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In Confidence  
Office of the Minister of Forestry

Chair  
Cabinet Economic Development Committee

## **The One Billion Trees programme – actions and decisions for implementation**

### **Proposal**

1. In December 2017, Cabinet noted my intention to report back by June 2018 on progress towards a comprehensive programme to deliver one billion trees [CBC-17-MIN-0061]. This paper outlines the proposed Programme, and the Cabinet decisions required for implementation.
2. I am seeking allocation of Provincial Growth Fund (PGF) funds to the One Billion Trees programme through:
  - rescinding \$40.3 million of Hill Country Erosion programme out-years funding and bringing it forward to 2018/19 to fund other grants and partnerships initiatives;
  - agreement to \$84.0 million as a pre-commitment charged against Budget 2019 to fund the new tree planting grants scheme and partnership fund in 2019/20, counting against the \$1 billion per annum Provincial Growth Fund for 2019;
  - agreement to \$97.3 million as a pre-commitment against Budget 2020 to fund the new tree planting grants scheme and partnership fund in 2020/21 counting against the \$1 billion per annum Provincial Growth Fund for 2020; and
  - drawdown of the \$13.5 million indigenous tree planting contingency agreed through Budget 2018.
3. I propose that, once approved, the allocated PGF funds be transferred from the PGF (Vote Business, Science and Innovation) to Vote Forestry.

### **Executive Summary**

4. The One Billion Trees programme forms a key part of the Government's goal to support a sustainable transition to a low emissions economy. The programme can provide a unifying vision for New Zealanders, target employment for marginalised communities, improve erosion and water quality, and support Māori aspirations for their land and forests.

5. Business-as-usual planting and replanting could deliver a significant proportion of trees towards the one billion tree total over the next decade. The majority of these trees will be replanted radiata pine following harvest.
6. Supporting business-as-usual planting is a low-cost option for the Government. It requires policies that maintain confidence in forestry and wood processing and support replanting where commercially and environmentally appropriate. Particular challenges for Māori forest owners will need to be addressed to enable them to replant their existing forests and increase planting on new land.
7. However, business-as-usual activity is not sufficient to address climate change objectives, or the broader environmental, economic, social and cultural outcomes that the Government wants to achieve.<sup>1</sup>
8. For these broader goals a sustained land-use change is needed, including the conversion of non-productive and less productive pastoral land to forestry, and the better integration of trees into farming landscapes. This requires a wider mix of both indigenous and exotic species with an emphasis on the right tree, in the right place, for the right purpose.
9. Between 230,000 and 430,000 hectares will need to be planted in new trees to reach the one billion tree target. GIS mapping indicates there are about four million hectares of lower-producing pastoral land, largely in private and Māori ownership. Relatively small areas of Crown Land are suitable and available for planting.
10. Changes to improve the price incentive of the New Zealand Emissions Trading Scheme and other settings for forestry, and proposed regulatory changes to improve water quality, will drive land-use changes and increase tree planting once they are in place from 2021 onwards.
11. This means the key need for direct government investment is over the next three to four years. Investment needs to focus on:
  - overcoming barriers to planting trees (technical and information gaps, co-ordination, negative perceptions about forestry);
  - better supporting the environmental benefits that trees can deliver, while managing potential unintended consequences; and
  - new and alternative planting and forestry models that deliver a viable economic return to landowners (including wood products for future markets).
12. To achieve these goals I propose:
  - **a new grants scheme** – to provide simple and accessible direct grants for the cost of planting and establishing trees and indigenous regeneration, with a target of two-thirds of trees being indigenous; and

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<sup>1</sup> The Productivity Commission's draft report on transitioning to a low emissions economy estimates that land planted in forests will need to increase between 1.3 – 2.8 million hectares (up to 2.8 billion new trees) over the next 30 years. As the one billion trees target includes trees that are replanted after harvest, it will contribute less than a third of this total.

- **a partnership fund** - to address the enablers to tree planting (seedling and nursery production, labour, science, technology and innovation, and information provision, support and technical advice) and to deliver landscape restoration, leveraging co-funding from a range of non-government organisations, local government and communities.
13. Together with the previously agreed Crown Forestry commercial joint ventures, these investments will establish momentum for tree planting and address barriers currently faced by private landowners.
  14. Establishment and delivery of the new grants scheme and partnership fund will cost \$62.2 million in 2018/19, \$84.0 million in 2019/20 and \$97.3 million in 2020/21. Three years funding is required to provide sufficient certainty to landowners, partners and suppliers to scale up tree planting efforts and for Te Uru Rākau to have long-term roles to attract suitable staff.
  15. I propose that approved funding for the One Billion Trees programme be transferred from the PGF (Vote Business, Science and Innovation) to Vote Forestry. This will support agile decision-making, maintain a coherent package of support for the Programme, and align with existing tree planting funds.
  16. I will report back on any additional funding requirements beyond the first three years of the programme once there is further information about the take-up and impact of the investments and regulatory changes. I also intend to further consider the role of joint ventures and to report back to Cabinet on this in December 2018.
  17. There are a range of broader forestry issues and challenges, outside of the One Billion Trees programme, including the need for more sustainable commercial planting and harvesting models, future wood supply, and the development of a skills and training strategy. These will be addressed by Te Uru Rākau, in co-ordination with other agencies, as part of its ongoing work programme.

## Background

18. In 2017 the Government established the One Billion Trees programme, to be delivered by Te Uru Rākau a branded business unit within the Ministry for Primary Industries (MPI).
19. The Programme is expected to drive a transformation of New Zealand forestry to deliver improved social, environmental and economic outcomes. It will have a significant role in moving New Zealand towards a low emissions economy by absorbing atmospheric carbon and by providing renewable replacements for fossil-hydrocarbons in our economy (e.g. wooden building products, biofuel, cellulose).
20. Cabinet has previously approved \$245.0 million from PGF to kick-start the Programme [Budget 2018]. This is for the planting of up to 24 million trees in

2018 and 2019 through Crown Forestry joint ventures, maintenance of these trees until 2027 and associated administration costs (\$162.9 million), a native tree planting contingency (\$13.5 million), and expansion of Te Uru Rākau's existing Hill Country Erosion programme (\$68.6 million).

21. Cabinet also agreed to allocate \$30.7 million from the PGF to MPI baseline for planting and maintaining trees (\$12.8 million) [CBC-17-MIN-0061] and for existing afforestation scheme funding (\$17.9 million) [CAB-18-MIN-0045]. These costs were not charged against the Budget 2018 allowance.
22. In February 2018 Cabinet agreed that:
  - the Programme will be funded through the PGF;
  - the PGF will delegate to the Minister of Forestry responsibility for delivering the Programme, including accountability for the use of the funds allocated, in consultation with other relevant Ministers (primarily Finance, Environment, Climate Change and Conservation);
  - the Programme will be treated as a priority for consideration by the PGF over its three years given the level of government commitment to forestry;
  - additional eligibility criteria will apply to initiatives funded through the Programme; and
  - the Minister of Forestry will provide report backs to Cabinet on the progress of the Programme in June and December each year, for the term of the government [CAB-18-MIN-0045].

#### *Responding to Land and Water Forum advice*

23. Recent Land and Water Forum advice on improving water quality has recommended the Government publish a multi-objective plan for where to plant the one billion trees and seek public comment on it. As an interim measure, I propose to publicly release this Cabinet paper which outlines the proposed plan. Officials will then engage at a regional level on the proposals with the groups that will be involved with programme delivery.
24. Further consultation will also occur during Te Uru Rākau's proposed Forestry Strategy development process, scheduled for later this year.

#### **Comment**

25. Achieving the target of one billion trees over ten years will require maintaining or improving current rates of commercial planting and replanting, and also supporting increased rates of planting of indigenous and non-commercial trees (including for erosion, water quality, biodiversity, shade and shelter).
26. This will require active and coordinated contributions from many players. Regional councils will play a pivotal role by scaling up and broadening their current activity and applying their knowledge and networks. Government departments, Māori, NGOs, the commercial sector, and private landowners also have major contributions to make.

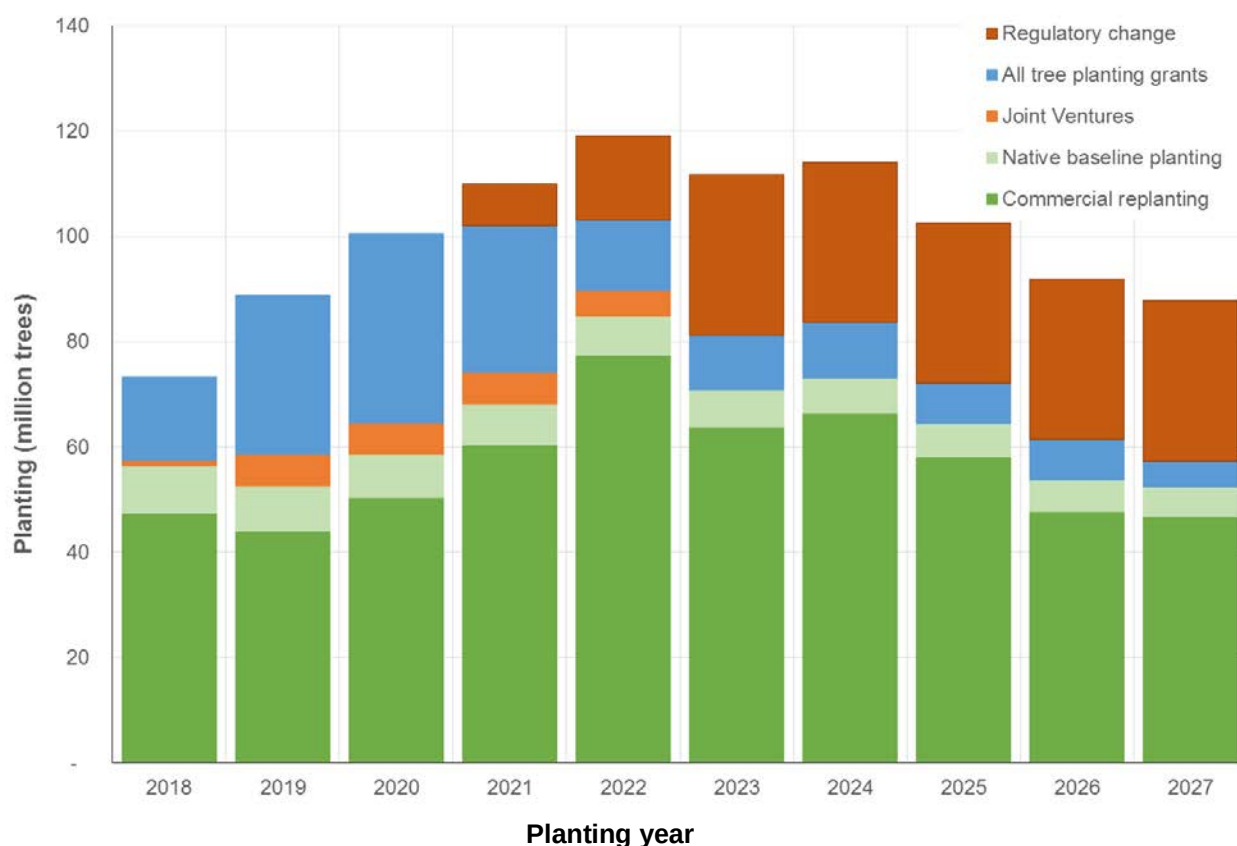
27. This paper describes a potential pathway to reach the target using a mixture of tools and incentives, as outlined in the table below.

