



COVERSHEET

Minister	Hon Shane Jones	Portfolio	Regional Development
Title of Cabinet paper	Establishing the Regional Infrastructure Fund	Date to be published	3 July 2024

List of documents that have been proactively released

Date	Title	Author
May 2024	Establishing the Regional Infrastructure Fund	Office of the Minister for Regional Development
27 May 2024	Establishing the Regional Infrastructure Fund CAB-24-MIN-0168.02	Cabinet Office

Information redacted

YES / NO

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Some information has been withheld for the reasons of Confidential advice to Government and Commercial information.



Cabinet

Minute of Decision

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Establishing the Regional Infrastructure Fund

Portfolio **Regional Development**

On 20 May 2024, following reference from the Cabinet Business Committee, Cabinet:

Background

- 1 **noted** that the National and New Zealand First coalition agreement committed to establishing a \$1.2 billion fund to invest in regional infrastructure;
- 2 **noted** that New Zealand faces a significant infrastructure deficit, including in the regions, driven in part by challenges for regional organisations and investors in accessing capital;
- 3 **noted** that Cabinet has agreed to establish tagged contingencies of \$300 million operating funding and \$900 million capital funding to commit the full \$1.2 billion for the Regional Infrastructure Fund (RIF) as part of the Budget 2024 package;
- 4 **noted** that, as part of Budget 2024, Cabinet has agreed to establish the RIF, subject to further work on:
 - 4.1 proposed criteria, eligibility and invitation process;
 - 4.2 development of a robust process to identify high value investment options;
 - 4.3 clarity on investment mechanisms and expected fiscal implications;
 - 4.4 operational arrangements, including options for which entities are best placed to deliver investments from the RIF;
 - 4.5 Ministerial decision-making structures, including for drawdown of the contingencies;
- 5 **noted** that the Minister for Regional Development will report back to Cabinet by the end of June 2024 with the overall investment strategy, investment framework, criteria, investment decision-making thresholds, delivery arrangements and financial settings, and that this will include seeking Cabinet agreement to draw down on the \$1.2 billion tagged in contingencies to establish the RIF;
- 6 **noted** that the Minister for Regional Development intends that funds will be available for projects from 1 July 2024 and all RIF funds to be fully allocated to projects by quarter three of 2026;

- 7 **noted** that the Minister for Regional Development has worked with officials to build in lessons learned from reviews of previous Regional Development funds, notably reviews by the Office of the Auditor General (OAG) and Treasury;

Investment strategy and framework

- 8 **agreed** that the RIF invest in both the building of new infrastructure as well as developing, upgrading and improving existing infrastructure;
- 9 **agreed** that the RIF invest in projects across two distinct funding components, with the following definitions and criteria:
- 9.1 *Resilience Infrastructure*: infrastructure that improves a region's ability to absorb, adapt and/or respond to stresses and shocks:
- 9.1.1 investments will improve resilience in areas such as:
- 9.1.1.1 weather events;
- 9.1.1.2 energy security;
- 9.1.1.3 water security (water storage);
- 9.1.1.4 food security;
- 9.1.1.5 connectivity (e.g. transport solutions, digital connectivity for rural communities);
- 9.1.1.6 recovery infrastructure (infrastructure that is available in instances of regions responding to natural disasters);
- 9.1.2 this can include any ancillary physical works that protect existing Crown or local infrastructure, or assets developed through the RIF, such as river flow management projects;
- 9.2 *Enabling Infrastructure*: infrastructure that ensures regions are well-connected, productive, and resilient:
- 9.2.1 these projects will invest in assets that are used by, and/or generate benefits for, multiple businesses or many parts of a community;
- 9.2.2 eligible assets will include:
- 9.2.2.1 shared services, such as innovation parks, innovation facilities, supply chain or transport solutions;
- 9.2.2.2 cultural institutions of regional significance; and
- 9.2.2.3 fixed assets within individual enabling businesses that produce outputs that are beneficial to other businesses in the region;
- 9.2.3 projects should:
- 9.2.3.1 result in an increase in Gross Domestic Product (GDP);
- 9.2.3.2 find it challenging to secure finance elsewhere; and
- 9.2.3.3 be supported by co-funding from investors other than government;

