



## COVERSHEET

<b>Minister</b>	Hon Shane Jones	<b>Portfolio</b>	Regional Development
<b>Title of Cabinet paper</b>	Addressing additional funding needs for Whakatōhea Mussels (Ōpōtiki) Limited	<b>Date to be published</b>	15 November 2024

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
18 September 2024	Addressing additional funding needs for Whakatōhea Mussels (Ōpōtiki) Limited	Office of the Minister for Regional Development
18 September 2024	Addressing additional funding needs for Whakatōhea Mussels (Ōpōtiki) Limited - Investment Structure and Conditions	Office of the Minister for Regional Development
18 September 2024	Addressing additional funding needs for Whakatōhea Mussels (Ōpōtiki) Limited ECO-24-MIN-0197 Minute	Cabinet Office
23 September 2024	Addressing additional funding needs for Whakatōhea Mussels (Ōpōtiki) Limited CAB-24-MIN-0362.01 Minute	Cabinet Office

### Information redacted

**YES** (please select)

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of commercial information, confidentiality, privacy of natural persons, and free and frank opinions.

**In Confidence**

Office of the Minister for Regional Development

Cabinet Economic Policy Committee

**Addressing additional funding needs for Whakatōhea Mussels (Ōpōtiki) Limited**

**Proposal**

- 1 This paper seeks Cabinet agreement to provide up to \$16.50 million in additional Provincial Growth Fund (PGF) and Regional Strategic Partnership Fund (RSPF) funding to support expansion of offshore ocean farms and to pay down Commercial Information, Confidentiality for Whakatōhea Mussels (Ōpōtiki) Limited (WMOL) – a PGF-funded project – in the form of loan and equity. As the total investment in the WMOL project is over the \$20.00 million delegation for the Minister of Finance and Minister for Regional Development, Cabinet approval is required for any additional funding provided.
  
- 2 Cabinet agreement to provide additional funding for this project is being sought as WMOL is a regionally significant business that is Confidentiality, Commercial Information. A funding decision is required by the end of September 2024, Confidentiality. This would have direct impact on the Crown’s \$35.55 million investment in WMOL, and flow-on impacts for \$128.79 million of integrated Crown investment in Eastern Bay of Plenty projects, affecting around Commercial employees (both directly and indirectly).

**Relation to government priorities**

- 3 The Government’s economic growth strategy has five pillars: building infrastructure for growth and resilience, lifting educational achievement and skills, strengthening trade and investment, promoting innovation, science and technology and improving regulation.
  
- 4 One of the underlying objectives of Crown investment in WMOL and integrated projects in wider Ōpōtiki is to enable and support the development of an aquaculture industry in Eastern Bay of Plenty, an area with high deprivation scores in comparison to the rest of New Zealand. Successfully establishing this industry is intended to boost economic growth in the region and support increased employment rates.

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- 5 WMOL also aligns with the Government's intentions to strengthen trade, including growth in traditional sectors like farming and fishing. New Zealand's greenshell mussel exports make up 68 per cent (\$378.00 million in the year to 31 March 2024) of New Zealand's total aquaculture export sales, but are constrained by lack of supply. Investments in WMOL and the wider aquaculture industry in Eastern Bay of Plenty aim to enable increased supply of mussels for New Zealand's aquaculture exports through expanded ocean farm and processing capacity.

### Executive Summary

- 6 In 2018, the Government established the Provincial Growth Fund (PGF) – a \$3.00 billion investment fund designed to enable economic growth in New Zealand's regions [CAB-17-MIN-0554 refers].
- 7 In December 2021, Cabinet delegated decision-making powers to the Minister of Finance and the Minister for Regional Development on the use of future funding made available from funds managed by Kānoa – Regional Economic Development & Investment Unit (Kānoa – RD) including the PGF, up to \$20.00 million [DEV-21-MIN-0257 refers].
- 8 Cabinet approval is required for PGF projects where overall funding exceeds \$20.0 million [CAB-18-0045 refers]. PGF projects seeking funding relief through reprioritised funding are assessed against specific criteria that have been agreed by the Minister for Regional Development and the Minister of Finance.

### *Whakatōhea Mussels (Ōpōtiki) Limited (WMOL)*

- 9 WMOL is an Ōpōtiki-based greenshell mussel farming and processing business. It was founded in 2014 in partnership between the Whakatōhea Māori Trust Board (WMTB) and local investors. In 2018, Regional Economic Development (RED) Ministers approved a \$19.00 million equity investment and \$0.85 million grant from the PGF to WMOL to build a mussel processing and production facility in Ōpōtiki.
- 10 WMOL is part of a group of projects in Ōpōtiki supporting the enablement of a sustainable aquaculture industry in the Eastern Bay of Plenty. The Crown's \$164.34 million of investments (including WMOL) in Ōpōtiki includes three other large and integrated projects, and a related project in Te Kaha. These projects are:
  - 10.1 Ōpōtiki Harbour Development – \$95.30 million: to construct a harbour for mussel boats to harvest, moor and deliver product to be processed within Ōpōtiki. Includes the twin 350-metre Ōpōtiki Harbour sea walls allowing safe access to the sea for mussel boats in all weather conditions.
  - 10.2 Ōpōtiki Marina and Wharf – \$8.80 million: to construct an industrial and recreational marina for boats, including WMOL's mussel boats, to

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launch and moor within Ōpōtiki as opposed to Whakatāne as currently operated.

