



## BRIEFING

### Recommendations for funding from the Regional Growth Initiative Fund and Provincial Growth Fund

<b>Date:</b>	9 February 2018	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2037 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 Monday 12 February 2018.	12 February 2018
Hon Phil Twyford Minister of Transport	Note the contents of this brief in preparation for your meeting on Monday 12 February 2018.	12 February 2018
Hon David Parker Minister for Economic Development	Note the contents of this brief in preparation for your meeting on Monday 12 February 2018.	12 February 2018
Hon Shane Jones Minister for Regional Economic Development	Note the contents of this brief in preparation for your meeting on Monday 12 February 2018.	12 February 2018

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
John Doorbar	Director, Regional Economic Development	04 896 5565	9(2)(a)	✓
Stephanie Weller	Manager, Regions and Cities Team	04 901 3898		

The following departments/agencies have been consulted
Te Puni Kōkiri, Ministry for Primary Industries, Ministry of Transport, The Treasury

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 Withdrawn           |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

On Monday February 12, the Minister of Finance, Minister of Transport, Minister for Economic Development and the Minister for Regional Economic Development are meeting to approve funding of projects for announcement at the launch of the Provincial Growth Fund in Gisborne on 23 February 2018. This briefing provides information on the projects recommended by Senior Regional Officials for that meeting.

#### Executive summary

The Government has committed to a significant investment in regional economic development through the establishment of the Tuawhenua Provincial Growth Fund (the PGF) of \$1bn per annum over three years. The PGF will invest in a range of projects from feasibility studies, capacity building and small local projects through to larger sector-led initiatives and infrastructure investments.

The Senior Regional Officials group convened on 8 February to review funding proposals and have made decisions within their delegations and recommendations for funding projects that require your delegated authority. This group comprises Deputy Secretary level officials that support economic development in respective regions.

The proposals have been assessed against the criteria for both the Regional Growth Initiatives Fund (RGI) and PGF and recommendations made as per the relevant delegated authority. These are outlined in appendix one. Funding decisions and recommendations for funding have been made from both the RGI and PGF.

We are seeking your approval of eight proposals at your meeting on Monday 12 February. The New Zealand Transport Agency will table a further four proposals for your consideration at the meeting. There are a further six proposals that fit with the draft PGF criteria being developed by officials that we wish you to consider for approval, subject to the PGF criteria being confirmed by Cabinet on 19 February.

The Prime Minister and the Minister of Regional Economic Development will launch the PGF at Gisborne on Friday 23 February 2018 and will announce the suite of projects that will be funded from the PGF.

## Recommended action

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

- a. **Note** that Senior Regional Officials have reviewed the proposals outlined in schedule one and have recommended a range of actions, including
  - a. Already approved, ready to be announced,
  - b. Approve in full,
  - c. Approve subject to business case or further information,
  - d. No recommendation at this stage, continue to work with the applicant,
  - e. Proceed through the Cabinet process,
  - f. Decline, does not meet criteria.
- b. **Note** that Cabinet has agreed to the following delegations:
  - a. Minister for Regional Economic Development to approve projects less than \$1m;
  - b. Minister of Finance, Minister for Regional Economic Development, Minister for Economic Development, and Minister of Transport, together with any other relevant portfolio Ministers (joint Ministers), to approve projects between \$1m and \$10m, and in exceptional circumstances up to \$20m;
  - c. agree that projects greater than \$10m require Cabinet approval, (other than those approved by joint Ministers in exceptional circumstances up to \$20m)
- c. **Approve** the projects recommended by the SROs that fit within your delegated authority of up to \$1m under the RGI as the Minister for Regional Economic Development.
- d. **Agree** to the recommendations made by the SROs regarding proposals of more than \$1m assessed under the RGI criteria that require approval by the delegated Ministers.
- e. **Note** that SROs have identified some proposals that fit with the draft PGF criteria that have been developed by officials, and that these criteria will be confirmed by Cabinet on 19 February 2018
- f. **Agree in principle** to the recommendations made by the SROs regarding proposals of more than \$1m assessed under the draft PGF criteria that require approval by the delegated Ministers, subject to these criteria being confirmed by Cabinet on 19 February

John Doorbar  
**Director**, Regional Economic Development,  
MBIE

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

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## Background

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1. The Government is committed to economic growth that is sustainable and benefits all New Zealanders. Regional economic development is an essential component of the Government's economic strategy.
2. In December 2017, Cabinet agreed to establish the Tuawhenua Provincial Growth Fund (the PGF), a \$1 billion per annum fund investment for three years, with the overall objective to lift productivity potential in the regions [CAB-17-MIN-0554, paragraphs 1 and 2]. The Fund will have three tiers: Regional Projects and Capability; Sector Investments (including the One Billion Trees Programme); and Enabling Infrastructure Projects [CAB-17-MIN-0554, paragraph 7].
3. Cabinet also agreed that projects agreed in 2017/18 that require new funding be subject to the PGF processes, including objectives, criteria and any detailed criteria and success measures agreed to in a February 2018 report back, with existing criteria for the Regional Growth Initiatives appropriation used in the interim. The draft PGF criteria that officials have been developing will be confirmed by Cabinet on 19 February when they consider this report.
4. Senior Regional Officials (SROs) have continued to assess projects prior to the February 2018 report using the existing criteria for the Regional Growth Initiatives (RGI) appropriation. There are some projects that fit the draft criteria for the PGF rather than the RGI. We are seeking your approval of these projects, subject to Cabinet confirmation of the PGF criteria on 19 February 2018.
5. In December 2017, Cabinet also agreed to the following delegations before the February 2018 report for projects that are investment-ready but require new funding:
  - authorise the Minister for Regional Economic Development to approve projects less than \$1 million;
  - authorise the Minister of Finance, Minister for Regional Economic Development, Minister for Economic Development, and Minister of Transport, together with any other relevant portfolio Ministers (Joint Ministers), to approve projects between \$1 million and \$10 million, and in exceptional circumstances up to \$20 million;
  - agree that projects greater than \$10 million require Cabinet approval, (other than those approved by joint Ministers in exceptional circumstances up to \$20 million as provided for under paragraph 13.2);

## Funding decisions

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6. The Senior Regional Officials (SROs) group met on 8 February 2018 and reviewed a suite of proposals against the criteria for the RGI and the PGF and have made decisions within their delegations and recommendations for those within your Ministerial delegations. (See schedule one.)
7. In reviewing the proposals, SROs have followed your instruction and taken an ambitious approach to supporting regional economic development. They have considered projects that are a combination of regional priorities, and also some that are sectoral and infrastructural in nature.
8. Some of the projects will set precedents for future decisions and we seek clarification from Ministers as to whether they are willing to set these precedents by supporting these projects.

