



BRIEFING

Regional Development portfolio financial position

Date:	27 November 2023	Priority:	High
Security classification:	In Confidence	Tracking number:	2324-0972

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Regional Development	Note this briefing provides transparency on cost pressures in the Regional Development portfolio and potential funding sources. Agree to attend a meeting for MBIE portfolio Ministers to discuss the reprioritisation options presented in this paper and how best to achieve your respective portfolio priorities as well as overall fiscal objectives.	4 December 2023

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Robert Pigou	Deputy Secretary and Head of Kānoa – Regional Economic Development & Investment Unit	Privacy of natural persons	✓
Isabel Poulson	General Manager, Strategy, Planning and Performance, Kānoa – Regional Economic Development & Investment Unit	Privacy of natural persons	

The following departments/agencies have been consulted

- Minister's office to complete:
- | | | |
|--|---|------------------------------------|
| <input type="checkbox"/> Noted | <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Overtaken by Events | <input type="checkbox"/> Needs change | <input type="checkbox"/> Seen |
| | <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



BRIEFING

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Purpose

To set out financial position of the Regional Development portfolio, including:

- cost pressures in the operational expenses of Kānoa – Regional Development & Investment Unit
- cost pressures in individual projects; and
- potential sources of funding that could be used to fund the above.

Executive summary

This paper outlines the financial position of the Regional Development portfolio. Officials have identified \$45.8 million of operational and project cost pressures which require urgent decisions, and up to \$^{Confidential advice to Govt} million in potential sources of funding within the portfolio. Each of the identified sources of funding have trade-offs, including legal risk, delivery risk, and reputational risk. There are also risks to future Regional Development investments to consider, including the ability to fund future project cost pressures.

Decisions on the direction of the Regional Development portfolio are required immediately as Departmental funding, which provides for Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) operating expenses, is due to reduce from \$24.2 million in this financial year, to \$1.8 million in 2024/25, \$1.0 million in 2025/26 and cease in 2026/27, which means ongoing operations cannot be funded past June 2024. Kānoa – RDU is expected also to incur portfolio and project cost pressures beyond this date to manage and monitor the portfolio, as well as carry out any future Regional Development activities and administer current/new funds. A funding source needs to be confirmed with some urgency.

Current Regional Development portfolio baseline

Funding	2023/24 \$m	2024/25 \$m	2025/26 \$m	2026/27 \$m	2027/28 & Outyears \$m	Current FTE
Departmental Crown Revenue	\$20.732	\$1.808	\$1.000	-	-	73.5
Departmental Third Party Revenue	\$3.505	-	-	-	-	8
Non-Departmental Crown Revenue	\$782.769	\$25.400	\$0.400	-	-	-
Non-Departmental Third Party Revenue	-	-	-	-	-	-
Total	\$807.006	\$27.208	\$1.400	-	-	81.5

The order in which fiscal decisions are made needs to be carefully considered to ensure that your options are not prematurely curtailed. Following decisions on the strategic direction of the portfolio, which you will be briefed on shortly, decisions on operating expenditure will need to be made. Following this, Kānoa – RDU will provide Ministers with advice on managing immediate project cost pressures in the portfolio.

Broader than the Regional Development portfolio, the Ministry of Business, Innovation and Employment (MBIE) has undertaken a fiscal sustainability and efficiency programme across all the portfolios it supports to help the Government to achieve its fiscal objectives and ensure spending represents value for money. Kānoa – RDU officials recommend only the \$14.75 million in unspent funds from the Queenstown Economic Transformation and Resilience Fund be included in this broader MBIE exercise. However, you may instead decide to reprioritise these funds within the portfolio to meet cost pressures within the portfolio. The impact of reprioritising funding from the other sources of funding identified elsewhere in this briefing, and the cost pressures within the Regional Development portfolio are such that officials have not suggested any further funds are suitable to return to the centre.

We recommend you discuss relative priorities for progressing Government goals across the MBIE portfolios with other MBIE Ministers. To that end, we have recommended that the MBIE ownership Minister (the Minister for Economic Development) call a meeting of all MBIE portfolio Ministers.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** this briefing provides transparency on cost pressures and potential funding sources in the Regional Development portfolio. *Noted*

- b **Note** Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) has no sustainable baseline funding for operating expenses beyond June 2024. However, Kānoa – RDU will incur portfolio and project cost pressures beyond this date. *Noted*

- c **Note** in order to manage and monitor the portfolio as well as carry out any future Regional Development activities and administer current/new funds, Kānoa – RDU estimates a \$23.0 million per annum operating budget will be required, subject to direction by Ministers. *Noted*

- d **Note** that \$23.0 million per annum is less than Kānoa – RDU's current operating budget of \$28.04 million, in recognition of the constraints within the current fiscal environment, which will mean activities and functions will be further limited. *Noted*

- e **Note** a number of Kānoa – RDU-managed projects are facing immediate cost pressures totalling \$22.8 million. Further projects will face cost pressures over time. *Noted*

- f **Note** total cost pressures currently facing Kānoa – RDU (both operational expenses and project cost pressures) are \$45.84 million. *Noted*

g **Note** Kānoa – RDU had been working towards baselining its operational funding, with in-principal support from Ministers, however this has not yet occurred, and there are no immediate plans for a baseline review of the Ministry of Business, Innovation and Employment (MBIE) that would enable this.