- 10 **agreed** that any investments in individual businesses must share benefits or services with other businesses or the community in the region, and that where there is an element of direct private benefit, investments must either:
- 10.1 develop businesses, explicitly in the areas of energy security, water security, food security, or connectivity that provide wider regional spillover services (e.g. transport solutions, digital connectivity), outputs or benefits that are critical for the resilience or productivity of other businesses or the community; or
 - 10.2 grow Māori-owned businesses that are critical to enabling outcomes (beyond just employment) throughout a community or region;
- 11 **agreed** that the RIF not invest in projects already funded through other central government programmes, including social infrastructure (housing, schools, hospitals) and roads of national significance;
- 12 **agreed** that the RIF not invest in potable water, wastewater, and storm water assets except for investment in:
- 12.1 rural, community-owned water assets (that are not on the local authority's water network);
 - 12.2 water assets that are not 'business as usual' assets and are directly critically-enabling for eligible RIF projects, for example storm water assets that are typically vital to ensure the success of a floodbank project;
- 13 **agreed** that some funds, up to a maximum of five percent of the total fund amount, will remain unallocated to be available to invest in projects determined by Ministers in response to emerging priorities that have broader regional development benefits and fit the RIF's criteria;
- 14 **noted** that the RIF will predominantly focus on projects in the range of \$1 million to \$50 million, but will remain flexible to invest in larger projects;
- 15 **noted** that the Minister for Regional Development expects that the RIF's \$900 million capital funding and \$300 million operating funding will be approximately allocated across the following funding components (but will need to remain flexible to direct investment to support high-quality proposals):
- 15.1 Resilience Infrastructure – \$720 million (60 percent of the total);
 - 15.2 Enabling Infrastructure – \$420 million (35 percent of the total);
 - 15.3 unallocated and available for emerging priorities – \$60 million (five percent of the total);
- 16 **agreed** that, subject to the funding limits of \$900 million capital expenditure and \$300 million operating expenditure, the RIF will create Crown and regional assets through a mix of loan, equity, other capital investment mechanisms, and grants to remain flexible in using the most appropriate investment instrument for each project, and help deliver the best value for New Zealanders and the Crown;

Regional Development Ministerial Group

- 17 **agreed** to establish a Regional Development Ministerial Group (RDMG) to make project specific investment decisions, comprising the following portfolios:
- 17.1 Finance;
 - 17.2 Infrastructure;
 - 17.3 Local Government;
 - 17.4 Regional Development;
 - 17.5 Māori Development;
- 18 **noted** that the RDMG will make investment decisions in line with delegated thresholds (paragraph 29 below), including for projects identified by Ministers in response to emerging priorities;

Supporting Māori economic development

- 19 **noted** that:
- 19.1 the Minister for Regional Development intends that an initial focus for the RIF will include investment in areas like flood resilience and Māori development;
 - 19.2 the report back to Cabinet by the end of Confidential advice to Govern will include proposed settings designed to enhance Māori economic development and maximise equitable outcomes from the RIF;
- 20 **noted** that:
- 20.1 the Minister for Regional Development has asked for further advice from officials on relevant projects from Māori entities, whenua Māori, iwi and Māori businesses;
 - 20.2 should any be suitable for RIF support, the Minister intends to propose these potential investment opportunities in the report back to Cabinet by the end of Confidential a

Investment decision-making

- 21 **agreed** that the RIF remain flexible to provide co-funding proportions as suited to each project on a case-by-case basis, except that where investment in an individual productive firm (e.g. a manufacturing business) is projected to result in direct private benefit as well as the spillover benefits to the region, the RIF will contribute no more than 50 percent of the total project costs;
- 22 **noted** that the Minister for Regional Development expects that the proportion of the total project finance requirements committed for each RIF investment will be guided by the following rates:
- 22.1 Resilience Infrastructure – 40 to 80 percent;
 - 22.2 Enabling Infrastructure – 30 to 60 percent;
- 23 **noted** that RIF projects will be identified and initiated by a combination of invitation and application;

