

Statement of Proposal – Mangawhai EcoCare

Contents

1. Introduction
2. Goals
3. Background
4. Consultation
5. Discussion
6. General Options Considered
7. Proposal
8. Appendix

1. INTRODUCTION

The Mangawhai EcoCare Wastewater Treatment Scheme project (Mangawhai Ecocare) has been under development in some form since the early 1990s when the water quality in the Mangawhai estuary became noticeably degraded due to a number of contributing factors including the:

- Cumulative impact of sewage disposal;
- Geographic features of the land at Mangawhai;
- Number of occupants at Mangawhai particularly during the peak seasonal periods; and
- Continued use of septic tanks and long drops.

Kaipara District Council completed a risk management assessment of the available project delivery approaches and decided to use a 'Design, Build, Operate and Finance' approach. This led to a publicly advertised tender process which resulted in three companies being short-listed to bid the project. The outcome of this tender process is that Earthtech Engineering Ltd has been contracted for up to 15 years to provide wastewater services to Mangawhai including the provision of a wastewater collection, treatment and disposal system, subject to obtaining the necessary consents and meeting Local Government Act 2002 (LGA) requirements. The financing component of the contract will be provided by a company owned and operated by ABN Amro New Zealand.

A Statement of Proposal was released in August 2003 that outlined the project and the proposed charging regime including a Development Contributions Policy. Since that time significant cost increases have arisen due to general inflationary pressure particularly in the construction sector but also associated with the change in preferred contractor from Simon Engineering to Earthtech Engineering.

Statement of Proposal – Mangawhai EcoCare

Earthtech Engineering Pty Ltd (the contractor) is required to obtain the necessary consents. It is proposed to locate the wastewater treatment plant in 'Mangawhai Park'. However, the disposal site has not been finally decided upon - investigations are continuing.

This Statement of Proposal summarises the project, outlines the proposed charging regime, including rating and a development contributions policy, and associated policy implications and proposed policy changes.

This Statement should be read in conjunction with Proposed Development Contributions Policy on **Page x**, Volume 2 of the Draft LTCCP 2006/16.

2. Goals

Kaipara District Council's objectives for this Project are to:

- *Deliver cost-effective, high quality, and innovative waste water infrastructure to Mangawhai;*
- *Achieve or exceed predetermined service outcomes with optimum risk transfer to the Proponent (contractor);*
- *Deliver significantly improved services to the community;*
- *Deliver ongoing value for money throughout the Project including maximising social and economic returns;*
- *Maintain and enhance the water quality of the Mangawhai Estuary whilst meeting environmental standards now and into the future; and*
- *Satisfy regulatory requirements.*

Throughout this process, Council has been focussed on delivering high quality services at an affordable price. This has resulted in Council developing a framework of charges, rates and contributions designed to fully fund the scheme, fairly allocate costs to those who will benefit from the system and those who have triggered the need for the expenditure, and is fair and equitable in its treatment of intergenerational issues.

Statement of Proposal – Mangawhai EcoCare

These objectives were also framed by reference to the community outcomes included in the Long Term Council Community Plan (LTCCP) 2004/2014¹ namely:

COMMUNITY OUTCOMES	ECOCARE LINKAGE
▪ Sustainable Economy	EcoCare must be affordable and be capable of serving an expanding community.
▪ Strong Communities	Mangawhai community engaged in the process and progressively building ownership of the project and the future direction of Mangawhai.
▪ Safety and Quality of Life	Public health is maintained in the estuary and people are not restricted from swimming or fishing and other recreational activities.
▪ Special Character & Healthy Environment	Coastal character and nature of Mangawhai to be preserved through low impact design. Water quality in estuary to be maintained and enhanced.

3. BACKGROUND

Need for Scheme

Mangawhai is a small coastal community that is extremely popular with full time residents and bach owners who, together with tourists flock to the beaches and estuary during summer period and weekends. It has a small base population of approximately 1400 that increases to around 4500 during summer with a peak of some 6500 including daily visitors.

The harbour and groundwater is degraded and has been since at least 1976 when the first surveys indicated unacceptable levels of human waste and other pollution sources.

The prime contributors to this situation are:

- Cumulative impact of sewage disposal;
- Ground conditions in large areas of Mangawhai have been proven to be unsuitable for septic tanks as there is extensive below ground runoff due to a level of clay which prevents the sewage soaking into the earth.

¹ These community outcomes are also included in the Draft Long Term Council Community Plan 2006/16.

Statement of Proposal – Mangawhai EcoCare

- Sewage is currently treated or disposed of via septic tanks/ long drops many of which are in poor condition;
- Stormwater, during major storm activity; and
- Rural run off which occurs in the upper reaches of the estuary.

This has been demonstrated through survey results and a series of reports commissioned by Northland Regional Council or Kaipara District Council dating back to 1976. Surveys have consistently demonstrated faecal coliform and enterococci results significantly above accepted guidelines. Water and Shellfish quality reports together with analysis by Council's Development Engineer in 1990 further confirmed this and identified the causes listed above.

With the current and projected future growth this situation will further deteriorate without coordinated action across the community.

