

In Confidence

Office of the Minister for Regional Economic Development

Chair, Cabinet Economic Development Committee

PROVINCIAL GROWTH FUND: INVESTMENT IN SKILLS AND INFRASTRUCTURE

Proposal

- 1 This paper seeks Cabinet's agreement to Provincial Growth Fund (PGF) priority investments for 2018/19 to support regional economic development and seeks decisions on PGF investments in digital connectivity and rail.

Executive Summary

- 2 The PGF is a significant opportunity to realise the potential of New Zealand's regions, and is key to the Government achieving an economy that is sustainable, inclusive and productive. In December 2017 we established the PGF with the aim of creating a step change in the regions, so that increased economic opportunity and stronger social capability and capacity would increase the community's prosperity over the long-term. The PGF will act as a catalyst to accelerate investment in areas that can contribute to regional economic development, deliver sustained employment outcomes and address infrastructure deficits.
- 3 My experience to date has highlighted the value to the regions, particularly PGF surge regions, of developing integrated investment packages that bring together the three tiers of the PGF:
 - Tier 1: Regional projects and capability
 - Tier 2: Sector Investment
 - Tier 3: Enabling Infrastructure.
- 4 The Tairāwhiti PGF investment package announced on 7 September 2018 demonstrates the type of approach I will increasingly take with regional packages to include components across the three tiers of the PGF. I am taking a "hub and spoke" investment approach to support regional economic development. The 'hub' investment will address the remedial infrastructure and skills needs of the regions. Other investments can be seen as 'spokes' that are enabled by these fundamental investments in infrastructure and skills.
- 5 The Tairāwhiti package comprised of a significant roading resilience component to boost connectivity and productivity. This is complemented by investments in tourism infrastructure, food production and primary industries. Employment related training and investment to support these investments is being progressed through this paper. All components of the package are focused on improving regional productivity and employment.
- 6 In December, we noted that the PGF would be a combination of "bottom up" initiatives prioritised by the regions, proposals brought forward within sectors, and

“top down” initiatives prioritised by the Government to address social and infrastructure deficits at a regional level.

- 7 To date, we have progressed a number of the projects brought forward by regions, including those developed under the last Government. This paper sets out the approach to “top down” investments required to address social and infrastructure deficits and support sector investments that align with regional priorities.
- 8 I am seeking Cabinet agreement to investment principles for the following priority areas to guide applicants and decision-makers when developing or assessing applications:
- Employment, skills and capability to promote greater investment in the regions by businesses and importantly to ensure that people can access employment and the skills that they need
 - Digital connectivity to ensure that the regions share the benefits of digital technologies
 - Water storage (small scale) for improved land use
 - Land transport initiatives (road and rail) to enable economic development.
- 9 I am also seeking Cabinet’s agreement to fund initiatives that form part of integrated investment packages being developed for the West Coast, Manawatū-Whanganui and Bay of Plenty regions:
- digital connectivity (\$80 million): extending the Rural Broadband Initiative phase two (RBI2) and Mobile Black Spot Fund (MBSF) rollout in surge regions and network enhancement in West Coast and Milford Sound
 - land transport (\$110 million): KiwiRail working capital contribution for remedial infrastructure in the regions (\$50 million) and distribution hubs in Bunnythorpe (\$40 million) and Kawerau (\$20 million).
- 10 Decisions on initiatives that fall within the scope of these priority areas and are not yet investment-ready will follow existing decision-making processes [CAB-18-MIN-0045 refers]. I have also outlined where I expect to seek Cabinet approval for regional investments over the remainder of 2018/19. This includes rail investment in the Marsden Spur, which will come back to Cabinet for consideration following the completion of the Upper North Island Supply Chain Strategy in May 2019 [CAB-17-MIN-0550 refers].

Table 1: Summary of proposed PGF investments in digital connectivity and land transport

Region	Tier 3: Enabling infrastructure		
	Digital connectivity (\$80m)	Road (\$137m)	Rail (\$110m)
Tairāwhiti (\$139.03m)*	<ul style="list-style-type: none"> \$0.03m marae broadband infrastructure \$2.0m RBI2/MBSF expansion 	<ul style="list-style-type: none"> \$137m roading (*already approved – [CAB-18-MIN-0399 refers]) 	
Bay of Plenty (\$25.31m)	<ul style="list-style-type: none"> \$3.3m RBI2/MBSF expansion \$0.01m marae broadband infrastructure 		<ul style="list-style-type: none"> \$20m distribution hub (Kawerau)
Manawātū-Whanganui (\$44.6m)	<ul style="list-style-type: none"> \$4.5m RBI2/MBSF expansion \$0.1m marae broadband infrastructure 		<ul style="list-style-type: none"> \$40m distribution hub (Bunnythorpe)
West Coast (\$32.7m)	<ul style="list-style-type: none"> \$4.7m RBI2/MBSF expansion \$22m Haast Fibre Loop \$5m Extending mobile coverage \$1m UFB extension and acceleration 		
Northland (\$16.9m)	<ul style="list-style-type: none"> \$16.8m RBI2/MBSF expansion and \$0.1m marae broadband infrastructure 		
Hawke's Bay (\$2.4m)	<ul style="list-style-type: none"> \$2.4m RBI2/MBSF expansion 		
Other regions (\$68.14m)	<ul style="list-style-type: none"> \$12m Southland: Fibre link along Milford Highway \$5.9m Off-shore islands broadband coverage \$0.24m Auckland and Waikato marae broadband infrastructure 		<ul style="list-style-type: none"> \$50 million KiwiRail working capital
Total investment requiring approval by Cabinet \$190 million			

Background

- 11 In December 2017 we established the PGF, with the aim of creating a step change in the regions, so that increased economic opportunity and stronger social capability and capacity would increase the community's prosperity over the long term.
- 12 Cabinet agreed to establish three tiers for the PGF:
- **Tier 1: Regional projects and capability:** Support for economic development projects, feasibility studies and capability building identified within regions.
 - **Tier 2: Sector Investment:** Initiatives targeted at priority and/or high value economic opportunities. This includes the One Billion Trees programme.
 - **Tier 3: Enabling Infrastructure:** Regional infrastructure projects that will enable regions to be well connected from an economic and social perspective, including rail, road and communications, and able to capitalise on their assets.
- 13 All regions are eligible for funding, with the PGF giving the greatest emphasis to a number of 'surge' regions that have greater needs for investment than other regions. The surge regions are Northland, Bay of Plenty, Tairāwhiti, Hawke's Bay, Manawatū-Whanganui and West Coast.
- 14 We are now well into our first year of the PGF. I have engaged across all regions on what they see as their greatest needs and opportunities for economic development. As we anticipated when we established the PGF, this involves a mix of infrastructure, employment skills and business opportunities.
- 15 In February 2018 when we considered how the PGF would operate, we noted that the phasing of its activities over the coming three years would fall broadly into the following phases:
- 2018: pre-investment and remedial infrastructure
 - Late 2018 – 2019: funding decisions
 - 2019 – 2020: delivery of projects [CAB-18-MIN-0045 refers].
- 16 The measures of success we set ourselves in February relate to our achievements in the regions through these phases. For 2018, some of these include, among others:
- programmes delivered for youth that are not in employment, education or training (NEETs)
 - remedial infrastructure projects beginning to get underway.
- 17 As we prepare to move into the second phase (late 2018 – 2019), our proposed measures of success for the regions include:
- greater investment interest from the private sector following early government investments
 - number of NEETs who are work ready
 - number of jobs created through early investments

- infrastructure projects underway and delivered.

18 The proposed investments in this paper illustrate how we can deliver on these measures of success and start to create the step change for the regions.

PGF funding to date

- 19 In Budget 2018 \$1 billion was allocated towards the PGF. Some PGF funding was committed to essential remedial investment in rail infrastructure (\$80 million) and tourism infrastructure (\$75 million) and the One Billion Trees programme (\$481 million). In addition, \$30 million was committed for departmental resourcing.
- 20 Since the PGF's launch in February 2018, over 500 applications and expressions of interest have been received from the regions, with a total nominal value of \$2.5 billion. RED Ministers have met eight times to consider and approve applications to the PGF.
- 21 As of 30 September 2018, \$416 million has been approved for PGF investments for a total of 137 projects. This includes the Tairāwhiti roading package [CAB-18-MIN-0399 refers].

