

BRIEFING

Cabinet paper - Provincial Growth Fund: priority decisions for late-2019

Date:	28 November 2019	Priority:	High
Security classification:	In Confidence	Tracking number:	1351 19-20

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Regional Economic Development	Agree to take the attached paper to Cabinet on 4 December 2019 OR Discuss the paper with officials Forward this briefing to the Minister of Transport	At your earliest convenience
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing	

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Robert Pigou	Head of the Provincial Development Unit	Privacy of natural persons	✓
Sarah Honeybone	Senior Policy Advisor, Strategy and Policy	Privacy of natural persons	

The following departments/agencies have been consulted

Ministry of Transport (MoT), New Zealand Transport Agency (NZTA)

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments

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Purpose

This briefing accompanies the Tairāwhiti Roothing Package section of the Cabinet paper *Provincial Growth Fund: priority decisions for late-2019*.

Executive summary

In August 2018 Cabinet agreed to invest up to \$136.4 million of Provincial Growth Fund (PGF) funding into the Tairāwhiti Roothing Package (the Package) in order to create fiscal stimulus for the region and unlock economic development potential. You are taking an omnibus paper to Cabinet on 4 December seeking agreement to:

- approve up to \$79.4 million of PGF funding for the Ōpōtiki Harbour development
- approve up to \$20 million for historic sites of national importance
- reprioritise \$44 million of funding for the Package.

The text for the Cabinet paper is necessarily brief, so this briefing provides additional information and analysis to support you in the discussion regarding the Package.

One of the operational requirements of the PGF is to have most of the funding contracted by the end of 2020. In the five-year pipeline of works in the original Package, some projects are not going to begin until 2021 and cannot be substantially accelerated. We have worked with New Zealand Transport Agency (NZTA) to identify which of those projects could be reprioritised.

We recommend reprioritising \$44 million of the \$49 million in contingency for realignment of Waikare Gorge. \$5 million should still be invested in Waikare Gorge to complete the pre-implementation phase, which will provide certainty for potentially affected landowners and put the project in a good position to attract funding in the future. **Commercial Information**

If Cabinet agrees to shift the \$44 million out of contingency for Waikare Gorge and place it back in the PGF, the funding would remain ring-fenced for projects that benefit Tairāwhiti and which can substantially commence in 2020. First in line for funding are additional local roading projects following your request for Gisborne District Council (GDC) to reassess its list of potential road projects. We are currently assessing the list of projects GDC provided to identify those that are well-aligned with PGF objectives. Once we have exhausted those opportunities, we will seek other road transport projects, then other projects that are based in and/or will benefit Tairāwhiti.

Recommended action

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

a **Note** that we recommend reprioritising \$44 million of the \$49 million that is in contingency for the Waikare Gorge project.

Noted

b **Note** that we are seeking alternative investments from a range of sources, including local roading projects, and will provide you with further advice in due course.

Noted

c **Note** that we expect alternative investments to be under \$ Commercial Information.

Noted

d **Agree** to take the attached paper to Cabinet on 4 December 2019.

Yes / No

OR

e **Discuss** this briefing with officials.

Yes / No

f **Forward** this briefing to the Minister of Transport.

Agree / disagree

Robert Pigou
Head of the Provincial Development Unit
**Ministry of Business, Innovation and
Employment**
..... / /

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

Background

Improving roads is key to unlocking economic development in Tairāwhiti

1. In August 2018, Cabinet agreed to allocate up to \$151.7 million to the Package) [CAB-18-MIN-0399] that was developed in consultation with NZTA, Ministry of Transport (MoT) and GDC. Cabinet noted that the package would complement NZTA investment from the National Land Transport Fund (NLTF) for strategically high priority projects. Commercial Information
2. Upgraded roads would improve the security of access to export ports (including Tauranga and Napier) and domestic markets, which would increase business confidence to invest in the region. It would also improve the safety, efficiency and predictability of road journeys for all road users.
3. In October 2018, the Provincial Development Unit (PDU) released a position statement on land transport investments. One of the key ways to unlock economic development potential identified in the statement was to invest in better roads in the Tairāwhiti region.

Most PGF funding needs to be committed by the end of 2020, which will not happen under the original package of works

4. One of the operational requirements for the PGF is to have most of the \$3 billion committed before the end of 2020 when the fund comes to an end [CAB-17-SUB-0554]. One reason for this is to create a fast fiscal stimulus for regions, such as Tairāwhiti, that experience high levels of deprivation and need an immediate economic boost.
5. In the five year pipeline of work for Tairāwhiti that Cabinet originally agreed to, up to \$108.1 million PGF funding was allocated to implementation and is not expected to be contracted before the end of 2020.
6. NZTA reports that its state highway projects are six months ahead of Cabinet's approved schedule already, and NZTA has proposed further acceleration options, subject to release of PGF implementation funds, enabling ^{Comme} % of its recommended PGF implementation funding to be contracted in 2020 and ^{Comme} % by ^{Commercial Information}.
7. You indicated you want to reprioritise some of the original funding into projects that can be well underway in 2020. We have prepared a Cabinet paper that you intend to take to Cabinet on 4 December. The draft paper is attached as Annex One.

