LOCAL WATER DONE WELL - DECISION ON MODEL SHORTLIST FOR WATER SERVICES DELIVERY PLAN

Department: Legal Services

EXECUTIVE SUMMARY

1 Council is required to submit a Water Services Delivery Plan (WSDP) to the Secretary for Local Government by 3 September 2025.

2 A key content requirement of the WSDP is "the anticipated or proposed model or arrangements for delivering water services (including whether the territorial authority is likely to enter into a joint arrangement)" (Model). An implementation plan for delivering the Model must also be included in the WSDP.

3 Timeframes are constrained in delivering the WSDP as shown in the timeline prepared by staff (Attachment A) (Timeline).

4 Legislation requires Council to consider specific options when deciding on the Model. This includes existing delivery and a water services council-controlled organisation (WSCCO). However, Council is also able to identify other additional options.

5 The purpose of this Report is to:

a) Update Council on the Timeline and process involved in preparing the WSDP, particularly relating to the Model.

b) Provide Council with a long list of possible Model options and external analysis received on the long list to date.

c) Recommend to Council they decide on a short list of options for the Model (Short List) and direct staff to arrange further detailed analysis on the options under the Short List.

d) Recommend to Council that the Short List includes three base models (in-house delivery, single CCO and regional multi-council CCO) and any optional add-on(s) subject to further analysis.

e) Signal that there will be a subsequent report in early 2025 asking Council to make a "decision in principle" on the Model, subject to public consultation.

f) Update Council on further engagement with other territorial authorities and Mana Whenua.

RECOMMENDATIONS

That the Council:

a) **Decides** to shortlist three base models (in-house delivery, single CCO and regional multi-council CCO) and any optional add-on(s) subject to further analysis.

b) **Directs** staff to arrange further analysis on the shortlisted options selected.

c) **Directs** staff to report back to Council in early 2025 to enable a decision in principle on the Model proposal and alternative model(s) that Council will consult on.

BACKGROUND

Local Water Done Well

6 The Government continues to progress the three-stage process to enabling the Local Water Done Well reform programme (LWDW).

7 The first stage of LWDW saw the repeal of legislation relating to water services entities in February 2024.

8 The second stage of LWDW was implemented with the passing of the Local Government (Water Services Preliminary Arrangements) Act 2024 (Preliminary Act) on 2 September 2024. As a result of the Preliminary Act, Council is now required to prepare and submit a WSDP to the Secretary for Local Government by 3 September 2025.

9 The third stage of LWDW is expected to be the introduction of the Local Government Water Services Bill (December Bill) in December 2024 with possible enactment in mid-2025. The December Bill is intended to provide the enduring settings going forward for LWDW including the framework for economic regulation as well as the more detailed powers and duties for service delivery models.

10 Guidance on the future water services delivery system was released by the DIA on 8 August 2024. This was based on the LWDW Cabinet decisions announced by the Minister of Local Government in August 2024. Further guidance was also released by the DIA on 3 September 2024, specifically in relation to WSDPs and provides a template for Council to develop the WSDP content. Some of the key factsheets and summaries have been attached at Attachment B and further detail is available on the DIA website at https://www.dia.govt.nz/Water-Services-Policy-and-Legislation (Guidance).

11 However, it is important to note that the Guidance will be subject to amendment as the December Bill proceeds through the parliamentary process. The December Bill may not be enacted until mid-2025 yet Council is required to proceed with decisions to enable delivery of the WSDP by 3 September 2025.

Water Service Delivery Plan

12 Preparing the WSDP requires technical and rigorous analysis. This will involve significant work by staff.

13 The WSDP requires information on the Model including:

a) the anticipated or proposed model or arrangements for delivering water services (including whether Council is likely to enter a joint arrangement or will continue to deliver water services alone);

b) summary of consultation undertaken as part of developing the Model in the WSDP; and

c) an implementation plan for delivering the Model (Guidance indicates that the implementation plan requires information on process, commitment, timeframes, and milestones).

14 Note if Council decided to enter a joint arrangement with another territorial authority they could choose to prepare and submit a joint WSDP.

15 Council is required by law to give effect to the proposals or undertakings relating to the future delivery of water services specified in the WSDP. Not doing so could be a ground for appointing a Crown facilitator.

16 There is an opportunity to amend a WSDP within a specified timeframe if the proposed amendments are significant and necessary due to exceptional circumstances.

17 A staff LWDW Working Group has been established to coordinate the delivery of the WSDP.

18 To continue preparing the WSDP, staff seek direction from Council on a Short List of potential Models. Staff will undertake detailed analysis of the shortlisted Models and will report back to Council early next year so that Council can select which Models it wants to consult on and which Model "in principle" is its preferred Model (subject to consultation).

Decision Making and Consultation on the Model

19 The Preliminary Act presents an alternative process that Council must use for decision making and consultation on the Model.

20 Council is not required to comply with the corresponding requirement in the Local Government Act 2002 (LGA 2002) where an alternative process under the Preliminary Act applies.

Decision Making

21 The Preliminary Act requires decision making relating to the Model to identify both of the following two options for delivering water services:

a) Remaining with the existing approach for delivering water services; and

b) Establishing, joining, or amending (as the case may be) the WSCCO or the joint local government arrangement.

Note: For the purposes of this Report the above two options are called the "Legally Required Options".

22 Council may also identify additional options for delivering water services and must assess the advantages and disadvantages of all options identified.

Consultation

23 Council is only required to consult once but may decide to undertake further consultation before deciding on a Model.

24 Given Council did not adopt an LTP in 2024, the Preliminary Act provides that Council can combine consultation on both the LTP 2025-2034, and the Model.

25 As noted in the ISCOM Report on 17 September 2024, there is merit in combining the timing of the LTP consultation with the timing of the consultation on the WSDP. The mechanics of whether the consultation documents should be combined as one consultation document or two will be assessed in the report to Council early next year.

Information Requirements for Consultation

26 During consultation, Council must make the following information publicly available:

The proposal, an explanation of the proposal and the reasons for the proposal.
An analysis of the reasonably practicable options (including the proposal) which must be the two options referred to above under decision making.
How proceeding (or not) with the proposal is likely to affect DCC's rates, debt, levels of service and water services charges.
Community implications (if joint) and accountability/monitoring arrangements (if assets transferred).
Any other relevant implications of the proposal that the authority considers will be of interest to the public.

27 If a council is required to amend its LTP to give effect to a Model, a council is not required to consult on the proposal if it:

a) has already consulted its community in relation to the proposal;

b) is satisfied that its community has a good understanding of the implications of the proposal; and

c) is satisfied that it understands its community's views on the proposal.

28 Council is required to consult with Mana Whenua under both section 77(1)(c) and section 81 of the LGA 2002 given both references are included under section 60 of the Preliminary Act. Further, section 14(1)(d) of the LGA 2002 also provides that a local authority should provide opportunities for Māori to contribute to its decision-making processes.

Timeline and Process

29 Council's current Timeline for adopting the WSDP, including process for making a decision on the Model is provided at Attachment A. The Timeline is subject to amendment as required by further Government direction or legislation.

30 DIA's implementation roadmap for LWDW (including for Council Water Service Delivery Arrangements) is shown at Attachment C.

31 To date, staff have presented on the WSDP (including on possible Model options) as below:

- ISCOM on 17 September 2024 (outlining the WSDP requirements and process) (ISCOM Report).
- Council Workshop on 3 October 2024 (Possible Models/Arrangements).
- Council Workshop on 23 October 2024 (LWDW Review).

32 This Report is limited to providing information on the Long List of possible Model options to aid a decision on a Short List. This Report does not discuss other content required under the WSDP or future water delivery settings except where discussed as part of the analysis on possible Model options.

33 For further detail on other content requirements under the WSDP, refer to both the ISCOM Report dated 17 September 2024 and Guidance.

34 For further information as to what is likely expected in the December Bill refer also to the DIA website. Staff anticipate that there will be an opportunity to submit on the future settings once the December Bill has been introduced.

Engagement with other Territorial Authorities

35 As discussed in the ISCOM Report, an Otago/Southland LWDW Working Group (Regional Working Group) was formed in April 2024. The Regional Working Group was overseen by the Chief Executive Officers of each council and reported to the Otago/Southland Mayoral Forum.

36 The Regional Working Group has now substantially completed its scope of work to investigate:

- Regional collaboration opportunities.
- Regional delivery models.
- National collaboration opportunities.

37 Morrison Low was appointed by the Regional Working Group to assess regional delivery models suitable for the Otago and Southland regions. The assessment followed The Treasury – Te Tai Ōhanga Better Business Case methodology to ascertain investment objectives and critical success factors which were used to refine to a short list of regional delivery model options and assess their relative merits and drawbacks.

38 The Regional Working Group's regional delivery model findings were presented to the Local Government Zone 6 Council on 1 November 2024. The Regional Working Group shortlisted options and findings are discussed further below in this Report.

39 Otago councils are currently in the process of considering options for WSDPs. At the time of writing none have made a decision about their preferred option. All councils will be considering papers between now and the first week in December 2024. Staff understand that a combined CCO is an option that is favoured by some of the councils while others are looking at options where they continue to deliver water services in their own right. Staff are in contact with their counterparts at the other authorities and will update Councillors once the preferences of other territorial authorities are known.

Engagement with Mana Whenua

40 Engagement with Mana Whenua on the Model to date has been focused through the Regional Working Group and ISCOM activities and includes:

Date	Activity
8 July 2024	'Otago Southland approach to LWDW', update to Gabrielle Huria, Te Kura Taka Pini Chief Executive / PWC
25 July 2024	Ngāi Tahu meeting with Council Mayors and CEs - 'Local Water Done Well' workshop
17 September 2024	Infrastructure Services Committee LWDW - Water Services Delivery Plan – Requirements and Process Report
31 October 2024	Working Group Presentation to the Te Rōpū Taiao

41 It is anticipated that further engagement with Te Pae Māori will be undertaken in December 2024.

DISCUSSION

Model Options – Introduction

42 It is expected that the December Bill will enable the establishment of new financially separate water organisations. The Guidance states further that "*Councils will be able to continue to be able to deliver water services directly (such as through inhouse business units), however they will also be able to establish new water organisations that are more financially and operationally independent of councils*".

43 The Guidance further states councils will be able to design their own alternative delivery arrangements if these arrangements meet the minimum requirements set out in the legislation.

44 Possible Model options (already presented to Council in Workshops) include those models described in:

a) DIA Guidance — model options anticipated to be introduced to law in the December Bill (refer Attachment D) (DIA Models);

b) Morrison Low Report dated 24 October 2024 as commissioned by the Regional Working Group (refer Attachment E) (Regional Options); and

c) Simpson Grierson analysis dated 11 July 2024 – outlining other possible options (refer Attachment F).

45 The Model options presented within the above documents are together referred to in this Report as the "Long List". However, note that the Long List may also include any other option that Council adopts if it meets minimum requirements and is otherwise legally compliant.

46 Given the constraints in the Timeline and resource required to provide further detailed analysis, staff now recommend that Council analyse the Long List and decide on a Short List. Further initial information on the Long List is provided below.

47 In analysing the Long List, Council must consider the implications of the:

a) minimum requirements (likely introduced in the December Bill); and

b) Legally Required Options (but Council may also identify additional options).

48 Given the Legally Required Options, staff provide some initial comparative analysis on three base models (in-house delivery, single CCO and multi-council CCO). Despite the further comparison

of these three base models, all options are available for Council to consider. Council may request further analysis from staff on any other option.

Minimum Requirements – Summary

49 Guidance indicates that the December Bill will establish a framework that requires minimum requirements are met by all water service providers (including in-house delivery). Additional requirements for those forming water organisations and consumer-trust models are also likely to apply.

50 While still subject to amendment during the legislative process, staff would not expect major amendment to the underlying principles of the minimum requirements given the detailed Guidance to date and the expected reliance by all territorial authority processes to date.

Water Service Provider

51 A water service "provider" means all forms of local government providers including councils that continue with direct (in-house) delivery. Irrespective of what Model is chosen by Council these minimum requirements need to be met and significant change would be required even to an in-house model. Therefore, this Report refers to this option as "in-house" delivery rather than "status quo".

52 Further detail on each of the minimum requirements for all water services providers is given below but an initial summary is shown in the below table (copied from the Guidance):

The requirements will likely include that all water services providers:

- **Will be subject to economic, environmental and water quality regulation** – further information on economic, environmental and water quality regulation is available in the related factsheets: Economic regulation of water services (refer to the economic regulation factsheet for more information), Drinking water quality regulation, and Standards to help reduce water infrastructure costs.
- **Will be subject to a new planning and accountability framework for water services, including the need to produce stand-alone financial statements for water supply, wastewater, and stormwater** – further information outlined in the factsheet: Planning and accountability for local government water services.
- **Must be financially sustainable** – legislation will include an enduring objective for water service providers to be financially sustainable, including a requirement for the ringfencing of water services, an expectation of revenue sufficiency, and accommodating for maintenance, renewals and growth.
- **Must act consistently with statutory objectives** – legislation will set out a list of statutory objectives that will apply to all water service providers. There will also be several additional statutory objectives that apply to water organisations.
- **Will be subject to restrictions against privatisation** – legislation will include prohibitions on losing control, selling or disposing of significant infrastructure. Further, water services assets cannot be used as security.

Water Organisation

53 The term "water organisation" refers to a separate organisation that Council may establish to provide water services and does not include in-house delivery.

54 Additional legislative requirements are likely to apply if forming a "water organisation". Guidance suggests these could affect the organisation's ownership, governance and structural arrangements and include:

The following additional requirements apply to water organisations:

- **Current council staff and elected members** cannot be appointed to boards.
- Water organisations **must be companies.**
- Activities of water organisations will be **limited to the provision of water services** and directly-related activities.
- **Only councils or consumer trusts** can be shareholders of a water organisation.
- **Board appointments must be competency-based** and have the appropriate mix of skills, knowledge, and experience.
- **There will be a range of protections against privatisation.**

55 Further requirements will also likely apply if a consumer trust-owned water organisation is adopted. Refer to page 6 of the Guidance at Attachment B.

56 The Guidance indicates that an exemption may be able to be applied for on a case-by-case basis through an Order in Council from the following requirements:

- Water organisations must be companies;
- Activities to be limited to the provision of water services and directly related activities; and
- Only councils or consumer trusts can be shareholders of a water organisation (however, still ensuring no form of privatisation is permitted).

Minimum Requirements – Further Detail

Regulation

57 Guidance indicates that the December Bill will include regulatory settings to ensure water service providers will be subject to economic, environmental and water quality regulation including the following:

Economic regulation and consumer protection	1 Economic regulation tools available to the Commerce Commission include: • Information disclosure, revenue thresholds, financial ringfencing, quality standards and performance requirements, price-quality regulation. 2 Consumer protection tools available to the Commerce Commission include: • Complaints regulations, dispute resolution regulations, guidelines on service quality codes; and a mandatory service quality code. 3 Economic regulation regime will be risk-based and flexible. Based on information supplied in WSDP and information disclosure requirements, the

	regulator will be able to set individual requirements for certain providers and common regulations where appropriate. 4 Economic regulation will apply to drinking water and wastewater services and will provide flexibility to include stormwater services at a later date if necessary. 5 Cost of the regulator due to providing economic regulation of water services, will be funded through a levy on local water services providers. DIA Guidance Factsheet Link Economic regulation and consumer protection
Drinking water regulation	1 Changes aim to reduce the cost and burden for drinking water suppliers associated with complying with the Water Services Act 2021. Changes are designed to improve the efficiency and effectiveness of the drinking water regulatory regime and the approach Taumata Arowai takes to regulating. 2 Propose to reduce regulatory burden on small suppliers, by excluding 'shared domestic supplies' serving 25 consumers or fewer from regulation. Higher risk community supplies (such as community halls and marae) would not be covered by this exclusion. 3 Amend legislation to refer to 'Water Services Authority – Taumata Arowai'. 4 Changes to provide clarity around how to give effect to Te Mana o te Wai. DIA Guidance Factsheet Link Drinking water quality regulation

58 Likely timing of the new regulatory settings are set out in the DIA Implementation Roadmap for LWDW including environmental regulation for wastewater, stormwater and infrastructure (refer Attachment C).

Planning and Accountability Framework

59 The Guidance indicates the following three core documents will make up the new planning and accountability framework:

Document	Overview
Statement of expectations (applicable where there are separate water organisations) *Prepared by shareholders and issued to the water organisation they own*	This document will set out the expectations, priorities, and strategic direction for the water organisation. It will inform and guide the decisions and actions of the organisation's board.
Water services strategy *Prepared by water service providers*	This document will set out – in a single, comprehensive, water-focused document – how the provider is proposing to perform, respond to local expectations and priorities, and meet regulatory and financial sustainability requirements. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy.
Water services annual report *Prepared by water service providers*	This document will report on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting.

60 In addition, water service providers will be required to develop standalone financial statements for all water services (drinking water, wastewater, stormwater, and aggregated water services). These statements will separate water services charges, expenses and liabilities from other council activities.

61 Councils that continue to deliver water services in-house will prepare a water services strategy and associated annual report instead of including extensive information on water services in their general LTP, infrastructure strategy, financial strategy and annual report.

62 For more detailed information refer to the DIA Guidance Factsheet (Planning and accountability for local government water services) (refer Attachment B).

Financially Sustainable

63 A WSDP needs an explanation of how revenue from and delivery of water services will be separated from other functions and activities. Further, an explanation of how Council proposes to ensure delivery of water services will be financially sustainable by 30 June 2028.

64 The Guidance states that ringfencing requires that:

a) Water revenues be spent on water services; and

b) Water services charges and expenses be transparent and accountable.

65 The Preliminary Act defines 'financially sustainable', in relation to a council's delivery of water services, as:

a) The revenue applied to the council's delivery of those water services is sufficient to ensure the council's long-term investment in delivering water services; and

b) The council is financially able to meet all regulatory standards and requirements for the council's delivery of those water services.

66 The Guidance suggests three components to assessing financial sustainability:

a) Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?

b) Investment sufficiency – is the projected level of investment sufficient to meet regulatory requirements and provide for growth?

c) Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?

67 The Guidance makes further recommendations about how councils can demonstrate ringfencing. It also provides further information about financial sustainability as well as providing a template for financial projections and a financial sustainability test (See DIA link Guidance for preparing Water Services Delivery Plans).

Requirement to act consistently with Statutory Objectives

68 It is expected that the December Bill will set out a list of statutory objectives that will apply to all water service providers.

69 Guidance also suggests there will be additional statutory objectives that apply to water organisations, such as those listed above under minimum requirements for water organisations.

70 Further analysis of the statutory objectives will be required by staff when the December Bill is introduced.

Protections against Privatisation

71 Guidance states that the December Bill will likely include the following statutory protections:

- Only local authorities and/or consumer trusts will be permitted to own shares in a water organisation.

- Provisions that prevent:

  i) water infrastructure assets from being used as security for any purpose;

  ii) divestment of ownership or other interest in a water service except to another local government organisation or water organisation; and

  iii) loss of control of, sale, or other form of disposal of the significant infrastructure necessary for providing water services in its region or district, unless, in doing so, the local authority or water organisation retains its capacity to meet its obligations.

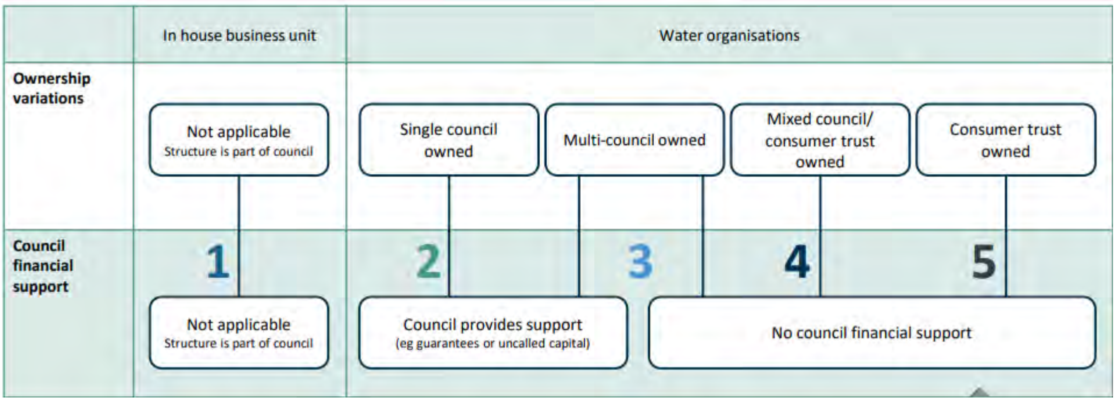
- Shares in water organisations cannot give any right, title or interest in the assets, security, debts, or liabilities of the entity, and would not be able to be sold or transferred.

- Water organisations that involve consumer trusts will require additional provisions to ensure ownership interests cannot be transferred.

Long List – Model Options

DIA Models

72 The DIA Models outlined in the Guidance (and as described to Council in the ISCOM Report) are shown in the table below:



73 An overview of the DIA models is provided below, and more information can be found in the Guidance (refer Attachment B). Further comparative analysis including some advantages and disadvantages (as provided and inferred from external analysis) on the first three of these models is also shown later in this Report:

1	Internal business unit or division	• Status quo for many councils • Minimum requirements for water service providers will apply • New financial sustainability, ringfencing rules, and economic regulation will apply
2	Single council-owned water organisation	• New company established, 100% owned by the council • Financial sustainability rules will apply, but retains a financial link to the council • Councils with existing water council-controlled organisations will be required to meet minimum requirements
3	Multi-council owned water organisation	• New company established with multi-council ownership • Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement • Option to access Local Government Funding Agency finance with the provision of parent support or to create a more financially independent organisation
4	Mixed council/consumer trust owned	• Consumer trust established to own majority of shares • Mixed ownership, with one or more councils owning minority of shares • Structure enables financially independent organisation to be established while retaining minority council ownership
5	Consumer Trust owned	• Council transfers assets to consumer trust owned organisation • Consumers elect trustees to represent their interests in the organisation • Most financially independent of the available models

Otago Southland Regional Working Group

74 As referred to above, the Regional Working Group commissioned a report by Morrison Low to develop a first principles approach to identify the range of pathways and the short list of options for service delivery in the two regions.

75 Five strategic objectives were developed by the Regional Working Group and overseen by Chief Executives and endorsed by Mayors across the regions. The endorsed objectives were:

a) To deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy.

b) To deliver three waters services that sustainably respond to change in population, economic activity and climate change.

c) To deliver three waters services through a model that is responsive to the local needs of our communities.

d) To provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity.

e) To ensure that three waters are delivered through a model that is enduring and financially sustainable.

76 The Regional Options that were assessed in the Morrison Low Report against the strategic objectives were:

a) **Status Quo**: Councils continue with existing delivery models.

b) **Joint Contracts**: Councils enter joint contracts for core services such as engineering services, asset management services or laboratories.

c) **Shared Services Entity**: Establishing a formal entity for shared services, including those that could be included in joint contracts. The entity may employ its own staff and would likely include a broader suite of shared services than a joint contracts model.

d) **Management CCO**: A CCO responsible for most elements of water services delivery. Each council would continue to set its own charges, manage its own debt, and agree a three waters budget.

e) **Multi-Council Water Services Entity (Otago Southland WSE)**: A single entity responsible for all elements of water services delivery. Councils would not own assets, set charges or manage their own debt. Arrangements could be agreed around the approach to harmonising prices or ringfencing some debt.

77 The Morrison Low Report also states that the Regional Working Group considered many other options within their wider analysis including a joint committee, community owned cooperative/trust, delivery through a regional council, memorandum of understanding, shared arrangement, joint venture, multiple CCOs or entities and a consumer trust. These options did not make the Regional Working Group's short list based on a review of compliance against the agreed strategic objectives.

78 In essence, Morrison Low considered that:

a) There is a compelling case for changing the water services delivery model in Otago and Southland; and

b) There are clear benefits for the Otago and Southland Regions to establish an Otago Southland Water Services Entity.

79 Full analysis of the Regional Options are provided in the Morrison Low Report (Attachment E).

Other Possible Model Options

80 As shown in the Simpson Grierson Advice dated 11 July 2024 (Attachment F), other Model options could include:

a) **Management CCO** – separate CCO company to manage and deliver water services with ownership of the water assets remaining with the Council (refer page 15 of Attachment F).

b) **Non-Charitable Trust** – independent legal entity established through a trust deed with the power to own, hold and operate the water services assets (refer page 18 of Attachment F).

c) **Joint Committee** – committee between participating councils to own, operate and manage the water assets and services subject to the LGA 2002 framework, without separate legal status (refer page 20 of Attachment F).

d) **Charitable Trust (Non-CCO)** – independent legal entity established through a trust deed with the power to own, hold and operate the relevant assets (refer page 22 of Attachment F).

e) **Council-owned company (COC)** – legally separate council owned company to perform full breadth of water services, including ownership of all water assets, revenues and liabilities. Not controlled by Council (refer page 24 of Attachment F).

f) **Limited Partnership** – established to perform full breadth of water services, to be managed by a company appointed a general partner (refer page 26 of Attachment F).

g) **Statutory Body** – Parliament passes legislation which establishes the water entity and sets out its scope and objectives, governance framework and decision-making principles (refer page 28 of Attachment F).

81 Further detail on each of these models (as well as other Models under the Long List) is available at Attachment F.

82 Note that the Guidance was not available as at the date of the Simpson Grierson advice so some of the questions still posed in the advice by Simpson Grierson may now have some further direction. For example, the Guidance now discusses possible exemption of most new water organisations to income tax given they are not primarily engaged in commercial activities with a profit-making objective and will be owned by councils and consumer trusts. If required, further consideration of tax implications on any Short List can be arranged by staff.

83 Simpson Grierson also considered other models such as a non-CCTO Charitable Trust, a Port Company/Energy Company Model and an Incorporated Society however dismissed these as viable options so didn't include these in their analysis.

Base Models and Add Ons

84 In analysing the Long List, staff recommend that Council classify some of the options as base models and some as add-on(s) (that could be added to a base model) as shown in the table below. This may simplify the decision to adopt a Short List.

85 It could be that Council shortlist some base models in addition to identifying add-on(s) that they may be interested in pursuing further subject to further analysis. The options presented by staff in this Report are presented on this basis.

86 Staff understand from the DIA that an "add-on" could be described in a Council's Implementation Plan as an option that is still being pursued. However, it is important to note that the base model needs to show financial sustainability within the legislated timeframe in any event.

BASE MODELS
In-House Delivery
Single CCO
Multi-Council CCO (regional or other)
Mixed council/consumer trust owned
Consumer Trust Owned
Charitable/Non-Charitable Trust
Council-Owned Company
Limited Partnership
Statutory Body

\+ *(optional)*

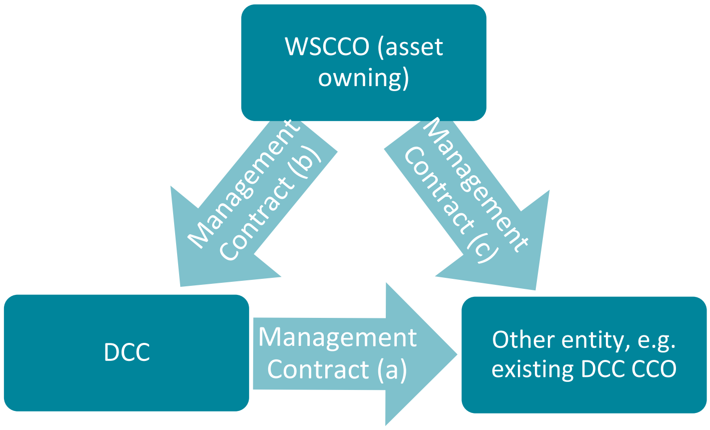
ADD-ON(S)
Management Contract (several variations including those as described below)
Management CCO (regional)
Joint Contracts
Shared Services
Joint Committee

87 There are several variations on the management contract "add-on" option that could be analysed further. Some of these are included in the diagram below including management contracts between:

a) DCC and another entity e.g., an existing DCC entity (this management contract would effectively be an "add-on" to the in-house delivery base model). This could realise efficiencies by utilising existing skill sets but may not allow access to increased leverage.

b) DCC and a new asset owning DCC CCO (this management contract would effectively be an "add-on" to the WSCCO base model). This is expected to allow the access to increased LGFA leverage.

c) New asset owning DCC CCO and another entity e.g., existing DCC CCO (this management contract would effectively be an "add-on" to the WSCCO base model) – This is expected to allow access to increased LGFA leverage.



Comparative Analysis of Possible Base Models

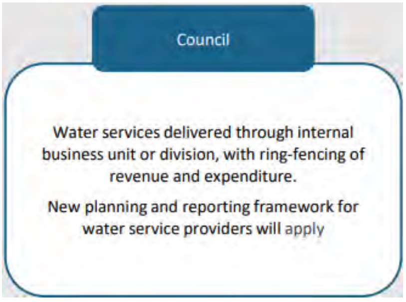
88 As mentioned above, Council is required to include the Legally Required Options as part of its consultation document. Given this requirement, staff have provided below a summary of the key elements (including some advantages and disadvantages provided and inferred by external analysis) on both the in-house delivery model and single CCO models.

89 Further comparison has also been provided on the regional multi-council base model given this model can also satisfy the WSCCO requirement by law and additionally, is the key recommendation from the Morrison Low Report (discussed further below). While further information is provided on the regional multi-council base model the decision to proceed further with this option is subject to regional participating councils resolving to proceed to go ahead.

90 Staff have not provided further analysis on the remaining two DIA Models involving consumer trusts. However, further detail on these is provided in the Guidance (refer Attachment B). Some advantages of the consumer trust model are competency-based boards comprising professional directors and a single focus on setting the direction and delivery of water services. Some disadvantages include possible complications setting statements of expectations (for a mixed council consumer trust model) or possibly no direct influence on setting statements of expectation (where issued by a consumer trust).

91 As mentioned above, in any event, Council still has all options (base models and add-on(s)) available to direct staff to arrange further analysis.

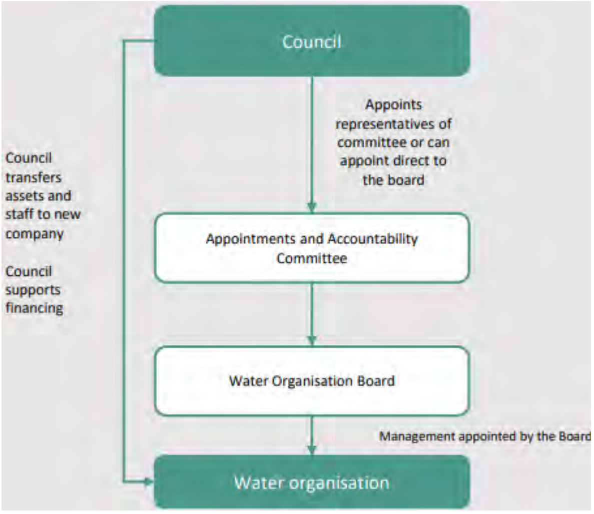
In-House/Internal Business Unit



Ownership	• Part of Council. • No new organisation established.
Governance	Responsible to Council through mechanisms under LGA 2002
Strategic Direction	Council prepares a Water Services Strategy
Accountability	• Act consistently with statutory objectives. • Water business unit reports to Council. • Council prepares separate annual reporting and audited financial statements. • Subject to economic regulation.
Borrowing	Borrowing undertaken by Council e.g., by LGFA with water activity groups meeting their share of financing costs.
Balance Sheet Treatment	On balance sheet
Revenue	Continues through combination of general/targeted rates and financial/development contributions.
Advantages	• Local knowledge and close connection to communities. • No need for Statement of Expectations. • Avoids initial establishment costs (although templates anticipated in the December Bill will likely lessen costs). • Avoids debate with other councils about asset condition, cross-subsidisation, etc.
Disadvantages	• Debt limit for Council remains at 280% (1 July 2025) (current 285%) as opposed to water organisation which can have 500% debt to revenue. • Lacks single focus on delivering water services. • More layers of Council decision making than legally independent structures — potentially an issue with higher regulation, ring fencing, etc. • Less commercial or nimble/agile due to compliance with LGA and not being a separate legal entity. • Possibility of no specialist expertise at governance level (but could be obtained through committees/subcommittees). • In-house entity more subject to politics of the day. • Fails to capture scale benefits and access to specific expertise. • Less attractive as a specialised entity to attract specialist staff.

	• Less connected nationally and internationally with peer organisations therefore hindering the modernisation of service opportunities and tailoring of the operating model to suit customer experience expectations.

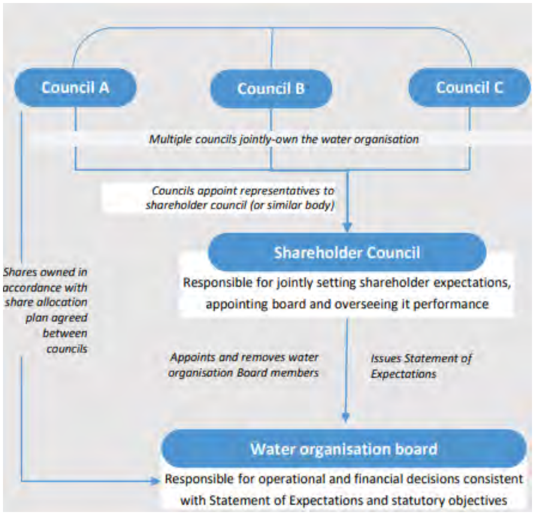
Single CCO



Ownership	• Limited liability company 100% owned by Council-Ownership arrangements and rights set out in constitution.
Governance	• Council appoints and removes board members. • Governed by independent, professional directors who are responsible for all operational and financial decisions.
Strategic Direction	• Shareholding council issues Statement of Expectations. • Water organisation prepares Water Services Strategy.
Accountability	• Water organisation must act consistently with statutory objectives. • Reports regularly to shareholders on performance (e.g., quarterly). • Must produce annual report containing audited financial statements. • Subject to economic regulation.
Borrowing	Borrowing via Council from LGFA directly supported by Council guarantee or uncalled capital.
Balance Sheet Treatment	On balance sheet
Revenue	December Bill to include ability to assess, set and collect water services charges and ability to identify which ratepayers to be charged for water services, as well as allow use of development contribution regime.
Advantages	• LGFA will support leverage up to equivalent of 500 percent of operating revenues. • Corporate structure and governance: o Single focus on setting direction and overseeing delivery of water services. o Competency-based board comprising professional directors.

	o Appointments committee ensures relevant perspectives brought to director appointment process (flexibility to appoint mana whenua, community or consumer representatives). o Directors' duties (including under Companies Act 1993) apply. • Must give effect to statement of expectations (if consistent with CCO's purpose and statutory objectives) but otherwise less subject to politics of the day. • Accountability to council shareholder via regular reporting and annual reporting. • Potentially more agile than in-house as not subject to full LGA and largely independent, less decision-making delays as less layers. Quicker response to market fluctuations and managing operational risks. • More attractive to staff as a specialised entity and less barriers to potentially modernise the customer experience.
Disadvantages	• Fails to capture scale benefits including access to expertise (as opposed to multi council). • Accountability to consumers for service delivery potentially blurred if CCO not asset-owning.

Multi-Council CCO



Ownership	• Limited liability company with share allocation agreed between shareholding councils. • Councils jointly approve Constitution.
Governance	• Shareholder Council established to appoint and remove board members. • Governed by independent, professional directors who are responsible for all operational and financial decisions.
Strategic Direction	• Parent councils jointly issue Statement of Expectations. • Water organisation prepares a Water Services Strategy.
Accountability	• Water organisation must act consistently with statutory objectives. • Reports regularly to shareholders on performance (e.g., quarterly). • Must produce annual report containing audited financial statements.

	• Subject to economic regulation.
Borrowing/Balance Sheet Treatment	• Borrows via LGFA if parent council provides guarantee and satisfies LGFA lending requirements / Contingent liability (impact on council credit rating depends on council and water organisation revenue and debt). • Can borrow from banks and/or capital markets without council support, subject to achieving investment grade credit rating (challenging for some regions) / Contingent liability (unlikely to impact council credit rating).
Revenue	December Bill to include ability to assess, set and collect water services charges and ability to identify which ratepayers to be charged for water services as well as allow use of development contribution regime.
Advantages	• LGFA will support leverage up to equivalent of 500 percent of operating revenues (assuming still meet qualifying criteria for LGFA). • Corporate structure and governance: o Largely the same as for single council CCO (However, added complexity of shareholder council). • Must give effect to statement of expectations (if consistent with CCO's purpose and statutory objectives) but otherwise less subject to politics of the day. • Accountability to council shareholders via regular reporting and annual reporting. Sets own budgets and controls risk plus accountable to communities. • Increased scale, potentially covering entire regions, may attract higher quality directors and staff (e.g. Watercare). • Less layers/barriers to modernising the customer experience.
Disadvantages	• Added complexity of shareholder council plus possible difficulties in prioritisation of investment. • Multi-council ownership could complicate decision-making for setting statement of expectations. • Accountability to consumers for service delivery potentially blurred if CCO not asset-owning.

Morrison Low Report Recommendation

92 As shown below, the Morrison Low Report recommends the multi-council option. However, some data limitations exist as was found under the previous Governments' model by the previous National Transition Unit of the DIA. Should Council decide to proceed further with this option this is also subject to any participating councils proceeding.

93 Conclusions set out in the Morrison Low Report as commissioned by the Regional Working Group (refer Attachment E) include:

> *"Demonstrates that there are clear benefits for the Otago and Southland regions to establish an Otago Southland WSE to provide three waters services to its communities in the future.*
>
> *The benefits of such an arrangement will be experienced in a relatively short time frame for many communities; three waters charges are expected to be lower by 2036 for up to 84% of the regions' population through an Otago Southland WSE than under the existing service delivery model. More importantly, these benefits are likely to be enduring, with 30*

year modelling indicating that future generations will also be financially better off under an Otago Southland Water Service Entity.

For those communities where the financial benefits of an Otago Southland Water Service Entity are not as great, there may be opportunities to transition at a slower pace than other councils. This may include entering into contractual arrangements with an Otago Southland WSE to provide professional services, the extent and scope of which may be able to be increased over time."

OPTIONS

94 Staff present the following four options for Council to consider for a Short List:

a) Option One – Shortlist **three** base models (and add-on(s) if required)

i) Shortlist **three** base models — In-House Delivery, Single CCO, and Regional Multi Council CCO (subject to other participants proceeding further); and

ii) Optional **add-on(s)** subject to further analysis.

b) Option Two – Shortlist **two** base models (and add-on(s) if required)

i) Shortlist **two** base models – In-House Delivery and Single CCO; and

ii) Optional **add-on(s)** subject to further analysis.

c) Option Three – Shortlist **two** base models (and add-on(s) if required)

i) Shortlist **two** base models – In-House Delivery and Regional Multi Council CCO (subject to other participants proceeding further); and

ii) Optional **add-on(s)** subject to further analysis.

d) Option Four – No shortlist.

95 While staff have developed the above four options based primarily on the Legally Required Options, Council is able to include in addition to Option One, Two or Three, any other legally compliant base model.

96 In addition to the decision on the base model, staff have also presented the option to include "add-on(s)" to a base model. Add-ons would be subject to further analysis by staff and further consideration by Council.

97 Staff are recommending the Shortlist be a maximum of two or three base models given resource and time constraints in arranging further analysis to meet the timings shown in the Timeline.

Option One – Recommended – Shortlist Three Base Models – In-House Delivery, Single CCO, and Regional Multi Council CCO (subject to other participants proceeding further), with the option, of any add-on(s) subject to further analysis.

98 Under this option, Council would:

a) Shortlist three base models:

i) In-house Delivery;

ii) Single CCO; and

iii) Regional Multi-Council CCO.

b) Include any optional "add-on(s)" subject to further analysis.

c) Direct staff to arrange further detailed analysis on three base models (particularly financial analysis) and any optional add-on(s) to report further to Council in early 2025.

Advantages

- Efficient and more manageable – Less staff time/resources to analyse three options (as compared with the long list).
- Allows staff to focus on the shortlist in detail.
- More options available for the decision in principle in early 2025.
- Preserves Council's ability to progress any negotiations/discussions with other local authorities. This is important given that other local authorities are also yet to finalise their shortlist for consultation.
- This option is prudent from a process perspective.

Disadvantages

- Requires more staff time/resource in arranging further analysis and assessing a regional multi-Council CCO is potentially complex.
- Regional Multi-Council CCO subject to other participants willingness to proceed.

Option Two – Shortlist Two Base Models – In-House Delivery and Single CCO with the option, of any add-on(s) subject to further analysis.

99 Under this option, Council would:

a) Shortlist two base models:

i) In-house Delivery; and

ii) Single CCO.

b) Include any optional "add-on(s)" subject to further analysis.

c) Direct staff to arrange further detailed analysis on both base models (particularly financial analysis) and any optional add-on(s) to report further to Council in early 2025.

Advantages

- Efficient and more manageable — Less staff time/resource to analyse two options.

- The two base Models under this option do not rely on the willingness or otherwise of other participants.

Disadvantages

- Limits options.
- It is arguably too early in the process to remove the Regional Multi-Council CCO as an option, particularly given the Morrison Low report.

Option Three – Shortlist Two Base Models – In-House Delivery and Regional Multi Council CCO (subject to other participants proceeding further) with the option, of any add-on(s) subject to further analysis.

100 Under this option, Council would:

a) Shortlist two base models:

i) In-house Delivery; and

ii) Regional Multi-Council CCO.

b) Include any optional "add-on(s)" subject to further analysis.

c) Direct staff to arrange further detailed analysis on both base models (particularly financial analysis) and any optional add-on(s) to report further to Council in early 2025.

Advantages

- Efficient and more manageable — Less staff time/resource to analyse two options.

Disadvantages

- Limits options.
- Regional Multi-Council CCO subject to other participants willingness to proceed.
- It is arguably too early in the process to remove the Single CCO as an option.

Option Four – No Short List

101 Under this option, Council would:

a) Not short list any particular model keeping all options on table for a decision in principle in early 2025.

b) Direct staff to arrange further detailed analysis on all possible models (particularly financial analysis) to report further to Council on in early 2025.

Advantages

- More options available for the decision in principle in early 2025.

Disadvantages

- Requires significantly more staff time/resource in arranging further analysis.
- Unlikely to be feasible to provide detailed analysis on all the long list options. Will require time to be spent on options that Council potentially has no interest in pursuing.
- Potentially difficult to achieve legislated timeframes and provide analysis.
- Regional Multi-Council CCO subject to other participants willingness to proceed.

NEXT STEPS

102 Staff will:

a) Arrange and undertake further detailed analysis (particularly financial analysis) on whatever Short List options Council decide.

b) Report back to full Council in early 2025 with further analysis on the Short List options identified.

c) Continue discussions with other parties including Mana Whenua to enable Council to make future decisions on the proposed Model.

Signatories

Author:	Nadia McKenzie - In-House Legal Counsel Karilyn Canton - Chief In-House Legal Counsel
Authoriser:	David Ward - General Manager, 3 Waters and Transition Sandy Graham - Chief Executive Officer

Attachments

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This report enables democratic local decision making and action by, and on behalf of communities and promotes the social, economic environmental and cultural well-being of communities in the present and for the future.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	☐	☐	✓
Economic Development Strategy	✓	☐	☐
Environment Strategy	✓	☐	☐
Arts and Culture Strategy	☐	☐	✓
3 Waters Strategy	✓	☐	☐
Future Development Strategy	✓	☐	☐
Integrated Transport Strategy	☐	☐	✓
Parks and Recreation Strategy	☐	☐	✓
Other strategic projects/policies/plans	✓	☐	☐

This report has been prepared with reference to the Dunedin strategic framework.

Māori Impact Statement

Council is required to consult with Mana Whenua under both sections 77(1)(c) and section 81 of the LGA 2002 given both references are included under section 60 of the Preliminary Act. Further section 14(1)(d) of the LGA 2002 also provides that a local authority should provide opportunities for Māori to contribute to its decision-making processes. The report highlights engagement to date.

Sustainability

Financial sustainability of local government water services is a key objective of the Government's 'Local Water Done Well' policy. The Preliminary Act is designed to implement this policy and ensure delivery of water services is financially sustainable.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

There are significant implications for the LTP and Annual Plan, and the associated documents. This will be discussed further in a subsequent report.

Financial considerations

Financial implications relating to the Model will be provided in detail in a subsequent report.

Significance

The matters discussed in this report are considered high in terms of the Council's Significance and Engagement Policy. Any water services delivery models will be the subject of public consultation.

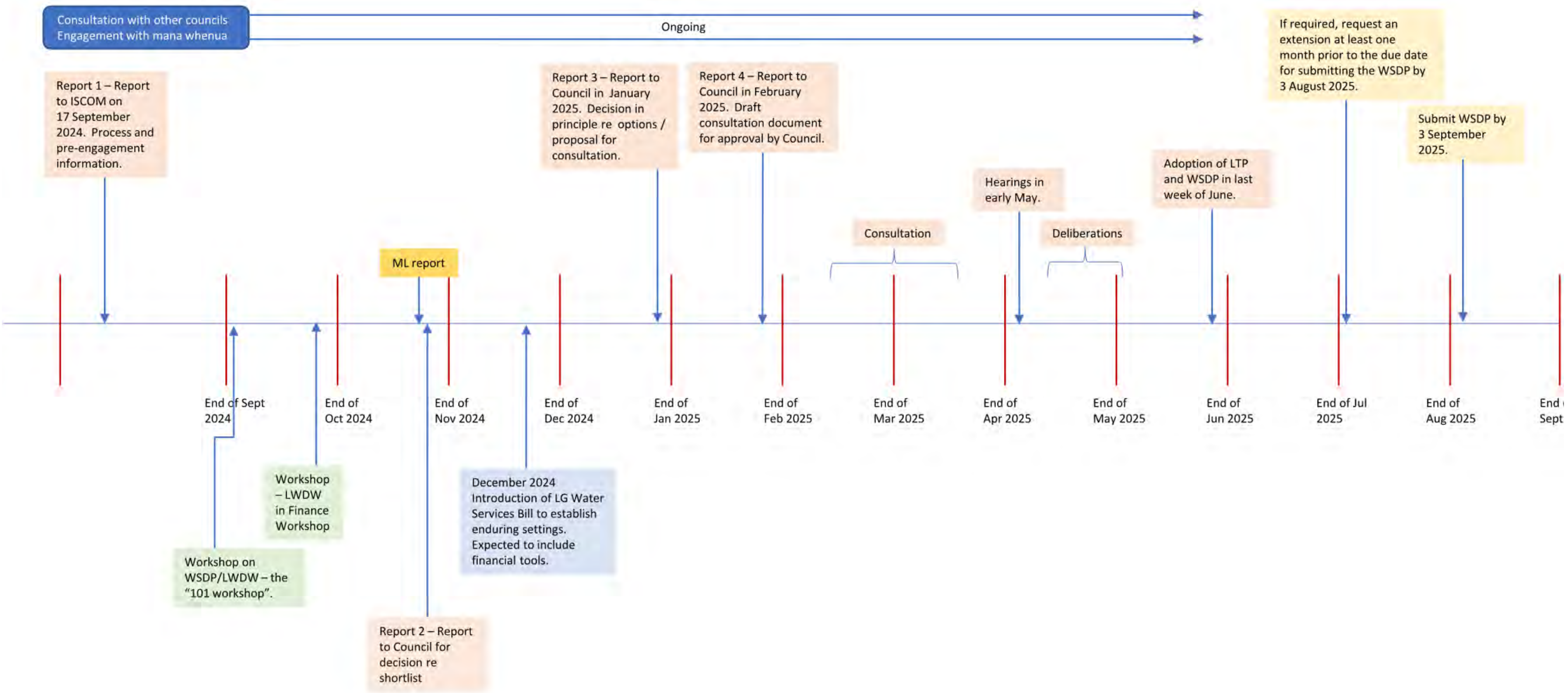
Engagement – external

There will be engagement with other territorial authorities and mana whenua.

Engagement — internal

Staff from Legal, 3 Waters, and the Executive Leadership Team have contributed to this report.

SUMMARY OF CONSIDERATIONS
Risks: Legal / Health and Safety etc. There are no identified risks related to this report.
Conflict of Interest There are no known conflicts of interest.
Community Boards There are no specific implications for Community Boards, although the LWDW reform will affect all areas.


Consultation with other councils
Engagement with mana whenua
Ongoing
Report 1 – Report to ISCOM on 17 September 2024. Process and pre-engagement information.
ML report
Report 3 – Report to Council in January 2025. Decision in principle re options / proposal for consultation.
Report 4 – Report to Council in February 2025. Draft consultation document for approval by Council.
Consultation
Hearings in early May.
Deliberations
Adoption of LTP and WSDP in last week of June.
If required, request an extension at least one month prior to the due date for submitting the WSDP by 3 August 2025.
Submit WSDP by 3 September 2025.
End of Sept 2024
End of Oct 2024
End of Nov 2024
End of Dec 2024
End of Jan 2025
End of Feb 2025
End of Mar 2025
End of Apr 2025
End of May 2025
End of Jun 2025
End of Jul 2025
End of Aug 2025
Workshop – LWDW in Finance Workshop
December 2024 Introduction of LG Water Services Bill to establish enduring settings. Expected to include financial tools.
Workshop on WSDP/LWDW – the "101 workshop".
Report 2 – Report to Council for decision re shortlist

Water services delivery models: Guidance for local authorities

LOCAL WATER DONE WELL

August 2024

Te Kāwanatanga o Aotearoa
New Zealand Government

Te Tari Taiwhenua
Internal Affairs

Introduction

Background

A key feature of Local Water Done Well is providing councils with the flexibility to determine the optimal structure and delivery method for their water services. To support this, the Government is progressing legislation to expand the range of local government water service providers by enabling the establishment of new, financially separate water organisations.

These new water organisations are intended to enable enhanced access to long-term borrowing for water infrastructure – supporting infrastructure development, while managing costs for consumers.

Councils will continue to be able to deliver water services directly (such as through inhouse business units), however they will also be able to establish new water organisations that are more financially and operationally independent of councils.

These models also make it easier for councils who wish to enter joint arrangements to achieve cost savings, improve efficiency and affordability.

Councils will be able to design their own alternative delivery arrangements, as long as these arrangements meet the minimum requirements set out in legislation.

Councils will also have choices about which water services are provided through different service delivery arrangements. For example, they may wish to provide drinking water and wastewater services through a water organisation but retain stormwater services in-house.

This guidance document

This guidance document focuses on the service delivery models and arrangements that will be available to local authorities to deliver water services. It provides further detail on proposals to expand the range of service delivery models available to councils, including by providing for new, financially separate water organisations that councils (and consumer trusts) can own.

In this guidance, the term **'water services provider'** means all forms of local government provider, and including councils that continue with direct (in-house) delivery as well as new water organisations. The term **'water organisation'** refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

This guidance document has five sections:

- Section 1: Minimum requirements of all water services providers and requirements for specific delivery models
- Section 2: Service delivery models available to councils
- Section 3: Governance and accountability arrangements
- Section 4: Financing and credit rating implications
- Section 5: Other powers and authorities available to water organisations.

This guidance document aims to help inform local authorities on service delivery models. It should be read alongside other Local Water Done Well information. The guidance is informed by policy decisions that were announced by the Minister of Local Government in August 2024, and therefore are still subject to change through the Parliamentary process when the Local Government Water Services Bill is introduced to Parliament in December 2024.

More detailed information can also be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? *Contact waterservices@dia.govt.nz*

01 Minimum requirements

Minimum requirements for all service delivery models

The legislation will look to establish a framework for water services delivery that includes:

- a set of minimum requirements that apply to water service providers
- additional legislative requirements that apply to water organisations, focusing on the ownership, governance and structural arrangements for these organisations, and
- further provisions that would apply only to consumer trust-owned (and mixed council/trust owned) water organisations.

Regardless of the model chosen, all water service providers must meet minimum requirements set out in the legislation.

These minimum requirements are designed to promote efficiency, improve the governance and management of financially sustainable water services, and ensure accountability within the sector.

The requirements will likely include that all water services providers:

Will be subject to economic, environmental and water quality regulation – further information on economic, environmental and water quality regulation is available in the related factsheets: Economic regulation of water services (refer to the economic regulation factsheet for more information), Drinking water quality regulation, and Standards to help reduce water infrastructure costs.

Will be subject to a new planning and accountability framework for water services, including the need to produce stand-alone financial statements for water supply, wastewater, and stormwater – further information outlined in the factsheet: Planning and accountability for local government water services.

Must be financially sustainable – legislation will include an enduring objective for water service providers to be financially sustainable, including a requirement for the ringfencing of water services, an expectation of revenue sufficiency, and accommodating for maintenance, renewals and growth.

Must act consistently with statutory objectives – legislation will set out a list of statutory objectives that will apply to all water service providers. There will also be several additional statutory objectives that apply to water organisations.

Will be subject to restrictions against privatisation – legislation will include prohibitions on losing control, selling or disposing of significant infrastructure. Further, water services assets cannot be used as security.

Additional requirements for water organisations

In addition to the minimum requirements that apply to all water services providers, the legislation will also look to include additional requirements that apply to water organisations – affecting their ownership, governance, and structural arrangements.

These requirements will apply to all water organisations, including any existing council-controlled organisations and council-controlled trading organisations that deliver water services.

These features are not relevant where councils continue with direct service delivery.

The following additional requirements apply to water organisations:

- **Current council staff and elected members** cannot be appointed to boards.
- Water organisations **must be companies.**
- Activities of water organisations will be **limited to the provision of water services** and directly-related activities.
- **Only councils or consumer trusts** can be shareholders of a water organisation.
- **Board appointments must be competency-based** and have the appropriate mix of skills, knowledge, and experience.
- **There will be a range of protections against privatisation.**

Requirements for trust-owned water organisations

Water organisations that involve consumer trusts as owners will require additional provisions to ensure that ownership interests cannot be transferred.

This option requires significant controls on the consumer trust as it would have the effective control of water services and assets.

Legislation will set out bespoke requirements that apply to consumer trust-owned (and mixed council/trust-owned) water organisations, to ensure alignment with requirements that apply to councils through other legislation.

For water organisations that involve consumer trusts:

- Consumer trusts must **represent consumers** and their interests.
- Consumer trusts will be responsible for **appointing and removing Boards and overseeing their performance.**
- Trust deeds must include **restrictions on transfer of shares.**
- Trustees must be **elected by consumers**. Trustees are responsible for appointing, monitoring, and removing Board members (subject to competency and independence requirements), as well as approving or issuing a statement of expectations (depending on mixed or full ownership).
- Consumer trusts will have to **comply with all requirements in legislation** or general law relating to trusts, such as having a trust deed.
- Consumer trusts may be a **minority or majority shareholder** of a water organisation with territorial authorities, or it may own 100% of the shares.
- Trusts will be **restricted from modifying the objects in its trust deed** or selling its shareholding, except to another territorial authority or consumer trust shareholder of another water organisation.

Protections against privatisation

Under Local Water Done Well, the Government has committed that water services will remain in public ownership.

Councils and water organisations will not be able to privatise water services.

Legislation will likely include the following statutory protections:

- Only local authorities and/or consumer trusts will be permitted to own shares in a water organisation.
- Provisions that prevent:
  - water infrastructure assets from being used as security for any purpose
  - divestment of ownership or other interest in a water service except to another local government organisation or water organisation, and
  - loss of lose control of, sale, or other form of disposal of the significant infrastructure necessary for providing water services in its region or district, unless, in doing so, the local authority or water organisation retains its capacity to meet its obligations
- Shares in water organisations cannot give any right, title or interest in the assets, security, debts, or liabilities of the entity, and would not be able to be sold or transferred.
- Water organisations that involve consumer trusts will require additional provisions to ensure ownership interests cannot be transferred.

Exemptions from certain requirements

Exemptions can be considered on a case-by-case basis

The Government has agreed to enable exemptions from certain requirements. This will provide councils with the flexibility to identify and establish the delivery arrangements that work best for them. The exemptions framework acknowledges that there may be certain circumstances where there may be justification in waiving certain requirements.

Legislation will include a process where councils can apply for exemptions to the following requirements, on a case-by-case basis:

- water organisations must be companies
- activities of water organisations will be limited to the provision of water services, and directly-related activities, and
- only councils or consumer trusts can be shareholders of a water organisation, while noting that the legislation will look to ensure that no form of privatisation is permitted.

Councils who wish to apply for exemptions from the above requirements will be required to submit applications to the Secretary for Local Government, who will assess the application and provide advice to the Minister of Local Government. Exemption approvals would be granted through an Order in Council, on the recommendation of the Minister of Local Government.

Applications for exemptions must meet certain conditions

Exemptions will only be granted where the council's proposal for water services:

- meets the legislative objectives of Local Water Done Well
- maintains the core requirements that are non-negotiable bottom lines for all water organisations, including that the proposal does not involve any form of privatisation
- will provide water services that are financially sustainable, and
- satisfy the Minister of Local Government that the financially sustainability of water services would be put at greater risk if the exemption was not granted.

02 Service delivery models

Councils can choose from a range of service delivery models

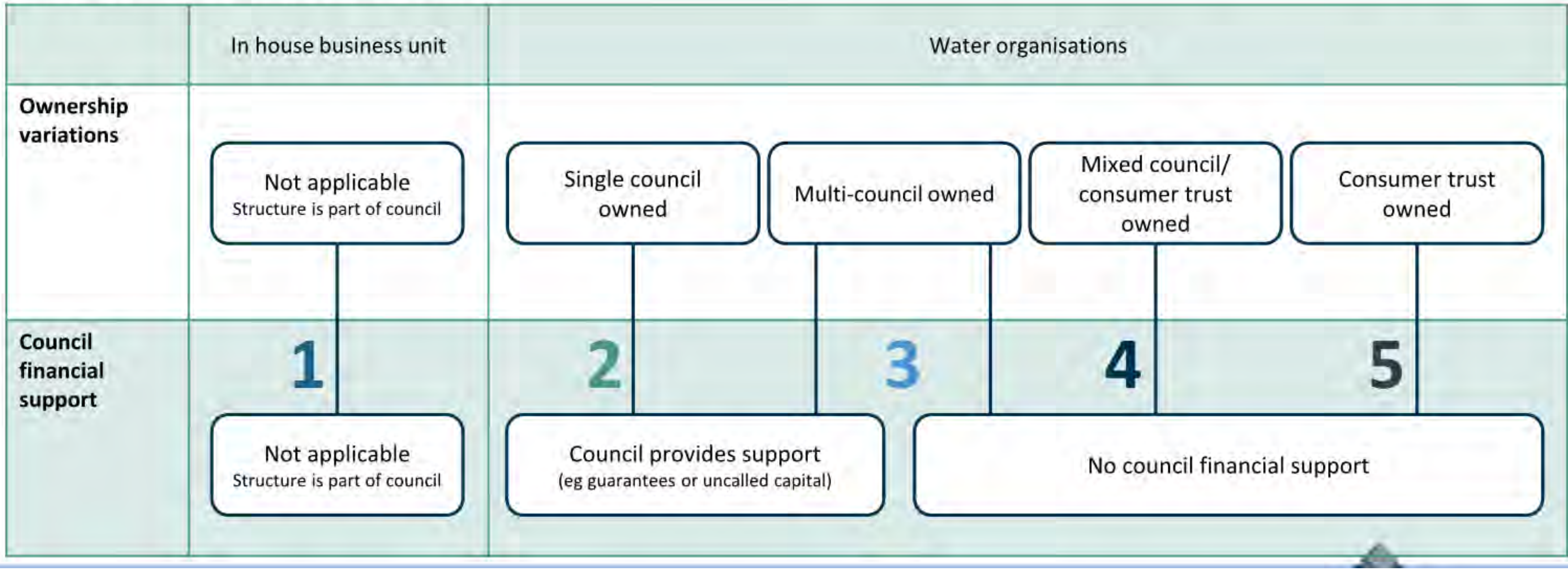
The choices available to councils include:

- whether to deliver water services in-house or establish a water organisation
- whether to deliver services on a stand-alone basis or establish a joint arrangement with other councils
- how to structure ownership and governance arrangements for any water organisation, and
- how to set up water organisations to facilitate access to long-term borrowing for water infrastructure

Councils that already deliver water services via a council-controlled organisation or council-controlled trading organisation will be able to continue to use these arrangements. However, the council-controlled organisation or council-controlled trading organisation will be subject to all of the new statutory requirements that will apply to water organisations and changes are likely to be required to meet these requirements. Councils will be able to design their own alternative delivery arrangements, as long as these arrangements meet the requirements for water service providers.

This guidance provides further detail on the following illustrative examples outlined below. Other delivery models are permissible provided they meet certain minimum requirements or if a council obtains an exemption.

Illustrative examples of service delivery models



Overview of service delivery models

1	Internal business unit or division	• Status quo for many councils • Minimum requirements for water service providers will apply • New financial sustainability, ringfencing rules, and economic regulation will apply
2	Single council-owned water organisation	• New company established, 100% owned by the council • Financial sustainability rules will apply, but retains a financial link to the council • Councils with existing water council-controlled organisations will be required to meet minimum requirements
3	Multi-council owned water organisation	• New company established with multi-council ownership • Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement • Option to access Local Government Funding Agency finance with the provision of parent support or to create a more financially independent organisation
4	Mixed council/consumer trust owned	• Consumer trust established to own majority of shares • Mixed ownership, with one or more councils owning minority of shares • Structure enables financially independent organisation to be established while retaining minority council ownership
5	Consumer Trust owned	• Council transfers assets to consumer trust owned organisation • Consumers elect trustees to represent their interests in the organisation • Most financially independent of the available models

1. Internal business unit or division

Under this option, water services would be delivered directly by the council 'inhouse' through an internal business unit or division, with planning and budgeting integrated into council planning and budgeting processes. This option will be subject to new ring-fencing and financial sustainability requirements, and economic regulation.

