

Local Water Done Well

ICC Infrastructure Committee - Workshop Two

3 December 2024

Workshop Agenda

- Introduction and Recap – 5 mins
- External Review – 20 mins
- Risk Review – 20 mins
- Morrison Low – Options Analysis – 70 mins
- Wrap up and Next Steps – 5 mins

Introduction and Recap on Approach

- **Workshop 1 held 12 November**
 - Defined what is important to Invercargill for future three water services.
 - Used to inform Investment Objectives - to evaluate the 3 Waters Delivery models against.
- **Workshop 2 - Focus for today**
 - Provide an updated view of 3 Waters Risks to inform assessment of the delivery model options.
 - Present a draft Multi Criteria Analysis of the Water Service Delivery options, including supporting financial modelling, against the Investment Objectives defined in Workshop 1.
 - Secure Councillor input to the analysis and receive direction on the preferred delivery models to take to public consultation AND / OR further work required to arrive at this decision.
- **Next Council forums**
 - End January 25 Infrastructure and Council Committee Meetings to secure formal decisions on the preferred delivery model options to take to consultation – in alignment with the Annual Plan.

November 2024



Te Tari Taiwhenua
Internal Affairs

LOCAL WATER DONE WELL

Indicative timeline for Water Services Delivery Plan development

An indicative timeline for Water Services Delivery Plans development is outlined below. This builds on the Plan development process set out in the Guidance material and is intended as a guide only (the only formal requirement for Councils is to submit a Plan by 3 September 2025).

Financial viability assessments Councils assess their standalone financial positions	Financial sustainability and delivery model Councils consider their preferred delivery model and explore alternative models	Community consultation Councils decide on their preferred delivery models and consult their communities	Finalise Plans for submission Councils finalise Plans for submission	Department review and acceptance of Plans Councils submit their final Plan. The Department reviews Plans and works with councils who are required to do further work on their Plan.
September – October 2024	November 2024 – January 2025	February – April 2025	May – July 2025	August – September 2025 (and ongoing)
Phase targets: All councils have assessed their own standalone financial positions and discussed with the Department. Councils have completed a stocktake of their current water services delivery arrangements and understand where information gaps are.	Phase targets: Councils are considering their preferred delivery model and exploring alternative models. Councils are discussing with the Department how they plan to address any barriers to financial sustainability.	Phase targets: Councils have decided on their preferred delivery model and have begun consultation with their communities. Some councils may undertake consultation at a later date alongside their annual Plan.	Phase targets: Councils are finalising their Plans for submission to the Department. Councils can request the Department to review their draft Plan. Councils that require an extension have requested an extension (before 3 August 2025).	Phase targets: Councils submit their final Plans (by 3 September 2025). The Department communicates either acceptance or need to resubmit. Clear pathways of support are identified to ensure all Plans are received by 3 September 2025.

