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Northland Water Storage

Project overview

Name of the project	Northland Water Storage & Use
Region	Northland
Applicant	Northland Regional Council (NRC)
Total project value	$[redacted]
Amount of funding sought from the PGF	$18,500,000
Financial instrument recommended	$18,500,000 structured as follows: - No more than $[redacted] to be allocated as a **grant** to pre-construction expenses. - The remaining funds to be provided via a **loan** facility for the construction phase of the project. Funding should also be structured with stage-gates at the end of pre-feasibility, feasibility, and the start of construction for the release of funds.
PDU recommendation	Approve

248. Northland Regional Council (NRC) has applied for $18.5 million of PGF funding to complete a project development work programme and to assist with the construction costs of a water storage scheme in Northland.

249. There are three options for water storage – one in Kaipara and two around Kaikohe. The project budget is based on one or two of these options progressing beyond the pre-feasibility stage. The options are not mutually exclusive. NRC has already completed a strategic study and a scoping study in relation to water storage in the Northland Region. These studies suggest a water storage project in Northland is viable, but further work is required. NRC is now looking to progress to prefeasibility for the three options.

PGF policy on water storage investment

250. DEV approved a Cabinet Paper on 23 October setting out investment principles for PGF water storage projects. The principles are reflected below (with an assessment of the Northland Project against these principles).

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Principles for water storage investment

Principle	Assessment
Economic	
Water storage will strengthen regional economies by shifting land use to higher value, non-dairy, sustainable uses.	The focus of this project is shifting from low productivity land to higher value horticulture.
Water storage will help address disparities in Māori access to water for land development.	The project has a specific focus on increasing Māori access to water. The Kaipara and Kaikohe districts have significant Maori owned land, with limited access to water (noting that not all of this land is Māori Freehold Land)
Community	
Small scale community level projects will be supported rather than mega irrigation schemes.	The proposed Kaikohe options are expected to be ~2,000 – 3 ha. The proposed Kaipara project was previously scoped as 6,300 ha, but is currently expected to be smaller. These projects are much smaller that mega irrigation schemes such as Ruataniwha (20,000 – 30,000 ha)
There must be public benefit from government funding of a project.	The project will deliver public benefit, through both improved environmental outcomes, as well as regional and community economic benefit.
Projects will involve stronger partnerships at the local level, including with regional councils.	The project is being sponsored by Northland Regional Council. The two relevant district councils (Kaipara and Far North) have had significant involvement to date, and will continue to do so. Whilst sponsorship of the project is expected to (at least partially) transfer to Commercial Information at some stage, it is envisaged that NRC will continue to play a substantive role.
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 our objectives.	Commercia funded the previous strategic study and Commercia funded the scoping study. However, the programme of work, and scope of the project is different to that contemplated by Commercial Information.
Environment	
Water storage proposals should demonstrate that they will support land use that does not increase, and ideally reverses, negative impacts on water quality.	A key water quality issue for Northland is sedimentation, which will be reduced through a shift towards horticulture. There is scope for approaches such as wetland development to further support this. Further, water storage would reduce pressure on surface and groundwater. While Northland experiences heavy rain, without storage water users are dependent on extracting water from aquifers or rivers even when stream levels are low, or not at all if resource consents do not allow abstraction at all.
Proposals should maintain the health of waterways.	
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.	
Water storage will not be used to increase the	The focus of this project is on horticulture

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intensity of ruminant agriculture or other land uses in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.	development, not ruminant agriculture.
Climate change	
Where practicable, proposals should demonstrate how they will contribute to mitigating or adapting to climate change effects and a just transition to a low emissions economy.	Northland regularly experiences floods and droughts and climate change is predicted to exacerbate this weather pattern. Warmer temperatures could bring opportunities to northland in a longer growing season and the ability to grow more subtropical crops. However, greater soil moisture deficits would need to be overcome by a reliable water supply to support this. The water storage initiative being explored is a climate change adaptation measure.
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.	

Agency comment

251. Free and frank opinions

252. Free and frank opinions

253. Free and frank opinions

Local support

254. All relevant local Councils support the project and have been involved in the planning to date.

255. Commercial Information

Management and governance

256. The project will be managed through the creation of project steering group and the hiring of a specialist project manager. Free and frank opinions

257. Progress on the delivery of the project will be reported monthly to the project steering group and MBIE. The Crown will be provided copies of the draft reports when they are received to provide comment and feedback.

