NOTICE OF MEETING

Notice is hereby given of the Extraordinary Meeting of the Infrastructure and Projects Committee to be held in the Council Chamber, First Floor, Civic Theatre, 88 Tay Street, Invercargill on Tuesday 21 January 2025 at 2.00 pm

Cr G M Dermody (Chair)
Mayor W S Clark
Cr A J Arnold
Cr R I D Bond
Cr P M Boyle
Cr S J Broad
Cr T Campbell
Cr A H Crackett
Cr P W Kett
Cr D J Ludlow
Cr I R Pottinger
Cr L F Soper
Cr B R Stewart
Rev E Cook - Māngai - Waihōpai
Mrs P Coote - Kaikaunihera Māori - Awarua

MICHAEL DAY
CHIEF EXECUTIVE

A5730614

Extraordinary Infrastructure and Projects Committee - Public

21 January 2025 02:00 PM

Agenda Topic — Page

LOCAL WATER DONE WELL – ICC WATER SERVICE DELIVERY OPTIONS

To:	Infrastructure and Projects Committee
Meeting Date:	Tuesday 21 January 2025
From:	Andrew Strahan – 3 Waters Transition Manager
Approved:	Erin Moogan - Group Manager - Infrastructure
Approved Date:	Thursday 16 January 2025
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

The Local Government (Water Services) Bill sets out new requirements for water services delivery in New Zealand. It is a requirement of the new legislation that Council determine the optimal structure and delivery method for their water services. This paper outlines the options analysis completed by Council and seeks the Committee's recommendation to Council for the preferred delivery model and other practicable option(s) to take to public consultation.

Recommendations

That the Infrastructure and Projects Committee:

1. Receives the report "Local Water Done Well – ICC Water Service Delivery Options".

Recommend to Council:

2. That it approves:
    - Option 2 – ICC in house with Structural Change as the preferred water service delivery model to take to public consultation; OR
    - Option 4 – ICC Standalone CCO as the preferred water service delivery model to take to public consultation; OR
    - Option 7 – Otago Southland Water Service Entity - defer harmonised pricing as the preferred water service delivery model to take to public consultation.

3. That it meets legislative requirements by taking three options to public consultation being:
    - Option 1 – ICC inhouse business unit (Status Quo with minor amendments to meet legislation); Required
    - Option 2 – ICC in house with Structural Change as the preferred water service delivery model to take to public consultation **(Preferred/Shortlisted/Delete**);
    - Option 4 – ICC Standalone CCO as the preferred water service delivery model to take to public consultation **(Preferred/Shortlisted/Delete);**
    - Option 7 – Otago Southland Water Service Entity - defer harmonised pricing **(Preferred/Shortlisted/Delete)**

4. That it includes Option 7: Otago Southland Water Service Entity defer harmonised pricing as a 4th option for public consultation (if not included above).

Background

In February 2024 the Coalition Government introduced and passed legislation to repeal all legislation relating to water services entities established under the previous Governments approach to water reform. Local Water Done Well (LWDW) is the Coalition Government's plan to address New Zealand's long-standing water infrastructure challenges. It recognises the importance of local decision making and flexibility for communities and councils to determine how their water services will be delivered in the future, while meeting economic, environmental and water quality regulatory requirements.

Statements of the Minister for Local Government have made clear the expectation from Government that water service providers will have to operate more like independent utility businesses, much like telecommunications or electricity utilities. They will be structured and operated differently, and they will be directly accountable to customers, regulators and shareholders (where relevant). This will apply regardless of whether water services are provided in house by Council or through a Council Controlled Organisation (CCO).

The Infrastructure Committee, on 2 July 2024, was provided with an assessment of the Local Government (Water Services Preliminary Arrangements) Bill (Bill 2), which was introduced to Parliament on 30 May 2024.

On 3 September 2024, the Committee was provided with an update on the LWDW Policy Decisions and associated fact sheets, templates and guidance material which were released by the DIA, following Cabinet Decisions. These represent the 'enduring settings' for the new approach to water services delivery, to be enabled through the Local Government Water Services Bill (Bill 3).

On 2 October 2024 the Committee was presented with and approved the approach, delivery plan and budget estimate for ICC's response to the LWDW legislative program. Morrison Low were engaged to support ICC's assessment of the available water service delivery models.

At these meetings the Infrastructure Committee was also provided with updates on the Otago Southland regional response, through the formation of the Otago Southland LWDW Working Group. Including the approach being followed to:

- Define a Regional Delivery Model.
- Scope and size four Regional Collaboration Wins.
- Identify National Collaboration and Shared Service Opportunities.

The Otago Southland LWDW Working Group activities concluded in November 2024 with delivery of the final report to the Otago Southland Chief Executives, Mayors and Councillors. Each Council is now considering the delivery model options, their preferred option(s) and whether any of the models required further investigation.

ICC Infrastructure Committee Workshops were held on 12 November and 3 December 2024 and provided Councilors with a more detailed brief of the LWDW policy and legislative requirements. Through these workshops, a set of Investment Objectives were defined and used to assess the available water service delivery options against. Analysis of the options was presented and feedback received.

The Local Government (Water Services) Bill ("Bill 3") was also introduced to parliament on 10 December 2024. The ICC Project Team is currently reviewing Bill 3 and preparing a submission. Submissions are due by 23 February 2025.

Issues and Options

Analysis

Following the November and December 2024 Infrastructure Committee LWDW Workshops, feedback has been incorporated into Morrison Low's option analysis report. The report collates the financial modelling outcomes for a range of Southland / Otago Water Service and ICC standalone options. The report contains ICC's agreed Investment Objectives and an assessment of the various delivery model options against the objectives. Morrison Low's finalised report is provided as Attachment 1.

Significance

The process to decide upon a water services operating model that will meet the LWDW policy and legislative requirements, is a matter of high significance when assessed against ICC's Significance and Engagement Policy. Significance is considered high on several grounds including, community interest, impact on Councils capability and capacity, cost to council and impact on ratepayers and potential changes to the control of a Strategic Asset.

In addition to ICC's Significance and Engagement Policy requirements, Bill 2 and 3, require the water services delivery model options to be presented for community engagement and feedback.

Once Council has decided the preferred delivery model option and other practicable option(s) to consider, these will be incorporated into the 2025/2026 Annual Plan community consultation program.

Options

Morrison Low's report provides a view of the available options, assesses these against the defined set of investment objectives and provides a view of their relative merits and drawbacks, impact of each to the ratepayer and Council debt and any impact on service levels.

Through this process, three options have been shortlisted for consideration. These are

- Option 2 – Inhouse Business Unit - With Structural Change
- Option 4 – ICC Standalone CCO
- Option 7 – Otago Southland WSE (defer harmonised pricing)

A summary of the options and associated advantages and disadvantages is provided in the following table.

Option	Cost Summary	Advantages	Disadvantages
Option 1 – Inhouse Business Unit – No Structural Change Not Shortlisted	**Establishment Cost** No budget increase **Operational Cost increase (per annum)** $0k **Average Additional Annual Rate Increase (2027-2034)** 0%	• Least change and cost to implement required LWDW changes. Note the risk of Commerce Commission intervention. • Council scale retained including ability to respond to emergency events. • ICC has sufficient debt headroom to provide for forecasted capital works (per current LTP). • Existing workforce in place with minimal changes to staffing.	• Council struggles to compete with private sector / new CCOs on pay or career development opportunities. • Lack of scale and geographic isolation makes it difficult to attract contractors. • Requirement for Council to operate 3 Waters differently to other core council functions to meet significant new regulatory requirements. • Elected members have a diverse range of skills and are unlikely to have a strong technical 3 Waters or asset management skill set. • Significant debt headroom required for 3 Waters activity could constrain investment in other areas. • 3 Waters legislative compliance requires sustained future rate increases. • Risk of Commerce Commission Intervention into Council activities if economic regulation and consumer protection requirements are not met – with potential high-cost implications. • Government and DIA expectation for Councils to form joint water organisations may result in difficulties in securing WSDP approval. • May limit access to Regional Deals.
Option 2 - Inhouse Business Unit - With Structural Change Shortlisted	**Establishment Cost** No budget increase **Operational Cost increase (per annum)** $330k **Average Additional Annual Rate Increase (2027-2034)** **+0.10%** **+$3.00**	• Represents second least cost option for water services delivery for ratepayers. • Council scale retained including ability to respond to emergency events. • ICC has sufficient debt headroom to provide for forecasted capital works (per current LTP). • Existing workforce in place with minimal changes to staffing. • Provides independent technical 3 Waters and Asset Management advisory role to a dedicated Council Committee to provide focus and advice on 3 Waters activity. • 3 Waters staff training and retention program aims to improve recruitment and retention.	• Council may still struggle to compete with private sector / new CCOs on pay or career development opportunities. • Lack of scale and geographic isolation makes it difficult to attract contractors. • Requirement for Council to operate 3 Waters differently to other core council functions to meet significant new regulatory requirements. • Significant debt headroom required for 3 Waters activity could constrain investment in other areas. • 3 Waters legislative compliance requires sustained future rate increases. • Risk of Commerce Commission Intervention into Council activities if economic regulation and consumer protection requirements are not met. • Government and DIA expectation for Councils to form joint water organisations may result in difficulties in securing WSDP approval. • May limit access to Regional Deals.
Option 3 – Shared Services Not Shortlisted	Not calculated – dependant on service scope	• Minor cost efficiencies and ability to leverage regional skill sets. • Offers a potential add on to the other service delivery models	• Lacks permanency. • Does not address any debt constraint issues faced by individual councils. • Dependant on key staff.

Option	Cost Summary	Advantages	Disadvantages
Option 4 – ICC Standalone CCO Shortlisted	**Establishment Cost** $3.9m **Operational Cost increase (per annum)** $4.7m **Average Additional Annual Rate Increase (2027-2034)** +0.84% +$23.00	• 3 Waters focused decision making within the entity. • Council activities not constrained by 3 Waters investment requirements. • Own balance sheet and able to borrow up to 500% of 3 waters revenue and ability to smooth debt profile. • Financially independent from councils, allowing it to more easily meet the future requirements to produce separate financial statements and water services strategies. • Directly accountable to its customers / communities for the setting of water charges. • Improved attraction, training and retention of staff versus in house model options.	• Government and DIA expectation for Councils to form joint water organisations may result in difficulties in securing WSDP approval. • May limit access to Regional Deals. • Cost of CCO setup and operation. • Council scale reduced impacting ability to respond to emergency events. • Reduced ability of Council to influence entity decision making. • Potential focus on service delivery at the expense of strategic city objectives.
Option 5 – Southland WSE (harmonized pricing) Not Shortlisted	**Establishment Cost** $3.9m **Operational Cost increase (per annum)** $8.5m **Average Additional Annual Rate Increase (2027-2034)** +2.42% +$63.00	• Aligns with Government expectations that Councils will work together to establish joint water organisations • 3 Waters focused decision making within the entity. • Scale will allow improved access to specialists and expertise. • Own balance sheet and would be able to borrow up to 500% of its three waters revenue • Financially independent from councils, allowing it to more easily meet the future requirements to produce separate financial statements and water services strategies • Directly accountable to its customers / communities for the setting of water charges • Improved attraction, training and retention of staff versus in house and stand-alone CCO model options. • Improved focus on regional priorities. • Potential greater access to Regional Deals. • Consistent with direction of amalgamation discussions.	• Adopting harmonised pricing – results in highest cost options for ratepayers of all options. • Difficult to achieve political agreement across all councils. • 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 vs if delivered via council. • The entity will be able to set three waters prices entirely independently from decisions made by councils, and these decisions may have affordability implications for communities. Economic regulation offers some mitigation. • 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. • Legacy Council scale reduced impacting ability to respond to emergency events.

Option	Cost Summary	Advantages	Disadvantages
Option 6 – Otago Southland WSE (harmonised pricing) Not Shortlisted	**Establishment Cost** $50.6m **Operational Cost increase (per annum)** $27.8m **Average Additional Annual Rate Increase (2027-2034)** +3.02% +$84.00	• Aligns with Government expectations that Councils will work together to establish joint water organisations. • 3 Waters focused decision making within the entity. • Scale maximises access to specialists and expertise. • Own balance sheet and would be able to borrow up to 500% of its three waters revenue • Financially independent from councils, allowing it to more easily meet the future requirements to produce separate financial statements and water services strategies • Directly accountable to its customers / communities for the setting of water charges • Improved attraction, training and retention of staff versus in house and stand-alone CCO model options. • Potential greater access to Regional Deals.	• Adopting harmonised pricing – results in second highest cost option for ratepayers. • Difficult to achieve political agreement across all councils. • 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 vs if delivered via council. • The entity will be able to set three waters prices entirely independently from decisions made by councils, and these decisions may have affordability implications for communities. Economic regulation offers some mitigation. • 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. • Legacy Council scale reduced impacting ability to respond to emergency events.
Option 7 - Otago Southland WSE (defer harmonised pricing) Shortlisted	**Establishment Cost** $50.6m **Operational Cost increase (per annum)** $27.8m **Average Additional Annual Rate Increase (2027-2034)** +0.26% +$9.00	• Aligns with Government expectations that Councils will work together to establish joint water organisations. • Deferral of harmonised pricing for a 5 year period removes price increases until CCO efficiencies are realised. • 3 Waters focused decision making within the entity. • Scale will maximise access to specialists and expertise. • Own balance sheet and would be able to borrow up to 500% of its three waters revenue • Financially independent from councils, allowing it to more easily meet the future requirements to produce separate financial statements and water services strategies • Directly accountable to its customers / communities for the setting of water charges • Improved attraction, training and retention of staff versus in house and stand-alone CCO model options. • Potential greater access to Regional Deals.	• Despite deferral of price harmonisation – remains a higher cost option for customers compared to Inhouse Delivery or Standalone CCO. • Unlikely to achieve political agreement across all councils. Smaller Councils may not agree to deferral of price harmonisation. • 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 vs if delivered via council. • The entity will be able to set three waters prices entirely independently from decisions made by councils, and these decisions may have affordability implications for communities. Economic regulation offers some mitigation. • 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. • Legacy Council scale reduced impacting ability to respond to emergency events. • Operational costs to support deferral of price harmonisation are potentially high and have not been included in modelling.

Implications and Risks

Strategic Consistency

The requirements of LWDW requires ICC to revisit the recently completed Long-term Plan for 2024 to 2034 and associated supporting strategies (including Financial and Asset Management Strategies), to ensure that water service delivery complies with the Local Water Done Well legislation requirements.

The options analysis completed to date includes consideration of impacts on the current Long-term Plan and approved strategies. Impacts of the selected options will be further defined and put forward for community feedback through the planned consultation in the early part of 2025. Following decision making, amendments to Annual and/or Long-term Plan will be made from FY 2026/27.

Financial Implications

The financial implications for ratepayers and impact on overall Council debt and non 3 waters budgets are included within the Morrison Low Report and ICC LWDW Report. These implications will be put forward for consideration and feedback through the planned consultation in the early part of 2025.

Legal Implications

The Local Government (Water Services Preliminary Arrangements) Bill places statutory requirements on ICC which are required to be complied with. If a territorial authority struggles to comply with the requirement for a WSDP, the Bill provides for the Minister to appoint either of two new roles:

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

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

Climate Change

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

Risks

Risk	Impacts
DIA does not approve ICC's WSDP and requires the document to be revised.	DIA requires ICC to alter the WSDP. DIA requires ICC to change the Operating Model Decision.
DIA does not approve ICC's WSDP – and appoints a Crown Facilitator or Water Services Specialist.	Reputation risk for Council. Reduction / loss in decision making control.
Change in Government and approach to current LWDW approach to water reform.	Cost and time to rework Loss in staff and ratepayer confidence that reform is required and/ or will be delivered.
WSDP Plan and Implementation Tasks are more complex / extensive than estimated.	Potential increase in project budget. Additional ICC resource commitments.
Continuing uncertainty for ICC 3 Waters teams as to how their work and roles may be affected	Potential loss of key staff. Increasing difficulty to recruit staff.
Local Government Election processes during October 2025.	Potential delay to key decisions – administration period may then impact. Re-litigation of decisions by new Council. New Councillors require up skilling in LWDW requirements.
ICC is not fully compliant with new legislative requirements – within the required timeframes.	Reputation risk for Council. Cost and time to rectify. Potential DIA or Regulator Intervention.
3 Waters legislative investment requirements and impact on wider Council investment capacity.	Impending increase in 3 Waters costs impacting affordability and Council investment in other areas.
Ratepayers do not appreciate the impending costs increases for 3 Waters Services – irrespective of the delivery model adopted.	Increasing affordability issue for larger group of ratepayers. Negative publicity and reputation risk for Council.

Next Steps

- Conduct consultation early in 2025 and align with FY 2025/26 Annual Plan decision making.
  - 11 March 2025 – EO Council Adoption of Annual Plan consultation document and LWDW water service delivery options.
  - 17 March 2025 to 17 April 2025 – Community and Stakeholder Consultation.
  - 29 April 2025 – Council Hearings.
  - 13 May 2025 – Council Deliberations and Decisions.

- Target to have a Council approved WSDP by end June 2025 at the earliest - providing 8 weeks contingency for the 3 September 2025 WSDP submission deadline.

Attachments

1. Morrison Low - Local Water Done Well - ICC Comparison of Water Delivery Models (A5732198).

A5732198

Comparison of water delivery models

Invercargill City Council

January 2025

Document status

Job #	Version	Written	Reviewed	Approved	Report Date
296601	DRAFT	S. Cross	D. Bonifant	D. Bonifant	17 December 2024
296601	FINAL	S. Cross	C. Murray	S. Cross	10 January 2025
296601	FINAL v2	S. Cross	C. Murray	S. Cross	15 January 2025
296601	FINAL v3	S. Cross	C. Murray	S. Cross	16 January 2025

Contents

Figures

Introduction

Morrison Low was commissioned to assist Invercargill City Council (ICC / Council) with the development of strategic objectives, financial modelling, and a multi criteria analysis of the future water service delivery options available to Council.

This work builds on work previously undertaken for the Otago Southland Local Water Done Well Working Group (the Working Group), and references elements of that work.

Financial modelling undertaken to support this work has been completed using the same approach as that adopted for the Working Group, and therefore provides a high level of consistency with that work. This report should be read in tandem with the report completed for the Working Group. We have identified where assumptions made in this work differ from those used in the work completed for the Working Group.

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

The initial MCA analysis that was completed did not include financial modelling of a Southland Regional water services organisation, or an Otago Southland regional water services organisation with a deferral of price harmonisation. These options have been subsequently added. As a result, this report has a greater focus on "Option 2 – An ICC in-house delivery model with some structural change" and "Option 4 – A wholly owned water services organisation" as these were the previously shortlisted options.