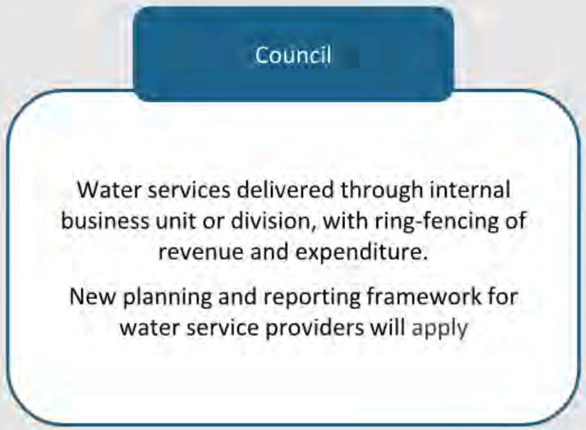
This option represents a continuation of the existing inhouse service delivery model used by many councils.

Revenue continues to be generated through a combination of general and targeted rates and financial/development contributions.

Water service delivery is fully integrated into council strategy, planning, and service delivery.

	Key features
Ownership	• 100% council owned as a business unit or division within the organisation • No new organisation is established
Governance	• Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	• Councils will need to prepare a Water Services Strategy
Accountability	• Water division reports to council per established internal processes • Water service delivery will be accountable to the public through usual local democracy practices • Water-focused annual report and stand-alone financial statements on water will be completed to enhance current requirements
Borrowing	• Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

Illustrative example



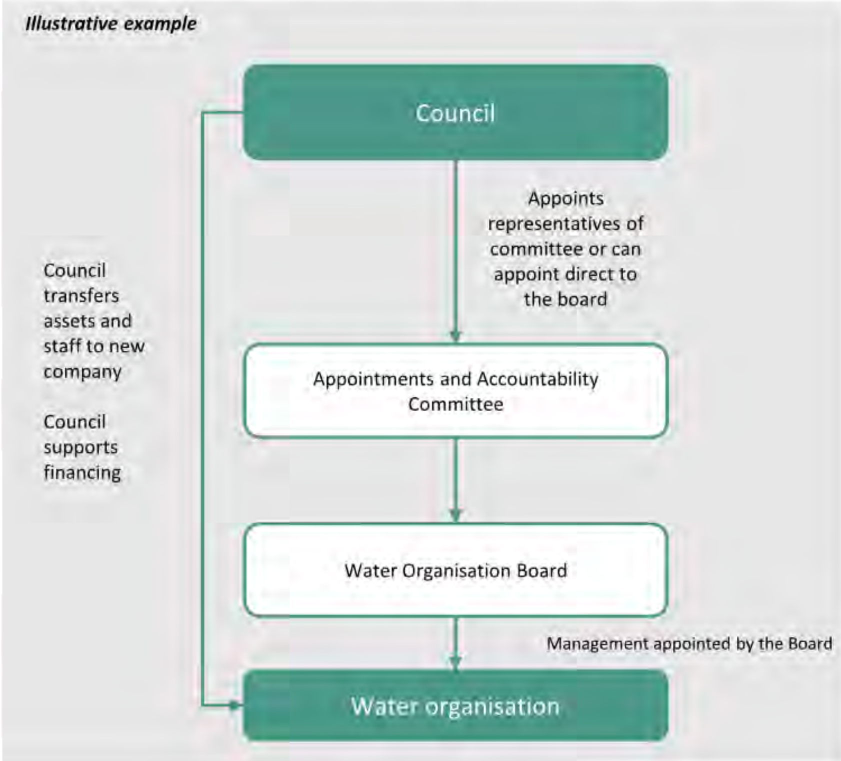
2. Single council-owned water organisation

New company established to deliver water services, with ownership by a single council. Council can transfer or retain ownership of assets, subject to transfer of asset use rights.

The council has flexibility to design governance and appointment arrangements, including to consider whether and how they involve mana whenua, consumers or community representatives (for example via an appointments and accountability body). The council can also choose to appoint board members directly without roles for other groups.

The council would provide financing to the water organisation or provide financial support to enable it to borrow from Local Government Funding Agency

	Key features
Ownership	• Limited liability company, 100% owned by the council • Ownership rights spelled out in a constitution, subject to compliance with legislation
Governance	• Appointments made directly or via an Appointments and Accountability Committee (or similar body) • Board comprised of independent and professional directors
Strategy	• Shareholding council issues Statement of Expectations • Water organisation prepares Water Services Strategy and consults the council
Accountability	• Water organisation reports regularly to shareholding council on performance (for example quarterly) • Water organisation prepares annual report containing audited financial statements, including reporting on actual performance, and other matters outlined in the water services strategy. • Water organisation required to act consistently with statutory objectives
Borrowing	• Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital



3. Multi-council-owned water organisation

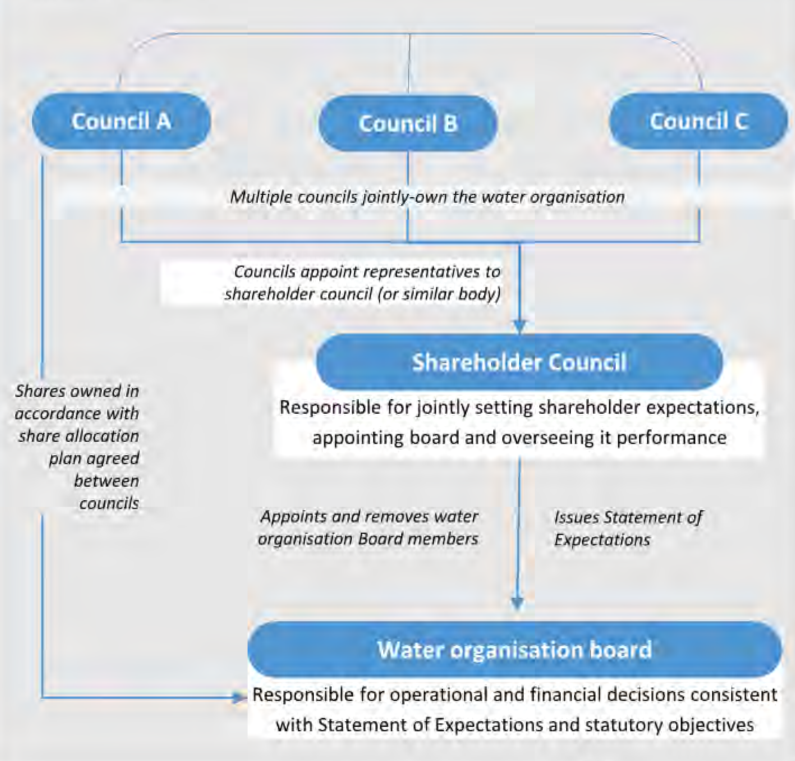
Under this option, two or more councils would establish a jointly-owned water organisation.

Councils will have flexibility to establish shareholder rights and interests through a company constitution and/or shareholder agreement, subject to compliance with the legislation.

Financing options and credit rating impacts will be dependent on whether shareholding councils choose to provide financial support or not.

	Key features
Ownership	• Limited liability company owned by two or more councils • Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation
Governance	• Councils agree how to appoint and remove directors, for example through a shareholder council or similar • Board comprised of independent and professional directors
Strategy	• Shareholding councils agree the process for issuing a combined Statement of Expectations • Water organisation prepares Water Services Strategy and consults shareholding councils
Accountability	• Water organisation reports regularly to shareholding councils on performance (for example quarterly) • Water organisation prepares annual report containing audited financial statements, including reporting on actual performance and other matters outlined in the Water Services Strategy. • Water organisation required to act consistently with statutory objectives
Borrowing	• Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support

Illustrative example:



4. Mixed council/consumer trust owned water organisation

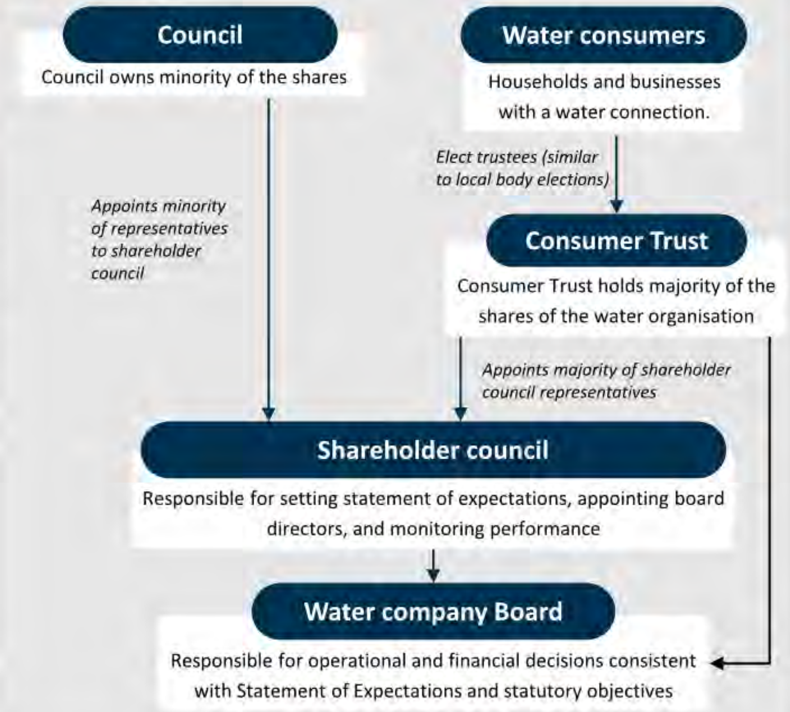
Under this option, one or more councils would establish a jointly-owned water organisation with a consumer trust holding a majority stake.

Councils will have flexibility to establish shareholder rights and interests through a company constitution and/or shareholder agreement upon establishment, subject to compliance with the legislation.

Water consumers elect trustees to the Consumer Trust. That consumer trust is then represented on the shareholder council (along with council representatives) and/or appoints board members directly. Certain restrictions apply to Consumer Trust to protect against privatisation.

	Key features
Ownership	• Limited liability company owned by one or more councils with consumer trust majority ownership • Ownership arrangements and rights set out in constitution and/or shareholder agreement, subject to compliance with legislation
Governance	• Councils and consumer trust appoint a shareholder council to appoint directors • Water organisation governed by independent, professional board of directors
Strategy	• Shareholders agree the process for issuing a combined Statement of Expectations • Water organisation prepare Water Services Strategy and consults shareholders
Accountability	• Water organisation reports regularly to shareholders on performance (for example quarterly) • Water organisation prepares annual report containing audited financial statements, including reporting on actual performance and other matters outlined in the water services strategy. • Water organisation required to act consistently with statutory objectives
Borrowing	• Borrowing would be independent of local authorities (for example banks) and subject to water organisation achieving sufficient credit-quality and track record

Illustrative example:

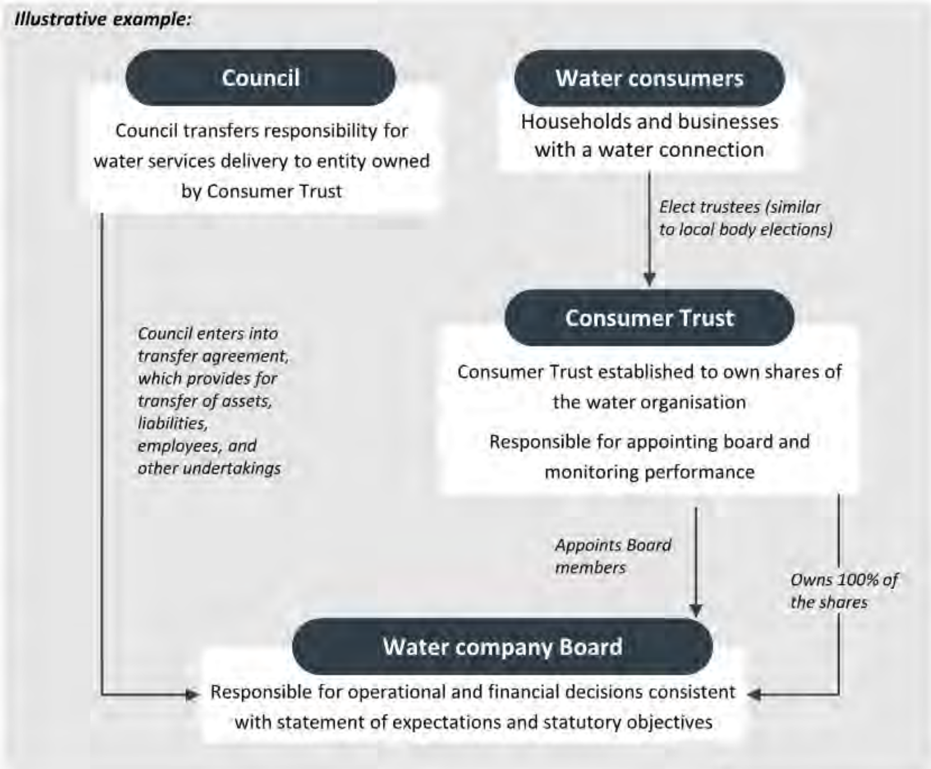


5. Consumer trust owned water organisation

Under this option, one or more councils would establish a wholly consumer trust-owned water organisation, and transfer water assets and responsibility for water services delivery to it.

The council would have no ongoing involvement, as the company board is wholly appointed through the Consumer Trust. Water consumers elect trustees to the Consumer Trust, similar to local body elections.

	Key features
Ownership	• Limited liability company solely owned by a newly established consumer trust • Trust deed is subject to certain minimum requirements to protect against privatisation
Governance	• Trustees appoints company directors • Water organisation governed by independent, professional board of directors
Strategy	• Trustees issue Statement of Expectations • Water organisation prepares Water Services Strategy
Accountability	• Water organisation reports regularly to trustees and consumers on performance (for example quarterly) • Water organisation prepares annual report containing audited financial statements • Water organisation required to act consistently with statutory objectives
Borrowing	• Borrowing would be independent of local authorities (for example banks) and subject to water organisation achieving sufficient credit-quality and track record



Summary of features of service delivery models

	1. Internal business unit or division	2. Council-owned water organisation	3. Multi-council-owned water organisation	4. Mixed ownership/ consumer trust owned water organisation	5. Consumer Trust owned water organisation
Ownership	Wholly council-owned as a business unit or division	Wholly council-owned as a separate water services organisation	Ownership shared across two or more councils	Consumer trust owns majority stake in water organisation, with one or more council	Wholly-owned by consumer trust as a separate water organisation
Governance	Internal business unit or division, responsible to Council through established mechanisms under Local Government Act 2002	Councils (and potentially other groups) appoint Appointments and Accountability committee (or can appoint board directly). Council or committee oversee board performance	Councils appoint members to a Shareholder Council, which appoints Board and oversees performance	Councils and trustees appoint a shareholder council to appoint directors	Trustees appoint directors and oversees performance
Strategy	Councils must prepare Water Services Strategy	Parent council issues Statement of Expectations. Water organisation prepares Water Services Strategy.	Shareholders agree process for issuing combined Statement of Expectations. Water organisation prepares Water Services Strategy	Shareholders agree process for issuing combined Statement of Expectations. Water organisation prepares Water Services Strategy	Trustees issue Statement of Expectations Water organisation prepares Water Services Strategy
Accountability	Water-focused annual reports and financial statements	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives
Borrowing	Council borrows, with water activity groups meeting their share of financing costs (on internal and external borrowing)	Borrowing via council or direct from Local Government Funding Agency with council financial support (guarantee or uncalled capital)	Borrowing direct from Local Government Funding Agency (with financial support from parent councils) or from banks	Borrows independently of local authorities, subject to water organisation achieving sufficient credit-quality and track record	Borrows independently of local authorities, subject to organisation achieving sufficient credit-quality and track record

Miscellaneous

Long-term contracting

Current arrangements under the Local Government Act 2002 enable local government organisations to enter contracts and joint local government arrangements with one another without restriction.

Legislation will ensure that water organisations are also considered to be local government organisations, with the maximum length of contracts to be extended to fifty years.

Extending the limit to fifty years may enable certain types of public-private partnerships, such as 'build, design and operate' contracts, for high capital expenditure assets. The development costs of the asset could be recovered over a longer period or match the economic life of the asset, which can lead to low costs per annum for providing this infrastructure.

Long-term contracting will be an option for all of the delivery models.

Local Government Official Information and Meetings Act 1987

Parts 1 to 7 of the Local Government Official Information and Meetings Act 1987 will apply to water all water service providers. All meetings would be open to the public except for commercially confidential matters or other matters specified in the Act.

Ombudsman

Water service providers would also be subject to the jurisdiction of the Ombudsman.

03 Governance and Accountability

Constitutions and accountability framework

Councils establish constitutions

While constitutions will not be required, they are good governance practice, and it is therefore expected that councils will establish constitutions for water organisations, with content requirements expected to include:

- minimum board size
- rights and process to appoint and remove Directors and Board members, and
- Board member requirements.

There are no restrictions on what can be included within a company constitution provided it meets the requirements of relevant legislation.

To ensure financial separation from councils is maintained, amendment of key features of the constitutions will require agreement by super-majority (75%) of shareholders.

Shareholder council (or similar body)

Shareholding councils may also wish to provide for the establishment of a shareholder council (or similar body) to represent council interests in the entity. This body would support the coordination of multiple council interests and could play a key role in developing shareholder expectations, appointing board directors and overseeing performance.

Establishment of a shareholder council (or similar body) is not a statutory requirement but is advisable to avoid multiple interfaces between the water organisation and its owners.

Members of a shareholder council could be appointed by councils and/or trustees of consumer trusts. Unlike boards, there would be no statutory restrictions on who could be appointed to a shareholder council. The process of appointing a shareholder council could be set out in a shareholder agreement.

Accountability framework

Legislation will provide for a new planning and accountability framework for water services comprising three core components:

- **Statement of Expectations –** to be prepared by shareholders or their representatives (such as shareholder's council), setting out shareholders' general expectations, strategic outcomes, and priorities, including any general guidance to the Board.
- **Water Services Strategy –** this is the primary strategy and planning document for the water organisation, and will set out its strategic priorities, how it will meet regulatory requirements, service standards and financial performance objectives, and will contain projected financial statements and its long-term infrastructure strategy
- **Annual report –** this is the primary accountability document, through which the water organisation is required to report on performance against expectations, service standards and financial performance objectives. The annual report must contain audited financial statements.

The requirements for a Water Services Strategy and Annual Report apply to all water services providers, including local authorities providing services through an internal business unit or division of council.

Statements of Expectations and annual reporting

Shareholders are required to prepare a statement of expectations

Shareholders must prepare a statement of expectations every three years. Any matters contained in the Statement of Expectations must support and align with the legislation and any applicable regulatory requirements.

Water organisations are required to give effect to this Statement, provided it is consistent with its purpose, the water organisation's statutory objectives and other appliable statutory requirements.

Where a water organisation is owned by multiple councils, councils will be responsible for agreeing a process for preparing a joint statement of expectations. This process will not be prescribed in legislation.

An example of this may be the water organisation choosing to prioritise investment in safe drinking water in several jurisdictions (driven by quality regulation) as a higher priority over another jurisdiction where the council would like to invest in wastewater assets.

The purpose of the Statement of Expectations will include:

- stating the expectations, priorities, and strategic direction for the water organisation, and
- informing and guiding the decisions and actions of the board of the water organisation.

Legislation will require the Statement of Expectations to include information on:

- shareholders expectations and strategic priorities for the water organisation
- outcomes the shareholders expect to be achieved through the delivery of water services, and
- any specific requirements and/or obligations that relate to Treaty settlements or other arrangements that are in place with local iwi.

The Statement of Expectations may also include other matters the shareholders may wish to include, including requirements relating to:

- performance expectations
- process for collecting and responding to customer feedback on an organisation's services, and
- community engagement on specific matters of interest.

Annual reporting

Legislation will require water services providers to prepare and adopt an annual report on water services within three months of the end of each financial year

The annual report would include similar content to council annual reports under the Local Government Act, such as:

- an audited statement comparing the capital expenditure budgeted with the amount spent
- an audited statement that compares the level of service achieved in relation to each water activity with the performance target(s) for the activity
- audited financial statements, including GAAP compliant standalone financial statements for each of water supply, wastewater and stormwater.

In addition, for water organisations, the constitution may specify additional reporting requirement for the company to deliver to the company's shareholders, for example quarterly or half-yearly reports on the company's operations.

Water Services Strategy

All providers must prepare a water services strategy

Legislation will include requirements for a Water Services Strategy, which would apply to all forms of water services provider. The purpose of the Water Services Strategy will likely include elements such as to:

- state publicly the activities and intentions of the water services provider, and the objectives and outcomes to which those activities will contribute
- provide transparency about the regulatory requirements and other expectations that apply to the provider (including for financial sustainability), how it proposes to meet those requirements and expectations, and the associated costs and levels of investment needed, and
- provide a basis for the accountability of the provider for its performance.

Process for approving

Strategies are prepared by local authorities or water organisations in accordance with the purpose and objectives set out in legislation (and needs to give effect to regulatory requirements and any statement of expectations)

Where service delivery is through a separate water organisation, shareholder council(s) and any other parties named in the constitution may comment on the draft Water Services Strategy, and the Board must consider these comments before preparing a final version

The Board must approve and deliver to shareholders a final Water Services Strategy before the first financial year to which it relates, and publish it on the council and water organisation websites

Information on water services will not be included in councils' long-term plans. All relevant strategy and planning information related to water services included in the strategy.

Contents of the strategy

Water services providers will prepare a Water Services Strategy every three years covering strategic, operational and financial planning information. This is likely to include matters such as:

- how it intends to give effect to the Statement of Expectations
- its objectives and outcomes, including performance targets and measures
- factors impacting the provider, including population, land use, costs
- the significant activities or work the provider proposes to undertake
- proposed levels of service, including planned changes
- the key risks affecting levels of service, revenue setting and debt availability
- how the provider proposes to obtain feedback from customers
- planned water charges and financing strategy
- forecast financial statements, including forecasts of capital and operating expenditure to meet additional demand, improve the level of service, and replace existing assets
- funding impact statements, identifying the sources and application of funding for each of drinking water, wastewater and stormwater
- significant infrastructure issues over the next 30 years, the principal options for managing those issues, and indicative estimates of the projected capital and operating expenditure associated with management of water infrastructure assets.

The content required to be included in a Water Services Strategy and the process for developing it would be set out in legislation.

04 Charging, borrowing and related matters

Powers to charge customers and debt collection

Charging customers

Legislation will include provisions that enable Boards of water organisations to:

- assess, set and collect water services charges, including charges for any or all of the following:
  - water supply, wastewater, and stormwater (where applicable)
  - the initial connection to one or more of the above services
  - contributions to the capital costs of infrastructure needed to service additional demand on the network, and
  - meeting the costs that the water organisation incurs in performing and exercising it functions.
- determine how charges are assessed and invoiced, when they are due, and how they will be paid or collected.

The Legislation will include a framework to enable water organisations to identify which ratepayers should be charged for water services – which will be based on a modified version of the existing framework in the Local Government (Rating) Act 2002.

Legislation will provide for councils to share relevant billing information with water organisations to enable water companies to contact and bill their customers. Councils will be able to charge a reasonable fee for this service.

When a new water organisation is set up, there may be a transitional period until the organisation has a billing system in place. In this case, councils and water organisations can enter into a voluntary 'pass-through' billing agreement.

The legislation will also enable water organisations to use the development contributions regime in the Local Government Act 2002. This will give water organisations the ability to directly charge developers who place new or additional demand on water infrastructure, to help recover the capital expenditure that is necessary to service that growth over the long term.

Debt collection powers

Water organisations will not have the same rates collection powers as local authorities and will instead rely on commercial debt practices to collect overdue amounts. This is similar to the situation for Watercare and other regulated utilities.

Powers of receivers

The Local Government Act 2002 and Receiverships Act 1993 contain longstanding provisions that allow a receiver to be appointed where a council defaults on a debt. Among other things, a receiver may collect rates to repay the debt.

New water organisations that borrow independently of Local Government Funding Agency will have similar provisions to ensure receivers can act appropriately in the event that a water organisation defaults on a debt.

New legislation will:

- allow the receiver to assess and collect for a given financial year both the amounts owed by the water organisation for that year and the reasonable costs incurred in collecting that amount
- prohibit the receiver from having any interest or security in water services infrastructure assets, and
- allow the receiver to collect the amount through water services charges assessed on consumers.

In the event of financial distress, relevant provisions of the Corporations (Investigation and Management) Act 1989 will also apply.

Borrowing and credit rating implications

Local Government Funding Agency

The Local Government Funding Agency will be able to provide financing to new water organisations guaranteed by its shareholders in the same way as council-guaranteed council-controlled organisations.

The Government is developing options to enable the Local Government Funding Agency to lend to new water organisations, with the aim to provide confidence to councils in suitable financial solutions.

Borrowing from Local Government Funding Agency, with the support of shareholding councils will provide a transitional step towards water organisations borrowing independently in the future.

This transition path allows time for water organisations to develop sufficiency in their revenue gathering and develop an operating track record.

Foreign currency borrowing

Legislation will explicitly allow water organisations to borrow in foreign currency. This acknowledges that many organisations will need to borrow significant amounts to meet infrastructure costs, expected to exceed the amount of New Zealand-based lending available.

Water organisations will also be allowed to enter into incidental arrangements, such as derivatives and hedges, which allow water organisations to reduce their exposure to currency risk.

Credit rating implications

The impact on local authority credit ratings of establishing a water organisation will depend on a range of factors, including key features of the proposed model adopted, ownership, and financing arrangements (including provision of any council support). Councils who are considering establishing a water organisation should obtain their own advice on the rating and financial implications prior to deciding to establish a water organisation.

With support from Crown Infrastructure Partners and its commercial advisors, the following table has been prepared as an illustrative guide of the hypothetical rating treatment based on certain scenarios and assumptions. Crown Infrastructure Partners is available to answer any questions you have about this indicative rating evaluation, including the assumptions underpinning it.

Model	Council support	Indicative rating treatment	Financing mechanism
Internal business unit or division	N/A	On balance sheet*	LGFA
Single-council water organisation	N/A	On balance sheet*	LGFA
Multi-council water organisation (with council support)	Parent council provides guarantee	Contingent liability*	LGFA
Multi-council water organisation (with no council support)	No support from parent	Contingent liability*	Banks and/or capital markets
Mixed ownership	No support from parent	Contingent liability*	Banks and/or capital markets
Consumer Trust-owned	No support from parent	Off balance sheet	Banks and/or capital markets

* Impact on council credit rating depends on council and/or water organisation revenues and debt.

Distributions, taxation and related arrangements

Distributions

Local authorities will be able to decide whether to permit water organisations to make distributions or pay dividends to shareholders, and in what circumstances, when they establish a water organisation. Should councils wish to prevent a water organisation from making distributions to shareholders, this can be provided for in the company constitution. Economic regulation will, in certain circumstances, include a focus on the appropriateness of water charges and revenues, including considering the appropriate return on capital.

Tax status of water organisations

Most new water organisations will be exempt from income tax. This is because water organisations are not primarily engaged in commercial activities with a profit-making objective and will be owned by councils or consumer trusts.

If a water organisation is wound up, there will be a requirement that assets must be transferred to another water organisation or to a council on wind-up. This ensures that a taxable consumer trust or private shareholder would not receive any of the water organisation's assets (including any untaxed accumulated gains).

Exemptions from minimum requirements, outlined earlier, may affect a water organisation's tax status if they no longer meet the criteria for the income tax exemption. If a water organisation has a shareholder that is not tax exempt (such as a consumer trust that does not have charitable status) it may not be granted tax exempt status.

Rateability of land and assets owned by water organisations

Land transferred to water organisations will be rateable. Legislation will require land owned by water organisations, and assets that are owned by the organisation but located on or under land the organisation does not own, should be rateable. This aligns with the way that land and assets of other network providers, such as electricity and telecommunications companies, are rated.

Councils may elect to remit those rates if they decide that the water organisation, which they will likely be shareholders in, should not have to pay them.

Civil Defence Emergency Management cost-sharing arrangements

Legislation will ensure that Civil Defence Emergency Management cost-sharing arrangements with the Crown would apply directly to water organisations. This will ensure financial separation of water organisations and allow them to directly seek partial reimbursement from the Crown for emergency expenses.

Modernised powers and stormwater services

Modernised powers to carry out work on land and control connections

Legislation will include modernised provisions relating to water infrastructure and service including:

- Powers for water service providers to control connections to water services and infrastructure. These are powers that enable councils to approve connections by private individuals or businesses to water supply, wastewater and/or stormwater infrastructure, and include the ability to set design or engineering requirements.
- Powers for water service providers to carry out work on land in relation to water services infrastructure. These are powers that are required by all kinds of utility providers (water, telecommunications, electricity, and gas) to ensure infrastructure can be constructed or maintained, particularly where it is on private property or underground.
- An updated approach to the bylaws relating to water services. The current system of bylaws will be replaced or supplemented with new, fit-for-purpose statutory provisions, including requirements for management plans and enforcement rules. This will enable more effective and consistent management, while still addressing local issues and needs.

These changes will allow water services providers to control and protect drinking water catchments and manage trade waste. The legislation will include transitional provisions to provide for how local authorities and water services providers will transition to the new system over time.

Arrangements for the management and delivery of stormwater services

Councils will retain legal responsibilities for the management of stormwater services, but that can choose to:

- continue to deliver stormwater services in-house and contract aspects of stormwater service delivery to a new water organisation
- transfer aspects of stormwater service delivery (this might include stormwater network assets*) to a water organisation, and
- contract aspects of stormwater service delivery to a third-party provider, via long-term contract or public-private partnership.

Councils can determine the levels of service and performance targets for the delivery of stormwater management services. Water service organization identify the costs of delivering stormwater management services that meet the expected levels of service and meet performance targets.

Councils may continue to collect revenue through rates from residents and businesses for stormwater management services. Revenue for the delivery of stormwater management services would need to be identified separately within council's accounts (ring fenced). Depending on the stormwater services or assets that are transferred to a new water organisation, how revenue is collected may be allocated between councils and the water organisation.

* Councils will need to consider this on a case-by-case basis as part of any transfer arrangements, including whether or not it is appropriate to transfer any assets as well as determining appropriate funding mechanisms.

Te Tari Taiwhenua Internal Affairs

August 2024

LOCAL WATER DONE WELL

Factsheet: Financing for councils and water organisations

This is one of a series of factsheets giving an overview of key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill, which is expected to be introduced to Parliament in December 2024.

It is based on Cabinet decisions announced by the Minister of Local Government and Minister of Commerce and Consumer Affairs in August 2024.

This factsheet provides an overview of financing options for local government water service providers[1] under Local Water Done Well, resulting from ongoing work with New Zealand Local Government Funding Agency Limited (LGFA). It covers current and emerging options.

It should be read alongside other Local Water Done Well factsheets. More detailed information can be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

What are the proposed changes?

LGFA has confirmed that it will provide financing to support water council-controlled organisations (CCOs) established under Local Water Done Well and look to assist high growth councils with additional financing.

LGFA will extend its existing lending to CCOs to new water organisations[2] that are CCOs and are financially supported by their parent council or councils. The ability of councils to establish water organisations will be provided for by the Local Government Water Services Bill.

- LGFA will support leverage for water organisations up to a level equivalent to 500 percent of operating revenues3 (around twice that of existing councils), subject to water organisations meeting prudent credit criteria. LGFA will treat borrowing by water organisations as separate from borrowing by parent council or councils.

[1] 'Water service provider' means all forms of local government provider – including councils that continue with direct (in-house) delivery, and water organisations.

[2] 'Water organisation' means the separate organisations that councils may establish to provide water services – and does not include councils. There will be various types of water organisation under Local Water Done Well, and LGFA will only be lending to water organisations that meet the qualifying criteria for LGFA membership as a CCO. In particular, financially independent water organisations will not meet the qualifying criteria.

[3] Note that this metric is being used for comparative purposes only and a more appropriate metric for water organisations will ultimately be used.

- LGFA will lend to multiply-owned water organisations, who are supported by the parent councils.
- LGFA will make available to water organisations its existing suite of financial products that are currently made available to councils and CCOs. These include green and sustainable loans and climate action loans, short and long-term loans and standby facilities.

Councils will also retain the ability to borrow through LGFA should they choose to keep water services 'in house' rather than establish a water organisation.

LGFA is also reviewing whether it can prudently provide additional flexibility to councils to meet the future challenges faced by the sector. That work will include consideration of the following options:

- LGFA increasing debt limits for high growth councils beyond the current ceiling of 285 percent of operating revenues; and
- In time, and subject to prudent criteria and LGFA stakeholder approval, LGFA lending to water organisations on an unsupported basis.

The Crown confirms the existing supports it provides to LGFA, and as part of the review will consider whether those supports remain appropriately sized given the growth in LGFA's balance sheet.

Why are these changes needed?

LGFA is the source of most debt financing accessed by local government. This is because LGFA is the lowest cost provider of financing to local government as a result of its scale and its AAA credit rating which is similar to that of central government due to the support of both central and local government.

LGFA has various requirements that councils need to meet and stay within to access LGFA funding. These requirements are to preserve the credit quality of the LGFA lending book in order to maintain its AAA credit rating. A key requirement is that total council debt cannot be more than 285[4] percent of council operating revenues for rated councils and 175 percent for unrated councils, plus there are interest cover ratios based on rates and total council revenues.

Many councils will need to increase borrowing in order to make the necessary investments to bring water infrastructure up to standard and support new housing. Some councils are already close to their LGFA debt limits.

Without change to key financing ratios, some councils will find it difficult to stay under the current LGFA debt to revenue 'ceiling' while making necessary water investments.

[4] This reduces to 280% from 1 July 2025.

The changes proposed under Local Water Done Well enable councils to choose what structural options for water services delivery work best for them. One of those options is to establish a water organisation. That option is expected to have multiple benefits:

- It will result in an organisation that is dedicated to water services, their delivery and their quality.
- It will reduce the debt directly attributed to the parent council(s) if councils transfer water related debt to the water organisations.
- Water organisations will be able to borrow more than councils can and therefore make the necessary investments to provide quality water services.

If councils establish water organisations and do not provide financial support, those organisations could not as it currently stands, access LGFA funding and would need to seek debt funding directly from the private sector.

In addition to cost benefits, an advantage of financing through LGFA is that there will be no transition issues for eligible water organisations. Water organisations are not required to join LGFA and once they have joined, they are not obliged to borrow from LGFA.

Under Local Water Done Well, the Government has been working with LGFA to confirm its intended approach to increased lending to councils and water organisations.

LGFA has also taken steps to improve its working capital and financial strength over time. From 1 July 2024, both borrower loan margins and the borrower notes subscription rate have been increased.

Financial benefits for new water organisations and parent councils

The establishment of new water organisations will enable additional debt financing to fund capital investment into water infrastructure. In practice, this will enable:

- An increased proportion of capital expenditure for water infrastructure to be financed by debt rather than operating revenues – spreading the cost of the infrastructure asset over its useful life;
- A reduction in operating revenue requirements for a financially sustainable water organisation against the status quo – where additional debt financing will mean operating revenues will only need to cover the interest costs and debt repayments, as opposed to direct funding investment;
- Enable borrowings for water services infrastructure to be directly supported by water services revenues at a higher gearing, negating the requirement to use non-water services council revenues to borrow for water services;
- Additional borrowing headroom to be realised for parent councils whose current water services borrowings exceed council borrowings for other activities on a debt to revenue basis; and

- The opportunity for parent councils to pass on the benefit of any additional debt headroom created to consumers, by utilising this to finance non-water capital expenditure with a corresponding reduction to rates revenue requirements.

Proposed economic regulation of all local government water services providers will ensure closer scrutiny that costs are ring-fenced and providers become more efficient. The recovery of costs through water rates are expected to give lenders greater confidence in the financial sustainability of water service providers.

To illustrate these benefits, the new financing arrangements have been applied to a hypothetical council in Annex A.

What does this mean for consumers?

Consumers will benefit from increased lending flexibility because it will support greater investment to improve water infrastructure and services at a lower cost of borrowing than other sources.

Increased borrowing to fund necessary investment in water infrastructure reduces the need to fund investments directly from rates and other revenue. This can smooth the impact of investments across longer periods of time, which should be reflected in smaller increases in rates and water charges.

Next steps

LGFA and the Government will update the sector on how these proposed changes can be implemented ahead of LGFA's November 2024 Annual Meeting of Shareholders.

The Department of Internal Affairs will work with LGFA to develop guidance for councils on financing options, as this work progresses.

Local Government (Water Services Preliminary Arrangements) Bill

The second Local Water Done Well Bill, the Local Government (Water Services Preliminary Arrangements) Bill, is currently before Parliament and is expected to be enacted in August 2024.

The Department will be providing guidance and information for councils' development of Water Services Delivery Plans, following the enactment of the Bill.

Further information

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Annex A: An illustrative example for 'Council A'

To illustrate the financial benefits for new water organisations and parent councils, the new financing arrangements have been applied to the hypothetical 'Council A' which has established a new water organisation ('Water Organisation A'), which LGFA has agreed to lend to at up to 500% of operating revenues. Water Organisation A is financially supported by uncalled capital issued to Council A.

'Water Organisation A':

- Has been established as a company, owned by 'Council A', with appropriate protections against privatisation;
- Owns Council A's water infrastructure assets and has the power to assess, set and collect water services charges from consumers;
- Has its activities limited to the provision of water services and directly-related activities; and
- Is governed by a board which is independent from the council in terms of having no council staff or elected members, with directors appointed for their competency and to ensure an appropriate mix of skills, knowledge and experience.

Through the creation of 'Water Organisation A', Council A has transferred staff, assets and debt relating to water services to the new water organisation. LGFA has agreed to lend up to 500% of operating revenues, subject to 'Water Organisation A' demonstrating sufficient projected cashflows to meet LGFA's covenants and meeting prudent credit criteria.

'Water Organisation A' has identified that it can reduce its projected revenue requirements, by utilising debt financing for capital expenditure, keeping revenues to a level sufficient to cover the costs of service and to meet LGFA's cashflow covenants requirements. These lower revenue requirements are translated into savings for consumers.

The establishment of the new water organisation has also generated additional borrowing headroom for Council A, as its water services were more highly leveraged than remaining council business. Council A has opted to utilise this additional borrowing ability to fund non-water capital expenditure over three years, passing on a corresponding saving to ratepayers.

This arrangement will enable:

- 'Water Organisation A' to reduce projected water charges by $16.4 million over three years (15.4% saving), through more efficiently utilising debt to fund capital expenditure; and
- 'Council A' to utilise additional debt headroom of $14.1 million from the separation of water services for funding non-water capital expenditure, reducing rates requirements by $13.7 million over three years (7.7% saving); for
- Total savings passed on to ratepayers and water consumers of $30.1 million over three years (10.6% saving).

Table 1: Council A's projected rates revenues and charges in the current LTP

Council A's current LTP	Year 1	Year 2	Year 3	3 Year Total
Council rates revenue ($m)	$85.3m	$95.0m	$104.1m	$284.4m
Council rates revenue increases, including water charges (%)	13.6%	11.3%	9.6%	38.7%
Council rates revenue increases, excluding water charges (%)	10.4%	6.1%	4.2%	22.0%
Water services charges ($m)	$29.2m	$35.4m	$42.1m	$106.7m
Water services charges increases (%)	20.3%	21.4%	18.8%	73.5%
Projected debt for water services ($m)	$103.0m	$114.9m	$131.3m	
Water debt to operating revenue (%)	332%	308%	299%	

Table 2: Water Organisation A's projected charges, borrowings and savings to water services consumers

Water Organisation A	Year 1	Year 2	Year 3	3 Year Total
Water services charges ($m)	$27.0m	$29.9m	$33.4m	$90.3m
Updated water services charges increases required (%)	11.4%	10.7%	11.8%	37.7%
Reduction in water services charges – savings ($m)	$2.2m	$5.5m	$8.7m	$16.4m
Reduction in water services charges – savings (%)	7.4%	15.6%	20.6%	15.4%
Projected debt for water services ($m)	$105.3m	$123.1m	$149.0m	
Water debt to operating revenue (%)	364%	387%	423%	

Table 3: Councils A's additional debt headroom passed as savings to ratepayers

Council A (excluding water services)	Year 1	Year 2	Year 3	3 Year Total
Debt headroom from separating water services ($m)	$14.1m			$14.1m
Updated non-water services rates increases required (%)	2.9%	5.1%	3.1%	11.5%
Capital expenditure financed by debt headroom ($m)	$3.8m	$4.7m	$5.6m	$14.1m
Additional interest costs ($m)	$0.0m	$0.1m	$0.2m	$0.4m
Reduction in non-water services rates – savings ($m)	$3.8m	$4.6m	$5.4m	$13.7m
Reduction in non-water services rates – savings (%)	6.8%	7.7%	8.6%	7.7%

Table 4: Combined savings to ratepayers and water services consumers

Council A and Water Organisation A (combined)	Year 1	Year 2	Year 3	3 Year Total
Projected rates increases – per current LTP (%)	13.6%	11.3%	9.6%	38.7%
Projected rates increases – Council/Water Org combined (%)	5.6%	7.0%	6.1%	20.0%
Savings to water services consumers – Water Org A ($m)	$2.2m	$5.5m	$8.7m	$16.4m
Savings to ratepayers – Council A ($m)	$3.8m	$4.6m	$5.4m	$13.7m
Total savings ($m)	$6.0m	$10.1m	$14.0m	$30.1m
Total savings (%)	7.0%	10.6%	13.5%	10.6%

Te Tari Taiwhenua
Internal Affairs

August 2024

LOCAL WATER DONE WELL

Factsheet: Planning and accountability for local government water services

This is one of a series of factsheets giving an overview of key Local Water Done Well policy decisions, including those decisions that will be reflected in the proposed Local Government Water Services Bill, which is expected to be introduced to Parliament in December 2024.

It is based on Cabinet decisions announced by the Minister of Local Government and Minister of Commerce and Consumer Affairs in August 2024.

The Local Government Water Services Bill will set out the enduring settings for the new water services system. It is the third piece of legislation in the Government's three-stage process for implementing Local Water Done Well.

This factsheet provides an overview of the new planning and reporting framework for water services under Local Water Done Well, and what this means for councils and existing water organisations [including existing council-controlled organisations (CCOs)].

It should be read alongside other Local Water Done Well factsheets. More detailed information can be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

What are the proposed changes?

The Government is proposing a new planning and accountability framework for water services, which is fit for purpose for the new water services delivery system. The framework will help to improve transparency and accountability, and support an enhanced focus on water services.

The Local Government Water Services Bill will set out the details of the new framework. It will apply to all local government water service providers.[1]

[1] 'Water service provider' means all forms of local government provider – including councils that continue with direct (in-house) delivery, and water organisations.

New planning and reporting documents for water services

The new approach includes three core documents:

1. A statement of expectations, for service delivery arrangements that include separate water organisations[2] (prepared by shareholders)
2. A water services strategy (prepared by water service providers)
3. A water services annual report (prepared by water service providers).

Together, these documents form the framework within which each water service provider's strategic and investment priorities, and performance settings, will be developed, explained and reported.

Information about these three documents is set out below.

Document	Overview
Statement of expectations (applicable where there are separate water organisations) *Prepared by shareholders and issued to the water organisation they own*	This document will set out the expectations, priorities, and strategic direction for the water organisation. It will inform and guide the decisions and actions of the organisation's board.
Water services strategy *Prepared by water service providers*	This document will set out – in a single, comprehensive, water-focused document – how the provider is proposing to perform, respond to local expectations and priorities, and meet regulatory and financial sustainability requirements. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy.
Water services annual report *Prepared by water service providers*	This document will report on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting.

Improving transparency and accountability relating to water charges and expenditure

The legislation will include the principle that 'water revenues should be spent on water services'. This will guide the operational policy of water service providers.

[2] 'Water organisation' means the separate organisations that councils may establish to provide water services – and does not include councils. There will be various types of water organisation under Local Water Done Well.

In addition, water service providers will be required to develop standalone financial statements for all water services (drinking water, wastewater, stormwater, and aggregated water services). These statements will separate water services charges, expenses and liabilities from other council activities.

Councils will need to track and report on all cash generated for water services, as well as the uses of cash to prepare standalone financial statements. This requires any unspent revenues or cash generated to be retained and tagged for future water services expenditure or activity. Similarly, councils will need to track and disclose borrowing arrangements for water services, including total borrowings and movements in borrowings.

The standalone financial statements will provide accountability and transparency relating to water charges and expenditure, and evidence that water services revenues are being spent on water services. They will also provide transparency and accountability over the amount of council debt that is allocated to water services.

Why are these changes needed?

The changes proposed under Local Water Done Well will affect the current planning and accountability framework for local government water services. For example:

- There will be an increased and enduring focus on the financial sustainability of water services, how much these services cost and how these costs are being met, and how the services – and service providers – are performing. This kind of information is covered in planning and reporting documents.
- Some councils will stop providing water services directly, and will use water organisations instead. This will change the relationship between councils and water services customers, and affect the way the current accountability model operates in practice.

One of the minimum requirements for all local government water service providers, which will be set out in the Local Government Water Services Bill, is that they are subject to a bespoke planning and accountability framework for water services.

The new framework needs to be appropriate for the Local Water Done Well context and wider system settings.

What does this mean for councils and water organisations (including existing CCOs)?

The new planning and accountability framework for water services will replace and/or modify the requirements that currently apply under Part 6 and Schedule 10 of the Local Government Act – with regards to the water-related content of council planning and reporting documents.

It will also replace the planning and reporting provisions that apply to council-controlled organisations under Part 5 and Schedule 8 of the Local Government Act – where these organisations provide water services.

Once the new framework comes into effect, this will mean:

- Councils that continue to deliver water services in-house will prepare a water services strategy and associated annual report, instead of including extensive information on water services in their general long-term plan, infrastructure strategy, financial strategy, and annual report.
- If a water organisation (including an existing CCO) is providing water services instead of a council:
  - the owners/shareholders will prepare a statement of expectations and provide this to the water organisation
  - the board of the water organisation will prepare a water services strategy (through a process that includes providing a draft strategy to shareholders for feedback)
  - the board of the water organisation will also prepare a water services annual report
  - the council will not include information about water services in its long-term plan, infrastructure strategy, financial strategy, or annual report – except with respect to reporting on its ownership role.

Further details relating to the different components of the new framework are currently being developed. This will include the specific contents and processes associated with each of the documents, and the transitional arrangements and timeframes that will apply. It also includes considering the links with, and consequential amendments to, the existing requirements in the Local Government Act.

The provisions in the Bill will be designed in a way to ensure this framework connects with other relevant systems and priorities, to ensure alignment and reduce duplication of reporting. This includes, for example, the new economic regulation regime for water services, spatial planning and land-use planning frameworks, and expectations for resilience in relation to water infrastructure.

Wider regulatory system settings will also inform the context of the water services strategy, and the process and context in which water service providers set prices and charges. For example:

- Ringfencing will mean revenue collected for water services can only be used for those services
- Financial sustainability will require revenue is sufficient to cover the costs of delivering water services, including sufficient infrastructure investment and meeting regulatory requirements.

All local government water service providers will be subject to an economic regulation regime administered by the Commerce Commission. This will provide regulatory oversight to ensure water charges are fair and cost reflective, and revenue is sufficient to meet investment requirements.

The Commerce Commission (as the economic regulator) will also be responsible for monitoring and enforcing water service providers' compliance with the standalone financial statements. This will assist with the determination of whether water services revenues are set at financially sustainable levels.

Next steps

The proposed changes covered in this factsheet will be included in a Local Government Water Services Bill, which is expected to be introduced in December 2024.

There will be an opportunity to provide feedback on the proposed changes at select committee.

The Department of Internal Affairs will prepare guidance material to support implementation of Local Water Done Well, following the enactment of the Bill. This is expected to be in mid-2025.

Local Government (Water Services Preliminary Arrangements) Bill

The second Local Water Done Well Bill, the Local Government (Water Services Preliminary Arrangements) Bill, is currently before Parliament and is expected to be enacted in August 2024.

The Department will be providing guidance and information for councils' development of Water Services Delivery Plans, following the enactment of the Bill.

Further information

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Te Tari Taiwhenua
Internal Affairs

August 2024

LOCAL WATER DONE WELL

Factsheet: Future arrangements for stormwater

This is one of a series of factsheets giving an overview of key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill, which is expected to be introduced to Parliament in December 2024.

It is based on Cabinet decisions announced by the Minister of Local Government and Minister of Commerce and Consumer Affairs in August 2024.

The Local Government Water Services Bill will set out the enduring settings for the new water services system. It is the third piece of legislation in the Government's three-stage process for implementing Local Water Done Well.

This factsheet provides an overview of future arrangements for urban stormwater, and mechanisms to improve the management of overland flow paths and watercourse in urban areas.

It should be read alongside other Local Water Done Well factsheets. More detailed information can be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

What are the proposed changes?

Future arrangements for management of urban stormwater

The Government is proposing a new approach to the management of stormwater services under Local Water Done Well.

Councils will retain legal responsibility and control of these services but will have flexibility to choose the arrangements that best suit their circumstances.

Councils will be able to:

- Continue to deliver stormwater services;
- Contract a new water organisation[1] to deliver aspects of those stormwater service delivery; or

[1] 'Water organisation' means the separate organisations that councils may establish to provide water services – and does not include councils. There will be various types of water organisation under Local Water Done Well.

Page 1 of 4

- Transfer aspects of stormwater service delivery (this might include stormwater network assets[2]) to a water organisation.

If councils choose to transfer some or all aspects of the delivery of stormwater services, they will still be responsible for determining the levels of service and performance targets for the delivery of stormwater management services (subject to regulatory requirements and community preferences). They will also be able to continue to recover costs of providing stormwater services that they continue to deliver from ratepayers.

Water organisations will be responsible for identifying the costs of delivering stormwater management services that meet the expected levels of service and meet performance targets.

Management of overland flow paths and watercourses in urban areas

The Government is also proposing changes to improve the management of overland flow paths and urban watercourses.

The key changes are:

- Specifying territorial authority and private landowner statutory roles and responsibilities in relation to the management of overland flow paths and urban watercourses.
- Enabling new planning and regulatory tools – through stormwater network risk management plans and stormwater rules.
- Enabling territorial authority, regional council, transport corridor managers to agree 'service agreements' to support the integrated management of stormwater networks.

Why are these changes needed?

Urban intensification and climate change are increasing pressure on the delivery of stormwater services. Recent extreme weather events have highlighted the importance of stormwater management, and the potential risks to people and property when stormwater networks do not perform effectively.

A new approach to the management of the stormwater network and services is needed to lift capacity and capability. However, it's important that councils continue to have choices about how best to manage stormwater given the overlap with land use planning, other areas of councils' responsibilities including roads, parks and reserves, and urban watercourses that impact on the operation of stormwater network.

In addition, challenges such as uncertainty around legal responsibilities, limited regulatory tools, and information gaps currently affect the effective management of overland flow paths and watercourses (an urban area's natural drainage system). This can expose people and property to significant flood risks.

[2] Councils will need to consider this on a case by case basis as part of any transfer arrangements, including whether or not it is appropriate to transfer any assets as well as determining appropriate funding and financing mechanisms.

What does this mean for councils?

Councils will be able to choose the arrangements for the management of stormwater services that best suit their circumstances.

This gives them flexibility to contract or transfer the delivery of a range of services (for example, maintenance and operation of the network, and/or technical and specialist advice to leverage the capability and capacity of the new water services organisations).

Councils responsible for stormwater networks in their city or district

Councils will continue to be accountable to their communities for stormwater outcomes. The proposed changes support the coordination required for the effective management of stormwater services in association with other areas of council responsibility.

If councils contract or transfer the delivery of stormwater services to a water organisation, they can set levels of service and performance targets that reflect regulatory requirements, including other requirements such councils' engineering standards, and community preferences.

These proposed changes maintain the incentive on councils to align land use planning, stormwater services and investment to support the management of stormwater services and continue to leverage councils' existing networks with the communities.

The changes will also provide clarity on the roles and responsibilities of both councils and private owners in relation to overland flow paths and urban watercourses that are both on private land and related to the operation of the stormwater network in urban areas.

No change to current funding arrangements for stormwater services

Current funding arrangements for stormwater services will be retained. If a council contracts or transfers the delivery of stormwater services to a water organisation, the revenue collected through rates may be allocated between council(s) and the water organisation to support delivery of stormwater service outcomes.

Integration between key agencies to improve management of overland flow paths and urban watercourses

Specifying territorial authority and private landowner statutory roles and responsibilities in relation to the management of overland flow paths and urban watercourses will provide clarity to all parties, and support greater integration to improve management of overland flow paths and urban watercourses.

As part of this approach, councils will be required to:

- Develop a stormwater risk management plan to identify risks and hazards related to stormwater network.
- Work with private landowners as required to protect and maintain the conveyance capacity of overland flow paths and urban water courses.
- Develop (as required) stormwater rules that would provide direction to private landowners on their responsibilities for maintenance and protection of the conveyance capacity of overland flow paths and urban watercourses on their land.

Stormwater risk management plans and stormwater rules will provide councils with new fit-for-purpose tools that will set out landowners' duties, improve flood risk information, help councils target operational activities to protect critical stormwater network assets, and support actions to identify how risk to the network and community can be managed.

It is also proposed that the legislation will include an enabling framework for the development of service agreements, which can be used by councils, water organisations and other agencies to support the integrated management of the stormwater network. The legislation will include the core features of these agreements, but using them will not be mandatory. This approach reflects the cooperative nature of the agreements, and the need to provide some flexibility for the parties to adopt arrangements that are appropriate for local circumstances.

Next steps

The proposed changes covered in this factsheet will be included in a Local Government Water Services Bill, which is expected to be introduced in December 2024.

There will be an opportunity to provide feedback on the proposed changes at select committee.

The Department of Internal Affairs will prepare guidance material to support implementation of Local Water Done Well, following the enactment of the Bill. This is expected to be in mid-2025.

Local Government (Water Services Preliminary Arrangements) Bill

The second Local Water Done Well Bill, the Local Government (Water Services Preliminary Arrangements) Bill, is currently before Parliament and is expected to be enacted in August 2024.

The Department of Internal Affairs will be providing guidance and information for councils' development of Water Services Delivery Plans, following the enactment of the Bill.

Further information

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Te Tari Taiwhenua
Internal Affairs

August 2024

LOCAL WATER DONE WELL

Factsheet: Economic regulation and consumer protection

This is one of a series of factsheets giving an overview of key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill, which is expected to be introduced to Parliament in December 2024.

It is based on Cabinet decisions announced by the Minister of Local Government and Minister of Commerce and Consumer Affairs in August 2024.

The Local Government Water Services Bill will set out the enduring settings for the new water services system. It is the third piece of legislation in the Government's three-stage process for implementing Local Water Done Well.

This factsheet provides an overview of the new economic regulation and consumer protection regime for water services providers under Local Water Done Well. It covers the new tools available to the Commerce Commission for carrying out this new regulatory role.

It should be read alongside other Local Water Done Well factsheets. More detailed information can be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

What are the proposed changes?

The Government is establishing a new economic regulation regime under Local Water Done Well, which will be implemented by the Commerce Commission.

The regime will give New Zealanders peace of mind that revenue collected by local government water services providers through rates or water charges is being spent on the level of water infrastructure needed.

The Commerce Commission will have a range of regulatory tools, including mandatory information disclosure, to promote efficient practices and protections for consumers.

What is economic regulation and consumer protection?

Economic regulation is a way of influencing the price and quality of products and services supplied by natural monopolies where consumers have limited choices, such as water services. New Zealand currently has economic regulation regimes in place for certain international airports, gas pipelines, electricity lines companies and fibre networks.

Consumer protections are safeguards for consumer interests including ensuring local water services providers have effective procedures in place for consumer complaints.

What is the Commerce Commission's role?

Economic regulation

The Commerce Commission will have a range of tools to promote sufficient revenue recovery, and efficient investment and maintenance so that water services meet regulatory requirements and are delivered at a quality that communities expect.

These tools are set out in the table below.

Tool	How it works
Information disclosure	All local government water services providers will be required to publicly disclose information in a prescribed form set by the Commerce Commission. The information required will be set by the Commerce Commission but is expected to initially include details about actual and forecast capital investment plans and expenditure, operating costs, revenue, tariffs/charges, financing plans, service quality, customer engagement and asset management. These requirements will build on information provided under Water Service Delivery Plans in 2025. The Commerce Commission will be tasked with analysing information provided by water services providers to improve transparency and accountability, and identify whether further regulatory intervention is necessary. This information will help consumers to understand how their provider – and other providers – are performing. It is expected that the Commerce Commission will first focus on monitoring whether water services providers are collecting enough revenue for their investment needs, while promoting increased efficiency and cost reflective tariffs/charges in the long-term. This includes considering whether tariffs/charges reflect localised costs so that consumers have a clear understanding of how they are being charged. The Commerce Commission is expected to set the initial requirements for information disclosure from six months after the commencement of the legislation (by early 2026).

Tool	How it works
Revenue thresholds	The Commerce Commission will have new powers to set minimum and maximum revenue thresholds to issue clear expectations to providers regarding what level of revenue needs to be collected for investment in, and operating of, water infrastructure. If the Commerce Commission finds that a water services provider is not recovering enough revenue to invest sufficiently in water infrastructure over time, the Commerce Commission will be able to recommend further tools are deployed, based on its specific needs.
Financial ringfence	The Commerce Commission will monitor and enforce the requirement that water service revenue is spent on water services. If necessary, the Commerce Commission will be able to require that specific amounts of water services revenue are ringfenced for water services investment purposes.
Quality standards and performance requirements	The Commerce Commission will be able to set infrastructure and service quality standards and require water services providers to take certain actions to improve performance, such as to make certain types of investments, to consult or seek approval from the Commerce Commission on investment programmes, or to undertake cost-benefit analysis. The legislation will include a regulation-making power that enables the Minister of Commerce and Consumer Affairs to give the Commerce Commission this tool.
Price-quality regulation	Depending on performance, the Commerce Commission may be given the power to set, for specific providers, maximum and/or minimum revenue allowances, and/or maximum and/or minimum prices, alongside minimum quality standards. This would follow an assessment by the Commerce Commission of actual revenues against a Commerce Commission-set threshold. Setting maximum revenues and minimum quality standards is similar to the Commerce Commission's role regulating gas pipeline and electricity lines businesses. The legislation will include a regulation-making power that enables the Minister of Commerce and Consumer Affairs to give the Commerce Commission this tool.

Consumer protection

The new information disclosure requirements will allow the Commerce Commission to collect and analyse information relating to consumer protections, such as service quality and customer engagement. If information gathered reveals that issues exist, a range of tools would be available to allow consumer protections to be strengthened.

These tools are set out in the table below.

Tool	How it works
Complaints regulations	Regulations could be made specifying requirements relating to complaint processes, the provision of information on complaints, the recording of complaints, and/or reporting. The Minister of Commerce and Consumer Affairs would be able to recommend these regulations are made.
Dispute resolution regulations	Regulations could be made specifying requirements relating to external dispute resolution. This could include that water service providers must provide an external dispute resolution pathway, what this must be or criteria it must meet, which providers the requirements apply to, any rules that must be followed and funding specifications. The Minister of Commerce and Consumer Affairs would be able to recommend these regulations are made.
Guidelines on service quality codes	The Commerce Commission will have the power to issue guidelines to water services providers on matters relating to a service quality code, at any time, if needed. Water service providers would be expected to take these on board when developing their approach to matters such as customer service, billing transparency, and communication about network outages.
A mandatory service quality code	The Commerce Commission will have the power to develop and implement a service quality code that water service providers must comply with, if: • there is no sector-led service quality code; or • the Commerce Commission is satisfied that the purpose of Part 4 of the Commerce Act 1986 could be better met by a mandatory code. The development of a mandatory code could be initiated by the Commerce Commission, or at the request of the Minister of Commerce and Consumer Affairs.

Why are these changes needed?

The economic regulation and consumer protection regime will promote appropriate and efficient levels of investment and operating expenditure to support access to quality water services while promoting sufficient customer engagement and service standards.

What does this mean for councils?

The economic regulation regime will be risk-based and flexible, in line with councils' different needs and situations. Based on information supplied through the water service delivery plans and information disclosure requirements, the Commerce Commission will be able to set individual requirements for certain providers, and common regulations where appropriate.

The economic regulation regime will apply to drinking water and wastewater services and will provide flexibility to include stormwater services at a later date, if necessary.

While information disclosure will apply to all local government drinking and wastewater services providers, the other regulatory tools may not be needed for all providers.

The Commerce Commission is expected to develop the initial requirements for information disclosure by early 2026. Until then, any interim arrangements and consultation by the Commerce Commission under the Local Government (Water Services Preliminary Arrangements) Bill (once enacted) will apply and inform the long-term economic regulation regime.

