

## BRIEFING ON DELIVERING THE PRIMARY GROWTH PARTNERSHIP

### Purpose

1. *This brief updates you on how PGP will operate and steps needed to deliver it.*

### Key Points

2. Following discussion with you about a proposed governance structure for the Primary Growth Partnership (PGP: B08-473 and B08-477 refer), and how PGP might functionally operate (B08-535 refers), MAF has done more analysis on how PGP will be delivered.
3. This brief elaborates on:
  - a) how PGP will operate in practice, including proposed initial sector allocation of funds;
  - b) further detail about the Investment Advisory Panel and its appointment;
  - c) a proposed structure and duties of the Secretariat; and
  - d) initial estimates of the cost of establishment and operation of the PGP structures and processes.

### Recommendations

4. We recommend that you:

#### *Operation of PGP*

- a) **Note** the overall process for how ideas will progress to investments through PGP:
  - a) **Step 1:** The IAP will call for expressions of interest (Eols) for investment programmes. Groups of potential co-investors with similar interests develop Eols. The IAP determines which Eols will be progressed (this process may include iterative discussions between the IAP and groups of co-investors to further develop Eols).
  - b) **Step 2:** Co-investor groups of successful Eols become formal Programme Steering Groups (including government officials), who develop business plans for the investment programme. These business plans are then submitted to IAP for assessment.
  - c) **Step 3:** The IAP assesses the quality and value proposition of programmes and makes recommendations to MAF Director General (MAF-DG).

- d) **Step 4:** MAF-DG approves government investment and subsequent contracting of the programmes.
- e) **Step 5:** Members of the Programme Steering Groups will arrange for contracts to be entered into, via existing investment mechanisms (such as FRST). The Programme Steering Group will also be responsible for oversight of the programme.

**Noted**

- b) **Note** that a Secretariat will assist the IAP and have a key role in ensuring that process and documentation are of the highest quality, which will support the IAP in making recommendations to MAF-DG with confidence.

**Noted**

- c) **Note** that officials also propose that there be an “Annual General Meeting” of investors, including key Ministers and key private sector investors. It is envisaged that this “Primary Investment Council” would meet with the IAP and discuss overall progress of PGP in achieving its objectives.

**Noted**

#### *Initial allocation*

- d) **Note** that you have previously agreed to a hybrid model of funding allocation (brief B08-473 refers, paragraphs 31-32) involving an initial allocation to five sectors (pastoral (including wool) and arable production, horticulture, seafood (including aquaculture), forestry and wood products, and food processing (including, for example, nutraceuticals and bioactives)) to enable investment funding to start flowing (subject to meeting PGP criteria and, ultimately, MAF-DG approval).

**Noted**

- e) **Agree** that an initial sector allocation totalling \$10 million will be made, either:

- a) a fixed allocation of \$2 million to each of the sectors (excluding Climate Change), with the remainder of PGP funds being fully contestable;

**Agreed / Not Agreed**

or

- b) split proportionally between sectors (excluding Climate Change), calculated on the basis of each sector’s relative contribution to GDP.

**Agreed / Not Agreed**

- f) **Agree** that, because an investment programme may span more than one sector (eg pastoral and food) or there may be more than one programme per sector, the IAP would determine which programme(s) each sector allocation is used for.  
**Agreed / Not Agreed**
- g) **Agree** that these sector allocations be made for the first two years of PGP.  
**Agreed / Not Agreed**
- h) **Agree** that unused funds from the sector allocation be rolled over and included in that sector's allocation for the first six months of year two, to ensure potential investors have sufficient opportunity to develop robust Programmes.  
**Agreed / Not Agreed**
- i) **Agree** that unused funds from the fixed allocations either rolled over from year one or distributed in year two will be reabsorbed into PGP.  
**Agreed / Not Agreed**
- j) **Note** that Climate Change requires a different approach and we will report to you separately on this.  
**Noted**

*Investment Advisory Panel*

- k) **Agree** that the IAP will consist of a Chair, plus five additional members.  
**Agreed / Not Agreed**
- l) **Note** that appointments to the IAP fall outside of the terms of reference for the Cabinet Appointments and Honours Committee (which are: "To consider appointments to statutory and other government agencies, chief executive appointments, and nominations for New Zealand Royal Honours, and associated policy").  
**Noted**
- m) **Agree** to appoint, in consultation with MAF-DG and key stakeholders including the Minister of Finance, the inaugural Investment Advisory Panel (including the Chair).  
**Agreed / Not Agreed**
- n) **Agree** to inform Cabinet of your appointments to IAP.  
**Agreed / Not Agreed**

- o) **Agree** that in refreshing the IAP, a committee of three people (the current Chair of the IAP, MAF-DG, and a delegate appointed by the Minister of Agriculture) be convened, who will confer with key investors before submitting a recommendation to the Minister of Agriculture.

