

3.16 Raukokore – Kiwifruit and water storage development package

Evaluation, Cover Sheet and Decision Form

Project:	Raukokore – Kiwifruit and water storage development package		FOR: Approval
Applicant:	Te Whānau a Maruhaeremuri Hapū trust (TWAM)		Pipedrive ID: Commercial In Water project Commercial In Kiwifruit project
Application type:	Water project: PGF water Kiwifruit project: WM	(A) Total Project Value:	Water project: \$ Commercial Information Kiwifruit project: \$ Commercial Information for Commercial I (~\$ Commercial Information for 200ha)
Funding type:	Water project: Loan Kiwifruit project: Loan	(B) PGF Funding Sought:	Water project: \$ Commercial Information Kiwifruit project: \$ Commercial Information
Entity Type:	Registered Charitable Trust	(C) PGF Funding Recommended:	Water project: \$10,600,000 Kiwifruit project: \$5,000,000
Region:	Bay of Plenty	(D) Applicant Contribution:	Water project: \$ Commercial Information Kiwifruit project: \$ Commercial Information
Tier:	3 - Infrastructure – Water project 2 – Sectors – Kiwifruit project	(D/A) Co-contribution Rate:	Water project: % Kiwifruit project: % Overall: %
Sector:	Water Storage / Management Primary Industry		
Application summary:	Applicant is seeking funding for two strongly linked projects, the first of which involves the design and construction of the Raukokore/ Waihou Bay community irrigation scheme, and the other is for the development of an initial Commercial I kiwifruit orchard which will make use of the Raukokore irrigation scheme.		

*PDU is still exploring opportunities for this project; an update will be provided to the Panel at the November meeting.

The PDU recommends that the IAP:

Water Project

Support the PDU recommendation to approve an up to \$10,600,000 loan from the PGF Water allocation to Te Whānau a Maruhaeremuri Hapū Trust (**TWAM**), for the final design, commercialisation and construction of the Raukokore water scheme:

➤ Because:

- The project is expected to create sustainable permanent employment opportunities in a historically disadvantaged area.
- The project would not be possible in the absence of PGF funding.
- The project has strong community support.

➤ Subject to:

- A project plan for the final design/commercialisation phase to the PDU's satisfaction.
- The project must continue to conform to the PGF investment principles for water storage.
- Funding will be released in tranches as milestones are achieved, with the project required to be construction ready, before the construction phase tranche is available.
- The sponsor utilising appropriately experienced capability (technical and commercial) to support successful project execution.
- Completion of commercial due diligence.
- Relevant resource consents being granted.
- PDU confirmation that the landowners represented by Te Whānau a Maruhaeremuri Trust are the material beneficiaries of the support.

➤ Note:

- The Raukokore community and hapū are not in a position to provide material levels of capital towards the projects until the relevant treaty settlement process concludes.
- The Te Kaha project to the immediate north of Raukokore received ^{Commercial} % funding for its water storage project.
- The Water take resource consent application has been lodged, and an outcome is expected prior to Christmas.

Kiwifruit Project

Support the PDU recommendation to approve an up to \$5,000,000 ^{Commercial Information} loan from the PGF Whenua Māori allocation to Te Whānau a Maruhaeremuri Hapū Trust (**TWAM**), for the development of 200ha of kiwifruit orchards:

➤ Because

- The project will utilise unproductive Māori land and help Māori landowners to achieve an economic scale of production.
- The project is expected to create sustainable permanent employment opportunities in in a historically disadvantaged area.
- The project would not be possible in the absence of PGF funding.
- The project has strong community support.

➤ Subject to:

- A project plan for the pre-final investment decision (FID) phase to the PDU's satisfaction.

- Funding will be released in tranches as milestones are achieved, with only limited development funding until FID (including securing kiwifruit licenses, and sufficient additional investment capital for the project).
 - Completion of commercial due diligence.
 - Relevant resource consents being granted.
 - PDU confirmation that the landowners represented by Te Whānau a Maruhaeremuri Trust are the material beneficiaries of the support.
- Note:
- Preliminary project economics suggests the project will not be viable without PGF support (especially the water project).
 - There is strong community support for both projects
 - This project strongly aligns with PGF’s objectives to enable the development of under-utilised Māori land and water objectives in respect of under-utilised Māori land.

