MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

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Title of Cabinet paper	Regional Infrastructure Fund Detailed Settings and Drawdown from Tagged Contingencies	**Date to be published**	23 July 2024

List of documents that have been proactively released		
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Information redacted **YES / NO**

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Some information has been withheld for the reasons of Confidential advice to Government and Commercial information.

In Confidence

Office of the Minister for Regional Development

Cabinet Business Committee

REGIONAL INFRASTRUCTURE FUND – DETAILED SETTINGS AND DRAWDOWN FROM TAGGED CONTINGENCIES

Proposal

1 This paper enables the Regional Infrastructure Fund (RIF) to go live from 1 July 2024 by seeking Cabinet's agreement to:

1.1 the detailed settings that will satisfy the requirements of Cabinet's Budget 2024 decisions; and

1.2 drawdown $900 million capital expenditure and $300 million operating expenditure from the RIF's tagged contingencies into a new appropriation within Vote Business, Science and Innovation.

Relation to government priorities

2 The National and New Zealand First coalition agreement committed to establishing a $1.2 billion fund to invest in regional infrastructure. Cabinet has agreed to commit $1.2 billion, as tagged contingencies, to establish the RIF as part of the Budget 2024 package.

3 The Government's five pillars plan to rebuild the economy includes a commitment to build infrastructure for growth and resilience.

Executive Summary

4 The RIF is intended to boost productivity, resilience and prosperity in New Zealand's regions, by investing in new and existing infrastructure assets that are used by, and generate benefits for, multiple businesses, organisations or communities.

5 On 29 April 2024, Cabinet agreed to establish the RIF as part of Budget 24. On 20 May 2024, Cabinet agreed to high-level settings for the RIF, the establishment of a Regional Development Ministerial Group (RDMG), and for initial focus areas of the RIF to include Māori development and flood resilience.

6 Confidential advice to Government [redacted] Officials are progressing the final due diligence stages for 42 flood resilience projects and will seek agreement from RDMG to the funding arrangement for each project before proceeding to contracting.

7 To enable the RIF to begin investing in projects from 1 July 2024, I propose that Cabinet agree to the following RIF settings:

7.1 an Investment Strategy;

7.2 the project origination process;

7.3 eligibility and assessment criteria;

7.4 financial settings, including Māori economic development settings;

7.5 delivery arrangements; and

7.6 drawdown $900 million capital expenditure and $300 million operating expenditure from the RIF's tagged contingencies established through Budget 2024.

8 I propose Cabinet agree to delegate decision-making authority to the Ministers of/for Finance, Infrastructure, Māori Development, Regional Development as delegated RIF Ministers for the purpose of making ongoing policy and administration decisions for the remainder of the RIF programme.

9 Officials are also developing a series of position papers for each identified focus area/sector for the RIF. The position papers will be prioritised for the focus areas/sectors under the Resilience Infrastructure component for approval ahead of 1 July. RIF Ministers will be responsible for approving the position papers for publication.

10 Prior to the development of a final monitoring and evaluation roadmap, it is critical to the effectiveness of the programme and investments to agree outcomes and initial measures of success. I propose that Cabinet agrees to outcomes and measures over the short-, medium-, and long-term to support the Investment Strategy with clear investment intentions and direction.

11 While this paper sets out high-level investment principles and investment mechanisms for the RIF, officials will also seek approval from the Minister of Finance to a Loan and Equity Framework before 1 July 2024.

12 I have committed to reporting back to Cabinet Confidential advice to Government with a detailed Monitoring and Evaluation roadmap for the RIF. This report will also include any potential amendments required to RIF processes, following monitoring of initial applications by officials.

Background

13 Infrastructure provides services and critical resources for businesses and communities that are vital to productivity, resilience and prosperity. New Zealand faces a significant infrastructure deficit, including the regions, with underinvestment being partly driven by challenges accessing capital.

14 On 29 April 2024, Cabinet agreed to establish the RIF as part of Budget 24, with tagged contingencies of $900 million capital expenditure and $300 million operating expenditure, subject to:

14.1 further development of proposed criteria, eligibility and invitation process;

14.2 development of a robust process to identify high value investment options;

14.3 clarity on investment mechanisms and expected fiscal implications;

14.4 operational arrangements, including options for which entities are best placed to deliver investments from the RIF; and

14.5 ministerial decision-making structures, including for drawdown of the contingencies [CAB-24-MIN-0148 refers].

15 The tagged operating and capital contingencies described above will expire on 1 February 2025.

On 20 May 2024, Cabinet agreed to high-level settings for the RIF and early investments in flood resilience projects [CAB-24-MIN-0168.02 refers].

16 The RIF will invest in projects that build infrastructure for growth and resilience. It will improve access to capital by investing in new and existing infrastructure assets that are used by, and generate benefits for, multiple businesses, organisations or communities.

17 Cabinet agreed to an overview of high-level settings and objectives of the RIF, including the investment strategy and framework, RIF delivery and assessment, and establishment of a Regional Development Ministerial Group (RDMG)[1].

18 Cabinet agreed to the RIF having two distinct funding components that will realise the Government's commitment to build infrastructure for growth and resilience:

18.1 Resilience infrastructure: infrastructure that improves a region's ongoing ability to absorb, adapt and/or respond to stresses and shocks; for example, flood resilience infrastructure; and

18.2 Enabling infrastructure: infrastructure that ensures regions are well-connected, productive, and resilient; for example, innovation facilities that provide supply chain or transport solutions to a region.

19 The RIF contribution for each project will typically be between $1 million to $50 million but will remain flexible to consider projects outside these parameters. Investments will primarily be made through a mix of loan, equity

[1] The RDMG is comprised of the following portfolios: Finance; Infrastructure; Local Government; Regional Development; and Māori Development.

and other capital funding instruments, as well as some grant funding, and require differing levels of co-funding (typically 40 to 80 per cent of RIF funding for Resilience projects and 30 to 60 per cent of RIF funding for Enabling projects).

Officials are preparing further advice on potential projects within the initial focus areas of the RIF

20 I intend for initial focus areas of the RIF to be investment in areas such as Māori economic development and flood resilience.

21 Unlocking the potential of the Māori economy and whenua Māori through infrastructure development can also boost growth and resilience in regional economies. Confidential advice to Government [redacted]

22 Cabinet has also agreed to create a dedicated flood resilience funding category under the RIF's Resilience Infrastructure component that will initially make $200 million available for eligible projects. Appropriate flood protection infrastructure delivers one of the highest cost-benefit values compared to other large-scale infrastructure projects, with projections that $1 spent avoids between $5-$8 in losses from damages that New Zealand would otherwise incur following severe weather events[2].

23 Cabinet has agreed to commit up to $101.1 million of flood resilience funding, including grants, loans and other forms of funding (alongside co-funding from recipients) for 42 flood resilience projects proposed through '*Before the Deluge 2.0'*.

24 Officials are progressing the final due diligence stages for each of the 42 projects and will seek agreement from RDMG to the funding arrangement for each project before proceeding to contracting. The level and type of financial support for these projects will be determined on a case-by-case basis to ensure funds are prioritised fairly.

This paper seeks agreement to the detailed policy and administration settings for the RIF to go live from 1 July 2024

25 This paper seeks Cabinet agreement to the following RIF settings:

25.1 an Investment Strategy;

25.2 the project origination process;

[2] As highlighted in Te Uru Kahika's (a group representing New Zealand's regional and unitary councils) 2022 and 2023 '*Before the Deluge*' reports.

25.3 eligibility and assessment criteria;

25.4 financial settings, including Māori economic development settings;

25.5 delivery arrangements; and

25.6 drawdown from the RIF's tagged contingencies established through Budget 2024.

26 Subject to Cabinet's agreement to the settings and drawdown proposed in this paper, I propose Cabinet agree that the RIF will go live from 1 July 2024.

27 I propose Cabinet agree to delegate decision-making authority to the Ministers of/for Finance, Infrastructure, Māori Development and Regional Development as delegated RIF Ministers for the purpose of making ongoing policy and administration decisions for the remainder of the RIF programme.

28 This group of delegated RIF Ministers is distinct from the Regional Development Ministerial Group (RDMG)[3] that was previously established by Cabinet – the RDMG will solely focus on making investment decisions.