Summary

The results of the multi criteria analysis and financial modelling indicate that:

- The options of an in-house water services delivery model, a standalone water services entity (WSE), and an Otago Southland WSE with deferred harmonisation, have the highest scores in the Multi-Criteria analysis under the base case.
- An in-house water services delivery model is likely to result in the lowest three waters charges for consumers in Invercargill City over the long term.
- An Otago Southland WSE with deferred harmonisation could have the lowest household water charges of all models through to 2034.
- A standalone WSE is likely to result in higher three waters charges for consumers in Invercargill City than the in-house delivery model.

Notwithstanding the above, it is noted that:

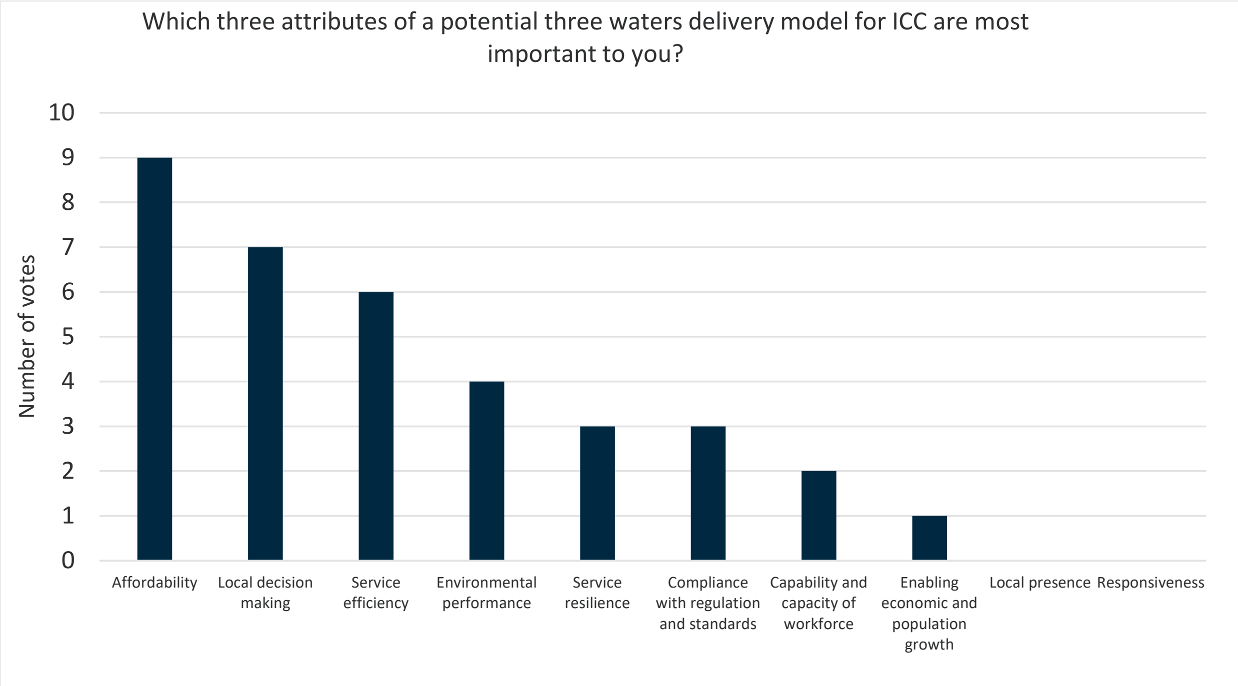
- Modelling of a "deferred harmonisation" assumes prices are not harmonised for a period of 5 years, followed by a 7 year transition period. Under this approach, an Otago Southland WSE could have lower household charges for ICC ratepayers through to 2034. However, it should be noted that there are a number of practical limitations for this model.
- Where different weighting is applied to the criteria in the multi criteria analysis, regional WSE options (the Otago Southland and Southland only models) have higher combined scores. In particular, where an equal weighting is applied to all investment criteria, the regional models score higher.

Investment objectives

To allow a fair comparison of options across financial and non-financial criteria, a set of investment objectives was developed with Council's three waters staff and through a facilitated workshop with elected members.

Elected members were surveyed to indicate their views on the three most important attributes of a three waters service delivery model. The results of that survey are highlighted in Figure 1 below. They show a strong preference for a model that is affordable, with a retention of local decision making.

Figure 1 Results of elected members preference survey



These preferences were used to refine investment objectives and determine potential weighting for the investment criteria in the multi criteria assessment.

Investment objectives were based on those developed for the Otago and Southland regional work and refined to meet the local needs of Invercargill. The result is a broad alignment with the Otago Southland regional objectives, with an increased emphasis on local decision making and affordability. The agreed investment objectives are listed in Figure 2 below.

Figure 2 Investment objectives

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

Green highlighting on the fifth objective indicates that objective was considered to be the most important and has had double the weighting applied to it for Multi Criteria Analysis.

A table showing the alignment of stated preferences from elected members with the proposed investment objectives is provided in Appendix Three.

Multi Criteria analysis

Approach

A desktop assessment of the potential options for three waters service delivery against the agreed investment objectives was carried out by Morrison Low and reviewed by ICC staff. The assessment combined qualitative assessment (for non-financial criteria) and quantitative assessment (for financial criteria).

In completing the assessment, investment objectives were applied a weighting (so all criteria totalled 100%) that reflected the feedback received from elected members in a Council workshop. That resulted in the fifth investment objective "*Ensure three waters services are efficient, effective, affordable and financially sustainable*" having double the weight applied to it.

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.

Scoring for the affordability criteria was completed formulaically. Household charges for three waters were calculated as a percentage of the lowest cost option. The lowest cost option was assigned a score of +3, while the highest cost option a score of -3. Scores were allocated to the remaining options based on their deviation from the lowest cost option. Affordability was assessed at three time points with the average score of all three time points applied to the Multi Criteria Assessment:

- Three waters household charge in 2027/28
- Average three waters household charge over the 30 year modelling period
- Three waters household charges in 2053/54.

Results

The results of the Multi Criteria analysis are shown in Figure 3 below. The full results of the Multi Criteria Analysis, including relevant commentary are included in Appendix One.

Figure 3 Multi criteria analysis results

		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 Harmonised	Option 7: Otago Southland WSE deferred harmonisation
Deliver safe drinking water and safely treat and manage discharges	16.7%	0	1	1	2	2	3	3
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	2	2	1	0	1	1	1
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	0	1	-1	2	3	1	1
Build and develop a strong and capable local three waters workforce	16.7%	-1	0	0	1	2	3	3
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	3	2	2	2	-3	-1	1
Total score (out of three with a range of -3 to 3)	100%	1.17	1.33	0.83	1.50	0.33	1.00	1.67
Overall assessment		Not recommended	Shortlisted	Not recommended	Shortlisted	Not recommended	Not recommended	Shortlisted

To ensure that the weighting applied to investment objectives did not unintentionally introduce bias into the assessment, sensitivity testing was completed with different weighting applied. The results of this are summarised in Figure 4 below.

Figure 4 Sensitivity testing of multi criteria analysis

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Base case - Affordability double weighted	1.2	1.3	0.8	1.5	0.3	1.0	1.7
All weighted evenly	0.8	1.2	0.6	1.4	1.0	1.4	1.8
Afordability and local decision making double weighted	1.0	1.3	0.6	1.6	0.7	1.0	1.6

Summary

The multi criteria analysis showed that the highest scoring options were an in-house delivery model incorporating some structural change, a wholly owned WSE or an Otago Southland WSE with deferred harmonisation. Notably, regional models scored highly on non-financial criteria, and sensitivity testing indicated that when equal weightings are applied, the Otago Southland regional model becomes one of the highest scoring options with or without deferred harmonisation.

Financial analysis

Introduction and approach

Financial modelling was completed for the ICC in-house, wholly owned water services organisation, and Southland regional water services organisation models. This financial modelling was undertaken using the same financial modelling approach that was used for the Otago Southland combined regions work, and broadly applies the same modelling assumptions.

Assumptions have been scaled to reflect the reduced size and complexity of a single council model and where these assumptions differ from those used in the Otago Southland modelling the differences are noted in Appendix Two.

Modelling is primarily based on Council's LTP and the base data used in the Otago Southland model, with the following notable exceptions:

- An increase in the budget for insurance of 15% has been included to reflect unbudgeted price increases.
- $1.7 million of consequential operating costs have been added to cost estimates for the alternative water supply project. These costs were previously unbudgeted, and the allowance represents the mid-point of estimated operating costs from the alternative water supply business case.
- The ICC in-house scenario in our updated modelling includes an allocation of corporate overhead costs to the three waters activities based on headcount, operating expenditure and asset value in proportion to Council as a whole. Council does not currently apportion overheads directly to individual activities, however our modelling includes this apportionment for consistency.
- The calculation of depreciation in the status quo model is based only on ICC's own average depreciation rates per activity.

The modelling for an Otago Southland regional entity has not been updated to include these costs. It is unlikely that these costs would have a material impact on financial projections for the Otago Southland modelling. Any such impact would result in slightly higher average household charges in the Otago Southland model than are portrayed in that report (or within this report).

Modelling for the option of an ICC in-house delivery model, with structural change, includes the following additional costs/assumptions regarding the structural change:

- An additional $30 million of capital expenditure has been included to provide sufficient funding for a full alternative water supply. This brings the total budget for the alternative water supply to $90 million (from a previous $60 million).
- The addition of a cadet programme at $300,000 per annum spread across the three waters activities. The budget amount includes allowance for expert support and training and salaries and wages for at least two cadets.
- $30,000 per year for the addition of an independent advisor to a three waters sub-committee or similar governance body.
- Any other structural changes are only assumed to occur if necessary to improve the performance of the three waters activities, and are assumed to be cost neutral.

Modelling of a Southland only entity, and wholly owned water services organisation, includes all of the above adjustments (including the addition of a cadet programme).

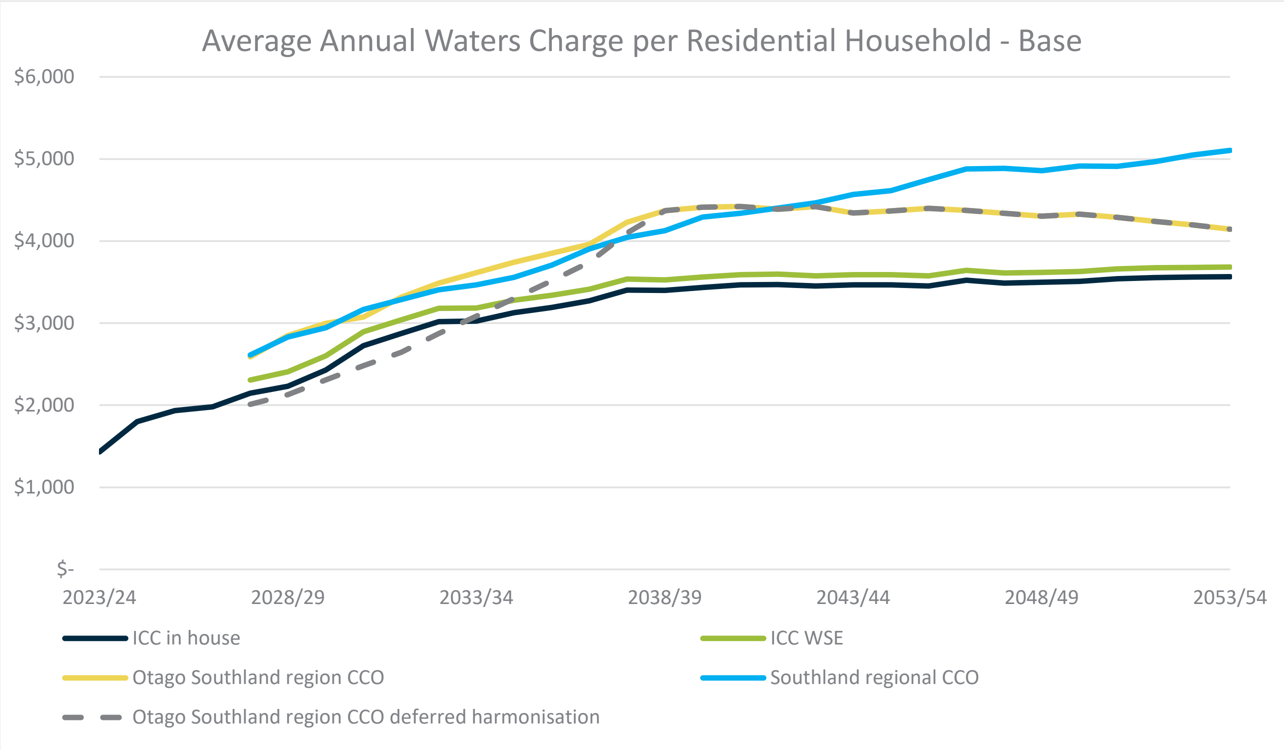
Results

Household charges

Figure 5 below compares average residential household waters charges for ICC as an in-house business unit and as a wholly owned WSE, alongside the combined Otago Southland regional scenario modelled in October 2024. For comparative purposes, all costs are nominal (i.e. they include inflation) and include GST.

Household charges under option two (ICC in-house delivery unit with structural change) are 1% higher per annum than those under the base case "ICC in-house" model. These are not displayed in Figure 5 as the data points are indistinguishable in a chart format.

Figure 5 Average annual waters charge per residential household



ICC In-house business unit vs single council CCO

The household costs under an ICC wholly owned WSE, remain slightly higher than the household costs under an ICC in-house model, and for the duration of our modelling period diverge from the in-house business unit from inception. This is entirely due to the need for the WSE entity to incur a number of additional costs in its own right.

While the ICC in-house model does include the impact of overheads allocated, the corporate costs of a new water services entity are expected to be higher. These are operational costs which have an immediate impact on three waters charges. Financial modelling assumes that a wholly owned WSE would only be able to achieve marginal efficiencies (3.3% capital expenditure – 3.5% operating expenditure) compared to an in-house model, as there are no economies of scope or scale.

The difference in projected three waters rates is less than 10% between the two models, and could be considered to be within the margin of error for financial modelling of this nature. Impacts on households may be able to be managed through review of the tariff structure, although this would result in increased charges for other customer groups.

ICC In-house business unit vs regional CCOs

The regional three waters project identified that household charges for ICC are below the regional average. There are a range of factors that contribute to this, including ICC's comparatively higher population and connection density and comparatively low level of projected three waters debt. This remains the case for a water services organisation covering just the Southland region.

For the option "Otago Southland region CCO with deferred harmonisation" we have assumed that prices will be geographically ringfenced for the first five years of the CCO (with any savings from the CCO pro-rated across all councils) followed by a 7 year transition period to a harmonised price.

It is worth noting that a regional model that includes the deferral of price harmonisation for three waters services, results in lower household charges for ICC ratepayers than an in-house business unit through to 2034. However, we caution that this option may not be "reasonably practicable" at this stage because:

- The outcome would require all eight councils in the Otago and Southland regions to agree to form a water services organisation.
- Deferral of price harmonisation would require agreement from all shareholders of the entity, and may not be on the same terms as modelled.
- Such a model has the highest annual percentage increases to three waters charges once prices are harmonised.
- It is unlikely that, from a practical or legal perspective, any such arrangements would be permanent.

Three Waters Debt

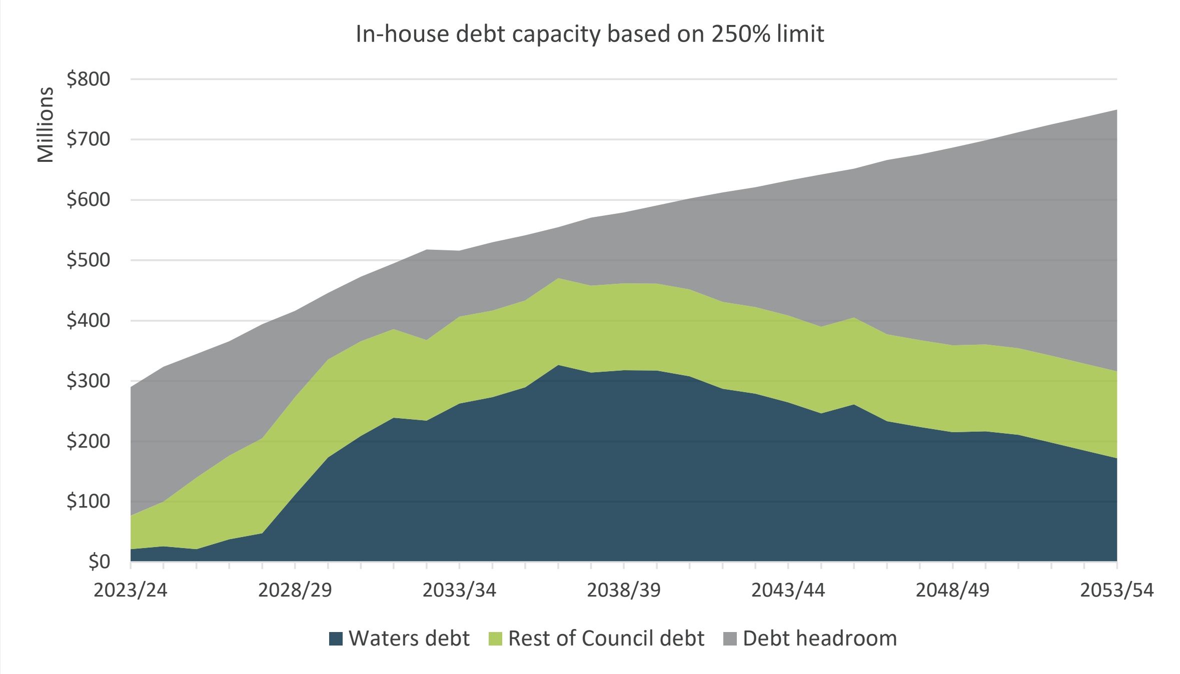
A key difference between the wholly owned WSE and the ICC in-house business unit models is debt. More specifically, the different borrowing limits that apply and the practical impact those differences have on household charges. This is further explained for each model below and shown in the corresponding charts.

Debt under the in-house model

Under the in-house model, debt continues to be measured at a total council level. Unlike many councils, ICC currently holds less three waters debt than it does non three waters debt. ICC's current debt is 28% three waters and 72% non-three waters. Three waters debt is currently only equal to 74% of its three waters revenue.

As shown in Figure 6 below, over time, our modelling shows the proportion of ICC's total borrowing will shift heavily towards three waters, peaking at 69% of total council debt in 2037. At this time, Council's three waters debt will reach over 440% of its three waters revenue, effectively meaning Council's total three waters borrowing will benefit from Council's ability to borrow against its total revenue.

Figure 6 In-House debt capacity



As shown in Figure 6, there is no point at which Council's debt headroom is fully utilised. However, our modelling does not include any non-three waters projects outside of those included in the LTP. In 2037, Council's remaining borrowing capacity equates to $84 million.

