

Fisheries New Zealand

Tini a Tangaroa

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Proposed transition support for permit holders and licensed fish receivers impacted by new measures to protect Hector's and Māui dolphins

Purpose:

This paper outlines key considerations for you to assess when evaluating different options for the provision of transitional support to permit holders and licensed fish receivers that are impacted by new fisheries measures you propose to put in place to protect. Hector's and Māui dolphins.

Minister	Action Required:	Minister's Deadline
Minister of Fisheries	Note and agree to the recommendations contained in the briefing.	As soon as possible.

Comments:

We recognise that the recommendations and advice included in this briefing are complex and multifaceted. We recommend you meet with Officials to discuss the paper to support your decision-making.

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Contact for telephone discussion (if required)

*	Name	Position	Work	Mobile
Responsible Director	Emma Taylor	Director Fisheries Management	-	s 9(2)(a)
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Key Messages

- 1. You directed us to develop a transition package to support the fishers (permit holders) and licensed fish receivers (LFRs) significantly affected by the proposed fisheries measures to further protect Hector's and Māui dolphins as part of the revised Threat Management Plan (refer B20-0117). The Cabinet paper (Sub19-0131) currently asks for a \$7.1 million transition package, and seeks Cabinet agreement to authorise you and the Minister of Finance to agree to the means for delivering that transitional support.
- 2. This paper seeks your direction on policy and operational issues and options related to the transition scheme. We will then reflect that direction in a briefing paper for you to discuss with the Minister of Finance.
- 3. The transition support package is targeted to those permit holders and licensed fish receivers (LFRs) that have a history of investment, commitment or dependence on the fishery in the areas impacted by the proposed measures, and will assist them to either transition to dolphin friendly fishing methods where ever possible, or support their exit from the industry.
- 4. The key decisions needed to finalise the transition design include:
 - a. Scope: We recommend the design is applied to significantly affected operators in both the Māui and Hector's dolphin areas, including the further South Island measures proposed to be consulted on later this year.
 - b. Affected parties: We recommend the design is applied to both significantly affected fishers and LFRs, but that an adjustment scaler (reduction factor) be applied to any LFR support in recognition of the fact they do not pay for fish that is not caught, they typically have less sunk capital than fishers, and they can, in principle, source fish from other permit holders.
 - c. *Type of payment*. We recommend that eligible parties are provided their choice of either a one-off ex gratia payment, or payments that are specific to transition to more dolphin-friendly fishing operations for those that want to continue to operate.
 - d. Size of payments: Estimated payments are scaled to first fit within the overall budget fund you are seeking. We note there is a choice on whether any payments are capped, and at what level. We recommend that relatively more funds are made available to eligible parties that wish to transition to sustainable fishing practices than those who wish to exit the industry.
- 5. Delivery of a transition support scheme by 1 October 2020, when the measures in the Cabinet paper are proposed to take effect, has been a key driver of our recommendations on the options presented in this briefing.

Recommendations

- 6. Fisheries New Zealand recommends that you:
 - a) Agree that a transition support scheme should provide support to impacted fishers from the Hector's and Māui dolphin Threat Management Plan, including the further South Island measures to be consulted on, regardless of whether they will exit the industry or wish to transition to dolphin-friendly methods to remain in the industry.

Agreed / Not Agreed

b) Agree that both permit holders and licensed fish receivers (LFRs) should be eligible for consideration within a transition support scheme.

Agreed / Not Agreed

c) **Agree** that fishers and LFRs who meet a 10% impact threshold be eligible for a business advice grant (up to \$5K) under the scheme.

Agreed / Not Agreed

d) **Agree** that fishers and LFRs who meet a 20% impact threshold be eligible for an ex gratia payment under the scheme.

Agreed / Not Agreed

- e) Agree to ONE of the following options for the provision of ex gratia payments:
 - <u>Option 1</u> scheme design to dispense a one-off ex gratia payment to significantly impacted permit holders and LFRs, scaled relative to impact, regardless of whether they chose to exit the industry;

Agreed / Not Agreed

Option 2 scheme design to dispense an ex gratia payment to significantly impacted permit holders only, to specifically offset Ctransition costs to shift to alternative sustainable (dolphin-friendly) fishing practices, which is not a pathway available to LFRs;

Agreed / Not Agreed

• <u>Option 3</u> scheme design that is a combination of Option 1 and 2, applies to both permit holders and LFRS, and makes more funds available to significantly impacted permit holders who wish to transition to sustainable fishing practices than those who wish to exit the industry.

