PROPOSED CHANGES TO THE REVENUE AND FINANCING POLICY

Consultation Information

CONSULTATION CLOSES 24 APRIL 2021

Ka tupu te purapura ka ora to Aorere

Planting the seeds for Tasman's future

tasman district council | Te Kaunihera o te tai o Aorere

CONTENTS

INTRODUCTION

WHAT IS THE PURPOSE OF THE REVENUE AND FINANCING POLICY?

This policy explains the Council's policies in respect of the funding of operating and capital expenditure from the various funding sources available to it.

It provides predictability and certainty about sources and levels of funding. The Policy also explains how the Council has undertaken an analysis of its funding needs. The draft Revenue and Financing Policy can be viewed here: link to be added

We are proposing some changes to how we've previously funded activities and this document seeks your views on those changes.

TELL US WHAT YOU THINK OF OUR PLANS TO CHANGE THE REVENUE AND FINANCING POLICY

There are many ways to provide your views.

- **Tell us face to face** at one of the consultation events
- **Online** – there are lots of options for providing feedback at LTP.tasman.govt.nz or email LTP@tasman.govt.nz
- **In writing** – complete the LTP consultation document submission form and drop it in any Tasman District Council office or library, or post it for free to the following address:
  Tasman District Council, 189 Queen Street,
  Private Bag 4, Richmond, Nelson 7050
  [Freepost Authority No: 172255]

Submitters have the opportunity to present their feedback on this policy verbally to Councillors concurrently with feedback on the Long Term Plan 2021 – 2031. Hearings of verbal submissions will take place between 4 – 7 May 2021.

Submissions will be received between 9.00 am on 24 March 2021 and 4.00 pm on 24 April 2021.

All submitters that supply their contact details will be informed about the Council's decisions on the Revenue and Financing Policy once these have been determined.

Each of the proposed changes to the Policy and the reasons for the changes are detailed in this document.

Summary of proposed changes

1. Combine the three existing facilities rates into two facilities rates
2. Fund some costs of selected rural water schemes partly through general rates rather than using only targeted rates on users
3. Fund parts of activities (where there are multiple year benefits) through debt rather than rates
4. Enable Reserve Financial Contributions to be used for major renewals of reserves and community services assets
5. Funding additional irrigator extractive capacity costs for the Waimea Community Dam through a mix of a new proposed targeted rate and District-wide general rates

HAVE YOUR SAY ON THESE PROPOSED CHANGES

PROPOSED CHANGE #1

COMBINE THE THREE EXISTING FACILITIES RATES INTO TWO FACILITIES RATES

WHAT ARE WE PROPOSING?

OPTION A (preferred option): Combining the three existing facilities rates into two facilities rates

We are proposing to remove the Facilities Operations Rate and instead collect the same level of revenue through increasing the District Facilities Rate and Shared Facilities Rate.

WHY ARE WE PROPOSING THIS CHANGE?

We currently charge three different facilities rates to all ratepayers. These are the:

- District Facilities Rate which funds capital costs of facilities benefitting the residents of the Tasman District
- Shared Facilities Rate which funds capital costs of facilities benefitting the residents of Tasman District and Nelson City, and
- Facilities Operations Rate which funds operating costs of facilities.

All three of these rates are charged at a fixed amount per rating unit.

In the past, the groups of ratepayers paying the three rates were not the same; however, they have been District-wide rates for a number of years. To improve administrative efficiency we are proposing to remove the Facilities Operations Rate. Instead, we propose to collect the same amount of overall revenue for community facilities by increasing the District Facilities Rate and Shared Facilities Rate.

There will be no difference in how much ratepayers are charged as a result of this change. It is, however, more efficient for us to charge two facilities rates instead of three and there will be administrative savings.

WHAT ARE THE ADVANTAGES OF THIS CHANGE?

Removing the Facilities Operations Rate will reduce the Council's administration costs.

WHAT ARE THE DISADVANTAGES OF THIS CHANGE?

There are no substantive disadvantages to this change.

WHAT OTHER OPTIONS DID WE CONSIDER? WHAT ARE THEIR ADVANTAGES AND DISADVANTAGES?

OPTION B: Status quo – retain three separate facilities rates

ADVANTAGES AND DISADVANTAGES

- Our costs for administering these rates will be higher than if two facilities rates are charged for.

OPTION C: Reduce the facilities rates to one rate only

ADVANTAGES AND DISADVANTAGES

- Our administration costs would be lower.
- There would be less transparency about costs for facilities shared with Nelson City Council.

PROPOSED CHANGE #2

FUND SOME COSTS OF SELECTED RURAL WATER SCHEMES PARTLY THROUGH GENERAL RATES RATHER THAN USING ONLY TARGETED RATES ON USERS

WHAT ARE WE PROPOSING?

OPTION A (preferred option):
Fund some costs of selected rural water schemes partly through general rates rather than using targeted rates on users

Council is proposing to subsidise some of the costs of providing the Eighty Eight Valley and Dovedale rural water schemes through general rates, rather than increasing the relevant targeted rates charged to users of these schemes.

WHY ARE WE PROPOSING THIS CHANGE?

From March 2019, Council has been required to meet the NZ Drinking Water Standards (NZDWS) 2018. To meet these standards, the Council has invested substantially in the Eighty Eight Valley and Dovedale rural water schemes. It will continue to invest to upgrade the water treatment plants over the next five years. In recent years, a review has resulted in the full costs of the contract and associated overheads now being allocated to rural schemes. If the full cost of these schemes were charged through targeted rates to the users of these rural water schemes, they could become unaffordable for some.

To maintain the affordability of these rural water schemes, the Council is proposing to fund some of the costs of these rural water schemes from general rates, i.e. all ratepayers will make a small contribution.

Without the general rate funding component, a rural ratepayer with a one cubic metre daily allocation would pay close to $1,000 per annum by 2023/2024 on the Eighty Eight Valley and Dovedale rural water schemes. This is approximately 25% higher than the equivalent charge to a user with an Urban Water Club Rural Water Extension for that volume of water. With the general rate subsidy, the costs will be approximately be $800 per annum, more consistent with the Urban Water Club Rural Extensions rate.

We are proposing to gradually increase the subsidy from general rates over the next three years. General rates will contribute the following:

$ GST inclusive	2021/2022	2022/2023	2023/2024
Eighty Eight Valley Rural Water Scheme	$23,381	$31,339	$50,487
Dovedale Rural Water Scheme	$30,538	$65,047	$103,931

The cost to all general ratepayers will gradually increase to an average of approximately $6 per rating unit per annum in 2023/2024.

WHAT ARE THE ADVANTAGES OF THIS CHANGE?

The users of these rural water schemes receive water supplies that meet the NZ Drinking Water Standards at an affordable cost.

Central government has signalled changes to the way water supplies are operated and funded in the next few years under the Three Waters Reform. Any changes made to the way rural water schemes are funded now may be amended once the reforms are known.

The use of general rates to support the affordability of the two rural water schemes is consistent with the Council's obligation to consider the overall impact of rates on the current and future wellbeing of the community. It is also consistent with our community outcomes in terms of our communities being heathy and our infrastructure being resilient and meeting current and future needs.

WHAT ARE THE DISADVANTAGES OF THIS CHANGE?

All ratepayers make a small contribution to the costs of operating these rural water schemes, although only a small minority of this group will benefit from them.

WHAT OTHER OPTIONS DID WE CONSIDER? WHAT ARE THEIR ADVANTAGES AND DISADVANTAGES?

