The Treasury

Budget 2024 Information Release

September 2024

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[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Further advice on the Regional Infrastructure Fund

Date:	4 April 2024	**Report No:**	T2024/899
		File Number:	

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	Note the advice	To support ongoing Budget discussions

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Tim Baxter	Senior Analyst, Regions Enterprise and Economic Development	[39]	N/A (mob)	✓
John Marney	Manager, Regions Enterprise and Economic Development		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No/Yes (attached) OR Yes (iManage links)

Treasury Report: Further advice on the Regional Infrastructure Fund

Executive Summary

The Minister of Regional Development has circulated a draft Cabinet paper covering proposals for a Regional Infrastructure Fund, which is also subject to the Budget 24 process.

[34]

Recommended Action

We recommend that you:

a **note** that the Cabinet paper should be deferred until the Budget process has concluded, and proposals can reflect the final funding allocation

John Marney
Manager, Regions, Enterprise and Economic Development

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Treasury Report: Further advice on the Regional Infrastructure Fund

Purpose

1. You requested advice on the fiscal implications of MBIE's current proposals – as articulated in the draft Cabinet paper circulated by the Minister for Regional Development for Ministerial consultation – relative to the anticipated Budget 24 budget package, and options to address the differences.

Context

2. MBIE has drafted a Cabinet paper setting out updated proposals on the proposed $1.2 billion Regional Infrastructure Fund (RIF) in parallel with the budget process, including in-principle agreement to establish it subject to Budget 2024. These are largely an evolution of previous proposals, in response to Ministerial feedback, and retain most of the key features. Treasury previously provided you with advice on the RIF (T2024/280 refers), including possible fiscal implications.

3. [34]

4. The current Budget 2024 package includes $400 million capital and $2 million per annum for operating funding to administer the RIF. It also includes an additional $22 million per annum [33] to fund Kānoa's BAU operating costs as it currently has no funding allocated beyond this financial year.

Current proposals

Overview

5. MBIE's current proposal envisage the RIF funding being distributed through a mixture of equity, loan and grant funding depending on the type of investment required. It also proposes that the RIF is managed by MBIE/Kānoa with funding distributed through Crown Regional Holdings Limited (CRHL). The draft Cabinet paper provides some high-level information on investment criteria but at this stage the specifics of the application and decision process are not known. The paper acknowledges this and notes a desire to maintain a degree of flexibility in how funding is allocated.
6. The Minister for Regional Development is proposing two main streams and their respective funding allocations:
   - Resilience Infrastructure – $720 million (60 per cent of the total).
   - Enabling Infrastructure – $420 million (35 per cent of the total).
   - Unallocated and available for emerging priorities – $60 million (five per cent of the total).
7. The resilience stream would likely primarily fund flood infrastructure and other measures to mitigate natural risk. Because the majority of these kinds of assets are owned by local Government, we expect that the primary mechanism would be direct co-funding through grants – though there may also be limited scope for capital options like guarantees, commercial loans and equity investment. As an example, the paper outlines the 'Before the Deluge 2.0' report prepared by local Government as an example of projects that could be funded. This report identified $329m of projects and

sought a Crown contribution of $197m. The resilience stream may also include some funding for businesses to improve their own resilience.

8. Enabling infrastructure would include investments in individual businesses, groups of business or special purpose vehicles where benefits or services are shared with businesses and communities. We expect that the primary mechanism would be equity and loan investments, though the paper also envisages a role for grant funding – using the same broad model as previous or existing funds like the Regional Strategic Partnership Fund (RSPF) or the Primary Producer Finance Scheme (PPFS). Ministers would have significant scope to determine individual projects but under schemes like the RSPF typical projects covered assets like business parks, wharfs and packhouses.

9. Current proposals also rule out investing in projects already funded through other central government programmes, including social infrastructure (housing, schools, hospitals), roads of national significance, digital connectivity, and potable water, wastewater, and storm water assets.

10. It should also be noted that the current paper does not include administration costs – which MBIE have estimated to be 2% of total fund value, or $24m of operating funding in the case of a $1.2 billion quantum. You previously agreed (T2024/280 refers) that admin funding should be met from within the overall $1.2 billion envelope.

