



AGENDA

Ordinary Council Meeting Friday, 4 April 2025

Date: Friday, 4 April 2025

Time: 10.30 am

Location: Ngā Hau e Whā, William Fraser Building,
1 Dunorling Street, Alexandra

(A link to the live stream will be available on the Central Otago District Council's website.)

Peter Kelly
Chief Executive Officer

Notice is hereby given that a Council Meeting will be held in Ngā Hau e Whā, William Fraser Building, 1 Dunorling Street, Alexandra and live streamed via Microsoft Teams on Friday, 4 April 2025 at 10.30 am. The link to the live stream will be available on the Central Otago District Council's website.

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Members Her Worship the Mayor T Alley (Chairperson), Cr N Gillespie, Cr S Browne, Cr L Claridge, Cr I Cooney, Cr S Duncan, Cr S Feinerman, Cr C Laws, Cr N McKinlay, Cr M McPherson, Cr T Paterson

In Attendance P Kelly (Chief Executive Officer), L Fleck (General Manager - People and Culture), J Muir (Three Waters Director), S Righarts (Group Manager - Business Support), D Rushbrook (Group Manager - Community Vision), D Scoones (Group Manager - Community Experience), L van der Voort (Group Manager - Planning and Infrastructure), W McEnteer (Governance Manager)

1 KARAKIA

Cr Feinerman will begin the meeting with a karakia.

2 APOLOGIES

3 PUBLIC FORUM

4 CONFIRMATION OF MINUTES

Ordinary Council Meeting - 26 March 2025

Extraordinary Council Meeting - 31 March 2025

**MINUTES OF A COUNCIL MEETING OF THE CENTRAL OTAGO DISTRICT COUNCIL
HELD AT MANIOTOTO STADIUM, 1 DUNGANNON STREET, RANFURLY 9332
AND LIVE STREAMED VIA MICROSOFT TEAMS ON WEDNESDAY, 26 MARCH 2025
COMMENCING AT 10.32 AM**

PRESENT: Her Worship the Mayor T Alley (Chairperson), Cr N Gillespie, Cr S Browne, Cr L Claridge, Cr I Cooney, Cr S Duncan, Cr S Feinerman, Cr C Laws, Cr N McKinlay, Cr M McPherson, Cr T Paterson (via Microsoft Teams)

IN ATTENDANCE: P Kelly (Chief Executive Officer), J Muir (Three Waters Director), S Righarts (Group Manager - Business Support), D Rushbrook (Group Manager - Community Vision), D Scoones (Group Manager - Community Experience), L van der Voort (Group Manager - Planning and Infrastructure), P Keenan (Capital Projects Programme Manager), K Zeelie (Water Services Planning and Policy Manager), A Crosbie (Senior Strategy Advisor), C Martin (Accounts and Rating Support Officer), W McEnteer (Governance Manager)

1 KARAKIA

Cr McPherson gave a karakia to begin the meeting.

2 APOLOGIES

There were no apologies.

3 PUBLIC FORUM

Amie Pont

Ms Pont introduced herself to Councillors and updated them on recent activities and issues in the Maniototo. Those included an update on the arts scene in the Maniototo and the halls and facilities item that will appear as part of the 2025-34 Long-term Plan.

Tania Murray – Maniototo Business Group

Ms Murray gave an update on recent activities of the Maniototo Business Group and noted that they have recently taken their meetings on the road around the Maniototo, including Naseby and Waipiata. She also noted the group's latest project, which is to have permanent lighting for the railway station in Ranfurly.

4 CONFIRMATION OF MINUTES

RESOLUTION

Moved: Browne
Seconded: Laws

That the public minutes of the Ordinary Council Meeting held on 26 February 2025 be confirmed as a true and correct record.

CARRIED

5 DECLARATIONS OF INTEREST

Members were reminded of their obligations in respect of declaring any interests. There were no further declarations of interest.

6 COMMUNITY BOARD CHAIR UPDATE

25.4.2 COMMUNITY BOARD CHAIR UPDATE

Robert Hazlett, Chair of the Maniototo Community Board gave his apologies as he was unable to attend the meeting.

7 REPORTS

Note: Cr Laws assumed the Chair as the Three Waters and Waste portfolio lead.

Note: Cr McPherson left the meeting at 12.00 pm and returned at 12.02 pm.

25.4.3 PROPOSED WASTEWATER ENVIRONMENTAL PERFORMANCE STANDARDS

To consider the key points to be included in a Central Otago District Council submission on proposed wastewater environmental performance standards.

Staff gave a presentation on the draft performance standards before responding to questions.

RESOLUTION

Moved: McPherson

Seconded: McKinlay

That the Council

- A. Receives the report and accepts the level of significance.
- B. Agrees to a submission being prepared on the proposed wastewater environmental performance standards.
- C. Agrees that that the submission be drafted based on discussion at the 26 March Council meeting and circulated to councillors for feedback prior to submitting on 16 April 2025.

CARRIED

Attachments

- 1 Presentation on Proposed Wastewater Performance Standards
-

25.4.4 LOCAL WATER DONE WELL - ADMITTING TIMARU DISTRICT COUNCIL TO THE AGREEMENT

To consider a request for Timaru District Council to join the Otago Southland Joint Group of Councils Commitment Agreement.

It was noted that Timaru District Council had decided not to join the agreement, and that this report was now no longer needed. After discussion it was agreed that while there were no further actions from the report, as it had been discussed the report should at least be received.

RESOLUTION

Moved: Alley
Seconded: Feinerman

That the Council receives the report.

CARRIED

Note: Cr Feinerman assumed the Chair as the Community Vision and Experience portfolio.

25.4.5 MANAGING UNREASONABLE COMPLAINANT CONDUCT

To consider adopting the Managing Unreasonable Complainant Conduct Policy.

Staff presented a slide show to highlight key points within the proposed policy.

RESOLUTION

Moved: Claridge
Seconded: Browne

That the Council

- A. Receives the report and accepts the level of significance.
- B. Adopts the Managing Unreasonable Complainant Conduct Policy.

CARRIED

Attachments

- 1 Managing Unreasonable Complainant Conduct Presentation
-

Note: Her Worship the Mayor resumed the Chair.

25.4.6 DRAFT THREE-YEAR INTERNAL AUDIT PROGRAMME

To consider the draft three-year internal audit programme.

RESOLUTION

Moved: McPherson
Seconded: Cooney

That the Council

- A. Receives the report and accepts the level of significance.
 - B. Note that the Audit and Risk Committee resolved to recommend the proposed three-year internal audit programme to Council.
 - C. Approves the draft three-year internal audit programme.
-

CARRIED

25.4.7 2024/25 ORGANISATIONAL BUSINESS PLAN: SECOND QUARTER RESULTS

To receive the second quarter results of the 2024/25 Organisational Business Plan.

RESOLUTION

Moved: Browne
Seconded: McKinlay

That the report be received.

CARRIED

25.4.8 ORDER OF CANDIDATE NAMES ON VOTING PAPERS FOR THE 2025 TRIENNIAL COUNCIL ELECTIONS

To consider the order of candidate names on voting papers for local authority elections in October 2025.

RESOLUTION

Moved: McPherson
Seconded: Duncan

That the Council

- A. Receives the report and accepts the level of significance.
- B. Agrees that the candidate names on voting papers for the Central Otago District Council 2025 triennial elections and any subsequent by-elections within the triennium appear in random order.

CARRIED

8 MAYOR'S REPORT

25.4.9 MAYOR'S REPORT

Her Worship the Mayor spoke to her report before responding to questions.

RESOLUTION

Moved: Alley
Seconded: Gillespie

That the Council receives the report.

CARRIED

9 STATUS REPORTS**25.4.10 MARCH 2025 GOVERNANCE REPORT**

To report on items of general interest, receive minutes and updates from key organisations, consider Council's forward work programme, business plan and status report updates.

RESOLUTION

Moved: Alley
Seconded: Duncan

That the report be received.

CARRIED

10 COMMUNITY BOARD MINUTES**25.4.11 MINUTES OF THE TEVIOT VALLEY COMMUNITY BOARD MEETING HELD ON 5 FEBRUARY 2025****RESOLUTION**

Moved: Browne
Seconded: Feinerman

That the unconfirmed Minutes of the Teviot Valley Community Board Meeting held on 5 February 2025 be noted.

CARRIED

11 COMMITTEE MINUTES**25.4.12 MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD ON 14 FEBRUARY 2025****RESOLUTION**

Moved: Browne
Seconded: Feinerman

That the unconfirmed Minutes of the Audit and Risk Committee Meeting held on 14 February 2025 be noted.

CARRIED

12 DATE OF NEXT MEETING

The date of the next scheduled meeting is 28 March 2025.

13 RESOLUTION TO EXCLUDE THE PUBLIC**RESOLUTION**

Moved: Duncan
Seconded: Cooney

That the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Plain English Reason
Confidential Minutes of Ordinary Council Meeting	<p>s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege</p> <p>s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities</p> <p>s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> <p>s7(2)(j) - the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage</p>	<p>Commercial sensitivity</p> <p>Legal professional privilege</p> <p>To enable commercial activities</p> <p>To enable commercial or industrial negotiations</p> <p>To prevent use of the information for improper gain or advantage</p>
25.4.13 - Manuherehia Valleys Community Hub Construction Tender Award	<p>s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities</p>	<p>To enable commercial activities</p>
25.4.14 - Fitch Credit Rating	<p>s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the</p>	<p>Commercial sensitivity</p>

	information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	
25.4.15 - Risk Register Update	s7(2)(j) - the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage	To prevent use of the information for improper gain or advantage
25.4.16 - March 2025 Confidential Governance Report	s7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Legal professional privilege To enable commercial activities To enable commercial or industrial negotiations
25.4.17 - Confidential Minutes of the Audit and Risk Committee Meeting held on 14 February 2025	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(f)(ii) - the withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of Council members, officers, employees, and persons from improper pressure or harassment s7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege s7(2)(j) - the withholding of the information is necessary to prevent the disclosure or use of	To protect a person's privacy Commercial sensitivity To protect people from harassment Legal professional privilege To prevent use of the information for improper gain or advantage

	official information for improper gain or improper advantage	
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CARRIED

The public were excluded at 12.38 pm and the meeting closed at 1.44 pm.

**MINUTES OF AN EMERGENCY MEETING OF THE
COUNCIL
HELD AT MICROSOFT TEAMS
AND LIVE STREAMED VIA MICROSOFT TEAMS ON MONDAY, 31 MARCH 2025
COMMENCING AT 4.00 PM**

PRESENT: Her Worship the Mayor T Alley (Chairperson), Cr N Gillespie, Cr S Browne, Cr L Claridge, Cr I Cooney, Cr S Duncan, Cr S Feinerman, Cr C Laws, Cr N McKinlay, Cr M McPherson, Cr T Paterson

IN ATTENDANCE: P Kelly (Chief Executive Officer), S Righarts (Group Manager - Business Support), D Rushbrook (Group Manager - Community Vision), D Scoones (Group Manager - Community Experience), L van der Voort (Group Manager - Planning and Infrastructure), P Morris (Chief Financial Officer), D McKewen (Systems and Corporate Accountant), G Virk (System Management Accountant), W McEnteer (Governance Manager)

1 KARAKIA

Her Worship the Mayor gave a karakia to begin the meeting.