Noted

h **Note** decisions made about options for the future of the Regional Development portfolio will have an impact on the operating expenses of Kānoa – RDU. We will brief you on these options shortly.

Noted

i **Note** that Kānoa – RDU has been undertaking ongoing cost savings over the past three years, including a reducing FTE in the regional development portfolio from a peak of 155 in July 2021 to 81.5 in October 2023, decreasing travel costs and reducing spend on contractors and consultants.

Noted

j **Note** in light of the fiscally constrained environment Kānoa – RDU has identified a number of possible funding sources to address cost the identified cost pressures. All of these decisions will require Ministerial decisions.

- Reprioritise funding from existing active funds:
 - i. Reprioritise \$14.7 million from the Queenstown Economic Transformation and Resilience Fund.
- Use underspends in closed funds:
 - i. \$^{Confidential} million in the Provincial Growth Fund (PGF) underspends returned from the 1 Billion Trees programme.
 - ii. \$^{Confiden} million in the PGF returned from the Commercial Information , currently ring fenced by previous Ministers for transport projects.
- Use forecast interest and/or principal returned to Crown Regional Holdings Limited from existing loans:
 - i. \$13.0 million returned from loans made through the Strategic Tourism Assets Protection Programme.
 - ii. \$8.0 million in interest repayments.
 - iii. \$30-55 million in interest and principal repayments forecast to be accumulated by the 2024/25 financial year.
- Cancel approved but not yet contracted and/or contracted projects which are not progressing to plan from older funds and reprioritise the funding:
 - i. Up to \$^{Confidential adv} million PGF funding from the contracted Commercial Information
 - ii. Up to \$^{Commercial} million from Commercial Informa, an approved not yet contracted PGF project.
 - iii. Up to \$^{Commerc} million Infrastructure Reference Group funding from Commercial Information, a cancelled/reduced contract.
- Cancel up to ten approved projects, totalling \$^{Commercial} million, from the Regional Strategic Partnership Fund (RSPF) and NIWE PPFS that have not yet been contracted and reprioritise allocated funding.

- Cancel seven approved projects where Kānoa – RDU has not counter-signed, as contracts were received after set deadlines:
 - i. Up to \$^{Confide} million from two PGF projects.
 - ii. Up to \$^{Confidential adv} million from five RSPF projects.

Noted

- k **Note** each of these options will have trade-offs and require Ministerial/Joint Ministerial decisions to progress. Trade-offs include; reduction in funding available for recycling, reduction in ability to meet stated purpose of open funds, reduced support for Queenstown’s economic transition, reduction in ability to meet project cost pressures in existing funds as they arise, risk of legal challenge, risk of damage to the government’s reputation.

Noted

- l **Note** that decisions will need to be made in a sequenced way. Kānoa – RDU has set out a recommended sequence of: operational decisions (officials will brief you on this in due course), operational funding decisions, immediate project funding decisions, fiscal sustainability payment decisions, ongoing project funding decisions.

Noted

- m **Note** MBIE has found savings to meet the PREFU fiscal payment, and has identified further reprioritisation options. Total savings are in the order of 5.8 per cent Departmental and 5-7 per cent non-Departmental, representing ongoing savings for the Crown.

Noted

- n **Agree** to attend a meeting for MBIE portfolio Ministers to discuss overall fiscal objectives.

Agree / Disagree

- o **Note** that we will provide further advice on options you would like to progress, including phasing, costs of change, and risk management.

Noted



Robert Pigou
**Deputy Secretary and Head of Kānoa –
 Regional Economic Development &
 Investment Unit, MBIE**

..... / /

Hon Shane Jones
Minister for Regional Development

..... / /

Financial position of the Regional Development portfolio

1. This paper outlines the financial position of the Regional Development portfolio. It highlights the cost pressures being faced by the portfolio, potential sources of funding for these cost pressures and the decisions and trade-offs required. Specifically, officials have identified \$45.84 million of operational and project cost pressures which require urgent decisions, and up to \$Confidential advice to Government million in potential funding sources within the portfolio. However, each of these funding sources have trade-offs, some of which are significant and severe, including legal risk, delivery risk, and reputational risk. There are also risks to future Regional Development investments, including the ability to fund future project cost pressures.
2. Decisions on the direction of the Regional Development portfolio are required immediately, as Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) has no baseline funding for operating expenses beyond June 2024. Kānoa – RDU will incur portfolio and project cost pressures beyond this date in order to manage and monitor the portfolio, as well as carry out any future Regional Economic Development activities and administer current/new funds.
3. We welcome an early conversation with you about any initial preferences you have for meeting operational and project cost pressures. Following that, more detailed advice can be provided on options to meet cost pressures.

