

In Confidence

Office of the Minister for Regional Economic Development

Chair, Economic Development Committee

## **OPERATIONAL DESIGN OF THE TUAWHENUA PROVINCIAL GROWTH FUND**

### **Purpose**

This paper responds to Cabinet's invitation to report back on further elements of the operational design of the Tuawhenua Provincial Growth Fund (the Fund), building on the decisions agreed by Cabinet in December 2017.

### **Executive Summary**

- 1 The government agreed in December 2017 to establish the Tuawhenua Provincial Growth Fund of \$1 billion per annum over three years to invest in raising the productivity potential of regional New Zealand. The Fund will invest in a range of projects from feasibility studies, capacity building and small local projects through to larger sector-led initiatives and infrastructure investments. The Fund has three tiers: Regional Projects and Capability; Sector Investments (including the One Billion Trees Programme); and Enabling Infrastructure Projects. Cabinet invited me to report back in February 2018 on several areas of further detail of the operational design of the Fund.
- 2 Over the longer term, investments by the Fund will contribute to the outcomes of the government's economic strategy, and the objectives of the Fund agreed by Cabinet in December 2017. Over the life of the Fund, I would expect to see phased activity, starting with capability building, feasibility studies and remedial infrastructure investment, and progressing to delivery of larger projects over 2019 and 2020. Accordingly, success measures for 2018 and 2019 will focus on the number and quality of the pipeline of applications, and early signs of capability building, while measures for 2019 and 2020 would cover decisions on and delivery of projects.
- 3 In December 2017, Cabinet agreed to a set of delegations for the Fund that effectively set up three bands – Senior Regional Officials (for up to \$1 million), delegated Ministers (between \$1 and \$10 million) and Cabinet (over \$10 million). In addition, Cabinet agreed to use existing decision-making processes where possible for infrastructure investments. I recommend that we redistribute the balance of decision-making between delegated Ministers and Cabinet by agreeing that delegated Ministers can make decisions up to \$20 million.
- 4 I propose that responsibility for the One Billion Trees programme be delegated to the Minister of Forestry. The programme would use clear criteria and performance measures aligned with the Fund, plus some additional criteria specific to the programme. The Minister of Forestry will be reporting back to Cabinet in June 2018 with a comprehensive programme to deliver One Billion Trees, [

] In the interim, I

propose that projects to support afforestation be approved through the existing criteria and processes agreed by Cabinet.

- 5 Infrastructure projects, such as transport and telecommunications, will go through existing processes before being considered for funding through the Fund, to ensure the Fund is used for projects that specifically benefit the regions. In relation to transport, the Fund will play several roles, including boosting the number of regional projects that can receive funding, bringing forward projects, and providing funding assistance to assist those regions that have significant difficulties with affordability for key projects. The Fund will also assist us to meet our goals for rail, [ ]
- 6 To ensure we deliver a coherent programme of investments across regions, which aligns with our regional economic development priorities, I propose that the Ministers delegated to make decisions on the Fund regularly inform the wider Regional Economic Development Ministerial group of the Fund's activities. This wider group will meet to ensure Ministers can coordinate their activities in the region and are aware of upcoming activities that they can contribute to. To support the implementation of the Fund, two new groups are to be established – a Regional Economic Development Unit to be established in the Ministry of Business, Innovation and Employment and an Independent Advisory Panel.
- 7 The Regional Economic Development Unit will be responsible for overseeing all the remaining design work for the Fund, administering the Fund and monitoring its operation, working with other government agencies. The Independent Advisory Panel will provide independent advice on proposed investments, and will provide advice on the balance of the portfolio of investments.
- 8 Officials have developed a more detailed set of eligibility and assessment criteria, based on the high level criteria agreed by Cabinet in December 2017. Greater detail on the information that applicants would need to supply to demonstrate them will be developed by the Regional Economic Development Unit and the Independent Advisory Panel. I recommend that we continue to use the delegations agreed in December 2017 for considering and approving applications in 2017/18, but start assessing new applications against the new set of criteria.
- 9 There are some infrastructure investments that would be excluded from the Fund. In particular, investment in social assets (e.g. hospitals and primary and secondary schools) would be excluded, as their primary purpose is not lifting regional productivity potential. Investments in three waters infrastructure and large scale housing projects would be excluded from the Fund until the government has determined its approach to these areas.
- 10 The government has agreed to wind down investment in large scale irrigation (such as those funded by Crown Irrigation Investments Limited). I propose the fund explicitly exclude large scale, regional irrigation schemes, but provide for investment in smaller localised and community-based water management, which will be assessed on a case-by-case basis against the criteria of the Fund. Preference will be given to proposals which support multiple objectives of the fund (e.g. employment, sustainability, and resilience).
- 11 It is proposed that we establish a Provincial Growth Fund appropriation in 2017/18, so that we can start to fund proposals in the pipeline that are outside the scope of the

Regional Growth Initiatives appropriation. [

] Any funding spent in 2017/18 would count against the Fund, and any unspent funding would be carried forward to 2018/19. I have discussed financial arrangements for the Fund from 2018/19 with the Minister of Finance and other affected Ministers, and we propose to count a number of existing funding sources and Budget 2018 proposals against the Fund. We also recommend that the administration costs of government agencies count against the Fund. The details of the appropriation will be confirmed in the Budget 2018 process.

- 12 The Fund will be launched in late February, including announcements on new expenditure in 2017/18.

## Background

- 13 The government is committed to economic growth that is sustainable and benefits all New Zealanders. Regional economic development is an essential component of the government's economic strategy. Nearly half of New Zealand's population lives outside the main urban centres, and they generate around 40 per cent of the country's economic output. If the provinces are not doing well, New Zealand's overall economic performance will be affected. Similarly, if we want to diversify our economy and make it more environmentally sustainable, changes will be needed in the provinces.
- 14 In December 2017, Cabinet agreed to establish the Tuawhenua Provincial Growth Fund, a \$1 billion per annum fund investment for three years, with the overall objective to lift productivity potential in the regions [CAB-17-MIN-0554, paragraphs 1 and 2]. The Fund will have three tiers: Regional Projects and Capability; Sector Investments (including the One Billion Trees Programme); and Enabling Infrastructure Projects [CAB-17-MIN-0554, paragraph 7].
- 15 Cabinet also took several high-level decisions about the parameters of the Fund, including the sub-objectives, who may apply (and which applications will be prioritised), and key eligibility criteria [CAB-17-MIN-0554, paragraphs 3-6 and 8].
- 16 This paper sets out the key operational design elements of the Fund, including where Ministers will be involved in decisions over the Fund's significant initiatives in the provinces on behalf of our Government. In particular, the paper sets out:
- the different phases of the Fund's activities that we can expect to see over the coming three years, as the pipeline of initiatives matures
  - how we as a government will determine our success with regard to the Fund's activities
  - the oversight and administration processes for the Fund and the roles of Ministers, government agencies and the Independent Advisory Panel
  - the criteria that proposals will meet to be eligible for consideration and funding
  - further financial arrangements for the Fund.
- 17 Over the remainder of 2017/18, I will finalise the processes for administering, monitoring and evaluating the Fund over the next three years. Given the number and size of investments we expect to make through the Fund, Ministers will be regularly involved in

making decisions on Fund investments. Delegated Ministers (Regional Economic Development, Economic Development, Finance) and relevant portfolio Ministers will sign off medium-sized investments, with Cabinet signing off larger proposals. It is likely that funding decisions for Ministers will arise at least every two months.

