

## ***10. Approve draft Revenue & Financing Policy – Drinking Water – for public consultation***

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### **Summary**

- The purpose of this report is to enable Council to approve a draft Revenue & Financing Policy for drinking water (and associated rating policies) for public consultation.
- Council is investing \$7.1M on upgrading the Methven Water Treatment Plant to meet community expectations of service quality and NZ Drinking Water Standards.
- The impact on operating costs for Methven-Springfield ratepayers is expected to be unacceptable and Council has advised ratepayers that it will review its policies to find an acceptable funding solution.
- The recommendations below take Council through the decision-making process in a structured way. The rationale is explained in detail in the report.

### **Recommendation**

- 1. That** Council support public consultation on the District Water Group (DWG) option in preference to retaining the Status Quo for Methven-Springfield water.
- 2. That** Council select a preferred option from options 2A, 2B, 2C or 2D as the preferred Option for public consultation.
- 3. That** Council support public consultation on the policy that serviceable properties will not be charged a half charge in the Methven-Springfield supply area.
- 4. That** Council approve the draft Revenue and Financing Policy – Drinking Water attached as Appendix 1 for public consultation, commencing 6 April 2023.

### **Attachment**

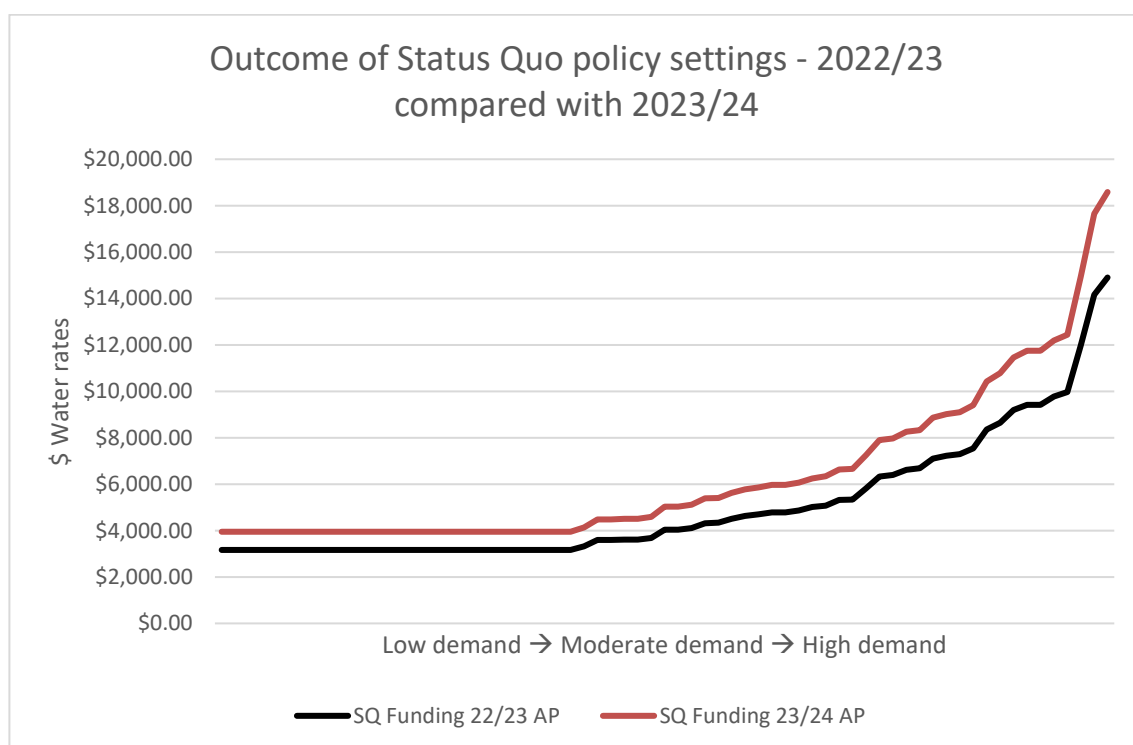
**Appendix 1** Draft Revenue & Financing Policy – Drinking Water