Debt under the CCO model

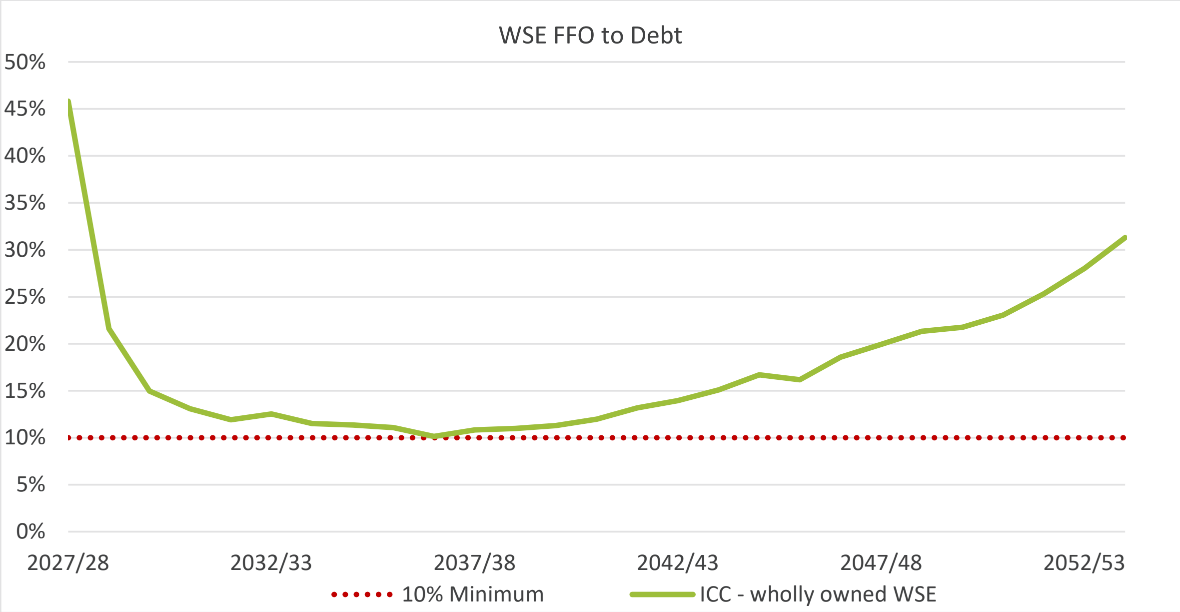
Under a WSE there is a different approach to debt and how it is measured. Total Council debt and revenue are no longer relevant. Only debt transferred to the WSE is considered and only revenue generated by the WSE is considered.

A different ratio is also used, funds from operations (FFO) to debt, where the benchmark is maintaining a ratio above 10%. For ICC, FFO effectively represents the cash surplus from operations. The 10% FFO-to-debt threshold often produces outcomes near 500% debt-to-revenue. However, FFO focuses on free cash flows relative to the closing debt balance rather than comparing operating revenue to debt.

Where these FFO limits were breached in our modelling, an adjustment is applied to the WSE's revenue to ensure no breach occurs in the base case results presented in this reporting. No such situation arises in our base case modelling of a wholly owned WSE. This is illustrated in Figure 7 below.

The borrowing capacity that exists in the WSE model may allow the entity to further utilise debt to fund other elements of its capital expenditure programme, such as renewals, or reduce its reliance on depreciation funding. This could result in lower revenue requirements (and therefore household charges), and higher levels of debt. We have not modelled the impact of such an approach.

Figure 7 CCO FFO to debt



Impact on three waters debt

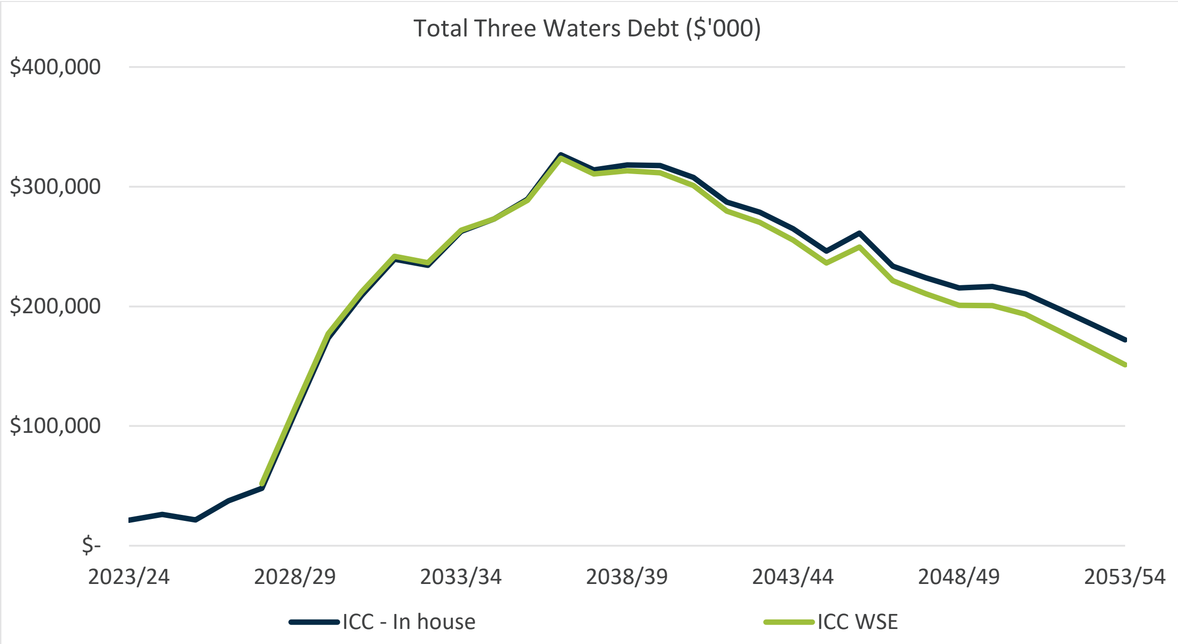
Both service delivery models demonstrate the ability to manage and control debt over the entire modelling period in our base case modelling scenarios. This means over the modelling period the only difference in debt levels relates to:

- The debt funding of any establishment costs for the WSE
- The cumulative impact of capital expenditure efficiencies that may be available to a WSE.

Differences in total borrowing requirements are therefore minor, as demonstrated in Figure 8 below. By 2054 the WSE holds an estimated $20 million less debt than the in-house delivery model.

There is no difference in total borrowing requirements for Option 2 (ICC in-house delivery with structural change) when compared to Option 1 (ICC in-house delivery).

Figure 8 Total three waters debt



Sensitivity testing

Review of historical Long Term Plans prepared by Councils across the country shows that investment needs are typically understated, with capital works programmes regularly increasing in value between Long Term Plans.

To ensure a decision is made with full regard to risk, financial modelling has been completed representing an "increased investment scenario". This scenario includes additional capital expenditure for:

- An additional $1 million per year to improve asset management, including through improved systems, plans and increased resourcing. This expenditure is treated as operational expenditure in our modelling.
- An additional $1 million per year on capital expenditure on stormwater ditches, to improve health and safety concerns related to deep or dangerous open drains.
- $15 million for replacement of the Doon Street reservoir.
- An additional $60 million of projected capital expenditure to add reticulated water and wastewater services to parts of Otatara.

The additional expenditure amounts to an increase of $145 million (including inflation) of three waters capital works over the 30 year modelling period.

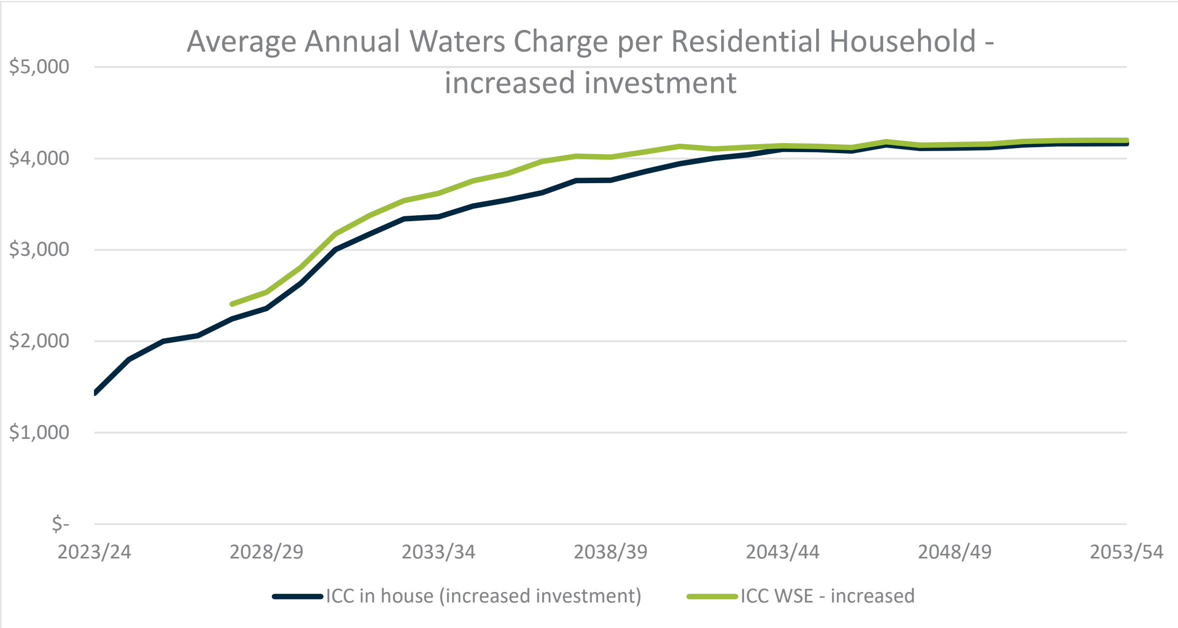
This modelling is intended to demonstrate the resilience of both models to increasing investment needs. It does not represent a recommendation to specifically make provision for the above-mentioned projects.

Household charges

The impact of the increased investment scenario for both models is shown in Figure 9 below.

Household charges under Option 2 (ICC in-house delivery with structural change) in the high investment scenario are $18 per household higher than Option 1 (ICC in-house) in 2034, and are not shown in Figure 9 as they are indistinguishable in the chart.

Figure 9 Household charges in both delivery models – increased investment scenario



The chart shows household charges under both models converging to being comparably equal by 2043. Over the period from 2032 – 2043, capital investment needs in the wholly owned WSE are such that the WSE needs to raise additional revenue to remain within lending covenants, this results in a significant uplift in-household charges compared to the in-house and base case models over that time period.

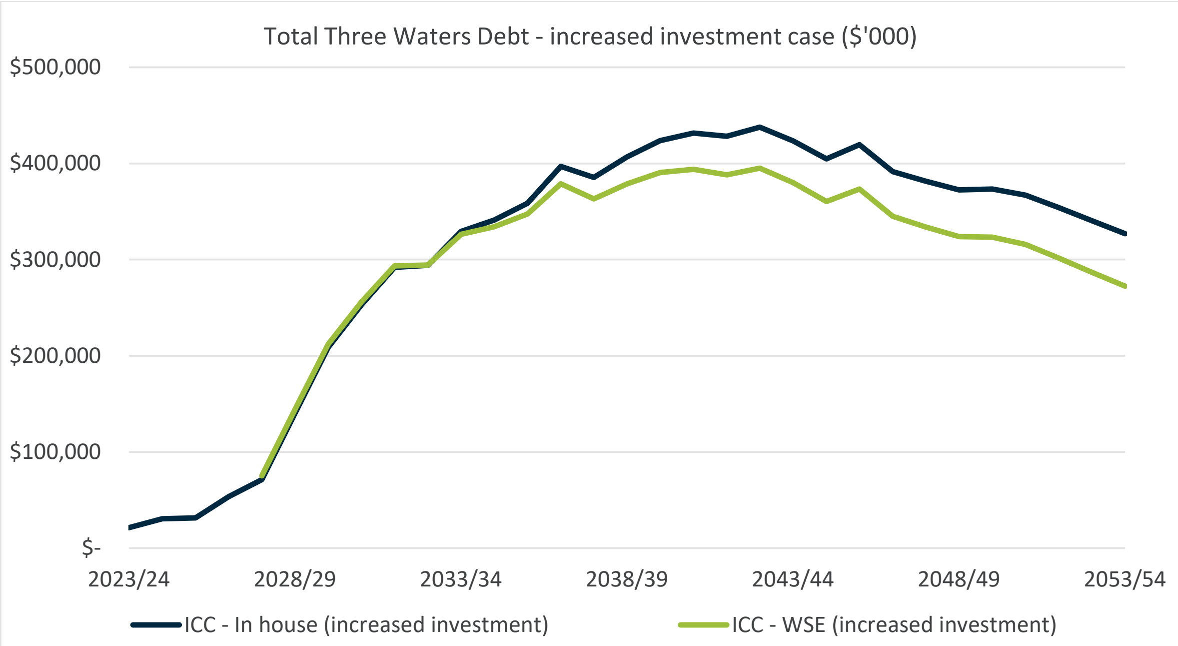
Impact on three waters debt

The impact of the increased investment scenario on entity debt is highlighted in Figure 10 below. Note that under the increased investment scenario the WSE breaches its borrowing limits in 2032 and therefore needs to increase charges to remain within lending covenants.

This results in the WSE having $54 million less total three waters debt than the in-house model in the increased investment scenario.

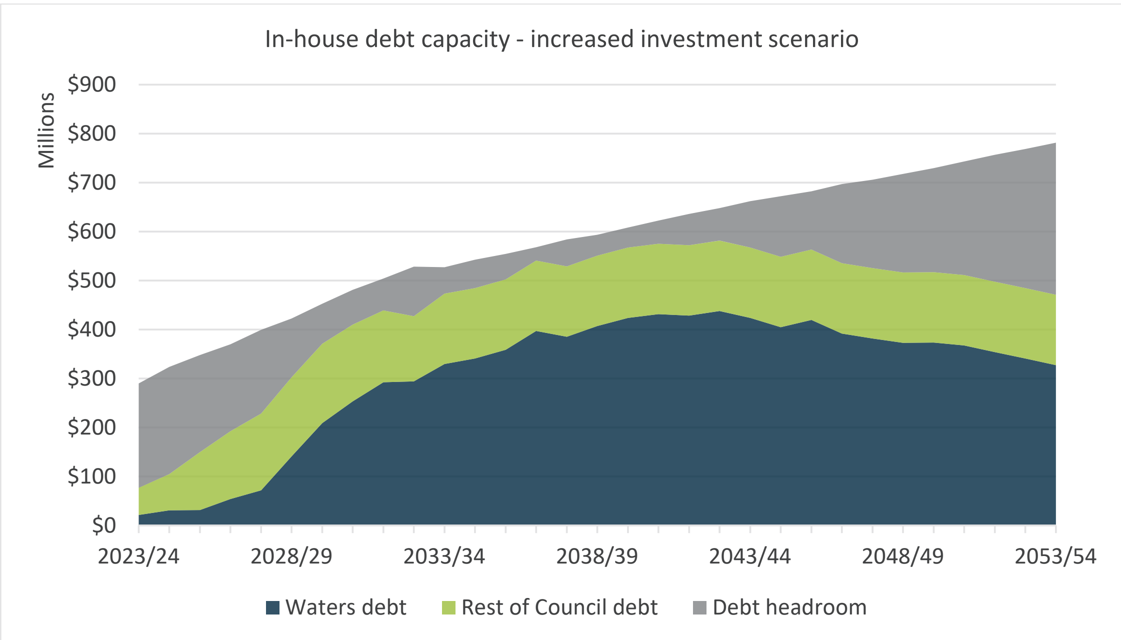
Three waters debt is the same across Option 1 (ICC in-house) and Option 2 (ICC in-house delivery with structural change).

Figure 10 Total three waters debt in both delivery models – increased investment scenario



At a whole of council level, ICC's debt remains within its total borrowing capacity over the modelling period, even under the increased investment scenario. However as shown in Figure 11 below, under this scenario, ICC's total borrowing headroom reduces to as low as $27 million in 2037, and it's three waters borrowing reaches as much as 75% of its total borrowing.

