

Notice is given that an ordinary meeting of the Full Council will be held on:

Date: Thursday 25 February 2021
Time: 9.30 am
Meeting Room: Tasman Council Chamber
Venue: 189 Queen Street
Richmond

Full Council

LATE ITEMS AGENDA

LATE ITEMS

5 LATE ITEMS

That the late item, 8.7, be considered at today's meeting.

8 REPORTS

- 8.7 Late Item - Waimea Community Dam Cost Overruns Funding for Inclusion in Long Term Plan Consultation Document Report5

8 REPORTS

8.7 LATE ITEM - WAIMEA COMMUNITY DAM COST OVERRUNS FUNDING FOR INCLUSION IN LONG TERM PLAN CONSULTATION DOCUMENT REPORT

Decision Required

Report To:	Full Council
Meeting Date:	25 February 2021
Report Author:	Mike Drummond, Corporate and Governance Services Manager
Report Number:	RCN21-02-13

1 Summary

- 1.1 The reasons this report needs to be considered as a Late Item are:
- 1.1.1 at the shareholders update on Monday 22 February 2021, the Council was advised about the revised estimated cost to complete the Waimea Community Dam; and
 - 1.1.2 the revised estimates need to be incorporated into the draft Long Term Plan 2021-2031 (LTP) budgets and the Consultation Document prior to the Council undertaking consultation; and
 - 1.1.3 the Council has a statutory obligation, under the Local Government Act 2002 (LGA), to adopt its final LTP by 30 June 2021 and that the Plan needs to be adopted prior to the Council striking its rates for the 2021/2022 financial year; and
 - 1.1.4 the processes and timeframes required under the Local Government Act 2002 mean that the Council needs to make the decisions sought in this report for inclusion in the draft LTP budgets and Consultation Document quickly in order to meet the statutory timeframes for adopting the final Long Term Plan and in order to strike the rates for the 2021/2022 financial year.
- 1.2 This report will enable the Council to:
- 1.2.1 incorporate a response to the revised estimated cost to complete the Waimea Community Dam in the draft LTP budgets and Consultation Document; and
 - 1.2.2 enable public consultation to occur within a timeframe which will enable the Council to meet its statutory obligation to adopt a LTP by 30 June 2021 and to strike the rates for the 2021/2022 financial year.
- 1.3 The last estimated cost to complete the Dam was \$129.4 million (m). The draft LTP budgets and Consultation Document contained a budget provision of \$8m for potential cost overruns on the Dam project, in addition to the last estimated cost of \$129.4m, giving financial support for a total cost to complete of \$137.4m.
- 1.4 The revised estimated cost to complete the Dam provided by Waimea Water Ltd (WWL) on Monday, means that the financial information contained in the Consultation Document and supporting information the Council was to consider today, are now out of date. For public transparency and to ensure the Council has the funding required to pay for the cost

Item 8.7

overruns, we need to amend the Consultation Document and various supporting information documents prior to initiating the public consultation process.

- 1.5 Staff have prepared a revised timeline for Council adoption of the Consultation Document and supporting information once it has been amended to reflect the revised Dam costs.
- 1.6 The revised timeline is very tight. Therefore, we need to find a timely way to amend the Consultation Document and supporting information to get the documents ready for public consultation in order to enable the Council to adopt the final LTP by 30 June and to strike the rates for the 2021/2022 financial year.
- 1.7 The proposed funding and rating approach to respond to the increase in the estimated cost to complete, are set out in the Consideration of Financial or Budgetary Implications section of this report. The proposed approach is being recommended as the most practical way to respond to this matter within the timeframe available. The WWL risk range for cost to complete is between \$148m and \$164m with a revised estimated cost of \$158.4m. This has been increased to \$159m for Council's LTP budgeting purposes as the WWL estimates excluded the necessary work to provide for a future hydro option.
- 1.8 In order to minimise the impacts across the draft LTP financials, the recommendation is to loan fund the additional \$22m in costs (not provided for in the draft LTP budgets). This loan is proposed to be an interest only loan and separate from the Council's other funding of its balance sheet as a whole. The annual interest costs are estimated at \$295,000 (\$295k) and can be partly met from a reduced Council budget for the Dam operating costs. The result is a very small increase in overall rates revenue in Year 1 and Year 2 of the LTP (0.07% and 0.03%).
- 1.9 The additional servicing costs will require the Council to reconsider its preferred funding option for the irrigator extractive use. The estimated interest cost for this funding is an additional \$147k per annum (pa). If this cost was recovered solely through the irrigator targeted rate, that rate would increase by 34%-39% (over time) over the figure proposed in the draft Consultation Document. That will likely result in the rate becoming more unaffordable for some irrigators. The staff recommendation is that the Council consider recovering these additional costs through the general rate. This would cause a 0.11% increase in the general rate. This could be seen as a short to medium-term funding option as the Council's share of the Dam will likely be incorporated into a new entity as part of the three waters review.

2 Draft Resolution

Item 8.7

That the Full Council receives:

1. the Late Item - Waimea Community Dam Cost Overruns Funding for Inclusion in Long Term Plan Consultation Document Report RCN21-02-13; and
2. amends the rates limit for inclusion in the draft Long Term Plan budgets and Consultation Document, in Year 1 of the Plan, from 4.5% (plus growth) to 4.54% (plus growth) and notes that in Year 2 of the plan it will remain at 4.5% (plus growth); and
3. amends the net debt limit for inclusion the draft Long Term Plan budgets, Financial Strategy and Consultation Document, from \$260 million to \$282m; and
4. agrees that a revised Option D is the preferred option, for inclusion the draft Long Term Plan budgets and Consultation Document (Choice 2), for the allocation of additional irrigator capacity costs for the Waimea Dam. Where the revised Option D is a targeted rate on affiliated irrigators for the amount proposed in the current Option A in the draft Consultation Document (as previously agreed by the Council), and the irrigators portion of interest on the latest cost overrun of \$11m is funded from the general rate; and
5. agrees to approach Nelson City Council for an increase in its contribution to the Waimea Community Dam proportional to the increase in the Dam's estimated costs since their \$5m grant was originally set; and
6. notes that the Mayor has approached Government for additional funding to help cover the increased costs to complete the Dam; and
7. agrees to an interest only pass through loan for the \$22 million additional funding to cover the cost increases to complete the Dam project; and
8. acknowledges, under section 80 of the Local Government Act 2002, that the decision to:
 - a. recover interest only on the additional \$22 million debt associated with the increase in the cost to complete the Dam; and
 - b. charge interest on the debt at the cost rather than as an internal loan with funding across the Council's balance sheet as a whole

was not contemplated in Council's Treasury Risk Management Policy which assumes a portfolio approach to Council funding and, therefore, such an approach would be considered to be inconsistent with the Policy; and
9. notes that the Council has made the inconsistent decision in 8 above so that the Council can moderate the impact on ratepayers while it is investigating alternative arrangements; and
10. notes that the Council is not intending to amend the Treasury Risk Management Policy to provide for future transactions of the nature outlined in 8 above.

1 Purpose of the Report

- 1.1 The purposes of the report are to enable the Council to:
- 1.1.1 incorporate a response to the revised estimated cost to complete the Waimea Community Dam in the draft Long Term Plan 2021-2031 (LTP) budgets and Consultation Document; and
 - 1.1.2 enable public consultation on the LTP to occur within a timeframe which will enable Council to meet its statutory obligation to adopt the LTP by 30 June 2021 and to strike the rates for the 2021/2022 financial year.

2 Background and Discussion

- 2.1 This report needs to be read in association with the report RCN20-12-6 (Attachment 1), which was considered by Full Council on 3 December 2020. The resolutions passed at the meeting following consideration of this report are contained in Attachment 2.
- 2.2 At the shareholders update on the afternoon of Monday 22 February 2021, Waimea Water Limited (WWL) advised its shareholders (Council and Waimea Irrigators Ltd) that the revised estimated Risk Range cost to complete the Waimea Community Dam was \$148 million to \$164 million, with an expected completion cost of \$158.4 million (excluding provision for future hydro power).
- 2.3 The Council was due to adopt the Consultation Document and supporting information for its LTP at today's meeting.
- 2.4 The previous estimated cost to complete the Dam was \$129.4m. The draft LTP budgets and Consultation Document contained a budget provision of \$8m for cost overruns on the Dam project, in addition to the last estimated cost of \$129.4m, giving total funding of \$137.4m. The additional \$8m was a budget provision to allow for any increase in the costs due to the impact of Covid-19 on the project and the cost of other project variations. The Council is contractually bound to fund WWL so it can meet cost over-runs.
- 2.5 The Consultation Document included four options to pay for the irrigator share of the Dam cost overruns based on the \$137.4m budget. The four options were as follows (please refer to the draft Consultation Document and Attachment 1 for further details on the options):
- 2.5.1 Option A: a new targeted rate on irrigators;
 - 2.5.2 Option B: all ratepayers pay a District-wide rate;
 - 2.5.3 Option C: a targeted rate on all properties in the 'Zone of Affiliation'; and
 - 2.5.4 Option D: A mixture of targeted and District-wide rates.
- 2.6 The revised estimated cost to complete the Dam provided by WWL on Monday meant that the financial information contained in the Consultation Document and supporting information, is now out of date. For public transparency and to ensure the Council has the funding required to pay for the cost overruns, we need to amend the Consultation Document and supporting information prior to initiating the public consultation process.
- 2.7 The various documents which need amending to reflect the financial changes to the draft LTP budgets to cover the Dam cost increases include:

LTP Consultation Document	Assumptions
Development & Financial Contributions Policy & its associated consultation information	Water Supply Activity Management Plan and its associated Funding Impact Statement, rates, debt and budgets
Revenue & Financing Policy & its associated consultation information	All other Activity Management Plans (updating rating and debt information)
Financial Strategy	Activity Summaries document (particularly the water supply activity)
Infrastructure Strategy	Consultation calendar
Funding Impact Statement (Rates)	Treasury Risk Management Policy
Accounting Policies	Example property rates

- 2.8 The timeframe for the consultation and preparing the final LTP will also need amending, as we will no longer be able to start consultation on 4 March 2021 as originally planned. The following are the proposed key dates for the consultation and the process required under the LGA to finalise the LTP.

