

SEWERAGE + SEWAGE



ESTABLISHING A STABLE, RELIABLE AND SAFE NETWORK

STATEMENT OF PROPOSAL

ROTORUA
LAKES COUNCIL
Te kaunihera o ngā roto o Rotorua



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BACKGROUND

WASTEWATER IN THE NATIONAL CONTEXT

The challenges facing New Zealand

New Zealand faces significant challenges in terms of wastewater systems during the next 30 years. If not managed well, wastewater generated by our communities can have a significant adverse effect on the quality of our fresh water and the health and wellbeing of a community.

To comply with evolving higher standards for freshwater quality and to help safeguard the environment, the management and operation of Rotorua's wastewater network infrastructure is becoming increasingly complex and more technically challenging.

Nationally the way wastewater services are managed and delivered is under the microscope. Evidence indicates that untreated or partially treated, sewerage overflows are occurring across the country and at a frequency that is no longer acceptable by our communities. The safe, reliable and cost-effective operation of wastewater networks is a significant concern for all of New Zealand.

Wastewater service providers (predominantly district and city councils) are anticipating that they will be required by Government to meet increased levels of network operations reliability, achieve higher effluent treatment quality and improve their wastewater networks resiliency standards.

The costs of achieving and maintaining these service levels will continue to put pressure on community affordability in many parts of the country.

Recent studies indicate that across New Zealand some \$4.0 billion will be required to bring treatment plants alone up to minimum acceptable levels and much more to improve the condition and performance of wastewater networks and supporting facilities.

In addition to these significant challenges, there is also the growing need for the replacement of existing infrastructure, as many asset components installed many years ago are old and are becoming unreliable.

The assets renewal requirement, in addition to the need to extend infrastructure for communities' growth and the need to meet new legal performance compliance standards places added pressure on Council finances and will bring sharper focus onto the general affordability of core infrastructure services.

Councils are required to prepare a 30-year infrastructure plan.

The purpose of the plan is to identify significant infrastructure issues for a council for a 30-year horizon, the principal options for managing such issues and the implications of the options.

Rotorua's 30-year Infrastructure Strategy (2018-48) states the Council's key aim is to ensure that we have stable, reliable and safe wastewater services now and in the years ahead.

The Infrastructure Strategy drives a major component of funding requirements when fed into the development of a council's long-term plan.