Figure 11 In-house debt capacity – increased investment scenario



MorrisonLow

Appendix One – Full Multi Criteria analysis

ICC MCA for water service delivery options

Multi Criteria Analysis

Options		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		Option 7: Otago Southland WSE - deferred harmonisation	
Description of option		Financial ringfencing No significant changes to service delivery approach Minimum changes to meet legislative requirements		Some additional structural change May include a 3 waters sub committee with independent members		Working with neighbouring councils or councils with similar asset management systems and processes on some shared services. May include procuring services from a regional WSE. Scale could be large or small		Creates more borrowing capacity in council Adds a professional board Solely focussed on three waters Would include transfer of assets and setting of charges		Establish an asset owning WSE with Southland regional neighbours Adds some scales, opportunities for network optimisation, regional focus Could include some ringfencing		Establish an asset owning WSE for Otago and Southland. Adds significant scale, opportunities for efficiencies Harmonised prices		Establish an asset owning WSE for Otago and Southland. Adds significant scale, opportunities for efficiencies Inclues 5 years of ringfenced prices and a 7 year transition to harmoisation thereafter	
Assessment Criteria	**Weighting**		**Comments**		**Comments**		**Comments**		**Comments**		**Comments**		**Comments**		**Comments**
Deliver safe drinking water and safely treat and manage discharges	16.7%	0	ICC currently faces no financial constraints for the delivery of compliant or safe three waters services. Competition with other council priorities may impact prioritisation but this risk is considered low in a regulated environment	1	It is assumed that any structural change that would occur at an operational/management level would be for the purpose of improving delivery, planning and capability. Structural change at a governance level would also improve risk management and provide independent advice to elected members.	1	Shared services should give rise to either financial or operational efficiencies or access to additional resources or specialists that are otherwise not able to be access by ICC. This may not give rise to lower costs but may result in improved outcomes.	2	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning	2	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning	3	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning. Scale will allow improved access to specialists and expertise.	3	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning. Scale will allow improved access to specialists and expertise.
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	2	ICC has a broader ambit than pure delivery of three waters services, and as such may be inclined to make investment decisions to proactively stimulate the economy. However, there would be no specific opportunities to work regionally, and ICC's position as a service town for the Southland region means growth or decline outside of ICC's boundaries may impact its need to respond with infrastructure.	2	No material difference to option 1	1	Shared services may offer opportunities to leverage regional economic data or make cross boundary investment. However, many such arrangements have failed to show enduring benefits elsewhere in the country.	0	May have improved asset management planning, but will have a primary focus on three waters services rather than local economic growth. Some requirement to consider economic growth could be addressed through a statement of expectations.	1	Will have the ability to work within the region to identify opportunities to service household or economic growth more efficiently. The local economy in Invercargill is heavily influenced by activity outside of the city boundary, so regional decision making is likely to improve outcomes. A multi-council CCO may not reflect all of ICC's priorities, and would likely have a strong focus on delivery of efficient and effective 3 waters services rather than supporting growth.	1	Will have the ability to work within the region to identify opportunities to service household or economic growth more efficiently. The local economy in Invercargill is heavily influenced by activity outside of the city boundary, so regional decision making is likely to improve outcomes. A multi-council CCO may not reflect all of ICC's priorities, and would likely have a strong focus on delivery of efficient and effective 3 waters services rather than supporting growth.	1	Will have the ability to work within the region to identify opportunities to service household or economic growth more efficiently. The local economy in Invercargill is heavily influenced by activity outside of the city boundary, so regional decision making is likely to improve outcomes. A multi-council CCO may not reflect all of ICC's priorities, and would likely have a strong focus on delivery of efficient and effective 3 waters services rather than supporting growth.
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	0	Decision making will continue to remain local at both the management and governance level. Governance is through elected members who are elected to represent the views of their communities. Elected members have competing priorities, and a diverse range of skills. Not all elected members have a strong infrastructure, asset management, or financial management backgrounds.	1	Per option 1. Addition of structural change are assumed to only occur if they create improvements around infrastructure management and decision making. Any addition of independent members of sub-committee will give a dedicated view of asset management at the governance level.	-1	Decision making will continue to be local and will largely be consistent with option 1. Local decision making may be compromised, and experience of similar models in the water sector indicates separation of control and risk sharing typically results in poor outcomes	2	Decision making will remain local but will be made in an environment where both governance and management have a sole focus on three waters infrastructure and will be appropriately qualified. Access to directors and management may be limited as there will be a lot of competition from similar arrangements, or larger water entities.	3	Decision making will be local to the Southland region. A single focus of the WSE on three waters service delivery will ensure that decisions of the board and management reflect best practice infrastructure management. Increased scale may improve attractiveness of roles within the WSE.	1	Decision making will be at an Otago-Southland level, although mechanisms may be developed to capture some local feedback or priorities. A single focus of the WSE on three waters service provision will ensure that the decisions of the board and management reflect best practice asset management. Significant scale would attract top quality candidates for management and governance roles.	1	Decision making will be at an Otago-Southland level, although mechanisms may be developed to capture some local feedback or priorities. A single focus of the WSE on three waters service provision will ensure that the decisions of the board and management reflect best practice asset management. Significant scale would attract top quality candidates for management and governance roles.
Build and develop a strong and capable local three waters workforce	16.7%	-1	Lack of scale and geographic isolation makes it difficult to attract staff. Not all three waters professionals are willing to work within a council environment. Council struggles to compete with private sector on pay or career development opportunities.	0	Addition of a cadet programme and independent focus at sub committee level likely to improve capability of local workforce	0	Shared services, unless fully comprehensive through a management CCO, are unlikely to result in a change in employment conditions or career opportunities in participating councils. Modest increase in score reflect potential for shared services to increase access to specialists or a diverse workforce.	1	A standalone WSE will still lack scale to attract or develop staff, however it will have more operational discretion to set budgets and staff pay to ensure market competitiveness.	2	Increased scale may result in more attractive employment opportunities and more opportunities to develop staff. The entity will not have significant scale compared to some large councils or WSEs elsewhere in New Zealand.	3	The WSE would have significant scale enabling it to have strong career pathways and staff development opportunities. It would be likely to have sufficient financial capacity to pay competitive market rates.	3	The WSE would have significant scale enabling it to have strong career pathways and staff development opportunities. It would be likely to have sufficient financial capacity to pay competitive market rates.
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	3	Based on modelling. Scaled based on delta between lowest cost and highest cost model at incep[tion, 30yr and 30yr average price points	2	Based on modelling. Scaled based on delta between lowest cost and highest cost model at incep[tion, 30yr and 30yr average price points	2	Estimated - assumed not to be more expensive than existing model but for savings to be marginal	2	Based on modelling. Scaled based on delta between lowest cost and highest cost model at incep[tion, 30yr and 30yr average price points	-3	Based on modelling. Scaled based on delta between lowest cost and highest cost model at incep[tion, 30yr and 30yr average price points	-1	Based on modelling. Scaled based on delta between lowest cost and highest cost model at incep[tion, 30yr and 30yr average price points	1	Based on modelling. Scaled based on delta between lowest cost and highest cost model at incep[tion, 30yr and 30yr average price points
Total score (out of three with a range of -3 to 3)	100%	1.17		1.33		0.83		1.50		0.33		1.00		1.67	
Overall assessment		Not recommended		Shortlisted		Not recommended		Shortlisted		Not recommended		Not recommended		Shortlisted	

Appendix Two – Modelling assumptions

Transitional costs to establish a WSE

Item	Otago Southland regional model	Southland regional WSE	ICC standalone WSE	Rationale
Transitional body				Set up shell company, appoint Board, CEO and GMs progressively ahead
IT infrastructure & systems				The Otago Southland WSE will be required or will choose to purchase their own corporate (GL, billing, payroll etc), asset management, CRM and customer service and configure those
Legal & compliance				Transfer of all titles, duties, rights & obligations
Finance & Finding				Establish new entity financial structure, balance sheet, debt arrangements, charging and pricing etc
Restructure costs				No forced redundancies but assumed some technical redundancies would be allowed for where staff are between 20% and 80% on three waters
Programme and project management, back fill of key roles				Resources to manage the programme of change, stakeholder engagement and support councils to backfill key roles if and when those are drawn into the transition process
Total transition costs	$50.6M	$7.9M	$3.9M	Used NTU estimates an approach for calculating and then apportioning total cost to transition to entity model by population. Total NTU transition costs ($1,.45B) scaled back (by 50% for a regional CCO and 75% for a wholly owned WSE) to recognise new approach, tailored to each CCO and use localized solutions to reduce overall costs

CCO Costs and Benefits

Item	Otago Southland regional model	Southland regional WSE	ICC standalone WSE	ICC with structural change[1]	Rationale
Governance	$180,000	$180,000	$180,000	$30,000	Five Directors including Chair. Director fees based on Wellington Water and double for the Chair ICC with structural change allows for one independent member on a three waters sub-committee
Stakeholder governance	$400,000	$250,000	$150,000	-	Costs of supporting shareholder Councils & Māori to develop and implement accountability framework
Executive team costs	$1,350,000	$970,000	$790,000	-	CEO & Four GMs in Otago Southland entity CEO and 3 GMs in ICC entity, lower salary
IT infrastructure & systems	$12,646,837	$3.6M	Removed, included in “additional resources”	-	Uses Watercare IT budget as the basis and scaled based on population served
Regulatory compliance	$2,761,000	$796,000	$443,000	$443,000	Budget of Taumata Arowai ($19M) doubled to represent an economic regulator as well, apportioned by population served *[exists in comparator case as well]*
Auditor costs	$200,000	$200,000	$200,000	-	Additional costs for audit
Council rates	$3,439,332	$821,312	$473,147	-	The cost of paying rates to councils for water assets located on council land per entity J model
Additional resources	$3,312,000	$936,000	$1,863,762	$300,000	Includes HR, IT, Finance, health and safety and customer service + operational staff where required in Otago Southland All models other than Otago Southland regional WSE include allowance of $300,000 to establish a cadet programme
Accommodation - office rent	$1,391,040	$393,120	$231,840	-	15m^2 per staff member based on reviewing average office rental in Provincial centres

[1] Relative to ICC base case

Item	Otago Southland regional model	Southland regional WSE	ICC standalone WSE	ICC with structural change[1]	Rationale
					($250m^2) used. Allowance for all staff to have office space provides for costs of multiple locations
Office overheads	$139,104	$39,312	$23,184	-	10% of office accommodation cost for insurance, electricity etc
Office fit out	$2,455,020	$777,067	$409,170	-	Based on 15m^2 per staff member x state service guide fitout allowance. Included in transition cost
Service fees from ICC			$419,433	-	Covers accounting, payroll, accounts payable and accounts receivable services based on airport contract arrangements

Appendix Three – Mapping of investment objectives to elected member preferences

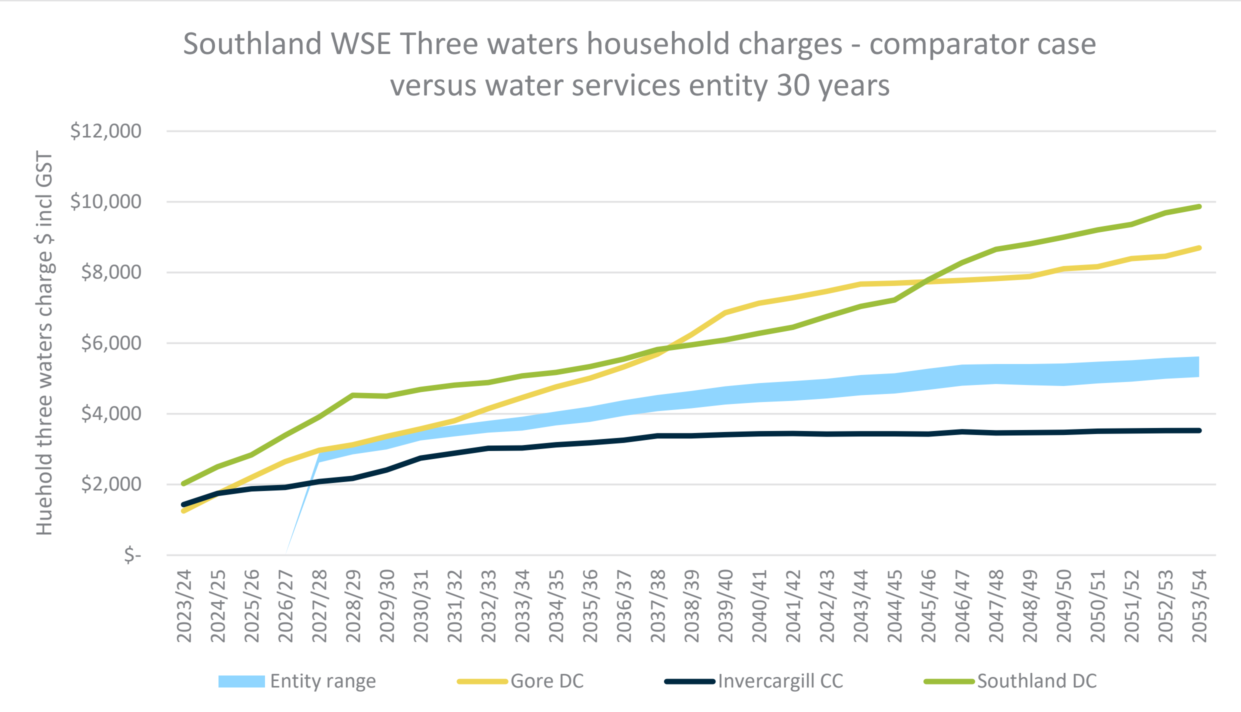
	Deliver safe drinking water and safely treat and manage discharges	Deliver three waters services that support, and is ready for, changes in economic activity and population	Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice 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		✓	✓	✓✓✓	

Appendix Four – Southland regional WSE

Average household charges

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

The range of charges for the entity is represented by the shaded area behind the chart. The range represents uncertainty regarding costs and benefits of a Southland regional WSE, and includes an upper range which incorporates double the costs with half the benefits, and a lower range which represents a 50% uplift in available efficiencies (from 7.5% on capital expenditure and 8% on operating expenditure to 11% on capital expenditure and 12% on operating expenditure).



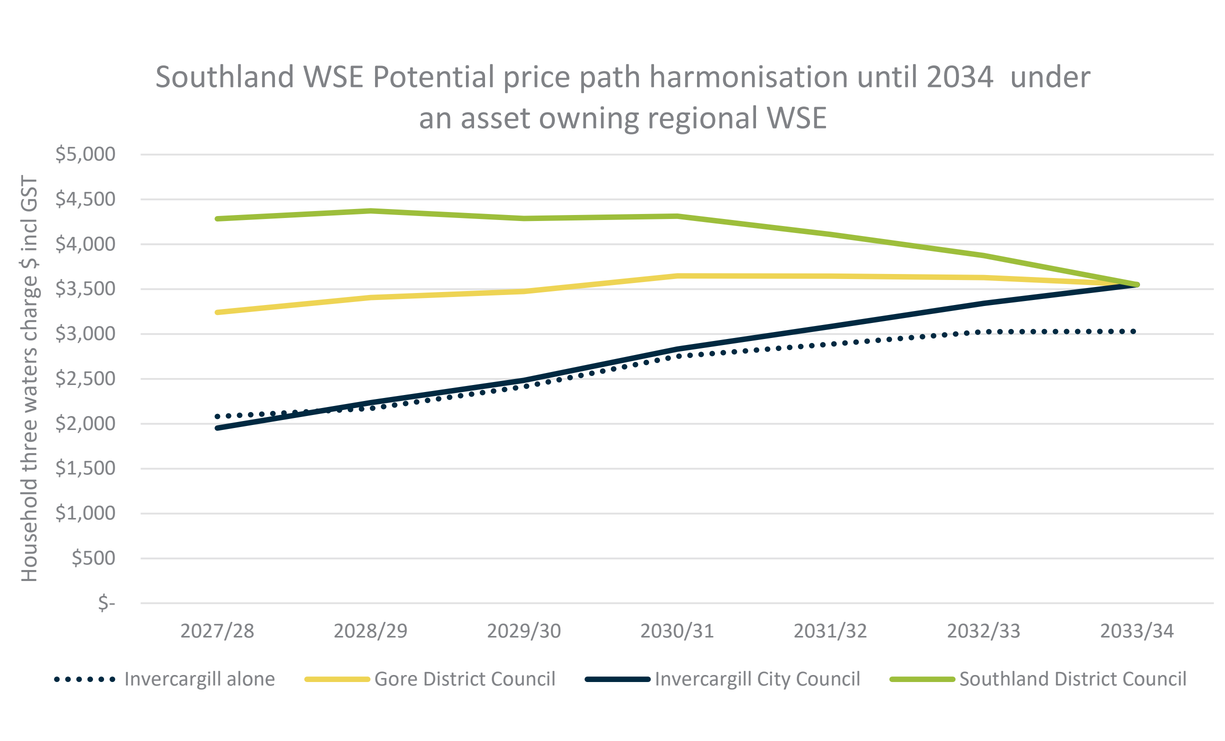
The chart shows Invercargill's three waters charges remaining below the entity's harmonised price over the duration of the modelling period.

We would caution that while 30 year projections have been developed based on capital programmes contained within each council's infrastructure strategy, cost estimation over this time horizon is highly uncertain.

It is therefore unlikely that a Southland regional WSE would be beneficial for water consumers of Invercargill unless prices were geographically ringfenced.

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

A potential path towards harmonisation of water charges across the participating councils is presented below. The full details of a price path would need to be agreed if a WSE were to be established.



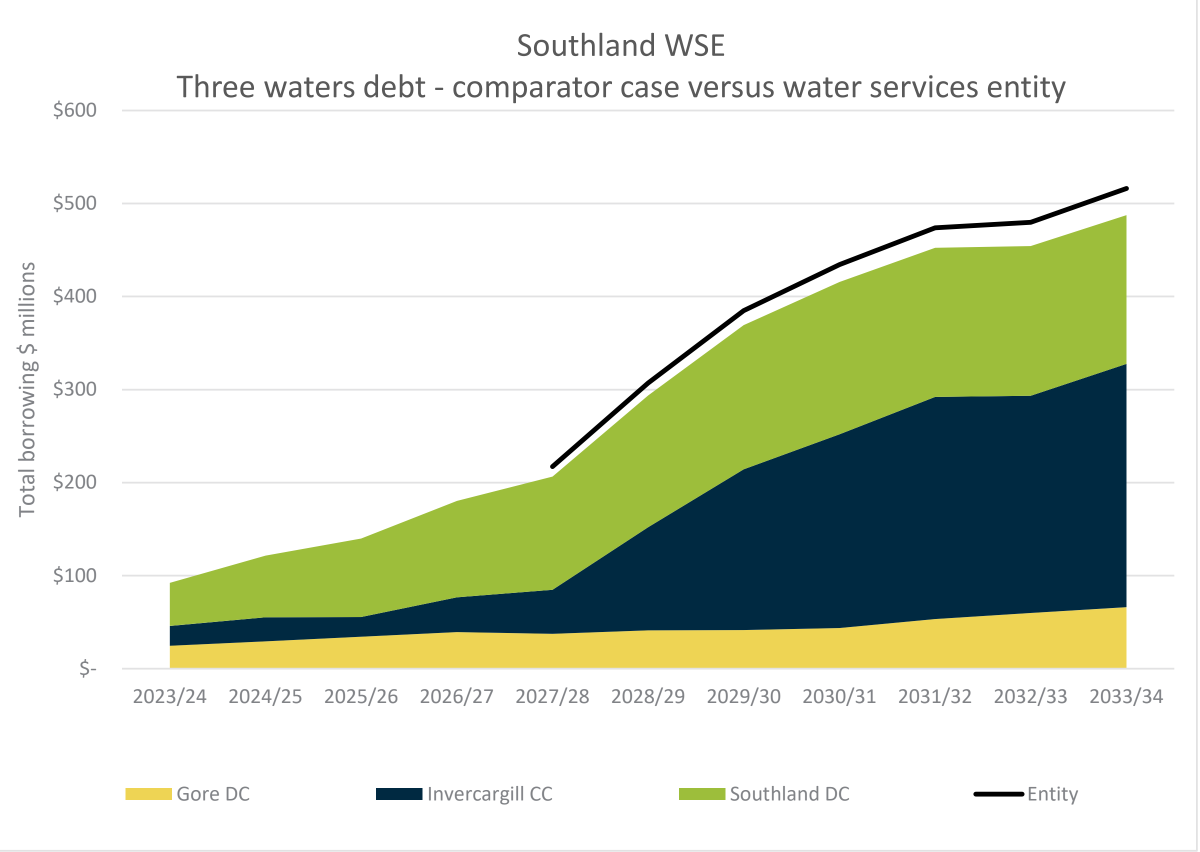
Taking a progressive approach to harmonisation would see three waters charges for Invercargill ratepayers remaining close to those that would otherwise be charged by ICC through to 2031/32. By 2034, household charges for water consumers in Invercargill would be approximately $500 higher in a Southland regional entity than they otherwise would be.