### **Phases of Fund activity**

- 18 We will be announcing the first tranche of investments by the Fund when we launch the Fund later in February. This is a good set of initial investments that will contribute to lifting the productivity potential of the provinces. It does, however, reflect the scale of proposals that the public sector and the provinces have been developing under the previous government's \$44 million Regional Growth Programme.
- 19 Since the formation of the government, officials and I have been focusing on growing the pipeline of potential projects that will make the biggest difference to New Zealand's regional economic development. We have been talking to a range of people across the country including councils, industry players, iwi and financiers.
- 20 It is important that the best concepts are progressed rapidly from the feasibility stage to the formal business case, and (for those that make the cut) through to eventual project delivery. Officials will continue to work with regions, sectors and firms to develop a robust pipeline of projects, and partner with regions to ensure that the right expertise is brought in to ensure projects are executed successfully.
- 21 Year one of the Fund will see an increase in the number of early stage concepts to be considered. The larger projects, particularly involving significant sector and infrastructure investments, will be worked-up and taken to Cabinet from later in 2018. My expectation is that the \$3 billion for the Fund would have been fully committed by 2020 and that the funding available for projects is for the three years. We do not want to set up ongoing capital funding commitments. During the various phases of the Fund, the focus of activities is likely to be:

#### *2018: pre-investment and remedial infrastructure*

- generating quality investment opportunities that will deliver the enhancement in the productivity potential of regions that we are seeking – getting these through feasibility and testing
- investing in strengthening work and employment readiness and capabilities so that workers are ready to participate in initiatives in the regions once they receive funding
- building a pipeline of infrastructure investments that support general regional economic development and enhance the operating environment for Fund initiatives, and commencing some initial remedial projects
- investing in well-developed initiatives that have been awaiting funding for some time.

#### *Late 2018 – 2019: funding decisions*

- the bulk of funding decisions will likely occur in late 2018 – 2019, once feasibility studies and business cases have been developed

- this will likely relate particularly to the large projects that will emerge through tiers 2 (sector investment) and tier 3 (enabling infrastructure)
- where possible, we will accelerate the delivery of projects in this period, to ensure the regions have the benefit of the investment as soon as possible. It is also likely that the large projects will impact on the workforce available for private sector construction so it would be preferable to spread the work over a longer period if possible

*2019 – 2020: delivery of projects*

- the bulk of delivery will occur in 2019 and 2020, once funding decisions have been made
- this is when our investments will be largely be carried out, with the bulk of the Fund's infrastructure and capital works activity underway.

22 While the bulk of delivery will likely occur in 2019 and 2020, I will be actively working to fast track investment decisions and delivery where that is possible.

**Success measures for the Fund**

23 The Fund is a key element of the government's economic strategy. As such, at the highest level and in the long term, the Fund aims to contribute to the government's four key outcomes of:

- encouraging sustainable activity that is innovative, diverse and high value. It includes lifting productivity and wages, enhancing natural capital and ecosystem services, and delivering a just transition to a low carbon economy
- more prosperous and equal outcomes for our people and our regions. It includes supporting regions to thrive, and supporting Māori aspiration
- investing in infrastructure to support sustainable growth. It includes infrastructure to support environmentally sustainable economic growth
- growing international connections through progressive trade policy and engagement.

24 The Fund will contribute to these outcomes by lifting the productivity potential of the regions. There are two ways to lift the productivity potential of a region – through increasing the quality of the resources that firms within existing sectors have available to make their products and services and through opening up new sectors for investment. Examples of the former include increasing the work readiness and skills of people in the regions, factors that lift the long term sustainability and productivity of natural assets like land and investments in physical infrastructure such as roading, rail and telecommunications that improve connectivity. Examples of the latter open up sectors with untapped potential like historical sites in Northland and high end experience tourism and Mahia's open skies and the space programme, and cornerstone investments in emerging sectors that other investors can build on.

25 In selecting projects that lift the productivity potential of the region in these ways, 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. Over time, we would expect the Fund to contribute to the following outcomes:

- 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, and 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 effects and a just transition to a low emissions economy
- more investments that enhance regions’ natural capital (for example, improving water quality, soil integrity, and the health and ecological functioning of natural habitats).

26 Officials will continue to develop this set of regional economic development outcomes between now and June 2018, with a view to having a comprehensive set of baseline measures that we can track over time. This work will help to highlight specific areas of need in different regions, which can guide selection of projects. It may identify information gaps where we need to develop new metrics. This work will be done in the context of other government work to develop a set of wellbeing measures for New Zealand as a whole (drawing, where appropriate on relevant frameworks like the OECD Wellbeing Framework). It will also draw on other relevant outcome frameworks, such as the five outcomes of He kai kei aku ringa (The Crown - Māori Economic Growth Partnership).

27 In terms of measuring the success of the Fund itself, observable improvements in regional indicators may take at least 2-3 years after investments have been made by the Fund. This will be outside the lifetime of the Fund. Nevertheless, we want to be able to assess the effectiveness of our investment activity. As noted above, there is likely to be a phasing of different types and levels of activities across the life of the Fund. Accordingly, the success of the Fund will be determined by the quality and impact of activities in the different phases. In the period to 2020, we will be able to assess the following:

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: <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>	Administration: <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 that are cognisant of climate change and transition impacts</li> </ul>	Administration: <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>
Direct impacts: <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>	Direct impacts: <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>	Direct impacts: <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>

28 These success measures will need to be factored into the evaluation of the Fund. They will also be reflected, as appropriate, in the contract outcomes of individual Fund projects.

29 As a government, we have an appetite to take calculated risks to lift outcomes in the regions. This means that some projects within the Fund's portfolio of investments may have higher risk profiles than others because we think that the greater returns to the regions that may be possible from those investments justify the higher level of risk. As is generally the case with investment funds, we expect that along with our successes there will be some projects that do not deliver to the level expected when they were approved. When this is the case, we will move to understand the causes of this and rectify these or exit the project as quickly as possible.

### **Governance and process for the Fund**

30 Given the significant government investment in the Fund, it is important that there are robust governance processes in place. We need to ensure that there is the right level of due diligence over potential investments to ensure their probity and effectiveness in achieving the Government's goals. At the same time we do not want unnecessary process to get in the way of initiatives where speed of delivery is critical to achieving economic development objectives. It is important to strike the right balance between managing risk and allowing funding to flow quickly to where it can provide the greatest benefit.

- 31 In December 2017 Cabinet took decisions about the delegation for financial decisions across the three tiers of the Fund. This effectively created three different bands, as summarised in the following table:

Size of investment	Key elements of governance and process
Under \$1m (Covers small community projects, feasibility studies and capability building)	<ul style="list-style-type: none"> <li>• Applications approved by Senior Regional Officials (SROs)</li> <li>• Decisions made monthly</li> <li>• Will require a single stage (light) business case. Officials work with applicants to help them meet the requirements</li> </ul>
Between \$1m and \$10m (Covers larger community projects, feasibility studies and capability building, smaller commercially focused projects)	<ul style="list-style-type: none"> <li>• Expenditure signed off by delegated Ministers (Regional Economic Development, Economic Development, Finance, others as relevant)</li> <li>• It is likely that funding decisions for Ministers will arise at least every two months.</li> <li>• Will require business case (possibly a simplified form for some projects)</li> <li>• May seek advice from Independent Advisory Panel on proposals</li> </ul>
Over \$10m (Covers more commercially focused projects involving private sector partners, including major cultural projects, and large regional infrastructure projects)	<ul style="list-style-type: none"> <li>• Expenditure submitted to Cabinet for approval</li> <li>• There will be a formal expression of interest (Eol) process</li> <li>• Ministers to receive advice from Independent Advisory Panel on Eols who will meet every 2 months</li> <li>• Envisaged that the Independent Advisory Panel and officials will work with Eols that the IAP suggest be progressed (this process may include iterative discussions between the IAP and groups to further develop Eols).</li> <li>• Will require business case</li> </ul>

- 32 In December 2017, Cabinet discussed the upper limit for the second level of delegation and considered increasing it to \$20 million. The Cabinet minute records that this can happen in exceptional circumstances, but does not determine what these are. In considering this further in the context of the nature and number of bids that are currently in the pipeline, and based on advice from external fund managers, I propose we consider this again and increase the upper limit to \$20 million for all bids, not solely in exceptional circumstances, to reduce the load this will place on Cabinet. These bids will receive a high level of scrutiny from delegated Ministers.
- 33 In respect of Fund proposals that require Cabinet consideration, I propose that these be submitted to the Cabinet Economic Development Committee by the Minister for Regional Economic Development every eight weeks. I will consult with other Ministers on these submissions as required.
- 34 In December 2017, Cabinet agreed that there would be different governance processes for the One Billion Trees Programme and infrastructure projects. Officials have continued to develop the detail of these processes, and I am now in a position to seek some further decisions in relation to these.