The above factors contribute to the degradation of the environmental condition of the estuary at Mangawhai which subsequently impacts on:

- Public health and safety issues from swimming/ playing within the estuary environs as well those associated with the quality of the shellfish;
- Attractiveness of Mangawhai as a residential village and/or tourist destination;
- Sustainability of the environment; and the
- Long-term economic health of Mangawhai.

In 1998 the Mangawhai Infrastructural Assets Study investigated and analysed options for infrastructure to meet the broad range of infrastructure requirements but with a specific emphasis on wastewater requirements including community preferences. A list of the investigations and reports is included in Appendix A of this Statement of Proposal.

Drainage District

The declaration of the Drainage District was decided upon as part of the original Statement of Proposal process and no changes are proposed to the drainage district boundaries, as previously declared, which essentially includes all the urban areas, 'Mangawhai Park', Golf Course and the Rural-residential zoning under the Kaipara District Plan. Therefore the Drainage District remains as follows:

Statement of Proposal – Mangawhai EcoCare

Statement of Proposal – Mangawhai EcoCare

Within this drainage district there will be an initial reticulation area that will largely include the existing established residential areas (pre 2003) at Mangawhai Village and the Heads. This initial reticulation area will be progressively expanded as required within the Drainage District to service those remaining properties as and when development occurs. During the detailed design phase the inclusion of recently developed areas will be considered and it is likely that they will be included within the initial reticulation area. This includes developments in and around the Mangawhai Beach Primary School, Jack Boyd Drive, Molesworth Drive and the new developments to the right of Molesworth Drive immediately past the causeway to Mangawhai Heads.

Technical Details

The principal features of the proposed scheme are as follows:

- Sewer reticulation will be a mix of conventional gravity, low pressure systems, and rising main sewers.
- Connection of existing household units to the above sewer network.
- A small footprint wastewater treatment plant will be provided with proven robust and scaleable technology.
- Treated effluent will be disposed of via beneficial reuse and/or land disposal.
- Bio-solids will be composted and/or disposed of to a registered site. This is currently proposed at a site managed by McJimray Septic Tank Clearing services at Wellsford. This is the responsibility of Earth Tech Engineering Pty Ltd to ensure continuity of services for the duration of the contract.

The Village area (approximately 160 sections) will be serviced by a low pressure sewerage collection and reticulation system to reduce the size of the pipes and pumps required and also to address the flatness of the land and the high water table levels. This system will include a self contained polyethylene tank with grinder pump that will pump effluent to the gravity collection system via a small bore pressure pipeline.

The Heads area will be serviced by a mix of modified conventional gravity collection system, and in a small number of sections (approx 130) a Low Pressure Services (LPS) system will be installed where economics dictate. For further technical details refer to the information booklets for landowners and residents prepared by Earthtech. These are available from Council offices.

The Mangawhai EcoCare project includes the physical connection of the existing households to the reticulation network and it may also include the pump out and demolition of any

Statement of Proposal – Mangawhai EcoCare

existing septic tank subject to individual location of the septic tank and discussions with the individual landowner.

The wastewater treatment plant will be fenced and screened by a perimeter of trees and bushes to minimise the visual impact of the plant within Mangawhai Park and will be located at the back of Mangawhai Park adjacent to the Golf Course.

Effluent will be disposed of to land with the exact location still to be determined, however, both Council and Earthtech are also investigating possible reuse options to minimise the amount of discharge required. This process will be completed as part of the preparation of the resource consent application.

4. CONSULTATION

Parties affected by this proposal include all those within the declared Drainage District for Mangawhai EcoCare Project as referenced in section 3 above.

This Statement of Proposal (SoP) has been prepared in accordance with the Local Government Act 2002. It is included within the Draft Long Term Council Plan 2006/16 process. This requires Council to call for formal submissions, hold hearings on those submissions, deliberate and then issue its decision as part of the Long Term Council Community Plan.

The consultative process to date has been extensive and is summarised below:

Phase 1 - Mangawhai Infrastructural Assets Study – November 1998 to May 2000

- Release of 5 Newsletters
- Demographic Survey
- Series of workshops and forums with stakeholders, community representatives
- Report on the outcome of the above consultation
- Final Public Workshop
- District Plan Change No 9 initiated

Phase 2 – Mangawhai EcoCare Project - May 2000 to Current

- Series of workshops and Open days
- Some 20 Community Liaison Group (CLG) meetings
- 8 EcoCare Newsletters
- Approx 40 Mangawhai Memo articles

Statement of Proposal – Mangawhai EcoCare

- Discussions with Te Uri o Hau
- Statement of Proposal issued in July 2003 with hearings held in September 2003
- Adoption of the initial Development Contributions Policy
- Suspension of the initial proposed charges pending review of the Development Contributions Policy
- Revision of Development Contributions policy and
- Second Statement of Proposal (This proposal)

5. DISCUSSION

5.1 Options Examined

Delivery Approach

Council has adopted a 'Design, Build, Finance and Operate' approach to deliver the Mangawhai EcoCare Project. This approach was adopted to ensure Council transferred the appropriate risks to the private sector contractor. It was also modified to comply with the Local Government Act 2002 requirements.

Council has obtained a fixed price proposal where the private sector accepted risks associated with design, build, construction, commissioning and operation of the wastewater treatment system including collection, treatment and disposal in accordance with government regulations and consents.