Debt

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

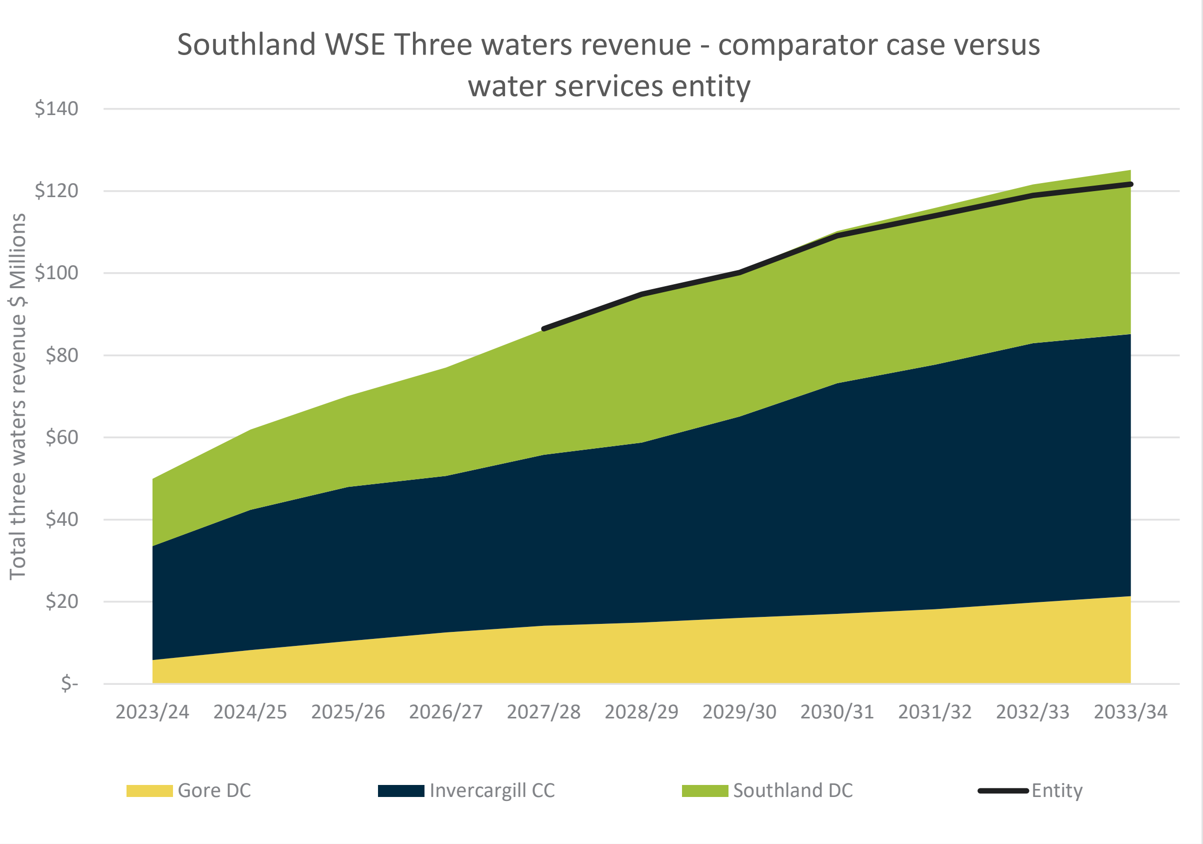
The chart is consistent with the Otago Southland WSE in that it utilises higher leveraging than the combined councils. This means that the entity does not need to generate as much additional revenue to support its borrowing requirements.

Southland contributes the most debt to the combined WSE on establishment, with Invercargill contributing more debt over time.



Revenue

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

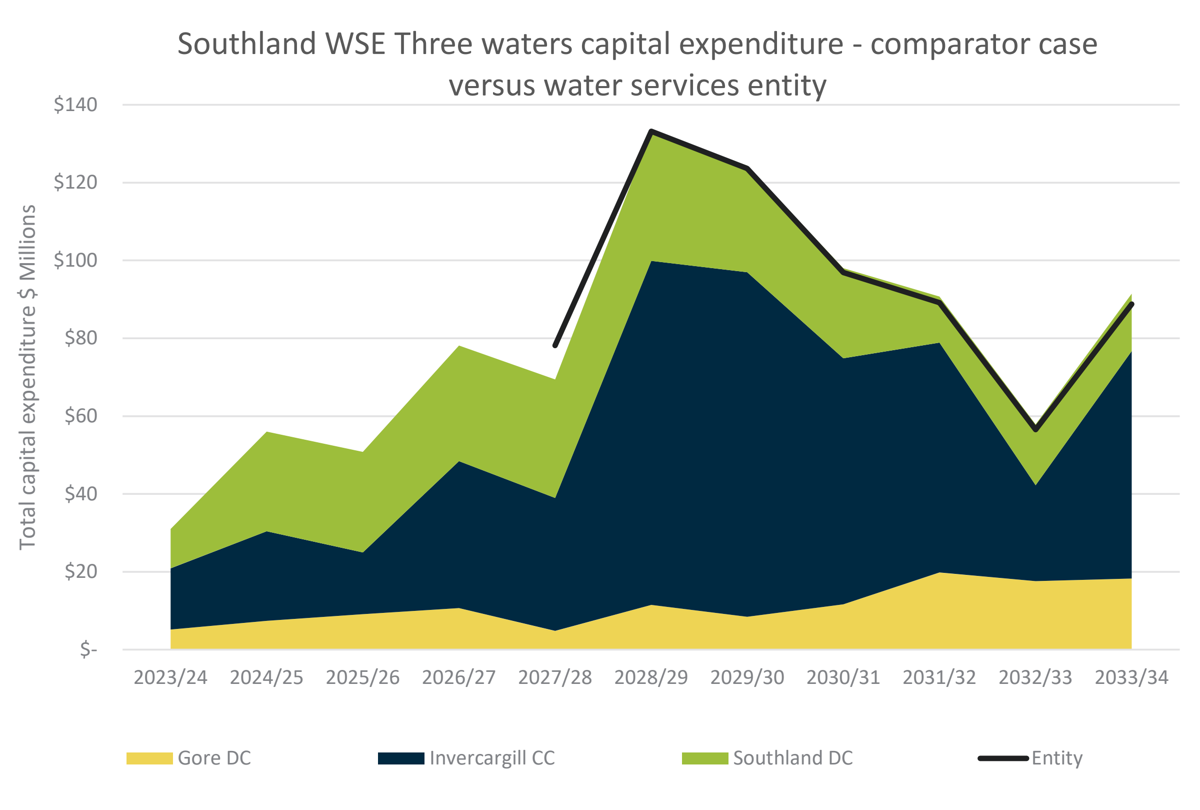


As with the Otago Southland WSE, this WSE is able to leverage its balance sheet to a greater extent than individual councils. This means it is able to reduce its overall revenue requirements to support that debt, reducing charges to consumers compared to individual councils.

Invercargill contributes the largest share of the total revenue of the combined councils in this scenario, however the reduction in revenue requirements would be shared across all councils proportionally.

Capital expenditure

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



As with the Otago Southland WSE presented in the combined regions' report, the WSE has higher capital expenditure levels than the combined councils in its first year, reflecting the need to incur significant establishment costs[2].

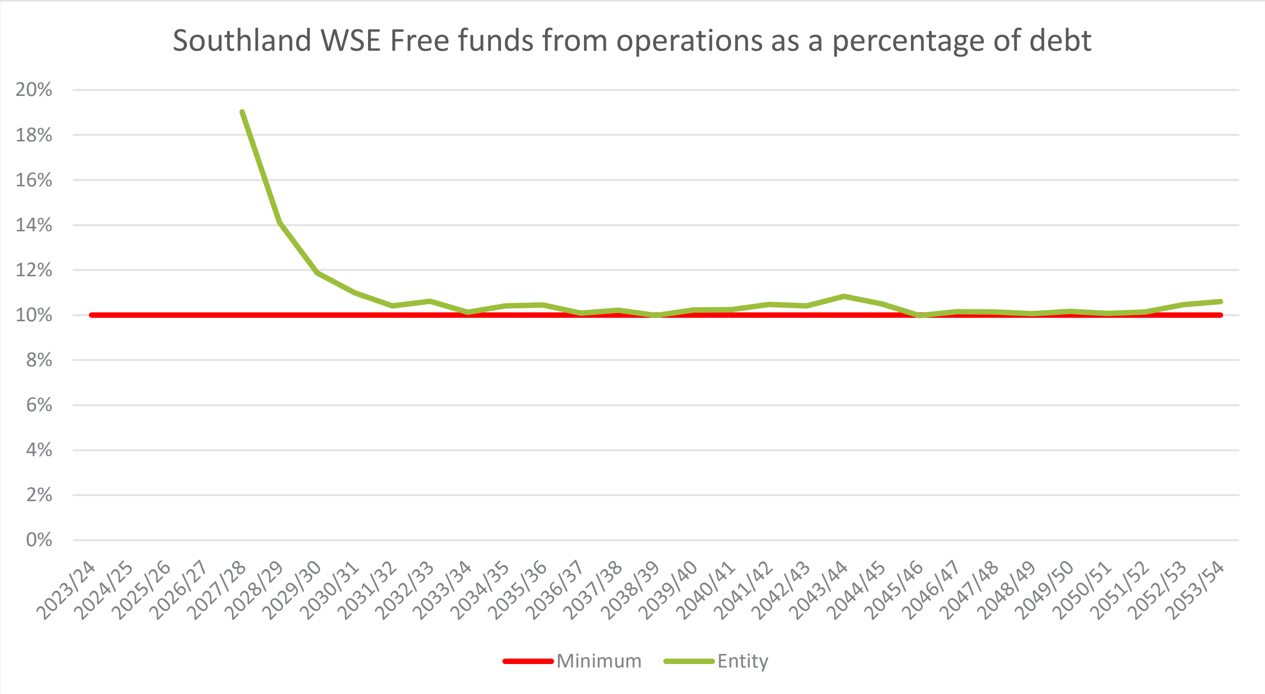
Invercargill contributes more than half the total planned capital works of the combined councils over the 2028/29 – 2031/32 period.

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

30 year borrowing profile

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

The FFO ratio adopted as a benchmark in our reporting is conservative but broadly in line with guidance published by LGFA in December 2024. We understand that it is likely that LGFA would provide flexibility in lending covenants in the case of an emergency.



WASTE MINIMISATION ACT REVIEW LETTER OF SUPPORT

To:	Infrastructure and Projects Committee
Meeting Date:	Tuesday 21 January 2025
From:	Rhiannon Suter - Manager – Strategy, Policy and Engagement Fiona Walker – WasteNet Director
Approved:	Erin Moogan - Group Manager - Infrastructure Services
Approved Date:	Wednesday 15 January 2025
Open Agenda:	Yes

Purpose and Summary

This report provides the committee with the opportunity to review the request from Industry body, WasteMINZ, for a transparent and consultative review process for future amendments to the Waste Minimisation Act 2008.

In particular, the WasteMINZ request highlights the potential funding implications for Council should the Government review the Waste Minimisation Levy allocation framework, noting that Council received $990,270 from hypothecated waste levies in 2023/24, with this utilised to offset the cost of recycling collection and processing activities, thereby offsetting rates. While hypothecation has not proceeded, WasteMINZ are requesting Councils to consider providing letters of support to ensure consultation and participation of the Local Government sector in future reviews of the Waste Minimisation Act.

Recommendations

That the Infrastructure and Projects Committee:

1. Receives the report "Waste Minimisation Act Review Letter of Support".

2. Notes the proposed draft letter provided by Industry body WasteMINZ (A5705198)

3. **Agrees/ disagrees** to request the Mayor to send the proposed letter of support for a review of the Waste Minimisation Act, with any noted changes.

Background

In April Minister Penny Simmonds indicated the Government's intention to review the Waste Minimisation Act. Since then, a partial review, including consideration of changes to hypothecation of waste levies, was undertaken.

Industry body, WasteMINZ, has indicated significant concern with the lack of consultation and participation of the Local Government sector in this review. They note in particular the funding impact which any change to the hypothecation of waste levies would have on the ability of Local Government to continue to provide waste management and minimisation services. While hypothecation has not proceeded, they are requesting Councils to consider providing letters of support to ask for two specific things:

1. **Proceed with a full review of the WMA**, as signalled by Minister Simmonds at the WasteMINZ conference in May 2024, with a transparent and consultative process involving all stakeholders.

2. **Commit to making no further changes to the WMA or levy settings** outside of this full review process, ensuring that future amendments are debated openly and are subject to select committee scrutiny.

The other Councils, working together through WasteNet, have also received this request. Their support is not known at the time of writing this report.

Issues

Hypothecation

The Government has chosen not to make changes at this time to the Waste Minimisation Fund nor to Waste Levy funding allocations. For 2023/2024 Council received $990,270 from hypothecated waste levies, with the waste levy set to rise by $5/tonne per annum over the coming three years in addition to the planned levy increase which occurred on 1 July 2024. For the 2023/2024 year, $5,382,461 was received from targeted and general rates to fund the solid waste activity. The received waste levy is used to offset the cost of recycling collection and processing activities, thereby offsetting rates.

Changes to Waste Policies

The Government announced in December that it will not proceed with the outstanding four elements of the draft waste strategy. This means that Council has longer to consider whether to extend waste collection services to Ōtātara and other areas not currently served, and whether to introduce organic waste collection.

Next Steps

A letter will be sent as directed by the Committee.

Attachments

Proposed draft letter provided by industry body WasteMINZ (A5705198)

Click or tap to enter a date.

Name
Parliament Buildings
Private Bag 18041
Wellington 6160

To the Honourable Ministers:
- Rt. Hon. Christopher Luxon, Prime Minister
- Hon. Penny Simmonds, Minister for the Environment
- Hon. Chris Bishop, Minister for Infrastructure
- Hon. Nicola Willis, Minister of Finance

Request for transparent and consultative review process for future amendments to the Waste Minimisation Act 2008

Through the proactive release of Cabinet papers and Official Information Act disclosures, it has become evident that the recent amendment to the Waste Minimisation Act (WMA) 2008—altering the allocation, scope, and size of the Waste Disposal Levy—was driven primarily by the Government's focus on achieving Budget 2024 savings. This fiscal motivation appears to have taken precedence over the Act's original intent to support waste minimisation and deliver meaningful environmental outcomes.

Further, we are deeply concerned by the decision to make these changes under Budget urgency without public or industry consultation or a select committee process.

The WMA amendment conducted in May 2024 during Budget 24 deliberations was a Cabinet decision made without input from stakeholders, councils, or the public. As part of this decision, Cabinet "invited the Minister, in consultation with the Minister for Regulation, to report back to Cabinet by October 2024 on the performance of government spending funded by the levy, with a focus on value for money, whether private investment is being crowded out, on improved environmental outcomes, and on the market failures surrounding waste disposal that have resulted in the need for a levy."

I agree that policy should be evidence-based and outcomes-focused. However, the lack of transparency and industry and council consultation surrounding these recent amendments is concerning. Good governance and sound policymaking require open discourse, especially on matters with significant impacts on public health, environmental outcomes, and local government services.

We are also troubled by Treasury's advice (released under the Official Information Act) suggesting de-hypothecation of the levy, effectively transforming it into a new

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industry tax. This move would erode the levy's original purpose as a tool to support waste minimisation and would divert funds away from the critical services local government needs to provide to protect public health and wellbeing through safe and resilient waste management and minimisation infrastructure and services. Territorial authorities have a statutory responsibility under the Waste Minimisation Act to promote and achieve effective and efficient waste management and minimisation. Our council plays a vital role in waste management and disposal, as readily seen during the severe weather events of 2023.

Local government and our ratepayers also pay for the vast majority of waste minimisation and recycling services available to communities. Our residents highly value these services, which are partly funded through the Waste Disposal Levy. Yet, this funding represents a fraction of our total operating expenditure for managing waste. Any reduction in support through the levy could compromise our ability to fulfil our responsibilities.

The amendments made under Budget urgency have left a range of critical issues unaddressed, and key policies—including decisions on product stewardship schemes for priority products, and the long-awaited container return scheme—remain in limbo. We believe that a full, transparent review of the WMA is necessary to ensure a balanced approach that reflects the needs of both central and local government as well as the waste and recycling sector on whole.

Therefore, we strongly recommend that the Government:

1. **Proceed with a full review of the WMA**, as signalled by Minister Simmonds at the WasteMINZ conference in May 2024, with a transparent and consultative process involving all stakeholders.
2. **Commit to making no further changes to the WMA or levy settings** outside of this full review process, ensuring that future amendments are debated openly and are subject to select committee scrutiny.

We respectfully request your confirmation that any future changes to the WMA will be subject to a thorough public review and legislative process, ensuring that the voices of all stakeholders, including local councils and industry, are heard and considered.

Thank you for your attention to this important matter. We look forward to your response and to working collaboratively towards sustainable waste management policies that serve both our communities and our environment.

Yours faithfully

Name
Mayor and Signatories

CC: Hon. Simeon Brown, Minister of Local Government & Minister for Auckland
Hon. Simon Watts, Minister of Climate Change

A5705198

WATER SERVICES AUTHORITY LEVY AND COMMERCE COMMISSION PROPOSED LEVY SUBMISSIONS

To:	Infrastructure and Projects Committee
Meeting Date:	Tuesday 21 January 2025
From:	Andrew Strahan, Transition Manager – Three Water Reform and Rhiannon Suter, Manager – Strategy, Policy and Engagement
Approved:	Erin Moogan - Group Manager - Infrastructure Services
Approved Date:	Friday 17 January 2025
Open Agenda:	Yes

Purpose and Summary

This report provides the Committee with an overview of the proposed Water Services Authority Levy and the proposed Commerce Commission Levy, both of which are intended to be implemented from 1 July 2025 in order to fund the costs of providing oversight to the new water services under Local Water Done Well.

Recommendations

That the Infrastructure and Projects Committee:

1. Receives the report "Water Services Authority Levy and Commerce Commission Levy Submissions"

2. Note the draft submission on the proposed Water Services Authority Levy (A5733986) and the Commerce Commission Levy (A5733991)

3. Agrees/ Disagrees to proceed with the submissions, noting any changes required.

Background

The Government is proposing to implement two new levies in order to fund oversight of the new water service delivery structures:

- Water Services Levy – to fund Taumata Arowai to provide water services quality regulation, including delivery by entities and water quality network performance.

- Commerce Commission Levy – to fund economic regulation and oversight

It is proposed that councils and CCOs that deliver water services will fund the levy. For the first levy period (expected to be three years), it is intended the levies will be limited to drinking water suppliers and network operators that are local authorities or CCOs.

The combined financial impact of these proposed levies for 2025/2026 is $302,810 and will require a 0.39% rates increase as part of the FY 25/26 Annual Plan.

Issues and Options

Analysis

Levy Structure

The Water Services Levy would continue to be funded annually with Crown Funding of $4.642 million with the remainder of the estimated $25 million revenue needed coming from levies ($20.658 million), with a small portion from fees and charges. The ICC forecast share for 2025/2026 is $230,023.

Commerce Commission Levy - the preferred approach is to seek 100% recovery of the Commerce Commission's costs to provide oversight, estimated between $6 – 7 million. This is in line with the approach to regulating other utilities. The ICC forecast share for 2025/2026 is $72,787.

Levy Design

The Water Services levy is proposed to be made up of three separate levies with cost recovery split across the following areas – water (75%), wastewater (21%), stormwater (4%).

The Commerce Commission levy will reflect the following, noting at the outset, the Commerce Commission forecast only utilising two areas marked with * in the first five years:

- Core regulation of water services*
- Performance requirements
- Quality only regulation
- Price-quality regulation*
- Consumer protection measures
- Stormwater regulation

Levy Apportionment

The Water Services Levy apportionment is proposed to be based on census population (it is assumed this refers to the normally resident population although this is not stated).