OPTION B: Status quo – continue to fund these rural water schemes through targeted rates on users

ADVANTAGES AND DISADVANTAGES

- The costs of providing water supplies to these rural water schemes to the NZDWS would be unaffordable for many users.
- Some users may choose to leave these water schemes, further increasing the unaffordability for remaining users.
- General ratepayers would not make any financial contribution to these rural water schemes and the users would pay the full costs.
- This option may not be consistent with the Council's obligation to consider the overall impact of rates on the current and future well-being of the community and on the achievement of its community outcomes.

OPTION C: Use general rates to help fund these rural water schemes to a greater or lesser extent

Under this option, the Council could consider a greater or lesser cross-subsidy to help address the affordability challenges faced by many of the scheme users. Increasing the level of subsidy would result in these users being in an advantageous position compared to the Urban Water Club Rural Water Extension. Reducing the level of subsidy will increase affordability issues.

ADVANTAGES AND DISADVANTAGES

- The costs of providing water supplies to these rural water schemes to the NZDWS would be more or less affordable for users.
- If the costs of the schemes are considered unaffordable, some users may choose to leave these water schemes, further increasing the unaffordability for remaining users.
- The level of contribution general ratepayers make to fund these rural water schemes would be greater or lesser.
- If the contribution from general rates is smaller, it may be inconsistent with the Council's obligation to consider the overall impact of rates on the current and future well-being of the community and on the achievement of its community outcomes.

OPTION D: Incorporate these rural water schemes into the urban water club

Under this option, the Urban Water Club would expand to include some, but not all, rural water schemes.
It should be noted that the Motueka Urban area and some other schemes are currently funded outside the Urban Water Club.

ADVANTAGES AND DISADVANTAGES

- There is no subsidy of rural water schemes through general rates. The cross-subsidisation would occur from other water users.

PROPOSED CHANGE #2

- Water users in different parts of the District subsidise one another through targeted rates at different times, depending on the need to invest in the different schemes.
- All water users in the water club (including users of these rural water schemes) pay a similar level of rates for similar service regardless of the location of their property.
- There are significant administration and consultation costs involved.
- Any new funding arrangements may be overtaken by the proposed central government three waters reforms in the next few years.

OPTION E: Full scale review of all water rates

This option would involve a fundamental change in Council policy and will require considerable work to develop a proposal, assess alternatives and the financial impacts, and require additional consultation. Such a review would be premature at this time; given the central government three waters reforms.

ADVANTAGES AND DISADVANTAGES

- This allows for a comprehensive review of rating for all water supplies in Tasman to ensure all policy principles are appropriate and met.
- There are significant administration and consultation costs involved.
- Any new funding arrangements may be overtaken by the proposed central government three waters reforms in the next few years therefore this may not be the ideal time to undertake a significant review on this issue.

PROPOSED CHANGE #3

FUND PARTS OF ACTIVITIES (WHERE THERE ARE MULTIPLE YEAR BENEFITS) THROUGH DEBT RATHER THAN RATES

WHAT ARE WE PROPOSING?

OPTION A (preferred option): Funding parts of activities (where there are multiple year benefits) through debt rather than rates

We are proposing to fund some operating expenses and all Rivers capital expenditure through debt rather than directly through rates. These expenses are:

- Flood protection and river control assets
- Tasman Environment Plan, including Tasman Resource Management Plan
- Digital Innovation Programme, and
- Council's contribution towards the development of assets based in Nelson that are a benefit to Tasman communities (e.g. at Saxton Field).

WHY ARE WE PROPOSING THIS CHANGE?

These expenses all lead to the development of assets that have an extended life (see below for details). They are similar to other capital expenditure that we fund through debt.

- Flood protection and river control assets. These are assets such as stopbanks, rockwalls, groynes and river training works that have an extended life. Unlike most other assets these have previously been funded through rates in the year in which the asset is constructed. We are proposing to fund these assets through borrowing. The term of the loan will be 20 years and will be funded by rates. This approach is similar to the way we fund most other assets.
- Tasman Environment Plan (TEP). We are reviewing the Tasman Resource Management Plan and Regional Policy Statement. The result will be the new Tasman Environment Plan. The costs for this review are budgeted to continue from 2021/2022 through to 2026/2027. Once adopted the new TEP is expected to have a life of more than 10 years. Given the extended life and currency of the Tasman Environment Plan, we are proposing to fund the review through borrowing over a 15 year period. The interest and debt will be repaid over the life of the TEP, funded by rates.
- Digital Innovation Programme. We are investing in information technology and processes to improve the quality, value and transparency of our services. This will mean that our communities can engage with us in different ways. The benefits of this programme will endure for a number of years and we are proposing to fund it through borrowing over a 10 year period.
- Capital expenditure on Nelson City Council assets. At times, there are benefits to Tasman residents from us investing in assets that belong to Nelson City Council. An example is at Saxton Field. Tasman District and Nelson City Council's operate this complex jointly and the costs are shared. The two Councils each own some of the facilities. Given the shared funding arrangements, we contribute to regional assets that are owned by Nelson City Council (and vice versa). We are proposing to continue to borrow for these contributions as they result in regional assets being created which have extended lives. The interest and debt will be repaid over the life of the assets, funded by rates.

WHAT ARE THE ADVANTAGES OF THIS CHANGE?

By borrowing for these expenses, we can charge ratepayers who benefit from them over the life of the assets. Achieving this intergenerational equity is one of the goals in the Council's Financial Strategy.

Using debt to fund these assets helps to reduce rates in the year the expenses are accrued.

WHAT ARE THE DISADVANTAGES OF THIS CHANGE?

Using debt to fund these assets utilises some of the Council's debt capacity.

By borrowing initially and paying off the debt over a number of years, rates levels in the years after the expenses are incurred increase. The overall costs are dependent on the interest rates over the period the debt takes to repay.

WHAT OTHER OPTIONS DID WE CONSIDER? WHAT ARE THEIR ADVANTAGES AND DISADVANTAGES?

OPTION B: Status quo – continue to fund these expenses through rates in the year the expense is incurred

ADVANTAGES AND DISADVANTAGES

- All expenses paid for in the year(s) the expenses are incurred, so increases rates immediately.
- Future ratepayers benefit from the asset without contributing to funding it.

PROPOSED CHANGE #4

ENABLE RESERVE FINANCIAL CONTRIBUTIONS TO BE USED FOR MAJOR RENEWALS

WHAT ARE WE PROPOSING?

OPTION A (preferred option): Enabling Reserve Financial Contributions to be used for major renewals of reserves and community services assets

We are proposing to change the Policy to enable Reserve Financial Contributions (RFCs) to be used for major renewals of reserves and community services assets, i.e. the replacement of an asset or its components that have reached the end of its useful life. Previously we have largely used RFCs to develop new parks and community facilities.

WHY ARE WE PROPOSING THIS CHANGE?

The Tasman Resource Management Plan (TRMP) requires that all new subdivisions, from one new lot up to hundreds of new lots, are required to pay RFCs.

RFCs are based on 5.62% of the value of all new allotments, less the value of any land taken for reserves or walkways. RFCs are also payable as a percentage of the cost of some large construction projects (e.g. new factories and commercial premises).

To date, we have largely used RFCs to develop new parks and community facilities that are wholly or partially the result of increased demand from an increasing population.

We are proposing to enable RFCs to also be used on major renewals of parks and community facilities. Often existing parks or facilities reach the end of their lives more quickly, with additional use brought about by increasing population, than they would otherwise.

WHAT ARE THE ADVANTAGES OF THIS CHANGE?

We will have the flexibility to use RFCs as a source of funding for major renewals on parks or community facilities.

WHAT ARE THE DISADVANTAGES OF THIS CHANGE?

To the extent RFCs are used for renewals, they are not available for developing new parks and community facilities.

WHAT OTHER OPTIONS DID WE CONSIDER? WHAT ARE THEIR ADVANTAGES AND DISADVANTAGES?