### ***The One Billion Trees Programme***

- 35 Cabinet has previously agreed the government's One Billion Trees Programme is to be funded through the Sector Investments tier of the Provincial Growth Fund [CAB-17-MIN-0554 refers], and noted that work is underway to develop a comprehensive programme,



with the Minister of Forestry to report back to Cabinet on progress by June 2018 [CBC-17-MIN-0061 refers].

- 36 I propose the Fund delegate responsibility for delivering the Programme, including accountability for the use of the funds allocated, to the Minister of Forestry.
- 37 To enable this delegation, delegated Ministers will set clear direction on criteria and performance measures that are consistent with those of the Fund as a whole, and will include requirements to deliver training and employment opportunities and address infrastructure impacts of the investment in the sector. The Ministry for Primary Industries will report to Ministers on its achievement against these criteria as part of the Fund's regular reporting.
- 38 I propose that the Programme be treated as a priority for consideration by the Fund over its three years due to the level of government commitment to Forestry. [

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- 39 This initial package of investment sets the foundations for achieving the target of doubling planting rates over the next ten years, but significant additional investment will be required to deliver on the goal. Once more detailed Programme design work is completed in June 2018, I anticipate that additional funding proposals will be submitted for consideration.
- 40 To enable further momentum prior to the June report back, I propose approval to fund potential discrete new projects to support afforestation be consistent with financial delegations previously agreed by Cabinet [CAB-17-MIN-0554]. If a forestry initiative arises outside of the core Programme (e.g. a specific high growth project in a region), these could be submitted for consideration through the Fund's relevant processes as appropriate.
- 41 I also propose that in addition to the previously agreed objectives of the Fund, the following specific eligibility criteria will apply to initiatives funded as part of the Programme:
- a. Initiatives should support:
    - i. increased sustainable regional development (including but not limited to more jobs); or
    - ii. increased productivity and innovation in forestry and related sectors; or
    - iii. increased employment, training, or work readiness for the sector's workforce, particularly in priority areas; and
  - b. Where practical, initiatives will also support:
    - i. New Zealand's ability to meet its climate change commitments; and/or
    - ii. Māori aspirations for utilising their land and other resources, and achieving their cultural objectives; and

- c. Initiatives should seek where possible to enhance environmental sustainability through improvements in the sustainability and/or productivity of natural assets such as land, water, native flora and fauna.

42 To develop and deliver this Programme ahead of the June report back, the Minister of Forestry will set up a Ministerial group (Finance, Environment, Climate Change, and Conservation and others as necessary) to oversee this work and will ensure Ministers responsible for the Fund are kept well informed of progress. The Minister of Forestry will report back to Cabinet in June and December for the term of the government on progress with the One Billion Trees Programme.

### ***Enabling Infrastructure Projects***

43 The Enabling Infrastructure Projects tier of the Fund will invest in regional projects identified both centrally and regionally that enable regions to be well connected from an economic and social perspective, including rail, road and communications. The government already provides substantial investment in these activities, so it is important that the Fund aligns with processes for assessing and managing existing infrastructure investments such as the work being done by Crown Infrastructure Partners.

### ***Transport***

44 In particular, it is recommended that we ensure close alignment between the Fund and the National Land Transport Fund (NLTF), the government's primary source of funding for investment in roads, walking, cycling and public transport. The Provincial Growth Fund has the ability to enable a wider span of transport projects in the regions, and enable an alternative channel for proposals than the National Land Transport Plan (NLTP) process alone.

45 Key principles underpinning our approach are:

- Regional Land Transport Plans are the key mechanism for regions to plan and prioritise their transport needs. We want to continue to ensure that these plans are as comprehensive, systematic and strategic as possible
- We want to encourage regions to take a more expansive view of their transport needs. With the additional funding provided by the Fund, they will be able to prioritise a wider set of programmes and projects that will allow them to achieve a more resilient and sustainable transport system that contributes to their productivity potential
- We want to minimise complexity for local government, and streamline processes as much as possible
- We want to ensure that there is robust and consistent assessment of all transport projects. This manages the risk of lower quality projects being subject to looser assessment standards
- The NLTF is in place as the primary means by which the government funds transport projects, and it is important that this fund continues to support programmes and projects that it was set up to fund

- Projects and programmes that are supported by the NLTF and/or the Fund need to have their whole of life costs fully outlined so that any decisions take full account of the cost. Any cost escalation should be apportioned to reflect the original investment across these two funds. Any change to scope would require further approval. This manages any risk that the NLTF carries unforeseen costs.
- 46 The proposed approach is that the Fund can serve four roles in supporting regional transport projects:
- Enable a greater number of projects to be supported (and thereby align with the government's wider objectives for transport as outlined in the Government Policy Statement on Land Transport (GPS))
  - Provide a source of funding for local authorities that face significant difficulty in meeting local share requirements (this is particularly relevant to the government's interests in concentrating efforts on surge opportunities in priority regions)
  - Bring forward projects that are strategically important to a region's productivity potential and which are outside the National Land Transport Plan funding criteria, or which are unable to be funded in a sufficiently timely way through the NLTP.
  - Provide a source of funding for projects that do not secure funding through the NLTF but which otherwise meet the government's criteria and objectives for the Fund.
- 47 Under this approach, all regional programmes and projects would be subject to assessment by the New Zealand Transport Agency (NZTA), as is current practice. This recognises NZTA's expertise in cost benefit assessment, and ensures consideration of how projects align with the objectives of the GPS and the NLTF.
- 48 Some programmes and projects will not meet the NLTF investment criteria. In this instance, these programmes and projects will also be assessed against the Fund's criteria to determine how they contribute to a region's economic development and productivity potential. NZTA and the Ministry of Transport (MoT) would provide advice to Ministers on these projects. Additional advice may also be sought where additional expertise is needed (e.g. from the Independent Advisory Panel being established to support the Fund). With the authority of Cabinet, Ministers would be able to determine if they support these projects, and if so, appropriate funding to the NZTA to support these projects.
- 49 For projects and programmes where there is a case for the government to assist with local share or for the project to be brought forward, Ministerial approval will also be sought. MoT and NZTA will provide advice to support Ministers to make these decisions (including input from SROs).
- 50 KiwiRail will put forward network infrastructure proposals for consideration by Ministers. The proposals will typically look to ensure that intra- and inter-regional rail connections support the ongoing development of regions, including the renewal of infrastructure that KiwiRail had been unable to maintain or renew due to a lack of available funding in previous years. MoT will provide advice to Ministers on how these projects will contribute to the objectives of the Fund and support the government's wider objectives for the transport system, including mode neutrality.

