

# The impact of the Provincial Growth Fund on the Gisborne economy

Final report, April 2022



*Making sense of the numbers*

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## Executive summary

This report has been prepared by Business and Economic Research Limited (BERL) for Te Kaunihera o Te Tairāwhiti/Gisborne District Council (GDC). It provides an assessment of the contribution the Provincial Growth Fund (PGF) has made, and will continue to make, to the economy of the Gisborne district.

### **The Gisborne economy was lagging behind for the past ten years, but has picked up in 2019 and outperformed the New Zealand economy in 2020**

Based on a range of indicators, the Gisborne economy performed relatively poorly for much of the past decade. Traditionally, the region has had relatively high unemployment, slow population growth, and limited opportunities for youth. This started to change towards 2019, when the performance of key indicators began to broadly match the nation's performance during the year, and bettered it in 2020. The small bursts of growth between 2016 and 2019 were largely a result of the inward migration of people from elsewhere in New Zealand who were seeking a better lifestyle; and partly because the disadvantages of the district's geographical remoteness were being overcome by improved internet and air transport services. There were also spillover effects from the strong performance of the national economy. However, this was not enough to drive significant investment and growth in the region, where economic opportunities were still limited.

The introduction of the PGF provided a strong, much needed boost to employment and growth in some of the traditional sectors, such as forestry and farming. However, equally importantly, the funding also encouraged the establishment, and growth, of organisations in non-traditional industries such as medical research and engineering technologies. The funding allowed various businesses and organisations in the region to collectively boost innovation, employment, economic opportunities, and the resilience of the region.

### **The PGF has supported projects that generated additional value for the economy and community**

The assessment of the contribution of the PGF was designed to identify the extent to which the fund has supported projects that were 'additional'; that is to say projects that would not have happened at all, or would have happened later, or on a smaller scale, in the absence of the funding.

BERL undertook a survey of PGF grant or loan recipients, covering 91 (or 67 percent) of all PGF-supported projects in the district up to mid-2021. The survey found that every supported project was additional to some extent. Most projects would not have gone ahead at all without PGF support, and a few others would probably have gone ahead without the support, but at a later date and/or on a smaller scale.

### **82 percent (\$243 million) of the PGF funding was additional**

From the survey, it was possible to estimate that 82 percent of the PGF funding was additional. The total amount of PGF funds approved by mid-2021 was \$299 million, which implies that the additional portion was \$243 million. In other words, the PGF supported \$243 million worth of investments that would not have gone ahead, in the foreseeable future, in its absence. This amount was used as an input into BERL's economic impact model for Gisborne, which provides estimates for the increase the amount of activity in the economy when all the supported projects are completed.

### **The funding will generate 1,500 FTE jobs in the local economy: equivalent to 6.6 percent of current total employment**

Measured in terms of employment, our modelling showed that, allowing for multiplier effects, the increase will be just over 1,500 Full Time Equivalent (FTE) jobs (6.6 percent of all FTEs in the region, as of February 2021), and the increase in GDP will be \$176 million (7.6 percent of Gisborne's GDP, as of March 2020). This is a significant outcome for a region like Gisborne, which has had historically experienced slow growth and limited opportunities. It also highlights how PGF investment in a large variety of sectors and industries has enabled the whole region to pull itself out of the low-growth and low-investment cycle. These employment and GDP increases will be spread over the period during which the grants and loans are spent. But, there will be significant long-term effects.

### **The PGF will enhance the competitiveness of the Gisborne economy on an ongoing basis**

The fund was designed to support projects that prioritised the skills and capability development of groups that have traditionally been underserved, particularly Māori, to ultimately, increase social and economic participation, enable equal outcomes, and build resilience. It is critically important to note that the projects supported by the funding will have enduring effects, particularly through the increased capability of, and training provided to, individuals and groups with historically unequal outcomes. The projects have also supported local business' innovation activities, production capacity, and ability to compete domestically and internationally. Many of them will also continue to assist skills development in the workforce. Overall, therefore, the PGF will enhance the competitiveness of the Gisborne economy on an ongoing basis.

### **The funding has made a transformative contribution to the region, particularly for Māori**

The fund has helped diversify the economy of the region, which has traditionally been heavily reliant on the primary sector. The PGF has attracted, and helped retain, a number of high-value organisations to the region, including a medical research centre and two leading wood product manufacturers, that specialise in the research, development, and the manufacture of innovative and high-value wood products. The fund also supported a large number of organisations proposing to use innovative, novel technologies or methods to increase productivity, which would have been considered too risky by commercial lenders.

Gisborne has traditionally had a considerable amount of untapped potential in the workforce, particularly within the Māori population, for whom tailored support has been limited. The need for formal programmes and support for this group was paramount, considering the fact that Gisborne has the highest share of Māori residents in the entire country. Majority of the projects supported by the PGF contributed to the skills and capability development of Māori, particularly those who have been marginally attached to the workforce. Already, a number of examples have emerged of how the projects had a profound impact on the ability, especially of young Māori, not only to participate in the workforce, but also to develop their skills and take on important roles in businesses and other organisations. In most cases, these programmes were significant interventions in the lives of youth (and adults) who had no prior formal work training and often faced serious disruptive challenges in their personal lives. What made these initiatives even more impactful was the emphasis on spiritual and mental support, coupled with skills development. Majority of the organisations providing these programmes noted that without the support from the PGF, they would not have had the resources or capability to provide the training and targeted care they did.

### **The resilience of the region's infrastructure and natural environment has been enhanced**

The PGF provided much needed investment in the local roading network, which is the lifeline for many rural communities and forestry businesses. Prior to this investment, the roading network in the region was incredibly fragile, with many heavily used roads not having been upgraded since the start of the century. The upgrades supported by PGF investments have improved the resilience of local roads, and provided certainty to businesses and rural communities, while also improving connectivity. Moreover, PGF funding has allowed Council's resources to be focussed on rural road networks, particularly those that experience heavy wear and tear from frequent use by trucks. This has also provided reliability for businesses and individuals using these roads. Moreover, contracts for infrastructure projects were awarded based on, not just price, but also the training and development initiatives provided to local staff and contractors.

The fund also contributed to projects aimed at restoring and protecting te taiao/the environment. Unmanaged waste from forestry and logging activities blocked many of the region's waterways, particularly in remote areas. These waterways often support entire communities, providing food, transport, and water. Projects supporting the restoration of these resources ensured not just the protection of the native flora and fauna, but also allowed communities to reconnect with this valuable taonga. Furthermore, employing and training rangatahi who were previously not in employment, education, or training (NEET) has provided a pool of trained workers, contributing to long-term environmental and economic sustainability.

### **The Council has managed to complete virtually all of its capital programme, it was not displaced by PGF**

A subsidiary aim of the research was to consider the role of the Council and its capital spending programme and whether PGF projects have displaced any projects, since majority of them have been construction-based. We conclude that the Council has been an effective partner for Kānoa in a number of ways. The Council took an innovative approach to ensure a steady supply of contractors. It placed a huge focus on upskilling the local construction workforce, by providing them with the opportunity to work with large, national contractors. This helped local firms build the experience and confidence needed to tender for projects independently. According to Council, this has significantly improved the quality of bids and provided a steady supply of contractors in the industry, which is severely constrained. The Council has also maintained a clear line of communication with contractors on upcoming opportunities.

As a result of this, the Council has managed to complete nearly all of its capital programme, and has even managed to reduce its contractor costs. The Council's success in fulfilling its capital programme contrasts with the experience of many district councils elsewhere in New Zealand, which have frequently been unable to spend their capital budgets by a significant margin, and have sometimes failed to attract any tenders for projects notified.

### **Looking deeper than the numbers**

The report also briefly reviews the role of the PGF in the redevelopment of the Gisborne inner harbour. The inner harbour area, which used to be an industrial port, has been revitalised, and it is now likely to attract further investment to make it a visitor attraction and encourage more retail and commercial activity. The area has also been beautified and made safer, providing a leisure space for residents and visitors. Finally, PGF contribution to the project allowed the ageing three waters infrastructure in the area to be upgraded.

The report presents a set of five case studies on organisations that received PGF loans or grants. These case studies illustrate how PGF funding was used by individual organisations to contribute to the social and economic outcomes in the Gisborne region. The case studies present a peek at the stories behind the numbers.

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# 1 Introduction

## 1.1 Context

Gisborne district (Tairāwhiti) is located on the north-eastern tip of New Zealand. Gisborne City, the biggest population centre, is the first city in the world to see the sunrise. As of the 2021 population projections, the district had a population of 50,243 people, 72.7 percent of whom lived in Gisborne City. Other population centres include Ruatōria, Tolaga Bay, and Te Karaka. The region has the youngest population in the country with 39 percent of the people being under 25 years old. Gisborne also has the largest share of people of Māori ethnicity of any region in the country, nearly 53 percent of the population identifies as Māori. The region has four regional iwi, 70 operational marae, and 16 percent of the population speaks Te Reo. The high proportion of youth and Māori in the region present a large source of untapped potential for the region.

Gisborne has historically grappled with significant social and economic challenges. The median income is 19.5 percent lower than the national median. In March 2021, unemployment in the region was at 5.1 percent, compared to 4.6 percent nationally. The region has higher than average levels of deprivation. The population weighted deprivation index, as of Census 2018, was 7.5, the highest in the country.

In the past, the economy of the region has also lagged behind the national economy, with GDP growth being just 1.9 percent per annum (p.a.) in the 10 years between 2010 and 2020, compared to a GDP growth rate of 2.7 percent per annum nationally. However, there are signs that economic growth in the region has gained momentum. Between 2019 and 2020, GDP grew by two percent in the region compared to 1.5 percent at a national level.

## 1.2 Purpose of the report

The main aim of this research is to understand the role of the Provincial Growth Fund (PGF), which is administered by Kānoa – Regional Economic Development Unit (Kānoa – RDU) within the Ministry of Business Innovation and Employment (MBIE), in helping grow Gisborne's economy, particularly in the past couple of years. We also set out to understand the wider wellbeing benefits of the investments on businesses, households, and the community. The rest of this section explains the methodology used in more detail.

## 1.3 Methodology

The project was carried out in three phases, described in more detail below.

### Phase one

In the first phase of the project, we conducted a macro-economic assessment of the Gisborne economy. This stage centred on conducting research to identify the various possible factors, other than PGF investment, that could explain the region's recent economic improvement. The 10 biggest industries in 2020 (in terms of full time employment) were identified. We then tracked how employment within each of these industries had changed over the past decade, compared to national employment in the same industries. To provide deeper context to the situation, and to understand the drivers behind the data, we also conducted a series of key informant interviews.

### Phase two

In the second phase, we conducted a series of interviews with project managers or representatives of organisations that have received, or been approved, either a grant or loan as part of PGF funding to the Gisborne region. These interviews allowed us to understand the economic and wellbeing benefits of the PGF funding on the organisations as well as the wider community. The interviews also allowed us to estimate the additionality of each project to calculate the economic benefits in phase three.