## Background

### The current situation

#### Rising costs

1. Council is currently upgrading the Methven Water Treatment Plant to provide membrane filtration and other upgrades to meet NZ Drinking Water Standards and address community concerns about the quality of drinking water and repeated use of boil water notices. The plant will provide treated water to both the Methven township and the Methven-Springfield water supplies. The budget for this work is \$7.1M.
2. Methven township is already part of the DWG<sup>1</sup>. There are around 11,700 households and businesses in the Group. This spreads the increased costs and means that major upgrades are more affordable for small communities.
3. Methven-Springfield is not part of the DWG. There are 67 connected units in the Methven-Springfield Supply. A “household” in Methven-Springfield pays \$3,165.90 in 2022/23 for drinking water. This will increase about 21% to \$3,848.90 in 2023/24. A household in the DWG will increase around 6.7% to \$548.90 by comparison.
4. **Graph 1 – Expected Increase in Methven-Springfield water rates under Option one – Status Quo (SQ)**



<sup>1</sup> Supplies in the Group are Ashburton, Chertsey, Fairton, Hakatere, Hinds, Mayfield, Methven, Mt Somers and Rakaia.

5. Given the magnitude of increases in the Long-term Plan, Council has already signalled its intention to review the Revenue and Financing Policy (R&FP) for Drinking Water to solve this problem.

#### *Current policy settings*

6. The full R&FP for drinking water is enclosed as Appendix 1. In summary, it states that:
- The benefits of this activity are primarily private so funding through a targeted rate is considered appropriate.
  - Business and extra-ordinary residential connections are considered “high-users” and are charged for excess consumption above their allocation.
  - Vacant sections and unconnected rating units benefit from the provision of fire-fighting capacity and are charged an availability charge.
  - Exceptions from the Policy include Methven-Springfield.
7. The Water Supply Bylaw states that “**extraordinary supply** means a category of on demand supply including all purposes for which water is supplied other than ordinary supply and which may be subject to specific conditions and limitations”

#### *Rating policy, the District Water Group and Methven-Springfield Supply*

8. Rating policy for the District Water Group includes:
- A targeted rate based on a fixed amount per separately used or inhabited part (SUIP)<sup>2</sup> of a rating unit in the water supply areas.
  - A full charge applies to connected rating units. A half charge applies to unconnected rating units for which a connection is available. These are referred to as “serviceable” rating units.
  - Some water supplies are expressly excluded from the Group. These include rural agricultural water supplies, like Methven-Springfield.
  - High users are charged for extraordinary supply on the basis of a fixed amount per 1,000 litres of water consumed in excess of a specified threshold.
9. Rating policy for the Methven-Springfield supply includes:
- Methven-Springfield is currently identified as an exception to the DWG.
  - A targeted rate per connected unit for supply up to 12m<sup>3</sup> per day for a year.
  - No charge for serviceable properties.
  - Properties using more than 12m<sup>3</sup> per day are charged on the basis of a fixed charge per 1,000 litres per day for a year.

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<sup>2</sup> Council defines an SUIP as “any portion of a rating unit used or inhabited by any person, other than the ratepayer or member of the ratepayer’s household, having a right to use or inhabit that portion by virtue of a tenancy, lease, license or other agreement.” In the rural-agricultural context of Methven-Springfield an SUIP would often be farm workers’ accommodation.

## **Outcomes from the Council Workshop**

10. Officers presented on the options available to Council to address the objectives of this decision.
11. It was identified that:
  - Option Two – District Water Group – is more affordable than Option One - Status quo - and fairer than other alternatives.
  - Officers would undertake some pre-engagement via survey of Methven-Springfield water Consumers, including seeking information on the availability of alternative water.
  - Councillors would like to see metering introduced as rates based on the maximum amount of water that can pass through a restrictor can result in overcharging.