Developing integrated investment packages for the regions

- 22 My experience has reinforced the importance to the regions of early investment in skills, capability and infrastructure to strengthen the productivity, sustainability and inclusiveness of their economies. Work is underway to develop integrated packages for each surge region across the three investment tiers of the PGF. These build on the comparative advantages of each region to support better outcomes for locals and to address gaps that constrain their economic growth. Early versions of such regional packages included the Northland package in June 2018 (\$46 million) and Tairāwhiti package in September 2018 (\$152 million).
- 23 The investment package for Tairāwhiti announced on 7 September 2018 demonstrates the integrated approach to PGF investment. They will involve a 'hub' and 'spoke' approach to PGF investment. The investment in transport infrastructure and skills is the 'hub' from which the 'spokes' of forestry, food production and tourism investment can radiate, increasing productivity potential and supporting sustained employment outcomes.

PGF investment areas for 2018/19

- 24 I seek Cabinet approval to the approach to PGF investments in the regions in relation to skills, digital connectivity, water storage and land transport. This approach will support the development of integrated packages for regions and give effect to the hub and spoke approach to PGF investment.
- 25 The proposed approach supports sustainable, inclusive and productive growth in the regions, consistent with the Government economic strategy which we considered on 19 September 2018 [DEV-18-MIN-0222 refers]. This means PGF investment in the regions will support:
- skills development by enhancing work readiness and the availability of employment opportunities
 - higher value and sustainable uses of land; particularly for under-developed Māori land

- enhanced connectivity through investment in land transport and digital connectivity
 - transforming sectors to shift into higher value, more productive activities.
- 26 Further, these investments are consistent with the findings of the 2018 IMF Article IV Staff Report for New Zealand, which suggested the Government bring greater focus to investment in infrastructure and to achieving higher and more inclusive economic growth.
- 27 The discussion on the proposed investments is structured as follows:
- Rationale for PGF investment across skills, infrastructure and sectors
 - Discussion on investment principles and priorities for Tier 1 (regional projects and capability), Tier 2 (sector investments) and Tier 3 (enabling infrastructure)
 - Initiatives for PGF investment, for which I seek Cabinet's agreement.

Tier 1: Regional Projects and Capability

PGF investment in regional employment, skills and capability enhancement

- 28 Most of the Tier 1 investments to date have been in made feasibility studies and in regional projects developed under the previous government. To lift the productivity potential of the regions by promoting sustained employment outcomes, I propose greater emphasis on investment in capability building within Tier 1.
- 29 A number of regions and industry sectors within them face constraints on economic growth because they are unable to find employees at all skill levels from regional and national labour markets. This discourages both increased investment by firms operating in these areas and firms from outside the regions considering opening new businesses.
- 30 Government sources of funding for employment-related initiatives already exist. The PGF will contribute to targeted programmes of investment that provide additionality over and above existing commitments where this will improve productivity in the regions. The early lessons being learned from the He Poutama Rangatahi Programme¹ have also been factored into the development of this proposed approach to investment.

Principles for skills, employment and capability investment

- 31 To ensure resources are deployed effectively and complement the existing work of public sector agencies, the following principles will apply to investments made through the PGF to enhance workforce capability:
- focus on supporting local people into local employment opportunities by addressing the specific needs of those who need more help than can be provided currently in order to achieve sustainable employment
 - ensure additionality by only deploying investments where existing departmental funding for workforce initiatives cannot be used to support proposals build or strengthen mechanisms for local coordination of employers,

¹ He Poutama Rangatahi is a trial programme targeting support to NEET rangatahi to connect with employment, underway in the four regions with the highest NEET rates. These are Northland, Eastern Bay of Plenty, Tairāwhiti and Hawke's Bay.

employees, education and training organisations and government that will endure past the lifetime of the PGF

- reinforce investment in PGF Tier 2 (sector investments) and PGF Tier 3 (enabling infrastructure) projects. This includes specific requirements within PGF Tier 2 and Tier 3 contracts to work across surge regions to support their workforce requirements and to build work readiness and other skills amongst local people.

32 The PGF investment in skills is consistent with the Government's economic strategy to build a productive, sustainable and inclusive economy.

Overview of proposed investment approach

33 The PGF's investment in improving regional employment outcomes, including lifting skills and capability, will be cross-cutting and provide funding for projects that education, welfare and social agencies are not able to fund directly. I propose that PGF investment focus on supporting locals to be work-ready and where the need is greater than can currently be provided by the system. Investing in work-readiness, as well as enhancing the skills of local people matched to the needs of the jobs in the area, will support businesses and employers to access the workforce they need when they need it, and give them confidence to invest in expanding operations in the regions. Based on initial costings, I anticipate that PGF funding in the order of \$82.4 million will be invested to improve local employment outcomes in 2018/19.

34 To improve local outcomes, I will focus on the following five surge regions: Northland, Bay of Plenty, Tairāwhiti, Hawke's Bay, and Manawatū-Whanganui. All are regions with significant pockets of people (particularly young people and Māori) who face barriers to finding and holding a job. They also have industries and employers whose needs for workers, both skilled and unskilled exceeds the current local labour supply.

35 The five surge regions will be supported to develop an employment investment portfolio based on the region's opportunities and challenges in developing and connecting their potential workers with available jobs. Those portfolios will include existing support programmes and services provided by other agencies such as the Ministries of Social Development, Youth, Te Puni Kōkiri, and Education. While some of the funding will be used to coordinate the government employment support system for the region, and to enable businesses and sectors to better connect to the region's labour force, I expect PGF investment to:

- focus on people who need more support to participate in the regional labour market
- ensure that support continues throughout the pathway of entry to the labour market and sustained employment
- initiate innovative programmes that other agencies are unable to fund.

36 The largest component of the PGF funding will be for services and programmes that support people in the regions to become 'work-ready' and improve mobility to employment opportunities. I am aware of a number of proposals related to skills and employment in the PGF pipeline, or that have been lodged for consideration for He Poutama Rangatahi funding. Once these applications have been assessed, RED Ministers in consultation with relevant portfolio Ministers will make decisions

on funding for applications over \$1 million, consistent with PGF decision-making processes. I anticipate funding in the order of \$50 million will be devoted to such programmes in surge regions, although this will depend on the mix of applications that are received and that align with the region's employment investment portfolio.

- 37 PGF investment will also support the development of employment hubs that bring government agencies together to respond to specific needs of local employers and potential local workers. These hubs will be based on the Sector Workforce Engagement Programme (SWEPE) model which uses a hub model and sector strategies to address common skills and labour issues. The hubs bring together local supply and demand pipelines and support local communities to connect to local jobs. Experience to date with hub models shows they are valuable to stakeholders such as businesses and agencies, who play leadership roles in managing and supporting them on an ongoing basis. I anticipate funding in the order of \$10 million will be required for these hubs.
- 38 In addition, I propose investment in non-surge regions to address their ongoing employment challenges. The Waikato region for example has particular NEET challenges. The rates of rangatahi Māori NEET in Huntly and Ngaruawhia have for the last decade sat at around 25 per cent. While community action is underway, additional government investment is likely to be required to support these rangatahi into work. I anticipate PGF funding in the order of \$20 million may be required for non-surge regions, although this will depend on the applications received.
- 39 The remaining \$2.4 million that makes up the balance of the \$82.4 million would be used to ensure capability and capacity exists to deliver on the PGF investment to grow jobs, both over the life of the PGF and beyond.

Regional management and governance capability investment

- 40 Alongside investing in the skills and employability of local people, the PGF will invest in lifting the skills of managers and governors of assets to provide the skills needed to deliver the larger and more complex projects made possible through the PGF and needed for growing regional economies.
- 41 The PGF's investments in the regions are of a scale that has not occurred for some time. Accordingly, there are gaps in some regions' project management and governance skills around large investments. To ensure delivery of high quality investments for the region, the Provincial Development Unit (PDU) will directly support regions to fill capacity gaps as they go through the PGF process and at the same time seek to develop skills to address barriers to effective management and governance. This area of investment will be further investigated by the PDU. I will report back to RED Ministers or Cabinet to seek further funding as required.
- 42 One area I intend to explore further is a programme for owners of collectively owned Māori land. Investments in water storage that service this land, and any "on farm investments" on this land, will generate greater returns for the land owners and the region, but in many cases owners face issues around the governance of the land.

Government oversight

- 43 Once Cabinet has agreed to the proposed employment, skills and capability approach, I propose to set up ongoing governance arrangements with the Ministers

of Finance, Social Development, Employment, Māori Development, Education, and Immigration (noting I will be reflecting my Forestry portfolio in addition to my Regional Economic Development portfolio). Decisions will be ratified by RED Ministers.