2 APOLOGIES

APOLOGY

RESOLUTION

Moved: Gillespie
Seconded: Claridge

That the apology received from Cr McKinlay and an apology for lateness from Cr Duncan be accepted.

CARRIED

3 DECLARATIONS OF INTEREST

Members were reminded of their obligations in respect of declaring any interests. There were no further declarations of interest.

4 REPORTS

Note: Chantelle Gernetzky and Jaimala Singh from Audit New Zealand joined the meeting for item 25.5.2.

Note: Cr Duncan joined the meeting at 4.04 pm

25.5.2 CONSULTATION DOCUMENT FOR THE 2025-34 LONG-TERM PLAN AND SUPPORTING INFORMATION TO THE CONSULTATION DOCUMENT FOR THE DRAFT 2025-34 LONG TERM PLAN.

To adopt the supporting information to the Consultation Document and adopt the 2025-34 Long-term Plan Consultation Document for public consultation.

Staff went through the most recent changes to the consultation document before responding to questions.

After discussion it was agreed that there should be a resolution for the Council to approve the Letter of Representation.

RESOLUTION

Moved: Alley
Seconded: Gillespie

That the Council

- A. Receives the report and accepts the level of significance.
- B. Approves the Letter of Representation to Audit New Zealand for the 2025-34 Long-term Plan Consultation Document and authorises the Mayor to sign on Council's behalf.
- C. Receives the audit opinion from Audit New Zealand in relation to the Long-term Plan Consultation Document 2025-34.
- D. Recognises that while the Council complies with the Section 100 of the Local Government Act 2002 Balanced budget requirement for the 9 years of the Long-term Plan 2025-34, it relies on achieving its projected land sales to achieve this and considers this financially prudent to do so.
- E. Adopts the following supporting information to the Long-term Plan Consultation Document 2025-34:
 - (a) Infrastructure Strategy
 - (b) Financial Strategy
 - (c) Development and Financial Contributions Policy
 - (d) Fees and Charges
 - (e) Significance and Engagement Policy
 - (f) Revenue and Financing Policy
 - (g) Rates Remission and Rates Postponement Policy
 - (h) Liability Management Policy
 - (i) Investment Policy
 - (j) Prospective Financial Statements
 - (k) Prospective Funding Impact Statements
 - (l) Community Outcomes Development
 - (m) Significant Forecasting Assumptions
 - (n) Capital Expenditure for Activity Groups
- F. Adopts the Long-term Plan Consultation Document 2025-34 along with the Auditors opinion for public consultation.
- G. Recommends that the Chief Executive Officer be authorised, in consultation with the Mayor, to make any necessary formatting or editorial changes, or other such final changes required by Audit New Zealand or to ensure compliance with the Local Government Act 2002 to any of the documents adopted under resolution E & F above.

CARRIED

5 DATE OF NEXT MEETING

The date of the next scheduled meeting is 4 April 2025.

Note: The Chief Executive Officer gave a karakia to finish the meeting.

The Meeting closed at 4.44 pm.

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CHAIR / /

5 DECLARATIONS OF INTEREST

25.6.1 DECLARATIONS OF INTEREST REGISTER

Doc ID: 2423555

Report Author:	Wayne McEnteer, Governance Manager
Reviewed and authorised by:	Saskia Righarts, Group Manager - Business Support

1. Purpose

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

2. Attachments

Appendix 1 - Council Declarations of Interest [↓](#)

Name	Member's Declared Interests	Spouse/Partner's Declared Interests	Council Appointments
Tamah Alley	Manuherikia Irrigation Co-operative (shareholder) Cliff Care Ltd (family connection) Aviation Cherries Ltd (Director) Tenaya New Zealand Ltd (Director and Shareholder) Southern Lakes Trails (Trustee) LGNZ Zone 6 Chair	Manuherikia Irrigation Co-operative Society Ltd (shareholder) Emergency Management Otago Group Controller (employee) Aviation Cherries Ltd (Director)	Alexandra Community House Trust Central Otago Wilding Conifer Control Group Destination Advisory Board Southern Lakes Health Trust (Trustee)
Sarah Browne	Anderson Browne Construction and Development (Director and Shareholder) Infinite Energy Ltd (Shareholder) Central Otago Sports Turf Trust (Trustee) Central Football and Multisport Turf Trust (Trustee) Sutherland Architecture Studio Ltd (Employee)	Anderson Browne Construction and Development (Director and Shareholder) Infinite Energy Ltd (Employee)	Cromwell Youth Trust Tarras Community Plan Group
Lynley Claridge	Affinity Funerals (Funeral Director)		
Ian Cooney			
Stuart Duncan	Penvose Farms - Wedderburn Cottages and Farm at Wedderburn (shareholder) Penvose Investments - Dairy Farm at Patearoa (shareholder) Fire and Emergency New Zealand (member) JD Pat Ltd (Shareholder and Director)	Penvose Farms - Wedderburn Cottages and Farm at Wedderburn (Shareholder) Penvose Investments - Dairy Farm at Patearoa (shareholder)	Otago Regional Transport Committee Maniototo Ice Rink Committee Maniototo Curling International Inc
Sally Feinerman	Feinerman's Ltd, 109 Scotland Street (Owner / Director) Roxburgh Pool Committee (Chair) Sally Feinerman Trust (Trustee) Feinerman Family Trust (Trustee)	Breen Construction (Employee / Builder)	Ida MacDonald Charitable Trust Teviot Prospects Teviot Valley Walkways Committee

	MPI Teviot Valley Community Hubs group		
Neil Gillespie	Southburn Consulting (Consultant) Cromwell Volunteer Fire Brigade (Chief Fire Officer) Cromwell Bowling Club (patron) Otago Local Advisory Committee - Fire Emergency New Zealand Returned Services Association (Member)		Tarras Hall Committee
Cheryl Laws	The Message (Director) Wishart Family Trust (Trustee) Woing Tree (Assistant Manager - Cellar Door) Daffodil Day Cromwell Coordinator	Otago Regional Council (Councillor) The Message (Director)	Cromwell Resource Centre Trust Old Cromwell Incorporated
Nigel McKinlay	Transition To Work Trust (Board member) Gate 22 Vineyard Ltd (Director) Everyday Gourmet (Director) Central Otago Wine Association (member) Long Gully Irrigation Scheme (member) CODC (employee) (Granddaughter)		Cromwell Hall Reference Group Cromwell Town Centre Reference Group
Martin McPherson	Alexandra Blossom Festival	CODC (employee) CODC (employee) (Daughter)	Alexandra and Districts Youth Trust

Tracy Paterson	<p>Matakanui Station (Director and shareholder) Matakanui Development Co (Director and shareholder) A and T Paterson Family Trust (Trustee) A Paterson Family Trust (Trustee) Central Otago Health Inc (Elected Member) Bob Turnbull Trust (Trustee / Chair) New Zealand Wool Classers Association (Chair) Central Otago A&P Association (Member) Waiora Manuherikia Governance Group (Member) Central Otago Riding for the Disabled (Volunteer)</p>	<p>Matakanui Station (Director and shareholder) Matakanui Development Co (Director and shareholder) A Paterson Family Trust (Trustee) A and T Paterson Family Trust (Trustee) Federated Farmers (On the executive team) Omakau Irrigation Co (Director) Matakanui Combined Rugby Football Club (Committee) Manuherikia Catchment Group (Co-chair) Omakau Domain Board Omakau Hub Committee (Chair) Manuherekia Valley Community Hub Trust (Trustee) Southern Cross Sheep Ltd (Director) Mt Stalker Ltd (Trustee) Mt Stalker Pastoral Ltd DKIL Ltd (Shareholder) Manuherikia River Limited (Director)</p>	<p>Omakau Recreation Reserve Committee Ophir Welfare Association Committee Central Otago Health Incorporated</p>
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6 REPORTS

25.6.2 NEW FAST TRACK ACT REQUIREMENTS

Doc ID: 2417070

Report Author:	Louise van der Voort, Group Manager - Planning and Infrastructure
Reviewed and authorised by:	Peter Kelly, Chief Executive Officer

1. Purpose of Report

To provide Council with an update on the Fast-Track Approvals Act 2024 and to recommend nominating Councillors for overseeing comments and participation in the expert panel as detailed in the Act.

Recommendations

That the Council

- A. Endorses the proposed process for responding to applications under the Fast Track Approvals Act.
- B. Considers nominating Neil Gillespie, or suitably qualified professional, to the expert panel to consider the application for the Bendigo-Ophir Gold project under the Fast Track Approvals Act.
- C. Considers nominating one or two Councillors to approve Council's comments (Key Issues Report) for the Bendigo-Ophir Gold project under the Fast Track Approvals Act.

2. Background

Executive Summary

In December 2024, the new Fast Track Approvals Act (FTA) became law. An information report was referred to Council in December 2024 providing high level detail on the process for applications under the new legislation. This report provides more detail on the process to enable consideration of governance involvement.

There are two projects listed in the FTA for Central Otago being the Bendigo-Ophir Gold project, and the Remarkables Ski Area Upgrade and Doolans Expansion.

Some conversations have been held with Matakanui Gold Limited/Santana Minerals Limited indicating that an application will be received in the coming weeks for the Bendigo Ophir Gold project. (No dialogue has occurred with the agents representing the Remarkables Ski Area Upgrade and Doolans Expansion proposal to date).

Council's involvement in the process is prescribed under the FTA as well as timeframes for responding at applicable stages. The time frames are tight, so a process is recommended for Councils' consideration to enable appropriate responses to our FTA functions in an efficient manner. This includes nomination of an elected member to the expert panel, and delegating the sign off of Council's key issues report to one or two elected members (outside of the formal meeting process).

The Fast Track Approvals Act 2024 (FTA) represents one of the Government's keynote legislative changes of 2024. It is designed as a "one stop shop" approvals process across a range of regulatory bodies, including Territorial Authorities to deliver infrastructure and development projects with "significant regional or national benefits".

Under the Act there is limited opportunity for Local Authority involvement with condensed timeframes and the exclusion of traditional public participation pathways. A total of 149 projects have been listed nationally. There are 15 listed projects in the Otago region, and 2 in Central Otago district, being the Bendigo-Ophir Gold project, and the Remarkables Ski Area Upgrade and Doolans Expansion.

3. Discussion

Matakanui Gold Limited/Santana Minerals Limited have made contact with Council advising they will be lodging an application under the fast-track process for Bendigo-Ophir Gold project which is listed in the Act. They have indicated that the application is likely to be lodged in late April 2025.

The Applicant must consult with Council before applying, although the Act does not specify the consultation details or level of information required to be supplied to Council. The level of detail supplied in this step is dependent on the Applicant. Any communication with Council, or comments on the application could be used to satisfy consultation requirements.

The Council has an opportunity to be represented on the expert panel by identifying a panel member for this purpose. The expert panel will consist of a total of four persons which will be determined by a judge. This is the opportunity for Council to consider the best representation for the district by nominating a suitably qualified elected member or professional to represent Council on the panel.

Once an application is lodged with the EPA the Council will have a duty to consider if the application is complete within 5 days under Section 46 of the FTA. This is a check for completeness rather than quality. When it is accepted that application is complete Council must advise the EPA. Council will then be directed to complete a key issues report under Section 53 of the FTA.

