

Draft Incentives Scheme Framework

September 2013

Purpose of this Report

This report seeks the approval of the Stakeholders Advisory Group for the Incentives Scheme Policy included as Attachment 1.

Decision Required

StAG agreement on the approach, principles, criteria and conditions in the Incentives Scheme Policy, included as Attachment 1 to this report

Background

Regional Policy Statement

The Proposed Regional Policy Statement (RPS) provides specific policies for the management of nitrogen in the Lake Rotorua catchment:

- Policy WL 3B – the total amount of nitrogen that enters Lake Rotorua shall not exceed 435 tonnes per annum
- Policy WL 5B – allocate the 435 tonne limit amongst land use activities
- Policy WL 6B – no discharges shall be authorised beyond 2032 that result in the 435 tonne limit being exceeded. An intermediate catchment-wide target is to be set to achieve 70% of the required reduction by 2022

The amount of nitrogen currently discharging to the lake is approximately 755 tonnes/year. To achieve the 435 tonnes/year limit, a 320 tonne/year catchment wide reduction is required. It is estimated that 50 tonnes can be achieved through engineering solutions, leaving 270 tonnes that can only be achieved from a reduction in nitrogen loss from pastoral land use.

The current estimated loss of nitrogen from pastoral land is 526 tonnes/year. In order to achieve the 270 tonne/year reduction, total pastoral loss must be reduced to 256 tonnes/year.

Rules and Incentives Framework

The Rotorua Te Arawa Lakes Programme and the Stakeholders Advisory Group (StAG) have worked closely together to develop a framework for achieving the 270 tonne reduction. On 17 September 2013, the Regional Council made a decision on a framework to achieve the 270 tonnes/year reduction from pastoral land use. This framework splits the 270 tonnes into three areas of responsibility:

- Rules Programme – pastoral farmers to achieve a total reduction of 140 tonnes by 2032 by meeting a nitrogen discharge allowance (NDA) of 35 kg/ha (dairy) and 13 kg/ha (dry stock).
- Incentives Programme – the Regional Council to remove 100 tonnes of nitrogen through an Incentives Scheme. A total of \$40 million is available to achieve 100 tonnes of reductions below the 35/13 line and \$5.5 million is available to assist with getting farmers to their NDAs above the line.
- Gorse Programme – the Regional Council to remove 30 tonnes of nitrogen through gorse control. This project will be funded and implemented separately.

This framework is awaiting approval of the Rotorua Te Arawa Lakes Strategy Group who will consider the above framework on the 27th September.

Rules Programme

Under the Rules Programme, the landowners are responsible for achieving a total reduction of 140 tonnes of nitrogen across the catchment. Each farm will be allocated a Nitrogen Discharge Allowance (NDA) of, on average, 35 kgN/ha for dairy or, on average, or 13 kgN/ha for drystock. The NDAs range will take into account the geophysical and farm system characteristics of each farm. These ranges are yet to be determined. Landowners have until 2032 to reach their NDA.

Each farm will be required to have a Farm Nutrient Plan in place by 2015. These plans will set out a practical pathway for staged nutrient reductions that will achieve the NDA by 2032. The Farm Nutrient Plan will then be a consent condition in resource consents issued for each farm by 2017. Rules will be introduced into the Regional Water and Land Plan (RWLP) to provide the regulatory framework for this programme.

Incentives Programme

The Incentives Programme is predominantly focussed on encouraging reductions in nitrogen discharge by 100 tonnes from below the line. That is, these changes are in addition to changes implemented to achieve the NDA. A total of \$40 million is available to incentivise changes below NDA.

The remaining \$5.5 million is available to assist farmers with above the line reductions to get to their NDAs.

Gorse Programme

870 hectares of land is currently covered with well-established gorse. This “old man gorse” has the potential to leach 38 kgN/ha/year. A Gorse Programme funded and implemented separately from the Rules and Incentives Programme will aim to remove 30 tonnes of nitrogen from the lake catchment.

Summary of Allocation Framework

Rules Programme – 140 tonne reduction		
By 2015	Farm nutrient plans	Plans will be put in place for every farm, setting out a practical pathway of staged nutrient reductions
By 2017	Resource consents	Farms will be consented, with nutrient reduction plans as a consent condition
By 2032	Nitrogen Discharge Allowances	Average of 35kg N/ha for dairy and 13kg N/ha for drystock, with adjustments made for geophysical and farm system characteristics
	Funding	\$5.5m of funding provided to get to the NDAs

Incentives Programme – 100 tonne reduction		
By 2022	Incentives fund	\$40m “below the line” to remove 100 tonnes of N

Gorse Programme – 30 tonne reduction		
By 2022	Gorse fund	Separate funding to remove 30 tonnes of N from gorse

Incentive Scheme Policy and Design

The successful funding of the Incentives Scheme relies on Cabinet approval to change the Deed of Funding. This change would reassign existing funds to the Incentives Scheme for land use change and land use management.

The Ministry for the Environment (MfE) and Treasury will present a paper to Cabinet in support of this change. Staff from MfE and Treasury have asked for information to include in the Cabinet Paper. One of the key items requested, is a high-level policy document for the Incentives Scheme. This is the Incentives Scheme Policy included as Attachment 1.

MfE have requested that the information is provided by October 2013 to allow time to prepare for the December 2013 Cabinet. This meeting is the last opportunity for StAG to comment on the policy before it is provided to MfE. Staff are advised that the timeline for providing information to MfE for inclusion in the Cabinet Paper cannot be changed.

