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

Date:	**Thursday 12 August 2021**
Time:	**9:30 am**
Meeting Room:	**Tasman Council Chamber**
Venue:	**189 Queen Street Richmond**

Full Council

AGENDA

MEMBERSHIP

Mayor	Mayor T King	
Deputy Mayor	Deputy Mayor S Bryant	
Councillors	Cr C Butler	Cr D McNamara
	Cr B Dowler	Cr D Ogilvie
	Cr M Greening	Cr T Tuffnell
	Cr C Hill	Cr A Turley
	Cr C Mackenzie	Cr T Walker
	Cr K Maling	Cr D Wensley

(Quorum 7 members)

Contact Telephone: 03 543 8512
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Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted.

AGENDA

1 OPENING, WELCOME

2 APOLOGIES AND LEAVE OF ABSENCE

Recommendation
That apologies be accepted.

3 PUBLIC FORUM

4 DECLARATIONS OF INTEREST

5 LATE ITEMS

6 CONFIRMATION OF MINUTES

That the minutes of the Full Council meeting held on Wednesday, 30 June 2021, be confirmed as a true and correct record of the meeting.

7 PRESENTATIONS

Nil

8 REPORTS

9 CONFIDENTIAL SESSION

8 REPORTS

8.1 WAIMEA COMMUNITY DAM - HYDRO GENERATION ENABLING WORKS

Decision Required

Report To:	Full Council
Meeting Date:	12 August 2021
Report Author:	Richard Kirby, Group Manager - Community Infrastructure
Report Number:	RCN21-08-1

1 Summary

1.1 At its meeting on 18 March 2021, the Council considered the 'Waimea Water Ltd 2021 Mid-Year Report' which outlined the costs associated with the provisions of outlet works and pipework bifurcation to enable hydro generation to be easily added at a future date. The Council subsequently passed the following resolution:

"That the Full Council

3. approves an additional Council contribution to project costs of up to $400,000 to provide for outlet works and bifurcation for a future Hydropower option."

1.2 Waimea Water Limited (WWL) had estimated the physical cost of including the outlet work and pipework bifurcation at approximately $250,000 with no expected time impacts. The Joint Venture Contractor's cost and time impacts associated with the bifurcation are summarised below:

- Direct cost of works + head contractor margins: $664,000 plus GST
- Programme impact: 5 Days @ $54,000/day: $270,000 plus GST
- Total Cost; $934,000 plus GST

1.3 WWL has confirmed that in its opinion the quoted price plus the associated programme impact delays is grossly disproportionate to the quantum of work and appears to be opportunist pricing by the mechanical sub-contractor.

1.4 WWL has confirmed that a high-level estimate for the bifurcation of $270,000 was realistic which further reinforces the excessive nature of the quote provided.

1.5 WWL has advised that retrofitting the bifurcation in the future is feasible and would incur approximately $70,000 in additional cost to break out part of the concrete thrust block to undertake the pipework bifurcation.

1.6 WWL recommends not proceeding with the bifurcation at this stage and instead incorporating this into the future hydro generation scope of work as and when this is carried out.

1.7 It is recommended that the Council accepts WWL's recommendation.

1.8 At the time of writing this report, Ngāti Koata had not given its view on this decision. It is intended that a verbal update on the Ngāti Koata view will be presented at the Council meeting.

2 Draft Resolution

That the Full Council:

1. **receives the Waimea Community Dam - Hydro Generation Enabling Works report RCN21-08-1; and**
2. **approves excluding the enabling works comprising the bifurcation of the pipework from the current project scope and that it be considered as and when the hydro generation option is considered at a future date, and;**
3. **notes that Ngāti Koata feedback will be given at the meeting, and;**
4. **notes that some of the $400,000 included in the Long Term Plan 2021-2031 will need to cover the design, specification and quoting costs committed to date, but that the balance will not be committed to the current project but be deferred and committed if and when the hydro generation option is pursued at a future date, and;**
5. **instructs staff to formally ask Waimea Water Limited not to progress with the bifurcation option in the current project but to design the pipework to minimise the cost of adding hydro generation at a future date.**

3 Purpose of the Report

3.1 The purpose of this report is to provide an update on the option of including enabling works comprising outlet works and pipework bifurcation to facilitate the addition of a hydro generation more easily at a future date.

4 Background and Discussion

4.1 At its meeting on 18 March 2021, the Council considered the 'Waimea Water Ltd 2021 Mid-Year Report' which outlined the costs associated with the provisions of outlet works and pipework bifurcation to enable hydro generation to be easily added at a future date. The Council subsequently passed the following resolution:

"That the Full Council

3. approves an additional Council contribution to project costs of up to $400,000 to provide for outlet works and bifurcation for a future Hydropower option."

4.2 The Council considered authorising additional funding for this enabling works. The enabling works would have provided a level of future-proofing and the estimated cost at the time was considered very modest. It was stated that if the work was not done during construction, then retrofitting connections for hydro generation would be more expensive and could disrupt the operation of the dam.

4.3 Since the Council's decision, Waimea Water Limited (WWL) has been finalising the detailed design and obtaining quotes to undertake this outlet works and pipework bifurcation. The contractor has now supplied the pricing for this work as part of the current project.

4.4 WWL had estimated the physical cost of including the outlet work and pipework bifurcation at approximately $250,000 with no expected time impacts. The Joint Venture Contractor's cost and time impacts associated with the bifurcation are summarised below:

- Direct cost of works + head contractor margins: $664,000 plus GST
- Programme impact: 5 Days @ $54,000/day: $270,000 plus GST
- Total Cost; $934,000 plus GST

4.5 It should be noted that the design for the bifurcation was completed after the mechanical works was tendered. WWL asked for the variation to be priced as a subsequent option / variation (thinking that it would be reasonably priced). There are a few changes to the tendered pipework design that resulted in variations (mostly minor). Contractually, it is not pragmatic to procure this aspect separately from the current pipework contract. If it is not done by the engaged supplier as part of this contract, it will have to be procured and retrofitted later once the work is completed and signed off.

4.6 It is WWL's opinion that the quoted price plus the associated programme impact delays is grossly disproportionate to the quantum of work and appears to be opportunist pricing by the mechanical sub-contractor.

4.7 WWL engaged its Dam Engineering Consultant, Damwatch Engineering Ltd (DEL) to carry out an assessment into what works would be needed in the future should the bifurcation not proceed at this time. DEL has advised that retrofitting the bifurcation in the future is feasible and would incur approximately $70,000 in additional cost to break out part of the concrete thrust block to undertake the pipework bifurcation.

4.8 Further to this, DEL carried out a high-level cost estimate for the bifurcation of $270,000 which further reinforces the excessive nature of the quote provided.

4.9 WWL recommends not proceeding with the bifurcation at this stage and instead incorporating this into the future hydro generation scope of work as and when this is carried out.

4.10 The Council needs to consider whether or not to provide the additional funding of circa $534,000 in addition to the $400,000 already provided for in its Long Term Plan 2021-2031.

4.11 Staff recommend not providing the additional funding and therefore not proceeding with the enabling works as part of this project but delaying any decision and including it as part of the consideration of hydro generation at a future date.

4.12 This decision does not compromise the conditions of consent for the dam. The consent allows for hydro generation to be included at some point in the future but not necessarily at the same time as the dam is built.

5 Options

5.1 The options are outlined in the following table.

	Option	Advantage	Disadvantage
1.	To provide the additional funding of $534,000 to the $400,000 already in the LTP to make the total funding of up to $934,000 for the hydro generation enabling works.	The enabling work would be completed and hydro generation can be connected without further works being needed to the current infrastructure.	The additional cost has been assessed as being excessive and opportunistic by the mechanical subcontractor and therefore not considered to be value for money.
2.	To not progress with the enabling works at this stage. Staff recommend this option.	The additional funding will not be required at this stage, and the current $400,000 funding (less costs to date) in the LTP is available should hydro generation be progressed in the future.	The cost of installing the hydro will require circa $70,000 to retrofit the bifurcation works should hydro generation progress at a future date.

5.2 Option 2 is recommended.

6 Strategy and Risks

6.1 The addition of hydro generation has been considered for many years. The economic analysis undertaken in 2018 indicated that hydro generation was marginal. This was reported to the Council in June 2018. The Council decided at the time to delay further consideration until closer to financial close.

6.2 Financial close occurred in December 2018. The Council's position at that stage was to ensure that enabling works were included in the project to allow hydro generation to be 'bolted on' without further enabling works being required.

6.3 Installing the hydro generation after the dam is commissioned could impact its operability whilst it is being installed. This disruption will need to be assessed and mitigated as much as possible. The works could prevent the discharge of water whilst the bifurcation works are carried out. This is not likely to be a major disruption particularly if it is undertaken whilst the dam is spilling.

6.4 The advantages of undertaking the enabling works as part of the project would avoid this type of operational disruption. However, the associated costs do not warrant undertaking the enabling works now.

7 Policy / Legal Requirements / Plan

7.1 There are no specific policy or legal requirements regarding this decision. It is a decision around whether the Council provides additional funding for the enabling works to be undertaken as part of the current project, or whether it waits and considers it as part of the hydro generation deliberations in the future.

7.2 It should be noted that the Ngāti Koata Land and Water Use Partnering Deed assumes that there will be a future hydro generation option. While not requiring the Council to build a hydro generation option, the decision to not provide for one may be a cause of some concern for Ngāti Koata. This decision still retains the option of proceeding with hydro generation at a future date.

7.3 At the time of writing this report, Ngāti Koata had not given its view on this decision. It is intended that a verbal update on the Ngāti Koata view will be presented at the Council meeting.

8 Consideration of Financial or Budgetary Implications

8.1 There is loan funding of $400,000 in the Long Term Plan 2021-2031 allocated to the enabling works for hydro generation. There is no budget for the additional $534,000 being requested. Should the Council want to approve the additional funding then it would need to indicate where that funding and servicing costs was to come from.

8.2 WWL would have incurred some costs in completing the design and specification for the enabling works and with procuring a quote from the contractor. Some of the $400,000 will have been spent by WWL we will need to cover these costs.

9 Significance and Engagement

9.1 This decision to decline the additional funding of $534,000 is not considered significant as there is already funding provided for this purpose in the current LTP 2021-2031.

	Issue	Level of Significance	Explanation of Assessment
1.	Is there a high level of public interest, or is decision likely to be controversial?	Low	If the decision is as recommended, then the level of public interest would be considered low.
2.	Are there impacts on the social, economic, environmental or cultural aspects of well-being of the community in the present or future?	Low	The decision will have minimal impact on the social, economic, environmental or cultural aspects of well-being in the community.
3.	Is there a significant impact arising from duration of the effects from the decision?	Low	The decision and the duration of the effects of that decision do not have a significant impact.
4.	Does this activity contribute or detract from one of the goals in the Tasman Climate Action Plan 2019?	Low	This decision does not severely impact the option of implementing hydro generation in the future.
5.	Does the decision relate to a strategic asset? (refer Significance and Engagement Policy for list of strategic assets)	Yes	Although it relates to the Waimea Community Dam as a strategic asset, it only impacts a small add-on component and not to the asset itself.
6.	Does the decision create a substantial change in the level of service provided by Council?	No	The decision does not affect the operational purpose and service levels required of the dam.
7.	Does the proposal, activity or decision substantially affect debt, rates or Council finances in any one year or more of the LTP?	Low	The decision to decline the additional request for funding would not affect debt, rates or Council finances in any one year or more of the LTP other than retain the funding already budgeted.
8.	Does the decision involve the sale of a substantial proportion or controlling interest in a CCO or CCTO?	No	This decision does not involve any sale of a substantial proportion or controlling interest in a CCO or CCTO.
9.	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	This decision does not involve entry into a private sector partnership or contract to carry out the deliver on any Council group of activities.
10	Does the proposal or decision involve Council exiting from or entering into a group of activities?	No	This decision does not involve the Council exiting from or entering into a group of activities.

11	Does the proposal require inclusion of Māori in the decision making process (consistent with s81 of the LGA)?	Yes	Ngāti Koata has an interest in this decision and have been consulted accordingly.

10 Conclusion

10.1 Waimea Water Limited (WWL) had estimated the physical cost of including the outlet work and pipework bifurcation at approximately $250,000 with no expected time impacts. The Joint Venture Contractor's cost and time impacts associated with the bifurcation are summarised below:

- Direct cost of works + head contractor margins: $664,000 plus GST
- Programme impact: 5 Days @ $54,000/day: $270,000 plus GST
- Total Cost; $934,000 plus GST

10.2 WWL has confirmed that, in its opinion, the quoted price plus the associated programme impact delays is grossly disproportionate to the quantum of work and appears to be opportunist pricing by the mechanical sub-contractor.

10.3 WWL has advised that retrofitting the bifurcation in the future is feasible and would incur approximately $70,000 in additional cost to break out part of the concrete thrust block to undertake the pipework bifurcation.

10.4 WWL recommends not proceeding with the bifurcation at this stage and instead incorporating this into the future hydro generation scope of work, as and when this is carried out.

10.5 It is recommended that the Council accepts WWL recommendation.

10.6 At the time of writing this report, Ngāti Koata had not given its view on this decision. It is intended that a verbal update on the Ngāti Koata view will be presented at the Council meeting.

11 Next Steps / Timeline

11.1 To obtain feedback from Ngāti Koata on the proposed recommendation of not proceeding with the enabling works as part of the current project. This feedback should be available at the Council meeting.

11.2 To advise WWL of the Council's decision.

Attachments

Nil

8.2 LGFA - FINAL STATEMENT OF INTENT 2020-21 AND LETTER TO THE STAKEHOLDERS

Decision Required

Report To:	Full Council
Meeting Date:	12 August 2021
Report Author:	Mike Drummond, Group Manager - Finance
Report Number:	RCN21-08-2

1 Summary

1.1 The Local Government Funding Agency Ltd (LGFA) is a Council Controlled Organisation. It is required to deliver to its shareholders a final Statement of Intent by 30 June each year. The Council has received the final SOI and the covering letter from the LGFA.

1.2 The LGFA Shareholders' Council has reviewed and supports the Final Statement of Intent (SOI) **(Attachment 1).** The SOI complies with the requirements of the LGA 2002. The SOI is consistent with previous years. The LGFA remains committed to delivering strong results for their council borrowers and shareholders. A commentary on the changes made to the Final SOI compared to the Draft SOI can be found in paragraph 4.6.

1.3 The LGFA has provided a commentary to stakeholders on the Final Statement of Intent. **(Attachment 3)**.

1.4 This is a routine decision and staff recommend the Council agrees to the final SOI.

2 Draft Resolution

That the Full Council:

1. **receives the LGFA - Final Statement of Intent 2020-21 and Letter to the Stakeholders report RCN21-08-2; and**
2. **notes the delivery of the Local Government Funding Agency Ltd Final Statement of Intent 2021/22 as required under the Local Government Act 2002; and**
3. **agrees to the Local Government Funding Agency Ltd Statement of Intent 2021/22.**

3 Purpose of the Report

3.1 To formally acknowledge the receipt of, and agree to, the Local Government Funding Agency Limited Final Statement of Intent 2020/21.

4 Background and Discussion – Final Statement of Intent

4.1 The Council currently holds 3,731,958 shares in the Local Government Funding Agency (LGFA). The Council earns a small dividend on those shares. This is used to offset the Council's borrowing costs.

4.2 Shareholders receive a Quarterly Report from the LGFA. The latest report for the June 2021 quarter is available to Councillors on request.

4.3 Each year, the Office of the Auditor General advises the Council's auditors of the amount of LGFA's total borrowings as at 30 June for the purpose of disclosing the guarantee for annual report disclosure purposes. As at 30 June 2021, the LGFA had total borrowings outstanding of $12,810,000.

4.4 The Council was a key player as one of the nine councils ('tight 9') that provided the council foundation for the set-up of the LGFA. The Council is currently a shareholder, a borrower and a guarantor of the LGFA.

4.5 The Council is represented on the LGFA Shareholders' Council by the Group Manager Finance. Membership of the Shareholders' Council is by way of election at the annual general meeting, Shareholder Council members retire by rotation each year. The Shareholders' Council acts on behalf of the shareholding councils and the Crown amongst other things in monitoring the performance of the LGFA. That role includes engagement with the Company over its Statement of Intent. The Draft and Final Statements of Intent have been reviewed by the Shareholders' Council who support the adoption by Shareholders.

4.6 Changes made to the Final SOI compared to the Draft SOI considered by Council at the Full Council meeting on 8 April 2021 include:

4.6.1 The LGFA have broadened the objectives to include a focus on sustainability across the organisation and to assist the sector with sustainability.

4.6.2 They have reduced the base on-lending margin by 5 bps to 15 bps (0.15%) for new borrowing effective 1 July 2021.

4.6.3 Net Operating Income (NOI) has increased by $300,000 in the 2021/22 year but reduced by $5.7 million and $8.0 million in the subsequent outer years due to the reduction in base on-lending margin and a revision to our forecasting model to correct the previous upward bias in NOI in outer years.

4.6.4 Expenses have increased by $100,000 in each of the three years due to increased legal and NZX fees associated with higher issuance and lending volumes.

4.7 The LGFA has provided a commentary to stakeholders on the Final Statement of Intent. **(Attachment 3)**. Staff have checked the commentary and concur with the opinions expressed. As noted above, the Final SOI has also been considered and is supported by the Shareholders' Council.

5 Options

5.1 **Option 1** (recommended) – to receive and agree with the Final LGFA SOI.

5.2 **Option 2** – to receive the Final LGFA SOI but to not agree to the Final LGFA SOI. If the Council does not agree to the Final LGFA SOI then it would need to engage with both the Company and the Shareholders' Council. It is unlikely, given the other shareholders will most likely support the adoption, that it would be successful in forcing any change. This approach is not recommended.

6 Strategy and Risks

6.1 This is a routine decision that occurs annually. The LGFA Statement of Intent is reviewed, and feedback provided to the Company through the LGFA Shareholders' Council. This Council is currently a member of the Shareholders' Council and represented there by the Group Manager Finance.

6.2 There is nothing controversial within the SOI and it is consistent with previous SOI's. A decision not to agree to the Final SOI would bring the Council into conflict with the other shareholders. If the Council has concerns, the appropriate mechanism for raising these is through the LGFA Shareholders' Council and not through deciding not to agree to the SOI. A decision not to agree to the SOI could also cause significant financial and reputational damage to the Council and the LGFA. That would likely impact on the LGFA's ability to raise funds at competitive rates on behalf of councils.

7 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?	No	
Will this decision affect the ability of Tasman District to proactively respond to the impacts of climate change?	This decision will have no impact on the ability of the Council or District to proactively respond to the impacts of climate change.	This is a routine decision that has no impact on the Councils ability to respond.

8 Policy / Legal Requirements / Plan

8.1 A CCO must have an SOI that complies with Schedule 8 of the Local Government Act (LGA).

8.2 The principal objective of a CCO is set out in s 59(1) of the LGA.

8.3 SOIs must not be inconsistent with the CCO's Constitution.

8.4 Final SOIs must be delivered to the Shareholders (Councils/Crown) on or before 30 June each year.

8.5 Section 65(2) of the LGA requires the Shareholders (Council), as soon as practicable after receiving an SOI for a CCO, to agree to the SOI. If it does not agree, it is to take all practicable steps under Clause 5 of Schedule 8 of the LGA to require the SOI to be modified.

8.6 The Council is one of many council shareholders in the LGFA. The Crown is also a shareholder. Any decision to reject or require an amendment to the LGFA Final SOI would require the agreement of a majority of shareholders.

8.7 If an agreement with the Board of the LGFA through the LGFA Shareholders' Council on changing the SOI is not reached, the Shareholders will need to consider imposing a modification of the SOI by resolution of the Shareholders using their powers under Clause 5 of Schedule 8 of the LGA. This would be a last resort approach, as it would signal a breakdown in the relationship between the Shareholder Councils, the Crown and the Company Board. Such an event would cause significant financial and reputational damage to the LGFA and impact on its ability to raise funds on behalf of councils.

8.8 Section 64(9) requires the Council to publish within one month the Final SOI once agreed by Shareholders on the Council's website and maintain the Statement of Intent on that site for not less than seven (7) years.

9 Consideration of Financial or Budgetary Implications

9.1 There are no financial or budgetary implications arising from agreeing to the LGFA Final SOI 2021/22.

10 Significance and Engagement

10.1 The level of significance of a decision to agree to the Final SOI for the LGFA is considered as low. This is a routine matter that occurs each year and therefore no specific engagement with the community is necessary.

Issue	Level of Significance	Explanation of Assessment
Is there a high level of public interest, or is decision likely to be controversial?	Low	This is a routine matter that occurs each year. The decision is not controversial.
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)	No	
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	
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	

11 Conclusion

11.1 The Final LGFA SOI has been received. The SOI has been reviewed by the LGFA Shareholders' Council and meets the requirements of the Local Government Act. The staff recommendation is to agree to the Final SOI and refer any matters raised by Councillors to the LGFA Shareholders' Council for consideration and possible inclusion in the next SOI to be considered in 2022.

12 Next Steps / Timeline

12.1 Staff will communicate the Council's decision and any comments to the LGFA Shareholders' Council and the LGFA Board.

12.2 The Company has made the Final SOI available to the public via its website.

12.3 The Council will also make the Final SOI available to the public via our website as required by the LGA 2002.

13 Attachments

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Statement of Intent 2021/22

1. Introduction

This Statement of Intent (SOI) sets out the intentions and expectations of New Zealand Local Government Funding Agency Limited (LGFA).

The LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002.

The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

2. Nature and scope of activities

LGFA will raise debt funding either domestically and/or offshore in either NZ dollars or foreign currency and provide debt funding to New Zealand local authorities and CCOs and may undertake any other activities considered by the Board of LGFA to be reasonably related or incidentally to, or in connection with, that business.

The LGFA will only lend to Councils and CCOs that enter into all the relevant arrangements with it (such Councils being "Participating Local Authorities" and such Councils and CCOs being "Participating Borrowers") and comply with the LGFA's lending policies.

In lending to Participating Borrowers, LGFA will:

- Operate in a manner to ensure LGFA is successful and sustainable in the long-term;
- Educate and inform Participating Local Authorities on matters within the scope of LGFA's operations;
- Provide excellent service to Participating Borrowers;
- Ensure excellent communication exists and be professional in its dealings with all its stakeholders; and
- Ensure its products and services are delivered in a cost-effective manner.

3. Objectives

Principal Objectives

In accordance with the Local Government Act 2002, in carrying on its business, the principal objectives of LGFA will be to:

- Achieve the shareholder-agreed objectives and performance targets specified in this Statement of Intent;
- Be a good employer;
- Demonstrate social, economic, environmental and cultural responsibility;
- Maintain strong and sound corporate governance;
- Set and model high standards of ethical behaviour; and
- Operate in accordance with sound business practice.

Primary Objectives

LGFA will optimise the debt funding terms and conditions for Participating Borrowers. Among other things, this includes:

- Providing interest cost savings relative to alternative sources of financing;
- Offering flexible short and long-term lending products that meet Participating Borrowers' borrowing requirements;
- Delivering operational best practice and efficiency for its lending services;
- Ensuring certainty of access to debt markets, subject always to operating in accordance with sound business practice.

LGFA will ensure its asset book remains at a high standard by ensuring it understands each Participating Borrower's financial position, as well as general issues confronting the Local Government sector. Amongst other things, LGFA will:

- Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies;
- Analyse finances at the Council group level where appropriate and report to shareholders;
- Endeavour to meet each Participating Borrower annually, including meeting with elected officials as required, or if requested; and
- Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.

Additional objectives

LGFA has the following eight measurable and achievable additional objectives which complement the primary objectives. Performance against these objectives is reported annually.

LGFA will:

1. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.

2. Provide at least 80% of aggregate long-term debt funding to the Local Government sector[1].

3. Achieve the financial forecasts outlined in section 4 for net interest income and operating expenses, including provision for a shareholder dividend payment in accordance with the approved dividend policy.

4. Meet or exceed the Performance Targets outlined in section 5.

5. Comply with the Health and Safety at Work Act 2015.

6. Comply with the Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.

7. Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.

8. Improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

[1] This includes Auckland Council borrowing both in its own name and through LGFA and recognising that the amount of borrowing by Auckland Council from LGFA is restricted by the Foundation Policy covenants.

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2024 are:

	SOI 2022		
Comprehensive income $m	**Jun-22**	**Jun-23**	**Jun-24**
Net Interest income	**18.1**	**17.0**	**18.2**
Other operating income	1.0	1.5	1.5
Total operating income	**19.1**	**18.5**	**19.7**
Approved Issuer Levy	0.6	0.6	0.3
Issuance & onlending costs	2.7	2.7	2.7
Operating overhead	4.4	4.6	4.7
Issuance and operating expenses	**7.8**	**7.9**	**7.7**
P&L	**11.3**	**10.6**	**11.9**

Financial position $m	**Jun-22**	**Jun-23**	**Jun-24**
Liquid assets portfolio	1,961	2,124	2,324
Loans to local government	13,294	14,515	15,623
Other assets	-	-	-
Total assets	**15,255**	**16,639**	**17,947**
Bonds on issue (ex Treasury stock)	13,975	15,190	16,362
Bills on issue	500	500	500
Borrower notes	256	302	340
Other liabilites	-	-	-
Total liabilities	**14,731**	**15,992**	**17,202**
Capital	25	25	25
Retained earnings	81	92	104
Shareholder equity	**106**	**117**	**129**

Ratios	**Jun-22**	**Jun-23**	**Jun-24**
Liquid assets/funding liabilities	13.8%	13.7%	13.9%
Liquid assets / total assets	12.9%	12.8%	12.9%
Net interest margin	0.14%	0.12%	0.12%
Cost to income ratio	40.7%	42.7%	39.4%
Return on average assets	0.07%	0.06%	0.07%
Shareholder equity/total assets	0.7%	0.7%	0.7%
Shareholder equity + BN/total assets	2.4%	2.5%	2.6%
Asset growth	10.2%	9.1%	7.9%
Loan growth	11.3%	9.2%	7.6%
Return on equity	12.0%	10.0%	10.2%
Capital ratio	11.9%	12.6%	13.1%

Note that there is some forecast uncertainty around the timing of Net Interest Income, Profit and Loss, Total Assets, LG Loans, Bonds and Borrower Notes depending upon council decisions regarding the amount and timing of refinancing of their April 2022, April 2023 and April 2024 loans. LGFA will work with council borrowers to reduce this uncertainty.

The above tables assume gross issuance of LGFA bonds per year of $2.90 billion (2021/22), $2.875 billion (2022/23) and $2.850 billion (2023/24), however the issuance volume will be determined by LGFA at the relevant time by reference to factors including refinancing of existing borrowing by councils and (if applicable) council-controlled organisations, new borrowing by councils and (if applicable) council-controlled organisations and LGFA's own borrowing requirements for liquidity purposes.

No decision has been made as to final issuance volume at this point and will depend upon market conditions.

