



EVALUATION OF THE PROVINCIAL GROWTH FUND

Date:	24 June 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	3911 18-19

Action sought		Deadline
Hon Grant Robertson Minister of Finance	Agree to the PDU's approach to the evaluation of the Provincial Growth Fund.	26 June 2019
Hon Phil Twyford Minister of Transport		
Hon David Parker Minister for Economic Development		
Hon Shane Jones Minister for Regional Economic Development		
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	26 June 2019

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Robert Pigou	Head of the Provincial Development Unit		Privacy of natural persons	
Susan Baas	Manager, Risk Assurance and Governance, Provincial Development Unit	Privacy of natural persons	Privacy of natural persons	✓

The following departments/agencies have been consulted

Te Puni Kōkiri, Ministry of Transport, New Zealand Transport Agency, Ministry for Primary Industries

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments

PROACTIVELY RELEASED

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Executive Summary

- 1 Cabinet has agreed that there will be an evaluation of the Provincial Growth Fund (PGF) in 2020 in order to assess the effectiveness of the investment activity, and also that the broad outcomes of the Fund will be assessed over the longer-term.
- 2 Officials have interpreted Cabinet's intentions in relation to evaluation of the PGF and have developed the 'indicators of effectiveness' that will form the basis of the 2020 evaluation.
- 3 Next steps will be to:
 - a. go to market to seek an independent evaluator to support the 2020 evaluation; and
 - b. in parallel, undertake further work to develop the approach to longer-term evaluation of the PGF.

PROACTIVELY RELEASED

Recommendations

The Provincial Development Unit (PDU) recommends that you:

- a **Note** that Cabinet previously agreed to an evaluation of the PGF in 2020 in order to assess the effectiveness of the investment activity, and also that the broad outcomes of the Fund will be assessed over the longer-term.

Noted

- b **Agree** to the PDU's approach to the evaluation of the PGF, including the following next steps:
- i. go to market to seek an independent evaluator to support the 2020 evaluation; and
 - ii. in parallel, undertake further work to develop the approach to longer-term evaluation of the PGF.

Agree/Disagree

Robert Pigou
Head of the Provincial Development Unit
..... / /

Hon Grant Robertson
Minister of Finance
..... / /

Hon Phil Twyford
Minister for Transport
..... / /

Hon David Parker
Minister for Economic Development
..... / /

Hon Shane Jones
Minister for Regional Economic Development
..... / /

Background

Cabinet has directed officials to carry out evaluation of the PGF

4 The PGF is an unprecedented investment in New Zealand's regions, which will create new opportunities and lift prosperity in parts of New Zealand that have been falling behind on key economic indicators, including employment and household income levels. The approach for measuring and evaluating PGF outcomes has been guided by a number of Cabinet decisions.

February 2018 Cabinet decisions [CAB-18-MIN-0045 refers]

5 In February 2018, Cabinet directed the Regional Economic Development Unit (now the PDU) to develop a set of regional outcomes, with a view to having a set of measures that can be tracked over time to highlight the needs of different regions.

6 However, Cabinet noted that it would be at least two to three years after PGF investment before the improvements in regional outcomes will be observable, and agreed that the success over the short-term would be measured against indicators of effectiveness. These focus on the operation, outputs and early outcomes of the fund (see paragraph 8).

July 2018 Cabinet decisions [CAB-18-MIN-0347]

7 In July 2018, Cabinet further directed officials to track a set of indicators that could be used to measure over a longer timeframe the nine broad PGF outcomes that had been noted in February (see paragraph 20). Cabinet also noted that officials will further develop the indicators and a plan for evaluating the performance of the PGF.

Discussion

The 2020 evaluation will assess the effectiveness of the investment activity of the fund

8 The 2020 evaluation of the PGF will measure the operation, outputs and early outcomes being achieved through the PGF's investments, through the following indicators of effectiveness.

