

In Confidence

Office of the Minister for Regional Economic Development

Chair, Cabinet

## THE PROVINCIAL GROWTH FUND

### Purpose

This paper sets the broad parameters for the Provincial Growth Fund. This will enable us to begin to improve the lives of people in regional New Zealand and ensure that the benefits of economic prosperity are fairly shared by all people in the regions.

This paper is part of a suite of papers that Cabinet will consider that will progress regional economic development and will improve the lives of people living in regional New Zealand. The other papers in this suite include; [ ] One Billion Trees: Enabling Crown Forestry to Plant Trees, Upper North Island Supply Chain Strategy, and Funding to implement 'He Poutama Rangatahi/Youth Employment Pathways.

### Executive Summary

- 1 This government has committed to a significant investment in regional economic development through the establishment of the Provincial Growth Fund (the Fund) – a \$1 billion per annum investment for 3 years.
- 2 This government is committed to lifting the productivity potential of the regions. We recognise that regional New Zealand is a key driver of the New Zealand economy. We also recognise that some regions have been falling behind on a number of key economic indicators, such as employment and household income. We are strongly committed to ensuring regional New Zealand can thrive through productive, sustainable and inclusive economic growth. We also recognise that a number of regions across New Zealand need government investment to maximise their potential and will address the social and infrastructure deficits that have emerged.
- 3 An initial focus of the Fund will be on ensuring the priority regions are “investment ready”. This will involve investing in remedial infrastructure projects, strengthening work and employment readiness and capabilities, accelerating existing projects, and identifying a robust pipeline of projects. Following this initial focus, I anticipate the bulk of investment decisions will occur between 2018 and early 2019 and the bulk of delivery will take place from late 2018 through to 2020.
- 4 Key design features of the Fund are:
  - *Objectives of the Fund:* The overall objective of the Fund is to lift the productivity potential in the regions. The following specific objectives are proposed - jobs and sustainable economic development; social inclusion and participation; Māori development; climate change and environmental sustainability; and resilience (infrastructure and economic).

- *Eligibility of regions:* This Fund is aimed at investing in regional New Zealand to ensure that all regions have the potential to attract investment, raise incomes and increase employment opportunities. Particular priority will be given to ‘surge’ effort in the following regions in the first instance: Tairāwhiti/East Coast, Hawke’s Bay, Tai Tokerau/Northland, the Bay of Plenty, the West Coast, and Manawatū-Whanganui.
  - *Structure of the Fund:* There will be three components, or tiers, to the Fund - Regional Projects and Capability, Sector Investments, and Enabling Infrastructure Projects. The Fund will 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.
  - *Criteria for eligibility:* A number of criteria are proposed that will be applied in determining whether projects are more likely to qualify for funding to ensure they provide additional activity to the region and support the generation of jobs.
  - *Governance of the Fund:* The Fund will be overseen by a group of Regional Economic Development Ministers. An Independent Advisory Panel will be set up to support evaluation of larger applications, ensure sound decision making and provide commercial expertise particularly for the higher value projects.
- 5 The Fund will take a three tiered approach to the size, scale and nature of projects supported. The structure recognises that opportunities within regions come in a wide variety of shapes and sizes.
- 6 Each of the tiers will work differently and have slightly different objectives and expectations for accessing funds, and governance arrangements.
- 7 The first tier, Regional Projects and Capability, will invest in a range of smaller economic development projects, feasibility studies and capability building. This tier aims to build on the strengths of the existing Regional Growth Programme. The upper limit of Fund investment for projects in this tier is \$10 million. Sign-off up to \$1 million will be undertaken by senior officials. Proposals over \$1 million for this Fund will be approved by the Minister for Regional Economic Development, the Minister for Economic Development, the Minister of Finance and other relevant portfolio Ministers. Access to this portion of the Fund will be open all year round.
- 8 The second tier, Sector Investments, will be a larger scale fund targeted at priority and/or high value economic opportunities with a greater commercial component, including the 1 billion trees programme. This tier will be for projects over \$10 million and Cabinet approval will be required. It is anticipated that this funding tier will be open for three rounds a year.
- 9 The third tier, Enabling Infrastructure Projects, will invest in projects which enable regions to be well-connected (to other regions and within regions) from an economic and social perspective, including rail, road, and communications. To be eligible for investment by the Fund, infrastructure initiatives will need to contribute to lifting the economic productivity and number of jobs in a region, beyond what will be achieved through existing investments. Investments to increase regional and national resilience by improving critical infrastructure may also be eligible for funding from this tier.

