

**Title:** 20-266 Projects to be Funded by the Three Waters Reform Stimulus Grant

**Section:** 4 Waters Infrastructure

**Prepared by:** Carrie White - Senior Policy Advisor

**Meeting Date:** 24 September 2020

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Legal: No

Financial: Yes

Significance: **High**

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## Report to COUNCIL for decision

### PURPOSE

The purpose of this report is for Council to consider a recommended expenditure programme for a \$11.04m stimulus grant, which is the total amount available to the Gisborne district from Tranche 1 of the Government's Three Waters Reform Programme.

The allocation of this money to Tairāwhiti is mainly aimed at minimising the economic and social impacts of the COVID-19 crisis on the wellbeing of our community.

There will be future additional funding provided to Council as the Three Waters Reform Programme rolls out more.

### SUMMARY

The decisions or matters in this report are considered to be of **High** significance in accordance with the Council's Significance and Engagement Policy.

### RECOMMENDATIONS

#### That the Council:

1. Approves the allocation of:
  - a) \$7.5m towards the Wastewater Treatment Plant Upgrade
  - b) \$250k for developing the options for the water amalgamation and governance structures
  - c) \$3.29m option for rural townships and implementation of Ruatoria physical works and Muriwai top up supply.

*Authorised by:*

**David Wilson - Director Lifelines**

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**Keywords:** COVID 19, wellbeing, economic stimulus, funding, intergenerational equity, Three Waters Reform

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## **BACKGROUND**

### **COVID-19: Impacts on Wellbeing**

1. The COVID-19 pandemic is having major impacts on our lives in ways that go far beyond health, extending across all dimensions of wellbeing and all population groups.
2. While Tairāwhiti has been relatively fortunate in avoiding the direct health impacts of the disease itself, the full socio-economic consequences of the unfolding recession have yet to be felt. These are likely to include the:
  - Significant impacts of falling incomes and lost jobs on wellbeing.
  - Risks of flow-on impacts from the recession to other dimensions of wellbeing. In particular, the impacts of lost jobs and incomes may compound the impacts on mental health of the disease itself and the pressures from social distancing.
  - Disproportionate impacts on existing vulnerable groups, which may reinforce existing inequalities.
3. Even under a typical scenario, rates affordability is a key issue for the Tairāwhiti community, which is not well placed to absorb significant increases or spikes in rates.
4. So, as we move into year three of the 2018–2028 Long Term Plan (LTP), there is additional concern about the community's ability to pay for the levels of critical activities and infrastructure that Council has committed to delivering and maintaining.

### **Economic stimulus linked to the Three Waters Reform Programme**

5. The Government has started a three-year programme to fundamentally reform the water service delivery sector. This reform is being rolled out in parallel with an economic stimulus package of Crown investment in water infrastructure.
6. Councillors, iwi representatives and senior staff participated in a [workshop](#) held on Friday 7 August 2020 where Government representatives presented and discussed the proposed Three Waters Reform Programme investment and reform package.
7. Following this workshop, Council noted at its meeting on 13 August 2020 (amongst other things) that:
  - 1f. “The Chief Executive has delegated authority to sign the (Memorandum of Understanding) MoU ...” with the Crown agreeing to participate in the initial stage of the Government Three Waters Reform Programme.
  - 1g. “The Chief Executive has delegated authority to make decisions about the allocation of regional funding ...”

And agreed that:

2. “The Mayor may also sign the MoU on behalf of Council.”

### **Three Waters Reform programme - Memorandum of Understanding (MoU)**

8. The MoU has now been signed. Signing it was the essential first step for Council to qualify for \$5.52m grant funding.
9. It is possible that this amount will be doubled to \$11.04m if agreement between the Regional Chief Executives (Gisborne, Hawkes Bay and Bay of Plenty) is reached about an approach to allocating regional funding, taking account of regional investment priorities.
10. This agreement will need to be in writing and sent to the Minister of Local Government and the Steering Committee as a joint letter from the Mayors of the participating local authorities before the final amount will be settled.
11. Opting into the MoU does not commit Council to transferring assets to a new entity (**Report 20-249**). Any further commitment to transition to a new entity will be accompanied by a new opt-in agreement.

### **Three Waters Reform Funding Agreement and Delivery Plan**

12. The Funding Agreement and Delivery Plan are template documents that must be completed and submitted to the Department of Internal Affairs (DIA) within set timeframes (see Next Steps for deadline dates).
13. We can only use the Tranche 1 funding to complete the expenditure programme that we describe in the Delivery Plan which must, in turn, support the Government objectives described for the three waters reform, and economic stimulus objectives.
14. A decision from Council on how best to spend this grant funding is required so that the draft Delivery Plan can be written and submitted to the DIA by the 30 September 2020 deadline.

