



AIDE MEMOIRE

DEV Paper - Provincial Growth Fund: COVID-19 response – redeployment and acceleration

Date:	28 April 2020	Priority:	Medium
Security classification:	In Confidence	Tracking number:	3121 19-20

Action sought		
	Action sought	Deadline
Hon Phil Twyford Minister for Economic Development	Note advice below in consideration of the paper <i>PGF: COVID-19 response – redeployment and acceleration</i> which will be discussed at DEV on 29 April 2020	29 April 2020

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Dean Ford	General Manager, EDT	Privacy of natural persons	
Robyn Henderson	Policy Director	Privacy of natural persons	✓

The following departments/agencies have been consulted

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



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DEV Paper - Provincial Growth Fund: COVID-19 response – redeployment and acceleration

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Purpose

To support your consideration of the paper: Provincial Growth Fund: COVID-19 response – redeployment and acceleration, which will be discussed at DEV on Wednesday 29 April 2020.

Recommended action

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

- a **Note** the advice below on the DEV paper Provincial Growth Fund: COVID-19 response – redeployment and acceleration.

Noted

Dean Ford
General Manager EDT
Labour, Science and Enterprise, MBIE
28 / 04 / 2020

Hon Phil Twyford
Minister for Economic Development
..... / /

Role of the Provincial Growth Fund to respond to economic impacts of COVID-19.

1. The paper being considered by DEV on Wednesday 29 April, proposes amendments to the Provincial Growth Fund (PGF) framework to be more responsive to the economic impacts of COVID-19.
2. The framework includes new investment principles and priorities. It proposes an allocation across these priorities that totals \$1.2 billion. This is to be funded through repurposing \$^{Commercial Information} of PGF investments and seeking an additional \$^{Commercial Information} from the Budget COVID-19 contingency.
3. The repurposing of \$^{Commercial Information} involves using unallocated PGF funding (\$^{Commercial Information}), allocated funding that hasn't been committed to specific projects (\$^{Commercial Information}), and the termination of projects where it has been deemed the benefits of redeployment through the COVID-19 response outweigh the benefits of the projects proceeding on existing timelines (\$^{Commercial Information}). We comment on these projects below.
4. With this allocation of \$1.2 billion, it is proposed that the PGF be used to progress projects that have:
 - a. an increased focus on immediate job creation and income growth
 - b. construction activity that will be underway within the next 6 months, and
 - c. a high degree of visibility to the community, to give the public confidence that renewed economic activity is underway
5. The paper notes that these three principles are also being used to guide the work currently being undertaken by the Infrastructure Reference Group (IRG). This is clearly important to ensure coherence between the two funding mechanisms.
6. Revised Investment Principles are outlined in paragraphs 6 and 35 of the Cabinet paper. These include sound considerations, including the desire to support sectors that will be core parts of the economy after COVID-19, the need for additionality, and the balance between short term and longer term benefits for a region.
7. Using these revised investment principles, investment priorities are presented with proposed funding allocations (refer paragraphs 7 and 38-89 of the Cabinet paper).
 - a. PGF Tier 1: Regional and skills programmes (\$350 million)
 - b. PGF Tier 2: Sector investments (\$^{Commercial Information})
 - c. PGF Tier 3: Enabling infrastructure (\$^{Commercial Information})
8. Within Tier 1, there is a significant focus on immediate worker redeployment (up to \$230 million), by funding specific projects, such as roading, fencing and renovation of churches, marae, town halls etc. Beyond this, this tier also includes work readiness programmes for the long-term unemployed (\$^{Commercial Information}), apprenticeships (\$40 million), and funding to support programmes that address meth prevention and other social issues in smaller communities (\$^{Commercial Information}).
9. Tier 2 involves business focused investment in sectors that will be core to the economic recovery beyond COVID-19. Immediate capital investments in projects that will have design works, procurement and resource consents in place by June this year. \$^{Commercial Information} is proposed for this type of investment. It is proposed that \$^{Commercial Information} be allocated for joint ventures with large businesses noting the need to **Commercial Information**

Commercial Information And a further \$ **Commercial Information** for investments in projects related to Māori and Pasifika businesses and the Māori asset base in the regions. This will also include a focus on working with Māori and Pasifika to scale up their businesses so that they can participate at a more significant level in the investment that will take place in construction during the economic recovery.