The interviews were designed to provide us with a full picture of the wider benefits of the funding on the region, i.e., how the investments enhanced the capability and capacity of the Gisborne economy, by investing heavily in the youth, particularly Māori youth, in the region. The interviews also yielded information on the social, cultural, and environmental benefits of the funding.

### Phase three

In the final phase, the aim was to understand the additional value of the PGF funding to the Gisborne economy. To understand the economic effects of the spending, we conducted an economic impact assessment. The first step was to calculate the 'additionality' of each investment/project, where additionality is a measure of the extent to which a project would have gone ahead unchanged without the PGF support. In brief, for our calculations, we considered whether, in the absence of the PGF funding, each project would have gone ahead unchanged, or at a later date and/or at a smaller scale. This information was obtained from the interviews in phase three. The funding from the PGF was distributed to organisations as either loans or grants. We categorised the interviews along these two types of funding and scaled up the average estimated additionality in each group to the entire fund. We conducted the assessments in two parts:

- An economic and wellbeing assessment of PGF and Gisborne District Council (GDC) projects on the Gisborne district as a whole
- Economic and wellbeing assessments of projects focusing on specific sub-regions.

In order to examine the sub-regional impacts, we created a custom grouping using Statistical Area two (SA2) boundaries as defined by Statistics New Zealand. A map of the custom sub-regions can be found in Appendix A.

As a final step, we created an Excel-based economic impact calculator to estimate the direct, indirect, and induced effects of the investments to businesses and households in Gisborne. This model used Gisborne region's multipliers, created using Statistics New Zealand's input-output tables. Multipliers allow us to identify the direct, indirect and induced effects in terms of expenditure, gross domestic product (GDP), and full-time equivalent (FTE) employment.

From the interviews, we learned that the PGF was more than just a temporary injection of cash into the economy. Therefore, we also assessed, in qualitative terms, the long-term impact the funding will likely have in the region.

## 2 Background

### 2.1 The Gisborne economy

As at March 2020, the GDP per capita of the Gisborne region was lower than the national average at \$45,531, compared to \$63,556 for New Zealand as a whole. Historically, the region has had higher than average levels of deprivation. The population weighted deprivation index, as of Census 2018, was 7.5, the highest of any region in the country.

Gisborne district has a small economy, which contributed 0.7 percent to New Zealand’s total GDP in the year to March 2020. Some of the biggest industries in Gisborne (in terms of full time equivalent (FTE) employment) are livestock farming, food product manufacturing, construction services, and agricultural support services. The forestry, fishing, and mining industries are also significant contributors to Gisborne’s GDP. Table 2.1 shows the top 10 industries that employed the largest number of people (FTE employment) in 2020. Employment in the region was heavily concentrated in the primary sector and related services. Some of industries that employed a large number of people were the livestock farming, food product manufacturing, and agricultural support services industries.

Table 2.1 Top industries in Gisborne by FTEs, 2020

Industry	2020 FTEs
Preschool and School Education	1,577
Livestock farming	1,526
Agriculture support services	1,408
Food product manufacturing	1,250
Construction Services	1,108
Professional, Scientific and Technical Services	1,040
Hospitals	1,034
Horticulture	915
Food and Beverage Services	788
Other Store-Based Retailing	784

Source: Statistics New Zealand, BERL analysis

Over the past decade or so, Gisborne’s economy experienced slow annual GDP and employment growth, relative to New Zealand (Table 2.2). Probably linked to slow economic growth, the district’s population growth between 2010 and 2020 was just 0.8 percent per annum, which was half the national growth rate.

However, in 2019, the Gisborne economy performed better than the national economy in several key respects. While the economy had experienced small bursts of growth over the previous four to five years, the 2019-2020 year shows how resilient the region was, particularly in the face of the economic effects of the COVID-19 pandemic. GDP growth in Gisborne between 2019 and 2020 outpaced national GDP growth, and employment growth was 1.1 percentage points higher than at the national level (Table 2.3). This was during a time when most of New Zealand (and the world) was grappling with the effects of the economic downturn that followed the COVID-19 outbreak. GDP growth in the region stayed steady during this period and retail activity, employment growth, construction activity, and house price growth also remained strong.<sup>1</sup> Part of the reason for this could be the heavy reliance of the Gisborne economy on the primary sector, which was not as heavily impacted by COVID-19 as other industries, with primary sector exports performing well

<sup>1</sup> <https://www.asb.co.nz/content/dam/asb/documents/reports/asb-regional-economic-scoreboard/scoreboard-q4-2020.pdf>

during the pandemic. Forestry was an exception, as exports dropped significantly in the months following global lockdowns.

However, it seems unlikely that export performance alone can explain the sharp change in the fortunes of the Gisborne economy. Other factors are likely to have been at play.

**Table 2.2 Annual growth of key performance indicators, 2010 – 2020**

Key Performance Indicators	%pa for 2010 - 2020	
	Gisborne	New Zealand
Resident population growth	0.8	1.6
GDP growth	1.9	2.7
GDP per capita growth	1.1	1.1
Employment growth	1.2	2.3
Labour productivity growth	0.7	0.4
Business units growth	0.2	1.5
Business size growth	0.8	2

Source: Statistics New Zealand, BERL analysis

**Table 2.3 Annual growth of key performance indicators, 2019 – 2020**

Key Performance Indicators	%pa for 2020 year	
	Gisborne	New Zealand
Resident population growth	1.2	2.1
GDP growth	2	1.5
GDP per capita growth	0.8	-0.6
Employment growth	2.1	1
Labour productivity growth	0	0.4
Business units growth	2.6	1.9
Business size growth	-0.5	-0.9

Source: Statistics New Zealand, BERL analysis

## 2.2 Evidence of a turning point

In this section, we show how some of the top industries in Gisborne (in terms of FTEs) performed over the ten years between 2010 and 2020. We present this data in the context of the industry's performance at the national level. The purpose of this exercise is to illustrate the fact that the Gisborne economy has been heating up over the last few years and employment is growing at a faster pace in some industries than at the national level.

Between 2019 and 2020, the industries that saw the largest increases in employment included food product manufacturing, fruit and vegetable processing, and horticulture (Table 2.4). Interestingly, employment in industries such as building construction, meat and meat product manufacturing, and livestock farming had been falling (on average) between 2010 and 2019. However, these industries saw strong employment growth in the 2020 year.

Table 2.4 Fastest growing industries in Gisborne, 2019-2020, by FTE's

Industry	FTEs			Absolute change (2019-20)	% change (2010-19)	% change 2019-20
	2010	2019	2020			
Food product manufacturing	899	1047	1250	203	16.6	19.3
Fruit and vegetable processing	329	481	594	113	45.9	23.6
Horticulture	1215	810	915	105	-33.3	13.0
Livestock farming	1660	1426	1526	100	-14.1	7.0
Medical and Other Health Care Services	583	585	670	85	0.4	14.5
Food and Beverage Services	694	718	788	70	3.5	9.7
Building Construction	422	396	447	51	-6.3	12.9
Meat and meat product manufacturing	329	299	350	51	-9.2	17.0
Other Store-Based Retailing	796	736	784	49	-7.5	6.6
Food Retailing	518	557	599	42	7.6	7.5

Source: Statistics New Zealand, BERL analysis

Figure 2.1 shows a comparison of annual growth in total employment in Gisborne and New Zealand. Until 2019, national employment grew at a faster rate every year than employment growth in Gisborne. In 2020, employment growth in New Zealand slowed down to just one percent from 2.9 percent in the year before. Although employment growth did slow down in the 2020 year in Gisborne as well, it wasn't as large as it was at the national level. In the 2020 year, the number of people employed in the region grew by 2.1 percent. Since 2012, employment growth in Gisborne has been steadily increasing, but, was lower than the national growth.

Figure 2.1 Total employment growth, annual



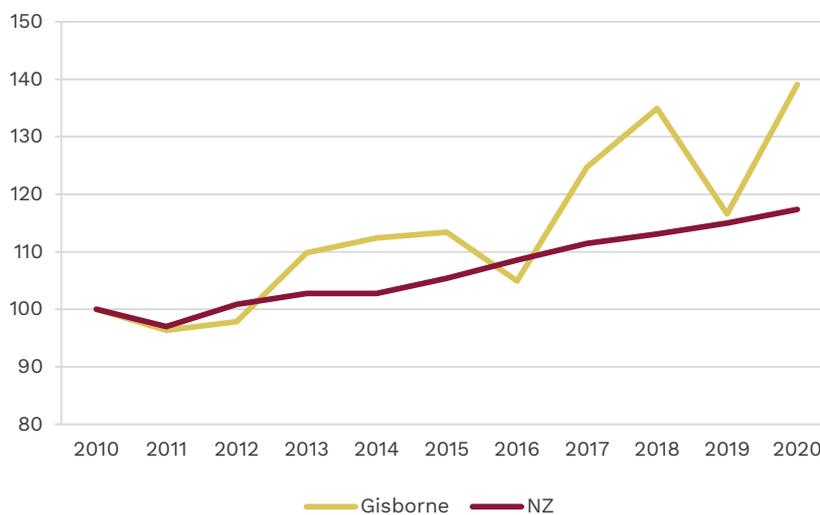
We will now look at each of the top industries shown in Table 2.4 to understand how employment in these industries has changed over the past decade. We will also compare the trends in employment in the same industries at the national level. This will also allow us to see when the growth in employment began.

To compare employment in New Zealand and Gisborne, we show employment as an index. The amount of employment in each industry in both the locations in 2010 has been set to an index level

of 100. The movements over the decade show employment has changed relative to its level in 2010.

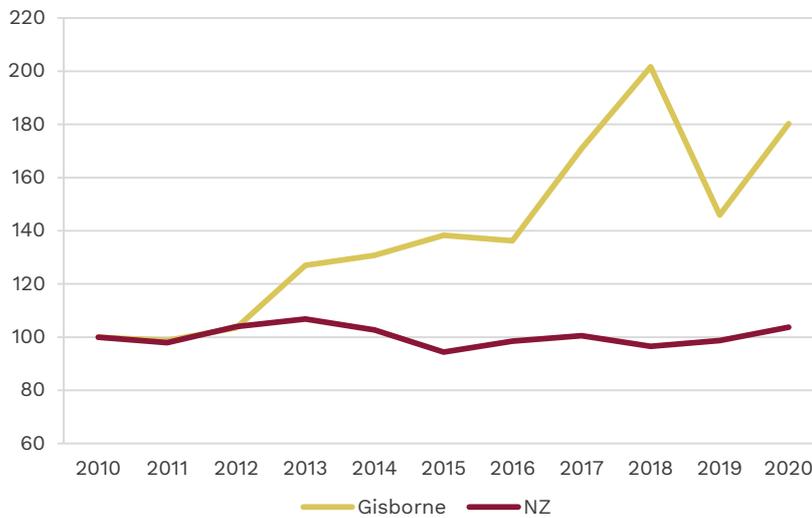
The food product manufacturing industry was one of the largest employers in the Gisborne region, employing 1,250 FTE's in 2020. Companies in this industry transform livestock and agricultural/horticultural products into products for intermediate or final consumption. From Figure 2.2, we can see that employment levels in this industry in Gisborne have been relatively volatile compared to New Zealand, with periods of shrinking employment and sudden growth. Employment in food product manufacturing picked up speed in 2017 and after a fall in 2019, has recovered. Despite the volatility, between 2010 and 2020, employment in this industry grew by 39 percent, compared to 17 percent at the national level. Between 2019 and 2020, employment increased by 19.3 percent in Gisborne.

