MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Kānoa
Regional Economic Development & Investment Unit

BRIEFING

Proposed policy settings for RSPF Stream 2: Targeting the places most likely to benefit from an economic uplift

Date:	9 August 2022	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2223-0109

Action sought		
	Action sought	**Deadline**
Hon Grant Robertson **Minister of Finance**	**Agree** to the proposed settings for Stream 2 of the Regional Strategic Partnership Fund	24 August 2022
Hon Carmel Sepuloni **Minister for Social Development and Employment**		
Hon Stuart Nash **Minister for Economic and Regional Development**		
Hon Willie Jackson **Minister for Māori Development**		

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Robert Pigou	Head of Kānoa - RDU	Privacy of natural persons	
Isabel Poulson	GM, Strategy, Planning and Performance	Privacy of natural persons	✓

The following departments/agencies have been consulted
Ministry for Business, Innovation and Employment (Small Business, Regional Skills Leadership Groups, Industry Policy, Buildings Resources and Markets), Te Puni Kōkiri, Ministry for Primary Industries, Treasury, Ministry of Social Development, Te Arawhiti, Department of Internal Affairs, New Zealand Trade & Enterprise, Ministry of Foreign Affairs and Trade, Ministry of Housing and Urban Development.

Minister's office to complete:

☐ Approved	☐ Declined
☐ Noted	☐ Needs change
☐ Seen	☐ Overtaken by Events
☐ See Minister's Notes	☐ Withdrawn

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Kānoa
Regional Economic Development & Investment Unit

BRIEFING

Proposed policy settings for RSPF Stream 2: Targeting the places most likely to benefit from an economic uplift

Date:	9 August 2022	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2223-0109

Purpose

To seek your agreement on proposed settings for the Regional Strategic Partnership Fund's Stream 2 funding allocation – Enabling Regional Economic and Business Development.

Executive summary

This paper proposes settings for Stream 2 of the Regional Strategic Partnership Fund (allocated up to $60 million), further to Cabinet's decision that Regional Economic Development Ministers should agree policy settings for the stream following regional priorities being set by RED Partnerships [CAB-21-MIN-014].

While Stream 3: Accelerating Māori economic aspirations and Stream 4: Supporting sector transformations are focused on higher-value economic opportunities that have the potential to be world-class, Stream 2 focuses on small-scale investments to address the particular economic development challenges that New Zealand region's face. This provides an opportunity to improve equity both across and within regional economies.

The core of the proposed settings is that the stream should be targeted at those communities most likely to benefit from economic uplift, and fund small-scale capital improvements for a business or group of businesses, or a community asset that benefits multiple local businesses. Examples include shared business facilities such as production equipment or commercial kitchens.

In very specific circumstances, there may be a component of capability funding to support the delivery of capital improvements. This would only be in exceptional circumstances where a quality project could not progress without that capability support. The bar will be high.

The proposed settings have been developed alongside analysis of the regional priorities set by RED Partnerships to ensure regional needs are being met. This work has shown that infrastructure and capital improvements should be key goals of the stream. The settings are designed to fill gaps in the existing RSPF streams and broader funding environment in order to support these goals. They are focused on smaller-scale investments with public-good aims, rather than large productivity initiatives.

The proposed settings will contribute to the Government's economic vision of a high wage low emissions economy that provides economic security in good times and in bad. In particular, the stream aims to build resilience in the community by uplifting areas that are currently marginalised as a result of past policies and historic under-investment.

This might see investment in proposals that provide, for example:

a. *equipment* for one or several businesses (such as tools, machinery, technology);
b. *infrastructure* that supports more than one business to continue or improve its goods and services production (such as community assets that benefit multiple local businesses, pipes

to improve land parcels' access to water, shared storage facilities to support the supply chain, shared kitchen facilities for multiple businesses' food and beverage production).

In short, the proposed settings would see Stream 2 funding individual businesses, groups of businesses, or trusts to undertake small-scale capital improvements to enhance and grow their ability to do business in the communities where they are based. By focusing on the communities where there are the greatest opportunities for economic uplift it is intended that this will improve the economic prospects of those places, business confidence and overall viability of business in the regions.

In order to target Stream 2 funding to where it can have maximum impact and recognising that these investments are likely to be less commercial, officials recommend the following guidelines for Stream 2 investments:

a. targeted to those places most likely to benefit from an economic uplift, based on economic data and other intelligence;
b. provide benefits for multiple entities;
c. actively supported by multiple government agencies; and
d. have a sustainable funding approach for ongoing costs.

Cabinet agreed that commercial and quasi-commercial entities would be primarily funded through debt and equity, and that non-commercial entities would likely be funded via grants [CAB-21-MIN-0114]. To date, the RSPF has only funded projects through loan and equity. Because Stream 2 investments are likely to be less commercial in nature, officials recommend supporting proposals through grants in some cases.

