



BRIEFING

Additional information on PGF proposals from previous RED Ministers meetings – PF2050 and Paihia Wharf

Date:	31 October 2018	Priority:	Medium
Security classification:	In Confidence	Tracking number:	1265 18-19

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing	5 November 2018
Hon Phil Twyford Minister of Transport		5 November 2018
Hon David Parker Minister for Economic Development		5 November 2018
Hon Shane Jones Minister for Regional Economic Development		5 November 2018
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing	5 November 2018

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Robert Pigou	Head of Investment, Provincial Development Unit	Privacy of natural persons	✓
Andrew Beaufort	Senior Policy Advisor	Privacy of natural persons	



The following departments/agencies have been consulted

Department of Conservation

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments

PROACTIVELY RELEASED



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Purpose

This briefing provides additional information requested on the Predator Free 2050 Ltd (PF2050) Project by Regional Economic Development (RED) Ministers at their 13 August 2018 meeting to inform their decision making.

It also provides information on a request for further funding by Far North Holdings Limited (FNHL) to complete Paihia wharf in Northland. This follows on from a decision by RED Ministers to grant \$^{Commercial Information} from the Provincial Growth Fund (PGF) for upgrades and additions to the Opuā, Russell and Paihia Wharves. Costs for Paihia have overrun with an extra \$^{Commercial Information} required for completion of the original design.

PROACTIVELY RELEASED



Recommended action

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

Note the contents of the briefing to inform your decision making on PF2050's PGF proposal.

Noted

Agree to fund PF2050's proposal subject to conditions being met.

Agree / Disagree

Note the information on FNHL's request for further PGF funding to Paihia Wharf.

Noted

Agree to one of the below options:

- i. **Agree** to no additional funding being provided, with FNHL having to cover additional costs and noting that this risks the project not being carried out.

Agree / Disagree

- ii. **Agree** to no further funding, but agree to remove the boardwalk from scope and require FNHL to fund the full additional \$ Commercial Information

Agree / Disagree

- iii. **Agree** to fund the full project with an additional PGF contribution of \$ Commercial Information

Agree / Disagree

- iv. **Agree** to fund the project without the boardwalk with an additional PGF contribution of \$ Commercial Information.

Agree / Disagree

Robert Pigou
Head of Investment, Provincial Development
Unit
MBIE

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Phil Twyford
Minister for Transport

..... / /

Hon David Parker
Minister for Economic Development

..... / /

Hon Shane Jones
**Minister for Regional Economic
Development**

..... / /

Predator Free 2050 proposal

1. On 13 August, RED Ministers considered a request for \$19.5 million of PGF funding from PF2050 (briefing 0348 18-19 refers).
2. PF2050 is seeking funding for at least five large scale projects targeted in Northland, Manawatū-Whanganui, Bay of Plenty/Hawke's Bay, West Coast, and Canterbury totalling \$ Commercial Information
3. Ministers asked that a decision be deferred until further information was sought from the applicant:
 - a. That the project does not involve an extension of 1080 use
 - b. How will PGF investment assist development of new technologies
 - c. How is the 'predator free wall' to be maintained once the project is finished
 - d. Any PGF funding to PF2050 to be provided on a project-by-project basis
 - e. How PGF surge regions are to be accorded priority
4. In addition Minister Jones' office requested:
 - a. That the pest control methods employed by the project, or developed as a new technology through any funding provided by the PGF, be assessed in terms of their potential effectiveness as a substitute to the use of 1080.
 - b. That the proposal investigates how it could aid development of the fur and pet food industries through the harvesting and processing of possum fur and skin.