- 10 Projects that are investment-ready in 2017/18 but require new funding will be subject to approval by the Minister for Regional Economic Development for projects less than \$1 million, a delegated group of Ministers for projects that are between \$1 million and \$10 million (and up to \$20 million in exceptional circumstances), and by Cabinet for projects above \$10 million. Any approved projects in 2017/18 that are investment-ready and require new funding can be funded as a pre-commitment against the Budget 2018 operating and/or capital allowances and will be counted against the Provincial Growth Fund. This will reduce the amount of funding available for other PGF initiatives in the Budget by a commensurate amount.
- 11 A further Cabinet paper will be provided in February 2018 with further detail on the Fund including:
- detailed criteria needed for assessing and making decision under each tier of the Fund;
  - the detailed funding arrangements for the Fund; and
  - success measures for this Fund.

## **Background**

- 12 The Government's broad economic objective is to achieve higher well-being for New Zealanders through productive, sustainable and inclusive economic growth. This means moving beyond narrow economic indicators and instead puts the well-being of our people and the environment at the centre.
- 13 Regional economic development is important for productive, sustainable, and inclusive growth and national economic performance.
- 14 Our government is committed to lifting the productivity potential of the regions. We recognise the importance of regions as contributors to the New Zealand economy. A focus on the regions enables us to build on the strengths and comparative advantages of regions to lift their potential and enhance New Zealand's economic prospects overall. In many regions, infrastructure, capability and capacity has been run down in the regions, meaning their potential is not being achieved.
- 15 Equally important is the difference this will make to the prospects and living standards of New Zealanders living in the regions. Regional New Zealand has been falling behind on a number of key indicators, such as employment and household income. Often predicted community decline appears to be self-fulfilling. Those who are most skilled or mobile move away, the community's capability and capacity to self-organise and seize opportunities declines, and economic opportunities for residents, including young people, become more limited over time.
- 16 The aim of the Fund is to create a step change in the regions, so that increased economic opportunity and stronger social capability and capacity increase the community's prosperity over the long term. The Fund will invest to create new opportunities in industries that will continue to grow and make strong returns into the future. This will create opportunities for higher skilled, better paid, employment in our regions. The Fund will also make investments in the people in those communities, to ensure they can gain the skills needed for employment.

- 17 By lifting our people's skills and retaining them in the regions with greater opportunities for work, we can lift the wellbeing of our most challenged regions.
- 18 Our Government has agreed to establish a \$1 billion per annum fund for three years – the Provincial Growth Fund – to address the underinvestment in regions' infrastructure, capability and capacity.

