

### 6.3 Plains Water Scheme – Financial Implications

## 6.3 Plains Water Scheme – Financial Implications



Subject: **PLAINS WATER SCHEME – FINANCIAL IMPLICATIONS**  
To: **POLICY COMMITTEE**  
Meeting Date: **TUESDAY, 23 FEBRUARY 2015**  
Written by: **GENERAL MANAGER PLANNING, REGULATORY AND CORPORATE SERVICES**  
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### 1. REASON FOR THE REPORT

On 17 December 2015 the Whakatāne District Council considered a series of short term works in relation to the Plains Water Scheme, which were adopted subject to financial analysis. This report provides the financial analysis to allow the Council to confirm or modify those earlier decisions.

The report also provides an update in relation to resource consents that have been applied for by the District Council to the Regional Council to:

- Increase the take of water from the Paul Road bore;
- Renew the existing consent for the Johnson Road bore.

### 2. BACKGROUND

The 17 December report outlined the Plains Water Scheme and the proposed strategic direction and financial feasibility as described in a number of reports prepared between 2008 and 2015.

Prior to the Council meeting, a hikoi of residents from the Te Teko community challenged and then spoke to Council about its views of the process to date, its expectations in relation to the source of Te Teko water, and future consultation on the strategic direction of the Plains Water Scheme. This included concerns about the Paul Road bore.

The Council resolved as follows:

1. **THAT** the report “Plains Water – Future Direction” be received.
2. **THAT** the Council receive the following reports:
  - Plains and Awakeri Extension Water Upgrade Strategy (Opus April 2008);
  - Whakatane and Plains Water Supply Strategy (Alan Bickers, May 2014);
  - Draft Plains 50 Year Strategy Study (Opus, September 2014);
  - Plains Water Supply – Financial Viability of 50 Year Strategy (Rationale, November 2015).
3. **THAT** the Council agree to the following short term works, subject to further financial analysis being brought back to Council:

### 6.3 Plains Water Scheme – Financial Implications (Cont.)

- a. *Develop the Paul Road borefield as a major source of water for the Plains Water Scheme. This will require:*
4. **THAT** the Council receives the resolutions tabled at the meeting by Te Teko hapū and undertake to engage and consult with the Te Teko hapū in relation to those five resolutions, and the future provision of water to the residents at Te Teko.

Note: The resolutions tabled by the Te Teko community identified five issues:

- Unacceptable levels of arsenic in the water;
- A request to connect to Paul Road bore;
- A request that Council discontinue any “business/administration proceedings” in regard to Paul Road bore;
- That consent was needed from hapū, whānau and descendants of Rangitaiki (under the Mataatua Declaration on Water); and
- The placement of a rāhui on the Paul Road bore site.

## 3. DISCUSSION

### 3.1. Financial Analysis

The financial impact of these decisions has been completed. Four options were investigated as follows:

**Option 1: Isolate Edgecumbe from current Plains Water Sources and connect it to Paul Road bore** - This option reflects the proposal outlined in the LTP, which is to connect Edgecumbe Township to Paul Road bore and isolate it from current Plains Water Scheme sources. The capital cost of this option was shown in the LTP to be \$2.45 million, with a subsidy of \$1.83m. The revised engineers cost is \$3.9 million, but the subsidy is in fact \$2.02m. The project has increased by \$1.45m in value, with an overall increased rating impact of \$1.26m.

The operational costs would be \$125,000 - \$130,000 per year, after year 2, comprising direct costs (\$12,000 to \$15,000) and financing costs (\$113,000 to \$115,000).

**Option 2: Isolate Edgecumbe from current Plains Water Sources, and connect it to Paul Road bore, and secure the Tahuna Road supply for Te Teko Township and surrounds** – This option builds on Option 1 by also securing the Tahuna Road supply to meet drinking water standards. The Tahuna Road supply currently provides the majority of water for the community of Te Teko. This option would also see the isolation of Te Teko (and surrounds) from any influence of Braemar/Johnson Road water sources thereby eliminating any risk of the arsenic levels in these supplies mixing with the Tahuna Road supply. The capital cost of this option is \$4.75 million (with \$2.02m subsidy). The operational costs would be \$211,000 to \$217,000 per year, after year 2, comprising direct costs (\$19,000 to \$24,000) and financing costs (\$192,000 to \$193,000).