Comment

The proposal does not involve an extension of the use of 1080

5. The projects under the proposal would not involve an extension of 1080 use. Where 1080 is proposed for use in the projects to date, it has been within scheduled Department of Conservation (DOC) and/or OSPRI¹ operations within the project region. PF2050 has looked to integrate this programmed work with other eradication and monitoring methods to secure financial efficiencies and long-term biodiversity outcomes.
6. PF2050's focus is to shift projects from suppression to eradication and have the capability to defend against re-invasion, thereby reducing 1080 use. The bulk of projects are utilising ground based trapping and bait station networks to carry out the suppression to eradication programmes.

New technologies

7. PF2050's project investments are stimulating rapid innovation in the design of more effective traps, lures, lure dispensers, remote sensing technologies, rural telecommunication networks, information management and modelling platforms. Funding from the PGF will enable PF2050 to work with research and development providers to bring new tools into production at a quicker rate.

The 'Predator Free wall' will consist of new technologies to prevent re-invasion

8. It is now possible to create trapping barriers that do not require fences to defend landscapes that have had predators removed. These defensible barriers are able to be relocated or extended as predator free landscapes expand.

¹ OSPRI is a partnership between primary industries and the government, and manages two national programmes – National Animal Identification and Tracing (NAIT) and TBfree. NAIT provides the national animal identification and traceability system and TBfree aims to eradicate bovine TB from New Zealand.

9. Surveillance technologies will be key to preventing re-invasion. Infrared cameras with capacity for predator recognition (utilising artificial intelligence) and remote deployment of traps and/or species specific toxins in response to incursions, are emerging tools for creating virtual boundaries. These technologies will continue to be in use throughout the life of the project and beyond.

Project-by-project funding

10. PF2050 advises PDU officials that it is important to have a secured total amount of funding from PGF to negotiate effectively with other potential funding providers. PF2050 would only draw down portions of the ring-fenced PGF funds on a project-by-project basis. The draw down request to PGF would be made once PF2050 has completed assessment of proposals, defined milestones and finalised funding agreements with recipients.

PF2050 has demonstrated its ability to deliver projects and has strong oversight measures in place that reassure officials that possible PGF funding will be spent as intended

11. PF2050 has demonstrated strong capacity to work with stakeholders, establish sound delivery and funding arrangements, leverage resources and make good investment decisions. PF2050's spending is already subject to rigorous oversight, including reporting directly to Parliament and appearing at annual review hearings at select committee.
12. Officials have confidence in PF2050's ability to deliver projects and to use PGF funding for purposes consistent with PGF criteria.

PDU and DoC officials think agreeing to the \$19.5 million 'in principle' and releasing funding on 'milestones met' is a workable approach

13. Officials from the PDU and DoC think that a workable approach to the PF2050 proposal is agreeing 'in principle' to fund up to \$19.5 million from the PGF. Funding for each individual project would be made available on a 'milestones met' basis – i.e. officials are presented with a full business case and are satisfied with the project meeting PGF criteria.
14. This approach is not dissimilar to how large grants are currently administered, or how the PDU has structured arrangements for loans under the PGF.
15. If Ministers agree to this approach, officials will structure the funding agreement to reflect this.

Surge Regions

Where projects will take place

16. From initial expressions of interest, PF2050 has highly ranked projects in Northland, Bay of Plenty/ Hawke's Bay, Manawatū-Whanganui, Westland and Canterbury. PF2050 expect to be able to roll out around five projects a year as they work through detailed evaluation of the project proposals. The order will depend on the final due diligence carried out to ensure they meet the PF2050 and PGF criteria.

Location of operations and manufacturing

17. Some specialist tooling may need to be handled in main centres (plastic moulding) to keep production costs down, but there is potential for general engineering and manufacturing, warehousing, and retail services occurring in the surge regions where projects are based and for distribution purposes. PF2050 also see the opportunity to build capacity for regionally-based contracting and training courses that match the needs of the projects. If Ministers agree to the approach outlined in paragraphs 13-15, officials will ensure the location of operation is an important consideration when assessing business cases submitted by PF2050.

