

ASSESSING THE IMPACT OF THE PGF

Introduction

The Provincial Growth Fund (PGF) is an unprecedented investment in New Zealand's regions – which will create new opportunities and lift prosperity in parts of New Zealand which have been falling behind on key economic indicators, including employment and household income levels.

Measuring and evaluating the impact of the PGF is an ongoing and crucial piece of work which ensures that we can track and understand the outcomes being achieved through the PGF's investments. It will inform government on which investments and activities are most beneficial for addressing the long-term challenges faced in New Zealand's regions. The measurement and evaluation approach is set out across a number of Cabinet decisions and demonstrates how the impact of the Fund will be measured.

The measurement and evaluation approach is twofold and recognises that it will take some time for the impact of the PGF's investments to be fully realised, given the time it takes to contract projects and bring them to fruition. This is the case across many aspects of the PGF's work that is carried out with other parties, such as establishing and delivering bespoke employment readiness programmes for the long term unemployed, planning and undertaking large-scale infrastructure projects such as rail investments, and investing with business to build new plant and machinery.

This approach also recognises that the PGF is dedicated to addressing long standing disparities in the regions that have developed over decades – from deprivation and high unemployment to low digital connectivity and low firm productivity. Projects funded from the PGF that are geared to address these long-term issues will not achieve results immediately. These challenges have remained in the regions despite the positive nationwide economic trends of recent years.

There are, however, indicators which will be assessed to understand the short-term effectiveness of the PGF's operations and investments. This will be the focus of measurement and evaluation to be completed in 2020. Evaluation of the long-term impacts of the PGF will be progressively undertaken once all PGF investments have been made.

Objectives of the PGF

The objectives of the PGF were agreed by Cabinet in December 2017. While the overall objective of the Fund is to lift the productivity potential in the regions, the following specific objectives were agreed:

- **Jobs and sustainable economic development:** investments support increased jobs (with a focus on high quality jobs) and sustainable economic development over the long-term, particularly in regions and sub-regions where unemployment is high and there are significant social challenges.

- **Social inclusion and participation:** investments support increased social inclusion through effective training, work preparation and support that enables more people to fully participate in work and society.
- **Māori development:** investments enable Māori to realise their aspirations through greater participation in all aspects of the economy.
- **Climate change and environmental sustainability:** investments support opportunities to achieve New Zealand's climate change commitments and encourage more sustainable and productive use of land, water and other resources.
- **Resilience:** investments increase regional and national resilience by improving critical infrastructure and focusing on opportunities to grow and diversify our economy

Outcomes of the Provincial Growth Fund

Over time we expect the PGF to contribute to a range of improved outcomes. These were agreed by Cabinet in February 2018. They are:

- Increased regional economic output, greater economic activity in the sectors where the PGF 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.

Understanding the impact of the PGF

The PGF will be assessed both in the near-term and the longer term as follows:

- In the near term, there will be measurement and evaluation to indicate the **effectiveness of the investment activity** of the PGF
- In the longer term, there will be measurement and evaluation to capture the **long-term impacts** of the PGF

Indicators of effectiveness of PGF investment activity

In February 2018, Cabinet noted that it would be at least two – three years after PGF investments have been made before the improvements in regional outcomes would be observable.

Cabinet has agreed that success over the early years of the Fund would therefore be measured in terms of the effectiveness of the investment activity – that is, the quality and

impact of activities in the different phases of the PGF (outlined below). These activities include the management of applications, providing support for decision makers, developing new ways of partnering with the regions, and putting in place the foundation that will support the delivery of the PGF's ultimate objectives over the longer term.

There are three phases of PGF activity:

- **Phase 1: 2018:** pre-investment in feasibility studies, existing regional priorities and identification of key infrastructure investments for the regions.
- **Phase 2: Late 2018 – 2019:** Allocation decisions for the bulk of the PGF investment, with an increased focus on commercial opportunities.
- **Phase 3: 2019-2021:** Delivery of projects.

These phases outline the timeframes for applicants and government agencies to prepare applications, receive funding approval and contracts, gear up their businesses and deliver new activities. PGF funded projects can be sizeable and complex, involving a number of parties that provide skills training, infrastructure construction and commercial considerations. The timing of the phases will, to some degree, overlap.

