

# Dunedin City Council Policy

## New Reticulated Utility Services (Water, Wastewater or Stormwater) Policy

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### Policy Summary

The Council's existing policy on reticulation of services is that services will only be provided for areas which are zoned as requiring access to reticulated water, wastewater and/or stormwater infrastructure, as detailed in rules in the District Plan relating to subdivisions.

New reticulation systems will be considered in existing developed areas not already reticulated where there is a clear and demonstrated need in terms of public health, environmental effects or other significant reason.

If a new system is installed by the Council, each connection once established, or potential connection will be subject to the Drainage Rate and Water Rate and any other charge applicable to the type of connection, in accordance with the Council's funding policy in operation at that time, to fund the on-going operation of the service.

In addition to the funding of the on-going operational costs, consideration will also be given to the contribution payable towards the capital cost of providing the new reticulated service by those directly benefitting from receiving the new service, based on the following:

- For all existing residential units, or properties which have a building consent issued, on the date that the Council decides to proceed with any new reticulation service, a percentage contribution up to a maximum of 100% of their share of the assessed cost of providing the service. The percentage contribution will be determined after considering a range of factors listed in the policy.
- For all future new residential units that are built in the area serviced, that are not in existence or do not have building consent issued prior to the date that the Council decides to proceed with any new reticulation service, they shall contribute 100% of their share of the assessed cost of providing the services.

Note: This is a summary only of the policy and the full policy should be referred to in full.

## **1 COUNCIL POLICY FOR EXISTING RETICULATED AREAS**

The Council's existing policy on reticulation of services is that services will only be provided for areas which are zoned as requiring access to reticulated water, wastewater and/or stormwater infrastructure, as detailed in rules in the District Plan relating to subdivisions.

In terms of water supply, the Council's Urban and Rural Water Supply Areas are as prescribed in the Council's Water Bylaw. The Bylaw defines the boundaries of the various water schemes, defines the reticulated areas of the city and differentiates between the city's urban and rural water schemes. The Bylaw provides that no new connections will be permitted to properties lying outside these water scheme boundaries. Any future adjustment to the water scheme boundaries and rules or the addition of any new water scheme areas would need to be made by way of a formal resolution of the Council to alter the water supply boundaries as defined in the Water Bylaw.

Generally the provision of wastewater and stormwater services will follow similar supply area restrictions.

## **2 DECISIONS ON NEW RETICULATION SERVICES**

The Council will not install new reticulated services into any area unless the zoning for the area has been rezoned by way of change to the District Plan through the Resource Management Act process or there is some other demonstrated need for the reticulated services.

In the case of rezoned areas within the District Plan, reticulated services will be required to be provided by the developer and development contributions will normally be payable to cover the full cost of the Council providing any portion of such services. Once established, each connection will then be subject to the Drainage Rate and Water Rate and any other charge applicable to the type of connection.

Where reticulation services are to be provided for some other reason other than through a District Plan zone change, careful consideration will be given to the demonstrated need to justify the installation of new reticulation services. The general position of the Council is that new reticulation systems will not be installed in existing developed areas, not already reticulated, unless there is a clear and demonstrated need in terms of public health, environmental effects or other significant reason.

When the Council does decide that a new reticulated service is to be provided, the Council will also determine whether properties within the affected community will be required to connect to the service once installed. The Council will only provide such a service where it can be established that there will be sufficient connections to help fund the provision of the service. Where there is a demonstrated public health or environmental effect requiring the service to be provided, then all properties are likely to be required to connect. In other cases, legally binding commitments may be required from each property in the community to be serviced, up to a Council determined threshold before the service will be provided.

## **3 FUNDING OF NEW RETICULATED SERVICES**

Proposals for funding of new reticulated services will consider both the capital costs of installing the new services and the ongoing operating cost once the services are installed.

### **3.1 Operating Costs**

The Council policy is that once a reticulated service is installed and is part of the overall citywide reticulated services network, each connection once established, or

potential connection, will be subject to the Drainage Rate and Water Rate and any other charge applicable to the type of connection, in accordance with the Council's funding policy in operation at that time.

This is on the basis that all properties receiving a service should be charged the same amount regardless of the cost to service that property or community. While some communities outside the main Dunedin urban area may receive a lesser level of service than other areas, the costs of providing such services are generally greater than providing those services in the main urban area.