Overall Investment Strategy

An Investment Strategy will provide clarity, confidence and transparency in the application and assessment process

29 An Investment Strategy for the RIF will be published on the Kānoa – RD website that brings together all aspects of the RIF into one place so that potential applicants are aware of the end-to-end expectations. This will include the high-level aspects of the RIF that Cabinet has already agreed, such as the Resilience and Enabling Infrastructure funding components, requirements for investments in individual businesses and the types of projects that the RIF will not invest in. Over time it will also include the monitoring and evaluation approach, range of investment mechanisms, terms and conditions, and examples of contracts.

30 The purpose of publishing a RIF Investment Strategy is to:

30.1 provide clear direction for Crown investment under the RIF;

30.2 create clarity to focus resources toward defined investment priorities, maximising the impact of the programme;

30.3 set clear scope and boundaries to enable clear and explicit decision-making, and improve the effectiveness of ongoing monitoring and future evaluation of the programme; and

[3] The RDMG is comprised of Ministers from the Finance, Infrastructure, Regional Development, Māori Development, and Local Government portfolios.

30.4 increase confidence, transparency and clarity for all parties, including prospective applicants, around the eligibility of different projects for each of the funding components.

31 The Investment Strategy will do this by providing:

31.1 clear investment logic for each identified sector or focus area;

31.2 investment principles and priority areas based on on-the-ground understanding of the needs of New Zealand's regional communities and in-line with Government priorities; and

31.3 explicit statements of what the RIF will and will not invest in.

32 I propose that Cabinet agree to the Investment Strategy overview attached as Appendix Two. I intend for the Investment Strategy to be adaptable in response to the RIF's progress, investment portfolio, any emerging barriers or issues, and to align with Government priorities as they develop. To ensure this is possible, I propose that Cabinet delegates decision-making authority for updates to the Investment Strategy and other RIF policy and process documents to RIF Ministers.

33 Officials are also developing a series of position papers for each identified focus area/sector for the RIF, which will complement the Investment Strategy by outlining what the Government is aiming to achieve through investment in each area. RIF Ministers will be responsible for approving the position papers for publication.

34 Officials will prioritise developing the following position papers for approval ahead of 1 July: weather events, energy security, food production, transport and supply chain solutions, Māori economic development, and cultural institutions of regional significance. Position papers for the remaining focus areas/sectors will follow shortly after.

35 Officials will engage across agencies to ensure that the relevant Government priorities and work programmes (e.g. the Ministry for the Environment's Adaptation Framework) are properly considered in each position paper.

RIF monitoring, evaluation and reporting

36 I have committed to reporting back to Cabinet Confidential advice to Government with a detailed monitoring and evaluation roadmap, which will incorporate performance measures and evaluation milestones, to provide visibility of the ongoing effectiveness of the RIF. The roadmap will provide a clear line of sight from investment decisions to outputs and outcomes, and ensure data collection, analysis and reporting is timely, relevant and consistent.

37 I propose that Cabinet agrees to the overarching framework that will be used to develop the monitoring and evaluation roadmap, to provide clear guidelines for officials and applicants on the intended outcomes and performance

measures of the RIF. Agreeing to the framework now will ensure the right data is being collected from the outset to enable robust monitoring and evaluation.

38 The proposed overarching framework for the roadmap comprises:

38.1 purpose of the Monitoring and Evaluation Roadmap e.g. to guide Kānoa – RD to monitor and evaluate the RIF, and understand whether the benefits sought by the programme are being achieved;

38.2 RIF Outcomes Framework, including:

38.2.1 short, medium, and long-term outcomes (as set out in this paper), including measurable indicators aligned with each of these outcomes;

38.2.2 data collection and reporting overview, including how existing Kānoa - RD processes and tools can be used to ensure consistent, timely and accurate monitoring and reporting to key stakeholders;

38.3 monitoring of the process and lessons learned; and

38.4 evaluation approach, including:

38.4.1 formative evaluation, including procurement for an independent evaluation approach if appropriate;

38.4.2 identification of potential impact studies.

39 The monitoring and evaluation roadmap will build on the outcomes and measures proposed for agreement by Cabinet in this paper. Kānoa – RD officials will continue to consider the most appropriate measurement tools for each of the proposed outcomes.

40 I also propose that Cabinet direct Kānoa – RD officials to set aside $Confidential advice to Go from the RIF's departmental operating expenditure to support the evaluation of the RIF programme. Officials advise that this is likely to be the cost for an evaluation process for this programme.

Proposed outcomes and measures of the RIF

41 Prior to the development of a final monitoring and evaluation roadmap, it is critical to the effectiveness of the programme and its investments to agree outcomes and initial measures of success. This will provide clear investment intentions and direction and will enable officials and RIF funding recipients to begin establishing the necessary tools and resources required to track these measures.

42 The RIF will play a critical role in supporting the Government's five pillars plan to rebuild the economy, which includes a commitment to build infrastructure for growth and resilience. As such, I propose that the high-level and long-term aims for the RIF are to:

42.1 lift productivity in regional economies by increasing the performance of businesses and catalysing the development of new or emerging industries; and/or

42.2 improve the ability for regional businesses and communities to absorb and recover from shocks and adapt to changing conditions.

43 To support these overarching aims, and to support the Investment Strategy with clear investment intentions and direction, I propose that Cabinet agrees to the following outcomes and measures:

Short-term (0-3 years)	**Medium-term (3-10 years)**	**Long-term (10+ years)**
The RIF will: • invest in regional critical needs and opportunities • identify and respond to potential risks and impacts on regional communities • create more value from existing Crown investments and assets • create employment opportunities in developing infrastructure assets, for example through local procurement where practical • improve access to finance for investors, notably for Māori.	The RIF will: • minimise fiscal impacts of adverse events for communities and authorities • better prepare regions for climate change risks and impacts • create sustainable employment and upskilled workforce • improve outcomes for Māori through improved economic participation, crowding in of private finance (e.g. increasing capability of financial institutions to work with iwi and invest in whenua Māori).	The RIF will: • improve outcomes for regional New Zealand through addressing of critical infrastructure deficits.
Indicators of progress include: • measure of increased private capital investment in regions through co-funded RIF projects • RIF funding allocated and majority of contracting completed by Kānoa – RD, projects received funding • RIF investment are directly relevant to regional priorities • projects started	Indicators of progress include: • construction underway/completed on infrastructure projects • measured value of commercial and/or residential assets protected from investment into resilience structure e.g. floodbanks, drainage • increased innovation spending by entities and businesses invested in • enhanced utilisation and returns for Māori from their assets, increased whenua Māori productivity, including a	Indicators of progress include: • increased regional economic output post completion of project • greater economic activity (such as faster growing GDP, revenue, improved labour productivity) in the sectors and/or focus areas in which the RIF has invested • growth in supply chain connections for regions, both national and international, including increase in products and services exported out of regions where there have been investments • growth of new and emerging industries (e.g. aquaculture, renewable energy) in regions where there have been investments • growth in the Māori economy post-completion • reduced public spending on adverse events (e.g. severe weather events) in regions invested in.

• measured value of investment into resource security and resilience infrastructure • number of people employed on initial projects • value of investments in whenua Māori entities that are able to access funding that were previously unable to do so.	shift to higher value (instead of high-volume) production • greater proportion of employment in higher wage ranges after investment.	

44 Officials will continue to develop these with a view to having a comprehensive set of baseline measures that can be tracked over time and included as part of the monitoring and evaluation roadmap.

RIF Delivery

Cabinet agreed to the RIF being delivered by the Kānoa – Regional Economic Development & Investment Unit (Kānoa – RD)

45 Kānoa – RD is a business unit of the Ministry of Business, Innovation and Employment (MBIE), which supports the Government's Regional Development portfolio through both investments and strategic planning partnerships. Kānoa – RD has significant investment knowledge, expertise and vigorous processes in place, developed over the delivery of 11 Crown funds over the last six years, that will ensure the RIF has robust and fit-for-purpose evaluation, advice, financial structuring and investment (including risk) management.

46 Cabinet also agreed that RIF loan or equity investments will be held by Crown Regional Holdings Limited (CRHL). Kānoa – RD has an existing Management Agreement in place with CRHL.

47 I propose Cabinet agree that the RIF's establishment, administration, monitoring and evaluation, delivered by Kānoa – RD, be funded through departmental operating expenditure committed to the delivery of the RIF through Budget 2024.

Cabinet agreed that RIF projects will be originated by a combination of invitation and application

48 Kānoa – RD is well positioned to support a regionally-led approach to identifying and progressing investment opportunities that align with regional priorities. Officials can invite suitable projects to apply for the RIF through close relationships with regional stakeholders.