- 44 A group of Deputy Chief Executives from the same portfolios will be asked to form a central governance group that drives cross agency collaboration, implementation and considers any ongoing resourcing requirements beyond the life of the PGF.

Tier 2 – Sector Investments

- 45 As noted in the December 2017 Cabinet paper, sector investment aims to support regional development through investment in priority or high-value sectors. Sector investments are considered the ‘spokes’ of the integrated investment packages. Examples include the investment in Ruapehu Alpine Lifts supporting tourism, the Tōtara Industry Pilot for the forestry sector, the Hawke’s Bay Food Innovation Hub, the Hundertwasser Arts Centre in Northland and the Wood Processing Centre of Excellence in Tairāwhiti.
- 46 The focus for Tier 2 over the remainder of 2018/19 and out-years is to address tourism applications currently in the pipeline, and to shift the focus beyond these to transformative proposals across the priority sectors for the PGF. I expect that following the recent release of the Guide to the PGF - *Powering up Aotearoa – New Zealand’s Regions* and through greater engagement with the business sector the PGF will increase its investment in sector related proposals over the remaining life of the PGF.
- 47 The PDU has been working with other government agencies, industry and business representatives to identify further co-investment opportunities across a number of sectors to achieve a more balanced range of investments for the regions. I am receiving a number of high-quality sector investment initiatives. Currently there are 10 quality sector proposals in the PGF pipeline worth an estimated value of \$450 million. The value of these projects ranges from \$10 million - \$75 million. The proposals are from wood processing, manufacturing, technology and food and beverage sectors and are of a transformative nature, focused on adding value to volume. In early November, I will seek Cabinet agreement to invest \$35 million for tourism-related proposals in the West Coast.
- 48 I note also that a Cabinet paper on establishing a holding company for PGF investments is currently being prepared for consideration by Cabinet in November. There is an opportunity for the PGF holding company to be used to support the commercial and quasi-commercial sector investments to best effect.

Tier 3: Enabling Infrastructure - investment in digital connectivity, water storage and land transport

- 49 Infrastructure across logistics, transport, communications, digital, energy and water storage is essential to the effective functioning of the regions. Across New Zealand, the nature of infrastructure requirements varies. Not all regions require investment in infrastructure or the same type of infrastructure. Generally investment in one or two areas will make a significant contribution to a region’s productivity and the well-being of its local communities.

50 Initial indications are that the areas of infrastructure investments with the most significant impact on the surge regions' productivity potential are:

- Eastern Bay of Plenty: water storage Commercial Information
- Hawke's Bay: roading and water storage
- Manawatū-Whanganui: intermodal logistics hub in Bunnythorpe
- Northland: port, rail and water storage
- Tairāwhiti roads package (CAB-18-MIN-0399 refers).
- West Coast: digital connectivity and tourism rail.

51 This overall picture of the regions' priorities drives the PGF investment in infrastructure for 2018/19 and will form the 'hub' of each regional package. There are also some infrastructure requirements in non-surge regions that the PGF will consider, such as digital connectivity in Milford Sound.

Investment in Digital Connectivity

52 The PGF will invest in digital infrastructure and connectivity to ensure the regions share the benefits of digital technologies. Digital connection has become an expected part of doing business but it is not reliably available in some regions of New Zealand. Digital connectivity provides a means to overcome the challenges of small, distant communities. Without it these regions will be further disadvantaged by their lack of access to modern, enabling infrastructure.

Principles for digital connectivity investment

53 The digital connectivity investment plan is founded on the following principles, which align with the PGF objectives:

- Lift the productivity potential of the regions and focus investment on the surge regions
- Invest only in infrastructure which would not otherwise be deployed, or activities that would not otherwise occur (i.e. ensure 'additionality')
- Target gaps in broadband and mobile coverage to ensure these do not inhibit new business ventures or major sector growth initiatives in the regions
- Where practical, avoid funding 'infrastructure overbuild' that replicates network capabilities that already exist, are under contract for their deployment or have funding committed for their deployment
- Where practical, distribute investments to reduce disparity in the level of broadband availability across the regions.

54 These principles ensure digital connectivity investments reinforce/underpin sector and other PGF investments and supports regional businesses remaining abreast with technology and able to harness the advantages of digital connectivity to overcome the challenges of physical distance from markets.

Digital connectivity investment

- 55 The first part of the investment plan will support the tourism sector and people living in the remotest areas of the surge regions by expanding the Rural Broadband Initiative Phase Two (RBI2) and Mobile Black Spots Fund (MBSF) programmes and making broadband connectivity available to marae.
- 56 The second part of the investment plan will also improve the broadband performance available to businesses and households in the West Coast and Milford Sound where the level of broadband investment through government broadband programmes has not been as great as most other regions. The West Coast proposal provides an alternative connection path to the present Grey River corridor that currently connects all of the West Coast with the rest of New Zealand, and which is particularly prone to disruption in an Alpine Fault or similar seismic event.
- 57 I seek Cabinet agreement to invest \$80 million of the PGF for two digital connectivity initiatives summarised in Table 2. The details of enhancing the reach and performance of connectivity of regional digital infrastructure are contained in Annex One.

Table 2: Digital connectivity investment plan

Investment Priority	Deliverables	PGF Funding Allocation	Funding approach
Extending the reach of digital infrastructure (RBI2/MBSF expansion)	Network capability for expanded broadband coverage and greater mobile coverage targeting tourist destinations in the surge regions	\$40 million (this is additional to the \$105 million already allocated to the RBI2/MBSF expansion by Government)	Transfer funds to Crown Infrastructure Partners (CIP) for contracting providers
Enhancing the reach and performance of digital infrastructure in the West Coast and Milford Sound	Deployment of efficiently scalable open access network capabilities to enhance the reach and performance (capacity and reliability) of broadband and mobile coverage for the West Coast and Milford Sound	\$40 million	Transfer funds to CIP for contracting providers
Total		\$80 million	

- 58 The third investment priority is local connectivity to improve the accessibility of digital connectivity to support jobs, skills development and social inclusion. I anticipate that the scale of this investment will be in the order of \$20 million over the lifetime of the PGF. It will involve applications being made to the PGF from the regions that address local needs, such as the development of marae and business hubs for business and community use. RED Ministers will make decisions on these applications in consultation with the Minister of Broadcasting, Communications and Digital Media. Further detail is set out in Annex One.
- 59 I propose that any individual PGF application proposing network infrastructure capabilities that falls outside these three areas of the PGF digital connectivity investment plan would only be eligible for consideration if the proposed capabilities:
- are an essential component of a wider regional, business or sectoral PGF initiative; or

- would be the major impetus for boosting economic growth across several surge regions.

Investment in water storage

- 60 Access to a reliable and manageable source of water is a key enabler of jobs and sustainable growth in the primary sector and is a driver of regional prosperity. Many regions have significant primary sector potential that could be enabled or enhanced through access to reliable water provided by small scale storage and distribution infrastructure.
- 61 As a government we have identified three objectives for freshwater (including establishing a new Crown-Māori relationship for freshwater) [CAB-18-SUB-0296 refers].
- Stopping further degradation and loss
 - Reversing past damage
 - Addressing water allocation issues.
- 62 In addition, through cross-party discussions on the PGF investment in water storage and infrastructure, including managed aquifer recharge, we have identified a set of principles that are core to our values as a Government. The principles are reflected below.

Principles for water storage and infrastructure investment

Economic

- Water storage will strengthen regional economies by shifting land use to higher value, sustainable uses, while avoiding increases in livestock intensification.
- Water storage will help address disparities in Māori access to water for land development.

Community

- Small scale community level projects will be supported rather than mega irrigation schemes.
- There must be public benefit from government funding of a project.
- Projects will involve stronger partnerships at the local level, including with regional councils.
- The Crown Irrigation Investments Limited (CIIL)'s programme of work will not be progressed, although communities that were involved in CIIL initiatives can submit PGF proposals that align with our objectives.

Environment

- Water storage proposals should demonstrate that they will support land use that does not increase, and ideally reverses, negative impacts on water quality.
- Proposals should maintain the health of waterways.

- Water storage will not be used to increase the intensity of ruminant agriculture or other land uses in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.
- Water storage proposals should incorporate activities that improve water quality – e.g. activities that improve E coli levels and ecological health, restoration and protection projects such as improvements in wetlands, fish and wildlife habitats, riverbanks, biodiversity activities, soil health and sediment control.

Climate change

- Where practicable, proposals should contribute positively to the target of reducing greenhouse gases, demonstrate how they will contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy.
- Proposals should consider the potential to contribute to community resilience to climate change. Strengthening municipal water supply is not an objective of PGF funding. However, the PGF will work with councils to include municipal supply as a component of wider water initiatives, if it enables councils to contribute more to regional water management.