This option was selected by Council as it did not want to accept the risk of cost over runs on the project and/or the system not working once it was completed. These and other risks have historically been borne by councils when they use the traditional design and construct methods which then leads to significant uncertainty in setting costs. Council is aware of issues and disputes arising between the Council, the designers, the builders, the operators or even the equipment suppliers as to who is at fault if something goes wrong or increased costs are incurred without prior approval when traditional methods have been adopted.

In this case Council and the community are protected from these risks by a single contract interface between Council and the one company (Earthtech). It is Earthtech's responsibility to manage all the internal interfaces and be responsible for the obligations of all of them.

Statement of Proposal – Mangawhai EcoCare

Technical Options

With Council adopting the above project delivery approach, it also enabled Council to leave the technical options available to the respective bidders as broad as possible. Bidders were encouraged to investigate the entire range of options including traditional and non-traditional methods provided they could undertake to provide the required services for up to 15 years to the required standard and in accordance with any resource consent requirements.

Therefore a range of possible solutions was identified by each of the bidders and they submitted what they considered was the most likely option(s) to be successful.

The competitive process drove the examination of technical options to ensure the most commercial option was presented to Council and the community. This was then tested through the evaluation process to ensure the technical options submitted were assessed for robustness, fitness for purpose at Mangawhai and had sufficient capacity to meet the current and future needs of Mangawhai.

5.2 Sanitary Works Subsidy Scheme

Central Government has established the Sanitary Works Subsidy Scheme (SWSS) to assist small communities in being able to afford schemes like Mangawhai EcoCare.

Council has submitted a provisional application for this scheme and has been awarded a provisional contribution of \$6.63M (GST Included). This was based on achieving a scored percentage of 31.89% out of a maximum possible 50% contribution.

The maximum level of funding possible under the scheme has been increased from this 50% to 90%. This provisional application has now been revised and has been re-submitted to the Ministry of Health advising of the significantly increased costs of the project, the reasons for the delay in the project and the impact on the affordability of the project. This also includes seeking a review of the maximum subsidy contribution based on the increased costs and the increase in the maximum subsidy now available. No increase in funding levels can be assumed.

It is important to note that subsidies achieved from the SWSS cannot be directed to sections created after 23 March 2002, the date the subsidy scheme was launched.

The primary options for how this subsidy may be allocated include:

- Subsidising the physical house connection costs of “existing section owners”²

² This does not include any subdivisions approved by Council after 23 March 2002, as defined by the Ministry of Health SWSS criteria.

Statement of Proposal – Mangawhai EcoCare

- Reducing the “existing section owners”² connection or access fees (Uniform Targeted Rate).

The Council proposes to apply the SWSS subsidy to achieve both these options.

5.3 Council Funding Policies and other Policies

Framework and Principles

Council has developed its funding policies in accordance with the Local Government Act 2002. These policies are included in the 2004/2014 Long Term Council Community Plan and the Draft Long Term Council Community Plan 2006/16 and include the Revenue and Financing Policy, Accounting Policies, and Treasury Policy.

Council is proposing to amend its Treasury Policy to ensure that debt segmentation is achieved for major capital projects, such as Mangawhai EcoCare. This is to provide clarity and surety on how debt for major capital works will be serviced, as well as conforming to good accounting practices. As part of this Statement of Proposal, the Financial and Development Contributions Policy is also to be amended to ensure that the cost of providing sewerage infrastructure resulting from development is fairly allocated.

Other policies which have relevance include Council's Policy on Significance. This is one of the reasons why a statement of proposal has been prepared for the Mangawhai EcoCare proposal.

The affordability of the EcoCare project for the community is a key consideration under Council's funding policies. Accordingly, comprehensive consideration of funding options has been undertaken and is summarised later in this document.

Taking into account Council's funding policies and the Local Government Act 2002, key aspects of the proposal include:

- User Pays principle in that each sewerage scheme must be funded by the community the scheme services - The EcoCare project will be self funding over 40 years on a user pays basis;
- The Drainage District outlines the current boundary of beneficial users and this may be expanded if growth occurs outside these boundaries;
- Operating costs will be recovered through uniform annual charges or rates;
- Uniform Targeted Rates, Uniform Annual Charges and Development Contributions will be used to recover capital costs of the EcoCare project including the financing charges;
- Residential Properties will be charged an annual rate (Uniform Annual Charge) regardless of the number of pans or showers within the property;

Statement of Proposal – Mangawhai EcoCare

- Pan Charges will be levied on a per pan basis for non-residential customers in line with Council policy across the district. This reflects the commercial benefits derived from non-residential applications and the increased environmental impact from multiple pans in a commercial setting. Operational subsidies can be applied to alleviate cost impacts on non profit community groups;
- Individual sections that have reticulation network available to the property but are not connected (due only to the section not having a house, bach or other development) will be charged 50% of the Uniform Annual Charge;
- All sections that have a reticulation network available to the property including those not connected will pay a one off targeted rate (availability rate) when services are available to the section and a building consent has been applied for. This will be a condition of the building consent;
- In accordance with section 202(1)(b) of the LGA, within Mangawhai, a development contribution for wastewater will be payable upon:
 - The grant of resource consent for a subdivision under the Resource Management Act 1991 (including subsequent amendments) to create any additional allotment/s; or
 - The grant of resource consent for a land use to create any additional household unit/s under the Resource Management Act 1991 (including subsequent amendments); or
 - The grant of a building consent for any second or subsequent household unit/s under the Building Act 2004 (including subsequent amendments), on an allotment; or
 - An authorisation for a service connection (to a sewer) for additional household unit/s, where the allotment upon which the household unit is to be sited was created by subdivision for which consent was granted on or after 1 July 2006;
- Sanitary Works Subsidy Scheme (SWSS) funding can only be used to benefit “current ratepayers” and cannot be used in relation to sections created after the announcement of the scheme (23 March 2002); and