49 From 1 July 2024, should Cabinet agree to the proposals in this paper, the RIF will be available for application by invitation from Kānoa – RD officials. Any interested parties outside of this invitation process will be able to submit an Expression of Interest (EOI) in making an unsolicited application to the RIF and begin engaging with Kānoa – RD.

50 The invitation process means that projects are identified and prioritised by regional stakeholders, who collaborate with Kānoa – RD officials to scope appropriate, regionally beneficial projects. This approach will also ensure that only projects that are likely to be eligible for the RIF are invited to apply at these early stages.

51 The EOI process enables regional entities, iwi, hapū and businesses that are not known by officials but are interested in applying for RIF support to come forward.

52 Officials will monitor the RIF's progress and identify whether any other targeted processes are necessary, for example Confidential advice to Government [redacted]

53 Targeted processes may be required, for example, to support Māori economic development in instances where the investment party requires a longer lead-in time to get the project ready, or where their projects are not as high value in relation to direct returns (productivity, financial) as other projects but have significant public spillover benefits.

54 All proposals will be subject to the same evaluation and due diligence processes.

55 I will report on any potential required amendments to the RIF origination process in my report back to agree a detailed monitoring and evaluation roadmap before the end of the year.

Determining eligibility and progressing RIF projects from origination, through assessment, to contracting and beyond

56 All project proposals received, whether through invitation or submission of an unsolicited application, will be subject to an in-depth triage, assessment and decision-making process. A high-level overview of this process is set out in Appendix Three.

Eligibility criteria

57 Eligibility criteria will be published and will make it clear to stakeholders and prospective applicants whether their proposed project would be considered for RIF support, in the view that typically only eligible projects will be encouraged to apply (saving time for both applicants and officials).

58 On receipt of a formal application, officials will first triage projects against the eligibility criteria to ensure there is adequate evidence to demonstrate a project meets the requirements.

59 I propose Cabinet agree that, to be eligible for RIF support, projects must meet all of the following:

59.1 be with a New Zealand-based legal entity (which does not preclude partnering with offshore parties);

59.2 be able to deliver on an asset based in one of the provincial regions of New Zealand (i.e. excluding Auckland, Wellington, and metropolitan Christchurch);

59.3 be focused on delivering a 'hard infrastructure' asset or completing physical works that protect existing Crown/local infrastructure or assets developed through the RIF;

59.4 contribute to improving regional resilience and/or productivity;

59.5 fit at least one of the RIF funding component definitions (Resilience or Enabling infrastructure);

59.6 be connected to regional priorities and demonstrate evidence of relevant regional and local support, either through existing regional development mechanisms, or through another relevant body such as a council, iwi, economic development governance group or other representative group;

59.7 where the investment is for an asset in an individual business:

59.7.1 benefits and outcomes should be non-exclusive to the individual business, meaning that the investment must catalyse benefits or services for other businesses or the community; and

59.7.2 be a business that has a primary focus on one of the following areas: energy security, water security, food security, connectivity (transport solutions or digital connectivity) or growth of a Māori-owned business that is critical to enabling outcomes throughout a community or region;

59.8 show an ability to deliver, including an implementation plan appropriate to the size, scale and nature of the project, robust project governance/decision-making systems and risk identification and management;

59.9 have a co-funding element (from a private investor, iwi or other non-government entity) where relevant (i.e., not be wholly central Government-funded unless concessionary funding is supported), while any investments in individual businesses <u>must</u> have an element of co-funding;

59.10 require government financial support to progress or to crowd-in private investment (either within the region or elsewhere) – i.e., the project would not otherwise happen without RIF support;

59.11 applicants must pass reasonable character due diligence checks.

Exclusions

60 For clarity, excluding factors for RIF eligibility will also be published. I propose Cabinet agree that the following will not be eligible for RIF support:

60.1 projects already funded through the following central government programmes: social infrastructure (housing and accommodation, schools, hospitals), large-scale national digital connectivity (broadband) initiatives and Roads of National Significance;

60.2 ancillary commercial activity such as marketing or business development;

60.3 funding for apprenticeships or Vocational Education and Training;

60.4 a project in potable water, wastewater, or storm water assets, except for investment in the following that will remain eligible:

60.4.1 rural, community-owned water assets (that are not on the local authority's water network);

60.4.2 water assets that are not 'business as usual' assets and are directly critically-enabling for eligible RIF projects, for example storm water assets that are typically vital to ensure the success of a floodbank project;

60.5 projects that are already underway, unless the applicant can demonstrate why the project would not proceed without RIF support and fits RIF criteria;

60.6 'business as usual' infrastructure maintenance works; and

60.7 purchases of land, except in instances where this is essential to the success of an investment-ready RIF eligible infrastructure project.

Assessment criteria

61 Eligible projects will then be considered against assessment criteria. This will enable evaluation of the value proposition of each proposal alongside other proposals, to provide assurance that government is co-investing in proposals with the greatest strategic impact and that meet relevant requirements (including relating to government risk, e.g., international trade obligations).

62 I propose projects be assessed against the following assessment criteria (full descriptions and considerations are given in Appendix Four):

62.1 Value proposition – strategic fit, how well does the project fit with the objectives of the RIF, is there a need for investment.

62.2 Impact – economic case including direct and spillover benefits from the project (i.e., what is the Crown and regional community, alongside the investor, getting in return for the investment).

62.3 Ability to deliver – commercial and management capability and capacity of the project, how well does the project demonstrate its ability to deliver, what is the financial position of the prospective funding recipient.

62.4 Risk assessment.

63 Kānoa – RD will provide decision-makers with robust business cases, broadly based on the Five Case model in the Better Business Case framework[4]. This will include advice on the expected return from investments as well as broader benefits such as economic, social and, where relevant, environmental outcomes.

64 Kānoa – RD will establish a cross-agency group that will provide oversight of alignment with Government and RIF objectives and, where necessary, support the assessment process. The cross-agency group's key function will be informing only and will not provide agencies with a veto right, as authority to approve or decline projects resides with RDMG Ministers. The cross-agency process will include representatives from agencies that support RDMG Ministers, such as The Treasury, with input from broader agencies sought as necessary.

65 The CRHL Board will provide commercial advice (in parallel with advice from officials) on potential investments prior to Ministerial decision-making.

66 From time to time, CRHL and/or officials may deem particular projects to be 'high risk' based on scale, complexity, or the level of commercial risk (e.g. the project is in an emerging industry or applying an emerging technology). In these instances, and for other projects where deemed appropriate, I expect officials to draw on expertise from relevant independent experts (for example, with specific industry knowledge) to test the viability of the proposal, and to make it clear to decision-makers where this has occurred.

67 Following assessment, Kānoa – RD will negotiate with the applicant and provide advice to the RDMG recommending where Ministers should agree to summary terms, based on advice from officials, CRHL and independent experts (where applicable).

68 Kānoa – RD will be accountable for negotiating, structuring and finalising contracts based on investment decisions (made in line with decision-making delegations), where the contract will be established between MBIE and the

[4] The five Cases are: Strategic Case (is there a need for investment), Economic Case (does the investment offer value for money), Commercial Case (is the investment viable), Financial Case (is the investment affordable), Management Case (is the investment achievable).

funding recipient. For capital (e.g. loan and equity) investments, the applicable amount is transferred to CRHL, while for grant investments, MBIE directly holds the contract. Kānoa – RD will then manage investments on behalf of CRHL, and will consult the CRHL Board prior to any material decisions being made in relation to investment management, as per existing arrangements.

Investment principles and mechanisms

69 This section seeks Cabinet agreement to high-level investment principles and investment mechanisms key to enabling the RIF to begin investing in projects from 1 July 2024. Further guidelines are laid out in Appendix Five. Officials will seek approval from the Minister of Finance to a Loan and Equity Framework before 1 July 2024.

70 These settings dictate how Kānoa – RD identifies and recommends investment arrangements for each project proposed to RDMG Ministers for investment decisions.

Overarching investment principles

71 The RIF will support projects that are unable to reasonably secure viable finance elsewhere and aims to structure investment arrangements in order to accelerate projects that would not otherwise happen.

72 Cabinet previously agreed that the RIF will create Crown and regional assets through a mix of loan, equity and other capital instruments as well as grants, and require differing levels of co-funding.

