PGF Opportunities, Constraints and Outlook (A regional case study)

Presentation to EDNZ 2021 Conference, Palmerston North,

27 May 2021

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PGF Opportunities, constraints and outlook: lessons from a surge region

Opportunities: Context and strategy

Constraints: Resilience and recovery

Outlook: Reimagining economic development

Opportunity: a case study

“How many projects have we got?”

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Context

Case study: "Surge Region 3" needed strategic frame and collective approach to multiple project initiatives

What SR3 had going into PGF1	What SR needed to be successful
Rich natural resource endowment History of grass roots community activism Multitude of project initiatives • Uncatalogued and unconnected • Some business case development Wonderful committed communities, including local govt, EDA, business, Iwi Capable community leadership	Process to categorise, analyse and prioritise projects Collective vehicle for sub-regional cooperation (political and community) A clear and evidence based strategic frame, that addressed policy priorities Collective and consistent interface with central Govt • Mobilising support, including Iwi

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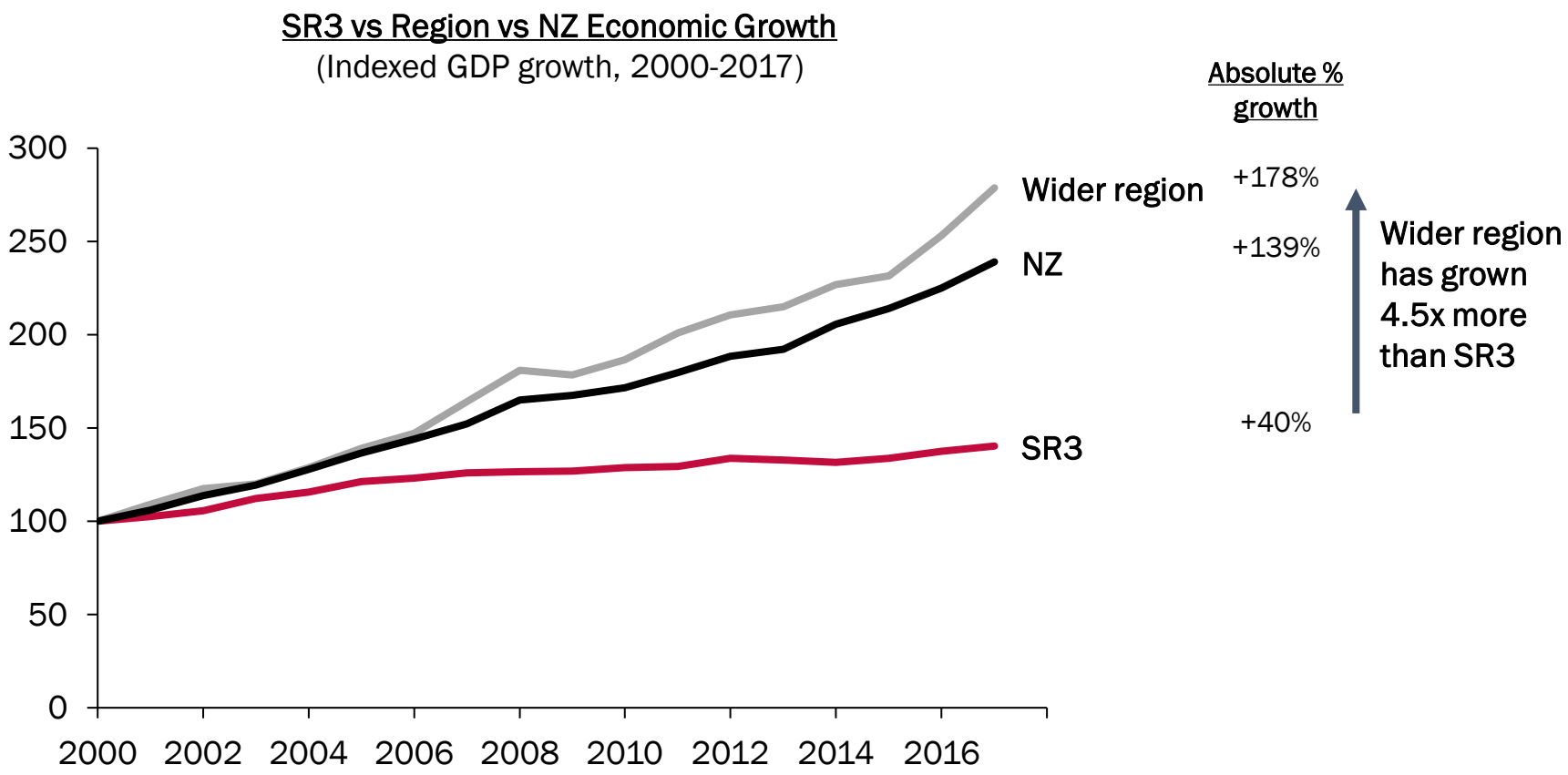
SR3 baseline growth rate lagged NZ and wider region (by 4.5x)



Notes: Each region's GDP was indexed to 100 in 2000, and growth tracked. Rest of BOP is BOP minus EBOP.
Data source: Stats NZ, Infometrics

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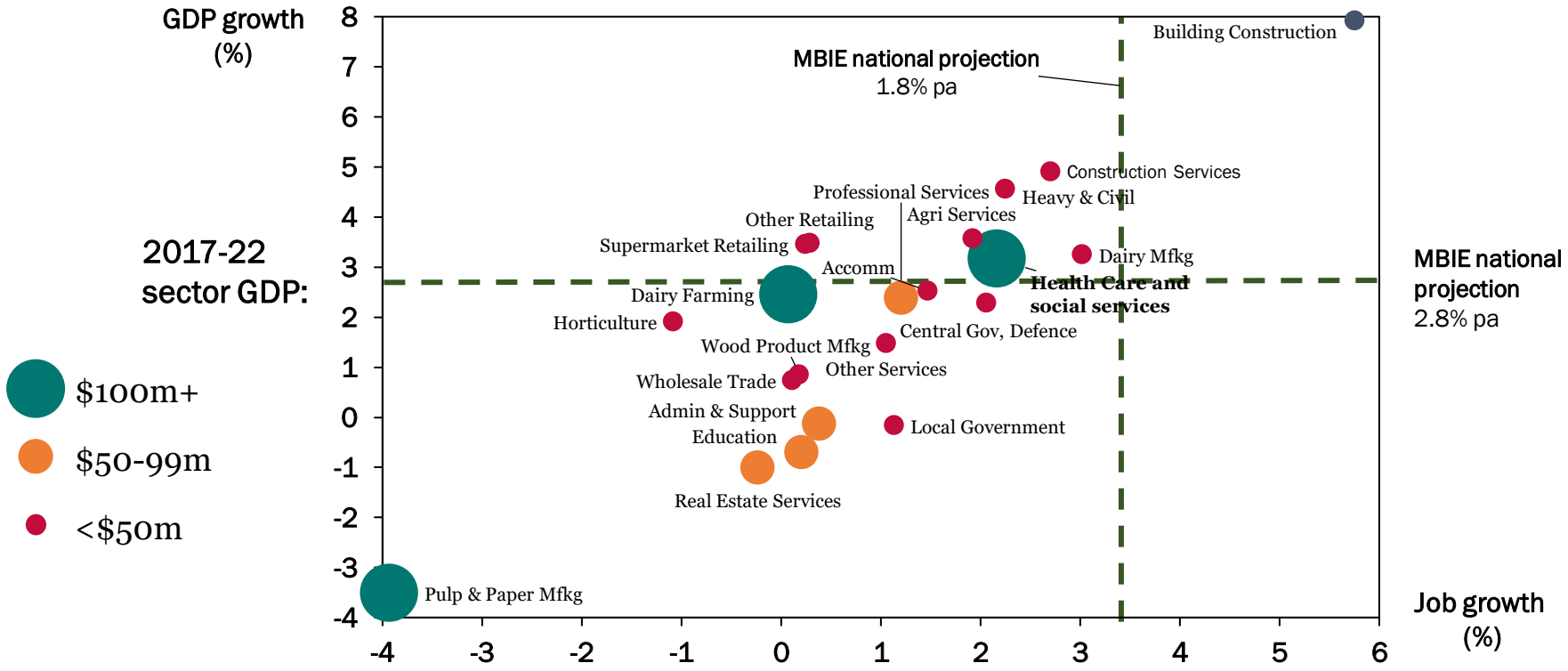
SR3 baseline growth projection was low or negative except for health and social services (related to welfare) and construction

