Wellington Sludge Minimisation Facility

IFF Act Recommendation Report

Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development

4 July 2023

RECOMMENDATION REPORT – WELLINGTON SLUDGE MINIMISATION FACILITY			
Minister receiving	Hon Dr Megan Woods, Minister of Housing		
Date	4 July 2023	**Priority**	High
Tracking number	HUD2023-002066		

Purpose

1. This recommendation report is intended to aid your consideration of the levy proposal submitted by Wellington City Council (WCC) under the Infrastructure Funding and Financing Act 2020 (the Act) for its proposed new sludge minimisation facility (SMF). The report contains:

   - Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development's (HUD) assessment of the levy proposal against the purpose of the Act and the other mandatory considerations you must have regard to.
   - HUD's recommendation that the proposed levy be authorised.
   - All other information necessary for you to consider the levy proposal, including information about the matters that would be required for inclusion in an Order in Council ("levy order") authorising the levy.

Executive summary

2. Wellington City Council (WCC) has submitted a levy proposal for its proposed new sludge minimisation facility (SMF). Sewage sludge is a natural and unavoidable by-product of Wellington's current wastewater treatment process. This new facility would be built adjacent to the Moa Point Wastewater Treatment Plant. It would utilise chemical and mechanical processes to handle and dispose of wastewater sludge, with a view to improving the stabilisation and reducing the volume of the sludge.

3. If approved, the levy would enable a special purpose vehicle (SPV) to provide up to $400 million of funding to WCC for the construction costs of the SMF. The total amount of funding provided by the SPV may also be less than $400 million if base interest rates increase before the approval of the levy, or if construction costs are lower than anticipated.

4. The SPV would raise almost all of this funding through debt finance on the strength of a 33-year levy applying across the entire WCC rating base (excluding any protected Māori land) from 1 July 2024 until 30 June 2057. The intended annual levy would increase from $7.8 million in the first levy year (2024/25) to $65.4 million in the 2053/54 levy year. During the expected construction phase of the SMF, the intended annual levy starts out at the lower amount ($7.8 million), increasing by approximately $8 million per year over each of the three following years, before flattening out after the levy year beginning 1 July 2027.

5. The maximum levy revenue over the entire levy period is approximately $1,271 million (plus GST, if any).[1] In addition to providing funding to repay the debt and equity finance for the selected project, this revenue would also be applied to financing costs (i.e., interest and fees) as well as the operating costs for the SPV. Figures about expected levy amounts throughout this report have been based on this maximum levy revenue. If the maximum levy revenue is reduced, these expected figures will be lower.

6. The levy would apply differentially to properties that are expected to have their wastewater treated by the SMF and properties that will not be connected to the SMF. Approximately 78 percent of current properties in the WCC rating area are expected to have their wastewater treated by the SMF. Approximately 95 percent of the total levy would be charged across these properties.

7. The remaining 22 percent of properties are either not connected to the wastewater network (7 percent of properties) or have their wastewater treated by a facility in Porirua (15 percent of properties). Despite not having their wastewater treated by the SMF, these properties are still expected to receive benefits from the SMF, including capacity for economic and population growth, reduced waste and carbon emissions, and resilience of WCC's wastewater treatment network. As such, approximately 5 percent of the total levy would be charged across these unconnected properties.

8. The levy would also apply differentially to properties categorised as "base" (WCC's categorisation for residential properties) and properties categorised as "commercial". 75 percent of the total levy would be charged across base properties and 25 percent would be charged across commercial properties. Levies for a commercial property would be allocated based on the capital value (CV) of the property. However, levies for a base property would include a fixed component and a variable component based on CV.

9. The expected annual levy for different property types in the 2027/28 levy year is detailed below in Table 1.

Table 1: Expected annual levy 2027/28 levy year

EXPECTED ANNUAL LEVY (PER MILLION OF CV) 2027/28 LEVY YEAR[2]			
PROPERTY	**FIXED**	**VARIABLE**	**TOTAL**
Connected properties			
Base	$105	$230	$335
Commercial	-	$500	$500
Non-connected properties			
Base	$26	$60	$86
Commercial	-	$130	$130

[1] The maximum levy revenue is exactly $1,271,444,793 (plus GST, if any).
[2] Numbers do not add up exactly due to rounding.

Counterfactual funding approach

10. If a levy order is not authorised, the SMF will instead be financed on WCC's balance sheet with debt raised through the Local Government Funding Agency (LGFA). This would result in WCC's long-term debt-to-revenue ratio exceeding the LGFA covenant of 280 percent.

11. Funding and financing of the SMF through the LGFA would therefore require:

    - WCC significantly increasing rates to maintain a debt-to-revenue ratio within the LGFA covenant limit, and/or
    - Significant reprioritisation of planned expenditure to offset the increase in debt required to finance the SMF.

Water Services Entity (WSE) funding counterfactual

12. As an alternative to funding the SMF through the IFF, construction of the SMF could be delayed until the relevant WSE has been established. While the financing arrangements for the relevant WSE are currently unknown, they are expected to be more cost effective than the SPV's borrowings. However, the potential savings are difficult to estimate and delaying construction of the SMF poses significant risks to the wider wastewater network.

13. If construction is delayed until the relevant WSE is established, it is unlikely that the SMF will be completed before the lapse of the existing resource consent for sludge disposal at the Southern Landfill in June 2026. In this scenario, the sludge from the existing Moa Point plant would likely have to be transported to out-of-district landfills for disposal at significant expense to ratepayers.

Evaluation of the levy proposal

14. The Act sets out the process you must follow in assessing a levy proposal and deciding whether to recommend that a levy order be approved. As the responsible Minister for the Act, section 27(4) requires that you must only evaluate the levy proposal against the criteria listed in that section before deciding whether to recommend its approval. These criteria broadly cover whether the proposal is consistent with the Act's purpose, whether the levy appropriately allocates costs across the beneficiaries of the infrastructure, and whether the levy is affordable for levypayers and in their long-term interests. Detail on the Act's requirements for your consideration of the levy proposal can be found at pages 8-10.

15. HUD has assessed the levy proposal against the criteria in the Act and it is our opinion that:

    - The proposal is consistent with the Act's purpose.
    - The proposed levy appropriately allocates the cost of infrastructure both spatially and temporally across the beneficiaries of the SMF project.
    - The proposed levy is in the long-term interests of levypayers and is affordable for them across the entire levy period.

16. HUD therefore recommends that the proposed levy be authorised.

Next steps

17. If, having assessed the levy proposal against the criteria in the Act, you decide you want to recommend its approval, you will first need to consult the Ministers of Finance, Local Government, and Commerce and Consumer Affairs. After this consultation, you will need to take a paper to Cabinet seeking approval for the proposed levy to be authorised by Order in Council.

18. If you decide to not recommend the levy's approval, HUD recommends writing to WCC to advise them of this.

Recommended actions

19. It is recommended that you:

1. **Note** that Wellington City Council has submitted a levy proposal for its proposed new sludge minimisation facility (SMF) to Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development.

   Noted

2. **Note** that when considering whether to recommend the authorisation of the proposed levy, the Infrastructure Funding and Financing Act 2020 (the Act) requires that you must only take the matters listed in section 27(4) of the Act into account.

   Noted

3. **Note** that before you recommend the proposed levy order be made, you must first consult the Ministers responsible for the following Acts:

   Noted

   - the Commerce Act 1986
   - the Credit Contracts and Consumer Finance Act 2003
   - the Local Government Act 2002
   - the Local Government (Rating) Act 2002
   - the Public Finance Act 1989.

4. **Refer** copies of this recommendation report to the Ministers of Finance, Local Government and Commerce and Consumer Affairs for consultation.

   Referred

5. **Agree**, following consultation with the Ministers of Finance, Local Government and Commerce and Consumer Affairs, to recommend the authorisation of the proposed levy.

   Agree/
   Not Agree

Fiona McCarthy **Policy Manager** 04 / 07 / 2023	Hon Dr Megan Woods **Minister of Housing** 11 / 07 / 2023

[IN-CONFIDENCE:RELEASE EXTERNAL]

Contents

[IN-CONFIDENCE:RELEASE EXTERNAL]

Background

Infrastructure Funding and Financing Act 2020

20. The Infrastructure Funding and Financing Act 2020 (the Act) enables a funding and financing model for the provision of infrastructure for urban development. Under this model, a special purpose vehicle (SPV) is used to fund an infrastructure project, and a levy is charged against the beneficiaries of the infrastructure to repay any finance raised.

21. As the Minister responsible for the Act, you are responsible for considering levy proposals and deciding whether to recommend the making of an Order in Council ("levy order") authorising the collection of the levy. Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) has prepared this recommendation report for your consideration of the levy proposal received from Wellington City Council (WCC) for its proposed new sludge minimisation facility (SMF), as required by the Act.

22. HUD also has the "monitor" role under the Act. This means that if the levy order is made, HUD will monitor the SPV's compliance with both the Act and the levy order.

Water Services Reforms

23. The Water Services Entities Act 2022 (WSEA) establishes four water services entities by 1 July 2024. The Government recently announced that it intends to establish ten Water Service Entities (WSEs) to take responsibility for drinking water, wastewater and stormwater infrastructure between early 2025 and 1 July 2026. The WSEA will be amended to reflect these policy changes through the Water Services Entities Amendment Bill. The Water Services Entities Amendment Bill is currently before Parliament's Finance and Expenditure Committee, which is considering submissions from the public, councils and others.

24. If the reforms are implemented as currently anticipated, the relevant impacts on the SMF project and its proposed funding through the IFF Act are:

    - the SMF assets will be transferred from WCC to the WSE established to include the council's district by no later than 1 July 2026;
    - following vesting, the relevant WSE will be responsible for any remaining construction and commissioning, and operation and funding of, the SMF (commissioning is currently expected for the start of 2026);
    - if the SMF assets are transferred prior to the proposed IFF funding being fully drawn down, the WSE will have the right to draw down the balance of the SPV's available funding;
    - WCC will continue to administer and collect the proposed levy over the full 33-year levy period on behalf of the SPV; and
    - The SPV will be responsible for servicing and repaying the proposed IFF funding. This responsibility will not be transferred to the WSE.

25. The WSEA requires that in the pre-establishment period (i.e. from before the relevant WSE is established), councils liaise with the Department of Internal Affairs (DIA) when

making decisions that could impact the intended WSE. As per the requirements of the WSEA, WCC has sought, and the Department of Internal Affairs (DIA) has provided, written confirmation that the series of decisions necessary to finance and construct the SMF do not:

- significantly prejudice the water services reforms;
- significantly constrain the powers or capacity of the relevant WSE following its establishment; or
- have a significant negative impact on the assets, liabilities, or other matters that are to be transferred to the relevant WSE as part of the reforms.

26. This written confirmation from DIA enabled WCC to proceed with the levy proposal process.

How to assess the levy proposal

27. A levy under the Act can only be charged if authorised by an Order in Council ("levy order") made by the Governor-General on your recommendation as the Minister responsible for the Act. The Act sets out the process you must follow in assessing a levy proposal and deciding whether to recommend that a levy order be approved.

Mandatory considerations

28. Section 27(1) of the Act sets out that you may only recommend that a levy order be authorised if you are "satisfied that authorising the proposed levy is appropriate having regard to the matters set out in subsection (4) and in accordance with subsections (5) and (6)". Subsections (5) and (6) are irrelevant to your consideration of the SMF levy proposal.[3]

29. Section 27(4) requires that when you are assessing a levy proposal, you "must only take the following matters into account":

a) whether the levy proposal is consistent with the purpose of the Act.[4]

i. The purpose of the Act is to provide a funding and financing model for the provision of infrastructure for urban development, that –

a) Supports the functioning of urban land markets; and

b) Reduces the impact of local authority financing and funding constraints; and

c) Supports community needs; and

d) Appropriately allocates the costs of infrastructure.

ii. Urban development includes –

[3] Sections 27(5) and (6) are not relevant to your consideration of the levy because the proposed levy does not apply sections 99 or 142 of the Act (pertaining to the power to construction eligible infrastructure on private land, and the limit on the usual rules for transactions and dispositions at under value).