UNTIL NOW

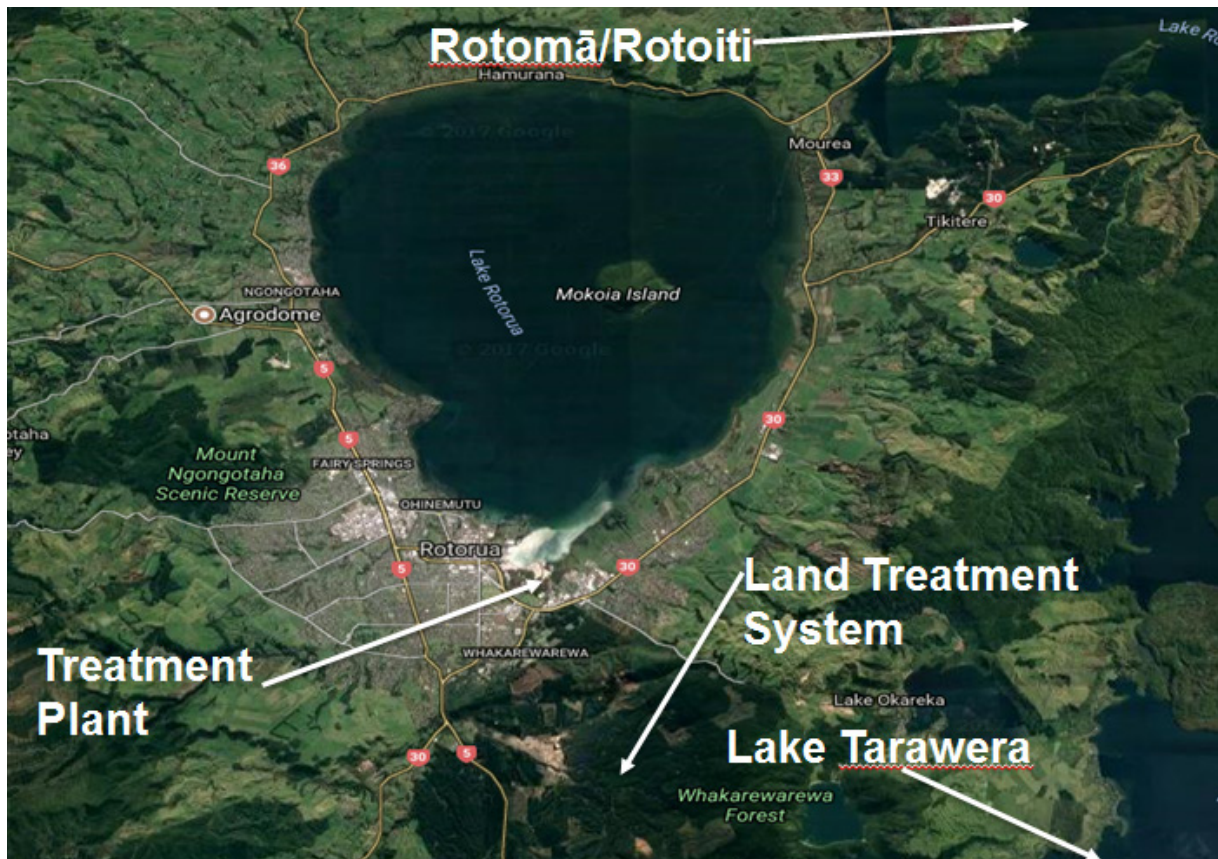
THE STORY SO FAR

At the time of preparing the current 30-year Infrastructure Strategy (2017/18) it was identified that the current wastewater service delivery approach needed to be reviewed. It was proposed that alternative methods for the delivery of the wastewater service be investigated. When the Long-term Plan 2018-28 was adopted in June 2018, investigations had just begun and at that stage, Council was unable to quantify what an alternative or alternatives could look like.

Now, following a lengthy review of the service, there is a much better understanding of wastewater service issues, emerging challenges and how the

service can be delivered more effectively. A two-year competitive procurement process identified a preferred service provider. Council proposes to enter into a contract with Trility (a consortium comprising Trility, Fulton Hogan and Stantec) for the provision of wastewater services across the district. The proposed contract brings all network operations under a single point of performance responsibility.

This is expected to better address known service challenges while also maintaining and retaining full Council ownership of the assets, full Council control of funding for the service and decision making on levels of service.



- 600 KILOMETRES OF PIPES
- 87 PUMP STATIONS
- 1366 LOW PRESSURE GRINDER PUMPS
- TWO MAJOR WASTEWATER TREATMENT PLANTS
- CURRENT VALUE \$374,000,000
- MORE WASTEWATER RETICULATION SCHEMES BY 2028 (ROTOITI/RODOMĀ, TARAWERA, MAMAKU)

NETWORK

THE WASTE WATER SERVICES NETWORK

Council's recent 2018 30-year Infrastructure Strategy indicated that changes to wastewater services delivery were needed; several issues informed these changes. Central Government has been reviewing the regulation and supply arrangements of drinking water, wastewater and storm water (three waters) to better support New Zealand's prosperity, health, safety and the environment. The three waters review has identified system-wide challenges. The 30-year Infrastructure Strategy highlights that our wastewater network is facing the following major challenges.

A) AGEING NETWORK

Like many other parts of New Zealand, our assets are reaching the end of their useful lifecycle. More than 65% of our network will reach the end of its useful lifecycle within the next 10-25 years. Targeted and smart technology interventions are required to achieve and maintain critical assets in stable operating condition, as well as proactively addressing and mitigating the risk of network performance failure and ensuring service reliability.

B) GROWTH

Rotorua is growing and it is predicted to continue to grow. As a result, new wastewater management capacity is required to safely collect, transmit and treat the increased amount of wastewater that will be generated. Public expectations are also changing with our communities now strongly wishing to be connected to reliable and highly effective wastewater systems that meet current environmental standards and effectively address cultural impact concerns (East Rotoiti/Rotomā, Tarawera, Mamaku). This requires the installation of additional network assets, more and improved wastewater treatment capacity and significantly complex technical skills in order to reliably and cost effectively manage an expanding demand on the wastewater network.

C) COMPLIANCE

Increasingly demanding environmental and cultural compliance standards are developing and are resulting in elevated statutory compliance risks. This will require Council to plan for and initiate quality assurance processes while considering operational cost impacts, through enhanced system performance monitoring and the mitigation of risks.

D) CLIMATE CHANGE/EFFECTS

Our network is entering an age where pipelines and various supporting facilities' structural integrity is becoming more fragile. Climate change, which includes higher rainfall intensities and frequencies, poses an increasing risk related to unplanned invasion of storm water into our wastewater network. Storm water intrusion into the network further stresses limited capacity and elevates the risk of uncontrolled and untreated wastewater overflows. Effective management is required in order to ensure we can comply with statutory compliance issues, such as the minimisation of untreated and unconsented sewerage overflows into our fresh waters and lakes. Through the application of new pipeline rehabilitation technologies and with the assistance of carefully constructed hydraulic modelling to guide targeted storm water control interventions, we are able to minimise storm water infiltration.

