

Report No.	19-94
<b>Decision Required</b>	

## SUSTAINABLE LAND USE INITIATIVE FUNDING

### 1. PURPOSE

- 1.1. The purpose of this item is to update Committee members on changes to the **Sustainable Land Use Initiative** (SLUI) funding over the next four financial years as a result of the **Hill Country Erosion Fund** (HCEF) application and subsequent contract negotiations. The report also overviews some changes to the SLUI programme as a part of the new HCEF contract and in response to increasing interest in afforestation in the region

### 2. EXECUTIVE SUMMARY

- 2.1. Horizons successfully applied for a fourth round of funding through the Hill Country Erosion Fund in 2018 and achieved an overall increase in budget from Central Government of approximately 55%.
- 2.2. While there was an increase in funding, the approved funding was less than applied for and had a range of constraints on work types. An additional complication was the separate announcement of tree planting grants through the One Billion Trees programme with new grants available for some work types directly from Central Government, in some cases at better grant rates than in the HCEF application. This paper overviews the outcomes of negotiations with MPI to finalise an agreed four year contract for SLUI through the Hill Country Erosion Fund.
- 2.3. The paper also overviews changes to SLUI as a part of the new contract including the ability to fund works on a greater amount of priority land through extending SLUI grants to works within farm and paddock maps, not just Whole Farm Plans. Further the SLUI funds will be able to be applied to farms with Whanganui Catchment Strategy farm plans.
- 2.4. Growing interest in afforestation, especially through pines and Mānuka has led to a large increase in funding applications for winter 2019 planting. In order to manage these applications changes to the afforestation grants have been proposed including diverting some applications through to the One Billion Trees fund and limiting the amount of funding to farms that are converting more than 50% of a farm to forestry and capping the contributions to forestry on a farm to 150 ha/year per farm. Further detail on these proposed grant funding changes are provided in the paper.

### 3. RECOMMENDATION

That the Committee recommends that Council:

- a. receives the information contained in Report No. 19-94.
- b. endorses the approach of providing Sustainable Land Use Initiative assistance (mapping and funding) to farms with Sustainable Land Use Initiative Whole Farm Plans, Sustainable Land Use Initiative Whole Farm Maps, Sustainable Land Use Initiative Paddock Maps, and Whanganui Catchment Strategy Plans.
- c. endorses changes to the Sustainable Land Use Initiative programme as a result of the new Hill Country Erosion Fund funding contract as outlined in paragraph 7.5 and 8.21,
- d. endorses the changes to Sustainable Land Use Initiative grant funding as outlined below:
  - i. encourage and support landowners to seek funding support for hill country erosion works through the 1 billion trees programme;
  - ii. for radiata afforestation grants remaining within SLUI apply the approach in paragraph 8.12.

### 4. FINANCIAL IMPACT

- 4.1. The changes to funding noted in this report will be accommodated within the Annual Plan and **Long-term Plan** (LTP) budgets as agreed by Council.
- 4.2. The funding to be allocated to Horizons following the application process was less than the applied amount. Specific work areas where grant assistance will be allocated had funding cut. This has led to works programmes being modified in some areas.

### 5. COMMUNITY ENGAGEMENT

- 5.1. Consultation was carried out through the 2012-22 LTP submission process and the recent Annual Plan process.
- 5.2. The **Ministry of Primary Industries** (MPI) has a key role in part funding and overseeing this activity.
- 5.3. The SLUI Advisory Group is updated approximately every six months about progress with this programme and receives copies of these agenda items. The group last met on 25 September. The next meeting is planned for June 11.

### 6. SIGNIFICANT BUSINESS RISK IMPACT

- 6.1. There are no significant risks inherent in the adoption of recommendations contained in this report.

