



Better Off Funding – Project Substitution Decision Report

1. Purpose

The purpose of this report is to request approval from Councillors to substitute the previously agreed allocation of Council's tranche 1 of Better Off Funding support of \$1.88m from a Community Wellbeing Fund to unbudgeted operational expenditure associated with three waters services.

2. Executive Summary

Since signing off on an agreement for a Better Off Funding package (Tranche 1) with the DIA in December 2022 there have been significant changes that support the application for a substitute programme of work. These are:

1. Advice from WWL that the appropriate operating expenditure (opex) budget for three waters is significantly higher than the LTP approved budget of \$3.5m,
2. An Abatement Notice at the Martinborough wastewater treatment plant (MWWTP) and subsequent suspension of new connections at the plant that necessitates funding of a compliance delivery plan¹,
3. The need to consider the health and compliance of the other wastewater treatment plants in the context of the MWWTP issues to ensure we prioritise growth opportunities and positive outcomes for our communities², and
4. The government reset on water reform that removed the promised second tranche from the Better Off package.

After testing a substitution programme with DIA, council staff have a level of confidence that an application to apply the \$1.88m of funds to the WWL 2023/24 operational budgets in excess of LTP including compliance issues at Council's wastewater treatment plants, including desludging and an infrastructure growth study, would be successful.

Due to the removal of tranche 2 Better Off Funding in the recent water reform reset we no longer believe that the Community Wellbeing Fund as originally conceptualised would be an appropriate use of the funds because there would be no alternative funding mechanism available post-2024.

Possible options to fund the unbudgeted operating expenditure needs have been considered including:

¹ Delivered to Greater Wellington on 31 May 2023

² Report High Level Statement on Capability of SWDC Wastewater Treatment Plants with respect to their Capability to Support Growth received from Wellington Water 29 May 2023

- Through the Annual Plan and setting of rates in the Annual Plan 2023/24 process
- By applying the Better Off Funds of \$1.88m via a project substitution application

Debt funding operating expenditure for water assets is not an option, the SWDC Revenue and Financing Policy specifies funding sources for operating expenditure as 'Fees & Charges, targeted rate, contributions'.

It is Management's view that the most appropriate funding option is the use of the \$1.88m of Better Off Funds.

Recommendations

Officers recommend that the Council:

1. Receives the Better Off Funding – Project Substitution Decision Report.
2. Approves the preparation and submission of a substitute programme request to the DIA Better Off Funding agreement comprising:
 - a. Compliance delivery at the Martinborough WWTP including desludging at an Opex estimated cost of \$0.503m, and
 - b. Accelerating an infrastructure growth study for populations projections in Martinborough (\$0.1m) to support capacity design at MWWTP, and
 - c. Desludging of the Greytown WWTP at an Opex estimated cost of \$0.360m, for
 - d. A total between the three projects of \$0.962m.
 - e. With the remaining \$0.918m being applied to the Wellington Water Limited 2023/24 operational budget in excess of LTP (details to be agreed between WWL and SWDC).
3. Delegate authority to the CEO for the content and draft of the substitute proposal as described in this paper to be submitted to DIA through the appropriate channels as soon as practicable and after consulting the Māori Standing Committee.

3. Background

SWDC was allocated an amount of \$1.88m as part of the Three Waters Reform – Better Off package (Tranche 1 Funding). A second tranche of funding for an amount of \$5.63m was to be forthcoming once the new entities were established, and to be funded from the entity's balance sheet.

SWDC applied for a single project for the \$1.88m, being the the creation, governance, and funding of a South Wairarapa Community Wellbeing Fund (CWBF); an entirely new mechanism for community and mana whenua involvement in the prioritisation and delivery of community wellbeing projects, including accelerating some of those already included in the LTP years 4 – 10.

The initiative was approved by Council at its August 2022 meeting and an agreement was subsequently signed with the DIA in December 2022.

The rules, governance, criteria, and administration of the proposed CWBF has not yet been agreed or endorsed by Council resolution.