Table 1: Potential pathway to one billion trees

| <b>Incentive/<br/>Tool:</b>                       | <b>Planting it will<br/>drive:</b>                                     | <b>Attributes:</b>                                                                                                                                                                                                                             | <b>Possible contribution to<br/>target over 10 years:</b>                      |
|---------------------------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| <b>Commercial<br/>planting and<br/>replanting</b> | Radiata pine                                                           | Increasing industry replanting and new planting reduces cost to government. But, some areas should not be replanted for clear-fell rotation trees.                                                                                             | 570 to 770 million trees (replanting)<br>110 - 140 million (ETS/ carbon price) |
| <b>Existing<br/>indigenous<br/>planting</b>       | Indigenous trees                                                       | Trees are often an outcome of other environmental goals or community projects.                                                                                                                                                                 | 90 million trees                                                               |
| <b>Regulatory<br/>changes</b>                     | Radiata pine (ETS)<br>Indigenous trees (water quality, erosion)        | Likely to take 3 – 4 years for changes to drive new planting                                                                                                                                                                                   | 102 - 170 million trees (ETS improvements, depends on final decisions)         |
| <b>Grants</b>                                     | Mānuka and other indigenous trees<br><br>Exotic species including pine | Anticipated cost \$1300 - \$6000/ hectare. Lower cost than other investment options, and good design crucial. Works well in combination with regulatory changes and partnerships.                                                              | 125 million new trees<br><br>30 – 60 million from existing grants              |
| <b>Partnerships</b>                               | Mainly indigenous and non-commercial tree species                      | Well suited to special projects. Medium to high up-front costs and high ongoing costs to year five. Other partners (e.g. regional councils) can part-fund. Supports enablers to planting (seedlings, labour, innovation, information sharing). | Supports other planting                                                        |
| <b>Joint<br/>ventures</b>                         | Radiata pine and other commercial timber species                       | Higher up-front cost to the Crown and on-going costs (\$10,000/ hectare 30 year cost). Return on investment of 5-7%. Risks crowding out private sector. Attractive to Māori with no capital to plant.                                          | 24 million trees (already approved)                                            |
| <b>Total</b>                                      |                                                                        |                                                                                                                                                                                                                                                | <b>1 to 1.4 billion</b>                                                        |

28. The following graph shows the estimated contribution of the proposed interventions to the one billion trees target over time.

Figure 1: Estimated planting contributions



29. The following sections of the paper provide more information on each of these contributions, along with key assumptions, benefits, risks and trade-offs for the Government to consider, and sets out the funding requirements for the first three years of the Programme.

#### *Compliance with international obligations*

30. The Programme will be designed and implemented consistently with New Zealand's international obligations, such as those it has as a member of the World Trade Organisation, and from existing and forthcoming free trade agreements.

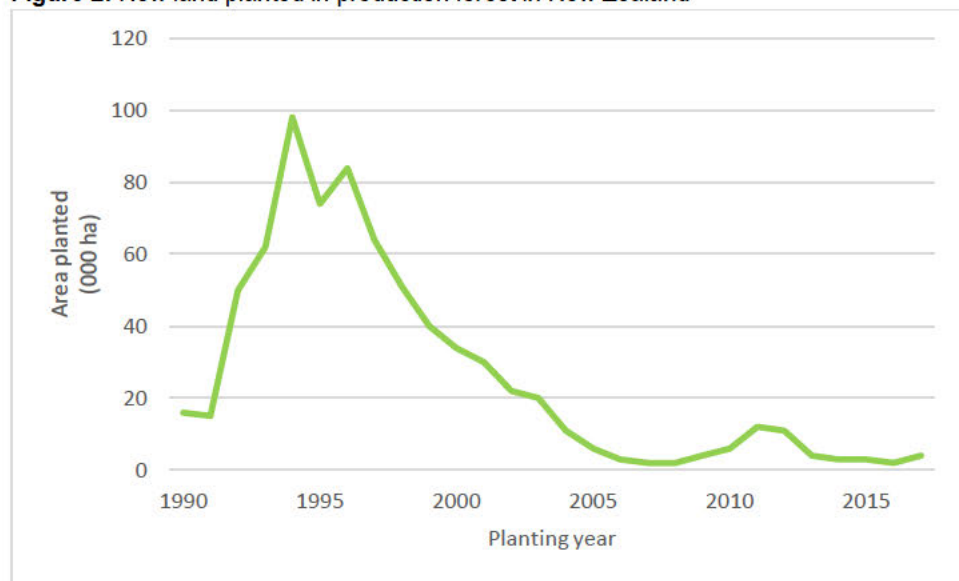
#### **Commercial forestry new planting and replanting**

31. Rates of new commercial afforestation has been slow for a number of years. As the graph below illustrates there was a significant peak of new planting of nearly 100,000 hectares in 1994, but since the 2000s planting levels have been low. An estimated 4000 hectares (4 million trees) was planted in 2017. Predicted high carbon prices may increase the amount of new planting over the next decade.<sup>2</sup>

<sup>2</sup> Refer Sub18 0034 *New Zealand Emissions Trading Scheme (ETS) Review: Improving the ETS for forestry*



**Figure 2: New land planted in production forest in New Zealand**



Source: <https://www.mpi.govt.nz/dmsdocument/28464-nefd-2017-online-tables-xlsx>

32. As plantation forestry is a long-term investment, a stable investment environment is important for providing confidence to the sector to plant new trees. A range of broader government work programmes (e.g. tax policy, measures to support the wood processing sector) will impact on the decisions that commercial foresters make.
33. Of note are the currently proposed amendments to the Overseas Investment Act. The changes provide for new simplified screening options for overseas investors seeking to buy existing land or forestry rights or convert land to forestry. This is intended to direct overseas investment towards forestry. Officials will work with the forestry industry to help them understand these changes and monitor the impact on new planting over the next two to three years.
34. Currently about 50,000 hectares (50 million trees) of commercial forests are replanted each year, almost all of which is harvested radiata pine forest. There is an increasing volume of wood coming up to harvest age (due to the large-scale planting in the 1990s note in the graph above). Harvesting will peak in 2022, and in that year replanting is expected to reach 65 to 70 million trees.
35. The rate of commercial replanting over the next decade will have a significant impact on the one billion trees total. For example, if the recent 95% replanting rate was maintained over the next decade this would equate to 770 million trees.

**Explanatory note for proactive release of Cabinet paper**

The figure of 770 million referred to in paragraph 35 reflects the large numbers of trees that were planted in the 1990s and are coming up for harvest over coming years. If this level of planting occurs the target of one billion trees will be exceeded, and more than one billion trees will be planted. This will enable the programme to achieve a higher level of environmental, social and economic outcomes.

36. The soon-to-be-released New Zealand School of Forestry 2018 “Intentions of forest owners following harvest of post-1989 forests” report finds that forest owners intend to replant 89% of area currently in production forest.
37. It is likely that actual replanting rates will be lower than 89% due to:
- uncertainty about the harvesting and replanting intentions of small forest owners, who will make up an increasing proportion of the harvest<sup>3</sup>; and
  - particular barriers that Māori may face in replanting existing forests (further information on these barriers is provided in Appendix One).
38. Commercial planting and replanting could result in nearly three quarters of the one billion trees target being pine. However, there may be areas where this will not deliver the best environmental or economic outcomes. Recent events in Tolaga Bay and Marahau have emphasised the challenges relating to short-rotation clear-fell management of radiata pine on highly erodible land.
39. Increased effort will be required to identify areas not suitable for rotational clear-fell regimes (due to environmental, work safety or commercial viability reasons) and to ensure better control of harvesting on marginal land. Te Uru Rākau is currently working with the Department of Conservation, Regional Councils, landowners, environmental NGOs and the commercial forestry sector to address these issues.
40. The new National Environmental Standard for Plantation Forestry (NES-PF) provides a framework for this, and escalates the controls available to regional councils about what forestry activities can be undertaken, and where. A one-year review is planned of the NES-PF for 2019, which will include looking at the controls currently available and implemented by councils. Further reviews are scheduled for years three and five.
41. Te Uru Rākau is discussing with industry and forest researchers the best forestry options for these classes of land to improve forestry management practices and mitigate the risks of environmental and social damage (including severe erosion and slips). A likely option is some form of continuous forest cover. The economics of different options will need careful consideration including options for alternative income streams to landowners where significant land-use change is needed.

### **Existing indigenous tree planting**

42. Approximately nine million non-commercial trees are planted across New Zealand each year.<sup>4</sup> This planting includes landscape and riparian planting, and planting for biodiversity and erosion control. Planting is undertaken by local community groups numbering in the hundreds, regional councils, iwi/Māori, non-

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<sup>3</sup> The New Zealand school of forestry post-harvest intentions report is skewed to views of larger forest owners

<sup>4</sup> This estimate is based on information from Trees that Count, extrapolated from tree planting reported to its online platform. No comprehensive data exists of all non-commercial or indigenous tree planting.



government organisations and private landowners who undertake a range of activities from predator control to planting trees.

43. Indigenous tree planting is partially supported by government funds and in-kind support, for example:
- Ministry for the Environment's Freshwater Improvement Fund (\$100 million);
  - Department of Conservation's Community Fund (\$4.6 million per annum);
  - Te Uru Rākau's Hill Country Erosion programme (\$18.1 million), Afforestation Grants Scheme (\$10.4 million until 2020); and
  - Department of Conservation and landowners providing seedlings, pest control and access to land.
44. Tree planting is often one way to achieve the objectives of these funds, but the objectives are generally broader than tree planting. A base assumption for the One Billion Trees programme is that existing indigenous tree planting continues, with the level of private and government funding and support being maintained or increased.
45. To maximise the broader environmental benefits of the Programme and to make sure the right tree is planted, in the right place, for the right purpose, there is scope to significantly increase indigenous tree planting. There are a range of challenges that will need to be addressed to do this, as outlined in the grants and partnerships sections later in this paper.

## **Regulatory changes**

46. A number of regulatory changes are being proposed to improve forestry as an investment option and enhance indigenous tree planting. These changes have the potential to drive a significant proportion of tree planting over the coming decade towards the one billion trees target.
47. Examples include:
- amendments to the Emissions Trading Scheme (ETS) to make it easier for people to participate and improve the price incentive for tree planting;
  - review of water quality policy settings that are expected to elevate the role of trees. s 9(2)(f)(iv) [REDACTED]
  - potential changes based on the tax working group recommendations; and
  - s 9(2)(f)(iv) [REDACTED]
48. Regulatory changes are expected to increase private sector commercial forestry investment beginning around 2022. Depending on assumptions about existing carbon price and ETS, and the impact of regulatory changes to the ETS, this could deliver approximately 102 - 272 million additional trees by 2027. The trees landowners choose to plant are likely to largely be radiata pine (incentivised through carbon and commercial return) and a smaller number of indigenous trees (incentivised through carbon and water quality regulations).

49. Once ETS settings (and other regulatory changes) have been confirmed, officials will review the expected level of government intervention required to maintain the necessary planting rates. Further advice on other changes and their impact on the One Billion Trees programme will be included in future six monthly updates to Cabinet.