E) FUNDING AND FINANCING OF THE SERVICES

Our 30-year Infrastructure Strategy has highlighted a significant level of uncertainty in terms of the future operating cost of the wastewater network. This uncertainty is firstly around the management of ageing assets, which are reaching the end of their useful design lives. Secondly, there is ambiguity regarding the introduction of new and additional assets that are coming on line because of development and reticulation expansion. Furthermore, our growing population and business activities are generating more wastewater and therefore the demand for more pipeline capacity exists even where the current pipes are structurally sound. Lastly, the unique corrosive impact on assets due to our local geothermal environment is of ongoing concern.

Subsequent to the Infrastructure Strategy, there are new issues that we need to consider:

F) CAPABILITY - FUTURE SKILL SHORTAGE IN WORKFORCE

Currently, a variety of external contractors deliver approximately 70% of all our wastewater services via a multitude of different types of contracts and more than half of the current in-house operations staff are reaching retirement age. The recruiting and retaining of suitably skilled staff in such a complex-operating environment and in a high demand sector is very difficult and uncertain.

G) CENTRAL GOVERNMENT - LOCALISM VS AMALGAMATION + REGULATION OF SERVICE AND DELIVERY

The Three Waters Review proposes system-wide reform in regulation and service delivery. A national regulator agency was established in 2019, so regulation changes will happen at pace. The greater challenge is the objectives and views of Central Government, which may lead to devolution of council control of the wastewater service if local authorities prove to be unable to meet new standards and service reliability. Local Government New Zealand has strongly stated that it opposes this view and that this approach goes against the Minister for Local Government's views on localism and the need to support local decisions made at a local level.

Statement of Proposal

REASONS FOR THIS PROPOSAL

Council has identified a number of reasons for this proposal, based upon the establishment of a set of objectives that are not readily provided for by the existing service delivery method. These objectives are:

- Retain Council ownership - of the assets and the direct control of level of service, including taking primary accountability for the reliability of the service to the community.
- Address the challenges, such as higher treatment standards and the reduction of contamination risk to freshwater, to meet community expectations in terms of growth aspirations, community health and wellbeing.
- Achieve cost certainty for critical asset renewals, via the benefit of one contract rather than a multitude of individual contracts
- Achieve a 'reliable operations and service maintenance involving :
 1. A whole of network management practice to how Council builds, operates and maintains its critical wastewater network components; and
 2. Leveraging new technology wherever possible to extend assets' lives.

1.0

ONE 10 YEAR CONTRACT

PROPOSAL 1

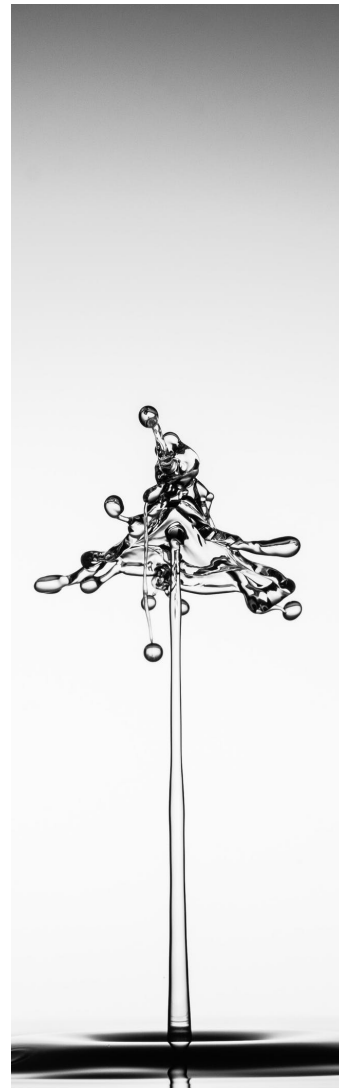
DETAIL OF PROPOSAL ONE: ONE 10-YEAR CONTRACT

Finalise and enter into a 10-year service delivery contract with an external provider for the provision of all wastewater services across the district.

Should this proposal proceed Council will enter into a contract for service with a consortia named Trility. An extensive procurement methodology has been undertaken to secure the level of service expected.

THE PROPOSED CONTRACT **INCLUDES:**

1. The operation, maintenance and renewals of the current wastewater networks, facilities and treatment plants to meet all performance indicators as stipulated by current consents, Council policies and relevant regulations. The contract provides remedies to be applied for breaches in not meeting these requirements.
2. The management, treatment and disposal of all bio-solids generated by both schemes (Rotorua and Rotomā /Rotoiti) and the responsibility to meet all current regulatory/consent obligations related to the safe management and disposal of the treatment by-product.
3. The provision of all required human and material resources to manage the network operations at a set fee for 10 years (subject to annual CCPI indices to be applied under the contract provisions). This ensures that Council's unplanned cost risks for network repairs and network condition maintenance are transferred to the contractor for the agreed fee.
4. The offer of full employment to all existing operations staff (10) and responsibility for their on-going training and development, the staff's unions have agreed to the terms of proposed transfer.
5. The provision of access to expert advice, network modelling and assessment of effects from growth and increasing service demand.
6. Full collaboration with the Council's Infrastructure engineers who will be managing the contract, monitoring the contractor's performance and will be reporting to Council.
7. Unique collaboration with iwi. The Contractor will give effect to a Memorandum of Understanding with Te Arawa Collective that includes joint operational participation, skills training opportunities for young Māori, and community, environmental and cultural education programmes.