External Review

Iain Rabbitts - Principal Water Process Engineer



Invercargill City Council Water Supply Risks

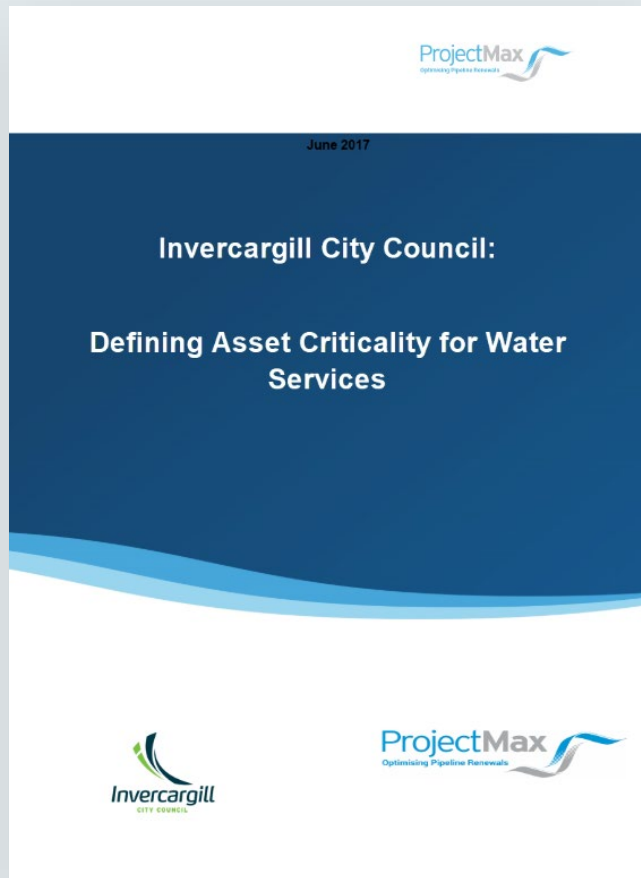
Iain Rabbitts

December 2024



Introductions

Good News



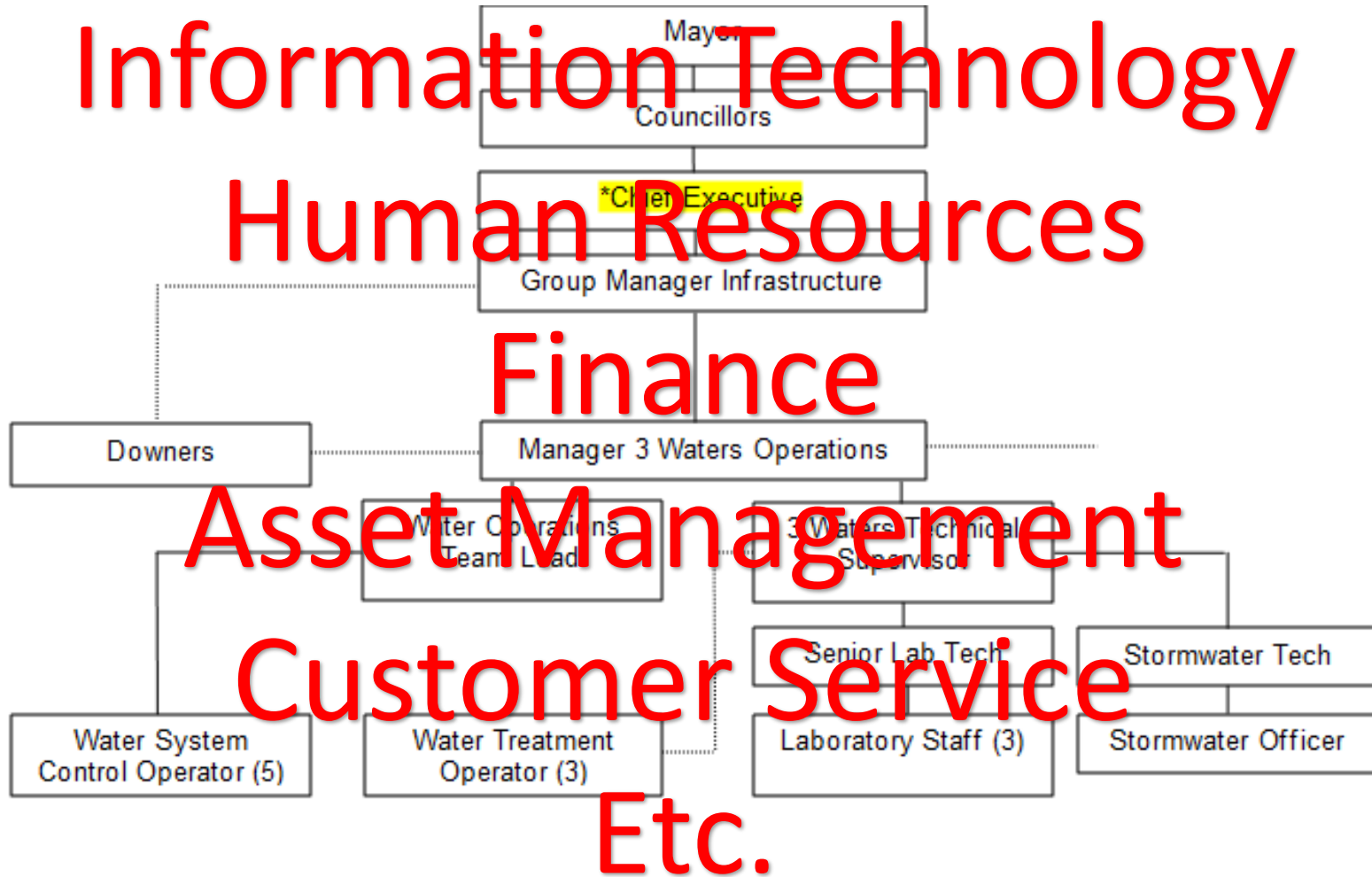
The Bad News





Training, Succession
Planning,
Recruiting,
Retaining and
Number of Staff

Structure



Version as at 3 September 2024



Water Services Act 2021

Public Act 2021 No 36

Date of assent 4 October 2021

Commencement see section 2

Risk Review

- ICC LWDW team completed a risk review of the ICC 3 Waters Function.
- Risks were identified and assessed in accordance with the ICC Risk Management Framework – Policy and Process
- Risk Assessment ‘out of tolerance’ compared to current 2024 -2034 LTP.

Risk Review – Optimal Case

Risk	Impact	Residual Risk Rating	\$ Impact
Lack of reticulation to Otatara (popln 2541), Otatara School (2023 is 267), Campground, Restaurants and Churches	Public Health Risk Fire Risk Financial Risk for ICC if reticulation is required by the regulator	Moderate	CapEx \$60m
Deep stormwater ditches without perimeter fencing or signage - adjacent to populated areas and roads.	Safety risk to adjacent populated areas Safety risk to adjacent road users	High	CapEx \$1m per year
Increase water supply capacity to Bluff	Constrains industrial growth	Moderate	\$25m

Morrison Low – Workshop

- Recap previous workshop
- Strategic objectives
- Results of financial modelling
- Multi criteria analysis – for review

Local water done well

Invercargill City Council

3 December 2024



Workshop approach

- Recap previous workshop
- Strategic objectives
- Results of financial modelling
- Multi criteria analysis

Options available?



Ringfenced in house unit

- Financial ringfencing
- No significant changes to service delivery approach

Ringfenced unit with structural change

- Accompany financial ringfencing with structural change
- May mean a realignment of reporting, a loss or gain of some functions
- Broadly still consistent with existing model

Shared services arrangement

- Could be a joint contract, shared service entity or a joint venture/shared business unit
- Scale could be large or local
- May include a management CCO (e.g. PowerNet and Wellington Water)

Wholly owned CCO/WSE

- Creates more borrowing capacity in council
- Adds a professional board
- Solely focussed on three waters

Otago Southland CCO/WSE

- Neighbours costs are significant
- Could it be an option if rates or debt are ringfenced?