## **Grants**

50. Te Uru Rākau currently administers three afforestation schemes – the Afforestation Grants Scheme, the Hill Country Erosion programme and the Erosion Control Funding Programme.
51. While these schemes have been successful in delivering tree planting and a range of wider environmental benefits, there are a number of barriers that limit landowner uptake of the direct planting grants (ie the Afforestation Grants Scheme). These include the rate of funding provided, the complexity of application processes, the scale and scope of tree planting that will qualify for funding and the level of wrap-around support provided to applicants. Appendix Two provides further detail on the barriers in the current Afforestation Grants Scheme.
52. In addition, the funding term is about to end for two of the programmes - with final applications for funding for the Afforestation Grants Scheme in 2019, and the Erosion Control Funding Programme in 2020, limiting their overall contribution to the one billion trees target under the status quo.

### *Incentivising landowner decisions to plant trees*

53. Incentives for landowners to plant commercial trees, particularly radiata pine and mānuka, are already relatively high. There are well-known management models, relatively low costs for seedlings, good survival rates and the prospect of income from ETS participation and/or from a timber harvest or honey production. These factors, combined with the existing Afforestation Grant Scheme rate of \$1300 per hectare, are driving the current mix of species that are planted. Of the approximately 4,800 hectares contracted for planting in 2017/18 under the Afforestation Grants Scheme, approximately 50 percent is indigenous (primarily mānuka) and the remainder is exotic (primarily pine).
54. Other components of the One Billion Trees programme, such as commercial joint ventures and changes to improve the ETS settings for forestry will largely drive radiata pine planting. This means there is a limited case for incentivising radiata pine planting through targeted grants funding. Commercial honey production may also continue to support increases in mānuka plantations, suggesting lower grant rates are required for landowners to choose to plant mānuka.
55. By contrast, indigenous tree planting for biodiversity, erosion control, water quality and other environmental benefits have higher barriers for landowners to overcome. Seedlings cost more (\$2 - \$5 each compared to as low as 33 cents for radiata pine) planting costs are higher, survival rates are lower, pest

management requirements are greater, information and technical advice is limited, and carbon returns from any forests will be lower in the short term.

56. To incentivise this broader range of indigenous tree planting, a higher grant rate that covers a greater proportion of the costs of the trees is needed, together with a more flexible and accessible fund design. Officials estimate that the grant rates would need to be increased to <sup>s 9(2)(f)</sup><sub>(iv)</sub> per hectare for indigenous trees (and potentially higher for specific types of trees) to support significant new planting.
57. Although this will increase the cost of achieving the one billion trees target, it will support the Programme to achieve more diverse benefits, particularly through the restoration of indigenous ecosystems and biodiversity.
58. There is also the opportunity to significantly increase the amount of assisted regeneration of indigenous forest through the programme. Regeneration can provide a range of benefits to a landowner, including improving the natural beauty of a landscape, increasing biodiversity, improving water quality and sequestering carbon. In the short term however, costs include fencing, pest and weed control, supplementary planting, and retiring land from some other potentially productive use. A targeted grant rate could assist with these costs.

#### *Proposed new flexible grants scheme*

59. I propose a new flexible grants scheme for tree planting. The scheme will increase plantings to deliver, in particular:
- reduced erosion;
  - improved water quality;
  - regional development;
  - development of Māori-owned land where there are barriers to privately funded tree planting;
  - biodiversity through restoration of natural forests; and
  - diversification of productive land uses, including through indigenous forestry and continuous canopy forestry.
60. Taking into account the trees that are being planted through existing afforestation grants, and the ability of landowners and supporting systems to scale up, officials estimate that this new scheme could drive 60 million new trees over the next three years, and 125 million new trees over ten years<sup>5</sup>. I propose a target of two-thirds of these trees being indigenous.

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<sup>5</sup> These figures are based on the assumption that grant-funded forests are allowed earlier entry in the ETS. Numbers will vary depending on final policy decisions and the uptake of grants for different types of planting.

61. The new scheme would:
- provide increased rates and more targeted funding to incentivise planting of a range of species (eg alternative exotics, other indigenous, mānuka, assisted regeneration) for diverse benefits;
  - offer support to landowners from decision-making through to the successful establishment of trees; and
  - have clear criteria to avoid tree planting that would have negative impacts such as the spread of wilding trees, and slash and sedimentation issues.
62. More flexible funding arrangements would enable grant settings to be more easily adapted in response to emerging priorities. Grant categories could also be established for special purposes, such as planting land damaged by the Kaikōura earthquake, Māori land entities with financial barriers to successful tree planting, and establishing new regimes for erosion prone land.
63. The new grants scheme would address known barriers and be more accessible to Māori entities and other landowners who have found navigating current grants challenging. It would do this through:
- access designed to meet applicants' planting needs;
  - streamlined application and contracting processes;
  - timing of grant payments that reduce the upfront financial burden on landowners; and
  - technical support and advice to landowners.
64. Larger or more complex projects or programmes will be able to access funding for tree planting from the new grants scheme. This will enable funding to be better targeted to achieve benefits at greater scale within a catchment or region, and delivered in partnership with others, such as regional councils and other organisations.

#### *Agreement to grant categories and rates*

65. I am seeking Cabinet agreement to delegate approval of the final grant categories, criteria and rates ranges for this new grants scheme to the Minister of Forestry, the Minister for the Environment and the Minister of Finance, in consultation with other Forestry Ministers (Climate Change, Conservation and Agriculture).
66. Te Uru Rakau will continue working with the Department of Conservation, Ministry for the Environment and other stakeholders on risk management for the proposed funding criteria and rates, to ensure that the best incentives are in place to support planting where there are limited commercial drivers for investment, but there are opportunities for broader social and environmental benefits.
67. Officials will provide advice to Ministers over the next two months, so that the new grants scheme can commence in the last quarter of 2018.

### *Estimated costs of delivering the new grants scheme*

68. The new grants scheme will cost \$13.0 million in 2018/19, \$41.3 million in 2019/20 and \$46.3 million in 2020/21. This funding will deliver up to 60 million trees over the first three years of the Programme.
69. Additional funding will be required for administration of the new grants scheme over this three year period - \$3.8 million in 2018/19, \$5.7 million in 2019/20 and \$6.0 million in 2020/21. This will cover administration, spatial analysis, monitoring, system design, and support to landowners. These services will protect the investment as they will support uptake of the grants, planting of the right tree in the right place for the right purpose, and high survival rates.

### *Allowing grant-funded forests to register in the Emissions Trading Scheme*

70. The current Afforestation Grants scheme restricts forests planted under grants from entering the ETS until ten years after planting. Officials are considering whether forests funded by the new grants scheme should be allowed earlier entry to the ETS, if they meet the relevant eligibility criteria. This could be justified if grants pay for non-carbon benefits and address other barriers to tree-planting.
71. About 80% of grant-funded forests are likely to be ETS eligible. The associated carbon income would help address the lack of annual returns from forestry, which are reported to be a significant barrier, particularly for farmers, in planting trees.
72. All new forest planting that is potentially ETS eligible has an impact on the forecast allocation of New Zealand Units (NZUs) in the ETS, unless restrictions apply such as in the current Afforestation Grants Scheme. The forecasts are updated six-monthly to reflect current policy settings.
73. There are complex fiscal, accounting and design implications to be worked through for the options of early registration of grant funded forests in the ETS. I propose that officials led by Te Uru Rākau provide further advice on this so a decision can be made by delegated Ministers, in conjunction with decisions on grant categories, criteria and rate ranges. This will enable more robust consideration of the different options and their implications.

s 9(2)(f)(iv)

*Relationship of the proposed new grants scheme to current afforestation schemes*

78. I intend to transition the current Afforestation Grants Scheme to the new grants scheme along with any uncommitted funds. The ninety-six current applicants for the 2018 funding round would benefit from the new scheme's criteria.
79. Additional funding for the Hill Country Erosion programme [Budget 2018] enables further funding of regional council programmes, including those that encourage riparian planting. The new grants scheme will complement this programme.
80. I am proposing to rescind \$40.3 million of Hill Country Erosion programme out-years funding and bring this forward to 2018/19 to fund other grants and partnerships initiatives. This will enable the current year's boost funding, and the four year funding round for planting commencing in July 2019 to continue as planned. Beyond this the Hill Country Erosion fund will revert to its original baseline of \$2.2 million per annum.
81. I have asked officials to provide further advice in the next report back to Cabinet on whether additional changes are needed to the Hill Country Erosion programme, particularly for riparian planting. If it was decided that funding for Hill Country Erosion should continue in out-years beyond 2023, this could be sought through a future Budget process.
82. The Erosion Control Funding Programme is a long-standing partnership between MPI/Te Uru Rākau, Te Runanganui o Ngāti Porou and the Gisborne District Council to address significant erosion issues on the East Coast. The expected final round is in 2020. I consider it important to continue the Erosion Control Funding Programme as it exists through to its planned end, but propose to align it (e.g. grant rates) with the new grants scheme and partnerships fund in consultation with the partners.



## Partnerships

### *Driving enabling activities that support tree planting*

83. Delivering the one billion trees target and the Government's wider social, economic and environmental goals for the Programme requires supporting a number of key enablers:
- scaling up seedling and nursery production;
  - securing sufficient labour to establish, plant and maintain trees;
  - promoting science, new technology and innovation to improve efficiency and success of the programme;
  - providing information, support and technical advice to improve land-use decisions and integrated land management; and
  - facilitating large-scale projects with a focus on indigenous restoration at the landscape scale.
84. The proposed new grants scheme, and previously agreed Crown Forestry joint ventures will drive the planting of a significant number of trees, but are directly reliant on these enablers (particularly seedling supply, labour, and support and technical advice) to do so. In addition, as grants and joint ventures rely on the decisions of individual landowners and private investors, they only indirectly support wider government goals for employment, regional development, and improved environmental outcomes.
85. Over time commercial drivers will go some way to addressing the enabling issues. For example, new tree-planting grants will increase demand for seedlings, resulting in increased nursery production. However, the long lead-in times for many enablers means that there is a case for government increasing support in the early years of the programme, to achieve the scale and speed required for significant new planting to occur.
86. The focus for government support should be on the areas where there are limited commercial drivers for investment, but where wider social, environmental or regional development benefits can be achieved (e.g. indigenous regeneration, planting for water quality or erosion, sustainable employment and more resilient landscapes).

### *Proposed new partnership fund*

87. I propose a one billion trees partnership fund, which will involve working with a range of partners to identify strategic one billion trees enabling projects, and leverage existing know-how, resources and funding to deliver them effectively. Depending on the particular project, partners could be regional councils, non-government organisations, researchers, training organisations, Māori landowners and community groups.
88. A partnership funding approach would be integrated with the proposed grants scheme. Where the criteria are met, the direct tree planting costs of a project

would be funded through grants as set rates; the partnership fund would support the additional enablers to better support the project's success.

89. A strong focus of the fund would be on encouraging indigenous planting, including large landscape-scale restoration projects, working with the Department of Conservation and regional and local partners to scale up and build on existing initiatives.
90. Te Uru Rākau is also working with regional councils to develop a plan for accelerating erosion control planting and other priority planting for regions. Planting highly erodible land would reduce soil loss and sedimentation of waterways.
91. There are around 1.15 million hectares of highly erodible land that is not protected by woody cover. Prior to the increased Hill Country Erosion programme funding regional councils were planning to work with landowners to address about 70,000 hectares (6%) of the susceptible land. Additional funding through the HCE and partnerships projects will enable this rate of planting to significantly increase.

