AGENDA

Ordinary Council Meeting
Tuesday, 12 August 2025

Date: **Tuesday, 12 August 2025**

Time: **1.00 pm**

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 Tuesday, 12 August 2025 at 1.00 pm. 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 LClaridge, Cr I Cooney, Cr S Duncan, Cr S Feinerman, Cr C Laws, Cr N McKinlay, Cr M McPherson, Cr T Paterson

In Attendence P Kelly (Chief Executive Officer), L Fleck (Group Manager - People and Culture, Acting Group Manager - Community Vision), F Garrett (Acting Group Manager - Planning, Infrastructure and Regulatory),J Muir (Group Manager - Three Waters), S Righarts (Group Manager - Governance and Business Services), D Scoones (Group Manager - Community Experience), W McEnteer (Governance Manager)

1 KARAKIA

Cr Browne will begin the meeting with a karakia.

2 APOLOGIES

3 PUBLIC FORUM

4 CONFIRMATION OF MINUTES

Ordinary Council Meeting - 30 July 2025

MINUTES OF A COUNCIL MEETING OF THE CENTRAL OTAGO DISTRICT COUNCIL HELD AT ROXBURGH SERVICE CENTRE, 120 SCOTLAND STREET, ROXBURGH AND LIVE STREAMED VIA MICROSOFT TEAMS ON WEDNESDAY, 30 JULY 2025 COMMENCING AT 10.34 AM

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

IN ATTENDANCE: P Kelly (Chief Executive Officer), L Fleck (Group Manager - People and Culture, Acting Group Manager - Community Vision), F Garrett (Acting Group Manager - Planning, Infrastructure and Regulatory), J Muir (Group Manager - Three Waters), S Righarts (Group Manager - Governance and Business Services), D Scoones (Group Manager - Community Experience), P Morris (Chief Financial Officer), R Williams (Community Development Lead), H Harries (Welcoming Communities Officer), D McKewen (Systems and Corporate Accountant), N Lanham (Economic Development Manager), A Lines (Risk and Procurement Manager), N Robinson (Corporate and Strategic Planner), G Robinson (Property and Facilities Manager), G Bailey (Parks and Recreation Manager), Z Zeelie (Team Leader – Statutory Property), H Laverick (Roading Asset Engineer), L Webster (Regulatory Services Manager), W McEnteer (Governance Manager)

1 KARAKIA

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

2 APOLOGIES

APOLOGY

RESOLUTION

Moved: **Alley**
Seconded: **McPherson**

That the apology received from Cr Claridge and early departure for Her Worship the Mayor be accepted.

CARRIED

Note: With the permission of the meeting, item 25.15.2 was moved earlier.

6 COMMUNITY BOARD CHAIR UPDATE

25.15.2 COMMUNITY BOARD CHAIR UPDATE

Norman Dalley, Chair of the Teviot Valley Community Board joined the meeting to discuss matters of interest to the Board. Mr Dalley thanked Council for holding the meeting in Roxburgh.

3 PUBLIC FORUM

Suzie Jones – Water Costs

Ms Jones expressed concerns regarding the increase in rates and queried whether there should be a drop in rates when water went to a Council Controlled Organisation. Ms Jones then responded to questions.

Note: Cr McPherson left the meeting at 10.41 am and returned at 10.44 am.

Gill Booth – Mining Royalties from Millers Flat

Ms Booth addressed the royalties that were being generated from the gold mine at Millers Flat and asked why they were not being directed into projects in the Teviot Valley, for example curb and channel on roads in Roxburgh and mowing of grass verges. She then responded to questions.

Note: Cr Duncan joined the meeting at 10.48 am.

Mark Jessop – Rates

Mr Jessop spoke to rates and affordability. He noted that he did not believe that the Teviot Valley should contribute to the Cromwell Memorial Hall. He also advocated for flexibility regarding the total cost of the new Roxburgh Entertainment Centre. He mentioned the two water schemes in the Teviot Valley and noted that they met water quality requirements. He then responded to questions.

Andy Erskine (via telephone) and Claire Arkel (via Microsoft Teams) (Central Motor Speedway)

Mr Erskine and Ms Arkel spoke to the lease item for the Cromwell Speedway. They noted that it was a large increase from what was agreed before. The believed that it made the speedway look like a commercial business when it was not. They also noted that they had not performed well financially this year due to some meetings being cancelled due to weather. Mr Erskine and Ms Arkel then responded to questions.

4 CONFIRMATION OF MINUTES

RESOLUTION

Moved: **Browne**
Seconded: **Cooney**

That the public minutes of the Ordinary Council Meeting held on 10 July 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. Cr Laws declared an interest in item 25.15.19. She did not take part in the discussion or vote on the item.

7 REPORTS

Note: Owen Booth, Kate Hamilton and Ben Hamilton from Sport Otago joined the meeting for item 25.15.3

25.15.3 SPORT OTAGO'S ACCOUNTABILITY REPORT

To provide a report on the activity of Sport Otago over the past financial year, as required by the Grants Policy.

Staff from Sport Otago gave a report back of their activities for the year before responding to questions.

RESOLUTION

Moved: **Paterson**
Seconded: **Browne**

That the report be received.

CARRIED

Note: With the permission of the meeting, item 25.15.10 was moved earlier.

25.15.10 JOURNEY TO AN ESTABLISHED WELCOMING COMMUNITY

To share highlights from the Central Otago Welcoming Communities programme – including its progression to an Established Welcoming Community (Stage 2) classification through the Ministry of Business, Innovation and Employment (MBIE) – and to provide insight into the programme's direction for the next 12 months.

Staff gave an update on the Welcoming Communities programme before responding to questions.

RESOLUTION

Moved: **Feinerman**
Seconded: **Browne**

That the report be received.

CARRIED

25.15.4 RANFURLY AND PATEAROA BOIL WATER ADVISORY LEVEL OF SERVICE

To consider different level of service options and costs for supply of water to Ranfurly and Patearoa until treatment plant upgrades are completed.

RESOLUTION

Moved: **McPherson**
Seconded: **McKinlay**

That the Council

A. Receives the report and accepts the level of significance.

B. Approves the installation of a temporary protozoa barrier loaned from Selwyn District on the Ranfurly Water treatment plant.

C. Agrees that installation of the temporary barrier, and provision of tankered drinking water while the treatment upgrades are completed be funded as a mix of operational and capital cost to the Ranfurly and Pateraroa Water Treatment Plant upgrades.

CARRIED

25.15.5 REMISSION OF EXCESS WATER CHARGES

To consider whether Council wishes to remit excess water charges.

RESOLUTION

Moved: **McKinlay**
Seconded: **Cooney**

That the Council

A. Receives the report and accepts the level of significance.

B. Declines the application to remit 100% of excess water charges of $4,417.68 and applies the current remission policy relating to excess water charges of 50%.

CARRIED with Crs Gillespie and Laws recording their votes against

Note: Cr McKinlay left the meeting at 12.17 pm.

25.15.6 AMENDMENT TO THE RATES REMISSION POLICY TO ALLOW FOR THE REMISSION OF WATER RATES IN CERTAIN CIRCUMSTANCES

To consider amending the current rates remission policy to allow for the remission of water rates in certain circumstances.

After discussion it was agreed that this was an issue that should be decided by the new council after it comes into power in October.

RESOLUTION

Moved: **Alley**
Seconded: **Paterson**

That the Council

Agrees to leave the item to lie on the table to be considered by the new Council

CARRIED

Note: Cr McKinlay returned to the meeting at 12.21 pm.

25.15.7 FINANCIAL DASHBOARD 31 MAY 2025

Inform Council of the financial reporting tools currently presented to Council Executive and gain Council's view on the usefulness to the councillors of this tool for governance of the business.

Staff gave an overview of the new dashboard and asked for any feedback on its contents and presentation. It was noted that this dashboard had no allocated overheads. After discussion it was agreed to change the colour scheme and have A3 copies available for Councillors if they need them.

RESOLUTION

Moved: **Laws**
Seconded: **Browne**

That the report be received.

CARRIED

25.15.8 FINANCIAL REPORT FOR THE PERIOD ENDING 31 MAY 2025

To consider the financial performance for the period ending 31 May 2025.

RESOLUTION

Moved: **Paterson**
Seconded: **Feinerman**

That the report be received.

CARRIED

25.15.9 LETTER OF SUPPORT FOR RATEPAYER ASSISTANCE SCHEME

To consider the request from Rewiring Aotearoa for an in-principle letter of support for the Ratepayer Assistance Scheme (RAS).

RESOLUTION

Moved: **McPherson**
Seconded: **Browne**

That the Council

A. Receives the report and accepts the level of significance.

B. Approves the letter of support.

C. Notes the possibility of a future discussion regarding investment into RAS.

CARRIED

Note: Crs Duncan and McPherson and Her Worship the Mayor left the meeting at 1.04 pm and did not return.

Note: The meeting adjourned at 1.04 pm and returned at 1.35 pm.

Note: Cr Gillespie assumed the Chair.

25.15.11 CROMWELL LAND INVESTMENT STRATEGY

To consider approval of the Cromwell Land Investment Strategy.

After discussion it was agreed that an appendix with maps and current capital values should be added to give context to the document.

RESOLUTION

Moved: **McKinlay**
Seconded: **Laws**

That the Council

A. Receives the report and accepts the level of significance.

B. Approves the Cromwell Endowment Land Investment Strategy.

C. Directs staff to include an appendix with maps of endowment land and current capital values.

D. Agrees that this strategy is reviewed in one year's time, and then every three years to align with the local body election cycle.

CARRIED

25.15.12 REMUNERATION AUTHORITY DETERMINATION 2025 AND UPDATE TO THE ELECTED MEMBERS ALLOWANCES AND REIMBURSEMENT POLICY

To consider the recent determination from the Remuneration Authority and changes to the Elected Allowances and Reimbursement Policy.

RESOLUTION

Moved: **Paterson**
Seconded: **Browne**

That the Council

A. Receives the report and accepts the level of significance.

B. Notes the 2025/26 determination from the Remuneration Authority.

C. Adopts the revised Elected Allowances and Reimbursement Policy to reflect the 2025/26 Determination.

CARRIED

25.15.13 2024/25 ORGANISATIONAL BUSINESS PLAN: THIRD QUARTER RESULTS

To consider expanded narratives for performance measures not achieved in the third quarter of 2024/25.

Staff gave an update on requested figures from a previous meeting.

RESOLUTION

Moved: **Paterson**

Seconded: Cooney

That the report be received.

CARRIED

25.15.14 CAPEX REPORT ON CROMWELL MEMORIAL HALL

To provide capex updates on the Cromwell Memorial Hall Project.

RESOLUTION

Moved: Feinerman
Seconded: Laws

That the report be received.

CARRIED

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

25.15.15 APPOINTMENT OF CEMETERY TRUSTEES

To approve the appointment of Cemetery Trustees to various Trust operated Cemeteries under delegation.

RESOLUTION

Moved: Browne
Seconded: Laws

That the Council

A. Receives the report and accepts the level of significance.

B. Appoints in accordance with section 24 of the Burial and Cremations Act 1964 the following Cemetery Trustees -

Millers Flat Cemetery Trust:

Pam	P	Reichel	Roxburgh 9572
Hilary	H	Paterson	Roxburgh 9572
Forbes	F	Knight	Millers Flat
Norman	N	Paterson	Roxburgh 9572

Kyeburn Cemetery Trust:

David	D C	Crutchley	Ranfurly 9396
Valerie	V	Smith	Ranfurly 9396
Phillip	P	Smith	Ranfurly 9396
Peter	P J	Hore	Ranfurly 9396
Charles	CA	Crutchley	Ranfurly 9397
Graeme	GJ	Brown	Ranfurly 9398

Gimmerburn Cemetery Trust:

Max	M	Paterson	Ranfurly 9398
Colin	CT	Paterson	Ranfurly 9446
Mark	MS	Paterson	Ranfurly 9395
James	JRC	Paterson	Ranfurly 9395
Angela	AL	Scott	Ranfurly 9396
Simon	SD	Paterson	Ranfurly 9395
George	GR	Paterson	Ranfurly 9396
Duncan	DA	Helm	Ranfurly 9397
Stephen	SJ	Blakely	Ranfurly 9395
Jeffery	JL	Cleugh	Dunedin 9010
	AG	Clarke	Ranfurly 9395

Drybread Cemetery Trust:

Tony	T	Glassford	Omakau 9376
Karen	K	Glassford	Omakau 9377
Mark	M	Huddleston	Omakau 9376
Murray	M	Heckler	Omakau 9377
Tom	T	Moran	Omakau 9352
Jo	J	Moran	Omakau 9352
Ross	R	Naylor	Omakau 9376
Rodger	R	Williams	Omakau 9376
Nikki	N	Williams	Omakau 9376
Alistair	A	Groundwater	Omakau 9376
Barbara	B	Groundwater	Omakau 9376

C. Notes that the names will be publicly notified.

CARRIED

25.15.16 RESERVE LAND STATUS CLASSIFICATION REPORT

To consider

a) declaring and classifying reserve land held under the Local Government Act 2002

b) classifying reserve land held under the Reserves Act 1977

c) starting the process to revoke the reserve status land held under the Reserves Act 1977

d) approve public notification where required

e) consider submissions received

RESOLUTION

Moved: **McKinlay**
Seconded: **Browne**

That the Council

A. Receives the report and accepts the level of significance.

B. Approves public notification of proposals to declare as reserve and classify according to their primary purpose 10 parcels of land, pursuant to section 14(2) of the Reserves Act 1977, as described in Attachment 1 of this report.

C. Approves five parcels of land to be declared as reserve and classified according to their primary purpose, pursuant to section 14(1) of the Reserves Act 1977, as proposed in Attachment 2 of this report.

D. Confirm that 10 parcels of land will continue to be held under the Local Government Act 2002 as described in Attachment 3 of this report.

E. Approve the proposed classification of 54 parcels of reserve land pursuant to section 16(2A) of the Reserves Act 1977, as described in Attachment 4 of this report.

F. Approve public notification of the proposals to start the process to revoke the reserve status of three land parcels pursuant to section 24(2) of the Reserves Act 1977 described in Attachment 5 of this report.

G. Consider all submissions received, before making final recommendations.

CARRIED with Cr Gillespie recording his vote against

25.15.17 RATIFICATION OF THE CROMWELL COMMUNITY BOARD RESOLUTION 25.4.4 (PROPOSED NEW LEASE TO CROMWELL BIKE PARK INCORPORATED ON NELPLUSULTRA RECREATION RESERVE)

To consider ratifying the Cromwell Community Board Resolution 25.4.4 recommending the granting of a new lease to the Cromwell Bike Park Incorporated on an area of 1 Hectare (more or less) of the Neplusultra Recreation Reserve, being part of Lots 1 and 2 Deposit Plan 19357.

RESOLUTION

Moved: **Gillespie**
Seconded: **Browne**

That the Council

A. Receives the report and accepts the level of significance.

B. Agrees to ratify Resolution 25.4.4 to grant a lease to Cromwell Bike Park Incorporated on leased areas indicated on Figure 1 of the report of the Neplusultra Recreation Reserve, being part of Lot 2 Deposit Plan 17280 on the following terms and conditions:

- Commencement 1 July 2023
- Term Fifteen (15) years
- Right of Renewal One (1) right of renewal for another Fifteen (15) years
- Rental $1 per annum (if demanded)
- Outgoings 100%
- Final Expiry Date 30 June 2053
- Cancellation Clause Five (5) years advanced notice of cancellation

C. Authorises the Chief Executive to all that is necessary to give effect to the resolution.

CARRIED

Note: Cr Paterson assumed the Chair as the Roading portfolio deputy lead.

25.15.18 ROAD STOPPING ADJACENT TO 34 MUTTON TOWN ROAD - MUTTON TOWN LIMITED

To consider ratifying the resolution made by the Vincent Community Board at its meeting held on 29 July 2025 regarding a proposal to stop part of unformed legal road adjacent to rapid 34 Mutton Town Road in accordance with the provisions of the Public Works Act.

RESOLUTION

Moved: **McKinlay**
Seconded: **Laws**

That the Council

A. Receives the report and accepts the level of significance.

B. Agrees to approve the proposal to stop the unformed legal road, as shown in Figure 3 (the Scheme Plan), in accordance with the provisions of the Public Works Act 1981, subject to:

- The proposed marked ‘Section 1’ on the Scheme Plan as shown in Figure 3 of the report being stopped and amalgamated with Record of Title OT 9B/1133.
- The stopping and legislation being approved by the Minister of Lands.
- The final survey plan being approved by the Chief Executive.
- The owner of 34 Mutton Town Road pays all the cost in relation to the road stopping.

C. Authorises the Chief Executive to do all that is necessary to give effect to the resolution.

CARRIED

Note: Cr Laws declared an interest in item 25.15.19. She did not take part in the discussion or vote on the item.

25.15.19 ROAD RENAMING APPROVAL REPORT - KAWARIKI COURT

To ratify the Cromwell Community Board’s recommendation to rename Plover Court to Plover Lane, and Kawariki Court to Plover Lane.

RESOLUTION

Moved: **Gillespie**
Seconded: **Feinerman**

That the Council

A. Receives the report and accepts the level of significance.

B. Agrees to rename Kawariki Court to Plover Lane.

C. Agrees to rename Plover Court to Plover Lane.

CARRIED

Note: Cr Gillespie resumed the Chair.

25.15.20 ALCOHOL FEES AND CHARGES

To consider updating Council's fees and charges for alcohol licence fees to include GST.

RESOLUTION

Moved: **McKinlay**
Seconded: **Paterson**

That the Council

A. Receives the report and accepts the level of significance.

B. Agrees to amend the 2025 / 2026 fees and charges to include GST as reflected in the Sale and Supply of Alcohol (fees) Regulations 2013.

CARRIED

25.15.21 DOG CONTROL POLICY AND PRACTICES REPORT 2024 - 2025

To consider the dog control policy and practices undertaken during the 2024/2025 registration year.

RESOLUTION

Moved: **McKinlay**
Seconded: **Cooney**

That the report be received.

CARRIED

8 MAYOR'S REPORT

25.15.22 MAYOR'S REPORT

The meeting received the written report from Her Worship the Mayor.

RESOLUTION

Moved: **Gillespie**
Seconded: **Feinerman**

That the Council receives the report.

CARRIED

9 STATUS REPORTS

25.15.23 JULY 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: **Browne**
Seconded: **Feinerman**

That the report be received.

CARRIED

10 COMMUNITY BOARD MINUTES

25.15.24 MINUTES OF THE VINCENT COMMUNITY BOARD MEETING HELD ON 9 JUNE 2025

RESOLUTION

Moved: **Feinerman**
Seconded: **Laws**

That the unconfirmed Minutes of the Vincent Community Board Meeting held on 9 June 2025 be noted.

CARRIED

25.15.25 MINUTES OF THE CROMWELL COMMUNITY BOARD MEETING HELD ON 17 JUNE 2025

RESOLUTION

Moved: **Feinerman**
Seconded: **Laws**

That the unconfirmed Minutes of the Cromwell Community Board Meeting held on 17 June 2025 be noted.

CARRIED

11 DATE OF NEXT MEETING

The date of the next scheduled meeting is 12 August 2025.

12 RESOLUTION TO EXCLUDE THE PUBLIC

RESOLUTION

Moved: **Gillespie**

Seconded: Browne

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
25.15.26 - Ratification Of Cromwell Community Board Resolution 25.4.11 (Proposal To Approve A New Lease With Central Speedway Cromwell Incorporated)	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	Commercial sensitivity
25.15.27 - Te Korowai Performance Assessment Submission	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	To protect a person's privacy
25.15.28 - Underground Infrastructure Insurance	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) 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 enable commercial or industrial negotiations To prevent use of the information for improper gain or advantage
25.15.29 - 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
25.15.30 - July 2025 Confidential Governance Report	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)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities	Commercial sensitivity To enable commercial activities

25.15.31 - Confidential Minutes of the Vincent Community Board Meeting held on 9 June 2025	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	Commercial sensitivity
25.15.32 - Confidential Minutes of the Cromwell Community Board Meeting held on 17 June 2025	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)(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)	Commercial sensitivity To enable commercial activities To enable commercial or industrial negotiations

CARRIED

The public were excluded at 2.54 and the meeting closed at 4.48 pm.

5 DECLARATIONS OF INTEREST

25.16.1 DECLARATIONS OF INTEREST REGISTER

Doc ID: 2553984

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

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) MPI Teviot Valley Community Hubs group	Breen Construction (Employee / Builder)	Ida MacDonald Charitable Trust Teviot Prospects Teviot Valley Walkways Committee

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)Wooing Tree (Assistant Manager - Cellar Door)Daffodil Day Cromwell Coordinator	Otago Regional Council (Councillor)The Message (Director)	Cromwell Resource Centre TrustOld 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	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)	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)	Omakau Recreation Reserve Committee Ophir Welfare Association Committee Central Otago Health Incorporated

6 REPORTS

25.16.2 SOUTHERN WATER DONE WELL - DECISION

Doc ID: 2553355

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

1. Purpose of Report

The purpose of this report is to present additional matters for Council decision making in relation to Southern Water Done Well. The report includes several recommendations in relation to the Council's Water Services Delivery Plan (WSDP) and establishment of a jointly owned Council Controlled Organisation (CCO), including the potential expansion the group of three Councils to include other councils, including Timaru District Council (TDC) and / or Waitaki District Council (WDC), before or after the submission of the Water Service Delivery Plan (WSDP) on 3 September 2025.

Recommendations

That the Council

1. **Receives** the report and accepts the level of significance.
    a) **Notes** the decision made on 10 July 2025 to:
        i. Adopt subject to receiving further analysis prior to adoption of a Water Service Delivery Plan, a Jointly owned Council Controlled Organisation as the Council's model for the delivery of water services in accordance with section 13(1)(k) of the Local Government (Water Service Preliminary Arrangements) Act 2024.

2. **Receives** the 'Southern Water Done Well Water Services Delivery Plan Model Confirmation and Adoption' report, including the further analysis on the jointly owned Council Controlled Organisation water services delivery model based on Central Otago, Clutha, and Gore District Councils as set out in Attachment 1.

3. **Receives** the written notice of Waitaki District Council to exit the Southern Water Done Well Commitment Agreement as set out in Attachment 5.

4. **Agrees** the Deed of Amendment and Restatement and updated Commitment Agreement between Central Otago, Clutha and Gore District Councils as set out in Attachments 6 and 7.

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5. **Authorises** the Chief Executive to sign the Deed of Amendment and Restatement between Central Otago, Clutha and Gore District Councils as set out in Attachment 6 on behalf of Central Otago District Council including any minor amendments that are required when finalising the document for signing**.**

6. **Notes** the financial analysis in relation to Timaru District Council and for Waitaki District Council joining Southern Water Done Well as set out in Attachments 8 and 9 – ML Financial Analysis.

7. **Agrees** to adopt a jointly owned Council Controlled Organisation of Central Otago, Clutha and Gore District Councils (with scope for other councils to join the" SWDW joint CCO") as the Council's model for the delivery of water services in accordance with section 13(1)(k) of the Local Government (Water Services Preliminary Arrangements) Act 2024.

8. **Agrees** TDC and /or WDC may join the SWDW joint CCO and become party to the Commitment Agreement in accordance with the implementation plan set out in the Water Services Delivery Plan.

9. **Adopts** the Water Services Delivery Plan set out in Attachment 5 for submission to the Department of Internal Affairs by 3 September 2025 for acceptance.

10. **Notes** that in accordance with section 18 of the Local Government (Water Services Preliminary Arrangements) Act 2024 the Chief Executive must provide certification to the Department of Internal Affairs in respect of the information provided by Central Otago District Council that the Water Services Delivery Plan complies with the Local Government (Water Services Preliminary Arrangements) Act 2024 and that the information contained in the plan is true and accurate.

11. **Authorises** the Chief Executive, in conjunction with the Chief Executives of Clutha and Gore District Councils to make minor amendments to the Water Services Delivery Plan (if required) in advance of submission to the Department of Internal Affairs.

12. **Agrees,** following acceptance of the Water Servies Delivery Plan by the Department of Internal Affairs, to establish a jointly owned Council Controlled Organisation in accordance with the Water Services Delivery Plan.

13. **Notes** the willingness of the Council to explore future opportunities for collaboration with other Southern Councils as part of a jointly owned Council Controlled Organisation water services entity.

2. Background

Under the Government's Local Water Done Well Legislation Councils are required to assess and agree a preferred water services delivery model that is financially sustainable, meets government regulatory standards, and supports long-term community outcomes.

Councils must identify and evaluate options, select a preferred option, consult with their community, consider feedback alongside technical and financial analysis, and decide on the option to adopt for the future delivery of water services.

Councils prepare and adopt a WSDP, which outlines how the chosen model will deliver compliant and sustainable water services, before submitting it to the DIA for review and acceptance. The DIA will apply the following three tests in the assessment of the WSDP and whether the Council's water services delivery is financially sustainable:

- Revenue sufficiency – is there sufficient revenue to cover water services delivery costs, including servicing debt
- Investment sufficiency – is the projected level of investment sufficient to meet regulatory requirements and provide for growth
- Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements

In March 2025, Central Otago District Council joined with Clutha and Gore District Councils to form SWDW, to investigate water services delivery options that meet the legislative requirements of Local Water Done Well. This has involved joint technical analysis, financial modelling, legal advice, and independent assurance.

Discussions between the Mayors, Elected Members and Chief Executives of the original four councils (Central Otago, Clutha, Gore, and Waitaki) and TDC led to consideration of expanding the joint CCO to include Timaru.

Morrison Low undertook initial high-level financial modelling, which showed that:

- Including Timaru would be financially beneficial for the original four councils.
- Timaru water consumers could pay less than under an in-house model.

Following presentation of this analysis, TDC approved joining the existing Commitment Agreement on 4 March 2025 but then subsequently decided on 20 March 2025 decided not to join the group. While TDC withdrew from the Commitment Agreement, the Southern Water Done Well group of Councils has continued to maintain contact with TDC regarding the choice of water services delivery model, development of the WSDP and opportunities for future collaboration.

Southern Water Done Well – Central Otago, Clutha and Gore District Councils

The four SWDW Councils (Central Otago, Clutha, Gore and Waitaki) undertook consultation on water service models between May and June 2025. The options included a jointly owned CCO model (Council's preferred option), a standalone CCO and an inhouse business unit. Decision making on the water services model was undertaken between 8 and 14 July 2025.

As part of this process, Waitaki District agreed to adopt an inhouse business unit model and withdraw from the SWDW partnership of Councils on 8 July 2025.

On 10 July 2025 Central Otago District Council agreed to adopt:

Subject to receiving further analysis prior to adoption of a Water Service Delivery Plan, a Jointly owned Council Controlled Organisation as the Council's model for the

delivery or water service in accordance with section (1)(k) of the Local Government (Water Services Preliminary Arrangements) Act 2024

25.14.2 SOUTHERN WATER DONE WELL

The Local Government (Water Services Preliminary Arrangements) Act 2024 ('the Act') requires all councils to submit a Water Services Delivery Plan (WSDP) to the Department of Internal Affairs (DIA) by 3 September 2025.

RESOLUTION

Moved: **Alley**
Seconded: **Duncan**

Recommendations

That the Council

1. Receives the report **titled 'Southern Water Done Well – Water Services Delivery Model.**
2. Agrees to adopt
    a) Option 1 of the report: being a jointly owned Council Controlled Organisation as the Council's model for the delivery of water services in accordance with section 13(1)(k) of the Local Government (Water services Preliminary Arrangements) Act 2024, subject to receiving further analysis prior to adoption of a Water Service Delivery Plan.
3. Requests staff to prepare a Water Services Delivery Plan containing the matters set out in section 13 of the Local Government (Water Services Preliminary Arrangements) Act 2024 and the Council's chosen proposed water services delivery model, to be brought back to Council for its approval, and certification by the Central Otago District Council Chief Executive prior to being submitted to the Department of Internal Affairs by 3 September 2025 for acceptance.
4. Requests staff to prepare further analysis of the advantages and disadvantages of the Jointly Owned Council Controlled Organisation model included in the proposed Water Services Delivery Plan (as per recommendation 3), which is anticipated to include a combination of all or some of Central Otago, Clutha and Gore District Councils.
5. Notes the submissions received and thanks all submitters for their feedback**.**

CARRIED

This resolution was also agreed by Clutha and Gore District Councils who subsequently resolved to adopt, subject to further analysis, the three Council jointly owned CCO water service delivery model.

3. Discussion

Southern Water Done Well Group of three Councils

The report notes the decision by WDC to withdraw from the Southern Water Done Well partnership and includes for the Council's agreement an updated Commitment Agreement confirming the appointment of Central Otago District Council as the lead Council for SWDW.

This report also provides further analysis from Morrison Low on the jointly owned CCO water services delivery model based on Central Otago, Clutha and Gore District Councils. Morrison Low note:

The modelling and analysis presented reports that a Southern WSE remains the most affordable option for the councils of the working group, even following the departure of Waitaki District Council.

The Morrison Low analysis confirms that ratepayers will still benefit from a jointly CCO water services delivery model with savings of approximately $392 million to 2054. The Morrison Low analysis has been peer reviewed by Concept Consulting and Infometrics and considered by the Department of Internal Affairs (DIA). All three note that a jointly owned CCO composed of the three Councils remains the best, and most viable option for water services delivery across Central Otago, Clutha and Gore.

This report seeks Council reconfirmation of the decision on 10 July 2025 to adopt a jointly owned CCO as the preferred water service delivery model. It also seeks adoption of the attached WSDP based on a jointly owned CCO between Central Otago, Clutha and Gore District Councils (with scope for other councils to join) for certification by the Central Otago District Council Chief Executive and submission to the Department of Internal Affairs by 3 September 2025.

Inclusion of Timaru District Council (TDC) and Waitaki District Council (WDC), and Future SWDW partners

TDC considered joining the SWDW Group of Four Councils in March 2025. Initial financial analysis by Morrison Low in March showed the shared benefits of TDC joining the SWDW Group of Four Councils. The SWDW group of Councils have continued to engage with TDC on possible collaboration under a joint CCO and have maintained contact with WDC following its exit from the Commitment Agreement.

This report makes provision for both Councils to join the SWDW joint CCO and Commitment Agreement subject to future decision making by those councils. A resolution by Central Otago District Council is sought to enable this approach.

The report also notes the willingness by the SWDW group of Councils to remain open to further future collaboration with other Councils as part of a jointly owned CCO.

Updated SWDW Commitment Agreement and Deed of Amendment and Restatement

As noted in the report to Council in February 2025 the Commitment Agreement sets out how Councils will work together to develop and establish a joint water organisation.

The Commitment Agreement includes the key activities and programme, allocation of roles and sharing of resources, accountability measures and the governance structure during the period where councils are assessing the delivery options, deciding on a preferred delivery and through to establishment of a joint water organisation.

The SWDW Commitment Agreement has been updated to take account of the decision by WDC to withdraw from the partnership. In summary:

- Under section 6.3 WDC has exercised its option to withdraw from the Commitment Agreement (see Attachment 2, written notice by WDC to withdraw from the SWDW Commitment Agreement).

- Under section 3.3 Central Otago District Council will replace WDC as the lead Council under the Commitment Agreement with the following responsibilities:

    - Holding contributions from each Council in a nominated account.

    - Managing project expenditure and tracking against the project budget.

    - Preparing agendas and scheduling governance meetings for the project.

    - Preparing reporting for governance meetings for the project.

The proposal to appoint Central Otago District Council as the lead Council has been considered and is supported by the SWDW Council Executive Group of Mayors.

Under section 5 of the Commitment Agreement cost sharing arrangements have been reconciled between the four Councils up to 30 June 2025 (see table below). In addition, the costs of further analysis associated with moving from the group of four Councils to the group of three Councils has been attributed to WDC.

	Category	Amount
A	Project costs	$514,245
B	Funding contribution	
	Timaru DC cost recovery	$39,346
	DIA funding 1	$250,000
	DIA funding 2	$100,000
C	Net Costs (A-B)	$124,899
D	Council share (C divided by four Councils)	$31,224

An updated Commitment Agreement is attached with this report. The key change is the proposed appointment of Central Otago District Council as the lead Council for SWDW replacing WDC. All other sections and provisions remain the same as the document agreed by Council in February 2025.

A Deed of Amendment and Restatement needs to be signed by the Council Chief Executives to amend and restate the updated Commitment Agreement between

Central Otago, Clutha and Gore District Councils. A copy of the Deed is attached which includes the updated Commitment Agreement showing the amendments as track changes.

If TDC or WDC agrees to join the SWDW CCO and Commitment Agreement, a Deed of Accession and Variation would need to be signed to include the new council(s) as party to the Agreement. This agreement will be brought back to Council for resolution at the next Council meeting on 27 August 2025.

Further analysis on the group of three Councils.

This report sets out:

- Further analysis from Morrison Low based on the group of three Councils – Central Otago, Clutha and Gore which notes the jointly owned CCO model still provides benefits which outweighs other water service delivery options.
- Updated position from the DIA on a jointly owned CCO model based on the group of three Councils.
- Updated Infometrics and Concept Consulting opinion on a jointly owned CCO model composed of Central Otago, Clutha and Gore District Councils.
- Updated options analysis based on the recommendations in this report.

Updated Morrison Low Analysis – SWDW Benefits

Attachment 1 presents further analysis and modelling by Morrison Low on the group of three Councils. The summary findings are as follows:

- All water consumers serviced by a Southern Water Services Entity (WSE) are likely to pay less for three water services than they would otherwise would through an inhouse 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 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 council's balance sheet will provide those councils with improved ability to invest in community infrastructure and deliver better placemaking outcomes for their communities.

The updated Morrison Low report represents a full update of the previous report dated March 2025 which included Waitaki District Council. Since the March report:

- Waitaki District Council has elected to leave SWDW and the proposed Southern WSE.
- The Local Government Funding Agency (LGFA) released further guidance regarding lending covenants that would apply to WSEs in April 2025. This indicated an entity of the scale of Southern WSE would be required to meet a 9% funds from operation (FFO) ratio (compared to an earlier assumption of 8%) and would only be able to consider 50% of its development contributions in the assessment of that ratio.

The impacts of both changes and savings to ratepayers across the three Council is reflected in the updated modelling and table below:

Scenario	Cumulative Savings to 2034	Cumulative Savings to 2054
Southern WSE including Waitaki 8% FFO	$44 million	$627 million
Southern WSE including Waitaki 9% FFO	$15.9 million	$612 million
Southern WSE excluding Waitaki 9% FFO	$13.2 million	$392 million

Morrison Low notes that under all scenarios, ratepayers of the three SWDW Councils will be financially better off through the establishment of a Southern WSE. The analysis confirms that a three-council WSE will still deliver significant savings for ratepayers - around $392 million by 2054. While this is $220 million less than the savings estimated when Waitaki was part of the group, the updated modelling uses conservative assumptions. Morrison Low also notes that even greater efficiencies could be achieved if more councils join SWDW in the future.

Updated Morrison Low Analysis – Individual Council Benefits

The updated Morrison Low analysis also compares the forecast household water charges based on an inhouse business unit, a wholly owned WSE (Council Controlled Organisation) and Southern WSE (three Council jointly owned CCO) models. The implications for Council debt are also set out below.

Central Otago District Council

Comparison of household three water charges (including GST)

Entity	2024/25	2027/28	2033/34

In-house business unit	$1,445	$2,778	$4,048
Stand-alone CCO (Wholly owned WSE)		$3,094	$4,266
Jointly owned CCO (Southern WSE)		$2,706	$3,830

Without three waters debt and revenue, CODC would improve its debt to revenue ratio from 198% to 11% by 2034. This represents an increase in potential borrowing headroom of $120 million.

Updated Department for Internal Affairs Position

The DIA has undertaken a further assessment of the water service delivery model options for the three SWDW councils, against the criteria that Water Service Delivery Plans will be assessed by. The updated 21 July 2025 DIA report is included as attachment 2 and notes:

The establishment of a Southern Water Done Well water CCO comprising of the three councils' water services is likely the only viable option for delivering a Water Services Delivery Plan that meets the legislated financial sustainability requirements for both water services and councils, whilst managing the affordability impact of required water services charges on household budgets.

The updated DIA opinion also notes the substantial benefits to councils, ratepayers and communities from the establishment of a Southern regional Water CCO, comprising of the three councils water services.

Updated Infometrics Advice

Infometrics have provided an updated assessment of a three Council jointly owned CCO. The 21 July 2025 report is included as attachment 1.3 notes the following overall findings:

Despite the smaller grouping, higher FFO requirement, and resulting lower efficiencies and savings, the revised SWDW joint CCO approach still delivers savings relative to other options over the long term. The savings are smaller than before, and smaller in the early years of comparison, but become larger and more material over time

The Southern WSE remains the best of all options – with a standalone CCO often the worst option. Although an IBU can appear viable under some conditions, over a

longer period of time this approach still may not deliver viable outcomes, and savings are still achieved in the Southern WSE option.

Updated Concept Consulting Advice

Concept Consulting reviewed the updated Morrison Low report based on the group of three Councils. Their report, included as attachment 4 indicates the following:

- *The Morrison Low analysis is thorough, and it very likely reaches the right conclusion – that amalgamation is in the short and long-term interests of group of 3 water users.*
- *In our view, it remains very likely that each of the group of 3 district councils and the water users in their regions will be better off combining their resources in the proposed joint CCO than as separate CCOs or with in-house delivery models.*

Expansion of the SWDW Group to include TDC and / or WDC

Initial high-level modelling was completed by Morrison Low in March 2025 to demonstrate the financial impact on the "original four councils" and TDC, of the expanded model. The report is provided as Attachment 4. The results of that modelling highlighted that:

- Inclusion of TDC was beneficial for the "original four".
- Inclusion of TDC would also provide an opportunity for water consumers in the Timaru district to pay less than they would otherwise pay under an in-house delivery model.

The Morrison Low analysis and independent assurance work completed to date confirms expansion of the group to include further councils will likely offer further benefits. The most recent Infometrics analysis notes that:

Efficiencies have been scaled back considerably to account for a partial loss of scale. Efficiencies for the revised SWDW now range from 6.3%-6.6% (capital and operating), compared to 11%-12% under the original SWDW (including Waitaki)

The smaller efficiencies are reasonable given the partial loss of scale – the drop in efficiencies assumed is larger than the drop in Waitaki's scale, highlighting how much scale supports efficiencies being reached.

With the addition of TDC and / or WDC to the group, the added scale is expected to provide further efficiencies and encourage the participation of further adjoining Councils.

Given the benefits identified above, consideration has been given to providing flexibility within the WSDP to enable TDC and / or WDC to join the SWDW should they decide to do so. The matters raised in the consultation undertaken by the group of four councils remain relevant to the expansion of the group to include additional councils and have also been considered to confirm that the Council has sufficient knowledge of the community's views.

The proposed approach for TDC or WDC to join the SWDW group is summarised as follows:

- TDC and / or WDC will develop a WSDP that reflects the decision to join the SWDW Group
- The WSDP Implementation Plan will align with the SWDW WSDP content, in particular:
  - Proposed delivery model
  - Core principles
  - Implementation plan – with a shared 1 July 2027 joint CCO go-live date
  - Future asset management approach
  - Proposed service delivery model
  - Future service levels
  - Revenue and charging arrangements
  - Water services revenue requirements and sources
- The SWDW WSDP will allow for the addition of TDC or WDC to the SWDW group and enable any work required to update the financial model for the expanded group.

Updated Options Analysis Based on Three Council jointly owned CCO and expansion of the Group to include TDC and / or WDC.

The following table provides an update of the advantages and disadvantages of each option presented in the recommendations of this report.

Option Analysis - Commitment Agreement Changes

Options	Advantages	Disadvantages
Council confirms the updated Commitment Agreement between Central Otago, Clutha and Gore District Councils.	• Confirms roles and responsibilities between three SWDW Councils including lead Council responsibilities as per Commitment Agreement conditions. • Responds to Waitaki District Council's request to exit the SWDW partnership.	• If WDC decided to rejoin the SWDW group, the Commitment Agreement would need to be amended again.
Council **does not** confirm the updated Commitment Agreement between Central Otago, Clutha and Gore District Councils.	• No additional changes required to the existing Commitment Agreement.	• Does not reflect the decision by Waitaki District Council to exit the SWDW partnership. • May result in confusion as to any residual obligations to Waitaki District Council under an unchanged Commitment Agreement.
Authorises the Chief Executive to sign the Deed of Amendment and Restatement.	• Confirms the continuation of the Commitment Agreement as between the three Councils.	• No disadvantages identified.

Council **does not** authorise the Chief Executive to sign the Deed of Amendment and Restatement.	• Consistent with process outlined in the original Commitment Agreement. • Consistent with process recommended in legal advice • No advantages identified.	• Inconsistent with process recommended in legal advice. • Commitment Agreement will not be updated.

Updated Options Analysis - Reconfirmation of Joint CCO Delivery Model

Options	Advantages	Disadvantages
Council adopts a jointly owned Council Controlled Organisation of Central Otago, Clutha and Gore District Councils (with scope for other councils to join) as the Councils' model for the delivery of water services in accordance with section 13(1)(k) of the Local Government (Water Services Preliminary Arrangements) Act 2024.	• Consistent with further analysis, modelling and opinion provided by Morrison Low in the attached report. • Consistent with the attached and updated opinion and advice from Infometrics and Concept Consulting on the group of three Council joint CCO water services delivery model.	• The cost of establishing a jointly owned CCO estimated at $8.8m will be required.
Council **does not** adopt a jointly owned Council Controlled Organisation of Central Otago, Clutha and Gore District Councils (with scope for other councils to join) as the Council's model for the delivery of water services in accordance with section 13(1)(k) of the Local Government (Water Services Preliminary Arrangements) Act 2024.	•]Consistent with opinion from DIA that the jointly owned CCO water service model is the only viable option the group of three Councils. • Reconfirms Councils decision on 10 July 2025 to adopt a Jointly owned Council Controlled Organisation as the Council's model for the delivery or water service subject to further analysis. • Allows consideration of alternative models of water service delivery (noting these are likely to be less affordable for ratepayers or meet legislative requirements).	• Inconsistent with Councils decision on 10 July 2025 to adopt a jointly owned CCO as the Council's model for the delivery or water service subject to further analysis. • Council will need to identify another option for water service delivery which meets DIA legislative requirements. • The attached WSDP will not be submitted to DIA and another WSDP will need to be prepared based on Council's preferred alternative water service delivery model. • Insufficient time to prepare an alternative WSDP to meet DIA deadline of 3 September 2025. • Council will withdraw from the SWDW Commitment Agreement.

Options Analysis – Addition of TDC and / or WDC to the SWDW Group of Councils

Options	Advantages	Disadvantages
Council Agrees that subject to further modelling TDC and WDC may join the SWDW joint CCO and become a party to the Commitment Agreement.	• Addition of TDC and / or WDC adds to the economies of scale and efficiencies of a joint CCO. • The expanded joint CCO should be attractive to contractors and should be able to derive greater value for money through procurement (and be competitive with other neighbouring water service entities not in SWDW) • The larger, expanded joint CCO should be more attractive in the retention and attraction of staff and talent. • Presents future options to further expand the group, to the benefit of all members, through other councils joining later. • Likely viewed favourably by DIA and the Minister of Local Government. • Increases the total number of connections from 24,000, plus TDC (20,300) and / or WDC (12,000). Preferential financing terms are available for joint CCOs with >50k connections.	• Uncertainty regarding the timing and decision making on a preferred option by TDC and WDC. • Larger group may be less agile in decision making and reaching consensus. • Greater geographical spread of the group – presents operational considerations.
Council **does not** agree to TDC and WDC potentially joining the SWDW joint CCO and become a party to the Commitment Agreement.	• Potentially more efficient collaboration and decision making with a smaller group. • More certainty in terms of the proposed establishment of the joint CCO based on a group of three original SWDW Councils. • No change to Joint CCO establishment cost	• Lost opportunity to improve the economies of scale of the group. • Reduced opportunity to add further Councils later.

Options Analysis – Adopt Water Services Delivery Plan

Options	Advantages	Disadvantages
Council adopts the Water Services Delivery Plan attached as attachment 5 to be submitted to the Department of Internal Affairs by 3 September 2025	• The attached WSDP is informed by updated (and previous) analysis which notes ratepayers of the three SWDW Councils will be financially better off through the establishment of a Southern WSE. Initial financial analysis also shows the benefits of the inclusion of additional councils. • Takes account of the DIA assessment on 21 July 2025 that a jointly owned CCO is likely the only viable option to meet the legislated financial sustainability requirements. • Consistent with Council's decision on 10 July 2025. • Meets the legislative deadline for the submission of the WSDP to DIA by 3 September 2025.	• No disadvantages identified
Council **does not** adopt the Water Services Delivery Plan attached as attachment 5 to be submitted to the Department of Internal Affairs by 3 September 2025	• No advantages identified.	• The attached WSDP will not be submitted to DIA. • Another WSDP will need to be prepared based on Council's preferred alternative water service delivery model. • Insufficient time to prepare an alternative WSDP to meet DIA deadline of 3 September 2025. • Inconsistent with Council's decision on 10/14 July 2025 and the updated analysis from Morrison Low and opinion from Infometrics and Concept Consulting. • May result in actions by the DIA under Subpart 2 of the Local Government (Water Services Preliminary Arrangements) Act 2024 including appointment of a Crown Facilitator or Water Services Specialist.
Council authorises the Chief Executive, in conjunction with the Chief	• Allows minor amendments to be addressed by the Chief	• No disadvantages identified.

Options	Advantages	Disadvantages
Executives of [Council name] to make minor amendments to the Water Services Delivery Plan (if required) in advance of submission to the Department of Internal Affairs. Council **does not** authorise the Chief Executive, in conjunction with the Chief Executives of [Council name] to make minor amendments to the Water Services Delivery Plan (if required) in advance of submission to the Department of Internal Affairs.	Executive(s) without having to reconvene Council. • Council has visibility overall all minor amendments to the WSDP.	• Slow timelines to finalise and submit the WSDP. • Creates risk of not meeting the DIA deadline by 3 September 2025. • Will require additional Council decision making and meetings to agree even minor amendments to the Commitment Agreement.
Council agrees, following acceptance of the Water Services Delivery Plan by the Department of Internal Affairs, to establish a jointly owned CCO in accordance with the WSDP. Council agrees, following acceptance of the Water Services Delivery Plan by the Department of Internal Affairs, to establish a jointly owned CCO in accordance with the WSDP.	• Consistent with the commitment being made by the Councils in the WSDP. • Complies with the requirement in the Local Government (Water Services Preliminary Arrangements Act) 2024 to give effect to the proposals in the WSDP. • Consistent with Council's decision on 10/14 July 2025 and the updated analysis from Morrison Low and opinion from Infometrics and Concept Consulting. • DIA initial assessment on 21 July 2025 reconfirms a jointly owned CCO is likely the only viable option to meet the legislated financial sustainability requirements while managing affordability impact of required water service charges on household charges. • A regional Water CCO can access more debt financing than councils through LGFA. This enables the costs of assets to be spread over their useful lives and providing	• Councils will exercise control through a shareholder representative group and statement of shareholder expectation to the jointly owned CCO rather than direct control of an in-house water services business unit. • Likely to result in stranded overheads (particularly corporate services) within Councils. • Establishment of a jointly owned CCO by July 2025 is a significant and complex undertaking.

Options	Advantages	Disadvantages
Council **does not** agree, following acceptance of the Water Services Delivery Plan by the Department of Internal Affairs, to establish a jointly owned CCO in accordance with the WSDP.	additional cash reserves and flexibility. • Allows consideration of alternative models of water service delivery (noting these are likely to be less affordable for ratepayers or meet legislative requirements).	• Inconsistent with the commitment being made by the Councils in the WSDP. • Will not comply with the requirement in the Local Government (Water Services Preliminary Arrangements Act) 2024 to give effect to the proposals in the WSDP. • Inconsistent with Council's decision on 10/14 July 2025 and the updated analysis from Morrison Low and opinion from Infometrics and Concept Consulting. • Inconsistent with the DIA initial assessment on 21 July 2025 reconfirms a jointly owned CCO is likely the only viable option to meet the legislated financial sustainability requirements while managing affordability impact of required water service charges on household charges. • Council will need to identify another option for water service delivery which meets DIA legislative requirements. • The attached WSDP will not be submitted to DIA and another WSDP will need to be prepared based on Council's preferred alternative water service delivery model. • Insufficient time to prepare an alternative WSDP to meet DIA deadline of 3 September 2025. Council will effectively need to withdraw from the SWDW Commitment Agreement

Updated Southern Water Done Well Commitment Agreement

The attached Commitment Agreement has been updated. The key change is the proposed appointment of Central Otago District Council as the lead Council for SWDW replacing Waitaki District Council. All other sections and provisions remain the same as the document agreed by Council in February 2025.

Reconfirmation of jointly owned Council Controlled Organisation model

Based on the further analysis undertaken by Morrison Low, the updated opinion from the DIA and peer review by Infometrics and Concept Consulting a jointly owned CCO between Central Otago, Clutha and Gore District Councils (with scope for other councils to join) still remains the recommended model for the delivery of water services in accordance with section 13(1)(k) of the Local Government (Water Services Preliminary Arrangements) Act 2024.

Southern Water Done Well Joint CCO Water Services Delivery Plan

The attached draft WSDP has been prepared based on the information previously received by Council and the attached and further analysis prepared by Morrison Low in response to the Council resolution on 10 and 14 July 2025.

The attached WSDP has been written to satisfy the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 and as set out in the DIA templated guidance.

The WSDP has been reviewed by Council staff and legal advisors to ensure legislative compliance. DIA have also provided initial feedback on the WSDP, including a financial sustainability assessment and compliance with the legislative requirements set out in section 13 of the Local Government (Water Services Preliminary Arrangements) Act 2024.

The DIA provided an initial review of the WSDP on 31 July 2025. This opinion noted that the draft plan appeared to meet the requirements of section 13 and 14 of the Local Government (Water Services Preliminary Arrangements) Act 2024.

Significance

This decision is of **high** significance in accordance with the Council's Significance and Engagement Policy due to the financial, operational and governance implications for Council and the community. The decision will shape Council's approach to water service delivery for the next decade and beyond.

Implications and Risks

Strategic Consistency

Councils must revisit their respective Long-Term Plans (LTP) and associated supporting strategies (including Financial & Asset Management Strategies), to ensure that water service delivery complies with Local Water Done Well legislation requirements.

The options analysis completed to date includes consideration of the impacts on current LTPs. The impacts of the selected options were detailed in the Consultation Document for community consultation. Following decision making, amendments to Annual and / or LTPs will be made from FY 26/27.

Climate Change

Changes are administrative in nature. Climate Change impacts would be assessed as part of any change to service provision.

Risks

The risks presented to Council on 10/14 July 2025 have been reviewed based on the further analysis by Morrison Low and matters presented in this report. Overall, there has been no material change in either nature of the risk or its potential impact.

Risk	Impacts
Failure to proceed with a jointly owned CCO may jeopardise Council's ability to deliver a compliant WSDP	• The DIA review determines the WSDP does not meet legislative requirements and tests leading to DIA requiring the Group of Councils to alter the WSDP.
Individual Councils do not reconfirm a jointly owned CCO model.	• The remaining councils will need to reassess the viability of a jointly owned CCO with the remaining members of the group and confirm whether to proceed with a revised WSDP (noting that further councils may seek or be compelled to join the group). • Group may become unviable. • Individual Councils will likely be unable to complete a compliant WSDP before 3 September 2025 • Potential DIA intervention with associated loss of decision-making control and additional cost
WSDP is not submitted by 3 Sept 25 statutory deadline	• Reputation risk for Councils • Potential DIA intervention with associated loss of decision-making control
DIA does not approve the WSDP and requires the document to be revised.	• 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 before the WSDP is accepted and appoints a Crown Facilitator or Water Services Specialist
Ratepayers do not appreciate the impending costs increases	• Increasing affordability issue for larger group of ratepayers

Risk	Impacts
for 3 Waters Services – irrespective of the delivery model adopted	• Negative publicity and reputation risk for Councils
Joint CCO planning may reveal that actual establishment costs are greater than forecast (note that implementation costs have been conservatively modelled and subject to independent assurance).	• Potential increase in project budget • Erosion of forecasted benefits • The transition approach may require revision.
Changes to legislation through Bill 3 may require additional resource commitments and amendments to arrangements.	• Cost and time associated with rework • Potential increase in project budget • Additional council resource commitments

Summary of Reasons for Recommendations

In summary, the following reasons have been considered as part of the recommendations to reconfirm the option of a jointly owned CCO for the delivery of water services and submission of the Central Otago, Clutha and Gore District Councils WSDP and to provide for expansion of the group to include TDC and / or WDC:

1. Affordability for Households

- Updated modelling shows the jointly owned CCO and WSDP is the least-cost option for communities over time.
- Delivers operating efficiencies and shared procurement savings that reduce upward pressure on household bills.
- District based pricing approach ensures communities only pay for their own services and investment needs.

2. Improved Service Delivery and Compliance

- The WSDP creates a dedicated, specialist water organisation with scale to deliver safe, reliable, and compliant services.
- Enables consistent investment in skilled personnel, systems, and asset management.
- Better placed to meet evolving public health, environmental, and regulatory standards (e.g., Taumata Arowai, Commerce Commission).
- Recognising and providing for Rural Water as a Fourth Water.

3. Resilience and Deliverability

- Shared workforce and capital delivery capacity provide greater resilience to industry shortages.

- Enhanced ability to scale resources, deliver capital programmes, and respond to emergencies across the region**.**

4. Governance and Local Control

- The jointly owned CCO will address Councils requirements around ownership, control, and strategic direction through the Constitution and Shareholding Agreement.
- Local priorities reflected through council input and localised service plans.
- Potential for a meaningful role for Mana Whenua, subject to further engagement and discussion.

5. Public Confidence through Transparency

- A jointly owned CCO enables clear lines of accountability, financial transparency, and reporting.
- Locally set prices and performance benchmarking increase community trust.
- Avoids the inefficiencies and duplication across the four councils which occur with the standalone CCO and in-house models.

6. Economic and Strategic Opportunity

- Positions the region to attract and retain skilled staff, invest in smart infrastructure, and drive innovation.
- Joint capability opens funding and co-investment opportunities not available to smaller entities.

7. Risk Mitigation

- Spreads the risk of cost overruns, compliance breaches, and staff shortages across multiple councils.
- Avoids the risk of stranded assets or underinvestment seen in status quo or fragmented models.

8. Legislative and Regulatory Compliance

- Updated DIA advice that the jointly owned CCO is likely the only viable option for delivering a WSDP that meets the legislated financial sustainability requirements.
- Jointly owned CCO provides the basis for ongoing legislative compliance.
- Submission of the attached WSDP will meet the government and DIA statutory deadline of 3 September 2025.

4. Financial Considerations

The financial implications for ratepayers and impact on overall Council debt are included within the Morrison Low Report (attachment 1).
A jointly owned CCO will have greater capacity to manage debt and fund infrastructure upgrades. It will be able to access debt under an assumed 9% FFO to debt covenant and its waters debt will not be considered as part of Council's total borrowing.

The Morrison Low report and modelling indicate that a jointly owned CCO will result in lower charges for ratepayers across all Districts than an in-house business unit or wholly owned WSE model.

The jointly owned CCO would use a local pricing approach, setting water charges for each council area based on local investment needs and debt profile. Consumers would only be charged for the services they receive and would not be subsidising services in other districts.

Efficiency savings from collaboration would be shared proportionally to ensure fair and transparent pricing. This approach provides the following advantages:

- Charges reflect local service and investment levels.
- Prevents cross-subsidisation between councils.
- Builds public trust and supports local accountability.
- Encourages efficient, targeted investment.
- Enables performance monitoring and benchmarking across the region.

The savings projected are the net savings after set-up and running costs are accounted for. This includes the transition costs for governance structure development, a transitional entity, asset transfers, regulatory compliance, and initial investments in IT infrastructure and systems. An initial estimate of cost to establish the three Council jointly owned CCO is estimated at $8.8 million as opposed to $13.8m for a four Council CCO (which included Waitaki). A full breakdown of the transitional costs is included in the attached updated Morrison Low report.

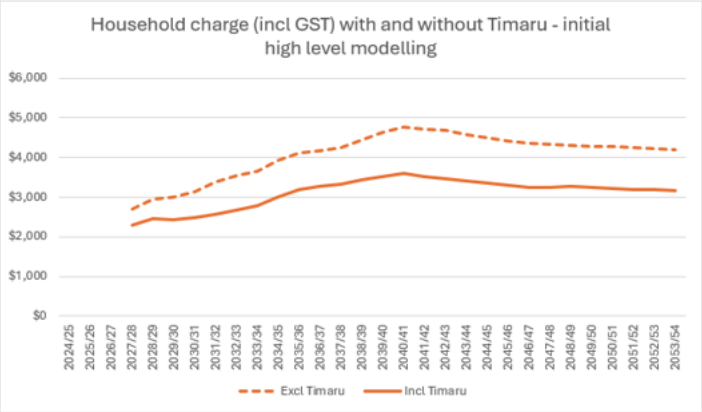
The costs would be shared equally among the participating councils, with the financial modelling demonstrating that no council faces undue financial strain. Financial modelling reflects these costs and a jointly CCO remains the most cost-effective water service delivery model for consumers.

Addition of TDC and / or WDC to the SWDW Group of Councils
Modelling completed for the SWDW Group Councils detail the benefits of expanding the group to include other councils.

“Borrowings remain within LGFA lending covenants, however there is minimal borrowing headroom available. This risk is mitigated in the event of the expansion of the group, as the joint WSE is likely to be able to access debt on more favourable terms if it is able to expand its geographic reach.

The risks associated with low levels of borrowing headroom would be able to be partially mitigated through further aggregation, which would minimise the impact of capital cost escalation and provide access to debt on more favourable terms.

Previous financial modelling presents a harmonised price view to Illustrate the available benefits of Timaru District Council joining the group of councils (refer figure below) and is provided as Attachment 4. Note that this was calculated for a grouping that included Waitaki District Council. The Financial Model will be updated to reflect the entry of TDC and / or WDC to the SWDW Group.



5. Compliance

Local Government Act 2002 Purpose Provisions	This decision enables democratic local decision making and action by, and on behalf of communities.
Decision consistent with other Council plans and policies? Such as the District Plan, Economic Development Strategy etc.	Councils must revisit their respective Long-Term Plans (LTP) and associated supporting strategies (including Financial & Asset Management Strategies), to ensure that water service delivery complies with Local Water Done Well legislation requirements. The options analysis completed to date includes consideration of the impacts on current LTPs. The impacts of the selected options were detailed in the Consultation Document for community consultation. Following decision making, amendments to Annual and / or LTPs will be made from FY 26/27.
Considerations as to sustainability, the environment and climate change impacts	Climate Change impacts would be assessed as part of any change to service provision.
Risks Analysis	The risks presented to Council on 10 July 2025 have been reviewed based on the further analysis by Morrison Low and matters presented in this report. Overall, there has been no material change in either nature of the risk or its potential impact. See above paragraphs.
Significance, Consultation and Engagement (internal and external)	This decision is of **high** significance in accordance with the Council's Significance and Engagement Policy due to the financial, operational and governance implications for Council and the community. The decision will

	shape Council's approach to water service delivery for the next decade and beyond. Public consultation has been conducted in accordance with the alternative requirements in the Local Government (Water Services Preliminary Arrangements) Act 2004.

6. Next Steps

- The attached WSDP will, subject to any minor amendments, be prepared for submission to the DIA by 3 September 2025.
- The Chief Executives will certify that the WSDP meets the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 (including financial sustainability requirements) and that the information provided by its Council is true and accurate, in advance of submission.
- If decisions are made by those councils, the [Project Steering Group] will work with TDC and / or WDC to
    - Update the Commitment Agreement to provide for their inclusion and present back to Council for approval.
    - Update Financial Modelling to reflect the expanded group
    - Draft a WSDP for the joining council which aligns with the SWDW WSDP – for submission to the DIA by 3 September 2025
- As indicated in the report to Council on 10 July 2025 the Project Steering Gorup and Council Executive Group will progress the development of a detailed implementation plan beyond that included in WSDP and retention, identification and appointment of resources to support the transition phase.
- As noted in the attached WSDP Council will remain open and will continue to engage with other Councils on opportunities for collaboration under a jointly owned CCO post submission of the WSDP by SWDW Councils.
- Further updates on the transition plan and other matters associated with creation of the Joint CCO will be brought back to the Council for approval.

7. Attachments

Appendix 1 - Updated Morrison Low Report ⇩
Appendix 2 - Concept Report ⇩
Appendix 3 - Infometrics Report ⇩
Appendix 4 - DIA Assessment ⇩
Appendix 5 - Waitaki District Council Confirmation of Withdrawal ⇩
Appendix 6 - SWDW Deed of Amendment and Restatement ⇩
Appendix 7 - SWDW Commitment Agreement (Amendment and Restated) ⇩
Appendix 8 - Morrison Low Report - Financial Analysis - Timaru DC ⇩
Appendix 9 - Morrison Low Report - Financial Analysis - Waitaki DC ⇩
Appendix 10 - SWDW Water Services Delivery Plan ⇩

Morrison Low Advisory

Southern water done well

Local Water Done Well Review

Southern Water Done Well Working Group

July 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 in March 2025 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). Since completing that analysis, Waitaki District Council has resolved to exit the proposed model and working group. This report is a full revision of the March 2025 report and presents information for an updated group that comprises of:

- Central Otago District Council
- Clutha District Council
- Gore 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. This revision to the March 2025 report has been completed to assist the remaining councils of the Working Group to progress with decision making to establish a jointly owned water services entity, following the withdrawal of Waitaki District Council.

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 $560 million through to 2034. This will result in a doubling of debt (on both a per capita and absolute basis) and water rates rising by 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 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.

The modelling and analysis presented reports that a Southern WSE remains the most affordable option for the councils of the working group, even following the departure of Waitaki District Council. Analysis identifies that from its establishment through to 2034 (the end of current LTPs) ratepayers will save a collective $13.2 million. This saving is net of establishment costs (of $8.8 million) and is based on a conservative estimate of potential efficiencies (which have been almost halved when compared to previous modelling). It is likely that efficiencies will exceed our estimates, and consequently savings to water services consumers will be greater than estimated here.

In our view, this report highlights there are clear benefits arising 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 consumers 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, and shareholding councils will still maintain direct accountability lines to the WSE through its Board of Directors.
- 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.
- The benefits of the transition to a Southern WSE are derived over the long term. It is estimated that water consumers will save around $390 million by 2054 under the Southern WSE model.

Introduction

Morrison Low was commissioned in March 2025 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, stand-alone WSE and a jointly-owned WSE. Since completing that analysis, Waitaki District Council has resolved to exit the jointly-owned WSE and working group. This report is a full revision of the March 2025 report and presents information for an updated group that comprises of:

- Central Otago District Council
- Clutha District Council
- Gore 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 ring-fencing
- A stand-alone WSE
- A jointly-owned 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, stand-alone 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.

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.

Central Otago, Clutha and Gore District Councils are no different. Our analysis of the current state challenges for the three 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 three councils must invest heavily due to expiring wastewater consents, ageing infrastructure, and local population growth.
- 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.

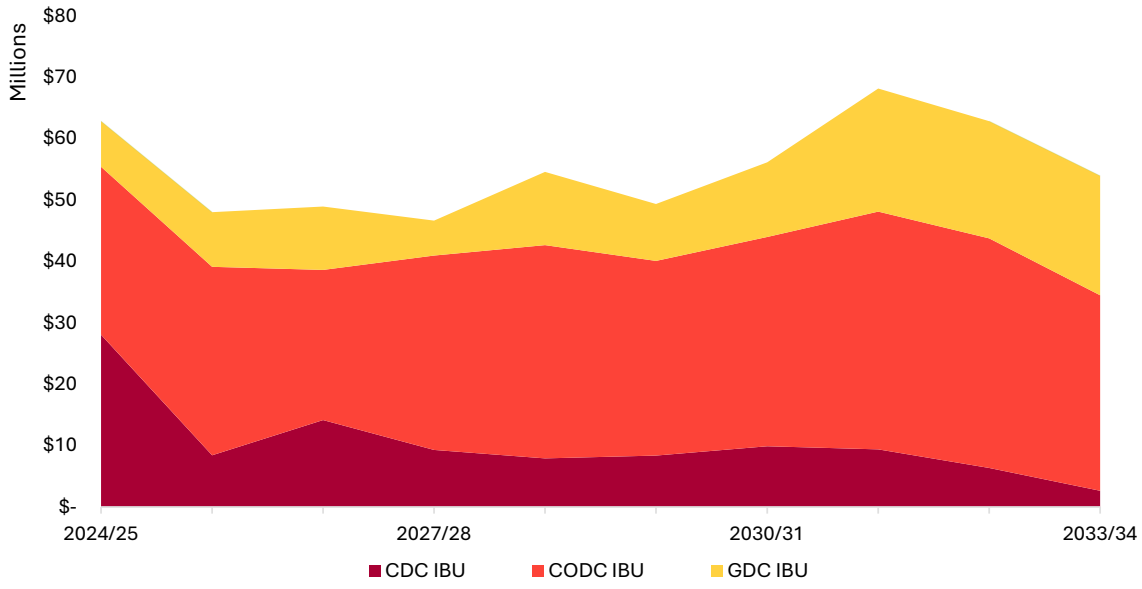
Further details of the current state of the case for change and the current state assessment can be read in the previous report in Appendix Two - Local Water Done Well Review: Otago & Southland Three Waters October 2024**.**

Investment requirements

The combined investment profile for the three councils features a $560 million programme of work over ten years. The work programme consistently sits between $48 Million and $66 million through to 2034.

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 three councils

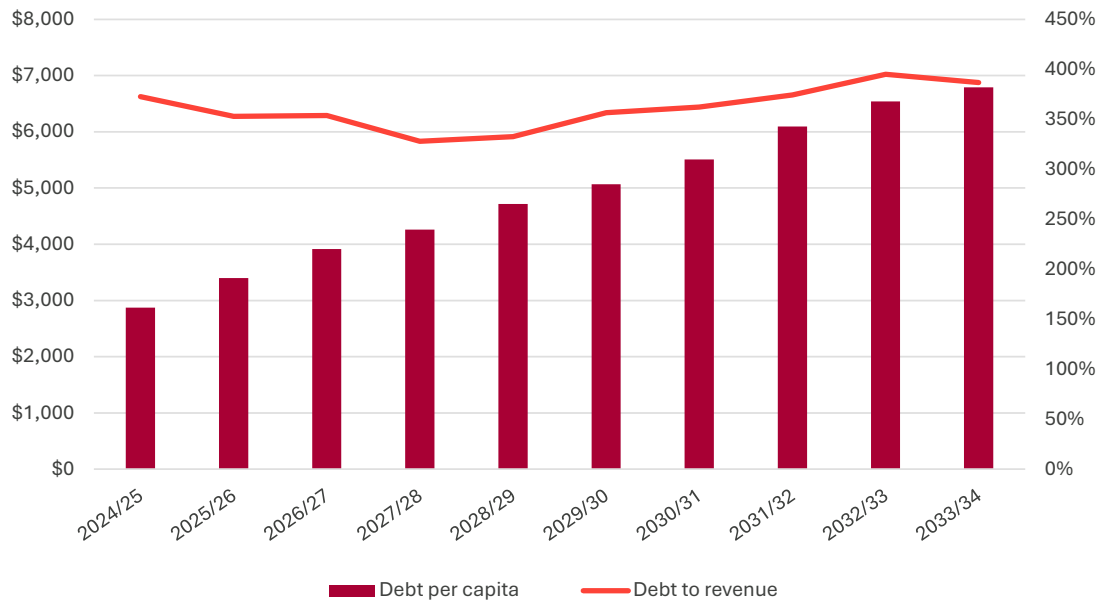


Borrowing requirements

Financing a $560 million dollar work programme requires significant borrowing. Our modelling shows the three councils are expected to borrow a combined $418 million by the end of the 2034 financial year, more than double the current combined debt of $168 million.

On a per capita basis, three waters debt across the combined regions is projected to double from $2,875 per person to approximately $6,794 per person in 2034.

Figure 2 Three waters debt per capita across combined 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).

In April 2025, LGFA confirmed the relevant FFO ratio for an entity of the scale proposed for the three to be 9% or higher. The implications of this for a Southern WSE are discussed later in this report.

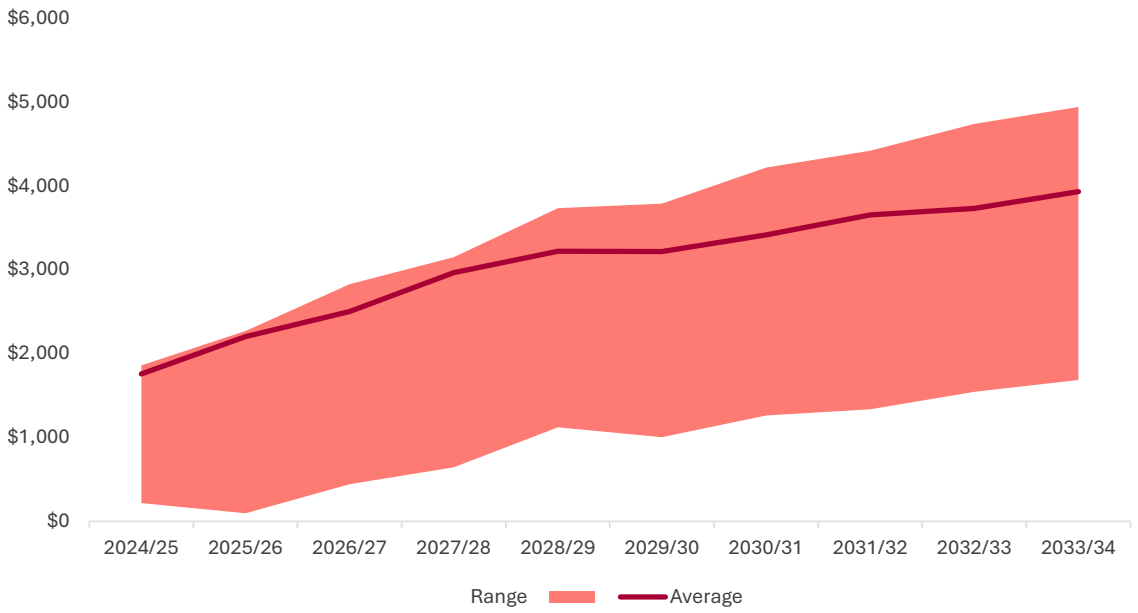
Rates rises

Three waters rates across the three 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 average[1] water rates will more than double from $1,758 in 2025 to over $3,930 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 three 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 was expected to come into effect by mid-2025 and include 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 “ring-fencing” 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 ring-fencing 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

jointly 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.

The Council members of the working group have completed consultation on their preferred model, being the Southern jointly-owned WSE. All remaining councils of the working group have no also passed resolutions to adopt the Southern jointly-owned WSE subject to further analysis (as set out in this report). For consistency, this report focuses on the three options that were considered in consultation, being:

1. **Business unit**: In-house delivery by council with financial ring-fencing.
2. **Stand-alone 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 ring-fencing 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 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.

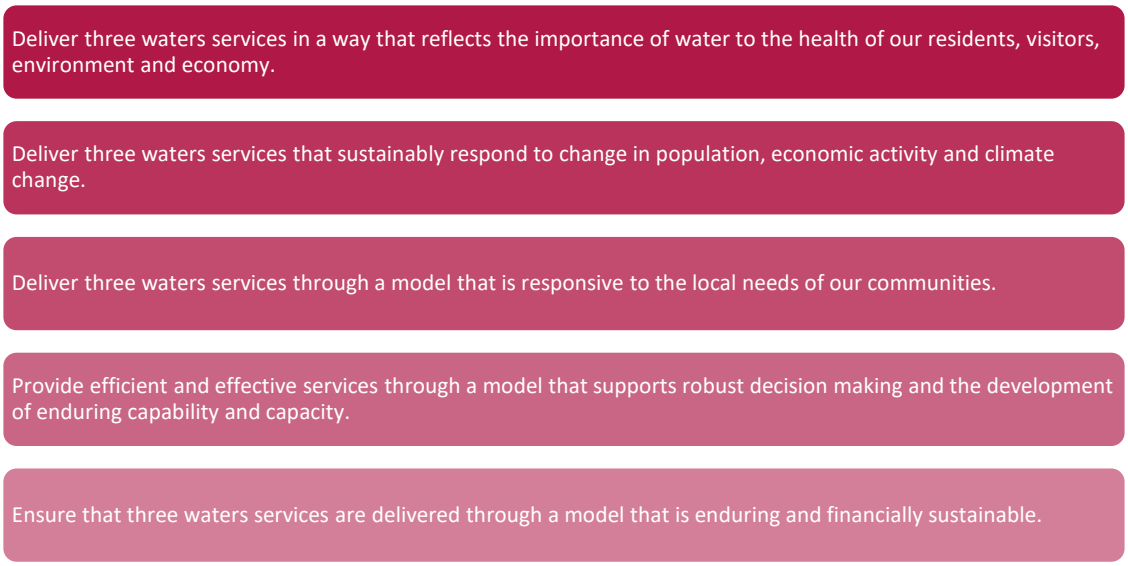
Options have been assessed against these strategic objectives within this report.

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



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 	Three waters services and assets are resilient Provision of reliable, continuous services	Economic and population change is supported through the provision of infrastructure	Services provision recognises the diversity in need for three waters infrastructure across our communities	Scalable and adaptable Maximises available efficiencies and encourages effective investment planning Supports improved retention and recruitment Systems and processes are robust and consistent across the regions	Enough funding is raised (through charges, grants, debt or other means) to invest in needed infrastructure The funding model allows for the ongoing, sustainable, provision of three waters services We meet the requirements of an economic regulator
Cultural Wellbeing 	Services respect the cultural significance of water and receiving environments Service provision reflects our role as kaitiaki for the natural environment	The intergenerational impacts of investment are considered	A delivery model that allows for effective engagement with stakeholders	Strong relationships are held with Runaka Runaka are provided meaningful opportunities to contribute to decision making	The financial capacity of councils to invest in community infrastructure is enhanced
Social Wellbeing 	Public health is at the heart of decision making Services will be compliant with all consents, regulatory standards and drinking water standards	Communities are given access to three waters services that they need	Investment in small communities is maintained No community is left out	The health and safety of our workforce and the public is protected The model supports a highly coordinated emergency management response capability The model supports the development of happy, high performing people	Three waters services are delivered in a way that is more affordable than the alternative

	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
Environmental Wellbeing	The health of marine, estuary and freshwater environments is reflected through our approach to network management and service provision	Investment decisions balance growth demands against environmental outcomes	Investment planning and service delivery recognises differences in the local environments of our communities	Access to a broad range of skills and resources supports innovation and investment planning that produces good environmental outcomes	Investments consider the long term environmental impacts to reduce whole of life costs

Updates since March 2025

Our earlier report dated March 2025 was based on a proposed Southern WSE that included Waitaki District Council. Since the publication of that report:

- Waitaki District Council has elected to leave the SWDW working group and the proposed Southern WSE
- The Local Government Funding Agency (LGFA) released further guidance regarding lending covenants that would apply to WSEs in April 2025. This indicated an entity of the scale of Southern WSE would be required to meet a 9% FFO ratio (compared to an earlier assumption of 8%) and would only be able to consider 50% of its development contributions in the assessment of that ratio.

The impacts of both of these changes have been reflected in the updated modelling. The results of this are summarised in the table below, based on total estimated savings to ratepayers.

Scenario	Cumulative saving to 2034	Cumulative saving to 2054
Southern WSE including Waitaki 8% FFO	$44 million	$627 million
Southern WSE including Waitaki 9% FFO	$15.9 million	$612 million
Southern WSE excluding Waitaki 9% FFO	$13.2 million	$392 million

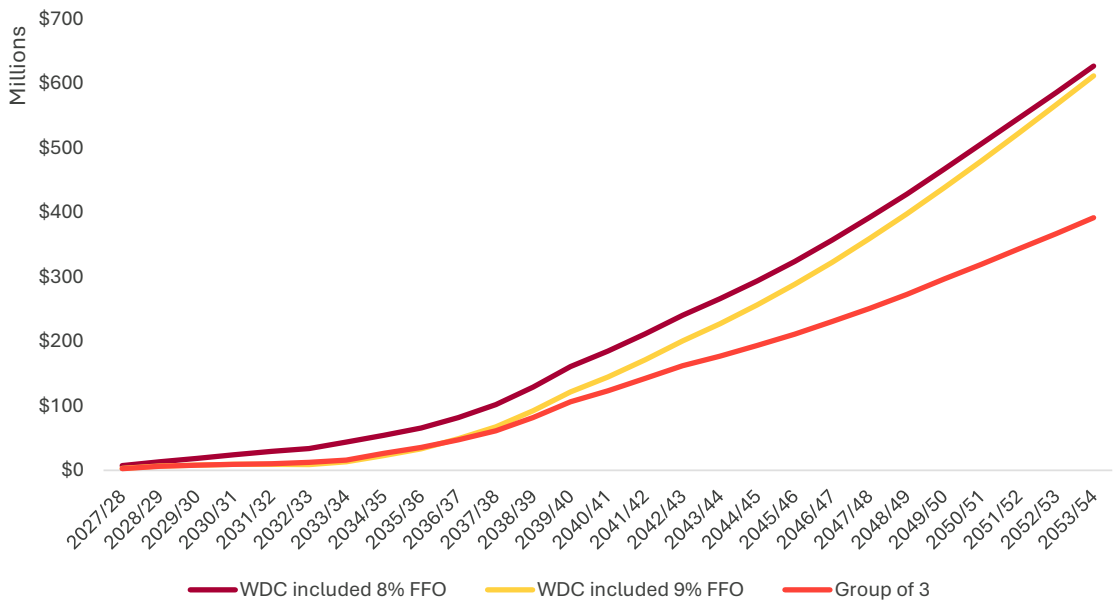
Under all scenarios, ratepayers of the SWDW working group councils will be financially better off through the establishment of a Southern WSE.

The analysis also shows that ratepayers may be overall better off in the long term through a model that excludes Waitaki. However, it should be noted that efficiency assumptions in both the previous modelling, and the updated modelling presented here are conservative. Further, the opportunities for increased efficiencies (beyond those assumed in modelling) are greater with increased scale. The inclusion of Waitaki provided some of this additional scale, and also increased the desirability of the Southern WSE for additional councils to join in the future.

Over the long term, increased scale results in greater benefits, and the exclusion of Waitaki results in potential improved savings of approximately $220 million through 2054.

The chart below compares cumulative savings to water consumers under all three models.

Figure 5 Comparison of cumulative savings under revised SWDW scenarios



Comparison of the options

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

- An in-house business unit with financial ring-fencing for each council
- A stand-alone WSE for each council
- A Southern WSE, owned by the remaining three 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 (ring-fencing 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

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 ring-fencing.

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 services 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 ring-fencing 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 in-house 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 – Stand-alone WSE

This option involves a council establishing their own stand-alone 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. However, given the small scale of stand-alone WSEs, existing capability shortages, and increased competition, skilled staff may be difficult to recruit and retain.

- 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 stand-alone 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 stand-alone 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 stand-alone WSE is not of sufficient scale to create meaningful benefits
- A stand-alone 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 Southern WSE

This option involves the three 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. The departure of Waitaki may provide increased opportunities for the remaining councils to provide some shared services with the WSE.
- Rural water schemes that are currently owned and operated by participating councils will be transferred to the WSE. In establishing the WSE, rural water will be recognised as a distinct "Fourth Water" and with appropriate level of service and consultation requirements guided by the Statement of Expectations.
- 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)
- Voting rights will be allocated evenly per council but without dividends being paid. Shareholdings have been determined on a "one vote 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. Ring-fencing 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 in-house 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 some 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, comprising the three remaining councils, 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. A subsequent workshop was held on 4 June 2025 to confirm further details.

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
- Rural water would be recognised as a fourth water in the core foundational documents of the WSE.
- 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.

Notwithstanding that financial modelling has not been completed to separate rural water schemes from urban drinking water schemes, the Working Group has agreed, in principle, to recognise rural water as a fourth water in the WSE. This will mean:

- Rural water schemes will be subject to different levels of service to urban drinking water schemes
- Rural water schemes will maintain their own pricing models, which will include scheme based pricing initially
- Specific requirements regard engagement with the community and rural water customers will be considered and developed where necessary.

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 Advisory. 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 consistent across all councils.

Table 2 Summary of MCA analysis

	Objective					
	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	Total score
In-house business unit	0	0	0	0	0	0
Stand-alone WSE[2]	1	-1	0	-1	-1	-0.4
Southern WSE	2	1	-2	3	2	1.2

The differences 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 stand-alone 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 stand-alone WSE.

Impacts on levels of service

The multi-criteria analysis also assessed how the three options would impact service levels for water consumers served by the Working Group councils. 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

	In-house WSE	Stand-alone WSE	Southern WSE
Quality and safety of water	• No change	• No change	• No change
Quantity and pressure of water	• No change	• No change	• No change
Responsiveness to faults/complaints	• No change	• May have minor improvements	• 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	• No change	• May have minor increase from improved delivery focus	• 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, along with better access to funding, improved asset management, and a dedicated focus, should lead to more investment in the network - resulting in fewer faults, faster response times and better service overall.

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 stand-alone 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 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

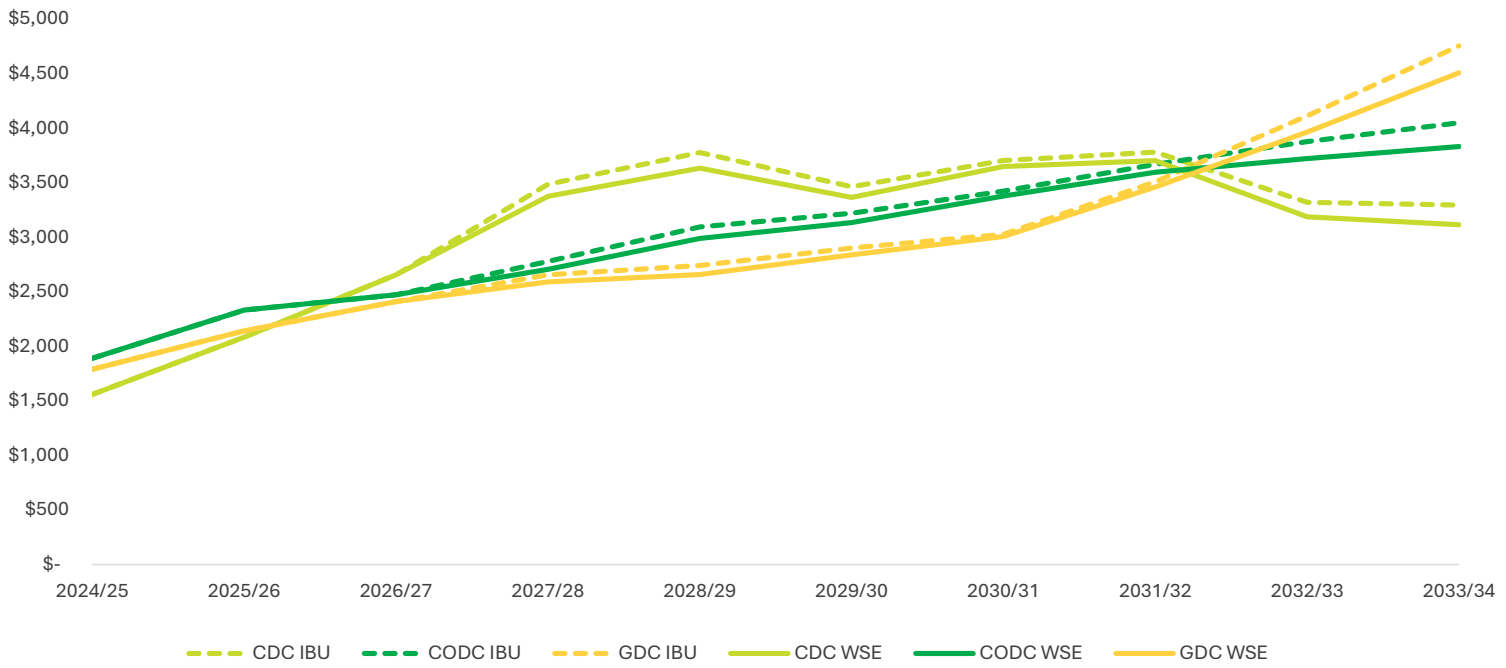
Average household charges – local pricing

Figure 6 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 ring-fencing 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.

Figure 6 Residential three waters charges (including GST) Local prices under a Southern WSE



The chart shows all water consumers of a Southern WSE are able to have lower three waters charges than they would otherwise receive through an in-house delivery model.

Average household charges – regional pricing

There is no requirement for a Southern WSE to adopt a harmonised or regional price. In fact, the working group has indicated a preference for the WSE to adopt a pricing principle that:

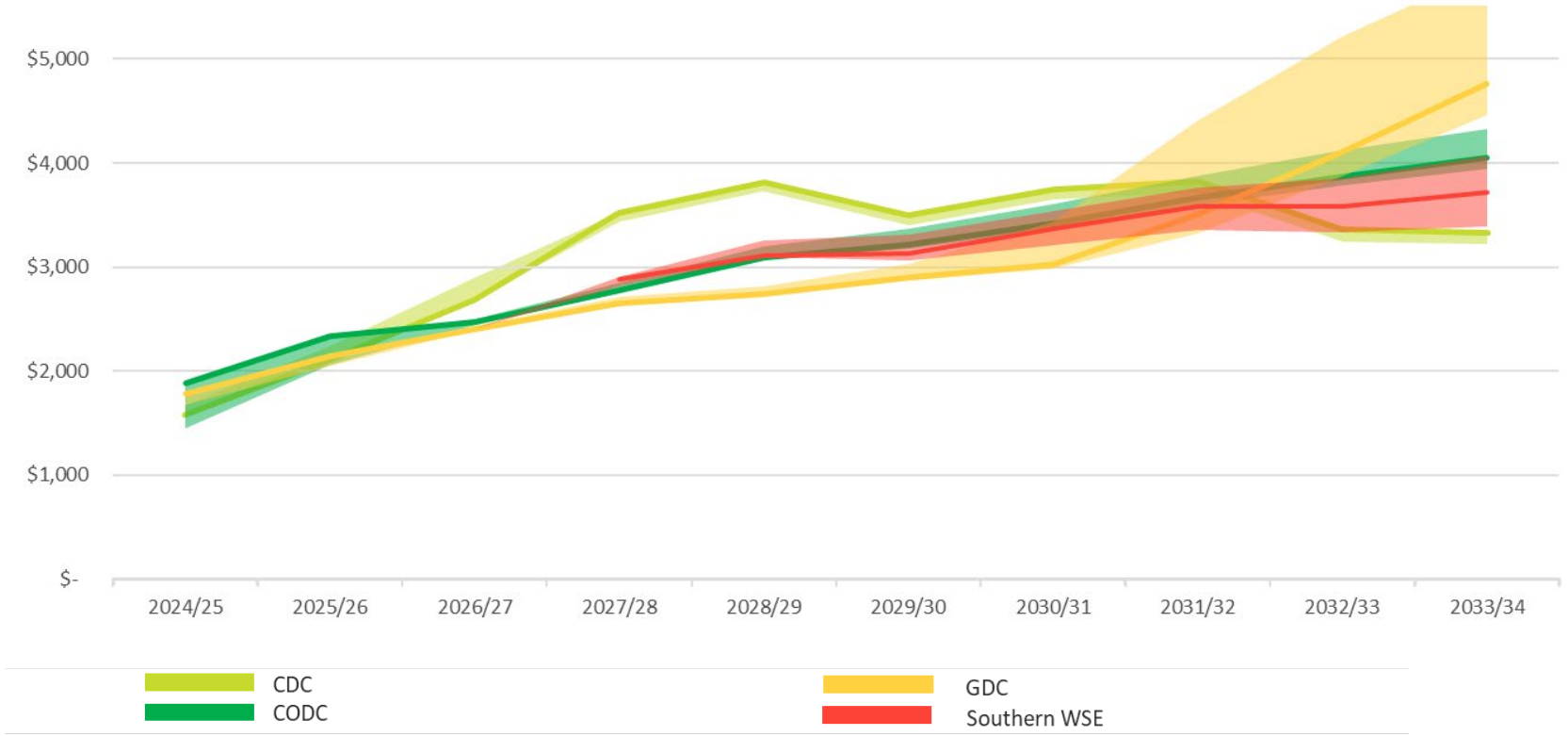
"Water service charges under the Southern WSE should not exceed the charges that would have applied under an in-house delivery model, assuming the same level of local investment"

Notwithstanding that underlying principle, we consider it is likely that a Southern WSE will, over time, seek to move towards a pricing model where there is a consistent price for the same level of service received.

Modelling presented in Figure 7 shows the potential price range under a regional pricing model. The shaded area represents uncertainty arising from the capital programme, with the solid line representing our most current and up to date understanding of a potential capital works programme.

The modelling shows that as forecasting uncertainty increases, there is an increasing likelihood a regional price that is lower for all water consumers may be able to be reached.

Figure 7 Regionalised prices under a Southern WSE



Debt

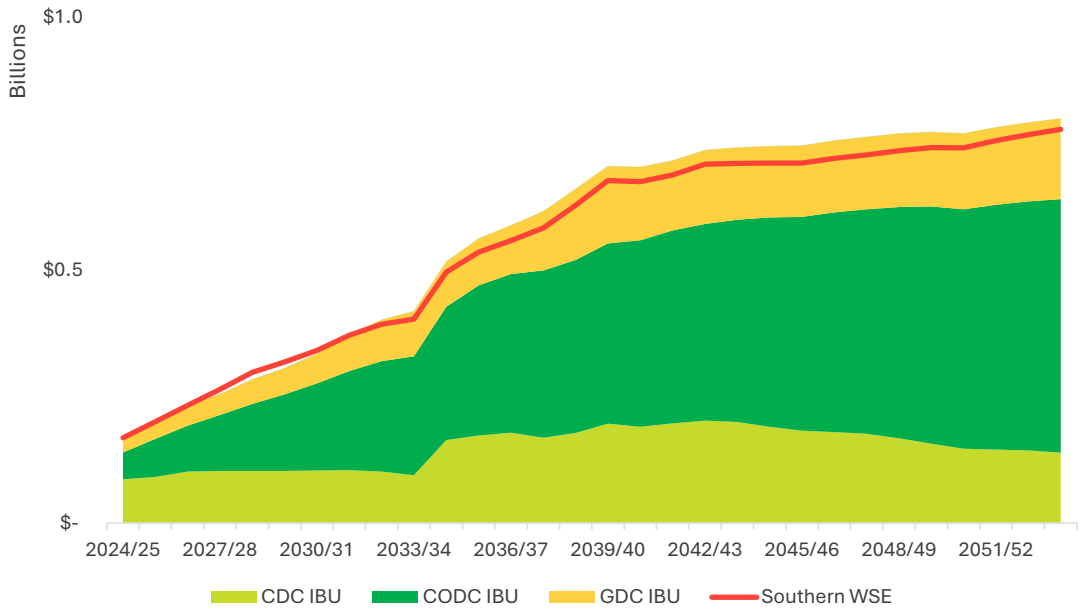
The chart below shows total Southern WSE debt compared to the combined three waters debt of the participating councils.

Although not significant as a percentage of total debt, the Southern WSE can be more highly leveraged than the combined councils, particularly during its initial five years (FY2028–FY2032). This higher leverage means the WSE requires less revenue to support its borrowing, enabling it to lower its overall revenue requirements. As a result, the WSE can offer reduced three waters charges to consumers compared to what individual councils would require.

The Southern WSE looks to optimise debt and revenue to keep charges low throughout the modelling period. This means debt and revenue stabilise over the longer term.

Given inherent modelling uncertainty beyond the first 10 years, we would expect borrowing over a long term to be sustained at higher levels than represented in each council's respective profile.

Figure 8 Debt profile of combined three councils versus a Southern WSE



Revenue

The chart below shows total revenue for a Southern WSE compared to the combined three waters revenue of the participating councils.

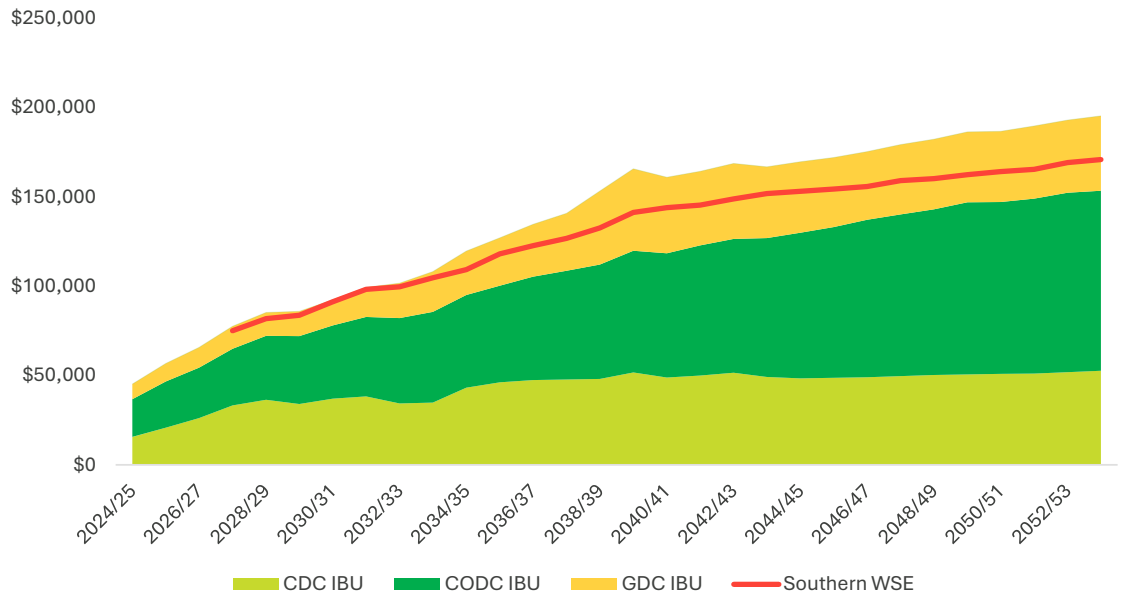
A Southern WSE is able to be more highly leveraged than the combined councils. This means the WSE does not need to generate as much revenue to support its borrowing requirements and is able to reduce its overall revenue requirements to support debt. Ultimately this will allow reduced three waters charges to consumers compared to individual councils.

The Southern WSE looks to optimise debt and revenue to keep charges low throughout the modelling period. This means debt and revenue stabilises over the longer term.

As the WSE begins to realise efficiencies, it is able to reduce its total revenue requirements even further when compared to the combined councils.

Critically, because the WSE requires less revenue than the combined councils throughout the modelling period, it is able to spread the benefits of this across all water consumers to ensure they pay less than they otherwise would have.

Figure 9 Revenue profile of combined three councils vs Southern WSE



Capital expenditure

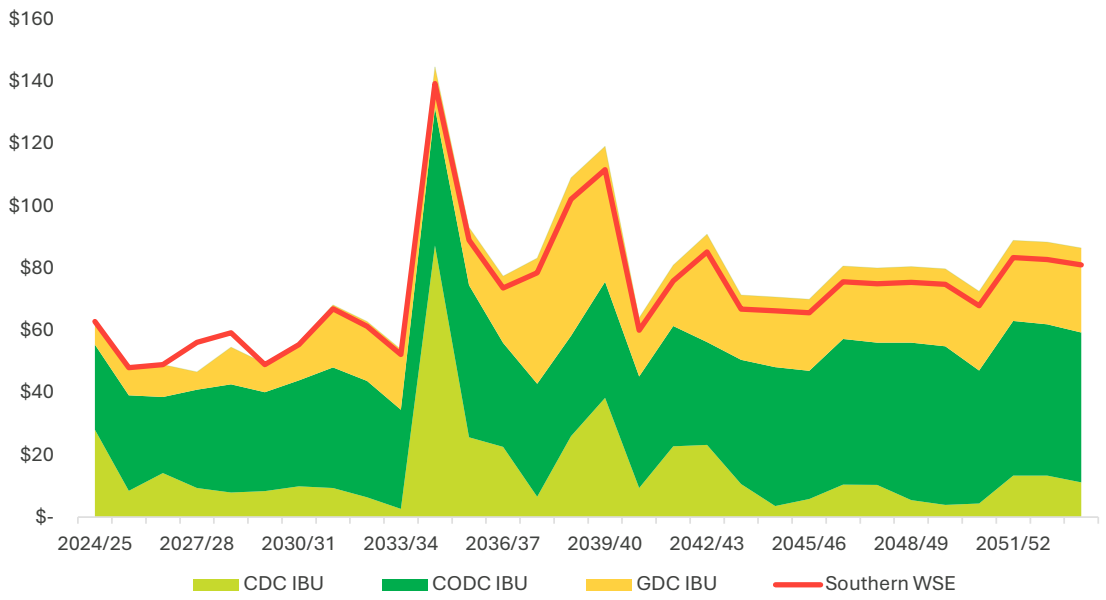
The chart below shows total capital expenditure for a Southern WSE compared to the combined three waters debt of the participating councils.

The Southern WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur establishment costs[3] (estimated at $8.8 million). Over time, a Southern WSE is able to reduce capital expenditure compared to the combined councils as it begins to achieve organisational efficiencies through improved asset management practice and coordinated procurement to deliver the same programme of works. These savings ultimately give rise to lower three waters charges.

The capital works programme is generally flat, with the exception of:

- A spike in 2035 relating to Clutha District Council's Milton Wastewater Treatment plant
- A spike in 2039 and 2040 relating to the combined impact of the Gore Wastewater Treatment plant.

Figure 10 Combined 30 year capex profile of three councils vs Southern WSE



[3] Refer to Appendix Three for the modelling assumptions used

30 year projections

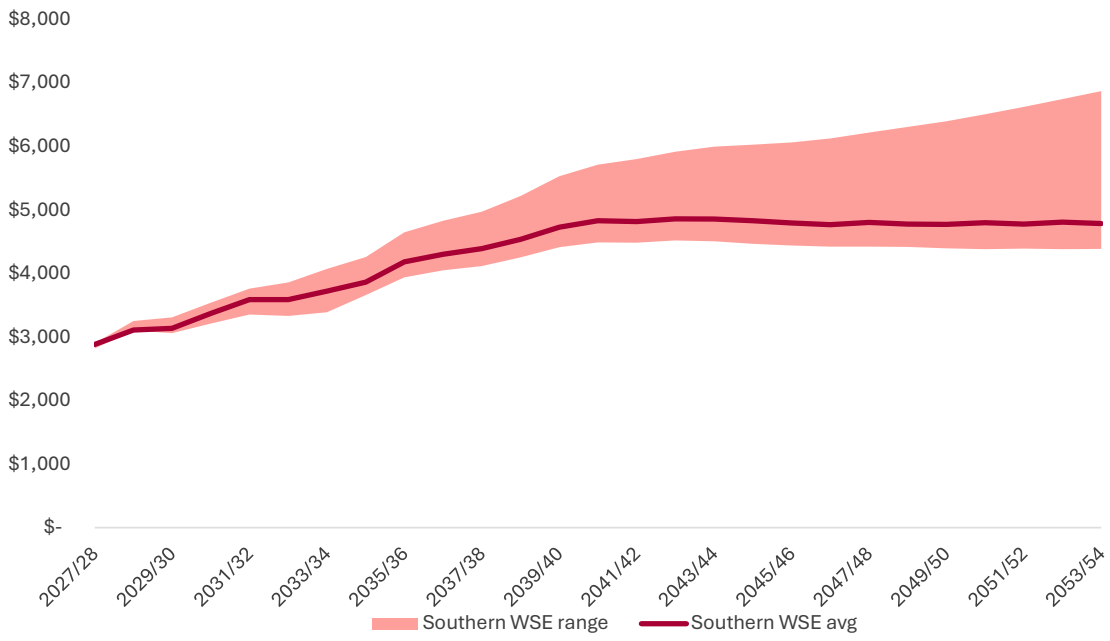
We have included indicative 30 year projections in this iteration of modelling. Because of the inherent uncertainty of 30 year capital programme projections we have:

- Applied a very broad range of sensitivity to the capital programme beyond 2034
- Not presented potential price paths for individual councils beyond 2034.

The modelling from 2035 – 2054 is therefore intended to be indicative only. It is intended to demonstrate that:

- Prices are expected to stabilise over the long term due to the chosen approach to financing
- The high levels of debt required by the WSE do not necessitate significant price increases to service, especially with the current group of participating councils.

Figure 11 30 Year regionalised price path for Southern WSE (three waters household charges inc GST)



30 year borrowing profile

Our modelling assumes the Southern WSE will maintain an FFO to debt ratio of 9% over the long term. We note that precise lending arrangements for WSEs are yet to be agreed, and will be agreed on a bespoke basis with LGFA. Based on LGFA's latest guidance, we understand it is likely that a WSE of the proposed scale will be able to obtain a lending covenant of 9% FFO to debt.

To the extent that the WSE is required to comply with a higher FFO ratio, modelling would indicate this could result in higher three waters charges in the short term, with limited impact over the longer term horizon. In all cases, because a Southern WSE will be able to obtain a more favourable FFO than a stand-alone WSE, three waters charges will remain lower than alternative arrangements.

Figure 12 Southern WSE compliance with lending covenant



Individual council results

For ease of comparison, the results for each individual council are presented below. This includes the impacts of sensitivity testing in the comparator case and Southern WSE.

Central Otago District Council

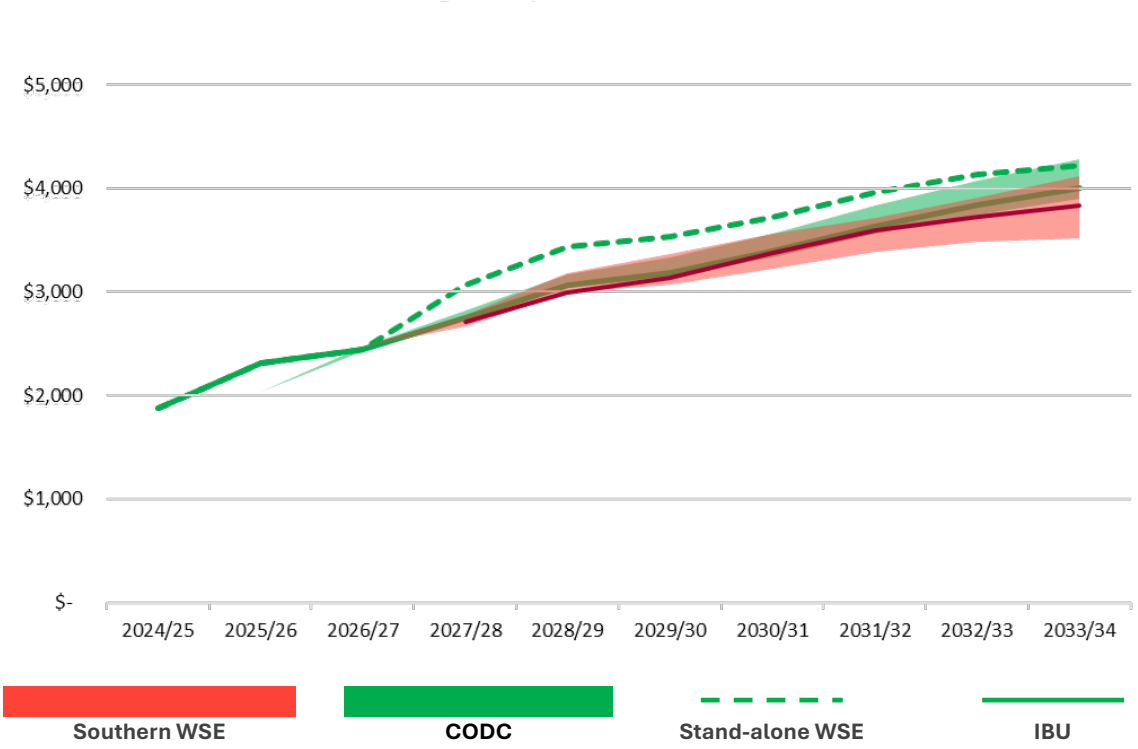
Household charges

The chart below shows the result of our model for Central Otago of:

- An in-house business unit
- A stand-alone WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in-house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for CODC.

Figure 13 Household charges for CODC vs stand-alone and Southern WSEs



The chart highlights that:

- A Southern WSE provides a slightly lower price path for water consumers in the Central Otago District, but it is generally within the range of the internal business unit.
- A stand-alone WSE is likely to be more expensive for CODC water consumers than an in-house delivery model.

The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 4 Comparison of household three waters charge (incl GST) for CODC

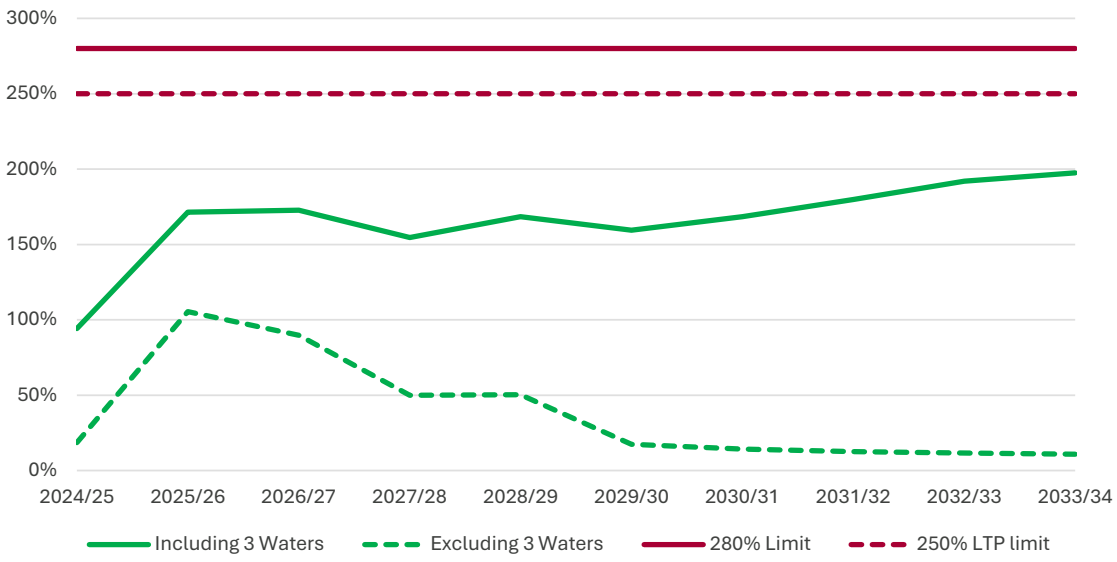
Entity	2024/25	2027/28	2033/34
In-house business unit	$1,445	$2,778	$4,048
Stand-alone WSE		$3,094	$4,266
Southern WSE		$2,706	$3,830

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included[4]. Both the stand-alone WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, CODC would improve its debt to revenue ratio from 198% to 11% by 2034. This represents an increase in potential borrowing headroom of $120 million. Without a transfer of three waters, Council's borrowing capacity will become increasingly strained.

Figure 14 CODC debt to revenue with and without three waters



Clutha District Council

Household charges

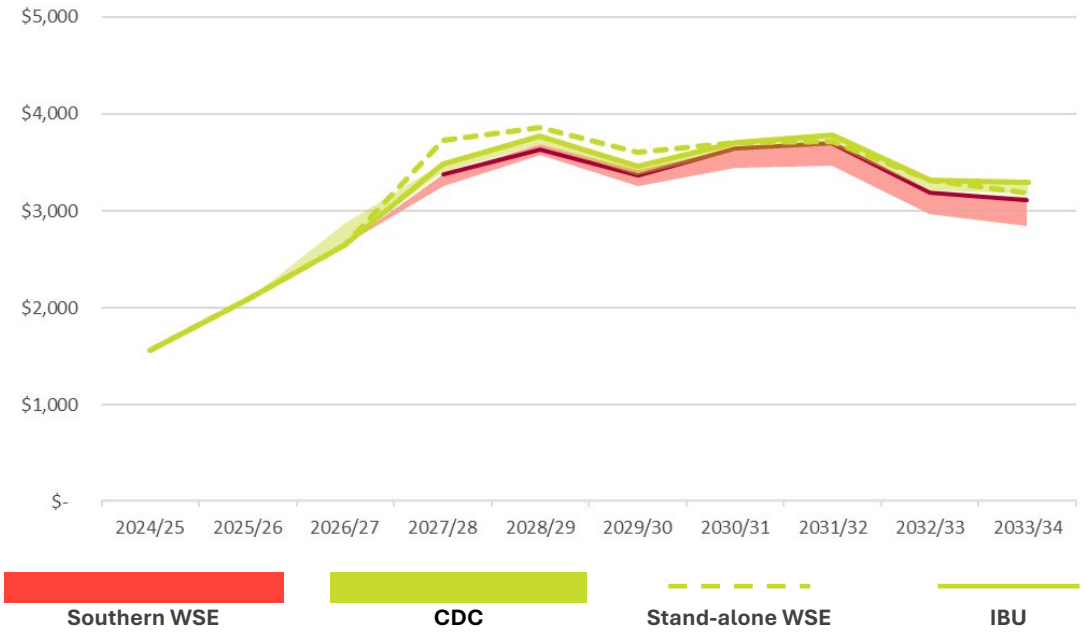
The chart below shows the result of our model for Clutha of:

- An in-house business unit
- A stand-alone WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

[4] For the purposes of assessing borrowing capacity, Councils revenue and cash reserves from endowment funds has been excluded.

We have shown price paths for the in-house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for CDC.

Figure 15 Household charges for CDC vs stand-alone and Southern WSEs



The chart highlights that:

- A Southern WSE provides the lowest price path for water consumers in the Clutha District.
- A stand-alone WSE is likely to be more expensive for CDC ratepayers than an in-house business unit.

The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 5 Comparison of household three waters charge (incl GST) for CDC

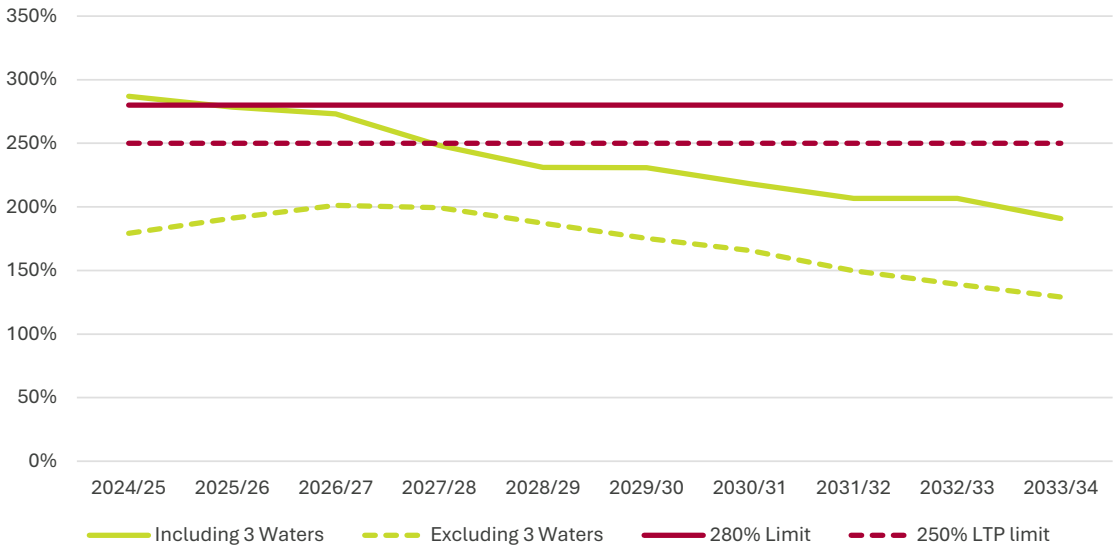
Entity	2024/25	2027/28	2033/34
In-house business unit	$2,181	$3,484	$3,294
Stand-alone WSE		$3,727	$3,178
Southern WSE		$3,375	$3,114

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the stand-alone WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, CDC would improve its debt to revenue ratio from 191% to 129% by 2034 (an increase of $8 million of additional borrowing capacity).

Figure 16 CDC debt to revenue with and without three waters



Gore District Council

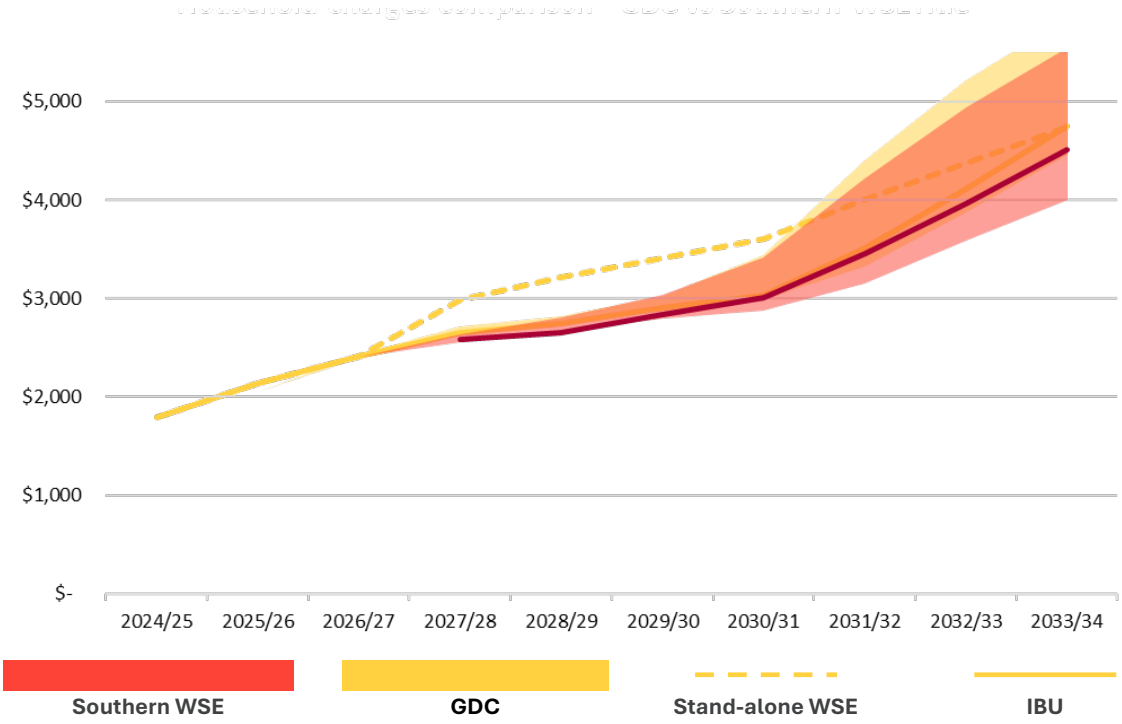
Household charges

The chart below shows the result of our model for Gore of:

- An in-house business unit
- A stand-alone WSE (represented by the dotted line), and
- A local price charged by a Southern WSE

We have shown price paths for the in-house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for GDC.

Figure 17 Household charges for GDC vs stand-alone and Southern WSEs



The chart highlights:

- A local price from the Southern WSE is likely to be lower than price under either of the alternative models for GDC. However the range of outcomes are similar to the in-house business unit.
- A stand-alone WSE is likely to provide a more expensive household charge for water consumers in Gore.

The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 6 Comparison of household three waters charge (incl GST) for GDC

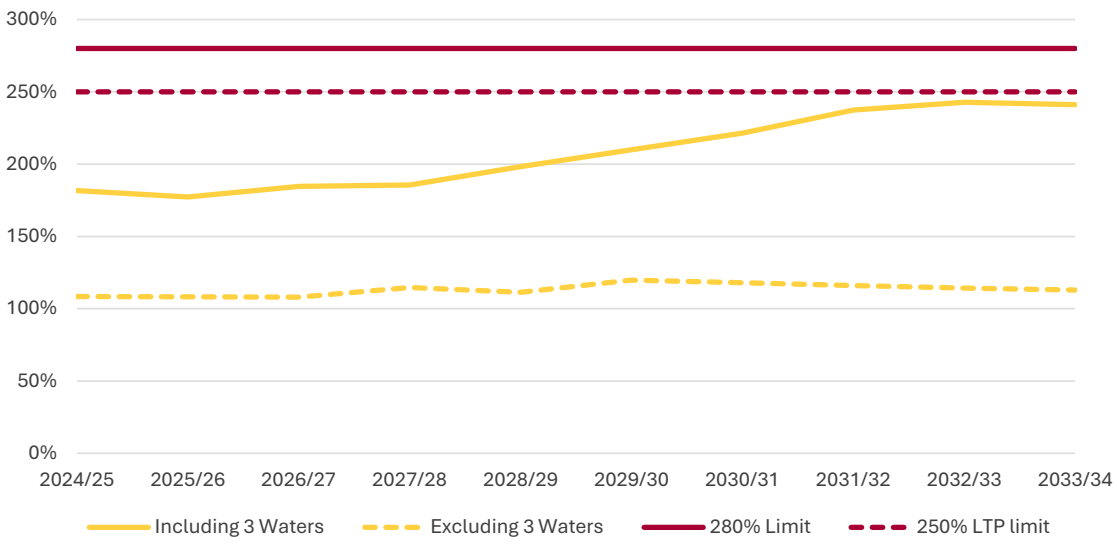
Entity	2024/25	2027/28	2033/34
In-house business unit	$1,667	$2,655	$4,753
Stand-alone WSE		$2,986	$4,735
Southern WSE		$2,589	$4,506

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the stand-alone WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, GDC would improve its debt to revenue ratio from 241% to 113% by 2034. This represents an increase in potential borrowing headroom of $35 million.

Figure 18 GDC debt to revenue with and without three waters



Impact of wastewater standards

Draft wastewater standards were released on 25 February 2025 and have not been fully reflected in our view of the capital works programmes for all of the councils included in the modelling presented earlier in this report.

However, as noted in the report from Utility NZ (Appendix Four - Southern CCO Programme Assurance Findings), the impact of these standards on capital works programmes is likely to be significant in some cases. However, there are still too many unknowns with the new standards, and each council respective consenting pathways to be able to fully quantify this impact.

Councils with WWTP upgrades occurring in the next 3 years, of which there are very few, will be allowed a two-year extension under the new standards. This will have further impacts on capital programmes, potentially resulting in deferral of currently planned investment into future years, and a delay in seeing the full impacts of potential cost reduction.

If wastewater rules change or other projects are reduced in scope, the capital works programme may shrink, resulting in lower costs for the relevant councils and the Southern WSE.

Appendix One - Non financial MCA

Otago Southland MCA for water service delivery options

Multi Criteria Analysis

Options		Option 1: In-house WSE		Option 2: Stand-alone WSE		Option 3: Southern WSE	
Description of option		**Financial ringfencing No significant changes to service delivery approach Minimum changes to meet legislative requirements**		**Establishment of a separate company with its own Board, CEO and management structure. 100% owned by a single council. Financial separation from councils. May share or procure services from council**		**Establish a jointly owned three waters CCO. Pricing assumed to be determined under a "no one worse off principle". Equal shareholding across all councils. Assumes a gradual transition away from reliance on councils for the provision of services.**	
Assessment Criteria	**Weighting**		**Comments**		**Comments**		**Comments**
To deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy.	20.0%	0	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, however may be influenced by broader affordability concerns and debt constraints within existing councils.	1	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, and the CCO will only be impacted by its own borrowing and affordability constraints.	2	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, and the CCO will only be impacted by its own borrowing and affordability constraints. Access to a broader set of expertise, and improved financial and workforce resilience arising from increased scale may improve reliability of the network and allow for the adoption of innovative solutions with improved outcomes
To deliver three waters services that sustainably respond to change in population, economic activity and climate change.	20.0%	0	Asset management planning will be completed within the same location as district planning and consenting. This may allow for more accurate or timing planning of growth investment. Access to skills, or opportunities to build network resilience through "cross border" investment may be limited.	-1	Separation of district planning and consenting functions will require close working relationships to be established to ensure network investment is aligned with growth.	1	Separation of district planning and consenting functions will require close working relationships to be established to ensure network investment is aligned with growth. There may be opportunities for "cross border" solutions to be adopted to respond to or mitigate the risk of changing demand due to climate change, changing population and economic activity. A larger geographic reach improves resilience to local economic or environmental shocks.
To deliver three waters services through a model that is responsive to the local needs of our communities.	20.0%	0	Investment and planning is closely linked to broader objectives and planning for councils. A direct link between governance and the democratic process allows for direct community accountability. Workforces, including high values jobs, remain local. Decision making and accountability will be reduced compared to current arrangements due to the influence of the economic regulator and Taumata Arowai.	0	Decisions regarding investment are made largely independently of decisions made the shareholding council. However, decision making remains local, with investment only occurring within district. Board members will be appointed by councillors, but will not be directly accountable to , or elected by, the public. Instead they will be accountable to consumers Decision making and accountability will be reduced compared to current arrangements due to the influence of the economic regulator and Taumata Arowai. A wholly owned water CCO is likely to maintain close relationships with parent councils and may share some functions, such as customer services.	-2	Decisions regarding investment are made based on a "best for network" approach with investment being prioritised across the combined districts when resources are scarce. Workforce, including high value jobs, may move out of the district, however modern working environment will likely allow staff to live where they choose. Local workforces will remain for network and treatment operations. The model may include procuring some shared services from councils such as customer services.
Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	20.0%	0	Decision making will be influenced by the economic regulator, Taumata Arowai, and elected members (who may not have relevant infrastructure, risk management or financial expertise). There will be no improvement to recruitment or retention of staff compared to current arrangements, with competition for good staff between districts and larger joint water entities persisting.	-1	There will be a singular focus from the board and management on the delivery of three waters services. There will be no meaningful increase in scale compared to the in house delivery model. Opportunities for career development and progression will be low, and any improvements in ability to attract and retain good staff will be marginal compared to the in house model. Competition for good staff between districts and with larger joint water entities will remain. Lack of scale means loss of a single staff member may have significant negative implications of such an entity.	3	Scale will provide increased opportunities to find efficiencies through procurement and improved network wide investment. Scale will also provide improved career development opportunities improving the ability to attract and retain good staff, to support improved decision making. There will be a singular focus from the board and management on the delivery of three waters services.
To ensure that three waters services are delivered through a model that is enduring and financially sustainable.	20.0%	0	The in house delivery model will have ring fenced financial management for three waters services meaning no cross subsidisation to/from other activities of Council. Water services may continue to leverage council's ability to borrow at a parent level, which in some cases will result in increased access to debt, however this will impact the councils ability to borrow for other activities. This option will be less affordable than a Jointly owned CCO. Economic regulation should provide some assurance of financial sustainability.	-1	The entity will manage its own revenue and debt, providing it with financial independence. Guarantees or provision of uncalled capital from Council will ensure a level of sustainability and lacks financial sustainability. Council will have improved borrowing capacity to finance non-three waters projects. Economic regulation will provide some safeguards regarding financial sustainability, however a lack of scale and geographic reach will mean the entity may be impacted on local economic or environmental shock.	2	The entity will manage its own revenue and debt, providing it with financial independence. Guarantees or provision of uncalled capital from shareholding Councils will ensure a level of sustainability. Council will have improved borrowing capacity to finance non-three waters projects, and the entity will have favourable lending covenants. Economic regulation will provide some safeguards regarding financial sustainability, additionally, a broader geographic reach will provide more resilience to changing local economic and environmental conditions.
Total score (out of three with a range of -3 to 3)		**0.00**		**-0.40**		**1.20**	

Appendix Two - Local Water Done Well Review: Otago & Southland Three Waters October 2024



Current state overview

Otago & Southland three waters

August 2024

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
2927	DRAFT	S.Cross & R.Slater	D.Bonifant	D.Bonifant	12 August 2024
2927	FINAL	S.Cross & R.Slater	D.Bonifant	D.Bonifant	30 August 2024

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Introduction and approach

Context

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

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

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

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

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

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

Specifically, this first stage of work is intended to:

- Highlight the key local and regional challenges
- Identify areas of common interest, complimentary issues, and clear opportunities
- Determine the strategic objectives that will be used to assess the likely effectiveness of potential improvement models; and
- Develop a long list of options to be considered.

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Currency of data

The change in government and consequential repeal of the previous Government's Three Waters reform programme resulted in significant changes to planning assumptions made by councils in the development of their 2024/34 Long Term Plans. As a result, councils were given the opportunity to delay the adoption of their Long Term Plans by up to 1 year.

We have relied on the *latest* adopted/approved financial and asset information available for each council in the analysis included within this report. Where councils have elected to delay their Long Term Plans by a year, this information typically relates to either the 2021/31 LTP or early internal drafts of the 2024/34 long term plan that were prepared prior to the decision to defer. A detailed description of our approach to analysing the data provided from council's 2021 long term plans is outlined in Appendix One.

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Combined regional view

A common set of challenges

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

1. A need for significant investment in infrastructure, including:
   - Long held resource consents nearing expiry
   - Ageing infrastructure and increased renewals investment requirements
   - The increasing need to invest in, and utilise, technology to meet regulatory requirements for the provision of water and wastewater services
   - The condition of assets
   - Increasing or changing regulatory standards and intervention, including requirements to discharge treated wastewater to land rather than freshwater
   - Changing demand
   - Climate related pressures including increased frequency of droughts and severe wet weather events.
2. Increased financial constraints, including:
   - The need to significantly increase rates or other revenue that needs to be collected to fund service provision
   - A reduction in available borrowing capacity
   - The difficulty in funding significant infrastructure investment in small or remote communities
   - Ensuing affordability concerns for impacted communities
3. Challenges with the recruitment, retention, and development of skills, experience and expertise.

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

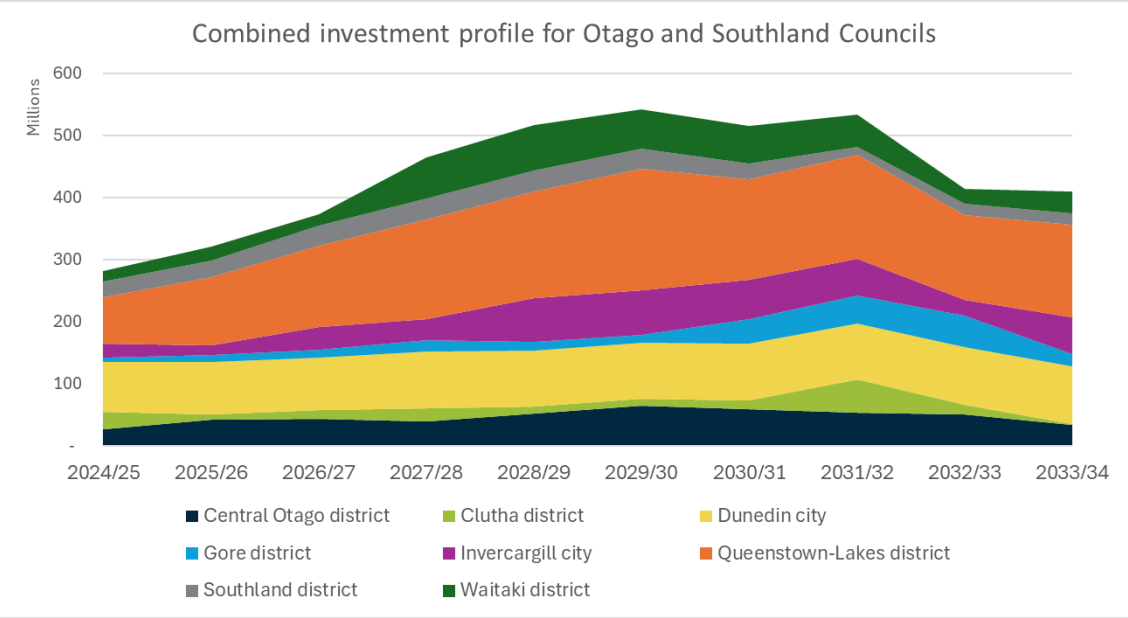
- The Otago and Southland regions are facing a wave of investment required from a large number of expiring wastewater treatment consents, ageing infrastructure and significant population growth at a local level.
- A rapid increase in total borrowings to fund investment in three waters infrastructure.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

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Investment requirements

The combined investment profile for the Otago and Southland councils features a $4.3 billion programme of work, across eight councils. The work programme almost doubles from $280 million to over $540 million dollars of planned annual capital delivery between 2025 and 2030.