## **DISCUSSION**

### **An opportunity to keep rates as affordable as possible**

15. There remains considerable uncertainty about how the COVID-19 crisis will play out over time, but it appears inevitable that there will be significant and interconnected impacts on the wellbeing of our community, particularly from the economic recession, and these impacts will be felt differently across and within our community.
16. The funding that is currently being offered as Tranche 1 of the Three Waters Reform Programme is part of the Government's economic stimulus response to the COVID-19 pandemic.
17. While Government decided on how the total pool (of \$751 million) was allocated, they consider councils are best placed to determine how this stimulus funding should be spent within their own municipality.
18. A condition of the stimulus funding is that it be spent quickly (within 16 months – see Next Steps at end of this report) so that the community can benefit almost immediately from the jobs the money is paying for.

19. Staff recommend allocating:

- \$7.5m towards the Wastewater Treatment Plant Upgrade. This significant project will considerably upgrade our current wastewater treatment plant and will significantly increase the water quality of our marine outfall as well as a step towards alternative use and disposal of wastewater.
- \$250k for modeling of the options for amalgamation of water operations and the appropriate governance structure to manage any new model.
- \$3.29m to investigate options for safe water supplies for rural townships and implementation of improvement works to the Ruatoria township supply and a top up water supply for Muriwai.

20. The recommended programme of expenditure has been put together to maximise the positive impact to Te Tairāwhiti economy and jobs, create a fairer, more equitable system of access to safe and reliable drinking water and prevent further deterioration in water infrastructure.

#### **Focus on critical activities and infrastructure**

21. The 2018–2028 Long Term Plan (LTP) is a clear statement of Council's intention to "get back to basics" by focussing on building, renewing and maintaining critical community infrastructure; and our commitment to doing the "essentials first".

22. The (three waters-related) critical projects that were listed in the 2018 Financial Strategy to be funded through the course of LTP are:

- Improvements to treatment of Gisborne city wastewater – including investigating alternate use and disposal options.
- Reduction measures for stormwater infiltration – including wet weather overflows (DrainWise programme).
- Future water storage options for the city water supply.

23. The role of other sources of revenue, like grants, are essential in managing the overall impact and intergenerational equity on the community's ability to pay for significant infrastructure, particularly where it provides a benefit to the community as a whole.

24. Council's ability to meet expected levels of service for an urban population that is growing in the number of people and in density (number of houses in the same area) is dependent on there being enough capacity in our water and wastewater networks and land zoned for residential use.

#### **ASSESSMENT of SIGNIFICANCE**

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

**Overall Process:** **Low** Significance

**This Report:** **Low** Significance

Inconsistency with Council's current strategy and policy

**Overall Process:** **Low** Significance

**This Report:** **Low** Significance

The effects on all or a large part of the Gisborne district

**Overall Process:** **High** Significance

**This Report:** **High** Significance

The effects on individuals or specific communities

**Overall Process:** **High** Significance

**This Report:** **High** Significance

The level or history of public interest in the matter or issue

**Overall Process:** **Medium** Significance

**This Report:** **Medium** Significance

25. The decisions or matters in this report are considered to be of **High** significance in accordance with Council's Significance and Engagement Policy.
26. This is because this decision will:
- Dramatically reduce the amount of debt Council takes on in order to fund the Wastewater Treatment Plant upgrade – infrastructure that is critical to meeting Resource Management Act requirements, community expectations, and supporting the sustainable development (compact city) of the Gisborne urban area.
  - Help with our preparedness for future growth aspirations – as described in Tairāwhiti 2050 – Spatial Plan.

## **TANGATA WHENUA/MAORI ENGAGEMENT**

27. There has been no specific engagement with tangata whenua about this decision.
28. Māori are over-represented in communities where drinking water quality is poor. Alternative delivery mechanisms – such as the private property water tanks, top up point supply on East Coast – and formalising the Ruatoria Spring all have potential for Māori, particularly within the tribal rohe of Ngati Porou to more directly benefit from the stimulus funding.
- For example, affordable and equitably provided safe drinking water that contributes to improved health outcomes, jobs, and social enterprise.
29. Water supply to Muriwai has long been an aspiration for Ngai Tamanuhiri who are the mana whenua for Waingake where Council's water supply lakes are located. It has long been a grievance for Ngai Tamanuhiri that – despite the lakes being on their ancestral land – they do not benefit from the supply. Installing a supply for the Muriwai community would go a long way to rectifying that.