An All-of-Ministry of Business, Innovation and Employment (MBIE) approach to reprioritisation

4. Broader than the Regional Development portfolio, MBIE has undertaken a fiscal sustainability and efficiency programme across all the portfolios it supports to help the government to achieve its fiscal objectives and ensure spending represents value for money.
5. We expect to receive advice from the Treasury shortly about the process for submissions for the Fiscal Sustainability Payment included in the PREFU (\$110 million per annum for MBIE).
6. We recommend you discuss relative priorities for progressing Government goals across the MBIE portfolios with other Ministers. To that end, we have recommended that the MBIE ownership Minister (the Minister for Economic Development) call a meeting of all MBIE portfolio Ministers.

Fiscal background for the Regional Development portfolio

7. The Regional Development portfolio is funded through nine appropriations, including three multi-category appropriations. The majority of portfolio funding is non-departmental funding for regional development projects. **Annex 1** provides an overview of portfolio appropriations.
8. Departmental funding in the portfolio is due to reduce from \$24.2 million in this financial year, to \$1.8 million in 2024/25, \$1.0 million in 2025/26 and cease in 2026/27. This is because Kānoa – RDU's operating expenses have historically been funded from the funds it manages, rather than through a direct operating appropriation, and no operating funding has been provided beyond the full allocation of the Regional Strategic Partnership Fund (RSPF).

Current Regional Development portfolio baseline

Funding	2023/24 \$m	2024/25 \$m	2025/26 \$m	2026/27 \$m	2027/28 & Outyears \$m	Current FTE
Departmental Crown Revenue	\$20.732	\$1.808	\$1.000	-	-	73.5
Departmental Third Party Revenue	\$3.505	-	-	-	-	8
Non-Departmental Crown Revenue	\$782.769	\$25.400	\$0.400	-	-	-
Non-Departmental Third Party Revenue	-	-	-	-	-	-
Total	\$807.006	\$27.208	\$1.400	-	-	81.5

9. The regional development portfolio is currently responsible for 10 funds, managing \$1.64 billion in projects currently underway, with investments ranging from small community-based projects through to major infrastructure and commercial investments in complex multi-party projects.
10. Three funds remain active, the North Island Weather Events (NIWE) Primary Producer Finance Scheme (PPFS), and the Wood Processing Growth Fund (WPGF) (both administered on behalf of the Ministry for Primary Industries) and the Queenstown Economic Transformation and Resilience Fund (QETRF). **Annex 2** provides an overview of funds administered by Kānoa – RDU.
11. Over the past years the key areas of change in the portfolio are:
 - a. An increase in the number of funds managed by Kānoa – RDU from one to ten; increasing the value of funds managed by Kānoa – RDU by over \$1.6 billion. Three of these funds remain active.
 - b. A reduction from peak FTE of 155 in July 2021 to 81.5 in October 2023 and reduction in operating expenses from \$41.8 million in 2020/21 financial year to \$28.04 million forecast in 2023/24 financial year (including CRHL operating expenses), alongside a reduction in the number of projects managed by Kānoa – RDU.
 - c. A reduction in spend on contractors and consultants by 66 per cent (\$3 million) since the 2020/21 financial year. In the 2023/24 financial \$1.56 million is forecast to be spent on contractors and consultants, down from \$4.59 million in the 2020/21 financial year.
 - d. \$640 million from the PGF was reprioritised as part of the PGF Reset, and a further \$140.9 million was reprioritised from the PGF to fund the RSPF, Kānoa – RDU operating expenses and the Regional Investments Opportunity fund.
 - e. A rapid saving exercise conducted in the supplementary estimates of appropriations 2022/23 saw \$3 million from the Worker Redeployment Programme returned to the Treasury.
 - f. Costs to deliver two funds for which no operating funding was received (Regional Investment Opportunities, and the Business Support Grants Programme), have been absorbed by the portfolio.

