

BRIEFING

Northland Three Wharves Project (Paihia, Russell, Opuā)

Date:	24 May 2018	Priority:	High
Security classification:	In Confidence	Tracking number:	3498 17 - 18

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note the contents of this brief in preparation for your meeting on 29 May 2018	29 May 2018
Hon Phil Twyford Minister of Transport	Note the contents of this brief in preparation for your meeting on 29 May 2018	29 May 2018
Hon David Parker Minister for Economic Development	Note the contents of this brief in preparation for your meeting on 29 May 2018	29 May 2018
Hon Shane Jones Minister for Regional Economic Development	Note the contents of this brief in preparation for your meeting on 29 May 2018	29 May 2018

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Ben Dalton	Acting Head of Provincial Development Unit	Privacy of natural persons	Privacy of natural persons	✓
David van der Zouwe	Senior Commercial Leader	Privacy of natural persons		

The following departments/agencies have been consulted
N/A

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

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Purpose

This paper seeks PGF Ministers approval to proceed to preparation and execution of investment agreement documentation for the provision of up to \$^{Commercial Information} in grant funding for three wharf projects in Northland being:

- Opuā Wharf (\$890,000)
- Russell Wharf (\$1.114 million)
- Paihia Wharf (\$^{Commercial Information})

Executive summary

On 12 February 2018 PGF Ministers resolved to approve funding of up to \$^{Commercial Information} for three wharves in the Far North District of Northland, subject to a business case for each wharf.

The Provincial Development Unit (PDU) has received a business case for each of the three wharves and have completed further due diligence.

The three wharf projects are now ready for the preparation and execution of investment agreement documentation.

Recommended action

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

- Note** the investment in the three wharves was approved on 12 February 2018 by PGF Ministers subject to a business case for each wharf;

Noted
- Note** that business cases for the three wharves have been received and high-level due diligence has been substantively completed;

Noted
- Note** that the business cases and due diligence has not identified any reason not to progress with investment in any of the three wharves;

Noted

- d **Agree** that the Provincial Development Unit prepares full investment agreements, by way of a grant, for the three wharves to a value of up to \$**Commercial Information** and executing the agreements.

Agree/disagree

Privacy of natural persons



Ben Dalton
Acting Head of PDU
Provincial Development Unit, MBIE

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

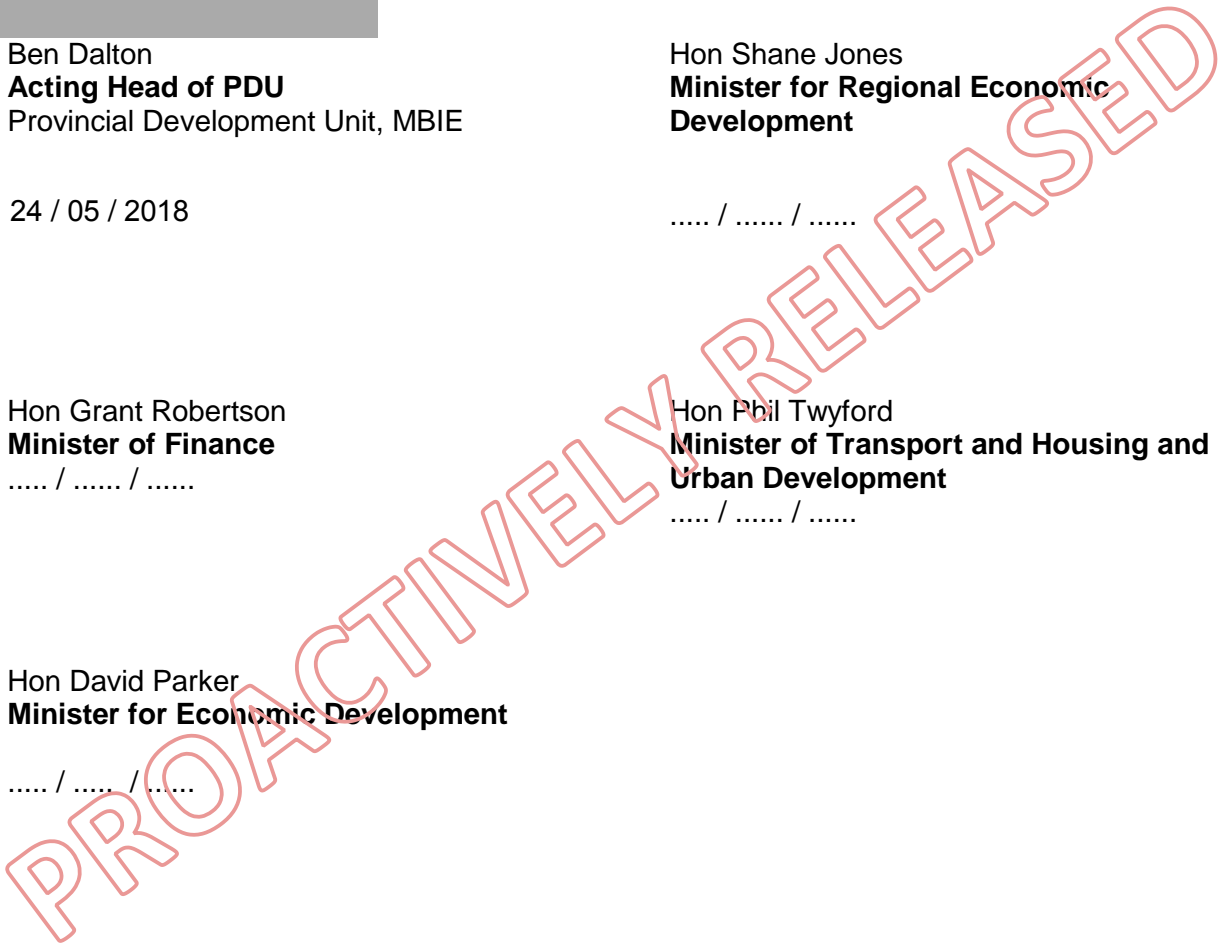
24 / 05 / 2018

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Hon Grant Robertson
Minister of Finance
..... / /

