

In Confidence

Office of the Minister for Regional Economic Development

Chair, Economic Development Committee

## **FURTHER DECISIONS ON THE PROVINCIAL GROWTH FUND**

### **Purpose**

This paper reports back on two issues relating to the implementation of the Provincial Growth Fund (the Fund), and seeks further decisions to improve the operation of the Fund.

### **Executive Summary**

- 1 Cabinet has previously agreed to establish the Provincial Growth Fund and made decisions about its implementation. Officials were directed to report back on two specific matters – options for managing any equity shares the Government might want to take in projects, and a set of regional baseline measures that can be tracked over time. We have also identified several changes that would improve the implementation of the Fund.
- 2 The Minister of Finance and I have considered advice on options for taking equity shares in projects. <sup>9(2)(f)(iv)</sup>  

- 3 Officials have identified an initial set of robust, regularly updated, readily interpreted regional baseline indicators that they will track over time. These indicators will tell us whether regions are performing better or worse over time across a range of domains. They will not directly measure the performance of the Fund – this will be done through ongoing monitoring of individual projects and the overall evaluation of the Fund. Officials will continue to work on developing indicators for areas where they are currently lacking, and developing a plan for evaluating the performance of the Fund.
- 4 Officials have been developing an Investment Statement for the Fund, which will give applicants guidance about the Government's priorities for the Fund. The Investment Statement has been endorsed by the Regional Economic Development (RED) Delegated Ministers, and I propose to release guidance material drawing on this Investment Statement within the next two months. I recommend that the RED Delegated Ministers be authorised to make final decisions on the Investment Statement and the guidance material.
- 5 I recommend a number of changes to how we implement the Fund. Allowing the Head of the Provincial Development Unit to decline applications that clearly do not meet the criteria of the Fund will help to quickly clear the pipeline of low quality applications, and avoid unnecessarily burdening other decision makers. I seek authorisation to make any further changes to governance arrangements for projects under \$1 million to improve

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implementation of the Fund (e.g. to reflect potential changes in the role of Senior Regional Officials). I also recommend that the RED Delegated Ministers be similarly authorised to make small scale changes to governance arrangements (such as clarifying the role of the Independent Advisory Panel or changing the frequency of decision making meetings) for projects between \$1 million and \$20 million (significant changes, such as changes to delegations, will be referred to Cabinet for a decision).

- 6 I propose that the membership of the RED Delegated Ministers group be the Minister of Finance, the Minister for Regional Economic Development, the Minister of Economic Development and the Minister of Transport. Portfolio Ministers will be consulted on projects in their portfolios to ensure that portfolio objectives and constraints are appropriately considered, but will not be part of the decision making group. Officials will do further work on the formal arrangements for this consultation. I will report to Cabinet on the operation of the Fund and the considerations of the RED Delegated Ministers group every 3-4 months, and when required for approval of projects of \$20 million or more. As the Fund matures, I expect this reporting to increasingly relate to regional investment packages.
- 7 Cabinet has previously agreed that Regional Land Transport Plans (RLTPs) should continue to be the instrument by which regions specify the programmes and projects that are needed to enhance their infrastructure. The process of finalising the Government Policy Statement on land transport and RLTPs will generate a number of projects that will not be funded by Vote Transport but meet the objectives of the Fund. There are several pieces of work on rail that should also shortly result in a pipeline of regional rail investment opportunities.

## **Background**

- 8 In December 2017, Cabinet agreed to establish the Provincial Growth Fund (\$1 billion per annum for three years). In February 2018, Cabinet took decisions about the design of the Fund. A group of RED Delegated Ministers have met three times since this to consider and approve applications to the Fund and to make adjustments to the Fund's criteria, as agreed by Cabinet in February. A wider group of RED Ministers has also met once, on 26 June.
- 9 In February, Cabinet directed officials to report back on two issues:
  - a. Options for managing any equity shares the Government takes in projects through the Fund
  - b. The development of set of regional baseline measures that can be tracked over time.
- 10 This paper reports back on these issues, and the ongoing development of an Investment Statement, which will give applicants further guidance on the Government's priorities for the Fund. It also seeks several amendments to governance arrangements for the Fund, to ensure its smooth operation:
  - a. giving a delegation to the Head of the Provincial Development Unit (the Unit) to expedite decisions by decision makers that are subject to sign off of a business case, and decline applications that do not meet the Fund's criteria

- b. clarifying ongoing membership of RED Delegated Ministers, and authorising Ministers to make further small scale changes to governance arrangements
- c. revisiting the proposed frequency and nature of reporting to DEV.