The key Issues report must be compiled within 20 working days. There is no requirement for the expert panel to hold a hearing, however in the event a hearing will be held there is a 5 day notice period, with only 3 days for a response to confirm or otherwise attendance at the hearing.

In summary the key stages for CODC to be involved in the FTA process are:

- a. **Expert panel involvement:** Council can nominate a person to the expert consenting

panel who will be engaged in assessing the subsequent receipted application.

- b. **Comment on application:** Council will be asked to comment via a key issues report on the application with a timeframe of 20 working days, with no timeframe extensions.
The expert panel may hold a hearing and/or request further information from councils.
- c. **Draft conditions:** The expert panel will invite comments on draft conditions, and Council must respond within the set timeframe.

The Act allows Council to recover “actual and reasonable” costs from the Applicant for the above work. The EPA will recover costs on Council’s behalf.

Internal process for responding to Fast Track applications

The internal process for involvement in the Fast Track process is being developed with a focus on providing the appropriate level of comment likely to get the best outcomes for the community in the short time frame provided (best bang for our buck).

The level of resourcing required to provide comments for the key issues report will be proportionate to the scale and complexity of the application and will be made up of internal staff time and engagement of specialist expertise as appropriate.

Council’s opportunity for involvement is set out by the Act and will be facilitated by the Planning Manager and appropriate planning personal. The Planning Manager will engage and coordinate Council’s response across relevant teams and departments (together with relevant external experts) in collaboration with the Group Manager Planning and Infrastructure.

For the Bendigo-Ophir Gold application Council is likely to engage specialists on landscape, ecology and acoustics. This will be reviewed once the application is received.

Nominations to Expert Consenting Panel

As noted once the application is accepted, the Council has an opportunity to nominate a person to sit on the expert consent panel who will consider and make a decision on the application. This person can be an elected member with appropriate decision-making experience (likely to be a Hearings Panel member) or a suitably experienced professional equipped with skills relevant to the application.

A recommendation is made to Council for the Chair of the Hearings Panel to be nominated to sit on the panel for the Bendigo-Ophir Gold application.

Role of the public and stakeholders

As previous indicated in the early December Fast track report there is limited ability for the public and stakeholders to be involved in these applications. There is a high level of interest in a number of these projects from the community and desire to understand Council’s position on the proposals. Whilst this level of interest is recognised, there is no legal ability for Council to provide further opportunities for public participation beyond the specified steps in the Act. Council is not provided with the ability under the Act to make decisions about public involvement. As with all consent processes, Council’s regulatory position and comments will be based on the direction provided in the Central Otago District Plan which has been through extensive community consultation under First

Schedule of the Resource Management Act.

It is proposed that updates will be provided to Council of any applications in the fast track process where appropriate.

4. Financial Considerations

Nil at this stage.

There is likely to be costs from engaging external specialists to provide comment or to peer review reports for the purposes of assisting the preparation of the key issues report. The Act provides for recovery of reasonable costs, but it is unclear exactly what might be deemed "reasonable". We will monitor this closely with the aim of all costs be fully recovered. Council will be updated on this matter.

5. Options

Whilst the projects may be of high interest to the public, the process for Council involvement is specified in the Act and is of an operational consenting process nature.

Option 1 – (Recommended approach) endorses the approach with Governance involvement

Council considers nominating an elected member (or suitably qualified professional) to the expert panel to consider the anticipated application for the Bendigo-Ophir Gold project under the Fast Track Approvals Act.

Council additionally endorses the proposed process for responding to fast track applications and considers nominating one (or two) Councillors to approve Council's comments (key issues report) on for the anticipated Bendigo-Ophir Gold project under the Fast Track Approvals Act.

Advantages:

- This option allows for the timely and effective participation of Council in the regulatory process and provides the ability for Governance input. This also gives Council the opportunity to be represented on the expert panel by nominating a suitably qualified elected member or professional with appropriate qualifications, knowledge and skills.

Disadvantages:

- Does not allow for full Council to endorse the comments on the application prior to Key Issues Report lodgement back to the EPA.
- Due to the complexity of the application, this option will add additional workload and time onto one or two Councillors to review the Key Issues Report.

Option 2 - No direct Governance involvement

This option would provide a similar internal staff assessment process but would not have any governance oversight/review of the comments before providing input back to the EPA portal.

There would also be no appointment to the expert panel from Central Otago District Council.

Advantages:

- Timeframe obligations under the Fast Track Act are particularly challenging and including a review step may further reduce time to prepare the key issues report.

Disadvantage:

- The Council's position on the proposal has no Governance oversight.
- There is on Central Otago representative on the expert panel, considering a matter that will significantly impact Central Otago communities.

Option 3 – an alternative to option 1 or 2 as directed

Council may choose to provide direction on an additional option.

Communications Considerations

Communications will be provided as application are received, and Council's feedback will be available at the appropriate time.

6. Compliance

Local Government Act 2002 Purpose Provisions	This decision relates to the Fast Track Approvals Act 2024
Decision consistent with other Council plans and policies? Such as the District Plan, Economic Development Strategy etc.	Not relevant
Considerations as to sustainability, the environment and climate change impacts	Unknown

Risks Analysis	<p>Council must implement the new FTA and meet our obligations, including responding within prescribed timeframes. This requires sufficient capacity within the team or engaging external resource</p> <p>If Council does not provide accurate or thorough advice to the Fast Track panels, there is a risk that a proposal is granted with inappropriate or insufficient conditions. There is also a reputational risk if Council does not adequately discharge our duty of providing correct planning and technical advice.</p> <p>In terms of legal risk, there is a possibility that the community or an environmental group challenges Council if it does not discharge its duty under the Act. However, there is a limited role for Council in the process and limited ability for appeals under the Act.</p>
Significance, Consultation and Engagement (internal and external)	Aukaha and other interested parties are aware of our proposed approach.

7. Next Steps

Continued preparation for receiving applications under the FTA.

8. Attachments

Nil

25.6.3 SOUTHERN WATER DONE WELL

Doc ID: 2424139

Report Author:	Peter Kelly, Chief Executive Officer
Reviewed and authorised by:	Peter Kelly, Chief Executive Officer

1. Purpose of Report

To consider the options for water delivery for Central Otago.

Recommendations

That the Council

- A. Receives the report and accepts the level of significance.
 - B. Approves option 1 - Joint Water Services CCO as the preferred water services delivery model option for Central Otago District Council, to proceed with public consultation on.
 - C. Approves the following water service delivery model options to include in the public consultation as other practicable options:
 - (i) Option 2 - In-House Business Unit
 - (ii) Option 3 - Standalone Council-Controlled Organisation
-

2. Background

The Local Government (Water Services Preliminary Arrangements) Act 2024 requires all Council's to submit a water service delivery plan by 3 September 2025. Councils can also produce joint water service delivery plans with other Councils that provides for a joint water service delivery model. The Council must consult its community on the various options for delivery of water services.

The Central Otago, Clutha, Gore and Waitaki District Councils (Group of Councils) are working to assess the merits of forming a Joint Council Controlled Organisation (Joint CCO) to deliver water services across their regions. Work is underway to define what a Joint CCO would look like and how it compares against Central Otago District Council continuing to deliver water services in house or setup a standalone Council Controlled Organisation.

This paper presents the completed analysis of the available options which assesses the relative merits and drawbacks of three practicable options by which water services could be delivered for Central Otago.

A decision is sought as to the preferred water delivery model for Council to adopt and seek community feedback on. Subject to the outcome of community consultation, the Council will later decide whether to produce a joint water service delivery plan that will give effect to this preferred option.

The paper also provides a summary of the next key activities and milestones for public and stakeholder consultation on the proposal and subsequent Council Decision Making.

3. Discussion

Central Otago, Clutha, Gore and Waitaki District Councils have joined together to explore a joint delivery model for three waters. This group of Councils is working together to define how a Joint CCO could be setup and operated in a way that will benefit each member of the group. If the Council Group proceeds with a joint delivery model, this will inform preparation and submission of a joint water service delivery plan to be submitted to the Department of Internal Affairs before 3 September 2025. Once approved, the Councils will work together to implement the Joint plan.

The Councils have entered into a Commitment Agreement which reflects their mutual interest to investigate the option and sets out how they will work together through the process.

The agreement provides for individual Councils to withdraw at any time as the options are further defined, and the views of communities and stakeholders become known through public consultation.

Timaru District Council (TDC) via their Mayor and Chief Executive, notified the Group of Councils that they wished to join the group. At a 26 February 2025 Council Meeting, TDC resolved to join the group and authorised their Chief Executive to approve a Variation to the Commitment Agreement to provide for this. TDC subsequently advised the Council Executive Group Meeting on 21 March 2025 that its Council no longer wished to proceed with the Group of Councils, and its focus was to work with Waimate and Mackenzie District Councils.

It was agreed that this would not preclude the option for the groups to work together or merge in the future and that this should be provided for through consistent system and organisation design and planning.

Preferred Delivery Model and Practicable Options to Consult On

The Councils have resolved to use the alternative requirements for decision-making and consultation set out in the Local Government (Water Services Preliminary Arrangements) Act 2024. This requires that the councils identify certain options for delivering water services and assess the advantages and disadvantages of the options identified.

Independent assurance of each council's water service capital expenditure plans has been completed. A risk-based likelihood of change to financial projections has been developed to provide greater consistency across individual council water service capital expenditure plans. This has included cost estimate accuracy, asset sustainability and renewals, commonality of planning assumptions and impact of the Draft Wastewater Standards. The Draft Wastewater Standards were released for consultation on 25 February 2025. The standards are expected to be refined further and not finalised until August 2025 at the earliest.

Morrison Low has completed an analysis of the relative merits and drawbacks of the following three short listed water service delivery model options for each council. The work incorporates the outcomes of the capital expenditure plan assurance work. Morrison Low's report is provided as Attachment 1.

The three options which were assessed are:

- i) Continuing to deliver water services within council, but with the required changes to meet the new legislative and regulatory requirements.
- ii) Setup of a standalone Water Services CCO to provide water services.

- iii) Setup of a Joint Water Services CCO comprising all four councils to provide water services.

Each of the options has been compared against a set of financial and non-financial objectives to help identify their relative strengths and weaknesses, including impacts on household charges, debt and levels of service. Based on the analysis presented, it is recommended that a Joint CCO comprising the four councils is the preferred delivery model to investigate further and seek community and stakeholder feedback.

It is noted that, the legislation requires that the public ownership of three water assets is maintained under any future service delivery option. That is, the privatisation of three waters assets is prohibited.

Independent Assurance of the Morrison Low report has been conducted by Concept Consulting. Outcomes of that review are provided in a letter included as Attachment 2.

For the purpose of public consultation, the Councils are required to consult on “a proposal” (in this case the recommended proposal is a joint CCO). For the consultation to be effective, each Council needs to identify its preferred option to give certainty to the other Group Councils, prior to the Group Councils going out to their respective communities. To that end, the consultation materials are currently being prepared and have not yet been finalised so are not provided for the purpose of making this decision. When the decision as to a preferred option is finalised, the consultation information will include all of the matters required by section 64 of the Preliminary Arrangements Act. Notwithstanding, the Morrison Low Report and all the work that the Council’s have done to date is sufficient to inform the decision on a preferred option.

The outcomes of community and key stakeholder engagement will be used to help each Council decide which of the service delivery models they wish to adopt and include in a joint Water Service Delivery Plan. It is still open to the Group Councils not to form a Joint CCO.