**Option 3: Isolate both Edgecumbe and Te Teko (and surrounds) from current Plains Water Scheme sources, and connect them to the Paul Road bore** – This option isolates the two townships from the Johnson/ Braemar and Tahuna Road supplies. It avoids needing to upgrade the Tahuna Road supply, but the Council will then need to decide what happens to this supply – it could be retained as a residual supply for the Te Teko area, or to build resilience for Te Teko. However, isolating valves will also allow Johnson and Braemar Road supplies to be available to Te Teko (and Edgecumbe) in times

### 6.3 Plains Water Scheme – Financial Implications (Cont.)

of emergency if the Paul Road bore was to fail for any reason. The capital cost of this option is \$5.5 million with \$2.02m subsidy. The operational costs would be \$262,000 to \$276,000 per year, after year 2, comprising direct costs (\$18,000 to \$24,000) and financing costs (\$244,000 to \$252,000).

**Option 4: Isolate both Edgecumbe and Te Teko (and surrounds) from current Plains Water Scheme sources; connect Edgecumbe to Paul Road bore; upgrade Tahuna Road to serve Te Teko (and surrounds); and ultimately connect Te Teko (and surrounds) to Paul Road bore** – This option was intended to allow the staging of development over time to spread capital costs. Edgecumbe would be connected to Paul Road bore while the Tahuna Road supply is upgraded for the Te Teko community (Option 2). Then in time a connection is provided to Paul Road bore for Te Teko. The capital cost of the entire proposal is in the vicinity of \$6.15 million (with \$2.02m subsidy). The operational costs will depend on when the later stage of work commences. It is the most expensive option.

#### 3.2. Rating Impact

While the preferred option is Option 2, there is a high chance the more expensive Option 3 could be preferred once the consultation process has been completed. For the purposes of assessing affordability, Option 3 has been modelled to determine its impact on the Equalised Water Rate (for the Edgecumbe component) and for the Plains Water Rates (Te Teko connection), and the relativity of the other Options to this modelled option has then been assessed. Based on this specific modelling and further analysis:

- All four options would not increase the rating requirement to a level that exceeds the rating increase limit set in the 2015-25 LTP of Local Government Cost Index (LGCI) + 2% as the total increased rating requirement for 2016/17 is \$139,000, which represents a rate increase of 0.35%;
- All four options can be accommodated without exceeding the borrowing limit set in the 2015-25 LTP of \$75 million;
- The rating impact of option 3 on Plains Water Scheme users will be an increased rating requirement of \$81,000 and an increased rating requirement of \$58,000 to the equalised scheme for the 2016/17 rating year. The table below shows the estimated average dollar impact that these increases will have on the water rate charged for averaged properties.

Land Use	Average daily water consumption	Indicative Annual Water Charges excl GST (includes water supply and consumption)		
		2015/16	2016/17	2017/18
Equalised	0.6 m <sup>3</sup>	\$420.90	\$464.36	Has not been modelled across all communities
Te Teko Residential	0.6 m <sup>3</sup>	\$179.13	\$181.32	\$190.08
Plains Residential	1.2 m <sup>3</sup> *	\$238.26	\$242.64	\$260.16
Plains Dairy Shed	2.6 m <sup>3</sup> *	\$399.23	\$408.35	\$444.85
Plains Farmland	30 m <sup>3</sup> *	\$3,076.50	\$3,186.00	\$3,624.00

\*consumption quantities based on average daily usage from Rationale Report.