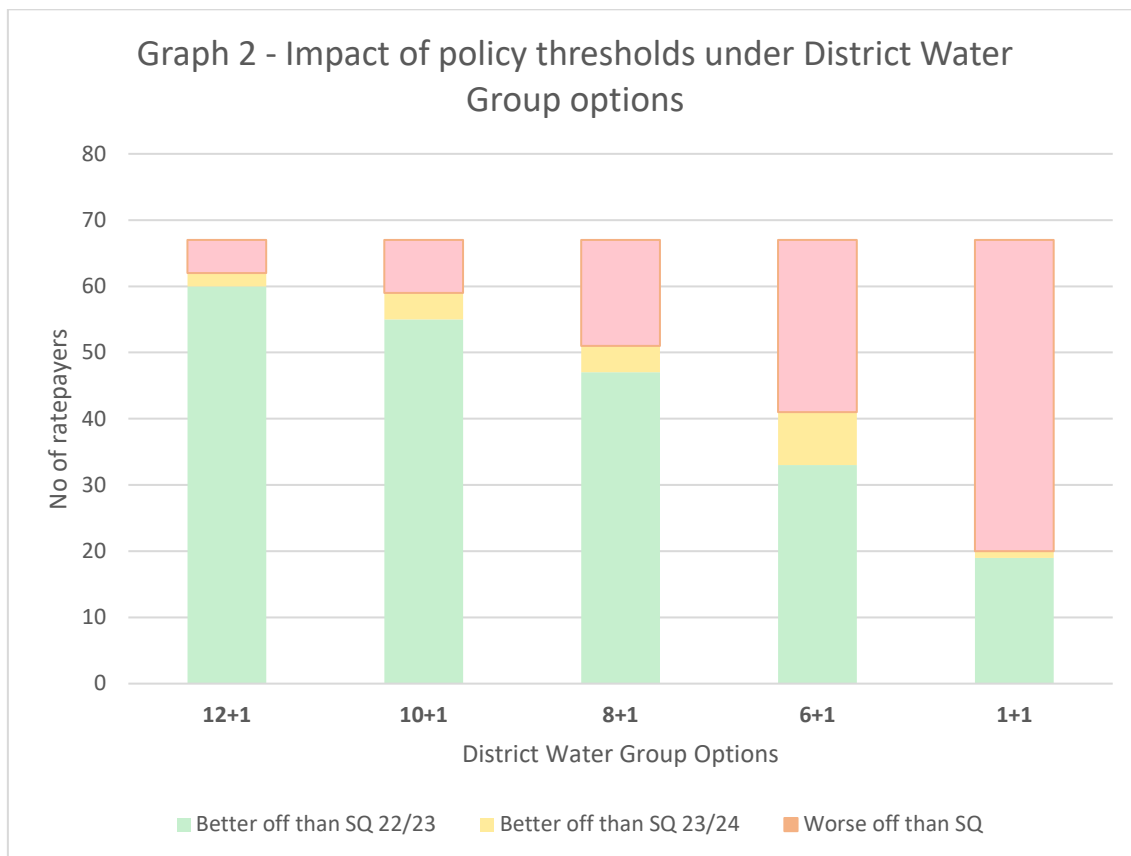
## **Events since the Council Workshop**

