

## COVER SHEET

<b>2.2 Te Kaha Development Project (Phase One &amp; Two) – Application</b> <small>Commercial Information</small>		<b>For:</b> <b>Approve</b>													
<b>Tier:</b> 2 - Sectors	<b>Sector:</b> Food and Fibre														
<b>Background &amp; context:</b>		<b>Recommendation(s):</b>													
<p><b>Applicant Organisation:</b></p> <ul style="list-style-type: none"> <li>TKG Landowners Group Holdings Limited Partnership (“TKG LLP”)</li> </ul> <p><b>Location:</b></p> <ul style="list-style-type: none"> <li>Whakatane, Bay of Plenty</li> </ul> <p><b>Proposal:</b></p> <ul style="list-style-type: none"> <li>This project was one of four catalytic projects presented to the Government by the Eastern Bay of Plenty Regional Leadership Group in August 2018. This was presented to Ministers Twyford, Robertson, Jackson, Mahuta and Under-Secretary Tabuteau.</li> <li>The Te Kaha Development Project Application can be broken down into two distinct stages that support is being applied for.</li> </ul> <table border="1"> <thead> <tr> <th>Projects</th> <th>Requested</th> <th>Co-Funding</th> </tr> </thead> <tbody> <tr> <td>Stage 1</td> <td>\$370,000</td> <td>\$ <small>Commercial Info</small></td> </tr> <tr> <td>Stage 2</td> <td>\$ <small>Commercial Information</small></td> <td>\$ <small>Commercial Information</small></td> </tr> <tr> <td><b>Total (\$67.78m)</b></td> <td>\$ <small>Commercial Information</small></td> <td>\$ <small>Commercial Information</small></td> </tr> </tbody> </table> <p>* Not committed and depends on the preparation work being completed and projects receiving investment from third parties.</p> <ul style="list-style-type: none"> <li>The total (Stage 1 and 2) level of investment required by the PGF is a grant of \$370K for supporting capacity and capability building of the TKG LLP to deliver on the projects, completing plans and consent applications, appointing a GM/Project Manager and an information memorandum and \$ <small>Commercial Information</small> over the next four</li> </ul>		Projects	Requested	Co-Funding	Stage 1	\$370,000	\$ <small>Commercial Info</small>	Stage 2	\$ <small>Commercial Information</small>	\$ <small>Commercial Information</small>	<b>Total (\$67.78m)</b>	\$ <small>Commercial Information</small>	\$ <small>Commercial Information</small>	<p><b>We recommend that the IAP:</b></p> <p>a) <b>Approve</b> \$370,000 grant funding from the PGF, on condition of an updated costing for the Water Distribution Network Plan.</p> <p>b) <b>Consider</b> that given our view that the projects rely strongly on the water distribution and storage network, PDU recommends supporting \$370,000 (of \$ <small>Commercial Information</small>) grant funding to finalise the “planning and application stage” of the Te Kaha Development Project and agreeing to support further (Stage 2) initiatives on condition that the water distribution and storage network and other plans prove viable in the view of the PDU in consultation with MPI.</p> <p>c) <b>Approve</b> \$6.5m equity type support (preference shares or equity if necessary) to provide irrigation for 327ha of horticultural land water storage and distribution, on condition that it proves viable in the view of the PDU and MPI. The PDU is supportive of the applicant’s suggestion that this be held in trust and transferred to the appropriate entity representing the community at a later date, materially at cost.</p> <p>d) <b>Approve</b> up to \$1.5m loan funding for the Nursery expansion rather than the Equity co-investment requested, on the basis that it proves viable in the view of the PDU and MPI.</p> <p>e) <b>Approve</b> the \$2m loan to provide seed capital and accelerate the development of the TKG2 100ha Kiwifruit Development on the basis that it proves viable in the view of the PDU and MPI. <small>Commercial Information</small></p> <p><b>Commercial Information</b></p> <p>f) <b>Decline</b> the <b>Commercial Information</b></p>	
Projects	Requested	Co-Funding													
Stage 1	\$370,000	\$ <small>Commercial Info</small>													
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years Co-funding of Stage One is to be provided by <sup>Commer</sup> (\$<sup>Commer</sup>) and <sup>Commerc</sup> (\$<sup>Commer</sup>).