OPTION B: Status quo – continue to use RFCs for new parks and community facilities only

ADVANTAGES AND DISADVANTAGES

- All RFCs collected are available for the development of new parks and community facilities.
- The range of funding sources for renewals, will mean either facilities are not replaced at the end of their useful life or they are funded from other sources (e.g. borrowing funded by rates or fees and charges).

PROPOSED CHANGE #5

FUNDING ADDITIONAL IRRIGATOR EXTRACTIVE CAPACITY COSTS FOR THE WAIMEA COMMUNITY DAM THROUGH A MIX OF A NEW PROPOSED TARGETED RATE AND DISTRICT-WIDE GENERAL RATES

BACKGROUND

The Waimea Community Dam (Dam), currently under construction in the Lee Valley, will provide a secure and sustainable drinking and horticulture water supply for the communities of the Waimea Plains for the next 100 plus years.

It will also improve the health of the Waimea River and bring estimated economic benefits to Tasman District of up to $932 million in its first 25 years.

The funding of the Waimea Community Dam was consulted on in 2017 and 2018. Since that time, the project cost to build the Dam has increased from the initial estimate of $104.5 million to $129.4 million in 2020. On 22 February 2021, Waimea Water Limited (WWL) presented a revised cost estimate range of $148 million to $164 million to complete the Dam, with an expected cost of $158.4 million (excluding provision for future hydro power).

The estimated range takes account of the cost uncertainty associated with project risks, with key risks being the costs associated with any further Covid-19 related delays, and the scale of work required on unexposed geological features. A lot of work has been completed to date and the project is approximately 50% complete. This means WWL has a good understanding of these risks based on what they have experienced so far and how they have responded to unexpected geological conditions. Going forward, most of the work is above ground level reducing the likelihood of the geological risks further.

We have decided to include a budget in the 10-Year Plan that will provide for a total project cost of $159 million. This amount covers the expected cost of $158.4 million and allows for necessary work to provide for a future hydro option. This reflects a total project budget increase of $54.5 million since December 2018.

Council proposes to amend its 2018 Revenue and Financing Policy to enable a new targeted rate based on land value (LV) for properties represented by an area called the Waimea Community Dam Extractive Use Rating Area (EURA), to recover the first $14.6 million of the Council's share of the irrigator extractive use capacity capital cost overruns. This new targeted rate will replace the previous reference in the 2018 policy that provided that Council may impose a targeted rate based on capital value to properties with affiliated consents. To assist in addressing affordability issues for some properties in the EURA, the Council is proposing to fund the remaining cost of irrigator extractive use capacity capital cost overruns (interest expense on a $10.6m loan based on current project cost estimates) from general rates, i.e. all ratepayers will make a small contribution.

There is an existing formula in place for sharing the costs of the Dam among everyone who will benefit. The beneficiaries include everyone living and running businesses on the Waimea Plains, those who have purchased shares (ensuring water rights) in the Dam or who are benefitting from that water, and the wider Tasman community, as everyone benefits from the economic and environmental gains the Dam will provide.

To date, the costs of the Dam have been apportioned across those who will benefit, with 49% assigned to irrigators for the irrigator extractive use capacity, 21% to urban water users (including Redwood Valley Rural Water Supply), and 30% to ratepayers across the District and in the Zone of Benefit who benefit from the environment and public good benefits such as the increased jobs, economic gains, and the ability to meet growth demands. For budgeted costs and cost overruns up to $3 million, the irrigator extractor use capacity costs of $1.5 million were met directly by Waimea Irrigators Limited (WIL), with Council picking up the other half of the first $3 million in cost overruns. However, any costs overruns in excess of $3 million are to be fully funded by the Council.

WWL will own and operate the Waimea Community Dam on behalf of its shareholders. Council owns a majority interest in WWL with the remainder of the shares owned by WIL. Council is issued shares in WWL for any cost overruns it funds.

PROPOSED CHANGE #5

The 2018 Revenue and Financing Policy provided that the Council may introduce a targeted rate based on capital value on properties with affiliated consents to recover a portion of the cost overruns. The intention of this policy was to recover any cost overrun in excess of $3 million in relation to the irrigator extractive capacity provided for by the project. A decision must be made about how to fund the irrigator extractive capacity capital cost overruns. Although the 2018 Revenue and Financing Policy signalled a potential targeted rate to recover irrigator extractive costs in the event of cost overruns, a targeted rate had not yet been set.

When the 2018 Revenue and Financing Policy was adopted, a decision by Council to proceed with the Dam was yet to be made. Since the decision to proceed, Council has had additional information on which consents are being affiliated and also requests for new consents as a result of increased water availability in the future. Additionally, WWL have provided a revised estimated cost to complete. This has allowed Council to better assess the appropriate basis for funding the irrigator extractive capacity. This has resulted in some changes to the proposed rate that was signalled in that earlier 2018 Policy.

Council approached central government for financial assistance in meeting the cost overruns. In response, Crown Irrigation Investment Ltd (CIIL) has provided additional lending at a zero interest rate to Council of $18 million over 20 years. This lending was specifically to assist Council to meet the Covid-19 and other pre-Covid-19 project cost escalations or project acceleration costs. This will help to mitigate rate increases.

Under the funding model for the project, the increase in project costs (from $104.5 million in 2018) is allocated to different beneficiary groups in line with the original project funding. This means an additional $27.8 million to the urban water users and environmental and public good beneficiaries. The rating mechanisms used to fund the water supply capacity and the environmental/public good component of the Dam will not change. However, the amounts collected under these mechanisms will increase as a result of the increased costs.

This proposal relates to funding Council's share of the irrigators extractive use capital costs of the project totalling $25.2 million. Allocation of the Dam operating costs is not impacted by this proposed change to the 2018 Revenue and Financing Policy.

Irrigator extractive use capacity refers to the potential irrigator volume (5,425 ha) of water that can be extracted for use on the Waimea Plains and surrounding areas. This is separate to water extraction for the urban water supplies (2,340 hectare equivalents).

The same percentage of Total Project Costs, as detailed in the table below, have been applied to the respective areas for the increased costs:

ALLOCATION OF CAPACITY FUNDING FOR WAIMEA COMMUNITY DAM PROJECT

% OF TOTAL PROJECT COST		DESIGN CAPACITY	CAPACITY	CAPACITY %
34%	**Irrigation**	Current	3,800	48.9%
11%	**Irrigation**	Future	1,200	15.5%
4%	**Irrigation**	50% unallocated	425	5.5%
49%		**Total irrigation**	**5,425 ha**	**69.9%**
6%	**Urban**	Council current	620	8%
7%	**Urban**	Council future	780	10%
4%	**Urban**	Council 50% unallocated	425	5.5%
5%	**Regional**	(Nelson City)	515	6.6%
21%		**Total Council urban**	**2,340 hae**	**30.1%**
70%		**Total extractive use**	**7,765 hae**	**100.0%**
30%		**Environmental flow/public good costs**		
100%		**Total capital costs**		

Note: Irrigation capacity is measured in hectares (ha) that can be irrigated (at a standard application rate). The urban water supply water take is measured in hectare equivalents (hae). A hae is water equal to 300m3 per ha per week.

PROPOSED CHANGE #5

WAIMEA COMMUNITY DAM LTP 2021–2031 FUNDING ASSUMPTIONS

An additional amount has been included above the WWL project estimate of $158.4 million to cover provision for future Hydro power. This takes the LTP budgeted cost to $159 million.

	$000	
Projected Total Project Cost	159,000	
Less interest earned WWL	(1,600)	
Project costs to be funded	**157,400**	
FUNDING		
WIL/CIIL irrigator capacity	51,824	33%
Council funded irrigator capacity	25,153	16%
Council urban water supply (inc NCC)	33,203	21%
Environmental flow/public good costs	47,220	30%
	157,400	**100%**

Nelson City Council (NCC), Waimea Water Ltd (WWL), Crown Irrigation Investments Ltd (CIIL), Waimea Irrigators Ltd (WIL)

The rates examples provided are indicative, GST inclusive, and use the 2020 property valuations, which will come into effect from 1 July 2021.