Hon Phil Twyford
**Minister of Transport and Housing and
Urban Development**
..... / /

Hon David Parker
Minister for Economic Development
..... / /



Background

1. On 12 February 2018 PGF Ministers resolved to approve funding of \$Commercial Information to Far North Holdings Limited (FNHL) for the upgrading of three wharves, Opua, Russell and Paihia, subject to a business case for each wharf.
2. Since February the PDU has received business cases from FNHL for the three wharves. In addition to this, further due diligence to better understand the risks of the Project has also been substantively completed.

Three wharves overview

3. For all three wharves, the sponsor is Far North Holdings Limited (FNHL), a Council Controlled Trading Organisation owned by Far North District Council.

Opua Wharf

4. Opua wharf includes the development of a hosting/events platform, in the form of a 120 metre floating pontoon, for the Cook 2019 regatta celebration at Opua Wharf. This will act as a facility that can be used for other future events (for example, Millennium Cup super-yacht racing) and will also extend the super-yacht berth, and the associated super-yacht tourism, markets outside of Auckland. The pontoon will be sited alongside the existing wharf and would be used as a staging area for the commemorative events.
5. Improved maritime industry services are also proposed, including new facilities for pumping out the sewerage holding tanks of vessels.
6. The total estimated project cost is \$Commercial Information
7. This will be funded as follows:
 - \$Commercial Information from Commercial Info; and
 - \$890,000 from the Fund.

Russell Wharf

8. Part of the existing Russell wharf infrastructure is built around the original timber piles and provides low tidal landings, which are unsafe and provide low utility value. This project would replace these landings and others with floating concrete pontoons. The wharf extension will create more visitor space and improve passenger flow for increasing visitor numbers and help to build capacity for future growth. Additionally, four new super-yacht moorings are to be built, along with other upgrades to sewerage and water services and other maritime services.
9. The total estimated project cost is \$Commercial Information
10. This will be funded as follows:
 - \$Commercial Information from Commercial Info; and
 - \$1.114 million from the Fund.

Paihia Wharf

11. The project includes providing increased space for passengers and improved passenger facilities, such as protection from wind and rain. It is also proposed to dredge a deeper channel to cater to most vessel types, and to build a further four berths for vessels.

12. Improved maritime industry services are also proposed, including new facilities for pumping out the sewerage holding tanks of vessels.
13. The total estimated project cost is \$Commercial Information
14. This will be funded as follows:
 - \$Commercial Information from Commercial Info; and
 - \$Commercial Information from the Fund.

Risk assessment

15. The following table summarises the results of the risk assessment for the three wharves

RISK CATEGORY	STATUS AND MITIGATIONS
Sponsor capability and capacity	<ul style="list-style-type: none"> • FNHL manages a range of infrastructure assets on behalf of Far North District Council and has a track-record of managing and completing other infrastructure projects. • FNHL has just completed a \$Commercial Information, including 360m of seawall and 12,000 sqm of reclamation. They oversee all FNDC maritime assets across the district and there are approximately 200m of these. FNHL, as a company, employ project managers and engineers. In this case, it is using RS Eng in Whangarei who have collated the tender documents and will oversee the construction work on behalf of the Company and MBIE, alongside FNHL staff.
Construction risk	<ul style="list-style-type: none"> • FNHL is an experienced manager of construction projects (as above). • Contract form is based on NZS3910 and is fixed price. • The PDU will seek appropriate contractual protections. • The Crown will also have visibility on the appointment process of the Contractor.
Cost risk	<ul style="list-style-type: none"> • We have had a Senior Engineering Advisor review the detailed specification in the Tender Documents and his view is that the cost estimate is within range. • He also noted that the project looks feasible from an engineering perspective if consents can be obtained and the ground is suitable for piles. • FNHL has also confirmed it will fully underwrite the project.
Economic benefits not realised	<ul style="list-style-type: none"> • The Russell, Pahia and Opuia Wharves are integral to the Northland Economy. A cost benefit analysis has been provided which details benefits to the Northland Economy. • We will need to measure the benefits over time, through appropriate metrics.
Follow-on risk	<ul style="list-style-type: none"> • The investment agreement will include appropriate contractual protections. • High level due diligence suggests FNHL has limited capacity to fund the project.
Commercial viability	<ul style="list-style-type: none"> • FNHL has said that ongoing maintenance will be able to be paid for out of revenue generated by the Wharves.

16. The Independent Advisory Panel (IAP) noted the following:

17. Commercial Information

[Redacted text block]

18. The IAP also wanted confirmation that the revenue generated from wharf operation would cover the Opex costs, FNHL have confirmed that;

19. It queried whether the costings supplied were accurate – as detailed above we have had a Senior Engineering Advisor confirm that they are potentially 'slightly light' but close to what he would expect the costs to be;
20. It queried whether a 'sinking fund' existed. FNHL have confirmed that none was in existence and that this money is being used to fund 'new capital items':
21. Finally, the IAP queried whether any thought has been given to Climate Change resilience and the ability to deal with, for example, rising sea levels. FNHL confirmed that the piles are designed 1m higher than needed for king tide levels to allow for raising sea levels.

Next steps

22. The next steps for the PDU are:
 - a. Finalise any further due diligence matters that present themselves;
 - b. Prepare and negotiate grants legal documentation for all three wharves; and
 - c. Execute the legal documentation.

PROACTIVELY RELEASED