



BRIEFING

REGIONAL INVESTMENT OPPORTUNITIES TAGGED CONTINGENCY

Date:	23 January 2020	Priority:	High
Security classification:	Sensitive	Tracking number:	2030 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to establish the Regional Investment Opportunities Tagged Contingency up to the value of \$300 million.	28 January 2020
Hon Shane Jones Minister for Regional Economic Development Minister for Infrastructure	Agree that Ōpōtiki Harbour Development be funded through the Regional Investment Opportunities Tagged Contingency rather than the PGF. Approve the draw down of the Ōpōtiki Harbour Development from the Regional Investment Opportunities Tagged Contingency.	
Hon Phil Twyford Minister of Transport Minister of Economic Development	Agree that Ōpōtiki Harbour Development be funded through the Regional Investment Opportunities Tagged Contingency rather than the PGF.	
Hon David Parker Minister for Trade and Export Growth		
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	28 January 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Robert Pigou	Head of Provincial Development Unit	Privacy of natural persons	
Aaron Hape	Principal Advisor to the Head of Provincial Development Unit	Privacy of natural persons	✓

The following departments/agencies have been consulted
The Treasury

Minister's office to complete:

- Approved
- Declined
- Noted
- Needs change
- Seen
- Overtaken by Events
- See Minister's Notes
- Withdrawn

Comments

PROACTIVELY RELEASED



BRIEFING

REGIONAL INVESTMENT OPPORTUNITIES TAGGED CONTINGENCY

Date:	23 January 2020	Priority:	High
Security classification:	Sensitive	Tracking number:	2030 19-10

Purpose

This briefing seeks agreement:

- to establish a tagged capital contingency to operationalise Budget Ministers' decision to allocate \$300 million for regional investment opportunities in infrastructure;
- [REDACTED] Prejudice to negotiations
- that the PGF's investment in Ōpōtiki Harbour Development be funded through the Regional Investment Opportunities Tagged Contingency, and to draw down funding from the contingency to give effect to this decision.

Recommended action

The Provincial Development Unit recommends that you:

Regional Economic Development Ministers

Ōpōtiki Harbour Development

1. **Note** Cabinet approved in principle funding for the Ōpōtiki Harbour Development in December 2019 and delegated agreement to the final structure of the investment to Regional Economic Development Ministers;
2. **Note** that through contract negotiations it became apparent that the Ōpōtiki Harbour Development has greater alignment with the Regional Investment Opportunities Tagged Contingency rather than the PGF;
3. **Agree** that the Ōpōtiki Harbour Development (\$79.400 million) will be funded through the Regional Investment Opportunities Tagged Contingency rather than the PGF;

Agree/Do not agree

4. **Agree** to provide Cabinet with an update on this decision through the Budget process.

Agree/Do not agree

Minister of Finance and Minister of Infrastructure / Regional Economic Development

5. **Note** that the Capital Investment Package for Regional Investment Opportunities, is subject to the details listed by Budget Ministers [CAB-19-MIN-0572];
6. **Agree** that projects funded from the Regional Investment Opportunities Tagged Contingency meet the following criteria:
- Support regional economic development;
 - Not meet all of the PGF's criteria;
 - Be an infrastructure investment that is 100 per cent capital expenditure;
 - Have a Crown ownership stake; and
 - Be Initiated by August 2020.
7. **Note** that Cabinet agreed to allocate \$300.000 million of capital expenditure to regional investment opportunities in the Capital Investment Package [CAB-19-MIN-0572];
8. **Note** that Budget Ministers have authorised the Minister of Finance and the relevant appropriation Minister (joint ministers) to take decisions on the final details of the capital infrastructure projects [CAB-19-MIN-0572];
9. **Agree** to establish a tagged capital contingency of up to \$300 million as follows in Vote Business, Science and Innovation to provide for Regional Investment Opportunities;

Agree/Do not agree

	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
Regional Investment Opportunities - Tagged Capital Contingency	Commercial Information	Commercial Information			

Approve/Do not approve

10. **Authorise** the Minister for Regional Economic Development and the Minister of Finance jointly to draw down the tagged capital contingency funding recommended in 9 above, subject to their satisfaction that projects identified meet the criteria above;

Authorise/Do not authorise

11. **Agree** that the capital expenditure incurred against recommendation 9 above be funded from the Capital Investment Package previously agreed [CAB-19-MIN-0572];