Officials recommend Ministers agree that funding of up to $5 million per project be made available. As a guideline, this could be achieved by loan/equity arrangements of up to $5 million, grants of up to $2 million, or combinations of loan/equity and grant with the total being up to $5 million and the grant portion being up to $2 million. Officials consider the majority of Stream 2 grant proposals will fall within the $500,000 to $1 million range.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **note** that Cabinet agreed policy parameters for Stream 2 – Enabling Regional Economic and Business Development would be set following finalisation of regional economic development priorities by Regional Economic Development Partnerships, so that the priorities could inform settings [CAB-21-MIN-0114];

Noted

b **note** that Cabinet authorised Regional Economic Development Ministers to make further decisions aligned with the approach to RSPF [CAB-21-MIN-0114], including agreeing to policy parameters for Stream 2;

Noted

c **note** that 13 out of 15 Regional Economic Development Partnerships have set regional economic development priorities, with Wairarapa and Otago priorities still being finalised;

Noted

d **note** that regions identified supporting productivity shifts in sectors and Māori development as key foci in regional economic development priorities, and that these are already the focus of *Stream 3: Accelerating Māori economic aspirations* (allocated up to $40 million), *Stream 4: Supporting Sector Transformations* (allocated up to $80 million) and other government programmes;

Noted

e **note** that regional priorities also focused on infrastructure and capital improvements and broader regional development outcomes (such as social and skills) which are more concentrated on the Resilient, Inclusive, Sustainable and Māori-enabling elements of PRISM to help improve New Zealanders' economic prospects, living standards and overall wellbeing in the places that they live, and that there is an opportunity for Stream 2 to support aspects of these priorities;

Noted

f **agree** Stream 2 supports these priorities through funding small-scale capital improvements;

Agree / Disagree

g **agree** in order to maximise the impact of Stream 2 funding, officials recommend that projects meet the following guidelines:

i. targeted to those places where there are the greatest opportunities for economic uplift based on economic data and other intelligence;

ii. provide benefits for multiple entities;

iii. actively supported by multiple government agencies; and

iv. have a sustainable funding approach for ongoing costs.

Agree / Disagree

h **agree** that subject to meeting co-contribution requirements (50 per cent for commercial and quasi-commercial projects, and 20 per cent for non-commercial), Stream 2 may provide up to $5 million of funding made up of either:

i. solely a loan/equity of up to $5 million;

ii. solely a grant of up to $2 million; or

iii. a combination of a grant of up to $2 million and a loan/equity, so that the total amount of funding provided does not exceed $5 million.

Agree / Disagree

i **note** that Cabinet agreed that commercial and quasi-commercial entities would be primarily funded through debt and equity, and that non-commercial entities would likely be funded via grants [CAB-21-MIN-0114];

Noted

j **agree** both non-commercial and quasi-commercial entities be eligible for grants, and quasi-commercial and commercial entities be eligible for debt (including concessionary and suspensory loans) and equity with co-contributions requirements remain as agreed in CAB-21-MIN-0114;

Agree / Disagree

Privacy of natural persons

Robert Pigou
Deputy Chief Executive and Head of Kānoa – Regional Economic Development & Investment Unit
MBIE

09 / 08 / 2022

Hon Grant Robertson
Minister of Finance

..... / ...... / ......

Hon Carmel Sepuloni
Minister for Social Development and Employment

..... / ...... / ......

Hon Stuart Nash
Minister for Economic and Regional Development

..... / ...... / ......

Hon Willie Jackson
Minister for Māori Development

..... / ...... / ......

Background

1. The Government has the economic vision of a high wage low emissions economy that provides economic security in good times and in bad. Contributing to this vision is the $200 million Regional Strategic Partnership Fund (RSPF) which is the Government's main lever for supporting regional economic development [CAB-21-MIN-0006]. The aim of the RSPF is to build more Productive, Resilient, Inclusive, Sustainable and Māori-enabling (PRISM) regional economies through investing in regional economic development projects.

2. There are five workstreams for the RSPF:
    a. Stream 1: Facilitating Regional Economic Development Partnerships;
    b. Stream 2: Enabling regional economic and business development;
    c. Stream 3: Accelerating Māori economic aspirations;
    d. Stream 4: Supporting sector transformations; and
    e. Stream 5: Coordinating a more effective all-of-government system.

3. Stream 1 has seen Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) support Regional Economic Development Partnerships to develop regional economic development priorities. Further policy work is underway to determine the ideal future for the partnerships now this key initial role has been completed.

4. Streams 2 to 4 are funding streams allocated up to $180 million as follows:
    a. Stream 2: Up to $60 million ($2.0 million approved to date for one project);
    b. Stream 3: Up to $40 million ($11.7 million approved to date for four projects); and
    c. Stream 4: Up to $80 million ($32.4 million approved to date for 11 projects).