BAU projected SR3 GDP and job growth contribution by sector
(2017 to 2022)



Notes: Team analysis of 21 industries with most employees in 2017 shown. Data source: Infometrics, MBIE

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Projects were prioritised by sector impact and attributable jobs

Analysis focussed on estimating attributable local job creation (Crown ROI was de-prioritised)

Over 70 disparate projects were sense-checked(1) and ordered by sector, location and impact

Four key sector strategies emerged as the core-foundations for the subregional strategy

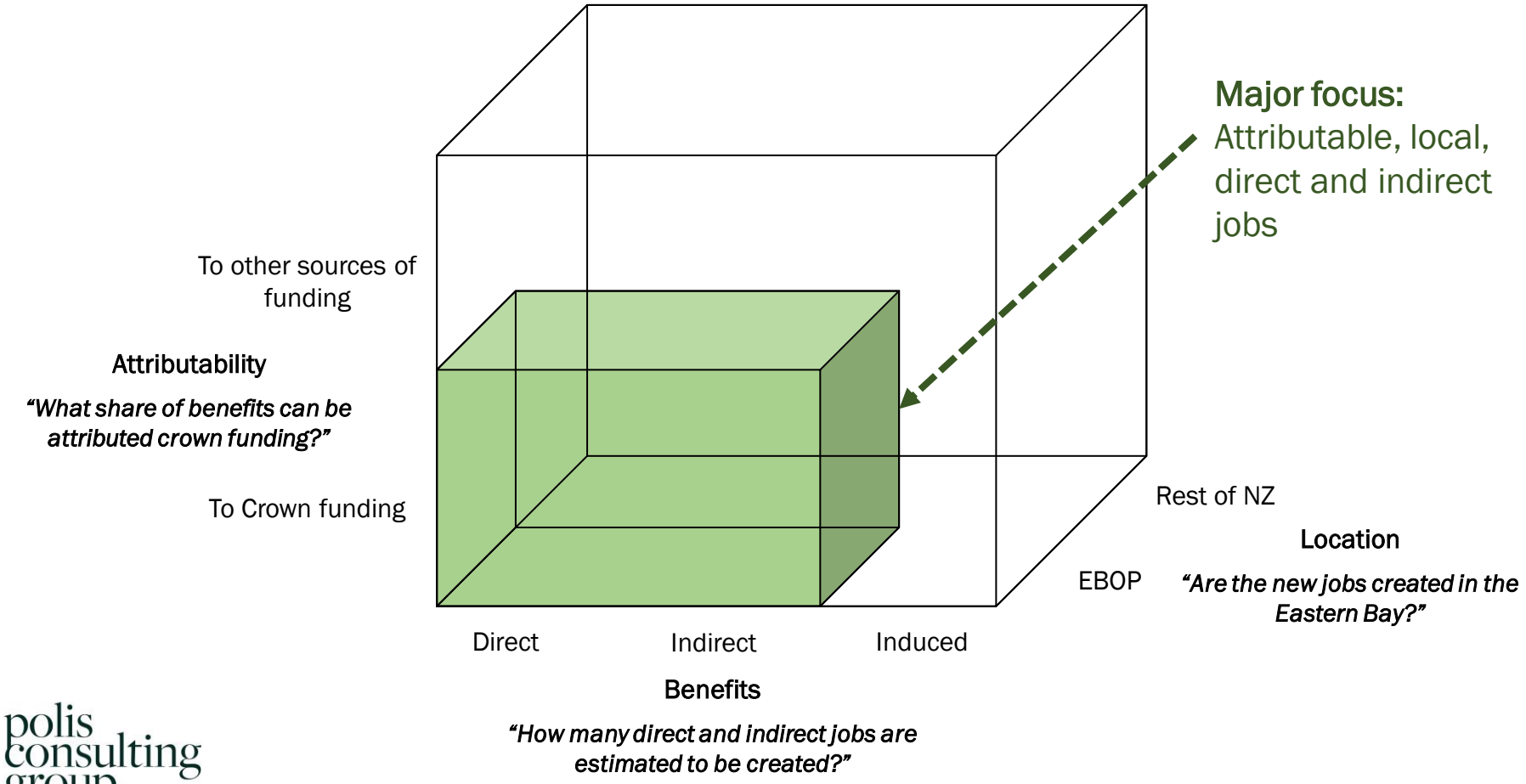
- $PGF investment per attributable job was then estimated and fell in the “Goldilocks zone”
- If fully delivered, PGF projects would lift local GDP growth from 1.6% to 4.2% (+160% of base)

Strategy anchored a unifying narrative that local councils, iwi and business all got behind

Result was a $450 m Crown investment package with transformational potential

Analysis focused on estimating local attributable direct and indirect jobs (not induced or tertiary)