In February 2018 Cabinet agreed the following 'indicators of effectiveness' to be used to assess the success of the Fund in the period through to 2020:

Phase 1: 2018: pre-investment and remedial infrastructure	Phase 2: Late 2018-2019: funding decisions	Phase 3: 2019-2021: delivery of projects
Pipeline: <ul style="list-style-type: none"> • Number, quality of proposals • Conversion of high-quality initiatives and feasibility studies into proposals 	Pipeline: <ul style="list-style-type: none"> • Number and quality of initiatives • Conversion of proposals into approved investments • Spread of investments across regions, tiers, risk profiles and for Māori 	Pipeline: <ul style="list-style-type: none"> • Number, quality of projects underway and delivered to specification • Sustainability of projects beyond life of Fund • Exit of projects that are not delivering
Administration: <ul style="list-style-type: none"> • Capability of applicants lifted • Applications progressed • Improved capability of Government to engage with regional partners and Māori 	Administration: <ul style="list-style-type: none"> • Decision makers supported to make choices that optimise the spread of investments across regions, tiers, risk profiles and for Māori 	Administration: <ul style="list-style-type: none"> • Support for decision makers to adjust investment in projects (e.g. exit, change delivery or timing)
Direct impacts: <ul style="list-style-type: none"> • Greater partnering activity between regional players, and with the private sector • Programmes delivered for youth NEET • Remedial infrastructure projects beginning to get underway • Trees planted and planting pipeline developed 	Direct impacts: <ul style="list-style-type: none"> • Greater investment interest from private sector following early government investments • Number of NEET now work ready • Number of jobs created through early investments • Infrastructure projects underway and delivered • Trees planted 	Direct impacts: <ul style="list-style-type: none"> • Infrastructure projects underway and delivered • Enhanced regional connectivity • Reduced NEET • Number of jobs created • Improved productivity, export earnings • Emissions abatement (by gas) • Trees planted

These indicators of effectiveness are included in the PDU performance reporting to the Cabinet Economic Development Committee, with reporting on Phase 1 activities provided from October 2018. During Phase 1, a significant proportion of PGF investment activity related to addressing existing regional priorities and identifying the key regional infrastructure investments that were needed to support later PGF investments. Reporting is now moving to include assessment of Phase 2 investments.

The indicators of effectiveness will also form the basis of an evaluation of the PGF, which will be complete by end of 2020, to inform Ministers in the context of making funding decisions for Budget 2021.

The broad objectives of the evaluation are to:

- understand how the PGF has operated and contributed to regional outcomes
- identify the early markers of success; and
- identify opportunities on how the PGF could better achieve its outcomes.

Long-term impacts of the PGF

In July 2018, Cabinet identified a set of indicators that were available that could be used to measure the nine broad outcomes of the PGF and directed officials to build on these to develop a good set of regional indicators for New Zealand:

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

This is being done alongside other work across government to develop national and regional measures. In particular, work is focused on areas where we currently lack robust indicators, particularly with respect to the utilisation of Māori assets, mitigating the effects of climate change and the state of the environment.

These indicators and the 2020 evaluation will inform further evaluation of the PGF, which will be carried out when its impacts can be properly assessed.

Impact of PGF projects

In addition to tracking regional performance, officials will monitor the outcomes being achieved by the projects the PGF is investing in. Applications to the PGF are approved if they meet the Fund's criteria, and will actively contribute to the overall aim of lifting productivity potential in the regions.

Once an application has been approved, the Provincial Development Unit (PDU) works with funding recipients to negotiate contract terms which include milestones, timeframes and payment schedules, and/or loan terms. These contract terms differ from project to project and reflect, where appropriate, how the project contributes to the outcomes of the PGF.

The impact of these projects are, in part, determined by the delivery of agreed contract milestones, deliverables and conditions, which are monitored through progress reports and milestone and outcomes information submitted by funding recipients. The cumulative impact of the investments will be considered, to the extent possible, through the PDU's performance reporting and as part of 2020 evaluation, and then will be considered in more depth as part the longer term evaluation of the PGF.

Project delivery will ramp up over the coming months as contracts are finalised and money is paid as milestones are met. As at 30 June 2019 \$887.2 million worth of investments have executed contracts and \$220.2 million has been paid to applicants.