

## 2.0 Vinegar Hill Community Stock Water Scheme - Preconstruction Development

### Evaluation, Cover Sheet and Decision Form

<b>Project:</b>	<b>Vinegar Hill Community Stock Water Scheme - Preconstruction Development</b>	<b>FOR:</b>	<b>Approval</b>
<b>Applicant:</b>	Manawatu District Council	<b>Pipedrive ID:</b>	Commercial
<b>Application type:</b>	Whenua Maori	<b>(A) Total Project Cost:</b>	Commercial Information
<b>Funding type:</b>	Grant	<b>(B) PGF Funding Sought:</b>	\$ Commercial Informa
<b>Entity Type:</b>	<b>Local Authority</b>	<b>(C) PGF Funding Recommended:</b>	\$90,000
<b>Region:</b>	<b>Manawatu-Wanganui</b>	<b>(D) Applicant Contribution:</b>	\$ Commercial Informa
<b>Tier:</b>	<b>3 - Infrastructure</b>	<b>(D/A) Co-contribution Rate:</b>	Comm %
<b>Sector:</b>	<b>Water Storage / Management</b>		
<b>Application summary:</b>	<p>Commercialisation phase of the Vinegar Hill Community Stock Water Scheme, building on earlier prefeasibility and feasibility studies, getting the project ready for final user commitment, capital raising and construction.</p> <p>The Vinegar Hill Community Stock Water Scheme's objective is to provide reticulated stock-water to the predominantly hill country farms in the Vinegar Hill area.</p> <p><b><i>[Please see full project description in the Application Description Section]</i></b></p>		

**The PDU recommends that SROs:**

- a) **Approve** \$90,000 in PGF funding as a grant to Manawatu District Council for the Preconstruction Development Phase of the Vinegar Hill Community Stock Water Scheme.
- b) **Because** it is expected to provide improved environmental outcomes in respect of excluding stock from surface water bodies, and better resilience to existing farming operations, but not facilitate dairy conversion.
- c) **Subject to** the following conditions:
  - a. Confirmation of co-funding;
  - b. PDU approval of the scope and contractors; and
  - c. The Project must continue to conform with the PGF investment principles for water storage as it develops.
- d) **Note** that
  - a. Water access is a priority for the Accelerate 25 Regional Economic Action Plan.
  - b. This project aligns well with the PGF water storage investment principles relating to environmental outcomes and economic resilience, but does not contribute as strongly to outcomes in respect of Maori owned land.

**Section A: Triage – Assessment against PGF eligibility criteria**

➤ Is the project an illegal activity?	<b>No</b>
➤ Is the project located in the three main metropolitan areas?	<b>No</b>
➤ Is the project seeking investment in large scale infrastructure of social assets?	<b>No</b>
➤ Is the project seeking investment for three waters?	<b>No</b> – three waters does not include water for sustainable primary sector use.

## Application description

### Background

- In 2018 <sup>Commercial</sup> partly funded (\$<sup>Commercial</sup>) an <sup>Commercial</sup> study into broad feasibility. It concurred that it was possible to pump and reticulate water across the 28,000ha of hill country.
- There has been high farmer engagement.
- A farmer liaison group has been established to provide oversight and a point of contact for the next phase of this scheme development. They will work closely with the Council to ensure all potential scheme participants are up to date with progress and developments as the design of the scheme progresses.

### Scope of work

- Preferred design options particularly sources of water, pumping requirements, water storage, where it will be reticulated and the potential area that the scheme will cover for each option.
- Resource consent requirements, <sup>Commercial Information</sup>.
- Confirmation of arrangements and conditions to <sup>Commercial Information</sup>
- The cost benefit and financial and technical feasibility of the preferred design options.
- A description of the environmental benefits of the scheme.
- Survey on how much farmers are willing to pay for water to be delivered to their farm.
- Options for governance oversight for the scheme - both during construction phase and for its ongoing operations.
- Risk analysis and mitigation measures for those risks identified.
- An overview of the tender processes to be undertaken for the construction phase.
- Regular updates to farmers on progress with engineering options and other information that assists us with future investment decisions.
- Project management oversight such as procuring appropriate consultants to undertake the specialist work, contract and project reporting requirements.

### Sources of funding

Sources	Status	\$
Manawatu District Council	Confirmed – in-kind	\$45,000
Water users	Pledged - cash	\$45,000
Horizons District Council	Confirmed – in-kind	\$20,000
<b>TOTAL</b>		<b>\$110,000</b>

### Overseas Investment Office

- |   |           |
|---|-----------|
| ➤ Is the application being made by a non-New Zealand based legal entity? (Foreign investment laws may apply and the Overseas Investment Office consulted) | <b>No</b> |
|---|-----------|

**Section B: Operational Assessment Criteria (Complete for Eols and Applications)****(Rate and comment – 1= poor, 5 = very good - Provide the number for this project, not subsequent phases)****Fund and government outcomes**  
number below