The Commerce Commission could set revenue thresholds from early 2026 and will monitor and enforce financial ringfences as needed after the bill is enacted.

For all local government water services providers (apart from Watercare), quality standards, performance requirements, and price-quality regulation will not be applied until at least 2026.

The expected timelines for each economic regulation tool are set out in the table below.

Tool	Description	When
Information disclosure	Requirements relating to when certain information must be collected and disclosed. The Commerce Commission then analyses and reports on this information.	After commencement, with requirements to be set 6 months after commencement.
Revenue thresholds	A screening mechanism to help promote providers recover sufficient revenue to invest in water infrastructure and services over time.	From 2026, when necessary.
Monitoring and enforcement of financial ringfence	Ability to require that amounts of water services revenue are ringfenced for water services investment purposes.	After commencement, when necessary.
Quality regulation and/or performance requirements	Quality standards or quality incentives to improve services. Requirements to perform certain actions to improve network service quality. For example: to make types of investments.	If required, after designation from 2026.
Price-quality regulation	Minimum and/or maximum prices that may be charged, and/or minimum and/or maximum revenues. Alongside quality and performance requirements.	If required, after designation from mid-2026.

The initial approach for consumer protection will be to monitor how existing consumer protections measures are working using the information disclosure regime.

When making recommendations, determinations, or other decisions, the Commerce Commission will be required take into account other obligations on water service providers. This includes local government obligations with respect to iwi/Māori, including existing Treaty settlements.

It is intended that the costs the Commerce Commission accrues in its economic regulation of water services will be funded through a levy on local water services providers. This is similar to the approach used in other regulated infrastructure monopolies such as electricity lines businesses. For this purpose, there are levy-making provisions in the legislation implementing Local Water Done Well.

Next steps

The proposed changes covered in this factsheet will be included in a Local Government Water Services Bill, which is expected to be introduced in December 2024.

There will be an opportunity to provide feedback on the proposed changes at select committee.

The Department of Internal Affairs will prepare guidance material to support implementation of Local Water Done Well, following the enactment of the Bill. This is expected to be in mid-2025.

The Commerce Commission will start implementing the full economic regulation regime after the legislation is passed, which is expected in mid-2025.

Local Government (Water Services Preliminary Arrangements) Bill

The second Local Water Done Well Bill, the Local Government (Water Services Preliminary Arrangements) Bill, is currently before Parliament and is expected to be enacted in August 2024.

The Department of Internal Affairs will be providing guidance and information for councils' development of Water Services Delivery Plans, following the enactment of the Bill.

Further information

For further information about water services economic regulation and consumer protection, visit Economic regulation policy for water services | Ministry of Business, Innovation & Employment (mbie.govt.nz)

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Te Tari Taiwhenua
Internal Affairs

August 2024

LOCAL WATER DONE WELL

Factsheet: Drinking water quality regulation

This is one of a series of factsheets giving an overview of key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill, which is expected to be introduced to Parliament in December 2024.

It is based on Cabinet decisions announced by the Minister of Local Government and Minister of Commerce and Consumer Affairs in August 2024.

The Local Government Water Services Bill will set out the enduring settings for the new water services system. It is the third piece of legislation in the Government's three-stage process for implementing Local Water Done Well.

This factsheet provides an overview of proposed changes to the drinking water quality regulatory framework. These changes affect drinking water suppliers – regulated by Taumata Arowai under the Water Services Act 2021. The changes relating to Te Mana o te Wai will also affect wastewater and stormwater network operators.

This factsheet covers changes affecting very small drinking water suppliers, other drinking water suppliers, and mixed-use rural water schemes. It also covers changes affecting the approach to applying Te Mana o te Wai.

It should be read alongside other Local Water Done Well factsheets. More detailed information can be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

What are the proposed changes and why are these changes needed?

The Government is proposing a range of changes that aim to reduce the cost and burden for drinking water suppliers associated with complying with the Water Services Act 2021. The changes are designed to improve the efficiency and effectiveness of the drinking water regulatory regime, and the approach Taumata Arowai takes to regulating this regime.

In line with the Government's intention that government agencies have an English name first, the Government is also proposing to amend the legislation to refer to the 'Water Services Authority – Taumata Arowai'.

Local Water Done Well factsheet (August 2024)

Improving the drinking water quality regulatory regime to reduce the cost of compliance

Reducing the regulatory burden on very small 'shared domestic' supplies

Currently, under the Water Services Act 2021, all drinking water suppliers – except domestic self-suppliers – are regulated. Suppliers are not distinguished by size, and all suppliers are required to provide safe drinking water.

The Government is proposing to reduce the regulatory burden on small suppliers, by excluding 'shared domestic supplies' serving 25 consumers or fewer from regulation. This means these suppliers would no longer be required to register with Taumata Arowai or to meet other requirements in the Water Services Act 2021, such as preparing a drinking water safety plan.

This proposal focuses on lower risk supplies, including those that supply neighbouring domestic properties (such as where a farm supplies drinking water to a small number of nearby properties). Higher risk community supplies (such as community halls and marae) would not be covered by this exclusion.

This approach will help ensure that regulation is proportionate to the risk profile, capacity and complexity of the supply, but does not leave consumers without protection. Taumata Arowai will still have an educational role to support smaller suppliers to deliver safe drinking water.

Other changes to help reduce the cost of compliance

Other changes are also proposed to reduce regulatory requirements and compliance costs for a wider range of drinking water suppliers, which that would not be covered by the 'shared' domestic supply exclusion above.

These changes include:

- Requiring renewals of registration with Taumata Arowai every five years instead of annually.
- Extend the timeframe for currently unregistered supplies to register by an extra three years, plus an extra two years to become compliant.
- No longer requiring community drinking water suppliers serving 25 or fewer consumers to prepare water safety plan.
- Ensuring Taumata Arowai considers the cost of compliance on suppliers when performing and delivering its objectives, functions and duties.
- Ensuring the regulatory framework is proportionate to the scale, complexity, and risk profile of each drinking water supply, including the consideration of cost and affordability for the users of the supplies.
- Ensuring Taumata Arowai proactively engages with suppliers and network operators to ensure that there is a path to compliance that takes into account the risk profile and capacity of the supplier or network operator itself.

- Enabling Taumata Arowai to proactively issue exemptions from certain regulatory requirements, where compliance with the Water Services Act 2021 is impractical, inefficient, unduly costly or burdensome.
- Requiring Taumata Arowai to issue drinking water acceptable solutions to a greater number of suppliers. Ensuring these templates are readily available to a greater number of suppliers will help reduce the regulatory burden and costs for suppliers, by reducing the need for suppliers to develop their own bespoke solutions.[1]

Supporting mixed-use rural water schemes

Mixed-use rural water schemes provide small quantities of drinking water, and larger quantities of water for commercial farming purposes.

The Government is proposing two key changes that reflect the unique characteristics of these suppliers, and reduce compliance costs. These are:

- Changing the operating principles of Taumata Arowai to specifically refer to mixed-use rural supplies. This means Taumata Arowai will be expected to consider the costs of regulation for mixed-use supplies, and ensure the regulation is proportionate to the scale, complexity, and risk profile of each supply
- Requiring Taumata Arowai to include specific information on mixed-use rural water schemes in its annual drinking water regulation report and its drinking water compliance, monitoring, and enforcement strategy.

The Minister of Local Government is also proceeding with non-legislative measures to ensure there is an appropriate focus on mixed-use rural water schemes and affordability is being considered. These measures include:

- Communicating expectations to the Taumata Arowai board that they should ensure the regulatory response for mixed-use rural water schemes is proportionate to the scale, complexity and risk profile of each supply – and affordability is being given appropriate consideration
- Encouraging the board to consider establishing a technical advisory group to provide independent advice on the regulatory settings for mixed-use rural water schemes.

The Water Services Regulator – Taumata Arowai

In line with the Government's intention that government agencies have an English name first, the Government is also proposing to amend the legislation to refer to the 'Water Services Authority – Taumata Arowai'.

[1] Acceptable solutions are a ready-made option (template) to help drinking water suppliers meet standards. They apply to specific supply types and remove the need to submit a drinking water safety plan, if implemented in their entirety. Currently there are three acceptable solutions: Roof Water Supplies, Spring and Bore Drinking Water Supplies, and Mixed-Use Rural Water Supplies.

Change in approach to Te Mana o te Wai

Currently, legislative provisions relating to Te Mana o te Wai are general and apply to a broad range of parties with different roles, including Taumata Arowai as well as small scale private drinking water providers. It is unclear how all parties are expected to meet their obligations in this area.

It is also not clear how these obligations in water services legislation relate to the concept of Te Mana o te Wai in the National Policy Statement for Freshwater Management and regional plans prepared under the Resource Management Act that relate to freshwater.

The Government is proposing two key changes to provide clarity around how to give effect to the current legal provisions with regard to Te Mana o te Wai. These are:

- Repealing the requirements in water services legislation to give effect to Te Mana o te Wai.
- Requiring Taumata Arowai to take account of the National Policy Statement for Freshwater Management, and any regional plans prepared under the Resource Management Act that relate to freshwater, as part of the exercise of its functions, duties and powers.

The proposed changes will provide regulatory certainty to Taumata Arowai and suppliers, and will remove barriers to Taumata Arowai taking a proportionate, cost effective and efficient approach in its functions and duties.

What does this mean for councils and other drinking water suppliers?

These changes support a regulatory response that is proportionate to the scale, complexity, and risk profile of each drinking water supply.

For councils and other drinking water suppliers, reduced regulatory requirements – and changes to the regulatory approach taken by Taumata Arowai – have the potential to reduce the costs of compliance. This is particularly likely for smaller, private and rural suppliers.

Next steps

The proposed changes covered in this factsheet will be included in a Local Government Water Services Bill, which is expected to be introduced in December 2024.

There will be an opportunity to provide feedback on the proposed changes at select committee.

The Department of Internal Affairs will prepare guidance material to support implementation of Local Water Done Well, following the enactment of the Bill. This is expected to be in mid-2025.

Local Government (Water Services Preliminary Arrangements) Bill

The second Local Water Done Well Bill, the Local Government (Water Services Preliminary Arrangements) Bill, is currently before Parliament and is expected to be enacted in August 2024.

The Department will be providing guidance and information for councils' development of Water Services Delivery Plans, following the enactment of the Bill.

Further information

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Te Tari Taiwhenua Internal Affairs

August 2024

LOCAL WATER DONE WELL

Factsheet: Standards to help reduce water infrastructure costs

This is one of a series of factsheets giving an overview of key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill, which is expected to be introduced to Parliament in December 2024.

It is based on Cabinet decisions announced by the Minister of Local Government and Minister of Commerce and Consumer Affairs in August 2024.

The Local Government Water Services Bill will set out the enduring settings for the new water services system. It is the third piece of legislation in the Government's three-stage process for implementing Local Water Done Well.

This factsheet provides an overview of the proposals relating to wastewater environmental performance standards and national engineering design standards.

It should be read alongside other Local Water Done Well factsheets. More detailed information can be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

Wastewater environmental performance standards

What are the proposed changes and why are they needed?

Taumata Arowai is currently developing national wastewater environmental performance standards as part of its responsibilities under the Water Services Act 2021.

These standards will be made for activities associated with wastewater networks, like discharges to land, air or water, biosolids and any other byproducts from wastewater, energy use, and/or waste that is introduced by a third party into a wastewater network (for example, trade waste).

Under current legislative settings, the standards would be 'minimum' standards. This would mean a regional council considering an application for a resource consent that relates to a wastewater network cannot grant a consent that has conditions that are less restrictive than the wastewater standards, but they may impose conditions that impose a higher standard.

The Government is proposing to amend the legislation so there would be a single standard, rather than a minimum (or maximum), which would be implemented in resource consents. A single standard approach is consistent with international best practice.

The proposals will require changes to the Water Services Act and Resource Management Act 1991. These changes are needed to:

- Provide directive provisions that ensure regional councils implement a single standard approach in resource consents, and cannot set additional or higher requirements than the standard in consenting conditions (apart from on an 'exceptions' basis).
- Allow Taumata Arowai to set infrastructure and operating requirements that, if implemented by a wastewater operator, will meet the treatment requirements in the standard.
- Allow an easier resource consenting path or 'pre-consented option' for lower-risk small-scale modular wastewater treatment plants that meet the wastewater environmental performance standard.

The specific details of the legislative changes are still being developed, and will be included in the Local Government Water Services Bill.

This new approach is intended to:

- Reduce the regulatory burden by ensuring environmental regulation in water services legislation is proportionate to risk and benefit.
- Deliver much greater standardisation of treatment systems and related infrastructure.
- Enable material cost efficiencies in the design, build and operation of wastewater systems.
- Provide councils with greater certainty of costs.

This approach does not mean that the environmental requirements for discharges to freshwater or coastal water will be lower – but it will enable a consistent approach for consenting the discharge of wastewater from treatment plants.

In the absence of a national wastewater standard, some councils have imposed regulatory requirements and, indirectly, costs that have made consenting wastewater plants and discharges very difficult.

Around 70 percent of wastewater treatment plants will require reconsenting in the next 10 years, with the most challenging issues arising where plants discharge to freshwater or low mixing environments like estuaries or bays close to the coast.

Use of modular design plants for low-risk small scale wastewater plants

The proposals recognise there is a significant opportunity for economies of scale and cost savings across the system if an end-to-end modular design-consent-build approach was adopted for lower risk treatment plants for small communities (e.g. less than 1,000 people), aligned to the new wastewater standard.

Around half of the wastewater treatment plants that will require reconsenting in the next decade provide services to populations of 1,000 people or fewer. These plants make up around 50 percent of the total number of council-owned wastewater plants in New Zealand.

While there will be local differences, industry estimates are that up to half of those costs of smaller wastewater treatment plans relate to costs of design and consenting. Modular off-the-shelf wastewater treatment plant reduce design, construction and procurement costs and would enable wastewater treatment plans to be delivered faster.

Process for making the wastewater environmental performance standards

The standards will by developed by Taumata Arowai through a process that includes consultation with wastewater network operators (territorial authorities) and regional councils.

The Government has decided that this process should also be considered by Cabinet with a regulatory impact analysis – to help ensure the costs, benefits and risks associated with the proposed standards are identified and examined.

The amended process will mean the standards are made through an Order in Council – similar to the approach that is already taken for making drinking water standards. The same approach will also apply when Taumata Arowai develops stormwater environmental performance standards under the Water Services Act 2021.

National engineering design standards

What are the proposed changes and why are they needed?

The Government is proposing to introduce a mandatory set of national engineering design standards for water services network infrastructure. This would support the Government's aim to increase standardisation to lower the costs of providing infrastructure.

The provision of reticulated network infrastructure is a key component of land use development. Councils develop and use Codes of Practice for Land Development to guide those involved in land developments on technical standards for network infrastructure. There are approximately 45 different standards in New Zealand providing information on how to design and construct water network infrastructure.

National engineering design standards would provide regulatory engineers, design engineers, developers, and contractors servicing the land development industry with one common set of engineering design standards across New Zealand.

The standards would not override any other regulatory requirements in relation to land development (such as Resource Management Act 1991 requirements), but are intended to support the consenting process by providing the technical requirements for the planning, design, construction, and handover of network infrastructure.

The primary purpose of the standards would be to document technical best practice for the design and construction of drinking water, wastewater and stormwater network or reticulation infrastructure.

Benefits associated with these standards are likely to include:

- greater efficiencies for the design, approval, procurement, construction, maintenance and renewal of network infrastructure;
- the ability to use the national engineering design standards for construction and renewal contracts; and
- a common technical reference for the development of industry training and skills.

Further work will be undertaken to develop and confirm matters such as the detailed scope and content of the national engineering design standards, the process for developing them, the relationship with other regulatory requirements, and any relevant transitional arrangements and timeframes. The Local Government Water Services Bill will provide for these standards to be made through regulation.

It is anticipated the standards will include a mixture of mandatory minimum engineering design standards, and informative statements to provide context and enable better understanding of the mandatory requirements. They will be developed with appropriate technical and sector input, and reviewed regularly as new engineering methodology and products are developed.

What does this mean for councils and consumers?

The proposals relating to wastewater environmental performance standards and national engineering design standards are intended to reduce the costs, inefficiencies, and regulatory compliance processes associated with providing water infrastructure.

As councils are primarily the owners and providers of water infrastructure, this will mean significant cost savings – which can be passed on to ratepayers.

Consumers should also see upgrades and renewals of wastewater treatment plants in their communities implemented in faster timeframes.

Next steps

The proposed changes covered in this factsheet will be included in a Local Government Water Services Bill, which is expected to be introduced in December 2024.

There will be an opportunity to provide feedback on the proposed changes at select committee.

The Department of Internal Affairs will prepare guidance material to support implementation of Local Water Done Well, following the enactment of the Bill. This is expected to be in mid-2025.

Local Government (Water Services Preliminary Arrangements) Bill

The second Local Water Done Well Bill, the Local Government (Water Services Preliminary Arrangements) Bill, is currently before Parliament and is expected to be enacted in August 2024.

The Department will be providing guidance and information for councils' development of Water Services Delivery Plans, following the enactment of the Bill.

Further information

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Local Water Done Well IMPLEMENTATION ROADMAP

Te Tari Taiwhenua Internal Affairs

August 2024

This document provides an overview of key activities and milestones for the implementation of Local Water Done Well.
It outlines the key steps in the overall Local Water Done Well programme to help councils and other stakeholders understand the timing of the programme. It is not intended to be comprehensive or cover related agency workstreams. All information and timeframes are indicative and subject to change, in line with legislative processes.

Workstream	Next 6 months (Jul-Dec 2024)	Jan -Jun 2025	Jul-Dec 2025	Jan-Jun 2026	Jul-Sep 2026
LEGISLATION					
Local Government (Water Services Preliminary Arrangements) Bill (Bill 2)	Bill 2 enacted (Aug 2024) Department of Internal Affairs (DIA) provides guidance for councils to support implementation of Bill 2				
Local Government Water Services Bill (Bill 3)	Bill 3 introduced (Dec 2024)	Bill 3 enacted (mid-2025)	DIA provides guidance for councils to support implementation of Bill 3		
COUNCIL WATER SERVICE DELIVERY ARRANGEMENTS					
Water service delivery arrangements	Councils can establish new water organisations allowed under existing legislation DIA/Crown Infrastructure Partners (CIP) supports councils on delivery model considerations	CIP and Local Government Funding Agency (LGFA) support councils on structuring and financing for new water organisations (Dec 2024-Feb 2025)	**Councils can establish new water models provided through legislation** **Minimum requirements for local government water services providers in effect**		
Water Services Delivery Plans (WSDPs)	**Councils develop WSDPs** DIA supports councils to populate WSDP template (Sep-Nov 2024)	Councils finalise WSDPs, with DIA support as needed	**Councils submit WSDPs to DIA for review and acceptance (Aug-Nov 2025)** **Final opportunity for councils to apply for WSDP extension (Jul 2025)** **Councils publish accepted WSDPs (Nov 2025 or later for extensions)** **DIA shares accepted WSDPs with Commerce Commission and Taumata Arowai** **DIA monitor WSDPs Implementation Plan (Nov 2025 until complete)**		

KEY: **Mandatory activities**

Workstream	Next 6 months (Jul-Dec 2024)	Jan -Jun 2025	Jul-Dec 2025	Jan-Jun 2026	Jul-Sep 2026
ECONOMIC REGULATION					
Crown monitor for Watercare (interim economic regulator for Watercare)	Crown monitor appointed Watercare submits business plan to Crown monitor Watercare Charter in place Crown monitor quarterly reporting Crown monitor annual reporting (starting 30 Nov 2024)				
Ringfencing of water services	Councils must consider ringfencing as part of WSDPs		Consideration of ringfencing requirements and impacts on council operations, and implementation of financial controls to enable ringfencing of water services financial information	Water service providers prepare stand-alone financial statements for water supply, wastewater and stormwater, and in aggregate, for the period to 30 June 2026, as part of annual reporting (anticipated)	
Information disclosure	Councils provide information as part of WSDPs (foundational information disclosure) Early information disclosure on assets and investments for some councils (subject to ministerial approval)	Commerce Commission consultation on potential information disclosure requirements		Information disclosure requirements in place (within 6 months of Bill 3 enactment)	
Revenue thresholds				Revenue thresholds in place (if required)	
Quality standards and performance requirements				Quality-only regulation and performance requirements can apply	
Price-quality regulation				Price-quality regulation can apply	
ENVIRONMENTAL REGULATION					
Drinking water					
Drinking water quality regulatory environment	Regulatory changes to ensure regulation is proportional to risk for drinking water suppliers				
Wastewater					
Wastewater environmental performance standards	Taumata Arowai engages on development of wastewater standards	Taumata Arowai consultation on wastewater standards	Wastewater standards in place (mid-late 2025) Modular designs for treatment plants available (that meet wastewater standards)		
Stormwater					
Stormwater management roles and responsibilities			New urban stormwater provisions take effect		
Water service bylaw alternatives			Alternative options to bylaws available to councils (e.g. drinking water catchment plans, trade waste plans and rules, water supply and wate management enforcement)		
Infrastructure					
National Engineering Design Standards (NEDS)			DIA develop NEDS regulations	NEDS in place (early 2026)	

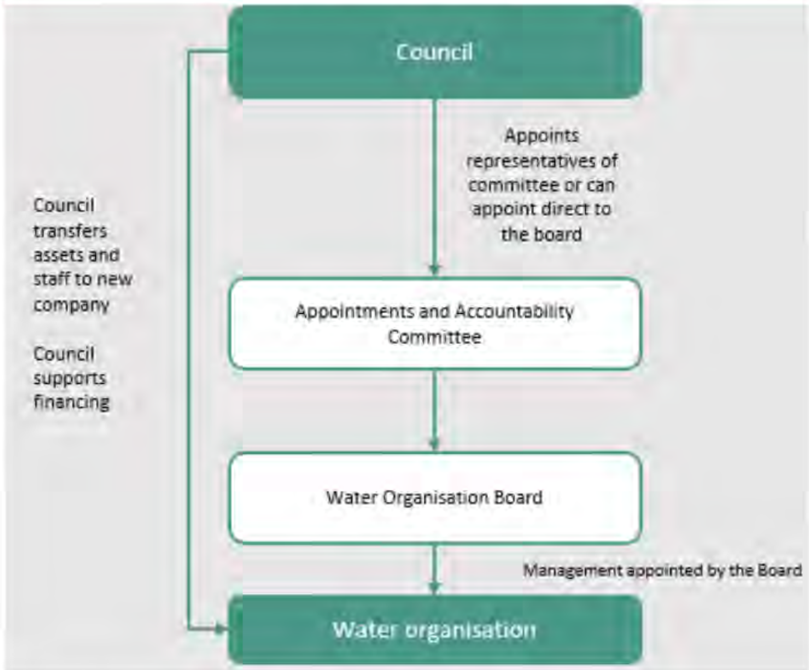
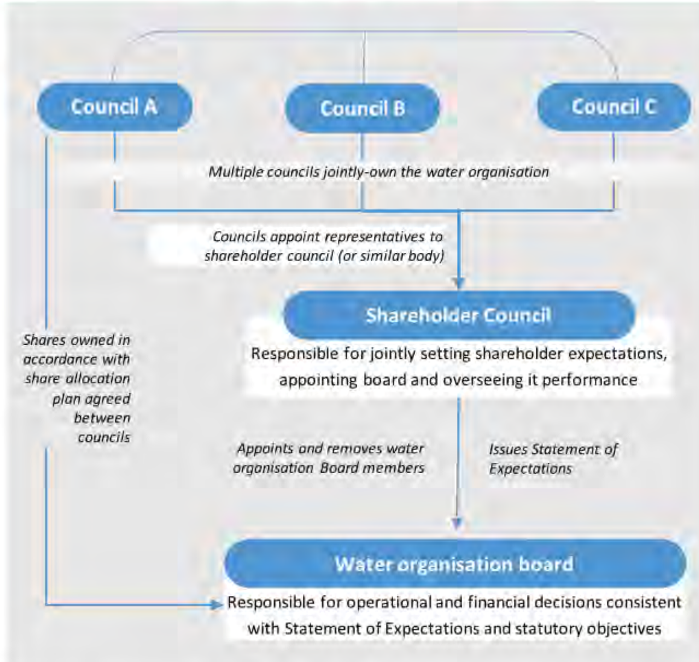
August 2024

Te Tari Taiwhenua
Internal Affairs

LOCAL WATER DONE WELL

Overview of water services delivery models – illustrative examples

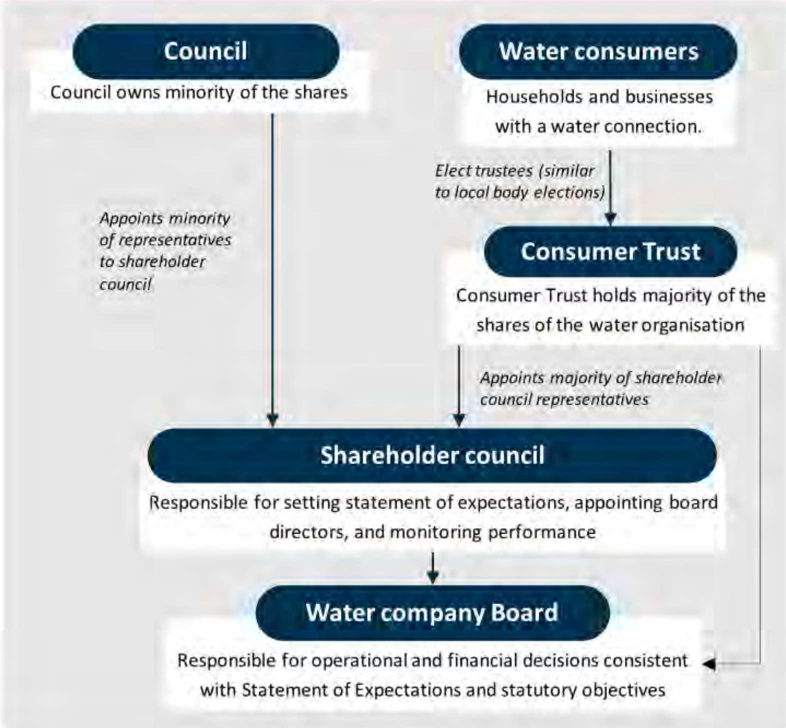
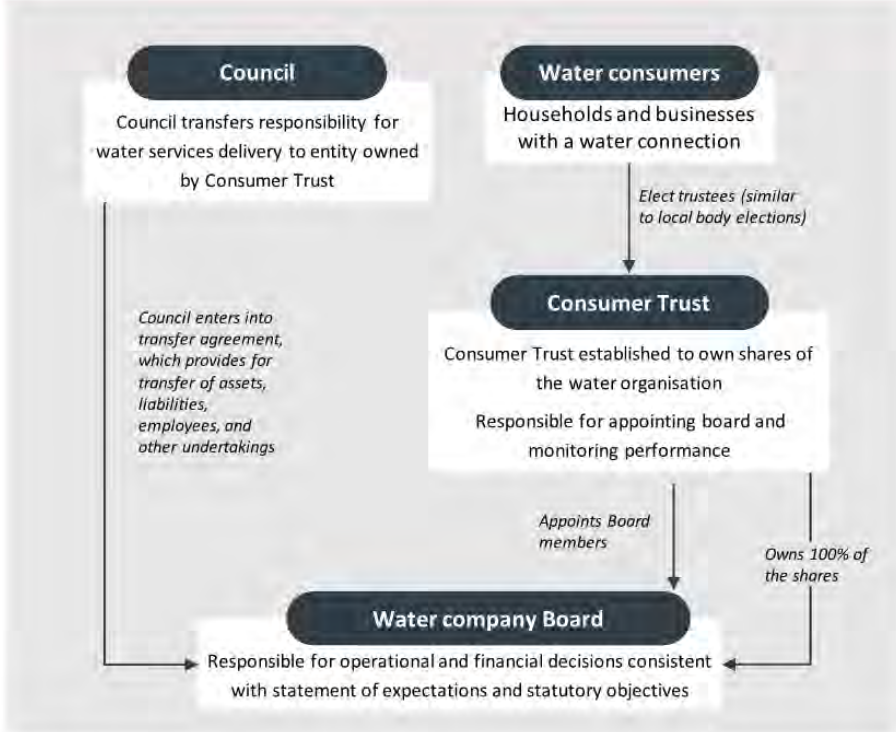
This document provides an overview of the proposed water services delivery models available under Local Water Done Well. It is based on Cabinet decisions announced by the Minister of Local Government in August 2024, and is subject to change through the Parliamentary process. Further detailed information is available in the *Water services delivery models: Guidance for local authorities* available on the Department of Internal Affairs' website.

Features	Internal business unit or division of council	Single council-owned water organisation	Multi-council owned water organisation	
Structure				
Ownership	• Part of council • No new organisation is established	• Limited liability company 100% owned by council • Ownership arrangements and rights set out in constitution	• Limited liability company with share allocation agreed between shareholding councils. • Councils jointly approve Constitution	
Governance	• Internal business unit responsible to Council through mechanisms under the Local Government Act 2002	• Council appoints and removes board members • Governed by independent, professional directors who are responsible for all operational and financial decisions	• Shareholder Council established to appoint and remove board members • Governed by independent, professional directors who are responsible for all operational and financial decisions	
Strategic direction	• Council must prepare a Water Services Strategy	• Shareholding council issues Statement of Expectations • Water organisation prepares Water Services Strategy	• Parent councils jointly issue Statement of Expectations • Water organisation prepares Water Services Strategy	
Accountability	• Council must act consistently with statutory objectives • Water business unit reports through to council • Council prepares separate annual reporting and audited financial statements • Subject to economic regulation	• Water organisation must act consistently with statutory objectives • Reports regularly to shareholders on performance (e.g., quarterly) • Must produce annual report containing audited financial statements • Subject to economic regulation	• Water organisation must act consistently with statutory objectives • Reports regularly to shareholders on performance (e.g., quarterly) • Must produce annual report containing audited financial statements • Subject to economic regulation	
Financing	• Borrowing undertaken by council (e.g., **via LGFA in most cases**) with water activity groups meeting their share of financing costs	• Borrowing via council or from **Local Government Funding Agency** directly supported by council guarantee or uncalled capital	• **Borrows via LGFA** if parent council provides guarantee and satisfies LGFA lending requirements	• Can borrow from banks and/or capital markets without council support, subject to achieving investment grade credit rating (challenging for some regions)
Balance sheet treatment	• On balance sheet	• On balance sheet	• Contingent liability (impact on council credit rating depends on council and water organisation revenue and debt)	• Contingent liability (unlikely to impact council credit rating)

Page 1 of 2

Te Tari Taiwhenua Internal Affairs

Overview of water services delivery models – illustrative examples (continued)

Features	Mixed council/consumer trust owned water organisation	Consumer trust owned water organisation
Structure		
Ownership	• Limited liability company owned by one or more councils with consumer trust majority ownership • Ownership arrangements and rights set out in constitution and/or shareholder agreement	• Limited liability company 100% owned by consumer trust • Councils jointly approve Constitution
Governance	• Council(s) and consumer trust appoint a shareholder council to appoint board directors • Governed by independent, professional directors who are responsible for all operational and financial decisions	• Trustees appoint and removes board members • Governed by independent, professional directors who are responsible for all operational and financial decisions
Strategic direction	• Shareholders agree the process for issuing a joint Statement of Expectations • Water organisation prepares Water Services Strategy	• Trustees issue Statement of Expectations • Water organisation prepares Water Services Strategy
Accountability	• Water organisation must act consistently with statutory objectives • Reports regularly to shareholders on performance (e.g., quarterly) • Must produce annual report containing audited financial statements • Subject to economic regulation	• Water organisation must act consistently with statutory objectives • Reports regularly to shareholders on performance (e.g., quarterly) • Must produce annual report containing audited financial statements • Subject to economic regulation
Financing	• Borrows independently of local authorities (e.g., from banks or capital markets), subject to achieving sufficient credit-quality and track record • No council financial support to water services organisation	• Borrows independently of local authorities (e.g., from banks or capital markets), subject to achieving sufficient credit-quality and track record • No council financial support to water services organisation
Balance sheet treatment	• Contingent liability (likely no impact on council credit rating)	• Off balance sheet

Page 2 of 2

Local Water Done Well Review

Otago & Southland three waters

October 2024

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
2927	DRAFT	S.Cross	D.Bonifant	D.Bonifant	17 October 24
2927	FINAL	S.Cross	D.Bonifant	D.Bonifant	24 October 24

MorrisonLow

Contents

MorrisonLow

Executive Summary

This report represents the culmination of Morrison Low's work in exploring regional delivery models for three waters services in Otago and Southland.

The work was commissioned by the Otago and Southland Local Waters Done Well working group. The individual components of this work have been shared amongst that group through iterative releases of reports at the end of each stage.

The report presents a compelling case for changing the water service delivery model in Otago and Southland. We believe that changes to the water services delivery model, whatever form they take, are likely to be needed to support the long term sustainability of water services delivery across the two regions.

76% of residential water users will see bills double in 10 years without change

Without change, our modelling, and councils' own long term plans, highlights that 76% of residential water users in the combined regions will see water bills at least double between 2025 and 2034. The remaining population still sees water bills increasing by at least 75%.

Water charges will need to increase further still for many residential water users beyond the ten-year long term plan window. These are going to challenge communities across the two region's ability to pay for three waters services.

Clutha, Gore, and Dunedin are all likely to breach current LGFA lending covenants by 2039 without rate increases beyond those projected in their LTPs. That would significantly constrain those councils ability to invest in three waters, roading, and community infrastructure. Over a 30 year period, Central Otago, Southland, Queenstown and Waitaki are likely to see debt exceeding 200% of revenue[1], at which point councils will be limited in their ability to invest in community infrastructure.

The financial ability to fund that programme of works is more constrained under the current delivery model. In some cases, even with economic and service regulation, councils will simply not be able to fund and deliver it. That places service levels and services at the local level at risk.

Leaving aside the affordability constraints and financial impacts on the councils , there is a significant lift in capability and capacity of the three waters workforce across the regions required. The regions have a combined three waters capital works programme of over $4.1 billion over the next 10 years. At its peak this programme exceeds $450 million per year. A figure that is double the planned capital works programme in 2023/24.

$450 million of three waters capital works delivered every year by 2029

The sheer scale of the forward capital works programme that needs to be delivered highlights a need for more effective investment planning, a larger more specialised workforce and a higher level of coordination across the individual council areas. Something unlikely to be achieved under the current model.

This report presents a range of options for the form of that change, however also clearly identifies that the only option that can address all of these issues is a Otago Southland asset owning water services entity (Otago Southland WSE).

[1] Over 260% in the case of Queenstown, which is likely to be operating under a debt to revenue limit of 350%.

That option would have the size and scale to build an enduring and resilient work force, develop increased specialisation, and be able to attract a larger contracting market to deliver work.

10% - 30% cheaper three waters charges for 46% of the regions' population by 2034

It is likely that an Otago Southland WSE would result in household three waters charges that are between 10% -30% cheaper than the status quo for up to 47% of the regions' population. By 2036, a further 37% of the population would also be likely to have lower household three waters charges, while the ratepayers of Invercargill would not be financially better off within an Otago Southland WSE.

While an Otago Southland WSE provides the greatest benefits from change in the way water services are provided across the regions, this report presents a range of options for the form of that change. While the jump to an Otago Southland WSE may be too large for some councils to take in the short term, this work demonstrates that something must be done at a regional level, and the need for councils to continue to work together to shape the form of that change.

Strategic context

The future delivery of three waters services across New Zealand faces significant challenges, which can be grouped into three main themes: infrastructure investment needs, financial constraints, and skills and expertise shortages.

Infrastructure Investment Needs:	The sector is grappling with expiring resource consents, ageing infrastructure that requires increased renewals, and the declining condition of existing assets. Additionally, changing regulatory standards and climate-related pressures, such as droughts and severe weather, are compounding these challenges by changing investment needs.
Financial Constraints:	There is a need to fund the necessary investments and the increased operational costs of a changing system. Many councils face reduced borrowing capacity, and funding challenges are particularly acute in small or remote communities from increases in water charges.
Skills and Expertise:	Recruitment, retention, and development of skilled personnel remain significant hurdles, impacting the sector's ability to deliver services effectively.

The Otago and Southland regions are no different. Our analysis of the current state challenges highlighted that:

- The Otago and Southland regions are facing a wave of investment required from a large number of expiring wastewater treatment consents, ageing infrastructure and significant population growth at a local level. Combined, the two regions have a capital works programme of more than $4.1 billion over the next ten years. This is more than double the amount of work that was planned for 2023/24.
- A rapid increase in total borrowings is required to fund the necessary investment in three waters infrastructure. In some cases, councils which have historically held very low levels of debt are now projected to exceed borrowing limits that have been imposed by the Local Government Funding Agency (LGFA). Our modelling shows the combined regions needing to borrow over $2.7 billion to fund investment in water infrastructure by 2034 based on LTP projections. That is a threefold increase in per capita debt.

- Large rates rises for the ongoing provision of three waters services will be required. The three waters residential rates for 76% of the population are expected to double by 2034 based on long term plan projections.
- Councils continue to face challenges with the recruitment and retention of staff. The relative distance from major urban centres, and the majority of New Zealand's population, mean the employment market in Otago and Southland is smaller than other parts of the country.
- These challenges are not equally spread or shared across the region. The situation is more acute in some councils than in others.

These challenges are not insurmountable at a regional level but will take a great deal of focus and deliberate effort to overcome.

The options available

A full Range of potential service delivery options was considered and refined through workshops, and desktop assessment, and was reviewed and endorsed by general managers and chief executives across the regions.

To allow meaningful comparison of options a set of five strategic objectives were also developed and endorsed by chief executives and mayors across the regions. The strategic objectives are reflective of the Government's Local Waters Done Well objectives and the regional challenges identified through a current state assessment. The endorsed objectives are:

1. To deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy.
2. To deliver three waters services that sustainably respond to change in population, economic activity and climate change.
3. To deliver three waters services through a model that is responsive to the local needs of our communities.
4. To provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity.
5. To ensure that three waters services are delivered through a model that is enduring and financially sustainable.

The options that were assessed against the strategic objectives were:

1. **Status Quo**: Councils continue with existing delivery models.
2. **Joint Contracts**: Councils enter joint contracts for core services such as engineering services, asset management services or laboratories.
3. **Shared Services Entity**: Establishing a formal entity for shared services, including those that could be included in joint contracts. The entity may employ its own staff, and would likely include a broader suite of shared services than a joint contracts model.
4. **Management CCO**: A Council-Controlled Organisation responsible for most elements of water services delivery. Each council would continue to set its own charges, manage its own debt, and agree a three waters budget.

5. **Multi-Council Water Services Entity (Otago Southland WSE)**: A single entity responsible for all elements of water services delivery. Councils would not own assets, set charges or manage their own debt. Arrangements could be agreed around the approach to harmonising prices or ringfencing some debt.

The results of the assessment of options against strategic objectives are outlined in a traffic light assessment in the summary table below. Objectives are numbered consistently with the list above.

	Objective				
	1	2	3	4	5
Status Quo					
Joint contracts					
Shared Services Entity					
Management CCO					
Otago Southland WSE					

The assessment highlights that an Otago Southland WSE is more likely to meet all of the strategic objectives than any alternative service delivery model available to the regions. Outside of the financial outcomes, there are clear non-financial benefits that are available through an Otago Southland WSE. These include:

- Improved capability and capacity that is available from scale creating clear career pathways and opportunities for professional development and specialisation.
- Participation in a larger entity allows an improved ability to attract larger scale contractors, by providing consistent procurement approaches and long term project certainty.
- Dedicated focus on the delivery of three waters services allowing for “best for network” and efficient capital works planning.
- An increased ability to invest in innovative technology to improve service delivery and reduce costs.
- The ability to explore opportunities to combine networks or share infrastructure where this presents the most cost effective long term solution.

These financial benefits arise as a result of scale and financial separation. If established, an Otago Southland WSE would generate over $370 million in annual revenue, and manage an asset base with a book value exceeding $5.9 billion. Such scale would rank the entity as the third or fourth largest water services provider in New Zealand[2] (after Watercare, Wellington Water/its successor and roughly equal to Christchurch City Council).

[2] The relative scale of an Otago Southland entity, if established, would depend on the outcome of other regional work.

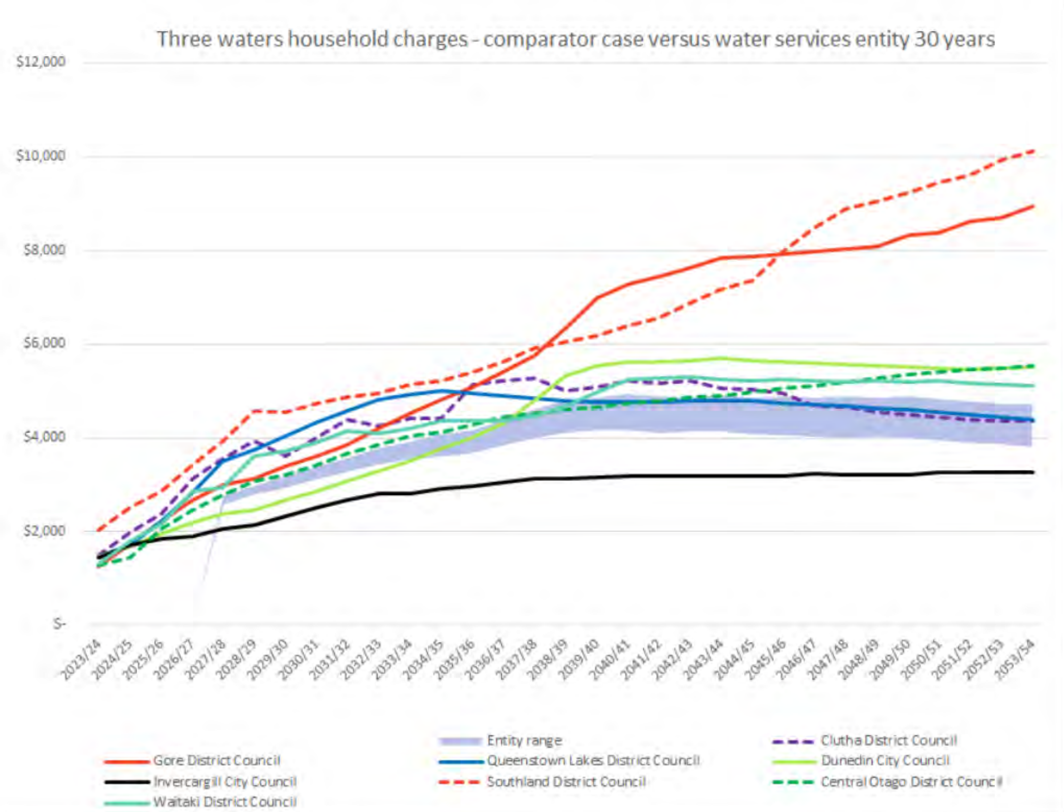
MorrisonLow

Financial Modelling

Financial modelling was completed for the Otago Southland WSE option only. The modelling[3] highlights that:

Up to 84% of the regions' population will have lower three waters charges by 2036

- Three waters charges are expected to at least double by 2034 for all councils other than Invercargill.
- By 2036, up to 84% residential water consumers are likely to have lower bills in an Otago Southland WSE than they would under the existing service delivery model.
- Even under an Otago Southland WSE model, charges for three waters services will rise by around 40% between 2028 and 2034. However long term an Otago Southland WSE is able to stabilise its prices, and between 2039 and 2054 water prices are not expected to move more than 1 – 2% per year.



[3] Based on our "comparator" scenarios – refer to Appendix One for detail

MorrisonLow

Capital investment

The councils have significantly different age profiles and have different investment drivers. Investment requirements often present as "waves" of investment. They are the largest influencer of household charges for any water services provider.

The $4.1 B of capital investment is the largest driver of cost

The short-term benefits of an Otago Southland WSE may not be as obviously apparent to the councils that are not facing an immediate investment wave. However, one of the key benefits of an Otago Southland WSE is its ability to flatten those investment waves and achieve organisational efficiencies through improved asset management practice and coordinated procurement.

Debt

Some councils are also facing significant borrowing constraints. A review of the base financial data provided by councils showed many councils reached, or breached LGFA borrowing limits. These councils have few options available:

Without change many councils will be financially constrained

- Significantly reduce investment in three waters infrastructure, resulting in either non-compliance or significant infrastructure backlogs and potential performance issues.
- Stop investment in other community assets (if this has not already occurred).
- Increase water charges or rates to service debt.
- Borrow from lenders other than the LGFA, typically at much higher interest rates.

None of these options are sustainable.

An Otago Southland WSE is able to leverage its balance sheet and borrow to a greater extent than the collective councils can. The entity does not need to generate as much additional revenue to support its borrowing requirements as it is not bound by the same debt/revenue ratios. That means reducing the water charges to consumers compared to the individual council delivery model. Importantly, as highlighted later in this report, an Otago Southland WSE ultimately borrows less over a 30-year period to deliver the same expected investment.

Alternative scenarios

We have modelled to alternative groupings for an Otago Southland WSE. These include:

- A WSE that excludes urban councils (Dunedin, Invercargill and Queenstown)
- A WSE that excludes Invercargill and Queenstown

The modelling of additional scenarios shows that a WSE remains an attractive option for councils in Otago and Southland even without Invercargill, Dunedin or Queenstown. In both of our alternative scenarios, all water consumers in the areas that take part in the entity are likely to have lower household three waters charges in the short term, with longer term benefits differing by council area.

This indicates that there may be a viable path for a WSE to be established and to expand its geographic scope over time. A WSE that excludes one or more of the three largest councils in Otago and Southland is likely to be able to be financially sustainable, and may be able to increase scale through the provision of some shared services to the remaining councils.

Conclusion

In Morrison Low's view this report demonstrates that there are clear benefits for the Otago and Southland regions to establish an Otago Southland WSE to provide three waters services to its communities in the future.

The benefits of such an arrangement will be experienced in a relatively short time frame for many communities; three waters charges are expected to be lower by 2036 for up to 84% of the regions' population through an Otago Southland WSE than under the existing service delivery model. More importantly, these benefits are likely to be enduring, with 30 year modelling indicating that future generations will also be financially better off under an Otago Southland WSE.

For those communities where the financial benefits of an Otago Southland WSE are not as great, there may be opportunities to transition at a slower pace than other councils. This may include entering into contractual arrangements with an Otago Southland WSE to provide professional services, the extent and scope of which may be able to be increased over time.

Background and Introduction

Following a widespread outbreak of gastroenteritis in Havelock North in 2016, the Government undertook a significant programme of work which resulted in:

- Updates to the drinking water standards
- The establishment of a drinking water supplier (Taumata Arowai)
- Identification of a range of systemic issues relating to the sustainable provision of three waters services across the country.

Over the period that followed there have been a number of attempts at changing the service delivery model for three waters services, including voluntary investigations completed by the councils in the Waikato and Hawke's Bay regions, and centrally led reviews which resulted in the previous Government's proposed "Affordable Waters" programme.

The "Affordable Waters" programme has now been repealed and replaced with a new programme called "Local Water Done Well". Under Local Water Done Well:

- Council's will be required to develop "Water Services Delivery Plans". These plans will need to demonstrate how councils will manage and invest in their three waters services to meet current and future standards, and remain financially sustainable
- Councils will be supported to voluntarily work together to combine services for more efficient and effective delivery
- New CCO models will be developed to allow councils to separate the finances (including debt) for three waters services from shareholder councils' balance sheets.

This report summarises the work commissioned for the councils of the Otago and Southland regions by the Local Water Done Well working group. The approach is to undertake work on a first principles approach (though drawing on data collected through previous studies), to identify a "no regrets" improvement pathway for service delivery in the two regions.

The work included the review of a current state (summarised in our report of 30 August 2024) which highlights the case for change, and the subsequent development of strategic objectives, a short list of potential service delivery options, and detailed financial modelling of the water services entity option.

MorrisonLow

Case for change

The future delivery of three waters services across New Zealand faces challenges from a wide range of converging issues. However, these issues are typically able to be grouped into three common themes:

- A need for significant investment in infrastructure, including:
  - Long held resource consents nearing expiry
  - Ageing infrastructure and increased renewals investment requirements
  - The condition of assets
  - Increasing or changing regulatory standards and intervention
  - Changing demand
  - Climate related pressures including increased frequency of droughts and severe wet weather events.
- Increased financial constraints, including:
  - The need to significantly increase rates or other revenue that needs to be collected to fund service provision
  - A reduction in available borrowing capacity
  - The difficulty in funding significant infrastructure investment in small or remote communities.
- Challenges with the recruitment, retention, and development of skills, experience and expertise.

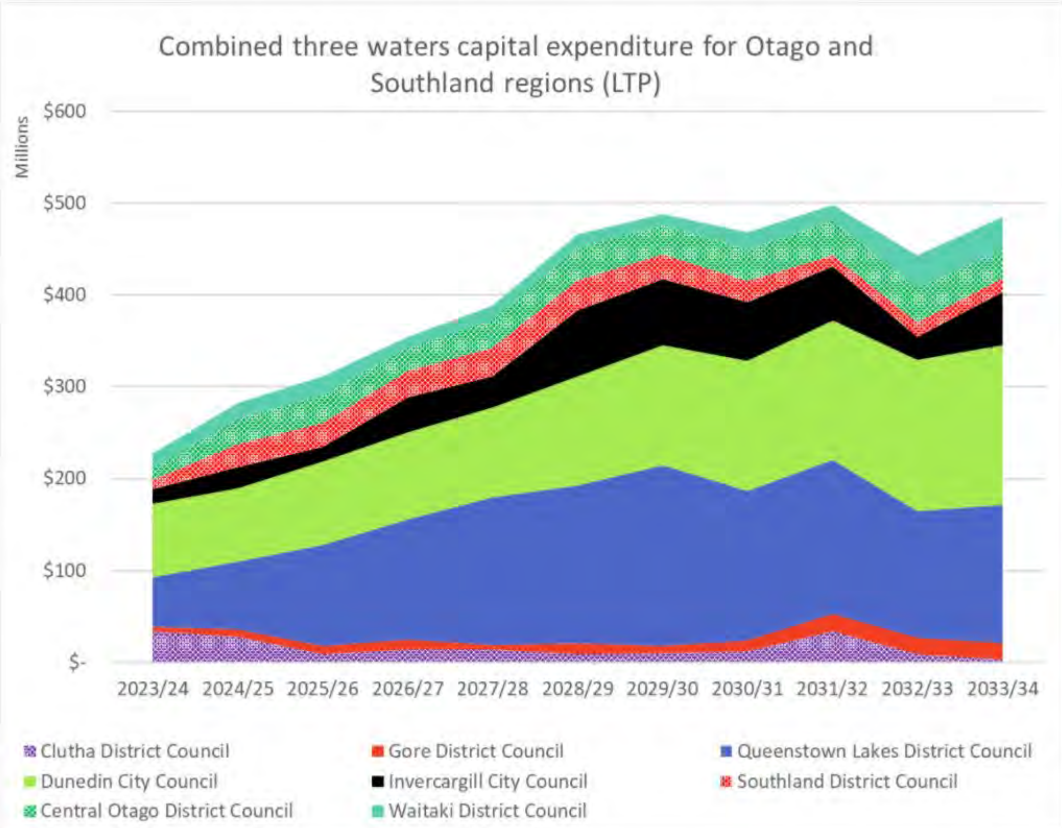
The Otago and Southland regions are no different. Our analysis of the current state challenges is summarised in the following section and in the individual council analysis. The analysis identifies that:

- The Otago and Southland regions are facing a wave of investment required from a large number of expiring wastewater treatment consents, ageing infrastructure and significant population growth at a local level.
- A rapid increase in total borrowings to fund investment in three waters infrastructure. In some cases, councils which have historically held very low levels of debt are now projected to exceed borrowing limits that have been imposed by the Local Government Funding Agency (LGFA).
- Large rates rises for the ongoing provision of three waters services. The three waters residential rates in some areas anticipated to increase up to three-fold over the next ten years.
- Our work in 2021 highlighted recruitment challenges across both regions, with vacancy rates averaging 13% across the two regions. Conversations with key staff through this piece of work have identified that recruitment and retention challenges have not improved significantly since that earlier work.

Investment requirements

The combined investment profile for the Otago and Southland councils features a $4.1 billion programme of work, across eight councils. The work programme almost doubles from $280 million to over $450 million dollars of planned annual capital delivery between 2025 and 2029.

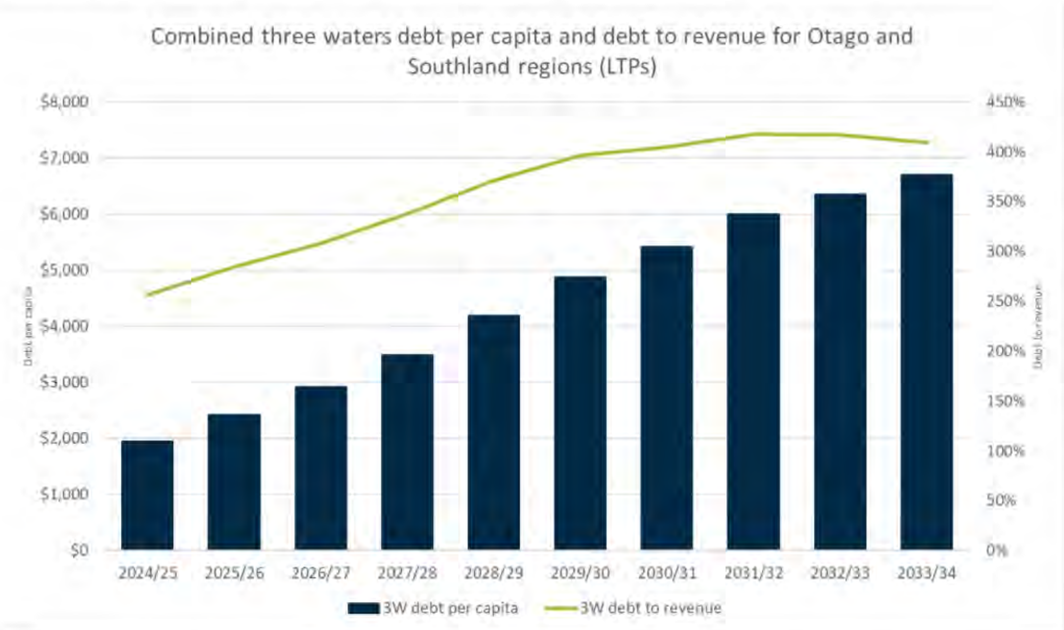
There is a significant delivery challenge associated with scaling up to such a large programme of work. The delivery of a three waters work programme that is double the current scale not only requires the funding but would require a significant increase in contracting, engineering and project management resources across the regions.



Borrowing requirements

Financing a $4.1 billion dollar work programme requires significant borrowing. Council's long term plans show that total three waters debt across the Otago and Southland Councils is expected to reach $2.7 billion by 2034.

On a per capita basis, debt across the combined regions will triple from $1,950 per person to over $6,700 per person in 2034. Servicing and repaying that debt will add $450 to the average rates bill.



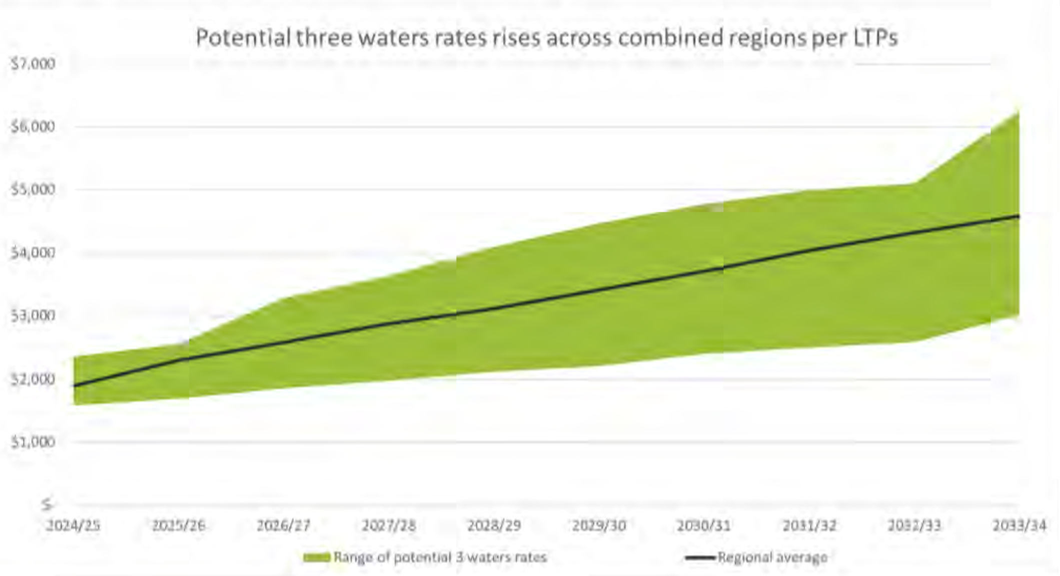
Proposed financial arrangements announced by the Government on 8 August 2024 reference LGFA's willingness to lend to an effective rate of 500% of three waters revenue. Lending covenants will not be based on this 500% threshold, but will most likely be based on a "Free Funds from Operations" to debt ratio (FFO ratio). Under these covenants, it is expected that an entity would need to maintain a FFO ratio of 10% or higher. The implications of this for an Otago and Southland three waters entity are discussed later in this report.

Rates rises

Three waters rates across the Otago and Southland regions are predicted to rise significantly over the next ten years. Based on long term plans, by 2034, some councils will have three waters rates that are more than three times larger than they are in 2025. For some councils, this means a rapid increase in rates in the final years of their LTPs.

While there is significant variation across the regions, the affordability of three waters services and rates is likely to become a key consideration for all councils moving forward. Regionally, the weighted average residential rates will double from $1,900 in 2025 to over $3,900 in 2034.

This may be compounded by the announcements made on 8 August 2024 that indicated a future economic regulator will have the power to set minimum and maximum levels of investment and revenue, thereby restricting councils ability to smooth investment and rating impacts.

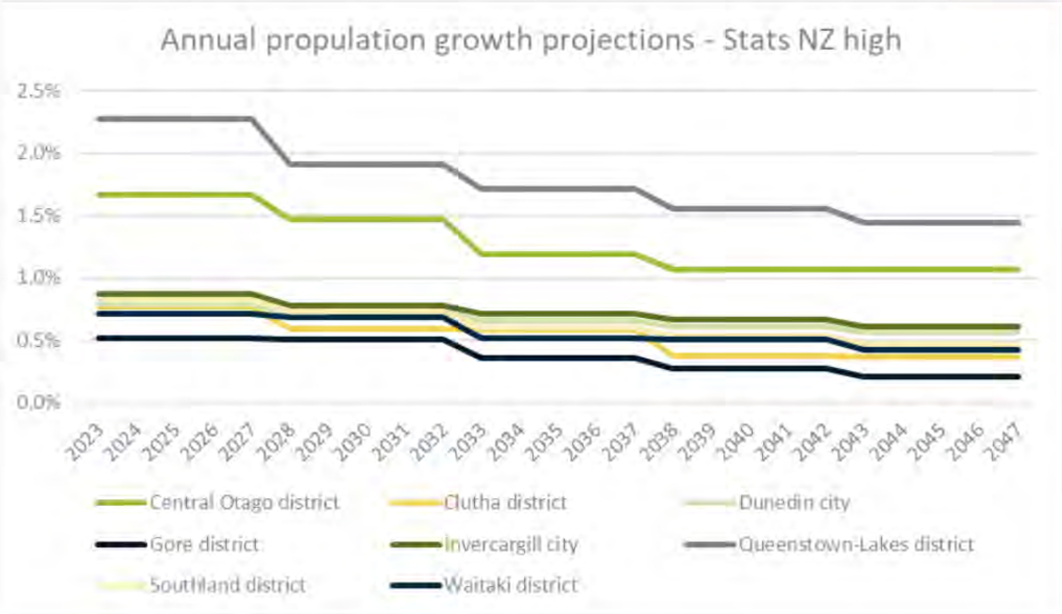


Local context matters

While there are clearly common themes that impact the future sustainability of providing three waters services in Otago and Southland, the local context for those issues differs significantly across councils. This local context helps to identify how similar challenges may need to be resolved through different approaches.

Some councils are experiencing rapid growth

The councils in Otago and Southland are vastly different in terms of their growth profile and population projections. While population is expected to continue to grow rapidly in areas such as Queenstown Lakes District Council (QLDC) and Central Otago District Council (CODC), in areas such as Southland District Council (SDC) and Gore District Council (GDC), population is expected to remain relatively stable.



The two Councils that are experiencing the highest levels of growth in the Otago and Southland regions (QLDC and CODC) have a combined three waters capital works programme of $822 million just to respond to provision of infrastructure to support that future growth. This represents approximately half of the three waters capital works programme for both Councils.

While Dunedin City Council (DCC) has allowed approximately $178 million for three waters growth infrastructure between 2024 – 2034, the remaining councils in the Otago and Southland regions have only forecast incidental expenditure on growth projects over the LTP period.

Servicing the growth that is occurring in QLDC and CODC requires significant organisational effort and planning. It can also have significant financial implications because development contributions that are used to fund that growth infrastructure are often received over time, meaning councils must borrow to fund its construction.

