

Three Waters Reform Programme

Guide to stimulus funding for local
authorities

About this guide

This is a guide only. It sets out the information needed for council officers and elected members to engage with the Funding Agreement and Delivery Plan template, and should be read alongside these documents and the Memorandum of Understanding. These are available on the Three Waters Reform webpage at: <https://www.dia.govt.nz/Three-Waters-Reform-Programme>

Detailed process guidance on submitting a completed Funding Agreement and Delivery Plan will be released shortly.

Key Dates:

- **31 August 2020** – Memorandum of Understanding signed and submitted to: threewaters@dia.govt.nz
- **30 September 2020**

Funding Agreement signed and submitted to DIA: threewaters@dia.govt.nz

Delivery Plan compiled and submitted to DIA and CIP: threewaters@dia.govt.nz and 3waters@crowinfrastucture.govt.nz

Reform objectives

The following reform objectives have been agreed by Cabinet.



Significantly improving safety and quality of drinking water services, and the **environmental performance** of wastewater and stormwater systems.



Ensuring all New Zealanders have **equitable access to affordable three waters services**.



Increasing the resilience of three waters service provision to both short and long term risks and events, particularly climate change and natural hazards.



Improving the coordination of resources and unlocking strategic opportunities to consider New Zealand's infrastructure needs **at a larger scale**.



Moving the supply of three waters services to a more **financially sustainable footing**, and **addressing the affordability and capability challenges** faced across the sector and particularly by some small suppliers and councils.



Improving transparency about, and accountability for, the delivery and costs of three waters services, including the ability to benchmark the performance of service suppliers.



Undertaking the reform in a manner that enables **local government to further enhance the way in which it can deliver on its broader “wellbeing mandates”** as set out in the Local Government Act 2002.

Memorandum of Understanding, Funding Agreement and Delivery Plan

MoU

The MoU is a **non-binding agreement between the Crown and local authorities**, which provides the **basis for collaboratively working together to progress the broader reform process**.

Under the MoU, councils agree to:

- Participate in a process to agree the principles, structures, process and timetable that support the reform programme.
- Working cooperatively together to promote a relationship based upon mutual trust, respect and openness.
- Sharing of information.
- The funding arrangements.

Funding Agreement

The Funding Agreement is a **pro-forma agreement** that sets out the **purpose of the funding**, requirements and conditions that local authorities will need to meet to access the funding.

Local authorities will choose the expenditure programme they wish to apply funding to, via the Delivery Plan.

The Funding Agreement includes detail on the following:

- Funding objectives.
- Overview of what the funding stimulus may be spent on.
- Conditions attached to the funding.
- Reporting and other requirements.

Delivery Plan

The Delivery Plan will be **prepared by local authorities** and **submitted to DIA and CIP for review**. Application of funds will need to be consistent with Delivery Plans.

The Delivery Plan will need to cover the following elements:

- A summary of the work to be undertaken.
- Confirmation of costs (excl GST).
- Proposed milestones and associated disbursement profile.
- Location of the physical works.
- Estimate of the number of people employed in works.
- Reporting milestones.
- An assessment of how it supports the reform objectives set out in the MoU.

Stimulus funding released following signing of MoU and Funding Agreement, and Delivery Plan approval

Key principles for funding stimulus

The key principles that relate to the provision and application of the funding stimulus are provided below.



The investment package is designed to:

- **Support investment across the economy**, helping to stimulate economic activity and jobs in all regions of New Zealand.
- **Support the objectives of the three waters services reform** by encouraging as many councils as possible to participate in the reform programme.



Release of allocations:

- Following the confirmation of allocations, an initial disbursement of **50% of the total funding allocated** to each local authority will be **released upon signing the MoU and Funding Agreement, and approval of the Delivery Plan** (refer page 9).
- The remainder will be **disbursed on a quarterly basis, subject to appropriate progress** being made against the approved Delivery Plan.



Monitoring and reporting:

- The Funding Agreement and Delivery Plan will outline the **reporting requirements** for local authorities. Reporting is quarterly and a template will be provided.
- CIP will monitor local authorities' progress against the Delivery Plan to **provide assurance that Crown funding is being spent as intended** and that projects are progressing within a reasonable timeframe.



Funding shortfalls:

- Funding allocations **will not be 'topped up' to meet any shortfalls** experienced by councils.



Application of funding

Local authorities have flexibility to apply stimulus funding as they deem appropriate, provided it is consistent with the reform objectives and Funding Agreement and confirmed via the Delivery Plan.

What funding can be applied to:

Funding stimulus may be applied to **operating or capital expenditure** on three waters service delivery, consistent with the requirements below:

Support the reform objectives
(refer page 2)

AND

Support stimulus objectives

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

Some examples of investment that would qualify are provided on page 7.

