



BRIEFING

Update on Budget 2024 savings options – Resources portfolio

Date:	25 January 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-1817

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Resources	Note the contents of this report	29 January 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Bruce Parkes	General Manager, Resource Markets		Privacy of natural person ✓
Privacy of natural person	Director Petroleum and Minerals Operations, Resource Markets		Privacy of

The following departments/agencies have been consulted

Minister's office to complete:

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 Withdrawn |

Comments



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Purpose

This briefing provides you with an update on the Budget 2024 process and outlines the ways in which MBIE proposes to meet the government's request for a 7.5% baseline savings in relation to the Resources portfolio.

Recommended action

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

- a **Note** that MBIE has been asked to identify 7.5% savings across the agency and this briefing provides you with an update on advice to be provided in relation to your portfolio.

Noted

- b **Agree** the proposed savings options be included in advice to the Associate Minister of Finance Hon Seymour on Friday 2 February.

Agree / Disagree

Bruce Parkes
General Manager, Resource Markets
Building, Resources Markets, MBIE

30/1/24
...../...../.....

Hon Shane Jones
Minister for Resources

...../...../.....

Background

1. At the end of 2023 the chief executive for MBIE received a letter from the Minister of Finance regarding Budget 2024. The letter outlined her expectations for MBIE to achieve 7.5% savings against our eligible base (essentially our Crown funded baseline with some exclusions). The agency has been asked to provide advice on how we might achieve these savings through the Budget 2024 process.
2. Hon David Seymour, Associate Minister of Finance, is the lead Minister for the initial baseline exercise for MBIE. He has been asked to coordinate across portfolio Ministers with responsibilities in the agency on the allocation of savings to meet expectations set by Cabinet and decisions on prioritisation. We understand that he will shortly write to all MBIE portfolio Ministers outlining his approach to Budget 2024.
3. MBIE is engaging with Minister Seymour directly, and we expect that we will provide support for bilateral meetings you will have with the Minister. This briefing provides an outline of the advice we will provide and seeks your agreement to the level of savings we propose to offer up.
4. The Resources portfolio is funded through three appropriations: as outlined below.

Appropriation	Scope	Comment
Management of the Crown Mineral Estate	This appropriation is limited to the allocation, management and compliance of Crown-owned petroleum, coal and mineral resources under the Crown Minerals Act 1991.	This is our primary appropriation. As noted below we received cost pressure funding for the appropriation in Budget 2022; this funding is time limited and we will continue to face cost pressures from Budget 2026.
Oil Field Decommissioning	This appropriation is limited to the costs associated with the demobilisation and decommissioning of New Zealand oil fields.	This appropriation was established to support the Tui Oil Field Decommissioning. The project is on track to cease at the end of this financial year.
Energy and Resources Policy	This category is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) and services to support decision making by Ministers on government policy matters relating to energy and resources.	The Resources policy team is funded through this appropriation. We have not proposed any savings in this area as MBIE is looking across all policy advice appropriations separately.

5. The Resources portfolio makes a net positive contribution to government finances in excess of \$200m per annum. MBIE collected \$235.8 million in the form of royalties, fees and levies in the 2022/23 financial year. In comparison, the anticipated appropriation for managing the Crown Mineral Estate will be approximately \$25 million (including about \$4 million in fee revenue) in the 2024/25 financial year if the savings options in this paper are agreed. With the considerable interest in resources from the sector there is clearly scope to increase this net positive contribution.

Increases in FTEs and funding

Increased FTEs

6. Minister Seymour, has asked for information on MBIE FTE growth from 2017 to 2023. The table below shows the FTE growth in Energy and Resources over this period.

Portfolio	FTEs 2016/17	FTEs 2023/24
Energy		75.4
Resources		76.5
Energy and Resources	97.4	151.9

7. Growth in FTEs and appropriations for the Energy and Resources portfolio occurred primarily over the 2020/21 to 2022/23 financial years. Most of the FTE growth occurred in the Energy side of the portfolio as a result of investment in new policy areas.
8. The Resources side of the portfolio has also seen an increase of up to 16 FTEs since 2020 as a result of building a monitoring team, providing for improved support for our permitting function and establishment of a team to support engagement with iwi. This does not include a small team of four, in place to oversee the Tui decommissioning, which is in place until the end of this financial year.

Increased funding

Management of the Crown Minerals Estate

9. In Budget 2022 the government decided to invest \$37.421 million in the regulator over four years. This funding was to address a shortfall in fees revenue and to meet cost pressures associated with management of the Crown's mineral estate.
10. The funding has been used to:
- maintain and augment monitoring, compliance and enforcement activities
 - support engagement with iwi in a manner that meets Treaty settlement obligations
 - implement decommissioning regime obligations for petroleum infrastructure, and
 - implement system changes to strengthen our IT system that supports permitting processes.
11. This new funding has been underspent and we consider that we can continue to deliver our day to day work with a decrease in appropriation as outlined in the table below. The proposed savings of \$1.75 million per annum (\$7 million over the four year forecast period) reflects a 7.5% decrease in appropriation evenly spread over the four years in the forecast period.

	2023/24 ‘\$000	Forecast period				Total
		2024/25 ‘\$000	2025/26 ‘\$000	2026/27 ‘\$000	2026/27 ‘\$000	
Management of the Crown Mineral Estate	33,544	26,326	27,946	19,118	19,118	92,508
Proposed funding profile	31,544	24,576	26,196	17,368	17,368	85,508
Proposed savings	2,000	1,750	1,750	1,750	1,750	7,000

12. We believe that the savings can be returned while maintaining current levels of delivery, however the proposed savings will impact our ability to:
- *Meet expected increases in the numbers of permit applications* – we anticipate that we will see not only general increases in the number of permits sought but also increases in the number of larger minerals and petroleum projects. We are developing advice for you on options to support increased efficiency of the regulator which could go some way to bridging any resourcing gaps.
 - *Support active promotion of investment opportunities* – we have undertaken very little activity in this area over recent years and we will need to build capacity and capability to be able to deliver on expectations. The savings identified will limit the options for increasing investment in this space.
13. The proposed level of savings will exacerbate our cost pressure challenges in the 2026/27 financial year; which is when the time limited funding from Budget 2022 ceases. This shortfall will need to be met through increased funding – either from the Crown or third parties.
14. MBIE currently collects between \$4 million and \$5 million in fees each year for management of the Crown Minerals Estate. We intend to undertake a fees review over 2024, looking towards providing advice in the context of Budget 2025 on ways in which the shortfall in revenue might be addressed.

Oil Field Decommissioning

15. Funding was made available in 2019 to meet costs associated with the decommissioning of the Tui Oil Field. That project is due to be completed in mid-2024 and we consider it is possible to return \$20 million at the end of this financial year from the contingency fund for that project.

Policy Advice

16. Funding for policy advice for the Resources portfolio is captured in an MBIE wide appropriation and any savings will be addressed through wider MBIE processes looking at the broader policy advice appropriation.

Next steps

17. We would appreciate the opportunity to discuss the proposed savings outlined above.
18. As noted earlier in this briefing, we anticipate that you will have the opportunity for a bilateral conversation with Minister Seymour and we will provide further support for that conversation.