### 7. BACKGROUND

- 7.1. Three HCEF contracts have been undertaken through contracts between MPI and Horizons beginning in 2007. The 30<sup>th</sup> June 2019 marks the completion of the third contract, with total funding over that time from MPI exceeding \$18.1 million and Horizons \$36.5 million.
- 7.2. Funding for the current financial year has a MPI commitment of \$1.089 million and Horizons \$3.756 million (plus reserves if necessary). This year had boosted funding from other sources such as Supplementary SLUI and Primary Growth Fund, not included in this report.

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- 7.3. A new HCEF funding application was made in October 2018, with the success of the application notified to Horizons in December. The new bid proposed some changes in the way that SLUI would be delivered. A significant change in order to speed up targeting of Top and High priority land was to enable grant funding to be allocated to a wider variety of plan types beyond just whole farm plans. The new application proposed being able to fund works where SLUI whole farm maps or SLUI paddock map had been completed and works on Whanganui Catchment Strategy Plans. The new tools for farm and paddock maps provide for works to occur where a farmer does not want a full farm plan, or is waiting for one to be completed. The ability to fund on Whanganui Catchment Strategy farms removes a financial constraint that was in place for the amount of works that were possible on these farms and makes approximately 22,000 ha more farm plans open to works as a part of the SLUI programme. This approach also provides for more farmers across the region to be able to participate in the SLUI programme and addresses an issue of different grant rates being used in the Whanganui Catchment Strategy programme and SLUI programme. Horizons is continuing discussion with the Whanganui River Enhancement Trust around these changes and how to ensure their valued efforts and input continues to be recognised.
- 7.4. The new bid also required more emphasis to be applied to assisting landowners make decisions around afforestation through forestry appraisals, and an increase in the monitoring of works already completed to ensure the integrity of the outcomes being reported.
- 7.5. Council were updated on the funding results and proposals for reworking the funding allocation at a Workshop on 19 March 2019. In that workshop the following points were discussed:
- The new application achieved Total funding of \$6.493 million over four years and this was less than the \$8.35 million applied for;
  - This was a 55% increase in MPI funding per annum overall;
  - Grants programmes change over years and vary by work types (as discussed further below). For example the funding approved was uneven over years (\$1.737, \$1.388, \$1.670, \$1.701 million);
  - Funding for staff capacity and other non-grant components of the programme budgets were approved as applied for, increasing the non-grant related expenditure by around \$360,000 per year, and
- 7.6. The “non grants” component of the programme primarily relates to staff capacity and also includes funding for things like advertising, independent forestry appraisals, production of farm plans etc. The increased budget for this allowed for extra contract costs for farms mapping as well as additional staff time. This additional staff capacity has provided for the recent appointment of a new position in the team, a Land Management Advisor – Forestry, and a one year contract for support to improve reporting and auditing within the programme, in part in response to new requirements of the new contract. The Land Manager Advisor Forestry position is aimed at increasing capacity to ensure the forestry that the programme is supporting is being done to best practice and to contribute to the logistics of getting the plantings established successfully.
- 7.7. The grants programme funding that was announced was lower than that applied for and had considerable shifts within the years for the types of works supported and the amounts of funding for these. For example no MPI contribution to afforestation in year 1, but contributions to this in years 2, 3 and 4 and some MPI funding for stream fencing and planting (riparian planting) in year 1, however no funding for this in subsequent years.
- 7.8. The grant funding component of the budget was further complicated by the uncertainty around how to integrate HCEF funding announced in October with the One Billion Trees funding programme announced in November and the demand for forestry that had been signalled in the region for planting in winter of 2019. The details of the funding

announcement for the HCEF funding were made available to Horizons in January and the criteria and funding arrangements for the One Billion Trees programme confirmed in February.

7.9. Subsequent discussions with Ministry for Primary Industries, and now **Te Uru Rākau** (TUR) have led to a reworking of the grant works programme and the annual work targets. No changes have been made to the agreed labour, staff and contract time necessary to support the work programme as this was considered as a priority by TUR. Following the workshop with Council in March, staff have worked to finalise a contract for the HCEF programme and this is expected to be signed in early June.