Figure 2.2 Index of employment in the food product manufacturing industry, 2010=100



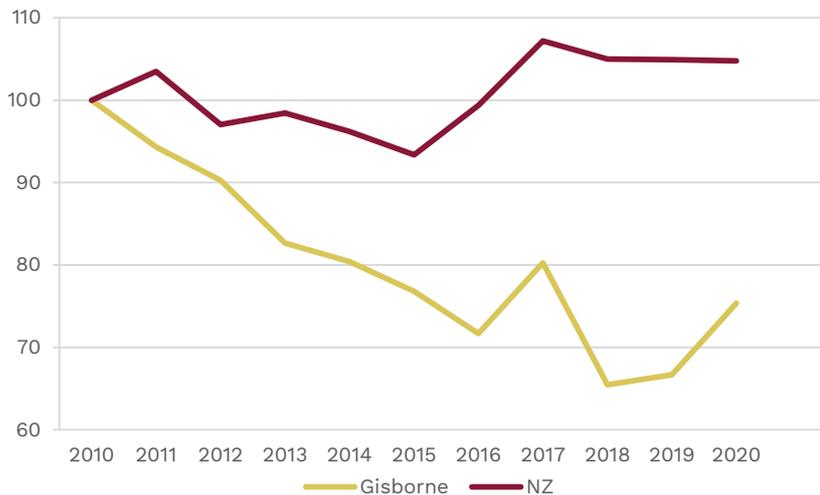
From Figure 2.3, we can see that until 2012, employment trends in the fruit and vegetable processing industry in Gisborne and New Zealand overall were fairly similar. After this period, employment in this industry in Gisborne increased by over 50 percent overall, while in New Zealand, the number stayed broadly stable. The businesses in this industry are largely involved in activities such as canning, preserving, and freezing vegetable products, along with manufacturing other vegetable products such as salads, soups, and sauces. As was the case in the food product manufacturing industry (Figure 2.2), employment in the fruit and vegetable processing industry saw a sudden boost in 2017, and again in 2020, after a drop in 2019. Over the entire 10 year period, employment in the fruit and vegetable processing industry grew by 80 percent. Comparatively, employment in this industry at the national level grew by four percent during this period.

Figure 2.3 Index of employment in the fruit and vegetable processing industry, 2010=100



Despite the horticulture industry being one of the largest employers in the Gisborne region, until about 2017, employment was declining compared to 2010 levels (Figure 2.4). This was also true at the national level until 2016. Post this period, employment in the horticulture industry saw a growth spurt in New Zealand. There was a small boost to employment in this industry in Gisborne in 2016 and again in 2020, after a large drop in the 2018 year. Between 2010 and 2020, employment in horticulture fell by 24.7 percent in Gisborne, this is surprising since horticulture is often thought of as one of the most important sectors in the region.

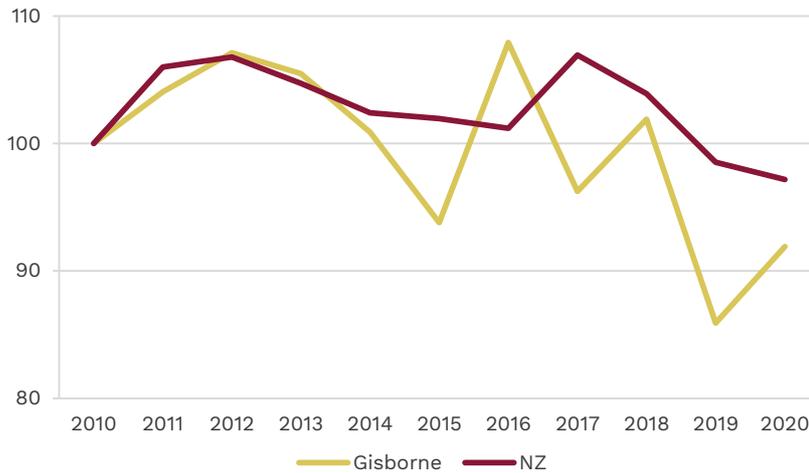
Figure 2.4 Index of employment in the horticulture industry, 2010=100



In 2020, the livestock farming industry was the second largest employer in the Gisborne region, employing over 1,500 people (Table 2.1). This is one of the largest industries at a national level as well, using 45 percent of New Zealand’s total agricultural land and contributing significantly to exports. Since 2015, employment in this industry has been volatile with sudden increases and decreases from one year to the next (Figure 2.5). However, on average, employment in the

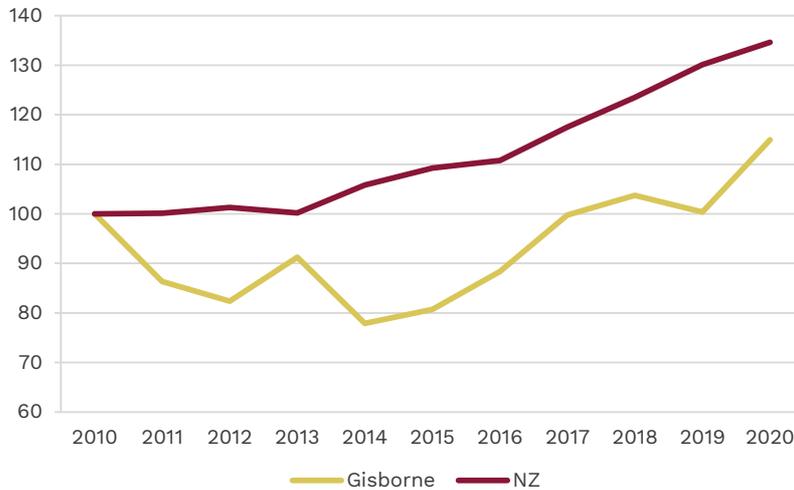
livestock farming industry in Gisborne has been lower than the level in 2010 and lower than the level in New Zealand, since 2014. There is evidence of an increase in the 2020 year, but, on the basis of past experience, this could be temporary.

Figure 2.5 Index of employment in livestock farming, 2010=100



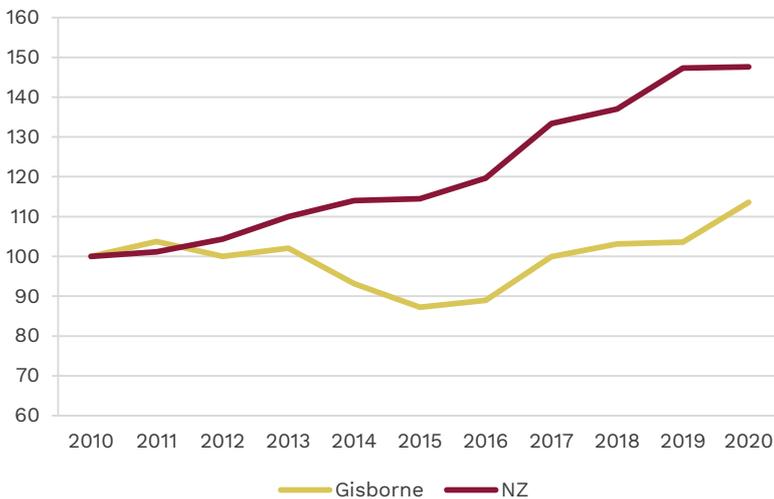
The medical and other care services industry includes services such as general practitioners, specialised medical services, and pathology and diagnostic imaging services. While the number of FTEs in this industry is increasing relative to 2010 numbers in New Zealand (Figure 2.6), the trend was initially declining in the Gisborne region. However, beginning in 2015 to 2016, the number of people in this industry has been steadily increasing, recovering to 2010 levels during the 2020 year. Employment in this industry is closely linked to the population growth rate and the age of the population. Since the average age of Gisborne’s population is less than the national average, it is not surprising that employment in this industry has been lagging compared to New Zealand. However, the recent increases could be linked to the sudden growth in the number of people moving to Gisborne.

Figure 2.6 Index of employment in the medical and other health care services industry, 2010=100



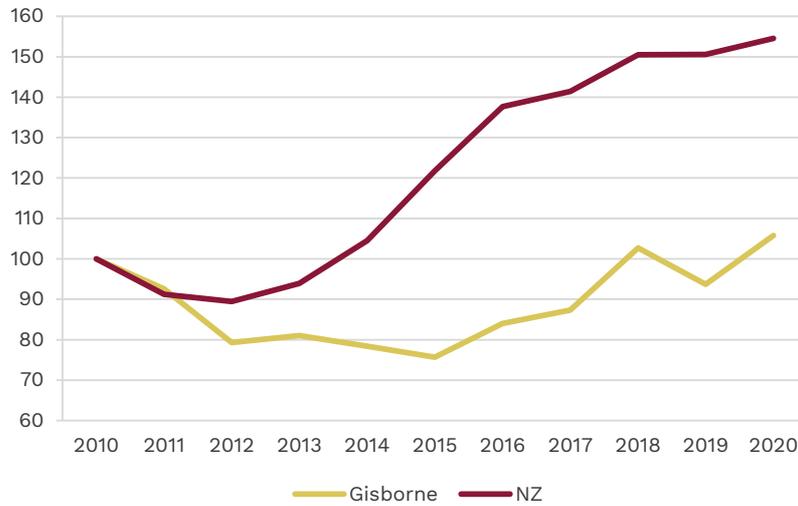
The food and beverage services industry includes cafes, restaurants, bars, and clubs. In New Zealand, this industry has experienced a steady growth in employment over the past decade (Figure 2.7). After a dip in employment between 2013 and 2017, there has been some growth in this industry, notably, in the 2020 year. This was during a time when employment at the national level had stagnated.

