

## COVER SHEET

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| <h3>4.2 Water Storage – Principles paper</h3>   | <h3>Noting</h3>  |
| <p><b>Background &amp; context:</b></p>   | <p><b>Recommendation(s):</b></p>   |
| <p>Ministers have identified three areas as priorities for investment in 2018, to support subsequent sector investments in the later years of the Provincial Growth Fund. These include water storage, digital connectivity, and training and development.</p> <p>Water storage is a key infrastructure for enabling the development of productive land. Water storage facilities will enable some regions to unlock sustainable long term productive outcomes and jobs.</p> <p>Beyond lifting the productivity of the regions, the Government has parallel objectives for water storage projects: improving environmental outcomes, building community resilience in the face of the physical and economic impacts of climate change, and supporting Maori achievement of higher returns from their land.</p> <p>The Provincial Development Unit (PDU) and the Ministry for Primary Industries (MPI) are working together to proactively identify opportunities around water storage, that meet the Government’s objectives in surge regions in particular. This includes immediate investments in water storage projects, as well as contributing to assessments of surge regions’ longer term water storage needs.</p> <p>Parallel to this, consideration will be given to those potential projects that come through the standard PGF Expressions of Interest and applications process.</p> | <p>We recommend that the IAP:</p> <ul style="list-style-type: none"> <li>a) <b>Discuss</b> the attached note on PGF Water Storage – sustainable productivity enhancements.</li> <li>b) <b>Note</b> that the PDU and MPI are working together to proactively identify opportunities around water storage in the surge regions.</li> </ul> |
| <p style="text-align: center;">Commercial Information</p>   | <p style="text-align: center;">Commercial Information</p>  |
| <p>To this end, the next steps are for the PDU and MPI to meet with stakeholders with an interest in water storage. This includes local government, communities and sector representatives across the regions. Pending these engagements, the PDU and MPI will work with these stakeholders towards shaping detailed proposals</p>  |  |

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| <p>for water storage projects that would utilise PGF funds.<br/>Priority would be given to those water storage projects in surge regions that meet the Government's above objectives around water.</p> |   |
| <p>The purpose of this discussion is to:</p>   |   |
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| <b>Supporting proposal:</b>  |   |
| <b>Appendices:</b>   | PGF Water Storage – sustainable productivity enhancements |
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## 4.2 PGF Water Storage – sustainable productivity enhancements (near final draft)

Water storage is a key infrastructure for enabling the development of productive land. Historically, some areas have had better access to reliable sources of water than others and so have been able to derive stronger economic returns from their land. Water storage facilities will enable some regions to unlock sustainable long term productive outcomes and jobs.

Further to this, and of particular interest, are catchments where resource consents are fully or nearly fully allocated and where Maori have lower levels of access to water and undeveloped land. A comparison of Kerikeri and Kaikohe illustrates the issues, where differences in levels of water storage and Maori ownership of land drive very different land prices and returns around the two towns.

### Key considerations in investing in water storage

Beyond regional economic outcomes, the Government has the following objectives for water:

- improving environmental outcomes (e.g. water storage, biodiversity)
- helping communities prepare for the physical and economic impacts of climate change
- supporting Maori achievement of higher returns from their land

These impact on the nature of water storage solutions that the Government will invest in. Water storage proposals seeking funding from the PGF will need to demonstrate how they address these considerations while lifting the productivity potential of the regions. To date, Ministers have articulated the following expectations for water storage:

#### *Economic*

- Water storage will strengthen regional economies by shifting land use to higher value, sustainable uses.
- Water storage will address disparities in Maori access to water for land development.

#### *Community*

- Small scale community level projects will be supported rather than mega irrigation schemes.
- There must be public benefit from government funding of projects.
- Projects will involve stronger partnerships at the local level, including regional councils.
- CIIL's programme of work will not be progressed, although communities that were involved in CIIL initiatives can submit PGF proposals that align with this Government's objectives.