Accordingly, Council has developed a charging regime that ensures the scheme is self funding over its expected life and that current and future growth can be accommodated and funded in an equitable manner. Council has developed two models to look at how the scheme can be funded to ensure fair and equitable treatment to current and future ratepayers while complying with the Local Government Act 2002.

Firstly, Council has developed a Rates and Charges model which includes all capital and operating costs including interest charges and depreciation based on a system with an average life of 40 years. These costs are calculated over a 25 year period with operating costs being paid by Uniform Annual Charges such as rates and pan charges and the capital

Statement of Proposal – Mangawhai EcoCare

costs being funded via uniform annual charges, targeted rates or availability fees and development contributions.

This modelling has demonstrated a range of charges are possible which will ensure that Mangawhai EcoCare is self funded.

Secondly, Council has developed a Development Contributions Model that complies with the provisions of the Local Government Act 2002 (LGA). Schedule 13 of the LGA outlines a methodology for calculating the maximum possible Development Contributions that Council can charge - Development Contributions can only be required to fund that part of the project that is a result of growth. Please see key assumptions in the Development Contributions Policy and in this Statement of Proposal.

5.4 Development Contributions under the Local Government Act 2002

Key features of the methodology for calculating Development contributions are:

- Need to identify the total cost of the capital expenditure;
- Need to identify the share of that expenditure attributable growth;
- Need to identify Units of Demand for apportioning costs of growth;
- Attribution of units of demand to developments to be consistent and equitable;

Key sections of the Local Government Act 2002 are:

- s199, prescribes the basis on which contributions can be imposed;
- s200, prescribes the limitations applying to requirement for development contribution; and
- s203, prescribes the requirements for maximum contribution Council can impose;

This means calculating the Development Contribution per allotment/household unit³ in the Mangawhai Drainage Area⁴ based on currently available costs as per the 'Design, Build, Finance, Operate' proposal by Earthtech Engineering Pty Ltd.

Similar to the Rates and Charges Model, the Development Contributions Model is based on 25 years including projected growth with the interest charges associated with the capital works being evenly spread over 40 years which is the average economic life of the plant. This creates an annual cashflow for each of the 25 years of the model. This enables the forecast costs to be divided by the number of units (per lot/residential unit) forecast for the 25 year period.

³ Unit of Demand as per s203(2) & Cl 1(b) Sch 13 LGA 2002

⁴ Area that the EcoCare project is to service;

Statement of Proposal – Mangawhai EcoCare

Forecast costs are generally known due to the Design Build Operate and Finance methodology adopted by Council.

The key issues or variables inherent in the modelling are the:

- Forecast of the growth in residential sections within the drainage district and over the 25 year period;
- Capital Costs of the project; and
- Allocation of these capital costs between Current and Future Ratepayers.

Each of these major variables is discussed below:

Forecast Growth

In recent times there has been a rapid expansion in the number of sections being developed in Mangawhai. A key element in assessing the development contributions is the number of sections that can be established within the Drainage District given the current zoning patterns and making allowances for reserves, roadways and the golf course for example. Based on the above, the projected total number of available sections is approximately 3300.

The number of sections (allotments) projected to June 2006 is 2000 based on recent developments.

An important question that arises is how quickly will the 2000 grow to the 3300 lots?

Council is conscious that that development rates fluctuate and therefore for modelling purposes have assumed a linear growth rate of some 2% per annum for the next 25 years which represents some 55 new sections every year for the next 25 years. This is considered to be a conservative assumption, but nevertheless prudent.

Council will continue to monitor this growth to ensure the accuracy of this assumption. (refer, below to section on assumptions)

Number of Sections	2,000	(Based on forecast number in June 2006)
Projected Future Growth	1,300	(Calculated Balance)
Total Number of Sections	3,300	(Based on average lot sizes and current zoning)

Capital Costs of Project

The capital costs of the project are \$35.6 M (excluding GST) but including capitalised interest and Council fees. This includes provision for:

- Reticulation of the current urban areas,
- Connection of established households,

Statement of Proposal – Mangawhai EcoCare

- Establishment of the sewer transfer network between Mangawhai Heads, Mangawhai Village and the Treatment Plant site in Mangawhai Park,
- Establishment of Treatment Plant in Mangawhai Park, and
- Disposal and or reuse of treated wastewater and biosolids.

In addition to the capital costs of the project the cost of financing the loan must also be addressed as this is a significant component of the overall cost.

Allocation of Costs

That share of costs due to growth has been assessed at 30% of the total costs acknowledging that the initial treatment plant, reticulation system, network sewers and the disposal option will have greater capacity than required for the current number of sections. Options examined include:

Allocation based on projected section numbers.