Figure 2.7 Index of employment in the food and beverage services industry, 2010=100



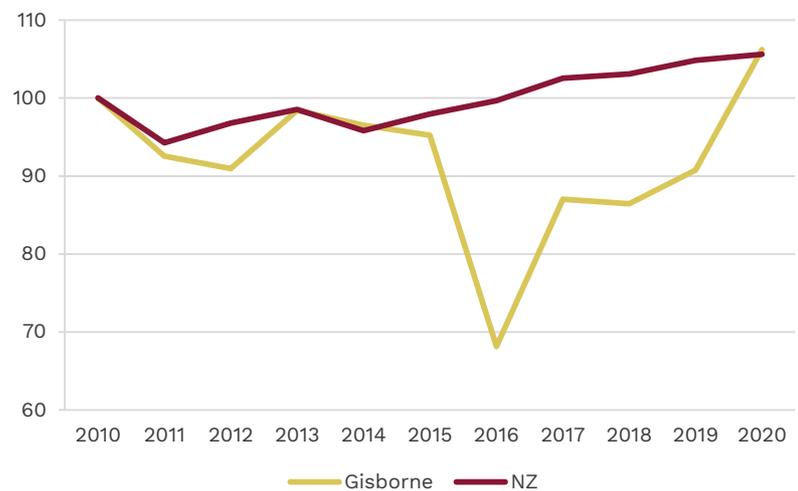
From Figure 2.8 we can observe that employment in the building and construction industry fell significantly between 2010 and 2015, while the industry started to boom at national level. There was some growth in this industry in the Gisborne region post 2016, but it was not fast enough to surpass 2010 employment levels. However, there was a boost to building and construction employment in the 2020 year. The PGF investments into roads may have contributed to this.

Figure 2.8 Index of employment in the building construction industry, 2010=100



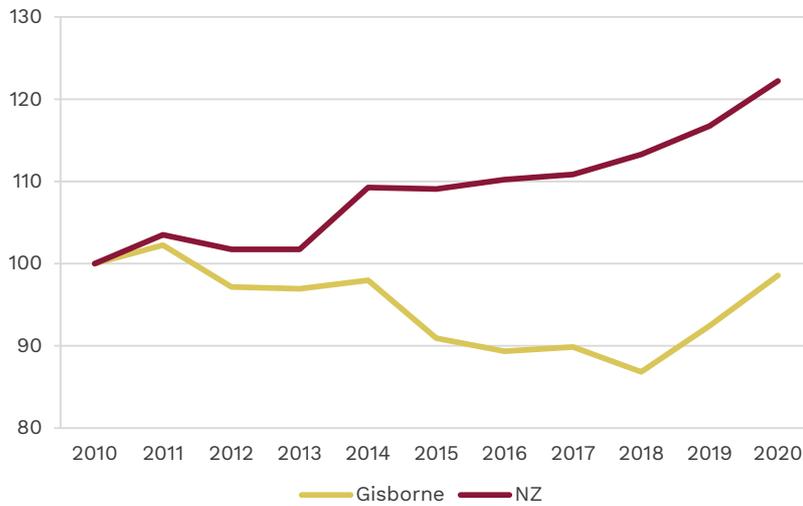
Employment in the meat and meat product manufacturing industry has not seen any significant change over the last decade at a national level (Figure 2.9). In Gisborne, there was a sudden and sharp decline in the number of people working in this industry in the 2016 year, possibly a result of one or more employers in this industry closing their doors during this period. Since then, employment has recovered and has surpassed 2010 levels., with particularly strong growth since 2018.

Figure 2.9 Index of employment in the meat and meat product manufacturing industry, 2010=100



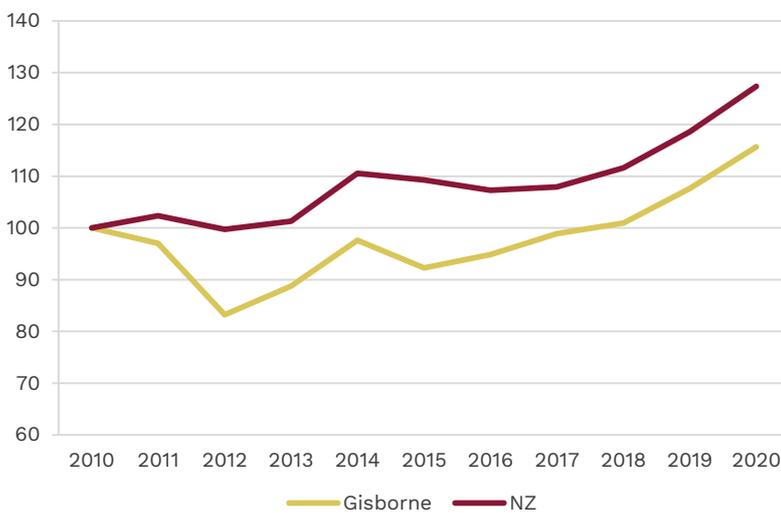
In 2020, 784 people were employed in the other store-based retailing industry in Gisborne (Figure 2.10). This industry includes non-food-based retailing such as furniture, clothing, and electrical goods. Between 2010 and 2018, employment in this industry had been declining steadily in the region, while it was increasing nationally. Starting in 2018, the number of people working in other store-based retailing has increased sharply but is still below 2010 levels.

Figure 2.10 Index of employment in other store-based retailing, 2010=100



The food retailing industry includes employees of supermarkets, grocery stores, and specialised food retailers. The employment trends for this industry in Gisborne and New Zealand have been surprisingly similar over the past decade (Figure 2.11), apart from between 2010 and 2012, when employment in the industry in Gisborne was in decline. There has been a steady upwards trend since 2015 in both the Gisborne and New Zealand.

Figure 2.11 Index of employment in the food retailing industry, 2010=100



The analysis from the ten industries above showed that in most of these industries, employment was falling between 2010 and 2015/2016. However, in 2019 overall employment growth in Gisborne was as fast as it was nationally, and in 2020 it was faster. This reversal might have been in part due to the PGF, which may have provided additional support and momentum to an economy that was already on the mend. It should be noted that the growth in FTEs during this period was not a direct result of PGF investment in every industry. However, industries that did not directly receive funding are likely to have benefited indirectly as a result of the PGF-induced stimulus rippling through the economy.

We detail how the PGF supported local employment and the development of long-term skills and capabilities in the Gisborne region in section 3 and onwards.

## 2.3 Insights from informed observers

To gain the perspective of industry insiders and informed observers in the Gisborne region, we conducted a series of key informant interviews. These included a local real estate agent, a valuation specialist, a recruitment consultant, and local business owners. These interviews allowed us to understand the story behind the trends we observed in the data presented in the preceding sections.

Collectively, the key informants were of the opinion that the economy began to turn a corner about four to five years ago. This is in line with the picture painted by the data in the previous section where we saw the indexes of employment in the main industries often falling until about 2017 or 2018. However, this growth was uneven and not enough to boost employment and GDP significantly. Post this, growth in most industries picked up and employment growth has been substantial since 2018 or 2019.

One respondent pointed out that, while other regions in New Zealand had experienced an economic boom already, Gisborne was just beginning to experience a change in its fortunes. This indicates that there is a significant amount of latent potential, yet to be realised within the region. The increasing number of economic opportunities, coupled with a better quality of life,<sup>2</sup> has meant that Gisborne has seen a sudden inflow of people from abroad, as well as from other parts of New Zealand.

Many of the key informants noted that there had been an increase in the demand for people in highly-skilled roles as a result of increased investments in the wood processing industry, the construction sector, and even medical research. Moreover, wages were on the rise as more high-skilled positions were created and as more employers began to pay a living wage. As a consequence of this, there was a sudden influx of people, largely from other big New Zealand cities, who were in their forties and fifties. This group also included people who were looking for a more relaxed and slow-paced lifestyle that Gisborne could offer.

A number of factors have contributed in a large way towards this trend. The first one is the increased frequency of flights to Gisborne from larger cities such as Auckland and Wellington, which has allowed people to travel easily for work, if needed. The second factor that has encouraged people to relocate to Gisborne has been the popularisation of remote work. An increasingly large number of people are now able to work from home some, or even all, days a week. This has meant that a large number of young people, who may originally have been from the region, are now returning permanently. Another factor driving migration to the region has been the lower cost of living, compared to other major cities in the country. House prices, rents and the price of health care are comparatively lower in Gisborne. Moreover, the recent improvement in public amenities, such as the redevelopment of the inner harbour, has made the region more attractive than in the past.

One observer noted that the increased spending by the government (both central and local) on roads and other infrastructure has been beneficial for the economy in terms of attracting talent and building up the skills of the local population, particularly in providing training and qualifications, along with tailored support, to Māori youth. The investment in local businesses in industries such

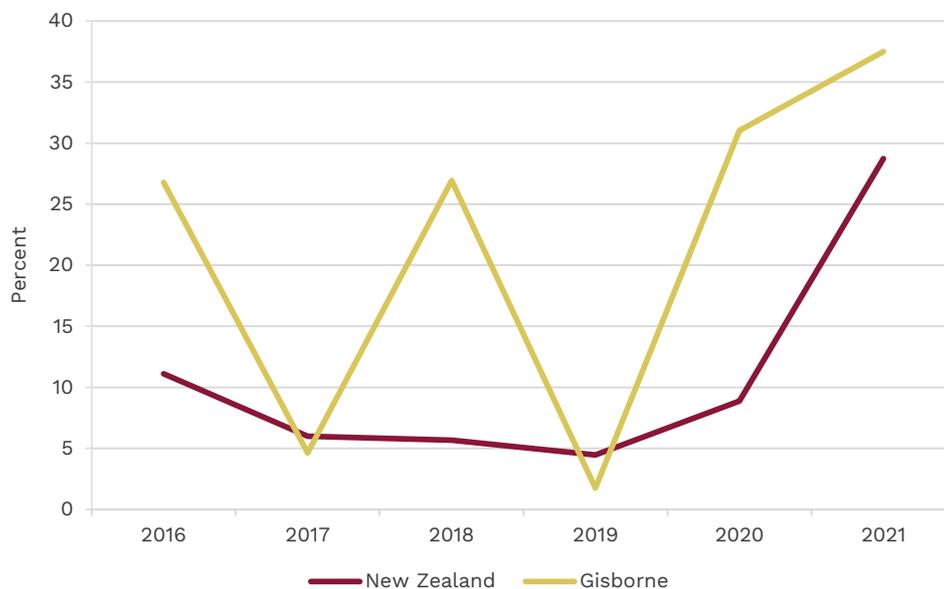
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<sup>2</sup> quality of life here refers to differences in lifestyle and the cost of living, not health outcomes.

as horticulture, forestry, and wood processing has improved business confidence and productivity, which, in turn, has boosted salaries and wages in the region. The Gisborne region, just as New Zealand overall, has been facing a shortage of labour, which has intensified over the past year.