Water storage and infrastructure investment priorities

63 Priority regions for investment in water storage include Northland, Hawke's Bay, Tairāwhiti and the Bay of Plenty. These regions have the greatest proportion of Māori collectively owned land and the greatest capability to bring land into sustainable productivity through water storage. The needs of other regions are also being considered, for example, supporting diversification of the Southland economy to improve economic and climate resilience.

64 The three priorities for PGF investment in water storage are discussed below.

Feasibility studies to inform investment decisions

65 Feasibility studies will investigate the viability of potential water storage and distribution projects. They will consider whether the project can deliver on the community and Government objectives for water storage and inform decisions on whether to invest in a specific water storage project.

Contribution to construction costs

66 The PGF will also contribute to construction costs of water storage facilities, particularly for activities that relate to Government priorities including water quality, bringing Māori land into production and where possible, helping communities to prepare for the impacts of climate change. Given the short timeframes associated with investment by the PGF, we will progress construction projects that can be submitted, signed off and ideally have construction underway over the next two years.

67 I have directed officials to work with applicants to develop applications that could cover feasibility studies and/or construction costs. We anticipate only a small number of current projects will reach this stage. Officials will explore what investments could bring Māori owned land into production in the regions. This work

will inform, and be informed by, the Government's work on Crown-Māori relationship on freshwater.

Regional assessments of water storage, use and management needs

- 68 The PGF will also contribute to assessments of a region's water storage, use and management needs over 30 – 50 years. These assessments will enable regions to determine the best investment opportunities to increase land use productivity on a sustainable basis.
- 69 Some of the issues that will be considered as part of these assessments include improvements to water quality, opportunities for bringing Māori collectively owned land into production and areas where Government could partner with local authorities as a component of water storage proposals to strengthen resilience in water availability in light of climate change.
- 70 It is not expected that the assessments will result in projects that will receive funding within the PGF timeframes. The assessments would instead provide a basis for future investments given the time they will take.

Northland investment proposal

- 71 I am aware of a significant investment opportunity for water storage investment that relates to water storage and use in Northland. I note that this application is a good fit with the principles for water storage investment outlined above. I bring this to Cabinet's attention as it is close to the threshold for Cabinet approval.
- 72 The application from Northland Regional Council seeks \$19.9 million from the PGF for pre-feasibility, feasibility, and construction work for community scale water storage at Kaikohe and/or Kaipara. Both areas have significant deprivation, high Māori populations and good potential for horticultural development. This application is currently being assessed by the PDU. Following the assessment, the application will be considered by RED Ministers.

Investment in land transport (road and rail)

- 73 Robust transport infrastructure can make a contribution to economic development as an enabler of economic activity through, for example, encouraging the co-location of manufacturing centres and distribution hubs and enabling tourism opportunities. Improved intra- and inter-regional road connectivity can give businesses and investors in the regions confidence that they will have durable and reliable access to markets.
- 74 Given the potential for land transport costs to dominate the PGF, I propose setting an indicative amount of PGF funding for land transport during 2018/19 at \$600 million, to ensure that there is scope for other regional economic development investments.
- 75 The approach to transport investments should also be 'mode neutral'. This means that decisions should consider all options (in the case of the PGF, road or rail), be made based on the merits of each mode and the extent to which it would deliver positive social, economic and environmental outcomes.

The role of PGF investments in roads

- 76 The new Government Policy Statement on land transport (GPS) signals the Government's commitment to a greater presence in the regions, and around \$2.5

billion is forecast to be spent on land transport in the PGF surge regions through the National Land Transport Programme (NLTP) 2018-21.

- 77 The PGF complements the existing land transport funding through the National Land Transport Fund (NLTF) and will invest in land transport projects where these will unlock productivity within a region. It will also be informed by the priorities for wider infrastructure investment across the surge regions and other parts of New Zealand which have been determined through engagement with regions.
- 78 Looking across all roading investments that the PGF could potentially invest in, the greatest gains for the surge regions come from investing heavily in key roading infrastructure that enhances connectivity and addresses resilience issues of the road network. A number of transport PGF applications have been received and are progressing through the assessment process. Several regions are preparing PGF applications for transport projects that are not included in the NLTP 2018-21. These applications will be assessed accordingly and considered by either RED Ministers or Cabinet depending on the amount of funding sought.

Principles for roading investment

- 79 In February 2018, Cabinet agreed that investments through the PGF will ensure close alignment with the NLTF, the Government's primary source of land transport funding [CAB-18-MIN-0045 refers]. I note also that Regional Land Transport Plans are the key mechanism for regions to plan and prioritise their transport needs.
- 80 The PGF can provide a source of funding for proposals that are not assessed as meeting NLTP criteria but which otherwise meet the government's criteria and objectives for the PGF. The PGF serves four roles in supporting regional transport projects:
- Enables a greater number of projects to be supported and thereby align with the Government's wider objectives for transport as outlined in the GPS
 - Provides a source of funding for local authorities that face significant difficulty in meeting local share requirements, this is particularly relevant to the Government's interests in concentrating efforts on opportunities in surge regions
 - Brings forward projects that are strategically important to a region's productivity potential and which are outside the NLTP funding criteria or which are unable to be funded in a sufficiently timely way through the NLTF
 - Provides a source of funding for projects that do not secure funding through the NLTF but which otherwise meet the Government's criteria and objectives for the PGF.
- 81 Additionally, I expect the following to guide investment decisions in roading, which were used in developing the Tairāwhiti roading package [CAB-18-MIN-0399 refers]:
- Improves linkages between the region and major transport hubs and markets
 - Safeguards visitor and business access to the region
 - Increases investments in the region by improving business confidence to invest in the region

- Generates employment opportunities through the pipeline of work and increased investments.

The role of PGF investments in rail

- 82 The Government is committed to investing in rail to strengthen its role in New Zealand's transport system, and to support other objectives such as the transition to a low emissions economy. The extent and nature of the Government's investment in rail will be determined through the Future of Rail Review (the Review), which Cabinet will consider in February 2019.
- 83 The Review will inform Ministers of the wider economic benefits of rail (including as an enabler of economic growth). This includes consideration of how rail can support regional development. Through the Review, Ministers will make decisions on planning, funding, operating models, and ownership arrangements for rail. Following these decisions, there will be a long period of implementation, including consideration of how rail funding fits with land transport funding in general.
- 84 The PGF offers another source of funding to bring forward investments that would otherwise need to wait until the Review and alternative funding mechanisms are available. In February 2018, KiwiRail was invited to provide network infrastructure proposals that could be considered for PGF funding.

Principles for rail investment

- 85 Investments through the PGF will be made in a way that is consistent with the longer-term objectives for rail and contribute to the overall development of the network, but with a focus on surge regions and the potential to lift regional productivity. I propose the following principles are applied to potential PGF investments in rail:
- Meets PGF requirements: contribution to the PGF objectives of additionality, fit with regional economic development priorities, good project management and governance
 - Ensures the reliability and resilience of rail grows in the regions as a result of investment
 - Can make demonstrable progress on initiatives within the timeframes of the PGF
 - Will have a significant impact on the productivity of the key sectors in the relevant regions
 - Support regions' key sectors and exports, for example by strengthening distribution and logistics hubs
 - Projects enable improved access for communities
 - Where projects are national in scale, they can be started in surge regions to ensure they receive benefits early
 - Prioritises regions where key roading infrastructure (i.e. state highways) is deleterious and there is an opportunity for rail to make substantial improvements to connectivity.