[4] Section 3 of the Act contains the purpose.

a) Development of housing including public housing and community housing, affordable housing, homes for first-home buyers, and market housing:

b) development and renewal of urban environments, whether or not this includes housing development:

c) development of related commercial, industrial, community, or other amenities, infrastructure, facilities, services, or works.

b) the extent of expected benefits outside the levy area compared with expected benefits within the levy area.

c) the distribution of expected benefits in the levy area as a whole or any identifiable part of the levy area, and to persons in the levy area.

d) the extent to which the actions or inaction of particular persons or a group contribute to the need to undertake the construction work.

e) the period over which benefits are expected to occur.

f) the long-term interests of levypayers over the levy period.

g) the affordability of the levy for levypayers and the sustainability of its payment by them over the levy period.

h) all other matters of practicality, efficiency, and equity that you consider relevant, including whether the expected returns on the capital provided by holders of debt or equity are consistent with outcomes produced in workably competitive markets.

30. You may not take any other matter into account when assessing a levy proposal.

31. Under section 26 of the Act, in order to support your assessment, HUD (as recommender under the Act) is required to prepare a recommendation report that contains HUD's assessment of the proposal against:

- the purpose of this Act;
- the matters set out in sections 27(4)(a) to (g) of the Act; and
- all other matters of practicality, efficiency, and equity that HUD believes may assist your consideration of the levy proposal.

32. HUD's assessment of the SMF levy proposal against all of the mandatory considerations, and the information you need to consider the levy proposal, is included in this report from page 26.

Consultation

33. Section 28 of the Act requires that before recommending a levy order, you must first consult the Ministers responsible for the following Acts:

- the Commerce Act 1986
- the Credit Contracts and Consumer Finance Act 2003
- the Local Government Act 2002
- the Local Government (Rating) Act 2002

- the Public Finance Act 1989.

34. These are the Minister of Commerce and Consumer Affairs, the Minister of Local Government and the Minister of Finance, respectively.

35. In preparing this report, HUD has consulted the Ministry of Business, Innovation and Employment (MBIE), the Department of Internal Affairs (DIA) and the Treasury (as the agencies responsible for each of the above Acts).

Approval of the levy

36. If, having assessed the levy proposal against the criteria in the Act, you choose to recommend the authorisation of the SMF levy, you will need to take a paper to Cabinet seeking approval of the levy.

Sludge Minimisation Facility levy proposal

37. Sewage sludge is a natural and unavoidable by-product of WCC's current wastewater treatment process. WCC currently disposes of its sludge from the Moa Point Wastewater Treatment Plant at the Southern Landfill. Two resource consents critical to the WCC wastewater network will expire in 2026:

    - One for the disposal of sludge into the Southern Landfill; and
    - One for the operation of the Southern Landfill itself.

38. Improved treatment and reduced volume of the sewage sludge is a key requirement for the resource consents. Without these consents, WCC would need to divert the sludge to other landfills via trucks.

39. WCC intends to construct a new sludge minimisation facility (SMF) adjacent to the existing wastewater treatment plant at Moa Point to meet the requirements of future resource consents. The proposed SMF will utilise chemical and mechanical processes to handle and dispose of wastewater sludge. It is intended to:

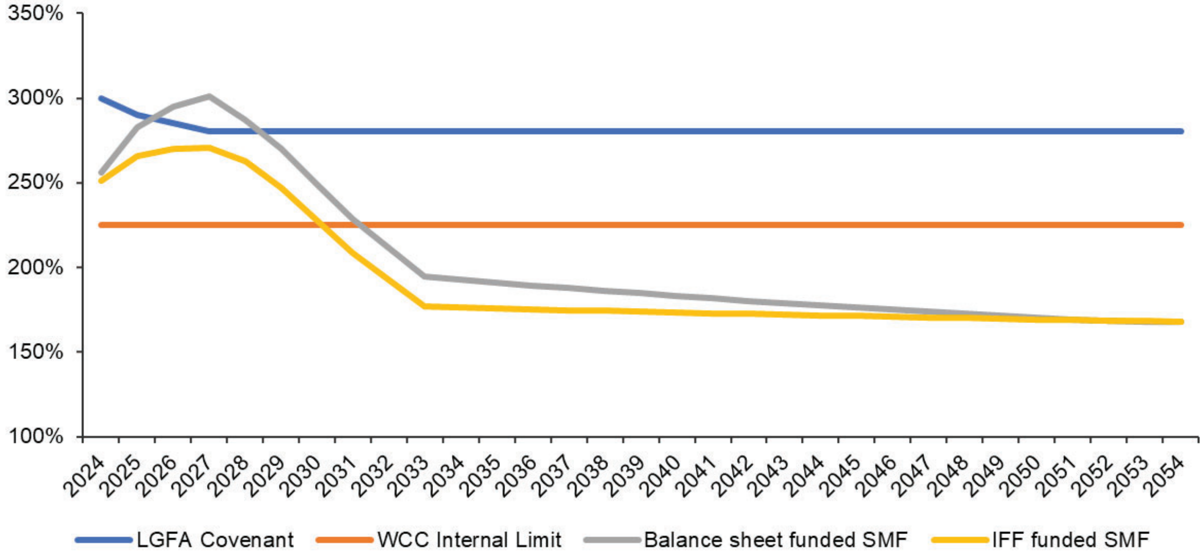
    - improve the stabilisation, and reduce the volume, of Wellington City's wastewater sludge;
    - reduce carbon emissions associated with the disposal of sludge at the Southern Landfill; and
    - enable future economic and population growth via increased waste management capacity.

40. The proposed levy would enable an SPV to provide up to $400 million of funding towards the costs of construction of the SMF. This funding would be raised on the strength of a 33-year levy charged to levypayers across the entirety of WCC's rating base (excluding any protected Māori land).

Counterfactual funding approach

41. WCC's debt capacity is constrained by the Local Government Funding Agency (LGFA) borrowing covenants which includes a long-term debt-to-revenue ratio limit of 280 percent. Funding the SMF on WCC's balance sheet would, all else equal, result in WCC's debt temporarily breaching the LGFA borrowing limits. As such, funding the SMF without using the IFF Act would likely require significant rates rises and/or substantial reductions in WCC's capital programme. This would constrain WCC's ability to fund other priority spending needs that emerge over the next six to ten years without reprioritising the existing Long-Term Plan.

Figure 1: WCC's comparative debt-to-revenue ratios across funding options



Water Services Reforms counterfactual funding approach

42. As an alternative to funding the SMF through the IFF, construction of the SMF could be delayed until the relevant WSE has been established. While the financing arrangements for the relevant WSE are currently unknown, they are expected to be more cost effective than the SPV's borrowings. However, the potential savings are difficult to estimate and delaying construction of the SMF poses significant risks to the wider wastewater network.

43. If construction is delayed until the relevant WSE is established, it is unlikely that the SMF will be completed before the lapse of the existing resource consent for sludge disposal at the Southern Landfill in June 2026. In this scenario, the sludge from the existing Moa Point plant would likely have to be transported to out-of-district landfills for disposal at significant expense to ratepayers.

44. Another possible option could be for WCC to seek a temporary extension to its existing resource consent for sludge disposal and wait until the establishment of relevant WSE for it to complete the SMF. However,

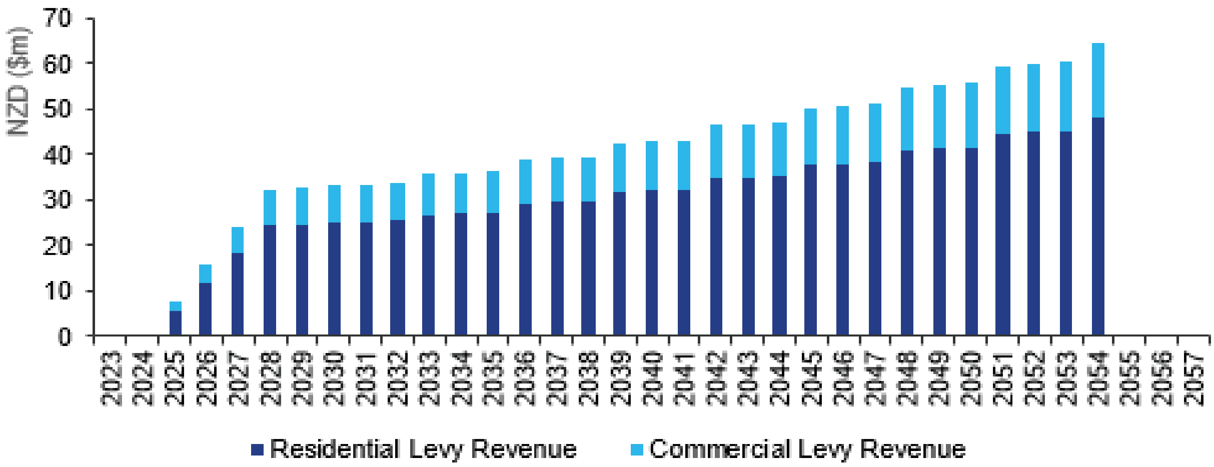
- The commissioner's report from the prior sludge disposal resource consent indicated that the consent would be unlikely to be renewed to allow future disposal.
- The establishment date of the relevant WSE is still uncertain and could be as late as the deadline of 1 July 2026.
- If the construction of the SMF was delayed, the relevant WSE would have to seek consent for, and construct, this highly complex project while was also carrying out its statutory function of consolidating the water services assets and operations of eight councils.
- The current design of the SMF delivers broader waste minimisation and emissions reductions outcomes that WCC wants to secure.

The levy

45. The proposed levy would be charged from 1 July 2024 until 30 June 2057 (the "levy period") and would apply to the full district in which WCC is entitled, at any time, to charge general rates or targeted rates (the "WCC rating area"), excluding any protected Māori land. If the boundaries of the WCC rating area are updated over time, the proposed levy area would be automatically updated alongside it.

46. Over the entire proposed levy period, the maximum amount of levy revenue that may be collected would be approximately $1,271 million (plus GST, if any).[5] The intended annual levy would increase from $7.8 million in the first levy year (2024/25) to $64.5 million in the 2053/54 levy year.[6] During the expected construction phrase of the SMF, the intended annual levy starts out at the lower amount ($7.8 million), increasing by approximately $8 million per year over each of the three following years, before flattening out after the levy year beginning 1 July 2027. Charging the levy during the construction of the SMF is intended to reduce the overall cost of the levy to ratepayers (compared to waiting until 2028 when the SMF is expected to be complete to start charging the levy).

Table 2: Intended Annual Levy (plus GST, if any)



Beneficiary groups

47. Around 22 percent of properties currently within the WCC rating area are not expected to make use of the SMF. This includes properties not connected to the reticulated wastewater network (around 7 percent of properties)[7] and properties in the northern suburbs, around Johnsonville and Tawa, that are connected to a wastewater treatment plant in Porirua (approximately 15 percent).

48. The levy would apply differentially to properties that are expected to have their wastewater treated by the SMF and properties within the WCC rating area that will not make use of the SMF. Approximately 95 percent of the proposed levy would be charged to properties that are expected to have their wastewater treated by the SMF. The remaining approximate 5 percent of the levy would be charged to properties that are

[5] The maximum levy revenue is $1,271,444,793 plus GST (if any).
[6] The intended annual levy in the final three levy years is $0. However, levies may still be charged during these three years to account for any outstanding amounts elected as "bad debts".
[7] These properties either cater for their own needs via private, onsite wastewater systems, or do not have wastewater requirements (such as carparks).

either not connected to the wastewater network or that are connected to a wastewater treatment plant in Porirua.

49. This differential split would be achieved by dividing the levy area into two beneficiary groups. Beneficiary Group 1 (BG1) would generally include all properties connected to the wastewater network that have or will have their wastewater treated by the proposed SMF (excluding protected Māori land). Beneficiary Group 2 (BG2) will include all properties within WCC's rating area (both connected and not connected), excluding protected Māori land. Further detail on the proposed definitions of BG1 and BG2 can be found in **Annex A**.