    The remaining $20 million is contingency funding that will enable the RSPF to respond to emerging government or regional economic development priorities as they arise. Policy parameters for Streams 3 and 4 were set in April 2021 [CAB-21-MIN-0114]. Streams 1 and 5 have not required funding.

5. Stream 5 work is underway with other government agencies. In particular, Kānoa – RDU is working with the Regional Skills Leadership Groups (RSLG) secretariat within the Ministry of Business, Innovation and Employment (MBIE) and the Regional Development team at the Ministry of Social Development (MSD) which is implementing the Regional Public Service Commissioners (RPSC) approach, to ensure alignment and reduce risk of duplication across work programmes.

6. Officials are also working closely with agencies to embed regional economic development considerations into the National Adaptation and Emission Reduction Plans, Industry Transformation Plans, wider government strategies, the Review of Local Government, Digital Strategy Aotearoa, Construction Sector Accord, and alignment with other funds, such as the Sustainable Food and Fibre Futures Fund (SFFF).

7. Where regions have presented priorities or proposals that do not fit within the mandate of the RSPF or are more closely connected to the priorities of another agency, Kānoa – RDU is working with agencies to progress these.

Policy parameters for Stream 2 funding to be set by Regional Economic Development Ministers

8. In April 2021, Cabinet agreed to implementation settings for the RSPF [CAB-21-MIN-0114]. For the funding streams, Cabinet agreed the following:
    a. Stream 2 would focus on enabling regional economic and business development and would support small-scale investments to support regions to overcome

challenges due to “place” or “location”, such as access to capital, markets, and digital infrastructure;
   b. Stream 2 policy settings would be agreed at a later date by Regional Economic Development Ministers (RED) Ministers and would be largely informed by priorities developed by Regional Economic Development Partnerships;
   c. Stream 3 would focus on enabling whenua Māori to be brought into use or improved use, and support Māori to develop commercial relationships;
   d. Stream 4 would focus on firm-level investments targeted to sectors of regional comparative advantage which have the potential to catalyse economic development; and
   e. Loans and equity would be the primary means of investing in any commercial or quasi-commercial projects, and grants would be considered for non-commercial entities.

9. RED Ministers were provided with regions’ priorities (including draft priorities for Wairarapa and Otago) in December 2021 in *Briefing: Emerging national picture of regional priorities for RSPF investment (2122-2069).* This briefing provided analysis of the priorities, including alignment across the country and likely areas for the RSPF to invest in.

10. At that time, all regions except for Wairarapa and Otago had finalised regional economic development priorities. Wairarapa and Otago are close to finalising their priorities. It is now appropriate to set the policy parameters for Stream 2, informed by regional priorities.

11. An analysis of the general themes and gaps in regional priorities has informed Stream 2 investment settings. The analysis identified four key themes that priorities centred around:
   a. Improving the productivity of sectors, such as wood processing, food & beverage;
   b. Infrastructure and capital improvements to unlock economic opportunities, such as storage, digital, water;
   c. Māori development, including unlocking whenua, supporting iwi Māori into sectors, and business support; and
   Broader regional development, such as community strengthening, and skills and employment.

Discussion about opportunities for Stream 2 focus

RED aims to support more inclusive and equitable regional economies

12. In line with the Government’s economic vision, Regional Economic Development (RED) is central to New Zealand’s economic, social, culture, and environmental prosperity. Government support for Regional Economic Development therefore aims to improve the economic prospects, and through this the living standards and wellbeing outcomes, of all New Zealanders where they live.

13. It does this through delivering local approaches tailored to the particular needs of places. Generally, there is a particular focus on those places most likely to benefit from an uplift in economic outcomes and where they need additional support to achieve this. The RSPF recognises the challenges regions face, especially in the current economic climate, with the economic impacts of COVID-19, uncertainty of global markets and potential for recession, rising costs of living and unaffordable housing, place-based intervention is more important than ever.

14. Approaches should build more PRISM regional economies and contribute to at least one of the following outcomes:
    a. improved equity in regional economic well-being and living standards;
    b. improved regional contribution to national economic performance; and
    c. more economically inclusive and resilient societies.

15. It is not expected that every region, stream, or proposal will be focused on all five of the PRISM elements; instead focus is on where it is needed based on the unique characteristics of the proposal and region.

There is an opportunity to invest in areas where there are the greatest opportunities for economic uplift in order to improve regional economic equity

16. While Streams 3 and 4 are investing in quality whenua and sector proposals, currently there is no support for places and people that do not have ready high-value opportunities to invest in, and this risks these places falling further behind.

17. Stream 2 can provide that support. Because these proposals are likely to be less high-value they are also likely to have less returns than proposals for Stream 4 funding, but they are likely to have more broader regional development outcomes associated with them.