**Options for taking equity stakes**

11 In the past, funding for regional economic development has generally been in the form of grants. With a much larger investment pool now available, we can support a much wider range of projects, including large commercial projects. In some cases, the Government might reasonably expect to receive a return on its investment. Accordingly, we are interested in a wide range of options for Government involvement, from grants through to loans and equity stakes.

12 In February, the Minister of Finance and I directed officials to report back to Cabinet by the end of June on options for managing any equity shares the government takes in projects through the Fund.

13 Since then, we have become aware of a number of large private sector firms who are looking to partner with central government to deliver projects under the Fund. They have discussed ideas with officials and members of the Independent Advisory Panel that are of a significant scale and complexity, with potential value up-lift for the Crown.

14 If these ideas are to be progressed further to the proposal stage and beyond, we think it would warrant having some form of entity separate to the Provincial Development Unit but working alongside it to shape those proposals and manage those investments, whether they are debt or equity.

15 9(2)(h) [Redacted]

16 9(2)(h) [Redacted]

17 9(2)(h) [Redacted]

18 9(2)(f)(iv) [Redacted]

19 9(2)(f)(iv) [Redacted]

## Outcomes and baseline indicators

20 In selecting projects that lift the productivity potential of regions, the government will examine the degree to which they also contribute to more jobs, sustainable economic development, social inclusion and participation, Māori development, climate change mitigation, environmental sustainability, and resilience. The February Cabinet paper identified the following outcomes that the Fund would contribute to:

- increased regional economic output, greater economic activity in the sectors where the Fund has invested, and in related sectors
- enhanced utilisation and returns for Māori from their assets
- increased productivity, with stronger growth in higher productivity businesses in the sectors invested in (and related sectors)
- increased employment (and reduced unemployment) and wages, in general, and for Māori particularly
- lower rates of young people not in employment, education and training, and a reduced proportion of this group being Māori
- improved digital communications (e.g. a reduced “digital divide”)
- improved resilience and sustainability of transport infrastructure, supporting improved connections within and between regions (e.g. reduced travel times, increased throughput of passengers and freight)
- contribute to mitigating or adapting to climate change
- more investments that ensure sustainable use of regions’ natural assets.

21 The Fund is one of many factors that will contribute to regional outcomes, so these outcomes are not measures of the performance of the Fund. Cabinet noted it will be at least 2 – 3 years after our investment before the improvements in regional outcomes will be observable and agreed that success over this term of government be measured in terms of the effectiveness of the investment activity of the Fund. The following indicators of effectiveness were identified in the February paper.

2018: pre-investment and remedial infrastructure	Late 2018-2019: funding decisions	2019-2021: delivery of projects
Pipeline: <ul style="list-style-type: none"> <li>• Number, quality of proposals</li> <li>• Conversion of high-quality initiatives and feasibility studies into proposals</li> </ul>	Pipeline: <ul style="list-style-type: none"> <li>• Number and quality of initiatives</li> <li>• Conversion of proposals into approved investments</li> <li>• Spread of investments across regions, tiers, risk profiles and for Māori</li> </ul>	Pipeline: <ul style="list-style-type: none"> <li>• Number, quality of projects underway and delivered to specification</li> <li>• Sustainability of projects beyond life of Fund</li> <li>• Exit of projects that are not delivering</li> </ul>
Administration:	Administration:	Administration:

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<ul style="list-style-type: none"> <li>• Capability of applicants lifted</li> <li>• Applications progressed efficiently</li> <li>• Improved capability of Government to engage with regional partners and Māori</li> </ul>	<ul style="list-style-type: none"> <li>• Decision makers supported to make choices that optimise the spread of investments across regions, tiers, risk profiles and for Māori</li> </ul>	<ul style="list-style-type: none"> <li>• Support for decision makers to adjust investment in projects (e.g. exit, change delivery or timing)</li> </ul>
<p>Direct impacts:</p> <ul style="list-style-type: none"> <li>• Greater partnering activity between regional players, and with the private sector</li> <li>• Programmes delivered for youth NEET</li> <li>• Remedial infrastructure projects beginning to get underway</li> <li>• Trees planted and planting pipeline developed</li> </ul>	<p>Direct impacts:</p> <ul style="list-style-type: none"> <li>• Greater investment interest from private sector following early government investments</li> <li>• Number of NEET now work ready</li> <li>• Number of jobs created through early investments</li> <li>• Infrastructure projects underway and delivered</li> <li>• Trees planted</li> </ul>	<p>Direct impacts:</p> <ul style="list-style-type: none"> <li>• Infrastructure projects underway and delivered</li> <li>• Enhanced regional connectivity</li> <li>• Reduced NEET</li> <li>• Number of jobs created</li> <li>• Improved productivity, export earnings</li> <li>• Emissions abatement (by gas)</li> <li>• Trees planted</li> </ul>

22 In February, Cabinet directed officials to develop a comprehensive set of baseline measures that we can track over time. These measures will tell us how well regions are performing across a range of relevant dimensions, and whether and where this performance is improving or deteriorating. Investments through the Fund should contribute over time to improvements in these measures.

23 Officials have identified the set of indicators that are available regionally, and focused on those indicators that are robust, recent, regularly updated and readily interpreted. Having analysed the available indicators, officials recommend the following regional indicators be adopted (including measurement of Māori outcomes where the available data permits):

Outcome	Indicators
Increased economic activity	<ul style="list-style-type: none"> <li>• Regional GDP growth (by industry)</li> <li>• Tourism expenditure</li> <li>• Retail spending</li> <li>• Number of businesses</li> <li>• Value of building consents</li> </ul>
Enhanced utilisation of Māori assets	<ul style="list-style-type: none"> <li>• Number of Māori businesses</li> <li>• Returns on Māori assets</li> </ul>
Increased productivity	<ul style="list-style-type: none"> <li>• Regional productivity</li> </ul>
Increased employment and earnings (in general and for Māori particularly)	<ul style="list-style-type: none"> <li>• Unemployment rate</li> <li>• Employment rate and growth</li> <li>• Underutilisation rate</li> <li>• Proportion in skilled employment</li> <li>• Median earnings</li> <li>• Sustained employment</li> <li>• Take-up of income support by people in work</li> </ul>
Lower youth NEET rates (and a reduced proportion of this group being Māori)	<ul style="list-style-type: none"> <li>• Youth NEET rates (by ethnicity)</li> <li>• Youth employment rates (by ethnicity)</li> </ul>
Improved digital communication	<ul style="list-style-type: none"> <li>• Take-up of broadband</li> </ul>
Improved transport infrastructure	<ul style="list-style-type: none"> <li>• Transport infrastructure resilience</li> </ul>

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	<ul style="list-style-type: none"> <li>• Travel times</li> <li>• Passenger and freight throughput</li> </ul>
Mitigating or adapting to climate change effects and a just transition to a low emissions economy	<ul style="list-style-type: none"> <li>• Greenhouse gas emissions</li> <li>• Proportion of forest cover</li> </ul>
Enhancing natural capital	<ul style="list-style-type: none"> <li>• Waste tonnage to landfills</li> <li>• Nitrate levels in fresh water</li> </ul>