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### **Oversight and administration of the Fund**

- 52 I intend to set up an oversight group of Regional Economic Development Ministers comprising the following portfolios: Regional Economic Development, Economic Development, Agriculture, Tourism, Māori Development, Transport, Environment, Local Government, Climate Change and Employment. This group will meet to ensure Ministers can coordinate their activities in the regions and be aware of upcoming activities that they can contribute to. The group of Ministers delegated to make funding decisions under \$20m will regularly inform the wider group of Ministers of the activities and investments of the Fund. The wider group of Ministers will have the opportunity to raise issues of interest in their portfolios in relation to the Fund, e.g. how the individual initiatives will contribute to lifting outcomes for Maori or the connection of the Fund with local government initiatives for growth.
- 53 To ensure we deliver a coherent programme of investments across regions, which aligns with our regional economic development priorities, I propose that the Ministers delegated to make decisions on the Fund regularly report to the wider Ministerial group on progress. This will allow the Regional Economic Development Ministers to consider the overall operation of the Fund, in the broader context of setting the overall direction of and managing the government's regional economic development programme.
- 54 To support the implementation of the Fund, two new groups are to be established – a Regional Economic Development Unit in the Ministry of Business, Innovation and Employment and an Independent Advisory Panel (as agreed by Cabinet in December 2017).

### ***Regional Economic Development Unit***

- 55 A Regional Economic Development Unit (the Unit) is being established within the Ministry of Business, Innovation and Employment, as a focal point for officials involved in regional economic development. The Unit will be the hub for processing applications to the Fund. Alongside existing agencies, it will be a strong partner to our regions and industries in identifying and developing investable proposals for the Fund, and will support decision making by SROs and Ministers. It will reflect the lessons learnt from the evaluation of the Regional Growth Programme and significant Government investment funds, such as the Primary Growth Partnership.
- 56 In particular, the Unit will:
- work with priority regions to determine priorities for investments in these regions, based on an understanding of how those investments would move the regions onto an environmentally sustainable and inclusive growth path
  - work with regions, Ministers and other agencies to identify and develop potential proposals for the pipeline, and connecting with existing work programmes where there are synergies

- put in place processes to support the implementation of the Fund, including developing application material and relevant templates (e.g. business cases), in consultation with other agencies that administer similar funds
- work with other agencies to determine which tier(s) and governance processes apply to each application
- receive and coordinate applications from applicants (including other government agencies and Ministers), and bring externally-generated applications to the attention of interested government agencies
- engage with New Zealand Trade and Enterprise (NZTE), regional entities and potential investors on the Fund to support the development of applications for the Fund
- coordinate with NZTA and the Ministry of Transport to assist, as required, with decision making for transport projects, and to maintain a complete picture of all transport-related initiatives that are being supported by the Fund
- coordinate with the Ministry for Primary Industries to assist, as required, decision making for One Billion Trees projects, and to maintain a complete picture of all tree-related initiatives that are being supported by the Fund
- maintain communication with the applicants through the process and manage contracts
- work with agencies and applicants to ensure applications are of sufficient quality to proceed, including providing applicants with the support they need to develop high quality proposals. This will include assistance with business capability, environmental sustainability expertise, workforce readiness programmes and other technical support as needed. This will be particularly important with respect to Māori, to ensure equitable access to the Fund.
- support the Independent Advisory Panel to provide assessment of the suitability of the applications to senior officials, delegated Ministers and Cabinet, and advice on the Fund's overall portfolio of investments
- monitor implementation of the Fund (including the balance of applications and approvals across tiers, regions, risk profiles and over the life of the Fund), and report regularly to Ministers, to support their oversight of the Fund. This will include regular updates of the nature of expenditure undertaken across the Fund. Where existing funds have been counted against the Fund, this will not be additional reporting over and above the current operational and Ministerial reporting mechanisms within the responsible agency.
- develop a plan for evaluating the operation and effectiveness of the Fund, including further work on Fund outcomes and baseline performance measures. 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.

57 The Unit will support SROs and delegated Ministers by monitoring and evaluating the progress of the Fund, regularly reporting progress, and where necessary, making

recommendations to Ministers on any required changes to Fund parameters. This will allow Ministers to make adjustments to the Fund as and when required.

- 58 Agencies will continue to have responsibilities alongside the Unit for driving the broader regional economic development programme and identifying and developing investment initiatives within their areas of responsibility.
- 59 The Unit will need to connect with agencies that manage investment funds, including drawing down on the investment pipeline developed and maintained by NZTE. This will also include the outsourcing of capability build, case preparation and feasibility studies to the NZTE team, who are working in partnership with local economic development agencies.

### ***Independent Advisory Panel***

- 60 Ministers will be supported in their decision making by advice from an Independent Advisory Panel, comprising members with commercial, industry, public policy and sector-specific knowledge [CAB-17-MIN-0554, paragraph 28].
- 61 A parallel paper to the Cabinet Appointment and Honours Committee will seek agreement to the Terms of Reference and membership of the Independent Advisory Panel. The key features of the panel are:
- it will have a Chair and membership of between 6 and 8 members, and is able to call on expert advisors to assist on a case-by-case basis
  - the Panel will assist the Regional Economic Development Unit with implementing the Fund (including developing the necessary processes and documentation), and ensuring that the overall investment portfolio is balanced (across regions, tiers and risk profiles) and effective.

### **Eligibility and assessment criteria of the Fund**

- 62 In December 2017, Cabinet agreed to a set of criteria for the Fund as a whole, to ensure we get the best value for money from our investments in seeking to achieve our objectives.
- a. Investment should increase the productivity potential of the region and support sustainable jobs, business and use of natural resources
  - b. The Fund is not designed to fund activity that will take place anyway (whether within the region or in another region) but rather to stimulate new activity or bring forward activity important to the region's economic development
  - c. Investment should neither socialise losses nor privatise gains
  - d. The Fund will build on regional strengths and prioritise investments that develop high growth activities in areas of comparative advantage
  - e. The Fund will prioritise any sectors identified as high priority by the government for a particular region
  - f. Local support for the projects is important

- g. While adopting a streamlined approval process appropriate to the size of the project, the Fund will require robust business cases that show long-term development potential (measured against a consistent set of success measures), particularly for large projects
- h. A mix of capital and operating expenditure will be available, depending on the nature of the project, with the expectation being that the majority will be capital expenditure and operating expenditure for one-off projects. Government's involvement may involve removing regulatory blockages as well as funding initiatives.

63 These criteria need to be translated into operational criteria that can be applied to individual applications, and communicated to applicants. Officials have developed a more detailed set of criteria, as per the following table. It is proposed that some of the criteria are required (those in bold in the table), while others should be demonstrated, to the extent they are relevant in the particular case. Decision-makers may waive non-required criteria that are not relevant, or approve projects that are strong on some criteria and weaker on others. They could also decide to seek amendments to or accommodation within proposals to address any areas of concern, and making funding conditional on these changes.