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Cost and funding sources

Co-funding for this project will be provided from both Commercial Information and Commercial Information. However, where possible the majority of construction costs will be funded by Commercial Information. See below for a breakdown of currently assumed costs and funding:

Northland water storage assumed costs and funding

$m	Project cost	PGF funding	Other funding
Pre-construction			
Prefeasibility	$ Commerc	$ Commerc	$ Comme
Feasibility	$ Commerc	$ Commerc	$ Commerc
Commitment	$ Commerc	Commercial	$ Commerc
Pre-construction total	**$** Commerc	**$** Commerc	**$** Commerc
Construction	$ Commercial	$ Commercial	$ Commercial
Total	**$** Commercial	**$18.5**	**$** Commercial

Assumes Commercial Information.

The current construction cost estimate for each option is as follows: Commercial Information: $Commercial, Commercial Commercial Informati $Commercial *and* Commercial Information $Commercial.

Benefits

258. The benefits of this project are three-fold:

- The creation of a stable water source for use by the horticultural industry year round will ensure it has the necessary resources to continue to expand and develop in Northland. The intent is to harvest water during peak flows and store this for use during dry periods. This will work to facilitate a continued transition to higher value horticulture crops and to increase climate resilience in the Northland area and economy.
- Increased economic activity and jobs growth in the region through a greatly expanded horticultural economy. It is estimated that this project will generate approximately Commercial Commercia additional jobs and generate $Commercial Information per annum for Northland.
- The facilitation of a shift from traditional carbon-intensive land uses such as farming and dairying to higher value lower carbon horticultural production. This will work to help the Government attain their stated climate change emission targets.

PDU assessment of the project

259. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.

Assessment against PGF criteria

Criteria	Rating 1 – 5	Comment

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Criteria	Rating 1 – 5	Comment
Sustainable regional economic development	✓✓✓✓	This proposal identifies and addresses a risk to the region's long term ability to develop its horticulture industry. These industries are already a major employer in the region and further development will create additional opportunities.
Productivity and innovation	✓✓✓✓	This project will work to increase productivity in Northland in two ways: 1. Through an increase in the productive capacity of land in the region and; 2. By providing a catalyst for the transitioning of land from less productive traditional uses to a higher value horticultural use.
Increased employment, training or work readiness for the sectors workforce	✓✓✓✓	The scoping study including an initial assessment by Market Economics of the potential for additional jobs and an increase in GDP: • Mid North A: Commercia jobs and $Commercial pa • Mid North B: Commercia jobs and $Commercial pa.
NZ's ability to meet climate change commitments	✓✓✓✓	This project is intended to support high value land use with lower environmental impacts than traditional land uses such as farming and dairying.
Māori aspirations for utilising land and other resources and achieving cultural objectives	✓✓✓✓	Māori freehold land makes up a significant portion of the land ownership statistics in the Kaikohe region (Comme per cent).
Additionality	✓✓✓	This project will contribute to the productive capacity of the region's horticulture industry.

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Criteria	Rating 1 – 5	Comment
Connections and alignment with regional priorities	✓✓✓✓✓	This project is aligned with the region's identified need for water supply resilience. In addition, all relevant local Councils support the project, and have been involved in the planning to date.
Environmental sustainability and/or productivity of natural assets	✓✓✓✓	This project is intended to support high value land use with lower environmental impacts than traditional land uses such as farming and dairying.

Risk assessment

260. The majority of the risks identified in the table below can be mitigated significantly through the use of contractual covenants and appropriate capability both within the project, and managing the contract on behalf of MBIE. As a result, the majority of these risks are considered to be low.

Type of risk (describe)	Mitigation
Project development not in line with PGF water Storage investment principles.	Funding will be contingent on the progression of project development in line with these principles. For example, the project will not be funded where it leads to greater intensification of dairying assets. This will be a key focus for planning and strong controls will be put in place.
Continuation of stakeholder support.	Stakeholders views to be canvased widely in pre-construction phase to ensure that the project meets the needs of potential water users.
Project viability and budgetary overspend – Project costs are preliminary and subject to change. NRC has signalled that they may seek further PGF funding.	A robust investment assessment will be required at the end of each phase, to assess which of the options (if any) remain viable.
Capability - Developing water storage projects is a complex and time consuming exercise, requiring high-calibre technical, regulatory, environmental, financial and commercial capability.	Funding will be contingent on the hiring of relevant expertise for the project.

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Recommendations and next steps

261. The PDU recommends that you approve PGF funding of $Commercial Information to the project, on the following basis:

- No more than $Commercial Information being available as a grant for pre-construction activities
- The residual of the funding being available as a loan, for construction activities;
- The funding agreement will include stage-gates at the end of pre-feasibility, feasibility and the start of construction, with the scope, programme and choice of consultants/suppliers requiring the approval of the Head of the PDU Investments Team.