3.06 Transitioning to Horticultural opportunities through off stream water storage

Evaluation, Cover Sheet and Decision Form

Project:	Transitioning to Horticultural opportunities through off stream water storage	**FOR:**	**Approval**
Applicant:	Te Waka Pupuri Putea Trust	**Pipedrive ID:**	Commercial Information
Application type:	Main PGF / WM	**(A) Total Project Cost:**	Commercial Information
Funding type:	Loan	**(B) PGF Funding Sought:**	$Commercial Information
Entity Type:	**Trust**	**(C) PGF Funding Recommended:**	$3.0 million
Region:	**Northland**	**(D) Applicant Contribution:**	Commercial Information
Tier:	**3 - Infrastructure**	**(D/A) Co-contribution Rate:**	Commercial Information
Sector:	**Water Storage / Management**		
Application summary:	To develop a small-scale off-stream water storage that will enable transition of Maori owned land to a higher value sustainable land use, provide employment opportunities and supply neighbouring properties including smaller non-utilised Maori land blocks with a means of also transitioning their land to a higher and better land use. *The PGF is currently supporting the pre-construction phase ([$100k] grant), which is underway and well progressed. The project in this application is expected to commence construction in* Commercial Information*. Water take resource consents are held.* PGF funding is sought as the applicant does not currently have sufficient capital to allocate to this project. Further, the applicant will require significant funds to develop the orchards. Commercial Information ***[Please see full project description in the Application Description Section]***		

The PDU recommends that this application be supported by the IAP:

Agree to approve a Commercial Information loan of up to $3,000,000 from the PGF to Te Waka Pupuri Putea Trust towards the construction phase of the water storage project

1. because:
   a) It strongly aligns with the PGF investment principles for water storage, specifically strengthening regional economies by shifting land use to higher value, non-dairy, sustainable uses and helping to address disparities in Māori access to water for land development;
   b) Conversion of land from dairy support will create significant additional on-orchard and management jobs;
   c) The applicant is not in a position to carry out this project at this stage without Commercial Information capital
   d) It aligns strongly with the regional economic plan, and is supported by Northland Regional Council; and
   e) The applicant has mandated Commercial Information to manage and lead the project, who are experienced and have appropriate capability.

2. subject to:
   a) The funding agreement will require the applicant to make the infrastructure available, as appropriate, to other nearby land owners;
   b) The funding agreement will require PDU approval of contractors;
   c) The funding agreement including a construction-ready milestone before release of material amounts of funding;
   d) Commercial due diligence being completed; and
   e) The project continuing to align with the PGF investment principles for water storage.
   f) Proof of funds for co-funding

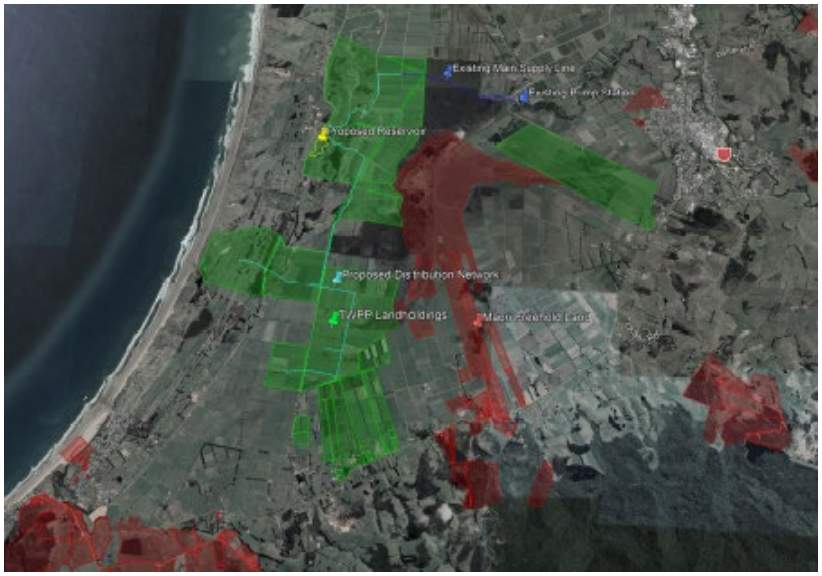
3. note:
   a) The applicant applied for grant funding. The recommended funding arrangements align with those used for other water storage projects.
   b) This project will demonstrate that there are alternative solutions to the ground water issues currently being experienced in the Far North, and will contribute to avoiding further pressure on the aquifers.

