



COVERSHEET

Minister	Hon Shane Jones	Portfolio	Regional Economic Development
Title of Cabinet paper	Provincial Growth Fund Report for the period 1 March 2019 to 30 June 2019	Date to be published	16 September 2019

List of documents that have been proactively released

Date	Title	Author
31 July 2019	Provincial Growth Fund Report for the period 1 March 2019 to 30 June 2019	Office of the Minister for Regional Economic Development
31 July 2019	DEV-19-MIN-0201: Provincial Growth Fund Report for the period 1 March 2019 to 30 June 2019	Cabinet Office

Information redacted

YES / NO (please select)

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Some information has been withheld for the reason of Commercial information.

In Confidence

Office of the Minister for Regional Economic Development

Chair, Economic Development Committee

PROVINCIAL GROWTH FUND: DEV Report Back March – June 2019

Purpose

- 1 This paper is a report back to the Cabinet Economic Development (DEV) Committee on the Provincial Growth Fund (PGF) for the period 1 March to 30 June 2019.

Overview

- 2 In July 2018, Cabinet requested regular updates on the progress of the PGF [CAB-18-MIN-0347 refers].
- 3 Over the last four months, my focus with the PGF has been on accelerating project delivery and communicating our achievements. Over this period I have visited a number of projects that have been completed or where significant milestones have been met. The PDU and I have increased the engagement with media and key stakeholders over this time.
- 4 The report covers the following:
 - a. the focus of the PGF over the reporting period, March – June 2019
 - b. key PGF and PDU activities since the last report back [DEV-18-SUB-0239 refers] through the phases of PGF activity,
 - investment decisions
 - announcements
 - contracting
 - project delivery
 - reporting and communications updates
 - evaluation of the PGF
 - c. the PGF's focus for July – October 2019 across these activities.
- 5 The attached A3 outlines the PGF's progress to June 2019. The table below compares the PGF's progress between March and June 2019, with the cumulative PGF totals, broken down by dollar value and number of projects. Committed figures includes all PGF projects and PGF allocations, while approved figures include the sum of approved projects. Transferred figures relate to funding transferred to other agencies, and paid relates to funding paid to third party recipients.

Table: PGF progress over the reporting period

Metric	March-June		Total	
	\$	Project	\$	Project
Committed	\$628m	n/a	\$2,365m	n/a
Approved	\$483.1	53	\$1,353.8	370
Contracted	\$648m	66	\$887.2m	289
Transferred	\$175.3	n/a	\$969m	n/a
Paid	\$175.4	n/a	\$220.2m	n/a

Focus of the PDU over the reporting period, March – June 2019

- 6 In the first year, the PDU focused on establishing processes, assessing applications and providing support to decision-makers, with a focus on skills & training and infrastructure investment (tiers 1 and 3 of the PGF). In addition, the PDU now increasing its focus on identifying and assessing commercial sector investments (Tier 2 of the PGF).
- 7 Once projects have been approved and contracted, the typical key phases of delivery are:
 - a. design, procurement and preparation
 - b. delivery, including construction
 - c. completion and opening of facilities.
- 8 The PDU has increased its focus on the execution and delivery phases of the PGF. This means that there is a focus on client management, signing contracts, disbursement of funds to recipients, and the delivery of projects.
- 9 The PDU has been working with PGF partner agencies over the reporting period to support the acceleration of work across the PGF portfolio of projects. Partner agencies now report monthly through the PDU on progress. Reporting of the PGF portfolio will continue to develop over the next reporting period. Work is ongoing to ensure that PGF partner agencies' reporting continues to align more closely with PGF reporting requirements.
- 10 The PDU also has specific focus areas on communications, reporting and the evaluation framework, which are important to identify and demonstrate the PGF's achievements. Further information on these focus areas is provided in the sections below.

Key PGF and PDU activities – 1 March 2019 to 30 June 2019

Investment decisions

- 11 Through Budget 2019, the PGF committed \$300 million to KiwiRail, \$40 million allocation for waste projects, and \$40 million for energy projects. This means that \$2,365 million has now been committed in total from the PGF.

12 Between March and June 2019, the following groups met to consider PGF decisions:

- a. Cabinet considered a total of three papers, including approval of the Hawke's Bay PGF Transport package totalling \$68 million, establishment of Provincial Growth Fund Limited (PGF Ltd) and appointment of its board
- b. Regional Economic Development (RED) Ministers met four times, where they have made decisions on 35 PDU proposals, including 26 approvals. RED Ministers approved PGF position and guidance papers relating to Tier 2: Sector investments, Feasibility studies, and investments in the context of World Trade Organisation (WTO) obligations
- c. the Independent Advisory Panel (IAP) met seven times in this period to provide advice to Cabinet and RED Ministers on the above referred proposals
- d. Senior Regional Officials (SRO) also met four times in the reporting period, where they assessed 54 PDU proposals, including 24 approvals.