Action	Revised dates (2021)
Late Item to Council meeting to seek direction on changes to the Consultation Document and supporting information	25 February
Adoption of Consultation Document and supporting information	18 March
Consultation period	24 March to 24 April
Workshops with Councillors	During April
Hearings of submissions	First week in May
Deliberations	17 – 21 May
Workshop with Councillors	4 June
Adopt final LTP	30 June

- 2.9 It is important to note that this is a very tight timeframe and there is no room for slippage if the Council is to adopt its final LTP by the statutory deadline of 30 June 2021 required in the LGA and to strike the 2021/2022 rates by 30 June 2021.
- 2.10 Therefore, there is a very small window of opportunity for the Council to make the decisions sought in this report. We need to find a manageable response to amend the Consultation Document and supporting information so that the documents are ready for public consultation. The prescriptive process in the LGA which the Council must follow for preparing and adopting the LTP means that there is an inability for the Council to incorporate a review of the work programme within the statutory timeframes.
- 2.11 The Council will note that staff have incorporated into the timeline Councillor workshops in April to review the draft LTP work programme to identify potential areas where work can be removed or deferred to help the financial position. By the time of the workshops, Councillors

will have attended various community consultation meetings and we will have received some public submissions on the Consultation Document and supporting information. This work will be preparatory work for your deliberations on the submissions and decision making on the final LTP.

3 Consideration of Financial or Budgetary Implications

- 3.1 The revised estimated cost to complete of the Waimea Community Dam project can be allocated over the funding streams set out below. This allocation is consistent with the current allocation in the draft LTP Consultation Document. The LTP budget for the Dam has been increased from the WWL estimate to \$159m. This is to take account of the additional costs required to provide support for any future hydro power option.

	\$000s
Projected Total Project Cost	\$ 159,000
Less Interest earned WWL	\$ (1,600)
Project costs to be funded	<u>\$ 157,400</u>

Funding

WIL/CIIL irrigator capacity	\$ 51,824
Council funded Irrigator capacity	\$ 25,153
Council Urban Water Supply (inc NCC)	\$ 33,203
Environmental Flow/Public Good Costs	<u>\$ 47,220</u>
	<u>\$ 157,400</u>

- 3.2 With the allowance for the future hydro power option, this represents a \$22m increase from the current LTP estimate. These costs were rounded and the increase development contribution of \$1.031m removed from the Urban Water Supply funding requirement and allocated as follows:

<u>Funding allocation</u>	<u>Annual Interest</u>	<u>Loan Allocation</u>
	<u>\$000s</u>	<u>\$000s</u>
Council Urban Water Supply (inc Nelson City)	49.5	3,613
Council funded Irrigator capacity	147.3	10,751
Environmental Flow/Public Good Costs	90.4	6,598
Total	\$287.3	\$20,964

- 3.3 To minimise the financial impacts, it is proposed that the additional costs be funded by a special \$22m loan less development contributions. This loan funding would be from the Local Government Funding Agency (LGFA) and would be rolled over at four to five yearly intervals. At current rates, the loan would incur an interest rate of circa 1.37% pa. No loan repayments would be included in the LTP financials. This approach minimises the impact on rates. The approach is, however, inconsistent with how the Council normally loan funds activities and this approach was not contemplated when the Council developed its current

- Treasury Risk Management Policy. In this case, the special circumstances merit this approach.
- 3.4 To accommodate the additional debt, the Council will need to lift its proposed net debt limit from \$260m to \$282m in the draft Financial Strategy and in the draft LTP Consultation Document.
 - 3.5 Staff will investigate the options for all or part of this debt being held in WWL but serviced by the Council. Under the Council's Treasury Risk Management Policy, debt held within a CCO is excluded from the calculation of the net debt limit. Such an approach would also require agreement with WWL lenders and our Joint Venture partners. Discussions with these parties could occur between the Consultation Document going out for public consultation and the adoption of the final LTP in June 2021. If these negotiations were successful, the Council's net debt limit could be reduced in the final LTP and Financial Strategy.
 - 3.6 At the expected interest rate, the interest costs on the additional lending would be \$287.3k pa. These costs would be funded:
 - 3.6.1 via the water account (\$49.5k pa).
 - 3.6.2 via District-wide funding (\$90.4k pa) via the fixed charge and the Zone of Benefit (ZOB) rate.
 - 3.6.3 The final amount of \$147.3k pa would need to be recovered either as part of the proposed affiliated irrigator targeted rate or from an alternative rate funding source.
 - 3.7 In the draft LTP financials, we had taken a conservative approach to budgeting for the portion of the estimated WWL operating costs charged to the Council. While the funding and operating model is yet to be agreed, we have been able to reduce our estimate of the likely operating costs in light of the new information provided by WWL. This change, when combined with the increase in development contributions (due to increased costs), has largely offset the interest costs proposed to be funded through the Urban Water Account, district-wide charge and the ZOB rate. This leaves the only cost increase impacting on rates as the interest charge in relation to the additional funding for the irrigator extractive capacity (\$147.3k pa). If this were funded through the general rate it would increase the general rate (circa \$40m pa) by 0.34% in Year 1.
 - 3.8 Accommodating this additional cost, from whichever rate it is funded from, will require a very small increase the rates increase limit cap. This increase would be in the order of 0.07% in Year 1 and 0.03% in Year 2 of the LTP. This would make the overall rates revenue increase 4.54% in Year 1 and 4.50% in Year 2.
 - 3.9 The proposed pass-through LGFA funding approach was not contemplated within the Council's current Treasury Risk Management Policy. The Policy contemplates that the Council will fund the balance sheet as a whole (portfolio approach) and that the average cost of borrowing will be reflected in the internal loan charges to each activity. That approach is for the Council asset purchases and has been applied to the other non-concessional funding for the Waimea Community Dam.
 - 3.10 We have been advised by Audit NZ that they will be adding a Matter of Emphasis in their Audit Opinion relating to the uncertainty surrounding the costs associated with the Waimea Community Dam project. Audit NZ have advised us that Audit clearance will require the additional costs in the latest WWL shareholders briefing to be included in the draft budgets and the consultation information. A key risk to the timeline proposed in this report is obtaining the Audit Opinion given the audit work required to review the revised documents.

4 Options

Part A: Financial options

4.1 The Council has the options for consultation of:

Option 1 (preferred): Agreeing to:

4.1.1 the proposed rates increases of 4.54% (plus growth) for Year 1 and 4.50% (plus growth) for Year 2 of the LTP. The previous cap on rates rises was 4.5% (plus growth) for years 1-3 of the LTP.

4.1.2 the proposed increase in the net debt limit to \$282 million;

4.1.3 an interest only pass through loan for the \$22 million additional funding to cover the cost increases to complete the Dam project; and

4.1.4 applying the marginal cost of borrowing of circa 1.37% from the LGFA for the \$22 million additional funding less development contributions, noting that this approach was not contemplated in the Council's current Treasury Risk Management Policy.

This option has the advantage of enabling the Consultation Document to be adopted by the Council in time to meet its statutory deadlines for adoption of the final LTP and to enable the Council to strike the rates for the 2021/2022 financial year. This option does not force a reprioritisation of the work programme proposed in the Consultation Document and draft LTP budgets. It has minimal impact on rates and it preserves the proposed levels of service in the Consultation Document and Activity Management Plans. The Council also has the opportunity to consider changes to the work programme prior to finalising the LTP.

4.2 **Option 2:** Instructing staff on an alternative financial arrangement. The advantages of this option would depend on the choices the Council makes. The disadvantage of this option is that staff are unlikely to be able to model the financial changes and amend the Consultation Document and various supporting information documents in time for the final LTP to be adopted by 30 June and for the Council to strike the rates for the 2021/2022 year.

Given the financial pressures and the long lead-time necessary to finalise and reprioritise Council spending, a comprehensive reworking of the draft LTP work programme is not feasible within the statutory timeframes available and with the process we are required to follow under the LGA. The Council would need to work through the areas and projects that would need to be cancelled or deferred to accommodate the additional Waimea Community Dam funding within the existing proposed debt cap. The risks to growth, asset renewals, other aspects of Council business would need to be considered through any process to alter the current proposed capital works programme, along with community expectations of what the Council will deliver. This approach is high risk and fraught with difficulties. The Council can make changes following the consultation process and before adopting the final LTP.

4.3 There is no option where the Council does not have to meet its contractual obligations to fund the cost overruns.

Part B: Preferred Choice Allocation of Additional Irrigator Capacity Cost for Inclusion in the Consultation Document

4.4 The four previous options which are outlined in the draft Consultation Document are:

4.4.1 Option A: a new targeted rate on irrigators;

- 4.4.2 Option B: all ratepayers pay a District-wide rate;
- 4.4.3 Option C: a targeted rate on all properties in the 'Zone of Affiliation'; and
- 4.4.4 Option D: A mixture of targeted and District-wide rates.
- 4.5 The Council's previously preferred option, based on a cost to complete of \$137.4m, was for all of the costs (of irrigator extractive capacity) to be met by irrigators. The preferred option is the one that is included in the both the current LTP budgets and the online rates tool. While Councillors may resolve to keep this in the consultation as an option, careful consideration should be given to the impacts of collecting the additional interest cost (\$147.3k) over a relatively small group of ratepayers. Initial indicators are that it would increase the rate by 34% – 39% over time. The Council's final decision on the funding of this capacity will not be made until after consideration of feedback from the community and interested parties.
- 4.6 In order to complete the revised consultation documentation and the necessary rates modelling staff require direction on the Council's preferred option. Staff recommend a variation on Option D for inclusion in the draft LTP budgets, Consultation Document (Choice 2) and other relevant documents, for the allocation of additional irrigator capacity costs for the Waimea Dam. Where the revised Option D is a targeted rate on affiliated irrigators for the amount proposed in the current Option A in the draft Consultation Document (as previously agreed by Council), and the irrigators portion of interest on the latest cost overrun of \$11m is funded from the general rate.
- 4.7 Please refer to report RCN20-12-6 contained in Attachment 1 for additional information on the four rating options.

5 Conclusion

- 5.1 The revised estimated cost to complete the Dam provided by WWL has meant that the financial information contained in the draft Consultation Document and supporting information the Council was to consider at today's meeting, is now out of date. For public transparency and to ensure the Council has the funding required to pay for the cost overruns, we need to amend the Consultation Document and supporting information prior to initiating the public consultation process.
- 5.2 There is a range of documents that will need amending to reflect the decisions Council makes at today's meeting.
- 5.3 There is a very small window for getting Council's decisions and amending the various documents. The recommendations contained in this report to amend the Consultation Document and supporting information should enable the documents to be ready for public consultation in order to enable the Council to adopt the final LTP by 30 June and to strike the rates for the 2021/2022 financial year.
- 5.4 The Council is contractually bound to fund WWL so it can meet cost over runs.

6 Next Steps / Timeline

- 6.1 The timeline for the next steps is dependent on the decisions made by the Council at today's meeting and whether those decisions will enable staff to amend the Consultation Document

and supporting information for the LTP in time to meet the timeline outlined in section 4 above.

