



Local Water Done Well Workshop – high level options assessment (draft)

Timaru District Council

29 April 2025

Commercial in Confidence



What we'll cover

Recap of LWDW and obligations

1

Options assessment overview

2

Discussion & questions

3



Guidance sought from this workshop

As you approach your decision on which options to consult on, you will need to consider which option is your preferred option:

Broadly, the choice is between:

-
1. Continuing to deliver water services in-house, via an internal water services unit.
 2. Establishing a Water Services Organisation, owned solely by Timaru District Council.
-
2. Participating in a joint Water Services Organisation, noting there are two potential options.

Guidance is needed as to an emerging preferred option for consultation.

We have prepared a high-level options assessment of these options against a set of strategic objectives, key financial metrics and additional considerations to support you in this decision.



Recap: LWDW

And consultation obligations



Consultation requirements

Councils must consult on the anticipated model for delivering water services.

When using the streamlined consultation arrangements under the Local Government (Water Services Preliminary Arrangements) Act 2024, consultation by the Council must:

- **Identify at least two options for delivering water services.** Additional options may be identified. An assessment of the advantages and disadvantages of all options identified is required – this options assessment supports this.
- **Consult with communities on a preferred option,** including on the impact on the council's rates, debt, levels of service, and charges for water services.



Recap: Key elements of Local Water Done Well

The Government's LWDW policy will significantly change the operating environment for water services in New Zealand.

New regulatory requirements, coupled with new structural and financing tools, is expected to lead to significant changes in service provision over time, including the adoption of new service delivery models.



WATER SERVICES DELIVERY PLANS

Plans need to show how councils will meet water quality and infrastructure rules, while being financially sustainable.

Plans need to include asset and financial information, investment required and proposed service delivery arrangements.

Due 3 September 2025.



FINANCIAL SUSTAINABILITY

Water Services Delivery Plans need to show that:

- water revenue is sufficient to cover costs
- planned capital investment is sufficient to meet regulatory requirements and provide for growth, and
- available financing does not constrain investment required to support service delivery.



NEW STRUCTURAL AND FINANCING TOOLS

New legislation will provide for a range of structural and financing tools, including a new type of council-owned water organisation. Financing changes announced by the Local Government Funding Agency will enable new water organisations to increase borrowing beyond existing council debt limits.



NEW REGULATION

Legislation will set out long-term requirements for financial sustainability and provide for economic regulation. This will include requirements for councils to ring-fence their water services from other council activities and will include new information disclosure and reporting requirements.

Options considered



Three options available for consultation

1.

In house
delivery

TDC would deliver water services within Council through an internal water services unit, with changes necessary to meet new legislative and regulatory changes.

Stand-alone options

2.

TDC
WSO

TDC would establish its own water services organisation. The WSO would be responsible for the day-to-day operations, maintenance, planning for future water needs, and repaying any water-related debt.