1.1 BENEFITS OF THIS PROPOSAL

1. OWNERSHIP AND CONTROL

Under this option, Rotorua Lakes Council will retain all strategic decision-making, asset ownership responsibilities and service level setting and control for the duration of the contract. The day-to-day service delivery operations will become the responsibility of the contractor.

- Expert personnel in service delivery will provide Council with increased opportunities to build on long-term outcomes, including the strengths identified in the Rotorua Vision 2030, and contribute to district goals. In particular the focus on “homes that meet needs” by ensuring reduced public health risk by reducing the chance of drinking water contamination.
- Rotorua Lakes Council will also retain strategic control and decision making over the long-term condition of the pipelines network. This includes strategic policy input into any potential actions for the prioritisation of storm water inflow and infiltration management to offset premature new network capacity demand development.
- Ongoing use of the Council’s Laboratory Services would be retained.
- Asset information concerning the network will remain readily available and will remain Council’s property through the contract period.

2. OPTIMISED NETWORK SOLUTIONS

There is a need to ensure that the Rotorua district can benefit from new technology interventions to ensure improved network performance reliability. This is particularly important due to the age of the current infrastructure. The proposed contract provides incentives to the contractor to progress these interventions in order to protect against increasing operational costs arising in the future as assets continue to age.

The maintenance and updating of calibrated hydraulic models of all networks will be undertaken by the contractor and will be available to Council at all times, alongside improved technology and tools for monitoring and reporting on network and WWTP performance. The contractor will provide ongoing support to Council’s planning teams to assess the impacts of growth, both planned and unplanned, on existing infrastructure and to identify smart and modern network solutions to cater for expected new demand.

3. RELIABLE RISK MANAGEMENT

More reliable and systematic risk management would be delivered as the proposed contractor has the experience, knowledge, depth and breadth of skills to apply in this regard. The contractor has an incentive to apply comprehensive risk management to the service because they carry all the financial risk associated with not meeting relevant regulations and legislative requirements. The proposed contract requires the contractor to pay all fines and penalties imposed if they have caused the breach of regulations, including the costs associated with any remedies. The ageing condition of the network creates uncertainty around Council’s ability to meet all known regulations; this is a significant compliance cost risk to Council, which this proposal seeks to minimise. This option would transfer the majority of risk over to the contractor to manage. In doing so, reducing the risk to Council and creating more certainty for setting out future long-term plans.

4. TRANSFER OF PERFORMANCE RISK

All of the network performance risk; operating costs; and maintenance and renewals planning, including the associated delivery costs would be transferred to an experienced operator. The proposed contractor has greater capability and financial incentive to manage risk within a predictable price, which will be controlled through provisions in the proposed contract.

5. A PARTNERSHIP APPROACH

Through adopting one consolidated contract, it is anticipated that an operational partnership approach will provide Council with access to resilient and competent skills, as well as up-to-date technical advice. The proposed contractor is a global employer, which enables Council to tap into a network of world-class experts who will provide guidance on best practice asset management to meet and address current and emerging operational challenges. It also assists in fulfilling Council's good employer obligations by providing current operations staff with enhanced career development opportunities.

6. ENHANCED OPPORTUNITIES FOR IWI

The Te Arawa Partnership called for better iwi involvement in Council decision-making and contribution towards the development of the District. This proposed contract offers iwi enhanced opportunities to be directly involved as partners and in service and freshwater stewardship roles.

Opportunities for iwi via the contractor include:

- Acknowledgment of the unique and important role of Te Arawa.
- The opportunity to become a sub-contractor for cultural activities.
- A working partnership providing both Te Arawa and the contractor (Trility) an enhanced understanding of matauranga Māori, Māori values and waste services processes.
- Ability to work together to incorporate matauranga Māori and Māori values now and in the future for the development of wastewater services.
- Opportunity to share Te Arawa's unique knowledge of the land, lakes and district with Trility.
- Introduces cultural awareness as a mandatory requirement for Trility.
- Ongoing education opportunities in schools, teaching how matauranga Māori and how the wastewater services fit in with each other.
- Introduces scholarships for tertiary studies.
- Introduces traineeships and apprenticeships.
- Recruitment opportunities for Te Arawa youth.