Since signing the agreement with DIA in December 2022 additional events have initiated a review of the decision to invest the \$1.88m in a CWBF. These are:

1. Advice from WWL that the appropriate Opex budget for three waters should be significantly higher than the LTP approved budget of \$3.5m,
2. An Abatement Notice at the Martinborough wastewater treatment plant (MWWTP) and subsequent suspension of connection requests to limit capacity issues at the plant that necessitates the urgent funding of a compliance delivery plan and growth study³,
3. The need to consider the health and compliance of our other wastewater treatment plants in the context of the MWWTP issues to ensure we prioritise growth opportunities and positive outcomes for our communities, and
4. The government reset on water reform that removed the promised second tranche from the Better Off package.

There is an ability to substitute other projects into the programme even after our formal agreement with the DIA signed December 2022.

The initial 10% of the fund (\$1.88m) has been claimed and will be applied against the programme of work agreed. DIA is aware that we are proposing a change to our current programme of work.

3.1 Tangata whenua considerations

Engagement will be required before making a formal substitute request with DIA as the MSC submitted a letter of support for the original CWBF application.

3.2 Long Term Plan alignment

There are restrictions around Better Off funding that ensures that any requests are aligned with the LTP.

4. Discussion

Council staff have tested with DIA their appetite to allow SWDC to substitute the operational budget for 2023/24 advised by WWL above the LTP budget, including funds to apply to desludging, for the currently approved Community Wellbeing Fund and received informal advice that a substitute application would be approved. The draft substitute application tested is attached in **Appendix 1**. Indications from DIA were that the formal approval via a variation to our agreement would have a very short turn-around and that they were comfortable with us consulting on the substitute programme for our LTP.

The draft application requested the difference between Option 1 (LTP budget) and Option 2 (High-risk Owner budget)⁴ to be funded which is allowed by the funding rules.

In addition, we requested \$100k to be funded for partial desludging at the Martinborough WWTP.

This draft application left the remaining 33% of the original \$1.88m for the CWBF as originally envisaged.

³ Refer to Martinborough Wastewater Treatment Plant – Compliance and Capacity Issues report presented to the ICSC on 1 June 2023

⁴ As included in the 2023/24 Consultation Document

However, since we tested the substitution, it has been announced that tranche 2 of the Better Off package has been discontinued and therefore there would be no funding available for the CWBF after 1 July 2024, as originally envisaged. This would mean the CWBF would need to be funded from alternative sources such as rates once the original \$1.88m was allocated.

Martinborough Compliance Delivery Plan

The Compliance Delivery Plan sent to Greater Wellington comprises a desludging programme, an infrastructure growth study to inform a design, and other testing and operational improvement initiatives. The most likely desludging method will be the use of Geobags enabling us to debt fund a portion of the Capex work required (although for completeness the centrifugal desludging option cost is included below).

The breakdown of costs for the Compliance Plan at Martinborough is as follows:

| Item | Option 1 Geobag Desludging | | Option 2 Centrifugal Desludging | |
|---|----------------------------|------------------|---------------------------------|--------------------|
| | Capex | Opex | Capex | Opex |
| Influent flow and quality measurement to collect suitable seasonal data to determine appropriate LTP upgrade actions and plan | | \$112,000* | | \$112,000* |
| Optimising the UV plant operations | | \$30,800* | | \$30,800* |
| Desludging by way of Geobag including building a suitable dewatering and containment pad | \$379,750 | \$359,660 | | \$1,234,450 |
| Consultant and specialist fees to develop design, PMP and monitor construction activities | \$280,000 | | \$280,000 | |
| WWL management fee 6% | \$39,585 | | \$16,800 | |
| Total | \$699,335 | \$502,460 | \$296,800 | \$1,377,250 |

These numbers include a 40% contingency.

An Infrastructure Growth Study is estimated at \$0.10m in addition to the compliance work above.

Greytown Desludging

A recommendation from the MWWTP incident has been to complete a health check of our other wastewater treatment plants to ensure we prioritise growth opportunities and positive outcomes for our communities and any outcomes of that health check would need to be funded.