Section A: Triage – Assessment against PGF eligibility criteria	
Declining under CAP-18-MIN-0347	
➢ 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**

Is the application eligible for funding?	**Yes**
Have you discussed the application with the Regional Team before completing a Head of PDU Decline?	**No**
Have you received feedback from the relevant partner agencies?	**MFAT.** **MPI feedback pending (will not be available until closer to 11 Feb. [MPI supported funding for the previous stage of the project]**

Due diligence on applicant – Summary of findings	**Completed**
Know your customer and good character due diligence completed – no findings, except applicant is no longer registered as a charitable trust. This is not considered an issue, and can be remediated. Commercial due diligence will be carried as possible prior to construction start and funds flow.	
Conflicts of Interest	**No**
None declared or identified.	
Terms and Conditions	**Yes**
Accepted correctly.	

Application description
This project will assist in transitioning land which is currently used as dairy support to horticulture land. This will be done by using the natural land formation to create a low-cost water storage opportunity. The development will not require building consent and can be completed over the winter of 2020. The result is a water storage development that can contain up to Commercial Informat cubic meters of water that will enable about Commercial Information of dairy support land to be transitioned to horticulture. Water will be supplied to the water storage primarily by utilising existing infrastructure. Additional pumps will be added to increase the pumping capacity. Additional water lines will also be required off the existing water line infrastructure. A resource consent is in place to take water. The applicant is seeking to vary the consent to increase the take, but this is not critical for the project. The current consent has sufficient capacity to ensure that the water storage is able to be filled during consent period.



Funding will be required to excavate the site and install HDPE liner over the excavation ($Commercial Information install additional booster pumps and 375 mm PVS water line ($Commercial Information electricity upgrade ($Commercial Information capital costs associated with installation of additional water line to the current dairy support land ($Commercial Information

Co-Funding Table

Co-Funder	**Pledged/Confirmed/Cash/In-Kind**	**Amount $**
Applicant	Represented to date. Proof of funds will be a Condition Precedent.	$Commercial Info
Applicant - any cost overruns	Represented to date. PDU will endeavour to negotiate this as a a funding agreement term	N/A
Applicant - existing infrastructure that will be utilised	Represented to date. Will be a funding agreement term.	N/A
Applicant - full costs of on-orchard development	Represented to date. Will be a funding agreement term.	N/A
Total		**$**Commercial Infor

Project Ownership (Structure and Key Personnel)
Applicant is a charitable trust. It the asset holding arm of Te Rarawa iwi. Applicant will develop, own and operate the infrastructure. Applicant trustees: Privacy of natural persons The PDU will require the applicant to have appropriate capability mandated. The PDU will also expect appropriate project governance to be established (e.g. a project control group).

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**
Does the Application have a Te Ara Mahi (TAM) component?	**No**

Section B: Operational Assessment Criteria (Complete for EoIs 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:		
➢ create permanent jobs?	The applicant has not decided exactly what sort of horticulture to develop – furthermore, some of the plantings will change over time. A typical Commerci ha of Commercial Information in this area would be expected create Comm FTEs, plus seasonal workers. This compares to a typical Commercial Information that might employ Commerc FTE. Commercial Information There would also be increased jobs and productivity downstream.	**N/A 1 2 3 4 5**
➢ deliver community benefits?	Community will benefit through environmental improvements (reduction in dairy support activity), as well the benefits of increased jobs. The intention is for the infrastructure to be made available, as appropriate and where capacity allows, to other land owners.	**N/A 1 2 3 4 5**