A consequence of the increase in the relative attractiveness of the Gisborne region has been a sharp increase in house prices. Figure 2.12 shows how house prices have increased in Gisborne and New Zealand over the past five years. Between 2016 and 2020, house prices were growing by less than 10 percent per year, nationally. In Gisborne, median house prices were growing at nearly 20 percent annually during the same time period. In the year to June 2021, the median house price in Gisborne went up by a staggering 37.5 percent. Since 2015 median house prices in the region have more than tripled, increasing from \$196,000 in June 2015 to \$605,000 in June 2021, indicating a growing demand for housing in the region over this period.

Figure 2.12 Median house price growth, June years



Source: REINZ

### 3 Measurable economic impacts of PGF investments

The PGF has the potential to impact the Gisborne economy in two ways. First, the spending of PGF grants and loans will stimulate the economy fiscally. The spending will be associated with increases in employment and GDP, and these increases will be multiplied as the effects ripple throughout the economy. This type of impact can be estimated relatively easily, and this is what we do in this section.

Secondly, the projects on which the grants and loans are spent will tend to enhance the growth potential of the economy, by increasing productive capacity, innovation, and workforce capabilities, amongst other things. These impacts cannot be measured, as such, although they can be highlighted, described and gauged. We do this in section 4.

In measuring the economic impacts of the PGF, it is important to exclude any impacts that would have occurred anyway, in the absence of the fund. For example, it would not be right to measure the impacts of a project supported by the PGF that would have gone ahead regardless. These projects would be regarded as non-additional.

However, it is also important to acknowledge that, while some projects might have gone ahead regardless, they could have gone ahead later and/or on a smaller scale without PGF support. These projects would be regarded as partly-additional, and their additional component would be factored in when estimating their economic impact.

Estimation of the additionality of the PGF funding was based on interviews with project managers, owners, and other individuals associated with each project who had extensive knowledge on how the spending was utilised within their organisation. Put simply, we asked the interviewees if their project would have gone ahead anyway without PGF support and, if so, whether the support brought forward their project in time and/or increased its scale. Once we had an estimate of the additionality of projects, grouped by loans and grants, we applied it to the entire fund in the region (\$299 million). The second part of this stage was to conduct an economic impact analysis.

#### 3.1 The Provincial Growth Fund in Gisborne

The Provincial Growth Fund (PGF) is administered by Kānoa – Regional Economic Development and Investment Unit (previously known as the Provincial Development Unit), which is a part of the Ministry of Business, Innovation and Employment (MBIE). The Government earmarked \$3 billion to be distributed over a period of three years to invest in the development of those regions that struggle with issues such as high unemployment, low productivity, and slow economic growth. The goal of this funding has been to help build a sustainable, inclusive, and productive regional economy. There was a large focus on building the capabilities and skills of the people in these regional economies to ensure sustainable growth after the immediate effects of the funding begin to wear off.

The Gisborne region was identified as a priority region for investment and support under the PGF. As of August 2021, \$299 million of PGF funding had been approved as a combination of loans and grants in the Gisborne region. Of the \$299 million approved for the Gisborne region, \$121 million had been paid out as of August 2021.

Table 3.1 shows the amount of grant/loan funding approved per reporting sector. The largest share went towards the building and maintenance of new and existing roads. These were either local roads, state highways, or connecting roads. These projects were managed by either the Council or

Waka Kotahi NZ Transport Agency (NZTA). The second biggest share of funding went towards projects that promoted the development of skills and training for the local population. These included programmes taken by individual organisations to upskill existing workers or provide training and skills development to workers who may have previously been marginally attached to the workforce. A significant amount of investment also went towards progressing the wood processing industry in Gisborne. PGF funding in this area enabled the recipients to develop innovative products and technologies, train people in this area, and form networks with overseas buyers. There was also a significant amount of investment in the primary sector.

Table 3.1 PGF funding by reporting sector

Reporting sector	Approved (\$ millions)
Road	115.06
Training Skills / Employment	51.43
Wood Processing	42.07
Agriculture / Horticulture	24.45
Forestry	24.06
Regional Projects	16.1
Water Storage / Management	7.04
Other	6
Tourism	5.74
Airports	5.7
ICT & Digital Connectivity	2.35
Waste / Recycling	0.03

Source: Kānoa

## 3.2 Additionality of PGF investments

### Interviews

We interviewed representatives from 15 recipient organisations of PGF grants or loans. This group accounted for 66 percent of all projects supported by the PGF, and 67 percent of the total funding.

More detail on the organisations interviewed and coverage is provided in Table 3.2.<sup>3</sup> Organisations such as the Council, NZTA, and Ngāti Porou had a large proportion of the approved funding allocated to them. It should be noted that while we were not able to interview representatives from NZTA, we have treated the NZTA roading projects in the same way as Council roading projects, i.e., we have assumed that the upgrades to state highways were brought forward in time by five years, on average, with the help of the PGF funding. This is because, while the NZTA projects, such as building the resilience of State Highway 35 and State Highway 2, would have eventually taken place, they would not have happened in the short-term without PGF investment.

As noted earlier, one purpose of the interviews was to obtain an estimate of the degree of additionality of each project. Since we only had very limited details on each recipient, we first asked the respondents to describe their project and what activities the funding was, or would be, used for. Next, to determine the value added by the PGF, we asked the participants whether the project would have gone ahead in the absence of the PGF. If they believed that their project would have gone ahead, we asked whether it would have been smaller in scale, or be completed at a later

<sup>3</sup> The complete list of PGF grant and loan recipients can be found on the Kānoa website

date. We then used this information to adjust the total value of the spending to determine how much of it was additional. More details on this are provided in the next section.

The PGF investment in the region had a wide range of impacts including social, cultural, and environmental benefits for business that received the funding, other businesses, the wider community, and households. We asked interview participants to describe some of these benefits perceived by the recipients. These benefits are illustrated qualitatively in Section 4.

Based on interviewing recipients of grants and loans from the PGF, we determined the degree to which the funding was additional. Based on the additionality of this sample of projects, we scaled up the proportion to the total PGF funding of \$299 million in the Gisborne region. Our sample included projects from nearly every reporting sector represented in the PGF database and is, thus, representative of the entire fund for the region.

### **PGF coverage**

Table 3.2 provides some detail on the interviews we conducted in phase two of the project, compared to the total PGF investment in the Gisborne region. 182 different PGF grants or loans were made to at least 72 individual organisations. The data is all in the public domain and it is categorised based on whether the recipient organisation received a loan or a grant.

Table 3.2 Sample of PGF funding recipients

Type of funding	Organisation	Reporting sector	Approved funding (\$)	Percent of PGF total
Grants	Gisborne District Council (roads)	Roads	64,205,000	28.49
	Gisborne District Council (inner harbour project)	Roads	2,300,000	1.02
	Mātai Medical Research Institute	Other	6,000,000	2.66
	TBD Limited (Four Seasons Packhouse)	Training skills / employment	940,228	0.42
	Te Wiwi Nati Trust	Regional projects	2,500,000	1.11
	Waihorokaka Limited	ICT and Digital connectivity	400,000	0.18
	Tairāwhiti Technology Trust	ICT and Digital connectivity	400,000	0.18
	Te Aitanga-a-Hauiti Centre of Excellence Trust	Training skills / employment	550,000	0.24
	Pultron Composites Limited	Training skills / employment	612,994	0.27
	Pahiitaua Incorporated	Regional projects	1,378,280	0.61
	Waka Kotahi NZTA	Roads	48,550,000	21.54
	Ngati Porou	Training skills / employment	23,189,031	10.29
	Grants total		151,025,533	67.01
	PGF total		225,365,781	100.00
Loans	LeaderBrand	Agriculture / horticulture	15,000,000	20.54
	Turanga Waimaori	Water storage / management	6,500,000	8.90
	Wood Engineering Technology Limited	Wood processing	21,600,000	29.57
	Pultron Composites Limited	Training skills / employment	5,364,000	7.34
	Loans total		48,464,000	66.36
PGF total		73,034,814	100.00	
Grants plus loans	Grants and loans total interviewed		199,489,533	66.85
	PGF total		298,400,595	100.00

The PGF had projects covering 12 reporting sectors. In our interviews, we were able to talk to a sample of recipients in eight of these reporting sectors. The projects in the remaining four reporting sectors were generally small.

### 3.3 Economic impact assessment

#### Additionality

None of the recipients we interviewed said that their project would have gone ahead anyway, and at the same time and/or on the same scale, in the absence of the PGF funding, i.e., none of the projects were zero percent additional. This was reassuring, in that it showed that PGF funding was not being given to support projects that would have gone ahead anyway.

Nine of the 15 grant or loan recipients<sup>4</sup> in our sample indicated that their projects were 100 percent additional. This means that they would not have gone ahead at all, not even later or on a smaller scale, in the absence of the investment from the PGF. Many of these recipients were smaller organisations providing skills and education training programmes or other regional projects.

In the cases where the respondents indicated that their project would have gone ahead anyway, but at a later date or on a smaller scale, we adjusted for this in calculating the additional value of the funding. For example, if the recipient of a \$1 million grant said that their project would have been 90 percent smaller in the absence of the fund, the additional value from the PGF grant would be \$900,000. In the case of respondents who said that their projects would have gone ahead at the same scale, but at a later time, we discounted the value of the funding received using a discount rate of five percent for every year the PGF support brought the project forward in time.<sup>5</sup>

Based on this calculation approach, we found that overall, the additionality of the projects, as indicated by the recipients was very high, at over 82 percent (Table 3.3). Grants had a slightly higher additionality than loans. The high rate of additionality is not unexpected since projects that would have gone ahead in the absence of the funding would have been identified in the selection phase of the PGF and would have had a low chance of being approved.

Moreover, from the interviews, we gathered that the PGF invested in new and innovative projects (e.g., the use of novel technologies not used before in the region in the wood processing and horticulture sectors) that would otherwise have been considered too risky by commercial lenders. The PGF also placed high value on the training and development of skills and capabilities of the workforce within the region, particularly Māori youth. Many interviewees pointed out that in the absence of PGF support, they would either not have been able to offer these programmes or would not have had the funds to retain employees who were previously marginally attached to the workforce, as they required significantly more resources. In addition, for infrastructure projects such as roading, contracts were provided based not just on price, but the training and upskilling of local staff and contractors was also heavily encouraged. Therefore, the nature and purpose of the funding meant that the projects funded were likely to be highly additional.

**Table 3.3 Additionality of PGF projects by funding type**

Type of funding	Approved funding	Additionality	Percent
Loans	48,464,000	39,628,453	81.77
Grants	151,025,533	124,027,117	82.12
Total	199,489,533	163,655,570	82.04

Once we calculated the additionality of each individual project in Table 3.2, we applied the average additionality, by funding type, to other grants and loans from the PGF. For the projects covered by our interviews, we applied their actual additionality.

The estimated amount of additional PGF funding was then used as the key input into the model we used to measure the fund's economic impact on the Gisborne economy.

<sup>4</sup> Some recipients had both grant and loan funding.

<sup>5</sup> This is the default rate set out by the New Zealand Treasury for most types of projects.

