Major Infrastructure Project Governance Guidance

October 2019
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SRO  The Senior Responsible Officer. The person with single point accountability for the project. For major infrastructure projects this should generally be a Tier 2 manager who reports directly to the Chief Executive and has the authority to make decisions. The SRO should chair the project governance board and is the link between the organisation’s executive and the project.
1 About this guidance

1.1 The Infrastructure Transactions Unit

On 20 February 2019, the Government announced that it would be establishing the New Zealand Infrastructure Commission – Te Waihanga. The Commission will help improve how New Zealand coordinates and plans its infrastructure, makes the most of the infrastructure it already has, and ensures that investment in infrastructure delivers what New Zealand needs.

The Infrastructure Transactions Unit (ITU) was initially established within the New Zealand Treasury in advance of the Commission to provide support to agencies and local authorities in planning and delivering major infrastructure projects with a total cost of ownership exceeding $50 million. It now forms part of the New Zealand Infrastructure Commission – Te Waihanga.

The ITU’s primary role is to support agencies and local authorities to procure and deliver major infrastructure projects; supplementing rather than replacing existing capability.

Another key function is to prepare research and best practice guidance on major infrastructure procurement and delivery, to provide guidance on specific issues, beyond the more general procurement guidance already available from other agencies.

The overarching purpose for the ITU publishing this guidance and its project support is the same: to lift the performance of New Zealand’s public and private sectors in procuring and delivering major infrastructure projects.

1.2 Government Procurement Rules

Public sector staff responsible for procurement are required to comply with the Government Procurement Rules (the Rules) and the overarching principles that apply to all government procurement and provide the foundation of good practice for procurement planning, approaching and engaging the supplier market. These include being fair to all suppliers and getting the best deal for everyone.

Anyone can use the Rules to help drive good procurement practice. If a procurement is worth more than $100,000 (or $9 million for new construction works) they are mandatory for:

- government departments
- New Zealand Police
- the New Zealand Defence Force, and
- most Crown entities.

All other government agencies are encouraged to follow the Rules.

The Chief Executive of the Ministry of Business Innovation and Employment (MBIE) is the Procurement Functional Leader, responsible for driving procurement performance across the State Services by helping government agencies to deliver better public value, and MBIE’s New Zealand Government Procurement team supports the Chief Executive in that role.

Changes currently underway to the Cabinet Office requirements (CO (19) 6) for investment performance and asset management, as well as changes to the Government Procurement Rules that took effect on 1 October 2019, make following the ITU’s guidance mandatory for infrastructure projects with a total cost of ownership of more than $50 million delivered by government departments.

1.3 Purpose

This document (the Guidance) is intended for use by public sector Procuring Entities and their advisers. It provides guidance on establishing appropriate governance arrangements for major infrastructure projects from inception to delivery and benefits realisation.

The Guidance forms part of a suite of guidance documents issued by the ITU relevant to the planning and delivery of major infrastructure projects in New Zealand. It should be read in conjunction with other ITU guidance and requirements of the Treasury’s Investment Management and Asset Performance team (IMAP).

Procuring Entities responsible for major infrastructure projects are required to have strong and effective project governance in place.

The Guidance is not meant to be prescriptive but to signpost key considerations to help Procuring Entities assess whether their project governance arrangements are likely to support the successful delivery of the project objectives. The Guidance is
intended to complement, rather than be a substitute for, procurement guidance issued by MBIE as part of its role as the functional lead for government procurement.

1.4 Structure

The Guidance details the relevant considerations for a public sector agency in establishing appropriate project governance for major infrastructure projects, in the following structure:

Section 2: Project governance failure summarises the main causes of governance failure, some common early challenges and the key questions that project governors should be asking in relation to major infrastructure project investment.

Section 3: Government as the investor highlights the responsibility of public sector agencies for investment management and performance.

Section 4: What is project governance discusses the principles of good project governance and the roles and responsibilities of different participants in governance and project delivery.

Section 5: Effective project governance provides guidance on establishing a governance framework, including use of governance boards, advisory expertise, delegations, reporting and probity.

Section 6: Supporting project governance reviews the structures, reports and assurance frameworks recommended to enable project governance to be effective and perform its role and function.

Section 7: Probity highlights to the importance of upholding the principles of probity to support ethical conduct, encourage participation and protect the Government from legal risk.

1.5 Questions and further information

General enquiries about the information contained in this guidance can be sent to itu@treasury.govt.nz. Other guidance documents and useful information can be found at www.infrastructure.govt.nz.
2 Project governance failure

High performing governance is critical to the success of major infrastructure projects. Lessons should be learned, the right questions asked and accountable people involved with the right skills and behaviours.

2.1 Gateway lessons

The New Zealand Gateway Lessons Learned Report\(^1\) identified governance as the first ranked theme for the number of review recommendations. Governance refers to the systems and processes that allow an agency to achieve its outcomes and fulfil its accountability obligations. Governance recommendations were related to oversight, structure, decision making, alignment with government priorities, and portfolio management.

The report stated that governance was a growing concern, in part because of the increasing trend towards large complex multi-agency and all-of-government projects requiring a lift in capability.

The Office of the Auditor General also reflected in its report on governance and accountability\(^2\) that the quality of governance in the public sector could be improved, identifying issues with role definition (organisational and project) and risk management.

2.2 Causes of governance failure

The main causes of governance issues in major infrastructure projects include:

1. Insufficient understanding of project governance and accountability leading to:
   - lack of organisational commitment to appropriate project governance
   - confusion between project and organisational decision-making structures, hindering the ability of projects to act in the interests of the investment decision
   - governance groups being used as mechanisms for stakeholder engagement, rather than for effective investment decision making, and
   - lack of single point accountability by a SRO, with sufficient time to dedicate to the role.

2. Inadequate project governance as a result of:
   - poorly communicated sponsors’ expectations
   - weak leadership or lack of governance skills
   - a poor understanding of the investment business case and project success criteria
   - ineffective stakeholder engagement
   - lack of necessary skills and expertise relevant to the project
   - lack of transparency in reporting and assurance processes
   - poor risk management, and
   - lack of control over conflicts of interest.

