

## Newsletter to all Members and Users – September 2023

**Note:** You are receiving this Newsletter because your property has the right to access the TKWA reticulation and take an unrestricted supply of non-potable water. This right is an asset and is attached to the land. As such, in terms of the Rules of the Association, you are deemed to be a **“Member”**.

If you are not already a **“User”**, that is a Member currently with a meter and taking supply, please contact us for more information as to the material benefits a connection offers you and your property.

### Contact Information:

If you received this Newsletter in the mail, we would appreciate you contacting us directly. We need to maintain an up-to-date data base to enable the Association to readily consult with all of its Members relating to important upcoming issues.

Please email Emma at [water@tkwa.co.nz](mailto:water@tkwa.co.nz) or ring her on **0800 TKWATER (0800 859 2837)** with following details:

- The name of the property owner on your WDC rate demand,
- Your telephone number and
- Email Address

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**Note:** The information in this Newsletter has been prepared by the Committee and its Advisors using the most up to date data and policies currently available.

## The Association:

### **A. Background – About the Association:**

The Te Kauwhata Irrigation Scheme was planned in 1979 as part of a country wide Government initiative to encourage and support orchard, kiwifruit, grape growing and other horticultural enterprises. Construction was completed in 1985. In 1993, local horticultural land owners acquired those assets from the Crown.

The Association is a registered charitable entity. It owns a pumping facility on the Waikato River at Churchill East Road together with a reticulation network of pipes. It supplies non-potable water to its Users and the Waikato District Council (WDC) for treatment.

Currently, over 4,400ha in the District are able to be serviced by this supply. In that area there are more than 470 property titles.

### **B. The Associations Assets:**

The physical assets of the Association consist of its Headworks and Reticulation. In addition, there are financial assets consisting of Cash Deposits, Receivables and Investments. The Association has no non-current liabilities.

For a full description of these assets refer to **Appendix A**.

### **C. Governance and Management:**

At the Annual General Meeting, the Chairman and committee members are elected. The Committee meets on an “as required” basis. The day-to-day operations of the Association are covered by the:

- Executive Officer, and
- Administration Manager.

The Association does not employ any staff. All roles are undertaken on a contract basis. Appropriate professional expertise is sought when required. Operational maintenance is undertaken by a small group of local contractors who are familiar with the assets.

## Matters of Relevance to all Members and Users:

### **A. Chairman & other changes:**

As has been earlier indicated, our Executive Officer, Andrew Cornwall, is stepping down after over 20 years in the role. During that time, he has overseen the transformation of the Association into a viable and profitable organisation with a long-term future.

- **John Cunningham** has been co-opted on to the Committee. John is a User, lives in Te Kauwhata, is an engineer (FEengNZ) and has broad experience as a director and business advisor.
- **Mike Peters** will resign as Chairman and assume the office of “**Executive Officer**” after the AGM. This role involves the responsibility of all aspects of the day-by-day management of the Association’s affairs. He will be responsible to the Chairman.
- After Mike’s appointment, **Andrew Cornwall** will remain as an “**Advisor to the Association**” in respect of policy and strategic projects.
- **Emma Adams** will continue in her role as the “**Administration Manager**”.

## **B. Restructuring the Association:**

The Association is currently constituted as an Incorporated Society under the Incorporated Societies 1908 Act. Following the new Incorporated Societies 2022 Act, reregistration is required by 2026.

The Committee believes the Incorporated Society structure is no longer appropriate for the Association given the requirements of new legislation, its proposed regulations and the reality of current circumstances. Because of its charitable status, over recent years the Association has operated as a de facto Trust.

The Committee believes a new philanthropic charitable trust should be established. This trust will allow for better governance, ensure the charitable objectives are more clearly defined and secure the assets for the benefit of the local community for the future.

These changes will require formal processes which will be provided by the Association's legal advisors. There include:

- Preparing a draft Trust Deed,
- A consultation process with Members and the community,
- Followed by obtaining the consent of Members at a Special General Meeting called for that purpose.