- 24 Officials will continue to track these indicators over time, and report on them regularly to Ministers. They will also continue to develop these indicators, in the context of other streams of work that are developing national and regional measures, including Stats NZ's work on Indicators Aotearoa New Zealand and the Treasury's work on the Living Standards Framework through a set of wellbeing and sustainability indicators, and refreshing the targets of He kai kei aku ringa.
- 25 In particular, officials will focus on areas where we currently lack good regional indicators, including utilisation of Māori assets, mitigating the effects of climate change and the state of the environment.
- 26 In addition to tracking regional performance, we will monitor the outcomes being achieved by the projects we are investing in, and evaluate the overall performance of the Fund. Each funded project will have a set of contracted outcomes, which reflect where appropriate the overall outcomes the Fund contributes to. Officials will also look at the impact of our portfolio of investments at a more aggregated level e.g. by region, sector, different type or size of project, community versus commercial projects.
- 27 An evaluation plan is also being developed. The broad objectives of the evaluation are to: understand how the Fund operates and contributes to regional outcomes; identify the early markers of success; and identify opportunities on how the Fund can better achieve its outcomes. A substantive evaluation of the Fund should be completed by the end of 2020, to inform Ministers of progress in the context of making funding decisions for Budget 2021.

### **An Investment Statement for the Fund**

- 28 When the Fund was launched, the objectives and criteria of the Fund were widely communicated. These objectives and criteria were fairly broad ranging and permissive, to encourage stakeholders to be ambitious and generate a wide range of ideas. While we want to encourage people to think broadly about investment opportunities and projects, there is a risk that a lot of ideas will be submitted that lack sufficient merit to be approved by decision makers.
- 29 In areas where Government is making significant investments, it is useful to have a policy or investment statement, which provides guidance to potential applicants about the Government's funding priorities. This helps applicants to assess their likelihood of a successful application and minimise wasted effort. It also provides guidance to officials and decision makers about how to prioritise, assess and manage applications.
- 30 The Unit has developed a foundation version of an Investment Statement (the Statement) for the Fund. The Statement contains clear signals to enable proposals to be developed that will support the objectives of the Fund and the Government, and underpin the way officials are implementing the Fund. It is not intended to be a

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prescriptive document, and is intended to encourage prospective applicants to bring forward innovative proposals and packages.

- 31 The Statement covers the following aspects of the Fund's operation:
- a. Defining metropolitan Auckland, Wellington and Christchurch in relation to eligibility for funding
  - b. The role of regional action plans (and encouraging regions to refresh their existing Action Plans)
  - c. Whether the Fund will have actual or indicative allocations for sectors, regions or types of projects
  - d. The role of the Fund in developing workforce and business capability
  - e. The focus on sectors that have strong export growth and international demand, and are likely to be areas of strength for regions (e.g. food and beverage, forestry and tourism)
  - f. The role of the Fund in supporting transport and digital infrastructure
  - g. How the Fund will support Māori economic development
  - h. How the Fund will work for different types of proposals (e.g. less rigorous cost-benefit analysis for smaller community projects, co-investment requirement for commercial projects, willingness of government to undertake debt and equity investment).
- 32 The Statement has been tested with senior officials, commercial experts, Māori leaders and the Independent Advisory Panel. The RED Delegated Ministers have considered the foundation version of the Investment Statement. They provided specific feedback on several points:
- a. **Geographic scope** – Ministers have previously indicated that projects in Auckland, Wellington and Christchurch are ineligible, unless they are primarily for the benefit of the regions. RED Delegated Ministers further refined the definitions of these regions – they considered that Porirua, Upper Hutt and Lower Hutt Cities should be excluded, but Wairarapa is included and Kāpiti was considered to be marginal. For Auckland, South Auckland is excluded, and areas north of Auckland like Helensville and Wellsford are considered marginal. Areas outside Christchurch City (e.g. Selwyn, Hurunui) are included. Smaller urban centres (e.g. Hamilton, Tauranga) are not excluded from the Fund, but the focus of any investments in urban centres should be on benefiting the surrounding regions.
  - b. **Regional action plans** – these will be refreshed, but we will continue to progress proposals while this work is proceeding.
  - c. **The Fund allocation** – a view on this is likely to develop over time, as Ministers track funded projects and the upcoming pipeline, but Ministers are not looking at specifying percentage allocations. All the priority regions should get a fair allocation.

d. **Sector priorities** – we need to move up the value chain, by supporting proposals that generate value over volume.