Kānoa – RDU has operational and project cost pressures

Operational cost pressures are imminent

12. To date, the majority of Kānoa – RDU’s operational funding has been sourced from the funds it delivers and manages. While a small amount of operating expenditure will be received beyond this financial year for the direct costs of administering the remaining three open funds, this is not enough funding to maintain even basic service provision (e.g. receiving repayments, ensuring delivery) for remaining open projects beyond these functions.
13. Kānoa – RDU’s ongoing operational funding is not baselined. Kānoa – RDU had been working towards baselining its operational funding, with in-principal support from Ministers, however this has not yet occurred, and there are no immediate plans for this to occur.
14. With funding for the RSPF being fully allocated as of 24 August 2023, Kānoa – RDU has no sustainable operating funding to support the Regional Development portfolio beyond 30 June 2024. Without operational funding Kānoa – RDU is unable to support core functions such as client and loan management of existing loans, as well as support other aspects of the Regional Development portfolio. Confidential advice to Government

The feasibility of these options is yet to be explored. Even if this decision was taken, it may not be able to be completed by 30 June 2024.

Substantial work has been done to keep costs down over the past three years

15. Kānoa – RDU has reviewed its operational expenses and in addition to those outlined in paragraph 18, Kānoa – RDU taken the following steps to reduce costs:
 - a. disestablished a total of 74 positions, with 35 positions removed since August 2022
 - b. cancelled a planned process automation initiative
 - c. reduced spending on contractor and consultants
 - d. carefully managed sensitive expenditure, such as travel, catering and meeting costs.

Project cost pressures are imminent, and expected to continue long-term

16. Kānoa – RDU’s contracts with funding recipients are clear that there is no assumption or automatic right to additional funding above any contingency agreed in contract. When projects face unexpected cost increases that they are unable to meet, funding recipients are expected to find funding from other sources. Where no other funding sources are available, officials work with funding recipients to consider options to reduce costs such as value engineering or reducing scope.
17. However, there are times where projects are not able to acquire funding from other sources and risk being left incomplete, risking the loss of government funding provided and the expected regional development benefits. Twice a year, Kānoa – RDU advises Ministers about funding within the PGF that has become available via underspends (e.g. because projects have completed under budget or withdrawn), and projects facing cost pressures that require additional funding support. This enables Ministers to make decisions on the reallocation of available funding efficiently and ensures that projects can be completed and realise their benefits.
18. To date \$166.74 million of PGF project funds have been reprioritised from withdrawn project or projects with underspends to projects facing cost pressures. The last reprioritisation exercise occurred, for urgent projects only, in September 2023 and reprioritised a total of \$6.64 million to three projects that were unable to wait for the next reprioritisation round, now due to be undertaken in December 2023.

19. Currently, Kānoa – RDU has identified 10 projects with immediate cost pressures totalling \$22.80 million, and a further four projects as having potential future cost pressures totalling \$35.8 million, expected to crystallise in the next 6-12 months.
20. Kānoa – RDU requires that all project budgets include a suitable contingency and continues to revise the amount required for individual projects based on economic conditions and the circumstances of the individual project.
21. To date the value of underspends available for reprioritisation every six month has generally met the value of cost pressures in the portfolio. Confidential advice to Government [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
22. Kānoa – RDU will continue to review the contingencies it requires for individual projects to ensure this reflects the current economic conditions.

Decisions on funding will need to be sequenced

Decisions on the future direction of the Regional Development portfolio will impact Kānoa – RDU’s operational funding requirements

23. As Minister for Regional Development, you have several strategic choices that you could make to enhance regional development outcomes. We welcome a conversation with you on your plans for the Regional Development portfolio at your earliest convenience.
24. The strategic decisions you will make on the future of the portfolio will guide the operation of the portfolio, however operationally, these options fall into two broad categories: deliver new initiatives or manage existing projects only. In the absence of one of these decisions, Kānoa – RDU will be required to close down. Broad estimates have been made for the operational expenses and FTE requirements:
 - a. **Deliver new initiatives** – Maintain or make minimal changes to Kānoa – RDU capacity. Depending on the operational design required for this intervention, officials estimate \$23-29 million and 80-105 FTE per annum will be required for this option. Resource requirements would ultimately be dependent on complexity of any new funding and speed of implementation required.
 - b. **Manage existing projects only** – Reduce Kānoa – RDU capacity. No further new investments or interventions could be made by, or managed by Kānoa – RDU, and no Regional Development activities beyond managing existing loans/grants would occur. Subject to conversations with and decisions by you, officials estimate \$15-20 million and 70-75 FTE per annum will be required for this option.
 - c. **Close down (if no other decision made)** - Reduce all Kānoa – RDU capability, [REDACTED] Confidential advice to Government [REDACTED]. Subject to conversations with and decisions by you, officials estimate \$3-5 million and 10-20 FTE per annum will be required as a one-off cost for this option. Confidential advice to Government [REDACTED]
[REDACTED]
[REDACTED]

25. Kānoa – RDU will undertake more detailed operational design based on our conversations with you and your decisions on the future direction of the Regional Development portfolio.
26. Confidential advice to Government
[Redacted]