## 8. DISCUSSION

8.1. A key part of this item is to update council on the final changes to the grant funding in the HCEF contract and the implications of these for the programme with the current level of demand. The sections below outline the changes to the grant funding from what was applied for to what is to be contracted and also to relate that to the current level of demand.

8.2. Changes to the four year HCEF funding from what was applied for to what was approved in January by TUR were all in the grant part of the application and resulted in;

- \$287 k less for afforestation, and \$0 from MPI in year one
- \$491 k less for riparian retirement, with no decrease in year 1
- \$1,078 k less for retirement and reversion, with no decrease in year 1.

**Table 1: Comparison of current grant budgets and targets to changes under new application (HCEF/Horizons)**

Work Type	Current Year		Applied HCEF yr 1		Approved TUR yr 1		Contracted yr 1 *2	
	ha	\$ x1000	ha	\$ x1000	ha	\$ x1000	ha	\$ x1000
<b>Afforestation</b>	1,150	747	930	700	-	434	1,460	1,097
<b>Reversion/Ret</b>	450	199	850	427	-	427	940	426
<b>Riparian</b>	500	750	500	1111	-	1111	220	358
<b>Space/other</b>	900	375	850	340	-	340	820	463
<b>Total</b>	<b>3,000</b>	<b>2,071</b>	<b>3,130</b>	<b>2,578</b>	<b>*1</b>	<b>2,312</b>	<b>3,440</b>	<b>2,344</b>

\*1 – Approvals came back allowing Horizons to renegotiate the targets so no targets at that stage

\*2 – proposed and ready for contract signing

8.3. The HCEF and One Billion Trees overlap and conflict to some extent, so it has been necessary to try and understand the impacts of all the funding schemes before finally developing the HCEF to a contract stage. For example the SLUI application proposed completing 400 ha per year of reversion at \$1000/ha of grant funding, however the One Billion Trees programme subsequently announced that reversion could be funded at \$1,500/ha. A further example is that the SLUI application proposed funding Mānuka establishment under afforestation at 50-70% grant rate to a max cost of \$2,000/ha, a grant of \$1,000 - \$1,400/ha, One Billion Trees announced Mānuka grant of \$1,800 - \$2,300/ha.