18. Based on the analysis of the regional priorities, officials consider the key opportunity for Stream 2 is to support individual businesses, groups of businesses, or trusts in places that are most likely to benefit from an uplift to improve their economic prospects through investing in small-scale capital improvements, such as equipment, technology and infrastructure, to enhance and grow their ability to do business in the communities where they are based. This might see investment in proposals that provide, for example:
    a. *equipment for one or several businesses* (such as tools, machinery, technology);
    b. *infrastructure that supports more than one business to continue or improve its goods and services production* (such as community assets that benefit multiple local businesses, pipes to improve land parcels' access to water, shared storage facilities to support the supply chain, shared kitchen facilities for multiple businesses' food and beverage production).

19. By investing in this, Stream 2 funding will support improvements in the economic viability and confidence of businesses and places. This may support some businesses to progress to a position where they could consider higher-value opportunities. In that sense it is an earlier support than that of Stream 4.

20. This would see Stream 2 primarily contribute to:

    a. **Resilience** of regional economies beyond the resilience of sectors;
    b. **Inclusivity** of regional people in the economy and benefits that are derived from it, including but not exclusive to Māori and likely to be focused on smaller towns / communities;
    c. **Sustainability** of economic activity, not just in an environmental sense but also from the four capitals perspective (human, social, natural, and financial and physical); and
    d. **Māori-enabling,** with a focus beyond the whenua investments of RSPF Stream 3 and sector investments of Stream 4.

21. There may also be opportunities to contribute to **Productivity** by increasing entities' ability to do business in regional New Zealand through innovating in business processes.

Overview of proposed settings for Stream 2

Summary of the intent for Stream 2

22. Stream 2 can focus on supporting places to overcome long-standing challenges to economic development that cities do not face (because of their scale, diverse business offerings, access to markets and capital, and agglomerations of expertise) to restore and support improved vibrancy, business confidence and wellbeing.

23. It can do this through funding small-scale capital improvements. This includes equipment, technology and infrastructure, where challenges to community resilience, inclusivity and sustainability cannot be overcome without investment, and to support Māori-enabling opportunities.

24. In very specific circumstances, there may be a component of capability funding to support the delivery of capital improvements. This would only be in exceptional circumstances where a quality project could not progress without that capability support. The bar will be high.

Guidelines for investment

25. Proposals need to meet RSPF eligibility criteria. The exclusions for the whole fund apply [CAB-21-MIN-0114].[1] The RSPF will not fund where another agency can fund. This is where other areas of government have the primary mandate for providing that particular support.

26. To ensure that funding is targeted to areas of most need and thereby is supporting the intent of Stream 2 being focused on *Resilient, Inclusive, Sustainable and Māori-enabling*, officials recommend potential investments for Stream 2 funding meet the following guidelines:
    a. targeted to those places most likely to benefit from an economic uplift based on economic data and other intelligence;
    b. provide benefits for multiple entities;
    c. actively supported by multiple government agencies (i.e. Kānoa – RDU and at least one other agency)[2]; and
    d. have a sustainable funding approach for ongoing costs.

27. Each of the above guidelines is discussed in further detail in Annex One. Each element has sufficient flexibility within it to provide confidence that the right proposals will not find it difficult to meet all guidelines.

28. Proposals for Stream 2 funding should align with at least one identified regional economic development priority identified as either a key or likely area for the RSPF to fund in the Emerging National Picture briefing [2122-2069].

29. Stream 2 proposals may be a unique opportunity or may complement investments made through Streams 3 and 4. While there is unlikely to be a high-value productivity focus for Stream 2 proposals in and of themselves, there may be some productivity benefits when complementing Stream 3 or 4 proposals.

---

[1] The criteria cover: location in regional NZ, alignment with Government and RED priorities, additionality (ie non-duplicative), co-contr butions, and capacity to deliver and implement the project. The exclusions include social assets, publicly-funded large-scale infrastructure, skills and training, housing infrastructure and purchase of land.

[2] Either through providing new funding or through leveraging existing programmes such as the Ministry of Social Development's flexiwage scheme, Te Puni Kōkiri's Pakihi Māori team providing business support.

Financial settings

30. Stream 2 has been allocated up to $60 million to fund eligible proposals. The following section details recommendations for Stream 2 projects financial settings, including:
    a. Funding instrument;
    b. Quantum of funding;
    c. Co-contribution requirements; and
    d. Distribution of funding nationally.

Funding instrument

31. Cabinet noted grants can be considered for non-commercial entities, whereas loans and equity would be the primary means of investing in any commercial or quasi-commercial project [CAB-21-MIN-0114]:
    a. **non-commercial** is where an investment delivers a public benefit but has not revenue stream;
    b. **quasi-commercial** is an investment that generates a revenue stream that is insufficient for funding by the private sector;
    c. **commercial** is an investment that generates a sufficient revenue stream.