Agree/Do not agree

12. **Agree** that the expiry date for the tagged capital contingency in recommendation 9 above be extended Commercial Information

Agree/Do not agree

13. **Agree** that funding drawn down from the tagged capital contingency for Regional Investment Opportunities may be held by Provincial Growth Fund Limited;

Agree/Do not agree

14. **Agree** to establish the following new appropriation to provide for the decision in recommendation 13 above;

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister for Regional Economic Development	Regional Economic Development Capital Investments	Non-Departmental Capital Expenditure	This appropriation is limited to Crown investments in Provincial Growth Fund Limited

Agree/Do not agree

15. **Approve** the following changes to appropriations to provide for the decision in recommendation 3 above, with a corresponding impact on the operating balance and net core Crown debt:

	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
Vote Business Science and Innovation					
Minister for Regional Economic Development					
Regional Economic Development: Non-departmental Capital Expenditure					
Regional Economic Development Capital Investments	79.400	-	-	-	-
Total	79.400	-	-	-	-

Approve/Do not approve

16. **Agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Agree/Do not agree

17. **Agree** that the expenses incurred under recommendation 15 above be charged against the Capital Investment Package Tagged Contingency for Regional Investment Opportunities;

Agree/Do not agree

Prejudice to negotiations

18. Prejudice to negotiations

19. [Redacted] Prejudice to negotiations [Redacted]

Agree/Do not agree

20. [Redacted] Prejudice to negotiations [Redacted]

Agree/Do not agree

21. [Redacted] Prejudice to negotiations [Redacted]

Agree/Do not agree

Robert Pigou
Head of the Provincial Development Unit

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Hon Grant Robertson
Minister of Finance

..... / /

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Hon Phil Twyford
Minister of Transport
Minister of Economic Development

..... / /

Hon David Parker
Minister for Trade and Export Growth

..... / /

Hon Shane Jones
Minister for Regional Economic Development
Minister for Infrastructure

..... / /

Background

1. Cabinet agreed to a new Capital Investment Package for the Budget Policy Statement of approximately \$12 billion and delegated to Budget Ministers the Power to Act on this matter [CAB-19-MIN-0572]. On 9 December 2019, Budget Ministers confirmed that up to \$300 million of this capital expenditure (capex) be appropriated to 'Regional Investment Opportunities' for infrastructure. Budget Ministers will review the progress and priorities for the capital investment package on a regular basis.
2. Budget Ministers authorised the Minister of Finance and the Minister for Infrastructure, who is also the Minister for Regional Economic Development to make decisions on the projects that will be funded from the 'Regional Investment Opportunities' appropriation. Budget Ministers stated that projects within this allocation must be: "short to medium-term capital projects that are near investment-ready and support regional economic development and aspirations but do not meet the funding criteria of the Provincial Growth Fund."

Funding approach

3. We have clarified conditions of the funding with the Office of the Minister of Finance and the Treasury, to determine what projects can be funded from the Regional Investment Opportunities' appropriation. When providing advice to Ministers on projects under this allocation, we will consider whether projects will:
 - a. **Support regional economic development.** The PGF's objectives provide guidance on the Government's broader regional economic development objectives;
 - b. **Not meet all of the PGF's criteria.** This means that projects may not meet the co-funding requirements for PGF funding, have a low assessment score against one of the

PGF's criteria, not meet all of the investment principles in a PGF position paper, include investments excluded from PGF funding (such as purchasing land), and/or be investments previously declined by RED Ministers that still provide benefits to the regions;

- c. **Be an infrastructure investment that is 100 per cent capex.** This is in line with Ministers intent to fund Regional Investment Opportunities;
 - d. **Have a Crown ownership stake.** Eligible projects will be either be 100 per cent Crown owned; partially Crown owned, such as through a joint venture arrangement; or a loan held by PGFL;
 - e. **Be Initiated by August 2020.** This is in line with Budget Ministers decision that projects should be near-investment ready and be short to medium-term projects.
4. We seek agreement for a number of investments that can be made immediately in infrastructure. This paper seeks agreement that the Ōpōtiki Harbour Development is funded through the Regional Investment Opportunities Tagged Contingency rather than through the PGF. The attached paper, *Accelerated 2020 Roads Investment Briefing* [2030 19-20 refers] seeks agreement to fund a range of regional roads through the tagged contingency.
 5. The Provincial Development Unit (PDU) is working with partner agencies to provide investment options for funding, which will be provided to you in February 2020.