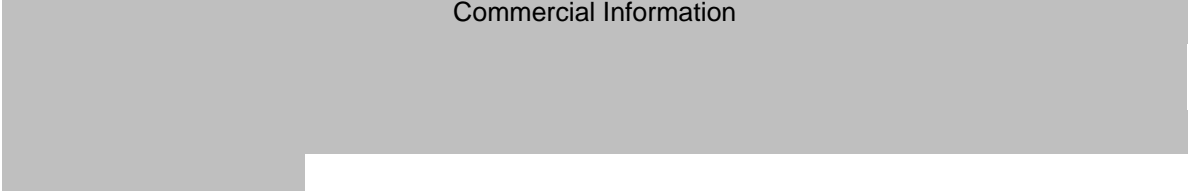
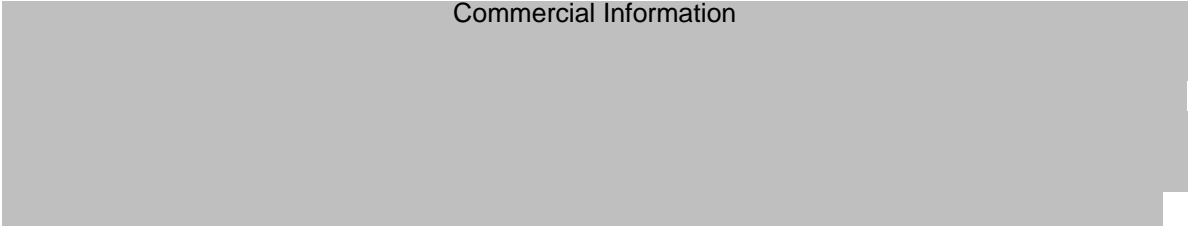
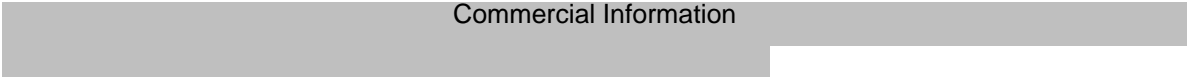
*PGF investments in rail**Multimodal distribution hubs (road and rail)*

- 86 Multimodal freight and distribution hubs lead to efficiency gains for freight transport and investment from private enterprise through co-locating at or near the hub. I seek Cabinet agreement in principle to invest in two multimodal hubs which will form part of integrated investment packages for the Manawatū-Whanganui and Bay of Plenty regions.
- 87 The Bunnythorpe multimodal distribution hub proposal from KiwiRail involves the acquisition of land to the north east of Palmerston North for central North Island freight, linking rail freight from across the lower North Island with planned roading infrastructure. It is strategically located in relation to large North Island import ports, close proximity to Wellington and on the route for the flow of import goods south from Auckland. Funding for the project is limited to the purchase of land and site panning, with ongoing operational costs to be met through revenue.
- 88 The Manawatū-Whanganui region, particularly Palmerston North, is identified as a key freight and distribution location for New Zealand. The hub will lead to more efficient and reliable freight networks through co-location of distribution warehouses and will enable increased business investment in the region, increased productivity, and more jobs. The design and land acquisition process is expected to take between Comme and 36 months.
- 89 I note that there is an interdependency between the development of the hub and the New Zealand Transport Agency's work to consider the transport needs for the wider Palmerston North/Manawatū area, including a specific business case investigating a Regional Freight Ring Route that would be connected to the hub. An application and business case to the PGF for financial support for land purchase and site planning associated with the Ring Route has been received from KiwiRail and is currently being assessed against PGF criteria.
- 90 I seek Cabinet approval in principle to allocate \$40 million from the PGF to the Bunnythorpe multimodal distribution hub and that final decisions are made by RED Ministers following completion of this assessment.
- 91 The Kawerau multimodal distribution hub proposal from the Putauaki Trust involves the development of a bi-modal freight distribution hub (road and rail) adjacent to a new large-scale industrial subdivision, which will enable the co-location of factories that process nearby resources (e.g. forestry). Ownership of roading and rail infrastructure could be vested in government (local and central), KiwiRail or kept private.

92 **Commercial Information**

- 93 RED Ministers approved PGF funding of \$2 million towards part of the roading infrastructure developments (Stage 1) for the hub. Stage 1 is due to get underway soon, with remaining stages of the hub to begin over the next 18 months pending approval. The application for Stage 2 funding is expected at the end of 2018. A feasibility study for additional roading components is currently underway as well as an assessment against the NLTF.
- 94 I seek approval in principle to allocate \$20 million from the PGF for the Kawerau distribution hub and that final decisions are made by RED Ministers following assessment of the Stage 2 application and supporting information including an independent assessment of the benefits (environmental and economic) updated costings and an assessment of the transport components for NLTF funding.

KiwiRail working capital (rail network remedial repair in surge regions)

- 95  Commercial Information
- 96  Commercial Information
- 97 In February Cabinet agreed that rail maintenance and funding for KiwiRail's capital requirements could be met through the PGF. While the maintenance and overall health of the network is essential for the efficient operation of the rail network, there is a trade-off between PGF investment in essential rail maintenance and investing in other productivity raising activities in the regions.
- 98 I seek Cabinet agreement to invest \$50 million from the PGF towards KiwiRail working capital. Investment in network maintenance across New Zealand, including surge regions, of up to \$50 million provides a good balance, covers a substantial part of the gap and leaves enough capacity in the PGF to invest in other productivity raising activities in regions. This investment meets the PGF criteria as an efficient rail network is essential for regional economic development and productivity.
- 99  Commercial Information

Tourism

- 100 KiwiRail has identified a number of potential tourism projects that could enhance access and visitor attraction opportunities in New Zealand regions, particularly in the South Island. One proposal I am aware of is an enhancement of the TranzAlpine train tourism offering. A preliminary assessment of this proposal is that it would increase the productivity potential of the West Coast through providing a

high quality visitor experience that is not currently available. This investment will build on the pre-existing financially successful operation, with ongoing costs beyond the investment being met through revenue. The investment would allow for increased capacity and a premium rail experience for tourists.

- 101 Tourism is a key sector for West Coast economic development. By increasing the capacity of the TranzAlpine service, improving stations and introducing a premium tourist offering, this will increase tourist numbers and spend in the region, and enable greater investment in West Coast tourism. Two integrated investment packages are being developed for the West Coast, the first to be announced on 29 November, which includes the Buller Tourism Package, subject to Cabinet agreement.

Freight

102

Commercial Information

The establishment of fully integrated transport hubs in regional locations will enhance access to regions by making rail a more viable option, and enable industry in regions to grow. Rail and road hubs encourage co-location of industry and freight distribution, and enable private sector investment in regions.

103

Commercial Information

Marsden Spur project

- 104 The Marsden Spur project involves the construction of a new railway line linking the North Auckland Line with the port at Marsden (Northport). As a coalition agreement, this is an essential plank in our Government's transport strategy. This will involve introducing multimodal access to Northport, enabling expansion at the port and facilitate other private investment. Given the connection of this investment to the Upper North Island Supply Chain Strategy, I will report back to Cabinet on this proposal after the findings of that study are reported back in May 2019.

Decision-making

- 105 I propose that Cabinet agree to the proposed approach for PGF investment in skills, digital connectivity, water storage and land transport (road and rail) as discussed above. I seek Cabinet agreement to invest \$80 million in digital connectivity and \$110 million in rail initiatives from the PGF.

106 For other investment initiatives that relate to these priority areas and are under \$20 million, decision-making will remain consistent with the approach previously agreed by Cabinet [CAB-18-MIN-0347 refers]. RED Ministers will consult with relevant portfolio Ministers to ensure investment aligns with broader Government objectives. The relevant portfolio Ministers for each of the priority investments include:

- Employment, skills and capability: Ministers of Finance, Social Development, Employment, Māori Development, Education, and Immigration (noting I will be reflecting my Forestry portfolio in addition to my Regional Economic Development portfolio).
- Digital connectivity: Minister of Broadcasting, Communications and Digital Media.
- Water storage: Minister for the Environment, Minister of Agriculture and Minister for Climate Change. The Minister of Conservation will also be consulted on in relation to proposals that impact on Conservation land.
- Land Transport: Minister for State Owned Enterprises.

Next steps

Development of integrated investment packages

- 107 The development of integrated packages for the surge regions for the remainder of 2018 and early 2019 is underway. A West Coast package is planned to be announced in late November. The overall package will include the West Coast investments covered in this paper, smaller projects signed off by RED Ministers and the Buller Tourism package, for which Cabinet's approval will be sought in early November.
- 108 Other packages under development for 2018 include the Bay of Plenty and Manawatū-Whanganui. A second integrated package for Northland, which covers the three tiers of the PGF, will be delivered before Waitangi Day 2019 and a package for Hawke's Bay will be delivered early in 2019.
- 109 Work is also underway to identify the investment priorities for 2019/20. As part of this work, the PDU will continue to keep RED Ministers updated on the types of applications received to ensure that we do not crowd out quality investment opportunities.

Upcoming PGF Cabinet papers

- 110 I expect to bring a number of issues to Cabinet before the end of 2018/19:
- Report back to DEV on the PGF (October 2018)
 - Establishing a Holding Company to manage PGF investments (November 2018)
 - Regional packages: West Coast and other packages through to (November 2019 - April 2019)
 - Evaluation of the PGF's performance against its measures of success after first year of operation and priority activities for 2019/20 (February 2019)
 - Tier 1: Regional Projects and Capability

- Investment plan for enhancing management and governance capability in the regions (February 2019)
- Lessons from skills package and future funding requirements (February 2019).
- Tier 2: Sector Investments
 - Investment ready projects over \$20 million in value: 10 proposals which could also form part of regional packages (from November 2018 onwards).
- Tier 3: Enabling Infrastructure
 - Investment in air connectivity and ports (November 2018)
 - Investment plan for the Marsden Spur project (May 2019).