73 The RDMG will consider advice from officials that will recommend the most appropriate investment arrangement for each project proposal, determined as part of the detailed financial and management assessment. Investment arrangements will seek to ensure each RIF project:

73.1 appropriately addresses financial risks and costs to the Crown;

73.2 is simple to administer with low transaction costs;

73.3 is fit-for-purpose based on the size and nature of the investment;

73.4 balances short-term and long-term benefits and risks;

73.5 considers the funding recipient/investment counterparty and enables a wide range of proposals from different types of regional players, including (but not limited to) councils, iwi, firms, collectives and small businesses;

73.6 is consistent with our international obligations;

73.7 creates the right incentives for applicants; and

73.8 minimises the risk of recourse to the Crown for future contribution by phasing payments against milestones.

Loan and equity investment principles

74 I propose Cabinet agree that generally RIF loans will:

74.1 establish terms with a maximum of 20 years (to account for the nature of infrastructure projects);

74.2 be established with interest rates that are general practice for the infrastructure that is being financed;

74.3 be flexible in repayment terms;

74.4 take reasonable security within the context of the investment; and

74.5 in the case of concessionary interest rates, only be offered where a project would otherwise not be viable and has significant public benefit.

75 Officials will consider and provide advice on a range of factors influencing recommended loan terms, including the cashflow of the underlying project, the type of entity, risks and mitigations, and any adjustment related to security.

76 Confidential advice to Government

76.1 Confidential advice to Government

76.2 Confidential advice to Government

76.3 Confidential advice to Government

77 The minimum interest rates proposed above are based on advice from officials as to the most appropriate structure to accelerate projects with each party that would otherwise not happen.

77.1 Confidential advice to Government .

77.2 Confidential advice to Government

78 Officials may advise that a concessionary loan[5] is the most appropriate mechanism to deliver a project with significant broad based regional economic

[5] For the purposes of the RIF, a concessionary loan refers to a loan established with an interest rate lower than a rate expected to be offered on the market for the project in question.

development benefits. In this instance, Kānoa – RD will consider the required level of concession to enable the project to proceed.

78.1 For example, if a borrower is unable to meet terms closer to commercially equivalent because it is a charitable trust and the purpose of the loan is to develop land or undertake a project that achieves social/community-focused outcomes, a concessionary loan term may be considered.

79 Equity investment guidelines are detailed in Appendix Five.

Settings to support Māori economic development

80 As outlined in my earlier Cabinet paper, I intend for Māori development to be one of the initial focus areas for the RIF. The Māori economy is an important, and growing, component of New Zealand's economy. Research commissioned by the Reserve Bank of New Zealand estimates that GDP from the Māori economy grew 37 per cent in real terms from 2013 to 2018, compared to 20 per cent nationally.

81 Access to capital can be a particular barrier for Māori entities and businesses. It is difficult to borrow against collectively owned land/whenua (whenua Māori) and some Māori entities have lower levels of assets to be used by lenders as security collateral. These barriers to lending result in underutilised whenua Māori, with low productivity.

82 Capability and capacity to prepare feasibility and business cases to apply for funding is another major barrier for Māori entities and businesses. With an emphasis on funding projects that are investment ready, there is a risk that some Māori development projects may not be investment ready within funding timeframes.

83 Kānoa – RD is already engaging with various Māori businesses, entities and iwi to identify potential projects that are suitable for support through the RIF. Officials will identify opportunities to provide early capability support to Māori development projects that align with the objectives of the RIF.

84 When appropriate, Kānoa – RD will utilise co-funding rates as low as Confiden percent. This is especially useful for asset rich/cash poor entities such as those operating with whenua Māori.

85 Kānoa – RD can also utilise multiple other tools to support Māori development projects, for example:

85.1 long-term (20 years) concessionary debt, in line with the general terms outlined above;

85.2 capitalisation and principal deferral during early-stage development;

85.3 ensuring the right commercial structures are in place (e.g. Limited Partnerships) to manage risk and potential upside;

85.4 introducing technical or commercial partners to projects;

85.5 holding equity positions until the Collective is ready (i.e. unsettled or iwi organisations still building capability).

86 As with the broader investment framework, I propose that the investment options for Māori development remain flexible to use the most appropriate investment instrument for each project. Officials will provide advice to delegated RIF Ministers on the effectiveness of the RIF's settings in enabling Māori economic development throughout the programme's delivery and consider other policy tools should they become necessary.

Governance

87 Cabinet has agreed to establish the RDMG to make project-specific investment decisions. This includes delegated authority to make project-specific decisions in line with the following thresholds that Cabinet has also agreed to:

87.1 Senior officials make decisions on grant investments of $3 million or smaller.

87.2 RDMG makes decisions on grant investments over $3 million and up to and including $35 million, as well as all loan and equity investments up to and including $35 million.

87.3 Cabinet makes decisions on all investments over $35 million, or any projects deemed high risk.

88 RDMG will be advised on eligible projects by Kānoa – RD, with cross-agency support. This advice will be informed by insights from the cross-agency group.

89 I propose that RDMG meets at least every two months to assess and finalise project investment decisions. Meeting occurrences of this frequency will ensure that the momentum of the RIF is maintained and prevent backlogs of projects for approval from occurring. Secretariat function for these meetings will be provided by Kānoa – RD.

90 I propose Cabinet agree to delegate investment decision-making authority for grant investments of $3 million or smaller to MBIE senior officials.

Delegated authority to MBIE Deputy Secretary Head of Kānoa – RD

91 With previous Regional Development funds, the authority to decline projects has sat either with Cabinet or a delegated Ministerial group (such as the RDMG). The need for Ministers to make decisions on these projects, no matter how clearly they are misaligned with the objectives of the RIF, can lead to further backlogs in the process.

92 I therefore propose that authority to decline applications that do not meet the RIF criteria is delegated to MBIE's Deputy Secretary Kānoa – RD to allow for better efficiencies within the process. Kānoa – RD processes for these

applications are well-established and will continue through. Declines will continue to be reported through to RDMG Ministers for their awareness.

Risks

93 There is the potential for the delivery of new infrastructure investments to be constrained by capacity in the market. This is driven by historic workforce shortages and access to resources. This may be a restraint in some regions more than others.

94 This risk will be considered as part of developing the more detailed position papers on each sector/focus area that will be approved by RIF Ministers, and considered alongside other government infrastructure priorities and initiatives such as the Essential Worker workforce planning mechanism. Investment decisions will ensure there is confidence in delivering the project without driving unintended consequences, such as exacerbating workforce shortages or increasing pressure on local housing markets.

Cost-of-living Implications

95 The RIF will not directly address cost-of-living issues in the short term. However, the RIF will aim to increase productivity, create employment, including higher value jobs in regional New Zealand, and diversify economic output to reduce the impact of economic shocks. This will, in the longer term, help increase wages and reduce inflationary impacts on households. Business cases for each project will, where possible, outline how capacity in the market aligns with the project’s requirements to minimise inflationary impacts of spending.

Financial Implications

96 The funding sought in this paper was approved as a tagged contingency by Cabinet in Budget 2024 with an expiry date of 1 February 2025.

Legislative Implications and Regulatory Impact Statement

97 This proposal contains no legislative implications, and a Regulatory Impact Statement is not required.

Climate Implications of Policy Assessment

98 A Climate Implications of Policy Assessment for the overall RIF programme is challenging given it is unclear which projects will be supported.

99 I anticipate that, where applicable, the climate implications for individual investments be stated in business cases presented to decision makers so that the emissions profile of each project can be weighed up against the broader risks and additional public benefit generated.

Population and Human Rights Implications

100 The RIF should result in greater economic opportunities for Māori in the regions, particularly those regions with higher Māori populations. The RIF has also been designed to minimise certain investment barriers faced by Māori.

101 This proposal contains no human rights implications.

Consultation

102 The following departments were consulted: The Treasury, the Ministry of Foreign Affairs and Trade, the Department of the Prime Minister and Cabinet, New Zealand Transport Agency, the Ministry of Transport, the Department of Internal Affairs, Crown Infrastructure Partners, the Ministry for Primary Industries, Te Puni Kōkiri, the Ministry for Culture and Heritage, and the Ministry of Housing and Urban Development. The Office of the Auditor General was informed.

Communications and Proactive Release

103 I intend to make a public announcement about the decisions contained in this paper. I intend to release this Cabinet paper and associated minutes within 30 days of final Cabinet decisions being made.