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

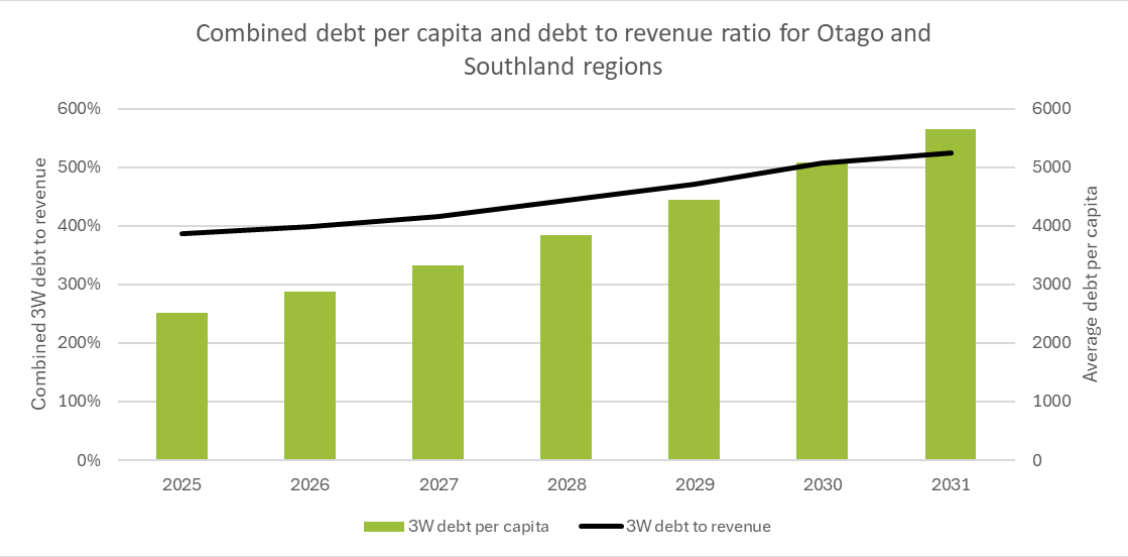


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Borrowing requirements

Financing a $4.3 billion dollar work programme requires significant borrowing. Total three waters debt across the Otago and Southland Councils is expected to reach $2.2 billion by 2031 on conservative projections[1].

On a per capita basis, debt across the combined regions will more than double from $2,500 per person to over $5,600 per person in 2031. Servicing and repaying that debt will add $450 to the average annual three waters rates bill.



As three waters infrastructure has been the largest contributor to borrowing for councils, when considered in isolation three waters debt is likely to exceed 500% of three waters revenue in 2031.

Proposed financial arrangements announced by the Government on 8 August 2024 reference LGFA's willingness to lend to an effective rate of 500% of three waters revenue. We understand that it is unlikely that lending covenants will actually be measured based on debt to revenue, but rather an alternative benchmark will be used.

[1] These projections include debt projections based on modified 2021 LTPs for some councils. Given significant uplifts in capital works programmes from 2021 to 2024, we would expect debt to be higher than this in 2031.

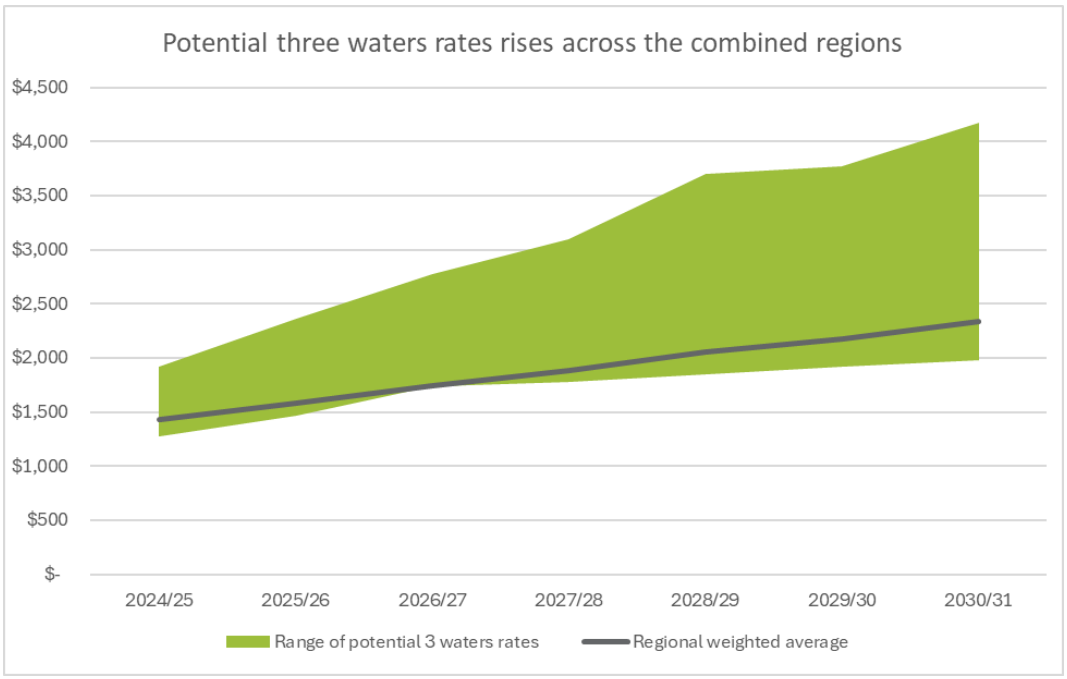
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Rates rises

Three waters rates across the Otago and Southland regions are predicted to rise significantly over the next seven years. Some communities are projected to experience increases of more than 160% to their existing residential three waters rates bills during that time period. By 2034, some councils will have three waters rates that are up to five times larger than they are in 2025. For some councils, this means a rapid increase in rates in the final years of their LTPs.

While there is significant variation across the regions, the affordability of three waters services and rates is likely to become a key consideration for all councils moving forward. Regionally, the weighted average residential rates will increase at least 63% from $1,435 in 2025 to over $2,350 in 2034.

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



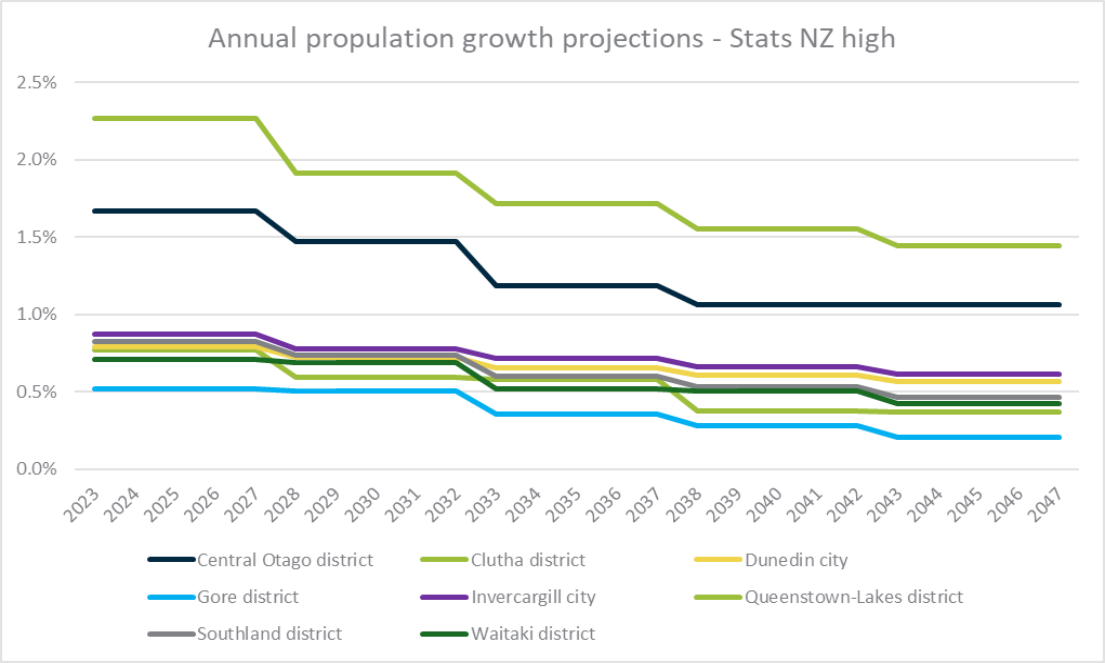
Local context matters

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

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Some councils are experiencing rapid growth

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



The two Councils that are experiencing the highest levels of growth in the Otago and Southland regions (QLDC and CODC) have a combined three waters capital works programme of $966 million just to respond to provision of infrastructure to support that future growth. This represents approximately half of the three waters capital works programme for both Councils.

While Dunedin City Council (DCC) has allowed approximately $68 million for three waters growth infrastructure between 2024 – 2034, the remaining councils in the Otago and Southland regions have only forecast incidental expenditure on growth projects over the LTP period.

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

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

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

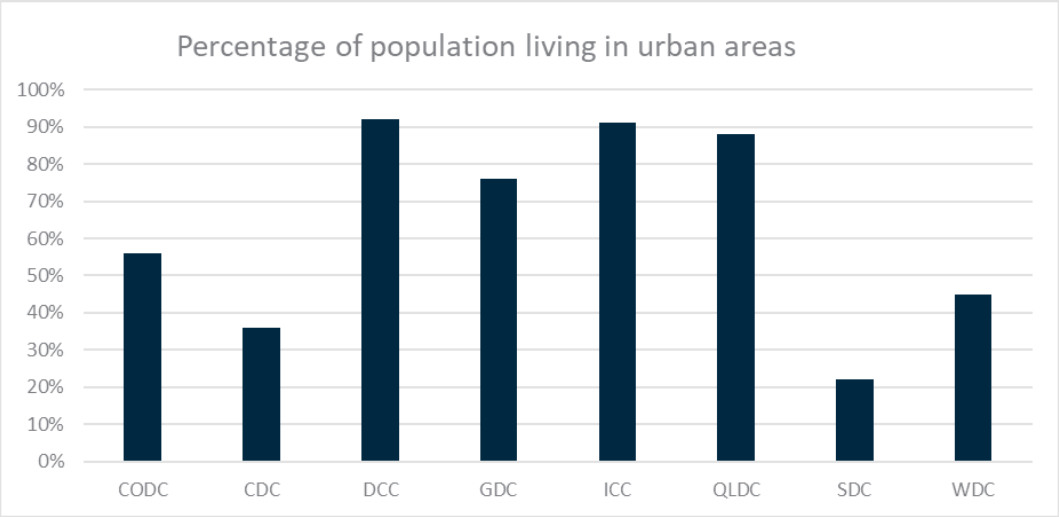
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Some councils have many small communities

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

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

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



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

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

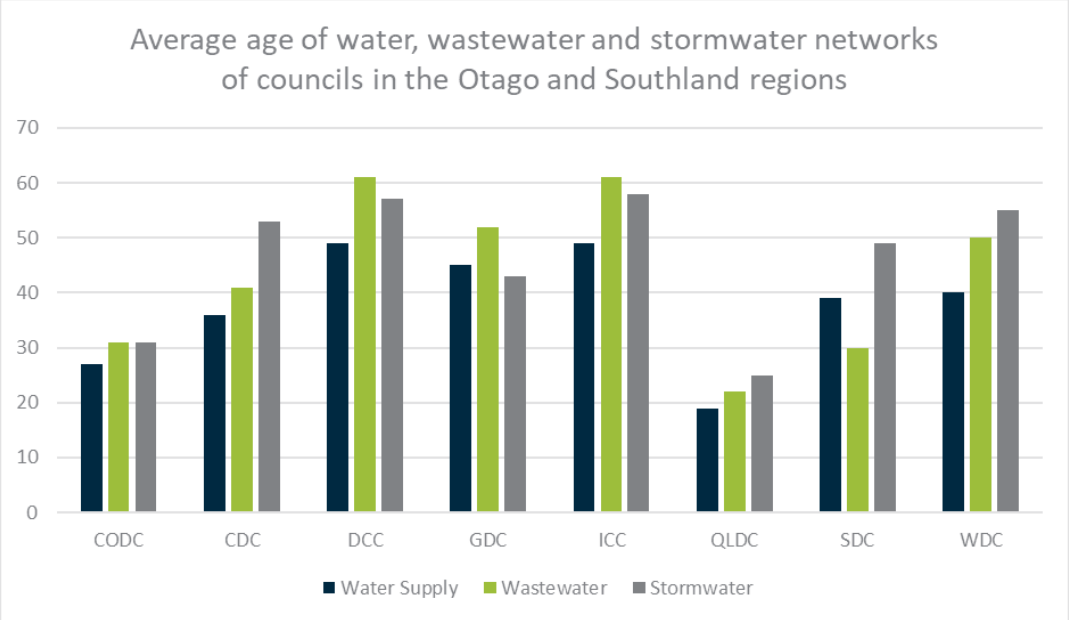
Managing small schemes cost effectively requires a different approach to the management of three waters services in highly urbanised environments.

© Morrison Low

Some councils have older networks than others

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

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



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

Councils with older networks such as ICC, DCC, WDC and GDC are expected to undertake a significant programme of renewals over the next 10 years. These councils are expected to spend over $850 million in three waters renewals over the next 10 years, or around half of their combined three waters capital works programme.

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Among the issues lie a range of opportunities

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

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

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

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Central Otago District Council

24,306 population (2023)

18,875 people serviced with water supplies

7 wastewater treatment plants

8 water treatment plants

453 km water supply pipes

73 km stormwater pipes

264 km wastewater pipes

28 water connections per kilometre

56% of people live in urban areas

$85,900 average household income (2019)



Key issues

Growth

The CODC district has very high population growth in some of its townships. 53% of its planned capital works programme, totalling $244 million is intended to address growth pressures.

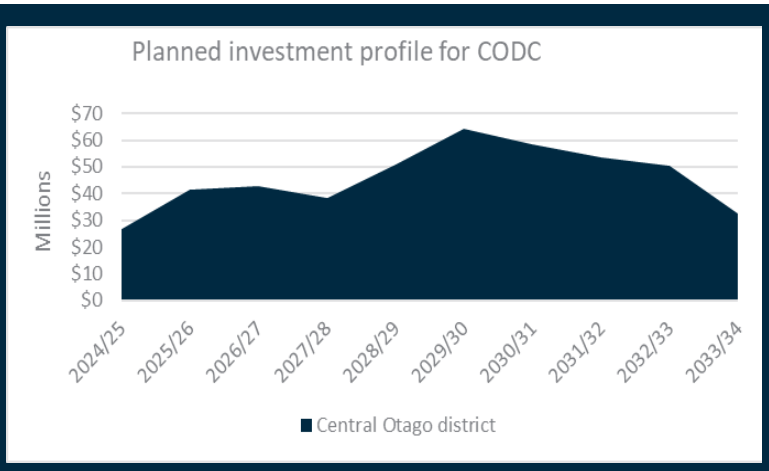
Small communities

Servicing small communities and balancing the need for significant investment in those communities in the future. Six of CODC's registered drinking water supplies service townships that individually have fewer than 1,000 people connected.

Affordability

To meet estimated investment needs in three waters, average three water rates are projected to increase 80% from $1,900 to over 3,450 by 2034.

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$458 million of planned investment over 10 years

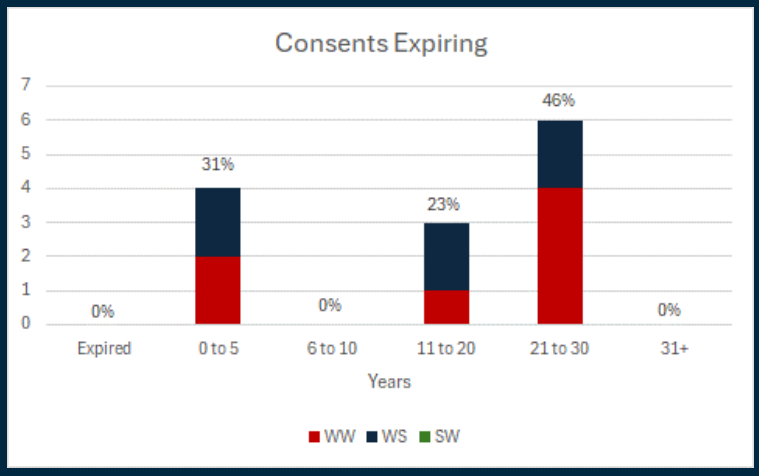
CODC's three waters capital works programme peaks at $64 million per year in 2029. For context, that's over 50% more than its entire capital works programme in 2024.

This investment profile is likely to reduce by up to $100 million due to recent government announcements that suggest discharge to freshwater environments will be permitted and fit for purpose water treatment for small supplies.

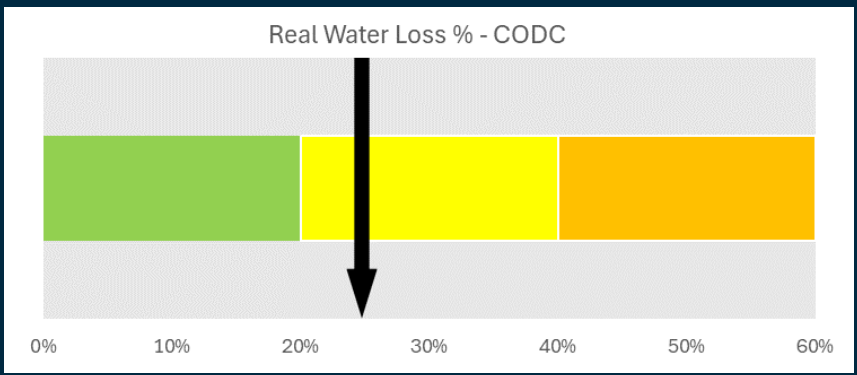
Expiring consents

CODC has four consents that are due to expire in the next 5 years. The two wastewater consents are for Alexandra and Omakau.

Both currently discharge to freshwater receiving environments. The additional financial impacts of discharging to land (if required) are expected to be in the order of $60 million - $70 million combined.



Network performance



CODC experienced an estimated 26% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was 25%.

There were 2.75 dry weather overflows of the wastewater network per 1,000 connections in 2023.

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Compliance

CODC was not fully compliant with the drinking water standards in 2023, non-compliance related to a lack of Protozoal barriers in its Ranfurly, Patearoa, Cromwell and Omakau supplies. It also had supplier notifications for MAV exceedances in its Roxburgh and Cromwell schemes and issued temporary consumer advisories for its Ranfurly and Patearoa schemes in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[2]
Bacterial compliance	Not Achieved	100% Compliance	N/A	↔
Protozoal compliance	Not Achieved	100% Compliance	N/A	↔

CODC received 5 Abatement Notices and 2 Infringement Notices for its wastewater treatment plants in 2022/23, an increase from 3 Abatement Notices in 2021/22. Two abatement notices have since been lifted, with three remaining in place as at August 2024.

Demand management

CODC has experienced a period of rapid population growth since 2013. The average annual growth rate of 3.7% is much higher than the growth seen from 2006-2013 which was an annual average of 1.2%. Over the last two years this growth has slowed to a rate of 2.5% due to impact of Covid. Short term and long-term indicators suggest the population growth rate will continue at a rate similar to the last two years, rather than the more accelerated rate seen prior to that.

Water Consumption
516 ↓
(lpd/resident)

To respond to infrastructure pressures arising from Growth, CODC has provided for $244 million of investment in growth projects. Existing universal water metering also provides opportunities to address growth challenges.

Network condition and age

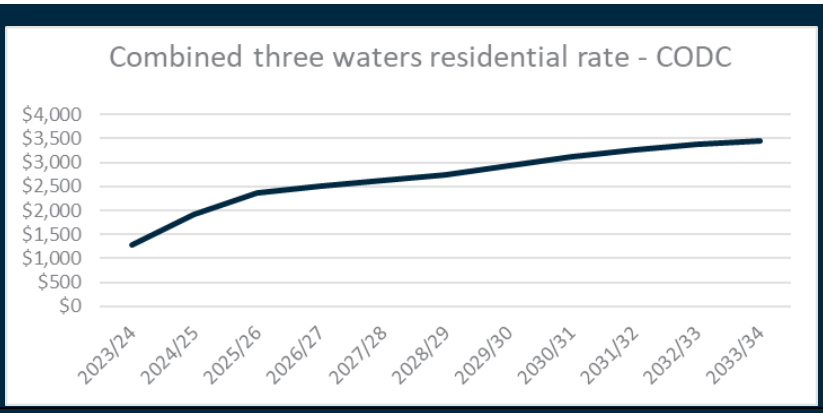
CODC's water, wastewater and stormwater infrastructure has the second lowest average age of all of the councils in the Otago and Southland regions. Expected useful life of water infrastructure varies depending on a range of factors, including material, diameter, and operating conditions, however given the low average age of infrastructure, CODC is unlikely to have an immediate need for significant renewals investment.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	27	84%	8%	5%	1%	2%	0%
Wastewater	31	86%	9%	3%	2%	0%	0%
Stormwater	31	99%	0%	1%	0%	0%	0%

Condition assessment of CODC's three waters assets show a high portion of assets in Condition 1. Again, this indicates no immediate need for significant renewals investment, however we would have expected to have seen more of a distribution in the other condition grades.

[2] Compared to previous year

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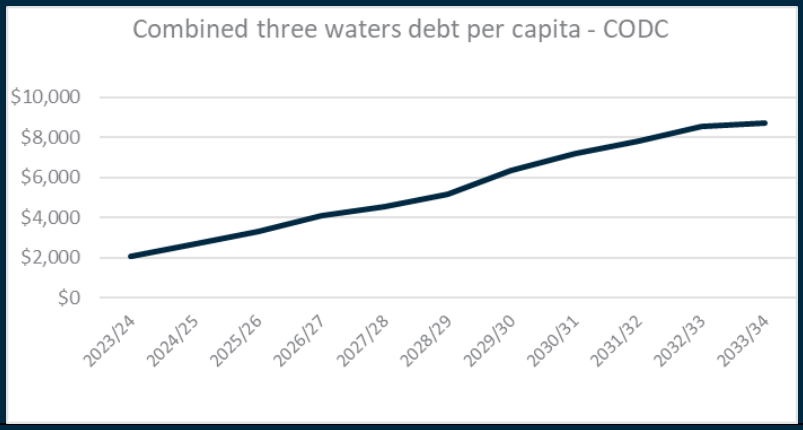


Three waters residential rates

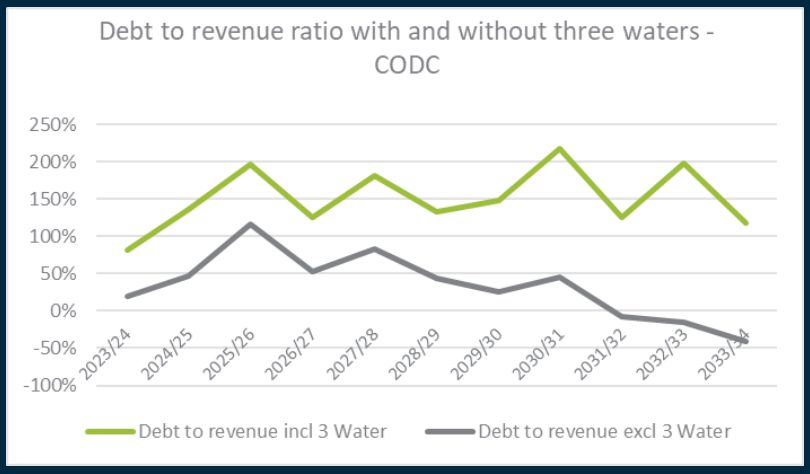
The average residential rate for three waters services in CODC is projected to more than double from about $1,300 including GST in 2024 to about $3,450 in 2034 according to early drafts of its 2024 long term plan (which was subsequently deferred).

Three waters debt

CODC's initial draft 2024 Long Term Plan forecast an increase in total three waters related borrowings from approximately $55 million in 2024 to about $297 million in 2034. This represents a four-fold increase in per capita debt, from about $2,000 per capita to about $8,700 per capita in 2034.



Whole of council debt



Over the period of the initial draft 2024/34 long term plan, CODC's debt was projected to grow to over 215% of its revenue; this is primarily because of intense capital investment requirements for three waters. The projections show CODC breaching LGFA's 175% debt to revenue limit for unrated councils in 2026, at which point CODC would need to obtain a credit rating.

Council expects to generate significant future revenue from the development of residential and industrial land in its district. This is the cause of the spikes in the chart above.

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Clutha District Council

18,315 population (2023)

15,000 people serviced with water supplies

11 wastewater treatment plants

16 water treatment plants

2,505 km water supply pipes

57 km stormwater pipes

217 km wastewater pipes

3 water connections per kilometre

36% of people live in urban areas

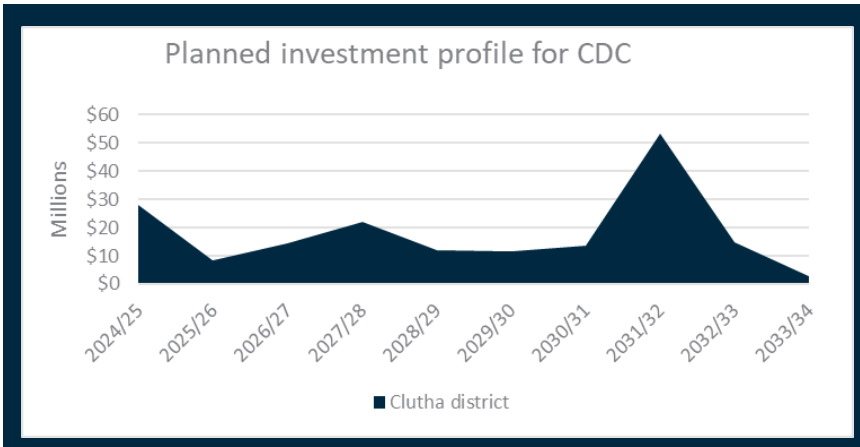
$86,300 average household income (2019)



Key issues

Mixed use rural water schemes	Low connection density	Compliance
Council owns and manages 22 rural water schemes for domestics consumption and drinking water for stock. The ongoing costs of operation and maintenance of the schemes is expected to become unaffordable over time.	Council has one of the longest reticulated water networks in the country, and consequently the lowest connection density in New Zealand. Low connection density results in high costs to operate and maintain a network that services few people.	Delivering drinking water that is compliant with drinking water standards has been challenging in a number of rural mixed use schemes in particular. 6,221 people connected to schemes had consumer advisory notices in place in 2023.

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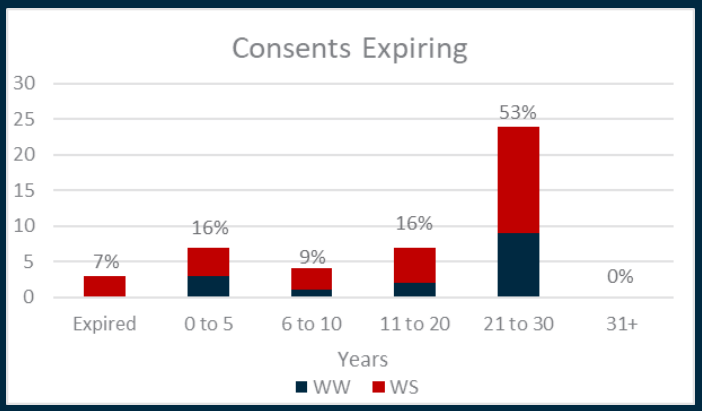
$181 million of planned investment over 10 years

The programme peaks at $53 million in 2032. For context, this is about equal to CDC's entire planned capital works programme (for all activities) in 2024.

Expiring consents

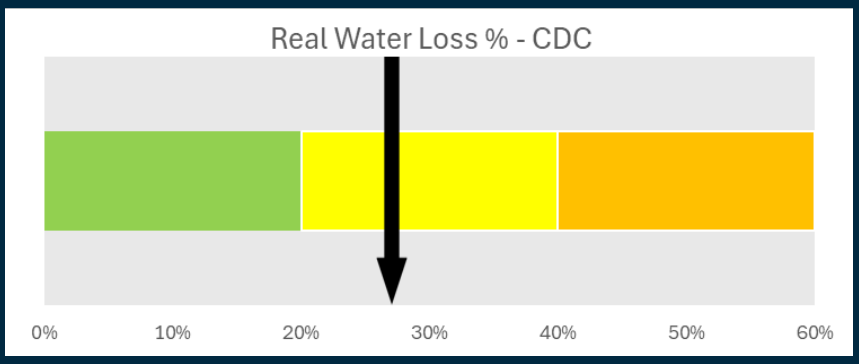
CDC has three water supply consents that have expired and 7 that expire in the next 5 years. There are a large number of consents (24) that expire in the years 21 to 30.

CDC has 45 resource consents across its 27 water and wastewater treatment plants. Some treatment plants have more than one applicable consent.



Network performance

CDC experienced 28% real water loss in the 2023 financial year. This is average for the councils in Otago and Southland. regions.



There were 4.19 dry weather overflows of the wastewater network per 1,000 connections in 2023. CDC's wastewater network met its target levels of service in the last two years, although with 4.19 dry weather overflows is worse than most other councils in the Otago and Southand regions and their targets are all also lower than CDC's.

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Compliance

All 14 of Clutha's drinking water schemes have bacterial barriers, protozoal barriers, and residual disinfection in place other than Tuapeka West (which is to be replaced with the Greenfield Bore scheme).

Notwithstanding this, all schemes other than the Lawrence and Balclutha schemes issued supplier notifications to Taumata Arowai regarding unsafe, or maybe unsafe, drinking water. Eight of the 14 schemes had consumer advisory notices issued during the 2023 year, of which six were permanent advisory notices.

Area		22/23 results	22/23 Target	21/22 results	Trend[3]
Bacterial compliance	Urban	0%	100% - Not Achieved	81%	↓
	Rural	0%	94% - Not Achieved	39%	↓
Protozoal compliance	Urban	0%	>89% - Not Achieved	49%	↓
	Rural	0%	>66% - Not Achieved	0%	↔

Seven schemes exceeded Maximum Allowable Values for aluminium in 2023.

CDC received 7 Abatement Notices and 3 Infringement Notices for its wastewater treatment plants in 2022/23.

Demand management

The Clutha district is not expected to experience significant population growth in the near future. Changes in demand owing to population or economic growth are therefore not expected to create any significant challenges for the district moving forward.

Water Consumption
530 ↓
(lpd/resident)

A number of Clutha's existing surface water takes already have low flows, particularly during summer months. Any future increases to minimum water flow levels that may be imposed as part of future consent renewals may require CDC to find alternative water sources or implement further demand management strategies for those affected scheme.

Network condition and age

The age of each of CDC's water, wastewater and stormwater infrastructure is about average for the councils in the Otago and Southland regions.

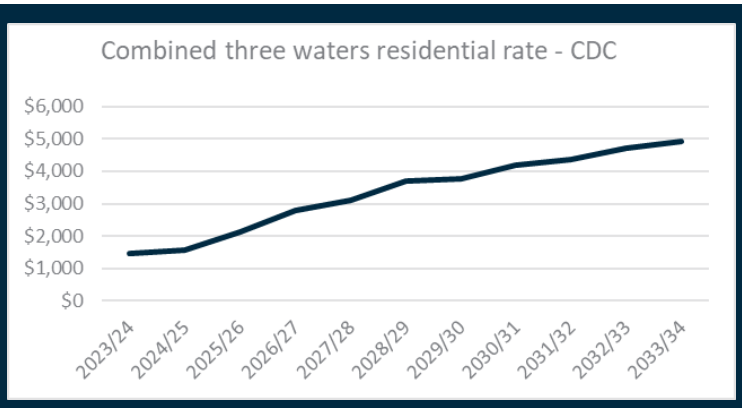
CDC notes in its asset management plan that the impacts of an ageing network are becoming evident now, particularly in relation to its concrete and asbestos cement water supply reticulation assets.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	36	28%	2%	5%	2%	1%	62%
Wastewater	41	49%	32%	13%	1%	2%	3%
Stormwater	53	20%	62%	6%	5%	5%	2%

A large quantity of the water supply network has yet to be condition assessed.

[3] Compared to previous year

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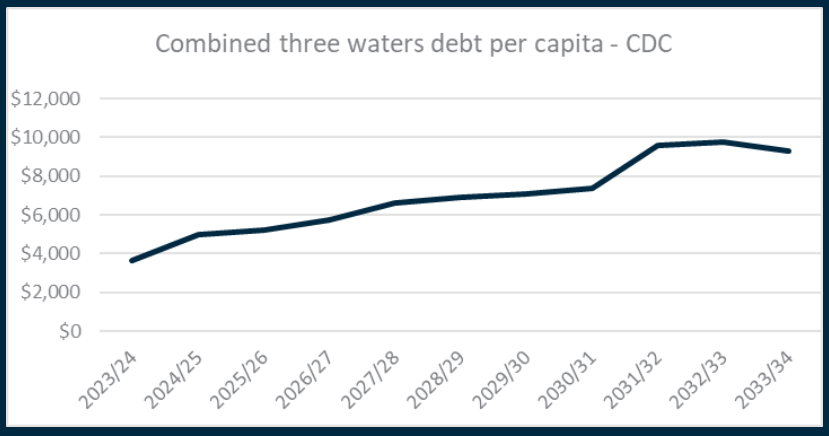
Three waters residential rates

The average three waters residential rate in CDC for 2023/24 was approximately $1,460 (including GST). Over the period of the LTP this is expected to more than triple to about $4,900 by 2034.

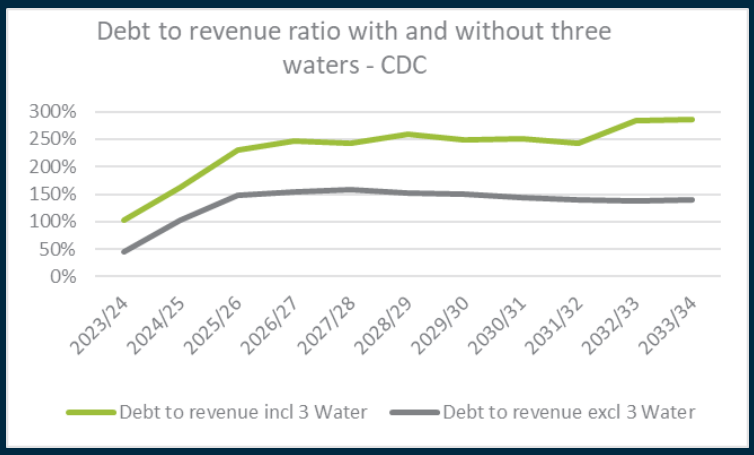
CDC separates rural and urban drinking water charges, so may not represent charges for all customer groups.

Three waters debt

Three waters debt for CDC is projected to increase from approximately $70 million in 2023/24 to a peak of $194 million by 2033/34. In per capita terms, three water debt will nearly triple from $3,660 per person to $9,300 per person.



Whole of council debt



Based on LTP projections, CDC will exceed LGFA's 280% debt to revenue lending covenant by 2032/2033. At this point it will be unable to borrow further funds without significant cost to ratepayers.

CDC's own draft Long Term Plan does not indicate that this lending limit will be breached. We note that our calculations of debt to revenue ratios rely upon data from funding impact statements and projected statements of financial position using a consistent approach across all councils. It is likely that actual calculations may differ given differences in reporting across councils.

Without three waters related debt, Council is unlikely to reach or exceed any borrowing limits within the foreseeable future.

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Dunedin City Council

128,901 population (2023)

115,357 people serviced with water supplies

7 wastewater treatment plants

4 water treatment plants

1,390 km water supply pipes

385 km stormwater pipes

958 km wastewater pipes

35 water connections per kilometre

92% of people live in urban areas

$88,800 average household income (2019)



Key issues

South Dunedin flooding

Regular flooding of South Dunedin has been identified as a critical issue that needs to be resolved.

A joint programme of work is underway with Otago Regional Council to look at planning, land use and infrastructure opportunities to resolve this issue.

It is likely that infrastructural intervention will require substantial investment.

Providing for growth

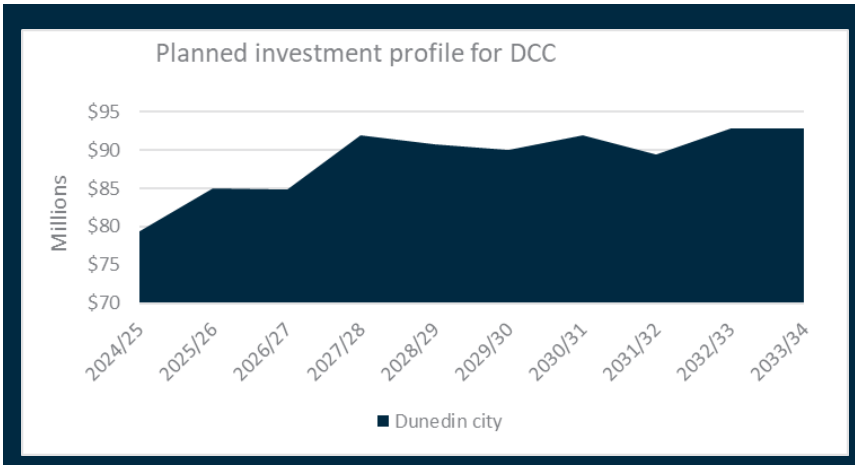
Network capacity issues on parts of Dunedin's water network mean that it is unable to provide for future housing development in parts of its city.

Water take limits during dry periods also occasionally impact water supply across the network.

Ageing infrastructure

Dunedin's water, wastewater and stormwater networks are all the equal oldest in Otago and Southland.

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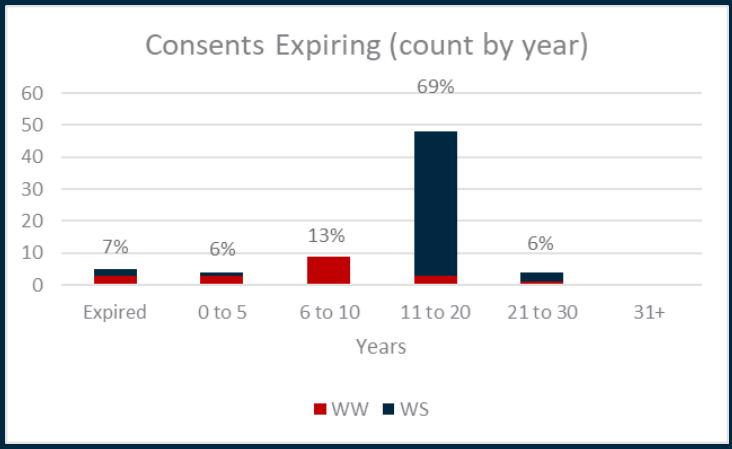


$890 million of planned investment over 10 years

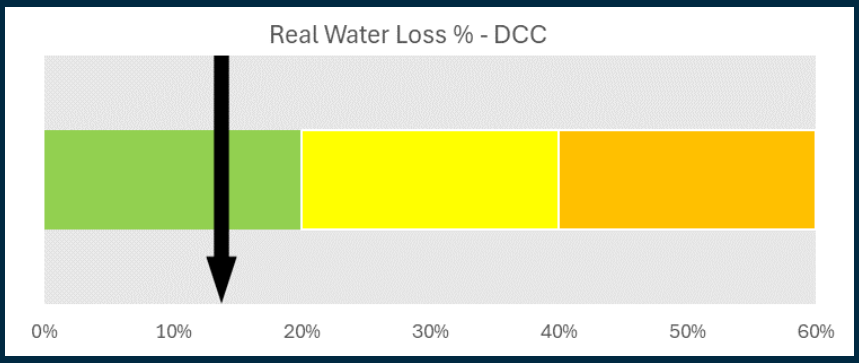
The programme is based on consistent delivery of around $90 million per year from 2028. For comparison, DCC's 2023 annual report shows it delivered $93 million in three waters capital projects during the year.

Expiring consents

The resource consents for the Green Island and Tahuna wastewater treatment plants are due to expire in 2032. Resource consents for the Waikouaiti and Middlemarch wastewater treatment plants are due to expire in 2027 and 2029 respectively.



Network performance



DCC experienced 15% real water loss in the 2023 financial year, which is amongst the lowest in the Otago and Southland councils. Water loss was 22% in 2022.

There were 3.58 dry weather overflows of the wastewater network per 1,000 connections in 2023, an increase from 2 per 1,000 connections in the previous year.

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Compliance

DCC was not fully compliant with the drinking water standards in 2023. Non-compliance related to lower than required levels of free available chlorine in the Wingatui distribution zone and exceeding the maximum sampling intervals in a number of locations. Steps have been put in place to address all of these issues.

All of DCC's water supplies have bacterial and protozoal barriers and residual disinfection in place.

Taumata Arowai reports than in 2023 it received 3 notifications for MAV exceedance on the Dunedin City supply, and that the Waikouaiti supply exceeded lead MAVs on one occasion.

Area	22/23 results	22/23 Target	21/22 results	Trend[4]
Bacterial compliance	81%	100% - Not Achieved	50.5%	↑
Protozoal compliance	98.6%	100% - Not Achieved	99.6%	↓

Demand management

Dunedin experienced 3.2% growth in its population between 2022 and 2023.

Dunedin already faces some constraints on water supply. It's draft 2024 infrastructure strategy notes that constraints exist in relation to:

- Flows and pressure not always meeting requirements for firefighting purpose
- Occasional issues during summer months where raw water take needs to reduce to maintain minimum flows
- Infrastructural constraints on the volume of water able to be delivered to some parts of the city
- Expiring water take consents, particularly in the Taieri plains area which is already over-allocated

Water Consumption
280 ↑
(lpd/resident)

Network condition and age

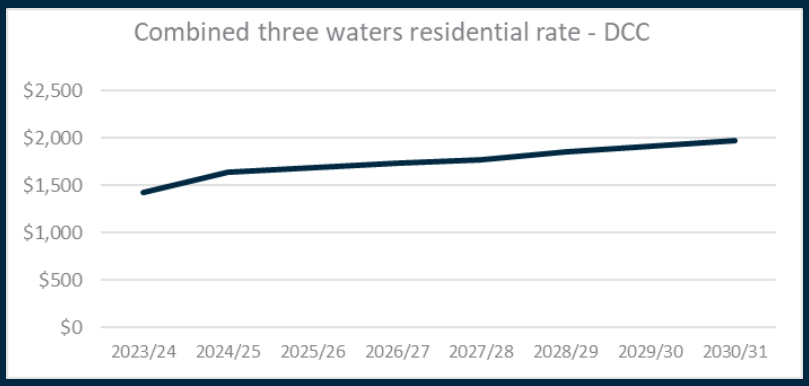
A large proportion of Dunedin's three waters network is yet to have a condition assessment, however DCC's infrastructure strategy identifies that a significant proportion of its wastewater reticulation network and treated water pipelines are in poor condition.

Particular issues are noted relating to the wastewater network, which is experiencing stormwater and ground water infiltration and inundation. This also creates capacity issues in the network during high intensity rainfall events.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	2%	4%	4%	1%	2%	87%
Wastewater	61	1%	3%	3%	1%	1%	91%
Stormwater	57	1%	1%	2%	1%	3%	92%

[4] Compared to previous year

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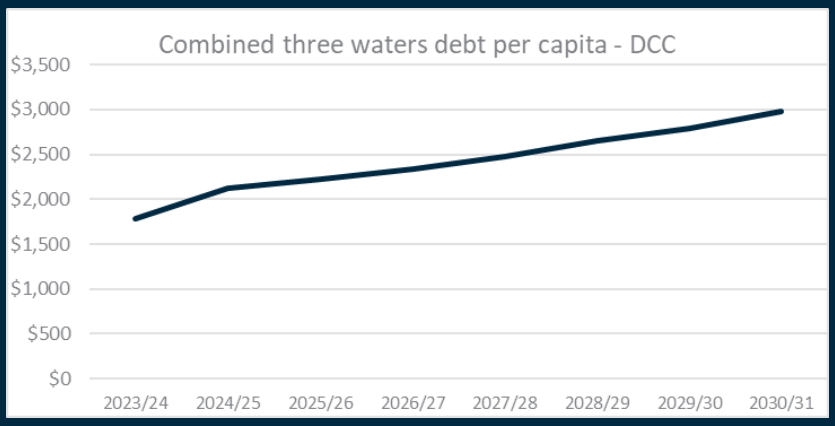


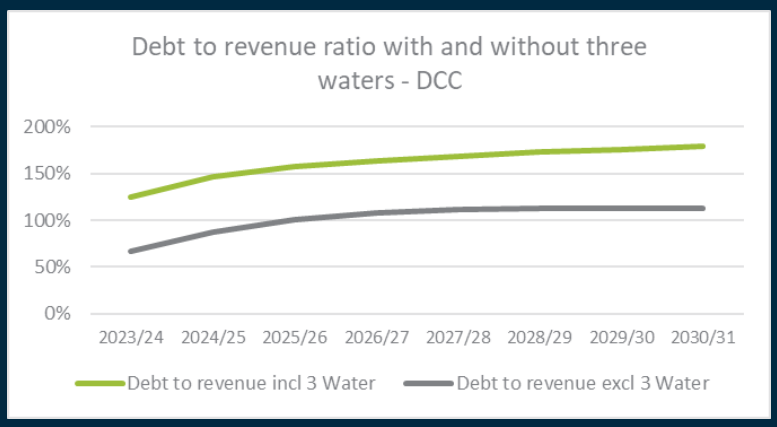
Three waters residential rates

Projections for Dunedin City Council, based on its adjusted 2021/31 Long Term Plan, see average residential three waters rates increase from $1,430 including GST in 2024 to $1,980 including GST by 2031.

Three waters debt

Dunedin's three waters net debt over the period of its adjusted 2021/31 long term plan is projected to rise from approximately $247 million in 2024 to $428 million in 2031. This translates to $2,980 per capita in 2031.





Whole of council debt

Dunedin's 2021 Long Term Plan projects total debt to reach 180% of revenue by 2031.

An increased capital works programme and borrowing requirements identified as part of the 2024 long term plan preparation would likely have resulted in further increases to debt to revenue ratios. Our projections do not anticipate Dunedin breaching its 280% borrowing limits based on increased three waters capital expenditure alone.

Notably, DCC's debt to revenue ratio is expected to improve if three waters revenue and debt were to be transferred. However, the upward trend of borrowings excluding three waters, indicates that at the time of the 2021 LTP, three waters investment needs were not significantly constraining planned investment in other council activities.

© Morrison Low

Gore District Council

12,711 population (2023)

9,290 people serviced with water supplies

3 wastewater treatment plants

3 water treatment plants

126 km water supply pipes

62 km stormwater pipes

108 km wastewater pipes

10 water connections per kilometre

76% of people live in urban areas

$96,800 average household income (2019)



Key issues

Separation of wastewater & stormwater

Approximately 40 % of Gore and 25 % of Mataura's wastewater and stormwater networks are combined.

A study completed in 2018 estimated that it would cost $175 million to achieve full separation of the Gore network.

Water loss

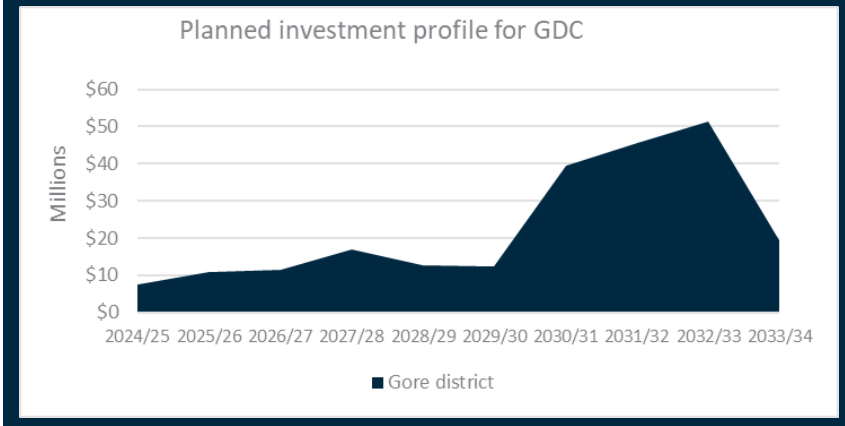
Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage.

Given limitations on water takes from Gore's surface water supplies during dry periods, a reduction in leakage would reduce the need for water restrictions.

Debt constraints

GDC's current debt projections see it breaching both the LGFA lending covenants for credit rated, and unrated, councils. With the significant majority of this borrowing relating to three waters, investment in three waters infrastructure will be constrained without additional rates rises to support further lending.

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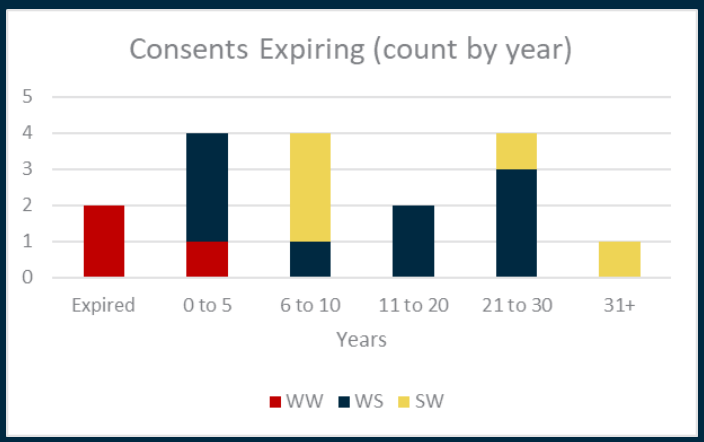


$227 million of planned investment over 10 years

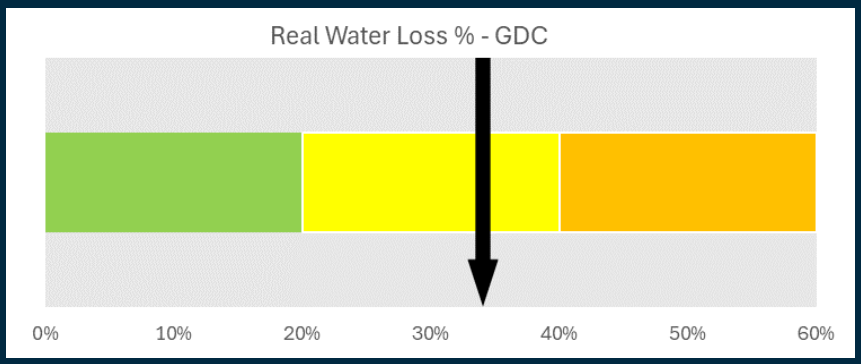
The programme is back loaded, peaking at $51 million in 2033. For context, GDC's entire planned capital works programme (for all activities) in 2024 equalled only $11 million

Expiring consents

GDC is currently in the process of applying to renew its expired discharge consents for the Gore and Mataura Wastewater Treatment Plants. Significant upgrades to improve the performance and minimise cultural impacts are expected as part of this consent renewal process.



Network performance



Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage. Investigations have not been able to identify the source of this leakage.

Managing water loss on the network would reduce the frequency of water restrictions being required in summer.

GDC's wastewater network met its target levels of service in 2023, with no dry weather overflows being reporting in its annual report.

© Morrison Low

Compliance

Gore reported that it was not compliant with protozoal and bacterial criteria in the drinking water quality assurance rules in 2023. Non-compliance related to the Mataura and Hilbre Ave water treatment plants. The Hilbre Ave water treatment plant is due to be decommissioned once a pipeline has been installed to enable raw water from that plant to be treated at the East Gore water treatment plant.

A temporary consumer advisory notice was in place for the Gore water supply for 2 days in 2023.

Area	22/23 results	22/23 Target
Bacterial compliance	Non-compliant	100%
Protozoal compliance	Non-compliant	100%

GDC had no abatement notices, infringement notices, or enforcement orders on its wastewater network in 2023 or 2022.

Demand management

GDC district is not expected to experience significant population growth in the near future, with population estimates indicating a small reduction in the population of the Gore district by 2043. Water consumption, at 452 litres per resident per day, is the third lowest in the two regions.

Water Consumption
452 ↓
(lpd/resident)

The district currently experiences periods where surface water takes for the Gore water supply need to be supplemented from a second water source. Increased frequency of extreme weather events and changing resource consent conditions may increase the need for this in the future.

Increased frequency of intense rainfall events may exacerbate existing capacity issues on the wastewater network, which are primarily the result of the large portion (40% in Gore) of combined wastewater and stormwater network.

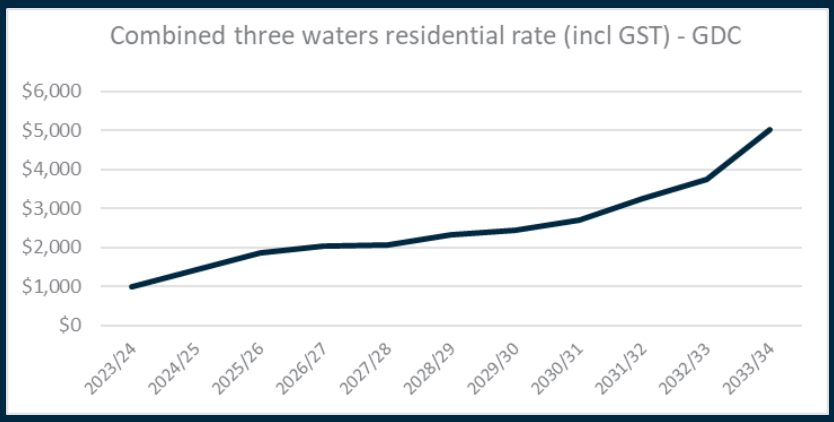
Network condition and age

GCC's assets are the third oldest across the two regions, with 21% of its water network having a predicted renewal date prior to 2030. Over 70km of water reticulation assets are predicated to require renewal in the 2030s, including the majority of its asbestos cement pipes.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	45	18%	0%	0%	0%	0%	82%
Wastewater	52	10%	0%	3%	0%	1%	86%
Stormwater	43	17%	1%	0%	0%	0%	82%

A significant portion of the assets have yet to be condition assessed, this is a risk to Council. A condition assessment carried out in 2022 identified that over 60% of earthenware wastewater pipes were assessed as being in poor or very poor condition. Earthenware represents a significant proportion of the network.

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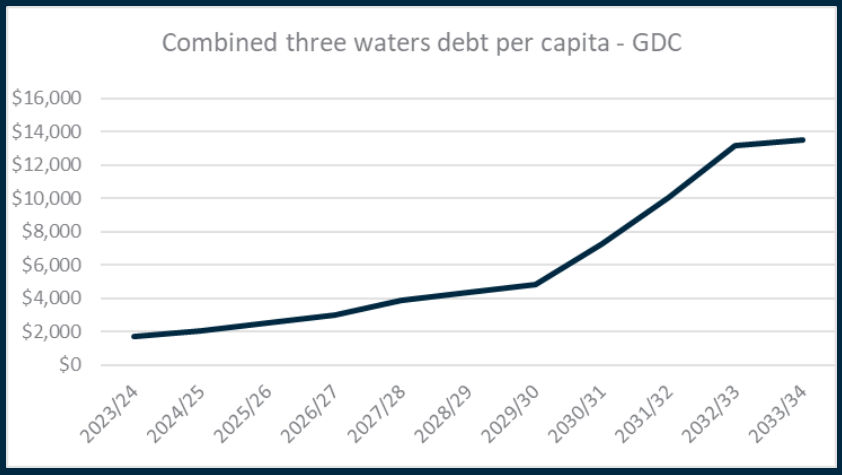


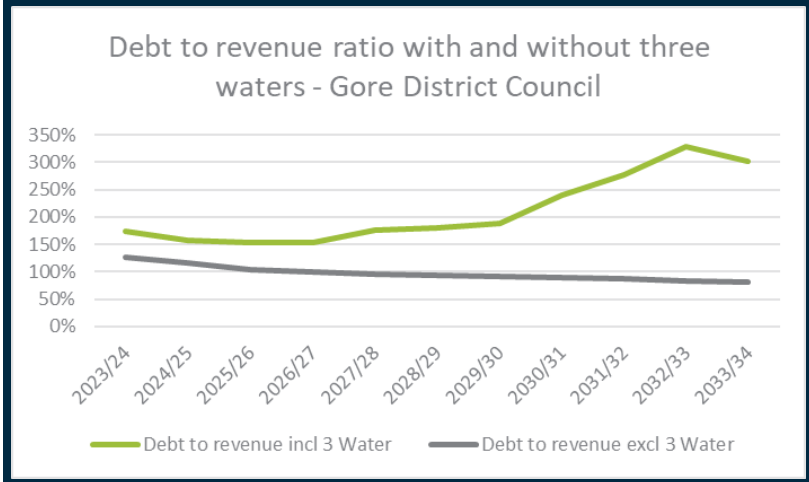
Three waters residential rates

The average three waters residential rate in GDC for 2023/24 was approximately $990 (including GST). Based on draft 2024 Long Term Plan financials that were prepared prior to Council opting to defer it's long term plan, this was expected to increase five-fold to $5,000 by 2034

Three waters debt

Three waters debt for Gore District Council is projected to increase from approximately $22 million in 2023/24 to over $180 million by 2033/34 according to early drafts of its now deferred 2024 long term plan. In per capita terms, three water debt will increase nearly six-fold from $1,750 per person to over $13,500 per person.





Whole of council debt

Gore District Council is projected to exceed its 175% borrowing limit for unrated councils until 2027/28 at which point it would need to obtain a credit rating to access further borrowing capacity. LGFA's 280% debt to revenue ratio is currently also projected to be exceeded in 2032/33 at which point GDC would need to increase revenue to fund further investment.

The removal of three waters sees Gore's debt steadily reduce over time, and for borrowing to remain well within the 175% limit.

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Invercargill City Council

55,599 population (2023)

50,456 people serviced with water supplies

2 wastewater treatment plants

1 water treatment plant

422 km water supply pipes

417 km stormwater pipes

376 km wastewater pipes

52 connections per kilometre

91% of people live in urban areas

$98,000 average household income (2019)



Key issues

Expiring consents

Expiring resource consents for wastewater treatment plants in Bluff and Clifton are estimated to cost a combined $111 million which is included in ICC's LTP. Any future requirement to discharge to land would incur further costs. Price estimates range from $5 – 27 million for Bluff and $40 – 200 million for Clifton

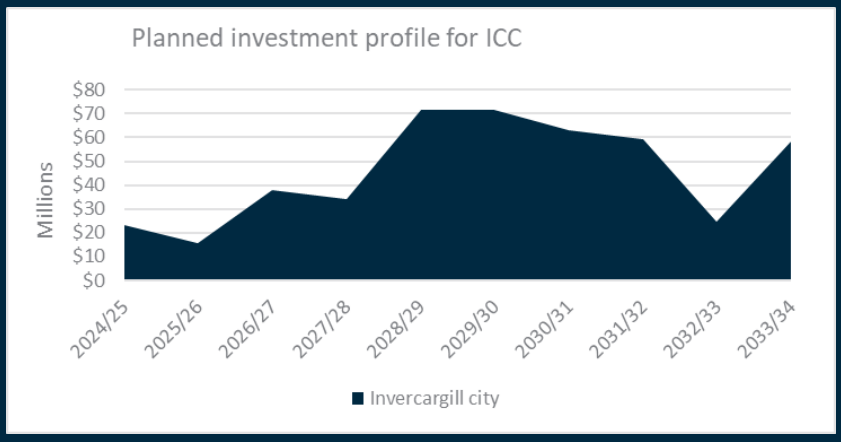
Water source resilience

ICC is currently dependent on a single water source, an additional source is required to provide water security and resilience. Development of an additional water source has been identified as a strategic priority and there is $60 million in ICC's LTP for this project

Ageing infrastructure

ICC's three waters infrastructure has the equal oldest average age across the group

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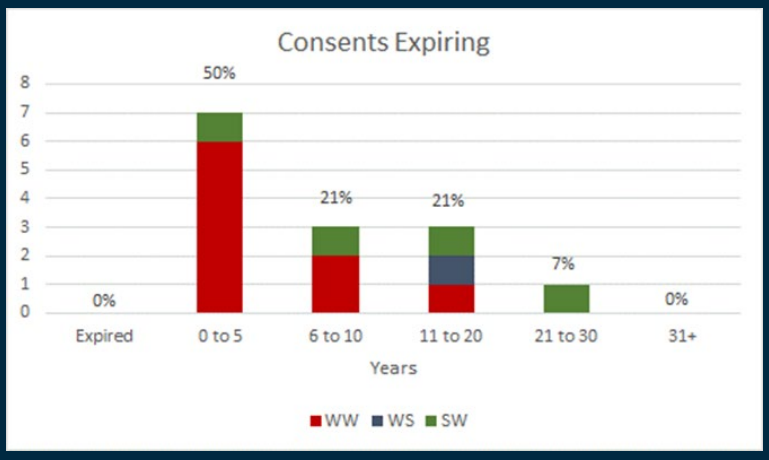


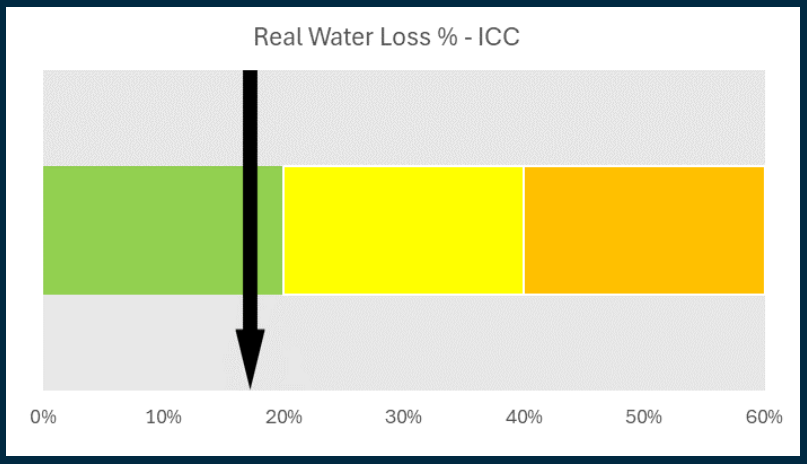
$460 million of planned investment over 10 years

ICC's three waters capital works programme peaks at $71 million per year in 2029; that's 50% larger than its entire capital works programme in 2024

Expiring consents

ICC has six wastewater consents that are due to expire in the next 5 years, with a further two due to expire in the following 5 years. These consents relate to its wastewater treatment plants in Clifton and Bluff, and $111 million has been provided for within its LTP for the upgrades to support these consent renewals.





Network performance

ICC experienced an estimated 18.5% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was reported as being 9.7%.

There were 1.37 dry weather overflows of the wastewater network per 1,000 connections in 2023

© Morrison Low

Compliance

ICC reports full compliance with the drinking water standards in its 2023 annual report and is not reported to have any Maximum Acceptable Value (MAV) exceedances or consumer advisory notices during the year.

Area	22/23 results	22/23 Target	21/22 results	Trend[5]
Bacterial compliance	100%	100% - Not Achieved	100%	↔
Protozoal compliance	100%	100% Not Achieved	100%	↔

ICC has been compliant with all of its wastewater consents, reporting no consent breaches in the last two years.

Demand management

ICC has planned to install water meters across its network and has set aside $10.8 million in its LTP to do this. ICC already reports the lowest average water consumption per resident out of all councils in the Otago and Southland regions.

Demand projections for ICC's water supply, show ICC is likely to remain within its consented water take limits for the foreseeable future, with or without the aluminium smelter at Tiwai point remaining open

Water Consumption
231 ↓
(lpd/resident)

Network condition and age

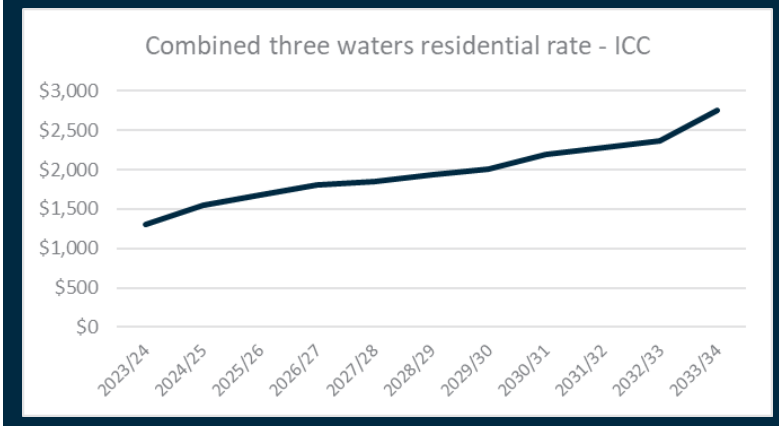
ICC's water, wastewater and stormwater infrastructure each have the equal highest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	16%	27%	18%	21%	18%	0%
Wastewater	61	21%	11%	44%	16%	8%	0%
Stormwater	58	18%	13%	37%	24%	8%	4%

39% of ICC's water network has been identified as being in poor or very poor condition, while 24% of wastewater assets and 32% of stormwater assets fell into the same categories. ICC's asset management plan notes a low level of confidence in the asset condition data as many of the assets sampled had known issues.

[5] Compared to previous year

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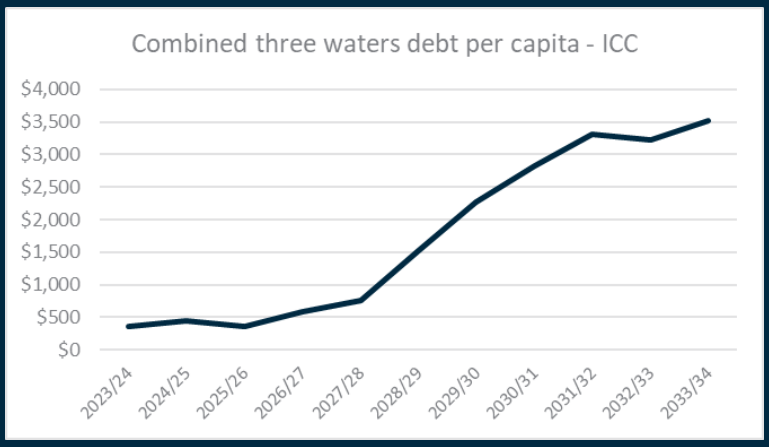


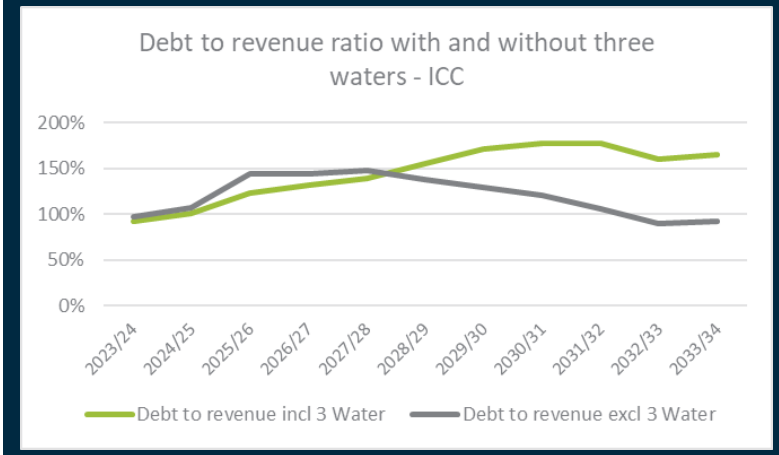
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 110% from approximately $1,300 in 2024 to over $2,750 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $20 million in 2024 to over $220 million by 2034, or from $358 per head of population to over $3,500 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 178% in 2031/32, and it is unlikely to exceed LGFA lending limits.

In the short term, without three waters debt and revenue, ICC will have reduced borrowing capacity (though still within LGFA lending limits).

Longer term, ICC will have an improvement in its total borrowing capacity if three waters debt and revenue was transferred.

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Queenstown Lakes District Council

47,808 population (2023)

96,471 people serviced with water supplies

14 wastewater treatment plants

14 water treatment plants

642 km water supply pipes

465 km stormwater pipes

516 km wastewater pipes

51 water connections per kilometre

88% of people live in urban areas

$110,600 average household income (2019)



Key issues

High level of growth

QLDC continues to experience significant levels of population growth.

Providing infrastructure to support that growth is expensive, $721 million of investment has been identified as being needed in the next ten years.

Borrowing capacity

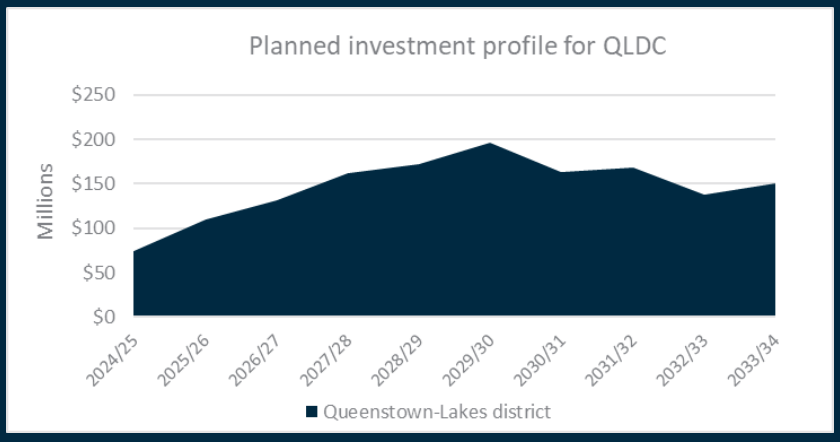
QLDC's LTP projects an average debt to revenue ratio over the ten year period of 260%. The costs of serving this debt and funding depreciation account for half of the 15.6% rates rise proposed for the 2024/25 financial year.

Debt limits leave very little borrowing headroom.

Servicing tourism demand

QLDC's economy is dependent on its high levels of tourism. While tourism supports business in the district, the high peak tourist population means QLDC's three waters infrastructure needs to support a population that is almost double its resident population.

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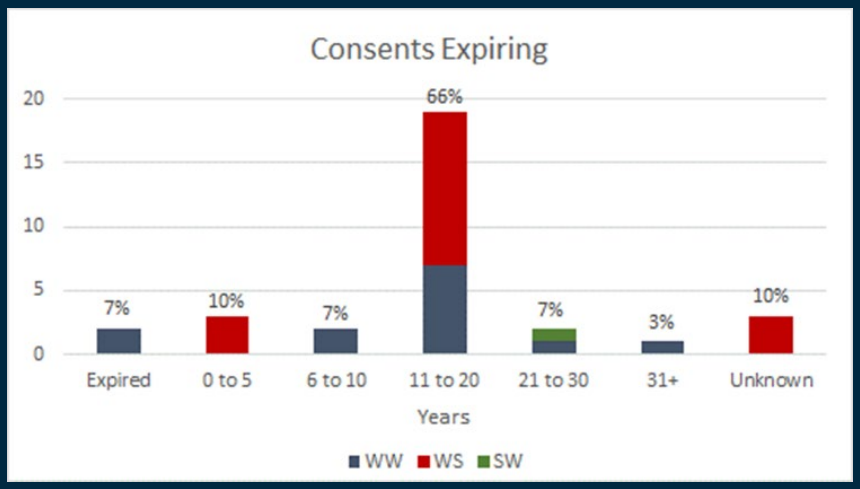


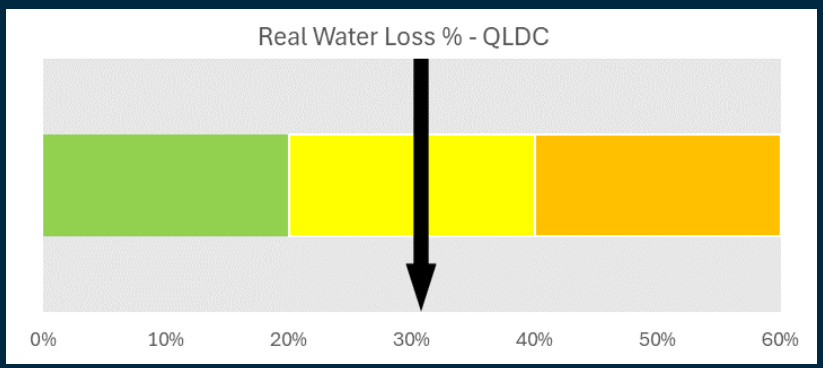
$1.5 billion of planned investment over 10 years

QLDC's three waters capital works programme peaks at $196 million per year in 2029, for context QLDC's entire capital works programme in 2024 total $202 million.

Expiring consents

QLDC has a steady rate of consents expiring until the 11 to 20 year period where 66% of its consents are due to expire.





Network performance

QLDC experienced an estimated 32% real water loss in the 2023 financial year, which is in the top half of councils in the Otago and Southland regions and high for a young network age.

There were 2.03 dry weather overflows of the wastewater network per 1,000 connections in 2023

© Morrison Low

Compliance

Queenstown has 10 registered drinking water schemes. Of these, six have all barriers in place, and four do not have protozoal barriers. All ten schemes have residual disinfection in place.

Area	22/23 results	22/23 Target	21/22 results	Trend[6]
Bacterial compliance	55%	100% - Not Achieved	100%	↓
Protozoal compliance	40%	>50% Not Achieved	11%	↑

QLDC reported 85% compliance with its resource consents in 2023 (the same as the previous year). There were two abatement notices for two wastewater treatment plants in the district in 2023.

Demand management

Demand management and servicing growth are the biggest issues facing QLDC. It's long term plan sets aside half of its three waters capital works programme, or $721 million over the next ten years to support growth.

QLDCs three waters asset management plan notes that the district is already facing regular water restriction during peak periods and is struggling to meet consumer demand in some areas.

Water Consumption
508 ↑
(lpd/resident)

QLDC's 2022/23 water consumption rate is among the highest in the Otago and Southland regions and the consumption trend has worsened compared to the previous year.

Network condition and age

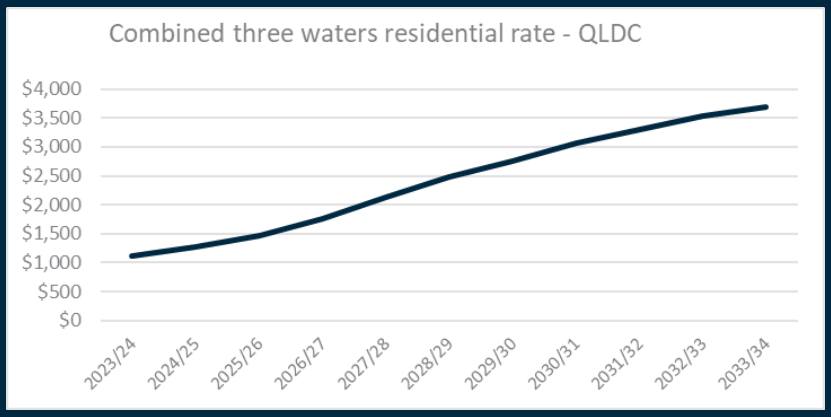
QLDC's water, wastewater and stormwater infrastructure all have the lowest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	19	58%	14%	11%	9%	1%	7%
Wastewater	22	53%	13%	10%	12%	5%	7%
Stormwater	25	58%	15%	11%	4%	8%	4%

QLDC notes that the condition of its three waters infrastructure is very good, with over 70% of its water supply and stormwater assets rated as good or very good. 66% of QLDC's wastewater network is also in good or very good condition.

[6] Compared to previous year

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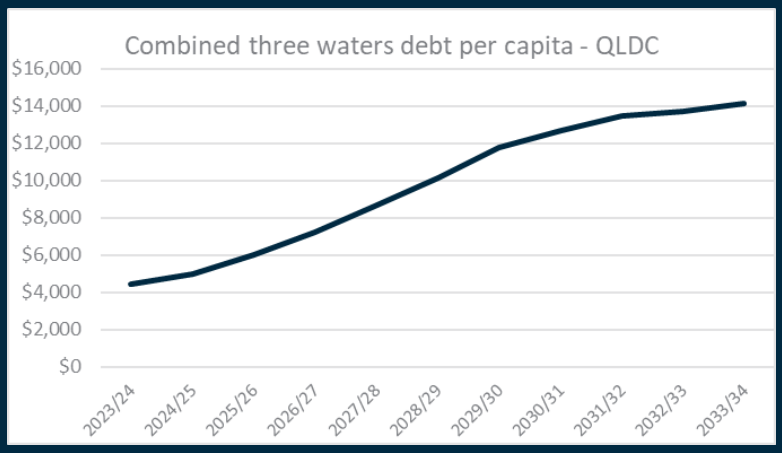


Three waters residential rates

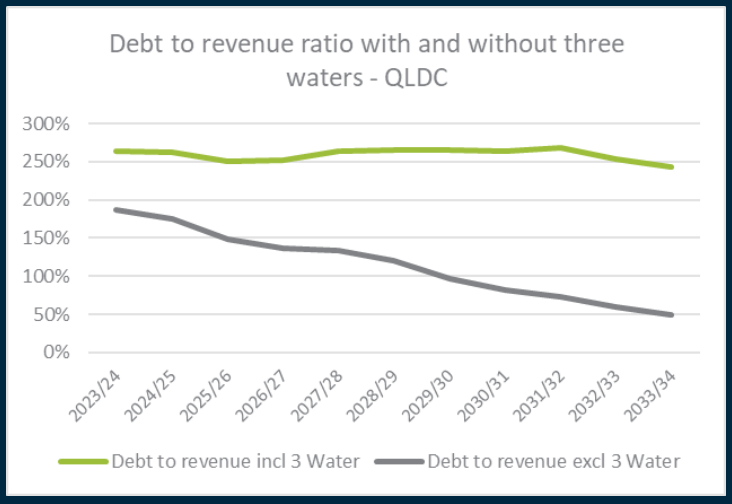
The average three waters residential rate in QLDC for 2023/24 was approximately $1,100 (including GST). Over the 10 years covered in QLDC's LTP the three waters rate is expected to increase by 230% to almost $3,700 in 2034.

Three waters debt

Three waters debt for QLDC is projected to increase from approximately $240 million in 2023/24 to over $1 billion by 2033/34 according to its 2024 long term plan. In per capita terms, three waters debt will triple from $4,470 per person to over $14,167 per person.



Whole of council debt



Based on LTP projections, QLDC is projected to remain very closely within its 280% borrowing limit through the period of its LTP. While projected debt levels do not exceed borrowing limits, QLDC will retain very little borrowing headroom.

The removal of three waters sees Queenstown's debt reduce steadily during the LTP period. This indicates that investment in community infrastructure outside of three waters has been constrained during the LTP period due to the need to invest in three waters. 60% of Queenstown's capital works programme relates to three waters services, while only 33% of its operating revenue (excluding development contributions) is from three waters charges.

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Southland District Council

31,833 population (2023)

11,403 people serviced with water supplies

19 wastewater treatment plants

12 water treatment plant

681 km water supply pipes

112 km stormwater pipes

246 km wastewater pipes

13 water connections per kilometre

22% of people live in urban areas

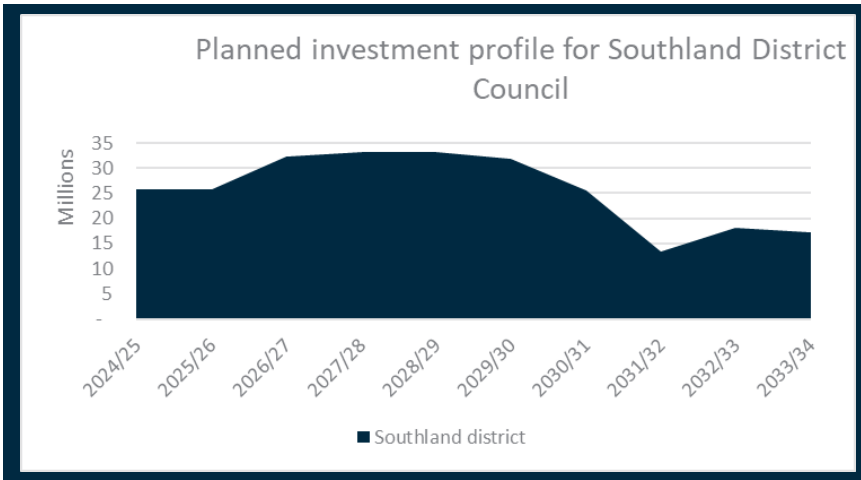
$112,000 average household income (2019)



Key issues

Small communities	Expiring consents	Affordability
SDC provides reticulated drinking water to 12 communities within its district, and reticulated wastewater to 19 communities. Only two of these communities have populations over 1,000 people and opportunities to connect schemes are very limited.	Half of SDC's existing resource consents across its three waters activities are expiring within 10 years, including 13 consents relating to wastewater treatment	Average residential rates for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

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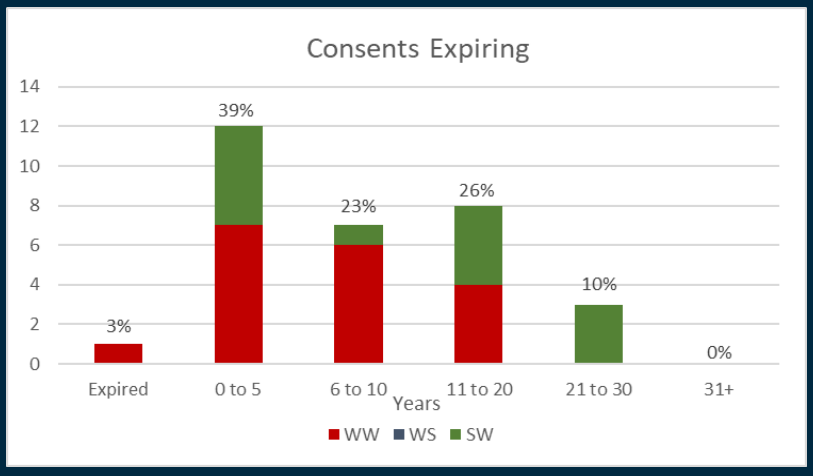
$256 million of planned investment over 10 years

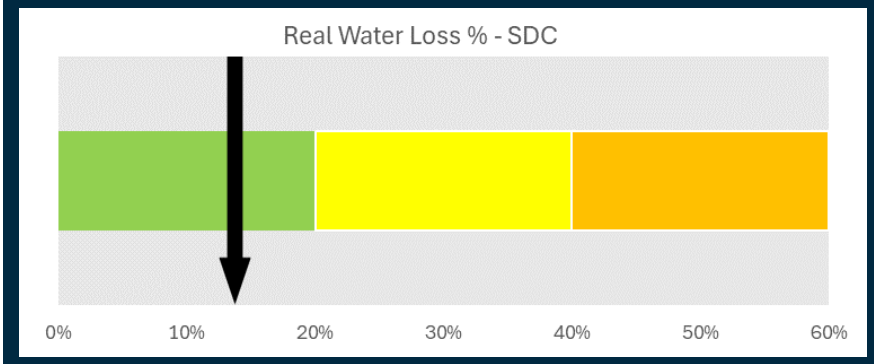
SDC's three waters capital works programme peaks at $33 million per year in 2028, for comparison its three waters capital works programme in 2024 was $12.5 million.

Expiring consents

SDC has 13 wastewater consents that are due to expire in the next 10 years. Treatment plant upgrade and consent renewals are planned for Balfour, Winton, Gorge Road, Manapouri, Nightcaps and Ohai, totalling around $37 million.

Recent announcements regarding standardised design for wastewater treatment plants with populations of fewer than 1,000 people may reduce future investment requirements for some of these plants.





Network performance

SDC experienced some of the lowest rates of estimated water loss in the Otago and Southland regions, with 15% water loss across its water supply schemes in the 2023 this was down from 16% in 2022.

There were no dry weather overflows of the wastewater network reported in 2023.

© Morrison Low

Compliance

SDC has 12 drinking water schemes registered with Taumata Arowia. All 12 schemes have bacterial and protozoal barriers and residual disinfection in place other than the Eastern Bush/Otahu Flats RWS scheme which does not have a protozoal barrier in place.

SDC had one long term consumer advisory notice in place on its Tuatapere scheme for 198 days in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[7]
Bacterial compliance	96%	100% - Not Achieved	91%	↑
Protozoal compliance	18%	100% Not Achieved	36%	↓

SDC reported that in 2022/23 there were 15 incidents where resource consents for wastewater were breached.

Demand management

SDC does not anticipate any significant growth in demand across the district.

Given the limited expected growth it is not anticipated that a specific programme will be required to manage people related growth. SDC intends to undertake further work in the upcoming three years to more fully understand the impact of climate change related demand.

Water Consumption
583 ↓
(lpd/resident)

SDC notes that it has existing capacity issues on its stormwater network, and that future efforts to separate its wastewater and stormwater networks in those areas may overwhelm the existing stormwater infrastructure.

Network condition and age

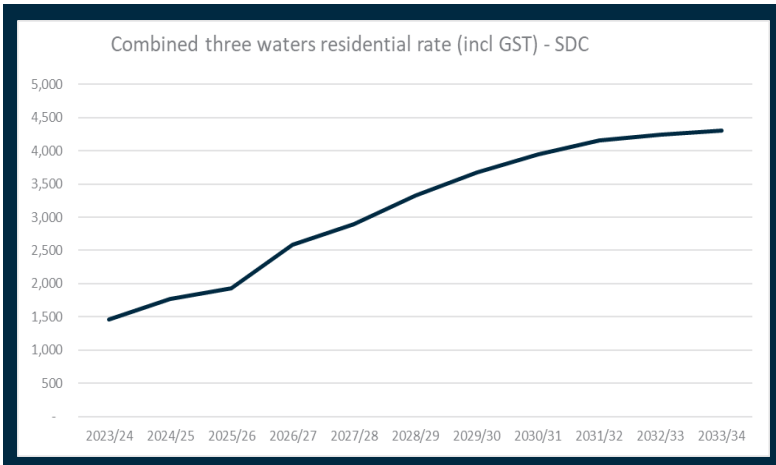
The age of SDC's 3 waters assets are all in line with the Southland/Otago region average, except its wastewater which is younger.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	39	19%	5%	65%	6%	5%	0%
Wastewater	30	10%	20%	40%	20%	10%	0%
Stormwater	49	17%	16%	24%	30%	9%	4%

A high proportion of SDC's wastewater and stormwater assets are in poor or very poor condition, while the majority of its water infrastructure is in an average condition.

[7] Compared to previous year

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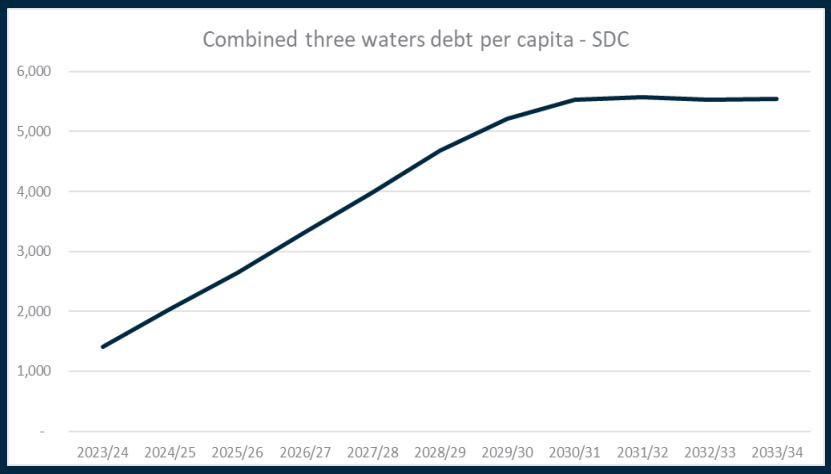


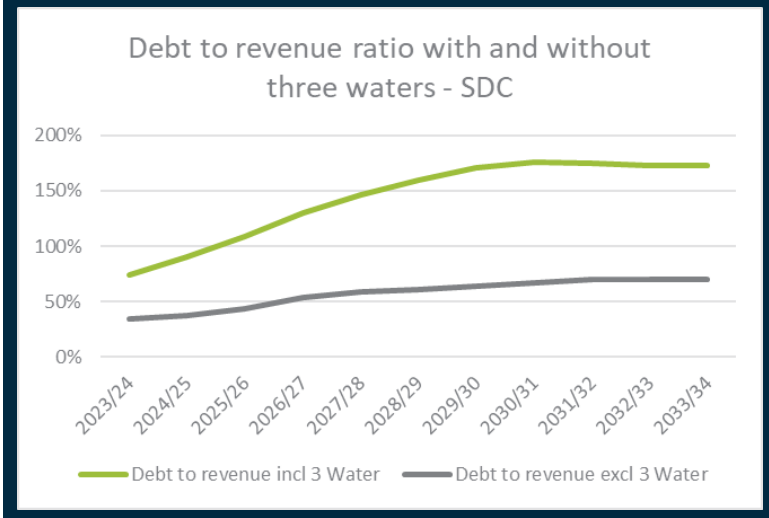
Three waters residential rates

Average residential rates (including GST) for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $46 million in 2024 to almost $200 million by 2034, or from $1,410 per head of population to over $5,540 per capita.





Whole of council debt

SDC does not currently hold a credit rating and therefore has a borrowing limit from LGFA of 175%.

Based on LTP projections, this will be close to being exceeded in 2031. Borrowing capacity will be heavily constrained without a credit rating.

Removal of three waters debt and revenue would ensure SDC stays well within LGFA lending limits.

© Morrison Low

Waitaki District Council

23,472 population (2023)

20,202 people serviced with water supplies

8 wastewater treatment plants

15 water treatment plants

1,766 km water supply pipes

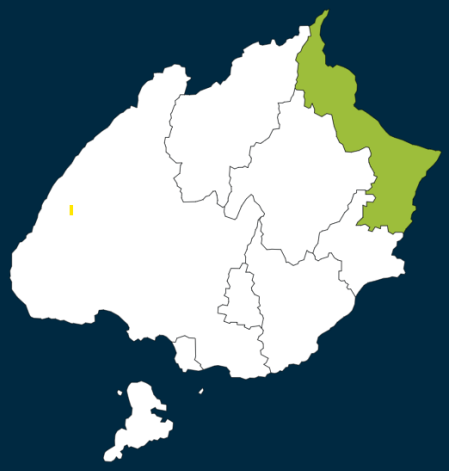
57 km stormwater pipes

201 km wastewater pipes

7 water connections per kilometre

45% of people live in urban areas

$82,200 average household income (2019)



Key issues

Small communities

WDC provides drinking water and wastewater services to a number of small schemes. 13 of its 15 drinking water schemes serve a population under 1,000. Every water and wastewater scheme in WDC has their own targeted rate, meaning large variations in the rates paid to receive water and wastewater services.

Compliance

Delivering drinking water that is compliant with drinking water standards has been challenging in a number of small and rural schemes in particular.

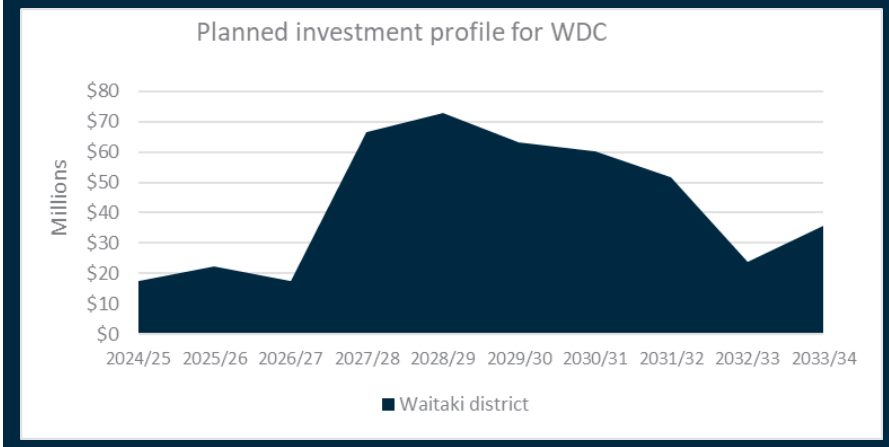
Over half of WDC's water schemes were under long term consumer advisory in 2023, with an estimated 1,478 people affected.

Water loss

WDC experiences the highest rates of water loss across the Otago and Southland regions, with an estimated loss as high as 60% in Kurow.

Water loss can be difficult to detect due to the high prevalence of free draining soil meaning loss is not often evident on the surface.

© Morrison Low

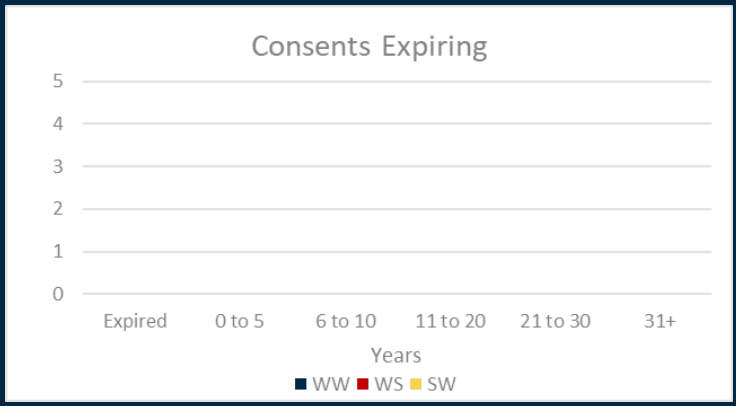


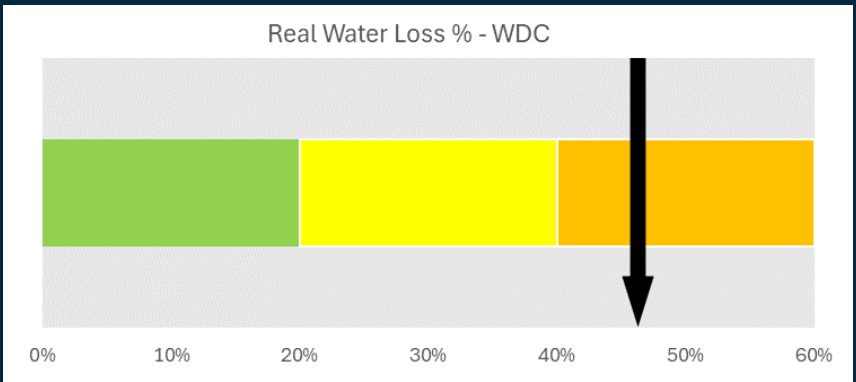
$430 million of planned investment over 10 years

WDC's three waters capital works programme peaks at $72 million per year in 2029, for context WDC's entire capital works programme in 2024 totalled $84 million.

Expiring consents

We have not been provided with consent expiry data for WDC. However, WDC's capital works programme includes consent related upgrades for Duntroon, Kurow, Lake Ohau, and Oamaru wastewater treatment plants. Total estimated capital expenditure for these upgrades total $89 million.





Network performance

WDC experienced between 35% - 60% water loss across its water supply schemes in the 2023 financial year. This is the largest rate of lost water across the Otago and Southland regions.

There were 1.3 dry weather overflows of the wastewater network per 1,000 connections in 2023

Compliance

WDC reported only 25% compliance with the drinking water standards in its 2023 annual report. Eight of its 15 registered water supply schemes were under long term consumer advisory notice during 2023. Combined, these schemes service a population of 1,478.

Area	22/23 results	22/23 Target	21/22 results	Trend[8]
Bacterial compliance	25%	100% - Not Achieved	67%	↓
Protozoal compliance	25%	100% Not Achieved	50%	↓

WDC received two infringement notices in 2023 for its wastewater consents, these related to abatement notices received in 2022.

Demand management

WDC has high levels of water loss and the third highest level of water consumption per resident across the Otago and Southland regions.

WDC is only expected to experience modest growth over the next ten years. Controlling water loss and demand management should ensure that infrastructure and existing water consents are able to manage future demand for three waters services.

Water Consumption
524 ↑
(lpd/resident)

Funding has been set aside to undertake wastewater treatment plant capacity studies for the Oamaru and Kurow wastewater treatment plant and the Oamaru stormwater network over the next five years. This should provide additional data to confirm whether capacity upgrades are required in the future.

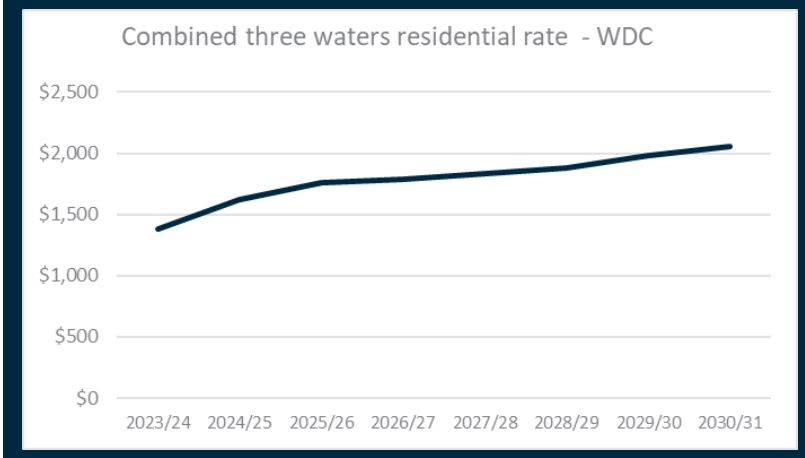
Network condition and age

WDC's wastewater and stormwater infrastructure have average ages of 50 years or more. It's water network has a lower average age, of 40 years. This makes WDC's water network among the oldest in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	40	0%	0%	0%	0%	0%	100%
Wastewater	50	23%	3%	0%	2%	1%	71%
Stormwater	55	0%	0%	0%	0%	0%	100%

The majority of WDC's water, wastewater, and stormwater networks are in an unknown condition. The proportion of wastewater assets rated as being in very good condition appears high compared to average asset age.

[8] Compared to previous year

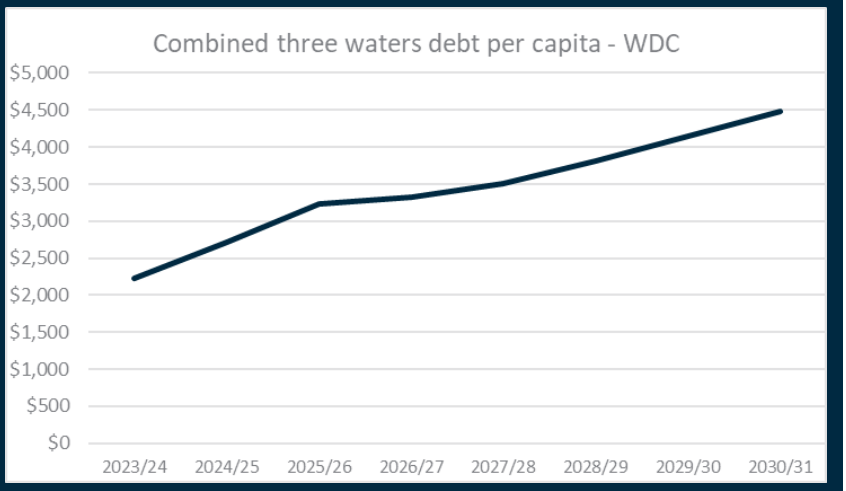


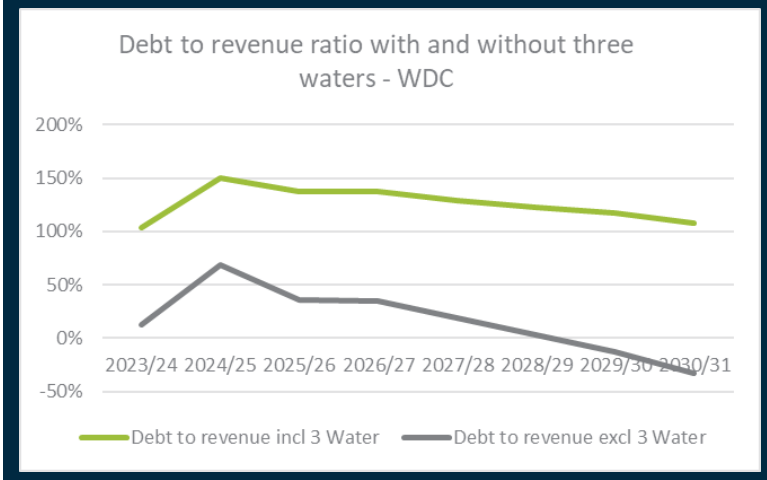
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 51% from approximately $1,380 in 2024 to over $2,050 by 2031.
Increases in planned investment since the 2021 LTP may increase rates by a further $1,600.
There may be a wide variation in actual charges due to the WDC's use of scheme based targeted rates.

Three waters debt

Net three waters debt is projected to increase from approximately $54 million in 2024 to over $110 million by 2031, or from $2,230 per head of population to over $4,470 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 150% in 2025, and it is unlikely to exceed LGFA lending limits.

Transfer of three waters debt and revenue would improve Council's debt to revenue ratio, and improve its access to funding through LGFA. Negative values represent council holding investment assets that exceed its debt in later years.

We understand updated financial projections show debt significantly exceeding LGFA limits.

Appendix Three - Modelling assumptions

Assumptions applied to our "comparator" scenarios

In order to enable a like for like comparison between regional delivery options and the existing delivery model, we have made adjustments to financial and capital investment programmes provided by each council as the 'status quo'. These adjustments ensure that differences between regional delivery models are not purely the result of a different approach to managing revenue, debt and expenditure, or differences to underlying assumptions across the individual models.

This also means that the comparator scenarios presented in our modelling may not mirror an individual councils' current long term plan projections.

We have endeavoured to ensure that our approach aligns with the requirements of a water services delivery plan. This means that some councils may wish to use the comparator case from this modelling as a starting point for a water services delivery plan (WSDP) for in-house delivery. This is however a "best endeavours" approach, and councils may further refine capital programmes before preparing their WSDP.

Where councils are undertaking detailed asset and investment planning work this should then be used to inform their WSDP.

To assist councils in understanding the alignment of our comparator case with their own WSDP or LTP work, we have outlined the key adjustments and changes we have made below.

Operating expenditure

Our modelling of the comparator case scenarios for operating expenditure predominantly relies on each council's own operating budgets, as provided through our information request. Adjustments have been made to:

- Recalculate interest costs based on any amendments made to the capital works programme (refer below) and any additional revenue generated in order to stay within borrowing limits.
- Recalculate interest rates using a common interest rate across all councils. We have applied an interest rate of 5.52% in our modelling. Interest is calculated off the previous year's closing balance, meaning the effective interest rate is slightly lower than this when current year movements are considered.
- Recalculate depreciation based on any amendments made to the capital works programme. Depreciation rates are set at 1.52% for water supply, 1.63% for wastewater, and 1.46% for stormwater.
- Assets are revalued at 2% per annum and depreciation recalculated based off revalued asset base (including additions). This is broadly consistent with the methodology currently proposed by Commerce Commission.
- Inflation is modelled at 2% per annum for years 11 – 30.

Capital expenditure

Capital expenditure is based on capital works programmes provided by Council staff with no adjustments in our base case. The impacts of changes in capital programmes is highlighted through our sensitivity testing. Sensitivity testing scenarios that have been applied are outlined in, and are based on, the findings of the work completed by Utility NZ (Appendix Four - Southern CCO Programme Assurance Findings).

Revenue

Water Services Delivery Plan templates indicate some of the key measures that the Department of Internal Affairs (DIA) expect to be reported in relation to these tests, and therefore what may be expected by the Department. In particular:

- A chart demonstrating projected revenue versus projected costs including depreciation, and net operating surplus or loss. We anticipate that DIA are expecting revenue to at least equal total expenditure including depreciation based on the examples provided.
- An operating surplus ratio. DIA guidance notes that "Where this ratio percentage is negative, this represents the percentage increase required for revenues to cover costs". Costs in this ratio include depreciation.

Based on these questions, and additional commentary within the WSDP templates, we intend to model status quo arrangements to be fully funding depreciation from the 2028 financial year onwards. Councils that are not currently fully funding depreciation currently will be modelled to move to a fully funded scenario evenly over the remaining years.

In addition, from 2028 and beyond:

- Revenue has been modelled to "break even" before accounting for development contributions, vested assets and grants and subsidies.
- Additional revenue has been calculated to ensure that the council remains in borrowing limits. This revenue line is recovered through water/wastewater/stormwater charges and is calculated to be no more than the amount needed to remain within agreed debt caps.
- The additional debt repayment/control revenue is modelled to ensure that debt caps are not breached over the life of the modelling period, however the additional revenue is modelled over the entire modelling period, meaning revenue is collected in anticipation of debt otherwise exceeding limits. This will impact price paths, where councils may have otherwise deferred increases in revenue to a later year than our modelling. Our modelling attempts to smooth the impact of this increase.
- Development contribution revenue has been modelled to scale proportionally with changes in growth capital expenditure. Scaling is completed annually. Development contributions are only modelled where councils have provided details regarding expected development contribution revenue in their data.

Debt and borrowing costs

Revisions to capital works programmes, revenue, and expenditure all impact the amount of debt required by councils to fund their three waters activity. Our modelling recalculates three waters debt under the base case scenarios to ensure comparability with regional delivery models.

To calculate debt, we have:

- Assumed each councils' starting debt position is correct.
- Identified the cash surplus available from operations, development contribution receipts, and capital and operating subsidies.
- Subtracted the cost of capital works from the cash surplus.
- Where this value is negative, we have increased borrowings to fund the difference.
- Where this value is positive, we have modelled a debt repayment.

We have not assumed any "regular" debt repayments under a table loan facility. Council's typically borrow through bond issues that are repaid on maturity date. Our modelling effectively assumes that

these bonds are renewed if needed. Our modelling also assumes that in any given year there will be sufficient bonds expiring that council will have the opportunity to repay debt if it holds surplus cash.

Assumptions applied to base data

We've also made the following minor additional assumptions to data provided by councils.

- The percentage of water, wastewater and stormwater revenue received from residential customers is assumed to be consistent with the percentage split across these activities as provided to WICS in their RFI of 2021.
- Where specific projections of the number of connections has not been provided, we've assumed connection growth continues at the rate of growth in rateable units.
- We've assumed the proportion of residential to non-residential customers is consistent with WICS RFI where detailed breakdown of these projections has not been provided.
- In all models, we have assumed that council revenue and debt relating to non-three waters activities is unchanged under all investment scenarios. That is, even where three waters investment, charges, or debt increase, we have assumed that there is no consequential or offsetting reduction in the corresponding expenditure/charge for non-three waters activities.
- In 30 years modelling, we have relied on capital programmes from infrastructure strategies or long term capital works plans provided to us by participating councils.
- Corporate costs, as provided, have been retained in the base case. Some of these costs may represent "stranded overhead" in individual councils, however we note that the amount of cost allocated varies greatly across councils, and assessment of the amount of stranded overhead in each council would not be possible without a detailed assessment of the cost allocation and apportionment approaches used by each council.

WSE assumptions

To create a Southern WSE and stand-alone WSE we have modelled transitional and organisational costs for a Southern WSE or stand-alone WSE, based on a ground up approach. The full details of costs included in our model are outlined below.

Operating and capital efficiencies

Efficiencies have been modelled using the efficiency data produced by the Water Industry Commission of Scotland (WICS) for the Department of Internal Affairs (DIA) as a base case, noting the following adjustments:

- The total achievable efficiency identified by WICS have been scaled back by 80% for the Southern WSE and 90% for a stand-alone WSE. These total achievable efficiencies have been compared to our bottom up estimates to confirm that the scaling is appropriate. This has reduced the baseline total achievable efficiencies from 50% capital and 53% operating efficiencies to 16% operating and 15% capital efficiencies.
- Efficiencies have then been scaled according to data produced by WICS in reports produced for DIA. This has resulted in modelled scale efficiencies of 6.3% capital and 6.6% operating efficiencies for the Southern WSE and between 1 - 3%% for stand-alone WSEs (depending on scale).
- We've assumed that these efficiencies are achievable over a 10 year period, commencing two years after the establishment of the WSE. Efficiencies are modelled as being achieved evenly over that time period.

Borrowing

The Government and the Local Government Funding Agency (LGFA) jointly announced that water entities would be able to borrow up to a 500% debt to revenue ratio. The fine print of that announcement noted that entities will actually be measured based on an FFO to debt ratio, with the intention that lending covenants would be set at such a level that the WSE could maintain an "investor grade" credit rating.

Our modelling adopts the following FFO ratios, based on recent discussions with, and guidance published in December 2024 by, LGFA:

- 12% for a stand-alone WSE
- 9% for the Southern WSE.

Modelling is designed to maintain debt close to these ratio throughout the modelling period.

Costs of change

Corporate overhead from each council has been replaced with costs for the Otago Southland WSE, and transition costs have been included:

- Increased compliance costs associated with regulatory reforms (recognising the role and requirements to report to both a service and economic regulator)
- The requirement to fund a levy imposed by Taumata Arowai and the Commerce Commission; these costs are included in all models
- Transitional costs to establish the Otago Southland WSE (assumed to be borne by the Otago Southland WSE)
- Additional resources required or additional costs for resources
- Any change is assumed for modelling purposes to take place on 1 July 2027.

Costs have been indexed using BERL inflation rates for water services through 2034, and 2% per annum thereafter.

For stand-alone WSEs we have compared transitional costs and ongoing operational costs to work completed for one of the councils in the working group by a different consultancy. Through this exercise we have confirmed that estimated transitional costs and ongoing operational costs are broadly consistent at a total level, despite different methodologies and approaches being used to determine those costs.

We therefore have a high level of comfort that the costs used are reasonable.

Transitional costs to establish a WSE

CCO transition costs were determined by comparing Morrison Low's initial assessment with bottom up work completed by a different consultant for one of the constituent councils. Given the increased level of detail in that work, we have applied those costs where appropriate in a stand-alone CCO model.

For clarity, total CCO costs are similar (typically +/- 10%) under either approach, however the distribution of costs differs.

Item	Stand-alone WSE	Southern WSE
Transitional team	Combined in single total	$1,500,000
Entity establishment		$640,000
Business process design		$400,000
Communications and engagement		$400,000
Rebrand		$150,000
Restructuring costs		$250,000
Finance and funding workstream		$400,000
Legal and compliance costs		$400,000
Office set up		$475,000
ICT systems	$480,000 - $850,000	$4,200,000 (repeated in year 1 of WSE)
Total transition costs	$2,000,000 - $4,120,000	$8,815,000

CCO Costs and Benefits

CCO costs were determined by comparing Morrison Low's initial assessment with bottom up work completed by a different consultant for one of the constituent councils. Given the increased level of detail in that work, we have applied those costs where appropriate in a stand-alone CCO model.

For clarity, total CCO costs are similar (typically +/- 10%) under either approach, however the distribution of costs differs.

Item	Stand-alone WSE	Southern WSE	Rationale
Governance	$410,000	$410,000	Includes directors and the costs of supporting shareholder Councils & Māori to develop and implement accountability framework
Executive team and support staff costs	$1,530,000	$1,628,000	CEO & Thre3e general managers Additional staff to create support structure. Includes HR, IT, Finance, health and safety and customer service + operational staff where required
IT infrastructure & systems	Scaled $400,000 - $850,000	$1,941,000	Uses Watercare IT budget as the basis and scaled based on population served
Auditor costs	None	$200,000	Additional costs for audit

Item	Stand-alone WSE	Southern WSE	Rationale
Council rates	None	$438,000	The cost of paying rates to councils for water assets located on council land
Accommodation - office rent	$350,000	$222,000	15m^2 per staff member based on reviewing average office rental in Provincial centres ($250m^2) used. Allowance for all staff to have office space provides for costs of multiple locations
Office overheads	Combined in above	$22,000	10% of office accommodation cost for insurance, electricity etc

Appendix Four - Southern CCO Programme Assurance Findings

Southern CCO – Programme Assurance

This report provides an independent assurance assessment of the capital programmes for Clutha, Central Otago, Gore, Waitaki, and Timaru District Councils as they consider forming a joint Council-Controlled Organisation (CCO) for 3-Waters services.

Objective

The objective is to evaluate the financial confidence in baseline expenditure projections by analysing cost and planning assumptions, renewals investment sustainability, and sensitivity to proposed national wastewater standards. The findings will inform the financial modelling of the structure and pricing options for the CCO business case.

Methodology

The assessment employs a simplified risk-based scoring method to evaluate the likelihood of material changes to financial projections. This approach allows financial analysts to apply an indicative range to projections based on assessed risk levels.

Results

Cost Estimate Accuracy – Across the five Councils' short-term projects (Years 1-3) are generally well-defined with appropriate contingencies, medium- to long-term projects (Years 4-10) exhibit greater uncertainty due to reliance on early-stage cost estimates, inconsistent contingency application, and exposure to evolving regulatory requirements. This is not uncommon for long term plans, however.

Asset Sustainability and Renewals- The asset sustainability assessment identified varying levels of programme expenditure risk. While Central Otago DC, Waitaki DC, and Timaru DC demonstrate lower risks due to stable renewals investment, Clutha DC and Gore DC face medium to high risk of material changes to renewals expenditure from deferred investment combined with an ageing infrastructure base. Gore DC exhibits a significant backlog of renewals investment, combined with an asset based nearing the end of its service life. This is likely to require significant changes to the programme beyond Year 10, to maintain service levels.

Sensitivity to Wastewater Standards - Proposed national wastewater standards introduce a risk-based approach, potentially reducing treatment requirements and compliance costs for smaller schemes. This significantly increases the likelihood of material change to the baseline financial projections beyond the three-year window, particularly affecting Gore, Clutha, and Central Otago. The standards could lead to notable reductions in current programmes, especially for smaller wastewater schemes benefiting from lower treatment standards.

Commonality of Planning Assumptions - Lastly, it is important to ensure that all Water Service Delivery Plans are developed on consistent assumptions of affordability and of the service levels desired by the CCO. There is some inconsistency across the Councils at present, such as, projects being deferred or excluded due to funding constraints or uncertainties, while others have been less constrained and open about their network needs. Notable examples are

1. Waitaki DC may have several small scheme WWTP upgrades missing from its programme that create a high likelihood of material change for Wastewater programme later in the 10-year window. This is due to the high levels of uncertainty on the projects at the time to justify their inclusion in their programme.

2. By contrast, Gore DC has included a significant stormwater separation project (> $200m over 30 years), which also transparently addresses significant service level deficits for the district.
3. CODC has programmed a significant investment in growth which reflects a proactive approach to servicing future communities, but it also assumes that revenue will be recovered as and when projected.
4. Clutha DC have assumed several WWTP plants will need to be brought forward for re-consenting due to recent non-compliance. This may change with the proposed WW Treatment Standards.

Summary of Findings

The assessment identifies varying levels of risk to the baseline capital programme across the Councils. While short-term financial outlooks are stable, long-term risks remain significant due to uncertainty in cost estimates, ageing assets, and evolving regulatory requirements. Clutha and Gore are expected to experience medium to high risks of material changes, while Central Otago and Waitaki face moderate risks over the medium term. Timaru shows consistently low risk across all 3-Waters due to their historic investment in treatment and focus on renewals over the coming years.

Council	Risk of Material Change and Financial uncertainty to apply to Baseline		
	Year 1 to 3	Years 4 to 10	Year 10 to 30
Clutha DC	🟢 - Low Risk (-5%/+10%)	🟠 - Medium Risk (-10%/+20%)	N/A (see note below)
Central Otago DC		🟠 - Medium Risk (-10%/+20%)	
Gore DC		🔴 - High Risk -10%/+25%	
Waitaki DC		🔴 - High Risk -10%/+25%	
Timaru DC		🟢 - Low Risk -5%/+10%	

NB: Of note, is that long-term planning is inherently uncertain. The level of policy, regulatory, and legislative reforms over the past six years has amplified this further. This uncertainty limits the value in assessing the confidence in planned expenditure beyond the 10-year horizon. However, quantifying the key investments necessary remains important for the CCO, including major asset renewals to maintain service levels and resource consent renewals for wastewater and drinking water infrastructure. These have been provided by all five Councils.

Recommendations

To enhance financial confidence in the future CCO, Councils could commit to a Memorandum of Understanding or similar agreement to standardise their programme planning assumptions on service levels, standards, cost estimation practices, and renewals investment strategies.

Also, given the significant sensitivity, to the proposed WW standards on investment levels, Councils could also commit to undertaking a deeper review of these projects once these standards are legislated for.

These assumptions greatly influence service pricing, particularly with consumer price protection imminent. A unified commitment could highlight the broader value of the reforms to key stakeholders and other interested parties.


UTILITY

About Utility

Utility is a specialist infrastructure advisory firm with expertise in asset management, financial assurance and capital investment planning. Utility has worked extensively within local government, providing independent assessments that support sound decision-making for infrastructure projects. Our approach combines technical rigor with strategic insights to ensure investment programmes are pragmatic, cost-effective, and aligned with regulatory requirements.

Disclaimer

This report is based on information provided by the Councils and publicly available data at the time of assessment. While every effort has been made to ensure accuracy, the findings and recommendations are subject to change based on new information or regulatory adjustments. This report does not constitute financial or legal advice and should be used as a decision-support tool rather than a definitive financial forecast.

Version Status and History

Version	Issue Date	Author	Status and Changes
1.0	13th March 2025	Vaughn Crowther	Final for Morrison Low

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Context

Gore, Central Otago, Clutha, and Waitaki are exploring options for a joint Council-Controlled Organisation (CCO) to deliver 3-Waters services. CCO options are to be considered in March, with a preferred option to go to public consultation in April / May. Before moving forward, stakeholders need confidence that the proposed CCO and regional pricing model is based on robust baseline expenditure programmes. In particular:

1. How reliable and accurate are the 10-year financial projections (baseline) of each Council?
2. What degree of confidence can we place in the financial projections, in terms of the commonality of planning assumptions, and of any potential changes resulting from deferred or un-budgeted projects?
3. Furthermore, if and how will the proposed regulatory changes to wastewater standards impact on the current baseline programme?

Objective

To assess the confidence in baseline expenditure projections by analysing cost assumptions, renewals investment sustainability, and regulatory change sensitivities. The findings will inform the financial modelling of the structure and pricing options for the CCO business case.

Method of Scoring

To assist financial analysis and provide clarity when adjusting the 10-year financial projections for the combined Councils, a simplified risk-based scoring method has been employed. This approach allows financial users to easily apply an indicative plus or minus range to projections based on assessed risk levels.

To assist financial analysis and clearly inform adjustments to the 10-year financial projections for the combined Councils, a simplified risk-based scoring method has been applied. This method provides financial analysts with a straightforward way to incorporate an indicative plus or minus range into financial projections.

A 'material change' refers to a variation in project budgets exceeding 15% of the original cost estimates.

Score	Description	Recommended financial adjustment range:
🟢 - Low Risk of Material Change	Budget estimates are highly reliable, with minimal likelihood (<10%) of significant changes.	- 5% / +10%
🟠 - Medium Risk of Material Change	There is moderate uncertainty (10% to 50% likelihood) that budgets will materially change,	-10% /+ 20%
🔴 - High Risk of Material Change	There is a substantial likelihood (>50%) that project budgets will experience material changes	10% / + 25%

Application to Financial Projections

Financial analysts should apply these ranges to the 10-year financial projections, ensuring projections include appropriate financial buffers for uncertainties, especially for medium and high-risk rated projects. Low-risk projects require minimal adjustments due to their greater budget certainty.

Method of Assessment

This Programme Assurance report provides an independent assessment of the financial confidence in the Councils' proposed 10-year capital plans. It specifically evaluates:

1. Cost Estimation Assurance – To understand the likelihood of material changes to budgets, in years 1 to 3, and years 4 to 10
2. Asset sustainability – The likelihood of long-term renewals backlog having a material impact on the baseline.
3. Sensitivity to National Wastewater Treatment Standards.
4. The commonality (or not) of key planning assumptions and if projects / investments of material size are excluded that should not be.

The method of assessment used was:

1. Focussed on the areas creating the most risk to the baseline– By applying an 80/20 rule, the high costs projects in years 1 to 3, and again for years 4 to 10 were identified.
2. Engaged directly with Asset Managers on these high risk / cost projects to establish estimation method, contingency levels and remaining scope risk not priced- in.
3. Identified missing projects by reviewing long-term and annual plans, Taumata Arowai registers etc.
4. Applied assumed Wastewater Standard assumptions by classifying schemes based on size and assessing each planned WW upgrade.
5. Reviewing findings with individual Council GMs and the Project Team.
6. Sharing preliminary findings with DIA for feedback.

Cost Estimation Assurance

This aspect of assessment aimed to understand the following questions:

1. *Are the cost estimates in the capital programme well-founded, given their scale and timing, and if not, are the levels of contingency included, appropriate to reflect this risk?*
2. *Are there critical projects / expenditure missing from the programme that could pose a financial risk in future planning cycles? Included is the expectation that universal water metering will come into effect within 3 years of the establishment of the CCO (Post 2027).*

Methodology Used for Cost Estimate Assurance

For expedience, the method used to assess cost estimates was as follows:

1. Identify High-Cost Projects - An 80/20 approach was taken, to identify the highest cost projects that make up most of the planned expenditure over 10 years, and 30 years where significant. Only level of service driven projects were assessed, and growth projects with a high proportion of level of service cost allocation (>40%).

Then of these projects, the following was established through interviews and review of project information provided:

2. How were cost estimates for the specific projects developed? For instance, using historical cost data being inflated, consultant estimates?
    a. If a consultant's estimate was used, to what level? (Level 0 – Order of Magnitude, Level 1 – Conceptual, Level 2 – Preliminary, Level 3 – Detailed Design, Level 4 – Tendered).
    b. If not, is the level of contingency appropriate for the project's stage, timing and complexity?
3. In terms of risks to scope, how well is the project defined to avoid material scope creep?

Risk levels are applied using the following indicators. * A material shift is defined as a budget change of more than 15% relative to initial cost estimates.

Risk Level	Definition	Indicators
🟢 Low Risk of Material Change	Minimal likelihood (<10%) of material* shifts.	- Estimates at Level 3+ (Detailed/Tendered) - Contingency applied appropriately for project stage - Well-defined project scope with low variation potential
🟠 Medium Risk of Material Change	Some likelihood (10% to 50%) of material change exists but may be manageable	- Estimates at Level 2-3 (Preliminary/Detailed) - Contingency exists but is inconsistent to the remaining scope uncertainty - Some scope uncertainty, but moderate confidence in assumptions - Expected in Years 3-7 project
🔴 High Risk of Material Change	Significant likelihood (>50%) of material programme shifts.	- Estimates at Level 1-2 (Order of Magnitude/Preliminary) - Contingency is unclear or insufficient - Scope is not well-defined, making cost overruns >15% likely - Missing projects that could drive unplanned capital increases - Expected in Years 7+ projects, unless significantly large.

Results

Clutha DC

The original capital programme assessed was revised down significantly, from $116.3M to $37.1M, following the provision of updated cost estimates. The revised programme has been assessed as low risk of material change, with most projects in the near term already in construction or at the tender stage, improving cost certainty.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	35% ($13.0M0	Most of these projects are at scoping, tender, or construction stage, reducing cost uncertainty.
Years 4-10:	Med Risk	65% ($24.1m)	Estimates have been updated and a 30% contingency applied, reflecting the high scope risk that remains.

Items of note:

- Clutha has scheduled zone metering for most schemes within 3 years. However, universal metering will require a larger level of CAPEX than is scheduled.

Central Otago DC

The total high-risk capital programme assessed was $122.2M, which makes up 62% of all Level of Service CAPEX over the next 10 years. A large portion of projects are growth-driven, with significant level-of-service improvements. Cost certainty is higher in the near term, while longer-term WWTP projects have some exposure to regulatory changes.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	33% ($40.6M)	Projects in this period have greater cost certainty, as they are progressing through tender, construction, or advanced planning. While there is some exposure to regulatory-driven scope adjustments, cost estimates are well-developed with appropriate contingencies applied.
Years 4-10:	Med Risk	67% ($81.6m)	Projects in this period are based on Level 2 estimates, with a reasonable contingency applied, supporting cost confidence. However, longer-term infrastructure upgrades remain exposed to scope changes and regulatory factors, particularly for wastewater treatment.

Items of note:

- Significant amounts of the Capital Programme are to service projected growth in the district.
- CODC is already fully metered with volumetric charging in place for drinking water.

Gore DC

The total high-risk capital programme assessed was $67.6M, which makes up 94% of all Level of Service CAPEX over the next 10 years. The greatest risk remains in Years 4-10, where most projects still lack detailed cost certainty, and missing projects could result in budget shortfalls. The stormwater separation project, in particular, carries high financial and scope uncertainty due to its reliance on preliminary modelling rather than detailed cost estimation.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	21% ($14.3m)	Cost certainty is moderate due to a mix of more detailed (Level 3) and preliminary (Level 0-2) estimates on specific projects. Stormwater separation is acknowledged as an ongoing programme with set budgets each year.
Years 4-10:	High Risk	79% ($53.3m)	Most projects rely on early-stage cost estimates (Level 0-2), increasing the likelihood of cost changes. Scope and cost risk is high for the planned stormwater separation programme beyond the 10-year window.

Items of note:

- A significant stormwater separation programme is planned over the long term of 30 years (>$200m). The project is addressing service level deficits and health risks from localised flooding, which will likely increase due to climate change.
- The programme has included CAPEX for universal water meter rollout.
- Utility have observed that this cost of this programme exceeds the replacement cost of the entire stormwater network of the district (c. $42m), by several orders of magnitude. There is a likelihood that a programme of this scale will require extensive review and is primarily included to highlight a significant issue that needs addressing.

Waitaki DC

The total high-risk capital programme assessed was $96.5M, which makes up 83% of all Level of Service CAPEX over the next 10 years. The greatest financial risk exists in Years 4-10, where most projects lack detailed cost certainty, and scope changes could drive significant budget increases.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Medium Risk	18% ($17.4m)	Projects in this period have better cost certainty, being closer to execution with more detailed cost estimates. However, some estimates remain at Level 2 (Preliminary), and contingency application is inconsistent, increasing the risk of minor cost overruns.
Years 4-10:	High Risk	82% ($79.1m)	Most projects rely on early-stage cost estimates, increasing the likelihood of material cost changes. Scope risk is high, particularly for wastewater and stormwater projects. Additionally, missing compliance-related investments (Lake Ohau, Kurow, Palmerston, Omarama, Hamden, Moeraki WWTPs) could result in significant unplanned capital increases at the end of 10-year programme.

Items of note:

- Several wastewater projects are excluded from the current programme that will have a material impact on wastewater investment levels in years 4 to 15. It has been stated that this is due to the high levels of uncertainty regarding their scope, timing and possible solutions.
- The programme has included CAPEX for universal water meter rollout.

Timaru DC

The total high-risk capital programme assessed was $161M, which makes up 58% of all CAPEX over the next 10 years. The greatest financial risk exists in Years 4-10, where most projects lack detailed cost certainty, and scope changes could drive significant budget increases.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	42% (68.1m)	Projects in this period have a mix of low and medium-risk cost estimates. However, a minimum of 30% contingency is in place across all budgets, which mitigates this risk sufficiently. The large projects planned within the next 12 months, have design level cost estimates.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 4-10:	Medium Risk	58% (92.7m)	Larger projects in this period are more exposed to high-risk cost estimation and scope uncertainty, with early-stage estimates and scope uncertainty despite 30% contingencies applied to all.

Items of note

- Most of the programmed investment is on the renewal of existing assets. Investments to meet drinking water standards and wastewater consents have largely been delivered for the district.
- The programme has included CAPEX for universal water meter rollout.