<u>Priority metric: attributable, local jobs</u>



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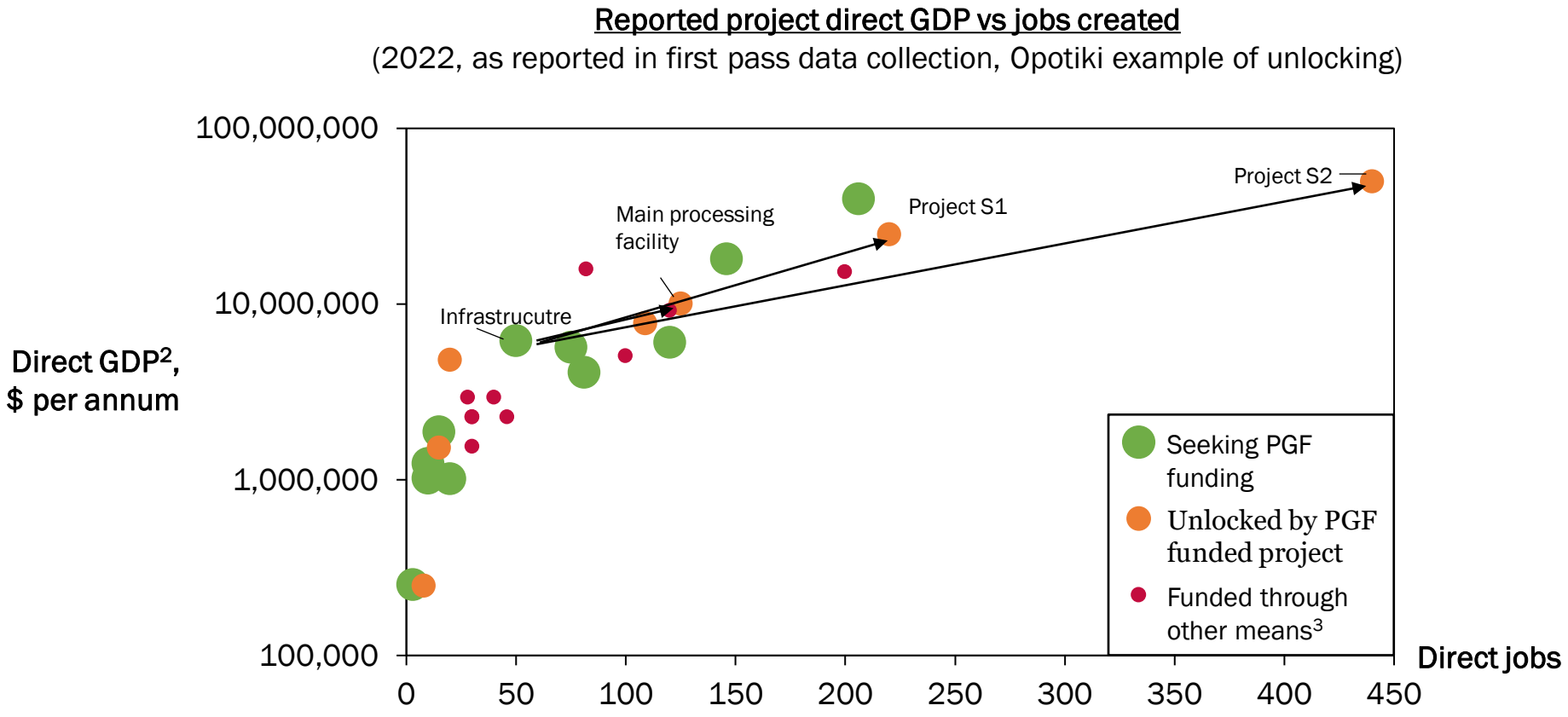
Strategy

There were over seventy(1) projects proposed in SR3 which varied widely in direct economic impact…



Note: (1) Not all 70 projects are shown as many still have benefit analysis pending. (2) Direct GDP is derived by multiplying forecast job numbers by average GDP per employee in a given industry in the Region. (3) Some of these projects may be seeking other Govt funding, and may eventually lodge a PGF application, but are not currently seeking PGF funding. (4) Main infrastructure and unlocked projects S1 and S2. Job forecasts are preliminary.

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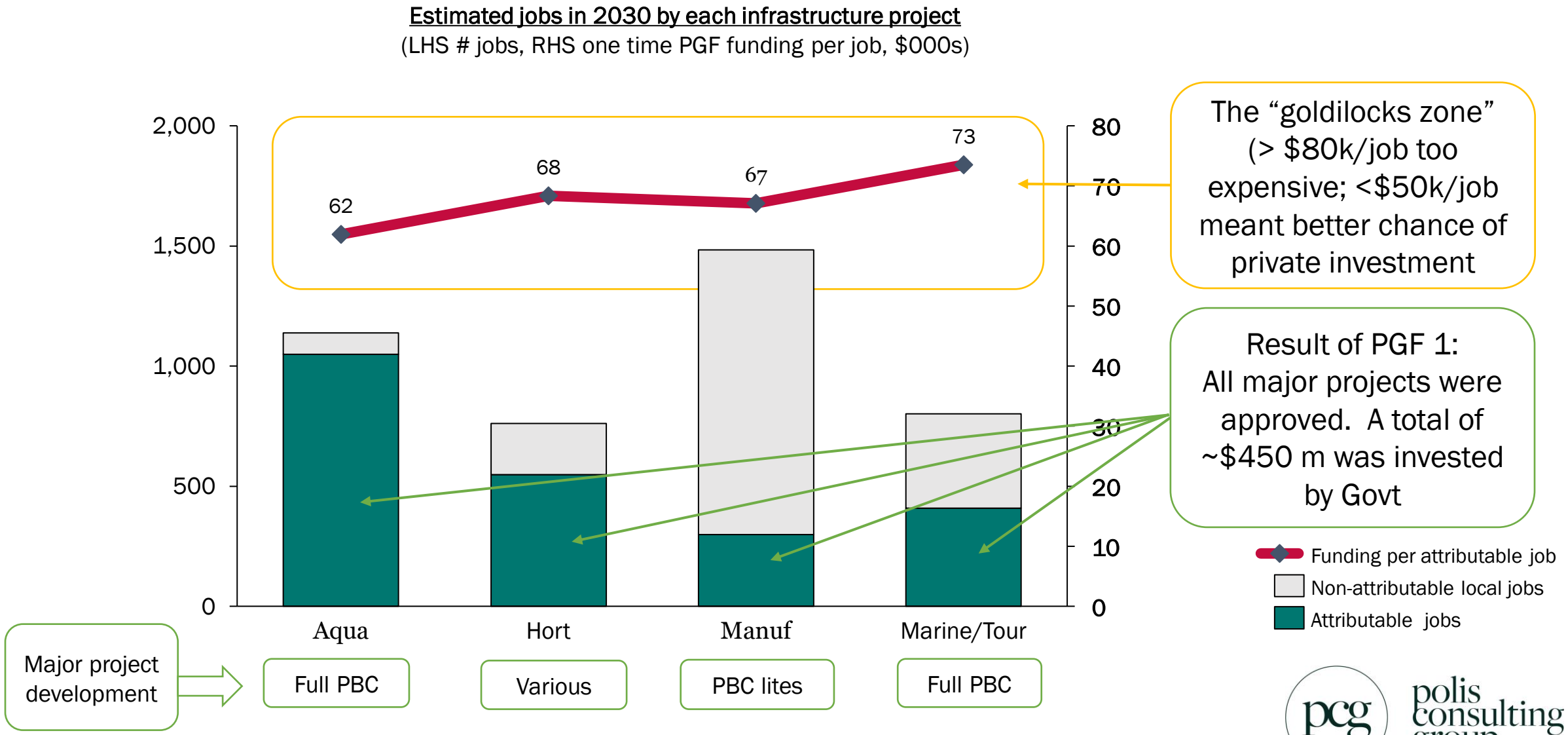
Four strategic sectors emerged as core to the subregion: $PGF investment per attributable job then calculated

Strategy



Source: Individual project owners' estimates.