**6.3 Plains Water Scheme – Financial Implications (Cont.)**

The Plains examples have been based upon the following fixed and metered charges:

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Fixed (supply) charge	\$120.00	\$120.00	\$120.00
M <sup>3</sup> rate	\$0.27	\$0.28	\$0.32
Excess m <sup>3</sup> rate	\$0.90	\$0.90	\$0.90

There is \$1.133 million in the Plains water operational reserve as at 30 June 2015, being funds retained from prior years rating surpluses. These funds were largely earmarked for future expansion of the scheme and, with agreement of the Plains Water Advisory Board, could be partially utilised against either capital expenditure or to subsidise the rating requirement in future years. It is recommended that a portion of these funds be used to pay for the Plains Capital Expenditure, rather than raising a loan, having the benefit of reducing financing costs for 25 years. This recommendation can be considered by the Plains Water Advisory Board at their meeting in March, and subject to agreement, be incorporated into the Final Annual Plan through the submission and deliberations process.

**3.3. Partners and Stakeholders****3.3.1. Te Roopu Wai Māori o Te Teko**

A working group with representatives from Te Teko is being established but has not yet met. Te Teko community representatives have expressed varied opinions on whether the community prefers the Tahuna Road supply or Paul Road supply as their principal water source. In addition, our engineering staff may need to consider further the sustainability of the Tahuna Road bore to serve this community given its origins as an emergency source only, its relative shallowness and its unsecured state. The strategic documents received by the Council propose that this source be discontinued on the basis that Te Teko would connect to the Paul Road bore, where the size and depth of the bore would provide greater certainty of continued supply. There is some cultural attachment to the Tahuna supply, which is close to traditional soda springs, but the resolution of the hapū meeting held on 6 December 2015 resolved that Te Teko and the surrounding area be connected to Paul Road bore. Further consultation with the community will help clarify the preference, and the Annual Plan process will provide an appropriate opportunity to seek views.

**3.3.2. Ministry of Health**

The Ministry of Health offered financial assistance to “small, disadvantaged communities” under the Drinking Water Subsidy Scheme. This scheme ran from 2005 to 2015. The Scheme no longer exists for new applications, and there is no indication that any other scheme will be available in the near future.

A subsidy of \$2,024,000 (excluding GST), based on 80% of the estimated value of the works, for Edgcumbe township to connect to Paul Road bore was approved in August 2013. The agreement was varied in 2015 to allow an extension until 31 January 2017.

The subsidy is broken down into specific projects with prescribed timeframes for their completion. The projects and the conditions of each are summarised below:

### 6.3 Plains Water Scheme – Financial Implications (Cont.)

- **Raw Water Source Works** (\$432k) - Establishment of production bore and headworks, to be undertaken during the period 1 March 2015 – 31 August 2016;
- **Pipe Installation** (\$1.256m) – Installation of bulk supply main from Paul Road to Edgumbe, to be undertaken during the period 1 July 2015 – 30 November 2016;
- **Installation of Treatment Plant** (\$155k) – Installation of treatment building and treatment system, to be undertaken during the period 1 June 2015 – 31 August 2016);
- **Installation and Instrumentation** (\$190k) – Installation of electrical, telemetry and control system, to be undertaken during the period 1 July 2015 – 30 November 2016.

Most of these timeframes assumed that work would commence 7 to 11 months ago, and required that works be completed by August or November 2016. These timeframes are unlikely to be met.

While the works are included in the LTP, the cost escalation requires this option to be consulted upon again. This may have implications in terms of the Ministry of Health subsidy. This is discussed further in Section 4.

An application to upgrade the Te Teko water scheme was declined in August 2015.

#### 3.3.3. Regional Council

In the December report, it was resolved that the BOP Regional Council may be a potential partner to assist with the extension of the works to include Te Teko. While the Regional Council has asked for a briefing on the scheme and the short terms proposals, this is mainly due to the identified linkages to a number of Regional Council programmes, including Freshwater Futures, the Water and Land Plan, RPS Change No. 3, and our consent applications.

The Regional Council has indicated that its infrastructure funds are limited to sewerage reticulation and treatment systems, and transport infrastructure only. In addition, the Regional Council recently resolved not to invite any other community funding requests as part of its Annual Plan 2016/17 process, and to review the Infrastructure Fund and associated policies over the course of this year.

#### 3.3.4. Plains Water Advisory Board

The Advisory Board has not met this year, and is not scheduled to meet until 18 March 2016. While this report has been circulated to individual Board members, the Board has not had a chance to consider the options proposed here. There is a rating impact on those connected to the Plains Water Scheme, which should be consulted upon if Te Teko is to be connected. Council staff will be able to better quantify this impact at the meeting.