Attachments

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|----------------------|--|----|
| 1. ↓ | Report RCN20-12-6 | 15 |
| 2. ↓ | Resolutions passed by Council on 3 December in relation to report RCN20-12-6 | 51 |



Report to Full Council Meeting - 3 December 2020

8.5 REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

Decision Required

Report To:	Full Council
Meeting Date:	3 December 2020
Report Author:	Mike Drummond, Corporate and Governance Services Manager
Report Number:	RCN20-12-6

1 Summary

- 1.1 Councillors are considering a revised funding policy for the Water Supply Activity and, in particular, the Waimea Community Dam. Three workshops on funding matters have occurred during October/November 2020. This report is based on the information provided to those workshops and the direction indicated. This activity funding review is being undertaken as a result of the level of the Waimea Community Dam project cost overruns, and the need to determine the application of our current policy which states that the Council may charge a targeted rate to properties with affiliated consents in the event of cost overruns in excess of \$3m.
- 1.2 The Council has sought other funding sources including central government and additional funding from Nelson City Council; however, at this time no extra funding has eventuated. We have however received an additional \$18m in concessional lending from CILL. The cost to complete the project remains at \$129.4m plus COVID-19 costs, which are yet to be settled by WWL.
- 1.3 Funding sources for all Council activities are determined through the Revenue and Financing Policy. This policy is consulted on in conjunction with the Long Term Plan. This report seeks staff direction from the Council in setting the funding sources for the Waimea Community Dam, for inclusion in the development of a Consultation Document for the Revenue and Financing Policy. That Consultation Document will subsequently be brought back to the Council for a final decision before consultation in early 2021. Consultation will occur in conjunction with the LTP 2021-2031 consultation process.
- 1.4 A decision by the Council on the funding sources for the Dam requires the Council to consider its powers and meeting its obligations under the Local Government Act (LGA) 2002 and the Local Government Rating Act (LGRA) 2002. These are complex and important decisions. The Council needs to have particular regard to the provisions of S101(3) of the LGA 2002 as it decides on the appropriate sources and apportionment of funding for the Dam and other water supply activities.
- 1.5 It is proposed that the allocation of project costs for the Council funding purposes remain at 49% Irrigator extractive use, 21% Urban Water supply extractive use and 30%

Page 1

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
 (WAIMEA COMMUNITY DAM)**

Environmental and Community benefits. Due to the level of cost overruns (circa \$25m), the Council is now required to contribute to the costs of the Irrigator extractive capacity. This is due to the project funding agreement providing for the first \$3m in cost overruns to be met 50/50 by Council/WIL and overruns above this amount are to be funded to WWL in full by the Council.

- 1.6 It is proposed that the current rates funding sources for the Urban Water supply extractive use capacity and Environmental and Community benefits. Capacity remain unchanged from the Council's current Rating and Funding Policy contained in its Revenue and Financing Policy and Funding Impact Statement consulted on in 2017.
- 1.7 It is proposed that there is a revised funding arrangement for the Council share of the Irrigator extractive use capacity. The Council will need to determine its preferred funding option for the preparation of the Consultation Document as part of the consideration of this report.

2 Draft Resolution

That the Full Council:

1. receives the Revenue and Financing Policy Proposals for Funding the Water Supply Activity (Waimea Community Dam) report, RCN20-12-6.
2. notes that the indicative rating impacts in this report are early estimates only and are subject to change as proposals are refined and further work is carried out. Also that they are based on both the current property rating valuations (which are currently subject to the 3-yearly revaluation review and the future year's rates will be set based on updated property values) and the current project cost to complete the Dam of \$129.4 million; and
3. notes the contractual allocation of Waimea Water Ltd operational costs are 49% to Waimea Water Ltd and 51% to the Council; and
4. confirms the current allocation of project capital costs for funding purposes as 49% Irrigator extractive use, 21% Urban Water supply extractive use and 30% Environmental and community benefits; and
5. confirms the allocation of Waimea Water Ltd operating costs for funding purposes as 49% Irrigator extractive use (WIL), 21% Urban Water supply extractive use and 30% environmental and community benefits; and
6. confirms the existing funding policy for the Environmental and Community Benefits. These being funded across the District by way of a fixed charge per rating unit covering 70% of funding requirements and a charge on capital value for properties in the current 'Waimea Community Dam zone of Benefit Rating Area' covering 30% of the funding requirement; and



Report to Full Council Meeting - 3 December 2020

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

7. confirms the existing funding policy for the Urban Water supply extractive use. That being a charge to the Urban Water Supply Account and Redwood Valley Rural Water Supply (recovered through inclusion in Development Contributions, water rates and fees and charges); and
8. requests that staff when preparing the Consultation Document for the Councils Revenue and Financing Policy include in relation to the Water Supply Activity and Funding Impact Statement the following options for the Water Supply Activity Waimea Community Dam Council funded Irrigator extractive use capacity:
 - a) Stepping any irrigator extractive use -targeted rate(s) in over a 5-year period by running an initial deficit in the activity to be recovered in later years.
 - i) Option 1 (current policy) – A Targeted rate based on CV for all properties with an affiliated consent.
AND/ OR
 - ii) Option 2 – District-wide funding.
Sub-option i) Based on the Capital Value of a Property
OR
Sub-option ii) based on a fixed charge per rating unit
 - iii) Option 3 – A Targeted rate based on LV to properties who have the ability to benefit from irrigation (zone of affiliation)
Sub-option i) Only on Properties that benefit from an affiliated consent
OR
Sub-option ii) On all properties in the affiliation zone
OR
Sub-option iii) Differential targeted rate of 5:1 with the higher rate charges to properties supplied from an affiliated consent and the lower charge to properties in the affiliation zone who do not hold an affiliated consent
 - iv) Option 4 – Funding through a mix of Options 2 and 3
With general rates funding 40% and targeted rate on LV funding 60%
9. confirms option (XXXXXX) is to be the preferred option in the consultation document for the Council funding, for its share of the Irrigator extractive use capacity.



Report to Full Council Meeting - 3 December 2020

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**
3 Purpose of the Report

- 3.1 This report seeks direction from the Council in setting the funding sources for the Waimea Community Dam as part of the Water Supply activity. This is for inclusion in the Consultation Document on the Council's Revenue and Financing Policy.

4 Background and Discussion – Current Policy settings and Estimates

- 4.1 The current Revenue and Financing Policy provisions for the Water Supply Activity were consulted on in conjunction with the 2018-2028 Long Term Plan. The Policy settings for the Waimea Community Dam funding were in place before the final decision to proceed with the Waimea Community Dam project in December 2018.
- 4.2 There was specific consultation via a Statement of Proposal on Governance and Funding Arrangements for the then proposed Waimea Community Dam in October 2017. At the time, the estimated cost of the project was \$75.9m. Since then, costs have increased to \$104.5m (at December 2018) with the latest estimate of the cost to complete being \$129.4m (plus COVID-19 costs).
- 4.3 As a result of the consultation and consideration of the matters required under the Local Government Act 2002 (LGA 2002), it was determined that Council funding would be split into extractive capacity benefits (urban water use) and Environmental and Community benefits. At the time, irrigator extractive capacity was fully funded directly by irrigators through Waimea Irrigators Ltd.
- 4.4 The 2018 Revenue and Financing Policy provided as part of the Water Supply Activity for the Council to recover any cost overruns from properties with affiliated consents. This policy position was in place before financial close. Irrigation interests submitted against this policy setting. Those submissions were considered along with other submissions before the Council made its final decision on the 2018 Revenue and Financing Policy.
- 4.5 While those funding principles have remained in place the current increase in project costs means that the Council now needs to fund a portion of irrigator extractive use costs under the project agreement and also provide for increases in its own Urban Water supply extractive use and Environmental and Community benefits capacity funding. That has led to the need for the Council to reconsider the overall funding policy for this aspect of the Water Supply Activity.
- 4.6 Notwithstanding any allocation of capital costs, operational costs for the Dam (and for WWL) are set in the project agreements. This is 51% paid by the Council and 49% paid by WIL. These are charged to the Council and WIL through the annual WWL water supply charges. Charging for operational costs commence once the Dam is operational.
- 4.7 The rating estimates used in this report are preliminary and are for indicative purposes only. As the funding proposals are refined for the public consultation, the estimates will be updated and extended. Current Land and Capital rating values have been used in the

Page 4



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

preliminary modelling. They are based on the current property rating valuations (which are currently subject to the three yearly revaluation review). The post revaluation values will be used to set and charge next year's rates. The rating modelling assumes a current project cost to complete the Dam of \$129.4m.

- 4.8 The operating costs of WWL for the Dam were estimated at \$1.4m to \$1.5m in 2017. The WWL Board and Shareholders are currently reviewing the operating costs and operating model. Early indications are that operating costs will be higher than estimated in 2017. For modelling purposes, we have used a figure of \$2.5m of which \$1.3m would be charged to the Council.

5 Background and Discussion – Allocation of Project Costs

- 5.1 In determining the allocation of funding costs, the construction and operating costs of the Dam are currently allocated to the beneficiary groups. These allocations were a fundamental feature of the negotiation with the irrigators, Crown Irrigation Investments Limited (CIIL) and the Community over funding for the project.

- 5.2 Those groups are:

5.2.1 Irrigators - extractive use

5.2.2 Urban Water Supply & Redwood Valley Rural Water Supply - extractive use

5.2.3 Environmental and community benefits

<u>Waimea Community Dam Cost Allocation</u>	<u>\$000s</u>		<u>\$000s</u>
Estimated Cost to Complete	\$ 129,400	Cost Increase	\$ 24,500
49% Irrigators	63,284		\$ 11,982
21% Urban Water Supply (inc NCC)	27,296		\$ 5,168
30% Environmental and Community benefits	38,820		\$ 7,350
100%	<u>\$ 129,400</u>		<u>\$ 24,500</u>

- 5.3 While the Council is responsible for fully funding Waimea Water Ltd for cost overruns after the first \$3m, the Council and WIL fund the first \$3m 50/50. This is a provision in the Project Agreements. The Council needs to determine what funding mechanisms will be used to fund the cost overruns it is responsible for.

- 5.4 It is not proposed to change the allocation of project costs as these are embedded in the commercial agreements and loans in place for the Waimea Community Dam are the basis for the current Council funding of the project.

Page 5

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
 (WAIMEA COMMUNITY DAM)**

- 5.5 Based on the last funding consultation with the community we can expect submissions supporting the re-allocation of more of the project costs to extractive users (Urban water supplies and Irrigators).