1.2 ROLES AND RESPONSIBILITIES

Rotorua Lakes Council	Contractor
Owns all of the wastewater and associated assets and the obligations arising from asset ownership.	The provision of all required resources to manage the network operations at a set fee for ten years.
Sets the activities strategic direction aligned to the four well-beings (social, cultural, environmental, economic)	Sets the operational maintenance and renewal functions in order to deliver a stable, reliable and safe service
Sets the levels of service	Deliver all of the contract performance objectives while meeting all service key performance indicators as per the Council's Long-term Plan
Monitors the performance of the contract	Responsible for compliance with resource consent conditions and other applicable statutory obligations
Plans and directs future expansion of the network and sets funding requirements	Leads the response to customer service enquiries, service delivery and responds to requests for service
Sets operational funding requirements and collects revenue to fund the activity	Monitoring and reporting against network/service performance measures as specified in the contract to the Council's Infrastructure Group
Strategic asset management planning and 30-year forecasting to meet future growth and service demand	Providing and maintaining all the required pool of technical staff to effectively meet all contractual obligations and provides Council access to international best practice for service improvements and more cost effective asset management solutions
Continue to negotiate options with other agencies for the funding of potential new sewerage schemes.	Responsible for all aspects of operational safety and service risk management related to the wastewater network and all its components
Engagement with community on potential new schemes and contact feasibility studies.	Ongoing staff training, career opportunities and the provision of technical apprenticeships for young Rotorua people especially through giving effect to the MOU with Te Arawa Collective
Monitors the network's compliance with applicable regulations	Pay all fines and penalties imposed if they have caused the breach of regulations, including the costs associated with any remedies.

1.3 POTENTIAL RISKS UNDER THE CONTRACT

Description of Risk	Risk Mitigation
The performance of new and existing treatment plants does not meet demand and service requirements.	Council's trade waste policies and regulations can be used to manage the demands on the systems.
New equipment/treatment plants do not meet design requirements.	Construction contracts are covered by the designers' producer statement warranties.
Non-compliance with key performance indicators	Contract provisions allow for Council to withhold contract payments in order to recover the costs to apply and remedy to the failure.
Failure to undertake key condition improvements to the network	Contract provisions allow that Council can undertake audits of any asset information provided by the contractor to ensure that works undertaken match the asset information
Service failure: a fault in the network leads to properties losing access to waste water service and they cannot use their facilities.	Under the contract, Council is able to reduce payments to the contractor through failure to maintain services at the agreed levels
Persistent failure to meet service expectations with wide public dissatisfaction of service.	Council has "Step-In rights" and can take over from the contractor where there is serious failure to meet service levels. Additionally, the contract enables continuity deeds with key sub-contractors to allow essential services to continue with no changes in price.
Financial failure of the contractor	The contract provides for the parent companies to guarantee the contract entity with NZ\$15million that escalates every year. The guarantee covers all the obligations of the contractor.

1.4 CONSEQUENCES OF CONTRACT FAILURE

It is believed that there are two potential instances which could lead to contract failure. Each failure would have consequences.

a) The legal cost and prosecution of a significant service failure

For example wastewater leakages which lead to a prosecution and have a significant impact on levels of service to the community.

In this case, the contract provides back-to-back mitigations to hold the contractor accountable financially through guarantees and performance bonds. The contractor is liable to meet all costs and penalties from any prosecution and the costs to put things right.

b) Contractual relationship failure

For example, the contractor does not meet performance standards. The contract provides for "termination" due to a breach of obligations. The party that caused the breach must pay the cost and expenses of the other party.

1.5 WHAT WILL THIS PROPOSAL COST?

Option one – Finalise and enter into a 10-year service delivery contract with an external provider for the provision of all wastewater services across the district.	Target Rate Impact
Current rate – 2019/20 year *Note targeted rate for connected 1-4 pan charges with no sewage scheme capital contribution	\$467.00 \$8.89/week
What is driving the cost? Enhanced but capped operating and maintenance costs to address ageing infrastructure, higher legislative compliance; lower capital spend all in one contract Increased costs for operating the Rotoiti/Rotomā sewerage scheme Increased cost for electricity nationwide.	\$100.00 \$1.92/week 21% Target Rate Increase (%)
Under Option One your 2020/21 targeted wastewater rate would total: *Note targeted rate for connected 1-4 pan charges with no sewage scheme capital contribution	\$566.00 \$10.88/week

1.6 PROPOSED CONTRACT **DUE DILIGENCE**

To date we have undertaken due diligence and reviewed the conditions of the proposed contract. This has ensured the security of Council's control and ownership of the assets/network during the term of the contract – including the full suite of assets returned at the contracts conclusion. A peer review of the financial costs to Council has been completed and compared against Council's Long-term Plan 2018-2028. Expert advice was sought from:

- Lane Neave (legal)
 - Morrison Low (procurement)
 - Motts McDonalds (technical)
 - RLC infrastructure staff
 - Deloitte (commercial risk attribution/verification)
-

1.7 PERSONNEL **AND HUMAN RESOURCES**

We have fully discharged our obligations to inform and consult with our staff and unions on both the process of partnering externally and the potential changes to their employment. The proposed contractor has undertaken works to accommodate all Rotorua Lakes Council employees on individual employment agreements to a comparable position in their structure on the same or improved terms and conditions of employment.

