

Kāpiti Coast's Local Water Done Well discounted options

Throughout the new Local Water Done Well policy process Council has held multiple briefings and workshops to assess what water service models might be viable for our district. You can find these online at [haveyoursay.kapiticoast.govt.nz/Local Water](https://haveyoursay.kapiticoast.govt.nz/Local%20Water)

The analysis of each option involved reviewing the new legislation and regulation requirements and what we believe is most important for our community. This included levels of service, levels of debt, projected water charges, and financial modelling.

Where we investigated joint council-owned water organisations, consultancies helped with financial modelling and potential delivery arrangements based on councils' current delivery arrangements, state of assets and regulatory compliance, and an estimate of investment required for setting up a new organisation and to meet new regulatory standards. This work is also available on our website.

As modelling was refined, projected costs changed between Council briefings and the finalisation of our consultation document.

For all options, discounted or otherwise, the Commerce Commission will ensure water services providers are reinvesting enough water charges on infrastructure, and that services are effective and efficient.

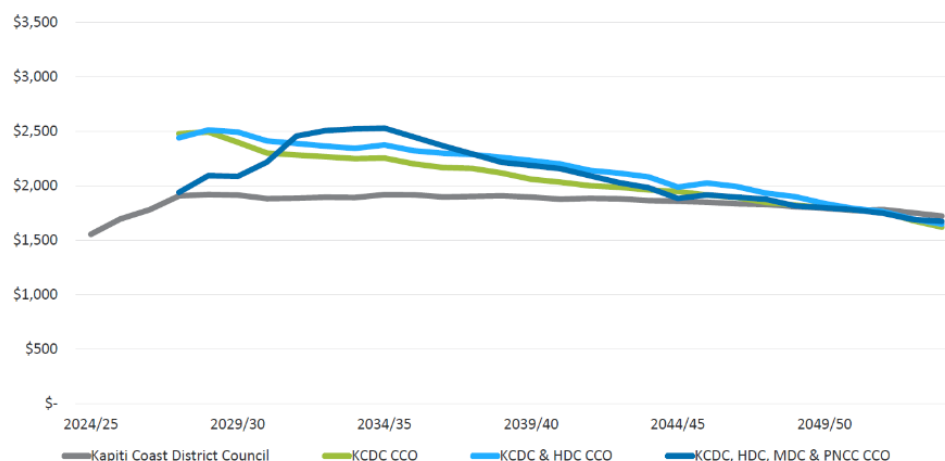
Below is a high-level summary of Council's reasoning for discounting some of the options available to us.

A local (Kāpiti-only) council-owned organisation

A Kāpiti-only water services Council Controlled Organisation (CCO) would require high setup and ongoing costs and a sharp increase in revenue to meet lending requirements without any benefits of scale, efficiencies, or resilience.

See Council paper 28 November 2024 and associated November Morrison Low Report

Three waters household charges over time



Extract from MorrisonLow Report showing average costs for Kāpiti in-house (basecase) vs Kāpiti CCO. (Costs are uninflated).

A consumer trust

A consumer trust would require high set up and operational costs, remove Council input, and wouldn't be eligible for preferential borrowing rates available to councils and council-owned organisations through the LGFA. Instead, it would be exposed to an open lending market.

See Council briefing 14 November 2024 and then Council paper 28 November 2024 for decision.

Delivery model shortlisting

Model type	Key Advantages	Key Disadvantages	Recommendation
NEW In-house Business Unit	- Ability to leverage council revenue for borrowings - Council retains control within legislative requirements - Potential for shared services for scale benefits	- Constrained by levels of Council debt - No requirement for competency based governance - Market attractiveness for staff and contractors	Shortlist for consideration
Advisory and services only WSCCO (similar to WWL)	- Allows for benefits of organisational scale - Competency-based governance board	- Unable to access LGFA elevated lending. - Constrained by levels of Council debt - No ability to set revenue to meet statutory obligations	Not recommended for shortlist.
Full service / asset-owning WSCCO	- Allows for benefits of scale - Competency based board - Increase in potential LGFA funding limit 500% - Transfer of assets and liabilities	- Requirement to increase revenue immediately to meet debt/revenue - Inability to leverage Council revenue	Shortlist for consideration
Consumer Trust	- Direct relationship to consumer maintained - Financially fully independent	- Exposed to open lending market - Significant setup complexity and timeline. - Loss of Council input. - Representative based board	Not recommended for shortlist.

Extract from Council briefing 14 November 2024

Joint council-owned organisation with nine councils in the Wellington Region and Horowhenua

Regional modelling for this option identified 21 percent of the collective network was worn out, with most parts of the region also experiencing significant summer water shortages. Only 3 percent of Kāpiti's assets are in poor or very poor condition, and we haven't had water restrictions since water meters were introduced in 2014. We also have one of the lowest average water charges per customer in the region.