#### *Environmental*

- Water storage proposals should demonstrate that they will support land use that does not increase, and ideally reverses, negative impacts on water quality.
- Proposals should maintain the health of waterways.
- Water storage will not be used to increase the intensity of ruminant agriculture in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.
- Water storage proposals should incorporate activities that improve water quality e.g. activities that improve e-coli levels and ecological health, restoration and protection projects such as improvements in wetlands, riverbanks, biodiversity activities, soil health and sediment control.

**Climate change**

- Proposals should contribute to a just transition to a low emissions economy.
- Proposals should demonstrate that they will support land use that does not increase, and ideally decreases greenhouse gas emissions.
- Proposals should consider the potential to contribute to community resilience to climate change. Strengthening municipal water supply is not an objective of PGF funding. However, the PGF will work with councils to include municipal supply as a component of wider water storage initiatives, if it enables councils to contribute more to regional water management.

**Approach to investing in water management**

The PGF will invest in water storage solutions that meet the above Government objectives. This means:

- **Confidential advice to Government**  

The Government is committed to stopping the damage to rivers and over time reversing the damage that has been done. Proposals to the PGF will support this.
- **Size of investments:** The Government does not support mega irrigation projects. It does support micro level (i.e. that cover single or a small number of farms), small scale and medium scale projects. Beyond this, the Government is not categorical about the maximum acceptable size of a project (below the mega schemes of 20,000ha+). It will depend on the benefits gained from the water storage project for economic, community, environmental and climate change objectives. For example, the Government could consider water storage projects that make water available to significant tracts of Maori owned land where that will significantly lift the productivity of the region through high value, non-dairy land use and do so in a way that improves water quality outcomes and other government objectives. The tests applied to the benefits of large schemes will become more stringent as the scale of the project gets larger.
- **Community focus of schemes:** Both community and corporate models around ownership, governance and consultation are acceptable. However, the Government's investment in the project should not lead solely to increasing land values for farmers at the taxpayers' expense. The public objectives above need to be progressed through the investment.
- **Nature of environmental initiatives that can be undertaken through PGF projects:** A range of environmental benefits can be sought through the projects. Initiatives that reduce the impact of land use (nutrients, sediment) on waterways are key. Other environmental initiatives, such as the reestablishment of wetlands and initiatives that improve biodiversity outcomes, are also valuable and eligible for consideration. Managed aquifer recharge will be considered as a storage approach, where winter river flows can raise the levels (and quality) of water in aquifers.

Given the short timeframes associated with investment by the Fund, the proposals that will be progressed are those that can be submitted, signed off and initiated over the next two years.

Alongside immediate investments in water storage projects, the Fund can contribute to assessments of the region's longer term water storage, use and management needs (i.e. over 30-50 years). These assessments would enable regions to determine the best investment opportunities to lift land use productivity on a sustainable footing. In doing this, it would be possible for regions to consider other regional water issues such as:

- the most significant areas where water quality needs to be improved across the region, informed by water quality targets in the National Policy Statement for Freshwater Management, where investments in water quality could be considered part of a package of regional water management initiatives funded by Government and councils
- Areas where Government could partner with local government as a component of water storage proposals to strengthen resilience in water availability in light of climate change. Water storage potentially enables communities to respond to water shortages more effectively by building supply during peak weather events, which can also minimise the environmental damage caused by the increased number of these events.

Given these assessments will take some time to develop through community and council processes, the assessments are unlikely to result in projects that will receive funding within the PGF timeframe. They would instead set up Governments and regions for future investments. In the meanwhile, the PGF will invest in projects that regions see as being consistent with the long term direction.

#### **Immediate opportunities for investment in water storage**

The Provincial Development Unit and MPI are working together with regions to identify opportunities that meet the Government's objectives in surge regions and other regions. Areas where this will also contribute to Maori shifting their land to higher value uses include regions like Northland, Hawkes Bay, East coast, Bay of Plenty and Manawatu-Whanganui.