



BRIEFING

Final Cabinet paper: PGF Investment in Skills and Infrastructure

Date:	9 October 2018	Priority:	High
Security classification:	Sensitive	Tracking number:	1283 18-19

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Regional Economic Development	Agree to the final Cabinet paper and lodge with Cabinet Office	11 October 2018
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	For information only	N/A

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
AJ Millward	General Manager, Strategy and Governance	Privacy of natural persons	✓

The following departments/agencies have been consulted
N/A

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments

BRIEFING

Final Cabinet paper: PGF Investment in Skills and Infrastructure

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Purpose

This briefing provides an overview of the final Cabinet paper, *Provincial Growth Fund: Investment in Skills and Infrastructure* and a summary of agency comments for your information.

Executive summary

The Cabinet paper provides the backdrop to support PGF investments in the regions across skills and infrastructure. The paper seeks Cabinet's agreement to a set of investment principles, PGF investment and notes indicative PGF funding where relevant.

Cabinet's agreement to adopt investment principles for the following priority areas to guide applicant and decision-makers when developing or assessing applications:

- Employment, skills and capability to promote greater investment in the regions by businesses and importantly ensure that people can access employment and the skills they need
- Digital connectivity to ensure 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.

The paper also seeks Cabinet agreement to PGF investment in skills (\$82.4m) and land transport (\$600m).

Proposed PGF investment

	Proposed investment
Digital connectivity \$80m	<ul style="list-style-type: none"> • West Coast and Milford fibre (\$40m) • Expansion of RBI2/MBSF in the surge regions (\$40m)
Land transport – road and rail \$110m	<ul style="list-style-type: none"> • Distribution hubs in Kawerau (\$20m) and Bunnythorpe (\$40m) • KiwiRail working capital for remedial infrastructure in the regions (\$50m)

The Minister of Finance agreed on 8 October to appropriate the remaining \$1.708 billion from the PGF. The paper seeks Cabinet agreement to give effect to this decision which will enable the development and delivery of integrated investment packages and provide the funding necessary to give effect to PGF investment decisions.



Recommended action

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

- a **Note** the attached Cabinet paper outlines PGF principles for investment across skills and infrastructure (digital, water and transport, specifically rail) and seeks Cabinet's agreement to digital connectivity and rail investments; *Noted*

- b **Note** that a summary of agency feedback on the Cabinet paper has been provided; *Noted*

- c **Agree** to lodge the final Cabinet paper for consideration by the Cabinet Economic Development Committee (DEV) by Friday 12 October for consideration on Wednesday 17 October; *Agree / Disagree*

- d **Note that** suggested talking points for DEV have been prepared at Annex One; *Noted*

AJ Millward

General Manager, Strategy and Governance

Provincial Development Unit

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Hon Shane Jones

Minister for Regional Economic Development

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Background

1. In December 2017, Cabinet agreed to establish the PGF - \$1 billion per annum for three years. Funding for projects falls into three tiers:
 - a. **Tier 1: Regional projects and capability:** Support for economic development projects, feasibility studies and capability building identified within regions.
 - b. **Tier 2: Sector investment:** Initiatives targeted at priority and/or high value economic opportunities. This includes the One Billion Trees Programme.
 - c. **Tier 3: Infrastructure:** Regional infrastructure projects that will enable regions to be well connected from an economic and social perspective, including rail, road and communications.
2. Since the launch of the PGF in February 2018, the importance of early investment in skills, capability and infrastructure across the regions to deliver a productive, sustainable and inclusive economy has become more apparent.
3. To support the successful implementation of PGF sector-related projects and accelerate business investment in the regions, investment principles, priorities and investments initiatives across skills and infrastructure (digital connectivity, water storage and land transport (road and rail) are proposed.

Summary of the Cabinet paper and agency comments

4. The Cabinet paper seeks agreement to the approach to PGF investments in relation to skills, digital connectivity, water storage and land transport is sought. The proposed approach will support the development of integrated packages for regions and give effect to the 'hub' and 'spoke' approach to PGF investment.
5. The Cabinet paper is structured as follows:
 - a. Rationale for PGF investment across skills, infrastructure and sectors
 - b. Discussion on investment principles and priorities across Tier 1 (skills), Tier 2 (sector investments) and Tier 3 (digital connectivity, water storage, land transport)
 - c. Initiatives for PGF investment – digital connectivity and rail.
6. The paper seeks Cabinet agreement to PGF investment in digital connectivity and rail investments. Indicative investment amounts across the tiers are noted for skills (\$84.2m) and land transport (\$600m).
7. The proposed approach to PGF investment will support:
 - a. skills development by enhancing work readiness and the availability of employment opportunities
 - b. enhanced connectivity through investment in land transport and digital connectivity
 - c. higher-value and sustainable uses of land particularly for under-developed Māori land through investment in water storage

8. The investment in skills and infrastructure will support sectors to shift into higher value, more productive activities high value products..