Asset Sustainability

This assessment determines the likelihood of an unrecognised long-term backlog or liability for asset renewals in investment programmes, excluding accumulated depreciation reserves, having a material impact on the baseline programme.

Does the current level of renewals investment pose a significant future spending liability for the CCO that is not accounted for?

Method

The sustainability of renewals investment considers the likelihood that additional renewals expenditure will be needed beyond what is planned, due to unexpected asset failures. This looks at two key indicators in combination.

Average Age - It looks at this at a very high level, over the next 10 to 30 years. It is assessed by comparing the average age of the assets, calculated from its depreciated replacement cost (proxy of life remaining) divided by its gross replacement cost (Proxy life expectancy). The lower this % value indicates the higher the risk of asset failure. i.e. the assets are nearing end of life.

Ther rate of ageing - This is then considered with another analysis, of whether future planned renewals spending is keeping pace with the rate at which the assets are ageing. If it is not, then the risk of asset failure is increasing. This will also increase the need for additional expenditure.

Exclusions - Preferably, as assessment of the age distribution of the assets would provide a more accurate assessment of age. i.e. understanding the 75%tile of age rather than average age. Also, projects deemed a renewal, yet also provided significant service level or growth benefits were excluded, particularly if they distorted results.

The following indicators of risk were applied to each Council:

Risk Level	Definition	Indicators
🟢 Low Risk of Material Change	Minimal likelihood (<10%) of material* shifts.	- Assets are relatively young and/or have renewals investment adequately matching or exceeding the rate of asset ageing (Renewals/Depreciation ratio >1)
🟠 Medium Risk of Material Change	Some likelihood (10% to 50%) of material change exists but may be manageable	Assets are middle aged, with renewals investment not reflecting this risk. Renewals investment lagging behind asset ageing (Renewals/Depreciation ratio approximately 0.6–1).
🔴 High Risk of Material Change	Significant likelihood (>50%) of material programme shifts.	Significant risk due to an older asset base and inadequate renewals investment reflecting this. (Renewals/Depreciation ratio <0.8), likely requiring substantial future expenditure adjustments.

Where material is defined as being a change in budgeted costs of greater than 15%.

Clutha DC

There is a likelihood of material change to the renewals programme. Assets are approximately halfway through their life, with a reasonable level of investment now underway to stop the net ageing.

Clutha DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	57%	Middle aged	0.5 Assets are ageing	Med Risk
Water Supply	60%	Middle aged	1.5 Getting younger	- Low Risk
Stormwater	49%	Middle aged	1.6 Getting younger	Medium Risk
			Overall Score	Medium Risk

Items of note:

- c. $5m of Cast Iron main renewals in the water network have been deferred beyond the 10-year window during the LTP on affordability grounds.
- Large proportions of the pipe assets have been recorded with expected lives at over 100 years. This can skew results greatly if not correctly assumed.

Central Otago DC

There is a low risk of material changes anticipated in the next 10 years.

Central Otago DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	60%	Middle aged network	0.9 – Asset age is steady	- Low Risk
Water Supply	70%	Young network	1.0 – Age is steady	- Low Risk
Stormwater	57%	Middle aged network	0.6 Assets are ageing	Medium Risk
			Overall Score	- Low Risk

Items of note

- Central Otago's rate of growth in new and vested assets could be outpacing the average ageing rate (depreciation). This could skew these metrics by reducing the average asset age over time. An assessment of 75%tile age would improve this understanding.

Gore DC

There is a high likelihood of material change, particularly post year 10. Large parts of the assets network are near the end of life also, with annual renewals spend still well below what is needed to halt this decline. Particularly for WW and SW. This indicates a high amount of asset renewals will be necessary, beyond what is programmed.

Gore DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	….and over 30 years	Risk to Renewals Programme
Wastewater	36%	An old network	0.7 Assets are ageing	0.5 Assets are ageing	High Risk
Water Supply	29%	An old network	1.2 Getting younger	1.0 Age is steady	High Risk
Stormwater	28%	An old network	0.2 Assets are ageing	4.4 Getting younger rapidly (see note)	High Risk
				Overall Score	High Risk

Items of note:

- Gore DC believes their asset sustainability is slightly better than presented in this assessment but acknowledges having the oldest infrastructure network does pose significant risk of cost increases. Gore DC has been pro-actively managing the tension between asset renewal needs and affordability for their community. Their renewals programme was deferred on affordability grounds recently, so the 30-year programme has been included to assess this.

Waitaki DC

There is low risk of a material change to the renewals anticipated in the next 10 years. The network has over half of its life left by value, and the rate of replacement largely matches the rate of ageing.

Waitaki DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	65%	Middle aged	1.4 Getting younger	- Low Risk
Water Supply	60%	Middle aged	0.8 Assets are ageing	- Low Risk
Stormwater	52%	Middle aged	0.8 Assets are ageing	Medium Risk
			Overall Score	- Low Risk

- The Oamaru Rising main duplication and Oamaru Muddy Creek stormwater capacity upgrade were removed from the renewals programme assessment. These may have been costed as renewals, possible incorrectly, which was skewing the assessment significantly.

Timaru DC

There is low risk of a material change to renewals anticipated in the next 10 years. The network has over half of its life left by value, and the rate of replacement exceeds the rate of ageing by several orders of magnitude.

Timaru DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Programme
Wastewater	58%	Middle aged	4.7 Getting younger	- Low Risk
Water Supply	55%	Middle aged	5.3 Getting younger	- Low Risk
Stormwater	50%	Middle aged	3.9 Getting younger	- Low Risk
			Overall Score	- Low Risk

Sensitivity to National Wastewater Treatment Standards

This section evaluates the likelihood of material changes to planned Wastewater Treatment Plant upgrades from the proposed Wastewater National Treatment Standards.

The assessment is a score that indicates the level of sensitivity to a material change, where material is a budget change of more than 15% relative to initial cost estimates.

- 🟢 - Low Risk of Material Change – Minimal likelihood (<10%) of material shifts in overall Wastewater Treatment Plant cost estimates.
- 🟠 - Medium Risk of Material Change – Some likelihood (10% to 50%) of material shifts in overall Wastewater Treatment Plant cost estimates, requiring adjustments to the programme.
- 🔴 - High Risk of Material Change – Significant likelihood (>50%) of material shifts in Wastewater Treatment Plant cost estimates, requiring major adjustments to current programmes.

Explanation of the New Wastewater Standards

Proposed national wastewater standards were released for public consultation on 26th February. They aim reduce the amount of expenditure on wastewater treatment by, streamlining consenting processes, taking a more risk / impact-based approach to wastewater discharges standards. The standards differentiate requirements based on discharge type (water or land) and scheme size as a proxy for environmental impact.

Method and Assumptions

The assessment applied to WWTP cost estimates have used the following assumptions:

1. For WWTP's that discharge to water (Freshwater and Oceans):
   - Schemes with access to large water bodies may benefit from dilution capacity, which can influence discharge conditions and potentially reduce treatment requirements.
   - Schemes serving fewer than 1,000 users will not require nitrogen or phosphorus removal under the proposed land discharge standards. While this is not explicitly stated for water discharge schemes, it suggests that smaller loads may not require advanced nutrient removal.
2. For WWTPs discharging to land:
   - The standards remove land disposal requirements to account for cultural considerations; however, Councils can still pursue this pathway if desired.
   - Treatment requirements are now risk-based, meaning land discharge schemes will be classified by site suitability and environmental sensitivity.
3. Consenting terms
   - All consents will have a 35-year term.
   - Schemes with consents expiring within two years of the new standards taking effect can request a two-year extension.
   - The new standards aim to streamline the consenting process, reducing the existing administrative process of consent applications (c. 40% of costs stated in standards).
4. Enabling efficiencies and 'Packaged Plants' as an option:

- Standardising requirements across the country enhances scalability and supports the use of modern packaged wastewater treatment plants, improving efficiency and affordability, particularly for smaller schemes.
- Direct liaison with the DIA indicates a **maximum WWTP upgrade cost of $15k–$20k per connection** is being targeted for smaller schemes (< 1,000 people).

Sensitivity to Standards	Reasoning
Clutha DC -c. $52m of planned WWTP upgrades in the current programme is planned	
🟠 Medium Risk of Material Change	Several small schemes under 1,000 pax requiring lower treatment and Milton (larger scheme). However, there remains a reasonable level of uncertainty in their need at all, as they are planned due to non-compliance with existing consents standards. The new standards may reduce this risk and defer them—or reinforce the need for earlier upgrades, depending on their final form. Cost estimates have already dropped significantly (c. 75%) from recent WWTP re-estimations, incorporating revised land treatment assumptions (prior to release of the WW Standards).
Central Otago DC - c. $57m of WWTP Upgrade CAPEX is planned.	
🟠 Medium Risk of Material Change	Alexandra WWTP remains unchanged, as further adjustments would increase risk. Omakau WWTP has been reassessed, with changes made to align with revised expectations. Lake Roxburgh Village remains unchanged. While some flexibility may emerge in discharge requirements under the new standards, the overall impact on treatment processes is expected to be limited with large amounts allocated to growth and renewal.
Gore District Council –c $77m of WWTP Upgrade CAPEX is planned.	
🔴 High Risk of Material Change	Sensitivity to the proposed changes is high for the Gore and Mataura WWTP planned upgrades. Primarily due to removal of land purchase and wetland development originally included for cultural treatment at Gore WWTP. For Mataura WWTP, sensitivity is material but less significant as the existing discharge is expected to align with proposed regulatory standards, eliminating the immediate need for significant upgrades.
Waitaki District Council c. $27m of WWTP Upgrade CAPEX is planned.	
🟠 Medium Risk of Material Change	Several smaller schemes (Duntroon, Kurow, Lake Ohau, Omarama, Palmerston) may be affected, but some, like Lake Ohau, could see upgrade needs largely unnecessary under the new standards. Of greater uncertainty, is that several schemes lack a confirmed scope or funding and are excluded from the programme.
Timaru District Council No WWTP upgrade CAPEX planned.	
🟢 - Low Risk of Material Change	Timaru have already invested significantly in their Wastewater treatment plants in recent years and have long term consents in place. No material changes are anticipated.

Summary of Findings

This assurance assessment has identified varying levels of risk to the baseline capital programme across the five Councils. While the short-term financial outlook is stable, long-term risks remain significant due to uncertainty in cost estimates, aging assets, and evolving regulatory requirements.

	Year 1 to 3	Years 4 to 10
Clutha DC	Near-term budgets have high accuracy. Medium-term risks emerge primarily due to wastewater regulatory changes and moderate ageing of stormwater assets, though water assets are sustainably managed.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Low (-5%/+10%)	Medium (-10%/+20%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Central Otago DC	Cost certainty strong in short-term but moderate risks emerge longer-term, particularly with wastewater upgrades due to proposed standards.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Low (-5%/+10%)	Medium (-10%/+20%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Gore DC	Immediate cost certainty acceptable but long-term high risks exist across all asset classes, driven by ageing infrastructure, significant deferred renewals, and sensitivity to WW standards.	
Water Supply	Low (-5%/+10%)	High (-10%/+25%)
Wastewater	Low (-5%/+10%)	High (-10%/+25%)
Stormwater	Low (-5%/+10%)	High (-10%/+25%)
Waitaki DC	Short-term cost reliability is good, but medium-term risk exists from slightly insufficient renewal budgets and uncertainties in wastewater project scope and regulatory impacts.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Medium (-10%/+20%)	High (-10%/+25%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Timaru DC	Consistently low risk across asset classes with robust renewals investment and stable asset conditions, requiring minimal financial adjustments.	
Water Supply	Low (-5%/+10%)	Low (-5%/+10%)
Wastewater	Low (-5%/+10%)	Low (-5%/+10%)
Stormwater	Low (-5%/+10%)	Low (-5%/+10%)

Long-Term Planning Uncertainty beyond Year 10

The very nature of long-term planning means it carries inherent uncertainty, particularly given the significant policy, regulatory, and legislative reforms that have shaped the last two Long-Term Planning (LTP) cycles. Given this context, assessing the confidence of planned expenditure over the 10- to 30-year horizon other than low, is inherently limited in value.

However, it remains important to identify key known investments that will be necessary within these longer-term timeframes. These include:

- Major asset renewals, which will be required to maintain service levels.
- Resource consent renewals, particularly for wastewater and drinking water infrastructure.

Recommendations

To strengthen the confidence in the financial projections of the proposed CCO and any pricing model options, the following actions are recommended.

1. Standardised Capital Planning & Cost Estimation Practices
    - Introduce a structured cost estimation framework that standardises how contingencies and cost escalations are applied.
    - Councils should also commit to a Memorandum of Understanding (MoU) or similar, to align cost estimation methodologies, service level expectations, and renewals investment strategies.
2. Targeted Review of High-Cost Investments and Regulatory Changes
    - Conduct a detailed review of high-cost projects (>$10m) with early-stage estimates, particularly for Gore DC's stormwater separation and Waitaki DC's wastewater upgrades.
    - Once wastewater standards are formalised, also conduct a detailed review of planned wastewater treatment plant upgrades.

Furthermore, as consumer pricing will be a critical aspect of any future service delivery model for 3-waters, the planning processes and assurance levels will need to be explicitly driven by the effect to future customer prices, not just financial forecasts.


UTILITY

Document status

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Southern Water Done Well

Establishing a Southern Water Done Well CCO is necessary for financially sustainable water services delivery

21 July 2025

This document has been prepared to provide information to Central Otago District Council, Clutha District Council, and Gore District Council on the merits of establishing a regional Water CCO.

The Department of Internal Affairs has relied on information provided by councils and their advisors in the development of the analysis and guidance included in this report, including publicly available information from long-term plans and other council accountability documents.

This guidance is not legal advice; and is intended to support council decision-making requirements under Local Water Done Well.

Te Kāwanatanga o Aotearoa
New Zealand Government

Te Tari Taiwhenua
Internal Affairs

Establishing a Southern Water Done Well CCO is necessary for financially sustainable water services delivery

- The establishment of a **Southern Water Done Well water CCO** comprising of the three councils' water services is **likely the only viable option** for delivering a Water Services Delivery Plan that meets the **legislated financial sustainability requirements** for both water services and councils, whilst **managing the affordability impact of required water services charges on household budgets**.
- Each of the three councils is **projecting substantial borrowing requirements for water services investment**, which will be **unsustainable on council balance sheets**.
- A professionally governed and operated Water CCO will:
  - Be subject to **economic and water quality regulation**;
  - Have **better funding and financing arrangements** than councils can secure themselves; and
  - Have **more capacity and capability** to deliver quality water services that meet consumers expectations.
- A larger entity with more connections **improves credit risk and regional diversification**, resulting in **more favourable financing terms** from the New Zealand Local Government Funding Agency.
- A larger entity also provides additional scale, which if managed effectively, will result in **lower costs of service**, **better procurement and investment decisions and delivery**, and **more efficient and affordable pricing** for consumers for the level of services received. **The Department estimates (conservatively) this will result in 15-19% lower water charges for consumers than in-house or single-council owned CCO models.**
- A **regional Water CCO will provide substantial benefits to consumers** over council in-house delivery or smaller single-council owned Water CCOs which may struggle to be financially viable over the longer term. These benefits are set out on slide 4.
- It will be critical for the three councils to consider water charges and rates bills in cumulative when making planning decisions, as the proposed level of water services investment will impact the affordability of total bills to ratepayers and water services consumers.

A Regional CCO would deliver lower charges for consumers and reduce council borrowings

A **regional Water CCO** consisting of the three councils' water services will **result in lower charges for communities** than council in-house delivery of water services, or the establishment of individual council-owned Water CCOs.

- A regional Water CCO would have a lower free funds from operations to debt covenant for borrowings from the LGFA than single-council owned CCOs. We consider an appropriate FFO covenant for a regional CCO would be 9% as opposed to 12%. This results in savings for consumers of 3.5% - 10% across the three councils, through more efficient financing arrangements.
- Establishing a **larger regional CCO would benefit from scale**, leading to lower operating costs on a per connection basis. The Department of Internal Affairs' view is that conservatively, a **regional water CCO could deliver water services at a minimum 20% lower operating cost base** than individual council delivery. Should this minimum scale of operating cost reduction be achieved, this would provide a further 9% - 12% savings to consumers.
- In total, a **regional Water CCO can deliver the same level of services for 15 – 19% cheaper** than other delivery options. It also **enables the three councils to cumulatively offload up to $432 million in water services borrowings to the Water CCO** (being the peak projected water debt over ten years), significantly improving council balance sheets and financial sustainability.

Council	Debt financing savings (FFO 12% v 9%)	Operating savings (regional CCO 20% opex)	Total savings % (regional CCO v single council)	Peak water debt off council books $m	Peak water debt to revenue in baseline data provided to DIA	Council borrowing limit
Clutha	3.5%	12.2%	**15.6%**	$105m	552%	280%
Central Otago	9.9%	9.1%	**19.0%**	$237m	499%	280%
Gore	6.8%	9.1%	**15.9%**	$90m	466%	175%

Note: Clutha District Council's water services opex remains significantly above the national average and that of the other two Southern councils. Should opex levels be driven down to the weighted average of the other two councils under a regional CCO this would increase opex savings from 12% of charges to up to 26% of charges for

Benefits from establishing a Regional Water CCO

There are **substantial benefits to councils, ratepayers and communities from the establishment of a Southern regional Water CCO**, comprising of the three councils water services.

- A regional regional Water CCO could deliver water services at **lower cost to consumers** than can be achieved by individual councils.
- A regional Water CCO can **access more debt financing** than councils through LGFA. This enables an **immediate uplift in access to funding**, enables the **costs of assets to be spread over their useful lives** (through debt financing new assets), and providing **additional cash reserves and flexibility**.
- A **regional Water CCO could meet expected borrowing covenants** as signalled by LGFA, and access debt financing on improved terms against status quo council borrowing arrangements.
- A regional Water CCO would **ensure financially sustainable water services provision** to consumers, provide resilience, and enable uplifts in water services infrastructure investment over time.
- A regional Water CCO, with improved access to debt financing, enables the **adoption of fit-for-purpose investment, asset management and financing strategies** for water services delivery, which will be more efficient than council in-house delivery.
- Separating water services delivery into a separate organisation will **ensure compliance with ringfencing, financial sustainability and other financial principle requirements** under Local Water Done Well.
- A regional Water CCO would be the regulated party for water quality regulation and economic regulation. **By establishing a water CCO, councils become beneficiaries of the regulatory regime**.
- Establishing a water CCO enables the refinancing of water services borrowings off council balance sheets, resulting in a **material improvement in the financial sustainability and resilience of councils**. This **creates substantial borrowing headroom for councils**, which can **allow general rates to be reduced**.

Annexes

Observations on council-provided water services financials

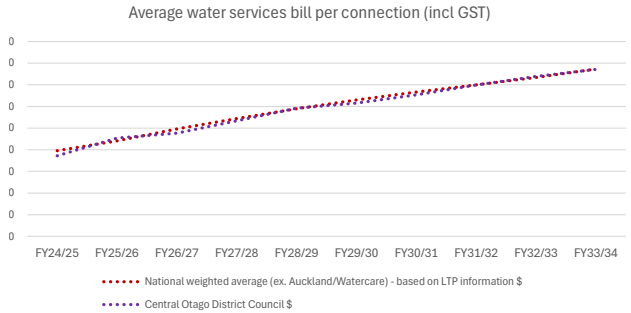
Observations and recommendations: Central Otago District Council

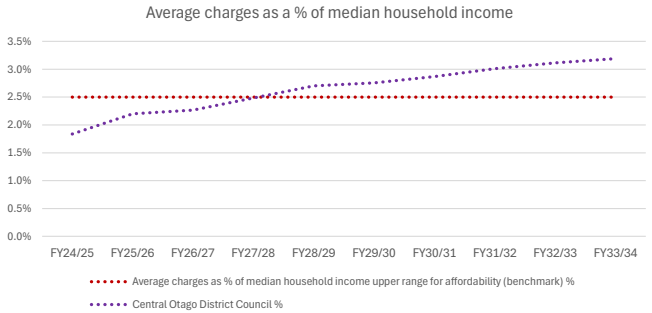
Observations on financial projections provided to the Department:

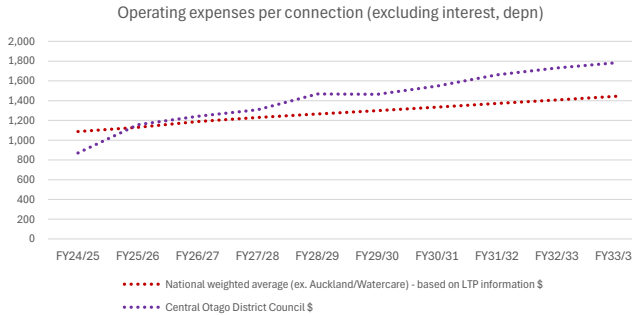
- The projected charges and revenues included in the modelling provided to the Department are insufficient to meet the financial sustainability requirements for Water Services Delivery Plans, as they funds from operations to debt ratio drops significantly below the acceptable range.
- Central Otago District Council's projected operating expenses are projected to increase at a substantially higher rate than the national average. This when combined with an ambitious capital programme, and high borrowings required to deliver this projected capital expenditure, results in projected charges that exceed the Department's affordability benchmarks.
- Central Otago District Council's water services debt is projected to reach $237m, with a debt to revenue of 500% for water services (against the council's borrowing limit of 280%). Establishing a water CCO would enable this debt to be refinanced off council books and picked up by the Water CCO.

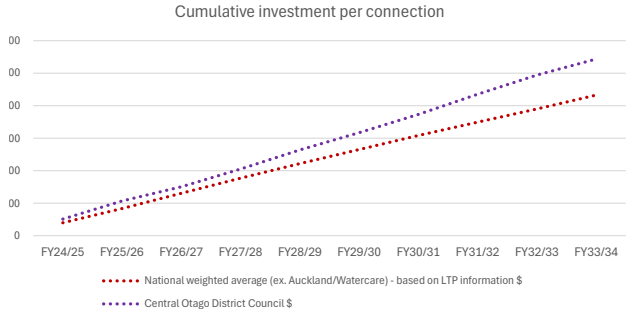
Recommendations / suggested next steps:

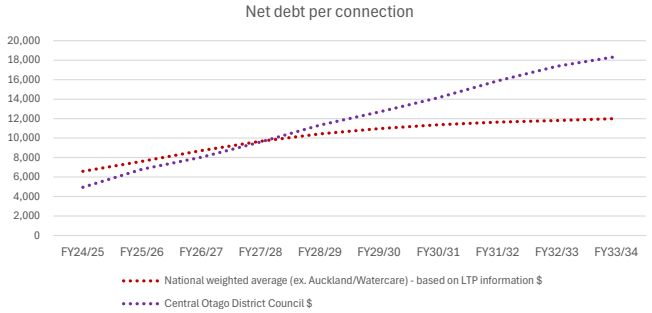
- Central Otago District Council's commitment to establishing a regional Water CCO is critical to ensuring the council's financial viability. Establishing a water CCO would significantly improve the council's balance sheet.
- Modelling for a regional Water CCO should assume a minimum 20% reduction to projected opex, as a larger water-specific entity will be able to deliver services at lower cost (through improved ways of working, removal of duplicated overheads, and more efficient delivery).
- After updating operating expenditure projections, charges and revenues should be reset to maintain a minimum 'FFO to debt' of 9%. If this still results in charges above the affordability benchmark then consideration should be given to investigate whether the capital programme is appropriately scaled, or whether prioritisation or rephasing could improve the affordability of charges and financial sustainability of water services.

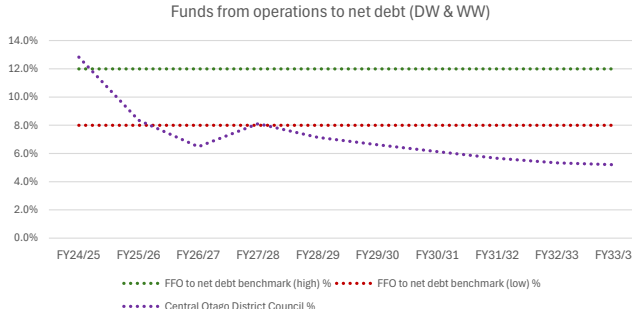












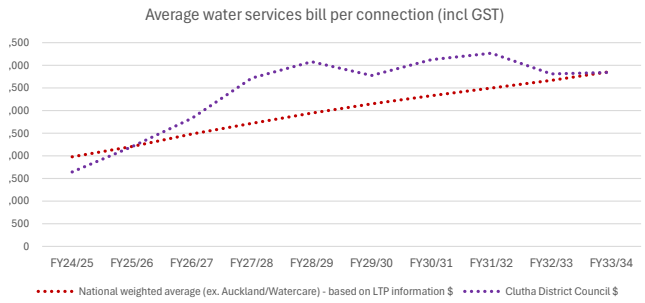
Observations and recommendations: Clutha District Council

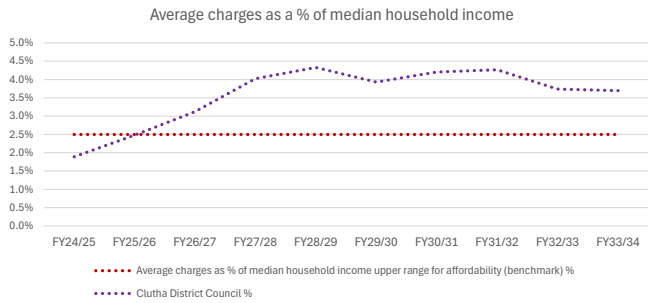
Observations on financial projections provided to the Department:

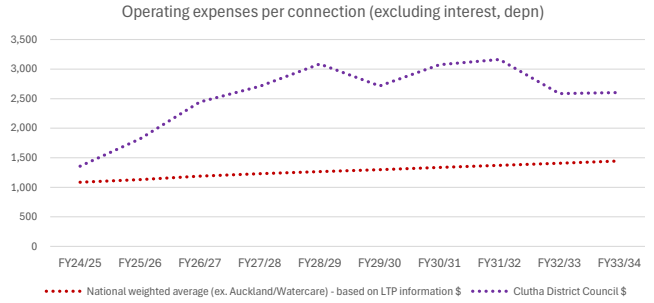
- Clutha District Council's projected charges on a per connection basis for residential consumers significantly exceed the national average (excl Watercare) and the Department's affordability benchmarks.
- This is primarily due projected operating expenses being more than double the national average over the ten year projected period. Clutha District Council's per connection opex is the highest of any council in the country.
- Clutha District Council's water services debt is projected to reach $105m, with a debt to revenue of 552% for water services (against the council's borrowing limit of 280%). Establishing a water CCO would enable this debt to be refinanced off council books and picked up by the Water CCO.

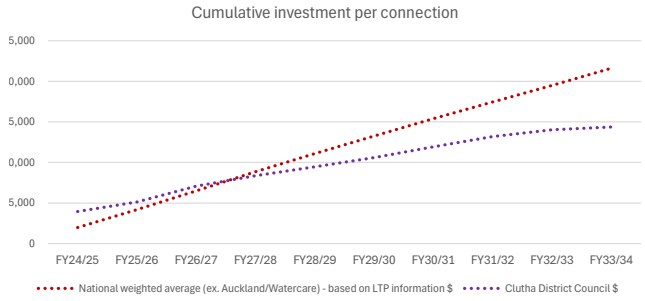
Recommendations / suggested next steps:

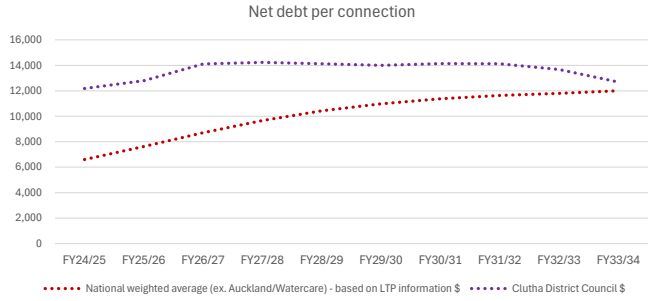
- Clutha District Council's commitment to establishing a regional Water CCO is critical to ensuring the council's financial viability. The council is heavily indebted due to water services borrowings. Establishing a water CCO would significantly improve the council's balance sheet.
- It is more appropriate for a regulated water services CCO to hold these levels of borrowings than a council, as LGFA borrowing covenants will require revenues to be sufficient to provide enough operating cashflow to manage and pay down borrowings in an orderly manner.
- Modelling for a regional Water CCO should assume a minimum 20% reduction to projected opex, as a larger water-specific entity will be able to deliver services at lower cost (through improved ways of working, removal of duplicated overheads, and more efficient delivery). This will reduce revenue requirements and projected water charges, and improve affordability.

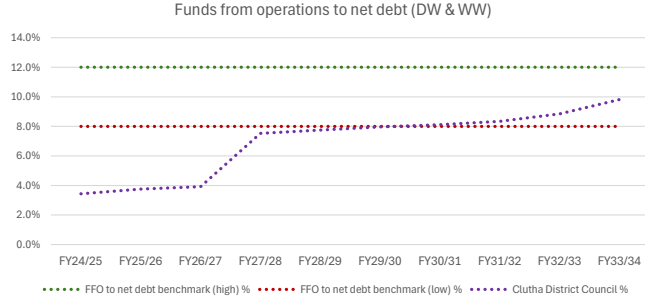












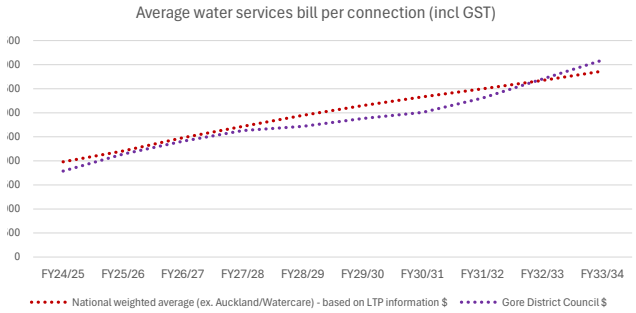
Observations and recommendations: Gore District Council

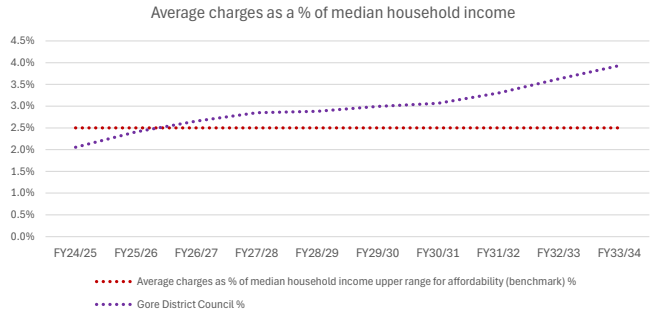
Observations on financial projections provided to the Department:

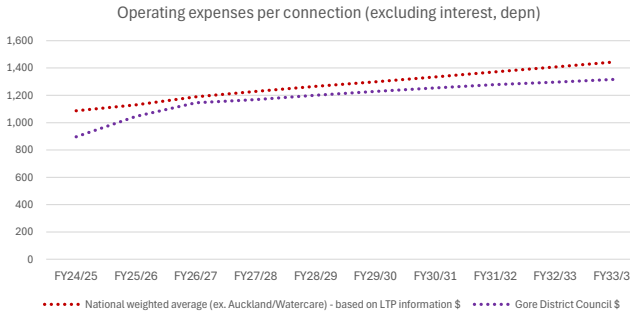
- Gore District Council's financial data provided sets charges and revenues appropriately for the levels of operating expenditure, investment and debt profiles.
- While it is clear that significant work has gone into right-sizing the capital investment requirements following the Government's changes to regulatory standards, projections show water services debt growing substantially over the ten year period.
- Gore District Council's water services debt is projected to reach $90m, with a debt to revenue of 466% for water services (against the council's borrowing limit of 175%). Establishing a water CCO would enable this debt to be refinanced off council books and picked up by the Water CCO.

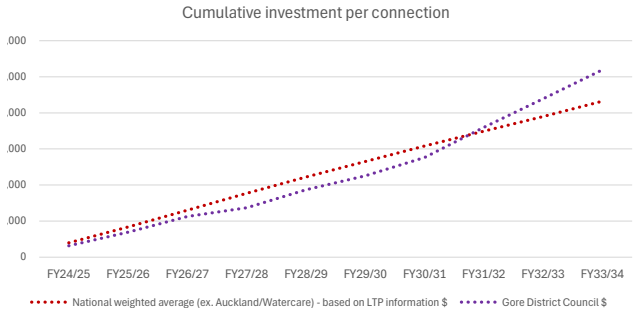
Recommendations / suggested next steps:

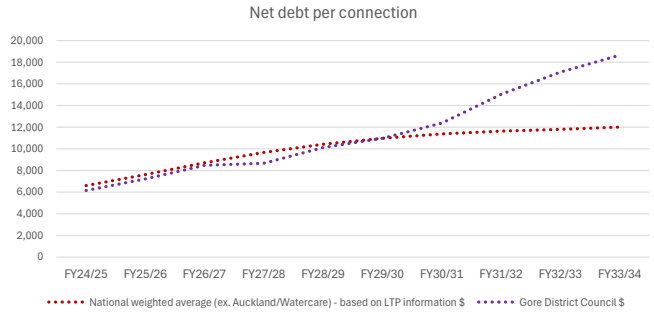
- Gore District Council's commitment to establishing a regional Water CCO is critical to ensuring the council's financial viability. Establishing a water CCO would significantly improve the council's balance sheet.
- The capex programme over ten years ($124m) is 2.5x depreciation charges over ten years ($50m), which is driving projected increases to water charges in years 8-10. There is a clear trade-off decision for the council to consider as incremental investment drives higher charges.
- Further consideration could be given to whether the proposed capital programme over years 8 – 10 could be further scaled, or whether prioritisation or rephasing could improve the affordability of charges for consumers.

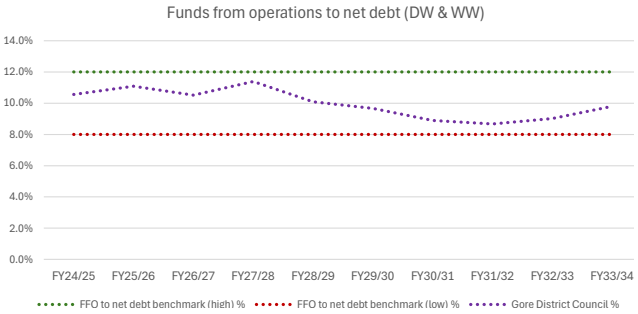












Infometrics

An updated Economic Review

Southern Water Done Well

Brad Olsen (Chief Executive & Principal Economist)

21 July 2025

Water services are changing

Government requirement

Needs to be financially sustainable and compliant with rising regulations – set above previous levels

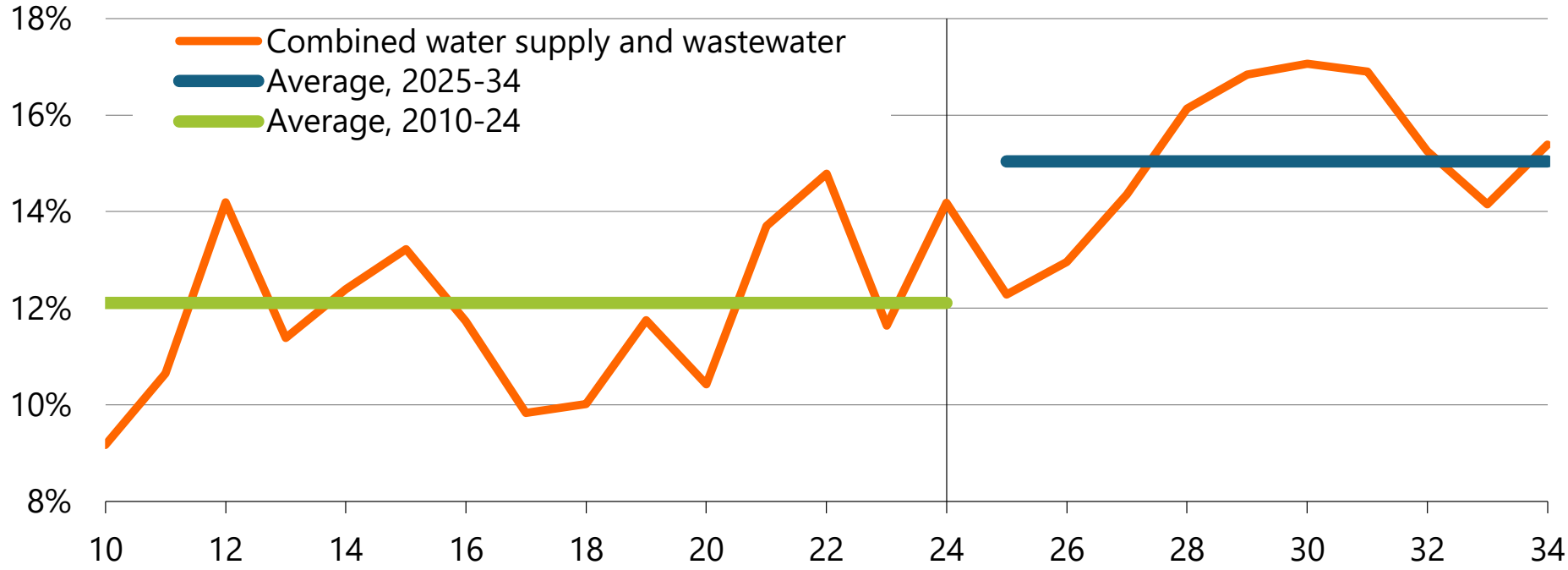
Rates affordability is getting stretched

Costs are rising to deliver

Stronger water spending forecast

Water is becoming a larger part of the infrastructure task

Water infrastructure investment, % of total infrastructure investment



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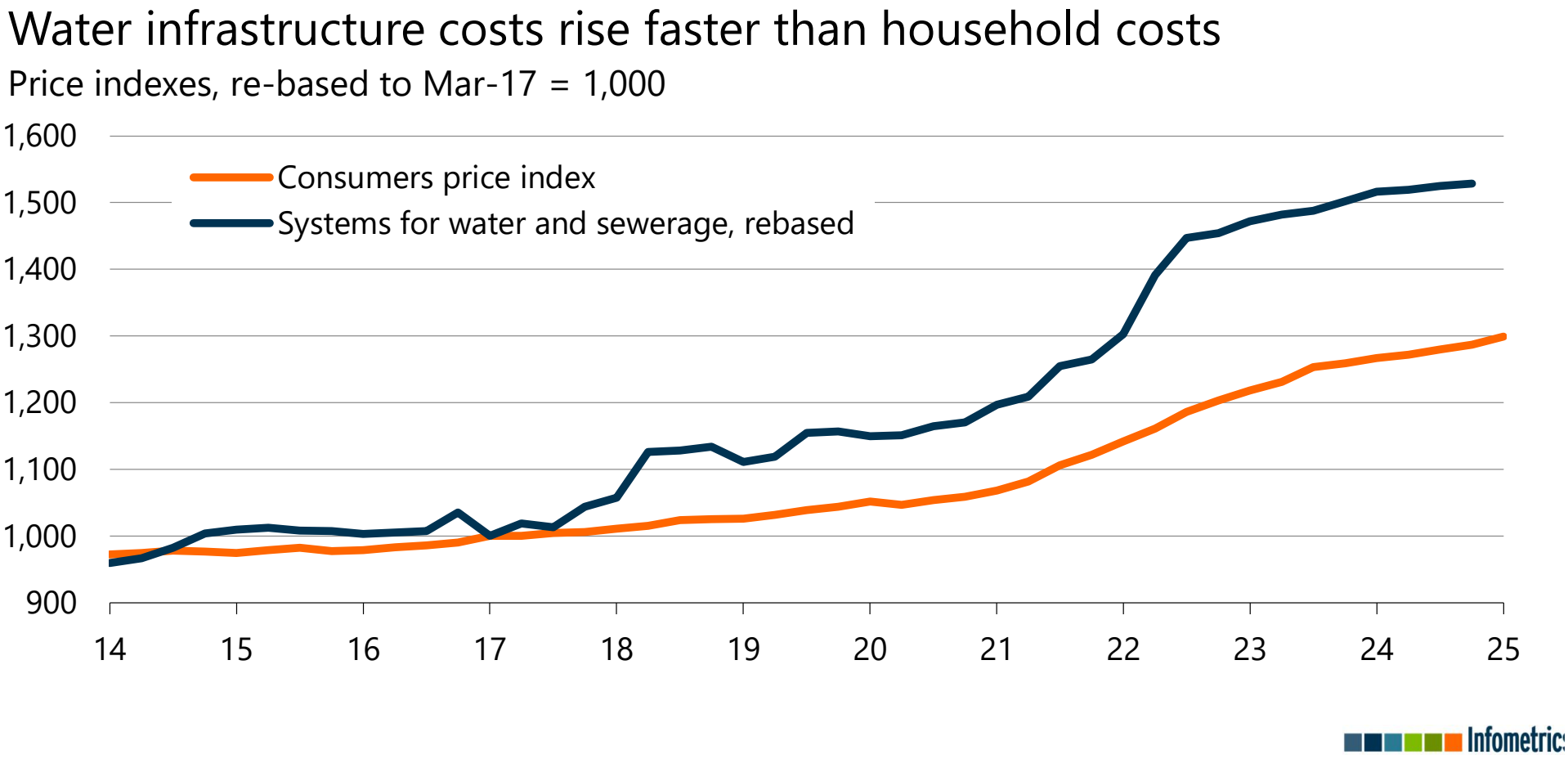
Long term funding for a long term asset

Water assets are long-term assets – usually lasting 40-100 years.

For inter-generational equity, these assets should be funded over time by users, rather than paid up-front by current users

Debt-funding most appropriate, as it spreads the cost over time (and users over time)

Water investment costs rising faster than household costs



Costs

	Consumers price index (CPI)	Systems for water and sewerage
Increase over 10 years	32%	52%
Annual average increase	2.8%	4.3%

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What's possible

Separate water entities enable greater borrowing capabilities – up to 500% of revenue

Higher than individual councils in-house

Spreads fixed costs, enabling lower per-household costs

Higher debt ceiling means more debt available from same revenue

Bargaining power

The shrinking from four to three councils lessens the bargaining power able to achieved, which will limit assumptions of efficiencies able to be achieved.

However, bargaining power together as a group of three (Central Otago, Clutha, and Gore) remains higher than standing independently.

The following table and graphs profile the implied relative bargaining power under the various groupings discussed over time.

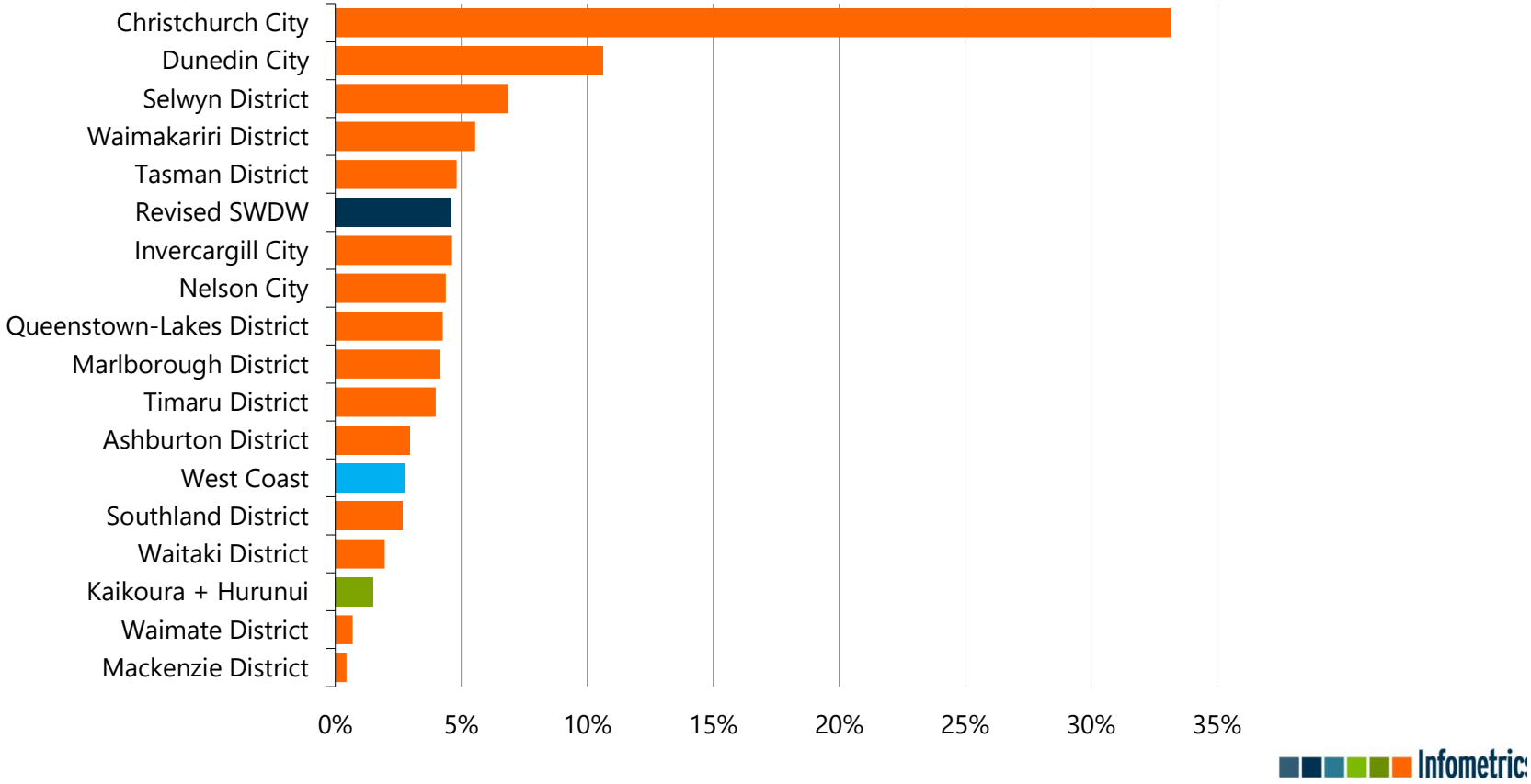
Bargaining power

2024	Revised SWDW	Original SWDW	SWDW + TDC & MDC
Population	57.2k	81.5k	136.5k
% of SI Population	4.6%	6.6%	11.0%

Revised outcome for bargaining power

Revised SWDW still 6th largest for SI population, at 4.6%

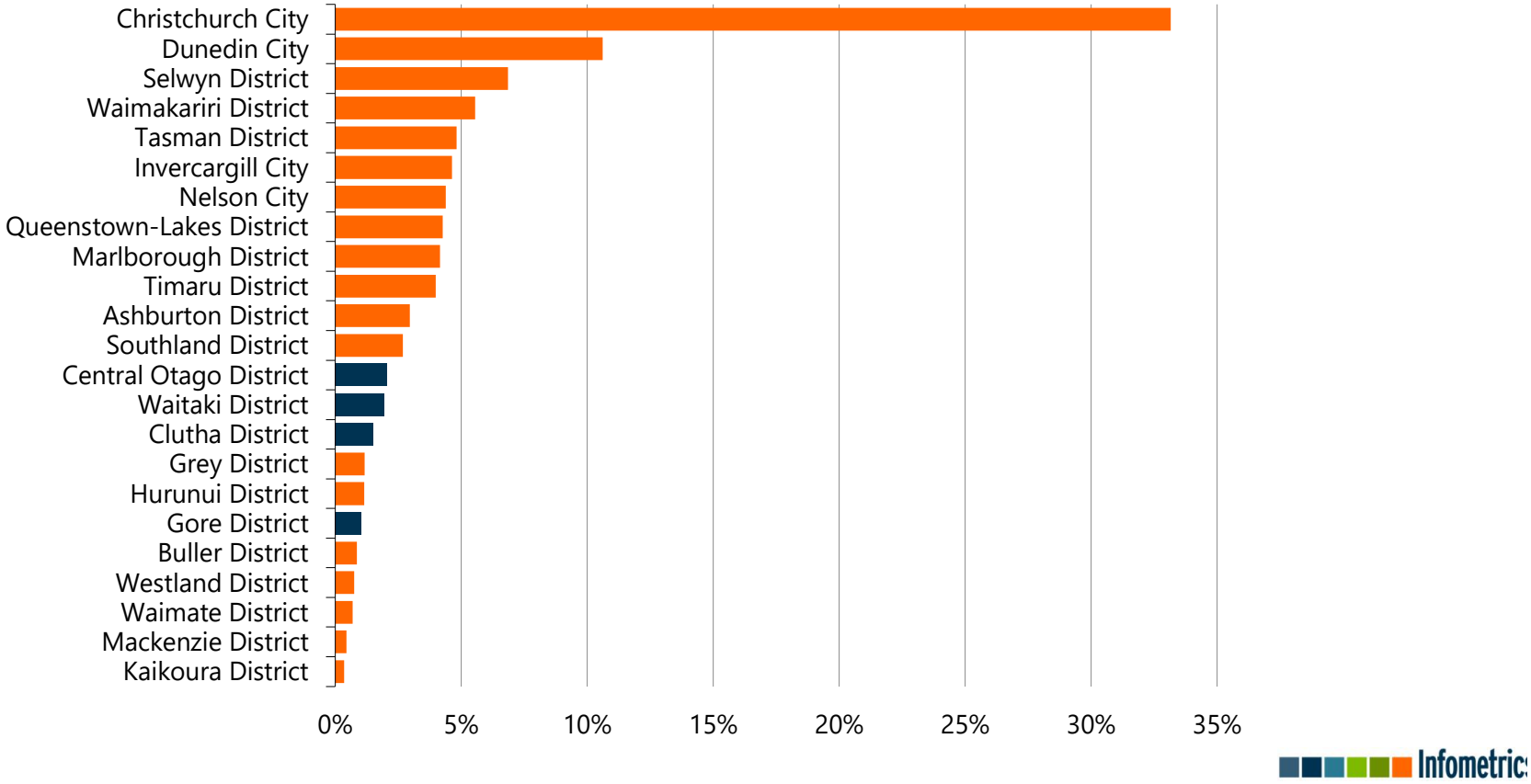
% of South Island population, potential proposed water groupings



Current situation…

SWDW areas have 1-2% of SI pop each, 13th to 18th spots

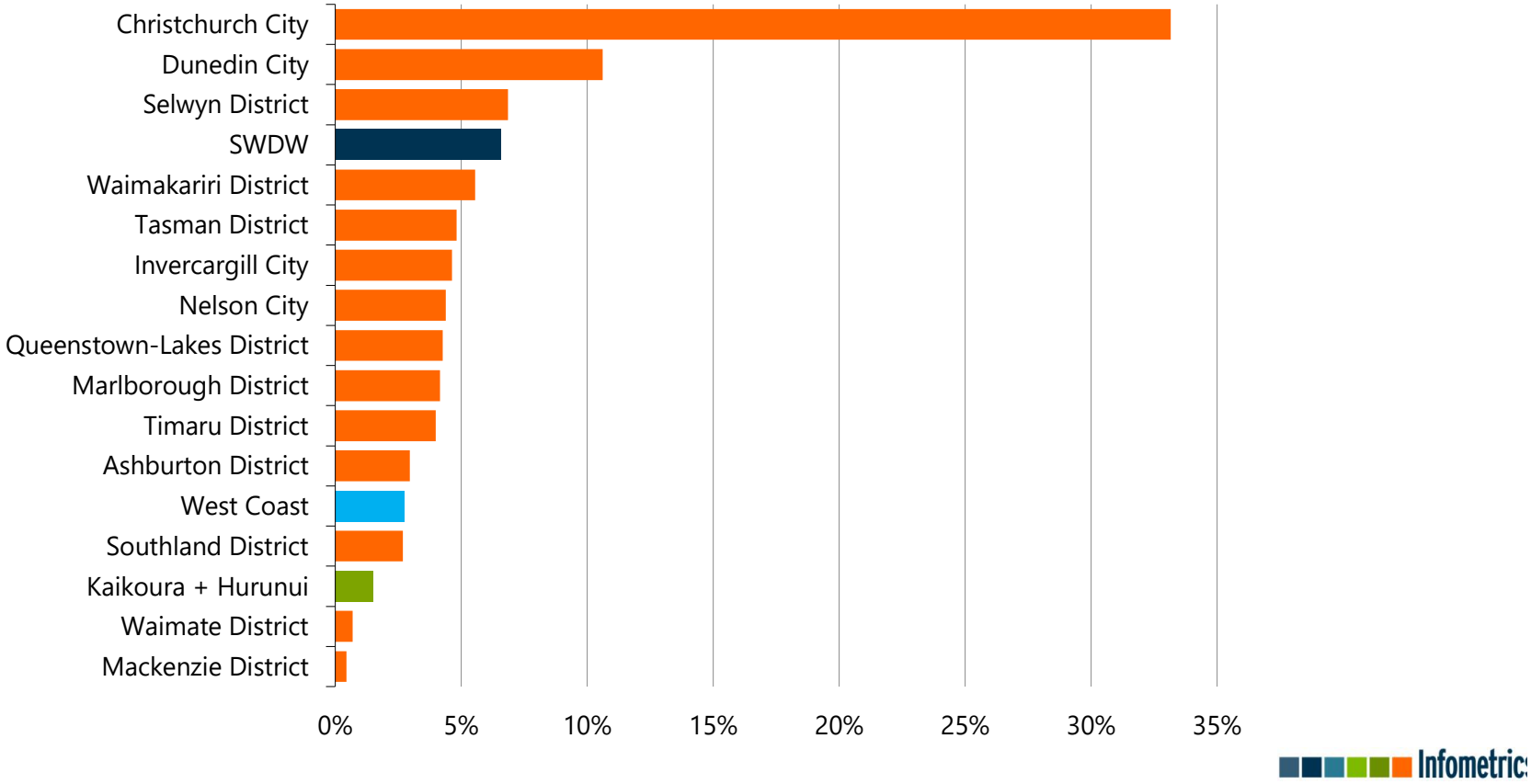
% of South Island population



Previously…

SWDW has 6.6% of South Island population, 4th largest

% of South Island population, current proposed water groupings



Collaboration means

- **Being big enough to attract the right staff – and enough of them**
- **Assets retained under community control, as a CCO, but have the scale to achieve better outcomes**
- **Costs spread over time (and households), lowering rates impact, and allows better use of and investment into assets**

Approach to revised SWDW remains sound

I have examined the revised Southern Water Done Well analysis, and it appears a reasonable approach to take.

Despite the smaller grouping, higher FFO requirement, and resulting lower efficiencies and savings, the revised SWDW joint CCO approach still delivers savings relative to other options over the long term.

The savings are smaller than before, and smaller in the early years of comparison, but become larger and more material over time.

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Approach to revised SWDW remains sound

We haven't undertaken a line-by-line model review, but have reviewed the prior and updated reports provided, by Morrison Low and others.

The assumptions appear reasonable and robust, and have been reduced to account for changes in the grouping.

Although some assumptions appear conservative, a conservative approach is reasonable, and the Southern WSE remains financially beneficial even under these conservative assumptions.

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Approach to revised SWDW remains sound

The Southern WSE remains the best of all options – with a standalone CCO often the worst option.

Although an IBU can appear viable under some conditions, over a longer period of time this approach still may not deliver viable outcomes, and savings are still achieved in the Southern WSE option.

Efficiencies adjusted for changes to SWDW

Efficiencies have been scaled back considerably to account for a partial loss of scale.

Efficiencies for the revised SWDW now range from 6.3%-6.6% (capital and operating), compared to 11%-12% under the original SWDW (including Waitaki)

The smaller efficiencies are reasonable given the partial loss of scale – the drop in efficiencies assumed is larger than the drop in Waitaki's scale, highlighting how much scale supports efficiencies being reached.

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Efficiencies appear reasonable

Assumes peak of efficiency takes 10 years

Isn’t immediate – takes some time for operations to bed in

10 years sounds like a lot, but not over a 40 year asset

Efficiencies adjusted to not overly assume better outcomes in IT, insurance, etc

Assumptions

Reasonable – borrowing rates based on 500% debt to operating revenue limit (for implied LGFA limits for a joint CCO approach)

+ FFO-to-debt rate of 9% for a joint CCO (up from 8% assumption in prior work – still a lower requirement than a 12% rate for a standalone CCO.

Better long term financial outcomes for Southern WSE are still able to be achieved under revised scenario.

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Wellington 6011
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+64 (21) 906 027

22 July 2025

Andrew Strahan
Southern Water

By email: andrew.strahan@geoco.co.nz

Dear Andrew

High-level review of Morrison Low report for the 'group of 3' southern District Councils

You asked us to review updated reports prepared by Morrison Low to inform decisions by the 'group of 3' district councils for the Clutha, Gore and Central Otago after withdrawal of Waitaki District Council.

You asked us to update our comments on, but not to re-run financial projections and to provide observations based on our expert knowledge of utility asset management and regulation.

Our views are, in summary:

1. The Morrison Low analysis is thorough, and it very likely reaches the right conclusion – that amalgamation is in the short and long-term interests of group of 3 water users.

2. We consider scope for efficiency gains is reduced through the loss of scale resulting from Waitaki's withdrawal. While the loss of Waitaki reduces amalgamation benefits and economies of scale, there is potential to recover these through collaboration or partnerships. For example, to:

    i. to improve scale for support / administrative services

    ii. improve scale to support investment in strategic and operational asset management maturity, and related fields of cost estimation, forecasting, solution development, and in procurement, work scheduling and in-field delivery.

3. The financial projections are reasonable, given inputs available at this point, but will require revision as entity composition and structure settle; and, as:

    i. information quality improves. For example, consistent inputs, base year and forecasting practices across each network area

    ii. *strategic and operational* asset management maturity grows, enabling optimisation of maintenance and renewal investment. Our experience is that investment in asset management maturity pays for itself very quickly and will be expected by your regulator.

4. It is important the group of 3, in addition to preparing its water services delivery plan, develops its understanding of and prepares for economic regulation by the Commerce Commission.

In our view, it remains very likely that each of the group of 3 district councils and the water users in their regions will be better off combining their resources in the proposed joint CCO than as separate CCOs or with in-house delivery models.

We note that efficiencies available from improved strategic and operational asset management are dependent on sustained investment. That investment is required to build human and organisational capabilities – business systems and processes, asset strategies, risk/criticality and other methodologies, asset data and condition information.

We are available to discuss any of the updated views above.

Yours sincerely



Jeremy Cain

Director, Concept Consulting Group Ltd



Waitaki
DISTRICT COUNCIL
TE KAUNIHERA Ā ROHE O WAITAKI
Growing strong communities.

31 July 2025

Phone +64 3 433 0300

Web www.waitaki.govt.nz

Office 20 Thames Street
Private Bag 50058
Oamaru 9444
Waitaki District
New Zealand

To: Peter Kelly, Chief Executive, Central Otago District Council

Steve Hill, Chief Executive, Clutha District Council

Debbie Lascelles, Chief Executive, Gore District Council

Re: Notification of Waitaki Withdrawal from Southern Water Done Well

This letter serves as formal notice that Waitaki District Council (WDC) is withdrawing from the joint arrangement established under the current Commitment Agreement between the Southern Water Done Well (SWDW) Councils.

Following the deliberation at the 8 July 2025 Waitaki district Council meeting, it was resolved that WDC will not proceed with the establishment of a joint operating model for water services delivery as outlined in the draft Shared Water Services Agreement.

RESOLVED WDC 2025/068

Moved: Cr Tim Blackler
Seconded: Cr Courtney Linwood

3. Will exercise its right to exit the joint arrangement with Central Otago, Clutha and Gore under the current commitment agreement.

In Favour: Crs Guy Percival, Courtney Linwood, John McCone, Jim Thomson, Rebecca Ryan, Hana Halalele, Tim Blackler, Jeremy Holding and Brent Cowles

Against: Crs Jim Hopkins and Mayor Gary Kircher

CARRIED 9/2

We acknowledge the collaborative work undertaken to date, and we remain committed to maintaining constructive relationships with your Councils and welcome future opportunities for collaboration where appropriate.

Yours sincerely



Alex Parmley
Chief Executive

Deed of Amendment and Restatement

relating to the Commitment Agreement

Strictly Private and Confidential

Deed of Amendment and Restatement

Dated the day of 2025

Parties

Central Otago District Council;

Clutha District Council; and

Gore District Council,

(together, the **Parties**).

Introduction

A. The Parties are party to a Commitment Agreement dated 8 March 2025 between the Parties and Waitaki District Council (**WDC**) relating to the planning of a joint operating model with respect to the provision of water services (**Commitment Agreement**).

B. On 31 July 2025, WDC gave notice to the Parties, in accordance with clause 6.3 of the Commitment Agreement, of its withdrawal from the Commitment Agreement.

C. Accordingly, the Parties have agreed to amend and restate the terms of the Commitment Agreement to reflect the withdrawal of WDC on the terms set out in this deed.

This deed records

1. Definitions and Interpretation

1.1 **Definitions**

The following definitions apply in the deed:

Amended and Restated Commitment Agreement means the Commitment Agreement as amended and restated by this deed and in the form set out in Schedule 1.

Effective Date means the date of this deed.

Parties means the parties to this deed and **Party** means any one of them.

1.2 **Interpretation**

The following rules of interpretation apply in this deed:

(a) References to the **Parties** include their respective executors, administrators, successors and permitted assignees.

(b) References to **this deed** means this deed, including the **introduction and the schedules**, as amended and/or replaced from time to time.

(c) References to **clauses** are to those in this deed.

(d) **Capitalised** but **undefined terms** used in this deed shall have the meaning given to them in the Commitment Agreement.

(e) **Headings** and **subheadings** have been inserted for convenience only and will not affect the interpretation of this deed.

(f) References to the words **including**, **include** or similar words do not imply any limitation and are deemed to have the words **without limitation** following them.

(g) References to a **statute** or **statutory provision** means a New Zealand statute or statutory provision as amended, consolidated and/or replaced from time to time.

(h) The **singular** includes the plural and vice versa.

(i) References to **written** or **in writing** shall include all modes of presenting or reproducing words, figures and symbols in a visible form (including via email).

(j) No **rule of construction** (including the contra proferentem rule) applies to the disadvantage of a Party because that Party (or its relevant advisor) was responsible for the preparation of this deed or any part of it.

2. Amendment and Restatement

2.1 With effect from the Effective Date, the Commitment Agreement shall be amended and restated so that the rights and obligations assumed by the Parties shall, on and from the Effective Date, be governed by and construed in accordance with the Amended and Restated Commitment Agreement.

2.2 Notwithstanding any other provision of this deed, on and from the Effective Date the rights and liabilities of the Parties shall be preserved in respect of any breach of the Commitment Agreement which arose prior to the date of this deed (whether or not any Party was aware of such breach prior to the Effective Date) and all corresponding indemnity or other rights and obligations in respect of any such breach are likewise preserved.

3. General Provisions

3.1 This deed constitutes the entire agreement and understanding of the Parties relating to the matters dealt with in this deed and supersedes and extinguishes any previous agreement (whether oral or written) between the Parties in relation to such matters. Nothing in this clause 3.1 operates to limit or exclude any liability for fraud.

3.2 Each Party warrants and represents to the others that:

(a) **power and authority**: it has full power and authority to enter into this deed;

(b) **authorisation and approvals**: all authorisations and approvals that are necessary or required in connection with the signing by that Party of this deed, and its assumption of rights and obligations under it, have been obtained; and

(c) **no breach or default**: the signing, delivery and performance of this deed does not constitute a breach by that Party of any law or obligation and will not cause or result in any default or breach under any other agreement or arrangement by which that Party is bound.

3.3 This deed may be executed and delivered in any number of counterparts, including by way of electronic transmission where a party signs a counterpart and sends it as a PDF to the other party by email. All such counterparts, when taken together, shall constitute one and the same instrument and, notwithstanding the date of execution, will be deemed to bear the effective date.

3.4 Any party may:

(a) **sign**: sign this deed by way of the application of that party's electronic signature; and

(b) **witness**: have its signature witnessed by means of the application of the witness' electronic signature,

in each case in accordance with Part 4 of the Contract and Commercial Law Act 2017.

3.5 This deed, and any claims arising out of or in connection with it or its subject matter or formation (including non-contractual claims), will be governed by and construed in accordance with the laws of New Zealand and the Parties irrevocably submit to the exclusive jurisdiction of the courts of

New Zealand for any matter arising under or relating to this deed or its subject matter or formation or the relationships established by it (including non-contractual claims).

Signatures

Signed and **delivered** as a deed

Signed for and on behalf of
Central Otago District Council by its duly authorised signatory:

Signature

Witness signature

Name

Witness name

Position

Witness address

Witness occupation

Signed for and on behalf of
Clutha District Council by its duly authorised signatory:

Signature

Witness signature

Name

Witness name

Position

Witness address

Witness occupation

Signed for and on behalf of
Gore District Council by its duly authorised signatory:

Signature

Witness signature

Name

Witness name

Position

Witness address

Witness occupation

Schedule 1 | Amended and Restated Commitment Agreement

(attached)

Commitment Agreement

PARTIES

Central Otago District Council

Clutha District Council

Gore District Council

DRAFT

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AGREEMENT dated August 2025

PARTIES

Central Otago District Council

Clutha District Council

Gore District Council

together, the "**Councils**".

INTRODUCTION

A. The Councils have each voted to proceed with the planning for a joint operating model between the Councils in respect of the Service Areas.

B. The Councils are required to submit a Water Services Delivery Plan ("**WSDP**") to the Secretary for Local Government (Department of Internal Affairs) by 3 September 2025 on how water services will be delivered in the Council's district as required under the Local Government (Water Services Preliminary Arrangements) Act 2024.

C. The Councils commit to working together to:

(a) plan and develop a joint operating model for the delivery of water services for each Council's community to inform a WSDP; and

(b) establish a WO for the joint operating model in accordance with a WSDP adopted by the Councils (subject to community consultation).

D. Each Council agrees to undertake the activities and responsibilities allocated to it in this agreement to achieve the Objectives.

E. The Councils have entered into this agreement to record the terms of their commitment to achieve the joint operating model and Objectives.

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SIGNATURES

SIGNED for and on behalf of

Central Otago District Council

By:

Signature of Authorised Signatory	Signature of Authorised Signatory
Name of Authorised Signatory	Name of Authorised Signatory
Date	Date

Clutha District Council

By:

Signature of Authorised Signatory	Signature of Authorised Signatory
Name of Authorised Signatory	Name of Authorised Signatory
Date	Date

Gore District Council

By:

Signature of Authorised Signatory	Signature of Authorised Signatory
Name of Authorised Signatory	Name of Authorised Signatory
Date	Date

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SCHEDULE 1

Agreement Details

Commencement Date (*Clause 6.1, Schedule 2*)	This agreement commences on the date it is last signed by all Councils.
Expiry Date (*Clause 6.1, Schedule 2*)	This agreement expires on: Establishment of the WO in accordance with LG(WS) Act unless terminated earlier in accordance with the terms of this Agreement.
Service Areas (*Background A*)	The Districts of Central Otago, Clutha and Gore.
Councils Executive Group (*Clause 4, Schedule 2*)	**Members**: The members of the Councils Executive Group are: • Central Otago District Council member: Mayor (or his/her delegate) and one elected representative. • Clutha Council member: Mayor (or his/her delegate) and one elected representative. • Gore Council member: Mayor (or his/her delegate) and one elected representative. • . **Optional observers (non-voting)**: Chief Executive of each District Council (or his/her nominee). **Meetings**: The Council Executive Group will meet every second week. **Quorum**: At least one voting representative of each District Council.
Project Steering Group (*Clause 4, Schedule 2*)	**Members**: The members of the Project Steering Group are: • Central Otago District Council member: Peter Kelly • Clutha Council member: Steve Hill • Gore Council member: Deborah Lascelles **Meetings**: The Project Steering Group will meet weekly **Project Budget**: The Project Steering Group is required to approve any expenditure that exceeds the Project Budget.

Project Team *(clause 4 and 5.2, Schedule 2)*	**Members**: The members of the Project Team are: • Central Otago Council member: Julie Muir • Clutha Council member: Jules Witt • Gore Council member: Jason Domigan **Meetings**: The Project Team will meet weekly. **Project Budget**: The Project Team has authority to approve costs up to the agreed Project Budget. Costs that exceed this amount will require approval by the PSG.	
Initial Contribution *(Schedule 2)*	Each Council will contribute an Initial Contribution of $26,500 – to provide for consulting services during January/February 2025.	
Address for notices *(clause 10, Schedule 2)*	Central Otago District Council 1 Dunorling St. Alexandra, 9320 Email: peter.kelly@codc.govt.nz Attention: Peter Kelly	Clutha District Council 1 Rosebank Ter, Balclutha 9230 Email: steve.hill@cluthadc.govt.nz Attention: Steve Hill
	Gore District Council 29 Bowler Avenue, Gore, 9710 Email: dlascelles@goredc.govt.nz Attention: Debbie Lascelles	

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SCHEDULE 2

Agreement Terms and Conditions

1. DEFINITIONS AND INTERPRETATION

1.1 **Definitions**: In this agreement the following definitions apply:

"**Agreement Details**" means Schedule 1 of this agreement.

"**Business Day**" means any day other than a Saturday, Sunday or a statutory public holiday in the Service Area(s) identified in the Agreement Details, New Zealand.

"**Commencement Date**" has the meaning given to that term in the Agreement Details.

"**Confidential Information**" means any of the following (whenever it was obtained):

(a) all information of a confidential nature (reasonably determined) obtained by one Council from another Council under or in connection with this agreement;

(b) all information relating to the operations and affairs of another Council; and

(c) all information obtained by a Council in respect of all activities or information undertaken, produced or discussed under the umbrella of the Project.

"**Councils**" means the councils who are named as counterparties to this agreement and who continue to be a participant of this agreement.

"**Existing Material**" means, in respect of any Council, all documentation and other materials used or provided by the Council under or in connection with this agreement that are:

(a) owned by, or licensed to, that Council prior to the date of this agreement; or

(b) developed independently from this agreement by that Council, and that are not developed, commissioned or created under or in connection with this agreement.

"**Expiry Date**" has the meaning given to that term in the Agreement Details.

"**Initial Contribution**" has the meaning given to that term in the Agreement Details.

"**Intellectual Property Rights**" means, in respect of any person, all intellectual and industrial property rights and interests (including common law rights and interests) owned or held by that person, or lawfully used by that person, including:

(a) patents, trade marks, service marks, copyright, registered designs, trade names, symbols and logos;

(b) patent applications and applications to register trade marks, service marks and designs; and

(c) formulae, methods, plans, data, drawings, specifications, characteristics, equipment, designs, inventions, discoveries, improvements, know-how,

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experience, software products, trade secrets, price lists, costings, brochures and other information used by that person.

"**LGOIMA**" means the Local Government Official Information and Meetings Act 1987.

"**LG(WS) Act**" means Local Government (Water Services) Act 2024 as enacted or to be enacted under clause 1 of the Local Government (Water Services) Bill.

"**LG(WSPA) Act**" means the Local Government (Water Services Preliminary Arrangements) Act 2024.

"**Objectives**" has the meaning given to that term in clause 2.1.

"**Scope and Project Plan**" has the meaning given to that term in clause 4.6(a).

"**Submission Date**" means the date the WSDP is submitted by the Councils to the Secretary for Local Government (Department of Internal Affairs) in accordance with section 18 of the LG (WSPA) Act.

"**WO**" means the water organisation (as defined in the LG(WS) Act) to be established by the parties to this agreement.

"**WSDP**" has the meaning given to that term in paragraph B of the Introduction section of this agreement.

1.2 **Interpretation**: In this agreement unless the context otherwise requires:

(a) headings are for convenience only and do not affect interpretation;

(b) the singular includes the plural and vice versa, and a gender includes other genders;

(c) another grammatical form of a defined word or expression has a corresponding meaning;

(d) reference to a party, person or entity includes:

(i) an individual, firm, company, trust, partnership, joint venture, association, corporation, body corporate, estate, state, government or any agency thereof, municipal or local authority and any other entity, whether incorporated or not (in each case whether or not having a separate legal personality); and

(ii) an employee, agent, successor, permitted assign, executor, administrator or other representative of such party, person or entity.

(e) a reference to dollars or $ is to New Zealand currency and excludes every tax and duty;

(f) a reference to a clause or schedule is to a clause or schedule of this agreement;

(g) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

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(h) references to the word 'include' or 'including' are to be construed without limitation;

(i) references to any form of law is to New Zealand law, including as amended or re-enacted;

(j) a reference to a document or instrument includes reference to that document or instrument as novated, altered, supplemented, or replaced from time to time;

(k) "written" and "in writing" include any means of reproducing words, figures or symbols in a tangible and visible form (including email);

(l) any obligation falling due for performance on or by a day other than a Business Day shall be performed on or by the Business Day immediately following that day; and

(m) an obligation not to do something includes an obligation not to allow or cause that thing to be done.

2. PROJECT OVERVIEW

2.1 **Objectives**: The key objectives of this agreement ("**Objectives**") are:

(a) for the Councils to continue to work closely, collaboratively and successfully to plan and develop a WSDP that meets each Council's needs and objectives for their respective communities;

(b) to facilitate the Councils making decisions in a timely manner to ensure a joint operating model can progress in a timely way to meet the requirements for submissions of the joint WSDP and other requirements under the LG(WSPA) Act and the LG(WS) ACT;

(c) to enable the Councils to consider how they would operate together in a way that facilitates an effective and efficient use of the Councils' resources, providing optimum benefit to the parties' ratepayers; and

(d) to effectively establish a WO for the joint operating model in accordance with a WSDP adopted by the Councils.

2.2 **Relationship principles**: The Councils will:

(a) work together collaboratively and in good faith;

(b) ensure communication between them is open, proactive, transparent and inclusive, to avoid any surprises;

(c) make every effort to understand the other Council's needs and objectives for the joint operating model, and make all reasonable endeavours to ensure the joint operating model meets such needs and objectives;

(d) raise any issues that arise in connection with this agreement at the earliest opportunity, for joint resolution;

(e) resolve disagreements between them promptly and amicably; and

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(f) as a courtesy and in the interest of clear and consistent communication, consult with the other Councils before commenting publicly on the joint operating model or this agreement.

3. KEY ACTIVITIES

3.1 **Council responsibilities**: Each Council will:

(a) work with the other Councils to:

(i) develop and document the Council's technical, operational, legal and other requirements for the joint operating model ("**Requirements**") and to agree reasonable and realistic timeframes for delivery of the joint operating model; and

(ii) plan and design the joint operating model to meet the Requirements, including at such time(s) required by the other Councils;

(b) implement and make decisions in relation to matters for the project within the indicative timeframes listed in the Scope and Project Plan;

(c) provide subject matter experts where relevant to assist with the development and design of the joint operating model;

(d) provide a dedicated single point of contact for that Council for the management of the project delivery (ideally a project manager, who will also be the person authorised to make decisions (for example, approvals of proposed public comments on the project) on behalf of that Council);

(e) provide a dedicated and senior level 'sponsor' for the project;

(f) attend those meetings agreed by the Councils as appropriate or necessary for the effective governance of and/or the delivery of the joint operating model;

(g) where there are any changes in Government policy or direction, which affects the purposes and activities of this agreement, inform the other Councils of those changes at the earliest possible opportunity thereafter, and the Councils agree to renegotiate, where necessary, any aspects of this agreement that has been or will be affected by this policy change; and

(h) fund and provide resources to undertake the project under this Agreement; and

(i) be responsible for complying with any requirements to undertake consultation or reporting in respect of its own council and local government processes.

3.2 **Council individual responsibilities not affected**: Each Council acknowledges that the Councils' commitment to the obligations under this agreement does not limit or pre-empt each Council's own obligations as local government authorities at law, including in respect of decision-making responsibility and public consultation obligations.

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3.3 **Lead council responsibilities**:

(a) The Councils unanimously agree that the Central Otago District Council will be the project lead ("**Lead Council**") with the following responsibilities:

(i) holding contributions from each Council in a nominated account;

(ii) managing project expenditure and tracking against the Project Budget;

(iii) preparing agendas and scheduling governance meetings for the project; and

(iv) preparing reporting for governance meetings for the project.

(b) The Project Steering Group ("**PSG**") may, from time to time, agree to replace the Lead Council, after which time, the relevant Council will assume the responsibilities of the Lead Council under this Agreement.

3.4 **Development expectations and timelines**:

(a) Each Council acknowledges that the other Council(s) will be providing funding and resources to develop and design the joint operating model, and has an interest in ensuring a consistency of approach in the development and design of the joint operating model.

(b) Accordingly, any Council may submit a request to the other Council(s), for consideration and agreement by all the Councils, to:

(i) adjust expected timelines and/or reprioritise resources allocated to the development and design of the joint operating model as necessary to manage resource and funding constraints, subject to not compromising the achievement of the Objectives; and/or

(ii) change the Requirements that are not reasonably viable in order for a Council to meet its own needs, and the Councils will work together to agree and implement any agreed change to the joint operating model, including any consequential changes to the Requirements for that joint operating model.

3.5 **Project communications**: The Councils agree that media releases, public announcements and public disclosures by any Council relating to this agreement or its subject matter (including informational or promotional, but not including any announcement intended solely for internal distribution or any disclosure required by legal, accounting or regulatory requirements beyond the reasonable control of such Council) shall be co-ordinated with, and approved by, all Councils, provided that this does not apply to any media release, public announcement or public disclosure made by a Council (the "**Announcing Council**"):

(a) which does not identify any other Council to this agreement; or

(b) about the Announcing Council's business and operations or the Announcing Council's Confidential Information, excluding anything about or in connection with this agreement.

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3.6 **Government communications**: The Councils agree that no Council may communicate directly with the Department of Internal Affairs in relation to the content of the joint WSDP without the prior written consent of the other Councils.

4. PROJECT GOVERNANCE

4.1 **Governance structure**: The governance model for the project comprises the following:

(a) Councils Executive Group ("**CEG**");

(b) Project Steering Group ("**PSG**"); and

(c) Project Team.

4.2 **Decisions made by the governance groups**:

(a) Each Council will be responsible for their own decision-making using the Project Team's advice and assistance.

(b) The CEG, PSG, and Project Team will make decisions on a consensus basis.

(c) Where consensus is not possible, decisions will be escalated to the next governance level, with final decisions to be made by the Council members of the CEG.

4.3 **Meeting administration**: Each of the governance meetings will be scheduled by the Lead Council, who will circulate agenda items and decisions to be discussed ahead of the meeting date.

4.4 **Councils Executive Group**: The CEG shall be responsible for:

(a) overseeing the executive direction of the project;

(b) addressing issues that have been escalated to it by the PSG; and

(c) keeping informed on the project by information provided from the Project Team.

4.5 **Project Steering Group**: The PSG shall be responsible for:

(a) providing strategic directions and decisions on the project;

(b) addressing issues that have been escalated to it by the Project Team;

(c) reviewing and approving any proposed changes the direction of the project;

(d) appointing members to the Project Team;

(e) ensuring the strategic direction of the project continues to align with the Objectives and each Council's obligations under this agreement; and

(f) approving the Project Budget.

4.6 **Project Team**: The Project Team shall be responsible for:

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(a) preparing a detailed scope of work and project plan (including project milestones) to deliver on the Objectives ("**Scope and Project Plan**"). The Scope and Project Plan may take the form set out in Schedule 3. The project plan and progress against the Scope and Project Plan will be reported to the PSG and CEG on a monthly basis;

(b) developing and maintaining a Project Budget and submitting same for approval by the PSG;

(c) engaging external expertise as required;

(d) preparing stakeholder/engagement framework ensuring all appropriate parties are included on an ongoing basis;

(e) preparing and attending workshops with the Councils' elected members as required to achieve the project and Objectives;

(f) preparing consultation packs in collaboration with individual Councils to support each Council's required consultation processes;

(g) running and/or supporting consultation processes as required;

(h) developing a joint WSDP in accordance with legislative requirements and each Council's requirements; and

(i) any of matters required under a terms of reference agreed for the Project Team.

4.7 **Commercial Terms Sheet**: The parties agree to work in good faith to complete the terms sheet set out at Schedule 5 that will outline the key commercial terms relating to the WO.

5. COST SHARING

5.1 **Cost sharing principles**: The Councils agree to fund the costs of the project in equal parts in accordance with the Project Budget set out in Schedule 4 (as amended from time to time in accordance with this clause 5) (**Project Budget**).

5.2 **Project Team delegation**: The Project Team have authority to spend up to the approved Project Budget. Costs that exceed the approved Project Budget and any other amendments to the Project Budget will require approval by the PSG (and, for the avoidance of doubt, the provisions of clause 4.2(c) shall apply).

5.3 **Council Exit**: If a Council exits this agreement pursuant to clause 6.3:

(a) contributions made by the Council on or prior to the date of exit (including the Initial Contribution) are not recoverable by the exiting Council;

(b) that Council remains responsible for their share of all costs incurred up to that date; and

(c) that Council remains liable to pay its share of any committed or budgeted (but unpaid) costs to the extent such costs cannot be reasonably mitigated or avoided (without penalty) by the remaining participating Councils.

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6. TERM

6.1 **Term**: This agreement commences on the Commencement Date and continues until the Expiry Date, unless terminated earlier by all Councils in accordance with clause 6.2.

6.2 **Termination by agreement**: This agreement may be terminated at any time with immediate effect by agreement of all current Councils to this agreement for any reason, including if there is a material change of law or policy direction that affects the Councils' obligations under the LG(WSPA) Act and LG(WS) ACT.

6.3 **Council withdrawal**:

(a) Subject to clauses 5.3 and 6.3(b), any Council may withdraw its participation in this agreement at any time prior to the Submission Date by giving written notice to the other Councils.

(b) Before a Council exercises its withdrawal right under subclause (a), that Council must use reasonable endeavours to:

(i) provide as early as possible notification to the other Councils that the Council is considering, or intending to withdraw from the Project, including to provide the other Council(s) with sufficient time to respond to and agree on any public releases in accordance with clause 3.5; and

(ii) provide the other Council(s) an explanation for the withdrawing Council's reason(s) for the withdrawal.

(c) Where any Council breaches a material obligation, or persistently does not perform its obligations, under this agreement, then the other Council(s) may request that such Council withdraws its participation from this agreement, in which case the parties will promptly discuss the next steps following such request.

6.4 **Effect of termination**: In addition to any other rights, powers or remedies a Council may have under this agreement or at law:

(a) if this agreement ends or is terminated, the following will apply:

(i) each Council is released from its obligations under this agreement, except clauses 3.5 (Project communications); 5.3 (Council Exit); 6 Term); 7 (Dispute Resolution); 8 (Confidentiality); 9 (Intellectual Property); 10 (Notices); and 11 (General) that shall survive expiry or termination of this agreement;

(ii) each Council retains the rights and obligations it has accrued under this agreement as at the date of expiry or termination; and

(iii) each Council must return any Confidential Information of another Council in its possession to that other Council or, if requested by the other Council, destroy the Confidential Information, except to the extent that it is required to retain the Confidential Information in order to meet its legal, contractual and governance obligations.

(b) if a Council withdraws its participation in this agreement:

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(i) clause 6.4(a) will apply only in respect of that Council; and

(ii) this agreement continues in force as between the remaining Councils.

7. DISPUTE RESOLUTION

7.1 **Notice in writing**: If a Council claims that a dispute has arisen, that Council must give written notice to the PSG. The written notice must specify the nature of the dispute.

7.2 **Negotiation**:

(a) On receipt of a notice delivered in accordance with clause 7.1 and before any Council may refer a dispute to mediation, the PSG must, in good faith and acting reasonably, do their best to resolve the dispute quickly and efficiently through negotiation.

(b) If the PSG has not resolved the dispute within 10 Business Days of receipt of the notice delivered in accordance with clause 7.1, the dispute shall be escalated to the CEG for resolution.

(c) If the dispute has not been resolved by the CEG within 10 Business Days (or within such other period as agreed by the Councils) of the date of escalation under clause 7.2(b), any Council may submit the dispute to mediation in accordance with clause 7.3.

7.3 **Mediation**:

(a) If the Councils do not resolve the dispute by negotiation, the Councils must, in good faith and acting reasonably, do their best to resolve the dispute by participating in mediation with an independent mediator.

(b) If the Councils do not agree on a mediator, then the mediator will be appointed by the New Zealand Dispute Resolution Centre.

(c) The Councils must mediate the dispute in accordance with principles agreed between them or, if no agreement can be reached, the New Zealand Dispute Resolution Centre Mediation Rules.

(d) Unless the Councils agree otherwise, the mediator's fee and any other costs of the mediation itself (such as for venue hire or refreshments) will be shared equally between the parties, but the parties will each pay their own costs of preparing for and participating in the mediation (such as for travel and legal representation).

7.4 **Arbitration**

(a) If the dispute has not been resolved within 40 Business Days (or within such other period as agreed by the parties) of the dispute being referred to mediation, any Council (the "**Initiating Council**") may refer such dispute to binding arbitration by issuing a written notice ("**Arbitration Notice**") to the other Council(s) (together with the Initiating Council, the "**Disputing Council(s)**") for final resolution in accordance with the provisions of this clause 7.4 and in accordance with the provisions of the

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Rules of Arbitration of the New Zealand Dispute Resolution Centre, as amended or modified from time to time ("**NZDRC Rules**").

(b) The arbitral panel shall consist of one arbitrator. The arbitrator will be appointed by the agreement of the Disputing Council(s) or, failing agreement within 10 Business Days of the date of the Arbitration Notice, in accordance with the NZDRC Rules.

(c) The seat of arbitration shall be Alexandra, New Zealand and the arbitration shall be conducted in the English language.

(d) The award of the arbitration shall be in writing and must include reasons for the decision.

(e) The award of the arbitration shall be final and binding on the Councils. No Council may appeal to the High Court under Clause 5 of the Second Schedule of the Arbitration Act 1996 on any question of law arising out of an award.

(f) The award shall allocate or apportion the costs of the arbitration as the arbitrator deems fair.

(g) Neither the existence of any dispute nor the fact that any arbitration is pending hereunder shall relieve any of the Councils of their respective obligations under this agreement.

7.5 **Implementation of agreement**: The Councils must do whatever is reasonably necessary to put into effect any negotiated or mediated agreement, arbitral award or other resolution. This includes exercising voting rights and other powers as required.

7.6 **Rights and obligations during a dispute**: During a dispute, each Council must continue to perform its obligations under this agreement.

7.7 **Interlocutory relief and right to terminate**: This clause does not restrict or limit the right of a Council to obtain interlocutory relief, or to immediately terminate this agreement where this agreement provides such a right.

8. CONFIDENTIALITY AND INFORMATION DISCLOSURE

8.1 **Confidentiality**: Each Council will keep confidential and secure all Confidential Information, and no Council shall disclose the other Councils' Confidential information to any person, or use the other Councils' Confidential Information, other than:

(a) to the extent that use or disclosure is necessary for the purposes of giving effect to or exercising the rights and benefits of this agreement (which for the purpose of each Council, may involve disclosure to that council's elected members and staff);

(b) if the discloser of the information has obtained the prior written approval of the providing Council to the use or disclosure;

(c) if the use or disclosure is required by law including under the Local Government Official Information and Meetings Act 1987 ("**LGOIMA**"), or the Local Government Act 2002, provided that prior to that Council making a disclosure, that Council will

use reasonable endeavours to promptly consult in good faith with the other Councils:

(i) regarding the requirement under which that Council is required to disclose the Confidential Information; and

(ii) so that the other Councils are informed to arrive at a view on whether those Councils would also be required to make such disclosure if a request is made of them; or

(d) in relation to disclosure, if the information has already become public, other than through a breach of an obligation of confidentiality by one of the Councils or another third party.

8.2 **LGOIMA**: Each Council acknowledges that the other Council(s) are subject to the LGOIMA. Accordingly, notwithstanding anything else in this agreement, each Council agrees to cooperate fully in providing the other Council(s) with any documents or other information that the other Council is required to provide pursuant to a request made under the LGOIMA.

9. INTELLECTUAL PROPERTY RIGHTS

9.1 **Existing Intellectual Property Rights**: Notwithstanding any of the provisions of this agreement, each Council or its licensors retain ownership of all Intellectual Property Rights, including in Existing Material belonging to that Council or its licensors at the Commencement Date ("**Existing Intellectual Property Rights**").

9.2 **New Intellectual Property Rights**: Any new Intellectual Property Rights which are created as a result of, or in connection with, the provision of the Services or Deliverables, or otherwise in connection with this agreement, shall be jointly owned by the Councils, unless otherwise agreed by the parties.

9.3 **Licence**: If any Council's Existing Intellectual Property Rights is included in any new Intellectual Property Rights, then that Council grants to the other Council(s) and the other Councils accept, anon-exclusive, non-transferable, royalty-free licence during the term of this agreement to use the Council's Existing Intellectual Property Rights for the purposes of giving effect to and performing its obligations under this agreement. That licence will expire immediately on expiry or termination of this agreement.

10. NOTICES

10.1 **Giving notices**: Any notice or communication given to a Council under this agreement is only given if it is in writing and sent in one of the following ways:

(a) Delivered or posted to that Council at its address and marked for the attention of the relevant department or officer (if any) set out in Schedule 1.

(b) Emailed to that Council at its email address and marked for the attention of the representative set out in Schedule 1.

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10.2 **Change of details**: If a Council gives the other Councils three Business Days' notice of a change of its postal address or email address, any notice or communication is only given to that Council if it is delivered, posted or emailed to the latest postal address or email address.

10.3 **Time notice is given**: Any notice or communication is to be treated as given at the following time:

(a) If it is hand delivered, when it is left at the relevant address.

(b) If it is sent by post, five Business Days after it is posted.

(c) If it is sent by email, on the date and at the time at which it enters the recipient's information system, as evidenced (if required by the recipient, where delivery is disputed) in a confirmation of delivery report from the sender's information system which indicates that the email was sent to the email address of the recipient.

However, if any notice or communication is given on a day that is not a Business Day or after 5pm on a Business Day in the place of the Council to whom it is sent it is to be treated as having been given at 9am on the next Business Day.

11. GENERAL

11.1 **Capacity**: The Parties each warrant and represent to each other that they have full power and authority to enter into this agreement and that all authorisations and approvals that are necessary or required in connection with the execution of this agreement have been obtained.

11.2 **No partnership, joint venture**: Nothing in this agreement shall create or evidence any partnership, joint venture, agency, trust or employer/employee relationship between any of the Councils, and a Council may not make, or allow to be made, any representation that any such relationship exists between any of the Councils. A Council shall not have authority to act for, or to incur any obligation on behalf of, any other Shareholder, except as expressly provided for in this agreement.

11.3 **No privity**: Other than as expressly provided for in this agreement, this agreement is not intended to confer a benefit on any person or class of persons who is not a party to it.

11.4 **Counterparts**: This agreement is deemed to be signed by a Council if that Council has signed or attached that Council's signature to any of the following formats of this agreement:

(a) an original;

(b) a photocopy; or

(c) an electronic copy,

and if every Council has signed or attached that Council's signature to any such format and delivered it to the other Council(s), the executed formats shall together constitute a single binding agreement between the Councils.

11.5 **Electronic signing**: A Party may sign this agreement by way of the application of that Party's (or its relevant signatory's) electronic signature in according with Part 4 of the Contract and Commercial Law Act 2017.

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11.6 **Entire agreement**: This agreement contains everything the parties have agreed in relation to the subject matter it deals with. No Council can rely on an earlier written agreement or anything said or done by or on behalf of another Council before this agreement was executed.

11.7 **Severance**: If any provision of this agreement is, or becomes unenforceable, illegal or invalid for any reason it shall be deemed to be severed from this agreement without affecting the validity of the remainder of this agreement and shall not affect the enforceability, legality, validity or application of any other provision of this agreement.

11.8 **Further assurance**: Each Council shall make all applications, execute all documents and do or procure all other acts and things reasonably required to implement and to carry out its obligations under, and the intention of, this agreement.

11.9 **Variation**: No variation of this agreement will be of any force or effect unless it is in writing and signed by each Council to this agreement.

11.10 **Assignments and transfer**: A Council must not assign or transfer any of its rights or obligations under this agreement without the prior written consent of the other Councils.

11.11 **Costs**: Except as otherwise set out in this agreement, each Council must pay its own costs and expenses, including legal costs and expenses, in relation to preparing, negotiating, executing and completing this agreement and any document related to this agreement.

11.12 **Waivers**:

(a) A waiver of any right, power or remedy under this agreement must be in writing signed by the Council granting it. A waiver only affects the particular right, obligation or breach for which it is given. It is not an implied waiver of any other right, obligation or breach or an implied waiver of that right, obligation or breach on any other occasion.

(b) The fact that a Council fails to do, or delays in doing, something the Council is entitled to do under this agreement does not amount to a waiver.

11.13 **Governing law**: This agreement is governed by the laws of New Zealand and the Councils submit to the non-exclusive jurisdiction of the courts of New Zealand in respect of any dispute or proceeding arising out of this agreement.

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SCHEDULE 3

Scope and Project Plan

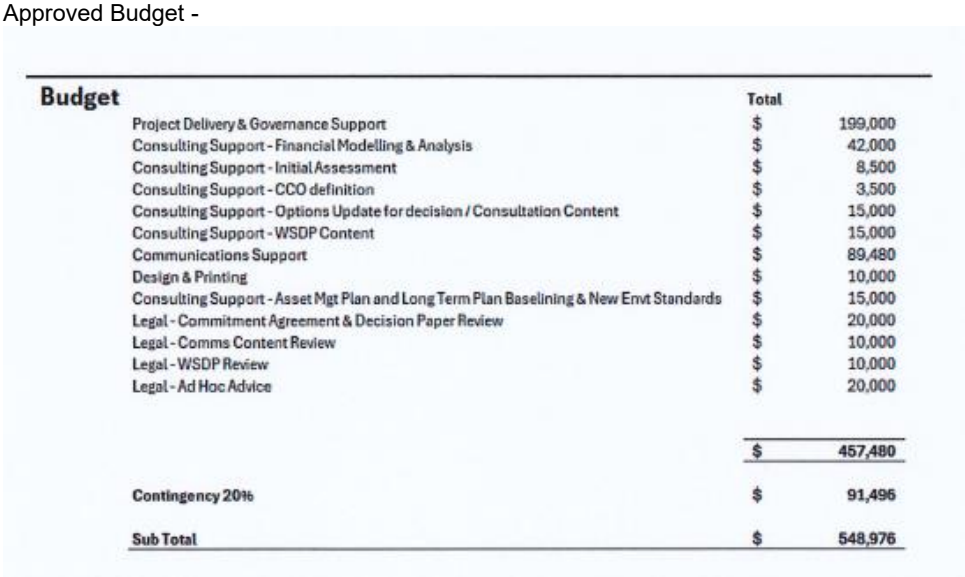
Activities and Decisions	Indicative Timeframes
Project initiation phase	
• *Agree project approach, high level plan, budget and cost allocation.*	*10 Feb 2025*
Design phase	
• *Agree preferred service delivery model*	
• *Agree financial projections for the service delivery options*	
• *Agree approach to public consultation*	*End March 2025*
• *Council decisions on consultation options and information to be made publicly available*	*End April 2025*
Planning phase	
• *Undertake public consultation*	*End April to End May 2025*
• *Prepare joint WSDP*	*Deliberations-Decisions*
• *Plan arrangements for the WO, including governance structures and financial arrangements*	*June – July 2025*
• *Each Council ensures internal endorsement for joint WSDP*	
• *Chief Executives from each Council certify information provided by that Council*	*August 2025*
Submit the joint WSDP (with certification) to the Secretary for Local Government for acceptance. The WSDP may require amendments and resubmission for acceptance.	*3 September 2025*
Implementation phase	
• *Councils adopt the accepted WSDP*	*After acceptance of the WSDP under the LG(WSPA) Act*
• *Publish the adopted WSDP*	*Planning assumption – Joint CCO setup early 2026 for 1 July 2027 establishment*
• *Execute the corporate documents required to establish the WO*	
• *Establish the WO*	
• *Set up operational arrangements for the WO*	

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SCHEDULE 4

Project Budget

Approved Budget -



Budget	Total	
Project Delivery & Governance Support	$	199,000
Consulting Support - Financial Modelling & Analysis	$	42,000
Consulting Support - Initial Assessment	$	8,500
Consulting Support - CCO definition	$	3,500
Consulting Support - Options Update for decision / Consultation Content	$	15,000
Consulting Support - WSDP Content	$	15,000
Communications Support	$	89,480
Design & Printing	$	10,000
Consulting Support - Asset Mgt Plan and Long Term Plan Baselining & New Envt Standards	$	15,000
Legal - Commitment Agreement & Decision Paper Review	$	20,000
Legal - Comms Content Review	$	10,000
Legal - WSDP Review	$	10,000
Legal - Ad Hoc Advice	$	20,000
	$	457,480
Contingency 20%	$	91,496
Sub Total	$	548,976

Under section 5 of the Commitment Agreement cost sharing arrangements have been reconciled between the four Councils up to 30 June 2025 (see table below). In addition, the costs of further analysis associated with moving from the group of four Councils to the group of three Councils has been attributed to WDC.

	Category	Amount
A	Project costs	$514,245
B	Funding contribution	
	Timaru DC cost recovery	$39,346
	DIA funding 1	$250,000
	DIA funding 2	$100,000
C	Net Costs (A-B)	$124,899
D	Council share (C divided by four Councils)	$31,224

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SCHEDULE 5

Commercial Terms Sheet

Term	Agreed position	Template document clause reference
General		
Name of the WO		• All template documents
Matters which require the approval of shareholders.		• Single council shareholder: Constitution, Schedule 2 • Multiple shareholders: Shareholders' Agreement, Schedule 1; Schedule 2, clause 5.1(b); and Schedule 3
Service Area(s) where the WO will provide "water services".		• Commitment Agreement: Background, paragraph A • Shareholders' Agreement: Schedule 1; Schedule 2, clause 1.1; and Schedule 6
Constitution (single- and multi-shareholder WOs)		
Whether Shareholders will be able to require changes to and approve the Water Services Strategy.		• Clause 3.2
Maximum number of directors.		• Clause 12.2
Preferred method of appointing/removing directors, including: • Will directors be appointed by the shareholders directly or a by a Shareholder Council? • Will directors be appointed proportionate to the shareholding of each council, or some other methodology (please specify)	**Single director per shareholder**	• Clause 12.3(a)
Directors' term of appointment and maximum number of terms a director can be appointed for.	**Term - 3 years**	• Clause 12.6

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Quorum for board meetings.		• Schedule 2, clause 3.1(a)
Skills the directors are required to have.		• Clause 12.5 • Schedule 3
Shareholders' Agreement		
Initial shares to be issued and shareholding for each shareholder.		• Schedule 1 • Schedule 2, clause 2.2
Price payable for each share in the WO issued.		• Schedule 1 • Schedule 2, clause 2.3
Principles that any further shares must be issued in accordance with.		• Schedule 1 • Schedule 2, clause 9.3
The name, registered office and address for service of the WO.		• Schedule 1 • Schedule 2, clause 2.4
The initial business set up, operational steps and transactions to be undertaken by the WO and Councils.		• Schedule 1 • Schedule 2, clause 3.2
The initial directors of the WO.		• Schedule 1 • Schedule 2, clause 4.2
Whether to establish a Shareholders Council, and if yes, confirmation that the Terms of Reference in Schedule 4 apply.		• Schedule 1 • Schedule 2, clause 6.1 • Schedule 4
Membership of the Shareholders Council (where established), including the total number of members, the initial membership, and the number of members for a quorum at meetings.		• Schedule 4
Number of missed Shareholders Council meetings missed before a new representative will be appointed.		• Schedule 1 • Schedule 2, clause 6.6

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Matters to be included in the Statement of Expectations.		• Schedule 1 • Schedule 2, clause 8.1(b)
Interest rate payable on payment default by any party under the Shareholder's Agreement.		• Schedule 1 • Schedule 2, clause 12.3
Time period before publication to provide the agreed Statement of Expectations to the Chairperson of the Board, the Chief Executive of the Company and the Shareholders Council (must be no more than one month).		• Schedule 1 • Schedule 2, clause 8.1(c)
Deed relating to Indemnity, Access and Insurance		
Individuals who will be indemnified under the Deed.	[All directors and senior executives of the WO.]	• Parties to the Deed
Transfer Agreement		
Responsibilities to be transferred to the WO; Responsibilities which won't be transferred		• Appendices 1 and 2 of Schedule 2
Assets to be transferred to the WO; Assets which won't be transferred		• Appendices 1 and 2 of Schedule 2
Employees and Contractors to be transferred to the WO		• Schedule 2, clause 5
Contracts to be novated to the WO; Contracts which wont's be novated		• Appendices 1 and 2 of Schedule 2
Matters of Shared Interest which Council and the WO will work together on		• Schedule 3
Ad hoc services to be provided by Council to WO		• Schedule 1 • Schedule 4, clauses 2 and 4
Ad hoc services to be provided by WO to Council		• Schedule 1 • Schedule 4, clauses 2 and 4

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Date of commencement		• Schedule 1 • Schedule 5, clause 1.1
Date on which the transfer will take effect		• Schedule 1 • Schedule 2, clause 7.1
Purchase price/limitation of liability		• Schedule 1 • Schedule 2, clauses 3.1 and 11.2
Party (as between the Council and the WO) who will collect the water charges		• Schedule 1 • Schedule 3, clause 2
Council's Representative and Interface Governance Group Members		• Schedule 1 • Schedule 3, clause 4.2 • Schedule 3, clause 4.3

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Local Water Done Well Review

Southern Water Done Well Working Group

March 2025



DRAFT

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

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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
- Timaru 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 competed 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 $1 billion through to 2034. This will result in a doubling of debt (on both a per capital 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.

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- 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, particularly in Timaru. 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 from Timaru 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.

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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
- Timaru 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).

The earlier report was commissioned by councils in the Otago and Southland regions. The decision to include Timaru within the Working Group was made subsequently to the earlier report being completed. Consequently, the earlier report does not include discussion in relation to Timaru.

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.

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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 five 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 five 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, including to Timaru.

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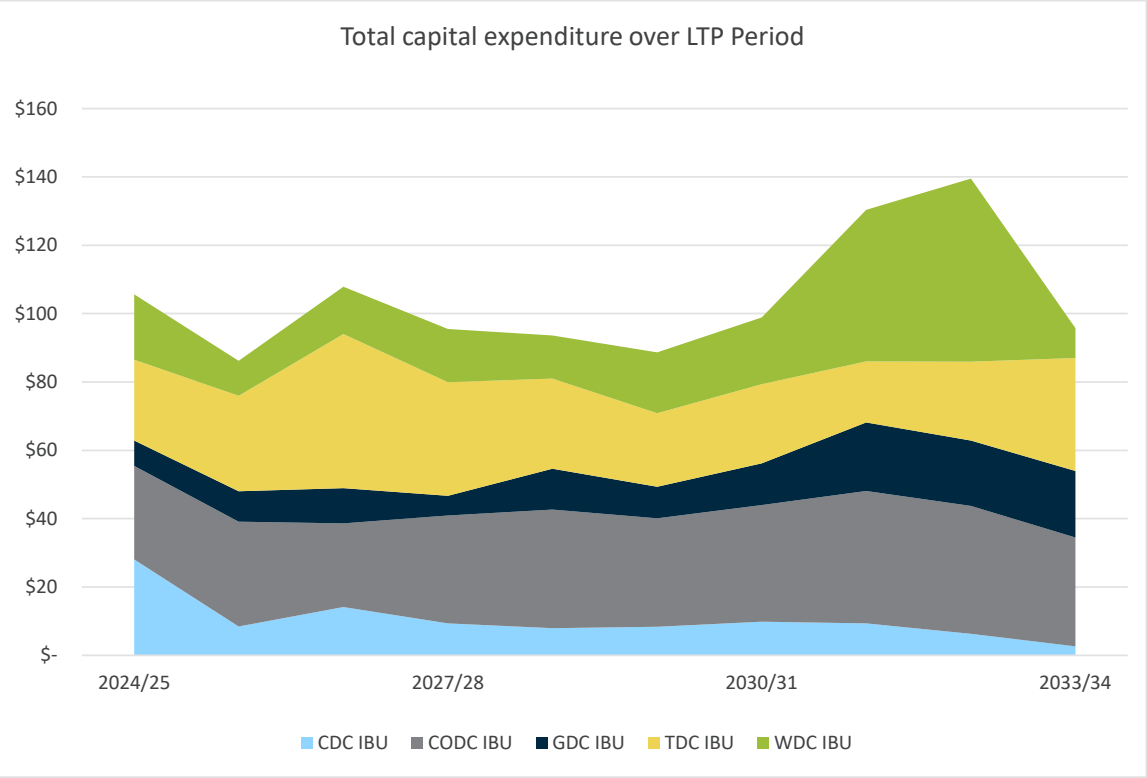
Further details of the current state of the case for change and the current state assessment can be read in the previous report in **Appendix Two** - Local Water Done Well Review: Otago & Southland Three Waters October 2024**.**

Investment requirements

The combined investment profile for the five councils features a $1 billion programme of work over ten years, across five councils. The work programme consistently sits between $80 Million and $100 million through to 2030, increasing to $140 million in 2032. The large increase in 2032 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 five councils



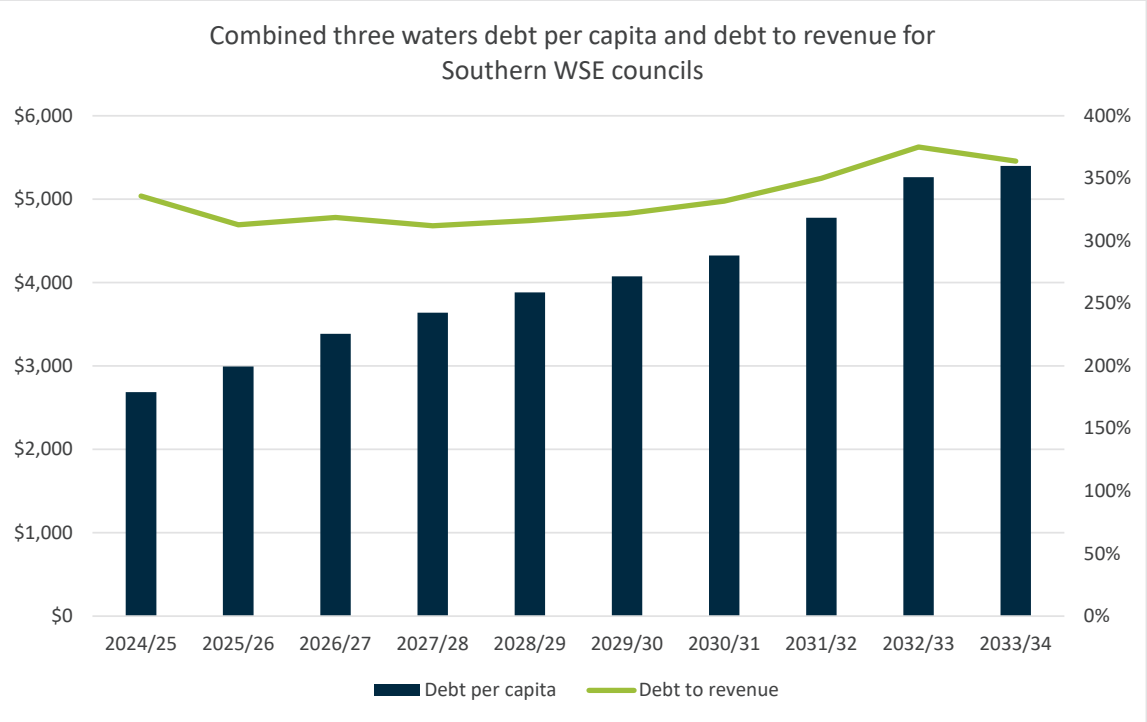
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Borrowing requirements

Financing a $1 billion dollar work programme requires significant borrowing. Our modelling shows the five councils are expected to borrow a combined $735 million by the end of the 2034 financial year, approximately double the current combined debt of $354 million.

On a per capita basis, three waters debt across the combined regions is projected to double from $2,685 per person to approximately $5,400 per person in 2034.

Figure 2 Three waters debt per capita across combined five 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 a FFO ratio of 8% or higher. The implications of this for a Southern WSE are discussed later in this report.

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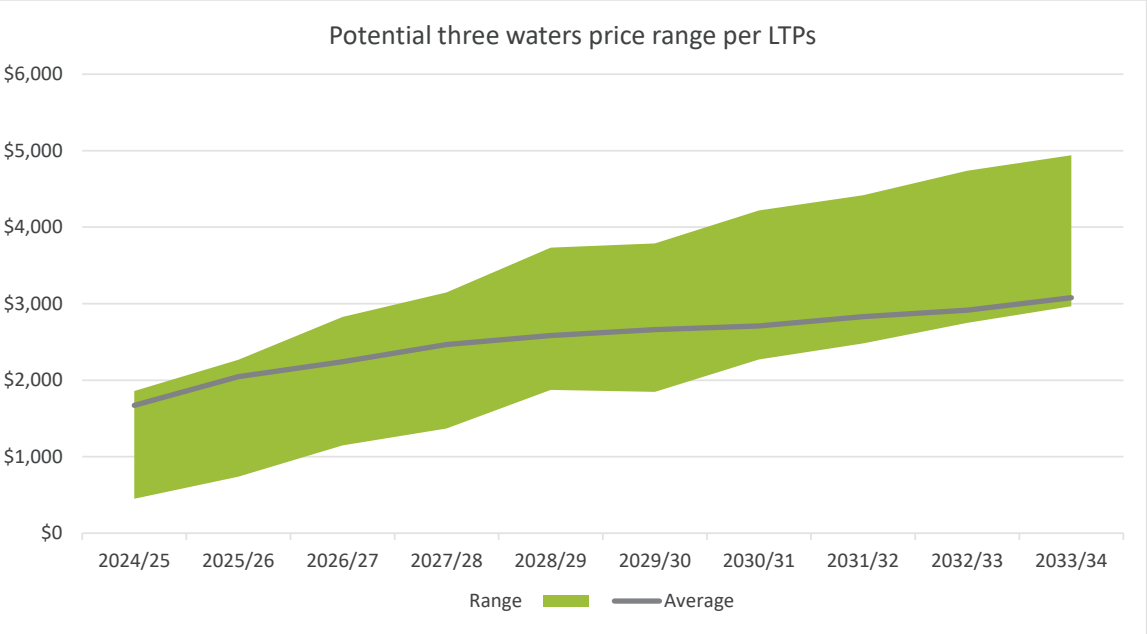
Rates rises

Three waters rates across the five 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 average[1] residential rates will almost double from $1,671 in 2025 to over $3,000 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 five 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.

[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 five councils.

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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.

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Decision to include Timaru District Council in work

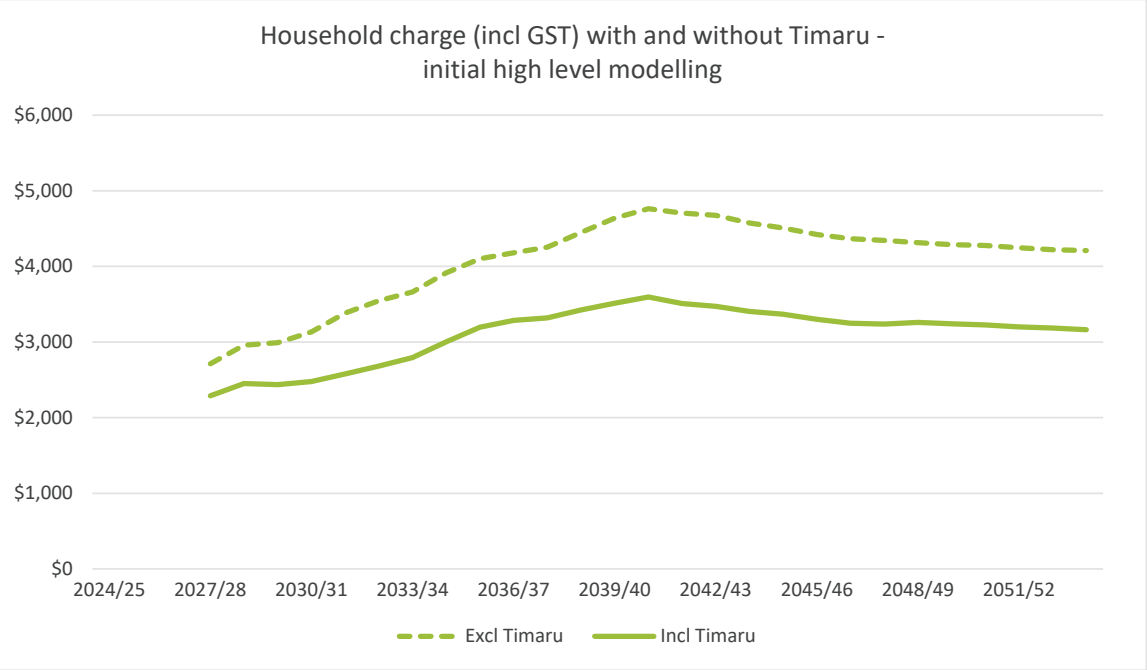
Discussions took place between mayors, chief executives and elected members of the original four councils (Central Otago District Council, Clutha District Council, Gore District Council, and Waitaki District Council) and Timaru District council in late February/early March 2025. These conversations led to the subsequent consideration of expanding the Southern WSE work to incorporate Timaru District Council.

To support this decision making, initial high-level modelling was completed by Morrison Low to demonstrate the financial impact on the "original four councils" and Timaru District Council, of the expanded model. The results of that modelling, shown in Figure 4, highlighted that:

- Inclusion of Timaru District Council was beneficial for the "original four"
- Inclusion of Timaru District Council would also provide an opportunity for water consumers in the Timaru District to pay less than they would otherwise pay under an in house delivery model.

On this basis, a decision was made to incorporate Timaru District Council in the ongoing work (and this report).

Figure 4 Household charges (inc GST) for a Southern WSE with and without Timaru



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Multi criteria analysis

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.

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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 outlines in Figure 5 Investment objectivesFigure 5 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 5 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 are outlined in Table 1 including 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.

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

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

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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 – Inhouse 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.

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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.

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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

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- 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 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.

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A Multi Council Water Service Entity

This option involves the five 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

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- 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

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- 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.

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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 a "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 roles 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

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- 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 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

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- 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.

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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 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
	1	2	3	4	5	
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	2	1.2

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. This is highlighted by the change in score required to reflect the financial performance of a wholly owned WSE for Timaru

The scoring for objective 5 for a wholly owned WSE increases to 2 for TDC. A Southern WSE still remains the highest scoring option with this change (the total score for the wholly owned WSE is revised to 0.2).

[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.

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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	• No change	• No change	• No change
Quantity and pressure of water	• No change	• No change	• No change
Responsiveness to faults/complaints	• No change	• May have minor improvements	• 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	• No change	• May have minor increase from improved delivery focus	• 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**

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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 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.

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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.

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Regional results

Average household charges – local pricing

Figure 6 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.

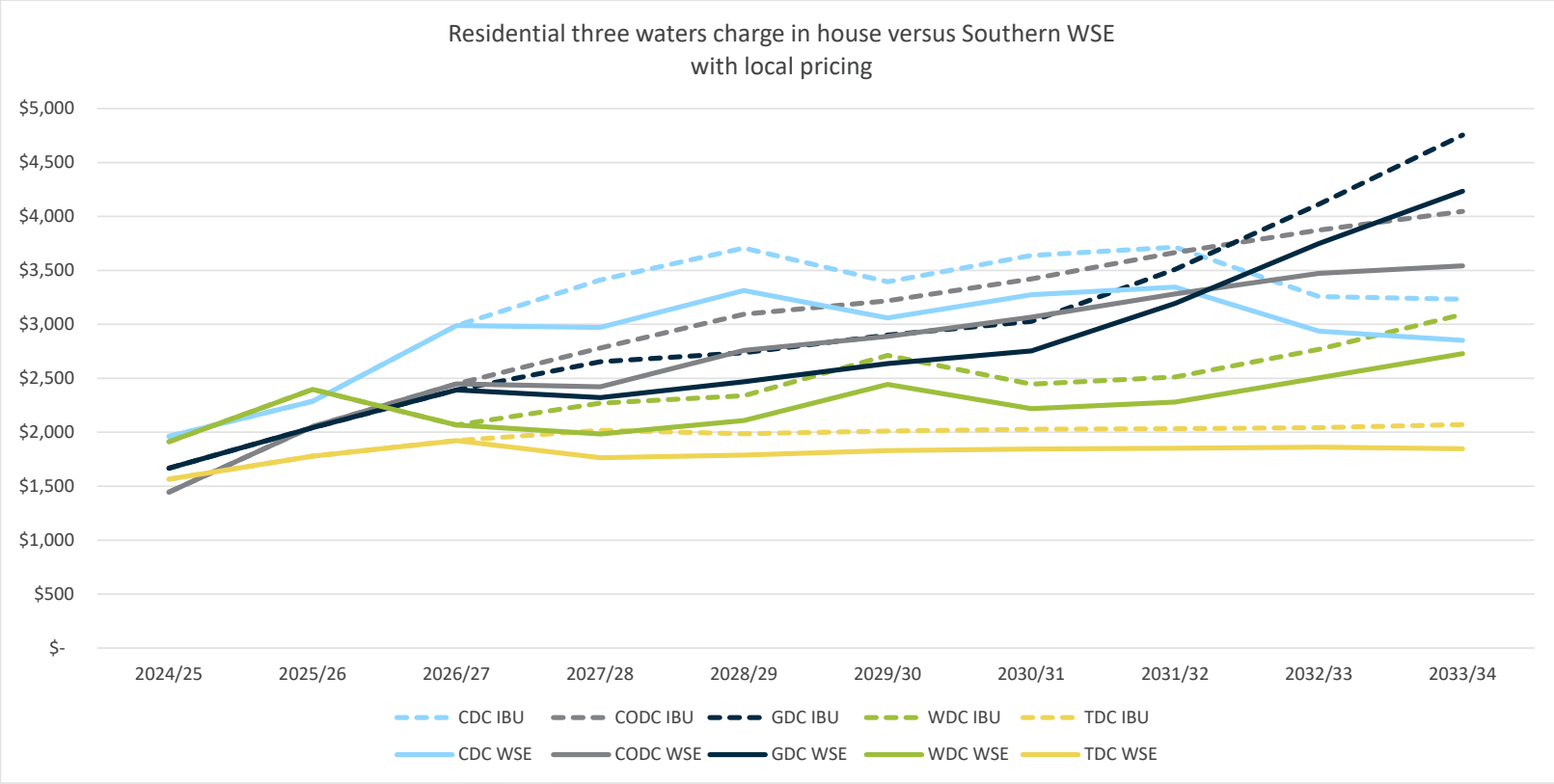
The dotted lines represent the base comparator case (in house business unit) costs for each council, with the solid lines representing the local prices that may be charged by a Southern WSE.

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.

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Figure 6 Local prices under a Southern WSE



The chart shows all water consumers of a Southern WSE are able to have lower three waters charges than they would otherwise receive through an in house delivery model.

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Average household charges – regional pricing

There is no requirement for a Southern WSE to adopt a harmonised or regional price. In fact, the working group has indicated a preference for the WSE to adopt a pricing principle that:

"Charges for water services shall be no higher through the Southern WSE than they otherwise would have been through an in house delivery model that has completed the same level of local investment as the Southern WSE"

Notwithstanding that underlying principle, we consider that it is likely that a Southern WSE will, over time, seek to move towards a pricing model where there is a consistent price for the same level of service received.

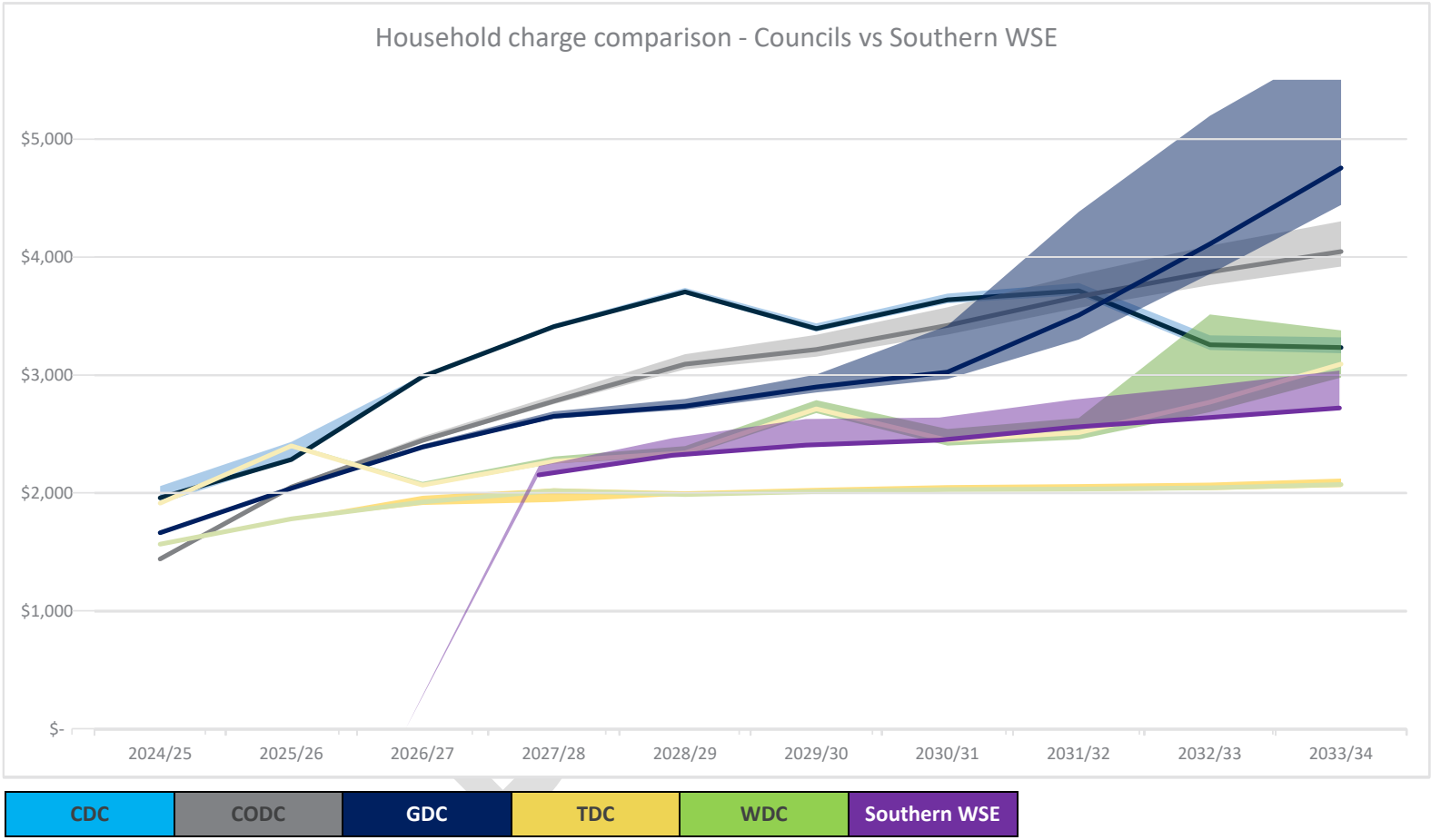
Modelling presented in Figure 7 shows the potential price range under a regional pricing model. The shaded area represents uncertainty arising from the capital programme, with the solid line representing our most current and up to date understanding of a potential capital works programme.

The chart shows all councils other than Timaru benefiting from a regional price over the modelling period.

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Figure 7 Regionalised prices under a Southern WSE



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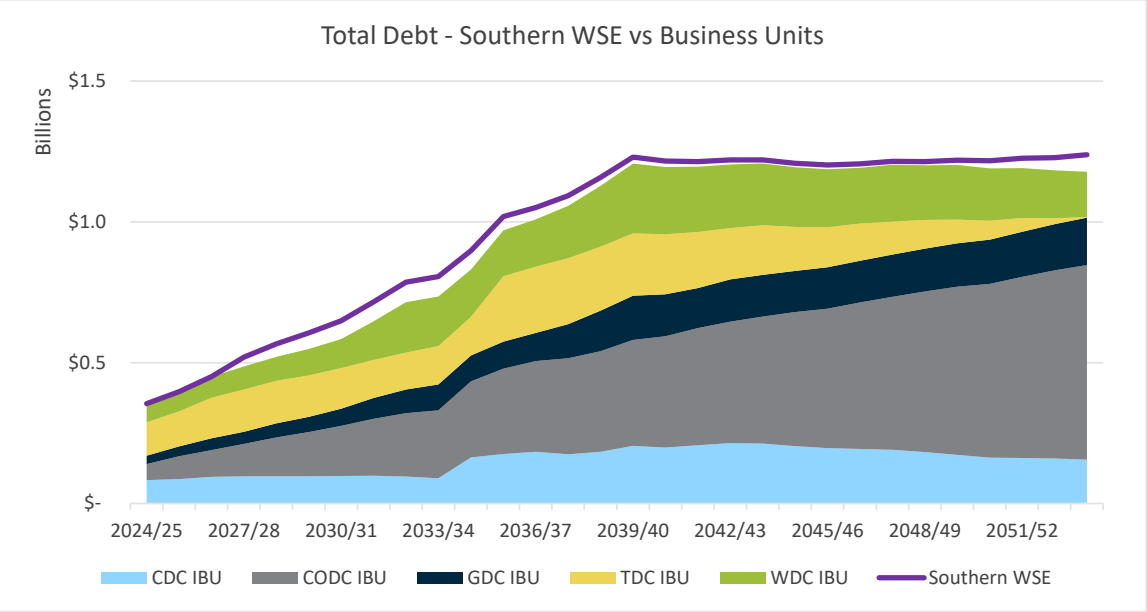
Debt

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

The difference between the combined council debt and the South WSE debt highlights that a Southern WSE is able to utilise higher leveraging than the combined councils. This means that the WSE does not need to generate as much additional revenue to support its borrowing requirements. The Southern WSE passes the benefits of higher leveraging on to water consumers, meaning debt and revenue stabilise over the long term.

Given inherent modelling uncertainty beyond the first 10 years, we would expect borrowing over a long term to be sustained at higher levels than represented in each council's respective profile.

Figure 8 Debt profile of combined five councils versus a Southern WSE



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Revenue

The chart below shows total revenue for a Southern WSE compared to the combined three waters revenue of the participating councils.

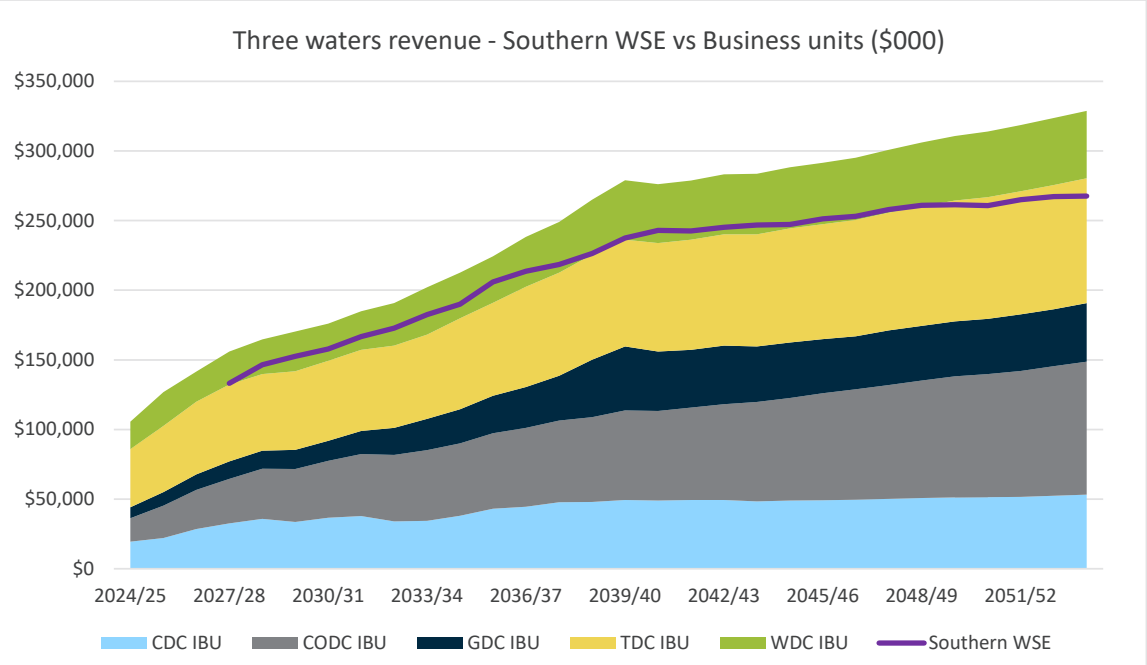
A Southern WSE is able to be more highly leveraged than the combined councils. This means that the WSE does not need to generate as much revenue to support its borrowing requirements and is able to reduce its overall revenue requirements to support that debt. Ultimately that allows reduced three waters charges to consumers compared to individual councils.