Please highlight

**Would the project:**

➤ create permanent jobs?	<ul style="list-style-type: none"> <li>➤ This phase of the project and this funding will not directly create jobs or economic activity within the region, but is a critical next step on the pathway to construction, operations, and creation of jobs.</li> <li>➤ With a scheme covering 14,800 hectares the Opus report estimates the increase in value of stock production would be \$1.4m- \$2m. With the scheme covering 29,000ha the value of stock production would likely be in the order of \$2.8 - \$4m.</li> <li>➤ Jobs would be created to meet the servicing requirements arising from better land use.</li> </ul>	N/A 1 2 <b>3</b> 4 5
➤ deliver community benefits?	<ul style="list-style-type: none"> <li>➤ Job creation and economic benefits is expected to benefit the community through more money in the local economy, with the usual flow-on benefits.</li> <li>➤ Helps better manage water</li> <li>➤ Reduced pressure on waterways and smarter use and control of water</li> </ul>	N/A 1 2 <b>3</b> 4 5
➤ increase utilisation of and returns on Maori assets?	<ul style="list-style-type: none"> <li>• There are several blocks of Māori freehold land close to Vinegar Hill which would also benefit from a comprehensive reticulated stock water scheme. These land owners will be approached once the scheme design is further developed.</li> <li>• There is indicative interest from a few Maori landowners.</li> </ul>	N/A 1 <b>2</b> 3 4 5
➤ enhance the sustainability of natural assets?	<ul style="list-style-type: none"> <li>• Reticulation of stock water is expected to assist in removing stock from waterways, enhancing their sustainability.</li> <li>• Enable greater ability to implement farm environment plans.</li> <li>• Increased drought resistance.</li> </ul>	N/A 1 2 <b>3</b> 4 5
➤ mitigate climate change effects, or assist with the lowering of emissions?	<ul style="list-style-type: none"> <li>• Enable the permanent exclusion of stock from waterways, waterbodies and wetlands.</li> <li>• Enable greater ability to implement farm environment plans.</li> <li>• Increased drought resistance.</li> <li>• Provide water security that would improve farmer wellbeing in times of drought.</li> </ul>	N/A 1 <b>2</b> 3 4 5

<b>Additionality</b>		
<b>Would the project:</b>		
➤ add value by building on what is already there, without duplicating effort?	<ul style="list-style-type: none"> <li>This project has been in development locally for a while, including support from MPI.</li> <li>It also builds and will build on the regional skills from the Tutaenui Reticulated Water scheme project.</li> </ul>	N/A 1 2 3 4 5
➤ be a catalyst for productivity potential in the region?	<p>With a fully operational stock water scheme farmers should expect to increase lambing percentages, sell more prime lambs and at a higher carcass weight. The same should be attainable with the beef herd; viz. calving percentage up, and a higher steer liveweight at sale in a shorter time. This is achieved through better pasture utilisation and easy access to clean reticulated water. As evidenced in the AgFirst report 'Economic evaluation of the stock water reticulation on hill country'.</p> <p>Accelerate 25 Regional Economic Action Plan has optimisation of existing pastoral farms as a focus and identifies water access as a limiting factor to many agricultural enterprises.</p>	N/A 1 2 3 4 5
<b>Connected to regional stakeholders and frameworks</b>		
<b>Does the project:</b>		
➤ align with regional priorities, such as frameworks, or regional plans?	This project is recognised as one of nine subject areas for focused attention in the Manawatu Whanganui Growth Study Opportunities Report (2015). Water access and supporting and optimizing existing agriculture is a priority for the Accelerate 25 (ACC25) Regional Economic Action Plan and the primary sector subgroup.	N/A 1 2 3 4 5
➤ have the support of local governance groups (councils, iwi and hapu)?	<p>Approximately 60 land owners who are potentially in the scheme have been engaged with.</p> <p>The ACC25 Regional Economic Action Plan governance group is supportive of the project as is their primary sector sub-group.</p>	N/A 1 2 3 4 5
<b>Governance, risk and project execution</b>		
<b>Does the application show:</b>		
➤ robust project management and governance systems?	Appropriate management and governance structures are in place through the Manawatu District Council.	N/A 1 2 3 4 5
➤ plans for future ownership and operational management?	To be considered as part of the development phase.	N/A 1 2 3 4 5

➤ how the project will be delivered and managed?	Manawatu District Council has appropriate project delivery and management structures in place.	N/A 1 2 3 4 5
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### Section C: Risk Management Evaluation

Does this application demonstrate consideration of the following risks?		Yes
Risk description	Mitigations	Risk Rating
It will be critical that the project continues to develop in a manner consistent with the PGF's water storage investment principles, to ensure the environmental and sustainable economic benefits are achieved.	This will be a term of the PGF funding agreement.	Low
Water projects usually have a large group of diverse stakeholders. Appropriate involvement is critical. For example, potential water users need to be engaged early and be actively involved, to mitigate the risk that the project does not meet their needs. Potential water users should also contribute some development capital in the later stages of the preconstruction phases.	Applicant has demonstrated this to date. This will be a term of the PGF funding agreement.	Low
The project cost estimates are preliminary. A robust investment assessment will be required at the end of each phase, to assess whether the project remains viable. Linked to this, further funding may be required.	The objective of this phase of work is to better understand project cost.	Medium