Project	Issues of precedents	Recommended action
<b>Outside Scope</b>		
Russell Wharf Opuia Wharf Paihia Wharf	Funding of development and repairs of wharves at Russell, Opuia and Paihia could set precedents for central government funding of local government infrastructure.  9(2)(g)(i)	SROs have taken the view to fund in terms of their relationship to the broader regional tourism priorities including the sesetercentennial celebrations in 2019.  In addition, Northland is a high growth tourism region with a low rating base. We could share costs with local government and differentiate between resilience and remediation funding and broader strategic outcomes.

9. We are also aware that by funding feasibility studies and business cases there may be raised expectations for further funding of the end projects e.g. three waters in the Punakaiki master plan. Officials will be clear to applicants about what we can and can't fund and that any further funding decisions will be based on the completed business cases.
10. The February report to Cabinet supports investment in resilience of infrastructure and we will then develop robust criteria to deal with incentive effects for local government.
11. NZTA officials will table material for four roading projects at Monday's meeting for your consideration.

## Next steps

### Report to Cabinet on the PGF

12. 12 February, the Ministers of Finance, Transport, Economic Development and Regional Economic Development meet and consider one proposal for funding within your delegations.
13. 14 February, Economic Development (EDEV) Cabinet Committee considers an oral item to consider seven proposals that fall outside of current delegations.
14. 19 February, Cabinet confirms EDEV's recommendations.
15. 23 February, The Prime Minister and the Minister for Regional Economic Development launch the PGF in Gisborne.

### Launch of the PGF

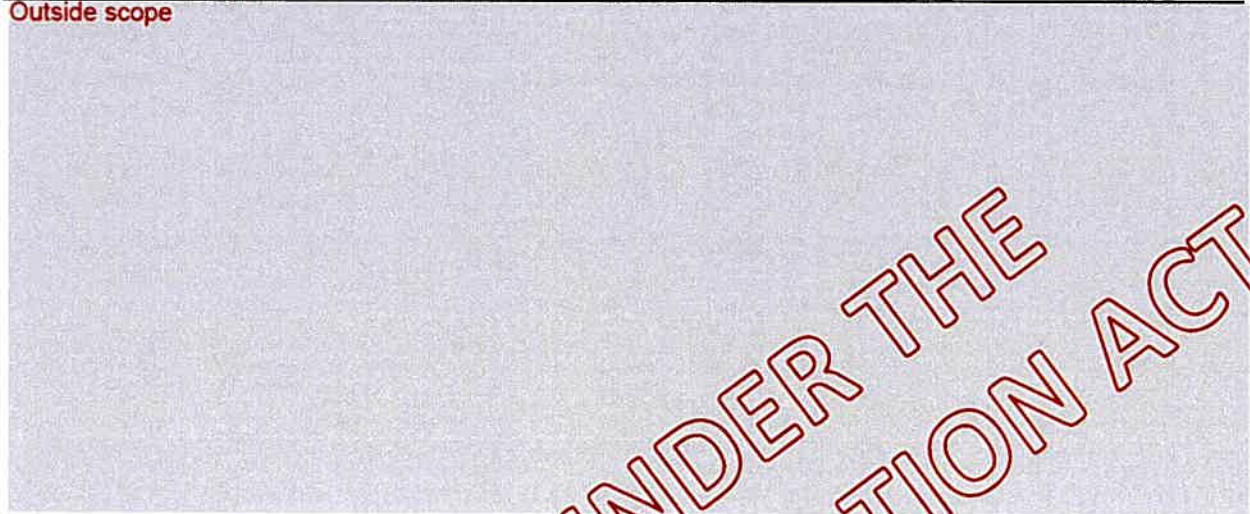
16. Announcements at the launch will include the projects that are being funded from the PGF and will include aggregate investment by all partners' i.e. private, local government and central government.

**Pipeline of projects**

- 17. Officials will continue to compile a pipeline of regional, sectoral and infrastructure projects. Some of these projects will be submitted for consideration in the current financial year while others will be considered over the coming year.

**Financial implications**

Outside scope



**RGI MYA appropriations table**

	\$m increase/(decrease)					
	2016/17	2017/18	2018/19	2019/20	2020/21 only	Total
Outside scope						

**PGF MYA appropriations table**

	\$m increase/(decrease)				Total
	2017/18	2018/19	2019/20	2020/21 only	
Outside scope					
9(2)(b)(ii)					
Outside scope					

**Annexes**

Annex one: Schedule of projects and recommended actions

Annex two: Schedule of confirmed decisions

Annex three: Summary of projects for decision

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**Annex one: Schedule of projects and recommended actions**

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**Annex two: Schedule of confirmed decisions**

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**Annex three: Summary of projects**

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## ONE PAGE ASSESSMENT OF PROJECTS

### Project

Russell Wharf, Far North Holdings Ltd

**Contact:** Andy Nock, Far North Holdings Limited, 9(2)(a)

### ***Project description – what is the project, how will it be carried out and who will benefit?***

Russell Wharf is Russell's primary connection to the rest of New Zealand, and is therefore an important piece of community and tourism infrastructure. 850,000 passengers use the wharf to access ferry services each year and the wharf is an important base for a number of commercial tourism services, which operate from there. Russell is one of the key visitor highlights of the Bay of Islands and also hosts a number of nautical events.