In addition to the funding of the on-going operational costs of any new service, contributions payable towards the capital cost of providing the new reticulated service will be required as detailed below. Such a payment would be in addition to any Drainage Rate, Water Rate or any other charge applicable to the type of connection, in accordance with the Council's funding policy in operation at that time.

### **3.2 Funding Capital Requirements for New Reticulated Services**

In considering options to fund the capital cost of providing new services, the Council must have regard to section 101(3) of the Local Government Act 2002, which requires a two step consideration of funding.

### **3.3 Funding Consideration Step One**

#### **2.1 Community Outcomes**

- a What are the community outcomes to which this activity contributes? (the rationale for service delivery)*

The primary outcome to which this activity would contribute to is Safe and Healthy People through providing reticulated utility services that would enhance the levels of service to residents and businesses.

#### **2.2 User/Beneficiary Pays Principle**

- b Does the service generate benefits that accrue to identifiable persons or groups of persons? (distribution of benefits between the community as a whole, any identifiable part of the community and individuals)*

Yes. The benefits are to those users on the system who are readily identifiable. The Council knows exactly which properties need the service available (vacant sections) and which ones will be connected (occupied properties). A judgement is required on the public and private benefit to users connecting to the new service which is an important consideration in Step 2 below.

- c Does the service generate benefits to the community generally?*

Yes. The existence of the service benefits the community in terms of increased levels of service, improved health protection and protection of environmental amenity values.

- d Would a non-user be prepared to pay?*

Generally not. The community would not be prepared to pay, or contribute to, the costs applicable to new developments. Where there is a demonstrated public health risk or other non-private benefit reason to justify the installation of new reticulated services, then non-users may be willing to pay a portion of costs.

## 2.3 Intergenerational Equity Principle

- e What is the period in or over which the benefits are expected to occur?*

The Council will commit to operate any new system for as long as the need exists. The benefits as described will therefore continue to occur for the foreseeable future. New reticulation assets have a long life – borrowing enables the Council to spread costs between current and future users.

## 2.4 Exacerbator Pays Principle

- f What is the extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity? (in what way do they exacerbate)*

The need to provide for new reticulated services will generally be driven by the actions or inactions of the people who will directly benefit from the provision of the new services.

## 2.5 Costs and Benefits

- g What are the costs and benefits of funding this activity separately from other activities?*

The Council believes that the provision of this service is important in order to achieve its mission of maintaining and enhancing Dunedin's community for the long-term well-being of our people and the environment.

The Council is able to identify separately the costs of providing this service.

The outcome of undertaking the above analysis is that the Council will require 100% of the capital cost of providing any new reticulated service to an existing area to be funded by those directly benefitting from receiving the new service, except as modified by the consideration of step 2 below.

## 3.4 Funding Consideration Step Two

Step Two requires the Council to consider the results of step one and the impact of any proposed allocation of costs on the current and future well-being of the community. Given that the assessment of the degree to which an individual community should be required to fund the provision of new reticulated services will need to be undertaken on a case-by-case basis, Step Two of the process required by Section 101(3) of the Local Government Act 2002 will be undertaken when a request to provide new reticulated services is being considered.

However, the Council's consideration of such requests will be based on the following approach.

### 3.4.1 New Capital Cost

#### ***Existing and New Residential Units***

There is a cost to install new reticulated services. In the case of new residential developments relating to a rezoning undertaken under the District Plan, the Council's development contributions policy requires 100% contribution of the capital costs associated with providing services to that area. In the case of providing new reticulated services to existing areas, development contributions would not normally be payable unless there is growth demand in the area which necessitates the provision of new services. In such cases, while the growth component of the new service will be charged through the levying of development contributions, the provision of services to existing areas could not be so charged.

Where development contributions can not be charged, the Council will make decisions on the funding of such capital installations based on the following, which recognises that providing reticulated services to an existing built up area will typically service a mix of existing residences and vacant sections or portions of existing sections that could be built on at a later date.

The consideration of a capital contribution will therefore apply differently to existing residences and vacant sections or parts of sections that could possibly be built on into the future.