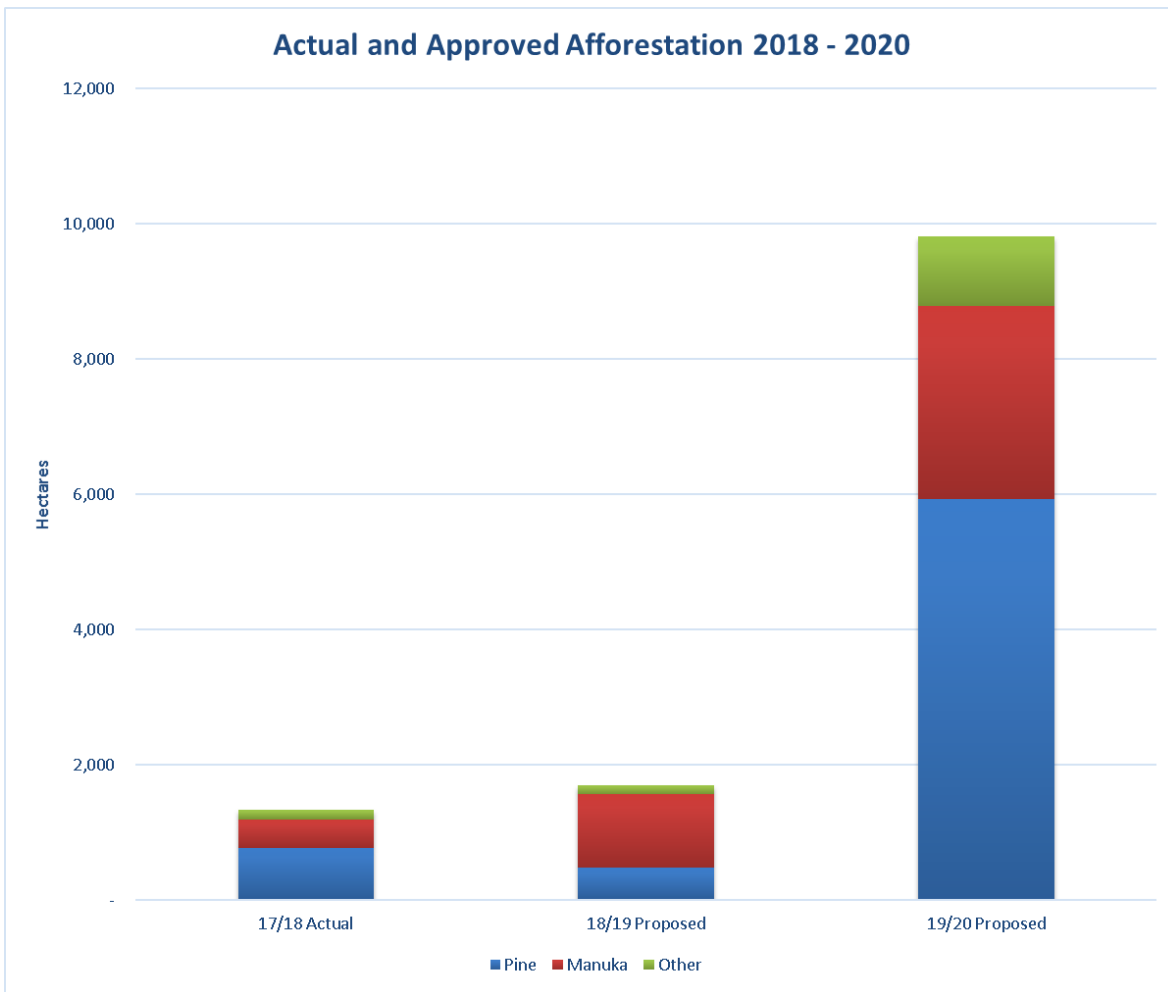
8.4. During the current financial year Horizons have been responding to signals for more afforestation, we picked up the Primary Growth Fund project which has included expressions of interest for winter 2019 planting along with forestry appraisals to help landowners understand cost and benefits of planting.

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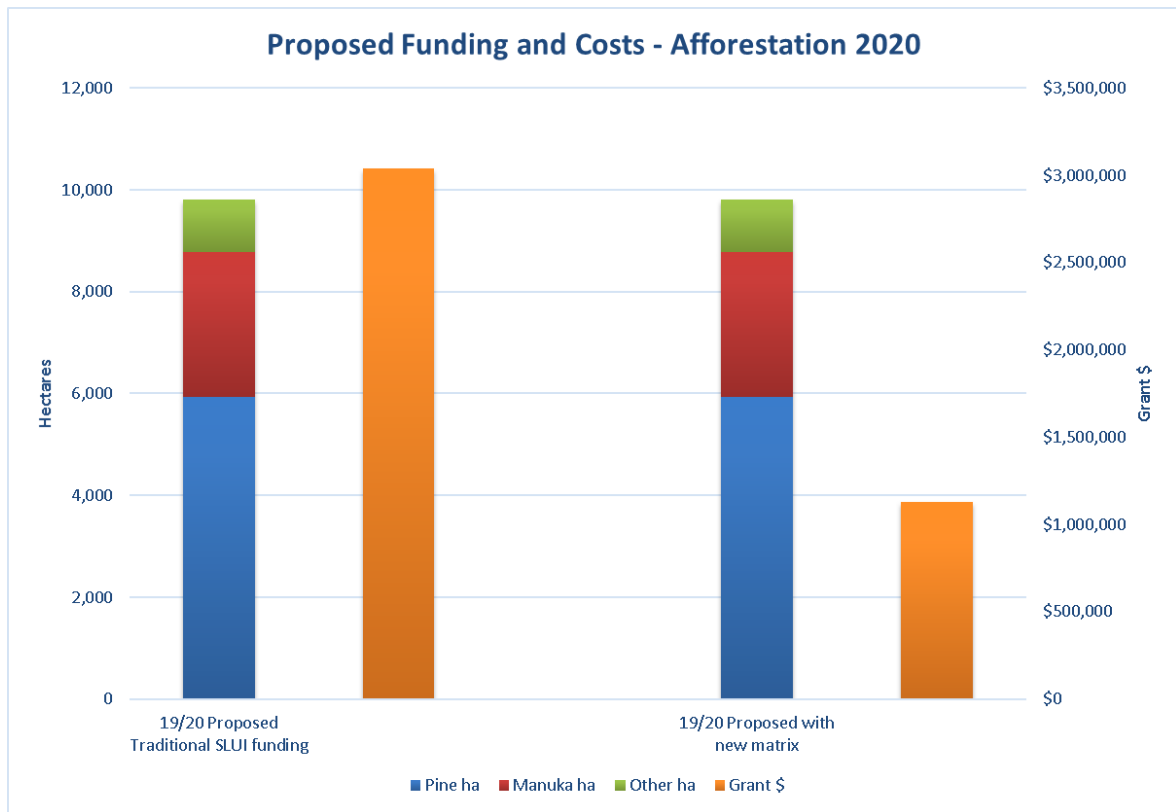
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**Allocation of Work and Budget**