2.0

OPTIMISE CURRENT METHOD

PROPOSAL 2

DETAIL OF PROPOSAL TWO: OPTIMISE CURRENT METHOD

Continue to deliver the wastewater services based on current practice (a mix of in-house management by Council operations staff and the balance through a variety of external contracts)

2.1 BENEFITS OF THIS PROPOSAL

1. OWNERSHIP AND CONTROL IS MAINTAINED, JUST AS IT IS FOR OPTION 1

Rotorua Lakes Council retain strategic control and decision making over the long-term condition of the pipelines network. This includes retaining the status quo with the use and management of the Council's laboratory services and all the asset information continues to be administered by council.

2. COMPLIANCE WITH KEY PERFORMANCE INDICATORS (KPIS)

As another entity is not involved Council have only to manage themselves in the delivery of the service and therefore the compliance with key performance indicators can be less complicated maintaining the service in house.

3. PERFORMANCE OF WASTEWATER TREATMENT PLANTS

If issues arise with the performance of the network and or the treatment plants, Council can act directly to make changes to the operations to overcome the issues. In contracting out there will need to be negotiations with the operating company before changes can be implemented.

4. LABOUR FORCE IS MAINTAINED BY COUNCIL

For many in the community being employed directly by the Council is significant and often seen in itself as stable. However as outlined the labour force is also a major risk to the activity going forward.

5. KNOWLEDGE OF THE DETAILED OPERATIONS SITS WITH COUNCIL

Council knows where all service issues and failure occur because it receives all the enquiries and carries all the costs to rectify.

2.2 POTENTIAL RISKS WITH THIS PROPOSAL

Description of Risk	Risk Mitigation
Unknown financial costs associated with need to respond to and carry out network repairs and network condition maintenance.	<p>Build into budgets a financial contingency that should assist in the case of unplanned/unexpected costs. This will increase costs significantly into the waste water activity as the contingency can never be accurately quantified. The activity is also not permitted to end the financial year with a positive balance (profit). This leads to unpredictability in the setting of the activities rates from year to year and does not provide the community with any stability in the setting of rates for this activity.</p> <p>This could mean borrowing significantly in years that a major financial cost is incurred negatively affecting Council's overall debt levels.</p>
Financial cost as a result of meeting compliance to regulatory requirements including paying fines for breaches and carrying the costs of initiating cures to the causes of breaches including legal costs.	
A lack of access/inability to access the latest international expertise, science and technology advances.	<p>Council must ensure it has all the necessary human resources, skills and competencies to operate the network, to plan and execute cyclical maintenance routines, affect network repairs as necessary and to initiate asset renewals as required to maintain stable asset condition. Additionally, Council must secure and retain the range of staff skills and competencies to initiate tenders and manage a range of different contracts as required to achieve the reliable operation of the wastewater system.</p>
Failure of an end-to end delivery of the network as a result of multiple contracts and the impact each single contract potentially has on another contract.	<p>Contract with one service provider to ensure an end-to-end delivery of the network service.</p> <p>Or</p> <p>Employ more staff to monitor and check off each individual contract to ensure each separate contract has no adverse effect on other contracts.</p>
Lack in economies of scale due to lots of small individual contracts and sector suppliers can't deliver materials etc cost effectively	<p>Contract with one service provider to position Council to obtain the best price for materials and services for the benefit of Rotorua.</p>

2.3 WHAT WILL OPTION TWO COST?

Option two – Continue to deliver the wastewater services based on current practice (a mix of 30% in-house management by Council operations staff and the balance through a variety of external contracts) and retain the full and ever-increasing risk associated with this service delivery method.	Target Rate Impact
Current rate – 2019/20 year *Note targeted rate for connected 1-4 pan charges with no sewage scheme capital contribution	\$467.00 \$8.89/week
What is driving the cost? 1) Increased costs for operating the new Rotoiti/Rotomā treatment plant. 2) Increased cost for electricity nationwide. *Note: Under Option Two, the cost of operating and maintaining the service is uncapped (meaning if there was a shock-event and/or network performance failure the cost could be anything from \$0.00 to open-ended).	\$47.43 \$0.91/week 10% Target Rate Increase (%)
Under Option Two your 2020/21 targeted wastewater rate would total: *Note targeted rate for connected 1-4 pan charges with no sewage scheme capital contribution	\$514.43 \$9.89/week

3.0

DO NOTHING AND WAIT

PROPOSAL 3

DETAIL OF PROPOSAL THREE: DO NOTHING AND WAIT FOR
GOVERNMENT TO INTERVENE

There is the option to do nothing at this point.