- 10.3 Ōpōtiki Harbour Ancillary Projects – \$4.79 million: to support ancillary projects, such as the Ōpōtiki Town Wharf upgrade to temporarily accommodate mussel boats.
- 10.4 Te Huata Mussel Spat Hatchery (Te Huata) - \$19.9 million: to support the development of an iwi-owned (Te Whānau-ā-Apanui) mussel spat hatchery.
- 11 WMOL has faced difficulties reaching a sustainable level of cashflow and profitability requiring further Crown funding, due to challenges including COVID-19, staffing challenges, increased interest costs, machinery breakdown and adverse weather events.
- 12 Kānoa – RD now manages \$35.55 million of loan and equity funding from the PGF for WMOL. An overview of direct and indirect Crown investment into WMOL is provided in Appendix One.

*WMOL is seeking Crown support for its capital raise to expand its production base to increase its profitability and repay some short-term debt*

- 13 In March 2024, WMOL launched a capital raise, targeting \$<sup>Confidentiality</sup> million to repay short term debt, address working capital liquidity issues, and finance future ocean farm expansion. <sup>Confidentiality, Commercial Information</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup> WMOL has therefore approached the Crown to contribute to the capital raise, seeking \$16.50 million.

- 14 <sup>Confidentiality, Commercial Information</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>

- 15 <sup>Confidentiality</sup>  
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<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>

- 16 <sup>Confidentiality, Commercial Information</sup>  
<sup>Confidentiality</sup>  
<sup>Confidentiality</sup>

*Cabinet's decision is needed on whether to provide additional funding to WMOL*

17 Confidentiality [Redacted]

18 Kānoa – RD officials have advised that, if Cabinet were to provide further funding, both the repayment of WMOL's short term debt and investment to grow its production are required to enable WMOL to remain cashflow positive and increase its profit margins over the medium/long term. Confidentiality [Redacted]

19 There are two viable options available for Cabinet decision:

19.1 Option One [Recommended option]: Provide up to \$16.50 million equity investment funded by reprioritisation of surplus PGF and Regional Strategic Partnership Fund (RSPF) funds.

19.2 Option Two: Provide no further capital funding to WMOL.

20 I recommend Option One as it provides the greatest benefits for the Crown in relation to this existing equity investment and is the pathway most likely to support profitability for WMOL in the future.

21 Benefits of Option One include that it:

21.1 Confidentiality [Redacted]

21.2 Reduces WMOL's interest costs through debt repayment.

21.3 Increases WMOL's production volumes from its own ocean farms on expansion completion (forecast [Redacted] new lines per annum FY2026 to FY32), which will contribute to increased product for the processing facility.

21.4 Supports jobs and economic development in the area – expansion of WMOL's ocean farms and increased processing capacity will likely lead to approximately [Redacted] new jobs over the next three years.

22 There are also key benefits to the Crown of Option One. At a high-level these benefits include that it:

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- 22.1 Reduces the risk of WMOL seeking additional funding support from the Crown in the future.
- 22.2 Preserves the Crown’s existing investments in the Ōpōtiki aquaculture industry.
- 22.3 Confidentiality [redacted].
- 23 With respect to the Crown’s investment held by CRHL, Kānoa – RD estimates Confidentiality [redacted]  
[redacted]  
[redacted]
- 24 Confidentiality, Commercial Information [redacted]  
[redacted]  
[redacted]  
[redacted]  
[redacted]

*I recommend that this funding be provided through reprioritisation of returned funding from Kānoa – RD managed funds*

- 25 There is currently \$Confidentiality million surplus Confidentiality [redacted] funding from the PGF and RSPF available to support this proposal. This process is also budget neutral as it reprioritises funding that has already been allocated and has no further impact on OBEGAL.
- 26 I note that surplus funding available for reprioritisation will likely decrease as investments across funds mature, resulting in a need to consider trade-offs of existing additional funding requests against future, not yet known funding requests. I have therefore directed officials to develop an enhanced approach to Kānoa – RD’s reprioritisation process, including making the current reprioritisation process more rigorous by the end of August 2024.
- 27 Due to the need for a decision on whether or not to support WMOL’s capital raise before the end of September 2024, the additional funding has been assessed against current criteria. Confidential advice to Government, Confidentiality [redacted]  
[redacted]  
[redacted].