50. 70 percent of the proposed levy would be charged to BG1 and 30 percent would be charged to BG2. However, BG1 and BG2 are not mutually exclusive. As such, all properties within BG1 will also be within BG2 and will pay both the BG1 and BG2 components of the levy. Conversely, a property outside of BG1 would only be charged the BG2 component of the levy.

51. Within both BG1 and BG2, residential properties (those classified as "base" properties by WCC) would be charged 75 percent of the levy, and commercial properties would be charged 25 percent of the levy.

52. For base properties, 25 percent of both the BG1 and BG2 levy components will be allocated as a fixed charge per property with the remaining 75 percent allocated according to each properties' capital value (CV). The fixed charge component reflects that each base property is likely to generate relatively similar wastewater volumes and the variable component is reflective of the differing levels of ability to pay the levy.

53. For commercial properties, levies will be allocated to properties based on CV alone with no fixed charge. This is consistent with WCC's current rating approach for commercial properties. A fixed charge component would have been inappropriate for commercial properties as there is significant variation in wastewater volumes produced by commercial properties. Furthermore, there is a large variation in CVs for commercial properties and a fixed charge component may be inequitable and present affordability challenges for lower CV commercial properties.

Annual levies

54. Based on WCC's current rate forecast, it is estimated that in the 2027/28 levy year, a $1 million CV residential property within BG1 would be charged an annual levy of $335. This would consist of a BG1 component of $248 and a BG2 component of $86. A $1 million CV residential property not connected to the SMF would just pay the BG2 component of no more $86 in the 2027/28 levy year.

55. Commercial properties in BG1 are expected to be charged annual levies of $500 per million of CV in the 2027/28 levy year. This would consist of a BG1 component of $371 per million of CV and a BG2 component of $130 per million of CV. Commercial properties not connected to the SMF would just pay the BG2 component of $130 per million of CV in the 2027/28 levy year.

56. As the levy for commercial properties will be allocated based on CV alone (with no fixed charge) there will be greater variation between properties in the levies charged. For example, a commercial property in BG1 worth $2 million is expected to be charged a

total of $1,000 in the 2027/2028 levy year. A commercial property in BG1 worth $100 million is expected to be charged a total of $50,000 in the 2027/2028 levy year.

57. The estimated annual levy components for different property types in the 2027/28 levy year is detailed in Table 3 below.

Table 3: Estimated levy components 2027/28 levy year

ESTIMATED LEVY COMPONENTS (PER MILLION OF CV) 2027/28 LEVY YEAR[8]			
PROPERTY	**BG1**	**BG2**	**TOTAL**
Connected properties			
Base	$248	$86	$335
Commercial	$371	$130	$500
Non-connected properties			
Base	-	$86	$86
Commercial	-	$130	$130

58. Further details on the proposed levy can be found in **Annex A**.

Eligible infrastructure

59. The proposed eligible infrastructure is a sludge minimisation facility to be located at Moa Point (adjacent to the existing wastewater treatment plant) which is to be built to utilise chemical and mechanical processes to handle and dispose of wastewater sludge (with a view to improving the stabilisation, and reducing the volume, of such wastewater sludge). The proposed eligible infrastructure also includes works to other associated wastewater infrastructure in the vicinity of Moa Point, the existing sludge pipeline and the Carey's Gully dewatering facility and Karori wastewater treatment plant, that are necessary to complete the project.

60. Construction of the SMF will be undertaken by or on behalf of WCC until the asset is vested with the relevant WSE. Following asset vesting, the WSE will be responsible for any remaining construction and commissioning, and operation and funding of, the SMF. The SPV will not be responsible for construction of the SMF.

61. The detailed design of, and construction contracts for, the SMF are still being developed. However, to ensure the expected benefits of the facility discussed in the levy proposal are delivered, the 'construction monitoring agreement' between the Crown, WCC and the SPV will specify minimum standards and scope for the SMF that WCC will be required to contract to be delivered.

62. The minimum scope and standards and certification regime will apply to the relevant WSE if the SMF is transferred to it prior to completion of its construction. The minimum scope and standards are detailed below in Table 4.

[8] Numbers do not add up exactly due to rounding.

Table 4: Expected level of benefits and minimum required standards

BENEFIT	STATUS QUO	EXPECTED LEVEL	MINIMUM STANDARD
Wastewater treatment capacity	18 tonnes of dry solids per day.	26 tonnes of dry solids per day.	20 tonnes of dry solids per day.
Reduction of sludge disposed of at Southern Landfill	50-60 tonnes per day of sludge is disposed of at the Southern Landfill.	Sludge product is reused rather than disposed of, or total weight of sludge disposed of at Southern Landfill is reduced by 80 percent.	Total weight of sludge product disposed of at Southern Landfill is reduced by 50 percent.
Carbon emissions	Estimated sludge emissions are 564,410 tonnes of carbon dioxide equivalent (tCO_2-e) between 2026 and 2057.	Estimated sludge emissions are 401,296 tCO_2-e per annum between 2026 and 2057 as a result of class A biosolid production and biogas reuse.	Class A biosolid is produced.
Re-use of biogas	No biogas is re-used.	95 percent of generated biogas is reused, contributing to emissions reductions. Biogas reuse to generate 4,000 kilowatt hours per day of electricity, reducing demand from the grid and reducing costs.	75 percent of generated biogas is reused, contributing to emissions reductions.
Discontinuation of Moa Point sludge transfer pumps, sludge pipeline and Carey's Gulley dewatering plant	Sludge is piped from Moa Point to Carey's Gulley.	Sludge pumps, pipe and Carey's Gulley dewatering facility is no longer used.	Sludge pumps, pipe and Carey's Gulley dewatering facility is no longer used.

Funding of eligible infrastructure

63. The current estimate of the total construction cost for the SMF project is $396.4 million (P50, plus contingency) with a P80 estimate of $428.6 million.[9] Funding for the SMF will include:

- **WCC contribution** – $36 million to be met from WCC's existing budgets.[10]
- **IFF funding amount** – up to $400 million which would be raised by the SPV on the strength of the levy.

[9] P50 and P80 refer to a confidence level regarding the probability of a specified cost not being exceeded. For example, P80 indicates an 80% chance that this cost will not be exceeded.
[10] This $36 million will be treated as sunk by WCC and will not be reimbursed from the IFF funding amount.

64. The actual IFF funding amount provided to WCC will be a function of financing conditions and will be determined at financial close.[11] The maximum levy revenue set out in the levy proposal has been sized to contribute a maximum IFF funding amount of $400 million with some buffer to account for increases to base interest rates of approximately 50-basis points:

- Increases in base interest rates above this buffer amount will reduce the IFF funding amount by approximately $5 million for every 10-basis point increase.
- If the full buffer amount is not needed (or base interest rates decrease), the IFF funding amount will remain at $400 million. However, the maximum levy revenue will be decreased.

65. The IFF funding amount could also reduce if construction costs are such that WCC does not require the full amount of IFF funding available to it. The construction costs incurred will be known upon completion of the SMF, currently estimated to be approximately June 2026. Should WCC not require the full IFF funding amount available, the maximum levy revenue will decrease accordingly.

66. If the total funding required for the SMF is greater than can be provided from the final IFF funding amount and the $36 million WCC contribution. Any significant cost increases above the current P80 estimate may require the SMF to be de-scoped (subject to the minimum scope specified in the monitoring agreement), value engineered to reduce cost or further financial contributions from WCC.

Eligible costs

67. The levy revenue would be applied towards:

- the costs of constructing the eligible infrastructure, including establishment costs;
- the financing costs such as interest and fees, debt repayment and equity return;
- the cost of administering the levy;
- general operating costs of the SPV; and
- any further costs of the SPV in complying with the Act or the proposed levy order.

68. The expected eligible costs over the entire 33-year levy period are detailed below in Table 5.

[11] Financial close is the satisfaction of all conditions to the availability of debt finance for the SPV, such that the SPV can then draw on that debt finance and make finance available to WCC for the SMF.

Table 5: Eligible costs

ELIGIBLE COSTS		
Construction and SPV Establishment Costs		
SPV establishment costs	*IFF Act 9(3)(a)*	$1.0m
Construction costs ("IFF Funding Amount")	*IFF Act 9(3)(a/b)*	$400.0m
Total		**$401.0m**
Financing costs		
Debt interest & fees	*IFF Act 9(4)(c)*	$711.8m
Debt repayment	*IFF Act 9(4)(a)*	$452.3m
Equity repayment & return	*IFF Act 9(4)(c)*	$54.1m
Total		**$1,218.2m**
Levy administration costs		
Levy collection (by WCC)	*IFF Act 9(5)(a/b)*	$2.2m
Total		**$2.2m**
Operating costs of the SPV		
General operating costs	*IFF Act 9(2)(e)*	$22.2m
Bad debts	*IFF Act 9(2)(e)*	$0.0m
GST	*IFF Act 9(2)(e)*	$190.7m
Total		**$212.9m**
Additional funding sources		
Return of excess levy to ratepayers		$90.7m
Interest earned on cash balances		($1.9m)
Equity funding		($8.6m)
Debt funding		($452.3m)
Total		($372.1m)
Total eligible costs funded by the levy		**$1,462.2m**

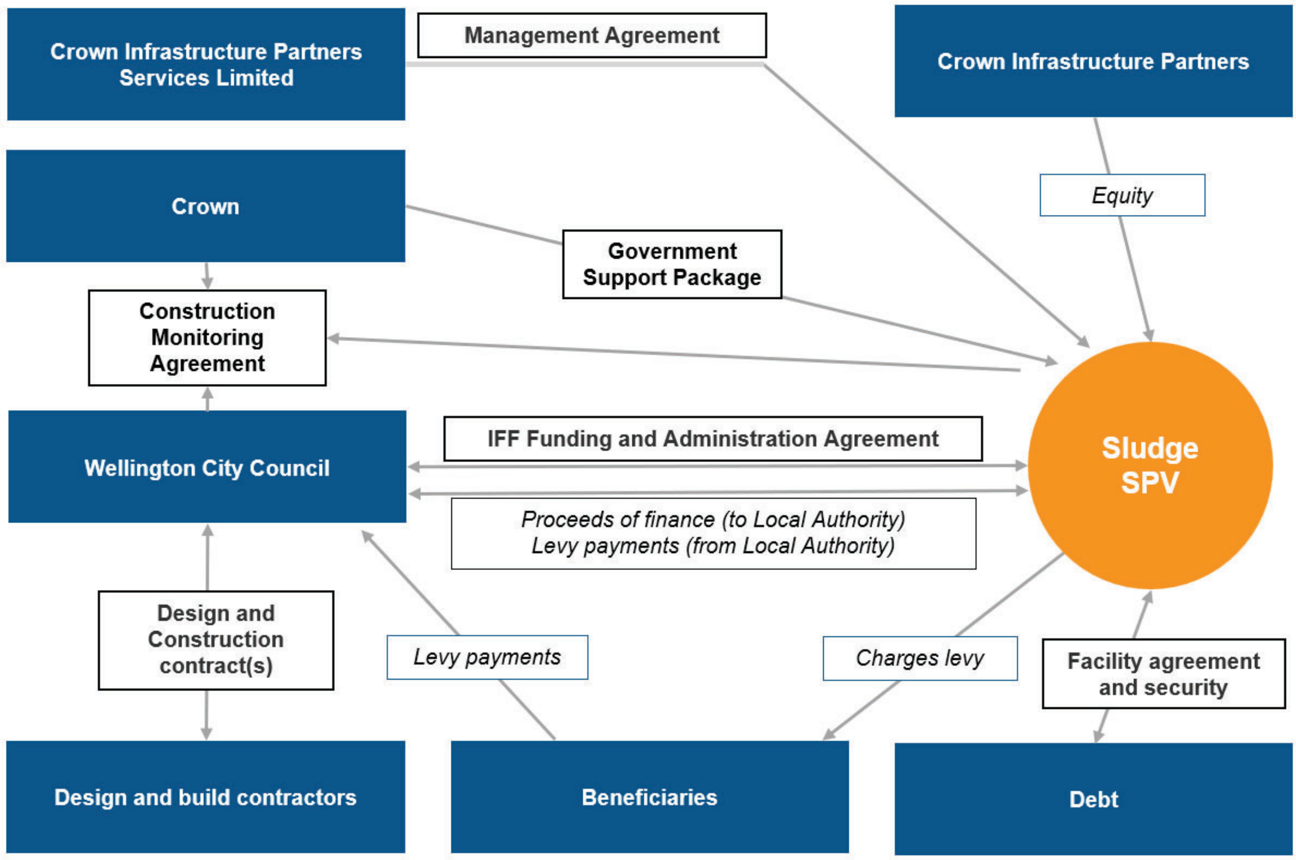
69. The above figures are based on the financing conditions at the time the second levy proposal addendum of 30 June 2023 was submitted. If financing conditions worsen before financial close, the total levy revenue collected will remain the same, however,

less will be applied towards construction costs and more will be applied to financing costs. However, if financing conditions improve, the total levy revenue collected will reduce, with savings from decreased financing costs passed onto levypayers.