#### *Criteria for partnership funding*

92. The criteria for assessing applications for partnership funding would align with the PGF one billion trees criteria as outlined in the February 2018 PGF Cabinet paper [CAB-18-MIN-0045]:
  - Increased sustainable regional development;
  - Increased productivity and innovation in forestry and related sectors;
  - Increased employment, training or work readiness;
  - New Zealand's ability to meet its climate change obligations;
  - Māori aspirations for utilising their land and resources; and
  - Enhanced environmental sustainability and/or productivity of natural assets.
93. Additional criteria would be developed to support specific types of partnerships. For example, Te Uru Rākau and the Department of Conservation have developed some principles for large landscape restoration projects to ensure that the right tree is planted in the right place.
94. As with the broader PGF, the partnership fund requires co-funding of 50% for commercial and quasi-commercial co-investments. Whether to require co-contributions for non-commercial applications will be considered on a case-by-case basis, within the context of the overall objectives of the fund. Co-contributions may not be required for applications that clearly deliver net benefits and where there are strong elements of social and environmental, rather than narrower economic benefits.

### *Estimated costs of delivering the partnership fund*

95. The partnership fund will cost \$42.9 million in 2018/19, \$34.5 million in 2019/20 and \$42.5 million in 2020/21.
96. Additional funding will also be required to administer the partnership fund over this three year period (including for system design, contract management, monitoring and analysis) - \$2.5 million in 2018/19, \$2.5 million in 2019/20, and \$2.4 million in 2020/21.
97. Included in the funding for 2018/19 is the \$21.9 million of funding for partnerships projects that have already been approved through the PGF. This funding will be allocated to Te Uru Rākau subject to approval from the Minister of Finance.
98. Budget 2018 approved \$13.5 million of tagged contingency funding from the PGF to work with the Department of Conservation and others to plant indigenous trees on suitable land in 2018/19 and 2019/20. The partnership programme meets this purpose. Te Uru Rākau is working with the Department of Conservation and others on indigenous tree planting projects.

### *Operational arrangements for the partnership fund*

99. I propose that Te Uru Rākau report back to Forestry Ministers and the Minister of Finance with more detailed advice on the operational arrangements for the proposed partnership fund, including partnerships with regional councils. This will include further information on operational criteria for applications, governance and administrative arrangements.

### **Joint Ventures**

100. Cabinet has previously agreed for Crown Forestry to enter commercial joint ventures to plant up to 24,000 hectares (or 24 million trees) in 2018 and 2019, maintain these trees until 2027 and associated administration costs [CAB-17-MIN-0061]. Budget 2018 confirmed funding for this planting.
101. In the six months from December 2017 to 6 July 2018 Crown Forestry has formally agreed three joint ventures for a total of 4,065 hectares, and progressed to contract negotiation stage another five agreements.
102. Compared to other interventions such as funding of grants and partnerships, joint ventures have a higher up-front cost and are focused on radiata pine. However, they can deliver larger numbers of trees towards the one billion trees target over a shorter time, enabling nurseries and other supporting services to begin to scale up. Joint ventures also deliver regional economic benefits and are expected to return a profit to government at harvest or when the forests are sold (a five to seven percent return on investment).
103. Current interest in Crown Forestry joint ventures greatly exceeds available funding. This suggests investor interest in commercial radiata pine planting may

be increasing, s 9(2)(f)(iv), s 9(2)(i), s 9(2)(j)

104. No additional funding for joint ventures is being sought at this time. Officials will review and report back on the need for further joint ventures to Cabinet in the next Programme update, and will seek further funding for these if appropriate at that stage.

## **Alignment to the PGF**

### *Mixed One Billion Trees programme and PGF applications*

105. Where the primary purpose is tree planting or enabling tree planting, the application will be managed by Te Uru Rākau. Some applications received by the PGF have outcomes that span the One Billion Trees programme and the wider PGF. Criteria and administrative systems will be developed to ensure it is clear which agency should assess an application, and to prevent applications that have been rejected by one agency being re-submitted to the other.

### *Forestry-related applications out of scope of the One Billion Trees programme*

106. Cabinet previously agreed that specific forestry-related applications arising outside of the core One Billion Trees programme (e.g. a proposal relating to forestry roading, infrastructure or timber processing), could be submitted for consideration through the existing PGF [CAB-18-MIN-0045]. I also propose that major industrial or added value wood processing or associated projects be directed to the PGF, or other appropriate government funds, for consideration.

### *Referral to Independent Advisory Panel as required*

107. The previous Cabinet papers suggested that the Independent Advisory Panel would not provide advice on One Billion Trees projects [CAB-17-MIN-0554].
108. In my capacity as Minister of Regional Economic Development, I have submitted a paper "Further Decisions on the Provincial Growth Fund" to Cabinet [CAB-18-MIN-0347]. In this paper I propose the Independent Advisory Panel should have the ability to comment on tree planting, forestry, and transport projects. They would do this where requested by Ministers or the Provincial Development Unit, in the context of larger regional investment packages that have forestry and transport elements.

## **Fund management, monitoring and reporting**

109. One Billion Trees programme fund management, monitoring and reporting will enable the Government to publicly demonstrate progress towards the one billion trees goal, and to account for investment in the Programme.

## Delegations

### Grants

110. I propose that the approval of grant categories and criteria, and rate ranges be delegated to the Minister of Forestry, the Minister for the Environment, the Minister for Climate Change and the Minister of Finance, in consultation with other Forestry Ministers. The approval of specific rates within these ranges would be delegated to the Director-General of MPI<sup>6</sup>, in consultation with other agencies.
111. To ensure effective operation and adaptability of the new grants scheme, I intend to delegate decisions about operational design settings to the Director-General of MPI, in consultation with other agencies. This includes adjustments to rates within the agreed ranges, payment schedules and conditions of payment. Any changes should support more effective or efficient delivery of the scheme's objectives and be consistent with good practice forest management and fund management.
112. Cabinet has previously delegated approval of grant applications under existing MPI-administered afforestation funds to the Director-General of MPI. These existing funds are now being counted towards the \$1 billion PGF total. To provide consistency and efficiency, I propose that the existing grant delegations also apply to the approval of grants under the new grants scheme. Hectare limits on applications will ensure that grants for tree planting do not exceed \$2 million per application.

### Partnerships

113. I have considered two options for the administration of this partnership funding:
- **Option 1: A flexible partnership fund is established through Te Uru Rākau**, with a separate funding appropriation. The fund would be administered through Te Uru Rākau / MPI building on existing funds management expertise. For consistency with existing grant delegations the Director-General of MPI would have delegation to make decisions on applications up to \$2 million. Decisions between \$2 million and \$20 million would be made by the Minister of Forestry, the Minister for the Environment and the Minister of Finance, in consultation with other Forestry Ministers. Decisions for funding applications over \$20 million would be made by Cabinet.
  - **Option 2: Continue with current PGF mechanisms** One billion trees-related applications would be made or referred to Te Uru Rākau. Te Uru Rākau would continue providing technical assessments of individual applications, which would then be approved through PGF mechanisms. Delegations for approving applications would align with the wider PGF.

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<sup>6</sup> Subject to further Cabinet decisions on the final structure institutional arrangements of Te Uru Rākau, in the future this could be delegated to the Head of Te Uru Rākau.

114. I am proposing Option 1 as it would enable a more coherent package of support between partnerships and the proposed new grants scheme. It would also:
- enable tree-planting and supporting proposals to be refined and re-aligned to improve outcomes;
  - bring a wider range of forestry sector awareness and expertise to proposals; and
  - be more responsive to changing circumstance or needs.
115. MPI/Te Uru Rākau is well placed to manage and account for the funds allocated to the One Billion Trees programme. It is already responsible for administration of over \$500 million of investments across more than one thousand primary sector projects and programmes through a range of investment funds. This includes administration of Te Uru Rākau's existing afforestation funds (Afforestation Grants Scheme, Hill Country Erosion programme, Erosion Control Funding Programme). Crown Forestry has managed joint ventures for many years.
116. Te Uru Rākau and MBIE officials will work together, using existing inter-agency groups, to maintain alignment and ensure a coherent package across the regions.

#### *Joint ventures*

117. In undertaking joint ventures, Crown Forestry will continue to work within its existing Cabinet mandate and delegations. Given the potential long-term financial implications for the Crown resulting from the development of new planted forests by Crown Forestry, Treasury will continue to monitor Crown Forestry with Te Uru Rākau.

#### *Approval to decline applications*

118. As with the wider PGF, the One Billion Trees programme is likely to receive a large number of applications. Some applications will clearly not meet eligibility criteria, have significant gaps even after officials have worked with applicants to improve the quality of the application, or lack merit. Consistent with existing funds and the approach proposed for the wider PGF, I recommend that the Director-General of MPI has the authority to refuse to accept or subsequently decline such applications.
119. The Director-General of MPI will be supported to make these decisions by other relevant officials, and where appropriate, will refer applicants to other, potentially more suitable, funding sources.

### **Engagement**

#### *Workshops*

120. Te Uru Rākau has run workshops with a wide range of organisations to ensure a good understanding of the issues and opportunities it needs to address



through policy measures. Over the coming months, participants will help test and refine measures to make sure they can be implemented in practice and will support delivery of intended outcomes.

121. Specific workshops have been held for environmental non-government organisations (24 April), regional councils (03 May), skills and training (07 May), science (21/22 May), forestry sector (29 May), primary industry organisation CEOs (06 June), Federation of Māori Authorities and Māori representatives (11 June). A series of more focused hui will be held around New Zealand over the coming months.
122. Te Uru Rākau is scheduling consultation on a proposed Forestry Strategy for New Zealand later in the year. This will provide an opportunity for further engagement on the One Billion Trees programme and the proposed grants scheme and partnership fund.

#### *Forestry Ministerial Advisory Committee*

123. The Forestry Ministerial Advisory Group was established in April 2018 and is made up of members with expertise across the commercial and indigenous forestry sector, including in areas relating to forest growing and land, harvesting, labour and timber processing.
124. The Advisory Group will provide a forestry industry perspective along with wider environmental and community interest, and independent advice to me about the forestry system and how government and industry can work together to deliver better outcomes for New Zealand. Its initial focus will be to support the work of Te Uru Rākau to deliver the One Billion Trees programme.

#### *Public Tree Count*

125. Trees planted are one proposed indicator for the effectiveness of the PGF fund. A running tally of trees planted is publicly available on the Te Uru Rākau website. Officials will investigate opportunities to refine and improve tree count estimates as the Programme progresses. Additional work will include developing a broader set of performance metrics for measuring and reporting on the programme outcomes.

#### *Reporting as per Cabinet guidelines*

126. As previously directed by Cabinet, I will report to Cabinet on the progress of the One Billion Trees programme in June and December of each year, for the term of the Government [CAB-18-MIN-0045]. This paper fulfils the report back for June 2018.
127. Cabinet has also directed that MPI/Te Uru Rākau report to the PGF on its performance against the set criteria and performance measures as part of the PGF's regular reporting to Ministers [CAB-17-MIN-0554]. Te Uru Rākau is working with the MBIE's Provincial Development Unit to develop aligned

reporting mechanisms. Agreement of other Forestry Ministers and the Minister of Finance will be sought when the work is completed.