10. The sector priorities for the PGF to focus on are:
 - a. primary sector activities on both land and sea and processing associated with primary sector products
 - b. forestry and wood processing
 - c. building, construction and civil works
 - d. manufacturing and engineering.
11. In Tier 3, \$ **Commercial Information** is proposed to be set aside for infrastructure investments of under \$ **Commercial Information** and projects that are already in the PGF pipeline. The Industry Reference Group is looking at proposals over \$ **Commercial Information** in value. The paper proposes that Cabinet consider enabling the PGF to make small scale investments in critical municipal water and flood management schemes alongside councils, where these are shovel ready and provide opportunities for worker redeployment. A further \$ **Commercial Information** is proposed to be allocated for the acceleration of small scale sustainable water storage and distribution projects.
12. The paper also notes some changes to the operations of the PGF, including new Regional Delivery Leads (to explicitly drive funded projects) and standardising contract terms. These are in line with the desire to ensure COVID-19 investments can be actioned as quickly as possible, while ensuring there remains an appropriate degree of accountability.

Economic development advice

Reorientating the PGF is important given its stimulatory role in regions

13. Given its size and existing footprint in regions, the PGF is a key investment lever to support economic recovery from COVID-19. Ensuring that it is orientated towards enhancing regions' ability to come out of COVID-19 more resilient in terms of businesses, infrastructure, employment and community wellbeing is vital.

There is scope for greater focus on "new economy" sectors throughout New Zealand

14. The focus sectors identified in the paper are orientated towards more traditional areas of industry in New Zealand. This is in line with the original focus of the PGF, which overlaps, but is not completely consistent with our Industry Strategy.
15. The inclusion of manufacturing and engineering will potentially enable investments in a wider group of businesses. From an economic development perspective, there are opportunities to encourage regions to diversify their industry-base by building business capabilities around more digital services. There are existing examples of this emerging in regions and, in the future, regions will be more resilient where they have a mix of industries, drawing on both their productive assets (e.g. primary sector) and developed skills (e.g. digital capabilities and the use of connectivity infrastructure).

Alongside the PGF, regional plans are one tool to ensure that all arms of government are supporting economic recovery

16. A further comment is the opportunity for government to more actively support regional leadership in their economic development planning. The PGF has enabled a number of new

business ventures, skills programmes, and infrastructure development, since it has been introduced, and it will continue via the repurposing proposed in the Cabinet paper.

17. There are a number of other levers across government that are working to lift economic and social outcomes in regions, such as the IRG, the new Regional Skills Leadership Groups, Regional Business Partners Programme, and labour market brokerage services by the Ministry of Social Development. Economic Development Agencies are an important coordinating mechanism at the regional level but have different capabilities and breadth of focus.
18. Confidential advice to Government

[Redacted content]

On the whole we broadly support the proposal to terminate specific projects but care will be needed in the communication of these decisions

19. The annex to the Cabinet paper includes details of the approved projects where it is proposed Cabinet agree to terminate funding to free up these funds for projects that have more immediate and potentially stronger post COVID-19 outcomes. The process for determining this list is discussed in paragraph 108 of the Cabinet paper.

Commercial Information

[Redacted content]

23. The reasoning for the recommendation to terminate refers to the projects not being viable in new market conditions. While international tourism is undoubtedly negatively impacted for the foreseeable future, domestic tourism may be possible in the nearer term, and its value to some regions not discounted.
24. We do note (in paragraph 35 of the Cabinet paper) that one of the new investment principles is: “where PGF projects have been terminated in a region, the PGF will seek to prioritise investments in that region to ameliorate this, where this is possible within PGF timeframes”.
25. In communicating decisions around termination of existing projects, it will be important to demonstrate how this aligns with the new regional decisions under the repurposed PGF.

Commercial Information

[Redacted content]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

30. We note the annex includes a list of four projects that are identified as potential for termination, totalling \$^{Commercial Information}[REDACTED]. Three of these may be redesigned to meet the new COVID-19 principles. The fourth, the ^{Commercial Information}[REDACTED] are planned for work beyond 2020.

PROACTIVELY RELEASED