2.3 Asking the right questions

The Office of the Auditor General suggests that project governors should ask powerful questions. This is also echoed by the Victorian Department of Treasury and Finance in their guidance on project governance\(^3\). An adapted list of questions is suggested below:

- Who is the single point of accountability (i.e. SRO) for this project – what accountability does project governance need to support the SRO and hold the SRO to account?

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• What decisions am I required to make in my role as a governor of the project?
• How do these decisions link to those of the SRO, Ministers and Cabinet?
• What are the ten top risks for the project and how are we managing them?
• What risks are we intending to transfer to our project partner, are they able to manage them and at what cost?
• Who are the project’s key stakeholders and how is their engagement being managed?
• What are the project’s investment objectives and how are these reflected in the delivery strategy?

2.4 Specific to major infrastructure projects

Major infrastructure projects are often large scale and complex. Delivering such projects is intrinsically difficult. They are routinely asked to deliver against aggressive timeframes and constrained budgets set early in their lifecycle (usually at business case stage), and to meet the high expectations of a wide group of stakeholders.

The UK’s Infrastructure and Projects Authority Report 4 on lessons from transport projects identified 24 lessons for the sponsorship of major infrastructure projects. Running through the lessons five themes main themes were identified:

• Accountability must be unambiguous – clarity of role and control
• Behaviour matters more than process – acting decisively, investing in relationships, challenging objectivity of delivery confidence, applying lessons
• Control schedule and benefits as well as cost – benefits led decision making, challenging optimism bias in forecasts
• Deal with systems integration – establishing the conditions for success at the start of the project and empowering the accountable party to direct integration decisions
• Enter service cautiously – understanding the impact of commissioning decisions and disruption.

All themes went to the heart of project governance and to the questions identified above.

Investing in major infrastructure projects is often not the core business of Procuring Entities. A report commissioned by the ITU to examine issues associated with the use of NZS Conditions of Contract5, identified a lack of knowledge and experience in delivering major infrastructure projects in the public sector. This lack of experience has led to ineffective project governance, delayed decision making, and lack of understanding of the impact of decisions on overall project outcomes.

The report found that project governance is not always open to advice regarding the feasibility of project timelines and is heavily reliant on external consultants. Project governance also lacked understanding of the commercial aspects of major infrastructure project delivery, including the impact of risks transferred to project partners and the value of a partnership approach.

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3 Government as investor

Establishing appropriate governance arrangements for major infrastructure projects is fundamental to the government achieving expected outcomes from its infrastructure investment for the benefit of New Zealand.

3.1 Responsibility for delivery of investment outcomes

Public sector agencies have accountability for delivering against the resources allocated to them. This includes major infrastructure project investment. Accountability requires agencies to report on what they have achieved, so that they can be held to account for their performance. Organisational governance refers to the behaviours, systems and processes that allow an agency to achieve its outcomes and fulfil its accountability obligations.

Different public sector agencies have different forms of organisational governance. Some, such as Crown entities, are equipped with Boards with accountability for investment outcomes. For government departments, accountability is shared between the responsible Minister and the Chief Executive. Departmental Chief Executives and their leadership teams have dual roles as both governors and managers of their investments. This can be particularly challenging where major infrastructure projects involve cross-agency and cross-sector governance.

In recent years, several Crown-owned Special Purpose Vehicles (SPVs) have been established to deliver major infrastructure projects. Through an SPV there is more distance between the responsible Minister and commercial decision making, made by an independent board. Although as a shareholder, the Minister retains various approval rights.

3.2 The Investment Management System

Public sector agencies are expected to adhere to the Investment Management System. This refers to the processes, rules, capabilities and behaviours that work together to bring discipline to the way investments are managed throughout their life cycles. Public sector agencies are expected to apply appropriate governance, assurance and monitoring to their investments across all phases of the investment life cycle:

The investment phases:

The **thinking phase** – identifying investment proposals to address specific issues and that could deliver benefits to New Zealand. Decision makers should understand why the issues need to be resolved and the array of potential investments available.

The **planning phase** – further developing the investment proposals to ensure investment choices create the best value from an all of government perspective. Decision makers should test the merits of an investment from different perspectives and also consider the capability and capacity of agencies and markets to deliver the investment.

The **doing phase** – a focus on required benefits during the implementation, giving investments the greatest possible of success while maintaining control to avoid loss of value. Decision makers should seek assurance that the investments will deliver the expected value.

The **reviewing phase** - reviewing actual performance of investments against expectations.

3.3 Investment roles and expectations

Public sector agencies are expected to fully understand, cooperate and comply with the different roles and expectations of parties in the Investment Management System.

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Table 1: Investment roles and responsibilities

<table>
<thead>
<tr>
<th>Party</th>
<th>Role</th>
</tr>
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<tbody>
<tr>
<td>Cabinet</td>
<td>Has investment decision rights on all investment proposals where the investment requires new Crown funding or funding that exceeds the responsible Minister or Chief Executive’s delegation.</td>
</tr>
<tr>
<td>Responsible Ministers</td>
<td>Create the conditions for effective investment; prioritisation, desired outcomes, taking a broader system-wide view. May approve investments below a certain value.</td>
</tr>
<tr>
<td>Departmental Chief Executives</td>
<td>Responsible for the performance of the department’s investments. Ensure that agencies adopt and apply as good management practice guidance on investment management.</td>
</tr>
<tr>
<td>Boards of Crown Entities and Companies</td>
<td>Responsible for the performance of its agency’s investments. Expected to adopt and apply as good management practice guidance on investment management.</td>
</tr>
<tr>
<td>Monitors</td>
<td>As described in the Crown Entities Act. Expected to adopt and apply guidance on investment management.</td>
</tr>
<tr>
<td>The Treasury</td>
<td>Leads the government’s Investment Management System. It determines the level of monitoring and investment reviews (e.g. Gateway) and administers the Investor Confidence Rating.</td>
</tr>
<tr>
<td>State Services Commission</td>
<td>Has an overall system leadership role in relation to the State Services</td>
</tr>
<tr>
<td>Ministry of Business Innovation and Employment</td>
<td>Leads the government procurement policy and practice (including the Government Procurement Rules)</td>
</tr>
<tr>
<td>New Zealand Infrastructure Commission, Te Waihanga</td>
<td>Provides project advisory support for major infrastructure projects valued at over $50 million or where agencies are considering any innovative and non-traditional approaches to procurement, alternative financing arrangements, or PPPs. Public sector agencies are required to follow guidance published by the Commission in accordance with Government Procurement Rules.</td>
</tr>
</tbody>
</table>

3.4 The investment case

Following the Treasury’s Better Business Case framework\(^7\), a business case is required to demonstrate that a proposed investment is strategically aligned, represents public value and is achievable. It is the vehicle for the thinking and planning phases and enables decision makers to invest with confidence. It is also the reference point during the doing phase to support delivery and the review phase to determine whether the investment benefits have been achieved.

