

6. *Draft Revenue & Financing Policy Stockwater Management*

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Summary

- The purpose of this report is to present policy options on the funding of stockwater management. A draft revenue and financing policy for the activity is attached as Appendix 1.
- The report discusses four consultation options and recommends that Council go out to consultation on Option Two – Increase minimum charge to \$700 in 2024/25 as the preferred Option.

Recommendation

1. **That** Council adopt Option Two – Increase minimum charge to \$700 in 2024/25 – as its preferred policy option for public consultation.
2. **That** Council includes the three following options as alternatives for public consultation:
 - Option One - Maintain the status quo
 - Option Three - Increase the minimum to charge to \$500 in 2024/25
 - Option Four - Increase the minimum charge to \$700 by 2025/26

Attachment

Appendix 1 Draft Revenue & Financing Policy – Stockwater Management

Background

The current situation

2021 Policy settings

1. This policy was last reviewed in 2021. Under Council's 2021 policy the activity is assessed as having a mix of community-wide and group benefit.
2. Group benefits accrue to people who have a stockwater service available to them. Group benefits are assessed as 80-90% of the overall benefit.
3. Community-wide benefits are assessed as 10-20% of the overall benefit of the activity.

Current rating tools

4. Group benefits are recovered via targeted rates. The targeted rate is based on race length crossing or adjoining each property as race maintenance is a major driver of costs for the activity. There is a minimum charge of \$260 for race lengths up to 246m.
5. There are also charges for each pond service, pipe service, ram service, pump service, water wheel, windmill, dip service or extension pump service. This presumes that such services use more stockwater. These have been signalled to be removed for the 2024-34 Long Term Plan.
6. Community-wide benefit is funded from the general rate and in 2023/24 this was 7.5% of the total activity funding.

What is the policy problem?

7. There are several policy problems with the current funding model:
 - The model is not perceived as providing strong financial incentives to shift to more efficient sources of stockwater.
 - An estimated 45% of ratepayers do not need the stockwater race network as a source of stockwater. This adds to individual perceptions of unfairness amongst non-users.
 - While based on the principle of availability, there is a wide difference between the highest stockwater ratepayers (top 20% pay 54.5% of the targeted rates; the bottom 20% pays 4.9%).
 - As races close, the number of ratepayers paying targeted rates declines meaning that a budget exceeding \$1M is divided between fewer ratepayers over time, making the current approach unsustainable.
 - The nature of our service delivery means Council has no reliable information on the volume of stockwater each property uses, therefore we cannot use volume-based charging approaches without significant infrastructure investment.

Benefits of stockwater management

8. The benefits of stockwater management include:

- Land drainage/flood protection function*
 - Processing of race closure applications*
 - Cultural benefits (Mahika kai)
 - Ecological and biodiversity benefits
 - Public health, environmental and agricultural economic benefits (consented stockwater used for managed aquifer recharge)
 - Source water for surface water features in Ashburton domain
 - Ashburton stormwater system discharges to water races
9. There is a community perception that the stockwater races also serve a firefighting capability however this is largely historic and overstated as FENZ have indicated they seldom use stockwater sources for firefighting.

Previous Council decisions

10. The 2018 Surface Water Strategy identified actions related to funding, including reviewing minimum charge rates.
11. Progress has been made on a number of actions in the Strategy, including reducing targeted ratepayers and race length since 2018.
12. In 2021, Council consulted on increasing the minimum charge for stockwater to be \$600, plus \$0.1665 per metre over 1,000 metres and removing the charge for 'stockwater services'.
13. 105 submissions were received, with the majority of submitters supporting the status quo. As a result of the submissions received and the presentations made, Council decided to increase to the minimum charge by \$50 per annum for the first three years of the 2021-31 Long-term Plan.
14. The 2018 survey (undertaken as a part of the development of the Surface Water Strategy) and 2021 consultation results provide a mixed view on whether increases to the minimum charge are an incentive for change. Some provided feedback that large minimum charge increases were a blunt instrument for change.