There has been no allowance made in the forecasts for the impact on councils from the proposed Three Waters Reform Programme.

5. Performance targets

LGFA has the following performance targets:

- LGFA's total operating income for the period to:
  - 30 June 2022 will be greater than $19.1 million.
  - 30 June 2023 will be greater than $18.5 million.
  - 30 June 2024 will be greater than $19.7 million.
- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:
  - 30 June 2022 will be less than $7.2 million.
  - 30 June 2023 will be less than $7.3 million.
  - 30 June 2024 will be less than $7.4 million.
- Total lending to Participating Borrowers[2] at:
  - 30 June 2022 will be at least $13,294 million.
  - 30 June 2023 will be at least $14,515 million.
  - 30 June 2023 will be at least $15,623 million.
- Conduct an annual survey of Participating Borrowers who borrow from LGFA and achieve at least an 85% satisfaction score as to the value added by LGFA to the borrowing activities
- Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational

[2] Subject to the forecasting uncertainty noted previously

and covenant requirements.

- Achieve 80% market share of all council borrowing in New Zealand
- Review each Participating Borrower's financial position, its headroom under LGFA policies and arrange to meet each Participating Borrower at least annually.
- No breaches of Treasury Policy, any regulatory or legislative requirements including the Health and Safety at Work Act 2015.
- Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.
- Maintain a credit rating equal to the New Zealand Government Sovereign rating where both entities are rated by the same credit rating agency.

6. Dividend policy

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders. Consequently, it is intended to pay a limited dividend to Shareholders.

The Board's policy is to pay a dividend that provides an annual rate of return to Shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

At all times payment of any dividend will be discretionary and subject to the Board's legal obligations and views on appropriate capital structure.

7. Governance

Board

The Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the Companies Act 1993, the Local Government Act 2002, the Local Government Borrowing Act 2011, the Company's Constitution, the Shareholders' Agreement for LGFA and this SOI.

The Board comprises six directors with five being independent directors and one being a non-independent director.

The Board's approach to governance is to adopt best practice[3] with respect to:

- The operation of the Board.
- The performance of the Board.
- Managing the relationship with the Company's Chief Executive.
- Being accountable to all Shareholders.

All directors are required to comply with a formal Charter.

[3] Best practice as per NZX and Institute of Directors guidelines

The Board will meet on a regular basis and no fewer than 6 times each year.

Shareholders' Council

The Shareholders' Council is made up of between five and ten appointees of the Shareholders (including an appointee from the Crown). The role of the Shareholders' Council is to:

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis.
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval.
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

8. Information to be provided to Shareholders

The Board aims to ensure that Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising both LGFA's obligations under NZX Listing Rules and that commercial sensitivity may preclude certain information from being made public.

Annual Report

The LGFA's balance date is 30 June.

By 30 September each year, the Company will produce an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002, the Companies Act 1993 and Financial Reporting Act 2013. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report.
- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts.
- Comparison of the LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Auditor's Report on the financial statements and the performance targets.
- Any other information that the directors consider appropriate.

Half Yearly Report

By 28 February each year, the Company will produce a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations for the relevant six-month period.
- Comparison of LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Un-audited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position and Statement of Cashflows.

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will produce a Quarterly Report. The Quarterly Report will include the following information:

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Borrower's (in credit rating bands).
- Comparison of LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of the preceding financial year).
- To the extent known by LGFA, details of all events of review in respect of any Participating Borrower that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).
- Details of any lending to CCOs during the quarter and the amount of CCO loans outstanding.
- Commentary on sustainability initiatives.

Statement of Intent

By 1 March in each year the Company will deliver to the Shareholders its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments from the Shareholders received by 30 April, the Board will deliver the completed SOI to the Shareholders on or before 30 June each year.

Shareholder Meetings

The Board will hold an Annual General Meeting between 30 September and 30 November each year to present the Annual Report to all Shareholders.

The Company will hold a meeting with the Shareholders' Council approximately every six months – prior to the Annual General Meeting and after the Half Yearly Report has been submitted. Other meetings may be held by agreement between the Board and the Shareholders' Council.

9. Acquisition/divestment policy

LGFA will invest in securities in the ordinary course of business. It is expected that these securities will be debt securities. These investments will be governed by LGFA's lending and/or investment policies as approved by the Board and/or Shareholders.

Any subscription, purchase or acquisition by LGFA of shares in a company or organisation will, if not within those investment policies, require Shareholder approval other than as concerns the formation of wholly-owned subsidiaries and the subscription of shares in such wholly-owned subsidiaries.

10. Activities for which compensation is sought from Shareholders

At the request of Shareholders, LGFA may (at its discretion) undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full cost of providing such activities.

Currently there are no activities for which compensation will be sought from Shareholders.

11. Commercial value of Shareholder's investment

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders.

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

As the Shareholders will have invested in the LGFA on the basis of this limited dividend, the Board considers that at establishment the commercial value of LGFA is equal to the face value of the Shareholders' paid up Principal Shares - $25 million.

In the absence of any subsequent share transfers to the observed share transfers on 30 November 2012, the Board considers the current commercial value of LGFA is at least equal to the face value of the Shareholders' paid up Principal Shares of $25 million. This equates to a value per share of $1.00.

12. Accounting policies

LGFA has adopted accounting policies that are in accordance with the New Zealand International Financial Reporting Standards and generally accepted accounting practice. A Statement of accounting policies is attached to this SOI.

The following statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2020 (updated where necessary), accordingly, the statement does not contemplate LGFA lending to CCOs.

ATTACHMENT: Statement of accounting policies

a. Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are as at and for the year ended 30 June 2020.

These financial statements were authorised for issue by the Directors on 28 August 2020.

b. Statement of compliance

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. LGFA's bonds are quoted on the NZX Debt Market.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

c. Basis of preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

NZ IFRS 16 Leases.

NZ IFRS 16 became effective from 1 July 2019 and did not have a material impact on the financial statements.

On adoption of NZ IFRS 16, LGFA recognised right-of-use assets and lease liabilities in relation to its property leases which had previously been classified as operating leases under NZ IAS 17 Leases.

In adopting NZ IFRS 16, LGFA elected to use the simplified retrospective approach which does not require restatement of comparative information. The lease liability is recognised at the present value of the remaining lease payments, discounted using LGFA's incremental borrowing rate, with the corresponding right-of-use asset recognised as an equal amount.

The following items in the balance sheet were impacted by the change of accounting on 1 July 2019: Other assets and Other liabilities both increased by $0.157 million.

Lease payments previously included in other operating expense are now classified to financing and depreciation costs under NZ IFRS 16.

There have been no other changes to accounting policies.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

New standards adopted

NZ IFRS 16 Leases became effective from 1 July 2019.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements.

d. Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit and bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date, an expected credit loss assessment is performed for all financial assets and is calculated as either:

- Credit losses that may arise from default events that are possible within the next 12 months, where no significant increase in credit risk has arisen since acquisition of the asset, or
- Credit losses that may arise from default events that are possible over the expected life of the financial asset, where a significant increase in credit risk has arisen since acquisition of the asset.

Impairment losses on financial assets will ordinarily be recognised on initial recognition as a 12-month expected loss allowance and move to a lifetime expected loss allowance if there is a significant deterioration in credit risk since acquisition.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

e. Other assets

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Intangible Assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight-line basis over the estimated useful life of the software (three to seven years). Costs associated with maintaining computer software are recognised as expenses.

f. Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

g. Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

h. Segment reporting

LGFA operates in one segment being funding of participating local authorities in New Zealand.

i. Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate used to calculate present values. Refer note 2a for fair value determination for financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

24 December 2020

Craig Stobo
Chair
New Zealand Local Government Funding Agency Ltd
P O Box 5704
Wellington 6145

Dear Craig,

Shareholder Expectations and the Statement of Intent 2021/22

I am writing to set out the Shareholders' Council's (the Council's) expectations of the New Zealand Local Government Funding Agency Ltd (LGFA) for consideration in the LGFA's business planning for the upcoming year and the development of its 2021/22 Statement of Intent (SOI).

The Council values the positive and open working relationship with the LGFA. The timely provision of information, and a 'no surprises' approach by both parties, helps ensure the relationship remains productive.

Governance

It is important that the LGFA continues to build on its Board and management strengths, and works closely with the Council to ensure the Board membership maintains an optimum mix of expertise, appropriate gender/diversity balance and experience.

We expect the LGFA to maintain a focus on longer term succession planning, particularly with regard to the role of Chair and ensuring that there is appropriate senior experience working in or with central government amongst the Board's membership. It is noted that during the current year the Council is planning to undertake an independent review of the Board's performance and to assess the appropriate skills mix for the future. This will help inform succession planning for the Board Chair and Audit & Risk Chair roles.

The shareholders would like to reiterate that consideration be given to the current non-independent director rotation process. It seems appropriate that non-independent director rotation timing should be better aligned with that of independent directors. For example, at times where there is only one non-independent director it may be more appropriate for the rotation timing to be a minimum of two years.

Sector Initiatives

We urge the LGFA to continue to seek to influence government decision-making for the benefit of the sector, and to keep abreast of the issues facing the sector.

We ask that you assess the impacts on LGFA from Infrastructure Funding and Financing Act 2020 and Urban Development Act 2020. These may lead to less funding requirements from LGFA and, however, may increase sector risks.

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With the Three Waters Reform Program being undertaken by the Department of Internal Affairs there is an opportunity to inform and provide advice to the Crown on the provision of improved three water service delivery for communities. As part of this process the Crown has made available stimulus funding to support economic recovery post COVID-19 and address persistent systemic issues in the three waters sector. This initiative is likely to have significant impacts on the sector funding requirements. These three water entities may or may not be owned by councils and may significantly impact on future funding sourced from LGFA.

We ask that you explore opportunities to be part of the Reserve Bank's Funding and Lending Program to assess the possibility of LGFA sourcing funding directly from the Reserve Bank to lower the cost of funds to the sector.

Similarly, we support LGFA's involvement in the potential development of the Ratepayer Financing Scheme development in an advisory capacity.

In all these matters it would be appreciated if would report back on any implications of options and proposal(s) on the LGFA and its guarantors e.g. if the scope of LGFA's operations could change, or the potential for additional risks emerge.

Sector Representation

With the increase in the number of borrowers/guarantors over the last few years, the Council is conscious that there are now a significant number of councils that are affected by LGFA's overall operations; but who have limited visibility and no influence over them.

The Council has instigated regular contact with guaranteeing councils that are not also shareholders through the portfolio allocated to each member. Any relevant information will be passed on to the LGFA Board and management for consideration via our existing processes.

However, we also request that the Board consider whether it is appropriate to provide the opportunity for non-shareholding councils to become shareholders. This may be achieved by an issue of new shares and or a sell-down of shares (at current valuation) by existing shareholders. We would welcome dialogue with the Board on this issue at a suitable time. This may also be a relevant topic for discussion at the next Shareholders/Borrowers day.

Constancy of objectives and intentions

It is the Council's expectation that the company's objectives and operating intentions be reflected in the 2021/22 SOI. The SOI is the ideal opportunity for the LGFA to reaffirm its:

- commitment to providing a range of borrowing products and services;
- focus on lowering the cost of local government borrowing;
- strategy for maintaining a high-quality asset book and ensure appropriate insurance cover and/or reserves maintained to cover unplanned event risk;
- proactive risk management approach; and
- intention to return a dividend to shareholders.
- With regard to extending the range of borrowing products and services, consideration should be given to the company's original purpose to be a funding vehicle en-masse to the sector.

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- Both lending to CCOs and offering Standby Facilities to councils are now underway, we assume reporting on these matters will be incorporated in the quarterly report.
- While we expect customer demand to drive new product and service development, a balance needs to be maintained between the risk, cost and complexity of introducing and managing them versus the extent of the incremental benefits they provide. We expect that robust risk / cost benefit analysis be undertaken and agreed with the Council prior to introduction on any further new products.
- We understand that process improvements are currently being considered to streamline the councils borrowing from LGFA, we support this initiative.

Performance indicators

Performance indicators should provide a robust, meaningful performance overview for key stakeholders. The Council asks that the LGFA's performance indicators and targets are regularly reviewed to confirm that they are providing the most effective performance picture.

With reference to the current measurement of savings to council borrowers, we believe the current comparison to Auckland Council and Dunedin Council does not reflect the true value of savings to councils due to the overall impact of the LGFA and this comparison is of marginal benefit now.

Now that LGFA is firmly established as the primary funder to the sector it may be more appropriate to change this measure to demonstrate 'value added', rather than direct savings, which are becoming increasingly harder to isolate and track.

Treasury policy

It is the Council's enduring expectation that the LGFA will continue to take the appropriate steps to ensure that it understands risks arising from debt maturity consolidation, each borrower's headroom and funding intentions, and the overall sector's financial position.

The LGFA's Lending Policies and Foundation Policies, as detailed in the company's Treasury Policy, should appropriately reflect the sector's position.

We ask that you complete a comprehensive review of the Treasury Policy within the next twelve months and continue to monitor relevant borrowing parameters, regardless of whether they are specified covenants. This will enable LGFA to 'future proof' the policy. The Statement of Intent is a good way to signal to stakeholders that a review is planned.

We also ask that you explore opportunities to allow the Board to amend some areas within the policy without requiring a shareholder resolution, such as counterparty credit limits and associated minimum credit ratings for investments. All fundamental aspects of the policy still would require approval by the shareholders.

It is also important to allow sufficient time for shareholders to assess any future changes that may be required.

Lending Processes

The Council requests ongoing reviews to enable the most efficient processing of agreements, transactions and documentation. Consideration should also be given to the difficulty of obtaining Chief Executives' signatures within the current half day timeline and whether some form of pre-approval or delegation can occur for some components.

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Financial and general reporting

The current SOI contains brief financial forecast information. The Council continues to appreciate the LGFA providing more detailed financial and operational information in the quarterly reports. It is important that this information continues to be provided in 2021/22.

The Council notes the importance of shareholders receiving full and early disclosure from the LGFA of company policy breaches by Participating Local Authorities. It is crucial that all shareholders are informed as soon as possible after an event has occurred, given their potential liability.

As well as ensuring that the expectations outlined above are met, we request that the basis of the calculation of financial covenants and any direct lending to Council Controlled Organisations be included in quarterly and annual reports to ensure transparency for all stakeholders.

The Council would like to hold further discussions with the Board to carry out a review to determine the level of consistency around the way calculations are applied to covenant measures in the foundation documents and the risk coverage achieved with this approach. The Council also requests that to maintain the integrity and security of the LGFA for Guarantors that no more risk is taken on by the LGFA.

Delivery of draft 2021/22 SOI

The Council would welcome a discussion on the content of this letter and the LGFA's views on its priorities for 2021/22. We look forward to receiving the company's draft SOI as early as possible, to allow us to engage with shareholders in a meaningful fashion. The Council will respond with feedback as promptly as possible, and prior to the statutory deadline of 1 May 2021, in order that the company is in a position to deliver its final SOI by 30 June 2021.

We would also appreciate an update from the Board and LGFA management on its future strategic direction and how LGFA is preparing itself to operate in a fluid and dynamic global environment.

It was a pleasure to attend the 2020 Annual General Meeting, and recognise the significant achievements of the LGFA over the last year. Please do not hesitate to contact me if you have any queries or comments.

Yours sincerely

Alan Adcock
Chair, LGFA Shareholders' Council

cc. Mark Butcher, Chief Executive LGFA

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LGFA
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

30 June 2021

Dear LGFA stakeholder

Statement of Intent 2021/22

Please find attached the Statement of Intent (SOI) for the 2021/22 year.

LGFA remains focused on delivering strong results for our council borrowers and shareholders.

For our borrowing councils we seek to optimize funding terms and conditions by

- Achieving savings in borrowing costs
- Provide longer dated funding and
- Provide certainty of access to markets.

For our shareholders we are focused on

- Delivering a strong financial performance
- Monitoring asset quality and
- Enhancing our approach to treasury and risk management.

The following points regarding the 2021/22 SOI are worth noting

- The SOI performance targets are the same as the previous year's targets except that we have reduced the target for market share to 80% from the prior year 85% target. The 80% target is the same target as the periods before last year.
- There remains some uncertainty within the SOI forecasts relating to the amount of both council loans and LGFA bonds outstanding as this depends upon the magnitude and timing of council borrowing. We have based our forecasts on the Draft Long Term Plans ("LTPs") of our seventy-two council members and the LTPs forecast a significant increase in borrowing in each of the next three years. The actual amount of borrowing will be influenced by the ability of councils to deliver on the capex projections in their LTPS as we well as the amount of Central Government assistance in funded capex delivery.
- Given the timeline proposed by DIA for the Three Waters Reform transition, the impact on LGFA is likely to fall in the years beyond the end of the three-year SOI forecast period. However councils' actions in anticipation of the transition may have an impact on their borrowing decisions and that of LGFA during the SOI forecast period.

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The changes made to the Final SOI compared to the Draft SOI that you received in February 2021 for comment have been[1]

- We have broadened the objectives to include a focus on sustainability across the organisation and to assist the sector with sustainability.
- We have reduced the base on-lending margin by 5 bps to 15 bps (0.15%) for new borrowing effective 1 July 2021.
- Net Operating Income (NOI) has increased by $300,000 in the 2021/22 year but reduced by $5.7 million and $8.0 million in the subsequent outer years due to the reduction in base on-lending margin and a revision to our forecasting model to correct the previous upward bias in NOI in outer years.
- Expenses have increased by $100,000 in each of the three years due to increased legal and NZX fees associated with higher issuance and lending volumes.

Please feel free to contact me if you have any questions or require further clarification on anything relating to the SOI or LGFA in general.

Yours sincerely

Mark Butcher
Chief Executive

[1] We can provide you with a tracked change version of the Draft and Final SOI documents if you wish.

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8.3 THREE WATERS REPORT UPDATE

Report To:	Full Council
Meeting Date:	12 August 2021
Report Author:	Richard Kirby, Group Manager - Community Infrastructure
Report Number:	RCN21-08-3

1 Summary

1.1 The purpose of this report is to provide an update on the Three Waters Reform Programme being led by the Government. This report is the first of two reports that the Council will be considering prior to 1 October 2021.

1.2 A second report is proposed to be presented to a Full Council meeting towards the end of September 2021. This second report will provide more detail on the direct impacts of the Water Industry Commission of Scotland (WICS) assumptions on the Council's three waters and collate all the feedback that the Council wishes to present to Local Government New Zealand (LGNZ) and the Department of Internal Affairs (DIA) by 1 October 2021.

1.3 The New Zealand Government has initiated a wide-ranging reform of the three waters sector, which is ongoing in 2021 and intended for implementation 1 July 2024. Over the past two decades, there have been a large number of Government and sector reports dealing with the wide range of issues surrounding the New Zealand three waters sector.

1.4 In late December 2020, DIA issued a Request for Information (RFI) to all councils in the country. The RFI required the Council to input specific data related to the three water activities. This data was submitted in early February 2021 and then modelled and assessed by WICS.

1.5 In June 2021, the DIA released the WICS report. It built on the findings of the earlier report to provide a more up-to-date analysis.

1.6 In June 2021, concurrent with releasing the WICS report, DIA presented the proposed reform proposal. The proposal comprises several core components; the key component being the establishment of four statutory, publicly owned water services entities to provide safe, reliable and efficient water services. The governance structure for the four new Water Service Entities (WSEs) was also presented.

1.7 Most of the Tasman District has been included in Water Service Entity 'C'. Entity 'D" encompasses the entire Ngai Tahu Takiwa, which includes most of the South Island. The southern portion of the Tasman District is also within the Takiwa, including the townships of St Arnaud and Murchison. Marlborough District is similarly impacted by the Ngai Tahu Takiwa boundary.

1.8 On 15 July 2021, at the LGNZ Conference, the Government announced a financial support package of $2.5 billion to support the local government sector through the transition to the new water services delivery system and to position the sector for the future. There are two broad components to this support package:

- $2 billion of funding to invest in the future of local government and community well-being, while also meeting priorities for government investment (the **“better off”** component) and;
- $500 million to ensure that no local authority is financially worse off as a direct result of the reform (the **“no worse off”** component).

1.9 When announcing the second tranche of funding the Government indicated that councils would have an opportunity to review the large amount of information and so that each council could provide feedback by 1 October 2021.

1.10 The purpose of this ‘engagement’ period to 1 October 2021 is to provide time for all local authorities to engage with and understand the large amount of information that has been released. It will also allow councils to take advantage of the range of engagement opportunities to fully understand the proposal and how it affects each local authority and its community, and to identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened.

1.11 The Council is not expected to make any formal decisions regarding the reform through this engagement period. This is an opportunity for the sector to engage with – and provide feedback on – local impacts and possible variations to the proposed reform package outlined by the Government.

1.12 The June 2021 report released by DIA has been transparent regarding the modelling and analysis carried out by WICS. In common with all models, the models used by DIA/WICS have several built-in assumptions that when taken together have produced the results.

1.13 WICS has developed and presented a dashboard for Tasman District. This outlines the outcomes of the assessment and analysis and the direct impact on the Council.

1.14 DIA has funded expertise to work through LGNZ to help councils interpret the WICS calculations and how these relate to the Council. Morrison Low (ML) undertook this review for Tasman District Council.

1.15 The ML report is based upon its review of public WICS reports and individual council models provided by WICS. In some cases, the approach or assumptions used by WICS are unclear; the ML report focuses solely on the information ML was able to access and interpret.

1.16 The ML report provides an overview of the three waters reform, some general commentary of the WICS analysis, the impact on household bills and a comparison of the key data presented.

1.17 The ML report also outlines the WICS assumptions under each of the following headings, provides commentary around those assumptions and the potential impact of those assumptions on the Council:

a) Investment projections for renewals, levels of service enhancements and growth investment.

b) Revenue - three waters debt to revenue ratio, revenue from households and the number of household connections;

c) Capital and operating efficiencies;

d) Sensitivity analysis.

1.18 The three waters assets proposed to be transferred to the new Crown entity are the water and wastewater and possibly stormwater treatment facilities, lagoons, pipes (water distribution network), pumps and all associated infrastructure that ratepayers and users have invested in over many years. This is not to be confused with the national debate on fresh water or water as a resource in general.

1.19 A second report is proposed to be presented to a Full Council meeting towards the end of September 2021. This second report will provide more detail on the direct impacts of the WICS assumptions on the Council's three waters and collate all the feedback that Council wishes to present to Local Government New Zealand (LGNZ) and the Department of Internal Affairs (DIA) by 1 October 2021.

2 Draft Resolution

That the Full Council:

1 receives the Three Waters Report Update report, RCN21-08-3; and

2 confirms continued engagement with the Department of Internal Affairs so that the Full Council can then make a more informed decision on Three Waters Reform at a future date and;

3 notes that further engagement be undertaken with Te Tau Ihu iwi to provide better understanding prior to any decision of the Full Council on the Three Waters Reform.

3 Purpose of the Report

3.1 The purpose of this report is to provide an update on the Three Waters Reform Programme that the Government is leading. This report is the first of two reports that the Council will be considering prior to 1 October 2021.

3.2 This first report will provide background to the Three Waters Reform Programme. It contains specific details around the WICS assessment and analysis of the three waters in New Zealand. This report also reviews the WICS assumptions supporting their assessment and analysis and the impacts of those assumptions for the Tasman District.

3.3 A second report is proposed to be presented to a Full Council meeting towards the end of September 2021. This second report will provide more detail on the direct impacts of the WICS assumptions on the Council's three waters and collate all the feedback that Council wishes to present to Local Government New Zealand (LGNZ) and the Department of Internal Affairs (DIA) by 1 October 2021.

4 Background

Context

4.1 The New Zealand Government has initiated a wide-ranging reform of the three waters sector which is ongoing in 2021 and intended for implementation 1 July 2024. Over the past two decades, there has been many Government and sector reports dealing with the wide range of issues surrounding the New Zealand three waters sector.

4.2 The current reform was triggered by the Havelock North water supply incident in 2016 where contaminated groundwater entered the water network and led to 5,000 people falling ill and four consequential deaths.

4.3 The subsequent Government inquiry in 2017 observed that New Zealand had fallen well behind international best practice in the delivery of drinking water and made wide-ranging reform recommendations.

4.4 The Government received these recommendations and is acting on them in the current reform process.

4.5 In July 2020, the Government launched the Three Waters Reform Programme – a three-year programme to reform local government three waters service delivery arrangements.

4.6 At the same time, it announced a $761 million funding package to provide post COVID-19 stimulus to maintain, improve three waters infrastructure, support a three-year programme of reform of local government water service delivery arrangements (reform programme), and support the establishment of Taumata Arowai, the new Waters Services Regulator.

4.7 In August 2020, the Council approved the signing of a Memorandum of Understanding to remain engaged in the reform process. It was a non-binding commitment to receive initial funding for specific shovel-ready projects and continue to be involved in the reform process.

4.8 The Council agreed to sign the MoU and consequently received funding of $9.78 million to be spent on approved water, wastewater and stormwater projects by March 2022. The Council is on track to spend this funding.

4.9 In December 2020, DIA released a report conducted by the Water Industry Commission for Scotland (WICS), commissioned as part of the programme.

4.10 This Phase 1 Report provided an early indicative view on the size of New Zealand's three waters infrastructure deficit and the potential benefits of reform. Local government representatives expressed concerns over the validity of parts of this analysis, which led to a request for information from councils on their three waters assets and services.

4.11 In late December 2020, DIA issued a Request for Information (RFI) to all councils in the country. The RFI required the Council to provide specific data related to the three water activities. This data was then modelled and assessed by the Water Industry Commission of Scotland (WICS). This was submitted in early February 2021.

4.12 In June 2021, the DIA released the WICS report. It built on the findings of the earlier report to provide a more up-to-date analysis. The key findings were in three parts:

- **Part 1** - The report's modelling indicated that a future investment of $120 billion to $185 billion will be necessary at a national level, for New Zealand to meet current levels of compliance that water utilities in the UK achieve with European Union (EU) standards, over the next 30 years. (These standards were assessed by WICS to be broadly comparable with equivalent New Zealand standards).
- **Part 2** - NZ's Three Waters sector is in a broadly similar position to Scotland in 2002, in terms of relative operating efficiency and levels of service. In just under two decades, Scottish Water lowered its unit costs by 45% and closed the levels of service gap on the best-performing water companies in the UK. WICS considers that New Zealand can achieve similar outcomes to Scottish Water over a longer period (30 years).
- **Part 3** - The WICS analysis showed that aggregation scenarios ranging from one to four entities provide the greatest opportunity for scale efficiencies and related benefits in terms of improved levels of service and more affordable household bills (when compared against the likely outcomes 'without reform').