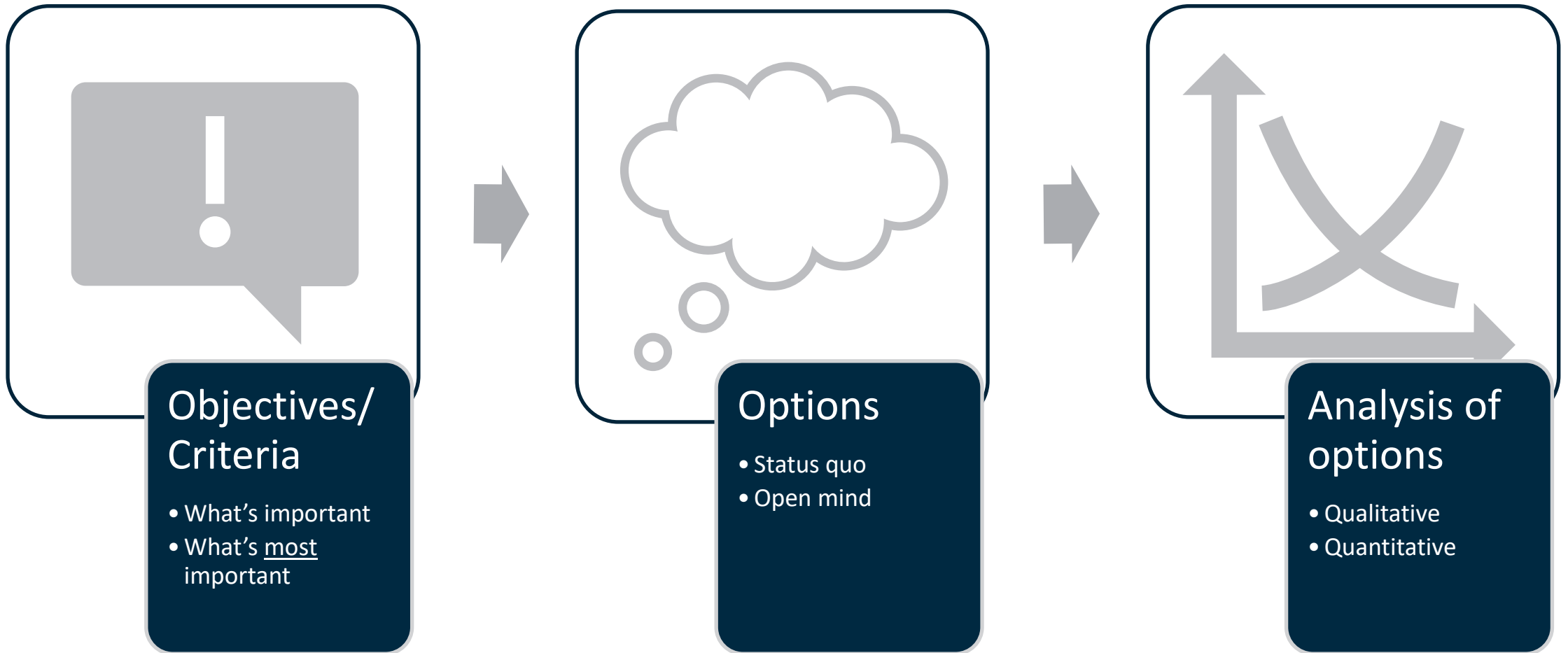
Southland only CCO

- Neighbours costs are significant
- May not have scale

Partly or fully owned by a community trust

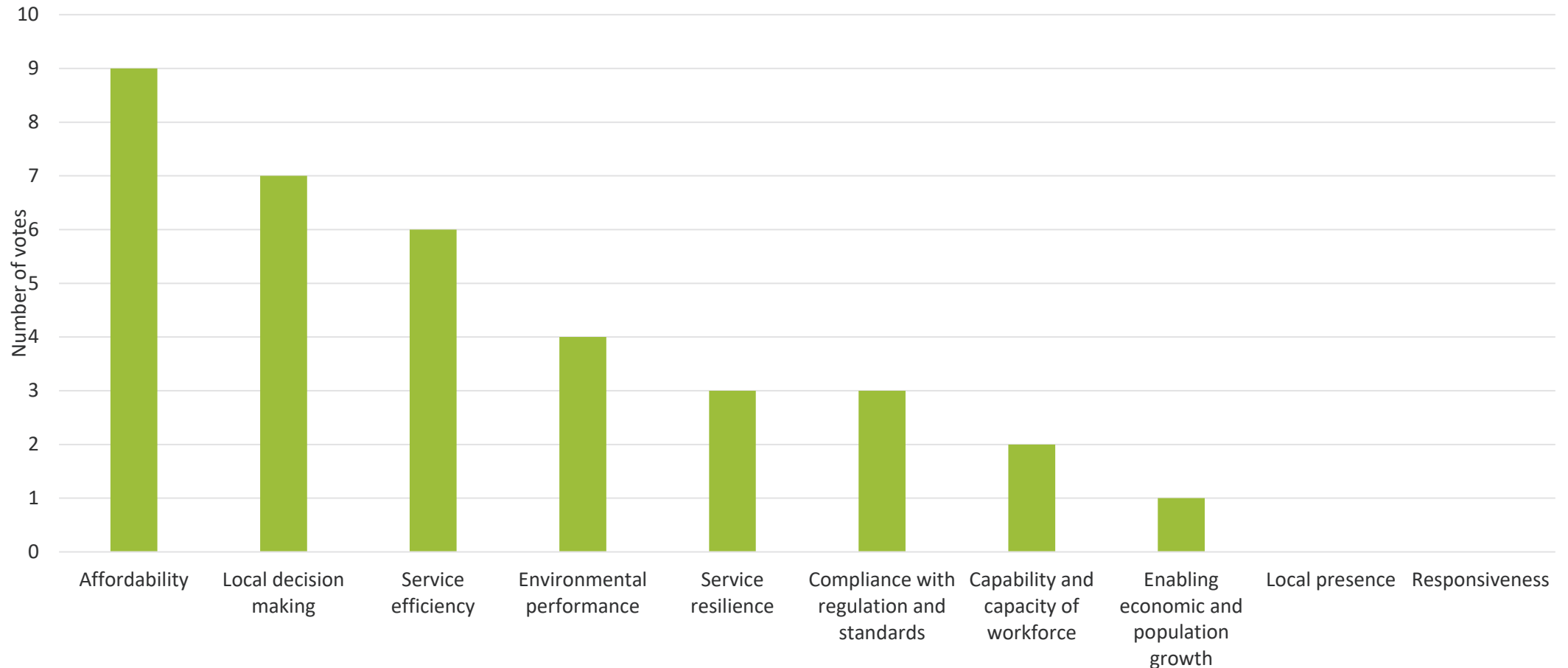
- ~~May provide some room for economies of scope?~~
- ~~Is there an existing trust that is a natural fit?~~
- ~~More permanent~~

Making a good decision



What you told us is important

Which three attributes of a potential three waters delivery model for ICC are most important to you?



Investment objectives – Invercargill



Deliver safe drinking water and safely treat and manage discharges



Deliver three waters services that support, and is ready for, changes in economic activity and population



Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management



Build and develop a strong and capable local three waters workforce



Ensure three waters services are efficient, effective, affordable and financially sustainable

	Deliver safe drinking water and safely treat and manage discharges	Deliver three waters services that support, and is ready for, changes in economic activity and population	Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	Build and develop a strong and capable local three waters workforce	Ensure three waters services are efficient, effective, affordable and financially sustainable
Affordability					✓✓✓
Service efficiency			✓	✓	✓✓
Environmental performance	✓✓✓				
Service resilience			✓	✓✓	✓
Local presence			✓	✓✓✓	
Enabling economic and population growth		✓✓✓	✓		
Compliance with regulation and standards	✓✓✓				✓
Local decision making		✓	✓✓✓	✓	
Capability and capacity of workforce				✓✓✓	
Responsiveness		✓	✓	✓✓✓	

