PROVINCIAL DEVELOPMENT UNIT

Water Storage and the Provincial Growth Fund

Purpose

The purpose of this paper is to outlines the Provincial Growth Fund (PGF) approach to investment in water storage and infrastructure.

Vision

To support greater regional prosperity by enabling access to reliable water for land development through investment in storage and distribution infrastructure.

Objectives

The key objectives for PGF investment in water storage are to:

- Strengthen regional economies by shifting to higher value sustainable land uses
- Address disparities in Māori access to water for land development
- Support micro to medium-scale water storage projects that strengthen regional partnerships and provide wider public benefits
- Support land use that does not increase - and ideally reverses - negative impacts on water quality, and maintains and improves the health of waterways.

In meeting these objectives, PGF investment will also consider how investment can:

- contribute to a just transition to a low emissions economy and/or contribute to building community resilience to climate change
- provide an incentive to change land use that risks degrading the environment to high value more sustainable uses.

Context

Water storage is vital for regional development. Access to reliable water for land development is a key enabler of jobs and sustainable growth in the primary sector and is a driver of regional prosperity. Many regions have significant primary sector potential that could be enabled or enhanced through access to reliable water provided by storage and distribution infrastructure.

The reliability of supply provided by water storage can also enable better management of water and land on farms to reduce nutrient losses; enable horticultural crops to be viable; and provide water for environmental and cultural purposes in dry periods. In catchments where resource consents are fully or nearly fully allocated, storage enables better utilisation of the allocated water.

Gaps and Opportunities

Cabinet has agreed to wind down investment in large scale irrigation. In light of this, it was agreed that the PGF would exclude large scale, regional irrigation schemes, but provide for investment in smaller localised and community-based water management, which would be assessed on a case-by-case basis against the criteria of the PGF. Preference would be given to proposals that support multiple objectives of the PGF (e.g. employment, sustainability and resilience).

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PGF investment will reflect the Government's values in relation to water storage in terms of the stewardship of water and its role in supporting communities. PGF investment will be informed by the Government's freshwater work programme on water quality and allocation, and by the new approach that is being developed in relation to the Crown-Maori relationship for freshwater.

Given the timeframes of the PGF, its investment in water storage will move in parallel with the Government's catchment by catchment approach to the Crown-Māori relationship for freshwater. It will be informed by the Government's Crown-Māori approach when undertaking projects that are investment ready and in turn will inform the development of the catchment by catchment approach.

Strengthening municipal water supply is not an objective of the PGF, however the PGF will work with councils to include municipal supply as a component of wider water storage and utilisation initiatives, if it enables councils to contribute more to regional water management.

PGF Investment Principles

The following principles will apply to investments made through the PGF for water storage and infrastructure.

Economic

- Water storage will strengthen regional economies by shifting land use to higher value, sustainable uses, while avoiding increases in livestock intensification.
- Water storage will help address disparities in Māori 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 a project.
- Projects will involve stronger partnerships at the local level, including with regional councils.
- The Crown Irrigation Investments Limited (CIIL)'s programme of work will not be progressed, although communities that were involved in CIIL initiatives can submit PGF proposals that align with PGF objectives.

Environment

- 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 or other land uses 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, fish and wildlife habitats, riverbanks, biodiversity activities, soil health and sediment control.

Climate change

- Where practicable, proposals should contribute positively to the target of reducing greenhouse gases, and demonstrate how they will contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy.
- Proposals should consider the potential to contribute to community resilience to climate change. Strengthening municipal water supply is not an objective of PGF funding. However, the PGF will work with councils to include municipal supply as a component of wider water initiatives, if it enables councils to contribute more to regional water management.