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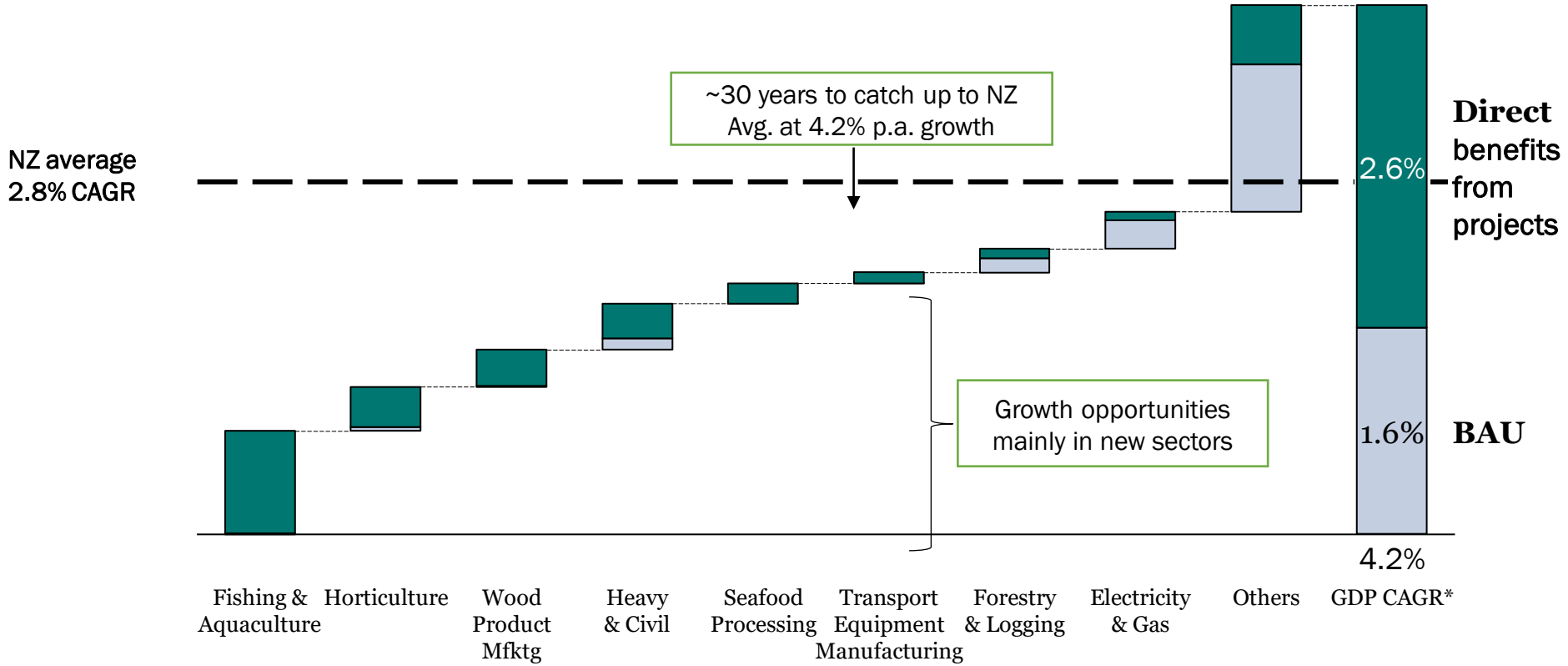
PGF investment projected to more than double regional GDP growth if projects fully realised

Projected direct project contribution to SR3 GDP CAGR by sector
(% p.a., 2017 to 2022)



Notes: The actual contribution from the projects to region's GDP growth is unlikely to be as projected here for (at least
are likely to run concurrently, (2) GDP estimates may be revised down as part of data testing in August, and (3) indirec
and may increase the projected contribution. *It would take over 30 years for Opotiki's GDP per capita to exceed the n
achieved. Source: Infometrics for BAU projections, SR3 Councils for project projections.

Delivery: resilience and recovery

“The best strategy is worth nothing unless it gets implemented”

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Delivery is still work in progress. Constraints are being managed amid recovery from COVID impacts

Delivery

When COVID (and other disasters) impacted the region, the EDA stepped up

- Resilience was supported by sector mix including primary export strength

Delivery constraints were foreseen at the design stage

- Implementation capacity and capability; Workforce development; Housing

Workforce, housing, governance and Iwi / business engagement now critical to PGF project delivery

- PGF delivery is a critical local priority with sub-regional dependencies

Medium term priorities are shifting to social wellbeing and Māori economy

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COVID

Then COVID happened: EDA fostered remarkable resilience

Disruptors

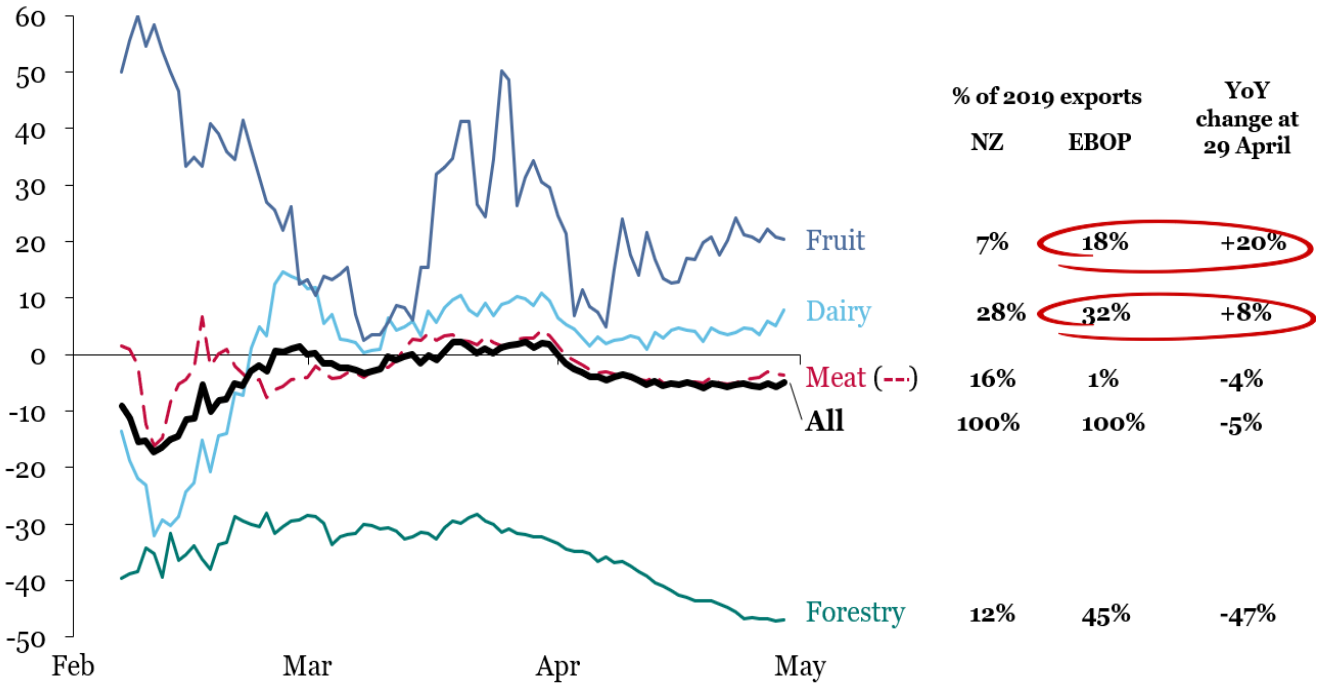
- Natural disaster event late 2019
- COVID lockdown March 2020
- Suspension of international tourism 2020-21
- Supply chain interruptions