Contractual structure

70. The contractual structure of the proposed IFF transaction is set out in the diagram below.

Figure 2: SMF IFF contractual structure



IFF Funding and Administration Agreement

71. The IFF Funding and Administration Agreement (IFFFAAA) would be the key contractual agreement between the SPV and WCC. The IFFFAAA would:

- Facilitate the provision of grant funding from the SPV to WCC for eligible construction costs for the SMF.
- Provide for WCC to collect the levy through its rates invoicing process and pass on the levy revenue to the SPV.

72. Crown Infrastructure Partners (CIP), as the intended owner of the SPV, has been negotiating the terms of IFFFAAA with WCC.

Construction monitoring agreement

73. There will also be a separate 'construction monitoring agreement' between the Crown, the SPV and WCC that would:

- detail the minimum standards and scope required to be met by the SMF;
- provide for a certification regime that would require WCC to certify (to the SPV and the Crown) that the key construction contracts, and any variations, will deliver the SMF to the minimum scope and standards, and that any variations to these contracts are not likely to result in the SMF being delivered below the minimum scope and standards; and
- provide for WCC's commitment to complete the SMF and fund any costs more than the IFF funding amount.

74. The 'construction monitoring agreement' would be to primarily to hold WCC to account for the delivery of the SMF in a way that achieves the expected benefits described in the levy proposal. Should WCC decide to construct the SMF in a way that does not meet the minimum scope and standards, the Crown would have the full range of contractual remedies available to it. However, in the first instance, the Crown would prefer to rely on dispute resolution mechanisms and pursue WCC to fulfil its obligations to complete the SMF to at least the minimum scope and standards.

Interaction between the IFFFAAA, construction monitoring agreement, and Water Services Entity in which the SMF will vest

75. If the water services reforms are implemented as currently anticipated, the Wellington SMF and associated contracts are likely to vest in the relevant WSE, prior to the SMF's completion and commissioning.

76. Two key contracts control what occurs at the time the SMF is vested in the relevant WSE:

    - Under the IFFFAAA, WCC will retain the levy administration and levy collection roles. The WSE will be transferred the right to draw on any remaining funding and assume the obligations to fund any cost overruns.
    - Under the 'construction monitoring agreement', the minimum standards and scope requirements for the SMF, the certification regime, the commitment to complete the SMF, and the commitment to fund any costs more than the IFF funding amount will all become the responsibility of the WSE.

77. Recognising that final vesting arrangements and their timing are unlikely to be legislated for ahead of execution of contracts to give effect to the SMF, WCC has sought to ensure that each contract is sufficiently flexible to allow vesting either during or after construction.

Financing Structure, Facility and Security Agreements

78. The preferred financing structure for the SMF has been developed to allow long-term (bond) investors to efficiently lend alongside shorter-term (bank) investors, which requires structurally insulating bond investors from refinancing risk. This structure minimises the risk premium included within the financing and therefore reduces the overall levy required.

79. The preferred financing structure involves the responsible SPV (Sludge Finance LP), establishing two further subsidiaries, a bond financing entity and a bank debt financing entity.[12]

80. There would be a suite of facility and security agreements between the SPV, its two wholly-owned subsidiaries and the financier(s). These agreements will set out the arrangements under which debt will be provided to the SPV, lent to its two wholly-owned subsidiaries and primarily secured against the levy revenue. The terms of the facility and security agreements have been developed through CIP's competitive debt process.

81. If the preferred financing structure for the SMF is not successfully negotiated the SPV will borrow solely from banks. This alternative financing solution does not require the establishment of any further subsidiaries. Regardless of the final financing structure, the contents of the proposed levy order would be the same.

Government Support Package

82. The Government Support Package (GSP) will be an agreement between the Crown and the SPV. It is proposed that this GSP would cover losses to the SPV and/or its financiers arising from circumstances including:

- amendment or termination of the proposed Levy Order,
- certain changes in law, including changes in law that impose a tax/levy (or similar) exclusively on IFF projects, SPVs or financiers;
- successful judicial review proceedings that have the effect of reducing levy revenue; or
- WCC's failure to be able to complete the SMF in following circumstances:
  - An unforeseen "force majeure" event, e.g. a natural disaster, occurs;
  - WCC fails to complete purchase of the land required for the SMF Project; or
  - WCC fails to obtain the outstanding regulatory approvals and resource consents necessary to complete the SMF Project.

83. If granted, the GSP will be an indemnity issued by the Minister of Finance under section 65ZD of the Public Finance Act 1989. The Minister of Finance will consider whether to grant the GSP if this you decide to recommend that Cabinet authorises submission of a levy order authorising the proposed levy to the Executive Council.

84. The Treasury has been responsible for negotiating the GSP with CIP and financiers. Should you choose to recommend approval of the SMF levy, the Treasury will consider recommending the Minister of Finance provide a GSP to the SPV.

SPV ownership

85. At the commencement of the proposed levy, the SPV will be wholly-owned by CIP through an intermediate holding company. CIP expects to invest $8.6 million of equity

[12] These will be wholly owned subsidiaries of the Sludge Finance LP; however, they will not be responsible SPVs as defined under the Act.

into the SPV at financial close. This equity will act as a buffer to the SPV's debt and take first loss on certain risks to the SPV's cashflows.

86. The risks to be taken by CIP's equity include non-payment of the levy up to 1.5 percent of the annual levy. This approach is intended to provide an incentive for CIP as investor to manage non-payment risk and avoid cross-subsidisation (under the reconciliation regime) from those who pay the levy, to those who are required to pay the levy but do not.

87. The pre-tax equity return will be no more than 8.4 percent per annum. The proposed levy order will cap the equity return (see **Annex A** for more details). CIP has confirmed that CIP's equity return has been benchmarked against a range of comparable equity and subordinated debt investments to ensure it is consistent with outcomes produced in workably competitive markets.

88. Sludge Finance LP would be the sole responsible SPV entitled to the proposed levy revenue. Funding for the partnership interests in Sludge Finance LP will be provided by CIP (IFF Holdings) Limited, a subsidiary of CIP.

89. CIP will be unable to sell its equity in the SPV to a third party unless consented to in writing by HUD (as the monitor under the Act). However, certain rights for financiers (for example, the right to appoint a receiver, a receiver and manager, an administrator, or a liquidator to the SPV, or to acquire the partnership interests in the SPV and shares in its general partner) would be provided for without triggering a need for consent from HUD.

Management Service Agreement

90. The Management Service Agreement will be between the SPV and CIP Services Limited (a subsidiary of CIP). In return for management services, this agreement will require the SPV to pay an annual base fee starting at $395,000 and increasing by 2.50 percent per annum. The agreement would also provide for the payment of additional fees for services not captured by the base fee.

91. The fees that would be charged by CIP Services Limited to the SPV are below the level required to recover all costs and have been set at a level broadly consistent with the approach taken by other funding providers available to councils, such as the LGFA.

Protected Māori land

92. Protected Māori land is defined in section 11 of the IFF Act and generally includes Māori freehold land and Māori customary land. However, protected Māori lands status can also apply to a number of other categories of land, including general title land owned by Māori if it was previously Māori freehold land, but had its status changed by Part 1 of the Maori Affairs Amendment Act 1967, or by an order of the Māori Land Court made on or after 1 July 1993.

93. Protected Māori land can only be included in the proposed levy area if the consent of owners of that land has been obtained and provided to HUD. The proposed levy area for the SMF levy does not include any protected Māori land. As such, it has not been necessary to obtain the consent of any landowners.

94. WCC has used Māori Land Court Records, LINZ information, and internal WCC data to determine that there are an estimated 318 properties that qualify as protected Māori land within WCC's rating area. These properties will not be subject to the levy.

95. As whether a property qualifies as protected Māori land can change over time, WCC will periodically update its record of protected Māori land as necessary to administer the levy. This will be further supported by an education and guidance campaign run by CIP on the proposed levy, to assist all property owners in understanding the intended application of the levy.

Endorsements

Levy Endorsement

96. WCC, as the proposed responsible levy authority, has provided a levy endorsement for the proposed levy. This endorsement can be found at **Annex B** and shows that WCC is satisfied that the proposed levy would not compromise its ability to collect rates during the proposed levy period.

Infrastructure endorsements

97. WCC, as the proposed responsible infrastructure authority, has provided an infrastructure endorsement for the proposed SMF. This endorsement can be found at **Annex C** and shows that WCC has endorsed the technical specifications of the proposed SMF.

98. Even though the SMF asset will eventually vest with the relevant WSE, this entity does not yet exist, and would not meet the definition of "responsible infrastructure authority" under the Act.[13]

Other matters

Levy remission and postponement policies

99. If the levy is approved, the SPV and WCC will be required to agree on the terms of a levy remission policy and a levy postponement policy. The SPV and WCC intend to initially adopt WCC's existing rates remission and postponement policies for the purposes of the levy remission and postponement policies. Any changes to the levy remission and postponement policies will require the agreement of both the SPV and WCC.

Infrastructure vesting agreement

100. If the levy is authorised, section 90 of the Act requires that the SPV and WCC must enter into a vesting agreement for the transfer of the SMF to the responsible infrastructure authority. This agreement must specify the circumstances and conditions for the transfer of the infrastructure to WCC.

101. However, as the SPV will not be responsible for construction of the infrastructure, the vesting agreements will note that ownership of the infrastructure will always rest with WCC (until such time that WCC transfers ownership of the SMF to the relevant WSE),

[13] The Water Services Legislation Bill proposes to amend the definition of responsible infrastructure authority in the IFF Act to include water services entities.

so no further circumstances or conditions for the transfer of eligible infrastructure need to be provided for.

Monitoring

102. HUD has the "monitor" role under the Act. If the proposed levy is approved, HUD will be responsible for monitoring the SPV's compliance with the Act and the levy order. This will include reviewing and confirming the SPV's annual levy resolutions, reviewing and publishing the SPV's annual reports and inquiring into any aspect of the SPV's operations if HUD reasonably believes a significant problem relating to the SPV could exist or develop.

Reporting

103. The SPV must prepare an annual report on its operations and provide this to the monitor. The annual report must include audited financial statements, an audit report, and sufficient information to enable an informed understanding of its operations. The annual report must also include the annual levy set, the actual levy revenue collected, any forecast of excess levy revenue and any decision to reduce the maximum levy revenue.

[IN-CONFIDENCE:RELEASE EXTERNAL]

Evaluation

104. This section of the recommendation report contains HUD's assessment of WCC's levy proposal for its proposed SMF against all the matters listed in section 27(4) of the Act, that you must consider when assessing the proposal. It is intended to aid your own consideration of the levy proposal against these matters.