- 33 The foundation version of the Statement will provide a backdrop for a series of guidance material for applicants over the next few months. This material will be similar to a commercial prospectus, and will contain a high level guide to the Fund for all audiences, as well as tailored short information targeting regions, sectors and specialised audiences such as commercial investors.
- 34 In February 2018, Cabinet authorised me to approve supporting material for the Fund, in consultation with other Ministers as required [CAB-18-MIN-0045, paragraph 37]. I propose to take final decisions on the Investment Statement and publicly release guidance material within the next two months.

### **Amendments to governance arrangements for the Fund**

- 35 Now that we have a few months of experience with implementing the Fund, we have identified a number of amendments that would improve the implementation of the Fund.

### ***Giving some decision making rights to the Head of the Provincial Development Unit***

- 36 Cabinet has agreed that decisions on individual projects under the Fund will be made by Senior Regional Officials (up to \$1 million), a delegated group of Ministers (between \$1 million and \$20 million) or Cabinet (over \$20 million). Other officials have a role in supporting the Independent Advisory Panel and decision makers, but do not have any decision making authority. That means that as things stand, any proposals received need to progress to a decision maker unless they are withdrawn by the applicant.
- 37 The Fund is likely to receive a large number of applications. Some of these will clearly not meet the eligibility criteria. Some might have significant gaps, even after officials have worked with applicants to improve the quality of the application. Others might lack merit and be very unlikely to be approved by decision makers. Rather than have officials continue to work on such applications, I recommend that the Head of the Unit have the authority to refuse to accept or subsequently decline applications that clearly fail to meet the Fund's criteria or are considered unlikely to ever reach the standards required to progress to decision makers for consideration. The Head of the Unit will be supported to make these decisions by the senior leadership team of the Unit and the relevant Senior Regional Official or Officials (SRO). Where appropriate, the Unit will refer applicants to other, potentially more suitable, funding sources.
- 38 In some cases, decision makers are giving approval to proposals "subject to a business case". In these cases, it would expedite the provision of funding if the Head of the Unit could approve the business case, rather than having to go back to the original decision maker. The Unit will be able to call on the necessary expertise to assess business cases, so I consider it appropriate for them to make this judgment, once decision makers have given in principle approval. Decision makers will identify which business cases they are comfortable delegating to the Head of the Unit to approve and which they wish to assess themselves. The Head of the Unit would report back to Ministers on those business cases that he approves.
- 39 I note that similar issues as above also arise for decision making on One Billion Trees programme proposals, which come out of the Provincial Growth Fund allocation. I will

set out a proposal for a delegated approach to be provided for the Head of Forestry in a separate Cabinet report back on the One Billions Trees programme.

### ***Clarifying the role of the Independent Advisory Panel***

- 40 We have established an Independent Advisory Panel (the Panel) to provide independent advice to decision makers. The previous Cabinet papers suggested that the Panel would provide advice on Sector Investments, and could provide advice on transport projects, but would not provide advice on One Billion Trees projects.
- 41 I am now proposing that the Panel provide advice on specific proposals referred to them by me or the Unit. In line with the Panel's expertise, I expect them to be focusing on significant sector and firm-led projects. I also expect them to advise the Unit on commercial matters, including the appropriate vehicles for holding any investment the Crown might make in commercial projects, and to provide advice on the coherence and sustainability of the Fund investment portfolio.
- 42 I consider that the Panel should be able to comment on projects outside their commercial ambit when requested by Ministers or the Unit, including areas such as transport, tree planting and forestry projects. My expectation is that this will generally be in the context of larger regional investment packages that have transport and forestry elements, rather than on individual transport and forestry proposals.