The Southern WSE looks to optimise debt and revenue to keep charges low throughout the modelling period. This means debt and revenue stabilises over the longer term.

As the WSE begins to realise efficiencies, it is able to reduce its total revenue requirements even further when compared to the combined councils.

Critically, because the WSE requires less revenue than the combined councils throughout the modelling period, it is able to spread the benefits of this across all water consumers to ensure that they pay less than they otherwise would have.

Figure 9 Revenue profile of combined five councils vs Southern WSE



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Capital expenditure

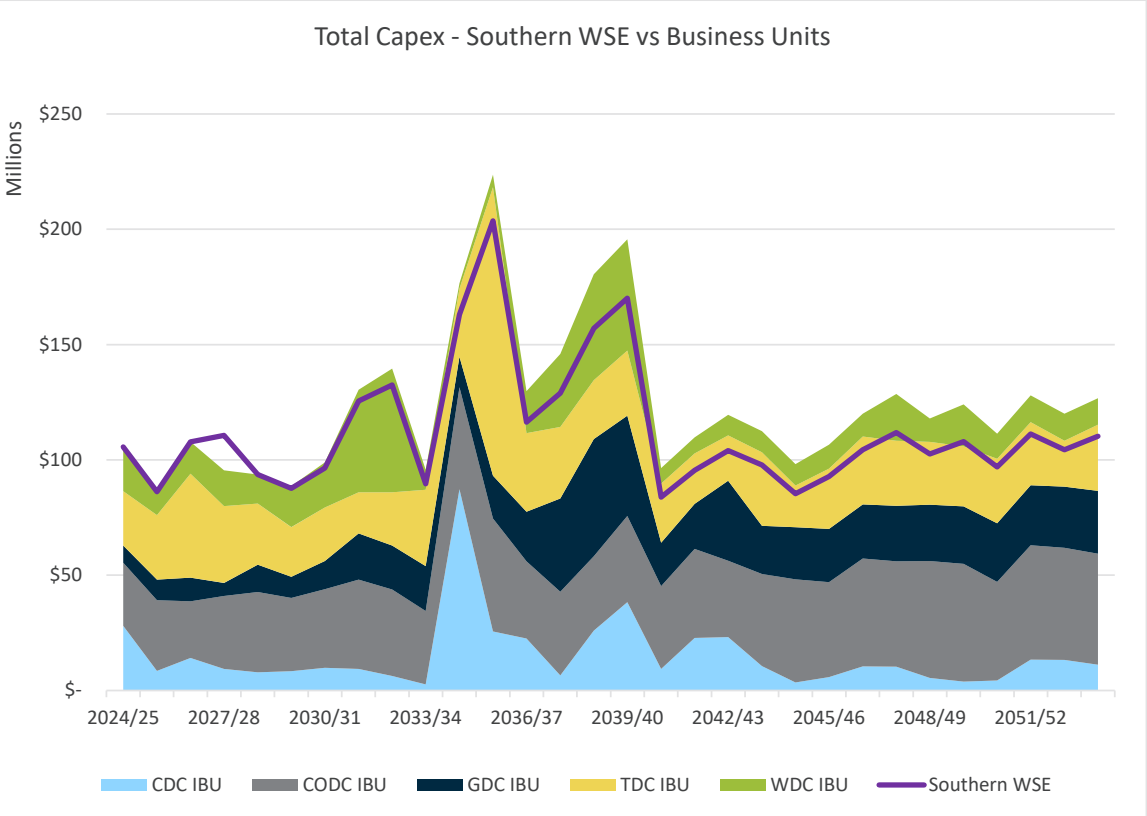
The chart below shows total capital expenditure for an Otago Southern WSE compared to the combined three waters debt of the participating councils.

The Southern WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur establishment costs[3]. Over time, a Southern WSE is able to reduce capital expenditure compared to the combined councils as it begins to achieve organisational efficiencies through improved asset management practice and coordinated procurement to deliver the same programme of works. These savings ultimately give rise to lower three waters charges.

The capital works programme is generally flat, with the exception of:

- A spike in 2032 and 2033 relating to Waitaki District Council's wastewater rising main renewal and pipe relocations
- A spike in 2035 relating to Clutha District Council's Milton Wastewater Treatment plant
- A spike in 2039 and 2040 relating to the combined impact of the Gore Wastewater Treatment plant

Figure 10 Combined capex profile of five councils vs Southern WSE



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

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30 year projections

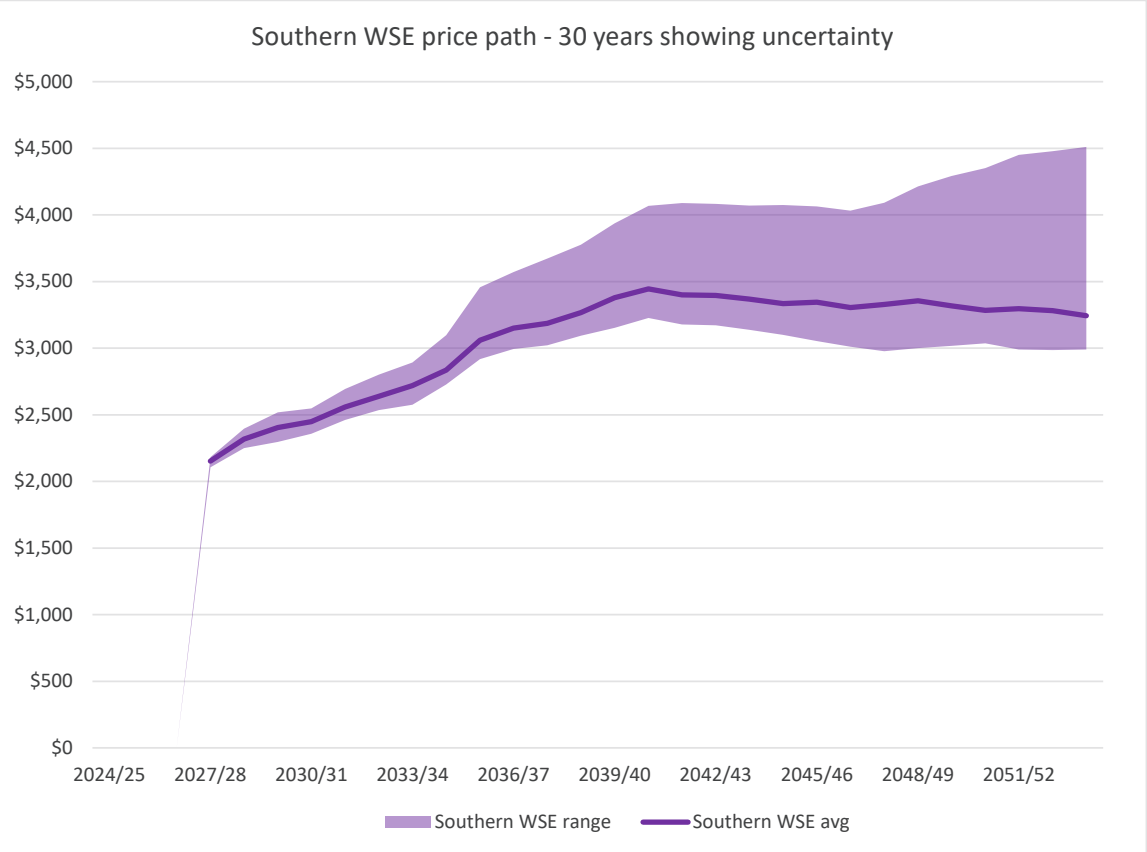
We have included indicative 30 years projections in this iteration of modelling. Because of the inherent uncertainty of 30 year capital programme projections we have:

- Applied a very broad range of sensitivity to the capital programme beyond 2034
- Not presented potential price paths for individual councils beyond 2034.

The modelling from 2035 – 2054 is therefore intended to be indicative only. It is intended to demonstrate that:

- Prices are expected to stabilise over the long term due to the approach to financing
- The high levels of debt required by the WSE do not require significant price rises to service

Figure 11 30 Year regionalised price path for Southern WSE (three waters household charges inc GST)

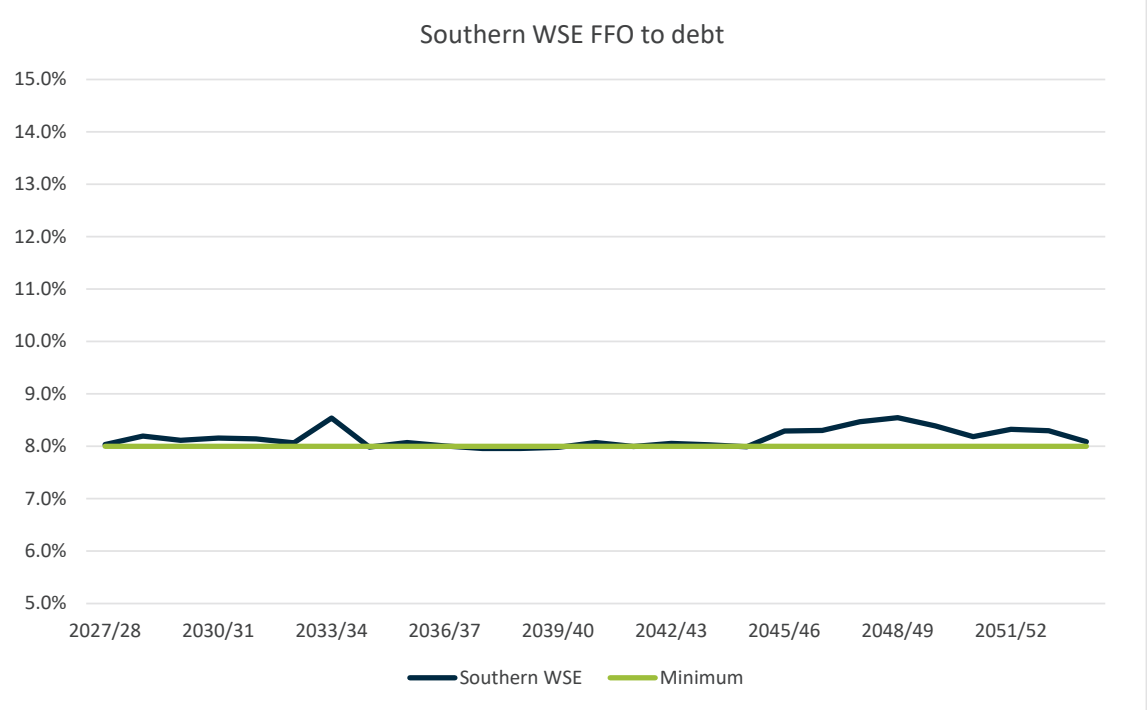


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30 year borrowing profile

Our modelling assumes that the Southern WSE will maintain an FFO to debt ratio of 8% over the long term. We note that precise lending arrangements for WSEs are yet to be agreed, and will be agreed on a bespoke basis with LGFA. Based on our discussions with LGFA, we understand that it is likely that a WSE of the proposed scale will be able to obtain a lending covenant of 8% FFO to debt.

Figure 12 Southern WSE compliance with lending covenant



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Individual council results

For ease of comparison, the results for each individual council are presented below. This includes the impacts of sensitivity testing in the comparator case and Southern WSE.

Central Otago District Council

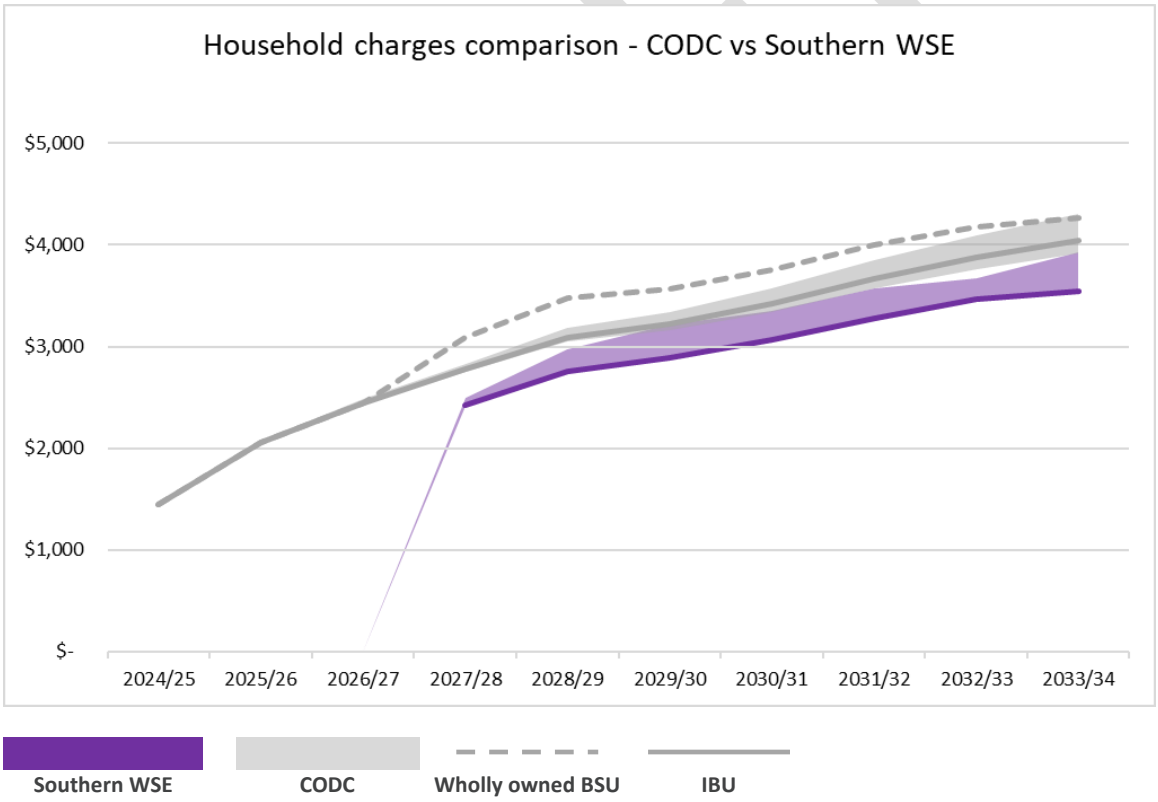
Household charges

The chart below shows the result of our model for Central Otago of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for CODC.

Figure 13 Household charges for CODC vs wholly owned and Southern WSEs



The chart highlights that:

- A Southern WSE provides the lowest price path for water consumers in the Central Otago District
- A wholly owned WSE is likely to be more expensive for CODC water consumers than an in house delivery model.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 4 Comparison of household three waters charge (incl GST) for CODC

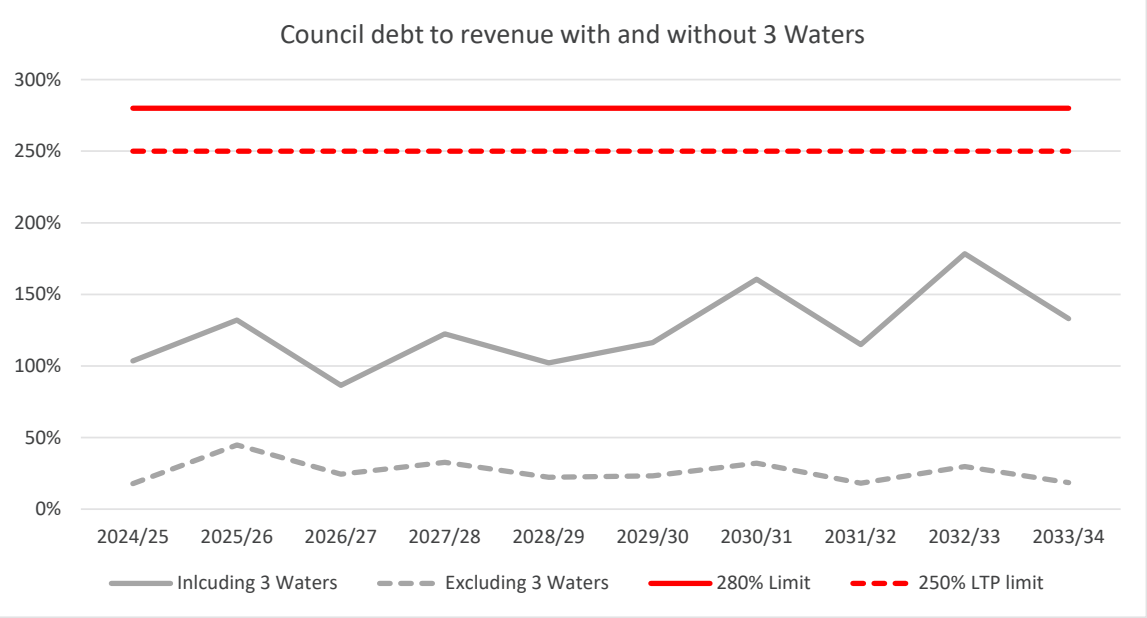
	2024/25	2027/28	2033/34
In house business unit	$1,445	$2,780	$4,047
Wholly owned WSE		$3,094	$4,266
Southern WSE		$2,421	$3,542

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, CODC would improve its debt to revenue ratio from 133% to 19% by 2034. This represents an increase in potential borrowing headroom of $118 million.

Figure 14 CODC debt to revenue with and without three waters



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Clutha District Council

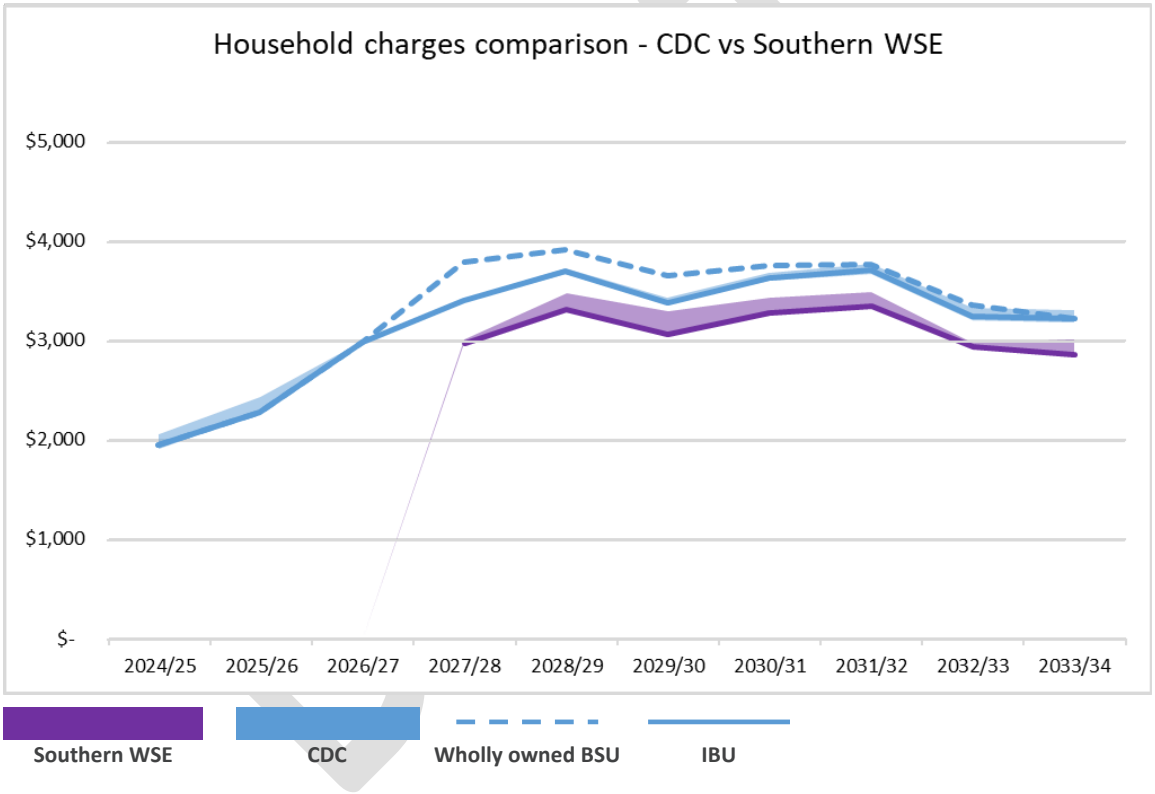
Household charges

The chart below shows the result of our model for Clutha of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for CDC.

Figure 15 Household charges for CDC vs wholly owned and Southern WSEs



The chart highlights that:

- A Southern WSE provides the lowest price path for water consumers in the Clutha District.
- A wholly owned WSE is likely to be more expensive for CDC ratepayers than an in house business unit.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 5 Comparison of household three waters charge (incl GST) for CDC

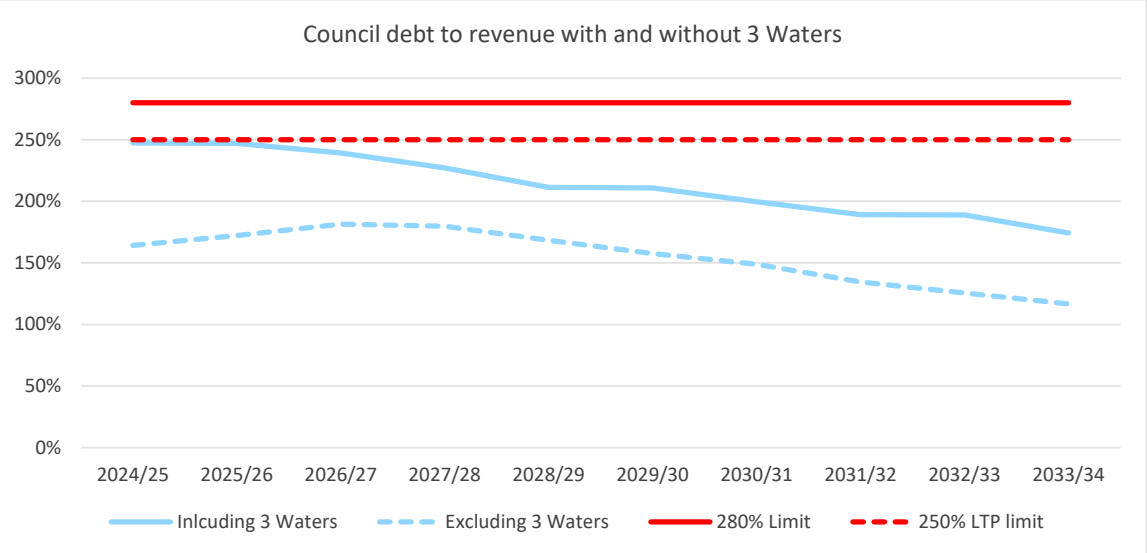
	2024/25	2027/28	2033/34
In house business unit	$1,962	$3,412	$3,234
Wholly owned WSE		$3,797	$3,227
Southern WSE		$2,972	$2,851

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, CDC would improve its debt to revenue ratio from 174% to 117% by 2034. This represents an increase in potential borrowing headroom of $3 million.

Figure 16 CDC debt to revenue with and without three waters



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Gore District Council

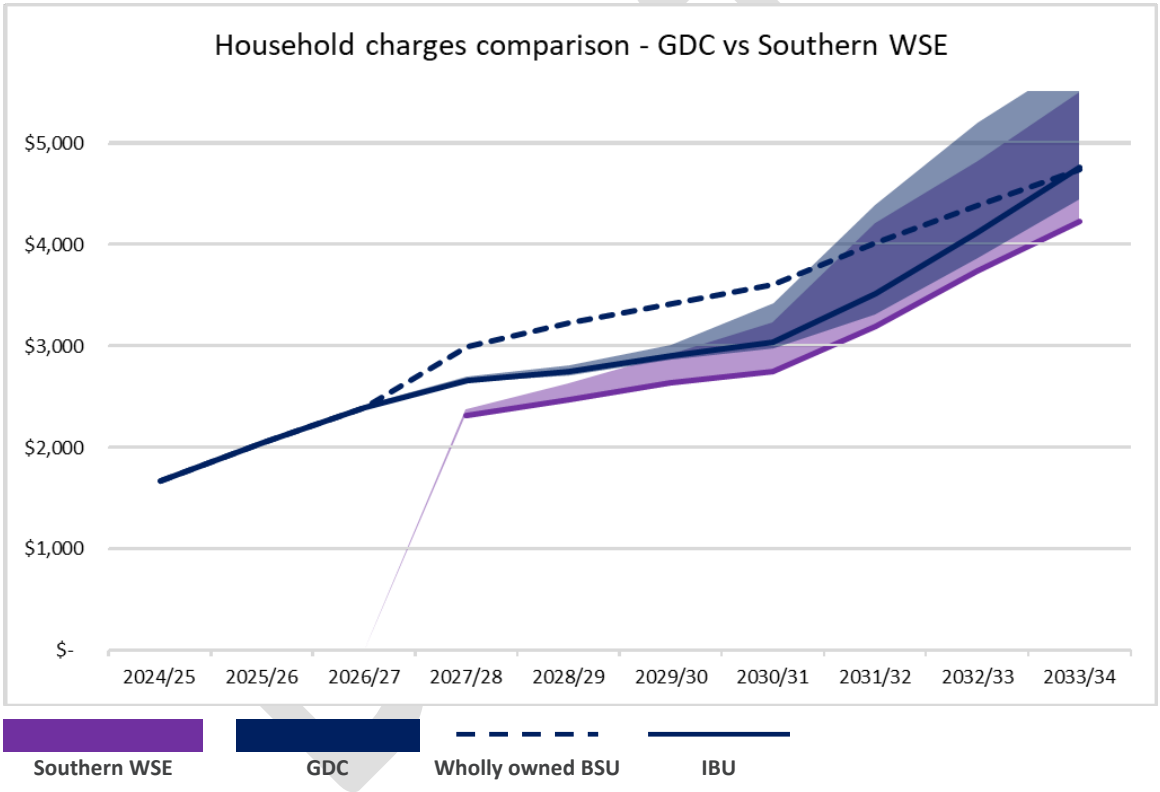
Household charges

The chart below shows the result of our model for Gore of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for GDC.

Figure 17 Household charges for GDC vs wholly owned and Southern WSEs



The chart highlights:

- A local price from the Southern WSE is likely to be lower than price under either of the alternative models for GDC
- There is significant overlap in potential prices under the Southern WSE and in house business unit models, noting that the “high price” range under both scenarios does not overlap.
- A wholly owned WSE is likely to provide more expensive household charge for water consumers in Gore.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 6 Comparison of household three waters charge (incl GST) for GDC

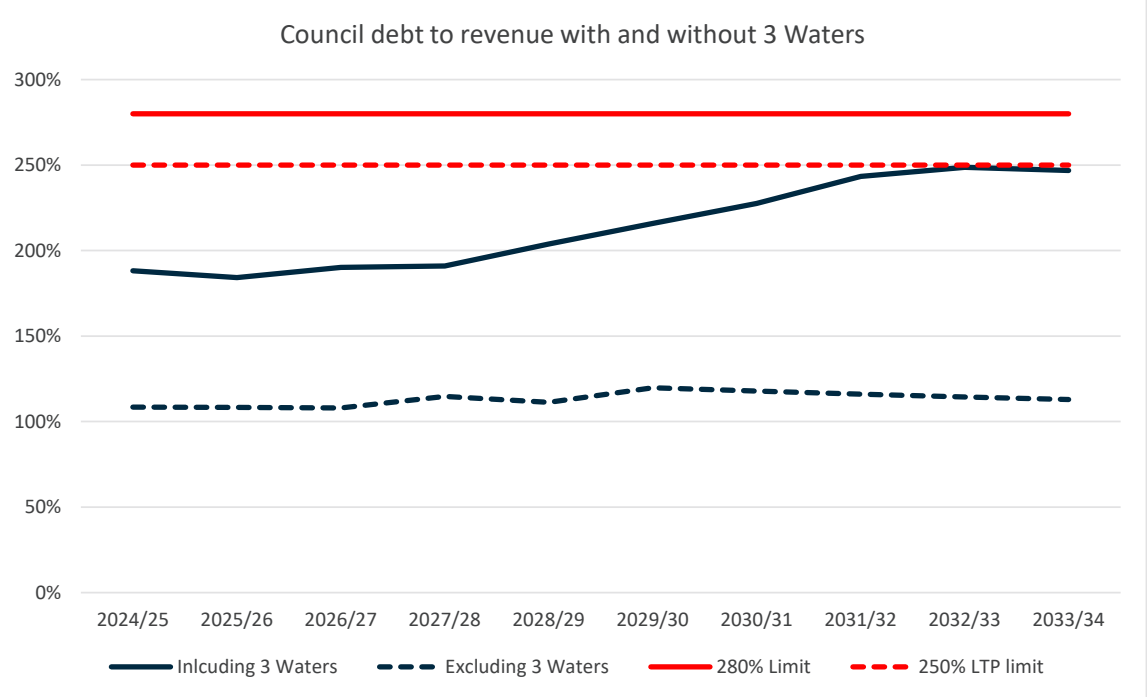
	2024/25	2027/28	2033/34
In house business unit	$1,667	$2,694	$5,829
Wholly owned WSE		$2,986	$4,735
Southern WSE		$2,320	$4,234

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, GDC would improve its debt to revenue ratio from 247% to 113% by 2034. This represents an increase in potential borrowing headroom of $35 million.

Figure 18 GDC debt to revenue with and without three waters



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Timaru District Council

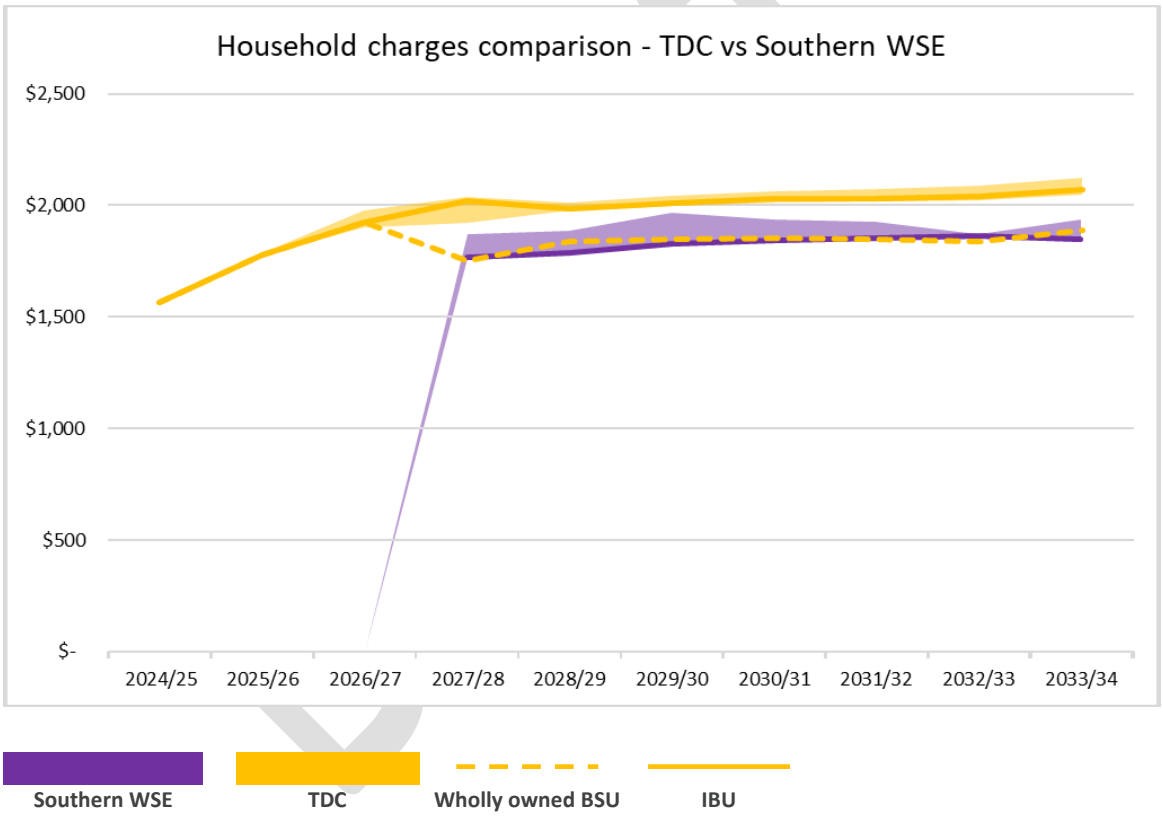
Household charges

The chart below shows the result of our model for Timaru of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for TDC.

Figure 19 Household charges for TDC vs wholly owned and Southern WSEs



The chart highlights:

- Household charges for three waters are likely to be similar through a Southern WSE with local prices as they may be through a wholly owned WSE
- Both WSE options result in household charges that are lower than they would otherwise by through an in house delivery model.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 7 Comparison of household three waters charge (incl GST) for TDC

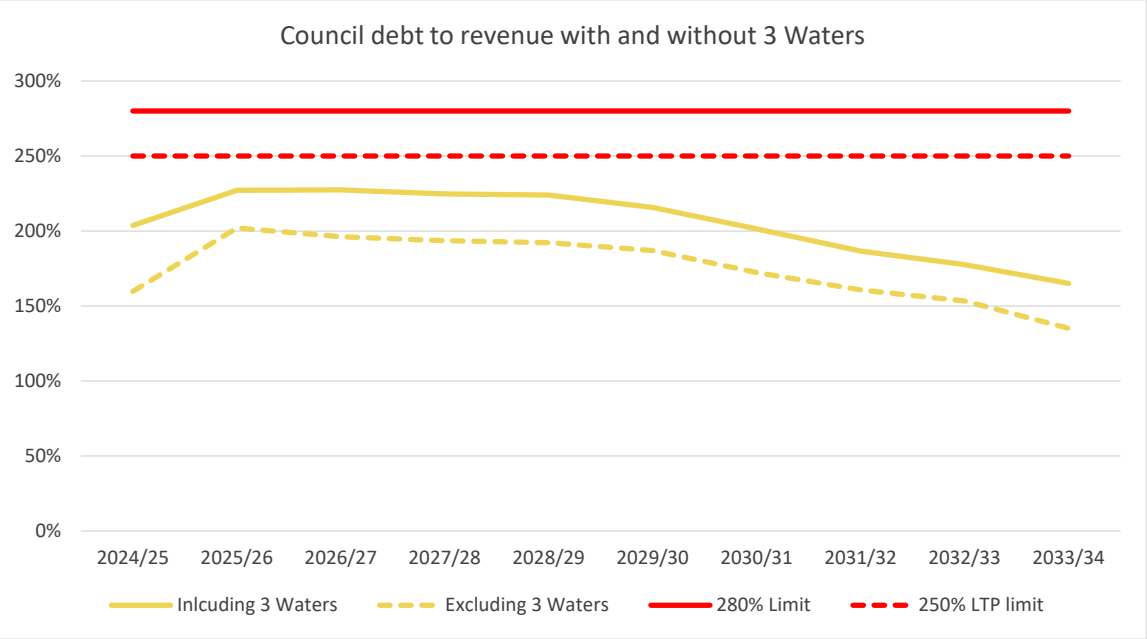
	2024/25	2027/28	2033/34
In house business unit	$1,565	$2,038	$2,121
Wholly owned WSE		$1,751	$1,888
Southern WSE		$1,765	$1,848

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, TDC would improve its debt to revenue ratio from 165% to 135% by 2034. However this would result in a reduction in potential borrowing headroom of $7.5 million.

Figure 20 TDC debt to revenue with and without three waters



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Waitaki District Council

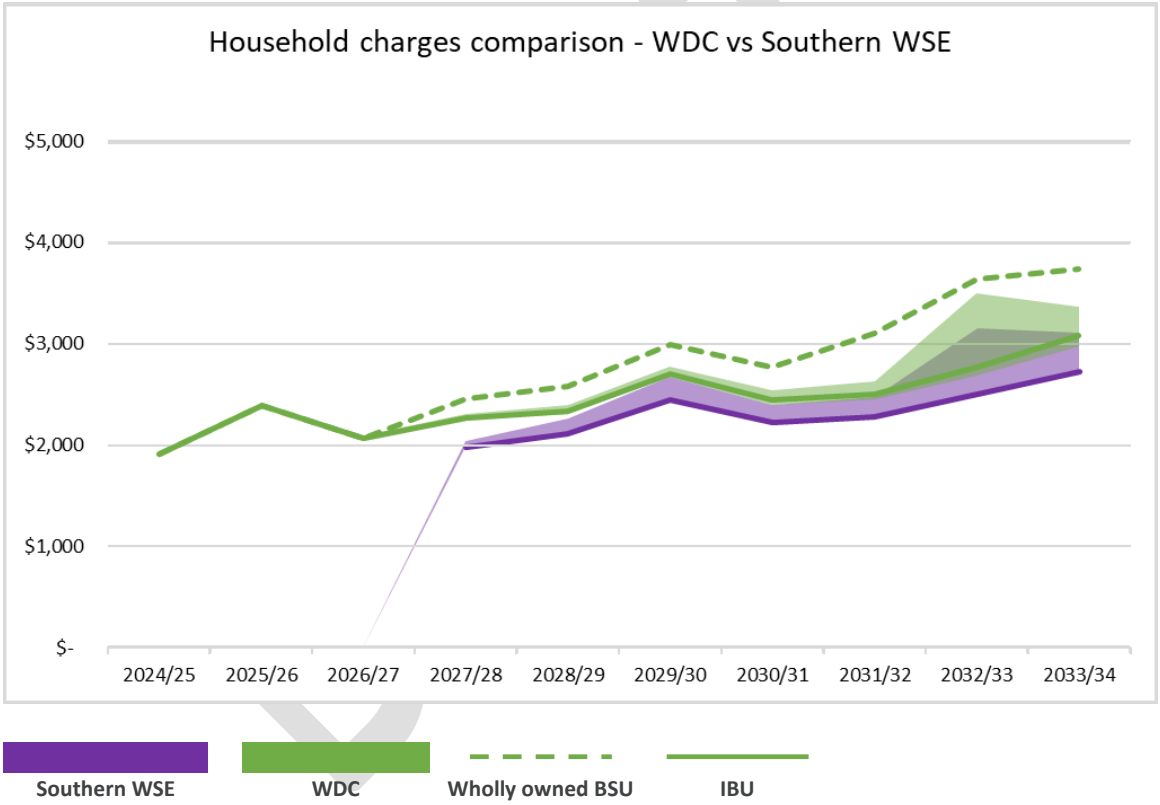
Household charges

The chart below shows the result of our model for Waitaki of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for WDC.

Figure 21 Household charges for WDC vs wholly owned and Southern WSEs



The chart highlights:

- A local price from the Southern WSE is likely to be lower than price under either of the alternative models for WDC
- There is significant overlap in potential prices under the Southern WSE and in house business unit models, noting that the “high price” range under both scenarios does not overlap
- A wholly owned WSE is likely to provide more expensive household charges for water consumers in Waitaki.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 8 Comparison of household three waters charge (incl GST) for WDC

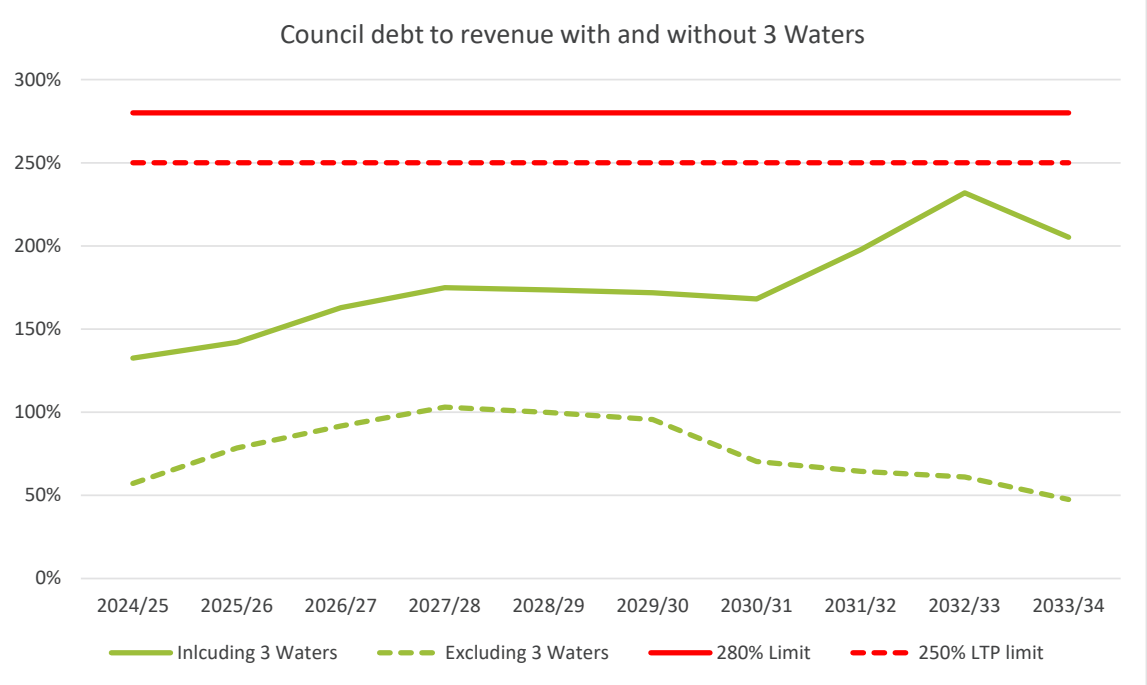
	2024/25	2027/28	2033/34
In house business unit	$1,913	$2,269	$3,093
Wholly owned WSE		$2,466	$3,754
Southern WSE		$1,984	$2,728

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, WDC would improve its debt to revenue ratio from 205% to 48% by 2034. This represents an increase in potential borrowing headroom of $95 million.

Figure 22 WDC debt to revenue with and without three waters



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Impact of wastewater standards

Draft wastewater standards were released on 25 February 2025 and have not been fully reflected in our view of the capital works programmes for all of the councils included in the modelling presented earlier in this report.

However, as noted in the report from Utility NZ (**Appendix Four** - Southern CCO Programme Assurance Findings), the impact of these standards on capital works programmes is likely to be significant in some cases. However, there are still too many unknowns with the new standards, and each councils respective consenting pathways to be able to fully quantify this impact.

Councils with WWTP upgrades occurring in the next 3 years, which there are very few, will be allowed a two-year extension under the new standards. This will have further impacts on capital programmes, potentially resulting in deferral of currently planned investment into future years, and a delay in seeing the full impacts of potential cost reduction.

Any reduction to the capital works programme that arises as a result of changes to the wastewater standards or reductions in the scope of other programmes of work would have the impact of reducing likely charges for the relevant councils and the Southern WSE. A high level assessment of the likely impact of changing standards is discussed in the report from Utility NZ

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Appendix One - Non financial MCA

Otago Southland MCA for water service delivery options Multi Criteria Analysis							
Options		**Option 1: inhouse business unit**		**Option 2: standalone CCO**		**Option 3: Multi council Water Service Entity**	
Description of option		**Financial ringfencing No significant changes to service delivery approach Minimum changes to meet legislative requirements**		**Establishment of a separate comapny with its own Board, CEO and management strucutre. 100% owned by a single council. Financial separation from councils. May share or procure services from council**		**Establish a jointly owned three waters CCO. Pricing assumed to be determined under a "no one worse off principle". Equal shareholding across all councils. Assumes a gradual transition away from reliance on councils for the provision of services.**	
Assessment Criteria	**Weighting**		**Comments**		**Comments**		**Comments**
To deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy.	20.0%	0	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, however may be influenced by broader affordability concerns and debt constraints within existing councils.	1	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, and the CCO will only be impacted by its own borrowing and affordability constraints.	2	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, and the CCO will only be impacted by its own borrowing and affordability constraints. Access to a braoder set of expertise, and improved financial and workforce resilience arising from increased sclae may improve reliability of the network and allow for the adoption of innovative solutions with improved outcomes
To deliver three waters services that sustainably respond to change in population, economic activity and climate change.	20.0%	0	Asset management planning will be completed within the same location as district planning and consenting. This may allow for more accurate or timing planning of growth investment. Access to skills, or opportunities to build network resilience through "cross border" investment may be limited.	-1	Separation of district planning and consenting functions will require close working relationships to be established to ensure network investment is aligned with growth.	1	Separation of district planning and consenting functions will require close working relationships to be established to ensure network investment is aligned with growth. There may be opportunities for "cross border" solutions to be adopted to respond to or mitigate the risk of changing demand due to climate change, changing population and economic activity. A larger geographic reach improves resilience to local economic or environmental shocks.
To deliver three waters services through a model that is responsive to the local needs of our communities.	20.0%	0	Investment and planning is closely linked to broader objectives and planning for councils. A direct link between governance and the democratic process allows for direct community accountability. Workforces, including high values jobs, remain local. Decision making and accountability will be reduced compared to current arrangements due to the influence of the economic regulator and Taumata Arowai.	0	Decisions regarding investment are made largely independently of decisions made the the shareholding council. However, decision making remains local, with investment only occuring within district. Board members will be appointed by councillors, but will not be directly accountable to , or elected by, the public. Instead they will be accountable to consumers Decision making and accountability will be reduced compared to current arrangements due to the influence of the economic regulator and Taumata Arowai. A wholly owned water CCO is likely to maintain close relationships with parent councils and may share some funcitons, such as customer services.	-2	Decisions regarding investmetn are made based on a "best for network" approach with investment being prioritised across the combined districts when resources are scarce. Workforce, including high value jobs, may move out of the district, however modern working environment will likely allow staff to live where they choose. Local workforces will remain for network and treatment operations. The model may include procuring some shared services from councils such as customer services.
Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	20.0%	0	Decision making will be influenced by the economic regulator, Taumata Arowai, and elected members (who may not have relevant infrastrctuure, risk management or financial expertise). There will be no improvement to recruitment or retention of staff compared to current arrangements, with competition for good staff between districts and larger jont water entities persisting.	-1	There will be a singular focus from the board and management on the delivery of three waters services. There will be no meaningful increase in scale compared to the in house delivery model. Opportunities for career development and progression will be low, and any improvements in ability to attract and retain good staff will be marginal compared to the in house model. Competition for good staff between districts and with larger joint water entites will remain. Lack of scale means loss of a single staff member may have singificant negative implications of such an entity.	3	Scale will provide increased opportunities to find efficiencies through procurement and improved network wide investment. Scale will also provide improved career development opportunities improving the ability to atttract and retain good staff, to support improved decision making. There will be a singular focus from the board and management on the delivery of three waters services.
To ensure that three waters services are delivered through a model that is enduring and financially sustainable.	20.0%	0	The in house delivery model will have ring fenced financial management for three waters services meaning no cross subisidation to/from other activities of Council. Water services may continue to levarge council's ability to borrow at a parent level, which in siome cases will result in increased access to debt, however this will impact the councils ability to borrow for other activities. This option will be less affordable than a Jointly owned CCO. Economic regulation should provide some assurance of financial sustainability.	-1	The entity will manage its own revenue and debt, providing it with financial independence. Gaurantees or provision of uncalled capital from Council will ensure a level of sustainability and lacks finacnial sustainability. Council will have improved borrowing capacity to finance non-three waters projects. Economic regulation will provide some safegaurds regarding financial sustainability, however a lack of scale and geogrpahic reach will mean the entity may be impacted on local economic or environmental shock.	2	The entity will manage its own revenue and debt, providing it with financial independence. Gaurantees or provision of uncalled capital from shareholding Councils will ensure a level of sustainability. Council will have improved borrowing capacity to finance non-three waters projects, and the entity will have favourable lending covenants. Economic regulation will provide some safegaurds regarding financial sustainability, additionally, a broader geographic reach will provide more resilience to changing local economic and environmental conditions.
Total score (out of three with a range of -3 to 3)		**0.00**		**-0.40**		**1.20**	

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Appendix Two - Local Water Done Well Review: Otago & Southland Three Waters October 2024

DRAFT

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Current state overview

Otago & Southland three waters

August 2024

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
2927	DRAFT	S.Cross & R.Slater	D.Bonifant	D.Bonifant	12 August 2024
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Introduction and approach

Context

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

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

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

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

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

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

Specifically, this first stage of work is intended to:

- Highlight the key local and regional challenges
- Identify areas of common interest, complimentary issues, and clear opportunities
- Determine the strategic objectives that will be used to assess the likely effectiveness of potential improvement models; and
- Develop a long list of options to be considered.

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Currency of data

The change in government and consequential repeal of the previous Government's Three Waters reform programme resulted in significant changes to planning assumptions made by councils in the development of their 2024/34 Long Term Plans. As a result, councils were given the opportunity to delay the adoption of their Long Term Plans by up to 1 year.

We have relied on the *latest* adopted/approved financial and asset information available for each council in the analysis included within this report. Where councils have elected to delay their Long Term Plans by a year, this information typically relates to either the 2021/31 LTP or early internal drafts of the 2024/34 long term plan that were prepared prior to the decision to defer. A detailed description of our approach to analysing the data provided from council's 2021 long term plans is outlined in Appendix One.

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Combined regional view

A common set of challenges

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

1. A need for significant investment in infrastructure, including:
   - Long held resource consents nearing expiry
   - Ageing infrastructure and increased renewals investment requirements
   - The increasing need to invest in, and utilise, technology to meet regulatory requirements for the provision of water and wastewater services
   - The condition of assets
   - Increasing or changing regulatory standards and intervention, including requirements to discharge treated wastewater to land rather than freshwater
   - Changing demand
   - Climate related pressures including increased frequency of droughts and severe wet weather events.
2. Increased financial constraints, including:
   - The need to significantly increase rates or other revenue that needs to be collected to fund service provision
   - A reduction in available borrowing capacity
   - The difficulty in funding significant infrastructure investment in small or remote communities
   - Ensuing affordability concerns for impacted communities
3. Challenges with the recruitment, retention, and development of skills, experience and expertise.

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

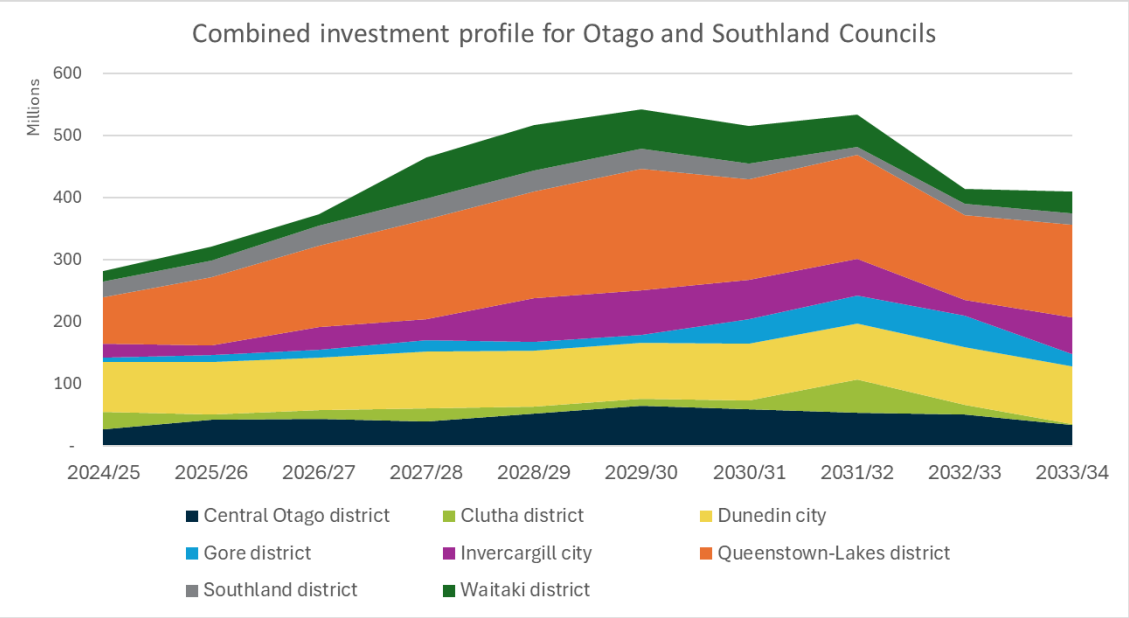
- The Otago and Southland regions are facing a wave of investment required from a large number of expiring wastewater treatment consents, ageing infrastructure and significant population growth at a local level.
- A rapid increase in total borrowings to fund investment in three waters infrastructure.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

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Investment requirements

The combined investment profile for the Otago and Southland councils features a $4.3 billion programme of work, across eight councils. The work programme almost doubles from $280 million to over $540 million dollars of planned annual capital delivery between 2025 and 2030.

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

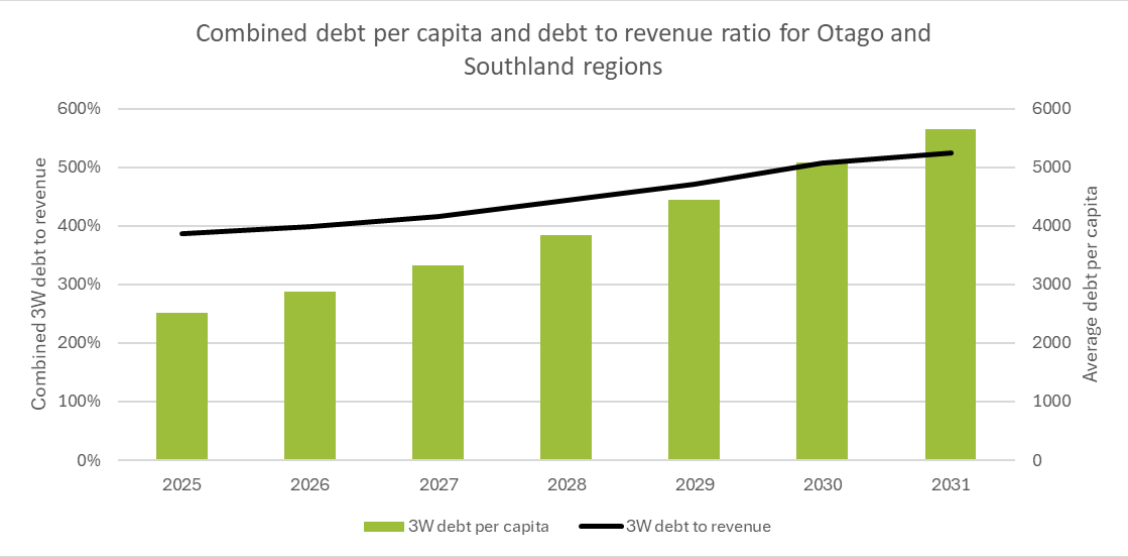


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Borrowing requirements

Financing a $4.3 billion dollar work programme requires significant borrowing. Total three waters debt across the Otago and Southland Councils is expected to reach $2.2 billion by 2031 on conservative projections[1].

On a per capita basis, debt across the combined regions will more than double from $2,500 per person to over $5,600 per person in 2031. Servicing and repaying that debt will add $450 to the average annual three waters rates bill.



As three waters infrastructure has been the largest contributor to borrowing for councils, when considered in isolation three waters debt is likely to exceed 500% of three waters revenue in 2031.

Proposed financial arrangements announced by the Government on 8 August 2024 reference LGFA's willingness to lend to an effective rate of 500% of three waters revenue. We understand that it is unlikely that lending covenants will actually be measured based on debt to revenue, but rather an alternative benchmark will be used.

[1] These projections include debt projections based on modified 2021 LTPs for some councils. Given significant uplifts in capital works programmes from 2021 to 2024, we would expect debt to be higher than this in 2031.

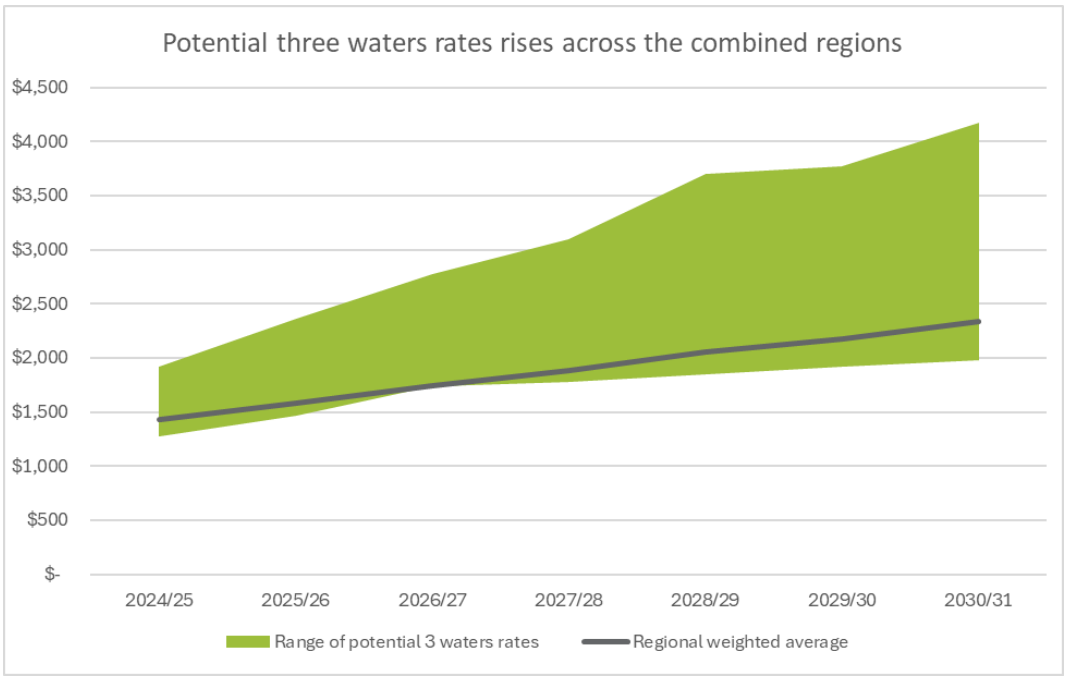
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Rates rises

Three waters rates across the Otago and Southland regions are predicted to rise significantly over the next seven years. Some communities are projected to experience increases of more than 160% to their existing residential three waters rates bills during that time period. By 2034, some councils will have three waters rates that are up to five times larger than they are in 2025. For some councils, this means a rapid increase in rates in the final years of their LTPs.

While there is significant variation across the regions, the affordability of three waters services and rates is likely to become a key consideration for all councils moving forward. Regionally, the weighted average residential rates will increase at least 63% from $1,435 in 2025 to over $2,350 in 2034.

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



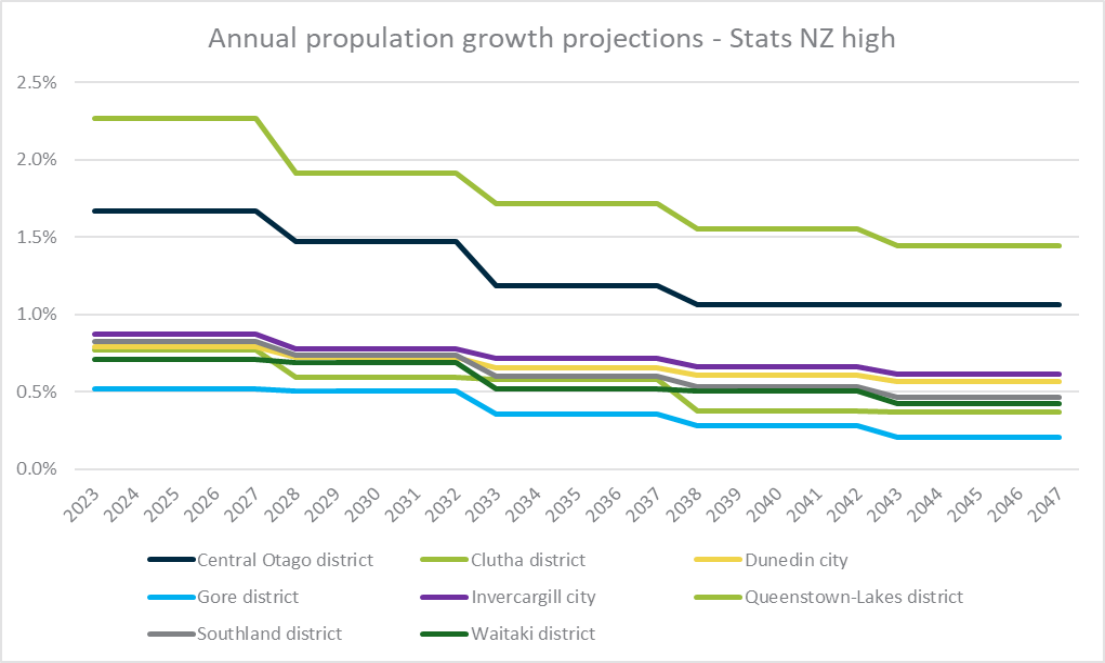
Local context matters

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

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Some councils are experiencing rapid growth

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



The two Councils that are experiencing the highest levels of growth in the Otago and Southland regions (QLDC and CODC) have a combined three waters capital works programme of $966 million just to respond to provision of infrastructure to support that future growth. This represents approximately half of the three waters capital works programme for both Councils.

While Dunedin City Council (DCC) has allowed approximately $68 million for three waters growth infrastructure between 2024 – 2034, the remaining councils in the Otago and Southland regions have only forecast incidental expenditure on growth projects over the LTP period.

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

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

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

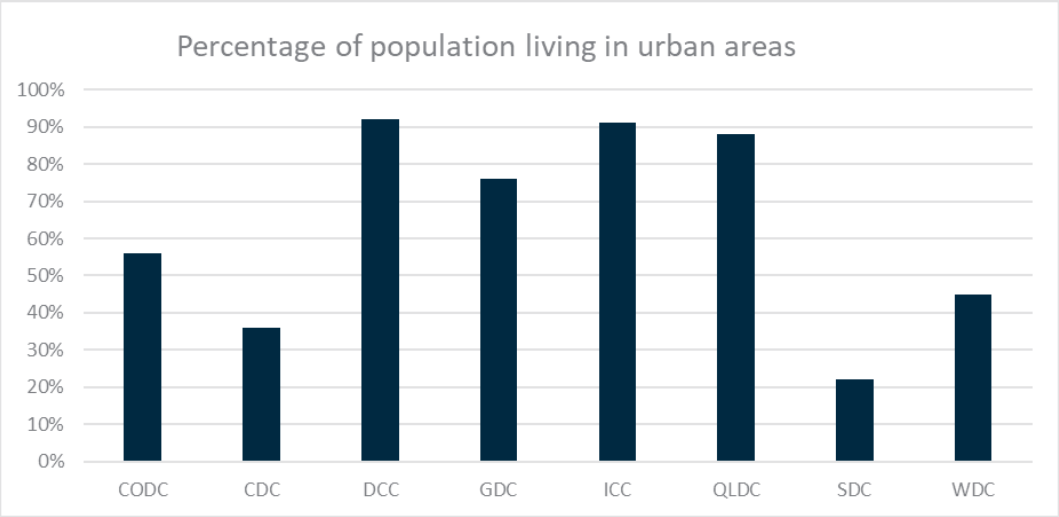
© Morrison Low

Some councils have many small communities

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

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

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



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

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

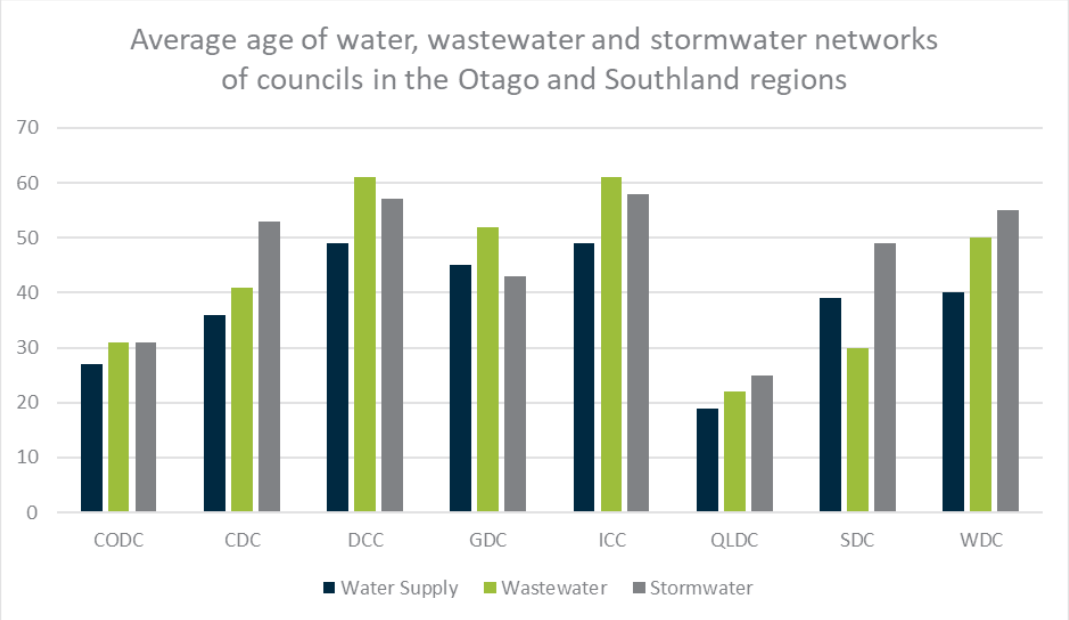
Managing small schemes cost effectively requires a different approach to the management of three waters services in highly urbanised environments.

© Morrison Low

Some councils have older networks than others

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

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



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

Councils with older networks such as ICC, DCC, WDC and GDC are expected to undertake a significant programme of renewals over the next 10 years. These councils are expected to spend over $850 million in three waters renewals over the next 10 years, or around half of their combined three waters capital works programme.

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Among the issues lie a range of opportunities

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

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

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

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Central Otago District Council

24,306 population (2023)

18,875 people serviced with water supplies

7 wastewater treatment plants

8 water treatment plants

453 km water supply pipes

73 km stormwater pipes

264 km wastewater pipes

28 water connections per kilometre

56% of people live in urban areas

$85,900 average household income (2019)



Key issues

Growth

The CODC district has very high population growth in some of its townships. 53% of its planned capital works programme, totalling $244 million is intended to address growth pressures.

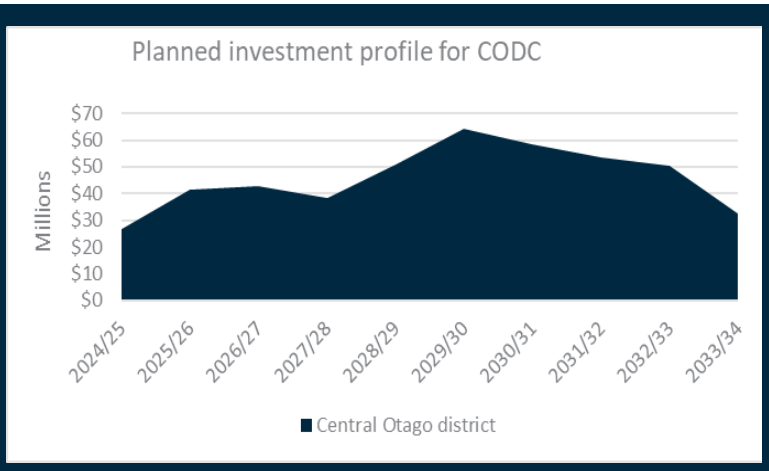
Small communities

Servicing small communities and balancing the need for significant investment in those communities in the future. Six of CODC's registered drinking water supplies service townships that individually have fewer than 1,000 people connected.

Affordability

To meet estimated investment needs in three waters, average three water rates are projected to increase 80% from $1,900 to over 3,450 by 2034.

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$458 million of planned investment over 10 years

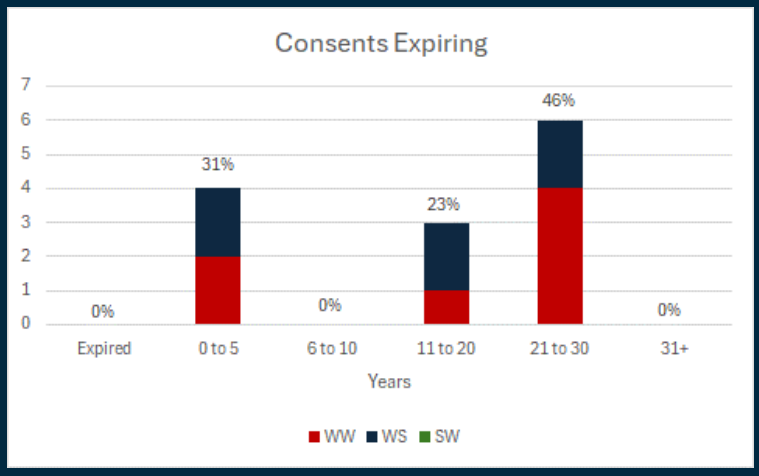
CODC's three waters capital works programme peaks at $64 million per year in 2029. For context, that's over 50% more than its entire capital works programme in 2024.

This investment profile is likely to reduce by up to $100 million due to recent government announcements that suggest discharge to freshwater environments will be permitted and fit for purpose water treatment for small supplies.

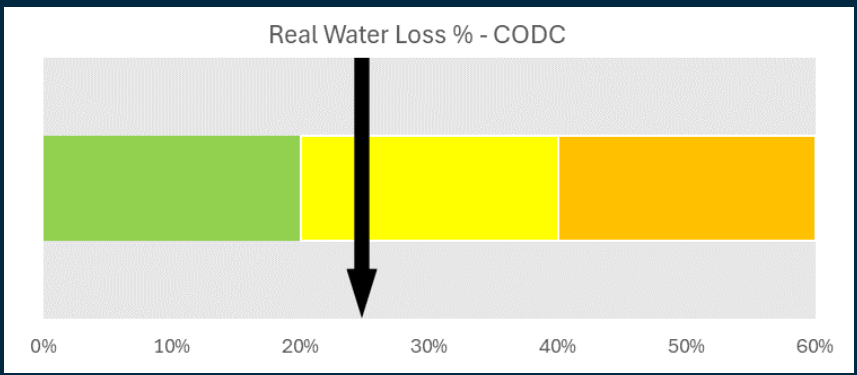
Expiring consents

CODC has four consents that are due to expire in the next 5 years. The two wastewater consents are for Alexandra and Omakau.

Both currently discharge to freshwater receiving environments. The additional financial impacts of discharging to land (if required) are expected to be in the order of $60 million - $70 million combined.



Network performance



CODC experienced an estimated 26% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was 25%.

There were 2.75 dry weather overflows of the wastewater network per 1,000 connections in 2023.

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Compliance

CODC was not fully compliant with the drinking water standards in 2023, non-compliance related to a lack of Protozoal barriers in its Ranfurly, Patearoa, Cromwell and Omakau supplies. It also had supplier notifications for MAV exceedances in its Roxburgh and Cromwell schemes and issued temporary consumer advisories for its Ranfurly and Patearoa schemes in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[2]
Bacterial compliance	Not Achieved	100% Compliance	N/A	↔
Protozoal compliance	Not Achieved	100% Compliance	N/A	↔

CODC received 5 Abatement Notices and 2 Infringement Notices for its wastewater treatment plants in 2022/23, an increase from 3 Abatement Notices in 2021/22. Two abatement notices have since been lifted, with three remaining in place as at August 2024.

Demand management

CODC has experienced a period of rapid population growth since 2013. The average annual growth rate of 3.7% is much higher than the growth seen from 2006-2013 which was an annual average of 1.2%. Over the last two years this growth has slowed to a rate of 2.5% due to impact of Covid. Short term and long-term indicators suggest the population growth rate will continue at a rate similar to the last two years, rather than the more accelerated rate seen prior to that.

Water Consumption
516 ↓
(lpd/resident)

To respond to infrastructure pressures arising from Growth, CODC has provided for $244 million of investment in growth projects. Existing universal water metering also provides opportunities to address growth challenges.

Network condition and age

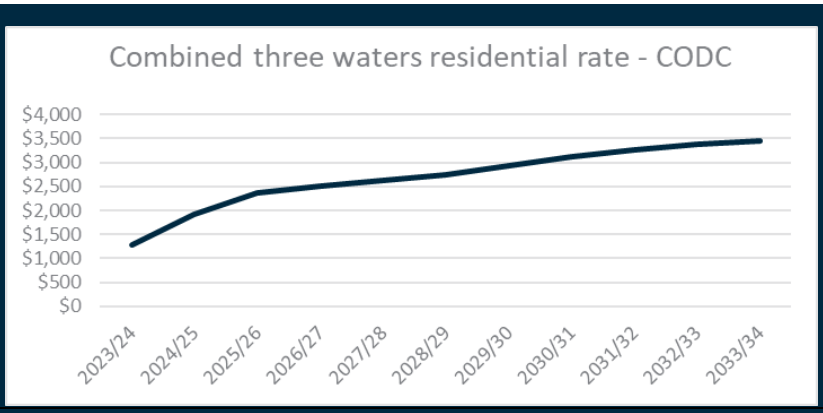
CODC's water, wastewater and stormwater infrastructure has the second lowest average age of all of the councils in the Otago and Southland regions. Expected useful life of water infrastructure varies depending on a range of factors, including material, diameter, and operating conditions, however given the low average age of infrastructure, CODC is unlikely to have an immediate need for significant renewals investment.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	27	84%	8%	5%	1%	2%	0%
Wastewater	31	86%	9%	3%	2%	0%	0%
Stormwater	31	99%	0%	1%	0%	0%	0%

Condition assessment of CODC's three waters assets show a high portion of assets in Condition 1. Again, this indicates no immediate need for significant renewals investment, however we would have expected to have seen more of a distribution in the other condition grades.

[2] Compared to previous year

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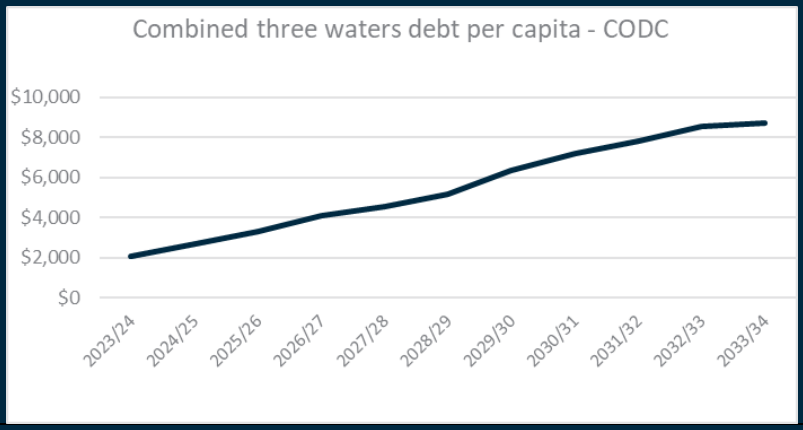


Three waters residential rates

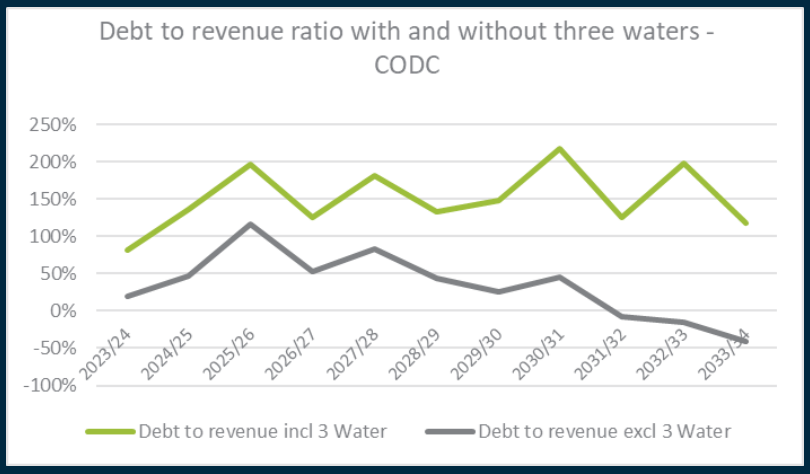
The average residential rate for three waters services in CODC is projected to more than double from about $1,300 including GST in 2024 to about $3,450 in 2034 according to early drafts of its 2024 long term plan (which was subsequently deferred).

Three waters debt

CODC's initial draft 2024 Long Term Plan forecast an increase in total three waters related borrowings from approximately $55 million in 2024 to about $297 million in 2034. This represents a four-fold increase in per capita debt, from about $2,000 per capita to about $8,700 per capita in 2034.



Whole of council debt



Over the period of the initial draft 2024/34 long term plan, CODC's debt was projected to grow to over 215% of its revenue; this is primarily because of intense capital investment requirements for three waters. The projections show CODC breaching LGFA's 175% debt to revenue limit for unrated councils in 2026, at which point CODC would need to obtain a credit rating.

Council expects to generate significant future revenue from the development of residential and industrial land in its district. This is the cause of the spikes in the chart above.

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Clutha District Council

18,315 population (2023)

15,000 people serviced with water supplies

11 wastewater treatment plants

16 water treatment plants

2,505 km water supply pipes

57 km stormwater pipes

217 km wastewater pipes

3 water connections per kilometre

36% of people live in urban areas

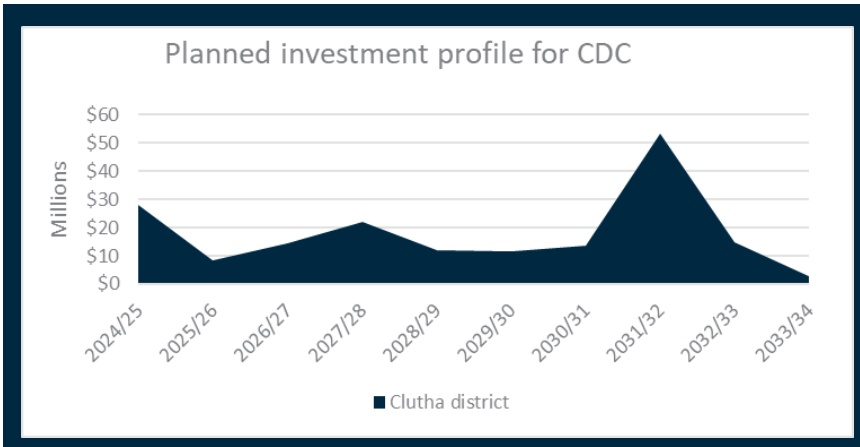
$86,300 average household income (2019)



Key issues

Mixed use rural water schemes	Low connection density	Compliance
Council owns and manages 22 rural water schemes for domestics consumption and drinking water for stock. The ongoing costs of operation and maintenance of the schemes is expected to become unaffordable over time.	Council has one of the longest reticulated water networks in the country, and consequently the lowest connection density in New Zealand. Low connection density results in high costs to operate and maintain a network that services few people.	Delivering drinking water that is compliant with drinking water standards has been challenging in a number of rural mixed use schemes in particular. 6,221 people connected to schemes had consumer advisory notices in place in 2023.

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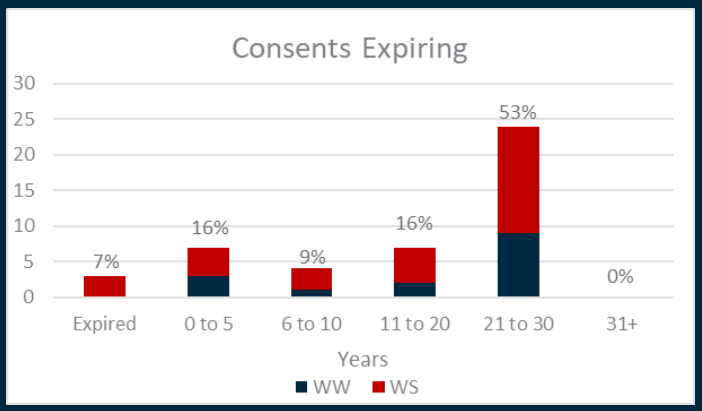
$181 million of planned investment over 10 years

The programme peaks at $53 million in 2032. For context, this is about equal to CDC's entire planned capital works programme (for all activities) in 2024.

Expiring consents

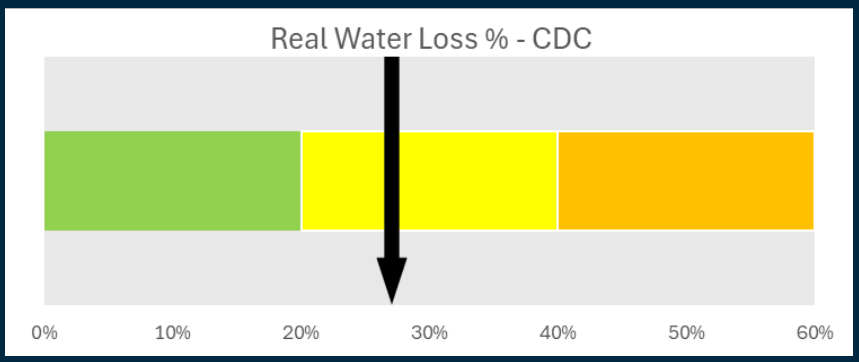
CDC has three water supply consents that have expired and 7 that expire in the next 5 years. There are a large number of consents (24) that expire in the years 21 to 30.

CDC has 45 resource consents across its 27 water and wastewater treatment plants. Some treatment plants have more than one applicable consent.



Network performance

CDC experienced 28% real water loss in the 2023 financial year. This is average for the councils in Otago and Southland. regions.



There were 4.19 dry weather overflows of the wastewater network per 1,000 connections in 2023. CDC's wastewater network met its target levels of service in the last two years, although with 4.19 dry weather overflows is worse than most other councils in the Otago and Southand regions and their targets are all also lower than CDC's.

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Compliance

All 14 of Clutha's drinking water schemes have bacterial barriers, protozoal barriers, and residual disinfection in place other than Tuapeka West (which is to be replaced with the Greenfield Bore scheme).

Notwithstanding this, all schemes other than the Lawrence and Balclutha schemes issued supplier notifications to Taumata Arowai regarding unsafe, or maybe unsafe, drinking water. Eight of the 14 schemes had consumer advisory notices issued during the 2023 year, of which six were permanent advisory notices.

Area		22/23 results	22/23 Target	21/22 results	Trend[3]
Bacterial compliance	Urban	0%	100% - Not Achieved	81%	↓
	Rural	0%	94% - Not Achieved	39%	↓
Protozoal compliance	Urban	0%	>89% - Not Achieved	49%	↓
	Rural	0%	>66% - Not Achieved	0%	↔

Seven schemes exceeded Maximum Allowable Values for aluminium in 2023.

CDC received 7 Abatement Notices and 3 Infringement Notices for its wastewater treatment plants in 2022/23.

Demand management

The Clutha district is not expected to experience significant population growth in the near future. Changes in demand owing to population or economic growth are therefore not expected to create any significant challenges for the district moving forward.

Water Consumption
530 ↓
(lpd/resident)

A number of Clutha's existing surface water takes already have low flows, particularly during summer months. Any future increases to minimum water flow levels that may be imposed as part of future consent renewals may require CDC to find alternative water sources or implement further demand management strategies for those affected scheme.

Network condition and age

The age of each of CDC's water, wastewater and stormwater infrastructure is about average for the councils in the Otago and Southland regions.

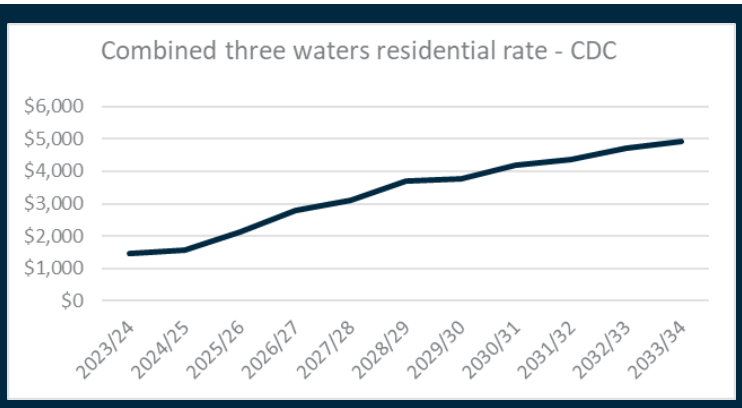
CDC notes in its asset management plan that the impacts of an ageing network are becoming evident now, particularly in relation to its concrete and asbestos cement water supply reticulation assets.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	36	28%	2%	5%	2%	1%	62%
Wastewater	41	49%	32%	13%	1%	2%	3%
Stormwater	53	20%	62%	6%	5%	5%	2%

A large quantity of the water supply network has yet to be condition assessed.

[3] Compared to previous year

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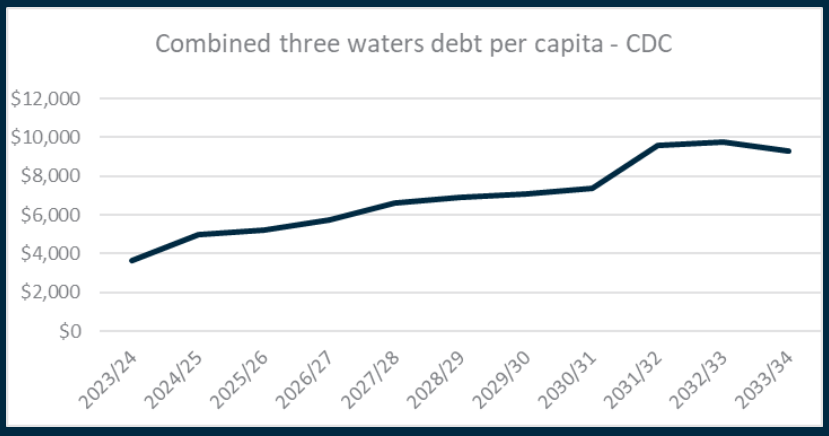
Three waters residential rates

The average three waters residential rate in CDC for 2023/24 was approximately $1,460 (including GST). Over the period of the LTP this is expected to more than triple to about $4,900 by 2034.

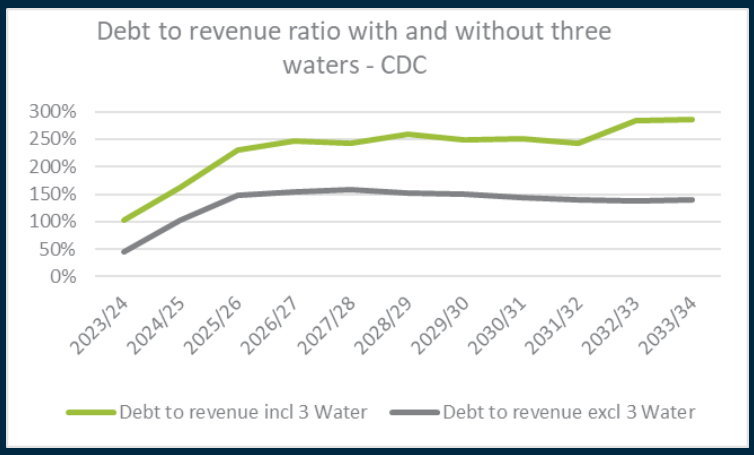
CDC separates rural and urban drinking water charges, so may not represent charges for all customer groups.

Three waters debt

Three waters debt for CDC is projected to increase from approximately $70 million in 2023/24 to a peak of $194 million by 2033/34. In per capita terms, three water debt will nearly triple from $3,660 per person to $9,300 per person.



Whole of council debt



Based on LTP projections, CDC will exceed LGFA's 280% debt to revenue lending covenant by 2032/2033. At this point it will be unable to borrow further funds without significant cost to ratepayers.

CDC's own draft Long Term Plan does not indicate that this lending limit will be breached. We note that our calculations of debt to revenue ratios rely upon data from funding impact statements and projected statements of financial position using a consistent approach across all councils. It is likely that actual calculations may differ given differences in reporting across councils.

Without three waters related debt, Council is unlikely to reach or exceed any borrowing limits within the foreseeable future.

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Dunedin City Council

128,901 population (2023)

115,357 people serviced with water supplies

7 wastewater treatment plants

4 water treatment plants

1,390 km water supply pipes

385 km stormwater pipes

958 km wastewater pipes

35 water connections per kilometre

92% of people live in urban areas

$88,800 average household income (2019)



Key issues

South Dunedin flooding

Regular flooding of South Dunedin has been identified as a critical issue that needs to be resolved.
A joint programme of work is underway with Otago Regional Council to look at planning, land use and infrastructure opportunities to resolve this issue.
It is likely that infrastructural intervention will require substantial investment.

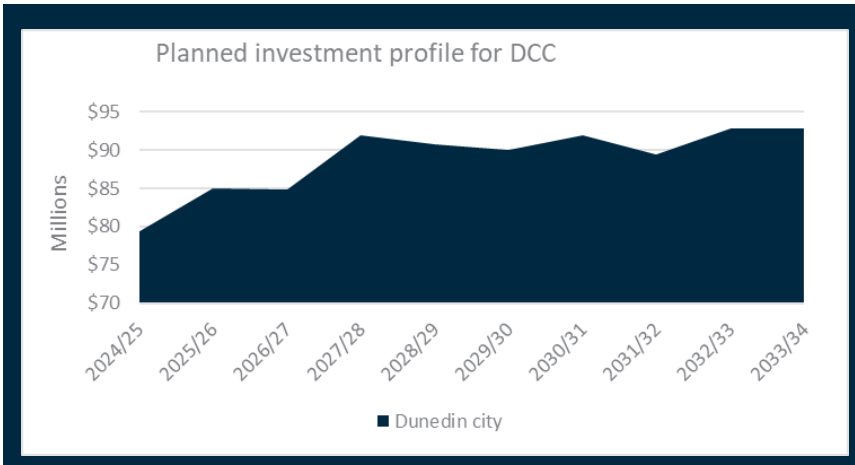
Providing for growth

Network capacity issues on parts of Dunedin's water network mean that it is unable to provide for future housing development in parts of its city.
Water take limits during dry periods also occasionally impact water supply across the network.

Ageing infrastructure

Dunedin's water, wastewater and stormwater networks are all the equal oldest in Otago and Southland.

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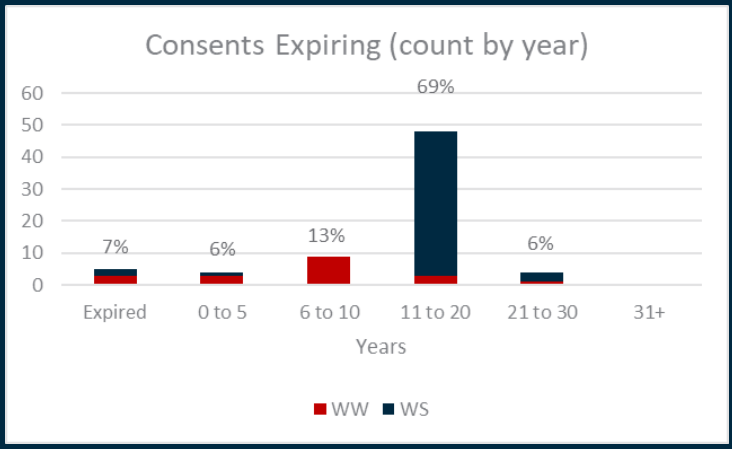


$890 million of planned investment over 10 years

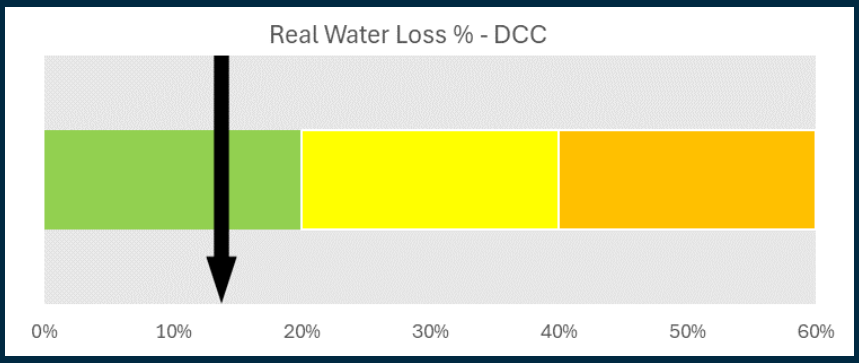
The programme is based on consistent delivery of around $90 million per year from 2028. For comparison, DCC's 2023 annual report shows it delivered $93 million in three waters capital projects during the year.

Expiring consents

The resource consents for the Green Island and Tahuna wastewater treatment plants are due to expire in 2032. Resource consents for the Waikouaiti and Middlemarch wastewater treatment plants are due to expire in 2027 and 2029 respectively.



Network performance



DCC experienced 15% real water loss in the 2023 financial year, which is amongst the lowest in the Otago and Southland councils. Water loss was 22% in 2022.

There were 3.58 dry weather overflows of the wastewater network per 1,000 connections in 2023, an increase from 2 per 1,000 connections in the previous year.

© Morrison Low

Compliance

DCC was not fully compliant with the drinking water standards in 2023. Non-compliance related to lower than required levels of free available chlorine in the Wingatui distribution zone and exceeding the maximum sampling intervals in a number of locations. Steps have been put in place to address all of these issues.

All of DCC's water supplies have bacterial and protozoal barriers and residual disinfection in place.

Taumata Arowai reports than in 2023 it received 3 notifications for MAV exceedance on the Dunedin City supply, and that the Waikouaiti supply exceeded lead MAVs on one occasion.

Area	22/23 results	22/23 Target	21/22 results	Trend[4]
Bacterial compliance	81%	100% - Not Achieved	50.5%	↑
Protozoal compliance	98.6%	100% - Not Achieved	99.6%	↓

Demand management

Dunedin experienced 3.2% growth in its population between 2022 and 2023.

Dunedin already faces some constraints on water supply. It's draft 2024 infrastructure strategy notes that constraints exist in relation to:

- Flows and pressure not always meeting requirements for firefighting purpose
- Occasional issues during summer months where raw water take needs to reduce to maintain minimum flows
- Infrastructural constraints on the volume of water able to be delivered to some parts of the city
- Expiring water take consents, particularly in the Taieri plains area which is already over-allocated

Water Consumption
280 ↑
(lpd/resident)

Network condition and age

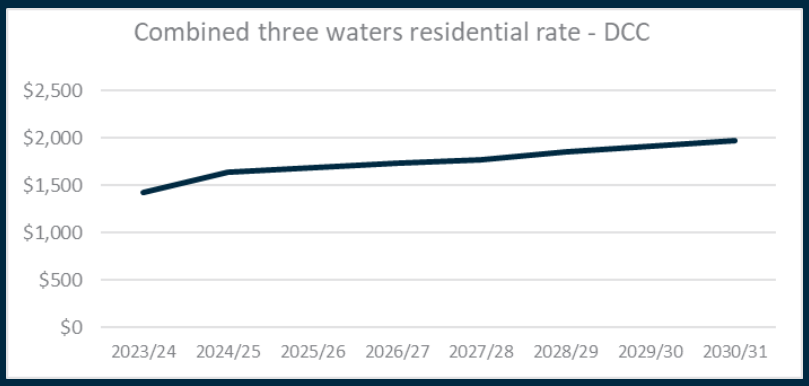
A large proportion of Dunedin's three waters network is yet to have a condition assessment, however DCC's infrastructure strategy identifies that a significant proportion of its wastewater reticulation network and treated water pipelines are in poor condition.

Particular issues are noted relating to the wastewater network, which is experiencing stormwater and ground water infiltration and inundation. This also creates capacity issues in the network during high intensity rainfall events.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	2%	4%	4%	1%	2%	87%
Wastewater	61	1%	3%	3%	1%	1%	91%
Stormwater	57	1%	1%	2%	1%	3%	92%

[4] Compared to previous year

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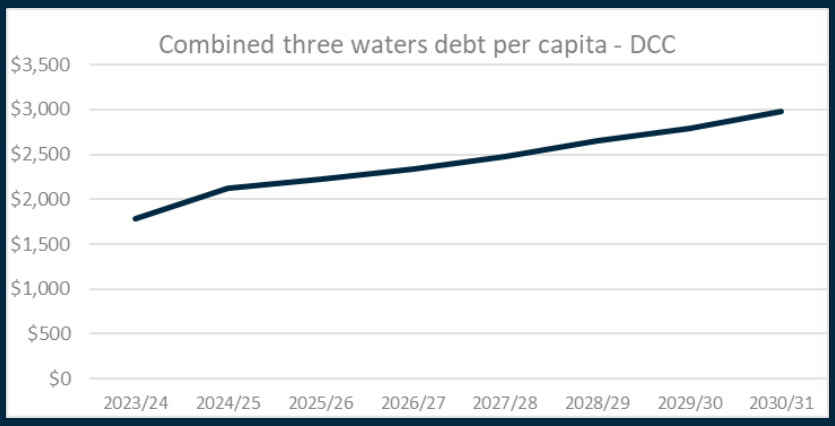


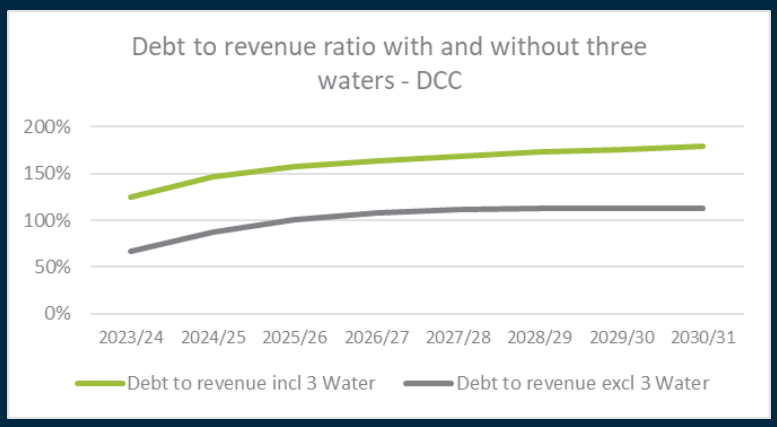
Three waters residential rates

Projections for Dunedin City Council, based on its adjusted 2021/31 Long Term Plan, see average residential three waters rates increase from $1,430 including GST in 2024 to $1,980 including GST by 2031.

Three waters debt

Dunedin's three waters net debt over the period of its adjusted 2021/31 long term plan is projected to rise from approximately $247 million in 2024 to $428 million in 2031. This translates to $2,980 per capita in 2031.





Whole of council debt

Dunedin's 2021 Long Term Plan projects total debt to reach 180% of revenue by 2031.

An increased capital works programme and borrowing requirements identified as part of the 2024 long term plan preparation would likely have resulted in further increases to debt to revenue ratios. Our projections do not anticipate Dunedin breaching its 280% borrowing limits based on increased three waters capital expenditure alone.

Notably, DCC's debt to revenue ratio is expected to improve if three waters revenue and debt were to be transferred. However, the upward trend of borrowings excluding three waters, indicates that at the time of the 2021 LTP, three waters investment needs were not significantly constraining planned investment in other council activities.

© Morrison Low

Gore District Council

12,711 population (2023)

9,290 people serviced with water supplies

3 wastewater treatment plants

3 water treatment plants

126 km water supply pipes

62 km stormwater pipes

108 km wastewater pipes

10 water connections per kilometre

76% of people live in urban areas

$96,800 average household income (2019)



Key issues

Separation of wastewater & stormwater

Approximately 40 % of Gore and 25 % of Mataura's wastewater and stormwater networks are combined.

A study completed in 2018 estimated that it would cost $175 million to achieve full separation of the Gore network.

Water loss

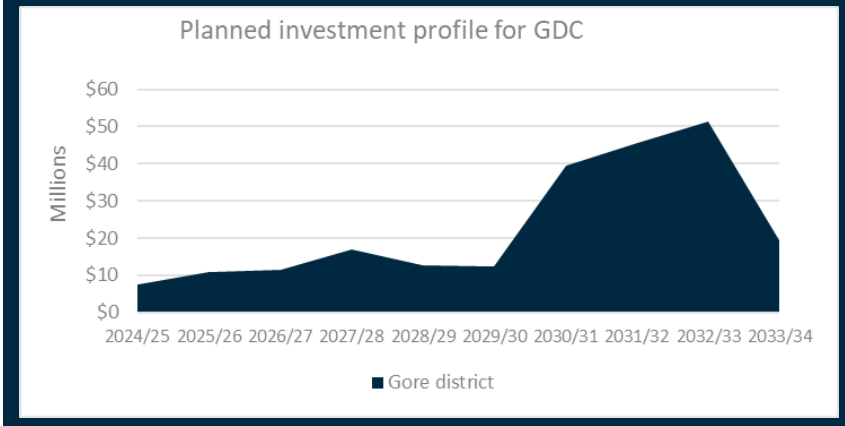
Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage.

Given limitations on water takes from Gore's surface water supplies during dry periods, a reduction in leakage would reduce the need for water restrictions.

Debt constraints

GDC's current debt projections see it breaching both the LGFA lending covenants for credit rated, and unrated, councils. With the significant majority of this borrowing relating to three waters, investment in three waters infrastructure will be constrained without additional rates rises to support further lending.

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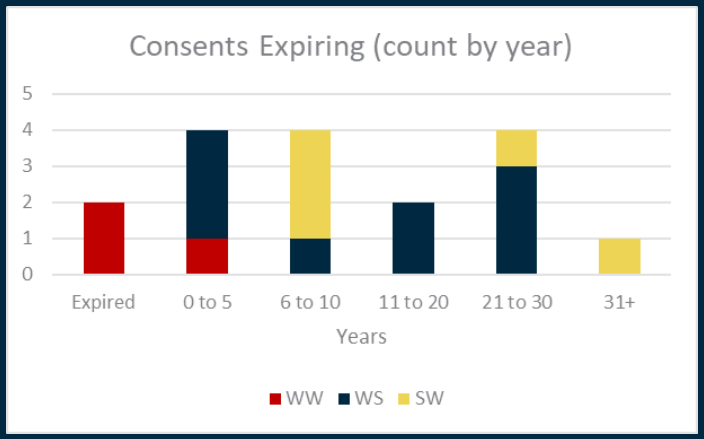


$227 million of planned investment over 10 years

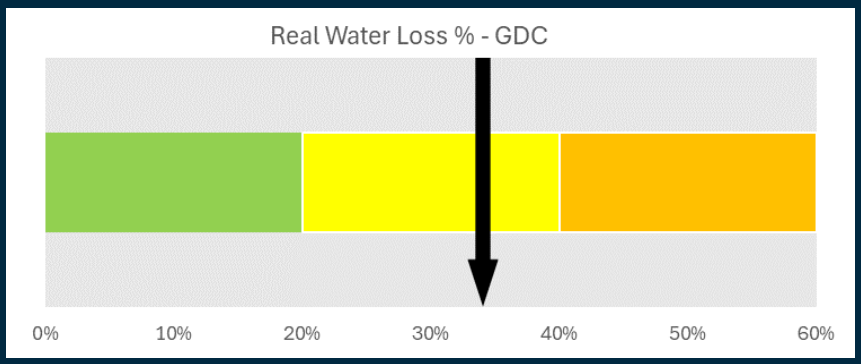
The programme is back loaded, peaking at $51 million in 2033. For context, GDC's entire planned capital works programme (for all activities) in 2024 equalled only $11 million

Expiring consents

GDC is currently in the process of applying to renew its expired discharge consents for the Gore and Mataura Wastewater Treatment Plants. Significant upgrades to improve the performance and minimise cultural impacts are expected as part of this consent renewal process.



Network performance



Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage. Investigations have not been able to identify the source of this leakage.

Managing water loss on the network would reduce the frequency of water restrictions being required in summer.

GDC's wastewater network met its target levels of service in 2023, with no dry weather overflows being reporting in its annual report.

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Compliance

Gore reported that it was not compliant with protozoal and bacterial criteria in the drinking water quality assurance rules in 2023. Non-compliance related to the Mataura and Hilbre Ave water treatment plants. The Hilbre Ave water treatment plant is due to be decommissioned once a pipeline has been installed to enable raw water from that plant to be treated at the East Gore water treatment plant.

A temporary consumer advisory notice was in place for the Gore water supply for 2 days in 2023.

Area	22/23 results	22/23 Target
Bacterial compliance	Non-compliant	100%
Protozoal compliance	Non-compliant	100%

GDC had no abatement notices, infringement notices, or enforcement orders on its wastewater network in 2023 or 2022.

Demand management

GDC district is not expected to experience significant population growth in the near future, with population estimates indicating a small reduction in the population of the Gore district by 2043. Water consumption, at 452 litres per resident per day, is the third lowest in the two regions.

Water Consumption
452 ↓
(lpd/resident)

The district currently experiences periods where surface water takes for the Gore water supply need to be supplemented from a second water source. Increased frequency of extreme weather events and changing resource consent conditions may increase the need for this in the future.

Increased frequency of intense rainfall events may exacerbate existing capacity issues on the wastewater network, which are primarily the result of the large portion (40% in Gore) of combined wastewater and stormwater network.

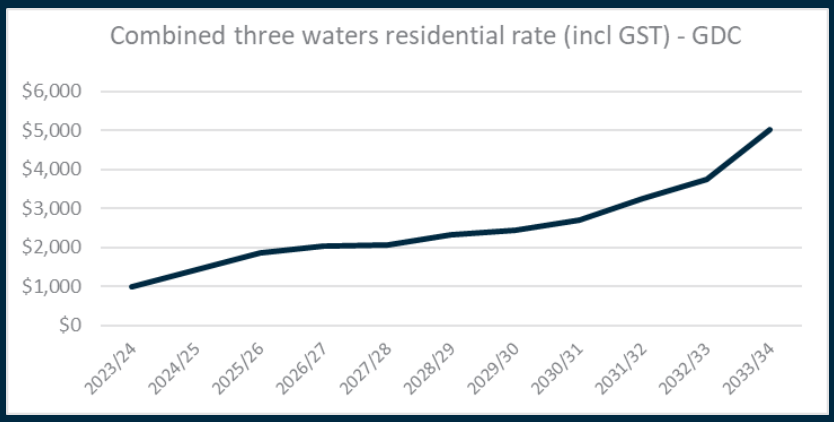
Network condition and age

GCC's assets are the third oldest across the two regions, with 21% of its water network having a predicted renewal date prior to 2030. Over 70km of water reticulation assets are predicated to require renewal in the 2030s, including the majority of its asbestos cement pipes.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	45	18%	0%	0%	0%	0%	82%
Wastewater	52	10%	0%	3%	0%	1%	86%
Stormwater	43	17%	1%	0%	0%	0%	82%

A significant portion of the assets have yet to be condition assessed, this is a risk to Council. A condition assessment carried out in 2022 identified that over 60% of earthenware wastewater pipes were assessed as being in poor or very poor condition. Earthenware represents a significant proportion of the network.

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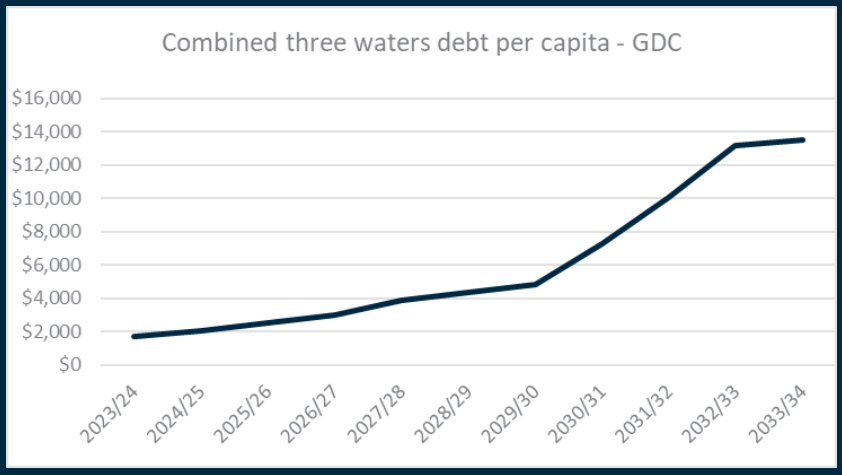


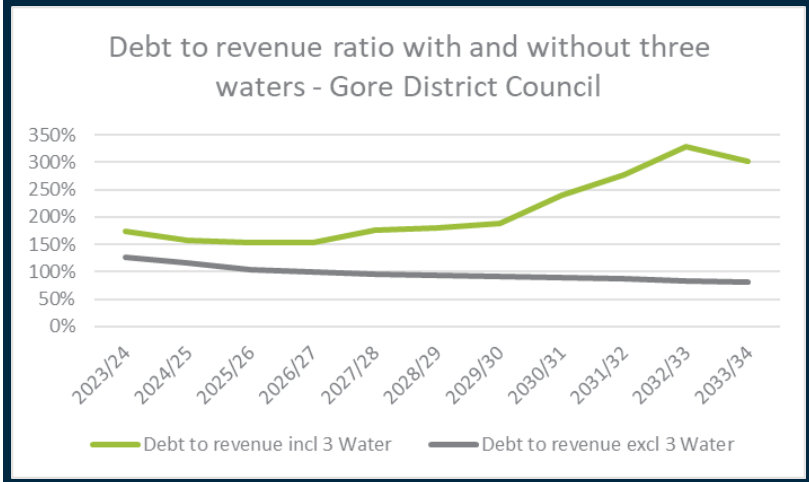
Three waters residential rates

The average three waters residential rate in GDC for 2023/24 was approximately $990 (including GST). Based on draft 2024 Long Term Plan financials that were prepared prior to Council opting to defer it's long term plan, this was expected to increase five-fold to $5,000 by 2034

Three waters debt

Three waters debt for Gore District Council is projected to increase from approximately $22 million in 2023/24 to over $180 million by 2033/34 according to early drafts of its now deferred 2024 long term plan. In per capita terms, three water debt will increase nearly six-fold from $1,750 per person to over $13,500 per person.





Whole of council debt

Gore District Council is projected to exceed its 175% borrowing limit for unrated councils until 2027/28 at which point it would need to obtain a credit rating to access further borrowing capacity. LGFA's 280% debt to revenue ratio is currently also projected to be exceeded in 2032/33 at which point GDC would need to increase revenue to fund further investment.

The removal of three waters sees Gore's debt steadily reduce over time, and for borrowing to remain well within the 175% limit.

© Morrison Low

Invercargill City Council

55,599 population (2023)

50,456 people serviced with water supplies

2 wastewater treatment plants

1 water treatment plant

422 km water supply pipes

417 km stormwater pipes

376 km wastewater pipes

52 connections per kilometre

91% of people live in urban areas

$98,000 average household income (2019)



Key issues

Expiring consents

Expiring resource consents for wastewater treatment plants in Bluff and Clifton are estimated to cost a combined $111 million which is included in ICC's LTP. Any future requirement to discharge to land would incur further costs. Price estimates range from $5 – 27 million for Bluff and $40 – 200 million for Clifton

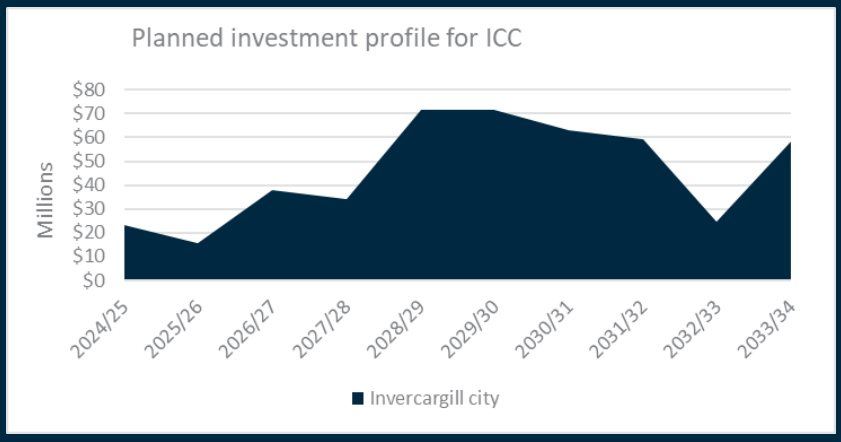
Water source resilience

ICC is currently dependent on a single water source, an additional source is required to provide water security and resilience. Development of an additional water source has been identified as a strategic priority and there is $60 million in ICC's LTP for this project

Ageing infrastructure

ICC's three waters infrastructure has the equal oldest average age across the group

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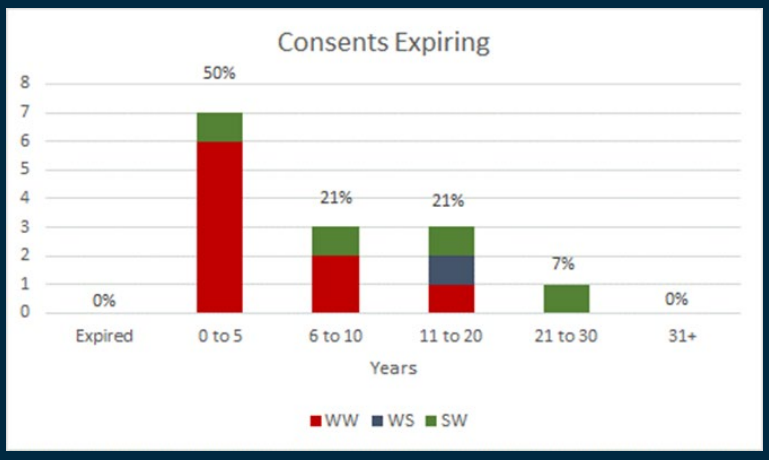


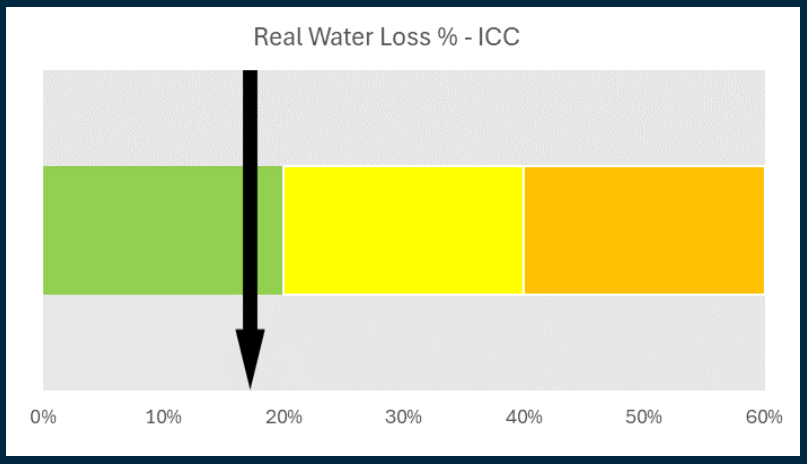
$460 million of planned investment over 10 years

ICC's three waters capital works programme peaks at $71 million per year in 2029; that's 50% larger than its entire capital works programme in 2024

Expiring consents

ICC has six wastewater consents that are due to expire in the next 5 years, with a further two due to expire in the following 5 years. These consents relate to its wastewater treatment plants in Clifton and Bluff, and $111 million has been provided for within its LTP for the upgrades to support these consent renewals.





Network performance

ICC experienced an estimated 18.5% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was reported as being 9.7%.

There were 1.37 dry weather overflows of the wastewater network per 1,000 connections in 2023

© Morrison Low

Compliance

ICC reports full compliance with the drinking water standards in its 2023 annual report and is not reported to have any Maximum Acceptable Value (MAV) exceedances or consumer advisory notices during the year.

Area	22/23 results	22/23 Target	21/22 results	Trend[5]
Bacterial compliance	100%	100% - Not Achieved	100%	↔
Protozoal compliance	100%	100% Not Achieved	100%	↔

ICC has been compliant with all of its wastewater consents, reporting no consent breaches in the last two years.

Demand management

ICC has planned to install water meters across its network and has set aside $10.8 million in its LTP to do this. ICC already reports the lowest average water consumption per resident out of all councils in the Otago and Southland regions.

Demand projections for ICC's water supply, show ICC is likely to remain within its consented water take limits for the foreseeable future, with or without the aluminium smelter at Tiwai point remaining open

Water Consumption
231 ↓
(lpd/resident)

Network condition and age

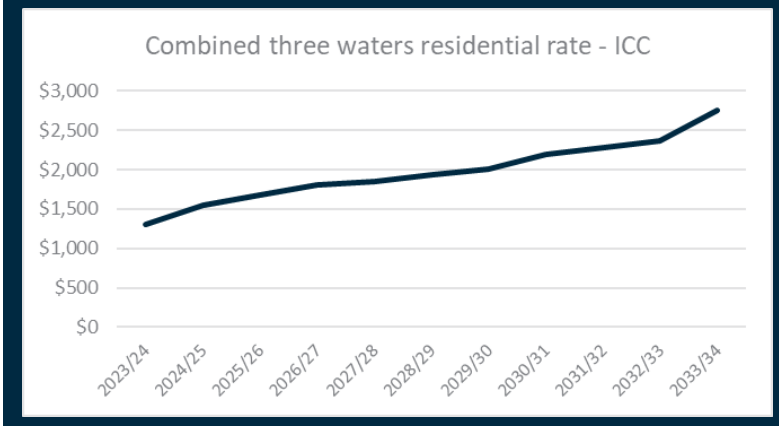
ICC's water, wastewater and stormwater infrastructure each have the equal highest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	16%	27%	18%	21%	18%	0%
Wastewater	61	21%	11%	44%	16%	8%	0%
Stormwater	58	18%	13%	37%	24%	8%	4%

39% of ICC's water network has been identified as being in poor or very poor condition, while 24% of wastewater assets and 32% of stormwater assets fell into the same categories. ICC's asset management plan notes a low level of confidence in the asset condition data as many of the assets sampled had known issues.

[5] Compared to previous year

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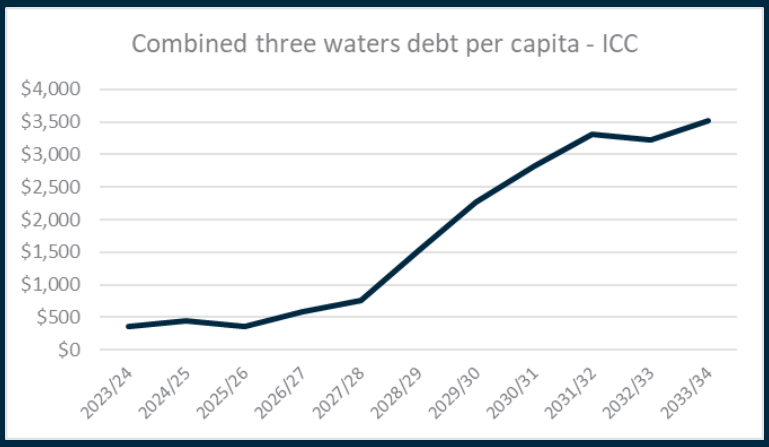


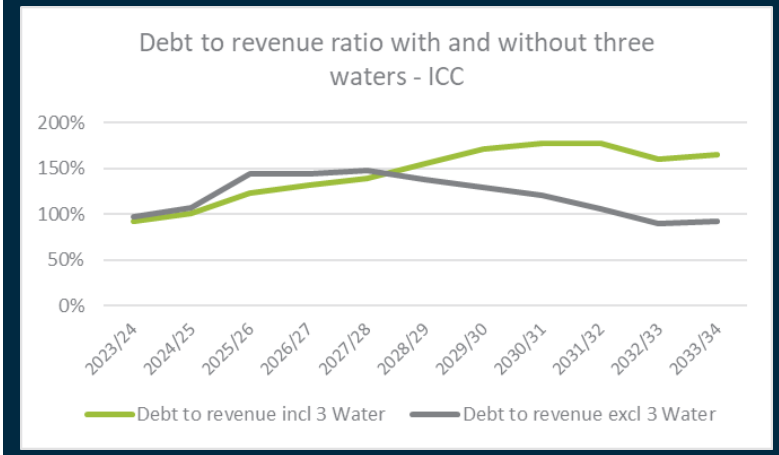
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 110% from approximately $1,300 in 2024 to over $2,750 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $20 million in 2024 to over $220 million by 2034, or from $358 per head of population to over $3,500 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 178% in 2031/32, and it is unlikely to exceed LGFA lending limits.

In the short term, without three waters debt and revenue, ICC will have reduced borrowing capacity (though still within LGFA lending limits).

Longer term, ICC will have an improvement in its total borrowing capacity if three waters debt and revenue was transferred.

© Morrison Low

Queenstown Lakes District Council

47,808 population (2023)

96,471 people serviced with water supplies

14 wastewater treatment plants

14 water treatment plants

642 km water supply pipes

465 km stormwater pipes

516 km wastewater pipes

51 water connections per kilometre

88% of people live in urban areas

$110,600 average household income (2019)



Key issues

High level of growth

QLDC continues to experience significant levels of population growth.

Providing infrastructure to support that growth is expensive, $721 million of investment has been identified as being needed in the next ten years.

Borrowing capacity

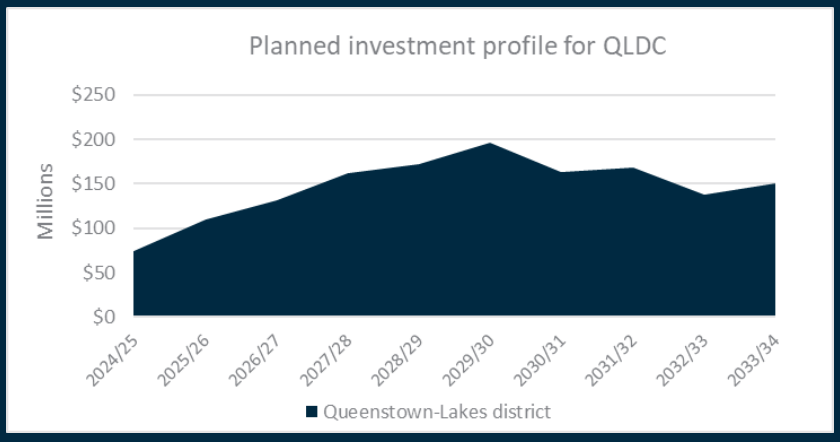
QLDC's LTP projects an average debt to revenue ratio over the ten year period of 260%. The costs of serving this debt and funding depreciation account for half of the 15.6% rates rise proposed for the 2024/25 financial year.

Debt limits leave very little borrowing headroom.

Servicing tourism demand

QLDC's economy is dependent on its high levels of tourism. While tourism supports business in the district, the high peak tourist population means QLDC's three waters infrastructure needs to support a population that is almost double its resident population.

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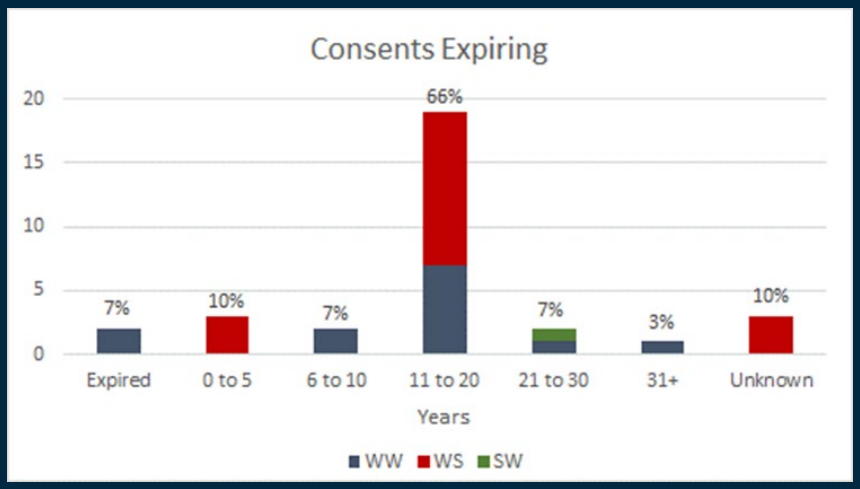


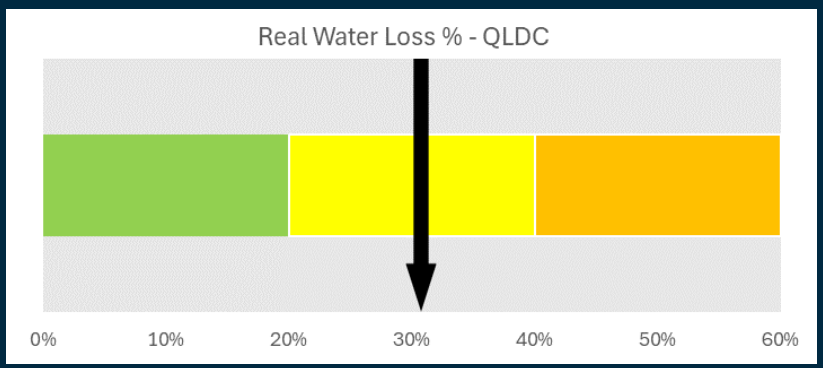
$1.5 billion of planned investment over 10 years

QLDC's three waters capital works programme peaks at $196 million per year in 2029, for context QLDC's entire capital works programme in 2024 total $202 million.

Expiring consents

QLDC has a steady rate of consents expiring until the 11 to 20 year period where 66% of its consents are due to expire.





Network performance

QLDC experienced an estimated 32% real water loss in the 2023 financial year, which is in the top half of councils in the Otago and Southland regions and high for a young network age.

There were 2.03 dry weather overflows of the wastewater network per 1,000 connections in 2023

© Morrison Low

Compliance

Queenstown has 10 registered drinking water schemes. Of these, six have all barriers in place, and four do not have protozoal barriers. All ten schemes have residual disinfection in place.

Area	22/23 results	22/23 Target	21/22 results	Trend[6]
Bacterial compliance	55%	100% - Not Achieved	100%	↓
Protozoal compliance	40%	>50% Not Achieved	11%	↑

QLDC reported 85% compliance with its resource consents in 2023 (the same as the previous year). There were two abatement notices for two wastewater treatment plants in the district in 2023.

Demand management

Demand management and servicing growth are the biggest issues facing QLDC. It's long term plan sets aside half of its three waters capital works programme, or $721 million over the next ten years to support growth.

QLDCs three waters asset management plan notes that the district is already facing regular water restriction during peak periods and is struggling to meet consumer demand in some areas.

Water Consumption
508 ↑
(lpd/resident)

QLDC's 2022/23 water consumption rate is among the highest in the Otago and Southland regions and the consumption trend has worsened compared to the previous year.

