

In Confidence

Office of the Minister for Regional Economic Development

Chair, Economic Development Committee

PROVINCIAL GROWTH FUND: Quarterly DEV Report Back 1 October 2018 – 28 February 2019

Purpose

- 1 This paper is a report back to the Economic Development Committee on the Provincial Growth Fund (PGF) for the period of 1 October 2018 to 28 February 2019.
- 2 This paper covers the following:
 - a. Key PGF and Provincial Development Unit (PDU) activities since the last report back [DEV-18-SUB-0239 refers]
 - b. Funding decisions from 1 October 2018 to 28 February 2019
 - c. Key indicators of effectiveness, such as number of jobs created and project milestones achieved
 - d. Future topics for DEV report backs
 - e. The focus of the PGF over the next reporting period, March – June 2019.
- 3 The attached A3 [refer to Annex One] summarises key indicators, such as number of jobs created and project milestones reached, mapped against regions and sectors.

Background

- 4 In December 2017, Cabinet agreed to establish the PGF - \$1 billion per annum for three years [CAB-17-MIN-0554 refers]. Funding for projects falls into three tiers:
 - a. **Tier 1: Regional projects and capability:** Support for economic development projects, feasibility studies and capability building identified within regions.
 - b. **Tier 2: Sector investment:** Initiatives targeted at priority and/or high value economic opportunities. This includes the One Billion Trees Programme.
 - c. **Tier 3: Enabling infrastructure:** Regional infrastructure projects that will enable regions to be well connected from an economic and social perspective, including rail, road and communications.

- 5 In July 2018, Cabinet requested regular updates on the progress of the PGF [CAB-18-MIN-0347 refers], including reporting on funding decisions made and the performance of the fund.
- 6 The progress of the PGF for the purposes of reporting is divided into three phases:
 - a. Phase 1: pre-investment and remedial infrastructure (2018)
 - b. Phase 2: funding decisions (late 2018-2019)
 - c. Phase 3: delivery of projects (2019-2020).
- 7 Phase 1, covering the period February to October 2018, was covered in the 25 October 2018 report to DEV [DEV-18-SUB-0239 refers]. This report back is the first to report on Phase 2.
- 8 This report back focuses on the commitment process and indicators of effectiveness under Phase 1, and on identifying measures for investments in Phase 2. It gives DEV an indication of how the PDU intends to measure progress on contracts under management and jobs created through these projects.
- 9 The format of future PGF reporting will continue to be built on and refined over time as more data becomes available through regular reporting.

Key PGF and PDU activities – 1 October 2018 to 28 February 2019

- 10 Phase 1 of the PGF focussed on processes related to applications and decision making. The PGF is now in Phase 2, and focus is increasingly on delivery, fund disbursement, and monitoring and reporting.
- 11 Since the launch of the PGF, Regional Economic Development (RED) delegated Ministers have met ten times. The Independent Advisory Panel (IAP) has met eleven times. Both have met three times since the last DEV report back. The Senior Regional Officials have met eleven times since the launch of the fund, and five times since the last report back.
- 12 To support the effective functioning of the PGF, and to progress priority investment initiatives, PGF policy positions and principles for key areas of investment have been agreed to by RED Ministers. These papers have supported the development of regional investment packages and set parameters to guide assessment and decision-making. Some of the key decisions by RED Ministers and Cabinet relate to the anticipated level of investment in a particular sector, such as:
 - Skills and Infrastructure
 - Whenua Māori
 - Local digital connectivity.
- 13 Ministers have approved over \$200 million to be allocated to nationwide investments in skills, Māori land, and local digital connectivity.

- 14 Key achievements over October 2018 – February 2019 included:
- The delivery of integrated investment packages for Manawatū-Whanganui, the West Coast and Northland (Kaipara). This included Cabinet agreement to the West Coast tourism package.
 - National level announcements at Waitangi of over \$200 million allocated to various programmes. This included Cabinet agreement to the Whenua Maori allocation and RED Minister agreement to the local digital connectivity package and Te Ara Mahi programme.
 - RED Ministers approval of a suite of position papers on PGF investment in key sectors including Skills, Employment and Capability, Economic Development Agencies, Waste, Digital Connectivity, Land Transport and Water Storage.
 - The development of a social media channel and the proactive release of all advice to decision makers on PGF projects. Further work on communicating the purpose and impact of the PGF will be a focus over March to June 2019.
- 15 The PDU has worked with partner agencies across central government, and with regional stakeholders, to develop the above mentioned integrated investment packages across three surge regions. A broader Northland package is planned for announcement in mid-March and a Hawke's Bay package announcement is planned for early May.
- 16 With a number of the key components of the pre-investment and remedial infrastructure now in place, the PGF's focus will increasingly turn to working with private sector parties with commercially focused projects in order to deliver sector level investments.
- 17 Remaining areas for investment in pre-investment and remedial infrastructure potentially include further skills and training programmes, lifting management and governance capability and capacity in the regions, and infrastructure investments in port and rail following studies such as the Upper North Island Freight and Logistics Study.