Proposed operational criteria for all tiers of the Fund
<b><i>Link to Fund and government outcomes</i></b>
<ul style="list-style-type: none"> <li>• <b>Demonstrate the ways in which the project will contribute to lifting the productivity potential of the region</b></li> <li>• <b>Demonstrate how the project contributes to the Fund's objectives of:</b> <ul style="list-style-type: none"> <li>○ <b>more permanent jobs</b></li> <li>○ <b>benefits to the community and different groups in the community</b></li> <li>○ <b>increased utilisation and returns for Māori from their asset base (where applicable)</b></li> <li>○ <b>sustainability of natural assets (e.g. water, soil integrity, the health and ecological functioning of natural habitats)</b></li> <li>○ <b>mitigating or adapting to climate change effects, including transitioning to a low emissions economy</b></li> </ul> </li> <li>• <b>Clear evidence of public benefits (i.e. benefits other than increased profitability for the applicant)</b></li> <li>• Are in a Government priority region or sector</li> </ul>
<b><i>Additionality</i></b>
<ul style="list-style-type: none"> <li>• <b>Project is not already underway, does not involve maintenance of core infrastructure or assets (except for rail and transport resilience initiatives), and does not cover activities the applicant is already funded for</b> (funding could be considered to increase the scale of existing projects or re-start stalled projects)</li> <li>• <b>Demonstrated benefit of central Government investment or support</b></li> <li>• <b>Detail of any supporting third party funding (and any funding sought unsuccessfully)</b></li> <li>• <b>Acts as a catalyst to unlock a region's productivity potential</b></li> <li>• Demonstrated links to other tiers of the Fund and related projects, to maximise value of Government investment</li> </ul>
<b><i>Connected to regional stakeholders and frameworks</i></b>
<ul style="list-style-type: none"> <li>• <b>Evidence of relevant regional and local support, either through existing regional development mechanisms, or through another relevant body such as a council, iwi or other representative</b></li> </ul>

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<p><b>group (or reasons for any lack of local support)</b></p> <ul style="list-style-type: none"> <li>• <b>Has been raised and discussed with the region’s economic development governance group</b></li> <li>• Alignment with, or support for the outcomes of, any relevant regional development plan, Māori development strategy or similar document (whether regional or national)</li> <li>• Demonstrated improvement in regional connectedness (within and between regions)</li> <li>• Leverage credible local and community input, funding, commercial and non-commercial partners</li> <li>• Utilise existing local, regional or iwi/Māori governance mechanisms</li> </ul>
<p><b>Governance, risk management and project execution</b></p> <ul style="list-style-type: none"> <li>• <b>Evidence of robust project governance, risk identification/management and decision-making systems and an implementation plan appropriate to the size, scale and nature of the project</b></li> <li>• <b>Future ownership options for capital projects, including responsibility for maintenance, further development, and other relevant matters</b></li> <li>• Benefits and risks clearly identified and quantified, depending on the scale of the initiative</li> <li>• Evidence of potential exit gates and stop/go points, and a clear exit strategy</li> <li>• Clearly identifies whole of life costs (capital and operating)</li> <li>• Dependencies with other related projects are identified</li> <li>• Evidence of sustainability after conclusion of Fund funding</li> <li>• Adequacy of asset management capability (for capital projects)</li> <li>• <b>Compliance with international obligations (where relevant)</b></li> </ul>

64 While most of these criteria will be relevant in some form to projects across all three tiers, there will inevitably be some difference in how they are applied, and how robustly they need to be tested, depending on the nature and size of the investment. For example, asset management and long-term sustainability may be less relevant as factors for tier 1 projects, but would be highly relevant for tier 2 and 3 projects. For all investments above \$1 million, a business case would be appropriate, but it is unduly onerous for smaller tier 1 projects. The following table provides some examples of what specific expectations might be appropriate for each tier:

Tier 1 Regional Projects and Capability	Tier 2 Sector Investments, including One Billion Trees	Tier 3 Enabling Infrastructure
Show how you will improve collaboration between local players and government agencies to support social inclusion	Show how: <ul style="list-style-type: none"> <li>• the proposal will lead to increased connections to global value networks</li> <li>• the government’s investment will lift productivity potential by building skills, capability and required infrastructure</li> <li>• the proposal contributes to sustainable use of natural resources by the relevant sector</li> </ul>	Show how the proposal will improve regional connectivity



- 65 Applications should also consider whether their application could contain a package of initiatives so that the government's investment can achieve public benefits such as building local capability and strengthening infrastructure.
- 66 Officials will continue to refine these criteria between now and June 2018, and how they should be applied (e.g. weighting of different criteria, how to handle trade-offs between positive and negative outcomes), as part of the process of preparing guidance material for Fund applicants and decision-makers. This will include the development of any additional specific criteria for individual tiers or types of projects. I propose to approve this guidance material, including any further refinements of the criteria, in consultation with other Ministers as required.
- 67 In December 2017, Cabinet agreed to a set of delegations for projects requiring new funding in 2017/18, using the existing criteria for the Regional Growth Initiatives in the interim, pending further decisions on criteria for the Fund [CAB-17-MIN-0554 paragraphs 9-13]. I recommend that we extend the delegations agreed in December 2017 through to the end of 2017/18, and start to use the above set of criteria for assessing new projects in 2017/18.

### ***Exclusions from the Fund***

- 68 There are some infrastructure investments that will be excluded from the Fund. These include investments where the primary objective is not lifting the productivity potential of the region e.g. building hospitals or primary and secondary schools. There are other infrastructure investments that will in general be excluded from the Fund until the government has determined its approach to these areas – these include investments in three waters infrastructure and large scale housing projects. It may be that investments are made in specific water infrastructure or housing initiatives where they are essential parts of a package supporting other sector or regional projects that will raise productivity potential in a region. These will be determined on a case-by-case basis.
- 69 The government has agreed to wind down investment in large scale irrigation (such as those funded by Crown Irrigation Investments Limited). I propose the fund explicitly exclude large scale, regional irrigation schemes, but provide for investment in smaller localised and community-based water management, which will be assessed on a case-by-case basis against the criteria of the Fund. Preference will be given to proposals which support multiple objectives of the fund (e.g. employment, sustainability, and resilience).

### **Financial arrangements for the Fund**

- 70 In December 2017, Cabinet agreed to take further fiscal decisions on the Fund in February 2018, including the split between capital and operating expenditure, the extent to which the Fund comprises new and existing funding, and the approach to appropriating the funding in Budget 2018, Budget 2019 and Budget 2020 [CAB-17-MIN-0554, paragraph 34]. I have now discussed these matters with the Minister of Finance and other affected Ministers, and we have a number of recommendations about financial arrangements for the Fund.
- 71 We have developed a pipeline of potential Fund projects through the existing Regional Growth Programme, some of which will be announced on 23 February. [

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- 72 Some of the projects we are ready to move ahead with do not fit within the scope of the Regional Growth Programme. I therefore recommend that we establish the Provincial Growth Fund appropriation starting in 2017/18. Any funding unspent in 2017/18 would be transferred into 2018/19. Any new funding for 2017/18 would be need to be funded through pre-commitments against Budget 2018.

***Funding arrangements from 2018/19***

- 73 I have discussed the funding arrangements for 2018/19, 2019/20 and 2020/21 with the Minister of Finance and other affected Ministers. We note that further work will be undertaken by the Treasury, the Ministry of Business, Innovation and Employment, the Ministry of Transport and the Ministry for Primary Industries to formulate the appropriations, which will be established through the 2018 Budget process.

- 74 [

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- 75 The funds that are to count against the Fund have existing decision making arrangements that reflect the particular nature of these funds. At this stage, I recommend that these funds retain their existing decision making processes. Officials can consider the appropriateness of these arrangements in the context of the operation of the Fund, as part of their ongoing monitoring and reporting to Ministers.

76 [ ]. I will meet with the Minister of Finance in March to agree which Budget 2018 proposals will also count towards the Fund. Similar discussions would take place in relation to Budget 2019 and Budget 2020. I have also agreed with the Minister of Finance that the costs of supporting and administering the Fund are included within the \$3 billion allocation.

77 Officials have analysed in further detail the expected operating and capital expenditure from the Fund, and can confirm that the majority is likely to be capital expenditure. The exact mix will be influenced by further policy and spending decisions. Further policy details for the Fund will be worked through during the Budget process.