**Agreed / Not Agreed**

- p) **Agree** that in appointing a new Chair to the IAP, a committee of three people (MAF-DG and two delegates appointed by the Minister of Agriculture) be convened, who will confer with key investors before submitting a recommendation to the Minister of Agriculture.

**Agreed / Not Agreed**

- q) **Agree** to a three-year term for IAP members, with staggered membership, which means that in the first year, some IAP members may be appointed for terms of less than three years.

**Agreed / Not Agreed**

- r) **Agree** that IAP members can have their membership renewed once, for an additional three years.

**Agreed / Not Agreed**

#### *Secretariat*

- s) **Note** that Secretariat functions would be undertaken on a full-time basis by staff employed within MAF, reporting to the Director Management Services, MAF Policy and would be responsible to the IAP, but with accountability to MAF (as MAF employees).

**Noted**

- t) **Note** that the IAP Chair and MAF-DG will agree the roles and responsibilities of the Secretariat, which are likely to include:
- a) developing, delivering and maintaining PGP systems and processes (including payment systems);
  - b) administration and meeting support of the IAP;
  - c) communication and publicity of the PGP initiative and the underlying programmes;
  - d) managing the interface between the IAP and investors through effective and regular contact and communication;
  - e) monitoring and facilitating the process around identifying and enabling cross-cutting issues between sectors;
  - f) facilitating contracting and programme management (as required by IAP);

- g) arrange, in consultation, the reappointment processes required for IAP members; and
- h) oversight of the process of reporting and evaluation.
- u) **Agree**, subject to agreement by the IAP, that the Secretariat will initially comprise a Manager, one Senior Analyst and an Executive Administrator; with an additional Senior Analyst added from 2011/12 as the PGP appropriation increases.

**Agreed / Not Agreed**

*Estimate of resourcing required*

- v) **Note** that financial provision will need to be made from within the PGP appropriation to support the full operation of the PGP structures and processes. **Noted**
- w) **Note** that MAF's indicative estimates of the funding needed from the PGP appropriation to resource the IAP are:
  - a) Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982];
  - b) \$250,000 per annum for the first two years and \$500,000 per annum thereafter for the IAP to contract specialist advice; and
  - c) A one-off provision of an establishment fund of \$155,000 to the Chair of the IAP for initial set-up costs. **Noted**
- x) **Note**, subject to discussion with the IAP about the composition and function of the Secretariat, that MAF's indicative estimates of the funding needed from the PGP appropriation to resource the establishment and operation of the Secretariat within MAF are:
  - a) \$470,000 for 2009/10;
  - b) \$420,000 for 2010/11; and
  - c) \$555,000 for subsequent years. **Noted**

*Resourcing programme development*

- y) **Note** that potential co-investors and Programme Steering Groups will meet their own costs for arranging meetings, participation and developing programmes. **Noted**
- z) **Note** that contribution by MAF staff to the development of Eols and investment programme business plans (including via Programme Steering

Groups) will be met through ongoing work programmes, including reprioritising existing resources.

**Noted**

aa) **Note** that other Departments will, in consultation with MAF, determine their own representation.

**Noted**

bb) **Note** that the PGP Deputy Secretaries Group, chaired by MAF, will continue so that government representatives in the co-investor groups and Programme Steering Groups are able to facilitate a whole of government perspective.

**Noted**

cc) **Agree** that, if sought by Programme Steering Groups, the IAP may recommend that MAF-DG award funds from PGP for external needs such as business plan development or engagement of contractors, but that this should only occur as an exception where there is a demonstrable capability issue and that any such funding should be matched by co-investors.

**Agreed / Not Agreed**

#### *Investment management and evaluation*

dd) **Note** that the Secretariat should oversee the monitoring and evaluation process, but we anticipate that the monitoring and evaluation of contracts will be undertaken by the operational agencies (such as the Foundation for Research, Science and Technology) administering those contracts.