4.13 An assessment of the WICS Report and its implications for the Council are outlined later in this report.

Government Reform Package

4.14 In June 2021, concurrent with releasing the WICS Report, DIA presented the proposed reform proposal. The proposal comprises the following core components:

a) establish four statutory, publicly owned water services entities to provide safe, reliable and efficient water services;

b) enable the water services entities to own and operate three waters infrastructure on behalf of local authorities, including transferring ownership of three waters assets and access to cost-effective borrowing from capital markets to make the required investments;

c) establish independent, competency-based boards to govern each water services entity;

d) introduce mechanisms that protect and promote the rights and interests of iwi/Māori in the new three waters service delivery system;

e) introduce a series of safeguards against future privatisation of the water services entities;

f) set a clear national policy direction for the three waters sector, including expectations relating to the contribution by water services entities to any new spatial / resource management planning processes;

g) establish an economic regulation regime, to ensure efficient service delivery and to drive the achievement of efficiency gains and consumer protection mechanisms; and

h) develop an industry transformation strategy to support and enable the wider three waters industry to gear up for the new water services delivery system.

4.15 The governance structure for the four new Water Service Entities (WSEs) and how the WSEs relate to other entities is included in **Diagram 1, Attachment 1.**

4.16 Most of the Tasman District Council has been included in Water Service Entity 'C'. **Diagram 2, Attachment 1** details the boundaries of the four Water Services Entities across New Zealand. Most of Tasman District is included in WSE C along with the Top of the South councils, the Wellington councils, Kapiti Coast councils, Manawatu councils and all councils on the east coast of North Island from the Wairarapa up to and including Gisborne District Council.

4.17 You will note from Diagram 2, that WSE 'D' takes the southern portion of the Tasman District, primarily the portion within the Ngai Tahu Takiwa. This comprises St Arnaud and Murchison. Marlborough District has had a similar portion included in the Ngai Tahu Takiwa.

4.18 This is a point of discussion for the Council. The Tasman District residents within the Ngai Tahu Takiwa and particularly those in St Arnaud and Murchison who receive water and wastewater services from the Council, are more likely to have a community interest with Tasman and Nelson than with other parts of the South Island.

4.19 The Mayors of Nelson, Tasman and Marlborough met with iwi chairs prior to decisions being made to invite their input on the options of being aligned to a South Island Entity or North. Feedback showed a preference to be aligned to the South Island and iwi advised that they would progress this discussion with the Minister

4.20 The Mayors and Chief Executives of the three Te Tau Ihu Councils (Tasman, Nelson and Marlborough) met informally with the Local Government Minister in Blenheim on Wednesday 14th July. The Minister had met with iwi the day before. Minister Mahuta stated that the government's preference was that Te Tau Ihu not be included in the entity covering the Ngai Tahu Takiwa. The Tasman and Marlborough District Councils expressed their desire that for whichever entity they were allocated, the whole territorial authority should be included and not split as proposed by the government.

4.21 In providing feedback to government by the end of September, further clarification with Te Tau Ihu iwi regarding their views will be important.

Financial Support Package

4.22 On 15 July 2021, at the LGNZ Conference, the Government announced a financial support package of $2.5 billion to support the local government sector through the transition to the new water services delivery system and to position the sector for the future. There are two broad components to this support package:

- $2 billion of funding to invest in the future of local government and community well-being, while also meeting priorities for government investment (the **"better off"** component) and;
- $500 million to ensure that no local authority is financially worse off as a direct result of the reform (the **"no worse off"** component).

4.23 The **"better off"** component of the support package, which comprises $1 billion Crown funding and $1 billion from the new water services entities, is allocated to territorial authorities based on a nationally consistent formula that takes into account population, relative deprivation and land area. This formula recognises the relative needs of local communities, the unique challenges facing local authorities in meeting those needs and differences across the country in the ability to pay for those needs.

4.24 An indicative amount of **$22,542,967** has been allocated from this **"better off"** funding should Council continue to be involved in the three waters reform programme. There are criteria on when and how this funding will be released.

4.25 Councils will be required to demonstrate that the use of this funding supports the three waters service delivery reform objectives and other local wellbeing outcomes and aligns with the priorities of central and local government, through meeting some or all of the following criteria:

- supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards; and
- delivery of infrastructure and/or services that:
  - enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available; and
  - support local place-making and improvements in community well-being.

4.26 The **"no worse off"** component of the support package is intended to address the costs and financial impacts on territorial authorities directly because of the three waters reform programme and associated transfer of assets, liabilities and revenues to new water services entities. It includes an allocation of up to $250 million to support councils to meet unavoidable costs of stranded overheads, based on:

- One hundred and fifty million dollars ($150 million) allocated to councils (excluding Auckland, Christchurch and councils involved in Wellington Water) based on a per capita rate that is adjusted recognising that smaller councils face disproportionately greater potential stranded costs than larger councils;
- Up to $50 million allocated to the Auckland, Christchurch and Wellington Water councils excluded above based on a detailed assessment of two years of reasonable and unavoidable stranded costs directly resulting from the Water Transfer, as the nationally-consistent formula is likely to overstate the stranded costs for these councils due to their significantly greater scale and population. Stranded costs should be lower with respect to Watercare and Wellington Water as these Council Controlled Organisations have already undertaken a transfer of water services responsibilities, albeit to varying degrees; and
- Up to $50 million able to be allocated to councils that have demonstrable, unavoidable and materially greater stranded costs than provided for by the per capita rate (the process for determining this will be developed by the Department of Internal Affairs working closely with Local Government New Zealand).

4.27 The remainder of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities. This will require a due diligence process that will need to be worked through in the coming months.

4.28 In addition to the support package, the Government expects to meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the establishment entities and transition unit and provision for reasonable legal, accounting and audit costs. There is an allocation for these costs within the $296 million tagged contingency announced as part of the 2021 Budget package for transition and implementation activities. This allocation is additional to the $2.5 billion support package.

4.29 DIA is continuing to work with LGNZ and Taituarā (previously Society of Local Government Managers), including through the joint Steering Committee process, to develop the process for accessing the various components of the support package outlined above, including conditions that would be attached to any funding. More information and guidance will be made available in the coming months.

Implications for Council Staff and Contractors

4.30 While no decisions have been taken on whether to proceed with the reforms as proposed, Council staff/contractors that work in the three waters need certainty under the reforms. DIA and LGNZ have been working together to develop principles to provide early certainty for existing Council-employed staff regarding their ongoing role.

4.31 DIA and LGNZ consider that the water service delivery reforms (if it proceeds) will provide real opportunities to workers, both through increased career opportunities and in removing any systemic issues that have been constraining their ability to deliver water services at a level that is in the best interest of their communities.

4.32 A major focus of both central and local government is on ensuring that reform does not result in a loss of current staff, but in fact creates a platform to attract, develop and retain talent and enhance local expertise.

4.33 DIA has confirmed that any member of staff who works primarily within the three waters will be guaranteed a role in the new WSEs whilst retaining key features of their current role, salary, location, leave and hours/days of work. A more bespoke approach is required for senior executives, other staff and contractors. DIA will work with councils, staff, and unions further on this through the transition.

4.34 DIA has stated that it wants to provide as much certainty as possible, noting there is still more work to do. These workers should be assured that their wellbeing is a critical objective for both central and local government.

Opportunity for Council Consideration and Feedback

4.35 When announcing the second tranche of funding, the Government indicated that councils would have an opportunity to review the large amount of information, so that each council could provide feedback by 1 October 2021.

4.36 The purpose of this ‘engagement’ period to 1 October 2021 is to provide time for all local authorities to:

- engage with and understand the large amount of information that has been released on the nature of the challenges facing the sector, the case for change, and the proposed package of reforms, including the recently announced support package;
- take advantage of the range of engagement opportunities to fully understand the proposal and how it affects its local authority and its community; and
- identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened.

4.37 The Council is not expected to make any formal decisions regarding the reform through this engagement period. This is an opportunity for the sector to engage with – and provide feedback on – local impacts and possible variations to the proposed reform package outlined by the Government.

4.38 Following the engagement period, the Government will consider the feedback and suggestions provided by local authorities, in partnership with the joint steering committee. It will also consider the next steps, including the transition and implementation pathway and revised timing for decision-making, which could accommodate the time required for any community or public consultation.

4.39 LGNZ has confirmed that the Government will not be taking further decisions until after this engagement period.

4.40 The Government signalled earlier this year that council's 'opt-in' or 'opt-out' decision on the reforms would need to be made around November/December 2021. We understand this is still the intention. That being the case, unless there is a change to this timeline it is unlikely that councils will have the opportunity to consult with its communities. This is something that has been raised with the Government as a key issue.

4.41 In the coming months Council will need to reach a conclusion on 'opting in' or 'opting out', unless the government decides an all-in approach is to be applied.

4.42 Opting in would result in the transfer of all drinking water, wastewater and stormwater assets including all field operations from the Council to the new Water Service Entity 'C'. Indications are that any debt or financial reserves associated with the three waters will also be transferred. The details around how these are assessed and transferred is still to be determined.

4.43 Opting out will result in status quo; that is Council retaining all the three water activities it has now. However, in opting-out Council will be subject to;

a) Taumati Arowai (Water Regulator);

b) The Water Services Act once enacted;

c) Economic Regulator – although this role has not been established yet, indications are that it will be established to manage charging regimes and investment requirements for all Water Supply Authorities whether WSEs or Councils.

d) Increased costs associated with meeting these statutory requirements.

Waimea Community Dam

4.44 While the transition to the new WSE 'C' is still subject to decisions, early indications remain that the Council's interest in the Waimea Community Dam and the associated debt will transfer to the new WSE 'C'.

4.45 DIA are engaging constructively with Council staff to understand the cost allocation, debt model and undertake further due diligence. At this stage DIA has advised that there would be no anticipated scenario where Tasman District Council retain part ownership of the Dam i.e. Tasman District Council, the new WSE and Waimea Irrigators Ltd in a tripartite partnership.

4.46 It is envisaged that the Council's shareholding of the Dam would lift and shift into the new WSE and that Waimea Irrigators Ltd would retain their current shareholding and rights under the project agreements.

4.47 DIA will be undertaking due diligence before finalising any decisions with Ministers.

5 Water Industry Commission of Scotland (WICS) Assessment and Modelling

DIA/WICS Model Assumptions

5.1 The June 2021 report released by DIA has been transparent about the modelling and analysis carried out by WICS. In common with all models, the models used by DIA/WICS have several built-in assumptions that, when taken together, have produced the results. As already stated in section 4.12 above, potentially there are very large future costs being presented as a result of these assumptions and modelling.

5.2 The assumptions are made on a New Zealand wide basis and may not necessarily be valid for the Tasman District specifically. The major assumptions in the WICS/DIA Model are:

a) Use of UK Econometric models developed in 2003-04;

b) Use of same service level standards as the UK (i.e. European water and discharge standards);

c) Growth investment was modelled on 95% population coverage of public water supplies (NZ is currently 80%);

d) A cap of $70,000 debt per connected citizen was included in the model based on observed levels of spending in Scotland on rural areas;

e) 30-40% efficiency gain for large multi-regional entities with 800,000+ population;

f) No efficiency gains for local authorities with population 60,000 or less;

g) Better debt raising ability for large multi-regional entities with lower interest rates;

h) Capped debt raising for local authorities are 2.5 times revenue.

5.3 Running the models for 30 years with these assumptions embedded, has resulted in the very large numbers presented. This is exacerbated with the growth model assuming 15% more coverage by water supply systems in a sparsely populated country i.e. increasing the current 80% to 95% coverage of public water supplies.

5.4 Independent reviews of the DIA/WICS modelling were undertaken by Farrierswier and Beca. These reviews were generally supportive of the model scope and direction however they did raise a range of issues with the model application. Whilst technical in nature, these issues could have large impacts on the currently published model results – particularly in provincial and rural areas of the South Island.

WICS Dashboard for Tasman District Council

5.5 WICS has developed and presented a dashboard for Tasman District. This outlines the outcomes of the assessment and analysis and the direct impact on the Council. The dashboard is shown in Figure 2 (clause 6.17) below and is summarised as follows:

- Economic

  GDP Growth

  - low scenario 5.7%
  - high scenario 9.1%
  - Under the Low Scenario, the reforms are forecast to grow Tasman's GDP by 5.7% over 30 years as a proportion of Tasman's current GDP. This increases to 9.1% under the High Scenario. This compares to 4.4% across New Zealand under the Low Scenario and 7.1% under the High Scenario

Employment Growth

- low scenario 0.2%
- high scenario 0.3%
- Under the Low Scenario, job growth in Tasman is forecast at 0.22% of the current workforce each year as a result of the reforms (versus 0.26% for New Zealand). Under the High Scenario this increases to 0.34% for Tasman versus 0.41% for New Zealand.

- Operations
  - Three Waters FTEs = 86 (assessment of staffing requirements by July 2024 should Council opt out. This is an additional 29 FTEs or a 50% increase on current FTE levels. This includes all staff involved in the delivery of the three water activities. Currently the staffing levels are around 23 internal FTEs and 34 external FTEs = circa 57 FTEs as at June 2021).
  - Distribution Zones = 4 (reporting on determinand failures: determinands are measured characteristics or properties of water that adversely affect taste, odour, colour, chemical composition, turbidity or general appearance).
- Financial
  - 2021 Average cost/household = $2,290 per year (based on RFI Data)
  - 2051 Average cost/household = $6,760 per year (no reform)
  - 2051 Average cost/household = $1,260 per year (with reform)
- Number of billed properties
  - Water = 13,925
  - Wastewater = 14,526
  - Stormwater = 15,450
- Population affected by water restrictions = 85%
- Population change (summer vs winter) = 87%
- Properties affected by unplanned interruptions = 5,000
- Total unplanned interruptions = 221
- Performance = 3 (1 = Leading, 2 = Exceeding expectations, 3 = performing in line with expectations and 4 performing below expectations)

5.6 WICS presented the figures in this dashboard after applying the assumptions listed above.

6 Review of WICS Data – Morrison Low Report (Attachment B)

Introduction

6.1 DIA has funded expertise to work through LGNZ to help councils interpret the WICS calculations and how these relate to each council. Morrison Low (ML) undertook this review for Tasman District Council. Most of the commentary in the Morrison Low Report is included in this report, however a copy of the Morrison Low Report is in **Attachment 2**.

6.2 The ML Report is based on its review of public WICS reports and individual council models provided by WICS. In some cases, the approach or assumptions used by WICS are unclear; the ML Report focuses solely on the information ML was able to access and interpret.

6.3 It is also important to highlight that there is no connection between the WICS analysis and the Government's wider support package including calculation or allocation of the 'no-worse off' and 'better off' parts of the package.

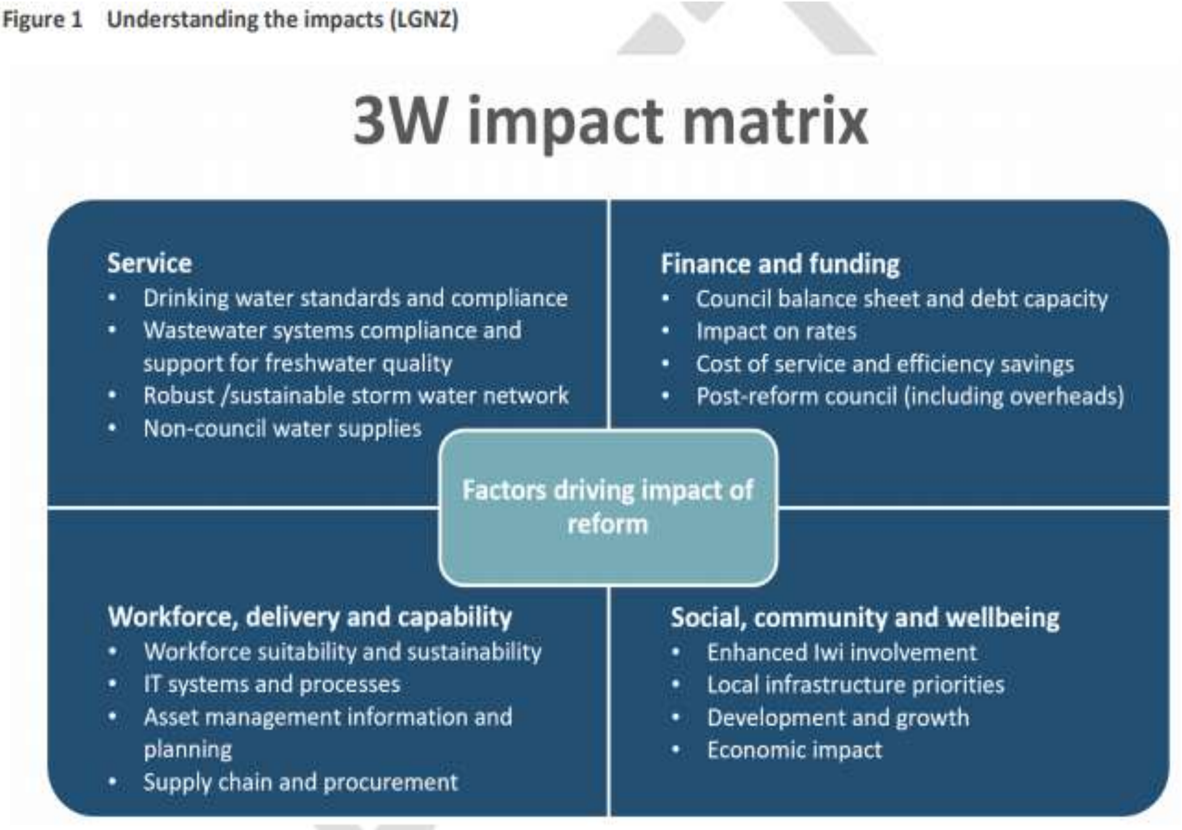
6.4 The data in the dashboard is a combination of calculated information (household charges) and data straight from the Council's RFI.

Three Waters Reform

6.5 While the ML Report concentrates on the financial analysis recently provided in the Council dashboards, it is important to highlight that this is only one part of the wider suite of information that councils need to consider when looking at the proposed reforms. The impacts, benefits, issues and risks of reform are far wider ranging than just the financial impacts.

6.6 LGNZ has developed a matrix shown in Figure 1 below which highlights the broad considerations each council should be considering and in ML's view this represents a good starting point. This helps ensure that benefits, issues and risks around levels of service, capability and capacity, prioritisation of investment and impacts on communities and councils are also considered alongside the financial.

Figure 1 Understanding the impacts (LGNZ)



6.7 ML also note that because of the three waters work that they have undertaken across New Zealand over the last 18 months, it is likely that the future household costs for three waters will increase significantly for all councils because of meeting increased standards, regulations and satisfying a more rigorous compliance regime. ML's view is that the future costs may not be as high as modelled by WICS but the direction is the same.

WICS Analysis

Scenarios

6.8 Broadly, WICS compares two scenarios:

- Aggregation of three waters services into four water services entities and the associated reforms to the regulatory, governance, management, resourcing, and policy direction that support improvements ('the whole reform package');
- No aggregation of three waters services and although in this scenario some reform takes place, for example, decisions already made to introduce a drinking water regulatory system and environmental standards, the wider reforms are not as extensive as in the former scenario.

Assumptions

6.9 The assumptions WICS have used to quantify the inputs are determined through benchmarking against the UK experience. Whilst there has been some adjustment based on council feedback the potential investment requirements and ability to deliver the same efficiency gains, both key drivers of the analysis, may not be comparable in the New Zealand context.

6.10 The key assumptions that drive household costs are:

- Investment – this is the single biggest driver of household cost in the WICS model. Due to the way it is calculated at a national level and allocated at entity level and council level, it is difficult to understand the impacts it makes on the difference on the household charges under the two scenarios. Any change at the national investment figure will have a material impact on household charges in both scenarios.
- Debt/Revenue – the difference between the treatment of debt in the councils and the entities means that it is likely to overstate the size of the difference in charges between council and the water service entity.

6.11 The impact of these is so significant that all other assumptions have minimal impact on household costs.

6.12 The WICS analysis has been completed using a different approach, and different assumptions to those ML used in an earlier business case undertaken for the three waters reform in New Zealand. ML note that despite the differences in its analysis and the WICS analysis they are directionally consistent. That is, in both cases it is anticipated that there are significant three water investment requirements to meet the new standards and this will lead to substantial increases in the cost of services.

6.13 A key risk is that the investment level in three waters could be greater than forecast. The WICS forecast investment articulates this risk. ML's earlier business case also identified that an aggregated three waters entity was the option that best protected all ratepayers from the costs of meeting that risk.

Timeframes

6.14 WICS have undertaken the analysis over the 30-year time horizon. Responses to the RFI across the country were not consistent, where councils did not provide 30-year information, ongoing investment in growth infrastructure is assumed at the level of the final year in the data set. Undertaking future economic analysis based on a 30-year forecast is notoriously difficult especially in the context of the quality of the existing asset data. Additionally, this assumes capital expenditure follows a linear trend however we know that investment in three waters infrastructure tends to vary.

Impacts on Household Bills

6.15 WICS have used an average household charge as the key piece of information for councils and communities.

6.16 The Tasman District dashboards provided by DIA present three different average household costs, represented as A, B and C in Figure 2 below:

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges.
- **B** – represents the projected future household charge in 2051 without reform.
- **C** – represents the projected future household charge in 2051 under the proposed Entity for your council, Entity C, with water reform.

6.17 These numbers are expressed in real terms, they are uninflated and expressed in today's dollars. The approach used by WICS to determine these values is outlined below.

Figure 2 DIA Dashboard

A = $2,290 per household per year (2021)

6.18 To estimate current household charges for each council, WICS have:

- Taken the starting total three waters revenue collected by the council (including development contributions but excluding grants and subsidies);
- Multiplied that figure by 70% - which is their assumed percentage of revenue derived from households. We have noted that the 70% does generally align with the majority of councils, however some councils' revenue from households is higher and some lower;
- Divided that figure by the estimated number of household connections, which in turn is derived from:

- The average of the connected drinking water and wastewater populations. The model does not use actual household connection as identified in the RFI or use stormwater connections.
- Divided by a standard "household density" multiplier of 2.7.

B = $6,760 per household per year (2051 – no reform)

6.19 The process used by WICS to estimate future household charges is the same as outlined above, using estimated future revenue requirements and estimated future household connections (which allows for growth in connections).

6.20 To determine the future household charge WICS have:

- Calculated the future required investment in growth, level of service enhancement and renewal of assets.
  - Growth investment is assumed to be the same as disclosed in each council's RFI, with the same annual average expenditure applied across the full 30-year period if a council only disclosed 10 years of projected investment.
  - Renewal investment is assumed to be 100% of the economic depreciation of assets. WICS have undertaken their own calculation of economic depreciation based on assumed asset values and lives.
  - Level of service enhancement investment has been calculated using a standard approach across the country that has regard to population, land area and density. It does not reflect each council's actual investment set out in the RFIs.
- WICS have recalculated depreciation, this has increased council figures.
- Determined the impact of new investment on operating expenditure. WICS has assumed that for every $100 of capital investment there is $3 of additional operating costs. WICS have also included additional depreciation and financing costs for new assets.
- Determined the amount of new borrowings required to finance their modelled investment profile.
- Determined the amount of revenue that needs to be collected to ensure that councils can maintain a three waters debt to three waters revenue ratio of less than 250% over the modelling period. This is the revenue number that is divided by WICS' estimated future household connections to reach the household charges at B above.
- This revenue number typically results in operating surpluses being generated which are applied toward debt reduction.

C = $1260 per household per year (2051 with reform)

6.21 WICS have undertaken the same modelling to estimate the future household charges for ratepayers of a council area if water reform entities were formed. The result reported in each council's dashboard (C) matches the projected future household charges for all councils in Entity C (of which Tasman District Council is a part) in 2051.

6.22 ML has not reviewed (and have not been provided with) financial or economic models for any of the proposed water services entities, however ML anticipates that the approach used to project future household charges for water services entities is closely aligned to that used to project future household charges for individual councils. The differences are likely to be in the assumptions applied, in particular:

- Entities have been modelled with no limit on the debt to revenue ratios (or no discernible limit). This means that WICS reports show the projected debt level for WSE C is allowed to nearly reach 800% of revenue by 2051. This accounts for a substantial part of the difference between the projected three waters rate for each council and Entity C in 2051.
- Entities have been assumed to be able to generate efficiencies amounting to 45% by 2051. By way of contrast, Tasman District Council has not been provided any allowance for potential operating of capital efficiencies. This accounts for most of the remaining difference between the projected three waters rates.
- Finally, the entity will benefit from the scale of aggregation. That is, the total revenue needs will be spread over a larger population base. The extent to which this scale benefit applies to a particular council will vary depending population and land area.
- It is unclear whether the total investment requirements for WSE C, including depreciation and renewals investment, have been derived by adding the constituent parts of each council, or by undertaking new calculations using the population, land area and density of the new water services entity. Each approach is likely to have different results.

Comparison of Key Data from WICS

6.23 The following section compares data from the WICS model to that within Tasman District Council's RFI.

6.24 The comparison highlights that WICS has modelled level of service and growth investment that is over three times larger than the investment requirements identified by the Council in its completed RFI. For the Council, this is the most significant driver of the household charge calculations produced by WICS. The assumption of staying below a three waters debt/revenue ratio of 250% also drives a significantly higher three waters household charge than if debt/revenue was viewed at the total Council level.

Household Cost per annum					
Item	**WICS Council**		**WICS Entity**		**Comments on Assumptions**
	2031	**2051**	**2031**	**2051**	
Household Charge (uninflated)	$6,253	$6,760	$1,255	$1,255	WSE Option shows significantly lower charge per household

Investment				
Item	**WICS Council**		**RFI (2031)**	**Comments on Assumptions**
	2031	**2051**		
Total Investment Requirement	$856,203,496	$3,042,030,900	$263,063,000	WICS model projects significantly higher investment need
Levels of Service Enhancement & Growth	$657,528,347	$1,972,585,042	$198,127,000	WICS model projects significantly higher LOS enhancements and Growth needs
Total Renewals/Capital	$198,675,149	$1,069,445,857	$64,936,000	WICS show significantly higher level of Renewal requirements

Valuations and Depreciation			
Item	**WICS Council**	**RFI (2031)**	**Comments on Assumptions**
Asset value	$821,677,769	$681,440,000 (low) $885,870,000 (high)	Higher asset values become more relevant over time
Depreciation	$11,188,141	$8,929,500	*Depreciation is 44% higher under the WICS model at start and becomes more material as investment in assets increase *Implied depreciation rate WICS = 1.35% increasing ot 1.74% over tiem. RFI 1.14% *Includes 50% depreciation charge for NRSBU 50% owned by Council

Revenue					
Item	**WICS Council**			**WICS Entity**	**Comments on Assumptions**
	2021	**2031**	**2051**	**2031**	
Total Debt	$120,000,000	$423,891,509	$1,253,173,058	$148,177,000	WICS project debt to be significantly higher than in RFI
Total Revenue	$31,000,000	$173,637,121	$504,180,096	$56,336,000	WICS projects revenue to be significantly higher than in RFI
Debt to Revenue	388%	244%	249%	263%	Charges increase to bring ratio back within the 250% under the WICS model so comparison not relevant
Operating Surplus	N/A	$64,306,586	$107,650,110	N/A	Only exists under WICS model

Item	**WICS Council**	**RFI**		**Comments on Assumptions**
Revenue from Household	70%	70%		As Tasman collects a similar percentage from household charges compared to the WICS Model assumptions
Connected Household Properties	11,606	Water	12,123	*Number of connected properties is lower in the WICS model, the chrages are likely to be slightly lower than reported by WICS
		Wastewater	13,303	
		Stormwater	14,124	*Not as material as other assumptions
Development Contribution	WICS assumes that DCs when combined with revenue from commercial& industrial users account for less than 30% of total three waters revenue	DCs in 2031 equate to 11% of total three waters revenue		WICS effectively incorporates DCS within its modelling. The assumption is not material

7 WICS Commentary – Morrison Low Report

Investment Projections

7.1 Investment is the single biggest driver of cost in the WICS model. WICS estimates the potential investment requirement over the next 30 years for each council. This is considered for:

(a) Renewals (Replacement and Refurbishment);

(b) Levels of Service (Enhancement);

(c) Growth investment.