Part of the existing 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, whilst a wharf extension will create more visitor space and improve passenger flow for increasing visitor numbers and help to build capacity for future. Additionally, four new super-yacht moorings are to be built, along with other upgrades to sewerage and water services and other maritime services.

The project will primarily benefit the local community and tourism operators. Firstly, through greater resilience of an important piece of infrastructure (the wharf is the primary means of access to Russell) and, secondly, through catering to the growth of the tourism industry, helping to bring more tourists and jobs to the area.

### Budgets

- The total budget is 9(2)(b)(ii)
- Funding of 9(2)(b)(ii) is being provided by Far North District Council and Far North Holdings Limited.
- Crown funding of 9(2)(b)(ii) (capital) is being sought.

### Assessment

The project demonstrates a contribution to lifting the productivity of the region and has strong regional and local support. The developments are permitted as they replace existing structures. The Wharf extension and a new dinghy dock will need consent, although prior consultation work has taken place.

The project would provide more space for existing users (approximately 850,000 passengers use Russell Wharf's ferry transport and tourism services each year), replace ageing and failing infrastructure, and provide capacity for future tourism expansion. The current facilities are unsuitable for existing uses and an upgrade of facilities will help cater for the growth in the tourism sector.

## Risks

- There is some concern about the need for super-yacht berths in the region, given that such facilities are also proposed for other wharf upgrades. An assessment on the demand for super-yacht facility expansion in the Bay of Islands may need to be more forthcoming.
- There is no estimated "additionality" in tourism to validate the proposed upgrade. Initially, it will cater for the status quo.
- As Far North Holdings owns the three wharfs, there needs to be consideration on how they will maintain the wharfs ongoing. Financial sustainability will be required, as well as understanding what local business commitment is to the project i.e. what are the local tourism businesses contributing to the upgrade?

## Probity

- Who will manage the project: Far North Holdings Limited
- Costs and benefits: The cost of the project is 9(2)(b)(ii) of which 9(2)(b)(ii) funding is sought from the Crown. The benefits include increasing capacity for visitors and commercial tourism operators, allowing room for growth in these sectors.
- Non-financial benefits: Increased community space from the wharf extension and increased community utilities (for example, the dinghy docks).

## Recommendation

Agree to fund up to 9(2)(b)(ii) conditional on a further business case being obtained.

Rationale: This is the main access point to Russell from Paihia. However, more information is needed to understand what additional tourism will be achieved by upgrading this facility. There is concern that the "increased tourism" the project refers to could be a displacement of existing tourism in the region.

## Appendix - supporting documents

Business Proposal - Economic Regeneration of the Far North



## **Regional Growth Initiatives Multi Year Appropriation**

### **3b. Business Case Templates** February 2018

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## Regional Growth Initiatives Multi Year Appropriation Business Case

### Russell Wharf

Regional Lead/Applicant

Prepared by	Andy Nock, of Far North Holdings Ltd
Prepared for	MBIE
Date	08.03.2018
Version	1

Document Control

Document ID		
File name	Russell Wharf MBIE Business Case	
Version Number	Issue date	Changes/actions
1	08.02.2018	

Document sign-off

Name	Role	Sign-off date

## Checklist and other annexes

COMPLETED

Executive summary	
Strategic case	
Economic evaluation	
Project plan	
<i>Operational budget</i>	
Management plan	
Next steps	

You should also attach any supporting documents. This must include evidence of endorsement by the regional lead which will be responsible for the relevant project, and could also include letters of support from regional stakeholders, governance documents, designs/concept development, feasibility studies, economic or risk evaluations or any document which supports assumptions, measurements or judgements made in the business case. Please list these in order below, and reference each document.

	Document (title)	Purpose
1	Strategic Context	To provide an overview of how the five projects integrate within the district
2	Wharf plan & i-SITE drawings	To identify the proposed development
3	QS estimate	Provide an accurate estimation of likely tender submission based on current construction costs
4	Letters of Support	Show the support for the development as proposed
5	Statistical data and press article	Economic benefit from cruise ship passengers and actual statistical data



## EXECUTIVE SUMMARY

### Regional priority

Russell wharf was constructed in 1970 and was not designed for the commercial fleet that now operate from the wharf. Furthermore, it was not designed for the number of customers that now utilise the wharf facilities and board the charter vessels, and cruise ship tenders that operate from here. In addition, the new charter boats accessing the wharf are larger and the structure has not been designed to accommodate these boats. Furthermore, the pontoons are not ideal for berthing to, for loading and un-loading passengers. Part of the existing infrastructure is built around the original old timber piles and provides low tidal landings which are unsafe and provide low utility value.

Russell Wharf serves as the community's connection to the rest of New Zealand. The community's economy relies almost solely on the wharf to provide access to Russell for tourists. It is the most important piece of community and tourism infrastructure.

Approximately 850,000 passengers use the wharfs ferry transport and the commercial tourism services that operate from here.

A new design has been developed over a 15 month period, in consultation with the Community, Wharf Trust and the Charter Boats and Ferry's that use the wharf, that would see a value engineered solution, that upgrades the existing wharf to make it fit for purpose without any significant extensions being added to it. The i-site will be replaced with a new improved facility, providing public toilet facilities and more deck area to allow easier circulation for the increased public use of this space.

Under the Resource Consent development is permitted, where it is replacing existing structures or making minor variations to these. The current wharf extension, albert minor and dinghy dock will need consent. This has been discussed with NRC and is being processed as a restricted discretionary, non-notified application, and this will be readily obtained based on prior consultation work.

Russell Wharf is an integral part of FNDC's Long Term Plan to provide the required maritime infrastructure. Needed to service the region.

### Description of Project

Far North Holdings Limited (FNHL) are currently in the process of replacing the main commercial pontoon P5, which recently failed, and carrying out an expansion of the information kiosk and adding to this a café facility. The fuel jetty has also recently been replaced with a new fuel pontoon.