Agreed / Not Agreed

Agree that any ex gratia payment payable to LFRs is reduced by 30% of f) the amount that would be calculated for a fishing permit holder to recognise that LFRs do not pay for fish that is not caught, they typically have less sunk capital than fishers, and they can, in principle, source fish from other permit holders.

Agreed / Not Agreed

Agreed Not Agreed

Agree that the chosen option becomes operational on the day of g) announcement of measures or as soon afterwards as possible, and that fishers should be able to access support from the day after measures become effective (currently proposed to take effect on 1 October 2020) for those in the cabinet paper Sub19-0131; timing the for the further South Island measures to be consulted on).

Agi Normation Released under the Official Information s 9(2)(a) Hon Stuart Nash Minister of Fisheries / 2020 1

Background

- 7. You have determined that further fisheries measures are necessary to protect Hector's and Māui dolphins, but also recognise that the measures are precautionary, and give a strong weighting to sustainability over utilisation. This is consistent with your ability and desire to manage the impacts of fishing on protected species differently from those on a harvested fish stock.
- 8. While you are under no obligation to compensate fishers for implementing a sustainability measures (s308 of the Fisheries Act 1996), you have directed us to develop a transition package to support significantly impacted fishers (permit holders) and licensed fish receivers (LFRs) to either transition to dolphic friendly fishing methods where ever possible, or support their exit of the industry.
- 9. There is a relatively small group of permit holders and LFRs that are significantly impacted by the measures proposed. Permit holders who use trawl and set-net methods would be directly affected by the prohibition on these methods. Licensed fish receivers who receive fish from these permit holders would be indirectly affected.
- 10. Some local fishermen who are owner-operators, have large capital investments in longstanding fishing operations, and support local communities through spending and employment, will no longer be able to operate. This results in relatively large sunk costs for the affected fishers. Neither selling these assets to recuperate losses, nor utilising them to make a living, is likely to be viable.
- 11. The measures proposed will result in one or more of the following costs to the affected parties (**Table 1**):
 - a. loss of sunk costs (eg, investment and operational decisions already made, particularly related to vessels, processing plants and ACE);
 - b. loss of future earning capacity (eg, lower yield fishing and/or reduced supply of fish for processing);
 - c. transition costs (eg, longer fishing expeditions, new gear and methods and crew training); or
 - d. adverse impact on broader wellbeing (eg, livelihood and way of life).

 Table 1: Summary of the potential impacts on permit holders and licensed fish receivers from further restrictions on set-net and trawl.

Cost category	Cost type	Commercial fishers (permit holders)	Licensed fish receivers
Sunk costs (fixed costs)	Vessels (including gear)	Trawl & set-net	n/a
	Plant	n/a	Underutilised plant capacity (dependent on exposure to area) Quota value closely linked to licensed fish receiver business model
	Contracts (already entered into)	Wharf docking arrangements, ACE packages	Distribution arrangements
Foreseeable loss (revenue)	Income/Profit	Less productive fishing methods Reduced ability or inability to fish with current gear	Less fish being processed
Transition costs (operational)	Transition to another area	Longer fishing trips – extra fuel and crew costs Crew lay-off costs borne by business	Staff lay-off costs borne by business
	Transition to non- prohibited practice	Gear, methods & training (longline estimated at approx. \$75,000-150,000 per vessel that is able to be converted) Purchase of alternative Annual Catch Entitlement packages (that may not be easily obtained or are already fully prescribed)	Staff lay-off costs borne by business
Broader wellbeing (non- monetised)	Social & cultural	Loss of livelihood/identity Wellbeing impact of TMP process (stress)	Loss of livelihood/identity Wellbeing impact of TMP process (stress)

Purpose

The purpose of the transition support scheme drives the scheme outcomes and design. We propose the purpose of the scheme is to:

"support local fishermen (permit holders) that rely on annual catch entitlement (ACE) holdings, and LFRs, who have a history of investment, commitment or dependence on the fishery in the areas impacted by the proposed measures to either transition to dolphin friendly fishing methods where ever possible or exit the industry if they need to".

