



BRIEFING

Budget 2024: Resources summary portfolio information for bilateral discussion

Date:	2 February 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-1888

Action sought		
	Action sought	Deadline
Hon David Seymour Associate Minister of Finance	To inform your upcoming discussion	7 February 2024
Hon Shane Jones Minister for Resources	To inform your upcoming discussion	7 February 2024
Hon Melissa Lee Minister for Economic Development	For your information	

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Bruce Parkes	General Manager, Resource Markets		Privacy of natural persons	✓
Privacy of natural persons	Policy Director, Energy Markets			

The following departments/agencies have been consulted

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Budget 2024: Resources summary portfolio information for bilateral discussion with Hon David Seymour

Date:	2 February 2024	Priority:	High
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Purpose

To provide financial information about the Resources portfolio for your upcoming discussion in early February 2024.

Recommended actions

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

- a **Note** that the Resources portfolio is primarily funded through the *Management of the Crown Mineral Estate* appropriation.

Noted
- b **Note** that 7.5% savings from this appropriation would equate to \$7 million over the forecast period of four years.

Noted
- c **Note** that officials have identified areas where efficiencies could be generated in the first two years of the fiscal period to absorb any reduction in Crown revenue, however these efficiencies will not be sufficient to address the forecast reduction in funding in the 2026/27 financial year.

Noted
- d **Note** that MBIE intends to undertake a fees review over 2024 to identify revenue options that could help to address the shortfall in the 2026/27 financial year and outyears.

Noted
- e Confidential advice to Government

Noted
- f **Note** that costs associated with actively promoting investment opportunities in the sector could be achieved by reprioritising the potential efficiency savings identified in recommendation g and rephasing any underspend in the 2023/24 financial year across outyears.

Noted

EITHER

Confidential advice to Government



OR [MBIE Preferred]

- h **Agree** that the Resources portfolio not return any savings in Budget 2024, with the potential savings to be reprioritised to fund a government priority of active promotion of investment opportunities in the sector.

Agree / Disagree

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

2 / 2 / 2024

Hon David Seymour
Associate Minister of Finance

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Hon Shane Jones
Minister for Resources

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Background

1. This briefing provides information to support a conversation between you on how the Resources portfolio might support the fiscal sustainability approach to Budget 2024.
2. The Resources portfolio is focused on the management of the Crown Minerals Estate through the petroleum and minerals regulatory system.
3. New Zealand's reserves of minerals, oil and gas are valuable national assets, have an important role to play in securing our supply of affordable energy and their extraction contributes to national and regional economic growth. Minerals such as aggregate are also critical to infrastructure and industry, and some of our minerals will likely be essential in a low emissions economy.
4. The resources sector is a significant contributor to national and regional economic productivity and delivers considerable value in Crown revenue. The sector contributed \$921 million of export value from oil and gas exports in 2022 and \$1.03 billion from mineral exports. It contributed \$1.9 billion in GDP in the year ending March 2021 and employs approximately 6,250 people. It also provides a reliable energy source for industry and households, an input into the chemicals industry and creates skilled, well-paid jobs.
5. The sector also delivers considerable value in Crown revenue in the form of royalties, fees and levies. In 2022-23 this totalled \$235.8 million, with petroleum contributing \$214.2 million and minerals contributing \$21.6 million.
6. In comparison, the anticipated appropriation for managing the Crown Mineral Estate will be between \$24.5 million and \$26.3 million (including about \$4 million in fee revenue) in the 2024/25 financial year, depending on decisions taken about what, if any, savings options in this paper are agreed.
7. There is scope to increase the net positive contribution of the sector given the government's priority of reducing regulatory barriers and increasing investor confidence in the sector. Some of the activities required to achieve the government's goals for this sector will require funding over and above that which is currently available.

Description of programmes within the portfolio

8. There are two primary areas of work within the portfolio:
 - a. Management of the Crown Minerals Estate – as the regulator, MBIE delivers activities as specified in the Crown Minerals Act 1991, including:
 - i. granting or declining applications for permits, changes to permits and revocation of permits;
 - ii. collecting and disclosing information in connection with mineral resources and production;
 - iii. monitoring, compliance, audit and enforcement activities;
 - iv. collection of royalties, levies and fees.

The portfolio is supported by a small policy team funded through the Energy and Resources component of MBIE's policy advice appropriation.
 - b. Decommissioning of the Tui Oil Field – MBIE has been tasked with oversight of the decommissioning process for the Tui Oil Field. This work is due to be completed by June 2024.

Breakdown of expenditure and FTE growth since 2017

9. The following table provides a breakdown of increased FTEs and expenditure for the Energy and Resources portfolio since 2017. The table incorporates both Energy and Resources portfolios in order to provide a 2017 baseline.