Purpose of the Act – section 27(4)(a)

105. The purpose of the Act is contained in section 3 of the Act. The purpose is to provide a funding and financing model for the provision of infrastructure for urban development, that:

   a) Supports the functioning of urban land markets; and

   b) Reduces the impact of local authority financing and funding constraints; and

   c) Supports community needs; and

   d) Appropriately allocates the costs of infrastructure.

106. As detailed below, HUD considers that the proposed levy is consistent with the Act's purpose.

Provision of infrastructure for urban development

107. The proposed SMF supports urban development. The facility will increase WCC's waste management capacity and provide sufficient wastewater treatment capacity to support future population and economic growth.

Functioning of urban land markets

108. The SMF provides a long-term sustainable, scalable, and resilient solution to the city's wastewater treatment needs enabling urban development, and therefore supports the functioning of urban land markets.

109. The SMF will reduce the volume of sludge going to landfill, meaning the city can accommodate growth in line with expected resource consent conditions applying at its Southern Landfill. Without the SMF, or similar alternative solution, WCC's wastewater treatment system would likely constrain further urban development.

Local authority financing and funding constraints

110. Financing the SMF with debt raised by WCC would see the council breach its Local Government Funding Agency (LGFA) borrowing constraints without either significant rate increases and/or re-prioritisation of other capital projects. This would constrain WCC's ability to fund other priority spending needs.

111. The proposed levy would reduce WCC's financing and funding constraints as the finance raised would not appear on WCC's balance sheet. In the absence of the proposed levy, it is unlikely the SMF would proceed before the lapse of the existing resource consent for sludge disposal at the Southern Landfill in June 2026. In this scenario, the sludge from the existing Moa Point plant would likely have to be transported to out-of-district landfills for disposal at significant expense to ratepayers.

Supports community needs

112. The treatment of wastewater is an important part of supporting WCC's current and future community needs. The SMF supports community needs by enabling a more reliable and resilient sludge disposal system.

113. The SMF will also allow WCC to reduce the amount of waste that is directed to the landfill, supporting WCC's waste minimisation and emissions reduction strategies.

Appropriately allocates the costs of infrastructure

114. HUD considers that the proposed levy would appropriately allocate the costs of the infrastructure across both time and location:

- As discussed below (paragraphs 136-137), the 33-year levy period broadly aligns with the expected useful life of the SMF, spreading the cost of the SMF over the levypayers that will benefit from it over time.
- The level of benefits arising from the SMF are expected to differ across the city, most notably between properties that will be connected to the SMF and those that will not be. The design of the two beneficiary groups has taken this into account and ensures the amount of levy payable for a levypayer is broadly commensurate with the level of benefits that levypayer receives.

Beneficiary analysis

115. The expected benefits from the SMF are detailed below in Table 6.

Table 6: Benefits of the Sludge Minimisation Facility

BENEFIT	DESCRIPTION	MAIN BENEFICIARIES	OTHER BENEFICIARIES
Continued wastewater treatment	The SMF will provide a long-term, sustainable, and resilient approach to treating the wastewater of ~78 percent properties in WCC's rating area.	Properties connected to the SMF.	-
Resilience of WCC wastewater treatment system	Current sludge transfer pipes are a single point of failure that previously affected WCC ratepayers during network outages (by requiring sludge to be transported via the road network, which is undesirable and unsustainable).[14] The existing dewatering facility at Carey's Gully is also old and may fail in a significant seismic event, meaning sludge could not be dewatered and thus not disposed of at the landfill. The SMF will resolve these issues, providing a more reliable and resilient sludge management system that would reduce the costs and impacts of any potential future network outages.	All WCC properties.	
Reduced solid waste	Currently 50-60 tonnes per day of sludge is disposed at Southern Landfill and each tonne of sludge must be mixed with four tonnes of solid waste. Under the SMF, less sludge to Southern Landfill will lower the amount of solid waste that must be added. The SMF is expected to contribute 20 percent of the overall WCC target waste reduction by 2031.	All WCC properties.	
Reduced carbon emissions	Solid waste & wastewater treatment are 90 percent of Council's gross emissions. Less solid waste means fewer carbon emissions from landfill, which would also insure against rising ETS prices.	All WCC properties.	Those outside the Wellington region.[15]
Capacity for growth	By reducing sludge going to the Southern Landfill, the city can accommodate growth without breaching the Landfill's consent conditions. Absent the SMF or an alternative solution, growth would likely be stifled. SMF's expanded capacity for waste treatment would enable greater economic and population growth.	All WCC properties.	The greater Wellington region may experience economic benefits.
Reduced odour emissions	The SMF will result in less sludge being disposed of at the Southern Landfill and the sludge produced by the SMF will be less odorous.	Properties near the Southern Landfill	

[14] A broken pipe in 2020 led to over a million litres of sludge being transported every day from the Moa Point Treatment Plant to the Southern Landfill, at an estimated cost of $200,000-$650,000 a week for WCC ratepayers.
[15] Reduced carbon emissions benefit the worldwide population at a marginal level per person.

Extent of expected benefits outside the levy area compared with expected benefits within the levy area – section 27(4)(b)

116. Some of the benefits described above in Table 6, such as carbon emission reductions, are expected to benefit individuals outside of the proposed levy area. While noting that properties outside the levy area will enjoy some benefits from the SMF, such properties are expected to accrue fewer benefits from the SMF than properties within the levy area, including properties within the levy area that will not be connected to the SMF.

117. Growth benefits will primarily be experienced within the levy area. Furthermore, initiatives to support WCC's environmental goals and targets would normally be funded through WCC's ratepayer base, even when these environmental benefits extend beyond WCC's boundaries.

118. Given the level of benefits received by properties outside of the levy area would only be minor, HUD considers it appropriate that the levy area does not extend to these properties. Extending the levy area to include properties within other councils' jurisdictions would also not be practical. Doing so would require consultation and coordination with neighbouring councils and introduce added complexity to the levy design related to the inefficiency of levying over a wide geographical area for small benefits.

Protected Māori land

119. As noted above, the levy area excludes any protected Māori land. However, owners of protected Māori land within WCC's rating area would be expected to realise comparable benefits from the SMF as those who do pay the levy.

120. Protected Māori land only represents a small proportion of the total WCC rating area. As such, the exclusion of protected Māori land from the levy area does not have a material impact on the amount of levy charged to other properties within the levy area.

121. Given this immaterial impact on overall levy affordability from excluding protected Māori land from the levy area, HUD deems its exclusion appropriate. The impact of this is marginal and shown below within Table 7.

Table 7: Comparison of levy with and without protected Māori land

EXPECTED LEVY (PER MILLION OF CV) FY2028			
	Protected Māori land included in levy area	**Protected Māori land excluded from levy area**	**Variance**
Connected properties			
Base	$333	$335	$2
Commercial	$494	$500	$6
Non-connected properties			
Base	$86	$87	$1
Commercial	$128	$130	$2

Distribution of expected benefits within the proposed levy area – section 27(4)(c)

122. As described in Table 6, there are a wide range of benefits from the proposed SMF project that will variously impact different groups within the levy area. However, all properties in the WCC rating area are expected to benefit from the SMF in some capacity.

123. Assessing the distribution of benefits across the levy area and thus the fair allocation of levy liability is necessarily somewhat subjective. However, the need for the SMF is caused by, and the bulk of the benefits will accrue to, properties that will have their wastewater treated by the SMF. This is reflected in the design of the proposed levy as the BG1 and BG2 beneficiary groups will ensure that the 78 percent of properties expected to be connected to the SMF would pay approximately 95 percent of the levy.

124. Unconnected properties, while not directly serviced by the SMF, will still receive some benefits. More resilient wastewater treatment benefits all properties within the WCC rating area as currently the costs associated with any wastewater network failures are socialised across the entire ratepayer base. Likewise, initiatives to support WCC's environmental goals and targets (such as reduced waste or carbon emissions) would normally be funded from WCC's entire ratepayer base. The capacity for growth enabled by the SMF will also benefit the entire WCC rating area.

125. WCC's contribution of $36 million towards the cost of the SMF, as well as any further contributions WCC may make to cover cost escalation, will be borne by the entire WCC ratepayer base (without a differential applied between connected and unconnected properties). As a result, while the cost borne by unconnected properties will be higher than if the SMF was funded solely by the levy, this only has a marginal impact on the total costs borne by unconnected properties.

Distribution of benefits within BG1

126. Properties connected to the SMF will produce wastewater to various degrees and therefore receive differing levels of benefits from the SMF. However, the allocation of levy charges to individual properties does not account for the levels of wastewater produced. Allocating the levy based on the volumes of sludge each property produced was not considered practical as for most properties in the WCC region, the level of sludge generated is not metered nor able to be directly measured.

Dispersion of benefits between base and commercial levypayers

127. Base properties (WCC's categorisation of residential properties) generally produce more wastewater than commercial properties and as such will typically make most use of the SMF. A typical household will produce 150 litres of wastewater per individual per day. In comparison, a typical commercial property only produces modest volumes of wastewater with WCC estimating that an average employee will produce around 17 litres of wastewater per 8-hour shift. However, there is significant variance in the volumes of wastewater produced by commercial properties. For example, a large storage facility with only one or two staff will generate very little wastewater, while a café or restaurant will generate relatively high amounts, even though they may occupy buildings with similar capital values. Trade waste customers also produce exceptionally high volumes of wastewater, further discussed below.

128. Base properties make up 93.5 percent of the total properties and 83.7 percent of the capital value in the WCC rating area, and typically produce higher volumes of wastewater than an equivalent capital value commercial property. However, only 75 percent of the levy would be charged across base properties with the remaining 25 percent charged across commercial properties.

129. In determining the appropriate levy allocation between base and commercial properties, WCC also considered the overall affordability of the levy. The ability for businesses to pass the costs of the levy on to their customers, thus spreading the financial burden more widely, was also considered.

Trade Waste

130. Trade waste customers are businesses that discharge liquid waste larger than domestic quantities into the council sewers. There are approximately 160 trade waste customers across the WCC rating area. These trade waste customers contribute approximately 7.8 – 8.2 percent of total wastewater volumes (however, approximately half of this is generated by a single customer). As such, trade waste customers would be expected to derive greater benefit from the SMF than other commercial levypayers.

131. Despite deriving larger benefits, the proposed levy would not charge trade waste customers a higher levy than other commercial properties. WCC has made this decision on the grounds that:

a) There is significant variation in trade waste customers' wastewater loads, with approximately half of trade waste-related wastewater generated by a single customer. The trade waste group's size and composition could also change materially over time, with the complexity of reassessing cost allocation likely outweighing the marginal benefit of levying a small number of trade waste customers.

b) A specific levy component for trade waste customers would concentrate financial risk to a small number of levypayers, potentially discouraging financier appetite or increasing the risk premium they would seek to charge, and thereby reducing overall levy affordability.

c) Trade waste customers will still contribute to the levy, albeit under standard commercial categories. Charging these customers more within their own category would not result in material gains for other ratepayers.

Odour emissions

132. Properties near the Southern Landfill will experience reduced odour emissions in addition to any benefits they will otherwise receive from the SMF. However, these properties would not be charged a higher levy to account for this additional benefit as doing so would be impractical. There is no reliable way to precisely measure the number of properties suffering from odour emissions, and to quantify the benefits resulting from their reduction.

Extent to which actions or inactions of particular persons or groups contribute to the need to undertake the construction work – section 27(4)(d)

133. WCC's current resource consent for sludge disposal and the operation of the Southern Landfill is due to expire in 2026 and so, irrespective of WCC's desire to change the way it processes wastewater, change will be required.

134. Inaction would impose additional costs on Wellington City, including carbon emissions, an inability to accommodate growth, and an unreliable and weakened sludge management system prone to costly, inconvenient, and inefficient major failure events. The proposed SMF would mitigate these impacts, alongside the delivery of other expected benefits for the city.

135. The need for the construction work is therefore a citywide issue in part, but primarily contributed to by those properties that will have their wastewater treated by the SMF.

The period over which benefits are expected to occur – section 27(4)(e)

136. The SMF is expected to be completed by June 2026. The expected useful life of the SMF is difficult to estimate with precision as individual components of the SMF have different useful lives. However, it is expected that the SMF's useful life will be around 30 years.