Based on these principles, water storage and infrastructure investments will take the following issues into account:

- **Reliability of supply:** The Government is committed to stopping the damage to rivers and over time reversing the damage that has been done. Reliable water is needed for many high value crops, whereas low reliability water tends to drive pastoral uses. Applicants will need to demonstrate that the water would be reliable enough to support the production of high value crops.
- **Land use change:** Investment by the PGF could provide the incentive to change land use to high value uses that do not involve an intensification of livestock. In regions where the regulatory framework is not yet in place to ensure that there are no increases in discharges to water from the development, proposals will need to specify how land use change will be managed by the scheme proposers to ensure there are no net increase in contaminant discharges.
- **Māori land development**: Projects will be prioritised that support Māori to achieve higher returns from their land by addressing access to water. There are catchments where Māori have undeveloped land but low levels of access to water, which creates a barrier to Māori land development. A comparison of Kerikeri and Kaikohe illustrates the issues, where differences in levels of water storage and Māori ownership of land drive very different land prices and economic returns between the two towns. In parts of Northland and East Coast, Māori communities lack water as a key enabler of development.
- **Size of investments:** The PGF will not support mega irrigation projects. It will consider micro level (i.e. that cover one or a small number of farms), micro scale and medium scale water storage projects. There is no maximum acceptable size of projects (below the mega schemes that are greater than 20,000 hectares),owever, the tests applied to the benefits of large schemes will become more stringent as the scale of the project gets larger. For

example, the PGF may invest in water storage projects that make water available to significant tracts of Māori-owned land where that significantly lifts the productivity of the region through high value land use and does so in a way that improves water quality outcomes.

- **Environmental initiatives:** a range of environmental benefits can be sought through PGF investment. Examples include:
    - initiatives that reduce the impact of land use (such as nutrient levels, sediment issues) on waterways
    - the re-establishment of wetlands and initiatives that improve biodiversity outcomes
    - managed aquifer recharge as a storage approach, where winter river flows can raise the levels (and quality) of water in aquifers.
- **Community focus:** A community focus and the achievement of public objectives will be prioritised. While both community and corporate models around ownership, governance and consultation are acceptable, the Government's investment in any project should not lead solely to increasing land values for farmers at the taxpayers' expense.

PGF investment priorities

Priority regions for investment in water storage and infrastructure include Te Tai Tokerau Northland, Hawke's Bay, Tairāwhiti / East Coast and the Bay of Plenty. These regions have the greatest proportion of Māori collectively owned land and the greatest capability to bring land into sustainable productivity through water storage.

The transition needs of other regions are also being considered, for example the diversification of the Southland economy to improve economic and climate resilience, and supporting Wairarapa to lift productivity potential through horticulture and prepare for the severe drought effects of climate change that the region is projected to face.

It is anticipated that up to $80 million could be needed for water storage over the three years of the PGF, reflecting the high value to communities of sustainable water management and the intended scale of initiatives. At this level of funding, the PGF would be able to support between five and eight projects at an average overall investment per project of $10m - $15m. The investment level required is likely to vary significantly across the projects, depending on whether or not construction is involved.

The three priorities for PGF investment in water storage and infrastructure are outlined below.

Feasibility studies to inform investment decisions

Feasibility studies will investigate the viability of potential water storage and distribution projects. They will consider whether the project can deliver on the community and Government objectives for water storage and inform decisions on whether to invest in a specific water storage project. They will undertake technical, environmental and economic analysis, community input and

engagement and ensure that the benefits of any scheme return to the local community, for example through the development of appropriate investment partnerships.

Contribution to construction costs

The PGF will also contribute to construction costs of water storage facilities, particularly for activities that relate to Government priorities including water quality, bringing Māori land into production and where possible, helping communities to prepare for the impacts of climate change. Given the short timeframes associated with investment by the PGF, we will progress construction projects that can be submitted, signed off and ideally have construction underway over the next two years.

In general, the PGF seeks a 50% contribution to projects with a commercial return. In this case, the nature and the timing of that contribution will be considered by RED Ministers on a case-by-case basis and will take into account the ability of co-investors to meet this level of costs, the long-term profile of getting a sustained return on investment and the costs associated with meeting the Government's objectives for investment.

Regional assessments of water storage, use and management needs

The PGF will also contribute to assessments of a region's water storage, use and management needs over 30 – 50 years. These assessments will enable regions to determine the best investment opportunities to increase land use productivity on a sustainable basis.

Some of the issues that will be considered as part of these assessments include:

- the most significant areas where water quality needs to be improved across the region, informed by the list of at-risk catchments being developed by the Ministry for the Environment in consultation with regional councils
- opportunities for bringing Māori collectively-owned land into production
- 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 and also minimise the environmental damage caused by the increased number of these events.

It is not expected that these assessments will result in projects receiving PGF funding: given the time they will take, and PGF timeframes, the assessments would instead provide a basis for future investments.