## **Consultation**

128. This paper has been drafted in consultation with Treasury, Department of Prime Minister and Cabinet, State Sector Services Commission, Department of Conservation, Ministry for Business, Innovation and Employment, Ministry of Foreign Affairs and Trade, Te Puni Kōkori, Ministry for the Environment, Department of Corrections, Land Information New Zealand, Ministry of Transport, New Zealand Transport Agency, Tertiary Education Commission, Worksafe New Zealand, and the Department of Internal Affairs.

## **Financial Implications**

129. Cabinet has previously agreed that:

- the One Billion Trees programme will be funded through the Sector Investments tier of the PGF [CAB-17-MIN-0554]; and
- the One Billion Trees programme will be treated as a priority for consideration by the PGF over its three years due to the level of Government commitment to forestry [CAB-18-MIN-0045].

130. As part of these decisions, Cabinet noted that an initial investment in the Programme would be sought as part of Budget 2018, and that additional funding would be sought in the June 2018 report back [CAB-18-MIN-0045].

### *Allocation of PGF funding for the One Billion Trees programme*

131. It is anticipated that the total PGF commitment needed for the One Billion Trees programme over the next three years will be up to \$480 million.

132. This includes \$245 million already agreed in Budget for the planting of up to 24 million trees in 2018 and 2019 through Crown Forestry joint ventures, maintenance of these trees until 2027 and associated administration costs (\$162.9 million), an indigenous tree planting contingency (\$13.5 million), and an expansion of Te Uru Rākau's existing Hill Country Erosion programme (\$68.6 million). It also includes \$30.7 million of funding from the PGF to MPI baseline for tree planting (refer Table 3 below).

**Table 3:** Existing funding<sup>1</sup> for the One Billion Trees programme

| Output/output class                               | Financial Year     |       |       |       |        | Total  |
|---------------------------------------------------|--------------------|-------|-------|-------|--------|--------|
|                                                   | 18/19              | 19/20 | 20/21 | 21/22 | 22-27  |        |
| Departmental Output Expenses (\$ millions)        |                    |       |       |       |        |        |
| Administration of grants and programmes           | 0.46               | 0.19  | 0.17  | 0.25  | 1.51   | 2.58   |
| Managed Crown forestry assets                     | 1.17               | 1.09  | 1.02  | 1.02  | 6.10   | 10.39  |
| Native Tree Planting Contingency <sup>2</sup>     | 6.75               | 6.75  | 0.00  | 0.00  | 0.00   | 13.50  |
| Non-Departmental Output Expenses (\$ millions)    |                    |       |       |       |        |        |
| Crown Forestry managed Joint Ventures             | 4.00               | 4.00  | 4.00  | 4.00  | 24.00  | 40.00  |
| Non-Departmental Other Expenses (\$ millions)     |                    |       |       |       |        |        |
| Hill Country Erosion Scheme                       | 1.80               | 3.80  | 5.80  | 7.80  | 46.80  | 66.00  |
| Non-Departmental Capital Expenses (\$ millions)   |                    |       |       |       |        |        |
| Crown Forestry managed Joint Ventures             | 28.56 <sup>3</sup> | 20.40 | 0.00  | 0.00  | 63.60  | 112.56 |
| Total from Budget 2018                            | 42.74              | 36.23 | 10.99 | 13.07 | 142.01 | 245.0  |
| Off-set of MPI baseline from the PGF <sup>4</sup> |                    |       |       |       |        | 30.7   |
| Existing funding counted against PGF              |                    |       |       |       |        | 275.7  |

<sup>1</sup>This table includes approved joint ventures and hill country erosion funding through to 2027. Costs associated with the joint ventures extend through to 2051 (the full life of the forests). This out-year funding for joint ventures has also been approved.

<sup>2</sup>To work with DOC and others to plant indigenous trees on suitable land in 2018/19 and 2019/20 [Budget 2018].

<sup>3</sup>Includes the \$13.16 million (for planting in 2017/18) agreed by Cabinet as a pre-commitment against Budget 2018 [CBC-17-MIN-0061].

<sup>4</sup>Te Uru Rākau baseline funding that has been allocated from the PGF, but was not charged against the Budget 2018 allowance. Covers planting and management of trees (OPEX) (\$12.8m) and existing afforestation scheme funds (\$17.9m)

133. Table 4 summarises the cost and funding proposal for establishing and delivering the new grants scheme and partnership fund over the first three years of the One Billion Trees programme.

134. I consider three years' funding is the minimum required in order to provide certainty to landowners, councils and community groups to factor new planting into their planning. It also provides greater certainty to potential partners to scale up (e.g. recruit staff, invest in capability, scale up nurseries) to deliver on strategic projects.

135. If only one year of funding was allocated it is likely that there would be reduced take-up of new tree planting grants, fewer cross-cutting projects and a reduced overall contribution to the one billion trees target. This would also not provide sufficient business certainty for organisations to invest in associated infrastructure, such as nursery expansion or new training programmes.



**Table 4:** Cost and funding proposal for the first three years of the One Billion Trees programme

| Output/output class                                  | Financial Year     |              |              | Any funding required beyond 2020/21 will be sought through existing Cabinet report backs |
|------------------------------------------------------|--------------------|--------------|--------------|------------------------------------------------------------------------------------------|
|                                                      | 18/19              | 19/20        | 20/21        |                                                                                          |
| <i>Non-Departmental Other Expenses (\$ millions)</i> |                    |              |              |                                                                                          |
| Grants and programmes                                | 12.98              | 41.33        | 46.33        |                                                                                          |
| Partnerships                                         | 42.88 <sup>1</sup> | 34.50        | 42.50        |                                                                                          |
| <i>Departmental Output Expenses (\$ millions)</i>    |                    |              |              |                                                                                          |
| Administration of grants and programmes              | 3.83               | 5.71         | 6.08         |                                                                                          |
| Administration of partnerships                       | 2.48               | 2.48         | 2.40         |                                                                                          |
| <b>Annual cost</b>                                   | <b>62.16</b>       | <b>84.01</b> | <b>97.30</b> |                                                                                          |
| <b>Funded through:</b>                               |                    |              |              |                                                                                          |
| Bring-forward of HCE out-years funding               | 40.26              |              |              |                                                                                          |
| Transferred funds for approved partnership projects  | 21.90              |              |              |                                                                                          |
| <b>New funding required from PGF in 18/19</b>        | <b>0.00</b>        |              |              |                                                                                          |
| <b>Budget pre-commitment</b>                         |                    | <b>84.01</b> | <b>97.30</b> |                                                                                          |

<sup>1</sup>Includes \$21.9 million of PGF partnership projects for trees, approved by RED Ministers and SROs

136. If you factor in existing Te Uru Rākau's baseline funding for tree planting (\$104 million<sup>7</sup>) and potential additional government funding for grants and partnerships beyond the next three years the total cost of the One Billion Trees programme could be up to \$900 million. However, depending on the degree to which regulatory changes drive new tree planting, the extent to which other factors favour forestry investment and when these changes take effect, this cost could be significantly less.

137. Funding for the new grants scheme and partnership fund for subsequent years, and further joint ventures (if required) will be sought in later Programme updates, once there is more information about the take-up and impact of the initial funding and regulatory changes.

### Scaling options and trade-offs for the One Billion Trees programme

138. There are a range of options for scaling funding for the One Billion Trees programme. The table below outlines potential trade-offs in terms of the types of trees that are planted, and the wider benefits that can be achieved through the Programme.

<sup>7</sup> This includes the \$30.7 million of Te Uru Rākau's baseline funds that were allocated from the PGF, but that weren't charged against the Budget 2018 allowances.

Table 5: Scaling options and trade-offs

|                         | More minimal cost option                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Proposal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Description</b>      | <p>No new grants scheme or rates</p> <p>Partnership fund of \$50 million over three years</p> <p>Existing joint ventures for 24 million trees</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Flexible grants scheme, rates s 9(2)(f)(iv)</p> <p>Partnership fund of \$118 million over three years</p> <p>Existing joint ventures for 24 million trees</p>                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Indicative costs</b> | <p>\$300 million</p> <p>Additional funding may be required in years 4-7 depending on other initiatives and impact of regulatory change.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <p>\$480 million</p> <p>Additional funding may be required in years 4-7 depending on other initiatives and impact of regulatory change.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Implications</b>     | <p>Unlikely to meet one billion trees target - high reliance on commercial replanting and regulatory drivers.</p> <p>Trees planted through grants will likely be commercial species (e.g. radiata pine and mānuka), with fewer new indigenous trees.</p> <p>Planting uptake will be slower.</p> <p>Less innovative approaches for erosion control and riparian planting. Fewer improvements to biodiversity.</p> <p>Reduced support for Māori landowners and others with particular barriers to planting.</p> <p>Increased funding available from the PGF for other regional development projects.</p> | <p>On track to achieve one billion trees target.</p> <p>Approximately two-thirds of new planting through the Programme will be indigenous trees planted for a broad range of environmental benefits.</p> <p>Improved grants scheme and partnership funding will increase landowner uptake for tree planting, better options for addressing barriers for Maori landowners.</p> <p>More innovative approaches for erosion control and riparian planting. Improved biodiversity outcomes</p> <p>Reduced funding available from the PGF for other regional development projects.</p> |

139. Other trade-off options would involve phasing the Programme. For example, delaying the partnership fund to 2019 or 2020, or scaling-up the grants or partnerships funding over a longer period. The main impact of these options would be that it would take longer than ten years to meet the one billion trees target, and that the associated environmental and climate change benefits of the tree planting would take longer to realise.

## One Billion Trees programme risks and mitigation

140. Te Uru Rākau considers the top risks and proposed mitigations with the One Billion Trees programme are:

Table 6: Risks and Mitigations

| Risk                                                                                                                                | Proposed mitigation                                                                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding and supporting planting that would have occurred without support                                                            | Focus support on activity where there are commercial barriers to investment e.g. indigenous trees, Māori land, alternative timber species and new regimes for erosion prone land.<br>Review support regularly to determine if the need for support remains.        |
| Regulatory changes don't deliver expected numbers of trees                                                                          | Monitor impact of regulatory settings and review and adjust other incentives as required.                                                                                                                                                                          |
| Moral hazard of funding planting to fix problems caused by poor practice or management                                              | Focus support to new planting, and to planting that is additional to any regulatory requirements                                                                                                                                                                   |
| Lack of skills and labour to implement the tree planting programme                                                                  | Develop a skills and labour action plan with a forecast of needs, and support partnership arrangements to meet these needs.                                                                                                                                        |
| Failure of planting, particularly indigenous tree planting                                                                          | Ensure high visibility of best practice planting approaches through strong partnerships. Link a proportion of funding to successful tree establishment. Establish an applied technology programme to improve and adapt best practice approaches.                   |
| Exacerbating biosecurity risks                                                                                                      | Incentivise adoption of a biosecurity protocol for plant nurseries.<br>Increase general biosecurity awareness.<br>Plant a range of species.                                                                                                                        |
| Creating adverse social or environmental outcomes                                                                                   | Focus support on tree planting that avoids adverse impacts e.g. integrate tree planting with existing land-use where possible and avoid species in situation where they are likely to spread.                                                                      |
| Commercial and regulatory drivers for new afforestation leads to rotational clear-fell forestry in areas where this is not suitable | Where clear-fell rotation forestry is not the best land use, work with forestry industry, councils and other stakeholders to improve forestry management practices and mitigate the risks of environmental and social damage (including severe erosion and slips). |

## Human Rights

141. There are no human rights implications to this paper.

## Legislative Implications

142. There are no legislative implications to this paper.

## Regulatory Impact Analysis

143. A Regulatory Impact Analysis is not required.

## Gender Implications

144. There are no specific gender implications to this paper.



## **Disability Perspective**

145. There are no specific disability implications to this paper. Tree planting opportunities may not be available to people with certain disabilities. There will be opportunities in the broader programme where disabilities will not affect participation.