Funding available for reprioritisation

We considered reprioritising projects that cannot be significantly accelerated

8. Some of the projects in the original package cannot be accelerated to increase the value of contracts awarded in 2020 due to the nature of the projects. They are large, technically complex and/or require time to complete the consultation and consenting process.
9. Following the acceleration of as much investment as possible, we identified projects that have significant work scheduled to begin after 2020. These are the options we considered for reprioritisation and are noted in the following table.

Approved Project	PGF contracted to date (\$m)	PGF contingency (\$m)	Comment	Recommendation	Estimated PGF funding not contracted in 2020 (\$m)
<i>NZTA projects</i>					
Waikare Gorge SH2 Realignment and safety	0 (NLTF to date)	Up to 49	<p>Commercial Information</p> <p>Completing designation and pre-implementation stages would make this project ready for implementation when funding becomes available in the future.</p>	Complete investigation, designation and land purchasing phase (up to \$5m) but reprioritise funding for the physical works (\$44m).	44
Passing opportunities on SH2 and 35	0 (NLTF to date)	Up to 32.65	<p>NZTA proposes to accelerate so that up to \$ can be awarded in 2020 and the remainder by</p> <p>Network benefits only realised if all sites are completed – otherwise just moving bottleneck further up the road.</p>	Complete in full	Up to
<i>GDC projects</i>					
East Cape Road route security			<p>Business case has commenced (due to be completed in 2020). Up to \$ could be committed in 2020 pending business case.</p>	Do not reprioritise	
Kings Road/Harper Road upgrade			Unable to be accelerated due to requirements for other planning documents and public consultation.	Do not reprioritise	
Total potentially available for reprioritisation					

We recommend reprioritising \$44 million from the works component of the Waikare Gorge project

10. Reprioritising the works component of a project in full is preferable to reprioritising only some works in various projects. Multi-component projects often mean that the network benefits are only realised if the project is completed in full. This leaves Waikare Gorge, East Cape, and Kings/Harper Roads as options for reprioritisation.
11. We recommend reprioritising only Waikare Gorge. Reprioritising only East Cape and Kings/Harper Road upgrades only makes \$^{Commercial Information} available, but reprioritising more than \$44 million (i.e. Waikare Gorge and one or both of the others) would be more funding than the region can absorb in 2020. **Commercial Information**
12. **Commercial Information** Our recommendation to complete the investigation, designation and land purchasing phase of the project is for two main reasons:
 - to provide certainty for the community and potentially affected landowners, which helps alleviate public concern about reprioritising a strategically important project
 - so the project is ready for implementation and therefore in the best possible position to attract funding in the future.
13. The funding would be taken out of contingency for the Waikare Gorge project and put back into the general PGF.

Options for alternative investment

14. We are considering alternative options for investment from a range of sources:
 - GDC's list of "shovel-ready" local roading projects which could commence in 2020 if funding was available
 - Land transport investments that are not necessarily roads or in Tairāwhiti itself, but which will benefit the region by securing and facilitating freight movement
 - Other investments based in (or that benefit) Tairāwhiti.
15. The full list of possible alternatives is attached as Annex Two. However, we do not currently have sufficient details for many of these projects to assess them against PGF criteria and ensure they can begin in 2020.
16. You requested GDC's list directly and we have since sought further details about promising projects, and asked for a focus on works that will improve the resilience of economically important routes rather than piecemeal works across the region.
17. We will assess projects for alignment with the objectives of the PGF, and substantive work beginning in 2020. Of the \$^{Commercial Information} worth of projects GDC provided, our initial analysis is that we could fund \$^{Commercial Information} from the PGF. The remainder of the \$44 million will remain ring-fenced for projects that benefit the Tairāwhiti region, with a priority on land transport then other infrastructure.
18. We recommend investing as much as possible in the GDC local roading projects. However, some projects are not eligible for PGF funding as they are not directly related to economic


¹ This is also true for East Cape works, but we do not recommend reprioritising that project. Depending on the outcome of the ongoing investigation phase, some of the Waikare Gorge funding could be directed into East Cape Road. However, the probability of a 2020 start date is highly uncertain.

development and would most appropriately be funded by GDC (such as routine maintenance of non-economically important routes, or facilitating pedestrian use of popular areas). Funding these projects would risk creating a precedent for other councils.

19. The Cabinet paper seeks agreement to delegate decision-making for alternative investments to RED Ministers or SROs. We expect each alternative investment to be less than \$ [REDACTED].

Risks and mitigations

Commercial Information



Next steps

26. Cabinet will consider reprioritising the funding on 4 December. It is important to take the paper to Cabinet this year so that we can progress alternative investments immediately in 2020.
27. We will provide you with further advice once on how to reprioritise the funding once we have worked through details of promising alternative investments.

Annexes

Annex One: Draft Cabinet paper **Withheld In Full Due To Commercial Sensitivity**

Annex Two: Possible alternative investments identified to date **Withheld In Full Due To Commercial Sensitivity**