7.2 These three values are combined to determine a total investment programme for each council.

7.3 The following sections outline the WICS assumptions, then provides commentary and potential impact of those assumptions.

(a) Renewals (Replacement and Refurbishment)

7.4 In their various reports, WICS noted that based on a review of completed RFI's and comparison to their international benchmarks:

- Asset values reported by New Zealand councils were typically low.
- Useful lives appeared to be optimistic.
- The split of asset value between short lived (less than 30 years) and long lived (estimated lives of around 100 years) was more heavily weighted toward long lived assets.
- Using the low range for asset values and the high range for asset lives (i.e. the two extremes) disclosed in RFI would increase the risk that there is insufficient resources available for asset replacement.

7.5 Based on their observations WICS therefore recalculated the depreciation for each council's asset base, assuming:

- Ninety percent (90%) of existing assets are long life assets with an estimated life of 100 years.
- Ten percent (10%) of existing assets are short life assets with an estimated useful life of 30 years.
- Long life assets were assumed to have a valuation at the mid-point of the low and high end valuations disclosed in RFIs.
- Short life assets were assumed to have a valuation at the upper range of the valuations disclosed in RFIs.
- New investment is assumed to comprise 60% short life assets and 40% long life assets to enable the long/short life split of assets to eventually reach the international benchmark of 30% short life and 70% long life assets.

7.6 WICS has then modelled investment in renewals at 100% of depreciation throughout the modelling period. There has been no adjustment to planned renewals investment to reflect that some investment in level of service enhancement or growth is likely to also have a renewals component.

7.7 The modelled renewals investment is likely to differ substantially to renewals programmes that have been calculated by each council.

7.8 WICS have modelled an effective starting average depreciation rate of 1.35% of the revised asset value. This depreciation rate increases over the modelling period to eventually reach 1.75%. These depreciation rates translate to an average useful life for three waters assets of 81 and 59 years, respectively.

Comments on Renewals Underlying Assumptions

7.9 ML notes that WICS calculation of renewals expenditure and depreciation does not consider:

- The relative age profile of each council's network and each council's stage in the asset lifecycle.
- The amount of investment in level of service enhancing infrastructure or growth infrastructure which may also have a renewals component.
- The actual split of long life and short life assets within each council and the specific circumstances that give rise to that split (e.g. water networks with large distribution zones and therefore a higher proportion of reticulation assets which are typically long

life, or the inclusion of stormwater assets which typically have longer lives and do not form part of the Scottish water asset base).

7.10 ML notes that the depreciation rate of 1.35% is broadly within the high end of the range observed in New Zealand already. However, the longer term depreciation rate of 1.75% is much higher than most councils in New Zealand (although this is intended by WICS).

7.11 While the rate of depreciation may be consistent with the New Zealand average, the valuation of assets is not. In ML's experience, councils typically value their assets at the low end of the valuation range provided in their completed RFIs. This means WICS has typically increased the total depreciation charge above those that are likely to be included in long term plans.

7.12 ML are aware of a number of recent examples where councils that have had recent asset valuations have experienced substantial uplifts in assets value. This may support WICS assumptions around asset valuations. Tasman District Council's valuations were completed as at 30 June 2020.

Potential Impact of Renewals Assumptions

7.13 Overstatement of the renewals requirement will result in an overstatement of debt and revenue projections for the entity.

7.14 This assumption is likely to affect the entity and council projections equally, so will likely have limited bearing on the comparative outcomes of household charges. However, it will have a significant impact on the projected household charges for councils in 2051 if reform does not occur.

(b) Levels of Service Enhancement and (c) Growth Investment

7.15 The various reports produced by WICS outline three different approaches used to determine the future required investment in level of service enhancement (and in some cases growth expenditure):

- based on relationships between historical enhancement and growth investment in the UK (same approach as Phase 1 but updated using council RFI information);
- based on relationships between historical enhancement and growth in Scotland only (i.e. using the same approach as in Phase 1 but with Scottish data only); and
- based on the observed gap in asset values per connected system between New Zealand and the UK – this approach does not account for growth.

7.16 While the approaches differ in how they arrive at their estimates, they deliver broadly consistent results in terms of the magnitude of investment that is likely to be required over the next 30+ years. It indicates that to meet quality and growth outcomes, spending will need to more than double from current levels over the next 30 years.

7.17 WICS note these figures could ultimately be even higher as they do not take account of investment uncertainty associated with the need to provide for seismic resilience, climate change, or responding to changing societal standards around environmental impacts (including iwi/Māori expectations).

7.18 It is unclear which of these approaches was used to identify the potential amount of level of service enhancement investment needed. However, ML understand that the outcome under all three approaches is broadly similar.

7.19 WICS also applied two further adjustments:

- it appears that planned investment in growth infrastructure was effectively removed from the results in favour of using council's own projections for investment in growth infrastructure. Where councils only reported forecast investment for a 10-year period this was assumed to be representative of the next 20 years as well.
- applied a cap of NZ$70,000 per head for combined investment in level of service enhancement and growth infrastructure across any council area, this limits the modelled potential exposure of most rural councils.

7.20 WICS does disclose some of the formulas that it has used to identify potential investment requirements, although without knowing the source of the variables used within the formulas, we have been unable to replicate the results. We note however that the formulas (at least at a national level) do include length of waterways and coastline, so may make some attempt at incorporating relevant environmental factors.

7.21 However, at an individual council level, the investment numbers produced by WICS are based on population, land area, and density alone and have no relationship to each council's:

- Type, quality, or number of water sources
- Receiving environment for wastewater discharges
- Current treatment approach
- Current levels of service
- Asset age
- Asset performance
- Asset condition

Comments on Underlying Assumptions for Levels of Service Enhancement and Growth Investment

7.22 Investment is the single biggest driver of cost in the WICS model. It is what drives the future borrowing requirement, which in turn determines the amount of revenue that needs to be collected. That means that if the future investment requirements in the WICS modelling are under or overstated, the future household costs are likely to be similarly impacted.

7.23 Despite this it is worth recognising that predicting future investment requirements is notoriously difficult. This is particularly true over long timeframes, such as the 30-year period that has been modelled by WICS.

7.24 While predicting investment over a 10-year period is more certain, even this is challenging, as demonstrated by the long-term plans of almost every council in New Zealand. Long term plans often have significant uplifts in their ten-year capital works programmes despite being only 3-year cycles.

7.25 ML has not attempted to make an alternative assessment of 30-year investment requirements and therefore have no view on whether the projected investment by WICS is appropriate. However, as it appears that a different approach may have been used to determine investment at a national scale than that used at a council level, even if the national, or regional investment projections are correct, the distribution of where that investment falls in relation to each council may not be correct.

Potential Impact of Levels of Service Enhancements and Growth Investment Assumptions

7.26 WICS have used the derived future investment numbers in the stand-alone financial analysis provided to councils as well as in the analysis completed for each water services entity. The higher numbers have a flow on effect to several assumptions, most importantly, the future revenue required by councils. This is then reflected in the calculated household charge.

7.27 ML also note that for the purposes of their modelling WICS have assumed that this investment is evenly spread across the modelling period, however it is likely that this will be weighted further toward future years in practice. This results in a sharp increase in projected future household charges.

7.28 If the future investment requirements are understated or overstated, there is likely to be a consistent impact on both the council and entity household charge projections. While this assumption may change the scale of the difference in projections it is unlikely to change the overall outcome of their analysis.

Revenue

7.29 Projected revenue is ultimately the main input into the WICS model that is used to determine household charges. The way in which future revenue is projected is therefore critical.

Three Water Debt to Revenue Ratio

7.30 The total three waters revenue that is needed to be collected by councils in the WICS model has been determined by reference to each council's total borrowing.

7.31 <u>Revenue projections have been calculated by identifying the amount of revenue needed to ensure that each council maintains a three waters debt to revenue ratio below 250%</u> over the entire modelling period. Revenue increases are front-loaded in the WICS model, with revenue increases typically stabilising to match inflation over time (or at least reducing).

7.32 <u>The WICS modelling results in forecast future revenue requirements which typically result in the council generating a significant operating surplus for its three waters activity.</u> This surplus is applied toward debt management/repayment.

7.33 Water services entities appear to not have been subject to this restriction with WSE 'C's debt to revenue ratio reaching almost 800% by 2051. We understand that the Government has received advice to suggest that a debt to revenue ratio of this magnitude would not adversely impact on water services entities' credit ratings.

Comments on Underlying Assumptions for Revenue

7.34 ML notes that councils are not typically financed on an activity basis. That is, councils are not required to maintain a three waters debt to three waters revenue ratio of 250%, and in fact several councils already exceed this ratio when looking only at three waters debt to revenue.

7.35 Three waters typically make up between 20–30% of a council's total revenue, with most other activities typically requiring only low levels of debt. While three waters charges may increase at a much higher rate than other areas of council's business, ML would still anticipate that a three waters debt to revenue ratio of around 500% would be within most council's future borrowing capability.

Potential Impact of Revenue Assumptions

7.36 The revenue numbers directly translate into household charges for councils and the water services entities.

7.37 As councils are likely to be able to borrow more than 250% of their three waters revenue, the projected household charges are likely overstated.

7.38 Because no such cap has been applied to the water services entities, and we understand that there is official advice to support water services entities maintaining large debt to revenue ratios, this assumption has limited bearing on the projected household charges for the water services entity itself.

7.39 When viewed together, the application of this assumption by WICS is likely to overstate the size of the difference in charges between council and the water services entity.

Revenue from Households

7.40 WICS has used the split of revenue between households and non-households of 70% as observed in the UK. This has been applied to the total revenue figure above.

7.41 The 70% figure represents the total amount of three waters revenue derived from household water charges and effectively does not include any revenue from development contributions, grants and subsidies, or commercial and industrial water use (or indeed irrigation/stock water schemes).

Comments on the underlying Assumptions on Revenue from Households

7.42 In ML's view the assumption that 70% of revenue comes from household water charges appears to be fair at a national or water services entity level. However, this assumption is less likely to be applicable at an individual council level, noting that:

- Councils that have high levels of urban growth may receive a substantial portion of water revenue from development contributions, and in some cases, this may account for the entire remaining 30% (or more) on its own.
- Highly rural councils may receive a large proportion of their three waters revenue from irrigation or stock water schemes, meaning much less than 70% of total three waters revenue is derived from households.
- Some territorial authorities receive large amounts of three waters revenue from large water users. This is particularly true in rural and provincial councils, which often have high water users in the agricultural and horticultural industries.

7.43 It should be noted that for the Tasman District the household revenue comprises around 59% of the total revenue.

Potential Impact of Revenue from Household Assumptions

7.44 This assumption may impact on the size of the difference between the projected household charges under the council and entity scenarios because it is likely to be more accurate at an entity level than it may be for individual councils.

7.45 Councils that receive a lower proportion of their three waters revenue from households than is assumed in the WICS analysis, will have higher projected household charges under the WICS analysis than they may otherwise have.

7.46 WICS analysis is also presented at a three waters level, which means it is difficult to see the impact for customers which may only receive one or two of the services provided. This is likely to be particularly relevant for councils with large rural areas.

Household Connections

7.47 WICS have determined the number of household connections in their modelling by:

- Averaging the connected water and wastewater populations from each council's RFI;
- Dividing the number by 2.7 (which is the average household density in New Zealand).

7.48 This value is used as the denominator in WICS' projections of average household charges. The higher this number is, the lower the projected household charge is.

7.49 WICS does not appear to have used any data regarding stormwater connections/charges within its analysis.

Comments on the underlying Assumptions on Household Connections

7.50 Household density varies significantly between territorial authorities within New Zealand. This is particularly prevalent in the comparison of rural and urban councils. According to Statistics New Zealand, in 2018 the council with the highest occupancy rate has an average of 3.0 residents per household, compared to the least dense council having an occupancy rate of 2.1.

7.51 We understand that there are now councils that have significantly lower occupancy rates than that still (with some reporting occupancy rates of less than 2 residents per household).

Potential Impact of Assumption on Household Connections

7.52 This assumption may result in a difference between the projected council and entity values (i.e. it will affect the entity and council differently) because the household density number varies significantly between council areas, but is likely to be more accurate at an entity level.

7.53 For councils with low household density, it is likely that the application of this assumption will have resulted in the WICS analysis overstating the potential household charges in 2051 for individual councils. The projected household charges for the water services entity are less likely to be affected by the application of this assumption.

Capital and Operating Efficiencies

7.54 WICS looks separately at capital and operating efficiency expenditure. In both cases, WICS undertook econometric modelling (using the reworked Ofwat -Water Service Regulation Authority UK, 2004 and 2009 models) of the potential for operating efficiency from each council using tools and techniques applied and fitted to UK water entities and tested this against New Zealand.

Efficiencies

7.55 WICS have applied efficiencies adjustments in some cases for individual councils. These efficiencies have been based on council size. The observed experience from the UK demonstrates that only entities of a scale of more than 60,000 connected citizens could be expected to achieve any reductions in operating costs, even if they were subjected to robust governance and regulatory frameworks.

7.56 In the models provided, the scale efficiencies increase on a diminishing (logarithmic) basis above the minimum size threshold. This means there is no inclusion for efficiency improvement for councils with less than 60,000 population served. For councils above this threshold, efficiency gains are achievable (albeit at a diminishing rate) up to a maximum of 800,000 population served, after which no further returns to scale have been included in WICS modelling.

7.57 In determining the scale of efficiencies modelled for the Water Services Entities, WICS assesses the New Zealand Three Waters sector to be in a broadly similar position as Scotland in 2002, in terms of relative operating efficiency and levels of service. In just under two decades, Scottish Water has lowered its unit costs by 45% and closed the levels of service gap on the best-performing water companies in the United Kingdom.

7.58 WICS considers that New Zealand can achieve similar outcomes to Scottish Water i.e. a reduction of up to 45% over a longer period (30 years).

Comments on the Underlying Assumptions on Efficiencies

7.59 We note that WSE 'C' is projected to have around 960,000 customers on formation. This is comparable in size (but much less densely populated) to Bristol Water and South Staffordshire Water, who were cited as achieving efficiencies of 25% and 20% respectively in the WICS reports.

Potential Impact of Assumption on Efficiencies

7.60 If modelled efficiencies from service delivery reform are overestimated or underestimated, then this will have a direct impact on the projected household charges for the water services entities. That is, overestimation of the potential operating efficiencies will result in WICS' projections of household charges for water services entities being lower than they may otherwise be if those efficiency targets are unable to be met.

7.61 I would like to add that unlike the UK and Scotland, New Zealand has been competitively procuring the delivery of three waters for over 20 years. This in itself has implemented fiscal tension and thereby achieved some efficiencies. Although I believe there is opportunity for more efficiencies to be gained, particularly in the management of the three waters, I don't believe it will be to the same extent assumed by WICS. This would also apply to most councils within New Zealand.

Sensitivity

7.62 WICS undertook detailed sensitivity analysis (Monte Carlo analysis) of their projected household charges to demonstrate whether there are any instances where household charges would be lower under continued council led service delivery versus the reform, scenario.

7.63 Across the country, this analysis shows only a very limited number of cases where household charges have any potential to be lower without reform than with it. In these cases, WICS typically notes that the levels of service received by customers without reform would be significantly lower than they would be under the reform scenario.

7.64 Importantly, while this sensitivity analysis does consider different levels of investment requirements, it does not consider the impact of the debt to revenue assumption, or assumptions regarding the percentage of revenue from households, or the number of connections.

7.65 ML has not attempted to recreate the sensitivity analysis completed by WICS but would anticipate that correction of these assumptions prior to undertaking the sensitivity analysis would result in more instances where future household charges crossover under the reform and no reform scenarios.

8 Three Waters Reform versus Fresh Water Improvement

8.1 In preparing itself to decide on the Three Waters reform, it is important that the Council is aware of what the decision is about. The three waters assets proposed to be transferred to the new Crown entity are the water and wastewater and possibly stormwater treatment facilities, lagoons, pipes (water distribution network), pumps and all associated infrastructure that ratepayers and users have invested in over many years. This is not to be confused with the Government's intentions on freshwater or water as a resource in general.

9 Tasman District Council and the Three Waters Reform

9.1 At this stage, the Council's current position on the Three Waters Reform is outlined as follows;

a) The Council has signed a MoU with Government (Department of Internal Affairs) and accepted the initial funding of $9.78 million for water, wastewater and stormwater projects;

b) These projects have been programmed and are being implemented in accordance with the agreed Delivery Plan;

c) The Council has agreed to continue to engage with the DIA in good faith on the three water reforms;

d) The Council participated in the DIA / Water Industry Commission for Scotland (WICS) Request for Information (RFI) process in January 2021;

e) The Council will be subject to Taumata Arowai regulation (replacing the Ministry of Health once the Water Services Bill is enacted);

f) The Council will be subject to provisions of the Water Services Act when it is enacted;

g) The Council still has the option to opt-out of the three waters reform. Any decision to that effect is likely to be made November/December 2021;

h) The Council will have to comply with Taumata Arowai and Water Services Act provisions during the transition period (until 1 July 2024) if joining the new entity, and indefinitely if the Council decides to opt out.

10 Strategy and Risks

10.1 The Government has maintained its messaging that Council's will have the opportunity to opt-in or opt-out.

10.2 In deciding on whether to opt-in or opt-out, council will need to consider the following risks associated with opting-out of the three waters reform:

a) The ability to meet the new service level and Taumata Arowai regulatory requirements;

b) The ability to resource infrastructure service delivery requirements – staff and external support;

c) The ability to engage effectively with iwi, within the new statutory requirements;

d) Rural water supply challenges;

e) The Economic Regulator will price set water charges; The Council may lose flexibility in this – see Lines Companies as an example;

f) The Environmental Protection Agency may introduce a range of higher environmental related service levels.

10.3 There are also risks with opting in to the reform programme. These risks may arise from centralised management and services delivery verses local management and service delivery. Often, smaller local communities do not attract the same attention as the larger towns and cities. An example is that Tasman District is constantly challenging Waka Kotahi NZTA for funding when we believe that the Council's priorities are often just as great as those in other areas who seem to attract greater funding. This is subjective and can often only be perception, however centralising services at the expense of local influence is a risk that we must be aware of.

10.4 While it may be argued that some assumptions may overstate the future costs without reform, it is evident that there is still likely to be a significant increase in costs.

10.5 It should also be noted that the Government has launched a wider review of local government. This is a wide ranging review that is being undertaken over the next 2-3 years. Although not directly related to the three waters reform, it will likelyaddress the consequences or impacts of the reform.

11 Options

11.1 At this stage the recommended option is to continue engaging with DIA. As more information is made available, Council can then make a more informed decision at a later date.

11.2 The other option is for Council not to engage any further in the reform process. The consequences being that Council could lose the opportunity of making a more informed decision at a later date. This is not a recommended option at this stage.

12 Policy / Legal Requirements / Plan

12.1 The Long Term Plan 2021/31 does refer to the pending three waters reform and that it could impact on Council's involvement in owning and delivery the three water services. The budgets are based on the three waters remaining within Council for the next 10 years.

12.2 Any legal aspects associated with the three waters are likely to be dealt with in new or amendments to existing government legislation. At this stage there are no legal requirements that need to be considered by Council.

13 Consideration of Financial and Budgetary Implications

13.1 Although the three waters reform will eventually have significant financial and budgetary implications, the government is clear in its latest announcements that council will not be financially disadvantaged with the three waters reform.

13.2 As stated previously the budgets in Council's Long Term Plan 2021-31 are based on the three waters remaining in Council ownership.

14 Significance and Engagement

14.1 The three waters activities are listed as a strategic asset in Council's Significance and Engagement Policy. Therefore, under current legislation, any decision transferring ownership of the three water activities will require statutory processes to be followed including formal public consultation with the community.

14.2 Parliament is sovereign, and this sovereignty allows it to change the law that constitutes and empowers councils. In turn, council is obliged to comply with relevant legislation while it is in force. Therefore, in progressing the three waters reform, the government could modify current legislation or enact new legislation that exempts councils from undertaking public consultation on the transfer of ownership to the new WSEs.

14.3 This report focuses on the Council continuing to engage with DIA in the reform process. We understand that the Council is not required to consult with its communities prior to providing feedback to the government before the end of September 2021. Essentially the Council is being asked to fact-check data that is very technical. It is also providing feedback which will not in itself determine the outcome of the three waters process for the Council. We understand these are not matters that would normally trigger a consultation requirement.

14.4 The reform will be implemented by legislation. The Government has indicated that this process will involve some form of public consultation.

14.5 Given the context of the imminent reform, we understand that any Council decision to 'opt in' or 'opt out', would be a significant decision both in terms of the Local Government Act (LGA) and in the Councils Significance and Engagement Policy. Such a decision would require consultation according to s77 and s78 of the LGA.

	Issue	**Level of Significance**	**Explanation of Assessment**
1.	Is there a high level of public interest, or is decision likely to be controversial?	Low	The Council is only confirming that it will continue engaging with DIA
2.	Are there impacts on the social, economic, environmental or cultural aspects of well-being of the community in the present or future?	Low	No impacts on the well-being of the community.
3.	Is there a significant impact arising from duration of the effects from the decision?	Low	The decision is only to continue engaging with DIA until it is time to decide and that will be the subject of a separate decision.
4.	Does this activity contribute or detract from one of the goals in the Tasman Climate Action Plan 2019?	No	
5.	Does the decision relate to a strategic asset? (refer Significance and Engagement Policy for list of strategic assets)	Yes	Although it relates to strategic assets it does not affect the ownership of delivery of services related to that strategic assets.
6.	Does the decision create a substantial change in the level of service provided by Council?	No	
7.	Does the proposal, activity or decision substantially affect debt, rates or Council finances in any one year or more of the LTP?	No	
8.	Does the decision involve the sale of a substantial proportion or controlling interest in a CCO or CCTO?	No	
9.	Does the proposal or decision involve entry into a private sector partnership or	No	

	Issue	Level of Significance	Explanation of Assessment
	contract to carry out the deliver on any Council group of activities?		
10	Does the proposal or decision involve Council exiting from or entering into a group of activities?	No	
11	Does the proposal require inclusion of Māori in the decision making process (consistent with s81 of the LGA)?	No	

15 Conclusion

15.1 The three waters reform programme is underway. In July 2021 councils received the outcomes of the assessments and analysis undertaken by WICS. Although there are some questions around the scale of the increased costs, it is clear that whether councils opt-in or opt-out there will be increased costs for the three water services.

15.2 The WICS assumptions have been clearly outlined in this report. The direct impacts of these assumptions on the Council will be the subject of a second report in late September so that it can provide better informed feedback to DIA.

15.3 This report is about continuing to engage with DIA to obtain as much information as possible to better inform the Council. A decision to ‘opt-in’ or ‘opt-out’ of the three waters reform programme will need to be made at a future date.

15.4 There is no need to specifically consult with the community in making the decision to keep engaging with DIA.

16 Next Steps / Timeline

16.1 The next steps are to continue to engage with DIA and gather as much information as possible on the three waters reform programme.

16.2 In the meantime, staff will assess the implications of the three waters reform in more detail and report back to the Council in late September 2021.

16.3 Once DIA has assessed the feedback, we suspect it will provide further information or decisions on how and when the Council needs to decide whether to ‘opt-in’ or ‘opt-out’.

Attachments

A new system for three waters service delivery

DIAGRAM 1

JUNE 2021

1. A CASE FOR CHANGE

This Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services, in a way that is efficient and affordable for New Zealanders. This is critical for:

- public health and wellbeing;
- environmental outcomes;
- economic growth and employment;
- housing and urban development;
- adapting to the impacts of climate change;
- mitigating the effects of natural hazards.

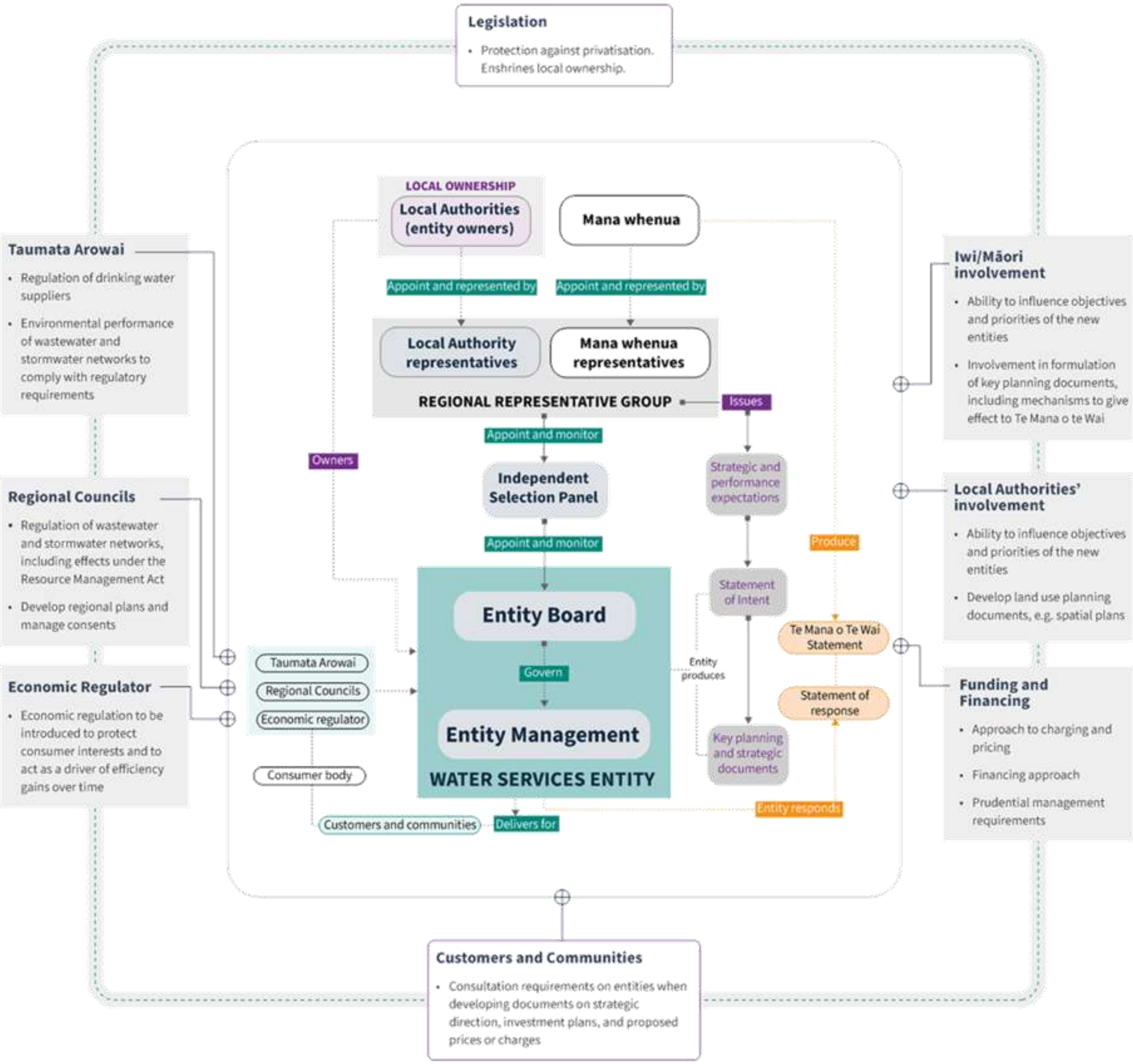
Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

Integral to this is effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable, and transparent three waters system.