### ***Confirming membership and delegations of the RED Delegated Ministers***

- 43 The previous Cabinet papers have established a RED Delegated Ministers group. This group makes decisions on individual funding proposals of between \$1 million and \$20 million. The membership, as defined by the previous Cabinet papers, is the Minister of Finance, the Minister for Regional Economic Development, the Minister of Economic Development and other portfolio Ministers as relevant.
- 44 Given the prominent role that transport plays as an enabler of regional economic development, I recommend that the Minister of Transport also be a permanent member of the RED Delegated Ministers group.
- 45 While it is essential that portfolio Ministers are consulted as projects are developed and assessed and come forth for a decision, I recommend these Ministers do not form part of the formal decision making group. Keeping decision making with the same set of Ministers will ensure consistency between different decisions, and across different decision making "rounds".
- 46 To ensure RED Ministers receive well-informed and coordinated advice on proposals, the PDU will ensure that appropriate agency consultation is undertaken in a timely manner as proposals are developed and that agency and Minister views are accurately reflected in the advice on proposals. Where proposals intersect with other portfolios, advice on proposals to RED Ministers will include a statement that outlines portfolio Ministers' views on:
- a. Any inconsistencies with other portfolio objectives and potential implications of any proposals.
  - b. Sensitive issues with other policy portfolios, for example, Treaty of Waitangi obligations or public conservation land.

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- c. Any legal considerations, statutory and regulatory requirements of other portfolios.
  - d. Other matters of concern to portfolio Ministers.
- 47 PDU officials will engage with portfolio agencies as proposals are being considered and key concerns will be taken into account in the curation of the project. Portfolio agencies will ensure the PDU is fully informed about any concerns held by their Ministers. Agencies will provide material that set out their Ministers' views on proposals for the PDU to include in the advice to RED Delegated Ministers. This will be provided to the PDU a week before Ministers meet.
- 48 As the Fund continues to mature, smaller scale changes to governance arrangements that could improve processes are likely to emerge. Two such potential changes are the way in which Senior Regional Officials operate in making decisions under \$1 million and the administrative requirements for relatively simple, low cost applications. I recommend that Cabinet authorise me to approve changes to governance arrangements for applications under \$1 million in future, to improve the effectiveness of the Fund's operation. Similarly, for projects in the \$1 million – 20 million range, it would be beneficial for RED Delegated Ministers to be able to make minor adjustments to governance arrangements, such as any further adjustments to the Panel's scope, the frequency of decision making meetings, or criteria for measuring the effectiveness of Fund investments. I recommend that Cabinet authorise RED Delegated Ministers to make such smaller scale changes to governance arrangements between \$1 million – 20 million, to improve the effectiveness of the Fund's operations. Should more significant changes to governance arrangements be required (e.g. changes to delegations), I will bring them back to Cabinet for approval.

### ***Frequency and nature of reporting to Cabinet***

- 49 The February Cabinet paper invited me to report to the Cabinet Economic Development Committee (DEV) every eight weeks. After further consideration, I propose greater flexibility around reporting back to Cabinet.
- 50 This would enable us to progress initiatives and investment packages above \$20 million when they are ready for a decision. I am expecting that as the Fund matures, Cabinet will be asked to consider regional packages of investments that incorporate workforce development, sector and infrastructure elements.
- 51 DEV recently took decisions about its working arrangements, in light of broader work on the Government's priority outcomes and work programme. Among other things, DEV agreed in principle that Ministerial oversight groups will be responsible for timely delivery of the DEV work programme, and that these groups report back to DEV 3-4 times per annum on progress [DEV-18-MIN-0054, paragraphs 7 and 8]. In this context, it would be appropriate for DEV to receive an update on progress with the Fund every 3-4 months. This would include reporting on funding decisions made and the performance of the Fund. I propose to present the first such report before the end of August.

### ***Progress with transport issues***

- 52 The February Cabinet paper discussed the processes for making decisions about funding transport projects. Cabinet agreed that Regional Land Transport Plans (RLTPs) should continue to be the instrument by which regions plan and prioritise investments in

transport infrastructure [CAB-18-MIN-0045, paragraph 19]. Proposals for which funding is sought from the National Land Transport Fund (NLTF) must be included in RLTPs, and these will be initially assessed by the New Zealand Land Transport Agency (NZTA) for fit with the strategic priorities outlined in the Government Policy Statement (GPS) on land transport.