- 8.5. Over the last year work within SLUI including the additional funding from the provincial growth fund for forestry in the region and the SLUI boost funding has generated additional interest in afforestation. This was assisted by a range of work including field days, presentations to farming groups, one on one meetings, the forestry appraisals and the expressions of interest process. Programmes like the One Billion Trees programme and increased knowledge of the potential returns from carbon forestry have also continued to grow interest in new afforestation.
- 8.6. The increased interest in tree planting has resulted in a large number of applications to the SLUI programme for afforestation. This winter there are 55 afforestation jobs on our books totalling 9,930 ha (the bulk of these are for pines 30 jobs and 5,927 ha, and Mānuka 15 jobs and 2,856 ha), with a smaller number of “other species”. The level of increase is shown in Graph 1 below that shows the amount of forestry that grants were provided for in 2017/18 (1342 ha) and that proposed in 2018/19 (1700 ha).
- 8.7. The challenge with this increase in forestry applications is the ability to fund the grant requests. This task has been made more difficult with the absence of any grant funding for forestry from MPI in year 1 of the new contract.
- 8.8. At face value a potential solution is to divert the support for this planting to the One Billion Trees programme and this is the recommended approach for the Mānuka planting and alternative species. There are some key differences between Horizons co-funding and that of the One Billion Trees programme. A primary difference is that the criteria for One Billion Trees fund limits landowners ability to obtain the carbon accrued in radiata forests, with new forests not eligible to enter the Emissions Trading Scheme until year six. For this reason landowners are seeking funding from SLUI rather than One Billion Trees for radiata establishment. A further complication is that many of forestry proposals for the year have been generated over a considerable time period, with assistance and planning support from Horizons based on the signal of increased funding availability from HCEF and One Billion Trees, however the unavailability of HCEF funding for forestry in year one and constraints on carbon for the One Billion Trees programme were unknown.
- 8.9. We are trying to support applications to SLUI for radiata whilst directing other planting to One Billion Trees. If we were to fund all radiata applications at an average grant of 50% the potential cost to SLUI this winter would be over \$3 million, well above the \$1.1 million set aside for afforestation. An approach to reduce the amount of grant funding has been developed and Graph 2 shows the impact of this proposed approach which includes setting an afforestation cap on radiata (see below) and diverting Mānuka and other species plantings to One Billion Trees. This approach requires approximately \$1.150 million of grant funding. This alternate model that is described further below relies on a small amount of use of SLUI reserves and provides some contribution to the pine plantings for 2019. The approach to next years funding for pine forestry will need to be reconsidered at a later date. An essential component of the new proposed approach has been managing expectations of grant funding and staff have worked to ensure landowners are well aware of levels of grant funding for plantings this year in advance of planting.