Network condition and age

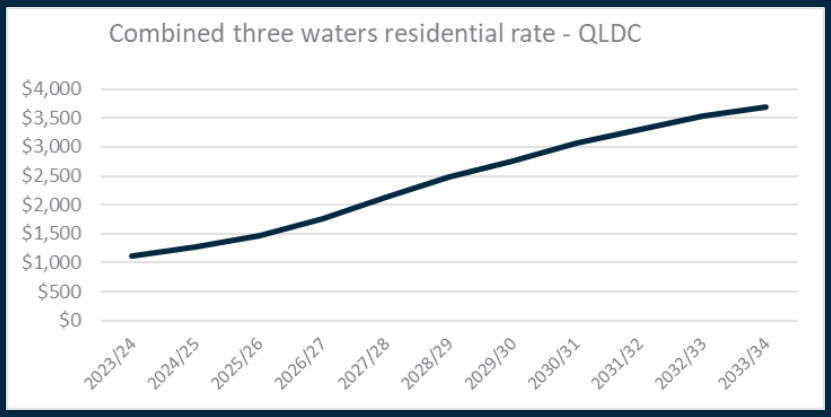
QLDC's water, wastewater and stormwater infrastructure all have the lowest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	19	58%	14%	11%	9%	1%	7%
Wastewater	22	53%	13%	10%	12%	5%	7%
Stormwater	25	58%	15%	11%	4%	8%	4%

QLDC notes that the condition of its three waters infrastructure is very good, with over 70% of its water supply and stormwater assets rated as good or very good. 66% of QLDC's wastewater network is also in good or very good condition.

[6] Compared to previous year

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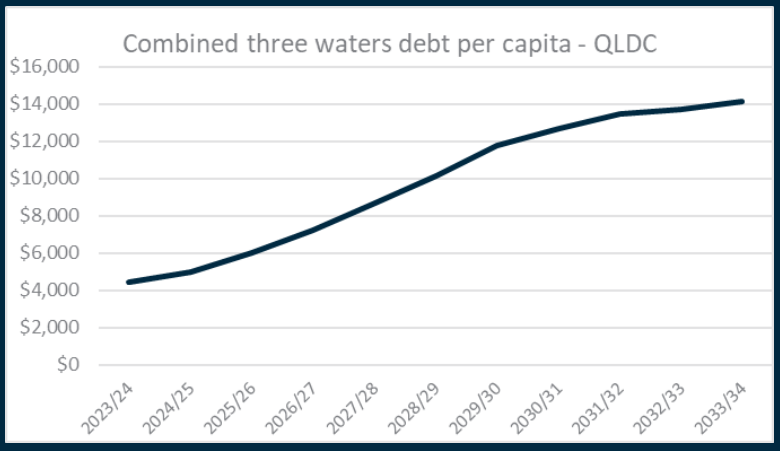


Three waters residential rates

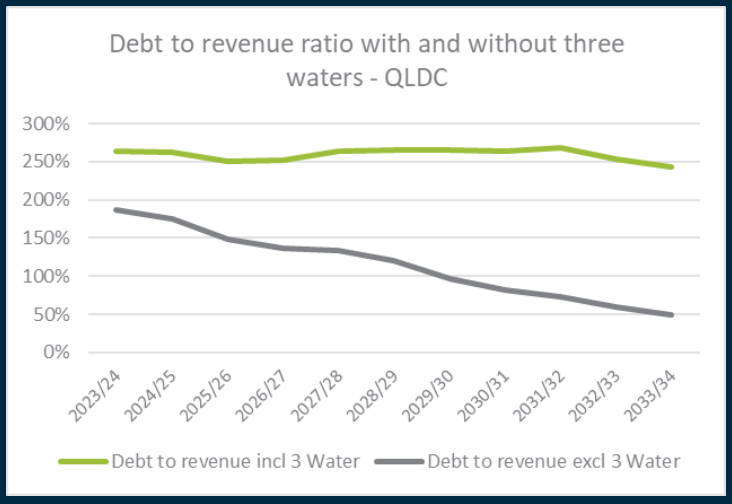
The average three waters residential rate in QLDC for 2023/24 was approximately $1,100 (including GST). Over the 10 years covered in QLDC's LTP the three waters rate is expected to increase by 230% to almost $3,700 in 2034.

Three waters debt

Three waters debt for QLDC is projected to increase from approximately $240 million in 2023/24 to over $1 billion by 2033/34 according to its 2024 long term plan. In per capita terms, three waters debt will triple from $4,470 per person to over $14,167 per person.



Whole of council debt



Based on LTP projections, QLDC is projected to remain very closely within its 280% borrowing limit through the period of its LTP. While projected debt levels do not exceed borrowing limits, QLDC will retain very little borrowing headroom.

The removal of three waters sees Queenstown's debt reduce steadily during the LTP period. This indicates that investment in community infrastructure outside of three waters has been constrained during the LTP period due to the need to invest in three waters. 60% of Queenstown's capital works programme relates to three waters services, while only 33% of its operating revenue (excluding development contributions) is from three waters charges.

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Southland District Council

31,833 population (2023)

11,403 people serviced with water supplies

19 wastewater treatment plants

12 water treatment plant

681 km water supply pipes

112 km stormwater pipes

246 km wastewater pipes

13 water connections per kilometre

22% of people live in urban areas

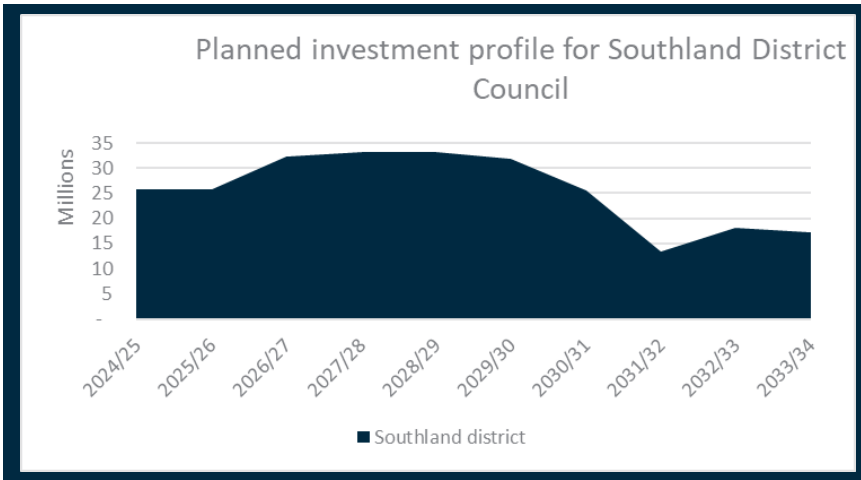
$112,000 average household income (2019)



Key issues

Small communities	Expiring consents	Affordability
SDC provides reticulated drinking water to 12 communities within its district, and reticulated wastewater to 19 communities. Only two of these communities have populations over 1,000 people and opportunities to connect schemes are very limited.	Half of SDC's existing resource consents across its three waters activities are expiring within 10 years, including 13 consents relating to wastewater treatment	Average residential rates for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

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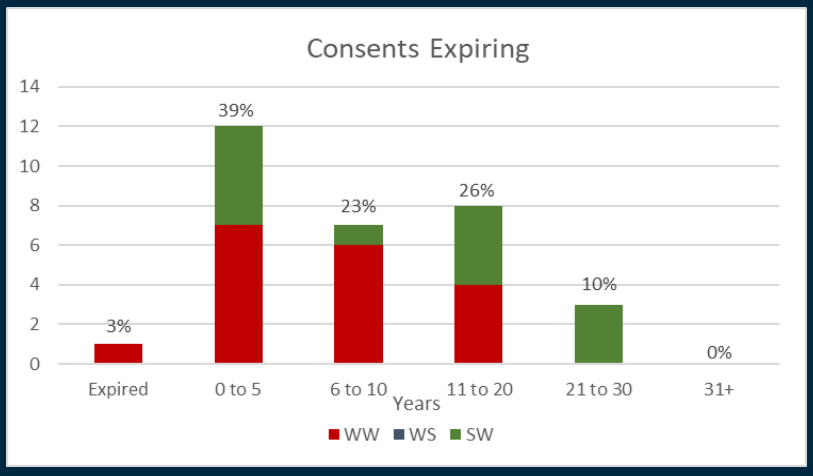
$256 million of planned investment over 10 years

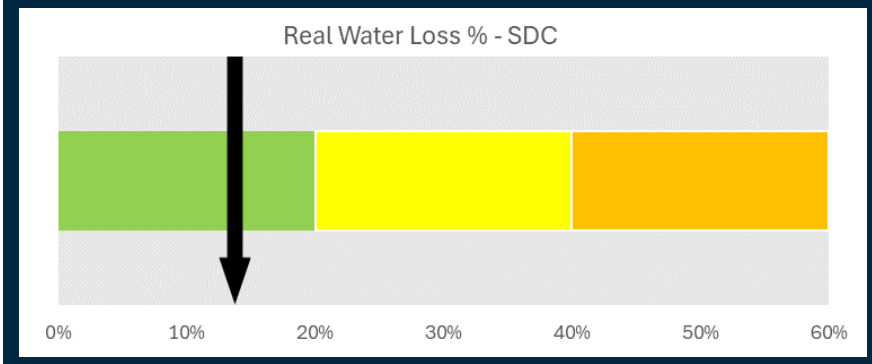
SDC's three waters capital works programme peaks at $33 million per year in 2028, for comparison its three waters capital works programme in 2024 was $12.5 million.

Expiring consents

SDC has 13 wastewater consents that are due to expire in the next 10 years. Treatment plant upgrade and consent renewals are planned for Balfour, Winton, Gorge Road, Manapouri, Nightcaps and Ohai, totalling around $37 million.

Recent announcements regarding standardised design for wastewater treatment plants with populations of fewer than 1,000 people may reduce future investment requirements for some of these plants.





Network performance

SDC experienced some of the lowest rates of estimated water loss in the Otago and Southland regions, with 15% water loss across its water supply schemes in the 2023 this was down from 16% in 2022.

There were no dry weather overflows of the wastewater network reported in 2023.

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Compliance

SDC has 12 drinking water schemes registered with Taumata Arowia. All 12 schemes have bacterial and protozoal barriers and residual disinfection in place other than the Eastern Bush/Otahu Flats RWS scheme which does not have a protozoal barrier in place.

SDC had one long term consumer advisory notice in place on its Tuatapere scheme for 198 days in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[7]
Bacterial compliance	96%	100% - Not Achieved	91%	↑
Protozoal compliance	18%	100% Not Achieved	36%	↓

SDC reported that in 2022/23 there were 15 incidents where resource consents for wastewater were breached.

Demand management

SDC does not anticipate any significant growth in demand across the district.

Given the limited expected growth it is not anticipated that a specific programme will be required to manage people related growth. SDC intends to undertake further work in the upcoming three years to more fully understand the impact of climate change related demand.

Water Consumption
583 ↓
(lpd/resident)

SDC notes that it has existing capacity issues on its stormwater network, and that future efforts to separate its wastewater and stormwater networks in those areas may overwhelm the existing stormwater infrastructure.

Network condition and age

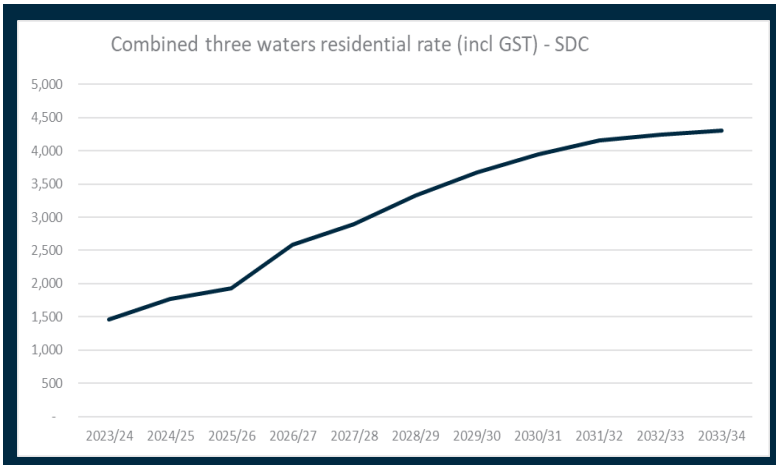
The age of SDC's 3 waters assets are all in line with the Southland/Otago region average, except its wastewater which is younger.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	39	19%	5%	65%	6%	5%	0%
Wastewater	30	10%	20%	40%	20%	10%	0%
Stormwater	49	17%	16%	24%	30%	9%	4%

A high proportion of SDC's wastewater and stormwater assets are in poor or very poor condition, while the majority of its water infrastructure is in an average condition.

[7] Compared to previous year

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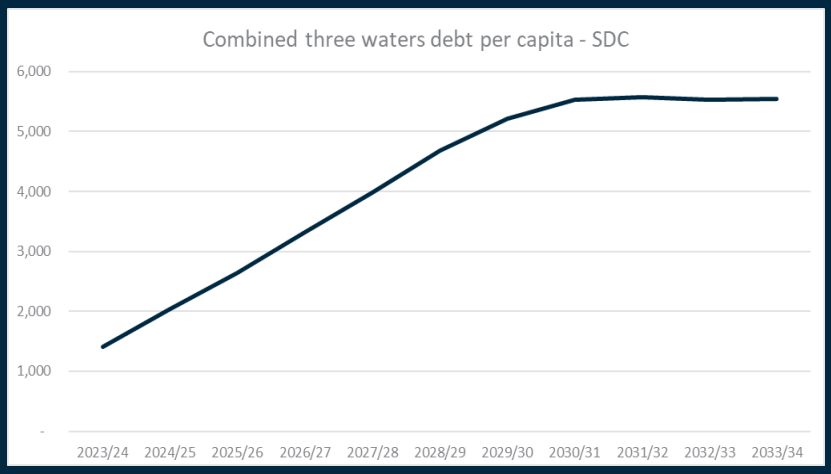


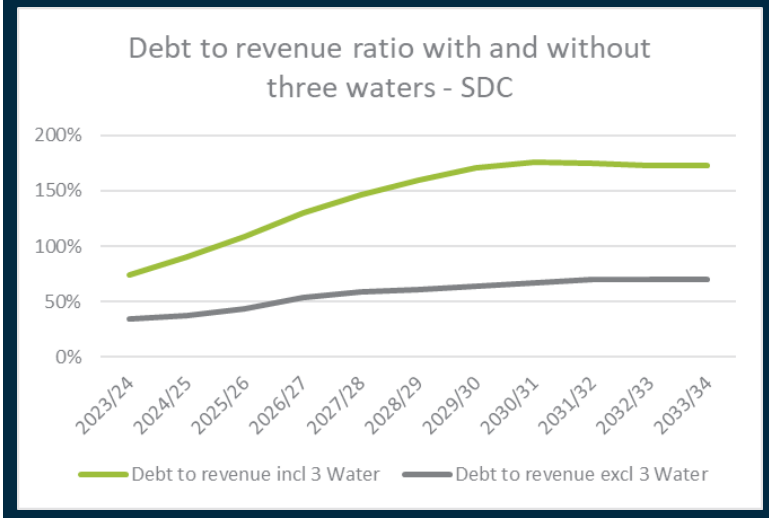
Three waters residential rates

Average residential rates (including GST) for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $46 million in 2024 to almost $200 million by 2034, or from $1,410 per head of population to over $5,540 per capita.





Whole of council debt

SDC does not currently hold a credit rating and therefore has a borrowing limit from LGFA of 175%.

Based on LTP projections, this will be close to being exceeded in 2031. Borrowing capacity will be heavily constrained without a credit rating.

Removal of three waters debt and revenue would ensure SDC stays well within LGFA lending limits.

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Waitaki District Council

23,472 population (2023)

20,202 people serviced with water supplies

8 wastewater treatment plants

15 water treatment plants

1,766 km water supply pipes

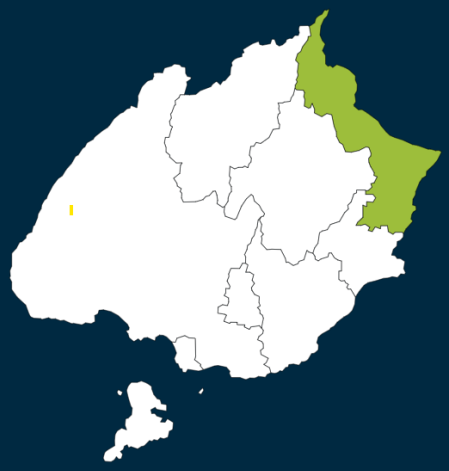
57 km stormwater pipes

201 km wastewater pipes

7 water connections per kilometre

45% of people live in urban areas

$82,200 average household income (2019)



Key issues

Small communities

WDC provides drinking water and wastewater services to a number of small schemes. 13 of its 15 drinking water schemes serve a population under 1,000. Every water and wastewater scheme in WDC has their own targeted rate, meaning large variations in the rates paid to receive water and wastewater services.

Compliance

Delivering drinking water that is compliant with drinking water standards has been challenging in a number of small and rural schemes in particular.

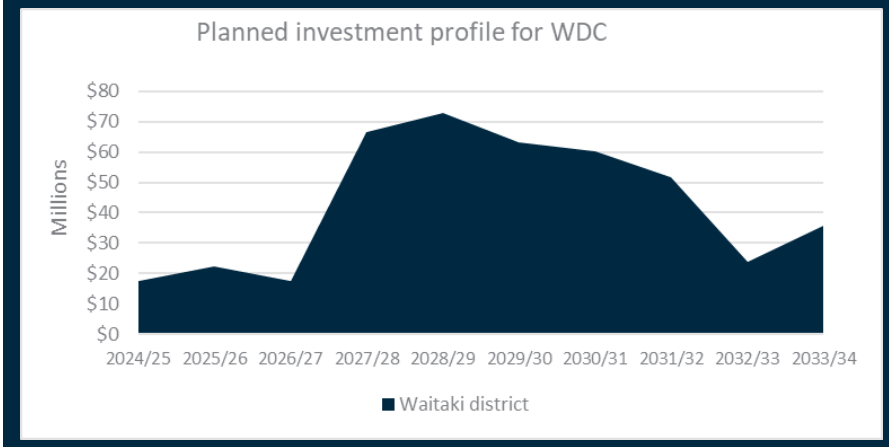
Over half of WDC's water schemes were under long term consumer advisory in 2023, with an estimated 1,478 people affected.

Water loss

WDC experiences the highest rates of water loss across the Otago and Southland regions, with an estimated loss as high as 60% in Kurow.

Water loss can be difficult to detect due to the high prevalence of free draining soil meaning loss is not often evident on the surface.

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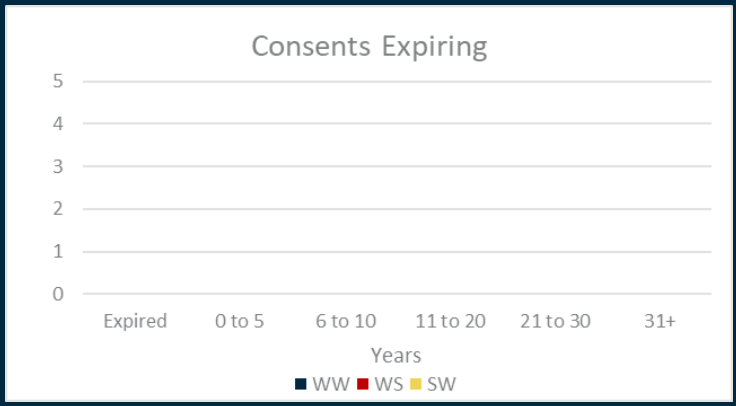


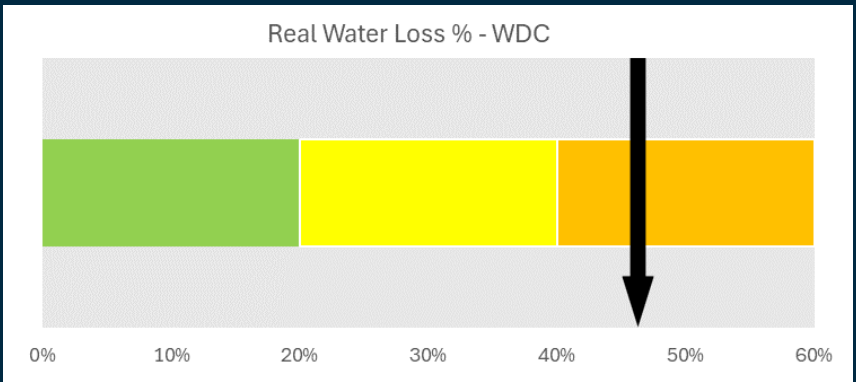
$430 million of planned investment over 10 years

WDC's three waters capital works programme peaks at $72 million per year in 2029, for context WDC's entire capital works programme in 2024 totalled $84 million.

Expiring consents

We have not been provided with consent expiry data for WDC. However, WDC's capital works programme includes consent related upgrades for Duntroon, Kurow, Lake Ohau, and Oamaru wastewater treatment plants. Total estimated capital expenditure for these upgrades total $89 million.





Network performance

WDC experienced between 35% - 60% water loss across its water supply schemes in the 2023 financial year. This is the largest rate of lost water across the Otago and Southland regions.

There were 1.3 dry weather overflows of the wastewater network per 1,000 connections in 2023

Compliance

WDC reported only 25% compliance with the drinking water standards in its 2023 annual report. Eight of its 15 registered water supply schemes were under long term consumer advisory notice during 2023. Combined, these schemes service a population of 1,478.

Area	22/23 results	22/23 Target	21/22 results	Trend[8]
Bacterial compliance	25%	100% - Not Achieved	67%	↓
Protozoal compliance	25%	100% Not Achieved	50%	↓

WDC received two infringement notices in 2023 for its wastewater consents, these related to abatement notices received in 2022.

Demand management

WDC has high levels of water loss and the third highest level of water consumption per resident across the Otago and Southland regions.

WDC is only expected to experience modest growth over the next ten years. Controlling water loss and demand management should ensure that infrastructure and existing water consents are able to manage future demand for three waters services.

Water Consumption
524 ↑
(lpd/resident)

Funding has been set aside to undertake wastewater treatment plant capacity studies for the Oamaru and Kurow wastewater treatment plant and the Oamaru stormwater network over the next five years. This should provide additional data to confirm whether capacity upgrades are required in the future.

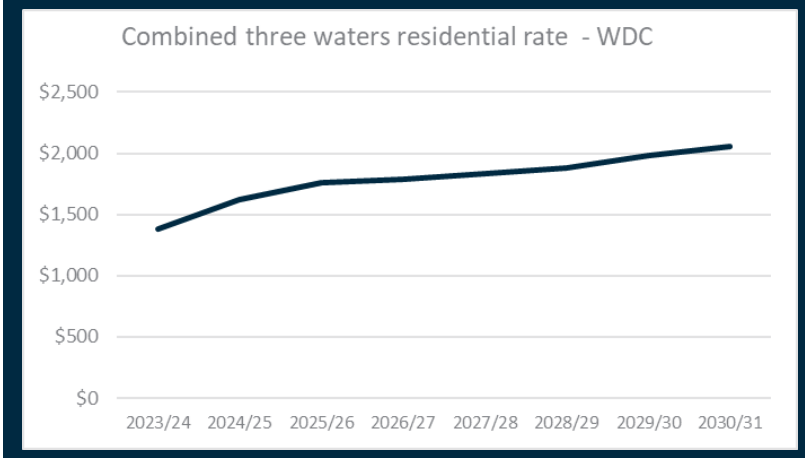
Network condition and age

WDC's wastewater and stormwater infrastructure have average ages of 50 years or more. It's water network has a lower average age, of 40 years. This makes WDC's water network among the oldest in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	40	0%	0%	0%	0%	0%	100%
Wastewater	50	23%	3%	0%	2%	1%	71%
Stormwater	55	0%	0%	0%	0%	0%	100%

The majority of WDC's water, wastewater, and stormwater networks are in an unknown condition. The proportion of wastewater assets rated as being in very good condition appears high compared to average asset age.

[8] Compared to previous year

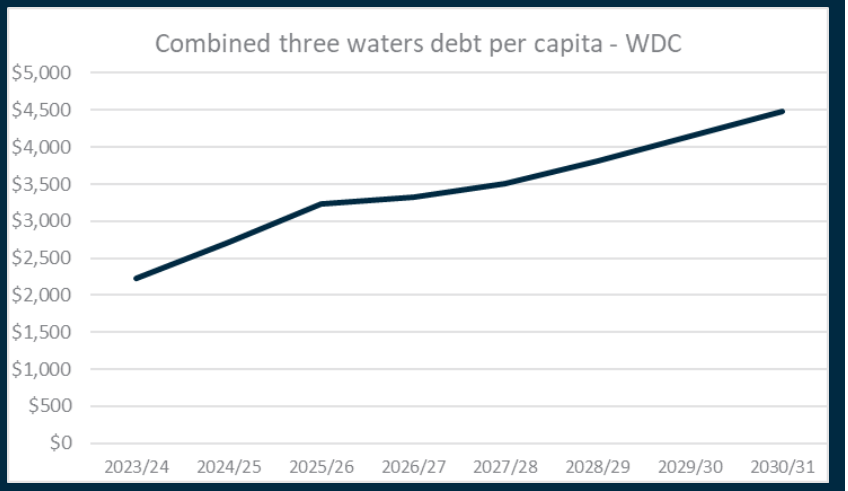


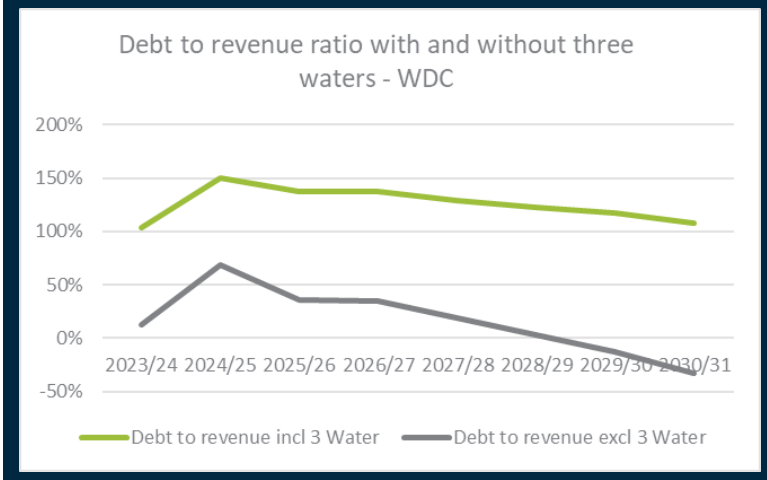
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 51% from approximately $1,380 in 2024 to over $2,050 by 2031.
Increases in planned investment since the 2021 LTP may increase rates by a further $1,600.
There may be a wide variation in actual charges due to the WDC's use of scheme based targeted rates.

Three waters debt

Net three waters debt is projected to increase from approximately $54 million in 2024 to over $110 million by 2031, or from $2,230 per head of population to over $4,470 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 150% in 2025, and it is unlikely to exceed LGFA lending limits.

Transfer of three waters debt and revenue would improve Council's debt to revenue ratio, and improve its access to funding through LGFA. Negative values represent council holding investment assets that exceed its debt in later years.

We understand updated financial projections show debt significantly exceeding LGFA limits.

Appendix One

Addressing inconsistencies with currency of data

The change in government and consequential repeal of the previous Government's Three Waters reform programme resulted in significant changes to planning assumptions made by councils in the development of their 2024/34 Long Term Plans. As a result, councils were given the opportunity to delay the adoption of their Long Term Plans by up to 1 year.

In the analysis included within this report, we have relied on the *latest* adopted/approved financial and asset information available for each council. Where councils have elected to delay their Long Term Plans by a year, this information typically relates to either the 2021/31 LTP or early internal drafts of the 2024/34 long term plan that were prepared prior to the decision to defer.

We have disclosed information sources for these councils within this report.

Councils that have delayed their LTP include:

- Central Otago District Council and Gore District Council, who provided draft LTP operating and capital budgets for the 2024 – 2034 period. These budgets were used in lieu of a final 2024 LTP.
- Dunedin City Council and Waitaki District Council, who provided draft LTP capital budgets but were unable to provide draft LTP operating budgets for the entire 2024 – 34 period. For these two councils, we have:
  - Not produced forecasts beyond 2031
  - Relied on actual results for the 2021, 2022 and 2023 financial years
  - Relied on Annual Plans for the 2024 and 2025 financial years
  - Not included draft capital works programmes in our projection of future rates or debt for this exercise.

The differences between the 2024 and 2025 financial years in the 2021/31 Long Term Plans and Annual plans are significant. To address this, we have amended revenue, operating expenditure, asset and liability balances to reflect the increase values included in 2024 and 2025 annual plans. To achieve this, we have:

- Calculated the projected annual movement in income, expenditure, debt and assets in the adopted 2021/31 Long Term Plan in dollar terms
- Added the calculated annual movement from the 2021/31 long term to the previous year's closing balance.

Given observed increases in expenditure in long term plans across the sector, our approach is likely to have understated debt and income projections for those councils that have delayed adoption of their Long Term Plans.

This difference in data baselines will need to be resolved for the development of any financial modelling that may be included in the next phases of this project.

We have presented financial information out to 2034 for Councils that have been able to provide 2024 Long Term Plans or financial data. This is included in the individual council summaries.

Appendix Three - Modelling assumptions

Assumptions applied to our "comparator" scenarios

In order to enable a like for like comparison between regional delivery options and the existing delivery model, we have made adjustments to financial and capital investment programmes provided by each council as the 'status quo'. These adjustments ensure that differences between regional delivery models are not purely the result of a different approach to managing revenue, debt and expenditure, or differences to underlying assumptions across the individual models.

This also means that the comparator scenarios presented in our modelling may not mirror an individual councils' current long term plan projections.

We have endeavoured to ensure that our approach aligns with the requirements of a water services delivery plan. This means that some councils may wish to use the comparator case from this modelling as a starting point for a water services delivery plan (WSDP) for in-house delivery. This is however a "best endeavours" approach, and councils may further refine capital programmes before preparing their WSDP.

Where councils are undertaking detailed asset and investment planning work this should then be used to inform their WSDP.

To assist councils in understanding the alignment of our comparator case with their own WSDP or LTP work, we have outlined the key adjustments and changes we have made below.

Operating expenditure

Our modelling of the comparator case scenarios for operating expenditure predominantly relies on each council's own operating budgets, as provided through our information request. Adjustments have been made to:

- Recalculate interest costs based on any amendments made to the capital works programme (refer below) and any additional revenue generated in order to stay within borrowing limits.
- Recalculate interest rates using a common interest rate across all councils. We have applied an interest rate of 5.52% in our modelling. Interest is calculated off the previous year's closing balance, meaning the effective interest rate is slightly lower than this when current year movements are considered.
- Recalculate depreciation based on any amendments made to the capital works programme. Depreciation rates are set at 1.53% for water supply, 1.53% for wastewater, and 1.47% for stormwater.
- Assets are revalued at 2% per annum and depreciation recalculated based off revalued asset base (including additions). This is broadly consistent with eh methodology currently proposed by Commerce Commission.
- Inflation is modelled at 2% per annum for years 11 – 30.

Capital expenditure

Capital expenditure is based on capital works programmes provided by Council staff with no adjustments in our base case. The impacts of changes in capital programmes is highlighted through our sensitivity testing.

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Sensitivity testing scenarios that have been applied are outlined in, and are based on, the findings of the work completed by Utility NZ (**Appendix Four** - Southern CCO Programme Assurance Findings).

Revenue

Water Services Delivery Plan templates indicate some of the key measures that the Department of Internal Affairs (DIA) expect to be reported in relation to these tests, and therefore what may be expected by the Department. In particular:

- A chart demonstrating projected revenue versus projected costs including depreciation, and net operating surplus or loss. We anticipate that DIA are expecting revenue to at least equal total expenditure including depreciation based on the examples provided.
- An operating surplus ratio. DIA guidance notes that "Where this ratio percentage is negative, this represents the percentage increase required for revenues to cover costs". Costs in this ratio include depreciation.

Based on these questions, and additional commentary within the WSDP templates, we intend to model status quo arrangements to be fully funding depreciation from the 2028 financial year onwards. Councils that are not currently fully funding depreciation currently will be modelled to move to a fully funded scenario evenly over the remaining years.

In addition, from 2028 and beyond:

- Revenue has been modelled to "break even" before accounting for development contributions, vested assets and grants and subsidies.
- Additional revenue has been calculated to ensure that the council remains in borrowing limits. This revenue line is recovered through water/wastewater/stormwater charges and is calculated to be no more than the amount needed to remain within agreed debt caps.
- The additional debt repayment/control revenue is modelled to ensure that debt caps are not breached over the life of the modelling period, however the additional revenue is modelled over the entire modelling period, meaning revenue is collected in anticipation of debt otherwise exceeding limits. This will impact price paths, where councils may have otherwise deferred increases in revenue to a later year than our modelling. Our modelling attempts to smooth the impact of this increase.
- Development contribution revenue has been modelled to scale proportionally with changes in growth capital expenditure. Scaling is completed annually. Development contributions are only modelled where councils have provided details regarding expected development contribution revenue in their data.

Debt and borrowing costs

Revisions to capital works programmes, revenue, and expenditure all impact the amount of debt required by councils to fund their three waters activity. Our modelling recalculates three waters debt under the base case scenarios to ensure comparability with regional delivery models.

To calculate debt, we have:

- Assumed each councils' starting debt position is correct.
- Identified the cash surplus available from operations, development contribution receipts, and capital and operating subsidies.

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- Subtracted the cost of capital works from the cash surplus.
- Where this value is negative, we have increased borrowings to fund the difference.
- Where this value is positive, we have modelled a debt repayment.

We have not assumed any "regular" debt repayments under a table loan facility. Council's typically borrow through bond issues that are repaid on maturity date. Our modelling effectively assumes that these bonds are renewed if needed. Our modelling also assumes that in any given year there will be sufficient bonds expiring that council will have the opportunity to repay debt if it holds surplus cash.

Assumptions applied to base data

We've also made the following minor additional assumptions to data provided by councils.

- The percentage of water, wastewater and stormwater revenue received from residential customers is assumed to be consistent with the percentage split across these activities as provided to WICS in their RFI of 2021. We have not adjusted this percentage for Timaru to reflect the loss of revenue from Smithfield, on the basis that the lost revenue is likely to continue to be collected from commercial users in the future.
- Where specific projections of the number of connections has not been provided, we've assumed connection growth continues at the rate of growth in rateable units.
- We've assumed the proportion of residential to non-residential customers is consistent with WICS RFI where detailed breakdown of these projections has not been provided.
- In all models, we have assumed that council revenue and debt relating to non-three waters activities is unchanged under all investment scenarios. That is, even where three waters investment, charges, or debt increase, we have assumed that there is no consequential or offsetting reduction in the corresponding expenditure/charge for non-three waters activities.
- In 30 years modelling, we have relied on capital programmes from infrastructure strategies or long term capital works plans provided to us by participating councils.
- Corporate costs, as provided, have been retained in the base case. Some of these costs may represent "stranded overhead" in individual councils, however we note that the amount of cost allocated varies greatly across councils, and assessment of the amount of stranded overhead in each council would not be possible without a detailed assessment of the cost allocation and apportionment approaches used by each council.

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WSE assumptions

To create a Southern WSE and wholly owned WSE we have modelled transitional and organisational costs for a Southern WSE or wholly owned WSE, based on a ground up approach. The full details of costs included in our model are outlined below.

Operating and capital efficiencies

Efficiencies have been modelled using the efficiency data produced by the Water Industry Commission of Scotland (WICS) for the Department of Internal Affairs (DIA) as a base case, noting the following adjustments:

- The total achievable efficiency identified by WICS have been scaled back by 70% for the Southern WSE and 90% for a wholly owned WSE. These total achievable efficiencies have been compared to our bottom up estimates to confirm that the scaling is appropriate. This has reduced the baseline total achievable efficiencies from 50% capital and 53% operating efficiencies to 16% operating and 15% capital efficiencies.
- Efficiencies have then been scaled according to data produced by WICS in reports produced for DIA. This has resulted in modelled scale efficiencies of 13% capital and 14% operating efficiencies for the Southern WSE and between 1 - 3%% for wholly owned WSEs (depending on scale).
- We've assumed that these efficiencies are achievable over a 10 year period, commencing two years after the establishment of the WSE. Efficiencies are modelled as being achieved evenly over that time period.

Borrowing

The Government and the Local Government Funding Agency (LGFA) jointly announced that water entities would be able to borrow up to a 500% debt to revenue ratio. The fine print of that announcement noted that entities will actually be measured based on an FFO to debt ratio, with the intention that lending covenants would be set at such a level that the WSE could maintain an "investor grade" credit rating.

Our modelling adopts the following FFO ratios, based on recent discussions with, and guidance published in December 2024 by, LGFA:

- 12% for a wholly owned WSE
- 8% for the Southern WSE.

Modelling is designed to maintain debt close to these ratio throughout the modelling period.

Costs of change

Corporate overhead from each council has been replaced with costs for the Otago Southland WSE, and transition costs have been included:

- Increased compliance costs associated with regulatory reforms (recognising the role and requirements to report to both a service and economic regulator)
- The requirement to fund a levy imposed by Taumata Arowai and the Commerce Commission; these costs are included in all models
- Transitional costs to establish the Otago Southland WSE (assumed to be borne by the Otago Southland WSE)
- Additional resources required or additional costs for resources
- Any change is assumed for modelling purposes to take place on 1 July 2027.

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Costs have been indexed using BERL inflation rates for water services through 2034, and 2% per annum thereafter.

For wholly owned WSEs we have compared transitional costs and ongoing operational costs to work completed for one of the councils in the working group by a different consultancy. Through this exercise we have confirmed that estimated transitional costs and ongoing operational costs are broadly consistent at a total level, despite different methodologies and approaches being used to determine those costs.

We therefore have a high level of comfort that the costs used are reasonable.

Transitional costs to establish a WSE

CCO transition costs were determined by comparing Morrison Low's initial assessment with bottom up work completed by a different consultant for one of the constituent councils. Given the increased level of detail in that work, we have applied those costs where appropriate in a wholly owned CCO model.

For clarity, total CCO costs are similar (typically +/- 10%) under either approach, however the distribution of costs differs.

Item	Wholly owned WSE	Southern WSE
Transitional team	Combined in single total	$2,325,000
Entity establishment		$7858,000
Business process design		$500,000
Communications and engagement		$500,000
Rebrand		$200,000
Restructuring costs		$450,000
Finance and funding workstream		$500,000
Legal and compliance costs		$500,000
Office set up		$1,230,000
ICT systems	$480,000 - $1,200,000	$7,000,000 (repeated again in year 1 of WSE)
Total transition costs	$2,000,000 - $5,200,000	$13,990,000

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CCO Costs and Benefits

CCO costs were determined by comparing Morrison Low's initial assessment with bottom up work completed by a different consultant for one of the constituent councils. Given the increased level of detail in that work, we have applied those costs where appropriate in a wholly owned CCO model.

For clarity, total CCO costs are similar (typically +/- 10%) under either approach, however the distribution of costs differs.

Item	Wholly owned WSE	Southern WSE	Rationale
Governance	$410,000	$530,000	Includes directors and the costs of supporting shareholder Councils & Māori to develop and implement accountability framework
Executive team and support staff costs	$1,530,000	$2,360,000	CEO & Four general managers Additional staff to create support structure. Includes HR, IT, Finance, health and safety and customer service + operational staff where required
IT infrastructure & systems	Scaled $400,000 - $1,700,000	$4,430,000	Uses Watercare IT budget as the basis and scaled based on population served
Auditor costs	None	$200,000	Additional costs for audit
Council rates	None	$1,210,000	The cost of paying rates to councils for water assets located on council land
Accommodation - office rent	$350,000	$420,000	15m^2 per staff member based on reviewing average office rental in Provincial centres ($250m^2) used. Allowance for all staff to have office space provides for costs of multiple locations
Office overheads	Combined in above	$42,000	10% of office accommodation cost for insurance, electricity etc

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Appendix Four - Southern CCO Programme Assurance Findings

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Southern CCO – Programme Assurance

This report provides an independent assurance assessment of the capital programmes for Clutha, Central Otago, Gore, Waitaki, and Timaru District Councils as they consider forming a joint Council-Controlled Organisation (CCO) for 3-Waters services.

Objective

The objective is to evaluate the financial confidence in baseline expenditure projections by analysing cost and planning assumptions, renewals investment sustainability, and sensitivity to proposed national wastewater standards. The findings will inform the financial modelling of the structure and pricing options for the CCO business case.

Methodology

The assessment employs a simplified risk-based scoring method to evaluate the likelihood of material changes to financial projections. This approach allows financial analysts to apply an indicative range to projections based on assessed risk levels.

Results

Cost Estimate Accuracy – Across the five Councils' short-term projects (Years 1-3) are generally well-defined with appropriate contingencies, medium- to long-term projects (Years 4-10) exhibit greater uncertainty due to reliance on early-stage cost estimates, inconsistent contingency application, and exposure to evolving regulatory requirements. This is not uncommon for long term plans, however.

Asset Sustainability and Renewals- The asset sustainability assessment identified varying levels of programme expenditure risk. While Central Otago DC, Waitaki DC, and Timaru DC demonstrate lower risks due to stable renewals investment, Clutha DC and Gore DC face medium to high risk of material changes to renewals expenditure from deferred investment combined with an ageing infrastructure base. Gore DC exhibits a significant backlog of renewals investment, combined with an asset based nearing the end of its service life. This is likely to require significant changes to the programme beyond Year 10, to maintain service levels.

Sensitivity to Wastewater Standards - Proposed national wastewater standards introduce a risk-based approach, potentially reducing treatment requirements and compliance costs for smaller schemes. This significantly increases the likelihood of material change to the baseline financial projections beyond the three-year window, particularly affecting Gore, Clutha, and Central Otago. The standards could lead to notable reductions in current programmes, especially for smaller wastewater schemes benefiting from lower treatment standards.

Commonality of Planning Assumptions - Lastly, it is important to ensure that all Water Service Delivery Plans are developed on consistent assumptions of affordability and of the service levels desired by the CCO. There is some inconsistency across the Councils at present, such as, projects being deferred or excluded due to funding constraints or uncertainties, while others have been less constrained and open about their network needs. Notable examples are

1. Waitaki DC may have several small scheme WWTP upgrades missing from its programme that create a high likelihood of material change for Wastewater programme later in the 10-year window. This is due to the high levels of uncertainty on the projects at the time to justify their inclusion in their programme.

2. By contrast, Gore DC has included a significant stormwater separation project (> $200m over 30 years), which also transparently addresses significant service level deficits for the district.
3. CODC has programmed a significant investment in growth which reflects a proactive approach to servicing future communities, but it also assumes that revenue will be recovered as and when projected.
4. Clutha DC have assumed several WWTP plants will need to be brought forward for re-consenting due to recent non-compliance. This may change with the proposed WW Treatment Standards.

Summary of Findings

The assessment identifies varying levels of risk to the baseline capital programme across the Councils. While short-term financial outlooks are stable, long-term risks remain significant due to uncertainty in cost estimates, ageing assets, and evolving regulatory requirements. Clutha and Gore are expected to experience medium to high risks of material changes, while Central Otago and Waitaki face moderate risks over the medium term. Timaru shows consistently low risk across all 3-Waters due to their historic investment in treatment and focus on renewals over the coming years.

Council	Risk of Material Change and Financial uncertainty to apply to Baseline		
	Year 1 to 3	Years 4 to 10	Year 10 to 30
Clutha DC	🟢 - Low Risk (-5%/+10%)	🟠 - Medium Risk (-10%/+20%)	N/A (see note below)
Central Otago DC		🟠 - Medium Risk (-10%/+20%)	
Gore DC		🔴 - High Risk -10%/+25%	
Waitaki DC		🔴 - High Risk -10%/+25%	
Timaru DC		🟢 - Low Risk -5%/+10%	

NB: Of note, is that long-term planning is inherently uncertain. The level of policy, regulatory, and legislative reforms over the past six years has amplified this further. This uncertainty limits the value in assessing the confidence in planned expenditure beyond the 10-year horizon. However, quantifying the key investments necessary remains important for the CCO, including major asset renewals to maintain service levels and resource consent renewals for wastewater and drinking water infrastructure. These have been provided by all five Councils.

Recommendations

To enhance financial confidence in the future CCO, Councils could commit to a Memorandum of Understanding or similar agreement to standardise their programme planning assumptions on service levels, standards, cost estimation practices, and renewals investment strategies.

Also, given the significant sensitivity, to the proposed WW standards on investment levels, Councils could also commit to undertaking a deeper review of these projects once these standards are legislated for.

These assumptions greatly influence service pricing, particularly with consumer price protection imminent. A unified commitment could highlight the broader value of the reforms to key stakeholders and other interested parties.


UTILITY

About Utility

Utility is a specialist infrastructure advisory firm with expertise in asset management, financial assurance and capital investment planning. Utility has worked extensively within local government, providing independent assessments that support sound decision-making for infrastructure projects. Our approach combines technical rigor with strategic insights to ensure investment programmes are pragmatic, cost-effective, and aligned with regulatory requirements.

Disclaimer

This report is based on information provided by the Councils and publicly available data at the time of assessment. While every effort has been made to ensure accuracy, the findings and recommendations are subject to change based on new information or regulatory adjustments. This report does not constitute financial or legal advice and should be used as a decision-support tool rather than a definitive financial forecast.

Version Status and History

Version	Issue Date	Author	Status and Changes
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Context

Gore, Central Otago, Clutha, and Waitaki are exploring options for a joint Council-Controlled Organisation (CCO) to deliver 3-Waters services. CCO options are to be considered in March, with a preferred option to go to public consultation in April / May. Before moving forward, stakeholders need confidence that the proposed CCO and regional pricing model is based on robust baseline expenditure programmes. In particular:

1. How reliable and accurate are the 10-year financial projections (baseline) of each Council?
2. What degree of confidence can we place in the financial projections, in terms of the commonality of planning assumptions, and of any potential changes resulting from deferred or un-budgeted projects?
3. Furthermore, if and how will the proposed regulatory changes to wastewater standards impact on the current baseline programme?

Objective

To assess the confidence in baseline expenditure projections by analysing cost assumptions, renewals investment sustainability, and regulatory change sensitivities. The findings will inform the financial modelling of the structure and pricing options for the CCO business case.

Method of Scoring

To assist financial analysis and provide clarity when adjusting the 10-year financial projections for the combined Councils, a simplified risk-based scoring method has been employed. This approach allows financial users to easily apply an indicative plus or minus range to projections based on assessed risk levels.

To assist financial analysis and clearly inform adjustments to the 10-year financial projections for the combined Councils, a simplified risk-based scoring method has been applied. This method provides financial analysts with a straightforward way to incorporate an indicative plus or minus range into financial projections.

A 'material change' refers to a variation in project budgets exceeding 15% of the original cost estimates.

Score	Description	Recommended financial adjustment range:
🟢 - Low Risk of Material Change	Budget estimates are highly reliable, with minimal likelihood (<10%) of significant changes.	- 5% / +10%
🟠 - Medium Risk of Material Change	There is moderate uncertainty (10% to 50% likelihood) that budgets will materially change,	-10% /+ 20%
🔴 - High Risk of Material Change	There is a substantial likelihood (>50%) that project budgets will experience material changes	10% / + 25%

Application to Financial Projections

Financial analysts should apply these ranges to the 10-year financial projections, ensuring projections include appropriate financial buffers for uncertainties, especially for medium and high-risk rated projects. Low-risk projects require minimal adjustments due to their greater budget certainty.

Method of Assessment

This Programme Assurance report provides an independent assessment of the financial confidence in the Councils' proposed 10-year capital plans. It specifically evaluates:

1. Cost Estimation Assurance – To understand the likelihood of material changes to budgets, in years 1 to 3, and years 4 to 10
2. Asset sustainability – The likelihood of long-term renewals backlog having a material impact on the baseline.
3. Sensitivity to National Wastewater Treatment Standards.
4. The commonality (or not) of key planning assumptions and if projects / investments of material size are excluded that should not be.

The method of assessment used was:

1. Focussed on the areas creating the most risk to the baseline– By applying an 80/20 rule, the high costs projects in years 1 to 3, and again for years 4 to 10 were identified.
2. Engaged directly with Asset Managers on these high risk / cost projects to establish estimation method, contingency levels and remaining scope risk not priced- in.
3. Identified missing projects by reviewing long-term and annual plans, Taumata Arowai registers etc.
4. Applied assumed Wastewater Standard assumptions by classifying schemes based on size and assessing each planned WW upgrade.
5. Reviewing findings with individual Council GMs and the Project Team.
6. Sharing preliminary findings with DIA for feedback.

Cost Estimation Assurance

This aspect of assessment aimed to understand the following questions:

1. *Are the cost estimates in the capital programme well-founded, given their scale and timing, and if not, are the levels of contingency included, appropriate to reflect this risk?*
2. *Are there critical projects / expenditure missing from the programme that could pose a financial risk in future planning cycles? Included is the expectation that universal water metering will come into effect within 3 years of the establishment of the CCO (Post 2027).*

Methodology Used for Cost Estimate Assurance

For expedience, the method used to assess cost estimates was as follows:

1. Identify High-Cost Projects - An 80/20 approach was taken, to identify the highest cost projects that make up most of the planned expenditure over 10 years, and 30 years where significant. Only level of service driven projects were assessed, and growth projects with a high proportion of level of service cost allocation (>40%).

Then of these projects, the following was established through interviews and review of project information provided:

2. How were cost estimates for the specific projects developed? For instance, using historical cost data being inflated, consultant estimates?
    a. If a consultant's estimate was used, to what level? (Level 0 – Order of Magnitude, Level 1 – Conceptual, Level 2 – Preliminary, Level 3 – Detailed Design, Level 4 – Tendered).
    b. If not, is the level of contingency appropriate for the project's stage, timing and complexity?
3. In terms of risks to scope, how well is the project defined to avoid material scope creep?

Risk levels are applied using the following indicators. * A material shift is defined as a budget change of more than 15% relative to initial cost estimates.

Risk Level	Definition	Indicators
🟢 Low Risk of Material Change	Minimal likelihood (<10%) of material* shifts.	- Estimates at Level 3+ (Detailed/Tendered) - Contingency applied appropriately for project stage - Well-defined project scope with low variation potential
🟠 Medium Risk of Material Change	Some likelihood (10% to 50%) of material change exists but may be manageable	- Estimates at Level 2-3 (Preliminary/Detailed) - Contingency exists but is inconsistent to the remaining scope uncertainty - Some scope uncertainty, but moderate confidence in assumptions - Expected in Years 3-7 project
🔴 High Risk of Material Change	Significant likelihood (>50%) of material programme shifts.	- Estimates at Level 1-2 (Order of Magnitude/Preliminary) - Contingency is unclear or insufficient - Scope is not well-defined, making cost overruns >15% likely - Missing projects that could drive unplanned capital increases - Expected in Years 7+ projects, unless significantly large.

Results

Clutha DC

The original capital programme assessed was revised down significantly, from $116.3M to $37.1M, following the provision of updated cost estimates. The revised programme has been assessed as low risk of material change, with most projects in the near term already in construction or at the tender stage, improving cost certainty.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	35% ($13.0M0	Most of these projects are at scoping, tender, or construction stage, reducing cost uncertainty.
Years 4-10:	Med Risk	65% ($24.1m)	Estimates have been updated and a 30% contingency applied, reflecting the high scope risk that remains.

Items of note:

- Clutha has scheduled zone metering for most schemes within 3 years. However, universal metering will require a larger level of CAPEX than is scheduled.

Central Otago DC

The total high-risk capital programme assessed was $122.2M, which makes up 62% of all Level of Service CAPEX over the next 10 years. A large portion of projects are growth-driven, with significant level-of-service improvements. Cost certainty is higher in the near term, while longer-term WWTP projects have some exposure to regulatory changes.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	33% ($40.6M)	Projects in this period have greater cost certainty, as they are progressing through tender, construction, or advanced planning. While there is some exposure to regulatory-driven scope adjustments, cost estimates are well-developed with appropriate contingencies applied.
Years 4-10:	Med Risk	67% ($81.6m)	Projects in this period are based on Level 2 estimates, with a reasonable contingency applied, supporting cost confidence. However, longer-term infrastructure upgrades remain exposed to scope changes and regulatory factors, particularly for wastewater treatment.

Items of note:

- Significant amounts of the Capital Programme are to service projected growth in the district.
- CODC is already fully metered with volumetric charging in place for drinking water.

Gore DC

The total high-risk capital programme assessed was $67.6M, which makes up 94% of all Level of Service CAPEX over the next 10 years. The greatest risk remains in Years 4-10, where most projects still lack detailed cost certainty, and missing projects could result in budget shortfalls. The stormwater separation project, in particular, carries high financial and scope uncertainty due to its reliance on preliminary modelling rather than detailed cost estimation.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	21% ($14.3m)	Cost certainty is moderate due to a mix of more detailed (Level 3) and preliminary (Level 0-2) estimates on specific projects. Stormwater separation is acknowledged as an ongoing programme with set budgets each year.
Years 4-10:	High Risk	79% ($53.3m)	Most projects rely on early-stage cost estimates (Level 0-2), increasing the likelihood of cost changes. Scope and cost risk is high for the planned stormwater separation programme beyond the 10-year window.

Items of note:

- A significant stormwater separation programme is planned over the long term of 30 years (>$200m). The project is addressing service level deficits and health risks from localised flooding, which will likely increase due to climate change.
- The programme has included CAPEX for universal water meter rollout.
- Utility have observed that this cost of this programme exceeds the replacement cost of the entire stormwater network of the district (c. $42m), by several orders of magnitude. There is a likelihood that a programme of this scale will require extensive review and is primarily included to highlight a significant issue that needs addressing.

Waitaki DC

The total high-risk capital programme assessed was $96.5M, which makes up 83% of all Level of Service CAPEX over the next 10 years. The greatest financial risk exists in Years 4-10, where most projects lack detailed cost certainty, and scope changes could drive significant budget increases.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Medium Risk	18% ($17.4m)	Projects in this period have better cost certainty, being closer to execution with more detailed cost estimates. However, some estimates remain at Level 2 (Preliminary), and contingency application is inconsistent, increasing the risk of minor cost overruns.
Years 4-10:	High Risk	82% ($79.1m)	Most projects rely on early-stage cost estimates, increasing the likelihood of material cost changes. Scope risk is high, particularly for wastewater and stormwater projects. Additionally, missing compliance-related investments (Lake Ohau, Kurow, Palmerston, Omarama, Hamden, Moeraki WWTPs) could result in significant unplanned capital increases at the end of 10-year programme.

Items of note:

- Several wastewater projects are excluded from the current programme that will have a material impact on wastewater investment levels in years 4 to 15. It has been stated that this is due to the high levels of uncertainty regarding their scope, timing and possible solutions.
- The programme has included CAPEX for universal water meter rollout.

Timaru DC

The total high-risk capital programme assessed was $161M, which makes up 58% of all CAPEX over the next 10 years. The greatest financial risk exists in Years 4-10, where most projects lack detailed cost certainty, and scope changes could drive significant budget increases.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	42% (68.1m)	Projects in this period have a mix of low and medium-risk cost estimates. However, a minimum of 30% contingency is in place across all budgets, which mitigates this risk sufficiently. The large projects planned within the next 12 months, have design level cost estimates.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 4-10:	Medium Risk	58% (92.7m)	Larger projects in this period are more exposed to high-risk cost estimation and scope uncertainty, with early-stage estimates and scope uncertainty despite 30% contingencies applied to all.

Items of note

- Most of the programmed investment is on the renewal of existing assets. Investments to meet drinking water standards and wastewater consents have largely been delivered for the district.
- The programme has included CAPEX for universal water meter rollout.

Asset Sustainability

This assessment determines the likelihood of an unrecognised long-term backlog or liability for asset renewals in investment programmes, excluding accumulated depreciation reserves, having a material impact on the baseline programme.

Does the current level of renewals investment pose a significant future spending liability for the CCO that is not accounted for?

Method

The sustainability of renewals investment considers the likelihood that additional renewals expenditure will be needed beyond what is planned, due to unexpected asset failures. This looks at two key indicators in combination.

Average Age - It looks at this at a very high level, over the next 10 to 30 years. It is assessed by comparing the average age of the assets, calculated from its depreciated replacement cost (proxy of life remaining) divided by its gross replacement cost (Proxy life expectancy). The lower this % value indicates the higher the risk of asset failure. i.e. the assets are nearing end of life.

Ther rate of ageing - This is then considered with another analysis, of whether future planned renewals spending is keeping pace with the rate at which the assets are ageing. If it is not, then the risk of asset failure is increasing. This will also increase the need for additional expenditure.

Exclusions - Preferably, as assessment of the age distribution of the assets would provide a more accurate assessment of age. i.e. understanding the 75%tile of age rather than average age. Also, projects deemed a renewal, yet also provided significant service level or growth benefits were excluded, particularly if they distorted results.

The following indicators of risk were applied to each Council:

Risk Level	Definition	Indicators
🟢 Low Risk of Material Change	Minimal likelihood (<10%) of material* shifts.	- Assets are relatively young and/or have renewals investment adequately matching or exceeding the rate of asset ageing (Renewals/Depreciation ratio >1)
🟠 Medium Risk of Material Change	Some likelihood (10% to 50%) of material change exists but may be manageable	Assets are middle aged, with renewals investment not reflecting this risk. Renewals investment lagging behind asset ageing (Renewals/Depreciation ratio approximately 0.6–1).
🔴 High Risk of Material Change	Significant likelihood (>50%) of material programme shifts.	Significant risk due to an older asset base and inadequate renewals investment reflecting this. (Renewals/Depreciation ratio <0.8), likely requiring substantial future expenditure adjustments.

Where material is defined as being a change in budgeted costs of greater than 15%.

Clutha DC

There is a likelihood of material change to the renewals programme. Assets are approximately halfway through their life, with a reasonable level of investment now underway to stop the net ageing.

Clutha DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	57%	Middle aged	0.5 Assets are ageing	Med Risk
Water Supply	60%	Middle aged	1.5 Getting younger	- Low Risk
Stormwater	49%	Middle aged	1.6 Getting younger	Medium Risk
			Overall Score	Medium Risk

Items of note:

- c. $5m of Cast Iron main renewals in the water network have been deferred beyond the 10-year window during the LTP on affordability grounds.
- Large proportions of the pipe assets have been recorded with expected lives at over 100 years. This can skew results greatly if not correctly assumed.

Central Otago DC

There is a low risk of material changes anticipated in the next 10 years.

Central Otago DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	60%	Middle aged network	0.9 – Asset age is steady	- Low Risk
Water Supply	70%	Young network	1.0 – Age is steady	- Low Risk
Stormwater	57%	Middle aged network	0.6 Assets are ageing	Medium Risk
			Overall Score	- Low Risk

Items of note

- Central Otago's rate of growth in new and vested assets could be outpacing the average ageing rate (depreciation). This could skew these metrics by reducing the average asset age over time. An assessment of 75%tile age would improve this understanding.

Gore DC

There is a high likelihood of material change, particularly post year 10. Large parts of the assets network are near the end of life also, with annual renewals spend still well below what is needed to halt this decline. Particularly for WW and SW. This indicates a high amount of asset renewals will be necessary, beyond what is programmed.

Gore DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	….and over 30 years	Risk to Renewals Programme
Wastewater	36%	An old network	0.7 Assets are ageing	0.5 Assets are ageing	High Risk
Water Supply	29%	An old network	1.2 Getting younger	1.0 Age is steady	High Risk
Stormwater	28%	An old network	0.2 Assets are ageing	4.4 Getting younger rapidly (see note)	High Risk
				Overall Score	High Risk

Items of note:

- Gore DC believes their asset sustainability is slightly better than presented in this assessment but acknowledges having the oldest infrastructure network does pose significant risk of cost increases. Gore DC has been pro-actively managing the tension between asset renewal needs and affordability for their community. Their renewals programme was deferred on affordability grounds recently, so the 30-year programme has been included to assess this.

Waitaki DC

There is low risk of a material change to the renewals anticipated in the next 10 years. The network has over half of its life left by value, and the rate of replacement largely matches the rate of ageing.

Waitaki DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	65%	Middle aged	1.4 Getting younger	- Low Risk
Water Supply	60%	Middle aged	0.8 Assets are ageing	- Low Risk
Stormwater	52%	Middle aged	0.8 Assets are ageing	Medium Risk
			Overall Score	- Low Risk

- The Oamaru Rising main duplication and Oamaru Muddy Creek stormwater capacity upgrade were removed from the renewals programme assessment. These may have been costed as renewals, possible incorrectly, which was skewing the assessment significantly.

Timaru DC

There is low risk of a material change to renewals anticipated in the next 10 years. The network has over half of its life left by value, and the rate of replacement exceeds the rate of ageing by several orders of magnitude.

Timaru DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Programme
Wastewater	58%	Middle aged	4.7 Getting younger	● - Low Risk
Water Supply	55%	Middle aged	5.3 Getting younger	● - Low Risk
Stormwater	50%	Middle aged	3.9 Getting younger	● - Low Risk
			Overall Score	● - Low Risk

Sensitivity to National Wastewater Treatment Standards

This section evaluates the likelihood of material changes to planned Wastewater Treatment Plant upgrades from the proposed Wastewater National Treatment Standards.

The assessment is a score that indicates the level of sensitivity to a material change, where material is a budget change of more than 15% relative to initial cost estimates.

- 🟢 - Low Risk of Material Change – Minimal likelihood (<10%) of material shifts in overall Wastewater Treatment Plant cost estimates.
- 🟠 - Medium Risk of Material Change – Some likelihood (10% to 50%) of material shifts in overall Wastewater Treatment Plant cost estimates, requiring adjustments to the programme.
- 🔴 - High Risk of Material Change – Significant likelihood (>50%) of material shifts in Wastewater Treatment Plant cost estimates, requiring major adjustments to current programmes.

Explanation of the New Wastewater Standards

Proposed national wastewater standards were released for public consultation on 26th February. They aim reduce the amount of expenditure on wastewater treatment by, streamlining consenting processes, taking a more risk / impact-based approach to wastewater discharges standards. The standards differentiate requirements based on discharge type (water or land) and scheme size as a proxy for environmental impact.

Method and Assumptions

The assessment applied to WWTP cost estimates have used the following assumptions:

1. For WWTP's that discharge to water (Freshwater and Oceans):
   - Schemes with access to large water bodies may benefit from dilution capacity, which can influence discharge conditions and potentially reduce treatment requirements.
   - Schemes serving fewer than 1,000 users will not require nitrogen or phosphorus removal under the proposed land discharge standards. While this is not explicitly stated for water discharge schemes, it suggests that smaller loads may not require advanced nutrient removal.
2. For WWTPs discharging to land:
   - The standards remove land disposal requirements to account for cultural considerations; however, Councils can still pursue this pathway if desired.
   - Treatment requirements are now risk-based, meaning land discharge schemes will be classified by site suitability and environmental sensitivity.
3. Consenting terms
   - All consents will have a 35-year term.
   - Schemes with consents expiring within two years of the new standards taking effect can request a two-year extension.
   - The new standards aim to streamline the consenting process, reducing the existing administrative process of consent applications (c. 40% of costs stated in standards).
4. Enabling efficiencies and 'Packaged Plants' as an option:

- Standardising requirements across the country enhances scalability and supports the use of modern packaged wastewater treatment plants, improving efficiency and affordability, particularly for smaller schemes.
- Direct liaison with the DIA indicates a **maximum WWTP upgrade cost of $15k–$20k per connection** is being targeted for smaller schemes (< 1,000 people).

Sensitivity to Standards	Reasoning
Clutha DC -c. $52m of planned WWTP upgrades in the current programme is planned	
🟠 Medium Risk of Material Change	Several small schemes under 1,000 pax requiring lower treatment and Milton (larger scheme). However, there remains a reasonable level of uncertainty in their need at all, as they are planned due to non-compliance with existing consents standards. The new standards may reduce this risk and defer them—or reinforce the need for earlier upgrades, depending on their final form. Cost estimates have already dropped significantly (c. 75%) from recent WWTP re-estimations, incorporating revised land treatment assumptions (prior to release of the WW Standards).
Central Otago DC - c. $57m of WWTP Upgrade CAPEX is planned.	
🟠 Medium Risk of Material Change	Alexandra WWTP remains unchanged, as further adjustments would increase risk. Omakau WWTP has been reassessed, with changes made to align with revised expectations. Lake Roxburgh Village remains unchanged. While some flexibility may emerge in discharge requirements under the new standards, the overall impact on treatment processes is expected to be limited with large amounts allocated to growth and renewal.
Gore District Council –c $77m of WWTP Upgrade CAPEX is planned.	
🔴 High Risk of Material Change	Sensitivity to the proposed changes is high for the Gore and Mataura WWTP planned upgrades. Primarily due to removal of land purchase and wetland development originally included for cultural treatment at Gore WWTP. For Mataura WWTP, sensitivity is material but less significant as the existing discharge is expected to align with proposed regulatory standards, eliminating the immediate need for significant upgrades.
Waitaki District Council c. $27m of WWTP Upgrade CAPEX is planned.	
🟠 Medium Risk of Material Change	Several smaller schemes (Duntroon, Kurow, Lake Ohau, Omarama, Palmerston) may be affected, but some, like Lake Ohau, could see upgrade needs largely unnecessary under the new standards. Of greater uncertainty, is that several schemes lack a confirmed scope or funding and are excluded from the programme.
Timaru District Council No WWTP upgrade CAPEX planned.	
🟢 - Low Risk of Material Change	Timaru have already invested significantly in their Wastewater treatment plants in recent years and have long term consents in place. No material changes are anticipated.

Summary of Findings

This assurance assessment has identified varying levels of risk to the baseline capital programme across the five Councils. While the short-term financial outlook is stable, long-term risks remain significant due to uncertainty in cost estimates, aging assets, and evolving regulatory requirements.

	Year 1 to 3	Years 4 to 10
Clutha DC	Near-term budgets have high accuracy. Medium-term risks emerge primarily due to wastewater regulatory changes and moderate ageing of stormwater assets, though water assets are sustainably managed.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Low (-5%/+10%)	Medium (-10%/+20%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Central Otago DC	Cost certainty strong in short-term but moderate risks emerge longer-term, particularly with wastewater upgrades due to proposed standards.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Low (-5%/+10%)	Medium (-10%/+20%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Gore DC	Immediate cost certainty acceptable but long-term high risks exist across all asset classes, driven by ageing infrastructure, significant deferred renewals, and sensitivity to WW standards.	
Water Supply	Low (-5%/+10%)	High (-10%/+25%)
Wastewater	Low (-5%/+10%)	High (-10%/+25%)
Stormwater	Low (-5%/+10%)	High (-10%/+25%)
Waitaki DC	Short-term cost reliability is good, but medium-term risk exists from slightly insufficient renewal budgets and uncertainties in wastewater project scope and regulatory impacts.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Medium (-10%/+20%)	High (-10%/+25%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Timaru DC	Consistently low risk across asset classes with robust renewals investment and stable asset conditions, requiring minimal financial adjustments.	
Water Supply	Low (-5%/+10%)	Low (-5%/+10%)
Wastewater	Low (-5%/+10%)	Low (-5%/+10%)
Stormwater	Low (-5%/+10%)	Low (-5%/+10%)

Long-Term Planning Uncertainty beyond Year 10

The very nature of long-term planning means it carries inherent uncertainty, particularly given the significant policy, regulatory, and legislative reforms that have shaped the last two Long-Term Planning (LTP) cycles. Given this context, assessing the confidence of planned expenditure over the 10- to 30-year horizon other than low, is inherently limited in value.

However, it remains important to identify key known investments that will be necessary within these longer-term timeframes. These include:

- Major asset renewals, which will be required to maintain service levels.
- Resource consent renewals, particularly for wastewater and drinking water infrastructure.

Recommendations

To strengthen the confidence in the financial projections of the proposed CCO and any pricing model options, the following actions are recommended.

1. Standardised Capital Planning & Cost Estimation Practices
    - Introduce a structured cost estimation framework that standardises how contingencies and cost escalations are applied.
    - Councils should also commit to a Memorandum of Understanding (MoU) or similar, to align cost estimation methodologies, service level expectations, and renewals investment strategies.
2. Targeted Review of High-Cost Investments and Regulatory Changes
    - Conduct a detailed review of high-cost projects (>$10m) with early-stage estimates, particularly for Gore DC's stormwater separation and Waitaki DC's wastewater upgrades.
    - Once wastewater standards are formalised, also conduct a detailed review of planned wastewater treatment plant upgrades.

Furthermore, as consumer pricing will be a critical aspect of any future service delivery model for 3-waters, the planning processes and assurance levels will need to be explicitly driven by the effect to future customer prices, not just financial forecasts.


UTILITY



Local Water Done Well Review

Southern Water Done Well Working Group

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 competed 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.

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- 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.

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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.

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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.

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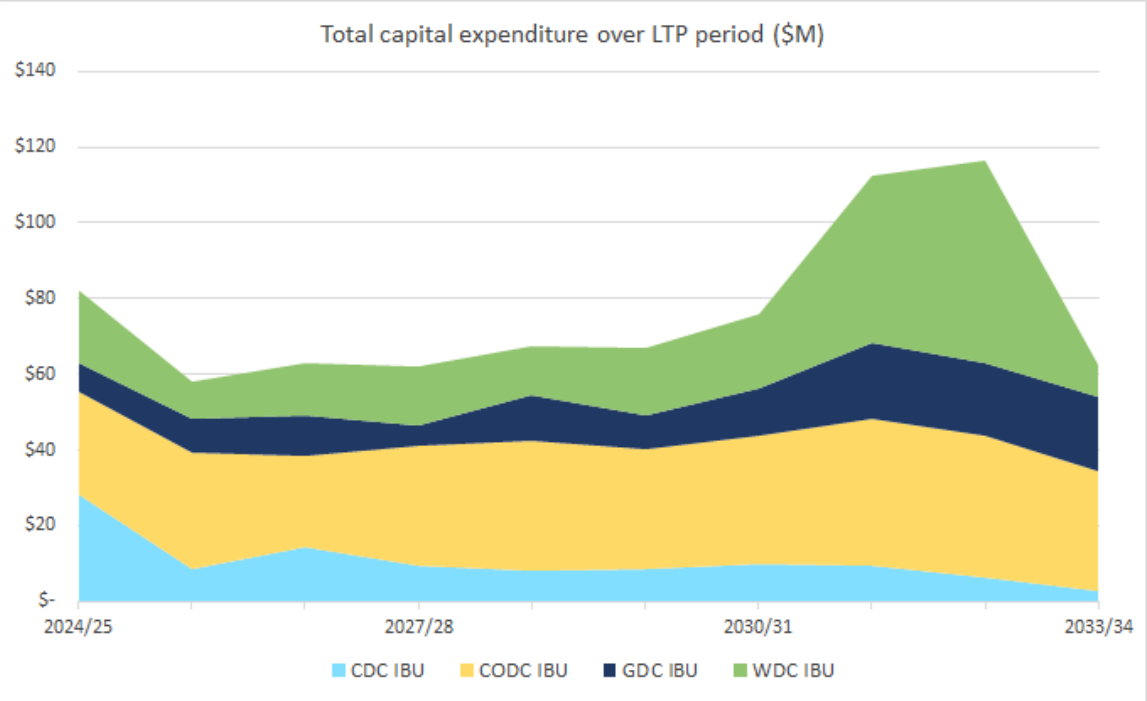
Further details of the current state of the case for change and the current state assessment can be read in the previous report in **Appendix Two** - Local Water Done Well Review: Otago & Southland Three Waters October 2024**.**

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



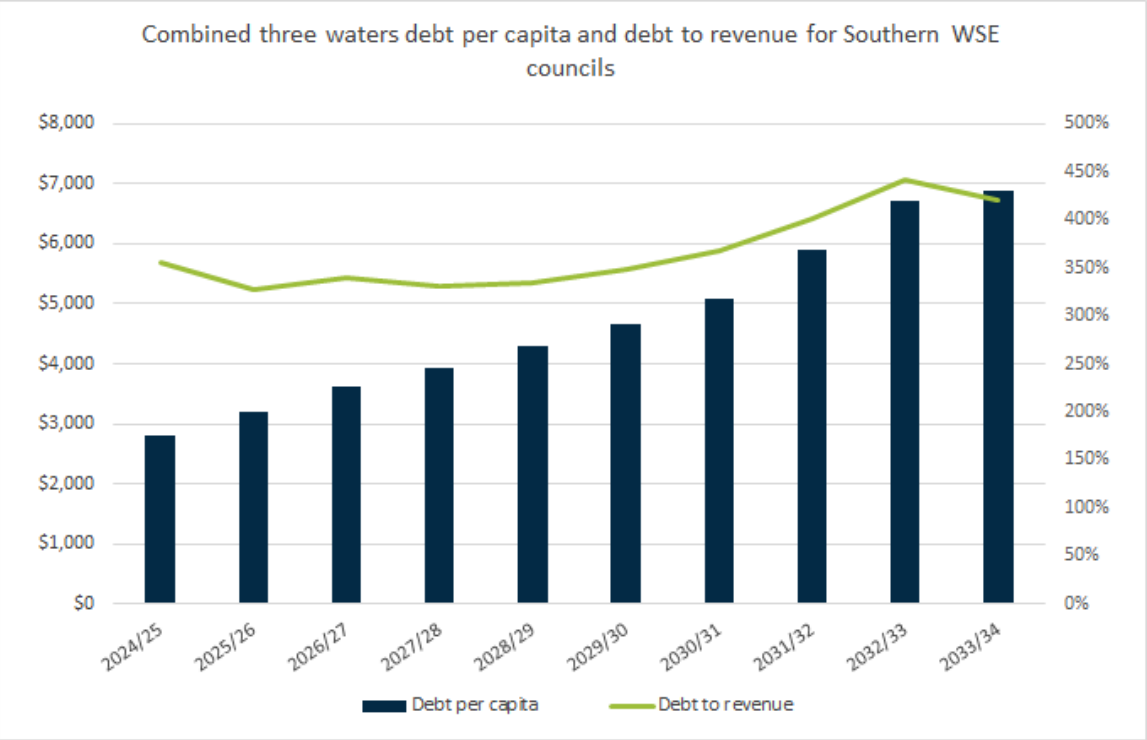
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Borrowing requirements

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.

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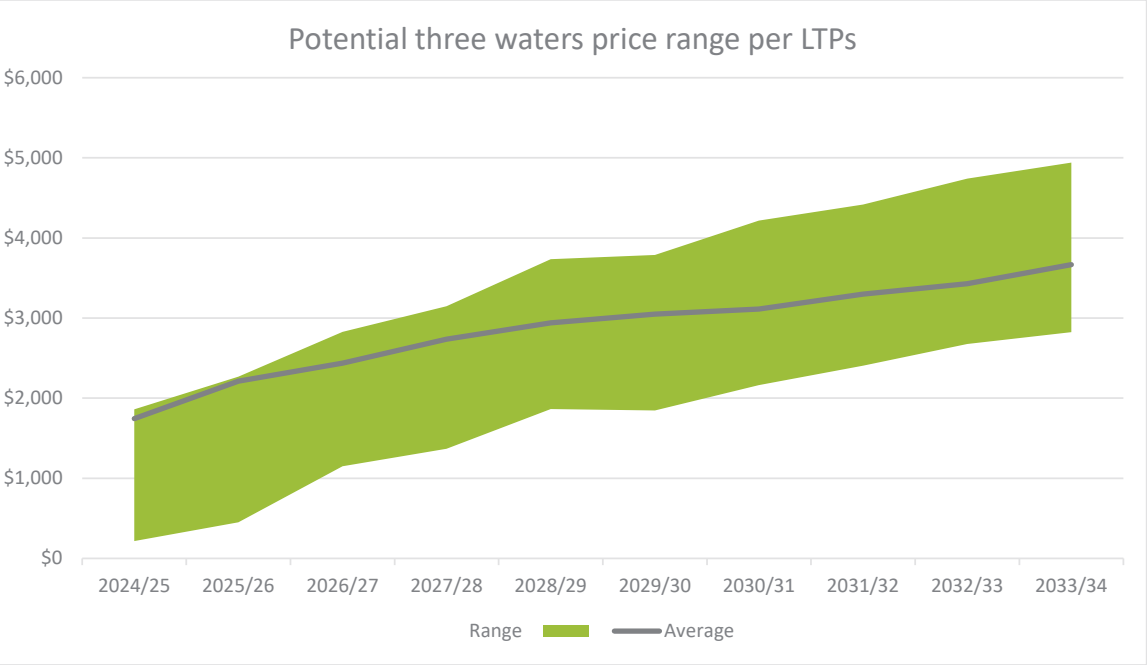
Rates rises

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 average[1] 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.

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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.

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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.

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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.

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

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

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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.

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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.

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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

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- 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.

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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

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- 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

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- 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.

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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

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- 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

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- 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.

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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.

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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	• No change	• No change	• No change
Quantity and pressure of water	• No change	• No change	• No change
Responsiveness to faults/complaints	• No change	• May have minor improvements	• 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	• No change	• May have minor increase from improved delivery focus	• 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**

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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.

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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.

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Regional results

Average household charges – local pricing

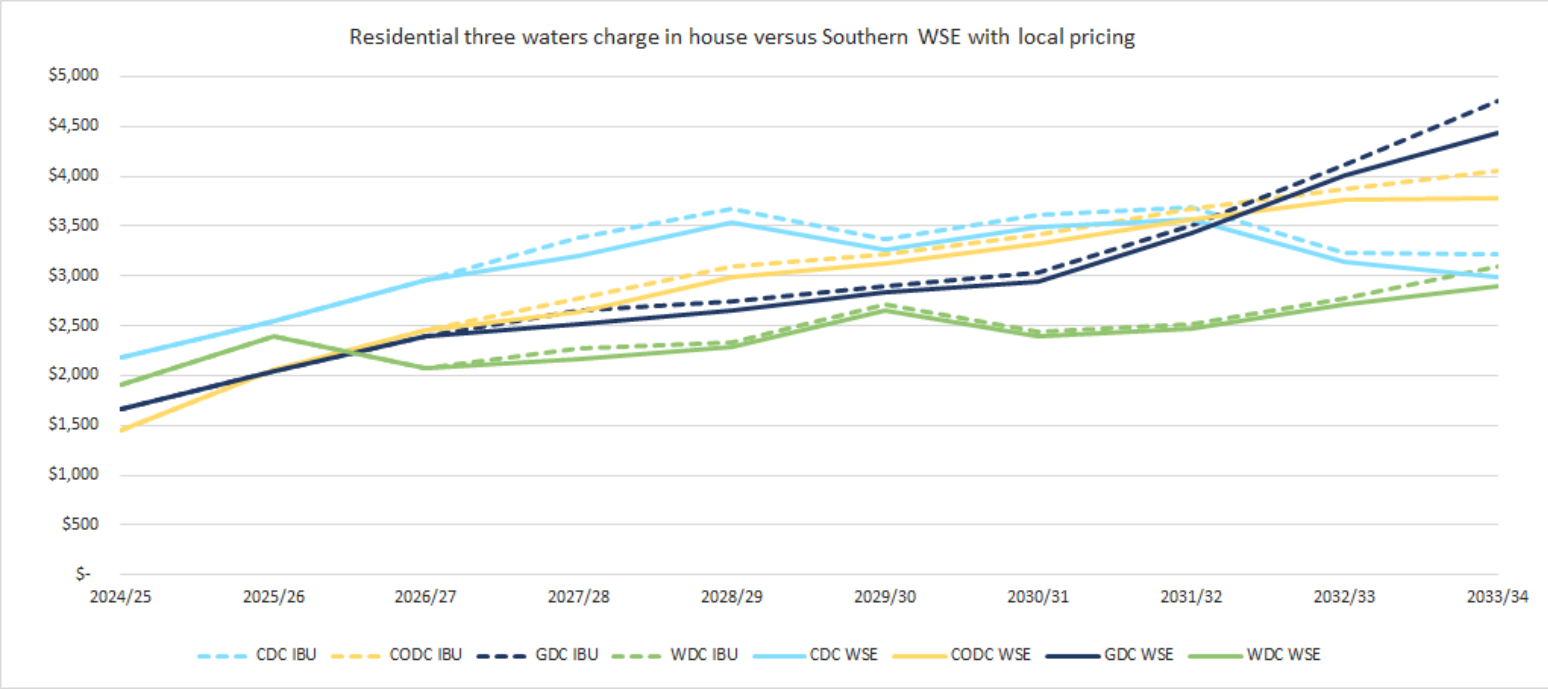
Figure 5 below presents (nominal) average household charges for the in house business unit for each council against a local price from the Southern WSE through to 2034.

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.

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Figure 5 Local prices under a Southern WSE



The chart shows all water consumers of a Southern WSE are able to have lower three waters charges than they would otherwise receive through an in house delivery model.

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Average household charges – regional pricing

There is no requirement for a Southern WSE to adopt a harmonised or regional price. In fact, the working group has indicated a preference for the WSE to adopt a pricing principle that:

"Charges for water services shall be no higher through the Southern WSE than they otherwise would have been through an in house delivery model that has completed the same level of local investment as the Southern WSE"

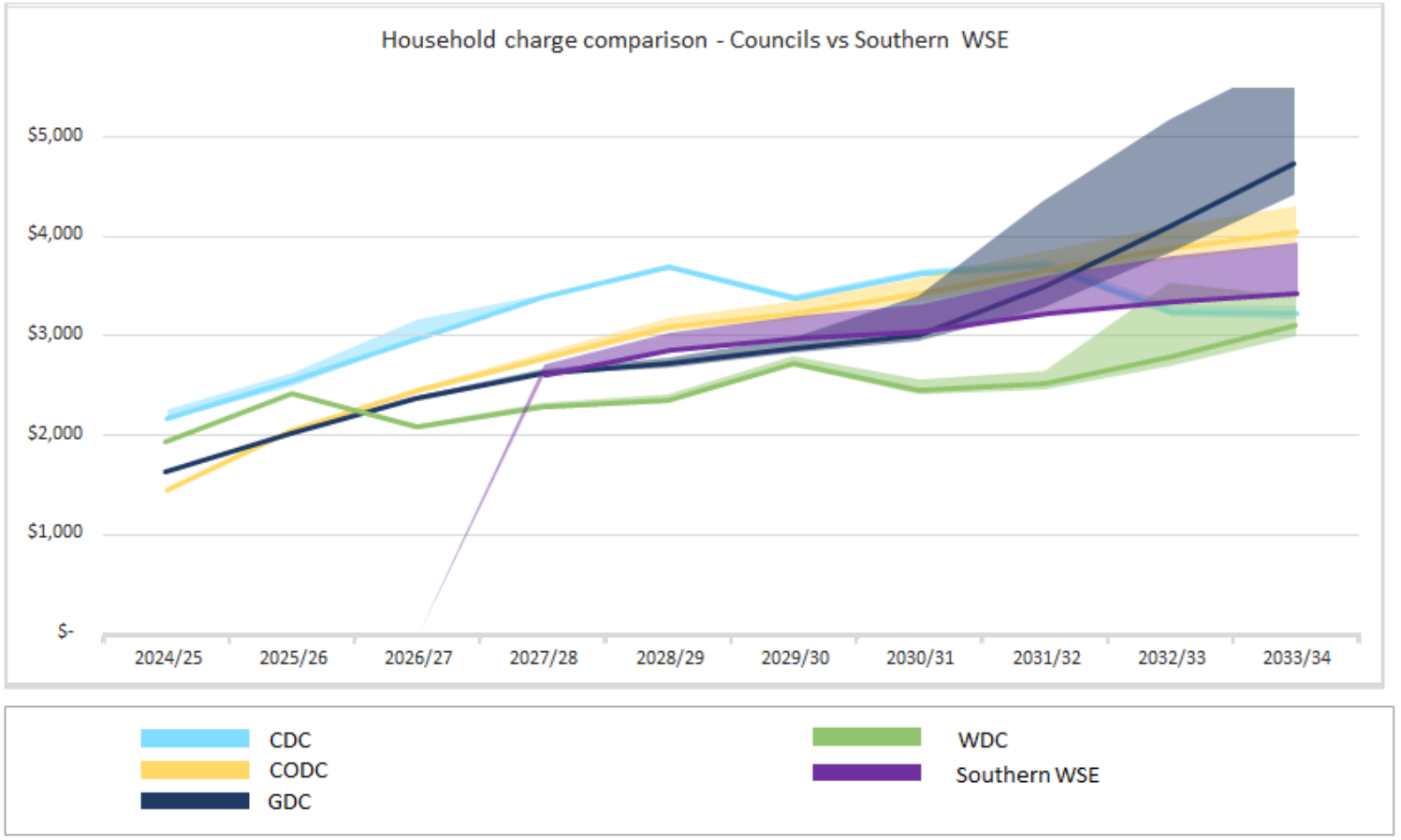
Notwithstanding that underlying principle, we consider that it is likely that a Southern WSE will, over time, seek to move towards a pricing model where there is a consistent price for the same level of service received.

Modelling presented in Figure 6 shows the potential price range under a regional pricing model. The shaded area represents uncertainty arising from the capital programme, with the solid line representing our most current and up to date understanding of a potential capital works programme.

The modelling shows that as forecasting uncertainty increases, there is an increasing likelihood that a regional price that is lower for all water consumers may be able to be reached.

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Figure 6 Regionalised prices under a Southern WSE



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Debt

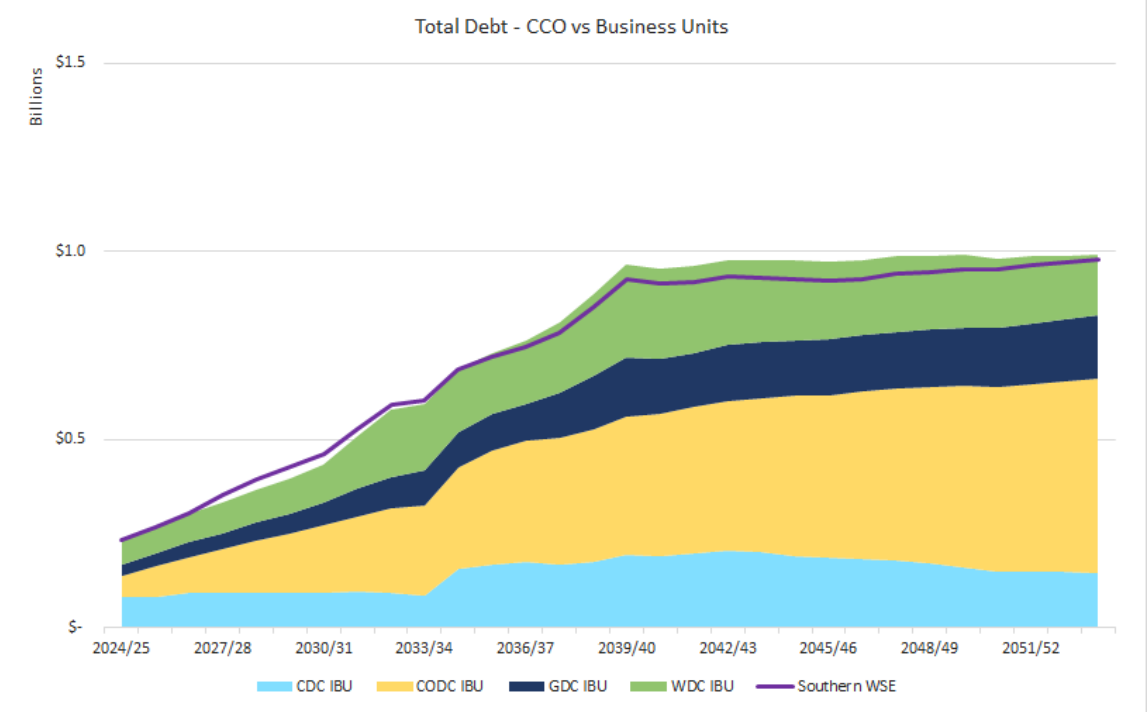
The chart below shows total Southern WSE debt compared to the combined three waters debt of the participating councils.

Although not significant as a percentage of total debt, the Southern WSE can be more highly leveraged than the combined councils, particularly during its initial five years (FY2028–FY2032). This higher leverage means the WSE requires less revenue to support its borrowing, enabling it to lower its overall revenue requirements. As a result, the WSE can offer reduced Three Waters charges to consumers compared to what individual councils would require.

The Southern WSE looks to optimise debt and revenue to keep charges low throughout the modelling period. This means debt and revenue stabilise over the longer term.

Given inherent modelling uncertainty beyond the first 10 years, we would expect borrowing over a long term to be sustained at higher levels than represented in each council's respective profile.

Figure 7 Debt profile of combined four councils versus a Southern WSE



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Revenue

The chart below shows total revenue for a Southern WSE compared to the combined three waters revenue of the participating councils.

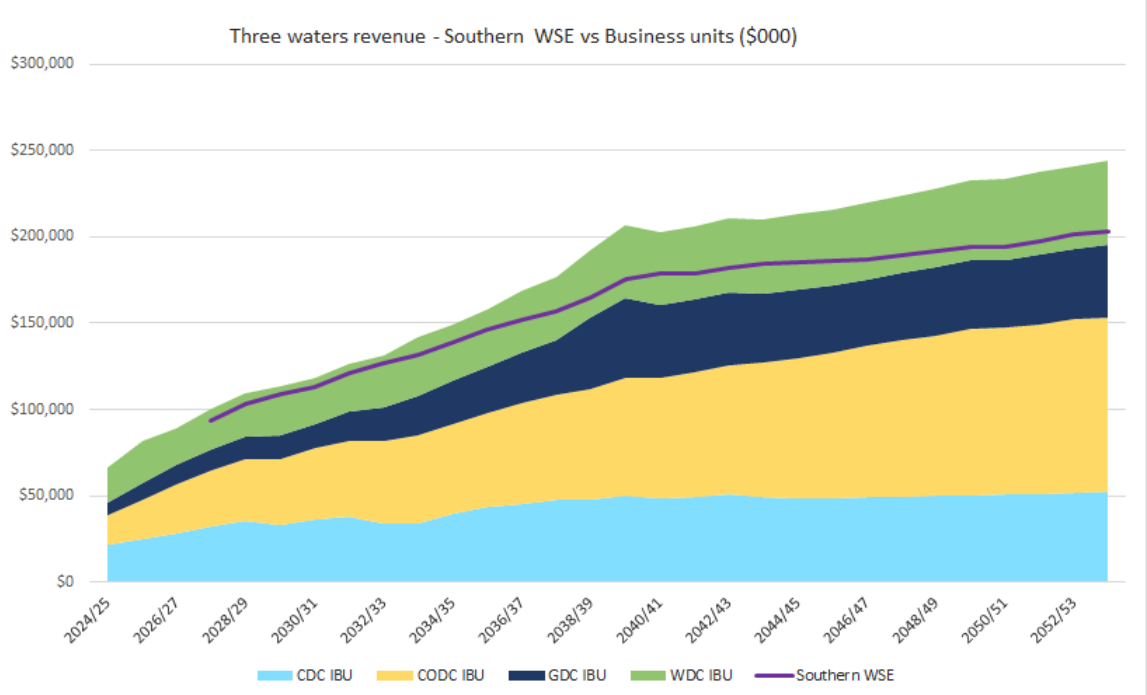
A Southern WSE is able to be more highly leveraged than the combined councils. This means that the WSE does not need to generate as much revenue to support its borrowing requirements and is able to reduce its overall revenue requirements to support that debt. Ultimately that allows reduced three waters charges to consumers compared to individual councils.

The Southern WSE looks to optimise debt and revenue to keep charges low throughout the modelling period. This means debt and revenue stabilises over the longer term.

As the WSE begins to realise efficiencies, it is able to reduce its total revenue requirements even further when compared to the combined councils.

Critically, because the WSE requires less revenue than the combined councils throughout the modelling period, it is able to spread the benefits of this across all water consumers to ensure that they pay less than they otherwise would have.

Figure 8 Revenue profile of combined four councils vs Southern WSE



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Capital expenditure

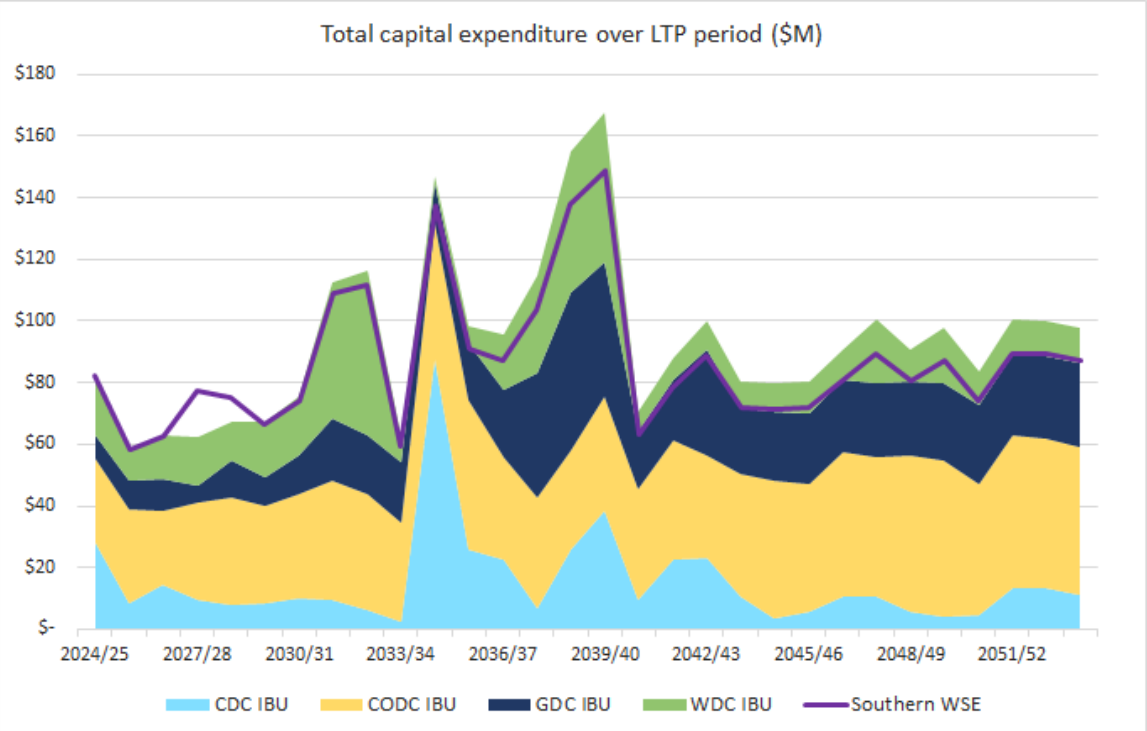
The chart below shows total capital expenditure for an Otago Southern WSE compared to the combined three waters debt of the participating councils.

The Southern WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur establishment costs[3]. Over time, a Southern WSE is able to reduce capital expenditure compared to the combined councils as it begins to achieve organisational efficiencies through improved asset management practice and coordinated procurement to deliver the same programme of works. These savings ultimately give rise to lower three waters charges.

The capital works programme is generally flat, with the exception of:

- A spike in 2032 and 2033 relating to Waitaki District Council's wastewater rising main renewal and pipe relocations
- A spike in 2035 relating to Clutha District Council's Milton Wastewater Treatment plant
- A spike in 2039 and 2040 relating to the combined impact of the Gore Wastewater Treatment plant

Figure 9 Combined capex profile of four councils vs Southern WSE



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

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30 year projections

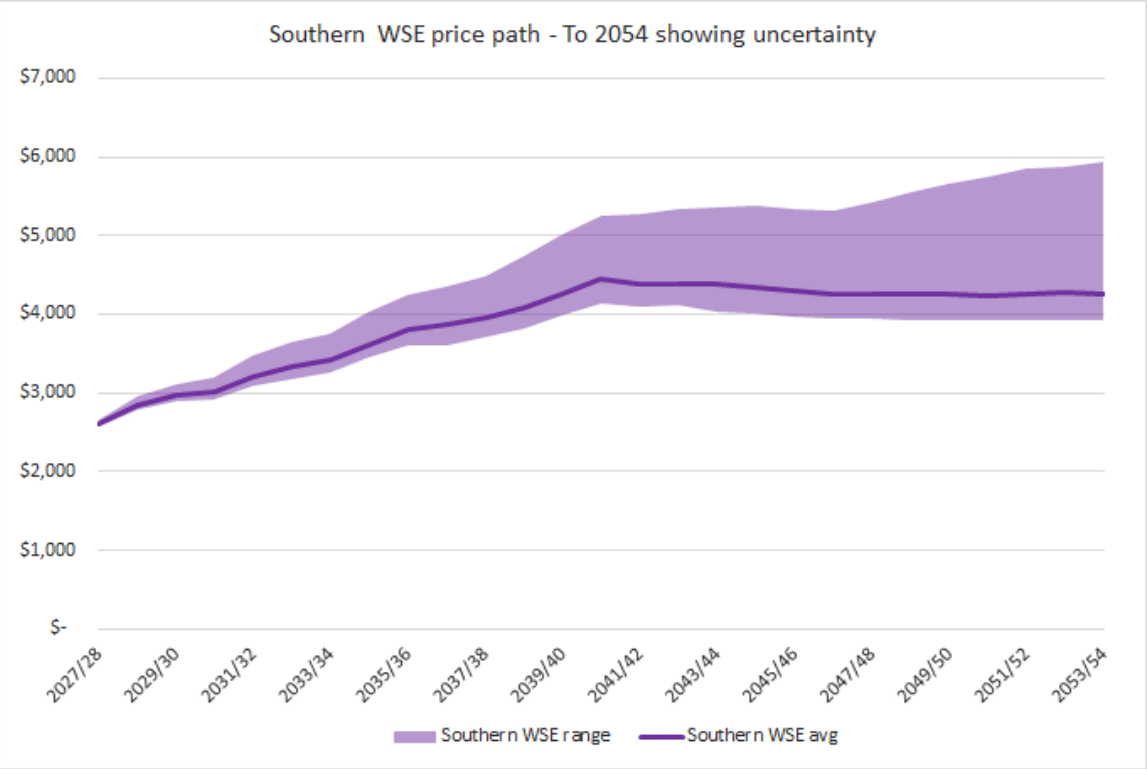
We have included indicative 30 year projections in this iteration of modelling. Because of the inherent uncertainty of 30 year capital programme projections we have:

- Applied a very broad range of sensitivity to the capital programme beyond 2034
- Not presented potential price paths for individual councils beyond 2034.

The modelling from 2035 – 2054 is therefore intended to be indicative only. It is intended to demonstrate that:

- Prices are expected to stabilise over the long term due to the approach to financing
- The high levels of debt required by the WSE do not require significant price rises to service

Figure 10 30 Year regionalised price path for Southern WSE (three waters household charges inc GST)



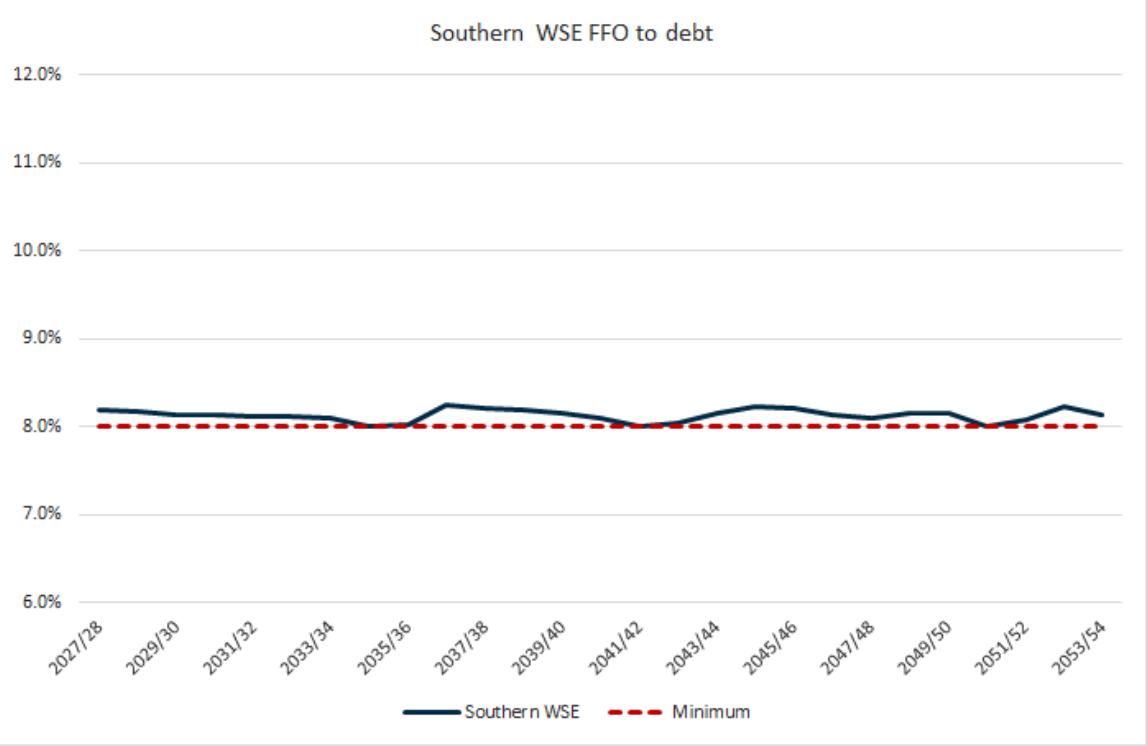
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30 year borrowing profile

Our modelling assumes that the Southern WSE will maintain an FFO to debt ratio of 8% over the long term. We note that precise lending arrangements for WSEs are yet to be agreed, and will be agreed on a bespoke basis with LGFA. Based on our discussions with LGFA, we understand that it is likely that a WSE of the proposed scale will be able to obtain a lending covenant of 8% FFO to debt.

To the extent that the WSE is required to comply with a higher FFO ratio, modelling would indicate that this could result in higher three waters charges in the short term, with limited impact over the longer term horizon. In all cases, because a Southern WSE will be able to obtain a more favourable FFO than a wholly owned WSE, three waters charges will remain lower than alternative arrangements.

Figure 11 Southern WSE compliance with lending covenant



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Individual council results

For ease of comparison, the results for each individual council are presented below. This includes the impacts of sensitivity testing in the comparator case and Southern WSE.

Central Otago District Council

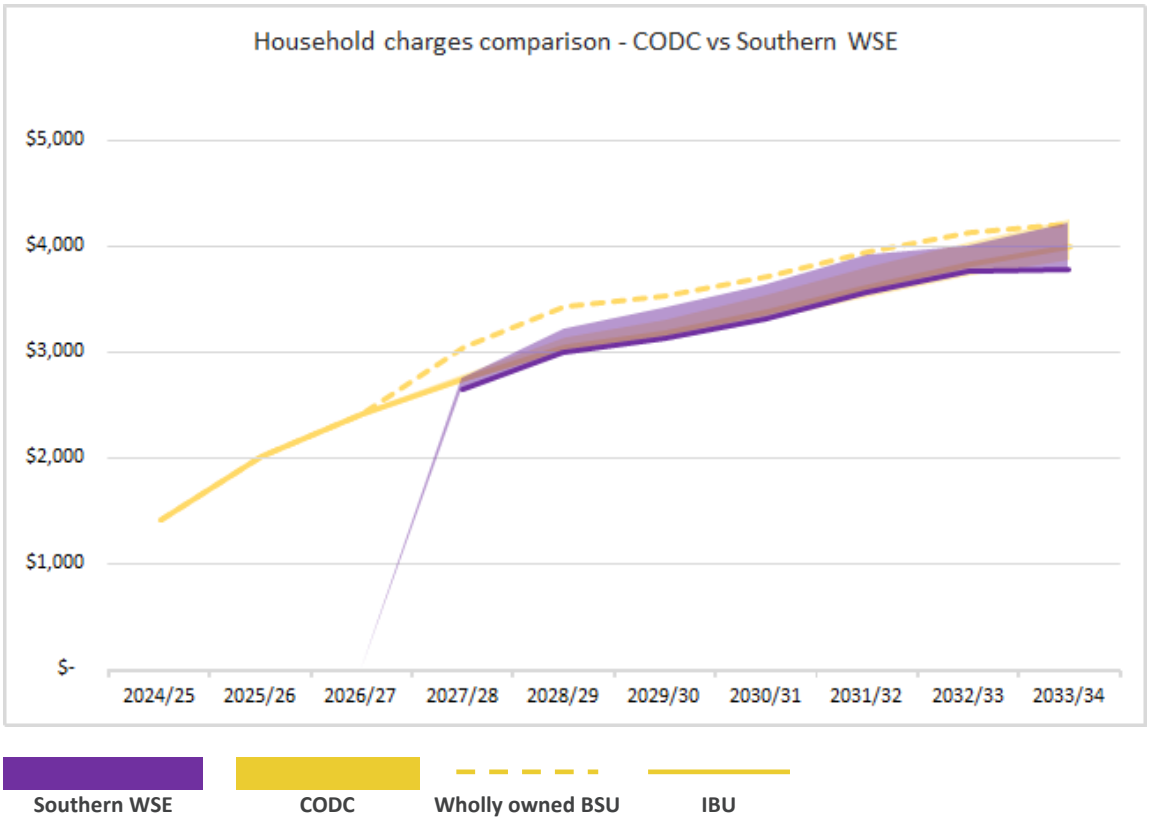
Household charges

The chart below shows the result of our model for Central Otago of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for CODC.

Figure 12 Household charges for CODC vs wholly owned and Southern WSEs



The chart highlights that:

- A Southern WSE provides a slightly lower price path for water consumers in the Central Otago District, but it is generally within the range of the internal business unit.

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- A wholly owned WSE is likely to be more expensive for CODC water consumers than an in house delivery model.

The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 4 Comparison of household three waters charge (incl GST) for CODC

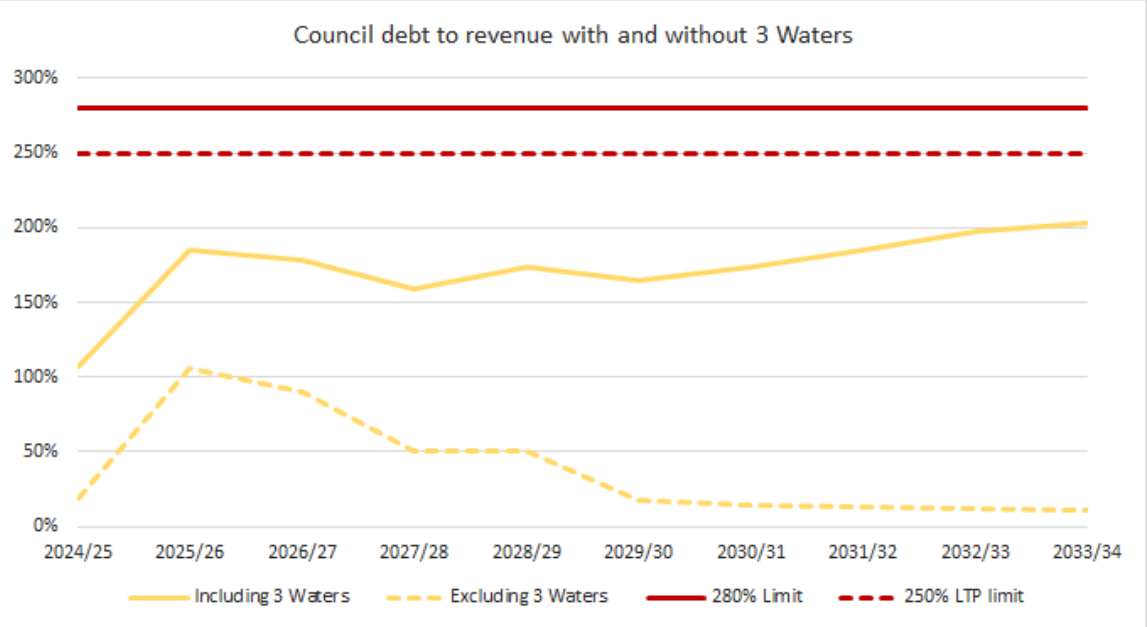
Entity	2024/25	2027/28	2033/34
In house business unit	$1,445	$2,780	$4,047
Wholly owned WSE		$3,094	$4,266
Southern WSE		$2,645	$3,775

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included[4]. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, CODC would improve its debt to revenue ratio from 203% to 11% by 2034. This represents an increase in potential borrowing headroom of $120 million. Without a transfer of three waters, Council's borrowing capacity will become increasingly strained.

Figure 13 CODC debt to revenue with and without three waters



[4] For the purposes of assessing borrowing capacity, Councils revenue and cash reserves from endowment funds has been excluded.

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Clutha District Council

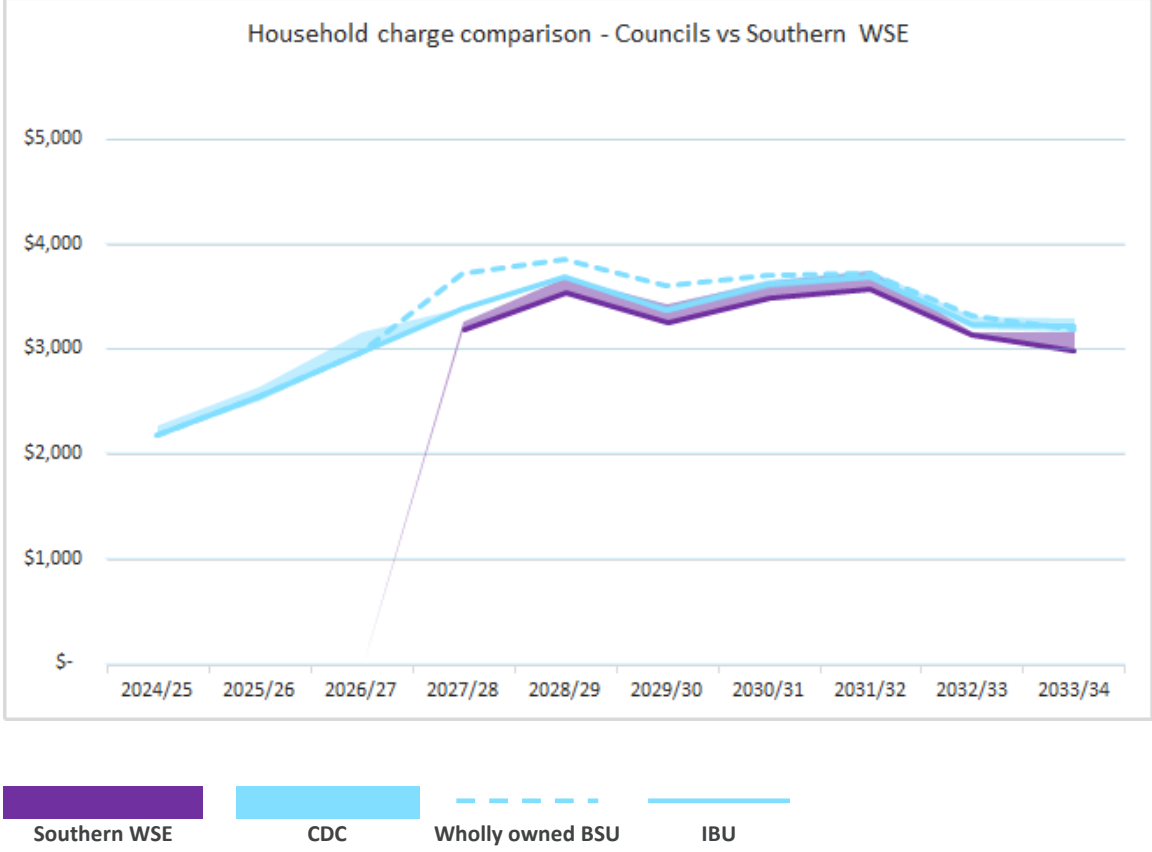
Household charges

The chart below shows the result of our model for Clutha of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for CDC.

Figure 14 Household charges for CDC vs wholly owned and Southern WSEs



The chart highlights that:

- A Southern WSE provides the lowest price path for water consumers in the Clutha District.
- A wholly owned WSE is likely to be more expensive for CDC ratepayers than an in house business unit.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 5 Comparison of household three waters charge (incl GST) for CDC

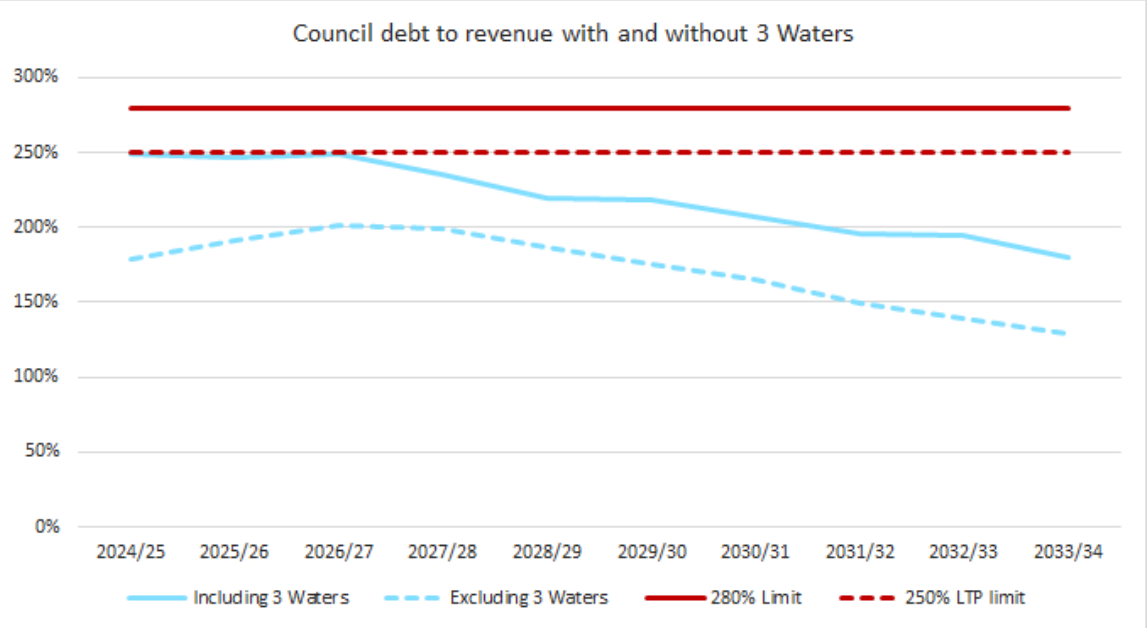
Entity	2024/25	2027/28	2033/34
In house business unit	$2,181	$3,386	$3,211
Wholly owned WSE		$3,727	$3,178
Southern WSE		$3,195	$2,985

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, CDC would improve its debt to revenue ratio from 180% to 129% by 2034.

Figure 15 CDC debt to revenue with and without three waters



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Gore District Council

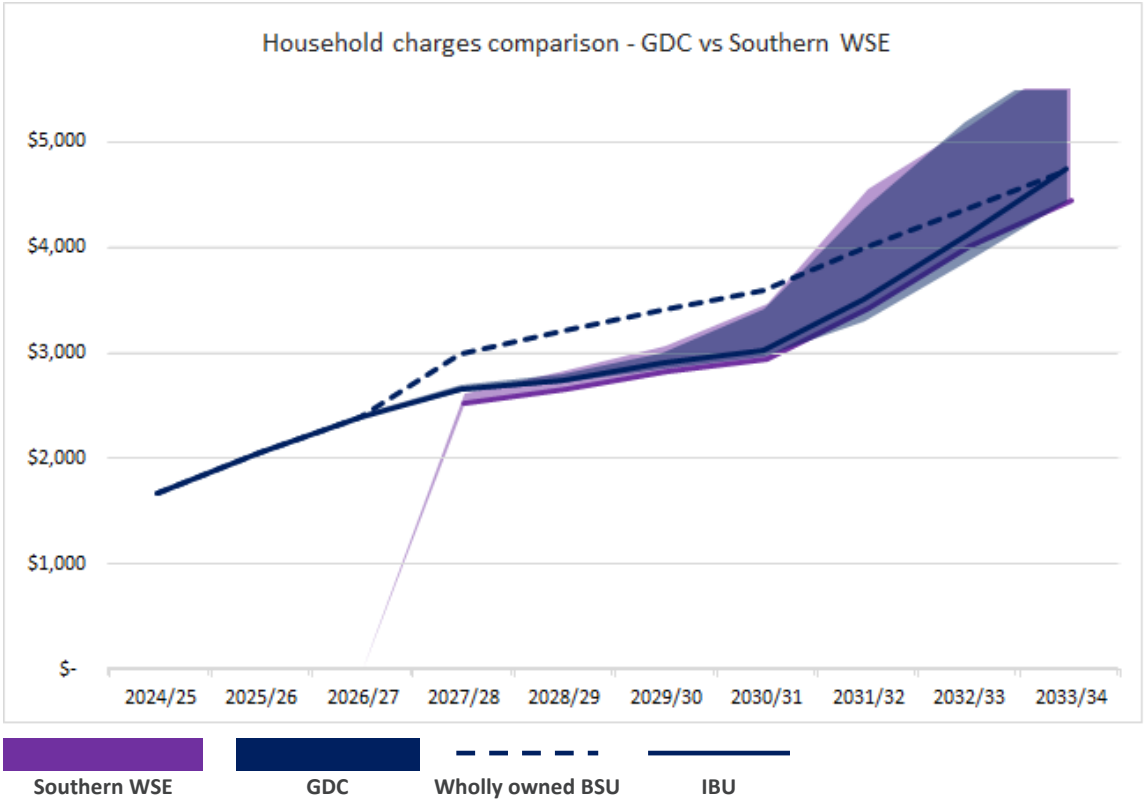
Household charges

The chart below shows the result of our model for Gore of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for GDC.

Figure 16 Household charges for GDC vs wholly owned and Southern WSEs



The chart highlights:

- A local price from the Southern WSE is likely to be lower than price under either of the alternative models for GDC, however the range of outcomes is similar to the internal business unit.
- A wholly owned WSE is likely to provide a more expensive household charge for water consumers in Gore.

The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

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Table 6 Comparison of household three waters charge (incl GST) for GDC

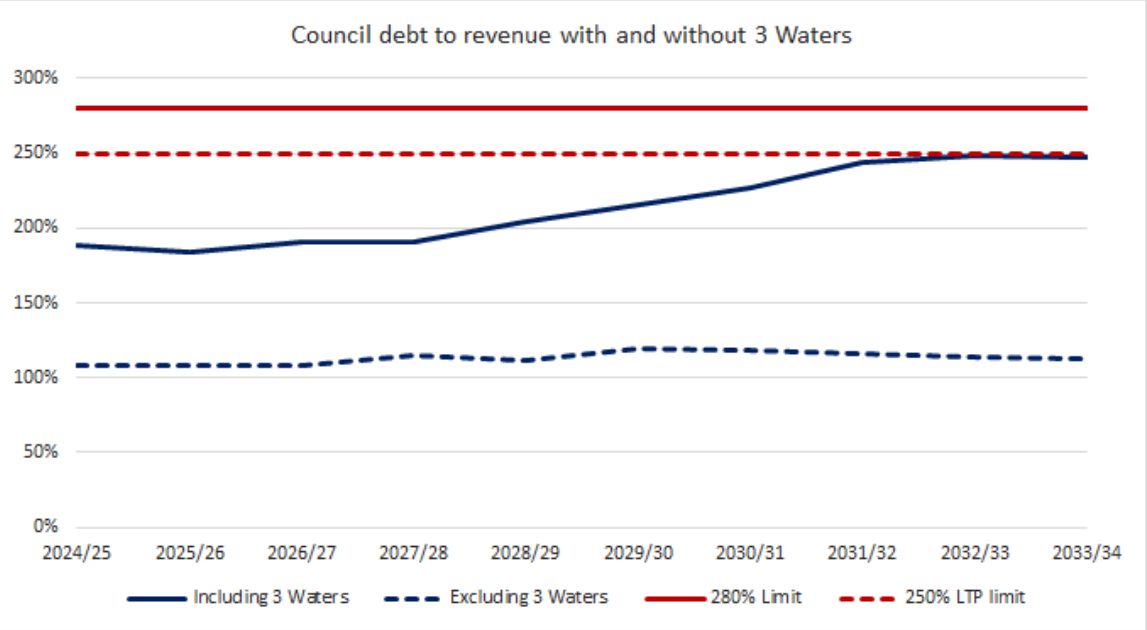
Entity	2024/25	2027/28	2033/34
In house business unit	$1,667	$2,653	$4,755
Wholly owned WSE		$2,986	$4,735
Southern WSE		$2,521	$4,435

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, GDC would improve its debt to revenue ratio from 250% to 113% by 2034. This represents an increase in potential borrowing headroom of $35 million.

Figure 17 GDC debt to revenue with and without three waters



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Waitaki District Council

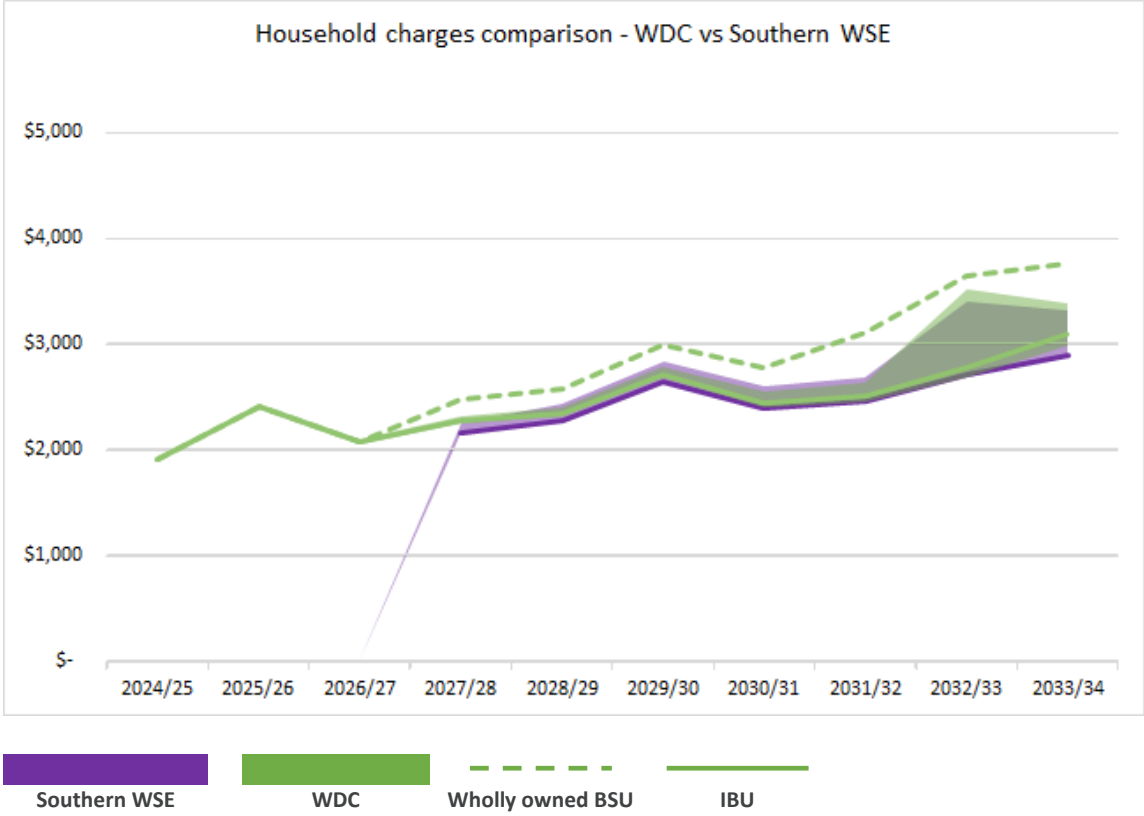
Household charges

The chart below shows the result of our model for Waitaki of:

- An in house business unit
- A wholly owned WSE (represented by the dotted line), and
- A local price charged by a Southern WSE.

We have shown price paths for the in house business unit and the Southern WSE as a range (shaded area) and a single line representing our current best estimate of the likely capital works programme for WDC.

Figure 18 Household charges for WDC vs wholly owned and Southern WSEs



The chart highlights:

- A local price from the Southern WSE is likely to be lower than price under either of the alternative models for WDC, however the range of outcomes is similar to the internal business unit.
- A wholly owned WSE is likely to provide more expensive household charges for water consumers in Waitaki.

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The impact of each model on household charges, based on the base case capital works programme, is also highlighted in the table below:

Table 7 Comparison of household three waters charge (incl GST) for WDC

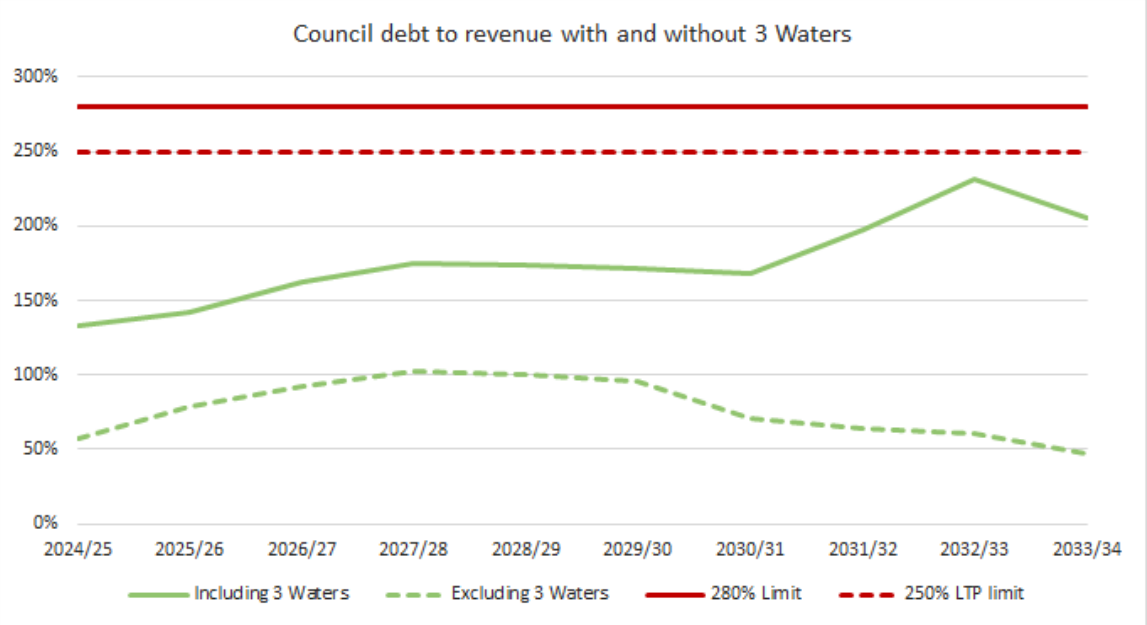
Entity	2024/25	2027/28	2033/34
In house business unit	$1,913	$2,269	$3,093
Wholly owned WSE		$2,466	$3,754
Southern WSE		$2,168	$2,894

Total Council debt to revenue

The chart below shows a comparison of total council debt to revenue with and without three waters debt being included. Both the wholly owned WSE and the Southern WSE would result in three waters debt and revenue no longer impacting Council's borrowing limits.

It shows that, without three waters debt and revenue, WDC would improve its debt to revenue ratio from 205% to 48% by 2034. This represents an increase in potential borrowing headroom of $95 million.

Figure 19 WDC debt to revenue with and without three waters



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Impact of wastewater standards

Draft wastewater standards were released on 25 February 2025 and have not been fully reflected in our view of the capital works programmes for all of the councils included in the modelling presented earlier in this report.

However, as noted in the report from Utility NZ (**Appendix Four** - Southern CCO Programme Assurance Findings), the impact of these standards on capital works programmes is likely to be significant in some cases. However, there are still too many unknowns with the new standards, and each councils respective consenting pathways to be able to fully quantify this impact.

Councils with WWTP upgrades occurring in the next 3 years, which there are very few, will be allowed a two-year extension under the new standards. This will have further impacts on capital programmes, potentially resulting in deferral of currently planned investment into future years, and a delay in seeing the full impacts of potential cost reduction.

Any reduction to the capital works programme that arises as a result of changes to the wastewater standards or reductions in the scope of other programmes of work would have the impact of reducing likely charges for the relevant councils and the Southern WSE. A high level assessment of the likely impact of changing standards is discussed in the report from Utility NZ.