### **Objectives, structure and eligibility of the Fund**

#### *What are the objectives of the Fund?*

- 19 To support our overall goal of productive, sustainable and inclusive growth, and to achieve the lift in productivity potential in the regions, I propose that investments must contribute to most of the following objectives, with a particular focus on the first objective:
  - a. *Increased jobs and sustainable economic development*: investments support increased jobs (with a focus on high quality jobs) and sustainable economic development over the long term, particularly in regions and sub-regions where unemployment is high and there are significant social challenges;
  - b. *Increased social inclusion and participation*: investments support increased social inclusion through effective training, work preparation and support that enables more people to fully participate in work and society;
  - c. *Māori development*: investments enable Māori to realise their aspirations through greater participation in all aspects of the economy;
  - d. *Environmental sustainability and help in addressing climate change*: investments support opportunities to achieve New Zealand's climate change commitments and encourage more sustainable and productive use of land, water and other resources; and
  - e. *Increased resilience (infrastructure and economic)*: investments increase regional and national resilience by improving critical infrastructure and focusing on opportunities to grow and diversify our economy.
- 20 I propose to set these objectives out in a Policy Statement. This will enable us to communicate the broad direction for the Fund, enable stakeholders to begin preparatory work for bids into the Fund, and enable officials to provide final advice on the details of the Fund. A feature of this approach is that the priorities expressed within the Policy Statement can be changed to respond to changing regional priorities and economic circumstances.
- 21 I propose that the Policy Statement be initially set as "Investing in regional New Zealand to create jobs, enable long-term sustainable growth and Māori development, improve resilience, and enhance social inclusion".
- 22 An initial focus of the Fund will be on making sure the priority regions are "investment ready". This will involve investing in remedial infrastructure projects, strengthening work and employment readiness and capabilities, accelerating existing projects, and identifying a robust pipeline of projects. Following this initial focus, I anticipate the bulk

of investment decisions will occur in 2018-early 2019 and the bulk of delivery will take place in late 2018-2020.

- 23 The Fund will 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. The Fund will also need to be responsive to the needs and advantages of individual regions.
- 24 It will also be important to ensure that Māori have support to ensure equitable access to the Fund.

*Which regions will be targeted?*

- 25 This Fund is aimed at investing in regional New Zealand, to reflect the importance our Government places on the regions. All regions will be eligible to apply for funding and my expectation is that a broad cross section of regions will receive investment through the Fund.
- 26 However, I have identified key regions that need an increased investment from the Government to maximise their potential and I will concentrate ‘surge’ effort in these regions: Tairāwhiti/East Coast, Hawke’s Bay, Tai Tokerau/Northland, the Bay of Plenty, the West Coast, and Manawatū-Whanganui. This will mean early investment is concentrated in these regions and any sector wide investments (e.g. tourism) will be initiated in these regions where that is relevant.
- 27 This Fund is designed to assist non-metropolitan areas, however I recognise that to maximise some regional investments it may be the case that some consequential investments might need to occur within metropolitan areas to support regional growth.
- 28 I propose that the Fund be open to a wide range of entities and parties including central and local government, State Owned Enterprises, Māori organisations, iwi and related authorities, and commercial enterprises.

*How should the Fund be structured?*

- 29 I propose that there be three tiers to the Fund. These are:
- a. Regional Projects and Capability: smaller scale initiatives aimed at smaller economic development projects, feasibility studies and capability building.
  - b. Sector Investment (including One Billion Trees Programme): larger scale initiatives targeted at priority and/or high value economic opportunities.
  - c. Enabling Infrastructure Projects: investments in regional infrastructure projects that enable regions to be well-connected from an economic and social perspective.
- 30 Note that a high-level structure of the Fund is set out in the A3 attached to this paper.
- 31 I consider this structure for the Fund will best enable us to meet our objectives by providing a range of funding mechanisms that will enable each of our objectives to be specifically or collectively targeted without creating so many mechanisms that the Fund becomes inflexible or overly bureaucratic.

*What broad criteria should be applied in determining broad eligibility for the Fund?*

- 32 I propose the following criteria should apply to the Fund as a whole, to ensure we get the best value for money from our investments in seeking to achieve our objectives:
- a. investment should increase the productivity potential of the region and support sustainable jobs, business and use of natural resources;
  - b. the Fund is not designed to fund activity that will take place anyway (whether within the region or in another region) but rather to stimulate new activity or bring forward activity important to the region's economic development;
  - c. investment should neither socialise losses nor privatise gains;
  - d. the Fund will build on regional strengths and prioritise investments that develop high growth activities in areas of comparative advantage;
  - e. the Fund will prioritise any sectors identified as high priority by the government for a particular region;
  - f. local support for the projects is important;
  - g. while adopting a streamlined approval process appropriate to the size of the project, the Fund will require robust business cases that show long-term development potential (measured against a consistent set of success measures), particularly for large projects;
  - h. a mix of capital and operating expenditure will be available, depending on the nature of the project, with the expectation being that the majority will be capital expenditure and operating expenditure for one-off projects. The government's involvement may involve removing regulatory blockages as well as funding initiatives.