137. Benefits are therefore expected to occur for the 30 years between June 2026 and June 2056. This broadly aligns with the proposed 33-year levy period of 1 July 2024 to 30 June 2057. However, the levy would begin being charged (although at a lower level) during the SMF's construction period before its completion and the commencement of benefits. Phasing the levy in during construction of the SMF reduces overall financing costs of the SPV, and thus total levy revenue required, favouring levypayers' interests.

Impact on levypayers

Long-term interests of levypayers – section 27(4)(f)

138. HUD considers that the proposed levy is likely to be in the long-term interests of levypayers. These interests include the benefits of the proposed SMF (see table 6 and paragraphs 116-132 above), the affordability of the levy over the entire levy period (see paragraphs 142-154 below), and how the levy compares with the likely counterfactual scenarios.

139. If the proposed levy is not approved, it is unlikely that WCC would be able to proceed with construction of the SMF. Funding the SMF on WCC's balance sheet would result in WCC's debt breaching the LGFA borrowing limits. As such, funding the SMF without using the Act would likely require substantial reductions in WCC's capital programme and/or a substantial increase of rates.

140. Conversely, the proposed levy would create additional debt headroom for WCC. This would enable WCC to invest in other projects that have positive outcomes for Wellington. Furthermore, it will reduce the need for debt retirement that WCC would otherwise need to fund to stay within its debt limits. Avoiding debt retirement equitably spreads the cost of the SMF over time, particularly when considering the impact of long-term inflation. It avoids the situation where current ratepayers pay a disproportionate share of the cost of SMF which future ratepayers will also benefit from.

141. HUD considers that delaying construction of the SMF until the relevant Water Services Entity (WSE) has been established is also not in the long-term interests of the proposed levypayers as:

- The establishment date of the relevant WSE is still uncertain and could be up to approximately 3 years away, introducing significant uncertainty as to how long a temporary extension to WCC existing resource consent for sludge disposal should be sought for and whether it would be granted.
- The construction of the SMF is a complex process engineering project that, if delayed, the relevant WSE would have to seek consent for, and construct, while it was consolidating the water services assets and operations of eight councils.
- The current design of the SMF delivers broader waste minimisation and emissions reductions outcomes that WCC wants to secure.
- The financing arrangements for the relevant WSE are currently unknown and while they are expected to be more cost effective than the SPVs borrowings, the potential savings are difficult to estimate at this time and are not likely to counter the risks of delaying construction.

Affordability of the levy for levypayers and the sustainability of its payment by them over the levy period – section 27(4)(g)

142. In general, HUD considers that the proposed levy is likely to be affordable for most residential and commercial levypayers, and its payment will be sustainable over the levy period. However, like with general residential rates and other household expenses, the proposed levy poses affordability challenges for some businesses and lower-income households.

Residential levypayers

143. Based on analysis included in the levy proposal, the proposed levy is expected to represent a 7.31 percent and 7.02 percent increase in the median base rates bill for BG1 properties in 2027/28 and 2041/42 levy years respectively.

Table 8: Impact of levy on residential ratepayers

LEVY YEAR	2027/28	2041/42
Expected total rates bill – status quo	$5,443	$7,223
Expected total rates bill – with levy	$5,841	$7,730
Percentage increase to status quo	7.31%	7.02%

144. Despite this increase, total rates bills (inclusive of the proposed levy) are expected to remain affordable for most base ratepayers.

145. The Local Government Rates Inquiry 2007 established a rough benchmark for affordability and considers that problems begin to arise when total rates bills exceed 5 percent of gross household income. WCC's levy proposal has included modelling of the total rates bill (including the proposed levy) for a median capital value base category property in the BG1 beneficiary group for a range of suburbs in Wellington and compared this to the median household income for those suburbs. This modelling found that only Newtown (at 5.2 percent) would have rates (including levies) to income ratios above 5 percent in the 2027/28 rating year.[16]

146. Base properties that will not be connected to the SMF will only pay the BG2 component of the levy. As such, the levy is expected to be more affordable for these properties than base properties that will be connected to the SMF and also pay the BG1 levy component.

147. The above analysis demonstrates that the levy is likely to be affordable relative to both income and rates for the median household in a given Wellington suburb. However, we acknowledge that there are a number of households in Wellington already under significant housing stress. Pockets of housing stress will exist in all types of household size, composition and principal income source, but are likely to particularly impact sole parent families, low-income households, renters and young people. Analysis in WCC's levy proposal also demonstrates that home ownership and mortgage size have a sizeable impact on the affordability of housing, rates and the proposed levy.

148. However, for households facing affordability concerns, the levy itself is unlikely to be a material cause of these concerns. The levy remission and postponement policies, along with WCC's rates remission and postponement policies, would still apply which may also be beneficial for households facing affordability issues.

Commercial levypayers

149. Based on analysis included in the levy proposal, the proposed levy is expected to represent a 5.51 percent and 5.20 percent increase in the median commercial rates bill for BG1 properties in 2028 and 2042 respectively.

Table 9: Impact of levy on commercial ratepayers

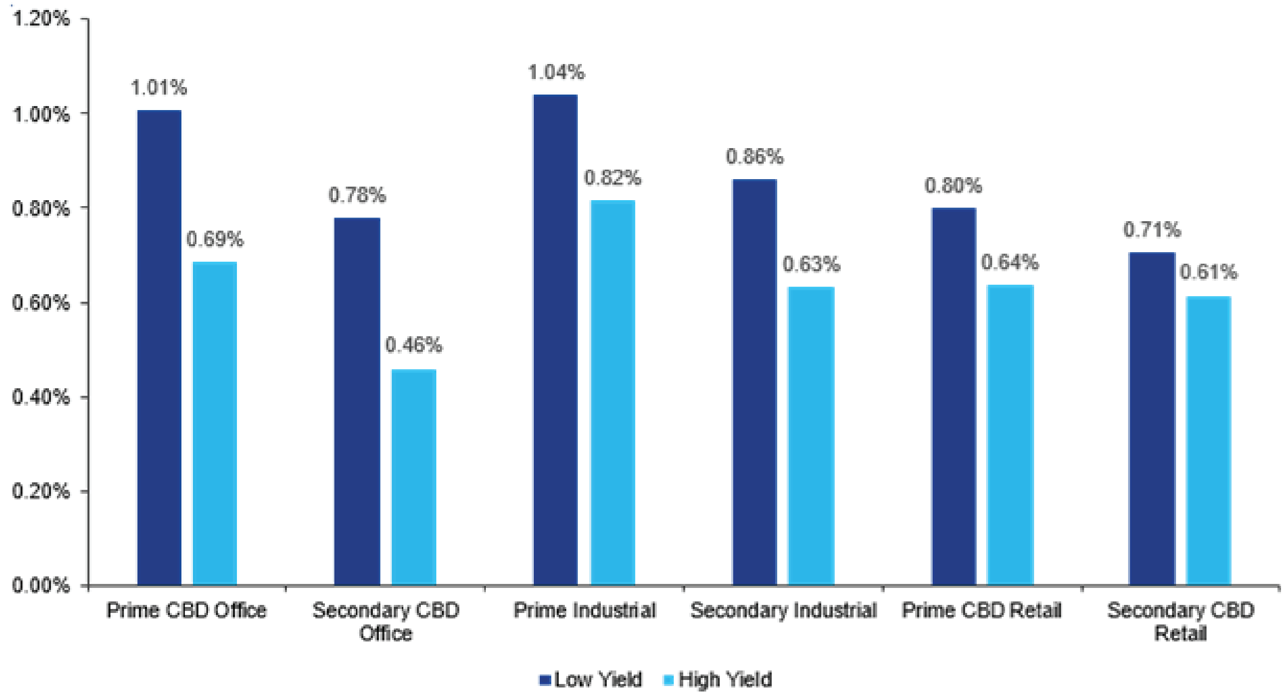
LEVY YEAR	2027/28	2041/42
Expected total rates bill – status quo	$9,080	$12,050
Expected total rates bill – with IFF Levy	$9,580	$12,677
Percentage increase to status quo	5.51%	5.20%

150. Despite this increase, total rates bills inclusive of IFF levies are expected to remain affordable for most commercial levypayers.

[16] The 2027/28 rating year is the first year in which the full levy amount will be charged.

151. To assess the affordability of the proposed levy for commercial levypayers, WCC has compared the expected levy against upper and lower estimates of commercial property yields[17] for a range of commercial property types. This analysis found that, if the levy was fully passed through to commercial tenants, it would be expected to have a less than one per cent increase on rents. As rents will only comprise a portion of a business's overall costs, the total impact on a business's cost base will be even less than this.

Figure 2: Proposed levy amount as a proportion of commercial property yields



152. The expected small increase on Wellington businesses' cost bases related to the levy suggests, even if the levy is fully passed through to commercial tenants, it is unlikely to materially impact overall profitability. This indicates that the proposed levy is likely to be affordable for commercial property owners.

Assumptions underpinning affordability analysis

153. The affordability analysis undertaken in the levy proposal was based on a set of assumptions determined during the final quarter of 2022. As such, it has adopted the forecast of total rates to be collected from WCC's 2021-31 Long-Term Plan amendment and does not take account of any changes in WCC's 2023 annual planning process.

154. Changes to the assumptions utilised in the levy proposal could affect the affordability of the levy for some households. However, HUD considers that this is likely to be only at the margins and the levy is likely to still be affordable for most properties.

All other matters of practicality, efficiency or equity – section 27(4)(h)

155. The design of the proposed levy has balanced equity considerations on the one hand, with practicality and efficiency considerations on the other. The proposed levy would

---

[17] Estimated annual rent divided by the value of a property

result in some degree of cross-subsidisation by levypayers that benefit from the infrastructure less than other levypayers. However, having more granular beneficiary groups than the proposed BG1 and BG2 would increase the complexity of the levy and is unlikely to be practical.

Competitiveness of expected returns for capital providers

156. HUD considers that the expected returns for capital providers of both debt and equity are consistent with the outcomes that would be expected to be produced in workably competitive markets.

Debt

157. Crown Infrastructure Partners (CIP) has undertaken a competitive debt process to seek proposals from the private market to provide the finance underpinning the IFF funding that would be provided to WCC if the levy is approved. The competitive debt process was designed to attract competitive tension, ensuring that the returns on debt capital are consistent with outcomes produced in workably competitive markets.

Equity

158. CIP will hold 100 percent of the equity in the SPV at financial close should the proposed levy be approved. Based on the levy proposal addendum received on 28 April 2023, CIP expects to invest $8.6 million of equity.

159. CIP has confirmed that CIP's equity return has been benchmarked against a range of comparable equity and subordinated debt investments to ensure it is consistent with outcomes produced in competitive markets.

160. HUD notes that CIP will own both the SPV and the entity providing management services to the SPV. This creates a risk that the equity returns to CIP could be effectively increased through charging above-market management services fees to the SPV. However, the management services fees are below the level required to recover all CIP costs and have been set at a level broadly consistent with the approach taken by other funding providers available to councils such as the LGFA.

Recommendation

161. Having considered the levy proposal against the mandatory considerations in the Act (all of the matters set out above), HUD recommends that the proposed levy be authorised.

162. This recommendation is based on HUD's assessment that:

- The proposed levy is consistent with the purpose of the Act.
- The proposed levy appropriately allocates the cost of infrastructure both spatially and temporally across the beneficiaries of the SMF .
- The proposed levy is in the long-term interests of the levypayers.
- The proposed levy is likely to be affordable for levypayers across the entire levy period.

Next steps

163. If, having considered the levy proposal against the criteria in the Act, you decide to recommend its approval, you will need to first consult the Ministers of Finance, Local Government and Commerce and Consumer Affairs, as required by the Act. Subsequent to this consultation, you will need to obtain Cabinet's approval for the proposed levy to be authorised by Order in Council.

164. If having considered the levy proposal against the criteria in the Act, you decide to not recommend its approval, we recommend you write to WCC to notify them of this.