### ***Design Capacity***

The capacity of any new reticulation service will be designed considering the maximum theoretical number of potential residential units in the future, taking into account vacant sections and sections that could have additional residential units built on. From that, the Council will determine the likely total potential residential units of demand that will need to contribute to the capital costs of providing the new service. Note that the likely total potential residential units of demand will typically be less than the maximum theoretical number of units as it is unlikely in all cases that all sites would be built on.

### **Cost of Construction**

The capital contribution is to be based on the actual cost of installing services. At the time of making any decision on the percentage contribution payable, it should be recognised that estimates of the cost of installing a system will be used, but that the actual cost may be greater than, or lesser than that estimated cost. As with any major project, cost estimates will change as further detail is obtained. The final estimate that is recorded in the annual plan process that records the decision of the Council will be used as the base figure. That figure includes estimated construction costs, consultant costs and all other costs associated with installing the scheme.

Adjustments to the quantum of any individual contribution may therefore be necessary once the construction of any scheme is completed. However the final costs will be limited to no more than 10% above the tendered price received for the construction plus all fees for the completion of the work.

### **Cost of Capital**

Where a ratepayer chooses to pay over 20 years, rather than a lump sum, the Council will include interest. The annual payments will be based on the interest rate determined by the Council at the time.

#### **3.4.2 Existing Residential Units**

A capital contribution from existing residential units that are in existence, or which have a building consent issued, on the date that the Council decides to proceed with any new reticulation service, will be payable towards the capital cost of providing the new reticulated services. The contribution will be based on the payment of an assessed percentage contribution up to a maximum of 100% based on the following formula:

Formula for the cost per existing residential unit:

$$\text{Cost ERU} = \frac{\text{CE}}{N} \times C$$

Cost ERU = Capital Contribution payable by each existing residential unit

CE = Actual capital expenditure to supply the reticulated services.

N = Total potential residential units of demand to be serviced.

C = Assessed percentage contribution payable by each existing residential unit.

The assessed percentage contribution payable from existing residences will be determined on a case by case basis looking at the proposed area to be serviced by the reticulation and will take into account the following factors:

- Level of service – whether the proposed level of service is consistent with levels of service experienced in other parts of the city.
- The significance of any public health issue – whether there is a public health issue that requires reticulated services to be provided and the extent of that issue in terms of adverse health outcomes.
- The significance of any environmental issue – whether there is an adverse environmental effect resulting from the existing situation and the extent of any such effect.
- Affordability – whether the proposed reticulated services can be afforded by the community.
- Area specific technical issues – whether the existing area has characteristics which mean that a reticulated service needs to be provided.
- Ability to build, whether its practical and technically possible to build a cost effective reticulation service in the area.
- Other costs payable – whether there are other costs payable by the existing residences in order to connect up to the proposed reticulated service.

As a general guide, in situations where there is no direct public health issue or other environmental driver that requires a reticulation service to be provided, the contribution rate is expected to be 100%, requiring the full cost of the capital cost of providing the new service to be met by the existing residences.

### 3.4.3 New Residential Units

A capital contribution towards the cost of providing the new reticulated services will be required from all future new residential units that are built in the area serviced, that are not in existence or do not have building consent issued prior to the date that the Council decides to proceed with any new reticulation service. The capital contribution will be payable on the establishment of a connection with the reticulated service and will be based on 100% of the assessed cost of providing the services divided by the total number of potential residential units, in accordance with the following formula:

Formula for the cost per new residential unit:

$$\text{Cost NRU} = \frac{\text{CE}}{\text{N}}$$

Cost NRU = Capital Contribution payable by each new residential unit when established

CE = Actual capital expenditure to supply the reticulated services plus any interest cost since the service was installed.

N = total potential residential units of demand to be serviced.

#### 4 **PAYMENT OF CAPITAL CONTRIBUTION**

Where a capital contribution is payable due to the provision of new reticulation services, the Council will provide for the following payment options:

- For existing residential units:
  - A one off lump sum payment of the full assessed cost; or
  - Provision for the spreading of the cost over a number of years, with interest included in the total cost.
- For new residential units:
  - A one off lump sum payment of the full assessed cost only.

At the time of determining the costs that may be payable, the Council will determine whether the charge to existing residential units will be through rates or through a charge specified in the annual plan. In the case of new residential units, the capital contribution will be set as a charge under the annual plan.