## Economic impacts

### Measures of economic activity

The three measures of economic activity used were:

- 1) Expenditure: The value of production, which is built up through the national accounts as a measure of gross sales or turnover. This is expressed in \$ millions
- 2) GDP: The increase in output generated along the production chain, which when aggregated, totals gross domestic product, or GDP. This is the sum of:
  - Compensation of employees (i.e. salaries and wages)
  - Income from self-employment
  - Depreciation
  - Profits
  - Indirect taxes less subsidies

Note that expenditure is made up of the above (GDP) plus:

- Intermediate purchases of goods (other than stock in trade)
  - Intermediate purchases of services
- 3) Employment: The volume of employment is expressed as full-time equivalents (FTEs). These are estimated as the number of full-time employees and working proprietors and one-third of the number of part-time employees, converted to an annual basis.

FTEs provide a measure of total labour demand associated with expenditure - e.g. four full-time jobs running for three months or three part time jobs running for a year would be shown as a single FTE.

Since we were only able to estimate how the funding was spread across the sub-regions outlined in Appendix A for some projects, it was not possible to complete a full economic impact assessment at the sub-regional level. Moreover, multipliers are not available at this level. Therefore, we provide an outline of how the funding was divided amongst the four sub-regions.

### Caveats

- 4) In our additionality calculations, we have treated loans and grants as the same. This is because we are estimating the current economic effects of the injection of money into the region. However, the loans will have to be repaid by a certain date. This means that there will be an outflow of money from the region. Therefore, the economic effects are likely to be slightly overstated in the case of loans.
- 5) In calculating the additionality of the roading projects, we have treated NZTA and Council roading projects similarly, i.e., we have assumed that NZTA roading projects would have happened, on average, five years later than they did.
- 6) We have conducted the economic impact analysis using the amount of funding approved for each project from the Kānoa database. Since not all of the approved funding has been paid out to some organisations yet, we assume that this will be drawn by firms in the near future.

### Economic impact assessment

To understand the economic impacts of the PGF investments in the Gisborne region, we conducted an economic impact analysis. We created an Excel-based model using economic multipliers from the Gisborne region, created using input-output tables from Statistics New Zealand. An economic multiplier quantifies how money invested in an economy is re-spent, creating additional economic activity. Therefore, the calculations measure how the money introduced by the PGF via grants and loans to local businesses will be spent as salaries and wages or payments to other businesses, and how those payments will generate additional rounds of spending in the region.

The direct effects outlined in Table 3.4 are estimates of the direct impact of the PGF grants and loans to the recipient organisations, i.e., the impact of the first round of spending by recipient organisations. The total impacts show the effect of the investment after multiple rounds of spending by businesses and individuals.

As a result of the PGF investments, \$243.2 million will be injected into the Gisborne economy, after accounting for the portion of the funding we calculated to be non-additional. This direct expenditure will generate \$87.3 million in GDP in the region and will create employment equalling 810 FTEs.

These direct impacts will be associated with multiplier effects in the region. For example, the construction companies contracted to upgrade the local roads buy inputs from other local businesses, who may also purchase goods and services from their suppliers and so on. Moreover, organisations will begin to employ more people, or increase the wages of employees, who will then spend this income, generating further economic activity. The total economic impacts in Table 3.4 capture the effect of this increase in economic activity.

The economic activity generated by the PGF investments will have increased GDP in the Gisborne economy by \$175.6 million, which is equal to around 7.6 percent of the region's GDP (as of March 2020). Additionally, the flow-on effects of the spending by households and businesses are estimated to generate employment for 1,517 FTE employees, equalling 6.57 percent of all full-time employment as of February 2021.

**Table 3.4 Economic effects of the PGF investments in Gisborne district**

	Direct	Indirect	Induced	Total
Expenditure (\$m)	243.2	131.1	60.4	434.7
GDP (\$m)	87.3	53.9	34.4	175.6
Employment (FTEs)	810	460	248	1517

It is important to note that the above analysis was conducted based on the amount of funding approved to organisations within the Gisborne region, as opposed to funding already paid out. This means that the impact estimates above show the eventual impacts of the funds that have been paid and those that are yet to be drawn. Since it is uncertain when the rest of the approved funding will be paid out, the impacts shown in Table 3.4 are likely to be spread over a number of years.

As mentioned before, the economic analysis does not differentiate between loans and grants. However, loans are intended to be repaid at some point in the future, but the value of what is paid back needs to be discounted. Some of these are also likely to be made at less than the commercial rate and this would make their impact similar to grants. Moreover, some of the loans may not be repaid, which will, again, have the same effect as grants in providing a short term boost to the economy. Overall, equal treatment of loans and grants means that the economic impacts in

Table 3.4 are likely to be overstated. However, we believe that the extent of the overstatement is small, both for the reasons outlined above, and because the amount of loan funding paid and approved is only a third of the grant funding paid and approved.

### 3.4 Sub-regional impacts

It was not possible to complete an economic impact analysis at the sub-regional level (see Appendix A for a map of the sub-regions) since we did not have complete information on where each of the projects in the fund was located. Moreover, economic multipliers were not available at the sub-regional level.

However, we were able to break down the additional value added to each sub-region for the sample of projects we covered in our interviews, as shown in Table 3.5. The Gisborne sub-region, which includes Gisborne City, the largest population centre in the district, received the largest share of the funding, equalling over 50 percent of the funding from our sample. The Northern sub-region, which includes Ruatōria, received nearly 25 percent of the share, followed by Central Bays with 14.8 percent. The region that received the smallest share of the investments from our sample was the Southern sub-region, with just 10.2 percent of the share, all of which was spending on roads. This sub-region is extremely sparsely populated with only a few rural communities.

Table 3.5 Additional expenditure by sub-region

<u>Region</u>	<u>Total expenditure (\$m)</u>
Northern	32.0
Central Bays	18.9
Gisborne	64.2
Southern	13.1
Total	128.1

From our sample of interviews with recipients of funding located in the Northern and Central Bays regions, it was clear that even small amounts of funding in the remote communities made a large difference to businesses and households. Employment and training provided to just one member of a household provided stability to an entire family, especially in the case of those who have faced intergenerational disadvantages. Moreover, community members who were able to turn their lives around were a source of inspiration for other youth in the community.

## 4 Ongoing effects of the PGF

The economic impact assessment in the previous section provided an estimate of the economic effects of the additional portion of the PGF funding that has been and will be injected into the Gisborne economy. This effect will undoubtedly be significant, but it is important to note that it will not, by itself, change the Gisborne economy on a lasting basis. What is more important is how the PGF funding has been, and will be, used to change the capacity and capability of the region's economy. In other words, the PGF is not just a one-off boost to the economy. The nature of the projects and initiatives supported, and the focus on building the resilience of the people and infrastructure, implies that the effects of the investment will remain long after all the loans and grants have been exhausted. This section examines what our interviews revealed on this score. It also considers how the funding has affected and will affect other wellbeings, apart from economic wellbeing.

A large number of the interviewees pointed out that one of the biggest successes of the PGF investment in the region had been the development of the long-term capabilities of the workforce, particularly the attachment of young Māori to the labour force. Moreover, the initial months of the lockdown in 2020 was an extremely stressful and highly uncertain time for business to be operating in, particularly small businesses. PGF funding during this period provided certainty to businesses and contractors.

### Benefits to the businesses and organisations

Several respondents stated that the PGF funding helped projects that are important to their business or organisation to get off the ground. The fund supported investments in new and innovative ideas and technologies that would have been considered risky by commercial lenders, such as a new type of processed wood product and an innovative medical research facility. The funding helped some larger wood processing businesses build export links with customers and partners in the United States of America and the Middle East. The certainty of the financing provided support to organisations during uncertain COVID-19 times, which helped build business and customer confidence.

For its part, Gisborne District Council ensured that the funding contributed to increased resilience and skills development for local contractors. The Council's tendering process enabled the development of local contractors to be the lead contractors on projects in the future, instead of working with larger companies solely in the capacity of subcontractors. This process had the additional benefit of improving the quality of bids from these companies, providing the Council with a wider pool of talent and businesses to choose from for future roading projects.

The improved capability and capacity in the region will have long-term benefits for all businesses and organisations in the region that will have a steady flow of a better trained workers. Moreover, the investment in non-traditional industries, such as high-technology wood processing and medical research, has meant that the training provided to workers in the region has been in diverse settings. In the future, businesses will have a wider pool of skills to choose from in a region that has historically been reliant on forestry, agriculture, and horticulture. This may be a catalyst for other similar organisations to move operations to the region.

### Benefits to households and the community

One of the main aims of the PGF funding was to build up the human capital of the Gisborne region to support long-term growth. There was a large focus on the employment of Māori in particular.

As part of this, nearly all organisations who received funding provided extensive training and opportunities for career progression to their new employees. Some recipients said that they employed mostly Māori youth who were previously unemployed. Training provided by each organisation varied based on the type of work being carried out by them. However, upskilling ranged from providing level two or three qualifications, help with obtaining driver's licences (for cars, trucks, forklifts, etc.), gun licences, pastoral care, help with setting up bank accounts, employment law basics, and digital skills training. Employees who showed promise were trained to be supervisors and project managers. People who were new to the workforce were rotated through several departments and roles in bigger organisations, so they could find their fit and discover their skills.

Several businesses, such as those in the wood processing industry and in scientific research, have taken on students from the region as summer interns. Some businesses also said that they offered scholarships to high school students. These opportunities in new and upcoming industries in the region build awareness about future career pathways for students and help inspire young people. These initiatives resulted in significant benefits to individuals and their communities. Workers are now more likely to be attached to the labour market, opportunities for young people have improved, employed workers provide financial support to their families, and we heard multiple stories of youth turning their lives around after being offered opportunities resulting from the PGF investments.

The training opportunities built on the skill set of people and helped them progress from minimum wage jobs to higher incomes. Some businesses reported that they paid their workers a Living Wage, instead of the minimum wage, which would not have been possible without the funding. Being in steady employment also meant that workers were able to significantly improve their quality of life. They were able to take annual and sick leave to spend time with their families, which contributed to an improved quality of life. Additionally, increasing employment and stability of workers in small, sparsely populated towns by even a small amount has a large impact on the wellbeing of the entire community. A large number of the respondents noted that the programmes offered had been significant interventions in the lives of the local population, particularly the youth, many of whom faced significant disruptive challenges in their domestic lives such as intergenerational trauma, abuse, and violence. Special attention was paid to such workers' mental and spiritual wellbeing. Interviewees stated that, in their opinion, in the absence of the PGF funding, many of these youth would have continued down the same path as the generations before them had, faced with limited opportunities for personal development.