Annexes

- Annex A: All information required for the levy order
- Annex B: Levy endorsement
- Annex C: Infrastructure endorsement

ANNEX A: ALL INFORMATION REQUIRED FOR THE LEVY ORDER

165. The recommendation report must contain information about all of the matters set out in sections 31-33 of the Act, and any of the matters set out in section 34 that the recommender considers relevant to the report. Sections 31-33 set out the content that must be included in a levy order and section 34 sets out the additional content that may be included in a levy order.

Levy area – section 31(1)(a)

166. The proposed levy area includes the full district in which WCC is entitled, at any time, to charge general rates or targeted rates under the Local Government (Rating) Act 2002 ("WCC Rating Area"), excluding any protected Māori land.

167. If the boundaries of the WCC Rating Area are updated over time, the proposed levy area will be automatically updated alongside it. This could have a positive or adverse impact on affordability of the levy for individual levypayers but is not expected to be material in practice.

Eligible infrastructure – section 31(1)(b)

168. The proposed eligible infrastructure is a sludge minimisation facility to be located at Moa Point (adjacent to the existing wastewater treatment plant) which is to be built to utilise chemical and mechanical processes to handle and dispose of wastewater sludge (with a view to improving the stabilisation of and reducing the volume of such wastewater sludge).

169. The proposed eligible infrastructure also includes works to other associated wastewater infrastructure in the vicinity of Moa Point, the existing sludge pipeline and the Carey's Gully dewatering facility, and Karori wastewater treatment plant necessary to complete the project.

Eligible costs – section 31(1)(c)

170. The proposed levy would be able to be applied to the following eligible costs:

- Costs of constructing the eligible infrastructure, including establishment costs.
- Financing costs such as interest and fees, debt repayment and equity repayment and returns.
- The cost of administering the levy.
- The general operating costs of the SPV.
- Any further costs of the SPV in complying with the Act or the proposed levy order.

Caps on the application of levy revenue to certain types of eligible costs – section 34(a)

171. The proposed levy would have no caps on the application of levy revenue to certain types of eligible costs.

Levy period – section 31(1)(d)

172. The levy period is proposed to start on 1 July 2024 and run for 33 years until 30 June 2057.

Description of the levy – section 31(1)(e)

Maximum levy revenue – section 31(4)(b)(i)

173. The maximum amount of levy revenue that may be collected over the entire levy period is $1,271,444,793 (plus GST, if any).

Intended annual levy revenue – section 31(b)(ii)

174. The amount of levy revenue that the SPV intends to charge in each year of the levy period is given below in Table 10:

Table 10: Intended annual levy revenue

LEVY YEAR ENDING 30 JUNE	INTENDED ANNUAL LEVY ($) (PLUS GST, IF ANY)	LEVY YEAR ENDING 30 JUNE	INTENDED ANNUAL LEVY ($) (PLUS GST, IF ANY)
2025	7,820,543	**2042**	46,414,286
2026	15,781,172	**2043**	46,796,243
2027	24,261,464	**2044**	47,148,269
2028	32,522,045	**2045**	50,394,419
2029	32,663,066	**2046**	50,797,859
2030	33,392,310	**2047**	51,167,165
2031	33,535,884	**2048**	54,712,549
2032	33,891,961	**2049**	55,181,433
2033	35,808,068	**2050**	55,667,926
2034	36,112,721	**2051**	59,500,223
2035	36,404,664	**2052**	59,928,255
2036	38,972,088	**2053**	60,359,366
2037	39,326,725	**2054**	64,514,632
2038	39,651,612	**2055**	0
2039	42,481,894	**2056**	0
2040	42,923,489	**2057**	0
2041	43,312,462	**-**	-

175. Although there is no intended annual levy revenue in each of the last three years of the levy period, levies may still be set and charged during these periods in accordance with the annual levy setting process.

176. The intended annual levy revenue will be periodically adjusted in accordance with the forecast excess levy process.

Categories of leviable land – section 32(1)

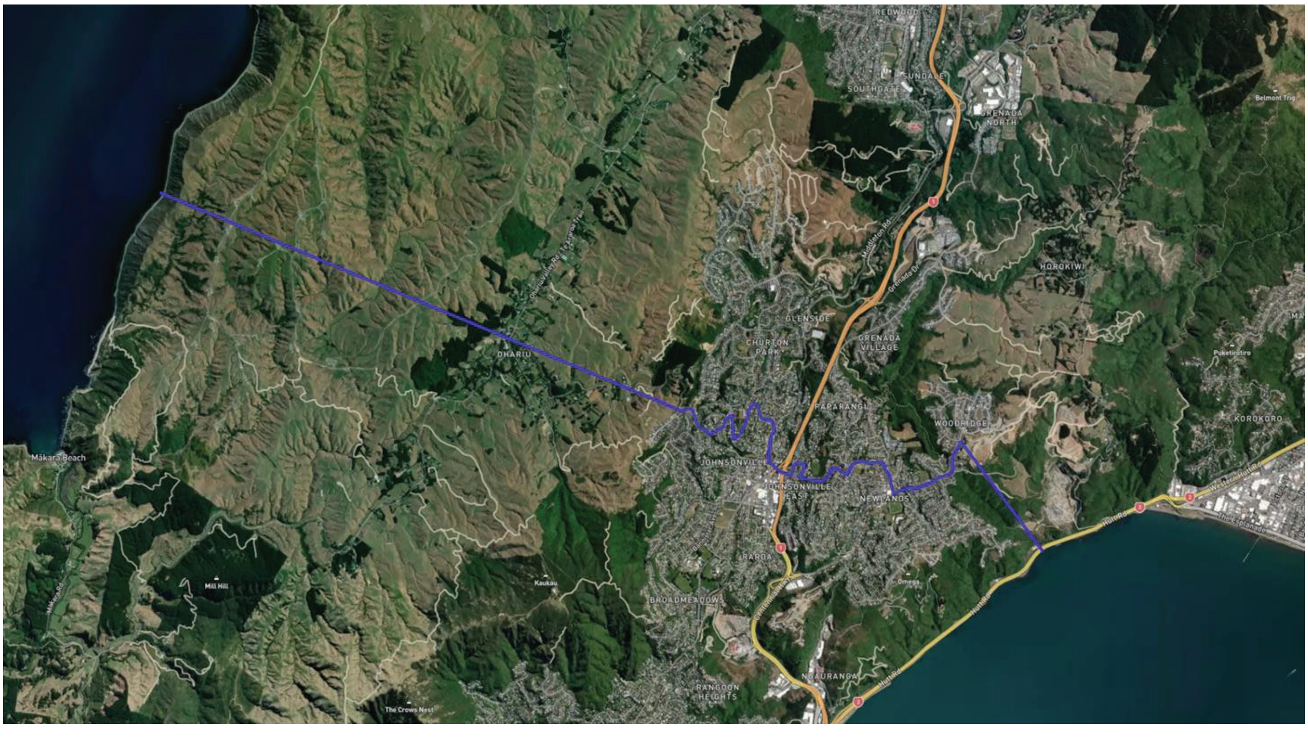
177. The levy would apply differentially to the following categories of land:

- Base rating units within beneficiary group 1 (BG1) – 52.5 percent of the total levy.
- Base rating units within beneficiary group 2 (BG2) – 22.5 percent of the total levy.
- Commercial rating units within BG1 – 17.5 percent of the total levy.
- Commercial rating units with BG2. – 7.5 percent of the total levy.

178. Beneficiary group 1 includes all rating units within the levy area that, as at 30 June immediately preceding the applicable levy year, are connected to the Wellington Wastewater Treatment Network and meet one or more of the following criteria:

- The rating unit is within the specified BG1 geographic area;
- The rating unit’s wastewater is treated at the Moa Point or Karori wastewater treatment plants; or
- The rating unit’s wastewater is treated at the SMF.

179. The specified BG1 geographic area includes all properties to the south of the line shown below.



180. This line bisects the suburbs of Johnsonville and Ohariu. Properties to the north of the line typically have their wastewater treated by a facility in Porirua.

181. Beneficiary group 2 includes all rating units within the levy area. BG2 is inclusive of BG1, and as such a rating unit within BG1 will be charged both a BG1 and a BG2 portion of the levy. This results in 95 percent of the proposed levy being charged to properties that are expected to have their wastewater treated by the SMF.

182. Categories of leviable land must be defined in terms of one or more of the matters listed in Schedule 2 of the Local Government (Rating) Act 2002 ("LGRA"). To give effect to categories for differentiation described above, the following matters are to be used:

- Matter 1 – the use to which the land is put.
- Matter 5 – the provision or availability to the land of a service provided by, or on behalf of, the local authority.
- Matter 6 – where the land is situated.

Factors for assessing levy liability – section 33(2)

183. For commercial rating units within both BG1 and BG2, the capital value of the rating unit would be used for assessing the levy liability of that rating unit.

184. For base rating units within both BG1 and BG2, levy liability would be assessed using a combination of a capital value-based charge and a fixed charge per rating unit.

185. Schedule 3 (of the LGRA) factors to be used to assess liability for the Levy are:

- Factor 1 – capital value of the rating unit.

Method of assessing levy liability – section 33(1)

186. By May 10 before the start of each year in the levy period, the SPV must set the annual levy for the upcoming levy year by:

- Taking the intended annual levy for that year (as set out in Table 10 above or adjusted through the forecast excess levy process); and
- Adding the most recent annual reconciliation amount.

187. The annual reconciliation amount for a levy year will be calculated with the following steps:

1. Start with the annual levy for the year being reconciled.
2. Subtract the amount of levy assessed to date in the year being reconciled.
3. Subtract any increases in levy assessments for prior levy years determined after the previous annual reconciliation was undertaken.
4. Add any decreases in levy assessments for prior levy years determined after the previous annual reconciliation was undertaken.
5. Add any bad debts that have not been included in a prior annual reconciliation.
6. Subtract any bad debts that were included in a prior annual reconciliation to the extent those bad debts were subsequently collected.

188. For the purposes of steps 5 and 6, a bad debt means any levy invoiced to a levypayer that:

- Relates to a levy year commencing at least two years prior to the current levy year;
- Remains unpaid as at the date on which the reconciliation is completed; and
- The SPV has categorised as a bad debt.

189. The annual reconciliation for each levy year must be completed before the SPV sets the annual levy for the following levy year.

Example – annual levy setting process

Intended annual levy 2027/28

The intended annual levy for the 2027/28 year is $32.5 million.

Annual reconciliation for 2026/27

- Annual levy: $24.3 million
- Levy assessed: $24 million
- Changes in levy assessments for prior years: $0.5 million
- Bad debts: $1 million

$$Annual\ reconciliation = \$24.3m - \$24m - \$0.5m + \$1m = \$0.8m$$

Annual levy 2027/28

$$Annual\ levy = \$32.5m + \$0.8m = \$33.3m$$

190. Once the annual levy for a year has been set, it will be allocated to the leviable ratepayers based on the formulas below:

Levy amount per BG1 base rating unit =

$$Annual\ levy \times 0.525 \times \left(\frac{CV\ of\ rating\ unit \times 0.75}{Aggregate\ CV\ of\ BG1\ base\ rating\ units} + \frac{0.25}{Total\ number\ of\ BG1\ base\ rating\ units}\right)$$

Levy amount per BG2 base rating unit =

$$Annual\ levy \times 0.225 \times \left(\frac{CV\ of\ rating\ unit \times 0.75}{Aggregate\ CV\ of\ BG2\ base\ rating\ units} + \frac{0.25}{Total\ number\ of\ BG2\ base\ rating\ units}\right)$$

Levy amount per BG1 commercial rating unit =

$$Annual\ levy \times 0.175 \times \frac{CV\ of\ rating\ unit}{Aggregate\ CV\ of\ BG1\ commercial\ rating\ units}$$

Levy amount per BG2 commercial rating unit =

$$Annual\ levy \times 0.075 \times \frac{CV\ of\ rating\ unit}{Aggregate\ capital\ value\ of BG2\ commercial\ rating\ units}$$

191. For the purposes of the above formulas:

- Rating unit includes any part of a rating unit with the applicable categorisation

- The aggregate capital values of base and commercial rating units respectively are estimates of the aggregate capital values as at the start of the respective levy year.
- The aggregate capital values of base and commercial rating units respectively exclude any rating units to the extent levy remission applies.