In simple terms the straight percentage of capacity based on the growth numbers supports an allocation of 60% current sections and 40% future sections. (i.e. 2000 current sections divided by maximum number of 3300 = 60.6% allocation to current).

Allocation based on treatment plant capacity

The treatment plant capacity is projected to be somewhere between 2500 and 3300 sections. The capacity range relates to variables, such as the number and nature of residents, seasonal factors and the actual performance of the plant once commissioned.

Therefore, assuming a mid point capacity of 2875 another method of allocating capacity can be calculated. (i.e. 2000 current sections divided by 2875 = 69.5% allocation to current)

Final Decision for the Statement of Proposal

The Council has allocated 70% to current and 30% to future as this also recognises that some of the reticulation network and the all of the household connections will be 100% allocated to current sections and therefore those sections should bear a higher proportion of these costs. Therefore the Council's proposal is based on the second alternative (allocating 70% to current sections and 30% to growth) rather than the alternative of 60% to current sections and 40% to growth).

Both methods are valid means of allocating capacity however on balance option 2 provides security to Council and equitably balances the funding obligations between current and growth sections.

Statement of Proposal – Mangawhai EcoCare

5.5 Key Assumptions

The development of economic models is based on a large number of assumptions and projections; therefore the quality of the outcomes is dependent on these assumptions and projections. For this Statement of Proposal the assumptions and projections adopted for both the Ratings and Charges Model and the Development Contributions Model are consistent. These are outlined below together with a summary of why they were adopted.

PARAMETER	NUMBER	COMMENT
Model Period	25 Years	Whilst average life is 40 years for practical reasons the model has been developed based on 25 years.
Average Depreciation Life	40 Years	Assets will have variable life with buildings, sewer pipes likely to have lives in excess of 50 years whereas mechanical and electrical plant life is likely to be less than 15 years.
Inflation Rate	3%	Assumed for modelling purposes.
No of Residential Sections at Start (June 2006)	2000	Based on current numbers projected to 30 June 2006 using Council data.
Maximum Number of Residential Sections within Drainage District	3300	Calculated based on average residential section size after making allowances for roads, reserves and golf course, foreshore etc. Assumes existing planning pattern remains.
Growth Profile	2% Linear	This allows for the 2000 to progressively grow to 3300 over the 25 year period. This is conservative and will be monitored by Council annually with charges capable of be reviewed at least every three years to ensure this profile remains appropriate. This represents some 55 sections every year for the next 25 years.

In addition, the Rates and Charges Model has been developed to ensure that the Mangawhai EcoCare is self contained financially and achieves a zero cash balance after 25 years with all debt repaid within the 40 years average life of the project. That is, in any one year there may be a cash surplus or shortfall but that after 25 years allowing for all revenues and costs there

Statement of Proposal – Mangawhai EcoCare

will be a zero cash balance but with a remaining 15 years of depreciation and debt to be financed. This situation will be monitored for the duration of the project but it does provide a prudent basis for financial decision making.

5.6 Methodology for Development Contributions

As required by the Local Government Act 2002, the full methodology that demonstrates how the calculations for the Mangawhai EcoCare development contribution is contained in the Draft Policy on Financial and Development Contributions.

6. General Options Considered

6.1 Introduction

Council has considered a range of alternative funding mechanisms for the Mangawhai EcoCare Project with a focus on assessing each option against the community outcomes including the costs and benefits of each option.

Council has specifically examined whether Development Contributions should be sought to contribute to the cost of developing of network infrastructure in Mangawhai to service a growing coastal community recognising that the projected growth profile dictates that the scheme should be designed with the capacity to meet some future requirements. At Mangawhai it has been determined that a community based wastewater scheme is required due to the geographic conditions and the number and size of the projected population, therefore septic tanks and other locally based schemes must be decommissioned and the properties connected to the EcoCare System once the network is available to the property.

The critical decision is how Council should recover the capital and operating costs including financing charges from the community.

A general summary of the advantages and disadvantages of the available funding sources is outlined below to highlight the relative efficiency of each approach.

Statement of Proposal – Mangawhai EcoCare

Rates (General or Targeted)

This option would involve funding the required network infrastructure upgrades through rates.

Advantages	Disadvantages
<ul style="list-style-type: none"> ■ Greatest certainty for revenue. ■ Spreads costs better over all homeowners. ■ Least opportunity for appeals. ■ Greatest flexibility with methodology. ■ Better relates costs with benefits. 	<ul style="list-style-type: none"> ■ Existing community would be subsidising growth. ■ Higher borrowings (as it would be unreasonable to fund from revenue alone). ■ Increased administrative costs to reflect growth costs on future development.

Financial Contributions

This option would involve funding part of the required network infrastructure upgrades through capital contributions from development under the Resource Management Act 1991 and the District Plan.

Advantages	Disadvantages
<ul style="list-style-type: none"> ■ Secures capital contributions upfront/in advance. ■ Reduces borrowings ■ Payments related to need for expenditure. ■ Greater flexibility in methodology in comparison to development contributions. 	<ul style="list-style-type: none"> ■ Revenue risks due to uncertainties about growth/development (and reductions at appeal stages). ■ “Front end loading” of costs on initial homeowner. ■ Increased administrative costs to reflect capital charges not in rates. ■ Only one method to secure the contributions (resource consent). ■ Longer period to implement. ■ Greater opportunities for appeals.