6 Background and Discussion – Extractive Capacity – Urban Water Use
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- 6.1 The Council extracts water from the Waimea River and aquifers to supply the reticulated urban areas including Richmond, Māpua and Brightwater and the Redwood Valley Rural Water Supply. This grouping is mostly included within the Urban Water Club. Urban water account metered users are charged a fixed service charge, a volumetric charge based on water use, and rural extensions are charged based on water restrictor volume. The Council also supplies water to some properties in the Nelson City Council area including several large industrial users. These are accounted for as part of the Urban Water Club through fees and charges.
- 6.2 In the absence of the Dam, future urban growth in the Waimea Basin is confined to the urban zone boundaries as existed in 2013. The costs associated with augmenting the community water supplies are currently funded through the Urban Water Club and Redwood Valley Rural Water Supply. The Dam provides a more secure water source for both existing and future residents and businesses with the incidents of water rationing being greatly reduced to a one in a 60-year drought. The Dam also provides the opportunity for further residential and business development and ensures there are no constraints within the next 100 years on future growth and development within the wider Waimea area.
- 6.3 The Council's current policy sees the Council fund some of the Dam project costs (\$27.3m) through the existing Urban Water Club and Redwood Valley Rural Water Supply in the same manner as costs are currently apportioned via a fixed service charge and volumetric charge. This approach is consistent with the Council's practice of funding District-wide water infrastructure through the Urban Water Club.
- 6.4 A portion of future costs is being offset by including urban water supply development contributions (DC's) for all new residential and commercial developments. These would ordinarily attract some form of infrastructure cost-sharing under the Council's policies and resource management plan and have been estimated to cover approximately \$6.72m of the capital amount. Another portion of the allocated costs has been offset by a one-off contribution from Councils Enterprise Activity (\$2.91m) along with a \$5m payment from Nelson City Council.
- 6.5 In summary, the current policy settings are for all these capital costs (\$27.3m) to be recovered through the Urban Water Club and Redwood Valley Rural Water Supply, also included in the fixed and volumetric water charges. These funding allocations are before the deduction of funding from Development Contributions of \$6.72m, Enterprise Activity contribution \$2.91m and Nelson City Council contribution of \$5m. This leaves a net contribution to be loan funded of \$12.67m.



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

- 6.6 Current policy settings are for 21% of the annual operating costs to be recovered through the water club (34% of the costs allocated to the Council by WWL). Based on current preliminary estimates this would be \$525k pa.

7 Background and Discussion – Environmental and Community Benefits

- 7.1 The general community and environmental benefits (public good) include the following:

Environmental

- Preservation of recreational use of the river during the summer period.
- Catchment diversity protected and improved, eg instream fauna and aquatic life.
- A healthy river with minimum flows that reduce the risk of algae blooms.

Community

- Economic (flow-on effects to the economy as opposed to direct benefits to landowners).
- More jobs created across the District.
- Business development and expansion.
- Existing economic activity and jobs retained because of security of water supply.
- Security of water supply for users on the Waimea Plains.
- Increased rating base through residential development and new business to spread costs.
- Improved recreational and economic benefits as listed above.
- Viability of community infrastructure maintained eg schools.

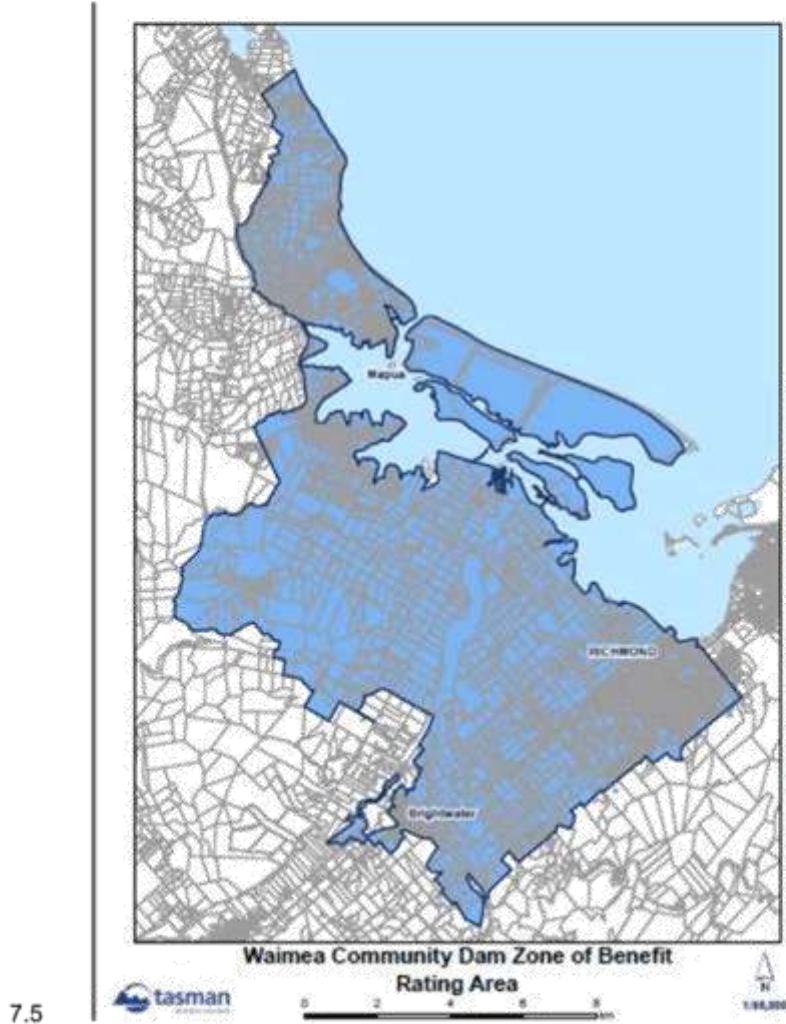
- 7.2 Current policy settings for these costs (\$38.9m) are that 70% of costs will be recovered across the District by way of a fixed charge and 30% will be recovered from the Waimea Community Dam Zone of Benefit Rating Area (shaded blue in the map below) by way of a rate on capital value.
- 7.3 The funding allocations (\$38.9m) are before the deduction of funding from the Ministry for the Environment's Freshwater Improvement Fund of \$7m and \$18.75m repaid over 15-20 years using Councils Enterprise income. This leaves a net contribution to be loan funded of \$13.1m.
- 7.4 Current policy settings are for 30% of the annual operating costs to be recovered through the Environmental and Community Benefits rate (66% of the costs allocated to the Council by WWL). Based on current preliminary estimates this would be \$750,000 per annum.

Page 7



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)



7.5

8 Background and Discussion – Irrigator Extractive Capacity

- 8.1 Irrigators primarily contribute to the Dam via the WIL investment WWL and the related loan funding for Irrigator Extractive Capacity from CIIL. Due to the increase in cost to complete the project, the Council is now responsible for loan funding \$10.5m towards the capital costs of irrigator extractive capacity.
- 8.2 Not all Shareholders in WIL who have the ability to affiliate consents have done so. In addition, some WIL shares are held as dry shares and an investment for the future. Those shares attract a share of the WWL operating costs. However, because they are



Report to Full Council Meeting - 3 December 2020

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

not attached to a property the Council cannot allocate irrigator extractive capacity costs to them.

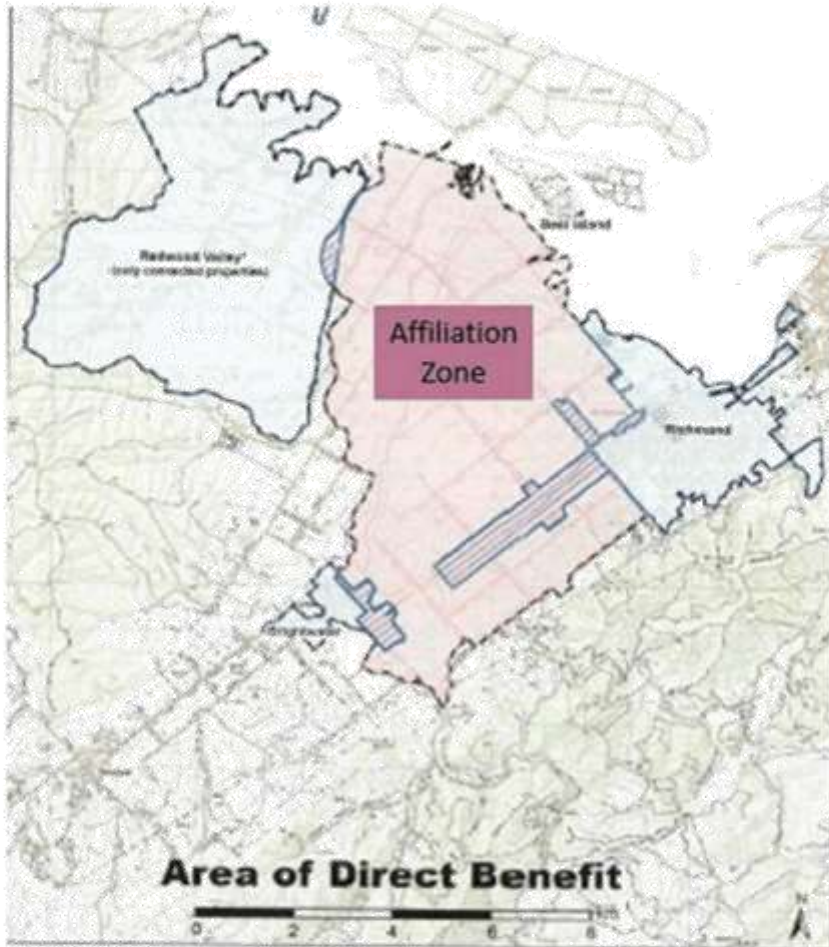
- 8.3 The Council has offered an alternative funding proposal to WIL where the additional debt in relation to this Irrigator extractive capacity would be held in WWL and the costs recovered through the WWL water charge to WIL. This approach has been rejected by WIL.
- 8.4 Irrigation extractive water takes can only be located within the Affiliation zone. Water taken from that zone can be piped and used in adjacent areas. The proposed Zone of Affiliation is an area that captures properties who can access an augmented water supply and is very similar to the Zone of Effect modelled for consultation in 2014.
- 8.5 Resource consents to take water contain two key pieces of property information. The property where the water take is located and the property(s) where the water can be used. In many cases these are identical. This allows the Council to identify properties outside the proposed affiliation zone that are receiving an augmented water supply from within the zone. This allows those properties to be target rated.