78 [ ]

### **Publicity**

79 I propose to make a public announcement about the decisions contained in this paper (and the December 2017 paper) with the Prime Minister on 23 February. I propose to release the Cabinet papers and associated minutes at the same time.

80 In the interests of transparency, I propose that we regularly publish the investment decisions of the Fund, and progress of these investments. It is likely that Ministers will want to announce and launch some of the larger investments.

### **Consultation**

81 This paper has been consulted with the Ministry of Business, Innovation and Employment, Ministry for Primary Industries, Ministry of Transport, New Zealand Transport Agency, the Ministry of Foreign Affairs and Trade, the Treasury, Te Puni Kōkiri, the Ministry for the Environment, the Department of Conservation, the Ministry for Culture and Heritage, and New Zealand Trade and Enterprise. The Department of Prime Minister and Cabinet has been informed.

### **Human Rights**

82 There are no human rights implications to this paper

### **Legislative Implications**

83 There are no legislative implications to this paper

### **Regulatory Impact Analysis**

84 A Regulatory Impact Analysis is not required.

### **Gender Implications**

85 There are no specific gender implications to this paper. An increased focus on regional economic development should result in greater economic opportunities for women in the provinces.

## Treaty of Waitangi Implications

- 86 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. An increased focus on regional economic development should result in greater economic opportunities for Māori in the provinces. The Independent Advisory Panel that will be established to support the Fund will have members who understand the context of Māori/iwi.

## Disability Perspective

- 87 There are no specific disability implications to this paper. An increased focus on regional economic development should result in greater economic opportunities for disabled persons in the regions.

## Recommendations

The Minister for Regional Economic Development recommends that the Committee:

- 1 **Note** that on 18 December 2017, Cabinet agreed to establish the Provincial Growth Fund (the Fund), a \$1 billion per annum fund investment for three years, with the overall objective to lift productivity potential in the regions [CAB-17-MIN-0554];
- 2 **Note** that Cabinet invited the Minister for Regional Economic Development to report back in 2018 on:
  - a. the detailed criteria needed for assessing and making decisions under each tier of the Fund;
  - b. the mechanism to ensure that there is a coordinated and consistent approach across the regions;
  - c. the success measures for the Fund;

### *Phasing of Fund activity*

- 3 **Note** that a first tranche of Fund projects will be announced in late February 2018;
- 4 **Note** that phasing of Fund activities over the next three years is likely to fall broadly into the following phases:
  - a. 2018: pre-investment and remedial infrastructure;
  - b. late 2018 – 2019: funding decisions
  - c. 2019 – 2020: delivery of projects;

### *Success measures for the Fund*

- 5 **Note** that the Fund will contribute to the following economic and social outcomes over the long term:
  - a. increased regional economic output: greater economic activity in the sectors where the Fund has invested, and in related sectors;

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- b. enhanced utilisation and returns for Māori from their assets;
- c. increased productivity, with stronger growth in higher productivity businesses in the sectors invested in (and related sectors);
- d. increased employment (and reduced unemployment) and wages, in general and for Māori particularly;
- e. lower rates of young people not in employment, education and training, and a reduced proportion of this group being Māori;
- f. improved digital communications (e.g. a reduced “digital divide”);
- g. improved resilience and sustainability of transport infrastructure, and supporting improved connections within and between regions (e.g. reduced travel times, increased throughput of passengers and freight);
- h. contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy;
- i. more investments that enhance regions’ natural capital (for example, improving water quality, soil integrity, and the health and ecological functioning of natural habitats);

6 **Direct** officials to further develop this set of regional outcomes, in alignment with other government outcome frameworks, with a view to having a comprehensive set of baseline measures that can be tracked over time, by June 2018;

7 **Note** that it will be at least two to three years after this investment before the improvements in regional outcomes will be observable;

8 **Agree** that the success over the current term of government be measured in terms of the effectiveness of the investment activity of the Fund, including:

2018: pre-investment and remedial infrastructure	Late 2018-2019: funding decisions	2019-2021: delivery of projects
<p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Number, quality of initiatives</li> <li>• Conversion of high quality initiatives and feasibility studies into proposals</li> </ul>	<p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Number, 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>	<p>Pipeline:</p> <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>
<p>Administration:</p> <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 region partners and Māori</li> </ul>	<p>Administration:</p> <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 that are cognisant of climate change and transition impacts</li> </ul>	<p>Administration:</p> <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</li> </ul>	<p>Direct impacts:</p> <ul style="list-style-type: none"> <li>• Greater investment interest</li> </ul>	<p>Direct impacts:</p> <ul style="list-style-type: none"> <li>• Infrastructure projects</li> </ul>

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<p>between regional players, and with the private sector</p> <ul style="list-style-type: none"> <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>from private sector following early government investments</p> <ul style="list-style-type: none"> <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>underway and delivered</p> <ul style="list-style-type: none"> <li>• Enhanced regional connectivity</li> <li>• Reduced NEET</li> <li>• Number of jobs created</li> <li>• Improved productivity, profitability, export earnings</li> <li>• Emissions abatement (by gas)</li> <li>• Trees planted</li> </ul>
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*Governance arrangements for the Fund*

- 9 **Note** that on 18 December 2017, Cabinet agreed to a governance model for the Fund that:
- delegates lower level investment decisions (under \$1 million) to Senior Regional Officials;
  - where possible, uses existing institutional arrangements for infrastructure projects;
  - requires larger investments to be approved by delegated Ministers (Regional Economic Development, Economic Development, Finance and other portfolio Ministers as relevant) (up to \$10 million) or Cabinet (over \$10 million) [CAB-17-MIN-0554];
- 10 **Agree** to increase the threshold for decisions that require Cabinet approval to \$20 million;
- 11 **Invite** the Minister for Regional Economic Development to submit proposals to the Cabinet Economic Development Committee every eight weeks;

*One Billion Trees Programme*

- 12 **Note** that
- On 18 December 2017, Cabinet agreed that the One Billion Trees Programme (the Programme) is to be funded through the Sector Investments tier of the Provincial Growth Fund [CAB-17-MIN-0554];
  - On 13 December 2017, the Cabinet Business Committee noted that work is underway to develop a comprehensive programme to deliver One Billion Trees, and that the Minister of Forestry intends to report back to Cabinet on progress by June 2018 [CBC-17-MIN-0061];
- 13 **Agree** the Fund will delegate to the Minister of Forestry responsibility for delivering the Programme, including accountability for the use of the funds allocated, in consultation with relevant Ministers (primarily Finance, Environment, Climate Change, and Conservation);
- 14 **Note** that in delegating responsibility Ministers will set clear direction on criteria and performance measures consistent with those of the Fund, with the Ministry for Primary Industries reporting to the Fund on its performance against these criteria as part of the Fund's regular reporting to Ministers;

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16 **Agree** that:

- a. to enable additional momentum on the Programme prior to the report back in June 2018, approval to fund discrete new projects to support afforestation will be consistent with the overall financial delegations previously agreed by Cabinet;
- b. any forestry initiative arising outside of the core Programme may be submitted through the Fund's relevant processes, as appropriate;
- c. the Programme will be treated as a priority for consideration by the Fund over its three years due to the level of Government commitment to Forestry;
- d. **Invite** the Minister of Forestry to provide report backs to Cabinet on the progress of the One Billion Trees Programme in June and December of each year, for the term of the government;

17 **Agree** that in addition to the previously agreed objectives of the Fund, the following specific eligibility criteria will apply to initiatives funded as part of the One Billion Trees Programme:

- a. initiatives should support:
  - i. increased sustainable regional development (including, but not limited to, more jobs); or
  - ii. increased productivity and innovation in forestry and related sectors; or
  - iii. increased employment, training, or work readiness for the sector's workforce, particularly in priority areas; and
- b. where practical, initiatives will also support:
  - i. New Zealand's ability to meet its climate change commitments; and/or
  - ii. Māori aspirations for utilising their land and other resources, and achieving their cultural objectives; and
- c. initiatives should seek, where possible, to enhance environmental sustainability through improvements in the sustainability and/or productivity of natural assets, such as land, water, native flora and fauna;

#### *Transport*

18 **Agree** that the Fund will enhance the Government's investments in regional transport in the following ways:

- a. enable a greater number of regional transport projects to be funded;
- b. provide a source of funding for local authorities that face significant difficulties in meeting local share requirements;
- c. bring forward investment in projects that are strategically important to a region's productivity potential and which are outside of the National Land Transport Plan (NLTP) funding criteria, or which are unable to be funded in a sufficiently timely way through the NLTP;

- d. provide a source of funding for those projects that do not secure funding through the National Land Transport Fund (NLTF), but which otherwise meet the government's objectives and criteria for the Fund;
- 19 **Agree** that Regional Land Transport Plans should continue to be the instrument by which regions specify the programmes and projects that are needed to enhance their transport infrastructure;
- 20 **Agree** that the Regional Land Transport Plans will be used to identify those programmes and projects that are best suited to be supported by the NLTF and the Fund;
- 21 **Authorise** the Minister of Transport and the Minister for Regional Economic Development to consider, and jointly make decisions on, the allocation of Fund resources for the following purposes:
- a. providing funding support for local authorities that face significant difficulties in meeting any local share requirements that are in place;
  - b. bringing forward investment in projects that are strategically important to a region's productivity potential and which are outside the NLTP funding criteria, or which are unable to be funded in a sufficiently timely way through the NLTP;
  - c. providing funding support for those projects that do not secure funding through the NLTF, but which otherwise meet the government's objectives and criteria for the Fund;
- 22 **Note** that the authorisation referred to in paragraph 21 above is subject to the same delegations set out in paragraphs 9 and 10 above for amounts greater than \$1 million;
- 23 **Note** that the New Zealand Transport Agency remains the decision-maker on projects that have an NLTF component;
- 24 **Direct** officials to report to the Minister of Transport and the Minister for Regional Economic Development with detailed operational proposals to implement the matters outlined in paragraphs 18 – 23 above;
- 25 **Note** that these detailed operational proposals will, amongst other matters, outline specific principles and criteria that will guide decisions on when it is appropriate to provide local share funding assistance and when it is appropriate to bring projects forward (these principles and criteria are necessary so that clarity can be provided to local government);
- 26 **Note** that the detailed operational proposals will take account of the government's current work on the Government Policy Statement on Land Transport;
- 27 **Note** that rail network projects will largely relate to new initiatives to extend or enhance KiwiRail's regional operations;
- 28 **Agree** that the Ministry of Transport will provide advice to Ministers on these rail network proposals, with input from other agencies as required;

*Oversight and administration of the Fund*



- 29 **Note** that the Minister for Regional Economic Development intends that the full set of Regional Economic Development Ministers (covering the Regional Economic Development, Economic Development, Agriculture, Tourism, Māori Development, Transport, Environment, Local Government, Climate Change and Employment portfolios) will be regularly informed of the Fund's activities;
- 30 **Note** that a Regional Economic Development Unit is being established in the Ministry of Business, Innovation and Employment to complete the design and support the operation of the Fund;
- 31 **Note** that existing agencies will continue to have responsibilities alongside the Regional Economic Development Unit to drive the wider regional development programme, and to identify and develop investment initiatives within their areas of responsibility;
- 32 **Direct** the Regional Economic Development Unit to develop a plan for evaluating the operation and effectiveness of the Fund, with a substantive evaluation of the Fund to be completed by the end of 2020;
- 33 **Note** that a separate paper is being submitted to the Cabinet Appointments and Honours Committee on the establishment of an Independent Advisory Panel;

*Eligibility and assessment criteria*

- 34 **Agree** to the following eligibility and assessment criteria for the Fund (those in bold are required criteria):

Proposed operational criteria for all tiers of the Fund
<b><i>Link to Fund and government outcomes</i></b>
<ul style="list-style-type: none"> <li>• <b>Demonstrate the ways in which the project will contribute to lifting the productivity potential of the region</b></li> <li>• <b>Demonstrate how the project contributes to the Fund's objectives of:</b> <ul style="list-style-type: none"> <li>○ <b>more permanent jobs</b></li> <li>○ <b>benefits to the community and different groups in the community</b></li> <li>○ <b>increased utilisation and returns for Māori from their asset base (where applicable)</b></li> <li>○ <b>sustainability of natural assets (e.g. water, soil integrity, the health and ecological functioning of natural habitats)</b></li> <li>○ <b>mitigating or adapting to climate change effects, including transitioning to a low emissions economy</b></li> </ul> </li> <li>• <b>Clear evidence of public benefits (i.e. benefits other than increased profitability for the applicant)</b></li> <li>• Are in a Government priority region or sector</li> </ul>
<b><i>Additionality</i></b>
<ul style="list-style-type: none"> <li>• <b>Project is not already underway, does not involve maintenance of core infrastructure or assets (except for rail and transport resilience initiatives), and does not cover activities the applicant is already funded for (funding could be considered to increase the scale of existing projects or re-start stalled projects)</b></li> <li>• <b>Demonstrated benefit of central government investment or support</b></li> <li>• <b>Detail of any supporting third party funding (and any funding sought unsuccessfully)</b></li> <li>• <b>Acts as a catalyst to unlock a region's productivity potential</b></li> </ul>

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<ul style="list-style-type: none"> <li>• Demonstrated links to other tiers of the Fund and related projects, to maximise value of government investment</li> </ul>
<p><b><i>Connected to regional stakeholders and frameworks</i></b></p>
<ul style="list-style-type: none"> <li>• <b>Evidence of relevant regional and local support, either through existing regional development mechanisms, or through another relevant body such as a council, iwi or other representative group (or reasons for any lack of local support)</b></li> <li>• <b>Has been raised and discussed with the region’s economic development governance group</b></li> <li>• Alignment with, or support for the outcomes of, any relevant regional development plan, Māori development strategy or similar document (whether regional or national)</li> <li>• Demonstrated improvement in regional connectedness (within and between regions)</li> <li>• Leverage credible local and community input, funding, commercial and non-commercial partners</li> <li>• Utilise existing local, regional and iwi/Māori governance mechanisms</li> </ul>
<p><b><i>Governance, risk management and project execution</i></b></p>
<ul style="list-style-type: none"> <li>• <b>Evidence of robust project governance, risk identification/management and decision-making systems and an implementation plan appropriate to the size, scale and nature of the project</b></li> <li>• <b>Future ownership options for capital projects, including responsibility for maintenance, further development, and other relevant matters</b></li> <li>• Benefits and risks clearly identified and quantified, depending on the scale of the initiative</li> <li>• Evidence of potential exit gates and stop/go points, and a clear exit strategy</li> <li>• Clearly identifies whole of life costs (capital and operating)</li> <li>• Dependencies with other related projects are identified</li> <li>• Evidence of sustainability after conclusion of PGF funding</li> <li>• Adequacy of asset management capability (for capital projects)</li> <li>• <b>Compliance with international obligations (where relevant)</b></li> </ul>