Projects facing immediate cost pressures

27. Currently, Kānoa – RDU has identified ten projects with immediate cost pressures totalling \$22.80 million, and a further four projects as having potential future cost pressures totalling \$35.8 million, expected to become crystallise in the next 6-12 months.
28. Kānoa – RDU use the following criteria to determine which PGF projects with cost overruns are recommended to Ministers to receive additional funding:
 - a. There are no alternative funding sources available to the recipient prior to seeking additional Crown funding.
 - b. The recipient has shown evidence of project costs, and that all reasonable efforts have been made to make the project delivery as efficient as possible and the costs as low as practicable.
 - c. Benefits of the project have either been realised partially or will be demonstrably and evidentially realised by the completion of the project.
 - d. Without funding the completion of the project is at significant risk.
29. The ten identified immediate cost pressure projects (**Annex 3**) have all demonstrated that they meet the criteria for reprioritisation.
30. Kānoa – RDU intends to seek your decision on the resolution of these cost pressures in due course, and will provide further information about the projects and options for your decision.

Potential sources of funding and trade-offs

31. Kānoa – RDU has identified a number of potential sources of funding within the portfolio that could be used to meet operating and project cost pressures identified above. All of these decisions will require Ministerial decision and consideration of trade-offs.
 - a. Reprioritise unallocated funding from active funds
 - b. Use underspends in closed funds
 - c. Use the forecast interest and/or principal returned to CRHL from existing loans
 - d. Cancel approved but not yet contracted and/or contracted projects which are not progressing as planned from older funds
 - e. Cancel approved projects from the RSPF that have not yet been contracted
 - f. Cancel approved projects where Kānoa – RDU has not counter-signed.
32. These options are discussed in more detail below. Detailed information about the options and trade-offs will be provided in subsequent briefings.

Reprioritise unallocated funding from existing active funds

33. Kānoa – RDU is responsible for the administration of three active funds, QETRF, NIWE PPFS and WPGF. The Minister for Forestry is the lead Minister for the WPGF, and decisions on the NIWE PPFS are likely to require cross-Ministerial consultation, therefore these funds have not been included in this exercise. It may be possible to reprioritise funding from Regional Development funds (e.g. QETRF or NIWE PPFS) which has not been approved to be allocated to any particular project, if you wish.
34. Reprioritising funding from active funds means that those funds are no longer able to meet the need or purpose for which they were intended. If eligible projects or businesses are progressing applications in good faith, they may have a reasonable expectation that funding will be available when all fund criteria can be met. Additionally, reprioritising funding from an active fund could raise equity issues between projects that applied earlier and have already received funding and those that do not receive funding because they applied later.

Queenstown Economic Transformation and Resilience Fund (QETRF)

35. The QETRF is an \$18 million fund established in 2021 to underwrite projects that will develop alternative industries within the Queenstown-Lakes District and surrounding areas. Subsequently, the scope of the fund was broadened to include underwriting of loans and equity. The fund is due to close in November 2023.
36. To date, two projects have been approved for funding from the QETRF, for a total of \$3.25 million. \$14.75 million remains unapproved.
37. Officials note there has been a lack of demand from suitable projects that meet the QETRF eligibility criteria during the life of this fund, and that the fund is almost at the end of its expected span. Kānoa – RDU officials suggest you consider reprioritising the remainder of this fund.

Use underspends in closed funds

38. Kānoa – RDU officials have identified a total of \$^{Confidential} million underspends in the PGF:
 - \$^{Confidential} million in the PGF underspends returned from the 1 Billion Trees programme.
 - \$^{Confiden} million in the PGF returned from the ^{Commercial Information} project, ring-fenced by previous Ministers for transport projects, particularly in Northland.
39. Historically, as outlined above, Ministers have previously decided to use PGF underspends to meet project cost pressures from other PGF funded projects. Kānoa – RDU officials suggest that you choose to continue this approach.
40. \$^{Confiden} million of these underspends was ring-fenced by the Minister for Regional Development and the Minister of Transport in March 2023 for transport projects particularly in Northland. The number of PGF transport projects Kānoa – RDU administers is very currently few, and since that decision was made, only one transport project has experienced a cost pressure of \$330,000. Due to the small number of eligible projects, Kānoa – RDU officials suggest you consider removing this ring-fence. Further advice can be provided in due course.
41. Reprioritising these underspends for another purpose (e.g. for operational funding or to return to the centre), and not meeting project cost pressures would likely result in a number of near-complete regional development projects becoming unable to finish and deliver the intended benefits.

Use the forecast interest and/or principal returned to CRHL from existing loans

- 42. Prior regional development investments made through the PGF, RSPF, and other funds are starting to receive repayments (principal and interest). As these accumulate, there is an option to use these to fund other parts of the regional development portfolio.
- 43. To date, CRHL is holding: \$13.0 million returned from STAPP loans, \$8.0 million in interest repayments and is forecast to accumulate \$30-55 million in interest and principal repayments by the 2024/25 financial year.