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

**Proposed Affiliation Zone
(shaded pink)**



8.6 We have noted that there are several properties included in the Affiliation Zone that are small (suburban section) in size and with residential use. These include properties in the Richmond West residential area that was recently developed and is continuing to develop into the affiliation zone. These properties would likely need to be excluded from any rate to fund irrigator extractive capacity because they have or will be connected to the Council's high pressure water supply. Additionally, some properties fall partly in and partly out of the area, and work would need to be done in this sphere before the Affiliation



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

Zone area was finalised. This is similar to the work done to finalise the boundaries of the current rating Zone of Benefit area.

- 8.7 One of the funding options is that a differential could apply to the Affiliation Zone (and surrounding properties serviced from the zone) where properties within the zone are charged a targeted rate for the ability to benefit from the augmented water supply. Those properties serviced from an affiliated water take (including those within the affiliation Zone) would be charged a higher differential rate reflecting their increased benefit. This would negatively impact on those permit holders who have up to now elected not to be WIL Shareholders.
- 8.8 The proposal is for a targeted rate based on Land Value (LV) rather than the current CV rate provided for in the Revenue and Financing Policy. Now that we have done additional work in identifying properties with affiliated consents (and the affiliation/consent review process is now largely completed). We have determined that the property's LV has a much closer correlation with the consented take than either Capital Value or land area, both of which are other factors that can be used to assess liability for targeted rates under the Local Government (Rating) Act 2002.
- 8.9 It would have been desirable to obtain better proxies for the water security benefits arising from the Dam than the mentioned land value, capital value, and land area. Such as allocating costs based on a shareholding in WIL or based on consented water volume information. However, the Council are limited to the rating methods included in Schedule 2 and 3 of the Local Government (Rating) Act 2002, when determining the categories of land that pay a rate, and the factors that can be used to calculate the liability for a targeted rate.
- 8.10 The annual cost of water, including debt servicing for the CILL loans and operational costs for irrigators under the current Dam funding proposals, have not yet been re-calculated. In the 2017 consultation, a figure of \$650 per hectare per year was indicated. The maximum water take volume is controlled at a bore or take level. For irrigators joining the current scheme, there would also be the cost of purchasing shares (2017 \$6,325 each) in the irrigation company (WIL).
- 8.11 In 2017, it was considered that the costs at those levels were at the top end of the affordability range for many irrigators. These collective costs potentially affect smaller land blocks and/or less intensive land-use where higher set charges could make a property uneconomical, particularly for current use.

9 Funding Options

Assessment of Funding Options

- 9.1 For the funding of Extractive Users – Urban Water Supply and the General Ratepayer - Benefits to Environment and General Community it is proposed that no changes are

Page 11



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

made to the existing funding sources but it is acknowledged that as a result of the project cost increases that these rates will be higher than estimated in 2017-18

- 9.2 The funding policy for Irrigator extractive use needs to formally reconsidered by Council because it is now due to implement that aspect of the policy for the first time. The options included in this report have been narrowed down. Councillors have the discretion to suggest or adjust alternative policy settings (e.g. adjust the differential from 5:1 to some other figure, or adjust the general-targeted rate split to something other than 60-40).
- 9.3 The previous funding policy settings were made at the following consultation with the public in October 2017 through the "Waimea Community Dam Statement of Proposal for Governance and funding arrangements". The analysis of financial implications of the various funding options have not been updated in the table for any changes since 2017, with the exception of the proposed irrigator extractive use funding. The work on estimates is ongoing and we expect to be able to provide an update to the meeting. This work will be completed in full before the Consultation Document coming back to the full Council for approval.

Extractive Users – Urban Water Supply

EXTRACTIVE USERS - CURRENT FUNDING OPTIONS AND 2017 ALTERNATIVES		
Option	How	Advantages and Disadvantages
<p>Current Funding Option</p> <p>Funding the capital contribution of \$27.3m and operation charge through the Urban Water Club</p>	<p>Fixed service charge plus volumetric charge to meet the full costs</p> <p>Includes all users in the Urban Water Club and Redwood Valley scheme</p> <p>Rural water extensions to urban water schemes</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Maintains the current funding mechanism • Consistent with current Council practices for funding urban water supply • Table loan repaid over 30-40 years to ensure intergenerational fairness • Development Contributions (DCs) would reduce the rates and charges • In the same way, that other water supply infrastructure is provided across the District, most of the District helps meet the Dam project costs rather than just those who directly benefit. <p>Disadvantages</p>

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

		<ul style="list-style-type: none"> Increases charges to pay for water security and future demand
Alternative Options		
1. Funding through the existing Urban Water Account with differentials	<p>Fixed service charge plus volumetric charge remains unaffected by costs of the Dam for properties outside the Zone of Benefit.</p> <p>There would be a higher charge (called a differential) to cover the Dam project for all properties in the Zone of Benefit.</p> <p>This would also include Rural water extensions to urban water schemes.</p>	<p>Advantages</p> <ul style="list-style-type: none"> Based on the current funding mechanism Can target direct beneficiaries <p>Disadvantages</p> <ul style="list-style-type: none"> Undermines the current basis of charging through the Urban Water Account, potentially requiring Council to move to a catchment-based approach for all catchments in the water account. Creates a precedent for future urban water projects in the District being funded by the community directly benefitting Would require a fundamental change to or disestablishment of the Urban Water Account Policy and practices. This would adversely impact on the smaller settlements in the District Creates significant added complexity and adds increased costs in the administration
2. Targeted rate for the Waimea Community Dam project	<p>Targeted rate based on cents in dollar of capital value. Applied District wide or to properties in Zone of Benefit including properties which are classified as non-rateable by the Local Government Rating Act 2002</p>	<p>Advantages</p> <ul style="list-style-type: none"> Could be used with differentials Relatively simple to apply <p>Disadvantages</p> <ul style="list-style-type: none"> New targeted rate to be established Doesn't incentivise water conservation as no increase in volumetric charge If only on the Zone of Benefit, it creates precedent for future



Report to Full Council Meeting - 3 December 2020

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

		<p>urban water schemes in the District being funded by the community directly benefitting. It would also create a precedent for future projects to be funded outside the Urban Water Account.</p>
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**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**
General Ratepayer - Benefits to Environment and General Community

CURRENT FUNDING OPTION AND 2017 ALTERNATIVES		
Option	How	Advantages and Disadvantages
Current Funding Option A Fixed Charge across the District and a Targeted Rate on those in the Zone of Benefit	<p>A flat fixed targeted rate on all District ratepayers (2017 \$29/property/year) plus a targeted rate on properties in the Zone of Benefit based on the properties capital value</p> <p>Applied only to the Zone of Benefit, the capital value targeted rate would be 2017 \$0.000055/dollar of capital value. Example charges range from 2017 \$14 for a \$250,000 CV to \$56 for a \$1m CV. These totals exclude the additional fixed rate of \$29.</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Easy to administer alongside existing rating mechanisms • Accounts for value/scale of activity per rateable unit • Provides a fair mechanism to apportion the environmental/community benefit costs • Consistent with current District wide funding of activities <p>Disadvantages</p> <ul style="list-style-type: none"> • Depending on how the costs are apportioned, the cost share may not be viewed as fair and reasonable • Some Tasman ratepayers outside the Zone of Benefit may object to contributing towards the Dam costs
Alternative Options		
1. Funded through the Uniform Annual General Charge (UAGC)	<p>A flat fixed charge on all District ratepayers</p> <p>The increase in the UAGC would be 2017 \$42 per property per year</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Easy to administer alongside existing rating mechanisms <p>Disadvantages</p> <ul style="list-style-type: none"> • Does not recognise the nature or scale of additional benefits to those who directly benefit from the augmented water supply. • Not the most cost-effective way to meet the present and future needs of water users.
2. Funded through a General Rate across the District based on	<p>The rate based on CVs across the District</p>	<p>Advantages:</p> <ul style="list-style-type: none"> • Easy to administer alongside existing rating mechanisms

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
 (WAIMEA COMMUNITY DAM)**

Capital Value (CV)	The general rate increase would be 2017 ~2.6%	Disadvantages <ul style="list-style-type: none"> No differentiation between land use or location from a beneficiaries' perspective Likely to arouse wide debate and objection from the community High value properties in outlying areas of the District, eg Golden Bay, would pay significant rates
3. General rate with differential for land use activity	A different amount per \$ CV for unit type, eg residential, commercial, rural, tourist services	Advantages <ul style="list-style-type: none"> Recognises benefits of the Dam project to different activities, eg businesses and tourist services are more likely to benefit Accounts for scale/value of activity Disadvantages <ul style="list-style-type: none"> Requires evidence and justification that would be relatively difficult to provide Difficult to prove benefits to areas further away from the Zone of Benefit e.g. Golden Bay and Murchison Likely to arouse wide debate and objection from the community High value properties in outlying areas of the District would pay significant rates
4. General rate – with location differential	General rate (CV) with a differential for Golden Bay and Lakes Murchison Wards. For example, these areas pay 50% of the rate paid by other Wards ratepayers	Advantages <ul style="list-style-type: none"> Recognises accessibility of community benefits based on furthest distance from Zone of Benefit Disadvantages

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

		<ul style="list-style-type: none"> Shifts rates burden more to the areas of direct benefit and does not recognise wider environmental and community benefits of the project Major shift in Council's Rating Policy, which is likely to have flow on effects to other general rates, funded activities, for example roading.
5. Targeted rate on extractive water users	Targeted fixed or variable rate on extractive users including irrigators on the Waimea Plains and the Urban Water Account	<p>Advantages</p> <ul style="list-style-type: none"> Shifts rates burden to the area of direct benefit <p>Disadvantages</p> <ul style="list-style-type: none"> May not meet the requirements of the Local Government (Rating) Act if based on a volumetric charge. Apportions all costs to direct beneficiaries and does not recognise that there are wider benefits to the environment and community generally of the Dam project Would be difficult to administer as it would be based on water permits for irrigation Would be unaffordable for WIL affiliated members with current costs in the top quartile of what irrigators could meet (\$6000 - \$7000 per hectare/share plus initial operating costs of \$550-\$650/ha/year) Would significantly increase costs for those ratepayers in the Urban Water Club

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
 (WAIMEA COMMUNITY DAM)**
Extractive Users – Irrigators