For a commentary on the changes to the new legislation, see the following link:

[Incorporated Societies Act - what societies will need to do, and by when | Duncan Cotterill | Lawyers New Zealand](#)

## **C. Three Waters Reforms:**

Currently under the Three Waters proposals being considered by Government, private providers such as TKWA are not included. Therefore, the Supply Contract the Association has negotiated with the WDC is outside the scope of the current legislation. However, as part of these reforms, this contract will be assigned to the new entity "B".

While Watercare (Council's operator) might change with the implementation of the proposals, it is expected the Association will continue to provide bulk water for treatment.

## **D. What the Future Holds:**

Notwithstanding that this is a crystal ball gazing exercise, the Committee believes the immediate future of the Association can be seen with some optimism, but (as always) there are caveats. Long-term, that future is not at all certain.

Universally, the need for water and the certainty of supply will become increasingly important as sources of water become more constrained and more difficult to access.

### **To summarise:**

- a) The Association's Supply Contract with WDC secures the delivery of raw water to Council for treatment. The pricing formula guarantees the certainty of the revenue stream up to and hopefully beyond 2030 towards 2040.

**Caveat:** If WDC brings forward the construction of the new Rangiriri water treatment plant, it has the right to terminate this contract. Currently, this proposal is only in the planning phase with no funding yet committed.

- b) The major capital works at the Headworks outlined in Section 7 below will ensure there is unlikely to be the need for further works of this magnitude over the next 10 - 15 years.

**Caveat:** The major infrastructure components were built in 1983-5. Deterioration is to be expected which may result in some additional expenditure. Expertise will be sought on an ongoing basis to ensure any remedial work can be undertaken without major disruption.

- c) The renewal of the Resource Consents to take water from the Waikato River with WRC will give certainty to the ability of the Association to supply WDC and its Users as well as engage with new opportunities.

**Caveat:** The proportion of the consent allocated to the Association will not be known until after June 2024. If it is too restrictive, future growth, particularly with large new Users, could be more difficult and costly requiring the need to apply for further consents.

- d) Both the current Headworks and Reticulation have the capacity and condition to materially increase throughput. They provide a significant potential economic asset to aid development in the District. All that is required are some large users of non-potable water.

**Caveat:** After WDC ceases to take supply, the viability of the Association will be completely dependent on the revenues generated by supplying water to its Users. At present levels, this would not be enough to cover operating costs, routine maintenance and administration.

### **Matters Affecting our Users:**

#### **1. Supply Contract with WDC:**

After thorough and comprehensive negotiations, the Association has signed a Supply Contract with WDC. This took effect from 1 July 2021. This contract provides certainty to the supply of raw water to the Association's major customer.

For further details about the provisions of the Contract, please refer to **Appendix B**.

#### **2. Price Increase to Users - Why it is so significant?**

**Note:** A separate notice has been sent to all Users detailing the proposed increases. Below are outlined some of the issues which had to be taken into account by the Committee as part of that process.

The pricing structure to Users and others was last reviewed in 2015 (effective 1 January 2016). Until 2020 and the pandemic, price increases to input costs were modest and able to be absorbed without creating financial pressures for the Association.

For a more complete explanation of the factors influencing this increase considered by the Committee please refer to **Appendix C**.

#### **3. Capital Works Programme:**

##### **A. Headworks:**

Even well-maintained plant eventually reaches the end of its economic life. New technologies can also offer cost savings and efficiencies.

The Association's original assets became operative in November 1985. Now some major components are reaching the end of their effective and economic life.

Headworks capital projects completed and paid for together with the planned works over the next 24 months are estimated to total over **\$1,500,000**. The Association has sufficient cash resources to meet the outstanding balances of this expenditure.

For more detail of these Headworks projects refer to **Appendix D**.