2018: pre-investment and remedial infrastructure	Late 2018-2019: funding decisions	2019-2021: delivery of projects
Pipeline: <ul style="list-style-type: none"> Number, quality of proposals Conversion of high-quality initiatives and feasibility studies into proposals 	Pipeline: <ul style="list-style-type: none"> Number and quality of initiatives Conversion of proposals into approved investments Spread of investments across regions, tiers, risk profiles and for Māori 	Pipeline: <ul style="list-style-type: none"> Number, quality of projects underway and delivered to specification Sustainability of projects beyond life of Fund Exit of projects that are not delivering
Administration: <ul style="list-style-type: none"> Capability of applicants lifted Applications progressed efficiently Improved capability of 	Administration: <ul style="list-style-type: none"> Decision makers supported to make choices that optimise the spread of investments across regions, tiers, risk profiles and for Māori 	Administration: <ul style="list-style-type: none"> Support for decision makers to adjust investment in projects (e.g. exit, change delivery or timing)

Government to engage with regional partners and Māori		
<p>Direct impacts:</p> <ul style="list-style-type: none"> • Greater partnering activity between regional players, and with the private sector • Programmes delivered for youth NEET • Remedial infrastructure projects beginning to get underway • Trees planted and planting pipeline developed 	<p>Direct impacts:</p> <ul style="list-style-type: none"> • Greater investment interest from private sector following early government investments • Number of NEET now work ready • Number of jobs created through early investments • Infrastructure projects underway and delivered • Trees planted 	<p>Direct impacts:</p> <ul style="list-style-type: none"> • Infrastructure projects underway and delivered • Enhanced regional connectivity • Reduced NEET • Number of jobs created • Improved productivity, export earnings • Emissions abatement (by gas) • Trees planted

- 9 The 2020 evaluation will inform government on how investments and activities are tracking. Cabinet noted that its broad objectives would be to:
- understand how the Fund operates and contributes to regional outcomes;
 - identify the early markers of success; and
 - identify opportunities on how the Fund can better achieve its outcomes.

We interpret the third objective as applying to regional economic development funds more generally, since the current PGF will be close to completion at the time that the evaluation is completed.

- 10 The PDU has examined the indicators of effectiveness and we consider that, in total, they will tell a coherent story about the investment activity of the PGF. The indicators now need further input from the independent evaluator, including to ensure that they are all amenable to measurement. This process will ensure the final product is in line with Ministers' expectations.
- 11 The 2020 evaluation will also incorporate information about the milestones and contracted outcomes of specific projects. As well as being captured within the indicators of effectiveness, this information will provide a richer picture about the PGF's progress towards its overall objectives. It will therefore provide an important link between the indicators of effectiveness and the longer term evaluation of the PGF.
- 12 The PDU's regular updates to DEV also contain some reporting on the indicators of effectiveness, to the extent that these have been developed and data collected to-date.

Next steps for the 2020 evaluation

- 13 Work undertaken to-date has confirmed that the indicators of effectiveness are fit-for-purpose to tell a coherent story about the investment activity of the PGF. As the next step, we will shortly begin procurement of an external evaluator, who will as a first phase of work help us further refine the indicators and scope the evaluation. To ensure the evaluation is carried out by the end of 2020, we anticipate that the first phase of the evaluation work will begin by September 2019.
- 14 Once an evaluator is contracted, officials will work with them to further refine the indicators of effectiveness and associated key evaluation questions, and develop the relevant

evaluative criteria. It is anticipated that a mix of research methods including monitoring of administrative data, surveys and process documentation will be required to meet the evaluation objectives. **Commercial Information**

- 15 The proposed next steps for the 2020 evaluation are:
- a. contract an independent evaluator by sending out a request for proposals (RFP) to support the evaluation;
 - b. with the independent evaluator as the first phase of evaluation work, further develop the indicators of effectiveness and the means by which they are best measured, tracked and evaluated, in order to define the precise scope of the 2020 evaluation;
 - c. work with the other PGF agencies to collect the data, information and analysis needed to support the indicators of effectiveness, with that information being progressively reported to DEV through the PDU's regular reporting;
 - d. as the second phase of evaluation work, complete the evaluation by end 2020, **Free and frank opinions**
 - e. in parallel, undertake work to design longer term evaluation of the PGF in order to ensure that the PDU and other agencies collect the necessary data during the life of the PGF.
- 16 This process will result in the PDU providing increasingly enhanced reporting on the indicators of effectiveness during calendar year 2020 via the regular DEV reports. Based on current timing, the full 2020 evaluation will be completed in late 2020, after the 2020 election.
- 17 The work to develop the approach to evaluating the PGF is supported by a PGF evaluation governance group and advisory group, comprising members from the Ministry of Primary Industries, Te Puni Kōkiri, Ministry of Transport, New Zealand Transport Agency, New Zealand Trade & Enterprise and others.