Publicity

- 111 I expect to make the following regional integrated investment announcements over the next six months. The details of these packages are still being finalised.

Integrated investment package by region	Indicative components of the investment package
Eastern Bay of Plenty package October and November 2018	<ul style="list-style-type: none"> ● Kawerau distribution hub ● Sector investments – tourism, aquaculture
Manawatū-Whanganui package November 2018	<ul style="list-style-type: none"> ● Bunnythorpe distribution hub ● Employment hub and skills training ● Sector investments including tourism
West Coast package 29 November 2018	<ul style="list-style-type: none"> ● West Coast and Milford fibre ● Sector investments - food and fibre, tourism
Northland package before Waitangi 2019	<ul style="list-style-type: none"> ● Water storage ● Employment hub and skills training ● Sector investments – tourism
Hawke's Bay package early 2019	<ul style="list-style-type: none"> ● Land transport ● Water storage ● Employment hub and skills training ● Sector investments - food and beverage, tourism, horticulture and viticulture
National	<ul style="list-style-type: none"> ● Digital connectivity ● Water storage ● Road and rail

- 112 In addition to these regional packages in the surge regions, we will be making other PGF investment announcements in other regions including Otago.
- 113 I propose we release this paper and associated minute after final decisions are taken and funding announcements have been made.

Consultation

- 114 This paper has been consulted with the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, Te Puni Kōkiri, the Ministry of Transport, the New Zealand Transport Agency, the Department of Conservation, the Treasury, the Ministry of Foreign Affairs and Trade, the Ministry for the

Environment, the Ministry for Culture and Heritage, the Ministry of Social Development, the Department of Internal Affairs and New Zealand Trade and Enterprise. The Department of Prime Minister and Cabinet has been informed.

Human Rights

115 There are no human rights implications to this paper.

Financial implications

Appropriating the remaining funding for the PGF

116 In December 2017, Cabinet agreed to establish the PGF totalling \$1 billion per annum for three years (CAB-17-MIN-0554 refers). The expectation is that each Budget will contribute \$1 billion towards the PGF, however, the process for allocating this funding to the PGF (e.g. through the annual Budget process, or through pre-commitment) has not been formally determined.

117 The following table outlines funding both allocated and remaining within the PGF to date:

Budget	Expected Allocation (\$m)	Funding allocated to the PGF to date (\$m)	Remainder to be allocated to the PGF (\$m)
2018	1,000	1,000 (via Budget 2018)	0
2019	1,000	292 (One Billion Trees and Tairāwhiti decisions) ²	708
2020	1,000	0	1,000

118 A total of \$1.708 billion remains to be allocated to the PGF from Budget 2019 and Budget 2020. I am seeking Cabinet agreement to allocate the remaining \$1.708 billion to enable the development and delivery of integrated investment packages and provide the funding necessary to give effect to PGF investment decisions.

119 Accordingly, I seek Cabinet agreement to delegate final capital and operating decisions to RED Ministers, informed by the likely PGF investment needs of the regions.

Funding for PGF investments

120 The financial implications for the two projects I am seeking Cabinet agreement (Digital connectivity \$80 million and KiwiRail working capital \$50 million) have been discussed above. These projects will be funded from the existing PGF appropriation.

Legislative Implications

121 There are no legislative implications to this paper.

² CAB-18-MIN-379.01 and CAB-18-MIN-399 refers, respectively. Strictly, the Tairāwhiti funding was pre-committed against either Budget 2019 or Budget 2020, depending on the timing of investigations. I propose that Cabinet agree now to pre-commit this funding against Budget 2019.

Regulatory Impact Analysis

122 A Regulatory Impact Analysis is not required.

Gender Implications

123 In some of the surge regions, a majority of people in the target group for the employment, skills and capability investment are women, particularly young Māori women, and some of whom have dependent children. They have unique needs; the provision of support as identified through the relevant region's employment investment portfolios, tailored to improve their ability to make an effective transition to sustained employment over time should increase the chances of improved standards of living for them, their children and whānau.

Treaty of Waitangi Implications

124 The investment in employment, skills and capability should provide significant opportunities for the Crown to work with iwi, hapū and Māori organisations in specific places to improve employment outcomes for Māori (and the wider community) while assisting firms to realise their productivity potential, including of Māori businesses. This should help achieve positive regional economic development outcomes for Māori.

125 I expect any specific Treaty implications, whether they are contemporary or historical, to be addressed on a case-by-case basis.

Disability Perspective

126 Depending on the mix of the five focus surge region's employment investment portfolios, the PGF employment, skills and capability investment could include targeting employment support and work readiness training to people with disabilities who need more support than the system can currently provide in order to be ready for the work opportunities in their region.

Recommendations

The Minister for Regional Economic Development recommends that the Committee:

1. **Note** that engagement across government and in the regions has highlighted the need for more of a strategic approach to skills and infrastructure investment;
2. **Note** that a number of integrated investment packages for surge regions are under development and will be finalised between late 2018 – early 2019;
3. **Note** that accelerating government investment across skills, sectors and infrastructure will contribute to the delivery of sector-related PGF investments by ensuring that enabling infrastructure and skilled workers are available in the regions;

Tier 1: Regional projects and capability

PGF Investment in employment, skills and capability

4. **Agree** that the following principles guide PGF investment decisions in lifting regional employment, skills and capability outcomes. PGF investment will:
 - 4.1. focus on supporting local people into local employment opportunities by addressing the specific needs of those who need more help than can be provided currently in order to achieve sustainable employment;

- 4.2. ensure additionality by only deploying investments where existing departmental funding for workforce initiatives cannot be used to support proposals;
- 4.3. build or strengthen mechanisms for coordination of employers, workers and government that will endure past the lifetime of the PGF;
- 4.4. reinforce investment in PGF Tier 2 (Sector Investment) and PGF Tier 3 (Enabling Infrastructure) projects. This will include specific requirements within PGF Tier 2 and Tier 3 contracts to work across surge regions to support workforce requirements and to build work readiness and other skills amongst local people.
5. **Note** that on the basis of initial costings, I expect PGF investment in employment, skills and capability to be in the order of \$82.4 million;
6. **Note** that to improve local outcomes I proposed a targeted focus on the following five surge regions: Northland, Bay of Plenty, Tairāwhiti, Hawke's Bay, and Manawatū-Whanganui to build an employment investment portfolio;
7. **Note** that I expect that PGF investment in employment, skills and capability will focus on establishing employment hub functions and providing tailored work readiness support to connect local people, particularly young people and Māori, with work in each of the five focus surge regions;

Tier 2: Sector investments

8. **Note** that the focus for Tier 2 investments is on proposals that are of a transformative nature and add value to volume;

Tier 3 – Enabling infrastructure

Investment in digital connectivity

9. **Agree** to the following principles to guide PGF investment decisions in digital connectivity as follows:
 - 9.1. Lift the productivity potential of the regions and focus investment on the surge regions
 - 9.2. Invest only in infrastructure which would not otherwise be deployed, or activities that would not otherwise occur (i.e. ensure 'additionality')
 - 9.3. Target gaps in broadband and mobile coverage to ensure these do not inhibit new business ventures or major sector growth initiatives in the regions
 - 9.4. Where practical, avoid funding 'infrastructure overbuild' that replicates network capabilities which already exist, are under contract for their deployment or have funding committed for their deployment
 - 9.5. Where practical, distribute investments to reduce disparity in the level of broadband availability across regions.
10. **Agree** that an individual PGF application proposing infrastructure capabilities outside the scope of the PGF digital connectivity investment plan would only be eligible for consideration if the proposed capabilities:
 - 10.1. are an essential component of a wider regional, business or sectoral PGF initiative; or

- 10.2. would be the major impetus for boosting economic growth across several surge regions;
11. **Agree** to allocating \$80 million of the PGF for procuring digital connectivity infrastructure through Crown Infrastructure Partners for two specific projects:
- 11.1. \$40 million to expand the Rural Broadband Initiative Phase Two (RBI2) and Mobile Black Spots Fund (MBSF) programmes to improve broadband and mobile coverage, with a focus on the surge regions;
- 11.2. \$40 million to enhance digital infrastructure for the West Coast and Milford Sound;
12. **Note** that any PGF funds allocated to CIP for digital connectivity investments which remain unspent would be returned to the appropriation Multi-Category Expenses and Capital Expenditure: Regional Economic Development: Provincial Growth Fund;
13. **Note** that I anticipate the PGF will invest up to approximately \$20 million in local connectivity initiatives;
14. **Authorise** the Minister for Regional Economic Development, in consultation with the Minister of Broadcasting, Communications and Digital Media, to agree a funding arrangement with Crown Infrastructure Partners for the procurement of the necessary digital connectivity infrastructure as agreed in recommendation 11;

Investment in Water Storage and Infrastructure

15. **Agree** to the following principles to guide PGF investment in water storage as follows:

Economic

- Water storage will strengthen regional economies by shifting land use to higher value, sustainable uses, while avoiding increases in livestock intensification.
- Water storage will help address disparities in Māori access to water for land development.