Portfolio	MBIE FTEs 2016/17	MBIE FTEs 2023/24	Departmental '\$000		Non-Departmental '\$000	
			2016/17	2023/24	2016/17	2023/24
Energy		75.4		32,491		680,897
Resources		76.5		38,044		104,537
Energy and Resources	97.4		25,736		116,784	
Total	97.4	151.9	25,736	70,535	116,784	785,434

10. A more specific breakdown of changes for the Resources portfolio is outlined in the table below and is expanded on in paragraphs 11 to 15:

<i>Appropriation</i>	<i>Description of change</i>	<i>FTE increase</i>	<i>Expenditure increase</i>
Oil Field Decommissioning	In 2019/20 MBIE was funded to oversee the decommissioning of the Tui oil field. Note: this project will be complete in mid-2024, and no costs are forecast for the 2024/25 financial year or outyears.	4 FTEs	Departmental: \$10.9m over five years Non-departmental (excluding contingency): \$348m over five years
Management of the Crown Mineral Estate	In 2022/23 MBIE received funding to support the petroleum and minerals regulatory work of MBIE. The funding has been used to build a monitoring team, provide for improved support for our permitting function (including support for iwi engagement as required under Treaty settlement protocols), and implement a decommissioning regime.	Up to 16 FTEs	Departmental: \$37.421m over four years

Expenditure increases – Decommissioning of the Tui Oil Field

11. Since 2019/20 MBIE has been funded to oversee the decommissioning of the Tui Oil Field. Funding for the 2023/24 financial year is through two streams:
- departmental funding of \$4.5 million in the 2023/24 financial year

- b. 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.

Expenditure increases – Management of the Crown Mineral Estate

- 12. The appropriation for the Management of the Crown Minerals Estate was just under \$18 million in the 2017/18 Estimates.
- 13. The current funding profile for the appropriation reflects a Budget 2022 decision to invest \$37.421 million in the regulator over four years to address a shortfall in third party revenue and to meet cost pressures associated with management of the Crown Estate. The time limited nature of this funding injection means that the baseline will reduce to \$19 million for the 2026/27 financial year.

Alignment of current expenditure with Government priorities

- 14. The Minister of Resources portfolio priorities are to:
 - a. Rebuild investor confidence in offshore oil and gas exploration
 - b. Increase the scale and pace of the development of New Zealand’s abundant mineral resource
 - c. Take a long-term, strategic approach to New Zealand’s mineral resource
 - d. Ensure the management of the Crown Minerals Estate provides for efficient allocation of Crown-owned minerals now and in the future, by improving efficiency of the regulator and allowing for allocation of new minerals as they are identified.
- 15. Current expenditure is fully aligned with these priorities.

Revenue and expenditure options

Savings options

Identification of programmes that can be scaled or stopped

- 16. The Tui Oil Field Decommissioning work is coming to a natural end and will cease at the end of this financial year.

Efficiency gains and reprioritisation

- 17. 7.5% savings across the *Management of the Crown Mineral Estate portfolio* would equate to \$7 million over the forecast period, as highlighted in the table below.

	Forecast period			
	2024/25 ‘\$000	2025/26 ‘\$000	2026/27 ‘\$000	2026/27 ‘\$000
Management of the Crown Mineral Estate	26,326	27,946	19,118	19,118
Potential savings	1,750	1,750	1,750	1,750
Resulting funding profile	24,576	26,196	17,368	17,368

18. These savings could be returned while maintaining current levels of delivery in the first two years of the forecast period however it will impact the ability of the regulator to:
 - a. *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.
 - b. *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.
19. The regulator does rely on some contractor and consultancy expenditure. This helps to meet costs associated with maintaining the IT systems required and provides for legal advice when required.
20. Returning savings of \$1.75 million per annum will exacerbate a cost pressure issue for the regulator from 1 July 2026. As the table above illustrates, MBIE is already facing a significant reduction of funding for the regulator at that point, as a result of the Budget 2022 initiative coming to an end. The regulator will not be able to maintain current service delivery levels at that level of funding and consideration will need to be given to how this shortfall might be addressed.

General MBIE savings

21. All policy and operational areas of MBIE are initially targeting the 7.5% savings from their baselines. They are on track to achieve the approximately \$45m in savings that this represents. All corporate and technology functions are included in this work (HR, IT and other corporate functions). In addition, a 15% target has been set for discretionary spending, for example travel, conferences, training and recruitment. Once Ministers have made final decisions, these corporate and technology functions will seek further operational efficiency savings to support these decisions. MBIE's departmental base (which is a portion of MBIE's eligible base) for the savings target has been reduced to approximately \$570m as INZ and other functions were removed through the Treasury calculations.

Revenue options

22. The activities of the regulator are partly funded through fee revenue. This provides a relatively small revenue stream on an annual basis (\$4.3 million in the 2022/23 financial year). MBIE has, therefore, identified the need to undertake a fees review over 2024. This would look at the current structure of fees as well as the level of fees charged. It is intended that advice on fees will be provided in time to inform Budget 2025 decisions, with the intent of helping to address the shortfall identified from 1 July 2026.
23. It is also possible that there may be other ways in which the Crown could generate revenue for the regulator; particularly if there is an increase in royalties flowing from increased activity in the sector once the anticipated regulatory changes are in place. Officials will provide further advice on this in the context of Budget 2025.

Capital investment pipeline options

24. The Resources portfolio has no capital funding or investment options.



Next steps

27. Further information on the Resources portfolio is available on request.