Objectives of this report

15. The objectives of this report are to find a solution that:
- Is lawful in terms of process and content, complying with all relevant parts of the Local Government Act 2002 and the Local Government (Rating) Act 2002;
 - Is informed about the advantages, disadvantages and risks of each option and presents acceptable levels of risk;
 - Meets the funding needs of the stockwater management activity by:
 - Ensuring that the activity is sustainably funded;

- Ensuring, as far as practicable, that the incidence of funding reflects the parties who benefit;
- Addressing inequity experienced by people who do not use the stockwater network (as opposed to those who do);
- Addressing inequity experienced by people whose property is traversed or bounded by long lengths of water races (as opposed to those whose property is crossed or bounded by lengths up to 246 metres).
- Supports the collaborative action objectives of the Council set out in the Surface Water Strategy 2018. Council is seeking to align its funding and rating policies to incentivise rural property owners to move towards more efficient sources of stockwater.
- Aligns with Council's preferences indicated in the draft Long Term Plan 2024-34 about Council's role in the delivery of stockwater.¹
- Can be implemented efficiently within operating budgets to take effect from 1 July 2024.

Interested and affected parties

16. Interested and affected parties in relation to the stockwater management activity include all ratepayers (who pay general rates), ratepayers whose property adjoins or is crossed by stock water races, ratepayers who use stock water (who pay stockwater targeted rates), Ashburton stormwater ratepayers, Rūnaka (cultural & environmental interests), groups and individuals with an interest in ecology and the environment (environmental interests), Environment Canterbury (environmental and consent-related interests), and the Hinds Hekeao Water Enhancement Trust (consent-related interests).

What do others do?

17. Few Councils deliver a stockwater service like we do, however Selwyn District Council does.
18. Their policy² provides for:
- A contribution from general rates in the range of 0-19%
 - A water race (service) targeted rate which includes:
 - An annual charge of \$418 per rating unit larger than 0.5 hectares where the race service is available.

¹ Elected members have expressed a preference for a three-year timeframe to exit the stockwater activity in the draft Long Term Plan 2024-34. This preference will be the subject of consultation with the community in March/April 2024.

² Selwyn District Council, [2023/24 Annual Plan](#), p 61

- A charge per hectare of \$21 per hectare up to a limit of 500 hectares (\$10,500) where the rating unit is larger than 0.5 hectares and the race service is available.
 - A water race (amenity) targeted rate of \$45 per rating unit where the area of the rating unit is up to 0.5 hectares, or no race service is available.
19. In concept, the Selwyn approach is like our Policy but uses different tools. It combines a mix of general rate and targeted rate to reflect the mix of community-wide benefit and the group benefit of availability of stockwater. The targeted rate is also differentiated on a basis that means that larger landholders with available stockwater will pay more.
 20. Council cannot replicate the Selwyn model. We have no capacity to model, understand and implement a move to differentiation based on land area within current resourcing.