32. To date, Streams 3 and 4 funding has only been provided through debt and equity instruments (including concessionary loans). This is because approvals have been based on largely commercial proposals.

33. As Stream 2 seeks to invest in place-based initiatives that improve business confidence and community vibrancy, officials consider there is a case for both grants and debt (including concessionary and suspensory loans) to be considered as funding instruments for both non-commercial and quasi-commercial investments. For example:
    a. where a proposal supports multiple businesses, it may be unclear as to who should accept responsibility for paying back the debt;
    b. for very small proposals (under $1 million), it is more cost efficient to the government to provide a grant than a loan due to the high legal and administration costs of the loan;
    c. some projects may have a mix of non-commercial, quasi-commercial and commercial elements, making it appropriate to fund through a mix of grant and debt;
    d. some projects may end up generating more revenue or more spillover benefits from the project than originally forecast, making it appropriate to use debt that on achieving certain outcomes either triggers repayment or waiver of the debt; and
    e. because Stream 2 is less focused on *Productivity* and more on *Resilience, Inclusivity, Sustainability* and *Māori-enabling*, there may be less commercial gain from the proposals.

34. When factoring for costs, the scale of the investment needs to be considered. Larger investments may justify greater transaction and administrative costs than smaller investments.

Quantum of funding

35. Cabinet originally noted that Stream 2 would fund small-scale projects [CAB-21-MIN-0114], however a specific monetary cap was not defined. Having considered the pipeline of Stream 2 opportunities, officials envisage that the majority of Stream 2 proposals applying for grant funding will sit within the $500,000 to $1 million range.

36. However, given that Stream 2 will support some capital improvements, officials consider the appropriate cap needs to take inflation into account. Therefore, we propose Stream 2 will

be able to fund up to $5 million total. If funding includes a grant component, then officials recommend that is capped at $2 million.

37. Officials consider these caps provide the opportunity to invest in proposals that have the potential to provide step-changes for regions, gives sufficient flexibility to fund small scale capital improvements, while also maximising the number of potential projects and the spread of places nationally receiving funding.

Co-contribution requirements

38. Cabinet noted co-contribution requirements as follows:
    a. Commercial / quasi-commercial projects require 50 per cent;
    b. Non-commercial require 20 per cent;
    c. Property and in-kind are not considered co-funding; and
    d. Central Government funding cannot be used as co-funding on commercial projects.

39. Officials consider these co-contribution requirements are appropriate for Stream 2.

Distribution of funding nationally

40. At this stage, officials are not recommending any decisions about how funding is distributed from Stream 2. However, as the RSPF progresses RED Ministers may choose to make strategic directions about where to focus funding.

Consultation

41. Officials have consulted the following agencies on the development of these policy settings: Ministry for Business, Innovation and Employment, Te Puni Kōkiri, Ministry for Primary Industries, Treasury, Ministry of Social Development, Te Arawhiti, Department of Internal Affairs, New Zealand Trade & Enterprise, Ministry of Foreign Affairs and Trade, Ministry of Housing and Urban Development.

Next steps

42. This paper has been circulated to Māori Economic Development Ministers for their feedback.

43. Should RED Ministers agree to Stream 2 settings, Kānoa – RDU will work with the Office of the Minister for Economic and Regional Development on producing information for interested parties, such as RED Partnerships and other regional stakeholders, and on the growregions.govt.nz website.

List of Annexes

- Annex One: Stream 2 guidelines detail
- Annex Two: Common themes across RED Partnerships priorities

Annex One: Stream 2 guidelines detail

How Stream 2 contributes to PRISM as a whole

1. Given the breadth of the aim to build more PRISM economies, it is not expected that every region, stream, or proposal will be focused on all five of the PRISM elements; instead focus is on where it is needed based on the unique characteristics of the proposal and region. Each of the streams can be complementary, by focusing on different parts of the regional economy:
   a. **Stream 3 – Accelerating Māori economic aspirations** is focused on overcoming constraints that have prevented Māori from leveraging their assets and benefitting from the economy, as well as unlocking latent opportunities. In this sense, the key focus areas are *Inclusive* and *Māori-enabling.* There may also be Productive[3], Resilient and Sustainable outcomes for individual projects depending on how they are configured and the needs of each region or place, particularly for those projects that are partnering with sector leaders; and
   b. **Stream 4 – Supporting sector transformations** is focused on building on regional comparative advantages so that regions compete against the rest of the world, rather than each other, and therefore contribute to national economic performance, while also preparing sectors for the impacts of climate change. The key focus areas are therefore *Productive* and *Resilient.* There may also be Inclusive, Sustainable and Māori-enabling outcomes depending on the configuration of individual proposals and considerations across the sector and region.

