



BRIEFING

PGF funding to assist economic development agencies' short-term PGF portfolio management capacity

Date:	22 January 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2217 18-19

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Regional Economic Development	Agree to approve up to \$5.6 million from the PGF to provide funding for regional EDAs or regional bodies in each region for their PGF portfolio management	29 January 2018
Hon Grant Robertson Minister of Finance	Agree that Senior Regional Officials will make decisions on applications from individual regions for portfolio management funding from the PGF	29 January 2018
Hon Phil Twyford Minister of Transport	Agree to the proposed information that applicants must provide in portfolio management applications for PGF funding	29 January 2018
Hon David Parker Minister for Economic Development		29 January 2018
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing	29 January 2018

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Isabel Poulson	Manager, Strategy and Policy	Privacy of natural persons	Privacy of natural persons	✓
Andrew Beaufort	Senior Policy Advisor	Privacy of natural persons		

The following departments/agencies have been consulted
N/A

Minister's office to complete:

Approved

Declined



Noted

Seen

See Minister's Notes

Needs change

Overtaken by Events

Withdrawn

Comments

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Date:	22 January 2019	Priority:	Medium
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Purpose

This paper seeks RED Ministers approval that up to \$5.6 million of PGF funding be used to assist a regional economic development agency (EDA) or regional body in each region with their short-term Provincial Growth Fund (PGF) portfolio management capacity.

Recommended action

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

- a **Note** that EDAs have advised that they are constrained in their ability to undertake business-as-usual functions because of their role in processing and assisting with PGF applications.
Noted
- b **Note** that Economic Development New Zealand submitted an expression of interest to the PGF, seeking \$9,580,000 to assist EDAs with their ability to process PGF applications.
Noted
- c **Note** that applications for business-as-usual activities are not generally eligible for PGF funding and funding provided to EDAs is normally in relation to a particular programme or project.
Noted
- d **Note** that, in December 2018, Regional Economic Development Ministers agreed to the priorities and principles for PGF investment in EDAs to assist with capacity and capability building.
Noted
- e **Note** that the Provincial Development Unit (PDU) considers capacity funding should be provided to certain EDAs and regional bodies in the short-term through the PGF on a case-by-case basis.
Noted
- f **Note** that on 10 January 2019, the Parliamentary Under-Secretary for Regional Economic Development agreed to the proposed approach (outlined in the following recommendations) for using PGF funding to assist economic development agencies' short-term PGF portfolio management capacity.
Noted
- g **Agree** to approve up to \$5.6 million from the PGF to provide up to \$200,000 per year for two years for a regional EDA or regional bodies in each region for their PGF portfolio management.



Agree / Disagree

- h **Agree** that Senior Regional Officials will make decisions on applications from individual regions for portfolio management funding from the PGF.

Agree / Disagree

- i **Agree** to the proposed information that applicants must provide in portfolio management applications for PGF funding.

Agree / Disagree

Isabel Poulson
Manager, Strategy and Policy
Provincial Development Unit, MBIE

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Hon Grant Robertson
Minister of Finance

..... / /

Hon Shane Jones
Minister for Regional Economic Development

..... / /

Hon Phil Twyford
Minister for Transport

..... / /

Hon David Parker
Minister for Economic Development

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Background

PGF principles and priorities for PGF investment in EDAs

1. The Parliamentary Under-Secretary to the Minister for Regional Economic Development presented principles and priorities for PGF investment in EDAs to assist with capability and capacity building to Delegated Regional Economic Development (RED) Ministers. RED Ministers agreed to these priorities and principles on 6 December 2018. These principles sought to ensure that “EDAs have sufficient capability and capacity to support regional economic development beyond the life of the PGF.”
2. One of the specific PGF principles for funding EDAs is to provide funding to improve EDAs “capacity to deliver PGF funded activities or projects on behalf of the region.”
3. The Parliamentary Under-Secretary for Regional Economic Development directed the Provincial Development Unit (PDU) to establish an approach for funding EDAs based on an application by Economic Development New Zealand (EDNZ) to assist them with managing their portfolio of PGF proposals during the life of the PGF. Some EDAs are performing a project management role for PGF projects and are assisting applicants with submissions to the PGF.
4. On 10 January 2019, the Parliamentary Under-Secretary for Regional Economic Development agreed to the proposed approach (outlined in the next section) for using PGF funding to assist economic development agencies’ short-term PGF portfolio management capacity.

EDNZ’s expression of interest (EOI) for capacity and capability building

5. On 17 May 2018, EDNZ submitted an EOI seeking to \$9,580,000 to increase staff numbers in EDAs across the country. The application was for EDNZ to employ portfolio managers, Māori economic development managers, business analysts and project support in EDAs on behalf of regions to assist in the delivery of the PGF.
6. PDU officials spoke to EDNZ about its EOI, our concerns and our proposed approach to EDNZ’s members’ needs. Our concerns were:
 - a. we considered Māori economic development managers and business analysts to be business as usual functions
 - b. upon discussion with EDAs and EDNZ, EDAs signalled they would prefer to employ the staff and be funded directly for the roles where possible as they would be better placed to identify their needs and reduce administrative complexity of reporting to EDNZ, who would then report to central government, and
 - c. each region has different needs and actors. EDAs in each region have different roles in regional economic development. Some regions do not have EDAs, others have multiple competing EDAs, and in some regions EDAs are not the main partner in delivering regional economic development alongside central government. The PDU’s view was that solely focusing on EDAs in some areas would not be the best use of resources in achieving the Government’s regional economic development aims.
7. The outcome of discussions with EDNZ is the recommended approach below. The PDU’s Investment Management team will discuss with EDNZ the withdrawal of their EOI in favour of our recommendation.