➢ increase utilisation of and returns on Maori assets?	The land proposed for conversion is Treaty settlement land. This project will significantly increase returns on that land.	**N/A 1 2 3 4 5**
➢ enhance the sustainability of natural assets?	Project will enhance sustainability of water and by transitioning from dairy to horticulture.	**N/A 1 2 3 4 5**
➢ mitigate climate change effects, or assist with the lowering of emissions?	Climate change impacts the reliability and availability of water. This project will deliver reliable water, mitigating an effect of climate change Project transitions from dairy support to lower emission agriculture.	**N/A 1 2 3 4 5**
Additionality		
Would the project:		
➢ add value by building on what is already there, without duplicating effort?	Yes – project will leverage: • Existing under-developed land • The existing Commercial Information horticulture business owned by the applicant • Existing water infrastructure	**N/A 1 2 3 4 5**
➢ be a catalyst for productivity potential in the region?	Yes in respect of the immediate area, by facilitating significant improvement in the economics able to be generated from the land. This is a small scale local project – not a regional wide project.	**N/A 1 2 3 4 5**
Connected to regional stakeholders and frameworks		
Does the project:		
➢ align with regional priorities, such as frameworks, or regional plans?	Water and water management is key aspect of the Northland regional economic development plan	**N/A 1 2 3 4 5**
➢ have the support of local governance groups (councils, iwi and hapu)?	Applicant is the asset holding arm of the local iwi. Currently confirming council / other group support	**N/A 1 2 3 4 5**
Governance, risk and project execution		
Does the application show:		
➢ robust project management and governance systems?	The applicant has run a number of projects and operates a number of businesses, so basic management and governance is in place. They have successfully delivered small scale water infrastructure before. However, they will need significant support for this project. The proposed project manager / advisor, Commercial Information is well placed to do this Commercial Information . Appropriate project management and governance	**N/A 1 2 3 4 5**

	systems will be established.	
➢ plans for future ownership and operational management?	Applicant intends to develop, construct and own the asset long term.	**N/A 1 2 3 4 5**
➢ how the project will be delivered and managed?	Refer robust project management and governance systems section above. Also a contractor (or contractors) will be procured to deliver the physical works. The funding agreement will give the PDU rights to diligence the contractors and construction contract (especially risk allocation).	**N/A 1 2 3 4 5**

Is the Project an EXPRESSION OF INTEREST?	**No**
Is the Project an APPLICATION?	**Yes**

Section C: Risk Management Evaluation

Does this application demonstrate consideration of the following risks?			**Choose an item.**
Type of risk	**Risk description**	**Mitigations**	**Risk Rating**
☒ Project risk	Is the project feasible? Can it be delivered on time, on budget and to specification? Key risk is expected to be completing the project on budget (cost to complete risk).	Assessment of project economics and technical work to date indicate project is feasible. Mitigations to cost to complete risk is the applicant agreeing to fund overruns, appropriate risk allocation in the construction contracts, appropriate commercial protections in the construction contracts (bonding, LDs, etc), and usual contractor due diligence, (creditworthiness, track record, etc).	Medium unmitigated, low mitigated.
☒Operational risk	Will the project or asset operate to specification, to budget, and achieve the forecast revenue?	Relatively lower area risk for a project such as this. Commercial Information	Low

		Commercial Information	
☒ Force majeure/Insurance risk	Have insurable risks been considered? Is the level of insurance adequate?	CAR, DSU, PI (as required) and PL insurance will be required, as well as appropriate contractor side insurances (plant, etc). In New Zealand CAR earthquake deductibles, especially for dams are high. This should be factored into the contingency.	Low
☒Macroeconomic risk	Has the impact of possible external economic changes been considered?	Post construction the project will be exposed to horticulture commodity prices. This is a systemic risk that is the nature of entering into this industry. Macroeconomic factors in respect of construction risk should be minimal – there should be limited currency exposure all plant and materials should be NZ sourced. Given the short construction period, inflation and interest rate movements shouldn't impact materially. Commercial Information	Medium

Section D: Funding and financial analysis		Please highlight number below
Does the application show:		
➢ How strong is the financial position of the applicant organisation?	Based on the most recent financial statements (covering the trust plus subsidiaries): Commercial Information	**N/A 1 2 3 4 5**

