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Ministry for Primary Industries
Manatū Ahu Matua



20 November 2017

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Draft - Direction on the wind-down of Crown funding of water infrastructure development in New Zealand

Purpose:

This briefing discusses the initial steps in exploring the Government's policy to wind down uncommitted irrigation development funding.

Minister	Action Required:	Minister's Deadline
Minister of Agriculture	Note MPI and Treasury will provide you with advice on the implications of winding down Government support for irrigation.	When convenient
	Agree to MPI and Treasury engaging with CIIL to ascertain details of their commitments to inform this advice.	By 24 November 2017
	Agree to sign the attached letter to the CIIL Board Chair directing no new or extensions to commitments without Shareholding Ministers' approval	By 24 November 2017
	Agree to meet with the Chair and Chief Executive of CIIL at a time convenient to you.	When convenient
	Agree to forward this briefing to the Minister for the Environment and the Minister of Finance	By 21 November 2017
CC Minister for Regional Economic Development		

Contact for telephone discussion (if required)

	Name	Position	Work	After Hours
Responsible Director	Justine Gilliland	Director Investment Programmes	s 9(2)(a)	
Responsible Manager	s 9(2)(a)	Manager Sustainable Resources and Programme Coordination	s 9(2)(a)	

Key Messages

1. As part of the Confidence and Supply Agreement between the New Zealand Labour Party and the Green Party of Aotearoa New Zealand, the Government has agreed to wind down Government support for irrigation. The coalition agreement between Labour and New Zealand First agreed to honour existing Crown irrigation investment commitments.
2. There are currently two vehicles delivering grant funding for water management and infrastructure development (currently excludes on-farm infrastructure): the Irrigation Acceleration Fund (IAF), which was established in 2011, and Crown Irrigation Investments Limited (CIIL), which was set up in 2013. CIIL also provides capital funding for scheme construction, on a loan basis.
3. Both vehicles are currently set-up to prioritise irrigation expansion with less emphasis on improving environmental outcomes or facilitating diversification of land use (see Appendix 1: A timeline and summary of funds/entities established; and relevant budget information).
4. Both the IAF and CIIL have existing projects in the pipeline detailed later in this briefing, and the wind-down of both, CIIL in particular, will result in uncommitted funds becoming available.

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Recommendations subject to your agreement

5. The Ministry for Primary Industries (MPI) recommends that you:

- a) **Note** MPI and Treasury will provide you with advice on the implications of winding down Government support for irrigation.

Noted

- b) **Agree** to MPI and Treasury engaging with CIIL to ascertain details of its commitments to inform this advice.

Agreed / Not Agreed

- c) **Agree** to sign the attached letter to the CIIL Board Chair directing no new or extensions to commitments without Shareholding Ministers' approval

Agreed / Not Agreed

- d) **Agree** to meet with the Chair and Chief Executive of CIIL at a time convenient to you to discuss the process further.

Agreed / Not Agreed

- e) **Agree** to send this briefing to the Minister for the Environment and Minister of Finance by 21 November 2017

Agreed / Not Agreed

Ben Dalton
Deputy Director-General
Sector Partnerships and Programmes
for the Director-General

Hon Damien O'Connor
Minister of Agriculture

/ / 2017

Background


6. New Zealand Governments have historically provided infrastructure for water storage and distribution, but withdrew support in the 1980s. Less investment in infrastructure led to individual irrigators applying for, and being granted, water takes from groundwater and smaller rivers. Increasing demand and more variable rainfall has resulted in over-allocation of these waterbodies, which, along with land use changes, has resulted in deteriorating water quality.
7. In recent times, the need for better off-farm water supply infrastructure emerged from the collaborative Canterbury Water Management Strategy process that began in 1999. Conceptually, reliable water supply enables communities to be more resilient to climate change, address over-allocation of groundwater and rivers, and encourage and enable more diverse and higher value land-use over time.
8. The use of mostly already allocated water for productive use via on-farm irrigation was a way to finance a majority of the water infrastructure needed (rather than from taxation or rates). The downside of this approach has been that, in some parts of New Zealand, particularly Canterbury, the most viable land-use to finance the infrastructure has been intensive livestock, mainly dairy farming, which adds to nutrient load and creates risk.

Crown Irrigation Investments Limited



9. As part of exploring winding down Government's support for irrigation, it is proposed MPI work with Treasury (as the joint monitoring agencies of CIIL) to understand CIIL's commitments. In line with the Government's policy to see out these out, discussions need to be had with CIIL to determine what projects are committed and the level of resourcing that would be needed to see the current committed projects through to completion. A letter from shareholding Ministers to CIIL directing that, in the interim, no new or extended commitments are made without shareholding Ministers' approval is attached for your use, as requested. It is also recommended that you meet with the Chair and Chief Executive of CIIL, at a convenient time to discuss the process further.