##### **B. Reticulation:**

Capital works along the Reticulation network are expected to consist of routine replacement of various components (mainly valves) and small extensions to existing infrastructure from time to time. No major expenditure (>\$50,000) is currently foreseen.

However, should a major extension be required to meet the forecast needs of a new large User, a capital contribution will be negotiated.

#### 4. Renewal of Resource Consents:

The current Resource Consents with WRC to take water from the Waikato River expire on 30 June 2024. The WRC require that the renewal process for all consents be conducted as if the consents were new applications. This is a very detailed and proscribed process.

It has been agreed with both WRC and WDC that the Association's consent application shall cover both the usage forecasts for WDC and the Association. This means the new consents will belong to the Association for as long as the Supply Contract with WDC remains in place.

From 2024, the accumulated capitalised costs of obtaining the new consents will be amortised into the Pricing Formula contained in the Supply Contract with WDC. The methodology for accounting for any outstanding balance when WDC terminates the Supply Contract is also agreed.

For further details of the renewal process, refer to **Appendix D**.

#### Appendix A: Detail of the Association's Assets

The Association's principal assets consist of:

- **The Headworks:** These consist of the Jetty and intake structures on the Waikato River, the Pumphouse on Churchill East Road together with its pumps, electrics, manifolds, valves, pressure vessels, etc., the Filters, and the Rising Main (1.8km) up to Hall Road where the Header Tank and its manifolds are located.

**Note:** The WDC water treatment plant providing potable water to the District is located next to the Header Tank.

The Headworks have a design capacity to pump **26,000m<sup>3</sup>** per day.

- **The Reticulation:** This consists of approximately 35km of pipes with 3 Arterial lines (Hall Road, Hampton Downs and Wayside Road) feeding distribution Spur lines. The Reticulation services the District from Hampton Downs to Rangiriri, between the Waikato River and the Railway.

310 properties are entitled to take supply (Members) with 160 metered connections (Users).

There are also a number of easements in the Association's name where the reticulation crosses private property.

- **Valuation:** As part of the Pricing Contract with WDC, the Headworks and Reticulation are revalued annually. As at 1 July 2023, they had a replacement valuation of **\$28,000,000**, down from \$32,000,000 last year.
- **Financial Assets:** The Association generates annual cash surpluses. After meeting capital expenditure and making donations, it invests the remaining funds into term deposits at the Bank of New Zealand.

The interest received from these investments funds the Charitable Donations made each year to local organisations. To date, the Association has distributed over **\$200,000** into our community.

Because the Association is unable to insure its horizontal assets, a significant proportion of these surplus funds is designated an "*Adverse Event Reserve*". The "above ground" assets are fully insured with an extension to the WDC insurance policy.

- **Resource Consents:** Currently, the Association has a Surface Water Take consent from the Waikato Regional Council (WRC) to take **22,900m<sup>3</sup>** per day from the Waikato River together with 2 associated discharge consents.

However, all of these consents expire in June 2024. For further details of the renewal process, refer to **Section 8** below.

The cost of obtaining the new consents is being capitalised and will be amortised over their term. This annual amortisation will be included in the Pricing Contract.

## Appendix B: Detail of the Supply Contract with WDC

This agreement contains the following material provisions:

- The contract has a term of 10 years with a right of renewal for a further 10 years.
- The Association guarantees 24/7 delivery of filtered raw water to the WDC Hall Road water treatment plant.
- The price WDC pays will be determined annually in accordance with a detailed pricing formula. This has been developed and agreed with clear unambiguous inputs and their sources.

The principle provisions in the formula take into account:

- Changes to cost of inputs (Statistics NZ quarterly indices),
  - The annual change in the replacement valuation of Headworks assets (BondCM – an independent valuer specialising in local body infrastructure assets),
  - The annual change in relative volumes of water pumped to each party, and
  - An agreed annual apportionment of the amortised Resource Consent costs.
- There are termination clauses providing for extended notice by WDC and the ability of the Association to recover agreed amortised costs.
  - The Association has also agreed to represent WDC forecast water requirements as part of the renewal of Resource Consents with WRC.