2. KEY DESIGN FEATURES

- Maintaining local authority ownership of water services entities;
- Protecting against privatisation;
- Retaining influence of local authorities and mana whenua over strategic and performance expectations;
- Providing the necessary balance sheet separations from local authorities; and
- An integrated regulatory system.

3. A NEW WATER SERVICES SYSTEM



4. OBJECTIVES FOR THE CROWN/MĀORI RELATIONSHIP

Enabling greater strategic influence to exercise rangatiratanga over water services delivery.

- **A** Integration of iwi/Māori rights and interests within a wider system.
- **B** Reflection of a holistic te ao Māori perspective.
- **C** Supporting clear account and ensure roles, responsibilities, and accountability for the relationship with the Treaty partner.
- **D** Improving outcomes at a local level to enable a step change improvement in delivery of water services for iwi/Māori.

5. A PARTNERSHIP-BASED REFORM

Government will continue to work in partnership with iwi/Māori and local authorities.

A large scale communication effort is required to ensure local government support reform.

Further decisions are yet to be taken by Cabinet on the arrangement for transition to, and implementing, the new system.

A new system for three waters service delivery

The number and boundary of entities needs to balance scale with other factors

DIAGRAM 2
JUNE 2021

1. FACTORS CONSIDERED TO DETERMINE NUMBER AND BOUNDARIES

A range of factors have been analysed to help determine how many entities there should be, and their boundaries:

- **A** Potential to achieve scale benefits from a larger water service delivery entity to a broader population/customer base.
- **B** Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwā.
- **C** Relationship with relevant regulatory boundaries including to enable water to be managed from source to the sea - ki uta ki tai.

Applied economic analysis, informed by international evidence, provides further confidence that each entity would need to serve a connected population of at least 600,000 to 800,000 to achieve the desired level of scale.

The preferred approach is to create four new water services entities, and to enable all communities to benefit from reform.

2. PROPOSED BOUNDARIES

Government has agreed to a preferred set of entity boundaries. However, the Government remains interested in continuing discussion with local government and iwi/Māori most affected by the proposed boundary choices. In particular:

1 *South Island entity*

Whether there should be a single entity covering the whole of the South Island, or instead take an approach that uses the Ngāi Tahu takiwā.

2 *Taranaki region*

Which entity would include the Taranaki region, taking into account ki uta ki tai, whakapapa connections, and economic geography/community of interests.

3 *Hauraki Gulf*

Whether to include other districts surrounding the Hauraki Gulf, enabling a more integrated approach to the management of the Hauraki Gulf marine catchment.

The map highlights the recommended boundaries.

3. OUR INTENTION IS THAT ALL COMMUNITIES BENEFIT FROM REFORM

Latest estimates indicate that the amount of investment required to:

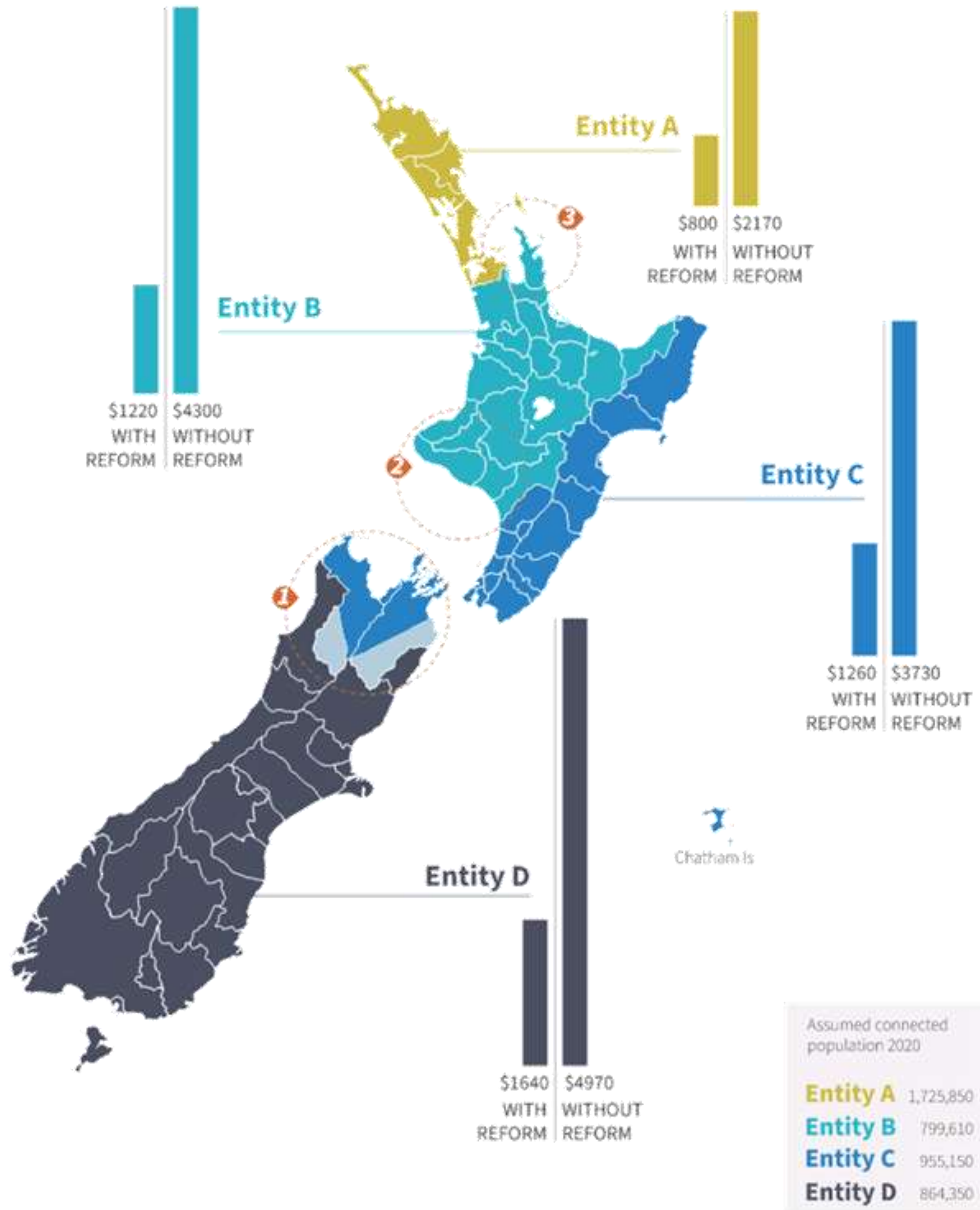
- provide for future population growth
- replace and refurbish existing infrastructure
- upgrade three waters assets to meet drinking water and environmental standards

Is in the order of

$120 billion to $185 billion

over the next 30 to 40 years.

4. PROJECTED HOUSEHOLD COSTS 2051



The figures presented above for household bills with and without reform set out what an average household would be likely to pay for three waters services in 2051, in today's dollars, based on analysis by the Water Industry Commission for Scotland.

A weighted average figure is presented for household bill estimates without reform, to account for the wide variance between council pricing policies. This weighted average figure reflects the proportion of the connected population that resides in each council area relative to neighbouring councils within the relevant water services entity.

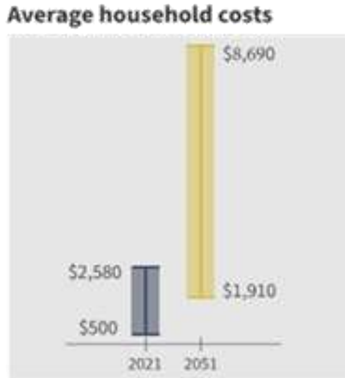
5. POTENTIAL IMPACTS

Difference in household costs

Average household costs for most councils on a standalone basis in 2051 are likely to range from between $1,910 to $8,690.

The scale of investment required between now and 2051, would require average household costs to increase by between three to 13 times in real terms for rural councils, between two and eight times for provincial councils and between 1.5 and seven times for metropolitan councils.

Average household costs



Source: Water Industry Commission for Scotland Analysis 2021

Current household costs

Currently there are a wide range of current (2019) average household costs.

	LOW	HIGH	MEDIAN	MEAN
Metro	$500	$1,920	$1,050	$1,120
Provincial	$610	$2,550	$1,120	$1,300
Rural	$210	$2,580	$1,340	$1,390

Source: Water Industry Commission for Scotland Analysis 2021

Current costs are not necessarily a good reflection of what funding is required to meet the full costs of economic depreciation (that is, to provide resources for asset maintenance and renewal).

Potential economic impact of reform

The economic impact assessment estimates the impact of a material step up in investment in connection with reform, relative to the level of investment that might be expected in the absence of reform.

Change relative to counter-factual, 2022-2051

Net change in GDP p.a. over 30 years	▲ **0.3% to 0.5%**
Present value increase in GDP	▲ **$14b to 23b**
Average increase in FTEs	▲ **5,850 to 9,260**
Increase in average wages	▲ **0.2% to 0.3%**
Present value increase in taxes	▲ **$4b to $6b**

Source: Deloitte Three Waters Reform Economic Impact Assessment 2021

We are.
LGNZ.
Te Kāhui Kaunihera ō Aotearoa.

MorrisonLow

tasman
district council
Te Kaunihera o
te tai o Aorere

Review of WICS data

Tasman District Council

July 2021

MorrisonLow

Document status

Ref	Approving Director	Date
2636	D.Bonifant	22 July 2021

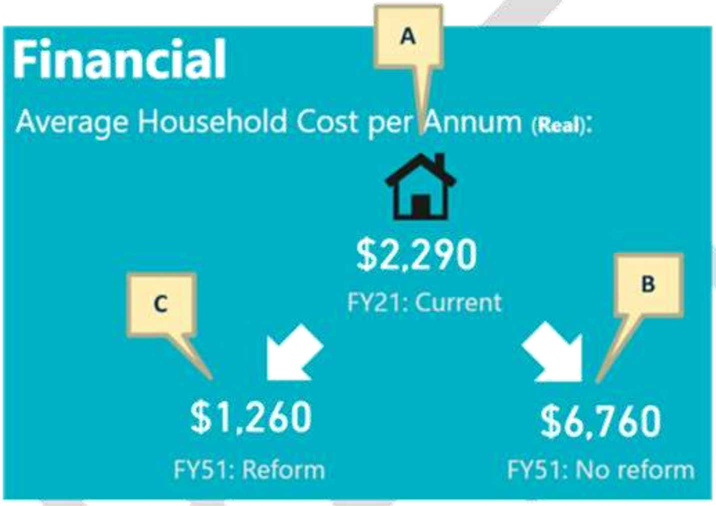
Contents

Figures

Executive Summary

This report provides commentary to provide councils support to interpret WICS calculations and how those relate to your existing council information. The key analysis of your council dashboard is of items A, B and C.

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges.
- **B** – represents the projected future household charge in 2051 without reform.
- **C** – represents the projected future household charge in 2051 for **Entity C,** with water reform.



1 Introduction

The Department of Internal Affairs (DIA) has commissioned specialist economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and inform policy advice to ministers.

In mid-2020, a first stage of evidence was commissioned on the potential economic benefits of aggregating water service delivery entities in New Zealand. This was produced for DIA by the Water Industry Commission for Scotland (WICS) using publicly accessible council information and was released in December 2020. Between October 2020 and February 2021 a nationwide Request for Information (RFI) took place across all 67 councils.

This data has been used to inform several workstreams including the second stage of economic analysis found in the WICS Phase 2 report. This latest information has now been released to councils through the 'Council dashboard' and supporting reports.

This report is based upon our review of public WICS reports and individual council models provided by WICS. In some cases, the approach or assumptions used by WICS are unclear; this report focuses solely on the information we were able to access and interpret.

It is also important to highlight that there is no connection between the WICS analysis and the government's wider support package including calculation or allocation of the 'no-worse off' and 'better off' parts of the package.

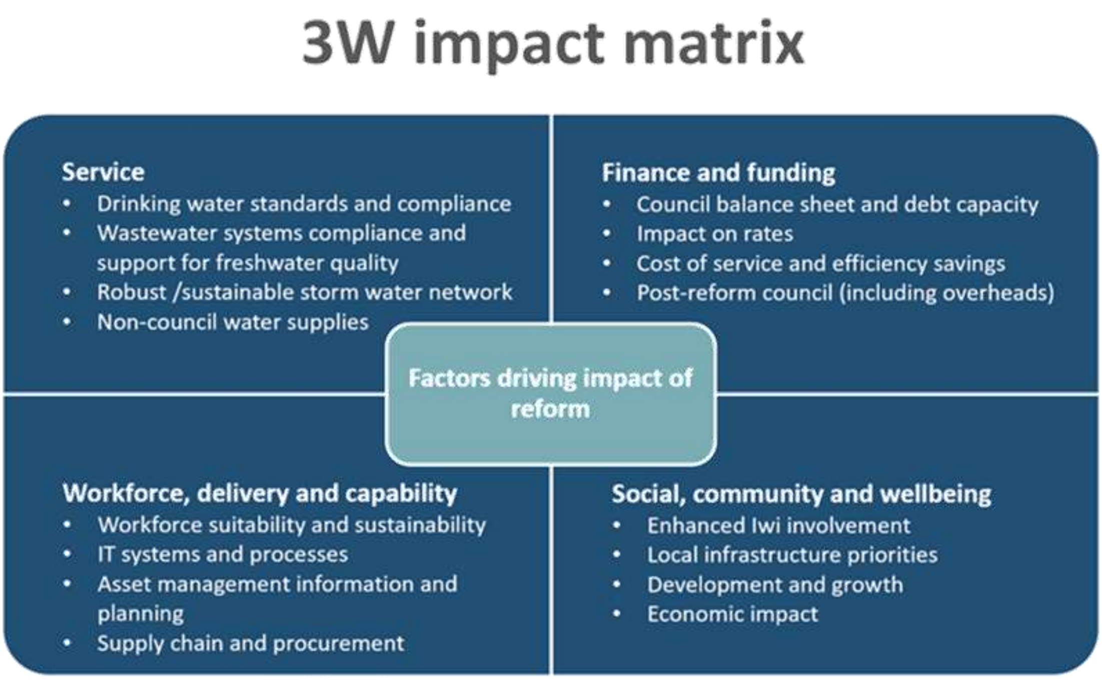
The data in the dashboard is a combination of calculated information (household charges) and data straight from the RFI e.g. FTE data in Operation all the information within "Services".

1.1 Three waters reform

While this report concentrates on the financial analysis recently provided in the Council dashboards, it is important to highlight that this is only one part of the wider suite of information that councils need to consider when looking at the proposed reforms. The impacts, benefits, issues and risks of reform are far more wide ranging than just the financial impacts.

LGNZ has developed a matrix shown in Figure 1 below which highlights the broad considerations each Council should be considering and in our view this represents a good starting point. This helps ensure that benefits, issues and risks around levels of service, capability & capacity, prioritisation of investment and impacts in communities and councils are also considered alongside the financial.

Figure 1 Understanding the impacts (LGNZ)



We also note that as a result of the three waters work we have undertaken across New Zealand over the last 18 months, our view is that the likely future household costs for three waters will increase significantly for all Councils as a result of meeting increased standards, regulations and satisfying a more rigorous compliance regime. Our view of future costs may not be as high as modelled by WICS but the direction is the same.

1.2 WICS Analysis

Scenarios

Broadly, WICS compares two scenarios:

- Aggregation of three waters services into four water services entities and the associated reforms to the regulatory, governance, management, resourcing, and policy direction that support improvements ('the whole reform package');
- No aggregation of three waters services and although in this scenario some reform takes place, for example, decisions already made to introduce a drinking water regulatory system and environmental standards, the wider reforms are not as extensive as in the former scenario.

Assumptions

The assumptions WICS have used to quantify the inputs are determined through benchmarking against the UK experience. Whilst there has been some adjustment based on council feedback the potential investment requirements and ability to deliver the same efficiency gains, both key drivers of the analysis, may not be comparable in the New Zealand context.

The key assumptions that drive household costs are:

- Investment – this is the single biggest driver of household cost in the WICS model. Due to the ways its calculated at a national level and allocated at entity level and council level it is difficult to understand the impacts it makes on the difference on the household charges under the two scenarios. Any change at the national investment figure will have a material impact on household charges in both scenarios.
- Debt/Revenue – the difference between the treatment of debt in the councils and the entities means that it is likely to overstate the size of the difference in charges between council and the water service entity.

The impact of these are so significant that all other assumptions have minimal impact on household costs.

The WICS analysis has been completed using a different approach, and different assumptions to the those in we used in an earlier business case we undertook for the three waters reform in NZ. We note that despite the differences in our analysis and the WICS analysis they are directionally consistent. That is, in both cases, it is anticipated that there are significant three water investment requirements to meet the new standards and this will lead to substantial increases in the cost of services.

A key risk is that the investment level in three waters could be greater than forecast. The WICS forecast investment articulates this risk. Our earlier business case also identified that an aggregated three waters entity was the option that best protected all ratepayers from the costs of meeting that risk.

Timeframes

WICS have undertaken the analysis over the 30 year time horizon. Responses to the RFI across the country were not consistent, where councils did not provide 30 year information, ongoing investment in growth infrastructure is assumed at the level of the final year in the data set. Undertaking future economic analysis based on a 30 year forecast is notoriously difficult especially in the context of the quality of the existing asset data. Additionally, this assumes capital expenditure follows a linear trend however we know that investment in three waters infrastructure tends to be lumpy.

More detail of the WICS analysis including methodology, impacts and assumptions is provided in Section 2 of this report along with a comparison to the relevant council based information or data.

1.3 Impact on Household Bills

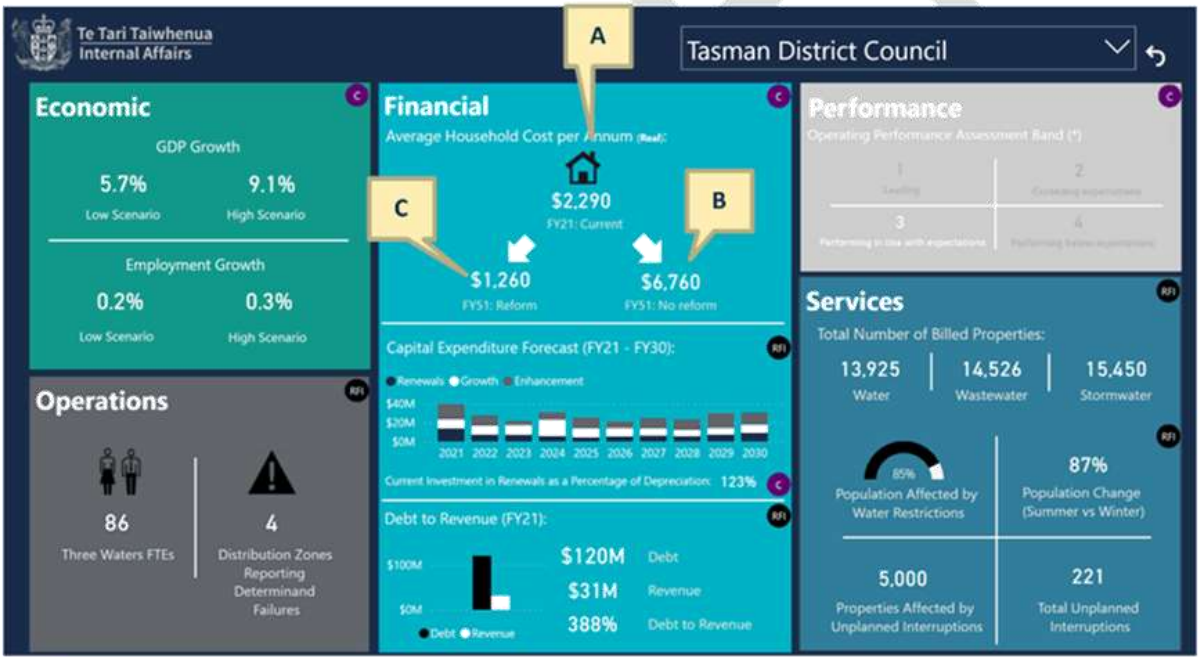
WICS have used an average household charge as the key piece of information for councils and communities.

The dashboards provided by DIA present three different average household costs, represented as A, B and C in Figure 2 below:

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges.
- **B** – represents the projected future household charge in 2051 without reform.
- **C** – represents the projected future household charge in 2051 under the proposed Entity for your council, **Entity C,** with water reform.

These numbers are expressed in real terms, they are uninflated and expressed in today's dollars. The approach used by WICS to determine these values is outlined below.

Figure 2 DIA Dashboard



A

To estimate current household charges for each council, WICS have (**A**):

- Taken the starting total three waters revenue collected by the council (including development contributions but excluding grants and subsidies);
- Multiplied that figure by 70% - which is their assumed percentage of revenue derived from households. We have noted that the 70% does generally align with majority of councils, however some councils' revenue from households is higher and some lower;

- Divided that figure by the estimated number of household connections, which in turn is derived from:
    - The average of the connected drinking water and wastewater populations. The model does not use actual household connection as identified in the RFI or use stormwater connections.
    - Divided by a standard "household density" multiplier of 2.7

B

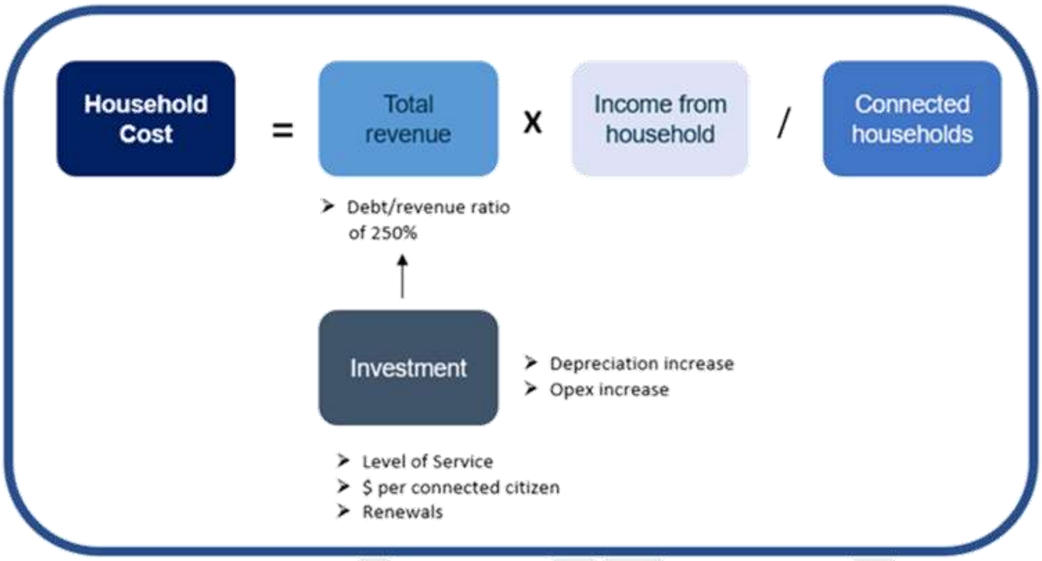
The process used by WICS to estimate future household charges (**B**) is the same as outlined above, using estimated future revenue requirements and estimated future household connections (which allows for growth in connections).

In order to determine the future household charge WICS have:

- Calculated the future required investment in growth, level of service enhancement, and renewal of assets.
    - Growth investment is assumed to be the same as disclosed in each council's RFI, with the same annual average expenditure applied across the full 30 year period if a council only disclosed 10 years of projected investment.
    - Renewal investment is assumed to be 100% of the economic depreciation of assets. WICS have undertaken their own calculation of economic depreciation based on assumed asset values and lives.
    - Level of service enhancement investment has been calculated using a standard approach across the country that has regard to population, land area and density. It does not reflect each council's actual investment set out in the RFIs.
- WICS have recalculated depreciation, this has increased council figures.
- Determined the impact of new investment on operating expenditure. WICS has assumed that for every $100 of capital investment there is $3 of additional operating costs. WICS have also included additional depreciation and financing costs for new assets.
- Determined the amount of new borrowings required to finance their modelled investment profile.
- Determined the amount of revenue that needs to be collected to ensure that councils are able to maintain a three waters debt to three waters revenue ratio of less than 250% over the modelling period. **This is the revenue number that is divided by WICS' estimated future household connections to reach the household charges at B above**.
- This revenue number typically results in operating surpluses being generated which are applied toward debt reduction.

This process is explained in Figure 3 below.

Figure 3 Household cost calculation



C

WICS have undertaken the same modelling to estimate the future household charges for rate payers of a council area if water reform entities were formed. The result reported in each council's dashboard (**C**) matches the projected future household charges for all councils in **Entity C** (of which the Tasman council is a part) in 2051.

We have not reviewed (and have not been provided with) financial or economic models for any of the proposed water services entities, however we anticipate that the approach used to project future household charges for water services entities is closely aligned to that used to project future household charges for individual councils. The differences are likely to be in the assumptions applied, in particular:

- Entities have been modelled with no limit on the debt to revenue ratios (or no discernible limit). This means that WICS reports show the projected debt level for **Entity C** is allowed to nearly reach 800% of revenue by 2051. This accounts for a substantial part of the difference between the projected three waters rate for each council and **Entity C** in 2051.
- Entities have been assumed to be able to generate efficiencies amounting to 45% by 2051. By way of contrast, Tasman District Council has not been provided any allowance for potential operating of capital efficiencies. This accounts for most of the remaining difference between the projected three waters rates.
- Finally, the entity will benefit from the scale of aggregation. That is, the total revenue needs will be spread over a larger population base. The extent to which this scale benefit applies to a particular council will vary depending population and land area.
- It is unclear whether the total investment requirements for **Entity C**, including depreciation and renewals investment, have been derived by adding the constituent parts of each council, or by undertaking new calculations using the population, land area and density of the new water services entity. Each approach is likely to have different results.