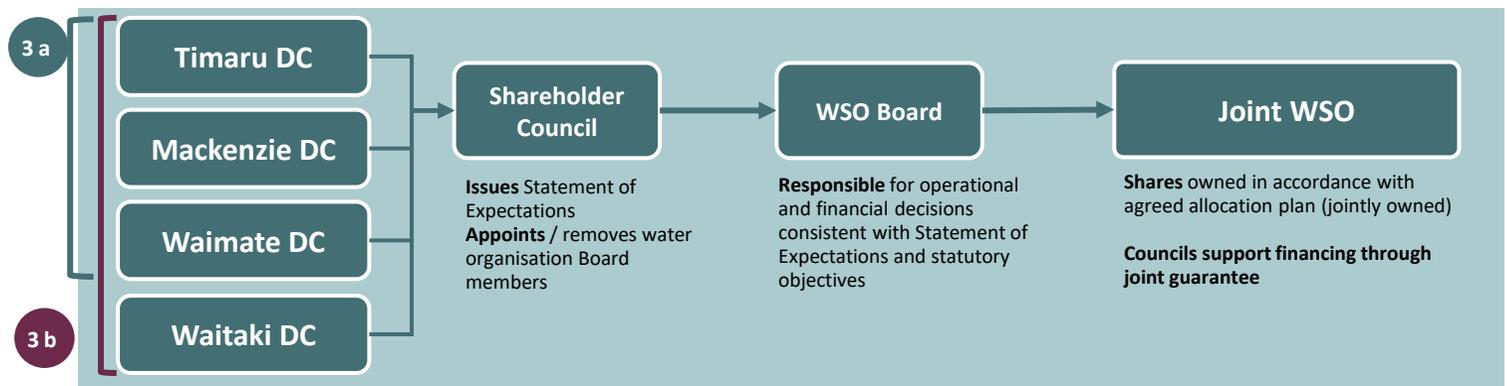
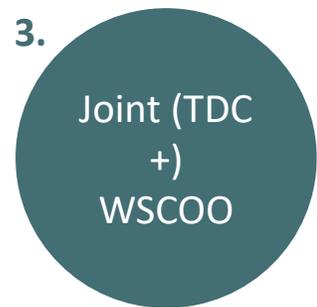
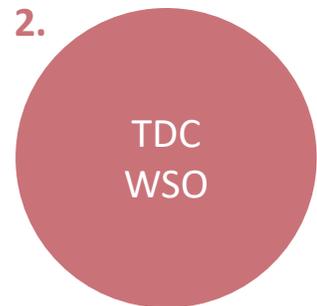
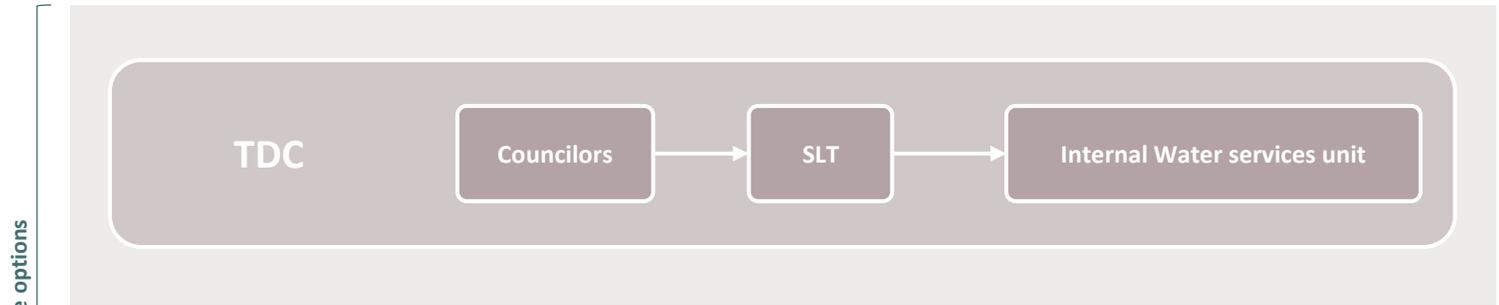
WSO options

3.

Joint (TDC
+)
WSCO

TDC would join in the establishment of a new water services organisation with its neighbours Waimate District Council and Mackenzie District Council.
There is potential for this to include Waitaki District Council.

Three options available for consultation



**How were the
options assessed?**



Three key judgements to inform decision making

Comparative assessment against strategic objectives

Comparative financial assessment against key metrics

Comparative overview of ownership, risks/mitigants, decision making and accountability structures



Strategic objectives

STRATEGIC OBJECTIVES

Efficient and financially sustainable delivery of water services for the community, now and into the future

Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery

Affordable fit for purpose service to consumers and communities that meet the needs, and expectations of the community

Remaining council operations are viable and continue to deliver on communities' expectations

Water services are resilient to natural hazards and climate change

Protects and promotes public health and the environment – meeting regulatory requirements

Responsibilities to hapū and iwi are met

This is a long-term decision

You will wish to consider which of these are most important, and other judgements you wish to make as elected members.