## **Treaty of Waitangi implications**

146. Any Treaty implications will be dealt with on a case-by-case basis. An increased focus on tree planting should result in greater economic opportunities for Māori in the provinces and help Māori achieve aspirations to increase indigenous plantings and biodiversity as well as improve community wellbeing.

## **Publicity**

147. I will announce the proposals following the Cabinet decisions [arrangements to be determined]. I request approval for this Cabinet paper and minute to be made publicly available.

## Recommendations

### Explanatory note for proactive release of Cabinet Paper

The recommendations set out below were lodged with the Cabinet Office prior to the scheduled Cabinet Economic Development Committee meeting on 8 August 2018. The Hon Shane Jones, Minister of Forestry, tabled revised recommendations at the meeting on 8 August (attached). The revised recommendations replaced the recommendations that were submitted to the Cabinet Office.

It is recommended that the Committee:

1. **Note** the One Billion Trees programme is designed to get the right tree in the right place to deliver a range of benefits including climate change mitigation, regional economic development, erosion control, ecological and landscape restoration and skills and workforce development;
2. **Note** the proposed Provincial Growth Fund commitment for the One Billion Trees programme over the next three years will be up to \$480 million, comprising:
  - a. \$245.0 million already approved in Budget 2018,
  - b. \$30.7 million of funds already allocated within MPI's baseline,
  - c. \$21.9 million of funds transferred for partnerships projects already approved by the PGF,
  - d. \$84.0 million as a pre-commitment charged against Budget 2019, and
  - e. \$97.3 million as a pre-commitment charged against Budget 2020.
3. **Note** that factoring in existing Te Uru Rākau baseline funding for tree planting and potential additional government funding for grants and partnerships beyond the next three years, the total cost of the One Billion Trees programme could be up to \$900 million;
4. **Note** the total estimated cost for the One Billion Trees programme is dependent on the impact of proposed regulatory changes and commercial business-as-usual tree planting and if these are particularly successful the cost could drop well below \$900 million;
5. **Note** that, as the PGF is intended for the current term of government, it is appropriate that expenditure for financial years after 2020/21 count towards the PGF only if it is:
  - a. a direct result of asset ownership decisions implemented during this term of government (such as capital maintenance or spending on trimming Crown-owned trees planted during this three-year term), or
  - b. a funding commitment to a multi-year programme that includes financial years covered by this term of government (such as funding commitments to multi-year grant programmes);

6. **Note** it is not generally appropriate to count spending beyond 2020/21 towards the PGF if the spending is not directly consequential on expenditure incurred during this three-year term;

### *Grants*

7. **Agree** to establish a new tree planting grants scheme that costs \$116.3 million over three years and targets approximately two-thirds of planting in indigenous species;
8. **Agree** the objectives for the new grants scheme are to increase the rate of tree planting to deliver:
- a. reduced erosion;
  - b. improved water quality;
  - c. regional development;
  - d. development of Māori-owned land where there are barriers to privately funded tree planting;
  - e. biodiversity through the restoration of natural forests; and
  - f. diversification of productive land uses, including through indigenous forestry and continuous canopy forestry;
9. **Agree** the new grants scheme will have different rates for different categories of tree planting;
10. **Note** that I intend to transition the current Afforestation Grants Scheme to the new grants scheme with any uncommitted funds reallocated to the new scheme;
11. **Agree** that applicants to the 2018 round of the Afforestation Grant Scheme be considered under the new grants scheme;
12. **Note** that I have asked officials to:
- a. have the new grants scheme operating from the last quarter of 2018;
  - b. continue operating the existing Hill Country Erosion programme and Erosion Control Funding Programme with their current objectives and delivery mechanisms; and
  - c. align the Erosion Control Funding Programme grants for planting with the new grants scheme.
13. **Direct** officials led by Te Uru Rākau to provide further advice to the Minister of Forestry, other Forestry Ministers (Environment, Climate Change, Conservation, Agriculture) and the Minister of Finance on:
- a. whether to allow earlier entry for new grant-funded forests into the New Zealand Emissions Trading Scheme (if eligible);

- b. the grant categories, criteria and rate ranges for the new grants scheme; and
- c. the operational design and mechanisms to deliver the new grants scheme, which may include through third parties who are engaged in delivering improved land management and freshwater outcomes.

14. **Note** that officials will provide further advice in the December 2018 report back to Cabinet on whether additional changes are needed to provide the appropriate incentives for riparian planting along waterways:

s 9(2)(f)(iv)



### *Partnerships*

19. **Agree** to establish a one billion trees partnership fund that costs \$127.2 million over three years to provide financial support for key one billion tree planting enablers;
20. **Note** that \$13.500 million was set aside as a tagged contingency in Budget 2018 as part of the Provincial Growth Fund to help fund the planting of indigenous trees on suitable land in 2018/19 and 2019/20;
21. **Direct** officials led by Te Uru Rākau, to provide advice to the Minister of Forestry, other Forestry Ministers (Environment, Climate Change, Conservation, Agriculture) and the Minister of Finance on:

- a. the criteria for making funding decisions from the partnership fund; and
- b. the operational design of the fund and mechanisms to deliver the fund, which may include delivering through third parties who are engaged in delivering improved land management and freshwater outcomes;

#### *Joint ventures*

22. **Note** that in December 2017 Cabinet extended the mandate of Te Uru Rākau's Crown Forestry unit so that Crown Forestry may enter into new commercial arrangements (including lease and joint venture contracts) to develop plantation forests on privately-owned land [CBC-17-MIN-0061];
23. **Note** that \$13.16 million (plus out-years funding of \$34.20 million) has already been allocated (as a pre-commitment against Budget 2018) to joint ventures for four million trees and seedling orders and \$15.4 million (plus out-years funding of \$214 million) has been allocated to joint ventures for 20 million trees from Budget 2018 [CBC-17-MIN-0061, CAB-18-MIN-0158.03 and CAB-18-MIN-0158.13];
24. **Direct** officials to provide advice to Cabinet on the role of joint ventures beyond 2019, by December 2018;

#### *New category within existing Multi-category appropriation*

25. **Note** that the Minister of Finance and the Minister of Forestry have agreed to add the following category to the Multi-category appropriation "Growth and Development of the Forestry Sector."

| Name                                                  | Type                              | Scope                                                                                                                                                               |
|-------------------------------------------------------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Forestry:<br>Grants and<br>Partnerships<br>Programmes | Non departmental other<br>expense | This category is limited to the use of initiatives and grants, and programmes to establish trees or build skills, capability, and capacity, in the forestry sector. |

#### *Hill Country Erosion programme outyears funding*

26. **Note** that, as part of Budget 2018, Cabinet approved \$118.971 million operating funding for the financial years 2018/19 to 2027/28 which counted against the \$1 billion Provincial Growth Fund for 2018/19 for the initiative "1 Billion Trees – Planting more trees and Hill Country Erosion Programme expansion," including \$40.260 million for grant expenditure and administration in the financial years 2023/24 to 2027/28 [CAB-18-MIN-0158.03 and CAB-18-MIN-0158.13];

27. **Agree** to rescind the part of the Budget 2018 decision that approved Hill Country Erosion Scheme grant expenditure in the financial years 2023/24 and outyears;

28. **Approve** the following changes for the Hill Country Erosion programme:

|                                                                                 | \$m – increase/(decrease) |         |         |         |         |                    |
|---------------------------------------------------------------------------------|---------------------------|---------|---------|---------|---------|--------------------|
| <b>Vote Forestry<br/>Minister of Forestry</b>                                   | 2018/19                   | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 & Outyears |
| Growth and Development of the Forestry Sector MCA                               | -                         | -       | -       | -       | -       | (0.252)            |
| Departmental Output Expenses<br>Forestry: Administration of Grants & Programmes |                           |         |         |         |         |                    |
| Non Departmental Other Expenses<br>Forestry: Hill Country Erosion Fund          | -                         | -       | -       | -       | -       | (7.800)            |
| Total Operating                                                                 |                           | -       | -       | -       | -       | (8.052)            |

29. **Agree** that the rescinded amount of \$40.260 million relating to financial years 2023/24 to 2027/28, which was counted against the Provincial Growth Fund, be used to fund, in part, the new grants and partnership fund (as agreed in recommendations 7 and 19) for 2018/19;

30. **Note** that this decision has a \$40.260 million impact on the operating balance for 2018/19 and increases net core Crown debt by this amount;

#### *Changes to appropriations*

31. **Approve** the following changes to appropriations to provide for the new grants scheme and partnership fund, with a corresponding impact on the operating balance:

|                                                                                             | \$m – increase/(decrease) |         |         |                    |
|---------------------------------------------------------------------------------------------|---------------------------|---------|---------|--------------------|
| <b>Vote Business, Science and Innovation<br/>Minister for Regional Economic Development</b> | 2018/19                   | 2019/20 | 2020/21 | 2021/22 & outyears |
| <b>Vote Forestry<br/>Minister of Forestry</b>                                               |                           |         |         |                    |
| <i>Multi-Category Expenses</i>                                                              |                           |         |         |                    |



|                                                                                   |               |               |               |          |
|-----------------------------------------------------------------------------------|---------------|---------------|---------------|----------|
| Growth and Development of the Forestry Sector MCA                                 |               |               |               |          |
| Departmental Output Expenses<br>Forestry: Administration of Grants and Programmes | 6.306         | 8.184         | 8.476         |          |
| Non Departmental Other Expenses<br>Forestry: Grants and Partnerships Programmes   | 47.454        | 75.830        | 88.829        | -        |
| <b>Total Operating</b>                                                            | <b>53.760</b> | <b>84.014</b> | <b>97.305</b> | <b>-</b> |

32. **Agree** that \$13.5 million of the expenses incurred in 2018/19 be a charge against the indigenous tree planting tagged contingency established as part of Budget 2018 as noted in recommendation 20 above;
33. **Note** that the remaining \$40.260 million of the expenses incurred relate to the changes to the Hill Country Erosion Programme agreed in recommendations 27, 28 and 29 above;
34. **Agree** that the operating expenses of \$84.014 million in 2019/20, and the operating expenses of \$97.305 million in 2020/21, be charged as a pre-commitment against the operating allowance for Budget 2019 and Budget 2020 respectively.
35. **Agree** that the amount charged to the Budget 2019 (\$84.014) and Budget 2020 (\$97.305) operating allowance incurred above count against the \$1 billion per annum Provincial Growth Fund for 2019 and 2020 respectively;
36. **Note** that in the event that one billion trees grants and partnerships funding as outlined in recommendations 7 and 19 is not fully allocated to suitable projects, that this funding will be available to the Provincial Growth Fund for opportunities elsewhere;