Guidelines in detail

A. Targeted to places most likely to benefit from an economic uplift, based on economic data and other intelligence

2. Many small towns / places in New Zealand continue to experience economic impacts from policies that originated in the 1980s due to domestic and international economic trends:
   a. **opening up of trade**, including the removal of farm subsidies, and the increase in manufactured imports reducing demand for locally manufactured products resulting in fewer manufacturing jobs[4];
   b. **international downturn in commodity prices for key export items**, such as meat and wool, which made many freezing works unviable and saw significant closures and consolidations across New Zealand;
   c. **economic policies** that focused on developing main centres and agglomerations; and
   d. **development and adoption of technology**, which has reduced the demand for some classes of jobs as technology was able to automate this work.

3. The closure of a place's most significant employer, such as the freezing works or manufacturing plant, often began a domino effect as smaller businesses had to downsize or close as they adapted to the reduced demand in the town.[5] This led to working-age people leaving these places for jobs elsewhere and overall wages declining. Town vibrancy, economic viability and labour supply remain problematic in some places.

4. Often, these places need additional help from government to support them to reach their full economic potential. This is especially true for more isolated rural towns, whereas

---

[3] Productive in the PRISM definition does not simply mean bringing something that was not in use or underutilised into better production. Instead it is about creating a step change into high quality economic opportunities which will support the outcome of improving regional contribution to national economic performance.

[4] In 1976 manufacturing accounted for 25 per cent of jobs in New Zealand, but by 2013 it accounted for less than 10 per cent of national employment [Source: Productivity Commission Working Paper, *New jobs, old jobs: the evolution of work in New Zealand's cities and towns* October 2019].

[5] Howard, Quintin, NZTA *Back to the future 2015 The death and life of small New Zealand towns* https://planning.org.nz/Attachment?Action=Download&Attachment_id=3160

locations close to an urban centre are less likely to feel longer term impacts because of agglomeration opportunities, such as a more buoyant labour market and access to capital. These places need a circuit breaker; Stream 2 funding could provide that.

5. For example, the Pātea Freezing Works closed in 1982. Due to its isolated situation, a high proportion of its younger generation left the town after finishing schooling and the local population declined. Evidence has shown that Pātea still endures a permanent shock to its population and outcomes from the closure.[6]

6. While it may not be feasible to address and overcome every challenge to uplifting these economies (as there may also be limited economic opportunities in these places), in order to achieve PRISM regional economies investment can support the resilience, inclusiveness, quality of life and well-being needs of these places.[7]

7. Determination of where funding should be targeted can be based on economic indicators, such as:
   a. a major employer or industry has exited or plans to exist;
   b. lack of access to capital;
   c. deprivation index (see Figure 1 below);
   d. significant and potentially long-lasting impacts from rising inflation, cost of living and housing affordability; and
   e. significant and potentially long-lasting economic disruption from COVID-19.

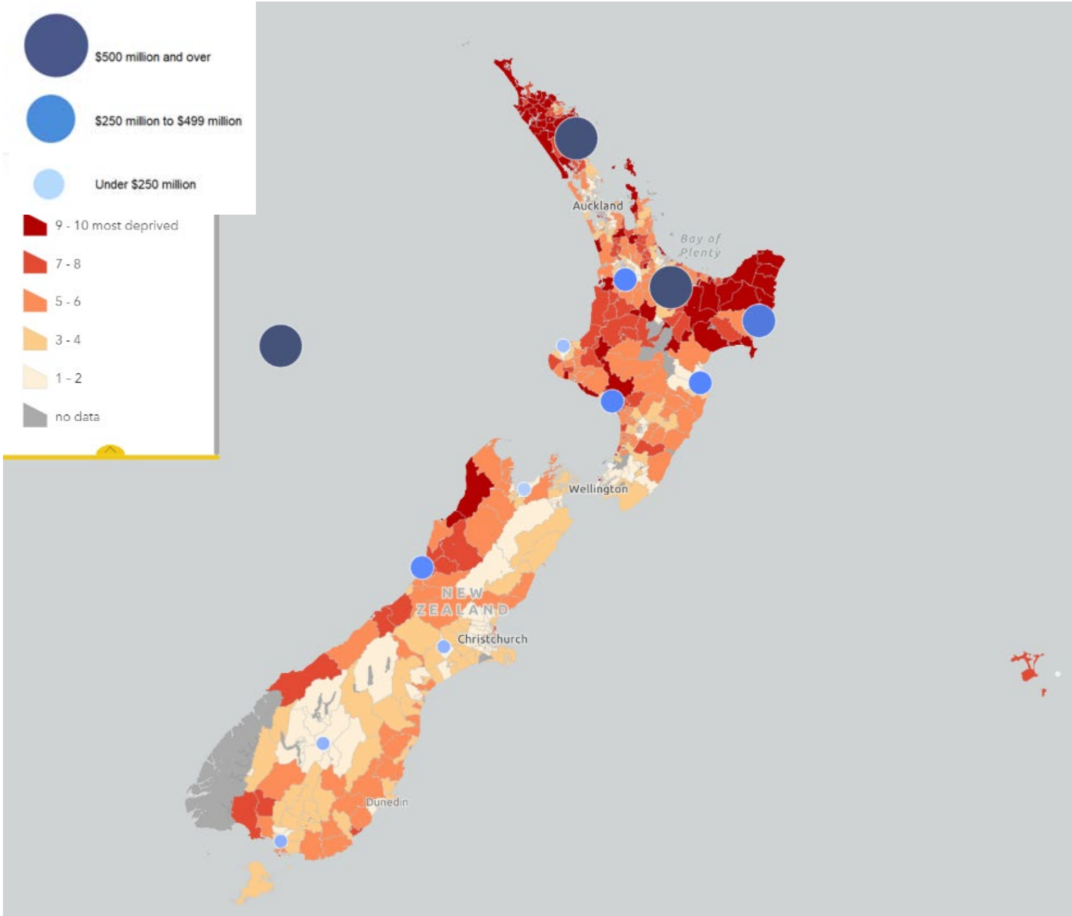
8. The previous approach to Regional Economic Development (RED) included "surge" regions, where it was recognised that some regions were experiencing the worst economic outcomes, and therefore needed early investment during the lifetime of the Provincial Growth Fund. We do not consider the surge region approach is needed going forward. This is because data below shows that there is need in various districts across New Zealand, and therefore every region should have an opportunity to access Stream 2 funding.