- 53 Where projects are not prioritised or are not eligible for NLTF funding, or where local government may need support to meet local share requirements, they may be considered for support from the Fund. These projects will be subject to assessment against the criteria of the Fund, which will be carried out jointly by the Unit, the Ministry of Transport and NZTA. The Ministry of Transport and NZTA are finalising principles and expectations to guide the assessment of transport projects that reflect the criteria and specific objectives of the Fund.
- 54 While regions are encouraged to reflect their wider transport priorities in RLTPs, some projects that fall outside the scope of the NLTF or are not land transport projects may not be included (e.g. port infrastructure, airports). Such proposals will be assessed against the criteria for the Fund by the Unit using the usual Fund processes. The Ministry of Transport and NZTA would be actively involved in assessing these projects, and have input into advice provided to decision-makers.
- 55 I expect that developments in the transport portfolio in the coming months will result in tranches of investment proposals, and provide clarity on the likely Fund pipeline for transport projects. These developments include:
- a. Publication of the GPS 2018/19 – 2027/28 and preparation of the National Land Transport Programme, which will allow the Ministry of Transport and NZTA to identify projects in RLTPs that might be eligible for support from the Fund
  - b. A next tranche of rail proposals led by KiwiRail
  - c. The Future of Rail Project, which will provide options for bringing KiwiRail onto a sustainable funding path that reflects the Government’s objectives for rail
  - d. The Northland Accelerated Rail business case.
- 56 The February Cabinet paper authorised the Minister for Regional Economic Development and the Minister of Transport to make decisions on allocating Fund resources to transport projects, but noted this authorisation was subject to the Ministerial delegations above \$1 million. I recommend that we clarify that regional transport projects are subject to the same delegations as other Fund projects. Large proposals that require Cabinet consideration (i.e. over \$20 million) would be jointly submitted by the Minister of Transport and the Minister for Regional Economic Development.

## **Publicity**

- 57 I propose to release this Cabinet paper and associated minute after decisions are taken.

## **Consultation**

- 58 This paper has been consulted with the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, Te Puni Kōkiri, the Ministry of Transport, the New Zealand Transport Agency, the Department of Conservation, the

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Treasury, the Ministry of Foreign Affairs and Trade, the Ministry for the Environment, the Ministry for Culture and Heritage, the Ministry of Social Development, the Department of Internal Affairs, the State Services Commission, New Zealand Trade and Enterprise and Stats NZ. The Department of Prime Minister and Cabinet has been informed.

### **Human Rights**

59 There are no human rights implications to this paper.

### **Legislative Implications**

60 There are no legislative implications to this paper.

### **Regulatory Impact Analysis**

61 A Regulatory Impact Analysis is not required.

### **Gender Implications**

62 There are no specific gender implications to this paper.

### **Treaty of Waitangi Implications**

63 There are no specific Treaty of Waitangi implications to this paper. I expect a number of projects that will be supported by the Fund will directly impact on Māori and I expect that any Treaty implications will be dealt with on a case-by-case basis.

### **Disability Perspective**

64 There are no specific disability implications to this paper.

### **Recommendations**

The Minister for Regional Economic Development recommends that the Committee:

1. **Note** that officials were directed to report back to Cabinet by 30 June 2018 on options for managing any equity shares the government takes in projects through the Fund [CAB-18-MIN-0045, paragraph 69];

2. 9(2)(f)(iv)

3. 9(2)(f)(iv)

4. 9(2)(f)(iv)

5. **Note** that officials have developed an initial set of baseline regional measures that can be tracked over time, in conjunction with other workstreams that are developing national and regional measures;
6. **Direct** officials to track the following regional indicators;