Commerce Commission Levy apportionment is based on both the normally resident population and the population receiving the service on the basis of $1.30 per person per year for 2025/2026.

Levy Implementation

The Water Services levy will be due from 1 July 2025 and invoiced quarterly. The entity can choose how to pass these costs on to ratepayers. The levy could be reviewed in line with Long-term Plan cycles or in 2027/28.

The Commerce Commission levy would be based on estimated annual financial costs, implemented from 1 July 2025, invoiced quarterly and reviewed in 2027/28.

Next Steps

Feedback from the Committee will be incorporated into the submissions. Submissions are due by 24 January 2024.

Attachments

1. Proposed Water Services Authority Levy Submission – A5733986

2. Proposed Commerce Commission Levy Submission – A5733991

ICC Submission - Proposed Water Services Authority Levy

This is an online submission process with answers to the following questions entered into the online template.

What are the most important issues that you/your organisation believes should be addressed by the Authority?

Lifting sector capability, capacity and leadership is the most important issue to be addressed by the Authority. A heavy regulatory approach cannot be successful and is unjust unless water suppliers have access to the right numbers of people with the right capability. The Authority appears to have taken a largely regulatory role to date. It needs to ensure it is balancing this with education, training and capacity building of the industry also.

Training of new people is a major industry issue. As stated at the recent Water New Zealand Conference an apprentice electrician takes between 3 and 4 years before they can wire a plug without it being signed off by a registered electrician. In the water industry, there is no such requirement. The industry training can be completed in 6 months and is limited. The lack of a national framework for on-going training is another industry wide problem that Councils can only do so much to influence.

These issues are compounded by higher salaries for 3 waters professionals that are achievable in Australia as well as that water supply is not listed as one of the fast-track visas by Immigration NZ, makes accessing international resource a slow process. The significant volume of work required to nationally meet regulatory standards will be near on impossible to achieve unless there is a significant focus nationally in this area.

How would you like the Authority to engage with you/your organisation?

Webinars / in person site visits at an officer and executive level / dedicated point of contact / web-based information delivery

Part 1 – Levy structure

Do you/your organisation have views on the preferred option detailed in the Levy Structure section of the discussion document?

Invercargill City Council has a fundamental objection to the requirement to pay for the Commissions' new regulatory functions and then "work out an equitable yet efficient method to pass this on to ratepayers / water users".

This represents a concerning trend with Local Government and ratepayers being required to fund Central Government functions. It raises the question as to what other Central Government functions will be required to be funded by rate payers in the future.

The combined Water Authority and Commerce Commission levies, which are required to be collected from Invercargill City Council ratepayers for 2025/2026 is $302,810. To implement this will require a 0.39% rates increase as part of the FY 25/26 Annual Plan.

The additional burden of paying for Central Government regulatory functions, on top of the significant forecasted 3 Waters infrastructure costs, increases the affordability and cost of living issues Invercargill City ratepayers are experiencing.

While it is agreed that allocation of a levy by resident population is a simple approach for the regulator to adopt and apportion out costs to Councils, it passes the issue to Councils to work out an efficient yet equitable method to pass the levy costs onto ratepayers and water users. The council is constrained in how they can use the Local Government (Rating) Act 2002 to recover / collect charges from ratepayers.

Where Council is not providing a 3 Waters Service to Private Water Schemes, we question the ability legally and practically to allocate and recover levy costs from those schemes. In addition, working out an efficient approach to apportion levy costs to commercial users will also be problematic. The ideal requires this to be based on a volumetric charge and will require system and process development to support this.

Invercargill City Council cannot expect general ratepayers to subsidise private schemes and commercial users.

Do you/your organisation agree with the focus, in the first levy period, on councils?

Invercargill City Council considers focus on industry wide capability and risk-based prioritisation for regulatory action should be the appropriate focus. The type of water supplier should be irrelevant.

Part 2 – Levy design

Do you/your organisation have any comments on the proposal to separate levies for drinking water, wastewater and stormwater?

Agree to the separation of levies for drinking water, wastewater and stormwater. The costs for each activity should be identifiable and justified.

Would splitting the levy between drinking water, wastewater and stormwater result in any benefit for your organisation, or create any barriers (whether now or in the future)?

The costs of ICC administering a levy recovery scheme on behalf of the regulator are not provided for in Annual or LTP Budgets and represent an additional cost for ratepayers.

Existing teams will need to design and implement an efficient yet equitable approach to allocate and collect the levy on behalf of the regulator.

Requiring each Council across New Zealand to define their own approach is not efficient and is likely to result in an inconsistent approach rife with cross subsidisation.

Part 3 – Levy apportionment

Do you/your organisation have any comments on the preferred option of an apportionment approach of charging the levy on a per-person rate?

While it is agreed that allocation of a levy by resident population is a simple approach for the regulator to adopt and apportion costs to Councils, it passes the issue the Councils to work out an efficient yet equitable method to pass the levy costs onto ratepayers and water users.

The ideal is that the levy is calculated on basis of water connection and water use, it is understandable that there are data limitations preclude this. Consequently, resident population is an easy method to calculate this.

Drawbacks with this approach are that Councils with higher visitor populations or multiple water supply schemes and/or wastewater treatment plants would not have this recognised in the value of the regulatory costs allocated to them.

15 Would the proposed apportionment approach create any challenges for your organisation?

Part 4 - Levy implementation

Do you/your organisation see any issues with your implementation of the levy (receipt of invoices, payment and passing the cost on as you may determine)?

Key challenge is the diversion of Council staff to work through an approach to an efficient yet equitable approach to ''passing on the cost.' The proposed approach and options would need to be defined, implementation approach and associated costs calculated and seek Council Decision for the proposed changes, consult on these, then secure Council approval to the required Annual Plan / LTP changes.

Once approved, the system and process changes would then need to be implemented, to the 1 July 2025 timeframe.

To deliver would likely require tactical solutions to be agreed and other high priority work to be reprioritised or deferred.

Invercargill City Council is disappointed that again there is a requirement to implement new government requirements in insufficient timeframes.

Would the proposed implementation approach create any challenges for your organisation?

Key challenge is the diversion of Council staff to work through an approach to implementation, associated costs and seek Council Decision for the proposed changes, then implement these, to a demanding 1 July 2025 timeframe.

Do you/your organisation have a preference for when the levy should be reviewed next?

The regulatory functions should continue to be a Central Government responsibility to deliver and fund.

Once the outcomes of Local Water Done Well have been implemented, including setup of Joint / Individual Water Service Council Controlled Organisations – the approach to funding regulatory activities may then be revisited.

If they are implemented as designed a review period of every three years is reasonable.

Responses to questions

The Competition Policy team welcomes your feedback on as many sections as you wish to respond to, please note you do not need to answer every question.

Part 1: Levy structure	
1.	What are your views on the preferred option for a levy to fully recover the costs of the Commission's new functions from 1 July 2025 onwards from regulated water services suppliers, excluding litigation and Crown Monitor costs for Watercare? Please provide reasons.
	Invercargill City Council has a fundamental objection to the requirement to pay for the Commissions' new regulatory functions and then "work out an equitable yet efficient method to pass this on to ratepayers / water users". This represents a concerning trend in Local Government and ratepayers being required to fund Central Government functions. It raises the question as to what other Central Government functions will be required to be funded by rate payers in the future. The combined Water Authority and Commerce Commission levies, which are required to be collected from Invercargill City Council ratepayers for 2025/2026 is $302,810. To implement this will require a 0.39% rates increase as part of the FY 25/26 Annual Plan. The additional burden of paying for Central Government regulatory functions, on top of the significant forecasted 3 Waters infrastructure costs, increases the affordability and cost of living issues Invercargill City ratepayers are experiencing.
Part 2: Levy design	
2.	What are your views on the proposed levy design?
	While it is agreed that allocation of a levy by resident population is a simple approach for the regulator working out an efficient approach to apportion levy costs to commercial users will be problematic. The ideal requires this to be based on a volumetric charge and will require system and process development to support this. Invercargill City Council cannot expect general ratepayers to subsidise private schemes and commercial users.

A5733991

3.	How would the proposed levy design impact on your organisation (whether now or in the future)? Please provide your assessment of the nature and extent of these impacts.
	The costs of ICC administering a levy recovery scheme on behalf of the regulator are not provided for in Annual or LTP Budgets and represent an additional cost for ratepayers. Existing teams will need to design and implement an efficient yet equitable approach to allocate and collect the levy on behalf of the regulator. Requiring each Council across New Zealand to define their own approach is not efficient and is likely to result in an inconsistent approach rife with cross subsidisation.
4.	Do you have any comments on how the levy design could be improved? Please provide reasons.
	The regulatory functions should continue to be a Central Government responsibility to deliver and fund. Once the outcomes of Local Water Done Well have been implemented, including setup of Joint / Individual Water Service Council Controlled Organisations – the approach to funding regulatory activities may then be revisited. If the levy is implemented as designed, it is recommended that detailed reporting is made publicly available on how levy funds were spent and their outcomes in improving water services.
Part 3: Levy apportionment	
5.	Do you have any comments on the preferred option for apportionment of the levy to each regulated supplier?
	While it is agreed that allocation of a levy by resident population is a simple approach for the regulator to adopt and apportion costs to Councils, it passes the issue the Councils to work out an efficient yet equitable method to pass the levy costs onto ratepayers and water users. The ideal is that the levy is calculated on basis of water connection and water use, it is understandable that there are data limitations preclude this. Consequently, resident population is an easy method to calculate this. Drawbacks with this approach are that Councils with higher visitor populations or multiple water supply schemes and/or wastewater treatment plants would not have this recognised in the value of the regulatory costs allocated to them.
6.	How would the proposed method of apportionment impact on your organisation (whether now or in the future)? Please provide your assessment of the nature and extent of these impacts.

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	Key challenge is the diversion of Council staff to work through an approach to an efficient yet equitable approach to ''passing on the cost.' The proposed approach and options would need to be defined, implementation approach and associated costs calculated and seek Council Decision for the proposed changes, consult on these, then secure Council approval to the required Annual Plan / LTP changes. Once approved, the system and process changes would then need to be implemented, to the 1 July 2025 timeframe. To deliver would likely require tactical solutions to be agreed and other high priority work to be reprioritised or deferred. Invercargill City Council is once again disappointed by the lack of appropriate timelines to meet new central government requirements.
7.	Do you have any comments on alternative options to apportion the levy? If another option is preferred, please provide reasons.
	First preference for these regulatory functions to continue to be a Central Government responsibility to deliver and fund.
Part 4: Levy implementation	
8.	Do you see any issues with your implementation of the levy (receipt of invoices, payment and passing the cost on as you may determine)? If so, what are those issues?
	Key challenge is the diversion of Council staff to work through an approach to an efficient yet equitable approach to ''passing on the cost.' The proposed approach and options would need to be defined, implementation approach and associated costs calculated and seek Council Decision for the proposed changes, consult on these, then secure Council approval to the required Annual Plan / LTP changes. Once approved, the system and process changes would then need to be implemented, to the 1 July 2025 timeframe. To deliver would likely require tactical solutions to be agreed and other high priority work to be reprioritised or deferred.
9.	Would the proposed implementation approach create any challenges for your organisation? If so, what would these be in practice and are there solutions you wish to propose?
	Key challenge is the diversion of Council staff to work through an approach to implementation, associated costs and seek Council Decision for the proposed changes, then implement these, to a demanding 1 July 2025 timeframe.

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10.	Do you have a preference for when the levy should be reviewed next? If so, why?
	Once the outcomes of Local Water Done Well have been implemented, including setup of Joint / Individual Water Service Council Controlled Organisations – the approach to funding regulatory activities may then be revisited.

General Comments:
The Government again calling for 3 waters submissions over the December January period requiring staff and elected members to shorten leave in order to see submission completed and approved is disappointing.

Thank you

We appreciate you sharing your thoughts with us. Please find all instructions for how to return this form to us on the first page.

A5733991

A5737384

TABLED AT
21 JAN 2025
MEETING

Local Water Done Well

Extra Ordinary ICC Infrastructure and Projects Committee Meeting

21 January 2025

Invercargill
CITY COUNCIL

Agenda

- Approach and Progress to Date
- Legislation Summary
- Water Service Delivery Model Options Summary
- Multi Criteria Analysis Outcomes and Sensitivity Testing
- Impacts for Legacy Council
- Key Risks
- Appendix 1 - MCA Detail
- Appendix 2 – High Level Plan

Approach and Progress to Date

✓ Infrastructure Committee Meeting Presentations - (7 May, 11 June, 2 July, 8 Oct & 3 Sept)
- Summary of LWDW Requirements including Legislation Analysis, Submission & Agreed ICC Approach

✓ Workshop 1 - 12 November 24
- Defined what is important to Invercargill for future three water services.
- Draft Investment Objectives - to evaluate the 3 Waters Delivery models against.

✓ Workshop 2 - 3 December 24
- 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 Investment Objectives.
- Secure Councillor input to the analysis and receive feedback on the preferred delivery model(s).

○ EO Infrastructure Committee Meeting - 21 January 25
- Present completed analysis of water service delivery options.
- Secure a recommendation for Council Decision on the preferred delivery model and option(s) to take to consultation.

○ Council Committee Meeting - 28 January 25
- Secure formal decisions on the preferred delivery model and option(s) to take to consultation – in alignment with the Annual Plan community engagement.

LWDW - Legislation Summary

Overview of the Local Government (Water Services) Bill ("Bill 3").

- The Government introduced the third piece of legislation in the three-stage process for implementing its Local Water Done Well policy reform on 10 December.
- Bill 3 is an omnibus bill which sets up a new regulatory framework for water services delivery.

Bill 3 provides the arrangements for new water services delivery systems which were foreshadowed in the Local Government (Water Services Preliminary Arrangements) Act 2024 ("Preliminary Arrangements Act")) and DIA Fact Sheets;

- A new economic regulation and consumer protection regime for water services based on information disclosure inserted into the Commerce Act 1986 ("Commerce Act");
- Changes to the water quality regulatory framework and the Water Services Authority / Taumata Arowai; and
- Various consequential amendments to a number of Acts.

Hon Simeon Brown – letter to Mayors

- The Minister for Local Government Simeon Brown provided a letter to Mayors and Chairs – in support of the Bill 3 when it was introduced to Parliament on 4 Dec. 24
- Note the highlighted text with respect to Government's expectations when councils are deciding on a water service operating model.

Transforming water services infrastructure and delivery

The introduction of this Bill represents a significant milestone for Local Water Done Well, and for the delivery of local solutions for improved, financially sustainable and high-quality water services.

With the framework and settings now in place, it is now up to you to consider the best solution for your communities.

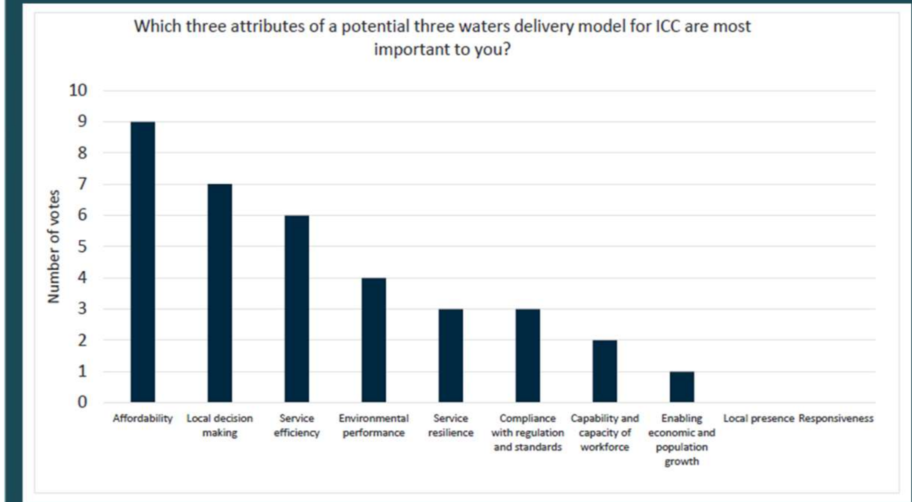
The Government's expectation is that councils will work together to establish joint water organisations for water services delivery, recognising the cost and operational efficiencies that come with greater size and scale.

A joint water organisation will enable councils to pool resources, improve access to financing via Local Government Funding Agency (LGFA), and reduce costs for ratepayers. It won't mean harmonisation of pricing and other key financial metrics from day one – that process can and should reflect the realities of each region.

While some councils may wish to continue with in-house delivery of water services, it's important to emphasise that the new framework and requirements under Local Water Done Well – such as ringfencing, planning and accountability, and economic regulation – means business as usual is not an option.

Under Local Water Done Well, water service providers will have to operate more like independent utility businesses, much like telecommunications or electricity utilities. They will be structured and operated differently, and they will be directly accountable to customers, regulators and shareholders (where relevant).