**Graph 1: Changes in interest in afforestation projects**



Graph 2: Predicted afforestation grant amounts under the traditional model of SLUI funding and as predicted with the revised proposed approach to funding.

8.10. Changes to the grant programme are proposed which will manage the lumpy funding from HCEF, and allow us to remain within the overall SLUI budget.

**Afforestation Grants**

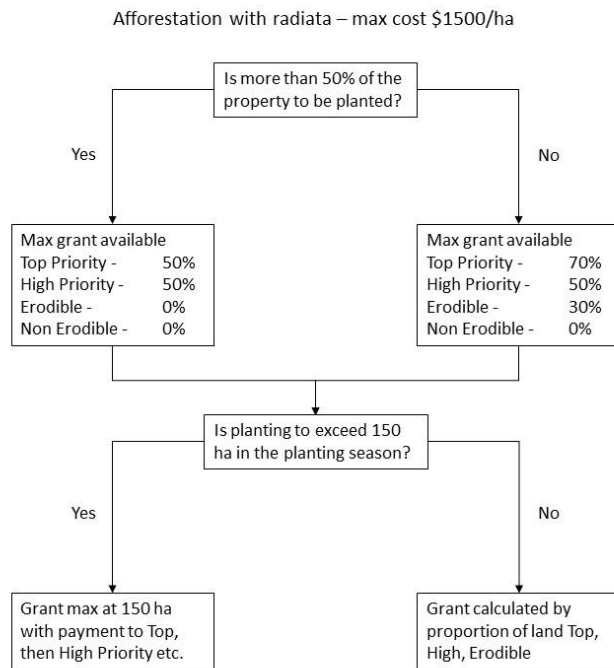
8.11. Of the increase in radiata planting noted in 8.6, a number of these projects are for full farm conversion from pastoral to forestry and five such farms would account for 538 ha of Top Priority land and 594 ha of High priority land, accounting for approximately \$1.150 million of grant funding.

8.12. In order to limit the grant funding and support more targeted grant funding a number of changes to the afforestation grant process are proposed. These are overviewed in the flow chart below and described in the text below:

- Cap the total cost of afforestation at \$1,500 per ha. This is sufficient to fund most jobs planted at 1,000 – 1,200 sph (i.e. current forest practice);
- Limit funding on farms where more than 50% of the farm is being converted from pasture to radiata, and where this is the case target the grant to Top (50% grant) and High (50% grant) priority land only;
- Where less than 50% of the farm is being converted target funding to Top (70% grant), High (50% grant) and Erodible (30% grant) land;
- In either case the maximum funded in any one year is 150 ha per farm;
- Special circumstances could apply, but these are considered on a case by case basis through a centralised committee approval chaired by the Group Manager Natural Resources and Partnerships and within funding and delegation constraints;
- In all cases if SLUI money has already been spent on the site (fence or poles etc.), the grant paid for that work will be deducted from the grant.



Flow Chart: afforestation grant process for SLUI year 1



\*Special circumstances could apply through application to a centralised committee

- 8.13. Effectively this system enables us to manage our current funding near to budget. At this stage a small reserve use would be likely but there is a contingency in that all budgeted work to date is at cap of \$1,500 per ha. Many jobs will come in below this figure with a saving in grant cost.
- 8.14. This allows forestry to be supported to a farm and land priority scale whilst limiting support to large scale forestry. Grant rates stay true to target on Top, High and Erodible land and grant rates can be managed. The 50% of farm limit is an important signal to limit our involvement in whole farm conversions, it provides incentives for small scale forestry as a part of a working farm.
- 8.15. The approach provides for Horizons to maintain an involvement in large scale works, to support best practice such as; right tree right place, riparian set-backs, biodiversity considerations and non-planted areas. This has proved beneficial in discussions with landowners to date.
- 8.16. The new grant model encourages on farm afforestation by targeting the grant rates with 70% for Top land and maintaining a grant rate for erodible land (30%), noting that erodible land still supplies sediment to waterways, afforestation is actually more effective than space planting, and the grant rate being applied is similar to that of space planting. With the grant for erodible land being limited to farm scale planting this still allows the worst land on a farm to be planted or better land within poor paddocks to have grant assistance.