**Noted**

ee) **Note** MAF anticipates that the costs for these operational agencies evaluating those PGP contracts that they administer and reporting to the responsible Programme Steering Group will be approximately 3% of the funds contracted.

**Noted**

#### *Transfer of required funding from non-departmental to departmental*

ff) **Note** that the proposed funding for the IAP, the Secretariat and contracting processes will need to be transferred from non-departmental to a departmental output class, which can only occur post-Budget.

**Noted**

gg) **Agree** that the upcoming paper for you to bring to Cabinet about PGP include a recommendation seeking authority for this transfer to be delegated to you and the Minister of Finance.

**Agreed / Not Agreed**

*Next steps*

hh) **Note** that MAF is intending to prepare a paper on the whole of the PGP initiative for you to take to Cabinet in May 2009.

**Noted**

Richard Lynch  
Director  
Innovation and Research Policy

Hon David Carter  
Minister of Agriculture  
Minister of Forestry

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## BACKGROUND AND ANALYSIS

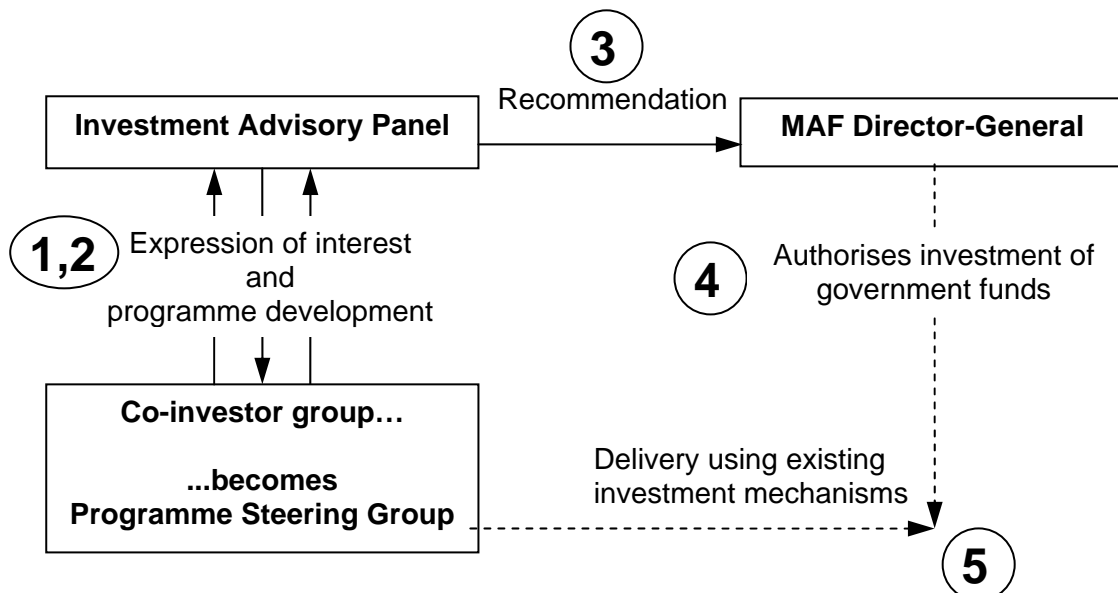
### Background

5. Following discussion with you about a proposed governance structure for the Primary Growth Partnership (PGP: B08-473 and B08-477 refer) and how PGP might operate (B08-535 refers), MAF has completed more analysis on how PGP will be delivered.
6. This brief elaborates on:
  - a) how PGP will operate in practice, including proposed initial sector allocation of funds;
  - b) further detail about the Investment Advisory Panel (IAP) and its appointment;
  - c) a proposed structure and duties of the Secretariat; and
  - d) initial estimates of the cost of establishment and operation of the PGP structures and processes.