## COMMUNITY ENGAGEMENT

30. The Government-set timeframes for deciding on and committing to a “programme of expenditure<sup>1</sup>” are too short to initiate a consultative process any wider than at information level. This aligns with Council's Significance & Engagement Policy which uses the International Association of Public Participation guidelines to direct the level of engagement that is best suited to any given Council decision.
31. Through previous LTP consultations, and regular social media comments on the theme, we know that our community places a very high value on the health and mauri of our river or coastal marine environments, particularly in the context of wastewater (treated or overflows).
32. This means it will be important to provide opportunities for the community to participate in the reform process further down the track.

## CLIMATE CHANGE – Impacts/Implications

33. There are no impacts or implications on climate change associated with this report seeking a decision about using this grant money to fund three waters infrastructure projects. As the Three Waters Reform Programme progresses there will be greater discussion about ways that the delivery of three waters services can be made more resilient to the impacts of climate change, particularly increased frequency of drought and heavy intensity rains. The development of rural supply options will help build the resilience of our rural communities and build their capacity to manage the effects of our changing environment.

## CONSIDERATIONS

### Financial/Budget

34. This grant from the Government can be used for capital or operating expenditure in line with the reform objectives. It does not have to be repaid. The only requirements are that it:
  - be allocated via an expenditure programme (and described in an approved Delivery Plan)
  - meets reform and economic stimulus objectives (**Attachment 1**)
  - can be completed by 31 March 2022
  - provide value-for-money and does not give rise to any Conflict of Interest
  - does not replace (or “swap”) an item already budgeted for in the Annual Plan (but can be spent on three waters infrastructure brought forward in the 2018–2028 LTP).

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<sup>1</sup> new projects that will be paid for by this first stage of funding being provided by the government as part of an economic stimulus package AND incentive to participate in the nation-wide reform of the three waters.

### Release of allocations

35. An initial disbursement (payment of money from a fund) of 50 per cent of the total amount of funding that has been allocated to us (GDC) will be released once we have signed the MoU, prepared and submitted a Funding Agreement, and a DIA-approved Delivery Plan (see Next Steps for deadline dates; also see Risks section of this report).
36. The remainder will be disbursed on a quarterly basis, subject to appropriate progress being made against the approved Delivery Plan.
37. The Government has been explicit in stating that funding allocations will not be 'topped up' to meet any shortfalls experienced by councils while delivering their funded programmes.

### Legal

38. There are no significant legal implications associated with a decision that allocates Government funding to water infrastructure investment.
39. As the Three Water Reform Programme progresses, there will be legal implications and obligations placed on everyone who becomes defined as a **drinking water supplier** (anyone other than a stand-alone, or single domestic dwelling that has its own supply of water).
40. These establishments will become responsible for the "infrastructure, processes used to abstract, store, treat, transmit or transport drinking water for supply to consumers; and includes (i) the point of supply; and (ii) any end-point treatment device; and (iii) any backflow prevention device ..."

### POLICY and PLANNING IMPLICATIONS

41. A decision to allocate Government funding to invest in a combination of water infrastructure, renewals and maintenance is consistent with the:

#### Financial Strategy (2018–2028)

42. The focus of this Strategy is on meeting our critical infrastructure needs in a way that is affordable to our community. It emphasises that rates affordability is a key issue for the Tairāwhiti community, which is not well placed to absorb significant increases or spikes in rates. It specifies the need to use debt and/or grant funding to fund the critical infrastructure projects described in the Long-Term Plan (LTP). These include (amongst other items):
  - Improvements to treatment of Gisborne city wastewater – including investigating alternate use and disposal options.
  - Reduction measures for stormwater infiltration — including wet weather overflows (DrainWise programme).
  - Future water storage options for the city water supply.

### **Revenue & Financing Policy (2018–2028)**

43. Describes the funding mechanisms it uses where the level of service provides a benefit to the community as a whole; is of a uniform nature; or where Council is not able to identify the direct relationship between users and the service Council uses general rates. It highlights the importance of intergenerational equity in relation to significant infrastructure that has an expected long life; and has a clear statement about the role of other sources of revenue – such as grants – in managing the overall impact on the community, and their ability to pay.

### **30-year Infrastructure Strategy (2018–2048)**

44. Describes the significant infrastructure issues for Council, and the principal options for managing these issues in the context of the major trends and challenges. For example, ensuring there is enough capacity in our water and wastewater networks to service population and household growth, and reducing the risk of discharges of untreated wastewater into waterways.