The various elements of the above approach are outlined in more detail in Section 2.

1.4 Comparison of key data from WICS

The following section compares data from the WICS model to that within councils RFI.

Tasman District Council

The comparison highlights that WICS has modelled level of service and growth investment that is over three times larger than the investment requirements identified by Tasman in its completed RFI. For Tasman, this is the most significant driver of the household charge calculations produced by WICS. The assumption of staying below a three waters debt/revenue ratio of 250% also drives a significantly higher three waters household charge than if debt/revenue was viewed at the total Council level.

Household Cost per Annum

Item	WICS - Council		WICS - Entity		Comments on assumptions
	2031	2051	2031	2051	
Household Charge (uninflated)	$6,253	$6,760	$1,255	$1,255	• Water Services Entity option shows a significantly lower charge per household.

Investment

Item	WICS - Council		RFI (2031)	Comments on assumptions
	2031	2051		
Total investment requirement	$856,203,496	$3,042,030,900	$263,063,000 (G1.3+G1.6+G1.9)[1]	• WICS model projects a significantly higher Investment need.
Levels of Service Enhancement & Growth	$657,528,347	$1,972,585,042	$198,127,000 (G1.3+G1.6)	• WICS model projects a significantly higher LoS Enhancements and Growth needs.
Total Renewals/Capital	$198,675,149	$1,069,445,857	$64,936,000 (G1.9)	• WICS show significantly higher level of Renewal requirements.

[1] Reference to data in Council RFI spreadsheet

Item	WICS - Council	RFI	Comments on assumptions
Asset Value	$821,677,769	$681,440,000, (Low) $885,870,000 (High) (J1)	• Higher asset values become more relevant over time.
Depreciation	**$11,188,141** (Assumption C75)	**$8,929,500** (E1.25+E2.24+ E2b.24)+ E2.NRSBU.24(50%)	• Depreciation is 44% higher under the WICS model at start and becomes more material as investment in assets increase. • Implied depreciation rate WICS = **1.35% increasing to 1.75% over time. RFI = 1.14%** • Includes 50% depreciation charge for Nelson Regional Sewerage Business Unit (NRSBU) which Tasman own half of.

Revenue

Item	WICS - Council			WICS - Entity	Comments on assumptions
	2021[2]	2031	2051	2031	
Total debt	$120,000,000	$423,891,509	$1,253,173,058	$148,177,000 (F3.14)	• WICS project debt to be significantly higher than in the RFI.
Total Revenue	$31,000,000	$173,637,121	$504,180,096	$56,336,000 (F10.62)	• WICS projects revenue to be significantly higher than in the RFI.
Debt to Revenue	388%	244%	249%	263%	• Charges increase to bring ratio back within 250% under the WICS model so comparison not relevant.
Operating Surplus	N/A	$64,306,586	$107,650,110	N/A	• Only exists under WICS model.

[2] From DIA dashboard

Item	WICS - Council	RFI	Comments on assumptions
Revenue from household	**70%**	**70%** (F10.4+F10.19+F10.54) / (F10.62-F10.61+F10.70)	• As Tasman collects a similar percentage from household charges compared to the WICS model assumption.
Connected household properties	**11,606**	Water = **12,123** (A1.1+A1.4) Wastewater = **13,303** (A3.1) Stormwater = **14,124** (A3b.1)	• Number of connected properties is lower in the WICS model, the charges are likely to be slightly lower than reported by WICS. • Not as material as other assumptions.
Development Contribution	**WICS assumes that Development contributions, when combined with revenue from commercial and industrial users account for less than 30% of total three waters revenue**	Development contributions in 2031 equate to 11% of total three waters revenue	• WICS effectively incorporates development contributions within its modelling. The assumption is not material.

2 Water Industry Commission for Scotland Commentary

2.1 Investment Projections

Investment is the single biggest driver of cost in the WICS model. WICS estimates potential investment requirement over 30 years for each council. This is considered for:

(a) Renewals (Replacement and Refurbishment);

(b) Levels of Service (Enhancement);

(c) Growth investment.

These three values are combined to determine a total investment programme for each council.

2.1.1 Renewals

In their various reports, WICS noted that based on a review of completed RFI's and comparison to their international benchmarks:

- Asset values reported by New Zealand Councils were typically low.
- Useful lives appeared to be optimistic.
- The split of asset value between short lived (less than 30 years) and long lived (estimated lives of around 100 years) was more heavily weighted toward long lived assets.
- Using the low range for asset values and the high range for asset lives (i.e. the two extremes) disclosed in RFI would increase the risk that there is insufficient resources available for asset replacement.

Based on their observations WICS therefore recalculated the depreciation for each council's asset base, assuming:

- 90% of existing assets are long life assets with an estimated life of 100 years.
- 10% of existing assets are short life assets with an estimated useful life of 30 years.
- Long life assets were assumed to have a valuation at the mid-point of the low and high end valuations disclosed in RFIs.
- Short life assets were assumed to have a valuation at the upper range of the valuations disclosed in RFIs.
- New investment is assumed to comprise 60% short life assets and 40% long life assets to enable the long/short life split of assets to eventually reach the international benchmark of 30% short life and 70% long life assets.

WICS has then modelled investment in renewals at 100% of depreciation throughout the modelling period. There has been no adjustment to planned renewals investment to reflect that some investment in level of service enhancement or growth is likely to also have a renewals component.

The modelled renewals investment is likely to differ substantially to renewals programmes that have been calculated by each council.

WICS have modelled an effective starting average depreciation rate of 1.35% of the revised asset value. This depreciation rate increases over the modelling period to eventually reaching 1.75%. These depreciation rates translate to an average useful life for three waters assets of 81 and 59 years, respectively.

Comments on the underlying assumptions

We note that WICS calculation of renewals expenditure and depreciation does not consider:

- The relative age profile of each councils network, and each councils stage in the asset lifecycle.
- The amount of investment in level of service enhancing infrastructure or growth infrastructure which may also have a renewals component.
- The actual split of long life and short life assets within each council, and the specific circumstances that give rise to that split (e.g. water networks with large distribution zones and therefore a higher proportion of reticulation assets which are typically long life, or the inclusion of stormwater assets which typically have longer lives and do not form part of the Scottish water asset base).

We note that the depreciation rate of 1.35% is broadly within the high end of the range observed in New Zealand already. However, the longer term depreciation rate of 1.75% is much higher than most councils in New Zealand (although this is intended by WICS).

While the rate of depreciation may be consistent with the New Zealand average, the valuation of assets is not. In our experience, councils typically value their assets at the low end of the valuation range provided in their completed RFIs. This means WICS has typically increased the total depreciation charge above those that are likely to be included in long term plans.

We are aware of a number of recent examples where councils that have had recent asset valuations have experienced substantial uplifts in assets value. This may support WICS assumptions around asset valuations.

Potential impact of assumption

Overstatement of the renewals requirement will result in an overstatement of debt and revenue projections for the entity.

This assumption is likely to affect the entity and council projections equally, so will likely have limited bearing on the comparative outcomes of household charges. However, it will have a significant impact on the projected household charges for councils in 2051 if reform does not occur.

2.1.2 Levels of Service and Growth Investment

The various reports produced by WICS outline three different approaches used to determine the future required investment in level of service enhancement (and in some cases growth expenditure):

- based on relationships between historical enhancement and growth investment in the UK (same approach as Phase 1 but updated using council RFI information);
- based on relationships between historical enhancement and growth in Scotland only (i.e. using the same approach as in Phase 1 but with Scottish data only); and
- based on the observed gap in asset values per connected system between New Zealand and the UK – this approach does not take into account growth.

While the approaches differ in how they arrive at their estimates they deliver broadly consistent results in terms of the magnitude of investment that is likely to be required over the next 30+ years. It indicates that in order to meet quality and growth outcomes, **spending will need to more than double from current levels over the next 30 years.**

WICS note these figures could ultimately be even higher, as they do not take account of investment uncertainty associated with the need to provide for seismic resilience, climate change, or responding to changing societal standards around environmental impacts (including iwi/Māori expectations).

It is unclear which of these approaches was used to identify the potential amount of level of service enhancement investment needed. However, we understand that the outcome under all three approaches is broadly similar.

WICS also applied two further adjustments:

- it appears that planned investment in growth infrastructure was effectively removed from the results in favour of using council's own projections for investment in growth infrastructure. Where councils only reported forecast investment for a 10 year period this was assumed to be representative of the next 20 years as well.
- applied a cap of NZ$70,000 per head for combined investment in level of service enhancement and growth infrastructure across any council area, this limits the modelled potential exposure of most rural councils.

WICS does disclose some of the formulas that it has used to identify potential investment requirements, although without knowing the source of the variables used within the formulas we have been unable to replicate the results. We note however that the formulas (at least at a national level) do include length of waterways and coastline, so may make some attempt at incorporating relevant environmental factors.

However, at an individual council level, the investment numbers produced by WICS are based on population, land area, and density alone and have no relationship to each council's:

- Type, quality, or number of water sources
- Receiving environment for wastewater discharges
- Current treatment approach
- Current levels of service
- Asset age
- Asset performance
- Asset condition

Comments on the underlying assumptions

Investment is the single biggest driver of cost in the WICS model. It is what drives the future borrowing requirement, which in turn determines the amount of revenue that needs to be collected. That means that if the future investment requirements in the WICS modelling are under or overstated the future household costs are likely to be similarly impacted.

Despite this it is worth recognizing that predicting future investment requirements is notoriously difficult. This is particularly true over long time frames, such as the 30 year period that has been modelled by WICS.

While predicting investment over a 10 year period is more certain, even this is challenging, as demonstrated by the long term plans of almost every council in New Zealand. Long term plans often have significant uplifts in their ten year capital works programs despite being only 3-year cycles.

We have not attempted to make an alternative assessment of 30 year investment requirements, and therefore have no view on whether the projected investment by WICS is appropriate. However, as it appears that a different approach may have been used to determine investment at a national scale than that used at a council level, even if the national, or regional investment projections are correct, the distribution of where that investment falls in relation to each council may not be correct.

Potential impact of assumption

WICS have used the derived future investment numbers in the stand alone financial analysis provided to councils as well as in the analysis completed for each water services entity. The higher numbers have a flow on effect to a number of assumptions, most importantly, the future revenue required by councils. This is then reflected in the calculated household charge.

We also note that for the purposes of their modelling WICS have assumed that this investment is evenly spread across the modelling period, however it is likely that this will be weighted further toward future years in practice. This results in a sharp increase in projected future household charges.

In the event that the future investment requirements are understated or overstated, there is likely to be a consistent impact on both the council and entity household charge projections. While this assumption may change the scale of the difference in projections it is unlikely to change the overall outcome of their analysis.

2.2 Revenue

Projected revenue is ultimately the main input into the WICS model that is used to determine household charges. The way in which future revenue is projected is therefore critical.

2.2.1 Three water debt to revenue ratio

The total three waters revenue that is needed to be collected by councils in the WICS model has been determined by reference to each council's total borrowing.

Revenue projections have been calculated by identifying the amount of revenue needed to ensure that each council maintains a three waters debt to revenue ratio below 250% over the entire modelling period. Revenue increases are front-loaded in the WICS model, with revenue increases typically stabilizing to match inflation over time (or at least reducing).

The WICS modelling results in forecast future revenue requirements which typically result in the council generating a significant operating surplus for its three waters activity. This surplus is applied toward debt management/repayment.

Water services entities appear to not have been subject to this restriction with Entity C's debt to revenue ratio reaching almost 800% by 2051. We understand that the Government has received advice to suggest that a debt to revenue ratio of this magnitude would not adversely impact on water services entities' credit ratings.

Comments on the underlying assumptions

We note that councils are not typically financed on an activity basis. That is, councils are not required to maintain a three waters debt to three waters revenue ratio of 250%, and in fact a number of councils already exceed this ratio when looking only at three waters debt to revenue.

Three waters typically makes up between 20 – 30% of a council's total revenue, with most other activities typically requiring only low levels of debt. While three waters charges may increase at a much higher rate than other areas of council's business, we would still anticipate that a three waters debt to revenue ratio of around 500% would be within most council's future borrowing capability.

Potential impact of assumption

The revenue numbers directly translate into household charges for councils and the water services entities.

As councils are likely to be able to borrow more than 250% of their three waters revenue, the projected household charges are likely overstated.

Because no such cap has been applied to the water services entities, and we understand that there is official advice to support water services entities maintaining large debt to revenue ratios, this assumption has limited bearing on the projected household charges for the water services entity itself.

When viewed together, the application of this assumption by WICS is likely to overstate the size of the difference in charges between council and the water services entity.

2.2.2 Revenue from Households

WICS has used the split of revenue between households and non-households of 70% as observed in the UK. This has been applied to the total revenue figure above.

The 70% figure represents the total amount of three waters revenue derived from household water charges, and effectively does not include any revenue from development contributions, grants and subsidies, or commercial and industrial water use (or indeed irrigation/stock water schemes).

Comments on the underlying assumptions

In our view the assumption that 70% of revenue comes from household water charges appears to be fair at a national or water services entity level. However, this assumption is less likely to be applicable at an individual council level, noting that:

- Councils that have high levels of urban growth may receive a substantial portion of water revenue from development contributions, and in some cases this may account for the entire remaining 30% (or more) on its own.
- Highly rural councils may receive a large proportion of their three waters revenue from irrigation or stock water schemes, meaning much less than 70% of total three waters revenue is derived from households.
- Some territorial authorities receive large amounts of three waters revenue from large water users. This is particularly true in rural and provincial councils, which often have high water users in the agricultural and horticultural industries.

Potential impact of assumption

This assumption may impact on the size of the difference between the projected household charges under the council and entity scenarios because it is likely to be more accurate at an entity level than it may be for individual councils.

Councils which receive a lower proportion of their three waters revenue from households than is assumed in the WICS analysis will have higher projected household charges under the WICS analysis than they may otherwise have.

WICS analysis is also presented at a three waters level, which means it is difficult to see the impact for customers which may only receive one or two of the services provided. This is likely to be particularly relevant for councils with large rural areas.

2.2.3 Household connections

WICS have determined the number of household connections in their modelling by:

- Averaging the connected water and wastewater populations from each council's RFI;
- Dividing the number by 2.7 (which is the average household density in New Zealand).

This value is used as the denominator in WICS' projections of average household charges. The higher this number is, the lower the projected household charge is.

WICS does not appear to have used any data regarding stormwater connections/charges within its analysis.

Comments on the underlying assumptions

Household density varies significantly between territorial authorities within New Zealand. This is particularly prevalent in the comparison of rural and urban councils. According to Statistics New Zealand, in 2018 the council with the highest occupancy rate has an average of 3.0 residents per household, compared to the least dense council having an occupancy rate of 2.1.

We understand that there are now councils that have significantly lower occupancy rates than that still (with some reporting occupancy rates of less than 2 residents per household).

Potential impact of assumption

This assumption may result in a difference between the projected council and entity values (i.e. it will affect the entity and council differently) because the household density number varies significantly between council areas, but is likely to be more accurate at an entity level.

For councils with low household density, it is likely that the application of this assumption will have resulted in the WICS analysis overstating the potential household charges in 2051 for individual councils. The projected household charges for the water services entity are less likely to be affected by the application of this assumption.

2.3 Capital and Operating Efficiencies

WICS looks separately at capital and operating efficiency expenditure. In both cases, WICS undertook econometric modelling (using the reworked Ofwat 2004 and 2009 models) of the potential for operating efficiency from each council using tools and techniques applied and fitted to UK water entities and tested this against New Zealand.

2.3.1 Efficiencies

WICS have applied efficiencies adjustments in some cases for individual councils. These efficiencies have been based on council size. The observed experience from United Kingdom demonstrates that only entities of a scale of more than 60,000 connected citizens could be expected to achieve any reductions in operating costs, even if they were subjected to robust governance and regulatory frameworks.

In the models provided, the scale efficiencies increase on a diminishing (logarithmic) basis above the minimum size threshold. This means there is no inclusion for efficiency improvement for councils with less than 60,000 population served. For councils above this threshold, efficiency gains are realisable (albeit at a diminishing rate) up to a maximum of 800,000 population served, after which no further returns to scale have been included in WICS modelling.

In determining the scale of efficiencies modelled for the Water Services Entities, WICS assesses the New Zealand Three Waters sector to be in a broadly similar position as Scotland in 2002, in terms of relative operating efficiency and levels of service. In just under two decades, Scottish Water has lowered its unit costs by 45% and closed the levels of service gap on the best-performing water companies in the United Kingdom.

WICS considers that New Zealand can achieve similar outcomes to Scottish Water i.e. a reduction of up to 45% over a longer period (30 years).

Comments on the underlying assumptions

We note that Entity C is projected to have around 960,000 customers on formation. This is comparable in size (but much less densely populated) to Bristol Water and South Staffordshire Water, who were cited as achieving efficiencies of 25% and 20% respectively in the WICS reports.

Potential impact of assumption

If modelled efficiencies from service delivery reform are overestimated, or underestimated, then this will have a direct impact on the projected household charges for the water services entities. That is, overestimation of the potential operating efficiencies will result in WICS' projections of household charges for water services entities being lower than they may otherwise be if those efficiency targets are unable to be met.

2.4 Sensitivity

WICS undertook detailed sensitivity analysis (Monte Carlo analysis) of their projected household charges to demonstrate whether there are any instances where household charges would be lower under continued council led service delivery versus the reform, scenario. Across the country, this analysis shows only a very limited number of cases where household charges have any potential to be lower without reform than with it. In these cases, WICS typically notes that the levels of service received by customers without reform would be significantly lower than they would be under the reform scenario.

Importantly, while this sensitivity analysis does consider different levels of investment requirements, it does not consider the impact of the debt to revenue assumption, or assumptions regarding the percentage of revenue from households, or the number of connections. We have not attempted to recreate the sensitivity analysis completed by WICS but would anticipate that correction of these assumptions prior to undertaking the sensitivity analysis would result in more instances where future household charges crossover under the reform and no reform scenarios.

8.4 MACHINERY RESOLUTIONS

Report To:	Full Council
Meeting Date:	12 August 2021
Report Author:	Robyn Scherer, Executive Assistant to the Mayor
Report Number:	RCN21-08-4

1 Summary

1.1 The execution of the following documents under Council Seal requires confirmation by the Council.

2 Draft Resolution

1 That the Full Council:

1. receives the Machinery Resolutions report RCN21-08-4; and

2. agrees that execution of the following documents under the Seal of Council be confirmed:

  a. Surrender of lease for a hangar at Motueka aerodrome – Ross and Yvonne Troughton;

  b. Lease renewal and renewal of licence for Armadillo's Restaurant at 183 Queen Street, Richmond. Lease takes effect from 9 July 2021 with review dates of 9 July 2023 and 9 July 2025;

  c. Deed of covenant authorising the landowners to retain an existing water pipeline under legal road at 225 Garden Valley Road Brightwater for 20 years with an encumbrance to be registered on their title;

  d. Deed of Lease, Riwaka Rugby Club, 738 Main Road, Riwaka. Rental of $230 per annum; and

  e. Deed of Encumbrance – Nelson Hops New Zealand Ltd at 65 Korere-Tophouse Road – occupation of Tasman District Council road; and

  f. Amend Tasman District Council's Multi-Option Credit Line with Westpac Bank - $30 million facility amendment; and

  g. New deed of lease – community lease – Aorere Futures Trust Incorporated - $230 GST inclusive annual fee.

8.5 CHIEF EXECUTIVE'S UPDATE REPORT

Decision Required

Report To:	Full Council
Meeting Date:	12 August 2021
Report Author:	Janine Dowding, Chief Executive Officer
Report Number:	RCN21-08-5

1 Purpose of the Report

1.1 The purpose of this report is to provide an update on some key activity since my last report on 30 June 2021. A copy of the Council Action sheet is attached for the Council's reference **(Attachment 1)**

2 Draft Resolution

That the Full Council:

1. **receives the Chief Executive's Update Report RCN21-08-5; and**
2. **approves the appointment of Warren Lampp of ElectionNZ as the Council's Electoral Officer; and**
3. **approves the updated Tasman District Council Policy on Elected Members Allowance and Recovery of Expenses, effective from 01 July 2021; and**

3 Waimea Community Dam

3.1 Consistent with the requirements of Waimea Water Limited’s (WWL) Statement of Intent, shareholders have received the final Operational Management Plan which is publicly available on the Council’s website.

3.2 WWL have advised that they now intend to commence implementing this Operational Management Plan to be ready for dam operations by the end of 2022. The Plan has also been submitted to Crown Irrigation Investments Ltd (CIIL) as required under the Project Facility Loan Agreement. The operating plan (without commercially sensitive information) will be made available to the public via proactive release through the Council’s website.

3.3 Construction is progressing well, and the dam is now around 60% complete, notwithstanding recent delays, with the downstream reinforced rock-filled face complete (28m of the 54m dam height) and the upstream face of concrete kerbing and drainage zones completed to a height of 24m. The spillway is progressing with around 1,700m3 of concrete recently poured in forming the flip-bucket.

3.4 Recent floods on 10 April, 17 July and 26 July have resulted in minor delays to construction, but no material damage to the dam. The timeline to complete the structures, close the diversion and commence filling the reservoir is now mid-2022.

3.5 WWL are experiencing considerable cost pressures with:

3.5.1 Poor foundation and shear zones on the left abutment and at the top of the spillway foundation requiring treatment and stabilization.

3.5.2 Very high (worldwide) cost escalations associated with the mechanical and electrical works.

3.6 WWL therefore, on known conditions, anticipate costs towards the upper end of the February 2021 Cost to Complete (CTC) range of $148 million to $164 million.

3.7 WWL has submitted a proposed operating plan and budget that shows an operating cost of ~$2.3m pa in years two to nine. Insurance and rates represent ~40% of the budget.

4 Building works in Civic Area

4.1 The Council resolved (Confidential Report to Full Council, 3 December 2020) to continue works in the civic area necessary to ensure staff/public health, safety and wellbeing. Work on urgent seismic strengthening, air conditioning and reorganisation of this area were part of the programme of works.

4.2 As part of these works, an extension to the Chambers and a small kitchenette was installed. These alterations were carried out to meet Covid-19 separation requirements and to ensure a basic level of service at a time when the Chambers were congested particularly during meetings of high public interest.

4.3 Improving Council Chambers to allow more members of the public to attend safely is considered a Health and Safety matter, noting that Covid-19 has elevated the risk attached to crowded areas.

4.4 This work was carried out in conjunction with seismic strengthening to save costs and occurred during the Christmas break to avoid a potential disruption to the Council’s meeting schedule.

4.5 The Council was notified of these works in the Councillor Update, January 2021.

4.6 There is a range of work currently underway to provide for teams to be adequately accommodated in the Richmond office pending future decisions about the Council's office accommodation. This will see a greater move to open plan and the opportunity taken to align teams to the new structure.

4.7 An update on those changes was circulated to the elected members on 5 August 2021. As you are aware the earthquake strengthening required to this building continues to present challenges to its long-term suitability. Changes made in the interim are focused on providing appropriate accommodation and a safe and healthy environment for staff.

5 Dividend Payments

5.1 Nelson Airport paid Tasman District Council and Nelson City Council $500,000 each on 12 July 2021 as the Airport's 2020/21 ordinary dividend.

5.2 This was declared on 30 June 2021. Tasman District Council had budgeted for $425,000 so this represents a favourable movement of $75,000.

5.3 This is despite the disruptive year experienced by the airport due to Covid-19.

6 Electoral Officer Appointment

6.1 The purpose of this section of the report is to appoint a new Council Electoral Officer.

6.2 Section 12 of the Local Electoral Act 2001 (copied below) states that a Council must have an electoral officer at all times. The electoral officer is appointed by the local authority. Among other things, the electoral officer is responsible for the conduct of the Council and Community Board elections.

12 Electoral officer

(1) For every local authority there must at all times be an electoral officer appointed by the local authority to exercise the powers and carry out the duties conferred on the electoral officer by this Act and any other enactment, in relation to that local authority.

(2) The electoral officer may—

(a) delegate to any person or class of persons any power or duty under this Act or regulations made under this Act (except this power of delegation):

(b) appoint or engage any person or class of persons for the purposes of carrying out any of those powers or duties.

(3) An electoral officer, unless he or she dies, resigns, is dismissed from office, or becomes incapable of acting, remains in office until his or her successor comes into office.

6.3 Previously, the Council has retained the Electoral Officer role and has managed other activities, such as vote processing, with the assistance of external providers. The Council now wishes to outsource the Electoral Officer role to a specialist provider, while retaining input into the management of the elections through the Deputy Electoral Officer

6.4 Outsourcing the Electoral Officer role to a specialist supplier provides the Council with a number of benefits such as: consistency of practice with other local authorities, internal efficiencies and the ability to leverage the knowledge and experience of the provider.

6.5 As well as the local elections, the preferred supplier would manage any representation reviews and/or by-elections that may arise during the term of the contract.

6.6 Electionz.com has been engaged following a closed procurement exercise which was conducted with two leading suppliers and focused on the supplier's background, track record, capability and delivery in accordance with the Electoral Act and SOLGM best practice guide.

6.7 Warwick Lampp has been nominated by Electionz.com to act as the Council's Electoral Officer.

6.8 I recommend that the Council appoints Warwick Lampp, as the Council's Electoral Officer. Once Mr Lampp's appointment has been confirmed, as Electoral Officer he will appoint a Tasman District Council staff member as Deputy Electoral Officer. Sandra Hartley is currently the Deputy Electoral Officer and it is anticipated she will remain in this position.

6.9 It should be noted that during the course of the procurement the Government announced that all District Health Boards (DHBs) would be abolished. As a result, the Council will no longer be required to provide for the Nelson Marlborough DHB elections for the 2022/23 election and the foreseeable future but will also no longer receive any financial contribution from the DHB towards the election costs (approx. 40%).

7 Changes to Elected Members Remuneration and Expenses

7.1 The Remuneration Authority sets the remuneration for elected members. It also issues determinations on the other allowances or payments paid to elected members. In July 2021 the Remuneration Authority (Authority) issued the Local Government Members (2021/22) Determination 2021. The determination was notified in the New Zealand Gazette of Thursday 8 July 2021.

7.2 A full copy of the Local Government Members (2021/21) Determination 2021 is available publicly from the New Zealand Legislation website Local Government Members (2021/22) Determination 2021 (LI 2021/173) Contents – New Zealand Legislation

7.3 Elected members have received a modest increase in remuneration which will be applied effective from 1 July 2021.

7.4 The Authority has also recommended several changes to allowances that elected members may receive, and the Council has updated its Policy on Elected Members Allowances and Recovery of Expenses to align with the recommendations from the Authority **(Attachment 2)**.