- The projects are designed to create a large scale, rapid increase in the uptake of land use on Māori owned land that supports permanent, year-round employment opportunities for approximately <sup>Co</sup> etc people in Te Kaha.
- Stage 1 seeks \$370,000 (of \$<sup>Commercial Inform</sup>) grant funding for the “planning and consent application” stage of the Te Kaha Development Project.
- The planning part of stage one covers:
  - a) The Water Distribution and Storage Network Plan including resource consent and drafting.
  - b) Employing a project/contract manager to develop the various projects over two years – (\$160,000 from PGF and \$<sup>Commercial Inform</sup> to be contributed by <sup>Commercial Inform</sup> for the second year, but not included in the \$<sup>Com</sup>ial above).
  - c) Nursery Expansion Planning and legal drafting
  - d) 100ha development Information Memorandum and legal agreements.
  - e) Kura development and Centre of excellence design, drafting and modelling.
  - f) Other more minor infrastructural upgrades and feasibility.
- This planning element will lead to discreet projects that potentially result in strong benefit for Te Kaha and the surrounding Te Whānau-ā-Apanui tribal boundaries from Ōmāio to Waihou Bay.
- Provided the Stage 1 plans prove viable, then Stage 2 involves the expansion of horticultural business and various other related value added initiatives.
- The Stage 2 projects are quantified in the following table, but broadly relate to a water distribution and storage network, nursery expansion and fruit crop development, development of a new 100ha kiwifruit orchard, a soft loan providing seed money for Māori land owners to enter into development JVs and an optional mechanism to allow the land trusts to replace existing market funders and thereby buy out JV partners earlier). The Water Distribution and Storage Network in Stage 2 covers:
  - a) Implementation of a scheme over Te Kaha land to irrigate 326.68 hectares.
  - b) Extraction structure, pump station and rising

## Commercial Information

- g) Note** the PDU recommends a total approval of up to \$<sup>Commercial Inform</sup>, to the extent that it unlocks the entire Te Kaha Project (\$<sup>Commercial Inform</sup>). Up to \$<sup>Commercial Inform</sup> of the amount requested could be accounted for against the PGF Whenua Māori allocation and from the funding allocation for Water Storage.
- h) Note** the demonstrated ability of TKG to deliver on historical projects and the need for support in the Te Kaha area
- i) Note** Te Puni Kōkiri is supportive of the application given “its contribution to Māori development outcomes in relation to enabling whānau to grow their capability and access opportunities to develop sustainable enterprises; whānau and community development; enterprising whānau; and, developing Māori assets.”
- j) Note** that the Project is composed of a number of different sub-projects and the hiring of a commercial/project manager for 2 years to assist with these. However, a viable Water Distribution Network Plan can be seen as resulting in a greater likelihood of success for the proposed 100 hectare orchard development and the other ancillary requirements.