➢ How does the scale of the project compare to their overall business?	As indicated above the Trust has experience in project management and running other businesses. The water storage project is small (~$Commercial Information compared to assets under management (~$Commercial Information	**N/A 1 2 3 4 5**
➢ Why is Crown funding being sought rather than commercially-available funding?	Commercial Information	**N/A 1 2 3 4 5**
➢ What does the independent financial analysis/ business case indicate?		**N A 1 2 3 4 5**
➢ Is the funding model requested appropriate? Is the PDU recommending a different model?	No – the PGF generally does not provide grants for construction of water storage, and especially not to single entities. Proposed funding is a Commercial Information loan.	**N/A 1 2 3 4 5**
➢ Has the applicant provided evidence of market pull for this project?	There is a demonstrated market for the type of horticultural produce anticipated as a result of this investment.	**N/A 1 2 3 4 5**
➢ Has the applicant provided evidence that their supply chain is secure?		**N A 1 2 3 4 5**
Summary of funding and financial analysis:	Project economics are expected to be able to support the proposed financing.	**N/A 1 2 3 4 5**

Funding arrangements

Funding will via a facility agreement (i.e. a loan). The applicant applied for a grant. PDU recommends a Commercial Information loan, as this is in line with the funding approach taken for the construction phase of other water storage projects.

Funding will be available for draw down on an earned value basis. Available funding will be capped into tranches based on milestones. Standard water storage facility agreement terms and conditions will be used.

MFAT has not raised any concerns in respect of WTO obligations.

Proposed Term Sheet Summary (noting full term sheet will be developed post decision)

Is the application a Grant or Loan?	**Loan - Complete Loan details section**

Key loan details to be considered			
Structure	Commercial Information	**Interest rate**	Commercial Information **%**
Maximum funding amount	$ Commercial Information	**Default interest:**	Comm %
Co-funding	Commercial Information	**Loan repayment terms**:	Commercial Information
Term	Commercial Information	**WTO**	No concerns.
Security	Unsecured. Negative pledge.		
Concession(s) (if applicable)	Commercial Information		

Consultation from partner agencies undertaken or implications

MFAT: No major concerns. Grant = subsidy. Domestic sales, so no export subsidy risks. Can probably classify as Green Box support under “infrastructural services”.
MPI: feedback pending. Comment from the cover sheet in relation to the previous stage of this project that PGF has supported: “The local MPI team have been involved in the application process and are supportive.”

Is there any further information from the applicant?	**Choose an item.**

Following initial assessment, additional information was sought from the applicant:

- Clarification of matters in the application.

Summary statement of Application Review undertaken	
All of the following have occurred as part of this application assessment and recommendation: ➢ Discussions between the Regions Team and the Investment Team; and ➢ Consultation with relevant partner agencies allowing the provision of technical advice; their verbatim feedback is included above; and ➢ Full and comprehensive review by an Investment Director; and ➢ Review by the Head of Investment; and ➢ Review by the PDU Leadership Team. These have occurred to the satisfaction of the reviewer and the reviewer concurs with the recommendation.	
Review has been completed	Yes

Supporting proposal:	Yes – Application
Appendices:	Yes – Application and assessment against PGF investment principles for water storage
Author of paper:	Privacy of n – Water Director

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**
Economic	
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 (dairy support) to higher value non-ruminant (horticultural) uses, and improving environmental outcomes .
Water storage will help address disparities in Māori access to water for land development.	The Applicant is an iwi asset holding entity. This project will definitely assist in addressing disparities in Maori access to water for land development.
Community	
Small scale community level projects will be supported rather than mega irrigation schemes.	The estimated construction cost for the project is 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 iwi and community economic benefit.
Projects will involve stronger partnerships at the local level, including with regional councils.	The project is being sponsored by asset holding entity for the local iwi. The sponsor will need to partner with local authorities to some extent to deliver the project.
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 the CIIL work programme.
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.
Proposals should maintain the health of waterways.	

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.	
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.	The focus of this project is on non-ruminant agriculture.
Climate change	
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.	Climate change typically results in increased uncertainty in the reliability levels of water supply. This project will respond to this issue.
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.	