Statement of Proposal – Mangawhai EcoCare

Development Contributions

This option would involve funding part of the required network infrastructure upgrades through capital contributions from development under the Local Government Act 2002.

Advantages	Disadvantages
<ul style="list-style-type: none"> ■ Secures capital contributions upfront/in advance. ■ Reduces borrowings ■ Reduced opportunity for appeals ■ Three (3) different ways to secure the contributions. ■ Contributions related to need for expenditure to upgrade. 	<ul style="list-style-type: none"> ■ Revenue risks due to uncertainties about growth/development. ■ “Front end loading” of costs on initial homeowner. ■ Increased administrative costs to reflect capital charges not in rates. ■ Prescribed methodology to follow (less flexibility). ■ Amount likely to be considered too high by some developers. ■ Lesser opportunity for appeals compared to financial contributions. ■ Risk of Judicial Review

Preferred Proposal

The preferred option is the application of a development contribution for wastewater to fund part of the required network infrastructure upgrades for the following reasons:

- Advantages of development contributions in this case outweigh the disadvantages;
- The development contributions approach is fair and reasonable to address expenditure requirements for Mangawhai considering the growth related pressures and limited rating base and nature of the community.

And that in comparison to other options, development contributions:

- Secure capital contributions upfront/in advance and therefore reduce borrowings;
- Provide the least opportunity for appeals and therefore delays in securing necessary funds; and
- Those who trigger the need for the expenditure contribute directly in relation to their developments.

Statement of Proposal – Mangawhai EcoCare

Council considered the following combinations of charges to recover the project costs:

OPTION	CAPITAL COSTS	OPERATING COSTS
1	Uniform Targeted Rate Only	Uniform Annual Charges Only
2	Uniform Targeted Rate + Development Contributions	Uniform Annual Charges Only
3	Uniform Targeted Rate, Development Contributions +Uniform Annual Charges	Uniform Annual Charges Only
4	Uniform Annual Charges Only	Uniform Annual Charges Only

Each of these options is now examined.

6.2 Option 1

Option 1 provides for capital costs and operating costs to be separated and recovered under different mechanisms which reflect the differing nature of the costs.

Annual Operating costs are recovered via Uniform Annual Charges which is appropriate as these charges will progressively grow as capacity is increased to meet future population numbers. This is a fair and equitable manner to recover operating costs.

Capital Costs are recovered using a Uniform Targeted Rate which does not distinguish between an existing or future ratepayer. On this basis the argument can be that each ratepayer benefits equally from the scheme in that each ratepayer is connected to the scheme and their wastewater is treated in the same manner. While this is true it does not reflect the differing costs of reserving capacity in the scheme for the benefit of future ratepayers. In particular the financing costs associated with installing this additional capacity now and the associated economy of scale.

Council has given consideration to these issues and has determined that relying solely on a Uniform Targeted Rate to recover the capital costs places an undue financial burden on the current ratepayers and would not achieve the required community outcomes. **Therefore Option 1 is not preferred.**

6.3 Option 2

Option 2 again provides for capital costs and operating costs to be separated and recovered under different mechanisms which reflect the differing nature of the costs.

Statement of Proposal – Mangawhai EcoCare

Annual Operating costs are recovered via Uniform Annual Charges which is appropriate as these charges will progressively grow as capacity is increased to meet future population numbers. This is a fair and equitable manner to recover operating costs.

In this option Capital Costs are recovered in two ways:

- Using a Uniform Targeted Rate which is common to all properties. This reflects the issue that all parties benefit from the common wastewater treatment service and therefore contribute the same amount (escalated to reflect the different years) when people are required to connect; and
- Using Development Contributions to recover that element of the costs allocated to future ratepayers.

Council has given consideration to these issues and consider that this Option does provide an improved balance between relying on growth and existing ratepayers to fund the works and hence is not over reliant on any one group. It is an improvement on Option 1 but it still increases borrowing costs to higher levels than is necessary and still leaves significant risk exposure to growth.

Therefore Option 2 is not preferred.

6.4 Option 3

Option 3 is the option Council included in the original Statement of Proposal in August 2003.

In this case operating costs are recovered by Uniform Annual Charges but the Uniform Annual Charges also are used to recover a component of the financing costs associated with the capital charges. This increased the Uniform Annual Charges and reduces the Uniform Targeted Rate or Availability Charge for all ratepayers both current and future.

The capital costs are recovered using a combination of Uniform Targeted Rates, Development Contributions and Uniform Annual Charges. This option has been challenged by a number of people concerned that the use of the Uniform Annual Charge to recover both operating and capital costs could result in cross subsidisation and duplication in charging. Council has examined this carefully and has not accepted this position.

All ratepayers will pay the same Uniform Annual Charge and the same Uniform Targeted Rate (Availability Charge) and new developments will provide a contribution to fund an equitable share of the capital costs attributable to growth.

This option provides an equitable balance between current and future ratepayers and in the opinion of Council best achieves the stated community outcomes of building a strong and sustainable Mangawhai.

This option remains Council's **PREFERRED OPTION**.