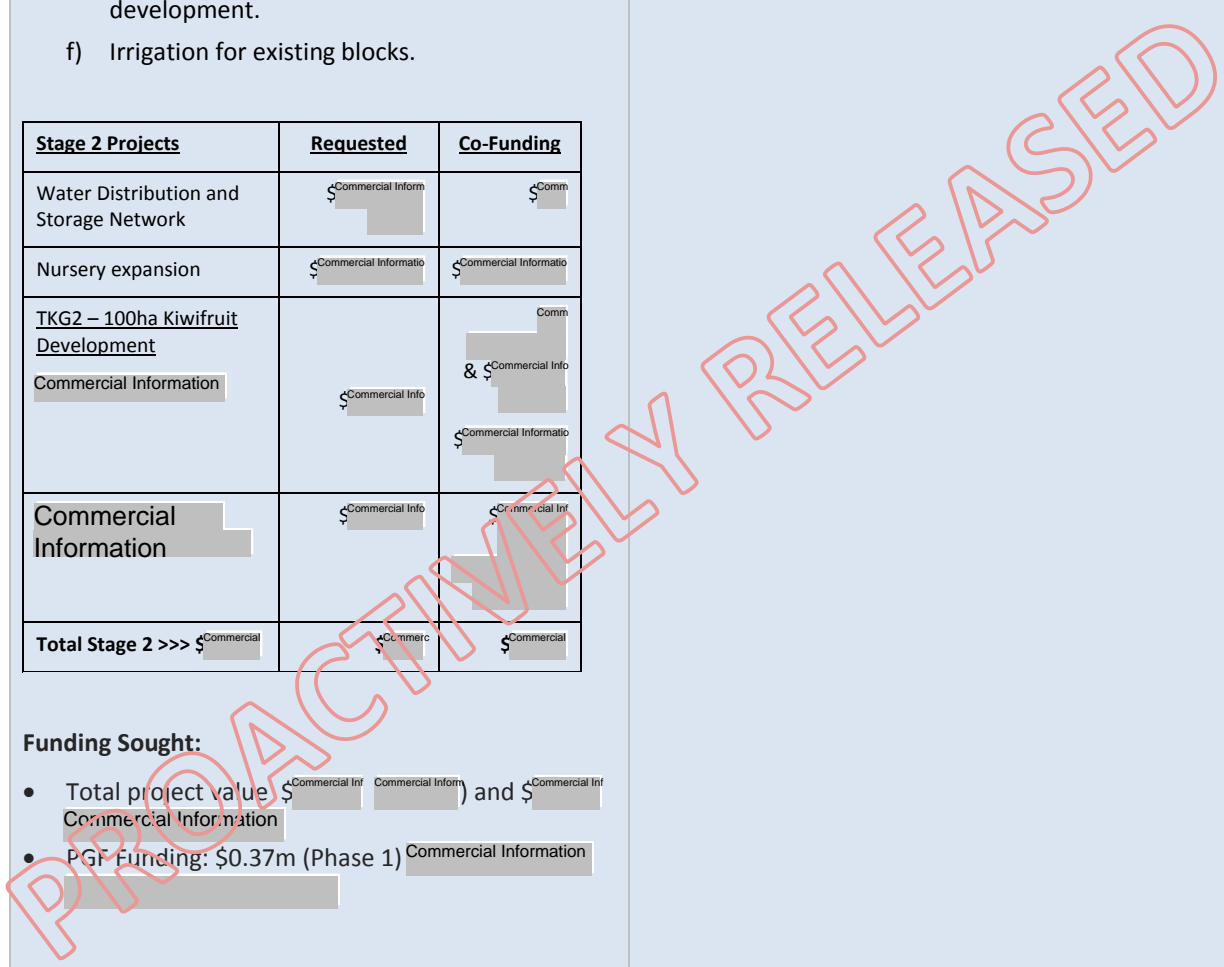
main.

- c) Reservoirs construction.
- d) Gravity main and water booster pump station.
- e) Finalising irrigation on new blocks for 100 ha. development.
- f) Irrigation for existing blocks.