Recommendations

The Minister for Regional Development recommends that the Committee:

Minister of Finance only

1 **agree** to the establishment of a new multi-category appropriation “Regional Development: Regional Infrastructure Fund MCA” in Vote Business, Science and Innovation, to be administered by the Ministry of Business, Innovation and Employment and with the Minister for Regional Development as appropriation Minister, to support regional economic growth through the Regional Infrastructure Fund;

2 **agree** that the single overarching purpose of this appropriation is to support regional economic growth through the Regional Infrastructure Fund;

3 **agree** that the intention statement is to achieve a lift in the productivity potential of the regions through the delivery of regional infrastructure initiatives;

4 **agree** that the categories for this appropriation be as follows:

Title	Type	Scope
Regional Infrastructure Fund – Operating	Non-departmental Other Expense	This category is limited to improving regional economies’ resilience and productivity
Regional Infrastructure Fund - Capital	Non-Departmental Capital Expenditure	This category is limited to investment in Crown owned companies and their subsidiaries

For all Ministers

5 **note** that on 29 April 2024 Cabinet [CAB-24-MIN-0148 refers]:

a. **agreed** to establish a $1.2 billion fund to invest in regional infrastructure; subject to further advice on:
- proposed criteria, eligibility and invitation process;
- development of a robust process to identify high value investment options;
- clarity on investment mechanisms and expected fiscal implications;
- operational arrangements, including options for which entities are best placed to deliver investments from the RIF;
- Ministerial decision-making structures, including for drawdown of the contingencies;

b. **agreed** to establish tagged operating and capital contingencies associated with the Regional Development portfolio of up to the following amounts to provide for the policy in recommendation 5a:

	$m – increase/(decrease)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Regional Infrastructure Fund - Tagged Operating Contingency	-	100.000	100.000	100.000	-
Regional Infrastructure Fund - Tagged Capital Contingency	-	300.000	300.000	300.000	-

6 **note** that the tagged operating and capital contingencies described in recommendation 5 above will expire on 1 February 2025;

7 **agree** that, as the further work described in recommendation 5 above has been satisfactorily completed, establishing a $1.2 billion fund to invest in regional infrastructure can now proceed;

8 **approve** the following changes to appropriations to provide for the decision in recommendation 5 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Business, Science and Innovation **Minister for Regional Development**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 & Outyears**
Multi-Category Expenses and Capital Expenditure: Regional Development: Regional Infrastructure Fund MCA: Non-departmental Other Expense: Regional Infrastructure Fund – Operating Non-Departmental Capital Expenditure: Regional Infrastructure Fund - Capital	- -	92.000 300.000	92.000 300.000	92.000 300.000	- -
Total Multi-Category Expenses and **Capital Expenditure:** **Regional Development: Regional Infrastructure Fund MCA:**	**-**	**392.000**	**392.000**	**392.000**	**-**
Departmental Output Expenses: Regional Development: Operational Support (funded by revenue Crown)	-	8.000	8.000	8.000	-
Total Operating	**-**	**100.000**	**100.000**	**100.000**	**-**
Total Capital	**-**	**300.000**	**300.000**	**300.000**	**-**

9 **agree** that the expenses incurred under recommendation 8 above be charged against the Regional Infrastructure Fund - Tagged Operating Contingency described in recommendation 5 above, and that the capital expenditure incurred under recommendation 8 above be charged against the Regional Infrastructure Fund - Tagged Capital Contingency described in recommendation 5 above;

10 **agree** that the proposed changes to appropriations for 2024/25 above be included in the 2024/25 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

11 **note** that, following the adjustments detailed in recommendation 8 above, the Regional Infrastructure Fund tagged contingencies are exhausted and closed**;**

12 **note** that Cabinet has previously agreed to high-level settings of the RIF, including the high-level investment strategy and framework, RIF delivery and assessment, and establishment of a Regional Development Ministerial Group (RDMG);

13 **note** that Cabinet has agreed for the RIF to have an initial focus on areas such as Māori economic development and flood resilience;

14 **note** Confidential advice to Government [redacted];

15 **note** that Cabinet also agreed to create a dedicated flood resilience funding category under the RIF's Resilience infrastructure component that will initially make $200 million available for eligible projects;

16 **note** that officials are in the process of completing the final due diligence stages for each of the 42 flood resilience projects, and will seek agreement from RDMG to the funding arrangement for each project before proceeding to contracting;

17 **agree,** subject to approval of the proposals in this paper, that the RIF will go live on 1 July 2024;

18 **agree** to delegate decision-making authority to the Ministers of/for Finance, Infrastructure, Māori Development and Regional Development as delegated RIF Ministers for the purpose of making ongoing policy and administration decisions for the RIF;

19 **note** that this group of delegated RIF Ministers is distinct from the RDMG that was previously established by Cabinet, as the RDMG will solely focus on making investment decisions;

20 **note** that I plan to publish a RIF Investment Strategy to:

20.1 provide clear direction for Crown investment under the RIF;

20.2 create clarity to focus resources toward defined investment priorities, maximising the impact of the programme;

20.3 set clear scope and boundaries to enable clear and explicit decision-making, and improve the effectiveness of ongoing monitoring and future evaluation of the programme; and

20.4 increase confidence, transparency and clarity for all parties, including prospective applicants, around the eligibility of different projects for each of the funding components;

21 **agree** to the Investment Strategy overview set out in Appendix Two;

22 **note** that officials will work with relevant agencies to develop position papers for each identified focus area/sector for the RIF, to complement the Investment Strategy;

23 **agree** to delegate decision-making authority for updates to the Investment Strategy and other RIF policy and process documents to RIF Ministers;

24 **note** that I have committed to reporting back to Cabinet Confidential advice to Government Confidential adv with a detailed monitoring and evaluation roadmap, which will incorporate performance measures and evaluation milestones, to provide visibility of the ongoing effectiveness of the RIF;

25 **agree** to the overarching framework that will be used to develop the monitoring and evaluation roadmap, to provide clear guidelines for officials and applicants on the intended outcomes and measures of the RIF;

26 **agree** that the overarching roadmap framework be comprised of:

26.1 purpose of the Monitoring and Evaluation Roadmap e.g. to guide Kānoa – RD to monitor and evaluate the RIF, and understand whether the benefits sought by the programme being achieved;

26.2 RIF Outcomes Framework, including:

26.2.1 short, medium, and long-term outcomes (as set out in recommendation 20), including measurable indicators aligned with each of these outcomes;

26.2.2 data collection and reporting overview, including how existing Kānoa processes and tools can be used to ensure consistent, timely and accurate monitoring and reporting to key stakeholders;

26.3 monitoring of the process and lessons learned;

26.4 evaluation approach, including:

26.4.1 formative evaluation, including procurement for an independent evaluation approach if appropriate; and

26.4.2 identification of potential impact studies;

27 **direct** officials to set aside $Confidential advice to Go from the RIF's departmental operating expenditure to support the evaluation of the RIF programme;

28 **note** that I propose that the high-level and long-term aims for the RIF are to:

28.1 lift productivity in regional economies by increasing the performance of businesses and catalysing the development of new or emerging industries; and/or

28.2 improve the ability for regional businesses and communities to absorb and recover from shocks and adapt to changing conditions;

29 **agree** to the following outcomes and measures:

Short-term (0-3 years)	**Medium-term (3-10 years)**	**Long-term (10+ years)**
The RIF will: • invest in regional critical needs and opportunities • identify and respond to potential risks and impacts on regional communities • create more value from existing Crown investments and assets • create employment opportunities in developing infrastructure assets • improve access to finance for investors, notably for Māori.	The RIF will: • minimise fiscal impacts of adverse events for communities and authorities • better prepare regions for climate change risks and impacts • increase value of tax dollars invested and returns for Government and taxpayers • create sustainable employment and upskilled workforce • improve outcomes for Māori through improved economic participation, crowding in of private finance (e.g. increasing capability of financial institutions to work with iwi and invest in whenua Māori).	The RIF will: • improve outcomes for regional New Zealand through addressing of critical infrastructure deficits.
Indicators of progress include: • measure of increased private capital investment in regions through co-funded RIF projects • RIF funding allocated and majority of contracting completed by Kānoa – RD	Indicators of progress include: • construction underway/completed on all infrastructure projects • measured value of commercial and/or residential assets protected from investment into resilience structure e.g. floodbanks, drainage	Indicators of progress include: • increased regional economic output post completion of project • greater economic activity (such as faster growing GDP, revenue, improved labour productivity) in the sectors and/or focus areas in which the RIF has invested • growth in supply chain connections for regions, both national and international, including increase in products and services exported out of regions where there have been investments • growth of new and emerging industries (e.g. aquaculture, renewable energy) in regions where there have been investments • growth in the Māori economy post-completion • reduced public spending on adverse events (e.g. severe

• RIF investment are directly relevant to regional priorities • measured value of investment into resource security and resilience infrastructure • number of people employed on initial projects • value of investments in whenua Māori entities that are able to access funding that were previously unable to do so.	• increased innovation spending by entities and businesses invested in • enhanced utilisation and returns for Māori from their assets, increased whenua Māori productivity, including a shift to higher value (instead of high-volume) production • greater proportion of employment in higher wage ranges after investment.	weather events) in regions invested in.