Comparative assessment against strategic objectives

Effective and affordable delivery (slide 1 of 3)

	1. In-house delivery	2. TDC only WSO	3. Joint WSO
Effective and financially sustainable delivery of water services for the Timaru community, now and into the future	<ul style="list-style-type: none"> Expected to meet the financial sustainability tests. Council is expected to be debt constrained under this option, reaching ~240% debt-to-revenue against an internal limit of 250% Significant investment is required over the next 30-years, with projections showing over \$930 million of capex is required. 	<ul style="list-style-type: none"> Minor efficiencies may be able to be achieved, but likely more limited than a joint WSO. Improved ability to optimise investment and prices through an optimised borrowing structure. Greater financial capacity to meet investment needs – improved ability to meet changing demographics, and investment needs. 	<ul style="list-style-type: none"> Scale efficiencies would provide financial benefits to consumers. Ability to optimise investment and prices through an optimised capital structure. Greater scale may improve ability to attract scarce resources. Greater financial capacity increases capacity for future unforeseen investment needs
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	<ul style="list-style-type: none"> Greatest level of integration. Retains existing interface between spatial and water infrastructure planning. Staff involved in these functions all housed within council. Limited-to-no change to current practices. 	<ul style="list-style-type: none"> Strong level of integration. Retains existing interface between spatial and water infrastructure planning. Limited-to-no change to current practices. 	<ul style="list-style-type: none"> Creates need for formal information sharing and collaboration between TDC and WSO to coordinate planning and investment Different councils may have different drivers that would need to be balanced across a WSO.

Legend: Red text denotes possible risk

Does not meet objective(s)

Consistent with objective but has some risks

Moderate alignment to objective(s)

Strong alignment to objective(s)



Comparative assessment against strategic objectives

Effective and affordable delivery (slide 2 of 3)

	1. In-house delivery	2. TDC only WSO	3. Joint WSO
Affordable fit for purpose service to consumers and communities that meets the needs, and expectations of the Timaru community	<ul style="list-style-type: none"> Projections indicate average connection costs would remain within 2.5% of median household income within the next 10 year. Council is forecasting to get close to its internal borrowing limit (250% debt-to-revenue) constraining ability to invest in water and non-water activities and or deal with unexpected shocks. 	<ul style="list-style-type: none"> Some improvement in affordability in short term. Optimisation of capital structure leading to greater ability to spread cost of investment across generations. Higher operating costs compared to in-house delivery, and lower efficiencies than a joint WSO will mean that affordability improvements may be more limited when compared to option 3. 	<ul style="list-style-type: none"> Depending on WSO pricing outcomes, affordability is expected to improve, particularly in the longer-term as greater efficiencies are realised. A WSO would need to be able to respond to diverse needs of a broader consumer base. It's greater financial strength means it is likely to be better placed to meet these competing needs.
Remaining Council operations are viable and continue to deliver on communities' expectations	<ul style="list-style-type: none"> Least impact on current council operations and staff. Water revenues would be ringfenced, however water-related borrowing would continue to be consolidated to council, which poses some risks given the forecast level of borrowing. 	<ul style="list-style-type: none"> Minor impact on council staff. Some transitional costs would be incurred. Council will need to guarantee the WSO debt, which may have implications for the Council's credit rating but would not affect access to finance through LGFA (based on current LGFA guidance). 	<ul style="list-style-type: none"> The Council would be in a stronger financial position as water services (including associated debt obligations, revenue and expenditure) become the responsibility of a WSO. Some transition impacts and costs would be expected in the short term, and an appropriate (phased) transition plan would need to be in place to minimise impact to Council and staff.

Legend: *Red text denotes possible risk*

Does not meet objective(s)

Consistent with objective but has some risks

Moderate alignment to objective(s)

Strong alignment to objective(s)



Comparative assessment against strategic objectives

Community needs (slide 3 of 3)