Indications are that it will be necessary to desludge the Greytown WWTP at the same time we are desludging Martinborough as Greytown faces similar compliance issues and there would be some efficiencies to gain doing it in parallel. Although there are

efficiencies, the Greytown site is larger than Martinborough so an appropriate estimate should be the same Martinborough, or \$0.360m.

This means the total Opex spend for both plants would be \$0.360m + \$0.602m = \$0.962m

Total Opex and Capex Requirement

Total Funds required based on the Geobag option and including a 40% contingency would therefore be:

Opex Costs:

| | | |
|------------------------------------|-----------|------------|
| Desludging Martinborough Opex | \$ | 360 |
| Martinborough Compliance Plan Opex | \$ | 243 |
| Desludging Greytown Opex | \$ | 360 |
| | <u>\$</u> | <u>962</u> |

Capex:

| | | |
|------------------------------|-----------|--------------|
| Desludging Martinborough | \$ | 380 |
| Desludging Greytown | \$ | 380 |
| Consultant & Specialist Fees | \$ | 280 |
| WWL management fee | \$ | 40 |
| | <u>\$</u> | <u>1,079</u> |

Funding Options

The \$0.962m Opex required is not currently in the Annual Plan 2023/24.

The options to fund this amount would be:

1. Fund from rates – however, we did not consult on this in the Annual Plan 2023/24 so it would significantly impact on the timeline to sign-off on the Annual Plan
2. Better Off Funds substitute project application

The reasons that debt funding is not possible are:

- SWDC Revenue and Finance policy clearly states we cannot borrow for opex, in particular water assets⁵
- Debt funding on the maintenance of an asset is bad practice with all legislative parties including AuditNZ, DIA, NTU etc.
- This practice would not be supported in the debt validation process currently on the table with NTU/DIA
- LGFA lend on capital expenditure only – they are SWDC loan providers
- We do not have any other lending arrangements other than LGFA

Based on this analysis of options it would seem prudent and appropriate for the SWDC ratepayers, that the full amount of tranche 1 funding (\$1.88m) be applied to the

⁵ <https://swdc.govt.nz/wp-content/uploads/M200-Revenue-Financing-Policy-2021-1.pdf>

Compliance Delivery Plan for the MWWTP including desludging and growth studies, to the desludging of the Greytown WWTP, with the remainder being applied to the Wellington Water budget over and above LTP as agreed.

5. Consultation

No consultation or communications plan is required on a decision to make an application for project substitution.

6. Financial Considerations

There will be a significant impact to the Annual Plan 2023/24 if we are not successful in this substitution application as the operating expenditure required for compliance at the MWWTP is currently unfunded.

7. Climate Change Considerations

There are no positive or negative effects on climate change from this decision.

8. Health and Safety Considerations

There are no health and safety considerations.

9. Appendices

Appendix 1 – Draft Substitute Application

Contact Officer: Stefan Corbett, GM Partnerships and Operations

Appendix 1 – Draft Substitute Application

The substitute application revises 67% of South Wairarapa District Council’s tranche 1 funding allocation. The substitute project seeks to bridge a shortfall in current Long Term Plan funding relating to three waters operational spend to address issues of affordability, service level consistency and compliance; plus, align with Water Reform outcomes.

List of Projects/Initiatives under this Programme

- Wellington Water Limited 2023/24 operational budgets \$1.25m
- South Wairarapa Community Wellbeing Fund (CWBF) – already funded through original agreement for remaining \$0.63m and not addressed in the below details.

As a small council (population 12,000; area 238,775 hectares; ratepayers 2,500) SWDC is finding it increasingly difficult to affordably provide access to safe and reliable drinking water, fit for purpose wastewater and stormwater services and a level of service consistent with our fellow Wellington Water Limited shareholding councils (amongst others) who are primarily urban based. Coupled with a confluence of factors currently facing all LGO’s in New Zealand (depreciation, inflation, insurance costs, emergency events), maintaining the current level of LTP spend for three waters services in 2023/24 will lead to a drop in community well-being and risks degrading the community’s ability to transition to a more resilient and sustainable economy post-reform as the infrastructure would be in a worse-off position than anticipated.

