

Water infrastructure development funding – Q&As

What is the water infrastructure fund?

The water infrastructure development fund is a Government initiative to help get regional water storage and distribution schemes started.

The Government signalled in May 2011 that it would establish Crown investment for irrigation infrastructure for this purpose. It has indicated that an overall amount of \$400 million will be made available over a period of years.

In December 2012, Cabinet directed that a Crown-owned company be established to run the fund and that \$80 million funding for the first year of the company's operation be set aside in the 2013 Budget.

The Government is aware that a number of proposals for regional-level water storage and irrigation schemes are nearing the stage where they are ready to be presented to investors. These include establishing new schemes as well as developing existing ones.

The principle behind the Government's commitment is that it is acting as an enabler for other investors to participate in new water infrastructure development.

The Government is interested in a number of benefits from well-run schemes. For example, increased water storage will take some pressure of lowland streams and aquifers.

The Crown-owned company has yet to be named.

What does the Government expect to get in return for its equity investment?

There is significant opportunity to generate economic wealth for New Zealand and New Zealanders through more and better water storage and distribution infrastructure.

New Zealand naturally has plenty of water – but it can be better managed.

The capture and storage of rainfall could be used to make water available during dry summer periods in many regions – for a range of uses and needs.

There are significant areas of land that could be more productive with more reliable access to water.

The challenge is that the projects that are most needed now are larger, regional-level schemes which require capable governance and management to get the best outcomes, as well as quite large amounts of money.

The Government believes that playing a bridging role will get the right projects underway.

What does the Government mean by the “right projects”?

The Government is committed to ensuring that environmental impacts are properly managed. It wants an appropriate balance struck between economic development and environmental management.

The Government expects planning to include use of smart, best-practice technologies by the schemes themselves and also by those taking water from them.

Another aspect that the Government wants to get right is the appropriate scale of project in relation to the long-term irrigation opportunity. This will result from good investigation and planning.

The Government is also encouraging professionalism in all aspects of governance and management of regional water infrastructure. It is important that the right expertise is brought in for each stage.

What checks and balances are in place to ensure that growth resulting from these schemes does not result in more pollution?

The Government is committed to sustainable growth – to meet community and consumer expectations and fit within resource constraints.

Economic analysis and experience show that irrigation development will provide opportunities for a range of land uses.

In addition, the Government expects best, modern practices to be used for schemes and for any water use. There are environmental benefits from good water management and use of smart technology.

For example there are a range of measures that farmers can use, such as fencing off waterways, riparian planting and making efficient use of water.

How does this announcement link with other aspects of water, such as managing water quality?

The Government’s Fresh Start for Fresh Water programme, which is addressing a wide range of aspects of the governance and management of freshwater in New Zealand, is making good progress. The establishment of this funding is in line with the direction of the Fresh Start for Fresh Water programme.

A key aspect of the Fresh Start for Fresh Water programme has been the input of the Land and Water Forum (LAWF), which brought together representatives of a range of interests in freshwater.

The Forum has provided three reports and a number of recommendations to the Government, which are being considered.

An early outcome from the Forum's work was the influence it had on the Government deciding in May 2011 to announce the increased role of the Irrigation Acceleration Fund and the establishment of the equity fund, along with a clean-up fund to address some historical matters.

The Government also established a National Policy Statement on Freshwater, which requires regional councils to provide for improved freshwater management in their policies and plans. It includes direction on setting limits for water quality and quantity, and improving and maximising the efficient allocation and use of water.

How will the Government decide whether to commit funding to a particular project and how much to commit to each one?

The Crown-owned company that manages the water infrastructure fund will assess proposals that are presented to it against a list of criteria.

These will include, that the proposed project:

- Is technically feasible
- Will be able to achieve resource consents
- Has a wide community of interest
- Will be affordable for potential water users
- Has potential to provide returns to investors over the long-term

The company will be required to use good capital investment practices. People with appropriate expertise in areas such as investment banking and commercial legal knowledge will be used.

The Government will be a minority investor in each project, and it will also plan to be a relatively short-term investor. In other words, the Government will take a bridging role to get projects underway.

Who does the Government expect will be interested in investing in these water infrastructure development projects?

The Government expects that when these projects are ready for investors to consider they will attract a wide range of investors, including groups that can generate value from being involved, such as land owners (including iwi) and primary sector processors; and long-term investors, such as super funds.

Why is the Government looking to invest in irrigation infrastructure?

Offering private investors the opportunity to take a stake in developing regional-scale water infrastructure schemes is something new for many private investors and there is no benchmark as commercial investments.

The Government is seeking to encourage private investment: firstly by assisting regional backers to do a good job of the investigation and planning phase to create good-quality proposals, and then by offering the possibility of co-funding if a proposal meets certain criteria.

What is the relationship between the new water infrastructure equity funding and the Irrigation Acceleration Fund?

The Irrigation Acceleration Irrigation Fund (IAF) was launched in May 2011 to provide grants for strategic regional water management studies and to assist in the development of regional-scale rural water infrastructure to the investment-ready prospectus stage. The Government allocated \$35 million.

The IAF took over from the Community Irrigation Fund, which carried out a similar but more limited function.

Proposals for water infrastructure schemes that have been developed with IAF assistance may be suitable for presentation to the new water infrastructure equity fund to seek Government co-funding.