<u>Stage 2 Projects</u>	<u>Requested</u>	<u>Co-Funding</u>
Water Distribution and Storage Network	\$Commercial Inform	\$Comm
Nursery expansion	\$Commercial Informatio	\$Commercial Informatio
TKG2 – 100ha Kiwifruit Development Commercial Information	\$Commercial Info	Comm & \$Commercial Info \$Commercial Informatio
Commercial Information	\$Commercial Info	\$Commercial Inf
<b>Total Stage 2 &gt;&gt;&gt;</b> \$Commercial	\$Commerc	\$Commercial

**Funding Sought:**

- Total project value \$Commercial Inf Commercial Inform) and \$Commercial Inf Commercial Information
- PGF Funding: \$0.37m (Phase 1) Commercial Information
- There are difficulties around replacing existing funders with the optional Commercial loan requested in Stage 2 (to assist full Maori ownership of investment (provides returns back to the landowners trust significantly earlier than if other potential funding sources are used) and Commercial Information Commercial Information). The applicant would therefore welcome the opportunity to develop terms that potentially worked for the PGF, the Māori land owners, and accelerate the potential for mainstream bank funders to re-rate lending into this asset class.
- The Project is consistent with criteria for the PGF Whenua Māori allocation Commercial Information Commercial Information



**Commercial Information**

The PGF Whenua Māori allocation sets aside \$100m toward providing capital investment to Māori land owners to develop unproductive or underutilised Māori owned land. Components of the amount requested would be tagged to both Whenua Māori and Water Initiatives as the amount permitted for PGF Whenua Māori applications is capped at \$10m.

**Background:**

- The applicant, TKG Landowners Group Holdings Limited Partnership (“The LLP”), is a limited liability partnership established in 2016. The purpose of the LLP is to secure the wellbeing of Māori families based in the Te Kaha area. The LLP currently oversees investment on behalf of Te Whānau-ā-Apanui landowners, in order to secure their futures via the protection and growth of their assets and other tāonga, including whenua, people, and root stock. Approximately 95% of the land in Te Kaha and surrounding areas is Māori freehold land.
- The six ahu whenua trusts own successful and viable gold variety kiwifruit orchards comprising approximately 80 ha in Te Kaha and Ōmāio. The Trusts are in a joint venture (JV) with private investors supplying kiwifruit for the domestic market and for export. The JVs, established in 1999, will start to ‘crystallise’ over the next five years enabling each Trust to become a 100% owner for the first time in twenty years. It is estimated that within the next five years, more than \$<sup>Comme</sup> in annual profits will flow back to landowners from these existing structures.

**PGF criteria that this proposal supports:**

PGF Criteria	Assessment Commentary	Rating (1✓ to 5✓)
<b>Link with fund and government outcomes</b>		
Creates permanent jobs	<ul style="list-style-type: none"> <li>• Not initially, but the longer term projects, if successful, could result in <sup>Commerc</sup>FTE’s over time in the applicant’s view. Unfortunately, this could be overly optimistic as it assumes significant return to the area</li> </ul>	✓✓✓✓