The investment case is a living document and needs to be treated as such throughout the project lifecycle. This means monitoring not only progress of the project but also the contract within with the project will deliver. Sometimes a valid project can become redundant because the reason for its initiation no longer exists or has changed substantially. In this case the agency should consider whether to take the decision to stop or redirect the investment.

3.5 Monitoring and assurance

Central agencies support the government in their decision making and monitoring roles, coordinating the development of the budget, preparing policy guidance and accountability requirements, and monitoring resource expenditure and related investment risks, including for major infrastructure projects.

Completing a **Risk Profile Assessment**\(^8\) is an essential early step in the investment management process. It calculates the inherent risk of a project and

\(^7\) https://treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/better-business-cases-bbc

determines whether Gateway Reviews\(^9\) are required and/or related assurance processes must be followed. It should occur at commencement of the business case preparation.

The **Investor Confidence Rating**\(^{10}\) is a Treasury-led rating of an agency’s investment management environment. It is an indicator of the confidence that investors (e.g. Cabinet, Ministers) have in an agency’s capacity and capability to realise a promised investment result if funding were committed.

By design, these ratings can have various implications for agencies, for example the rating can affect the level of delegated authority to make investment decisions or the extent of assurance and reporting requirements.

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4 What is project governance

Governance for major infrastructure projects is the organisational framework that enables decisions to be made effectively, efficiently and transparently. It is the system by which a project is directed and controlled such that it is able to convert the government’s investment decisions into value and deliver the anticipated benefits.

4.1 Project governance structures

Project governance structures are established because organisational structures do not generally provide the necessary framework to deliver projects. Day to day operations do not tend to enable the sustained focus and timely decision making needed for projects to succeed. Organisational structures are primarily focused on operational needs and decision making is hierarchical, as shown in Figure 1 below.

Project governance structures inevitably overlap with organisational structures. However, the allocation and delegation of decision making rights is an important difference between organisational structures and project governance structures.

Best practice for project governance promotes a single point of accountability for the success of a project, either termed a project executive\(^{11}\), project sponsor or Senior Responsible Owner\(^{12}\). This person is empowered to focus on the project, its objectives and benefits. This single point of accountability makes ‘best for project’ decisions outside of day-to-day operations. The role is supported by a project governance board and a project management team led by a project director and/or project manager.

Figure 1: Operations vs Project governance

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\(^{11}\) As referred to in PRINCE2  
\(^{12}\) As referred to in Managing Successful Programmes (MSP)
4.2 Principles of good project governance

A principles-based framework is conventionally applied to support project governance. The principles most commonly leveraged in such frameworks are:

- Accountability
- Transparency, and
- Confidentiality.

Ultimately, project governance must act in the best interests of the project.

4.2.1 Accountability

Accountability is at the core of good project governance and is central to the Government investment in infrastructure.

In project governance, accountability is about being ultimately answerable for an activity or decision.

It is the acknowledgement and assumption of responsibility for actions, products, decisions, and policies. This includes the administration, governance, and implementation within the scope of a role and encompasses the obligation to report, explain and be answerable for resulting consequences.

Effective accountability demands clarity of all roles* and, especially, respective responsibilities. Only one accountable person can be held to account – accountability cannot be delegated or share.

Creating clarity requires ensuring accountabilities and responsibilities are defined, mutually consistent and traceable across all levels of management. This includes the limits of authority; when tasks must be completed; and communication, reporting and monitoring lines. Figure 2: Indicative Project Governance Structure overleaf illustrates the range of roles and relationships in a typical project governance structure.

*Roles vary depending on infrastructure project size, scale, complexity, stakeholder involvement.

4.2.2 Transparency

An important means of realising the principle of accountability in project governance is to implement reporting processes that are sufficiently transparent, particularly with respect to decision-making.

Regular project reporting can shine a light on emerging issues and create confidence in the transparency of decisions. Project reporting can take a variety of forms, the most common being monthly reporting carried out by the Project Team.

The Investment Management System requires that all projects identified as high risk via The Treasury’s Risk Profile Assessment include specific arrangements for assurance, including independent Gateway Reviews. It is also expected that all Significant Projects, regardless of their risk rating, must have appropriate internal monitoring and an assurance plan.

4.2.3 Confidentiality

The countervailing consideration to the principle of transparency is the legitimate need to protect sensitive information through establishing confidentiality practices. As there is no universal approach to the application of confidentiality to project governance, an approach will need to be developed by the project governance board.

There are legitimate arguments for confidentiality. For example, much of the competitive tension which occurs at various stages of the investment lifecycle, from planning to procurement, delivers public value and is the direct result of competing suppliers not knowing about other offers.

On the other hand, confidentiality is not necessarily an entitlement but could be regarded as a privilege requiring justification. The material risk of a project governance board defaulting to confidentiality is that the resulting protection of information is excessive, and its disclosure might not legitimately serve the public interest.
Figure 2: Indicative Project Governance Structure
4.2.4 Eight essential elements

The Office of the Auditor General identified eight elements considered essential for getting governance right to strengthen accountability:

1. Setting a clear strategic purpose and a clear direction for how to achieve that purpose

2. Having clear roles and responsibilities that separate governance and management i.e. distinct allocation and delegation of decision making rights

3. Leading by setting a constructive tone – shapes the culture and demonstrates desired values – through establishing and approving policies, making decisions and the approach and behaviour governance takes to its work with management and external stakeholders

4. Involving the right people – the right mix of people and skills – bringing multiple perspectives, debating issues robustly, and speaking with unity of voice and message once decisions made

5. Investing in effective relationships built on trust and respect – effective stakeholder engagement of value when making important decisions

6. Being clear about accountabilities and transparent about performance against them – receiving regular reporting that provides a clear and objective view of an organisation’s (or project’s) performance

7. Managing risks effectively – identifying, understanding and managing risks is a fundamental part of effective governance

8. Ensuring that you have good information, systems and controls – to inform and support decision making and keep stakeholders informed of progress
5 **Effective project governance**

An effective project governance framework identifies who has responsibility and authority to make decisions.