Options analysis

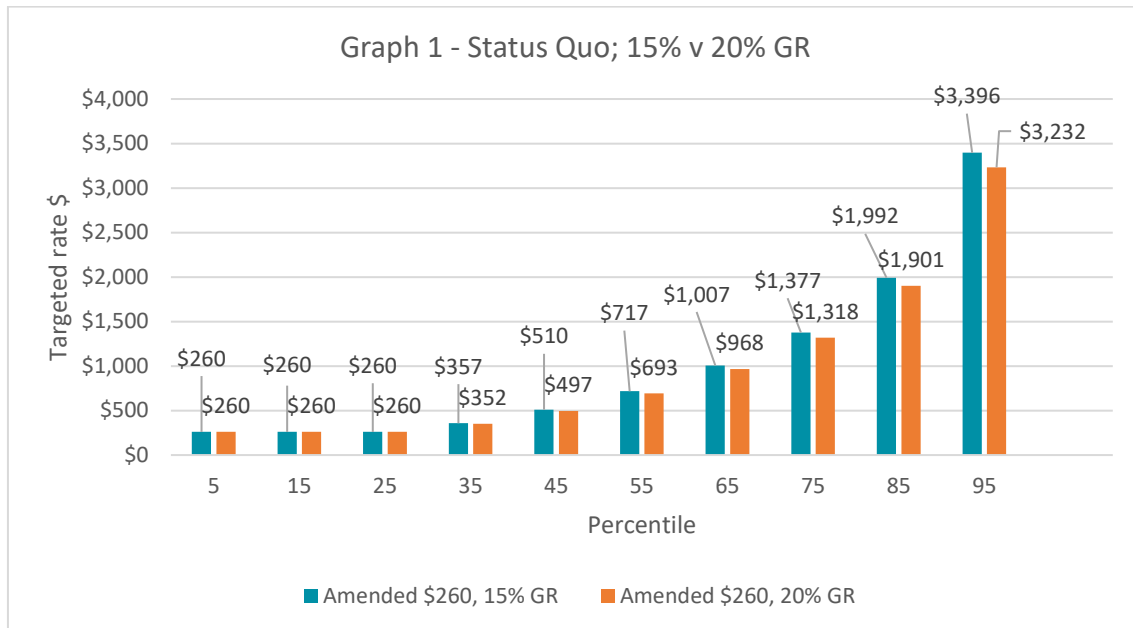
General Comments

21. Funding the stockwater management activity is a major matter in the current review of the Revenue and Financing Policy. Council must:
 - determine a preferred option and
 - assess all reasonably practicable options in terms of their advantages and disadvantages, and
 - make that information publicly available.
22. The range of options consulted upon effectively sets the parameters for Council's final decision. Consulting on a maximum increase in the minimum charge of \$700 creates a community expectation that Council will not finally settle on \$800, \$1,000 or even \$701. A decision on \$800 or even \$701 represents a higher level of risk of legal challenge and a greater likelihood that, if challenged, Council's decision may not be upheld.
23. If Council wants to keep its decision-making options open above a \$700 minimum charge, and manage its legal risk, it would be appropriate to add another option.
24. Council should be cognisant of the principle that where the minimum charge is increased, the cost of stockwater is borne more by those who currently pay the least for the service. Conversely that those who currently pay the most will pay less which may reduce their desire to exit the service.

Option 1 – Status Quo

25. Council could decide to retain the current minimum charge of \$260 for race lengths up to 246m for the term of the 2024-34 LTP. The per metre charge will be adjusted accordingly (to cover the balance of funding required after the general rate component has been applied) and service charges would no longer be used.

26. This is not the preferred option as it does not support all the objectives of the review as discussed earlier in the report.
27. The general rate contribution would sit between 10-20% of the activity costs. The graph below shows the impact on ratepayers with a 15% general rate component and a 20% general rate component. The effect of the higher general rate component is to lower stockwater rates for people paying more than the minimum charge. The rate lowers by around 0.4% for people paying a little above the minimum charge. The people paying the most stockwater rates see their stockwater rates lower by 5%.



Advantages:

Minimal impact to properties paying the least amount of stockwater rates.

Disadvantages:

Does not align with proposed Council direction to exit the stockwater activity.
Does not address current issues of some users paying for a service that they do not want or need.

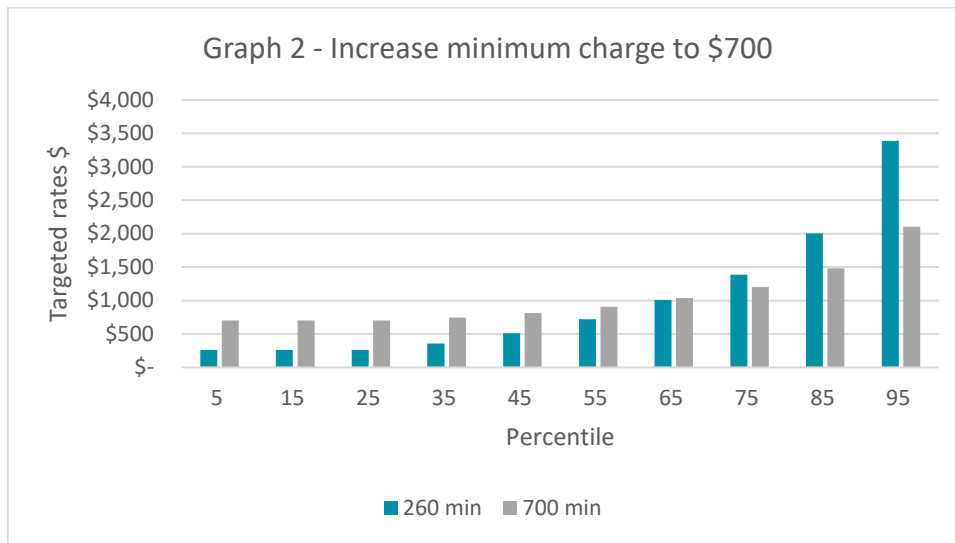
Risks:

Reputational risk to Council of not taking action to address the current funding inequities. Does not align well with Council's preferences for the future delivery of stockwater.