12. Officers are progressing the installation of meters. An estimated completion date will be reported at the meeting.
13. Council received eleven responses to the survey by 24 March. Key points are:
  - Eleven responses from 57 property owners is 19.29%. While useful, it is a small sample and the risk of inaccuracy is higher than a larger sample.
  - 82% of responses favoured Option Two – Joining the District Water Group
  - 45% of respondents said they had access to an irrigation scheme.
  - 63.63% of respondents said that if they joined an irrigation scheme, they would retain the Council supply for drinking water.
14. Conversation with staff and with people who received the survey highlighted that there are grey areas in how the District Water Group policy settings should be applied to Methven-Springfield.
15. These areas include:
  - Treating unconnected properties in close proximity to the existing reticulation as “serviceable” properties is not appropriate as these properties are likely to be entirely self-sufficient due to well water.
  - The DWG is set up, in general terms, on the basis of a 1+1 formula – meaning the targeted rate pays for the first 1,000 litres per day and then high users pay for every extra 1,000l used.
  - Methven-Springfield is set up on the basis of a 12+1 formula – meaning the targeted rate pays for (up to) 12,000 litres/day/year and then high users pay for every extra 1,000 litres used.
  - A 1+1 formula at Methven-Springfield does not successfully address the affordability issues that kicked off this work. It treats everyone uniformly within the DWG, so may be perceived as fair and equitable.

- As some properties in Methven Springfield have multiple SUIPs in the rating unit<sup>3</sup>, this creates another “formula”, the 12+12+1 – where people pay for 12,000 litres with their first SUIP, another 12,000 units for the next and any subsequent SUIP. This results in some perverse outcomes as very high users with multiple SUIPs will see their rates go down (in one case dropping by \$10,000 to \$4,000) while someone with one SUIP and half the overall water allocation is paying \$9,000. For this and other reasons, the 12+12+1 model is not seen as a reasonable and practicable option.
16. Officers have identified four Options based on the DWG approach that we consider reasonable and practicable to achieve the outcomes of this decision. These are:
- **Option 2 – the 12+1 model** – this is the closest in concept to the current Methven-Springfield arrangements. From a residential viewpoint, this is the least fair and equitable. From an affordability viewpoint, this is the best of the options presented.
  - **Option 3 – the 10+1 model** - this means that everyone using more than 10m<sup>3</sup> per day on average is liable for meter charges. This offers slightly less affordability benefit to Methven-Springfield ratepayers and is slightly fairer and more equitable from a residential viewpoint.
  - **Option 4 – the 8+1 model** – like the shift from 12+1 to 10+1, the shift to 8+1 is also slightly less affordable and slightly more equitable, viewed from a residential perspective.
  - **Option 5 – the 6+1 model**. Again, this offers less affordability benefit and by this stage more than half of Methven-Springfield ratepayers will pay more in water rates compared with 2022/23. When compared with the Status Quo under 2023/24 budgets just over half are better off – so this Option sits on the cusp of nett zero benefitting ratepayers. Again, from the residential perspective, this is the most equitable of the reasonable and practicable Options.
17. Where Council chooses to set the policy threshold for the amount of water per SUIP, and the amount for the first SUIP, has a potentially significant impact for Methven-Springfield ratepayers. This information is summarised in Graph 3 below and further discussed under Options analysis.

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<sup>3</sup> 29 ratepayers have more than one SUIP on their connected unit.



## Options analysis

### Criteria for analysis of Options

18. Council identified that a good solution will be:

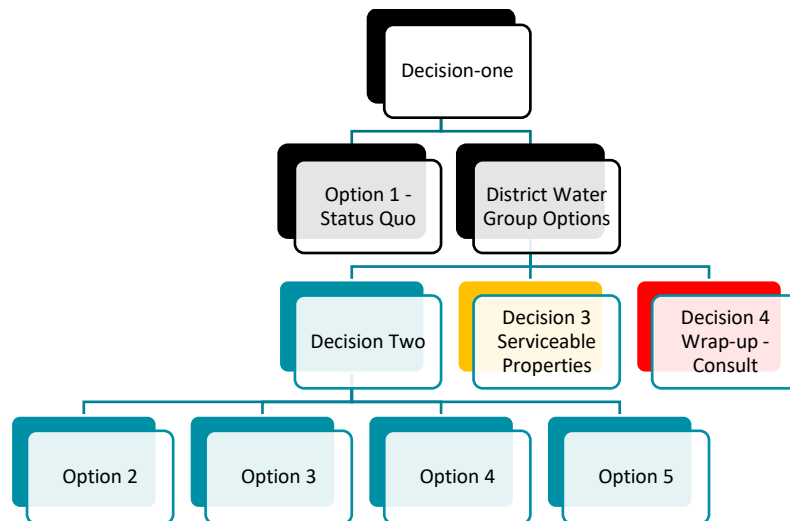
- Lawful in terms of substance and process – as set out in the Local Government Act 2002 and the Local Government (Rating) Act 2002
- Timely – decision to be implemented from 1 July 2023
- Affordable to ratepayers
- Fair to ratepayers and other affected parties
- Acceptable to the community and decision- makers
- Cost-efficient to deliver