Statement of Proposal – Mangawhai EcoCare

6.5 Option 4

Option 4 was also considered in the earlier Statement of Proposal and was not adopted then as it did not distinguish between operating and capital costs and would rely on current ratepayers contributing to the reserving of capacity for future ratepayers thus, artificially increasing the financing costs.

In some respects this option is appropriate if existing infrastructure is in place and has been paid for by successive generations. In this instance any expansions or modifications to the network infrastructure can be funded via Uniform Annual Charges. For example after the initial 25 years it may be appropriate that Mangawhai reverts to relying on Uniform Annual Charges as the sole means of funding of the project. Council has therefore determined: **This Option is not preferred.**

6.6 Other Matters

In all options Council has retained the use of a Uniform Annual Charge for non residential properties as a pan charge equivalent to the Uniform Annual Charge for residential properties. This is consistent across all of the Kaipara District.

7. Proposal (Option 3)

The Preferred Proposal for the financing of the Mangawhai EcoCare project is to use a combination of Uniform Targeted Rates, Uniform Annual Charges and Development Contributions that equitably spreads the burden of paying for the project across the Mangawhai community.

A decision is then required on the appropriate allocation between the respective categories.

Uniform Annual Charges or General Rates will be levied against each individual section within the reticulated area of the Drainage District. This charge will include recovery of the operating costs of the Council including the contractual payments to Earthtech Engineering Pty Limited and a contribution to the capital costs of the project. This provides for an appropriate balance of intergenerational equity over the funding of the project.

The proposed Uniform Annual Charge is \$630.00 (inc GST) per annum for residential properties and for non residential properties \$630.00 (inc GST) per pan per annum.

Uniform Targeted Rate is an “availability charge” for services to the property and access rights to the reticulation network, treatment and disposal process. It will also include the physical connection of existing households to the network. This one off availability charge will be levied against each individual section or unit within the reticulated area of the Drainage District. For all sections this will be via a Uniform Targeted Rate of \$6,862.50(inc GST).

Statement of Proposal – Mangawhai EcoCare

Development Contributions will be levied against the developers at the time consent is granted for the subdivision or the granting of a resource consent / building consent for additional household units (whether a separate dwelling or part of an apartment complex). For sections granted subdivision consent on and after 1 July 2006 the Development Contribution will be \$11,060.00 (incl GST) per section. Similarly, for additional household units (whether a separate dwelling or part of an apartment complex) granted resource consent / building consent on and after 1 July 2006 the Development Contribution will be \$11,060.00 (incl GST) per household unit.

This option does not provide for any contribution from the SWSS scheme and therefore represents the least desirable scenario for owners of sections existing before on or before 23 March 2002.

	UNIFORM ANNUAL CHARGES \$s Per Annum Inc GST		ONE OFF CHARGES \$s Inc GST		
	Residential	Non Residential Per Pan Charge	Uniform Targeted Rate	Develop't Con't	Total Charge
Allotment or household unit ¹ created on and prior to 1 st of July 2006	\$630.00	\$630.00	\$6,862.50	0.0	\$6,862.50
Allotment or household unit ¹ created on and after 1 st July 2006	\$630.00	\$630.00	\$6,862.50	\$11,060.00	\$17,923.00

Statement of Proposal – Mangawhai EcoCare

7.1 Option 3.1: Application of the Sanitary Works Subsidy

Option 3.1 is the same as Option 3, except that it applies the Sanitary Works Subsidy in accordance with the Ministry of Health's requirements. One of the Ministry's key requirements is that the subsidy money is not applied to 'any new or future subdivisions approved after 23 March 2002'.

Option 3.1: Uniform Annual Charges, Development Charges and Annual Uniform Targeted Rate

	UNIFORM ANNUAL CHARGES		OTHER CHARGES	
	\$s Per Annum Inc GST		\$s Inc GST	
	Residential	Non Residential Per Pan Charge	Uniform Targeted Rate	Develop't Con't (ONE OFF)
Allotment or household unit ¹ created on and prior to 23 rd March 2002	\$630.00	\$630.00	\$2,000.00* (One off)	0.0
Allotment or household unit ¹ created between 24 March 2002 to 30 June 2006 (inclusive)	\$630.00	\$630.00	\$6,862.50 (One off)	\$0.0
Allotment or household unit ¹ created on and after 1 st July 2006	\$630.00	\$630.00	\$6,862.50 (One off)	\$11,060.000

*This includes the application of SWSS subsidy.

The Uniform Targeted Rate will then increase by the Consumer Price Index (CPI) over the 25 year period as will all other charges.

7.2 Option 3.2: Application of the Sanitary Works Subsidy and Deferred Payment Option

Option 3.2 is the same as Option 3.1 in that it applies the Sanitary Works Subsidy to only allotments or household units¹ created on and prior to 23rd March 2002. The only difference is that it provides a deferred payment option of replacing the Uniform Targeted Rate (one off) with a Uniform Targeted Rate which is required to be paid annually for the next 25 years. This annual rate is \$472.50 (inc GST) per annum. This rate is allocated to the allotment (or to the additional household unit) not the ratepayer and hence if the allotment is sold the new

Statement of Proposal – Mangawhai EcoCare

purchaser assumes this responsibility. The deferred payment option (spread over 25 years) is more expensive and is not available to those households who benefit from the SWSS subsidy funds. However, for households who may have difficulty in paying the one off contribution of \$2,000, Council is able to negotiate on a case by case basis a time payment option in accordance with Council’s rating policies.