Option Two – Increase minimum charge to \$700 over one year (in 2024/25)

28. Under this option, the current minimum charge of \$260 is proposed to increase to \$700 in 2024/25. The per metre charge will be adjusted accordingly (to cover the balance of funding required after the general rate component has been applied) and service charges would no longer be used.
29. During LTP discussions, this option emerged as Council's preferred alternative based on information presented at that time.

30. The graph and table below shows the effect on properties of the minimum charge increasing to \$700. In short, the properties currently paying the least would see the largest increase and the converse is true for those currently paying the most.



Percentile	Rates at \$260 minimum charge	Rates at \$700 minimum charge	Change from \$260 (\$, %)
5 th	\$260	\$700	\$440, 169%
15 th	\$260	\$700	\$440, 169%
25 th	\$260	\$700	\$440, 169%
35 th	\$357	\$744	\$387, 108%
45 th	\$512	\$813	\$301, 59%
55 th	\$723	\$908	\$185, 26%
65 th	\$1,007	\$1,035	\$28, 3%
75 th	\$1,384	\$1,204	-\$180, -13%
85 th	\$2,003	\$1,482	-\$521, -26%
95 th	\$3,389	\$2,105	-\$1,284, -38%

Advantages:

Aligns with the Council intention to exit the stockwater activity.

Addresses the inequities between those with small race lengths and those with long race lengths.

Disadvantages:

Options like this proposal were not preferred by most submitters in 2021 when a \$600 increase was proposed.

May be an unsustainable increase for some properties.

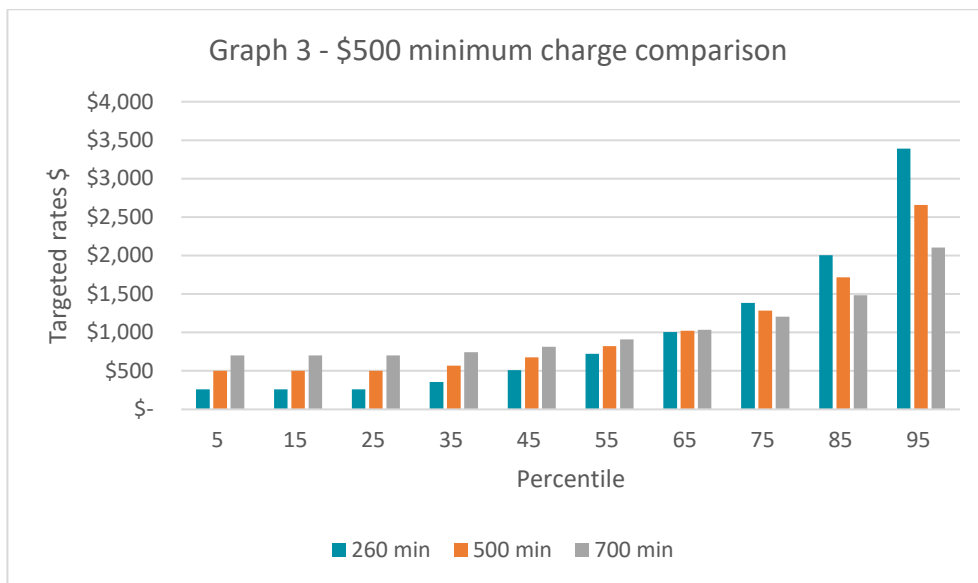
Does not address the inequity between users and non-users of stockwater

Risks:

Reputational risk to Council, especially from property owners with short race lengths who do not use stockwater. There is also an unintended incentive provided to properties with long race lengths that use stockwater. Overall reputational risk is MODERATE.

