shovel ready project delivery.

2. EXECUTIVE SUMMARY

- 2.1. In April Horizons along with other regional councils and unitary authorities submitted a list of flood protection shovel ready projects for central government consideration. Approval in principle was announced in July, with each project confirmed by Council (including the local share contribution) in August; central government confirmation was subsequently received in September / October.
- 2.2. To stand any chance of meeting the commitment made with the shovel ready application a fundamental and systematic assessment of all the elements that have the potential to impede expedited delivery is required and has been completed. Although a number of measures are already in place the item outlines the complete strategy.
- 2.3. That encompasses resourcing but focusses more squarely on delivery critical paths – those tasks that ultimately drive the completion date – and how the collective set of risks that impact timely delivery can best be mitigated without compromising the fundamental set of principles that underpin expenditure of public money. Other less tangible but equally important risks are also considered, for example key relationships.
- 2.4. This item is as much about creating a risk management culture as it is the content/ detail it contains. As noted with the August item to Council, regular reporting to Audit, Risk and Investment Committee on shovel ready project delivery is envisaged, and staff have begun working on an appropriate dashboard format for that, accompanied by project specific risk registers.

3. RECOMMENDATION

That the Committee recommends that Council:

- a. receives the information contained in Report No. 20-166 and Annex.

4. FINANCIAL IMPACT

- 4.1. This item has no direct financial impact associated with it; Council resolved in August to proceed with funding the local share component of the projects. Although all of the projects (except Foxton) involve the commitment of unbudgeted expenditure in the current financial year the direct impacts are relatively small; the local share is loan funded, the bulk of the expenditure will be incurred in the latter part of the financial year and interest rates are low. Provision has been made in the 2022 and 2023 financial years in the course of compiling budgets with the LTP update.
- 4.2. The key underlying themes with shovel ready funding (aside from the fundamental driver of investment in essential infrastructure) are two-fold; creating jobs to lessen the COVID-19 economic impacts and generating the economic stimulus as quickly as possible. Both could potentially result in a very modest financial impact, the latter related to expedited

procurement processes and construction timeframes (arguably likely to cost a little more than conventional delivery practices).

5. COMMUNITY ENGAGEMENT

- 5.1. No community engagement has been undertaken or considered necessary with this item.

6. SIGNIFICANT BUSINESS RISK IMPACT

- 6.1. This item addresses a business risk in the form of premature termination of the funding agreement. Clearly Horizons can control some of the factors that might influence such a decision – those risks and the treatment strategies are outlined in more detail further on in the item and in the attachment. The business risk isn't considered a significant one – the matter as a whole sits on the positive side of the ledger i.e. any dollar received from central government is one that does not need to be borrowed and repaid by ratepayers at a later stage.

7. CLIMATE IMPACT STATEMENT

- 7.1. One of the fundamental drivers for shovel ready funding of the various flood protection projects put forward by the sector is the need for greater resilience in the face of climate change. Specifically the added vulnerability attributable to rising sea levels and changes in flood frequency relationships (the network being required to contain flood events more frequently than might otherwise be the case, more pressure on known vulnerability points – and the creation of new vulnerability points - with more frequent floods). Changes to flood frequency relationships also has the potential to increase suspended sediment loads, with the consequent increase in berm deposition rates accelerating the loss of flood-carrying capacity for key reaches.
- 7.2. Conversely there are also emissions associated with undertaking the works that the shovel ready funding enables, particularly those aspects that involve bulk earthworks. All projects have various environmental enhancement elements to them that in addition to providing water quality and biodiversity benefits also offsets (albeit in a very limited way) some of the emissions associated with construction.

8. BACKGROUND

- 8.1. Early in the COVID-19 lockdown central government sought options from infrastructure owners for providing economic stimulus through infrastructure investment. River Managers from around the country compiled a single 'sector' application – a national compendium of shovel ready flood protection projects totalling \$299.2M; in June central government approved a grant of \$211.5M. The Horizons component of that application totalled \$35.9M with a grant amount of \$26.9M.
- 8.2. The success of that application is a direct result of the efforts the sector has been making to engage with central government around co-investment in flood protection; the value-add flood protection infrastructure provides to the national economy, how vulnerable transport links and other key lifelines are without it and the instances where central government benefits but the operating costs fall (often) on a relatively small ratepayer base. That dialogue also emphasises the future challenges with a changing operating environment, principally the need for investment to improve resilience in the face of climate change.
- 8.3. The investment made by central government is made under the banner of 'shovel ready' emphasising the urgency of the spend to achieve that economic stimulus and accordingly the projects have a nominal three year delivery timeframe. The funding agreement (now signed) provides more latitude than that and it is considered likely that further latitude will be applied as the projects unfold, but clearly a reliance on that as a risk management

strategy has its own set of risks. Regardless track record suggests a spend of that size and over that timeframe will be challenging, warranting a fresh end-to-end look at process to stand the best chance of being able to spend all of the grant money by the prescribed completion date (30 March 2024).

- 8.4. Note that this isn't a complete project risk assessment – it solely focusses on the things that might assist expedited delivery.

9. RISKS TO TIMELY DELIVERY

- 9.1. A spreadsheet summary of the different risks, their relative importance, the identified treatment strategies and residual scoring is appended to the item. The broad groupings are resourcing, system / process, permissions / approvals, procurement, contractual and relational.

