



3.6 AOTEAROA SOCIAL ENTERPRISE TRUST

PGF Application		For: Approval	
Applicant:	ASET	Pipedrive ID #	Commercial Information
Entity Type:	Trust	PGF Funding Sought:	Commercial Information
Region	Tairāwhiti	Total Project Value:	Commercial Information
Tier:	1 - Regional	Co-contribution rate:	Comm %
Sector:	Skills/ Food Processing	Funding Structure:	Grant/ Loan

We recommend that the IAP:

- a) **Support** the PDU recommendation to fund \$2,000,000 from the PGF towards Aotearoa Social Enterprise Trust (ASET), subject to:
 - confirmation that all consents required to establish the facility have been secured; and
 - establishing a mechanism that limits Trustees' fees.
- a) **Note** this project was approved for funding on 5th November 2018 by RED Ministers (without a specific funding amount). The project was approved in conjunction with another project, Commercial Information [redacted].
Commercial Information [redacted].
The PDU is seeking support for its recommendations in relation to:
 - The amount; and
 - Mechanism to fund ASET.
- b) **Note** the level of funding. The applicant has provided a detailed costings sheet (Annex 1) for establishing a food processing facility - the major funding deliverable of this application. The costings have been updated, in a letter to the PDU 11th March 2019 (Annex 2). The project value is Commercial Information [redacted]. The PGF request is Commercial Information [redacted]. Having consulted with the applicant, He Poutama Rangatahi (HPR), Ministry of Social Development (MSD) and Eastland Community Trust (ECT), the PDU believes an option for funding is to agree to a reduced amount. ASET has established a good reputation in its relatively short existence, delivering strong outcomes including employment for Comm [redacted] people. However, by its own admission it does not have a proven record of delivering a project on this scale. As such, a possible funding amount of \$2m could allow a scale up from their existing operation by establishing a more modest food processing facility, while minimising risks associated with a larger scale up. Alternatively, the IAP and RED Ministers could recommend and approve the full request of Commercial Information [redacted]. This would develop a facility that is a significant step change in ASET's operational scale.
- c) **Note** Mechanism for Funding. ASET is seeking funding via a grant. ASET, however, generates revenue from the sale of processed produce. The applicant has provided modelling (Annex 3) to highlight possible revenue levels resultant from the increased processing capability of a new facility. The PDU has assessed these and believes they are ambitious. Noting possible inaccuracies in their forecasting, ASET does undertake

commercial activity. Conversely, ASET provides a proven model of training and pastoral care to the region's harder to place workforce members. This work is typically funded via a grant. A third option is to develop a 'Groan'. The PDU would develop a loan that would seek repayment that was tied to revenue, while acknowledging the social service component of ASET's activities.

d) **Note** This project cannot be funded via Te Ara Mahi (TAM) as they primarily fund opex.

e) **Note** Co-funding for this project is secured. [Redacted] is the largest co-funder ([Redacted]). This funding is a grant. [Redacted] funding is dependent on PGF funding being secured.

Proposal:

- ASET currently helps Tairawhiti's harder to place workforce members through training and support services. They have gained a reputation for good results and has a MSD work place contract to provide social services ([Redacted]). ASET has also received funding from HPR ([Redacted]), providing further confidence in the applicant. HPR's funding was to undertake training, opex, rather than capex. They are seeking PGF funding to significantly scale up their food processing facility that is used to provide employment and training opportunities for people in their programme. PGF funding will act as an enabler and catalyst for ASET. It will increase the Trust's ability via capacity to employ and offer services to more of Tairawhiti's hardest to place workforce.
- ASET's model has elements of social enterprise, seeking commercial outcomes while incorporating social benefits (training people and pastoral care). This mix of Trust goals makes it difficult to access commercial funding.
- This application is a stand-alone project. ASET will continue to seek funding for the provision of services from government but this does not include the PGF.
- The social goals of this application, seeking to help Tairawhiti's 'at risk' or hard to place workforce members with employment opportunities and service provision is outside traditional commercial offerings.
- The public benefit of this investment includes a reduction in ongoing negative social outcomes associated with the issues present in this section of Tairawhiti's workforce.

Assessment against the PGF criteria:

Eligibility Criteria

ASET currently meet a number of PGF criteria including community benefit, increasing employment, building on existing activity and strong governance and is eligible for PGF funding.

Productivity Potential

The social enterprise model seeks commercial outcomes (generation of profit) but via the achievement of social outcomes and benefits. As such, efficiencies are likely to be below a strictly commercial operation. That said the wider goals of ASET speak to providing better social outcomes for elements of Tairawhiti's workforce. This will have an economic upside with a reduction of claims upon social services and a reduction in adverse outcomes for people within its training and employment.

Policy objectives and regional priorities

The Tairawhiti Economic Action Plan (TEAP) makes strong reference to building capability in the region and helping to deliver programmes to increase work readiness. ASET has provided a number of letters of support from the region including: Police, MSD, TPK, Gisborne Pak n Save and Unigreen. It must be noted support is for ASET's activities in Tairawhiti rather than specific support for this application.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
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Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> ASET currently employs ^{Comm} FTEs. Its goal is to continue working with, and increase the number of the region's long-term unemployed and hard to place workers providing well paid, year round employment. 	✓✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> ASET seeks to work with traditionally hard to place people and has achieved a track record of providing employment for such individuals. This service is of benefit to the community and ASET has the support of, among others, MSD, HPR and TPK. 	✓✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> N/ A 	
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> N/ A 	
Mitigation of climate change effects	<ul style="list-style-type: none"> N/ A 	
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> ASET is a current provider of services associated with training and employment for long-term unemployed. They are seeking to expand their operation, thus, extending the opportunity to provide additional employment opportunities. 	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> While the expansion of ASET's operation will bring additional economic activity to the region, and they note increasing GDP in the region is a goal, the opportunity to place an increased number of the region's 'at risk youth' and long-term unemployed into work, offers wider potential for increasing regional gains via better social as well as economic outcomes. 	✓✓✓
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> Broadly, the project seeks to increase economic activity via increasing employment and, harvesting and manufacturing in the primary sector. These are noted as priorities in the Tairāwhiti Economic Action Plan. 	✓✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> The applicant has provided a detailed list that outlines significant support for the model and entity although not this specific project. 	✓✓✓