The proposed new development has been endorsed by the local Wharf and Maritime Trust and includes:

- Replacing the low tidal landings with floating concrete pontoons.
- Removing the fixed timber landing jetty and replacing this with a concrete pontoon.
- New dinghy dock.
- Wharf extension to the west to provide more visitor space and improve passenger flow.
- Jumping platform (controlled)
- Sewage and water services across the fuel pontoon.
- 4 super yacht mooring blocks.

[add more here]

### Funding required from the Provincial Growth Fund

The total estimated cost of the project is 9(2)(b)(ii) , which includes 9(2)(b)(ii) being invested by the Far North District Council and FNHL to replace the front commercial pontoon, and to redevelop the i-SITE and café building, to include public toilets and increased circulation area around the building.

The required remaining funding is 9(2)(b)(ii) , which is summarised in the table below.

Components	Contribution	Comment
TOTAL EXPENDITURE	9(2)(b)(ii)	
INCOME		
FNDC / FNHL		Funding secured.
TOTAL INCOME		
SHORTFALL		Request from the Provincial Growth Fund

#### Timeframe for the delivery of the project

Task	Timeframe
Funding secured	9(2)(b)(ii) from FNDC and 9(2)(b)(ii) from FNHL This money is approved and in place
Resource consent	Submitted and expected by 16 <sup>th</sup> March 2018
Tenders out	Tenders will be issued when Growth Funding is Confirmed. It will only take 4 weeks to compile the tender documents and issue these.
Tenders closed	If funding is confirmed by the end of March, Tenders would be issues by the end of April and close end of May.
Build commence	1 <sup>st</sup> June 2018
Project completion	20th December 2019 subject to contractor availability

[add any other notes]

#### Strategic alignment

Historical development of the wharf has been funded by Far North District Council, FNHL and the community. There is an active Wharf Trust (The Russell Wharf and Waterfront Trust) that provides support and guidance on the wharf's development and maintenance. Approximately 850,000 passengers' use the wharfs ferry transport and the commercial tourism services that operate from here. (The passenger number was the total number of the customers, as provided by the wharf users themselves) Russell is a visitor highlight in the Bay of Islands that has a rich maritime history.

The wharf allows the region to host several nautical events including:

- Coastal Classic
- Millennium Superyacht Cup
- Russell Birdman
- School swimming sports
- Several sports fishing events
- Cruise Ship tenders
- Ocean Swim

The Russell Wharf aligns with the strategic objectives of the following stakeholders:

Fullers Great Sights operate; Hole in the Rock, Cream Trip Island Excursions, Dolphin Sight Seeing, Passenger Ferry Service  
Explore operate; Hole in the Rock, Cream Trip Island Excursions, Dolphin Sight Seeing, Urapukapuka Island Trip  
Tucker Thompson Tall Ship; youth leadership and life experience voyages  
Various Commercial Charter fishing and sailing boats  
Blue and Happy Passenger Ferries  
Parasail trips  
Fuel facilities for all Bay of Islands boat users  
Kiosk Information Centre that acts as a visitor arrival centre, and will provide public toilets  
Cruise Ship Tender Pontoon for cruise ships anchoring out in the Bay  
Home of New Zealand's oldest sports fishing club "Bay of Islands Swordfish Club".

[provide list here and reason for alignment].

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## STRATEGIC CASE

### Investment objectives

<b>Project Objective One</b>	<b>ENSURE THAT RUSSELL WHARF IS A KEY PIECE OF DISTRICT INFRASTRUCTURE THAT UNDERPINS THE TOURISM ECONOMY OF NORTHLAND IS FIT FOR PURPOSE</b>
Existing arrangement	Russell wharf was constructed in 1970 and was not designed for the commercial fleet that now operate from the wharf. Furthermore, it was not designed for the number of customers that now utilise the wharf facilities and board the charter vessels, and cruise ship tenders that operate from here. In addition, the i-SITE is small and constrained so is to be redeveloped and extended providing increased local promotion, café and public toilets.
Business need/scope	<p>To achieve this objective, an upgrade of the infrastructure to meet the current demands of tourism in the region is required. As the wharf has degraded overtime, it has limited the ability for tourists to flow freely through the venue compromising safety, and affecting the experience of visitors to Russell.</p> <p>If the work was not carried out to the wharf; it would reduce the ability of wharf users to expand their businesses as the tourism economy grows in the Bay of Islands and if it fell into further disrepair and had closure of any part would then reduce the current service provided and cause economic decline.</p>
How will the project meet this need?	Russell wharf has been redesigned and reconfigured to allow wider and more customer friendly circulation and waiting areas, in addition we have created an additional number of berth faces to meet the changed needs of the modern commercial fleet that operate here and cater for the increased number of boats wishing to operate from the wharf. A new i-SITE and café will support the customers visiting Russell and provide new and improved wharf facilities.
<b>Project Objective Two</b>	<b>ENSURE THE WHARF CAN MEET THE CURRENT NEEDS OF THE MARITIME CHARTER FLEET AND PROVIDE A CUSTOMER VISITOR EXPERIENCE</b>
Existing arrangement	Russell wharf was constructed in 1970 and was not designed for the commercial fleet that now operate from the wharf. Furthermore, it was not designed for the number of customers that now utilise the wharf facilities and board the charter vessel, and cruise ship tenders that operate from here.
Business need/scope	<p>To achieve this objective, an upgrade of the infrastructure to meet the current demands of tourism in the region is required. As the wharf has degraded overtime, it has limited the ability for tourists to flow freely through the venue compromising safety, and affecting the experience of visitors to Russell.</p> <p>If the work was not carried out to the wharf; it would reduce the ability of wharf users to expand their businesses as the tourism economy grows in</p>

	the Bay of Islands and if it fell into further disrepair and had closure of any part would then reduce the current service provided and cause economic decline.
How will the project meet this need?	The new berth faces have been designed to meet the new boats that have been constructed by both, Explore Ltd and Intercity Group Ltd (Fullers). A new cruise ship tender pontoon has been proposed to provide a tender facility for the increasing number of anchoring cruise ships out in the Bay. Furthermore, additional berth space has been provided for the growing charter fleet that operate and provide a variety of experiences within the Bay.

