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# Clutha District Council

## Item for DECISION

<b>Report</b>	Local Water Done Well – Otago Southland Joint Water Services CCO Proposal
<b>Meeting Date</b>	3 April 2025
<b>Item Number</b>	1
<b>Prepared By</b>	David Ward – Acting Chief Executive
<b>File Reference</b>	937824

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### REPORT SUMMARY

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

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

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

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

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

### RECOMMENDATIONS

- 1 That Council receives the 'Local Water Done Well – Otago Southland Joint Water Services CCO Proposal' report.**
- 2 That Council approves Option 3 – Joint Water Services CCO as the preferred water services delivery model option for Clutha District Council, to proceed with public consultation on.**

- 3 That Council approves the following water service delivery model options to include in the public consultation as other practicable options –**
  - i. Option 1 - Clutha District Council In-House Business Unit**
  - ii. Option 2 - Standalone Clutha District Council-Controlled Organisation**
- 4 That Council approves adding the LWDW Process as a Category A project.**

## **REPORT**

### **1 Background**

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

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

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

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

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

## Analysis

### Preferred Delivery Model and Practicable Options to Consult On

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

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

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

The three options which were assessed are:

- i) Clutha District Council continuing to deliver water services within council, but with the required changes to meet the new legislative and regulatory requirements.
- ii) Setup of a standalone Clutha District Council Water Services CCO to provide water services.
- iii) Setup of a Joint Water Services CCO comprising all four councils to provide water services.

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

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

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

For the purpose of public consultation, the Councils are required to consult on "a proposal" (in this case the recommended proposal is a joint CCO). For the consultation to

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

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

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

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

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

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

## **Significance**

Significance of this decision is considered high on several grounds including, community interest, impact on Councils' capability and capacity, cost to council and impact on ratepayers and potential changes to the control of Strategic Assets.

The Significance and Engagement Policies of the Group of Councils and the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 and Bill 3, set out the requirements by which water services delivery model options are to be presented for community consultation.

It is proposed that consultation be coordinated across the Group of Councils, with consistent content developed in collaboration with the individual councils, Council-specific content created by each council, all content approved by the individual councils and consultation conducted via each council using their existing community engagement channels, processes and relationships.

The consultation process will ensure information is available on the range of channels traditionally used by each council. The information will be in a language that's simple and accessible to a broad audience. The consultation components are noted below:

- Producing a consultation document with submission form
- Creating a Southern Water Done Well page on each council's engagement platform or website. The online page will be the repository of all information/documents/maps/links relating to Southern Water Done Well and Local Water Done Well legislation
- Hard copy consultation information and submission form via local newspapers
- Submission forms will also be available at all council offices/libraries
- Each council will hold drop-in sessions as it sees fit.

Individual Council and the wider Council consultation outcomes will be collated and presented back to Clutha District Council to inform water service delivery model decision making.

## Options

A summary of the advantages and disadvantages associated with the requested decisions is as follows:

Option	Advantages	Disadvantages
<b>Clutha District Council In-House Business Unit</b> This option involves each council managing its own water services as an internal business unit in Council with financial ringfencing.	<ul style="list-style-type: none"> <li>Minimum change to existing service delivery structure</li> <li>Councils retain control over work programmes and investment priorities – subject to regulatory requirements</li> <li>Least amount of change to meet regulatory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Higher administrative costs and compliance burdens</li> <li>Increased scrutiny from regulatory bodies</li> <li>Higher risk of financial strain impacting other council services</li> <li>Limited flexibility to control water charges under economic regulation</li> <li>Higher water charges than a Joint CCO</li> <li>Reduced ability to attract and retain skilled workforce</li> <li>Cannot access enhanced financing options</li> <li>Reduced scale to meet asset management and regulatory requirements</li> <li>Future delivery model may be imposed by the regulator – lost first mover advantage</li> </ul>
<b>2. Standalone Clutha District Council Council-Controlled Organisation (CCO)</b> Each council establishes a separate CCO for water services, providing financial separation and independent governance.	<ul style="list-style-type: none"> <li>Financial separation of water debt reduces pressure on council finances</li> <li>Independent professional board appointments via council process</li> <li>CCO controls investment priorities and risk management</li> <li>Certainty of long-term funding supports consistent project delivery</li> <li>Greater retention of higher-wage jobs in</li> </ul>	<ul style="list-style-type: none"> <li>Smaller scale limits financial and workforce resilience</li> <li>Reduced scale to meet asset management and regulatory requirements</li> <li>Increased costs due to weaker procurement power</li> <li>Higher setup and operational costs</li> <li>Higher water charges than a Joint CCO</li> <li>Difficulty attracting qualified board members with a limited talent pool</li> </ul>