5.1 **Project governance framework**

A project governance framework is prepared as part of the business case and will vary based on the scale, complexity and other factors of a project. The framework identifies who has responsibility and authority to make decisions, linking decisions made by Cabinet and responsible Ministers. It covers the agency’s organisational and project governance accountability, the involvement of other agencies, and the work of the project team to deliver the project and its outcomes.

Overseen by the project governance board, once the decision to invest has been approved, an updated project governance framework should be prepared either as a standalone document or included in the Project Management Plan. Terms of reference should align with the framework and guide project governance board meetings.

5.2 **Roles and responsibilities**

As a minimum, major infrastructure projects must incorporate the roles and responsibilities as set out in Table 2 overleaf.

5.2.1 **Senior Responsible Owner**

Good project governance calls for the need to have an individual as the single point of accountability. This is usually the Senior Responsible Owner. A frequently made recommendation is that the SRO should be at an appropriately senior level in the organisation. For major infrastructure projects this should generally be a Tier 2 manager who reports directly to the Chief Executive and has the authority to make decisions. The SRO should chair the project governance board and is the link between the organisation’s executive and the project.

As Chair of the project governance board, the SRO is responsible for owning the investment business case; delivering the agreed outcomes and benefits, optimising value, managing risk, ensuring timely delivery to schedule, meeting project performance requirements; and determining remedial action should the project not perform to plan. The SRO will also ensure that appropriate project assurance processes, such as Gateway reviews, are scheduled and responded to in a timely manner.

For others in the project, the SRO provides leadership on culture and values, makes timely decisions, obtains required resources, upholds probity principles and manages relationships. Importantly the SRO engages with project stakeholders, governing communications and managing any issues or risks.

5.2.2 **Project governance board**

Several relevant reports note that a fundamental problem with accountability in project governance is the lack of understanding as to the true purpose of project governance boards.

For project governance to be effective, it is critical that the right people are involved in project governance boards. Project governance board decisions should reflect the rationale for the infrastructure investment approval. The project governance board must also recognise and manage risk in a way that is most likely to achieve the desired outcomes.

An Office of the Auditor General report\(^{13}\) suggested that an effective governance group will have members who bring multiple perspectives, who debate issues robustly, and who in turn speak with unity of voice and message about the decisions made.

A project governance board is not simply appointed to receive project updates. It must be able to ensure that a project will achieve its intended outcome. It should be prepared and equipped to proactively monitor, mentor, challenge and support the SRO; asking the right (and searching) questions, offering alternatives and making timely decisions.

\(^{13}\)Office of the Auditor General, Reflections from our audits, Governance and accountability, April 2016
Table 2: Project governance roles and responsibilities

<table>
<thead>
<tr>
<th>Role</th>
<th>Project Governance Responsibility</th>
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<tr>
<td>Senior Responsible Owner /</td>
<td>Provides project leadership, owns the business case and is responsible and accountable for the project’s success. This includes optimising value, managing risk, ensuring timely delivery, meeting project performance requirements and determining remedial action if required. Ensures appropriate project assurance processes, such as Gateway reviews, are scheduled and responded to in a timely manner. Provides leadership on culture and values, obtains required resources, upholds probity principles and manages relationships (stakeholders, governance board etc.). Appropriately senior (for major infrastructure projects generally a Tier 2 manager) and reports directly to the Chief Executive. Has the authority to make decisions. Is the link between the organisation’s senior executive body and the project.</td>
</tr>
<tr>
<td>Project Executive / Project Sponsor</td>
<td></td>
</tr>
<tr>
<td>Project Governance Board Chair</td>
<td>Usually the SRO. Where delegated there must be clarity regarding authority tolerances and lines of accountability between the Chair and the SRO and the overall sponsoring Minister(s) and Cabinet.</td>
</tr>
<tr>
<td>Project Governance Board Members</td>
<td>Understand the investment context and support the SRO to make required decisions. Can hold the SRO to account in fulfilling their role. Provide strategic direction, monitor the project and make key decisions and/or recommendations to the SRO and responsible Ministers in accordance with the Terms of Reference and overall governance framework. The board approves and/or endorses a range of project documentation. All members should read and familiarise themselves with the business case, Cabinet approvals and any other documents that aid understanding of the investment, its objectives, and their accountability to ensure its delivery. For major infrastructure projects, the project governance board will need members with robust construction expertise to inform conversations and decision making. Where this does not exist an independent, external member with the right expertise should be made a member of the project governance board.</td>
</tr>
<tr>
<td>Project Director / Manager</td>
<td>Leads and manages the project team on a day-to-day basis reporting to the SRO or Project Governance Board. Responsible for supporting organisational change management, managing key relationships and keeping the project team motivated and supported. Responsible for preparation of all project documentation and prepares reporting to support the role of the SRO, the Project Governance Board, Executive Leadership, Ministers and Cabinet as required. This includes developing and updating the project management plan, project schedule, RAID registers (Risks, Actions, Issues, and Decisions) via team reporting, probity requirements and project reporting. The project director also resolves planning and implementation issues, manages progress and budget, structures project delivery and provides specialist resources and skills necessary to deliver a project to an agreed scope, quality, schedule and budget. The project director needs to have well-developed project, risk, relationship and commercial management skills. Knowledge of government processes, procurement experience, infrastructure or construction industry experience and experience developing and negotiating contractual agreements is also required.</td>
</tr>
<tr>
<td>Project Team</td>
<td>Responsible for completing tasks and activities required for delivering project objectives against the approved project scope. Responsible for delivering input into project governance reporting and or project deliverable status information at the request of the project director.</td>
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5.2.3 The right membership

Past reviews of governance structures in New Zealand have criticised project governance boards for not understanding their role and responsibilities, for lacking experience or not having the necessary competency. Membership has been found to lack even a basic appreciation of the investment business case and attendance at meetings is often
delegated to staff who have no decision-making authority. Some governance groups have been found to act as a stakeholder groups rather than as decision-making groups.