Offset by …

- Primary exports (RHS)
- Domestic tourism
- EDA pastoral care and brokerage

Resilience and recovery

Export of goods from New Zealand
(Cumulative YoY change 1 Feb to 29 Apr, %)



Source: Statistics NZ data; SHS/PCG analysis

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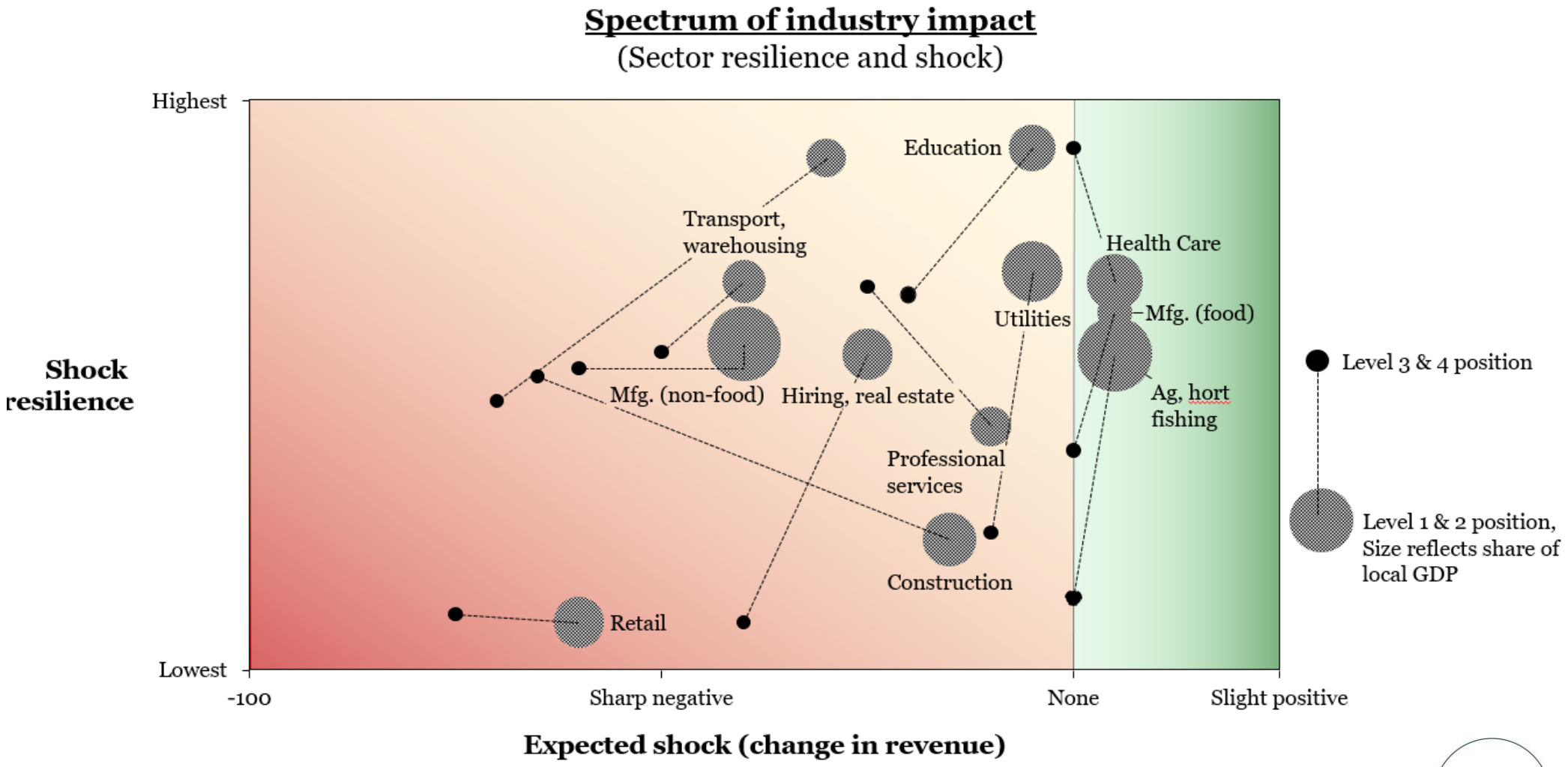
COVID

Region cushioned by being overweight in relatively resilient sectors



Notes: Near term resilience measured using ability to cover near term liabilities (Quick Ratio), medium term resilience using equity share of liabilities.
Sources: Quick Ratio and equity share of liabilities from Stats NZ Annual Enterprise Survey, 2018. Local share of GDP from Infometrics, 2019. Expected shock adapted from international research, based on ShS/PCG industry experience.

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Delivery constraints were foreseen at the design stage

Constraint	Impacts	Relieved by
Capability and capacity	• Constrain local organisations' ability to pursue next tranche of transformative projects	• Recommend seed funding for capability and capacity development, and ongoing central-local government partnership
Labour supply and workforce development	• Reduce upside from employing the unemployed • Stall growth realisation and related social outcomes if workers scarce or imported	• Recommend further investing in workforce development projects in Region
Transport and logistics infrastructure	• Constrain growth of transport-dependent sectors (e.g. industry, horticulture and tourism)	• Recommend funding logistics infrastructure hub and investing in regionally-integrated transport and logistics strategy
Housing supply	• Risk that imported permanent and seasonal workers become difficult to attract, and locals find it harder to buy homes	• Recommend developing Region housing and accommodation plan

Source: SR3 strategy case, 2018, Stakeholder Strategies/ Polis Consulting

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Workforce, housing, governance and Iwi and business engagement are seen as critical to PGF project delivery

PGF Constraints: issues raised: SR3 case study

Issues

Workforce development is critically important but seen as uneven and uncoordinated across the subregion

Inadequate project & programme implementation capacity and sub-regional governance/cohesion (1)