Morrison Low - Comparison of water delivery models



ICC 3 Waters Delivery Model Attributes of Importance

- 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

ICC 3 Waters Delivery Model investment objectives

Service delivery model options - summary of features

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

Service delivery models – Add On Options

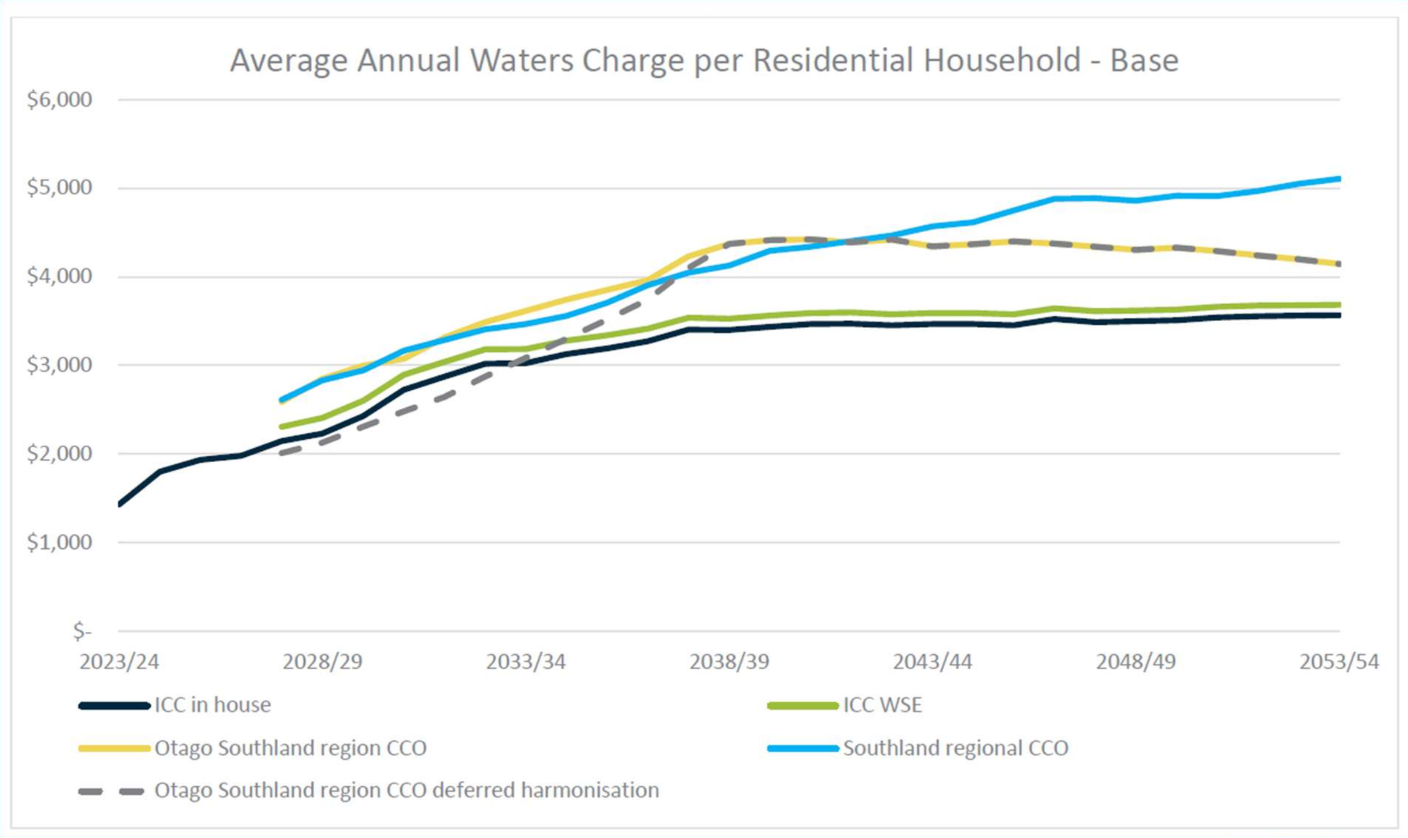
Selected Service Delivery model needs to meet financial sustainability requirements. There are future water delivery model 'add on options' that can be provided for via the WSDP. These include -

- **Joint Contracts with one or more other WSP**
- **Shared Services with one or more other WSP**
- **Regional Management CCO with one or more other WSP**
- **Joint Management Committee with one or more other WSP**

There is also the opportunity to amend a WSDP, to provide for amendments to the model or arrangements for delivering water services, if required, up to Sept 2026.

Amendments to a WSDP require Secretary for Local Govternment approval of the revised plan.

Financial Modelling – delivery model options



Financial Modelling – delivery model options

Modelling is based on ICC's LTP and the data used in the Otago Southland model, with the following changes:

- **Insurance Costs**: A **15% budget increase** reflects unanticipated price rises.
- **Operating Costs**: **$1.7 million** in consequential operating costs has been added for the alternative water supply project, based on midpoint estimates from the business case.
- **Depreciation**: The status quo model uses ICC's **average depreciation rates** per activity.
- **Modelling for the ICC in-house scenarios** includes apportionment of corporate overhead costs to three waters activities for consistency, though ICC currently does not allocate these directly.

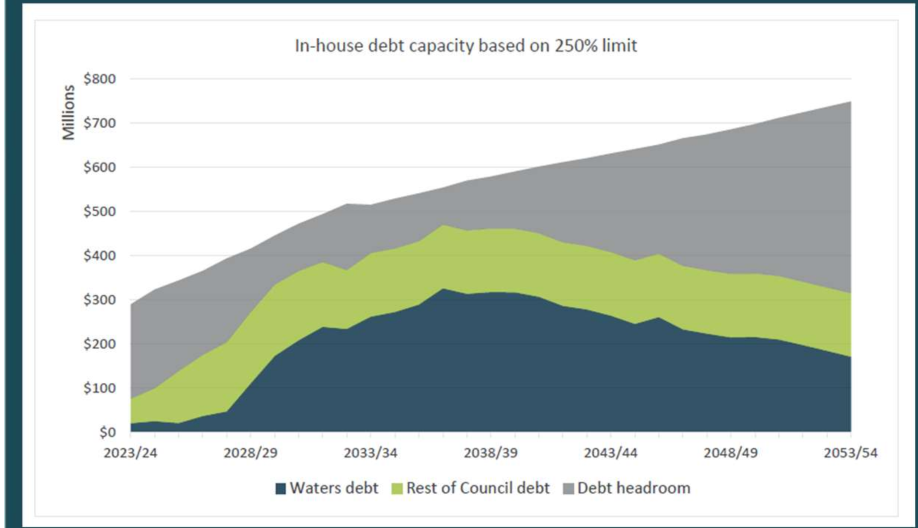
Note - The Otago Southland model has not been updated for these costs. Any impact would be minimal but may slightly increase household charges in the regional model.

Modelling for the option of an ICC in-house delivery model, with structural change, includes the following additional costs/assumptions:

- The addition of a cadet programme at $300,000 per annum spread across the three waters activities. The budget amount includes allowance for expert support and training and salaries and wages for at least two cadets.
- $30,000 per year for the addition of an independent advisor to a three waters sub-committee or similar governance body.
- Any other structural changes are only assumed to occur if necessary to improve the performance of the three waters activities and are assumed to be cost neutral.

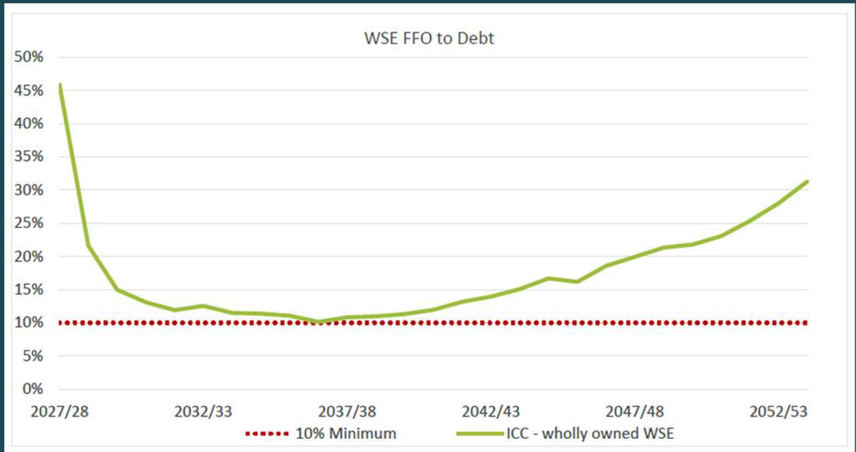
Modelling of the Otago Southland Region CCO – provides 5 years of deferred price harmonisation and a 7-year transition to price harmonization thereafter.

Debt Capacity - In House



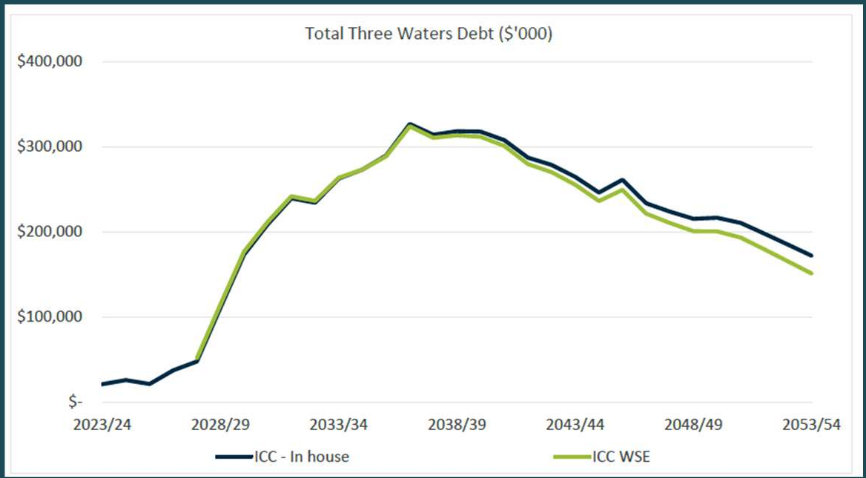
- **Current Debt Split**: ICC's debt is **28% three waters** and **72% non-three waters**, with three waters debt equaling **74% of three waters revenue**.
- **Future Debt Projections**: By **2037**, three waters debt will peak at **69% of total council debt**, reaching over **440% of three waters revenue**.
- **Remaining Capacity**: In 2037, ICC's borrowing capacity will still be **$84 million**, though the model excludes non-three waters projects outside the LTP.
- **Borrowing Capacity**: ICC benefits from borrowing against its total revenue, and debt headroom is **not fully utilised** at any point.

Debt Capacity – CCO Model



- **Debt Measurement**: Only **WSE debt** and **WSE revenue** are relevant. Total council debt and revenue are excluded.
- **Debt Ratio**: The focus is on **Funds From Operations (FFO)-to-debt**, with a benchmark ratio of **above 10%**. This often corresponds to **500% debt-to-revenue**, but FFO measures free cash flow relative to closing debt.
- **Modelling Adjustments**: Where FFO limits are breached, revenue adjustments ensure compliance. In the ICC base case, no breaches occur.
- **Borrowing Capacity**: The WSE may use additional debt to fund capital expenditure (e.g., renewals) or reduce reliance on depreciation funding, potentially lowering revenue needs and household charges. However, this scenario was **not modelled**

Total Debt Comparison



- Both service delivery models can effectively manage and control debt over the modelling period. The only differences in debt levels arise from:
  - Debt funding for WSE establishment costs.
  - Cumulative impact of capital expenditure efficiencies potentially achievable by a WSE.

- These differences are minor, with the WSE model projected to hold **$20 million less debt** than the in-house model by 2054.

Sensitivity Testing

Investment needs are often understated, with capital works costs typically increasing over time.

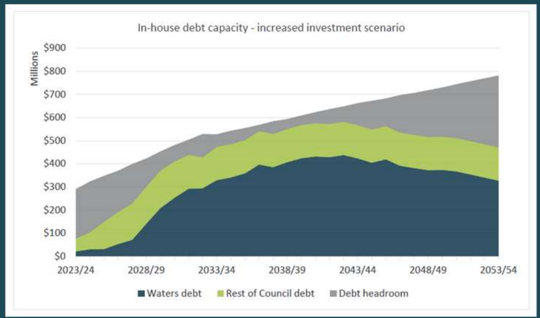
To understand the impacts of key financial risks an **“increased investment scenario”** was modelled, incorporating additional capital expenditure:

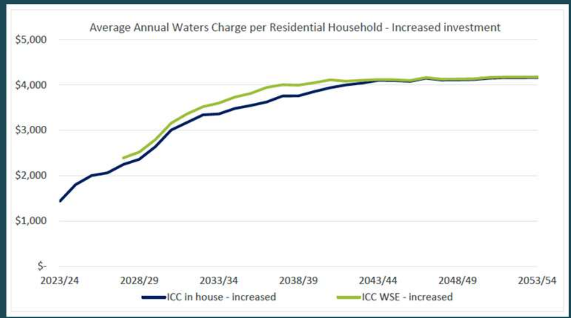
- **Alternative Water Supply: An additional $30 million in capital expenditure brings the total budget to $90 million (previously $60 million).**
- **$1 million/year** for improved asset management (treated as operational expenditure).
- **$1 million/year** for stormwater ditches to address health and safety concerns.
- **$15 million** to replace the Doon Street reservoir.
- **$60 million** to extend reticulated water and wastewater services to parts of Otatara.

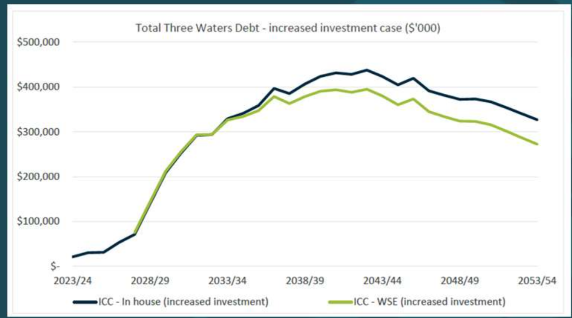
This adds **$145 million** (including inflation) to three waters capital works over 30 years.

The scenario tests the resilience of both models to rising investment needs. Note that testing the scenario does not recommend / require proceeding with these specific projects.

Sensitivity Testing







By 2043, household charges under both models converge to similar levels. However, from 2032 to 2043, the **WSE model** requires a significant increase in household charges due to capital investment needs to remain within lending covenants.

Key outcomes under the **increased investment scenario**:

- The WSE breaches borrowing limits in 2032, requiring higher charges but ends with **$54 million less debt** than the in-house model.
- ICC's total borrowing remains within capacity, but borrowing headroom drops to **$27 million by 2037**, with three waters borrowing reaching **75%** of ICC's total debt.

Multi Criteria Analysis Results

		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 Harmonised	Option 7: Otago Southland WSE deferred harmonisation
Deliver safe drinking water and safely treat and manage discharges	16.7%	0	1	1	2	2	3	3
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	2	2	1	0	1	1	1
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	0	1	-1	2	3	1	1
Build and develop a strong and capable local three waters workforce	16.7%	-1	0	0	1	2	3	3
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	3	2	2	2	-3	-1	1
Total score (out of three with a range of -3 to 3)	100%	1.17	1.33	0.83	1.50	0.33	1.00	1.67
Overall assessment		Not recommended	Shortlisted	Not recommended	Shortlisted	Not recommended	Not recommended	Shortlisted

Refer Appendix 1 for scoring descriptions

Multi Criteria Analysis Sensitivity Testing

Sensitivity testing of multi criteria analysis

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Base case - Affordability double weighted	1.2	1.3	0.8	1.5	0.3	1.0	1.7
All weighted evenly	0.8	1.2	0.6	1.4	1.0	1.4	1.8
Afordability and local decision making double weighted	1.0	1.3	0.6	1.6	0.7	1.0	1.6

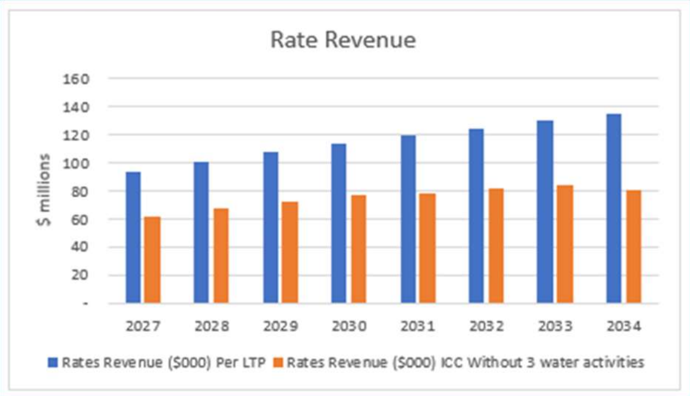
Morrison Low - Comparison of water delivery models

The Multi-Criteria analysis shows that three water services delivery models—an in-house model, a standalone Water Services Entity (WSE), and an Otago Southland WSE with deferred harmonisation—rank highest under the base case. Key findings include:

- The in-house model is expected to lead to the lowest long-term water charges for Invercargill City consumers.
- The Otago Southland WSE with deferred harmonisation may have the lowest household water charges until 2034.
- The ICC standalone WSE is anticipated to result in higher water charges compared to the ICC in-house model.

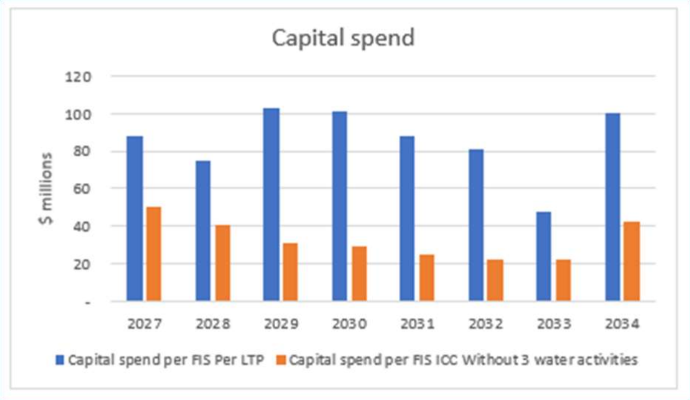
The Otago Southland WSE with deferred harmonisation faces significant challenges, including the need for unanimous council agreement, potential disagreement on price deferral terms, higher future water charges, and the likelihood that the arrangement would not be permanent.

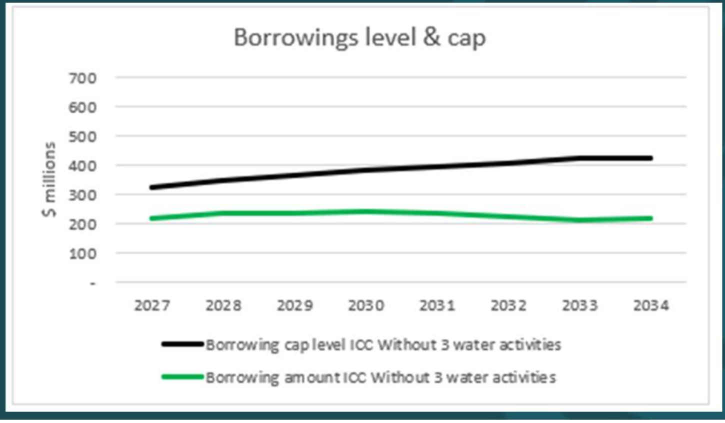
Impacts on Legacy Council



ICC's forecasted capital spend, per the current LTP, remains well within borrowing capacity levels – when 3 Waters Revenue and Capital Spend are removed.

ICC without 3 Waters staff would reduce the scale of the remaining Council - impacting ability to respond to emergency events.





Key Risks

Risk	Impacts
DIA does not approve ICC's WSDP and requires the document to be revised.	DIA requires ICC to alter the WSDP. DIA requires ICC to change the Operating Model Decision.
DIA does not approve ICC's WSDP – and appoints a Crown Facilitator or Water Services Specialist.	Reputation risk for Council. Reduction / loss in decision making control.
Change in Government and approach to current LWDW approach to water reform.	Cost and time to rework Loss in staff and ratepayer confidence that reform is required and/ or will be delivered.
WSDP Plan and Implementation Tasks are more complex / extensive than estimated.	Potential increase in project budget. Additional ICC resource commitments.
Continuing uncertainty for ICC 3 Waters teams as to how their work and roles may be affected	Potential loss of key staff. Increasing difficulty to recruit staff.
Local Government Election processes during October 2025.	Potential delay to key decisions – administration period may then impact. Re-litigation of decisions by new Council. New Councillors require up skilling in LWDW requirements.
ICC is not fully compliant with new legislative requirements – within the required timeframes.	Reputation risk for Council. Cost and time to rectify. Potential DIA or Regulator Intervention.
3 Waters legislative investment requirements and impact on wider Council investment capacity.	Impending increase in 3 Waters costs impacting affordability and Council investment in other areas.
Ratepayers do not appreciate the impending costs increases for 3 Waters Services – irrespective of the delivery model adopted.	Increasing affordability issue for larger group of ratepayers. Negative publicity and reputation risk for Council.