<b>Project Objective Three</b>	<b>PROVIDE FOR A FUTURE PROOFED PAIHIA WHARF THAT WILL NOT ONLY MEET THE CURRENT NEEDS AND THAT IS ALSO DESIGNED TO ALLOW FOR FURTHER GROWTH AND HAS BEEN SPECIFIED SO IS TO MEET THE POTENTIAL CHANGING REQUIREMENTS OF THE EXISTING FLEET</b>
Existing arrangement	Russell wharf was constructed in 1970 and was not designed for the commercial fleet that now operate from the wharf. Furthermore, it was not designed for the number of customers that now utilise the wharf facilities and board the charter vessel, and cruise ship tenders that operate from here.
Business need/scope	The current project has been designed in liaison with the wharf users to ensure we meet the changing demands of a larger fleet and larger boats.
How will the project meet this need?	Additional berth faces are being provided over and above that currently required, reflecting the projected growth in demand, and in addition, the pontoons are being designed to cater for a range of vessels that berth against the pontoon face. We are ensuring pontoon height, for boarding and disembarking, gangway access etc will meet all user needs.

<b>Project Objective Four</b>	<b>TO IMPROVE THE ENVIRONMENTAL OUTCOME BY PROVIDING PUMP OUT FACILITIES</b>
Existing arrangement	None exist. Currently boats discharge at sea outside the marine pollution and regulation referenced boundaries.
Business need/scope	We are seeking to encourage no discharge at sea, wherever this maybe, by providing a local and easily accessible pump out facility.

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<p>How will the project meet this need?</p>	<p>By providing a new pump out berth which will encourage pump out rather than discharge within the Bay.</p>
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Key strategic risks

Risk	Responsible party	Risk treatment (by applicant)
Resource Consent	FNHL	Consent application has been lodged, but is only a variation to existing consents held by FNHL and is likely to be dealt with under discretionary authority. Risk is minimal.
Commercial charter users and public support	FNHL	18 months of consultation has already taken place with commercial user groups. The design reflects their input, letters of support are attached.
Project does not come with-in the QS estimate when tendered	FNHL	FNHL may need to value engineer the project, if on tender the tenders received exceed budget.
No contractor tenders for the work	FNHL	Project delayed and re-tendered later. Risk minimal. At this stage we have pre-qualified 2 contractors whom are both available and intimated they would tender for the project.

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High level objectives alignment

Stakeholder	Relevant high-level objective(s)	Explain contribution/alignment
Northland Inc	(1) Align with the Northland Economic Action Plan	Delivering to this as an identified key project.
Far North District Council	(1) Key piece of district infrastructure	By providing assurance that the wharf will exist and be bought up to a specification that will continue to underpin the tourism economy of Northland.
Northland Regional Council	(1) Environmental Protection	Providing pump out facilities to reduce marine pollution within the Bay.
Commercial users of the wharf	(1) New I-SITE & café building	New i-SITE and café will provide waiting customers premises they can wait for the ferry, get refreshments and make enquiries.
	(2) Improving customer and pedestrian circulation and berth waiting areas	A new larger deck outside the café and gangway to the ferry will provide improved customer flow and satisfaction and therefore results in increased pedestrian use on the wharf and allows further growth.
	(3) Increased number of berth facilities	Allows for further growth of the existing commercial fleet that operate from the wharf, thereby increasing investment; employment and growth of Russell and its surrounds.
Various	(1) Employment	Construction employment, and apprenticeships employed over the construction period under the three contracts, Paihia & Russell Wharf and Opuia. Commercial users; by developing Russell Wharf, the existing fleet, which has invested considerably on vessels over the past couple of years will be able to continue this growth with the result in employment by each user, and the flow on effect is then into the surrounding economy with additional persons staying at hotels, restaurants and the retail which surround and rely on the wharf for customers to stay.
	(2) Pipeline to increased employment and training	Increased tourism numbers will result in an increase in employment and training opportunities across the far north within primarily the tourism sector but with flow on to other core industries.



## ECONOMIC EVALUATION

### Cost/benefit breakdown

The Paihia and Russell wharves provide a crucial service and are arguably the two central pieces of infrastructure supporting the local economies. The two wharves work together to support the movement of people, goods and services. They facilitate visitor activity by enabling a range of marine related activities, such as charter boats, cruises and overall visitor activity.

It is important to note that the CBA considers the two wharves in tandem i.e. it does not seek to separate the costs and benefits of the two wharves and present them separately. This is because of the nature of some users i.e. both wharves are needed to deliver the services and it not practical to report on the costs and benefit separated. For example, do the benefits of a person moving between Paihia and Russell accrue to Paihia or to Russell? Similarly, which part of the investment (cost) supports the movements? The investment in Paihia wharf or the investment in Russell wharf. Therefore, the two wharves and the costs and benefits are treated as one, combined project. The CBA text is the same across the two business cases.

The current wharf infrastructure is operating at capacity and is also in need of capital re-investment. Without the needed capital reinvestment, the economic activity underpinned by the wharves is at risk. In other words, there are downside risks to not updating the infrastructure to cope with current levels of demand. It would however be amiss to not use the redevelopment activities to future proof the infrastructure to allow for the growth to be accommodated. The cost benefit analysis considers growth component relative to the current situation. This assumes that the wharves will receive some form of investment to keep them operating but this will be on a 'business as usual' basis and only to accommodate

### Key assumptions and Key findings

It is stressed that the wharves are viewed as enabling infrastructure. Visitors do not travel to Paihia and Russell to 'look at the wharves'. But they use the activities (which are based on the wharves) to enjoy the visitor products. Without the wharves the visitor offer would not be as compelling and consequently, the local visitor economy would not be as strong. Conversely, improving the wharves and their ability to service the visitor sector will enable local businesses to capitalise on the opportunities.