Fiscal implications

11. Broadly speaking grant funding is considered operating funding while equity and commercial lending is considered capital funding. Concessionary lending (i.e. on more generous terms than available from the market) has flow on operating costs as the concessionary proportion must be recorded as a fair value write down. [38]

12. The current proposals imply a substantial proportion of operational funding, as resilience infrastructure elements in particular would predominantly require grant funding – as most assets would be owned and operated by local Government.

13. Even if the RIF is financed through a capital appropriation which is transferred to CRHL via equity injections, it would not reflect the true fiscal implications on the Government's books, which will most likely be operating spending in nature.

14. [34]

[34]

15. In addition, where concessionary finance was deployed there would be an additional impact on the operating balance through the required write-down of the concessionary element. For reference, when MBIE established the PPFS it estimated a total write-down cost of [25] relative to the total $240m quantum – though that is an extreme example as the nature of that scheme (supporting firms affected by extreme weather events through prolonged periods of negative cashflow) required a highly concessionary approach. Depending on the decisions made on RIF funding at Budget, the fiscal forecasts may need to reflect an estimate for the write-down of investments in the fiscal forecasts for BEFU 24 and this would have a negative impact on OBEGAL. Until more detail on the investment criteria and project pipeline is agreed, it is challenging to fully understand the OBEGAL impacts from the RIF funding.

Options to deliver a revised RIF

Within the current Budget 24 package

16. If you wish to provide funding broadly in line with the currently agreed package (i.e. $400m of capex, $8m opex) then the proposals will need to be substantially revised:.

Overall quantum

17. This would represent a third of the $1.2 billion agreed as part of the coalition agreement and we expect that the Minister for Regional Development will seek further funding at Budget 25 and Budget 26

[38]

[33] and [34]

This would also provide more time to establish a pipeline of projects and finalise the settings accordingly.

[1] Using the same prospective ratio of operating to capital as the RSPF, which was allocated $160m of capital funding and $40m of operating funding

20. In practice we expect that a version of the RIF would therefore operate much like the kind of investments made under the RSPF – providing equity and loan investment to individual businesses, groups of business or special purpose vehicles, unless Cabinet agrees to substantially different investment criteria or delivery model.

Change the approach to funding resilience infrastructure

21. If Ministers wish to fund infrastructure for resilience purposes through capital expenditure, you have the option to fund Crown-owned assets through the RIF. This funding would be capital expenditure as it would result in the ownership of an asset on the department's or Crown's balance sheet. There would be associated operating expenditure across the life of these assets, but it could be a condition of funding that agencies must be able to meet these operating costs from within baselines.

22. This option would require the proposed parameters of the RIF to be amended to include the ability to fund Crown-owned infrastructure and assets, which are currently proposed as exclusions. Similarly it would also be possible to reframe the fund towards a smaller number of large infrastructure projects whilst still retaining the capital focus. However, this would also require amending the currently proposed approach to co-funding other Crown agencies – [34] Previous advice (T2024/280 refers) provides more detail of options for alignment with the wider Government infrastructure strategy.

Within a revised Budget 24 package

23. If you were willing to agree additional operating funding and/or changing the mix of operating and capital funding then we think that MBIE could deliver an iteration of the RIF more in line with current proposals. For example, an allocation of:

[33]

24. This would likely allow MBIE the flexibility to deploy a mixture of grant and concessionary finance – and therefore more ability to fund the highest value projects.

25. In this scenario it would also provide flexibility to bring 'good' assets (however they are defined by the final investment criteria) onto the Crown balance sheet where appropriate, whilst providing one-off co-funding to higher risks assets. [34]

Next steps

26. We recommend that this Cabinet paper is deferred until the conclusion of the Budget process – or at minimum reframed to be clearer that it is an update on policy thinking. It should not seek agreement to any decisions that are subject to the Budget process. Given we are recommending funding is placed in a tagged contingency, and the Minister for Regional Development plans to provide updated advice Cabinet later this year, there is no inherent reason why this needs to be considered now. This would also

enable MBIE and the Minister for Regional Development to strengthen the decision-making framework and delivery plan for the RIF, helping to ensure that any investments from the RIF can be targeted to high-value investments.