



## BRIEFING

### Fiscal sustainability options for the Resources portfolio

<b>Date:</b>	27 November 2023	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2324-1058

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Resources	<b>Note</b> Confidential advice to Government [Redacted] <b>Discuss</b> the contents of this briefing with officials at your initial meeting with MBIE.	4 December 2023

Contact for telephone discussion (if required)			
Name	Position	Telephone	1 <sup>st</sup> contact
Paul Stocks	Deputy Secretary, Building, Resources, and Markets	Privacy of natural persons	✓
Justine Cannon	General Manager, Energy and Resource Markets	[Redacted]	
Privacy of [Redacted]	Policy Director, Energy and Resource Markets	[Redacted]	

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 Withdrawn |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



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### Purpose

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This briefing sets out reprioritisation options in the Resources portfolio to support the Government's fiscal objectives.

### Recommended action

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

- a **Note** that MBIE has undertaken a fiscal sustainability and efficiency programme to support the government to achieve its fiscal objectives and ensure value for money in Government spend.

*Noted*

- b Confidential advice to Government

*Noted*

- c **Note** that there are additional options identified in the MBIE ownership fiscal briefing (2324-0917 refers) and these savings will be apportioned to your portfolio.

- d **Discuss** the contents of this briefing with officials at your initial meeting with MBIE.

*Yes/No*

#### *Next steps*

- e **Agree** to attend a meeting with 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.

*Agree / Disagree*

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

*Noted*



Paul Stocks

**Deputy Secretary, Building, Resources and Markets**  
MBIE

27 / 11 / 2023

Hon Shane Jones

**Minister for Resources**

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## Introduction

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1. This briefing sets out reprioritisation options in the Resources portfolio to support the Government's fiscal objectives. It shows the current funding for the Resources portfolio and identifies two potential areas for delivering savings.
2. In considering opportunities for savings, we have aimed to balance the following objectives:
  - a. Delivering the Government's priorities in the Resources portfolio,
  - b. Continuing to deliver non-discretionary activities, and
  - c. Seeking opportunities to deliver savings consistent with the Government's fiscal objectives.

## Fiscal background for the Resources portfolio

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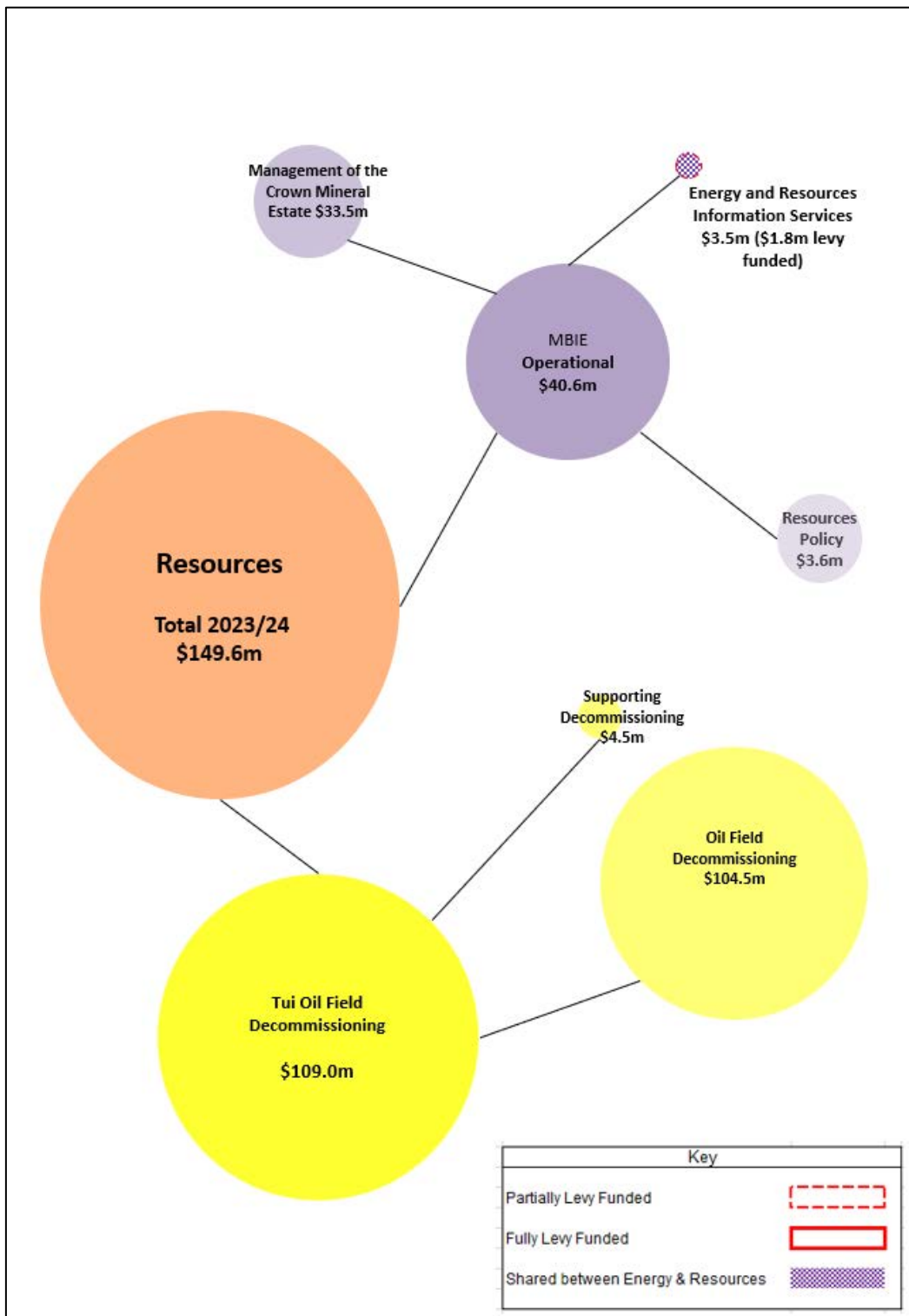
### The Resources Portfolio includes departmental and non-departmental funding