10. s 9(2)(b)(ii), s 9(2)(f)(iv)
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s 9(2)(b)(ii), s 9(2)(f)(iv)







11. s 9(2)(b)(ii), s 9(2)(f)(iv)


Irrigation Acceleration Fund

12. In-line with the Government's policy to wind-down support for irrigation, along with the possible wind-down of CIIL, it is also proposed that MPI provide advice on the Irrigation Acceleration Fund. Since the "IAF Transition" in 2016, CIIL has been managing all large-scale IAF regional schemes and contracts (see Appendix 1 for more details on this timeline). The IAF supports strategic water management projects (such as the Managed Aquifer Recharge concept) as well as smaller scale irrigation schemes through early stages of development.

13. s 9(2)(b)(ii), s 9(2)(f)(iv)

s 9(2)(b)(ii), s 9(2)(f)(iv)



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Appendix 2: Background

Crown support for water management and Infrastructure projects

1. The Crown provides two types of support for Water Management and Infrastructure development/construction:
 - **Grant funding** (government provides co-funding up to 50%, either through IAF (MPI) or by CIIL depending on the scale of the project)
 - **Capital Investment** for construction of irrigation/water management Infrastructure by CIIL.
2. Currently, The IAF and CIIL only provide grant funding for infrastructure to deliver water to the 'farm gate' for predominantly irrigation use (not covered is on-farm infrastructure such as irrigation equipment, water storage ponds, or infrastructure for other uses such as stock water schemes)
3. s 9(2)(b)(ii), s 9(2)(f)(iv)

The Irrigation Acceleration Fund – managed by MPI

4. The IAF currently supports two types of projects:
 - **Strategic water management studies:** To identify challenges and opportunities relating to freshwater management. These studies occur at an early stage, to assess the feasibility and necessity for freshwater management infrastructure at both a regional and community scale. These are always as partnerships with regional/district councils.
 - **Community irrigation schemes:** Projects that help new, smaller community scheme developments and capital upgrades of existing community scheme infrastructure. These proposals must be consistent with agreed regional strategies.
5. All eligible applications are assessed by an Investment Advisory Panel (includes subject matter experts from areas of MPI) who make a recommendation to approve the funding or not.
6. Depending on the quantum of funds sought, funding is approved by the delegated MPI authority (usually the Director, Investment Programmes, Sector Partnerships and Programmes).
7. The funding of each stage of development is individually contracted and the approval of one stage does not assume the following stages will be funded. Each application is assessed on its own merits.

IAF current live contracts under MPI management:

- Gisborne Managed Aquifer Recharge Feasibility - to improve the reliability of supply of the Makauri aquifer for irrigation of horticulture crops by supplementing the aquifer with water sourced from the Waipaoa River.

- Ashburton/Hinds Managed Aquifer Recharge Scoping Study – developing a business case for catchment-wide system to use irrigation scheme water to improve groundwater levels, lower nitrate concentrations and improve lowland stream flows in the Hinds water management zone, supported by Canterbury Regional Council under the CWMS.
- Rangitikei/Tutaenui Community Irrigation and Stockwater pre-feasibility – investigating the potential for combining an upgrade of the Marton town water supply with providing water for irrigated horticulture and stockwater.
- Bay of Plenty Freshwater Opportunities/Barriers - strategic water management study to identify water infrastructure projects that could potentially contribute to improved outcomes for the regional economy and environment.
- Strath Taieri Irrigation Scheme feasibility – community scheme concept to reliably irrigate 2000ha of mainly sheep, beef and cropping land while also improving flows in a significant stretch of Taieri River in Otago.

Crown Irrigation Investments Limited (CIIL)

8. **Note:** CIIL has provided an independent briefing to your office which contains details of their operations/processes and current projects under their management.
9. CIIL was primarily set up to invest in the construction of viable water storage and distribution infrastructure projects based solely on the economic return from irrigation. Support is provided by way of loans, with capital returned over a 10-15 year period.
 - a. **July 2016** - A change to CIIL's constitution led to regional scale schemes in progress being transferred from MPI management to CIIL to ensure commercial disciplines were applied earlier in the investigation stages.
 - b. **September 2017** - CIIL's mandate was broadened to enable capital investments into infrastructure projects with environmental benefits such as the Waimea Dam.

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