



## COVERSHEET

<b>Minister</b>	Hon Stuart Nash	<b>Portfolio</b>	Economic and Regional Development
<b>Title of Cabinet paper</b>	Queenstown Economic Transformation and Resilience Fund: extension of instruments to enable most effective change	<b>Date to be published</b>	27 September 2021

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
August 2021	Queenstown Economic Transformation and Resilience Fund: extension of instruments to enable most effective change	Office of the Minister of Economic and Regional Development
11 August 2021	DEV-21-Min-0169	Cabinet Office

### Information redacted

**YES / NO** [select one]

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Commercial information.

**[In Confidence]**

Office of the Minister for Economic and Regional Development

Cabinet Economic Development Committee

**Queenstown Economic Transformation and Resilience Fund – extension of instruments to enable most effective change**

**Proposal**

- 1 In April 2021, Cabinet approved a package of support to enable the tourism sector and communities to recover and reset from the impact of COVID-19. This package of support included an allocation of \$20 million over three years for a Queenstown Economic Transformation and Resilience fund (the Fund) to underwrite projects to diversify the economy.
- 2 This paper seeks your agreement to implement the Fund with the additional options of using loans and/or equity instruments to support viable commercial projects, while retaining the previously agreed technical underwrite option. This is because consultation has shown that the need for support is broader than just use of an underwrite instrument.

**Executive Summary**

- 3 The Queenstown Economic Transformation and Resilience fund was established [CAB-21-MIN-0111] to advance new innovative economic opportunities in the Queenstown-Lakes District and surrounding areas by supporting projects that accelerate the development of commercial opportunities in alternative industries.
- 4 Cabinet further agreed that decisions on funding from the Queenstown Economic Transformation and Resilience fund initiative be subject to approval by the Minister of Finance, the Minister for Economic and Regional Development, the Minister of Research, Science and Innovation, and the Minister for Trade and Export Growth.
- 5 The Fund seeks to support commercial projects in alternative industries other than tourism in Queenstown-Lakes District and surrounding areas through the use of underwrites to support projects. Since then officials have consulted with stakeholders and found a need broader than just underwrites. Use of equity and loans are also needed.
- 6 The Cabinet minute establishing the Fund does not discuss the use of other funding instruments, such as loan or equity options. As such, the scope of delegation to Joint Ministers for ‘further discussions’ is most appropriately interpreted as limited to how underwrites should be designed or allocated. To introduce loans and/or equity options to the Fund, therefore requires a Cabinet decision as otherwise these options would be considered as unauthorised spending by Treasury.
- 7 This paper recommends that Cabinet agree to have the Fund implemented with additional options of using loan and/or equity instruments, while retaining the previously agreed technical underwrite option.

- 8 I am also proposing a set of principles for engaging with key stakeholders on potential project proposals to the Fund, as well as introducing criteria to underpin investment analysis and for decision-making by myself, the Minister of Finance, the Minister of Research, Science and Innovation, and the Minister of Trade and Export Growth as decision-making Ministers for the Fund.

## Background

- 9 On 12 April 2021, Cabinet approved a package of support to enable the tourism sector and communities to recover and reset from the impact of COVID-19 [CAB-21-MIN-0111]. This included an allocation of \$20 million over three years for a Queenstown Economic Transformation and Resilience fund (the Fund).
- 10 Cabinet agreed [DEV-21-MIN-0067] that the purpose of the Fund was to underwrite projects that will develop alternative industries within the Queenstown-Lakes District and surrounding areas.
- 11 Cabinet also agreed that decisions on investments from the Fund be subject to approval by the Minister of Finance, the Minister for Economic and Regional Development, the Minister of Research, Science and Innovation, and the Minister for Trade and Export Growth.

### *Fund investments should accelerate commercial opportunities and returns*

- 12 Following the Cabinet mandate to set up the underwriting fund, my officials have been working with the district to showcase the objectives of the Fund to private sector stakeholders and to build a pipeline of credible proposals. Known potential projects from the district include digital technology and innovation hubs, physical and virtual screen studios, future foods, and new energy applications across key sectors, including those shown below:

Commercial Information



Commercial Information

- 13 Such commercial projects can help to establish critical technology and other infrastructure in the region, which is important for enabling firm-led innovation, growth in high-wage jobs, and opportunities to improve the physical and social environment through the diversification away from international tourism.
- 14 I am aware that commercial projects being developed for consideration to the Fund Commercial Information will, by design from the stakeholders, intersect into other Government initiatives where issues of regulation, need for critical infrastructure development, and duplication of funding support may arise. The process I am undertaking on behalf of the four decision-making Ministers for the Fund will work to ensure such issues are taken into consideration when project funding decisions are being considered.