Major infrastructure projects need governance boards equipped with expertise required to successfully achieve project outcomes. Often the required construction sector expertise is not found within a public sector agency. Consequently, an independent industry expert may be needed to support the governance board and help it understand the key success factors and risks to be aware of throughout the project.

These project governance boards should be open to advice on project design, procurement and feasibility of project timelines. For major infrastructure projects, membership of project governance boards should include:

- The SRO as the Chair
- expertise in governance
- expertise of leading and delivering major infrastructure projects; investment, procurement, finance, design, construction
- sector expertise; e.g. health, housing, corrections, roading, rail
- members with understanding of government as the investor, i.e. what is required to ensure accountability
- expertise in whole of life asset management
- members accountable for cross agency roles and responsibilities
- members accountable for third party enabling of infrastructure delivery, asset management and operation
- business change manager(s) responsible for leading the agency change required to ensure outcomes and benefits are achieved and where possible optimised.

Independent member(s) are often required, with specific expertise in the particular infrastructure investment or experience in governance more generally, or preferably both.

Another important factor in obtaining the right membership is selecting those that can commit for the required length of time, especially those independent of the project. Members must have the capacity to read papers, gather extra information as required and actively contribute to decision making.

Members need to be present at meetings and not delegate their attendance to those without decision making authority. In cases where membership cannot be maintained, new members should specifically replace the lost expertise or required role.

Given the complexity of many major infrastructure projects, governance boards will likely require the inclusion of ex-officio representatives of central agencies in their assurance and monitoring role. For major infrastructure projects this may include a member of the ITU.

In addition, the involvement of members of the ITU at project level provides additional advisory support, bringing experience and perspectives from a range of major infrastructure projects. The level of support the ITU provides will be dependent on the scale and complexity of the project.

5.2.4 Terms of Reference

The project governance board operates within predefined Terms of Reference specific to the needs of the project. These make clear the government’s expectations for the investment with reference to the business case.

The Terms of Reference document membership of the project governance board and outline the type of reporting it should ask for and receive.

Operational matters such as receipt of papers, location and regularity of meetings, managing conflicts of interest, required quorum for decisions, confidentiality and communications, and secretariat support and liaison, should also be covered in the Terms of Reference. A format for Terms of Reference is included at Appendix B.

5.2.5 The delegation framework

A critical aspect of the Terms of Reference is the inclusion of the delegation framework.

The framework makes it clear who (through to Ministers and Cabinet) is accountable for specific decisions, what decisions the project governance board is expected to make, what recommendations they will be asked for, and what endorsements they may provide in support of the project team. Figure 3
below illustrates how delegation progresses through responsible parties.

A typical template used as a framework for expected and anticipated stage gates and or milestones decisions is included at Appendix B.

5.2.6 Meetings

A lack of accountability can occur where meetings of a project governance board are misused as opportunities for updates on the progress of the project only, rather than as opportunities for deliberative decision-making.

Alternatively, a project governance board may be misused as a vehicle for stakeholder management. Very large meetings are usually indicative of this practice. When these alternative functions creep into a project governance board's Terms of Reference, the primary roles of accountable decision-making and delivering project benefits will suffer.

Figure 3: Delegations
6 Supporting project governance

Effective project governance requires good support to enable it to perform its role and function

6.1 Project Director / Project Manager

A project director manages the project on a day-to-day basis, reporting to the SRO and delivering the outputs on behalf of the SRO. The project director provides the project manager with the specialist resources and skills necessary to deliver a project to an agreed scope, quality, schedule and budget.

The project manager is responsible for structuring project delivery in an appropriate manner. The project manager develops and updates the project management plan, maintains the project schedule and risk registers, manages the probity requirements, prepares project reporting, resolves planning and implementation issues, and manages progress and budget.

It is an essential task of both the project director and project manager to ensure that project governance receives what it needs to enable it to perform its role and function.

6.2 Project documents

Project management documentation is the instrument used to scope, report on and deliver the project. Documentation may include best-practice instruments, templates, and methodology. The project governance board must be advised on and/or approve all founding documentation to ensure the project aligns with the proposed scope, cost and objectives. Regular review of project management documentation must be undertaken during project delivery to baseline and record project progress against milestones and deliverables.

Project governance is responsible for providing the SRO with support for decisions that are essential to the delivery of project. This means the approval and endorsement of a range of project documents such as:

- a Project Management Plan
- Probity Plan (refer next section)
- Communications and Stakeholder Engagement Plan
- a range of procurement documents from those used in Market Engagement through to Request for Proposal and Proposal Evaluation Planning and logistics, and
- where relevant, an organisational change management strategy, with links to other technology, service delivery and operational plans relevant to the project.

6.3 Reporting

Prior to each project governance board meeting, the project governance board should receive:

1. A project status report making it clear whether the project is on track or at risk.

   The report should be focused on providing governance with the ability to identify issues and risks and how they are being managed. It should append a milestone tracker, budget report, and a register of at least the top 10 risks. The report should include a current assessment of the project’s ability to deliver the intended outcomes and benefits.

2. Well considered papers that support the board’s ability to make decisions.

   Papers should identify options considered as well as the issues and risks associated with a course of action. Most importantly the papers should make it clear the extent to which any decision or course of action aligns with the intended outcomes and benefits, including any trade-offs.

   Where there is major deviation in the course of the project, the governance board should be able to recommend that further direction and/or decision making is referred to the Chief Executive or the responsible Minister.

3. Copies of any further advice provided in relation to key questions raised by the governance board.

4. Any full document required for approval or endorsement, with sufficient time for reading prior to the meeting.
The project governance board should expect an accurate record of their discussion and decisions to be provided via the meeting minutes. These minutes provide evidence of the accountability of the governance board. In various reviews of project failure, these documents are too often found to be insufficient, exposing the board to criticism of poor governance. A specific register can be helpful for recording governance decisions.

Reporting should fulfil the principles illustrated in Figure 4 overleaf:

6.4 Project risk management

The Office of the Auditor General identified that risk management was one of the two least mature elements of governance in the public sector. The other being the distinction between responsibilities of governance and management at both the organisational and project level.