It is noted that the financial analysis completed to date incorporates both commercial and residential water services. Outputs have focussed on residential costs for water under the three delivery models. As the Morrison Low report notes, commercial users including rural water schemes will face similar cost pressures, for the water services they use.

For Rural Water Schemes, each of the three delivery model options are proposed to be able to set different charges based on level of service received and geographic location. This may see rural schemes ring-fenced (kept separate) with a separate fee structure.

Further detailed work will be progressed to engage with individual rural scheme committees to determine an approach to pricing and what the governance and management roles for rural water should look like, including whether there are mechanisms to preserve some or all the functions of rural water scheme committees.

Rural water schemes will need be engaged with and worked through on a case-by-case basis and the outcomes presented for Council consideration and decision making as the Water Services Delivery Plan is progressed.

Legal Implications

The Local Government (Water Services Preliminary Arrangements) Act places statutory requirements on the Councils that are required to be complied with.

If a territorial authority struggles to comply with the requirements for a compliant WSDP, the Act provides for the Minister to appoint either of two new roles, costs of which are borne by Council:

- Crown facilitators, who may work with Councils to assist, advise, or amend draft WSDPs; and
- Crown water services specialists, who may prepare, direct, or adopt a WSDP in accordance with their notice of appointment.

In addition, the Act provides that a person who contravenes an obligation to disclose information can be fined up to \$500,000 or, in the case of an entity, \$5 million.

4. Financial Considerations

In House Business Unit

Under the in-house delivery model, councils are projected to face significant financial pressures due to rising water infrastructure costs and the increased burden of compliance with new regulations. Water charges are expected to rise by **180%** between 2025 and 2034. Council's ability to borrow will be highly constrained, with Council's debt to revenue ratio exceeding 200% by 2034. Removal of three waters revenue and debt will increase CODC's borrowing capacity by over \$120 million by 2034

Standalone CCO

A wholly owned CCO will borrow under an assumed 12% FFO to debt covenant, and its waters debt will not be considered as part of Council's total borrowing. Early financial models indicate increased **household charges** for most districts, with charges expected to rise by **195%** between 2025 and 2034.

Joint CCO (Southern WSE)

A Southern WSE will have a greater capacity to manage debt and fund infrastructure upgrades. It will be able to access debt under an assumed 8% FFO to debt covenant and its waters debt will not be considered as part of Council's total borrowing. Early financial models indicate **lower charges** for all districts, with charges expected to rise by **161%** between 2025 and 2034.

Projected Cost and Investment

An initial estimate of cost to establish the **Joint Water Services CCO** is estimated at **\$13.8 million**. This includes the transition costs for governance structure development, a transitional entity, asset transfers, regulatory compliance, and initial investments in IT infrastructure and systems. The costs will be shared equally among the participating councils, with the financial modelling ensuring that no council faces undue financial strain.

Harmonized Pricing Strategy

Modelling has indicated that through the preservation of local prices, a Southern WSE can ensure lower household charges for ratepayers in all districts. It has been proposed that a Southern WSE would operate under the financial principal that "no water consumers pay more than they otherwise would have under a council delivery model for the same level of local investment"

5. Options

Option 1

Joint Water Services CCO (Preferred)

This option proposes a regional CCO to manage water services for all four councils (Central Otago, Clutha, Gore and Waitaki). The CCO will be jointly owned, with shared governance, financial responsibility, and resource management.

Advantages:

- Standardised asset management improves planning and efficiency
- Shared workforce increases resilience and career opportunities
- Larger scale enables better access to expertise, specialists and improved systems
- Improved contractor attractiveness through larger procurement programmes
- Certainty of long-term funding enables consistent project delivery
- 'First mover advantage' for Councils forming the Joint CCO to design a solution that works for them.
- Independent professional board appointments via council process
- Financial separation reduces pressure on council balance sheets
- Least customer cost for each of the three options
-

Disadvantages:

- Investment prioritisation may vary across communities
- Joint CCO may independently set charges, impacting affordability (potentially offset by regulatory oversight)
- Potential loss of high-value jobs in small districts, though local presence is likely
- Risk of minimum-cost investment decisions rather than enhancing service levels
- Potential reduction in council control (potentially offset by regulatory oversight)
- Less capacity to procure services from individual councils, potentially impacting stranded overheads

Option 2

In-House Business Unit

This option involves each council managing its own water services as an internal business unit in Council with financial ringfencing.

Advantages:

- Minimal change to existing service delivery structure
- Councils retain control over work programmes and investment priorities – subject to regulatory requirements
- Least amount of change to meet regulatory requirements.

Disadvantages:

- Higher administrative costs and compliance burdens
- Increased scrutiny from regulatory bodies
- Higher risk of financial strain impacting other council services
- Limited flexibility to control water charges under economic regulation

- Higher water charges than a Joint CCO
- Reduced ability to attract and retain skilled workforce
- Cannot access enhanced financing options
- Reduced scale to meet asset management and regulatory requirements
- Future delivery model may be imposed by the regulator – lost first mover advantage

Option 3

Standalone Council-Controlled Organisation (CCO)

Each council establishes a separate CCO for water services, providing financial separation and independent governance.

Advantages:

- Financial separation of water debt reduces pressure on council finances
- Independent professional board appointments via council process
- CCO controls investment priorities and risk management
- Certainty of long-term funding supports consistent project delivery
- Greater retention of higher-wage jobs in districts compared to a Joint CCO

Disadvantages:

- Smaller scale limits financial and workforce resilience
- Reduced scale to meet asset management and regulatory requirements
- Increased costs due to weaker procurement power
- Higher setup and operational costs
- Higher water charges than a Joint CCO
- Difficulty attracting qualified board members with a limited talent pool
- May require stricter borrowing covenants than a Joint CCO
- Limits to council control - Commerce Commission may direct investment or revenue decisions

6. Compliance

<p>Local Government Act 2002 Purpose Provisions</p>	<p>This decision enables democratic local decision making and action by, and on behalf of communities by choosing the various options for water delivery in the future.</p>
<p>Decision consistent with other Council plans and policies? Such as the District Plan, Economic Development Strategy etc.</p>	<p>The requirements of LWDW requires the Group of Councils to revisit their respective Long-Term Plans and associated supporting strategies (including Financial & Asset Management Strategies), to ensure that water service delivery complies with the Local Water Done Well legislation requirements.</p> <p>The options analysis completed to date includes consideration of impacts on the current LTPs. Impacts of the selected options will be further defined and put forward for community feedback through the planned consultation from 9 May to 6</p>

	<p>June 2025. Following decision making, amendments to Annual and / or LTPs will be made from FY 26/27.</p>																		
<p>Considerations as to sustainability, the environment and climate change impacts</p>	<p>Changes are administrative in nature. Climate Change impacts would be assessed as part of any change to service provision.</p>																		
<p>Risks Analysis</p>	<table border="1"> <thead> <tr> <th data-bbox="740 465 1043 517">Risk</th> <th data-bbox="1043 465 1385 517">Impacts</th> </tr> </thead> <tbody> <tr> <td data-bbox="740 517 1043 730"> <p>Individual Councils do not approve progressing with a Joint CCO approach.</p> </td> <td data-bbox="1043 517 1385 730"> <p>Group may become unviable Individual Councils may not be able to complete a compliant WSDP Potential DIA intervention with associated loss of decision-making control</p> </td> </tr> <tr> <td data-bbox="740 730 1043 864"> <p>WSDP is not submitted by deadline</p> </td> <td data-bbox="1043 730 1385 864"> <p>Reputation risk for Councils Potential reduction / loss in decision making control</p> </td> </tr> <tr> <td data-bbox="740 864 1043 1070"> <p>DIA does not approve the WSDP and requires the document to be revised.</p> </td> <td data-bbox="1043 864 1385 1070"> <p>DIA requires the Group of Councils to alter the WSDP DIA requires the Group of Councils to change the Operating Model Design DIA requires other Councils to join the Group of Councils.</p> </td> </tr> <tr> <td data-bbox="740 1070 1043 1223"> <p>DIA does not approve the Group of Councils WSDP – and appoints a Crown Facilitator or Water Services Specialist</p> </td> <td data-bbox="1043 1070 1385 1223"> <p>Reputation risk for Councils Reduction / loss in decision making control</p> </td> </tr> <tr> <td data-bbox="740 1223 1043 1429"> <p>Ratepayers do not appreciate the impending costs increases for 3 Waters Services – irrespective of the delivery model adopted</p> </td> <td data-bbox="1043 1223 1385 1429"> <p>Increasing affordability issue for larger group of ratepayers Negative publicity and reputation risk for Councils Lack of engagement in consultation process</p> </td> </tr> <tr> <td data-bbox="740 1429 1043 1552"> <p>WSDP Plan and Implementation Tasks are more complex / extensive than estimated</p> </td> <td data-bbox="1043 1429 1385 1552"> <p>Potential increase in project budget Additional Council resource commitments</p> </td> </tr> <tr> <td data-bbox="740 1552 1043 1697"> <p>The Group of Councils is not fully compliant with new legislative requirements – within the required timeframes</p> </td> <td data-bbox="1043 1552 1385 1697"> <p>Reputation risk for Councils Cost and time to rectify Potential DIA or Regulator Intervention</p> </td> </tr> <tr> <td data-bbox="740 1697 1043 1910"> <p>Changes to legislation through Bill 3 may require additional resource commitments and amendments to arrangements.</p> </td> <td data-bbox="1043 1697 1385 1910"> <p>Cost and time associated with rework Potential increase in project budget Additional Council resource commitments</p> </td> </tr> </tbody> </table>	Risk	Impacts	<p>Individual Councils do not approve progressing with a Joint CCO approach.</p>	<p>Group may become unviable Individual Councils may not be able to complete a compliant WSDP Potential DIA intervention with associated loss of decision-making control</p>	<p>WSDP is not submitted by deadline</p>	<p>Reputation risk for Councils Potential reduction / loss in decision making control</p>	<p>DIA does not approve the WSDP and requires the document to be revised.</p>	<p>DIA requires the Group of Councils to alter the WSDP DIA requires the Group of Councils to change the Operating Model Design DIA requires other Councils to join the Group of Councils.</p>	<p>DIA does not approve the Group of Councils WSDP – and appoints a Crown Facilitator or Water Services Specialist</p>	<p>Reputation risk for Councils Reduction / loss in decision making control</p>	<p>Ratepayers do not appreciate the impending costs increases for 3 Waters Services – irrespective of the delivery model adopted</p>	<p>Increasing affordability issue for larger group of ratepayers Negative publicity and reputation risk for Councils Lack of engagement in consultation process</p>	<p>WSDP Plan and Implementation Tasks are more complex / extensive than estimated</p>	<p>Potential increase in project budget Additional Council resource commitments</p>	<p>The Group of Councils is not fully compliant with new legislative requirements – within the required timeframes</p>	<p>Reputation risk for Councils Cost and time to rectify Potential DIA or Regulator Intervention</p>	<p>Changes to legislation through Bill 3 may require additional resource commitments and amendments to arrangements.</p>	<p>Cost and time associated with rework Potential increase in project budget Additional Council resource commitments</p>
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<p>Significance, Consultation and Engagement (internal and external)</p>	<p>Significance of this decision is considered high on several grounds including, community interest, impact on Councils’ capability and capacity, cost to council and impact on ratepayers and potential changes to the control of Strategic Assets.</p>																		