Funding decisions to date

- 18 The PDU continues to manage high levels of demand for the PGF. Up to the end of February 2019, a total of 906 projects have sought PGF funding.
- 19 Of these, 768 projects are being, or have been processed. The other 138 have not proceeded from expression of interest to application.
- 20 At the end of February 2019, \$1,736.6 million had been committed, \$1,496.5 million had been announced, and \$239.1 million has been contracted across all three tiers of the fund.
- 21 A breakdown of funding approved by Tier is set out below:
- a. Tier 1 (Regional capability): \$121.0m

- b. Tier 2 (Sector Investment): \$895.6m (this includes One Billion Trees)
 - c. Tier 3 (Enabling Infrastructure): \$503.0m.
- 22 Please note, this does not sum to \$1,736.6 million, as it excludes the Whenua Māori allocation, and operational expenditure, as these do not fit in to a tier. The tier of Whenua Māori is dependent on the kinds of applications for this allocation the PGF funds, and operational expenditure for the PGF does not fall in to the tier categorisation.
- 23 The majority of approved PGF funding reflects the Government's commitment to prioritise regions where increased investment from Government is necessary to address social and infrastructure deficits in order to lift their productivity potential. This has been addressed through large-scale investment packages that combat these deficits.
- 24 For example, the West Coast received a \$140 million investment package in November. The package sought to unlock higher monetary yield from the growing tourism sector on the Coast through an \$87.46 million investment in the industry, (overlapping with an \$80 million KiwiRail tourism injection) and \$44.8 million to improve digital connectivity in the West Coast and Southland. The investment also included \$10 million for garnet mining, and \$9.9 million for milk segregation s 9(2)(g)(i) . These industries have the potential to create better paid jobs in sustainable industries.
- 25 Greater investment in PGF surge regions reflects the greater economic need in those regions and the barriers they face to lift economic growth. For example, Tairāwhiti's key barrier is connectivity, meaning a large scale roading investment is needed to unlock economic growth. For other regions, their catalytic investment may be less costly, but still as impactful.
- 26 As discussed above, the Prime Minister and I announced three national allocations of funding at Waitangi. These include a \$100 million allocation for the development of Whenua Māori, an \$82.4 million allocation for Te Ara Mahi, a pathways to work scheme designed to fund local initiatives that get people into jobs, and \$21 million for local marae connectivity and regional digital hubs (\$20m of which is funded by the PGF and \$1m by the RBI2/MBSF rollout).

Reporting

- 27 A key focus of the PDU currently is fine tuning its reporting on contracts, monitoring projects, identifying early signs of the effectiveness of the PGF and the development of an evaluation framework.

Contract management and reporting

- 28 Once contracts are executed, the PDU monitors contracts for projects relevant to the MBIE portfolio and other agencies monitor contracts within their portfolios, for example: Te Uru Rakau monitors One Billion Trees projects. This involves monitoring the achievement of deliverables and milestones, as well as ensuring that various reporting and other conditions are being met. Funding is staged and released to successful applicants on the completion of specified deliverables. The

PDU will bring together information across all PGF investments for reporting to RED Ministers, DEV, and the public.

Indicators of effectiveness

- 29 The case studies outlined below demonstrate how the PGF is working in the regions and what we are learning through early investments. Future DEV report backs will provide information that draws key findings from across the PGF's investments.

Kawerau Putauaki Industrial Hub

- 30 The Kawerau Putauaki Industrial Hub will be a large-scale industrial and freight facility that provides fast, cost-effective road-to-rail freight transfers to the Port of Tauranga. With a large-scale industrial subdivision alongside and including a container terminal, the Hub will be a magnet for business and investment.
- 31 In recent times Kawerau has suffered the decline of traditional regional industries such as forestry. The impact is shown in statistics such as high youth unemployment and suicide rates in the town. The development will give young people hope for the future, and the chance to get jobs in their local area.
- 32 After nearly a decade of planning, a \$2 million grant from the Provincial Growth Fund has allowed construction to start on a project that will directly create 150 jobs in a town of 7,000 people, accounting for approximately 2% of the population.

Rotorua Lakefront and Whakarewarewa Forest

- 33 The PGF is investing \$19.9 million, to match the Rotorua District Council's \$20.1 million contribution, to redevelop the landscape on the Rotorua Lakefront. This investment is expected to catalyse up to \$300 million worth of private investment in accommodation, catering, and event-related businesses, in turn creating up to 470 jobs for the people of Rotorua.
- 34 At Whakarewarewa Forest, the Council and the PGF are investing \$7.5 million each on improvements to public spaces, safety, and accessibility, along with improved walking and cycling loop connecting hubs throughout the Forest. Economic analysis shows the potential for private and iwi investment of approximately \$70 million into complementary businesses, creating up to 130 jobs.