### Decision Tree

19. Officers drafted a decision tree to illustrate the choices available to Council
20. The first decision for Council is whether to retain the status quo or move to the District water group Options. If Council opts for status Quo no further decisions are required on Options.
21. If Council, as recommended, opts for the District Water Group Options, the next decision relates to a preferred Option. Options 2-5 are the choices presented in this report.

22. The next decision is about serviceable connections, regardless of the preferred District water group option.
23. The fourth and final decision is a wrap-up resolution to consult on the basis of the earlier decision(s).

**Picture 1 – Decision-tree**



### **Option 1 – Status quo**

24. Under this Option, the proposed 2023/24 budget will be applied using the current policy settings. Methven-Springfield consumers will continue to pay a fixed amount for each connected rating unit. In 2023/24 this would be \$3,848.90. This entitles the ratepayer to up to 12 units of water passing through their meter per day. Where a ratepayer consumes more than 12 units per day they pay a rate per additional unit of \$263.90 (including GST). A unit equals 1,000 litres per day.

#### **Advantages:**

- Under this Option, the costs per ratepayer in the DWG are lower than Options 2-5
- Considering this option enables consumers and decision-makers to compare the status quo with alternatives.

#### **Disadvantages:**

- Under this Option, the forecasted increase for 2023/24 is over 24%. Council expects most Methven-Springfield ratepayers will find this unacceptable.
- Many high-volume consumers use most of their supply for stock water and do not require NZDWS water. They might choose to switch to an irrigation company, passing costs to remaining consumers. The impact on affordability for those remaining on the scheme would worsen.
- The ideas behind the DWG are that Group funding improves overall affordability and ensures that people pay the same amount for

	similar quantities of water treated to the same standards, even when on different supplies. Under Option one, most Methven-Springfield ratepayers will pay far more for their water than consumers in the DWG.
<p><b>Risks:</b></p> <p>There are financial risks in this Option if high-volume users opt out of the Methven-Springfield supply. There are also financial risks for consumers relating to the affordability of the water upgrades, which are mandatory. These financial risks, and the perceptions that the Status Quo is unfair for most Methven-Springfield consumers, may translate to reputational risks for Council. This is a lawful option with no legal risks attached. Overall risk assessment is <b>LOW-to-MEDIUM</b>.</p>	

## Option 2 – Bring Methven-Springfield into the District Water Group on the 12+1 model

25. Under this Option, the Methven-Springfield consumers would move into the DWG on a similar basis as consumers on other supplies. In 2022/23, there are around 11,700 ratepaying businesses and households in the Group. These water consumers all pay a fixed amount for each separately used or inhabited part (SUIP) of a rating unit. In addition, where they are identified as extraordinary consumers they will be metered and billed for their additional consumption.
26. Where it differs from the treatment of consumers on other supplies is that (aside from domestic use) other extraordinary consumers are charged on a volumetric basis for all consumption over an average of 1m<sup>3</sup> to 1.2m<sup>3</sup> per day. The threshold will be higher in Methven-Springfield than the balance of the DWG at 12m<sup>3</sup> per day for the first SUIP on a rating unit and then at 1m<sup>3</sup> for the second and any other SUIP, and then at \$1.00/m<sup>3</sup> for all water beyond that.
27. Under this Option, 60 of 67 Methven-Springfield ratepayers are better off in 2023/24 than in 2022/23. 2 of the 67 are worse off than in 2022/23 but better off than they would be under the Status Quo based on 2023/24 budgets. 5 are worse off compared with the Status Quo in both 2022/23 and 2023/24. See Graph 2 – Impact of policy thresholds.