The result will be a very high level of risk (plant failure, legal prosecution, consent breaches) that would flow into the Water Services Entity as of its establishment date of 1 July 2024.

By redirecting a portion of Better Off Funds, the council wishes to meet essential/critical costs that would not otherwise be affordable (because of a confluence of unanticipated events) via the LTP budget. This will thereby improve outcomes and reduce risk to the community, enhancing their wellbeing.

If the total estimated cost exceeds the Total Maximum Amount Payable, please specify the additional funding source(s) and amount(s):

| Funding Source | Amount (NZ\$M) |
|---|-----------------------|
| SWDC LTP 21/31 - Wellington Water Limited 2023/24 operational budget funded through general and targeted rates | \$3,375,427 |
| | |
| | |

Please indicate below the expenditure programme funding status:

| | Yes/No | Amount in NZD \$ | Year |
|--|--------|------------------|-------|
| Included in LTP | Yes | \$3,375,427 | 23/24 |
| Included in the latest Annual Plan | No | | |
| Not funded in any plan | Yes | \$1,251,136 | 23/24 |
| Was funded but COVID-19 deferred | No | | |
| Local authority co-funding being contributed | No | | |

Describe the risks you have identified in completing the programme on time and on budget (e.g.: availability of and access to specialist skills) and any steps/actions you have taken to mitigate these risks.

Risks

That we cannot redirect the Better Off Funding – the work will not occur, and community well-being will be impacted.

Water reform is delayed – SWDC will be making new decisions in the 24/25 LTP based on our financial position and where we sit with 3W reform.

Availability of suitable contractors to undertake works – current processes will be maintained if funding is secured. Without secured funding there is a risk that resources will be lost to the district. WWL has the resources required to deliver to a required level of service and this funding will allow WWL to retain resources and deliver the tasks.

Budget / Timing – as WWL has provided their advice on the necessary level of investment to bridge a gap between LTP and an acceptable level of delivery for the council we do not consider there are any material risks to delivery of this project.

Please provide a high-level breakdown of the expenditure programme, including the programme commencement and completion dates, key delivery milestones, and for each milestone the planned completion date and estimated cost (GST exclusive):

| | Expenditure Programme / Project Milestone (including description of how the milestone is identified) | Estimated Completion Date | Estimated Costs (NZD \$) |
|---|--|---------------------------|--------------------------|
| 1 | Operational spend 2023/24 Financial Year | 30/06/2024 | \$1,151,136 |
| 2 | Desludging of Martinborough WWTP | 30/06/2024 | \$ 100,000 |
| | TOTAL | | \$1,251,136 |

Wellbeing Assessment

| | |
|-----------------|---|
| Programme Title | South Wairarapa Better Off Funding Substitution Project |
|-----------------|---|

| | | | | |
|--|--|--------------------|--|--------------------|
| Project / Initiative | Wellington Water Limited 2023/24 operational budgets | | | |
| Better Off Funding criteria (select as many as apply) | | | Criteria 3: Delivery of infrastructure and / or services that support improvements in community well-being | |
| Wellbeing Area (the fund will apply to all wellbeing areas) | Social wellbeing | Economic wellbeing | Environmental wellbeing | Cultural wellbeing |
| Wellbeing Outcomes | | | | |
| Outcome | How Outcome will be Measured | | How Outcome will be Monitored / Reported | |
| Operation levels of service are provided to the community | Reactive and Planned maintenance levels of service are improved (\$ spent) | | Monthly reporting from WWL on progress and expenditure | |
| Compliance risks at wastewater treatment plant reduced | Assessed against current risk level | | Quarterly active risk dashboard produced by WWL Discussed at Community Liaison Group meetings (including iwi) | |
| Community sense of wellbeing and confidence maintained through response to events and reduction in risk to the environment | Leaks repaired in a timely manner | | Monthly reporting from WWL on progress and expenditure | |