	<p>The Significance and Engagement Policies of the Group of Councils and the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 and Bill 3, set out the requirements by which water services delivery model options are be presented for community consultation.</p> <p>It is proposed that consultation be coordinated across the Group of Councils, with consistent content developed in collaboration with the individual councils, Council-specific content created by each council, all content approved by the individual councils and consultation conducted via each council using their existing community engagement channels, processes and relationships.</p> <p>The consultation process will ensure information is available on the range of channels traditionally used by each council. The information will be in a language that's simple and accessible to a broad audience. The consultation components are noted below:</p> <ul style="list-style-type: none">• Producing a consultation document with submission form• Creating a Southern Water Done Well page on each council's engagement platform or website. The online page will be the repository of all information/documents/maps/links relating to Southern Water Done Well and Local Water Done Well legislation• Hard copy consultation information and submission form via local newspapers• Submission forms will also be available at all council offices/libraries• Each council will hold drop-in sessions as it sees fit. <p>Individual Council and the wider Council consultation outcomes will be collated and presented back to Central Otago District Council to inform water service delivery model decision making.</p>
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7. Next Steps

- Present Consultation Document and secure Council Approval to Consult – 8 May 25
- Community & key stakeholder consultation planned from 9 May to 6 June 25
- Schedule Council hearings (TBC), deliberations and decision-making during June 25
- Council Decision Making & WSDP Content Approval - July 25
- Contingency to secure WSDP approvals - August 25
- WSDP Submission Deadline – 3 Sept 25

8. Attachments

Appendix 1 - 2990 Southern LWDW Final [↓](#)

Appendix 2 - Southern CCO – Programme Assurance Findings [↓](#)



Local Water Done Well Review
Southern Water Done Well Working Group
March 2025

**Document status**

Job #	Version	Written	Reviewed	Approved	Report Date
2990	DRAFT	S.Cross and J Williams-Shigeeda	D.Bonifant	D.Bonifant	6 March 2025
2990	DRAFTv2	S.Cross and J Williams-Shigeeda	D.Bonifant	D.Bonifant	19 March 2025
2990	FINAL	S.Cross and C.Murray	D.Bonifant	D.Bonifant	28 March 2025

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Executive summary

This report builds on the work completed earlier by the Otago and Southland Local Water Done Well Working Group, which laid the foundation for identifying the preferred regional three waters delivery model. The previous report, dated October 2024, provided a comprehensive analysis that has been updated with new information from the Local Government (Water Services) Bill, guidance from the Commerce Commission, and updated financial modelling.

Morrison Low was commissioned to provide updated desktop analysis and context for the councils that have joined together to form the Southern Water Done Well Working Group (the Working Group). The group comprises of:

- Central Otago District Council
- Clutha District Council
- Gore District Council
- Waitaki District Council

The analysis includes consideration of the relative merits of establishing a wholly owned water services entity, a jointly owned water services entity and continued delivery of three waters services through an in house delivery model. The work has been completed in response to the Government's Local Water Done Well policy and is intended to assist the councils of the Working Group to identify a proposed model for future three waters service delivery in their communities.

The model for the delivery of three waters services across New Zealand has been the subject of successive reform proposals initiated by both Central Government and Local Government over the last 8 years. Challenges with the existing governance and management arrangements are well documented and have been the subject of a number of reviews. Many of these challenges relate to the funding and financing challenges that face the sector, and the need to respond to historical underinvestment in three waters infrastructure.

These issues are as prevalent among the councils of the Working Group as they are elsewhere in the country. Analysis of investment plans for the Working Group identifies a capital works programme of approximately \$760 million through to 2034. This will result in a doubling of debt (on both a per capita and absolute basis) and water rates rises rising up to three fold for some water consumers.

This work identifies that the ongoing provision of three waters services will cost more for most communities under any delivery model. The level of investment in three waters services and the debt required to fund that is significant.

However, it is also clear that there are significant benefits that can arise through the adoption of a jointly owned water services entity. Specifically:

- All water consumers serviced by a Southern Water Services Entity (WSE) are likely to pay less for three waters services than they otherwise would through an in house delivery model.
- A Southern WSE will have improved financial and workforce resilience, due to its increased scale and geographic reach.



- Over time, it is expected that a Southern WSE will be able to provide better levels of service through improved investment planning, access to specialists, and ability to attract and retain good staff.
- The addition of a dedicated, professional board of directors, and a management structure with a sole focus on three waters service delivery will ensure that investment decisions are made with full consideration of the best for network outcomes, efficiency, and long term sustainability in mind.
- The transfer of three waters debt and revenue from most councils balance sheet will provide those councils with improved ability to invest in community infrastructure and deliver better placemaking outcomes for their communities.

In our view, this report highlights that there are clear benefits that arise from the establishment of a Southern WSE for all of the councils of the Working Group. However, this is unlikely to be without challenges, while on balance we consider a Southern WSE to be the best model overall, it should be noted that:

- Transition towards a regional price, if it is to occur at all, may result in increased three waters charges for some water consumers. The WSE is likely to adopt a principle that “no one pays more for three waters services than they otherwise would have under an in-house model for the same level of local investment”. This may require the WSE to maintain separate pricing for an extended period of time.
- There is a risk that some local control is eroded. However, the level of control that will be able to be exerted by councils under the future in house delivery model will already be more limited than current arrangements.
- There may be a loss of high value jobs in some districts through a centralisation of functions. However the geographic reach of the entity will necessitate a local workforce, and modern working environments means the impact of this is likely to be limited.



Introduction

Morrison Low was commissioned to provide updated desktop analysis and context for the councils that have joined together to form the Working Group to assist in the assessment of a revised list of water service models: business unit, wholly owned WSE and a jointly owned WSE. At the time of writing, the group comprised of:

- Central Otago District Council
- Clutha District Council
- Gore District Council
- Waitaki District Council

The work builds on previous work commissioned by the larger Otago and Southland Local Water Done Well Working Group, which included a larger group of councils. This report should therefore be read in conjunction with the report for the Otago and Southland Local Water Done Well Working Group dated October 2024 (the earlier report).

This report focuses on a comparison of the relative merits of delivering water services through:

- An in house business unit with financial ringfencing
- A wholly owned WSE
- A regional WSE comprised of the member councils of the Working Group (Southern WSE).

Specifically, this updates the following sections of the earlier report based on information provided in the *Local Government (Water Services) Bill* (Bill 3) introduced at the end of 2024, new guidance issued by the Commerce Commission, further work carried out by the group, and updated financial modelling.

- Strategic objectives
- Shortlisted options revised to three as relevant to each council - in-house delivery, wholly owned CCO and a Southern WSE
- Financial modelling
- A multi criteria analysis of the future of water service delivery options available to each Council and the group.

Sections of note in the earlier report remain relevant particularly the case for change and the current state assessment work. These are not replicated in full in this report. This report is in Appendix Two - Local Water Done Well Review: Otago & Southland Three Waters October 2024.

The work is intended to assist the Councils' elected members to identify the future water services delivery options that it intends to take to the community for consultation in 2025.



Strategic context

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 districts represented by the Working Group are no different. Our analysis of the current state challenges for the four councils is summarised in the following section and appears in full (for the Otago and Southland councils) in the report at **Appendix Two** - Local Water Done Well Review: Otago & Southland Three Waters October 2024. The analysis identifies that:

- The four councils 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 across all councils. 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 three-fold over the next ten years.
- Our work in 2021 highlighted recruitment challenges across Otago and Southland, with vacancy rates in roles delivering water services 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 and we understand that these issues extend elsewhere in the country.



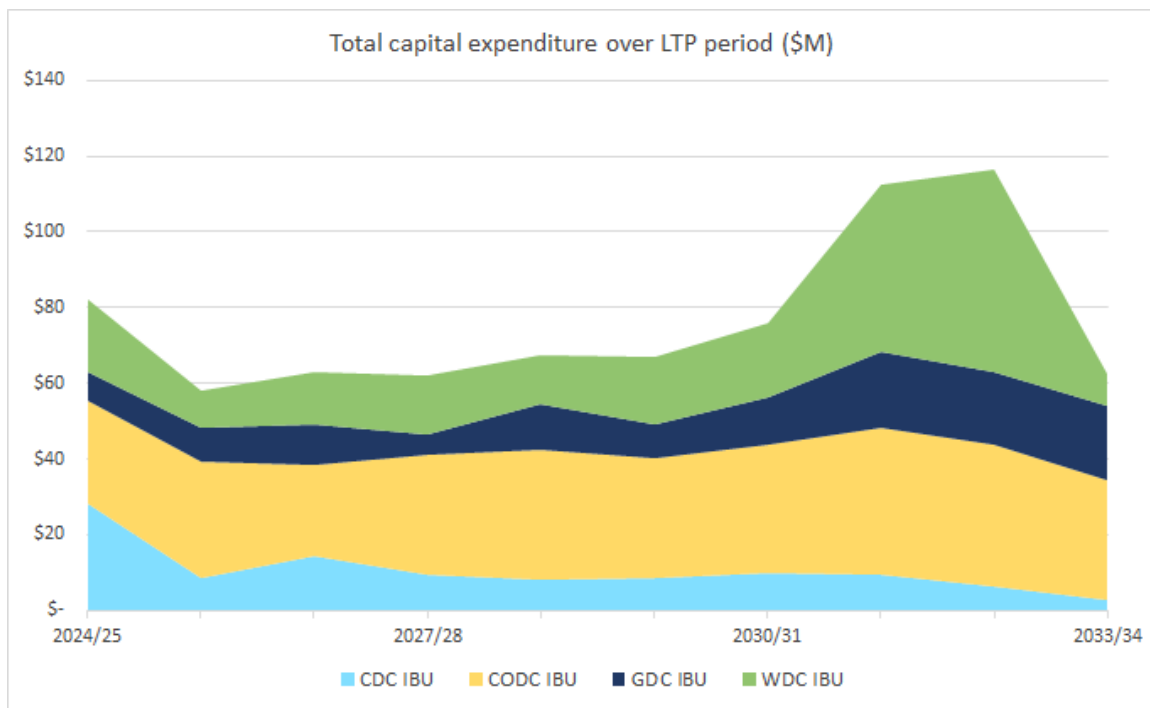
Further details of the current state of the case for change and the current state assessment can be read in the previous report in **Appendix Two** - Local Water Done Well Review: Otago & Southland Three Waters October 2024.

Investment requirements

The combined investment profile for the four councils features a \$760 million programme of work over ten years, across four councils. The work programme consistently sits between \$60 Million and \$80 million through to 2031, increasing to between \$112 million and \$116 million across 2032 and 2033. The large increase in 2032 and 2033 relates to Waitaki District Council’s wastewater rising main renewal and pipe relocations.

While there are a number of significant peaks for individual councils throughout the next ten years, the programme is very consistent across the councils. This may provide opportunities for a Southern WSE to better manage its capital delivery and provide a strong pipeline of work for contractors.