**Background**

*Provincial Growth Fund*

- 28 In 2017, Government established the Provincial Growth Fund (PGF) – a \$3.00 billion investment fund designed to enable economic growth in New Zealand’s regions [CAB-17-MIN-0554 refers].
- 29 PGF funding sought to support regions to meet their full economic potential, particularly regions that are challenged with higher unemployment, lower productivity, and people who are struggling economically. Enabling Māori to

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realise aspirations in all aspects of the economy was also a key objective of the fund.

- 30 Cabinet agreed that (Regional Economic Development) RED Ministers<sup>1</sup> would approve between \$1.00 million and \$20.00 million of PGF funding per project, and that proposals over \$20.00 million would need to be approved by Cabinet [CAB-18-0045 refers].
- 31 Kānoa – RD is responsible for the administration of the PGF, which has been fully allocated, and continues to monitor and manage projects funded through this fund.
- 32 In 2021, Cabinet delegated powers to the Minister of Finance and the Minister for Regional Development to make decisions on the use of funding made available from withdrawn projects and projects that have been completed with underspends in funds (including the PGF) managed by Kānoa – RD [DEV-21-MIN-0257 refers]. This process is referred to as ‘reprioritisation’. As with the funding approval authority for initial PGF projects, Cabinet approval is needed if total funding for a project, including funding through reprioritisation, exceeds \$20.00 million.
- 33 PGF projects seeking additional funding from reprioritised funding are assessed against specific criteria agreed to by the Minister of Finance and the Minister for Regional Development. These are:
- 33.1 there are no alternative funding sources available to the recipient prior to seeking additional crown funding.
- 33.2 the recipient has shown evidence of project costs, and that all reasonable efforts have been made to make the project delivery as efficient as possible and the costs as low as practicable.
- 33.3 benefits of the project have either been realised partially or will be demonstrably and evidentially realised by the completion of the project.
- 33.4 without funding the completion of the project is at significant risk.

*Whakatōhea Mussels (Ōpōtiki) Limited (WMOL)*

- 34 WMOL is an Ōpōtiki-based greenshell mussel farming and processing business. It was founded in 2014 in partnership between the Whakatōhea Māori Trust Board (WMTB) and local investors.
- 35 Te Whakatōhea is an Ōpōtiki-centred iwi, which has for many generations aspired to utilise the ocean to build a world class open ocean aquaculture industry at scale. Te Whakatōhea signed its deed of settlement in May 2023 and its post settlement entity (Te Tāwharau o Te Whakatōhea) was established in May 2024.

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<sup>1</sup> The RED Ministerial Group was comprised of Ministers of/for Finance, Economic and Regional Development, Social Development and Employment, and Māori Development.

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36 WMOL has [Commercial] shareholders, the four largest of which control [Comme] per cent of the company, including the Crown through Crown Regional Holdings Limited (CRHL)<sup>2</sup>. CRHL owns [Comme] per cent of WMOL [Commercial Information]. The remaining [Commercial] shareholders are mainly local people, family trusts and iwi trusts.

*Initial Crown investment for WMOL provided \$19.85 million of PGF funding*

37 In 2018, RED Ministers approved a \$19.00 million equity investment and \$0.85 million grant from the PGF for WMOL to build a mussel processing and production facility.

38 RED Ministers supported the investment in WMOL as it reflected the overarching priorities of the PGF. In particular, it supported investment into one of six 'surge' regions prioritised for PGF funding (Bay of Plenty) and linked into regional and national priorities to capitalise on opportunities in New Zealand's aquaculture industry.

39 The project also reflects the PGF's objective to enable Māori to realise economic development, by supporting Te Whakatōhea with its long-held aspirations to utilise the ocean to support its people. This is in a town that has both a high deprivation index, (8.9 out of 10 in 2018 compared to the national average of 5.6), and a high Māori population (66 per cent compared to the national average of 16.5 per cent).

40 In 2020, WMOL opened the southern hemisphere's largest production capacity mussel processing facility in Ōpōtiki. This facility currently has a surety of processing approximately [Commercial Information] greenweight tonnes (GWT) of half shell mussels per annum. The facility was designed to process over [Commercial Information] GWT per annum based on future expansion of ocean farms in the Eastern Bay of Plenty (by WMOL and others).

41 WMOL has also developed the world's first open ocean mussel farm in a [Commercial Information] hectare marine area [Commercial Inform] off the coast of the Ōpōtiki coastline. [Commercial Information] WMOL currently utilises [Comme] per cent of the consented [Commercial Inform] hectares of sea space, with an additional [Commercial Information]

42 WMOL is presently (based on existing volumes) the third largest and the most modern mussel processor in New Zealand, accounting for approximately [Commercia] per cent of processing in New Zealand. Two larger processors are based in the upper South Island and both have limited capacity to process additional volumes. [Confidentiality, Commercial Information]

<sup>2</sup> CRHL is a Schedule 4A (Public Finance Act 1989) asset holding company for loan, equity and asset investments managed by Kānoa – RD.