*How do we ensure robust governance of the Fund and its component parts?*

- 33 Given the significant Government investment in the Fund it is important that there is robust governance over the Fund. We need to ensure that there is the right level of due diligence over potential investments to ensure their probity and effectiveness in achieving the Government's goals. At the same time we do not want unnecessary process to get in the way of initiatives where speed of delivery is critical to achieving economic development objectives. Governance and monitoring of achievement of the objectives of the overall Fund will also be important.

*Regional Economic Development Ministers Group*

- 34 To ensure a coherent programme of investments is delivered to Cabinet, I propose that the overall performance and operation of the Fund is overseen by a core group of relevant Regional Economic Development Ministers comprising the following portfolios: Regional Economic Development, Economic Development, Agriculture, Tourism, Māori Development, Transport, Environment and Local Government portfolios. A key part of the mandate of this group will be to monitor overall performance of the Fund to ensure overall objectives are being met and for Ministers to discuss opportunities in the regions and investors.

### ***Fund tier: Regional Projects and Capability***

#### *What will this tier support?*

- 35 This part of the Fund will support regional development through investment in a range of smaller economic development projects and feasibility studies for potential projects, and initiatives to build skills, capability and capacity in regions. The Cabinet paper “Funding to implement He Poutama Rangatahi/Youth Employment Pathways” sets out an early investment for this part of the Fund, to lift work readiness in some of the priority regions.
- 36 There is already a range of smaller scale projects that will make a positive economic impact and that a Regional Projects and Capability tier could be used to support. The existing Regional Growth Programme supports the development of regionally-led Regional Economic Action Plans aimed realising each participating region’s best economic development opportunities. Many of the likely initiatives in the early stages of the Fund will come from these plans.

#### *How will this tier be governed and accessed?*

- 37 We need to ensure that Fund investments are provided at a quicker pace than previous programmes have achieved and that the process is not dictated or slowed by bureaucracy.
- 38 This tier will invest in a range of smaller economic development projects, feasibility studies and capability building. The upper limit for Fund investment in projects in this tier is \$10 million.
- 39 Support from this tier will be available ‘on demand’ rather than through more structured funding ‘rounds’. This will ensure support can be provided quickly to respond to emerging regional opportunities. Proposals submitted will be considered monthly by officials, providing a regular opportunity for projects to be reviewed and approved.
- 40 A key aspect of the current regional development model is the Senior Regional Official, who is a single representative for government at the regional governance level. The Senior Regional Official is a Deputy Chief Executive from a government agency who advocates for the region and coordinates government support. I propose that the group of Senior Regional Officials oversee the investment of the Regional Projects and Capability tier.
- 41 The regions value the Senior Regional Official model and believe it has streamlined their communication channels with government. I propose that sign-off of funding of up to \$1 million will be at Senior Regional Official level. Proposals over \$1 million will be approved by the Minister for Regional Economic Development, the Minister for Economic Development, the Minister of Finance and other relevant portfolio Ministers.
- 42 Ministers will have the ability to call on the Independent Advisory Panel that we are setting up to provide specific advice on particular projects.

***Fund tier: Sector Investment***

*What will this tier support?*

- 43 It will drive regional development through investment in priority and/or high value sectors such as tourism, horticulture, technology, niche manufacturing, and aquaculture. The focus will be to increase jobs and private investment. It will include more commercially focussed projects and will involve partnership with private sector investors where possible.

*How will this tier be governed and accessed?*

- 44 This part of the Fund will help the Government deliver a step-change by providing a greater scale of support than generally has been given in the recent past. The size and nature of the proposals means they will require rigorous analysis from officials and Ministers. The size of funding in this tier will be for investments over \$10 million. Due to the size of these proposals, they will go to Cabinet for final review and sign off.