Identifying, understanding and managing risk is an integral part of project governance. Risk is the effect of uncertainty on objectives\textsuperscript{14}. Standard risk management practice includes establishing a risk management context (political, economic, social, legal, environmental, organisational, investment, project, cultural), identifying factors that can have a negative impact on the project (e.g. cost, time, quality, value, legal challenge, or stakeholder acceptance), analysing potential impacts (minor to severe) and likelihood (rare to certain). Once understood, risks should be treated and mitigated such that they are avoided or their impact reduced.

It is important that risks are considered using different lenses. Note that risks at the organisational level may differ to those directly relevant to project delivery, adding additional layers that should be considered when developing risk management practices.

All major infrastructure projects must include a risk management framework and risk register. This should be aligned with the organisation’s formal risk management policy and methodology. This is typically owned by the organisation’s Audit and Risk function, but with specific emphasis as it applies to projects (distinct from day to day operations).

Good risk management practices:

- increase the likelihood of achieving investment objectives
- encourage proactive governance and management of risk
- increase the ability to adequately identify, treat and manage risks
- improve stakeholder confidence and trust, and
- support accountability and transparency.

Major infrastructure projects involve the transfer of delivery risk from the public sector agency to the contractor. Risks to be transferred should be considered by the project governance board such that their impact is understood. Transferred risks should only be those that the contractor can reasonably manage, mitigate or control. The cost and value of risk transfer should be documented (preferably in the business case and procurement strategy) and provisioned for. The project governance board also needs to ensure contracts are managed in a way that maintains clarity on the allocation of responsibility for risk management throughout the project lifecycle.

\textsuperscript{14} AS/NZS ISO 31000:2018
6.5 Project assurance

All Significant Projects are required to have an assurance plan and appropriate internal monitoring.

Assurance undertaken by the project should be rigorous and in line with project governance and sponsor expectations. Assurance includes both internal and external review. An independent monitor or expert can be used for internal assurance, while external assurance may be provided via Gateway Reviews and Independent Quality Assurance specifically for the SRO.

Reviews can focus on different aspects of the project depending on what assurance is sought. Gateway Reviews assess projects at key stages in their lifecycle. They provide recommendations for improving the likelihood of successful delivery and are mandatory for high risk projects.

From time to time, the Treasury carries out targeted investment reviews, which can be tailored to assess specific aspects of a project.

Assurance appraisal should provide confirmation that a project is on track to deliver the intended outcomes and benefits, including advice on what may be required to ensure success, identifying any technical and management challenges. It should also provide advice that informs governance decisions.

As public sector agencies arguably face increased scrutiny, it is important that project assurance documentation is kept and maintained.

Technical quality assurance may be required throughout the project lifecycle, and across various elements of the project, to support project governance.

Assurance in relation to project management may be required to ensure that the project is delivering well and risks are being managed. Project management documentation should evolve and adapt as the project moves through different phases.
6.6 Use of other groups

Appropriate and disciplined project governance relies on evidenced feedback and reporting to understand scope, schedule and budget for delivery. Not all information, expert advice or insight required to undertake decisions at a governance level is readily available within the core project team.

Those with deep domain knowledge within a specific field and independence from the project are often sought by the project governance board to navigate an informed resolution to project issues. Examples of advice and representative functions often utilised by governance span multiple areas of a project, including technical, commercial/legal, project finance, stakeholder management and other specialists.

Reference groups

Reference groups consist of people with the requisite skills to address particular project issues. They should comprise technical experts. They may be engaged either by the project governance board or the project director.

Stakeholder advisory

These groups provide forums for identified stakeholders to have input into a project. They may be engaged either by the project governance board or the SRO. The group may already exist, have an indefinite life span or may continue for the life of the project. Stakeholders may be internal to the agency or external people and organisations. Stakeholder consultation is a key component of communication and consultation in risk management standards.

Working groups

Working groups consist of small specialist groups dedicated to producing a well-defined output within a specific timeframe. A working group has no life beyond the delivery of that output. Working groups generally involve one or more members of a project team to support a defined activity and may report to the project governance group or project director as required.
7 Probity

Probity refers to ethical behaviour in a particular process. The Government has a role in guarding against both substantive and/or perceived probity failure. Project governance has an important role in upholding the principles of probity. Adherence to probity requirements supports ethical conduct, encourages participation, and protects the Government from legal risk and challenge and reputational damage.

7.1 Probity Plan

All investment projects, including major infrastructure projects, should put in place a Probity Plan from when the investment is being considered (business case stage) through to completion. The purpose of a Probity Plan is to ensure that probity principles are adhered to and considered throughout the process for procuring an investment.

A Probity Plan aims to:

- minimise the risk of material conflicts of interest not being identified and appropriately managed
- ensure compliance with all process requirements, thereby promoting the use of best practice and minimising the risk of procedural or other challenge
- maintain integrity by generating and preserving confidence in the process
- ensure that processes and decision-points are relevant, readily identifiable, and well understood by all those associated with the project
- ensure that roles and responsibilities within the process are clearly allocated, providing a strong basis for decision-making and enabling those responsible to be held accountable for their actions, and
- ensure that the process results in an outcome which delivers the best possible value for the Crown while being consistent with the process objectives.

The Probity Plan is designed to be used as a basis for decision-making on probity issues, and to record tasks and actions. However, sometimes decisions will need to be taken that are inconsistent with the Probity Plan for justified reasons, and sometimes reasonable measures provided in the Probity Plan will prove insufficient in the face of unexpected issues. It may also be possible for a process to be interfered with in ways that the Probity Plan cannot address (for example, a deliberate non-declaration of a conflict of interest), that may need to be dealt with through other routes.

Details of what a Probity Plan should include are provided at the end of this section.

7.2 Conflicts of interest

In general, a conflict of interest (COI) arises when financial, private or business interests of an individual or organisation involved in the process to procure an investment could compromise, or appear to compromise, their judgment or actions when performing their duties. How COIs are managed, and are seen to be managed, will significantly impact on perceptions of the process and an agency's integrity. For all Government projects the State Service Standards of Integrity and Conduct should be followed, by all those involved.