Commercial Information

RELEASSED

Further funding request for Paihia Wharf

21. In May 2018 Ministers agreed to provide \$ ^{Commercial Information} for upgrades and additions to the Opuia, Russell and Paihia Wharves. Far North Holdings Limited (FNHL) – a Far North District Council controlled company – is managing and part funding the projects. Tenders for the Opuia and Russell wharves came in within budget and the amount committed from the PGF (\$ ^{Commercial Information} for Russell and \$ ^{Commercial Information} for Opuia) has been confirmed, funding contracts signed and work is scheduled to begin shortly.
22. No conforming tenders were received for Paihia Wharf so FNHL retendered smaller packages for the different pieces of work needed. The original estimate was \$ ^{Commercial Information} of which the PGF was providing \$ ^{Commercial Information}. FNHL has provided the Provincial Development Unit (PDU) with the final prices submitted and the cost to complete the original works would be \$ ^{Commercial Information} more than the original estimate.

23.

Commercial Information

24.

Comment

25. There are three options (attached as Annex One) that have been presented to the PDU for completing the project:
- Option 1 – to complete the original project will cost \$ ^{Commercial Information} more.
 - Option 2 – removing the board walks across the foreshore would save \$ ^{Commercial Information}
 - Option 3 – removing two new pontoons would bring the project back to the original budget. Option 3 would make only a marginal difference to the economic benefits but more importantly it would reduce the scope of the project by two pontoons (which can service 4 charter vessels), meaning the additional berthing capacity that PGF funding provided is not realised.

Commercial Information

27. There are four choices for Ministers to consider:
- Option 1 without Crown funding** – hold firm to no additional funding (which is the stance most funders would take otherwise they open themselves up to many projects coming back for further funding when costs blow out), and require the original project to be undertaken. This approach risks the project not proceeding.
 - Option 2 without Crown Funding** – hold firm to no further funding, but agree to remove the boardwalk from scope and require ^{Commercial Info} to fund the full additional \$ ^{Commercial Info} (Option 2 without Crown funding). ^{Commercial Info} has categorically stated it is unable to provide more funding than the \$ ^{Commercial Information} for this option.
 - Option 1** – agree that circumstances are exceptional and agree to fund the full project with an additional PGF contribution of \$ ^{Commercial Information}
 - Option 2** – again agree the circumstances are exceptional and agree to fund the project without the boardwalk with an additional PGF contribution of \$ ^{Commercial Information}
28. PDU officials preference is for choice a. – that Ministers hold firm to no additional funding as providing extra funding may set a precedent for other applicants to come back seeking further funding for similar cost overruns.
29. However, officials acknowledge the exceptional circumstances that led to the cost overrun and the risk of the project not proceeding without additional funds. Therefore (and as a rare exception), we **recommend choice d** – agree to fund the project without the boardwalk, ^{Commercial Info} contributes \$ ^{Commercial Information} with an additional PGF contribution of \$ ^{Commercial Information}. This will ensure the project proceeds while largely capturing the benefits the investment the PGF sought, and limit costs to the Crown.

30. If Ministers agree to further funding for Paihia Wharf, PDU officials will make it clear to FNHL that this is a one-off due to exceptional circumstances and no further requests for funding of this project will be considered. To prevent this happening again, officials will make it known to all applicants that further applications to the PGF for cost overruns will not be accepted.

Next Steps

Predator Free 2050

31. Officials recommend that you agree to fund PF2050 up to \$19.5 million subject to:
- a. PF2050 focusing on:
 - i. The development of new technology as outlined in PF2050's second application
 - ii. A focus on two to three large projects in priority regions as opposed to five large scale projects.
 - b. PF2050 meeting key milestones and criteria before funding is released.