In all, 52 PDU projects (including two Cabinet approvals), totalling \$182.6 million were approved in this period. This means that 370 PGF projects, totalling \$1,353.8 million have now been approved.

Announcements

13 I have announced a number of key projects and packages. This included the integrated Hawke's Bay investment package, totalling \$68 million. This package results in all PGF surge regions having now been provided with significant levels of PGF investment to stimulate regional economic development. In addition, the following key investments were announced:

- a. Northland water storage investment (\$18.5 million) to help investigate and, if feasible, construct community-scale water storage and use options in Kaipara and Mid Northland.
- b. investment into Eastern Bay of Plenty (up to \$13 million) to accelerate a skills, training and employment programme to ensure an upskilled and work-ready workforce for horticulture developments.
- c. Top of the South ocean economy investment (\$7 million) including \$6 million to help establish a National Algae Centre in Nelson.
- d. investments in Otago (\$7.1 million), primarily towards tourism (Clutha Gold Great Ride Cycle Trail \$6.5 million).
- e. investment into Southland for the Maruawai precinct project (\$1.6 million) and the Hokonui Huanui programme (\$2.1 million) in Gore.

Contracting

14 Over the March to June 2019 reporting period, legal contracts for 86 PGF projects were executed, totalling \$648 million; and \$175.4 million was disbursed.

This means that 330 projects and packages have now been contracted, totalling \$887.2 million, and \$220.2 million has been disbursed across the range of PGF projects. At this level, a quarter of the contracted payments have been paid out to recipients. The remaining funding will be disbursed as recipients meet agreed project milestones.

- 15 The PDU is improving the way it monitors and reports on contracts to ensure that PGF funding recipients are meeting their milestones. Other agencies monitor contracts within their portfolios, e.g. Te Uru Rakau monitors One Billion Trees projects, and the Ministry of Transport and the New Zealand Transport Agency monitor the majority of roading projects.

Project delivery

- 16 Since 1 March 2019, a number of key PGF projects have been completed:

- a. **Re-opening of the Napier to Wairoa Railway Line** – This represents the first mothballed rail line to be reopened in 15 years. It will allow forestry harvests around Wairoa to get to Port of Napier safely and efficiently, avoiding 15,000 truck journeys each year on the region's roads. Forestry harvests around Wairoa are predicted to quadruple in the coming years, rising from around 150,000 tonnes currently to 600,000 tonnes by 2023, and the railway line will enable the full economic impact of that to be realised for the region. The Deputy Prime Minister and I attended the re-opening of this line on 14 June 2019.
- b. **Opening of the new Bay of Islands Airport terminal in Kerikeri** – The new airport terminal, which was identified by the region as being crucial to supporting economic growth, will ensure the airport is positioned to make the most of expected future visitor growth. From 2014 to 2018 annual passenger numbers at the airport have increased by nearly 80 per cent, in both tourism and business traffic. I attended the official opening of the airport on 21 June 2019.
- c. **The PGF funding driver training programme in Northland exceeded expectations** – The New Zealand Howard League for Penal Reform received \$7.5 million from the PGF in mid-2018 to expand its driver's licence programme in targeted regions, including Northland. The programme had a target of delivering 200 licenses. The programme has delivered 562 licences, across a number of license classes, were given to 338 ex-offenders in the past year. Sixty-nine per cent of the 338 who passed identified themselves as Māori, and the Department of Corrections has placed 120 of the 338 people into employment
- d. **Completed construction of the Ruapehu Alpine Lift (the Sky Waka)** – This project provides an improved tourism experience and new drawcard in the central North Island, attracting not just skiers but also sightseers and other tourists year round to the region. It is expected to be used by up to half a million people per year, employ an extra 70 people on the mountain, enable the ski season on Mt Ruapehu to be extended and the area to remain an all season tourist drawcard. The Under-Secretary to the Minister for Regional Economic Development attended the opening of the Sky Waka on 26 July 2019.

- 17 Other key PGF investments have met key project milestones. For example, there has been significant progress on the delivery of the \$137 million Tairāwhiti roading package, which was announced in September 2018. To date, Gisborne's inner city roads have been resurfaced and two kilometres of Rakaiatane Road, which is the access road to Gisborne's port, has been resealed.
- 18 1,023 jobs have been created through the PGF as at 31 May 2019. This is the number of jobs at a point in time and not a cumulative total.