In the rates modelling assumptions, the Council-funded portion of the irrigator extractive capacity is $25.2 million. $14.6 million will be loan funded over 30–40 years, with principal and interest, and $10.6 million will be funded through a 10 year interest-only loan. In order to mitigate the impact of the proposed rates increase, Council proposes to step in the loan servicing over the first five years of the LTP 2021–2031. This means rather than the full rates increase occurring in the 2021/2022 year, it is phased in over five years and this is shown in the rates examples on the following pages.

Note: The irrigator extractive capacity is largely for irrigators but can also include other rural extractive water commercial uses. Therefore the use of the term 'irrigator' in this document also covers other rural extractive water users who have an ability now or in the future to affiliate a water take consent through Waimea Irrigators Ltd.

WHAT ARE WE PROPOSING?

OPTION A (preferred option): Funding additional irrigator extractive capacity costs through a mix of a new proposed targeted rate (on land value) to properties in the EURA and District-wide general rates

We are proposing to amend the Revenue and Financing Policy to enable a new targeted rate based on land value (LV). This would be a change to the current rate provided for in the Revenue and Financing Policy based on capital value (CV). The new rate would apply to properties in an area called the Waimea Community Dam Extractive Use Rating Area (EURA) (see map on page 16). This rate is to recover the Council's share of the irrigator extractive use capacity capital cost overruns for $14.6 million. In determining which properties fall within the EURA, the Council has considered which properties will benefit from the augmented water from the Waimea Community Dam.

This includes properties with access to water supplied via a consent affiliated through a shareholding in Waimea Irrigators Limited. Due to the statutory processes involved in rates setting, there may be a delay between when a consent's affiliation status changes, and when the EURA is updated.

The Council proposes to use land value as the proxy for direct benefit charging. 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, the Council is bound by the rating methods set out in Schedules 2 and 3 of the Local Government (Rating) Act 2002. The Council has carefully considered all available options and determined the closest proxy to be land value.

Regardless of the land area that can be irrigated, the whole property is included for rating purposes. The EURA rating map is used as the basis for determining which properties would pay the targeted rate. (See Figure 1 on page 16).

Council is proposing that those who ultimately benefit the most from the irrigator extractive capacity should contribute to the increased costs ($14.6 million). The proposed amendment would see ratepayers who benefit from this additional Council investment (to support the irrigator extractive capacity) in the Dam, contributing to the increased costs based on land value.

To assist in addressing possible affordability issues for some properties in the EURA, the Council is proposing to fund the remaining interest expense of irrigator extractive use capacity capital cost overruns from general rates, i.e. all ratepayers will make a small contribution to the interest expense on funding ($10.6 million).

This option acknowledges that every person in the District will benefit from the Dam, be it economic, social, cultural, and/or environmental, and that subsidising the irrigator capacity contribution to capital cost overruns will go some way towards addressing the possible affordability issue for some affiliated consent holders.

Properties benefitting from an affiliated consent would pay both the irrigator targeted rate and the general rate component.

WHY ARE WE PROPOSING THIS CHANGE?

The objective of this proposal is to meet the Council's share of the irrigator extractive use capacity capital cost overruns incurred in the Waimea Community Dam project, in a way that is appropriate having regard to the current and future social, economic, environmental, and cultural well-being of the community.

With the Dam proceeding and WIL issuing shares and entering into Water Augmentation Agreements with shareholders, the Council now has additional information to take into consideration in formulating the proposed irrigator targeted rate. Specifically, there is now information about which consents are being affiliated and also requests for new consents as a result of increased water availability in the future. As a result, we have determined that the property's land value 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). In addition to the significantly increased estimated costs to complete the construction of the Dam and the need to reconsider funding for possible further cost overruns, it is timely to determine the revised funding approach.

We are proposing this change so that the landowners who enjoy a greater benefit from this additional Council investment in the irrigator extractive capacity of the Dam contribute to those increased costs via a targeted rate based on land value (rather than its capital value).

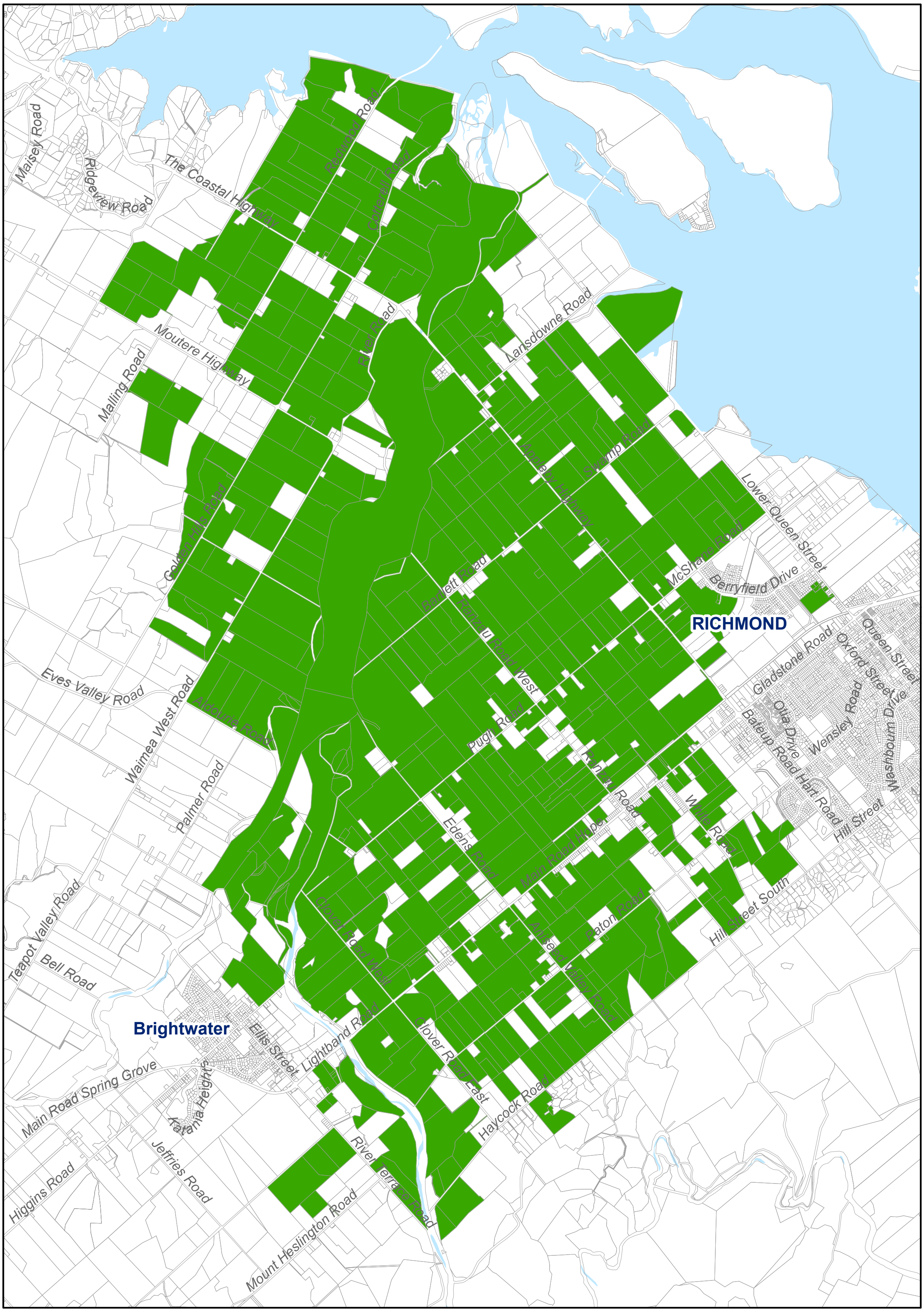
However this option acknowledges that every person in the District will benefit from the Dam, be it economic, social, cultural, and/or environmental, and that subsidising the irrigator contribution to capital cost overruns will go some way towards addressing the possible affordability issue for some affiliated consent holders.