### Section D: Funding and financial analysis

Please highlight

#### Does the application show:

➤ How strong is the financial position of the applicant organisation?	N/A – local authority.	N A 1 2 3 4 5
➤ How does the scale of the project compare to their overall business?	Small relative to council operations.	N/A 1 2 3 4 5
➤ Why is Crown funding being sought rather than commercially-available funding?	Commercial Information	N/A 1 2 3 4 5

➤ What does the independent financial analysis/ business case indicate?	Previous feasibility study indicated that there is the potential to pump and reticulate water across 28,000ha of hill country. Cost estimates for construction are preliminary – the objective of this phase of work is to better develop these, as part of progressing the project to construction.	N/A 1 2 3 4 5
➤ Is the funding model requested appropriate? Is the PDU recommending a different model?	A grant is considered to be a suitable funding model for this project: <ul style="list-style-type: none"> <li>• The quantum of funding requested is small</li> <li>• It is consistent with the approach taken for other projects of a similar nature.</li> </ul>	N/A 1 2 3 4 5
➤ Has the applicant provided evidence of market pull for this project?	Water users have been engaged, and are part of the funding mix.	N/A 1 2 3 4 5
➤ Has the applicant provided evidence that their supply chain is secure	Not a material issue at this stage in the project. Engineers and consultants to carry out this work are available.	N/A 1 2 3 4 5
➤ Is the budget robust?	The budget appears appropriate for this phase of the project. However, the contingency is limited and if issues arise, it is likely further funding will be required.	N/A 1 2 3 4 5
<b>Summary of funding and financial analysis:</b>		N/A 1 2 3 4 5
<b>Funding arrangements</b>		
Grant.		

<b>Consultation from partner agencies undertaken or implications</b>	
MPI are supportive.	
<b>Conflicts of interest and T&amp;Cs</b>	N/A
<p><b>Know your customer due diligence</b> Know you customer due diligence has not been carried out as the applicant is a local authority.</p> <p><b>Conflicts of interest</b> No conflicts of interest declared by applicant in application form</p> <p><b>Application terms and conditions</b> Application form terms and conditions signed and accepted by Applicant authorised person</p>	

**Summary statement of Application Review undertaken**

The following Review has taken place in connection with this application:


All applications are discussed between the Regions Team and Investment Team during the assessment process and prior to submission to SROs / IAP.

Consultation with the relevant partner agencies has occurred allowing them to provide any relevant technical advice with any feedback included verbatim within this application form.

In the development of this form:

- i. A review by an Investment Director has taken place and included the following to the satisfaction of the reviewer:
  - a. An evaluation against the PGF criteria;
  - b. Financial analysis;
  - c. A risk assessment, highlighting any relevant or key risks;
  - d. Conflicts of interest have been noted and accepted and the reviewer concurs with the recommendation proposed.
- ii. The Head of Investment has reviewed this recommendation.
- iii. This application has been reviewed by the PDU SLT.

Review has been completed	Yes
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<b>Supporting proposal:</b>	Yes
<b>Appendices:</b>	Yes – Application.
<b>Author of paper:</b>	 , PDU Water Lead



## Appendix 1: PGF Investment Principles for Water Storage

Access to a reliable and manageable source of water 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 small scale storage and distribution infrastructure.

As a government we have identified three objectives for freshwater (including establishing a new Crown-Māori relationship for freshwater):

- Stopping further degradation and loss
- Reversing past damage
- Addressing water allocation issues.

In addition, through cross-party discussions on the PGF investment in water storage and infrastructure, including managed aquifer recharge, we have identified a set of principles that are core to our values as a Government. The principles are reflected below (with an assessment of the Projects against these principles).

<i>Principles for water storage investment</i> <b>Principle</b>	<b>Assessment</b>
<b><i>Economic</i></b>	
Water storage will strengthen regional economies by shifting land use to higher value, non-dairy, sustainable uses.	The focus of this project is less about shifting land use, but more a specific objective to improve reliability of stock water, and to support exclusion of stock from water ways.
Water storage will help address disparities in Māori access to water for land development.	Refer to cover sheet above.
<b><i>Community</i></b>	
Small scale community level projects will be supported rather than mega irrigation schemes.	This project is significantly smaller than the previous Ruataniwha mega scheme in the Hawkes Bay (~\$330 million).
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 the Manawatū District Council. Horizons Regional Council supports the project.  Also critical for this project is appropriate partnerships and involvement at the community level going forward.
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.	This project was not part of the CIIL work programme.
<b><i>Environment</i></b>	
Water storage proposals should demonstrate that they will support land use that does not increase, and ideally	A key condition of funding will be compliance with

reverses, negative impacts on water quality.	this investment principle. The key environmental benefit targeted is exclusion of stock from waterways.
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 intensity of ruminant agriculture or other land uses in a catchment where this puts greater cumulative pressure on water and risks compromising water quality.	The intent of the project is to not increase the intensity of ruminant agriculture. This will be a condition of funding (complying with the PGF’s water storage investment principles).
<b><i>Climate change</i></b>	
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.	As per the cover sheet.
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.	