Documents including the Incentives Scheme policy and design have already been provided to StAG on several occasions. The intention was to discuss the Incentives Scheme over a series of meetings and reach an agreement. However, the decision on the Rules and Incentives Framework was postponed while an alternative framework was developed. Without that decision, significant progress on the Incentives Scheme policy could not be made and this has shortened the timeframe for its delivery.

At this stage the intention is to discuss and approve the high level *policy*. The fine detail of the Incentives *design* will be revisited in upcoming meetings.

Attachment 1

Incentives Scheme Policy

Aim

The aim of the Incentives Programme is to:

- Provide financial assistance *above the line* to assist pastoral farmers to meet their NDAs (up to \$5.5 million); and
- Incentivise land use change and land management change *below the line* to reduce the nitrogen discharge to the lake by 100 t/year (up to \$40 million).

Approach

The approach sets out high-level mechanisms for running the scheme – ensuring fairness, transparency, and adaptability are built into the framework from the beginning. This approach is standard practice when providing public funds for private use.

The Incentive Scheme will be run according to the following approach:

1. An open and transparent process – information will be readily available about how proposals will be assessed and decisions made, scheme mechanisms will encourage competition.
Reason – This is consistent with standard Council procedures and good practice for any project where public money is being provided to private landowners.
2. Fair access – the Incentives will be open to all landowners who are likely to be affected by nutrient reduction rules, there will be equal opportunities to apply for funding.
Reason – Ensures that any landowner affected by the Rules Programme is eligible to apply for funding, regardless of any other factor (e.g. income).
3. Well governed – there will be clear governance structures and accountability for impartial decision-making.
Reason – When allocating public money, the public need to trust that decisions are made without bias, by parties with no financial interest in the outcome.
4. Based on efficient administration – we will use existing systems and resources where possible to ensure funding is used for the purpose intended.
Reason – With limited funds available, it makes good business sense to ensure that administration costs are kept to a minimal to achieve the best impact per dollar spent.
5. Responsive to opportunities – within the boundaries of the agreed process, we will remain open to new approaches and opportunities as they emerge.
Reason – The scheme is set to run over a long timeframe. Innovation and advances in technology over this time, may lead to unanticipated opportunities.

Principles of Funding Allocation

The principles are intended to give guidance to selecting funding recipients. They are not intended to be used as a checklist of requirements that must be met before the application will be considered.

When selecting funding recipients we will favour:

1. The most nitrogen reduction per dollar – all other things being equal, we will seek the lowest price for nitrogen.

Reason – This principle promotes efficiency – a basic requirement for the distribution of public funds. We also have limited funds available to achieve an ambitious target, so the best price for nitrogen will help to ensure we achieve the necessary reductions.

2. Proposals with co-benefits - which could include economic growth, social and cultural wellbeing, and environmental outcomes. For example increased employment.

Reason – Promotes the selection of solutions that maximise benefits beyond simply reducing nitrogen and minimising other impacts. The most efficient actions (in terms of the most nitrogen for the least cost) may have other unintended consequences to the community.

3. Actions that commit to significant land-use change or land use management and/or achieve significant reductions of nitrogen.

Reason – Although administration costs will be kept as low as possible, there is still an administrative burden associated with processing applications and distributing funding. Therefore the magnitude of the change being funded needs to be significant enough to justify these administration costs.

High-level Criteria for Funding Allocation

1. Only actions with a high degree of certainty of nutrient reduction will be funded.

Reason – As we have to measure progress and are accountable for reaching catchment targets, we need to be as close to certain as possible that proposed interventions will be successful in achieving specific reductions.

2. Funding below the line will only be provided for actions demonstrated to achieve reductions below the NDA for the property.

Reason – Funding to achieve the NDA classifies as above the line.

3. Landowners must be compliant with Regional Water and Land Plan Rules.

Reason – any landowner in breach of the Regional Water and Land Plan should not receive public funding until they are fully compliant.

Exclusions

Funding will not be provided for:

1. Any nutrient reduction actions that are considered part of good farming practice.
Reason – Farms should already be operating at good practice.
2. Any nutrient reduction actions commenced and/or completed prior to the introduction of the Rules and Incentives Framework and this Incentives Policy.
Reason – the purpose of the funding is to incentivise future actions, not to compensate for actions already completed.
3. Gorse control.
Gorse control is being addressed by a separate project with separate funding.
4. Nutrient reduction activities that are cost neutral to do or that are financially positive.
Reason – Public funds should not support actions that are part of standard business improvement for farms.

Conditions of Funding

1. Evidence that reductions are clear, quantifiable and measurable e.g. Overseer®.
Reason – The Regional Council needs quantitative evidence to establish that the reductions have occurred or will occur as a result of the action that is being funded.
2. All reductions must occur in perpetuity.
Reason – Central Government and the Regional Council need to be assured that the problem is solved permanently (given the significant financial contribution from public funding), and that the issue will not resurface as a burden for the next generation.
3. The Regional Council will use legal mechanisms to enforce reductions as appropriate e.g. caveats, contracts.
Reason – the Regional Council needs a legal mechanism to enforce any breach of conditions that means the required reduction (as funded by the public) is achieved.
4. Funding recipients and/or their service providers, will be contracted by the Regional Council and paid funding when work is completed or at agreed milestones.
Reason – Provides certainty to all parties that the funding will be distributed, and that it is being used for the intended purpose.
5. All limits, targets, NDAs, Overseer® versions etc will be identified and set at the time of legal binding.
Reason – Provides certainty to all parties that targets will not change for the duration of the Programme.