

The Treasury

Budget 2011 Information Release

Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

EGI Min (11) 4/6

Copy No: 29



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Driving Economic Growth by Delivering on the Potential of Irrigation

Portfolio: Agriculture

On 16 March 2011, the Cabinet Economic Growth and Infrastructure Committee (EGI):

Background

- 1 **noted** that on 16 August 2010, the Cabinet Strategy Committee directed the Ministry of Agriculture and Forestry (MAF), in consultation with Treasury, the Ministry of Economic Development, the Ministry for the Environment and other agencies as appropriate, to report back to EGI with a business case for a proposed water infrastructure programme, which includes further advice on:
 - 1.1 the form of the government's involvement in major irrigation projects (for example, in terms of leadership, facilitation and funding);
 - 1.2 the likely scale of the government investment that will be required, and the potential timeframes involved;
 - 1.3 possible funding models and investment options, including the potential for Public Private Partnerships, and opportunities for local government, private sector and iwi investment;
 - 1.4 benefits and risks;
 - 1.5 how the proposed programme fits within the broader context of the work currently being undertaken on water-related issues (including the work of the Land and Water Forum);

[STR Min (10) 11/1]

Irrigation development

- 2 **noted** that well designed water storage and irrigation infrastructure has the potential to drive significant economic growth;
- 3 **noted** that the further development of irrigation will require:
 - 3.1 improved use and management of water resources currently allocated for irrigation use;

- 3.2 capital upgrades of existing irrigation scheme infrastructure;
- 3.3 new infrastructure development, particularly for water harvesting, storage and off-farm distribution systems;
- 4 **noted** that future irrigation infrastructure development will draw upon more complex water resources, and will involve schemes that are larger in scale and cost than existing local scheme developments;
- 5 **noted** that officials have identified the following barriers to getting these irrigation proposals to an investment ready stage:
 - 5.1 there is a problem in co-ordinating interested parties (farmers, regional authorities, banks, third party investors) to agree to participate in a particular project so that it has critical mass;
 - 5.2 a step change is required from current practice in many local scheme developments to high standards of commercial governance, scheme financing and commercial practice;
- 6 **noted** that officials have identified the following challenges to getting investment ready irrigation schemes financed through the construction phase:
 - 6.1 the regional scale scheme proposals will require third party investment, and probably multiple investors;
 - 6.2 water storage and irrigation infrastructure is not well understood by financial markets;
- 7 **noted** that accelerating the realisation of the economic potential associated with irrigation development will require government assistance;

Stage one

- 8 **noted** that assisting scheme proposals to become investment ready, in order to encourage third party investment and enable robust decisions about any Crown investment, will require additional resources and a more comprehensive approach than under the Community Irrigation Fund;
- 9 **noted** that the costs of assisting scheme proposals to become investment ready are estimated at \$35 million operating over five years;
- 10 **agreed in principle** to assist scheme proposals to become investment ready, subject to suitable sources of funding being identified as part of the final Budget 2011 package;
- 11 **noted** that a final decision on the proposal, including agreement to financial recommendations, will be made when the Minister of Finance presents the final Budget 2011 package to Cabinet in April 2011;
- 12 **noted** that MAF expects to generate an across-department operating surplus from Revenue Crown funded activities of \$5 million in the 2010/11 year, and that approval will be sought to allow this surplus to resource fund administration and proposal development;

- 13 **noted** that the design of this new funding programme would:
- 13.1 reflect the scale and complexity of regional scale rural water infrastructure developments;
 - 13.2 require a commitment in scheme design to the application of good industry practice, particularly water use efficiency and nutrient management, assured through audited self management schemes, including sanctions for non performance;
 - 13.3 retain some of the wider objectives of the current Community Irrigation Fund, including support for the development of regional water management strategies;
 - 13.4 require best practice governance, management and reporting;
 - 13.5 require adherence to, and meeting of, pre-agreed development milestones and outputs, consistent with achieving the preparation of an investment ready scheme;
 - 13.6 require the appointment of specialist technical, environmental, hydrological, legal, engineering, and financial/economic advisors in the completion of technical investigations and community engagement;
 - 13.7 specifically preclude funding the direct costs associated with resource consent and litigation activity;

Stage two

- 14 **noted** that:
- 14.1 once scheme proposals become investment ready, it is likely that some or all will have challenges in raising investment capital;
 - 14.2 therefore, achieving acceleration in irrigation development may require the government to provide short to medium term equity of up to 35 percent in order to help crowd in other investors;
- 15 **agreed** that the government be prepared to invest in assisting in the construction of water storage and off-farm irrigation infrastructure, subject to the report referred to in paragraph 18 below on the development of appropriate investment criteria, including exit criteria;
- 16 **noted** that the provisioning of \$400 million capital expenditure may be required for future equity investment after 2013 in water harvesting, storage and off-farm distribution infrastructure, and that this will be subject to a future budget bid;

Next steps

- 17 **invited** the Minister of Agriculture to report back to EGI by [2] to confirm the work programme, funding criteria and operational design required to give effect to any decision to establish a new Non-Departmental Other Expense “Water Storage and Irrigation Development Proposals” to proceed to develop a new funding programme for advancing potential irrigation development projects to an investment ready stage;

- 18 **invited** the Minister of Agriculture to report back to EGI [2] with further advice (including in regard to key investment principles, institutional form and maintaining a clear separation in the Crown's role in supporting scheme development and in investment decisions) on how to structure any future Crown equity participation in the construction and operation of water harvesting, storage and off-farm distribution infrastructure.

Committee Secretary

Reference: EGI (11) 30

Present:

Hon Bill English (Chair)
 Hon Simon Power
 Hon Dr Nick Smith
 Hon Anne Tolley
 Hon David Carter
 Hon Tim Groser
 Hon Steven Joyce
 Hon Phil Heatley
 Hon Kate Wilkinson
 Hon Hekia Parata
 Hon Maurice Williamson
 Hon Nathan Guy
 Hon Rodney Hide
 Hon Peter Dunne

Officials present from:

Office of the Prime Minister
 Officials Committee for EGI