**Note:** Future population growth and water demand estimates for the greater district prepared by WDC, indicate that at some point the existing WDC water treatment plant at Hall Road will not have sufficient capacity. This will necessitate a new treatment plant be built (probably at Rangiriri to be ready by 2030). Funding has not yet been committed to this project.

It is also noted that at present the Association maintains an active and ongoing dialogue with WDC (Watercare) relating to future planning and the timing of this new infrastructure coming on line.

## Appendix C: Detail of Matters Relating to Pricing

The following events have occurred which required an in-depth review of the Association's pricing structure and finances. These form the major part of the rationale for the new price structures considered by the Committee:

- According to Statistics NZ quarterly surveys, the cost of inputs relating to water infrastructure increased by **10.3%** for the year ended June 2022. This inflationary trend is expected to continue in the 2023 year.
- Depreciation of assets is calculated using an annual revaluation undertaken by an independent valuer. This valuation of the Association's assets is done on a replacement basis. This is consistent with the methodology used by local authorities.

The first revaluation was undertaken in 2018. That valued the Association's replacement valuation at **\$20,000,000**. In 2022, that valuation was **\$32,000,000**. This a **62%** increase and is reflected in the annual depreciation charge. For 2023, the valuation is \$28,000,000.

- As previously advised and outlined above, the Association secured its supply of raw water to the WDC effective from 1 July 2021. The terms of that contract and its pricing formula are covered in **Appendix B**.

- The supply to WDC is on a 24/7 basis. Because this supply is to provide potable water to the community, WDC supply has priority. Therefore, the Association is required to take all steps to achieve this. This priority attracts a material premium to the cost of that supply.
- However, it is beholden on the Association to maintain a reasonable relativity between its pricing to Users and that agreed annually with WDC.
- The Association is committed to ensuring its infrastructure is safe, reliable and efficient. This will ensure water can be delivered at all times without unscheduled disruptions. See **Appendix D** for the detail of planned capital works.

## Appendix D: Detail of Capital Works

The following is an overview of the state of the major Headworks assets and projects the Association is currently committed to. The sum of these projects is the most extensive capital renewal works program the Association has ever undertaken.

- Jetty and Intakes: Recently upgraded and strengthened at a cost of **\$37,000**. No further major works are planned or foreseen.
- Pressure Vessel: The Pressure Vessel had reached the end of its certifiable life and was recently replaced at a cost of **\$200,000**. No further work is required or foreseen.
- Transformer Upgrade: This is a WEL asset. The project has been undertaken and paid for by WEL. The costs to the Association have been minor. Further work to replace external cables and meters has also been undertaken by WEL and Meridian.
- Rising Main: No work is foreseen in the immediate future. However, the Association has been advised to get the AC tested to determine the state of the composition. This will be undertaken when the opportunity is available.
- Header Tank & Manifolds: At present, the Tank is sound. However, it is expected the internal liner will need replacement as it may be nearing its end of life. It is inspected annually. This has not been costed.

Depending on future peak demand volumes, it is possible some upgrading may be necessary to the intake manifolds that feed the Header Tank, WDC's treatment plant and the Hall Road and Hampton Downs Arterial Lines. This project has not been costed.

- Pumps & Motors: A "*Condition Assessment*" of the three pumps has been undertaken to determine their current levels of performance. While the analysis showed a small reduction in efficiency, the Association now has an accurate benchmark for future measurements. No problems were identified. **Cost: \$12,000**

Notwithstanding the above, replacements of the 3 motors and pumps are being considered as a result of the installation of "*Soft Start*" mechanisms to replace the existing "*Rotork Valves*" and the upgrades to the switch board and electrics. New technologies are more reliable and efficient.

The estimate for just the "*Soft Start*" mechanisms is **\$120,000**

The possibility of pump replacements will be considered once operational data from the "*Soft Start*" upgrade is available. It may be possible to spread this expenditure over several years.