### Analysis

#### Operation of PGP

7. The figure below outlines the crux of how we expect PGP to operate:



- a) **Step 1:** The IAP will call for expressions of interest (Eols) for investment programmes. Groups of potential co-investors with similar interests develop Eols. The IAP determines which Eols will be progressed (this

- process may include iterative discussions between the IAP and groups of co-investors to further develop Eols).
- b) **Step 2:** Co-investor groups of successful Eols become formal Programme Steering Groups (including government officials), who develop business plans for the investment programme. These business plans are then submitted to IAP for assessment.
  - c) **Step 3:** The IAP assesses the quality and value proposition of programmes and makes recommendations to MAF Director General (MAF-DG).
  - d) **Step 4:** MAF-DG approves government investment and subsequent contracting of the programmes.
  - e) **Step 5:** Members of the Programme Steering Groups will arrange for contracts to be entered into, via existing investment mechanisms (such as FRST). The Programme Steering Group will also be responsible for oversight of the programme.
8. Further details of how we expect the process would operate are attached in Appendix 1.
  9. It is expected that potential investors will group together naturally around common goals to develop Eols, and membership may be refined when Programme Steering Groups are formalised. It will be important that investors continue to build on mechanisms to keep each other informed of proposals under development. Programme Steering Groups will need to be able to demonstrate to the IAP that their proposed investment meets the criteria for investment through PGP, which will include demonstrating support and strategic priorities of the relevant sectors.
  10. A Secretariat will assist the IAP and have a key role in ensuring that process and documentation are of the highest quality. This will support the IAP in making recommendations to MAF-DG with confidence.
  11. It is also proposed that there be an “Annual General Meeting” of investors, including key Ministers and key private sector investors. It is envisaged that this “Primary Investment Council” would meet with the IAP and discuss overall progress of PGP in achieving its objectives.

#### *Initial funding allocation*

12. You have already agreed to a hybrid model of funding allocation (brief B08-473 refers, paragraphs 31-32). This approach involves an initial allocation to five sectors (pastoral (including wool) and arable production, horticulture, seafood (including aquaculture), forestry and wood products, and food processing (including, for example, nutraceuticals and bioactives)) to enable investment funding to start flowing (subject to meeting PGP criteria and, ultimately, MAF-DG approval). The IAP also recommends allocation of the remaining funds between programmes, based on the quality of the proposals.

13. Because an investment programme may span more than one sector (eg pastoral and food) or there may be more than one programme per sector, we recommend that the IAP determines which programme(s) each sector allocation is used for. This is in addition to the IAP's role of recommending whether the programme is of sufficient quality to be funded.
14. There are two ways the portion initially allocated to the sectors could be set: an equal fixed sum allocated to each sector, or a proportional allocation on the basis of relative economic activity. We consider that initially allocating \$10m of the total appropriation to the five sectors (excluding Climate Change) would be appropriate and suggest two possibilities:
  - a) \$2m for each sector; or
  - b) splitting the \$10m proportionally, according to each sector's contribution to GDP.
15. Splitting \$10m proportionally between the five sectors (excluding Climate Change) would range from an initial allocation of \$3.79m for the Pastoral & Arable sector, to Seafood receiving approximately \$130,000.

<b>Sector</b>	<b>Contribution to GDP</b>	<b>% Spread</b>	<b>Proportional allocation of \$10m</b>
Pastoral (inc wool) & Arable	4.1%	38.0%	\$3.79m
Horticulture	0.6%	5.7%	\$0.57m
Seafood (inc Aquaculture) <sup>1</sup>	0.1%	1.3%	\$0.13m
Forestry & Wood Products	2.7%	25.1%	\$2.51m
Food Manufacturing	3.2%	29.9%	\$2.99m
<i>Total</i>	<i>10.8%</i>	<i>100%</i>	<i>\$10M</i>

16. We consider that splitting the \$10m proportionally would not lead to an ideal outcome, given the disparity between sectors in relative contribution to GDP. The \$0.1m that the Seafood sector would be allocated, for example, seems too small to provide the intended signals from the government and incentives for the industry to engage. Instead, we therefore recommend that an equal fixed amount is allocated to each sector with the remainder of PGP being fully contestable. We propose that each sector is allocated a \$2 million fixed portion each year for each of the first 2 years.
17. Climate Change requires a different approach, which we will report to you separately.
18. Some sectors may not be in a position to use their \$2 million fixed portion in the first year. In this case, it is suggested that the un-used portion is rolled over for the first six months of the second year. Allowing 18 months provides a balance between encouraging sector groups to act quickly, while at the same time ensures that quality programmes are developed. If, after this time, a quality programme that the IAP has confidence in recommending has not been developed, it provides enough time for this funding to be put towards another programme.