#### *Delegations*

37. **Note** Cabinet's previous decision that the Minister of Forestry will be delegated responsibility for delivering the One Billion Trees programme, including accountability for use of allocated funds, in consultation with relevant Ministers (primarily Finance, Environment, Climate Change and Conservation) [CAB-18-MIN-0045];
38. **Agree** to delegate powers to the Minister of Forestry, the Minister for the Environment, the Minister of Climate Change and the Minister of Finance, in consultation with the other Forestry Ministers to approve:

- a. grant rate categories and criteria;
  - b. the ranges for grant rates; and
  - c. decisions on when grant-funded forests are allowed to register in the ETS, if eligible, s 9(2)(f)(iv)
39. **Note** that I intend to delegate powers to the Director-General of MPI, in consultation with other relevant departments, to approve operational design settings and grant rates within the parameters set by the Minister of Forestry, Minister for the Environment, Minister for Climate Change and Minister of Finance;
40. **Agree** that the Director-General of MPI be delegated approval of grants to applicants, within the grant rate ranges approved by Ministers and not exceeding \$2 million per application;
41. **Note** delegation for approval of grants are consistent with delegations for existing afforestation grants;
42. **Agree** to delegate powers to the Minister of Forestry, the Minister for the Environment, the Minister for Climate Change and the Minister of Finance, in consultation with the other Forestry Ministers to approve the operational design and criteria for the one billion trees partnership fund;
43. **Agree** that the Director-General of MPI be delegated approval for decisions on individual projects for the partnership fund up to \$2 million, the Minister of Forestry, the Minister for the Environment, and the Minister of Finance, in consultation with other Forestry Ministers (between \$2 million and \$20 million), or Cabinet (over \$20 million);
44. **Note** that officials will develop criteria to make it clear which agency should assess new Provincial Growth Fund applications that have outcomes spanning the One Billion Trees programme and the wider PGF;
45. **Agree** that the Director-General of MPI has the authority for one billion trees projects to:
- a. decline any applications that clearly do not meet eligibility criteria (including that organisations or individuals must meet a fit and proper person test);
  - b. decline any applications that have significant gaps that make approval by a delegated decision-maker unlikely;

*Previous Cabinet decisions*

46. **Note** that Cabinet has previously made decisions on:
- a. allowing non-standard forestry proposals to continue to be considered under the PGF [CAB-18-MIN-0045];

- b. when referral of forestry proposals to the Independent Advisory Panel may be appropriate [CAB-17-MIN-0554 and CAB-18-MIN-0045]; and
  - c. the structure and funding relationship between the One Billion Trees programme and the PGF [CAB-17-MIN-0554, CAB-18-MIN-0045 and Budget 2018];
47. **Note** that the proposals in this paper are consistent with those previous decisions;

#### *Engagement*

48. **Note** that Te Uru Rākau has engaged with key sector groups on the matters covered in this paper;
49. **Note** there will be further engagement including consultation as part of Te Uru Rākau's proposed Forestry Strategy development process, scheduled for later this year;
50. **Note** that feedback from the further engagement will be reflected in subsequent advice to Ministers on the design of grants and partnerships;

#### *Publicity*

51. **Agree** that this Cabinet Paper and the associated minute (with any commercially sensitive information redacted) will be released after decisions are taken; and
52. **Agree** that I announce the decisions in this paper.

Authorised for Lodgement

Hon Shane Jones  
Minister of Forestry

/ / 2018



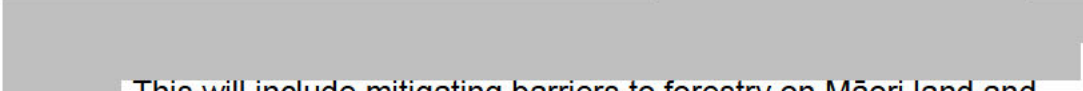
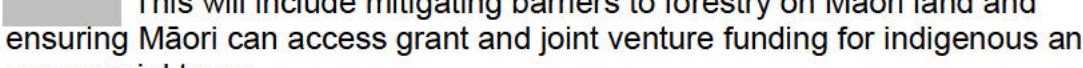
## Appendix One: Barriers to commercial forestry planting and replanting

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### *Small and medium forest owners*

1. Small (less than 40 hectares) and medium (less than 1000 hectares) forests will make up about 43% of trees of harvestable age over the next decade, with an even higher percentage in Northland, Canterbury and southern North Island.
2. Many small and medium forests were trees planted in the 1990s for diversification and retirement funding and those doing the planting often received inadequate advice on the siting of trees and forest management. Some small farm forestry blocks are not economic to harvest or to replant in commercial tree species.
3. Te Uru Rākau's proposed extension services will support better decision-making on whether to replant harvested areas or plant alternative areas.

### *Māori landowners*

4. Māori landowners often lack the capital to plant new or replant existing forestry land when it is harvested. This may be due to challenges with borrowing on collectively owned Māori land, choosing to use returns to date to increase land acquisitions or seeking to use existing capital to diversify their portfolio. They may also have limited expertise in replanting or in negotiating a deal with an existing or potentially new private sector partners.
5. In some regions Māori landowners also face particular challenges relating to land that was inherited as part of a settlement process. Some forests have been poorly managed or failed to deliver what was promised to the landowners, reducing both capacity and desire to replant. There are about 450,000 hectares of ex-Crown Forest License that is already in or will be in Māori ownership once Treaty Claims are settled; and about 36% is likely to be harvested over the next ten years. In addition there are about 50,000 hectares of Crown forest on existing or former Māori leased land with a similar harvesting profile.
6. In the absence of a commercial afforestation partner, it is likely that a proportion of this harvested Māori forestry land will not be replanted. The most likely scenario is that the land will be left to either regenerate in self-seeded pines, revert to indigenous forest cover, or a combination.
7. This is unlikely to be the best outcome as it will generate fewer jobs and regional economic development opportunities for the landowners.
8. Te Uru Rākau will need to establish a close working relationship with Māori landowners who wish to establish more trees. s 9(2)(f)(iv)  
  
  
This will include mitigating barriers to forestry on Māori land and ensuring Māori can access grant and joint venture funding for indigenous and commercial trees.

## **Appendix Two: Barriers to uptake of the existing Afforestation Grants Scheme**

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- **Grant rates:** Current grant rates, for example the current Afforestation Grant Scheme flat rate of \$1300/hectare, do not adequately reflect the greater costs and benefits of some plantings, particularly of mixed indigenous species<sup>8</sup> or on highly erosion-prone land; costs include land preparation, fencing, pest control and maintenance;
- **Scope of planting:** Afforestation Grant Scheme criteria don't enable assisted reversion and/or enrichment planting, or planting of riparian zones;
- **Complex criteria and processes:** Complex eligibility criteria, application forms and contracting processes can limit accessibility;
- **Land eligibility:** Afforestation Grant Scheme land eligibility criteria are linked to the New Zealand Emissions Trading Scheme (ETS), are complex, and limit the land area that is eligible for funding;
- **Access to carbon benefits:** The current Afforestation Grant Scheme rate no longer reflects the foregone carbon income from the ten-year restriction on registering in the ETS. The restriction is therefore perceived as a barrier to uptake;
- **Support services:** Lack of access to site-specific advice about the costs, benefits and options for tree planting, and limited information, skills and time to plan, undertake and maintain tree planting;
- **Timing of payment:** Challenges paying costs upfront for reimbursement after forest establishment. This also puts the risk of failure solely on the landowner;

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<sup>8</sup> Indigenous seedlings cost \$2-5 per seedling. At a stocking rate of 1000 stems per hectare this equates to at least \$2,000/ha, just for seedlings; some ecological plantings may have around 4000 stems per hectare.  
Sub18-0033



## Recommendations

### **Explanatory note for proactive release of Cabinet Paper**

The Hon Shane Jones, Minister of Forestry, tabled revised recommendations at the Cabinet Economic Development Committee meeting on 8 August 2018. The revised recommendations (set out below) replaced the recommendations that were submitted to the Cabinet Office prior to the meeting.

It is recommended that the Committee:

1. **Note** the One Billion Trees programme is designed to get the right tree in the right place to deliver a range of benefits including climate change mitigation, regional economic development, erosion control, ecological and landscape restoration and skills and workforce development;
2. **Note** the proposed Provincial Growth Fund commitment for the One Billion Trees programme over the next three years will be up to \$481.4 million, comprising:
  - a. \$245.000 million already approved in Budget 2018,
  - b. \$30.700 million of funds already allocated within MPI's baseline,
  - c. \$21.900 million of funds transferred for partnerships projects already approved by the PGF,
  - d. \$183.768 million as a pre-commitment charged against Budget 2019;
3. **Note** that this paper seeks agreement to \$237.528 million operating funding:
  - a. \$3.155 million operating for the purpose of administration costs which will be appropriated,
  - b. \$234.373 million operating to be placed in a tagged contingency which Ministers will draw down to fund a grant scheme s 9(2)(f)(iv)
4. **Note** that, factoring in existing Te Uru Rākau baseline funding for tree planting and potential additional government funding for grants and partnerships beyond the next three years, the total cost of the One Billion Trees programme could be up to \$900 million;
5. **Note** the total estimated cost for the One Billion Trees programme is dependent on the impact of proposed regulatory changes and commercial business-as-usual tree planting and if these are particularly successful the cost could drop well below \$900 million;
6. **Note** that, as the PGF is intended for the current term of government, it is appropriate that expenditure for financial years after 2020/21 count towards the PGF only if it is:



- a. a direct result of asset ownership decisions implemented during this term of government (such as capital maintenance or spending on trimming Crown-owned trees planted during this three-year term), or
  - b. a funding commitment to a multi-year programme that includes financial years covered by this term of government (such as funding commitments to multi-year grant programmes);
7. **Note** it is not generally appropriate to count spending beyond 2020/21 towards the PGF if the spending is not directly consequential on expenditure incurred during this three-year term;
8. **Note** that in the event that one billion trees grants and partnerships funding as outlined in recommendations 14 and 23 is not fully allocated to suitable projects, that this funding will be available to the Provincial Growth Fund for opportunities elsewhere;

*Hill Country Erosion programme outyears funding*

9. **Note** that, as part of Budget 2018, Cabinet approved \$118.971 million operating funding for the financial years 2018/19 to 2027/28 which counted against the \$1 billion Provincial Growth Fund for 2018/19 for the initiative “1 Billion Trees – Planting more trees and Hill Country Erosion Programme expansion,” including \$40.260 million for grant expenditure and administration in the financial years 2023/24 to 2027/28 [CAB-18-MIN-0158.03 and CAB-18-MIN-0158.13];
10. **Agree** to rescind the part of the Budget 2018 decision that approved Hill Country Erosion Scheme grant expenditure in the financial years 2023/24 and outyears;
11. **Approve** the following changes for the Hill Country Erosion programme:

|                                                     | <b>\$m – increase/(decrease)</b> |         |         |         |         |                    |
|-----------------------------------------------------|----------------------------------|---------|---------|---------|---------|--------------------|
| <b>Vote Forestry</b><br><b>Minister of Forestry</b> | 2018/19                          | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 & Outyears |
| Growth and Development of the Forestry Sector MCA   |                                  |         |         |         |         |                    |
| Departmental Output Expenses                        |                                  |         |         |         |         |                    |
| Forestry: Administration of Grants & Programmes     | -                                | -       | -       | -       | -       | (0.252)            |
| Non Departmental Other Expenses                     |                                  |         |         |         |         |                    |
| Forestry: Hill Country Erosion Fund                 | -                                | -       | -       | -       | -       | (7.800)            |
| Total Operating                                     |                                  | -       | -       | -       | -       | (8.052)            |