Modelling approach

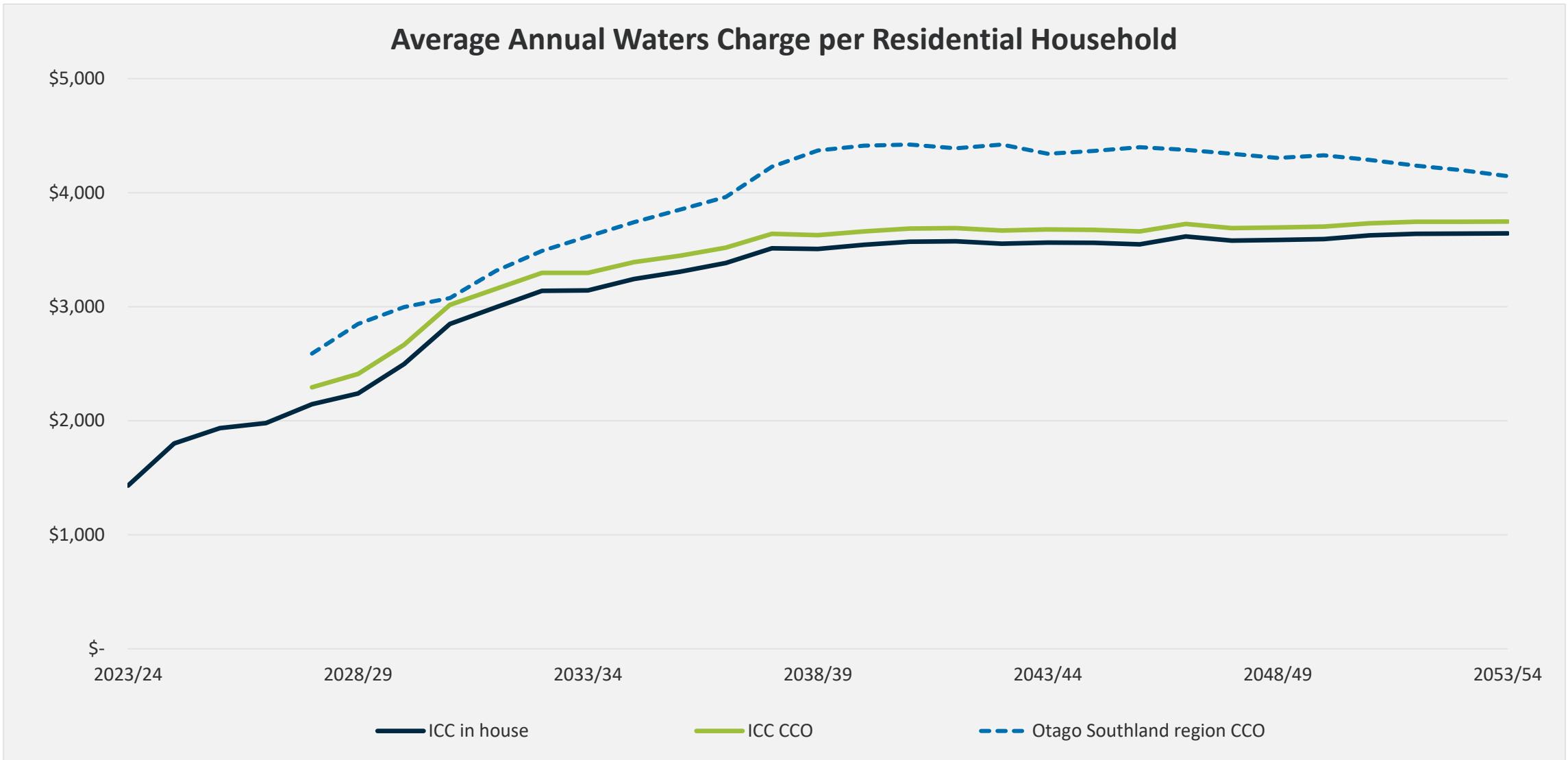
Debt

- All options utilise significant debt to fund three waters investment and manage household costs so comparing debt/revenue or other ratios has no value to making decisions:
 - Council options stay within debt/revenue ratio of 250%
 - CCO options stay below a conservative FFO ratio of 10% (Between 400% - 500% debt to revenue)