Policy issues

- 13. To achieve the purpose outlined above we consider any potential scheme design should ensure that any financial support:
 - a. targets only those significantly and adversely impacted;
 - b. minimises the risk of gaming;
 - c. considers the need to be fair and reasonable;
 - d. considers the ability of Government to pay;
 - e. avoids, as much as possible, setting precedents or expectations about future ex gratia payments; and
 - f. s 6(a)
- 14. To support fisher welfare and enable those who can to transition without delay, the scheme should be in place by 1 October 2020, when fisheries measures are due to be implemented.
- 15. These key objectives are interdependent. Achieving one can impact on the effectiveness of the scheme in achieving others. The ideal scheme design is one that balances these different objectives in a way that you consider most appropriate.

Precedent risk

16. The Fisheries Act (s.308) protects the Crown from claims for compensation when implementing sustainability measures. The Quota Management System is designed so that fishers receive the benefits from sustainable harvesting and face the costs if measures to ensure sustainability need to be implemented or adjusted. These incentives are designed to encourage a long term view of the use and management of fisheries resources.

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Scope of scheme

Māui and/or Hector's dolphin areas

- 19. The need to reduce the level of fisheries mortality to Māui dolphin to effectively zero to meet the Threat Management Plan fisheries objectives is unprecedented.
- 20. There are over 15,000 Hector's dolphins. The measures necessary to achieve the desired outcomes for these dolphins are less extensive but some necessary measures, such as prohibiting the use of set-nets, are likely to have similarly severe consequences for the livelihoods of some fishers. Therefore we recommend the transition scheme apply to those significantly impacted by measures to protect Māui dolphins and Hector's dolphins.
- 21. Further consultation on fisheries measures for Hector's dolphins is proposed. These measures include additional set-net closures, as well as proposals to allow fishers to continue trawl fishing while reducing risk to the dolphins. Some fishers may become significantly impacted as a result of implementing these measures. We recommend these fishers are covered by the scheme (further funding may need to be sought to ensure this is possible).

Transition versus mitigating socioeconomic impact

- 22. Officials consider the transition scheme should encourage significantly impacted commercial fishers and LFRs to remain in the industry and support fishers to transition to more dolphin friendly methods. The scheme design could focus solely on those permit holders that wanted to transition to provide the greatest incentive for them to do so.
- 23. However, we also know that some significantly impacted operators will face much greater challenges in identifying a realistic means to transition to a dolphin-safe method, or source catch from alternative fishers, and may need to exit the sector altogether (**Appendix One**). Given it may not be financially viable or feasible for many fishers to transition, we consider the scheme design could also provide support to those fishers and to LFRs.



Inclusion of LFRs

- 26. We estimate there are s 9(2)(b)(ii) that will be significantly impacted by the reduction in fish supply as a result of the measures. However, LFRs in general have a greater ability to adapt to changes resulting from sustainability measures compared to permit holders.
- 27. s 9(2)(b)(ii) will be unviable even if financial support is offered for permit holders to transition to alternative practices. s 9(2)(b)(ii)

not anticipate these trawl vessels would be able to successfully transition given vessel size and configuration. s 9(2)(b)(ii)

- 28. Under a scheme design that focuses solely on providing support for transition (and does not include any payment to mitgiate socioeconomic impact), LFRs would not be eligible for a payment.
- 29. Under a scheme design which includes a one-off payment to mitigate socioeconomic impact, Fisheries NZ recommends that LFRs should be included as eligible for a payment. However, we recommend that any payment made to LFRs would not made at the same level as would be calculated for a fisher, to reflect the difference in cost structure and adaptability as noted above. The reduction factor chosen s 9(2)(g)(i) We have examined the impacts of applying a reduction factor of 50% and 30% to any LFR payment.

Eligibility

- 30. Limiting the number of people eligible to receive support can also act to reduce expectation and precedent.
- 31. To determine eligibility for the transition support package, a scheme eligibility design has been developed that:
 - a. is simple;
 - b. takes into account inter-annual variability in catch; and

considers the value of catch to a fisher/LFRs operations.