<sup>3</sup> [Commercial Information]



Confidentiality, Commercial Information

Confidentiality, Commercial Informa

- 43 New Zealand greenshell mussels make up 68 per cent (\$378.00 million in the year to 31 March 2024) of New Zealand’s total aquaculture export sales, with export prices increasing over the past ten years. However, export volumes have been constrained by a lack of supply. Projects like WMOL aim to build on and expand New Zealand’s aquaculture industry, contributing to the export-led recovery pillar of the Government’s economic growth strategy.
- 44 WMOL currently employs Commercial staff, with 60 per cent of the workforce being of Māori descent. Māori employment and labour market outcomes in the area are poor in comparison to the rest of New Zealand, with a 9.9 per cent unemployment rate in Ōpōtiki. WMOL therefore has the potential to generate positive impacts for Māori in the area, both in terms of employment opportunities and the localised economic uplift generated from the project.
- 45 Included in current staff levels are Privacy of natural persons
- 46 WMOL, with the support of the Ministry of Social Development (MSD), provides the Tūāpapa Introductory Foundation course, which serves as a learning and development tool for the current workforce and to provide entry-level skills required in the aquaculture industry. For the 2021/22 year a total of Confidential students were enrolled in the programme, of which Confidential successfully graduated. Within the graduate cohort, Confidential were MSD clients.
- 47 MSD has committed \$Confidential million support to WMOL for two workforce coordinators to help WMOL attract and retain a local workforce. This funding was split over two years, with the second year currently underway (from 1 March 2024 to 1 March 2025). Staff levels also include Confidential employees (in FY2023/24) who are former MSD clients.
- 48 WMOL’s PAYE contribution to the region is approximately \$Confidential million per month. WMOL is expected to create another Confidential new jobs over the next three years, based on planned ocean farm expansion.

**Crown investment in Ōpōtiki**

- 49 WMOL is part of a group of integrated projects in Ōpōtiki supporting the enablement of a sustainable aquaculture industry in the Eastern Bay of Plenty.
- 50 Details of wider investment in Ōpōtiki and Eastern Bay of Plenty aquaculture are set out in Table 1 below.

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Table 1: Regional development investment in Ōpōtiki projects (excluding WMOL)

<b>Project (Fund) and Description</b>	<b>Status</b>	<b>Investment</b>	<b>Co-Funding</b>	<b>Total Project Cost</b>
<p>Ōpōtiki Harbour Development (Regional Investment Opportunities Fund)</p> <p><i>To construct a harbour for boats to harvest, moor and deliver product to be processed within Ōpōtiki.</i></p>	Contracted December 2020	\$95.3 million	\$ <sup>Confidential</sup> million	\$ <sup>Confidentiality</sup> million
<p>Ōpōtiki Marina and Wharf (PGF)</p> <p><i>To construct an industrial and recreational marina and wharf for boats to launch and moor within Ōpōtiki.</i></p>	Contracted January 2021	\$8.8 million	\$ <sup>Confident</sup> million	\$ <sup>Confidentiality</sup> million
<p>Ōpōtiki Harbour Ancillary Projects (PGF)</p> <p><i>To support the original business case for the project and later varied to support ancillary projects (e.g., Town Wharf Upgrade to temporarily accommodate mussel boats).</i></p>	Contracted May 2019, varied October 2023	\$4.79 million	\$ <sup>Confident</sup> million	\$ <sup>Confidentiality</sup> million
<p>Te Huata Mussel Spat Hatchery (RSPF)</p> <p><i>To support the development of an iwi owned (Te Whānau-ā-Apanui) Mussel spat hatchery in Te Kaha.</i></p>	Contracted November 2022	\$19.9 million	\$ <sup>Confide</sup> million	\$ <sup>Confidentiality</sup> million
<b>Total</b>		<b>\$128.79 million</b>	<b>\$<sup>Confidentiality</sup> million</b>	<b><sup>Confidentiality</sup> million</b>

51 Mussel boats previously had to land catch in Whakatāne due to limited access into Ōpōtiki Harbour. Major upgrades to make the Ōpōtiki Harbour accessible to mussel boats now mean that catch can be brought directly into Ōpōtiki and reduces land transport costs. <sup>Confidentiality</sup>

52 The Crown has also invested in <sup>Commercial Information</sup>

**WMOL has faced several unplanned events requiring further funding**

53 Since opening in 2020, WMOL has undertaken further capital raises to cover operating expenditure shortfalls arising from:

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- 53.1 COVID-19 impacts
- 53.2 initial challenges to obtain and retain staff
- 53.3 startup challenges (e.g., Commercial Information, Free and frank opinions)
- 53.4 increased interest costs
- 53.5 machinery breakdown and time to repair, causing business disruption
- 53.6 shortage of spat supply and spat mortality caused by storm or weather events at source locations (such as Ninety Mile Beach)
- 53.7 storm or weather events limiting the ability to service and harvest mussel lines.