44. While these funds could be used to support cost pressures across the Regional Development portfolio, you also have an opportunity to Confidential advice to Government [Redacted]

45. Confidential advice to Government [Redacted]

Confidential advice to Government [Redacted]

46. Confidential advice to Government [Redacted]

Confidential advice to Government [Redacted]

47. Confidential advice to Government [Redacted]

48. Confidential advice to Government [Redacted]

Confidential advice to Government

[Redacted]

49. Confidential advice to Government

[Redacted]

Cancel approved projects where the recipient has not yet signed a contract for funding

50. Kānoa – RDU has identified ten approved projects, totalling \$^{Commercial} million from the RSPF and NIWE PPFS, that have not yet been contracted.

Project (Region)	Description	Fund	Date approved	Total approved funds
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Commercial Information

[Redacted]

¹ A briefing on ^{Commercial Information} will be provided to your office shortly.

Project (Region)	Description	Fund	Date approved	Total approved funds
Commercial Information				

51. While it would be possible to withdraw from the contracting process, as these decisions have been made more recently than those outlined in the option above, officials advise that the reputational and legal risks are likely to be more substantial. Many of these projects are engaging in the contracting process with Kānoa – RDU officials in good faith. Officials caution against this course of action.
52. Additionally, there have been recent decisions made to approve projects for funding through the WPGF, which have not been included in the list above. Withdrawing from the contracting process will require the agreement of the Minister for Forestry.
53. Kānoa – RDU can provide you with further information on this option and the associated risks and trade-offs in subsequent briefings.

Cancel approved projects where Kānoa – RDU has not counter-signed, as contracts were received after set deadlines

54. In September 2023, Kānoa – RDU officials advised approved funding recipients that had not yet been contracted of cut-off dates prior to the 2023 general election. This was to ensure that contracts could be processed prior to the Government entering into the caretaker period.
55. Seven projects, from the PGF and the RSPF, returned signed contracts after set deadlines. The Head of Kānoa – RDU has not yet counter-signed these contracts.

Project (Region)	Description	Fund	Date approved	Total approved funds
Commercial Information				

Project (Region)	Description	Fund	Date approved	Total approved funds
Commercial Information				

- 56. As the above projects have not yet been counter-signed, it would be possible to cancel the projects and withdraw funding, however this option represents the most reputational and legal risk. For these reasons officials' preference is that the contracting on these projects continues.
- 57. If you wish, Kānoa – RDU can provide you with further information on this option and the associated risks and trade-offs in subsequent briefings.

Ordering decisions strategically will ensure all options can be considered

- 58. Following decisions on the strategic direction of the portfolio, which you will be briefed on shortly, decisions on operating expenditure will need to be made.
- 59. However, if no decisions are made regarding Kānoa – RDU operating funding and Kānoa – RDU is required to reduce all capacity, some ongoing operational expenditure will be required. Officials estimate this will be \$3-5 million in the financial year 2023/24 only.
 Confidential advice to Government
- 60. Following decisions on operating expenditure, Kānoa – RDU will provide Ministers with advice on managing immediate project cost pressures in the portfolio.
- 61. We then recommend you consider which funding, if any, would be suitable to meet the Fiscal Sustainability Payment.
- 62. In due course (prior to the March Baseline Update), Kānoa – RDU will provide relevant Ministers with the next round of projects experiencing cost pressures and advice on any underspends available for reprioritisation.

Fiscal sustainability payment

63. MBIE expects to receive advice from the Treasury shortly about the process for submissions for the Fiscal Sustainability Payment included in the PREFU (\$110 million per annum for MBIE).
64. MBIE has taken an all-of-MBIE approach to finding options to meet the Fiscal Sustainability Payment. All MBIE ministers have been provided with a briefing outlining the options available in their respective portfolios to meet the Fiscal Sustainability Payment.
65. Of the potential funding sources outline above, Kānoa – RDU officials recommend only the \$14.75 million in unspent QETRF funds be included in this exercise. The impact of reprioritising funding from the other funding sources identified, and the cost pressures within the Regional Development portfolio are such that officials do not recommend reprioritising further funds outside of the portfolio.
66. However, the unspent QETRF funds could be reprioritised to fund other elements of the Regional Development portfolio, such as operating expenses or project cost pressures, rather than returned to the centre to meet the Fiscal Sustainability Payment.
67. We recommend that MBIE Ministers meet to consider these options jointly.
68. We will seek your direction on funding that can be reprioritised to meet the Fiscal Sustainability Payment in due course.

Next steps

69. We would welcome an early conversation with you about any initial preferences you have for meeting operational and project cost pressures.
70. A briefing on options to consider for the direction of the Regional Development portfolio will be provided shortly.
71. Officials are available to discuss funding options, to inform further detailed advice, at your convenience.