*Independent Advisory Panel*

- 45 An Independent Advisory Panel will be set-up to support robust decision making for Sector Investment projects. Independent advisory panels play an important role in a number of other large government investment and capital funds such as the Housing Infrastructure Fund, Primary Growth Partnership and the Tourism Infrastructure Fund.
- 46 Panel members will need skills in commercial, industry, public policy and sector specific knowledge where relevant. Panel members that have particular knowledge of Māori economic development opportunities.
- 47 The key functions of this Panel will be to provide:
- Feedback on applications for large sector projects;
  - Commercial expertise to assist with assessment of business cases; and
  - Advice on the overall investment portfolio and risks.
- 48 Following feedback and advice from the Panel, proposals will be submitted to key Ministers, including the Minister for Regional Economic Development, the Minister for Economic Development, the Minister of Finance and other relevant portfolio Ministers for assessment and presentation to Cabinet for approval.

***Initial Sector Investments tier opportunities: The One Billion Trees Programme and [ ]***

- 49 The first opportunity for funding from the Sector Investments tier of the Fund will be used to deliver on the Government's commitment to work with key forestry stakeholders to plant one billion trees over the next 10 years (i.e. the One Billion Trees Programme). [See the Cabinet paper One Billion Trees: Enabling Crown Forestry to Plant Trees for more information on this initiative.]



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### ***Fund tier: Enabling Infrastructure Projects***

#### *What will this tier support?*

- 51 The Enabling Infrastructure Projects tier will invest in regional projects which support regions to be well connected (to other regions and within regions) from an economic and social perspective, including through rail, road, and communications. Like the Sector Investment tier, this provides an additional tool for the government to provide direct investment into regions and to be responsive to regional needs.
- 52 This tier can complement existing government funds, including in particular the National Land Transport Fund which is administered by the New Zealand Transport Agency. A key role that this tier can play is in funding projects that wouldn't otherwise meet nationally oriented criteria, but are valuable from a regional and community perspective.
- 53 Centrally-driven projects that meet the criteria will also be able to be funded from this tier. This is important, as it provides an ability for the government to seek funding for key regional projects that it has initiated. One example may be any required government investment that arises from the findings of the Upper North Island Freight Study. [See the Cabinet paper Upper North Island Supply Chain Strategy for more information on this initiative.]
- 54 To be eligible for this tier, infrastructure initiatives will need to contribute to lifting the economic productivity and number of jobs in a region, beyond what will be achieved through existing investments. Investments to increase regional and national resilience by improving critical infrastructure will be eligible for funding in this tier.
- 55 Feasibility studies and specialised investigations which are focussed on infrastructure investments will be able to access this tier of the Fund. This is important, as transport projects often require detailed assessment before they are ready for investment, and some regions may experience difficulty in funding these investigations themselves.
- 56 Large scale sector investments will often require complementary investments in infrastructure. Accordingly, the design of the Fund will ensure that any of these complex investments are considered as a package.

#### ***How will the Enabling Infrastructure Projects tier be governed and accessed?***

- 57 Investments made under this tier will largely be government capital expenditure, where there are already existing complementary funds and decision making mechanisms and agencies (such as the National Infrastructure Advisory Board, New Zealand Transport Agency, and Crown Infrastructure Partners). In addition, there are also key planning and investment prioritisation tools – such as the Government Policy Statement on Land Transport and the Thirty Year Infrastructure Plan. For investments over \$10 million that fall outside existing processes, officials will provide advice to the Minister for Regional Economic Development, Minister of Transport, Minister for Economic Development and the Minister of Finance for assessment and presentation to Cabinet for approval.

- 58 It will be important that there is clarity for regional stakeholders on how these different funds and funding tiers work, and that they are clear on the complementary roles of these funds. Officials will provide further advice, as part of the February 2018 report back to Cabinet, on options for assessing and making decisions on infrastructure investments.