54 In total, the Crown’s support for WMOL amounts to \$35.55 million of which \$15.70 million is additional funding (since the initial investment). An overview of direct and indirect Crown investment into WMOL is provided in Appendix One.

55 The majority of WMOL’s other shareholders predate the Crown’s PGF investment. Confidentiality, Commercial Information

[Redacted]

56 Operational performance and cash-flow breakeven was expected to be challenging for WMOL until it was able to process Commercial Information GWT of mussels per annum. Commercial Information, Negotiations

[Redacted]

57 Confidentiality, Commercial Information

[Redacted]

**WMOL is seeking Crown support as part of a further capital raise**

58 Confidentiality, Commercial Information

[Redacted]

Confidentiality, Commercial Information [Redacted]

59 Confidentiality, Commercial Information [Redacted]

59.1 Confidentiality [Redacted]

59.2 Confidentiality, Commercial Information [Redacted]

59.3 Confidentiality, Commercial Information [Redacted]

60 WMOL has therefore approached the Crown to contribute to the capital raise, seeking \$16.50 million to subscribe for the Crown's [Redacted] per cent pro-rata equity share. Confidentiality, Commercial Information [Redacted]

61 Confidentiality, Commercial Information [Redacted]

Confidentiality, Commercial Information [Redacted]

62 Confidentiality, Commercial Information [Redacted]

63 Confidentiality [Redacted]

63.1 Confidentiality, Commercial Information [Redacted]

63.2 Confidentiality, Commercial Information [Redacted]

63.3 Confidentiality, Commercial Information [Redacted]

64 Confidentiality, Commercial Information [Redacted]

65 Confidentiality, Commercial Information [Redacted]

66 Confidentiality, Commercial Information [Redacted]

67 Confidentiality [Redacted]

**Officials have provided several options for supporting WMOL for consideration**

68 Confidentiality, Commercial Information [Redacted]

68.1 Confidentiality, Commercial Information [Redacted]

68.2 Confidentiality, Commercial Information [Redacted]

68.3 Confidentiality, Commercial Information [Redacted]

68.4 Confidentiality, Commercial Information [Redacted]

68.4.1 Confidentiality, Commercial Information [Redacted]

68.4.2 Confidentiality, Commercial Information [Redacted]

68.4.3 Confidentiality, Commercial Information [Redacted]

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- 69 Acknowledging WMOL’s financial situation and previous funding history, I directed Kānoa - RD to assess several funding options for the capital raise. The options considered included:
- 69.1 committing the full \$16.50 million to reduce WMOL’s short-term debt and increase its production
  - 69.2 providing funding to Confidentiality and repay short term advances
  - 69.3 providing no further capital funding to WMOL.
- 70 Kānoa – RD officials have advised that, if Cabinet were to provide further funding, both the repayment of some of WMOL’s short-term debt and investment to grow its production are required to enable WMOL to Confidentiality and significantly increase its profit margin over the medium/long term. Confidentiality
- 71 There are two viable options available for Cabinet decision:
- 71.1 Option One [Recommended option]: Provide up to \$16.50 million equity investment funded by reprioritisation of surplus funds.
  - 71.2 Option Two: Provide no further capital funding to WMOL.

*I recommend the Crown provide up to \$16.50 million equity investment for WMOL’s capital raise*

- 72 Based on the information provided by WMOL and Kānoa – RD’s analysis, I recommend fulsome support of WMOL’s capital raise through Option One.
- 73 Option One provides the greatest benefits for the Crown in relation to this existing equity investment and is the pathway most likely to support profitability for WMOL in the future. The beneficial outcomes of this option for WMOL are that it:
- 73.1 Confidentiality
  - 73.2 Reduces WMOL’s interest costs through debt repayment.
  - 73.3 Increases WMOL’s production volumes from its own ocean farms on expansion completion (forecast new lines per annum FY2026 to FY2032), which will contribute to increased product for the processing facility.
  - 73.4 Reduces WMOL’s fuel costs once mussels are unloaded at Ōpōtiki instead of Whakatāne – by providing limited infrastructure at Ōpōtiki

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Harbour for the mussel boats to use the upgraded harbour infrastructure, e.g., mooring of vessels.

73.5 Supports jobs and economic development in the area – expansion of WMOL’s ocean farms and increased processing capacity will likely lead to approximately [Confidential] new jobs over the next three years.