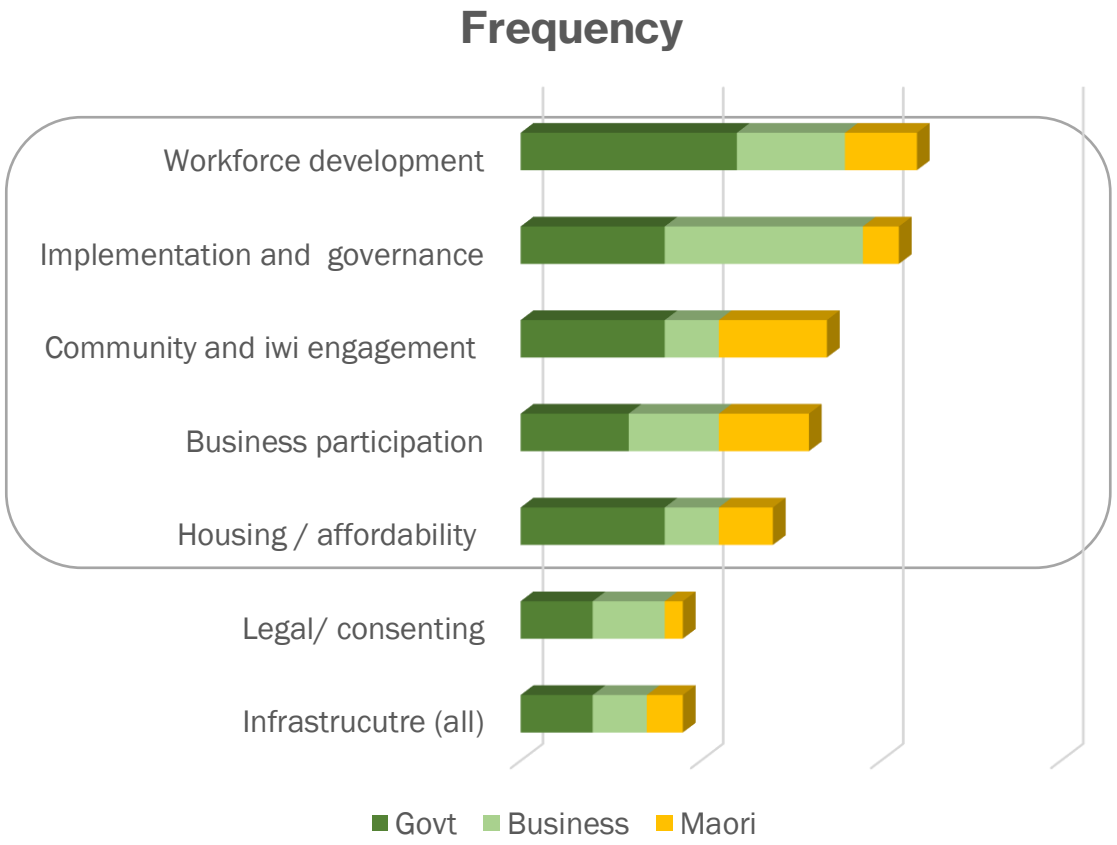
Communities, business and iwi want to engage more effectively with government at all levels

Business wants a stronger voice in SR3 development

Housing is a critical and growing constraint

Legal, consenting and consultation requirements slowing down project implementation

Infrastructure / connectivity rising as an issue of concern, especially for Māori (<10% online)



Note: 1. Implementation concern is with individual project management; governance is typically across multiple projects.

Data source: SR3 stakeholder interviews, PCG analysis

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PGF delivery is a critical local priority with sub-regional dependencies

PGF Constraints: importance and governance

Summary

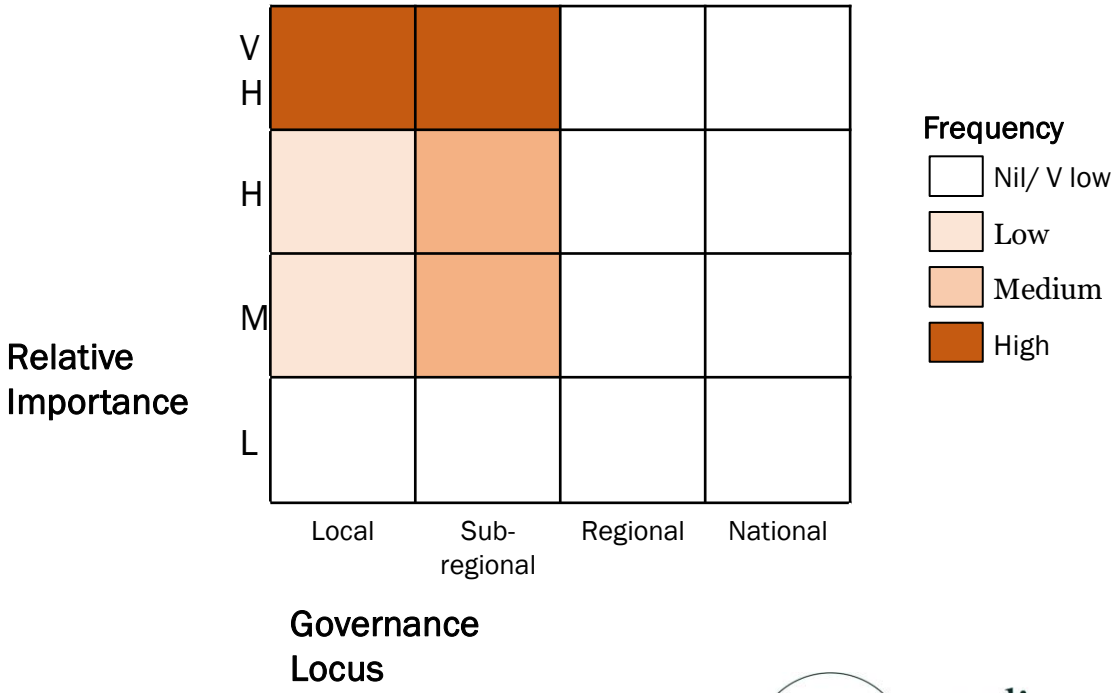
Delivery capacity for local projects is the critical issue

- Solutions are seen as local priorities
- "Stick to the knitting"

Programme governance seen as a critical risk across region

- Cross-SR3 people movements impact housing demand/supply balance
- Need more coherence on workforce training "spaghetti"
- Calls for rigorous and accountable tracking and monitoring of project rollout
- Active management of subregional programme interdependencies
- Interventions at sector or cluster level

Ratings



Data source: SR3 stakeholder interviews, PCG analysis

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Re-imagining economic development

“Some people ask why; I ask why not ”
(Robert Kennedy)

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7 levers to re-imagine economic development in NZ

Issue	From	To	Comment
PGF Projects	Strategy	Delivery	• Delivered value requires capability, capacity and cutting constraints
PGF Portfolio	$3000 million	$66-200 million?	• Drive results from $3b PGF1 • Leverage PGF2 seed funds
Policy goals	Economic growth	Wellbeing, Sustainability	• Transformation potential • Emerging disciplines
Cultural lens	Tangata Pakeha	Tangata Tiriti, Te Ao	• Economic and social necessity (assets and impacts)
Strategy lens	Determinism	Dynamic capability	• Uncertainty and complexity
Change levers	Sectors	Missions	• International best practice
Governance	Passive or directive	Adaptive	• EDA / Local govt reform?