30 **note** officials will continue to develop the RIF's measures of success, with a view to having a comprehensive set of baseline measures that can be tracked over time and included as part of the monitoring and evaluation roadmap;

31 **note** Cabinet has agreed to the RIF being delivered through Kānoa – RD;

32 **note** Cabinet has agreed that RIF projects will be identified and initiated by a combination of invitation and unsolicited application;

33 **agree** that, from 1 July 2024, the RIF will be available for projects invited by Kānoa – RD officials to begin considering an application, and any interested parties will be able to submit an Expression of Interest in making an unsolicited application to the RIF and begin engaging with Kānoa – RD;

34 **agree** that, to be eligible for RIF support, projects must:

34.1 be with a New Zealand-based legal entity (which does not preclude partnering with offshore parties);

34.2 be to deliver on an asset based in one of the provincial regions of New Zealand (i.e. excluding Auckland, Wellington, and metropolitan Christchurch);

34.3 be focused on delivering a 'hard infrastructure' asset or completing physical works that protect existing Crown/local infrastructure or assets developed through the RIF;

34.4 contribute to improving the resilience and/or productivity of regional businesses, community and/or the economy;

34.5 fit at least one of the RIF funding component definitions (Resilience or Enabling infrastructure);

34.6 be connected to regional priorities – demonstrate evidence of relevant regional and local support, either through existing regional development mechanisms, or through another relevant body such as a council, iwi, economic development governance group or other representative group;

34.7 where the investment is for an asset in an individual business:

34.7.1 share benefits or services with other businesses or the community; and

34.7.2 be a business that has a primary focus on one of the following areas: energy security, water security, food security, connectivity (transport solutions or digital connectivity), or growth of a Māori-owned business that is critical to enabling outcomes throughout a community or region;

34.8 show an ability to deliver, including an implementation plan appropriate to the size, scale and nature of the project, robust project governance/decision-making systems, and risk identification and management;

34.9 have a co-funding element (from a private investor, iwi, or other non-government entity) where relevant, while any investments in individual businesses must have an element of co-funding;

34.10 require government financial support to progress or to crowd in private investment (either within the region or elsewhere) – i.e. the project would not otherwise happen without RIF support;

34.11 where applicable, involve applicants that pass due diligence checks (e.g., credit check, suitable character).

35 **agree** that the following will not be eligible for RIF support:

35.1 projects already funded through the following central government programmes: social infrastructure (housing and accommodation, schools, hospitals), large-scale national digital connectivity (broadband) initiatives and roads of national significance;

35.2 ancillary commercial activity such as marketing or business development;

35.3 funding for apprenticeships or Vocational Education and Training;

35.4 a project in potable water, wastewater or storm water assets, except for investment in the following that will remain eligible:

35.4.1 rural, community-owned water assets (that aren't on the local authority's water network);

35.4.2 water assets that are not ‘business as usual’ assets and are directly critically-enabling for eligible RIF projects, for example storm water assets that are typically vital to ensure the success of a floodbank project;

35.5 projects that are already underway, unless the applicant can demonstrate why the project would not proceed without RIF support;

35.6 ‘business as usual’ infrastructure maintenance works;

35.7 purchases of land, except in instances where this is essential to the success of an investment-ready infrastructure project;

36 **agree** that projects be assessed against the following criteria:

36.1 value proposition – strategic fit, how well does the project fit with the objectives of the RIF, is there a need for investment;

36.2 impact – economic case including direct and spillover benefits from the project (i.e. what is the Crown and regional community, alongside the investor, getting in return from the investment);

36.3 ability to deliver – commercial and management aspects of the project, how well does the project demonstrate its ability to deliver, what is the financial position of the prospective funding recipient;

36.4 risk assessment;

37 **note** that, from time to time, I expect that officials will draw on expertise from relevant independent experts (for example, with specific industry knowledge), to test the viability of proposed projects deemed to be ‘high risk’ by CRHL and/or officials, based on scale, complexity, or the level of commercial risk (e.g. the project is in an emerging industry);

38 **agree** that generally RIF loans will:

38.1 establish terms with a maximum of 20 years (as is more typical for infrastructure projects), depending on project modelling;

38.2 be established with interest rates that are general practice for the infrastructure that is being financed;

38.3 be flexible in repayment terms, for example capitalising interest until a project is generating sufficient revenue;

38.4 offer convertible and/or subordinated debt options;

38.5 take reasonable security within the context of the investment; and

38.6 in the case of concessionary loans, only be offered where a project would otherwise not be viable and has significant public benefit;

39 Confidential advice to Government

39.1 Confidential advice to Government

39.2 Confidential advice to Government

39.3 Confidential advice to Government

40 **note** that the Minister of Finance will agree a Loan and Equity framework, and that the RDMG will consider advice from officials that will recommend the most appropriate investment arrangement for each project proposal, determined as part of the detailed financial and management assessment;

41 **note** that Māori economic development settings will remain flexible, in line with the detailed investment settings of the RIF, to ensure use of the most appropriate investment instrument for each project;

42 **note** the governance structures for administering the RIF outlined in this paper;

43 **agree** that RDMG meet at least every two months to assess and approve project investment decisions;

44 **agree** to delegate investment decision-making authority for grant investments of $3 million or smaller to MBIE senior officials;

45 **authorise** the Ministry of Business, Innovation and Employment Deputy Secretary, Kānoa – RD, to decline project applications to allow for better efficiencies within the decision-making process;

46 **note** that I will report back to Cabinet Confidential advice to Government with a detailed monitoring and evaluation roadmap, including specific performance measures and evaluation milestones, and any proposed amendments to ensure equity in the application process, to provide visibility of the ongoing effectiveness of the RIF;

Hon Shane Jones

Minister for Regional Development

Appendix One – Potential Māori economic development projects

Below are examples of initial Regional Māori Economic Development projects that may proceed to RDMG once officials have worked through the necessary RIF processes and due diligence (including co-funding arrangements, potential alternative funding sources and scope). Together as a package, the projects below represent important sites of national significance.

Project name	Region	Estimated total project value	Description

Confidential advice to Government, Commercial Information

Appendix Two – RIF Investment Strategy

[Attached separately]

Appendix Two: Investment Strategy for the Regional Infrastructure Fund

Purpose

The Government has allocated $1.2 billion over a three-year term for the Regional Infrastructure Fund (RIF). The RIF will invest in regional infrastructure to lift productivity to grow regional economies by investing in infrastructure that increases the performance of businesses. It will also improve New Zealand's resilience by supporting regional businesses and communities to absorb and recover from shocks and adapt to changing conditions.

Link to Government priorities

- The RIF will invest in projects and build infrastructure for growth and resilience in support of the Government's five pillars to rebuild the economy, which included a commitment to build infrastructure for growth and resilience.
- The RIF will help to crowd-in private investment for critical projects by providing greater confidence in the project, including for example through potential City and Regions Deals, and co-funding arrangements such as Public-Private Partnerships
- Greater investment in regional infrastructure through the RIF will also create: new, high-value jobs; enhance access to markets for regional businesses; supporting growth in exports and greater national connections; support the emergence of new innovations and technologies; and help realise the potential of the Māori economy.