Properties benefitting from an affiliated consent would pay both rates.

This option would see more manageable cost increases for the properties benefitting from affiliated consents and would be less likely to drive consent behavioural change, e.g unaffiliation, than Option C (a targeted rate with a differential (5:1) for all properties in the Zone of Affiliation) and Option D (a targeted rate solely on irrigators).

PROPOSED CHANGE #5

FIGURE 1: WAIMEA COMMUNITY DAM EXTRACTIVE USE RATING AREA



PROPOSED CHANGE #5

WHAT ARE THE ADVANTAGES OF THIS CHANGE?

The change of the base of the rate from Capital Value (CV) to Land Value (LV) is being proposed on the basis a property's land value better aligns than its capital value to the size of the consented water take.

The refinement to the description of the beneficiary from properties with affiliated consents to properties benefiting from an affiliated consent, allows properties supplied through irrigation schemes (e.g. Waimea East Irrigation Scheme), or properties where the consented water take is on one property and the water is used on another, to be fairly allocated a share of the Council-funded irrigator capacity capital costs.

This option is more affordable for properties benefitting from affiliated consents than Option D (a new targeted rate on irrigators).

WHAT ARE THE DISADVANTAGES OF THIS CHANGE?

The impact of the proposed new rate will not exactly match those who benefit. This is because to the extent that shareholders in Waimea Irrigators Ltd are not currently holding an affiliated consent, they cannot be required to contribute to the additional costs of the Dam (above 50% of the first $3 million in cost overruns). This is because (as with all rates), a targeted rate is restricted to ratepayers and cannot be applied to shareholders in WIL.

This proposed rate increases the cost to irrigators and others benefiting from affiliated consents. It may, when combined with other cost increases, including other rates in relation to the Waimea Community Dam and other costs associated with holding shares, raise affordability issues for some landowners. It could also act as a disincentive for consent holders to affiliate their consents in order to obtain a more secure water supply, or in some cases potentially even drive existing affiliated consents to transfer their consent/unaffiliate. This could lead to increasing costs over a decreasing rating base.

This option is more complex to determine and administer in comparison with a District-wide rate funding option (Option B).

This option does not address the potential future benefits to other properties in the Zone of Affiliation (see Option C) who may be able to affiliate in the future.

This option is less consistent with a "user pays" philosophy than Option C and Option D and as such may be less acceptable to the wider community.

The proposed targeted rate would be collected from a relatively small ratepayer base. Despite the general rate funding, this option would lead to relatively large overall rates increases for some property owners.

IMPACT ON RATES

Impacts of the proposed rates on a number of example properties are as follows.

Note: Properties in the EURA would pay both the Land Value targeted rate and the general component.

Proposed Impact on the General Rate

PROPERTY CAPITAL VALUE	CENTS PER $ OF CAPITAL VALUE 2021/2022	ANNUAL RATE 2021/2022	CENTS PER $ OF CAPITAL VALUE 2025/2026	ANNUAL RATE 2025/2026
For the Median property value in the District of $660,000	0.0003	$2	0.0007	$5

Note: this does not show the full value of the proposed general rate for this 10-Year Plan, only the value relevant to funding the irrigators' share of the additional Dam costs is shown.

Proposed Targeted Rate for Properties in the EURA

Example properties have been selected to represent the current 25th, 50th, and 75th percentiles of the properties that are proposed to pay the targeted rate. These properties were selected prior to the District-wide property revaluation, with land values then updated to reflect their new values. This rate is charged in addition to other rates including those recovering the other costs of the Waimea Community Dam such as the environmental and community benefits rates.

PROPERTY LAND VALUE	TYPE	CENTS PER $ OF LAND VALUE 2021/2022	ANNUAL RATE 2021/2022	CENTS PER $ OF LAND VALUE 2025/2026	ANNUAL RATE 2025/2026
$740,000	Affiliated	0.0343	$254	0.1684	$1,246
$970,000	Affiliated	0.0343	$333	0.1684	$1,633
$1,430,000	Affiliated	0.0343	$490	0.1684	$2,408

WHAT OTHER OPTIONS DID WE CONSIDER? WHAT ARE THEIR ADVANTAGES AND DISADVANTAGES?

Council has considered a wide range of options to fund the capital cost overruns. The options presented below have been narrowed down from a larger subset, based on what would be practicable and legally permissible. When Council considers submissions on this issue, it will consider all feedback with an open mind including those that may vary in some detail from the options included in this document. Some other possible sub options have been considered. For example, a different differential level than 5:1 (see Option C), or a different split of funding in Option A than $14.6 million to the targeted rate and interest expense on the balance of $10.6 million to the general rate. For simplicity, a number of practicable options have been modelled, however, some of the underpinning philosophy of the options included could be utilised in different combinations. For example, partial general rate funding or District-wide fixed charge funding could be used with the differential option (Option C).

OPTION B: District-wide funding

This option would see the Council's share of irrigator extractive capacity either funded across the District by a general or targeted rate on Capital Value.

Under our current rating system, the Council funds a number of activities and functions in this way. Another option would be to fund as a District-wide targeted rate at a fixed amount per rating unit.

ADVANTAGES AND DISADVANTAGES

- Relatively easy to administer alongside existing rating mechanisms
- Not likely to drive consent holders to unaffiliate their consents
- Does not recognise the direct benefit to properties with affiliated consents
- No differentiation between land use or location from a beneficiaries' perspective
- Likely to result in wide debate and objection from the wider community
- High-value properties in outlying areas of the District who are less likely to benefit from the extractive capacity, would pay significant rates under the capital value option
- Rates increases on any individual property are more likely to be affordable on a property by property basis than collecting the same amount of revenue from a smaller rating base, and
- Spreads the costs across the District, lowering the impact on properties with (or serviced through) affiliated consents and improving affordability for this group of ratepayers.

IMPACT ON RATES

See tables below.

General Rate or District-wide Rate Based on Capital Value Method

PROPERTY CAPITAL VALUE	CENTS PER $ OF CAPITAL VALUE 2021/2022	ANNUAL RATE 2021/2022	CENTS PER $ OF CAPITAL VALUE 2025/2026	ANNUAL RATE 2025/2026
For the Median property value in the District of $660,000	0.0009	$6	0.0038	$25

Note: this does not show the full value of the proposed general rate for this 10-Year Plan, only the value relevant to funding the irrigators' share of the additional Dam costs is shown.

District-wide Fixed Charge Method

	ANNUAL RATE 2021/2022	ANNUAL RATE 2025/2026
District-wide fixed charge per rating unit	$8	$33

OPTION C: A targeted rate based on land value with a differential (5:1) for all properties in the zone of affiliation

This differentiated targeted rate (based on land value) would be on properties in the Zone of Affiliation. This is the area where an affiliated water take can occur and this includes the Extractive Use Rating Area (EURA). As noted above the EURA would include properties benefiting from an affiliated consent. Properties in the EURA would pay five times more than properties in the balance of the Zone of Affiliation. That is due to the greater benefits arising from their affiliated consents. The properties in the balance of the Zone of Affiliation would pay the lesser amount, for their ability to choose to affiliate and potentially benefit in the future.