The Office of the Auditor General noted that COIs are ever present for those in governance roles, particularly given the small, networked nature of New Zealand. They can arise without anyone being at fault. Nonetheless, they need to be identified and managed carefully. It is important to note that the determination of whether a COI exists should not be undertaken by the individual making a declaration of interest. There is a temptation for the individual to consider, from their perspective, that there is no COI because their interest, in their view, is peripheral, not important or can be managed by themselves.

Conflicts of interest may be:

- real, where an individual does have competing interests
- potential, where a conflict could or will arise (but does not yet exist), or
- perceived, where a reasonable observer, viewing the process or relationship in question, is likely to think that an employee has competing interests (whether or not s/he actually does).
On declaring any such interests, including those of family members or business associates, and former associations and personal relationships, it is for the agency and those responsible for upholding probity principles to determine whether a conflict, real, potential or perceived exists and if so, how it might be managed.

Conflict of interest guidance should cover:

- the purpose of conflict of interest guidance as an important component of a Probity Plan (see below)
- examples of what is meant by a conflict of interest
- details of who is expected to disclose interests
- principles applying to how conflicts of interest should be managed
- process for managing conflicts of interests, including making a declaration (include template form), and responding to, and managing conflict of interests
- how information regarding interests as disclosed by an individual will be treated confidentially as part of the process, and
- specific undertakings that may be required at particularly sensitive stages of the investment process (heighted probity risk) – e.g. for evaluators evaluating participant proposals.

7.3 Probity Auditor and Advisor

In addition to a Probity Plan, an independent Probity Auditor should be appointed. This gives added assurance that probity principles are being adhered to and that those participating in the opportunity to deliver infrastructure investment can have confidence in the process.

Organisations may also choose to appoint a Probity Advisor to provide ongoing advice on probity matters and issues. Probity Advisors can help craft relevant COI declaration templates, Conflict Management Plans, and various protocols as may be needed.

As a minimum, within the project team a member should be responsible for assuring probity requirements are met. This may be the project manager or coordinator. For major infrastructure projects that are of sufficient size, it may warrant a Probity Manager being hired to oversee probity requirements.

7.4 External Agencies

It is important where there is cross agency involvement that agencies external to the Procuring Entity project team adopt the Probity Plan and adhere to the probity principles as if they were internal to the project. Each external agency should appoint a Probity Representative, who holds responsibility for ensuring that agencies adherence to the Probity Plan and for gathering COI declarations from all individual personnel that may be involved, even if intermittently.

7.5 Additional Protocols

Additional protocols may be required to support adherence to probity principles. These may include communication protocols for engaging with stakeholder groups or other external parties not directly bound (through contract or accountability) to the project, where this is necessary to safeguard information flow to protect the interests of the Procuring Entities, but in particular the interests of the participants to the procurement of an investment.
<table>
<thead>
<tr>
<th>Probity Auditor</th>
<th>Probity Advisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works independently of the procurement team and is not subject to the direction of project management.</td>
<td>Works alongside the procurement team as an integral team member and is subject to the project management direction and deliverables.</td>
</tr>
<tr>
<td>Audits project procurement activity.</td>
<td>Ensure the project team follows best practice probity principles in both the design and delivery of a project.</td>
</tr>
<tr>
<td>Provides assurance on and or tests actual or perceived conflict of interest existence within the project procurement process.</td>
<td>Ensures no actual or perceived conflict of interest exists within the project procurement process.</td>
</tr>
<tr>
<td>Provides assurance to suppliers on a project’s ethical practice and standards as well as the procurement process conducted.</td>
<td>Ensures procurement decisions within the project are documented and defensible.</td>
</tr>
</tbody>
</table>
A Probity Plan should include the following.

**Details of the full scope of the Probity Plan, such that**

- all those involved in the process (team members, other employees, advisors, internal and external service providers\(^1\), other agencies, etc), no matter how intermittent or infrequent are explicitly captured
- potential probity risks are highlighted, to aid understanding, including in relation to specific steps in the investment process (approach to market engagement and market sounding, provision of information via procurement documents and participant interaction, consultation with other parties (local authorities, iwi, stakeholders), contracting stage).

**Identified roles and responsibilities, making it clear who:**

- has overall responsibility for adherence to probity requirements (usually the SRO)
- manages the probity systems and processes
- maintains the probity Issues Register, the probity inbox (where participants can email regarding any probity issues), a master participant list
- obtains and reviews COI declarations
- provides advice to Ministers on probity matters
- responds to participants’ probity concerns and issues.

**Processes for:**

- the review of COI declarations and where necessary putting in place plans to manage real or perceived conflicts
- ensuring that project governance and all others involved update their COI declarations on an ongoing basis
- the refresh of COI declarations at key milestones or as participants change or are added to
- preparation of Conflict Management Plans

**Protocols governing:**

- the offer or receipt of gifts or hospitality
- information security
- communications and engagement with participants in an investment process
- procurement of advisors and managing restricted parties

**A Probity Register for:**

- Recording all activity relating to probity management; probity issues, probity actions, COI declarations and follow-up, COI management plans-up, restricted parties\(^1\), participant lists, gifts and hospitality details, record of meetings and engagement where there is a probity risk, including where this involves Ministers

**Probity documents:**

- Templates etc
Appendix A - References

Infrastructure and Projects Authority, Department for Transport (UK), Lessons from transport for the sponsorship of major projects, April 2019

Infrastructure Australia Assessment Framework: For initiatives and projects to be included in the Infrastructure Priority List, 2018

Infrastructure Australia, Australian Government, A Review of Project Governance Effectiveness in Australia, March 2013

Infrastructure NSW Infrastructure Investor Assurance Framework, October 2018

Infrastructure Transactions Unit, New Zealand. An examination of issues associated with the use of NZS Conditions of Contract, 2019


New Zealand Gateway Reviews, Lessons Learned Report, 2017

Office of the Auditor General, Reflections from our audits, Governance and accountability, April 2016

Ross Garland, Programme and project accountability: the governance of capital investments, June 2013

State Services Commission, New Zealand, Guidance for Monitoring Major Projects and Programmes, August 2011

Society of Construction Law, UK, How Poor Project Governance Causes Delay, October 2010
Appendix B – Example Project Governance Board Terms of Reference

Purpose

This document sets out the Terms of Reference (TOR) for the [Project name] Project Governance Board (PGB). The PGB has responsibility for ensuring the [Project name] is successfully delivered on time and within budget, are executed according to the developed project documentation and achieve the [Project name] Objectives. The PGB is also responsible for sound decision-making and for granting approvals and making recommendations to Ministers.