	1. In-house delivery	2. TDC only WSO	3. Joint WSO
Water services are resilient to natural hazard, seismic risk and climate change	<ul style="list-style-type: none"> Council's water infrastructure may be more exposed to longer-term challenges from climate change and hazards for water services, with these challenges expected to grow in the coming decades, particularly with the Council's forecast debt position. 	<ul style="list-style-type: none"> Greater debt capacity may make it possible to enhance investment in climate and seismic resilience in the longer-term. 	<ul style="list-style-type: none"> Greater debt capacity may make it possible to accelerate investment in infrastructure resilience, thereby mitigating longer-term risks. Enables coordinated approach to climate and natural hazard planning across a wider service area.
Protects and promotes public health and the environment – meeting regulatory requirements	<ul style="list-style-type: none"> Council has a number of consents expiring over the next 10-20 years, which may require additional expenditure to meet regulatory requirements. Infrastructure resilience-related investments and reactive infrastructure upgrades over the long term would present affordability challenges 	<ul style="list-style-type: none"> Stronger financial ability to invest in future resilience needs, and meet changing regulatory requirements when renewing consents. 	<ul style="list-style-type: none"> Greater ability to meet investment needs and regulatory requirements.
Responsibilities to hapū and iwi are met	<ul style="list-style-type: none"> Ability to make use of existing relationships and channels for engagement and partnership. 	<ul style="list-style-type: none"> Ability to make use of existing relationships and channels for engagement and partnership. 	<ul style="list-style-type: none"> New relationships would need to be built requiring new engagement mechanisms with hapū and iwi.

Legend: *Red text denotes possible risk*

Does not meet objective(s)

Consistent with objective but has some risks

Moderate alignment to objective(s)

Strong alignment to objective(s)



Summary comparative assessment

	1. In-house delivery	2. TDC only WSO	3. Joint WSO
Efficient and financially sustainable delivery of water services for the community, now and into the future	Consistent with objective but has some risks	Moderate alignment to objective(s)	Strong alignment to objective(s)
Protects and promotes public health and the environment - meeting regulatory requirements	Strong alignment to objective(s)	Strong alignment to objective(s)	Moderate alignment to objective(s)
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	Consistent with objective but has some risks	Moderate alignment to objective(s)	Strong alignment to objective(s)
Affordable fit for purpose service to consumers and communities that meets the needs, and expectations of the community	Consistent with objective but has some risks	Moderate alignment to objective(s)	Strong alignment to objective(s)
Water services are resilient to natural hazards and climate change	Consistent with objective but has some risks	Strong alignment to objective(s)	Strong alignment to objective(s)
Responsibilities to hapū and iwi are met	Moderate alignment to objective(s)	Strong alignment to objective(s)	Strong alignment to objective(s)
Remaining council operations are viable and continue to deliver on communities' expectations	Strong alignment to objective(s)	Moderate alignment to objective(s)	Moderate alignment to objective(s)

Legend: █ Does not meet objective(s)

█ Consistent with objective but has some risks

█ Moderate alignment to objective(s)

█ Strong alignment to objective(s)