EDAs and other actors are assisting with PGF applications at the expense of their core functions

8. Some EDAs have indicated to the PDU that their capacity to undertake their business-as-usual-functions has been constrained due their role in processing and assisting with PGF applications and working alongside central government to deliver these projects. There is also a risk that prioritising PGF-related activities may have implications on some EDAs' ability to make improvements to their capability and capacity in the medium-to-long term through the PGF being the focus of their resources and effort.
9. EDAs have identified a lack of funding as the main reason that they do not have sufficient capacity to undertake both their PGF-related and business as usual activities. Despite the increase in EDAs' functions because of their PGF-related activities, funding for EDAs generally does not appear to have increased in the short time the PGF has been in existence. This is also a problem for other PGF and regional economic development delivery partners such as regional councils.
10. However, we expect this to be a short-term issue that should subside for EDAs by early-2020 because the majority of PGF funding is expected to be allocated by this stage. Further, the PGF will be focusing on sector investments in 2019, and the role of EDAs and other regional bodies in the PGF application process for sector investments is not yet clear.

Proposed approach

We propose that up to \$200,000 a year of PGF funding for up to two years be made available for PGF portfolio management

11. To address EDAs' short-term capacity issues, we propose to provide those regional EDAs or regional actors that require this assistance with up to \$200,000 of PGF funding a year, for up to two years, to assist them with managing their portfolio of PGF proposals during the life of the PGF. This could fund Commercial Informa full-time equivalents (FTE) for each region depending on resourcing requirements. This would cost up to \$5.6 million if it was implemented across all 14 regions eligible for PGF funding.
12. This investment would seek to ensure regional EDAs have the capacity to undertake both their PGF-related activities in the short-term, and their business-as-usual activities. We would also expect them to demonstrate that they will take steps to improve their long-term capacity and capability through identifying their future needs, budgeting appropriately, Commercial building the skills they require.
13. We would expect each regional EDA would use this funding to appropriately filter applications from within their region, in collaboration with relevant regional stakeholders, with other regions and central government. In turn, this would help ensure that the PDU receives high-quality applications that reflect the region's economic development needs and preferences without unnecessary duplication across regions. It would also help to improve the level of cooperation and collaboration within, and between regions by prioritising proposals with the highest value and need.
14. While the majority of PGF funding is expected to be allocated by the end of the 2019, portfolio managers may also be involved in other PGF-related functions (e.g. negotiating contracts and managing projects where necessary).

Funding for regions that do not have a regional EDA

15. We recommend that regional EDAs should be prioritised for receiving this funding because of their role in promoting regional collaboration, and because successful regional economic development outcomes require economies of scale.

16. Some regions do not have a regional EDA, or a regional EDA does not adequately represent the entire region, or an organisation like a regional council is central government's main partner in delivering its regional economic development programme. In these cases, we propose that the Senior Regional Official (SRO) should work with key regional stakeholders to determine which regional body should receive portfolio management funding through the PGF. Key regional stakeholders should include regional steering groups and local government.
17. Providing funding for regional bodies other than EDAs does not directly address the capacity issues of EDAs as discussed above. However, there is still value in providing this funding to certain regional bodies, where a regional EDA does not exist, to ensure that the all regions provide the PDU with high-quality applications that reflect regional and national priorities

Intersection with other PGF funding for EDAs

18. In the past, SROs have made a number of decisions on providing PGF funding to EDAs and other regional actors to help with their short-term capacity needs to deliver programmes of work alongside central government – e.g. Activate Tairāwhiti and Northland Inc. were provided \$90,000 and \$200,000 respectively to carry out portfolio and programme management roles. We recommend that regional EDAs who have already received PGF funding for portfolio management are not prioritised.
19. Funding EDAs for portfolio management will not preclude EDAs being funded for other activities that build their medium and long-term capacity and capability (such as development/management programmes to build EDA staff skill sets, etc.) and as outlined in the EDAs principles paper. This will be communicated to regional EDAs and other regional bodies so that they are aware of how the PDU intends to treat these proposals.

Decision making processes

20. We seek RED Ministers' approval for this proposal, because as a package, the initiative could total up to \$5.6 million of PGF funding consisting of \$200,000 for two years for the 14 eligible regions.
21. We recommend that SROs be the decision-maker on individual applications for portfolio management PGF funding because:
 - a. SROs understand their regions' needs and the capacity of actors to undertake PGF-related work, and
 - b. individual applications will be under \$1 million, which is within SROs financial decision-making delegations.

Proposed information required for portfolio management funding

22. Applicants would be required to apply for each year separately to demonstrate they have an ongoing need for this funding.
23. In addition to the standard information the PDU requires for PGF applications, we propose that applicants for the portfolio management funding would provide the PDU with the following information:
 - a. what specific portfolio management functions and processes the regional EDA would establish using this funding
 - b. why the regional EDA or regional body requires this funding i.e. the regional EDAs' capacity issues in providing both PGF-related and business-as-usual functions

- c. demonstrate that they are working alongside central government to deliver the Government's regional economic development programme – e.g. such as how Venture Taranaki or Development West Coast are working with the PDU
- d. links to the regional EDA's long-term capacity and capability building work (i.e. links to the principles RED Ministers have agreed to for PGF funding in EDAs)
- e. proposed metrics to measure what successful portfolio management functions look like, and
- f. what, if any funding EDAs' have received for portfolio management previously.

Next steps

- 24. Subject to delegated RED Ministers agreement, the PDU would communicate this initiative to EDNZ, EDAs and SROs. The Parliamentary Under-Secretary for Regional Economic Development may wish to release a press statement relating to this decision

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