32 Different thresholds for eligibility are possible, as well as different assessment periods. Two impact thresholds are proposed: 10% and 20%. The lower threshold would include the majority of permit holders and LFRs impacted by the measures. Those that meet this criteria would be eligible to receive up to \$5000 reimbursement of business advice services. This advice is intended to help the fisher determine the impact of the measures on their overall business and how best to mitigate that impact. The 20% threshold is intended to define those significantly impacted. We propose that permit holders and LFRs that are impacted above the 20% level would be eligible for an ex gratia payment.

We do

- 33. The percentage impact of the measures on a permit holder and LFRs is proposed to be calculated based on catch from areas to be closed to the specified catch methods (trawl and set-net), and weighted based on the relative value of species. We propose that both LFR and permit holder impact is calculated in the same way for simplicity reasons.
- 34. A twelve consecutive month period of catch is proposed to be based on their individual highest value-weighted impact above the thresholds across the 2016/17, 2017/18 and 2018/19 October fishing years. Additionally, the permit holder must have taken at least 1 tonne of greenweight catch from inside the closure boundary within those fishing years, and have fished from October 2018 to May 2020. This approach makes some provision for between-year catch level fluctuations and is an approach previously used for allocating quota based on provisional catch history.
- 35. s 9(2)(b)(ii) Type of financial assistance
- 36. It is proposed to enable significantly impacted permit holders to choose either to take a one-off ex gratia payment or financial support specific to transition to non-prohibited fishing methods in the same area (**Table 2**).

Table 2: Ex gratia payment scenarios

	Scenario One	Scenario Two
	Permit holders one-off payment	Permit holders supported to transition vessel to non- prohibited practice
	The ex gratia payment would be a one-off payment related to the extent of impact on the permit holder of the proposed	Transition costs would be related to changing methods (new gear and training crew). This cost could potentially be offset by broader benefits attached to licensed fish receivers being able to continue to operate in the impacted area.
?	sustainability measures. They could use the payment as they see fit, whether that be to fund transition of their fishing operation or to exit the industry altogether.	An offer of an ex gratia payment for transition costs under Scenario Two would not include the replacement cost of a vessel or subsidising the cost of fishing. For the latter, care would need to be taken to ensure it is consistent with the New Zealand's commitments under the United Nations Sustainability Development Goals. ¹
		The terms of accepting an ex gratia payment should indicate that no other recourse would be available to the impacted party in the future if new fishing methods or practices are not commercially viable in the impacted area in the long term.

¹ Sustainability Development Goal 14.6 aims to "prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, and eliminate subsidies that contribute to Illegal, Unreported and Unregulated fishing (IUU) fishing, and refrain from introducing new such subsidies..." by 2020 (<u>https://sustainabledevelopment.un.org/sdg14).</u>

38. s 6(a)

37. Note that within any scheme design the payments are first scaled to fit within the overall size of the transition support budget (i.e. \$7.1 million), and are relative to other eligible parties.

39.	In its simplest form a one-off non-targeted ex gratia payment could be used by a fisher to exit the fishing sector or transition to another more dolphin friendlyfishing method at their discretion.
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- Options for scheme design
- 43. There are three main scheme design options for delivering transition support, and our assessment of their delivery of the overarching objectives of the transition support scheme is summarised in **Table 3**.
- 44 Option 1: Provide an ex gratia payment to significantly impacted permit holders and LFRs, scaled relative to impact. This:
 - a. does not differentiate between those who may transition or exit the fishery;
 - allows funds to be provided to significantly impacted LFRs, to help them adjust to a potential loss of catch and the effect this might have on their business;
 - c. provides a simple approach with a s 9(2)(g)(i) and
 - d. carries a higher precedent risk compared to Option 2.