Government are working on guidelines and further compliance and monitoring rules for Councils in light of the many issues facing the water spaces in New Zealand.

There is the option to do nothing at this point.

Under this option Council could manage the network as is, reduce spending on asset renewals and wait until central government determines the direction of local government in terms of the future management of waste water.

This option is not being considered as it does not set out to address any of the issues that face the service right at this time. This option also does not demonstrate good asset management or stewardship by Council as the leaders of the district. This option could have significant impacts to Council and the district including, catastrophic failure of the network resulting in major disruption to the service and massive reputation.

4.0

EXCLUSIONS

OUT OF THE FOREST COMMITMENT

The current proposal excludes any capital upgrade to the wastewater treatment plant and proposals to any future disposal methods of treatment wastewater.

Rotorua Lakes Council and Central North Island Iwi Limited (CNI) signed a deed in 2014 to end treated effluent disposal in Whakarewarewa Forest by December 2019 - a system that for technical and cultural reasons is now considered unsustainable.

Options were explored by a community-led steering committee, which included Te Arawa iwi and hapū, technical advisors, Rotorua Lakes Council and Bay of Plenty Regional Council representatives and a cultural assessment sub-committee.

The proposed alternative includes an upgraded treatment plant that will incorporate much higher wastewater treatment level capability and the capacity to future proof wastewater management needs against our forecasted growth. It will include a new land contact bed to address cultural reservations and concerns regarding the proposed discharge of recovered water to the local environment.

The Environment Court will consider a resource consent based on this option in the near future. Until an outcome related to the new resource consent application is known, an upgrade to the current treatment plant cannot be initiated.

SUMMARY

We have identified a number of long-term implications that need to be considered in analysing the two viable options presented in this proposal. These issues influence each option and will not be eliminated by one option over the other.

- There are so many issues in the water space (throughout New Zealand), that Council could spend the entire budget remedying these alone.
- Unpredictable impacts of climate change and the associated statutory compliance risks.
- High degrees of uncertainty in the long-term financial forecasts, due to the age of the infrastructure and the local geothermal conditions, shock events and abatements.
- New government policy and regulations for all waters and ensuring our local management of the resources continues (localism).
- Our growth aspirations, such as creating more housing and liveable communities, can only be founded on stable and reliable core services.

RECOMMENDATION

The recommendation is to proceed with Option One; finalising and entering into a ten year contract with Trility for the provision of wastewater services across the district.

Council does not believe it is the best interest of the community to proceed with Option Two, due to the extent of that options associated high-risk profile and the high likelihood of significant cost escalation implications in the medium to long-term. In order to safeguard and protect wastewater assets and system operations against the identified risks and associated emerging challenges, it is prudent to adopt a delivery model that ensures operational and long term cost certainty.

Maintaining service delivery via the current model will see rates rising by at least \$47.00 for connected properties where 1-4 pans exist. This is the result of unavoidable cost increases driven by the price for electricity, and the commissioning and operation of the new Rotoiti/Rotomā treatment plant and reticulation network. The unforeseen costs to repair network failures because of ageing assets is open ended and remains with Council.

We believe that in order to mitigate many of the identified network risks and to secure a stable, reliable and safe waste water network for the future, the targeted rate difference between Options 1&2 of \$53.00 for connected properties of 1-4 pans provides the best balance in managing risk at a level that will ensure that we can meet our commitments to the community and are able to attain the objectives of the waste water service.

FINANCIALS

OPEX

Operating costs in the Sewage activity have increased markedly over the last 3 years driven by i) the cost to power our pump stations, plant and other related equipment as electricity prices escalated markedly since 2017 with electricity costs having increased in the region of \$1m in the last year alone ii) the longer than anticipated operation of the current city WWTP and forest system due to consent delays has added further costs iii) additional reactive maintenance costs due to the aging condition of the plant, network, reaction to shock events and requirement to address higher consent compliance standards has added around ~\$600k to the operating costs since 2017.

CAPEX

Levels of Service will not change as a result of the proposed outsourcing of the operation of the plant and network however the renewal budget has been recalibrated to focus on addressing the stability of critical parts of the network as a priority. This has resulted in a lower overall allocation of \$1.4m with appropriate adjustment of the operational costs to address repairs to non-critical assets on an as needed basis.

RATES

The change to rates as result of the above has increased the overall sewage pan charge (1-4 pans) roughly 21% vs the prior year with the overall increase being offset by efficiency savings in other parts of the Council. The Rates increase for 2021 per the LTP was 3.0% however, even with all the cost pressures described above Council has managed to mitigate this overall increase on rates to 4.7% for 2021. Going forward the increase to rates due to the sewage activity is expected to be driven by any inflationary and or shock events outside our control.