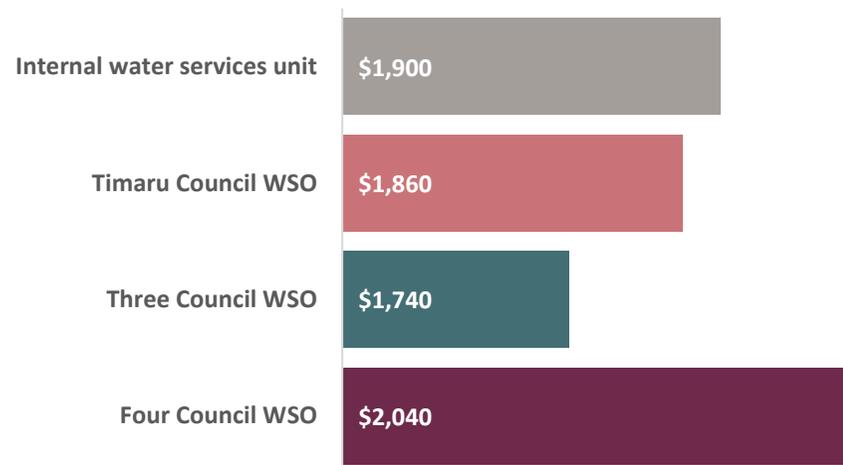
Comparative assessment

Key financial metrics

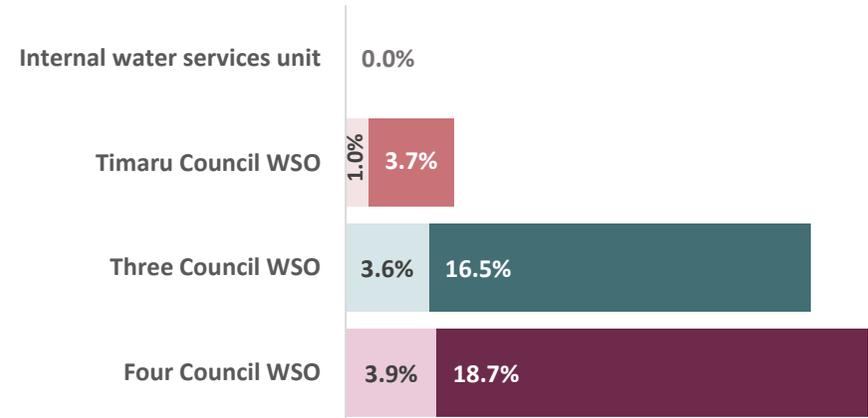


Comparative assessment of key financial metrics

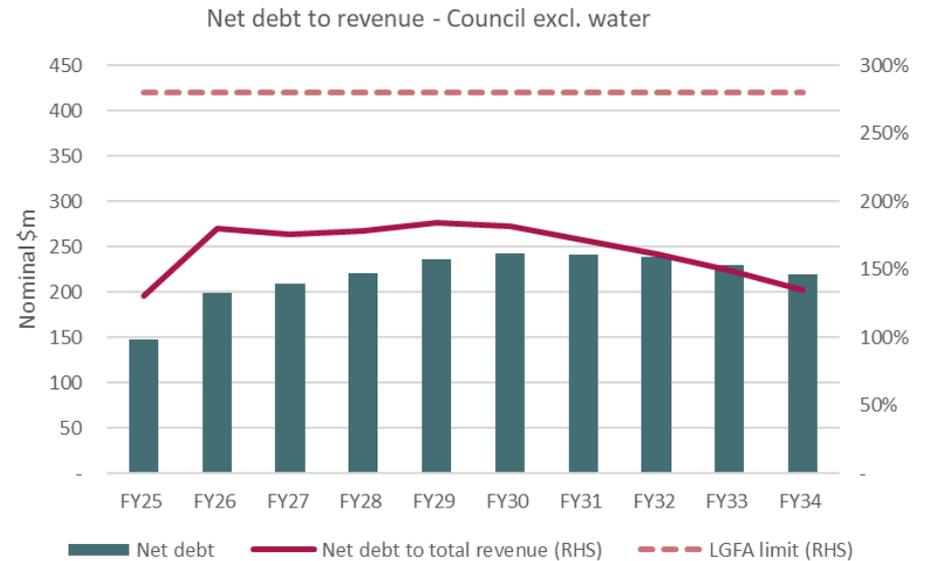
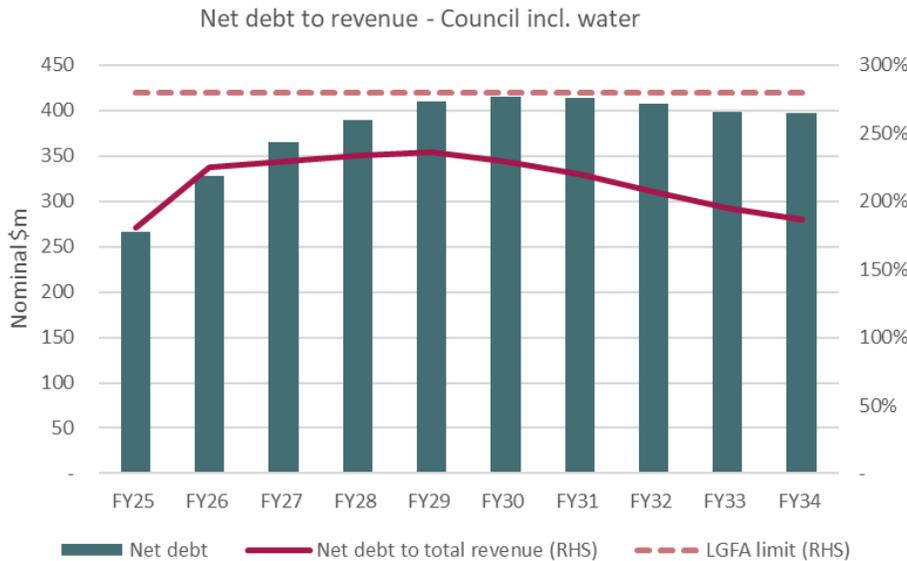
Average cost per connection in FY34 (\$ real)