9. The below map provides:
   a. a heat rating of areas of deprivation for districts based on 2018 data; and
   b. circles indicating how much funding has been provided to regions since 2017 from various funds managed by Kānoa – RDU. Note the circle to the left of New Zealand represents funding provided for national programmes.

---

[6] Grimes, Arthur and Chris Young (Motu) Spatial Effects of 'Mill' Closures: Does Distance Matter? Motu working paper 2009 https://motu-www.motu.org.nz/wpapers/09_12.pdf

[7] Nel, Etienne, Sean Connelly and Teresa Stevenson, New Zealand's small town transition: The experience of demographic and economic change and place based responses - Nel - 2019 - New Zealand Geographer - Wiley Online Library



B. Provide benefits for multiple entities

10. Stream 2 investment is aimed at supporting improved business confidence and community vibrancy rather than supporting one business to improve. As detailed above, there is a negative domino effect on multiple businesses when a significant business leaves a small town / place. Therefore, to address the long-term deprivation problem, provide more resilience to places and offer opportunities for step changes in economic outcomes, funding should support economic benefits for multiple entities (e.g. businesses, trusts, iwi collectives).

11. Examples of benefits that are shared across entities may include:
    a. purchase of technology or equipment that could be shared by various businesses; and
    b. purchase of infrastructure that increases production for a business, which therefore sees them require more raw product / services from other local businesses.

C. Actively supported by multiple government agencies

12. Kānoa – RDU's experience from delivering and managing numerous funds, including the Provincial Growth Fund, has shown that projects are most likely to succeed and have wider spillover benefits when they are supported by a range of bodies, including across government, regions, local communities and businesses. This is because economic development cannot be decoupled from social, employment / labour market and environmental outcomes. Regional and local government also has responsibilities around supporting wellbeing outcomes for the four capitals (human, social, natural, and financial and physical).

13. Spillover benefits may include (amongst others):
    a. enhanced community wellbeing, pride of place and nationhood;
    b. improved business confidence;
    c. unlocked future commercial opportunities;
    d. improved Māori economic opportunities and outcomes;
    e. enhanced Crown relationship with iwi / Māori (including hapū and whanau); and
    f. improved environmental outcomes.

    These kinds of benefits will enable places to have a real opportunity to overcome long-standing economic disparities, and thereby increase residents' living standards and overall wellbeing.

14. Given this, officials propose that all Stream 2 proposals have a multi-agency approach (i.e. at minimum Kānoa – RDU and one other department / agency). This provides opportunities to leverage off existing programmes underway and to support a more cohesive, joined-up government effort in regions. Requiring a multi-agency approach means each agency brings its own knowledge and expertise to a proposal, and this will see benefits wider than just economic result, such as social (workforce and education), environmental (sustainability), and cultural. This does not mean that other agencies will need to provide funding directly for the project, but it would require active support to the wider community to activate some of the above spillover benefits. However, a pragmatic approach will be taken to ensure this requirement would not cause unnecessary delay to the detriment of valid projects that are advancing the strategic intention.