Growth councils require careful planning to ensure infrastructure is provided to support development just in time for the development to occur, and to ensure that consents, treatment plants, pump stations and bulk water/wastewater pipelines are appropriately sized to address future demand.

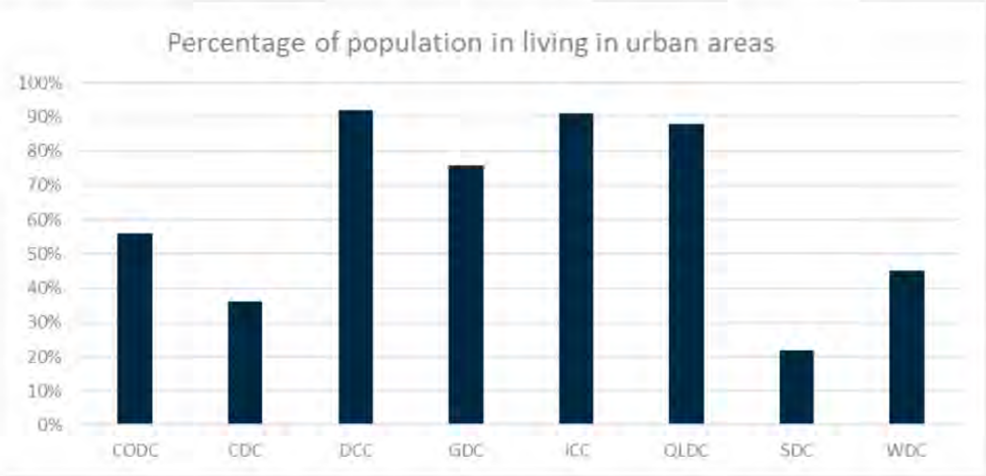
Addressing future growth demands is likely to become even harder following recent announcements by the Minister of housing. Tier one and two council under the national policy statement on urban development will now be required to provide up to 30 years of plan enabled development capacity. This will likely require further investment in growth infrastructure.

Some councils have many small communities

Provision of water, wastewater and stormwater services is becoming increasingly expensive as drinking water, environmental, and health and safety standards continue to become more stringent. These increasingly stringent standards are requiring significant investment to be made, particularly in wastewater treatment plants.

The Otago and Southland regions include a mixture of highly urbanised and largely rural populations. DCC has as many as 92% of its residents living in an urban environment. Invercargill City Council (ICC) and QLDC each have greater than 85% of their population living in urban areas.

By contrast, Clutha District Council (CDC), Waitaki District Council (WDC) and SDC each have fewer than half of their population living in urban areas. Only 22% of SDC's population live in urban areas.



The costs of meeting increasingly stringent regulatory standards is particularly notable in small and rural communities, where costs are spread over a very small number of ratepayers. While some councils have adopted district wide charging to deal with this, these small schemes are still difficult to maintain economically.

In most cases councils with multiple small townships also have comparatively low populations. Further, when a large proportion of a district's population lives in small townships, spreading costs is simply a matter of timing. While some townships may have (comparatively) expensive upgrades due in the next five years, the remaining townships may have similarly expensive upgrades due in the following 5 years.

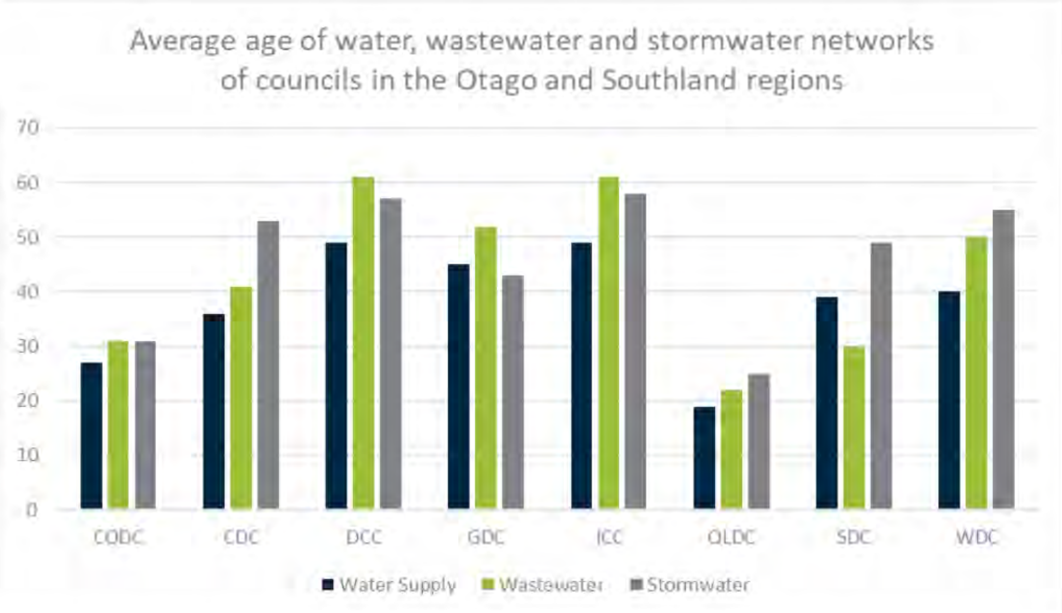
Managing small schemes cost effectively requires a different approach to the management of three waters services in highly urbanised environments.

MorrisonLow

Some councils have older networks than others

While age is not the sole determining factor about whether a water, wastewater, or stormwater network is in good condition or needs to be replaced, in the absence of high-quality condition data or asset performance information, it can be a good indicator.

The Otago and Southland regions contain some of the oldest townships in New Zealand. As a consequence they also have a number of long lived assets. DCC notes in its infrastructure strategy that its main sewerage interceptor dates back to the early 1900s and is still in use. DCC also has a number of other assets of similar age.



Ageing infrastructure and the pending "renewals bow wave" are issues that have been frequently cited as major challenges for the waters sector in New Zealand. As could be expected, aging infrastructure is often in poor condition, or may be leaky due to age or material. Leaky water networks mean high rates of water loss, contributing to the need for water restrictions during summer, while leaking stormwater and wastewater overflows can lead to inundation of the wastewater network causing overflows of raw sewerage and potential consent breaches.

Councils with older networks such as ICC, DCC, WDC and GDC are expected to undertake a significant programme of renewals over the next 10 years. These councils are expected to spend over $1.3 billion in three waters renewals over the next 10 years, or around half of their combined three waters capital works programme.

Among the issues lie a range of opportunities

The scale of the three waters infrastructure challenges facing the Otago and Southland regions is substantial. While the underlying causes for the increased level of investment facing councils may differ, there are a number of clear opportunities for collaboration that could be explored.

Examples of where further opportunities could be explored, or may be leverage as part of any new service delivery model include:

- Exploring opportunities for networks to be connected in neighbouring areas. There are only likely to be a small number of these opportunities (for example the Clifton and Winton wastewater treatment facilities) that are economically viable. However, combining networks is likely to give effect to longer term operating efficiencies and improved network resilience. There is nothing to prevent such opportunities to be explored currently.
- A number of Council's have in house operations and maintenance teams that work on part or all of their water and wastewater networks. These councils currently need to employ a large enough workforce to ensure adequate cover for after hours, and annual and sick leave of staff. Developing a shared workforce between neighbouring councils would provide more workforce resilience, and potentially enable operational efficiencies.
- All councils have significant capital works programmes ahead which will require engagement of specialist contractors to complete. However, given the comparatively remote location of the Councils of Otago and Southland, and the distance from most major population centres in New Zealand, attracting large scale contractors can be challenging. Alignment of procurement and project management approaches, and coordination of large scale work programmes would likely assist in attracting contractors to the regions.
- Councils across Otago and Southland differ in terms of the environmental influences on their investment need. These differences create further opportunities in a shared service model, as the increased scale will allow for increased specialisation of roles. For example, councils may be able to pool resources to have dedicated development engineering, design engineering, urban and rural water specialists, and project management skills that would otherwise be out of reach.
- Increased scale may allow for specialist equipment to be jointly acquired, for example CCTV equipment for condition assessment or equipment to aid leak detection.
- There may be funding and financing opportunities available through the ability to leverage a combined balance sheet and revenue base. The Government's announcements of 8 August 2024 indicated that WSEs may be able to access borrowing up to 500% of its revenue, and for that borrowing to be kept off a council's balance sheet. However the terms, including the interest rate, of that borrowing will be determined by LGFA based on its assessment of risk and credit worthiness. Increased scale of water entities may allow for improved lending terms due to the increased scale.

Detailed information for each council is outlined in further detail in our Current State report of 30 August 2024, which has been attached as **Appendix Four**. Note that this report was produced prior to Morrison Low receiving full financial information from Councils, and accordingly, charts included within that report may not completely align with data presented in the "Financial modelling" section of this report. In the case of any inconsistency the data in this report should be preferred.

Strategic objectives

Strategic objectives help guide the development and assessment of options in a business case process. They summarise and reflect the critical elements of success, and the aspirations for improved water service delivery across the Otago and Southland regions.

Strategic objectives were developed having regard to the issues identified through the case for change. The strategic objectives were developed through workshops with the Otago Southland Local Water Done Well working group, and were presented to General Managers, and Chief Executives for challenge and refinement.

The strategic objectives are outlined across the top of the following table. In the subsequent rows the objectives have been aligned to Local Government's four wellbeings to provide further clarity and context and a level of detail or definition for each of the objectives that can then be used to assess the options.

In addition to the strategic objectives, critical success factors from Treasury's Better Business Cases approach have been used to assess the viability of each long listed option, and in more detail, the strategic fit of the shortlisted objectives. The critical success factors used were:

- **Strategic fit and business needs** – how well the option meets the investment objectives and is aligned to broader strategies and programmes (e.g. the government's Local Waters Done Well programme objectives).
- **Potential value for money** – does the option produce the appropriate balance of benefits versus costs?
- **Supplier capacity and capability –** Is there sufficient capability and capacity within the market to deliver the option?
- **Potential affordability –** Is the option likely to be affordable? We have considered this in a relative sense across options.
- **Potential achievability –** Is the option able to be feasibly implemented? For practical purposes, this has been considered based on a technical feasibility perspective rather than a political achievability perspective.

These critical success factors were used as a pass/fail in assessing and refining the long list prior to determining an agreed shortlist of options.

	Deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy	Deliver three waters services that sustainably respond to change in population, economic activity and climate change	Deliver three waters services through a model that is responsive to the local needs of our communities	Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	Ensure that three waters services are delivered through a model that is enduring and financially sustainable
Economic Wellbeing	• Three waters services and assets are resilient • Provision of reliable, continuous services	• Economic and population change is supported through the provision of infrastructure	• Services provision recognises the diversity in need for three waters infrastructure across our communities	• Scalable and adaptable • Maximises available efficiencies and encourages effective investment planning • Supports improved retention and recruitment • Systems and processes are robust and consistent across the regions	• Enough funding is raised (through charges, grants, debt or other means) to invest in needed infrastructure • The funding model allows for the ongoing, sustainable, provision of three waters services • We meet the requirements of an economic regulator
Cultural Wellbeing	• Services respect the cultural significance of water and receiving environments • Service provision reflects our role as kaitiaki for the natural environment	• The intergenerational impacts of investment are considered	• A delivery model that allows for effective engagement with stakeholders	• Strong relationships are held with Runaka • Runaka are provided meaningful opportunities to contribute to decision making	• The financial capacity of councils to invest in community infrastructure is enhanced

	Deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy	Deliver three waters services that sustainably respond to change in population, economic activity and climate change	Deliver three waters services through a model that is responsive to the local needs of our communities	Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	Ensure that three waters services are delivered through a model that is enduring and financially sustainable
Social Wellbeing	• Public health is at the heart of decision making • Services will be compliant with all consents, regulatory standards and drinking water standards	• Communities are given access to three waters services that they need.	• Investment in small communities is maintained • No community is left out	• The health and safety of our workforce and the public is protected • The model supports a highly coordinated emergency management response capability The model supports the development of happy, high performing people	• Three waters services are delivered in a way that is more affordable than the alternative.
Environmental Wellbeing	• The health of marine, estuary and freshwater environments is reflected through our approach to network management and service provision	• Investment decisions balance growth demands against environmental outcomes	• Investment planning and service delivery recognises differences in the local environments of our communities	• Access to a broad range of skills and resources supports innovation and investment planning that produces good environmental outcomes	• Investments consider the long term environmental impacts to reduce whole of life costs

Long list of options

A long list of options was developed using Treasury's Better Business Cases options framework tool. This tool encourages you to think broadly about the range of different options that may be available to address the business needs and strategic objectives.

Options are broken into five different "dimensions". For each dimension, participants consider different solutions ranging from least to most ambitious. The dimensions considered are:

- **Service Scope –** What are the specific activities to be included in a proposed delivery model (e.g. water, wastewater, stormwater)?
- **Service solution** – What services does the model provide? For example, whether the model undertakes all work necessary to deliver three waters services, or whether it simply provides some specialist services.
- **Service delivery** – What are the structural arrangements in place? For example, whether the services are delivered through a Water Organisation (CCO) or through contractual arrangements.
- **Implementation –** When are the options implemented? Because a key output of this project is a regional delivery roadmap, timing options will be considered more fully as part of the roadmap development.
- **Funding options –** How will we pay for the services delivered by the preferred model? While there are a range of options for funding, these are closely tied to the delivery model.

The full outputs of the long list workshop are attached at **Appendix Three**. While theoretically, this produces a long list that includes every combination of option (over 39,000 combinations), not all options are compatible with each other.

Service Scope options

Options removed due to failure to meet critical success factors.

The service scope options that were ruled out of the long list due to failure to meet critical success factors include:

- Addressing agricultural water only
- Addressing rural mixed use supplies only
- Address rural drinking water supplies only
- Addressing urban drinking water supplies only
- Addressing wastewater and stormwater only
- Addressing council owned three waters schemes plus land drainage schemes
- Addressing all core infrastructure

Service Scope options

Options that were ruled out during shortlisting.

Addressing drinking water supplies only	This option was ruled out due to failure to address issues related to all three waters, and in particular failure to meet the strategic objective relating to reflecting the importance of water.
All water supplies (including non-drinking water supplies)	This option was ruled out due to failure to address issues related to all three waters, and in particular failure to meet the strategic objective relating to reflecting the importance of water.
Water and wastewater only	This option was ruled out due to the relationship between stormwater and wastewater and the challenges in managing these issues separately. For some councils which have integrated wastewater and stormwater networks, separation of these activities would be challenging. This option was also discounted due to impacts on supplier capability and capacity given common shared skills.
Three waters plus community owned schemes	This option was ruled out due to: • An inability to compel community schemes to transfer ownership or management of their assets • Significant costs involved in transferring management or ownership of community schemes • A lack of knowledge about the full extent of community owned schemes • Concerns about the technical achievability of this option

Shortlisted options

The only service scope options that progressed to shortlisting was the delivery of council owned water, wastewater and stormwater services.

MorrisonLow

Service Solution options

Options removed due to failure to meet critical success factors.

The service solution options that were ruled out of the long list due to failure to meet critical success factors include:

- Developing consistent standards and bylaws
- Network operations and maintenance (only)
- Treatment operations and maintenance (only)
- Centralised funding/treasury support
- Capital works planning, design or PMO functions
- Bulk water and wastewater treatment only

Options that were ruled out during shortlisting.

Regional operating strategy (after hours monitoring services)	This option was ruled out in isolation as it is already likely to be pursued through other regional collaboration efforts, and would otherwise not have a large enough impact on its own (i.e. does not provide value for money).
Pursue all regional quick wins	This option was ruled out in isolation as it is already likely to be pursued through other regional collaboration efforts, and would otherwise not have a large enough impact.

Shortlisted options

The remaining options were included in shortlisting, with the potential of being bundled under some of the shortlisted service delivery models. These options included:

- Joint procurement
- Network and treatment operations and maintenance
- Capital works delivery
- Engineering centre of excellence
- Joint asset management and investment planning
- All functions
- All functions with asset transfer

Service Delivery options

Options removed due to failure to meet critical success factors.

The service delivery options that were ruled out of the long list due to failure to meet critical success factors include:

- Pursuing options through informal arrangements
- Establishing a joint committee
- Delivery through a community owned cooperative or trust
- Delivery through a regional council

Options that were ruled out during shortlisting.

Memorandum of understanding	This option was ruled out because it lacked enough formal commitment to allow it to develop an enduring and financially sustainable model, or for the development of enduring capability or capacity.
Shared arrangement	This option was ruled out as it was not considered to be sufficiently more enduring than a joint contracting model, while adding sufficient additional complexity.
Joint venture	This option was ruled out as it was not considered to be sufficiently more enduring than a joint contracting model, while adding sufficient additional complexity.
Multiple CCOs or entities	This option was ruled out as a regional solution as it created too much additional cost and complexity for limited perceived additional benefit. Of note, ruling this option out of regional consideration is not intended to have ruled out the possibility of a regional entity providing services to an individual council owned water services entities.
Consumer trust	This option has been ruled out of further regional consideration as it is expected to come at a higher cost than a water services entity (due to lending arrangements), and due to the lack of an existing consumer trust which covers the entirety of the two regions.

Shortlisted options

The remaining options, were included in shortlisting:

- Entering into joint contracts
- The establishment of a CCO or water Services entity

Implementation options

All implementation options have been considered in the shortlist. Implementation timeframes will be determined in the event that a regional option is identified and pursued further. Financial modelling of the Otago Southland WSE assumes an implementation date of 1 July 2027.

Funding options

Options removed due to failure to meet critical success factors.

The only option ruled out of the shortlist was "costs lying where they fall". This was ruled out at a regional level because it doesn't align with the other shortlisted options.

Shortlisted options

The remaining options were progressed to shortlisting. In some cases, these options will be determined later through entity design processes, should a regional entity model be pursued. The shortlisted options included:

- Funding based on contractual agreements
- Funding set by each council (including upon receipt of advice from an entity)
- Funding determined by a water services entity, but reflecting local differences
- Funding determined by an entity with full regionalisation

MorrisonLow

Shortlisted options

The shortlisted options have been described below as being independent options. They represent a continuum of the scale of change possible in water services delivery options. It is the intention of the working group for these to be viewed collectively as a delivery roadmap, with the possibility that some groups of councils may wish to commence their journey further along the roadmap than others.

The possible progression between stages on the roadmap, and the coordination across those different stages will need to be finalised once councils have provided initial direction to the working group.

It is important to note that the options presented here are to be considered as being "regional options". They do not provide the full suite of options that may be available to councils at an individual level. It is acknowledged that councils may wish to consider their own options independently of the regional work.

Option 1 – status quo

The status quo option involves councils continuing to provide three waters services under their existing delivery models. This includes no formal collaboration between councils for the ongoing delivery of water services.

Financial modelling of the status quo option will be undertaken as part of this programme of work. That modelling and the outcomes it projects may differ from Council Long Term Plans or financial projections, as it will apply a standard set of assumptions regarding future regulatory and quality standards.

This option is primarily provided for comparison purposes.

Option 2 – Joint contracts

This option involves the councils of Otago and Southland entering into joint contracts for the provision of core three waters services, including:

- Asset management services (including standardisation of asset management processes, planning tools and data management/capture)
- Project delivery
- Engineering services/design
- Network and treatment operations and maintenance
- Customer services (particularly after hours services)
- Laboratories, sampling or monitoring services.

The full scope of services to be contracted under such arrangements would need to be agreed between councils.

Services may be contracted from either a private sector third party (e.g. WSP), one council, or from a water services organisation.

Funding for this option would be through the contractual agreement.

Benefits

The identified benefits associated with this option include:

- Increased standardisation would improve asset planning across the region and would make it easier for contractors to work with councils. Over time it could unlock further opportunities for joint procurement.
- A shared workforce (provided under contractual arrangements) increases resilience to staff vacancies, and provides improved career opportunities across the regions.
- The combined scale of a contract may mean smaller councils have access to expertise, specialisation, or systems which it may otherwise not be able to afford to procure.
- The scale may allow councils to provide an improved customer level of service than they would otherwise be able to afford or resource.
- Information sharing will be improved.
- There may be potential procurement and operational efficiencies that can be achieved as a result of the scale.
- The options may be compatible with the establishment of a water services organisation including some of the Councils in Otago and Southland, as that organisation may be able to either provide, or procure, some services through the joint contract(s).

The extent of the benefits will be dependent on the suite of services provided and the number of councils that participate.

Risks and disadvantages

The identified risks and disadvantages of this option include:

- The option is unlikely to address any debt constraints issues faced by individual councils.
- With multiple councils being party to the contracts, each council may manage the contracts within their own district, making contract management complex.
- Any savings generated from this option are unlikely on their own to address affordability issues faced by individual councils.
- The option lacks permanency. Participating councils can elect to leave the arrangement at the end of the contract period, and the departure of one or two councils may undermine the ongoing viability of the entire arrangement.
- The arrangement would result in the loss of in-house capability and capacity.

Comparison

Tauranga City Council and Western Bay of Plenty District Council contracted with Watercare Services Limited (Watercare) to jointly invest in a platform that provides an integrated, managed solution for work orders, asset and geospatial data management.

The collaboration was recognised as a finalist in the IPWEA Asset Management Excellence Awards[4]. Watercare has since signalled that it will withdraw from the arrangement, leaving Tauranga City Council and Western Bay of Plenty District Council with the need to replace the three waters asset management platform.

[4] https://apopo.co.nz/three-waters-collaboration/

Option 3 – Shared services arrangements provided through a formal entity

This option involves the councils of the Otago and Southland regions establishing a formal legal entity (most likely a Council Controlled Organisation), to provide or manage the contracting of three waters shared services.

The potential suite of shared services to be provided is consistent with Option 2.

Services may be provided by the entity directly (through direct engagement/employment of staff) or through contracts with third parties.

Funding for this option would be provided through a contractual agreement or would be set in advance by each council.

Benefits

The benefits identified with this option are consistent with Option 2. In addition:

- The establishment of a legal entity to procure shared services creates an additional layer of permanency. However, councils would still be able to withdraw from arrangements under this model.
- Contracting arrangements are simplified. Contracts with third parties would be between the entity and the third party directly. With the entity managing relationships and contracts with the councils.
- This model would allow the entity to evolve over time to provide more services, or eventually take ownership of water assets, if there was a desire for it to do so.

Risks and disadvantages

The risks and disadvantages associated with this option are consistent with Option 2. In addition:

- The risks around option permanency is partially mitigated.
- There will be additional overhead, governance and management costs introduced into the entity model.
- Depending on the contractual arrangement used, this option separates the councils from the service providers and complicates roles and responsibilities.

Comparison

Examples of similar structures include:

- Local Authority Shared Services (LASS) organisations which have been established with varying success elsewhere in New Zealand. These organisations often focus on joint procurement, valuation, and geospatial services.
- The Waikato Road Asset Technical Accord (RATA) which focussed on improved and better aligned asset management principles and data quality through collaboration. RATA is funded through a contractual arrangement, whereby one council is contracted by the Waikato LASS (Co-LAB) to provide the services. The costs are then shared by all councils.

Option 4 – Management CCO

This option involves the councils of the Otago and Southland regions establishing a CCO that is responsible for some of the elements of water services delivery for its shareholding councils/shareholders.

Under this model:

- Councils would still own all three waters assets
- Councils would retain all of their existing and future three waters debt
- Councils would agree a budget with the water services entity (noting that an economic regulator will also influence this)
- Councils would be responsible for setting three waters charges/rates and generating necessary revenue
- Councils would not typically employ three waters staff directly, but may retain a limited amount of three waters expertise to ensure that they have an affective relationship with the water organisation
- The entity would likely not be able to borrow in its own right.

The viability of this option may be impacted by the Local Government Water Services Bill, which is to be introduced to parliament in late 2024.

Funding for this option would be set in advance by each council upon receipt of advice from the water services entity.

Benefits

The benefits identified with this option are consistent with Options 2 and 3. In addition:

- The entity will be able to seek efficiencies and consistency across operations and maintenance contracts throughout the combined regions.
- The entity will be able to better coordinate capital works programmes across the combined regions to improve deliverability.
- The entity will be able to package works to improve the attractiveness of projects to large scale contractors that may not currently operate within some districts.

Risks and disadvantages

The risks and disadvantages of this option include:

- The entity will be responsible for managing operations, maintenance and investment in the water network, but will not have full control of revenue or funding. This is a key challenge for Wellington Water (the only current example of a three waters management CCO in NZ).
- Some risk remains with councils as owners of the three waters infrastructure and being the drinking water supply authority, however councils will have few tools available to manage that risk directly.
- Because budgets need to be agreed between councils and the water services organisation, there is a need for a high level of trust between the organisations.
- While challenging, councils can still withdraw from delivering three waters services through this model.

Comparison

An example of this option is Wellington Water, which provides three waters services through a management CCO for Wellington City Council, Hutt City Council, Porirua City, Council, Upper Hutt City Council, Greater Wellington Regional Council and South Wairarapa District Council.

Option 5 – Multi-council water services organisation

This option involves the councils of the Otago and Southland regions establishing a water services organisation that is responsible for all of the elements of water services delivery for its shareholding councils/shareholders.

Under this model:

- Councils would transfer assets, debt and powers to raise revenue
- There is no assumption that there would be an automatic "harmonisation" of water charges
- There is no assumption that debt would be "pooled" across all ratepayers
- Councils would not typically employ three waters staff directly and are unlikely to have a need to retain internal expertise.

Funding for this option would be determined by the water services entity, and may or may not reflect local pricing differences.

Benefits

The benefits identified with this option are consistent with Option 4. In addition:

- The entity would have its own balance sheet and would be able to borrow up to 500% of its three waters revenue[5]
- The entity will set its own budgets and will control all the risks of delivering three waters services
- The entity will be financially independent from councils, allowing it to more easily meet the future requirements to produce separate financial statements and water services strategies
- The water entity will be solely accountable to its customers/communities for the setting of water charges
- The change would be more permanent.

Risks and disadvantages

The risks and disadvantages of this option include:

- Without appropriate processes in place, some communities may receive higher proportionate levels of investment than others and the prioritisation of investment may differ or change in timing from councils.
- The entity will be able to set three waters prices entirely independently from decisions made by councils, and these decisions may have affordability implications for communities. Economic regulation will mitigate this risk.
- There may be a loss of high value jobs in small districts.

[5] Per LGFA's announcement, the actual lending conditions will differ but will be broadly equivalent to 500% debt to revenue.

- The water services organisation may seek to choose investment options that present the minimum cost to achieve compliance rather than reflecting local community expectations for a higher level of service.

Comparison

The closest comparison to this option is Watercare, except that is wholly owned by Auckland Council and established under the Act that established Auckland Council and its CCOs rather than the Local Government Act. Watercare is financially independent from Auckland Council and currently only provides water and wastewater services.

An Otago – Southland entity would have multiple shareholders.

Assessment of shortlist against strategic objectives

Shortlisted options have been assessed against strategic objectives in the table below.

Assessment of options against criteria has been made at a red/amber/green level based on an assessment of which option provides the best outcomes for the majority of council areas.

We recognise that this approach may mean the preferred option for each council may differ to our overall assessment, based on their specific individual circumstances. This is particularly likely to be the case in relation to the financial criteria.

Assessment of shortlist against strategic objectives	
Deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy	
Option 1 – Status Quo	Three waters services under the status quo operating models include a number of instances where drinking water and wastewater schemes have been non-compliant. Increased regulatory focus will require councils to invest more in their networks in the future, as demonstrated in the financial modelling this will result in significantly higher costs for water consumers (more than three times greater in some cases) or continued non-compliance if funding is constrained due to affordability constraints.
Option 2 – Joint contracts	Will largely be dependent on the extent of services commissioned through the joint contracts. Joint contracting will likely provide some efficiencies through scale, and adoption of common contract requirements and standards. To the extent that joint contracting results in the joint procurement of asset management planning or engineering centre of excellence type services, it is likely that it will result in improved regional regulatory and environmental outcomes.
Option 3 – Shared services arrangements	Per the above, this will be largely dependent on the extent and scale of services that are procured or provided through a shared services arrangement. It is likely these will be more expansive than would otherwise be provided through joint contracting in order to justify the cost and effort of establishing a shared services entity.
Option 4 – Management CCO	A management CCO will be guided by a professional board of directors and management team with a sole focus on delivering three waters services. It will have access to the appropriate capability and capacity to be able to make best for network investment decisions that ensure compliance with relevant regulations and community expectations. However a management CCO will not set its own budgets, and the extent to which it is able to access funding to make appropriate investment will be influenced by individual council funding decisions. The separation of responsibility for funding and investment, along with shared risk between councils and the CCO has shown to be an ineffective model and there is risk attached to it achieving the success the councils seek.

Assessment of shortlist against strategic objectives	
Option 5 – Otago Southland WSE	An Otago Southland WSE will be guided by a professional board of directors and management team with a sole focus on delivering three waters services. It will have access to the appropriate capability and capacity to be able to make best for network investment decisions that ensure compliance with relevant regulations and community expectations. It will have full control over its own funding (subject to an economic regulator) and will therefore have an increased ability to make investments when and where they are needed.
Deliver three waters services that sustainably respond to change in population, economic activity and climate change	
Option 1 – Status Quo	Delivery of investment to respond to population growth requires significant upfront capital and consequential high demand on debt. This will constrain the ability of some councils to respond to change within their regions appropriately as those councils reach their borrowing limits. Alignment of three waters investment planning with urban planning and economic development activities in the existing service delivery model may allow for improved growth and climate resilience planning and response.
Option 2 – Joint contracts	A joint contracting model may provide improved access to specialist skills which may support improved planning to respond to growth or changes in economic activity. However, funding issues would remain meaning this option would have little impact against this objective.
Option 3 – Shared services arrangements	A shared services model may provide improved access to specialist skills which may support improved planning to respond to growth or changes in economic activity. However, funding issues would remain meaning this option would have little impact against this objective.
Option 4 – Management CCO	A management CCO model will allow improved access to specialist skills to support planning for changes in demand. A management CCO may also have increased ability to seek network efficiencies or opportunities to better utilise existing infrastructure across council boundaries. However, funding issues would remain meaning this option would have less of an impact against this objective than if it controlled the funding as well.
Option 5 – Otago Southland WSE	An Otago Southland WSE will allow improved access to specialist skills to support planning for changes in demand. It may also have increased ability to seek network efficiencies or opportunities to better utilise existing infrastructure across council boundaries. Separation from each council's urban planning and economic development activities will mean increased interaction and interface is required to ensure that objectives are aligned.

Assessment of shortlist against strategic objectives

Deliver three waters services through a model that is responsive to the local needs of our communities	
Option 1 – Status Quo	Councils currently have strong relationships with the communities that they serve and are governed by a group of democratically elected councillors. Decisions made by councils are inherently local and reflect the needs of local communities, if they can afford it. However, existing non-compliance in some council areas demonstrates that the competing priorities and affordability constraints within councils have prevented investment in three water infrastructure.
Option 2 – Joint contracts	A joint contracting model would not impact the ability for the service delivery model to be responsive to local needs compared to the status quo arrangement. Impacts on local responsiveness may differ depending on the services which are jointly contracted. Competition for funding at a local level will remain, which will constrain investment in some small communities.
Option 3 – Shared services arrangements	A shared services model is unlikely to have impacts on local responsiveness compared to the status quo model. Impacts on local responsiveness will be dependent on the services which are shared, and a formal shared services arrangement is likely to have a broader scope of services shared than a joint contracting model. Competition for funding at a local level will remain, which will constrain investment in some small communities.
Option 4 – Management CCO	A management CCO model will likely centralise most investment planning, service delivery, and customer engagement functions through one or two central offices. There will likely be provisions to retain local employment, however staff will not be located within council offices. Operations and maintenance teams will remain local and will be able to continue to deliver existing service levels in terms of responsiveness to calls. Councils will retain funding control, and accordingly there will necessarily be regular interaction between the management CCO and its council shareholders. Service levels and standards would largely be determined by the entity, and regulators. Competition for funding at a local level will remain, which will constrain investment in some small communities.

Assessment of shortlist against strategic objectives	
Option 5 – Otago Southland WSE	An Otago Southland WSE model will likely centralise most investment planning, service delivery, and customer engagement functions through one or two central offices. There will likely be provisions to retain local employment, however staff will not be located within council offices. Operations and maintenance teams will remain local and will be able to continue to deliver existing service levels in terms of responsiveness to calls. There will only be an indirect link between councils and the water services entity, however mechanisms such as a customer forum could be established to capture additional local input.
Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	
Option 1 – Status Quo	Decision making must balance the needs of communities across a range of activities that compete for limited resources and funding. In council's with constrained funding, these trade-offs and balancing the investment needs of council's wider operations with the requirements for water (driven by economic regulation) create risk for both water services and other council services and have led to non-compliance in many areas. Councils compete within the same employment market for key skills, and offer comparatively limited career development opportunities within the sector when compared with larger dedicated water entities.
Option 2 – Joint contracts	Decision making will ultimately remain the same as the existing model, where access to limited funding must be balanced across a range of activities. Councils will jointly acquire access to specialist skills through a joint contracting model, minimising competition for resources. Security of work means contracted parties may be able to further develop clear career pathways, though this increase in capability and capacity would likely sit outside the local government sector.
Option 3 – Shared services arrangements	Decision making will ultimately remain the same as the existing model, where access to limited funding must be balanced across a range of activities. Councils will jointly acquire access to specialist skills through a shared services model, minimising competition for resources. A shared services entity may employ staff to services directly rather than contracting a third party, potentially creating career pathways within local government, and building capability and capacity directly within the sector. This may depend on the suite of services that are shared.

MorrisonLow

Assessment of shortlist against strategic objectives	
Option 4 – Management CCO	A management CCO model would have sufficient scale and breadth of services to attract a broad range of skills and provide opportunities for staff to specialise in areas of need. The entity would be a single employer within the Otago and Southland regions, reducing competition for staff. Funding decisions would remain with councils, however a management CCO would have a responsibility for the prioritisation of work.
Option 5 – Otago Southland WSE	An Otago Southland WSE would have the greatest scale and breadth of services of all the options to attract a broad range of skills and provide opportunities for staff to specialise in areas of need. The entity would be a single employer within the Otago and Southland regions, reducing competition for staff. Decision making would be independent of decisions made by councils and competing priorities of communities. Decisions will be driven by compliance with economic, service and consumer regulation and risk based decision making.
Ensure that three waters services are delivered through a model that is enduring and financially sustainable	
Option 1 – Status Quo	The financial sustainability of the existing service delivery arrangements will largely be dependent on each councils specific circumstances. New financial ringfencing rules will add additional compliance burdens. Seven of the eight councils in our modelling have three waters rates that increase by more than double over the next 10 years. Of these, three need to increase revenue to remain within debt to revenue limits.
Option 2 – Joint contracts	This arrangement would offer no significant improvement to financial sustainability compared to the status quo. Some operating and capital works efficiencies may be able to be achieved depending on the services that are jointly contracted and only for the period of the contract. These are will not be as significant as those that could be achieved through a management CCO or asset owning water services entity.
Option 3 – Shared services arrangements	This arrangement would offer no significant improvement to financial sustainability compared to the status quo. Some operating and capital works efficiencies will likely be able to be achieved, assuming a larger base of services are shared than would be under a joint contracting model. Efficiencies will not be as significant as the management CCO or water Services entity options. Infrastructure shared services in New Zealand have generally not endured, the uncertainty of that will limit the efficiency and benefits that can be gained.

Assessment of shortlist against strategic objectives	
Option 4 – Management CCO	This arrangement would not create financial separation of water and non-water debt and would not provide access to borrowing at 500% of three waters revenue. This arrangement would likely create moderate operating and capital works efficiencies but would not be able to optimise its capital structure in the same way an Otago Southland WSE would. Funding issues have been a key constraint for the performance of Wellington Water, who note within their own statement of intent that their "*total operational funding remains approximately 30% below the level required to effectively deliver these services*".
Option 5 – Otago Southland WSE	The impacts of this options for each council are presented in the financial modelling section. This option would allow full separation of three waters debt from other council debt, allowing councils to more freely access debt to fund investment in community facilities, roads or other activities. This option presents the lowest future cost of three waters services for 84% of the population of the Otago and Southland regions in 2034 and beyond.

Financial modelling

Introduction

This section summarises the initial outputs of our financial modelling for an Otago Southland WSE.

The modelling compares a "comparator case" with an Otago Southland WSE at a regional level. This comparator case is not the same as the existing service delivery model for councils, and therefore may not align with each council's own projections regarding three waters price paths. Detailed comparison of each councils existing service delivery model, with our comparator case has also been provided to assist councils in interpreting results.

The initial results focus on key metrics:

- Household charges for three waters
- Capital investment
- Debt

Detailed financial modelling assumptions are outlined in **Appendix One and Two**.

Impacts of Councils not taking part in the WSE

We have undertaken high level modelling of the impacts of the three largest population centres opting not to take part in the Otago Southland WSE. This preliminary modelling is subject to further refinement once potential arrangements are more clearly understood.

However, based on our modelling, there do not appear to be any scenarios where the exclusion of one or more population centres significantly undermines the model. Initial data suggests that under various scenarios the difference in three waters charges in 2034 could be between -8% through to +26%, with the variance reducing over 30 years to -6% through to +12%.

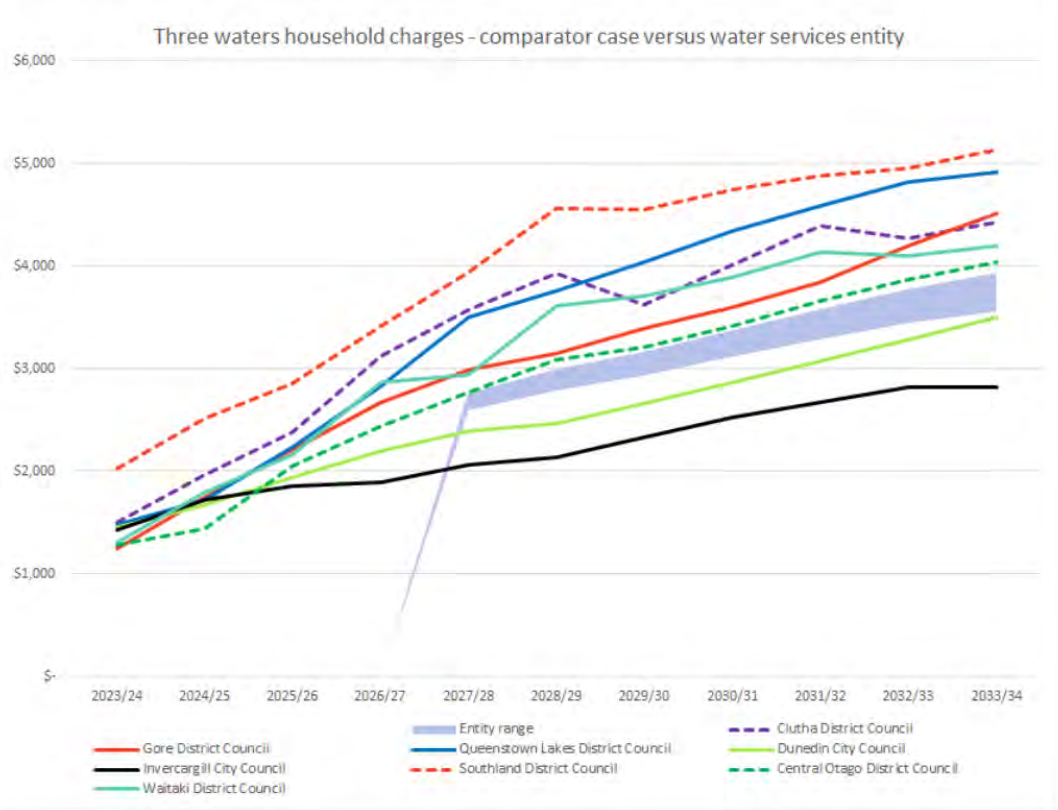
MorrisonLow

Regional results

Average household charges

The chart below presents (nominal) average household charges for the base comparator case for each council against the average regional charge for an Otago Southland WSE.

The range of charges for the entity is represented by the shaded are behind the chart. The range represents uncertainty regarding costs and benefits of an Otago Southland WSE, and includes an upper range which incorporates double the costs with half the benefits, and a lower range which represents a 50% uplift in available efficiencies (from 15% on capital expenditure and 16% on operating expenditure to 22% on capital expenditure and 23% on operating expenditure).

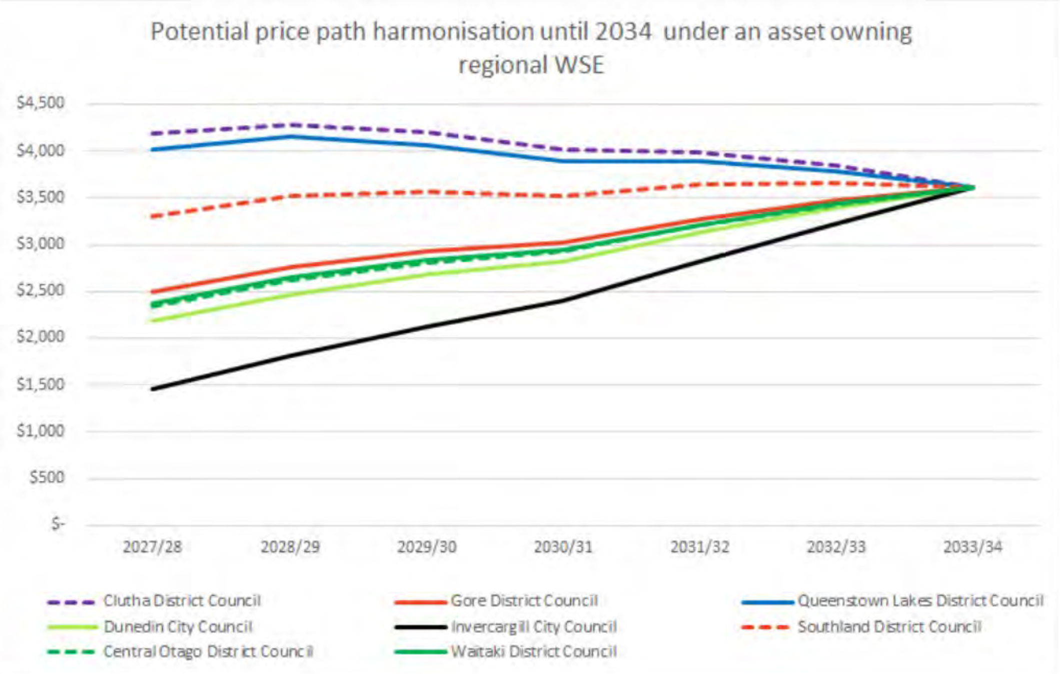


The chart shows 84% of water consumers are likely to experience lower water bills under Otago Southland WSE within the 10 year LTP period to 2034. By 2034, only Invercargill has three waters charges that are below the average household for an Otago Southland WSE.

While the Otago Southland WSE price path is presented as an average charge across the combined regions, we note that this price path could instead be harmonised over time (or not at all).

A potential path towards harmonisation of water charges across the combined regions is presented below. This shows charges for some councils starting at a higher point than they otherwise would have, with a long term convergence of pricing in 2034. The full details of a price path would need to be agreed if an Otago Southland WSE were to be established.

The price path for Invercargill under this scenario remains more expensive than either its existing service delivery model or our comparator case.

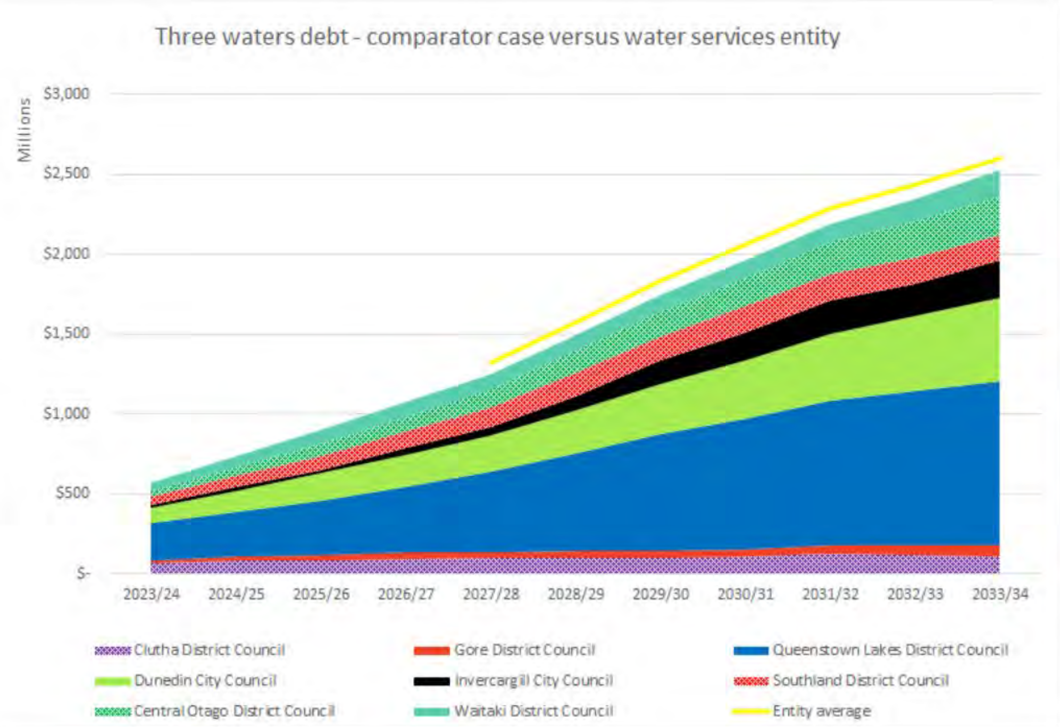


Debt

The chart below shows total Otago Southland WSE debt compared to the combined three waters debt of the participating councils.

The chart highlights that an Otago Southland WSE is able to utilise higher leveraging than the combined councils. This means that the entity does not need to generate as much additional revenue to support its borrowing requirements. Importantly, as highlighted later in this report, an Otago Southland WSE ultimately borrows less over a 30 year period.

Queenstown and Dunedin contribute the most debt an Otago Southland WSE, although debt for all councils grows over the modelling period.

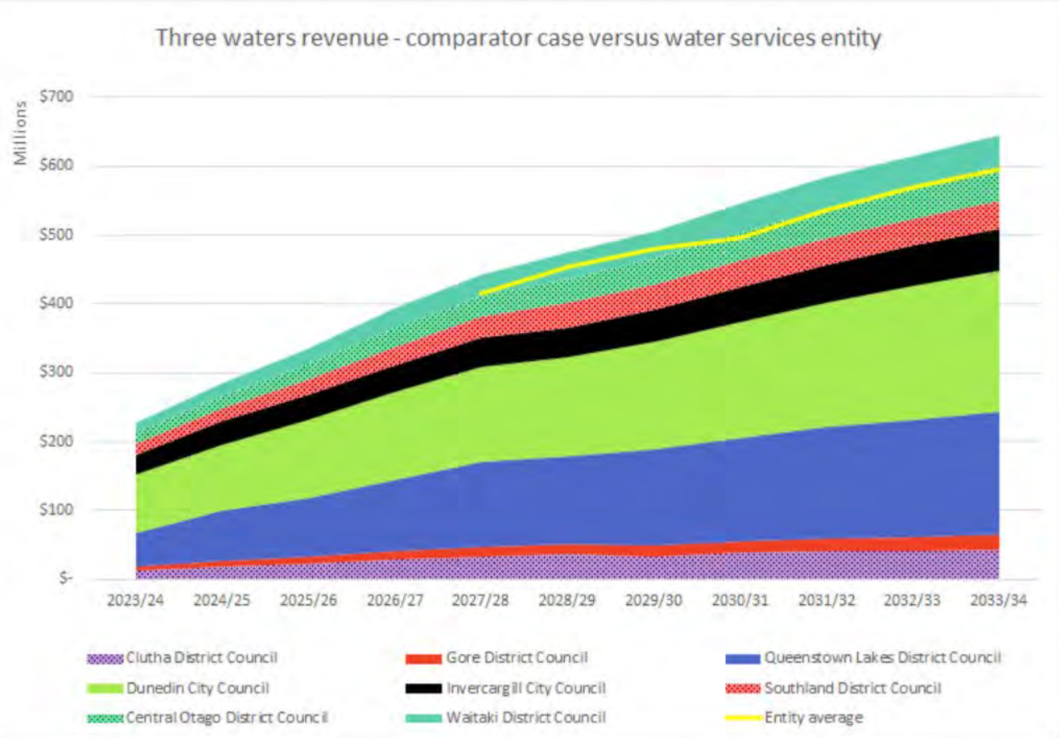


Revenue

The chart below shows total revenue for an Otago Southland WSE compared to the combined three waters revenue of the participating councils.

The water services entity is able to leverage its balance sheet to a greater extent than individual councils. This means it is able to reduce its overall revenue requirements to support that debt, reducing charges to consumers compared to individual councils.

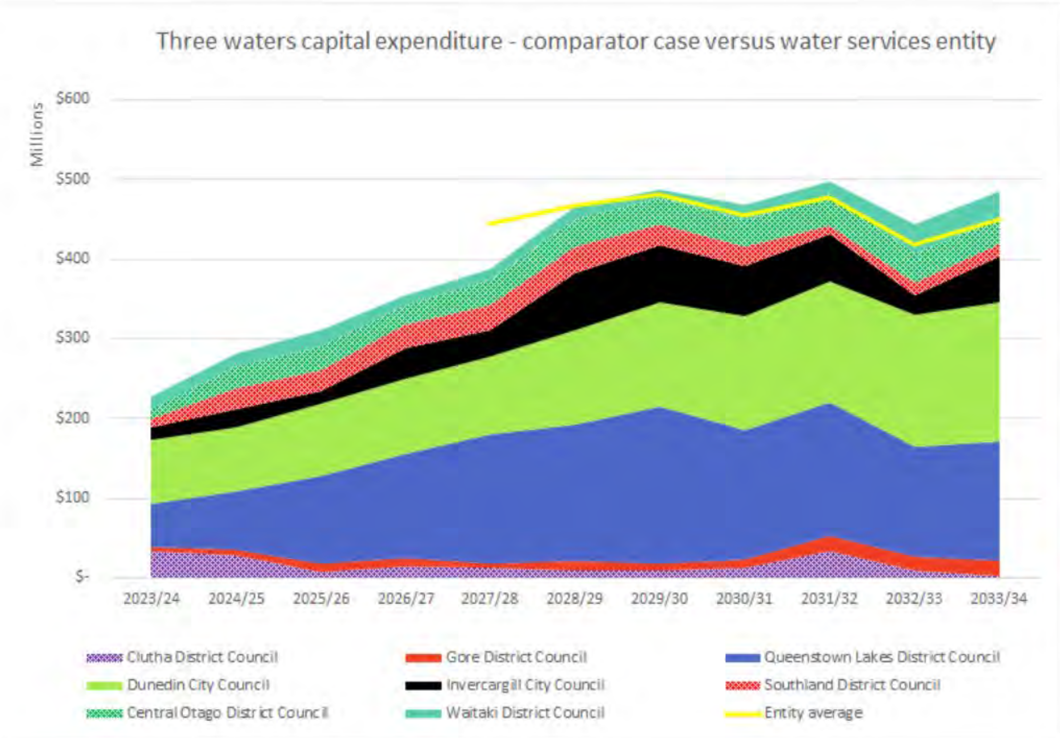
The modelling shows that Queenstown and Dunedin have the greatest share of revenue at a combined, pre Otago Southland WSE level.



Capital expenditure

The chart below shows total capital expenditure for an Otago Southland WSE compared to the combined three waters debt of the participating councils.

The Otago Southland WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur significant establishment costs[6]. Over time, an Otago Southland WSE is able to reduce capital expenditure compared to the combined councils as it begins to achieve organisational efficiencies through improved asset management practice and coordinated procurement to deliver the same programme of works.



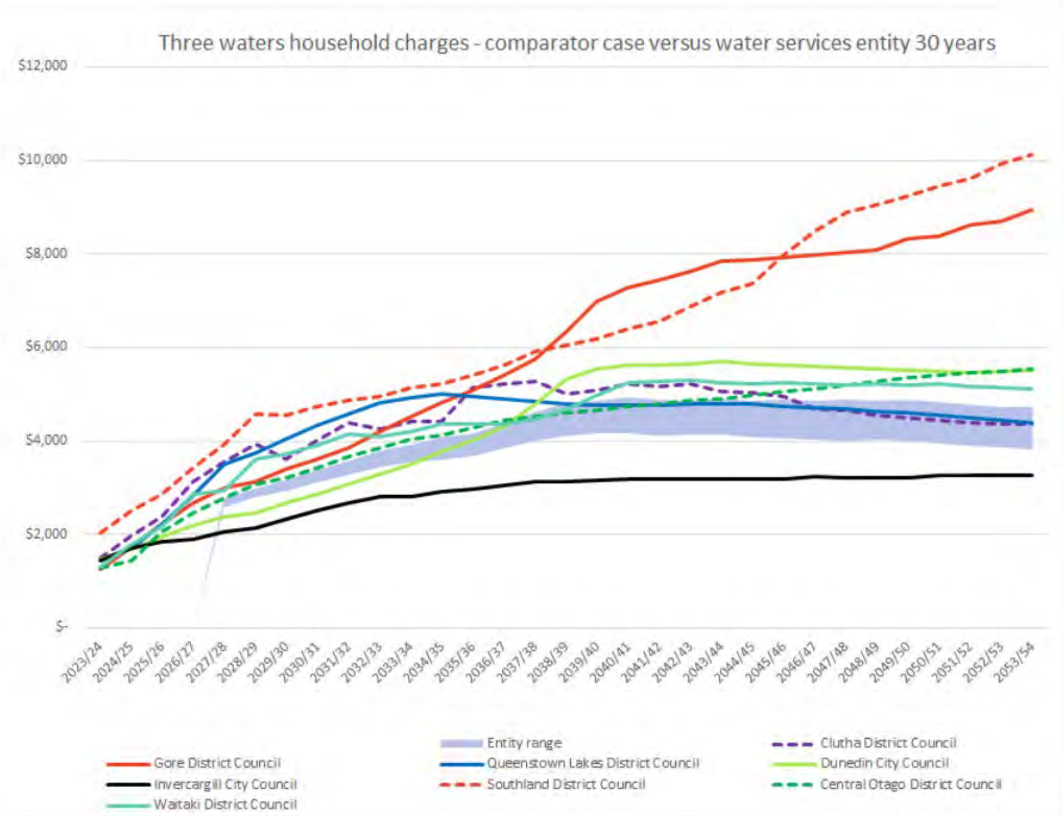
[6] Refer to Appendix One for the modelling assumptions used

30 year projections

We have included indicative 30 years projections in this iteration of modelling. Please note that these projections rely in infrastructure strategy capital projections. In our experience the reliability of capital forecasts for years 11 – 30 in infrastructure strategies varies significantly between councils, as such long term projections should be considered indicative only.

30 year charges

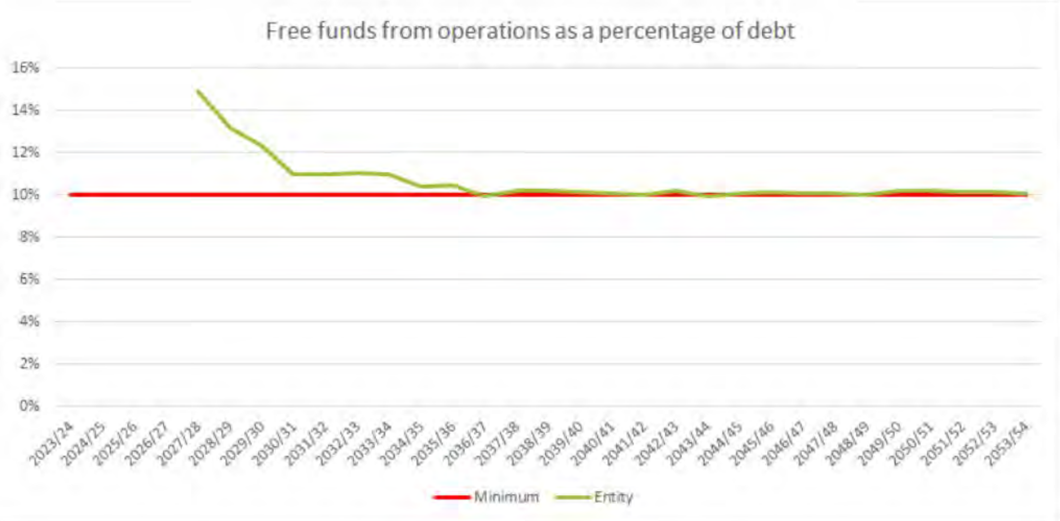
Modelling over 30 years shows that the entity is likely to remain more affordable for the majority of water consumers over the long term.



30 year borrowing profile

Our modelling assumes that the Otago Southland WSE will maintain an FFO to debt ratio of 10% over the long term. We note that as the economic regulation regime and the Otago Southland WSE mature it is possible that the entity may be able to become even more highly leveraged over time, should it so desire.

The FFO ratio adopted as a benchmark in our reporting is conservative, and we understand that it is likely that LGFA would provide flexibility in lending covenants in the case of an emergency.

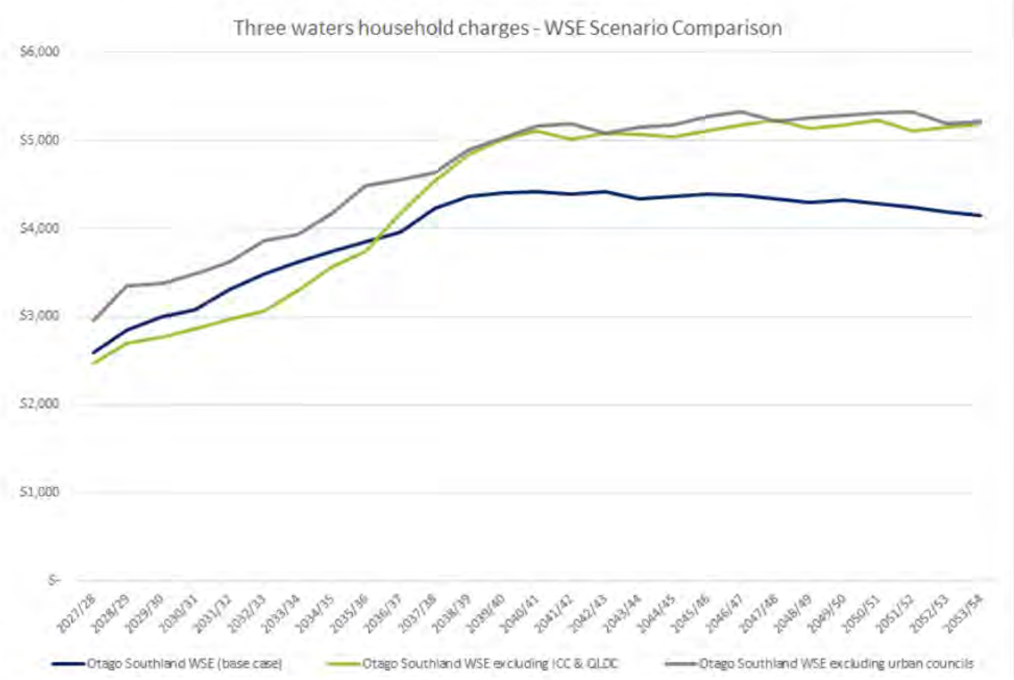


Alternative scenarios

In addition to the base case Otago Southland WSE, we have also completed modelling for two additional scenarios. These scenarios were agreed by the LWDW working group and chief executives, and include:

- Otago Southland excluding urban councils (DCC, ICC, and QLDC)
- Otago Southland excluding ICC and QLDC

The full results of that modelling are presented in **Appendix Five.** The chart below shows a comparison of the average entity price path across all three scenarios.



The modelling of additional scenarios shows that a WSE remains an attractive option for councils in Otago and Southland even without Invercargill, Dunedin or Queenstown. In both of our alternative scenarios, most water consumers in all the areas that take part in the entity are likely to have lower household three waters charges by 2034.

While a combined Otago Southland entity may appear to have a lower overall price path, benefits are likely to exist under all arrangements.

Importantly, the results presented here are the results of *financial modelling only*. An Otago Southland WSE that excludes urban areas will still be comparatively small at a national level. With total revenue of $128 million in 2027/28, such an entity would be a similar size to Dunedin alone, but would be spread over a significantly larger geographic area. In order to be effective, such an entity would need to operate differently, reflecting the different demographics of its customer base.

MorrisonLow

Individual council results

For ease of comparison, the results for each individual council are presented below. This includes the impacts of sensitivity testing in the comparator case, and the existing service delivery model based on unadjusted financial information.

A detailed description on our approach to determining a comparator case is outlined in this report under the heading "Assumptions applied to our "comparator" scenarios".