Section A: Triage – Assessment against PGF eligibility criteria

➤ Is the project an illegal activity?	No
➤ Is the project located in the three main metropolitan areas?	No
➤ Is the project seeking investment in large scale infrastructure of social assets?	No
➤ Is the project seeking investment for three waters?	No

Application description

The applicant is seeking funding support for two strongly linked projects.

The water project

The design and build of the Raukokore/Waihou Bay community irrigation scheme in the Eastern Bay of Plenty.

The scheme is intended to facilitate 200 to ^{Commercial} ha of high value horticulture development in stage one and will have the capacity for up to ^{Commercial} ha over time.

A co-operative entity will be established to own and operate the scheme. The intention is that the water user entities will be shareholders.

The Kiwifruit development

The development of an initial ^{Comm} ha kiwifruit orchard that will use the Raukokore water scheme.

This application is the first stage of a ^{Commercial Inform} staged development across multiple Māori land blocks in Raukokore/Waihou Bay that will develop 200 ha of new kiwifruit.

Background

MPI and the PGF have supported the investigation of land use options, and water storage with feasibility studies to date. There is evidence supporting the potential for water for developing under-utilised land in Raukokore.

The applicant is nearing completion of a PGF-supported project to assess the feasibility of constructing a water scheme with the potential to irrigate up to ^{Commercial} hectares of land suitable for high-value horticulture.

Previous work indicates:

- Under current allocation limits, there would either be a surplus of surface water, or groundwater, or both, to support growth in opportunities in most of the areas examined in the study, if irrigation and frost protection consents are based on reasonable use.
- There is significant potential to support economic growth through increased freshwater use. The economic growth opportunity created from freshwater, including through more efficient allocation and use, is likely to be primarily generated from irrigation, particularly irrigation of high value horticulture crops. Should that occur, the benefits to the local districts and regions in terms of revenue generated, local employment and downstream benefits are significant.
- The Raukokore catchment has been identified as an area for potential horticultural development.
- Studies to date note that Raukokore catchment is not fully allocated. There are currently no irrigation consents for Raukokore listed on the Bay of Plenty Regional Council database. Default limits have been set on the Raukokore River. The application for the resource consent has taken into account available unallocated water in the river, which should make securing the consent much easier.

Kiwifruit is successfully grown on the East Coast, and in some areas are early to ripen and thus first in the market. The growing conditions in Raukokore are appropriate for kiwifruit. One of the reports prepared states that "SunGold kiwifruit grown in the Te Kaha/Raukokore /Waihou Bay areas has been proven to yield above industry average crop volumes and above industry market returns due to the unique micro-climate and fertile soil types."

Co-Funding Table

Co-Funder	Pledged/Confirmed/Cash/In-Kind	\$x,xxx,xxx
Provincial Growth Fund	(via this application)	\$15,600,000
Investors	Commercial Information	\$ Commercial Information
Total		\$ Commercial Information

Overseas Investment Office

➤ Is the application being made by a non-New Zealand based legal entity? (Foreign investment laws may apply and the Overseas Investment Office consulted)	No
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Section B: Operational Assessment Criteria (Complete for Eols and Applications)**(Rate and comment – 1= poor, 5 = very good - Provide the number for this project, not subsequent phases)****Fund and government outcomes**

Please highlight number below

Would the project:

<ul style="list-style-type: none"> • create permanent jobs? 	<ul style="list-style-type: none"> • The proposed project is for the benefit of a high-needs community within a surge region. The primary intended land use is high value horticultural (kiwifruit), with expected benefits including increased employment opportunities, and sustainable development of Māori land. 	N/A 1 2 3 4 5
<ul style="list-style-type: none"> • deliver community benefits? 	<ul style="list-style-type: none"> • Potentially strong economic impact – new investment into the region, generation of new jobs, improved profitability and income streams. • If successful, development of land into high value horticulture will create jobs on farm, which will generate additional income in the community and create jobs in supporting industries such as retail. • Support may be required to manage risks and challenges associated with skills development and potential workforce shortages. 	N/A 1 2 3 4 5
<ul style="list-style-type: none"> • increase utilisation of and returns on Māori assets? 	<ul style="list-style-type: none"> • The applicant organisation is a hapū trust associated with 150 land blocks. It is submitting this application on behalf of a steering group that includes a range of land owning Māori trusts and Māori incorporations. 	N/A 1 2 3 4 5
<ul style="list-style-type: none"> • enhance the sustainability of natural assets? 	<ul style="list-style-type: none"> • A reliable supply of water is critical to maintaining the sustainable development of land-based industries. The intended land use is horticulture. 	N/A 1 2 3 4 5
<ul style="list-style-type: none"> • mitigate climate change effects, or assist with the lowering of emissions? 	<ul style="list-style-type: none"> • Water storage is a significant mitigating factor to the effects of climate change. 	N/A 1 2 3 4 5

Additionality**Would the project:**

<ul style="list-style-type: none"> • add value by building on what is already there, without duplicating effort? 	<ul style="list-style-type: none"> • Applicant's ownership base does not have sufficient capital to progress the project in the absence of PGF funding. Commercial Information 	N/A 1 2 3 4 5
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	<p>Commercial Information. There should be capacity for refinancing in the future. This project will build on an existing natural resource, water, acting as a catalyst. Water is a scarce resource available for Māori Land in the area and is a key component required for a successful, high value sustainable primary sector industry.</p>	
<ul style="list-style-type: none"> be a catalyst for productivity potential in the region? 	<ul style="list-style-type: none"> The case for horticulture development and small scale irrigation within this community is strong. This project has the potential to act as a best practise exemplar in the region. 	N/A 1 2 3 4 5
Connected to regional stakeholders and frameworks		
Does the project:		
<ul style="list-style-type: none"> align with regional priorities, such as frameworks, or regional plans? 	<p>Projects align with the following PGF investment principles and regional priorities:</p> <p>PGF principles in relation to investment in water storage</p> <ul style="list-style-type: none"> In October 2018 Cabinet approved a set of investment principles for PGF water storage projects. Appendix 1 sets out an assessment of this Project against those principles. <p>Bay of Plenty region priorities.</p> <ul style="list-style-type: none"> Water and land development has been identified as a key opportunity to unlocking the economic potential of communities within the eastern Bay of Plenty. These two projects have strong community support, and have worked collaboratively with both the Opotiki District Council and the Bay of Plenty Regional Council. The projects also have potential for non-PGF co-benefits, such as enabling safe potable water for the Raukokore community. <p>Central government essential Freshwater work programme</p> <p>The government's Essential Freshwater work programme is currently being consulted on.</p> <ul style="list-style-type: none"> The discussion document notes that Government is working to address Māori rights and interests in freshwater, and helping farmers, including Māori, transition to sustainable land use. Ministers are expected to make final decisions in early 2020. This proposal aligns with the priorities of sustainable development, improved outcomes for Māori, and increased employment opportunities. Water availability is recognised as the primary barrier to high value horticulture development in the community. 	N/A 1 2 3 4 5

	This kind of development will generate significant economic opportunities, including employment, which is a priority for the region.	
<ul style="list-style-type: none"> have the support of local governance groups (councils, iwi and hapū)? 	<ul style="list-style-type: none"> The applicant organisation is a hapū trust associated with 150 land blocks. It is submitting this application on behalf of a steering group that includes a range of land owning Māori trusts and Māori incorporations. 	N/A 1 2 3 4 5
Governance, risk and project execution		
Does the application show:		
<ul style="list-style-type: none"> robust project management and governance systems? 	<ul style="list-style-type: none"> The applicant has a track record of delivering projects within the community. With the support of MPI and PDU through its current projects, the applicant has worked to develop project management capability and capacity. Further support from government will be required to continue to build on this. 	N/A 1 2 3 4 5
<ul style="list-style-type: none"> plans for future ownership and operational management? 	<ul style="list-style-type: none"> This is currently under development and will need to be confirmed as part of the next stage of land and water scheme development. 	N/A 1 2 3 4 5
<ul style="list-style-type: none"> how the project will be delivered and managed? 	<ul style="list-style-type: none"> Project will be delivered in accordance with infrastructure/resource development best practice. 	N/A 1 2 3 4 5