Annexes

Annex 1: Portfolio appropriations

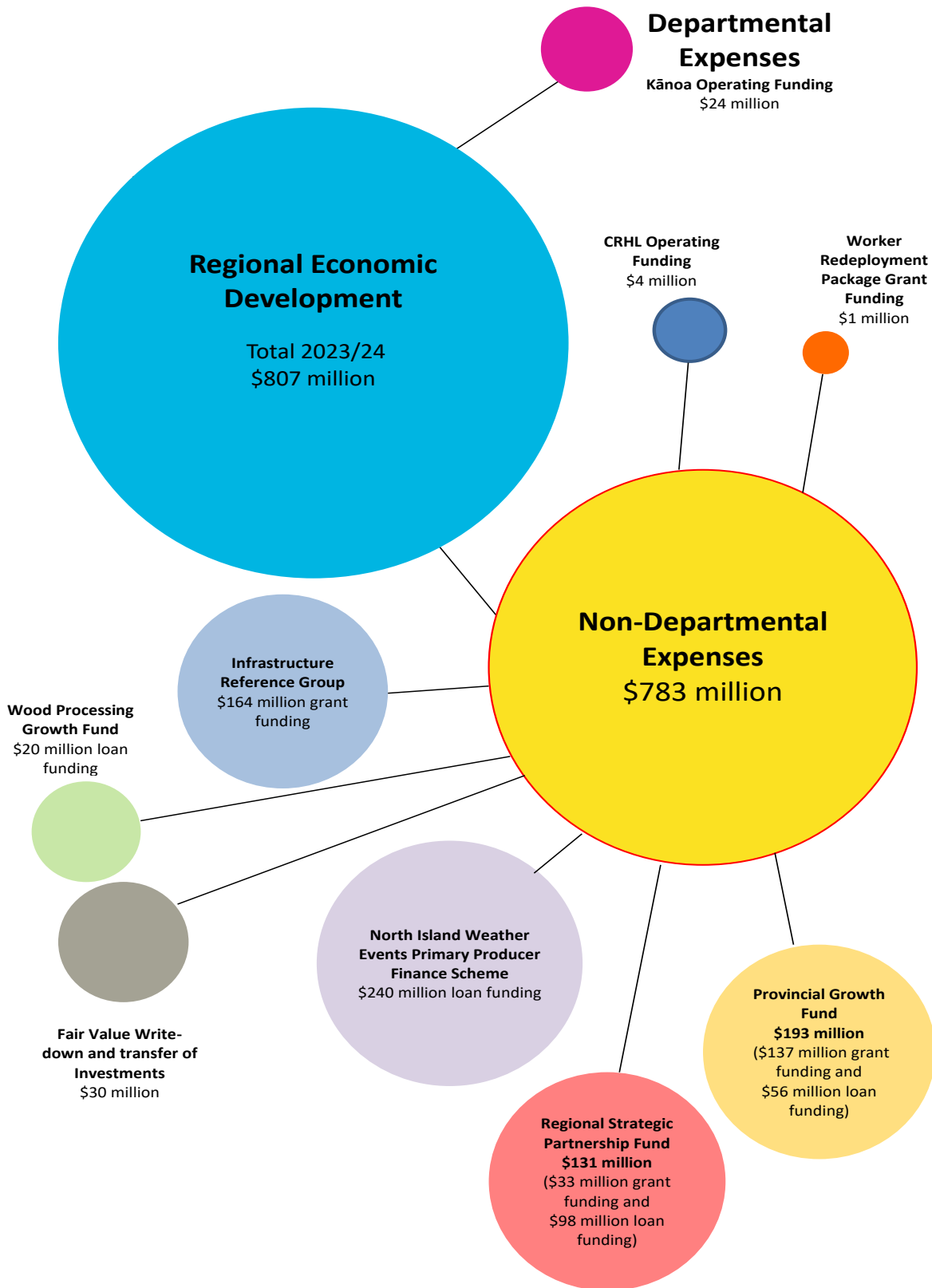
Annex 2: Overview of funds administered by Kānoa – RDU

Annex 3: Projects facing immediate cost pressures.





















Annex One: Portfolio appropriations

1. **Figure 1** details the appropriations for the Regional Development portfolio for 2023/24.