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Case study: EDA priorities shifting to social wellbeing and Māori economy

Medium term priorities

Issues

Maximise the social benefits of economic development (including housing, services, safety)

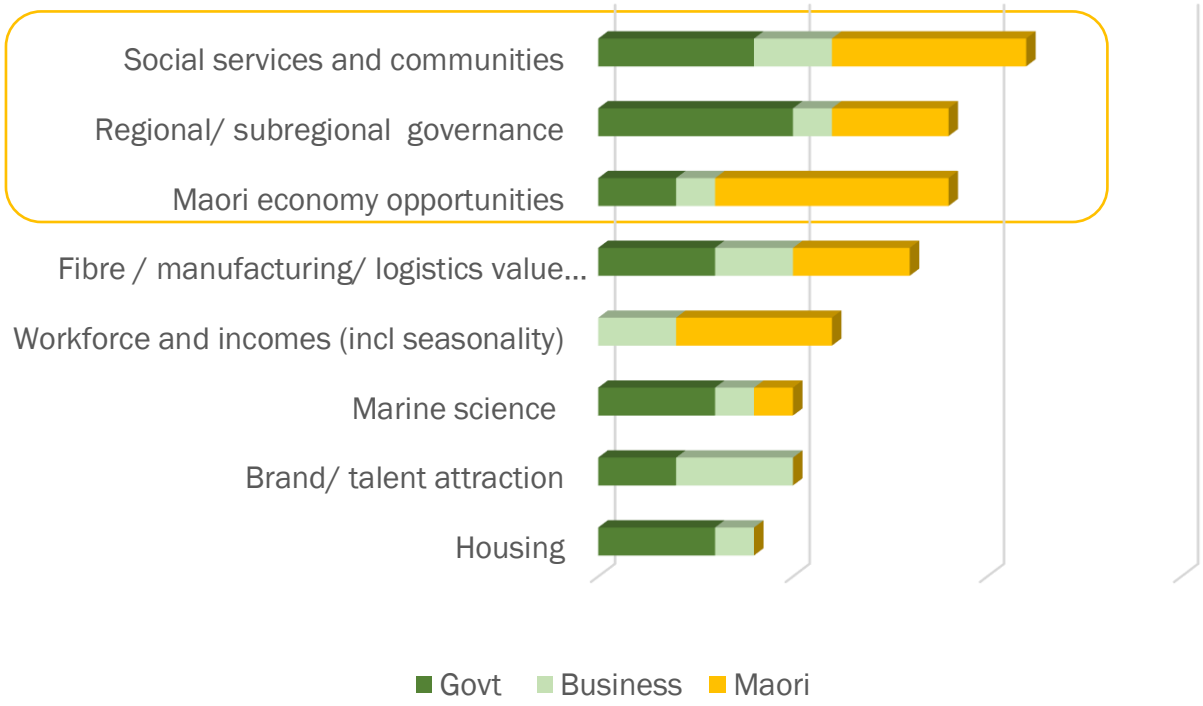
Sub-regional and programme governance issues are showing up in every category

Upsurge in Māori economic drive is notable in major aquaculture, tourism and other opportunities

Workforce development and sustainable cross-seasonal incomes remain a key delivery constraint

Concern at fibre value chain risks amid business uncertainty and China log export outlook (specific to SR3)

Frequency



Data source: SR3 stakeholder interviews, PCG analysis

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Reimagining PGF2 – with a lot less *putea*

PGF1 $3bn was an unprecedented injection of development capital to regions

The current Govt indicated ~$200m for PGF 2, has appropriated ~$65m, more to come?

Policy focus is (appropriately) heavily focused on implementation / delivery of PGF1

Govt directing investments at policy priorities (infrastructure, climate, housing, energy, rail)

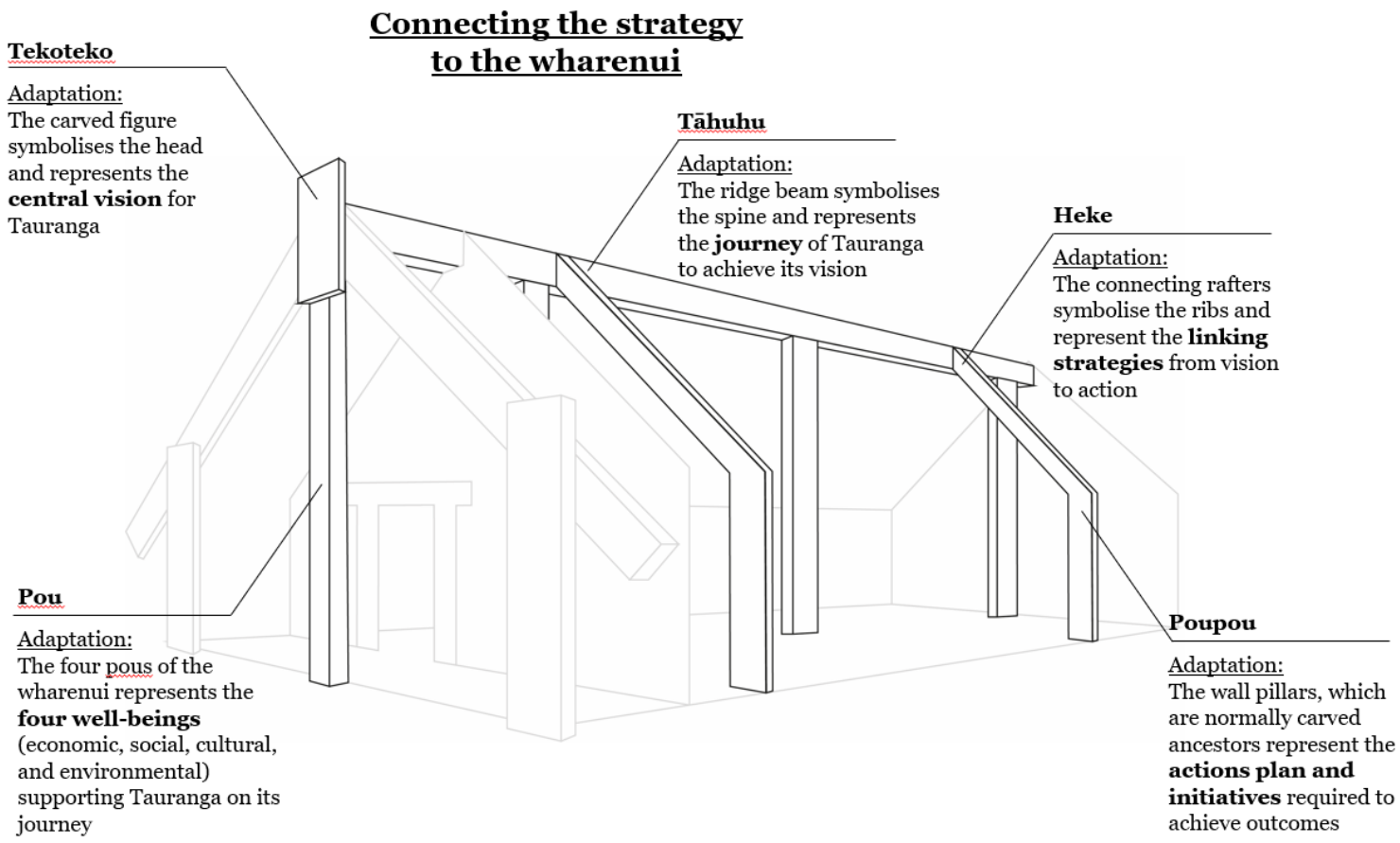
So we must strive to get the PGF1. PGF2 will need new