Figure 1 Combined capital expenditure programme of the four councils



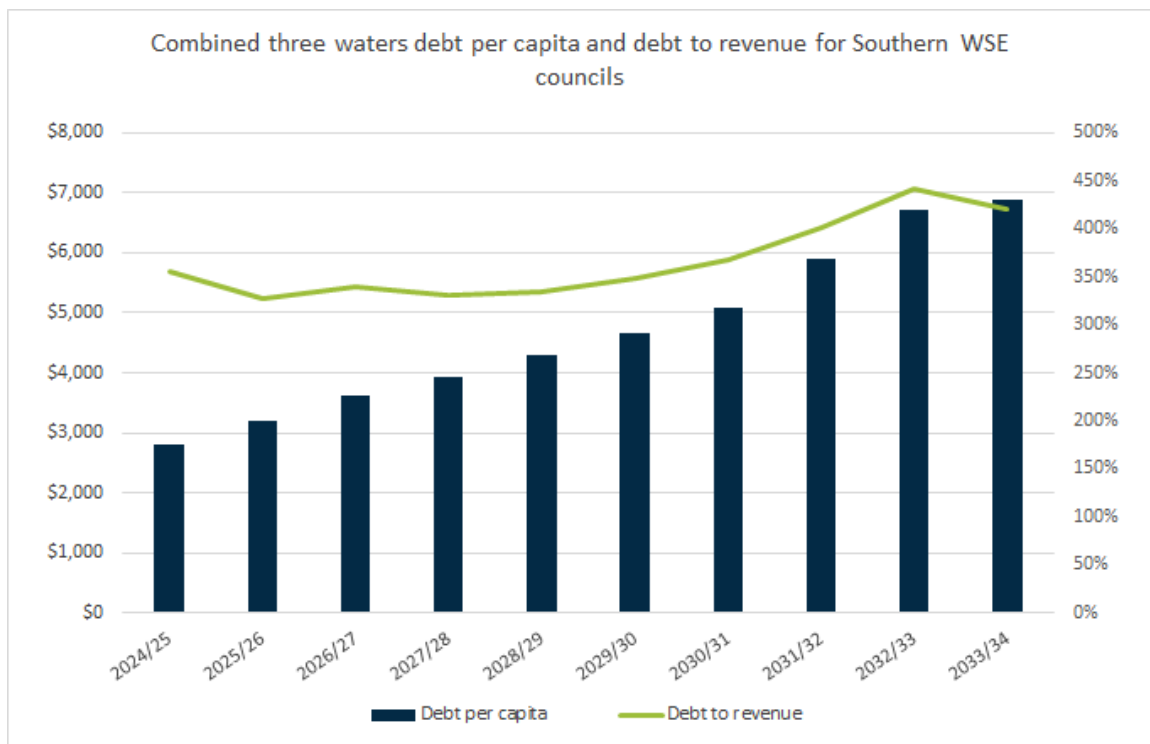


Borrowing requirements

Financing a \$760 million dollar work programme requires significant borrowing. Our modelling shows the four councils are expected to borrow a combined \$598 million by the end of the 2034 financial year, more than double the current combined debt of \$236 million.

On a per capita basis, three waters debt across the combined regions is projected to double from \$2,843 per person to approximately \$6,926 per person in 2034.

Figure 2 Three waters debt per capita across combined four councils



In a letter to Councils of 20 December 2024 LGFA outlined its proposed borrowing arrangements. That letter clarified that lending covenants will not be based on a 500% debt to revenue threshold, but will instead be based on a “Free Funds from Operations” to debt ratio (FFO ratio). Based on conversations to date with LGFA, it is expected that a WSE would need to maintain an FFO ratio of 8% or higher. The implications of this for a Southern WSE are discussed later in this report.



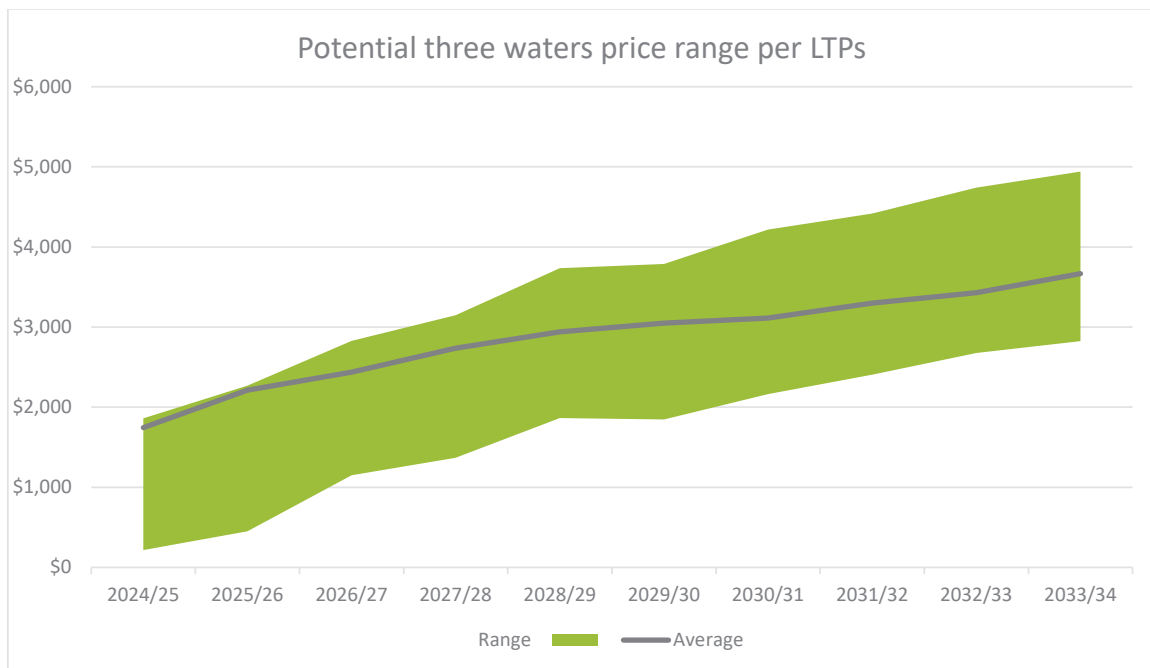
Rates rises

Three waters rates across the four councils 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 Long Term Plans (LTP).

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 average¹ residential rates will more than double from \$1,745 in 2025 to over \$3,600 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.

Figure 3 Range of potential three waters rates rises across four councils



¹ The weighted average is the mean rather than median price. The mean price being on the lower end of the range indicates that there is a small group of water consumers paying the maximum charges, and that there is significant variation in charges across the four councils.



Economic and price regulation

The requirement on councils to develop Water Services Delivery Plans is part of the transitional arrangements (under The Local Government (Water Services Preliminary Arrangements) Act 2004). This information will then be shared with the Commerce Commission as it works towards implementing the indicated economic regulation regime.

The economic regulation regime is proposed under the Local Government (Water Services) Bill (Bill 3) currently before Parliament. This is expected to come into effect by mid-2025 and other aspects from 2026 (revenue thresholds, quality regulation, performance, price quality).

The settings for economic regulation are aimed at Water Service Providers (WSPs), including councils and WSEs who are responsible for making core decisions about capital and operating expenditure, revenue recovery, and charging levels.

The aim is to address water infrastructural challenges through influencing price and quality, protecting both consumer interests and promoting sufficient revenue recovery for investment and maintenance of water infrastructure.

This will apply firstly to all local government drinking water and wastewater services, with some flexibility on stormwater to be added at a later date.

This model is the extension of the existing economic regulation regime (which currently applies to electricity lines services, gas pipeline services, and airport services) in the Commerce Act 1986 to water services. The Commerce Commission (the Commission) will therefore be tasked with overseeing the economic regulation and consumer protection regime.

The Commission will be provided with a range of tools (enforcement and regulation-making) to ensure that WSPs providers collect sufficient revenue and make efficient investment decisions to maintain and develop infrastructure.

The Commerce Commission will have a number of options:

- Information disclosure: local government water services providers must disclose information to promote transparency and inform the need for further regulatory intervention.
- Revenue thresholds: revenue thresholds can be set by the Commission to ensure that WSPs collect enough revenue to operate, maintain and develop water infrastructure.
- Quality standards: the Commission can set specific standards and performance requirements for WSPs aimed at quality improvements.
- Price-quality regulation: a maximum or minimum revenue or pricing levels that WSPs can collect may be set ensuring that water services are delivered at a quality that communities expect.

The Commission will also enforce financial “ringfencing” where revenue collected for regulated water services (initially drinking and wastewater) must be spent on water services along with financial penalties available if breached. Noting the ringfencing is not by type of water, it is the waters package.

In support of this economic regime, the proposed consumer protection regime will require the Commission to monitor the treatment of consumers by WSPs. Where there are existing issues revealed in information disclosures a range of additional regulations on complaints, dispute resolution may be deployed alongside, service quality guidelines and mandated service quality codes.



Work commissioned by the Otago and Southland Local Water Done Well Working Group, and outlined in the earlier report, identified a preferred regional three waters delivery model to take the form of a multi-council owned, asset owning, CCO. The working group has not re-visited that initial assessment of shortlisted options, and confirmed through a joint meeting with mayors and chief executives that work should proceed on the basis that:

- The regional delivery model will be a jointly owned CCO
- The model should include all three waters
- Other structural options, such as full or partial ownership by a community trust, could be disregarded for now. The option to transfer ownership to a community trust at a later date will always remain.

Council members of the working group have yet to agree on their preferred delivery models for consultation. However, no alternative regional models are being considered, meaning this report deliberately focuses on the remaining options, being:

1. **Business unit:** In house delivery by council with financial ringfencing.
2. **Wholly owned WSE:** An individual 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.
3. **Jointly owned WSE:** A single WSE responsible for all elements of water services delivery. Councils would not own three waters assets, set charges or manage their three waters debt under a WSE model. Arrangements could be agreed around the approach to harmonising prices or ringfencing some debt.

To allow meaningful comparison of options a set of five strategic objectives was endorsed after refinement of those developed and endorsed by chief executives and mayors from the Otago and Southland region and were endorsed for adoption by the original four councils of the Working Group. 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.

Options have been assessed against these strategic objectives within this report.



Strategic objectives

Strategic objectives help guide the development and assessment of options. 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 outlined in Figure 4 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.

Figure 4 Investment objectives

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.



The strategic objectives are explained further in Table 1 below. The objectives outlined in Table 1 include alignment to the 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.



Table 1 Strategic objectives alignment to four wellbeings

	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 	<ul style="list-style-type: none"> Three waters services and assets are resilient Provision of reliable, continuous services 	<ul style="list-style-type: none"> Economic and population change is supported through the provision of infrastructure 	<ul style="list-style-type: none"> Services provision recognises the diversity in need for three waters infrastructure across our communities 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Services respect the cultural significance of water and receiving environments Service provision reflects our role as kaitiaki for the natural environment 	<ul style="list-style-type: none"> The intergenerational impacts of investment are considered 	<ul style="list-style-type: none"> A delivery model that allows for effective engagement with stakeholders 	<ul style="list-style-type: none"> Strong relationships are held with Runaka Runaka are provided meaningful opportunities to contribute to decision making 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Public health is at the heart of decision making Services will be compliant with all consents, regulatory standards and drinking water standards 	<ul style="list-style-type: none"> Communities are given access to three waters services that they need 	<ul style="list-style-type: none"> Investment in small communities is maintained No community is left out 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Three waters services are delivered in a way that is more affordable than the alternative
Environmental Wellbeing 	<ul style="list-style-type: none"> The health of marine, estuary and freshwater environments is reflected through our approach to network management and service provision 	<ul style="list-style-type: none"> Investment decisions balance growth demands against environmental outcomes 	<ul style="list-style-type: none"> Investment planning and service delivery recognises differences in the local environments of our communities 	<ul style="list-style-type: none"> Access to a broad range of skills and resources supports innovation and investment planning that produces good environmental outcomes 	<ul style="list-style-type: none"> Investments consider the long term environmental impacts to reduce whole of life costs



Comparison of the options

While earlier work considered a broad long list of options for collaboration, these are not considered further in this report.