- 45. **Option 2:** Provide an ex gratia payment to significantly impacted permit holders to transition to alternative sustainable (dolphin-friendly) fishing practices (e.g., fund goods and services required to transition up to capped amount, such as new gear, boat modifications, crew training etc.). This:
 - a. focusses entirely on providing support for permit holders to transition to alternative fishing methods;
 - b. does not provide any support to LFRs;
 - c. carries the lowest precedent risk;
 - d. is more complicated and costly to administer and vessel and gear conversions would be highly unlikely to be completed before proposed implementation of the new regulations on 1 October 2020, and
 - e. s 9(2)(g)(i), s 6(a)
- 46. We also note that transition may not be a viable option for many significantly impacted permit holders due to factors beyond their control.
 - a. the very high financial cost (e.g., purchasing a new boat) that wouldn't be completely offset by this funding;
 - b. limited ACE or quota availability (and associated costs); and/or
 - c. limited market opportunities.
- 47. Therefore this model may not provide meaningful support to many fishers, and may be considered inequitable.
- 48. **Option 3**: A combination of Option 1 and 2, with more funds available to permit holders who wish to transition than those who wish to have the greater flexibility of a one-off ex gratia payment. This:
 - a. allows some level of financial assistance to be delivered to all significantly impacted permit holders and LFRs;
 - b. incentivises transition to more dolphin-friendly fishing methods;
 - c. directs a greater proportion of funds to targeted payments for permit holders to transition;
 - d. lower precedent risk than Option 1, but more than Option 2; and
 - e. s 9(2)(g)(i), s 6(a)

49. These models are outlined in Figures 1 and 2 (Appendix Two).

- 50. A cap to ex gratia payments could be applied under any of these options. Setting caps provides a mechanism for you to determine the maximum amount of financial support you consider reasonable either as a one-off payment or a payment specific to transition goods or services.
- 51. s 9(2)(g)(i)

They would also provide some certainty to applicants about fund allocation and helps to ensure a degree of equity in payments between those eligible.

- 52. The caps represent the maximum funding amount available to an individual and payments would be still scaled relative to impact (ie., the greater the impact to an individual, the larger the payment, up to the maximum cap).
- 53. Example caps have been applied to Option 3 as follows:
 - a. One-off payment (not dependent on individual undergoing transition) capped at fund \$100,000; and
 - b. Transition payment (only available to permit holders who want to transition) capped at \$300,000.
- 54. The cap for transition payments reflects a reasonable level of support for transition. It is not intended to cover the full cost (noting that this cost will vary considerably between individuals). The cap for the one-off payment is arbitrary and has been set at a lower level relative to transition to encourage fishers to stay in the industry where possible.

 Table 3. Assessment of each scheme design relative to the key transition support objectives.

 PH = permit holder.

Option 1	Option 2	Option 3
v sić	PHs would need to make decisions on how to transition within 2 months of announcement.	✓ PHs would need to make decisions on how to transition within 2 months of announcement.
Moderate risk	✓ Low risk	Low – moderate risk
erti	x	Partially
		PHs would need to make decisions on how to transition within 2 months of announcement. Moderate risk

Analysis of options

- 55. The key benefit of Option 1 is that it is simple to understand, administer and deliver, s 9(2)(g)(i)
- 56. The key cost of Option 1 is that it does not specifically incentivise transition to dolphin-friendly methods. Fishers are not accountable for how the money is spent. The amount of money each fisher would receive is scaled by the cost of impact as calculated under the threshold criteria rather than cost of transition or exit. If the funding was not capped² at an individual level, the most impacted fisher could receive s 9(2)(b)(ii)
- 57. Fisheries New Zealand does not recommend progressing with Option 2, as we consider some level of support should be provided to impacted fishers and LFRs regardless of whether they will exit the industry or wish to transition to dolphin-friendly methods to remain in the industry.
- 58. Option 3 addresses the concerns associated with Option 1 by placing greater weight on transition, while still providing some support to all impacted fishers. Under this option fishers could have more funds spent on them (albeit not directly) to support their transition than if they exit the fishery. Example funding caps are included in Figure 1, which represents what we consider feasible within the proposed \$7.1 million budget request.
- 59. There is also strong accountability around spending under this option as money for transition would be paid for eligible goods and services only. The detailed mechanism for payment under this option is still being developed, and would most likely rely on fishers providing quotes for goods and services which are paid directly by MPI on delivery.
- 60. The weakness of Option 3 is that transition may not be a valid option for some fishers, even with government support, and the level of support will likely be insufficient to cover the cost of transition. The cost of this option is that it is more administratively costly for Fisheries NZ/MPI and fishers in terms of receiving and paying out of quotes for goods and services eligible under the scheme.
- 61. An example of how Option 1 versus Option 3 may impact on an individual operator's payment is shown in **Table 4**. A full breakdown of the allocations under the transition fund options can be found in **Appendix Three**.