15. As an example, Kānoa – RDU is working closely with MBIE's RSLG central secretariat and MSD's Regional Development team as both of these groups are working with regions to develop priorities relating to skills and workforce and public sector support respectively. Opportunities for both of these teams to support a project may include:
    a. **RSLG:** While the RSPF is excluded from providing funding for skills and training programmes, there may be opportunities for the local RSLG to consider how it and the region are supporting workers into a Stream 2 funded project as part of the broader RSLG work programme; and
    b. **RPSC:** The RPSC may use their local leadership group to discuss wider government support for the community that the proposal is based in and how government can work together to overcome barriers. For example, the RPSC may work with the MSD Regional Commissioner to unlock opportunities such as supporting beneficiaries into roles within the project (utilising programmes such as Mana in Mahi, flexiwage and apprenticeships).

16. Kānoa – RDU also considers the Ministry for Primary Industries (MPI) and Te Puni Kōkiri (TPK) will be key agencies to work with, as both ministries have significant regional presence and levers relating to regional economic development. For example, support may include:
    a. **MPI:** The SFFF may fund an earlier or additional aspect of a proposal; and
    b. **TPK:** TPK may be able to offer support to Māori businesses to embed the benefits of the project, such as business planning, governance training or cadetships.

17. There may also be other opportunities for multi-agencies approaches relating to the Just Transition underway in Southland (and any future Just Transition Partnerships), Industry Transformation Plans, and climate responses.

18. In practice, a multi-agency approach will see:
    a. at a regional level Kānoa – RDU officials discussing ways in which other agencies can support the project. This may be easily implemented at a regional level, such as MSD coordinating job-seekers to the project, TPK providing business support.
    b. at a national level opportunities to link up with other funds to maximise the impact. In these situations, where other funding runs to a different timeline a generous approach will be applied to ensure that projects are not slowed down.

D. Have a sustainable funding approach for ongoing costs

19. Officials across agencies have consistently heard that regions are frustrated by lack of sustainable support from central government as policies change with incoming governments. This means that initiatives can be funded, but there is no consideration about ongoing funding so they end up falling over within a few years after being established.

20. Proposals considered for funding through Stream 2 may require ongoing operational funding for aspects such as depreciation and resourcing.

21. The RSPF has been set up as a time-limited fund and therefore it cannot commit to ongoing operational funding. However, we recommend that it be a requirement to have ongoing operational funding sourced and confirmed, where the expectation is that operational funding is provided by government.

22. This requirement will be balanced against the value of the funding provided. For example, under $1 million will require certainty for at least two years, whereas any proposal for funding over $1 million will need to show it has certainty for ongoing operational funding past five years. Expectations will need to be clear with communities before and at the time RSPF funding is approved around continuity of funding.

23. Where operational funding is sourced from outside of government, proposals over $1 million should be able to demonstrate continuity of funding for at least three years.

Annex Two: Common themes across RED Partnerships priorities

Regional Economic Development Priority theme	Prevalence across regions	Kānoa – RDU comment
Improving productivity of sectors, such as wood processing, food & beverage	**High** – Every region is focused on this.	This is already funded through Stream 4 investment, and therefore should not be a key focus for Stream 2.
Māori development, such as unlocking whenua, supporting iwi Māori into sectors, and business support.	**High** – Every region is focused on this.	Every region had Māori development either seeded implicitly throughout its priorities or explicitly as a unique priority. The covers a range of aspects: • supporting Māori into sector opportunities (funded by Stream 4) • unlocking Whenua development (funded through Stream 3). • business support for clustering, pan-iwi and regional Māori economic development planning and implementation (there is funding already available through other parts of government, such as through the Regional Business Partner programme).
Infrastructure and capital improvements to unlock economic opportunities, such as storage, digital, water	**Medium** – A number of regions are focused on this.	Some of the opportunities are more sector focused and therefore should be supported by Stream 4. However, some of the opportunities cut across sectors and are less focused on step changes in productivity, and more about providing communities with economic and resilience opportunities. There could be some small-scale opportunities for Stream 2 to fund to achieve these outcomes. Other agencies often struggle to allocate funding for infrastructure even when it is closely connected to their strategic intent because this has to be balanced against other priorities and be successful through the Budget process. Often infrastructure, which has a longer-term benefits horizon, may not successfully receive funding when considered against immediate needs, which means there is a gap for Stream 2 to consider funding infrastructure when it is relevant to longer term economic benefits.
Broader regional development, such as community strengthening, and skills and employment	**Medium** – A number of regions are focused on this.	Much of this area is more social / labour market focused and therefore outside the RSPF mandate. It includes aspects that are the primary focus of other agencies, including the Ministry of Social Development through its Joined-up Approach to Government and Regional Public Service Commissioners, and the Regional Skills Leadership Groups. Stream 2 could support the intent behind this priority which is community resilience through economically focused investments.