Option three– Increase minimum charge to \$500 in 2024-25 (1 year)

31. Under this Option, the current minimum charge of \$260 is proposed to increase to \$500 in 2024/25. The per metre charge will be adjusted accordingly (to cover the balance of funding required after the general rate component has been applied) and service charges would no longer be used.
32. This is just over halfway between the current minimum charge of \$260 and the minimum charge of \$700 in Options two and four.
33. The graph and table below show the effect on properties of the minimum charge increasing to \$500 with a 15% general rate component and compared against the status quo and the \$700 minimum charge in 2024/25.



Percentile	Rates at \$260 minimum charge	Rates at \$500 minimum charge	Change from \$260 (\$, %)
5 th	\$260	\$500	\$240, 92%
15 th	\$260	\$500	\$240, 92%
25 th	\$260	\$500	\$240, 92%
35 th	\$357	\$568	\$211, 59%
45 th	\$512	\$676	\$164, 32%
55 th	\$723	\$824	\$101, 14%
65 th	\$1,007	\$1,023	\$16, 2%
75 th	\$1,384	\$1,286	-\$98, -7%
85 th	\$2,003	\$1,719	-\$284, -14%
95 th	\$3,389	\$2,659	-\$730, -22%

Advantages Aligns with Council's preferences for the future delivery of stockwater. Addresses the inequities between those with small race lengths and those with long race lengths. Provides benefit to the very largest landowners while introducing less impactful increases to properties with smaller race lengths.	Disadvantages: Options like this proposal were not preferred by most submitters in 2021 when a \$600 increase was proposed. May still be an unsustainable increase for some properties, but less so than Option Two.. Does not address the inequity between users and non-users
Risks: Reputational risk to Council, especially from property owners with short race lengths who do not use stockwater. There is also an unintended incentive provided to properties with long race lengths that use stockwater. Overall reputational risk is less than Option Two.	

Option four – Increased minimum charge to \$700 by 2025/26 (2 years)

34. Under this Option, the current minimum charge of \$260 is proposed to increase by increments of \$220 per year for the first two years of the 2024-34 LTP. This Option proposes a transition to a minimum charge of \$700 over two years. Council could alternatively stage this over three years, which would align more closely with the Council's preferences for the future delivery of stockwater.
35. The per metre charge will be adjusted accordingly (to cover the balance of funding required after the general rate component has been applied) and service charges would no longer be used.
36. The graphs and tables in Option 2 show the effect on the range of properties, albeit this effect wouldn't be complete until 2025/26.

Advantages Aligns with Council's preferences for the future delivery of stockwater. Addresses the inequities between those with small race lengths and those with long race lengths. Provides benefit to the very largest landowners while signalling incremental increases to properties with smaller race lengths.	Disadvantages: Options like this proposal were not preferred by most submitters in 2021 when a \$600 increase was proposed. May still be an unsustainable increase for some properties, but less so than Option Two.. Does not address the inequity between properties who need/want and don't need/want the stockwater race.
Risks: Reputational risk to Council, especially from property owners with short race lengths who do not use stockwater. There is also an unintended incentive provided to properties with long race lengths that use stockwater. Overall reputational risk is less than Option Two.	

Legal/policy implications

Legislation

37. Section 21 of the Local Government (Rating) Act 2002 places a limit of 30% on the percentage of rates that can be collected from certain uniform targeted rates including the UAGC.³ Council's policy position is to sit at or just below the statutory limit. Council allocates the proceeds from commercial property to keep the targeted rates revenue within the cap. This means that uniform targeted rates cannot be used to fund this activity.
38. Council must apply the section 101(3) tests from the Local Government Act 2002 when reviewing funding policy. Those tests are addressed in the draft policy statement in Appendix 1.

Climate change

39. Climate change will lead to more extreme drought and more extreme flooding. The role of the race network in channelling flood waters is recognised by the community but not well understood⁴. Resilient infrastructure is important, and we know the current stockwater system has limited resilience, as well as high rates of evapotranspiration.

Review of legal / policy implications

Reviewed by In-house Counsel

Tania Paddock; Legal Counsel

Strategic alignment

40. The recommendation relates to Council's community outcomes as shown in the following table:

³ Targeted rates for drinking water and wastewater are excluded from the 30% cap.