3. The table below shows the current funding for the Resources portfolio. This includes both departmental funding (funding received by MBIE to provide services directly) and non-departmental funding (covering a contract for service for decommissioning of the Tui oil field). The "savings" rows show the savings options identified throughout this briefing (all options identified have a fiscal impact as all relate to Crown-funded activities).

<b>Resources</b>	<b>2023/24 \$ million</b>	<b>2024/25 \$ million</b>	<b>2025/26 \$ million</b>	<b>2026/27 \$ million</b>	<b>2027/28 &amp; Outyears \$ million</b>
<b>Departmental Crown Revenue</b>	35.809	22.323	23.297	14.447	14.350
<b>Non-Departmental Crown Revenue</b>	104.5	0	0	0	0
<b>Departmental Third Party Revenue</b>	9.312	9.312	9.312	9.312	9.312
<b>Non-Departmental Third Party Revenue</b>	0	0	0	0	0
<b>Total</b>	<b>149.621</b>	<b>31.635</b>	<b>32.609</b>	<b>23.759</b>	<b>23.759</b>

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4. To better illustrate the kinds of activities covered by this funding, the diagram below sets out the 2023/24 appropriation for the Resources portfolio.



## Management of the Crown Mineral Estate

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### MBIE is the regulator of the Crown Mineral Estate, undertaking a range of functions as set out in the Crown Minerals Act

5. As illustrated in the diagram above, MBIE is funded to manage the Crown Minerals Estate. The functions of the regulator are funded through a mix of Crown and Third-Party Revenue.

#### *Profile of funding for the Management of the Crown Mineral Estate*

	2023/24 ‘\$000	2024/25 ‘\$000	2025/26 ‘\$000	2026/27 ‘\$000
Management of the Crown Mineral Estate	33,544	26,326	27,946	19,118

6. The total appropriation for the Crown Minerals Estate includes third party revenue, generated through fees. In the Crown accounts, this is forecast at \$9.3m per annum, but in the 2022/23 financial year, we only collected \$4.3m.
7. The current funding profile reflects a Budget 2022 decision to invest \$37.421 million in the regulator over four years to address the shortfall in fees revenue and to meet cost pressures associated with management of the Crown Estate.
8. These cost pressures relate to implementation of new processes to maintain appropriate monitoring, compliance and enforcement activities, supporting engagement with iwi in a manner that meets Treaty and settlement obligations, and implementing decommissioning regime obligations for petroleum infrastructure. In addition, system changes are being implemented to address management of a backlog in applications.

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10. The additional Budget 2022 funding will come to an end in June 2026. This will create new cost pressures. Unless fee revenue increases significantly, the regulator will have insufficient funding to meet costs. We propose to provide you with advice in mid-2024 on options for addressing this potential deficit. In developing that advice, we will consider both efficiency gains that could be made as well as options for the structure and rates of current fees.