### **Tairāwhiti 2050 – Spatial Plan (January 2020)**

45. Identifies that “Providing new and upgraded infrastructure is key to unlocking more housing options – the Taruheru Block and residential intensification of Wainui and Kaiti are examples” and highlights the need to look at new funding mechanisms to achieve this.
46. The programme of water infrastructure initiatives recommended to be funded by this stimulus grant also gives effect to the purpose of the Local Government Act (2002) which, amongst other things, requires Council to – “... *play a broad role in promoting the social, economic, environmental, and cultural well-being of (our) communities, taking a sustainable development approach.*”

## **RISKS**

### **The timelines for receiving and spending the funding**

47. A decision about how the funding will be allocated must be made and set out in the draft Delivery Plan before 30 September 2020. A delay in deciding creates the risk that we will not receive the money.
48. The recent resurgence of COVID-19, the possible changes in Alert Levels that may occur over the coming months, and the potential impact of this on councils’ capacity to undertake the proposed works within the relevant timeframes are risks.
49. The Government’s Joint Three Waters Steering Committee have said that they will be keeping a watching brief on developments and will consider future programme timelines in the context of the operating environment.

### **Local capacity to deliver the expenditure programme**

50. There is a risk that as most councils in New Zealand will be looking to deliver similar work programmes – in the same timeframe – there will be challenges with supply chains. For example, pipe supply, valves, condition assessment specialists, UV units, trenchless technology.



51. The Steering Committee has asked that we use the Delivery Plan template to identify any resources that may be in short supply regionally or nationally as a result of this stimulus investment – and the Government will act to smooth these supply issues where it can.

## NEXT STEPS

Date	Action/Milestone	Comments
31 August 2020	The Memorandum of Understanding must be signed and submitted to Department of Internal Affairs (DIA)	This is the essential first step to qualify for the grant allocations (\$5.52m plus a further \$5.52m – total \$11.04m)
Prior to 30 September 2020	Communicate the regional funding allocation decision to the Minister of Local Government and the Three Waters Steering Committee	A joint letter from the Mayors of participating local authorities describing their agreement on the regional share of Tranche 1 funding must be emailed before this date.
30 September 2020	Funding Agreement must be signed and submitted to DIA	
30 September 2020	A draft of the Delivery Plan must be submitted to DIA	This describes the 'Expenditure Programme' – including milestones and completion date.
31 October 2020	The final Delivery Plan must be submitted in a form approved by DIA	Triggers the start of the expenditure programme.
November 2020	Stimulus released (50% of total amount)	The release of rest of funding is dependent on achieving milestones – reported in quarterly reports (see next step).
By the 10th Business Day following the end of each Quarter.	Quarterly reports from the Commencement Date	Submitted to DIA and copied to the Monitor. Must summarise expenditure against budget for each quarter, plans for next quarter, description of progress, summary of jobs created against expected.
30 June 2021	First tranche of stimulus funding expires	As per the conditions of the 31 August 2020 MoU.
31 March 2022	End Date - Expenditure programme must be completed – as described in the Delivery Plan	Or such later date determined by DIA in its discretion.

## ATTACHMENTS

- Attachment 1 - Three Waters Reform Objectives and Programme V2 [20-266.1 - 2 pages]

## **Appendix One**

### **Three Water Reform objectives**

1. Significantly improving safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems.
2. Ensuring all New Zealanders have equitable access to affordable three waters services.
3. Increasing the resilience of three waters service provision to both short and long term risks and events, particularly climate change and natural hazards.
4. Improving the coordination of resources and unlocking strategic opportunities to consider New Zealand's infrastructure needs at a larger scale.
5. Improving transparency about, and accountability for, the delivery and costs of three waters services, including the ability to benchmark the performance of service suppliers.
6. Undertaking the reform in a manner that enables local government to further enhance the way in which it can deliver on its broader "wellbeing mandates" as set out in the Local Government Act 2002<sup>1</sup>.
7. Moving the supply of three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced across the sector and particularly by some small suppliers and councils.

### **Economic stimulus**

8. Supporting economic recovery through job creation.
9. Maintaining, increasing and/or accelerating investment in core water infrastructure delivery, renewals and maintenance.

### **Limitations in addition to economic stimulus**

- Cannot be in Annual Plan
- Signed MOU
- Approved Delivery Plan
- Projects that can be completed by 31 March 2022
- Any other expenditure to be met by Council

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<sup>1</sup> to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future

## Appendix Two

## Indicative process for Stimulus Funding