Figure 1: Regional Development portfolio appropriations, 2023/24



Annex Two - Overview of funds administered by Kānoa – RDU

<p>NORTH ISLAND WEATHER EVENTS PRIMARY PRODUCER FINANCE SCHEME</p> <p><i>To support severely-affected businesses return to a point where they can re-engage with commercial lenders.</i></p> <p> \$240.0m Total Fund \$0.0m Approved \$0.0m Contracted \$0.0m Paid</p> <p> 0 approved projects 0 completed projects</p>	<p>NORTH ISLAND WEATHER EVENTS BUSINESS SUPPORT GRANTS PROGRAMME</p> <p><i>To support business continuity by helping firms maintain cashflow and position firms for a successful recovery.</i></p> <p> \$75.0m Total Fund⁷ \$71.2m Approved \$71.2m Contracted \$65.2m Paid</p> <p> 17 approved projects 8 completed projects</p>	<p>WOOD PROCESSING GROWTH FUND</p> <p><i>To increase New Zealand's onshore wood processing capacity.</i></p> <p> \$45.0m Total Fund \$6.0m Approved \$0.0m Contracted \$0.0m Paid</p> <p> 2 approved projects 0 completed projects</p>
<p>COVID-19 RESPONSE AND RECOVERY FUND INFRASTRUCTURE REFERENCE GROUP</p> <p><i>To support construction-ready infrastructure projects and accelerate construction-related spend.</i></p> <p> \$704.7m Total Fund \$696.3m Approved⁹ \$684.4m Contracted \$541.6m Paid</p> <p> 150 approved projects⁵ 72 completed projects</p>	<p>PROVINCIAL GROWTH FUND</p> <p><i>To accelerate regional development, increase regional productivity and contribute to more, higher-paying jobs.</i></p> <p> \$3,048.4m Total Fund \$3,025.8m Approved⁴ \$2,972.0m Contracted \$2,418.2m Paid</p> <p> 2269 approved projects 1530 completed projects³</p>	<p>REGIONAL INVESTMENT OPPORTUNITIES</p> <p><i>To support regional economic development through infrastructure as part of the Capital Investment Package.</i></p> <p> \$210.5m Total Fund \$206.0m Approved \$205.0m Contracted \$167.3m Paid</p> <p> 18 approved projects 11 completed projects</p>
<p>STRATEGIC TOURISM ASSETS PROTECTION PROGRAMME</p> <p><i>To ensure Tourism assets survive the disruption caused by COVID-19.</i></p> <p> \$107.4m Total Fund \$105.5m Approved \$105.5m Contracted \$99.7m Paid</p> <p> 74 approved projects 16 completed projects</p>	<p>WORKER REDEPLOYMENT</p> <p><i>To create immediate jobs and income growth with high visibility to the community.</i></p> <p> \$96.5m Total Fund \$96.4m Approved \$96.4m Contracted \$87.1m Paid</p> <p> 82 approved projects 79 completed projects</p>	<p>QUEENSTOWN ECONOMIC TRANSFORMATION AND RESILIENCE FUND</p> <p><i>To support diversification beyond tourism, increase resilience and develop higher paying jobs.</i></p> <p> \$18.0m Total Fund \$7.8m Approved \$0.0m Contracted \$0.0m Paid</p> <p> 3 approved projects 0 completed projects</p>
<p>REGIONAL STRATEGIC PARTNERSHIP FUND</p> <p><i>To support regional economies to be more productive, resilient, sustainable, inclusive and Māori-enabling.</i></p> <p> \$193.8m Total Fund \$188.6m Approved \$71.9m Contracted \$38.1m Paid</p> <p> 55 approved projects 3 completed projects</p>	<p>Definitions: Total Funding - the value appropriated into the relevant fund to administer; Approved Funding - funding approved at an individual project level; Contracted Funding - funding written into signed agreements with recipients or transferred to a partner agency to administer; Paid - funding disbursed from the relevant agency to the recipient.</p> <p>⁵Kānoa also administers the Sector Workforce Engagement Programme which is a cross-government initiative to work with industry to develop a shared understanding of their key labour market and skills issues and take steps to address them.</p> <p>⁶Individual projects may be counted against multiple funds, sectors and lead agencies. This means totals can be less than the sum of individual categories.</p> <p>⁷Partner Agency data as at 30 September 2023, Kānoa data as at 15 October 2023.</p> <p>⁸The Provincial Growth Fund approved figure has increased due to the approval of additional funding for existing projects.</p> <p>⁹The Provincial Growth Fund completed project count has decreased because a project was previously incorrectly reported as complete.</p> <p>¹⁰The COVID-19 Response and Recovery Fund Infrastructure Reference Group approved figure and approved count has decreased due to the withdrawal of a project.</p> <p>¹¹Cabinet approved \$75.0 million as a tagged contingency from Vote Business, Science and Innovation in FY22/23 (Cyclone Gabrielle: To provide for interim business and primary sector support for the impacts of Cyclone Gabrielle and other recent weather events not covered by the Auckland Package), which was paid to Local Delivery Partners who administered the grants. A \$10.0 million underspend remained which was transferred into a new Cyclone appropriation in FY23/24.</p>	