<sup>1</sup> Note that this calculation excludes the contribution of seafood processing.

19. Unused funds from the fixed allocations distributed in year two will be reabsorbed into PGP.

#### *Investment Advisory Panel*

20. We suggest that the Investment Advisory Panel (IAP) consist of a Chair plus five additional members, and we recommend that you appoint the inaugural IAP members.
21. Appointments to the IAP fall outside of the terms of reference for the Cabinet Appointments and Honours Committee (which are: "To consider appointments to statutory and other government agencies, chief executive appointments, and nominations for New Zealand Royal Honours, and associated policy").
22. Initially, either MAF-DG could appoint IAP members in consultation with you and key stakeholders; or you could appoint IAP in consultation with MAF-DG and key stakeholders. Particularly as there may be a perceived conflict of interest if MAF-DG appoints the body that will be making recommendations to him/her about what decisions he/she should make, we recommend that you appoint the inaugural IAP members following consultation with MAF-DG and major co-investors in PGP as well as the Minister of Finance.
23. In refreshing the Panel we recommend that the Minister of Agriculture seek recommendations for IAP membership from a committee of three people (the current Chair of the IAP, MAF-DG, and a delegate appointed by the Minister of Agriculture). This committee would confer with key investors before submitting a recommendation to the Minister of Agriculture for appointment.
24. In appointing a new Chair, we suggest that the committee consist of the MAF-DG and two delegates appointed by the Minister of Agriculture.
25. Given the long-term nature of PGP we recommend a three-year term for members, with staggered membership. This means that in the first term, some IAP members may be appointed for terms of fewer than three years. We also suggest that IAP members can have their membership renewed once, for an additional three years.

#### *Secretariat*

26. Secretariat functions would be undertaken on a full-time basis by staff employed within MAF, reporting to the Director Management Services, MAF Policy. The Secretariat will be responsible to the IAP, but with accountability to MAF (as MAF employees). The IAP Chair and MAF-DG will agree the roles and responsibilities of the Secretariat, which are likely to include:
  - a) developing, delivering and maintaining PGP systems and processes (including payment systems);
  - b) administration and meeting support of the IAP;
  - c) communication and publicity of the PGP initiative and the underlying programmes;

- d) managing the interface between the IAP and investors through effective and regular contact and communication;
  - e) monitoring and facilitating the process around identifying and enabling cross-cutting issues between sectors;
  - f) facilitating contracting and programme management (as required by IAP);
  - g) arrange, in consultation, the reappointment processes required for IAP members; and
  - h) oversight of the process of reporting and evaluation.
27. We suggest that the Secretariat should initially comprise a Manager, one Senior Analyst, and an experienced Executive Administrator; with an additional Senior Analyst added to the Secretariat from 2011/12, as the PGP appropriation increases. The Manager should be of senior standing, with demonstrable credibility with both the industry and with government, as well as being skilled in public processes and accountability mechanisms.
28. The exact staffing requirements for the Secretariat can only be finalised after the IAP has decided on the functions of and level of support it requires from the Secretariat.

*Estimate of resourcing required*

29. The PGP is a large initiative. Although not every Programme will be expected to cover the full breadth of the value chain, the programmes of activities funded under PGP are expected to be large, complex, and multifaceted, including education, research, technology transfer and near market activities. Programmes will be multiyear with the commitments of contributing parties likely to vary over time. Robust programmes of work will take time to develop and contract (as multiple parties will be involved) and will need to be actively managed and will require ongoing evaluation. Achieving the desired outcomes will require appropriate administrative resourcing.
30. The IAP will be funded from PGP and supported by a MAF-employed Secretariat to address the day to day administrative responsibilities of PGP.
31. Financial provision will need to be made from within the PGP appropriation for IAP fees and panel expenses, including the remuneration of panel members, arranging travel and accommodation. It is envisaged that the panel will meet monthly (i.e., 10 months of the year). [Withheld under Section 9(2)(f)(iv) of the Official Information Act 1982].
32. The IAP will need access to specialist advice on proposed investments and would need funding to do so. We anticipate that this funding should be \$250,000 for 2009/10 and 2010/11, rising to \$500,000 from 2011/12.
33. It is anticipated that the IAP would need additional establishment costs in the first year, for instance to facilitate additional meetings, set up processes and ensure effective communication such as web sites. These costs should be met from a one-off establishment fund of \$155,000 provided to the Chair from within the PGP appropriation.