Several of the projects have contributed to significant environmental benefits, by way of ecological restoration work. Projects such as those to support the restoration of local rivers and riverbeds were supported. Ongoing damage was being curtailed via riparian planting. In times of major flooding and heavy rain, forestry waste would flow into the rivers downstream, blocking the flow of water. The planting of native trees in the riparian zone now prevents the waste from flowing into the rivers. A water storage project aims to provide reliability of water to surrounding Māori land blocks. Limited access to water was holding back horticultural development in the past.

All of this provides security of land for future generations. The stabilisation of the land around the local rivers will provide opportunities for the local Māori population to use the land for economic gains in the future, while also protecting the cultural heritage of the land.

### **Investment in local roads and state highways**

The large amount of investments in various roading projects (Council and NZTA managed) also had considerable capability benefits within the region. For the projects the Council managed, it formed relationships with local contractors and offered them the opportunity to work alongside larger companies such as Fulton Hogan. These companies hired a large number of local staff from within the region. This also provided local contractors the opportunity to upskill in areas where they did not have experience. The Council awarded contracts to local Māori contractors, based in the region, which allowed the staff to learn up to date work practices and new skills. Through this process, local contractors gained the experience and confidence to tender for local authority projects. According to Council staff, the quality of bids has improved as a result of the heavy focus on upskilling locals.

The roads in some parts of Gisborne experience heavy wear and tear as a result of heavy rainfall and flooding, and a large amount of logging truck and heavy vehicle traffic. This means that some roads see frequent closures. The investment into these local roads and state highways has helped build the resilience of this infrastructure. This meant that the transport link for businesses and households in the region improved significantly, providing predictability and reliability of journey times. This predictability and resilience will drive investment from horticulture and forestry firms. Moreover, the connectivity of local communities and businesses in the more remote parts of the region was able to be maintained. The improved integrity of some of the local roads has meant that farming communities now have a more reliable connection to marae and bigger economic centres. The significant investment towards local roads has meant that the Council has been able to divert more resources to rural forestry road networks. In addition, the improved resilience of these roads will lead to lower costs of maintenance and upkeep for Council in the coming years.

The investment in roads has also had significant environmental benefits. According to NZTA, the Connecting Tairāwhiti – State Highway 35 Resilience project will contribute to a 16.7 tonne reduction in carbon dioxide being emitted into the atmosphere each year, by way of reducing travel times. Additionally, the project includes planting over 250,000 native trees and shrubs, removing another 1.4 tonnes of CO<sub>2</sub> a year.

The benefits outlined above are further illustrated in the case studies presented in sections 6 and 7.

## 5 The effect of the PGF on Gisborne District Council's capital expenditure

One possibility that we were keen to explore in our research was that a substantial amount of PGF funding in a relatively small economy would displace (i.e. crowd-out), other investment activity, particularly in the Council's capital expenditure programme. Accordingly, we interviewed David Wilson, the Council's Director Community Lifelines, on this matter. David is responsible for the Council's Roads and 4 Waters projects. Through the interviews with David and other staff at the Council, we discovered that the Council has been successful at spending its capital expenditure budget alongside the additional funding from PGF grants into the region.

Roads are one of the critical infrastructure areas identified by the Council in its 2018-2028 Long Term Plan (LTP). The Council has received 94 percent more grant funding over the three years since 2018 than what was signalled in the LTP. This has considerably improved its ability to provide additional services to the community. In the 2020/21 year, the Council spent 131 percent more on critical capital infrastructure projects than what was planned for the year in the LTP. A major reason for this has been the support provided by the PGF, which freed up Council's financial resources to focus on areas that may have been overlooked in the past, such as rural roads.

This has been achieved by the Council at a time when the building and construction sector has been severely constrained by shortages and many other councils in New Zealand have struggled to spend their capital expenditure budgets. Additionally, Council staff have reported that they have experienced a fall in contractor costs over the past two years.

The Council has taken a unique approach to contracting for infrastructure projects to overcome this issue, as well as build the resilience of this sector in the region. Firstly, contracts were not awarded based on price alone. Several social and economic outcomes were considered in the decision making process. At least 75 percent of the contracts and sub-contracts were awarded to Māori, Pasifika, or developing owner businesses operating from within the region. 18 contractors were involved in delivering all the work and most of these were local firms. The national firms involved delivered all work using staff from within the region.

Before the tendering process began, workshops and meetings were held with all 18 businesses to make sure that each business understood how to tender and what the projects entailed. 1.5 to three percent of each contract value was allocated to staff training to ensure employment numbers increased and opportunities were made available for training new staff to build their experience and skills. Moreover, all new employees had to achieve a Construct Safe qualification and complete a development plan which showed their progress while working on Council projects.

The above strategy used by the Council has enabled the development of local business capability, particularly for local Council projects. Newer and less experienced firms gained experience in tendering for local government projects and got to build the capabilities and skills of their workers in areas they may have not been traditionally involved in. Additionally, the quality of bids for local authority projects has improved significantly. The use of local Māori contractors from remote areas such as Ruatōria has meant that the Council now has a wider pool of experienced contractors to choose from for future projects. The heavy focus on providing training to employees and helping them fulfil their development goals has contributed towards building the resilience of the construction sector workforce in the region, particularly considering that a significant share of the new employees were previously unemployed. This means that the size and quality of the workforce has been improved.

We are satisfied, therefore, that the PGF has not caused projects in the Council's capital programme to be displaced. In other words, Council projects have not been delayed or cancelled, and the external funding provided by the PGF has added additional value to the Gisborne economy.

## 6 Inner harbour redevelopment: a case study

The inner harbour redevelopment project is a part of the Navigate Tairāwhiti programme, which is a set of five projects delivered by the Council with a number of partner organisations and tangata whenua. Note that we have included the PGF grant received for the inner harbour redevelopment programme as part of the economic impact assessment calculations.

The programme is a way to showcase the region's dual heritage, unique history, and culture. The specific aim of the inner harbour project was to transform the waterfront to become a visitor hub, a space for leisure, a thriving hospitality precinct, and to showcase the cultural heritage of Gisborne. The project was funded by the Council, Eastland Port, and the PGF. The local iwi, Ngāti Oneone was consulted during the project to ensure their cultural heritage was reflected in the space.

Prior to the redevelopment, the harbour was mainly used for industrial purposes such as transporting forestry products to and from the region. This meant that residents and visitors felt detached from the area and did not view it as a space they could visit. However, before the work started, more and more people were using the area in peak periods. Campervan visits were on the rise and locals frequently used the boat ramp. Due to the industrial nature of the area, there were no public toilet facilities, parking was limited, and heavy logging traffic created dangerous conditions for pedestrians.

This was recognised as a huge missed opportunity, with waterfront locations in other major cities, such as Auckland and Wellington, being prime spots for commercial and retail development, tourists, and local residents. Moreover, Gisborne also hosts hundreds of cruise ship passengers during summer, with the number of tourists visiting the region on the rise. The aim was to transform this resource to become more attractive to tourists and locals, while staying true to Gisborne's unique cultural heritage.

A number of developments were carried out to transform the space. The ageing three waters infrastructure was upgraded, roads were repaved, lighting was added to dimly lit streets, new toilets and parking was built, a large amount of green space was added, with cycleways and a pedestrian promenade. Contaminated soil was removed from the area and a new stormwater treatment plant was also installed. PGF investment into the project allowed it to be completed in time for the 2019 Te Ha Sestercentennial celebrations and *Tuia – Encounters 250*, an event that commemorated 250 years since James Cook made landfall in New Zealand. The \$2.3 million contributed by the PGF also allowed for significant infrastructure upgrades to be carried out, facilitated the softening of the landscape, and allowed the road to be realigned. According to the interview with Council staff responsible for the management of this project, without PGF investment, the project would not have been completed in time for the Sestercentennial celebrations. Additionally, the PGF funding allowed the landscape around the harbour to be softened considerably, along with significant infrastructure developments, which would not have happened otherwise.

The upgraded inner harbour precinct has brought a number of positive benefits to Gisborne City. Economic activity in the area has increased with new restaurants having opened up on the waterfront, along with a shared workspace that hosts a number of businesses. Additionally, the developments have acted as a catalyst and attracted further interest and investment for retail and commercial development. The developments have increased the value of land and market rental rates in the immediate area, and local restaurants now have a more enhanced outdoor space for

their guests. The upgrade of the aging facilities, such as the water infrastructure, has also meant that the Council has been able to avoid significant costs that it would have incurred in the near future, which would have caused significant disruptions to traffic in the area.

Individuals and households have also benefited hugely from this transformation. There is a large amount of green space available to tourists and residents around the harbour for leisure activities. The focus was on planting native species of plants to protect the heritage of the site. Pedestrian access has been significantly improved with paths for walking and cycling cutting through the green space along the harbour. The improved lighting along some roads and paths has increased the sense of safety for pedestrians and cyclists. Pedestrian access to the boat ramp has improved and is now considerably safer than before. The cycleway is a part of the larger Urban Cycleway Programme. Visitation to the area has now significantly improved with more people visiting the restaurants and walking or cycling along the harbour, particularly since the area is within easy walking distance of the Gisborne CBD.

The redevelopment of the inner harbour has been successful. The area has transformed from a purely industrial space to one that showcases Gisborne's heritage and welcomes tourists and residents for retail, commercial, and leisure activities. This is in line with the use of waterfront locations in other major urban centres in the country. However, the Gisborne waterfront is unique in that the design incorporates the lifestyle of the residents, for example, the parking spaces are suitable for larger vehicles. Moreover, cultural aspects have been woven through the space to reflect the region's navigational heritage. The inner harbour is now a space that current and future generations can use for years to come, providing a sense of place and identity to the residents.

## 7 Other case studies

This section presents a set of case studies on organisations that received loans and/or grants from the PGF. These case studies are based on interviews conducted with the recipients. As mentioned in the preceding sections, the programmes initiated by many of the organisations had a considerable impact on the skills development of some of the most vulnerable groups in the region. These programmes helped provide stability and direction to a large number of people who may not have otherwise had this opportunity. The case studies below reinforce the evidence presented in the previous sections, especially about the ongoing effects of the PGF, and provide context to the data presented.

### 7.1 Four Seasons Packhouse (TBD Limited)

Four Seasons Packhouse (FSP) is a squash harvesting and packing company based in Gisborne. The company also provides growers with the option of picking and pruning kiwifruit, citrus and other horticultural produce. They also manage the packaging and distribution of products to domestic and international markets. Four Seasons Services, a new division of FSP was created to supply labour to existing customers operating citrus and kiwifruit orchards.

A PGF grant was approved for the company to undertake a horticultural expansion and workforce development programme in Gisborne. From BERL's interview with Elliot Callender and Tamsin Coulter at FSP, we gathered that skilled or experienced seasonal workers for horticulture were in short supply in the region.