The Development Contribution per section (or additional household unit) remains the same as for Option 3.1

Option 3.2: Uniform Annual Charges, Development Charges and Annual Uniform Targeted Rate

	UNIFORM ANNUAL CHARGES		OTHER CHARGES	
	\$s Per Annum Inc GST		\$s Inc GST	
	Residential	Non Residential Per Pan Charge	Uniform Targeted Rate	Develop't Con't (ONE OFF)
Allotment or household unit¹ created on and prior to 23rd March 2002	\$630.00	\$630.00	\$2,000.00* (One off)	0.0
Allotment or household unit¹ created between 24 March 2002 to 30 June 2006 (inclusive)	\$630.00	\$630.00	\$472.50 Per Annum for 25 Years (Year 1 Charge Only) or \$6,862.50 (One off)	\$0.0
Allotment or household unit¹ created on and after 1st July 2006	\$630.00	\$630.00	\$472.50 Per Annum for 25 Years (Year 1 Charge Only) or \$6,862.50 (One off)	\$11,060.000

*This includes the application of SWSS subsidy.

The Uniform Targeted Rate will then increase by the Consumer Price Index (CPI) over the 25 year period as will all other charges.

For the avoidance of doubt, allotments created by subdivision consent granted on and after 1 July 2006, the development contribution will be payable. Note that Council is able to withhold the subdivision certificate (s. 224c of the Resource Management Act 1991) if the development contribution is not paid, amongst other remedies. Refer to the Proposed Development Contributions Policy for full details.

Statement of Proposal – Mangawhai EcoCare

7.3 Summary

These options are designed to achieve the following revenues over a 15 year period:

	Option 3.1	Option 3.2
	\$Ms	\$Ms
Uniform Annual Charges	\$25.8	\$25.8
Uniform Targeted Rates	\$12.5	\$12.5
Development Contributions	\$8.0	\$8.0
TOTAL	\$46.3	\$46.3

It should be noted that Option 3.2 will recover greater revenues over the life of the project as it needs to recover the interest payments payable due to the time payments involved under option 3.2.

Council's preferred proposal is Option 3.2 which applies the Sanitary Works Subsidy and contains a deferred payment option. The reasons for preferring Option 3.2 at this stage include equity, fairness, affordability and conforming to legislative requirements, as well as help achieving Kaipara Community Outcomes.

7.4 Next Steps

Submissions are sought from interested parties through the formal submission process - in particular on these specific funding options and on which option they prefer.

These preferred proposals include charges that represent an increase to that previously advised in August 2003. The increase can be attributed to increases in costs due to general inflationary pressures over the last 2 years as well as increased costs attributable to the revised proposal by Earthtech Engineering Pty Limited which is a more robust system than that proposed by Simon Engineering and has increased capacity. Council has endeavoured to limit these increases and has also developed the option of a targeted annual rate to replace the one off availability fee. This is included in Option 3.2.

End Note:

¹ Household Unit in this context refers to subsequent or additional household units over and above one household unit per allotment.

Statement of Proposal – Mangawhai EcoCare

APPENDIX A

List of Investigations/ Reports - Mangawhai Sewage Issues

- Monitoring of the estuary commenced in 1976 and has continued since then. This has demonstrated frequent instances of the estuary recording pollution readings well in excess of accepted guidelines;
- Sewerage Schemes were proposed in 1981 and 1988, however the community rejected them each time concerned about cost, need and the impact on the community;
- Northland Regional Council Water Quality Study in 1990 found pollution in the groundwater and recommended disposal of sewerage away from the Mangawhai Heads settlement;
- In 1990/91 Kaipara District Council conducted a survey of on site wastewater disposal units and found that the majority were faulty. At that time a third of the community wanted a reticulation system;
- In 1990/91 the District Council Development Engineer completed a report that examined all options including on site systems, centralised systems and localised mini treatment systems. The report recommended further analysis and the implementation of a septic tank bylaw. Council decided not to proceed with a centralised system given the 1988 rejection of any scheme;
- Department of Conservation raised significant concerns regarding the 1996 District Plan's failure to address the human impact on the Mangawhai estuary. The issue was settled with agreement to undertake the Mangawhai Planning Study;
- 1996/97 Northland Regional Council commissioned the Mangawhai Water and Shellfish Quality study that concluded that pollution levels in the estuary were impacting on shellfish and water quality with 50% of the sites monitored reporting pollution levels more than 10 times accepted guidelines. Pollution in drains and seepage from septic tanks were identified as the most likely cause;
- ESR Water Quality report also confirmed unacceptable pollution levels in the harbour;
- Mangawhai Planning Study, completed in 1997, confirmed pollution in harbour and groundwater and identified a potential public health risk with sewerage in open drains in urban areas;
- In 1998 District Plan Change No 9 established planning controls within residential areas, and identified areas where septic tanks were no longer acceptable in new housing construction; and
- Mangawhai Infrastructural Asset Study was commissioned in 1998 to review amongst other infrastructure needs, the options for sewerage treatment and disposal within Mangawhai.

Statement of Proposal – Mangawhai EcoCare