Section C: Risk Management Evaluation

Does this application demonstrate consideration of the following risks?			Yes
Type of risk	Risk description	Mitigations	Risk Rating
<input checked="" type="checkbox"/> Project risk	<p>Appropriate capability</p> <p>Developing water storage projects is a complex and time consuming exercise, requiring high calibre technical, regulatory, environmental, financial and commercial capability</p>	This will be a term of any funding agreement.	Medium

<input checked="" type="checkbox"/> Project risk	<p>Ensuring project development continues to align with PGF water storage investment principles</p> <p>It will be critical that the project continues to develop in a manner consistent with the PGF's water storage investment principles, to ensure the environmental and sustainable economic benefits are achieved.</p>	<p>This will be a term of any funding agreement.</p>	<p>Medium</p>
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Section D: Funding and financial analysis

number below

Please highlight

Does the application show:

<p>➤ How strong is the financial position of the applicant organisation?</p>	<p>Commercial Information</p>	<p>N/A 1 2 3 4 5</p>
<p>➤ How does the scale of the project compare to their overall business?</p>	<p>Applicant has no other business.</p>	<p>N/A 1 2 3 4 5</p>
<p>➤ Why is Crown funding being sought rather than commercially-available funding?</p>	<p>Water project - Crown funding is being sought as commercial funding is not available for this project.</p> <p>Kiwifruit project - Crown funding is being sought as commercial funding is not available for this project.</p>	<p>N/A 1 2 3 4 5</p>
<p>➤ What does the independent financial analysis/ business case indicate?</p>	<p>N/A</p>	<p>N/A 1 2 3 4 5</p>
<p>➤ Is the funding model requested appropriate? Is the PDU recommending a different model?</p>	<p>PGF funding should take the form of a loan.</p>	<p>N/A 1 2 3 4 5</p>

➤ Has the applicant provided evidence of market pull for this project?	Applicant has carried out an EoI process that supports this project.	N/A 1 2 3 4 5
➤ Has the applicant provided evidence that their supply chain is secure?	N/A	N/A 1 2 3 4 5
Summary of funding and financial analysis:	Projects are consistent with PGF objectives and eligible for funding.	N/A 1 2 3 4 5

Funding arrangements

- The proposed funding approach is via ^{Commercial Information} loans.
- PGF funding will be available in tranches, with each subsequent tranche only available once milestones reached. Specifics of the loan funding will be confirmed during the contracting process.
- A funding condition will be ongoing compliance with the PGF investment principles for water storage (as set out in Appendix 1) and appropriate capability is utilised for project execution.
- The Raukokore community and Hapū are not in a position to provide material levels of capital towards the projects, until the relevant treaty settlement process concludes. Further, the Te Kaha Gold project to the immediate North of Raukokore received ^{Comment} % funding for its water storage project.

Consultation from partner agencies undertaken or implications: MFAT, MPI

MFAT historically did not support granting the applicant a Whenua Māori ^{Commercial Information} loan (as per the PDU recommendation) and recommend this be done ^{Commercial Information} as follows:

Raukokore/Waihau Bay 200 ha kiwifruit development

- \$ ^{Commer} loan sought to develop kiwifruit orchards.
- AoA: challenging to classify as Green Box expenditure - direct payments to factors of production (land, capital); in a high risk sector as WTO members pay close attention to kiwifruit due to STE concerns.
- ASCM: since most produce will be exported, high risk of this being a prohibited export subsidy if loan is concessionary.
- ^{Commercial Information}

MPI's views are aligned with those of the PDU, and its key view is as follows:

Approve in principal the subject to the following:

- Confirmation of which entity will contract the funding, how the funding will be used and the key milestones.

- Confirmation of co-funding.
- Confirmation and agreement on the approach to development should Commercial Information not be obtained in the anticipated timelines and impacts on the financial projections.

Conflicts of interest and T&Cs

Due diligence is currently being undertaken. Any approval of funding is subject to satisfactory due diligence.