The cost benefit analysis is based on several key assumptions that are summarised below.

- **Capital costs:** The total cost for to improve the wharves is estimated Outside scope, 9(2)(b)(ii) broken down as follows.

	Outside scope	9(2)(b)(ii)
FNDC/FNHL		
PGF		
Costs		
TOTAL	Outside scope	

\* =Rounded

Of the expected investment, the FNDC and FNHL will contribute a quarter (25.8%) and this funding is already available from existing budgets. The balance is being sought from the PGF Outside scope, 9(2)(b)(i). The total development cost includes 9(2)(b)(ii), Outside scope for contingencies. Given that the PGF is a public finance resource, this funding is sourced from taxpayers and therefore a deadweight loss of 20% is added to this portion of the capital expenditure. With reference to the FNDC and FNHL contributions, it is

understood that the funding is already earmarked with some of it coming from FNHL and operating income and a share from FNDC. Ultimately, the Council's funding and financial revenues come from ratepayers and a deadweight cost is also added to this portion. For simplicity<sup>1</sup>, it was assumed that a new (extra) rate will be levied and therefore, the 20% deadweight loss has been added to FNDC's contribution. By adding the 20% to the capex, the cost that is used, is lifted to

9(2)(b)(i), Outside scope This lift is not related to increasing the cost to account for optimism bias. Optimism bias is reflected in the sensitivity analysis.

- **Additional activity:** providing an ability for local businesses to expand their operations in response to the growing visitor numbers (i.e. capturing and servicing the growth) is the core driver of the net additional benefits (and costs). The shift is driven by increases in the number of visitors to the region and the associated lift in money that flows into the local economy. The increase is based on the growth trend of NZ's visitor market and assuming that the investment will ensure that the Bay of Islands' share of the national visitor market remains constant. Similarly, the growth in the different types of visitors and their activities are assumed to remain constant. The basic structure of the market will remain the same with consisting of visitors to the Bay of Islands, cruise passengers and charter boat activities. The visitors spending is based on Statistics New Zealand data with refinements to reflect local conditions. It is estimated that visitors to the region spend around \$215/day<sup>2</sup> but this is lower for the cruise passengers and visitors using the charter boats (\$55 and \$110 respectively). The spending is multiplied by the additional visitors (additional growth less baseline/business as usual visitors). Based on these parameters, the spending is expected to increase by between \$400,000 and \$2.7m (y-o-y).
- **Operating and ongoing costs:** Developing the wharves and expanding them will add additional costs. The CBA is however only concerned with the costs that are 'new' or those that would not have been incurred in the absence of the investment. Clearly, there are existing costs that will be ongoing and there have been removed from the analysis. Currently, the wharves cost 9(2)(b)(ii), Outside scope to operate. This includes items such as security, maintenance and Northland Regional Council fees (but excluding depreciation). The net change in operating fees is based on the shift in passenger movements and applied to line items that are 'variable'. This approach suggests that the additional costs to operate the wharves will increase by between 9(2)(b)(i), Outside scope (in the short term) to an additional 9(2)(b)(i), Outside scope per year in response to the impacts of higher passenger movements. This cost is on the high side because the starting point (current spending) includes a high level of maintenance that will reduce if the infrastructure is renewed. In addition, the costs could be lowered through implementing cost controls but for the CBA, using a higher cost is consistent with taking a conservative approach. In addition to the mentioned operating costs, there are other costs to consider. When an economic or business activity is undertaken, resources are consumed and these resources have costs – direct and opportunity costs. The 'size' of this cost is a function of the cost structures across different economic sectors. This cost is informed by an analysis of official information published by Statistics New Zealand. Data in the Far North District Multi-Regional Input-Output model was used to refine and customise the information.
- **Baseline growth:** When undertaking a CBA, the baseline or 'without intervention' scenario forms the background against which the effects of the intervention is measured. In the context of the wharves, the principle effect of the investment is to unlock and support future growth. It is

<sup>1</sup> If the project is funded by reallocating resources away from existing projects, then the opportunity costs associated with such a move would need to be factored into the analysis.

<sup>2</sup> Including accommodation and so forth.

however unknown if the 'current capacity' and level of activity is at a point where no further growth can be accommodated. To take a conservative approach, a background growth rate of 2% is used over the short term and 1% over the medium term. This approach lowers the net (positive) effect of the investment because the baseline against which it is measured increases. The potential implications of and alternative growth rate are explored in the sensitivity analysis.

- **Timeframes and discounting:** The assessment covers the period from 2018 to 2043. The analysis uses Discounted Cash Flow (DCF) analysis to express the future cash flows in current terms (i.e. Net Present Value analysis). NZ Treasury recommends using a rate of 6% for discounting the future cashflows (costs/benefits) for infrastructure and special purpose (single-use) buildings<sup>3</sup>. The headline figures we report are estimated using a 6% discount rate. However, we have also reported the present value of cashflows at a lower (4%) and higher (8%) discount rate. This provides a range and shows the position (NPV and CBR) under different discount rates. The range is also in-line with the NZTA discount rates.

The results of the cost and benefit analysis are presented below.