7.5 The changes apply to allowances associated with the use of internet services and mobile telephones which, in our Policy, are combined as a Communication Allowance. Therefore, the policy has been updated with the following changes:

Communication Allowance	$1300pa	For Councillors
	$1700pa	For Community Board Members

7.6 The difference in amounts is due to the Council's provision of tablet devices to all Councillors.

8 Iwi Engagement

8.1 An initial hui was held with Te Tauihu iwi General Managers on 26 May 2021.

8.2 The purpose of this hui was to work on the development of ngā iwi capacity to contribute to Council decision making and Council-Māori participation arrangements, along with discussions on te mana o te wai, Three Waters and Māori Wards.

8.3 At the hui I was asked to approach the Chief Executive's from Nelson City Council and Marlborough District Council to seek their support for and participation in a Te Tauihu iwi, Council Chief Executive's and General Managers hui.

8.4 This hui has been scheduled for 25 August 2021 in Nelson.

9 Kaihautū Role

9.1 Following Te Waari Carkeek's resignation, Matua Harvey Ruru has been supporting in the Kaihautū role. Recruitment for this position will commence the week beginning 9 August 2021.

10 Strategic Workplace Taskforce – Office Accommodation

10.1 The strategic workplace taskforce will update the Council at a workshop scheduled for Thursday 19 August 2021.

11 People Management Update

11.1 The annual human resources statistics for the year ending June 2021 are shown in **Attachment 3.** The headcount is 375 (Full Time Equivalent 348) and this has increased from last year's count of 348 (Full Time Equivalent 316). A list of the new positions is included in the attachment. Our annual turnover was 12.2%. We are unable to provide you with the usual Lawson Williams NZ Turnover Survey comparisons as their annual turnover survey report is not due to be released until November. The average length of staff service is currently 6.88 years and the average staff age is 47.95 years.

11.2 You will note in the annual human resources statistics the headcount has increased by 27 from June 2020. Several of the new roles are fixed term and are associated with the Government stimulus funds that we have received or associated with other Government reforms such as Freshwater and new National Policy Statements.

11.3 You might also recall the workforce planning report that was presented to you at a workshop in September 2020. The report predicted an FTE of 336 for June 2021 which when compared to the actual FTE of 348 is an additional 12 positions. The modelling was based on Council services remaining unchanged. During the last financial year, we have added new workstreams in the form of our Digital Innovation programme and Government stimulus projects and introduced a Programme Management Office. The additional resourcing (12 positions) for these workstreams explains the difference from the modelling and continues to demonstrate the accuracy of the data modelling.

11.4 This year's mid-term collective bargaining with the PSA has been concluded. The negotiated salary grade variations ranged from 2.5% to 3.3% with an average of 2.9%. The living wage also increased by 2.9% to $22.75 per hour and this rate applies to three of our salary grades.

11.5 Our annual performance conversation (appraisal) process has also concluded and any salary adjustments will be incorporated into the market movements agreed to in this year's Collective Agreement negotiations.

11.6 These salary increases and adjustments are within budget for this financial year.

11.7 Recruitment continues to remain consistent, and we are currently at various stages of recruiting for a:

- Consent Planner – Land Use (replacement)
- Consent Planner – Subdivision (replacement)
- Senior Activity Planning Advisor – Water & Wastewater (new position)
- Senior Resource Scientist – Coastal & Rivers (replacement)
- Operational Governance Manager (replacement)
- Operational Governance Officer (replacement)
- Administration Officer – Community Infrastructure (replacement)
- Application Specialist – SharePoint (replacement)
- Senior Building Technical Officer – Processing (replacement
- Building Technical Officer – Processing (replacement)
- Information Management Officer (replacement)
- Compliance & Investigation Officer (replacement)
- Administration Officer – People & Wellbeing (fixed term replacement)
- Team Leader – Value Stream Analyst (new position)
- Executive Support Officer (replacement)
- Policy Planner – Natural Resources (replacement)
- Property Services Manager (replacement)

11.8 Since my last report, another 16 appointments have been made:

- Team Leader – Community Policy (new position)
- Team Leader – Building Consents (replacement)
- Team Leader – Building Compliance (replacement)
- Team Leader – Community Policy (new position)
- Project Manager – Fish Passage Remediation, fixed term (new position)
- Library Assistant – Tākaka (part time replacement)
- Policy Planner – Natural Resources (replacement)
- Building Support Officer (replacement)
- Building Compliance Officer – fixed term, 8 months (new position)
- Recruitment Officer – fixed term, 6 months (new position)
- Management Accountant (replacement)
- Biosecurity Officer (replacement)

- Deputy Harbourmaster (replacement)
- Maori Liaison Officer, fixed term (new position)
- PMO Manager (new position)
- Chief Operating Officer (new position)

12 Health and Safety Update

12.1 There have been eight events reported by staff since my last report. One event was a slip/trip, two events resulting in bruising, one event led to a sprained ankle, one event involved the internal doors between two meeting rooms becoming jammed and there were four events of abusive and threatening behaviour from property owners towards Council staff. Two of the abuse events occurred during swimming pool compliance visits.

12.2 The six-monthly health and safety indicators and monitoring report is shown in **Attachment 4**. The data in this report for the January to June 2021 period. Sick days taken this period are much lower compared to the previous reporting period and this will likely be due to this period covering the summer months when there are less colds and flu present.

13 Floods 17-19 July 2021

13.1 Finally I would like to acknowledge the work of all our staff in supporting the Emergency Operations Centre on the weekend of 17 July 2021.

13.2 Over 40 staff made themselves available throughout the weekend with some interrupting their annual leave.

13.3 Two members of the Building Assurance team travelled to Buller to support the rapid assessment of houses following a nationwide request on 19 July for 20 inspectors from around the country. This did not impact on the ability for staff to maintain inspection requirements in Tasman.

Attachments

Action Sheet – Full Council as at 12 August 2021

Meeting Date / Item	Action Required	Responsibility	Completion Date/Status
7 November 2019			
Moutere-Waimea Ward Reserves	Report back to Full Council (in committee) including legal advice and other matters relevant to any decision to initiate the process to declare as reserve Council land not currently protected under the Reserves Act.	Policy Advisor	In progress. Kerensa Johnson presented to the Council at a briefing on 29 July 2020. Staff will meet with Wakatu as directed at that briefing and a further report will be presented at a later date.
13 February 2020			
Appointment of Advisers to the Tasman Regional Transport Committee	• Continue discussions with iwi and the NRDA regarding the appointment of advisers to the Tasman Regional Transport Committee	Group Manager – Community Infrastructure	Iwi discussions regarding an iwi representative are ongoing.
25 February 2021			
Hangar Houses, Motueka Aerodrome	• Timeline for review of the Motueka Aerodrome Development Plan	Group Manager - Finance	
Best Island – Access to Residential Properties	• Report to Full Council regarding funding options including target rating	Group Manager – Community Infrastructure	
Chief Executive's Activity Report	• Standard process for Council workshops	Chief Executive	A process has been developed and will be implemented once it has been socialised with staff and elected members.
8 April 2021			
Motueka Wastewater Treatment Plant – request for additional funding	• Review the $380,000 shortfall from the NRSBU budget in the next two years as and when the NRSBU schedule the respective capital investment.	Group Manager – Community Infrastructure	

Meeting Date / Item	Action Required	Responsibility	Completion Date/Status
30 June 2021			
Minutes – Long Term Plan Deliberations Meeting	• Review recording of the minutes of the Long Term Plan Deliberations meeting held on 17 May 2021	Executive Assistant to the Mayor	The draft minutes will be presented at the Council meeting on 23 September 2021.
Rate Setting	• Provide more detailed information regarding rates penalties in the “quarterly” financial updates to the Council	Group Manager, Finance	Ongoing
Refurbishment of Council Chambers and Civic Area	• Report on rationale for the work that was completed during the Christmas 2020 period.	Chief Executive	Included in the Chief Executive’s update to this meeting. Completed.
Full Council Meeting – Confidential Minutes of 4 June 2021	• Amend minutes as per Cr Greening’s request.	Executive Assistant to the Mayor	Completed.
New Delegations	• Report to the Council regarding the proposal to increase the number of elected members on the Council’s Tender Panel	Chief Operating Officer	Council meeting 23 September 2021

Tasman District Council Policy on Elected Members' Allowances and Recovery of Expenses

ORGANISATIONAL POLICY

POLICY REFERENCES	
Sponsor:	**Chief Operating Officer**
Effective date:	14 February 2020
Internal review due:	Reviewed at three yearly intervals prior to the Local Authority elections.
External review	This policy remains within the limits of the current Remuneration and Allowances Determination, therefore it does not require Remuneration Authority approval.
Legal compliance:	Local Government Act 2002, Remuneration Authority Act 1977, Remuneration Setting for Local Authorities (published October 2019), Local Government Elected Members Determinations, Local Electoral Act 2001, Fees and Travelling Allowances Act 1951, and related regulations.
Associated Documents/References	CS01 Sensitive Expenditure Policy CS02 Koha and Donations Policy CS09 Reimbursement of Work Related Expenses Policy EM06 Elected Members Child Care Policy Travel and Accommodation Policy Standing Orders Code of Conduct
Policy Number	EM05
Adopted by Council	CN20-02-7

Policy Contents:

1 Purpose

This policy sets out the rules and processes for claiming expenses by elected members and the resources that will be available to them during their term in office.

2 Definitions

Chief Executive and Corporate and Governance Services Manager - the Chief Executive and Corporate and Governance Services Manager of the Tasman District Council.

Community Board – A Community Board situated within Tasman District.

Council - Tasman District Council.

Elected member - the elected members of Tasman District Council and Community Boards situated within Tasman District.

Finance Manager – the Finance Manager of Tasman District Council.

Mayor - the Mayor of the Tasman District Council.

Member of the Council - an elected member of the Council, including the Mayor. *For the avoidance of doubt, in these rules 'Member of the Council' does not include a member of a Community Board.*

Member of a Community Board - the members of community boards situated within the Tasman district.

Actual - as evidenced by the original receipt attached to the claim form.

Reasonable - that it is within the amount specified by this policy or as deemed reasonable by the Mayor and/or Chief Executive. Moderate and conservative, having regard to the circumstances and appropriate in all respects.

Council business - includes: formal council and community board meetings, committee meetings, workshops, statutory hearings, site visits, meetings with staff, meetings with community groups, meetings with members of the public. It does not include events where the primary focus is on social activity.

Remuneration Authority is an independent body established by the Remuneration Authority Act 1977, with responsibilities under the Local Government Act 2002 to determine remuneration and expense/allowance rules for local authority members.

3 Application

3.1 This Policy applies to all elected members of the Tasman District Council, Motueka Community Board and the Golden Bay Community Board.

4 Policy

4.1 The rules, guidelines and monetary amounts set out within this policy are subject to change as a result of further determinations and guidance from the Remuneration Authority.

4.2 Transparency is achieved by making details of elected members' expense claims available to the public on request.

5 Authentication and Payment of Claims

5.1 From time to time elected members incur expenses on the Council's behalf, which need to be reimbursed. This reimbursement and the use of Council-supplied resources apply only to elected members personally, and only while they are acting in their official capacity as elected members.

5.2 Costs for expenses must have a justifiable business purpose, be moderate and be conservative having regard to the circumstances, and be appropriate in all respects.

5.3 Claims are subject to a standard of probity and financial prudence that is to be expected of a local authority and able to stand public scrutiny.

5.4 Completed claims are to be submitted within seven (7) days following the end of the month. Late claims submitted after three months will not be entertained except in extraordinary circumstances.

5.5 Reimbursement of all claims will be processed through the payroll system in conjunction with elected member remuneration.

5.6 All claims by elected members (except for the Mayor) for reimbursement of expenses or payment of allowances in accordance with these rules, together with supporting documents including receipts and GST tax invoices, shall be submitted to the Finance Manager for approval. The Mayor shall submit his/her claims to the Chief Executive for approval.

5.7 In considering and approving reimbursement of claims the following principles will apply:

a) any expenses to be reimbursed must be on an actual and reasonable basis and in line with relevant Council policies;
b) have a justifiable business purpose;
c) be appropriate in all respects;
d) be moderate and conservative having regard to the circumstances;
e) be approved by a senior Council officer able to exercise independent judgement;
f) are adequately documented including the provision of full original receipts and for amounts over $50 must be accompanied by a GST Tax Invoices. This means the receipt must state the words Tax Invoice. Items under $50 must be accompanied by a receipt along with details of reasons;
g) can be met within approved budgets or has been expressly authorised by Council outside of those budgets.

5.8 In the case of one-off expenditure such as travel to conferences, the process and prior approvals required have been obtained.

5.9 In the case of vehicle mileage, travel time and communications, all limits set in this document do not exceed the Remuneration Authority's current Determination.

5.10 The Council's audit work programme will include sampling expense claims and allowances paid to elected members to ensure policy compliance.

6 Taxation

6.1 No allowances (as distinct from reimbursement of actual business expenses) are paid without the deduction of withholding tax. The taxation treatment of allowances and expense claims will at all times comply with the requirements and determinations of the Inland Revenue Department.

7 Vehicles

7.1 Except for the Mayor, no elected members are provided with the use of a vehicle by the Council. The Mayor's vehicle will be available for his/her private use. A deduction will be made from his/her salary as determined by the Remuneration Authority. The Mayor will not be able to claim for vehicle mileage.

8 Car Parks

8.1 Except for the Mayor, no elected members are provided with the use of a designated car park. With the exception of the Mayor who has a designated car park, elected members may not park in marked "TDC Cars Only" vehicle parks at the Richmond office site.

8.2 Council members and the Community Board members will be provided with a parking permit that exempts the vehicle from the time limits applicable to managed parking (P90 and P120) on the streets surrounding the Council's offices. These permits are only applicable while the member is on Council business. Abuse of this privilege may lead to cancellation of the permit.

9 Vehicle Mileage Allowance

9.1 Mileage will be paid up to the maximum rate per kilometre as set out in the current Remuneration Authority Determination. The mileage rate threshold will be as set out in the Remuneration Authority Determination. Refer to Schedule 1 for current rate. Note: the mileage rates in the Remuneration Authority Determination may not be consistent with the IRD tax exempt amounts. Members are responsible for ensuring they fulfil their own personal tax obligations.

9.2 Mileage will be paid to eligible members on receipt of a completed and signed mileage claim. The mileage claim may be incorporated into the monthly expenses claim and will be processed on the same basis.

9.3 To be eligible for mileage reimbursement the travel must be in the elected member's own vehicle and by the most direct route reasonable in the circumstances. Every reasonable effort should be made by elected members to share transport in order to reduce costs.

Note: the mileage and communications allowances, including the mileage rate threshold is as set out in the current Remuneration Authority Determination and have pro rata provisions for members not in their elected position for the full 12 months of the financial year, i.e. those who do not return after elections, or those who are elected for the first time in October.

Rules applicable to Council Members

9.4 A member of the Council may make a mileage claim for travel that is for the purpose of undertaking official Council business, including:

a) attending a meeting of the Council, or a committee of the Council, or a Community Board;

b) attending a meeting of Long Term Plan or Annual Plan hearings;

c) for travel:
   i. to briefings, working parties, seminars, training courses, and information workshops where attendance has been requested by Council officers or by resolution of the Council;
   ii. pursuant to a request or authorisation from the Mayor or Chief Executive;
   iii. to meetings called by Council Officers to discuss Council business;
   iv. to meetings of residents, ratepayers or community groups in the capacity of a member of the Council;
   v. to official functions and events of the Council;

Rules applicable to Community Board Members

9.5 A member of a Community Board may make a mileage claim for travel that is for the purpose of undertaking official Community Board business, including:

a) attending a meeting of the Community Board, a committee of Council, or of the Council;

b) for travel:
   i. to briefings, working parties, seminars, training courses, and information workshops where attendance has been requested by Council officers or by resolution of the Council;
   ii. to a specific event pursuant to a resolution of the Community Board;
   iii. pursuant to a request or authorisation from the Mayor or Chief Executive;
   iv. to meetings called by Council Officers to discuss Council business;
   v. to official functions and events of the Community Board;
   vi. to meetings of residents, ratepayers or community groups in the capacity of a member of the Community Board;
   vii. to National and Zone Community Board meetings and conferences;
   viii. to agenda setting meetings of the Community Board.

10 Travel Time

10.1 Elected Officials (excluding the Mayor) may claim reimbursement at the rate set out in the current Remuneration Authority determination for travel time (including travel to and from the member's residence) for travel undertaken on any one day to attend a Council or Community Board related meeting or event with a minimum threshold of one hour of time travelled. Refer to Schedule 1 for current rate.

10.2 Only time in excess of this threshold will qualify for payment and only if the travel is by the quickest form of transport and by the most direct route reasonable in the circumstances.

10.3 Travel time and mileage may be claimed for the same journey. Travel time is also applicable where the member is travelling with another person.

11 Travel and Accommodation

11.1 The principles as set out in the Sensitive Expenditure Policy section 7 to 12 apply to all elected officials.

11.2 Elected officials may need to incur travel and accommodation costs while conducting Council business elsewhere in New Zealand or overseas. The principles of a justified business purpose, moderate and conservative expenditure, are particularly relevant for travel and accommodation expenditure.

11.3 Travel and accommodation expenditure should be economical and efficient, having regard to purpose, distance, time, urgency and personal health, security and safety considerations.

11.4 To the extent where it is practical, travel and accommodation is to be booked well ahead of the actual travel date, so the expenditure is the most cost-effective possible.

11.5 Wherever possible use is to be made of Council's preferred suppliers and negotiated corporate rates. Any exceptions require the express approval of the Chief Executive or the Corporate and Governance Services Manager.

11.6 All elected members are entitled to payment of actual and reasonable travel, accommodation, meal and related incidental expenses (including travel insurance) incurred when travelling on Council business. Such travel must be pre-approved by the Council or the Community Board and be accommodated within existing budgets.

11.7 Where travel arrangements are extended to accommodate a member's personal arrangements, all costs in addition to those that would be expected for the business component of the trip are the responsibility of the elected official.

11.8 **Taxis and Rental Cars**

a) **Taxis** - Council expects the use of taxis to be moderate, conservative and cost effective relative to other transport options. Wherever practicable shuttle or bus services are to be used in lieu of taxis. Taxis are only reimbursed for approved business conducted outside the district.

b) **Rental Cars** - Council requires that the most economical type and size of rental car be used, consistent with the requirements of the trip. Rental cars are only available for business conducted outside the district and must be pre-approved. This approval may be given by the Chief

Executive or the Corporate and Governance Services Manager. Any fines (parking or traffic offences) incurred while using a rental vehicle are the responsibility of the driver.

c) **Private use** of a rental car is only permitted in exceptional circumstances and requires the express approval of the Mayor or the Chief Executive. All additional costs as a result of private use are the responsibility of the elected official.

11.9 Air Travel

a) Council business air travel arrangements should be made through the Governance Support team.

b) **Domestic travel** requires the prior approval of Council, or the Chief Executive or the Corporate and Governance Services Manager.

c) **International travel** requires the express approval of Council.

d) Discounted economy or economy class and/or a discount airline is to be the first choice for journeys where the uninterrupted flight time is 5 hours or less, except where the distance or hours travelled, work schedule on arrival, or personal health, safety or security reasons make business class preferable. In all circumstances first class travel is prohibited.

e) Council payment for membership of airline travel clubs eg Koru Club is restricted to the Mayor. Subscriptions by elected members to airline clubs shall not be reimbursed or an allowance made.

11.10 Accommodation When Travelling

a) Must take into account the location of the accommodation relative to the event, the standard of the accommodation (which should be modest) and security issues.

b) The use of "luxury" accommodation is not permitted.

c) **Private accommodation** – Where an elected member elects to arrange private accommodation, this will be reimbursed at a set nightly rate that is all inclusive of accommodation, transport to and from the private residence and meals. No other expenditure shall be claimed by the elected member and no receipts are required for reimbursement to occur. Refer to Schedule 1 for the current rate.

d) Accommodation check out times are to be observed. In the absence of extenuating circumstances, any additional costs as a result of failing to check out in time are the responsibility of the elected official.

11.11 Meals when Travelling

a) Reasonable meal costs will be met with the total cost not expected to exceed the amount specified in Schedule 1, or such other amount as is set from time to time by the Chief Executive. Separate meal expenses will not be met where a meal has been provided as part of the meeting, conference, training, hotel booking etc.

b) Drinks – Council will pay for only one beverage (alcoholic or non-alcoholic) with an evening meal, e.g. one glass of wine or non-alcoholic beverage, one can or one small bottle of beer. Casual drinks before or after the evening meal are to be paid for by the elected official.

c) Minibars/Videos – these costs will not be reimbursed by Council.

11.12 Other Travel expenses

a) **Phone Calls** – All charges for business-related telephone calls, faxes, email and internet access made by an elected official while travelling on Council business will be reimbursed. Reasonable private use to clear email and communicate with family members is permitted.

b) **Unexpected Events** - Reasonable expenses will be met for unexpected events, e.g. overnight expenses due to a cancelled plane flight.

12 Accommodation and Meals – Official Meetings

12.1 Meals

a) Where a Council meeting adjourns for lunch and a member of the Council buys his or her lunch, and where a Community Board meeting adjourns for lunch and a member of the Community Board buys his or her lunch, then the member may claim reimbursement of the cost of their lunch up to the amount specified in Schedule 1.

b) Where the Councillors attend a meeting that ends at lunchtime and the same Councillors attend a subsequent meeting after lunch, then the member may claim reimbursement of the cost of their lunch up to the amount specified in Schedule 1.

c) Otherwise, the cost of meals paid for by a member of the Council or a member of a Community Board shall be reimbursed only if the member has obtained the approval of the Chief Executive or the Corporate and Governance Services Manager.

d) Reimbursement will only be applicable when lunch has not been provided by Council, or the Community Board.

e) Reimbursement of the cost of meals must be accompanied by receipts and details of the reason for the claim.

12.2 Reimbursement for accommodation

a) If it is unreasonable for an elected member to travel to his or her home after a meeting, the elected member may claim a meal and accommodation allowance. The maximum amount of the allowance is specified in Schedule 1 and is reimbursable with receipts. No reimbursement for purchases from hotel mini-bars or charges for in-room services will be accepted.

13 Entertainment and Hospitality

13.1 Except for meals reimbursed under other sections of this policy no hospitality and entertainment allowances are payable to elected members.

13.2 For reimbursement or charging, all entertainment and hospitality expenditure must comply with the requirements set down in the Sensitive Expenditure Policy.

13.3 In particular elected officials must ensure that full receipts, details of the names of parties entertained and reasons for the entertainment are to be provided.

14 Communications

14.1 Technology Equipment

a) The Council provides the following equipment or the equivalent to designated members of Council. Private use of this equipment is permitted.

b) Council provides "Diligent" software to Community Board members to allow them to utilise electronic board and Council papers and resources.
- Notebook computer, printer – The Mayor
- Mobile phone - The Mayor and the Deputy Mayor
- Mobile devices (e.g. iPads) - Councillors

c) The tablet devices provided to Councillors to allow the use of electronic board papers may be retained by the elected member at the end of three years. At that time due to wear and tear and technological obsolesce they are of limited value or use on return to the Council.

14.2 Communications Allowance

a) The Council provides a communications allowance to all elected officials with the exception of the Mayor.

b) This annual allowance is reviewed every three years (or when the Remuneration Authority issues a Determination) and is based on the actual costs for a typical elected official. The allowance detailed in Schedule 1 has been set in accordance with the Local Government Members (2019/20) (Local Authorities) Determination 2019. The difference in amounts is due to the provision of tablet devices (iPads) to all Councillors by Council.

c) The allowance covers provision by the elected member of equipment and also covers related data charges as detailed below. Council staff will assist with setting up access on the chosen device to Council systems. All maintenance and other costs are the responsibility of the member.
- PC /Notebook/tablet etc. where a notebook or tablet (iPad) is not supplied by Council;
- Printer;

- Broadband internet connection and related charges including installation where applicable;
- Home phone land line including rental and toll charges;
- Mobile device and related charges including toll/data charges.

d) In exceptional circumstances where unusually high internet access set up costs apply e.g. in remote rural areas, the member may request a one-off reimbursement of 50% of the setup costs.

e) In an election year the annual allowance will be paid pro rata in two amounts. The first being for the period up to the election date. The second for the period from the election date to 30 June in the following year.

15 Stationery and Consumables

15.1 On request the Corporate and Governance Services Manager will supply reasonable amounts of paper and reimburse the reasonable costs of printer consumables, for Council business use only. Reimbursement claims for printer consumables must be included in the monthly expense claim and indicate the percentage of business use the printer is typically put to. The reimbursement will be limited to the business use percentage of the cost.

16 Conferences, Courses, Seminars and Training

16.1 The conference, course, seminar or training event must contribute to the Councillor's or the board member's ability to carry out Council and or board business.

16.2 The cost of a member of the Council or a member of a Community Board registering to attend a conference or seminar on Council or Community Board business shall be reimbursed only if the Council or Community Board has previously resolved to do so. Otherwise, no expenses are reimbursed or allowances paid in respect of elected member's attendance at professional development courses, conferences and seminars.

17 Clubs and Associations

17.1 Except as allowed under rule 12.8(e), no expenses are reimbursed or allowances paid in respect of subscriptions to clubs or associations.

18 Other Expense Reimbursement

18.1 Other than as expressly provided for in a Remuneration Authority determination or with the express approval of the Chief Executive or the Corporate and Governance Services Manager no other expense reimbursements are made or allowances paid, to elected members.

18.2 Certain items have been confirmed as not reimbursable as follows:

- increased clothing standard because of attendance at Council and other meetings;
- constituent expenses;

- lost time or the additional payments incurred in having normal work undertaken by someone else;
- personal subscriptions to magazines, clubs and organisations;
- hospitality extended to constituents in private home on Council business, and community contacts; and
- spouse's costs in attending functions, with the exception of the Mayor's spouse, invited in an official capacity.

Schedule One

Notes:

1. These are to be read in conjunction with the conditions described within the Policy Section
2. All items which attract GST are considered inclusive of GST unless specified otherwise

Policy Section	Item	Claimable Expense Rate	General Conditions
10.1	Mileage	79c per kilometre	For a petrol or diesel vehicle, the first 14,000 kilometres of eligible travel. Other limits apply. These are detailed in section 9 of the current Remuneration Authority Settings document. Note: Mileage may be subject to income tax, even within the 14,000 km.
10.1	Travel Time	$37.50 per hour	
11.10 (c)	Private Accommodation	$55.00 per night	Inclusive of accommodation, transport to and from, and meals.
11.11 (a)	Meal	$45.00	per person per meal, inclusive of one alcoholic beverage
12.1	Lunch	$15.00	Official meeting days only.
12.2	Accommodation	$180.00	Per night of official meeting.
14.2 (b)	Communication Allowance	$1300.00pa	For Councillors.
		$1700.00pa	For Community Board members.