### 3.4. Regional Council Consent Applications

#### 3.4.1. Paul Road Bore

The Whakatāne District Council has made an application for a resource consent to increase the volume of water we can take from the Paul Road bore from the consented 5m<sup>3</sup>/day to 10m<sup>3</sup>/day. The application was advertised and 16 submissions were received. Generally the submissions fall into four categories:

- Te Teko water supply be connected to Paul Road bore - Six submitters contend that water from Paul Road bore must be supplied to the Te Teko community as a priority;

### 6.3 Plains Water Scheme – Financial Implications (Cont.)

- Security of the Paul Road water supply scheme (an existing private scheme serving properties in Paul Road) – Three submitters are concerned about drawdown effects from the new bore and whether it will compromise the current bore on the Council property which supplies their private scheme. The legal arrangements of this scheme are being investigated.
- Possible effects on nearby bore owners, and aquifer supply issues – Five submitters raised concerns about effects on local irrigation and domestic water supply bores, and contends that current data and modelling is not sufficient.
- Cultural impacts – two submissions raise concerns about the lack of a cultural impact assessment and consent for the scheme not given by Te Rūnanga o Ngāti Awa.

The District Council has asked for this consent to be put on hold for now to allow further information to be obtained and for further discussion with submitters. The Regional Council is considering whether further information is required in respect to the capacity of the aquifer. The legal status of the private scheme that operates from the Council property is being researched. The working group with hapū and whanau representation is being established to enable cultural matters to be discussed.

The Council may be asked for direction in relation to this application in due course dependent on the nature of any further information requests and the discussions that will be held over the next months.

Importantly, the development of the Paul Road bore, and the connection of Edgumbe and Te Teko to the bore (if that option is chosen) can proceed without relying on this current consent being issued. The benefits of consent for additional water take from the Paul Road bore is to future-proof the scheme and provide options for expansion in the Awakeri Extension (a wide rural area served by the Awakeri reservoir).

#### 3.4.2. Johnson Road Bore

A renewal of the current consent to take up to 5.2m<sup>3</sup>/day from the Johnson Road bore was applied for in November 2015. This consent is due for renewal in March 2016. The Regional Council has requested the written consent of three iwi. Two consents have been obtained. Te Runanga o Ngāti Awa is establishing its position in relation to this renewal application.

#### 3.5. Water Meters in Edgumbe

The Council's decisions in December included the introduction of individual metering of water in Edgumbe. This is not part of the subsidised scheme proposal, but can be accommodated within an existing project and within existing budgets.

The 2009/10 LTP proposed the introduction of water meters in Edgumbe, to reduce water leakages and consumption. While budgeted to occur in 2010/11, the work was not completed due to a planned subsidy not being obtained. The 2012 LTP noted that water meters had been introduced to a large portion of the communities in the district, but no further extension of the meter connection programme was planned at that time. It notes that the Council would increase meters over time but alongside consultation with the community.

Given this history, it is recommended that the consultation document highlight this change to Edgumbe residents and the Rangitaiki Community Board.

### 6.3 Plains Water Scheme – Financial Implications (Cont.)

#### 3.6. Te Teko Boundary

The consultation that has occurred with the Te Teko community and hapū has raised a concern about the boundary of Te Teko. For the purposes of making an application to the Ministry of Health for a drinking water subsidy, the boundary of Te Teko was defined as the limit of the urban township and Mapou. The consultation to date has clearly indicated that the local community of Te Teko see their community extending beyond this urban area northwards to Kōkōhinau Marae and southwards along Brights (Galatea) Road. The isolation points from the Johnson and Braemar supplies can take into account this broadened geographic area so it will only receive water from the Tahuna Road or Paul Road bores. The financial feasibility options provided above include the extended Te Teko community boundary.