² Assumes the \$7.1 million proposed transition package (minus administrative costs) is dispensed to eligible parties in full.

s 9(2)(b)(ii)

Timing of delivery

- Act A082 62. A key consideration in scheme design is when the scheme will be active and when funds need to be made available. The more complex a scheme the more time it takes to administer and the longer it can take for payments to be received by those eligible.
- 63. Fisheries New Zealand consider that the scheme should be available for fishers when the appouncement of decisions is made, and that fishers should be able to access support from the day measures become effective (currently proposed to take effect on 1 October 2020).
- 64. Ability to apply for the scheme on the day the measures are announced, or shortly thereafter, would provide fishers with certainty about what support is available for their business in what will be a stressful period.

65. Access to funds when measures become effective means that fishers can have financial support to transition or exit the industry on the day their income is impacted by the measures. s 9(2)(g)(i)

- 66. However, the proposed timings create significant constraints to scheme design and operation. Alternative scheme designs (other than those discussed in this paper) could allow Fisheries New Zealand to work directly with fishers on their transition requirements and design a scheme accordingly or work with fishers to develop a transition business case with appropriate milestones. However, we note that working more closely with individual fishers to understand and address where possible their specific circumstances also increases the risk of inequities between fishers s 9(2)(g)(i) and also administratively expensive and slow processes.
- 67. On balance we consider the benefits to fishers of having certainty about support available to them both at announcement of decisions and implementation of measures outweighs any potential constraints to scheme design.

Appendix One: Transition Opportunities and Limitations

- 1. In the North Island, given the size and configuration of the vessels involved, the most suitable dolphin-friendly fishing method able to be used by the impacted fleet would be longlining.
- 2. Longline typically results in a lower volume of fish caught per fishing event when compared to trawl, and to a lesser extent set-net, higher operating costs (bait, and replacement hooks and line), and additional crew needed for this fishing method. The factors may all impact upon the profitability of longline as an alternative method.
- 3. Potting or fish traps is another method that could be suitable for some North Island and South Island fishers and vessels, although this method is not commonly used for the species regularly targeted with set-nets offshore, and so its effectiveness is unknown. The vessel refit costs of transitioning to potting would likely be less than a transition to longline, and not require additional crew. Some set-net operators may therefore transition to trawl instead.
- 4. At this stage trawling will continue in the South Island where only set-net measures are proposed. Subject to further consultation, if future restrictions are placed on trawl (e.g. low headline height and trawl speed) there will be further impacts on a fisher's ability to adapt. We estimate that the majority of the smaller trawl vessels (<10 metres) with smaller trawl gear setup would able to adapt their fishing practices to remain viable. Larger trawl vessels may be able to transition to a lower headline height, but it is likely that their trawl gear will be ineffective trawling at a lower speed. An alternative for larger trawl vessels may be to transition into deeper waters outside of any gear restriction area, but this will likely impact on their operating costs.</p>
- 5. The ability of many permit holders to successfully transition to alternative sustainable (dolphin friendly) fishing methods will be limited by a variety of factors, such as size and age of vessel, costs of operations, and annual catch entitlement availability for the mix of species caught with a new method.
- 6. Any possible reduction in catch volume due to a change in fishing method may be offset by the increased price received for fish caught by longline or pot for example. However, profitability would also be impacted by number of days able to be fished (due to weather conditions), which is likely to be fewer when using a method such as longline in comparison to set-net.
- 7. Encouraging fishers to shift their effort, or change methods, will affect fishers' catch profiles. It is more difficult for fishers to avoid snapper when using longline for example and could lead to fishers facing greater pressures to avoid catching "choke" stocks, such as SNA 8 off the west coast North Island.
- 8. Therefore, it is likely that a number of permit holders will choose, or have no other option but, to exit the fishing sector.

Appendix Two: Figures

Figure 1: Possible funding options 1 and 2.



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Figure 2: Combined funding model, representative of Option 3.



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s 9(2)(b)(ii)

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