<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• This option results in lower rates for the largest majority of Methven-Springfield consumers at 90-93%.</li> <li>• Under this funding model, the supply costs are spread across the entire DWG, making the funding much less vulnerable to high-users withdrawing from the supply.</li> <li>• A third advantage is that Methven-Springfield “households” are more fairly treated when</li> </ul>	<p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• 5 Methven-Springfield ratepayers will be worse off. As these users typically use water for stock, they do not need NZDWS water. It may be in their long-term interests to source their agricultural water from an irrigation company.</li> <li>• The 5 users may find that they do not have alternatives, in which case Council has to weigh up the fairness and equity for the consumers overall</li> </ul>
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<p>compared with a household in Ashburton or Rakaia.</p> <ul style="list-style-type: none"> <li>• In concept, this is closest to the current funding arrangement for Methven-Springfield and will be viewed as fair and equitable from a rural-agricultural viewpoint.</li> </ul>	<ul style="list-style-type: none"> <li>• This option also slightly increases costs for other supplies in the District Water Group.</li> <li>• High-use consumers in Methven-Springfield would be treated more generously than high-use consumers in the DWG.</li> </ul>
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#### **Risks:**

There are less risks in this Option if high-volume users opt out of the Methven-Springfield supply because the overall number of ratepayers in the DWG is approaching 12,000. There are also financial risks for the five Methven-Springfield consumers relating to the affordability of policy change, especially if they cannot source alternative supply.

There is also a risk relating to the accuracy of some of the underlying modelling data and a future financial risk related to the volumetric revenue as we only “know” the maximum amount of water people can use – we do not know actual usage.

The possible inequity for a small minority of consumers may translate to reputational risks for Council, as may the fact that there is a higher threshold before volumetric charging kicks in. 1 This is a lawful option with no legal risks attached. The Overall risk assessment is **LOW**.

### **Option 3 – Bring Methven-Springfield into the District Water Group on the 10+1 model**

28. This is closely related to Option 2. Where it differs from Option 2 is that the threshold for volumetric charging is lowered from 12,000 litres per day to 10,000 litres per day.
29. Under this Option, 55 of 67 Methven-Springfield ratepayers are better off in 2023/24 than in 2022/23. 4 of the 67 are worse off than in 2022/23 but better off than they would be under the Status Quo based on 2023/24 budgets. 8 are worse off compared with the Status Quo in both 2022/23 and 2023/24. See Graph 2 – Impact of policy thresholds.

<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• This Option still results in lower rates for the majority of Methven-Springfield consumers, though slightly fewer at 82-88%.</li> <li>• This is the next closest option to option 2. It will be viewed as slightly less equitable from a rural-agricultural viewpoint and slightly more equitable from a residential viewpoint.</li> <li>• Other advantages as per Option 2</li> </ul>	<p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Disadvantages very similar to Option 2.</li> </ul>
<p><b>Risks:</b></p> <p>Similar to Option 2 with a larger proportion of ratepayers paying more. Overall risk assessment is <b>LOW to MEDIUM</b>.</p>	

#### Option 4 – Bring Methven-Springfield into the District Water Group on the 8+1 model

30. This is closely related to Option 2. Where it differs from Option 2 is that the threshold for volumetric charging is lowered from 12,000 litres per day to 8,000 litres per day.
31. Under this Option, 47 of 67 Methven-Springfield ratepayers are better off in 2023/24 than in 2022/23. 4 of the 67 are worse off than in 2022/23 but better off than they would be under the Status Quo based on 2023/24 budgets. 16 are worse off compared with the Status Quo in both 2022/23 and 2023/24. See Graph 2 – Impact of policy thresholds.