Approximate peak opex efficiencies (FY34 and FY45)



Anticipated council debt position

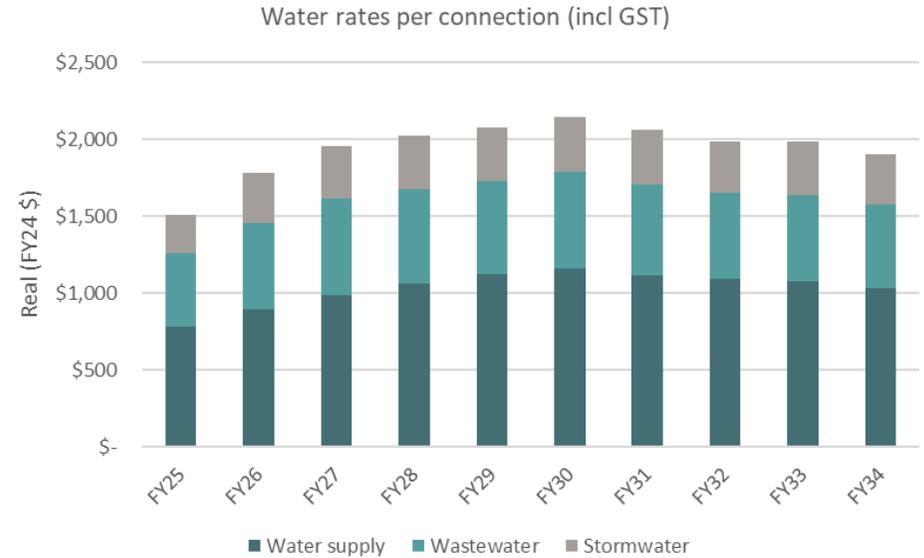
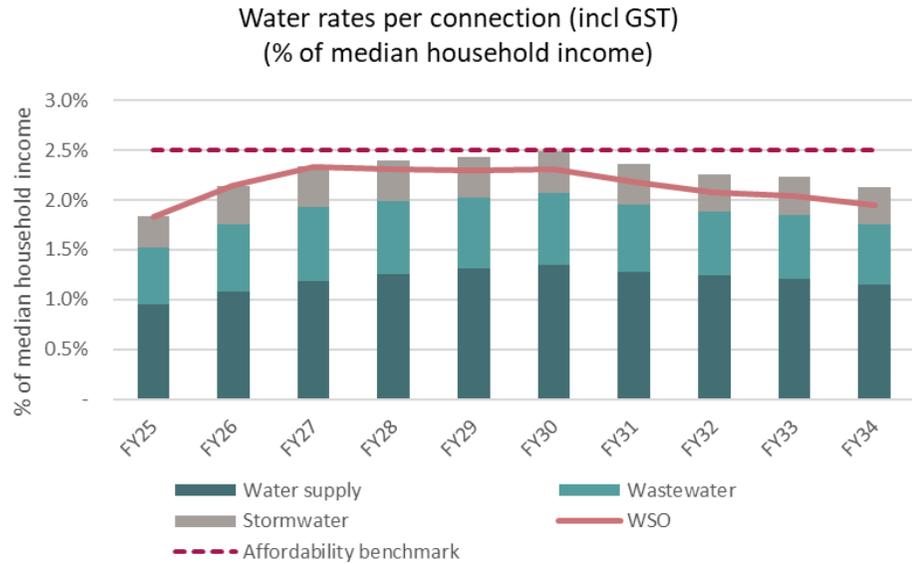


Debt to revenue

- As Council is rated, Council has a debt to revenue limit with the LGFA of 280%.
- When Council includes water services, total Council debt is forecast to reach 236% in FY29, before decreasing to 187% in FY34. This compares to a peak of 184% if water services are excluded.



Affordability



Revenues collected under industrial metered supply and trade waste agreements have been excluded for the purposes of reporting water rates per connection and affordability metrics. This revenue was included in all other WSCCO financial projections.