Central Otago District Council

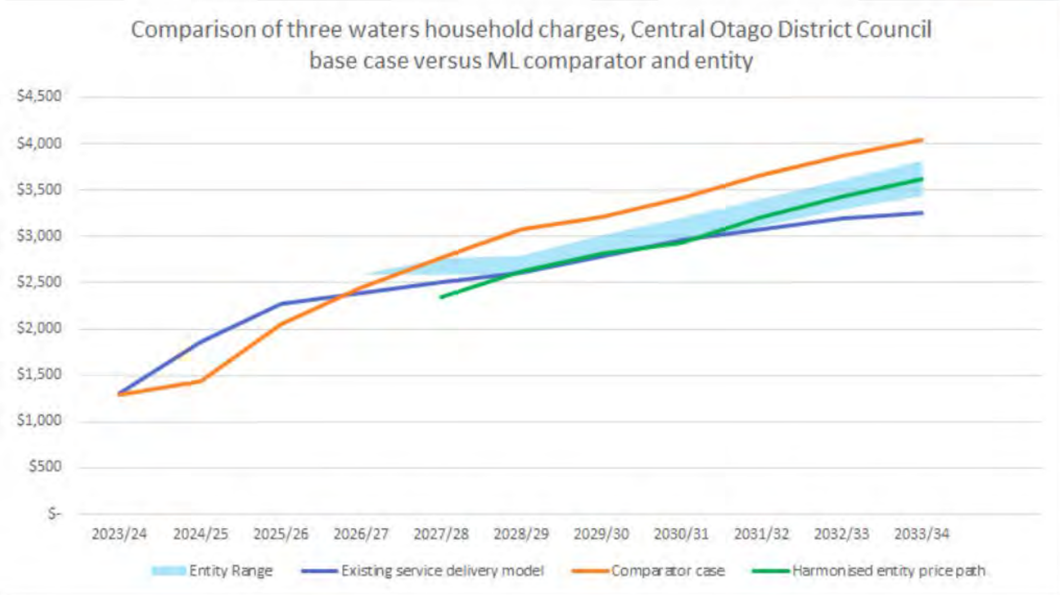
Household charges

The chart below shows Central Otago's base case financial projections against our comparator modelling and an Otago Southland WSE. Notable differences between Central Otago's base case and our comparator scenario are:

- We have modelled a smoother price path in the early years to allow for a progressive increase in depreciation funding from 2023/24 onwards. From 2027/28 our modelling assumes 100% depreciation funding, resulting in a higher overall charge when compared to the existing model where this ranges between 20-50%.
- As a result of the higher average charge, borrowing requirements are lower in the comparator scenario. Subsequently, debt to revenue in later years is lower than the existing service delivery model.
- Depreciation in our comparator case is up to 35% lower than Council's existing service model projection, largely due to the use of lower depreciation rates.

While our comparator option shows the Otago Southland WSE as providing a more affordable price path for water consumers in Central Otago, Council's own base financial information shows a price path that is lower than the Otago Southland WSE.

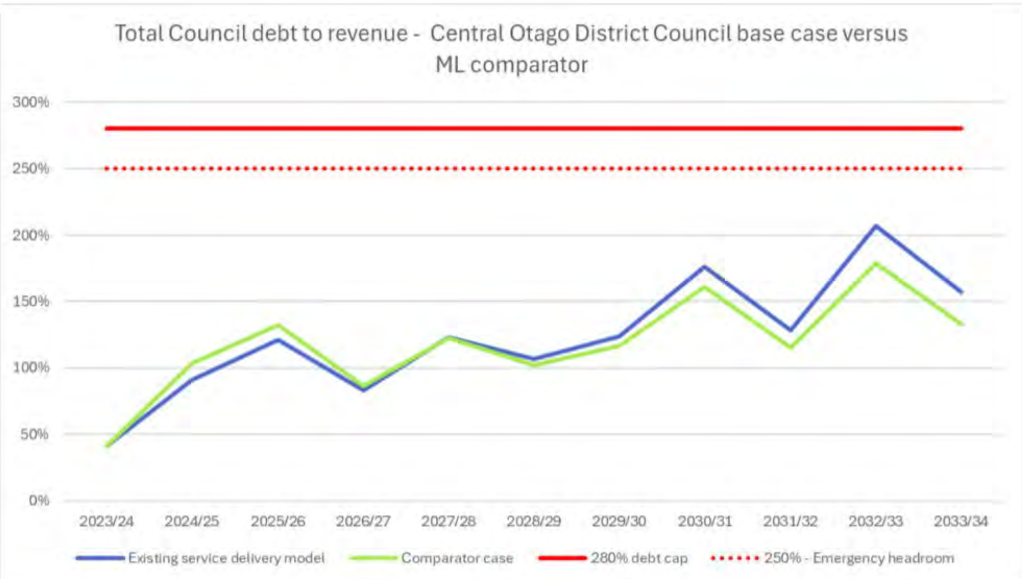
It is possible that if the Otago Southland WSE adopted the same depreciation rates and funding approaches as applied in Central Otago's own base case, that it's price path would be lower.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Central Otago's base case financial projections and our comparator modelling. The results are broadly consistent, with differences mainly being the result of the treatment of depreciation calculations and funding.

In all cases debt remains within LGFA's lending covenants.



Clutha District Council

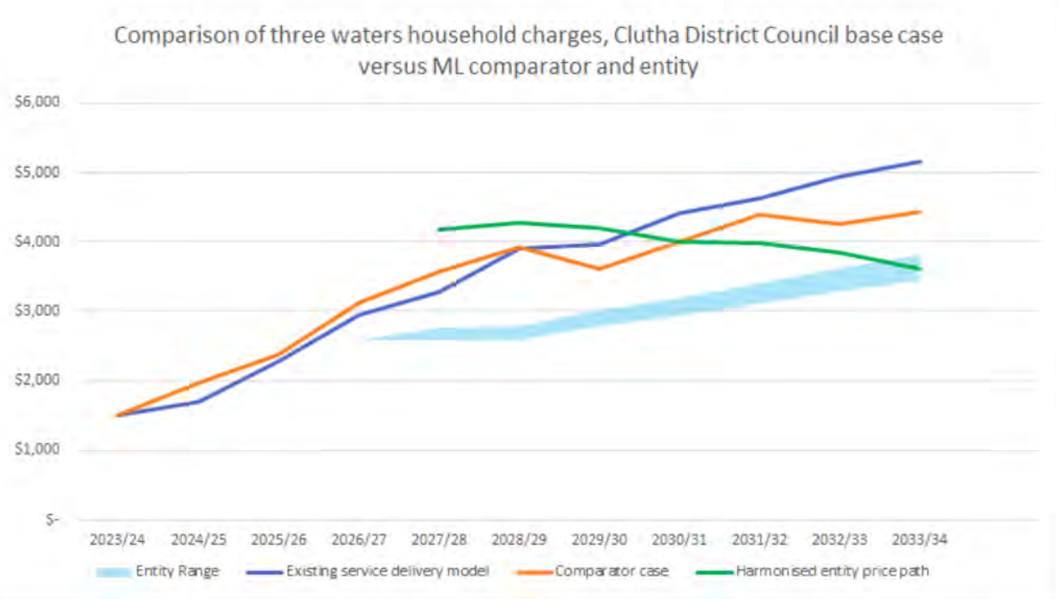
Household charges

The chart below shows Clutha's base case financial projections against our comparator modelling and an Otago Southland WSE. Notable differences between Clutha's base case and our comparator scenario are:

- Our comparator includes a reduction in proposed capital works programme costs to reflect signalled regulatory changes to wastewater treatment standards and small scale wastewater treatment plants. As a consequence, our comparator case includes less investment than Clutha's base case.
- We have modelled a steeper price path in early years. This has resulted in earlier repayment and control of debt, allowing for smaller increases later. This price path has been modelled to ensure that Clutha's overall debt to revenue ratio remains below 250% throughout the modelling period.

While our comparator option shows the existing service delivery model as providing a more affordable price path for water consumers in Clutha, Council's own base financial information shows a price path that is more affordable under an Otago Southland WSE.

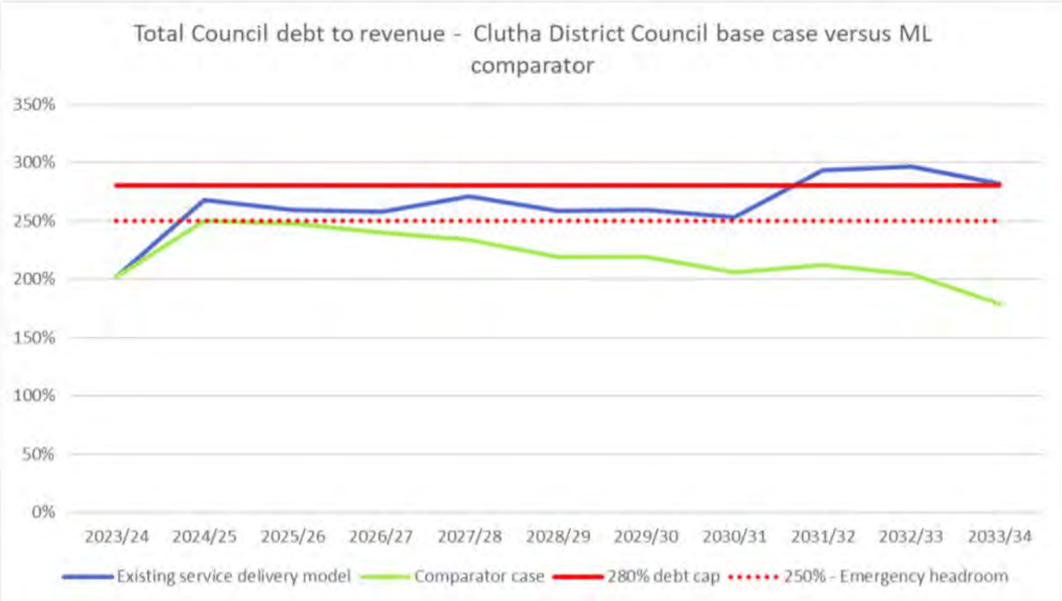
The harmonised price path shows a slight increase in charges on establishment of the water services entity, with prices decreasing to below a comparator case by 2031.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Clutha's base case financial projections and our comparator modelling. It highlights that we have modelled a price path that ensures Council's debt to revenue ratio remains below 250%.

This compares to the existing service delivery model which sees debt exceed 280% by 2032. We note that Council's own LTP shows it remaining under 280% debt to revenue until the end of the 2034 year at least.



MorrisonLow

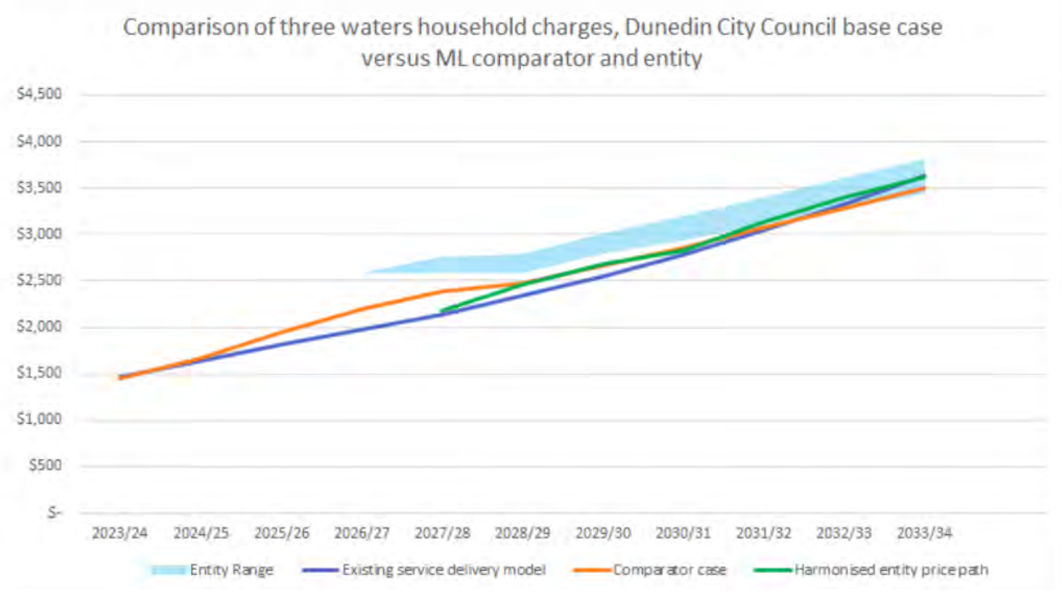
Dunedin City Council

Household charges

The chart below shows Dunedin's base case financial projections against our comparator modelling and an Otago Southland WSE. While the comparator case and base case show similar price and debt paths, it is worth noting that Dunedin's base case financial information is subject to the following caveats.

- Dunedin's base case financial information has been prepared specifically for this project, and does not reflect an agreed LTP budget.
- Base case modelling assumes that Council will remain within a debt to revenue limit of 250% (for the whole of council) during the period to 2034.
- A consistent rates increase of 10% per annum (12% in year one) has been modelled across all council activities.

Modelling shows that three waters charges for Dunedin fall within the lower range of prices modelled for an Otago Southland WSE by 2034. By 2036 our comparator for Dunedin has higher three waters charges than those of the Otago Southland WSE, as demonstrated in our 30 year modelling.



MorrisonLow

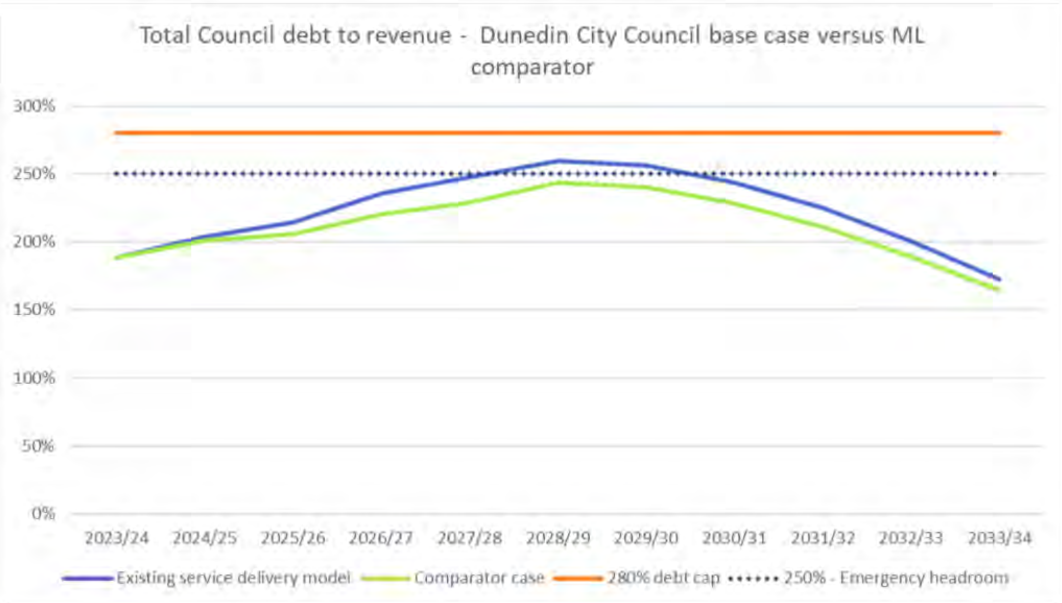
Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Dunedin's base case financial projections and our comparator modelling. There is a significant deviation in the financial projections, consistent with the commentary provided under the heading "household charges".

Our modelling has included the addition of further revenue to ensure that Dunedin stays within the LGFA lending covenants. Given high levels of non-three waters debt, some of this reduction in the debt to revenue ratio may otherwise be able to be achieved through an increase in general rates or other repayment of non-three waters debt.

This compares to the existing service delivery model which sees debt exceed 400% during the modelling period.

Significant future capital investment beyond 2034 requires Dunedin to maintain a large amount of borrowing headroom during the 10 year LTP period to support future borrowing requirements without the need for substantial future rates rises.



Gore District Council

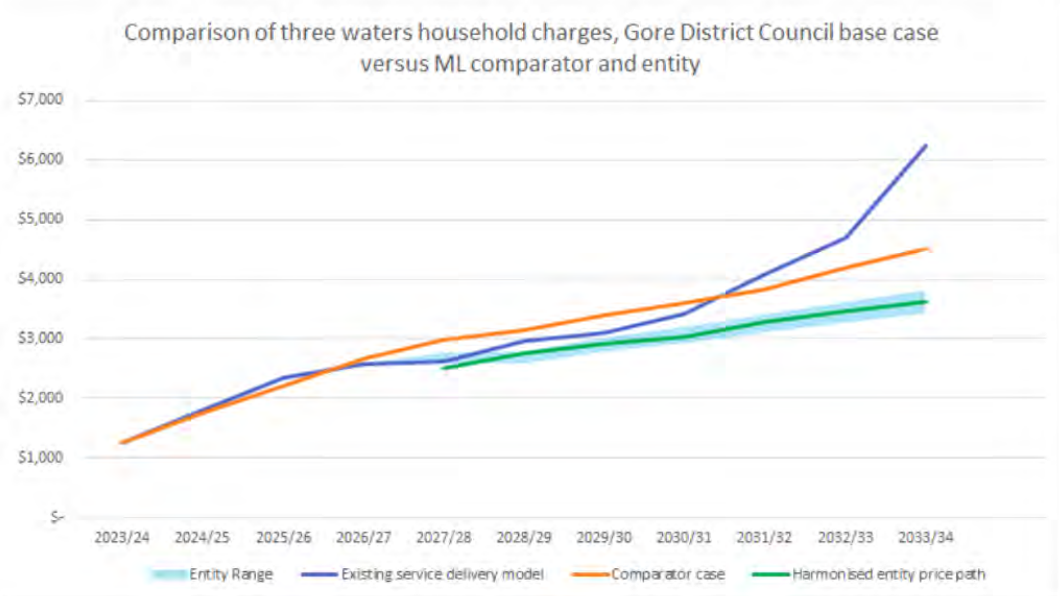
Household charges

The chart below shows Gore's base case financial projections against our comparator modelling and an Otago Southland WSE. Until the outer years from 2030/31 onwards the price path and debt to revenue for both scenarios is reasonably consistent, with only minor variations due to factors such as depreciation rates and the rate of depreciation funding.

A material deviation occurs from this point onward due to an adjustment to the capital profile for Wastewater. Approximately $70M of upgrade spending from 2030/31 to 2033/34 has been removed from the original RFI submission based on GDC's most recent options analysis, which includes the deferral of construction work for the Gore wastewater treatment plant.

This adjustment was applied without a corresponding reduction to the interest associated with funding the original capital spend. Final model refinements will necessitate adjusting this factor in the existing service delivery model.

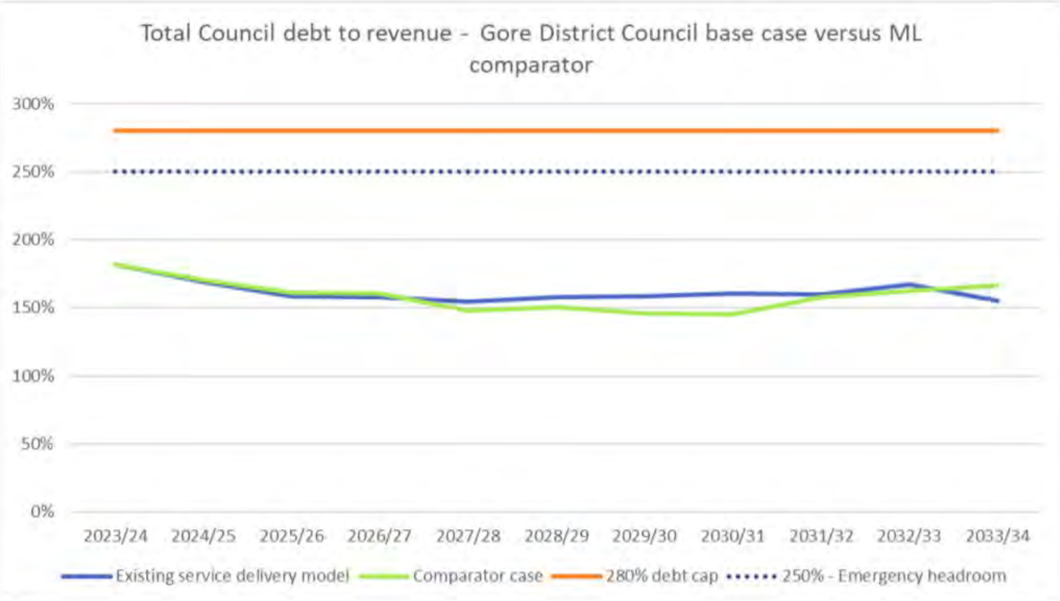
In all cases modelling demonstrates that an Otago Southland WSE is likely to provide a more affordable price path for water consumers in Gore.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Gore's base case financial projections and our comparator modelling. The results are broadly consistent, with differences mainly being the result of the treatment of depreciation calculations and funding.

In all cases, Gore remains within the LGFA's lending covenants, during the ten year modelling period.



Invercargill City Council

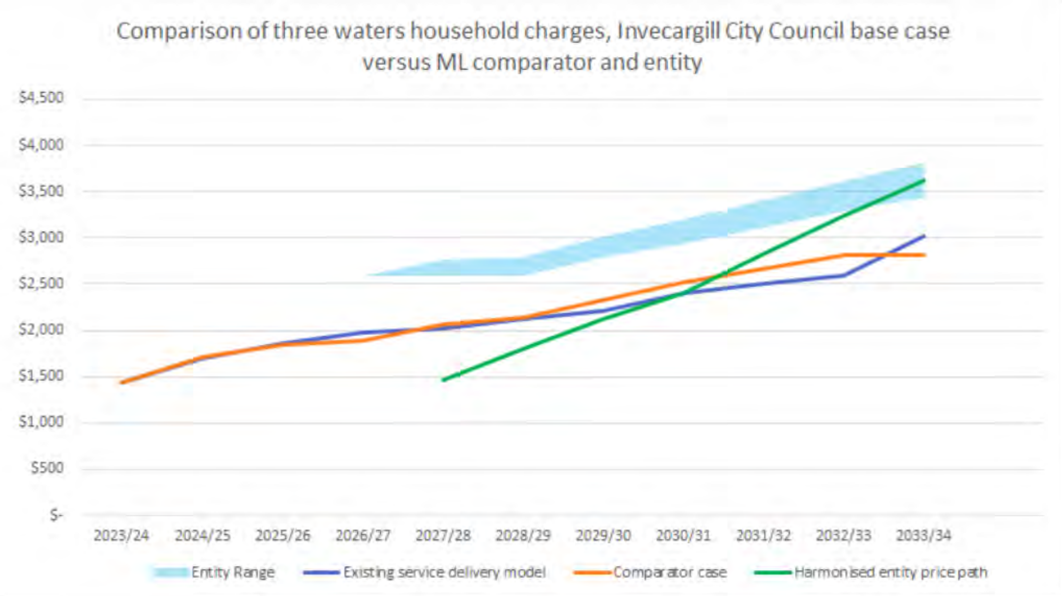
Household charges

The chart below shows Invercargill's base case financial projections against our comparator modelling and an Otago Southland WSE.

The two price paths are broadly consistent, reflecting differences that arise as a result of adjustments to the calculation of borrowing costs, depreciation, and depreciation funding.

In all circumstances, Invercargill continuing to adopt its existing service delivery model provides a more affordable price path for water consumers in Invercargill than joining an Otago Southland WSE.

Council may wish to consider alternative, hybrid service delivery models that allow it to continue to collaborate with other councils in the region if it does not wish to join an Otago Southland WSE.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Invercargill's base case financial projections and our comparator modelling. The results are broadly consistent, with differences mainly being the result of the treatment of depreciation calculations and funding.

In all cases debt remains within LGFA's lending covenants.

MorrisonLow

Queenstown Lakes District Council

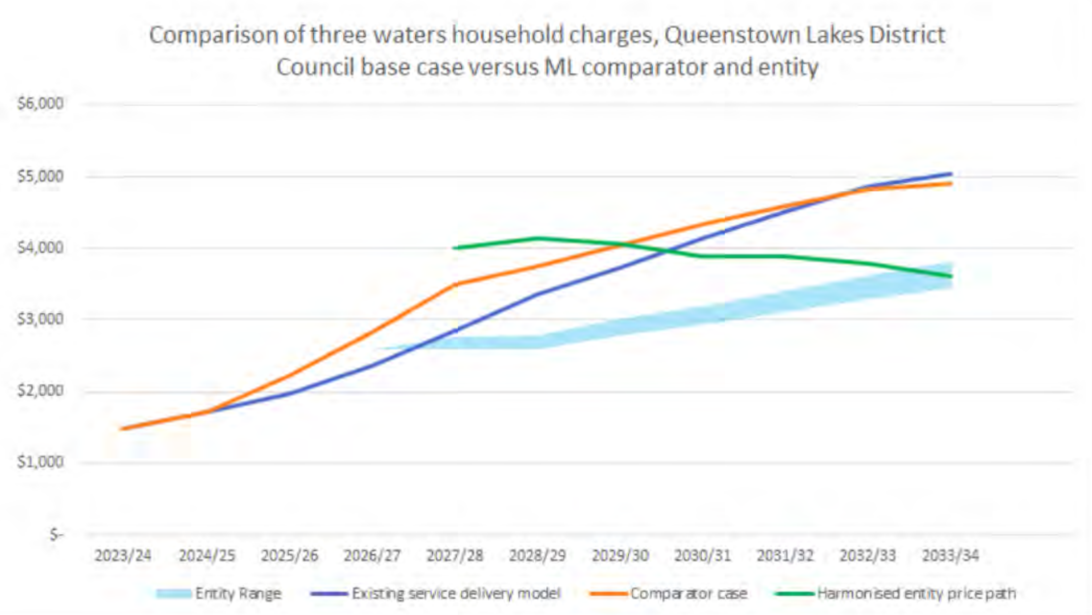
Household charges

The chart below shows Queenstown's base case financial projections against our comparator modelling and an Otago Southland WSE.

The two price paths are broadly consistent, reflecting differences that arise as a result of adjustments to the calculation of borrowing costs, depreciation, and depreciation funding. Specifically, we have modelled:

- Water services depreciation at 1.48% of the previous year's closing gross replacement cost of assets, compared to QLDC's 1.56%
- Wastewater depreciation at 1.62% of the previous year's closing gross replacement cost of assets, compared to QLDC's 1.63%
- Stormwater depreciation at 1.32% of the previous year's closing gross replacement cost of assets, compared to QLDC's 1.52%
- Interest costs at 5.52% of the previous year's closing debt balance compared to QLDC's average of 5.1% over the LTP period.

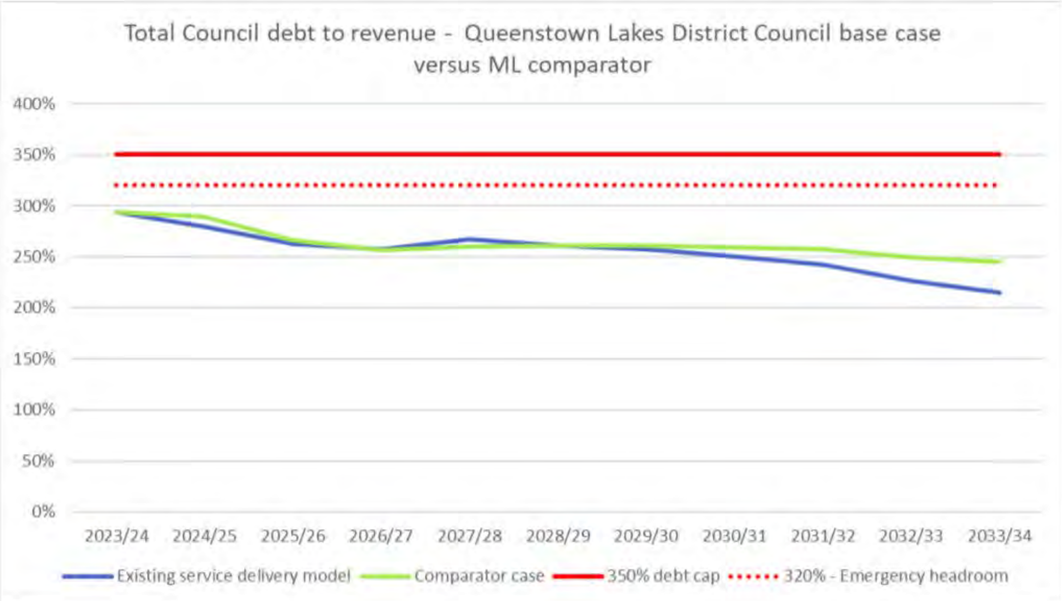
In all circumstances, the Otago Southland WSE provides a more affordable price path for water consumers in Queenstown. Under a harmonised price path QLDC charges start marginally higher than our comparator case, but reduce to be lower than all scenarios by 2030.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Queenstown's base case financial projections and our comparator modelling. The results are broadly consistent, with differences mainly being the result of the treatment of depreciation calculations and funding.

In all cases debt remains within Queenstown's debt to revenue limit of 350%.



MorrisonLow

Southland District Council

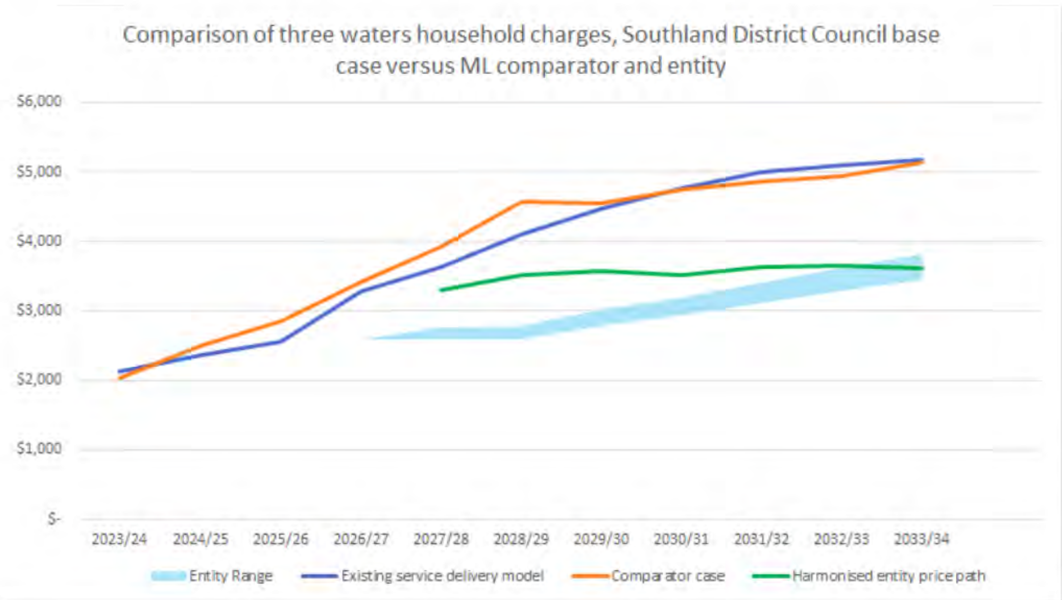
Household charges

The chart below shows Southland's base case financial projections against our comparator modelling and an Otago Southland WSE.

The two price paths are broadly consistent, reflecting minor differences as a result of adjustments to the calculation of borrowing costs, depreciation, and depreciation funding.

Our modelling includes total depreciation charges that are approximately 5% lower than those modelled in Southland's long term plan information provided. Full funding of depreciation is the most significant driver of changes between the modelled price path in the comparator case versus Council's existing service delivery model.

In all circumstances, the Otago Southland WSE provides a more affordable price path for water consumers in Southland.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Southland's base case financial projections and our comparator modelling. The results are broadly consistent, with differences mainly being the result of the treatment of depreciation calculations and funding.

In all cases, Southland remains within LGFA lending covenants.

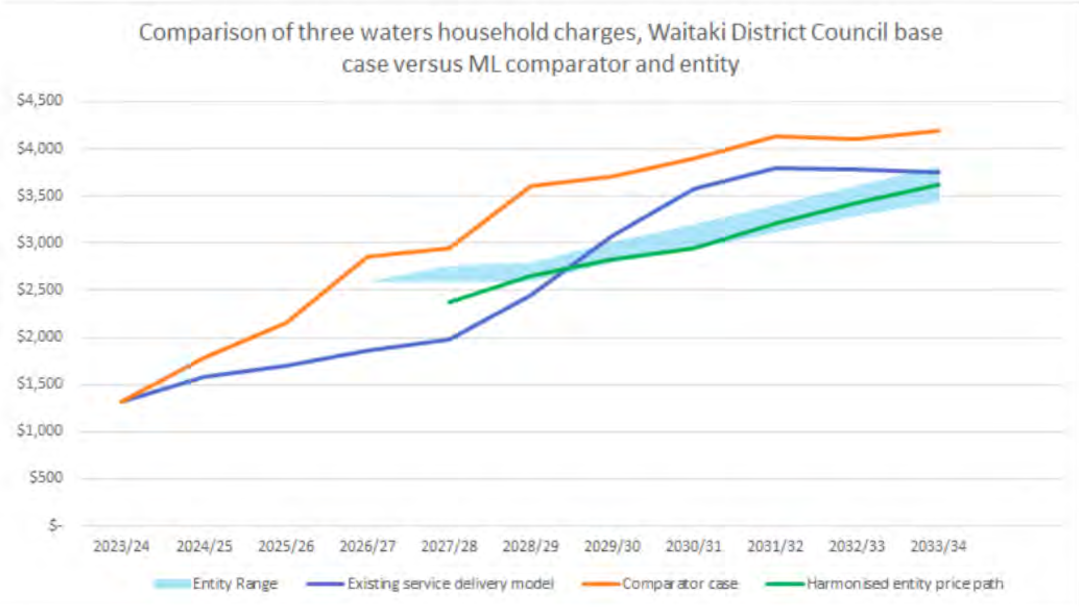
Waitaki District Council

Household charges

The chart below shows Waitaki's base case financial projections against our comparator modelling and an Otago Southland WSE. Notable differences between Waitaki's base case and our comparator scenario are:

- We have modelled a price path in the early years to allow for a progressive increase in depreciation funding from 2023/24 onwards. From 2027/28 our modelling assumes 100% depreciation funding, resulting in a higher overall charge when compared to base financial data that has been provided.
- We have modelled financing costs into the base case data provided by Waitaki without consequently increasing revenue in the base data provided. This means Waitaki's "base case" likely understates revenue requirements.

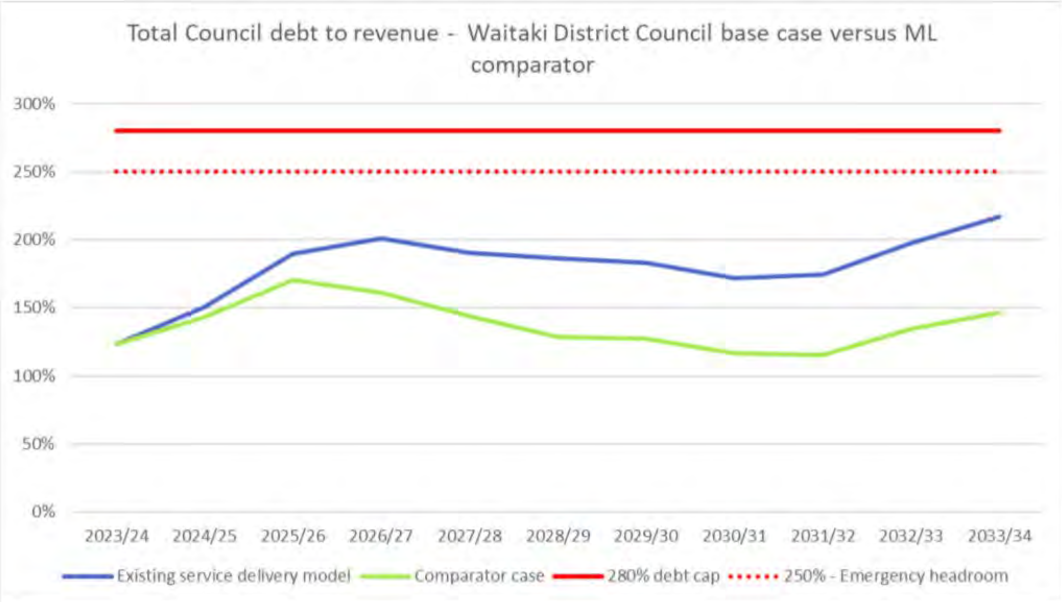
In all circumstances, the Otago Southland WSE provides a more affordable price path for water consumers in Waitaki.



Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue under Waitaki's base case financial projections and our comparator modelling. It shows the impacts of including full depreciation funding and the under collection of in Waitaki's base financial data.

Under both scenarios, Council remains with in LGFA's total lending limits.



Appendix One – Modelling assumptions

Assumptions applied to our "comparator" scenarios

In order to enable a like for like comparison between regional delivery options and the existing delivery model, we have made adjustments to financial and capital investment programmes provided by each council as the 'status quo'. These adjustments ensure that differences between regional delivery models are not purely the result of a different approach to managing revenue, debt and expenditure, or differences to underlying assumptions across the individual models.

This also means that the comparator scenarios presented in our modelling may not mirror an individual councils' current long term plan projections.

We have endeavoured to ensure that our approach aligns with the requirements of a water services delivery plan. This means that some councils may wish to use the comparator case from this modelling as a starting point for a water services delivery plan (WSDP) for in-house delivery. This is however a "best endeavours" approach, and councils may further refine capital programmes before preparing their WSDP.

Where councils are undertaking detailed asset and investment planning work this should then be used to inform their WSDP.

To assist councils in understanding the alignment of our comparator case with their own WSDP or LTP work, we have outlined the key adjustments and changes we have made below.

Operating expenditure

Our modelling of the comparator case scenarios for operating expenditure predominantly relies on each council's own operating budgets, as provided through our information request. Adjustments have been made to:

- Reverse the impact of any internal transfers or overhead activities that occur between water, wastewater and stormwater activities. We have retained overhead allocations from other council activities to/from each of the waters activities.
- Recalculate interest costs based on any amendments made to the capital works programme (refer below) and any additional revenue generated in order to stay within borrowing limits.
- Recalculate interest rates using a common interest rate across all councils. The rate used will be the weighted average interest rate across the councils currently. We have applied an interest rate of 5.52% in our modelling. Interest is calculated off the previous year's closing balance, meaning the effective interest rate is slightly lower than this when current year movements are considered.
- Recalculate depreciation based on any amendments made to the capital works programme. The depreciation rate applied to the recalculation is based on each council's average depreciation rate. Depreciation rates are set at 1.48% for water supply, 1.62% for wastewater, and 1.32% for stormwater.
- Assets are revalued at 2% per annum and depreciation recalculated based off revalued asset base (including additions).
- Inflation is modelled at 2% per annum for years 11 – 30.

Capital expenditure

Our modelling of the comparator case scenarios for capital expenditure focuses on ensuring that each council's comparator case is able to meet the requirements of a water services delivery plan, being:

- The requirement to meet all relevant regulatory quality standards for its water services
- The requirement to meet all drinking water quality standards
- Supports the territorial authority's housing growth and urban development, as specified in the territorial authority's long-term plan
- The need to demonstrate financial sustainability through:
  - generating sufficient revenue to ensure long term investment in delivering water services
  - being financially able to meet all regulatory standards and requirements for the delivery of water services.

Renewals

Water Services Delivery Plan templates indicate some of the key measures that DIA expect to be reported in relation to these tests, and therefore what may be expected by the Department. In particular:

- The need to report on combined capital expenditure versus depreciation, indicating a desire from the Department for capex to exceed depreciation. We don't anticipate this being an issue for any councils over the ten year period.
- The need to report on an "asset sustainability index" which compares renewals expenditure with depreciation, and notably, where renewals expenditure is not equal to depreciation, why that approach is appropriate.
- The need to report on an asset consumption ratio, and note why that ratio may deteriorate over time (if it does). This is unlikely to be a problem for councils that spending more than their depreciation on capital investment each year. This ratio again is intended to ensure their adequacy of a renewals programme.

To support this we have reviewed asset register data and compare:

- A renewals programme based on remaining asset life
- A renewals programme based on asset condition
- A renewals programme based on depreciation
- Each council's own asset renewals programme that is provided to us
- The impact of any revaluations that aren't yet reflected in asset data

This has been used to provide sensitivity testing and to "triangulate" the proposed investment programmes from councils. No changes have been made to renewals programmes in our comparator case other than changes applied through sensitivity testing.

Upgrades

Councils are also required to demonstrate and assert that their WSDPs contain sufficient investment to meet regulatory requirements and respond to growth. Our approach to reviewing this and making revisions to the status quo was to:

- Ensure that investment is provided for any drinking water treatment plants that are not currently compliant with Drinking water standards. We did not identify any significant missing expenditure through this process.
- Ensure that investment is provided for any wastewater treatment plants that have consents expiring during the period. We did not identify any significant missing expenditure through this process.
- We sought confirmation about whether any costs include the cost of disposing to land (which may mean a reduction in costs can be applied) or are for servicing populations of fewer than 1000 people (again meaning a potential reduction in costs). The adjustments we have made to this are outlined below under the headings "Small scale wastewater treatment plants" and "Disposal to land".
- We reviewed AMPs and identified whether it appears that any upgrade projects have been deferred beyond the 10 year LTP period. Where these are identified, we will confirm whether these should be moved back into the 10 year planning period.
- We have undertaken sensitivity testing on upgrade capital expenditure using a blanket percentage uplift/decrease.

Growth

- We sought confirmation that the growth investment proposed in the LTP responds to the WSDP requirements, and for any significant projects to be identified if they are not already identified in AMPs/LTPs.
- We have not included any sensitivity testing on increased/decreased growth rates, however our model does allow for this to be completed if needed. In our model, sensitivity testing of growth assumes planned capex scales proportionally to the change in the number of new properties being connected.
  - Scaling is applied to original growth capital expenditure forecasts at the same rate as the uplift or decrease in connections on an annual basis. The cumulative impact of this is that if sensitivity testing results in 20% more properties over 10 years, the total capital expenditure will have been increased by 10%.
  - It is recognised that growth projects do not neatly scale in real life. The scaling recognises that there is likely to be some uplift, or advancement of timing, and that, at the least, increased or decreased rates of growth impact the capacity life of infrastructure.

Revenue

Water Services Delivery Plan templates indicate some of the key measures that DIA expect to be reported in relation to these tests, and therefore what may be expected by the Department. In particular:

- A chart demonstrating projected revenue versus projected costs including depreciation, and net operating surplus or loss. We anticipate that DIA are expecting revenue to at least equal total expenditure including depreciation based on the examples provided.

- An operating surplus ratio. DIA guidance notes that "Where this ratio percentage is negative, this represents the percentage increase required for revenues to cover costs". Costs in this ratio include depreciation.

Based on these questions, and additional commentary within the WSDP templates, we intend to model status quo arrangements to be fully funding depreciation from the 2028 financial year onwards. Councils that are not currently fully funding depreciation currently will be modelled to move to a fully funded scenario evenly over the remaining years.

In addition, from 2028 and beyond:

- Revenue has been modelled to "break even" before accounting for development contributions, vested assets and grants and subsidies.
- Additional revenue has been calculated to ensure that the council remains in borrowing limits. This revenue line is recovered through water/wastewater/stormwater charges and is calculated to be no more than the amount needed to remain within agreed debt caps.
- The additional debt repayment/control revenue is modelled to ensure that debt caps are not breached over the life of the modelling period, however the additional revenue is modelled over the entire modelling period, meaning revenue is collected in anticipation of debt otherwise exceeding limits. This will impact price paths, where councils may have otherwise deferred increases in revenue to a later year than our modelling. Our modelling smooths the impact of this increase.
- Development contribution revenue has been modelled to scale proportionally with changes in growth capital expenditure. Scaling is completed annually.

Debt and borrowing costs

Revisions to capital works programmes, revenue, and expenditure all impact the amount of debt required by councils to fund their three waters activity. Our modelling recalculates three waters debt under the base case scenarios to ensure comparability with regional delivery models.

To calculate debt, we have:

- Assumed each councils' starting debt position is correct.
- Identified the cash surplus available from operations, development contribution receipts, and capital and operating subsidies.
- Subtracted the cost of capital works from the cash surplus.
- Identified ongoing working capital requirements and any shortfalls in cash balances to meet those requirements.
- Where this value is negative, we have increased borrowings to fund the difference.
- Where this value is negative, we have modelled a debt repayment.

We have not assumed any "regular" debt repayments under a table loan facility. Council's typically borrow through bond issues that are repaid on maturity date. Our modelling effectively assumes that these bonds are renewed if needed. Our modelling also assumes that in any given year there will be sufficient bonds expiring that council will have the opportunity to repay debt if it holds surplus cash.

Small scale wastewater treatment plants

We've reduced capital costs for upgrades to wastewater treatment plants that service fewer than 1,000 based on the introduction of standardised designs and approach. Per comments made by Minister Simeon Brown in his speech to the Water New Zealand conference, we've assumed a reduction of costs of 50% is achievable in these circumstances. We have only applied this adjustment to planned upgrade capex which exceed $5 million within long term plans.

- While the Kingston and Cardrona WWTPs currently service populations of fewer than 1,000 people, growth projections mean that we haven't assumed that these plants will be able to take advantage of standardised design.

Disposal to land

We've reduced the capital costs for treatment plant upgrades which include upgrades to enable the disposal of treated wastewater to land. Where such plants have been included, we have reduced estimated capital costs by 30%, unless otherwise advised of a more appropriate allowance by Council staff. We note that:

- This cost reduction is not in addition to cost reductions for treatment plants that service fewer than 1,000 people.
- Central Otago and Waitaki District Councils have provided revised capital works programmes that already reflected a reduction in costs based on an anticipated change in standards/requirements.
- We have not reduced planned capital expenditure for treatment plants in Queenstown Lakes District Council or Dunedin City Council, because:
  - Queenstown Lakes District Council do not believe a reduction is appropriate based on current knowledge and understanding of their network needs
  - Dunedin City Council advises that their planned upgrades also address climate resilience concerns based on current disposal technology/sites, disposal to land is already in use, and that relationships with Mana Whenua would otherwise be compromised.

Assumptions applied to base data

We've also made the following minor additional assumptions to base data provided by Councils. These adjustments impact projections in the "status quo" modelling.

- The percentage of water, wastewater and stormwater revenue received from residential customers is assumed to be consistent with the percentage split across these activities as provided to WICS in their RFI of 2021.
- Where specific projections of the number of connections has not been provided, we've assumed connection growth continues at the rate of growth in rateable units.
- We've assumed the proportion of residential to non-residential customers is consistent with WICS RFI where detailed breakdown of these projections has not been provided.
- CODC, GDC (wastewater only) and WDC provided us forecast financial information that included a capital programme which has since been revised downwards by those Councils. Accordingly, we have had to adjust debt calculations for status quo scenarios for those Councils. Interest calculations have been unchanged to preserve the relative balance between costs and rates in status quo models.
- For WDC, we have assumed interest costs in the status quo model equal to the weighted average cost of borrowing across the remaining 7 councils, as borrowing cost forecasts were not provided.
- In all models, we have assumed that council revenue and debt relating to non-three waters activities is unchanged under all investment scenarios. That is, even where three waters investment, charges, or debt increase, we have assumed that there is no consequential or offsetting reduction in the corresponding expenditure/charge for non-three waters activities.
- In 30 years modelling, we have relied on capital programmes from infrastructure strategies or long term capital works plans provided to us by participating councils. In the case of Southland District Council, the 30 year capital works programme produced relies on asset register data for 30 year renewals forecasts, supplemented with the 12 year average value (2022/22 through 2033/34) of level of service investment.
- Corporate costs, as provided, have been retained in the base case. Some of these costs may represent "stranded overhead" in individual councils, however we note that the amount of cost allocated varies greatly across councils, and assessment of the amount of stranded overhead in each council would not be possible without a detailed assessment of the cost allocation and apportionment approaches used by each council. Corporate costs were not provided for Invercargill City Council.

Otago Southland WSE assumptions

To create an Otago Southland WSE we have modelled transitional and organisational costs for an Otago Southland WSE, based on a ground up approach. The full details of costs included in our model are outlined below.

Operating and capital efficiencies

Efficiencies have been modelled using the efficiency data produced by the Water Industry Commission of Scotland (WICS) for the Department of Internal Affairs (DIA) as a base case, noting the following adjustments:

- The total achievable efficiency identified by WICS have been scaled back by 75%. These total achievable efficiencies have been compared to our bottom up estimates to confirm that the scaling is appropriate. This has reduced the baseline total achievable efficiencies from 50% capital and 53% operating efficiencies to 13% operating and capital efficiencies.
- Efficiencies have then been scaled according to data produced by WICS in reports produced for DIA. This has resulted in modelled scale efficiencies of 15% capital and 16% operating efficiencies.
- We've assumed that these efficiencies are achievable over a 10 year period, commencing two years after the establishment of the entity. Efficiencies are modelled as being achieved evenly over that time period.

Borrowing

The Government and the Local Government Funding Agency (LGFA) jointly announced that water entities would be able to borrow up to a 500% debt to revenue ratio. The fine print of that announcement noted that entities will actually be measured based on an FFO to debt ratio, with the intention that lending covenants would be set at such a level that the entity could maintain an "investor grade" credit rating.

Our modelling adopts the Moody's credit rating approach, with non-financial components being set based on Moody's assessment of water entities in the United Kingdom, and based on their published guidance.

The result of the credit rating approach is that it is likely that an Otago Southland water services organisation would be able to maintain an investment grade credit rating with an FFO to debt ratio of 10% or higher. Our modelling assumes a 10% minimum threshold and includes additional modelled revenue, where necessary, to support that.

Costs of change

Corporate overhead from each council has been replaced with costs for the Otago Southland WSE, and transition costs have been included:

- Increased compliance costs associated with regulatory reforms (recognising the role and requirements to report to both a service and economic regulator)
- Transitional costs to establish the Otago Southland WSE (assumed to be borne by the Otago Southland WSE)
- Additional resources required or additional costs for resources
- Any change is assumed for modelling purposes to take place on 1 July 2026/7.

Costs have been indexed using BERL inflation rates for water services through 2034, and 2% per annum thereafter.

MorrisonLow

Transitional costs to establish an Otago Southland WSE

Item	Value	Rationale
Transitional body		Set up shell company, appoint Board, CEO and GMs progressively ahead
IT infrastructure & systems		The Otago Southland WSE will be required or will choose to purchase their own corporate (GL, billing, payroll etc), asset management, CRM and customer service and configure those
Legal & compliance		Transfer of all titles, duties, rights & obligations
Finance & Finding		Establish new entity financial structure, balance sheet, debt arrangements, charging and pricing etc
Restructure costs		No forced redundancies but assumed some technical redundancies would be allowed for where staff are between 20% and 80% on three waters
Programme and project management, back fill of key roles		Resources to manage the programme of change, stakeholder engagement and support councils to backfill key roles if and when those are drawn into the transition process.
Total transition costs	$50.6M	Used NTU estimates an approach for calculating and then apportioning total cost to transition to entity model by population. Total NTU transition costs ($1,.45B) scaled back by 50% to recognise new approach, tailored to each CCO and use localized solutions to reduce overall costs

CCO Costs and Benefits

Item	Value	Rationale
Governance	$180,000	Five Directors including Chair. Director fees based on Wellington Water and double for the Chair
Stakeholder governance	$400,000	Costs of supporting shareholder Councils & Māori to develop and implement accountability framework
Executive team costs	$1,350,000	CEO & Four Directors – CEO remuneration based on Tier 2 of Wellington Water (100% new). Directors at 70% of that.
IT infrastructure & systems	$12,646,837	Uses Watercare IT budget as the basis and scaled based on population served.
Regulatory compliance	$.4M per 1% of population	Budget of Taumata Arowai ($19M) doubled to represent an economic regulator as well, apportioned by population served *[exists in comparator case as well]*
Auditor costs	$200,000	Additional costs for audit
Council rates	$3,439,332	The cost of paying rates to councils for water assets located on council land
Additional resources	$3,312,000	Additional staff to create support structure. Includes HR, IT, Finance, health and safety and customer service + operational staff where required. Based on 12% of additional roles created in the organizational structure developed for Hawke's Bay Water CCO x $100K per additional staff member
Accommodation - office rent	$1,391,040	15m^2 per staff member based on reviewing average office rental in Provincial centres ($250m^2) used. Allowance for all staff to have office space provides for costs of multiple locations
Office overheads	$139,104	10% of office accommodation cost for insurance, electricity etc
Office fit out	$2,455,020	Based on 15m^2 per staff member x state service guide fitout allowance

Appendix Two – Modelling sensitivity testing

Three scenarios have been modelled for sensitivity testing purposes in this iteration of modelling. These are:

Base case

Our standard modelling for the comparator cases and an Otago Southland WSE includes no adjustment to the assumptions outlined elsewhere in this report.

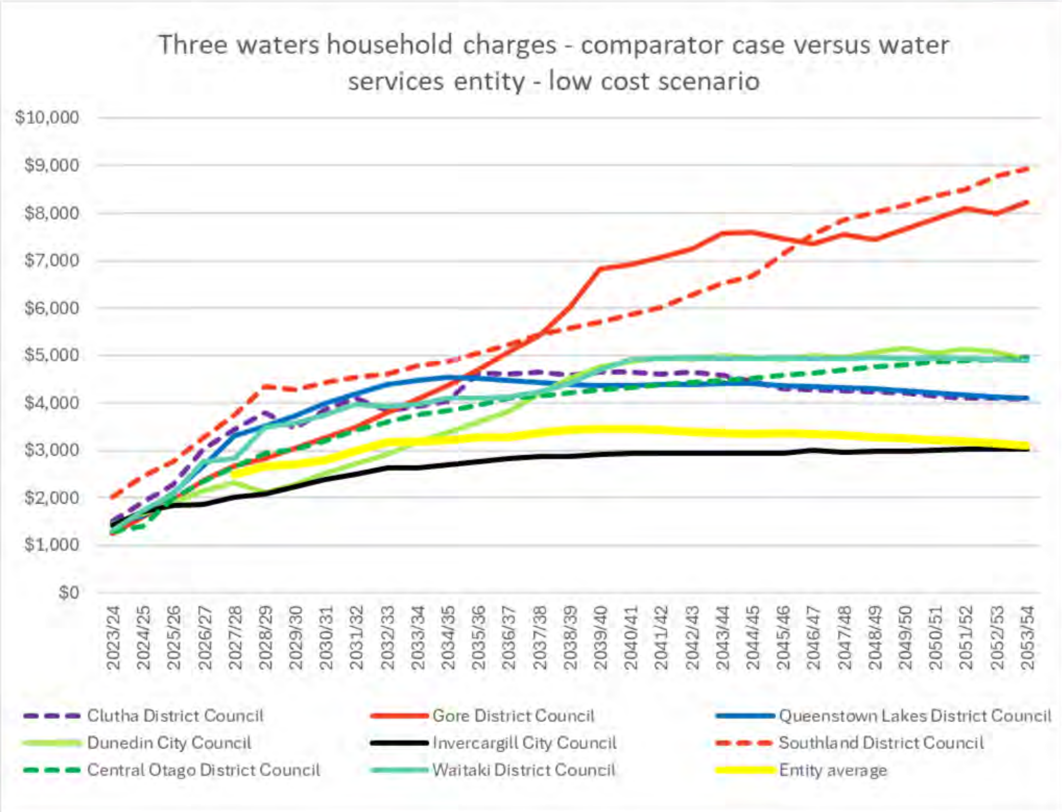
"Low cost" scenario

Our low cost scenario includes the following adjustments to the base case:

- We have assumed that 50% of the total available efficiencies are able to be achieved.
- We have decreased capital programmes by:
  - 10% to level of service investment
  - 10% to renewals

  based on a conservative assumption regarding potential programme optimization and additional possible savings available through improved standardization, national engineering standards, and improved asset data collection.
- We have assumed borrowing costs decrease by 1%.
- We have made no other changes to underlying assumptions or capital works programmes.

The modelling shows that in these circumstances, only Invercargill's three waters charges remain below the average three waters charge for the Otago Southland WSE at the end of the 10 and 30 year periods.



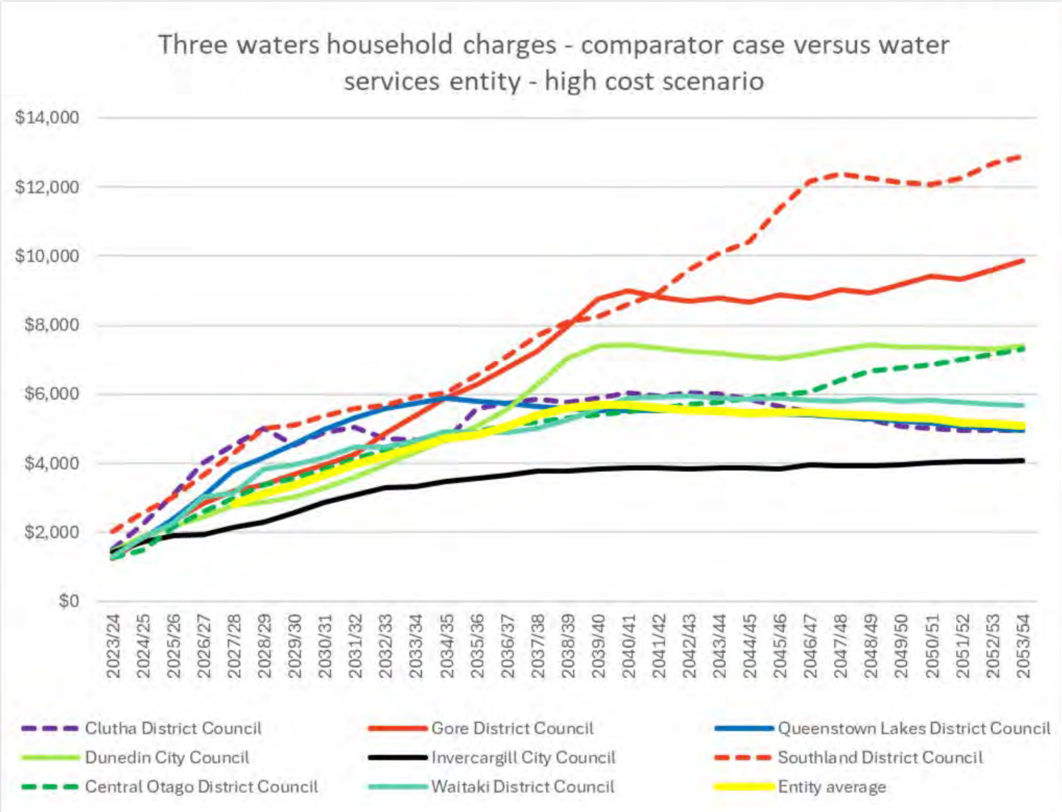
"High cost" scenario

Our high cost scenario includes the following adjustments to the base case:

- We have assumed that efficiencies will be achieved over 15 years instead of 10.
- We have increased capital programmes by:
  - 30% to level of service investment
  - 30% to renewals

  based on the average observed difference between LTPs and our maximum potential renewals investment programme through review of asset registers.
- We have assumed borrowing costs increase by 1%.

The chart below shows that in a high cost scenario three waters charges for Waitaki, Central Otago, Clutha and Queenstown may be lower than entity charges at various points during the modelling period, however these difference are well within the potential margin of error inherent in any long term financial model.


Three waters household charges - comparator case versus water services entity - high cost scenario
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
2034/35
2035/36
2036/37
2037/38
2038/39
2039/40
2040/41
2041/42
2042/43
2043/44
2044/45
2045/46
2046/47
2047/48
2048/49
2049/50
2050/51
2051/52
2052/53
2053/54
Clutha District Council
Gore District Council
Queenstown Lakes District Council
Dunedin City Council
Invercargill City Council
Southland District Council
Central Otago District Council
Waitaki District Council
Entity average

Sensitivity to key assumptions

The table below sets out some of the key assumptions contained in our modelling, and highlights the risk of the assumption being incorrect t and its likely impact.

Assumption	Risk	Likely impact
Capital investment included within long term plans and infrastructure strategies is sufficient to meet future regulatory standards.	**Medium - High** Capital programs have been reviewed at a high level however plans have been moderated for affordability. Future standards are unknown.	**Moderate** Modelling of the high cost scenario outlined in Appendix Two addresses this scenario. It shows the comparative advantages of an Otago Southland WSE still remain for most councils.
Disposal of treated wastewater to land will not be required and that costs savings are available as a result. That small schemes will be able to generate cost savings due to standardised design.	**Medium** Government information releases strongly indicate that requirement to dispose of treated wastewater to land will be relaxed. Costs savings of some scale should be available.	**Moderate** Modelling of the high cost scenario outlined in Appendix Two addresses this scenario. It shows the comparative advantages of an Otago Southland WSE still remain for most councils.
Depreciation rates used in modelling are accurate and reflective of true economic depreciation	**Low** Depreciation rates are based on weighted average rates across the combined regions, reducing the impact of any one council having rates that are too high or low.	**Minor** Any changes to depreciation rates would be consistent across all scenarios and would be reflected in changing debt profiles and funding requirements.
Interest rates used in modelling are accurate and reflective of likely future borrowing costs	**Moderate** Interest rates are difficult to predict and are based on a range of external economic circumstances.	**Minor** Changes in interest rates are modelled in all of our scenarios. The difference between an Otago Southland WSE and a comparator case may reduce if interest costs modelled are too high. This will affect councils with higher debt more.
Operating and capital efficiencies included in our modelling can be achieved	**Moderate** The extent to which the Otago Southland WSE is able to achieve efficiencies will only be known in the event that it is established. However, efficiencies contained in modelling are modest compared to those suggested by analysis undertaken for the Department of Internal Affairs by the Water Industry Commission of Scotland.	**Minor** The modelling presented in this report shows the Otago Southland WSE as having a range of potential prices. The higher end of this range represents a scenario with half the efficiencies and double the costs.