Tier 1: Employment, skills and capability

9. 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. Investment from the PGF will focus on supporting locals to be work-ready and will be additional to existing government investment and programmes in this area.
10. The paper notes that PGF funding in the order of \$82.4 million is expected. The PGF investment will be to:
- a. support five surge regions (Northland, the Bay of Plenty, Tairāwhiti, Hawkes Bay and Manawatū-Whanganui) develop a 'Regional Employment Investment Portfolio' for each region to support greater participation in the regional labour market and lead to sustained employment (\$50m)
 - b. develop 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 (SWEP) model which uses a hub model and sector strategies to address common skills and labour issues (\$10m).
 - c. Address ongoing employment challenges for non-surge regions (\$20m).
11. A number of proposals related to skills and employment have been lodged for consideration for PGF and He Poutama Rangatahi¹2 funding. These applications will be assessed in line with the investment principles and priorities for skills, employment and capability investments.

Agency comments

12. Comments from the Ministry of Social Development (MSD) and The Treasury have been summarised below.
13. Overall MSD is supportive of the intent for PGF investment to provide support where the need is across employment, participation and skills development. MSD emphasise that it is important to minimise duplication of alternative funding sources and effort. For example, MSD already performs a key role in regions to support skills development by enhancing "work readiness" and increasing availability of employment opportunities.
14. The Provincial Development Unit (PDU) acknowledges the points MSD have made and will continue to work with agencies to ensure that efforts are aligned. As emphasised in the Cabinet paper, the PGF investment in skills is focused on *additionality* to support sustained employment outcomes. A group of Deputy Chief Executives from relevant agencies will also be established to ensure alignment and minimise duplication of funding and effort. Meanwhile the existing government groups in the surge regions, which MSD's Regional Commissioners are core members, will continue to provide an early point of assessment for skills and employment proposals.

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.

15. The Treasury has emphasised the need to ensure that investment in work readiness programmes leads to work that is sustainable and assists regions with specific skills, employment and capability challenges. This will be an important consideration as part of the implementation of the approach and the design of Employment Investment Portfolios for each of the five surge regions. The value of the proposed hub model is that it matches local workers – both skilled and unskilled - with available employment opportunities.
16. Treasury have suggested that the investment principles be amended to better reflect the intended employment growth outlined in the Government’s Economic Strategy. The Cabinet paper has been updated to note that PGF investment in skills, employment and capability will be consistent with the economic strategy to build a productive, sustainable and inclusive economy.

Digital connectivity

17. The PGF will invest in digital infrastructure and connectivity to ensure the regions share the benefits of digital technologies. The paper seeks Cabinet’s agreement to PGF investment in the following:

PGF 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)	Transfer funds to Crown Infrastructure Partner (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

18. 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. It is anticipated 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.

Agency comments

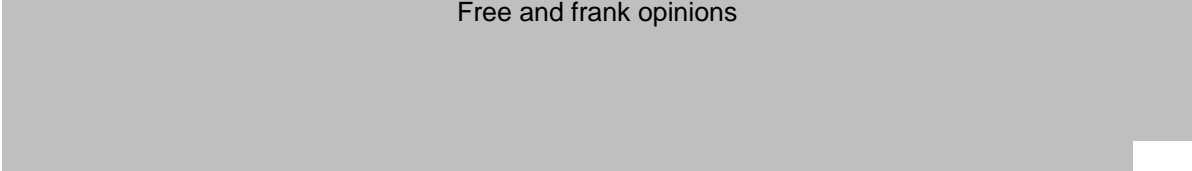
19. Treasury have noted that although the benefits of rural connectivity have not yet been quantified, investment in mobile and broadband connectivity ensures that:
- a. schools and community centres can take advantage of the internet for education purposes
 - b. farmers can take advantage of new technologies and increase their productivity
 - c. local emergency/health services can use mobile services.
20. The PDU notes that the investment is an extension of an existing programme and ensures greater access to connectivity.

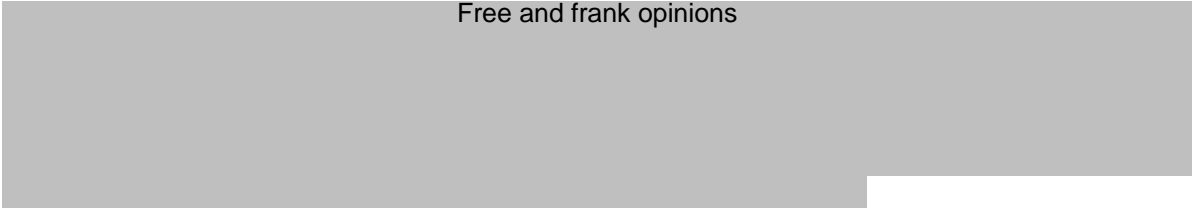
21. The average cost per end user for the proposed PGF funded RBI2 expansion coverage (in surge regions) is about \$4,400, whereas the average cost per user for coverage (in all regions) under the original RBI2 programme equates to about \$2,900 per end user. The higher cost to serve end users under 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.
22. As previously advised, Treasury have questioned the underlying cost assumptions that are behind the dollar amounts designated for each priority area. The figures are based on cost estimates for network infrastructure in bids received by CIP as part of the RBI2/MBSF procurement process. We are confident in the accuracy of these numbers based on CIP's track record in the commercial management of procurement for government broadband programmes. CIP has coordinated the Ultra-Fast Broadband programme that has made fibre broadband available to over 1.37 million end users.