12. **Agree** that the rescinded amount of \$40.260 million relating to financial years 2023/24 to 2027/28, which was counted against the Provincial Growth Fund, be used towards funding the tagged contingency sought in recommendation 26;
13. **Note** that this decision has a \$40.260 million impact on the operating balance for 2018/19 and increases net core Crown debt by this amount;

#### *Grants*

14. **Agree** in principle, subject to decisions from delegated Ministers (Minister of Forestry, Minister for the Environment and Minister for Climate Change, Minister of Finance), to establish a new tree planting grants scheme operating over three years and targets approximately two-thirds of planting in indigenous species;
15. **Agree** the objectives for the new grants scheme are to increase the rate of tree planting to deliver:
  - a. reduced erosion;
  - b. improved water quality;
  - c. regional development;
  - d. development of Māori-owned land where there are barriers to privately funded tree planting;
  - e. biodiversity through the restoration of natural forests; and
  - f. diversification of productive land uses, including through indigenous forestry and continuous canopy forestry;
16. **Agree** in principle, subject to decisions from delegated Ministers (Minister of Forestry, Minister for the Environment and Minister for Climate Change, and Minister of Finance), that the new grants scheme will have different rates for different categories of tree planting;
17. **Note** that I intend to transition the current Afforestation Grants Scheme to the new grants scheme with any uncommitted funds reallocated to the new scheme;
18. **Agree** that applicants to the 2018 round of the Afforestation Grant Scheme be considered under the new grants scheme;
19. s 9(2)(f)(iv)  

20. **Note** that I have asked officials to:
  - d. have the new grants scheme operating from the last quarter of 2018;

- e. continue operating the existing Hill Country Erosion programme and Erosion Control Funding Programme with their current objectives and delivery mechanisms; and
  - f. align the Erosion Control Funding Programme grants for planting with the new grants scheme.
21. **Direct** officials led by Te Uru Rākau to provide further advice to the Minister of Forestry, other Forestry Ministers (Environment, Climate Change, Conservation, Agriculture, Associate Forestry) and the Minister of Finance on:
- d. whether to allow earlier entry for new grant-funded forests into the New Zealand Emissions Trading Scheme (if eligible);
  - e. the grant categories, criteria and rate ranges for the new grants scheme; and
  - f. the operational design and mechanisms to deliver the new grants scheme, which may include through third parties who are engaged in delivering improved land management and freshwater outcomes.
22. **Note** that officials will provide further advice in the December 2018 report back to Cabinet on whether additional changes are needed to provide the appropriate incentives for riparian planting along waterways;

#### *Partnerships*

23. **Agree** in principle, subject to decisions from delegated Ministers (Minister of Forestry, Minister for the Environment and Minister for Climate Change, Minister of Finance), to establish a one billion trees partnership fund operating over three years to provide financial support for key one billion tree planting enablers;
24. **Note** that \$13.500 million was set aside as a tagged contingency in Budget 2018 as part of the Provincial Growth Fund to help fund the planting of indigenous trees on suitable land in 2018/19 and 2019/20;
25. **Direct** officials led by Te Uru Rākau, to provide advice to the Minister of Forestry, other Forestry Ministers (Environment, Climate Change, Conservation, Agriculture) and the Minister of Finance on:
- a. the criteria for making funding decisions from the partnership fund; and
  - b. the operational design of the fund and mechanisms to deliver the fund, which may include delivering through third parties who are engaged in delivering improved land management and freshwater outcomes;

#### *Tagged Contingency and Delegated Authority*

26. **Agree** to establish a tagged contingency of \$234.373 million operating as set out in the table below, for the purpose of funding a grant scheme and

partnership fund as set out in recommendations 14 and 23, with a corresponding impact on the operating balance:

|                                                                   | <b>\$million – Increase/(decrease) on operating balance</b> |                |                |                |
|-------------------------------------------------------------------|-------------------------------------------------------------|----------------|----------------|----------------|
| <b>Forecast fiscal impact</b>                                     | <b>2018/19</b>                                              | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
| One Billion Trees Grant Scheme and Partnership Tagged Contingency | 50.618                                                      | 84.152         | 97.879         | 1.724          |

27. **Note** that the above contingency is currently projected to fund the following activities, but the final amounts allocated to the areas described below may change depending on the decisions of Ministers with delegated authority (as referenced in recommendations 28 and 29):
- \$103.068 for grant schemes s 9(2)(f)(iv)
  - \$111.48 for partnership fund,
  - \$19.825 for administration costs;
28. **Authorise** the Minister of Forestry, the Minister for the Environment, the Minister for Climate Change and the Minister of Finance to draw down the tagged contingency for the purpose of funding grant schemes, when those Ministers have agreed:
- grant categories, and criteria s 9(2)(f)(iv)
  - rates and ranges for grant rates, and
  - the proposed grant scheme aligns the objectives governing the scheme as stated in recommendation 15, and takes into account the objectives of the Provincial Growth Fund;
29. **Authorise** the Minister of Forestry, the Minister for the Environment, the Minister for Climate Change and the Minister of Finance to draw down the tagged contingency for the purpose of funding a partnership fund, when those Ministers have agreed:
- the operational design and criteria for the partnership fund; and
  - the operational design and criteria for the partnership fund are sufficiently aligned with the objectives of the Provincial Growth Fund;
30. **Agree** that \$234.373 million of the operating expenses incurred in recommendation 26 above be funded from the following:
- \$40.260 million from the rescinded Hill Country Erosion Programme as agreed in recommendation 10 above,
  - \$13.500 million from the drawdown of the native planting contingency noted in recommendation 24,
  - \$180.613 operating expenses be charged as a pre-commitment against the operating allowance for Budget 2019;



31. **Agree** that the amount charged to the Budget 2019 operating allowance incurred above (\$180.613 million) count against the \$1 billion per annum Provincial Growth Fund for 2019;

*Appropriations to enable design and implementation work*

32. **Agree** to fund the initial administration costs of establishing the new grants and partnership fund operational framework, at a cost of \$3.155 million operating in 2018/19;
33. **Approve** the following changes to appropriations to provide for the work agreed in recommendation 32, with a corresponding impact on the operating balance:

|                                                                                      | \$m – increase/(decrease) |                |                |                               |
|--------------------------------------------------------------------------------------|---------------------------|----------------|----------------|-------------------------------|
| <b>Vote Forestry</b>                                                                 | <b>2018/19</b>            | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22 &amp; outyears</b> |
| <b>Minister of Forestry</b>                                                          |                           |                |                |                               |
| <i>Multi-Category Expenses:</i><br>Growth and Development of the Forestry Sector MCA |                           |                |                |                               |
| Departmental Output Expenses:<br>Forestry: Administration of Grants and Programmes   | 3.155                     | -              | -              | -                             |
| <b>Total Operating</b>                                                               | <b>3.155</b>              | <b>-</b>       | <b>-</b>       | <b>-</b>                      |

34. **Agree** that the operating expenses incurred in 33 above, be charged as a pre-commitment against the operating allowance for Budget 2019;
35. **Agree** that the changes to appropriations for 2018/19 be incorporated into the 2018/19 Supplementary Estimates, and in the meantime, the additional expense to be met under Imprest Supply;
36. **Agree** that the amount pre-committed against Budget 2019 above count against the \$1 billion per annum Provincial Growth Fund for 2019;

*Joint ventures*

37. **Note** that in December 2017 Cabinet extended the mandate of Te Uru Rākau's Crown Forestry unit so that Crown Forestry may enter into new commercial arrangements (including lease and joint venture contracts) to develop plantation forests on privately-owned land [CBC-17-MIN-0061];
38. **Note** that \$13.16 million (plus out-years funding of \$34.20 million) has already been allocated (as a pre-commitment against Budget 2018) to joint ventures for four million trees and seedling orders and \$15.4 million



(plus out-years funding of \$214 million) has been allocated to joint ventures for 20 million trees from Budget 2018 [CBC-17-MIN-0061, CAB-18-MIN-0158.03 and CAB-18-MIN-0158.13];

39. **Direct** officials to provide advice to Cabinet on the role of joint ventures beyond 2019, by December 2018;

#### *Delegations*

40. **Note** Cabinet's previous decision that the Minister of Forestry will be delegated responsibility for delivering the One Billion Trees programme, including accountability for use of allocated funds, in consultation with relevant Ministers (primarily Finance, Environment, Climate Change and Conservation) [CAB-18-MIN-0045];
41. **Agree** to delegate powers to the Minister of Forestry, the Minister for the Environment, the Minister of Climate Change and the Minister of Finance, in consultation with the other Forestry Ministers, to approve:
- a) the grants scheme as outlined in recommendation 14, and
  - b) the partnership fund as described in recommendation 23;
42. **Note** that I intend to delegate powers to the Director-General of MPI, in consultation with other relevant departments, to approve operational design settings and grant rates within the parameters set by the Minister of Forestry, Minister for the Environment, Minister for Climate Change and Minister of Finance;
43. **Agree** that the Director-General of MPI be delegated approval of grants to applicants, within the grant rate ranges approved by Ministers and not exceeding \$2 million per application;
44. **Note** delegation for approval of grants are consistent with delegations for existing afforestation grants;
45. **Agree** to the following delegations in respect to decision making on individual projects through the partnership fund:
- a. the Director-General of MPI up to \$2 million,
  - b. the Minister of Forestry, the Minister for the Environment, and the Minister of Finance, in consultation with other Forestry Ministers between \$2 million and \$20 million; and
  - c. Cabinet, for projects over \$20 million;
46. **Note** that officials will develop criteria to make it clear which agency should assess new Provincial Growth Fund applications that have outcomes spanning the One Billion Trees programme and the wider PGF;
47. **Agree** that the Director-General of MPI has the authority for one billion trees projects to:

- c. decline any applications that clearly do not meet eligibility criteria (including that organisations or individuals must meet a fit and proper person test);
- d. decline any applications that have significant gaps that make approval by a delegated decision-maker unlikely;

#### *Previous Cabinet decisions*

- 48. **Note** that Cabinet has previously made decisions on:
  - d. allowing non-standard forestry proposals to continue to be considered under the PGF [CAB-18-MIN-0045];
  - e. when referral of forestry proposals to the Independent Advisory Panel may be appropriate [CAB-17-MIN-0554 and CAB-18-MIN-0045]; and
  - f. the structure and funding relationship between the One Billion Trees programme and the PGF [CAB-17-MIN-0554, CAB-18-MIN-0045 and Budget 2018];
- 49. **Note** that the proposals in this paper are consistent with those previous decisions;

#### *Engagement*

- 50. **Note** that Te Uru Rākau has engaged with key sector groups on the matters covered in this paper;
- 51. **Note** that feedback from will be reflected in advice to Ministers on the design of grants and partnerships;
- 52. **Note** there will be further engagement including consultation as part of Te Uru Rākau's proposed Forestry Strategy development process, scheduled for later this year;

#### *Publicity*

- 53. **Agree** that this Cabinet Paper and the associated minute (with any commercially sensitive information redacted) will be released after decisions are taken; and
- 54. **Agree** that I announce the decisions in this paper.