74 There are also key beneficial outcomes of this option for the Crown. At a high-level these are:

74.1 Reduces the risk of WMOL seeking additional funding support from the Crown in the future.

74.2 Preserves the Crown’s existing investments in the Ōpōtiki aquaculture industry.

74.3 Confidentiality [Redacted]

75 These are discussed in more detail in the following sections.

*Investment reduces the risk WMOL will seek additional Crown funding in the future*

76 WMOL has also shown it has a strong processing pipeline (via toll processing and own catch) and the cost savings of using Ōpōtiki Harbour (instead of Whakatāne Harbour) that increase its capacity to remain profitable. Providing this amount of funding will allow the expansion of WMOL’s ocean farms, leading to increased product for processing and a pathway towards sustainable profit by [Confidentiality]. Option One provides the minimum amount required to reduce WMOL’s short-term debt and increase its production, which in turn increase its profit margins and long-term financial sustainability.

77 Kānoa – RD considers the provision of additional funding will put WMOL in a secure enough position [Confidentiality, Free and frank opinions [Redacted]] if this funding is provided and the capital raise (of \$ [Confidentiality] [Redacted]) is realised. In particular, supporting WMOL’s ocean farm expansion will enable the business to reach sustainable profit, meaning it will be more able to absorb any future disruptions (e.g. poor spat growth, weather events) that would otherwise put it at risk if its current circumstances remained.

78 Commercial Information [Redacted]

79 Confidentiality [Redacted]

80 Kānoa – RD has also provided advice to the Minister of Finance and Minister for Regional Development (as Ministers with delegated authority for regional development reprioritisation) to strengthen reprioritisation criteria for Kānoa – RD managed funds to ensure that funding is allocated to priority projects. These criteria are intended to reduce instances where the Crown sustains projects that are likely to incur sunk costs. Confidentiality [redacted]

*Investment preserves the Crown’s existing investments in the Ōpōtiki aquaculture industry*

81 The Crown has invested a combined \$164.34 million in WMOL and broader projects to support the establishment of an aquaculture industry in Ōpōtiki and Eastern Bay of Plenty. If WMOL were to fail, investments made into preparing the harbour for an aquaculture industry will be at risk, as well as investments into related projects Commercial Information [redacted]

82 With respect to the Crown’s investment held by CRHL, Kānoa – RD estimates that Commercial Information [redacted]

83 Confidentiality [redacted]

84 Confidentiality [redacted]

*Investment provides the most viable exit option for the Crown*

85 Confidentiality [redacted]



**Choosing not to provide further funding for WMOL would likely place Crown and iwi investments at risk leading to ongoing expense to the Crown**

86 Confidentiality [Redacted]

87 Confidentiality [Redacted]

88 Confidentiality [Redacted]

89 In addition, WMOL requires funding now to initiate and develop its longer-term farm investment required for more sustainable profitability. The longer that this is delayed, the greater the chance that WMOL’s existing financial position could be compromised by an unexpected event.

*Choosing not to provide further funding also risks failing to meet the intended benefits of the original PGF investment*

90 As outlined earlier in this paper, RED Ministers supported investment in WMOL as it supported investment into a ‘surge’ region prioritised for PGF funding, and reflected the PGF’s objective to enable Māori to realise economic development aspirations.

91 Confidentiality [Redacted]

92 Confidentiality [Redacted]

93 Commercial Information [Redacted]

Commercial Information  
[Redacted]  
[Redacted]  
[Redacted]

**Proposed investment structure**

94 Option One represents the full amount requested from the Crown by WMOL. The structure of the investment would be:

94.1 \$<sup>Confidentiality</sup> million equity investment to enable Confidentiality of the capital raise with proceeds to repay short-term debt and <sup>Commercial Information</sup> [Redacted]. This would be dependent on co-investment of at least \$<sup>Confidentiality</sup> Confidentiality, Commercial Information [Redacted]

94.2 Up to a maximum of an additional \$<sup>Confidentiality</sup> million Confidentiality [Redacted]  
[Redacted]  
[Redacted]

94.3 Confidentiality [Redacted]  
[Redacted]  
[Redacted]

**Funding will be provided through reprioritisation from existing funding allocations (PGF and RSPF)**

95 I recommend that this funding be provided through reprioritisation of returned funding from Kānoa – RD managed funds. Reprioritisation of funding from the PGF (and other Kānoa – RD managed funds) is a continuous process that can provide relief for projects requesting additional funding. This process is also budget neutral as it reprioritises funding that has already been allocated and has no further impact on OBEGAL.

96 There is \$<sup>Confidentiality</sup> million (assuming committed funding for two other PGF projects is approved) from surplus funding from the PGF and RSPF available to support this proposal.

97 I note that as investments across these funds mature, projects are increasingly less likely to withdraw or be completed under-budget, meaning the amount of funding available to reprioritise decreases. This trend will continue and likely become more pronounced as fewer projects finish under budget in the current economic environment.