A sub-option of this would have been to charge all properties in the Zone of Affiliation the same amount. However, properties in the Zone benefitting from affiliated consents do benefit more than properties without affiliated consents. (See Figure 2 on page 20).

ADVANTAGES AND DISADVANTAGES

- This option is consistent with user pays philosophy. Those who will ultimately benefit most from the irrigator extractive capacity should contribute to its cost.
- The use of a differential would reflect properties that already benefit from an affiliated consent and those who could in future affiliate a consent. The Council's investment in the irrigator extractive capacity enables future affiliation so it also benefits properties who have not yet affiliated their current or a potential future water consent. It is considered that current affiliated water consent holders have a larger benefit and therefore they should contribute five times what an unaffiliated consent holder pays.

  The decision on the size of the differential (5:1) could be amended as it is used here as a starting point and a basis for the rates modelling purposes.
- This option recognises that other ratepayers are already meeting Dam costs across the District.
- Land Value has the best correlation to consented water take volumes for the properties benefitting from consents.
- This could significantly increase rates costs for those ratepayers benefitting from consents affiliated through a WIIL share-holding. It may, when combined with other cost increases including other rates in relation to the Waimea Community Dam and other costs associated with their WIL shareholding, raise affordability issues for some landowners. However, increasing the rating base to include the other properties in the Zone of Affiliation would spread the cost wider and reduce affordability issues.
- This option is not likely to be supported by ratepayers who have chosen not to affiliate in order to avoid some costs related to the Waimea Community Dam.
- The size of the potential rates may drive behaviour change (e.g. consent holders may choose to unaffiliate). This could lead to increasing costs being spread over a decreasing rating base, although the use of the differential would mean properties in the Zone of Affiliation who chose to unaffiliated would still contribute a lesser amount.
- This option is more complex to determine and administer than the preferred Option A.

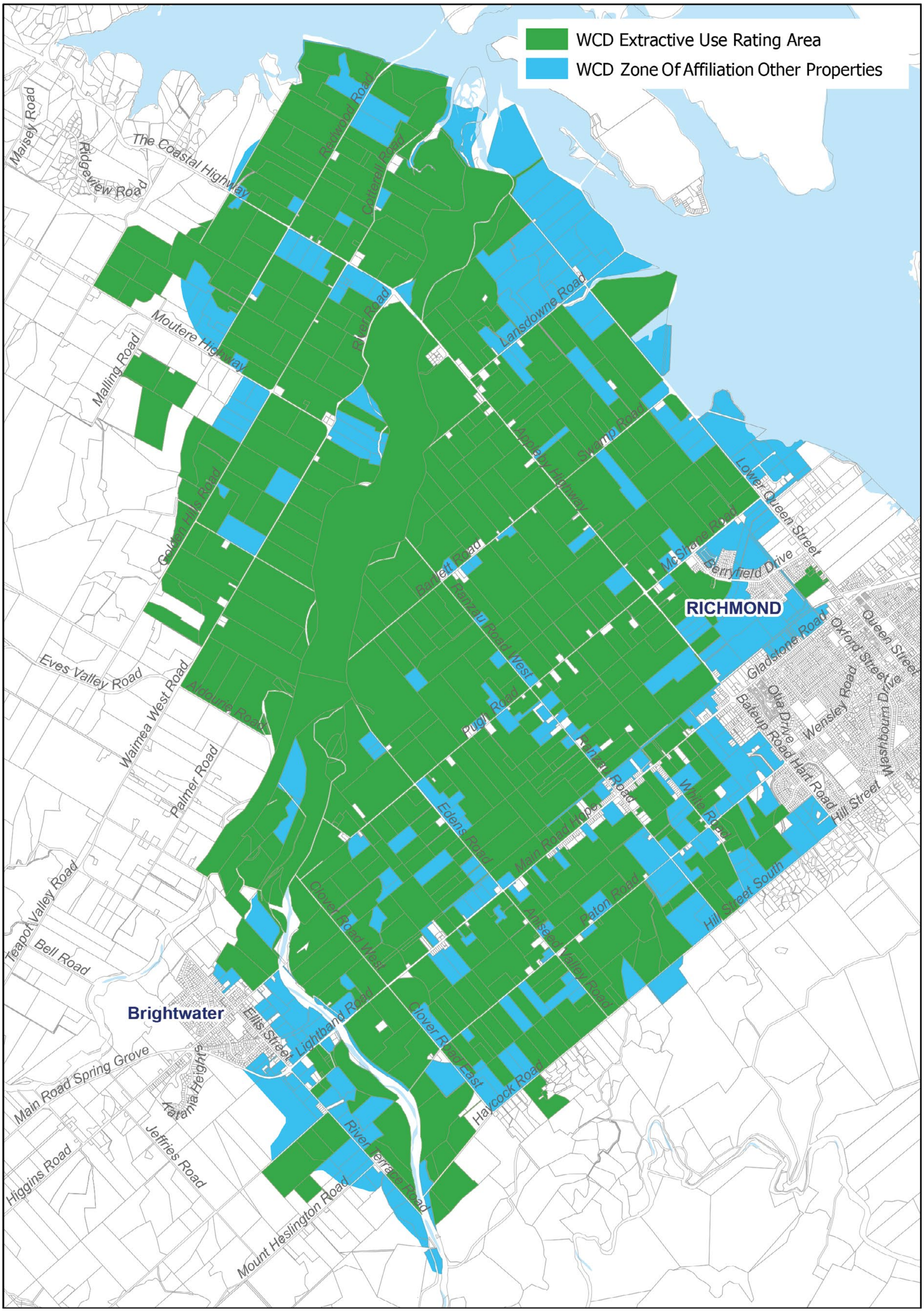
IMPACT ON RATES FOR PROPERTIES IN THE ZONE OF AFFILIATION

The example 'Other property' has been selected as a property with a median valuation in the Zone of Affiliation, based on the current valuation. The property value has then been updated to reflect the new 2020 land values.

PROPERTY LAND VALUE	TYPE	CENTS PER $ OF LAND VALUE 2021/2022	ANNUAL RATE 2021/2022	CENTS PER $ OF LAND VALUE	ANNUAL RATE 2025/2026
$740,000	Affiliated	0.0421	$312	0.1843	$1,364
$970,000	Affiliated	0.0421	$409	0.1843	$1,787
$1,430,000	Affiliated	0.0421	$602	0.1843	$2,635
$690,000	Other property in the Zone of Affiliation	0.0084	$58	0.0369	$254

PROPOSED CHANGE #5

FIGURE 2: WAIMEA COMMUNITY DAM ZONE OF AFFILIATION



PROPOSED CHANGE #5

OPTION D: A new targeted rate solely on irrigators

This option proposes a new targeted rate based on land value (LV) in the Waimea Community Dam Extractive Use Rating Area – the same rating mechanism as in Option A.

The distinction with Option A is that this rate would be set to fully cover all costs associated with Council partly funding the irrigator extractive capacity in the Waimea Community Dam, as a result of cost overruns, rather than having interest on part of the costs funded by the District through the general rate.