34. The Secretariat assists the IAP and has a key role in ensuring that process and documentation are of the highest quality. This will support the IAP in making recommendations to MAF-DG with confidence. Secretariat functions would be undertaken on a full-time basis by staff employed within MAF, reporting to the Director Management Services, MAF Policy. We estimate that \$470,000 of the PGP appropriation in 2009/10, \$420,000 of the PGP appropriation in 2010/11 and \$555,000 of the PGP appropriation in 2011/12 and outyears, will be required to resource the Secretariat.

#### *Resourcing programme development*

35. The potential co-investors and Programme Steering Groups will meet their own costs for arranging meetings, participation and developing programmes.
36. Contribution by MAF staff to the development of EoIs and investment programme business plans (including via Programme Steering Groups) will be met through ongoing work programmes, including reprioritising existing resources.
37. Other Departments will, in consultation with MAF, determine their own representation.
38. The PGP Deputy Secretaries Group, chaired by MAF, will continue so that government representatives in the co-investor groups and Programme Steering Groups are able to facilitate a whole of government perspective.
39. Programme Steering Groups may seek funds towards external needs, such as business plan development and engagement of contractors. We recommend that this only occur as an exception where there is a demonstrable capacity issue and be subject to recommendation by IAP and approval by MAF-DG. We further recommend that any funding be matched by co-investors.

#### *Investment management and evaluation*

40. Programme development, monitoring and evaluation of progress will need to be transparent and interactive, and focus on the activities and outcomes required to achieve step changes in productivity, sustainability and economic growth.
41. We anticipate that different programmes will have a range of durations. Each programme will be made up of a co-ordinated group of projects resulting in a significant number of contracts to manage. In addition, we expect that all programmes (and projects within each programme) will have an evaluation requirement as part of the approval process and this will be built into the funding requirements for the programme.
42. Given this complexity, the Secretariat should oversee the monitoring and evaluation process but will not be responsible for the reporting itself. Operational agencies who are investment managers, such as FRST, specialise in contracting providers to provide services (e.g. research) that will achieve the outcomes sought. These investment managers will evaluate those PGP contracts they administer and report to the Programme Steering Group

responsible for the programme. It is anticipated that this will cost around 3% of the funds contracted.

43. Programme Steering Groups will then be responsible for reporting back to the IAP about progress against the wider programme objectives and sector strategic priorities.

*Transfer of required funding from non-departmental to departmental*

44. The proposed funding for the IAP, the Secretariat and contracting processes will need to be transferred from non-departmental to a departmental output class. This can only occur post-Budget.
45. We recommend that in the paper we are preparing for you to take to Cabinet about PGP, you seek authority for this transfer to be delegated to you and the Minister of Finance.

## APPENDIX 1

WHAT	WHO
1. Ideas for programmes / projects generated with sector support	Anyone can generate ideas; however, they have to be brought forward by groups of investors.
2. Initial Expression of Interest developed, including initial estimate of funding sought	Potential investor group (including Govt)
3. Acceptance of completed EOIs for consideration by IAP	Secretariat
4. Decide which EOIs to pursue in current round (may include a request for further information before making this decision). Includes feedback on assessment.	IAP
5. If yes, potential investors become Programme Steering Group.	
6. Develop draft business plans e.g. objectives, outcomes, confirmed co-funding, process, admin and partnership arrangements.	Programme Steering Group. IAP may recommend co-funding from PGP for business plans; however, this is expected to be by exception and only where there is a clear capacity issue.
7. Work with Programme Steering Groups to ensure that draft business plans meet all criteria public and commercial.	Secretariat
8. Assess and prioritise business plan against PGP criteria and make recommendations for government investment to DG MAF.	IAP
8a. If necessary, provide feedback on proposals needing strengthening and iterate through assessment and prioritisation again.	IAP
9. Govt funding approved	DG MAF
10. Notify Programme Steering Group	Secretariat
11. Implementation of business plan including contracting	Programme Steering Group as outlined in business plan
12. Reporting and monitoring	Programme Steering Group reports to IAP
13. Recommendations to Programme Steering Group and MAF DG: continue, exit etc.	IAP