Outcome	Indicators
Increased economic activity	<ul style="list-style-type: none"> <li>• Regional GDP growth (by industry)</li> <li>• Tourism expenditure</li> <li>• Retail spending</li> <li>• Number of businesses</li> <li>• Value of building consents</li> </ul>
Enhanced utilisation of Māori assets	<ul style="list-style-type: none"> <li>• Number of Māori businesses</li> <li>• Returns on Māori assets</li> </ul>
Increased productivity	<ul style="list-style-type: none"> <li>• Regional productivity</li> </ul>
Increased employment and earnings (in general and for Māori particularly)	<ul style="list-style-type: none"> <li>• Unemployment rate</li> <li>• Employment rate and growth</li> <li>• Underutilisation rate</li> <li>• Proportion in skilled employment</li> <li>• Median earnings</li> <li>• Sustained employment</li> <li>• Take-up of income support by people in work</li> </ul>
Lower youth NEET rates (and a reduced proportion of this group being Māori)	<ul style="list-style-type: none"> <li>• Youth NEET rates (by ethnicity)</li> <li>• Youth employment rates (by ethnicity)</li> </ul>
Improved digital communication	<ul style="list-style-type: none"> <li>• Take-up of broadband</li> </ul>
Improved transport infrastructure	<ul style="list-style-type: none"> <li>• Transport infrastructure resilience</li> <li>• Travel times</li> <li>• Passenger and freight throughput</li> </ul>
Mitigating or adapting to climate change effects and a just transition to a low emissions economy	<ul style="list-style-type: none"> <li>• Greenhouse gas emissions</li> <li>• Proportion of forest cover</li> </ul>
Enhancing natural capital	<ul style="list-style-type: none"> <li>• Waste tonnage to landfills</li> <li>• Nitrate levels in fresh water</li> </ul>

7. **Note** that officials will do further work to develop robust indicators in the areas for which we currently lack them (e.g. Māori development, environment), and to develop a plan for evaluating the performance of the Fund;
8. **Note** that the Regional Economic Development (RED) Delegated Ministers have considered the content of an underpinning Investment Statement, which provides a backdrop for guidance material to potential applicants about the Government's priorities for the Fund;
9. **Note** that the Minister for Regional Economic Development will approve and publicly release this guidance material over the next two months;
10. **Agree** to change the delegations for the Fund so that the Head of the Provincial Development Unit has the authority to:

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- 10.1. approve any applications where other decision makers have previously given approval “subject to business case”, and have authorised the Head of the Unit to approve the business case
- 10.2. decline any applications that clearly do not meet the criteria of the Fund;
11. **Authorise** the Minister for Regional Economic Development to approve changes to governance arrangements for projects of up to \$1 million, subject to being satisfied when changing any financial delegations to officials that there are sufficient safeguards in place to manage the potential conflicts of interest arising between the regional advocacy and decision making roles of senior officials; be included in a separate Cabinet report back on the programme
12. **Note** that a delegated approach for proposals under the One Billion Trees programme will be included in a separate Cabinet report back on the programme;
13. **Authorise** the RED Delegated Ministers to approve minor changes to the governance arrangements for projects of \$1 million - \$20 million (such as broadening the situations in which the Independent Advisory Panel can be asked to provide advice, and frequency of decision making meetings), with more significant changes (e.g. to delegations) being referred to Cabinet for decision;
14. **Agree** that the Independent Advisory Panel provide advice on any Fund proposals referred to them by the Minister for Regional Economic Development or the Provincial Development Unit, including the transport and forestry elements of large regional investment packages;
15. **Agree** that the RED Delegated Ministers group comprise the Minister of Finance, the Minister for Regional Economic Development, the Minister of Economic Development and the Minister of Transport;
16. **Noted** that the RED Delegated Ministers group will pay particular attention to Maori development issues;
17. **Agree** that the advice the Provincial Development Unit provides RED Delegated Ministers will include a statement covering key views of portfolio Ministers in relation to the proposals being considered, including:
  - 17.1. Any inconsistencies with other portfolio objectives and potential implications of any proposals.
  - 17.2. Sensitive issues with other policy portfolios, for example, Treaty of Waitangi obligations or public conservation land.
  - 17.3. Any legal considerations, statutory and regulatory requirements of other portfolios.
  - 17.4. Other matters of concern to portfolio Ministers.
18. **Invite** the Minister for Regional Economic Development to submit proposals of more than \$20 million to DEV as and when required, and to report to DEV on progress with the Fund 3-4 times per annum, with the first such report by the end of August 2018;

NOTE: Paper has been amended slightly to reflect final Cabinet decisions

19. **Note** that there are a number of ongoing streams of transport work that will provide greater clarity on the pipeline of potential transport investments in the next few months;
20. **Invite** the Minister for Regional Economic Development and the Minister of Transport to jointly submit to Cabinet any transport proposals of more than \$20 million;
21. **Agree** that this Cabinet Paper and the associated minute will be released after decisions are taken.

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development