Additional considerations of funding stimulus:

- **Priority** is drinking water and wastewater investment, followed by stormwater.
- Expenditure will need to **commence before 31 March 2021, and must be completed before 31 March 2022.**
- **Councils will retain flexibility** in terms of how they will apply the expenditure if it meets the high-level parameters.

* What does maintain mean?










Maintain refers to previously planned investment that may have otherwise been deferred as a result of COVID-19. It is seeking to allow investment in water related infrastructure at pre-COVID levels and cover investment, maintenance, renewals and other three waters spend deferred due to COVID-19.

The intention is that funding supports economic stimulus, and therefore is additional to planned investment. As a general rule, activities funded in annual plans are not eligible. However, some expenditure that is included within already approved annual plans may be eligible for funding. For example, where a project was included in the annual plan on the basis of receiving shovel ready funding, but has not done so.

Examples based on discussions at roadshow workshops

Some examples of what funding may be applied to is provided in the table below.

Recent workshops have raised questions around the ability to apply stimulus funding to various forms of expenditure. The table below provides an indication of the applicability of these, noting this is by no means an exhaustive list.

Application	Meets reform objectives	Meets stimulus objective	Expenditure is not funded in the Annual Plan*	<u>Allowable expenditure?</u>
 Delivery of a new drinking water treatment plant (deferred or brought forward)	✓	✓	✓	✓
 Upgrades of wastewater reticulation network (deferred or brought forward)	✓	✓	✓	✓
 Undertake maintenance work for a wastewater treatment plant that was deferred due to COVID-19	✓	✓	✓	✓
 Training and development programme for staff	✓	~	✓	✓
 Resource Mātauranga Māori	✓	~	✓	✓
 Fund non-council owned water assets	✓	✓	✓	✓
 Development of centres of excellence	✓	~	✓	✓
 Community tanks for water storage	✓	✓	✓	✓
 Asset condition assessments	✓	✓	✓	✓

* The intention is that funding supports economic stimulus, and therefore is additional to planned investment. As a general rule, activities funded in annual plans are not eligible. However, some expenditure that is included within already approved annual plans may be eligible for funding. For example, where a project was included in the annual plan on the basis of receiving shovel ready funding, but has not done so.

Notional funding allocations - Methodology

A notional funding allocation framework has been developed, which is based on a nationally consistent formula, subject to a few exceptions*.

General approach to determining notional funding allocations



The **population** in the relevant council area, as a proxy for the number of water connections serviced by a local authority. **(75% weighting)**



The **land area** covered by a local authority, excluding national parks, as a proxy for the higher costs per connection of providing water services in areas with low population density. **(25% weighting)**

Structure of funding allocation



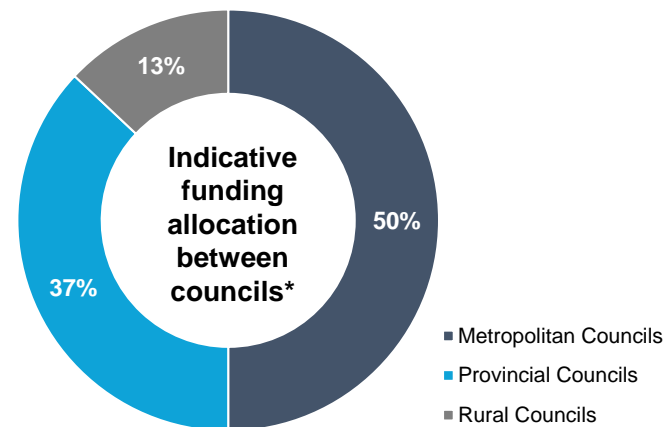
A **direct allocation** to each local authority, comprising **50%** of that local authority's notional allocation



A **regional allocation**, comprising the sum of the **remaining 50%** of the notional allocations for each local authority in the relevant region

* The following exceptions were made to the allocation framework:

- \$30 million has been set aside for non-council rural drinking water suppliers to help address the challenges these suppliers are facing in delivering safe drinking water to consumers.
- \$50 million for the Hawke's Bay region was announced by the Prime Minister and the Minister of Local Government. This supplements the formula-based allocation with a top-up in recognition of the leadership and progress that region has demonstrated in exploring reform of three waters arrangements.
- Exploring alternative solutions to progressing water services delivery reform in the Auckland region.



**Assuming a direct application to councils*

Regional allocation

The purpose of the regional allocation is to encourage collaboration in identifying regional investment priorities, and to establish collective participation in the reform programme.