98 There are increasingly trade-offs when considering existing (or known likely) requests for additional funding against possible future, not-yet-known requests. As the amount sought for additional funding begins to exceed the amount of funding available, there may be a need to prioritise certain projects to ensure that the funding is provided in an equitable manner and not oversubscribed.

99 I have therefore directed officials to develop an enhanced approach to Kānoa – RD’s reprioritisation process, including making the current reprioritisation process more rigorous by the end of August 2024. I intend to update the Regional Development Ministerial Group<sup>4</sup> on the enhanced criteria in September 2024.

100 Due to the need for a decision on whether or not to support WMOL’s capital raise before the end of September 2024, the additional funding has been assessed against current criteria. Confidentiality

101 An overview assessment against the current reprioritisation criteria for this project is included at Appendix Two.

### **Cost-of-living Implications**

102 There are no cost-of-living implications associated with this paper.

### **Financial Implications**

103 Up to \$Confidentiality million from surplus funding from the PGF and RSPF has been identified as available to support this additional funding request.

104 Reprioritisation is a budget neutral process as it reprioritises funding that has already been allocated, and therefore has no further impact on OBEGAL.

### **Legislative Implications**

105 There are no legislative implications associated with this paper.

### **Impact Analysis**

#### *Regulatory Impact Statement*

106 No Regulatory Impact Statement is required for the proposals discussed in this paper.

#### *Climate Implications of Policy Assessment*

107 There are no climate change implications associated with proposals in this paper.

### **Population Implications**

108 Ōpōtiki has a large Māori population relative to the national average (66 per cent compared to 16.5 per cent). Any Crown investment decisions resulting

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<sup>4</sup> The Regional Development Ministerial Group is comprised of the Ministers of/for Finance, Infrastructure, Local Government, Māori Development and Regional Development.

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from this paper thereby have the potential to generate impacts for Māori in the area, both in terms of employment opportunities and the localised economic uplift generated from the Project and related investments.

### **Human Rights**

109 There are no human rights implications associated with this paper.

### **Use of external Resources**

110 No contractors or consultants have been involved in the preparation of this paper.

### **Consultation**

111 The Treasury, Ministry for Primary Industries and Ministry for Social Development have been consulted as PGF policy leads. The Department of the Prime Minister and Cabinet has been notified of this paper.

### **Communications and Proactive Release**

112 Kānoa – RD officials intend to notify WMOL once Cabinet decisions are made, in line with the approach taken with previous reprioritisation investments.

113 The matters outlined in this paper are commercially sensitive in nature. This paper will be proactively released within 30 days of this announcement with appropriate redactions as set out in the Official Information Act 1982.

## Recommendations

The Minister for Regional Development recommends that the Committee:

- 1 **note** that in December 2021, the Cabinet Economic Development Committee delegated to the Minister of Finance and the Minister for Regional Development the powers to make decisions on the use of future funding made available from funds managed by Kānoa – Regional Economic Development & Investment Unit (Kānoa – RD) [DEV-21-MIN-0257 refers], including the Provincial Growth Fund (PGF).
- 2 **note** Cabinet is required to approve projects requiring over \$20.0 million of PGF funding [CAB-18-0045 refers].
- 3 **note** Kānoa – RD manages \$35.55 million of loan and equity funding from the PGF for Whakatōhea Mussels (Ōpōtiki) Limited (WMOL) to establish a mussel ocean farm and processing facility.
- 4 **note** WMOL is part of a group of integrated projects in Ōpōtiki supporting the enablement of a sustainable aquaculture industry in the Eastern Bay of Plenty. Kānoa – RD manages \$164.34 million of investments (including WMOL) in Ōpōtiki and Eastern Bay of Plenty related to the establishment of the aquaculture industry.
- 5 **Confidentiality**  
[Redacted]
- 6 **note** Confidentiality, Commercial Information  
[Redacted]
- 7 **note** WMOL is therefore seeking \$16.50 million in additional funding from the Crown to support its capital raise.
- 8 **note** there are two viable options available for Cabinet decision:
  - 8.1 Option One [Recommended option]: Provide up to \$16.50 million equity investment funded by reprioritisation of surplus funds.
  - 8.2 Option Two: Provide no further capital funding to WMOL.
- 9 **note** I recommend Option One as it provides the greatest benefits for the Crown in relation to this existing equity investment and is the pathway most likely to support profitability for WMOL in the future. The beneficial outcomes of this option for WMOL are that it:
  - 9.1 Confidentiality, Commercial Information  
[Redacted]

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9.2 Reduces WMOL’s interest costs through debt repayment.

9.3 Confidentiality, Commercial Information  
[Redacted]  
[Redacted]  
[Redacted]

9.4 Supports jobs and economic development in the area – expansion of WMOL’s ocean farms and increased processing capacity will likely lead to approximately [Redacted] new jobs over the next three years.