PDU process for Regional Investment Opportunities

6. The PDU has taken the approach that the projects approved under the Regional Investment Opportunities Tagged Contingency will be held by PGFL and will be subject to the same novation and monitoring processes followed for PGF initiated investments.
7. To facilitate this, all PDU administered Regional Investment Opportunities will be funded via a new appropriation to be established, within the Vote Business Science and Innovation, Regional Economic Development portfolio, titled Regional Economic Development Capital Investments.
8. For reporting purposes these projects will be identified separately from the PGF. But in order to simplify the internal PDU reporting processes the PDU suggests they are included as a separate category in PGF reporting.

Prejudice to negotiations

9. Prejudice to negotiations

10. Prejudice to negotiations

11. Prejudice to negotiations

the Minister of Finance and the Minister for Regional Economic Development (as Shareholding Ministers of PGFL) approved the

company's constitution which is publically available on the Companies Office website. The current wording of the purpose statement of PGFL's Constitution reads:

"The overall objective of the Crown, via the PGF, is to invest in regional economic development in New Zealand, by providing various forms of financial support for recipients in regional New Zealand. The Crown's decision making in relation to PGF investments is governed by the criteria for PGF decision-making published by MBIE from time to time, which includes non-financial criteria. The Crown wishes to hold its interests in certain PGF investments through a limited liability company, but in doing so the Crown wishes to ensure that the primary responsibility for management and administration of PGF investments remains with the Crown."

12. Prejudice to negotiations

13. Prejudice to negotiations

14. Prejudice to negotiations

Ōpōtiki Harbour Development

15. On 9 December 2019, Cabinet approved in principle \$79.4 million of funding to develop the Ōpōtiki Harbour [DEV-19-0338 refers]. Cabinet's decision was subject to a \$^{Commercial Information} co-contribution from the Bay of Plenty Regional Council and RED Ministers approval to the structure of this investment. The structure and terms of the investment are currently being negotiated.

16. The PDU recommends that the Ōpōtiki Harbour Development project be funded from the Regional Investment Opportunities Tagged Contingency. The project meets the criteria of the Regional Investment Opportunities Tagged Contingency and it has become clear through ongoing work on the structure of the investment that it has greater alignment with this contingency than the PGF, as outlined below, because:

- a. it is a large scale 100 per cent capex investment;
- b. the project has evolved through contract negotiations to the point where it is likely to own 100 per cent of the capital asset; and
- c. the project does not provide a return to the Crown.

17. The Cabinet paper stated that the PDU was working through the proposed structure for the Ōpōtiki Harbour Development, with the initial approach for the investment to be made through a Special Purpose Vehicle (SPV) that would own the development. At that stage, the PDU expected the SPV to be at least partially Crown-owned, but considered that Ōpōtiki District Council and Bay of Plenty Regional Council may hold an ownership stake.

18. It has become clear through contract negotiations, that the Ōpōtiki Harbour Development, which is a large scale capex investment, best aligns with the Regional Investment Opportunities Tagged Contingency because it will likely be 100 per cent owned by the Crown.

19. The Ōpōtiki Harbour Development is different from the PGF's other investments in marine and coastal assets, which will not be fully Crown owned and are revenue generating commercial investments. The Ōpōtiki Harbour Development is enabling infrastructure that unlocks the region's economic potential (such as for the Commercial Information PGF-funded Whakatohea Ōpōtiki Mussels Ltd project) but will not provide a financial return to the Crown.
20. Given Cabinet approved in principle PGF funding to develop Ōpōtiki Harbour, we recommend that Ministers update Cabinet that this project will be funded through the Regional Investment Opportunities Tagged Contingency through the Budget process. . The attached paper, *Accelerated 2020 Roads Investment Briefing* [2030 19-20 refers] seeks agreement to fund a range of regional roads through the tagged contingency.

Next Steps

21. Subject to your approval, funding from the Regional Investment Opportunities Tagged Contingency for the Ōpōtiki Harbour Development and roads in five regions (Refer BR 2030 19-20 Accelerated 2020 Roads investment briefing) can be announced.
22. The PDU is working with partner agencies to provide investment options for the remaining funding, which will be provided to you in February 2020.

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