Community

- Small scale community level projects will be supported rather than mega irrigation schemes.
- There must be public benefit from government funding of a project.
- Projects will involve stronger partnerships at the local level, including with regional councils.
- The Crown Irrigation Investments Limited (CIIL)'s programme of work will not be progressed, although communities that were involved in CIIL initiatives can submit PGF proposals that align with our objectives.

Environment

- Water storage proposals should demonstrate that they will support land use that does not increase, and ideally reverses, negative impacts on water quality.
- Proposals will maintain the health of waterways.

- Water storage will not be used to increase the intensity of ruminant agriculture or other land uses in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.
- Water storage proposals should incorporate activities that improve water quality – e.g. activities that improve E coli levels and ecological health, restoration and protection projects such as improvements in wetlands, fish and wildlife habitats, riverbanks, biodiversity activities, soil health and sediment control.

Climate change

- Where practicable, proposals should contribute positively to the target of reducing greenhouse gases, and demonstrate how they will contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy.
- Proposals should consider the potential to contribute to community resilience to climate change. Strengthening municipal water supply is not an objective of PGF funding. However, the PGF will work with councils to include municipal supply as a component of wider water initiatives, if it enables councils to contribute more to regional water management.

Water storage and infrastructure investment priorities

16. **Agree** to the three key elements for PGF investment in water storage:

- 16.1. project feasibility studies to inform investment decisions;
- 16.2. contribution to construction costs; and
- 16.3. regional assessments of water storage, use and management needs.

17. **Note** that I expect the first PGF water storage investment to be in Northland for pre-feasibility, feasibility, and construction work for community work for community scale water storage at Kaikohe and/or Kaipara and that RED Ministers will consider this investment once it has been assessed by the Provincial Development Unit;

Land transport (road and rail) investment

18. **Note** that investment in roads is guided by the new Government Policy Statement on Land Transport (GPS) which signals the Government's commitment to a greater presence in the regions for roading investment;

19. **Note** that Cabinet agreed in February 2018 to the following ways in which the PGF can complement land transport projects:

- 19.1. Enables a greater number of projects to be supported and aligns with the Government's wider objectives for transport as outlined in the GPS
- 19.2. Provides a source of funding for local authorities that face significant difficulty in meeting local share requirements (this is particularly relevant to the Government's interests in concentrating efforts on surge opportunities in priority regions)
- 19.3. Brings forward projects that are strategically important to a region's productivity potential and which are outside the National Land Transport

Programme (NLTP) funding criteria, or which are unable to be funded in a sufficiently timely way through the National Land Transport Fund (NLTF)

- 19.4. Provides a source of funding for projects that do not secure funding through the NLTF but which otherwise meet the Government's criteria and objectives for the PGF
- 19.5. Bring forward investments that would otherwise need to wait until the Future of Rail Review and alternative funding mechanisms are achieved, enabling the Government to invest now in aspects of the rail network that will bring near-term benefits to the regions.
20. **Agree** that land transport applications must demonstrate that the principle of 'mode neutrality' has been applied during the business case process;
21. **Note** that Cabinet has already approved funding of \$137 million towards the Tairāwhiti roading package [CAB-18-MIN-0399 refers];
22. **Agree** to the following principles to guide PGF investment in rail:
- 22.1. Meets PGF requirements: contribution to the PGF objectives of additionality, fit with regional economic development priorities, good project management and governance
- 22.2. Ensures the reliability and resilience of rail grows in the regions as a result of investment
- 22.3. Can make demonstrable progress on initiatives within the timeframes of the PGF
- 22.4. Will have a significant impact on the productivity of the key sectors in the relevant regions
- 22.5. Support regions' key sectors and exports, for example by strengthening distribution and logistics hubs
- 22.6. Projects enable improved access for communities
- 22.7. Where projects are national in scale, they can be started in surge regions to ensure they receive benefits early
- 22.8. Prioritises regions where key roading infrastructure (i.e. state highways) is deleterious and unlikely to receive sufficient funding through the GPS to make substantial improvements to connectivity;
23. **Note** that KiwiRail have submitted an application and business case to the PGF for \$40 million towards the design and land acquisition for a multimodal distribution hub at Bunnythorpe, near Palmerston North (to be completed within three years);
24. **Approve** in principle the allocation of \$40 million from the PGF to the multimodal distribution hub at Bunnythorpe pending final assessment against PGF criteria;
25. **Agree** that final decisions on the PGF investment to the multimodal distribution hub at Bunnythorpe are made by RED Ministers;
26. **Note** that an application from the Putauaki Trust for \$20 million toward a multimodal distribution hub at Kawerau, Eastern Bay of Plenty (to be completed within Commercial Information) has been received;

27. **Note** that \$2 million towards road related infrastructure for the Kawerau multimodal distribution hub has already been approved by the RED Ministers;
28. **Approve** in principle the allocation of \$20 million from the PGF to the multimodal distribution hub at Kawerau;
29. **Agree** that final decisions on the PGF investment to the multimodal distribution hub at Kawerau are made by RED Delegated Ministers;
30. [REDACTED] Commercial Information
31. **Agree** that \$50 million from the PGF be allocated to KiwiRail for working capital projects;
32. [REDACTED] Commercial Information
33. **Note** that I expect to bring an application on the Government's Marsden Spur commitment following the report back on the Upper North Island Supply Chain Strategy in May 2019;
34. **Note** that work is underway to identify funding options for rail are being considered through the Future of Rail project [REDACTED] Commercial Information

Appropriating the remaining funding for the PGF

35. **Note** that on 18 December 2017, Cabinet agreed to establish the PGF, a \$1 billion per annum investment fund for three years [CAB-17-MIN-0554];
36. **Note** that \$1,291.868 million of spending has been counted towards the PGF so far, comprising:
- 36.1. \$1,000.000 million from Budget 2018
 - 36.2. \$183.768 million to support the One Billion Trees programme [CAB-18-MIN-379.01 refers]
 - 36.3. \$108.100 million for the Tairāwhiti Rooding Package [CAB-18-MIN-0399];
37. **Note** that the remaining \$1,708.132 million of funding for the PGF has not been formally pre-committed;
38. **Agree** to allocate the remaining \$1,708.132 million of funding for the PGF, to provide funding certainty to the Provincial Development Unit within the Ministry of Business, Employment and Innovation, to enable the development of integrated investment packages for the PGF;
39. **Authorise** RED Ministers to make final capital and operating decisions, informed by the likely PGF investment needs of the regions;
40. **Authorise** the Minister of Finance and the Minister for Regional Economic Development to approve transfers of funding between financial years, up until 2020/21, in the multi-category appropriation "Regional Economic Development: Provincial Growth Fund MCA" in Vote Business, Science and Innovation, to recognise the uncertain timing of project initiation, approval and subsequent expenditure;

Financial recommendations – appropriating remaining funding

41. **Note** that, for the Tairāwhiti Roothing Package, Cabinet agreed that the \$108.100 million would be charged against the operating allowance for either Budget 2019 or Budget 2020, depending on the timing of the investigations completed [CAB-18-MIN-0399];
42. **Note** that, to ensure the contribution from the PGF is evenly spread across Budgets 2019 and 2020, this decision needs to be changed so the \$108.100 million for the Tairāwhiti Roothing Package is pre-committed against a particular Budget;
43. **Agree** to rescind the decision referred to in recommendation 41 above;
44. **Agree** that the \$108.100 million for the Tairāwhiti Roothing Package be a pre-commitment against the operating allowance for Budget 2019;
45. **Approve** the following changes to appropriations to provide this remaining funding for the PGF, as agreed in recommendation 38, with a corresponding impact on the operating balance and net core Crown debt:

Vote Business, Science and Innovation Minister for Regional Economic Development	\$m – increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & Outyears
Multi-Category Expenses and Capital Expenditure: Regional Economic Development: Provincial Growth Fund MCA Non-departmental Other Expense: Supporting Regional and Sector Initiatives	191.566	500.000	162.500	-	-
Non-departmental Capital Expenditure: Supporting Capital Projects	191.566	500.000	162.500	-	-
Total Operating	191.566	500.000	162.500	-	-
Total Capital	191.566	500.000	162.500	-	-

46. **Agree** that the proposed changes to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
47. **Agree** that the expenses incurred above be managed against Budget allowances as follows:
- 47.1. \$281.099 million operating expenses be a pre-commitment against the Budget 2019 operating allowance and will reduce the annual average allowance by \$70.075 million
- 47.2. \$572.967 million operating expenses be a pre-commitment against the Budget 2020 operating allowance and will reduce the annual average allowance by \$143.242 million
- 47.3. \$854.066 million capital expenses be a pre-commitment against the Budget 2019 to 2022 multi-year capital allowance.