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Appendix One - Non financial MCA

Otago Southland MCA for water service delivery options Multi Criteria Analysis							
Options		**Option 1: inhouse business unit**		**Option 2: standalone CCO**		**Option 3: Multi council Water Service Entity**	
Description of option		**Financial ringfencing No significant changes to service delivery approach Minimum changes to meet legislative requirements**		**Establishment of a separate comapny with its own Board, CEO and management strucutre. 100% owned by a single council. Financial separation from councils. May share or procure services from council**		**Establish a jointly owned three waters CCO. Pricing assumed to be determined under a "no one worse off principle". Equal shareholding across all councils. Assumes a gradual transition away from reliance on councils for the provision of services.**	
Assessment Criteria	**Weighting**		**Comments**		**Comments**		**Comments**
To deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy.	20.0%	0	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, however may be influenced by broader affordability concerns and debt constraints within existing councils.	1	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, and the CCO will only be impacted by its own borrowing and affordability constraints.	2	Services will continue to be compliant, reliable and continuous. Investment will be directed by an economic regulator, and the CCO will only be impacted by its own borrowing and affordability constraints. Access to a braoder set of expertise, and improved financial and workforce resilience arising from increased sclae may improve reliability of the network and allow for the adoption of innovative solutions with improved outcomes
To deliver three waters services that sustainably respond to change in population, economic activity and climate change.	20.0%	0	Asset management planning will be completed within the same location as district planning and consenting. This may allow for more accurate or timing planning of growth investment. Access to skills, or opportunities to build network resilience through "cross border" investment may be limited.	-1	Separation of district planning and consenting functions will require close working relationships to be established to ensure network investment is aligned with growth.	1	Separation of district planning and consenting functions will require close working relationships to be established to ensure network investment is aligned with growth. There may be opportunities for "cross border" solutions to be adopted to respond to or mitigate the risk of changing demand due to climate change, changing population and economic activity. A larger geographic reach improves resilience to local economic or environmental shocks.
To deliver three waters services through a model that is responsive to the local needs of our communities.	20.0%	0	Investment and planning is closely linked to broader objectives and planning for councils. A direct link between governance and the democratic process allows for direct community accountability. Workforces, including high values jobs, remain local. Decision making and accountability will be reduced compared to current arrangements due to the influence of the economic regulator and Taumata Arowai.	0	Decisions regarding investment are made largely independently of decisions made the the shareholding council. However, decision making remains local, with investment only occuring within district. Board members will be appointed by councillors, but will not be directly accountable to , or elected by, the public. Instead they will be accountable to consumers Decision making and accountability will be reduced compared to current arrangements due to the influence of the economic regulator and Taumata Arowai. A wholly owned water CCO is likely to maintain close relationships with parent councils and may share some funcitons, such as customer services.	-2	Decisions regarding investmetn are made based on a "best for network" approach with investment being prioritised across the combined districts when resources are scarce. Workforce, including high value jobs, may move out of the district, however modern working environment will likely allow staff to live where they choose. Local workforces will remain for network and treatment operations. The model may include procuring some shared services from councils such as customer services.
Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	20.0%	0	Decision making will be influenced by the economic regulator, Taumata Arowai, and elected members (who may not have relevant infrastrctuure, risk management or financial expertise). There will be no improvement to recruitment or retention of staff compared to current arrangements, with competition for good staff between districts and larger jont water entities persisting.	-1	There will be a singular focus from the board and management on the delivery of three waters services. There will be no meaningful increase in scale compared to the in house delivery model. Opportunities for career development and progression will be low, and any improvements in ability to attract and retain good staff will be marginal compared to the in house model. Competition for good staff between districts and with larger joint water entites will remain. Lack of scale means loss of a single staff member may have singificant negative implications of such an entity.	3	Scale will provide increased opportunities to find efficiencies through procurement and improved network wide investment. Scale will also provide improved career development opportunities improving the ability to atttract and retain good staff, to support improved decision making. There will be a singular focus from the board and management on the delivery of three waters services.
To ensure that three waters services are delivered through a model that is enduring and financially sustainable.	20.0%	0	The in house delivery model will have ring fenced financial management for three waters services meaning no cross subisidation to/from other activities of Council. Water services may continue to levarge council's ability to borrow at a parent level, which in siome cases will result in increased access to debt, however this will impact the councils ability to borrow for other activities. This option will be less affordable than a Jointly owned CCO. Economic regulation should provide some assurance of financial sustainability.	-1	The entity will manage its own revenue and debt, providing it with financial independence. Gaurantees or provision of uncalled capital from Council will ensure a level of sustainability and lacks finacnial sustainability. Council will have improved borrowing capacity to finance non-three waters projects. Economic regulation will provide some safegaurds regarding financial sustainability, however a lack of scale and geogrpahic reach will mean the entity may be impacted on local economic or environmental shock.	2	The entity will manage its own revenue and debt, providing it with financial independence. Gaurantees or provision of uncalled capital from shareholding Councils will ensure a level of sustainability. Council will have improved borrowing capacity to finance non-three waters projects, and the entity will have favourable lending covenants. Economic regulation will provide some safegaurds regarding financial sustainability, additionally, a broader geographic reach will provide more resilience to changing local economic and environmental conditions.
Total score (out of three with a range of -3 to 3)		**0.00**		**-0.40**		**1.20**	

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Appendix Two - Local Water Done Well Review: Otago & Southland Three Waters October 2024

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Current state overview

Otago & Southland three waters

August 2024

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
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Introduction and approach

Context

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

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

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

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

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

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

Specifically, this first stage of work is intended to:

- Highlight the key local and regional challenges
- Identify areas of common interest, complimentary issues, and clear opportunities
- Determine the strategic objectives that will be used to assess the likely effectiveness of potential improvement models; and
- Develop a long list of options to be considered.

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Currency of data

The change in government and consequential repeal of the previous Government's Three Waters reform programme resulted in significant changes to planning assumptions made by councils in the development of their 2024/34 Long Term Plans. As a result, councils were given the opportunity to delay the adoption of their Long Term Plans by up to 1 year.

We have relied on the *latest* adopted/approved financial and asset information available for each council in the analysis included within this report. Where councils have elected to delay their Long Term Plans by a year, this information typically relates to either the 2021/31 LTP or early internal drafts of the 2024/34 long term plan that were prepared prior to the decision to defer. A detailed description of our approach to analysing the data provided from council's 2021 long term plans is outlined in Appendix One.

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Combined regional view

A common set of challenges

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

1. A need for significant investment in infrastructure, including:
   - Long held resource consents nearing expiry
   - Ageing infrastructure and increased renewals investment requirements
   - The increasing need to invest in, and utilise, technology to meet regulatory requirements for the provision of water and wastewater services
   - The condition of assets
   - Increasing or changing regulatory standards and intervention, including requirements to discharge treated wastewater to land rather than freshwater
   - Changing demand
   - Climate related pressures including increased frequency of droughts and severe wet weather events.
2. Increased financial constraints, including:
   - The need to significantly increase rates or other revenue that needs to be collected to fund service provision
   - A reduction in available borrowing capacity
   - The difficulty in funding significant infrastructure investment in small or remote communities
   - Ensuing affordability concerns for impacted communities
3. Challenges with the recruitment, retention, and development of skills, experience and expertise.

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

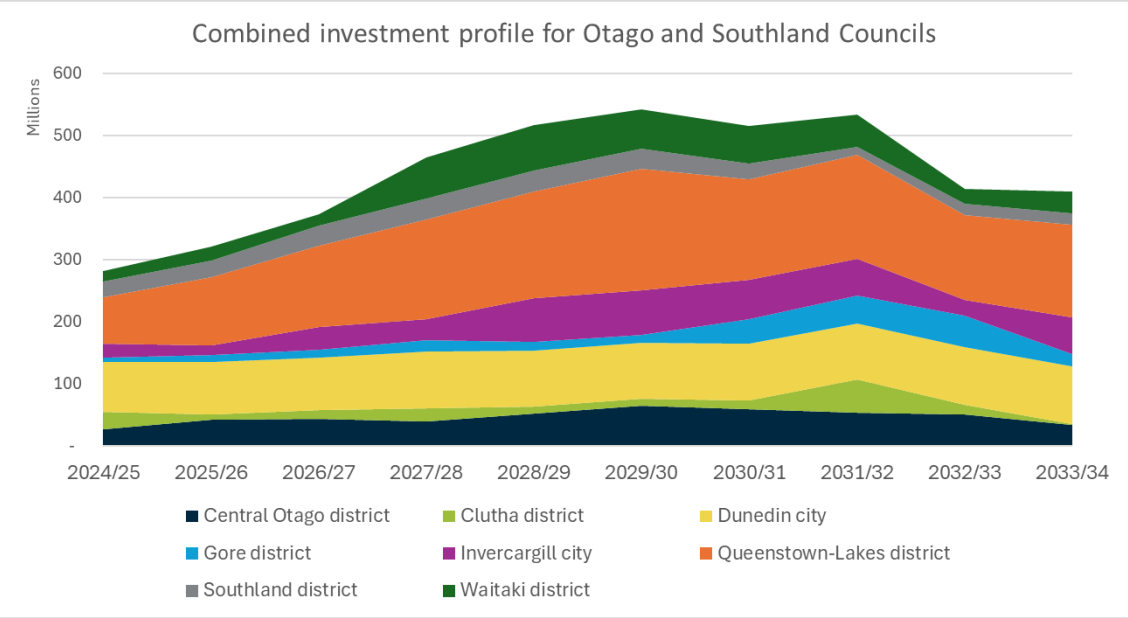
- The Otago and Southland regions are facing a wave of investment required from a large number of expiring wastewater treatment consents, ageing infrastructure and significant population growth at a local level.
- A rapid increase in total borrowings to fund investment in three waters infrastructure.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

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Investment requirements

The combined investment profile for the Otago and Southland councils features a $4.3 billion programme of work, across eight councils. The work programme almost doubles from $280 million to over $540 million dollars of planned annual capital delivery between 2025 and 2030.

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

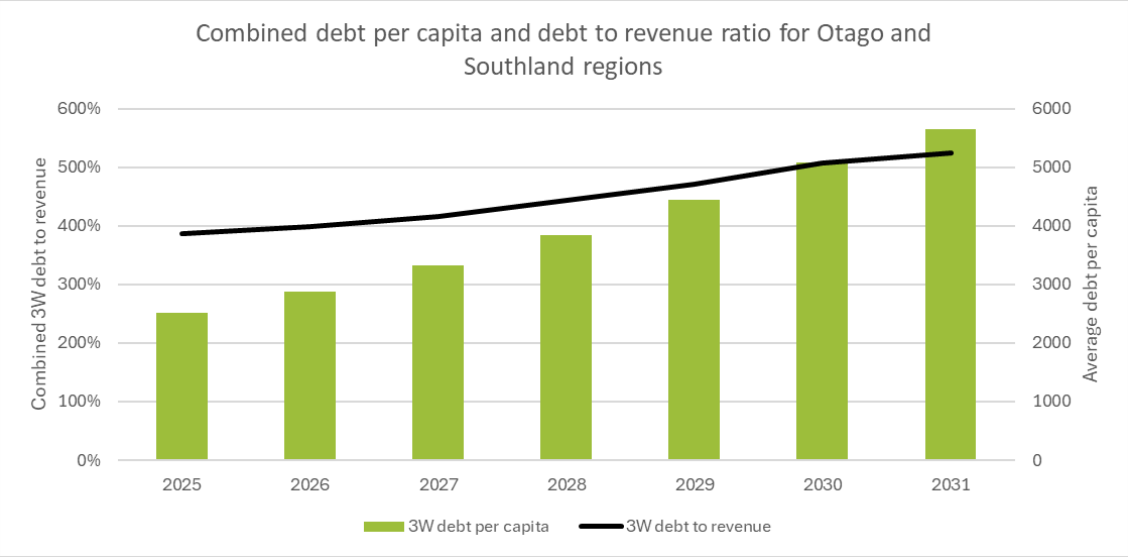


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Borrowing requirements

Financing a $4.3 billion dollar work programme requires significant borrowing. Total three waters debt across the Otago and Southland Councils is expected to reach $2.2 billion by 2031 on conservative projections[1].

On a per capita basis, debt across the combined regions will more than double from $2,500 per person to over $5,600 per person in 2031. Servicing and repaying that debt will add $450 to the average annual three waters rates bill.



As three waters infrastructure has been the largest contributor to borrowing for councils, when considered in isolation three waters debt is likely to exceed 500% of three waters revenue in 2031.

Proposed financial arrangements announced by the Government on 8 August 2024 reference LGFA's willingness to lend to an effective rate of 500% of three waters revenue. We understand that it is unlikely that lending covenants will actually be measured based on debt to revenue, but rather an alternative benchmark will be used.

[1] These projections include debt projections based on modified 2021 LTPs for some councils. Given significant uplifts in capital works programmes from 2021 to 2024, we would expect debt to be higher than this in 2031.

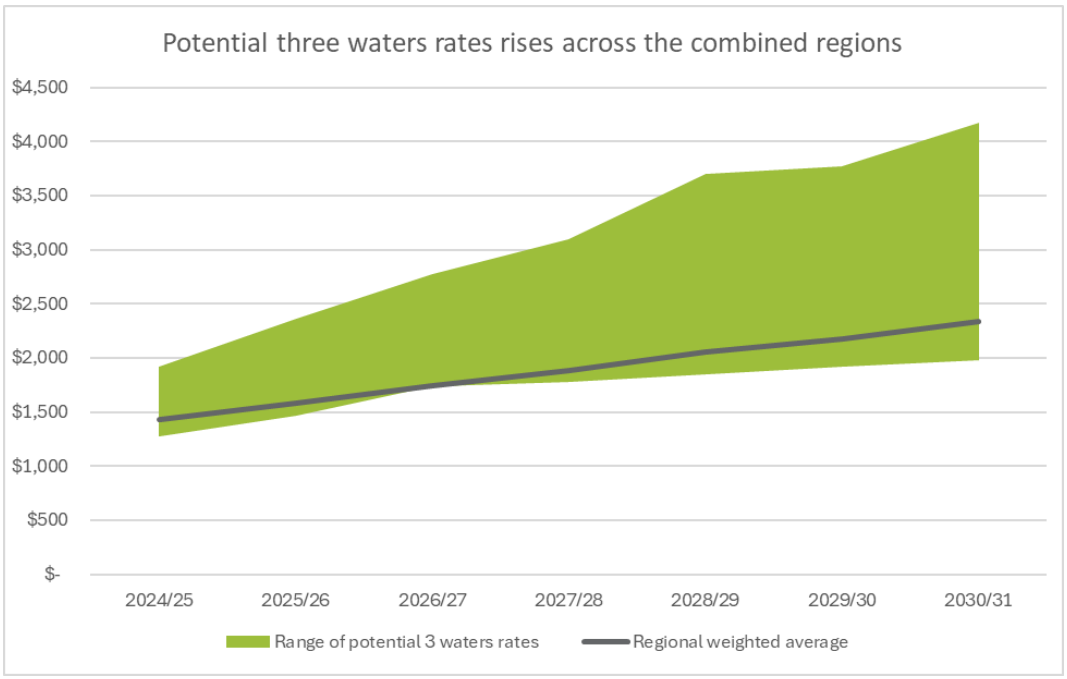
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Rates rises

Three waters rates across the Otago and Southland regions are predicted to rise significantly over the next seven years. Some communities are projected to experience increases of more than 160% to their existing residential three waters rates bills during that time period. By 2034, some councils will have three waters rates that are up to five times larger than they are in 2025. For some councils, this means a rapid increase in rates in the final years of their LTPs.

While there is significant variation across the regions, the affordability of three waters services and rates is likely to become a key consideration for all councils moving forward. Regionally, the weighted average residential rates will increase at least 63% from $1,435 in 2025 to over $2,350 in 2034.

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



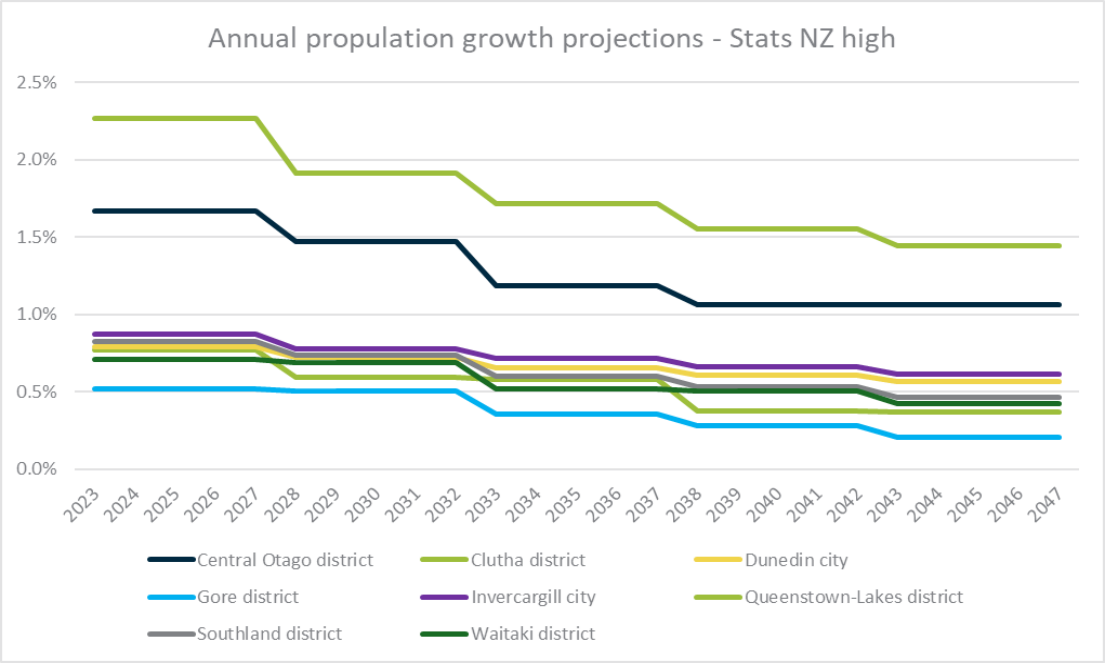
Local context matters

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

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Some councils are experiencing rapid growth

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



The two Councils that are experiencing the highest levels of growth in the Otago and Southland regions (QLDC and CODC) have a combined three waters capital works programme of $966 million just to respond to provision of infrastructure to support that future growth. This represents approximately half of the three waters capital works programme for both Councils.

While Dunedin City Council (DCC) has allowed approximately $68 million for three waters growth infrastructure between 2024 – 2034, the remaining councils in the Otago and Southland regions have only forecast incidental expenditure on growth projects over the LTP period.

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

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

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

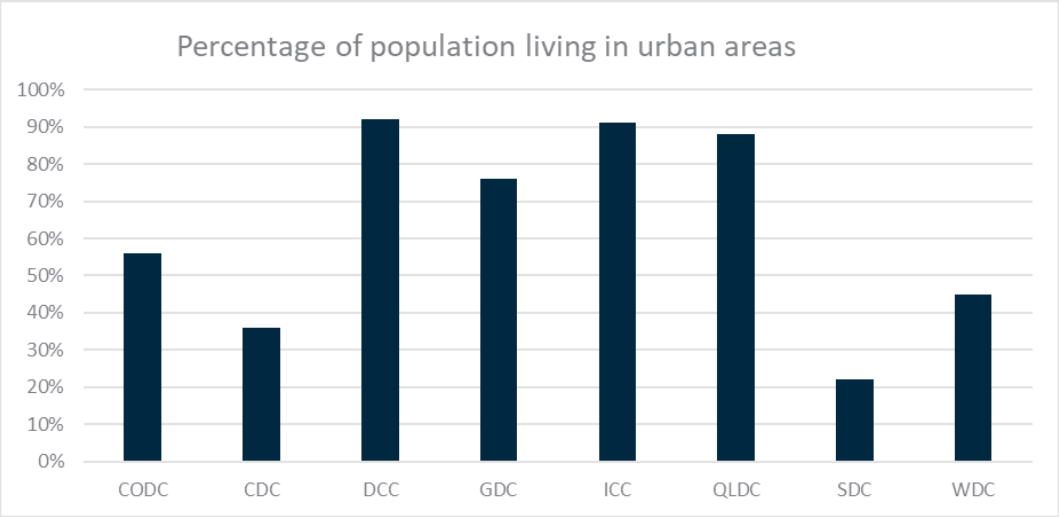
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Some councils have many small communities

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

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

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



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

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

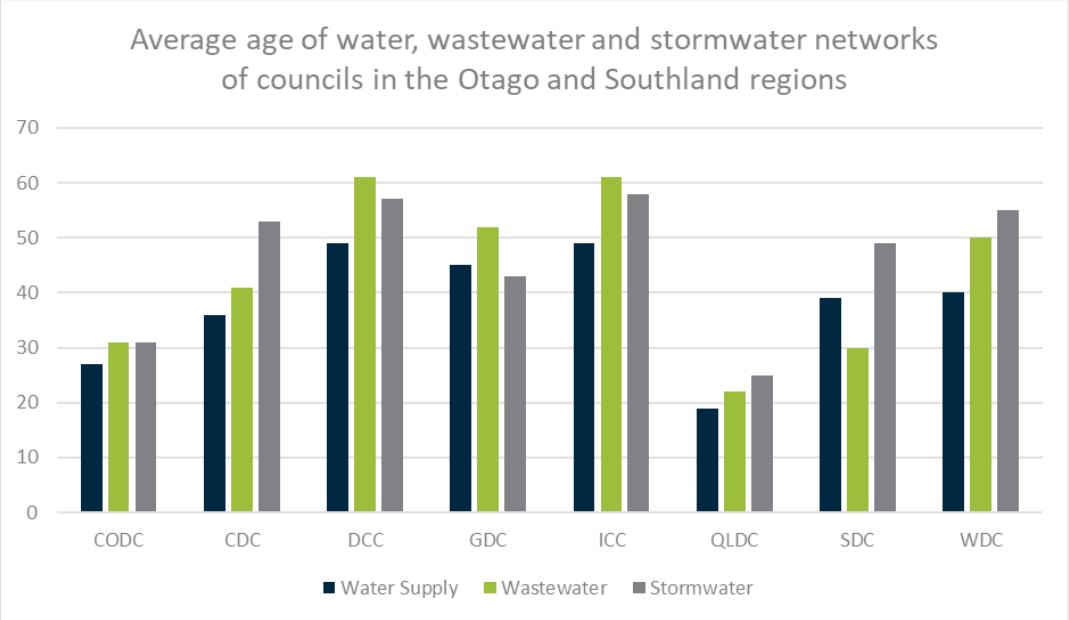
Managing small schemes cost effectively requires a different approach to the management of three waters services in highly urbanised environments.

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Some councils have older networks than others

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

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



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

Councils with older networks such as ICC, DCC, WDC and GDC are expected to undertake a significant programme of renewals over the next 10 years. These councils are expected to spend over $850 million in three waters renewals over the next 10 years, or around half of their combined three waters capital works programme.

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Among the issues lie a range of opportunities

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

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

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

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Central Otago District Council

24,306 population (2023)

18,875 people serviced with water supplies

7 wastewater treatment plants

8 water treatment plants

453 km water supply pipes

73 km stormwater pipes

264 km wastewater pipes

28 water connections per kilometre

56% of people live in urban areas

$85,900 average household income (2019)



Key issues

Growth

The CODC district has very high population growth in some of its townships. 53% of its planned capital works programme, totalling $244 million is intended to address growth pressures.

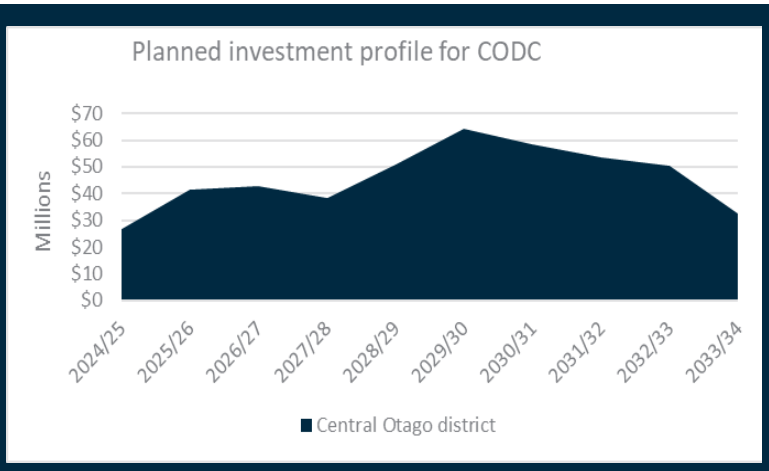
Small communities

Servicing small communities and balancing the need for significant investment in those communities in the future. Six of CODC's registered drinking water supplies service townships that individually have fewer than 1,000 people connected.

Affordability

To meet estimated investment needs in three waters, average three water rates are projected to increase 80% from $1,900 to over 3,450 by 2034.

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$458 million of planned investment over 10 years

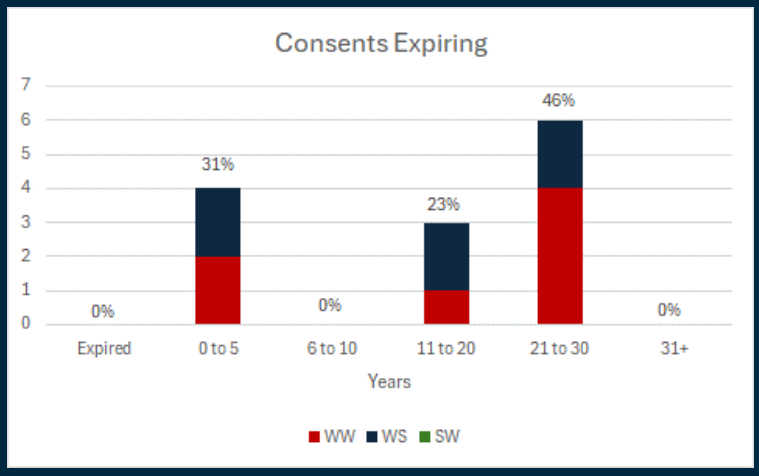
CODC's three waters capital works programme peaks at $64 million per year in 2029. For context, that's over 50% more than its entire capital works programme in 2024.

This investment profile is likely to reduce by up to $100 million due to recent government announcements that suggest discharge to freshwater environments will be permitted and fit for purpose water treatment for small supplies.

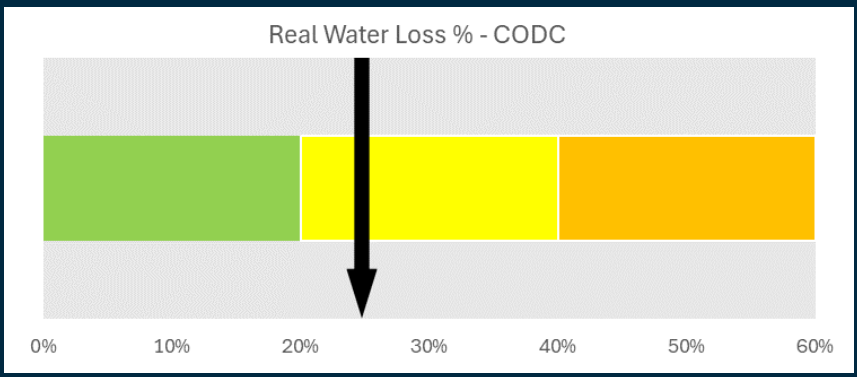
Expiring consents

CODC has four consents that are due to expire in the next 5 years. The two wastewater consents are for Alexandra and Omakau.

Both currently discharge to freshwater receiving environments. The additional financial impacts of discharging to land (if required) are expected to be in the order of $60 million - $70 million combined.



Network performance



CODC experienced an estimated 26% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was 25%.

There were 2.75 dry weather overflows of the wastewater network per 1,000 connections in 2023.

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Compliance

CODC was not fully compliant with the drinking water standards in 2023, non-compliance related to a lack of Protozoal barriers in its Ranfurly, Patearoa, Cromwell and Omakau supplies. It also had supplier notifications for MAV exceedances in its Roxburgh and Cromwell schemes and issued temporary consumer advisories for its Ranfurly and Patearoa schemes in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[2]
Bacterial compliance	Not Achieved	100% Compliance	N/A	↔
Protozoal compliance	Not Achieved	100% Compliance	N/A	↔

CODC received 5 Abatement Notices and 2 Infringement Notices for its wastewater treatment plants in 2022/23, an increase from 3 Abatement Notices in 2021/22. Two abatement notices have since been lifted, with three remaining in place as at August 2024.

Demand management

CODC has experienced a period of rapid population growth since 2013. The average annual growth rate of 3.7% is much higher than the growth seen from 2006-2013 which was an annual average of 1.2%. Over the last two years this growth has slowed to a rate of 2.5% due to impact of Covid. Short term and long-term indicators suggest the population growth rate will continue at a rate similar to the last two years, rather than the more accelerated rate seen prior to that.

Water Consumption
516 ↓
(lpd/resident)

To respond to infrastructure pressures arising from Growth, CODC has provided for $244 million of investment in growth projects. Existing universal water metering also provides opportunities to address growth challenges.

Network condition and age

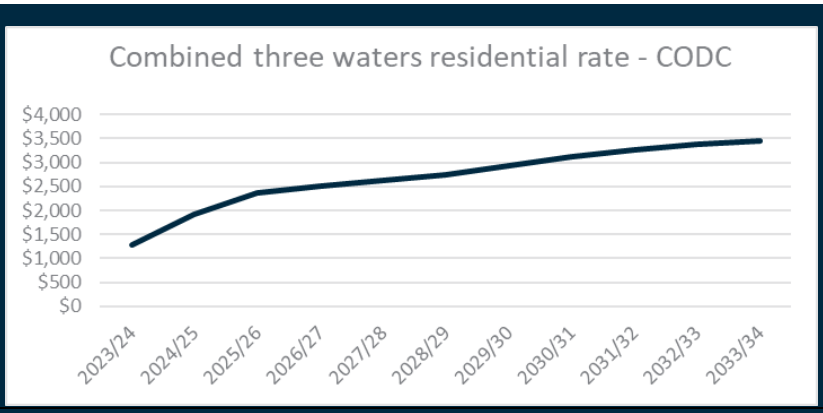
CODC's water, wastewater and stormwater infrastructure has the second lowest average age of all of the councils in the Otago and Southland regions. Expected useful life of water infrastructure varies depending on a range of factors, including material, diameter, and operating conditions, however given the low average age of infrastructure, CODC is unlikely to have an immediate need for significant renewals investment.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	27	84%	8%	5%	1%	2%	0%
Wastewater	31	86%	9%	3%	2%	0%	0%
Stormwater	31	99%	0%	1%	0%	0%	0%

Condition assessment of CODC's three waters assets show a high portion of assets in Condition 1. Again, this indicates no immediate need for significant renewals investment, however we would have expected to have seen more of a distribution in the other condition grades.

[2] Compared to previous year

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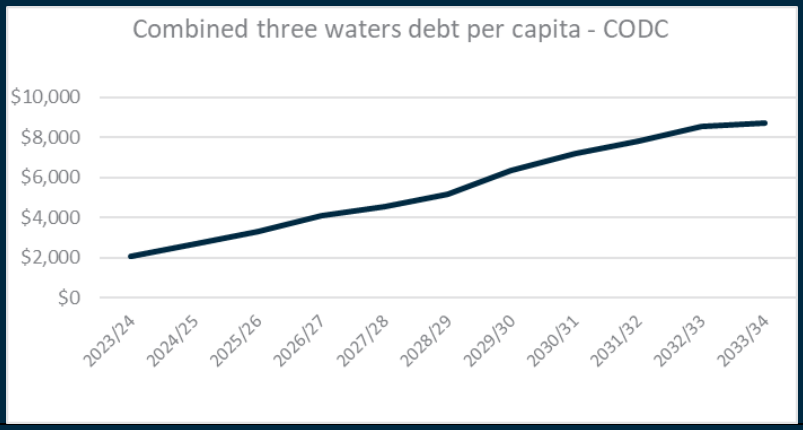


Three waters residential rates

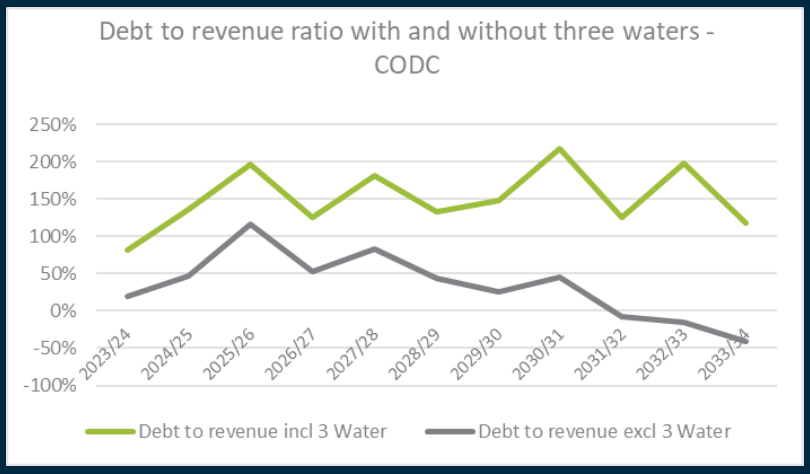
The average residential rate for three waters services in CODC is projected to more than double from about $1,300 including GST in 2024 to about $3,450 in 2034 according to early drafts of its 2024 long term plan (which was subsequently deferred).

Three waters debt

CODC's initial draft 2024 Long Term Plan forecast an increase in total three waters related borrowings from approximately $55 million in 2024 to about $297 million in 2034. This represents a four-fold increase in per capita debt, from about $2,000 per capita to about $8,700 per capita in 2034.



Whole of council debt



Over the period of the initial draft 2024/34 long term plan, CODC's debt was projected to grow to over 215% of its revenue; this is primarily because of intense capital investment requirements for three waters. The projections show CODC breaching LGFA's 175% debt to revenue limit for unrated councils in 2026, at which point CODC would need to obtain a credit rating.

Council expects to generate significant future revenue from the development of residential and industrial land in its district. This is the cause of the spikes in the chart above.

© Morrison Low

Clutha District Council

18,315 population (2023)

15,000 people serviced with water supplies

11 wastewater treatment plants

16 water treatment plants

2,505 km water supply pipes

57 km stormwater pipes

217 km wastewater pipes

3 water connections per kilometre

36% of people live in urban areas

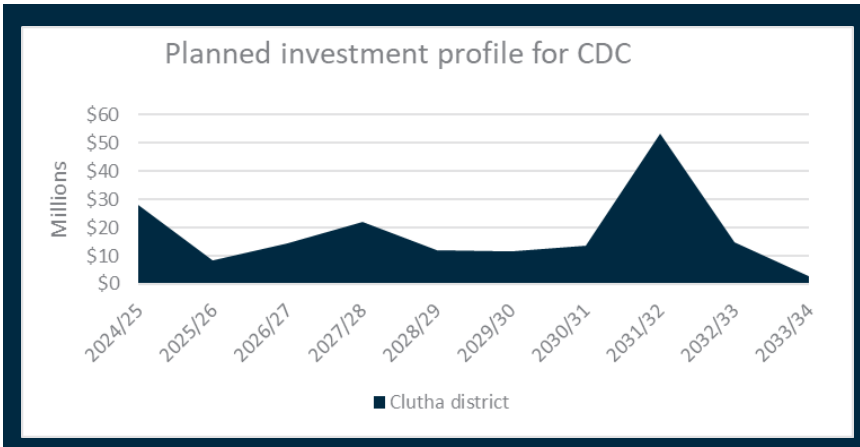
$86,300 average household income (2019)



Key issues

Mixed use rural water schemes	Low connection density	Compliance
Council owns and manages 22 rural water schemes for domestics consumption and drinking water for stock. The ongoing costs of operation and maintenance of the schemes is expected to become unaffordable over time.	Council has one of the longest reticulated water networks in the country, and consequently the lowest connection density in New Zealand. Low connection density results in high costs to operate and maintain a network that services few people.	Delivering drinking water that is compliant with drinking water standards has been challenging in a number of rural mixed use schemes in particular. 6,221 people connected to schemes had consumer advisory notices in place in 2023.

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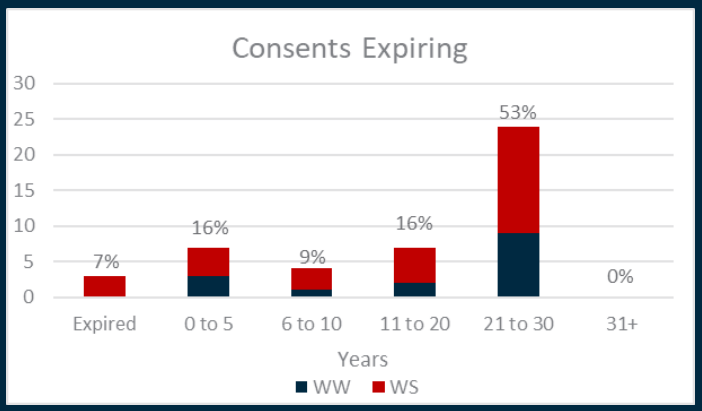
$181 million of planned investment over 10 years

The programme peaks at $53 million in 2032. For context, this is about equal to CDC's entire planned capital works programme (for all activities) in 2024.

Expiring consents

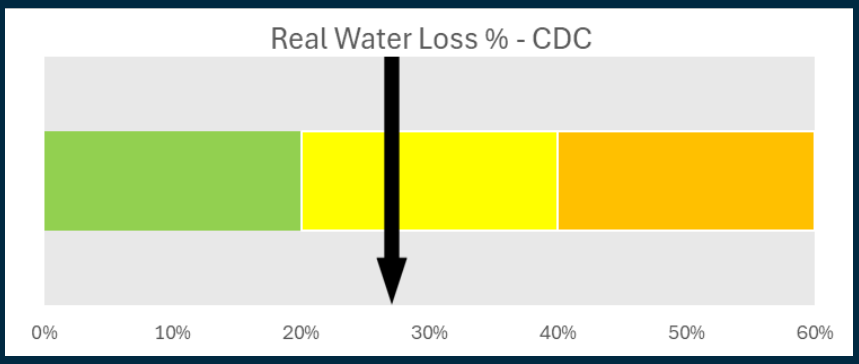
CDC has three water supply consents that have expired and 7 that expire in the next 5 years. There are a large number of consents (24) that expire in the years 21 to 30.

CDC has 45 resource consents across its 27 water and wastewater treatment plants. Some treatment plants have more than one applicable consent.



Network performance

CDC experienced 28% real water loss in the 2023 financial year. This is average for the councils in Otago and Southland. regions.



There were 4.19 dry weather overflows of the wastewater network per 1,000 connections in 2023. CDC's wastewater network met its target levels of service in the last two years, although with 4.19 dry weather overflows is worse than most other councils in the Otago and Southand regions and their targets are all also lower than CDC's.

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Compliance

All 14 of Clutha's drinking water schemes have bacterial barriers, protozoal barriers, and residual disinfection in place other than Tuapeka West (which is to be replaced with the Greenfield Bore scheme).

Notwithstanding this, all schemes other than the Lawrence and Balclutha schemes issued supplier notifications to Taumata Arowai regarding unsafe, or maybe unsafe, drinking water. Eight of the 14 schemes had consumer advisory notices issued during the 2023 year, of which six were permanent advisory notices.

Area		22/23 results	22/23 Target	21/22 results	Trend[3]
Bacterial compliance	Urban	0%	100% - Not Achieved	81%	↓
	Rural	0%	94% - Not Achieved	39%	↓
Protozoal compliance	Urban	0%	>89% - Not Achieved	49%	↓
	Rural	0%	>66% - Not Achieved	0%	↔

Seven schemes exceeded Maximum Allowable Values for aluminium in 2023.

CDC received 7 Abatement Notices and 3 Infringement Notices for its wastewater treatment plants in 2022/23.

Demand management

The Clutha district is not expected to experience significant population growth in the near future. Changes in demand owing to population or economic growth are therefore not expected to create any significant challenges for the district moving forward.

Water Consumption
530 ↓
(lpd/resident)

A number of Clutha's existing surface water takes already have low flows, particularly during summer months. Any future increases to minimum water flow levels that may be imposed as part of future consent renewals may require CDC to find alternative water sources or implement further demand management strategies for those affected scheme.

Network condition and age

The age of each of CDC's water, wastewater and stormwater infrastructure is about average for the councils in the Otago and Southland regions.

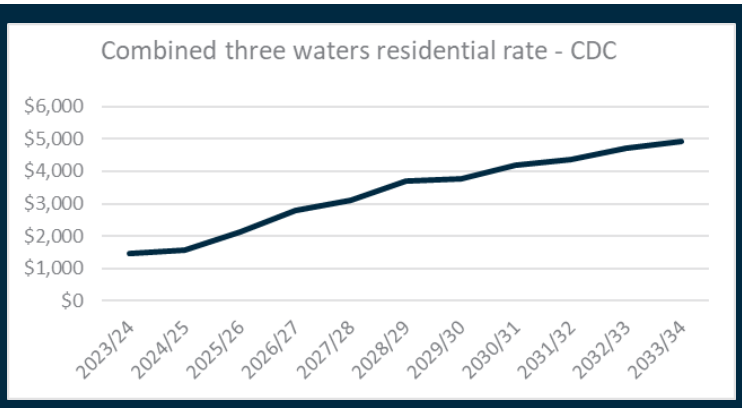
CDC notes in its asset management plan that the impacts of an ageing network are becoming evident now, particularly in relation to its concrete and asbestos cement water supply reticulation assets.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	36	28%	2%	5%	2%	1%	62%
Wastewater	41	49%	32%	13%	1%	2%	3%
Stormwater	53	20%	62%	6%	5%	5%	2%

A large quantity of the water supply network has yet to be condition assessed.

[3] Compared to previous year

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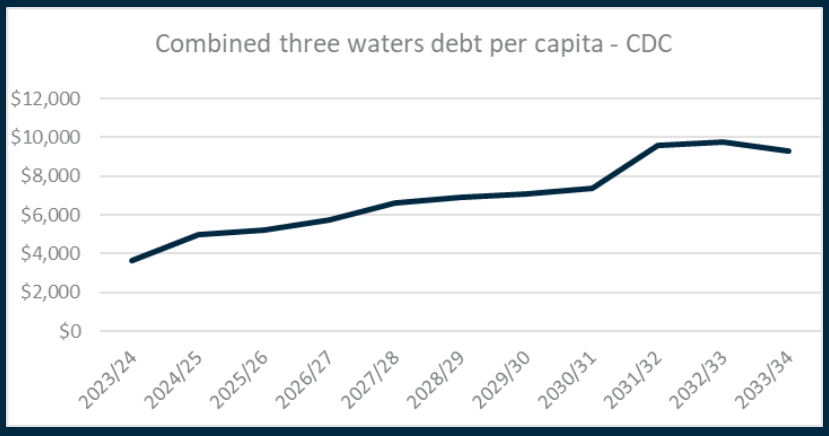
Three waters residential rates

The average three waters residential rate in CDC for 2023/24 was approximately $1,460 (including GST). Over the period of the LTP this is expected to more than triple to about $4,900 by 2034.

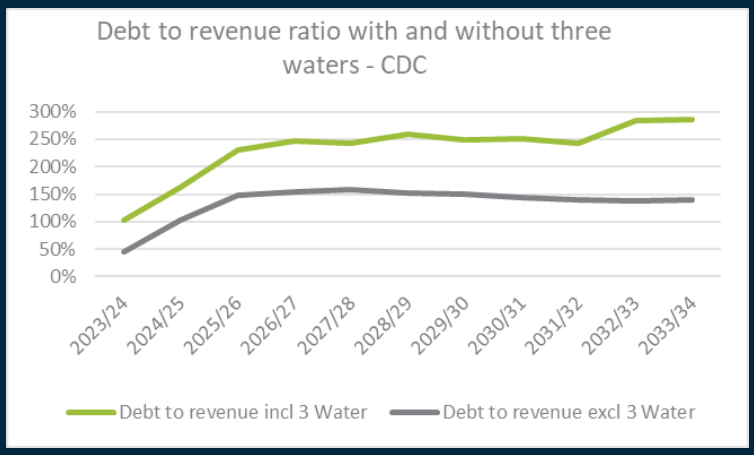
CDC separates rural and urban drinking water charges, so may not represent charges for all customer groups.

Three waters debt

Three waters debt for CDC is projected to increase from approximately $70 million in 2023/24 to a peak of $194 million by 2033/34. In per capita terms, three water debt will nearly triple from $3,660 per person to $9,300 per person.



Whole of council debt



Based on LTP projections, CDC will exceed LGFA's 280% debt to revenue lending covenant by 2032/2033. At this point it will be unable to borrow further funds without significant cost to ratepayers.

CDC's own draft Long Term Plan does not indicate that this lending limit will be breached. We note that our calculations of debt to revenue ratios rely upon data from funding impact statements and projected statements of financial position using a consistent approach across all councils. It is likely that actual calculations may differ given differences in reporting across councils.

Without three waters related debt, Council is unlikely to reach or exceed any borrowing limits within the foreseeable future.

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Dunedin City Council

128,901 population (2023)

115,357 people serviced with water supplies

7 wastewater treatment plants

4 water treatment plants

1,390 km water supply pipes

385 km stormwater pipes

958 km wastewater pipes

35 water connections per kilometre

92% of people live in urban areas

$88,800 average household income (2019)



Key issues

South Dunedin flooding

Regular flooding of South Dunedin has been identified as a critical issue that needs to be resolved.
A joint programme of work is underway with Otago Regional Council to look at planning, land use and infrastructure opportunities to resolve this issue.
It is likely that infrastructural intervention will require substantial investment.

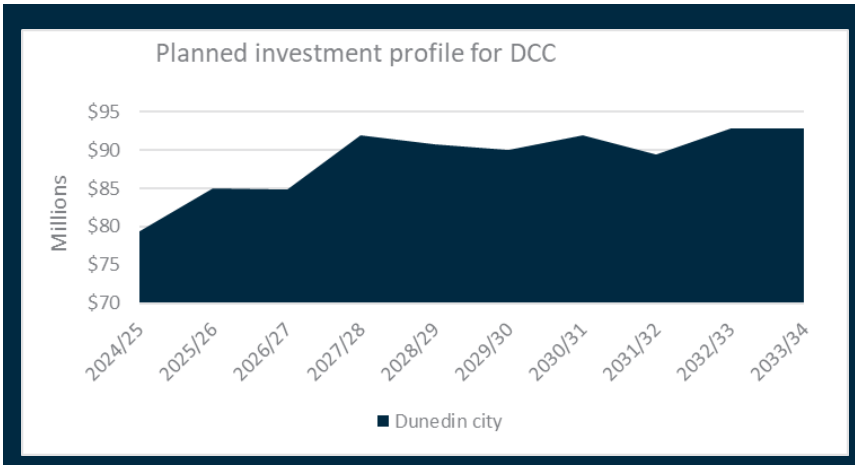
Providing for growth

Network capacity issues on parts of Dunedin's water network mean that it is unable to provide for future housing development in parts of its city.
Water take limits during dry periods also occasionally impact water supply across the network.

Ageing infrastructure

Dunedin's water, wastewater and stormwater networks are all the equal oldest in Otago and Southland.

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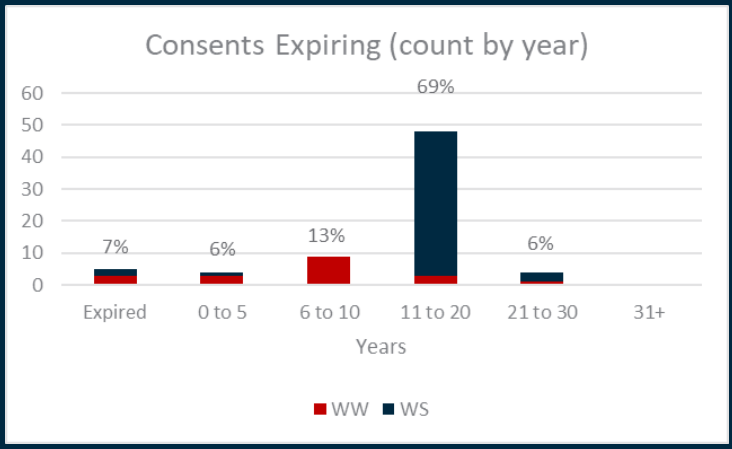


$890 million of planned investment over 10 years

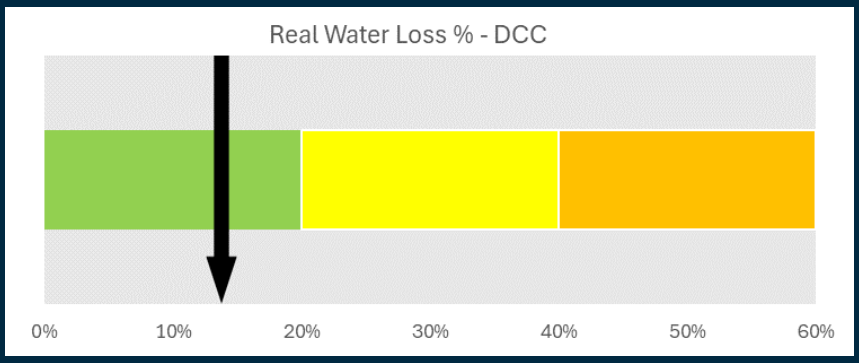
The programme is based on consistent delivery of around $90 million per year from 2028. For comparison, DCC's 2023 annual report shows it delivered $93 million in three waters capital projects during the year.

Expiring consents

The resource consents for the Green Island and Tahuna wastewater treatment plants are due to expire in 2032. Resource consents for the Waikouaiti and Middlemarch wastewater treatment plants are due to expire in 2027 and 2029 respectively.



Network performance



DCC experienced 15% real water loss in the 2023 financial year, which is amongst the lowest in the Otago and Southland councils. Water loss was 22% in 2022.

There were 3.58 dry weather overflows of the wastewater network per 1,000 connections in 2023, an increase from 2 per 1,000 connections in the previous year.

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Compliance

DCC was not fully compliant with the drinking water standards in 2023. Non-compliance related to lower than required levels of free available chlorine in the Wingatui distribution zone and exceeding the maximum sampling intervals in a number of locations. Steps have been put in place to address all of these issues.

All of DCC's water supplies have bacterial and protozoal barriers and residual disinfection in place.

Taumata Arowai reports than in 2023 it received 3 notifications for MAV exceedance on the Dunedin City supply, and that the Waikouaiti supply exceeded lead MAVs on one occasion.

Area	22/23 results	22/23 Target	21/22 results	Trend[4]
Bacterial compliance	81%	100% - Not Achieved	50.5%	↑
Protozoal compliance	98.6%	100% - Not Achieved	99.6%	↓

Demand management

Dunedin experienced 3.2% growth in its population between 2022 and 2023.

Dunedin already faces some constraints on water supply. It's draft 2024 infrastructure strategy notes that constraints exist in relation to:

- Flows and pressure not always meeting requirements for firefighting purpose
- Occasional issues during summer months where raw water take needs to reduce to maintain minimum flows
- Infrastructural constraints on the volume of water able to be delivered to some parts of the city
- Expiring water take consents, particularly in the Taieri plains area which is already over-allocated

Water Consumption
280 ↑
(lpd/resident)

Network condition and age

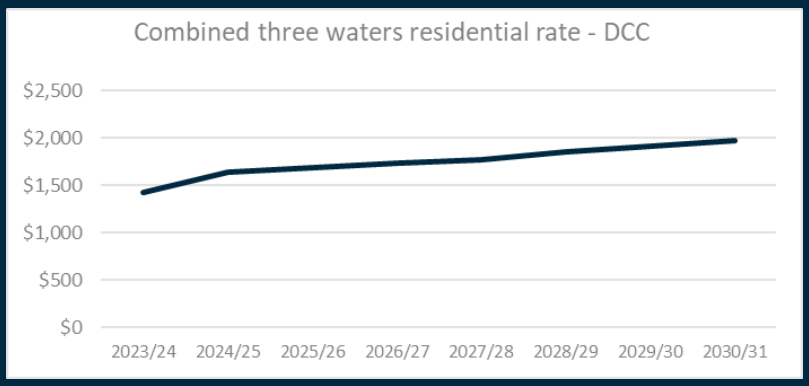
A large proportion of Dunedin's three waters network is yet to have a condition assessment, however DCC's infrastructure strategy identifies that a significant proportion of its wastewater reticulation network and treated water pipelines are in poor condition.

Particular issues are noted relating to the wastewater network, which is experiencing stormwater and ground water infiltration and inundation. This also creates capacity issues in the network during high intensity rainfall events.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	2%	4%	4%	1%	2%	87%
Wastewater	61	1%	3%	3%	1%	1%	91%
Stormwater	57	1%	1%	2%	1%	3%	92%

[4] Compared to previous year

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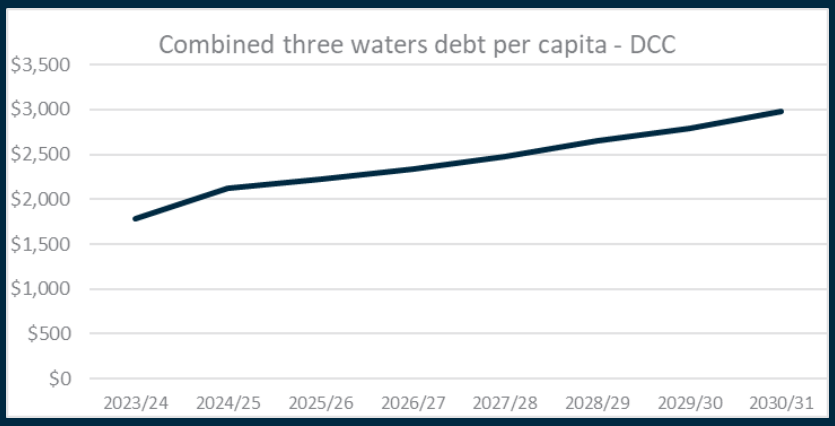


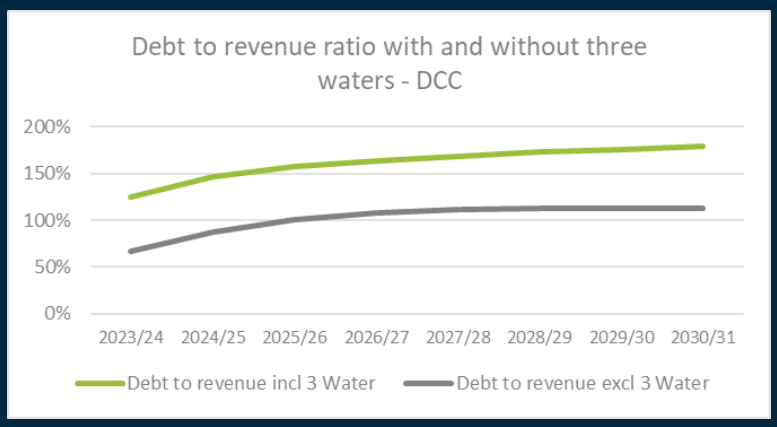
Three waters residential rates

Projections for Dunedin City Council, based on its adjusted 2021/31 Long Term Plan, see average residential three waters rates increase from $1,430 including GST in 2024 to $1,980 including GST by 2031.

Three waters debt

Dunedin's three waters net debt over the period of its adjusted 2021/31 long term plan is projected to rise from approximately $247 million in 2024 to $428 million in 2031. This translates to $2,980 per capita in 2031.





Whole of council debt

Dunedin's 2021 Long Term Plan projects total debt to reach 180% of revenue by 2031.

An increased capital works programme and borrowing requirements identified as part of the 2024 long term plan preparation would likely have resulted in further increases to debt to revenue ratios. Our projections do not anticipate Dunedin breaching its 280% borrowing limits based on increased three waters capital expenditure alone.

Notably, DCC's debt to revenue ratio is expected to improve if three waters revenue and debt were to be transferred. However, the upward trend of borrowings excluding three waters, indicates that at the time of the 2021 LTP, three waters investment needs were not significantly constraining planned investment in other council activities.

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Gore District Council

12,711 population (2023)

9,290 people serviced with water supplies

3 wastewater treatment plants

3 water treatment plants

126 km water supply pipes

62 km stormwater pipes

108 km wastewater pipes

10 water connections per kilometre

76% of people live in urban areas

$96,800 average household income (2019)



Key issues

Separation of wastewater & stormwater

Approximately 40 % of Gore and 25 % of Mataura's wastewater and stormwater networks are combined.

A study completed in 2018 estimated that it would cost $175 million to achieve full separation of the Gore network.

Water loss

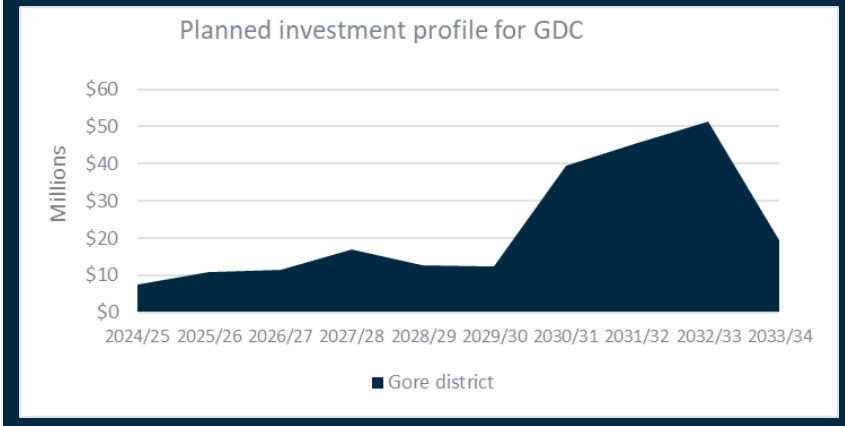
Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage.

Given limitations on water takes from Gore's surface water supplies during dry periods, a reduction in leakage would reduce the need for water restrictions.

Debt constraints

GDC's current debt projections see it breaching both the LGFA lending covenants for credit rated, and unrated, councils. With the significant majority of this borrowing relating to three waters, investment in three waters infrastructure will be constrained without additional rates rises to support further lending.

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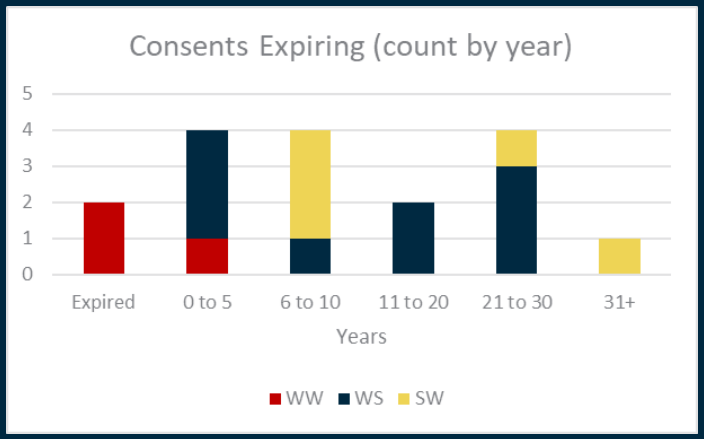


$227 million of planned investment over 10 years

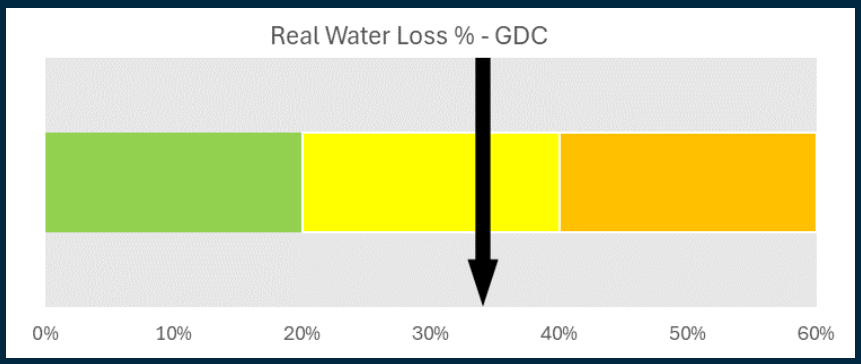
The programme is back loaded, peaking at $51 million in 2033. For context, GDC's entire planned capital works programme (for all activities) in 2024 equalled only $11 million

Expiring consents

GDC is currently in the process of applying to renew its expired discharge consents for the Gore and Mataura Wastewater Treatment Plants. Significant upgrades to improve the performance and minimise cultural impacts are expected as part of this consent renewal process.



Network performance



Approximately 38% of Gore's water and 56 % of Mataura water is lost through leakage. Investigations have not been able to identify the source of this leakage.

Managing water loss on the network would reduce the frequency of water restrictions being required in summer.

GDC's wastewater network met its target levels of service in 2023, with no dry weather overflows being reporting in its annual report.

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Compliance

Gore reported that it was not compliant with protozoal and bacterial criteria in the drinking water quality assurance rules in 2023. Non-compliance related to the Mataura and Hilbre Ave water treatment plants. The Hilbre Ave water treatment plant is due to be decommissioned once a pipeline has been installed to enable raw water from that plant to be treated at the East Gore water treatment plant.

A temporary consumer advisory notice was in place for the Gore water supply for 2 days in 2023.

Area	22/23 results	22/23 Target
Bacterial compliance	Non-compliant	100%
Protozoal compliance	Non-compliant	100%

GDC had no abatement notices, infringement notices, or enforcement orders on its wastewater network in 2023 or 2022.

Demand management

GDC district is not expected to experience significant population growth in the near future, with population estimates indicating a small reduction in the population of the Gore district by 2043. Water consumption, at 452 litres per resident per day, is the third lowest in the two regions.

Water Consumption
452 ↓
(lpd/resident)

The district currently experiences periods where surface water takes for the Gore water supply need to be supplemented from a second water source. Increased frequency of extreme weather events and changing resource consent conditions may increase the need for this in the future.

Increased frequency of intense rainfall events may exacerbate existing capacity issues on the wastewater network, which are primarily the result of the large portion (40% in Gore) of combined wastewater and stormwater network.

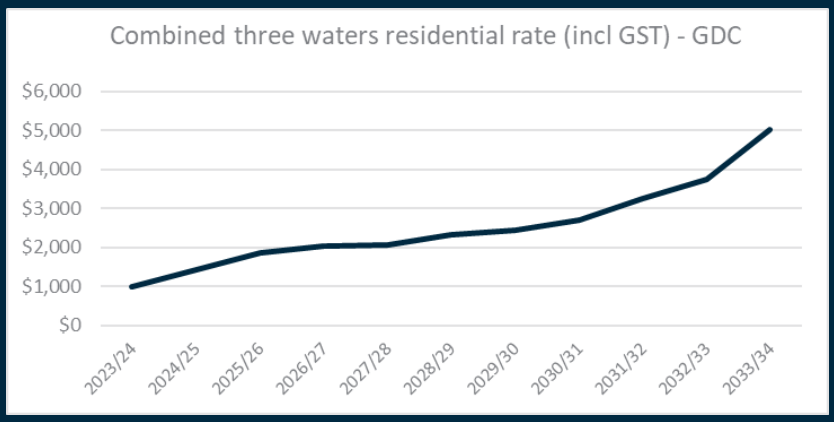
Network condition and age

GCC's assets are the third oldest across the two regions, with 21% of its water network having a predicted renewal date prior to 2030. Over 70km of water reticulation assets are predicated to require renewal in the 2030s, including the majority of its asbestos cement pipes.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	45	18%	0%	0%	0%	0%	82%
Wastewater	52	10%	0%	3%	0%	1%	86%
Stormwater	43	17%	1%	0%	0%	0%	82%

A significant portion of the assets have yet to be condition assessed, this is a risk to Council. A condition assessment carried out in 2022 identified that over 60% of earthenware wastewater pipes were assessed as being in poor or very poor condition. Earthenware represents a significant proportion of the network.

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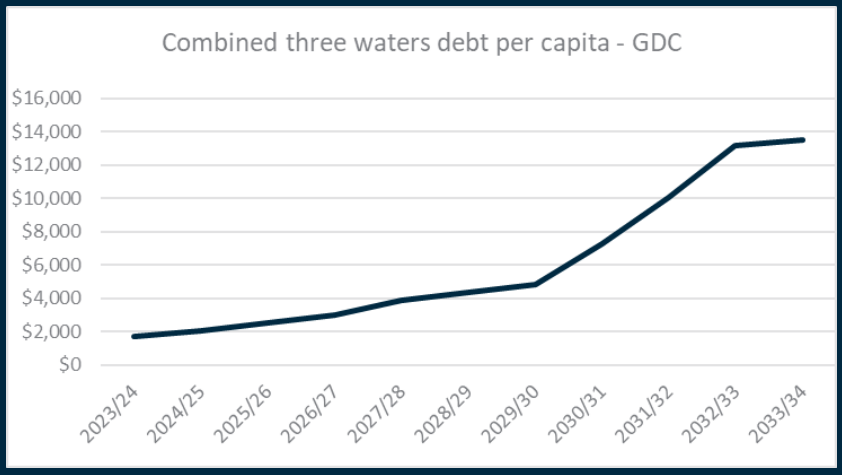


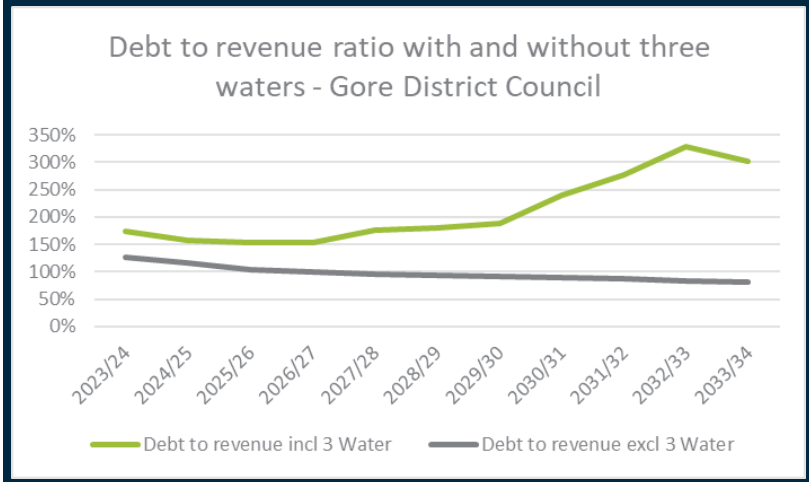
Three waters residential rates

The average three waters residential rate in GDC for 2023/24 was approximately $990 (including GST). Based on draft 2024 Long Term Plan financials that were prepared prior to Council opting to defer it's long term plan, this was expected to increase five-fold to $5,000 by 2034

Three waters debt

Three waters debt for Gore District Council is projected to increase from approximately $22 million in 2023/24 to over $180 million by 2033/34 according to early drafts of its now deferred 2024 long term plan. In per capita terms, three water debt will increase nearly six-fold from $1,750 per person to over $13,500 per person.





Whole of council debt

Gore District Council is projected to exceed its 175% borrowing limit for unrated councils until 2027/28 at which point it would need to obtain a credit rating to access further borrowing capacity. LGFA's 280% debt to revenue ratio is currently also projected to be exceeded in 2032/33 at which point GDC would need to increase revenue to fund further investment.

The removal of three waters sees Gore's debt steadily reduce over time, and for borrowing to remain well within the 175% limit.

© Morrison Low

Invercargill City Council

55,599 population (2023)

50,456 people serviced with water supplies

2 wastewater treatment plants

1 water treatment plant

422 km water supply pipes

417 km stormwater pipes

376 km wastewater pipes

52 connections per kilometre

91% of people live in urban areas

$98,000 average household income (2019)



Key issues

Expiring consents

Expiring resource consents for wastewater treatment plants in Bluff and Clifton are estimated to cost a combined $111 million which is included in ICC's LTP. Any future requirement to discharge to land would incur further costs. Price estimates range from $5 – 27 million for Bluff and $40 – 200 million for Clifton

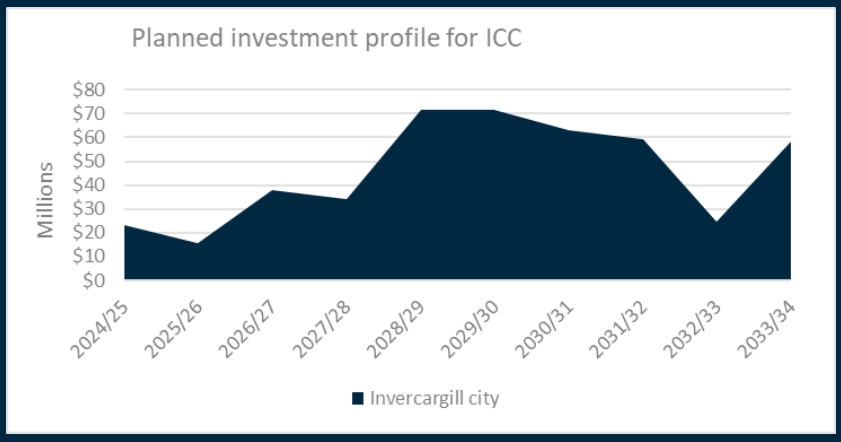
Water source resilience

ICC is currently dependent on a single water source, an additional source is required to provide water security and resilience. Development of an additional water source has been identified as a strategic priority and there is $60 million in ICC's LTP for this project

Ageing infrastructure

ICC's three waters infrastructure has the equal oldest average age across the group

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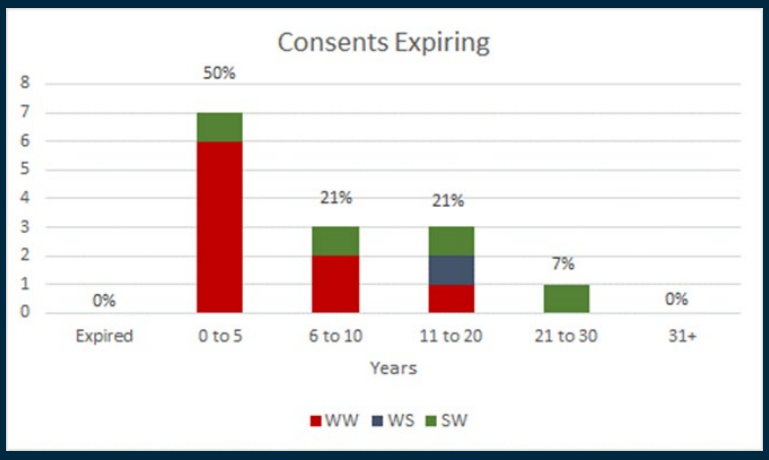


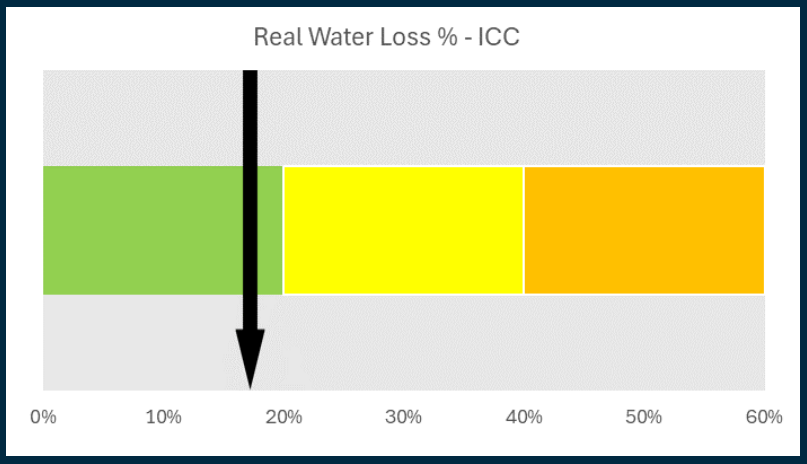
$460 million of planned investment over 10 years

ICC's three waters capital works programme peaks at $71 million per year in 2029; that's 50% larger than its entire capital works programme in 2024

Expiring consents

ICC has six wastewater consents that are due to expire in the next 5 years, with a further two due to expire in the following 5 years. These consents relate to its wastewater treatment plants in Clifton and Bluff, and $111 million has been provided for within its LTP for the upgrades to support these consent renewals.





Network performance

ICC experienced an estimated 18.5% real water loss in the 2023 financial year, which is in the lower half of councils in the Otago and Southland regions. Water loss in 2022 was reported as being 9.7%.

There were 1.37 dry weather overflows of the wastewater network per 1,000 connections in 2023

© Morrison Low

Compliance

ICC reports full compliance with the drinking water standards in its 2023 annual report and is not reported to have any Maximum Acceptable Value (MAV) exceedances or consumer advisory notices during the year.

Area	22/23 results	22/23 Target	21/22 results	Trend[5]
Bacterial compliance	100%	100% - Not Achieved	100%	↔
Protozoal compliance	100%	100% Not Achieved	100%	↔

ICC has been compliant with all of its wastewater consents, reporting no consent breaches in the last two years.

Demand management

ICC has planned to install water meters across its network and has set aside $10.8 million in its LTP to do this. ICC already reports the lowest average water consumption per resident out of all councils in the Otago and Southland regions.

Demand projections for ICC's water supply, show ICC is likely to remain within its consented water take limits for the foreseeable future, with or without the aluminium smelter at Tiwai point remaining open

Water Consumption
231 ↓
(lpd/resident)

Network condition and age

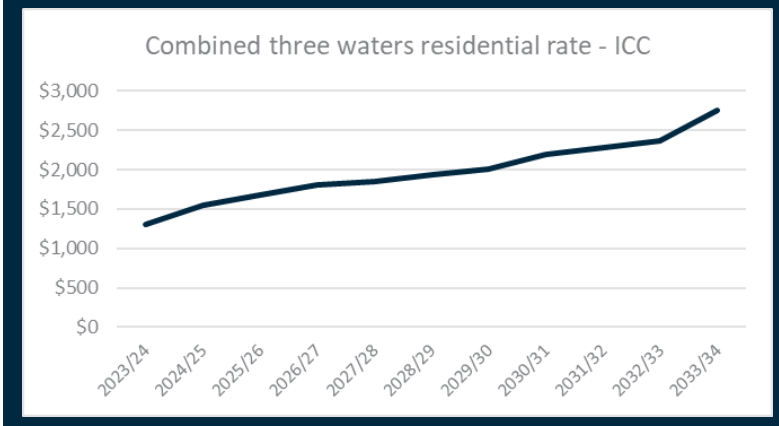
ICC's water, wastewater and stormwater infrastructure each have the equal highest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	49	16%	27%	18%	21%	18%	0%
Wastewater	61	21%	11%	44%	16%	8%	0%
Stormwater	58	18%	13%	37%	24%	8%	4%

39% of ICC's water network has been identified as being in poor or very poor condition, while 24% of wastewater assets and 32% of stormwater assets fell into the same categories. ICC's asset management plan notes a low level of confidence in the asset condition data as many of the assets sampled had known issues.

[5] Compared to previous year

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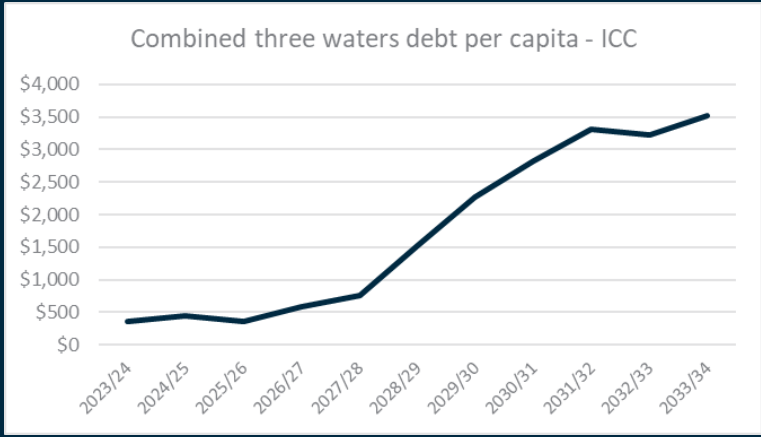


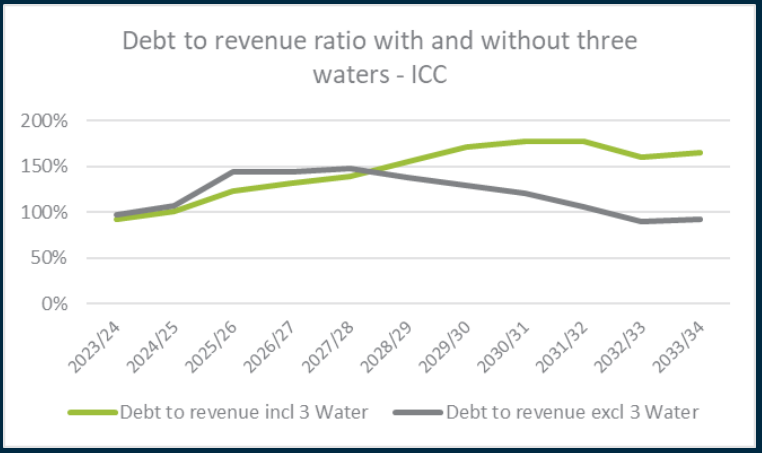
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 110% from approximately $1,300 in 2024 to over $2,750 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $20 million in 2024 to over $220 million by 2034, or from $358 per head of population to over $3,500 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 178% in 2031/32, and it is unlikely to exceed LGFA lending limits.

In the short term, without three waters debt and revenue, ICC will have reduced borrowing capacity (though still within LGFA lending limits).

Longer term, ICC will have an improvement in its total borrowing capacity if three waters debt and revenue was transferred.

© Morrison Low

Queenstown Lakes District Council

47,808 population (2023)

96,471 people serviced with water supplies

14 wastewater treatment plants

14 water treatment plants

642 km water supply pipes

465 km stormwater pipes

516 km wastewater pipes

51 water connections per kilometre

88% of people live in urban areas

$110,600 average household income (2019)



Key issues

High level of growth

QLDC continues to experience significant levels of population growth.

Providing infrastructure to support that growth is expensive, $721 million of investment has been identified as being needed in the next ten years.

Borrowing capacity

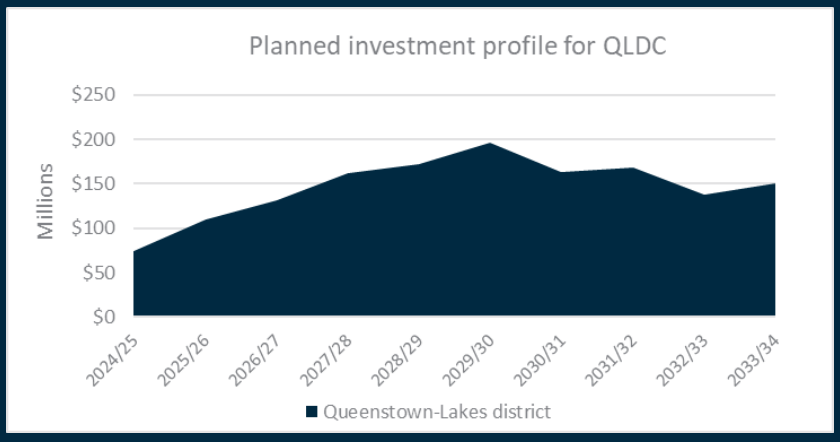
QLDC's LTP projects an average debt to revenue ratio over the ten year period of 260%. The costs of serving this debt and funding depreciation account for half of the 15.6% rates rise proposed for the 2024/25 financial year.

Debt limits leave very little borrowing headroom.

Servicing tourism demand

QLDC's economy is dependent on its high levels of tourism. While tourism supports business in the district, the high peak tourist population means QLDC's three waters infrastructure needs to support a population that is almost double its resident population.

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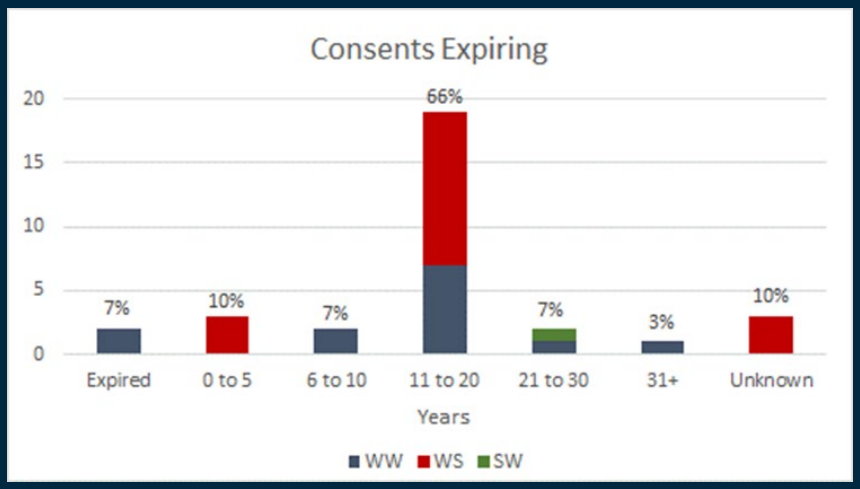


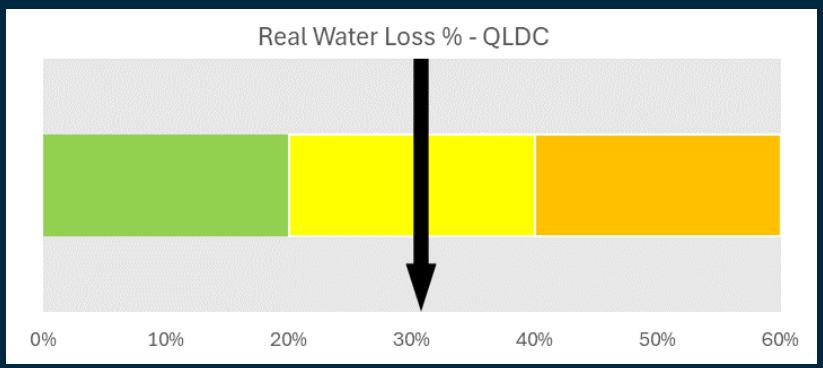
$1.5 billion of planned investment over 10 years

QLDC's three waters capital works programme peaks at $196 million per year in 2029, for context QLDC's entire capital works programme in 2024 total $202 million.

Expiring consents

QLDC has a steady rate of consents expiring until the 11 to 20 year period where 66% of its consents are due to expire.





Network performance

QLDC experienced an estimated 32% real water loss in the 2023 financial year, which is in the top half of councils in the Otago and Southland regions and high for a young network age.

There were 2.03 dry weather overflows of the wastewater network per 1,000 connections in 2023

© Morrison Low

Compliance

Queenstown has 10 registered drinking water schemes. Of these, six have all barriers in place, and four do not have protozoal barriers. All ten schemes have residual disinfection in place.

Area	22/23 results	22/23 Target	21/22 results	Trend[6]
Bacterial compliance	55%	100% - Not Achieved	100%	↓
Protozoal compliance	40%	>50% Not Achieved	11%	↑

QLDC reported 85% compliance with its resource consents in 2023 (the same as the previous year). There were two abatement notices for two wastewater treatment plants in the district in 2023.

Demand management

Demand management and servicing growth are the biggest issues facing QLDC. It's long term plan sets aside half of its three waters capital works programme, or $721 million over the next ten years to support growth.

QLDCs three waters asset management plan notes that the district is already facing regular water restriction during peak periods and is struggling to meet consumer demand in some areas.

Water Consumption
508 ↑
(lpd/resident)

QLDC's 2022/23 water consumption rate is among the highest in the Otago and Southland regions and the consumption trend has worsened compared to the previous year.

Network condition and age

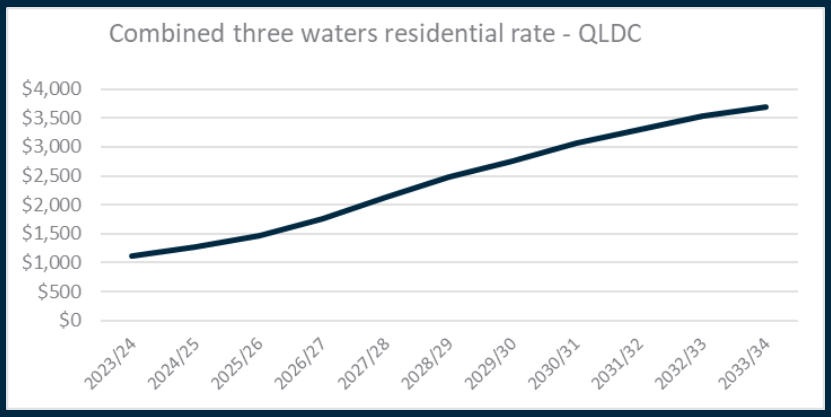
QLDC's water, wastewater and stormwater infrastructure all have the lowest average age of all of the councils in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	19	58%	14%	11%	9%	1%	7%
Wastewater	22	53%	13%	10%	12%	5%	7%
Stormwater	25	58%	15%	11%	4%	8%	4%

QLDC notes that the condition of its three waters infrastructure is very good, with over 70% of its water supply and stormwater assets rated as good or very good. 66% of QLDC's wastewater network is also in good or very good condition.

[6] Compared to previous year

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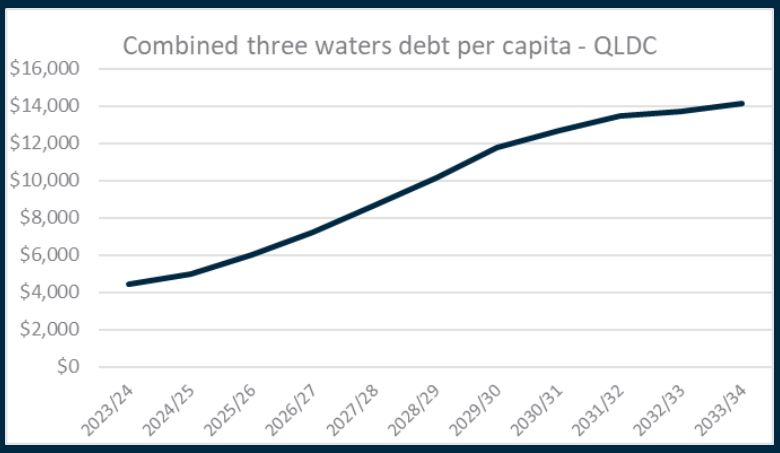


Three waters residential rates

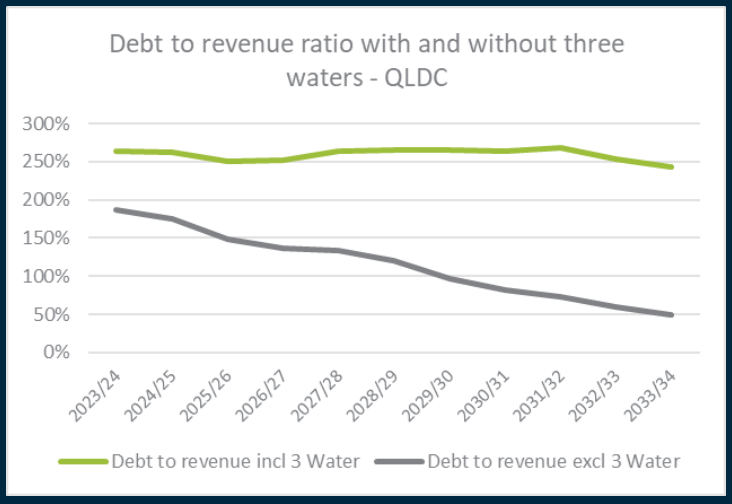
The average three waters residential rate in QLDC for 2023/24 was approximately $1,100 (including GST). Over the 10 years covered in QLDC's LTP the three waters rate is expected to increase by 230% to almost $3,700 in 2034.

Three waters debt

Three waters debt for QLDC is projected to increase from approximately $240 million in 2023/24 to over $1 billion by 2033/34 according to its 2024 long term plan. In per capita terms, three waters debt will triple from $4,470 per person to over $14,167 per person.



Whole of council debt



Based on LTP projections, QLDC is projected to remain very closely within its 280% borrowing limit through the period of its LTP. While projected debt levels do not exceed borrowing limits, QLDC will retain very little borrowing headroom.

The removal of three waters sees Queenstown's debt reduce steadily during the LTP period. This indicates that investment in community infrastructure outside of three waters has been constrained during the LTP period due to the need to invest in three waters. 60% of Queenstown's capital works programme relates to three waters services, while only 33% of its operating revenue (excluding development contributions) is from three waters charges.

© Morrison Low

Southland District Council

31,833 population (2023)

11,403 people serviced with water supplies

19 wastewater treatment plants

12 water treatment plant

681 km water supply pipes

112 km stormwater pipes

246 km wastewater pipes

13 water connections per kilometre

22% of people live in urban areas

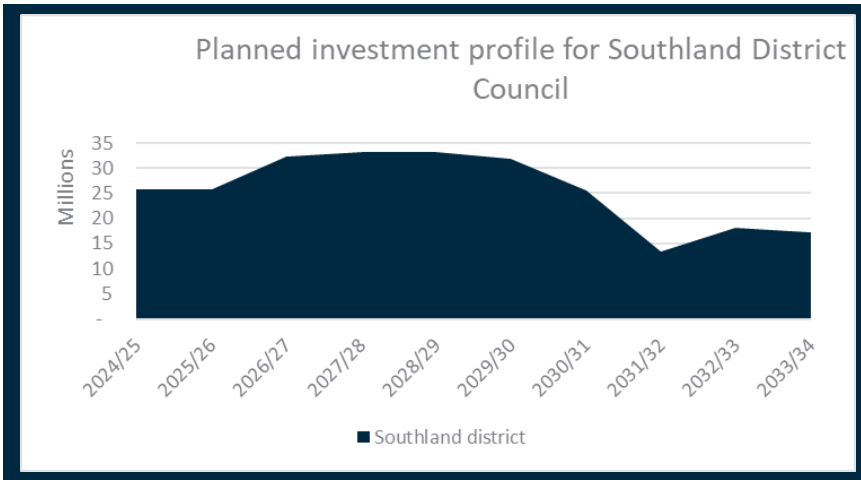
$112,000 average household income (2019)



Key issues

Small communities	Expiring consents	Affordability
SDC provides reticulated drinking water to 12 communities within its district, and reticulated wastewater to 19 communities. Only two of these communities have populations over 1,000 people and opportunities to connect schemes are very limited.	Half of SDC's existing resource consents across its three waters activities are expiring within 10 years, including 13 consents relating to wastewater treatment	Average residential rates for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

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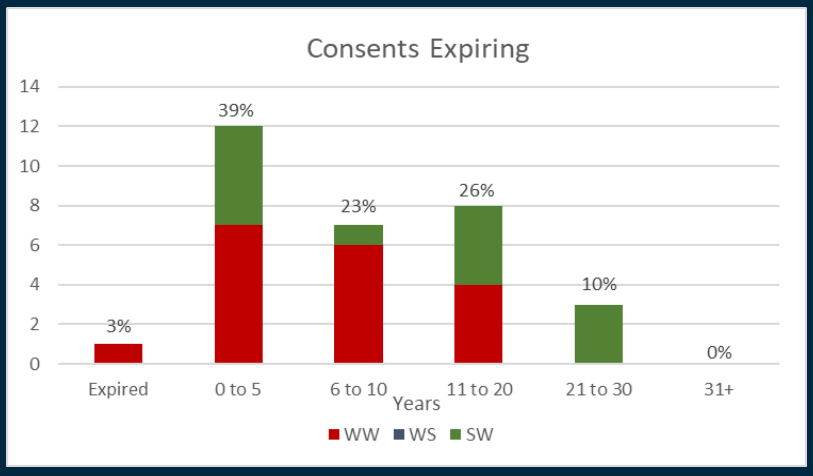
$256 million of planned investment over 10 years

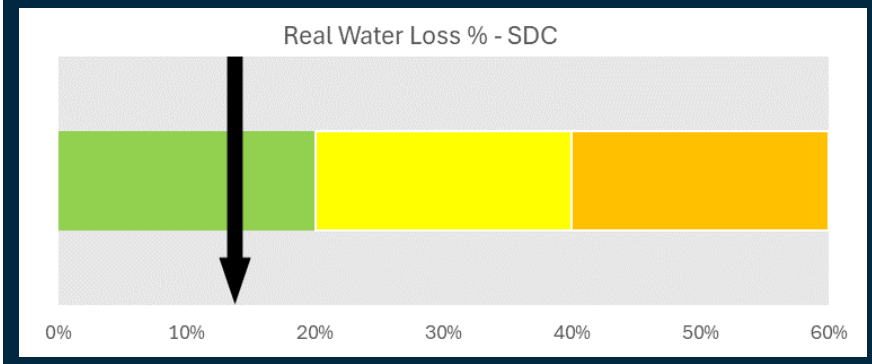
SDC's three waters capital works programme peaks at $33 million per year in 2028, for comparison its three waters capital works programme in 2024 was $12.5 million.

Expiring consents

SDC has 13 wastewater consents that are due to expire in the next 10 years. Treatment plant upgrade and consent renewals are planned for Balfour, Winton, Gorge Road, Manapouri, Nightcaps and Ohai, totalling around $37 million.

Recent announcements regarding standardised design for wastewater treatment plants with populations of fewer than 1,000 people may reduce future investment requirements for some of these plants.





Network performance

SDC experienced some of the lowest rates of estimated water loss in the Otago and Southland regions, with 15% water loss across its water supply schemes in the 2023 this was down from 16% in 2022.

There were no dry weather overflows of the wastewater network reported in 2023.

© Morrison Low

Compliance

SDC has 12 drinking water schemes registered with Taumata Arowia. All 12 schemes have bacterial and protozoal barriers and residual disinfection in place other than the Eastern Bush/Otahu Flats RWS scheme which does not have a protozoal barrier in place.

SDC had one long term consumer advisory notice in place on its Tuatapere scheme for 198 days in 2023.

Area	22/23 results	22/23 Target	21/22 results	Trend[7]
Bacterial compliance	96%	100% - Not Achieved	91%	↑
Protozoal compliance	18%	100% Not Achieved	36%	↓

SDC reported that in 2022/23 there were 15 incidents where resource consents for wastewater were breached.

Demand management

SDC does not anticipate any significant growth in demand across the district.

Given the limited expected growth it is not anticipated that a specific programme will be required to manage people related growth. SDC intends to undertake further work in the upcoming three years to more fully understand the impact of climate change related demand.

Water Consumption
583 ↓
(lpd/resident)

SDC notes that it has existing capacity issues on its stormwater network, and that future efforts to separate its wastewater and stormwater networks in those areas may overwhelm the existing stormwater infrastructure.

Network condition and age

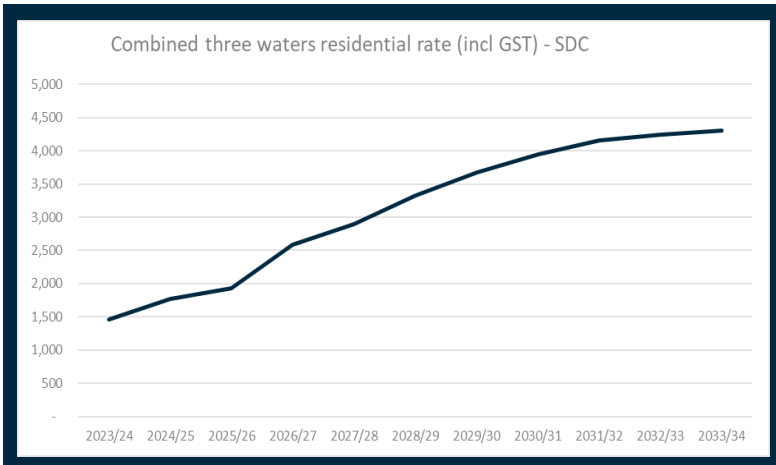
The age of SDC's 3 waters assets are all in line with the Southland/Otago region average, except its wastewater which is younger.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	39	19%	5%	65%	6%	5%	0%
Wastewater	30	10%	20%	40%	20%	10%	0%
Stormwater	49	17%	16%	24%	30%	9%	4%

A high proportion of SDC's wastewater and stormwater assets are in poor or very poor condition, while the majority of its water infrastructure is in an average condition.

[7] Compared to previous year

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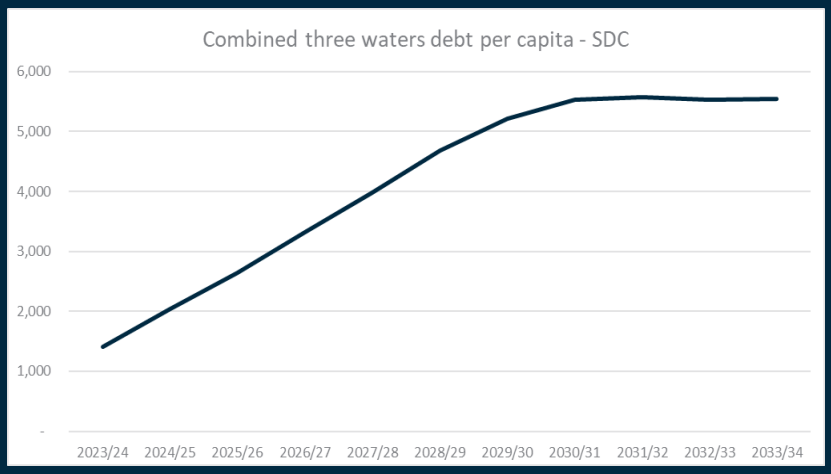


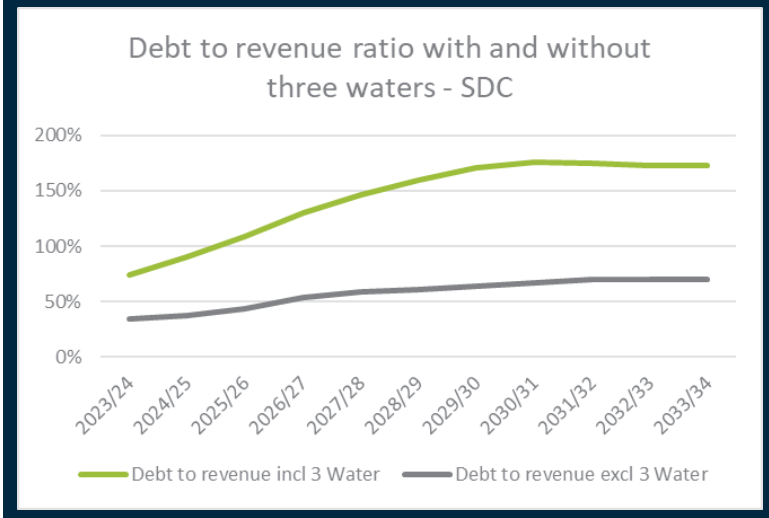
Three waters residential rates

Average residential rates (including GST) for three waters are expected to more than double from approximately $1,465 in 2024 to over $4,310 by 2034.

Three waters debt

Net three waters debt is projected to increase from approximately $46 million in 2024 to almost $200 million by 2034, or from $1,410 per head of population to over $5,540 per capita.





Whole of council debt

SDC does not currently hold a credit rating and therefore has a borrowing limit from LGFA of 175%.

Based on LTP projections, this will be close to being exceeded in 2031. Borrowing capacity will be heavily constrained without a credit rating.

Removal of three waters debt and revenue would ensure SDC stays well within LGFA lending limits.

© Morrison Low

Waitaki District Council

23,472 population (2023)

20,202 people serviced with water supplies

8 wastewater treatment plants

15 water treatment plants

1,766 km water supply pipes

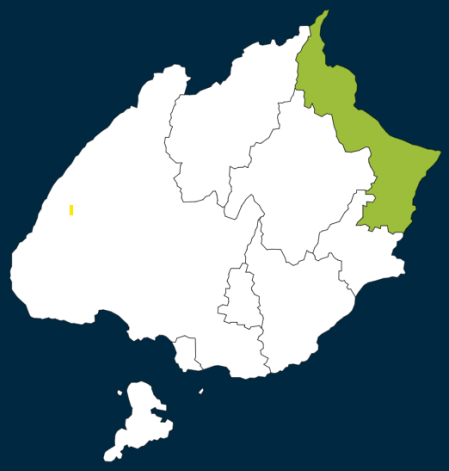
57 km stormwater pipes

201 km wastewater pipes

7 water connections per kilometre

45% of people live in urban areas

$82,200 average household income (2019)



Key issues

Small communities

WDC provides drinking water and wastewater services to a number of small schemes. 13 of its 15 drinking water schemes serve a population under 1,000. Every water and wastewater scheme in WDC has their own targeted rate, meaning large variations in the rates paid to receive water and wastewater services.

Compliance

Delivering drinking water that is compliant with drinking water standards has been challenging in a number of small and rural schemes in particular.

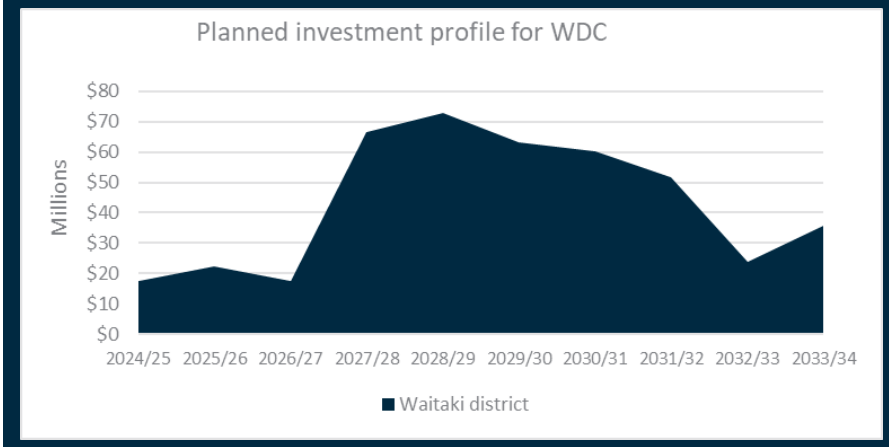
Over half of WDC's water schemes were under long term consumer advisory in 2023, with an estimated 1,478 people affected.

Water loss

WDC experiences the highest rates of water loss across the Otago and Southland regions, with an estimated loss as high as 60% in Kurow.

Water loss can be difficult to detect due to the high prevalence of free draining soil meaning loss is not often evident on the surface.

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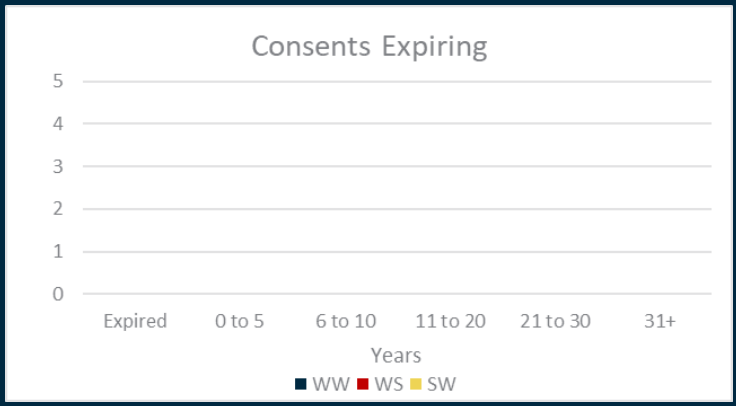


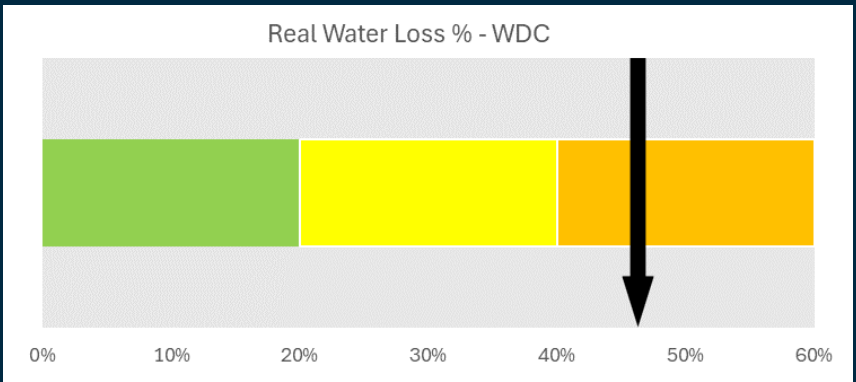
$430 million of planned investment over 10 years

WDC's three waters capital works programme peaks at $72 million per year in 2029, for context WDC's entire capital works programme in 2024 totalled $84 million.

Expiring consents

We have not been provided with consent expiry data for WDC. However, WDC's capital works programme includes consent related upgrades for Duntroon, Kurow, Lake Ohau, and Oamaru wastewater treatment plants. Total estimated capital expenditure for these upgrades total $89 million.





Network performance

WDC experienced between 35% - 60% water loss across its water supply schemes in the 2023 financial year. This is the largest rate of lost water across the Otago and Southland regions.

There were 1.3 dry weather overflows of the wastewater network per 1,000 connections in 2023

Compliance

WDC reported only 25% compliance with the drinking water standards in its 2023 annual report. Eight of its 15 registered water supply schemes were under long term consumer advisory notice during 2023. Combined, these schemes service a population of 1,478.

Area	22/23 results	22/23 Target	21/22 results	Trend[8]
Bacterial compliance	25%	100% - Not Achieved	67%	↓
Protozoal compliance	25%	100% Not Achieved	50%	↓

WDC received two infringement notices in 2023 for its wastewater consents, these related to abatement notices received in 2022.

Demand management

WDC has high levels of water loss and the third highest level of water consumption per resident across the Otago and Southland regions.

WDC is only expected to experience modest growth over the next ten years. Controlling water loss and demand management should ensure that infrastructure and existing water consents are able to manage future demand for three waters services.

Water Consumption
524 ↑
(lpd/resident)

Funding has been set aside to undertake wastewater treatment plant capacity studies for the Oamaru and Kurow wastewater treatment plant and the Oamaru stormwater network over the next five years. This should provide additional data to confirm whether capacity upgrades are required in the future.

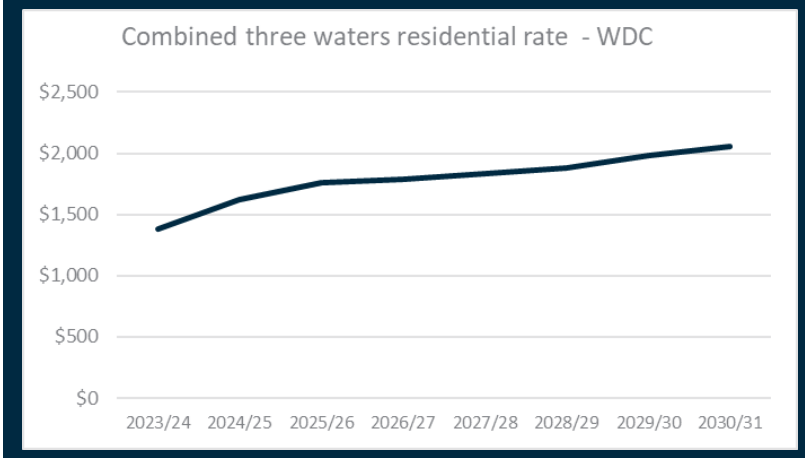
Network condition and age

WDC's wastewater and stormwater infrastructure have average ages of 50 years or more. It's water network has a lower average age, of 40 years. This makes WDC's water network among the oldest in the Otago and Southland regions.

Service	Age (avg)	C1	C2	C3	C4	C5	Unknown
Water Supply	40	0%	0%	0%	0%	0%	100%
Wastewater	50	23%	3%	0%	2%	1%	71%
Stormwater	55	0%	0%	0%	0%	0%	100%

The majority of WDC's water, wastewater, and stormwater networks are in an unknown condition. The proportion of wastewater assets rated as being in very good condition appears high compared to average asset age.

[8] Compared to previous year

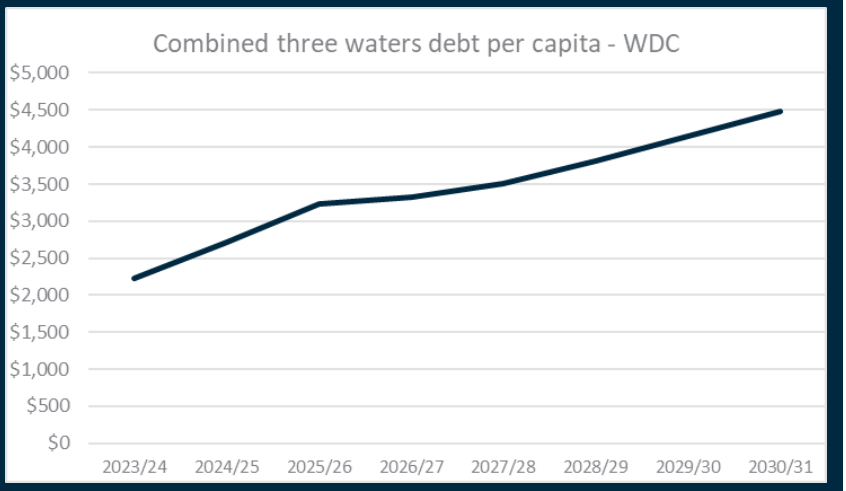


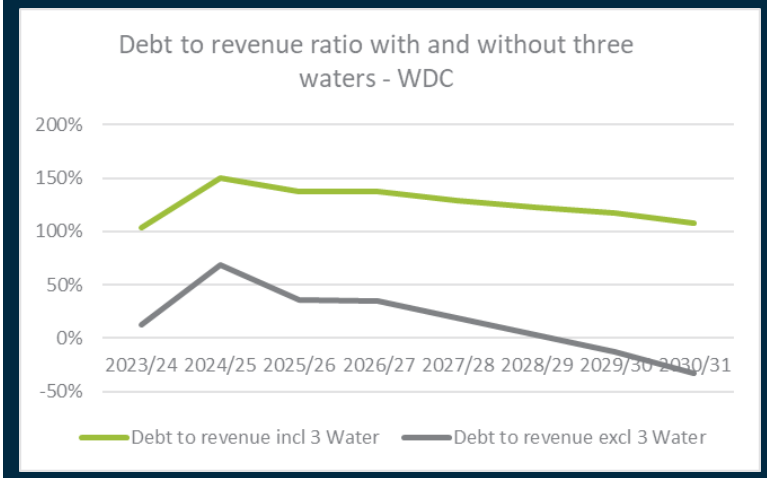
Three waters residential rates

Average residential rates (including GST) for three waters are expected to increase by 51% from approximately $1,380 in 2024 to over $2,050 by 2031.
Increases in planned investment since the 2021 LTP may increase rates by a further $1,600.
There may be a wide variation in actual charges due to the WDC's use of scheme based targeted rates.

Three waters debt

Net three waters debt is projected to increase from approximately $54 million in 2024 to over $110 million by 2031, or from $2,230 per head of population to over $4,470 per capita.





Whole of council debt

Council's total debt to revenue ratio is forecast to peak at 150% in 2025, and it is unlikely to exceed LGFA lending limits.

Transfer of three waters debt and revenue would improve Council's debt to revenue ratio, and improve its access to funding through LGFA. Negative values represent council holding investment assets that exceed its debt in later years.

We understand updated financial projections show debt significantly exceeding LGFA limits.

Appendix Three - Modelling assumptions

Assumptions applied to our "comparator" scenarios

In order to enable a like for like comparison between regional delivery options and the existing delivery model, we have made adjustments to financial and capital investment programmes provided by each council as the 'status quo'. These adjustments ensure that differences between regional delivery models are not purely the result of a different approach to managing revenue, debt and expenditure, or differences to underlying assumptions across the individual models.

This also means that the comparator scenarios presented in our modelling may not mirror an individual councils' current long term plan projections.

We have endeavoured to ensure that our approach aligns with the requirements of a water services delivery plan. This means that some councils may wish to use the comparator case from this modelling as a starting point for a water services delivery plan (WSDP) for in-house delivery. This is however a "best endeavours" approach, and councils may further refine capital programmes before preparing their WSDP.

Where councils are undertaking detailed asset and investment planning work this should then be used to inform their WSDP.

To assist councils in understanding the alignment of our comparator case with their own WSDP or LTP work, we have outlined the key adjustments and changes we have made below.

Operating expenditure

Our modelling of the comparator case scenarios for operating expenditure predominantly relies on each council's own operating budgets, as provided through our information request. Adjustments have been made to:

- Recalculate interest costs based on any amendments made to the capital works programme (refer below) and any additional revenue generated in order to stay within borrowing limits.
- Recalculate interest rates using a common interest rate across all councils. We have applied an interest rate of 5.52% in our modelling. Interest is calculated off the previous year's closing balance, meaning the effective interest rate is slightly lower than this when current year movements are considered.
- Recalculate depreciation based on any amendments made to the capital works programme. Depreciation rates are set at 1.53% for water supply, 1.53% for wastewater, and 1.47% for stormwater.
- Assets are revalued at 2% per annum and depreciation recalculated based off revalued asset base (including additions). This is broadly consistent with eh methodology currently proposed by Commerce Commission.
- Inflation is modelled at 2% per annum for years 11 – 30.

Capital expenditure

Capital expenditure is based on capital works programmes provided by Council staff with no adjustments in our base case. The impacts of changes in capital programmes is highlighted through our sensitivity testing.

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Sensitivity testing scenarios that have been applied are outlined in, and are based on, the findings of the work completed by Utility NZ (**Appendix Four** - Southern CCO Programme Assurance Findings).

Revenue

Water Services Delivery Plan templates indicate some of the key measures that the Department of Internal Affairs (DIA) expect to be reported in relation to these tests, and therefore what may be expected by the Department. In particular:

- A chart demonstrating projected revenue versus projected costs including depreciation, and net operating surplus or loss. We anticipate that DIA are expecting revenue to at least equal total expenditure including depreciation based on the examples provided.
- An operating surplus ratio. DIA guidance notes that "Where this ratio percentage is negative, this represents the percentage increase required for revenues to cover costs". Costs in this ratio include depreciation.

Based on these questions, and additional commentary within the WSDP templates, we intend to model status quo arrangements to be fully funding depreciation from the 2028 financial year onwards. Councils that are not currently fully funding depreciation currently will be modelled to move to a fully funded scenario evenly over the remaining years.

In addition, from 2028 and beyond:

- Revenue has been modelled to "break even" before accounting for development contributions, vested assets and grants and subsidies.
- Additional revenue has been calculated to ensure that the council remains in borrowing limits. This revenue line is recovered through water/wastewater/stormwater charges and is calculated to be no more than the amount needed to remain within agreed debt caps.
- The additional debt repayment/control revenue is modelled to ensure that debt caps are not breached over the life of the modelling period, however the additional revenue is modelled over the entire modelling period, meaning revenue is collected in anticipation of debt otherwise exceeding limits. This will impact price paths, where councils may have otherwise deferred increases in revenue to a later year than our modelling. Our modelling attempts to smooth the impact of this increase.
- Development contribution revenue has been modelled to scale proportionally with changes in growth capital expenditure. Scaling is completed annually. Development contributions are only modelled where councils have provided details regarding expected development contribution revenue in their data.

Debt and borrowing costs

Revisions to capital works programmes, revenue, and expenditure all impact the amount of debt required by councils to fund their three waters activity. Our modelling recalculates three waters debt under the base case scenarios to ensure comparability with regional delivery models.

To calculate debt, we have:

- Assumed each councils' starting debt position is correct.
- Identified the cash surplus available from operations, development contribution receipts, and capital and operating subsidies.

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- Subtracted the cost of capital works from the cash surplus.
- Where this value is negative, we have increased borrowings to fund the difference.
- Where this value is positive, we have modelled a debt repayment.

We have not assumed any "regular" debt repayments under a table loan facility. Council's typically borrow through bond issues that are repaid on maturity date. Our modelling effectively assumes that these bonds are renewed if needed. Our modelling also assumes that in any given year there will be sufficient bonds expiring that council will have the opportunity to repay debt if it holds surplus cash.

Assumptions applied to base data

We've also made the following minor additional assumptions to data provided by councils.

- The percentage of water, wastewater and stormwater revenue received from residential customers is assumed to be consistent with the percentage split across these activities as provided to WICS in their RFI of 2021.
- Where specific projections of the number of connections has not been provided, we've assumed connection growth continues at the rate of growth in rateable units.
- We've assumed the proportion of residential to non-residential customers is consistent with WICS RFI where detailed breakdown of these projections has not been provided.
- In all models, we have assumed that council revenue and debt relating to non-three waters activities is unchanged under all investment scenarios. That is, even where three waters investment, charges, or debt increase, we have assumed that there is no consequential or offsetting reduction in the corresponding expenditure/charge for non-three waters activities.
- In 30 years modelling, we have relied on capital programmes from infrastructure strategies or long term capital works plans provided to us by participating councils.
- Corporate costs, as provided, have been retained in the base case. Some of these costs may represent "stranded overhead" in individual councils, however we note that the amount of cost allocated varies greatly across councils, and assessment of the amount of stranded overhead in each council would not be possible without a detailed assessment of the cost allocation and apportionment approaches used by each council.

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WSE assumptions

To create a Southern WSE and wholly owned WSE we have modelled transitional and organisational costs for a Southern WSE or wholly owned WSE, based on a ground up approach. The full details of costs included in our model are outlined below.

Operating and capital efficiencies

Efficiencies have been modelled using the efficiency data produced by the Water Industry Commission of Scotland (WICS) for the Department of Internal Affairs (DIA) as a base case, noting the following adjustments:

- The total achievable efficiency identified by WICS have been scaled back by 70% for the Southern WSE and 90% for a wholly owned WSE. These total achievable efficiencies have been compared to our bottom up estimates to confirm that the scaling is appropriate. This has reduced the baseline total achievable efficiencies from 50% capital and 53% operating efficiencies to 16% operating and 15% capital efficiencies.
- Efficiencies have then been scaled according to data produced by WICS in reports produced for DIA. This has resulted in modelled scale efficiencies of 11% capital and 12% operating efficiencies for the Southern WSE and between 1 - 3%% for wholly owned WSEs (depending on scale).
- We've assumed that these efficiencies are achievable over a 10 year period, commencing two years after the establishment of the WSE. Efficiencies are modelled as being achieved evenly over that time period.

Borrowing

The Government and the Local Government Funding Agency (LGFA) jointly announced that water entities would be able to borrow up to a 500% debt to revenue ratio. The fine print of that announcement noted that entities will actually be measured based on an FFO to debt ratio, with the intention that lending covenants would be set at such a level that the WSE could maintain an "investor grade" credit rating.

Our modelling adopts the following FFO ratios, based on recent discussions with, and guidance published in December 2024 by, LGFA:

- 12% for a wholly owned WSE
- 8% for the Southern WSE.

Modelling is designed to maintain debt close to these ratio throughout the modelling period.

Costs of change

Corporate overhead from each council has been replaced with costs for the Otago Southland WSE, and transition costs have been included:

- Increased compliance costs associated with regulatory reforms (recognising the role and requirements to report to both a service and economic regulator)
- The requirement to fund a levy imposed by Taumata Arowai and the Commerce Commission; these costs are included in all models
- Transitional costs to establish the Otago Southland WSE (assumed to be borne by the Otago Southland WSE)
- Additional resources required or additional costs for resources
- Any change is assumed for modelling purposes to take place on 1 July 2027.

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Costs have been indexed using BERL inflation rates for water services through 2034, and 2% per annum thereafter.

For wholly owned WSEs we have compared transitional costs and ongoing operational costs to work completed for one of the councils in the working group by a different consultancy. Through this exercise we have confirmed that estimated transitional costs and ongoing operational costs are broadly consistent at a total level, despite different methodologies and approaches being used to determine those costs.

We therefore have a high level of comfort that the costs used are reasonable.

Transitional costs to establish a WSE

CCO transition costs were determined by comparing Morrison Low's initial assessment with bottom up work completed by a different consultant for one of the constituent councils. Given the increased level of detail in that work, we have applied those costs where appropriate in a wholly owned CCO model.

For clarity, total CCO costs are similar (typically +/- 10%) under either approach, however the distribution of costs differs.

Item	Wholly owned WSE	Southern WSE
Transitional team	Combined in single total	$2,325,000
Entity establishment		$7858,000
Business process design		$500,000
Communications and engagement		$500,000
Rebrand		$200,000
Restructuring costs		$300,000
Finance and funding workstream		$500,000
Legal and compliance costs		$500,000
Office set up		$1,230,000
ICT systems	$480,000 - $850,000	$7,000,000 (repeated in year 1 of WSE)
Total transition costs	$2,000,000 - $4,120,000	$13,840,000

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CCO Costs and Benefits

CCO costs were determined by comparing Morrison Low's initial assessment with bottom up work completed by a different consultant for one of the constituent councils. Given the increased level of detail in that work, we have applied those costs where appropriate in a wholly owned CCO model.

For clarity, total CCO costs are similar (typically +/- 10%) under either approach, however the distribution of costs differs.

Item	Wholly owned WSE	Southern WSE	Rationale
Governance	$410,000	$480,000	Includes directors and the costs of supporting shareholder Councils & Māori to develop and implement accountability framework
Executive team and support staff costs	$1,530,000	$2,060,000	CEO & Four general managers Additional staff to create support structure. Includes HR, IT, Finance, health and safety and customer service + operational staff where required
IT infrastructure & systems	Scaled $400,000 - $850,000	$2,760,000	Uses Watercare IT budget as the basis and scaled based on population served
Auditor costs	None	$200,000	Additional costs for audit
Council rates	None	$640,000	The cost of paying rates to councils for water assets located on council land
Accommodation - office rent	$350,000	$300,000	15m^2 per staff member based on reviewing average office rental in Provincial centres ($250m^2) used. Allowance for all staff to have office space provides for costs of multiple locations
Office overheads	Combined in above	$30,000	10% of office accommodation cost for insurance, electricity etc

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Appendix Four - Southern CCO Programme Assurance Findings

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Southern CCO – Programme Assurance

This report provides an independent assurance assessment of the capital programmes for Clutha, Central Otago, Gore, Waitaki, and Timaru District Councils as they consider forming a joint Council-Controlled Organisation (CCO) for 3-Waters services.

Objective

The objective is to evaluate the financial confidence in baseline expenditure projections by analysing cost and planning assumptions, renewals investment sustainability, and sensitivity to proposed national wastewater standards. The findings will inform the financial modelling of the structure and pricing options for the CCO business case.

Methodology

The assessment employs a simplified risk-based scoring method to evaluate the likelihood of material changes to financial projections. This approach allows financial analysts to apply an indicative range to projections based on assessed risk levels.

Results

Cost Estimate Accuracy – Across the five Councils' short-term projects (Years 1-3) are generally well-defined with appropriate contingencies, medium- to long-term projects (Years 4-10) exhibit greater uncertainty due to reliance on early-stage cost estimates, inconsistent contingency application, and exposure to evolving regulatory requirements. This is not uncommon for long term plans, however.

Asset Sustainability and Renewals- The asset sustainability assessment identified varying levels of programme expenditure risk. While Central Otago DC, Waitaki DC, and Timaru DC demonstrate lower risks due to stable renewals investment, Clutha DC and Gore DC face medium to high risk of material changes to renewals expenditure from deferred investment combined with an ageing infrastructure base. Gore DC exhibits a significant backlog of renewals investment, combined with an asset based nearing the end of its service life. This is likely to require significant changes to the programme beyond Year 10, to maintain service levels.

Sensitivity to Wastewater Standards - Proposed national wastewater standards introduce a risk-based approach, potentially reducing treatment requirements and compliance costs for smaller schemes. This significantly increases the likelihood of material change to the baseline financial projections beyond the three-year window, particularly affecting Gore, Clutha, and Central Otago. The standards could lead to notable reductions in current programmes, especially for smaller wastewater schemes benefiting from lower treatment standards.

Commonality of Planning Assumptions - Lastly, it is important to ensure that all Water Service Delivery Plans are developed on consistent assumptions of affordability and of the service levels desired by the CCO. There is some inconsistency across the Councils at present, such as, projects being deferred or excluded due to funding constraints or uncertainties, while others have been less constrained and open about their network needs. Notable examples are

1. Waitaki DC may have several small scheme WWTP upgrades missing from its programme that create a high likelihood of material change for Wastewater programme later in the 10-year window. This is due to the high levels of uncertainty on the projects at the time to justify their inclusion in their programme.

2. By contrast, Gore DC has included a significant stormwater separation project (> $200m over 30 years), which also transparently addresses significant service level deficits for the district.
3. CODC has programmed a significant investment in growth which reflects a proactive approach to servicing future communities, but it also assumes that revenue will be recovered as and when projected.
4. Clutha DC have assumed several WWTP plants will need to be brought forward for re-consenting due to recent non-compliance. This may change with the proposed WW Treatment Standards.

Summary of Findings

The assessment identifies varying levels of risk to the baseline capital programme across the Councils. While short-term financial outlooks are stable, long-term risks remain significant due to uncertainty in cost estimates, ageing assets, and evolving regulatory requirements. Clutha and Gore are expected to experience medium to high risks of material changes, while Central Otago and Waitaki face moderate risks over the medium term. Timaru shows consistently low risk across all 3-Waters due to their historic investment in treatment and focus on renewals over the coming years.

Council	Risk of Material Change and Financial uncertainty to apply to Baseline		
	Year 1 to 3	Years 4 to 10	Year 10 to 30
Clutha DC	🟢 - Low Risk (-5%/+10%)	🟠 - Medium Risk (-10%/+20%)	N/A (see note below)
Central Otago DC		🟠 - Medium Risk (-10%/+20%)	
Gore DC		🔴 - High Risk -10%/+25%	
Waitaki DC		🔴 - High Risk -10%/+25%	
Timaru DC		🟢 - Low Risk -5%/+10%	

NB: Of note, is that long-term planning is inherently uncertain. The level of policy, regulatory, and legislative reforms over the past six years has amplified this further. This uncertainty limits the value in assessing the confidence in planned expenditure beyond the 10-year horizon. However, quantifying the key investments necessary remains important for the CCO, including major asset renewals to maintain service levels and resource consent renewals for wastewater and drinking water infrastructure. These have been provided by all five Councils.

Recommendations

To enhance financial confidence in the future CCO, Councils could commit to a Memorandum of Understanding or similar agreement to standardise their programme planning assumptions on service levels, standards, cost estimation practices, and renewals investment strategies.

Also, given the significant sensitivity, to the proposed WW standards on investment levels, Councils could also commit to undertaking a deeper review of these projects once these standards are legislated for.

These assumptions greatly influence service pricing, particularly with consumer price protection imminent. A unified commitment could highlight the broader value of the reforms to key stakeholders and other interested parties.


UTILITY

About Utility

Utility is a specialist infrastructure advisory firm with expertise in asset management, financial assurance and capital investment planning. Utility has worked extensively within local government, providing independent assessments that support sound decision-making for infrastructure projects. Our approach combines technical rigor with strategic insights to ensure investment programmes are pragmatic, cost-effective, and aligned with regulatory requirements.

Disclaimer

This report is based on information provided by the Councils and publicly available data at the time of assessment. While every effort has been made to ensure accuracy, the findings and recommendations are subject to change based on new information or regulatory adjustments. This report does not constitute financial or legal advice and should be used as a decision-support tool rather than a definitive financial forecast.

Version Status and History

Version	Issue Date	Author	Status and Changes
1.0	13th March 2025	Vaughn Crowther	Final for Morrison Low

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Context

Gore, Central Otago, Clutha, and Waitaki are exploring options for a joint Council-Controlled Organisation (CCO) to deliver 3-Waters services. CCO options are to be considered in March, with a preferred option to go to public consultation in April / May. Before moving forward, stakeholders need confidence that the proposed CCO and regional pricing model is based on robust baseline expenditure programmes. In particular:

1. How reliable and accurate are the 10-year financial projections (baseline) of each Council?
2. What degree of confidence can we place in the financial projections, in terms of the commonality of planning assumptions, and of any potential changes resulting from deferred or un-budgeted projects?
3. Furthermore, if and how will the proposed regulatory changes to wastewater standards impact on the current baseline programme?