<b>Advantages:</b> <ul style="list-style-type: none"><li>• This Option still results in lower rates for 70-76% of Methven-Springfield consumers, though slightly fewer again at.</li><li>• This is the next step down from option 3. It will be viewed as slightly less equitable from a rural-agricultural viewpoint and slightly more equitable from a residential viewpoint.</li><li>• Other advantages as per Option 2.</li></ul>	<b>Disadvantages:</b> <ul style="list-style-type: none"><li>• Disadvantages very similar to Option 2.</li></ul>
<b>Risks:</b> <p>Similar to Option 3 with a still growing number of ratepayers paying more. Overall risk assessment is <b>MEDIUM</b>.</p>	

#### Option 5 – Bring Methven-Springfield into the District Water Group on the 6+1 model

32. This is closely related to Option 2. Where it differs from Option 2 is that the threshold for volumetric charging is halved from 12,000 litres per day to 6,000 litres per day.
33. Under this Option, 33 of 67 Methven-Springfield ratepayers are better off in 2023/24 than in 2022/23. 8 of the 67 are worse off than in 2022/23 but better off than they would be under the Status Quo based on 2023/24 budgets. 26 are worse off compared with the Status Quo in both 2022/23 and 2023/24. See Graph 2 – Impact of policy thresholds.

<b>Advantages:</b> <ul style="list-style-type: none"><li>• This Option still results in lower rates for 49 to 61% of Methven-Springfield ratepayers.</li><li>• This is the next step down from option 4. It will be viewed as least equitable from a rural-</li></ul>	<b>Disadvantages:</b> <p>Disadvantages very similar to Option 2.</p>
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agricultural viewpoint and the most equitable from a residential viewpoint.	
Other advantages as per Option 2.	
<b>Risks:</b> Very similar to Option 4. Overall risk assessment is <b>MEDIUM</b> .	

### Recommended option

34. Officers believe that this decision is ultimately a judgement about the trade-off between fairness and affordability, which is a political choice that will be tested under public consultation. For this reason, Officers offer no recommendation in regard to a preferred Option.

### Other Options examined

35. Council officers have examined a range of other options. These include Options 1, 2, 3, 4 & 5 as well as the following:
- Option 6 - Lowering the extraordinary usage rate across the whole District Water Group, to \$0.90c or \$0.84c
  - Option 7 - Holding the extraordinary usage rate at \$0.96c per m3 as set out in the Long-term Plan.
  - Option 8 - Funding half the Methven-Springfield scheme from the Status Quo and half from the District Water Group.
  - Option 9 - The 12+12+1 Model
36. For various reasons, which can be provided orally, we felt none of these were reasonable and practicable ways to achieve the objectives of this decision.

## Legal/policy implications

### Revenue & Financing Policy

37. The draft Revenue and Financing Policy is attached as Appendix 1. Edits are shown.

### Local Government Act 2002

38. The Options and consultation programme are compliant with the Local Government Act 2002

### Local Government (Rating) Act 2002

39. The rating tools proposed in all of the Options are lawful under the Local Government (Rating) Act 2002.

## Climate change

40. Council has ensured that the Methven Water Treatment Plant is designed to be resilient for adverse events which will be more frequent and severe due to our changing climate. This includes risks such as floods, wind and snow.