**Cost/benefit breakdown**

	PREFERRED OPTION <i>Requested investment</i>	EXISTING SITUATION
Period of expected economic benefits from project (years)	In perpetuity The economic analysis looks out to 2043	Limited life, with a likelihood that the wharf will be compromised if investment is not made in the immediate future. Several berths and pontoons are nearing the end of their life and will start to fail, resulting in their removal or decommissioning.
Capital/whole of life costs	9(2)(b)(ii), Outside scope	
Cost-benefit analysis of monetary costs and benefits		
Present value of monetary benefits	9(2)(b)(ii), Outside scope The range represents the present value when using a discount rate of 8% and 4%, respectively.	n/a
Present value of costs	9(2)(b)(ii), Outside scope The range represents the present value when using a discount rate of 8% and 4%, respectively.	n/a
Net present value	9(2)(b)(ii), Outside scope The range represents the present value when using a discount rate of 8% and 4%, respectively.	n/a
Benefit/cost ratio	9(2)(b)(ii), Outside scope The range represents the present value when using a discount rate of 8% and 4%, respectively.	n/a

<sup>3</sup> <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/currentdiscountrates>

The CBA suggests that extending the wharves will deliver positive economic effects to the local economy. Over the assessment period (2018-2043), the net benefit (total benefits less total costs) will be in the order of **9(2)(b)(ii), Outside scope** in NPV terms using 6% and ranging<sup>4</sup> between **9(2)(b)(ii), Outside scope**. This suggests that the annual (average) net benefit is likely to be between **9(2)(b)(ii), Outside scope**.

With reference to the CB ratio, the analysis revealed that the CBR is between 1.31 and 1.33. All the metrics remain in positive territory if different discount rates are used. The NPV remains greater than zero, coming in between **9(2)(b)(ii), Outside scope**. Similarly, the CBR remains greater than 1 (>1) under the different discount rates. The payback period for the PGF assistance is 6 years (including the 20%DWL); this suggests that the net benefits that accrue to the economy is large enough for the PGF investment to be repaid by the end of the 6<sup>th</sup> year (i.e. by the 7<sup>th</sup> year, the cumulative benefits will outweigh the cumulative costs).

### Sensitivity analysis

The sensitivity analysis was set up in a way to assess the effects on the NPV and CBR of changing the underlying assumptions. The sensitivity analysis looks at the downside or negative position. It is not concerned with assessing the upside risk – the potential maximum benefit that the investment could unlock. Such an approach is normally helpful when lobbying, marketing or advocating for a specific outcome. This assessment seeks to understand if the investment will deliver positive economic benefits and if it will 'breakeven'. The sensitivity analysis considers the following situations:

- Higher development costs (capex +25%, in addition to the 20% deadweight loss),
- Higher operating costs (opex +25%), and
- Higher costs in the wider economy (the resources used to meet the additional activity in the local economy are 25% greater than estimated)

The effects of these changes are shown for the growth scenario as well as second low growth (pessimistic) scenario. Under the constrained scenario, only 50% of the anticipated change is included in the modelling. The following table summarises the outcomes of the sensitivity analysis.

Sensitivity Analysis									
Setting	Discount Rate	Scenario 1: Full Growth				Scenario 2: Constrained Grow			
		Benefit \$m	Costs \$m	Net \$m	CBR	Benefit \$m	Costs \$m	Net \$m	CBR
Base case	8%	<b>9(2)(b)(ii), Outside scope</b>							
	6%								
	4%								
High capex: Development costs increased by 25%	8%	<b>9(2)(b)(ii), Outside scope</b>							
	6%								
	4%								
Higher opex: Resources used to deliver the goods and services - +25%	8%	<b>9(2)(b)(ii), Outside scope</b>							
	6%								
	4%								
Higher operating cost: Resources used to deliver the goods and services - +25%	8%	<b>9(2)(b)(ii), Outside scope</b>							
	6%								
	4%								

<sup>4</sup> The ranges show the results under different discount rates.

The sensitivity analysis suggests that the net benefits of the proposed development is sensitive to encountering higher costs when delivering the goods and services associated with the visitors. However, even if these costs increase by 25% and only half of the facilitated growth materialises, the project will still return a net benefit of between 9(2)(b)(ii), Outside  
SCOPE (depending on the discount rate). With reference to the two other settings (higher opex and higher capex), both the full and constrained scenarios continue to return positive (>1) CBRs under all the sensitivities but the CBR gets close to 1.

A deeper analysis of the sensitivities, reveals that:

- The investment in the wharves needs to see growth that is only 7% higher than the baseline to return a CBR of 1. This level of growth will see the total people movements grow to 2.1m by 2043 (Compared to 2.5m under the constrained scenario).
- Using Scenario 2, the capex will need to increase five and a half times ( $\times 5.7$  or 9(2)(b)(ii),  
Outside) for the CBR to fall below 1.

The breakeven point, where the overall economic gains are greater than the PGF investment, is expected to be in 2025 under scenario 1 and two years later under the constrained growth scenario.

The sensitivity analysis suggests that the proposed development is likely to deliver positive benefits, even if the anticipated level of growth does not materialise or if the project costs are exceeded.

#### Other Considerations

The CBA assessment focuses on the additional effects of the infrastructure. It is acknowledged that investment will enable a range of other activities in the local economy, but it is not practical to translate all of the effects into monetary terms. The potential environmental benefits and the associated flow-on effects as well as the potential health and safety effects of not addressing the infrastructure issues are examples of the costs and benefits not included in this assessment. Including these effects in the CBA is likely to improve the CB ratio but it will also increase the cost side of the ledger. These are more difficult to (robustly) estimate and quantify. Examples include:

- The environmental effects of:
  - The pollution and risk associated with additional traffic through the Bay of Islands, this includes the potential costs of a collision or marine accident, e.g. the sinking of a vessel and environmental damage.
  - A lift in the number of vessels moving around the coastal area with a decrease in the amenity values (because of overcrowding).
- Further pressures on infrastructure such as the marina and related network e.g. the transport network and parking constraints. This also includes the potential effect on the towns' municipal infrastructure and ability to cope with additional people movements.
- The change in the costs to patrol the area and to provide safety services (e.g. the Coastguard's services).
- Negative impacts on perceptions and downward effects on visual and other amenity values (i.e. becoming too crowded).
- The increase in global exposure and the associated 'marketing value' with the district being viewed as a destination.

- The potential implications on the accommodation market (e.g. the growth in the AirBnB market and the need to provide additional accommodation).
- Social effects such as the potential impacts on inequality and negative impacts on local cultural considerations.
- Costs associated with managing visitors around sensitive areas (cultural or environmental).