Outcomes

Short (0-3 years)

- Regional investment into critical needs and opportunities
- identifying and responding to potential impacts on regional communities
- Creating more value from existing Crown investments and assets
- Creation of ongoing employment
- Improved access to finance for Māori

Medium (3-8 years)

- Enhanced infrastructure landscapes
- Minimising fiscal impacts of adverse events for communities and authorities
- Regions are better prepared for climate change impacts
- Increased value of tax dollars invested and returns for Government and taxpayers
- Sustainable employment and upskilled labour forces
- Improved outcomes for Māori through improved economic participation

Long term (8+ years)

Improved outcomes for regional New Zealand through addressing of critical infrastructure deficits

Overall approach

The RIF will invest in:

Resilience infrastructure: infrastructure that improve a regions' ability to absorb, adapt and/or respond to stresses and shocks.

Enabling infrastructure: infrastructure that ensures regions are well-connected and productive. These projects will invest in assets that are used by, and/or generate benefits for, multiple businesses or many parts of a community.

The RIF will invest in both the building of new infrastructure as well as developing, upgrading, and improving existing infrastructure.

The RIF will not invest in:

- Projects already funded through the following central government programmes: social infrastructure (housing and accommodation, schools, hospitals), large-scale national digital connectivity (broadband) initiatives and roads of national significance.
- Ancillary commercial activity such as marketing or business development
- Education and skills/capability development
- A project in potable water, wastewater, and storm water assets, except for investment in the following that will remain eligible:
  - Rural, community-owned water assets (that aren't on the local authority's water network)
  - Water assets that are not 'business as usual' assets and are directly critically-enabling for eligible RIF projects, for example storm water assets that are typically vital to ensure the success of a floodbank project.
- Projects that are already underway, unless the applicant can demonstrate why the project would not proceed without RIF support
- Purchases of land

Initial areas of focus:

Flood resilience Cabinet has agreed to create a dedicated flood resilience funding category under the Resilience Infrastructure component of the RIF that will initially make $200 million available for eligible projects.

Māori economic development – the RIF has the potential to create a significant funding source for Māori businesses and landowners. Unlocking the potential of the Maori economy and whenua Maori through infrastructure development can also boost growth and resilience in regional economies.

Resilience infrastructure investments will improve resilience in:

- **weather events** – an event that is extreme at a particular place and time of year, including heatwaves, droughts, extreme wind or rainfall (including hail and frost), coastal and estuarine flooding, storms and ex-tropical cyclones. Excludes natural disasters such as tsunamis, earthquakes, volcanic eruptions, avalanches, and wildfires.
- **energy security** – Energy security has two aspects: 1) long-term energy security mainly deals with timely investments to supply energy in line with economic development and environmental needs, 2) short-term energy security, which focuses on the ability of the energy systems, particularly electricity, to react promptly to sudden changes in the supply-demand balance. Resilience infrastructure in this area includes any infrastructure involved in the electricity system, including generation, transmission, and distribution of electricity, distributed energy resources such as roof-top solar generation, large- and small-scale battery storage, and small-scale generation (eg diesel or petrol generators).
- **water security (water storage)** – the capacity of a population to safeguard sustainable access to adequate quantities of acceptable quality water sustaining livelihoods, human well-being, and socio-economic development, and for preserving ecosystems for eligible RIF projects

Excludes a project in potable water, wastewater, and storm water assets, except for the following: rural, community-owned water assets that aren't on the local authority's water network, and water assets that are not 'business as usual' assets and are directly critically-enabling for eligible RIF projects

- **food security** – refers to systems, facilities, and strategies ensuring consistent food production, distribution, and access despite natural challenges, including robust agricultural infrastructure like farmland and irrigation/drainage systems to withstand environmental stressors, efficient transport networks and storage facilities, such as warehouses with backup power sources, and diversification in farming practices and investment in resilient crop varieties.
- **connectivity -** transport solutions, digital connectivity for rural communities – digital connection has become an expected part of doing business but it is not reliably available in some regions of New Zealand. Digital connectivity provides a means to over some of the challenges faced by small, distant communities. Digital connectivity also enables businesses to make better use of existing and new digital technologies that improve productivity.
- **recovery infrastructure -** infrastructure that is available in instances of regions responding to natural disasters eg electricity microgrids

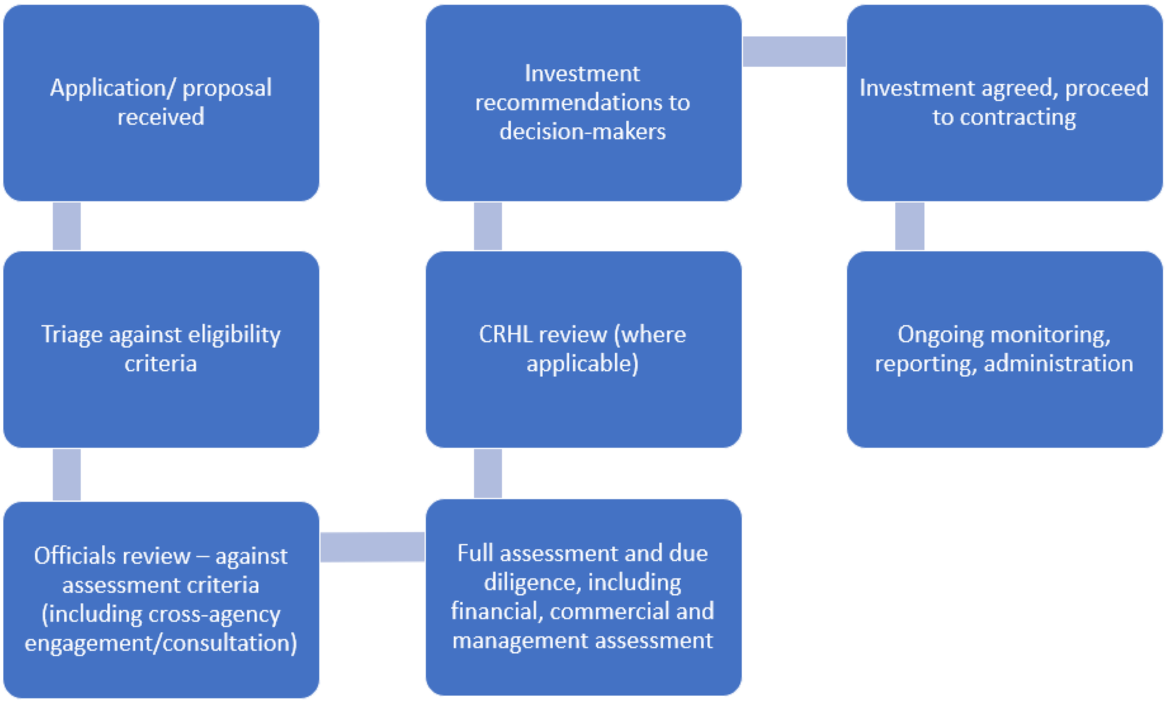
Enabling infrastructure investments will invest in:

Assets that are used by, and/or generate benefits for, multiple businesses or many parts of a community.

Eligible assets will include:

- shared services such as innovation parks and innovation facilities – infrastructure and complexes that catalyse innovation and growth of specific sectors or value chains that would be unlikely to happen at the same scale without those assets existing.
- supply chain or transport solutions, for example a cold storage warehouse
- cultural institutions of regional significance, including marae, museums and performing arts venues
- fixed assets within individual enabling businesses that produce outputs that are beneficial to other businesses in the region.

Appendix Three – High-level triage, assessment and decision-making process



Appendix Four – further detail on RIF Assessment Criteria

Criterion	Considerations	Assessment
Value proposition	**Rationale for intervention and strategic fit** How does the proposal align with the objectives of the RIF? Strategic fit - how does this fit in to broader strategy (of the region)? Will the solution actually solve a defined problem? What is the applicant proposing to deliver, and what is the return on investment (direct financial return, or indirect benefit) – Value for Money? Are the capital requirements sufficient to achieve outcomes? Can the project be delivered by local providers? (where doing so will not negatively impact the ability to deliver the project, the cost, or local inflation)	Costs vs Benefits – investment costs vs revenues/avoid costs Qualitative assessment of alignment to RIF objectives Qualitative assessment of alignment to broader regional objectives Assessment of investment size vs proposed impact – adequate capital sought?
Impact (direct and spillover benefits)	Impact on productivity and/or resilience (including economic diversification). Employment benefits. Climate change mitigation/adaptation.	Qualitative and quantitative.
Ability to deliver	Access to resources – does the project have everything available, in a reasonable timeframe, to enable it to deliver and not increase inflationary pressures? E.g. materials/technology, skills/labour, financial means. How would the asset generate revenue / service repayments? Is it technically viable? Can the market actually deliver it? Management/governance – who is leading the project, what plans and strategies are in place, how does this fit in to broader strategy/issues etc. Who holds the asset after project delivery and what is the proposed plan/accountabilities for ongoing operation, upgrades, future investment.	Demonstrated through feasibility study, business case, or similar. Investment management plan.
Risk assessment	Governmental risk (social, environmental, security), commercial risk (market certainty, competition, labour, resource availability), legal risk, force majeure/insurance risk, macroeconomic risk.	Demonstrated through feasibility study, business case, or similar.