FUNDING OPTION AND ALTERNATIVES - 2020 ESTIMATES		
Option	How	Advantages and Disadvantages
<p>1. Current policy provides for possible funding through a Targeted Rate.</p> <p>No Current Council or Rates Funding is being collected</p> <p><i>Prior to current level of cost overruns occurring, all costs were to be fully met by Waimea Irrigators Ltd.</i></p>	<p>A rate on Properties with affiliated consents based on the properties Capital Value</p>	<p>Advantages</p> <p>Is consistent with user pays philosophy as irrigators benefit from the additional costs to complete Dam, as well as Council and therefore should contribute to the benefit arising from these extra costs</p> <p>Recognises that a high proportion of other Dam related costs, are already being met by the Ratepayer across the District.</p> <p>Disadvantages</p> <p>Would significantly increase costs for those ratepayers with affiliated consents.</p> <p>Apportions all costs to direct beneficiaries and does not recognise that there are future benefits to other properties in the Affiliation Zone who could affiliate in the future.</p> <p>We have now identified land value (LV) as a closer correlation to the size of a consented take.</p> <p>Is complex to administer</p> <p>May cause affordability issues for some ratepayers</p> <p>May result in inequitable (favourable) outcomes for those who use water but do not hold an affiliated water consent. This includes a large irrigation scheme with a low capital value, which has quite substantial water use.</p>

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

Funding Options		
<p>1. Funded through Districtwide funding either through:</p> <p>i) including the funding requirement in the General Rate which is charged based on Capital Value (CV)</p> <p>OR</p> <p>ii) a Fixed charge per rating unit</p>	<p>The general rate would need to increase by 1% if these costs were to be funded.</p> <p>A \$540,000 CV property would pay ~\$17</p> <p>OR</p> <p>The Fixed Charge would be about \$23 within a few years</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Easy to administer alongside existing rating mechanism • Is not likely to drive consent holders to unaffiliate their consents • Council are aware that WIL are of the view that Council does not have the ability to set a targeted rate on irrigators to fund cost overruns. <p>Disadvantages</p> <ul style="list-style-type: none"> • Does not recognise the direct benefit to properties with affiliated consents • No differentiation between land use or location from a beneficiaries' perspective • Likely to arouse wide debate and objection from the community • High value properties in outlying areas of the District who are less likely to benefit from the extractive capacity, eg Golden Bay, would pay significant rates under the capital value option. • Rates increases on any individual property is more likely to be affordable than collecting the same amount of revenue from a much smaller rating base.
<p>2. Funding through a targeted rate based on land value (LV) to properties who have the ability</p>	<p>Option a)</p> <p>Charge only the properties who benefit from an affiliated consent</p> <p>This could cause a rate increase of over \$2,600</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Is consistent with user pays philosophy as irrigators benefit from the additional costs to complete Dam, as well as the Council and therefore should



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

<p>to benefit from irrigation (zone of affiliation)</p>	<p>for a property with a \$1.1m land value that benefits from an affiliated consent</p> <p>Option b) Charge all properties in supplied from the affiliation zone</p> <p>Option c) Differential targeted rate of 5:1 with higher rate charged to properties in the zone of affiliation who benefit from an affiliated consent and a lower charge to properties in the zone who do not hold a consent</p> <p>This could cause a rate increase of over \$2,300 for a property with a \$1.1m land value that benefits from an affiliated consent. It could cause a rates increase of several hundred dollars for a property in the zone with a \$0.6m land value that does not have a consent.</p>	<p>contribute to the benefit arising from these extra costs</p> <ul style="list-style-type: none"> Recognises that a high proportion of other Dam related ratepayers are already meeting costs across the District. Land Value (LV) has the best correlation to consented water take volumes. <p>Disadvantages</p> <ul style="list-style-type: none"> Would significantly increase costs for those ratepayers with affiliated consents under Options a) and c), and all properties in the zone under Option b). Option a) apportions all costs to direct beneficiaries and does not recognise that there are future benefits to other properties in the Affiliation Zone who could affiliate in the future. Option (b) not likely to be supported by ratepayers who have chosen not to affiliate in order to avoid some costs related to the Dam and they would see the benefits they are being charged for as being much lessor that of affiliated consent holders Option (c) not likely to be supported by ratepayers who have chosen not to affiliate in order to avoid some costs related to the Dam The size of the potential rates may drive behaviour change
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Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

		<p>(e.g. consent holders may choose to unaffiliated) This could lead to increasing costs over a decreasing rating base</p> <ul style="list-style-type: none"> • Is complex to determine and administer
<p>3. Funding through a mix of general rates funding (40%) and targeted rates on LV as in point 7 above (60%)</p>	<p>Option a) Charge only the properties who benefit from an affiliated consent This could cause a rate increase of over \$1,600 for a property with a \$1.1m land value for a property that benefits from an affiliated consent The ratepayer who owns a property with a \$540,000 CV who is not in the affiliation zone would see rates increases of approximately \$8.</p> <p>Option b) Differential targeted rate of 5:1 with higher rate charged to properties in the zone of affiliation who benefit from an affiliated consent and a lower charge to properties in the zone who do not hold a consent This could cause a rate increase of over \$1,400 for a property with a \$1.1m land value that</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Allows the portion (40/60) of the increased costs funded District wide to be adjusted to help address affordability issues. Council is obligated to consider the overall allocation on liability on the community. • Would likely see more manageable increase costs for those ratepayers with affiliated consents on in the affiliation zone than the previous option. • Would be less likely to drive consent behavioural change than the previous option • Some differentiation between land use or location from a beneficiaries' perspective <p>Disadvantages</p> <ul style="list-style-type: none"> • Does not fully recognise the direct benefit to properties with affiliated consents or in the zone of affiliation • Likely to arouse wide debate and objection from the community • Is complex to determine and administer



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

	<p>benefits from an affiliated consent. It could cause a rates increase of up to \$200 dollars for a property in the zone with a \$0.6m land value that does not have a consent.</p> <p>The ratepayer who owns a property with a \$540,000 CV who is not in the affiliation zone would see rates increases of approximately \$8.</p>	
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10 LGA 2002 S101(3) Analysis Summary

LGA Section 101(3) Analysis funding Waimea Community Dam project

Activity	<p>Water Supply Activity - Waimea Community Dam (the Dam)</p> <p>The Dam provides an augmented water supply for irrigators and reticulated water users in a defined area and Environmental and community benefits, The dam provides for current and future water demand. Consented water extraction by the Council and irrigators would have had to be reduced after 1 November 2018 to meet conditions in the Tasman Region Management Plan (TRMP) without an additional water source.</p> <p>Extractive uses are currently having the benefit of transitional provisions in the TRMP during the construction and commissioning of the Dam.</p> <p>Capital cost: Estimated \$129.4 million of which the Council's contribution is \$71.8 million. Capital costs are to be met primarily by the exacerbators and beneficiaries of the Dam with some funding from Councils Enterprise Activity and central Government (\$7m).</p> <p>Annual operating cost: Originally estimated at \$1.4 - 1.5m are now expected to be between \$2 and \$2.5m with the Council's contribution being 51% (in proportion to its shareholding) in the Dam company (\$1,275,000/year) and also fixed at 51% in the commercial arrangements.</p>
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Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

Contributes to Community Outcomes	<p>The Dam contributes to the following Community Outcomes in Council's LTP 2018 - 2028:</p> <ul style="list-style-type: none"> • <i>Our unique natural environment is healthy protected and sustainably managed</i> the Waimea River system and its values would be protected through adequate river flows, even in times of high water demand • <i>Our urban and rural environments are people-friendly, well planned and sustainably managed</i> – residents have sufficient year-round water supply to meet their expectations and productive land use is enabled in a sustainable manner • <i>Our infrastructure is efficient, cost-effective and meets current and future needs</i> – the Dam project is the most cost-effective augmented supply investigated, it mitigates the need to restrict current use at peak periods and would cater for population growth out a 100 years • <i>Our Council provides leadership and fosters partnerships, a regional perspective and community engagement</i> – Council takes a leadership role in driving the Dam project and has encouraged engagement with all Stakeholders. This includes sharing the costs with extractive water users, Government and the wider community that benefits in the environment, economic and social ways. • <i>Our Region is supported by an innovative and sustainable economy</i> – security of water supply for irrigators and business would help ensure an existing economy that is heavily reliant on primary industries, and promote new highly productive land uses and new value-add activities. Income from primary industry activities flows through the rest of the local economy.
Distribution of benefits	<p>The direct beneficiaries include property owners on the Waimea Plains with resource consents and/or the potential to obtain these; and horticultural/agricultural businesses that irrigate. The total affected area is 5860 ha of which 5000 ha is assessed as suitable for current and potential irrigation.</p> <p>Also reticulated urban water users (domestic and business) in the Richmond, Māpua, Brightwater, Waimea and West Nelson catchments. All extractive water users would have a more reliable supply of water, particularly at times of peak demand and during summer once TRMP conditions and subsequent water restrictions are applied.</p>

Page 23



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

	<p>Future benefits would also accrue to businesses, residents and irrigators as the Dam provides capacity for further growth. Those likely to benefit most would be those with direct access to or supplied with, water drawn from the river and its aquifers. In the case of irrigators, this equates to an additional 1,200 ha of arable land. They would also receive, along with current users, significant social and economic benefits realised from a more secure water supply due to the Dam project. Such benefits include additional business and employment opportunities.</p> <p>NZIER (2017) estimated up to an additional \$923million of GDP to the local economy over 25 years.</p> <p>The beneficiaries extend beyond those parties who have created the need for it i.e. the exacerbators. This is particularly true from a wider public good perspective concerning the following:</p> <ul style="list-style-type: none"> • the environmental health of the Waimea River system • recreational use of the river during the summer period because of minimum flows being obtained • mitigating the risk of economic and employment losses due to constrained water supply • allowing for future residential and business growth, thus increasing the rating base to help fund District activities • mitigating the reputational risk that could potentially impact on the visitors and future population growth. There is a national tourism perspective to account for also given high domestic and international visitor numbers to the region • the potential for increased land-based production and employment • the potential for value-add business activities to help grow the local economy <p>The degree of direct and indirect benefit to the community and different water users derived from the Dam has been assessed by the Council as follows:</p> <p>(a) The benefits to the District community including environmental, economic and social ones. This is assessed at 30% of the Dam cost. The whole community shares benefits, however, it is recognised that such benefits may be dependent on factors such as proximity to the area of direct benefit. Indirect benefits accrue to the wider economy from irrigated land production, and the increased spend in the community as a result.</p>
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**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