Reporting update

- 19 A focus for the PDU over the last two months has been collating more granular reporting information at a project level. This enables better tracking of projects through the approved, contracted and delivery stages. This information will be made available across Government, to ensure MPs are aware of progress in their regions.
- 20 The rate of contracts approved and moving into delivery through the PDU process has accelerated over the last reporting period. The more granular reporting will enable provision of better information, such as the future payment schedule over the remainder of the fund. Work is ongoing with other PGF partner agencies to collect and standardise data across the PGF portfolio.

Communications update

- 21 I have prioritised building the strategic communications functions that relate to the PGF. The PDU is now taking a proactive approach with media opportunities, and is focussing on project delivery and milestones.
- 22 Positive media coverage has moved from 52 per cent to 58.1 per cent over the reporting period. Proactive coverage is at approximately 190 media interactions with reach to approximately 2,115,000 people.
- 23 The PDU is now working effectively with key stakeholders across various channels, which has built momentum in engagement, and widened the understanding of the PGF's outcomes as well as what needs to happen to achieve these. With the media relations and engagement work undertaken, the PDU has developed good working relationships with national and regional media outlets.
- 24 The PDU has also created a range of content, which they are using across the PGF's digital and social channels. In the social media space there has been a 74 per cent increase in followers across the two platforms (Facebook and Twitter) and almost 9,000 engagements. In the digital space content generation has increased by 25 per cent and reach by 15 per cent.

PGF evaluation framework update

- 25 MBIE, on behalf of the PDU, will undertake an evaluation of the PGF. This will involve a two stage process that recognises it will take some time for the impact of the PGF's investments to be fully realised. The PDU briefed RED Ministers on this approach on 27 June 2019. The PGF will be assessed both in the near-term and the longer term as follows:

- a. Near-term evaluation (2020): This will indicate the effectiveness of the PGF's investment activity. It will incorporate information about project's contract milestones and outcomes. This evaluation is important because it links the indicators of effectiveness and the longer term evaluation of the PGF
- b. Longer term evaluation: Measurement and evaluation will be undertaken to capture the long-term impacts of the PGF once all investments have been made.

26 The PDU needs to plan the two evaluations in parallel to ensure that the PDU and partner agencies collect the appropriate data from the commencement of projects. Engagement of an independent evaluator is currently underway to support these two evaluations.

27 A report on the Indicators of Effectiveness is annexed to this paper.

Focus for July 2019 – October 2019

Investment decisions

28 The PDU will continue to identify investment opportunities and provide advice to PGF decision-makers. I expect that the PDU will provide Cabinet with the following PGF-related papers for consideration over the reporting period:

a. investment for ports and rail

b. Commercial Information

c. Commercial Information

d. Commercial Information

Announcements

29 My colleagues and I will continue to announce PGF projects including those mentioned in the paragraph above. I expect there will be further funding announcements for the some of the surge regions as well as Waikato, Otago and Southland.

30 To facilitate the PGF's focus on commercial sector investments, the PDU is prioritising the assessment of a range of commercial investments across key sectors including: the primary sector, waste, energy, and manufacturing. The first tranche of proposals in these sectors will be submitted to the appropriate decision-makers within this reporting period. I will provide an update on this work in the next DEV report back in November 2019.

Contracting

31 The PDU will continue to work with other PGF partner agencies to progress project approvals, contract negotiations and project delivery. A focus will be on accelerating projects through the approval and contracting stages, while ensuring robust processes are maintained for the allocation of PGF funding.

Project Delivery

- 32 Many contracted projects are now in the design, procurement and preparation stage. As applicants refine their understanding of their projects, I anticipate RED Ministers will receive a number of requests for changes in contract arrangements, including funding levels. In the last quarter of 2019, a significant number of these projects will move into the construction phase.
- 33 In addition, the PDU will focus on setting up PGF Limited, which will hold the investments of the PGF as projects are delivered. This includes completing an Order in Council process by October 2019, to add it to Schedule 4A of the Public Finance Act 1989 and Schedule 1 of the Ombudsmen Act 1975. This will give effect to previous policy decisions.

Monitoring and reporting forecast by October 2019

- 34 The PDU will continue to track project milestones and I will announce the achievement of milestones, including the completion of construction projects.
- 35 The PDU will also continue to develop and refine its reporting suite to provide Ministers an up-to-date picture of progress and any emerging issues. Recent work has enabled more granular reporting of projects and this will be embedded over the next reporting period.

Evaluation

- 36 An evaluator will be contracted in coming months and will determine the material to be captured to enable effective evaluation of the PGF in 2020.

Consultation

- 37 Relevant PGF agencies have provided input into the figures provided in this paper.

Implications

- 38 There are no financial, human rights, legislative, regulatory, gender or disability implications.

Recommendations

The Minister for Regional Economic Development recommends that the Committee:

- 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 March 2019 – June 2019;

Publicity

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

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development

PROACTIVELY RELEASED