The responsible SPV – section 31(1)(f), (g) and (h)

192. Sludge Finance LP would be the sole responsible SPV that is entitled to the proposed levy revenue.
193. Sludge Finance LP will not be responsible for the construction of the eligible infrastructure.

Incorporation and ownership – section 34(d)

194. At the commencement date of the proposed levy order:
    - Sludge Finance GP Limited would be the sole general partner of Sludge Finance LP.
    - CIP (IFF Holdings) Limited would be the sole limited partner of Sludge Finance LP and the sole shareholder of Sludge Finance GP Limited.
    - Crown Infrastructure Partners Limited would be the sole shareholder of CIP (IFF Holdings) Limited.

Restricted change of control – section 34(e)

195. If a restricted change of control occurs (for example, a sale of the SPV not permitted by the levy order), the Act empowers the monitor (HUD) to direct the SPV to not pay any specified distributions to restricted persons and the SPV must comply with that direction.
196. For the purposes of the proposed levy order, a restricted change of control would occur if the SPV is sold to a third party (other than specified intra-group reorganisations) unless this has been consented to in writing by the monitor.[18] In addition, the proposed levy order would provide for certain rights to financiers (for example to appoint a receiver, a receiver and a manager, an administrator, or a liquidator to the SPV or to acquire the partnership interests in SPV and shares in its general partner) without triggering a need for consent from the monitor.

Limits on returns on capital – sections 31(1)(i)

197. The proposed levy order would set out a maximum cumulative amount of cashflow that the SPV can pay to its equity investors for each year of the levy period. These annual equity caps would be based on net cumulative equity cashflows (i.e., where equity injections are negative and equity distributions are positive). The SPV would be able to pay amounts to equity to the extent net cumulative equity cashflows are no greater than the annual equity cap in that year.

[18] CIP would likely also require the permission of its shareholding Ministers to sell the SPV.

198. The below Table 11 gives the starting point for determining the equity cashflow cap for each year of the levy period.

Table 11: Return on capital limits

RETURN ON CAPITAL LIMITS			
Period	***Limit ($)***	***Period***	***Limit ($)***
31 July 2023 to 30 June 2024	(8,611,108)	Levy year ending 30 June 2042	2,002,411
Levy year ending 30 June 2025	(8,611,108)	Levy year ending 30 June 2043	2,809,646
Levy year ending 30 June 2026	(8,203,978)	Levy year ending 30 June 2044	3,622,954
Levy year ending 30 June 2027	(7,785,468)	Levy year ending 30 June 2045	4,492,258
Levy year ending 30 June 2028	(7,224,463)	Levy year ending 30 June 2046	5,368,521
Levy year ending 30 June 2029	(6,661,025)	Levy year ending 30 June 2047	6,251,154
Levy year ending 30 June 2030	(6,085,007)	Levy year ending 30 June 2048	7,194,946
Levy year ending 30 June 2031	(5,506,513)	Levy year ending 30 June 2049	8,146,826
Levy year ending 30 June 2032	(4,921,877)	Levy year ending 30 June 2050	9,107,097
Levy year ending 30 June 2033	(4,304,188)	Levy year ending 30 June 2051	10,133,476
Levy year ending 30 June 2034	(3,681,243)	Levy year ending 30 June 2052	11,167,239
Levy year ending 30 June 2035	(3,053,263)	Levy year ending 30 June 2053	12,208,438
Levy year ending 30 June 2036	(2,380,994)	Levy year ending 30 June 2054	43,808,182
Levy year ending 30 June 2037	(1,702,608)	Levy year ending 30 June 2055	45,479,433
Levy year ending 30 June 2038	(1,018,618)	Levy year ending 30 June 2056	45,479,433
Levy year ending 30 June 2039	(285,805)	Levy year ending 30 June 2057	45,479,433
Levy year ending 30 June 2040	454,625	1 July 2057 and following	45,479,433
Levy year ending 30 June 2041	1,201,765		

199. The SPV must then determine the final equity cashflow cap for each levy year by adjusting the amount applicable to that levy year, as set out in the above in Table 11, as follows:

- Firstly, it must subtract (calculated with reference to levy year (x) and each preceding levy year(y)) the sum of:

$$\sum_{y=2025}^{x} min\begin{cases} 1.5\ percent\ of\ the\ annual\ levy\ in\ levy\ year\ (y), \\ Aggregate\ levy\ that\ has\ been\ invoiced\ in\ levy\ year\ (y)\ but\ remains\ unpaid \end{cases}$$

- Secondly, it must add, where applicable, an amount equal to penalties and interest imposed on the levy and recovered by Sludge Finance LP, net of the costs of recovery, in each case on a cumulative basis from the first levy year until and including levy year (x).

Forecasting excess levy – section 31(1)(j)

200. Excess levy is levy revenue that, as at the end of the levy period, has not been applied to eligible costs. The SPV would be required to forecast its excess levy as at each of the following dates:

- On or about financial close.
- On or about construction completion.
- Prior to the levy setting process for each subsequent year during the levy period.
- Any additional date specified by the SPV to the monitor in writing.

201. To calculate its forecast excess levy, the SPV will add its cash balances to its forecast of the expected levy revenue over the remaining levy period and its forecast of the expected drawdowns of debt and equity funding over the remaining levy period and, subtract its forecast of the expected eligible costs over the remaining levy period.

202. For the purposes of determining the forecast of the expected eligible costs over the remaining the levy period the SPV will undertake the following process:

- Estimate the eligible costs based on its contracted operating costs, projected debt service and equity distribution costs, and any other relevant information available to it at the time of the forecast. For the purposes of the first forecast date eligible construction costs will be assumed to be $400 million.
- Apply a reasonable estimate of bad debts over the remaining sludge levy period.
- Assume that the cost of future refinancings equals 1 percent of the forecast debt balance at the point of refinance.
- Assume that, following any future refinancing, debt balances will attract a margin of 1.60 percent per annum above the relevant base rate.
- Apply a contingency of between 5 percent and 10 percent on forecast payments to debt holders to the extent required to meet the SPV's commitments under any loan or obligations under any incidental arrangement.

Reduction in maximum levy revenue – section 34(b)

203. If at any time the forecast excess levy is greater than $1 million (excluding GST), the SPV would be required to reduce the maximum levy revenue to ensure the forecast excess levy no longer exceeds $1 million. In addition, the SPV would be required to make corresponding amendments to the intended annual levy revenue for the remainder of the levy period. The SPV would be required to notify the monitor of these reductions.

204. The reduced intended annual levy revenue would be used for setting the annual levy for levy years beginning after the reduction occurs.

Surplus levy – section 34(c)

205. Surplus levy is the amount of levy payable in a levy year that exceeds the eligible costs incurred during that levy year.

206. The proposed levy order would not impose a cap or control on the amount of surplus levy that may be held in the levy account.

ANNEX B: LEVY ENDORSEMENT

Absolutely Positively **Wellington** City Council

Me Heke Ki Pōneke

Proposed Infrastructure Funding and Financing (Sludge Minimisation Facility)

Levy Order

Levy Endorsement issued under section 21 of the Infrastructure Funding and Financing Act 2020 (Act)

1. Wellington City Council (as proposer under the Act) proposes that a levy be authorised under the Act to fund eligible costs relating to the proposed construction of a sludge minimisation facility at Moa Point, Wellington (the **SMF**). A description of the SMF is set out in Schedule 1.

2. Wellington City Council, in conjunction with Crown Infrastructure Partners Limited as facilitator, has developed a levy proposal, as contemplated by section 18 of the Act, in respect of the SMF (the **Levy Proposal**). The Levy Proposal has been delivered to the Ministry of Housing and Urban Development, in its capacity as recommender under the Act (**HUD**).

3. Wellington City Council is the sole responsible levy authority for the SMF.

4. HUD has requested that Wellington City Council, as responsible levy authority, issue a levy endorsement in respect of the SMF.

5. This document is issued by Wellington City Council in its capacity as responsible levy authority for the SMF and comprises the levy endorsement for the SMF for the purposes of section 21 of the Act.

6. Wellington City Council hereby endorses the proposed levy.

7. The reasons Wellington City Council, as responsible levy authority, has issued this levy endorsement are similar to the reasons why Wellington City Council has proposed the Levy Proposal (as set out in the Levy Proposal).

8. Wellington City Council confirms that it has no grounds to demonstrate that the proposed levy will compromise its ability to collect rates during the proposed levy period (a ground, specified under the Act, where a responsible levy authority may withhold the endorsement).

Issued at Wellington on 21 March 2023 by **Wellington City Council** by

.

Schedule 1 – Sludge Minimisation Facility

The SMF is expected to be defined in the proposed Levy Order as follows:

(a) a sludge minimisation facility located at Moa Point (adjacent to the wastewater treatment plant which exists as at the date of this endorsement) which is to be built to utilise chemical and mechanical processes to handle and dispose of wastewater sludge (with a view to improving the stabilisation of, and reducing the volume of, such wastewater sludge); and

(b) includes works to other associated wastewater infrastructure in the vicinity of Moa Point, the existing sludge pipeline and the Carey's Gully dewatering facility.

ANNEX C: INFRASTRUCTURE ENDORSEMENT

Absolutely Positively **Wellington** City Council
Me Heke Ki Pōneke

Proposed Infrastructure Funding and Financing (Sludge Minimisation Facility) Levy Order

Infrastructure Endorsement issued under section 20 of the Infrastructure Funding and Financing Act 2020 (Act)

1. Wellington City Council proposes that a levy be authorised under the Act to fund eligible costs relating to the proposed construction of a sludge minimisation facility at Moa Point, Wellington (the **SMF**). A description of the SMF is set out in Schedule 1.

2. As at the date of this endorsement, Wellington City Council will be the responsible infrastructure authority for the SMF.

3. The Ministry of Housing and Urban Development, as recommender, has requested that Wellington City Council, as responsible infrastructure authority for the SMF, issue an infrastructure endorsement in respect of the SMF.

4. This document is issued by Wellington City Council in relation to its capacity as responsible infrastructure authority for the SMF in terms of section 20 of the Act, and comprises an infrastructure endorsement for the SMF for the purposes of section 20 of the Act.

5. Wellington City Council hereby, on the basis of paragraph 6 below, endorses the known or expected technical specifications of the proposed eligible infrastructure (the SMF) on the grounds that:

   (a) it is satisfied that those specifications will be compatible with any wider infrastructure network which it owns and which the SMF is to be a part; and

   (b) as the proposed responsible infrastructure authority it will be able to plan for and meet the necessary operational and maintenance costs of the infrastructure after (and while) it is vested in the authority, acting through Wellington Water Limited, the entity which, as at the date of this endorsement, operates and maintains Wellington City Council's water services infrastructure.

6. The reasons Wellington City Council, as responsible infrastructure authority, has issued this infrastructure endorsement are:

   (a) it is supportive of the benefits that the SMF is anticipated to bring to Wellington; and

   (b) it will have the ability, as principal to the relevant construction contracts or through its standard assurance processes, to ensure that the final design and specifications of the SMF meet its own network requirements (while the network is owned by it).

Issued at Wellington on 21 March 2023 by **Wellington City Council** by

Schedule 1 – Sludge Minimisation Facility

The SMF is expected to be defined in the proposed Levy Order as follows:

(a) a sludge minimisation facility located at Moa Point (adjacent to the wastewater treatment plant which exists as at the date of this endorsement) which is to be built to utilise chemical and mechanical processes to handle and dispose of wastewater sludge (with a view to improving the stabilisation of, and reducing the volume of, such wastewater sludge); and

(b) includes works to other associated wastewater infrastructure in the vicinity of Moa Point, the existing sludge pipeline and the Carey's Gully dewatering facility.