	<p>It is acknowledged that the District is a large land area and communities at its periphery are less likely to receive the same level of benefits as those urban areas with proximity to the Dam.</p> <p>(b) The direct benefits arising from current and future capacity for residential and business growth in the urban areas of Richmond, Brightwater and Mapua that would be supplied water from the Dam system. This equates to 1400 ha equivalent of the design capacity for the Dam. Benefits include an increased rating base, more employment and business activity to sustain and grow a prosperous local economy and population growth.</p> <p>(c) The benefits derived from the security of water supply to existing and future Waimea irrigators/landowners. Under the project agreements irrigators have been allocated 5425 ha of the Dam design capacity, of which 76% of that water would be subscribed by current irrigators, plus 425ha of unsubscribed capacity. A significant economic loss would occur without the Dam and there would be a need to claw back consented water use in dry periods with low river flows. Northington Partners (2016) estimated a \$1billion (GDP) loss over 25 years to the District's economy without an augmented water supply.</p> <p>(d) The benefits to Nelson City Council (NCC) and reticulated water supply to residential properties and businesses at the western end of the city adjacent to its boundary with the Tasman District. The funding contribution from NCC to the Dam reflects the volume of water supply going to this prescribed area plus a small if any contribution to environmental and community benefits. Nelson city have declined to increase their portion of funding as costs have increased markedly.</p>
Period of benefit(s)	<p>Like most infrastructure projects, the benefits of the Dam are expected to extend over multiple generations. The proposed Dam storage allows for future urban and business growth demands for the next 100 years and future irrigation capacity for 1200 ha of productive land to be taken up over the next 25 years. To enable the full 1200ha to be used for irrigation, it would require further investment in irrigation infrastructure by landowners.</p> <p>For current irrigators, benefits began to occur from 1 November 2018 after which consented water use would have been reduced by up to 70% without an augmented water supply. The Dam will help protect existing (and future) business activity and the economic impact this has across the wider community.</p> <p>Because of the inter-generational equity consideration of the Dam, the Council is proposing a mix of loan and revenue options. A loan would be repaid over a 30-40 year period from rates and charges to</p>

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
 (WAIMEA COMMUNITY DAM)**

	<p>the urban water club, the Zone of Benefit, Affiliation Zone and the District. Revenues from Council's Enterprise activities are being used to repay the \$10m interest-free, 10-year loan from CIIL and the \$8.75m CCO loan to Waimea Water Ltd.</p>
Whose actions create the need for the activity	<p>Over-allocation of consents to take water from the Waimea River and its aquifers have resulted in over-extraction of water, particularly in times of summer droughts which generally coincide with peak water demand. Over extraction has led to significantly reduced river flows at certain periods, impacting on the health of the river ecosystem.</p> <p>Current water permit holders include:</p> <ul style="list-style-type: none"> • Properties totalling 3,800 ha on the Waimea Plains, including land-based activity that irrigate, and commercial and industrial water user activities • The Council, which supplies reticulated urban water sourced from the Waimea aquifer to Richmond, Nelson South, Hope, Brightwater, Redwood Valley (limited) and the Mapua area. Current consented extraction would not provide for projected future growth • Nelson City Council who currently rely on water sourced from Council's supply system for the southern part of Nelson – urban and industrial <p>The over-allocation of consents would result in the need for severe water restrictions after November 2018, during peak demand and/or drought periods. Severe drought would equate to a 70% reduction on peak demand.</p> <p>The need to maintain a healthy river to protect environmental and recreational characteristics also contributes to the need for the Dam to help enable maintenance of adequate river flows and water quality.</p> <p>This position is reinforced by the National Policy Statement on Freshwater Management and increased community expectations for how natural resources are managed. Conditions related to water in the TRMP (part V) reflect both a national requirement and local position.</p>
Costs and funding	<p>The Council's capital funding is \$64.8m of the \$129.4m total costs (excluding incurred project costs to financial close). In the LTP 2018-2028, \$26.8m was allocated for a water augmentation project</p>



Report to Full Council Meeting - 3 December 2020

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

	<p>for the Waimea Plains. That earlier cost estimate predates current estimates. Cost estimates increased to \$104.5m in December 2018 and the most recent project total cost estimate is \$129.4m (+covid-19 costs)</p> <p>The primary beneficiaries being the Waimea Irrigators and Nelson City Council would meet the remainder of the total costs. The Government has contributed to the project through Crown Irrigation Investments Ltd (CIIL) concessional loans, and MFE's Environmental Improvement Fund grant of \$7m.</p> <p>Based on the "distribution of benefits" above, the Council's funding for the Dam is distributed across different rating tools.</p> <p>The Council's current funding structure is:</p> <ul style="list-style-type: none"> • \$14.55m allocated to the Urban Water Account and debt-funded over 30 years through water and volumetric charges. Increased charges would be partly offset by development contributions estimated at \$6.72m • \$10m interest-free loan from CIIL allocated to environmental and community benefits (public good) repaid in four lump sums at years 5,10,15 and 20 from the Council's commercial activity revenue and surpluses. The Council will set aside funds annually to meet these repayments. • \$2.91m for the Council's share of unallocated Dam capacity to be funded from the Council's commercial activity revenue and surpluses. • \$8.75m CCO loan allocated to environmental and community benefits with principal repayments funded from Enterprise activity income over 15 years and interest costs paid by Waimea Irrigators Ltd. • \$12.89m allocated to environmental and community benefits to be funded through a mix of a fixed charge across the District, plus a targeted rate on capital value for those in the Zone of Benefit. • \$10.7m allocated to Irrigator extractive capacity and funded by a targeted rate on properties with affiliated consents based on CV. <p>Annual operating costs currently estimated to be of \$2.0-2.5m (subject to review) are allocated between the Dam company partners being represented by WIL and Council. The allocation is 51% to Council (\$1,275,000) and 49% to WIL based on the ultimate budgeted shareholdings in the Dam company. Council's share is</p>
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Page 27



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

	<p>apportioned between the Urban Water Account (34%) and the wider environmental and community benefits (66%).</p> <p>Costs that are attributable to the extractive urban use would be applied to all members of the Urban Water Account across the District whether or not they are in the Zone of Benefit for other rating purposes (also to the Redwood valley water supply scheme). This approach is consistent with previous urban water account costs.</p> <p>The Council is also underwriting the CIIL loan to WIL. This underwrites provision ensure a below-market interest rate and the offer of the \$10m interest-free loan from CIIL to the Council. The financial risk to the Council has been mitigated by requiring WIL to repay the principal on the CIIL loan from lump-sum payments required by all new irrigators signing up to water extraction rights.</p> <p>Irrigators also pay a charge to WWL based on their number of shares/irrigated hectares to cover finance and their share of annual operational costs.</p>
<p>Overall community impact</p>	<p>This is a significant project for the District and \$26.8m was budgeted in the LTP 2018-28. Under the current cost overrun estimates, we intend to meet the additional costs from the same range of sources as were set out in the 2018 Revenue and Financing Policy.</p> <p>In the LTP, surpluses from activities are generally to be used to repay debt, however debt is not attributed to specific projects for which loans are raised. The effect of attributing any surpluses to the development of the Dam is that other Council debt is not reduced and/or funds are not allocated to other future capital projects.</p> <p>The Council has agreed that the Dam is critical infrastructure for the future growth of the District, to protect and grow the primary sector economy, and help manage its regulatory and environmental requirements.</p> <p>Limiting the impact on rates is difficult and has to be managed through various mechanisms. These include a \$7m grant from MFE over three years towards the river catchment management; a \$10m interest-free loan from CIIL to go towards the environmental/community benefits allocation of funding; and using current and future surpluses from commercial activities over the next 20 years to repay the \$10m CIIL loan, the additional Dam capacity cost of \$2.91m, and the CCO loan of \$8.75m</p> <p>Increased charges to the Urban Water Club would likely be in the range of 10% - 20% including funding the capital and annual operational costs. This increase is proposed to reduce overtime with</p>

Page 28

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
 (WAIMEA COMMUNITY DAM)**

	<p>future development contributions relating to the growth component of the Dam's capital costs. The environmental and community benefits allocation of \$12.89m plus annual operating cost would under current policy is funded 70:30 from a fixed charge across the District and a targeted rate (based on property CV) in the Zone of Benefit. This reflects that benefits can accrue District-wide, however, they would be greater in the Zone of Benefit because of proximity to the Dam and its environmental and community impacts.</p> <p>Under this funding proposal irrigators, who are in the Zone of Benefit, would be paying annual charges through WIL, plus the District-wide, plus the Zone of Benefit CV-based rate, and the urban water charges where they are on an urban reticulated scheme or a rural connector to an urban scheme. Besides due to the level of cost overruns, they could also now pay a targeted rate for the Council share of Irrigator extractive capacity.</p> <p>Whereas, under the proposed residential and business properties outside the Zone of Benefit would only pay the District-wide rate and the urban water charges where they are part of the Urban Water Club (including Redwood Valley).</p> <p>Increasing the contributions from Irrigators too high would make their costs commercially unaffordable. Growers/farmers would have to consider lower production land uses and/or restrict summer production where there is a risk of severe water restrictions in a no Dam scenario. This, in turn, would result in lower revenues, reduced employment and reduced spend across the local economy.</p>
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11 Strategy and Risks

- 11.1 The decision to request staff to prepare a consultation document on the Waimea Community Funding is in itself of low risk. It is an important part of the strategy necessary to determine the ongoing funding for this regionally important project.
- 11.2 In indicating to staff the basis for the revised Waimea Community Dam funding and in particular, how the increased Irrigator extractive capacity costs is to be met will set the scene for further engagement with our JV partners as stakeholders.
- 11.3 Waimea Irrigators Ltd has rejected a non-rates funding proposal for funding the irrigator share of the project cost overruns. That proposal involved a Council loan to WWL to be serviced by WIL with cost to spread over all WIL shareholders. That approach would have been more equitable between shareholders with affiliated consents and those with dry shares. The development of the target rating options is expected to cause irrigator interests to pause and reconsider that proposal.

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**
12 Climate Change Impact Assessment

Climate Change Consideration	Assessment	Explanation of Assessment
Is this activity associated with one of the goals in Council's Climate Action Plan?	<i>Climate Change considerations are not relevant to this report</i>	
Will this decision affect the ability of Tasman District to proactively respond to the impacts of climate change?	NA	

13 Options

13.1 The options in relation to the funding are set out above along with the respective considerations. Council is being asked to indicate the matters and approach to be taken in the preparation of the consultation document on the Revenue and Financing Policy. The funding of the water supply activity and in particular the Waimea Community Dam project is only one of the matters that will need to be in that consultation document.

14 Policy / Legal Requirements / Plan
Section 101(3) LGA Funding matters

- 14.1 The proposed Dam is among one of the larger investments the Tasman community has made in its core infrastructure. As a water augmentation project, it provides a range of benefits across the community. The Dam is also expected to last substantially longer than most other Council infrastructure. This makes the division of councils costs much more complex than in a pure irrigation or urban water augmentation scheme.
- 14.2 Section 101(3) of the LGA sets out the matters that the Council must consider when funding an activity. Various provisions in the Local Government (Rating) Act 2002 (LGRA) especially relating to the basis for setting targeted rates are also relevant and need to be considered. Councillors worked through these matters in 2017 and again through their workshops October and November 2020.
- 14.3 Step 1 of Section 101(3) LGA process requires specific consideration to be given to five principles. These are outlined and addressed below.