Comparison with other work

- Information has been refined since completing the Otago Southland modelling, and some modelling assumptions have altered:
 - Depreciation in ICC alone model is based on ICC's existing depreciation rates, not the Otago Southland average – minor impact
 - Changes to capital works programme to reflect outcomes from work with Council staff including additional capital investment for Doon street reservoir and alternative water supply – moderate impact
 - Changes to operating costs to reflect outcome of workshops with Council staff, including operating costs for alternative water – moderate impact
 - Fully funding depreciation – no impact
 - Inclusion of Council overheads – minor impact

Financial modelling



	Option 1: ICC inhouse business unit	Option 2: ICC in house with structural change	Option 3: Shared services	Option 4: ICC standalone CCO	Option 5: Southland only WSE	Option 6: Otago Southland WSE
Deliver safe drinking water and safely treat and manage discharges	0	1	1	2	2	3
Deliver three waters services that support, and is ready for, changes in economic activity and population	2	2	1	0	1	1
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	0	1	-1	2	3	1
Build and develop a strong and capable local three waters workforce	-1	-1	0	1	2	3
Ensure three waters services are efficient, effective, affordable and financially sustainable	3	3	3	2	-1*	-1
Total	1.2	1.5	1.2	1.5	1	1

A note on ringfencing

- The preferred option in an MCA would differ if entities are assumed to ringfence revenue
- Scoring assumes that a water entity's price is harmonised – this may not need to be the case, however:
 - In Morrison Low's view it is likely an entity will have a harmonised price eventually
 - Ringfencing and pricing principles need to be agreed by all parties
 - Making decisions that require revenue or prices to be ringfenced requires a high degree of trust

Modelling approach

CCO Modelling Assumptions

- Transition costs estimated using a population based sliding scale, derived from NTU estimates for national transition costs. That estimate was halved to account for local transitions being more cost effective. This approach results in estimates that are broadly consistent with costs allowed for in models produced by other consultants elsewhere in New Zealand
 - ICC : \$7.4M – there may be opportunities for this to be reduced
 - Otago Southland : \$53M
- Ongoing addition costs allowed for based on corporate costs, governance, additional resources, IT infrastructure & systems
 - ICC : \$4.4M
 - Otago Southland : \$26M
- All models (including Council business unit) include additional costs for complying with new regulatory regime

Modelling approach

CCO Modelling assumptions

- Benefits allowed for are from improvements in asset management, programming and delivery of capital works, procurement and scale. These are estimated using a population based sliding scale, derived from WICS estimates for potential benefits from large scale water utilities.
- Morrison Low have assumed only 10% - 20% of that amount is achievable in NZ context based on comparison with other estimates in previous work and considering the scale of the CCOs proposed:
 - ICC CCO : 3.5% of opex, 3.3% of capex
 - Begins in years 3 and progressively introduced until year 12
 - Otago Southland : 16% of opex, 15% of capex
 - Begins in years 3 and progressively introduced until year 12

Next Steps from here

- **December 2024 - Local Government Water Services Bill (Bill 3) Introduced**
- 21 Jan 2025 – Extra Ordinary Infrastructure Committee - Present completed analysis and confirm water service delivery model options to take to consultation
- 28 Jan 2025 – Council Committee - Council Decision water service delivery model options to take to consultation
- 11 Mar 2025 - EO Council Adoption of Annual Plan consultation document and LWDW water service delivery options
- 17 Mar 2025 to 17 Apr 2025 - Community & Stakeholder Consultation
- 29 Apr 2025 – Council Hearings
- 13 May 2025 - Council Deliberations & Decisions
- End May / Early June 2025 - Draft WSDP for CE & Council Endorsement
- **Mid 2025 - Local Government Water Services Bill (Bill 3) Enacted**
- **Jan – June 2025 - Taumata Arowai consultation on wastewater standards**
- **June 2025 - Wastewater standards in place (mid-late 2025)**

ICC LWDW – High-Level Plan

ICC LWDW Delivery Plan - DRAFT