Governance, risk management and project execution		
Robust project management and governance systems	<ul style="list-style-type: none"> The PDU has discussed the structure of the organisation and those leading it with ASET. MSD and TPK have provided information about the management structure and confidence is noted with MSD and HPR currently funding ASET. Commercial Information 	✓✓✓
Risk management approach	<ul style="list-style-type: none"> ASET complies with a number of relevant health & safety and food safety regulations in order to operate. The applicant has outlined a risk/mitigation register. The PDU has assessed this and notes that it is fit for purpose for ASET's current operational model. The establishment of the new facility will require the development of a detailed construction risk register. This could be developed in consultation with the contractor. 	✓✓
Future ownership / operational management	<ul style="list-style-type: none"> ASET operates under a Trust model. The applicant has provided the Trust deed. 	✓✓✓
Analysis of the benefits and costs		
<ul style="list-style-type: none"> Substantiate the benefits of the proposal by providing a summary of any benefit analysis conducted: The issue faced in Tairāwhiti, and New Zealand, is that the level of support needed by people looking to enter/ re-enter the workforce is varied. As such, more than one model is required. ASET works with 'harder to place' members of the community and HPR, TPK and MSD have noted they are achieving good results. ASET has noted a number of goals associated with the scale up of their operation and is seeking to implement these by 2020: <ul style="list-style-type: none"> Increase on the number of people employed by ASET (currently ^{Comm}) Achieve an average wage of ^{Commercial} for each employee by 2020 Grow produce not currently grown in the region to avoid displacing existing providers Be profitable and use those profits to contribute to reducing poverty and increasing education in Tairāwhiti ASET's model of positive social outcomes via the generation of commercial activity provide a point of difference when placed next to many social service providers that are not in any way financially sustainable (long term) without government support. This application seeks to expand an existing model. The model will help offset the requirement for government funding by generating commercial returns, while still delivering social services including workforce training for some of the regions hardest to place members. The PDU has assessed a number of points that look at benefits against requested funding. The PDU assesses that risks are evident in providing the requested level, noting this would be a significant increase in ASET's operation. As such, a reduced level of funding would provide ASET with the ability achieve a more modest but manageable scale up. 		
Financial Analysis		

The applicant has provided a detailed budget. It includes contractors and suppliers to construct the facility and has a reasonable contingency. The costings have no significant omissions providing confidence in delivery and reduced risk of cost escalation. Commercial Information

Funding Arrangements

The PDU recommends a construction plan milestone based funding agreement based on a Commercial Information initial payment on signing of the agreement followed by three payments across the construction period holding back Commercial Information for the final report. The PDU further recommends a Commercial Information tied to revenue generation (to be developed with the applicant). This acknowledges ASET provides strong social services to the community and is not likely to hit commercial revenue levels in the short to medium term.

A reduced funding amount of \$2m will further derisk the investment while still providing ASET with sufficient funding to establish a processing facility. Commercial Information

Due Diligence and Ownership

Due diligence has been carried out on ASET.

Trustees:

- Commercial Information
- Larry Foster
- Ernst Packer
- Adam Lynch

Key Management Personnel:

- Commercial Information

Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

Note, the applicant has supplied a R/M register that addresses risks associated with both the ongoing operation of the business and the construction of the facility. The risks are reasonable but additional risks are noted below.

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
[i.e. Cost Risk]	[i.e. If the cost estimate is inaccurate, then the applicant may seek further funding, or be unable to complete the project in the agreed manner]	<ul style="list-style-type: none"> • [describe what has been done / will be done to mitigate the risk] 	[Low / Medium / High]
Supplied by applicant			
M&G	Governance dysfunction	<ul style="list-style-type: none"> • Appoint the best people for 	L

		the job	
Environment	Weather/ climate events	<ul style="list-style-type: none"> • Correct crops for the correct season 	L/ M
Operational	Health and Safety	<ul style="list-style-type: none"> • Continuous education 	L/ M
Operational	Food contamination	<ul style="list-style-type: none"> • Ensure food plan is followed 	L/ M
Operational	Staff matters	<ul style="list-style-type: none"> • Good communication, training and support 	M
Operational	Drug and Alcohol	<ul style="list-style-type: none"> • Drug testing and impairment support 	M/ H
Market	Market prices too low	<ul style="list-style-type: none"> • Careful growing plan. Monitor markets 	L/ M
Operational	Fire and Theft	<ul style="list-style-type: none"> • Insurance 	L
Additional risks PDU			
Investment	Scale up	<ul style="list-style-type: none"> • Reduce the scale of the project to reduce the risk of over reach 	L/ M
Investment	Construction slippage	<ul style="list-style-type: none"> • Careful procurement process and reference checks for contractors 	L/ M
Investment	Cost increases	<ul style="list-style-type: none"> • Get fixed price contracts 	M

Consultation undertaken or implications:

ASET has supplied letters of support from MSD and TPK. They have also received funding from HPR providing evidence of support. It should be noted the letters of support are for ASET's activity more generally rather than this project.

Supporting proposal:	Yes. Seeking Direction on aspects
Appendices:	Yes – Application and Annexes
Author of paper:	ELH