⁴ In the Surface Water Strategy 2018, Council identified the need for investigations of overland flowpaths in the district. This work is not yet completed.

Wellbeing	Reasons why the recommended outcome influences this wellbeing	
Residents are included and have a voice.	✓	Residents have an opportunity to have their say on how this activity is funded.
A district of great spaces and places.	✗	
A balanced and sustainable environment.	✓	Efficient use of all water resources, including stockwater, is beneficial to the ecology and biodiversity of the district
A prosperous economy based on innovation & opportunity.	✓	Stockwater supports agricultural activity, which is a cornerstone of our economy. Fair distribution of the costs of activities contributes to economic efficiency.

41. The recommendation relates to community well-being as shown in the following table:

Wellbeing	Reasons why the recommended outcome influences this wellbeing	
Economic	✓	Stockwater supports agricultural activity, which is a cornerstone of our economy. Fair distribution of the costs of activities contributes to economic efficiency.
Environmental	✓	Efficient use of all water resources, including stockwater, is beneficial to the ecology and biodiversity of the district
Cultural	✓	Stockwater benefits include the benefits of supporting Māori cultural practice, such as Mahika kai.
Social	✓	Residents have an opportunity to have their say on how this activity is funded.

Financial implications

Requirement	Explanation
What is the cost?	The costs of consultation on the policy are included in operating budgets. Direct costs are limited to printing and advertising costs.
Is there budget available in LTP / AP?	Yes.
Where is the funding coming from?	This is primarily funded from the Communications and Strategy and Policy activities which in turn are funded from overheads and general rates.
Are there any future budget implications?	No.
Reviewed by Finance	Leanne Macdonald, Group Manager – Business Support

Significance and engagement assessment

Requirement	Explanation
Is the matter considered significant?	No
Level of significance	Medium-to-high
Rationale for selecting level of significance	This issue has previously attracted over 100 submissions in previous consultations. It will be of interest to users of the stockwater system.
Level of engagement selected	Consult – formal two-way communication.
Rationale for selecting level of engagement	This policy review occurs as part of the review of Long-Term Plan. As such, Section 102 of the LGA requires Council to consult on any policy amendments under Section 82 of the LGA. This will occur alongside the LTP 2024-34 consultation in March/April 2024.
Reviewed by Strategy & Policy	Mark Low, Strategy and Policy Manager

Appendix 1 - District Water Management – Stockwater

The Council owns and operates a stockwater race network that includes 1,567 km of water races.

The stockwater activity primarily contributes to the following community outcomes:

- A prosperous economy based on innovation and opportunity.
- A balanced and sustainable environment

Who Benefits

Group Benefit 80-90%

(All rural properties that have a stockwater service available to them)

Community-wide Benefit 10-20%

Who creates a need: Additional demand is created by property owners that use stockwater for reasons other than agricultural production and communities that discharge stormwater into stockwater races.

When benefits occur: The benefits of operational expenditure are enjoyed in the short-term once the funds are expended. The benefits of capital expenditure on infrastructure assets are enjoyed over the life of the assets.

Reasons for funding arrangement

- Benefits are primarily to rural properties that have a stockwater service available to them. This is apportioned efficiently and transparently with targeted rates. Targeted rates include a minimum charge and a differential based on race length, as race maintenance is a significant proportion of the overall cost of the activity.
- Community-wide benefits include land drainage functions, cultural and environmental benefits, public health, and environmental benefits. This is funded efficiently from General Rate

Funding sources of operating expenditure

Differential Targeted Rate 80-90%

General Rate 10- 20%

- The differential targeted rate is charged per metre of water race located on, adjoining, or abutting a property. A minimum charge applies for race lengths up to 246m. Urban properties in Ashburton and Methven adjoining a stockwater race are exempt.
- The general rate is charged on the capital value of each separately used or inhabited part of a rating unit in the district.

Funding Sources of Capital Expenditure

Council may use any combination of the following sources up to 100%

- General rate
- Targeted rates
- Borrowing
- Grants and Subsidies.
- Any other source of funding.

Loan repayments will be funded on the same basis as operating expenditure.