Authorised by Janine Dowding, Chief Executive in accordance with Council Resolution

Date of approval: 13-02-2020

Updated: July 2021

1 Staff Numbers Statistics for June 2021

	Full Time	Part time	Casual	Fixed Term
Community Development	62	32		4
Corporate & Governance Services	36	7		1
Engineering Services	53	2		2
Environment & Planning	123	9		5
Executive & Council Services	13	1		
Information Services	23	1		1
Headcount = 375 **FTE = 348**	**310**	**52**	**0**	**13**

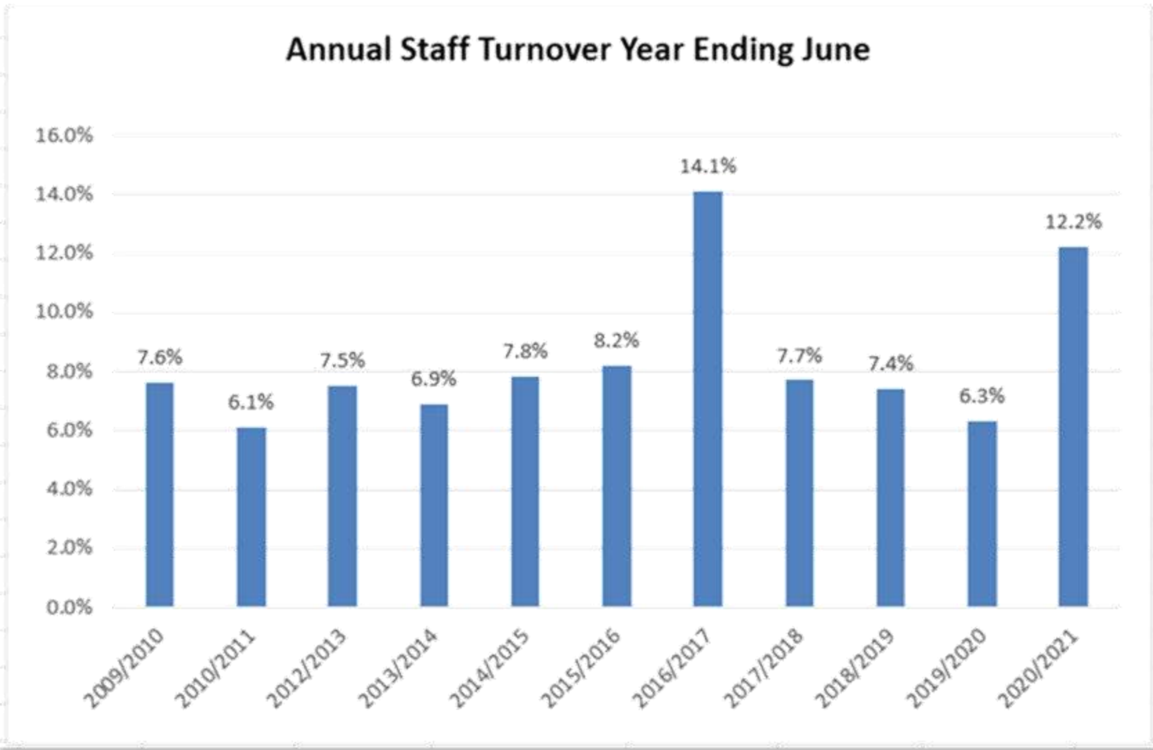
	June 2021	June 2020	June 2019	June 2018	June 2017
Community Development	99	96	93	86	84
Corporate & Governance Services	44	39	52	49	46
Engineering Services	56	52	51	47	46
Environment & Planning	137	129	120	113	106
Executive & Governance	14	11	10	10	8
Information Services	25	21	previously part of Corporate Services		
Headcount =	**375**	**348**	**326**	**305**	**290**
Increase on headcount	7.7%	6.7%	6.9%	5.2%	2.5%
FTE =	**348 ***	**316**	**296**	**278.5**	**263.5**
% increase on FTE	10.1%	6.8%	6.3%	5.7%	3.7%

* Note – existing flexible working arrangements amount to a 4.5 FTE 'reduction' to the total FTE

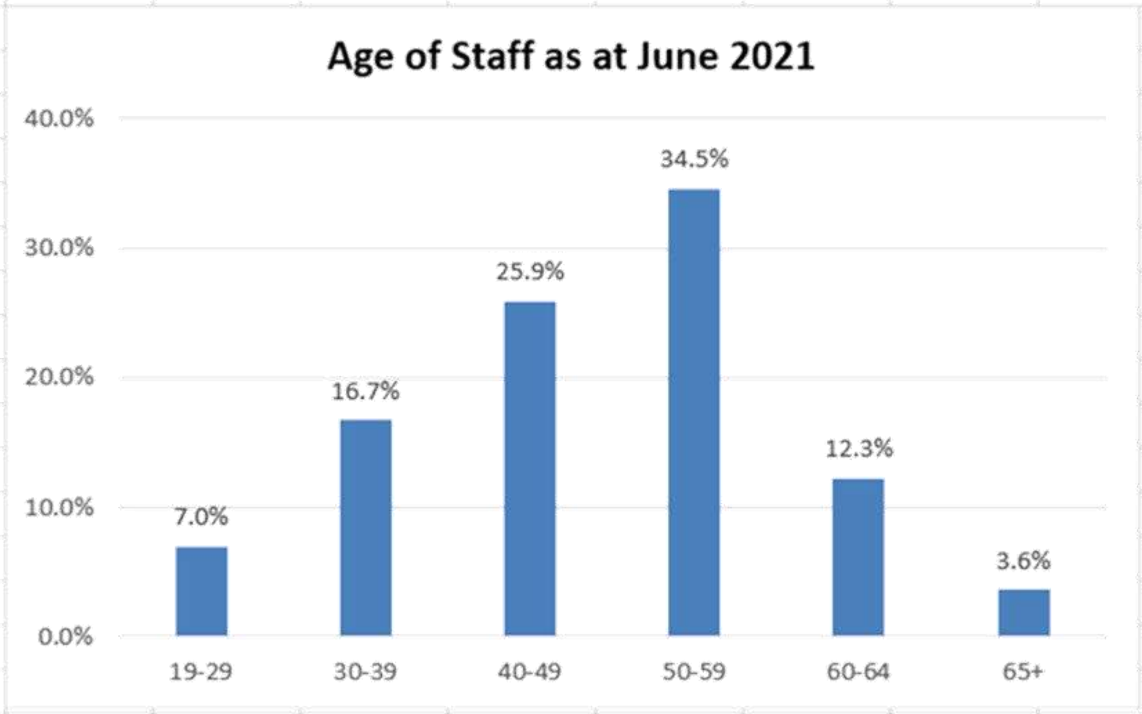
Activity Area	Position Title
Community Development (3 new roles)	• Community Engagement & Outreach Specialist (fixed term) • Digital Learning & Digitisation Specialist (fixed term) • Internal Communications & Change Advisor
Corporate Services (5 new roles)	• Enterprise Portfolio Officer • Property Officer • Rates Officer • Senior Legal Advisor • Team Leader - Revenue
Engineering Services (4 new roles)	• Project Manager x 2 • Transportation Planning Officer • Water Engineer - Treatment

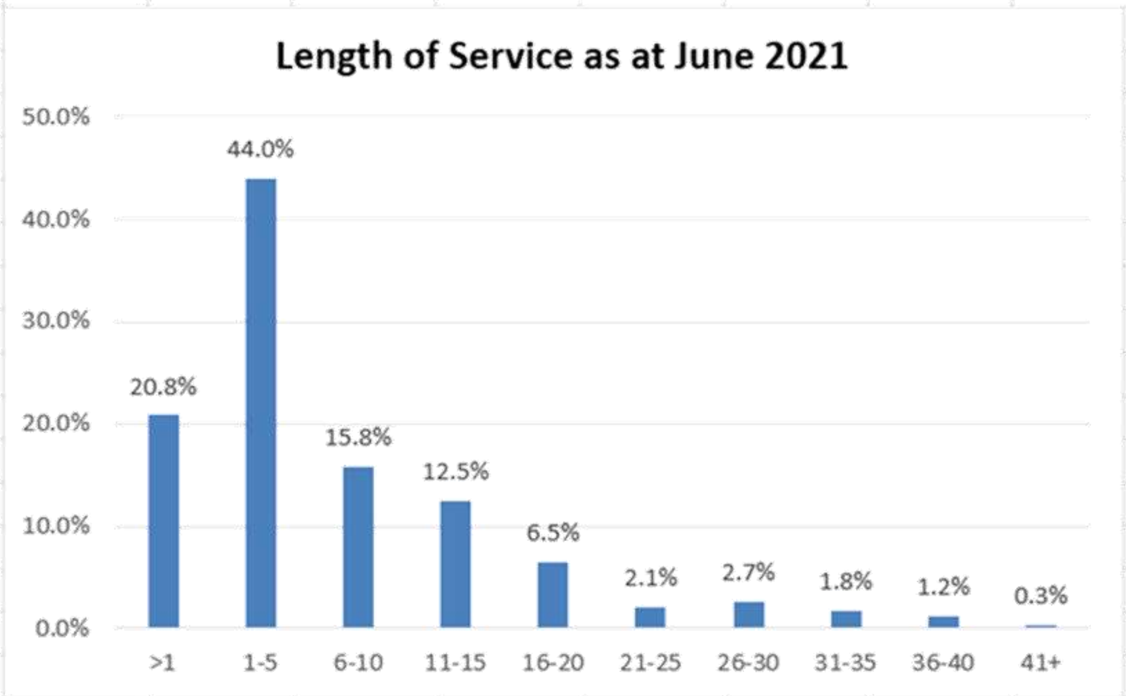
Environment & Planning (8 new roles)	• Administration Officer – Resource Consents • Biosecurity Officer • Catchment Enhancement Officer • Compliance & Investigation Officer – Freshwater • Consents Officer – Land Use • Principal Planner – Resource Consents • Project Manager – Jobs for Nature (fixed term) • Resource Scientist – Soil & Land (fixed term)
Executive & Council Services (3 new roles)	• Health & Safety Administrator • PMO Analyst • PMO Co-ordinator
Information Services (7 new roles – less 3 disestablished roles = total movement of 4)	• Applications Specialist (Sharepoint) • Digital Solutions Architect • Digital Workplace Engineer • Executive Assistant – Information, Science & Technology • Service Delivery Support Cadet (fixed term) • Value Stream Analyst x 2

2 Staff Turnover Statistics



3	Staff Age and Length of Service Statistics





Health and Safety Indicators and Monitoring Report – for Six Month Period 1 January to 30 June 2021

(*Financial Year Event Statistics)

Health and Safety Commitment – We promote a safe work environment that puts the wellbeing and safety of our people first.

Leadership	**Visible Commitment and Decision Making**	Currently no specific H&S leadership indicators have been identified because the demonstration of safety leadership is fundamental to the Council (PCBU) effectively managing its H&S responsibilities and is interwoven through everything we do. This includes performance goals/KRAs, induction processes, and safety leadership training.

People — **Accident / Incident Events**

Notifiable Events	Notifiable events reported this period	Outstanding audit corrective actions
1 (0)	CAA were notified when an aircraft at the Motueka Airport overshot the runway (no injuries)	0 (0)

* H&S Event Statistics to 30 June 2021
Employees

Injuries / Illness	6 Mths	FY 2021	FY 2020
Fatalities	0	0	0
Lost time injuries	0	1	0
Restricted work	0	1	0
Medical	2	3	10
First aid	1	6	11
No treatment	32	50	57
Totals	35	61	78

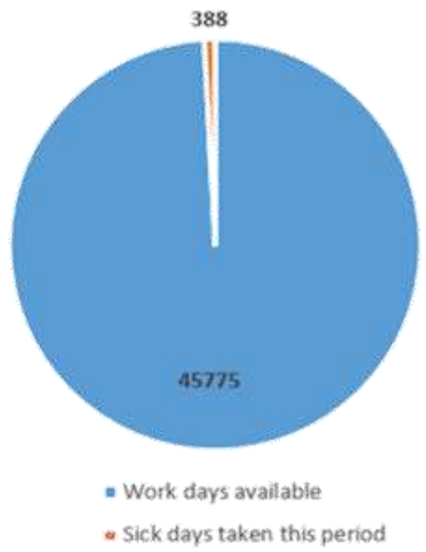
Event Types	6 Mths	FY 2021	FY 2020
Notifiable	0	0	0
Injury / Illness	7	22	37
Incident	19	26	34
Near miss	9	13	7
Totals	35	61	78

* H&S Event Statistics to 30 June 2021
Public and Volunteers

Injuries / Illness	6 Mths	FY 2021	FY 2020
Fatalities	0	0	0
Lost time injuries	N/A	N/A	N/A
Restricted work	N/A	N/A	N/A
Medical	1	1	1
First aid	2	3	3
No treatment	10	16	4
Totals	13	20	8

Event Types	6 Mths	FY 2021	FY 2020
Notifiable	0	1 (CAA)	0
Injury	2	3	6
Incident	7	11	2
Near miss	4	6	0
Totals	13	20	8

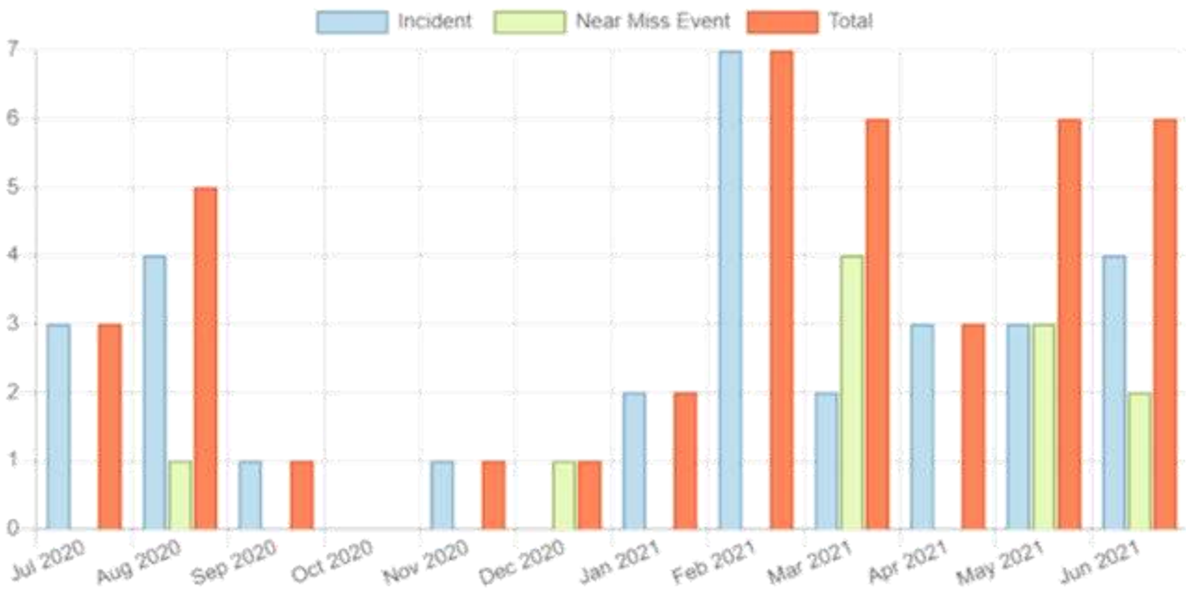
Sick days taken to total work days available
(previous period - 631 days)



The graph on the right represents employee injury/illness treatment types the 12 month period July 2020 to June 2021.

The lost time injury resulted in 7 days 'lost time' wrist injury caused from twisting and lifting heaving boxes from above head height.

The low level of reporting during the December / January period is likely due to staff taking longer holidays last summer.



The graph on the left represents employee incidents and near miss events for the 12 month period July 2020 to June 2021.

Analysis of the incident category shows three main reporting areas and these are:

(1) abusive/threatening behaviour – 12 events, (2) self-discomfort reports – 8 events, (3) vehicles – 5 events

There is also a cluster of facilitie related events e.g. static electric shocks,lighting issues, paint fumes hot water burns, overreaching, lifting and discomfort caused by workstation setups

Health and safety training completed

213(195) staff

1.	4WD training	6
2.	Advanced driver	14
3.	Driver (theory) awareness	12
4.	Downers Safety Induction	13
5.	First aid	10
6.	First aid kit training	23
7.	Anaphylactic first aid	10
8.	Fire warden refresher	11
9.	Site safe passport	18
10.	Child Protection for Govt workers	1
11.	Dog bite prevention	19
12.	Fall arrest systems refresher	7
13.	Manhole lifting	9
14.	Workstation set up training	42
15.	Manual handling (Library staff)	18

Health & Safety Committee meetings

4(5)

Health & Safety Representatives

8(8)

Registered Volunteer Workers

200(194)

Flu vaccinations

168(0) staff

Eye tests

13(13) staff

Systems

Health and Safety Management Systems (HSMS)

The Council has a Health and Safety Management Systems Manual (HSMS) and this forms the primary framework for managing H&S. It complies with the requirements of the Health and Safety at Work Act.

The Council's corporate H&S policies and processes were reviewed in November 2019 and are due for review again in November 2021. There are 30+ corporate H&S processes documented in Promapp and these are updated as required.

Internal H&S Audits / Internal Practice Reviews	External H&S audits	Outstanding audit corrective actions
2(5)	1(0)	0 (0)

Risk

Contractor Health and Safety Monitoring

Contractors H&S pre-qualified
249(234)

Contractors H&S pre-qualification-pending
0(0)

Contractor safety observations
50(36)

Contractor HSMS audits
2(0)

Contractor Notifiable Events
0(0)

No notifiable events reported this period

The Council is not informed of every contractor health and safety event, and only records and reports on contractor events that are notifiable to WorkSafe.

* H&S Event Statistics to 30 June 2021
Contractors

'No treatment' includes incidents and near miss reports

All Events	6 Mths	FY 2021	FY 2020
Notifiable	0	0	0
Medical	3	5	4
First Aid	4	6	1
No Treatment	14	22	12
Totals	21	33	17

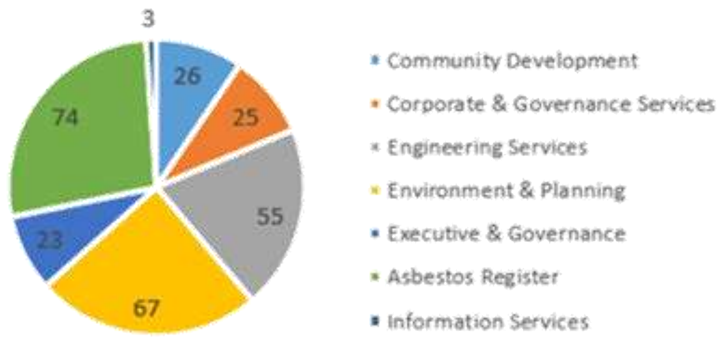
Risk Management

H&S Risks identified (recorded in Vault)
229(268)

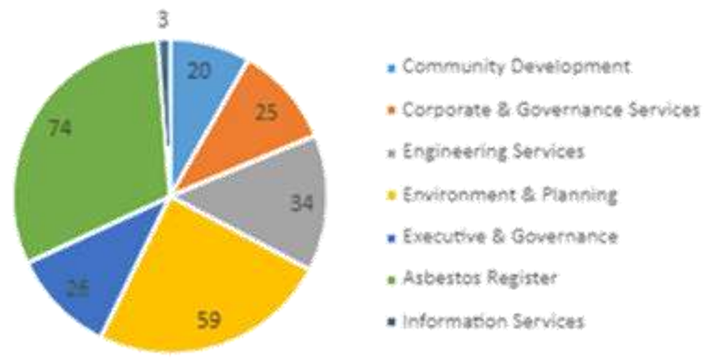
Critical Residual Risks (risk rating of ≥15)
0(0)

Critical Risk corrective actions raised
0(0)

Total # of Risks Identified by Department July to December 2020



Total # of Risks Identified by Department January to June 2021



Communication

Sharing Information

Currently no specific H&S communication indicators have been identified because communication and sharing information on H&S is fundamental to the Council (PCBU) effectively managing its H&S responsibilities and is interwoven through everything we do. This includes formal contract documentation, site meetings and recorded safety observations.

8.6 MAYOR'S ACTIVITY UPDATE REPORT

Information Only - No Decision Required

Report To:	Full Council
Meeting Date:	12 August 2021
Report Author:	Tim King, Mayor
Report Number:	RCN21-08-6

1 Summary

1.1 Welcome to today's meeting.

1.2 Any thoughts I had about business "slowing down" a little after our marathon effort with the Long Term Plan, have not come to fruition. July was a very busy month.

1.3 While the recent heavy rainfalls caused damage to parts of our infrastructure and had significant impacts on landowners across the District, we were fortunate that the disruption was less than our neighbours in Buller District and Marlborough District, Our Civil Defence team is in regular contact with both affected councils offering help wherever they can.

1.4 I would like to acknowledge and thank our Council staff and our contractors who have worked long hours to get our roads cleared, manage wastewater overflows, ensure our water supplies are working to a high standard and to repair the damage to some of our parks and reserves and the cycle trail because of the July rain events. Also, special thanks to those staff who gave up their weekend and, in some cases, their annual leave to work at the Emergency Operations Centre during the weekend of 16-17 July 2021.

1.5 Thanks also to residents and ratepayers as we work through the repairs to the damage caused by the flooding.

1.6 The three-waters reform debate continues to move at a fast rate. I attended the Local Government New Zealand conference in Blenheim on 16 and 17 July 2021 where the Prime Minster announced the $2.5 billion government package to help improve drinking water supplies as part of the reforms. While the funding will be welcome, there is still a lot of work to be done before we know exactly where Tasman District sits in this reform programme. And, in my view, it is imperative that our residents and ratepayers are given an opportunity to consult on the reforms before any final decisions are made at a national level.

1.7 With the three-waters reforms ramping up, along with the Local Government reforms which are also cracking along, the "face" of local government is in for a lot of change. And while change can be a positive, we also need to be mindful and work for the benefit of our ratepayers in the long term.

1.8 It was good to hear from central government that Council staff currently working in the water supply space will be employed in the new entity should the reforms proceed in their current form. I know this process has concerned some of our staff and the Leadership Team is aware of their uncertainty and is supporting them as much as possible.

1.9 I would like to congratulate our Chief Executive, the Leadership Team and all the Council staff for the successful launch of the reorganised Council operations. The staff have taken ownership of their new vision, mission and values and it is great to see all the different teams welcome their new team colleagues and to work together for the common goal.

1.10 Special thanks to Cr Wensley who represented the Council at two recent public events - the commissioning and installation of the new Dean of Christ Church Cathedral in Nelson on 11 July 2021 and the launch of “Wellby” a new initiative set up by Age Concern that’s about connecting people.

1.11 Thanks also to Cr Maling who represented the Council at the Local Government New Zealand Annual General Meeting and voted on the remits on our behalf.

1.12 Finally, I would like to acknowledge Leonie Rae, our new Chief Operating Officer. Welcome to the Top of the South Leonie.

2 Draft Resolution

That the Full Council receives the Mayor's Activity Update Report RCN21-08-6.

3 Mayoral Activity

3.1 I attended the official welcome for Lyndon Bray, the new Chief Executive of the Tasman Rugby Union on 24 June 2021.

3.2 Meeting with Landmark Like on 1 July 2021 regarding a building consent for new apartments on Kaiteriteri Inlet Road.

3.3 The Nelson-Tasman Chamber of Commerce conference was held on 2 July 2021 at the Annesbrook Events Centre. It was great to listen to some inspirational speakers including Greg Foran from Air New Zealand, Volker Kuntzsch, the new Chief Executive Officer of the Cawthron Institute and especially, Jehan Casinader, journalist, author, and mental health advocate whose recount of his life's journey was awe-inspiring.

3.4 The regular Cawthron Institute Board meeting was held on 5 July 2021.

3.5 Our Chief Executive Officer, Janine Dowding and I met with Ngāti Rarua on 5 July 2021. This was one of our ongoing programmed meetings with the Top of the South iwi to build on our relationships.

3.6 The regular shareholders briefing with Waimea Water Limited was held on 7 July 2021.

3.7 Ms Dowding, Audit & Risk independent member, Graham Naylor and I interviewed candidates for the vacancy on our Audit & Risk Committee on 9 July 2021. A report recommending the preferred candidate is included in this agenda.

3.8 The monthly Mapua & Districts Community Association meeting was held on 12 July 2021.

3.9 I attended the Kaiteriteri Recreation Reserve Board meeting on 13 July 2021.

3.10 A zoom meeting was held between Hon Nanaia Mahuta and Nelson City and Marlborough District Councils on 14 July 2021 to discuss the three-waters reforms.

3.11 I met with NMIT staff on 20 July 2021 to discuss the Institute's ongoing support to businesses in Te Tauihu.

3.12 I chaired a public meeting with members of the Riverside community and surrounding landowners on 21 July 2021 regarding the Council's decision to allow for growth in the Lower Moutere area.

3.13 The Civil Defence Emergency Management Group meeting was held on 27 July 2021.

3.14 Nick Clarke from Habitat for Humanity met for a catch up on 28 July 2021. I am very impressed with the work the group is doing to provide affordable housing in our District.

3.15 I attended the Future for Local Government, Top of the South Workshop at the Beachside Conference Centre on 28 July 2021.

3.16 The Chief Executive Officer's review committee met on 29 July 2021.

3.17 I was invited along to the opening of a new hairdressing salon, Just Cuts in the Richmond Mall on 29 July 2021.

3.18 The Tasman Area Community Association Annual General Meeting was held on 29 July 2021. On behalf of the Council, I presented David Short, the outgoing Chairperson with a certificate of appreciation for his work in building a good relationship with us.

3.19 MBIE held a regional strategic partnership fund workshop on 30 July 2021 with attendance from all three Top of the South councils. The recently launched fund provides $200 million seed funding to support the Government's vision of creating more productive, resilient, inclusive, sustainable and Māori-enabling (PRISM) regional economies.

3.20 I enjoyed a great meal with Fish & Game personnel for a Game Bird food night on 1 August 2021 – every game bird was on offer, including pukeko!

3.21 The Brightwater Community Association meeting was held on 2 August 2021.

3.22 I was invited to address the Rotary Club of Nelson West on 4 August 2021. I took the opportunity to speak about the upcoming three waters and local government reforms and the complexity of the decisions that councils will have to make in the near future.

Attachments

Nil

9 CONFIDENTIAL SESSION

9.1 Procedural motion to exclude the public

The following motion is submitted for consideration:

That the public be excluded from the following part(s) of the proceedings of this meeting. The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

9.2 Appointment of Independent Member to Audit and Risk Committee

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of a deceased person.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

9.3 Expression of Interest for Infrastructure Acceleration Fund

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information. s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

9.4 Enterprise Activity - Land Purchase

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.