Assumption	Risk	Likely impact
Establishment and operating costs for an Otago Southland WSEs are reflective of likely true costs	**Moderate** While establishment and ongoing costs have been estimated using a ground up approach and benchmarking with established entities and establishment processes, costs cannot be appropriately refined until detailed entity design is completed.	**Minor** The modelling presented in this report shows the Otago Southland WSE as having a range of potential prices. The higher end of this range represents a scenario with half the efficiencies and double the costs.
An Otago Southland WSE will be able to leverage debt up to an FFO ratio of 10% or higher.	**Low** The 10% FFO ratio used has been determined based on a review of Moody's credit rating matrix for water services utilities. The ratio is more conservative than ratios actually applied by international water utilities in many jurisdictions.	**Major** If the Otago Southland WSE is unable to borrow to the extent included in our modelling then charges will need to be substantially higher and its overall viability would likely be undermined.

MorrisonLow

Appendix Three – Long list of options

Least Ambitious → Most Ambitious

Service Scope (what activities are included?)											
Agricultural water	Rural mixed use supplies	Rural drinking water supplies	Urban drinking water	All drinking water supplies	All water supplies	Water and Wastewater	Wastewater and stormwater	Water, wastewater and stormwater	Three waters plus community owned schemes	Three waters plus land drainage	All core infrastructure

Service Solution (what services are shared?)														
Develop consistent standards and bylaws	Regional operating strategy (after hours monitoring)	Pursue all regional quick wins	Joint procurement	Network O & M	Treatment O & M	Network and Treatment O&M	Funding/ Treasury support	Capital works delivery	Capital works planning/ design/ PMO	Engineering Centre of Excellence	Joint asset management and investment planning	Bulk water and wastewater treatment	All functions	All functions with asset transfer

Service Delivery (what are the structural arrangements?)										
Informal arrangement	Memorandum of Understanding	Contractual arrangement	Shared arrangement	Joint venture	Joint committee	Community owned cooperative or trust	Single CCO or entity	Multiple CCOs or entities	Consumer trust	Regional Council

Implementation (when do we do it?)			
Long term (7 + years)	Medium Term (3 – 7 years post WSDP)	Short term (1 – 3 years post WSDP)	Phased or staged implementation (progression through scope, solution, or delivery options)

Funding options (how will we pay for it?)				
Cost lies where it falls	Contractual agreement	Set by each council (including upon receipt of advice from entity)	Determined by entity, reflecting local differences	Determined by entity with full regionalisation

Notes

The options framework is designed to facilitate the development of a full long list of options. Each dimension of choice (e.g. service scope., service solution, etc) should be considered as broadly as possible, and independently of the other options. This produces a list that is able to incorporate a number of different combinations of options.

Colours in the above long list denote options that have been ruled out during the shortlisting process. Options coloured red were ruled out based on failure to meet critical success factors, while options shaded orange were ruled out based on high level assessment against strategic objectives.

Appendix Four – Otago-Southland Three Waters Review FINAL Report

Current state overview

Otago & Southland three waters

September 2024

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
2927	DRAFT	S.Cross & R.Slater	D.Bonifant	D.Bonifant	12 August 2024
2927	FINAL v1	S.Cross & R.Slater	D.Bonifant	D.Bonifant	30 August 2024
2927	FINAL v2	S.Cross & R.Slater	D.Bonifant	D.Bonifant	13 September 2024

MorrisonLow

Contents

Introduction and approach

Context

Following a widespread outbreak of gastroenteritis in Havelock North in 2016, the Government undertook a significant programme of work which resulted in:

- Updates to the drinking water standards
- The establishment of a drinking water supplier (Taumata Arowai)
- Identification of a range of systemic issues relating to the sustainable provision of three waters services across the country.

Over the period that followed there have been a number of attempts at changing the service delivery model for three waters services, including voluntary investigations completed by the councils in the Waikato and Hawke's Bay regions, and centrally led reviews which resulted in the previous Government's proposed "Affordable Waters" programme.

The "Affordable Waters" programme has now been repealed and replaced with a new programme called "Local Water Done Well". Under Local Water Done Well:

- Council's will be required to develop "Water Services Delivery Plans". These plans will need to demonstrate how councils will manage and invest in their three waters services to meet current and future standards, and remain financially sustainable
- Councils will be supported to voluntarily work together to combine services for more efficient and effective delivery
- New CCO models will be developed to allow councils to separate the finances (including debt) for three waters services from shareholder councils' balance sheets.

This report is the first stage of work completed by the councils of the Otago and Southland regions under the Local Water Done Well programme. The approach is to undertake work on a first principles approach (though drawing on data collected through previous studies), to identify a "no regrets" improvement pathway for service delivery in the two regions.

Specifically, this first stage of work is intended to:

- Highlight the key local and regional challenges
- Identify areas of common interest, complimentary issues, and clear opportunities
- Determine the strategic objectives that will be used to assess the likely effectiveness of potential improvement models; and
- Develop a long list of options to be considered.

Currency of data

The change in government and consequential repeal of the previous Government's Three Waters reform programme resulted in significant changes to planning assumptions made by councils in the development of their 2024/34 Long Term Plans. As a result, councils were given the opportunity to delay the adoption of their Long Term Plans by up to 1 year.

We have relied on the *latest* adopted/approved financial and asset information available for each council in the analysis included within this report. Where councils have elected to delay their Long Term Plans by a year, this information typically relates to either the 2021/31 LTP or early internal drafts of the 2024/34 long term plan that were prepared prior to the decision to defer. A detailed description of our approach to analysing the data provided from council's 2021 long term plans is outlined in Appendix One.

Combined regional view

A common set of challenges

The future delivery of three waters services across New Zealand faces challenges from a wide range of converging issues. However, these issues are typically able to be grouped into three common themes:

1. A need for significant investment in infrastructure, including:
   - Long held resource consents nearing expiry
   - Ageing infrastructure and increased renewals investment requirements
   - The increasing need to invest in, and utilise, technology to meet regulatory requirements for the provision of water and wastewater services
   - The condition of assets
   - Increasing or changing regulatory standards and intervention, including requirements to discharge treated wastewater to land rather than freshwater
   - Changing demand
   - Climate related pressures including increased frequency of droughts and severe wet weather events.
2. Increased financial constraints, including:
   - The need to significantly increase rates or other revenue that needs to be collected to fund service provision
   - A reduction in available borrowing capacity
   - The difficulty in funding significant infrastructure investment in small or remote communities
   - Ensuing affordability concerns for impacted communities
3. Challenges with the recruitment, retention, and development of skills, experience and expertise.

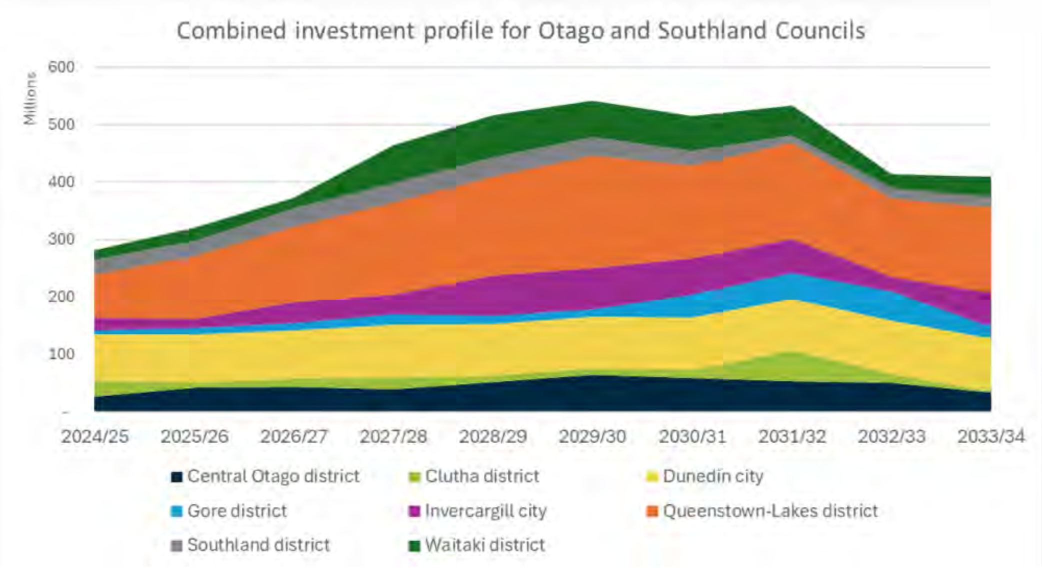
The Otago and Southland regions are no different. Our analysis of the current state challenges is summarised in the following section and in the individual council analysis. The analysis identifies that:

- The Otago and Southland regions are facing a wave of investment required from a large number of expiring wastewater treatment consents, ageing infrastructure and significant population growth at a local level.
- A rapid increase in total borrowings to fund investment in three waters infrastructure. In some cases, councils which have historically held very low levels of debt are now projected to exceed borrowing limits that have been imposed by the Local Government Funding Agency (LGFA).
- Large rates rises for the ongoing provision of three waters services. The three waters residential rates in some areas are anticipated to increase up to five-fold over the next ten years. This will raise significant affordability concerns for these communities.
- Our work in 2021 highlighted recruitment challenges across both regions, with vacancy rates averaging 13% across the two regions. Conversations with key staff through this piece of work have identified that recruitment and retention challenges have not improved significantly since that earlier work.

Investment requirements

The combined investment profile for the Otago and Southland councils features a $4.3 billion programme of work, across eight councils. The work programme almost doubles from $280 million to over $540 million dollars of planned annual capital delivery between 2025 and 2030.

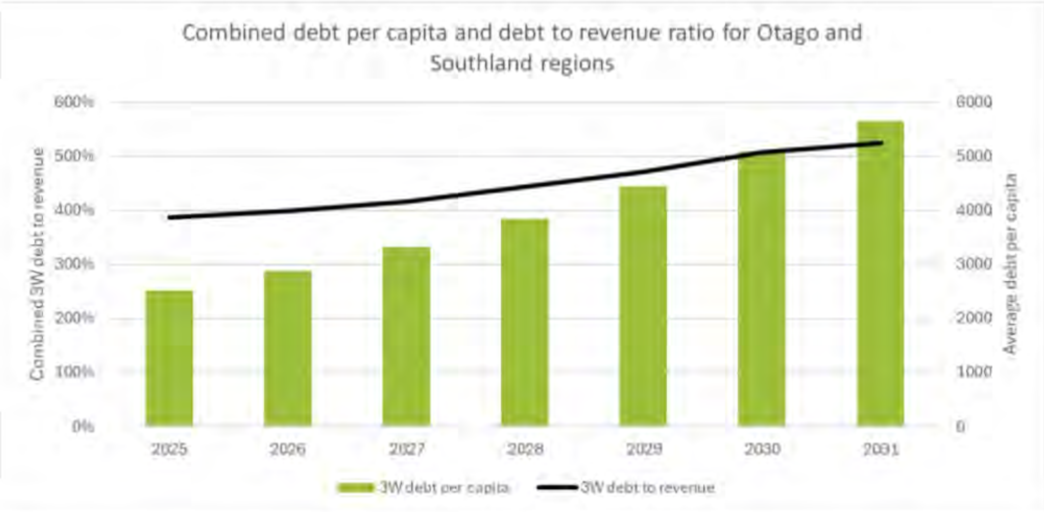
There is a significant delivery challenge associated with scaling up to such a large programme of work. The delivery of a three waters work programme that is double the current scale not only requires the funding but would require a significant increase in contracting, engineering and project management resources across the regions.



Borrowing requirements

Financing a $4.3 billion dollar work programme requires significant borrowing. Total three waters debt across the Otago and Southland Councils is expected to reach $2.2 billion by 2031 on conservative projections[1].

On a per capita basis, debt across the combined regions will more than double from $2,500 per person to over $5,600 per person in 2031. Servicing and repaying that debt will add $450 to the average annual three waters rates bill.



As three waters infrastructure has been the largest contributor to borrowing for councils, when considered in isolation three waters debt is likely to exceed 500% of three waters revenue in 2031.

Proposed financial arrangements announced by the Government on 8 August 2024 reference LGFA's willingness to lend to an effective rate of 500% of three waters revenue. We understand that it is unlikely that lending covenants will actually be measured based on debt to revenue, but rather an alternative benchmark will be used.

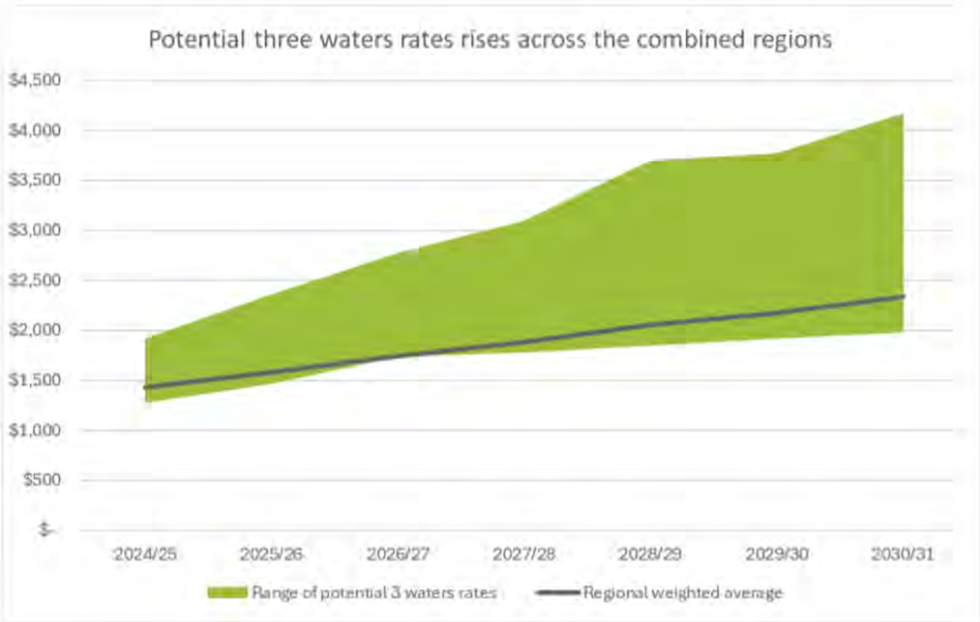
[1] These projections include debt projections based on modified 2021 LTPs for some councils. Given significant uplifts in capital works programmes from 2021 to 2024, we would expect debt to be higher than this in 2031.

Rates rises

Three waters rates across the Otago and Southland regions are predicted to rise significantly over the next seven years. Some communities are projected to experience increases of more than 160% to their existing residential three waters rates bills during that time period. By 2034, some councils will have three waters rates that are up to five times larger than they are in 2025. For some councils, this means a rapid increase in rates in the final years of their LTPs.

While there is significant variation across the regions, the affordability of three waters services and rates is likely to become a key consideration for all councils moving forward. Regionally, the weighted average residential rates will increase at least 63% from $1,435 in 2025 to over $2,350 in 2034.

This may be compounded by the announcements made on 8 August 2024 that indicated a future economic regulator will have the power to set minimum and maximum levels of investment and revenue, thereby restricting councils ability to smooth investment and rating impacts.

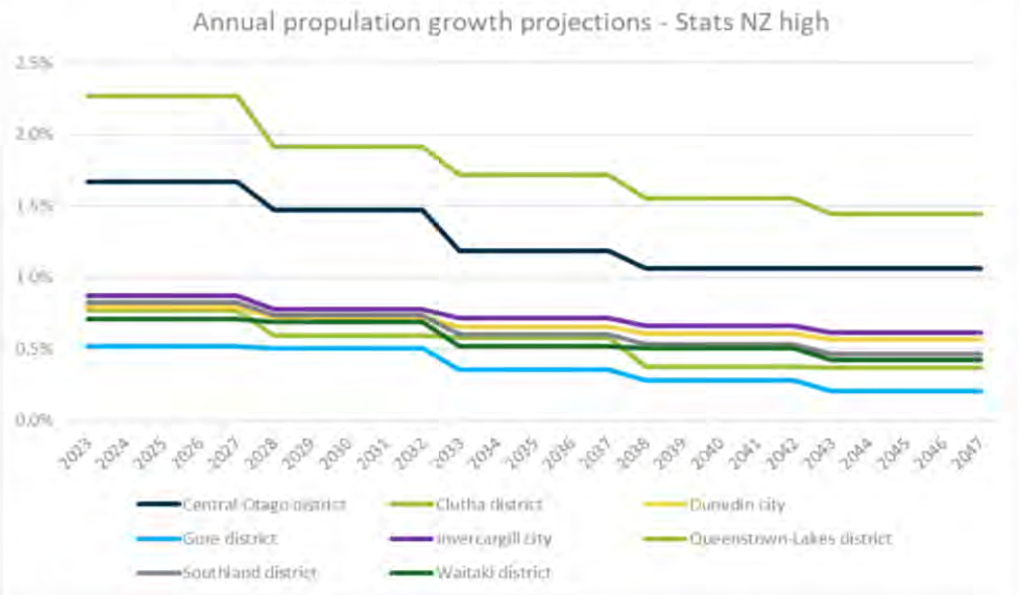


Local context matters

While there are clearly common themes that impact the future sustainability of providing three waters services in Otago and Southland, the local context for those issues differs significantly across councils. This local context helps to identify how similar challenges may need to be resolved through different approaches.

Some councils are experiencing rapid growth

The councils in Otago and Southland are vastly different in terms of their growth profile and population projections. While population is expected to continue to grow rapidly in areas such as Queenstown Lakes District Council (QLDC) and Central Otago District Council (CODC), in areas such as Southland District Council (SDC) and Gore District Council (GDC), population is expected to remain relatively stable.



The two Councils that are experiencing the highest levels of growth in the Otago and Southland regions (QLDC and CODC) have a combined three waters capital works programme of $966 million just to respond to provision of infrastructure to support that future growth. This represents approximately half of the three waters capital works programme for both Councils.

While Dunedin City Council (DCC) has allowed approximately $68 million for three waters growth infrastructure between 2024 – 2034, the remaining councils in the Otago and Southland regions have only forecast incidental expenditure on growth projects over the LTP period.

Servicing the growth that is occurring in QLDC and CODC requires significant organisational effort and planning. It can also have significant financial implications because development contributions that are used to fund that growth infrastructure are often received over time, meaning councils must borrow to fund its construction.

Growth councils require careful planning to ensure infrastructure is provided to support development just in time for the development to occur, and to ensure that consents, treatment plants, pump stations and bulk water/wastewater pipelines are appropriately sized to address future demand.

Addressing future growth demands is likely to become even harder following recent announcements by the Minister of housing. Tier one and two councils under the national policy statement on urban development will now be required to provide up to 30 years of plan enabled development capacity. This will likely require further investment in growth infrastructure.

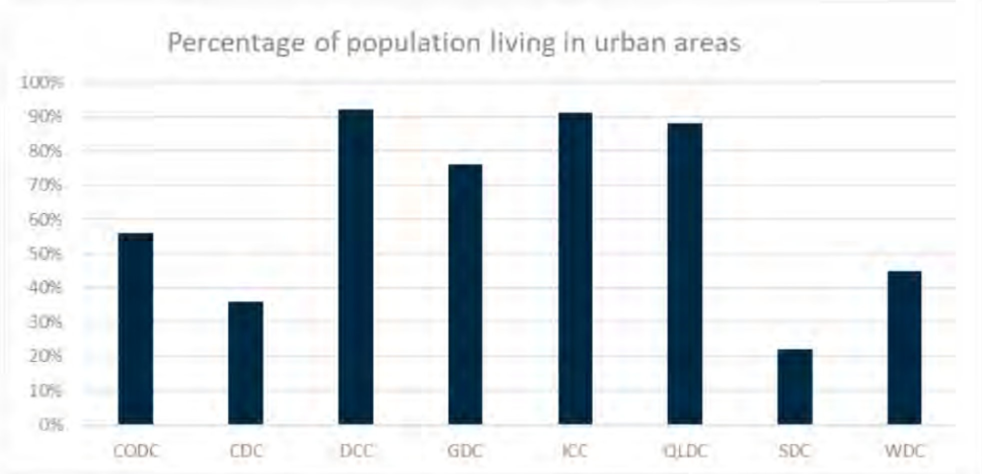
MorrisonLow

Some councils have many small communities

Provision of water, wastewater and stormwater services is becoming increasingly expensive as drinking water, environmental, and health and safety standards continue to become more stringent. These increasingly stringent standards are requiring significant investment to be made, particularly in wastewater treatment plants.

The Otago and Southland regions include a mixture of highly urbanised and largely rural populations. DCC has as many as 92% of its residents living in an urban environment. Invercargill City Council (ICC) and QLDC each have greater than 85% of their population living in urban areas.

By contrast, Clutha District Council (CDC), Waitaki District Council (WDC) and SDC each have fewer than half of their population living in urban areas. Only 22% of SDC's population live in urban areas.



The costs of meeting increasingly stringent regulatory standards is particularly notable in small and rural communities, where costs are spread over a very small number of ratepayers. While some councils have adopted district wide charging to deal with this, these small schemes are still difficult to maintain economically.

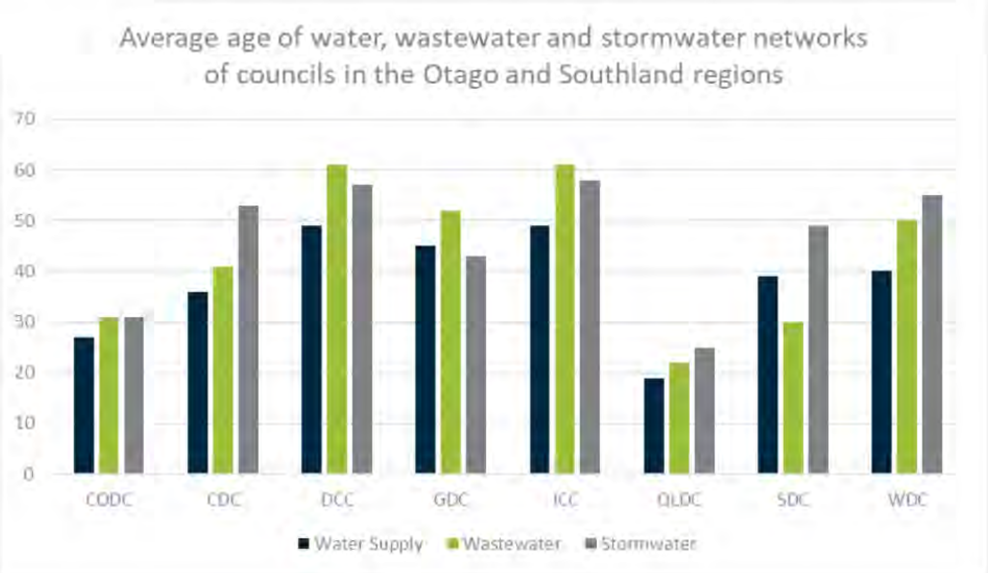
In most cases councils with multiple small townships also have comparatively low populations. Further, when a large proportion of a district's population lives in small townships, spreading costs is simply a matter of timing. While some townships may have (comparatively) expensive upgrades due in the next five years, the remaining townships may have similarly expensive upgrades due in the following 5 years.

Managing small schemes cost effectively requires a different approach to the management of three waters services in highly urbanised environments.

Some councils have older networks than others

While age is not the sole determining factor about whether a water, wastewater, or stormwater network is in good condition or needs to be replaced, in the absence of high-quality condition data or asset performance information, it can be a good indicator.

The Otago and Southland regions contain some of the oldest townships in New Zealand. As a consequence they also have a number of long lived assets. DCC notes in its infrastructure strategy that its main sewerage interceptor dates back to the early 1900s and is still in use. DCC also has a number of other assets of similar age.



Ageing infrastructure and the pending “renewals bow wave” are issues that have been frequently cited as major challenges for the waters sector in New Zealand. As could be expected, aging infrastructure is often in poor condition, or may be leaky due to age or material. Leaky water networks mean high rates of water loss, contributing to the need for water restrictions during summer, while leaking stormwater and wastewater overflows can lead to inundation of the wastewater network causing overflows of raw sewerage and potential consent breaches.

Councils with older networks such as ICC, DCC, WDC and GDC are expected to undertake a significant programme of renewals over the next 10 years. These councils are expected to spend over $850 million in three waters renewals over the next 10 years, or around half of their combined three waters capital works programme.

Among the issues lie a range of opportunities

The scale of the three waters infrastructure challenges facing the Otago and Southland regions is substantial. While the underlying causes for the increased level of investment facing councils may differ, there are a number of clear opportunities for collaboration that could be explored.

Examples of where further opportunities could be explored, or may be leverage as part of any new service delivery model include:

- Exploring opportunities for networks to be connected in neighbouring areas. There are only likely to be a small number of these opportunities (for example the Clifton and Winton wastewater treatment facilities) that are economically viable. However, combining networks is likely to give effect to longer term operating efficiencies and improved network resilience. There is nothing to prevent such opportunities to be explored currently.
- A number of Council's have in house operations and maintenance teams that work on part or all of their water and wastewater networks. These councils currently need to employ a large enough workforce to ensure adequate cover for after hours, and annual and sick leave of staff. Developing a shared workforce between neighbouring councils would provide more workforce resilience, and potentially enable operational efficiencies.
- All councils have significant capital works programmes ahead which will require engagement of specialist contractors to complete. However, given the comparatively remote location of the Councils of Otago and Southland, and the distance from most major population centres in New Zealand, attracting large scale contractors can be challenging. Alignment of procurement and project management approaches, and coordination of large scale work programmes would likely assist in attracting contractors to the regions.
- Councils across Otago and Southland differ in terms of the local context which influences their three waters investment and service delivery needs. These differences create further opportunities in a shared service model, as the increased scale will allow for increased specialisation of roles. For example, councils may be able to pool resources to have dedicated development engineering, design engineering, urban and rural water specialists, and project management skills that would otherwise be out of reach.
- Increased scale may allow for specialist equipment to be jointly acquired, for example CCTV equipment for condition assessment or equipment to aid leak detection.
- There may be funding and financing opportunities available through the ability to leverage a combined balance sheet and revenue base. The Government's announcements of 8 August 2024 indicated that wholly owned three waters CCOs may be able to access borrowing up to 500% of its revenue, and for that borrowing to be kept off a council's balance sheet. However the terms, including the interest rate, of that borrowing will be determined by LGFA based on its assessment of risk and credit worthiness. This means that bigger entities, with bigger asset and customer bases, may be able to access more or cheaper debt than their smaller counterparts.

MorrisonLow

Central Otago District Council

24,306 population (2023)

18,875 people serviced with water supplies

7 wastewater treatment plants

8 water treatment plants

453 km water supply pipes

73 km stormwater pipes

264 km wastewater pipes

28 water connections per kilometre

56% of people live in urban areas

$85,900 average household income (2019)

Key issues

Growth

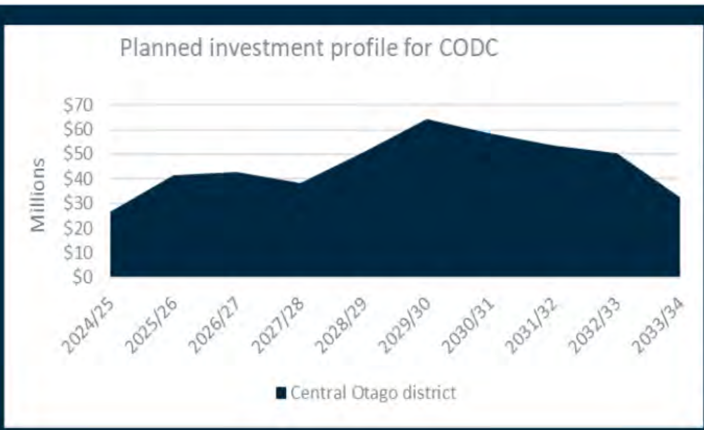
The CODC district has very high population growth in some of its townships. 53% of its planned capital works programme, totalling $244 million is intended to address growth pressures.

Small communities

Servicing small communities and balancing the need for significant investment in those communities in the future. Six of CODC's registered drinking water supplies service townships that individually have fewer than 1,000 people connected.

Affordability

To meet estimated investment needs in three waters, average three water rates are projected to increase 80% from $1,900 to over 3,450 by 2034.



$458 million of planned investment over 10 years

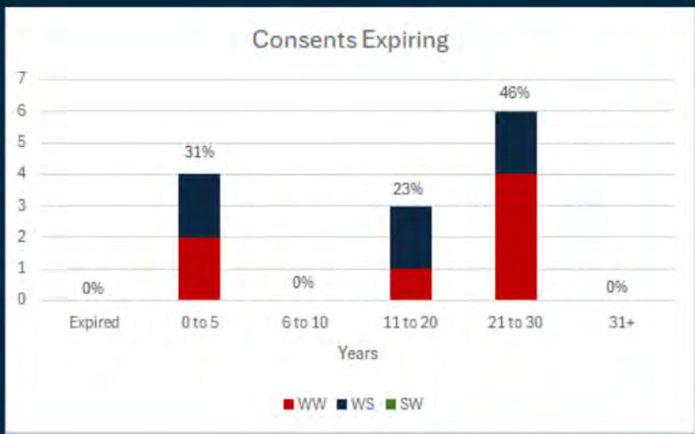
CODC's three waters capital works programme peaks at $64 million per year in 2029. For context, that's over 50% more than its entire capital works programme in 2024.

This investment profile is likely to reduce by up to $100 million due to recent government announcements that suggest discharge to freshwater environments will be permitted and fit for purpose water treatment for small supplies.

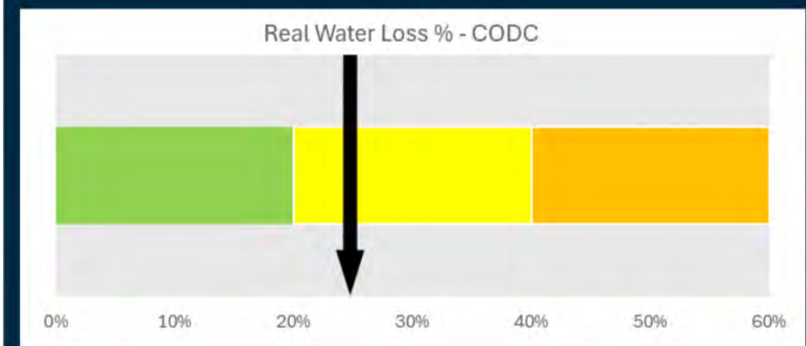
Expiring consents

CODC has four consents that are due to expire in the next 5 years. The two wastewater consents are for Alexandra and Omakau.

Both currently discharge to freshwater receiving environments. The additional financial impacts of discharging to land (if required) are expected to be in the order of $60 million - $70 million combined.



Network performance



CODC experienced an estimated 26% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was 25%.

There were 2.75 dry weather overflows of the wastewater network per 1,000 connections in 2023.

MorrisonLow

Compliance

CODC was not fully compliant with the drinking water standards in 2023, non-compliance related to a lack of Protozoal barriers in its Ranfurly, Patearoa, Cromwell and Omakau supplies. It also had supplier notifications for MAV exceedances in its Roxburgh and Cromwell schemes and issued temporary consumer advisories for its Ranfurly and Patearoa schemes in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[2]
Bacterial compliance	Not Achieved	100% Compliance	N/A	↔
Protozoal compliance	Not Achieved	100% Compliance	N/A	↔

CODC received 5 Abatement Notices and 2 Infringement Notices for its wastewater treatment plants in 2022/23, an increase from 3 Abatement Notices in 2021/22. Two abatement notices have since been lifted, with three remaining in place as at August 2024.

Demand management

CODC has experienced a period of rapid population growth since 2013. The average annual growth rate of 3.7% is much higher than the growth seen from 2006-2013 which was an annual average of 1.2%. Over the last two years this growth has slowed to a rate of 2.5% due to impact of Covid. Short term and long-term indicators suggest the population growth rate will continue at a rate similar to the last two years, rather than the more accelerated rate seen prior to that.

Water Consumption
516 ↓
(lpd/resident)

To respond to infrastructure pressures arising from Growth, CODC has provided for $244 million of investment in growth projects. Existing universal water metering also provides opportunities to address growth challenges.

Network condition and age

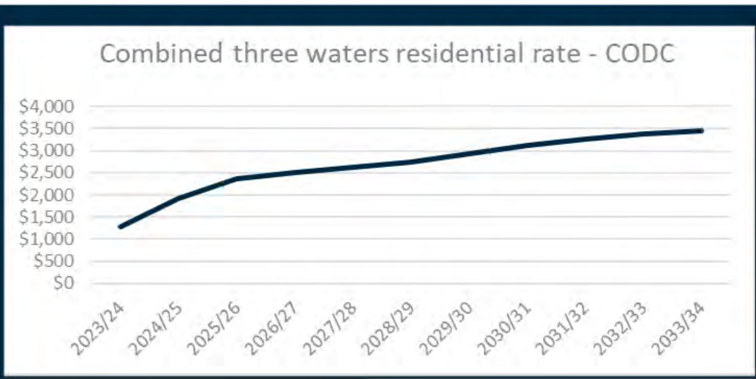
CODC's water, wastewater and stormwater infrastructure has the second lowest average age of all of the councils in the Otago and Southland regions. Expected useful life of water infrastructure varies depending on a range of factors, including material, diameter, and operating conditions, however given the low average age of infrastructure, CODC is unlikely to have an immediate need for significant renewals investment.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	27	84%	8%	5%	1%	2%	0%
Wastewater	31	86%	9%	3%	2%	0%	0%
Stormwater	31	99%	0%	1%	0%	0%	0%

Condition assessment of CODC's three waters assets show a high portion of assets in Condition 1. Again, this indicates no immediate need for significant renewals investment, however we would have expected to have seen more of a distribution in the other condition grades.

[2] Compared to previous year

MorrisonLow

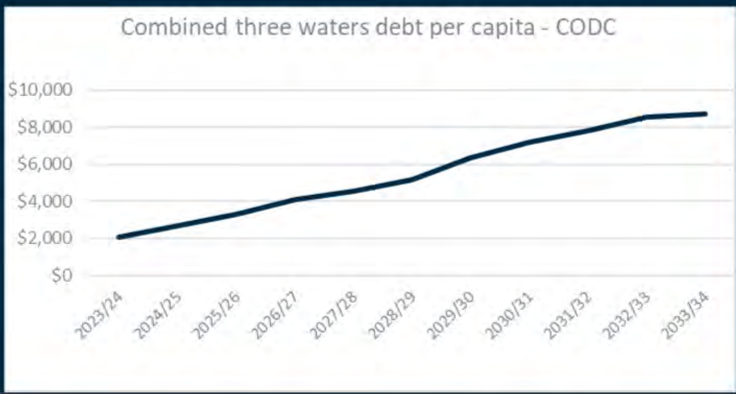


Three waters residential rates

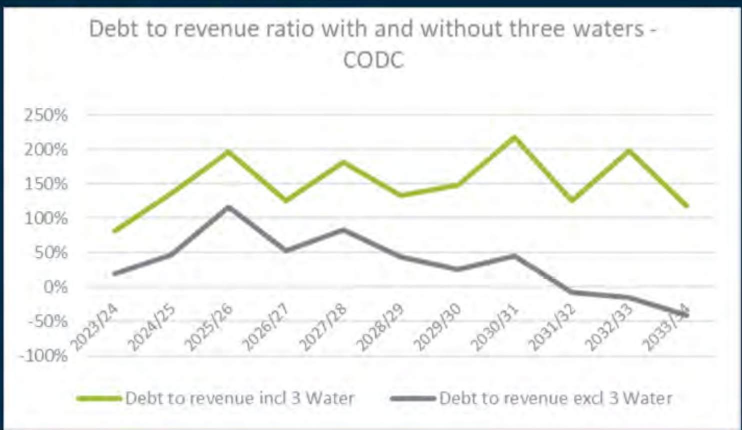
The average residential rate for three waters services in CODC is projected to more than double from about $1,300 including GST in 2024 to about $3,450 in 2034 according to early drafts of its 2024 long term plan (which was subsequently deferred).

Three waters debt

CODC's initial draft 2024 Long Term Plan forecast an increase in total three waters related borrowings from approximately $55 million in 2024 to about $297 million in 2034. This represents a four-fold increase in per capita debt, from about $2,000 per capita to about $8,700 per capita in 2034.



Whole of council debt



Over the period of the initial draft 2024/34 long term plan, CODC's debt was projected to grow to over 215% of its revenue; this is primarily because of intense capital investment requirements for three waters. The projections show CODC breaching LGFA's 175% debt to revenue limit for unrated councils in 2026, at which point CODC would need to obtain a credit rating.

Council expects to generate significant future revenue from the development of residential and industrial land in its district. This is the cause of the spikes in the chart above.

Clutha District Council

18,315 population (2023)

15,000 people serviced with water supplies

11 wastewater treatment plants

16 water treatment plants

2,505 km water supply pipes

57 km stormwater pipes

217 km wastewater pipes

3 water connections per kilometre

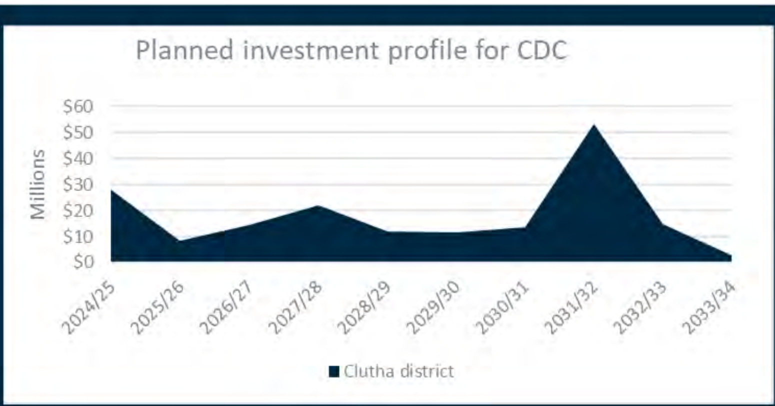
36% of people live in urban areas

$86,300 average household income (2019)

Key issues

Mixed use rural water schemes	Low connection density	Compliance
Council owns and manages 22 rural water schemes for domestics consumption and drinking water for stock. The ongoing costs of operation and maintenance of the schemes is expected to become unaffordable over time.	Council has one of the longest reticulated water networks in the country, and consequently the lowest connection density in New Zealand. Low connection density results in high costs to operate and maintain a network that services few people.	Delivering drinking water that is compliant with drinking water standards has been challenging in a number of rural mixed use schemes in particular. 6,221 people connected to schemes had consumer advisory notices in place in 2023.

MorrisonLow



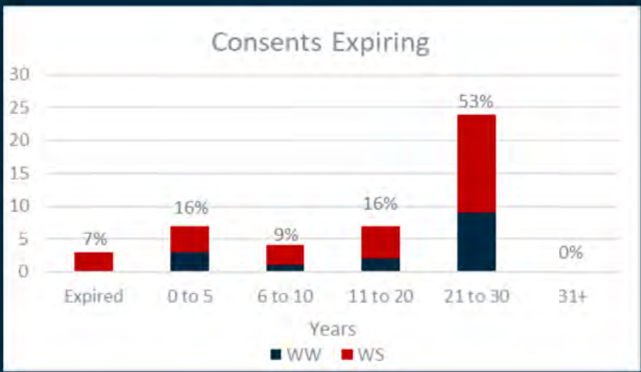
$181 million of planned investment over 10 years

The programme peaks at $53 million in 2032. For context, this is about equal to CDC's entire planned capital works programme (for all activities) in 2024.

Expiring consents

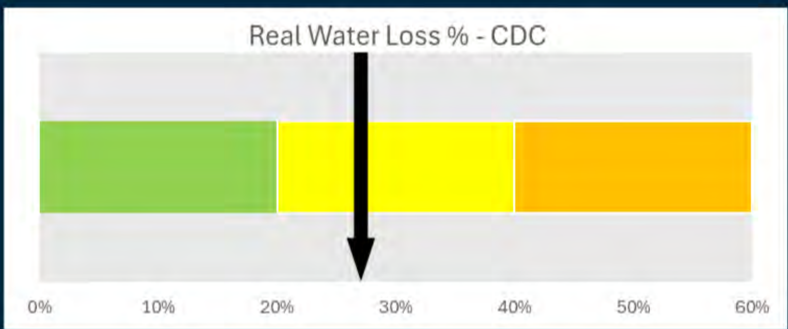
CDC has three water supply consents that have expired and 7 that expire in the next 5 years. There are a large number of consents (24) that expire in the years 21 to 30.

CDC has 45 resource consents across its 27 water and wastewater treatment plants. Some treatment plants have more than one applicable consent.



Network performance

CDC experienced 28% real water loss in the 2023 financial year. This is average for the councils in Otago and Southland. regions.



There were 4.19 dry weather overflows of the wastewater network per 1,000 connections in 2023. CDC's wastewater network met its target levels of service in the last two years, although with 4.19 dry weather overflows is worse than most other councils in the Otago and Southand regions and their targets are all also lower than CDC's.

MorrisonLow

Compliance

All 14 of Clutha's drinking water schemes have bacterial barriers, protozoal barriers, and residual disinfection in place other than Tuapeka West (which is to be replaced with the Greenfield Bore scheme).

Notwithstanding this, all schemes other than the Lawrence and Balclutha schemes issued supplier notifications to Taumata Arowai regarding unsafe, or maybe unsafe, drinking water. Eight of the 14 schemes had consumer advisory notices issued during the 2023 year, of which six were permanent advisory notices.

Area		22/23 results	22/23 Target	21/22 results	Trend[3]
Bacterial compliance	Urban	0%	100% - Not Achieved	81%	↓
	Rural	0%	94% - Not Achieved	39%	↓
Protozoal compliance	Urban	0%	>89% - Not Achieved	49%	↓
	Rural	0%	>66% - Not Achieved	0%	↔

Seven schemes exceeded Maximum Allowable Values for aluminium in 2023.

CDC received 7 Abatement Notices and 3 Infringement Notices for its wastewater treatment plants in 2022/23.

Demand management

The Clutha district is not expected to experience significant population growth in the near future. Changes in demand owing to population or economic growth are therefore not expected to create any significant challenges for the district moving forward.

A number of Clutha's existing surface water takes already have low flows, particularly during summer months. Any future increases to minimum water flow levels that may be imposed as part of future consent renewals may require CDC to find alternative water sources or implement further demand management strategies for those affected scheme.

Water Consumption
530 ↓
(lpd/resident)

Network condition and age

The age of each of CDC's water, wastewater and stormwater infrastructure is about average for the councils in the Otago and Southland regions.

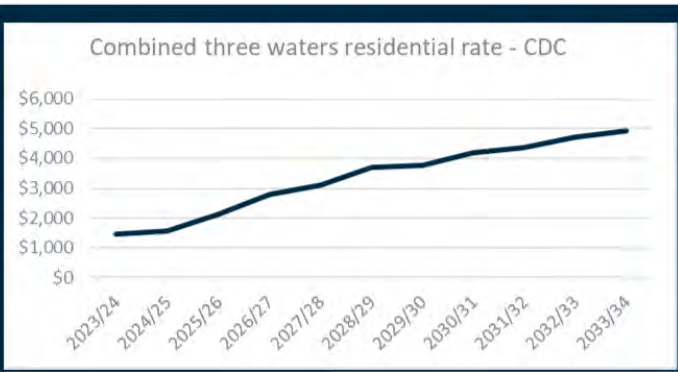
CDC notes in its asset management plan that the impacts of an ageing network are becoming evident now, particularly in relation to its concrete and asbestos cement water supply reticulation assets.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	36	28%	2%	5%	2%	1%	62%
Wastewater	41	49%	32%	13%	1%	2%	3%
Stormwater	53	20%	62%	6%	5%	5%	2%

A large quantity of the water supply network has yet to be condition assessed.

[3] Compared to previous year

MorrisonLow



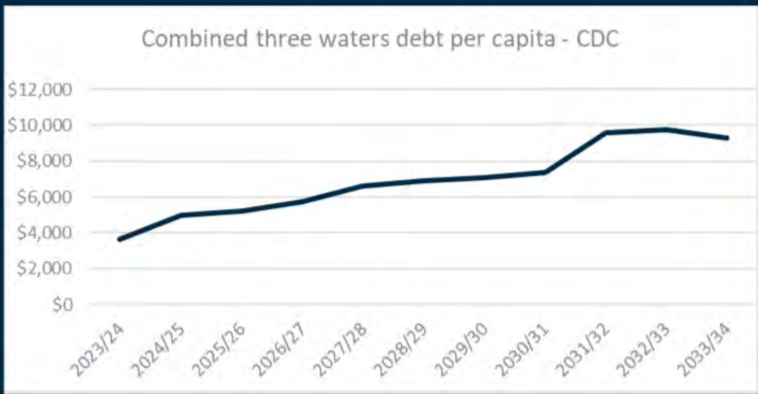
Three waters residential rates

The average three waters residential rate in CDC for 2023/24 was approximately $1,460 (including GST). Over the period of the LTP this is expected to more than triple to about $4,900 by 2034.

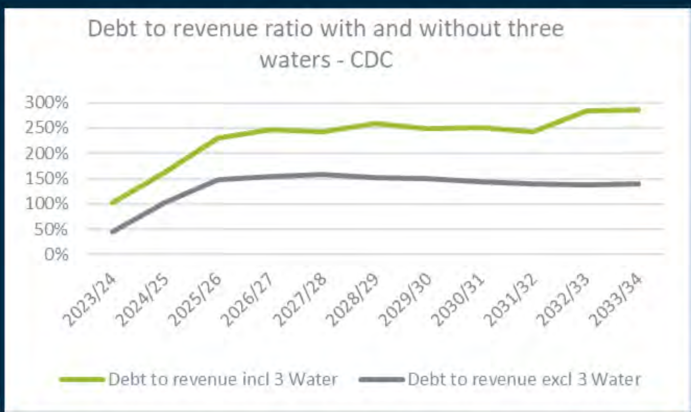
CDC separates rural and urban drinking water charges, so may not represent charges for all customer groups.

Three waters debt

Three waters debt for CDC is projected to increase from approximately $70 million in 2023/24 to a peak of $194 million by 2033/34. In per capita terms, three water debt will nearly triple from $3,660 per person to $9,300 per person.



Whole of council debt



Based on LTP projections, CDC will exceed LGFA's 280% debt to revenue lending covenant by 2032/2033. At this point it will be unable to borrow further funds without significant cost to ratepayers.

CDC's own draft Long Term Plan does not indicate that this lending limit will be breached. We note that our calculations of debt to revenue ratios rely upon data from funding impact statements and projected statements of financial position using a consistent approach across all councils. It is likely that actual calculations may differ given differences in reporting across councils.

Without three waters related debt, Council is unlikely to reach or exceed any borrowing limits within the foreseeable future.

MorrisonLow

Dunedin City Council

128,901 population (2023)

115,357 people serviced with water supplies

7 wastewater treatment plants

4 water treatment plants

1,390 km water supply pipes

385 km stormwater pipes

958 km wastewater pipes

35 water connections per kilometre

92% of people live in urban areas

$88,800 average household income (2019)

Key issues

South Dunedin flooding

Periodic flooding in South Dunedin has been identified as a growing issue that needs to be managed.
A joint programme of work is underway with Otago Regional Council to look at planning, land use and infrastructure opportunities. A range of blended interventions will likely be required over decades, along with substantial investment.

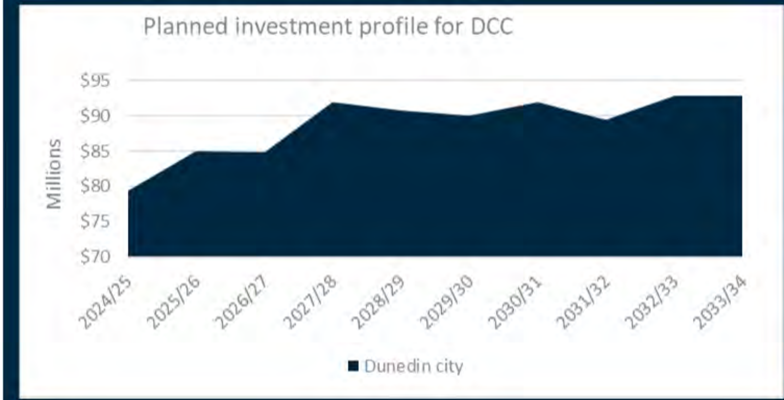
Providing for growth

Network capacity issues on parts of Dunedin's water network mean that it is unable to provide for future housing development in parts of its city. Water take limits during dry periods also occasionally impact water supply across the network.

Ageing infrastructure

Dunedin's water, wastewater and stormwater networks are all the equal oldest in Otago and Southland.

MorrisonLow

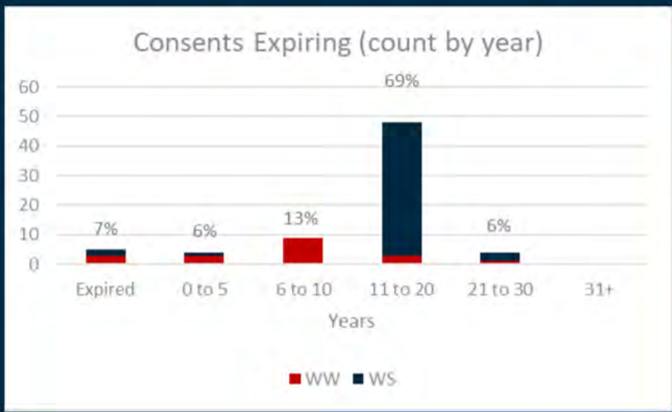


$890 million of planned investment over 10 years

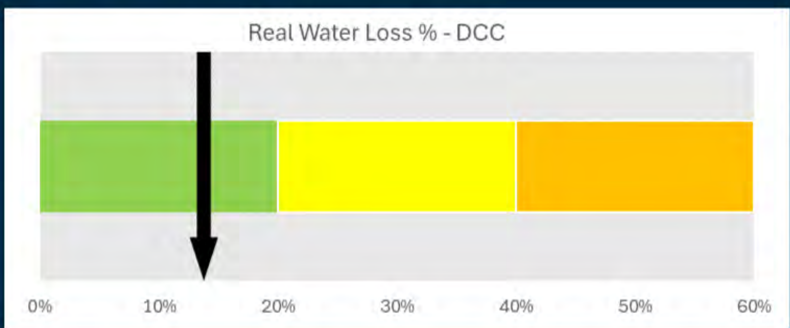
The programme is based on consistent delivery of around $90 million per year from 2028. For comparison, DCC's 2023 annual report shows it delivered $93 million in three waters capital projects during the year.

Expiring consents

The resource consents for the Green Island and Tahuna wastewater treatment plants are due to expire in 2032. Resource consents for the Waikouaiti and Middlemarch wastewater treatment plants are due to expire in 2027 and 2029 respectively.



Network performance



DCC experienced 15% real water loss in the 2023 financial year, which is amongst the lowest in the Otago and Southland councils. Water loss was 22% in 2022.

There were 3.58 dry weather overflows of the wastewater network per 1,000 connections in 2023, an increase from 2 per 1,000 connections in the previous year.

MorrisonLow

Compliance

DCC was not fully compliant with the drinking water standards in 2023. Non-compliance related to lower than required levels of free available chlorine in the Wingatui distribution zone and exceeding the maximum sampling intervals in a number of locations. Steps have been put in place to address all of these issues.

All of DCC's water supplies have bacterial and protozoal barriers and residual disinfection in place.

Taumata Arowai reports than in 2023 it received 3 notifications for MAV exceedance on the Dunedin City supply, and that the Waikouaiti supply exceeded lead MAVs on one occasion.

Area	22/23 results	22/23 Target	21/22 results	Trend[4]
Bacterial compliance	81%	100% - Not Achieved	50.5%	↑
Protozoal compliance	98.6%	100% - Not Achieved	99.6%	↓

Demand management

Dunedin experienced 3.2% growth in its population between 2022 and 2023.

Water Consumption
280 ↑
(lpd/resident)

Dunedin already faces some constraints on water supply. It's draft 2024 infrastructure strategy notes that constraints exist in relation to:

- Flows and pressure not always meeting requirements for firefighting purpose
- Occasional issues during summer months where raw water take needs to reduce to maintain minimum flows
- Infrastructural constraints on the volume of water able to be delivered to some parts of the city
- Expiring water take consents, particularly in the Taieri plains area which is already over-allocated

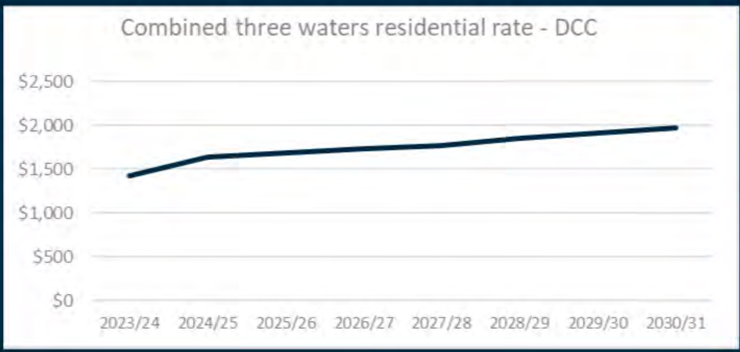
Network condition and age

A large proportion of Dunedin's three waters network is yet to have a condition assessment, however DCC's infrastructure strategy identifies that a significant proportion of its wastewater reticulation network and treated water pipelines are in poor condition.

Particular issues are noted relating to the wastewater network, which is experiencing stormwater and ground water infiltration and inundation. This also creates capacity issues in the network during high intensity rainfall events.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	2%	4%	4%	1%	2%	87%
Wastewater	61	1%	3%	3%	1%	1%	91%
Stormwater	57	1%	1%	2%	1%	3%	92%

[4] Compared to previous year

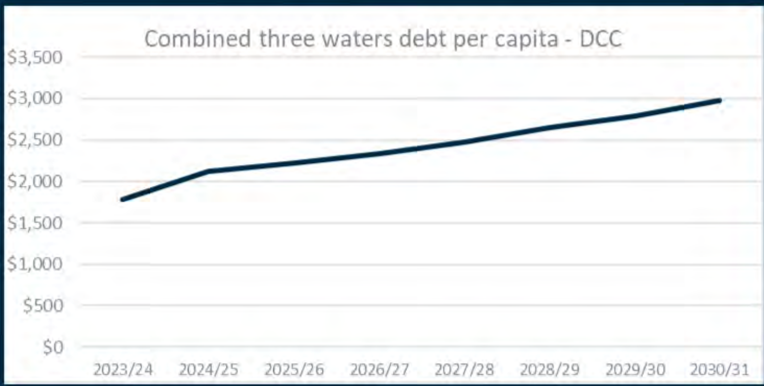


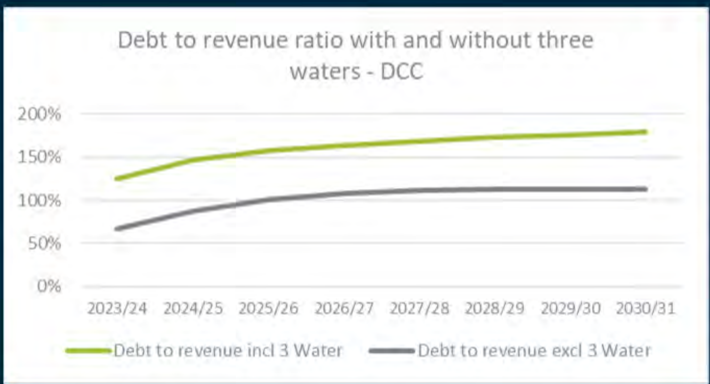
Three waters residential rates

Projections for Dunedin City Council, based on its adjusted 2021/31 Long Term Plan, see average residential three waters rates increase from $1,430 including GST in 2024 to $1,980 including GST by 2031.

Three waters debt

Dunedin's three waters net debt over the period of its adjusted 2021/31 long term plan is projected to rise from approximately $247 million in 2024 to $428 million in 2031. This translates to $2,980 per capita in 2031.





Whole of council debt

Dunedin's 2021 Long Term Plan projects total debt to reach 180% of revenue by 2031.

An increased capital works programme and borrowing requirements identified as part of the 2024 long term plan preparation would likely have resulted in further increases to debt to revenue ratios. Our projections do not anticipate Dunedin breaching its 280% borrowing limits based on increased three waters capital expenditure alone.

Notably, DCC's debt to revenue ratio is expected to improve if three waters revenue and debt were to be transferred. However, the upward trend of borrowings excluding three waters, indicates that at the time of the 2021 LTP, three waters investment needs were not significantly constraining planned investment in other council activities.

MorrisonLow

Gore District Council

12,711 population (2023)

9,290 people serviced with water supplies

3 wastewater treatment plants

3 water treatment plants

126 km water supply pipes

62 km stormwater pipes

108 km wastewater pipes

10 water connections per kilometre

76% of people live in urban areas

$96,800 average household income (2019)

Key issues

Separation of wastewater & stormwater

Approximately 40 % of Gore and 25 % of Mataura's wastewater and stormwater networks are combined.

A study completed in 2018 estimated that it would cost $175 million to achieve full separation of the Gore network.

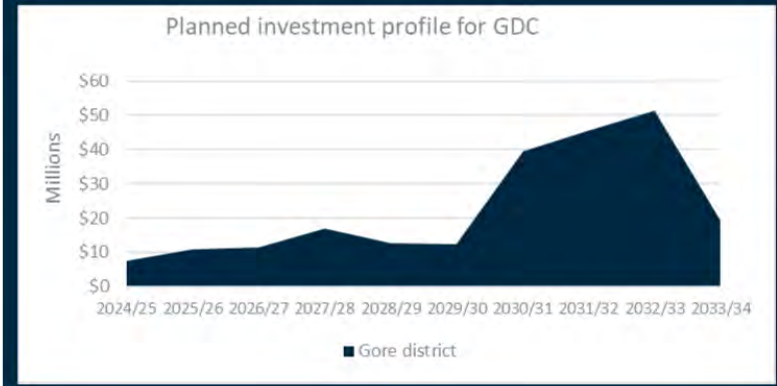
Water loss

Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage.

Given limitations on water takes from Gore's surface water supplies during dry periods, a reduction in leakage would reduce the need for water restrictions.

Debt constraints

GDC's current debt projections see it breaching both the LGFA lending covenants for credit rated, and unrated, councils. With the significant majority of this borrowing relating to three waters, investment in three waters infrastructure will be constrained without additional rates rises to support further lending.

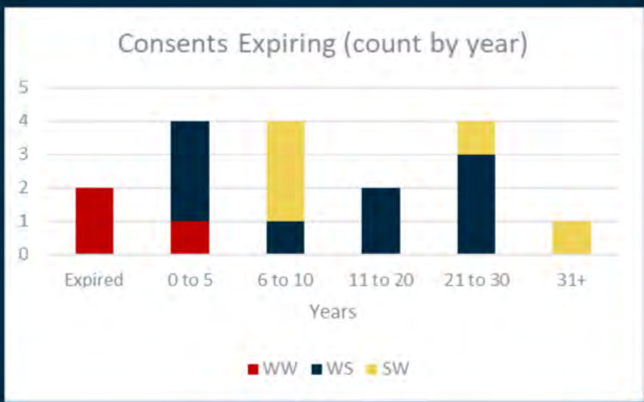


$227 million of planned investment over 10 years

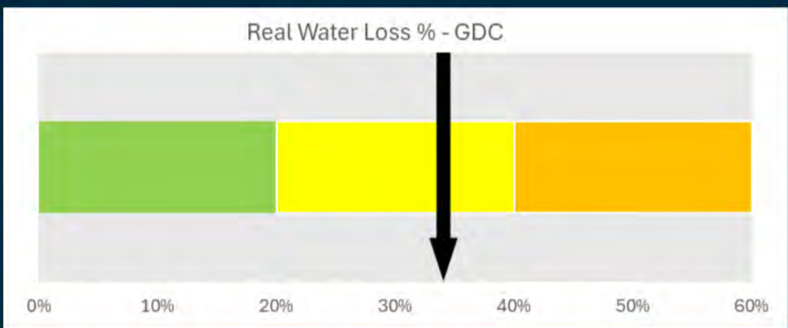
The programme is back loaded, peaking at $51 million in 2033. For context, GDC's entire planned capital works programme (for all activities) in 2024 equalled only $11 million

Expiring consents

GDC is currently in the process of applying to renew its expired discharge consents for the Gore and Mataura Wastewater Treatment Plants. Significant upgrades to improve the performance and minimise cultural impacts are expected as part of this consent renewal process.



Network performance



Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage. Investigations have not been able to identify the source of this leakage.

Managing water loss on the network would reduce the frequency of water restrictions being required in summer.

GDC's wastewater network met its target levels of service in 2023, with no dry weather overflows being reporting in its annual report.

MorrisonLow

Compliance

Gore reported that it was not compliant with protozoal and bacterial criteria in the drinking water quality assurance rules in 2023. Non-compliance related to the Mataura and Hilbre Ave water treatment plants. The Hilbre Ave water treatment plant is due to be decommissioned once a pipeline has been installed to enable raw water from that plant to be treated at the East Gore water treatment plant.