Objective

To assess the confidence in baseline expenditure projections by analysing cost assumptions, renewals investment sustainability, and regulatory change sensitivities. The findings will inform the financial modelling of the structure and pricing options for the CCO business case.

Method of Scoring

To assist financial analysis and provide clarity when adjusting the 10-year financial projections for the combined Councils, a simplified risk-based scoring method has been employed. This approach allows financial users to easily apply an indicative plus or minus range to projections based on assessed risk levels.

To assist financial analysis and clearly inform adjustments to the 10-year financial projections for the combined Councils, a simplified risk-based scoring method has been applied. This method provides financial analysts with a straightforward way to incorporate an indicative plus or minus range into financial projections.

A 'material change' refers to a variation in project budgets exceeding 15% of the original cost estimates.

Score	Description	Recommended financial adjustment range:
🟢 - Low Risk of Material Change	Budget estimates are highly reliable, with minimal likelihood (<10%) of significant changes.	- 5% / +10%
🟠 - Medium Risk of Material Change	There is moderate uncertainty (10% to 50% likelihood) that budgets will materially change,	-10% /+ 20%
🔴 - High Risk of Material Change	There is a substantial likelihood (>50%) that project budgets will experience material changes	10% / + 25%

Application to Financial Projections

Financial analysts should apply these ranges to the 10-year financial projections, ensuring projections include appropriate financial buffers for uncertainties, especially for medium and high-risk rated projects. Low-risk projects require minimal adjustments due to their greater budget certainty.

Method of Assessment

This Programme Assurance report provides an independent assessment of the financial confidence in the Councils' proposed 10-year capital plans. It specifically evaluates:

1. Cost Estimation Assurance – To understand the likelihood of material changes to budgets, in years 1 to 3, and years 4 to 10
2. Asset sustainability – The likelihood of long-term renewals backlog having a material impact on the baseline.
3. Sensitivity to National Wastewater Treatment Standards.
4. The commonality (or not) of key planning assumptions and if projects / investments of material size are excluded that should not be.

The method of assessment used was:

1. Focussed on the areas creating the most risk to the baseline– By applying an 80/20 rule, the high costs projects in years 1 to 3, and again for years 4 to 10 were identified.
2. Engaged directly with Asset Managers on these high risk / cost projects to establish estimation method, contingency levels and remaining scope risk not priced- in.
3. Identified missing projects by reviewing long-term and annual plans, Taumata Arowai registers etc.
4. Applied assumed Wastewater Standard assumptions by classifying schemes based on size and assessing each planned WW upgrade.
5. Reviewing findings with individual Council GMs and the Project Team.
6. Sharing preliminary findings with DIA for feedback.

Cost Estimation Assurance

This aspect of assessment aimed to understand the following questions:

1. *Are the cost estimates in the capital programme well-founded, given their scale and timing, and if not, are the levels of contingency included, appropriate to reflect this risk?*
2. *Are there critical projects / expenditure missing from the programme that could pose a financial risk in future planning cycles? Included is the expectation that universal water metering will come into effect within 3 years of the establishment of the CCO (Post 2027).*

Methodology Used for Cost Estimate Assurance

For expedience, the method used to assess cost estimates was as follows:

1. Identify High-Cost Projects - An 80/20 approach was taken, to identify the highest cost projects that make up most of the planned expenditure over 10 years, and 30 years where significant. Only level of service driven projects were assessed, and growth projects with a high proportion of level of service cost allocation (>40%).

Then of these projects, the following was established through interviews and review of project information provided:

2. How were cost estimates for the specific projects developed? For instance, using historical cost data being inflated, consultant estimates?
    a. If a consultant's estimate was used, to what level? (Level 0 – Order of Magnitude, Level 1 – Conceptual, Level 2 – Preliminary, Level 3 – Detailed Design, Level 4 – Tendered).
    b. If not, is the level of contingency appropriate for the project's stage, timing and complexity?
3. In terms of risks to scope, how well is the project defined to avoid material scope creep?

Risk levels are applied using the following indicators. * A material shift is defined as a budget change of more than 15% relative to initial cost estimates.

Risk Level	Definition	Indicators
🟢 Low Risk of Material Change	Minimal likelihood (<10%) of material* shifts.	- Estimates at Level 3+ (Detailed/Tendered) - Contingency applied appropriately for project stage - Well-defined project scope with low variation potential
🟠 Medium Risk of Material Change	Some likelihood (10% to 50%) of material change exists but may be manageable	- Estimates at Level 2-3 (Preliminary/Detailed) - Contingency exists but is inconsistent to the remaining scope uncertainty - Some scope uncertainty, but moderate confidence in assumptions - Expected in Years 3-7 project
🔴 High Risk of Material Change	Significant likelihood (>50%) of material programme shifts.	- Estimates at Level 1-2 (Order of Magnitude/Preliminary) - Contingency is unclear or insufficient - Scope is not well-defined, making cost overruns >15% likely - Missing projects that could drive unplanned capital increases - Expected in Years 7+ projects, unless significantly large.

Results

Clutha DC

The original capital programme assessed was revised down significantly, from $116.3M to $37.1M, following the provision of updated cost estimates. The revised programme has been assessed as low risk of material change, with most projects in the near term already in construction or at the tender stage, improving cost certainty.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	35% ($13.0M0	Most of these projects are at scoping, tender, or construction stage, reducing cost uncertainty.
Years 4-10:	Med Risk	65% ($24.1m)	Estimates have been updated and a 30% contingency applied, reflecting the high scope risk that remains.

Items of note:

- Clutha has scheduled zone metering for most schemes within 3 years. However, universal metering will require a larger level of CAPEX than is scheduled.

Central Otago DC

The total high-risk capital programme assessed was $122.2M, which makes up 62% of all Level of Service CAPEX over the next 10 years. A large portion of projects are growth-driven, with significant level-of-service improvements. Cost certainty is higher in the near term, while longer-term WWTP projects have some exposure to regulatory changes.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	33% ($40.6M)	Projects in this period have greater cost certainty, as they are progressing through tender, construction, or advanced planning. While there is some exposure to regulatory-driven scope adjustments, cost estimates are well-developed with appropriate contingencies applied.
Years 4-10:	Med Risk	67% ($81.6m)	Projects in this period are based on Level 2 estimates, with a reasonable contingency applied, supporting cost confidence. However, longer-term infrastructure upgrades remain exposed to scope changes and regulatory factors, particularly for wastewater treatment.

Items of note:

- Significant amounts of the Capital Programme are to service projected growth in the district.
- CODC is already fully metered with volumetric charging in place for drinking water.

Gore DC

The total high-risk capital programme assessed was $67.6M, which makes up 94% of all Level of Service CAPEX over the next 10 years. The greatest risk remains in Years 4-10, where most projects still lack detailed cost certainty, and missing projects could result in budget shortfalls. The stormwater separation project, in particular, carries high financial and scope uncertainty due to its reliance on preliminary modelling rather than detailed cost estimation.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	21% ($14.3m)	Cost certainty is moderate due to a mix of more detailed (Level 3) and preliminary (Level 0-2) estimates on specific projects. Stormwater separation is acknowledged as an ongoing programme with set budgets each year.
Years 4-10:	High Risk	79% ($53.3m)	Most projects rely on early-stage cost estimates (Level 0-2), increasing the likelihood of cost changes. Scope and cost risk is high for the planned stormwater separation programme beyond the 10-year window.

Items of note:

- A significant stormwater separation programme is planned over the long term of 30 years (>$200m). The project is addressing service level deficits and health risks from localised flooding, which will likely increase due to climate change.
- The programme has included CAPEX for universal water meter rollout.
- Utility have observed that this cost of this programme exceeds the replacement cost of the entire stormwater network of the district (c. $42m), by several orders of magnitude. There is a likelihood that a programme of this scale will require extensive review and is primarily included to highlight a significant issue that needs addressing.

Waitaki DC

The total high-risk capital programme assessed was $96.5M, which makes up 83% of all Level of Service CAPEX over the next 10 years. The greatest financial risk exists in Years 4-10, where most projects lack detailed cost certainty, and scope changes could drive significant budget increases.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Medium Risk	18% ($17.4m)	Projects in this period have better cost certainty, being closer to execution with more detailed cost estimates. However, some estimates remain at Level 2 (Preliminary), and contingency application is inconsistent, increasing the risk of minor cost overruns.
Years 4-10:	High Risk	82% ($79.1m)	Most projects rely on early-stage cost estimates, increasing the likelihood of material cost changes. Scope risk is high, particularly for wastewater and stormwater projects. Additionally, missing compliance-related investments (Lake Ohau, Kurow, Palmerston, Omarama, Hamden, Moeraki WWTPs) could result in significant unplanned capital increases at the end of 10-year programme.

Items of note:

- Several wastewater projects are excluded from the current programme that will have a material impact on wastewater investment levels in years 4 to 15. It has been stated that this is due to the high levels of uncertainty regarding their scope, timing and possible solutions.
- The programme has included CAPEX for universal water meter rollout.

Timaru DC

The total high-risk capital programme assessed was $161M, which makes up 58% of all CAPEX over the next 10 years. The greatest financial risk exists in Years 4-10, where most projects lack detailed cost certainty, and scope changes could drive significant budget increases.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 1-3:	Low Risk	42% (68.1m)	Projects in this period have a mix of low and medium-risk cost estimates. However, a minimum of 30% contingency is in place across all budgets, which mitigates this risk sufficiently. The large projects planned within the next 12 months, have design level cost estimates.

Timeframe	Risk Rating	% of Spend	Reasoning
Years 4-10:	Medium Risk	58% (92.7m)	Larger projects in this period are more exposed to high-risk cost estimation and scope uncertainty, with early-stage estimates and scope uncertainty despite 30% contingencies applied to all.

Items of note

- Most of the programmed investment is on the renewal of existing assets. Investments to meet drinking water standards and wastewater consents have largely been delivered for the district.
- The programme has included CAPEX for universal water meter rollout.

Asset Sustainability

This assessment determines the likelihood of an unrecognised long-term backlog or liability for asset renewals in investment programmes, excluding accumulated depreciation reserves, having a material impact on the baseline programme.

Does the current level of renewals investment pose a significant future spending liability for the CCO that is not accounted for?

Method

The sustainability of renewals investment considers the likelihood that additional renewals expenditure will be needed beyond what is planned, due to unexpected asset failures. This looks at two key indicators in combination.

Average Age - It looks at this at a very high level, over the next 10 to 30 years. It is assessed by comparing the average age of the assets, calculated from its depreciated replacement cost (proxy of life remaining) divided by its gross replacement cost (Proxy life expectancy). The lower this % value indicates the higher the risk of asset failure. i.e. the assets are nearing end of life.

Ther rate of ageing - This is then considered with another analysis, of whether future planned renewals spending is keeping pace with the rate at which the assets are ageing. If it is not, then the risk of asset failure is increasing. This will also increase the need for additional expenditure.

Exclusions - Preferably, as assessment of the age distribution of the assets would provide a more accurate assessment of age. i.e. understanding the 75%tile of age rather than average age. Also, projects deemed a renewal, yet also provided significant service level or growth benefits were excluded, particularly if they distorted results.

The following indicators of risk were applied to each Council:

Risk Level	Definition	Indicators
🟢 Low Risk of Material Change	Minimal likelihood (<10%) of material* shifts.	- Assets are relatively young and/or have renewals investment adequately matching or exceeding the rate of asset ageing (Renewals/Depreciation ratio >1)
🟠 Medium Risk of Material Change	Some likelihood (10% to 50%) of material change exists but may be manageable	Assets are middle aged, with renewals investment not reflecting this risk. Renewals investment lagging behind asset ageing (Renewals/Depreciation ratio approximately 0.6–1).
🔴 High Risk of Material Change	Significant likelihood (>50%) of material programme shifts.	Significant risk due to an older asset base and inadequate renewals investment reflecting this. (Renewals/Depreciation ratio <0.8), likely requiring substantial future expenditure adjustments.

Where material is defined as being a change in budgeted costs of greater than 15%.

Clutha DC

There is a likelihood of material change to the renewals programme. Assets are approximately halfway through their life, with a reasonable level of investment now underway to stop the net ageing.

Clutha DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	57%	Middle aged	0.5 Assets are ageing	Med Risk
Water Supply	60%	Middle aged	1.5 Getting younger	- Low Risk
Stormwater	49%	Middle aged	1.6 Getting younger	Medium Risk
			Overall Score	Medium Risk

Items of note:

- c. $5m of Cast Iron main renewals in the water network have been deferred beyond the 10-year window during the LTP on affordability grounds.
- Large proportions of the pipe assets have been recorded with expected lives at over 100 years. This can skew results greatly if not correctly assumed.

Central Otago DC

There is a low risk of material changes anticipated in the next 10 years.

Central Otago DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	60%	Middle aged network	0.9 – Asset age is steady	- Low Risk
Water Supply	70%	Young network	1.0 – Age is steady	- Low Risk
Stormwater	57%	Middle aged network	0.6 Assets are ageing	Medium Risk
			Overall Score	- Low Risk

Items of note

- Central Otago's rate of growth in new and vested assets could be outpacing the average ageing rate (depreciation). This could skew these metrics by reducing the average asset age over time. An assessment of 75%tile age would improve this understanding.

Gore DC

There is a high likelihood of material change, particularly post year 10. Large parts of the assets network are near the end of life also, with annual renewals spend still well below what is needed to halt this decline. Particularly for WW and SW. This indicates a high amount of asset renewals will be necessary, beyond what is programmed.

Gore DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	….and over 30 years	Risk to Renewals Programme
Wastewater	36%	An old network	0.7 Assets are ageing	0.5 Assets are ageing	High Risk
Water Supply	29%	An old network	1.2 Getting younger	1.0 Age is steady	High Risk
Stormwater	28%	An old network	0.2 Assets are ageing	4.4 Getting younger rapidly (see note)	High Risk
				Overall Score	High Risk

Items of note:

- Gore DC believes their asset sustainability is slightly better than presented in this assessment but acknowledges having the oldest infrastructure network does pose significant risk of cost increases. Gore DC has been pro-actively managing the tension between asset renewal needs and affordability for their community. Their renewals programme was deferred on affordability grounds recently, so the 30-year programme has been included to assess this.

Waitaki DC

There is low risk of a material change to the renewals anticipated in the next 10 years. The network has over half of its life left by value, and the rate of replacement largely matches the rate of ageing.

Waitaki DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Renewals Programme
Wastewater	65%	Middle aged	1.4 Getting younger	- Low Risk
Water Supply	60%	Middle aged	0.8 Assets are ageing	- Low Risk
Stormwater	52%	Middle aged	0.8 Assets are ageing	Medium Risk
			Overall Score	- Low Risk

- The Oamaru Rising main duplication and Oamaru Muddy Creek stormwater capacity upgrade were removed from the renewals programme assessment. These may have been costed as renewals, possible incorrectly, which was skewing the assessment significantly.

Timaru DC

There is low risk of a material change to renewals anticipated in the next 10 years. The network has over half of its life left by value, and the rate of replacement exceeds the rate of ageing by several orders of magnitude.

Timaru DC	Average Life Remaining (DRC / GRC)		Rate of Ageing (Renewals / Depreciation over 10 years)	Risk to Programme
Wastewater	58%	Middle aged	4.7 Getting younger	● - Low Risk
Water Supply	55%	Middle aged	5.3 Getting younger	● - Low Risk
Stormwater	50%	Middle aged	3.9 Getting younger	● - Low Risk
			Overall Score	● - Low Risk

Sensitivity to National Wastewater Treatment Standards

This section evaluates the likelihood of material changes to planned Wastewater Treatment Plant upgrades from the proposed Wastewater National Treatment Standards.

The assessment is a score that indicates the level of sensitivity to a material change, where material is a budget change of more than 15% relative to initial cost estimates.

- 🟢 - Low Risk of Material Change – Minimal likelihood (<10%) of material shifts in overall Wastewater Treatment Plant cost estimates.
- 🟠 - Medium Risk of Material Change – Some likelihood (10% to 50%) of material shifts in overall Wastewater Treatment Plant cost estimates, requiring adjustments to the programme.
- 🔴 - High Risk of Material Change – Significant likelihood (>50%) of material shifts in Wastewater Treatment Plant cost estimates, requiring major adjustments to current programmes.

Explanation of the New Wastewater Standards

Proposed national wastewater standards were released for public consultation on 26th February. They aim reduce the amount of expenditure on wastewater treatment by, streamlining consenting processes, taking a more risk / impact-based approach to wastewater discharges standards. The standards differentiate requirements based on discharge type (water or land) and scheme size as a proxy for environmental impact.

Method and Assumptions

The assessment applied to WWTP cost estimates have used the following assumptions:

1. For WWTP's that discharge to water (Freshwater and Oceans):
   - Schemes with access to large water bodies may benefit from dilution capacity, which can influence discharge conditions and potentially reduce treatment requirements.
   - Schemes serving fewer than 1,000 users will not require nitrogen or phosphorus removal under the proposed land discharge standards. While this is not explicitly stated for water discharge schemes, it suggests that smaller loads may not require advanced nutrient removal.
2. For WWTPs discharging to land:
   - The standards remove land disposal requirements to account for cultural considerations; however, Councils can still pursue this pathway if desired.
   - Treatment requirements are now risk-based, meaning land discharge schemes will be classified by site suitability and environmental sensitivity.
3. Consenting terms
   - All consents will have a 35-year term.
   - Schemes with consents expiring within two years of the new standards taking effect can request a two-year extension.
   - The new standards aim to streamline the consenting process, reducing the existing administrative process of consent applications (c. 40% of costs stated in standards).
4. Enabling efficiencies and 'Packaged Plants' as an option:

- Standardising requirements across the country enhances scalability and supports the use of modern packaged wastewater treatment plants, improving efficiency and affordability, particularly for smaller schemes.
- Direct liaison with the DIA indicates a **maximum WWTP upgrade cost of $15k–$20k per connection** is being targeted for smaller schemes (< 1,000 people).

Sensitivity to Standards	Reasoning
Clutha DC -c. $52m of planned WWTP upgrades in the current programme is planned	
🟠 Medium Risk of Material Change	Several small schemes under 1,000 pax requiring lower treatment and Milton (larger scheme). However, there remains a reasonable level of uncertainty in their need at all, as they are planned due to non-compliance with existing consents standards. The new standards may reduce this risk and defer them—or reinforce the need for earlier upgrades, depending on their final form. Cost estimates have already dropped significantly (c. 75%) from recent WWTP re-estimations, incorporating revised land treatment assumptions (prior to release of the WW Standards).
Central Otago DC - c. $57m of WWTP Upgrade CAPEX is planned.	
🟠 Medium Risk of Material Change	Alexandra WWTP remains unchanged, as further adjustments would increase risk. Omakau WWTP has been reassessed, with changes made to align with revised expectations. Lake Roxburgh Village remains unchanged. While some flexibility may emerge in discharge requirements under the new standards, the overall impact on treatment processes is expected to be limited with large amounts allocated to growth and renewal.
Gore District Council –c $77m of WWTP Upgrade CAPEX is planned.	
🔴 High Risk of Material Change	Sensitivity to the proposed changes is high for the Gore and Mataura WWTP planned upgrades. Primarily due to removal of land purchase and wetland development originally included for cultural treatment at Gore WWTP. For Mataura WWTP, sensitivity is material but less significant as the existing discharge is expected to align with proposed regulatory standards, eliminating the immediate need for significant upgrades.
Waitaki District Council c. $27m of WWTP Upgrade CAPEX is planned.	
🟠 Medium Risk of Material Change	Several smaller schemes (Duntroon, Kurow, Lake Ohau, Omarama, Palmerston) may be affected, but some, like Lake Ohau, could see upgrade needs largely unnecessary under the new standards. Of greater uncertainty, is that several schemes lack a confirmed scope or funding and are excluded from the programme.
Timaru District Council No WWTP upgrade CAPEX planned.	
🟢 - Low Risk of Material Change	Timaru have already invested significantly in their Wastewater treatment plants in recent years and have long term consents in place. No material changes are anticipated.

Summary of Findings

This assurance assessment has identified varying levels of risk to the baseline capital programme across the five Councils. While the short-term financial outlook is stable, long-term risks remain significant due to uncertainty in cost estimates, aging assets, and evolving regulatory requirements.

	Year 1 to 3	Years 4 to 10
Clutha DC	Near-term budgets have high accuracy. Medium-term risks emerge primarily due to wastewater regulatory changes and moderate ageing of stormwater assets, though water assets are sustainably managed.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Low (-5%/+10%)	Medium (-10%/+20%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Central Otago DC	Cost certainty strong in short-term but moderate risks emerge longer-term, particularly with wastewater upgrades due to proposed standards.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Low (-5%/+10%)	Medium (-10%/+20%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Gore DC	Immediate cost certainty acceptable but long-term high risks exist across all asset classes, driven by ageing infrastructure, significant deferred renewals, and sensitivity to WW standards.	
Water Supply	Low (-5%/+10%)	High (-10%/+25%)
Wastewater	Low (-5%/+10%)	High (-10%/+25%)
Stormwater	Low (-5%/+10%)	High (-10%/+25%)
Waitaki DC	Short-term cost reliability is good, but medium-term risk exists from slightly insufficient renewal budgets and uncertainties in wastewater project scope and regulatory impacts.	
Water Supply	Low (-5%/+10%)	Medium (-10%/+20%)
Wastewater	Medium (-10%/+20%)	High (-10%/+25%)
Stormwater	Low (-5%/+10%)	Medium (-10%/+20%)
Timaru DC	Consistently low risk across asset classes with robust renewals investment and stable asset conditions, requiring minimal financial adjustments.	
Water Supply	Low (-5%/+10%)	Low (-5%/+10%)
Wastewater	Low (-5%/+10%)	Low (-5%/+10%)
Stormwater	Low (-5%/+10%)	Low (-5%/+10%)

Long-Term Planning Uncertainty beyond Year 10

The very nature of long-term planning means it carries inherent uncertainty, particularly given the significant policy, regulatory, and legislative reforms that have shaped the last two Long-Term Planning (LTP) cycles. Given this context, assessing the confidence of planned expenditure over the 10- to 30-year horizon other than low, is inherently limited in value.

However, it remains important to identify key known investments that will be necessary within these longer-term timeframes. These include:

- Major asset renewals, which will be required to maintain service levels.
- Resource consent renewals, particularly for wastewater and drinking water infrastructure.

Recommendations

To strengthen the confidence in the financial projections of the proposed CCO and any pricing model options, the following actions are recommended.

1. Standardised Capital Planning & Cost Estimation Practices
    - Introduce a structured cost estimation framework that standardises how contingencies and cost escalations are applied.
    - Councils should also commit to a Memorandum of Understanding (MoU) or similar, to align cost estimation methodologies, service level expectations, and renewals investment strategies.
2. Targeted Review of High-Cost Investments and Regulatory Changes
    - Conduct a detailed review of high-cost projects (>$10m) with early-stage estimates, particularly for Gore DC's stormwater separation and Waitaki DC's wastewater upgrades.
    - Once wastewater standards are formalised, also conduct a detailed review of planned wastewater treatment plant upgrades.

Furthermore, as consumer pricing will be a critical aspect of any future service delivery model for 3-waters, the planning processes and assurance levels will need to be explicitly driven by the effect to future customer prices, not just financial forecasts.


UTILITY

Southern water done well

Joint Water Services Delivery Plan

Southern Water Done Well

3 September 2025

GO RURAL RE CITY LIVING DISTRICT COUNCIL

Clutha District Council

CENTRAL OTAGO DISTRICT COUNCIL

Southern water done well

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Part A: Statement of financial sustainability, delivery model, implementation plan and assurance

Statement that water services delivery is financially sustainable

This plan sets out a joint delivery model for Central Otago District Council, Clutha District Council and Gore District Councils (the shareholding councils). It demonstrates that water services in the Central Otago, Clutha and Gore Districts will be delivered in a financially sustainable manner by a joint water services council-controlled organisation (the Southern Water Done Well - SWDW joint WSE). The plan includes the establishment of the SWDW joint WSE on 1 July 2027, and highlights that from that date:

Sufficient Financing

- Debt will remain within lending limits that are likely to be set by the Local Government Funding Agency (LGFA) April 2025 guidance.
- There are no expected barriers for the SWDW joint WSE to obtain the required borrowing. For additional context:
    - The joint WSE will be established with approximately $232 million of external debt. Specific transfer agreements have yet to be determined but will involve a transfer of existing debt from councils to the new water entity. In this regard, there is no increased demand for debt from the credit market.
    - Annual projected increases in borrowings for the joint WSE are broadly consistent with existing increases in borrowing across the three councils. To date the constituent councils have not faced barriers in accessing debt from the market.

Sufficient Investment

- Investment in three waters infrastructure is fully funded through operating cash surpluses and debt.
- Includes investment in services for anticipated future growth
- Planned investment included in this plan is expected to address all known existing and future compliance obligations and will support the delivery of safe, healthy drinking water throughout the service areas.

Sufficient Revenue

- Sufficient revenue will be raised to cover all expected operating costs, depreciation, and financing costs, with surpluses of approximately 11% of operating revenue being provided for.
- Is the least cost option for water consumers in the serviced area.

The plan includes $560 million of capital investment between 2024/25 to 2033/34, of which 38% relates to the renewal of existing three waters assets. To support this level of investment, the joint WSE will:

- Require approximately $101 million of total operating revenue in 2033/34.
- See an average increase in three waters charges of 110% from 2024/25 to 2033/34, with a large portion of these increases occurring prior to the establishment of the WSE.

- Require approximately $406 million of debt by 2033/34.

While this plan provides for the lowest costs for water consumers across the serviced area, affordability issues are likely to arise in later years. To address these issues, the plan recommends that the joint WSE considers the adoption of a hardship policy.

The shareholding councils also recognise the increasing benefits of scale. To this end, this plan includes a process for additional council areas to be included within the SWDW joint WSE model. Specific provision has been made for Timaru District Council and Waitaki District Council.

Proposed delivery model

Central Otago District Council, Clutha District Council and Gore District Council (the shareholding councils) are pleased to submit this joint water services delivery plan that relates to the establishment of the SWDW joint WSE for the future delivery of water services in their districts. A process is also identified in the implementation plan to include additional territorial authorities in the joint WSE, should those councils decide to join the shareholding councils. Specific provision has been made for Timaru District Council and Waitaki District Council.

The establishment of the SWDW joint WSE will involve the transfer of all existing water, wastewater and stormwater services to a newly established water services organisation on 1 July 2027. As part of the transfer:

- All existing three waters debt of each of the participating councils will be transferred to the new joint WSE.
- The ability to set annual budgets, capital programme, revenue requirements and charges will be transferred to the new joint WSE.
- A review of existing Council staff whose roles substantially relate to the delivery of water services will be undertaken with a view to then consulting with affected staff regarding the restructuring proposal. We anticipate that most, if not all, will be offered roles in the new joint WSO as part of that consultation.
- The new joint WSE will be the water services provider registered with Taumata Arowai and existing resource consents will be transferred to the new WSE.

Foundation documents for the joint WSE are yet to be developed, and many governance, ownership and control decisions will be outlined within those documents. Work on developing those documents will be progressed following the submission of this plan and is included in the implementation plan.

Core principles that will be reflected in those documents, and in the final structure and operating model of the WSE, include:

- The principle that pricing is determined on the basis that no consumers pay more than they otherwise would have (under an in-house model) for the same level of service and investment. This means local pricing will be required for some time, and the final language of the foundational documents will reflect this need for local pricing.
- That all shareholding councils have equal votes through a shareholders' committee.
- That rural water is recognized as a distinct service, and as a “fourth” water in the foundational documents, and through the statement of expectations for the SWDW joint WSE.
- That governance of the SWDW joint WSE will be through a shareholders’ committee which will be responsible for recommending the appointment of board members and developing the statement of expectations for the SWDW joint WSE.
- The inclusion of additional councils will be welcomed. However, decisions regarding the inclusion of additional councils will require a super majority.
- The SWDW joint WSE will not be able to pay a dividend.

Implementation plan

This plan will be delivered through the establishment of a SWDW joint WSE, with the critical path for that implementation being the establishment of a joint entity and the legal transfer of all necessary assets, rights obligations, debt, and where possible, the transfer of existing staff to the joint WSE.

Once this plan is accepted, Central Otago District Council, Clutha District Council and Gore District Council are committed to implementing the proposed model, noting that the process outlined below provides for the inclusion of additional councils.

A transition advisor has been appointed as part of the wider project team to support the implementation of this plan and the establishment of the SWDW joint WSE and will lead this work through to the formation of an establishment entity and board. Indicative milestones include:

2025/26

- Water Services Delivery Plan adoption and approval.
- Project team resourcing.
- High level implementation planning based on agreed design principles.
- Ongoing engagement with mana whenua and Iwi throughout the establishment period.
- Detailed planning, including workstreams and implementation plan activation.
- Resourcing - initial transition functions including interim leadership and Establishment Board.
- Governance including Constitution, Shareholding Agreement, CCO structure and accountability documents.
- Working with Timaru District Council and / or Waitaki District Council to enable those councils to join the SWDW joint WSE, including sharing of information, undertaking further analysis if required and updating the Commitment Agreement if the requirements set out in the WSDP and Commitment Agreement are met.
- Collaboration with other councils seeking to join the SWDW joint WSE, including sharing of information, undertaking further analysis if required and updating the Commitment Agreement if the requirements set out in the WSDP and Commitment Agreement are met.

2025/2026 & 2026/27

- Workstream priorities:
    - Establishment of the joint SWDW joint WSE
    - Business and service design/operational matters for the new joint WSE
    - People and capability workstream- to identify and implement necessary transfer arrangements for staff and contractors and ensure a smooth transition to the new joint WSE

- Finance workstream - to develop the first annual budget for the WSE, the initial pricing and tariff structures, manage the transfer of debt, agree and implement billing arrangements, manage the transfer of insurance and banking arrangements, and future lending facilities.
- Legal workstream to support the transfer of consents, contracts, and preparation of the transfer agreement, compliance, reporting and probity.
- Asset management workstream to support joint asset management plan and capital works programme and any new asset management systems.
- Operations workstream - to support the smooth transfer of operations and the development of necessary processes and procedures for the day-to-day operation of water, wastewater and stormwater networks.
- Communications and engagement workstream to manage communications with the public, stakeholders and staff during the transition

- During the 2025/26 and 2026/27 financial years, council staff will continue to work for their respective councils. However, they may be required to complete some tasks for the joint WSE. It is expected that council staff will work closely with transition leads to ensure existing work is aligned with the joint WSE's broader objectives and manage workloads and priorities.

2027/28

- Operational go live and Joint Southern Water Done Well CCO – 1 July 2027.

Specific asset management implementation matters

There are various asset management frameworks and practices that Southern Water will develop as part of the transition process and harmonisation of existing practices. This will ensure that there is a consistent AM approach aligned with good industry practice as well as meeting the new economic regulator's requirements for the water sector. These are detailed in Part B and include development of:

- Asset Management Policy and Strategy.
- Asset criticality Framework.
- Asset condition strategy / approach.
- Comprehensive Asset Management Road map including Information Management and System Programme.
- Assessment of the current service level provision and the collection of supporting data and information.
- Level of service framework.
- Prioritisation framework for capital programmes.
- Strategic procurement strategy.

Consultation and engagement

Public consultation was undertaken by the four councils (including Waitaki District Council who subsequently passed a resolution to adopt an in-house water services delivery model) between 6 May and 9 June 2025. The Councils used the alternative consultation and decision-making process under the Local Government (Water Services Preliminary Arrangements) Act 2024.

The shareholding councils consulted on the following options:

- Option 1: Joint CCO (preferred)
- Option 2: Standalone Council CCO
- Option 3: In-house Council Business Unit

Information was made accessible to the community through multiple channels, using clear language to support broad understanding and participation. The consultation comprised:

- A Consultation Document and submission form. Copies of each councils' Consultation Documents are available at:
    - Central Otago - https://lets-talk.codc.govt.nz/southern-water-done-well
    - Gore - https://lets.talk.goredc.govt.nz/swdw
    - Clutha - https://connect.cluthadc.govt.nz/southern-water-done-well
    - Waitaki - https://www.letstalk.waitaki.govt.nz/swdw
- SWDW consultation material, including summary information and frequently asked questions via online engagement websites.
- Two joint mayoral videos delivered via social media and other Council digital platforms.
- Webinars and Facebook Live events
- Hard copy consultation materials were published via local newspapers.
- Radio advertising
- Hard copies of the submission form and consultation materials were made available at Customer Services Centres and libraries.
- Drop-in sessions and public workshops hosted by elected members and staff to allow for in-person engagement and feedback.
- Stakeholder briefings and presentations were provided on request.

Where possible, public sessions were livestreamed, and recordings made available online for those unable to attend in person. Throughout the consultation period, consultation platforms were regularly updated with additional information and responses to common questions.

Consultation Outcomes

Across the three councils, 778 valid submissions were received that selected a preferred option. Of these, 456 (59%) selected an In-house business unit (option 3). Notable support came from Clutha District resident submissions (308).

The Joint CCO (Option 1) was selected by 243 (31%) of submitters. It was the preferred option for Central Otago district residents (144), while Gore District residents were evenly split between the Joint CCO and In-house Business Unit (34).

A summary of submissions received by the three councils is provided below[1] -

	Central Otago District Council	Clutha District Council	Gore District Council	Total submissions
Option 1: Joint CCP (preferred)	144 48%	65 17%	34 41%	**243** **31%**
Option 2: Standalone Council CCO	45 15%	15 4%	14 17%	**74** **10%**
Option 3: In-house Council Business Unit	114 38%	308 78%	34 41%	**456** **59%**
No selection	0 0%	5 1%	0 0%	**5** **1%**
Total submission received	**303**	**393**	**82**	**778**

Key Findings

The feedback demonstrated that submitters placed a high value on local control and accountability. However, there was concern about financial sustainability and the ability to meet future regulatory requirements.

[1] Note: Total figures discrepancy is due to five submitters to Clutha District Council not selecting an option

- **Key Concerns:** Increased costs and debt for ratepayers were a concern across all options. Submitters opposed to a Joint CCO were worried about loss of local control and accountability. There was concern regarding the accuracy of cost modelling and the potential for cost overruns. A lack of transparency and community consultation was also noted.
- **Submitters' Priorities:** Retaining local control over water resources was a key priority. Affordability for ratepayers was paramount. Transparency and accountability in water service management were highly valued, as was water quality.
- **Notable Patterns:** There was a strong preference for local expertise and knowledge in managing water infrastructure, as well as distrust of larger bureaucracies and the potential for reduced accountability. Some submissions suggest exploring alternative funding models to reduce costs.

Following consultation and the decision of Waitaki District Council, further work was completed by Morrison Low Advisory to confirm the viability of the group of three.

Assurance and adoption of the Plan

This plan was adopted by each council on the following dates. Copies of the Council resolutions to adopt the plan have been attached as Appendices Three, Four and Five.

- Central Otago District Council resolved to adopt the plan during its Council meeting of 12 August 2025.
- Clutha District Council resolved to adopt the plan during its Council meeting of 13 August 2025.
- Gore District Council resolved to adopt the plan during its Council meeting of 12 August 2025.

Certification of the chief executive officer

We, the Chief Executive Officers of Central Otago District Council, Clutha District Council, and Gore District Council, certify that this Water Services Delivery Plan:

- Complies with the Local Government (Water Services Preliminary Arrangements) Act 2024, and
- The information contained in the Plan is true and accurate.

This certification by each Chief Executive is in respect of the information provided by that territorial authority.

Signed: _____

Name: Peter Kelly

Designation: Chief Executive Officer

Council: Central Otago District Council

Date: _____

Signed: _____

Name: Steve Hill

Designation: Chief Executive

Council: Clutha District Council

Date: _____

Signed: _____

Name: Debbie Lascelles

Designation: Chief Executive Officer

Council: Gore District Council

Date: _____

Part B: Network performance

Investment to meet levels of service, regulatory standards and growth needs

Serviced populations

The serviced populations for the three councils are mostly located in the urban townships. Most of the residents are connected to the council supplied drinking water and wastewater systems, and less for stormwater depending on the township development.

The serviced population reflects the population growth particularly for residential connections. CODC's connected population is expected to grow significantly in the next 10 years due to growth especially within the existing urban serviced areas. The Cromwell area and Alexandra / Clyde networks are experiencing significant growth.

The SWDW serviced populations have unique characteristics with Clutha District Council's rural water schemes. Some Gore district rural residents receive water from the Glenkenich rural water supply that is currently operated by Clutha District Council.

The aggregated services areas and connections are summarised in the following tables by each activity. The disaggregated council serviced areas is provided in Appendix One for completeness.

Water supply serviced population

Projected serviced population	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Serviced population	48,398	49,177	49,898	50,615	51,327	52,035	52,738	53,441	54,140	54,836
Total residential connections	18,957	19,250	19,521	19,790	20,057	20,322	20,586	20,850	21,112	21,372
Total non-residential connections	4,892	4,952	5,008	5,064	5,119	5,175	5,229	5,284	5,339	5,393

Wastewater serviced population

Projected serviced population	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Serviced population	43,790	44,436	45,038	45,637	46,231	46,823	47,411	47,999	48,584	49,166
Total residential connections	15,983	16,480	16,707	16,935	17,162	17,385	69,399	17,832	18,053	18,274
Total non-residential connections	5,834	5,897	5,956	6,015	6,073	6,132	6,189	6,247	6,305	6,362

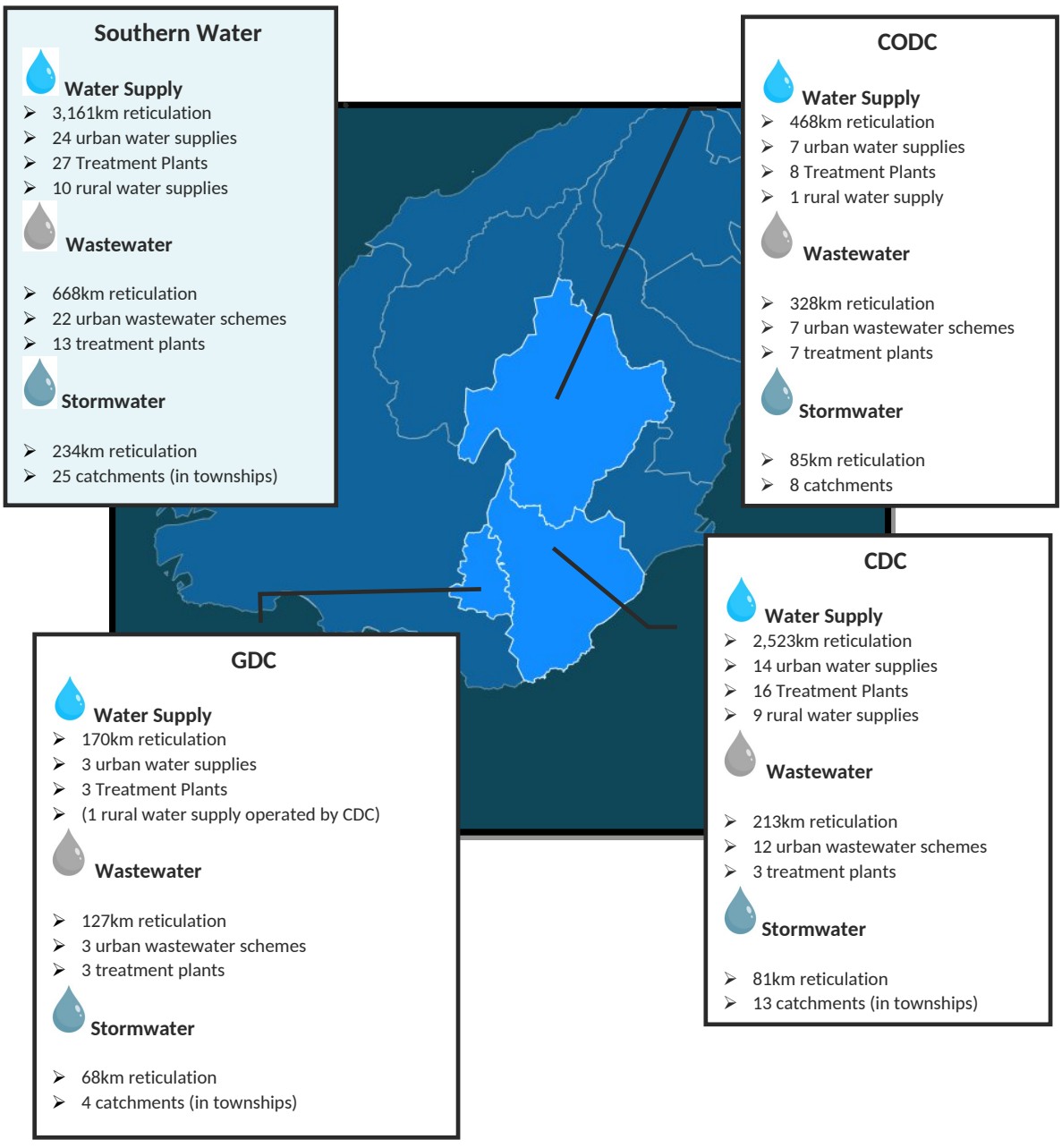
Stormwater serviced population

Projected serviced population	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Serviced population	44,444	45,107	45,724	46,337	46,947	47,553	48,156	48,759	49,358	49,955
Total residential connections	18,052	18,312	18,553	18,793	19,032	19,267	71,294	19,739	19,972	20,205
Total non-residential connections	7,467	7,572	7,668	7,765	7,859	7,956	8,049	8,143	8,238	8,330

Serviced areas

The serviced areas for Southern Water are summarised in the map below by major asset classes (aggregated) and detail at district level. The serviced areas are mostly in the urban townships but there is also rural water schemes as noted above. Compared with other councils at a national level, CDC has an extensive network of rural water schemes. GDC has high proportion of combined sewer network related to when Gore township was developed.

The disaggregated council information for serviced areas including maps (where available) is provided in Appendix One for completeness.

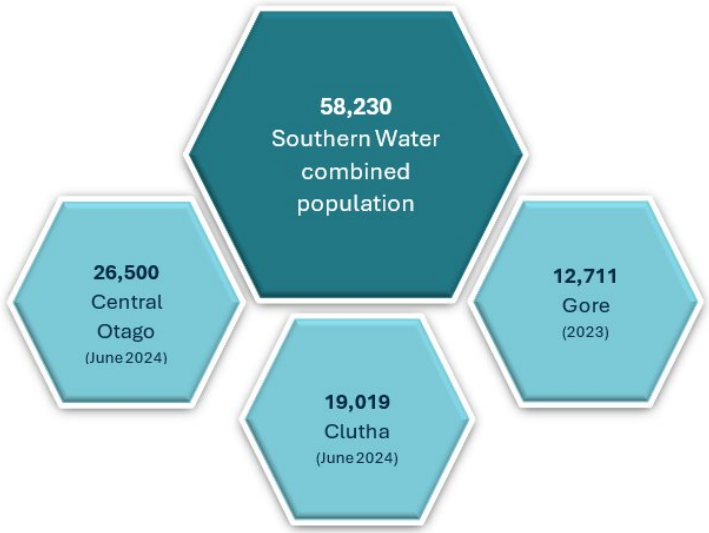


Unserviced areas

The un-serviced water supply and wastewater areas are in the townships listed below and predominantly in rural areas. There is variable information available on the exact property numbers. Stormwater provision is small townships is variable and sometimes limited to road drainage. There is generally limited formal stormwater systems in small, rural townships.

District	Unserviced townships
Central Otago	Water supply - There are a significant number of rural residential private water supplies located mainly in the areas around Cromwell, Clyde and Alexandra. There are a number of small rural townships that have community owned and managed water supplies that Council has no input into, such as Oturehua, St Bathans, Ettrick, and Millers Flat. Wastewater - Ophir, 2/3 Clyde, Oturehua, St Bathans, Ettrick, Millers Flat, Tarras
Clutha	Taieri Mouth, Toko Mouth, New Haven, Jacks Bay, Papatowai, Tahakopa, Waipori Village/Falls (note Waipori Village has a water and wastewater system run by a body corporate).
Gore	In the Gore District there are three private water schemes. They are all independently owned and managed. The schemes are the Otama Rural Water Scheme, Kaiwera Water Scheme and Otikerama Water Scheme.

Overall growth trends:



Growth areas

Each district has distinct population growth patterns which results in different infrastructural challenges for water services. Central Otago District is experiencing significant population growth, particularly in the Cromwell and Alexandra / Clyde areas. There is significant asset planning underway to ensure infrastructure is upgraded / provided at the right time.

Whereas Clutha District is not expecting significant increases in population. This compares with Gore District where the population has grown slowly since 2014. It is forecasted to continue to grow at 0.3% per annum over the next ten years before turning negative for the following ten years thereafter.

The growth areas and infrastructure challenges by each district are summarised in the table below.

District	Growth areas	Infrastructure challenges and planning approach
Central Otago	The Cromwell area (incorporating Cromwell, Bannockburn, Lowburn and Pisa) and Alexandra / Clyde networks are experiencing the most significant growth. This level of growth is expected to continue and increase, based on land development forecasts.	Central Otago District's future development will rely heavily on the availability of water and the responsible management, distribution and protection of existing and future water sources. A number of water and wastewater treatment upgrade projects are proposed to meet legislated levels of service. These projects are designed to include capacity for growth. The Alexandra WWTP upgrades have been accelerated to accommodate growth within the Alexandra / Clyde area. It is likely that further upgrades will be required to provide sufficient treatment capacity in Cromwell WWTP. Council uses hydraulic models for water and wastewater to identify where pipe, pump, and reservoir capacity constraints exist that will impact on levels of service. Significant updates and calibration of the models for Cromwell and Vincent (Alexandra / Clyde) areas have commenced. These will support infrastructure planning of the land zoning and densities provided for in the spatial plans.
Clutha	Significant increases in Clutha District's population are not anticipated. The strategic approach to promote growth in the rating base and promote living and working in Clutha is expected to facilitate growth in key areas such as in the Milton-Waihola area. The main growth areas in the Clutha District are Milton North and Milton to Springwell Rise.	Significant increases in population are not anticipated. However, should that occur, it might place greater demands on water and wastewater services. The infrastructure investment is predominately driven by renewals to replace aging and poor condition assets and levels of service to meeting compliance requirements.
Gore	Growth is expected to continue in the Gore township at 0.4% per annum for the 2025-2034 period. Mataura's population is	The 2025-2034 LTP does not include growth enabled infrastructure for the identified planned areas.

District	Growth areas	Infrastructure challenges and planning approach
	expected to remain steady and population is expected to decline in rural areas.	

Critical assets

Critical assets are significantly important to the community and defined as assets that need to be managed to prevent failure due to potential consequences. The assessment of critical assets has been variable for the three councils. As part of harmonising asset management practices, Southern Water will develop a single criticality framework to be used in investment decision making as well as operations.

The current identified critical assets and the approach taken are shown in the table below at activity and district levels.

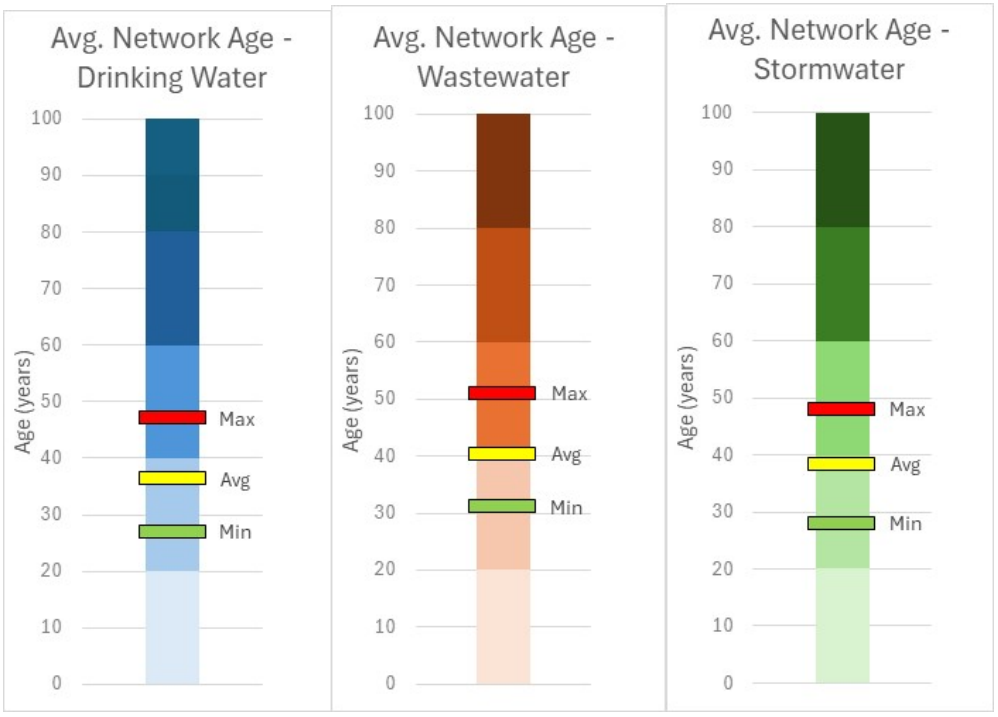
District	Current approach taken	Critical water supply assets	Critical wastewater assets	Critical stormwater assets
Central Otago	Criticality assessment of Water and Wastewater facilities and reticulation assets in 2020 Identified high, medium and low criticality assets for further analysis Criticality recorded against the asset within asset register	High criticality assets include but are not limited to – intakes, treatment plants, reservoirs, pump stations, connections to major industries, hospitals, watermains greater than 200mm in diameter	High criticality assets include but are not limited to – treatment plants, pump stations, connections to major industries, hospitals, sewer mains greater than 200mm in diameter	Not formally identified
Clutha	Definition of critical assets varies Not accurate on council's AMS Working towards identifying all critical infrastructure assets	Not formally identified		
Gore	Formal criticality assessment water, waste and stormwater networks across Gore and Mataura networks completed in 2018 This work involved developing a criticality ranking matrix to enable assessment of water service assets in order of high, medium or low criticality The assessment included developing maps which spatially represent the networks criticality	Below ground pipelines - high criticality: 22km of which 14.5km have an estimated renewal date prior to 2030 Above ground: 9km	Below ground pipelines - high criticality: 15km of which 4.8km have an estimated renewal date prior to 2030 Above ground: 19km	Below ground pipelines - high criticality: 6.3km Above ground: 6km

Overview of current asset state

The current state of the three water assets is assessed in terms of age and condition as set out in the following sections. The disaggregated council information for asset age and condition is provided in Appendix One for completeness.

Asset age

The average network age is shown in the figures below.



The range in asset ages reflects how the three districts have grown. Central Otago's water and wastewater assets are relatively young with an average pipe age of 27 (water) to 31 (wastewater) years. This is reflective of the high level of growth and age of vested assets from subdivisions. Whereas Gore's three water assets are consistently the oldest and Clutha's three water assets are consistently in the middle. GDC has a reasonable degree of uncertainty regarding the age of older assets. Therefore, an assumed age is applied to assets based upon the material they are constructed of asbestos cement pipework being commonly used in the 1950s and cast iron in the 1970s.

Asset condition

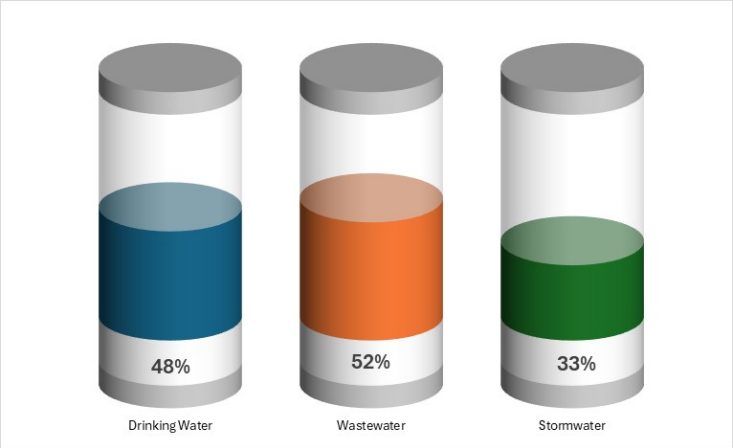
Asset condition reflects the physical deterioration and structural integrity of infrastructure, assessed periodically to estimate remaining service life and guide maintenance decisions. These assessments inform risk-based interventions to prevent service failure.

The degree to which assets have condition assessed varies across asset class and council as shown in the table and figures below. Southern Water will develop a consistent approach for assessing asset condition that will be used to inform risk-based renewal programmes.

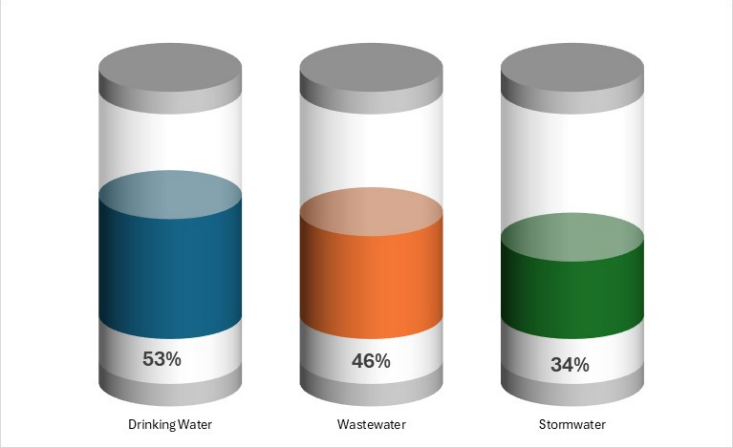
Current state element	Asset class	Drinking water	Wastewater	Stormwater
Average network age (also refer to figures above)	Network	36.3 years	40.3 years	38.3 years
Percentage or number of above ground assets with a condition rating	Above ground assets	48%	52%	33%
Percentage of above ground assets in poor or very poor condition	Above ground assets	3%	4%	4%
Percentage of network with condition grading	Below ground assets	53%	46%	34%
Percentage of network in poor or very poor condition	Below ground assets	8%	20%	15%

Above ground assets - The percentage or number of above ground assets with a condition rating at an aggregated level is shown in the figure below. Key points at district level:

- Gore - GDC has not formally assessed the condition of its above ground assets. Assessments on the above ground assets are based on comments from GDC's Operations team.
- Clutha - CDC has high proportion of above ground assets with a condition rating at 88% and above. It is noted that CDC has condition rated using operational information and age derived (ie desktop analysis). CDC has a high proportion of above ground assets in poor and very poor condition at 10% and above (10% for water supply and wastewater, and 16% for stormwater).
- Central Otago – CODC has a relatively low proportion of above ground assets in poor and very poor condition at 2% for water supply, 4% for wastewater, and none for stormwater).



Below ground assets - The percentage or number of below ground assets with a condition rating at an aggregated level is shown in the figure below.



Key points at district level:

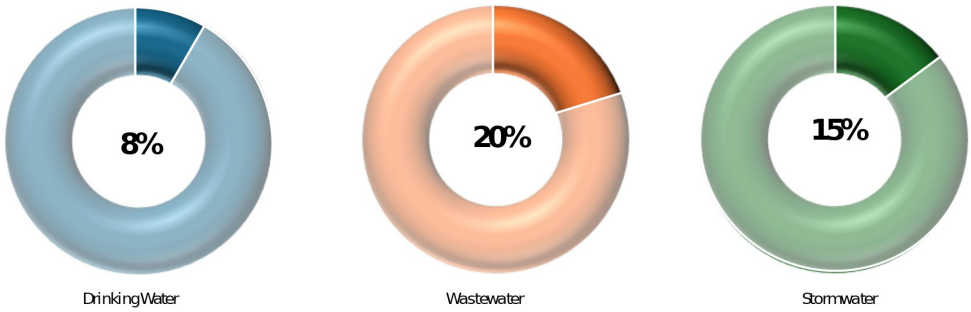
- General - All three councils have condition assessed below ground assets.
- Central Otago – CODC has the highest proportion of assessments, but the condition ratings may be over-reported due to Asset database being populated with default values. The cleansing of the asset data will be a key AM task for Southern Water going forward.
- Gore – GDC has completed comprehensive assessments including:

  Water supply - The condition assessment of the water networks is primarily based on age with AC sampling and testing done on some of the critical key watermains.

  Wastewater - A condition assessment of wastewater mains in the Gore District was completed in 2022 and included the Gore, Mataura and Waikaka wastewater networks. CCTV surveys were used across a range of wastewater pipes to collect condition data. Pipes whose condition was not assessed through CCTV surveys were predicted based on the available pipe age and material and cross referenced against pipes with assessments of the same age and material. As a result, approximately 85% of the wastewater networks have received condition grading.

Stormwater - No formal condition grading assessments have been made on the stormwater networks and primarily based on age.

The proportion of below ground three water assets is shown in the figure below. This shows that there is a high proportion of below ground wastewater assets at 20% in poor and very poor condition. This is mainly located in Clutha and Gore Districts at 27% and 32% respectively reflecting the older networks. The proportion of CODC's water and wastewater assets that are rated as poor or very poor condition is comparatively low, partly due to Council's assets being typically younger.



Below ground assets in poor or very poor condition

Asset management approach

This section describes the existing asset management approaches used by the three councils to proactively manage water assets and services. Southern Water will initially adopt the existing AM practices, but it is expected these will be harmonised over time. This will ensure that there is a consistent AM approach aligned with good industry practice as well as meeting the new economic regulator's requirements for the water sector.

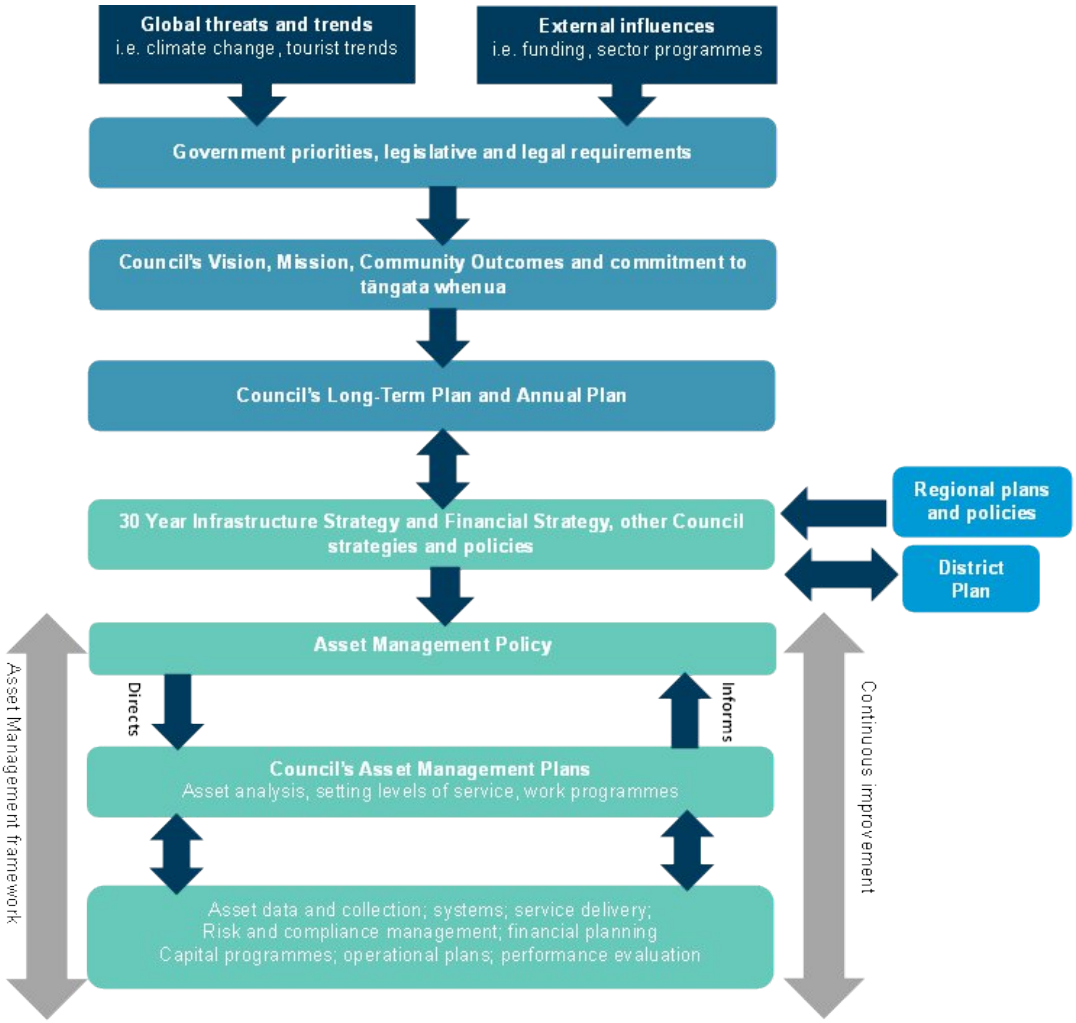
Current strategic planning framework

The three councils have adopted strategic planning relating to water service provision which are supported by core documents that include:

1. Long-Term Plan 2024 – 2034 for CODC and CDC, and 2025-34 LTP and supplementary documents for GDC
2. Financial Strategy 2024 - 2034
3. Infrastructure Strategy 2024 – 2053
4. Asset Management Policy 2024
5. Asset Management Plans 2024 – 2034: Water Supply, Wastewater, Stormwater

The AM framework common to the three councils is shown in the figure below. It shows the alignment and strategic linkages between our Council's Vision, Community Outcomes, Infrastructure Strategy, AMPs and the activities. CODC, CDC and GDC follow industry good practice in its approach to asset management as defined in the International Infrastructure

Management Manual (IIMM) and Āpōpō Guidelines.



Future asset management approach

As part of the establishment phase, Southern Water will be developing and implementing an asset management policy and strategy. The Asset Management Policy will be Southern Water's commitment to manage its assets. It will describe the principles and responsibilities that the entity applies to its asset management practices. Implementation of the Asset Management Policy will support the delivery of Southern Water strategic outcomes. The Strategy will guide how the entity will manage assets to deliver drinking water and wastewater services to the community. It will set asset management objectives and describe the asset management system. The Asset Management Policy will set the maturity target for the three water assets.

Asset management maturity

Asset management maturity overview

The Asset Management Maturity Assessment Model is based on industry best practice as described in the (IIMM) and Āpōpō Guidelines. The model consists of 16 subject areas, grouped into three elements as shown in in the figure.

Outline of maturity assessment model



The maturity scale is made up of five levels from aware to advanced, with a score ranging from 0 to 100 as shown below. The assessment of maturity comprises two parts. 1 - Setting the appropriate maturity target. 2 - Assessing current practice against the target. This is done for each of the 16 subject areas.

Maturity level gradings

Aware	Basic	Core	Intermediate	Advanced
0-20	21-40	41-60	61-80	81-100

Current asset management maturity results

The current asset management maturity for three water assets is summarised in the table below.

District	Current maturity level	Target maturity level	Commentary
Central Otago	Core	Intermediate	The 2021 AM Policy sets the appropriate level of asset management practice for Council's 3 Waters Activity as Intermediate practice. The last asset management maturity assessment was undertaken in October 2018 and found that the activity is performing at a core level for most AM functions with some intermediate achievements.
Gore	Core	Core	The AM maturity for 3 waters was assessed at core level and the current Asset Management Plans target to maintain that maturity level.
Clutha	Not formally assessed	Not formally set	CDC has not yet completed a formal asset management maturity assessment for its Three Waters activities.

District	Current maturity level	Target maturity level	Commentary
			A maturity assessment is planned for 2025/26 as part of a wider programme of improvement within the Three Waters Asset Management Team. This will support build readiness for the proposed transition to a regional service delivery model under Southern Water.

Future asset management maturity and integration

Southern Water will set the maturity target for the three water assets in its Asset Management Policy. As part of the transition process, Southern Water will prepare a comprehensive AM Road map with pursued actions to harmonise current practices and programmes. This will help to lift overall practices as expected by the economic regulator.

Asset management systems

AM systems overview

The foundations for good asset management practices are people, processes, systems, and data as defined in the IIMM / Āpōpō Guidelines. Quality asset data provides the evidence to enable better investment decision making. The key asset management practices can be grouped into three broad areas.



Current asset management systems

The three councils use a number of systems to manage its assets, financial information and customer information as summarised in the table below including proposed improvements. These systems collectively underpin the councils' ability to deliver capital, maintenance, and operational programmes. The systems and data records are vital for disclosing compliance to the regulators – Otago Regional Council, Environment Southland, Water Services Authority-Taumata Arowai and Commerce Commission.

District	Corporate systems	Water systems
Central	Magiq Enterprise for customer service	Ericom (SCADA); Hinekōrako (Water

District	Corporate systems	Water systems
Otago	requests, property, rates, water billing, finance, creditors, debtors, resource consents, building consents, permits; GIS – Intramaps; Asset Register – Asset and Work Manager (AWM)	Services Authority – Taumata Arowai), Lutra (Resource Consent compliance management), Eurofins (laboratory sampling database), Infoworks (Hydraulic network modelling)
Clutha	Datacom (Finance System) Geographic Information System (GIS / ArcGIS)	The core platform is Univerus Assets, which houses the asset inventory and supports renewal planning, condition and risk assessments and levels of service reporting. SCADA systems are used to support the real-time operation and monitoring.
Gore	ERP is Civica's Authority, IBIS rates modelling and IBIS Breeze for LTPs and Annual Plans, Content Manager Document Management System, drawing databases, ArcGIS	AssetFinda Asset Management System, Hydraulic modelling programs, Water Outlook for Compliance Monitoring

Future asset management systems

The focus of the joint WSE in the first decade will be on building capability, capacity, resilience and stability for future success. It is expected that the current asset management systems will be retained in the short to medium term until an integrated information management and system approach is developed and adopted.

The Asset Management Roadmap will include an Information Management and System Programme to drive the development of an integrated approach.

Service delivery mechanisms

Existing service delivery

There is a range of existing service delivery mechanisms for the three councils from in-house model for GDC, hybrid model for Clutha to contracted out model for CODC, as summarised in the table below.

District	Service delivery model	In house functions	Contracted out functions
Central Otago	Contracted out	Asset management. Operations – including asset systems and management of external providers. Capital Programmes – internal project managers with external support as required. Sampling and monitoring. Meter reading.	Council's 3 Waters utilities services were operated and maintained by Council's operation and maintenance contractor, Fulton Hogan until July 2025 (since 2013). It was tendered again in 2024/25 and the contract was split into multiple components: Facilities (Treatment, storage and pump stations). Reticulation. Mechanical, electrical and SCADA.

District	Service delivery model	In house functions	Contracted out functions
			Construction contracts are let on a project basis for new construction and renewal projects. Consultants are engaged to provide design, documentation and contract supervision for these projects. Council established a panel of reputable consulting firms to provide professional services support for 3 Waters capital development works programme. This covers the following skill areas: Legal / property. Planning. Surveying. Technical design and operational support.
Clutha	Hybrid	The Operations Team is responsible for day-to-day operation of water and wastewater treatment plants. Capital works are project managed by the Infrastructure Strategy and Delivery Team. Reactive maintenance and minor works are coordinated by the Reticulation Supervisor in collaboration with the Operations and Three Waters Asset Management Team.	Maintenance activities (e.g. pipelines, valves, pump stations) are delivered through a Three Waters contract with Isaacs Construction Ltd, supported by a network of subcontractors. Capital works are delivered primarily by external contractors.
Gore	In-house (predominately)	Asset management services are performed by the staff under the direction of the General Manager Critical Services. Operational services are performed in-house by staff directed by the Operations Manager. The Capital Works are delivered by the 3 Waters Capital Projects and Asset Manager.	Where necessary, the services of consultants and contractors are procured.

Proposed service delivery model

From 1 July 2027, the service model will be the responsibility of Southern Water. As part of the establishment phase Southern Water will be developing and implementing an asset management policy and strategy. The Asset Management Policy will be Southern Water's commitment to manage its assets. It will describe the principles and responsibilities that the entity applies to its asset management practices. Implementation of the Asset Management Policy will support the delivery of Southern Water's strategic outcomes. The Strategy will guide how the entity will manage assets, in order to deliver drinking water, wastewater and stormwater services to the community. It will set asset management objectives and describe the asset management system.

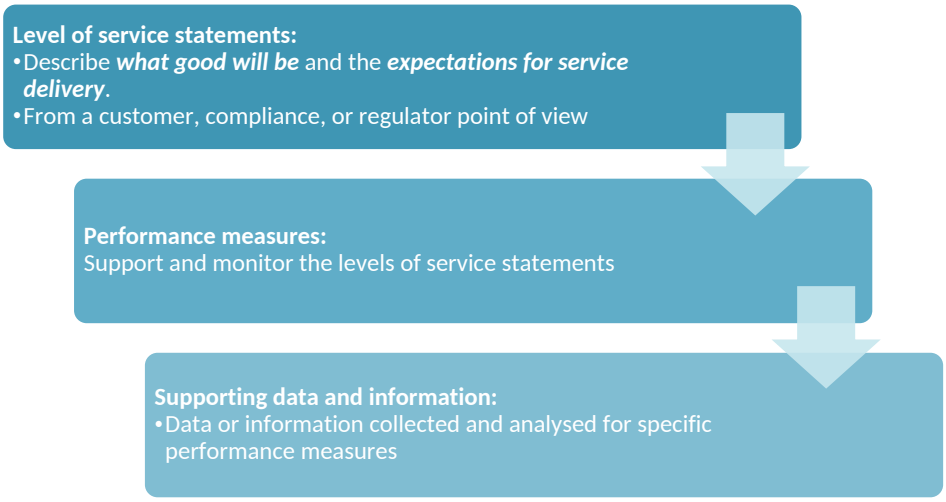
The current service delivery mechanisms will also need to be reviewed as part of the establishment phase. It is expected that the current contracted out services will remain until an overarching service delivery model has been developed.

Levels of service

Levels of service overview

Levels of service describe what the water service supplier is expected to deliver to its customers through the management of the three water assets, such as providing safe drinking water and protecting the environment from wastewater overflows. Levels of service are fundamental to delivering good asset management practice.

The level of service framework is shown in the diagram below. For the water sector, the performance measures are largely set by Department of Internal Affairs (DIA) and Water Services Authority-Taumata Arowai. The water service supplier (council) sets the target through its LTP process.



Current service level achievement

The service level results for 2023/24 against the targets for the three councils are summarised in the following tables with further detail in the councils' 2023/24 Annual Report.

Water supply service level results

This shows that drinking water compliance was not fully achieved for all three councils. Refer to regulatory compliance section below for details. However, the water losses and average water consumption was achieved by all three councils.

Level of service statement	Performance measure	CODC 2023/24 Target	CODC 2023/24 Results	CDC 2023/24 Target (Urban)	CDC 2023/24 Results (Urban)	CDC 2023/24 Target (Rural)	CDC 2023/24 Results (Rural)	GDC 2023/24 Target	GDC 2023/24 Results
Safety of drinking water	Full compliance with Drinking Water Quality Assurance Rules (2022) for: bacteria and protozoa compliance								
	• bacteria compliance	Achieved for all supplies	Not Achieved	100%	86%	≥94%	62%	100%	Not Achieved
	• protozoa compliance	Achieved for all supplies	Not Achieved	100%	81%	≥78%	63%	100%	Not Achieved
Maintenance of the reticulation network	The percentage of real water loss from Council's networked reticulation system	≤30%	27%	≤29%	23.1%	N/A		<40%	25.4%
Fault responses times	Where Council attends a call-out in response to a fault or unplanned interruption to its networked reticulation system, the following median response times are measured:								
	Attendance for urgent call-outs:	≤60 minutes	78 minutes	≤2 hrs	1.83	≤4 hrs	4.22	<60 minutes	13
	Resolution of urgent call-outs:	≤240 minutes	184 minutes	≤12 hrs	23.8	≤12 hrs	22.05	<8 hrs	2.67
	Attendance for non-urgent call-outs:	≤8 hrs	23 hours 19 minutes	≤24 hrs	19.6	≤24 hrs	20.54	<5 days	0.1
	Resolution of non- urgent call-outs:	≤24 hrs	31 hours 7 minutes	≤48 hrs	105.81	≤48 hrs	33.04	<14 days	0.5
Customer satisfaction	The total number of complaints received about (per 1,000 connections): - drinking water clarity	≤13/1,000 connections	9.5	≤14/1,000 connections	0.94	≤14/1,000 connections	7.05	<8/1,000 connections	4.3

Level of service statement	Performance measure	CODC 2023/24 Target	CODC 2023/24 Results	CDC 2023/24 Target (Urban)	CDC 2023/24 Results (Urban)	CDC 2023/24 Target (Rural)	CDC 2023/24 Results (Rural)	GDC 2023/24 Target	GDC 2023/24 Results
	- drinking water taste - drinking water odour - drinking water pressure or flow - continuity of supply and Council's response to any of these issues								
Demand management	The average consumption of drinking water per day per resident within the district	<600 litres per person per day	519.88	≤650 litres per person per day	541	N/A		<450 litres per person per day	447.1

Wastewater service level results

This shows that there were mixed results across all performance measure for the three councils.

Level of service statement	Performance measure	CODC 2023/24 Target	CODC 2023/24 Results	CDC 2023/24 Target	CDC 2023/24 Results	GDC 2023/24 Target	GDC 2023/24 Results
Systems and adequacy	The number of dry weather wastewater overflows from the Council's wastewater system, expressed per 1,000 sewerage connections to that wastewater system	≤1/1,000 connections	2.73	<6/1,000 connections	3.2	1/1,000 connections	0
Discharge compliance	Compliance with the Council's resource consents for discharge from its wastewater system. Measured by the number of: - abatement notices - infringement notices - enforcement orders - convictions received by Council in relation those resource consents	0	0	0	2 4 0 0	0	0
Fault response times	Median response time for attendance from the time that Council receives notification of a fault or blockage to the time that service personnel reach the site	≤60 minutes	52 minutes	≤2 hrs	2.4	Urgent <120 min	45.5
						General <8 hrs	0.95
	Median response time for a resolution from the time Council receives notification to the time that service personnel confirm resolution of the blockage or other fault	≤4 hrs	2 hrs 11 minutes	≤8 hrs	22.4	Urgent <8 hrs	4.6
						General <5 days	0.9
Customer satisfaction	The total number of complaints received about (per 1,000 connections): - wastewater odour - wastewater system faults - wastewater system blockages Council's response to issues with its wastewater system	<10/1,000 connections	10.6	≤23/1,000 connections	8.9	<10/1,000 connections	1.2

Stormwater service level results

This shows that most of the stormwater performance measures for the three councils were achieved.

Level of service statement	Performance measure	CODC 2023/24 Target	CODC 2023/24 Results	CDC 2023/24 Target	CDC 2023/24 Results	GDC 2023/24 Target	GDC 2023/24 Results
System adequacy	The number of flooding events that occur in the District	0	0	≤23	13	<3	3
	For each flooding event, the number of habitable floors affected (Expressed per 1,000 properties connected to the territorial authority's stormwater system)	<1/1,000 connections	0	<0/1,000 connections	2	<2/1,000 connections	1
	Compliance with the Council's resource consents for discharge from its stormwater system. Measured by the number of: - abatement notices - infringement notices - enforcement orders - convictions received by Council in relation those resource consents	0	0	0	0	0	0
	The median response time to attend a flooding event, measured from the time that Council receives notification to the time that service personnel reach the site	≤1 hrs	0	<4hrs	82.9	<60 min	57
	The number of complaints received by Council about the performance of its stormwater system (per 1,000 connections to Council's stormwater system)	≤2/1,000 connections	0.3	≤10/1,000 connection	0.2	<4/1,000 connection	2.33

Future service levels

The focus of Southern Waters in the transition phase is to understand the current service level provision and ensuring that the supporting data and information is collected and analysed consistently. It is expected that the performance measures will not significantly change unless directed by the regulators, Water Services Authority-Taumata Arowai and Commerce Commission. There will be a period of harmonisation of targets for some measures such as response times, water losses and customer complaints. Other targets are mandatory such as meeting consent compliance and providing safe drinking water. Any service level gaps will be addressed through targeted operational and investment programmes.

Statement of regulatory compliance

Drinking water compliance

The regulatory compliance with drinking water standards and other parameters for 2023/24 as disclosed in the Annual Reports is detailed in the table below, in addition to the service level achievements in the section above.

Council	Supply	Bacterial compliance (E.coli)	Protozoa compliance	Chemical compliance	Boiling water notices in place	Fluoridation	Average consumption of drinking water	Water restrictions in place (last 3 years)	Firefighting sufficient
Central Otago	Cromwell	No	No	Yes	No	No	352	No	Yes
	Lake Dunstan	No	Yes	Yes	No	No	349	No	Yes
	Roxburgh	No	No	Yes	No	No	197	No	Yes
	Ranfurly	No	No	Yes	Yes	No	195	Yes	Yes
	Pisa Village	No	No	No, Aluminium at TP	No	No	434	No	Yes
	Omakau/Ophir	No	No	Yes	No	No	204	Yes	Not known
	Naseby	No	No	Yes	No	No	83	Yes	Yes
	Patearoa	No	No	Yes	Yes	No	294	Yes	No
Clutha	Balclutha	No	No	Yes	No	Yes	443	Yes	Yes
	Clydevale-Pomoahaka Rural	No	No	Yes	Yes	No	2244	Yes	Yes
	Glenkenich Rural	No	No	Yes	Yes	No	2309	Yes	No
	Kaitangata	No	No	Yes	Yes	Yes	833	Yes	Yes
	Lawrence	No	No	Yes	Yes	No	663	Yes	Yes
	Milton	No	No	Yes	Yes	Yes	630	Yes	Yes
	Moa Flat	No	No	Yes	Yes	No	2887	Yes	No

Council	Supply	Bacterial compliance (E.coli)	Protozoa compliance	Chemical compliance	Boiling water notices in place	Fluoridation	Average consumption of drinking water	Water restrictions in place (last 3 years)	Firefighting sufficient
Gore	North Bruce Rural	No	No	Yes	Yes	No	1427	Yes	No
	Owaka	No	No	Yes	No	No	431	Yes	Yes
	Richardson Rural	No	No	Yes	Yes	No	2147	Yes	No
	Stirling	No	No	Yes	Yes	No	1721	Yes	Yes
	Tapanui	No	No	Yes	Yes	Yes	513	Yes	Yes
	Tuapeka West	No	No	Yes	Yes	No	1909	Yes	No
	Waitahuna Rural	No	No	Yes	Yes	No	1817	Yes	No
	Mataura	No	No	Yes	Yes	No	449	Yes	No
	Gore - Hilbre	No	No	Yes					
	Gore - East	Yes	Yes	Yes		No		Yes	No

Notes:

- CDC's rural water schemes are shown shaded in blue.
- Drinking water compliance achievement is colour coded.

Key points on drinking water compliance in 2023/24 are summarised in the table below. There are various treatment plant upgrades underway to lift the performance to fully comply with the DWQAR rules.

District	Commentary on drinking water compliance
Central Otago	• CODC did not fully achieve drinking water compliance in 2023/24 as disclosed in the Annual Report. • CODC continues water treatment upgrades to meet the New Zealand Drinking Water Standards including Cromwell. • There was noncompliance at Ranfurly WTP due to data loss related to power outages. For other water schemes the plant was fully compliant but the distribution system was not.

Clutha	• CDC completed an independent evaluation of all its schemes in 2023/24 against the DWQAR rules.
	• The overall calculated averages were (with full breakdown in the 2023/24 Annual Report):
	  ○ Urban water - 86% for bacteriological compliance and 81% for protozoal compliance.
	  ○ Rural water - 62% for bacteriological compliance and 63% for protozoal compliance.

Gore	• Currently only the Hilbre Ave WTP in the Gore water supply does not meet the DWQAR requirements of amongst GDC's water supplies.

District	Commentary on drinking water compliance
	All other water components including raw water sources, treatment plants and network are capable of meeting DWQAR requirements. • Currently the Gore water supply centralisation project is underway which will allow water abstracted from the Jacobstown Well field (which would usually be piped to the Hilbre Ave WTP) to be piped to the East Gore WTP where water can be treated to a standard required by the DWQAR. • Once completed the Hilbre Ave WTP, can be decommissioned and the site converted to treated water storage. It is expected that the Gore water supply will meet all requirements of the DWQAR by December 2025.

Consent compliance

The consent compliance actions for 2023/24 as disclosed in the Annual Reports is summarised in the table below. This shows that CDC received abatement and infringement notices for the WWTPs which are being worked through.

Council	Compliance Actions (last 24 months)	Drinking water	Wastewater	Stormwater	Commentary on compliance actions
Central Otago	Warning	0	0	0	Abatement Notices on Alexandra, Cromwell, Roxburgh, Naseby and Ranfurly wastewater treatment plants, and Alexandra abatement notice was lifted on 1 August 2024.
	Abatement notice	0	0	0	
	Infringement notice	0	0	0	
	Enforcement order	0	0	0	
	Convictions	0	0	0	
Clutha	Warning		0	0	Water supply - There are difficulties in meeting consent conditions for backwash at water treatment plants that are dosing aluminium as a coagulant because of the resource consent limit being set prior to treatment plant updates. This will require new consents or variations to be agreed upon with Otago Regional Council. Wastewater – The abatement notices were related to Heriot and Waihola WWTPs and treated samples not meeting sufficient parameters. The infringement notices were related to wastewater discharge issues at Balcutha, Waihola and Clinton WWTPs.
	Abatement notice		2	0	
	Infringement notice		4	0	
	Enforcement order	1	0	0	
	Convictions	0	0	0	
Gore	Warning	0	0	0	NA
	Abatement notice	0	0	0	
	Infringement notice	0	0	0	
	Enforcement order	0	0	0	
	Convictions	0	0	0	

The non-compliance ratings for 2023/24 as disclosed in the Annual Reports is summarised in the table below. There was a high level of significant non-compliance for CDC's WWTPs.

Council	Non compliance	Drinking water	Wastewater	Stormwater	Commentary on non-compliance
Central Otago	Significant risk non-compliance	1	0	0	The significant risk non-compliance was for Lake Dunstan as exceeded instantaneous take. The moderate risk non-compliance was for Pisa as exceeded maximum daily take during summer.
	Moderate risk non-compliance	1	0	0	
	Low risk non-compliance	0	0	0	
Clutha	Significant risk non-compliance	0	10	0	There was high level of significant non-compliance for CDC's WWTPs (refer to commentary above).
	Moderate risk non-compliance	0	2	0	
	Low risk non-compliance	0	1	0	
Gore	Significant risk non-compliance	0	0	0	Water supply – A single low-risk non-compliance identified related to the water activity was the result of a flowmeter failing at the Jacobstown Well Field and the associated telemetry required not being available. A replacement flowmeter has since been installed. Wastewater - Four breaches resulted in a medium-risk evaluation against the Gore WWTP discharge permit. The first breach was the result of a self-reported incident where sulphuric acid was overdosed as part of the treatment process. The second breach was due to an exceedance of the 80th percentile discharge limit for E.coli as outlined in the consent. The final two breaches were due to wastewater overflows within the Gore network both of which were caused by blockages and were resolved by GDC. Stormwater - A single low risk non-compliance was identified due to the failed notification to Environment Southland for the intended use of dye in the Gore stormwater network.
	Moderate risk non-compliance	0	1	0	
	Low risk non-compliance	1	0	1	

Consent expiry

The three councils hold a number of resource consents for the operation of the water, wastewater and stormwater networks. There are 34 resource consents that will expire in the next ten years as shown in the table below, mainly for water supply.

Consents expiring in next 10 years	Drinking water	Wastewater	Stormwater
Central Otago	4	2	1
Clutha	11	4	0
Gore	5	4	3
Total	**20**	**10**	**4**

Significant consents

There are significant consents for the abstraction of surface and groundwater, discharge of contaminants to land, air and water and land use consent as summarised in the table below. The expiry dates are shown in brackets. Note that not all CDC's significant consents are shown as they are extensive (refer to Appendix One for full consent listing).

Significant consents	Drinking water	Wastewater	Stormwater
Central Otago (refer to Appendix One for full listing)	Lake Dunstan WS (November 2028); RM22.317.01 V1 Cromwell (August 2028); RM22.319.01 Pisa Moorings (July 2052); RM17.138.01 Omakau / Ophir (July 2035); 99169 Roxburgh (September 2041); 2005.764 V1 Ranfurly (May 2029); RM21.224.03 Patearoa (November 2050); RM16.277.01 V1	Alexandra (July 2038); RM12.517.02 V1 Cromwell (February 2049); RM13.233.01, RM13.233.03 V1 and RM13.233.02 V3 Omakau (July 2027); RM21.566.01 Roxburgh (September 2045); RM11.110.03 and RM10.306.01 V2 Ranfurly (June 2047 & April 2050); RM15.004.02 Naseby (March 2051); RM15.258.01 Lake Roxburgh Village (July 2029); RM23.613.01	Pisa -Perriam Cove (September 2028); 2008.197

Significant consents	Drinking water	Wastewater	Stormwater
Clutha *(only a selection show, refer to Appendix One for full listing)*	2006.220- Clydevale WTP water take – expiry (12/01/2041) 2005.283.V2- Glenkenich WTP water take – expiry (7/12/2040) 96676- Kaitangata WTP water take – expiry (11/01/2024) – reconsenting underway	RM17.328.01- Balclutha WWTP – expiry 10/17/2030 RM13.443.01- Heriot WWTP – expiry 2/28/2049 2005.193- Stirling WWTP – expiry 11/25/2045	Stormwater discharge (RM17.030.01- Palmer Place) – expiry 01/04/2052
Gore	(Coopers Wells) Water Permit [204330] Expiry - 27/08/2033 (Coopers Emergency) Water Permit [205720] Expiry – 15/03/2020 - S124 (Jacobstown) Water Permit [99197] Expiry – 07/03/2025 - S124 (Jacobstown Emergency) Water and Discharge Permit [202555 & 202556] Expiry – 09/08/2039 (Pleura) Water Permit/Land use Permit/Discharge Permit [AUTH-20191736-01/02/03] Expiry – 16/04/2045 (Mataura Emergency) Water Permit [99223] Expiry – 13/06/2025 - S124 (AMP) Water Permit [AUTH-20181081] Expiry – 15/03/2043	(Gore) Water Discharge Permit [203595] Expiry – 31/12/2023 - S124 (Gore) Air Discharge Permit [203596] Expiry – 31/12/2023 - S124 (Mataura) Water Discharge Permit [AUTH 203393-V4] Expiry – 11/05/2021 - S124 (Waikaka) Discharge Permit [200336] Expiry – 01/09/2027 (Gore) Land Use Consent [AUTH-20211808] Expiry – 06/07/2047	(Gore) Discharge Permit [206303] Expiry – 02/08/2035 (Mataura) Discharge Permit [206304] Expiry – 02/08/2035 (Pukerau/Waikaka) Discharge Permit [206305] Expiry 02/08/2035 (Elizabeth St) Discharge Permit [AUTH-20202292] Expiry – 08/12/2055

Capital investment to meet levels of service, regulatory standards and growth needs

The table below provides a summary of the combined projected investment requirements based on 2024 LTP forecasts. The planned investment during the period addresses all the identified network performance issues disclosed in this plan (Part B), such as aging and poor condition assets, meeting levels of service, and renewing expiring consents. Investment is also required to plan for the districts' growth. Refer to Part D for further details including summaries of the major capital projects. All anticipated future regulatory requirements are expected to be met based on the planned investment.

Significant capital projects

The table below highlights significant capital projects included in tis plan as well as the key drivers for investment for each water activity and the significant projects. Further detail is included in the Significant capital projects section of this WSDP.

Significant projects	Drinking water	Wastewater	Stormwater
Central Otago	To meet regulatory compliance and improve resilience: • Cromwell water treatment plant upgrade (2024/26) • Ranfurly and Patearoa treatment plant upgrades (2024/25) • New Omakau water treatment plant (2025 to 27) • Roxburgh water supply upgrade (2029) • To provide for growth and improve resilience: • Naseby water supply upgrade (2027-2029)	To meet regulatory compliance and improve resilience: • Alexandra wastewater treatment plant upgrade (2025-31) • New Omakau package treatment plant above flood plain • New Lake Roxburgh Village package treatment plant • Ranfurly wastewater treatment plant upgrades • Naseby wastewater treatment plant • Cromwell wastewater treatment plant upgrades	None identified
Clutha	To improve resilience, replace aging assets and meet demands: • Milton (Milburn) Water Treatment Plant Upgrade (2026-2027) • Puerua Water Treatment Plant Renewal (2027 – 2028) • Kaitangata Intake Renewal (2026-2027) • Kaitangata Water Supply Renewals (2026-2028) • Balclutha Water Supply Renewals (2028 – 2032) • Milton Water Supply Renewals (2026 – 2028) • Milton to Tokoiti Extension (2026)	To replace aging assets and meet regulatory compliance: • Waihola WWTP Consent Renewal/Treatment process upgrade (2027-2028) • Clinton WWTP Consent Renewal/Treatment process upgrade (2027-2028) • Lawrence WWTP - Consent Renewal/Treatment process upgrade (2028-2030) • Balclutha sewer network renewals (2028-2031) • Milton sewer renewal SH1 (2025-2026) • Balclutha, Kaitangata and Clinton Pumpstation upgrades (2026-2027)	To replace aging assets and improve capacities: • Milton Stormwater Network renewals (2027-2028) • Balclutha Stormwater Network renewals (2030-2031) • Hospital Creek Pump Station renewal (2026-2027) • Stormwater Plant Milton - New Ajax Street Pump Station (2027-2029) • Stormwater Plant Balclutha Baxter Street Pump Station Installation 2028-2029)

Significant projects	Drinking water	Wastewater	Stormwater
Gore	To replace aging assets: • Replacement of Hilbre Ave Reservoir • Reticulation Renewal of 2.2 km Booster Main from the East Gore WTP to State Highway 1 Bridge • Reticulation Renewal of 1.6 km watermain from Hilbre Avenue Reservoir to State Highway 1 Bridge • Reticulation Renewal of Bridge St Water Main in Mataura To improve resilience and demand management: • Centralization of the Gore Water Treatment Plant / Mataura River Crossing • Water meter roll out	To replace aging assets: • Wigan St Stage 4/ Ardwick Street • Main Street/ Hokonui Drive WW main renewal To meet regulatory compliance and improve resilience: • Gore WWTP upgrade • Mataura WWTP upgrade	To replace aging assets: • Reticulation renewals To improve environmental outcomes, provide stormwater protection and protect public health: • Gore stormwater separation and/or resolution of SW capacity issues • Additional Gore stormwater separation and/or resolution of SW capacity issues • Mataura stormwater separation and/or resolution of SW capacity issues • Additional Mataura stormwater separation and/or resolution of SW capacity issues • Improvements to stormwater quality

Future capital works prioritisation and delivery

There are a lot of existing compliance issues to address in the short to medium term for Southern Water as well as a high number of expiring consents in the next ten years. To resolve the compliance issues with a significant capital programme, Southern Water will adopt a multi-faceted approach (to be endorsed by the Board) including:

- Developing a prioritisation framework so the capital programmes are prioritised with a transparent methodology including investment drivers and asset criticality (for renewals), and identification of any constraints such as land acquisition.
- Set up of internal governance structures to provide oversight and embedding good project decision making and delivery practices.
- Set up of an Iwi Partnerships Group (or similar) to work collaboratively with our iwi partners.
- Developing a strategic procurement strategy on how to engage with the market to deliver a much larger capital works programme in reasonable timeframes. This may include setting up consultant and contractor panels and / or other mechanisms.
- Set up of a PMO so there are consistent practices across Southern Water for internal and external project managers based on the same principles. This ensure project risks (time, quality and budget) are managed carefully. This will include standardised templates for managing projects and business case process.

- Set up of a dedicated Capital Programmes team to ensure there is a focus on delivery of the major projects.

Historical delivery against planned investment

The historical delivery against planned investment for each council is outlined in this section.

CODC

Delivery against planned investment	Renewals investment for water services				Total investment in water services			
	FY2024/25*	FY21/22 - FY23/24	FY18/19 - FY20/21	Total	FY2024/25	FY21/22 - FY23/24	FY18/19 - FY20/21	Total
Total planned investment (set in the relevant LTP):								
Water supply	5,649,000.00	6,445,000.00	4,255,000.00	**16,349,000.00**	9,531,000.00	23,621,000.00	19,162,000.00	**52,314,000.00**
Wastewater	3,522,000.00	4,099,000.00	4,241,000.00	**11,862,000.00**	6,219,000.00	13,739,000.00	15,925,000.00	**35,883,000.00**
Stormwater	390,000.00	1,140,000.00	360,000.00	**1,890,000.00**	390,000.00	1,140,000.00	360,000.00	**1,890,000.00**
TOTAL	**9,561,000.00**	**11,684,000.00**	**8,856,000.00**	**30,101,000.00**	**16,140,000.00**	**38,500,000.00**	**35,447,000.00**	**90,087,000.00**
Total actual investment:								
Water supply	2,446,155.00	7,399,000.00	5,523,000.00	**15,368,155.00**	7,787,961.00	36,477,000.00	15,484,000.00	**59,748,961.00**
Wastewater	1,092,543.00	5,012,000.00	4,015,000.00	**10,119,543.00**	2,356,713.00	28,785,000.00	17,208,000.00	**48,349,713.00**
Stormwater	95,837.00	1,393,000.00	871,000.00	**2,359,837.00**	95,837.00	1,393,000.00	1,563,000.00	**3,051,837.00**
TOTAL	**3,634,535.00**	**13,804,000.00**	**10,409,000.00**	**27,847,535.00**	**10,240,511.00**	**66,655,000.00**	**34,255,000.00**	**111,150,511.00**
Delivery against planned investment (%)	**38%**	**118%**	**118%**	**93%**	**63%**	**173%**	**97%**	**123%**

NB: Annual Report 2024/25 are estimates only as we are working through the end of the financial year and final journals still need to be prepared.

Key points on historical capital investment:

- There was good achievement on delivering capital works in the reported period, generally over 90% across all investment drivers

CDC

Delivery against planned investment	Renewals investment for water services				Total investment in water services			
	FY2024/25*	FY21/22 - FY23/24	FY18/19 - FY20/21	Total	FY2024/25	FY21/22 - FY23/24	FY18/19 - FY20/21	Total
Total planned investment (set in the relevant LTP):								
Water supply	4,951,000	12,231,000	9,409,000	26,591,000	21,472,000	34,652,000	16,404,000	72,528,000
Wastewater	1,487,000	3,412,000	3,306,000	8,205,000	4,737,000	12,871,000	7,140,000	24,748,000
Stormwater	833,000	3,170,000	35,000	4,038,000	1,852,000	5,170,000	1,742,000	8,764,000
TOTAL	**7,271,000**	**1,8813,000**	**12,750,000**	**38,834,000**	**28,061,000**	**52,693,000**	**25,286,000**	**106,040,000**
Total actual investment:								
Water supply	1,072,000	8,644,000	10,753,000	20,469,000	10,524,000	43,919,000	17,969,000	72,412,000
Wastewater	1,247,000	2,213,000	2,197,000	5,657,000	1,702,000	13,875,000	5,262,000	20,839,000
Stormwater	448,000	4,063,000	492,000	5,003,000	479,000	7,651,000	2,749,000	10,879,000
TOTAL	**2,767,000**	**14,920,000**	**13,442,000**	**31,129,000**	**12,705,000**	**65,445,000**	**25,980,000**	**104,130,000**
Delivery against planned investment (%)	**38.1%**	**79.3%**	**105.4%**	**80.2%**	**45.3%**	**124.2%**	**102.7%**	**98.2%**

Key points on historical capital investment:

- Actuals for 2024/25 to be confirmed once 2024/25 Annual Report and FIS completed.
- 2024/25 delivery was reduced due to staff vacancies and budgets have been carried forward.

GDC

Delivery against planned investment	Renewals investment for water services				Total investment in water services			
	FY2024/25*	FY21/22 - FY23/24	FY18/19 - FY20/21	Total	FY2024/25	FY21/22 - FY23/24	FY18/19 - FY20/21	Total
Total planned investment (set in the relevant LTP):								
Water supply	1,137,000	3,665,000	1,425,000	**6,227,000**	5,782,000	10,157,000	18,594,000	**34,533,000**
Wastewater	876,000	7,027,000	1,868,000	**9,771,000**	1,176,000	7,027,000	2,573,000	**10,776,000**
Stormwater	293,000	157,000	79,000	**529,000**	455,000	2,525,000	1,338,000	**4,318,000**
TOTAL	**2,306,000**	**10,849,000**	**3,372,000**	**16,527,000**	**7,413,000**	**19,709,000**	**22,505,000**	**49,627,000**
Total actual investment:								
Water supply	553,347	1,740,988	730,825	**3,025,160**	3,192,741	8,045,000	5,319,000	**16,556,741**
Wastewater	302799	6,305,657	1,647,286	**8,255,742**	302,799	7,292,000	14,803,000	**22,397,799**
Stormwater	79860	184,416	87,108	**351,384**	195,779	1,941,000	254,000	**2,390,779**
TOTAL	**936,006**	**8,231,061**	**2,465,219**	**11,632,286**	**3,691,319**	**17,278,000**	**20,376,000**	**41,345,319**
Delivery against planned investment (%)	**40.6%**	**75.9%**	**73.1%**	**70.4%**	**49.8%**	**87.7%**	**90.5%**	**83.3%**

Key points on historical capital investment:

- There has been reasonable achievement on delivering capital works in the reported period, generally close to 90% for all investment drivers.
- There was lower achievement on delivering renewals, generally mid 70%.

Part C: Revenue and financing arrangements

Revenue and charging arrangements

Charging and billing arrangements

A tariff structure or revenue strategy has not been developed or agreed for the joint WSE at this stage. However it is likely that the approach to setting fees and charges will be unchanged at the time of establishment, and that any new approach to setting charges will be implemented over time to minimize direct impacts on consumer groups.

- Central Otago District Council:
    - Charges a fixed targeted rate per connected or serviceable property (50%) in the district with no differential applied to non-residential connections. Central Otago District Council also charges a volumetric water rate, which is charged on all water use (no minimum entitlement), meaning high water users (whether residential or not) pay more.
    - Sets a base wastewater charge per connected or serviceable property (50%). Properties providing commercial accommodation or rest homes for the elderly are also charged for each additional pan/toilet connected to the network. There is no differential applied to the base charge for wastewater.
    - Sets stormwater charges as a uniform targeted rate. There are no differentials applied for non-residential properties.
- Clutha District Council
    - Sets a targeted rate for customers who receive potable water from an 'on demand' supply and a targeted rate for customers who receive potable water from a restricted urban supply (set at 85% of the on demand urban charge. The rate is a fixed charge, and is differentiated based on whether a property is connected or only serviceable (50%). No differential applies to non-residential properties. Metered properties are charged for all water used in excess of 366 m3 per annum.
    - Sets a rural water scheme rate for properties connected to rural water schemes. Rates are based on an entitlement to water ($1m^3$ per day per unit of entitlement), with some non-residential properties purchasing multiple units of entitlement. Rates differ per scheme. No differential applies for non-residential properties. Charges differ by scheme.
    - Sets a targeted uniform wastewater rate for all properties connected to a council wastewater scheme. Properties where a service is available but are not connected pay a serviceability charge based on 50% of the targeted rate. No other differentials apply and there are no charges for additional pans/toilets. Trade waste charges have been defined for the Clutha District but are not applied universally as yet as not all commercial properties have water meters.

- Sets stormwater charges as a uniform targeted rate with a differential applied based on whether properties receive a full or limited (50%) service. No other differentials apply.

- Gore District Council
  - Charges a water targeted rate per connected or serviceable (50%) property on the Gore and Mataura water schemes. For non-residential properties with more than one connection, the charge applies for each connection to the water network.
  - Additional fees apply for water usage for metered connections (non-residential high water users) where water usage exceeds 18m^3 per month. A lower cubic volumetric charge is applied to schools.
  - Charges a combined targeted rate for wastewater and stormwater within the district. The rate is charged on all connected or serviceable (50%) properties. Additional charges apply for non-residential properties based on the number of connected pans/toilets.
  - Charges additional fees for the disposal of trade waste, based on the volume of trade waste disposed.
  - Has a commercial agreement with the milk processing plant near Gore to address specific charging for trade waste via the MVM Wastewater Hub at the Gore Wastewater Treatment Plant.

The SWDW joint WSE will continue to set charges at a local level, including different charges at a scheme level on transition date. Decisions about the minimum, or maximum, time period that will apply to local charging are yet to be formalized and will be decided through the development of the shareholders agreement, transfer agreement and constitution of the joint WSE.

None of the charges under current arrangements are based on capital value or land value of connected properties, nor are they funded through any component of general rate. On this basis, there is no legislative requirement to change the basis of pricing. Any such change is likely to only occur to enable the WSE to achieve the outcomes that will be expected of it through the Statement of Expectations, or as a result of a transition toward full volumetric pricing.

The ability to set prices and charges will be fully transferred to the WSE on its establishment, and the establishment of the WSE will ensure financial separation of revenues and expenses.

Water services revenue requirements and sources

The detailed revenue requirements for the water services entity are outlined in Parts D and E of this plan and are not repeated here. In summary, the WSE is anticipated to require $101 million of total operating funding by 2033/34.

In addition, the WSE is expected to receive approximately $3 million of development contributions in the 2033/34 year. Estimated development contributions receipts are based on existing development contributions policies which have been development in accordance with DIA's published best practice guidance and within the current legislative settings.

It is expected that the WSE will review its approach towards development contributions (or development levies) after it has been established, and will seek to maximise revenue from this source.

The precise tariff and pricing structure for the new joint WSE will be developed by the WSE once it has been established. Financial information included in Part E describes all operating revenue as "fees and charges" as the future joint WSE will not have the power to set rates, and there are no known sources for operating grants. However, current revenue sources are approximately:

- 90% through uniform targeted rates, which will likely be replaced with fixed charges under a new WSE
- 5% through volumetric charges
- 5% through other user fees and charges which predominantly relate to connection fees and trade waste fees.
- Upon its establishment, all shareholding councils will transfer the ability to set revenue requirements and charges to the new WSE. It is expected that there may be an interim period where the new joint WSE contracts shareholding councils to provide billing services until appropriate systems have been implemented and tested.

Existing and projected commercial and industrial users' charges

The existing approach to charging across different consumer groups is outlined in the section titled "charging and billing arrangements" above. Across the serviced area, there are only minimal non-residential differentials that apply to the setting of charges.

Current estimates indicate that the following proportions of three waters revenue are received from residential water consumers, with the remaining proportion relating to non-residential use.

	Water	Wastewater	Stormwater
Central Otago District Council	80%	80%	80%
Clutha District Council	38%	96%	83%
Gore District Council	86%	96%	83%

No projections have been completed for water charges for non-residential water consumers as charges for these consumers typically relate to water consumption, connection size, or entitlement to water units. Given significant variations between the amount of water use in this consumer group, reporting average charges is not appropriate.

The financial modelling that is included in this report assumes no change in the proportion of three waters revenue that will be derived from residential versus non-residential consumers. This means annual percentage increases in three waters charges outlined in Part D of this plan are expected to apply equally to non-residential consumers.

Detailed three waters charges under the proposed model are outlined in Part D of this plan.

The affordability of projected water services charges for communities

Detailed projections regarding affordability of water charges are presented in Part D of this plan, and for individual councils under the alternative in-house business unit model (which has not been adopted) in Appendix One for the purposes of comparison with the proposed SWDW joint WSO.

However, it is noted that:

- Average residential three waters charges under the SWDW joint WSE model will increase by up to 110% in the period from 2024/25 to 2033/34. Much of this increase will occur before the establishment of the joint WSE, although prices will increase by approximately 15% in 2027/28.
- Average residential three waters charges, as a percentage of median household income, will increase from 2% in 2024/25 to 3.3% in 2033/34, increasing affordability pressures for some members of the community.
- The retention of local pricing will mean that affordability issues will be more acute in some districts than they will in other districts.
- The SWDW joint WSE model still provides the most affordable option for water consumers in its serviced area. It is estimated to require $13.2 million less revenue over the period from 2027/28 to 2033/34 than the alternative in house models, and these savings will be passed directly to water consumers.
- Over the longer term, the SWDW joint WSE is estimated to require a cumulative $392 million less revenue through to 2054.

The revenue savings described above would likely be distributed across residential and non-residential consumers alike. However, the ultimate tariff structure and revenue strategy to be adopted by the SWDW joint WSE will determine the extent to which benefits are shared across different consumer groups.

Funding and financing arrangements

Water services financing requirements and sources

This plan sets out the total borrowing requirements for a SWDW joint WSE over the 10-year period through to 2034. Detailed information regarding borrowing requirements is set out in Parts D and E of this plan. However at a high level it is noted that:

- By 2034, total water services borrowings are expected to reach $402.7 million
- Borrowing presented in this plan are net borrowings and exclude any provision for working capital. Working capital will most likely be obtained through liquidity facilities from lenders, with cash and debt having a net zero impact on projections.
- The joint WSE will ultimately determine its working capital requirements based on consideration of its billing cycle, and regular cash flow requirements. It is likely that the requirements will be between 1 – 3 months of annual expenditure.
- Projected borrowings remain within LGFA's FFO to debt covenants from 2030/31, and rely on LGFA's transitional arrangements prior to this date.

The final financial strategy of the SWDW joint WSE will be determined by the WSE's transitional board and Chief Executive as part of the financial workstream outlined in the implementation plan. However, for modelling purposes, and within this plan, the following high level strategy has been adopted:

- Depreciation is fully funded and cash surpluses generated from the funding of depreciation are applied towards the renewal of assets
- Capital investment to improve existing levels of service or service future growth are funded through external borrowings. This reflects that future water consumers benefit the most from this infrastructure and that assets have long lives.
- The entity will make use of development contributions to repay debt on growth projects wherever possible. Development contributions in this model are based on existing council projections. The WSE is likely to adopt existing development contributions policies from councils when it is first established. Any amended policy would be unlikely to result in increased development contributions receipts for a number of years due to delays between consents application and uplift.
- Local pricing will be maintained. Local price modelling has distributed any cost savings from the establishment of a joint WSE evenly across all councils, however the joint WSE may adopt its own approach to setting local prices. for the purposes of comparison with the proposed SWDW joint WSO
- Additional revenue will be levied where necessary to maintain lending covenants. Any additional revenue will be applied towards debt management through debt repayment or through funding of capital works which would have otherwise been funded through borrowings.
- The WSE is not intended to make a surplus, and any such surplus will be primarily for the purpose of debt management. No dividends will be payable.
- New borrowings are assumed to be derived through a mixture of fixed and floating rate debenture stock with a range of maturity dates. The WSE will likely employ hedging strategies to manage interest rate risk. However, this will be subject to the WSE's own treasury management policy which will be developed as part of the transition process.
- For modelling purposes an interest rate of 5.52% has been assumed. Debt is only repaid where cash surpluses provide for this, with debt being managed to stay within lending covenants having considered overall revenue requirements.

Internal borrowing arrangements

This plan relates to the establishment of a jointly owned WSE that will be legally separate from existing councils. Accordingly, internal borrowing arrangements will not be available to the WSE in the future. All existing water debt, including internal loans, is intended to be transferred to the WSE on transfer date.

Existing internal borrowing arrangements are outlined below, and these are not expected to be revised or amended prior to the establishment of a WSE.

Internal borrowing is currently used by:

- **Gore District Council** to a limited extent. Three waters activities currently borrow from other business units within Council, and no financing costs or repayment of that debt is provided for.

- **Clutha District Council**,manages lending as part of the council's internal treasury management function. Repayment of internal loans is managed as a table loan over a period of 10 – 25 years, with interest being applied based on council's annually reviewed internal rate of lending (currently 4.1%). All borrowing in recent years has been external.
- **Central Otago District Council** has no lending from any three water activities reserves to any other activities. However, there is lending from other activities to three water activities. Council has used available cash reserves to finance three water debt internally rather than using external debt funding in past. External debt is now being uplifted to pay down existing three water deficit reserves. LTP modelling shows Three water activities reserve in $8.0M deficit as at 30 June 2027. This includes deficit development contribution reserves as well.

  There is additional structured internal borrowing to water supply activity of $867,000 from other activities. This was started in 2015 with an expected full repayment by 2040. This internal borrowing is expected to have an outstanding balance of $540,700 as at 30 June 2027. This is not included in $8.0M deficit. Council has assumed that this will be repaid when the joint WSE is established. Interest is charged on all internal lending and deficit balances is based on the term deposit rates offered by BNZ on 1 July each year for a 12-month deposit of $1M.

Determination of debt attributed to water services

For all participating councils, three waters debt was agreed with the National Transition Unit (part of the Department of Internal Affairs) under the previous Government's Affordable Waters reform programme for the period ending 30 June 2022.

Since that date, the movement in three waters debt has been determined based on movements disclosed in the funding impact statements for each of the waters activities. This approach means that the movement in debt is determined through:

- Actual operating revenue received
- Less, cash operating costs
- Plus capital receipts (development contributions, vested assets and capital grants)
- Less capital expenditure incurred during the year.

Debt movements from 30 June 2024 are based on projected actual results and projected financial performance, and will be updated based on actual results.

No adjustments are made to the transferring debt balances to provide for the repayment of additional, or lower, amounts of three waters debt.

Insurance arrangements

The existing insurance arrangements for the councils that will form the SWDW joint WSE are outlined in the table below. No insurance or risk management approach has been determined by the joint WSE at this stage, and this will form part of the transitional, workstream for the WSE.

It is expected that the joint WSE will seek to have existing insurance arrangements transferred from councils. The SWDW joint WSE will also require additional insurances, including directors' and officers' insurance and business continuity insurance to manage revenue risk in the event of natural disaster.

The joint WSE will be expected to consider potential different approaches to insurance, including the level of excess, and self-insurance that it is willing to accept. Given the significant geographic area covered by the WSE, it is possible that the overall level of insurable risk may change once detailed risk modelling and analysis is completed.

Existing insurance details are outlined in the table on the next page.

Insurance element	Central Otago District Council	Clutha District Council	Gore District Council
Policy renewal date	1 November	30 June	• 1 November (underground) • 1 October (above ground)
Broker	AON	Insurance Brokers Alliance	• LAPP/AON (underground) • Willis Tower Watson (above ground)
Total level of cover for three waters infrastructure	$117,885,757.30	$54,793,755	• $300 million (underground) • $10 million civil infrastructure • $6 million building plant and contents
Total estimated replacement value of three waters infrastructure	$446,104,650.60	$148,418.58	$222 million
Reliance on the 60/40 assumption	For uninsured underground infrastructure only		For underground infrastructure only
Excess	Each and every loss or series of losses arising from one event $ 10,000 `. Some exceptions and additional deductibles apply.	10% of the loss with a minimum of $500,000 for flood damage. 1% ofr the loss with a minimum of $2,500 for Natural Disaster and Catastrophe	$100,000 (but claim threshold is $250,000)
Events covered	Material damage and complete loss of insured assets (i.e., vertical infrastructure only)	Material Damage and Natural Disaster	Natural Disaster
When the last insurance risk assessment/loss modelling was undertaken	Valuations are completed annually for water infrastructure. The latest valuations for all water assets are		June 2024

	from June/July 2025.		
What is the council's approach to self insurance?	Council relies upon debt headroom to self-insure underground infrastructure.	Council relies on self insurance for underground infrastructure.	Council is fully insured other than coverage of the deductible.
What existing delegations exist in relation to the management of Council's insurance of three waters assets?	Council makes decisions regarding major changes to insurance, such as new policies or removal of assets from policies. However, issues such as deductible values would be classed as operational and approved by ELT.		

Part D: Financial sustainability assessment

Confirmation of financially sustainable delivery of water services

This section provides information on the revenue sufficiency, financing sufficiency, and investment sufficiency tests for the sustainable future delivery of three waters services. It highlights that the SWDW joint WSE model:

- Generates sufficient revenue to provide operating surpluses and cash surpluses that ensure all operating costs are fully funded and the renewal of infrastructure is supported through depreciation recoveries.
- Generates sufficient revenue to support financing costs and meet lending covenants for the level of debt that is required by the WSE.
- Has planned for a level of investment in the network that is sufficient to meet known and anticipated regulatory compliance requirements and future growth.
- Can borrow sufficient funds to support delivery of that programme of work.

Actions required to achieve financially sustainable delivery of water services

The shareholding councils WSE recognise that the establishment of a joint WSE is the best path towards financial sustainability. This is mainly due to the large investment needed in water services. Without a change, councils would need to take on significant debt, which could either break existing lending rules or require a major increase in revenue.

Notwithstanding this, the joint WSE still presents affordability challenges that will need to be addressed. In particular:

- Water charges are still expected to need to increase by 110% between 2024/25 and 2033/34.
- Affordability, when measured through total water charges as a percentage of household income, will deteriorate from 2% to 3.3% over the ten-year modelling period.
- The WSE will take four years from its establishment until it achieves full compliance with the LGFA's FFO to debt lending covenants. Prior to this LGFA's transitional arrangements will be relied upon.

Achieving financial sustainability, and affordability for water consumers in the serviced area, will require:

- A dedicated emphasis and focus on efficiency and effectiveness
- Consideration of the tariff structure and effective use of development contributions (or development levies) to determine the appropriate balance of charges between future growth, existing water consumers, and non-residential users of water.
- Consider the prioritisation of capital works, and opportunities to take advantage of changes to the wastewater standards.
- Consider the development of a hardship policy as part of its waiver policy or any other mechanisms that may be available to address acute affordability issues in the serviced area.
- Seek external funding and grants wherever these are available.

- Seek to increase scale through allowing and encouraging other councils to join the model at a future date.

Modelling includes a capital programme that addresses all known and expected compliance standards and full funding of that programme through an appropriate use of debt. Modelling indicates that the total borrowing for the WSE will be compliant with relevant lending covenants through to 2054.

Risks and constraints to achieving financially sustainable delivery of water services

The anticipated risks and constraints that may impact on financially sustainable delivery of three waters services are outlined below:

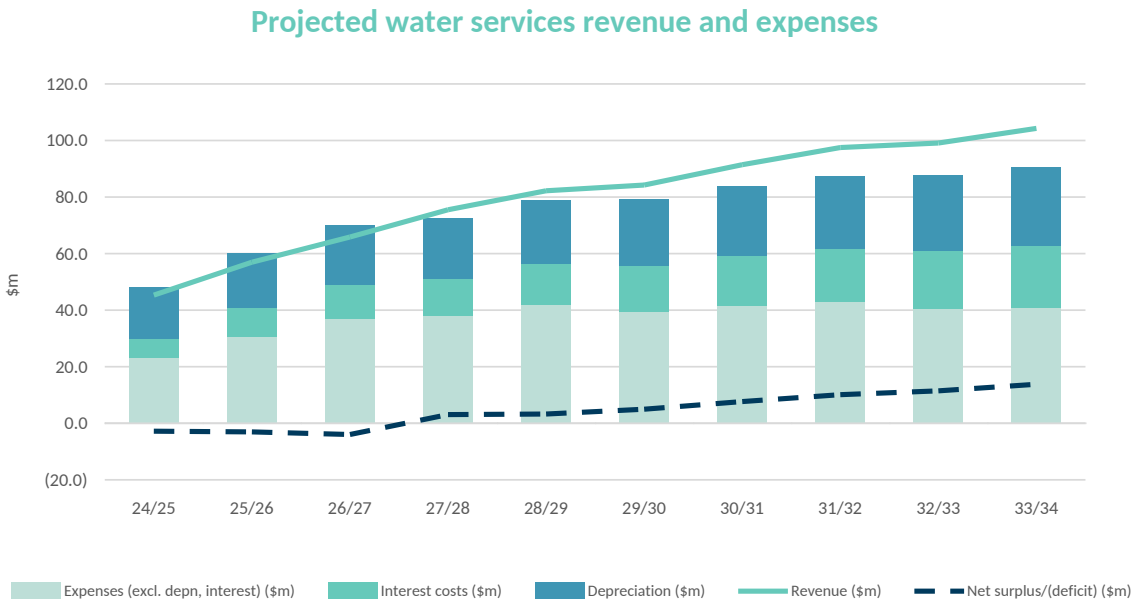
- **Unable to achieve efficiencies**. If the joint WSE is unable to achieve the modelled capital and operating efficiencies, charges to households will be higher than otherwise set out in this plan. Sensitivity testing (summarised in Appendix Two) indicates this could increase charges by a further 1.9% in 2034. The efficiency assumptions included in the underlying modelling are conservative, at 0.61% per annum (after inflation) for capital and 0.65% per annum (after inflation) for operating costs. This risk is considered low.
- **Capital cost inflation**. If the cost of capital investment exceeds modelled inflation, overall borrowing and revenue requirements are likely to exceed those set out in this plan. This would be managed through work programme prioritisation, or the use of existing borrowing headroom. Peer review of capital programmes by Utility New Zealand indicates a reasonable level of confidence in the existing estimates. Sensitivity testing of this scenario (summarised in Appendix Two) indicates that this could increase charges by a further 8.8% by 2034 (though increases would apply to all delivery models).
- **Capital programme expansion**. If the scope of capital works that is required expands beyond officers' current best estimates, then total borrowing and revenue requirements are likely to exceed those that are set out in the plan. This would be managed through work programme prioritisation, or the use of existing borrowing headroom. Peer review of capital programmes by Utility New Zealand indicates a reasonable level of confidence in the existing estimates. The impacts of this scenario are the same as the capital cost inflation risk.
- **Affordability constraints.** Modelling indicates that affordability constraints will likely increase over time. If the WSE needs to adopt a hardship policy as part of its waiver policy that includes remissions or postponements, it's overall cashflow may be impacted, and operating revenue shortfalls will need to be funded from elsewhere. This will need to be managed in financial forecasts and revenue policies for the WSE, which will need to be developed in conjunction with any waiver policy adopted by the WSE.
- **Implementation risk.** If the WSE is not successfully implemented and operational by 1 July 2027, there will be significant risks to future delivery, financing, revenue and investment. A detailed implementation plan is being developed, and implementation will be managed through a transitional WSE. Implementation will focus on a minimum viable change proposition to reduce risk of implementation.

Financial sustainability assessment - revenue sufficiency

Assessment of revenue sufficiency

The chart below shows projected revenue and expenditure for a SWDW joint WSE from the 2027/28 financial year, and of the combined councils prior to that. It shows the joint WSE generating operating surpluses from its first year, and an increasing proportion of its overall operating costs relating to financing costs as the WSE takes on more debt to fund its capital programme.

Surpluses generated by the WSE are used to manage overall borrowing requirements, by funding capital works and repaying debt where appropriate. Longer term financial modelling shows surpluses being maintained throughout the modelling period, and debt continuing to be used to fund anticipated capital works. No borrowing limits are exceeded during the modelling period, and operating surpluses average 11% of operating revenue for the next 30 years.



Average projected charges for water services over FY2024/25 to FY2033/34

Average projected household charges have been determined based on current estimates of the proportion of total revenue received from household from each service, divided by the number of residential connections. The estimates assume no change in the approach to setting charges between residential and non-residential users, and no change in underlying consumption of water for either group. They assume connection growth continues to occur based on current proportions of residential to non-residential connections.

Charges also represent the average charge across the service area for the SWDW joint WSE. Agreement to establish the SWDW joint WSE includes an agreement to commit to localised pricing. This means actual prices paid by consumers will depend on their geographic location, the level of local non-residential activity, and the approach adopted to development of a local price. The precise approach to price setting will be determined by the WSE in accordance with the water services strategy and the principles set out in the shareholders agreement, constitution, transfer agreement and statement of expectations.

On average residential prices will increase by 110% between 2024/25 and 2033/34, and prices as a percentage of household income will deteriorate from 2% to 3.3%. Despite these outcomes, the SWDW joint WSE provides the most affordable options for future water services delivery that is available to ratepayers in the serviced area.

Affordability constraints would be considered by the joint WSE as part of its waiver policy.

Financial projections prepared for this plan include conservative assumptions regarding potential operating and capital cost efficiencies, and do not fully reflect potential cost savings which may be able to be derived from new wastewater standards[2]. Given the scale and rural focus of the WSE it is expected that it will have a strong drive to manage costs and drive efficiencies, and this may result in lower charges.

To determine household charges as a percentage of household income, we have made the following assumptions regarding household median income:

- Household median income for the serviced area has been taken from Statistics New Zealand data for the 2023 year.
- Historic growth in median household income in the serviced area has been determined between 2013 and 2023 using Statistics New Zealand data, this shows median household income has increased 46.4% over the period.
- Historic change in the Local Government Cost Index (LGCI) for water infrastructure has been assessed during the same period. This has shown an increase of 39.9% during the period.
- This shows that household income in the serviced area has grown at 116% of the rate of water infrastructure costs (per the LGCI) over the previous 10 years. We have assumed this trend will continue.
- Financial modelling uses the LGCI inflators for water infrastructure. Household median income growth has been pegged to occur at 116% of this.

Projected average charge per residential connection (incl GST)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Drinking water	897	1,112	1,240	1,445	1,501	1,509	1,609	1,659	1,645	1,686
Wastewater	745	928	1,035	1,174	1,324	1,332	1,426	1,528	1,559	1,639
Stormwater	121	170	233	280	302	311	341	373	363	380
Average charge per connection / rating unit	**1,763**	**2,211**	**2,509**	**2,900**	**3,127**	**3,152**	**3,377**	**3,560**	**3,567**	**3,705**
Increase in average charge	32.9%	25.4%	13.5%	15.6%	7.8%	0.8%	7.1%	5.4%	0.2%	3.9%
Household charge as a percentage of median household income	**2.0%**	**2.4%**	**2.7%**	**3.0%**	**3.1%**	**3.1%**	**3.2%**	**3.3%**	**3.2%**	**3.3%**

[2] While the draft new wastewater standards are anticipated to result in cost reductions for wastewater plants within the serviced area, given these standards have not been finalised, and Councils have not undertaken the necessary work to re-scope planned upgrades, no savings have been included.

Projected operating surpluses/(deficits) for water services

The projected operating surplus and deficit information for a SWDW joint WSE is presented in the table below from the 2027/28 financial year onwards. Prior to this date the information presented is the combined forecasts of each of the constituent councils.

The information shows the new SWDW joint WSE maintaining an operating surplus throughout the modelling period. By 2034 this operating surplus equates to 10% of total operating income, driven by the need to maintain a 9% FFO to debt ratio and to provide sufficient headroom to deal with large capital investment that is anticipated to be required beyond 2034.

The operating surpluses also provide some financial resilience for the SWDW joint WSE, allowing for the WSE to manage higher than expected operating costs, or to provide additional relief to consumers suffering hardship.

Operating surpluses are applied towards the funding of capital works in the first instance, and where these surpluses exceed the value of capital works, they are applied toward the repayment of debt.

Operating surplus ratio (whether revenues cover costs)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating surplus/(deficit) excluding capital revenues – combined water services	(5,397)	(5,597)	(6,754)	501	536	2,154	4,855	7,216	8,519	10,789
Operating revenue – combined water services	42,727	54,407	63,088	72,934	79,485	81,426	88,616	94,611	96,161	101,275
Operating surplus ratio	**(12.6%)**	**(10.3%)**	**(10.7%)**	**0.7%**	**0.7%**	**2.6%**	**5.5%**	**7.6%**	**8.9%**	**10.7%**

Projected operating cash surpluses for water services

Operating cash surpluses for the SWDW joint WSE are presented in the table below from the 2027/28 financial year onwards. Prior to that, the financial information presented represents the combined projections for the constituent councils.

The data shows the joint WSE returning cash surpluses upwards of 50% of its operating revenue, reflecting the need to manage a large capital programme. From 2031 to 2034, the WSE generates a modest amount of borrowing headroom, meaning cash surpluses generated during this time are surplus to capital funding requirements. However, this borrowing headroom is required to address anticipated investment needs beyond 2034, and provides a level of resilience to respond to increased costs for capital works, or an increased programme of work.

Cash surpluses are generated, in part, as a result of the need to maintain an FFO to debt ratio of 9%. Cash surpluses are applied toward the funding of the capital programme preferentially. If cash surpluses remain after funding the capital programme, these are used to repay debt.

Operating cash ratio (whether revenues cover costs)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating surplus/(deficit) + depreciation + interest costs - capital revenues	19,552	23,713	26,004	34,864	37,678	42,132	46,903	51,591	55,765	60,427
Operating revenue – combined water services	42,727	54,407	63,088	72,934	79,485	81,426	88,616	94,611	96,161	101,275
Operating cash ratio	**45.8%**	**43.6%**	**41.2%**	**47.8%**	**47.4%**	**51.7%**	**52.9%**	**54.5%**	**58.0%**	**59.7%**

Financial sustainability assessment - investment sufficiency

Assessment of investment sufficiency

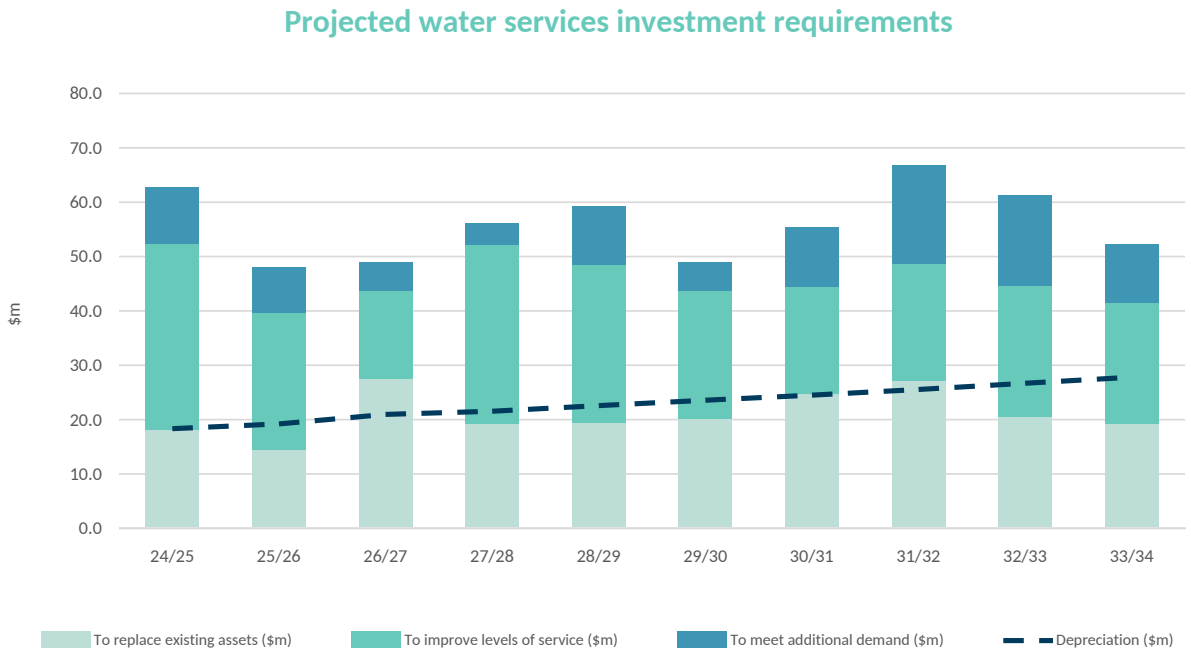
Assessment of investment sufficiency shows that the joint WSE's capital investment will exceed projected depreciation. Planned renewals investment, while not 100% of depreciation, will see 32% of current assets (based on book value) replaced in the 10 year period. The planned investment includes specific targeted investment to address:

- Necessary treatment plant upgrades in Cromwell, Ranfurly and Patearoa
- New water treatment plants in Omakau
- Upgrades to the Naseby water treatment plant to address increasing demand
- Upgrades and new wastewater treatment plants in Alexandra, Omakau, Lake Roxburgh, Ranfurly Naseby and Cromwell
- Replacement of significant water mains and reservoirs in Gore
- Centralisation of the Gore Water Treatment plant and construction of a Mataura river crossing
- Implementation of water meters in Gore
- Upgrades to the wastewater treatment plants in Gore and Mataura
- Separation or resolution of the combined wastewater and stormwater infrastructure in Gore and Mataura

Planned investment is expected to address all known existing and future compliance obligations and will support the delivery of safe, healthy drinking water throughout the service areas.