### **February 2018 report back to Cabinet**

- 59 Implementing the Fund will involve further work on the criteria for approval, funding arrangements for the Fund and how success will be measured. Officials will provide further advice on detailed criteria needed for different elements of the Fund in a report back to Cabinet in February 2018.
- 60 To make sure the Fund delivers its maximum impact I expect that this Fund will work across Government initiatives (such as the Employment Strategy being developed by the Minister of Employment) to help ensure local communities benefit from the job opportunities that the Fund will create. The February report back will also discuss further how the Fund relates to this and other Government initiatives (such as the Rural Broadband Initiative).
- 61 The Ministry of Business, Innovation and Employment will work with the Ministry of Foreign Affairs and Trade to ensure that the details of the Fund comply with New Zealand's international obligations in the World Trade Organisation and relevant trade agreements.

### **Financial Implications**

- 62 The Fund will be funded through a mix of existing funding (such as the \$44 million Regional Growth Initiatives Appropriation) and the Budget operating and capital allowances. In the interim, early projects that are investment-ready will be funded via existing funds where possible (i.e. the Regional Growth Initiatives Fund).
- 63 Agreement on how the costs of the Provincial Growth Fund will be funded in 2018/19 and outyears will be decided as part of February 2018 report back to Cabinet.
- 64 Projects that are investment-ready in 2017/18 but require new funding will be subject to approval by the Minister for Regional Economic Development for projects less than \$1 million, a delegated group of Ministers for projects that are between \$1 million and \$10 million (and up to \$20 million in exceptional circumstances), and by Cabinet for projects above \$10 million. Any approved projects in 2017/18 that are investment-ready and require new funding can be funded as a pre-commitment against the Budget 2018 operating and/or capital allowances and will be counted against the Provincial Growth Fund. This will reduce the amount of funding available for other PGF initiatives in the Budget by a commensurate amount.

### **Consultation**

- 65 This paper has been consulted with the Ministry for Primary Industries, Ministry of Business, Innovation and Employment, Ministry of Transport, the Treasury, and Te Puni Kōkiri, and the Department of Conservation. The Department of Prime Minister and Cabinet has been informed.

## **Human Rights**

66 There are no human rights implications to this paper

## **Legislative Implications**

67 There are no legislative implications to this paper

## **Regulatory Impact Analysis**

68 A Regulatory Impact Analysis (RIA) is not required.

## **Gender Implications**

69 There are no specific gender implications to this paper. An increased focus on regional economic development should result in greater economic opportunities for women in the regions.

## **Treaty of Waitangi Implications**

70 I expect a number of projects that will be supported by the Fund will directly impact on Māori and I expect that any Treaty implications will be dealt with on a case by case basis. An increased focus on regional economic development should result in greater economic opportunities for Māori in the regions. The Independent Advisory Panel that will be established to support the Fund will have members who understand the context of Māori/iwi.

## **Disability Perspective**

71 There are no specific disability implications to this paper. An increased focus on regional economic development should result in greater economic opportunities for disabled persons in the regions.

## **Publicity**

72 I propose to make a public announcement about the decisions contained in this paper in the near future. I propose to release the Cabinet paper and associated minute at the same time.

## Recommendations

The Minister for Regional Economic Development recommends that the Committee:

- 1 **Agree** to establish the Provincial Growth Fund (the Fund), a \$1 billion per annum fund investment for three years;