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**Risks to afforestation proposed afforestation grants**

- 8.17. Risks to the approach include potential for “gaming” of the 150 ha cap or the 50% of a farm by planting over consecutive years. The 50% rate is considered the most important as it is signaling “farm conversion”, we would monitor this and subsequent plantings would be ineligible.
- 8.18. There is a risk that those involved in larger scale forestry (> 150ha) were expecting higher levels of grant and could choose not to go ahead. This would mean less Top and High priority land gets treated in our region.
- 8.19. Landowners chose to move to One Billion Trees, this would result in less SLUI funding spend, difficulty in meeting SLUI targets, but overall the work would still get done.
- 8.20. This funding level is budgeted assuming all Mānuka and exotic afforestation will be picked up through One Billion Trees. Landowners may prefer to work with Horizons, even with lower grants, or One Billion Trees may turn down applications to land that Horizons would support. Timeframes for approvals by the One Billion Trees programme, the more involved application process and split payment of grants over time have been quoted by some landowners who have stated that they would prefer to see work co funded by the SLUI programme rather than the One Billion Trees programme.

**Reversion, Retirement and Riparian Grants**

- 8.21. As noted in 8.2, and table one, there are changes by year and by work type to the riparian and retirement grants against the HCEF application. The proposals to accommodate these changes are:
- The HCEF application included funding for reversion at \$1000/ha, with application for \$1.9 million over four years (roughly \$570,000 TUR and \$1,330,000 Horizons). The One Billion Trees has a reversion criteria of \$1,500/ha. SLUI will direct most reversion applications to One Billion Trees and savings will be allocated to other job types.
  - Riparian fencing is not funded after year one as HCEF believe this work to have lesser sediment outcomes. This has been a large proportion of the SLUI programme as fencing on hill country includes land retirement. If not funded at all SLUI would struggle to meet current targets. Horizons believes riparian fencing has good sediment benefits to water quality as well as reducing other contaminants to water.
  - The proposed response put to and agreed by TUR will split riparian fencing into flat land “riparian” supported as “Horizons alone” funding in much the same way as in the current HCEF contract afforestation over 5 ha is Horizons funded, and a riparian retirement category, where the land is in hill country with erodible or worse land with direct links to a waterway, to be joint funded.
  - This proposal would see horizons fund around \$1.4 million of streambank retirement (approx. 160 km and 900 ha of work over the next four years), while the hill country retirement work component would increase by around \$250,000 per year (approx. 110 km and 2,000 ha of work over the next four years).

**Space Planting Grants**

- 8.22. Space planting and other small scale works remain funded as applied for, with an increase of poles over the four years from 28,000 to nearly 40,000 poles per year. There is a small budget for “Horizons Only” funding of management of Old Man Poplars and pruning of new poles, funding is limited to \$60,000 per year.

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## **9. SUMMARY**

- 9.1. The non grant portion of the HCEF application was approved as applied, this will support extra staff time to map and deliver SLUI to more landowners whilst retaining mapping and data integrity.
- 9.2. There is a need to make changes to afforestation expenditure to limit the funding available (demand exceeds funding), and to ensure grants are targeted to priority land.
- 9.3. The approval received from TUR has resulted in staff having to adjust funding between years and between work types, as well as redirecting some works to One Billion Trees, staff will change the way they fund riparian and retirement work types.

## **10. SIGNIFICANCE**

- 10.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

Grant Cooper

**MANAGER LAND & PARTNERSHIPS**

Jon Roygard

**GROUP MANAGER NATURAL RESOURCES & PARTNERSHIPS**

## **ANNEXES**

There are no attachments for this report.