ADVANTAGES AND DISADVANTAGES

- This option ensures irrigators continue to fund 49% of the capital costs of the Dam.
- This option is consistent with the user-pays philosophy. Those who will ultimately benefit most from the irrigator extractive use capacity of the Dam should contribute more to its cost. This option recognises that other ratepayers across the District are already contributing to meeting costs from the Dam project associated with the cost overruns through the environmental flow and urban water contributions, which makes up the other 51% of the capital costs of the Dam.
- The impact of the proposed new rate will not exactly match those who benefit. This is because to the extent that shareholders in Waimea Irrigators Ltd are not currently holding an affiliated consent, they cannot be required to contribute to the additional costs of the Dam (above 50% of the first $3 million in cost overruns). This is because (as with all rates), a targeted rate is restricted to ratepayers and cannot be applied to shareholders in WIL.
- This option is more complex to determine and administer in comparison with a District-wide rate funding option (see Option B).
- This option does not address the potential future benefits to other properties in the Zone of Affiliation (see Option C) who may be able to affiliate in the future.
- The capital cost overruns would be collected from a relatively small ratepayer base. This option would lead to relatively large overall rates increases for some ratepayers.
- This proposed rate increases the cost to irrigators and others benefiting from affiliated consents. It may, when combined with other cost increases, including other rates in relation to the Waimea Community Dam and other costs associated with holding shares, raise affordability issues for some landowners. It could also act as a disincentive for consent holders to affiliate their consents in order to obtain a more secure water supply, or in some cases potentially even drive existing affiliated consents to transfer their consent/unaffiliate. This could lead to increasing costs over a decreasing rating base.

IMPACT ON RATES FOR PROPERTIES IN THE EURA

PROPERTY LAND VALUE	CENTS PER $ OF LAND VALUE 2021/2022	ANNUAL RATE 2021/2022	CENTS PER $ OF LAND VALUE 2025/2026	ANNUAL RATE 2025/2026
$740,000	0.0477	$353	0.2085	$1,543
$970,000	0.0477	$462	0.2085	$2,022
$1,430,000	0.0477	$681	0.2085	$2,981

ADDITIONAL SUPPORTING INFORMATION CAN BE FOUND HERE:

Link to Rates Tool The rates search tool shows the impact in 2021/2022 of the rating proposal, but not the alternative options on individual properties.

Report to Council meeting on 3 December 2020 (RCN20-12-6) "Revenue and Financing Policy Proposals for Funding the Water Supply Activity (Waimea Community Dam)"

Link to Council's Draft Funding Impact Statement which includes details of rating proposals including impacts on a number of example properties

Report to Council meeting on 25 February 2021 (RCN21-02-13) "Late Item – Waimea Community Dam Cost Overruns Funding for Inclusion in Long Term Plan Consultation Document"

APPENDIX 1

The Local Government Act 2002 (LGA) requires local authorities to consider several matters when deciding on the sources for Council's funding needs.

LGA SECTION 101(3) ANALYSIS FOR FUNDING THE WAIMEA COMMUNITY DAM PROJECT

ACTIVITY

Water Supply Activity – Waimea Community Dam (the Dam)

The Dam provides an augmented water supply for irrigators and reticulated water users in a defined area with 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 2023 to meet conditions in the Tasman Resource Management Plan (TRMP) without an additional water source and in the absence of having reviewed Waimea water permits in 2018/2019.

Extractive uses are currently having the benefit of transitional provisions in the TRMP during the construction and commissioning of the Dam.

Capital cost: Currently estimated at $159 million ($158.4 million WWL estimate plus hydro power provision) of which the Council's contribution is $105.6 million. Capital costs are to be met primarily by the exacerbators and beneficiaries of the Dam with some funding from Council's Enterprise Activity and central government ($7 million). Due to the level of additional costs to complete the project the Council is now meeting a portion of the irrigator capacity costs (16%).

Annual operating cost: Originally estimated at $1.4 – $1.5 million. These are now being reviewed along with the operating model for the Dam. It is expected that a re-estimate of these cost and the proposed operating model will be settled by the end of June 2021. For LTP budgeting purposes only these have been assumed to be between $2.5 and $3.1 million. The Council's contribution being 51%. The 51% is fixed in the commercial arrangements and is independent of the Councils' Shareholding in or capital contribution to the Dam.

The proposals set out in this part of the consultation document while focused on the cost overruns in relation to the above activity apply to funding the Dam as a whole. The Waimea Community Dam sits within Council's Water Supply Activity.

CONTRIBUTION TO COMMUNITY OUTCOMES

The Dam primarily contributes to the following Community Outcomes in Council's LTP 2021 – 2031:

- **Our unique natural environment is healthy, protected and sustainably managed** – all of our water schemes take water from our environment (via surface water or ground water) and require a resource consent. We aim to manage water takes so the impact is not detrimental to our surrounding environment. The Waimea River system and its values will be protected through adequate river flows, even in times of high water demand.
- **Our urban and rural environments are people-friendly, well planned, accessible and sustainably managed** – residents have sufficient year-round water supply to meet their expectations and productive land use is enabled in a sustainable manner.
- **Our infrastructure is efficient, resilient, cost-effective and meets current and future needs** – the Dam project was the most cost-effective augmented supply investigated, it mitigates the need to restrict current use at peak periods and caters for population growth out 100+ years.
- **Our communities are healthy, safe inclusive and resilient** – we aim to provide water supplies that are safe to drink and used for firefighting purposes that are delivered and supported by resilient infrastructure. The Dam is a key component in ensuring that our water supplies are resilient.
- **Our Communities have access to a range of social, cultural, educational and recreational facilities and activities** – the Waimea River system and its availability for passive and active recreation activities will be protected through adequate river flows, even in times of high water demand.
- **Our Council provides leadership and fosters partnerships, including with iwi, fosters a regional perspective, and encourages community engagement** – 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 environmental, economic and social ways.

- **Our Region is supported by an innovative and sustainable economy** – security of water supply for irrigators and business will 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

The direct beneficiaries of the Dam include properties on the Waimea Plains with resource consents for water takes and/or the potential to obtain these. These include horticultural/agricultural and other businesses that benefit from consented water takes. The total affected area is 5,860 hectares (ha) of which 5,000 ha is assessed as suitable for current and potential irrigation.

Also, reticulated urban water users (domestic and business) in the Richmond, Māpua, Brightwater, Wakefield (on occasions), Redwood Valley, Waimea and Nelson South (including industrial zone) catchments will benefit. 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.

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 (along with 425 ha of unallocated capacity). 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.

The New Zealand Institute of Economic Research (NZIER) (2017) estimated up to an additional $932 million of GDP to the local economy over 25 years arising from the Dam.

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:

- The environmental health of the Waimea River system
- Recreational use of the river during the summer period because of minimum flows being obtained, as well as a national tourism perspective to account for, given high domestic and international visitor numbers to the region
- 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 and economic activity
- Mitigating the reputational risk for Council from allowing additional population growth without sufficient water
- The potential for increased land-based production and employment, and
- The potential for value-add business activities to help grow the local economy.

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:

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.
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.

b. **The direct benefits arising from current and future capacity for residential and business growth in the urban areas of Richmond, Brightwater, Wakefield, Redwood Valley and Māpua that would be supplied water from the Dam system.**

This equates to 1,400 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. An additional 425 ha of surplus Dam capacity has also been allocated to this aspect.

c. **The benefits derived from the security of water supply to existing and future Waimea irrigators/ landowners.** Under the project agreements, irrigators (through Waimea Irrigators Limited) have been allocated 5,425 ha of the Dam design capacity, of which 76% of that water would be subscribed by current irrigators, plus 425 ha 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 $1 billion (GDP) loss over 25 years to the District's economy without an augmented water supply. For current irrigators benefits will occur when augmented water is released from the Dam. The Dam will help protect existing and future business activity in the economic impact this has across the wider community.

d. **The benefits to Nelson City Council (NCC) and reticulated water supply to residential properties and businesses at the southern end of the city adjacent to its boundary with the Tasman District.** The expected $5 million funding contribution from NCC to the Dam partly covers the volume of water supply going to this prescribed area and the future needs of Nelson City. With the projected increase in project costs, there will be no NCC contribution to environmental and community benefits.

Nelson City Council has declined to increase their portion of funding, even though costs have increased markedly. There is 515 hae of Dam capacity (6.6%) assigned for the regional water supply to Nelson City, with a revised cost estimate of $6.3 million.