- Switchboard and Electrics: Following a detailed independent audit, serious safety and reliability issues have been identified. These works are currently being evaluated and costed.

The existing switchboard with its outdated analogue components will be replaced by digital units together with simplified wiring. This will improve safety and reliability supported by the installation of detailed fault recognition and monitoring telemetry.

This work will be undertaken as soon as possible once the design is finalised. It can be done with minimal disruption. Cost estimates: **\$850,000.**

- Filters: Frequent issues are arising resulting in high maintenance costs and a lot of disruption. While water flows to the Header Tank are not directly affected, unfiltered water in the Tank and Reticulation results in more frequent maintenance (flushing) and creates issues for some Users. The Supply Contract with WDC also requires filtered water is delivered.

External expertise is being sought to find a cost effective, efficient and expandable solution. Potential cost estimates: **\$200,000.**

- New Chlorine Dosing Plant: This together with new line flow meters is currently a work in progress, to be completed this year for both the Hall Road and Hampton Downs Arterials. We are looking at replacing the present Chlorine Gas Dosing with a new Salt Chlorine Plant which costs the same to run but removes a hazardous substance.

The cost of these is estimated at **\$115,000.**

It is estimated the above Headworks capital projects (both completed and paid for together with the planned works over the next 24 months) will total approximately: **\$1,534,000**

The Association has sufficient cash resources and reserves to meet the outstanding balances of this expenditure.

## Appendix E: Detail of the Resource Consent Renewal Process

This is an extended application process involving:

- Ongoing liaison with WDC as to their forecast population and demand growth needs for the District and the timing of their new potable water infrastructure, together with consulting with them on an ongoing basis,
- Understanding the requirements of the WRC in respect of the Association's application and the Association's specific circumstances, together with seeking clarification on matters arising,
- Identifying and consulting with the various stakeholders. Discussions have already been held with Waikato Tainui to establish a relationship and understand their concerns,
- The Association's Members will also be consulted before the formal consultation document is finalised and available for engaging with the general public,
- Seeking independent in-depth reports on the environment, hydrology, ecology, etc. and,
- Preparing an in-depth report of the Association's future projections based on current usage. Those projections must be based on verifiable data sources. The same methodology as used by the WDC has been used, etc.

Because of the complexities and expertise required for preparing this application, the Association has engaged Environmental Management Systems (EMS), a Tuakau consultancy. This firm has a lot of experience in dealing with the WRC and also acts for many of the large Market Garden growers in the region.

The costs for this process are uncertain but are expected to be significant. To date, the Association has outlaid more than **\$127,000**. Further costs will continue to be incurred on an ongoing basis up to the filing of the applications in 2024.

Additionally, there will be the hearings and the possibility of subsequent appeals to the determinations of WRC. A total outlay in excess of **\$400,000** is possible over the next few years.



## Appendix F: Detail of the Charitable Donations 2022

The Te Kauwhata Water Association is a registered charity deriving its profit from the sale of non-potable water. In terms of Clause 12 of its Rules, the Association has invited eligible parties to submit requests for a donation.

At the meeting on 2 June 2022, the Committee considered and approved 8 applications for the following donations:

• Ohinewai Netball Club:	\$ 500.00
• St Margarets Church Te Kauwhata	\$ 800.00
• Te Kauwhata Community Patrol	\$3,000.00
• Te Kauwhata Junior Hockey	\$2,000.00
• Te Kauwhata Playcentre:	\$1,400.00
• Te Kauwhata A & P Show	\$5,300.00
• Te Kauwhata Community House	\$2,000.00
• Te Kauwhata College Mixed Hockey Team	<u>\$7,500.00</u>
<b>Total Approvals</b>	<b>\$22,500.00</b>

No applications were declined.

### Summary of 2022 Donations:

Applications for donations totalled:	\$23,083.93
Donations approved totalled:	\$22,500.00

To date, the Association has distributed into our community more than **\$200,000**.