The Fund

- 2 **Agree** that the overall objective of the Fund is to lift productivity potential in the regions;
- 3 **Agree** that the specific objectives of the Fund are to support:
  - 3.1 increased jobs and sustainable economic development;
  - 3.2 increased social inclusion and participation;
  - 3.3 Māori development;
  - 3.4 environmental sustainability and help in addressing climate change;
  - 3.5 increased resilience (infrastructure and economic);
- 4 **Note** that all regions in New Zealand are eligible to apply to the Fund;
- 5 **Agree** that particular priority be given to 'surge' effort in the following regions in the first instance:
  - 5.1 Tairāwhiti/East Coast;
  - 5.2 Hawke's Bay;
  - 5.3 Tai Tokerau/Northland;
  - 5.4 Bay of Plenty;
  - 5.5 West Coast;
  - 5.6 Manawatū-Whanganui;
- 6 **Agree** that the Fund be open to a wide range of entities, including central and local government, State Owned Enterprises, Māori organisations, iwi and related authorities, and commercial enterprises;
- 7 **Agree** that the Fund have three tiers:
  - 7.1 Regional Projects and Capability;
  - 7.2 Sector Investments (includes the One Billion Trees Programme, referred to in CBC-17-MIN-0061);
  - 7.3 Enabling Infrastructure Projects;
- 8 **Agree** that the key criteria to apply in determining eligibility for the Fund be that:

- 8.1 investment should increase the productivity potential of the region and support sustainable jobs, business and use of natural resources;
- 8.2 the Fund is not designed to fund activity that will take place anyway (whether within the region or in another region), but rather to stimulate new activity or bring forward activity important to the region's economic development;
- 8.3 investment should neither socialise losses nor privatise gains;
- 8.4 the Fund will build on regional strengths and prioritise investments that develop high growth activities in areas of comparative advantage;
- 8.5 the Fund will prioritise any sectors identified as high priority by the government for a particular region;
- 8.6 local support for the projects is important;
- 8.7 while adopting a streamlined approval process appropriate to the size of the project, the Fund will require robust business cases that show long-term development potential (measured against a consistent set of success measures), particularly for large projects;
- 8.8 a mix of capital and operating expenditure will be available, depending on the nature of the project, with the expectation that the majority will be capital expenditure and operating expenditure for one-off projects. The government's involvement may involve removing regulatory blockages as well as funding initiatives;

*Funding of projects in 2017/18 through the existing Regional Growth Initiatives appropriation*

- 9 **Note** that the existing Regional Growth Initiatives appropriation was established in Budget 2016, with \$44 million over five years;
- 10 **Authorise** the Minister for Regional Economic Development and to approve any projects that are:
  - 10.1 investment-ready;
  - 10.2 less than \$1 million in total; and
  - 10.3 fit the scope of the Regional Growth Initiatives appropriation;
- 11 **Note** that Senior Regional Officials will continue to have delegated authority to approve projects up to \$100,000 through the Regional Growth Initiatives appropriation;

*Funding projects before February 2018 that require new funding*

- 12 **Agree** that projects agreed in 2017/18 that require new funding be subject to the Provincial Growth Fund's processes, including objectives, criteria and any detailed criteria and success measures agreed to in the February report back (referred to in paragraph 33 below), with existing criteria for the Regional Growth Initiatives appropriation used in the interim;

- 13 **Agree** to the following delegations, before the February 2018 report is considered by Cabinet, for early projects that are investment-ready but require new funding:
- 13.1 **Authorise** the Minister for Regional Economic Development to approve projects less than \$1 million;
- 13.2 **Authorise** the Minister of Finance, Minister for Regional Economic Development, Minister for Economic Development, and Minister of Transport, together with any other relevant portfolio Ministers (joint Ministers), to approve projects between \$1 million and \$10 million, and in exceptional circumstances up to \$20 million;
- 13.3 **Agree** that projects greater than \$10 million require Cabinet approval (other than those approved by joint Ministers in exceptional circumstances up to \$20 million as provided for under paragraph 13.2);
- 14 **Agree** that, before the February 2018 report is considered by Cabinet, early projects be funded as a pre-commitment against the Budget 2018 operating and/or capital allowances and be counted against the Provincial Growth Fund;
- 15 **Note** that any expenditure outside of existing appropriations will require a suitable appropriation to be established, which will require the approval of the Minister of Finance;

#### *Governance*

- 16 **Note** that the overall Provincial Growth Fund will be overseen by Regional Economic Development Ministers (covering the Regional Economic Development, Economic Development, Agriculture, Tourism, Māori Development, Transport, Environment and Local Government portfolios);
- 17 **Agree** that an Independent Advisory Panel be set-up to help support the evaluation of the regionally driven applications;