Manawatū-Whanganui training and skills investment

- 35 In 2018, 15.6 per cent of people aged 15 to 24 in Manawatū-Whanganui were not in any form of education, training, or employment, 40 per cent higher than the national average. The Manawatū-Whanganui PGF package was designed to create opportunities for young people to develop skills, gain qualifications, and get well paid jobs.
- 36 The package includes \$40 million for a Regional Freight Hub that will link rail, road and air transport and hugely improve the speed, efficiency, volume and cost effectiveness of moving goods and services. It also includes \$2.8 million towards

ensuring hundreds of young people per year gain skills and qualifications to develop transport and logistics careers. Starting this year, Manfeild's National Driver Training Centre is expanding its programmes to include qualifications in Class 2 truck, forklift, four-wheel-drive, digger and roller driving and operations.

Update on the evaluation framework

- 37 When the PGF was established in February 2018 a commitment was made to evaluate its progress by the end of 2020 to inform future Government decisions on regional investment.
- 38 Further, in July 2018 Cabinet noted the initial regional baseline measures that officials had developed in relation to the nine PGF outcomes, directed officials to track the regional indicators, and noted that officials would do further work to develop robust indicators in areas where there is currently a lack of good regional indicators and to develop a plan for evaluating the PGF [CAB-18-MIN-0347].
- 39 Detailed design of a PGF Evaluation Framework is underway, supported by a cross agency advisory group and governance group. The PDU is working on bringing the framework for evaluation of the PGF in 2020 to Regional Economic Development Ministers in mid-2019. What we learn from the PGF will inform wider government work on the measurement of outcomes.
- 40 There will be three parts to the 2020 evaluation. The first, which makes up a large portion of the work will be an evaluation of the Provincial Development Unit (PDU) and partner agencies in delivering high quality applications (which are approved by Ministers and Senior Regional Officials) and high quality projects that deliver on the PGF's objectives. Of interest will be the sustainability of projects beyond the lifetime of the PGF, the spread of investments across regions, tiers, risk profiles and for Māori. Secondly, to the extent possible at that time, the evaluation will also consider the outputs and direct impacts of PGF investments. Finally, the evaluation will provide a framework to track indicators associated with the outcomes that the PGF is intended to contribute to. As noted in the Cabinet paper observable improvements in regional indicators may take at least 2-3 years after investments have been made by the PGF. It is unlikely that meaningful information on the impact on outcomes will be available in the lifetime of the PGF.

Focus for March 2019 – June 2019

- 41 Now that we are in year two of the PGF, the focus of our work has changed. In the first year we focused on establishing the PDU, developing regional packages for surge regions and determining our investment in skills and infrastructure. In year two, our focus will be on delivery of more targeted investments and the delivery of existing investments. Over the next four months the PDU will support this through:
- a. targeting priority and high-value sector investments that can be better enabled as a result of investments in infrastructure and skills. Integrated investment packages will continue to be prepared for the remaining surge region and projects in other regions will also be announced

- b. ensuring the successful delivery of the projects and work programmes (e.g. Te Ara Mahi) already underway.

Delivery of projects

- 42 Key milestones in terms of construction projects for our early investments will take place throughout 2019. Some of these include the Northland Wharves, s 9(2)(b) and Gisborne Airports, Ruapehu Alpine Lifts and Ōpōtiki aquaculture. Increasingly, announcements related to the PGF will focus on the delivery of projects and what is being achieved through our investments.

Reporting

- 43 The PDU will continue to provide Ministers with reporting across all PGF projects and programmes and the investment portfolio as a whole.
- 44 You will note the measures in the attached A3 document (Annex One) are still preliminary in places. In the next report back to DEV the PDU will report on the amount of projects contracted, how the portfolio of investments is progressing and an update on the next stage of PGF communications.

Communications

- 45 In the upcoming period, the PDU will focus on raising awareness about Provincial Growth Fund investment, proactively releasing information and telling rich stories through data that demonstrates outcomes.

Upcoming Cabinet decisions

- 46 The issues that I may bring to DEV and Cabinet over the coming period include:
- Establishment of PGF Ltd, to hold the assets of the PGF
 - s 9(2)(f)(iv)
 - s 9(2)(b)(ii)
 - Investment in regional packages and significant PGF investments, such as the transport package for the Hawkes Bay

Consultation

- 47 The following agencies have been consulted on the report back material: Ministry of Primary Industries, Treasury, Ministry of Transport, New Zealand Transport Agency, Te Puni Kōkiri, and Ministry of Foreign Affairs and Trade

Financial implications

- 48 There are no financial implications.

Human rights implications

- 49 There are no human rights implications.

Legislative implications

50 There are no legislative implications.

Regulatory impact analysis

51 A regulatory impact analysis is not required.

Gender implications

52 There are no gender implications.

Disability perspective

53 There are no disability implications.

Recommendations

1 **Note** the content of this paper and the attached A3 which provides information relating to funding decisions made and the performance of the PGF to the end of October 2018 – February 2019.

Publicity

2 **Agree** to release this paper, with redactions as appropriate.

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development