POLICY PAPER

MAXIM INSTITUTE

A RISK WORTH TAKING

ENSURING THE PROVINCIAL GROWTH FUND IS FIT FOR PURPOSE • JULIAN WOOD

In 2017, the coalition Government announced the $3 billion Provincial Growth Fund (PGF), dramatically changing the New Zealand regional development policy landscape. This was, and still is, a controversial move,[1] with some decrying it as a "slush fund" or 2020 election bribe, and others heralding it as a once-in-a-generation opportunity for our regions.[2] In reality, both sides are right. **Spatial policy like the PGF does have great potential, but also introduces the risk** of "misallocating resources, creating a dependency culture and favouring rent-seekers over innovators."[3]

Taking the right risk will **require the PGF to change course** and minimise the associated risks, otherwise **billions of dollars of tax-payer money could potentially be wasted** with the regions no better off than before, and even in some cases, worse off.

This paper outlines the case for and against spatial policy; provides an **international best practice model** for a regional development investment fund; and then develops a picture of the PGF implementation over its first year of operation (based on publicly available information from central and local government). This enables a time-limited but early **comparison of the PGF implementation thus far with best practice**.

Overall, there are **many reasons for hope within the current model**. From our analysis the PGF aligns with best practice because it:

- is spatial in nature without dismissing a good horizontal policy base;
- has high-level objectives it is trying to achieve, like increasing the productivity potential of the regions;
- seeks to base a good proportion of its funding decisions on real input from regions and local knowledge;
- sets out ex-ante goals of individual initiatives and appears to be using conditionalities as part of its funding; and
- is in the process of developing an overall PGF evaluation plan.

However, **the PGF requires adjustment** to be fully fit for purpose. It needs to better focus on fostering and capturing knowledge spillovers; effectively synchronising regional development investments across the regions and with national development policy; and most significantly, to **stop underestimating the well-known risks** associated with spatial policy tools.

This means that the PGF needs to **change its geographic scope** to include our largest cities in regional strategies, to urgently support the **creation or renewal of the mostly out of date regional action plans** (RAPs), to refocus on knowledge spillovers, better collaboration, and policy synchronisation, to enable both **growth and decline policy options**, and to make use of a significantly **strengthened evaluation regime**. Without making these changes it is likely that many of the costs and downside risks associated with spatial planning tools will be realised and the potential benefits elusive.

CONCLUSIONS AND RECOMMENDATIONS

Having outlined best practice for regional development investment strategy and held the PGF up to this standard, we conclude that the PGF is a good place to start but requires adjustment to be fully fit for purpose. To begin this process, **we have come to five conclusions**:

1. The current PGF strategy does not focus enough on capturing knowledge spillovers;
2. There is a concerning lack of collaboration and co-ordination across the current regional development strategy;
3. A sector-based investment strategy that already picks certain sectors over others introduces undue risk;
4. The "growth everywhere" focus limits the transitional opportunities associated with using both growth and decline initiatives to enhance overall wellbeing in the regions; and
5. Evaluation and ongoing monitoring of significant funding initiatives are crucial to success but critically lacking.

From these conclusions **we offer five recommendations** that aim to ensure the PGF delivers long-term positive change for the regions:

1. Add an explicit objective to the PGF that aims to foster knowledge chains and spillovers across the regions;
2. Support all regions (including the major cities) to refresh or create RAPs, including opportunities to collaborate and co-ordinate with other regions;
3. Remove the priority given to sector tier funding;
4. Refocus the PGF on regions' potential, rather than their growth prospects, thus enabling transitional funding options for communities facing transition and/or decline; and
5. Require any PGF initiative over $10 million to have an evaluation and monitoring strategy developed and funded before approval can be given.

Making the changes will **require the PGF to slow down** from its current implementation trajectory and will mean pushing back against political urgencies. Ultimately, however, making these changes and ensuring that the PGF is a risk worth taking—rather than just a risk we are taking—might well **unlock the potential of the regions**, improve their resilience, and help people to overcome place-based constraints. It would be a shame if the significant opportunity cost of the PGF was compounded by the PGF being an opportunity lost for our regions.

1. Jami-Lee Ross and Paul Goldsmith, 'Gisborne Road Plans Reveal Murky Money-Go-Round', *Scoop*, 7 September 2018, sec. Parliament, http://www.scoop.co.nz/stories/PA1809/S00101/gisborne-road-plans-reveal-murky-money-go-round.htm.
2. Ross and Goldsmith.
3. Fabrizio Barca, *Agenda for a Reformed Cohesion Policy* (European Communities, 2009), 11.