## Decommissioning of the Tui Oil Field

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### MBIE is overseeing the decommissioning of the Tui Oil Field

11. MBIE is funded to oversee the decommissioning of the Tui Oil Field. The funding is through two streams: departmental funding of \$4.5 million in the 2023/24 financial year (including an In-Principle Expense Transfer (IPET) of \$1.6m) and non-departmental funding of \$20.19 million (IPET from 2022/23FY) to meet the costs associated with the contract for service. There is also a contingency fund of \$84 million that has been set aside to address any issues that might arise.
12. The project is currently due to be completed in mid-2024.

### Savings can be returned from the contingency fund

13. As shown in the table below, we recommend that \$20 million could be returned from the contingency fund at this stage. MBIE does not recommend any more substantive savings be offered up until the project is completed, given the risks and uncertainties associated with the decommissioning. We will provide you with a further briefing on Tui decommissioning.

#### *Proposed savings for decommissioning of the Tui Oil Field*

	2023/24 ‘\$000	2024/25 ‘\$000	2025/26 ‘\$000	2026/27 ‘\$000	Total savings
Current Decommissioning of the Tui Oil Field	109,037	-	-	-	-
Proposed funding profile	89,037	-	-	-	-
<b>Proposed savings</b>	<b>20,000</b>	-	-	-	<b>20,000</b>

## Resources Policy

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### A separate fiscal omnibus briefing will provide advice on policy savings across MBIE

14. MBIE has a multi-category appropriation in each of its Votes, which all cover a range of policy functions to provide flexibility in delivering against Government priorities. MBIE is proposing a 10 per cent reduction for the activity as a whole. The current allocation of resourcing reflects existing work programmes, therefore we recommend that MBIE Ministers discuss how best to allocate the remaining 90 per cent across portfolios, given the incoming Government’s priorities. Further advice on this matter is covered in the Fiscal Omnibus Briefing.

### We will support you to deliver the Government’s priorities

15. We will support you to develop your work programme and deliver the Government’s Resources policy priorities, which we understand include:
  - a. Reversing the ban on offshore petroleum exploration.
  - b. Updating the Crown Minerals Act 1991 to clarify its role as promoting the use of Crown minerals.
  - c. Future-proofing the natural gas industry by restarting offshore exploration and supporting development of hydrogen technology to produce hydrogen from natural gas without co-production of CO2.

- d. Ensuring the government's energy settings allow for the exploration of natural geological hydrogen in New Zealand, to maximise future energy resilience.
  - e. Investigating the strategic opportunities in New Zealand's mineral resources, including vanadium, and develop a plan to develop these opportunities.
  - f. Exploring the potential for a critical minerals list, where such minerals would have a preferential pathway for development once identified.
16. As set out in our accompanying briefing to you as incoming Minister, the Resources sector is a critical economic enabler, and is closely intertwined with the Energy system. We expect there will be more active policy work needed on an ongoing basis to both respond to challenges in the resources sector and to deliver your priorities. In terms of policy resource, we may be able to deliver your priorities, without additional funding or FTEs, by sequencing the work programme.

Confidential advice to Government

## Next steps

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- 18. This briefing has outlined potential areas to achieve savings in the Resources portfolio, in line with our understanding of your priorities.
- 19. We would welcome a discussion with you on the potential savings that could be made in the portfolio, including to explore any further or different options to those set out in this briefing.

### *An All-of-MBIE approach to reprioritisation*

- 20. MBIE operates a number of functions that operate across portfolios, as well as working to realise synergies between them. We therefore recommend considering the portfolios as a suite, this enables:
  - a. Consideration of enablement and stewardship functions as part of the whole (which will have proportional savings for each portfolio)
  - b. Opportunities to align and consolidate related functions between portfolios, including Crown Entities
  - c. Enabling trade-offs across functions in order to calibrate/equalise impacts, such as directing policy resource.
- 21. We therefore recommend that MBIE Ministers meet to consider their portfolios jointly.



### *Progressing options*

22. We will provide you with further advice on areas you indicate you would like to reprioritise. This advice will include how fast savings can be realised, any costs associated, and further information on the likely impacts of those changes.
23. We also expect to receive advice from the Treasury shortly about the process for submissions for the Fiscal Sustainability Payment, and/or Budget processes. We will take direction from Ministers on which of the potential reprioritisation options in this briefing should be included in those submissions.

## **Annexes**

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Annex one: Fiscal Summary for the Resources portfolio

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