Option	Advantages	Disadvantages
	districts compared to a Joint CCO	<ul style="list-style-type: none"> <li>○ May require stricter borrowing covenants than a Joint CCO</li> <li>○ Limits to council control - Commerce Commission may direct investment or revenue decisions</li> </ul>
<p><b>3. Joint Water Services CCO</b> This option proposes a regional CCO to manage water services for all four councils (Central Otago, Clutha, Gore and Waitaki). The CCO will be jointly owned, with shared governance, financial responsibility, and resource management.</p> <p><b><i>(Recommended Option)</i></b></p>	<ul style="list-style-type: none"> <li>○ Standardised asset management improves planning and efficiency</li> <li>○ Shared workforce increases resilience and career opportunities</li> <li>○ Larger scale enables better access to expertise, specialists and improved systems</li> <li>○ Improved contractor attractiveness through larger procurement programmes</li> <li>○ Certainty of long-term funding enables consistent project delivery</li> <li>○ ‘First mover advantage’ for Councils forming the Joint CCO to design a solution that works for them.</li> <li>○ Independent professional board appointments via council process</li> <li>○ Financial separation reduces pressure on council balance sheets</li> <li>○ Least customer cost for each of the three options</li> </ul>	<ul style="list-style-type: none"> <li>○ Investment prioritisation may vary across communities</li> <li>○ Joint CCO may independently set charges, impacting affordability (potentially offset by regulatory oversight)</li> <li>○ Potential loss of high-value jobs in small districts, though local presence is likely</li> <li>○ Risk of minimum-cost investment decisions rather than enhancing service levels</li> <li>○ Potential reduction in council control (potentially offset by regulatory oversight)</li> <li>○ Less capacity to procure services from individual councils, potentially impacting stranded overheads</li> </ul>

## Implications and Risks

### Strategic Consistency

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

The options analysis completed to date includes consideration of impacts on the current LTPs. Impacts of the selected options will be further defined and put forward for community feedback through the planned consultation from 9 May to 6 June 2025. Following decision making, amendments to Annual and / or LTPs will be made from FY 26/27.

### Projected Costs and Investment

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

### Financial Scenarios

#### In House Business Unit

Under the in-house delivery model, councils are projected to face significant financial pressures due to rising water infrastructure costs and the increased burden of compliance with new regulations. Water charges are expected to rise by **47%** between 2025 and 2034. Council's ability to borrow will be highly constrained, with Council having less than \$1 million of available borrowing capacity over the next three years without a significant increase in rates or water charges. Removal of three waters revenue and debt will increase CDC's borrowing capacity by \$11 million when the entity is established in 2028 and will have no overall impact on council's borrowing capacity by 2034.

#### 1. Standalone Clutha District Council CCO

A wholly owned CCO will borrow under an assumed 12% FFO to debt covenant, and its waters debt will not be considered as part of Council's total borrowing. Early financial models indicate **slightly lower household charges** for most districts, with charges expected to rise by **46%** between 2025 and 2034.

#### 2. Joint CCO (Southern WSE):

A Southern WSE will have a greater capacity to manage debt and fund infrastructure upgrades. It will be able to access debt under an assumed 8% FFO to debt covenant and its waters debt will not be considered as part of Council's total borrowing. Early financial models indicate **lower charges** for all districts, with charges expected to rise by **37%** between 2025 and 2034.



## Harmonized Pricing Strategy

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

## Legal Implications

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

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

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

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

## Climate Change

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

## Risks

Risk	Impacts
Individual Councils do not approve progressing with a Joint CCO approach.	Group may become unviable Individual Councils may not be able to complete a compliant WSDP Potential DIA intervention with associated loss of decision-making control
WSDP is not submitted by deadline	Reputation risk for Councils Potential reduction / loss in decision making control
DIA does not approve the WSDP and requires the document to be revised.	DIA requires the Group of Councils to alter the WSDP DIA requires the Group of Councils to change the Operating Model Design DIA requires other Councils to join the Group of Councils.

DIA does not approve the Group of Councils WSDP – and appoints a Crown Facilitator or Water Services Specialist	Reputation risk for Councils Reduction / loss in decision making control
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 Councils Lack of engagement in consultation process
WSDP Plan and Implementation Tasks are more complex / extensive than estimated	Potential increase in project budget Additional Council resource commitments
The Group of Councils is not fully compliant with new legislative requirements – within the required timeframes	Reputation risk for Councils Cost and time to rectify Potential DIA or Regulator Intervention
Changes to legislation through Bill 3 may require additional resource commitments and amendments to arrangements.	Cost and time associated with rework Potential increase in project budget Additional Council resource commitments

### **Next Steps**

- Present Consultation Document and secure Council Approval to Consult – w/c 5 May 25
- Community & key stakeholder consultation planned from 9 May to 6 June 25
- Schedule Council hearings, deliberations and decision-making during June 25
- Council Decision Making & WSDP Content Approval - July 25
- Contingency to secure WSDP approvals - August 25
- WSDP Submission Deadline – 3 Sept 25

### **Attachments**

1. Morrison Low – Water Service Delivery Model Options Report
2. Concept Consulting – Independent Assurance Letter – to be sent on Monday 31/3/25.