PERIOD OF BENEFIT(S)

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 1,625 ha (1,200 ha + 425 ha) of productive land to be taken up over the next 25 years. To enable the full 1200 ha to be used for irrigation or other purposes, it would require further investment in irrigation infrastructure by landowners.

For current irrigators, benefits have already begun to occur, as otherwise 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.

Because of the inter-generational equity consideration of the Dam, the Council is proposing a mix of loan and revenue options.

WHOSE ACTIONS CREATE THE NEED FOR THE ACTIVITY

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.

Current water permit holders include:

- Properties totalling circa 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 various water supplies, as described in Distribution of Benefits. 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 users

The over-allocation of consents would result in the need for severe water restrictions for irrigators, residents, industry and businesses after November 2018, during peak demand and/or drought periods. Severe drought would equate to a 70% reduction on peak demand.

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.

APPENDIX 1

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.

COSTS AND BENEFITS OF FUNDING THE ACTIVITY

The Council's capital funding is $105.6 million of the $159 million assumed for the draft LTP 2021 – 2031 budgeted financial modelling. In the LTP 2018 – 2028, $26.8 million was allocated for a water augmentation project for the Waimea Plains. That earlier cost estimate predates current estimates. Cost estimates increased to $104.5 million in December 2018 and the most recent project total cost estimate is $158.4 million (plus hydro power provision makes a total of $159 million).

The other primary beneficiaries being the Waimea Irrigators ($52 million) and Nelson City Council ($5 million included in the Council $105.6 million share above) will meet a share of the projects total costs. The Government has contributed to the project through Crown Irrigation Investments Ltd (CIIL) concessional loans to Waimea Water Ltd (WWL) and the Council, and through the Ministry for the Environment's (MfE) Freshwater Improvement Fund grant of $7 million.

Based on the "distribution of benefits" above, the Council's funding for the Dam is distributed across different rating tools.

The Council's current funding structure is set out below:

LTP 2021 – 2031 BUDGETED FUNDING BREAKDOWN	$
Urban water capacity	**33,203**
Less Nelson City funding	5,000
Less enterprise activity	2,910
Net water club funding	**25,293**
Irrigator extractive capacity	**25,153**
Public good / environmental capacity	**47,220**
Less CCO loan (enterprise)	8,750
Less CIIL loan (enterprise)	10,000
Net rates funding	**28,470**
Total Council funding	**105,576**

- $33.2 million is allocated to the Urban Water Account, including Redwood Valley, and partly debt-funded by a table loan over 30 years and partly funded with $4.5 million from an interest only loan. Loan costs and repayments will be recovered through water rates and charges. Increased charges would be partly offset by development contributions estimated at $8 million and the Nelson City contribution of $5 million along with a contribution of $2.91 million for part of the Council's share of unallocated Dam capacity assigned to the Urban Water Club to be funded from the Council's Enterprise activity revenue and surpluses.
- $25.2 million is currently estimated as the amount allocated to irrigator extractive capacity. This is proposed to be partly debt-funded over 30 – 40 years and recovered through the proposed LV targeted rate on properties benefiting from an affiliated consent (properties in the proposed EURA) and partly debt funded through an interest-only loan with interest expenses to be met from the general rate.
- $47.2 million is allocated to environmental and community benefits (public good). This is partly funded through:

- A $10 million 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 Enterprise activity revenue and surpluses. The Council will set aside funds annually to meet these repayments.
- A $8.75 million CCO loan to WWL with principal repayments funded from Enterprise activity income over 15 years and interest expenses paid by Waimea Irrigators Ltd.
- $22 million to be funded through a mix of a fixed charge across the District, plus a targeted rate on capital value for those properties in the Zone of Benefit.
- $6.5 million funded through an interest only loan.

Annual operating costs currently estimated for LTP budgeting purposes to be $2.5 – $3.1 million, (subject to review), are allocated between the Dam company partners being represented by WIL and Council. The allocation is 51% to Council and 49% to WIL. The allocation of operating cost is set in the commercial arrangements and is independent of the capital costs or the respective shareholdings. The Council's share is apportioned between the Urban Water Account (41%) and the wider environmental and community benefits (59%).

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 (ZOB) for other rating purposes (also to the Redwood Valley water supply scheme). This approach is consistent with previous urban water account costs.

The Council is also underwriting the CIIL loan to WWL(serviced by WIL). This underwrites provision ensures a below-market interest rate and the $10 million 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.

Irrigators also pay a charge to Waimea Irrigators Limited based on their number of shares/irrigated hectares to cover finance and their share of annual operational costs.

Cost overruns are being incurred and there are increasing cost to complete estimates. Council is liable for the majority of any cost overruns. Council is required to meet these additional costs from funding sources. Council considers that for the purposes of transparency and equity, a separate targeted rate should contribute the majority of the Council's share of the irrigator extractive capacity.

OVERALL COMMUNITY IMPACT

This is a significant project for the District and $26.8 million was budgeted in the LTP 2018 – 2028. Under the current cost overrun estimates, we intend to meet the additional costs from the same range of funding sources as were set out in the 2018 Revenue and Financing Policy. With a proposed change to target funding the Council's share of irrigator capacity arising from the cost overruns.

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 costs of the Dam is that other Council debt is not reduced and/or funds are not allocated to other future capital projects.

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.

Limiting the impact on rates is difficult and has to be managed through various mechanisms. These include:

- a $7 million grant from the MfE Fresh Water Improvement Fund over three years towards environmental benefits
- a $10 million interest-free loan from CIIL to go towards the environmental/community benefits
- using current and future income from the Council Enterprise activity over the next 20 years to repay the $10 million CIIL loan, after an initial contribution of $2.91 million
- a loan from Council to WWL of $8.75 million
- an $18 million interest-free loan from CIIL to assist Council to meet the Covid-19 and other pre-Covid-19 project cost escalations or project acceleration costs, and
- a proposed $22 million interest-only loan.

APPENDIX 1

Increased charges to the Urban Water Club would likely be in the range of 10% – 20% including funding the capital and annual operational costs.

The environmental and community benefits allocation of $47.2 million plus annual operating cost under the current policy is funded 70:30 from a fixed charge across the District and a targeted rate (based on property CV) for properties 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.

Irrigators who are in the Zone of Benefit would be paying annual charges through WIL, the proposed targeted rate for properties serviced through an affiliated consent, the District-wide fixed charge, plus the Zone of Benefit CV-based rate, and the water charges where they are on an urban reticulated scheme or a rural connector to an urban scheme or Redwood Valley Rural Water Supply, plus a component of the general rates charged based on capital value.

Residential and business properties outside the Zone of Benefit would only pay the District-wide rate, a component of the general rates charged based on capital value and the water charges where they are part of the Urban Water Club (including Redwood Valley).

Increasing the contributions required from irrigators to a level 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.

In summary, the rationale for the proposed funding of cost overruns for the Council's share of the irrigator extractive capacity is that those costs have been targeted as much as possible to the beneficiaries of that capacity. The Council has considered the affordability of a targeted rate. For example, horticultural property values have increased significantly in the last two District-wide revaluations, averaging over 30% both times, signalling some robustness in some parts of the rural sector. However the large scale of the cost increases targeted on such a small number of ratepayers (as in Option D) produces results that Council considers may possibly be unaffordable for some irrigators. Council has therefore moderated the funding approach by including a general rate contribution to cover the interest expense on overruns in excess of $14.6 million. The Council acknowledges that even with this contribution increased rates may be challenging for some ratepayers in the EURA. Overall, Council considers that the allocation of the costs for the project in the manner proposed is appropriate having regard to the current and future social, economic, environmental, and cultural well-being of the community.

tasman district council | Te Kaunihera o te tai o Aorere