From Te Ao Pakeha to Te Ao Maori: towards Tangata Tiriti

The wharenui - the most important building of the marae - is structured to represent symbolically the ancestor and links to te ao Māori

During the community workshops, participants identified the linkages between the wharenui's symbolic connection to the human body and key components of the VAP

The use of the wharenui as a framing device supports the important narrative of vision to action and aligns with community leaders' desire for more explicit connection to heritage



Source: PCG iwi consultation for city long term planning

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Policy goals are shifting from economic to social / sustainable

Its economics, Jim…	… But not as we know it
Chicago School Economics	Doughnut Economics (1)
Single (GDP) bottom line	Quadruple bottom line
Industry 2.0	Industry 4.0
Flying	Zooming
Adjacency	Amenity
Agri-economy	Mission Economy (2)

Notes: list is subjective and non-exhaustive. 1. Kate Raworth "*Doughnut Economics*"; 2. Mariana Mazzucato, "*Mission Economy*"

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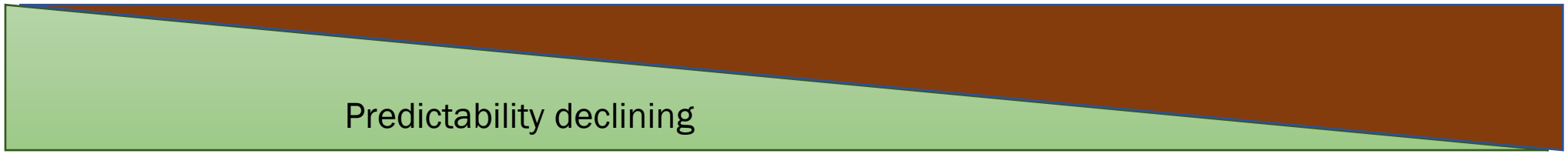
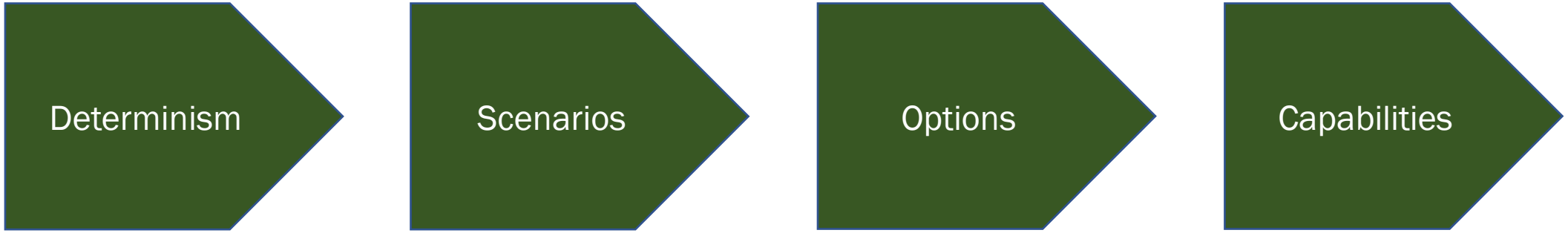
Reimagining strategy: from determinism to dynamic capability





"The best answer via logic, evidence and analysis"

"Understanding and describing different potential outcomes"

"Pricing, risk adjusting and signposting the scenarios"

"Ability to dynamically respond to changing scenarios"

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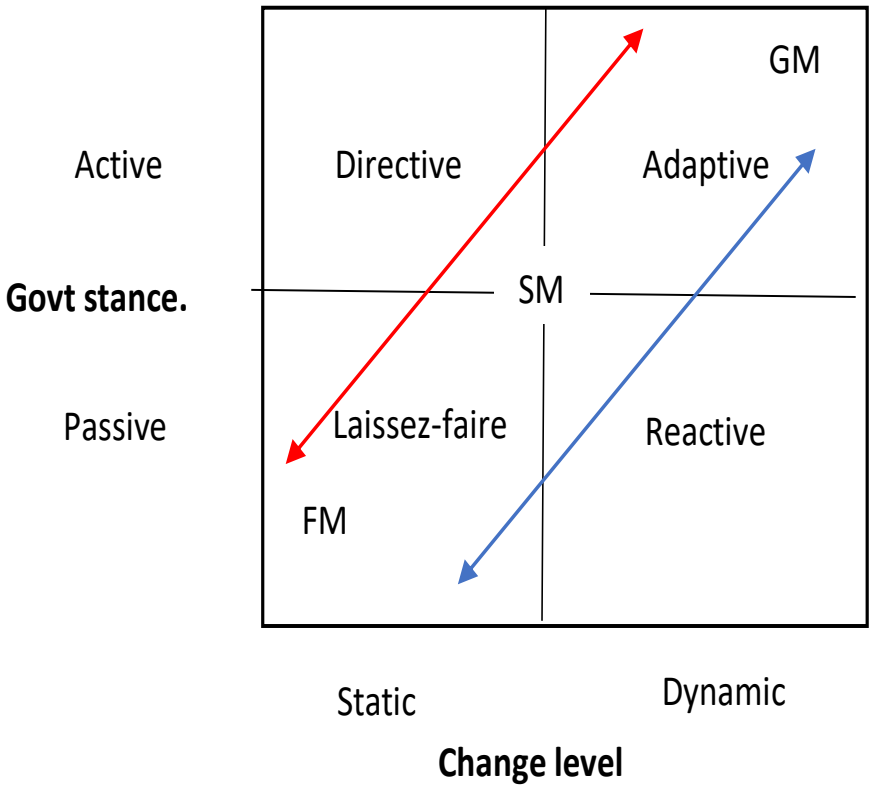
From Sectors to Missions

Sectors and regions	Missions in regions
Industry strategy (e.g. ITPs) Matrices of sectors and regions Augmented by clusters of firms, TEIs But… … Status quo bias … Uneven empirical evidence … More static than dynamic	Moon shot policy goals (e.g. a net zero-carbon economy) Incentives and resources All sectors and regions can play Private firms, TEIs and CRIs cluster around mission Goal is durable, approach is adaptive

Notes: Mariana Mazzucato, *"Mission Economy: A Guide to Changing Capitalism" (Allen Lane, 2021)*

From passive to directive or adaptive governance ?

Figure 1: Typology of Change



Policy stance	Examples	Features
Passive (Laissez faire or Reactive)	Mother of all Budgets (limit case) Business Growth Agenda (partial)	• High level of reliance on private markets • Semi-active, but lacked fiscals or externalities
Directive	Health, Tertiary Education and Three Waters reforms	• Centralisation of services • Closer direction by central government
Adaptive	Localism/regionalism (PGF1 “intent”, C4C) Mission-led policy ?	• Central govt partnering, agile processes • Clear, funded goals with multi-sector participation at scale

Source: Cunliffe, Richardson and Mazey, forthcoming book via OUP

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