- 9.2. Resourcing is an obvious delivery risk and one that did in hindsight contribute to the delays with the Rural Upgrade Project. It has been identified and addressed at an early stage – recruitment of a project delivery team is complete with the delivery team leader set to join Horizons in December. The team is a mix of permanent and fixed term / seconded staff, balancing the resource 'overhang' that would result if funding were withdrawn prematurely with potential impacts on BAU delivery. It is an area that will continue to be re-evaluated as the project progresses.

- 9.3. Permissions / approvals encompass statutory requirements (essentially resource consents) and any land entry / purchase agreements required. Consenting is an obvious source of potential delay – protracted processes and / or cumbersome consent conditions - and one that has the potential to impact some projects more than others. Land entry / purchase negotiations are also a significant risk to expedited delivery and similarly have the potential to land more on some projects than others.

- 9.4. The funding agreement places particular emphasis on job creation and sets expectations around social procurement, creating an additional risk to timely delivery (albeit seen as relatively minor) but also with broader reputational and potentially contractual implications if expectations are not met. The former was estimated fairly conservatively at the time of bid preparation (the number of jobs each project would create) and is seen as being relatively easily achievable.

- 9.5. The latter is something new and a little more challenging – how we structure our procurement processes to achieve social outcomes e.g. creating jobs for those currently unemployed, opportunities for Māori and Pacifica businesses. The way forward, as it is for many elements, is discussion with **Provincial Development Unit (PDU)** representatives; target setting is largely delegated in the funding agreement to the local PDU representative. The sector is already looking to arrange an interactive session with PDU representatives from around the country as part of the River Managers' March 2021 meeting. Clearly there is an element of value judgement around balancing those requirements with fundamentals around value for money and expenditure of public money.

10. TREATMENT STRATEGIES

- 10.1. As noted in Section 9 measures to address risks around insufficient resourcing are already in place and are not discussed further here.

- 10.2. System / process is a generic category – reporting requirements outlined in the funding agreement; demonstrating good system / process, good high level reporting and in a timely fashion. In essence confidence that we know what we're doing and that we're able to track progress and demonstrate success in meeting funding criteria. There are a range of elements to a treatment strategy in this area – part of the delivery team includes an administrative resource in part tasked ensuring we're on top of those reporting

24 November 2020

- requirements. An important element is also the sector working together to ensure commonality of approach.
- 10.3. There is some commonality with addressing delivery risks relating to consents and land entry / purchase agreements; early identification and consideration of specific risks that either have uncertainty around timing and / or impact project critical paths, a structured approach to options consideration (alternatives, expedited processes), having the right expertise on board and ensuring a pragmatic approach.
- 10.4. As noted in the risk summary, procurement is probably the single largest impediment to expedited project delivery. Scale (aggregation) is a typical response to such time constraints but it's somewhat at odds with the requirements related to social procurement noted earlier - smaller work packages are likely to deliver better outcomes in that regard. A conventional (in the Horizons context) approach to procurement combined with the likely need for relatively small work packages is highly likely to add substantially to delivery timeframes.
- 10.5. One of the requirements with shovel ready funding is adherence to the principles of the Construction Sector Accord, the main component of which is government's "Rapid Mobilisation Playbook – A guide to Support the Acceleration of Construction Projects". That amongst other things requires a commitment to "utilise rapid delivery models to get the projects to start line faster, and get people into jobs".
- 10.6. The main elements of the treatment strategy align with that playbook - a supplier panel arrangement with (on a case-by-case basis depending on the complexity of the work package) and an **Early Contractor Involvement (ECI)** approach to procurement. A contractor and consultant would be selected from that panel for each work package at the start of the project, matching the type of construction with the capability profile provided. The contractor would work alongside the consultant and the delivery team to produce a design that is fit for purpose and buildable, with price negotiated once the design is finalised.
- 10.7. There are some exceptions – elements that are not construction-related such as the CCTV culvert survey and obtaining more geotechnical information (components of the Palmerston North resilience project) are intended to be procured in a more conventional way, as are aspects such as property purchase / property agreements.

11. RESIDUAL RISKS

- 11.1. Treatment strategies for identified risks essentially fall into one of four categories; avoid, accept, reduce / control or transfer. Few if any of the risks associated with timely delivery can be avoided or transferred. While it is possible with some of the projects to step past higher priority work packages with larger delivery risks and opt for those with an easier path and a lower priority, clearly that also is contrary to the overall intent and ultimately is a lower value approach. The fundamental approach is one focussed on resilience and driven fundamentally by priority; good project management should see most obstacles navigated within the prescribed timeframe.
- 11.2. Clearly most treatment strategies sit in the reduce / control category, with the mitigation approaches focussed on both meaningful risk reduction and avoiding the creation of other risks. Consenting has the highest residual risk score followed closely by property agreement / purchase processes. Both are very contextual and specific to the individuals / parties involved – a degree of agility, emphasis on relationships / understanding in parallel with constant re-evaluation of options and what constitutes the best option are the key components. Recourse to statutory tools is likely to be necessary for both activities.

12. COMMENT

24 November 2020

- 12.1. Reinstatement of central government funding of river management activity nationally remains the ultimate goal for the sector. Continuity with central government and in particular with the Minister of Local Government (with the Department of Internal Affairs taking the lead) provides the foundation – the onus is now on the sector to deliver.

13. CONSULTATION

- 13.1. No consultation is considered necessary with this item.

14. TIMELINE / NEXT STEPS

- 14.1. Project specific risk registers will be developed with prudent risk management an integral part of project delivery.

15. SIGNIFICANCE

- 15.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

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GROUP MANAGER RIVER MANAGEMENT

ANNEXES

- A Flood Protection Projects Risk Register