For the purposes of this report, three options are assessed.

- An in house business unit with financial ringfencing for each council
- A wholly owned WSE for each council
- A Southern WSE, owned by the constituent councils of the Working Group.

These 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 work undertaken for the Working Group.

Option 1 – In house Business Unit

This option involves councils providing three waters services through an internal business unit or division. This includes no formal collaboration between councils for the ongoing delivery of water services.

While this option most closely resembles the status quo delivery model for many councils, it is clear that future three waters delivery is not the same as the status quo, with key differences provided in the legislation.

The new statutory requirements for all water service providers will apply, including meeting statutory obligations and financial principles (ringfencing and financial sustainability requirements) and sustainability requirements, and separate new planning and reporting frameworks for water services. All models are subject to the economic regulation regime described above. The combined impact of these changes will be significant and mean that the future of three waters service delivery looks different to current arrangements

While this option may resemble the “status quo” there will be some key differences in the model due to the new regulations, this will include:

- New financial statements and financial reporting being required
- The need to prepare a water strategy
- Increased scrutiny and the need for clear separation of finances for three waters
- The influence of an economic regulator on revenue and price setting, and its ability to direct councils to make certain investment in its network
- New information disclosure requirements, and associated penalties for non-compliance, and their impact on staff workloads.

Councils may wish to consider establishing a three waters sub-committee with independent members to supplement elected members skills in their governance role. Structural change may be required in some cases to support ease of financial ringfencing.

Financial modelling of the in house delivery model option was undertaken as part of this programme of work for comparative purposes. That modelling and the outcomes it projects may differ from council LTPs or financial projections, as it applies a standard set of assumptions.



Benefits

- No significant changes to water service delivery approach, ownership or structure (if status quo)
- Local ownership is maintained through the usual council governance oversight and reporting to council through established internal processes
- Councils maintain oversight and some control over the programme of work and prioritisation of investment
- Minimum changes to meet legislative requirements.

Risks and disadvantages

- Significant additional administration requirements and costs to ring fence water and meet regulatory requirements
- Significant additional reporting and compliance obligations
- Likely increased scrutiny from the Government, Commerce Commission, and Taumata Arowai than may be afforded to WSEs
- Economic regulation activity may have broader impacts on Council to allow the Commerce Commission to be satisfied that councils have appropriately applied ringfencing provisions
- For most of the councils in the Working Group the increased borrowings to support three waters investment will impact their ability to invest elsewhere, with some having no borrowing head room to support activities other than three waters
- Councils will continue to compete for contracting resources and employees, and an inhouse delivery model is likely to provide a less attractive career path than alternative models
- Councils will have limited discretion in the setting of water charges, or investment needs, with an economic regulator setting many of these requirements
- There is a limited pool of expertise for staff with infrastructure regulation experience. These skills will be necessary in any future service delivery model, and roles in larger WSEs will be more attractive
- Will result in higher water charges than a Southern WSE which maintains local pricing
- May lead to some councils seeking to cut other services to keep overall cost increases for ratepayers and water consumers lower.



Option 2 – Wholly owned WSE

This option involves a council establishing their own wholly owned WSE responsible for that council's water services delivery.

This would involve major structural change, with the establishment of a new company with its own CEO, board of directors and management structure. The WSE may be able to procure some services from its parent council (at least in the short term).

Under this model:

- The WSE would be responsible for full water services including stormwater
- Councils would transfer assets, debt and powers to raise revenue
- Stranded overheads of the individual councils will not be compensated by the WSE, however the WSE may have the ability to procure services from shareholder councils in order to minimise the impact of stranded overheads
- Councils will be required to provide a guarantee or uncalled capital to the WSE to enable it to borrow through the Local Government Funding Agency
- 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 WSE and the economic regulator and will be independent of council influence.

Benefits

- Each CCO would be 100% owned by their respective council. This provides a level of more direct accountability between the WSE and the council owners when compared to a Southern WSE
- Financial separation of water debt (and revenue), reducing pressure on council balance sheets
- Board appointments made by council appointment process, comprising independent professional directors
- Councils will not be directly impacted by economic regulation activities themselves
- Can access Local Government Financing up to the equivalent of 500% of operating revenues with the provision of parent support (through proportional guarantee or uncalled capital), although borrowing will be measured based on a Free Funds from Operations to debt ratio agreed with LGFA
- The WSE will set its own budgets and will control all the risks of delivering three waters services, this will enable the WSE to direct investment to where it is needed the most without competing for scarce resources (funding and staff)
- The WSE 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 WSE will be solely accountable to its customers/communities for the setting of water charges
- Certainty of long term funding creates opportunity to develop long term, consistent, pipelines of projects creating some efficiencies
- Core capability and higher wage jobs remain in the District when compared to a Southern WSE



- Independence and a singular focus on the delivery of three waters services means that the WSE can be better aligned to meeting the requirements of economic regulation and delivering the right infrastructure at the right time.

Risks and disadvantages

- Control will be more limited than a traditional CCO; the Commerce Commission and Taumata Arowai will exert significant control over the decision making of any water supplier through their regulatory powers including directing investment requirements and water fee/revenue requirements
- Competition for competent, skills based board members will be high, with a limited pool of qualified people. This may result in higher board fees, difficulty filling board positions, or the need to employ board members that are less qualified than members of jointly owned WSE boards
- A wholly owned CCO will lack financial and workforce resilience, as it will be smaller than existing councils, and have a smaller revenue base
- Competition for contractors and resources remains, as a large number of small WSEs and councils run operations independently of each other
- Recruitment and retention difficulties will likely continue, as larger jointly owned WSEs will be able to offer more career opportunities and development paths
- A wholly owned WSE will probably need to comply with stricter borrowing covenants than a larger, jointly owned WSE
- There is a limited pool of expertise for staff with infrastructure regulation experience. These skills will be necessary in any future service delivery model, and roles in larger WSEs will be more attractive
- Additional costs and complexities of establishing a CCO are created but a wholly owned WSE is not of sufficient scale to create meaningful benefits
- A wholly owned WSE will lack scale, meaning its procurement power will be weaker, impacting investment and service costs, and it will still be reliant on external consultants for some skills and expertise as it will not have a large enough programme to justify bringing these in house.



A Multi Council Water Service Entity

This option involves the four councils of the Otago and Southland regions establishing a water services entity (Southern WSE) that is responsible for all of the elements of water services delivery for its shareholding councils/shareholders. A targeted establishment date is proposed as 1 July 2027.

A number of assumptions representing key decisions in principle are built into this model. These are set out in more detail in the next section, Design Principles, but in summary :

- The WSE would be responsible for full water services including stormwater
- Councils would transfer assets, debt and powers to raise revenue
- There would be no requirement for a regional price to be adopted at establishment, or over any specific period of time
- Regionally consistent pricing will be applied at the earliest point and residential charges under this model for three waters services will not be any higher than otherwise would have been to deliver the same amount of total investment
- Stranded overheads of the individual councils will not be compensated by the WSE, however the WSE may have the ability to procure services from shareholder councils in order to minimise the impact of stranded overheads
- Rural water schemes will need to be worked through on a case by case basis, however it is assumed that the management and ownership of these schemes is transferred to a water entity unless existing scheme users agree to a community ownership model
- It is assumed that a Southern WSE will be empowered to set charges differentially, based on the level of service received (for example rural and urban water may attract different charges)
- Shareholding will be allocated evenly per council but without dividends being paid. Shareholdings have been determined on a “one share per council” basis to ensure that no council has more influence than any other, and to facilitate easier inclusion of additional shareholders at a later date
- Debt guarantees or uncalled capital requirements from LGFA will be determined using a pre-agreed methodology that will likely consider the opening debt position of each council and its future investment needs
- There is no assumption that debt would be “pooled” across all ratepayers. Ringfencing of debt is one mechanism that may be able to be used to achieve local pricing
- 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 the economic regulator and will be independent of council influence.

Benefits

- Standardisation of asset management systems, practices and data will improve planning across the regions
- A shared workforce increases resilience to staff vacancies, and provides improved career opportunities across the regions



- Combined scale of WSE may mean expertise, specialisation or systems are able to be utilised that a single council would not otherwise be able to provide. This may include the ability for a WSE to employ resources that it would otherwise need to procure from consultants
- Standardisation of contract management approach and procurement process, as well as the development of larger programmes of work, will improve the WSE's attractiveness in the contractor market and lead to greater efficiency
- Financial separation of water debt (and revenue), reducing pressure on council balance sheets
- Certainty of long term funding creates opportunity to develop long term, consistent, pipelines of projects creating some efficiencies
- Can access Local Government Financing up to the equivalent of 500% of operating revenues with the provision of parent support (through proportional guarantee or uncalled capital)
- The WSE will set its own budgets and will control all the risks of delivering three waters services, this will enable the WSE to direct investment to where it is needed the most without competing for scarce resources (funding and staff)
- The WSE will be financially independent from councils, allowing it to more easily meet the future requirements to produce separate financial statements and water services strategies
- Independence and a singular focus on the delivery of three waters services means that the WSE can be better aligned to meeting the requirements of economic regulation and delivering the right infrastructure at the right time
- Councils will not be directly impacted by economic regulation activities themselves
- The water entity will be solely accountable to its customers/communities for the setting of charges
- The WSE will have the scale to attract high quality independent directors and economic regulation specialists together with the skilled staff required
- Can provide lower residential three waters charges to all water consumers than the in house delivery model if localised pricing is adopted.

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 compared to under the Council inhouse option
- The WSE 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, and guiding principles regarding the setting of water charges may be incorporated within shareholders agreements, the constitution and statements of expectation
- There may be a loss of some high value jobs in small districts, but given the geography covered, the WSE will likely need a presence of skilled staff in each district.
- 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



- There may be a reduction in the level of control that is able to be exerted by shareholder councils, however the regulatory activities of the Commerce Commission and Taumata Arowai will result in reduced control in all delivery models
- A larger WSE is less able to procure services from individual councils, meaning the impact of stranded overheads may be more acute.



Design principles of a Southern WSE

There are a number of key decisions regarding a Southern WSE which may impact its ability to extract financial and non-financial benefits. These design elements may be important for decision makers to understand when considering different options.

A workshop with the Chief Executive Officers and Council Executive Group members was held on 13 February 2025 to discuss some of the key principles for WSE design.