- 35 **Note** that officials will finalise the above criteria, and how they should be applied, by June 2018, as part of the process of preparing guidance material for Fund applicants and decision-makers;
- 36 **Direct** officials to closely monitor the implementation of the Fund (including the regional and sector splits of investment), and to report regularly to delegated Ministers on whether any adjustments to the criteria, including the introduction of specific exclusions, are required;
- 37 **Authorise** the Minister for Regional Economic Development to approve supporting material for the Fund, including agreeing to any minor changes to criteria and success measures, in consultation with other Ministers as required;
- 38 **Note** that on 18 December 2017, Cabinet agreed to a set of interim delegations, using the criteria of the Regional Growth Initiatives, until decisions were taken on the criteria for the Fund [CAB-17-MIN-0554];
- 39 **Agree** to extend these interim delegations from February 2018 to June 2018, and to assess any further applications in 2017/18 against the criteria referred to in paragraph 34 above;

*Exclusions from the Fund*

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

- 40 **Agree** that building and maintenance of social assets (hospitals, primary and secondary schools) be excluded from the Fund;
- 41 **Agree** that three waters management and large scale housing development be initially excluded from the Fund, subject to further decisions about how the government plans to fund these matters more generally;
- 42 **Agree** that the Fund explicitly exclude large scale, regional irrigation schemes, but support investment in smaller localised and community-based water management proposals, with preference given to proposals that support multiple objectives of the Fund;

*Financial arrangements for the Fund*

- 43 **Note** that the paper under CAB-18-SUB-0045 is seeking to establish appropriations for investment-ready projects in the 2017/18 financial year, and that other appropriations or categories may be required depending on the nature of the projects;
- 44 **Note** that these appropriations will be part of the full appropriations used on an ongoing basis for the Fund from 2018/19, and that further decisions on any new appropriations or adjustments will be made through the Budget process;
- 45 **Note** that the Minister of Finance has agreed to the establishment of a new multi-category appropriation “Regional Economic Development: Provincial Growth Fund MCA” in Vote Business, Science and Innovation, to be administered by the Ministry of Business, Innovation and Employment and with the Minister for Regional Economic Development as appropriation Minister, to raise productivity potential in the regions;
- 46 **Note** that the Minister of Finance and the Minister for Regional Economic Development have agreed that the single overarching purpose of this appropriation is to achieve the outcome of a lift in the productivity potential in the regions;
- 47 **Note** that the Minister of Finance and the Minister for Regional Economic Development have agreed that the categories for this appropriation be as follows:

Name	Type	Scope
Regional Projects and Capability	Non-departmental Other Expense	This category is limited to supporting regional development through economic development projects and feasibility studies for potential projects, and initiatives to build skills, capability and capacity in regions.
Enabling Sector Investments	Non-departmental Other Expense	This category is limited to projects that are expected to make a significant contribution to a region’s future growth potential in areas of comparative, or potential comparative, advantage.
Sector Investments	Non-departmental Capital	This category is limited to capital projects that are expected to make a significant contribution to a region’s future growth potential in areas of comparative, or potential

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

		comparative, advantage.
Enabling Infrastructure Projects	Non-departmental Other Expense	This category is limited to infrastructure projects that enable regions to be well connected from an economic and social perspective.
Infrastructure Projects	Non-departmental Capital	This category is limited to infrastructure capital projects that enable regions to be well connected from an economic and social perspective.

48 **Note** that given the complexity of the transport sector funding arrangements for Crown entities and State-owned enterprises and the need to consult with those parties, the appropriate appropriation structure for this sector has not been finalised;

49 **Note** that several projects that qualify for the Fund have been identified through the Regional Growth Initiatives scheme that can be funded now but do not fall within the scope of the Regional Growth Initiatives scheme;

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52 **Agree** to the following delegations for transferring funding between categories:

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

- a. **Authorise** the Minister for Regional Economic Development to approve transfers of funding of less than \$1 million, up to \$50 million in each financial year, between categories;
  - b. **Authorise** the Minister of Finance, the Minister for Regional Economic Development, the Minister for Economic Development, and the Minister of Transport, together with any other relevant portfolio Ministers (joint Ministers), to approve transfers of funding greater than \$50 million between categories;
- 53 **Authorise** the Minister of Finance, the Minister for Regional Economic Development and the Minister of Transport to establish relevant appropriations in Vote Transport, and to approve changes to appropriations to be charged as a pre-commitment against Budget 2018 [ ] for regional transport projects in 2017/18;
- 54 **Agree** that the operating and capital expenses incurred above be charged as a pre-commitment against the operating and capital allowances respectively for Budget 2018;
- 55 **Agree** to provide funding to those investment-ready projects that can be initiated in 2017/18 with the associated expense counted against the Fund;
- 56 **Note** that the Minister of Finance, the Minister for Economic Development and the Minister for Regional Economic Development have agreed to add the following category to the Vote Business, Science and Innovation multi-category appropriation “Policy Advice and Related Outputs”, to enable the provision of policy advice and related services to the Minister of Regional Economic Development:

<b>Name</b>	<b>Type</b>	<b>Scope</b>
Policy Advice – Regional Economic Development	Departmental Output Expense	This category is limited to the provision of advice (including evaluation, second opinion advice and contributions to policy advice led by other agencies) to support decision making by Ministers on government policy matters relating to regional economic development.
Related Services to Ministers – Regional Economic Development	Departmental Output Expense	This category is limited to the provision of services to Ministers to enable them to discharge their portfolio (other than decision-making) responsibilities on matters relating to regional economic development.

- 57 **agree** to establish the following new appropriation:

<b>Vote</b>	<b>Appropriation Minister</b>	<b>Title</b>	<b>Type</b>	<b>Scope</b>
Business, Science and	Minister for Regional	Regional Economic	Departmental Output	This appropriation is

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Innovation	Economic Development	Development: Regional Economic Development Programme	Expense	limited to the implementation and operation of the Regional Economic Development Programme
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- 59 **Agree** that the changes to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 60 **Agree** that any under-expenditure in the multi-category appropriations for the Fund in Vote Business, Science and Innovation and Vote Transport be carried forward to the following financial year through until 2020/21 to recognise the uncertain timing of project initiation, approval and subsequent expenditure;

- 61 **Authorise** the Minister of Finance and the Minister for Regional Economic Development to approve jointly any subsequent changes to appropriations required to implement the Fund;
- 62 **Note** that the Minister for Regional Economic Development and the Minister of Finance have discussed the financial arrangements for the Fund for 2018/19, 2019/20 and 2020/21 with affected Ministers;
- 63 [ ]
- 64 **Agree** that individual funds that will count against the Fund retain their current decision making processes (including financial authority);
- 65 **Agree** that the Minister of Finance and the Minister for Regional Economic Development will meet in March to agree which Budget 2018 proposals will count towards the Fund;
- 66 **Agree** that the costs of supporting and administering the Fund be included within the \$1 billion per annum over three years, and that agencies will identify these costs and seek agreement from the Minister for Regional Economic Development, the Minister of Finance and relevant portfolio Ministers to seek any required adjustments to appropriations;
- 67 **Note** that further work will be undertaken on appropriation structures by the Treasury, the Ministry of Business, Innovation and Employment, the Ministry of Transport and the Ministry for Primary Industries;
- 68 **Agree** that the Fund's appropriations will be established through the Budget 2018 process;
- 69 [ ]

*Publicity*

- 70 **Note** that the Minister for Regional Economic Development and the Prime Minister intend to announce the details of the Fund on 23 February 2018;
- 71 **Note** that the paper under CAB-18-SUB-0045, the December 2017 Cabinet paper under CAB-17-SUB-0554, and the associated minutes will be released at the same time as the announcement;
- 72 **Agree** to regularly publish the investment decisions by the Fund.

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development