10 **note** there are also key beneficial outcomes of this option for the Crown:

10.1 Reduces the risk of WMOL seeking additional funding support from the Crown in the future.

10.2 Preserves the Crown’s existing investments in the Ōpōtiki aquaculture industry.

10.3 Confidentiality [Redacted].

11 **note** a funding decision is required by the end of September 2024, Confidentiality

[Redacted]  
[Redacted].

12 **note** this will have direct impact on the Crown’s \$35.55 million investment in WMOL, and flow-on impacts for \$128.79 million of integrated Crown investment in Eastern Bay of Plenty projects (\$164.34 million total), affecting around [Redacted] employees (both directly and indirectly).

13 Confidentiality [Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted]  
[Redacted].

14 **agree** to approve up to \$16.50 million of equity funding from Kānoa – RD managed funds to WMOL from reprioritisation of surplus funding from the PGF and RSPF.

15 **agree** to the proposed investment structure outlined below:

15.1 \$[Redacted] million equity investment to enable an Confidentiality of the capital raise with proceeds to repay short-term debt and Commercial Information [Redacted]. This would be dependent on co-investment of at least \$[Redacted] million by current interested investors.

15.2 Confidentiality [Redacted]  
[Redacted]

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Confidentiality [Redacted]  
[Redacted]

15.3 Confidentiality [Redacted]  
[Redacted]  
[Redacted]

16 **note** up to \$Confidentiality million from surplus funding from the PGF and RSPF has been identified as available to support this additional funding request.

17 **note** there are increasing trade-offs when considering existing additional funding requests against possible future, not yet known requests, and I have therefore directed officials to develop an enhanced approach to Kānoa – RD’s reprioritisation process, including making the current reprioritisation process more rigorous by the end of August 2024.

Authorised for lodgement.

Hon Shane Jones

Minister for Regional Development

I N C O N F I D E N C E

**Appendix One: Direct and indirect Crown investment into Whakatōhea Mussels (Ōpōtiki) Limited (WMOL)**

*Direct Crown investment into WMOL*

Year	Fund and description	Crown contribution
December 2018 [RED Ministers]	PGF – Original approval for the Mussel Farming and Processing Facility Acceleration Project in Ōpōtiki  In particular: a. \$0.85 million was provided as a grant towards a final business case and to take the company to a capital raise; and  b. \$19 million was invested as equity in WMOL in this capital raise.	\$19.85 million  Grant and equity
June 2022 [DEV-22-MIN-0097]	PGF – reprioritisation to support capital raise  Cabinet agreed to provide a <u>total of \$2.5 million</u> from PGF reprioritisation to support WMOL’s capital raise. Commercial Information [REDACTED] [REDACTED] and \$1.7 million in equity subscribed for by Crown Regional Holdings Limited to directly invest in WMOL.	\$1.7 million  Equity
June 2023 [DEV-23-MIN-0105]	PGF – funding to cover cost pressures  WMOL sought a \$4.2 million increase in Crown equity stake to address cost pressures, alongside a capital raise from shareholders.	\$4.2 million  Equity
<b>Total</b>		<b>\$25.75 million</b>

*Indirect Crown investment into WMOL*

Year	Fund and description	Crown contribution
June 2020 [DEV-20-MIN-0112]	PGF – Funding to Whakatōhea Māori Trust Board (WMTB)  Concessionary loan provided to WMTB, which was then applied to the WMOL project as equity for WMTB to support a further capital raise.	\$5 million  Concessionary loan
June 2022 [DEV-22-MIN-0097]	Confidentiality [REDACTED] [REDACTED] [REDACTED] [REDACTED]	Confidentiality [REDACTED] [REDACTED] [REDACTED]



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	Commercial Information [Redacted]	
February 2024	Commercial Information [Redacted]	Commercial Information [Redacted] Commercial Information [Redacted]
<b>Total</b>		Commercial Information [Redacted]

**Appendix Two: Provincial Growth Fund Reprioritisation Criteria Assessment – Whakatōhea Mussels (Ōpōtiki) Limited**

Criteria	Assessment comment
<p><i>There are no alternative funding sources available to the recipient prior to seeking additional Crown Funding.</i></p>	<p>Commercial Information [REDACTED]</p>
<p><i>The recipient has shown evidence of project costs, and that all reasonable efforts have been made to make project delivery as efficient as possible and the costs as low as practicable.</i></p>	<p>The forecast was reviewed by PwC for the Information Memorandum and actual quotes were received for near-term expenses.</p>
<p><i>Benefits of the project have either been realised partly or will be demonstrably and evidentially realised by the completion of the project.</i></p>	<p>The project is currently employing [REDACTED] FTEs in the completed mussel processing plant and will be able to expand employment in Ōpōtiki and more than double its exports of Greenshell mussels if supported.</p>
<p><i>Without funding the completion of the project is at significant risk.</i></p>	<p>Confidentiality [REDACTED]</p>