As with all modelling, this analysis is subject to limitations. The analysis focuses on the Far North district and the relative costs and benefits to the district. It is acknowledged that the PGF costs are spread across NZ taxpayers, with only a portion of NZ's taxpayers residing in the district, and most of the benefits will be felt locally. The CBA considers only the effects of the additional spending associated a lift in the number of people visiting the area and using the wharf infrastructure. It is possible that some of this additional spending might simply be a transfer (to the Far North) from another region and therefore not new/additional to NZ. However, most of the spending used in the CBA assessment is associated with international visitors and therefore, the within-NZ transfers are likely to be small to moderate.

The potential to develop synergies with other projects and the interplays with other projects, have not been assessed. The potential direction of such interplays could be either positive or negative, depending on the effect. If the different projects support each other and for example, lead to visitors spending longer time and more money locally, then the effects will be greater. If the different projects capture the same spending and reduce the overall spending, then the effects will dilute the overall net effects. Intuitively, the different projects are likely to complement each other, with synergies between them and therefore creating additional benefits.

The wharves provide a vital link that the Russell community uses to interact and engage with Paihia and the rest of NZ. Improving these linkages will have other economic effects and impacts. The CBA did not consider the potential implications (and costs) of improving the resilience of these linkages. Further, it does not consider the benefit of avoiding infrastructure outages. If the main objective of the investment is to improve resilience, then there could be an alternative (less cost) way of delivering resilience outcomes. A simple way to illustrate the potential size of the outage is to consider the potential cost (i.e. lost visitor activity) if no services are provided. The information in the CBA suggests that a two-month outage could cost the economy between \$6m-\$10m in lost sales<sup>5</sup>.

In terms of the employment effects, the additional activity will support employment opportunities throughout the district and region. The analysis suggests that, once the full growth has been achieved, the visitor spending will support 115 and 235 jobs in the visitor sectors<sup>6</sup> (per year) in the economy<sup>7</sup>. Some positions will be filled by people moving to higher paying opportunities and some of the opportunities will be new hires. There are many factors to consider when attempting to account for the costs (direct and opportunity) associated with the labour market effects. For example, some individuals might move into employment and reduce the reliance on social welfare. Further, there might be a mismatch in the skillset that are available and those needed by the growth. Northland has relatively high levels of unemployment

<sup>5</sup> This is indicatively only and ignores aspects such a seasonality, the alternative ways to operate (undertake business) and the costs to rebuild and associated delays, the effects of poor market perceptions (i.e. that the location is 'closed for business') and any transition/management efforts.

<sup>6</sup> E.g. accommodation, retail spending, food and beverage services.

<sup>7</sup> This is the employment supported by the additional spending. This figure is not in any way related to an economic impact, multiplier or similar analysis.

and so it can be expected that a portion of the jobs will be 'new hires'. This does not suggest that the opportunity cost of labour is zero. While important, it is not possible to put a firm estimate on the opportunity costs of labour, but for this project, it is not expected to alter the conclusions.

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## PROJECT PLAN

<b>Outline the procurement process used/to be followed</b>
Contract to be tendered NZS3910.
<b>Outline the key project requirements, used/to be used in procurement</b>
A tender to be placed to the open market and a normal tender procedure would follow. An analysis of the tender will be made in terms of: contractor, availability, price, quality etc. FNHL will provide full project management services, act as engineer to the contract and will ensure contractor payment certificates are validated throughout the process to ensure both, security, accountability and delivery of the contract on budget and time.

### Project timeline

DATE	Project milestone	Associated payment	Evidence/reporting required
08/02/2018	Building Consent / Resource Consent Submitted		
30/04/2018	Building Consent / Resource Consent received & construction contract awarded		
31/05/2018	Tender Awarded		
20/12/2018	Completion date		

### Key project risks

Risk	Responsible party	Risk treatment (by applicant)
Variations to Contract	FNHL	No variations are envisaged. The contract will be prescriptive, and a fixed price contract will be sought.
Weather	FNHL	Unavoidable, whilst this may delay the delivery date of the contract, this should not increase the value of the contract unless the bad weather days exceed the time allowed for within the final agreed construction contract that has been executed.
If the summer trading season is impacted because of the contractor not being available for the programmed development period then the construction contract may need to be split over two	FNHL	Contract management by Far North Holdings Limited.



seasons.		
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Operating budget

Applicant and project name					
Preferred option	Year 0	Year 1	Year ...	...	Total
<u>Expenditure</u>	9(2)(b)(ii)				
<u>Capital expenditure</u>					
<u>Contingency</u>					
TOTAL					
<u>Operating expenditure</u>					
TOTAL					
<u>Co-funding secured source</u>					
TOTAL					
Capital funding required					
Operating funding required					
Funding shortfall (if any)					

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## MANAGEMENT PLAN

Far North Holdings Limited is the Far North District Council's commercial infrastructure company. Far North Holdings Limited involvement reflects the commitment of the Far North District Council to supporting the development of his part of the district.

Far North Holdings Limited will provide project management, value engineer the project through the development cycle and acting as engineer to the contract.

FNDC are transferring the Russell Wharf to FNHL for \$1. The Wharf will then be held by FNHL in perpetuity. FNHL have an MOU with the Wharf Trust, as the community representative, and work closely with them in respect of any maintenance or capital work, and have done so for the past several years.

FNHL are Certified International Port Security Accredited.

The only two risks to the project are;

- (1) The work when tendered comes in over the QS estimate or because of existing work load we do not receive any tenders.
- (2) That FNDC elect not to transfer the Wharf to FNHL for \$1. FNHL currently operate under a lease. A formal transfer process is underway, the transfer has full Community and Wharf Trust support but has not yet been formally ratified at Full Council. But even if it has not been formally transferred at this date it does not stop the work proceeding, but should be noted.

## NEXT STEPS

If funding is approved, Consent will be finalised, and tenders sought.

FNHL will work with central government on joint messaging for any announcement of this project, as previously.