Paihia Wharf

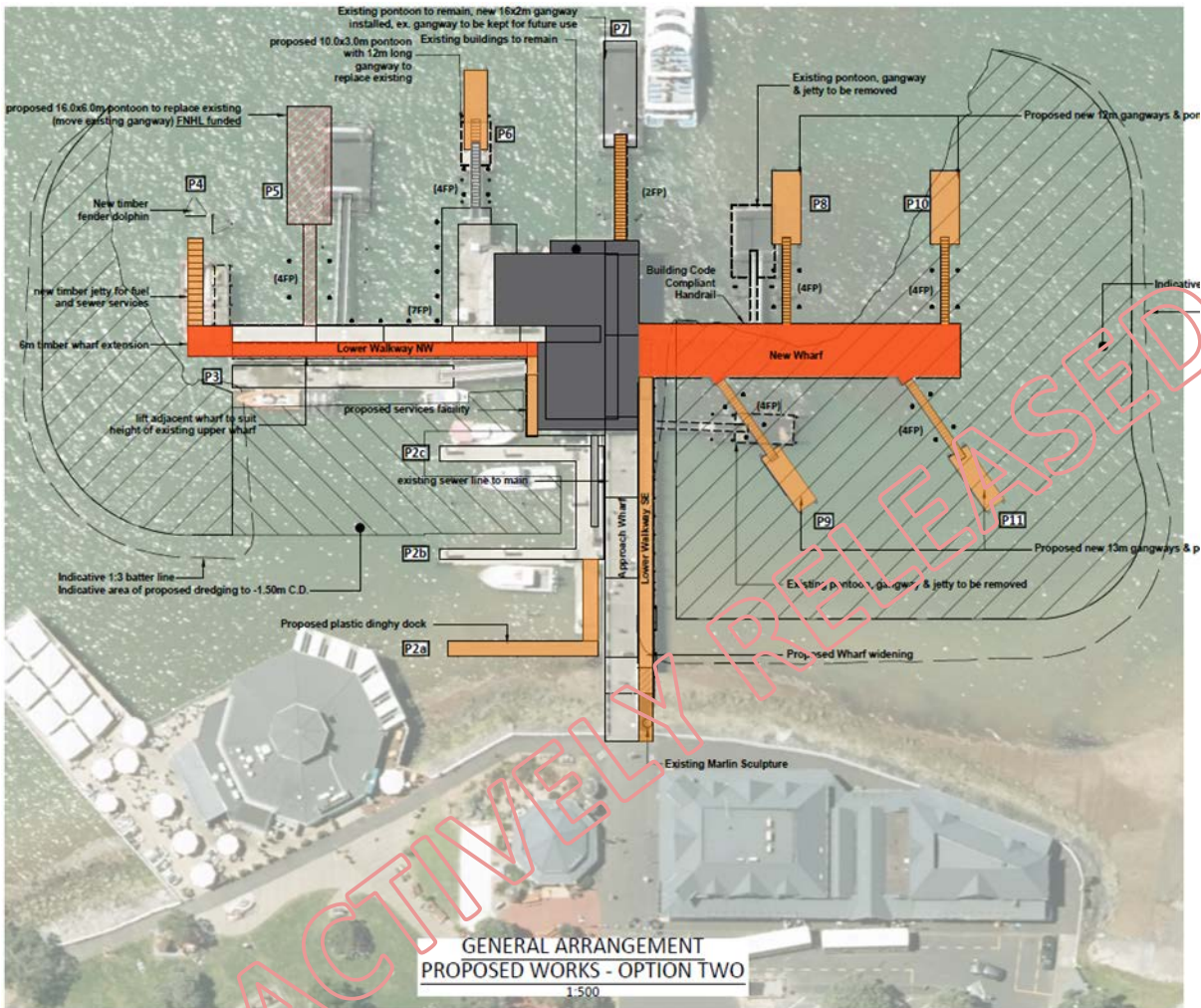
32. Subject to Ministers decisions, officials will respond to FNHL's request for further funding.

Annexes

Annex One: Options for Paihia Wharf

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Option 2 – full on-water development but no boardwalk – extra \$ Commercial Information



Option 3 – no boardwalk and partial on-water development (two less piers on right)