Appendix Five – further detail on investment guidelines and mechanisms

Cabinet has agreed that the RIF will create Crown and regional assets through a mix of loan, equity and other capital instruments as well as grants, and require differing levels of co-funding

0 The RIF will invest where market failures mean the projects would otherwise not happen, or where investment can accelerate delivery. The RIF can also help crowd-in private investment for critical projects by providing greater confidence in the project, including, for example, through potential City and Regions Deals, and co-funding arrangements such as Public-Private Partnerships.

1 Investments will primarily be made through a mix of loan, equity and other capital funding instruments, as well as some grant funding to help deliver the best value for New Zealanders and the Crown.

2 Loans, equity and other capital investments will be generally preferred for the RIF. These instruments create assets for the Crown but are only suitable where there is an ability to recover the investments through repayment from the borrower or through asset revenue generation. Equity in this context relates to an ownership interest or claim of a holder of ordinary shares and/or some types of preference shares of a company.

3 Grant investments will be available to accelerate projects that would not have a viable source of debt repayment and would otherwise not progress, particularly for Resilience Infrastructure projects. In some circumstances, other investment instruments including underwrites and guarantees may be appropriate.

4 The proportion of the total project finance requirements committed by the Crown for each RIF investment will be guided by the following rates, and will aim to be proportionate to the public benefit anticipated from the project:

4.1 Resilience Infrastructure – 40 to 80 per cent.

4.2 Enabling Infrastructure – 30 to 60 per cent.

The most appropriate investment instrument will be determined once an application has progressed through eligibility and assessment processes

5 Investment instruments should be fit-for-purpose, based on the size and nature of the investment, and create the right incentives for applicants. In recognition of this, Kānoa – RD uses three general categories of investment which indicate potential investment instruments:

5.1 Non-Commercial: an investment delivers a public benefit but has no revenue stream (for example, flood resilience stop banks).

5.2 Quasi-Commercial: an investment generates a revenue stream that is insufficient for funding by the private sector.

5.3 Commercial: an investment is commercial in nature and the RIF invests to realise a public benefit that would otherwise not occur immediately.

6 A flexible set of investment instruments enables a wide range of proposals across the above three investment categories and from different types of regional players to be considered - from councils, through to iwi, firms, collectives and small businesses (where eligible).

7 Decision-makers will consider advice from officials that will recommend the most appropriate investment arrangement for each project proposal, determined as part of the detailed financial and management assessment. Investment arrangements will seek to ensure each RIF project:

7.1 appropriately addresses financial risks and costs to the Crown;

7.2 is simple to administer with low transaction costs;

7.3 is fit-for-purpose based on the size and nature of the investment;

7.4 considers the funding recipient/investment counterparty and enables a wide range of proposals from different types of regional players, including (but not limited to) councils, iwi, firms, collectives and small businesses;

7.5 is consistent with our international obligations;

7.6 creates the right incentives for applicants; and

7.7 minimises the risk of recourse to the Crown for future contribution by phasing payments against milestones.

Table One: investment instrument considerations

	Loans	**Equity**
Risk	Less risk if loan is secured Lenders have higher priority than equity holders in a liquidation	Ordinary shares provide no security Preference shares may have more security akin to subordinated debt Higher risk profile than debt to Crown generally
Return/Reward	Contracted loan requires principal and interest repayments, which may be recycled by the Crown	Dividends, capital gains, which may be recycled by the Crown
Exit Strategy	Contracted maturity date, unless repaid early	Exit terms may be agreed up front, or a negotiated position may evolve

Future Ownership (for example, returning to an iwi)	No ownership interest unless convertible loan	Shares/units can be held on behalf of a future owner and gifted or sold for nominal consideration, for example to iwi
Deal Structuring	Structuring loans according to the return profile of the project and incentivising the counterparty to repay early if the project does better than expected	Structuring equity deals to ensure that the Crown has at least the same rights as other shareholders
Counterparties	Types: Companies Limited partnerships Māori collectives Councils and CCOs Trusts	Types: Companies (shares) Limited Partnerships (units)
Balance Sheet	Balance sheet and cash flows need to be strong enough to take on new debt and make contracted repayments	Equity can enable a firm to take on further debt if necessary, or undertake a faster expansion in cases where balance sheet does not support a loan
Corporate history	Banks prefer a trading history and can become fatigued with existing debt owed, where there is weak security and uncertainty around forecasts, banks may be unlikely to extent credit	Valuations can be tricky for start ups The decision to take equity will be influenced by where the business is in its lifecycle. The different stages of equity investment. The different stages we typically see are: • Angel Investors • Venture Capital (including NZ Growth Capital Partners) • Private Equity • IPO
Complexity	Reduces the ongoing complexities (that is, further calls on capital, directorships and deemed responsibilities)	Increases the ongoing complexities (that is, further calls on capital, directorships and deemed responsibilities)
Public Interest Test applied	Yes	No

8 The RIF will generally prioritise loans and equity ahead of grants, because:

8.1 debt and equity provide a means for return of capital, which can then be re-used for future investments; and

8.2 debt and equity ensure strong commercial incentives on RIF co-investors and enables use of well-established contractual arrangements and transparency mechanisms.

9 The RIF will generally prioritise loans ahead of equity, because:

9.1 the return of capital is more likely for loans than equity;

9.2 the loans can limit the risks to which they are exposed; and

9.3 it generally avoids the complexities of ownership (exit strategy, valuation, voting, directorship).

10 In some cases, investment may be structured as a mix of instruments.

Loan investment principles

11 The RIF will support projects that are unable to reasonably secure viable finance elsewhere and has the objective of structuring investment arrangements in order to accelerate projects that would not otherwise happen.

12 As such, subject to Cabinet agreement in this paper, RIF loans will:

12.1 establish terms with a maximum of 20 years (as is more typical for infrastructure projects), depending on project modelling;

12.2 be established with interest rates that are general practice for the infrastructure that is being financed;

12.3 be flexible in repayment terms, for example capitalising interest until a project is generating sufficient revenue;

12.4 offer convertible and/or subordinated debt options[6];

12.5 take reasonable security within the context of the investment; and

12.6 in the case of concessionary loans, only be offered where a project would otherwise not be viable and has significant public benefit.

Loan interest rates

13 Confidential advice to Government

13.1 Confidential advice to Government

13.2 Confidential advice to Government

13.3 Confidential advice to Government

14 Confidential advice to Government.

15 Final loan interest rates will be determined by RDMG Ministers when approving investments.

[6] **Subordinated debt** means that debt owed to an unsecured creditor will only be paid out after debt to secured creditors has been paid in the event of a liquidation

Determining loan terms

16 In making recommendations to RDMG Ministers, Officials will consider and provide advice on a range of factors influencing recommended loan terms, for example:

16.1 the cashflow of the underlying project;

16.2 the type of entity, such as companies councils or iwi collectives;

16.3 risk and mitigations;

16.4 term adjustment (whether it is a short or long-term loan); and

16.5 any adjustment related to security.

17 A concessionary loan may be the most appropriate mechanism to deliver a project with significant broad based regional economic development benefits. If a concessionary loan is appropriate, Kānoa – RD will consider the required level of concession to enable the project to proceed.

17.1 For example, if a borrower is unable to meet commercial terms because it is a charitable trust and the purpose of the loan is to develop land or undertake a project that achieves social/community-focused outcomes, a concessionary loan term may be considered.

Equity investment principles

18 Where an equity transaction is deemed the most appropriate instrument to accelerate a project, Kānoa – RD will seek to ensure that the Crown:

18.1 is a key, or cornerstone investor, but not a majority owner (as this incentivises the project partners to make the project a success and any company in which the Crown holds effective control and more than 50 per cent of the shares will be treated as a Crown entity subsidiary);

18.2 can protect its interests without appointing directors to target boards, instead requiring the appointment of independent directors and/or contractual protections such as reserved matters; and

18.3 will endeavour to exit in line with a pre-determined exit strategy.