The funding was used to upskill the horticultural workforce, particularly for citrus and kiwifruit orchards, for skilled and unskilled roles. The grant allowed Four Seasons to employ 60 permanent employees, as of October 2021. An estimated 68 percent of their new workers were unemployed prior to being taken on by the organisation. 80 percent of all new workers were Māori, and at least 50 percent were women.

As part of the training, some workers were provided with licenses for forklifts and wheels, tracks and rollers. Education around employment rights, such as annual leave, was also carried out. Having stable employment with annual and sick leave also meant that workers were able to take time off to be with their families, which contributed to better wellbeing and mental health. FSP also implemented a skills matrix that allowed them to rate staff and track development based on competency and confidence, which improved motivation amongst workers and focussed on developing the skills that were most important to them.

The project has had a number of positive benefits for businesses and households. The training programme will provide a steady supply of horticultural workers, and people can take their upgraded skills with them, if they move on to other employment. This is particularly important for a region like Gisborne, where horticulture contributes a substantial share to the region's economy.

Elliot and Tamsin indicated that the training and development programme would not have gone ahead at all in the absence of the PGF funding. The grant also helped ease the workload of existing staff, which meant that they were able to provide a better quality training and development programme.

## 7.2 Waihorokaka Limited

Waihorokaka Limited received a \$400,000 grant from the PGF to set up a business hot desk hub in Ruatōria. Ruatōria is a small, largely isolated area in Northern Gisborne with a population of fewer than 800 people. The hub provides a co-working space for the community members and local businesses to use the resources available. These resources include high quality Wi-Fi, printing, and video conferencing.

The space encourages small business owners, freelancers, and community members to come together and collaborate and share ideas. Having a space such as this may also encourage enterprising individuals to set up their own ventures, while learning from others in the space. Digital hubs also help lift the technological capability of a region by providing people with the option to learn new technologies and digital skills from one another.

Ensuring that smaller communities are digitally connected also opens up a range of possibilities and can act as a catalyst for progressing economic development and improving wellbeing. Private sector firms who come into the hub in Ruatōria to use the conferencing facilities have an opportunity to network with one another and learn from experienced business owners.

The interviewee, Hilton Collier, stated that in the absence of the investment from the PGF, the hub would have been limited to commercial use only. Currently, 80 percent of the use comes from the community, while the rest comes from the private sector, including businesses in the region. Therefore, the household and community members would not have had access to the technologies, skills, and opportunities that came with the hub, if the investment had not been provided.

## 7.3 Mātai Medical Research Institute

Mātai is a non-profit medical research institute in Gisborne that focuses on advancing understanding of the brain, heart and body, to improve the health and social outcomes for all Kiwis. The institute collaborates with medical researchers, bioengineers, and scientific advisors all over the globe to combine expertise and conduct world-leading research.

The founders decided to set up the facility in Gisborne for a number of reasons, such as the prevalence of a number of health issues in the community, the gap in expertise and equipment in the region, and a desire to act as a catalyst for the region to attract other health and scientific experts.

BERL interviewed Jeannette Lepper, the head of development at Mātai, to understand the impact of the PGF on the organisation. The organisation was awarded a major grant that was vital in enabling the Institute to get established. She stated that the PGF grant provided the seed funding that allowed the institute to be set-up, and to purchase the initial, much needed equipment and technologies, which would not have happened in the absence of the funding since the project would have been considered too risky for commercial lenders. Jeanette also mentioned that the PGF funding was flexible in its requirements, which allowed Mātai more scope in the way research projects were developed.

The establishment of the facility in Gisborne has brought, and will continue to bring, a variety of benefits to the region. The research is tailored to the health issues affecting the region, which will make a positive contribution towards understanding and improving the health of the community, particularly the Māori population, which has historically been underserved. The research will help improve health and education locally, and benefits of the research can then be translated nationally and globally.

For a region where growth in employment has traditionally been driven by the primary sector, the Institute will bring a diversity of expertise and skills, acting as a catalyst for other such ventures. The scholarship and internship opportunities provided by Mātai to the youth in the region will provide new and diverse career pathways for the future generations.

## 7.4 Te Aitanga a Hautiti Centre of Excellence Trust

The Uawanui restoration project has been undertaken by the Te Aitanga a Hautiti Centre of Excellence Trust. BERL interviewed Victor Walker and Taylah Mitchell from the Trust. The project is located in the Uawa/Tolaga Bay area, a small, predominantly Māori, community in the Gisborne region, with a population of less than 900 people. The aim of the project is to plant 60 hectares of riparian zone along the Uawa River. This involves 20km of fencing, planting of around 55,000 trees, and pest control. The project also includes the employment and training of local staff within these areas. The project was undertaken in response to large amounts of forestry waste drifting down from the neighbouring plantations into the river during times of heavy rain. The waste blocked the flow of the river during these times. The PGF provided a grant towards the project. Funding was also provided by Te Uru Rākau, the New Zealand Forest Service, which is part of the Ministry for Primary Industries, and connected with the wider Uawanui sustainability project.

As part of this project, 10 Māori rangatahi, aged between 16 and 24 have been trained as “eco-leaders”. Two people are also being trained as project managers. All the youth were previously not in employment, education, or training (NEET). The eco-leaders are being trained in plant-sourcing, germination and propagation, nursery construction, pest management, environmental management, and land use. The programme is based on Māori environmental practice. Additionally, pastoral support is also provided to the workers, with special attention being paid to their mental and spiritual wellbeing.

The interviewees commented that the programme was a significant intervention in the lives of the youth, most of whom had no formal work training and faced serious disruptive challenges in their domestic lives. Some of them were victims of intergenerational trauma, abuse, and violence. One of the interviewees observed that, in the absence of the funding, the youth would likely have continued down the same path as the generations before them, and that the project provided them with the opportunity to gain technical skills, as well as support with becoming attached to the workforce. This has, and will continue to have, extended social benefits to whānau and the wider community.

The programme also connected youth to the forestry sector in the region by provided relevant training in this area. This will contribute towards providing a steady supply of workers to the forestry sector, which is essential to the economy of Gisborne. Finally, the environmental benefits of the project came in the form of ecological restoration work. The focus was on planting native species and using Māori environmental practices. Over the long-term, these steps will contribute to greater environmental resilience and restore and protect the waterway and coastal area by preventing woody debris from floating into the waterways.

## 7.5 Pultron Composites Limited

Pultron Composites Limited is a company that develops and manufactures high-performance fibre-reinforced polymer composites, providing a sustainable and durable building material. Pultron received a PGF loan towards helping it grow its business by expanding research, building a new production facility, and lifting staff numbers. In addition to this, the company also received a grant to enable it to deliver a comprehensive training programme. BERL interviewed Jasper Holdsworth, the CEO of the organisation, to understand the impact of the funding on the business and the wider community.

The loan was used by Pultron to support diversification and expansion. Jasper stated that the PGF loan was used for an investment in the development of a product that would probably have been considered to be too high a risk by commercial lenders. The fundamentals of the product and the idea were solid, but it was a new and innovative venture and, thus, was very high risk. The loan was used to develop a state-of-the-art research and engineering facility. This growth allowed the company to increase employment by 60 people within the span of a year, with another 40 planned to be employed over the coming year.

The investments have allowed the company to grow substantially. Pultron has connected with buyers in new, high-value markets outside New Zealand, further enabling expansion. There were also significant benefits to the community and individuals. The organisation took unemployed people, particularly Māori, for some of the roles and trained them. Some of these workers had limited work experience and did not know what skills they had. Pultron was also able to offer higher wages after the comprehensive training program. In the absence of the intervention, according to the interviewee, many of these people would have been unemployed or on lower wages. Jasper also stated that the expansion and growth was enhanced by the PGF investment.

## 8 Conclusions

This report has indicated that while the Gisborne economy had experienced some growth before the advent of the PGF, this was not sustained. The PGF has enabled businesses and other organisations to make investments that might otherwise not have been made at all, or that would have happened later and/or on a smaller scale.

One effect of these investments will be to provide a short- to medium-term boost to the economy while the PGF grants and loans are being spent. But, more importantly, the investments enabled by the PGF will change the economy on a longer-term basis. Businesses have been supported to make investments that will enable them to innovate and increase their competitiveness. And both businesses and other organisations have been able to provide opportunities for local people, especially Māori, to participate effectively in the labour force and develop their skills. The PGF also supported projects that will lead to environmental gains, and the reversal of damage caused to the region's waterways. Equally importantly, PGF funding has allowed further investment in businesses and sectors that generate high-paying jobs and do not depend on the use of natural resources, but rather place value on technological and productivity enhancements.

The PGF has not simply provided funding for projects that would have happened anyway. On the contrary, over 80 percent of the fund was additional, meaning investments worth \$243 million would not have taken place in the foreseeable future. Moreover, the PGF, and the construction activity that is involved in many of the supported projects, has not resulted in projects in the Council's own capital works programme being displaced. Indeed, the Council has shown that it is possible to successfully complete a capital works programme, while many other councils have struggled to spend their capital budgets. This has been possible because of the large focus on upskilling local contractors, and providing them with the experience to tender for local infrastructure projects. The Council has, thus, formed a strong relationship with these local firms.

In summary, the points below qualitatively highlight the many ways in which the PGF benefited local businesses and communities, contributing to the long-term resilience of the economy:

- PGF investment was targeted at a variety of organisations, contributing to economic diversification
- The creation of new opportunities for youth in non-traditional and high-value industries
- Extensive capability and capacity development of local businesses and communities, with a particular focus on improving outcomes for Māori
- Pastoral care was provided by some grant recipients to their vulnerable workers, supporting them to remain attached to the workforce
- The PGF supported several businesses to be able to pay their workers a living wage. It also allowed businesses to create more high-skilled and high-paying roles, while also training locals to take up these opportunities
- PGF investment in the, previously, fragile and unreliable roading network has contributed to more resilient and reliable travel routes for rural communities and businesses
- Loans provided to innovative projects carried out by a number of research-heavy and high-value businesses helped de-risk the opportunities and accelerated technological advancement

- The PGF also provided certainty to businesses and households during the uncertain era of COVID-19-induced lockdowns, allowing important infrastructure and capability building projects to continue
- PGF funding has contributed to technological advancements within the region. Public financing for opportunities that were considered to be too risky for commercial lenders has de-risked these commercial opportunities
- Local iwi have been able to train rangatahi to lead the clean-up of local waterways, and build the resilience of this vital resource.

All of this, taken together, suggests that the PGF has directly contributed to accelerated growth in the region and brought forward many of the opportunities that would have happened several years down the line, at the earliest. The region has also benefited greatly from the fact that these investments were concentrated within a period of a few years, instead of one-off or piecemeal funding injections. In order to continue the momentum gained by the economy over the past few years, and ensure stable long-term growth and self-sufficiency, there is a need for further investment into the region. The success of the PGF has illustrated the strength of businesses, households, and the Council, in working together to support the growth and resilience of the region as a whole.

## Appendix A Gisborne district sub-regions