Financial recommendations – PGF investments

48. **Agree** to establish the following new multi-year appropriation for regional digital connectivity investments, to run from 1 October 2018 to 30 June 2021:

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister for Infrastructure	Infrastructure: Regional Digital Connectivity Improvements	Non-Departmental Other Expenses	This appropriation is limited to digital connectivity infrastructure improvements in the regions funded by the Crown as part of the Provincial Growth Fund, and not by the Telecommunications Development Levy

49. **Approve** the following changes to appropriations to give effect to the digital connectivity investment of \$80 million as set out in recommendation 11 above, with no impact on the operating balance:

Vote Business, Science and Innovation	\$m – increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & outyears
Minister for Infrastructure Non-Departmental Other Expenses: Infrastructure: Regional Digital Connectivity Improvements		80.000		-	-
Minister for Regional Economic Development Multi-Category Expenses and Capital Expenditure: Regional Economic Development: Provincial Growth Fund MCA Non-Departmental Other Expense: Supporting Regional and Sector Initiatives	(80.000)	-	-	-	-

50. **Note** that the indicative funding profile for the new multi-year appropriation described in recommendation 52 above is as follows:

Indicative profile of annual funding allocations for digital connectivity	\$m – increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & outyears
	1.7	21.5	56.8	-	-

51. **Agree** that the proposed change to appropriations above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
52. **Approve** the following changes to appropriations to fund KiwiRail's capital requirements to maintain its rail network across New Zealand, as agreed in recommendation 31, including surge regions, with no impact on net debt:

	\$m – increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & Outyears
Vote Business, Science and Innovation Minister for Regional Economic Development					
Multi-Category Expenses and Capital Expenditure: Regional Economic Development: Provincial Growth Fund MCA Non-departmental Capital Expenditure: Supporting Capital Projects	(50.000)	-	-	-	-
Vote Transport Minister of Transport					
Non-departmental Capital Expenditure Rail - KiwiRail Holdings Limited	-	50.000	-	-	-

53. **Agree** that the proposed change to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates;

Decision-making

54. **Note** that decision-making on investment initiatives in the areas discussed in this paper (skills, digital connectivity, water storage and land transport (road and rail)) will remain consistent with the approach previously agreed by Cabinet [CAB-17-MIN-0554, CAB-18-MIN-0045 and CAB-18-MIN-0347 refers];
55. **Note** that, under the agreed decision-making approach, initiatives between \$1 and \$20 million can be approved by RED Ministers after consulting with other relevant portfolio Ministers to ensure each initiative aligns with broader Government objectives;
56. **Agree** that RED Ministers will consult with relevant portfolio Ministers to ensure investments discussed in this paper align with broader Government objectives;
- 56.1. Employment, skills and capability: Minister of Education, Minister of Employment, Minister for Social Development.
- 56.2. Digital connectivity: Minister of Broadcasting, Communications and Digital Media.
- 56.3. Water storage: Minister for the Environment, Minister of Agriculture and Minister for Climate. The Minister of Conservation will also be consulted in relation to proposals on Conservation land.
- 56.4. Land Transport (rail): Minister for State Owned Enterprises.

Reporting

57. **Note** that the Cabinet Economic Development Committee report back on the PGF will incorporate an update on the commitments made in skills and infrastructure, funding that remains, upcoming areas of investment and any funds that may be returned and could be made available for redeployment; and

Publicity

58. **Agree** to release this paper, with redactions as appropriate, after final decisions are taken and funding announcements have been made.

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development

Annex One - Digital Connectivity investment

Extending the reach of digital infrastructure - \$40 million

- 1 The first part of the investment plan will support the tourism sector and people living in the remotest areas of the surge regions. This would be implemented through the expansion of the Rural Broadband Initiative Phase Two (RBI2) and Mobile Black Spots Fund (MBSF) programmes.
- 2 Through this process, CIP has identified that infrastructure can be cost-effectively established in the surge regions for serving approximately 5,400 further end user premises (homes and businesses) and covering 15 mobile black spots at key tourism destinations.
- 3 The expansion investments will also make broadband connectivity available to approximately 24 underserved marae, which includes infrastructure upgrades to improve the quality of service for at least eight of these marae.
- 4 The average cost per end user for the proposed PGF funded RBI2 expansion coverage (in surge regions) is about \$4,400, whereas the average cost per user for coverage across all regions (surge and non-surge) under the base contracts of the original RBI2 programme equates to approximately \$2,900 per end user.
- 5 The higher cost to serve end users under the RBI2 expansion is attributable to the lower population density and greater remoteness generally of the local communities covered by the expansion compared to the original RBI2 programme. Broadband access will be delivered to end users predominantly through wireless connections using cellular and other radio technologies.
- 6 The cost estimates and funding requirements for the network infrastructure are based on the bids received by CIP as part of the RBI2/MBSF competitive procurement process to ensure value for money. To ensure that the required infrastructure is delivered in a cost efficient manner, a Funding Agreement with CIP will be established and further existing regulatory arrangements with Commerce Commission monitoring are in place will ensure that end user broadband connections are not priced excessively.
- 7 The \$40 million of PGF investment proposed for RBI2/MBSF expansion would be spread across the various investment elements as follows:

Investment Element	Proposed investment
Surge region mobile coverage (including off-shore islands)	\$ Commercial Information
Surge region broadband coverage	\$ Commercial Information
Off-shore Island broadband coverage (Great Barrier Island, Chatham Islands and Stewart Island)	\$ Commercial Information
Marae broadband coverage (for residual marae unserved in all regions)	\$ Commercial Information
Total	\$40 million

Enhancing the performance of digital infrastructure for the West Coast and Milford Sound - \$40 million

- 8 The second part of the investment plan will benefit businesses and households in the West Coast and Milford Sound who do not have satisfactory broadband performance due to deficiencies in capacity and reliability of the infrastructure. Investment in digital infrastructure in other regions is being funded through existing government funding programmes. It is proposed that up to \$40 million of PGF funding be allocated to fund network investments to enhance broadband and mobile services in the West Coast and Milford Sound.
- 9 The proposed investment will also support mobile coverage along State Highways 6 and 94, together with the numerous tourist sites that these roads make accessible to visitors. The investments are also aimed at supporting tourism as a key sector for the future growth and prosperity of the West Coast. These PGF investments would be implemented through CIP partnering with private sector infrastructure providers. This would be focused on where it would make the most difference for both the tourism and farming sectors.

Investment Element	Proposed investment
West Coast – South Westland fibre loop between Fox Glacier and Lake Hawea	\$ <small>Commercial Information</small>
West Coast – Extend mobile coverage for tourist destinations with up to 6 additional sites (including the Paparoa Track and Pike29 Memorial Track)	\$ <small>Commercial Information</small>
Fiordland: Milford Sound highway fibre link	\$ <small>Commercial Information</small>
UFB extensions – expand UFB coverage to additional West Coast towns (including Haast), and accelerate UFB deployment for tourist towns etc	\$ <small>Commercial Information</small>
Total	\$40 million

Local connectivity

- 10 The third priority for PGF investment in digital connectivity is local connectivity. This is focused on the cost of accessing digital infrastructure by end users, and in particular small businesses and local residents in the regions. Investments in digital infrastructure ensure the internet is available in the regions. However, people in the regions must be able to connect to the internet once digital infrastructure is available if the benefits of this investment are to be realised. This investment will involve funding marae and other organisations to set up digital initiatives in towns and rural locations that enable access the internet.