Each region must agree on the regional allocation by 30 September 2020 (refer page 9).

The allocation will not be available where less than two-thirds of local authorities in the region sign the MoU, or if an agreement cannot be reached. The Minister of Local Government may make exceptions.

Notional funding allocations

Region	Territorial Authority	Notional allocations		Total (\$m)
		TA allocation (\$m)	Regional allocation (\$m)	
Northland	Far North District Council	5.90	14.13	28.26
	Whangarei District Council	5.89		
	Kaipara District Council	2.35		
Waikato	Thames-Coromandel District Council	2.40	33.30	66.61
	Hauraki District Council	1.53		
	Waikato District Council	5.67		
	Matamata-Piako District Council	2.47		
	Hamilton City Council	8.73		
	Waipā District Council	3.41		
	Ōtorohanga District Council	1.25		
	South Waikato District Council	1.94		
	Waitomo District Council	1.75		
	Taupō District Council	4.16		
Bay of Plenty	Western Bay of Plenty Council	3.46	21.12	42.23
	Tauranga City Council	7.46		
	Rotorua District Council	4.71		
	Whakatāne District Council	3.49		
	Kawerau District Council	0.39		
	Ōpōtiki District Council	1.60		
Gisborne	Gisborne District Council	5.52	5.52	11.04
Hawke's Bay	Wairoa District Council	11.04	50.00	
	Hastings District Council	15.36		
	Napier City Council	12.51		
	Central Hawke's Bay District Council	11.09		
Taranaki	New Plymouth district	5.05	8.95	17.89
	Stratford district	1.19		
	South Taranaki district	2.70		
Manawatu-Whanganui	Ruapehu district	2.80	20.27	40.54
	Whanganui district	3.16		
	Rangitikei district	2.41		
	Manawatu district	2.54		
	Palmerston North city	4.67		
	Tararua district	2.51		
	Horowhenua district	2.17		

Region	Territorial Authority	Notional allocations		Total (\$m)
		TA allocation (\$m)	Regional allocation (\$m)	
Wellington	Kapiti Coast district	3.13	29.90 (including Greater Wellington Regional Council)	59.80
	Porirua city	3.09		
	Upper Hutt city	2.55		
	Lower Hutt city	5.70		
	Wellington city	10.89		
	Masterton district	2.20		
	Carterton district	0.92		
	South Wairarapa district	1.42		
Tasman-Nelson-Marlborough	Tasman district	4.89	14.01	28.02
	Nelson city	2.86		
	Marlborough district	6.26		
West Coast	Buller district	2.27	7.62	15.25
	Grey district	1.92		
	Westland district	3.43		
Canterbury	Kaikoura district	0.94	50.00	100.00
	Hurunui district	3.75		
	Waimakariri district	4.01		
	Christchurch city	20.26		
	Selwyn district	5.33		
	Ashburton district	3.99		
	Timaru district	3.43		
	Mackenzie district	2.56		
	Waimate district	1.68		
	Waitaki district	3.73		
	Chatham Islands territory	0.32		
Otago	Central Otago district	4.73	20.60	41.20
	Queenstown-Lakes district	4.74		
	Dunedin city	7.92		
	Clutha district	3.20		
Southland	Southland district	7.03	11.15	22.31
	Gore district	1.10		
	Invercargill city	3.02		

Process

The indicative process for the stimulus funding is presented below. Detailed process guidance will be provided prior to 31 August 2020.



Delivery Plan drafting and negotiation of regional funding allocation

- Each regional group will be required to agree the funding allocation between the local authorities within the region.
- A joint letter from the Mayors of participating local authorities to the Minister of Local Government and the steering committee should be used to communicate an agreement.
- Local authorities will need to incorporate the regional funding allocations into the **Funding Agreement and Delivery Plan to be submitted to threewaters@dia.govt.nz and 3waters@crowinfrastructure.govt.nz by 30 September 2020.**

CIP review Delivery Plans

- CIP will review Delivery Plans, as they are submitted, to ensure they align with the stimulus and funding requirements by 30 October 2020.
- CIP will notify the Secretary for Local Government that the Delivery Plan is consistent with the Funding Agreement.
- Initial funding released to local authorities as soon as practicably possible once Delivery Plans are approved by DIA.

Commence expenditure

- Local authorities commence expenditure on three waters projects, in accordance with the Funding Agreement and Delivery Plan (before 31 March 2021).
- Local authorities will need to report to CIP on a quarterly basis. The requirements are set out in the Funding Agreement and Delivery Plan.
- Local authorities must have completed expenditure programmes by 31 March 2022. The final payment request needs to be submitted with the quarterly report for the period ending 31 December 2021.