We are also developing the longer term evaluation alongside carrying out the 2020 evaluation

- 18 It will take time to produce tangible, quantifiable outcomes from the PGF, not only because of the time it takes to contract PGF projects and for them to be completed, but because the PGF is dedicated to addressing long standing disparities in the regions that have developed over decades. This includes deprivation and high unemployment, low digital connectivity and low firm productivity.
- 19 Despite positive nationwide economic trends of recent years, these issues are entrenched in some regions, and it will take time to turn them around.
- 20 Evaluation of the medium to longer term outcomes of the PGF will be undertaken once all PGF investments have been made, and the outcomes of the PGF can be properly assessed. In July 2018, Cabinet directed officials to track a set of indicators and these have been adjusted as set out in the table below based on the data that is, or is likely to be, available. As was signalled to Cabinet in July 2018, there are some challenges associated with the quality of information available, particularly with respect to the utilisation of Māori

assets, mitigating the effects of climate change, and the state of the environment. We are working to develop additional measures and information to support the longer term evaluation and properly reflect the impacts of the PGF.

Broad outcomes	Key Indicators
Increased economic activity	<ul style="list-style-type: none"> Regional GDP growth (by industry) Retail trade spending by region
Enhanced utilisation of Māori assets	<ul style="list-style-type: none"> Employee counts in Maori enterprises by region
Increased productivity	<ul style="list-style-type: none"> Regional productivity (GDP per employee by region)
Increased employment and earnings (in general and for Māori particularly)	<ul style="list-style-type: none"> Employment rate (by region) Median annual personal income by region
Lower youth NEET rates (and a reduced proportion of this group being Māori)	<ul style="list-style-type: none"> Youth NEET rates (by ethnicity) by region
Improved digital communication	<ul style="list-style-type: none"> Ultra-fast broadband uptake by region
Improved transport infrastructure	<ul style="list-style-type: none"> Travel times from surge region to closest major city Freight handling volumes and efficiency
Mitigating or adapting to climate change effects and a just transition to a low emissions economy	<ul style="list-style-type: none"> Net greenhouse gas emissions (national) Council's with climate change adaptation plans
Sustainable use of natural assets (originally 'Enhancing natural capital')	<ul style="list-style-type: none"> Proportion of total primary energy supply from renewable energy

- 21 Given these challenges, we consider it necessary to plan the longer term evaluation at the same time as focusing on implementing the 2020 evaluation. This will ensure that the PDU and other agencies collect the necessary data during the life of the PGF.
- 22 Also, measured changes to the indicators may not necessarily be solely or partially attributable to the PGF. Development of the long term evaluation will take into account the above indicators and provide more detail on the difference the Fund itself is making in the regions, including assessing how and to what extent the Fund has contributed to outcomes.

There is wider interest in evaluation of the PGF

- 23 The size, scale and pace of the PGF means that it attracts media and other attention. There has been attention and commentary about evaluation of the PGF and this is likely to continue. In particular, there may be views that a more outcomes-based evaluation of the PGF should be brought forward.
- 24 The benefits of the PGF will not accrue at the same time and in the same way, and some of the PGF contracts have a lifespan of around ten years - well beyond the three year lifespan of the operation of the current Fund. In these circumstances, it will take some time to measure the full benefits of the PGF.
- 25 We consider that it is appropriate to complete the interim 2020 evaluation based on the investment activity of the PGF, and that a longer term evaluation can only be completed when the impacts of the PGF can be properly assessed. As noted above, individual projects are already measured through the monitoring of contracted milestones that all projects are subject to.