The investment included in this WSDP is fully funded through a mixture of revenue and debt. Cash surpluses generated by the joint WSE are first applied toward the funding of asset renewal, and subsequently toward the repayment of debt. Where cash surpluses are not sufficient to cover the entire planned renewals investment, additional debt is required.

Modelling reflects that borrowings remain within LGFA lending covenants, however there is minimal borrowing headroom available. This risk is mitigated in the event of the expansion of the group, as the joint WSE is likely to be able to access debt on more favourable terms if it is able to expand its geographic reach.


Projected water services investment requirements
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
$m
24/25
25/26
26/27
27/28
28/29
29/30
30/31
31/32
32/33
33/34
To replace existing assets ($m)
To improve levels of service ($m)
To meet additional demand ($m)
Depreciation ($m)

Renewals requirements for water services

Planned renewals investment is taken from each Council's long term plans and is consistent with long term plans, asset management plans and infrastructure strategies. No upward adjustments have been made to planned renewals costs. Capital works forecasts presented for the joint WSE include the impact of modelled capital expenditure efficiencies.

Planning for renewals investment includes consideration of age, criticality, risk, condition and performance to varying degrees across the SWDW councils. At a minimum, forecast renewals are based on asset age, meaning renewal expenditure may not match depreciation in any given year, but may over a longer time frame.

Measurement of the asset sustainability ratio for the SWDW councils shows investment in renewals over the period through to 2034 is 91% of depreciation over the same time period. Total renewals investment over this time period is $210 million, equivalent to 32% of the current net book value of all assets.

Asset sustainability ratio ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Capital expenditure on renewals – all water services assets	18,085	14,483	27,474	19,290	19,384	20,052	24,828	27,063	20,467	19,169
Depreciation – all water services assets	18,333	19,209	20,959	21,540	22,575	23,566	24,504	25,545	26,690	27,804
Asset sustainability ratio	**(1.4%)**	**(24.6%)**	**31.1%**	**(10.4%)**	**(14.1%)**	**(14.9%**	**1.3%**	**5.9%**	**(23.3%)**	**(31.1%)**

Total water services investment required over 10 years

Planned investment included in this WSDP has been adopted from long term plans with no planned increase in water services investment beyond that outlined in the relevant plans. No smoothing has been applied to the capital works programme. It is anticipated that the joint WSE will develop its own capital works programmes that reflect a smoother capital programme, having regard to the relative priority of projects identified by the constituent councils. Any smoothing, rephasing or reprioritisation of the capital works programme by the joint WSE will need to be consistent with the joint WSE's statement of expectations and water services strategy.

Capital works forecasts presented for the joint WSE include the impact of modelled capital expenditure efficiencies.

Investment planning approaches adopted by the constituent councils are consistent with the approach used for the development of their Long Term Plans, Asset Management Plans and Infrastructure Strategy. These differ across councils, in general this involved:

- Consideration of the criticality, performance, age, and external factors (e.g. consents) of existing assets
- Consideration of the market's ability to deliver capital works, and each council's ability to support that delivery
- Consideration of affordability constraints and funding envelopes.

This means that the capital programme includes a level of moderation for affordability and deliverability. The programme represents an uplift in investment across the joint WSE's service area and includes all investment that is considered necessary for regulatory compliance.

Planned investment in three waters infrastructure is more than double the depreciation of existing infrastructure. Total investment through to 2034 equals 85% of the book value (and 45% of the replacement cost) of existing three waters infrastructure as at 30 June 2025.

Asset investment ratio ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Total capital expenditure – all water services assets	62,840	48,036	48,968	56,195	59,264	49,045	55,468	66,919	61,306	52,268
Depreciation – all water services assets	18,333	19,209	20,959	21,540	22,575	23,566	24,504	25,545	26,690	27,804
Asset investment ratio	**242.8%**	**150.1%**	**133.6%**	**160.9%**	**162.5%**	**108.1%**	**126.4%**	**162.0%**	**129.7%**	**88.0%**

Average remaining useful life of network assets

Across the combined area, assets are on average, 53% of the way through their remaining useful lives. At a more detailed level, there is significant variation in useful lives of assets across council areas, activity, or suburbs/serviced areas.

Planned investment, across the network, is expected to occur faster than the deterioration of assets. Improvement in the asset sustainability ratio is mainly reflective of growth in the asset base (through investment in new or expanded infrastructure to meet increased demand or levels of service), however as highlighted by the asset sustainability ratio, planned network renewals are expected to be around 91% of the depreciation of assets (on average) through to 2034.

Asset consumption ratio ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Book value of water infrastructure assets	654,300	696,213	738,146	787,564	840,005	882,284	930,893	990,885	1,045,318	1,090,688
Replacement value of water infrastructure assets	1,243,926	1,302,358	1,349,898	1,413,801	1,481,956	1,540,589	1,602,040	1,673,937	1,748,255	1,816,319
Asset consumption ratio	**52.6%**	**53.5%**	**54.7%**	**55.7%**	**56.7%**	**57.3%**	**58.1%**	**59.2%**	**59.8%**	**60.0%**

Financial sustainability assessment - financing sufficiency

Financial analysis of the SWDW joint WSE indicates that the model can deliver financially sustainable water services to all of its communities at a lower cost than would otherwise be able to be achieved by its constituent councils through an in-house delivery model. Modelling indicates that, based on the modelled capital programme and revenue projections:

- Debt will remain within lending limits that are likely to be set by LGFA based on its guidance of April 2025
- There will only be modest additional borrowing headroom over the modelled period. This headroom will be necessary to support anticipated investment needs beyond 2034. This creates financing risk for the entity, particularly in relation to natural disaster recovery, and will require careful consideration regarding insurance cover and further review of the joint WSE's revenue setting and pricing strategies. It is noted that establishing a 1% FFO to debt "buffer" in the proposed model would increase three waters revenue requirements by 2.4% in 2034 and would result in further affordability issues.
- A total of $406 million of total borrowings by 2034.
- Given compliance with LGFA's April guidance, there are no expected barriers for the SWDW joint WSE to obtain the required borrowing. For additional context, it is noted that:
    - The joint WSE will be established with approximately $232 million of external debt. Specific transfer agreements have yet to be determined but will involve a transfer of existing debt from councils to the new water entity. In this regard, there is no increased demand for debt from the credit market.
    - Annual projected increases in borrowings for the joint WSE are broadly consistent with existing increases in borrowing across the three councils. To date the constituent councils have not faced barriers in accessing debt from the market.

Total council borrowing, post formation of the joint WSE, remains within lending limits for the constituent councils.

The risks associated with low levels of borrowing headroom would be able to be partially mitigated through further aggregation, which would minimise the impact of capital cost escalation and provide access to debt on more favourable terms.

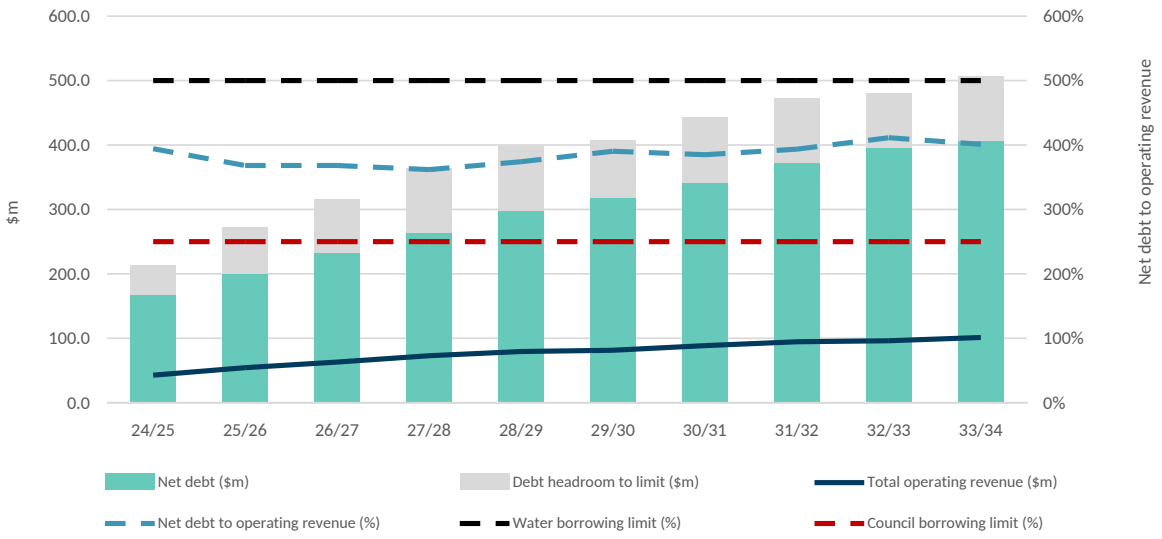
Projected water services borrowings against borrowing limits

Projected three waters debt to revenue performance is shown in the chart below. It includes the aggregated results in in the 2024/25 – 2026/27 financial years, and the debt and revenue profiles for the SWDW joint WSE from the 2027/28 financial year onwards.

It shows three waters debt to revenue peaking at around 411% through the joint WSE model in 2033. While a 500% debt to revenue limit is highlighted in the chart below, modelling has been completed for conformance to the LGFA's advised FFO to Debt ratios. This results in a debt to revenue ratio less than 500%, and modelled revenue only provides for modest amounts of headroom throughout the modelling period.

If additional borrowing headroom is required, this would have the likely impact of increasing overall charges to water consumers, as highlighted through the summarised results of sensitivity testing in Appendix Two. The counterfactual position for in-house delivery would be less sensitive to this assumption due to the application of lending covenants at a whole of council level.

Projected water services net debt to operating revenue



Projected council borrowings against borrowing limits for each council are presented in the section titled "Disaggregated council information".

Projected borrowings for water services

Projected borrowings for three waters services are shown in the table below. They include the aggregated results in the 2024/25 – 2026/27 financial years, and the debt and revenue profiles for the SWDW joint WSE from the 2027/28 financial year onwards. Over the ten years shown in the plan, debt increases by 141%, reflective of a significant programme of capital works. Growth in debt is broadly consistent throughout the modelling period, reflective of a relatively stable programme of capital works.

Despite compliance with a 9% FFO to debt ratio, total lending for three waters activities remains below 400% of three waters revenue. While lending does not exceed earlier government guidance of 500%, the SWDW joint WSE is not fully compliant with LGFA's FFO to debt lending covenant until 2030/31. A delay in meeting the FFO to debt lending covenant is consistent with LGFA guidance which indicates a transitional period will apply, and LGFA's transitional arrangements have been relied upon to manage the affordability impacts of transition to a new WSE.

Net debt to operating revenue ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Net debt attributed to water services (gross debt less cash)	168,433	200,310	232,290	263,877	297,298	317,805	341,095	372,357	395,511	406,178
Operating revenue – combined water services	42,727	54,407	63,088	72,934	79,485	81,426	88,616	94,611	96,161	101,275
Net debt to operating revenue %	**394%**	**368%**	**368%**	**362%**	**374%**	**390%**	**385%**	**394%**	**411%**	**401%**

Borrowing headroom/(shortfall) for water services

The table below shows three waters debt and three waters revenue for the SWDW councils. For the financial years 2024/25 – 2026/27 it shows the aggregated three waters revenue and debt of the constituent councils. From the 2027/28 financial year onwards this shows the debt and revenue position of the SWDW WSE.

The data shows a significant (14%) increase in three waters revenue requirements in 2027/28. This uplift in required revenue, while significant, is lower than the alternative scenario of councils continuing to deliver three waters services through an in-house delivery model (which would have required the combined three waters revenue across the councils to increase by 18% to $77.7 million in the same year).

Borrowing headroom, when measured against a 500% debt to revenue ratio, exists throughout the modelling period. However, per LGFA guidance released in April 2025, the relevant lending covenants for a WSE will be an FFO to debt metric. Under an FFO metric, the SWDW joint WSE will have modest amounts of borrowing headroom available from 2030/31.

Performance against the FFO to debt metric is outlined in the following section.

Borrowing headroom/(shortfall) against limit ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating revenue	42,727	54,407	63,088	72,934	79,485	81,426	88,616	94,611	96,161	101,275
Debt to revenue limit for water services (%)	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt at borrowing limit	**213,636**	**272,034**	**315,439**	**364,669**	**397,424**	**407,128**	**443,081**	**473,056**	**480,806**	**506,373**
Projected net debt attributed to water services	168,433	200,310	232,290	263,877	297,298	317,805	341,095	372,357	395,511	406,178
Borrowing headroom/(shortfall) against limit	**45,204**	**71,724**	**83,149**	**100,792**	**100,125**	**89,324**	**101,986**	**100,698**	**85,295**	**100,195**

Free funds from operations

The table below shows projected Free Funds From Operations (FFO) to Net Debt ratio for the SWDW joint WSE and the aggregated position of the three councils through to the end of the 2026/27 financial year.

Based on LGFA's letter to councils of April 2025, the SWDW joint WSE would be required to comply with an FFO to debt ratio of 9%, and would be entitled to consider 50% of its development contributions receipts as part of that assessment. The results presented in the table below therefore include 50% of development contributions receipts and show conformance with the FFO requirements by 2030/2031. The SWDW joint WSE makes use of the LGFA's guidance that newly formed WSEs will have up to five years to be fully compliant with lending covenants to manage overall affordability.

Revenue and debt have been modelled for compliance with the LGFA lending requirements, with modest provision of additional lending headroom. This creates risk particularly in the event of capital cost escalation or expansion of the capital work programme. This additional lending capacity is necessary to manage large projected capital expenditure in years beyond 2034 without significant immediate increased to charges.

Given projected debt constraints for individual councils, risks relating to capital programme escalation/expansion would apply equally to all available delivery models.

Free funds from operations ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Projected net debt attributed to water services	168,433	200,310	232,290	263,877	297,298	317,805	341,095	372,357	395,511	406,178
Projected free funds from operations – water services	14,233	14,886	15,596	23,325	24,477	27,129	30,768	34,209	36,681	40,097
Free funds from operations to net debt ratio	**8.5%**	**7.4%**	**6.7%**	**8.8%**	**8.2%**	**8.5%**	**9.0%**	**9.2%**	**9.3%**	**9.9%**
Borrowing headroom	**(10,290)**	**(34,915)**	**(59,000)**	**(4,715)**	**(25,330)**	**(16,369)**	**771**	**7,741**	**12,054**	**39,349**

Part E: Projected financial statements for water services

The financial statements presented in this part include:

- The aggregated statements of each of the three participating council for financial years 2024/25 through 2026/27.
- The financial statements of the SWDW proposed joint WSE from 2027/28 to 2033/34

The statements incorporate the joint investment needs for the three councils, as well as projected debt and revenue requirements for the joint WSE over the ten-year period. The statements also reflect the impact of operating and capital efficiencies that are expected to be derived from the improved operating model, increased scale, and financial independence of the joint WSE.

Efficiencies are assumed to commence from (and including) the joint WSE's third year of operation (2029/30) and have been modelled at 0.65% of operating costs and 0.61% of capital costs (after inflation) per year, compounding. Efficiencies are assumed to be fully realised by the end of the joint WSE's 12th year of operation (2038/39). Advice obtained from Concept Consulting indicates that these efficiencies are conservative.

In reviewing the financial statements presented in this section, the proposed joint WSE model will include the separation of mixed-use rural water schemes from drinking water schemes at a management and governance level. The financial information for mixed use rural water supply schemes has not been separated from drinking water schemes for the purposes of this WSDP. However, it is anticipated that the joint WSE will maintain financial separation of mixed-use rural schemes and drinking water schemes when it is established.

Combined water services

Projected funding impact statement

Projected funding impact statement	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Sources of operating funding										
General rates	0	0	0	0	0	0	0	0	0	0
Targeted rates	40,217	51,934	60,502	0	0	0	0	0	0	0
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other	0	0	0	0	0	0	0	0	0	0
Fees and charges	2,510	2,472	2,586	72,934	79,485	81,426	88,616	94,611	96,161	101,275
Total sources of operating funding	**42,727**	**54,407**	**63,088**	**72,934**	**79,485**	**81,426**	**88,616**	**94,611**	**96,161**	**101,275**
Applications of operating funding										
Payments to staff and suppliers	19,859	26,142	30,257	38,070	41,806	39,294	41,714	43,021	40,396	40,847

Finance costs	6,616	10,101	11,799	12,823	14,567	16,412	17,544	18,830	20,555	21,834
Internal charges and overheads applied	3,316	4,552	6,827	0	0	0	0	0	0	0
Other operating funding applications	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	**29,791**	**40,795**	**48,883**	**50,893**	**56,373**	**55,706**	**59,258**	**61,850**	**60,952**	**62,681**
Surplus/(deficit) of operating funding	**12,936**	**13,612**	**14,205**	**22,041**	**23,111**	**25,720**	**29,359**	**32,761**	**35,210**	**38,593**
Source of capital funding										
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	2,593	2,547	2,782	2,568	2,731	2,818	2,818	2,896	2,943	3,008
Increase/(decrease) in debt	47,311	31,877	31,981	31,587	33,421	20,507	23,290	31,262	23,153	10,667
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	**49,904**	**34,425**	**34,763**	**34,155**	**36,152**	**23,325**	**26,109**	**34,158**	**26,096**	**13,675**
Applications of capital funding										
Capital expenditure - to meet additional demand	10,418	8,412	5,271	3,960	10,802	5,273	10,941	18,194	16,652	10,679
Capital expenditure - to improve levels of services	34,337	25,141	16,222	32,945	29,077	23,720	19,699	21,662	24,187	22,419
Capital expenditure - to replace existing assets	18,085	14,483	27,474	19,290	19,384	20,052	24,828	27,063	20,467	19,169
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0
Total applications of capital funding	**62,840**	**48,036**	**48,968**	**56,195**	**59,264**	**49,045**	**55,468**	**66,919**	**61,306**	**52,268**
Surplus/(deficit) of capital funding	**(12,936)**	**(13,612)**	**(14,205)**	**(22,041)**	**(23,111)**	**(25,720)**	**(29,359)**	**(32,761)**	**(35,210)**	**(38,593)**
Funding balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Revenue										
Operating revenue	42,727	54,407	63,088	72,934	79,485	81,426	88,616	94,611	96,161	101,275
Other revenue	2,593	2,547	2,782	2,568	2,731	2,818	2,818	2,896	2,943	3,008
Total revenue	**45,320**	**56,954**	**65,870**	**75,502**	**82,216**	**84,244**	**91,435**	**97,507**	**99,104**	**104,282**
Expenses										
Operating expenses	19,859	26,142	30,257	38,070	41,806	39,294	41,714	43,021	40,396	40,847
Finance costs	6,616	10,101	11,799	12,823	14,567	16,412	17,544	18,830	20,555	21,834
Overheads and support costs	3,316	4,552	6,827	0	0	0	0	0	0	0
Depreciation & amortisation	18,333	19,209	20,959	21,540	22,575	23,566	24,504	25,545	26,690	27,804
Total expenses	**48,124**	**60,004**	**69,842**	**72,433**	**78,948**	**79,272**	**83,761**	**87,395**	**87,642**	**90,486**
Net surplus/(deficit)	**(2,804)**	**(3,050)**	**(3,972)**	**3,069**	**3,268**	**4,972**	**7,673**	**10,112**	**11,462**	**13,797**
Revaluation of infrastructure assets	11,957	13,086	13,924	14,763	15,751	16,800	17,646	18,618	19,818	20,906
Total comprehensive income	**9,153**	**10,036**	**9,952**	**17,832**	**19,019**	**21,772**	**25,319**	**28,730**	**31,279**	**34,703**
Cash surplus/(deficit) from operations (ex non-cash items)	**15,529**	**16,159**	**16,987**	**24,609**	**25,843**	**28,538**	**32,177**	**35,657**	**38,152**	**41,601**

Projected statement of cashflows

Projected statement of cashflows	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Cashflows from operating activities										
Cash surplus/(deficit) from operations	15,529	16,159	16,987	24,609	25,843	28,538	32,177	35,657	38,152	41,601
[Other items]										
Net cashflows from operating activities	**15,529**	**16,159**	**16,987**	**24,609**	**25,843**	**28,538**	**32,177**	**35,657**	**38,152**	**41,601**
Cashflows from investing activities										
[Other items]										
Capital expenditure – infrastructure assets	(62,840)	(48,036)	(48,968)	(56,195)	(59,264)	(49,045)	(55,468)	(66,919)	(61,306)	(52,268)
Net cashflows from investing activities	**(62,840)**	**(48,036)**	**(48,968)**	**(56,195)**	**(59,264)**	**(49,045)**	**(55,468)**	**(66,919)**	**(61,306)**	**(52,268)**
Cashflows from financing activities										
New borrowings	47,311	31,877	31,981	31,587	33,421	20,507	23,290	31,262	23,153	10,667
Repayment of borrowings										
Net cashflows from financing activities	**47,311**	**31,877**	**31,981**	**31,587**	**33,421**	**20,507**	**23,290**	**31,262**	**23,153**	**10,667**
Net increase/(decrease) in cash and cash equivalents	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of financial position

Projected statement of financial position	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Assets										
Cash and cash equivalents	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	654,300	696,213	738,146	787,564	840,005	882,284	930,893	990,885	1,045,318	1,090,688
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Total assets	**654,300**	**696,213**	**738,146**	**787,564**	**840,005**	**882,284**	**930,893**	**990,885**	**1,045,318**	**1,090,688**
Liabilities										
Borrowings – current portion	168,535	200,536	232,625	264,212	297,633	318,158	341,083	371,140	393,188	402,762
Other current liabilities	0	0	0	0	0	0	0	0	0	0
Borrowings – non-current portion	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0
Total liabilities	**168,535**	**200,536**	**232,625**	**264,212**	**297,633**	**318,158**	**341,083**	**371,140**	**393,188**	**402,762**
Net assets	**485,764**	**495,677**	**505,521**	**523,352**	**542,372**	**564,125**	**589,810**	**619,745**	**652,130**	**687,926**
Equity										
Revaluation reserves	11,957	25,043	38,967	53,730	69,481	86,281	103,927	122,545	142,363	163,269
Other reserves	473,808	470,634	466,554	469,623	472,890	477,844	485,883	497,200	509,767	524,657
Total equity	**485,764**	**495,677**	**505,521**	**523,352**	**542,372**	**564,125**	**589,810**	**619,745**	**652,130**	**687,926**

Stormwater

Projected funding impact statement

Projected funding impact statement	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Sources of operating funding										
General rates	0	0	0	0	0	0	0	0	0	0
Targeted rates	2,382	3,426	4,784	0	0	0	0	0	0	0
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other	0	0	0	0	0	0	0	0	0	0
Fees and charges	0	0	0	5,969	6,540	6,850	7,635	8,473	8,373	8,892
Total sources of operating funding	**2,382**	**3,426**	**4,784**	**5,969**	**6,540**	**6,850**	**7,635**	**8,473**	**8,373**	**8,892**
Applications of operating funding										
Payments to staff and suppliers	767	1,261	2,046	2,465	2,808	2,543	2,827	3,073	2,466	2,496
Finance costs	466	578	711	977	1,084	1,420	1,613	1,870	2,209	2,391
Internal charges and overheads applied	96	324	620	0	0	0	0	0	0	0
Other operating funding applications	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	**1,328**	**2,163**	**3,376**	**3,443**	**3,892**	**3,962**	**4,440**	**4,943**	**4,675**	**4,888**
Surplus/(deficit) of operating funding	**1,054**	**1,263**	**1,408**	**2,526**	**2,648**	**2,887**	**3,195**	**3,530**	**3,698**	**4,005**
Source of capital funding										
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in debt	1,575	1,132	5,244	1,937	6,075	3,503	4,655	6,130	3,310	6,969
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	**1,575**	**1,132**	**5,244**	**1,937**	**6,075**	**3,503**	**4,655**	**6,130**	**3,310**	**6,969**
Applications of capital funding										
Capital expenditure - to meet additional demand	87	45	46	3	3	3	3	3	3	3
Capital expenditure - to improve levels of services	1,096	959	2,927	2,321	7,413	4,193	5,467	8,007	5,614	9,561
Capital expenditure - to replace existing assets	1,446	1,391	3,679	2,140	1,307	2,195	2,380	1,649	1,392	1,409
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0
Total applications of capital funding	**2,628**	**2,395**	**6,653**	**4,463**	**8,723**	**6,390**	**7,850**	**9,659**	**7,008**	**10,973**
Surplus/(deficit) of capital funding	**(1,054)**	**(1,263)**	**(1,408)**	**(2,526)**	**(2,648)**	**(2,887)**	**(3,195)**	**(3,530)**	**(3,698)**	**(4,005)**
Funding balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Revenue										
Operating revenue	2,382	3,426	4,784	5,969	6,540	6,850	7,635	8,473	8,373	8,892
Other revenue	0	0	0	0	0	0	0	0	0	0
Total revenue	**2,382**	**3,426**	**4,784**	**5,969**	**6,540**	**6,850**	**7,635**	**8,473**	**8,373**	**8,892**
Expenses										
Operating expenses	767	1,261	2,046	2,465	2,808	2,543	2,827	3,073	2,466	2,496
Finance costs	466	578	711	977	1,084	1,420	1,613	1,870	2,209	2,391
Overheads and support costs	96	324	620	0	0	0	0	0	0	0
Depreciation & amortisation	2,269	2,294	2,379	2,526	2,648	2,786	2,912	3,069	3,230	3,405
Total expenses	**3,597**	**4,457**	**5,755**	**5,969**	**6,540**	**6,748**	**7,352**	**8,012**	**7,905**	**8,293**
Net surplus/(deficit)	**(1,215)**	**(1,031)**	**(971)**	**0**	**0**	**102**	**283**	**461**	**469**	**599**
Revaluation of infrastructure assets	1,425	1,461	1,492	1,608	1,679	1,834	1,942	2,080	2,253	2,374
Total comprehensive income	**210**	**431**	**521**	**1,608**	**1,679**	**1,935**	**2,225**	**2,541**	**2,722**	**2,973**
Cash surplus/(deficit) from operations (ex non-cash items)	**1,054**	**1,263**	**1,408**	**2,526**	**2,648**	**2,887**	**3,195**	**3,530**	**3,698**	**4,005**

Projected statement of cashflows

Projected statement of cashflows	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Cashflows from operating activities										
Cash surplus/(deficit) from operations	1,054	1,263	1,408	2,526	2,648	2,887	3,195	3,530	3,698	4,005
[Other items]	0	0	0	0	0	0	0	0	0	0
Net cashflows from operating activities	**1,054**	**1,263**	**1,408**	**2,526**	**2,648**	**2,887**	**3,195**	**3,530**	**3,698**	**4,005**
Cashflows from investing activities										
[Other items]										
Capital expenditure – infrastructure assets	(2,628)	(2,395)	(6,653)	(4,463)	(8,723)	(6,390)	(7,850)	(9,659)	(7,008)	(10,973)
Net cashflows from investing activities	**(2,628)**	**(2,395)**	**(6,653)**	**(4,463)**	**(8,723)**	**(6,390)**	**(7,850)**	**(9,659)**	**(7,008)**	**(10,973)**
Cashflows from financing activities										
New borrowings	1,575	1,132	5,244	1,937	6,075	3,503	4,655	6,130	3,310	6,969
Repayment of borrowings										

Net cashflows from financing activities	**1,575**	**1,132**	**5,244**	**1,937**	**6,075**	**3,503**	**4,655**	**6,130**	**3,310**	**6,969**
Net increase/(decrease) in cash and cash equivalents	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of financial position

Projected statement of financial position	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Assets										
Cash and cash equivalents	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	73,054	74,616	80,382	83,927	91,681	97,119	104,000	112,670	118,702	128,644
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Total assets	**73,054**	**74,616**	**80,382**	**83,927**	**91,681**	**97,119**	**104,000**	**112,670**	**118,702**	**128,644**
Liabilities										
Borrowings – current portion	11,330	12,462	17,706	19,643	25,719	29,222	33,877	40,007	43,317	50,286
Other current liabilities	0	0	0	0	0	0	0	0	0	0
Borrowings – non-current portion	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0
Total liabilities	**11,330**	**12,462**	**17,706**	**19,643**	**25,719**	**29,222**	**33,877**	**40,007**	**43,317**	**50,286**
Net assets	**61,724**	**62,155**	**62,676**	**64,284**	**65,962**	**67,897**	**70,122**	**72,663**	**75,385**	**78,359**
Equity										
Revaluation reserves	1,425	2,886	4,379	5,986	7,665	9,499	11,441	13,521	15,774	18,148
Other reserves	60,299	59,268	58,297	58,297	58,297	58,399	58,682	59,142	59,611	60,210
Total equity	**61,724**	**62,155**	**62,676**	**64,284**	**65,962**	**67,897**	**70,122**	**72,663**	**75,385**	**78,359**

Drinking water

Projected funding impact statement

Projected funding impact statement	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Sources of operating funding										
General rates	0	0	0	0	0	0	0	0	0	0
Targeted rates	24,010	30,710	35,602	0	0	0	0	0	0	0
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other	0	0	0	0	0	0	0	0	0	0
Fees and charges	923	934	979	42,200	44,583	45,571	49,418	51,775	52,189	54,347
Total sources of operating funding	**24,933**	**31,644**	**36,581**	**42,200**	**44,583**	**45,571**	**49,418**	**51,775**	**52,189**	**54,347**
Applications of operating funding										
Payments to staff and suppliers	12,751	16,129	18,404	23,178	24,398	23,671	25,074	25,360	23,954	24,307
Finance costs	4,132	6,624	7,929	8,549	9,272	9,625	10,053	10,369	10,979	11,037
Internal charges and overheads applied	1,624	1,947	3,334	0	0	0	0	0	0	0
Other operating funding applications	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	**18,507**	**24,700**	**29,668**	**31,727**	**33,670**	**33,296**	**35,128**	**35,729**	**34,934**	**35,343**
Surplus/(deficit) of operating funding	**6,426**	**6,943**	**6,913**	**10,473**	**10,913**	**12,275**	**14,291**	**16,046**	**17,255**	**19,004**
Source of capital funding										
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	1,424	1,406	1,510	1,408	1,496	1,539	1,542	1,584	1,609	1,645
Increase/(decrease) in debt	34,524	26,034	16,315	13,091	6,398	7,765	5,714	11,062	1,037	(1,433)
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	**35,948**	**27,440**	**17,826**	**14,499**	**7,894**	**9,304**	**7,256**	**12,646**	**2,646**	**213**
Applications of capital funding										
Capital expenditure - to meet additional demand	4,628	6,248	3,481	1,323	3,524	2,707	7,611	7,507	5,151	3,249
Capital expenditure - to improve levels of services	27,576	20,087	7,525	14,157	7,685	9,148	3,771	5,329	5,217	5,853
Capital expenditure - to replace existing assets	10,170	8,048	13,734	9,492	7,598	9,724	10,165	15,856	9,534	10,114
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0
Total applications of capital funding	42,374	34,384	24,739	24,972	18,807	21,579	21,547	28,692	19,901	19,216
Surplus/(deficit) of capital funding	**(6,426)**	**(6,943)**	**(6,913)**	**(10,473)**	**(10,913)**	**(12,275)**	**(14,291)**	**(16,046)**	**(17,255)**	**(19,004)**
Funding balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Revenue										
Operating revenue	24,933	31,644	36,581	42,200	44,583	45,571	49,418	51,775	52,189	54,347
Other revenue	1,424	1,406	1,510	1,408	1,496	1,539	1,542	1,584	1,609	1,645
Total revenue	**26,357**	**33,050**	**38,091**	**43,608**	**46,078**	**47,110**	**50,961**	**53,359**	**53,798**	**55,992**
Expenses										
Operating expenses	12,751	16,129	18,404	23,178	24,398	23,671	25,074	25,360	23,954	24,307
Finance costs	4,132	6,624	7,929	8,549	9,272	9,625	10,053	10,369	10,979	11,037
Overheads and support costs	1,624	1,947	3,334	0	0	0	0	0	0	0
Depreciation & amortisation	8,396	9,011	10,110	10,214	10,622	11,010	11,407	11,820	12,233	12,626
Total expenses	**26,903**	**33,711**	**39,777**	**41,941**	**44,292**	**44,306**	**46,535**	**47,548**	**47,167**	**47,969**
Net surplus/(deficit)	**(546)**	**(661)**	**(1,686)**	**1,666**	**1,786**	**2,804**	**4,426**	**5,810**	**6,631**	**8,023**
Revaluation of infrastructure assets	5,617	6,409	7,045	7,478	7,923	8,245	8,621	8,997	9,514	9,858
Total comprehensive income	**5,072**	**5,748**	**5,359**	**9,145**	**9,709**	**11,049**	**13,047**	**14,807**	**16,145**	**17,881**
Cash surplus/(deficit) from operations (ex non-cash items)	**7,850**	**8,349**	**8,424**	**11,881**	**12,408**	**13,814**	**15,833**	**17,630**	**18,864**	**20,649**

Projected statement of cashflows

Projected statement of cashflows	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Cashflows from operating activities										
Cash surplus/(deficit) from operations	7,850	8,349	8,424	11,881	12,408	13,814	15,833	17,630	18,864	20,649
[Other items]										
Net cashflows from operating activities	**7,850**	**8,349**	**8,424**	**11,881**	**12,408**	**13,814**	**15,833**	**17,630**	**18,864**	**20,649**
Cashflows from investing activities										
[Other items]										
Capital expenditure – infrastructure assets	(42,374)	(34,384)	(24,739)	(24,972)	(18,807)	(21,579)	(21,547)	(28,692)	(19,901)	(19,216)
Net cashflows from investing activities	**(42,374)**	**(34,384)**	**(24,739)**	**(24,972)**	**(18,807)**	**(21,579)**	**(21,547)**	**(28,692)**	**(19,901)**	**(19,216)**
Cashflows from financing activities										
New borrowings	**34,524**	**26,034**	**16,315**	**13,091**	**6,398**	**7,765**	**5,714**	**11,062**	**1,037**	**(1,433)**
Repayment of borrowings										
Net cashflows from financing activities	**34,524**	**26,034**	**16,315**	**13,091**	**6,398**	**7,765**	**5,714**	**11,062**	**1,037**	**(1,433)**
Net increase/(decrease) in cash and cash equivalents	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of financial position

Projected statement of financial position	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Assets										
Cash and cash equivalents	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	320,457	352,239	373,913	396,149	412,256	431,071	449,832	475,701	492,883	509,331
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Total assets	**320,457**	**352,239**	**373,913**	**396,149**	**412,256**	**431,071**	**449,832**	**475,701**	**492,883**	**509,331**
Liabilities										
Borrowings – current portion	112,511	138,545	154,861	167,952	174,350	182,115	187,829	198,891	199,928	198,496
Other current liabilities	0	0	0	0	0	0	0	0	0	0
Borrowings – non-current portion	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0
Total liabilities	**112,511**	**138,545**	**154,861**	**167,952**	**174,350**	**182,115**	**187,829**	**198,891**	**199,928**	**198,496**
Net assets	**207,946**	**213,694**	**219,052**	**228,197**	**237,906**	**248,956**	**262,003**	**276,810**	**292,955**	**310,836**
Equity										
Revaluation reserves	5,617	12,026	19,071	26,549	34,472	42,718	51,339	60,336	69,850	79,707
Other reserves	202,329	201,667	199,981	201,648	203,434	206,238	210,664	216,474	223,105	231,128
Total equity	**207,946**	**213,694**	**219,052**	**228,197**	**237,906**	**248,956**	**262,003**	**276,810**	**292,955**	**310,836**

Wastewater

Projected funding impact statement

Projected funding impact statement	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Sources of operating funding										
General rates	0	0	0	0	0	0	0	0	0	0
Targeted rates	13,824	17,798	20,115	0	0	0	0	0	0	0
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other	0	0	0	0	0	0	0	0	0	0
Fees and charges	1,587	1,538	1,608	24,765	28,362	29,005	31,563	34,364	35,599	38,035
Total sources of operating funding	**15,412**	**19,336**	**21,723**	**24,765**	**28,362**	**29,005**	**31,563**	**34,364**	**35,599**	**38,035**
Applications of operating funding										
Payments to staff and suppliers	6,341	8,752	9,808	12,427	14,600	13,080	13,812	14,588	13,976	14,044
Finance costs	2,018	2,899	3,159	3,297	4,211	5,367	5,877	6,591	7,367	8,406
Internal charges and overheads applied	1,596	2,280	2,873	0	0	0	0	0	0	0
Other operating funding applications	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	**9,955**	**13,931**	**15,840**	**15,724**	**18,811**	**18,448**	**19,690**	**21,179**	**21,343**	**22,450**
Surplus/(deficit) of operating funding	**5,457**	**5,405**	**5,883**	**9,041**	**9,551**	**10,557**	**11,873**	**13,185**	**14,256**	**15,585**
Source of capital funding										
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	1,169	1,141	1,272	1,161	1,236	1,279	1,276	1,312	1,334	1,363
Increase/(decrease) in debt	11,212	4,711	10,421	16,558	20,947	9,239	12,921	14,070	18,806	5,131
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	**12,381**	**5,852**	**11,693**	**17,719**	**22,183**	**10,518**	**14,197**	**15,383**	**20,140**	**6,493**
Applications of capital funding										
Capital expenditure - to meet additional demand	5,703	2,118	1,744	2,634	7,275	2,564	3,327	10,684	11,498	7,427
Capital expenditure - to improve levels of services	5,665	4,095	5,770	16,468	13,979	10,379	10,461	8,326	13,356	7,005
Capital expenditure - to replace existing assets	6,469	5,044	10,062	7,659	10,480	8,133	12,283	9,557	9,541	7,646
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0
Total applications of capital funding	**17,837**	**11,258**	**17,576**	**26,760**	**31,734**	**21,076**	**26,071**	**28,567**	**34,396**	**22,078**
Surplus/(deficit) of capital funding	**(5,457)**	**(5,405)**	**(5,883)**	**(9,041)**	**(9,551)**	**(10,557)**	**(11,873)**	**(13,185)**	**(14,256)**	**(15,585)**
Funding balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Revenue										
Operating revenue	15,412	19,336	21,723	24,765	28,362	29,005	31,563	34,364	35,599	38,035
Other revenue	1,169	1,141	1,272	1,161	1,236	1,279	1,276	1,312	1,334	1,363
Total revenue	16,581	20,478	22,995	25,925	29,598	30,285	32,839	35,676	36,933	39,398
Expenses										
Operating expenses	6,341	8,752	9,808	12,427	14,600	13,080	13,812	14,588	13,976	14,044
Finance costs	2,018	2,899	3,159	3,297	4,211	5,367	5,877	6,591	7,367	8,406
Overheads and support costs	1,596	2,280	2,873	0	0	0	0	0	0	0
Depreciation & amortisation	7,669	7,905	8,470	8,800	9,305	9,771	10,184	10,656	11,228	11,773
Total expenses	**17,624**	**21,836**	**24,310**	**24,523**	**28,117**	**28,218**	**29,874**	**31,835**	**32,571**	**34,223**
Net surplus/(deficit)	**(1,043)**	**(1,358)**	**(1,315)**	**1,402**	**1,482**	**2,066**	**2,965**	**3,841**	**4,362**	**5,175**
Revaluation of infrastructure assets	4,914	5,216	5,387	5,677	6,150	6,721	7,082	7,541	8,050	8,675
Total comprehensive income	**3,871**	**3,858**	**4,072**	**7,079**	**7,631**	**8,787**	**10,047**	**11,382**	**12,412**	**13,849**
Cash surplus/(deficit) from operations (ex non-cash items)	**6,626**	**6,547**	**7,155**	**10,202**	**10,787**	**11,837**	**13,150**	**14,497**	**15,590**	**16,948**

Projected statement of cashflows

Projected statement of cashflows	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Cashflows from operating activities										
Cash surplus/(deficit) from operations	6,626	6,547	7,155	10,202	10,787	11,837	13,150	14,497	15,590	16,948
[Other items]										
Net cashflows from operating activities	**6,626**	**6,547**	**7,155**	**10,202**	**10,787**	**11,837**	**13,150**	**14,497**	**15,590**	**16,948**
Cashflows from investing activities										
[other items]										
Capital expenditure	(17,837)	(11,258)	(17,576)	(26,760)	(31,734)	(21,076)	(26,071)	(28,567)	(34,396)	(22,078)
Net cashflows from investing activities	**(17,837)**	**(11,258)**	**(17,576)**	**(26,760)**	**(31,734)**	**(21,076)**	**(26,071)**	**(28,567)**	**(34,396)**	**(22,078)**
Cashflows from financing activities										
New borrowings	11,212	4,711	10,421	16,558	20,947	9,239	12,921	14,070	18,806	5,131
Repayment of borrowings										
Net cashflows from financing activities	**11,212**	**4,711**	**10,421**	**16,558**	**20,947**	**9,239**	**12,921**	**14,070**	**18,806**	**5,131**
Net increase/(decrease) in cash and cash equivalents	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of financial position

Projected statement of financial position	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Assets										
Cash and cash equivalents	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	260,789	269,358	283,851	307,488	336,067	354,094	377,062	402,514	433,733	452,713
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Total assets	**260,789**	**269,358**	**283,851**	**307,488**	**336,067**	**354,094**	**377,062**	**402,514**	**433,733**	**452,713**
Liabilities										
Borrowings – current portion	44,592	49,303	59,724	76,282	97,229	106,468	119,389	133,460	152,266	157,396
Other current liabilities	0	0	0	0	0	0	0	0	0	0
Borrowings – non-current portion	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0
Total liabilities	44,592	49,303	59,724	76,282	97,229	106,468	119,389	133,460	152,266	157,396
Net assets	**216,197**	**220,055**	**224,127**	**231,207**	**238,838**	**247,626**	**257,673**	**269,055**	**281,467**	**295,316**
Equity										
Revaluation reserves	4,914	10,130	15,517	21,194	27,344	34,065	41,147	48,688	56,739	65,413
Other reserves	211,283	209,925	208,610	210,013	211,494	213,560	216,525	220,366	224,728	229,903
Total equity	**216,197**	**220,055**	**224,127**	**231,207**	**238,838**	**247,626**	**257,673**	**269,055**	**281,467**	**295,316**

Water Services Delivery Plan: additional information

Significant capital projects

This section includes significant capital projects for the shareholding councils. To determine "significant" the following approach has been applied:

- Renewals programmes or other unspecified programmes of work have not been included
- A total project value cut off has been applied, this is $1 million for Clutha District Council and Gore District Council, and $2 million for Central Otago District Council

Significant drinking water projects

Significant capital projects – drinking water	Council	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Projects to meet additional demand											
Cromwell -Cromwell Ring Main	Central Otago District Council	0	0	0	0	0	0	382,250	2,000,000	1,298,700	1,946,100
Cromwell Pisa Reservoir and Rising Main (stage 1)	Central Otago District Council	300,000	0	0	0	0	0	1,722,000	3,500,000	0	0
Cromwell Bannockburn Reservoir and pipe upgrades	Central Otago District Council	273,170	2,200,000	2,000,000	637,000	0	0	0	0	0	0
Alexandra & Clyde -Clyde main duplication to Muttontown	Central Otago District Council	0	0	300,000	0	0	200,000	3,000,000	900,000	0	0
Cromwell Pisa Upgrades (stage 2)	Central Otago District Council	0	0	0	0	0	1,167,400	0	0	2,068,625	0
Total investment to meet additional demand		**573,170**	**2,200,000**	**2,300,000**	**637,000**	**0**	**1,367,400**	**5,104,250**	**6,400,000**	**3,367,325**	**1,946,100**
Projects to improve levels of services											
Cromwell Water Treatment Upgrade	Central Otago District Council	6,000,000	9,500,000	0	0	0	0	0	0	0	0
Omakau Ophir Water Treatment Upgrade	Central Otago District Council	60,000	350,000	4,200,000	5,000,000	0	0	0	0	0	0
Naseby Water Treatment Upgrade Stage 1	Central Otago District Council	0	0	200,000	0	0	3,600,000	600,000	0	0	0
Roxburgh Replace Roxburgh reservoir and increase capacity	Central Otago District Council	40,000	0	0	0	0	0	0	0	540,000	3,100,000
Ranfurly Water Treatment Upgrade Stage 1	Central Otago District Council	850,000	1,500,000	0	0	0	0	0	0	0	0
Patearoa Water Treatment Upgrade Stage 1	Central Otago District Council	800,000	1,000,000	0	0	500,000	0	0	0	0	0
Balclutha Reservoir Storage upgrade - 1 x 1500 m3 Tasman Steel Tank	Clutha District Council	0	0	0	0	0	940,100	0	0	0	0
Milton (Milburn) WTP upgrade to 5,000 m3/day	Clutha District Council	92,912	86,870	1,506,911	0	0	0	0	0	0	0
Milton Manganese Reduction	Clutha District Council	1,275,000	0	0	0	0	0	0	0	0	0
Milton-Tokoiti Water Network Extension	Clutha District Council	670,361	617,941	0	0	0	0	0	0	0	0
Balclutha WTP Capacity upgrade to 4,200 m3/day.	Clutha District Council	0	0	0	0	0	0	0	0	1,356,121	0
Greenfield Bore Project -Alternative Water Supply for Waitahuna and Evans Flat WTP)	Clutha District Council	7,975,000	0	0	0	0	0	0	0	0	0
Water meter roll out	Gore District Council	0	0	0	0	0	1,000,000	1,000,000	1,000,000	1,000,000	0

Significant capital projects – drinking water	Council	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Centralization of the Gore Water Treatment Plant / Mataura River Crossing	Gore District Council	3,900,000	0	0	0	0	0	0	0	0	0
Total investment to meet improve levels of services		**21,663,273**	**13,054,811**	**5,906,911**	**5,000,000**	**500,000**	**5,540,100**	**1,600,000**	**1,000,000**	**2,896,121**	**3,100,000**
Projects to replace existing assets											
Replacement of Hilbre Ave Reservoir	Gore District Council	500,000	5,500,000	0	0	0	0	0	0	0	0
Reticulation Renewal of 2.2 km DN300 AC Booster Main from the East Gore WTP to State Highway 1 Bridge	Gore District Council	0	0	0	0	0	0	231,000	4,000,000	0	0
Reticulation Minor Renewals (renewal of laterals, valves and Hydrants and other unplanned renewals)	Gore District Council	180,000	280,000	280,000	280,000	280,000	280,000	280,000	280,000	280,000	280,000
Reticulation Renewal of 1.6 km DN225 watermain from Hilbre Avenue Reservoir to State Highway 1 Bridge	Gore District Council	0	198,000	2,451,000	0	0	0	0	0	0	0
Total investment to replace existing assets		**680,000**	**5,978,000**	**2,731,000**	**280,000**	**280,000**	**280,000**	**511,000**	**4,280,000**	**280,000**	**280,000**
Total investment in drinking water assets		22,916,443	21,232,811	10,937,911	5,917,000	780,000	7,187,500	7,215,250	11,680,000	6,543,446	5,326,100

Significant wastewater projects

Significant capital projects – wastewater	Council	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Projects to meet additional demand											
Cromwell wastewater network capacity upgrades	Central Otago District Council	0	0	0	0	0	0	200,000	3,800,000	3,000,000	0
Cromwell wastewater treatment plant extension	Central Otago District Council	0	0	0	0	0	200,000	600,000	3,000,000	3,200,000	0
Cromwell wastewater network increased capacity	Central Otago District Council	103,620	100,000	0	0	0	0	0	2,000,000	2,000,000	2,000,000
Alexandra to WWTP Conveyance upgrade	Central Otago District Council	0	0	0	0	0	0	0	100,000	400,000	4,000,000
Alexandra wastewater reticulation capacity upgrades	Central Otago District Council	0	0	0	0	0	0	0	1,000,000	1,000,000	1,000,000
Alexandra wastewater new pipeline for Dunstan Road	Central Otago District Council	1,300,000	1,300,000	0	0	0	0	0	0	0	0
Cromwell wastewater pipe upgrades	Central Otago District Council	220,000	220,000	220,000	220,000	220,000	220,000	220,000	220,000	220,000	220,000
Total investment to meet additional demand		**1,623,620**	**1,620,000**	**220,000**	**220,000**	**220,000**	**420,000**	**1,020,000**	**10,120,000**	**9,820,000**	**7,220,000**
Projects to improve levels of services											
Alexandra Wastewater treatment plant discharge consent	Central Otago District Council	400,000	500,000	5,384,278	7,315,425	5,665,000	5,665,000	7,137,000	0	0	0
Omakau Wastewater treatment plant discharge consent	Central Otago District Council	150,000	778,000	834,000	5,512,000	7,512,000	5,392,000	3,335,000	0	0	0
Cromwell wastewater treatment plant nitrogen removal	Central Otago District Council	3,626,700	0	0	0	4,000,000	0	0	0	0	0
Districtwide wastewater pumping and storage upgrades	Central Otago District Council	0	0	0	0	0	0	0	0	3,610,000	0
Clinton WWTP - Consent Renewal / Treatment process upgrade - Land Treatment	Clutha District Council	0	0	73,080	2,385,600	0	0	0	0	0	0
Waihola WWTP - Consent Renewal / Treatment process upgrade - Land Treatment	Clutha District Council	0	0	73,080	3,354,750	0	0	0	0	0	0
Balclutha WWTP - Consent Renewal / Treatment process upgrade - Land Treatment	Clutha District Council	0	0	0	0	0	0	1,576,400	16,044,000	0	0
Kaka Point - Consent Renewal / Treatment process upgrade - Land Treatment	Clutha District Council	0	0	0	0	0	0	78,820	1,363,740	1,223,250	0
Lawrence WWTP - Consent Renewal / Treatment process upgrade - Land treatment	Clutha District Council	0	0	0	74,550	1,900,500	1,548,400	0	0	0	0
Owaka WWTP - Consent Renewal / Treatment process upgrade - Land Treatment	Clutha District Council	0	0	0	0	0	0	78,820	2,807,700	2,772,700	0

Significant capital projects – wastewater	Council	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Mataura WWTP		0	50,000	25,000	25,000	25,000	25,000	300,000	600,000	5,950,000	6,000,000
Gore Wastewater Treatment Plant		0	100,000	50,000	50,000	50,000	50,000	300,000	1,000,000	2,000,000	300,000
Total investment to meet improve levels of services		**4,176,700**	**1,428,000**	**6,439,438**	**18,717,325**	**19,152,500**	**12,680,400**	**12,806,040**	**21,815,440**	**15,555,950**	**6,300,000**
Projects to replace existing assets											
Wigan St Stage 4/ Ardwick Street	Gore District Council	0	200,000	1,700,000	0	0	0	0	0	0	0
Main Street/ Hokonui Drive WW main renewal	Gore District Council	0	0	50,000	150,000	1,700,000	0	0	0	0	0
Trafford Street WW main renewal	Gore District Council	0	0	0	0	0	100,000	900,000	0	0	0
Total investment to replace existing assets		**0**	**200,000**	**1,750,000**	**150,000**	**1,700,000**	**100,000**	**900,000**	**0**	**0**	**0**
Total investment in wastewater assets		**5,800,320**	**3,248,000**	**8,409,438**	**19,087,325**	**21,072,500**	**13,200,400**	**14,726,040**	**31,935,440**	**25,375,950**	**13,520,000**

Significant stormwater projects

Significant capital projects – stormwater	Council	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Projects to meet additional demand											
Total investment to meet additional demand											
Projects to improve levels of services											
Tapanui Stormwater Network Upgrade(Sussex/Suffolk St)	Clutha District Council	518,224	0	0	0	0	0	0	0	0	518,224
Stormwater Plant Balclutha Baxter Street Pump Station Installation	Clutha District Council	0	0	0	692,325	0	0	0	0	0	0
Stormwater Plant Milton New Ajax Street Pump Station	Clutha District Council	0	96,727	198,250	842,790	0	0	0	0	0	0
Additional Gore Stormwater Separation and/or resolution of SW capacity issues	Gore District Council	0	35,000	1,000,000	2,000,000	2,000,000	2,500,000	2,500,000	3,000,000	3,000,000	0
Gore Stormwater Separation and/or resolution of SW capacity issues	Gore District Council	230,000	2,369,000	122,000	2,525,000	261,000	673,000	3,000,000	500,000	500,000	230,000
Additional Mataura Stormwater Separation and/or resolution of SW capacity issues	Gore District Council	0	0	100,000	300,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0
Improvements to Stormwater Quality	Gore District Council	0	0	0	0	0	0	0	0	3,000,000	0
Total investment to meet improve levels of services		**112,000**	**748,224**	**2,500,727**	**1,420,250**	**6,360,115**	**3,261,000**	**4,173,000**	**6,500,000**	**4,500,000**	**7,500,000**
Projects to replace existing assets											
Total investment to replace existing assets											
Total investment in wastewater assets		**112,000**	**748,224**	**2,500,727**	**1,420,250**	**6,360,115**	**3,261,000**	**4,173,000**	**6,500,000**	**4,500,000**	**7,500,000**

Risks and assumptions

This plan relates to the establishment of the SWDW joint WSE, and the risks presented in the table below relate to the anticipated risks relating to the successful implementation of that organisation.

Operational risks, relating to the specific risks associated with ongoing water services delivery in each district, have been included in individual council risk registers, available at the following link: Council Water Services Risk Logs

The risks associated with the establishment of the entity are outlined in the table below.

Risk	Description	Consequence	Mitigation
Not operational on 1 July 2027	Some, or all, of the necessary arrangements for the establishment the joint WSE are not completed by 1 July 2027.	The joint WSE is unable to operate effectively, or has no source of revenue.	The implementation of the joint WSE has been planned through to 1 July 2027 and a transition advisor has been employed to assist in transition. A detailed implementation plan is being developed based on a minimum viable change proposition. Oversight of the transition will be through an establishment board and entity to be established during the 2025/26 financial year.
Revenue and billing arrangements	The joint WSE does not have appropriate revenue and billing arrangements in place to collect revenue from customers.	The joint WSE has no access to revenue and is unable to operate or secure financing.	A dedicated revenue and finance workstream will be established as part of the transition plan.

Risk	Description	Consequence	Mitigation
			Billing may be contracted to councils for the first year or two if it is not considered possible for a billing system to be implemented in the given timeframes.
Debt transfer	The joint WSE is unable to access borrowing from LGFA or debt transfers are unable to occur.	The joint WSE will not be able to fund its capital programme.	Revenues and financing have been modelled to comply with LGFA lending covenants. Transfer mechanisms for existing debt will be agreed by the councils, and may involve a staged approach including payments from the joint WSE to councils to cover financing costs until such time as debt is able to be fully transferred.
Market capacity	There is insufficient market capacity in the supplier market to support transition or to deliver capital works in the future.	This may impact the successful establishment of the joint WSE or may result in future capital works under-delivery.	The joint model will enable larger programmes of work to be packaged, which along with early market signalling may mitigate this risk.

Risk	Description	Consequence	Mitigation
			Initial assessment indicates that there is sufficient market capacity to assist the transition to the joint WSE, and the SWDW group will seek to collaborate with other joint WSE models to avoid duplication of effort.
Recruitment and retention	The joint WSE is unable to attract a suitably qualified CEO or Directors.	The joint WSE does not have a board of directors and CEO and is unable to operate.	An establishment entity will be formed during the 2025/26 year and an establishment board and CEO will be appointed through that process. It is expected that these appointments could transition to the full joint WSE when it is established. Executive recruitment services will be engaged to assist.
Transfer of existing staff and contractors	As part of any restructuring consultation and offer of employment with the joint WSO, existing staff may choose not to accept a new role in the joint WSO, or existing contractors terminate (or refuse assignment) of their contracts.	The joint WSE does not have a workforce with sufficient scale to deliver continuous services.	Early and continuous engagement with staff and contractors will be undertaken to provide as much reassurance of job security as possible in the circumstances. Although a comprehensive review of terms of employment across the Councils has yet to be undertaken,

Risk	Description	Consequence	Mitigation
			we are expecting that offers of employment with the joint WSO will be on no less than favourable terms and conditions. Consultation will be undertaken in sufficient time to allow for procurement or recruitment to take place if necessary.
Inaccuracy of capital or operating costs	Costs included in financial modelling are inaccurate leading to increased (or decreased) revenue requirements.	The joint WSE needs to increase charges to water consumers.	The SWDW joint WSE, given its small scale, will have a deliberate and clear focus on cost reduction, efficiency, and effectiveness. Financial modelling has included sensitivity testing that indicates that new costs would need to be significant for the joint WSE to be a more expensive delivery model than the alternatives. Inaccuracy of capital cost or other operational cost estimates would impact all delivery models.
Unable to derive efficiencies	The entity is unable to derive the modelled operating and capital cost efficiencies.	Prices would be higher than estimated.	Sensitivity testing shows that the joint WSE would deliver lower household charges even without operating or capital cost efficiencies.

Risk	Description	Consequence	Mitigation
			Independent advice indicates that assumed efficiencies in the modelling are highly conservative.
Cost of borrowing	The cost of borrowing is higher than otherwise modelled.	Prices would increase or the joint WSE may risk breaching LGFA's FFO to interest coverage ratios.	Sensitivity testing indicates that savings would still be available (when compared to an alternative scenario where councils also face increased borrowing costs) under this circumstance. It is likely that the WSE may need to generate additional revenue to maintain compliance with FFO to interest coverage ratios, however this would have long term benefits through the reduction in overall debt.

Appendix One - Disaggregated council information

This section presents high level disaggregated financial information for each of the three shareholding councils of the SWDW joint WSE, on the assumption that an in-house model is otherwise adopted. Specifically, it includes:

- Projected three waters revenue requirements should a joint WSE not proceed
- Projected three waters borrowing requirements and three waters debt to revenue should a joint WSE not proceed.
- Projected impact on household charges and affordability should a joint WSE not proceed
- Projected borrowing capacity for councils pre and post transition to a joint WSE

At a summarised level, the data, when comparted to the joint WSE information presented in this plan, demonstrates that:

- The proposed joint WSE produces a more affordable outcome for water consumers across the serviced area
- The proposed joint WSE results in improved borrowing capacity for shareholding councils

Central Otago District Council

Three waters revenue and debt

Three waters revenue and debt for Central Otago District Council under an alternative in house delivery model is shown below for the purposes of comparison with the joint WSE. It shows three waters debt remaining below 500% of three waters revenue, however debt would fall below the minimum FFO to debt ratio of 10% that would have applied were Central Otago District Council to establish a stand-alone WSE.

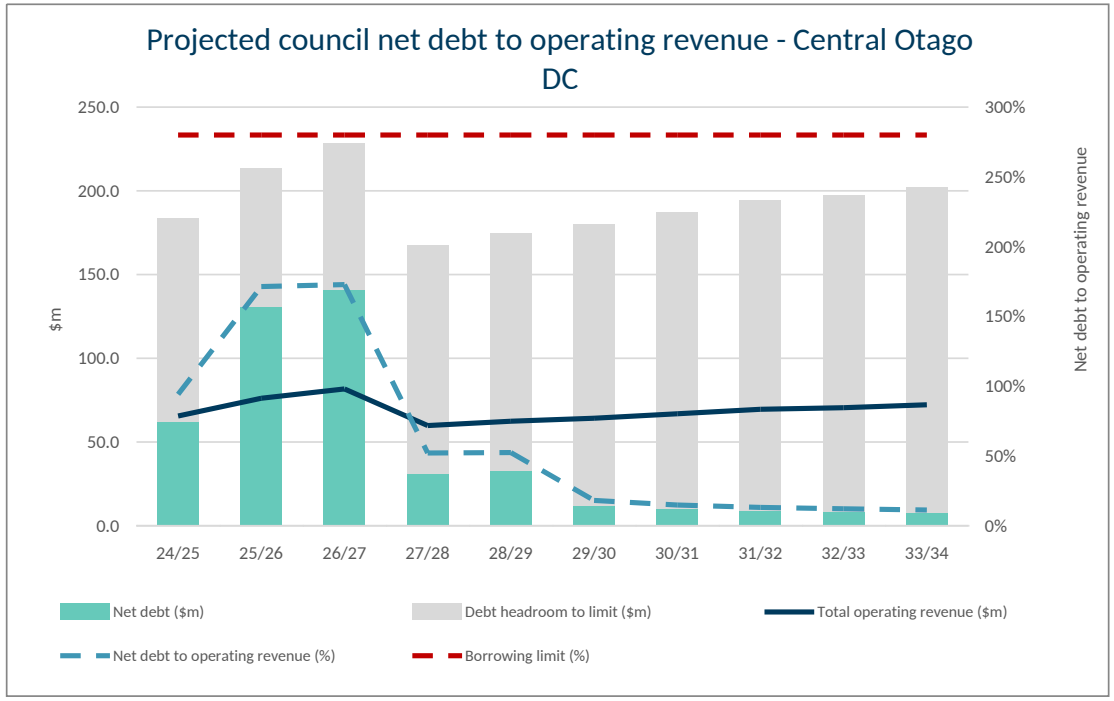
Borrowing headroom/(shortfall) against limit ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating revenue	18,484	23,365	25,364	29,289	33,132	35,213	38,145	41,637	44,847	47,711
Debt to revenue limit for water services (%)	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt at borrowing limit	**92,420**	**116,823**	**126,820**	**146,447**	**165,660**	**176,064**	**190,723**	**208,187**	**224,233**	**238,553**
Projected net debt attributed to water services	52,976	74,871	90,677	110,551	132,801	151,365	171,758	196,114	218,503	234,701
Net debt to operating revenue %	**287%**	**320%**	**358%**	**377%**	**401%**	**430%**	**450%**	**471%**	**487%**	**492%**
Borrowing headroom/(shortfall) against limit	**39,444**	**41,951**	**36,143**	**35,896**	**32,858**	**24,699**	**18,966**	**12,073**	**5,730**	**3,851**
Projected free funds from operations – water services	7,443	6,900	6,566	9,853	10,447	11,029	11,586	12,193	12,813	13,393
Free funds from operations to net debt ratio	**14.1%**	**9.2%**	**7.2%**	**8.9%**	**7.9%**	**7.3%**	**6.7%**	**6.2%**	**5.9%**	**5.7%**

Impact on household charges and affordability

Without a SWDW joint CCO, household charges for water consumers in Central Otago would be expected to rise by 114% from 2024/25 to 2033/34. During this period affordability would also deteriorate as three waters charges increase from 1.9% of median household income to 3%. This shift in affordability occurs despite historically high level of growth in median household income in Central Otago District.

Projected average charge per residential connection (including GST)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Drinking water	919	1,135	1,232	1,407	1,435	1,499	1,560	1,639	1,731	1,786
Wastewater	951	1,162	1,204	1,251	1,533	1,594	1,734	1,897	2,008	2,124
Stormwater	19	34	35	120	124	126	128	131	136	138
Average charge per connection / rating unit	**1,890**	**2,331**	**2,471**	**2,778**	**3,093**	**3,219**	**3,422**	**3,667**	**3,874**	**4,048**
Increase in average charge		23%	6%	12%	11%	4%	6%	7%	6%	4%
Household charge as a percentage of median household income	**1.9%**	**2.3%**	**2.3%**	**2.5%**	**2.7%**	**2.7%**	**2.8%**	**2.9%**	**3.0%**	**3.0%**

Projected borrowing capacity



Projected funding impact statement

Projected funding impact statement	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Sources of operating funding												
General rates	-	-	-	-	-	-	-	-	-	-	-	-
Targeted rates	9,470	12,006	13,338	8,619	10,862	11,514	197	369	380	18,286	23,236	25,232
Subsidies and grants for operating purposes	-	-	-	-	-	-	-	-	-	-	-	-
Local authorities fuel tax, fines, etc	-	-	-	-	-	-	-	-	-	-	-	-
Fees and charges	64	21	22	134	107	110	-	-	-	198	128	132
Total sources of operating funding	9,534	12,027	13,360	8,753	10,969	11,624	197	369	380	18,484	23,365	25,364
Applications of operating funding												
Payments to staff and suppliers	4,413	6,022	6,496	3,073	4,766	4,920	115	258	265	7,601	11,046	11,681
Finance costs	1,139	2,502	3,360	1,238	1,874	2,106	-	-	-	2,377	4,376	5,466
Internal charges and overheads applied	734	334	801	1,022	1,353	1,518	(45)	(8)	27	1,711	1,680	2,346
Other operating funding applications	-	-	-	-	-	-	-	-	-	-	-	-
Total applications of operating funding	6,286	8,859	10,657	5,333	7,992	8,544	70	251	292	11,689	17,102	19,493
Surplus/(deficit) of operating funding	3,248	3,168	2,703	3,420	2,977	3,080	127	118	88			
Source of capital funding												
Subsidies and grants for capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-
Development and financial contributions	1,424	1,406	1,510	1,169	1,141	1,272	-	-	-	2,593	2,547	2,782
Increase/(decrease) in debt	10,447	15,962	8,359	7,335	5,309	6,657	194	624	789	17,976	21,895	15,805
Gross proceeds from sales of assets	-	-	-	-	-	-	-	-	-	-	-	-
Other dedicated capital funding	-	-	-	-	-	-	-	-	-	-	-	-
Total sources of capital funding	11,871	17,368	9,870	8,504	6,450	7,929	194	624	789	20,569	24,443	18,588
Applications of capital funding												
Capital expenditure - to meet additional demand	4,542	6,204	3,436	5,532	1,952	1,654				10,075	8,157	5,091
Capital expenditure - to improve levels of services	6,496	9,429	5,037	2,285	3,795	5,495	-	-	-	8,781	13,224	10,531
Capital expenditure - to replace existing assets	4,082	4,903	4,100	4,106	3,679	3,860	320	741	876	8,508	9,324	8,836
Increase/(decrease) in reserves	-	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in investments	-	-	-	-	-	-	-	-	-	-	-	-
Total applications of capital funding	15,119	20,536	12,572	11,924	9,427	11,009	320	741	876	27,364	30,705	24,458
Surplus/(deficit) of capital funding	(3,248)	(3,168)	(2,703)	(3,420)	(2,977)	(3,080)	(127)	(118)	(88)	(6,795)	(6,263)	(5,871)
Funding balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026
Revenue												
Operating revenue	9,534	12,027	13,360	8,753	10,969	11,624	197	369	380	18,484	23,365	25,3
Other revenue	1,424	1,406	1,510	1,169	1,141	1,272				2,593	2,547	2,7
Total revenue	9,534	12,027	13,360	9,922	12,110	12,896	197	369	380	21,077	25,912	28,1
Expenses												
Operating expenses	4,413	6,022	6,496	3,073	4,766	4,920	115	258	265	7,601	11,046	11,6
Finance costs	1,139	2,502	3,360	1,238	1,874	2,106	-	-	-	2,377	4,376	5,4
Overheads and support costs	734	334	801	1,022	1,353	1,518	(45)	(8)	27	1,711	1,680	2,3
Depreciation & amortisation	3,936	4,298	5,036	3,589	3,758	4,123	760	769	791	8,285	8,825	9,9
Total expenses	10,222	13,156	15,694	8,922	11,750	12,667	830	1,020	1,083	19,974	25,927	29,4
Net surplus/(deficit)	736	276	(823)	1,000	360	229	(633)	(651)	(703)	1,103	(15)	(1,2
Revaluation of infrastructure assets	2,347	2,617	2,995	2,347	2,561	2,725	665	669	682	5,359	5,847	6,4
Total comprehensive income	3,082	2,894	2,171	3,347	2,920	2,954	32	18	(21)	6,461	5,832	5,1
Cash surplus/(deficit) from operations (ex non-cash items)	4,672	4,574	4,213	4,589	4,118	4,352	127	118	88	9,388	8,810	8,6

Projected statement of cashflows

Projected statement of cashflows	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Cashflows from operating activities												
Cash surplus/(deficit) from operations	4,672	4,574	4,213	4,589	4,118	4,352	127	118	88	9,388	8,810	8,653
[Other items]												
Net cashflows from operating activities	4,672	4,574	4,213	4,589	4,118	4,352	127	118	88	9,388	8,810	8,653
Cashflows from investing activities												
[Other items]												
Capital expenditure – infrastructure assets	(15,119)	(20,536)	(12,572)	(11,924)	(9,427)	(11,009)	(321)	(742)	(877)	(27,364)	(30,705)	(24,458)
Net cashflows from investing activities	(15,119)	(20,536)	(12,572)	(11,924)	(9,427)	(11,009)	(321)	(742)	(877)	(27,364)	(30,705)	(24,458)
Cashflows from financing activities												
New borrowings	10,477	15,962	8,359	7,335	5,309	6,657	194	624	789	17,976	21,895	15,805
Repayment of borrowings												
Net cashflows from financing activities	10,477	15,962	8,359	7,335	5,309	6,657	194	624	789	17,976	21,895	15,805
Net increase/(decrease) in cash and cash equivalents	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Projected statement of financial position

Projected statement of financial position	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Assets												
Cash and cash equivalents				-	-	-	-	-	0			
Other current assets				-	-	-	-	-	-			
Infrastructure assets	130,874	149,730	160,260	128,026	136,255	145,866	33,470	34,112	34,881	292,370	320,097	341,008
Other non-current assets				-	-	-	-	-	-	-	-	-
Total assets	130,874	149,730	160,260	128,026	136,255	145,866	33,470	34,112	34,881	292,370	320,097	341,008
Liabilities												
Borrowings – current portion	30,447	46,410	54,769	22,335	27,644	34,301	194	818	1,607	52,976	74,871	90,677
Other current liabilities				-	-	-	-	-	-	-	-	-
Borrowings – non-current portion				-	-	-	-	-	-	-	-	-
Other non-current liabilities				-	-	-	-	-	-	-	-	-
Total liabilities	30,447	46,410	54,769	22,335	27,644	34,301	194	818	1,607	52,976	74,871	90,677
Net assets	100,426	103,320	105,492	105,691	108,611	111,566	33,276	33,294	33,273	239,394	245,226	250,331
Equity												
Revaluation reserves	2,347	4,964	7,959	2,347	4,907	7,632	665	1,334	2,017	5,359	11,206	17,608
Other reserves	98,080	98,356	97,533	103,344	103,704	103,933	32,611	31,960	31,257	234,035	234,020	232,723
Total equity	100,426	103,320	105,492	105,691	108,611	111,566	33,276	33,294	33,273	239,394	245,226	250,331

Serviced areas

Serviced areas (by reticulated network)	Water supply 8 schemes	Wastewater 7 schemes	Stormwater 8 catchments
Residential areas (If more than one identify separately)	Cromwell – 3,856 Pisa Village - 260 Alexandra & Clyde – 3,605 Naseby – 323 Omakau/Ophir – 213 Patearoa - 95 Ranfurly - 428 Roxburgh - 454	Cromwell – 4298 Alexandra & Clyde- 3313 Naseby - 323 Omakau -183 Ranfurly - 428 Roxburgh - 380 Lake Roxburgh Village - 50	Alexandra Cromwell - 3,856 Clyde Lake Roxburgh Village Omakau Pisa Village Ranfurly - 428 Roxburgh - 454 Naseby– 323
Non-residential areas (If more than one identify separately)	Cromwell – 772 Lake Dunstan – 464 Naseby – 26 Omakau/Ophir – 46 Patearoa - 63 Pisa Village - 4 Ranfurly - 109 Roxburgh - 85	Council is unable to provide split between residential and non-residential wastewater connection data	
Mixed-Use rural drinking water schemes (where these schemes are not part of the council's water services network)	CODC does not hold a register of these and is unable to supply this information	n/a	n/a
Areas that do not receive water services (If more than one identify separately)	Rural and residential areas The following towns: Oturehua, St Bathans, Ettrick, Millers Flat, Tarras CODC does not hold readily accessible information regarding the number of properties not connected in these areas.	Rural and residential areas around the The following towns: Ophir, 2/3 Clyde, Oturehua, St Bathans, Ettrick, Millers Flat, Tarras CODC does not hold readily accessible information regarding the number of properties not connected in these areas.	CODC does not hold readily accessible information regarding the number of properties not connected.
Proposed growth areas • Planned (as identified in district plan) • Infrastructure enabled (as identified and funded in LTP)	Extra households by 2054/55: 4,955- Alexandra and Clyde 5,744 – Cromwell 516- Oamaku 534 – Ranfurly 533 - Roxburgh 348 – Naseby 135 - Patearoa 8,478- other	Same as water supply	Same as water supply

Note that CODC does not have water supply and wastewater service area maps

Asset age and condition

Parameters	Drinking supply	Wastewater	Stormwater
Average age of Network Assets	Pipe 27 years Point 16 years	Pipe 31 years Point 34 years	Pipe 28 years Point 27 years
Critical Assets	Identified	Identified	Identified
Above ground assets • Treatment plant/s • Percentage or number of above ground assets with a condition rating • Percentage of above –ground assets in poor or very poor condition	 8 52% 2%	 7 69% 4%]	 0 0% 0%
Below ground assets • Total Km of reticulation • Percentage of network with condition grading • Percentage of network in poor or very poor condition	 469 Km 85% 4%	 328Km 89% 2%	 85.1Km] 97% 0%

Water supply consents

Location	Consent No.	Expiry Date	Allowable Take (m^3/day)	Consent type
Lake Dunstan WS	RM22.317.01 V1	8 November 2028	16,200	Groundwater take
Cromwell	RM22.319.01	30 August 2028	18,000	Groundwater take
Pisa Moorings	RM17.138.01	1 July 2052	810	Groundwater take
Omakau/Ophir	99169	1 July 2035	1,000	Surface water take (Manuherikia river)
Roxburgh	2005.764 V1	15 September 2041	3,000	Groundwater take
Ranfurly	RM21.224.01	30 May 2043	-	To dam water (East Ewe Burn)
	RM21.224.02	30 May 2029	*2,419.2	Surface water take (Ewe Burn river weir)
	RM21.224.03			Surface water take (Ewe Burn river gallery)
	RM21.224.04	30 May 2043	-	To discharge water from dam
	RM21.224.05	30 May 2043	-	To discharge water from grit and balance tanks
	RM21.224.06	30May 2043	-	To discharge water from overflow pipe
Naseby	No resource consent for Naseby. The Naseby Water Supply is a consumer of the Hawkdun Irrigation Race and included in the Hawkdun consent.			
Patearoa	RM16.277.01 V1	1 November 2050	*838	Surface water take (Sowburn river)

* *There is no daily limit associated with this consent. This is a calculated value based on the allowable instantaneous flow.*

Wastewater consents

Location	Consent No.	Expiry Date	Allowable Discharge	Comments
Omakau	RM21.566.01	15 July 2027	350 m^3/day (av) 550 m^3/day (max)	To discharge treated wastewater to the Manuherekia River via a diffuser for the purpose of operating the Ōmakau Wastewater Treatment Plant. The consent was renewed for 5 years subject to discharge to land being progressed within the next 5 years.
Lake Roxburgh Village	RM23.613.01	17 July 2029	92 m^3/day 5 l/s application rate	For the purpose of disposal of treated sewage effluent from the Lake Roxburgh Village community. Was extended 5 years to enable alternative sites further away from the river to be considered.
Alexandra	RM12.517.01	1 August 2038	To air	Allows for operation of Alexandra wastewater treatment plant. Significant issue is the discharge of treated wastewater to the Clutha River/Mata Au. This consent will likely need to be replaced with an alternative discharge which will require significant engagement with Aukaha over the next 24 months to develop and acceptable alternative
	RM12.517.03 V1		Biosolids	
	RM12.517.02 V1		2,800 m^3/day	
Roxburgh	RM10.306.01 V2	1 September 2045	3,300 m^3/week	To discharge up to 3,300m^3 per week of treated wastewater to land adjacent to the bank of the Clutha River/Mata Au for the purpose of operating the Roxburgh township wastewater treatment and disposal system
Ranfurly	RM11.110.03	25 June 2047	To air	Allows for the operation of the Ranfurly treatment plant – significant issue will be to find an alternative for discharge to water before consent is renewed.
	RM15.004.02	1 April 2050	1,500m^3/day	
Cromwell	RM13.233.01	26 February 2049	To air	Allows for operation of Cromwell wastewater treatment Plan – significant issue is discharge of treated wastewater to the Kawarau Arm of Lake Dunstan. This consent will likely need to be replaced with an alternative discharge which will require significant future engagement with Aukaha to develop a mutually acceptable alternative.
	RM13.233.03 V1		Sludge disposal	
	RM13.233.02 V3		4,400m^3/day (ADWF) 7,500m^3/day(MWWF)	
Naseby	RM15.258.01	14 March 2051	160m^3/day (ADWF) 450m^3/day (MWWF)	To discharge treated wastewater to land for the purpose of disposal of wastewater from the Naseby Wastewater Treatment Plant

Stormwater consents

Location	Consent No.	Expiry Date	Comments
Pisa (Perriam Cove)	2008.197	1 September 2028	To discharge stormwater to an inlet of Lake Dunstan for the purpose of disposing of stormwater run off from a 93 lot residential subdivision site

Clutha District Council

Three waters revenue and debt

Three waters revenue and debt for Clutha District Council under an alternative in house delivery model is shown below for the purposes of comparison with the joint WSE. It shows three waters debt remaining below 500% of three waters revenue. However, debt would fall below the minimum FFO to debt ratio of 11% that would have applied were Clutha District Council to establish a stand-alone WSE.

Borrowing headroom/(shortfall) against limit ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating revenue	15,670	20,777	26,233	33,198	36,408	34,116	37,115	38,295	34,434	34,881
Debt to revenue limit for water services (%)	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt at borrowing limit	78,351	103,885	131,167	165,988	182,040	170,580	185,577	191,474	172,169	174,403
Projected net debt attributed to water services	86,572	91,574	101,759	103,158	102,930	102,939	104,166	104,617	101,706	94,773
Net debt to operating revenue %	**552%**	**441%**	**388%**	**311%**	**283%**	**302%**	**281%**	**273%**	**295%**	**272%**
Borrowing headroom/(shortfall) against limit	-8,221	12,311	29,408	62,830	79,110	67,641	81,411	86,857	70,463	79,629
Projected free funds from operations – water services	2,973	3,442	3,991	7,920	8,146	8,380	8,655	8,942	9,249	9,578
Free funds from operations to net debt ratio	3.4%	3.8%	3.9%	7.7%	7.9%	8.1%	8.3%	8.5%	9.1%	10.1%

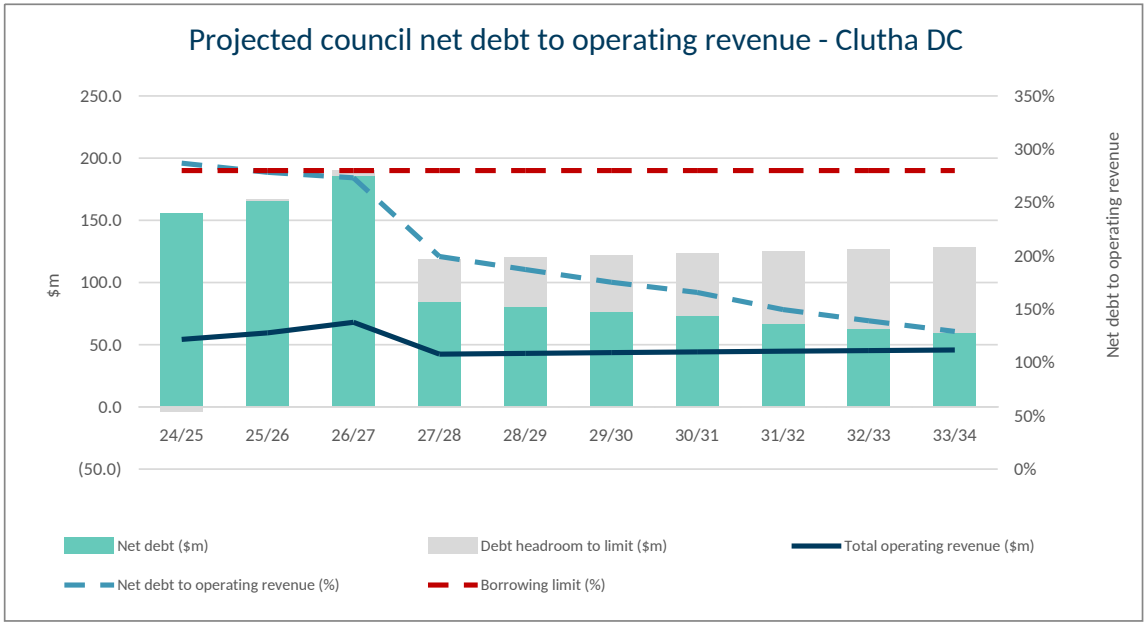
Impact on household charges and affordability

Without a SWDW joint CCO, household charges for water consumers in Clutha would be expected to rise by 111% from 2024/25 to 2033/34. During this period affordability would also deteriorate as three waters charges increase from 1.9% of median household income to a peak of 4.1%.

Without these increases, Clutha District Council would be likely to breach lending covenants.

Projected average charge per residential connection (including GST)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Drinking water	849	1,082	1,296	1,495	1,593	1,468	1,560	1,558	1,380	1,371
Wastewater	537	729	955	1,449	1,573	1,445	1,539	1,581	1,434	1,423
Stormwater	174	273	403	539	609	548	605	640	506	501
Average charge per connection / rating unit	1,559	2,084	2,655	3,484	3,776	3,462	3,703	3,779	3,320	3,294
Increase in average charge		34%	27%	31%	8%	-8%	7%	2%	-12%	-1%
Household charge as a percentage of median household income	1.9%	2.5%	3.1%	3.9%	4.1%	3.7%	3.9%	3.9%	3.4%	3.3%

Projected borrowing capacity



Projected funding impact statement

Projected funding impact statement	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Sources of operating funding												
General rates	0	0	0	0	0	0	0	0	0	0	0	0
Targeted rates	10,935	14,328	17,578	2,557	3,641	4,945	1,059	1,697	2,554	14,551	19,666	25,077
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other	0	0	0	0	0	0	0	0	0	0	0	0
Fees and charges	596	610	638	523	501	518	0	0	0	1,119	1,111	1,156
Total sources of operating funding	11,531	14,938	18,216	3,080	4,142	5,463	1,059	1,697	2,554	15,670	20,777	26,233
Applications of operating funding												
Payments to staff and suppliers	7,194	8,593	10,325	2,061	2,674	3,511	441	789	1,304	9,696	12,055	15,140
Finance costs	2,376	3,402	3,646	358	512	522	324	397	449	3,057	4,312	4,617
Internal charges and overheads applied	(31)	558	1,427	(14)	253	649	(11)	158	410	(56)	969	2,486
Other operating funding applications	0	0	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	9,539	12,552	15,398	2,404	3,439	4,681	754	1,344	2,163	12,697	17,335	22,242
Surplus/(deficit) of operating funding	1,993	2,386	2,818	676	703	782	305	353	392	2,973	3,442	3,991
Source of capital funding												
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in debt	19,479	4,125	4,901	4,061	(43)	2,854	1,547	919	2,430	25,086	5,002	10,185
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	19,479	4,125	4,901	4,061	(43)	2,854	1,547	919	2,430	25,086	5,002	10,185
Applications of capital funding												
Capital expenditure - to meet additional demand	85	43	44	170	165	89	85	43	44	340	252	177
Capital expenditure - to improve levels of services	16,436	4,108	1,550	3,080	0	39	934	679	185	20,449	4,787	1,774
Capital expenditure - to replace existing assets	4,951	2,360	6,124	1,487	495	3,508	833	550	2,592	7,271	3,405	12,224
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0	0	0
Total applications of capital funding	21,472	6,511	7,718	4,737	660	3,636	1,851	1,272	2,822	28,060	8,443	14,176
Surplus/(deficit) of capital funding	(1,993)	(2,386)	(2,818)	(676)	(703)	(782)	(305)	(353)	(392)	(2,973)	(3,442)	(3,991)
Funding balance	0	0	0	0	0	0	0	0	0	0	0	0

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026
Revenue												
Operating revenue	11,531	14,938	18,216	3,080	4,142	5,463	1,059	1,697	2,554	15,670	20,777	26,2
Other revenue	0	0	0	0	0	0	0	0	0	0	0	
Total revenue	11,531	14,938	18,216	3,080	4,142	5,463	1,059	1,697	2,554	15,670	20,777	26,2
Expenses												
Operating expenses	7,194	8,593	10,325	2,061	2,674	3,511	441	789	1,304	9,696	12,055	15,1
Finance costs	2,376	3,402	3,646	358	512	522	324	397	449	3,057	4,312	4,6
Overheads and support costs	(31)	558	1,427	(14)	253	649	(11)	158	410	(56)	969	2,4
Depreciation & amortisation	3,275	3,441	3,799	1,988	2,053	2,245	552	562	621	5,815	6,056	6,6
Total expenses	12,814	15,993	19,197	4,392	5,492	6,926	1,306	1,906	2,784	18,512	23,391	28,9
Net surplus/(deficit)	(1,282)	(1,055)	(981)	(1,312)	(1,350)	(1,463)	(247)	(209)	(229)	(2,842)	(2,614)	(2,6
Revaluation of infrastructure assets	2,720	3,138	3,263	1,603	1,690	1,696	512	548	573	4,835	5,376	5,5
Total comprehensive income	1,438	2,083	2,281	290	339	232	265	339	344	1,993	2,762	2,8
Cash surplus/(deficit) from operations (ex non-cash items)	1,993	2,386	2,818	676	703	782	305	353	392	2,973	3,442	3,9

Projected statement of cashflows

Projected statement of cashflows	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Cashflows from operating activities												
Cash surplus/(deficit) from operations	1,993	2,386	2,818	676	703	782	305	353	392	2,973	3,442	3,991
[Other items]										0	0	0
Net cashflows from operating activities	1,993	2,386	2,818	676	703	782	305	353	392	2,973	3,442	3,991
Cashflows from investing activities												
[Other items]										0	0	0
Capital expenditure – infrastructure assets	(21,472)	(6,511)	(7,718)	(4,737)	(660)	(3,636)	(1,851)	(1,272)	(2,822)	(28,060)	(8,443)	(14,176)
Net cashflows from investing activities	(21,472)	(6,511)	(7,718)	(4,737)	(660)	(3,636)	(1,851)	(1,272)	(2,822)	(28,060)	(8,443)	(14,176)
Cashflows from financing activities												
New borrowings	19,479	4,125	4,901	4,061	(43)	2,854	1,547	919	2,430	25,086	5,002	10,185
Repayment of borrowings										0	0	0
Net cashflows from financing activities	19,479	4,125	4,901	4,061	(43)	2,854	1,547	919	2,430	25,086	5,002	10,185
Net increase/(decrease) in cash and cash equivalents	(0)	0	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	(0)	0	0	0	0	0	0	0	0	0	0	0

Projected statement of financial position

Projected statement of financial position	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Assets												
Cash and cash equivalents	(0)	(0)	(0)	0	0	0	0	0	0	(0)	(0)	(0)
Other current assets	0	0	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	156,922	163,131	170,312	84,483	84,779	87,866	27,413	28,671	31,446	268,818	276,581	289,624
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	156,922	163,131	170,312	84,483	84,779	87,866	27,413	28,671	31,446	268,818	276,581	289,624
Liabilities												
Borrowings – current portion	66,120	70,245	75,146	12,699	12,656	15,510	7,754	8,673	11,103	86,572	91,574	101,759
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Borrowings – non-current portion	0	0	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Total liabilities	66,120	70,245	75,146	12,699	12,656	15,510	7,754	8,673	11,103	86,572	91,574	101,759
Net assets	90,802	92,885	95,167	71,784	72,123	72,355	19,659	19,999	20,343	182,245	185,007	187,865
Equity												
Revaluation reserves	2,720	5,859	9,121	1,603	3,292	4,988	512	1,060	1,634	4,835	10,211	15,743
Other reserves	88,082	87,027	86,045	70,181	68,831	67,368	19,147	18,938	18,709	177,411	174,796	172,122
Total equity	90,802	92,885	95,167	71,784	72,123	72,355	19,659	19,999	20,343	182,245	185,007	187,865

Serviced areas

Serviced areas (by reticulated network)	Water supply # schemes	Water Supply Number of Connections	Wastewater #schemes	Wastewater Number of Connections	Stormwater # catchments	Stormwater number of properties served
Residential areas (If more than one identify separately)	Balclutha	2024	Balclutha	2072	Balclutha	2140
	Benhar	57	Benhar	Connects into Balclutha	Benhar	N/A
	Clinton	162	Clinton	160	Clinton	160
	Heriot	Fed from Moa Flat	Heriot	67	Heriot	63
	Kaitangata	426	Kaitangata	371	Kaitangata	378
	Kaka Point	270	Kaka Point	261	Kaka Point	257
	Lawrence	364	Lawrence	320	Lawrence	308
	Milton	1047	Milton	1024	Milton	936
	Owaka	215	Owaka	208	Owaka	189
	Pounawea	N/A	Pounawea	7	Pounawea	91
	Stirling	164	Stirling	142	Stirling	143
	Taieri Mouth	N/A	Taieri Mouth	N/A	Taieri Mouth	220
	Tapanui	468	Tapanui	423	Tapanui	412
	Waihola	237	Waihola	226	Waihola	226
	Total Urban connections	**5434**		**5274**		**5523**
	Balmoral Tuapeka RWS	618	-	-	-	-
	Clydevale/ Pomahaka RWS	321	-	-	-	-
	Glenkenich RWS	389	-	-	-	-
	Moa Flat RWS	297	-	-	-	-
	North Bruce RWS	489	-	-	-	-
	Richardson RWS	429	-	-	-	-
	South Bruce RWS	129	-	-	-	-
	Waipahi SWS	51	-	-	-	-
	Wangaloa RWS	25	-	-	-	-
	Total Rural connection	**2748**				
	Total from 2024 Valuation	**8182**	**Total from 2024-25 Rate list**	**5274**	**Totals from 2024-25 Rates List**	**5523**
Mixed-Use rural drinking water schemes	N/A	-	N/A	-	N/A	-

Areas that do not receive water services (If more than one identify separately)	Number of properties not connected to Water Supply	Number of properties not connected to Wastewater	Number of properties not connected to Stormwater
Taieri Mouth	393	393	358
Toko Mouth	107	107	107
New Haven	39	39	39
Jacks Bay	59	59	59
Papatowai	89	89	89
Tahakopa	24	24	24
Waipori Village/Falls	70	70	70
Proposed growth areas	Milton North	The 2024 LTP assumes that the number of dwellings will increase at an annual average growth rate of 0.6%. Benhar, Bruce, Waihola and Taieri Mouth are expected to experience the higher growth subject to the availability of residential development and services such as proposed water service improvements. It is forecast that there will be 1,420 extra dwellings by 2054.	
	Milton – Springwell Rise		

Asset age and condition

Parameters	Drinking supply	Wastewater	Stormwater
Average age of Network Assets	35	39	39
Average remaining life	49.61%	53.41%	55.92%
Critical Assets	not identified	not identified	not identified
Above ground assets • Treatment plant/s • Percentage or number of above ground assets with a condition rating • Percentage of above –ground assets in poor or very poor condition	 16 93% * 10% (of 93%)	 12 88% * 10% (of 88%)	 Non 100% * 16%
Below ground assets • Total Km of reticulation • Percentage of network with condition grading • Percentage of network in poor or very poor condition	 2,523 Km 59%* 6.2% (of 59%)	 213 Km 9% (CCTV) 27% (of 9%)	 81 Km [18% (CCTV) 32% (of 18%)
** Condition rated using operational info and age/mat desktop only.*			

Drinking Water Consents

Expiring in the next 10 years

Resource Consent Number/ Plant	Type of Resource Consent	Expiry Date for Resource Consent	Status	Non-compliance	Compliance Actions (last 24 months)	Comments
2002.238	Water take	11/01/2037	Active			
2004.964	Water take	9/08/2039	Active			
RM18.071.01	Water take	10/08/2044	Active			
2006.220- Clydevale WTP	Water take	12/01/2041	Active			
2005.283.V2- Glenkenich WTP	Water take	7/12/2040	Active			Full compliance (as of 2022-2023 report)
96676- Kaitangata WTP	Water take	11/01/2024	Active			Reconsenting underway (operating on s124)
RM17.146.01	Water take	3/01/2053	Active			
98544	Water take	3/01/2019	Active			Concurrent with RM17.146.01
RM12.137.01- Lawrence WTP	Water take	1/31/2051	Active			

Resource Consent Number/ Plant	Type of Resource Consent	Expiry Date for Resource Consent	Status	Non-compliance	Compliance Actions (last 24 months)	Comments
RM12.137.02	Water take	1/31/2051	Active			
RM12.137.03	Water take	1/31/2051	Active		EN.RMA.22.0027	
RM12.137.04-Lawrence WTP	Water take	1/31/2051	Active			
RM12.137.05	Water take	1/31/2051	Active			
2000.417- Milton WTP	Water take	2/01/2031	Active			
2005.637	Water take	3/20/2041	Active			
RM17.177.01	Water take	7/01/2052	Active			
12.1.2.2	Water take	NA	Active			
2000.418.V1	Water take	11/01/2030	Active			
RM17.089.01	Water take	5/18/2028	Active			
2009.142.V2	Water take	8/10/2045	Active			
RM22.665.01	Water take	5/31/2029	Active			Not yet in use
RM22.694.01	Water take	TBC	Active			Currently underway

Resource Consent Number/ Plant	Type of Resource Consent	Expiry Date for Resource Consent	Status	Non-compliance	Compliance Actions (last 24 months)	Comments
RM18.196.01- Moa Flat WTP	Water take	12/16/2028	Active			
RM18.196.02- Moa Flat WTP	Water take	12/16/2028	Active		EN.RMA.25.0045	Water permit to dam water in Timber Creek
RM18.196.03- Moa Flat WTP	Water take	12/16/2028	Active			Water permit to dam water in storage reservoir
RM18.385.01 – North Bruce WTP	Water take	12/15/2028	Active			
RM23.548.02	Water take	6/12/2040	Active			
RM11.036.01 – Waitahuna WTP	Discharge to water	4/27/2046	Active			
RM12.112.01 – Stirling WTP	Discharge to water	7/25/2032	Active			
RM15.314.01 – Glenkenich WTP	Discharge to water	1/01/2051	Active		EN.RMA.24.0024 EN.RMA.24.0023- cancelled EN.RMA.25.0047	

Resource Consent Number/ Plant	Type of Resource Consent	Expiry Date for Resource Consent	Status	Non-compliance	Compliance Actions (last 24 months)	Comments
RM15.115.01 – Moa Flat WTP	Discharge to water	9/01/2050	Active		EN.RMA.25.0046	
RM15.315.01 – Kaitangata WTP	Discharge to water	1/01/2051	Active		EN.RMA.22.0012-cancelled	
RM13.134.01 – Puerua WTP	Discharge to water	9/25/2048	Active			
RM15.116.01 – North Bruce WTP	Discharge to water	9/01/2050	Active		EN.RMA.25.0038- tbc	
RM13.135.01 – Whitelea Rd WTP	Discharge to water	11/27/2048	Active		EN.RMA.25.0037	
RM17.035.01 -Tapanui WTP	Discharge to water	28/10/2025	Active			
RM23.718.01 – Lawrence WTP	Discharge to land	3/13/2026	Active			

Wastewater Consents

Expiring in the next 10 years

Comments	Type of Resource Consent	Expiry Date for Resource Consent	Status	Non-compliance	Compliance Actions (last 24 months)	
RM17.328.01- Balclutha WWTP	Discharge treated wastewater to water	10/17/2030	Active	Significant non-compliance	EN.RMA.24.0033	
RM13.443.01- Heriot WWTP	Discharge treated wastewater to water	2/28/2049	Active	Moderate non-compliance	EN.RMA.23.0145	
2005.193- Stirling WWTP	Discharge treated wastewater to water	11/25/2045	Active	Significant non-compliance	EN.RMA.22.0061	
RM17.092.01- Clinton WWTP	Discharge treated wastewater to water	5/05/2027	Active	Moderate non-compliance		
RM14.001.01- Kaitangata WWTP	Discharge treated wastewater to water	3/21/2049	Active	Significant non-Compliance	EN.RMA.22.0058	
2008.308.V1- Lawrence WWTP	Discharge treated wastewater to water	1/21/2046	Active	Significant non-compliance	EN.RMA.22.0060	
2008.428- Lawrence WWTP	Discharge to air	1/21/2046	Active	Low risk non-compliance		
2007.090.V1- Milton WWTP	Discharge treated wastewater to water	5/20/2044	Active	Significant non-compliance	EN.RMA.22.0062	

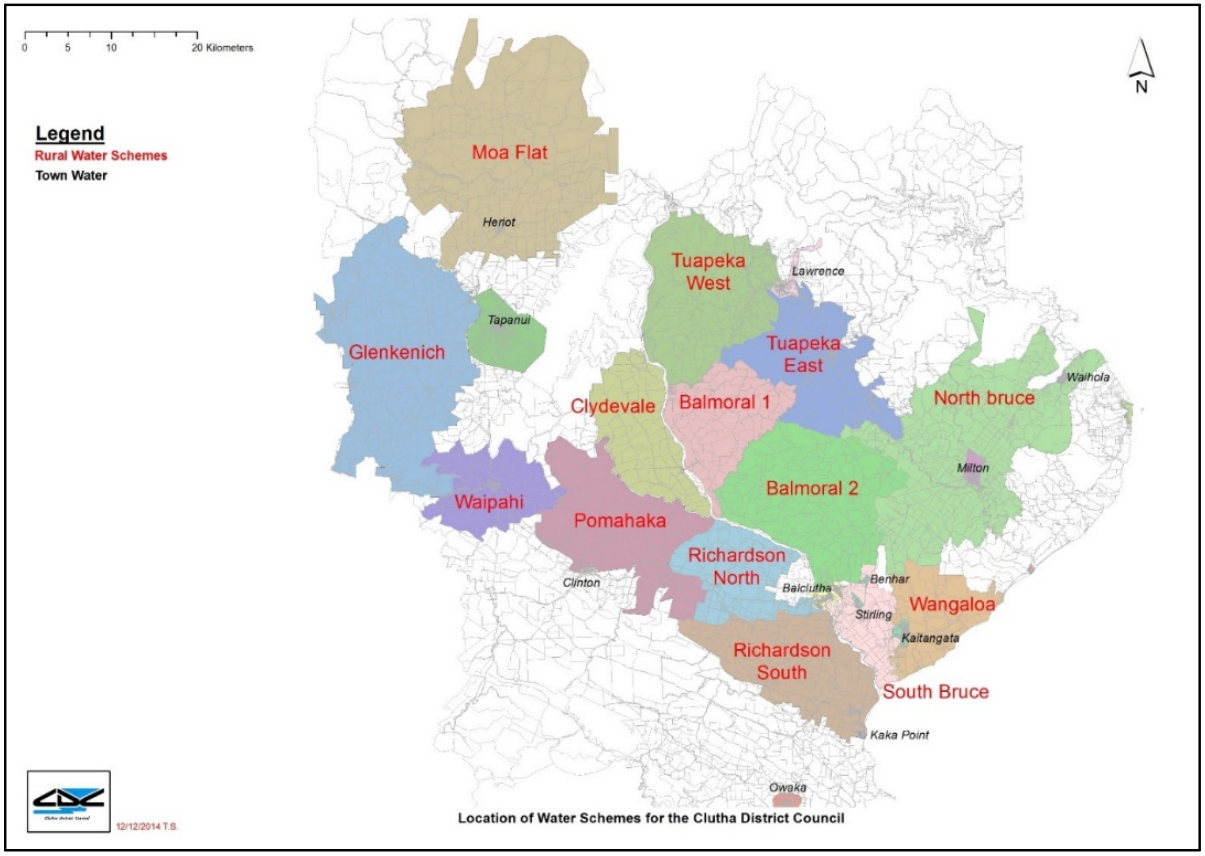
					EN.RMA.24.0083-tbc	
2007.091	Discharge to air	5/18/2044	Active	Full compliance		
17.282.01- Milton	Milton bypass	6/30/2029	Active	Significant non-compliance	EN.RMA.21.0093	
RM15.364.01- Waihola WWTP	Discharge treated wastewater to water	5/18/2028	Active	Significant non-compliance	EN.RMA.24.0010	
2005.246.V1- Tapanui Township	Discharge treated wastewater to water	11/25/2045	Active	Significant non-compliance	EN.RMA.22.0112-cancelled	
2008.690.V1- Kaka Point WWTP	Discharge treated wastewater to water	1/26/2046	Active	Significant non-compliance	EN.RMA.22.0059	
2008.691	Kaka Point coastal permit	1/26/2046	Active			Coastal permit for long concrete pipeline structure of Kaka Point Township.
2003.680.V1- Owaka WWTP	Discharge treated wastewater to water	11/25/2045	Active	Significant non-compliance	EN.RMA.22.0111	

Stormwater Consents

Resource Consent Number/ Plant	Type of Resource Consent	Expiry Date for Resource Consent	Status	Non-compliance	Compliance Actions (last 24 months)	Comments
RM17.030.01- Palmer Place	Stormwater Discharge	01/04/2052	Active			

Insert serviced area maps –ww

Map of urban and rural water schemes



Gore District Council

Three waters revenue and debt

Three waters revenue and debt for Gore District Council under an alternative in house delivery model is shown below for the purposes of comparison with the joint WSE. It shows three waters debt remaining below 500% of three waters revenue, with debt only exceeding the minimum FFO to debt ratio of 11% that would have applied for a stand-alone WSE from 2033, and briefly in 2027/28..

Borrowing headroom/(shortfall) against limit ($000s)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating revenue	8,470	10,142	11,382	12,607	13,005	13,742	14,312	16,606	19,449	22,642
Debt to revenue limit for water services (%)	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt at borrowing limit	**42,351**	**50,709**	**56,910**	**63,037**	**65,027**	**68,712**	**71,562**	**83,028**	**97,247**	**113,212**
Projected net debt attributed to water services	28,987	34,091	40,190	41,057	47,992	52,023	58,777	71,624	81,484	89,144
Net debt to operating revenue %	**342%**	**336%**	**353%**	**326%**	**369%**	**379%**	**411%**	**431%**	**419%**	**394%**
Borrowing headroom/(shortfall) against limit	**13,364**	**16,619**	**16,720**	**21,980**	**17,036**	**16,690**	**12,784**	**11,404**	**15,763**	**24,068**
Projected free funds from operations – water services	3,065	3,784	4,235	4,835	5,015	5,219	5,426	7,214	9,247	11,781
Free funds from operations to net debt ratio	**10.6%**	**11.1%**	**10.5%**	**11.8%**	**10.5%**	**10.0%**	**9.2%**	**10.1%**	**11.3%**	**13.2%**

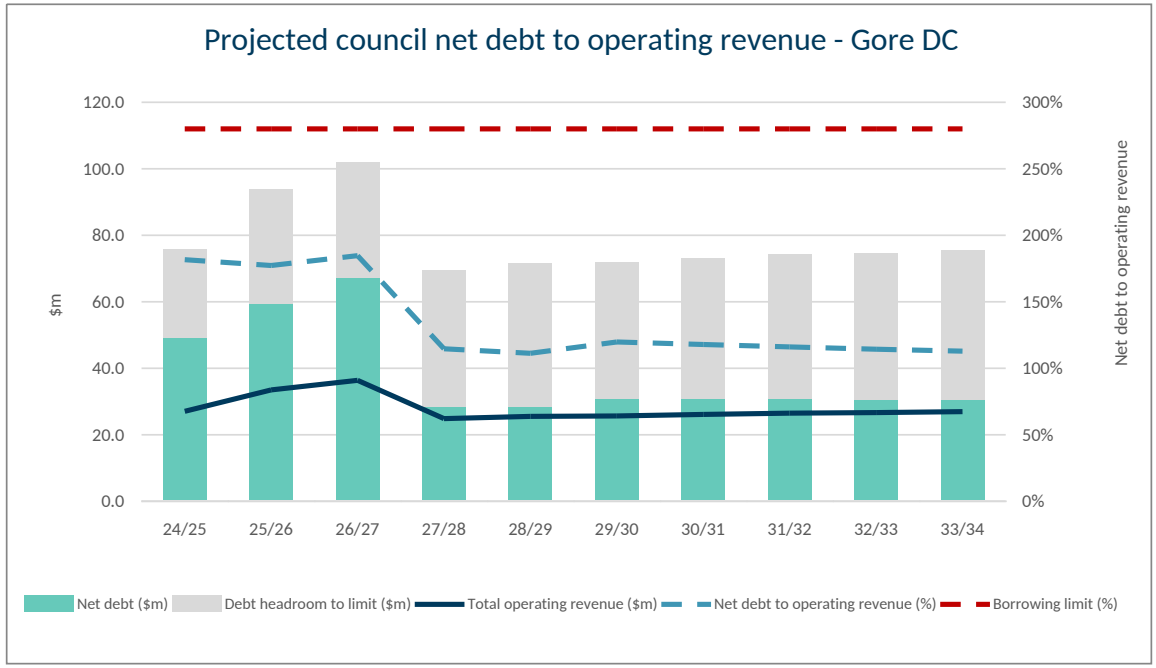
Impact on household charges and affordability

Without a SWDW joint CCO, household charges for water consumers in Gore would be expected to rise by 166% from 2024/25 to 2033/34. During this period affordability would also deteriorate as three waters charges increase from 2.2% of median household income to a 4.8%, signalling significant affordability challenges for local water consumers.

Without these increases, Gore District Council would be likely to breach lending covenants.

Projected average charge per residential connection (including GST)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Drinking water	915	1,104	1,177	1,399	1,446	1,493	1,543	1,756	2,038	2,296
Wastewater	616	725	794	874	881	903	908	1,045	1,201	1,445
Stormwater	259	312	438	382	412	504	577	706	872	1,013
Average charge per connection / rating unit	**1,789**	**2,141**	**2,408**	**2,655**	**2,739**	**2,901**	**3,027**	**3,507**	**4,111**	**4,753**
Increase in average charge		0	0	0	0	0	0	0	0	0
Household charge as a percentage of median household income	**2.2%**	**2.6%**	**2.8%**	**3.0%**	**3.1%**	**3.2%**	**3.2%**	**3.7%**	**4.2%**	**4.8%**

Projected borrowing capacity



Projected funding impact statement

Projected funding impact statement	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Sources of operating funding												
General rates	0	0	0	0	0	0	0	0	0	0	0	0
Targeted rates	3,605	4,376	4,686	2,649	3,295	3,656	1,024	1,238	1,741	7,277	8,909	10,084
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other	0	0	0	0	0	0	0	0	0	0	0	0
Fees and charges	263	303	319	930	930	979	0	0	0	1,193	1,233	1,298
Total sources of operating funding	3,868	4,679	5,005	3,579	4,225	4,636	1,024	1,238	1,741	8,470	10,142	11,382
Applications of operating funding												
Payments to staff and suppliers	1,144	1,515	1,582	1,208	1,313	1,377	211	214	477	2,562	3,041	3,436
Finance costs	618	720	923	422	513	531	142	181	262	1,182	1,413	1,715
Internal charges and overheads applied	921	1,055	1,107	588	674	706	152	174	182	1,661	1,903	1,995
Other operating funding applications	0	0	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	2,683	3,290	3,612	2,218	2,499	2,614	505	569	921	5,405	6,358	7,147
Surplus/(deficit) of operating funding	1,185	1,389	1,393	1,361	1,726	2,022	519	669	820	3,065	3,784	4,235
Source of capital funding												
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in debt	4,597	5,946	3,055	(185)	(556)	909	(64)	(289)	2,133	4,348	5,101	6,096
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	4,597	5,946	3,055	(185)	(556)	909	(64)	(289)	2,133	4,348	5,101	6,096
Applications of capital funding												
Capital expenditure - to meet additional demand	0	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	4,645	6,550	938	300	300	237	162	280	2,742	5,107	7,130	3,917
Capital expenditure - to replace existing assets	1,137	785	3,510	876	870	2,694	293	100	211	2,306	1,755	6,414
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0	0	0
Total applications of capital funding	5,782	7,335	4,448	1,176	1,170	2,930	455	380	2,953	7,413	8,885	10,331
Surplus/(deficit) of capital funding	(1,185)	(1,389)	(1,393)	(1,361)	(1,726)	(2,022)	(519)	(669)	(820)	(3,065)	(3,784)	(4,235)
Funding balance	0	0	0	0	0	0	0	0	0	0	0	0

Projected statement of comprehensive revenue and expense

Projected statement of profit and loss	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026
Revenue												
Operating revenue	3,868	4,679	5,005	3,579	4,225	4,636	1,024	1,238	1,741	8,470	10,142	11,3
Other revenue	0	0	0	0	0	0	0	0	0	0	0	
Total revenue	3,868	4,679	5,005	3,579	4,225	4,636	1,024	1,238	1,741	8,470	10,142	11,3
Expenses												
Operating expenses	1,144	1,515	1,582	1,208	1,313	1,377	211	214	477	2,562	3,041	3,4
Finance costs	618	720	923	422	513	531	142	181	262	1,182	1,413	1,7
Overheads and support costs	921	1,055	1,107	588	674	706	152	174	182	1,661	1,903	1,9
Depreciation & amortisation	1,184	1,272	1,275	2,092	2,094	2,102	957	962	968	4,233	4,328	4,3
Total expenses	3,867	4,561	4,886	4,310	4,593	4,716	1,461	1,531	1,889	9,638	10,686	11,4
Net surplus/(deficit)	1	118	119	(731)	(368)	(80)	(438)	(293)	(148)	(1,168)	(544)	(1
Revaluation of infrastructure assets	550	653	788	965	966	966	248	243	237	1,763	1,862	1,9
Total comprehensive income	551	771	906	233	598	886	(189)	(50)	89	595	1,319	1,8
Cash surplus/(deficit) from operations (ex non-cash items)	1,185	1,389	1,393	1,361	1,726	2,022	519	669	820	3,065	3,784	4,2

Projected statement of cashflows

Projected statement of cashflows	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Cashflows from operating activities												
Cash surplus/(deficit) from operations	1,185	1,389	1,393	1,361	1,726	2,022	519	669	820	3,065	3,784	4,235
[Other items]										0	0	0
Net cashflows from operating activities	1,185	1,389	1,393	1,361	1,726	2,022	519	669	820	3,065	3,784	4,235
Cashflows from investing activities												
[Other items]										0	0	0
Capital expenditure – infrastructure assets	(5,782)	(7,335)	(4,448)	(1,176)	(1,170)	(2,930)	(455)	(380)	(2,953)	(7,413)	(8,885)	(10,331)
Net cashflows from investing activities	(5,782)	(7,335)	(4,448)	(1,176)	(1,170)	(2,930)	(455)	(380)	(2,953)	(7,413)	(8,885)	(10,331)
Cashflows from financing activities												
New borrowings	4,597	5,946	3,055	(185)	(556)	909	(64)	(289)	2,133	4,348	5,101	6,096
Repayment of borrowings										0	0	0
Net cashflows from financing activities	4,597	5,946	3,055	(185)	(556)	909	(64)	(289)	2,133	4,348	5,101	6,096
Net increase/(decrease) in cash and cash equivalents	0	0	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at beginning of year	0	0	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of year	0	0	0	0	0	0	0	0	0	0	0	0

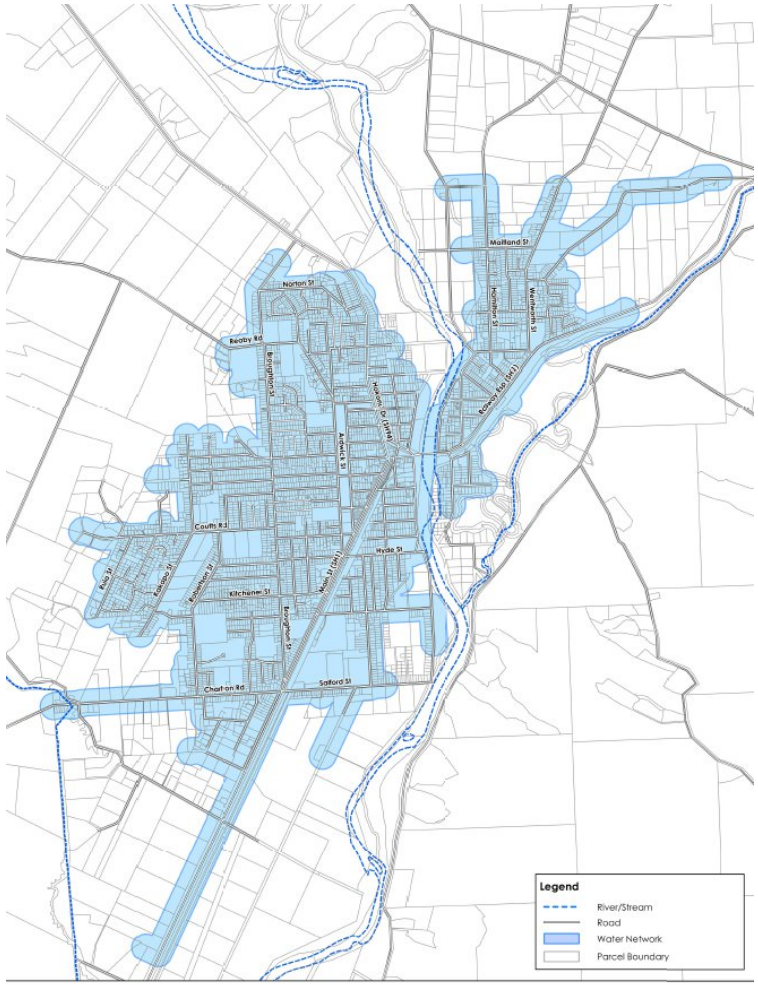
Projected statement of financial position

Projected statement of financial position	Drinking water			Wastewater			Stormwater			Combined water services		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Assets												
Cash and cash equivalents	0	0	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	32,661	39,378	43,340	48,281	48,323	50,119	12,171	11,833	14,056	93,112	99,535	107,515
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	32,661	39,378	43,340	48,281	48,323	50,119	12,171	11,833	14,056	93,112	99,535	107,515
Liabilities												
Borrowings – current portion	15,944	21,890	24,946	9,558	9,003	9,913	3,485	3,197	5,331	28,987	34,091	40,190
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Borrowings – non-current portion	0	0	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Total liabilities	15,944	21,890	24,946	9,558	9,003	9,913	3,485	3,197	5,331	28,987	34,091	40,190
Net assets	16,717	17,488	18,394	38,722	39,320	40,206	8,686	8,636	8,725	64,125	65,444	67,325
Equity												
Revaluation reserves	550	1,203	1,991	965	1,930	2,897	248	492	729	1,763	3,626	5,616
Other reserves	16,167	16,285	16,403	37,758	37,390	37,310	8,437	8,144	7,996	62,362	61,818	61,709
Total equity	16,717	17,488	18,394	38,722	39,320	40,206	8,686	8,636	8,725	64,125	65,444	67,325

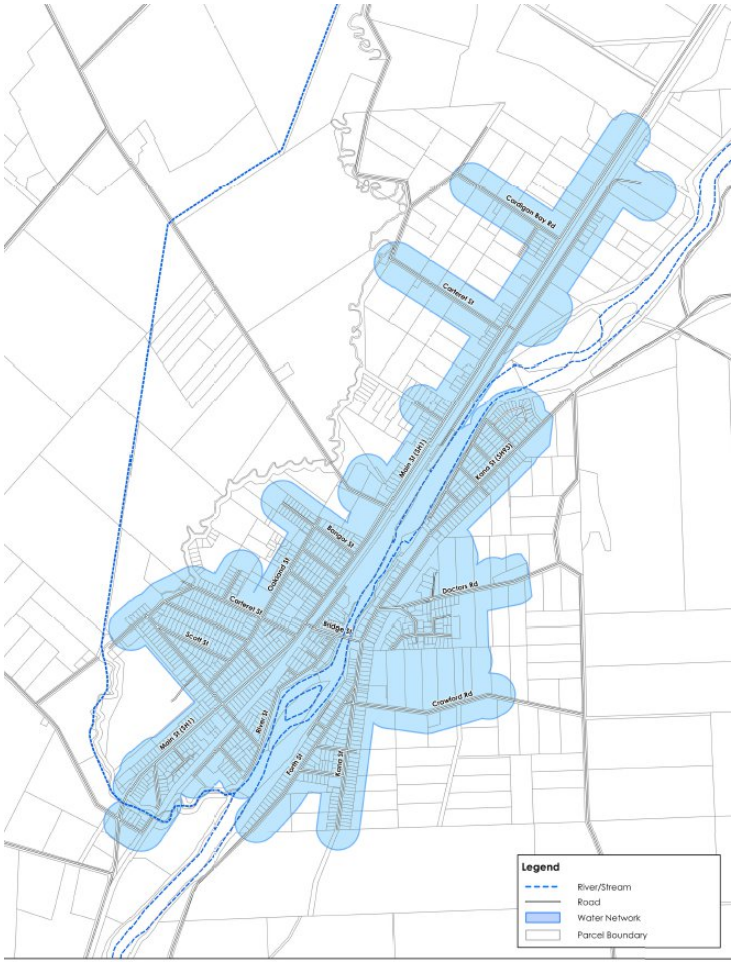
Serviced areas

Serviced areas (by reticulated network)	Water supply # schemes	Wastewater #schemes	Stormwater # catchments
Residential areas (If more than one identify separately)	Gore - 3565 Connections Mataura - 724 Connections	Gore - 3585 Connections Mataura - 725 Connections Waikaka - 47 Connections	Gore - 2151 Connections Mataura - 580 Connections Waikaka - 47 Connections Pukerau - 47 Connections
Non-residential areas (If more than one identify separately)	Gore - 497 Connections Mataura - 78 Connections	Gore - 1156 Connections Mataura - 195 Connections Waikaka - 47 Connections	Gore - 1156 Connections Mataura - 195 Connections Waikaka – 47 Connections Pukerau - 47 Connections
Mixed-Use rural drinking water schemes (where these schemes are not part of the council's water services network)	Otama Rural Water Scheme Kaiwera Rural Water Scheme Otikerama Rural Water Scheme Glenkenich (Clutha DC Scheme)	n/a	n/a
Areas that do not receive water services (If more than one identify separately)	Rural – Approximately 1772 properties (number includes properties connected to rural water schemes)	Rural – approximately 1725 properties	Rural – approximately 1678 properties
Proposed growth areas • Planned (as identified in district plan) • Infrastructure enabled (as identified and funded in LTP)	Gore: Planned: 860 new dwellings over the next 20 years to 2038, i.e.: • Gore North-west: 400 lots • Gore South-west: 428 lots • Gore North: 17 lots • East Gore: 16 lots • South Gore: Non-residential 86ha Mataura: Planned: • Mataura East: 164 lots • Mataura South: Non-residential 126ha Infrastructure enabled: • The current LTP does not include for growth of these planned areas.	Gore: Planned: 860 new dwellings over the next 20 years to 2038, i.e.: • Gore North-west: 400 lots • Gore South-west: 428 lots • Gore North: 17 lots • East Gore: 16 lots • South Gore: Non-residential 86ha Mataura: Planned: • Mataura East: 164 lots • Mataura South: Non-residential 126ha Infrastructure enabled: • The current LTP includes for growth for upgrading of the WWTPs at Gore and Mataura and freeing up capacity through separation of SW and WW services.	Gore: Planned: 860 new dwellings over the next 20 years to 2038, i.e.: • Gore North-west: 400 lots • Gore South-west: 428 lots • Gore North: 17 lots • East Gore: 16 lots • South Gore: Non-residential 86ha Mataura: Planned: • Mataura East: 164 lots • Mataura South: Non-residential 126ha Infrastructure enabled: • The current LTP does not include for growth except through separation of SW and WW services where the new SW mains will include for future capacity.

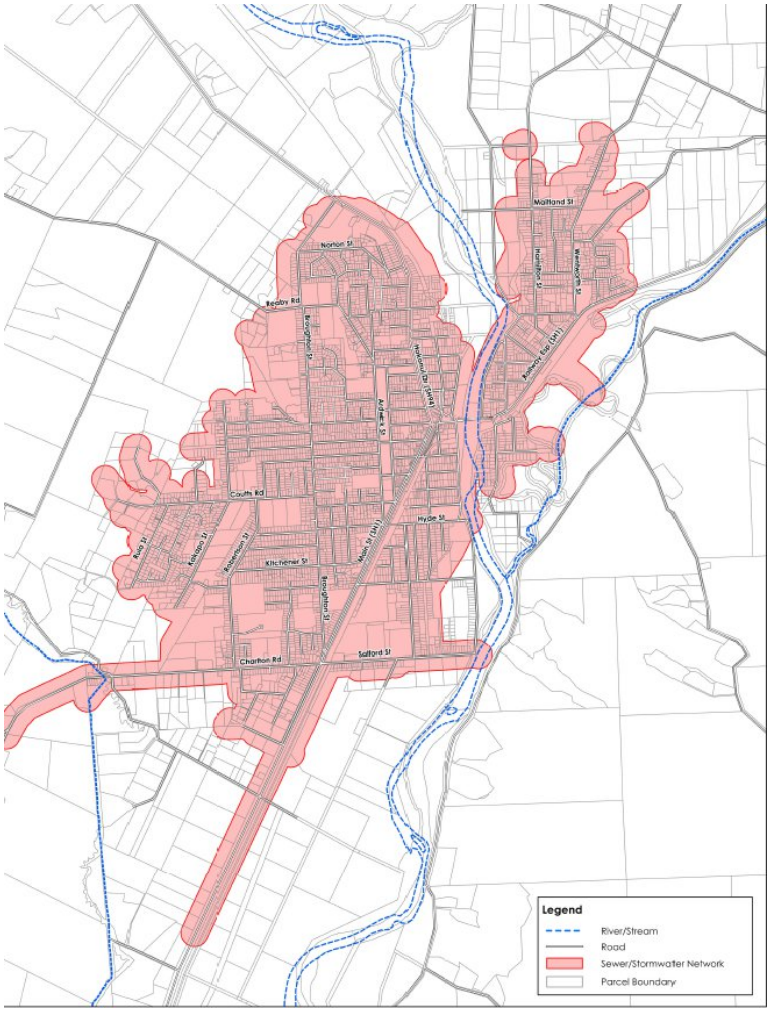
Gore water supply network



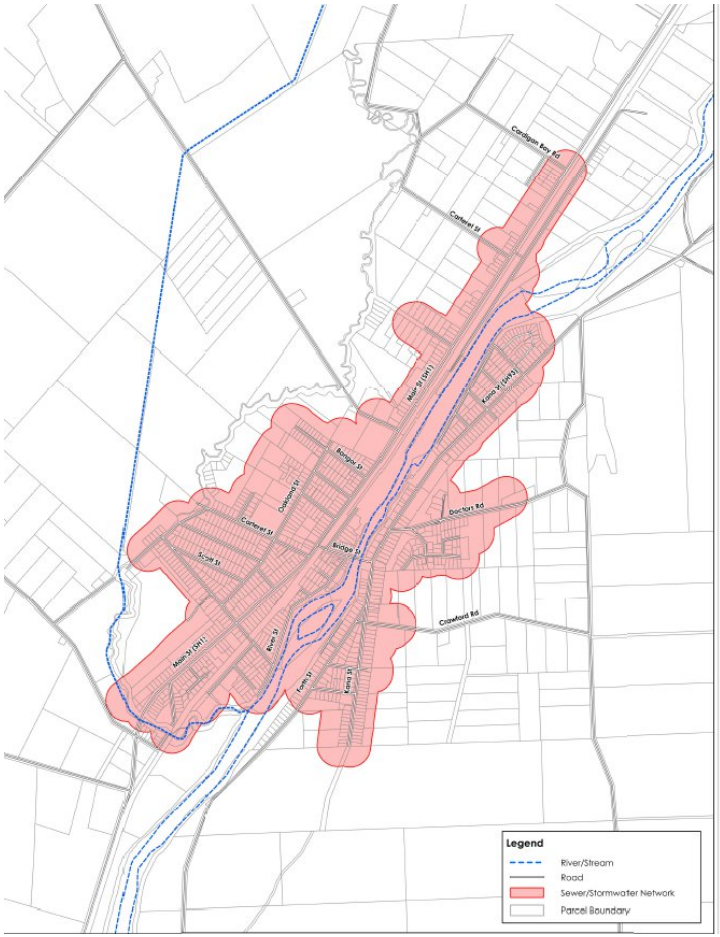
Mataura water supply network



Gore wastewater network



Mataura wastewater network



Asset age and condition

Parameters	Drinking supply	Wastewater	Stormwater
Average age of Network Assets	47 years	[51 years]	[48 years]
Critical Assets	Below ground Pipelines: High Criticality: 22km of which 14.5km have an estimated renewal date prior to 2030. Above ground: 9	Below ground Pipelines: High Criticality: 15km of which 4.8km have an estimated renewal date prior to 2030. Above ground: 19	Below ground Pipelines: High Criticality: 6.3km Above ground: 6
Above ground assets • Treatment plant/s • Percentage or number of above ground assets with a condition rating • Percentage of above –ground assets in poor or very poor condition	[3 Plants, 1 Pumpstation] [0%] Two of the nine above ground critical assets (Hilbre WTP and Reservoir) are in a poor condition and both will be decommissioned by end 2026.	[3 Plants, 16 Pumpstations] [0%] Four of the pumpstations are in poor condition.	4 Pumpstations, 2 Stormwater basins [0%] Two of the pumpstations are on the LTP list for renewals of electricals and controls
Below ground assets • Total Km of reticulation • Percentage of network with condition grading • Percentage of network in poor or very poor condition	170.1 Km - *Reliable* 16% - *Less reliable* 15% - Less Reliable (Age based)	[126.6 Km] - *Reliable* [85%] - *Reliable* [31.8%] - *Reliable*	[68.1Km] - *Reliable* [22.8%] - *Less reliable* [12.5%] - *Less reliable (Age based)*

Appendix Two - Sensitivity testing

Sensitivity testing has been completed based on the following scenarios:

- Capital expenditure cost estimates, based on advice from Utility NZ to determine uncertainty bands. Scenarios including the capital programme being smaller, and larger, than planned have been tested based on Utility NZ's view of cost estimation certainty for each of the councils.
- Interest rate risk, including the impact of interest rates increasing by 1.5%. This has included consideration of compliance with the FFO to cash interest lending covenant from LGFA.
- A higher minimum FFO to debt lending covenant being achieved by the entity to allow borrowing headroom.
- The impact of not being able to achieve any operational or capital efficiencies
- The impact of operating and capital efficiencies being double what was originally modelled.

In all cases, revenue requirements for the joint WSE have been adjusted to meet LGFA lending covenants.

The results of this sensitivity testing, on the total revenue requirement of the joint WSE are outlined in the table below for the 2027/28 financial year and the 2033/34 financial year. They show that the joint WSE delivers lower household charges in all cases.

The table also indicates the expected cumulative reduction in revenue requirements for the SWDW joint WSE when compared to the combined revenue requirements of in house delivery models for the shareholding councils.

	Increase/(Decrease) in revenue requirement compared to base case		Increase/(Decrease) in revenue requirement compared to combined standalone delivery	
Scenario	**2027/28**	**2033/34**	**2027/28**	**2033/34**
Increased capital expenditure	2.1%	8.8%	(3.3%)	(9.7%)
Decreased capital expenditure	(1.1%)	(4.9%)	(3.4%)	(6.0%)
1.5% increase in interest cost	4.6%	5.5%	(3.2%)	(3.3%)
10% FFO to debt covenant	0.0%	2.4%	(3.3%)	(0.9%)
No efficiencies	0.0%	1.9%	(3.3%)	(1.4%)
Efficiencies doubled	0.0%	(2.5%)	(3.3%)	(5.7%)

7 DATE OF THE NEXT MEETING

The date of the next scheduled meeting is 27 August 2025.