A temporary consumer advisory notice was in place for the Gore water supply for 2 days in 2023.

Area	22/23 results	22/23 Target
Bacterial compliance	Non-compliant	100%
Protozoal compliance	Non-compliant	100%

GDC had no abatement notices, infringement notices, or enforcement orders on its wastewater network in 2023 or 2022.

Demand management

GDC district is not expected to experience significant population growth in the near future, with population estimates indicating a small reduction in the population of the Gore district by 2043. Water consumption, at 452 litres per resident per day, is the third lowest in the two regions.

Water Consumption
452 ↓
(lpd/resident)

The district currently experiences periods where surface water takes for the Gore water supply need to be supplemented from a second water source. Increased frequency of extreme weather events and changing resource consent conditions may increase the need for this in the future.

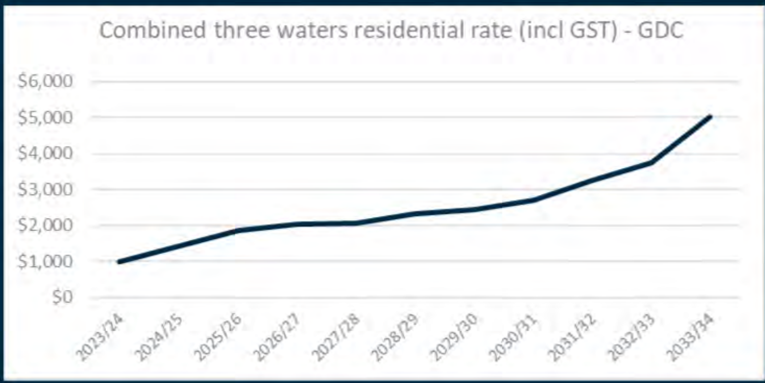
Increased frequency of intense rainfall events may exacerbate existing capacity issues on the wastewater network, which are primarily the result of the large portion (40% in Gore) of combined wastewater and stormwater network.

Network condition and age

GCC's assets are the third oldest across the two regions, with 21% of its water network having a predicted renewal date prior to 2030. Over 70km of water reticulation assets are predicated to require renewal in the 2030s, including the majority of its asbestos cement pipes.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	45	18%	0%	0%	0%	0%	82%
Wastewater	52	10%	0%	3%	0%	1%	86%
Stormwater	43	17%	1%	0%	0%	0%	82%

A significant portion of the assets have yet to be condition assessed, this is a risk to Council. A condition assessment carried out in 2022 identified that over 60% of earthenware wastewater pipes were assessed as being in poor or very poor condition. Earthenware represents a significant proportion of the network.

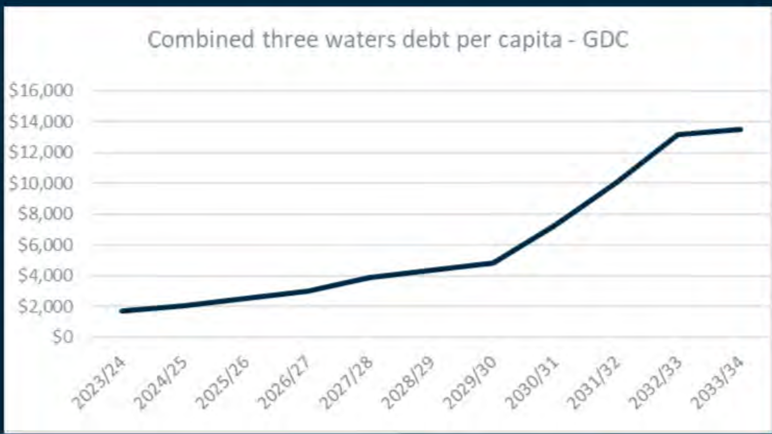


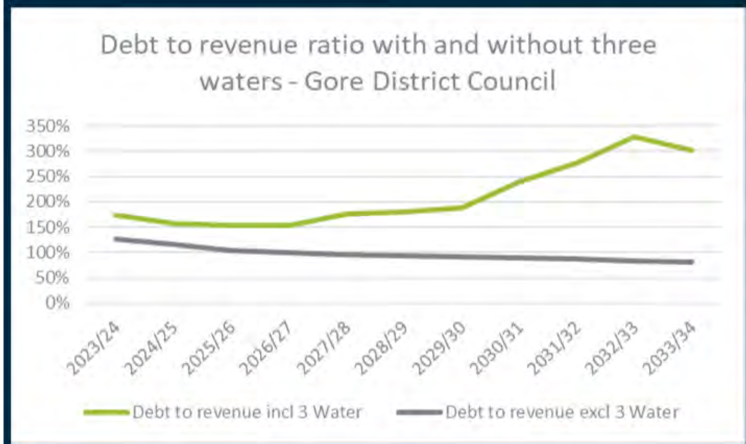
Three waters residential rates

The average three waters residential rate in GDC for 2023/24 was approximately $990 (including GST). Based on draft 2024 Long Term Plan financials that were prepared prior to Council opting to defer it's long term plan, this was expected to increase five-fold to $5,000 by 2034

Three waters debt

Three waters debt for Gore District Council is projected to increase from approximately $22 million in 2023/24 to over $180 million by 2033/34 according to early drafts of its now deferred 2024 long term plan. In per capita terms, three water debt will increase nearly six-fold from $1,750 per person to over $13,500 per person.





Whole of council debt

Gore District Council is projected to exceed its 175% borrowing limit for unrated councils until 2027/28 at which point it would need to obtain a credit rating to access further borrowing capacity. LGFA's 280% debt to revenue ratio is currently also projected to be exceeded in 2032/33 at which point GDC would need to increase revenue to fund further investment.

The removal of three waters sees Gore's debt steadily reduce over time, and for borrowing to remain well within the 175% limit.

MorrisonLow

Invercargill City Council

55,599 population (2023)

50,456 people serviced with water supplies

2 wastewater treatment plants

1 water treatment plant

422 km water supply pipes

417 km stormwater pipes

376 km wastewater pipes

52 connections per kilometre

91% of people live in urban areas

$98,000 average household income (2019)

Key issues

Expiring consents

Expiring resource consents for wastewater treatment plants in Bluff and Clifton are estimated to cost a combined $111 million which is included in ICC's LTP. Any future requirement to discharge to land would incur further costs. Price estimates range from $5 – 27 million for Bluff and $40 – 200 million for Clifton

Water source resilience

ICC is currently dependent on a single water source, an additional source is required to provide water security and resilience. Development of an additional water source has been identified as a strategic priority and there is $60 million in ICC's LTP for this project

Ageing infrastructure

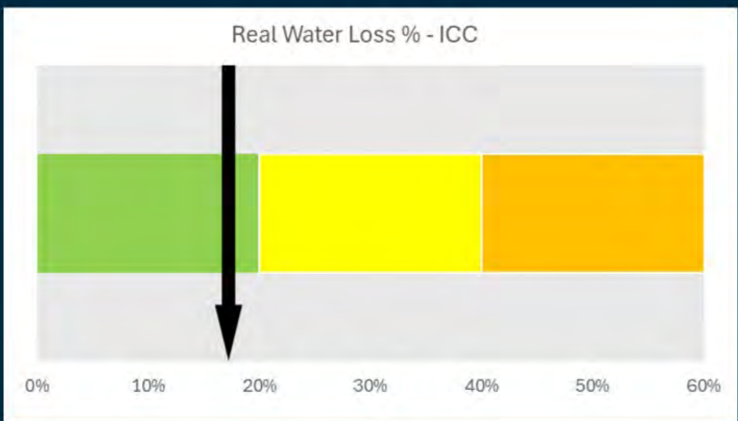
ICC's three waters infrastructure has the equal oldest average age across the group

$460 million of planned investment over 10 years

ICC's three waters capital works programme peaks at $71 million per year in 2029; that's 50% larger than its entire capital works programme in 2024

Expiring consents

ICC has six wastewater consents that are due to expire in the next 5 years, with a further two due to expire in the following 5 years. These consents relate to its wastewater treatment plants in Clifton and Bluff, and $111 million has been provided for within its LTP for the upgrades to support these consent renewals.



Network performance

ICC experienced an estimated 18.5% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was reported as being 9.7%.

There were 1.37 dry weather overflows of the wastewater network per 1,000 connections in 2023

MorrisonLow

Compliance

ICC reports full compliance with the drinking water standards in its 2023 annual report and is not reported to have any Maximum Acceptable Value (MAV) exceedances or consumer advisory notices during the year.

Area	22/23 results	22/23 Target	21/22 results	Trend[5]
Bacterial compliance	100%	100% - Not Achieved	100%	↔
Protozoal compliance	100%	100% Not Achieved	100%	↔

ICC has been compliant with all of its wastewater consents, reporting no consent breaches in the last two years.

Demand management

ICC has planned to install water meters across its network and has set aside $10.8 million in its LTP to do this. ICC already reports the lowest average water consumption per resident out of all councils in the Otago and Southland regions.

Demand projections for ICC's water supply, show ICC is likely to remain within its consented water take limits for the foreseeable future, with or without the aluminium smelter at Tiwai point remaining open

Water Consumption
231 ↓
(lpd/resident)

Network condition and age

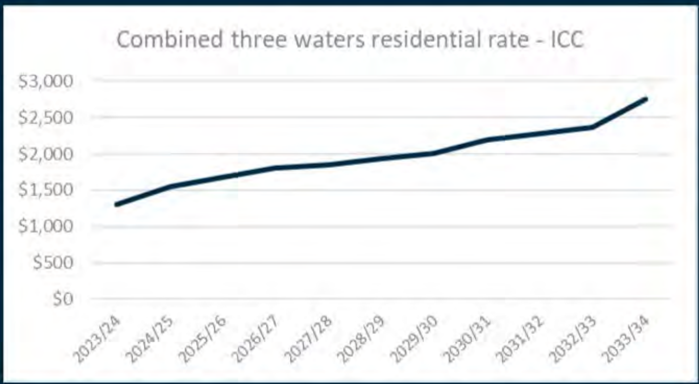
ICC's water, wastewater and stormwater infrastructure each have the equal highest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	16%	27%	18%	21%	18%	0%
Wastewater	61	21%	11%	44%	16%	8%	0%
Stormwater	58	18%	13%	37%	24%	8%	4%

39% of ICC's water network has been identified as being in poor or very poor condition, while 24% of wastewater assets and 32% of stormwater assets fell into the same categories. ICC's asset management plan notes a low level of confidence in the asset condition data as many of the assets sampled had known issues.

[5] Compared to previous year

MorrisonLow

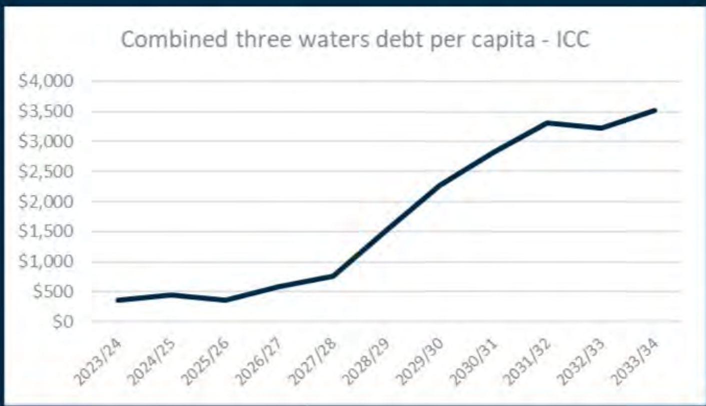


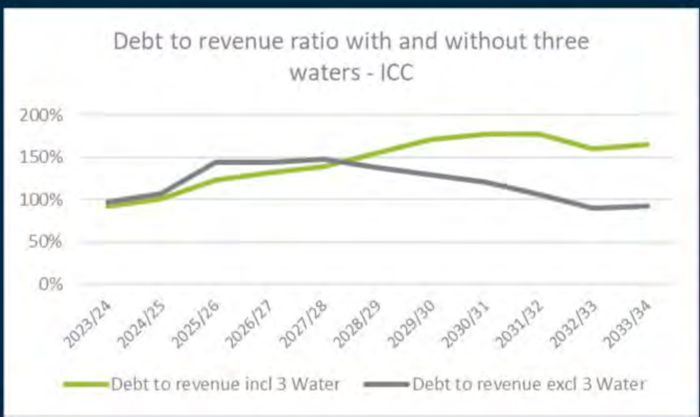
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 110% from approximately $1,300 in 2024 to over $2,750 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $20 million in 2024 to over $220 million by 2034, or from $358 per head of population to over $3,500 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 178% in 2031/32, and it is unlikely to exceed LGFA lending limits.

In the short term, without three waters debt and revenue, ICC will have reduced borrowing capacity (though still within LGFA lending limits).

Longer term, ICC will have an improvement in its total borrowing capacity if three waters debt and revenue was transferred.

MorrisonLow

Queenstown Lakes District Council

47,808 population (2023)

96,471 people serviced with water supplies

14 wastewater treatment plants

14 water treatment plants

642 km water supply pipes

465 km stormwater pipes

516 km wastewater pipes

51 water connections per kilometre

88% of people live in urban areas

$110,600 average household income (2019)

Key issues

High level of growth

QLDC continues to experience significant levels of population growth.

Providing infrastructure to support that growth is expensive, $721 million of investment has been identified as being needed in the next ten years.

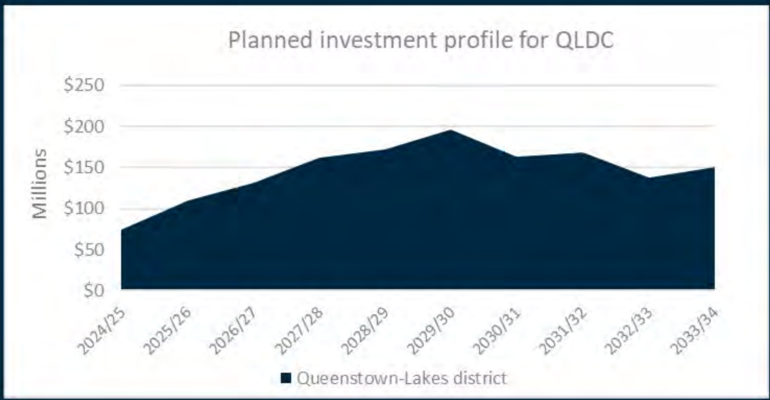
Borrowing capacity

QLDC's LTP projects an average debt to revenue ratio over the ten year period of 260%. The costs of serving this debt and funding depreciation account for half of the 15.6% rates rise proposed for the 2024/25 financial year.

Debt limits leave very little borrowing headroom.

Servicing tourism demand

QLDC's economy is dependent on its high levels of tourism. While tourism supports business in the district, the high peak tourist population means QLDC's three waters infrastructure needs to support a population that is almost double its resident population.

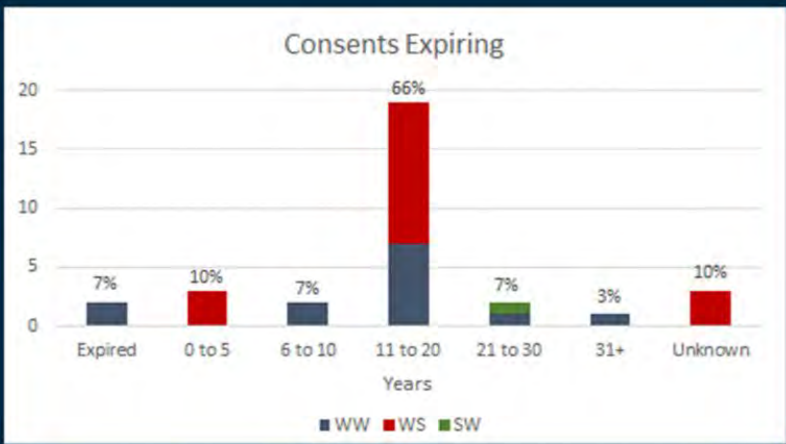


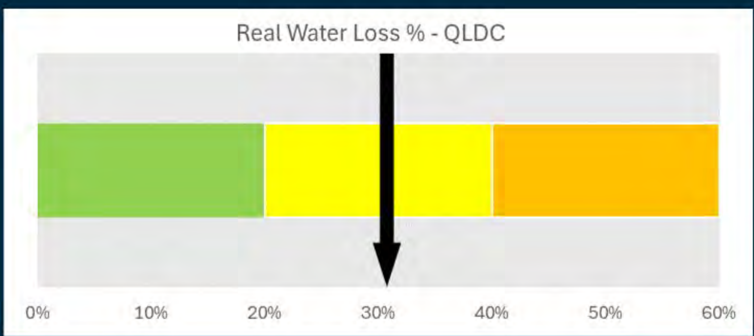
$1.5 billion of planned investment over 10 years

QLDC's three waters capital works programme peaks at $196 million per year in 2029, for context QLDC's entire capital works programme in 2024 total $202 million.

Expiring consents

QLDC has a steady rate of consents expiring until the 11 to 20 year period where 66% of its consents are due to expire.





Network performance

QLDC experienced an estimated 32% real water loss in the 2023 financial year, which is in the top half of councils in the Otago and Southland regions and high for a young network age.

There were 2.03 dry weather overflows of the wastewater network per 1,000 connections in 2023

MorrisonLow

Compliance

Queenstown has 10 registered drinking water schemes. Of these, six have all barriers in place, and four do not have protozoal barriers. All ten schemes have residual disinfection in place.

Area	22/23 results	22/23 Target	21/22 results	Trend[6]
Bacterial compliance	55%	100% - Not Achieved	100%	↓
Protozoal compliance	40%	>50% Not Achieved	11%	↑

QLDC reported 85% compliance with its resource consents in 2023 (the same as the previous year). There were two abatement notices for two wastewater treatment plants in the district in 2023.

Demand management

Demand management and servicing growth are the biggest issues facing QLDC. It's long term plan sets aside half of its three waters capital works programme, or $721 million over the next ten years to support growth.

QLDCs three waters asset management plan notes that the district is already facing regular water restriction during peak periods and is struggling to meet consumer demand in some areas.

Water Consumption
508 ↑
(lpd/resident)

QLDC's 2022/23 water consumption rate is among the highest in the Otago and Southland regions and the consumption trend has worsened compared to the previous year.

Network condition and age

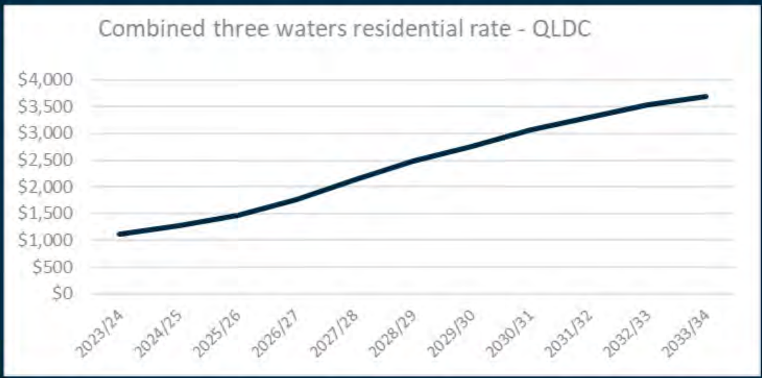
QLDC's water, wastewater and stormwater infrastructure all have the lowest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	19	58%	14%	11%	9%	1%	7%
Wastewater	22	53%	13%	10%	12%	5%	7%
Stormwater	25	58%	15%	11%	4%	8%	4%

QLDC notes that the condition of its three waters infrastructure is very good, with over 70% of its water supply and stormwater assets rated as good or very good. 66% of QLDC's wastewater network is also in good or very good condition.

[6] Compared to previous year

MorrisonLow

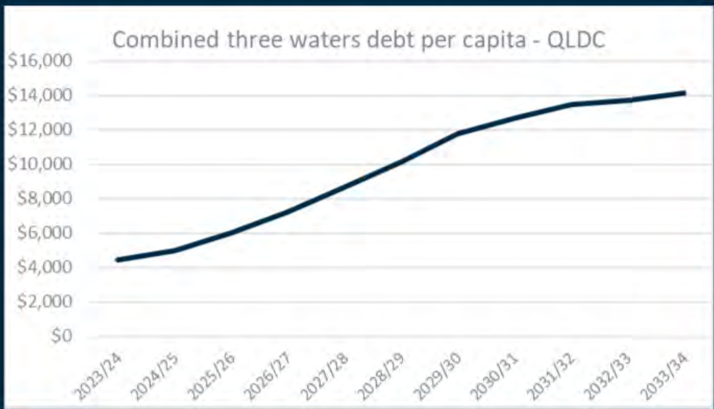


Three waters residential rates

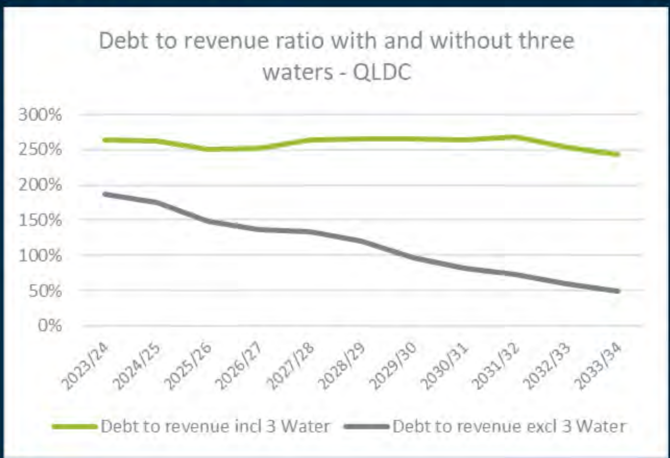
The average three waters residential rate in QLDC for 2023/24 was approximately $1,100 (including GST). Over the 10 years covered in QLDC's LTP the three waters rate is expected to increase by 230% to almost $3,700 in 2034.

Three waters debt

Three waters debt for QLDC is projected to increase from approximately $240 million in 2023/24 to over $1 billion by 2033/34 according to its 2024 long term plan. In per capita terms, three waters debt will triple from $4,470 per person to over $14,167 per person.



Whole of council debt



Based on LTP projections, QLDC is projected to remain very closely within its 280% borrowing limit through the period of its LTP. While projected debt levels do not exceed borrowing limits, QLDC will retain very little borrowing headroom.

The removal of three waters sees Queenstown's debt reduce steadily during the LTP period. This indicates that investment in community infrastructure outside of three waters has been constrained during the LTP period due to the need to invest in three waters. 60% of Queenstown's capital works programme relates to three waters services, while only 33% of its operating revenue (excluding development contributions) is from three waters charges.

MorrisonLow

Southland District Council

- **31,833** population (2023)
- **11,403** people serviced with water supplies
- **19** wastewater treatment plants
- **12** water treatment plant
- **681** km water supply pipes
- **112** km stormwater pipes
- **246** km wastewater pipes
- **13** water connections per kilometre
- **22%** of people live in urban areas
- **$112,000** average household income (2019)

Key issues

Small communities

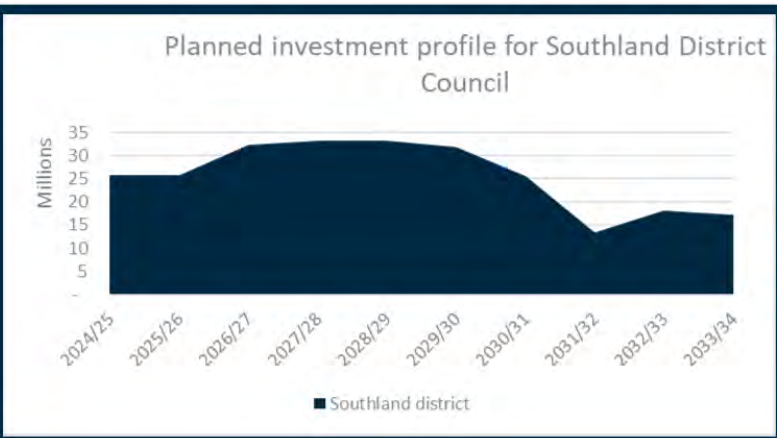
SDC provides reticulated drinking water to 12 communities within its district, and reticulated wastewater to 19 communities. Only two of these communities have populations over 1,000 people and opportunities to connect schemes are very limited.

Expiring consents

Half of SDC's existing resource consents across its three waters activities are expiring within 10 years, including 13 consents relating to wastewater treatment

Affordability

Average residential rates for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.



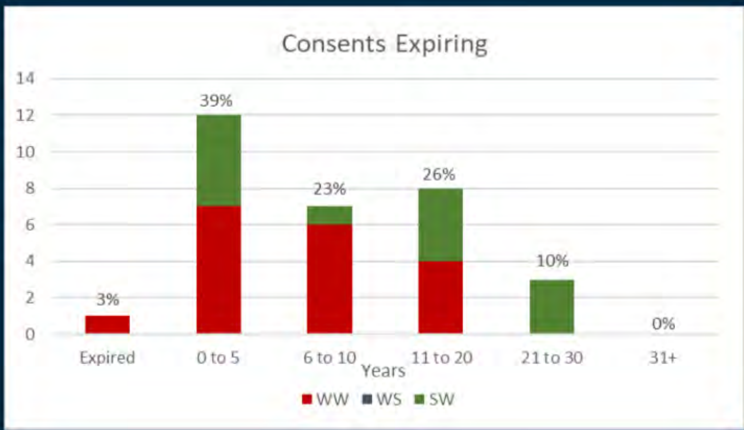
$256 million of planned investment over 10 years

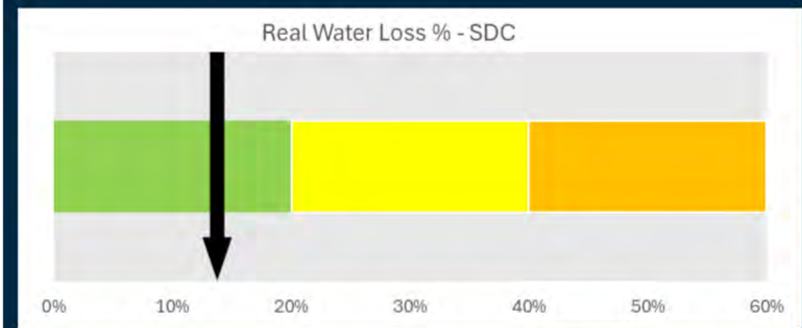
SDC's three waters capital works programme peaks at $33 million per year in 2028, for comparison its three waters capital works programme in 2024 was $12.5 million.

Expiring consents

SDC has 13 wastewater consents that are due to expire in the next 10 years. Treatment plant upgrade and consent renewals are planned for Balfour, Winton, Gorge Road, Manapouri, Nightcaps and Ohai, totalling around $37 million.

Recent announcements regarding standardised design for wastewater treatment plants with populations of fewer than 1,000 people may reduce future investment requirements for some of these plants.





Network performance

SDC experienced some of the lowest rates of estimated water loss in the Otago and Southland regions, with 15% water loss across its water supply schemes in the 2023 this was down from 16% in 2022.

There were no dry weather overflows of the wastewater network reported in 2023.

MorrisonLow

Compliance

SDC has 12 drinking water schemes registered with Taumata Arowia. All 12 schemes have bacterial and protozoal barriers and residual disinfection in place other than the Eastern Bush/Otahu Flats RWS scheme which does not have a protozoal barrier in place.

SDC had one long term consumer advisory notice in place on its Tuatapere scheme for 198 days in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[7]
Bacterial compliance	96%	100% - Not Achieved	91%	↑
Protozoal compliance	18%	100% Not Achieved	36%	↓

SDC reported that in 2022/23 there were 15 incidents where resource consents for wastewater were breached.

Demand management

SDC does not anticipate any significant growth in demand across the district.

Given the limited expected growth it is not anticipated that a specific programme will be required to manage people related growth. SDC intends to undertake further work in the upcoming three years to more fully understand the impact of climate change related demand.

Water Consumption
583 ↓
(lpd/resident)

SDC notes that it has existing capacity issues on its stormwater network, and that future efforts to separate its wastewater and stormwater networks in those areas may overwhelm the existing stormwater infrastructure.

Network condition and age

The age of SDC's 3 waters assets are all in line with the Southland/Otago region average, except its wastewater which is younger.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	39	19%	5%	65%	6%	5%	0%
Wastewater	30	10%	20%	40%	20%	10%	0%
Stormwater	49	17%	16%	24%	30%	9%	4%

A high proportion of SDC's wastewater and stormwater assets are in poor or very poor condition, while the majority of its water infrastructure is in an average condition.

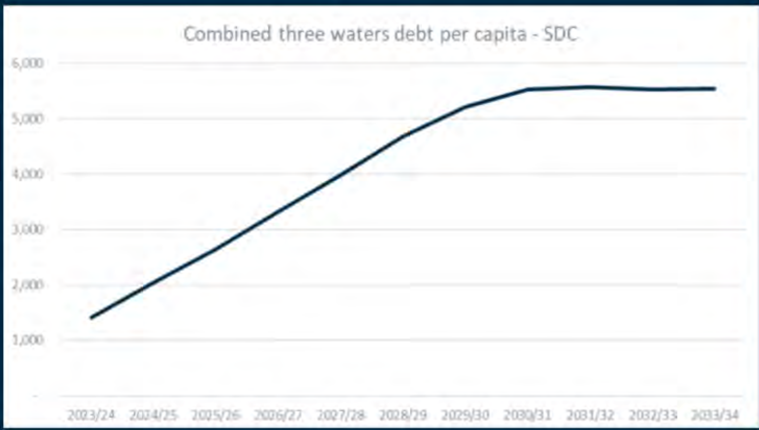
[7] Compared to previous year

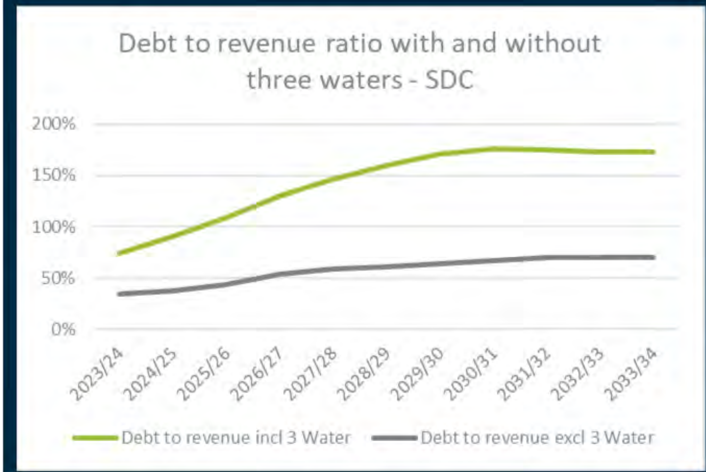
Three waters residential rates

Average residential rates (including GST) for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $46 million in 2024 to almost $200 million by 2034, or from $1,410 per head of population to over $5,540 per capita.





Whole of council debt

SDC does not currently hold a credit rating and therefore has a borrowing limit from LGFA of 175%.

Based on LTP projections, this will be close to being exceeded in 2031. Borrowing capacity will be heavily constrained without a credit rating.

Removal of three waters debt and revenue would ensure SDC stays well within LGFA lending limits.

Waitaki District Council

- **23,472** population (2023)
- **20,202** people serviced with water supplies
- **8** wastewater treatment plants
- **15** water treatment plants
- **1,766** km water supply pipes
- **57** km stormwater pipes
- **201** km wastewater pipes
- **7** water connections per kilometre
- **45%** of people live in urban areas
- **$82,200** average household income (2019)

Key issues

Small communities

WDC provides drinking water and wastewater services to a number of small schemes. 13 of its 15 drinking water schemes serve a population under 1,000. Every water and wastewater scheme in WDC has their own targeted rate, meaning large variations in the rates paid to receive water and wastewater services.

Compliance

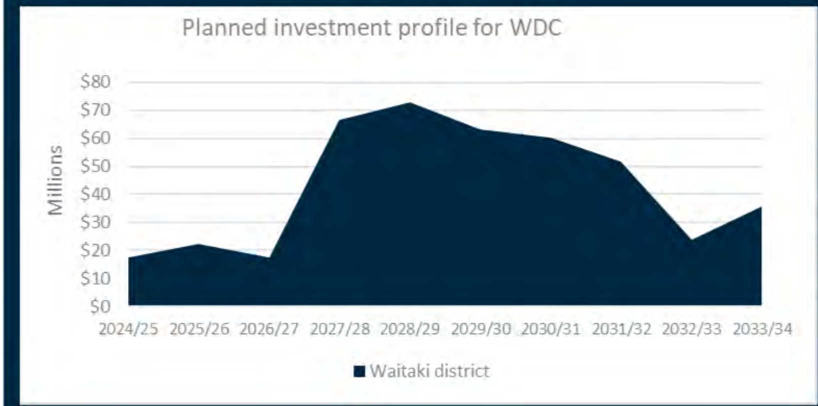
Delivering drinking water that is compliant with drinking water standards has been challenging in a number of small and rural schemes in particular.

Over half of WDC's water schemes were under long term consumer advisory in 2023, with an estimated 1,478 people affected.

Water loss

WDC experiences the highest rates of water loss across the Otago and Southland regions, with an estimated loss as high as 60% in Kurow.

Water loss can be difficult to detect due to the high prevalence of free draining soil meaning loss is not often evident on the surface.

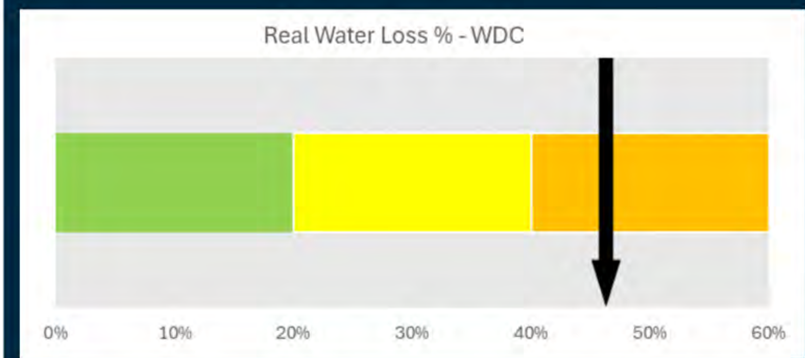


$430 million of planned investment over 10 years

WDC's three waters capital works programme peaks at $72 million per year in 2029, for context WDC's entire capital works programme in 2024 totalled $84 million.

Expiring consents

We have not been provided with consent expiry data for WDC. However, WDC's capital works programme includes consent related upgrades for Duntroon, Kurow, Lake Ohau, and Oamaru wastewater treatment plants. Total estimated capital expenditure for these upgrades total $89 million.



Network performance

WDC experienced between 35% - 60% water loss across its water supply schemes in the 2023 financial year. This is the largest rate of lost water across the Otago and Southland regions.

There were 1.3 dry weather overflows of the wastewater network per 1,000 connections in 2023

MorrisonLow

Compliance

WDC reported only 25% compliance with the drinking water standards in its 2023 annual report. Eight of its 15 registered water supply schemes were under long term consumer advisory notice during 2023. Combined, these schemes service a population of 1,478.

Area	22/23 results	22/23 Target	21/22 results	Trend[8]
Bacterial compliance	25%	100% - Not Achieved	67%	↓
Protozoal compliance	25%	100% Not Achieved	50%	↓

WDC received two infringement notices in 2023 for its wastewater consents, these related to abatement notices received in 2022.

Demand management

WDC has high levels of water loss and the third highest level of water consumption per resident across the Otago and Southland regions.

WDC is only expected to experience modest growth over the next ten years. Controlling water loss and demand management should ensure that infrastructure and existing water consents are able to manage future demand for three waters services.

Water Consumption
524 ↑
(lpd/resident)

Funding has been set aside to undertake wastewater treatment plant capacity studies for the Oamaru and Kurow wastewater treatment plant and the Oamaru stormwater network over the next five years. This should provide additional data to confirm whether capacity upgrades are required in the future.

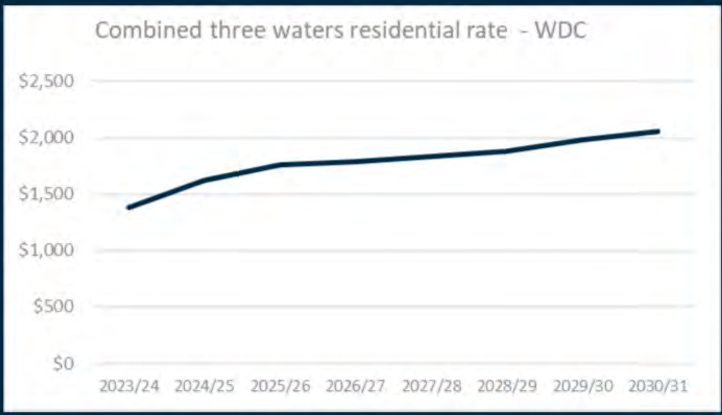
Network condition and age

WDC's wastewater and stormwater infrastructure have average ages of 50 years or more. It's water network has a lower average age, of 40 years. This makes WDC's water network among the oldest in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	40	0%	0%	0%	0%	0%	100%
Wastewater	50	23%	3%	0%	2%	1%	71%
Stormwater	55	0%	0%	0%	0%	0%	100%

The majority of WDC's water, wastewater, and stormwater networks are in an unknown condition. The proportion of wastewater assets rated as being in very good condition appears high compared to average asset age.

[8] Compared to previous year

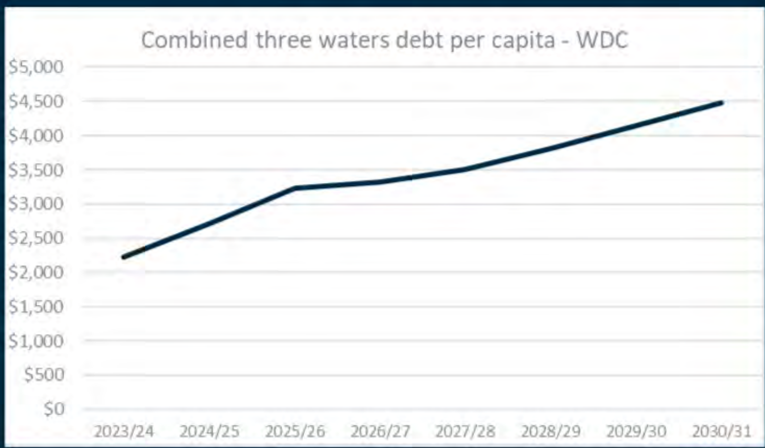


Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 51% from approximately $1,380 in 2024 to over $2,050 by 2031.
Increases in planned investment since the 2021 LTP may increase rates by a further $1,600.
There may be a wide variation in actual charges due to the WDC's use of scheme based targeted rates.

Three waters debt

Net three waters debt is projected to increase from approximately $54 million in 2024 to over $110 million by 2031, or from $2,230 per head of population to over $4,470 per capita.



Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 150% in 2025, and it is unlikely to exceed LGFA lending limits.

Transfer of three waters debt and revenue would improve Council's debt to revenue ratio, and improve its access to funding through LGFA. Negative values represent council holding investment assets that exceed its debt in later years.

We understand updated financial projections show debt significantly exceeding LGFA limits.

MorrisonLow

Appendix One

Addressing inconsistencies with currency of data

The change in government and consequential repeal of the previous Government's Three Waters reform programme resulted in significant changes to planning assumptions made by councils in the development of their 2024/34 Long Term Plans. As a result, councils were given the opportunity to delay the adoption of their Long Term Plans by up to 1 year.

In the analysis included within this report, we have relied on the *latest* adopted/approved financial and asset information available for each council. Where councils have elected to delay their Long Term Plans by a year, this information typically relates to either the 2021/31 LTP or early internal drafts of the 2024/34 long term plan that were prepared prior to the decision to defer.

We have disclosed information sources for these councils within this report.

Councils that have delayed their LTP include:

- Central Otago District Council and Gore District Council, who provided draft LTP operating and capital budgets for the 2024 – 2034 period. These budgets were used in lieu of a final 2024 LTP.
- Dunedin City Council and Waitaki District Council, who provided draft LTP capital budgets but were unable to provide draft LTP operating budgets for the entire 2024 – 34 period. For these two councils, we have:
  - Not produced forecasts beyond 2031
  - Relied on actual results for the 2021, 2022 and 2023 financial years
  - Relied on Annual Plans for the 2024 and 2025 financial years
  - Not included draft capital works programmes in our projection of future rates or debt for this exercise.

The differences between the 2024 and 2025 financial years in the 2021/31 Long Term Plans and Annual plans are significant. To address this, we have amended revenue, operating expenditure, asset and liability balances to reflect the increase values included in 2024 and 2025 annual plans. To achieve this, we have:

- Calculated the projected annual movement in income, expenditure, debt and assets in the adopted 2021/31 Long Term Plan in dollar terms
- Added the calculated annual movement from the 2021/31 long term to the previous year's closing balance.

Given observed increases in expenditure in long term plans across the sector, our approach is likely to have understated debt and income projections for those councils that have delayed adoption of their Long Term Plans.

This difference in data baselines will need to be resolved for the development of any financial modelling that may be included in the next phases of this project.

We have presented financial information out to 2034 for Councils that have been able to provide 2024 Long Term Plans or financial data. This is included in the individual council summaries.

Appendix Five – Alternate Scenarios

Introduction and approach

In addition to the base case Otago Southland WSE, we have also completed modelling for two additional scenarios. These scenarios were agreed by the LWDW working group and chief executives, and include:

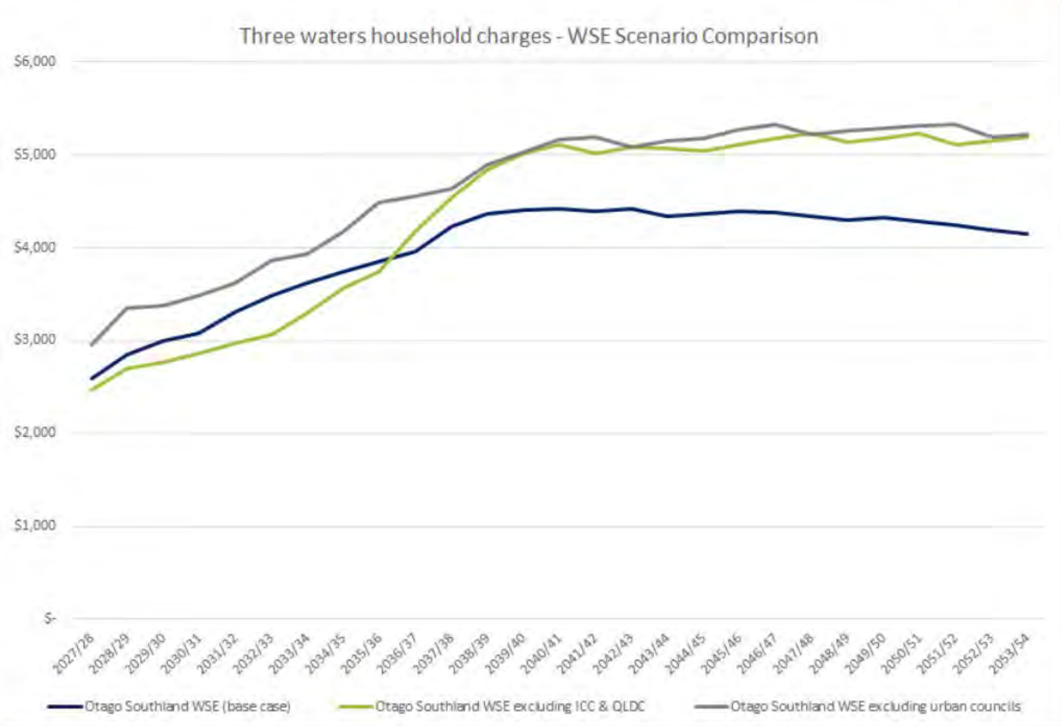
- **Otago Southland excluding urban councils,** this model covers the establishment of a WSE with the following councils:
  - Central Otago District Council
  - Clutha District Council
  - Gore District Council
  - Southland District Council
  - Waitaki District Council
- **Otago Southland excluding ICC and QLDC** this model covers the establishment of a WSE with the following councils:
  - Central Otago District Council
  - Clutha District Council
  - Dunedin City Council
  - Gore District Council
  - Southland District Council
  - Waitaki District Council

Modelling relies on the same underlying assumptions as provided for in the base case, with the following exceptions:

- Corporate overheads for Waitaki District Council have been included in the cost base for both entity models. Overheads allocated to three waters in Waitaki's base information are significant and exclusion of these costs in the smaller entity models is material to the results. If these are purely corporate overheads, then inclusion in these scenarios may overstate the entity costs, however these costs have been included to adopt a conservative approach.
- Total available efficiencies for the **Otago Southland excluding urban councils** have been scaled back to reflect the lower population density of this entity and the impact of that on being able to achieve operational efficiencies.
- Establishment and ongoing costs of the entities have been scaled to reflect the reduced size of the entities. The basis for determining these costs is consistent with the assumptions outlined in Appendix One.

Overall results

The modelling of additional scenarios shows that a WSE remains an attractive option for councils in Otago and Southland even without Invercargill, Dunedin or Queenstown. In both of our alternative scenarios, most water consumers in all the areas that take part in the entity are likely to have lower household three waters charges by 2034.



While a combined Otago Southland entity may appear to have a lower overall price path, benefits are likely to exist under all arrangements.

Importantly, the results presented here are the results of *financial modelling only.* An Otago Southland WSE that excludes urban areas will still be comparatively small at a national level. With total revenue of $128 million in 2027/28, such an entity would be a similar size to Dunedin alone, but would be spread over a significantly larger geographic area. In order to be effective, such an entity would need to operate differently, reflecting the different demographics of its customer base.

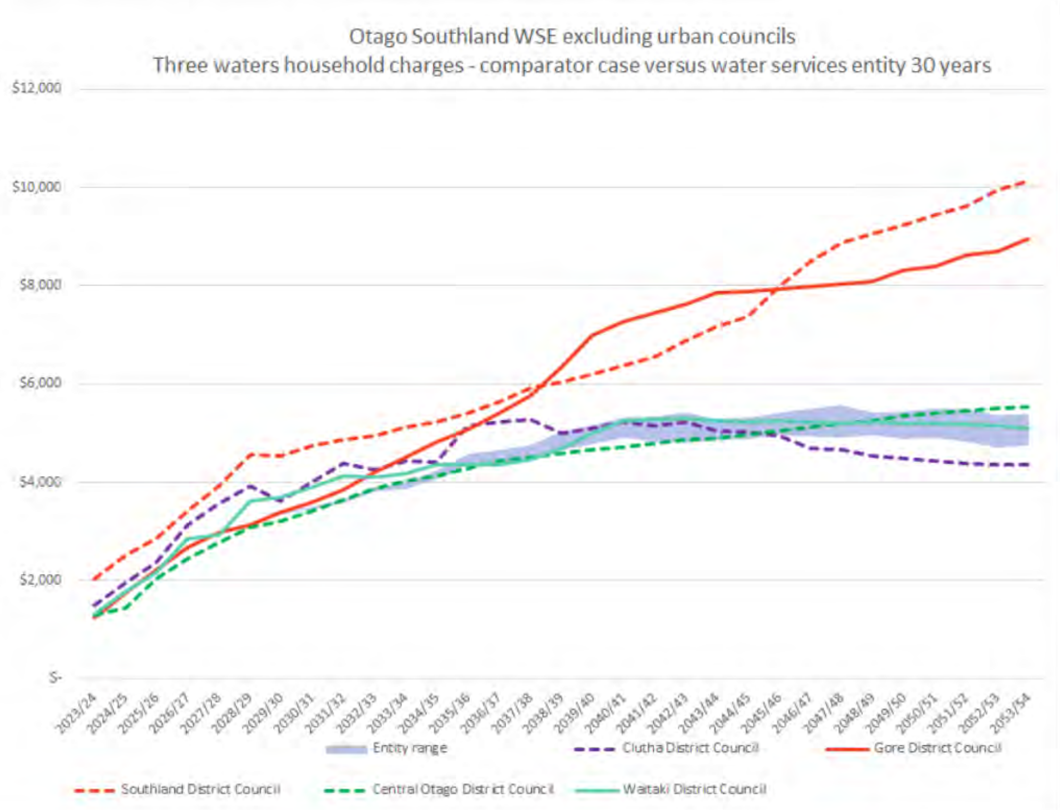
MorrisonLow

Otago Southland WSE excluding urban councils

Average household charges

The chart below presents (nominal) average household charges for the base comparator case for each council against the average regional charge for an Otago Southland WSE, excluding the urban councils of Dunedin, Invercargill, and Queenstown.

The range of charges for the entity is represented by the shaded area behind the chart. The range represents uncertainty regarding costs and benefits of an Otago Southland WSE excluding urban councils, and includes an upper range which incorporates double the costs with half the benefits, and a lower range which represents a 50% uplift in available efficiencies (from 8% on capital expenditure and 9% on operating expenditure to 15% on capital expenditure and 16% on operating expenditure).



The charts shows all of the population of the participating council areas having lower household three waters charges over the short term. Over a 30 year period Central Otago, Clutha and Waitaki may have three waters charges that are within, or below, the expected price range of a WSE.

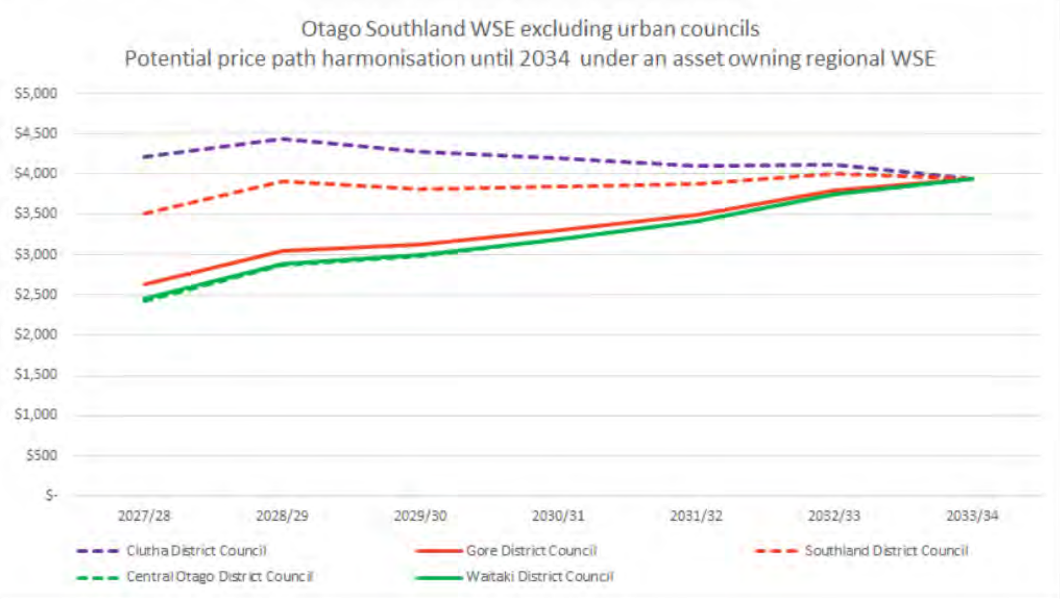
While these forecasts have been prepared based on council infrastructure strategies, we would caution that financial estimates over this extended time period are highly uncertain.

Establishment of an entity under such circumstances would not necessarily mean that the urban councils would need to be excluded indefinitely. We would anticipate any such WSE being designed in such a way as to allow other councils to join at a later date.

Alternatively, such an entity could also provide some shared services to the urban councils, providing the entity with additional revenue and scale, although its smaller scale may mean this is not an attractive proposition.

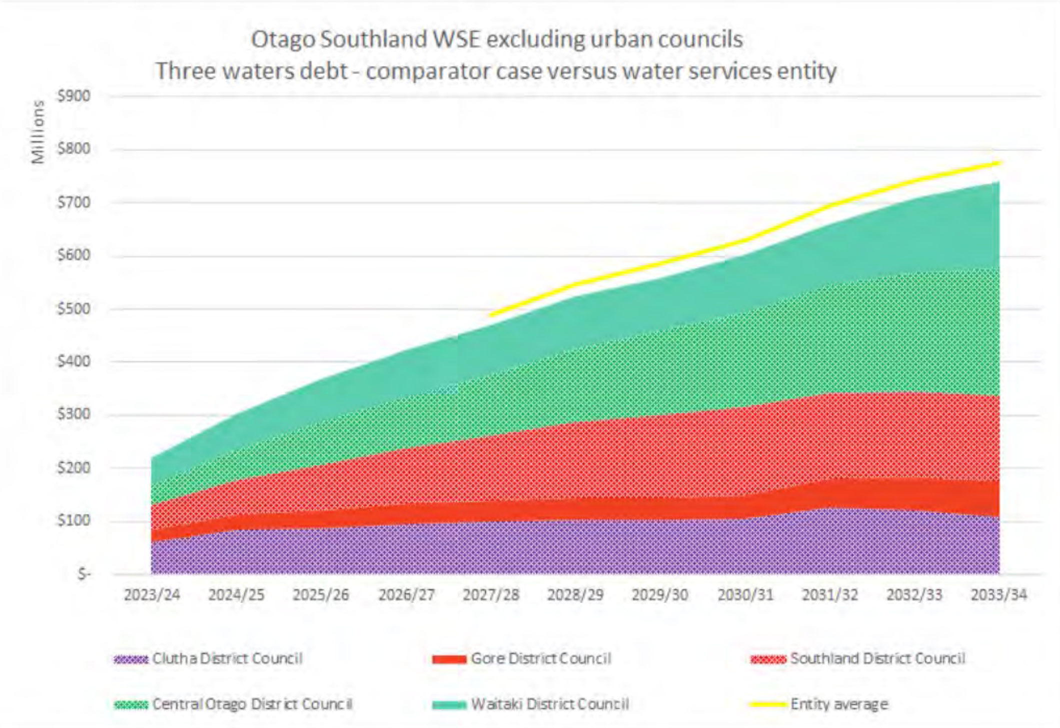
While the Otago Southland WSE excluding urban councils price path is presented as an average charge across the combined regions, we note that this price path could instead be harmonised over time (or not at all).

A potential path towards harmonisation of water charges across the participating councils is presented below. The full details of a price path would need to be agreed upon if an Otago Southland WSE excluding urban councils were to be established.



Debt

The chart below shows the total Otago Southland WSE excluding urban councils debt compared to the combined three waters debt of the participating councils. While borrowing under the entity remains higher than the combined councils, it is less pronounced than in the other modelled WSE scenarios. This is due to the WSE's ability to leverage its debt more effectively than the individual councils and the absence of Queenstown and Dunedin's large capital works programmes.

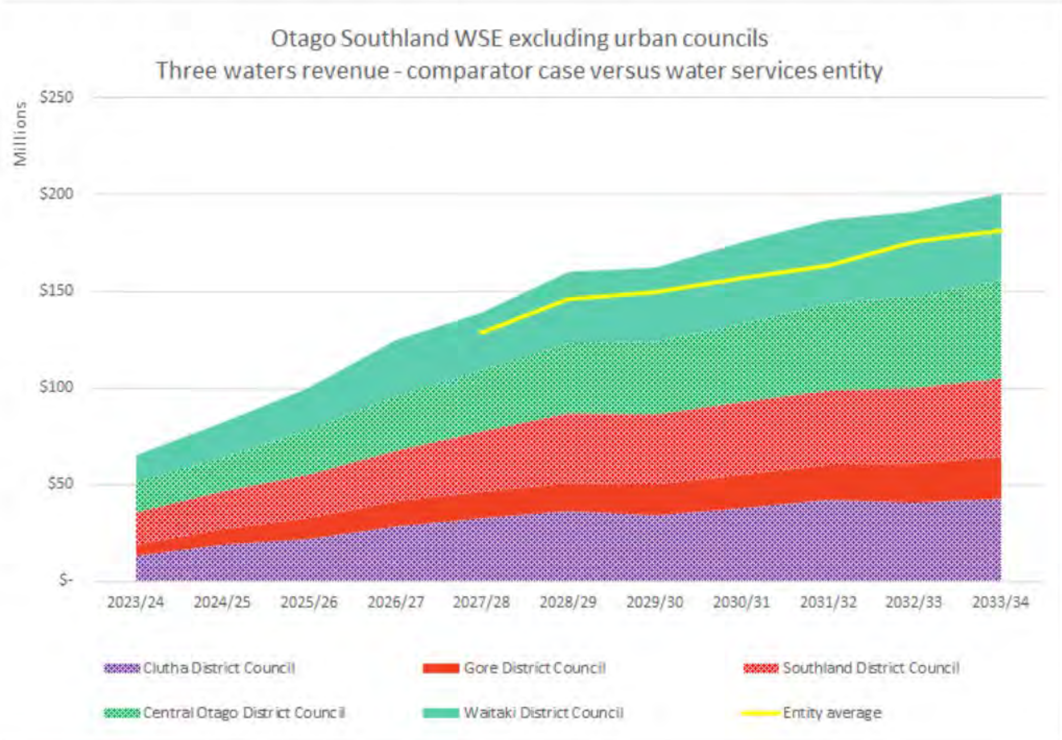


Revenue

The chart below shows the total revenue for an Otago Southland WSE excluding urban councils compared to the combined three waters revenue of the participating councils.

The WSE is able to leverage its balance sheet to a greater extent than individual councils. Subsequently, it can reduce its overall revenue required to support that debt, reducing consumer charges compared to individual councils.

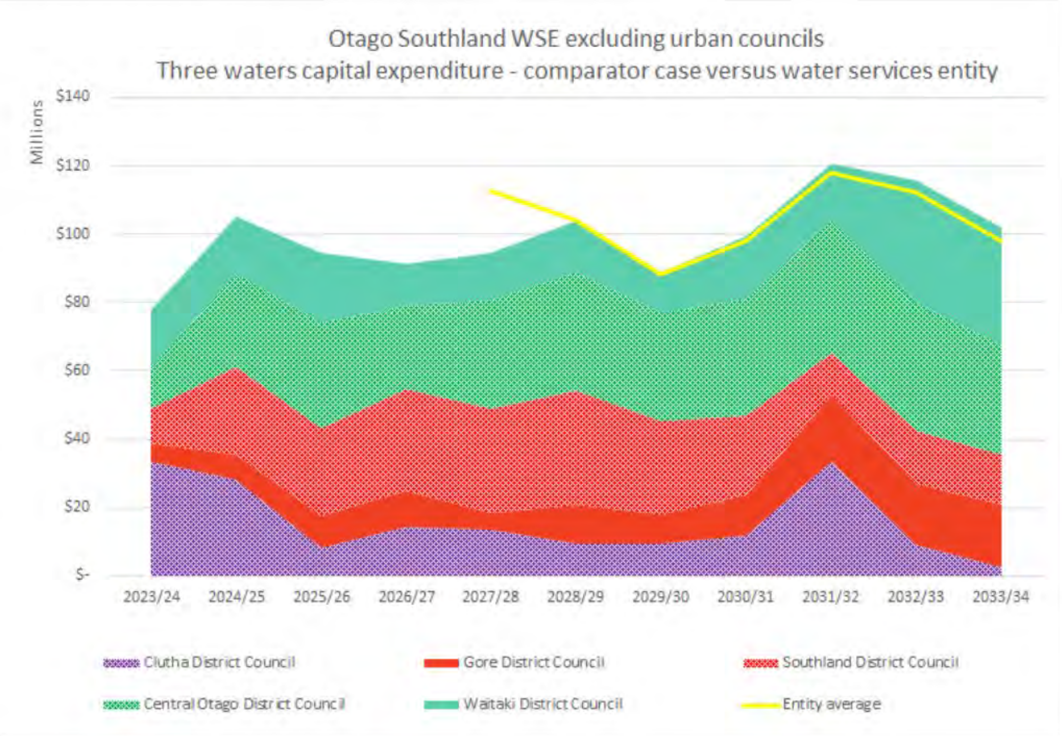
Relative to other WSE scenarios, the share of revenue attributable to individual councils is much more evenly distributed, as the larger entities of Dunedin and Queenstown are excluded from the results below.



Capital expenditure

The chart below shows the total capital expenditure for the Otago Southland WSE excluding urban councils compared to the combined three waters debt of the participating councils.

The WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur significant establishment costs[7]. Over time, the WSE can reduce capital expenditure compared to the combined councils as it begins to achieve organisational efficiencies through improved asset management practices and coordinated procurement to deliver the same programme of work. These efficiencies are directly reflected in the WSE's borrowing profile.