#### 3.7. Whakatāne and Ōhope Emergency Water Supply

The current proposals do not provide additional capacity to future proof an alternative source of water from Paul Road for an emergency supply for Whakatane and Ōhope. While the planned pipe size has been increased along McDonald Road, this additional capacity is intended to provide water for the Awakeri Extension, rather than an emergency supply for Whakatane or Ōhope. A larger pipe size again would be required to accommodate both options, at an additional cost of \$300,000. The Council is asked to confirm its earlier decision to not provide this additional capacity, instead relying on the Te Rahu bore to be developed by 2020/21.

## 4. ASSESSMENT OF SIGNIFICANCE

An assessment of the Significance of these decisions suggests all Options (including Option 1) are significant decisions under the Significance and Engagement Policy. The capital cost of all options exceeds the amount budgeted in the LTP by more than 5% (\$1.23m) of the total capex expenditure for this year, exceeding the financial threshold in the Policy.

The LTP includes a number of projects that collectively provide Edgecumbe with an alternative water supply from Paul Road bore for \$2.44 million. This is Option 1, but has been reassessed to cost \$3.9m. As the revised project stands, the overall increased rating impact is \$1.26m, just exceeding the financial threshold in the Policy. It will need further consultation on this basis.

The decision between Options can also be considered to be significant in terms of other criteria in the Policy, including:

- The financial implications of the proposal or decision on the Council's overall resources are substantial.
- The proposal or decision will be difficult to reverse once the Council has committed to it;
- The proposal or decision is likely to generate a high degree of controversy in the community;
- The proposal or decision ... does flow from a significant decision already made but with substantial variation.

Any delay to the connection of Edgecumbe to the Paul Road bore could put the Ministry of Health subsidy at risk. However, discussions with Ministry of Health staff will be held to inform them of the substantial progress being made over the last three months and the need to further consult with the affected community.

The inclusion of water meters in Edgecumbe should be highlighted through the consultation process. This is primarily because of the controversy that arose the last time this proposal was put forward.

### 6.3 Plains Water Scheme – Financial Implications (Cont.)

It is recommended that all options be tested through the upcoming Annual Plan process, with the “preferred option” being Option 2. Option 3 is the next favoured option but is more expensive.

The current consent application for Paul Road bore is on-hold to allow the Regional Council to assess whether further information is required, and to provide time to consult with the affected community.

## 5. COMMUNITY INPUT AND PUBLICITY

The consultation process associated with the 2016/17 Annual Plan will allow submissions to be received and considered by Council.

This process needs to identify:

- The increase in cost for Option 1;
- The preference for Options 2 or 3 for providing an alternative supply to the Te Teko community (and continuing with Edgumbe);
- A further Option 4, but not as a preferred option;
- The inclusion of Option 5 (Do nothing) for completeness. This option would see no further development of the Plains Water Scheme beyond its current capacity.
- The rating impact for Plains Water users and for those in equalised water rated areas;
- The metering of water in Edgumbe.

## 6. CONSIDERATIONS

### 6.1. Financial/budget considerations

The financial assessment has been outlined in Section 3.1.

### 6.2. Policy and planning implications

The report contains a range of options and revised costs that vary an earlier decision contained in the LTP. The options are consistent with then Councils decisions in December, the overall purpose of the Plains Water Scheme, and are anticipated in the 50 Year Strategy received by Council, albeit in a different prioritised order.

### 6.3. Risks

The risks are:

- The revised costs for the connection of Edgumbe from the Paul Road bore are considered by the wider community to be too high and unaffordable;
- That any further delays in the connection of Edgumbe to the Paul Road bore will jeopardise the subsidy from the Ministry of Health;
- That the cost of connecting Te Teko to an alternative water supply (secured Tahuna Road supply or Paul Road bore) is too high and is considered to be unaffordable by Plains Water users;
- That the Ministry of Health and the BOP Regional Council will not contribute financially to the alternative water connection for Te Teko.
- That the Council does not secure an additional take from the Paul Road bore;



### 6.3 Plains Water Scheme – Financial Implications (Cont.)

- That the Johnson Road bore renewal consent is consented at a lesser volume of water than currently held;
- The Edgecumbe community may not want individual water meters.