Objectives

The role of this Project Governance Board is to:

• ensure appropriate project management practices are in place;

• make effective decisions that will ensure successful delivery of the [Project name] objectives;

• make effective decisions that ensure the expectations of the Chief Executive Officer, Minister(s) and Cabinet are met;

• remove roadblocks to ensure that commitments to timeframes can be met;

• ensure the project remains viable throughout its lifecycle and if it isn’t, then recommend that it is stopped; and

• ensure the [Project name] is successfully delivered according to [Project name] objectives, scope, time, quality and cost.

Scope and Function

• The PGB function is to make decisions and provide the resources required for the project to meet its objectives;

• The PGB is not a consultation group, but rather a governing body with the authority to make decisions in relation to the [Project name];

• As appropriate, the Chair and Sponsor may review the membership composition to ensure the required expertise is represented on the PGB throughout the life of the project; and

• The Chair may invite experts to attend meetings to inform the PGB as required.

Chairperson

The Chair of the PGB is [Chairperson’s Details].

Membership & Voting Rights

The membership of this PGB is drawn from an appropriate decision making level, with the required capabilities, who are able to provide representation in the following key areas.
<table>
<thead>
<tr>
<th>Name</th>
<th>Agency</th>
<th>Role</th>
<th>Specific Responsibility</th>
<th>Date From</th>
<th>Date To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>Entity Name</td>
<td>Chair</td>
<td>Detailed members responsibilities</td>
<td>Example</td>
<td>Example</td>
</tr>
<tr>
<td>Example</td>
<td>Entity Name</td>
<td>Member</td>
<td>Detailed members responsibilities</td>
<td>Example</td>
<td>Example</td>
</tr>
<tr>
<td>Example</td>
<td>Entity Name</td>
<td>Member</td>
<td>Detailed members responsibilities</td>
<td>Example</td>
<td>Example</td>
</tr>
<tr>
<td>Example</td>
<td>Entity Name</td>
<td>Non-voting Member</td>
<td>Detailed members responsibilities</td>
<td>Example</td>
<td>Example</td>
</tr>
<tr>
<td>Example</td>
<td>Entity Name</td>
<td>Member</td>
<td>Detailed members responsibilities</td>
<td>Example</td>
<td>Example</td>
</tr>
<tr>
<td>Example</td>
<td>Entity Name</td>
<td>Independent Member</td>
<td>Detailed members responsibilities</td>
<td>Example</td>
<td>Example</td>
</tr>
</tbody>
</table>

Each Project Governance Board Member:

- has read and understood their Board role description including the need to question project actions and make project decisions;
- is aware of their responsibilities under the delegated authority of the [Project name] Agency;
- is able to provide constructive input and advice to the Project Director of the [Project name], and project leads;
- is aware of the project management approach;
- is able to actively assist with issue resolution and risk management;
- is committed to the [Project name] and understands the importance of their personal contribution to its success;
- is a champion for the [Project name];
- is committed to prepare for and attend PGB meetings for the duration of their commitment to the [Project name]; and
- has accepted this PGB Terms of Reference.

Apologies, substitutes, quorum

- apologies are advised to the Project Manager prior to the meeting as required;
- those formally acting in the member’s substantive role can attend PGB meetings as a delegate with approval from the Chair and must be fully briefed by the member and have full authority to make decisions;
- a quorum of four members is required for decisions to be made and a representative from [Example Entity] must be included. If an [Example Entity] representative is not available on the day then voting should occur via email to ensure [Example Entity] is included in any voting;
- if there are no decisions being sought, then the quorum is not applicable; and
• if decisions are not unanimous, escalation will be to the SRO, Chief Executive Office, Minister(s) or Cabinet.

Project Governance Board Meetings

• the PGB will operate according to these Terms of Reference;
• the [Project name] Lead is responsible for content provided to the PGB and arranging support for distributing the meeting packs to PGB members a minimum of two full working days before each meeting. Late papers are received at the discretion of the Chair;
• the Project Manager is responsible for formally recording PGB discussions, decisions and actions and sending minutes to PGB members within three working days after the meeting;
• urgent papers will be received at the discretion of the Chair;
• secretariat support will be provided to the PGB by the Project Team. This shall include:
  o co-ordination and management of diary invites and meeting room bookings;
  o compiling the agenda;
  o collate and distribute papers for meetings, including ensuring papers meet deadlines;
  o record and distribute meeting minutes;
  o monitor performance of actions; and
  o working with the Chair and [Project name] Lead in fulfilling their responsibilities.

Meeting dates / times / venues

The PGB will meet once a month with additional meetings arranged as required by the Chair. The frequency and length of the meetings will be assessed by PGB members and amended by the Chair as required. All meetings will be held at the [Project name – Meeting Location Details].

Reporting to the Chief Executive

The Chief Executive will be informed of key decisions and outcomes of the [Project name] by the Project Sponsor as required.

Escalation and Approvals

Escalations resulting from the [Project name] PGB will be to the SRO, Chief Executive Office, Minister(s) or Cabinet as required in accordance with the delegations framework. Approvals will be sought from responsible Minister(s) as per the Ministerial delegation framework.

Acceptance of Terms of Reference – PGB Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Substantive Position</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>Example</td>
<td></td>
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<tr>
<td>Example</td>
<td>Example</td>
<td></td>
</tr>
</tbody>
</table>
Ministerial Delegation Framework

The most recent form of delegations framework will be followed by the [Project name] and PGB and is set-out below.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Decision</th>
<th>Cabinet</th>
<th>Responsible Minister</th>
<th>Example Entity Project Governance Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example Stage of Project</td>
<td>Agree Example Decision</td>
<td>Approve</td>
<td>Approve</td>
<td>Recommend</td>
</tr>
<tr>
<td>Example Stage of Project</td>
<td>Agree Example Decision</td>
<td>Approve</td>
<td>Approve</td>
<td>Recommend</td>
</tr>
</tbody>
</table>