Summary statement of Application Review undertaken

The following Review has taken place in connection with this application:

All applications are discussed between the Regions Team and Investment Team during the assessment process and prior to submission to SROs / IAP.

Consultation with the relevant partner agencies has occurred allowing them to provide any relevant technical advice with any feedback included verbatim within this application form.

In the development of this form:

- i. A review by an Investment Director has taken place and included the following to the satisfaction of the reviewer:
 - a. An evaluation against the PGF criteria;
 - b. Financial analysis;
 - c. A risk assessment, highlighting any relevant or key risks;
 - d. Conflicts of interest have been noted and accepted
 and the reviewer concurs with the recommendation proposed.
- ii. The Head of Investment has reviewed this recommendation.
- iii. This application has been reviewed by the PDU SLT.

Review has been completed

Yes


Supporting proposal:

Yes

Appendices:

Yes – Application form and Water Storage Investment Principles assessment

Author of paper:

DLR, Investment Analyst, , PDU Water Storage Lead, PDU Investment Team

Appendix 1: PGF Investment Principles for Water Storage

Access to a reliable and manageable source of water is a key enabler of jobs and sustainable growth in the primary sector and is a driver of regional prosperity. Many regions have significant primary sector potential that could be enabled or enhanced through access to reliable water provided by small scale storage and distribution infrastructure.

As a government we have identified three objectives for freshwater (including establishing a new Crown-Māori relationship for freshwater):

- Stopping further degradation and loss
- Reversing past damage
- Addressing water allocation issues.

In addition, through cross-party discussions on the PGF investment in water storage and infrastructure, including managed aquifer recharge, we have identified a set of principles that are core to our values as a Government. The principles are reflected below (with an assessment of the Projects against these principles).

Principles for water storage investment

Principle	Assessment
<i>Economic</i>	
Water storage will strengthen regional economies by shifting land use to higher value, non-dairy, sustainable uses.	The focus of this Project is shifting from low productivity land to higher value non-ruminant uses, and improving environmental outcomes to allow existing high value (non-ruminant) land use to continue.
Water storage will help address disparities in Māori access to water for land development.	The intended water users are Māori, and the proposed land is under-developed Māori land.

Community	
Small scale community level projects will be supported rather than mega irrigation schemes.	The estimated construction cost for the project is \$ ^{Commercial} . This is significantly smaller than the previous Ruataniwha mega scheme (~\$ ^{Commercial Information}).
There must be public benefit from government funding of a project.	The project will deliver public benefit, through both improved environmental outcomes, as well as regional and community economic benefit in an area that is deprived.
Projects will involve stronger partnerships at the local level, including with regional councils.	Relevant local authorities are aware of the project and working with sponsors as appropriate. The project is sponsored by the community within the command area, represented by one of the Hapū trusts.
The Crown Irrigation Investments Limited (CIIL)'s programme of work will not be progressed, although communities that were involved in CIIL initiatives can submit PGF proposals that align with our objectives.	This project was not part of CIIL's programme of work.
Environment	
Water storage proposals should demonstrate that they will support land use that does not increase, and ideally reverses, negative impacts on water quality.	A key condition of funding will be compliance with this investment principle. The focus of this project is on horticulture. The project will not decrease water quality or

<p>Proposals should maintain the health of waterways.</p>	
<p>Water storage proposals should incorporate activities that improve water quality – e.g. activities that improve E coli levels and ecological health, restoration and protection projects such as improvements in wetlands, fish and wildlife habitats, riverbanks, biodiversity activities, soil health and sediment control.</p>	
<p>Water storage will not be used to increase the intensity of ruminant agriculture or other land uses in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.</p>	<p>The focus of this project is on horticulture.</p>
<p><i>Climate change</i></p>	
<p>Where practicable, proposals should demonstrate how they will contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy.</p>	<ul style="list-style-type: none"> • Project will provide resilience to climate change by providing a reliable water source in the context of increasing volatility in flows driven by climate change.
<p>Proposals should consider the potential to contribute to community resilience to climate change. Strengthening municipal water supply is not an objective of PGF funding. However, the PGF will work with councils to include municipal supply as a component of wider water initiatives, if it enables councils to contribute more to regional water management.</p>	