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 for Council Committee Decision.
- 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)**

Appendix 1 – Multi Criteria Analysis

ICC MCA for water service delivery options

Multi Criteria Analysis

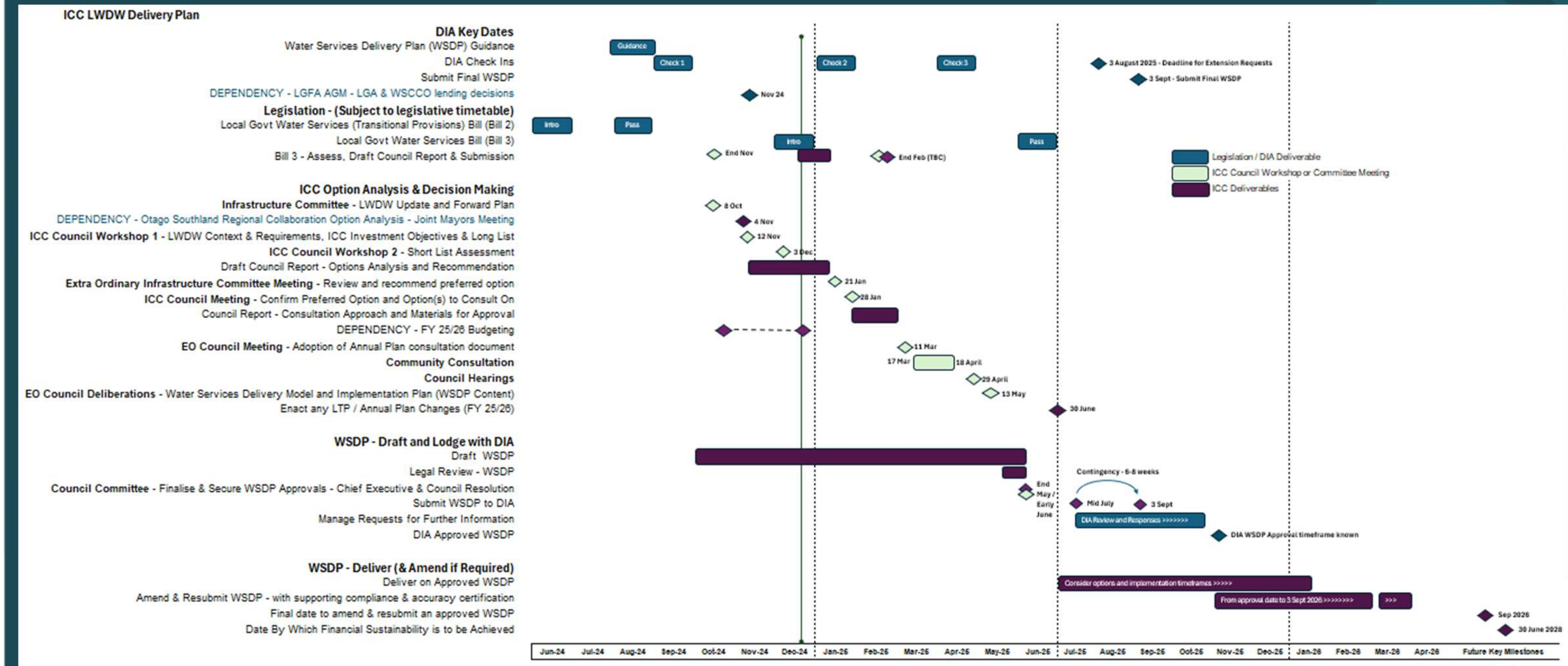
Options		Option 1: ICC inhouse business unit		Option 2: ICC in house with structural change	
Description of option		Financial ringfencing No significant changes to service delivery approach Minimum changes to meet legislative requirements		Some additional structural change May include a 3 waters sub committee with independent members	
Assessment Criteria	Weighting		Comments		Comments
Deliver safe drinking water and safely treat and manage discharges	16.7%	0	ICC currently faces no financial constraints for the delivery of compliant or safe three waters services. Competition with other council priorities may impact prioritisation but this risk is considered low in a regulated environment	1	It is assumed that any structural change that would occur at an operational/management level would be for the purpose of improving delivery, planning and capability. Structural change at a governance level would also improve risk management and provide independent advice to elected members.
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	2	ICC has a broader ambit than pure delivery of three waters services, and as such may be inclined to make investment decisions to proactively stimulate the economy. However, there would be no specific opportunities to work regionally, and ICC's position as a service town for the Southland region means growth or decline outside of ICC's boundaries may impact its need to respond with infrastructure.	2	No material difference to option 1
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	0	Decision making will continue to remain local at both the management and governance level. Governance is through elected members who are elected to represent the views of their communities. Elected members have competing priorities, and a diverse range of skills. Not all elected members have a strong infrastructure, asset management, or financial management backgrounds.	1	Per option 1. Addition of structural change are assumed to only occur if they create improvements around infrastructure management and decision making. Any addition of independent members of sub-committee will give a dedicated view of asset management at the governance level.
Build and develop a strong and capable local three waters workforce	16.7%	-1	Lack of scale and geographic isolation makes it difficult to attract staff. Not all three waters professionals are willing to work within a council environment. Council struggles to compete with private sector on pay or career development opportunities.	0	Addition of a cadet programme and independent focus at sub committee level likely to improve capability of local workforce
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	3	Based on modelling. Scaled based on delta between lowest cost and highest cost model at inception, 10yr and 30yr average price points	2	Based on modelling. Scaled based on delta between lowest cost and highest cost model at inception, 10yr and 30yr average price points
Total score (out of three with a range of -3 to 3)	100%	1.17		1.33	
Overall assessment		Not recommended		Shortlisted	

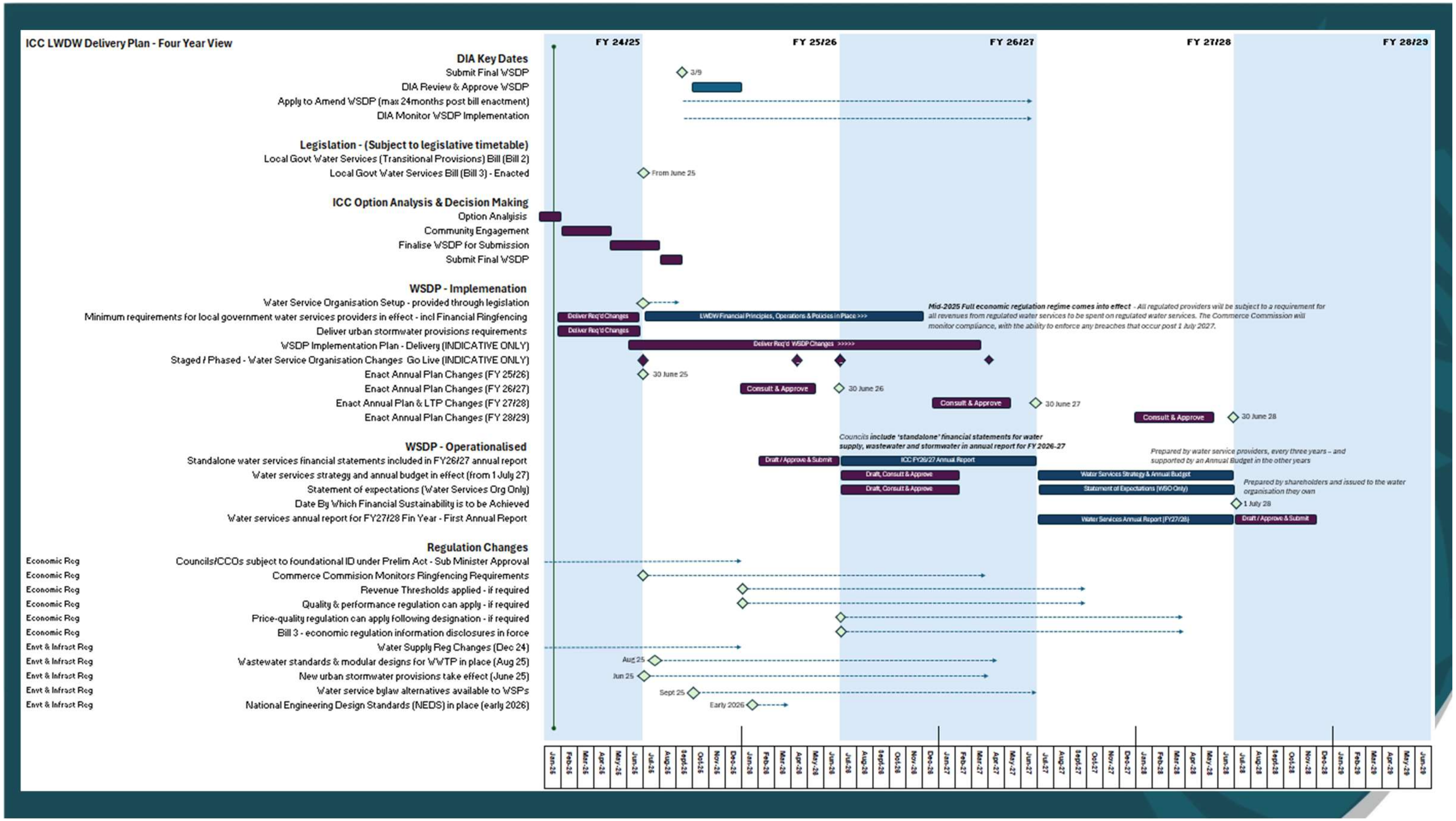
Options		Option 3: Shared services		Option 4: ICC standalone CCO	
Description of option		Working with neighbouring councils or councils with similar asset management systems and processes on some shared services. May include procuring services from a regional WSE. Scale could be large or small		Creates more borrowing capacity in council Adds a professional board Solely focussed on three waters Would include transfer of assets and setting of charges	
Assessment Criteria	Weighting		Comments		Comments
Deliver safe drinking water and safely treat and manage discharges	16.7%	1	Shared services should give rise to either financial or operational efficiencies or access to additional resources or specialists that are otherwise not able to be access by ICC. This may not give rise to lower costs but may result in improved outcomes.	2	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	1	Shared services may offer opportunities to leverage regional economic data or make cross boundary investment. However, many such arrangements have failed to show enduring benefits elsewhere in the country.	0	May have improved asset management planning, but will have a primary focus on three waters services rather than local economic growth. Some requirement to consider economic growth could be addressed through a statement of expectations.
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	-1	Decision making will continue to be local and will largely be consistent with option 1. Local decision making may be compromised, and experience of similar models in the water sector indicates separation of control and risk sharing typically results in poor outcomes	2	Decision making will remain local but will be made in an environment where both governance and management have a sole focus on three waters infrastructure and will be appropriately qualified. Access to directors and management may be limited as there will be a lot of competition from similar arrangements, or larger water entities.
Build and develop a strong and capable local three waters workforce	16.7%	0	Shared services, unless fully comprehensive through a management CCO, are unlikely to result in a change in employment conditions or career opportunities in participating councils. Modest increase in score reflect potential for shared services to increase access to specialists or a diverse workforce.	1	A standalone WSE will still lack scale to attract or develop staff, however it will have more operational discretion to set budgets and staff pay to ensure market competitiveness.
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	2	Estimated - assumed not to be more expensive than existing model but for savings to be marginal	2	Based on modelling. Scaled based on delta between lowest cost and highest cost model at inception, 10yr and 30yr average price points
Total score (out of three with a range of -3 to 3)	100%	0.83		1.50	
Overall assessment		Not recommended		Shortlisted	

Options		Option 5: Southland only WSE		Option 6: Otago Southland WSE	
Description of option		Establish an asset owning WSE with Southland regional neighbours Adds some scales, opportunities for network optimisation, regional focus Could include some ringfencing		Establish an asset owning WSE for Otago and Southland. Adds significant scale, opportunities for efficiencies Harmonised prices	
Assessment Criteria	Weighting		Comments		Comments
Deliver safe drinking water and safely treat and manage discharges	16.7%	2	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning	3	Independence of decision making and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning. Scale will allow improved access to specialists and expertise.
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	1	Will have the ability to work within the region to identify opportunities to service household or economic growth more efficiently. The local economy in Invercargill is heavily influenced by activity outside of the city boundary, so regional decision making is likely to improve outcomes. A multi-council CCO may not reflect all of ICC's priorities, and would likely have a strong focus on delivery of efficient and effective 3 waters services rather than supporting growth.	1	Will have the ability to work within the region to identify opportunities to service household or economic growth more efficiently. The local economy in Invercargill is heavily influenced by activity outside of the city boundary, so regional decision making is likely to improve outcomes. A multi-council CCO may not reflect all of ICC's priorities, and would likely have a strong focus on delivery of efficient and effective 3 waters services rather than supporting growth.
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	3	Decision making will be local to the Southland region. A single focus of the WSE on three waters service delivery will ensure that decisions of the board and management reflect best practice infrastructure management. Increased scale may improve attractiveness of roles within the WSE.	1	Decision making will be at an Otago-Southland level, although mechanisms may be developed to capture some local feedback or priorities. A single focus of the WSE on three waters service provision will ensure that the decisions of the board and management reflect best practice asset management. Significant scale would attract top quality candidates for management and governance roles.
Build and develop a strong and capable local three waters workforce	16.7%	2	Increased scale may result in more attractive employment opportunities and more opportunities to develop staff. The entity will not have significant scale compared to some large councils or WSEs elsewhere in New Zealand.	3	The WSE would have significant scale enabling it to have strong career pathways and staff development opportunities. It would be likely to have sufficient financial capacity to pay competitive market rates.
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	-3	Based on modelling. Scaled based on delta between lowest cost and highest cost model at inception, 10yr and 30yr average price points	-1	Based on modelling. Scaled based on delta between lowest cost and highest cost model at inception, 10yr and 30yr average price points
Total score (out of three with a range of -3 to 3)	100%	0.33		1.00	
Overall assessment		Not recommended		Not recommended	

Options		Option 7: Otago Southland WSE - deferred harmonisation	
Description of option		Establish an asset owning WSE for Otago and Southland. Adds significant scale, opportunities for efficiencies Includes 5 years of ringfenced prices and a 7 year transition to harmonisation thereafter	
Assessment Criteria	Weighting		Comments
Deliver safe drinking water and safely treat and manage discharges	16.7%	3	Independence of decision making, and dedicated focus of management and governance will result in fewer competing priorities and improved investment management/planning. Scale will allow improved access to specialists and expertise.
Deliver three waters services that support, and is ready for, changes in economic activity and population	16.7%	1	Will have the ability to work within the region to identify opportunities to service household or economic growth more efficiently. The local economy in Invercargill is heavily influenced by activity outside of the city boundary, so regional decision making is likely to improve outcomes. A multi-council CCO may not reflect all of ICC's priorities, and would likely have a strong focus on delivery of efficient and effective 3 waters services rather than supporting growth.
Deliver three waters services through a local decision making model that reflects the needs of our communities and best practice infrastructure management	16.7%	1	Decision making will be at an Otago-Southland level, although mechanisms may be developed to capture some local feedback or priorities. A single focus of the WSE on three waters service provision will ensure that the decisions of the board and management reflect best practice asset management. Significant scale would attract top quality candidates for management and governance roles.
Build and develop a strong and capable local three waters workforce	16.7%	3	The WSE would have significant scale enabling it to have strong career pathways and staff development opportunities. It would be likely to have sufficient financial capacity to pay competitive market rates.
Ensure that three waters services are efficient, effective, affordable and financially sustainable	33.3%	1	Based on modelling. Scaled based on delta between lowest cost and highest cost model at inception, 10yr and 30yr average price points
Total score (out of three with a range of -3 to 3)	100%	1.67	
Overall assessment		Shortlisted	

Appendix 2 - ICC LWDW – High-Level Plan




ICC LWDW Delivery Plan - Four Year View
FY 24/25
FY 25/26
FY 26/27
FY 27/28
FY 28/29
DIA Key Dates
Submit Final WSDP
DIA Review & Approve WSDP
Apply to Amend WSDP (max 24months post bill enactment)
DIA Monitor WSDP Implementation
3/9
Legislation - (Subject to legislative timetable)
Local Govt Water Services (Transitional Provisions) Bill (Bill 2)
Local Govt Water Services Bill (Bill 3) - Enacted
From June 25
ICC Option Analysis & Decision Making
Option Analysis
Community Engagement
Finalise WSDP for Submission
Submit Final WSDP
WSDP - Implementation
Water Service Organisation Setup - provided through legislation
Minimum requirements for local government water services providers in effect - incl Financial Ringfencing
Deliver urban stormwater provisions requirements
WSDP Implementation Plan - Delivery (INDICATIVE ONLY)
Staged / Phased - Water Service Organisation Changes Go Live (INDICATIVE ONLY)
Enact Annual Plan Changes (FY 25/26)
Enact Annual Plan Changes (FY 26/27)
Enact Annual Plan & LTP Changes (FY 27/28)
Enact Annual Plan Changes (FY 28/29)
Deliver Req'd Changes
LWDW Financial Principles, Operations & Policies in Place >>>
Deliver Req'd WSDP Changes >>>>>
Mid-2025 Full economic regulation regime comes into effect - All regulated providers will be subject to a requirement for all revenues from regulated water services to be spent on regulated water services. The Commerce Commission will monitor compliance, with the ability to enforce any breaches that occur post 1 July 2027.
30 June 25
Consult & Approve
30 June 26
30 June 27
30 June 28
WSDP - Operationalised
Standalone water services financial statements included in FY26/27 annual report
Water services strategy and annual budget in effect (from 1 July 27)
Statement of expectations (Water Services Org Only)
Date By Which Financial Sustainability is to be Achieved
Water services annual report for FY27/28 Fin Year - First Annual Report
Councils include 'standalone' financial statements for water supply, wastewater and stormwater in annual report for FY 2026-27
Draft / Approve & Submit
ICC FY26/27 Annual Report
Draft, Consult & Approve
Water Services Strategy & Annual Budget
Statement of Expectations (WSO Only)
Prepared by water service providers, every three years – and supported by an Annual Budget in the other years
Prepared by shareholders and issued to the water organisation they own
1 July 28
Water Services Annual Report (FY27/28)
Regulation Changes
Economic Reg
Councils/CCOs subject to foundational ID under Prelim Act - Sub Minister Approval
Commerce Commision Monitors Ringfencing Requirements
Revenue Thresholds applied - if required
Quality & performance regulation can apply - if required
Price-quality regulation can apply following designation - if required
Bill 3 - economic regulation information disclosures in force
Envt & Infract Reg
Water Supply Reg Changes (Dec 24)
Wastewater standards & modular designs for WWTP in place (Aug 25)
New urban stormwater provisions take effect (June 25)
Water service bylaw alternatives available to WSPs
National Engineering Design Standards (NEDS) in place (early 2026)
Aug 25
Jun 25
Sept 25
Early 2026