- 24 **agreed** that the RIF will be delivered and administered by Kānoa – Regional Economic Development & Investment Unit (Kānoa – RD), part of the Ministry of Business, Innovation and Employment (MBIE);
- 25 **agreed** that Crown Regional Holdings Limited (CRHL), a Schedule 4A asset holding company created under the Public Finance Act 1989, will hold debt and equity investments for the RIF and will accrue RIF funds returned through debt, interest and equity repayments;
- 26 **noted** that projects must meet eligibility criteria to be considered for RIF support, and that these criteria will be agreed by Cabinet when the Minister for Regional Development reports back by the end of Confidential advice to Govern;
- 27 **noted** that eligible projects will be considered against assessment criteria, and that officials from across MBIE and other relevant agencies as necessary, will provide decision-makers with robust business cases, including advice on the expected return from investments and public benefit, and CRHL’s expert financial, commercial, and management assessment;
- 28 **agreed** that the assessment of projects will also include consideration of how they will contribute to the Government’s priorities to lower the number of jobseekers, and to support local employment;
- 29 **authorised** the following investment decision-making thresholds for the RIF:
- 29.1 senior officials make decisions on grant investments of \$3 million or smaller;
- 29.2 the Regional Development Ministerial Group makes decisions on grant investments over \$3 million and up to and including \$35 million, as well as all loan and equity investments up to and including \$35 million;
- 29.3 Cabinet makes decisions on all investments over \$35 million, or any projects deemed high risk;
- 30 **authorised** the RDMG to approve investments in projects identified by Ministers in response to emerging priorities that align with the RIF’s criteria;

Flood resilience funding category

- 31 **agreed** to create a dedicated flood resilience funding category under the RIF’s Resilience Infrastructure component that will initially make \$200 million available for eligible projects;
- 32 **agreed** that, to be eligible for RIF support in the flood resilience funding category, projects must meet all of the following eligibility criteria:
- 32.1 the project must be a regional flood resilience project;
- 32.2 the project must meet the high-level RIF criteria and scope as outlined in the paper under CBC-24-SUB-0030;
- 32.3 the project must be fully consented and ready for physical works;
- 32.4 the funding recipient must be a local government entity that contributes co-funding to the project;

- 33 **noted** that Kānoa – RD officials have provided advice to the Minister for Regional Development in relation to the flood resilience projects proposed through the *Before the Deluge 2.0* report (attached to the paper under CBC-24-SUB-0030), which have the potential to be important foundational investments that align well with the objectives of the RIF;
- 34 **agreed**, subject to draw down of funding from the RIF’s tagged contingency following the Budget moratorium, to committing up to \$101.1 million of RIF funding, including grants, loans and other forms of funding (alongside co-funding from recipients) for 42 flood resilience projects proposed through *Before the Deluge 2.0* that officials recommend, with support from independent advice, meet the proposed ‘flood resilience’ category criteria, and are ready for RIF investment;
- 35 **agreed** that the level and type of financial support for these projects will be determined on a case-by-case basis to ensure funds are prioritised fairly;
- 36 **noted** that officials are progressing the identified 42 projects through the final due diligence stages, and that should Cabinet agree to fund these projects through the RIF, officials will seek agreement from the RDMG to the funding arrangements for each project before proceeding to contracting;
- 37 **noted** that for the remaining \$98.9 million made available for the flood resilience category, the Minister for Regional Development has directed officials to:
- 37.1 Confidential advice to Government
- 37.2 report back on the projects’ suitability for RIF support, which will include assessment of the most appropriate investment mechanisms for these projects, including the use of loans or equity or other forms of funding;

Monitoring and evaluation

- 38 **noted** that the Minister for Regional Development will report back to Cabinet before the end of 2024 with a detailed monitoring and evaluation plan, including specific performance measures and evaluation milestones, to provide visibility of the ongoing effectiveness of the RIF;
- 39 **invited** the Minister for Regional Development to report back to Cabinet on the RIF’s progress by the end of 2024;
- 40 **noted** that the Minister for Regional Development has committed to developing a sustainable, fiscally-responsible funding model for Regional Development investments, and will report back to Cabinet with a proposal before the end of 2024.

Diana Hawker
for Secretary of the Cabinet

Secretary’s Note: This minute replaces CBC-24-MIN-0030. Cabinet agreed to add paragraph 28.