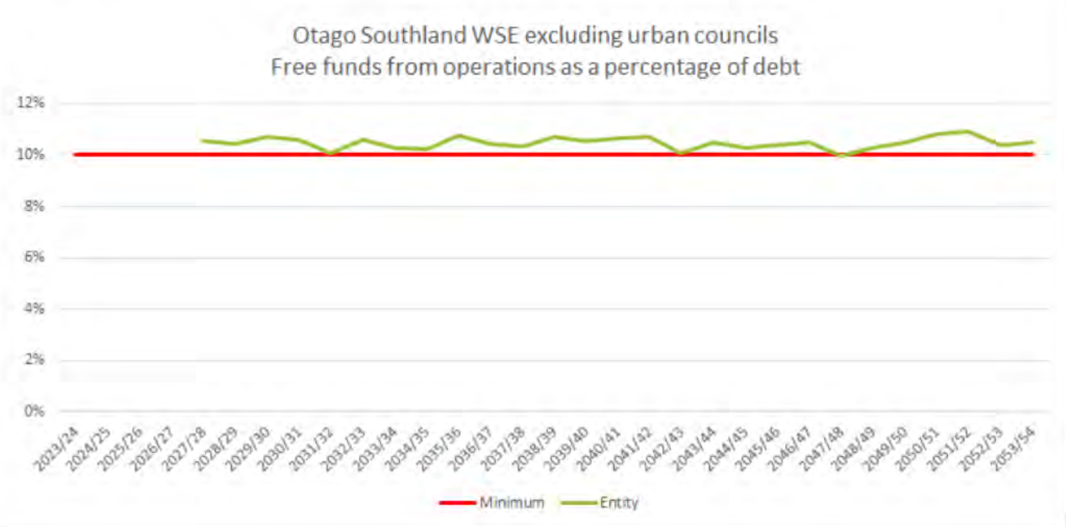


[7] Refer to Appendix One for the modelling assumptions used

30 year borrowing profile

Our modelling assumes that the Otago Southland WSE excluding urban councils will maintain an FFO to debt ratio of 10% over the long term. We note that as the economic regulation regime and the WSE matures, the entity may become even more highly leveraged over time, should it so desire.

The FFO ratio adopted as a benchmark in our reporting is conservative, and we understand that it is likely that LGFA would provide flexibility in lending covenants in the case of an emergency.

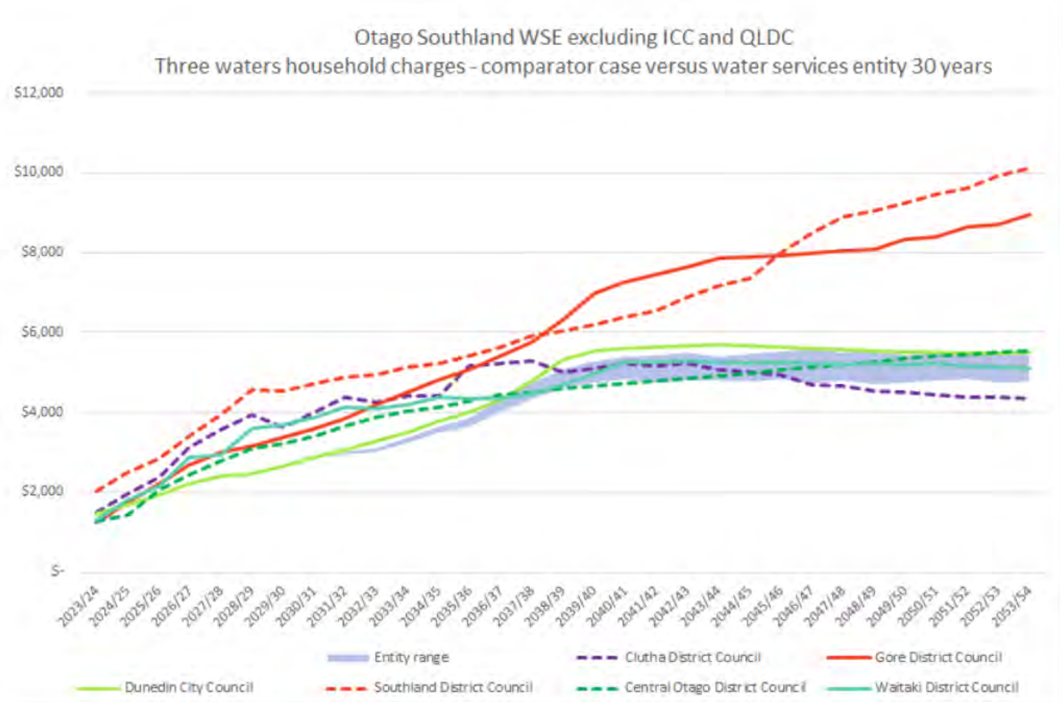


Otago Southland WSE excluding ICC and QLDC

Average household charges

The chart below presents (nominal) average household charges for the base comparator case for each council against the average regional charge for an Otago Southland WSE excluding ICC and QLDC.

The range of charges for the entity is represented by the shaded area behind the chart. The range represents uncertainty regarding costs and benefits of an Otago Southland WSE that excludes ICC and QLDC, and includes an upper range which incorporates double the costs with half the benefits, and a lower range which represents a 50% uplift in available efficiencies (from 13% on capital expenditure and 14% on operating expenditure to 20% on capital expenditure and 21% on operating expenditure).



The charts shows all of the population of the participating council areas having lower household three waters charges over the short term. Over a longer time frame, modelling indicates that household charges for Clutha, Central Otago, Dunedin and Waitaki all fall within, or below, the potential price range for a WSE.

We would caution that while 30 year projections have been developed based on capital programmes contained within each council's infrastructure strategy, cost estimation over this time horizon is highly uncertain.

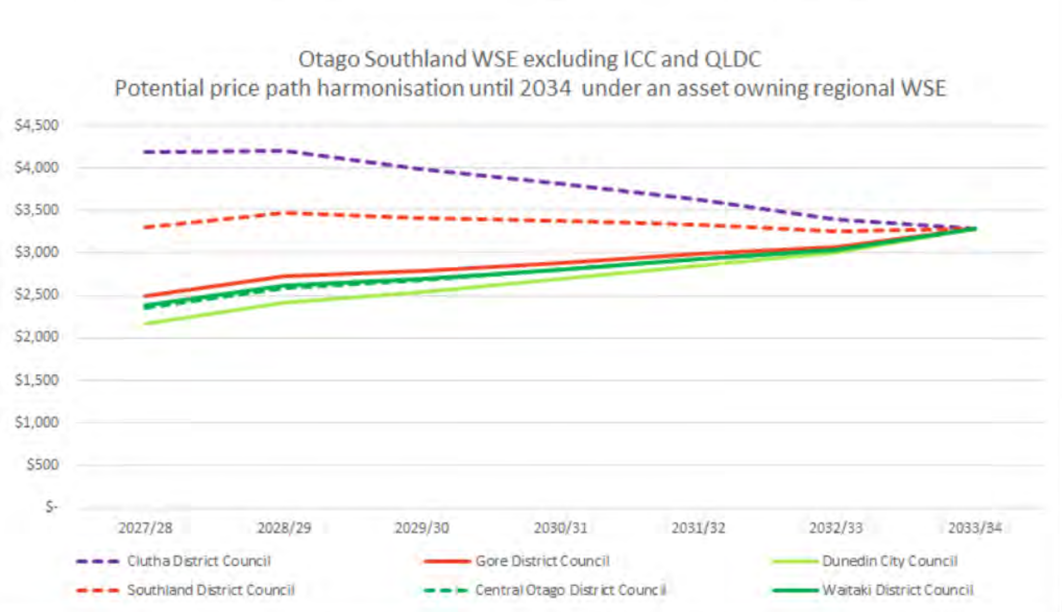
It is likely that an Otago Southland WSE would still be beneficial for water consumers if Invercargill and Queenstown did not take part.

Establishment of an entity under such circumstances would not necessarily mean that Invercargill and Queenstown would need to be excluded indefinitely. We would anticipate any such WSE being designed in such a way as to allow other councils to join at a later date.

Alternatively, such an entity could also provide some shared services to Queenstown and Invercargill, this would provide the entity with additional revenue and scale.

While the Otago Southland WSE price path is presented as an average charge across the combined regions, we note that this price path could instead be harmonised over time (or not at all).

A potential path towards harmonisation of water charges across the participating councils is presented below. The full details of a price path would need to be agreed if a WSE were to be established.

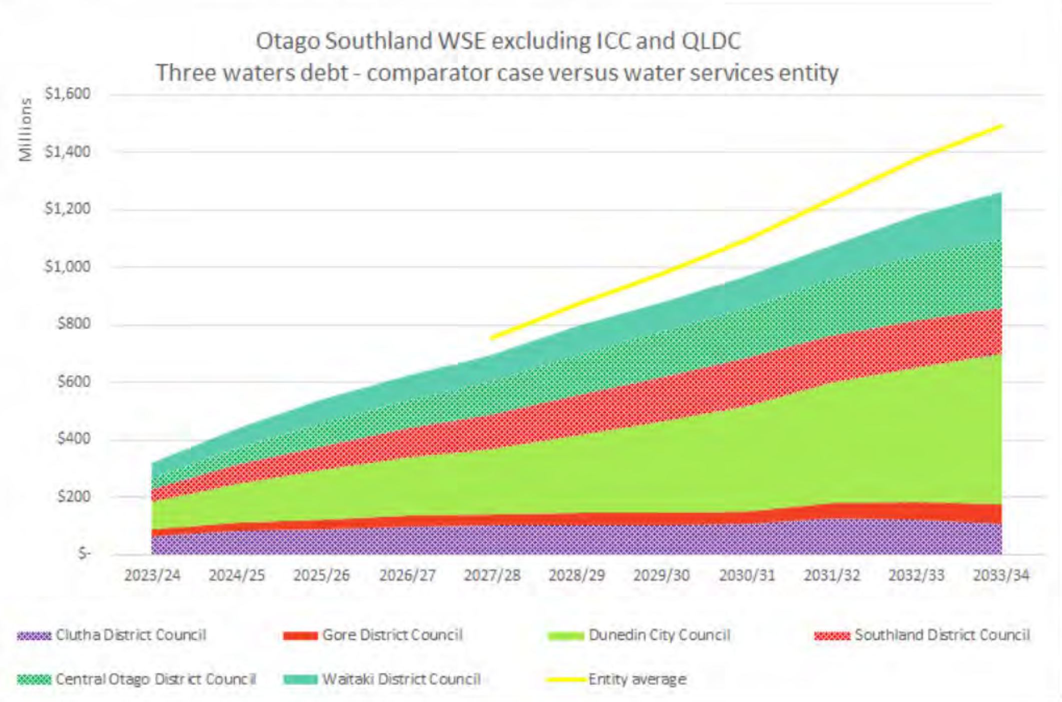


Debt

The chart below shows total Otago Southland WSE debt compared to the combined three waters debt of the participating councils.

The chart is consistent with the Otago Southland WSE in that it utilises higher leveraging than the combined councils. This means that the entity does not need to generate as much additional revenue to support its borrowing requirements.

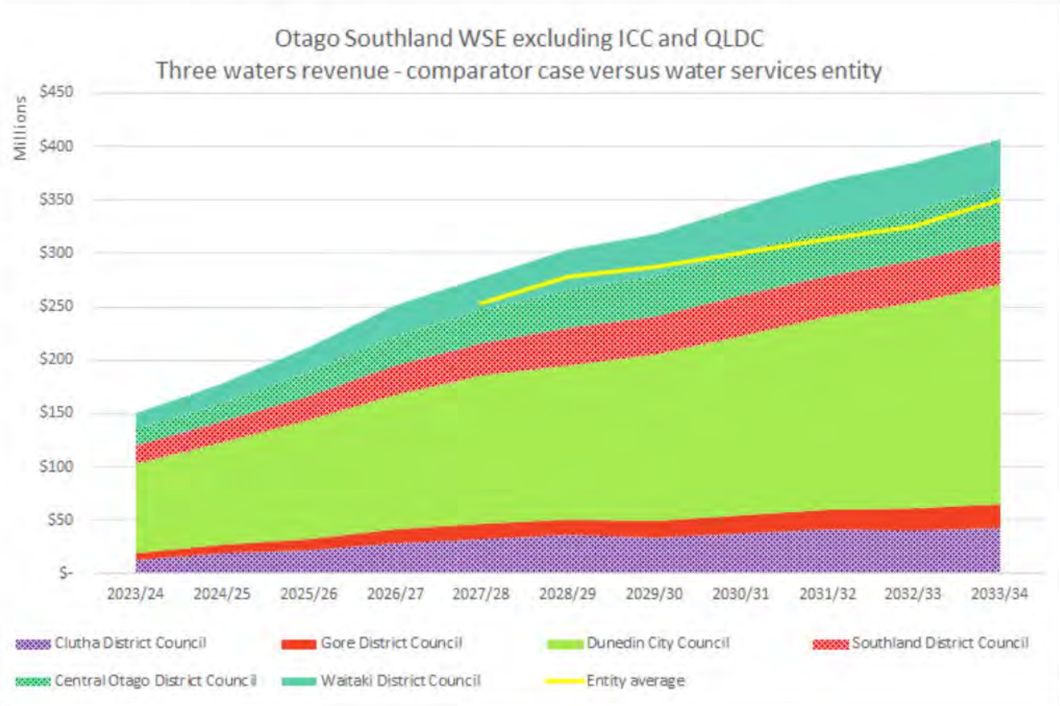
Dunedin contributes the most debt to the combined WSE.



MorrisonLow

Revenue

The chart below shows total revenue for an Otago Southland WSE compared to the combined three waters revenue of the participating councils.

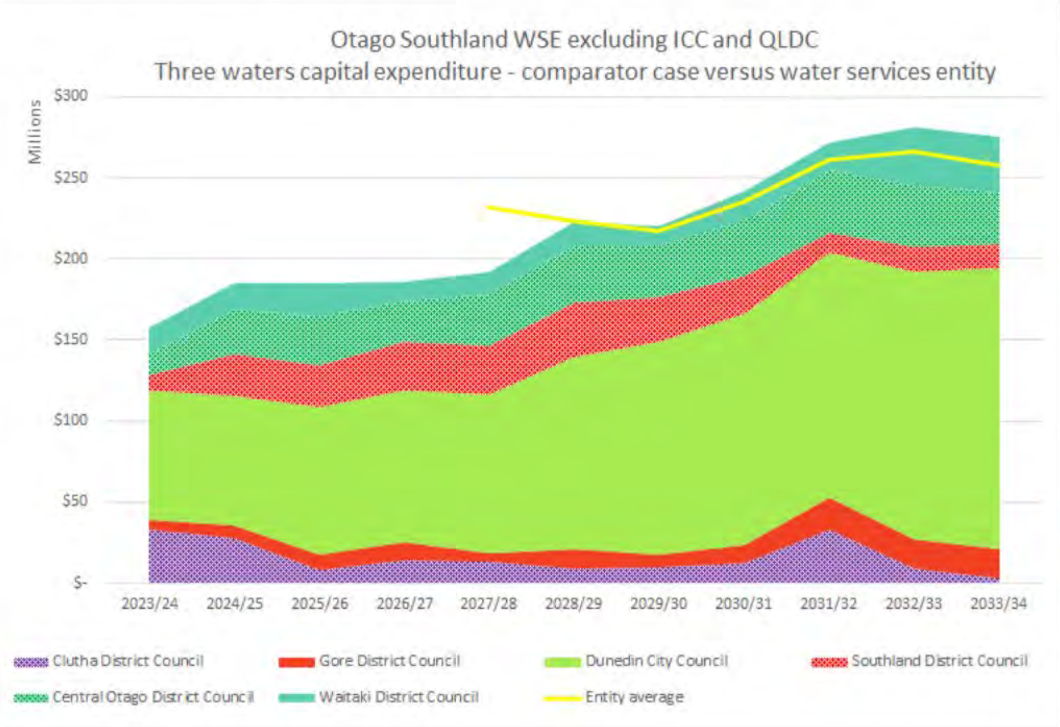


As with the Otago Southland WSE, this WSE is able to leverage its balance sheet to a greater extent than individual councils. This means it is able to reduce its overall revenue requirements to support that debt, reducing charges to consumers compared to individual councils.

Dunedin contributes more than half of the total revenue of the combined councils in this scenario, however the significant reduction in revenue requirements would be shared across all councils proportionally.

Capital expenditure

The chart below shows total capital expenditure for an Otago Southland WSE that excludes Invercargill and Queenstown compared to the combined three waters debt of the participating councils.



As with the Otago Southland WSE presented in the main report, the WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur significant establishment costs[8].

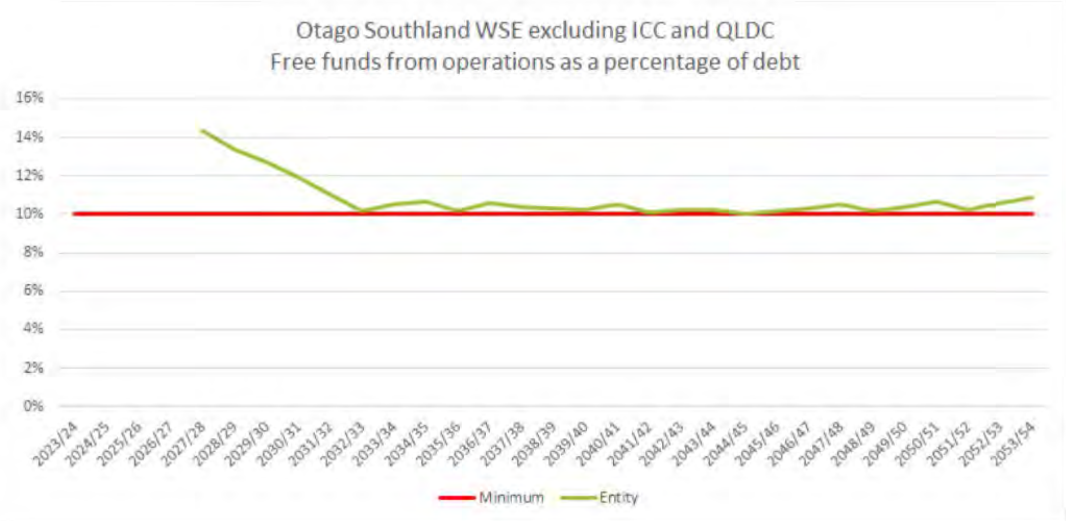
Dunedin contributes more than half the total planned capital works of the combined councils.

[8] Refer to Appendix One for the modelling assumptions used

30 year borrowing profile

Our modelling assumes that the WSE will maintain an FFO to debt ratio of 10% over the long term. We note that as the economic regulation regime and the WSE mature it is possible that the entity may be able to become even more highly leveraged over time, should it so desire.

The FFO ratio adopted as a benchmark in our reporting is conservative, and we understand that it is likely that LGFA would provide flexibility in lending covenants in the case of an emergency.



DUNEDIN CITY COUNCIL
ESTABLISHMENT OF WATER SERVICES DELIVERY – OPTIONS
STRUCTURE OPTION ANALYSIS

SIMPSON GRIERSON

Contents

SIMPSON GRIERSON

BACKGROUND AND KEY FINDINGS

Overview

The Dunedin City Council (**DCC**) is wanting to explore options and entity structures for its water services delivery functions (eg CCOs vs CCTOs vs COs vs Trusts vs shared services etc), and the pros and cons of these.

At present, DCC has control over the city's water infrastructure and networks, overseeing its management from source to tap. DCC manages all water, stormwater, and wastewater services.

Under the government's Local Water Done Well policy, and now in light of the introduction of the Local Government (Water Services Preliminary Arrangements) Bill (**Preliminary Arrangements Bill**), all territorial authorities (which includes DCC) will be required to develop and submit a "Water Services Delivery Plan" (**WSDP**) to the Secretary for Local Government by approximately mid-2025. The Preliminary Arrangements Bill prescribes the content of the WSDPs, and also provides for a streamlined Water Services Council Controlled Organisation (**WSCCO**) establishment process, which is reflected in this document. The powers that will be conferred on this new class of CCO are yet to be determined, and expected to be introduced through a third Bill in late 2024.

This document is intended to assist DCC by outlining options and structures that could be used to deliver all or some of DCC's current water related services, at a local or broader regional level, and which could form part of DCC's proposed WSDP. For completeness, we note that clause 11(1)(j) of the Preliminary Arrangements Bill requires a WSDP to set out the anticipated or proposed model that will be used for delivering water services (including any potential joint arrangement), and so it is implicit that councils will be expected to consider a range of options when developing their WSDPs.

We have outlined below what we consider to be the available options, with associated discussion of relevant considerations and implications. Note that we have considered a number of other options, but dismissed those, and as a result chose not to include them in this document. These included: a Non-CCTO Charitable Trust; a Consumer Trust; a Port Company/Energy Company Model; an Incorporated Society.

Purpose

For the purposes of this advice, we have considered the structuring options set out in the table below. We consider the options described in Options 1 to 3B are most suitable to DCC:

Option 1	In-house – by way of existing, or new department within DCC
Option 2	Shared service arrangement between DCC and other councils
Option 3A	Asset owning Council-controlled organisation (**CCO**) (company), which may be a WSCCO
Option 3B	Management Council-controlled organisation (**CCO**) (company), which may be a WSCCO
Option 4	Non-charitable trust
Option 5	Joint committee
Option 6	Charitable Trust (**CT**)
Option 7	Council-owned company (**COC**)
Option 8	Limited partnership (**LP**)
Option 9	Statutory body

SIMPSON GRIERSON

Note on tax implications

We note that the tax implications may vary depending on the specifics of the structure / option chosen, and we therefore recommend obtaining more detailed tax advice at the relevant time. However, we would expect that it would be preferable for the new entity to be income tax-exempt, so that income tax is not relevant to the entity's future cashflow position and its income tax position does not need to be managed on an ongoing basis.

Under current income tax settings, a CCO or COC (in each case structured as a company) would not be eligible for exemption. Therefore, it may be desirable to include a stand-alone income tax exemption in the legislative amendment package advanced by the government, if there is to be provision for a new type of CCO/COC. For the new WSCCO model, there will be potential to seek legislative amendments in this area through further Bills introduced by the Government to facilitate the Local Water Done Well policy.

Policy arguments in favour of exemption:

- Currently, the relevant water assets and associated revenue streams are not in the income tax base;
- If income tax is not relevant to the new entity's future cashflow position, this is likely to be attractive to potential lenders;
- There is no "competitive neutrality" concern in conferring an income tax exemption, given very limited private sector involvement in water services; and
- Even if the new entity is not tax exempt, it is unlikely to be in an income tax-paying position in the medium or even long-term given its role and functions.

SIMPSON GRIERSON

Executive Summary – Summary of Various Considerations

	OPTION 1: NEW IN-HOUSE DIVISION / SHARED SERVICES	OPTION 2: SHARED SERVICE ARRANGEMENT	OPTION 3A: ASSET OWNING CCO	OPTION 3B: MANAGEMENT CCO	OPTION 4: NON-CHARITABLE TRUST	OPTION 5: JOINT COMMITTEE	OPTION 6: CHARITABLE TRUST	OPTION 7: COC	OPTION 8: LIMITED PARTNERSHIP	OPTION 9: STATUTORY BODY
Ease of implementation	High	Medium	Medium to Low	Medium to Low	Medium to Low	High	Medium to Low	Medium to Low	Medium to Low	Low
Asset Ownership *Is ownership vested in DCC?*	Yes	Yes	Yes	No	No	Yes	No	Contingent on structure	No	?*
Governance efficiency	Medium	Medium to Low	Medium to High	Medium to High	Medium to Low	Medium	Medium to Low	High	High	?*
Independence	Low	Low	Medium to High	Medium	High	Medium	High	High	High	High
Tax efficiency	High	High	Medium to Low	Medium to Low	Medium to Low	High	High	Medium to Low	High	?*

**These factors will be determined by the specific structure or option adopted, or legislation developed to establish the statutory body.*

SIMPSON GRIERSON

OPTION 1: IN-HOUSE – EXISTING OR NEW DEPARTMENT

Overview

- Continue with the status quo approach, or set up a new department in-house to manage the supply of water services to DCC.
- As it would maintain the status quo (in large part), this option will avoid the establishment and compliance costs associated with creating a new, and separate, legal entity.
- Attracts no adverse tax consequences as the water services infrastructure and assets will remain a Council asset, and be subject to the same tax treatment as other Council assets.
- Does not create an independent legal entity, therefore there is vulnerability to political interference.
- Requires that a Nominal Board, or governance / management structure, is provided, which would legally be a part of the Council and will not have separate legal status. As a subordinate decision-making body within DCC, it will be subject to the LGA decision-making regime and LGOIMA, which may impact on its agility and scope to make urgent or focussed decisions. This is particularly so if decision-making engages financial thresholds, or other significance triggers, in which case political accountability and mandate may be required. Note that budget constraints may also exist, as in-house department will be subject to orthodox LTP and Annual Plan cycles.
- Will require DCC officers involved in service delivery to act under delegated authority, which will be sub-delegated to them by the Council's Chief Executive or from the Council as a whole, or Committees of the Council.
- Relies on more layers of Council decision-making than legally independent structures.
- Is less commercial or nimble than other structures due to compliance with LGA decision-making requirements and not being a separate legal entity.

Establishment Process

- DCC would need to decide to establish the business unit, if not already set up. This could be a management decision only, depending on the level of political oversight involved.
- No specific LGA consultation obligations apply, although if Council decisions required, they would need to engage with the standard Part 6 considerations (including section 78, which requires consideration of the views and preferences of interested and affected persons). Given backdrop of three waters reform, there is likely to be a high degree of public interest in the proposal to establish new department and allocate funding (although funding decisions will presumably be progressed through LTP and Annual Plan cycles, or separately).
- Does not require the establishment of a separate legal entity or for the form of constitution to be agreed etc.

Ownership Arrangements

- Does not require formal ownership changes from the status quo.

SIMPSON GRIERSON

Governance Arrangements

- The nominal "board" would be part of the management structure of DCC. Not a formal legal board, but potentially accountability to the CE, Council, or a Committee.
- May create optics issues if it is seen as a DCC arrangement and not a clearly independent agency. This could impact on its ability to be financially separate, if access to debt markets is needed. However, governing arrangements could involve independent "directors" (or outside input) to be appointed to bring some level of independence. In practice, that may be difficult to manage if it comes with a loss of control by DCC itself.
- There could be scope for the in-house department to codify its structure and role, including the extent of its authority and political accountability, and relevant rules / frameworks for operation (eg operational delivery, decision-making, reporting to Council, application of LGOIMA, stakeholder relationships, communications etc).
- Staff (including senior management) would be employed by DCC (with potential secondments).
- The "directors" would not have the usual directors' duties owed specifically to the department (eg under the Companies Act). The scope of their responsibilities (including independence in decision-making) would largely be addressed in employment agreements, job descriptions and potentially in any codified structure.
- The "directors" (managers) would not have D&O insurance coverage. This could be dealt with through the "directors" being provided an indemnity from the host council for all actions undertaken in their role as "directors" of the business unit.

Tax Efficiency

- Operation of the department within tax-exempt, GST-registration should not raise any material adverse tax issues.

Liability Considerations

- Any liability of the department would by default sit with DCC.
- No separation between assets of the department and other assets of DCC, meaning creditors of DCC, which are unrelated to the business of the department, could potentially gain access to underlying assets.

Regulatory Compliance

- LGA decision-making obligations would apply, including LGOIMA (which will lead to some inflexibility for decision-making, and a potential lack of agility).

SIMPSON GRIERSON

OPTION 2: SHARED SERVICE ARRANGEMENT BETWEEN DCC AND OTHER COUNCILS (CONTRACTING MODEL)

Overview

- Relies on existing DCC departments, structures and officers, and provides for the entering of contracts for the delivery / management of all or part of the supply of water services for other territorial authorities.

- This option will avoid the establishment and compliance costs associated with creating a separate legal entity. However, costs incurred in formulating and entering contracts to support shared arrangement.

- Attracts no adverse tax consequences as the water services infrastructure and assets will remain a Council asset, and subject to the same tax treatment as other Council assets.

- Does not create an independent legal body, therefore there is vulnerability to political interference – by more than 1 council.

- Requires that a Nominal Board, or governance / management structure, is provided, which would legally be a part of DCC and will not have separate legal status.

- As a subordinate decision-making body, it will be subject to the LGA decision-making regime and LGOIMA, which may impact on its agility and scope to make urgent or focussed decisions. This is particularly so if decision-making engages financial thresholds, or other significance triggers, in which case political accountability and mandate may be required. Note that budget constraints may also exist, as in-house department will be subject to orthodox LTP and Annual Plan cycles of the participating councils.

  Will require the officers involved in service delivery to act under delegated authority, which will be sub-delegated to them.

- Relies on more layers of Council decision-making than legally independent structures.

- Is less commercial or nimble than other structures due to compliance with LGA decision-making requirements and not being a discrete legal entity.

- Potential commercial / contracting challenges due to political oversight by more than one territorial authority, with possible difficulties in ring-fencing funding due to funding cycles. Lead authority (ie. DCC) may not have any real ability to influence funding decisions, as could be seen to be acting in own interests, rather than that of the other territorial authority – particularly if shared service arrangement is a profit generating activity for DCC.

- Potential to transfer responsibility for water services under section 17 of the LGA, with broad scope to determine terms of transfer. However, consultation required before doing so, and if the arrangement is not a complete transfer and instead a "joint local government arrangement" under section 137 of the LGA, then consultation in accordance with Part 6 of the LGA is required.

Establishment Process

- DCC and other participating councils would need to decide to establish a shared service model, and then agree relevant contract terms.

- No specific LGA consultation obligations apply for a contract model only, but if there is to be any transfer of responsibilities or establishment of a joint local government arrangement (as defined, which is likely to be the case), then consultation will be required by either section 17 or 137 of the LGA. This would involve the standard Part 6 decision-making considerations (including section 78, which requires consideration of the views and preferences of interested and affected persons).

SIMPSON GRIERSON

- If a transfer of responsibilities is contemplated, then the relevant councils will need to be satisfied that the decision satisfies the considerations in section 17(4) and (4A).

- In relation to any consultation, given backdrop of three waters reform, there is likely to be a high degree of public interest in any proposal to form a shared arrangement, or delivery any service on behalf of another local authority – or accept that another local authority can take over delivery and use of allocated funding.

- Creates a similar timing and cost to set up as Option 3, but there are no specific consultation obligations.

- Does not necessarily require the establishment of a separate legal entity or for the form of constitution to be agreed etc. Although, depending on the agreements reached, potential that a new entity may be more effective / efficient, and provide a better governance framework (ie. CCO, which is not subject to the same restrictions under section 12(4) as a territorial authority.

- Depending on extent and value of contracts, procurement issues may arise (ie. will participating council need to go to market, rather than direct procuring with DCC).

Ownership Arrangements

- Does not require formal ownership changes from the status quo.

- While assets will remain in separate ownership, potential challenges in terms of ring-fencing funding – as participating councils will need to demonstrate that they are financially sustainable on their own. Depending on the services that are to be contracted out, ring-fencing will need to be separated between wastewater, drinking water and stormwater.

- If DCC were to determine that the funding allocated by a participating council to a particular service is insufficient, then this could lead to political pressure, pressure to cross-subsidise, or a risk of contract challenges. Overall, without any standalone entity, all participating councils will be subject to the usual LGA decision-making framework, and expected to make decisions that benefit their own districts rather than others that are participating in the shared arrangement.

Governance Arrangements

- The nominal "board" would be part of the management structure of DCC, and potentially (subject to contract terms) other participating councils. Not a formal legal board, but potentially accountability to the CE, Council, or a Committee.

- May create optics issues if it is seen as a DCC arrangement only, as opposed to a standalone delivery vehicle. This could be a particular concern for participating councils (that are not DCC), if there is a perception that DCC is benefitting – on a contractual basis - from ring-fenced funding generated by the participating councils, and not investing all of that funding into the participating councils' network.

- These optics issues could be resolved if a layer or independent "directors" (or alternative outside input) could be involved, and appointed to bring some level of independence into decision-making made by DCC (as the lead authority). In practice, that may be difficult to manage if it comes with a loss of control by DCC itself over its own resource management.

- There could be scope to document the shared service structure, role and terms through any contract, which could capture and address governance, the extent of its authority, political accountability (and reporting), and relevant rules / frameworks for operation (eg operational delivery, decision-making, application of LGOIMA, stakeholder relationships, communications etc).

- Staff (including senior management) would be employed by DCC (with potential secondments from participating councils).
- The "directors" would not have the usual directors' duties owed specifically to the department (eg under the Companies Act). The scope of their responsibilities (including independence in decision-making) would largely be addressed in employment agreements, job descriptions and potentially in any documented contractual structure and terms.
- The "directors" (managers) would not have D&O insurance coverage. This could be dealt with through the "directors" being provided an indemnity from the host council for all actions undertaken in their role as "directors" of the business unit.

Tax Efficiency

- Operation of the shared services arrangement within tax-exempt, GST-registration should not raise any material adverse tax issues. Only question is whether DCC would consider the contracting model to be profit generating, in which case tax implications may arise.

Liability Considerations

- Any liability issues would need to be addressed in contract terms, but likely to sit with councils separately.

Regulatory Compliance

- LGA decision-making obligations would apply including LGOIMA (which will lead to some inflexibility for decision-making, and a potential lack of agility).

SIMPSON GRIERSON

OPTION 3A: ASSET OWNING CCO (COMPANY)

Note that we have considered whether this option could be a WSCCO, or CCO, but without any further detail regarding the potential powers of a WSCCO under future legislation.

Overview

- Establish a CCO company to perform full breadth of water services. In doing so, Option 3A vests ownership of all water assets, revenues & liabilities in the new CCO, similar to the Watercare model.
- A CCO company is a well-known structure within local government. Provides for a more commercially oriented focus, but with flexibility to operate on a break-even basis.
- Will see the ownership of the water assets, revenue and liabilities transferred to the new CCO.
- Asset ownership will allow for a more diversified approach to financing when compared with a Management CCO (see Option 3B), spreading the financial burden and associated risks across commercial financial institutions. CCOs may have more opportunities for innovation and revenue generation, potentially leading to increased income and cost efficiencies.
- Increased efficiency when compared to a Management CCO, as the Council will not be required to delegate and provide resources to manage the CCO. Instead, the responsibility for establishing an efficient operating structure will sit within the asset owning CCO itself.
- An asset-owning CCO, governed by a board with specialised expertise, would be positioned to operate with efficiency and professionalism. This structure may facilitate more effective strategic and operational decision-making than a model solely managed by DCC.
- Will provide for more agile decision-making than Option 1, as it is not subject to full breadth of LGA requirements, and is largely independent which reduces political interference, and internal decision-making delays.
- While maintaining a commitment to public service goals, a full asset-owning CCO can pursue more commercially oriented objectives. This approach focuses on optimising asset utilisation and income generation, with the potential for reinvestment in certain services and infrastructure.
- CCOs specialising in asset ownership are typically more adept at long-term strategic management of assets. This capability includes informed decision-making regarding maintenance, upgrades, and expansions to cater to future community requirements.
- An asset owning CCO also entails transferring certain risks away from the Council. CCOs typically have greater agility in responding to market fluctuations and managing operational risks. An asset-owning CCO can more effectively balance commercial and community interests, ensuring that provided services and facilities align with local needs and expectations.
- Operating under specific governance and regulatory frameworks, CCOs can achieve higher levels of compliance and operational transparency.
- As a legal entity, it would have clear status to contract and enter into employment relationships in its own name.
- Does not allow for income tax exemption.
- This option can also be varied to accommodate participation from other Councils, as shareholders of the CCO, or as councils that may benefit (by contract) from the services provided by the CCO. Participating Councils could

SIMPSON GRIERSON

become shareholders in the CCO, or a "joint local government arrangement" (JLGA) could be entered into.

Establishment Process

- A constitution (and shareholders agreement, if applicable) must be agreed.
- Incorporation of a company, statement of intent (SOI), and tax registrations etc will also be required.
- The Bill proposes legislative amendments that will streamline consultation requirements, so that a WSCCO and the status quo can be consulted on alone, rather than other options.
- Without these legislative amendments, the Council must consult on:
  - the proposal to transfer three waters infrastructure to the new CCO (in the context of a proposed new or amended LTP which explicitly provides for that) (section 17);
  - the establishment of the new CCO (section 56); and
  - the proposal to enter into a JLGA (section 137).
- Once consultation has been carried out and DCC's LTP explicitly provides for the transfer of three waters infrastructure assets, or part thereof, to any new CCO (as required by section 97, LGA), DCC can make the necessary decisions and proceed with implementing the new CCO Proposal.
- Implementing the proposal will require DCC to agree a number of matters, including:
  - a shareholders' (or equivalent) agreement between the participating councils, to govern their relationship with each other in relation to the new CCO. This could involve establishing a formal decision-making body (such as a joint committee) for this purpose;
  - the constitution of new CCO;
  - a policy on the appointment of directors to new CCO;
  - the persons to be appointed directors of new CCO. This appointment should follow the process in the policy and take into account the requirements in section 57(2) and (3) of the LGA;
  - a draft statement of intent (SOI) for new CCO. The SOI will be formally adopted by new CCO itself once it is established, following the process in Schedule 8 of the LGA;
  - if desired, a statement of expectations for new CCO;
  - documentation transferring three waters undertaking from the participating Councils to new CCO; and
  - a draft agreement for the provision of three water services between Councils and new CCO.

Ownership Arrangements

- Shareholders of new CCO, and their respective shareholding proportions, would need to be confirmed. This could be limited to DCC, or involve other territorial authorities or other parties.

Governance Arrangements

- Independent formal board with flexible board appointment arrangements.
- Clear accountability and oversight arrangements (accountable to all shareholders, including through SOI and other CCO reporting/accountability provisions of the LGA).
- An asset-owning CCO, governed by a board with specialised expertise, would be positioned to operate efficiency. This structure facilitates more effective strategic and operational decision-making than a model solely managed by the Council.

SIMPSON GRIERSON

- Executives (and other staff) employed by CCO (not directly connected to the Council).
- Directors will owe duties to the CCO (including under the Companies Act 1993).

Tax Efficiency

- A preference for the new entity may be for it to be income tax-exempt, so that income tax is not relevant to the entity's future cashflow position and its income tax position does not need to be managed on an ongoing basis. However, under current income tax settings, an asset owning CCO (structured as a company) would not be eligible for exemption, and would be liable for company tax.
- Despite not being eligible for income tax exemption, if the new CCO will be operating at breakeven, income tax should not be a material issue.
- GST registration (if the new CCO has a taxable activity for GST purposes) preferable to recover GST content of costs.

Liability Considerations

- The liability will be with the CCO itself, as well as its directors and officers (rather than Council elected members and officers).
- Shifting assets to a CCO also entails transferring certain risks away from DCC. CCOs typically have greater agility in responding to market fluctuations and managing operational risks.
- Separate legal identity will mean assets of the CCO are not accessible to DCC's creditors.
- It would be relatively straightforward to provide for appropriate protections for liability for those people in governance roles (eg the directors of the CCO) and operational roles (being employees or contractors).
- For the directors of the CCO, it would be possible for the CCO to put in place suitable directors' liability insurance, which would effectively provide to the directors the same level of indemnity that section 43 of the LGA provides to elected members of local authorities.
- For employees (operational roles), the CCO could contractually provide them with a suitable indemnity (and then also provide for relevant officials' indemnity insurance). Indemnity for contractors to the CCO could be dealt with through contract (ie requiring contractors to have their own suitable insurance/indemnity cover).
- Shareholders would not have any liability for the obligations of the CCO.

Regulatory Compliance

- Operating under specific governance and regulatory frameworks, CCOs can achieve higher levels of compliance and operational transparency.
- Must comply with LGA restrictions relating to the provision of water services. Subpart 2 of Part 7 of the LGA contains obligations and restrictions relating to the provision of water services, including restrictions on contracting out and divesting water services.
- We do not consider that the new CCO proposal is contrary to the LGA provisions noted above. In particular:
    - the prohibition on divesting water services assets does not apply to transfer to a "local government organisation", a category which includes local authorities and CCOs providing water services, such as the new CCO;

SIMPSON GRIERSON

- there is a requirement to "not lose control of, sell, or otherwise dispose of the significant infrastructure necessary for providing water services...unless, in doing so, [the local authority] retains its capacity to meet its obligations" however this can be satisfied through appropriate contractual terms in the agreement between the Council and the new CCO;
- section 136 of the LGA, which limits the duration and some terms of contracts relating to the provision of water services, does not limit contracts solely between local government organisations; and
- under section 137 of the LGA, the arrangements between the Council and new CCO would be a "joint local government arrangement" (JLGA) (rather than a "joint arrangement"). A JLGA may be for any term, and there are no other relevant restrictions in section 137. The only requirement is that there be prior consultation before entering into the JLGA.

- Likely to meet DIA expectations and be more straightforward from a funding perspective (as a stand-alone entity). Introduction of WSCCO through the Bill supports this view. Note also the relevance of recent Watercare announcements, and the importance of maintaining a close watch on legislative announcements to determine what is required for full balance sheet separation, financial separation and powers conferred on the new WSCCO model.

SIMPSON GRIERSON

OPTION 3B: MANAGEMENT CCO (COMPANY)

Note that we have considered whether this option could be a WSCCO, or CCO, but without any further detail regarding the potential powers of a WSCCO under future legislation.

Overview

- Establish a separate CCO company to manage and deliver water services.
- A CCO company is a well-known structure within local government.
- Ownership of the water assets will remain with DCC. Management of water assets will be delegated to the management CCO by DCC.
- May entail certain financing restrictions, such as only being able to borrow from or through DCC (and its financing vehicles).
- A company structure provides for a more commercially oriented focus, but with flexibility to operate on a break-even basis.
- Will provide for more agile decision-making than Option 1, as it is not subject to full breadth of LGA requirements.
- More independent decision-making authority than Option 1, which will reduce political interference, and internal decision-making delays. However, a full asset owning CCO, described in Option 3A, will have broader and more flexible decision-making authority.
- As a legal entity, it would have clear status to contract and enter into employment relationships in its own name.
- Does not allow for income tax exemption.
- Can be varied to accommodate different levels of independence and asset ownership. For example, the Wellington Water structure, where a Council owned company (not a CCO) performs certain water services (ie plan, design, operate, maintain the Council's water services). Refer to COC option, Option 7.
- This option can also be varied to accommodate participation from other Councils, to share services in a similar way to Option 2. Participating Councils could become shareholders in the CCO, or a "joint local government arrangement" (**JLGA**) could be entered into.

Establishment Process

- A constitution (and shareholders agreement, if applicable) must be agreed.
- Incorporation of a company, statement of intent (SOI), and tax registrations etc will also be required.
- The Bill proposes legislative amendments that will streamline consultation requirements, so that a WSCCO and the status quo can be consulted on alone, rather than other options.
- Without these legislative amendments, the Council must consult on:
  - the proposal to transfer three waters infrastructure to the new CCO (in the context of a proposed new or amended LTP which explicitly provides for that) (section 17);
  - the establishment of the new CCO (section 56); and
  - the proposal to enter into a JLGA (section 137).
- Once consultation has been carried out and DCC's LTP explicitly provides for the transfer of three waters infrastructure assets, or part thereof, to any new

CCO (as required by section 97, LGA), DCC can make the necessary decisions and proceed with implementing the new CCO Proposal.

- Implementing the proposal will require DCC to agree a number of matters, including:
  - a shareholders' (or equivalent) agreement between the participating councils, to govern their relationship with each other in relation to the new CCO. This could involve establishing a formal decision-making body (such as a joint committee) for this purpose;
  - the constitution of new CCO;
  - a policy on the appointment of directors to new CCO;
  - the persons to be appointed directors of new CCO. This appointment should follow the process in the policy and take into account the requirements in section 57(2) and (3) of the LGA;
  - a draft statement of intent (SOI) for new CCO. The SOI will be formally adopted by new CCO itself once it is established, following the process in Schedule 8 of the LGA;
  - if desired, a statement of expectations for new CCO;
  - documentation transferring three waters undertaking from the participating Councils to new CCO; and
  - a draft agreement for the provision of three water services between Councils and new CCO.

Ownership Arrangements

- Given ownership of water assets will remain with DCC, the management CCO would be a wholly owned subsidiary of DCC.

Governance Arrangements

- Independent formal board with flexible board appointment arrangements.

- Reduced decision-making when compared to a full asset owning CCO. The board would be limited to the powers delegated to the CCO by DCC.

- Executives (and other staff) employed by CCO (not directly connected to the Council), or alternatively can be seconded to management CCO from Council.

- Directors will owe duties to the CCO (including under the Companies Act 1993).

Tax Efficiency

- A preference for the new entity may be for it to be income tax-exempt, so that income tax is not relevant to the entity's future cashflow position and its income tax position does not need to be managed on an ongoing basis. However, under current income tax settings, a management CCO (structured as a company) would not be eligible for exemption, and would be liable for company tax.

- Despite not being eligible for income tax exemption, if the management CCO will be operating at breakeven, income tax should not be a material issue.

- GST registration (if the CCO has a taxable activity for GST purposes) preferable to recover GST content of costs.

Liability Considerations

- The liability will be with the CCO itself, as well as its directors and officers (rather than Council elected members and officers).

- This option entails higher liability risks for DCC when compared to a full asset owning CCO, as a result of DCC's continued water asset ownership.

SIMPSON GRIERSON

- It would be relatively straightforward to provide for appropriate protections for liability for those people in governance roles (eg the directors of the CCO) and operational roles (being employees or contractors).

- For the directors of the CCO, it would be possible for the CCO to put in place suitable directors' liability insurance, which would effectively provide to the directors the same level of indemnity that section 43 of the LGA provides to elected members of local authorities.

- For employees (operational roles), the CCO could contractually provide them with a suitable indemnity (and then also provide for relevant officials' indemnity insurance). Indemnity for contractors to the CCO could be dealt with through contract (ie requiring contractors to have their own suitable insurance/indemnity cover).

- Shareholders would not have any liability for the obligations of the CCO.

Regulatory Compliance

- Operating under specific governance and regulatory frameworks, CCOs can achieve higher levels of compliance and operational transparency.

- Must comply with LGA restrictions relating to the provision of water services. Subpart 2 of Part 7 of the LGA contains obligations and restrictions relating to the provision of water services, including restrictions on contracting out and divesting water services.

- We do not consider that the CCO proposal is contrary to the LGA provisions noted above. In particular:
  - the prohibition on divesting water services assets does not apply to transfer to a "local government organisation", a category which includes local authorities and CCOs providing water services, such as the new CCO;
  - there is a requirement to "not lose control of, sell, or otherwise dispose of the significant infrastructure necessary for providing water services...unless, in doing so, [the local authority] retains its capacity to meet its obligations" however this can be satisfied through appropriate contractual terms in the agreement between the Council and the new CCO;
  - section 136 of the LGA, which limits the duration and some terms of contracts relating to the provision of water services, does not limit contracts solely between local government organisations; and
  - under section 137 of the LGA, the arrangements between the Council and CCO would be a "joint local government arrangement" (JLGA) (rather than a "joint arrangement"). A JLGA may be for any term, and there are no other relevant restrictions in section 137. The only requirement is that there be prior consultation before entering into the JLGA.

- Likely to meet DIA expectations and be more straightforward from a funding perspective (as a stand-alone entity). Introduction of WSCCO through the Bill supports this view. Note also the relevance of recent Watercare announcements, and the importance of maintaining a close watch on legislative announcements to determine what is required for full balance sheet separation, financial separation and powers conferred on the new WSCCO model.

SIMPSON GRIERSON

OPTION 4: NON-CHARITABLE TRUST (NON-CCO)

Overview

- Creates an independent legal entity, established through a trust deed with the power to own, hold and operate the relevant assets.
- Some or all trustees could be appointed by DCC (subject to the point below re CCO level of control).
- Allows a non-charitable trust to distribute profits for non-charitable purposes.
- Not subject to LGA framework, potential to provide for more agility in decision making.
- Could be varied to be a Non-charitable Trust CCO. If DCC has the right to appoint 50% or more of the trustees, the Trust would be a CCO (meaning LGA accountability measures, like the statement of expectations and statement of intent, would apply). DCC would have more control over Trust decision-making.
- The trust deed would set out the basis on which the Trust would operate, and the powers of its trustees. If establishing a non-CCO Trust, the trust deed will need to be carefully drafted to ensure the entity does not become a CCO.
- A legal entity under Option 4 would have clear status to contract and enter into employment relationships in its own name.
- The Non-CCO trust could be taxable but operate at breakeven.
- Not incorporated under the Charities Act.
- Option 4 offers a very familiar structure, which is easy for the public to understand.
- Option 4 does not allow for tax exemption (unless an exemption is granted).

Establishment process

- Creates no specific LGA consultation obligations in relation to establishment, although the establishing councils would be subject to standard Part 6, LGA decision-making requirements.
- As not a CCO, not subject to LGA CCO establishment and reporting/accountability framework. Essentially a private arrangement.
- Standard trust would require trust deed executed by initial trustees, incorporation of board, tax registrations etc.
- Trust deed (in particular, trustee appointment arrangements) would need to be tailored to ensure trust is not, and does not become, a CCO.

Ownership Arrangements

- Would be independent (by definition not "controlled" by DCC), but can involve the council appointees.
- Independent formal board of trustees with flexible board appointment arrangements.
- Accountability and transparency obligations would need to be drafted into the trust deed (or other documentation).
- Staff would either be employed by a council (with potential secondments to the trust etc) or by the entity.

- There may be potential issues with the transfer of assets to Trust, and it is important to either ensure enduring LGA compliance (re water services obligations), or remove / soften those requirements. It is likely that there will be some LGA decision-making requirements to satisfy, and provision for transfer in LTP (unless streamlined by legislative amendments).

Governance arrangements

- Would be independent (by definition, not "controlled" by DCC) but can involve the council appointees.
- Independent formal board of trustees with flexible board appointment arrangements.
- Accountability and transparency obligations would need to be drafted into the trust deed (or other documentation).
- Staff would either be employed by a council (with potential secondments to the trust etc) or by the trust directly.

Tax Efficiency

- Not eligible for tax exemption, unless an exemption is granted. A charitable trust structure would be eligible for a tax exemption (Option 6).

Liability Considerations

- Non-CCO trust would be a separate legal entity and would be able to separately contract (for staff, support, etc) in its own name.
- Stakeholders would not have any liability for the obligations of the entity.
- Trustees will be subject to typical trustee duties and exposures.

Regulatory Compliance

- Local government legislation would not apply (or may be limited to LGA "council organisation" provisions).
- Likely to meet DIA expectations and be straightforward from a funding perspective (as a stand-alone entity).

OPTION 5: JOINT COMMITTEE UNDER THE LGA (SHARED SERVICES)

Overview

- Establish a joint committee between participating councils to own, operate and manage the water assets and services.
- This option would be subject to the LGA framework, and will require at least one member to be an elected member of the relevant local authorities.
- Will not afford separate legal status, therefore no ability to enter into contracts as standalone legal entity.
- Some elements of independence, however ultimately accountable to member councils.
- This option is largely a modified version of Options 1 and 2, utilising similar in-house structures and arrangements, but with multiple councils involved in governance (rather than by management, or through a contract / management).

Establishment Process

- There are no specific LGA consultation obligations, although the establishing councils would be subject to standard Part 6 decision-making obligations (including under section 78 the requirement to consider views and preferences of interested and affected persons).
- Given the backdrop of three waters reform, there is likely to be a heightened degree of public interest in the proposal to establish new joint committee, and any decisions to allocate funding.
- Joint committee agreement required (requirements in clause 30A Schedule 7 LGA). This agreement could delegate responsibility for management of some or all water services to one council.

Ownership Arrangements

- No formal ownership. An unincorporated committee of DCC, or, if sharing services, with the participating local authorities.
- The Joint Committee Agreement could provide for joint ownership in the water assets (in differing proportions as required).

Governance Arrangements

- The "board" would be part of the host council, as opposed to being a formal board.
- Optics issues may arise if seen as a host council arrangement (not all councils) and not a clearly independent agency.
- Joint Committee Agreement would need to address the role of the board, including the scope of its authority, and set out all its rules for operation (eg membership, remuneration, meetings, voting, application of LGOIMA, reporting, stakeholder relationships, communications etc).
- Joint Committee Agreement could cater for "reserved matters" that would require unanimous consent from participating Councils.
- Staff (including Chief Executive) would be employed by host council (with potential secondments etc).
- The "directors" of the business unit would not have the usual directors' duties (eg under the Companies Act). The scope of their responsibilities (including

independence in decision-making) will need to be dealt with in the terms of reference.

- The "directors" would not have D&O insurance coverage. This could be dealt with through the "directors" being provided an indemnity from the host council for all actions undertaken in their role as "directors" of the business unit.

Tax Efficiency

- Operation of committee within tax-exempt, GST-registered "host" council should not raise any material adverse tax issues.

Liability Considerations

- Typically, any liability of the business unit would by default sit with the host council. However, the Joint Committee Agreement could provide that Councils be jointly liable up to their respective ownership proportions for liabilities relating to the water assets.

Regulatory Compliance

- LGA decision-making obligations would apply, including LGOIMA (which will lead to some inflexibility for decision-making, and a potential lack of agility).

SIMPSON GRIERSON

OPTION 6: CHARITABLE TRUST (NON-CCO)

Overview

- An independent legal entity, established through a trust deed with the power to own, hold and operate the relevant assets.
- Charitable trust is also a well-known model and may be positive from an optics perspective.
- Some or all trustees could be appointed by DCC.
- Not subject to LGA framework, potential to provide for more agility in decision making.
- This option could be varied to be a Charitable Trust CCO. If DCC has the right to appoint 50% or more of the trustees, the Trust would be a CCO (meaning LGA accountability measures, like the statement of expectations and statement of intent, would apply). DCC would have more control over Trust decision-making.
- The trust deed would set out the basis on which the Trust would operate, and the powers of its trustees. If establishing a non-CCO Trust, the trust deed will need to be carefully drafted to ensure the entity does not become a CCO.
- As a legal entity, would have clear status to contract and enter into employment relationships in its own name.
- A Non-CCO charitable trust could be taxable but operate at breakeven, or might instead be tax-exempt as either a local/regional promotion body or (if Charities Act registered) as a tax charity.
- Charitable trust structure may be beneficial from an optics perspective.
- All profits would need to be used for charitable purposes.

Establishment Process

- No specific LGA consultation obligations in relation to establishment, although the establishing councils would be subject to standard Part 6, LGA requirement (including under section 78 the obligation to consider the views and preferences of interested and affected persons).
- As it is not a CCO, it is not subject to LGA CCO establishment and reporting/accountability framework. Essentially a private arrangement.
- Standard charitable trust/incorporated board of trustees would require trust deed to be executed by initial trustees, incorporation of board, tax registrations etc
- Trust deed (in particular, trustee appointment arrangements) would need to be tailored to ensure trust is not, and does not become, a CCO.

Ownership Arrangements

- Initial trustees and ongoing trustee appointment arrangements would need to be confirmed.
- Would need to involve non-Council stakeholders as "controlling" parties (appointing the majority of trustees or controlling the body that appoints trustees), to ensure that the trust is not a CCO.

Governance Arrangements

- Would be independent (by definition not "controlled" by DCC), but can involve the council appointees.

SIMPSON GRIERSON

- Independent formal board of trustees with flexible board appointment arrangements.
- Accountability and transparency obligations would need to be drafted into the trust deed (or other documentation).
- Staff would either be employed by a council (with potential secondments to the trust etc) or by the entity.

Tax Efficiency

- Non-CCO Charitable Trust could be taxable but operate at breakeven or might instead be tax-exempt as either a local/regional promotion body or (if Charities Act registered) as a tax charity.
- GST registration (if the trust has a taxable activity for GST purposes) preferable to recover GST content of costs, and charitable (non-profit body) status may assist with this but may not be a material issue.

Liability Considerations

- Non-CCO trust would be a separate legal entity and would be able to separately contract (for staff, support, etc) in its own name.
- Stakeholders would not have any liability for the obligations of the entity.
- Trustees will be subject to typical trustee duties and exposures.

Regulatory Compliance

- Local government legislation would not apply (or may be limited to LGA 'council organisation' provisions).
- Likely to meet DIA expectations and be straightforward from a funding perspective (as a stand-alone entity).
- Would be subject to regulatory framework applicable to charitable trusts.

SIMPSON GRIERSON

OPTION 7: COUNCIL OWNED COMPANY (COC)

Overview

- Establish a legally separate COC to perform full breadth of water services, including ownership of all water assets, revenues & liabilities.
- A COC would not be controlled by DCC. Under this option, DCC cannot hold a majority stake in the entity (or have control rights consistent with having a majority stake).
- Reduced oversight by Council, which enables the COC to have more independence and certainty over its investment plan. This would enable the entity to deliver an optimised network turnaround strategy and one of the features necessary to keep debt off councils' balance sheets.
- Ownership of the water assets, revenues and liabilities transferred to new COC.
- Not eligible for income tax exemption.

Establishment Process

- Constitution (and shareholders' agreement, if applicable) must be agreed.
- Incorporation of company, statement of intent (SOI), and tax registrations etc will be required.

Ownership Arrangements

- Shareholders would need to be confirmed.
- To avoid being a CCO, no council will be able to have control of the entity.
- Query whether other owners could be involved, ie the Crown.

Governance Arrangements

- Similar to a CCO, however potential for more reduced council oversight that can enable more independence and certainty over investment decisions.
- Independent formal board with flexible board appointment arrangements.
- Clear accountability and oversight arrangements (accountable to all shareholders).
- Executives (and other staff) employed by COC and therefore independent of the Council.
- Accountability requirements potentially less, including application of LGOIMA.
- Potential for Council appointment processes, but no strict requirement for ongoing performance monitoring and reporting (under Part 5, LGA).

Tax Efficiency

- A preference for the new entity may be for it to be income tax-exempt, so that income tax is not relevant to the entity's future cashflow position and its income tax position does not need to be managed on an ongoing basis. However, under current income tax settings, a CCO or COC (in each case structured as a company) would not be eligible for exemption.

Liability Considerations

- The Council/shareholders would not have any liability for the obligations of the entity.

SIMPSON GRIERSON

Regulatory Compliance

- Likely to meet DIA expectations and be more straightforward from a funding perspective (as a stand-alone entity, that is not a CCO).
- Would be subject to new regulatory regime that is to be established via Commerce Commission, and existing Taumata Arowai regime.
- As the COC is not a CCO, more limited engagement with the requirements of the LGA is available, but may warrant legislative amendments to support construct.

SIMPSON GRIERSON

OPTION 8: LIMITED PARTNERSHIP (LP)

Overview

- Establish an LP to perform full breadth of water services, to be managed by a company appointed as general partner. The Council could be the sole shareholder of the general partner (GP). LP would be owned by the participating councils.
- Agree a Limited Partnership Agreement and a Constitution for the GP.
- From a governance perspective, it would be desirable for the general partner to not be controlled by the Councils if DCC wishes to avoid CCO requirements.
- An LP structure allows extensive flexibility as DCC (and other participating councils, if relevant) are free to design a governance framework that suits their preferred arrangement.
- An LP structure is transparent for tax purposes, meaning income tax is not paid at LP level, but is passed on to participating councils, allowing them to utilise their tax-exempt status.
- The LP structure is somewhat less familiar to the general public and is marginally more difficult to administer than a CCO or COC.

Establishment Process

- DCC would need to decide on who will be the Limited Partners (perhaps only DCC), and who will be the GP.
- DCC must then agree a Limited Partnership Agreement, a constitution for the GP, and register the LP on the Companies Office.

Ownership Arrangements

- Similar to a CCO or COC, limited partners and shareholders of the GP will need to be confirmed.
- LP interest and GP shareholding need not be proportionate.

Governance Arrangements

- The LP is managed by the GP, while Limited Partners contribute capital but do not participate in business management.
- The GP will be a company with its own board and subject to usual directors' duties and other governance requirements.
- Executives and other staff would be employed by the LP (and therefore independent of DCC).

Tax Efficiency

- LPs have "pass-through" tax treatment in New Zealand. Tax consequences flow directly to investor partners; there is no separate corporate tax layer.

Liability Considerations

- The Limited Partners' liability is restricted to the amount of capital they have invested in the partnership.
- General partners in an LP have unlimited liability. This means they are personally responsible for the partnership's debts, obligations, and legal claims.

SIMPSON GRIERSON

Regulatory Compliance

- The establishment and management of the LP must be in accordance with the Limited Partnerships Act 2008.

- The Limited Partnerships Agreement will also set out key aspects of the governance framework.

SIMPSON GRIERSON

OPTION 9: STATUTORY BODY

Overview

- Parliament passes legislation which establishes the water entity and sets out its scope and objectives, governance framework and decision-making principles.
- Expectation would be for the Council to be the beneficiary of the entity, and that irrespective of who manages the delivery of the water services on a day-to-day basis (either Council or a professional fund manager), appointed members comply with a Statement of Investment Policy and Distribution Policy.
- We expect delays for legislation to be introduced and passed by Parliament, while the process would be subject to public and political scrutiny.
- Risk that future governments could repeal legislation.
- Tax outcome will be dependent on establishing legislation.

Establishment Process

- Parliament passes legislation which establishes the water entity and set out its scope and objectives, governance framework and decision-making principles.
- We expect delays for legislation to be introduced and passed by Parliament, while the process would be subject to public and political scrutiny.

Ownership Arrangements

- Ownership arrangements would be as confirmed in the governing legislation.

Governance Arrangements

- Governance arrangements would be as confirmed in the governing legislation.

Tax Efficiency

- Tax efficiency would be as confirmed in the governing legislation.

Liability Considerations

- Liability considerations would be as confirmed in the governing legislation.

Regulatory Compliance

- The entity would be required to comply with the governing legislation.

SIMPSON GRIERSON

Notes and Assumptions:

- We considered a number of options (which we later dismissed), and as a result were not included in this document. These included: a Non-CCTO Charitable Trust; a Consumer Trust; a Port Company/Energy Company Model; an Incorporated Society.