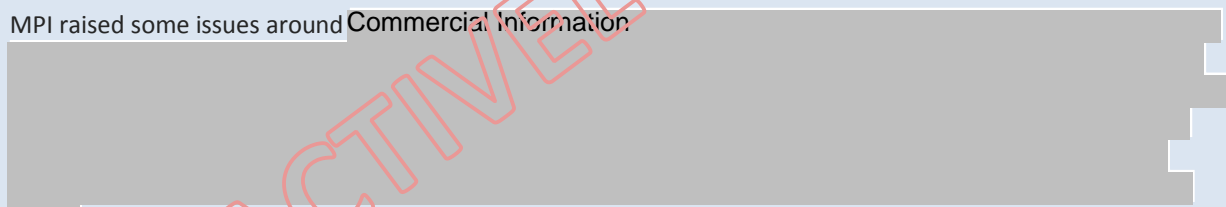
	of families, given that the existing population of Te Kaha is approximately 500.	
Delivers benefit to the community	<ul style="list-style-type: none"> <li>Not initially in the planning stage which deals more with laying the groundwork for future development. However, if successful, this would result in significant benefit to Te Kaha.</li> </ul>	✓✓✓✓
Increased utilisation and returns of Māori asset base	<ul style="list-style-type: none"> <li>As this builds capacity within the TKG LLP and allows for better utilisation of their asset base, it is considered to meet this criteria. If feasible this would lead to a better use of Māori land.</li> </ul>	✓✓✓✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> <li>It deals specifically with this over the longer term through better utilisation of land.</li> </ul>	✓✓✓✓
Mitigation of climate change effects	<ul style="list-style-type: none"> <li>N/A</li> </ul>	
<b>Additionality</b>		
Adding value by building on what is already there	<ul style="list-style-type: none"> <li>If the projects prove viable it could assist the TKG LLP, to accelerate their current position to the benefit of the region.</li> </ul>	✓✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> <li>Potentially significant if the underutilised land is changed to support a larger agricultural industry</li> </ul>	✓✓✓✓
<b>Connected to regional stakeholders and frameworks</b>		
Alignment with regional priorities	<ul style="list-style-type: none"> <li>Strongly, as the draft Eastern Bay of Plenty Regional Development Report 2018 states that the high-value horticulture on Māori land is one of the four groups of catalytic infrastructure projects that will contribute to a lift in economic productivity of the region. The current 2016 Eastern Bay of Plenty Regional Development Plan also aligns closely with the areas targeted in the TKG plan</li> </ul>	✓✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> <li>Very strong as TKG LLP is largely representative of all local Iwi and support letters were received from Toi EDA, Zespri, Seeka, OPAC, Eastpack, TKG investors, DMS, NZ Manuka Group, Lawyers, Accountants, Opotiki District Council, Evolution network, Te Rau Aroha, and Māori Kiwifruit Growers Incorporated.</li> </ul>	✓✓✓✓
<b>Governance, risk management and project execution</b>		

Robust project management and governance systems	<ul style="list-style-type: none"> <li>As TKG LLP has committed resources and will hire a project manager to drive the various workstreams there is expected to be adequate support for this project. Some concerns were raised by MPI as to the how up to date the estimation of cost for the Water Distribution Network Plan is.</li> </ul>	✓✓
Risk management approach	<ul style="list-style-type: none"> <li>As they have defined most of the foreseeable risks well and seem committed to seeing the process through, the TKG LLP is taking a pragmatic approach to risk management. Cognisance is taken of the risk and mitigation raised by MPI below.</li> </ul>	✓✓
Future ownership / operational management	<ul style="list-style-type: none"> <li>As this is key for the TKG LLP and drives their aspirations going forward their support for these projects going forward is almost assured.</li> </ul>	✓✓✓✓

**The purpose of this briefing is to consider recommending PGF funds to the:**

**Risks Issues:**

MPI raised some issues around Commercial Information



Mitigation for this risk is provided by the stage gated approach proposed by the PDU.

**Eligibility points of note:**

- Due diligence*:- Full due diligence has been requested. It is a condition of approval that due diligence is to be to the satisfaction of the Head of PDU Investment team.
- Conflict(s) of interest*:- Based on the information provided no conflict of interest is evident noting that full due diligence will inform this item further.
- Illegal Activity*:- Based on the application information provided and feedback from other agencies there is no indication that the applicant or project has been involved in, or associated with illegal activity.
- Alignment with Regional development plans*:- *Toi Moana Bay of Plenty RGS Action Plan*
- Commercial funding availability*:- Given the nature of the project which is to effectively create a development plan for the region, access to commercial funding is not considered a feasible option.

**Consultation undertaken or implications:**

Legal	N/A	HR	N/A	Finance	N/A	MBIE policy	N/A	Other	MPI, TPK
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Comment has been requested from Commercial In.

<b>Supporting proposal:</b>	Yes
<b>Appendices:</b>	Yes - Applications and supporting letters are as annexes
<b>Sponsor(s):</b>	N/A
<b>Manager/Author of paper:</b>	David van der Zouwe / Jason Hall - Investment Team

PROACTIVELY RELEASED