What has been decided

The workshop on 13 February 2025 considered a number of key WSE design principles. In most cases, these are to be considered “guiding principles” which are subject to further detailed design work before formal decisions are made. In particular, the following principles were agreed:

- Price harmonisation and its implications were debated. There was a general agreement that this would be desirable over time, however the working principle adopted was that “residential charges for three waters services will not be any higher than they otherwise would have been under a council delivery model for the same level of local investment”. Over time, this principle may allow the WSE to reduce the total number of geographically distinct charges that it sets
- The WSE would be a jointly owned council controlled organisation, with no involvement from consumer trusts
- That the WSE would have responsibility for delivering stormwater services. The precise arrangements behind that, including whether ownership is to transfer or whether this would be through a contractual model was yet to be determined
- Stranded overheads and how to address them were discussed, including potential service sharing and cost allocation. There was general preference to avoid any model where the WSE compensates councils for stranded overheads (without precluding the ability for the WSE to procure services from councils)
- That shareholding should be on an “equal rights” basis. That is, each council shall have equal shareholding and equal decision making rights within the proposed WSE. Other shareholding options were considered, however an equal shareholding approach was considered to be the most appropriate model to enable entry and exit of councils from the model in future years
- Decisions regarding appointment of board members or adoption of a statement of expectations should be on the basis of a majority, and will not be required to be unanimous. While a requirement for unanimous decisions was considered, it was determined that this would likely be challenging to achieve
- A target establishment date of 1 July 2027 was determined to be appropriate. There were concerns that moving at greater pace than this would be challenging, particularly given local government elections in late 2025
- It was agreed that the group would engage with Ngāi Tahu to try and define a meaningful role for iwi within the WSE. No decisions were made on what that role would look like, however it was agreed that this should be meaningful but not reach as far as the previous reform
- It was agreed that the WSE should have no intention of paying a dividend



- It was agreed that there would be a need for a shareholder representative group to be established to manage appointments of the board of directors, the development of a statement of expectation, and to fulfil the councils' governance and oversight roles. The number of representatives from each council to that committee, and the voting mechanisms are yet to be determined.

What has yet to be decided

There are a number of WSE design elements that are yet to be agreed, and the detail regarding these will need to be worked through post-consultation. These include, but are not limited to:

- The precise role of mana whenua/iwi in the governance arrangements
- Whether the WSE has a "head office" and where that "head office" may be located
- The extent of any shared services that may be procured from councils, and on what terms
- The actual management and governance structure
- The arrangements for allocating financial guarantees or uncalled capital requirements to councils (for example is this based on shareholding, opening debt, future investment?)
- A detailed funding and pricing plan for the WSE including local and regional price differences
- A combined capital works programme, and the development of any principles or processes to ensure that investment is allocated/prioritised fairly
- The number of representatives from each council on the shareholders representative group
- The mechanisms to incorporate consumer or ratepayer feedback
- Any restrictions or processes that need to be adopted during the transition period between adoption of a (joint) WSDP and the establishment of a WSE (for example renewal of contracts or commitment to new capital works)
- The arrangements for the transfer of stormwater services.

Many of these decisions will be worked through and incorporated in either:

- The implementation plan for the WSE
- A shareholders agreement, constitution or first statement of expectations for the WSE
- Left to be decided by the WSE itself.

Rural schemes

The councils in the working group include rural and provincial councils. These councils provide a range of different levels of service for drinking water to their communities. A few councils include rural water schemes which provide drinking water for human consumption as well as water used only for livestock and/or irrigation.

The provision of water to rural communities is fundamentally different to the provision of water in an urban setting. In particular:

- The level of treatment provided may differ (particularly if the scheme is not intended to be used for drinking water)
- By volume, the majority of water is used for purposes other than human consumption



- The schemes are often low pressure, trickle feed systems, rather than on demand schemes
- They are proportionally very large, with fewer connections per kilometre of pipe
- They have large volumes of water consumed by a small number of customers
- They may have a different charging mechanism (often sold in units of entitlement rather than volumetric or fixed price charges)
- They may have more hands on management or governance, for example through a rural water scheme committee.

This report, and the underlying financial modelling, does not specifically deal with rural water schemes. For the purposes of this report, rural water schemes are part of the water supply activity, and rural water users are treated as being residential connections for the first unit that they purchase only. Further refinement of this assumption over time may mean that average residential waters charges, and charges for rural water schemes, will be revised.

As work progresses on further developing arrangements for the Southern WSE, decisions will need to be made on the following matters, in consultation with rural water users:

- Whether a different price is set for rural and urban water. It is currently proposed that the WSE will be able to set different charges based on level of service received and geographic location
- What the governance or management role for rural water may look like, including whether there are mechanisms to preserve some of the functions of rural water scheme committees.

Commercial users

The report, and the underlying financial modelling focusses mainly on residential three waters customers. To do so, we:

- Determine the total revenue requirement for the WSE
- Multiply that by the expected percentage of revenue to come from residential customers (based on each council's current proportions)
- Divide the result by the number of residential customers.

This approach is adopted because it is recognised that a small number of commercial connections can contribute a large percentage of total revenue for some councils. This is particularly true for rural and provincial councils.

We do not report the impact on water charges for commercial customers. However, given our high-level approach does not assume any change in the underlying tariff structure for each council, the annual percentage increase in rates for residential customers can assumed to be equally relevant for commercial customers in our modelling. That is, the shape of the curve in our graphs would be consistent between residential and commercial customers.



Multi-criteria analysis

Approach

A desktop assessment of the three options for three waters service delivery against the agreed strategic objectives was carried out by Morrison Low. The assessment relied on qualitative assessment (for non-financial criteria) and quantitative assessment for the financial sustainability criteria.

In completing the assessment, investment objectives were applied an equal weighting (so all criteria totalled 100%).

Options were assigned a score between -3 and +3. A score of -3 represented that the option had significant negative effects against the relevant assessment criteria, while a score of +3 represented significant positive effects. A score of zero indicated that the option resulted in neither an improvement nor deterioration of outcomes. Options were assessed against the “In house business unit” for comparative purposes. While not the status quo, this option is considered to be the default option should no change otherwise be made.

Results

The results of the Multi Criteria analysis (MCA) are shown in Table 2 below. The full results of the Multi Criteria Analysis, including relevant commentary are included in **Appendix One - Non financial MCA**. The scores assigned to objective 5 (the financial sustainability criteria) may vary between councils. However, the non-financial criteria are considered to be consistent across all councils.

Table 2 Summary of MCA analysis

	Objective					Total score
	Delivery of safe and healthy water	Responsive to changing environment and demand	Responsive to local needs	Efficient and effective delivery of three waters	Financially sustainable and enduring	
In house business unit	0	0	0	0	0	0
Wholly owned WSE ²	1	-1	0	-1	-1	-0.4
Southern WSE	2	1	-2	3	1	1.0

The difference between scores are significant, indicating that there would need to be a large shift in scores to change the overall outcome of the MCA.

² The scoring for a wholly owned WSE can change depending on the council. The score in the table reflects the assessment that applies to most of the councils. Any differences are highlighted in the text below the table.



The assessment highlights significant benefits for a Southern WSE model, reflecting:

- The benefits of scale in improving financial and workforce resilience, and providing greater access to specialists, high quality board members, and good staff
- The consequences of regionalisation on local decision making and outcomes, and a potential loss of some local high value jobs. Many of these risks may be mitigated through WSE design and implementation
- Scale providing increased opportunities to obtain efficiencies through certainty of funding and consistent systems and processes
- The benefits of financial autonomy and scale providing financial resilience
- The results of indicative financial modelling which identified that there are opportunities for the WSE to levy lower household charges across all districts than would be the case with the in house option or wholly owned WSE.

Impacts on levels of service

Multi criteria analysis also considered the impacts of the three options on the levels of service provided to water consumers in the districts represented by councils in the Working group. Under all models, we expect that water consumers will receive the same quality, quantity and pressure of water over the next 5 – 10 years. A comparison of the differences in levels of service over that time period is summarised in the table below:

Table 3 Level of service impacts

	Council Operated Enhanced service	Wholly owned WSE	Southern WSE
Quality and safety of water	<ul style="list-style-type: none"> • No change 	<ul style="list-style-type: none"> • No change 	<ul style="list-style-type: none"> • No change
Quantity and pressure of water	<ul style="list-style-type: none"> • No change 	<ul style="list-style-type: none"> • No change 	<ul style="list-style-type: none"> • No change
Responsiveness to faults/complaints	<ul style="list-style-type: none"> • No change 	<ul style="list-style-type: none"> • May have minor improvements 	<ul style="list-style-type: none"> • May have minor improvements due to improved contract management • May have reduced local presence, however given the geographical area this is likely to be a minor impact
Investment in network	<ul style="list-style-type: none"> • No change 	<ul style="list-style-type: none"> • May have minor increase from improved delivery focus 	<ul style="list-style-type: none"> • Will likely increase as a result of improved delivery • May differ across districts as work programmes are prioritised to manage scarce resources (contractors, staff and funding)
Summary	No Change	May have minor improvement	Likely to result in minor improvement



Over a longer period of time, we would expect that a larger water entity will have an improved ability to attract and retain staff, and to be able to afford to hire staff with a broader range of skills and specialisations. This, alongside increased ability to leverage debt, improved asset management practices, and dedicated focus should lead to better investment in the network, leading to fewer faults, improved responsiveness, and overall higher levels of service.

There are also opportunities for greater efficiency with scale. A Southern WSE would have access to a broader range of skills and specialisations than the in house option or wholly owned WSE, This could support resilience and generate efficiencies through reduced reliance on consultants.



Financial modelling

Introduction

This section summarises the initial outputs of our financial modelling for a Southern WSE.

The modelling compares a “comparator case” with a Southern WSE. 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. The comparator case is necessary to ensure that financial results are compared using the same base assumptions, and that only differences that are the result of a change in delivery model are reflected.

The initial results focus on key metrics:

- Household charges for three waters
- Capital investment
- Debt

Detailed financial modelling assumptions are outlined in **Appendix Three** - Modelling assumptions

Assessment of risk

The financial modelling applied for this report is particularly sensitive to the size of each council’s capital works programme. This is because the scale of the investment programmes require significant amounts of borrowing, and one of the key differences between in house delivery and the WSE options being considered, is the ability to access debt.

We are also aware that there is large amount of uncertainty surrounding capital programmes for all councils, due to:

- Inherent uncertainty related to long term cost projections, which typically may not have detailed design or may not have been tendered
- The recent release of draft wastewater standards, which are yet to be properly costed
- The transfer of responsibility of setting stormwater standards to Taumata Arowai
- Direction provided to Taumata Arowai to take a pragmatic approach to the application of drinking water standards and regulations which may alter planned investment requirements

To address some of this risk, a high level assessment of the cost assumptions applied by each council was completed by Utility NZ. This assessment identified where there was likely to be material risk of cost estimations being wrong or uncertain. The outputs of this assessment, contained in the report at **Appendix Four** - Southern CCO Programme Assurance Findings, have been used to complete sensitivity testing of the WSE and council business unit models. This is represented by the shaded area in relevant charts.

Details of the sensitivity testing used are also presented in **Appendix Four** - Southern CCO Programme Assurance Findings.



Regional results

Average household charges – local pricing

Figure 5 below presents (nominal) average household charges for the in house business unit for each council against a local price from the Southern WSE through to 2034.

The dotted lines represent the base comparator case (in house business unit) costs for each council, with the solid lines representing the local prices that may be charged by a Southern WSE.

It's important to note that local prices have been set by sharing the WSE's savings proportionately across each council. Alternative pricing models may be adopted, including full ringfencing of debt, interest, operating costs, or total expenditure. However, the modelling demonstrates that the WSE is able to deliver household water charges which are lower for all ratepayers than they otherwise would be through an in house business unit.

7 DATE OF THE NEXT MEETING

The date of the next scheduled meeting is 30 April 2025.