## Strategic alignment

41. The recommendation relates to Council's community outcomes as described in the table below.

Wellbeing		Reasons why the recommended outcome has an effect on this wellbeing
Economic	✓	Fair allocation of costs through good policy has a beneficial economic impact on the community
Environmental	✗	
Cultural	✗	
Social	✓	Avoiding unfair allocation of costs through good policy has a beneficial social impact on the community

## Financial implications

Requirement	Explanation
What is the cost?	Direct costs relate to the development of, and consultation and decision-making on, the policy. There are costs associated with collection of revenue. These costs are covered by operating budgets.
Is there budget available in LTP / AP?	Yes. Operating budgets for Strategy and Policy, Communications and Finance Teams.
Where is the funding coming from?	These operating budgets are effectively funded by the allocation of overhead costs to activities from rates, fees and charges.
Are there any future budget implications?	No
Reviewed by Finance	Erin Register; Finance Manager

## Significance and engagement assessment

42. Following the Council Workshop, officers have contacted Methven-Springfield ratepayers seeking their feedback on the options, and the extent to which irrigation water is a viable alternative for consumers. This was undertaken by way of letter to all Methven-Springfield consumers and an email to those consumers we hold email addresses for (about half). This was sent out from 9<sup>th</sup> to 24<sup>th</sup> March.

43. Feedback closed on 24<sup>th</sup> March and Council received eleven responses. Those responses are summarised in paragraph 14.

Requirement	Explanation
Is the matter considered significant?	No
Level of significance	Medium
Rationale for selecting level of significance	N/A
Level of engagement selected	3. Consult – formal two-way communication
Rationale for selecting level of engagement	Statutory requirement and proportionate to the overall significance of the matter.
Reviewed by Strategy & Policy	<i>Toni Durham; GM Democracy &amp; Engagement</i>

## Next steps

27. Through this process, Council will conduct public meetings to determine the matters set out in the table below.

Date	Action / milestone	Comments
5 April 2023	Adoption of draft Revenue & Financing Policy for public consultation	
31 May 2023	Hear and deliberate on submissions	
7 June 2023	Adoption of Revenue & Financing Policy	

## Appendix 1 – draft Revenue & Financing Policy – Drinking Water

<b>Activity description</b>	Council provides drinking water to homes and businesses through 12 potable water schemes which service over 70% of residents. Council is responsible for sourcing, treating, reticulating and monitoring the water supplied. Council rates for the loan interest and principal costs for two non-Council drinking water supplies – Lyndhurst and Barrhill. This is done through a voluntary rate as provided for under this policy
<b>Community outcome(s)</b>	<p><b>A balanced and sustainable environment</b> - the sustainable use and management of water is of central importance to all residents and promotes environmental well-being.</p> <p><b>A prosperous economy based on innovation and opportunity</b> - access to safe quality drinking water is important for economic wellbeing.</p>
<b>Who benefits and when?</b>	Group benefit 100% - provided to residents able to connect to Council water schemes and access water on a daily basis.
<b>Whose acts create a need?</b>	High users can place extra burden on the supply necessitating greater storage capacity etc. Such users should pay for their supply on a volumetric basis. Vacant sections and unconnected rating units benefit from the provision of firefighting capacity and should be charged an availability charge
<b>Separate funding</b>	The benefits of this activity are primarily private therefore separate funding through a targeted rate is considered appropriate. Non-residential and extra-ordinary residential connections are considered ‘high users’ therefore are charged for any excess of their allocation.
<b>Funding Sources</b>	<p><b>Operating expenditure – targeted rate UAC 100%</b></p> <p>Rated as a fixed rate on all connected properties to promote affordability. The exceptions are:</p> <ul style="list-style-type: none"> <li>• Lyndhurst and Barrhill (fully funded within each scheme)</li> <li>• Methven/Springfield and Montalto (rate is based on water used and property size), non-residential and residential extra-ordinary properties (targeted fixed rate for a set amount of water with excess water charged per cubic metre)</li> <li>• Serviceable but not connected properties (charged half the fixed rate except in Methven-Springfield).</li> </ul> <p><b>Capital expenditure</b></p> <ul style="list-style-type: none"> <li>• Sourced from operating expenditure, reserves or loan funding.</li> <li>• Development contributions are levied under Council’s Development and Financial Contributions policy</li> <li>• Government subsidies may be provided for some expenditure. Council rate contribution is net of any subsidies</li> </ul>