Water storage

23. 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.
24. Through cross-party discussions on the PGF investment in water storage and infrastructure, including managed aquifer charge, a set of principles covering economic, community, environment and climate change have been developed and are outlined in the Cabinet paper.
25. Three priorities for PGF investment in water storage are also proposed:
 - a. Feasibility studies to inform investment decisions
 - b. Contribution to construction costs
 - c. Regional assessments of water storage, use and management needs.
26. The paper notes that an application from Northland Regional Council seeking \$19.9 million from the PGF, for pre-feasibility, feasibility, and construction work for community scale water storage at Kaikohe and/or Kaipara has been received. It is proposed that the application be considered by RED Ministers following an assessment by the PDU.

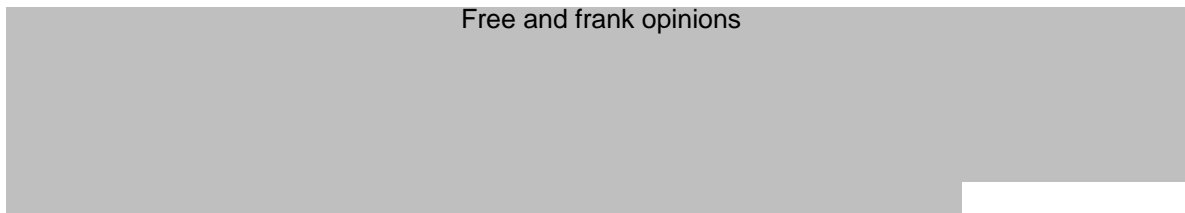
Agency comments

27.  Free and frank opinions

28.  Free and frank opinions

29.

Free and frank opinions



Land transport

- 30. 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. The PGF investment in road and rail seeks to enhance productivity potential of a region that is additional to what can be achieved through National Land Transport Fund.
- 31. The Cabinet paper proposes an indicative amount of \$600 million from the PGF funding for land transport. This would ensure that there is scope for other regional economic development investments.
- 32. Decisions from Cabinet on the following PGF investments are sought:
 - a. \$50m for Kiwirail working capital. Note KiwiRail would still have a \$65m funding shortfall.
 - b. \$40m for a distribution hub in Bunnythorpe. Assessment on the application is currently underway. The proposal is that RED Ministers make the final decisions following assessment.
 - c. \$20m for a distribution hub in Kawerau. Assessment on the application is currently underway. The proposal is that RED Ministers make the final decisions following assessment. .

Agency comments

33. Both the Ministry of Transport (MoT) and New Zealand Transport Agency (NZTA) provided a number of comments based on the land transport principles and proposed investment. A summary of the comments and PDU response are outlined in the table below. The PDU continues to engage closely with MoT and NZTA on land transport matters and the PGF.

Summary of comments from MoT and NZTA	PDU response
<p>Free and frank opinions</p>	<p>The proposed principles are not considered to be inconsistent by previous decisions and are focused on regional economic development. The PDU has incorporated the transport principles where appropriate and developed principles specific to road and rail.</p>
<p>Free and frank opinions</p>	<p>An indicative amount of PGF investment for road and rail is proposed. The PDU will monitor and report on investments in land transport to ensure that they do not crowd out other investments.</p> <p>The Cabinet paper has focused on investments that are considered decision-ready and that relate to the development of regional investment packages. The applications for the two distribution hubs (Bunnythorpe and Kawerau) are still being assessed and final decisions will be made by RED Ministers.</p>

Summary of comments from MoT and NZTA	PDU response
Free and frank opinions [Redacted]	The intent is that the PGF plays a complementary role in land transport investment. The paper notes that the NLTF is the primary source of funding for land transport projects.
Clarifying the origin of infrastructure investments for surge regions (refer to paragraph 49).	Initial indications of infrastructure investments by region have been outlined in paragraph 49. These are based on work underway and regional discussions. The proposed investments are subject to applications being received, assessed and considered by decision-makers. They do not preclude other infrastructure investment applications being made.
Free and frank opinions [Redacted]	For context, the PDU considers that key considerations related to the Tairāwhiti roading package are relevant for Ministers and also to guide future PGF investments in roading.
Free and frank opinions [Redacted]	Free and frank opinions [Redacted]

Next steps

34. If you agree, the Cabinet paper can be lodged with Cabinet Economic Development Committee on 11 October for consideration on 17 October 2018.

Annexes

Annex One: Talking points for Ministerial consultation. - Withheld - Confidentiality

Annex Two: Cabinet paper: Provincial Growth Fund: Investment in Skills and Infrastructure.