#### *Regional Projects and Capability tier*

- 18 **Note** that the intention of the Regional Projects and Capability tier is to support regional development through investment in a range of smaller economic development projects and feasibility studies for potential projects, and initiatives to build skills, capability and capacity in regions;
- 19 **Agree** that the upper limit for projects in the Regional Projects and Capability tier be \$10 million per project;
- 20 **Agree** that Senior Regional Officials will be able to sign off projects up to \$1 million per project, and that applications will be considered monthly by the group of Senior Regional Officials;
- 21 **Agree** that any projects over \$1 million will require the approval of the Minister for Regional Economic Development, the Minister for Economic Development, the Minister of Finance, and any other relevant portfolio Ministers;
- 22 **Agree** that applications for the Regional Projects and Capability tier be open all year round;

- 23 **Note** that Ministers will have the ability to call on the Independent Advisory Panel to provide specific advice on particular projects;

*Sector Investments tier*

- 24 **Note** that the intention of the Sector Investments tier is to drive regional development through investment in priority and/or high value sectors that will make a significant contribution to a region's future growth potential in areas of comparative, or potential comparative, advantage;
- 25 **Agree** that the amount of funding available for the Sector Investments tier be over \$10 million per project;
- 26 **Agree** that proposals for the Sector Investments tier be submitted to Cabinet for final review and sign off;
- 27 **Agree** that the regionally driven projects in the Sector Investments tier will have three rounds of applications a year;
- 28 **Agree** that sign-off for these regionally driven projects will sit with Cabinet with advice from an Independent Advisory Panel, while centrally-driven projects will be subject to existing processes;

*Enabling Infrastructure Projects tier*

- 29 **Note** that the Enabling Infrastructure Projects tier will invest in regional projects identified both centrally and regionally that enable regions to be well connected from an economic and social perspective, including rail, road, and communications;
- 30 **Note** that the Enabling Infrastructure Projects tier will also have the ability to invest in business cases and feasibility studies;
- 31 **Note** that to be eligible for investment by the Provincial Growth Fund, infrastructure initiatives will need to contribute to lifting the economic productivity and the number of jobs in a region, beyond what will be achieved through existing investments;
- 32 **Agree** that for investments over \$10 million that fall outside existing processes, the Minister for Regional Economic Development, Minister of Transport, Minister for Economic Development and the Minister of Finance will seek Cabinet approval;

*Next steps*

- 33 **Invite** the Minister for Regional Economic Development to report back to Cabinet by February 2018 on:
- 33.1 the detailed criteria needed for assessing and making decisions under each tier of the Provincial Growth Fund;
  - 33.2 the mechanism to ensure that there is a coordinated and consistent approach across the regions;
  - 33.3 the success measures for the Fund;

- 34 **Agree** that further fiscal decisions (including relevant appropriations) be made in February 2018 on the basis of a report to Cabinet, which will include advice on issues such as:
- 34.1 the split between capital and operating expenditure (with the expectation that the majority will be capital);
  - 34.2 the extent to which the Provincial Growth Fund is set aside from the capital and operating allowances or repurposed from existing or future expenditure that aligns with the Fund's strategic priorities (with the expectation that the majority will be new funding);
  - 34.3 the approach to appropriating the funding in Budget 2018, Budget 2019 and Budget 2020;
- 35 **Note** that the Ministry of Business, Innovation and Employment will work with the Ministry of Foreign Affairs and Trade to ensure that the details of the Provincial Growth Fund comply with New Zealand's international obligations in the World Trade Organisation and relevant trade agreements;

*Announcements*

- 36 **Note** that the high level details of the Provincial Growth Fund will be announced by the Prime Minister and the Minister for Regional Economic Development in February 2018;
- 37 **Note** that the paper under CAB-17-SUB-0554 and its associated minute will be released at the same time as the announcement.

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development