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

- 14.3.1 *How the activity contributes to the community outcomes*- it can be demonstrated that the Dam project contributes to some degree to five community outcomes in the LTP.
- 14.3.2 *The user/beneficiary pays principle* – the distribution of benefit between the community, parts of the community, and individuals are included in the Dam project funding and rating decisions.
- 14.3.3 *Intergenerational equity – the period over which the benefits are expected to be accrued*. Like most infrastructure projects, the benefits of the Dam are expected to extend over multiple generations. The proposed Dam storage allows for future urban and business growth demands for the next 100 years. To help address the intergenerational equity question, we propose that our capital costs are predominantly met through borrowing with loan repayments and charges structured over a 30-40 year period. The extending of loans beyond 40 years has a limited impact on the annual funding for the project. The proposed 30-40 years is at the limit permitted by Councils Treasury Policy.
- 14.3.4 *The extent to which actions or inactions of particular individuals or groups contribute to the need – referred to as the exacerbator principle*. The Council and Nelson City Council are exacerbators because of their consented urban, Redwood Valley Rural Water Supply, and business water supply take. Consented irrigators on the Waimea Plains are also exacerbators given that existing consents would have exceeded water supply under TRMP requirements from 1 November 2018. Due to over-allocation, reductions in water takes would have been required in a no Dam situation. Currently, consent holders are benefiting from transitional provisions while the Dam is being constructed. Without the Dam proceeding, growth in the District would also have been significantly hampered due to the lack of future water supply security.
- 14.3.5 *The costs and benefits of funding the particular activity, including those for transparency and accountability*. In the case of the Dam, other principles can be applied as a basis for funding decisions and who benefits. For example, what directly benefits part of the region/community also has indirect benefits to the whole region. In our case, additional production on the affected land area creates employment and business opportunities across the region. Recreational areas can be also enjoyed by all and attract visitors which in turn supports a regional tourism sector. Because such indirect benefits are often complex to quantify, it can become easier to default to a user/direct-beneficiary pays based model. The increased costs of funding the Dam are significant enough to warrant this review of funding sources.
- 14.3.6 In terms of affordability, the user pays principle is valid. However, from an irrigators' perspective, an affordability factor must be considered for this principle to work in practice. In 2017 the annual cost of water, including debt servicing for the CIIL loans of up to \$25m in the Dam company, for irrigators under the Dam proposal

Page 31



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

would be circa \$650 per hectare per year. Permit volume is controlled at a groundwater bore or take level. For irrigators joining the scheme, there would also be the cost of purchasing shares in the irrigation company (WIL) and these are anticipated to be around \$6500 - \$7500 per hectare/share. It is considered that the costs at these levels are at the top end of the affordability range for irrigators. These collective costs potentially affect smaller land blocks and/or less intensive land-use where higher set charges make a property uneconomical, particularly for current use.

- 14.3.7 The is also a case to include the principle of "partnership" given that the Dam project is being jointly funded and managed, albeit through a Council Controlled Organisation. While the project objectives may be agreed to by all parties, there has been on-going discussion on the degree of private versus public good that would be derived from the project and where costs should lie.

- 14.4 Section 101(3)(b) LGA, requires the Council to look at the overall impact of any cost allocation on the community.

Local Government (Rating) Act 2002 (LGRA)

- 14.5 The principles applied by the Council in determining its preferred funding options for the Dam (in addition to the specific considerations under LGA Section 101 (3) analysis) are in section 10 above (LGA 2002 S101(3) analysis summary)
- 14.6 A list of funding tools available to the Council to fund its contribution to the Dam project is set out below. This includes a comment on the application of the different tools to the Dam project.
- 14.7 Rating mechanisms are set out in the Local Government (Rating) Act 2002 (LGRA) to allow councils to raise revenue through rates from the community generally, specified groups or categories of ratepayers, and those who use or generate the need for particular services or amenities.
- 14.8 The rating mechanisms include:
- 14.9 **General rates:** - used where the Council thinks the community as a whole should pay (having first undertaken the processes of section 101(3) of the Local Government Act 2002), or where it is little or no benefit from or too much cost involved in funding the activity separately. Council is also required to consider the overall allocation of liability.
- 14.9.1 Tasman District Council sets its general rate per dollar of capital value.
- 14.10 **Targeted Rates-** is a rate used to fund a particular activity or group of activities and maybe set and assessed on a particular category or categories of rating units. Councils are more likely to set a targeted rate if there is some benefit to funding the costs separately, and some categories of ratepayer should not pay the rate, or some categories should pay a different amount to others.

Page 32



Report to Full Council Meeting - 3 December 2020

REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY (WAIMEA COMMUNITY DAM)

- 14.11 **Differentials:** A council can set its targeted rates differentially if it uses one of the matters in Local Government (Rating) Act 2002 as the basis for defining its categories of rates. This includes “where the land is situated”.

15 Consideration of Financial or Budgetary Implications

- 15.1 The decision to request staff to prepare a Consultation Document on the Revenue and Financing Policy including the Water Supply activity funding option for the Waimea Community Dam will be funded within existing budgets. Due to deadlines and internal resourcing parts of this work may need to be contracted out.

16 Significance and Engagement

- 16.1 We consider this decision to be of low significance as it is simply directing staff on the preparation of a document for consultation on the Revenue and Financing Policy.

Issue	Level of Significance	Explanation of Assessment
Is there a high level of public interest, or is decision likely to be controversial?	Low to moderate	Irrigator interest will be concerned over Councils current position on target rating irrigators for cost overruns. However, all changes to the Rating Policy are subject to consultation requirements. The public will be able to have their say during the consultation. The purpose of this report is to narrow down the preferred option for consultation.
Is there a significant impact arising from duration of the effects from the decision?	No	
Does the decision relate to a strategic asset? (refer Significance and Engagement Policy for list of strategic assets)	Yes	The investment in the Waimea Water Ltd is a strategic investment.
Does the decision create a substantial change in the level of service provided by Council?	No	
Does the proposal, activity or decision substantially affect debt, rates or Council finances in any one year or more of the LTP?	No	

Page 33

**REVENUE AND FINANCING POLICY PROPOSALS FOR FUNDING THE WATER SUPPLY ACTIVITY
(WAIMEA COMMUNITY DAM)**

Issue	Level of Significance	Explanation of Assessment
Does the decision involve the sale of a substantial proportion or controlling interest in a CCO or CCTO?	No	
Does the proposal or decision involve entry into a private sector partnership or contract to carry out the deliver on any Council group of activities?	No	
Does the proposal or decision involve Council exiting from or entering into a group of activities?	No	
Does the proposal require inclusion of Māori in the decision making process (consistent with s81 of the LGA)?	No	

17 Conclusion

- 17.1 Councillors, in this report and through a series of workshops, have considered the funding for the water supply activity. The LGA Section 101(3) analysis completed for the previous funding considerations for the Waimea Community Dam remains relevant today.
- 17.2 In particular, as a result of the level of the projected project cost overruns the funding for the Waimea Community Dam is an area for review. There is no compelling case to review the current funding sources for the Urban Water Supply or the Environmental and community benefits notwithstanding that these rates will be higher than original estimates in 2017.
- 17.3 Given that there may be a new rate struck for funding the Council's cost to provide for irrigator extractive capacity and the Council has now has additional information on properties with affiliated consents; it is appropriate that the basis for that rate and its likely level is consulted on.

18 Next Steps / Timeline

- 18.1 Staff will prepare a consultation document and rating examples that include, within the water supply activity, the 'funding of the Waimea Community Dam'.



Report to Full Council Meeting - 3 December 2020

19 Attachments

Nil

Resolutions passed by Council on 3 December in relation to report RCN20-12-6**CN20-12-7****That the Full Council:**

- 1. receives the Revenue and Financing Policy Proposals for Funding the Water Supply Activity (Waimea Community Dam) report, RCN20-12-5.**
- 2. notes that the indicative rating impacts in this report are early estimates only and are subject to change as proposals are refined and further work is carried out. Also that they are based on both the current property rating valuations (which are currently subject to the 3-yearly revaluation review and the future year's rates will be set based on updated property values) and the current project cost to complete the Dam of \$129.4 million; and**
- 3. notes the contractual allocation of Waimea Water Ltd operational costs are 49% to Waimea Water Ltd and 51% to the Council; and**
- 4. notes the current allocation of project capital costs for funding purposes as 49% Irrigator extractive use, 21% Urban Water supply extractive use and 30% Environmental and community benefits; and**
- 5. notes the allocation of Waimea Water Ltd operating costs for funding purposes as 49% Irrigator extractive use (WIL), 21% Urban Water supply extractive use and 30% environmental and community benefits; and**
- 6. confirms the existing funding policy for the Environmental and Community Benefits. These being funded across the District by way of a fixed charge per rating unit covering 70% of funding requirements and a charge on capital value for properties in the current 'Waimea Community Dam zone of Benefit Rating Area' covering 30% of the funding requirement; and**
- 7. confirms the existing funding policy for the Urban Water supply extractive use. That being a charge to the Urban Water Supply Account and Redwood Valley Rural Water Supply (recovered through inclusion in Development Contributions, water rates and fees and charges); and**
- 8. requests that staff when preparing the Consultation Document for the Councils Revenue and Financing Policy include in relation to the Water Supply Activity and Funding Impact Statement the following options for the Water Supply Activity Waimea Community Dam Council funded Irrigator extractive use capacity:**
 - a) Stepping any irrigator extractive use -targeted rate(s) in over a 5-year period by running an initial deficit in the activity to be recovered in later years.**
 - i) Option 1 (current policy) – A Targeted rate based on CV for all properties with an affiliated consent.**

AND/ OR

 - ii) Option 2 – District-wide funding.**
 - Sub-option i) Based on the Capital Value of a Property**

Sub-option ii) based on a fixed charge per rating unit

iii) Option 3 – A Targeted rate based on LV to properties who have the ability to benefit from irrigation (zone of affiliation)

Sub-option i) Only on Properties that benefit from an affiliated consent

OR

Sub-option ii) On all properties in the affiliation zone

OR

Sub-option iii) Differential targeted rate of 5:1 with the higher rate charges to properties supplied from an affiliated consent and the lower charge to properties in the affiliation zone who do not hold an affiliated consent

iv) Option 4 – Funding through a mix of Options 2 and 3

With general rates funding 40% and targeted rate on LV funding 60%

CARRIED

CN20-12-8

That the Council confirms option 3, sub-option i as the preferred option in the consultation document for the Council funding, for its share of the Irrigator extractive use capacity.

CARRIED

Item 8.7

Attachment 2