These risks will be managed through the consultation process proposed. That will allow targeted discussion to occur with the Te Teko community, the Plains Water Advisory Board and the Rangitaiki Community Board, as well as public consultation through the Annual Plan process. That consultation will provide the basis for Council to make informed decisions reducing the risk identified.

Staff will keep in contact with the Ministry of Health to ensure the subsidy is retained. There are now a series of reports that can be given to the Ministry to outline Council's decision-making process and the progress being made.

The Paul Road bore consent has been placed on hold to allow further consultation with submitters, discuss cultural issues that have arisen and to assess what further specialist information may be required to process this consent.

The lodgement of an application for a renewal of the Johnson Road bore entitles the Council to continue to use the existing consent until the new consent is obtained.

### 6.4. Authority

The Council has the authority to make the decisions considered in this report. However, our obligations under the Local Government Act 2002 require us to seek and consider public submissions, and to discuss most of the options further with the community before those decisions can be confirmed.

## 7. CONCLUSION

The cost of the planned connection of Edgecumbe from the Paul Road bore has risen by \$1.45m. That is a large variation to the costs recognised in the LTP. The Ministry of Health subsidy for this project has been extended until January 2017, and further discussions with Ministry of Health staff will continue to seek a further extension. This will include a discussion around the fact that the subsidy was based on 80% of the estimated costs of the works, that have now risen. The cost escalation means that the connection to Edgecumbe from Paul Road bore should be consulted upon again as part of the options being considered.

The consultation process will highlight the proposal to include water meters for Edgecumbe.

There are two alternative supply options to isolate Te Teko and its surrounding community from the influence of Johnson/Braemar Road, and to provide water that meets the drinking water standards for that community. One option is to upgrade the Tahuna Road supply. The alternative is to connect to the Paul Road bore. Both decisions are significant in terms of the Significance and Engagement Policy, exceeding the capex threshold and other criteria in that policy.

It is unlikely that the Ministry of Health or the BOP Regional Council will provide funding to assist with securing or connecting Te Teko to an alternative water supply.

All options will increase Plains water rates and impact on other water rates (equalised scheme).

It is recommended that a Consultation Document be prepared for the 2016/17 Annual Plan that proposes:

**6.3 Plains Water Scheme – Financial Implications (Cont.)**

- The continued intention to develop the Paul Road bore as an alternative water source to serve the eastern part of the Plains;
- Option 2 as a “preferred option”, but Option 3 being also recognised as a suitable alternative. This allows the Te Teko community to discuss both options and guide Councils decision about its preference. This decision should also be guided by advice from the Plains Water Advisory Board and other users on the Plains because of the rating implications.
- Include the other options 1, 4 and 5, but as lesser preferred options.
- Individual water meters for properties in Edgecumbe, to be provided within existing projects and budgets.

**RECOMMENDATIONS:**

1. **THAT** the report "Plains Water Scheme – Financial Implications" be received; and
2. **THAT** the Whakatāne District Council prepare a Consultation Document as part of the Annual Plan 2016/17 that:
  - Confirms the Council’s intention to continue the development of the Paul Road bore as an alternative water source for the eastern parts of the Plains;
  - Proposes Option 2 (Isolate Edgecumbe from current Plains Water Sources, and connect it to Paul Road bore, and secure the Tahuna Road supply for Te Teko Township and surrounds) as a preferred option for an alternative supply of water to Johnson and Braemar Springs, and Option 3 (Isolate both Edgecumbe and Te Teko (and surrounds) from current Plains Water Scheme sources, and connect them to the Paul Road bore) as the next preferred option.
  - Outlines Option 1 (Isolate Edgecumbe from current Plains Water Sources and connect it to Paul Road bore), Option 4 (Isolate both Edgecumbe and Te Teko (and surrounds) from current Plains Water Scheme sources; connect Edgecumbe to Paul Road bore; upgrade Tahuna Road to serve Te Teko (and surrounds); and ultimately connect Te Teko (and surrounds) to Paul Road bore) and Option 5 (Do Nothing), but as least preferred options.
  - Proposes individual water meters for properties in Edgecumbe, to be provided within existing projects and budgets.

**Report Authorisation**

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