Additional considerations

Water Services Organisation



Specific implementation considerations – WSO

There are risks associated with WSO options but in general a WSO is less likely to be prone to problems if it is set up appropriately and subject to regulation. There are mechanisms to facilitate this in legislation, and through the establishment process.



GOVERNANCE FAILURE

- Appointing Board members that, individually or collectively, do not have the skills and experience required to effectively set the strategy and performance targets, and monitor management's performance against that strategy.
- Ineffective scrutiny of performance and/or failure to act on performance issues, whether through Councils' ownership control mechanisms (that is, Board appointments) or ministerial or regulator oversight.

1



INSUFFICIENT BALANCE SHEET

- There is a risk that the transfer of assets, liabilities, revenues and costs to a new WSO may result in it having low credit quality and/or unable to adequately fund the level of ongoing investment required (limited headroom for new investment).
- This risk is not inherent to the WSO model but attention still needs to be paid to how the new entities are structured financially, including the amount of debt and revenues that are transferred to it.

3



STRATEGIC CAPABILITY AND WORKFORCE

- Strategic capability to support any structural change and set up any new arrangements for success in a timely manner.
- The ability to attract and retain a high-quality management team and a qualified workforce is a key determinant of success. This risk is not inherent to a WSO model and also exists with in-house delivery.

2



LACK OF ALIGNMENT OF SHAREHOLDERS' INTERESTS

- In a multi-council ownership situation if different councils have different interests or priorities, then the Board and management of the entity can be pulled in different directions.
- The legislative requirement for a single Statement of Performance Expectations aims to mitigate this, as do other legislative protections.
- Shareholder agreements will also influence this.

4

Comparing mechanisms for planning, control and influence

	In-house delivery (via internal water services unit)	Water Services Organisation	Ordinary Council-Controlled Organisation (not available)
Ownership structure	100% Council owned as a business unit or division within the organisation.	Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation.	<i>Controlled, directly or indirectly, by 50% or more of the votes of directors, trustees or managers.</i>
Governance arrangements	Internal water services unit responsible to the elected members, with other usual council governance oversight. This could be supplemented with a technical advisory group if required and an additional cost.	Shareholding councils can appoint and remove directors. A constitution would govern composition of the Board, process and requirements. Shareholder council provides governance oversight and a forum to meet, discuss, and coordinate on relevant issues. Shareholder Council will strive to make all decisions by consensus.	<i>Governors appointed by controlling councils.</i>
Strategy	Councils will need to prepare a water services strategy.	A WSO must prepare and adopt a water services strategy, consistent with the Statement of Expectations (SOE) issued by the shareholder council. WSO Board prepares water services strategy and consults shareholding councils.	<i>CCO must prepare and adopt statement of intent. Shareholders may direct changes to statement of intent.</i>
Direction setting	Set by the Council, through various strategies and planning documents, including the Long-Term Plan.	The shareholder Council would issue a Statement of Expectations, guided by ownership rights set out in a constitution or shareholders' agreement. The WSO must give effect to this.	<i>Owners may prepare a Statement of Expectations, however these are non-binding.</i>
Accountability	Accountable to the public through usual local democracy practices. Water services annual report – including new financial statements on water supply, wastewater and stormwater – will be completed to enhance current requirements. The Council will face new accountabilities to the economic regulator, and water services regulator for prices, and quality of service as well as consumers directly.	WSO must give effect to the Statement of Expectations, provided it is consistent with the Act. WSO Board is accountable to Council shareholders and reports regularly on performance (shareholders are accountable to community). WSO required to give effect to Statement of Expectations and meet statutory requirements. WSO prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy. The WSO will also be accountable to the economic regulator, and water services regulator, as well as consumers directly.	<i>Ordinary CCOs are not typically subject to economic regulation or sector specific regulation (an exception being airports). Accountability arrangements are broadly similar but the level of specificity for WSOs is more prescriptively set out in legislation and tailored to the delivery of water services.</i>
Community engagement	Consistent with the Local Government Act engagement requirements.	WSO may engage with the community, and shareholders. Shareholders can prescribe requirements through founding documents and accountability instruments.	<i>CCO may engage with the community and shareholders.</i>