*Technical underwrites can be overly prescriptive and may delay investment – debt and equity options should be considered*

- 15 Underwriting a project usually involves the underwriter signing and accepting liability under an insurance policy, thus guaranteeing payment in case loss or damage occurs. While the Crown has done this in specific areas (for example underwriting the construction of KiwiBuild homes or through backing the New Zealand Venture Investment Fund) this is usually done at a much greater scale and requires a range of technical assessments to manage risk.
- 16 Some of the projects in Queenstown-Lakes currently identified for potential investment are not seeking an underwrite commitment; rather they would prefer a loan or equity option. Alternatively where they might be, it appears the scale of risk coverage using an underwrite instrument would exceed the amount of the Fund.
- 17 Given the scale and complexity involved in technical underwriting, which could potentially delay making Fund investments, and given the level of funding allocated through the support package is set at \$20 million, I do not believe a technical underwrite should be the only approach the Crown takes to achieve the aims of the Fund.
- 18 I am therefore proposing that introducing the options of loan and/or equity provision for commercial projects, in addition to the option of using a technical underwrite, will better achieve the aims of the Fund and provide a stronger basis for meeting the diverse needs of private sector commercial developments and their investors.
- 19 A proposed timeframe covering eliciting of expressions of interest to the Fund, reviewing and assessing projects, and anticipated timing of project investment advice to the four decision-making Ministers is set out in Table C below.

*Principles to underpin investment options and criteria for making decisions*

- 20 Government engagement in the district and investment through the Fund should be done to catalyse or accelerate commercial projects in alternative industries, with the aim of creating long-term resilience in the local economy and improving upon the region’s productive, sustainable, inclusive and Māori-focused outcomes. I propose, therefore, that officials implement the fund guided by the following principles:
- Build new industry opportunities while amplifying existing sectors and local comparative advantage other than international tourism
  - Be guided by domestic and global growth market opportunities, work to attract key talent and private investments, and build on New Zealand’s brand
  - Be willing to accept a broader risk profile than market-based lenders on projects when anticipating wider public benefits and building cumulative benefits
  - Seek critical inputs (natural, physical/financial and human capital) into local projects from elsewhere, where valuable, and in turn generate benefit for others across New Zealand
  - Develop project priorities for investment consideration in partnership with key regional stakeholders including iwi/Māori, local government, private sector actors and regional institutions.
- 21 I further propose the criteria set out below in Table A be used for eliciting expressions of interest in the Fund and for making investment decisions.

**Table A - Criteria for eliciting EOIs and making investment decisions**

<p>Projects should be:</p> <ul style="list-style-type: none"><li>• Commercial in nature</li><li>• Self-sustaining over time by private sector and/or local government</li><li>• Enabling Māori to realise aspirations in the economic transformation</li><li>• Implementable within the Fund budget timeframes noted in Table B below</li><li>• Not targeted to tourism sector/firms</li><li>• Create additional value and avoid duplicating existing efforts</li><li>• Aligning with objectives of Government’s Industry Transformation Plans, including underpinning more environmentally sustainable practices and more equitable outcomes for those living and working in the community</li><li>• Commercially viable with returns to catalyse new and higher wage jobs in the district and surrounding areas</li><li>• Derived from and/or supported by local actors and institutions</li></ul>
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## Implementation of the Fund

- 22 Cabinet agreed to a \$20 million package under the Queenstown Economic Transformation and Resilience fund. Note that the \$0.4 million allocated to departmental funding each year for five years [CAB-21-MIN-0111] leaves \$18 million appropriated for commercial investment opportunities.
- 23 The Fund is with the Economic and Regional Development Non-departmental Capital appropriation Tourism Investment Crown Regional Holdings Ltd of \$18m and \$2m to manage the fund over five years. This appropriation therefore does provide the flexibility to undertake the additional options of using loans and/or equity instruments to support viable commercial projects, while retaining the previously agreed technical underwrite option. Table B below outlines the appropriation for the Fund:

**Table B - Budget appropriation for the Fund**

Initiative <i>Policy settings</i>	Cost (\$m)			
	2020/21 to 2022/23	2023/24	2024/25	Total
<b>Queenstown Economic Transformation and Resilience fund</b> , to underwrite projects that will develop alternative industries within the Queenstown-Lakes District and surrounding areas. Includes \$0.400 million each year for departmental funding.	19.200	0.400	0.400	<b>20.000</b>

- 24 An expression of interest process will be conducted by officials to ensure any and all credible proposals are provided to the Fund. Officials will also undertake an analysis of proposals to rank the proposals against the criteria proposed. This advice will be provided to the Crown Regional Holdings Ltd (CRHL) board who, alongside separate advice from officials, will provide investment recommendations to the four decision-making Ministers. The timeline of my proposed process is set out in Table C below:

**Table C – Proposed process for implementing the Fund\***

Milestone/Activity	Timeframe
Pipeline of projects being discussed & developed with project stakeholders. Announcements and project invites done in collaboration with Queenstown-Lakes District Council and their economic development agency; alongside the New Zealand Trade and Enterprise investment group; and with other intermediary organisations.	In progress
First tranche of project proposals obtained	Completed July-August 2021
Review of first tranche of viable projects, including input sought from government agencies and regular updates to decision-making Ministers	Completed September 2021

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Investment assessments to be reviewed by CRHL board	October 2021
Proposed recommendations for initial investment decisions from CRHL board and MBIE officials to four decision-making Ministers	November 2021 and beyond
*Depending upon investment decisions relative to total amount of the Fund, this process may cycle through several iterations over the next three years until such time as the Fund is totally allocated to projects	Ongoing through 2022/23

### Financial Implications

- 25 Implementing the Fund with the additional options of loans and/or equity instruments to support viable commercial projects, while retaining the previously agreed technical underwrite option, will introduce different administrative costs to the Fund depending on which instrument(s) get used, but these costs will be covered by the departmental appropriation.

### Legislative Implications

- 26 Not applicable

### Regulatory Impact Statement

- 27 Not applicable

### Climate Implications of Policy Assessment

- 28 A Climate Implications of Policy Assessment (CIPA) may be required depending on the outcome of investment options and decisions.

### Population Implications

- 29 The package is expected to positively affect the populations residing within the Queenstown-Lakes District and surrounding areas. I do not anticipate any negative impacts on particular population groups as a result of this proposal.

### Human Rights

- 30 There are no human rights implications from this paper.

### Consultation

- 31 Treasury has been consulted on this paper. Key aspects of this paper have also been discussed with Queenstown-Lakes District Council and key stakeholders including:
- a) the aims of the Fund

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- b) the principles of engagement and the criteria for eliciting expressions of interest and making investment decisions (including not using grants as a mechanism for support)
- c) highlighting timeframes for implementing the Fund, including that the Fund can be open for three years through 2022/23, or until such time as the Fund is fully allocated to projects within the three-year time period.

### Proactive Release

- 32 We plan to proactively release this paper on MBIE's website, subject to any relevant redactions as appropriate, consistent with Official Information Act 1982.

### Communications

- 33 On 6 May 2021 I announced a \$200 million Tourism Communities: Support, Recovery and Reset Plan. This included announcing a re-set of the Queenstown-Wanaka regional economy with a \$20 million fund to attract private sector investment to diversify and develop alternative industries in Queenstown-Lakes District and surrounding areas through the ability to underwrite projects.
- 34 Officials have been engaging with stakeholders about the Fund objectives, including discussions on what investment mechanisms would best meet their commercial need from amongst loans, equity and/or underwrite options. Officials indicated that future Expression of Interest announcements for the Fund will provide details on which of these options will be eligible mechanisms for supporting projects, and once this is determined by Cabinet decision.
- 35 I will announce when a project(s) receives support from the Fund at such time when the investment decision is made, and in arrangement with the private sector recipient's commercial and other interests in mind.

### Recommendations

- 1 **Note** that Cabinet approved a package of support to enable the tourism sector including an allocation of \$20 million over three years for a Queenstown Economic Transformation and Resilience fund [CAB-21-MIN-0063].

*Noted*
- 2 **Note** that Cabinet approved \$0.4m annually over five years for a total of \$2 million from the \$20m allocated to the fund, thus leaving \$18 million for investment in commercial projects.

*Noted*
- 3 **Note** that Cabinet agreed the purpose of the Fund is to underwrite projects that will develop alternative industries within the Queenstown-Lakes District and surrounding areas.

*Noted*



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- 4 **Note** that following consultation, Officials have heard that options other than underwriting are needed to support projects that would advance Queenstown's diversification.

*Noted*

- 5 **Note** that Cabinet agreed that decisions on investments from the Fund be subject to approval by the Minister of Finance, the Minister for Economic and Regional Development, the Minister of Research, Science and Innovation, and the Minister for Trade and Export Growth.

*Noted*

- 6 **Note** that to introduce loans and/or equity options to the Fund requires a Cabinet decision as otherwise using these options would be considered as unauthorised spending by Treasury.

*Noted*

- 7 **Agree** to implement the fund with the additional options of using loans and/or equity instruments to support viable commercial projects, while retaining the previously agreed technical underwrite option.

*Agree / Disagree*

- 8 **Agree** that officials use the criteria listed in *Table A – Criteria for eliciting EOIs and making investment decisions* to guide eliciting expressions of interest in the Fund and to make investment decisions.

*Agree / Disagree*

- 9 **Note** the timeframe as listed in Table C to implement the Fund, and subject to investment decisions made over the life of the Fund.

*Noted*

Authorised for lodgement

Hon Stuart Nash

Minister for Economic and Regional Development