COVID 19

We do not expect COVID-19 to impact on this proposal.

DISCLOSURE STATEMENTS

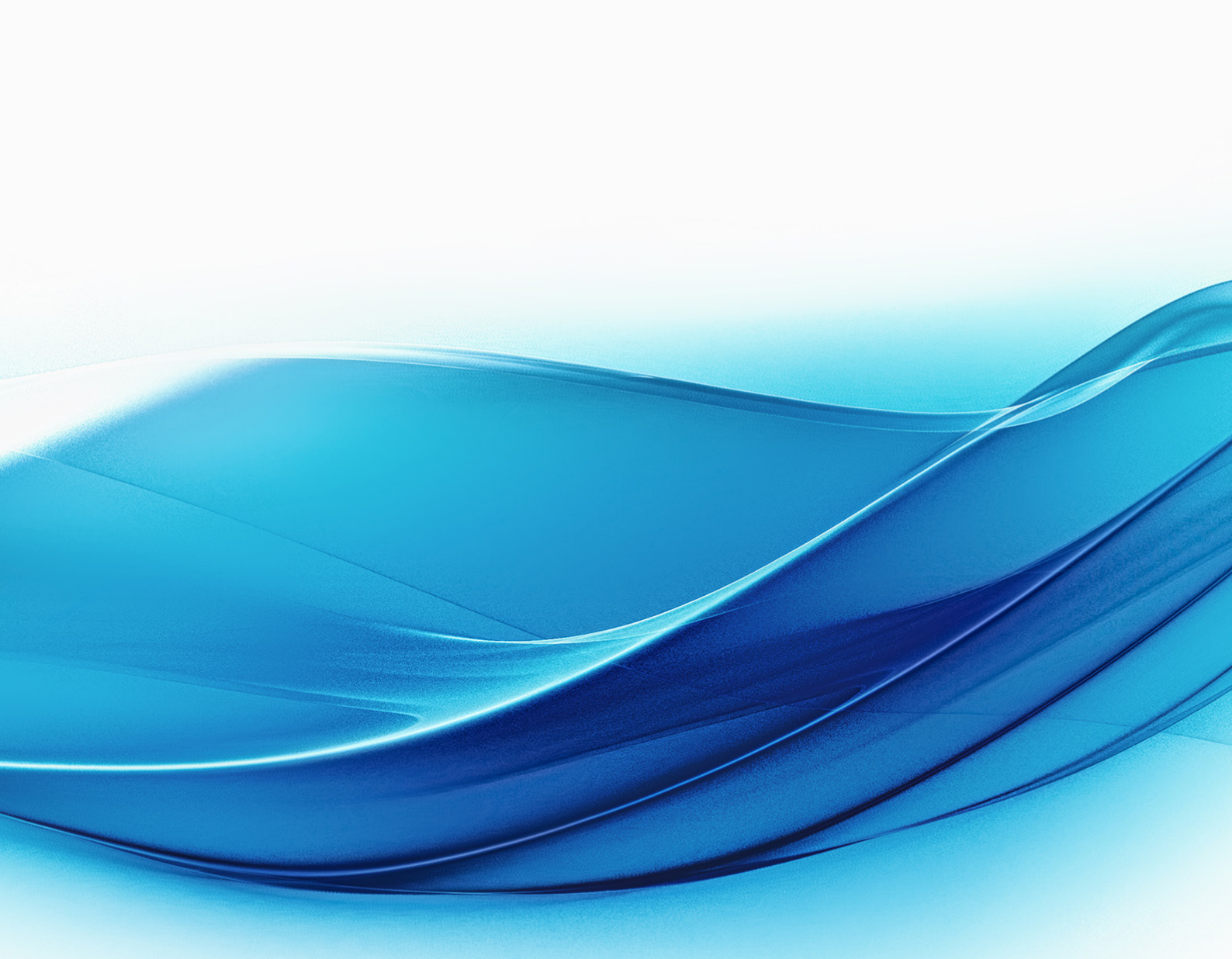
Disclosure Statement						
Benchmark				Limit	Planned	Met
Rates				3.0%	4.7%	No
- income				Rates as a proportion of total revenue is less than 80%	63.7%	Yes
- increases					0%	
Debt affordability Benchmark				225%	171.8%	Yes
Balanced budget Benchmark				100%	120.1%	Yes
Essential services benchmark				100%		
Debt Servicing benchmark				10%	5.4%	Yes

FEEDBACK

HE AHA Ō WHAKAARO? WHAT DO YOU THINK?

We would like to know your views on this proposed change to how we deliver wastewater services.

Do you support a proposal for the long term contracting of our wastewater services that offers to gain certainty in risk management, future and ongoing costs, and reliability and performance management?



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Te kaunihera o ngā roto o Rotorua