Key risks and mitigations

Option	Risk	Possible mitigation
1. Internal water services unit	<ul style="list-style-type: none"> • Resource competition with other WSOs – staff, contractors and delivery. For example, when tendering for investment, or attracting staff with the right skills and experience. 	<ul style="list-style-type: none"> • Difficult to mitigate. Option to engage a third-party or WSO for service delivery, or leverage expertise through secondments to TDC.
2. Standalone WSO	<ul style="list-style-type: none"> • Option 1 only: The smaller operational scale and lower debt ceiling may limit flexibility to respond to broader challenges or shocks (for example, maintaining assets, making climate investments to improve resilience, or responding to an extreme weather event). 	<ul style="list-style-type: none"> • Appropriate treasury and financial policies.
3. Joint Water Services Organisation	<ul style="list-style-type: none"> • Limited direct control or influence over investment decisions and pricing outcomes.* <p><i>*Note, all water service providers (including councils) will be subject to economic regulation, as well as environmental and water quality regulation which may direct investment and prices.</i></p> <ul style="list-style-type: none"> • Transition risks, such as stranded overheads, or reduced internal capacity to deliver other council services as a result of staff moving to a WSO. • Higher costs to TDC communities due to pricing decisions, or efficiencies not being realised. 	<ul style="list-style-type: none"> • Shareholder Council appoint and remove directors. • Ability to provide direction through the Statement of Expectations. <hr/> <ul style="list-style-type: none"> • May be addressed through careful negotiation of transition arrangements with potential partners to ensure council functions are protected alongside appropriate management of stranded costs. <hr/> <ul style="list-style-type: none"> • May be addressed through negotiation. TDC has a strong starting position which would help to ensure that benefits are captured for the community. • Economic regulation will help to drive efficiencies. • WSO structure, including independent governance, will support strong asset management and procurement practices.

Summary assessment



Summary comparative assessment

	1. Internal water services unit	2. Standalone WSO	3. Joint WSO
Choose option if	<p>Council wants least change to status quo</p> <p>Council wants to preserve future option value.</p>	<p>Council wants to isolate water services debt and revenue</p> <p>Council wants to preserve future option value</p>	<p>Council wishes to capture efficiencies from being a part of a larger organisation to enable more investment and/or lower prices, while more effectively managing risks.</p>
Key advantages	<p>Local decision-making: The Council would decide on services and investments.</p> <p>Seamless integration: Water services can be easily coordinated with other responsibilities (such as district planning and transport).</p> <p>Community accountability: Communication remains straightforward, with TDC continuing to engage directly with residents on water issues.</p> <p>Familiar structure: Day-to-day operations remain largely as they are now, which can help minimise transition costs.</p>	<p>Lower prices: Around \$40 per connection lower than an internal water services unit in FY34.</p> <p>Local decision-making: The Council, familiar with local conditions, would decide on services and investments.</p> <p>Simpler integration:</p> <p>Additional borrowing capacity for the Council and water services.</p>	<p>Lower prices and long-term savings: around \$160 per connection lower than an internal water services unit, in FY34. This gap would widen over time due to efficiencies.</p> <p>Specialist oversight: A professional, expert board can make informed decisions and respond quickly to service needs.</p> <p>Efficient borrowing: The organisation can borrow at similar rates.</p> <p>Greater financial flexibility for the Council: With water debt removed from its books, the Council can redirect its financial capacity to other priorities as needed.</p>
Key disadvantages	<p>Higher prices: Likely to be more expensive – potentially costing customers an extra \$160 per year more than a joint WSO by FY34.</p> <p>Limited opportunity for efficiencies</p> <p>Lesser ability to respond to shocks</p> <p>Competition for staff and contractors</p>	<p>Limited efficiencies: Efficiencies are likely limited, resulting in higher costs to consumers. This becomes more pronounced in the longer-term as efficiencies are unlikely to be fully realised for 15-years.</p> <p>Complexity and potential duplication of resources within TDC, and the region.</p>	<p>Less local control: TDC would share decision-making and control with other councils.</p> <p>Transition challenges: Establishing the organisation is a large task, and coordinating the transition of water services, staff and debt may be complex.</p> <p>Stranded costs: Some costs that are currently shared with water services may not be able to be transferred to the organisation.</p>



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