The modelled peak price (2036-2050) for this option was \$4,262 per customer (uninflated) compared to our Council's \$1,976 per customer. The long-term modelled sustainable price was approximately \$1,400 more per customer than if we went it alone.

See Council briefing 14 November 2024 and Council paper 28 November 2024 for decision.

High level assessment of options

	New Council IBU	KCDC only WSCCO	Joint WSCCO – KCDC / HDC	Joint WSCCO – HDC/MDC/ PNCC	Joint Regional WSCCO
Relationships and trust	• Direct control	• Local service delivery focus	• Local service delivery focus	• Minimal influence on local outcomes	• Negligible influence on local outcomes
Financial	• Finance balanced across all of council revenue and debt.	• Additional WSCCO costs • Revenue driven by high debt	• Additional WSCCO costs • Revenue driven by high debt	• Greater opportunity for benefits of scale and efficiencies	• Driven by regional works programme
Levels of service	• Local priorities direct service levels	• Determined by WSCCO • Local service delivery	• Determined by WSCCO • Localised focus on services	• Determined by WSCCO • Influenced by wider area need	• Effected by poor regional asset condition
Strategy	• Localised strategies	• Opportunity for localised strategies	• Opportunity for localised strategies	• Wider strategic focus and priority setting	• Wider strategic focus and priority setting
Operational	• Existing resilience vulnerabilities due to small-scale	• Existing resilience vulnerabilities due to small-scale	• Additional resilience from scale	• Larger resource pool improved resilience • Optimal systems and processes	• Larger resource pool improved resilience • Optimal systems and processes

(as at 14 November 2024 briefing)

Financial overview

	New Council IBU	Stand alone WSCCO	Joint WSCCO HDC	Joint WSCCO HDC/MDC/PNC C	Wellington Regional WSCCO
Revenue sufficiency*	Council revenue is used to meet Debt / Revenue ratio. Revenue can be increased over time	Requires an early increase in water revenue to achieve Debt / Revenue limits.	Requires an early increase in water revenue to achieve Debt / Revenue limits	Requires a progressive increase in revenue to maintain Debt / Revenue limits	Regional Revenue increases required to address catch-up works
Investment sufficiency*	Enhanced LTP investment based on KCDC priorities	WS Strategy based on KCDC priorities enhanced LTP investment	WS Strategy investment based on areas priority needs	WS Strategy investment based on areas priority needs	WSS based on regional priorities driven by catchup works.
Financing sufficiency*	Debt / Revenue ratio remains below LGFA 280%** limit over all of Council.	Initial debt level exceeds LGFA 500% Debt / Revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.
Price (Ave cost to customer) 2034	\$1,890	\$2,250	\$2,350	\$2,520	\$4,930
Price (Ave cost to customer) 2054	\$1,720	\$1,620	\$1,650	\$1,670	\$3,020

(as at 14 November 2024 briefing, uninflated costs)

Joint council-owned organisation with Horowhenua

The key benefits of a joint arrangement are economies of scale in terms of greater resilience, financial impacts and customer base. A joint council-owned organisation with Horowhenua was considered at the same time we examined 'The Four' council-owned organisation. With only a combined 34,825 connections, the modelled customer cost projected to be higher and a sharp increase in revenue to meet lending requirements, this option was discounted because it didn't provide sufficient benefits of scale 'The Four' (option 2) presents.

See Council briefing of 28 January 2025.

High level assessment

	New Council IBU	Joint WSCCO – KCDC / HDC	Joint WSCCO – KCDC/HDC/MDC/PNCC
Relationships and trust	- Council retains ownership of assets and service delivery - Existing lwi relationships maintained	- Assets owned by Water Services CCO in which Council has shareholding. - lwi relationships relating to water services with Water Services CCO.	- Assets owned by Water Services CCO in which Council has a shareholding. - lwi relationships relating to water services with Water Services CCO.
Financial	- Finance balanced across all of the council revenue and debt. - Debt restrictions within Council limits	- Additional WSCCO costs - Access to higher debt limits - Revenue driven by debt levels - Potentially scalable over time	- Additional WSCCO costs - Access to higher debt limits - Revenue driven by debt levels - Greater ability to smooth increases - Potential opportunity for long-term benefits of scale
Levels of service	- Performance required within bounds set by National Regulators - Local priorities inform service levels.	- Performance required within bounds set by National Regulators - Influenced by Shareholders through SoE. - Resources shared across small area.	- Performance required within bounds set by National Regulators - Influenced by Shareholders through SoE. - Greater opportunity for operational standardisation and efficiencies
Strategy	- Direction and strategic priorities set internally. - Localised strategy implementation within bounds set by National Regulators	- Direction and strategic priorities set through a Statement of Expectations (SoE). - Combined local priorities within bounds set by National Regulators	- Direction and strategic priorities set through a SoE. - Local priorities balanced across the full-service area and wider strategic focus. - Greater resourcing to focus strategically
Operational	- Existing resilience vulnerabilities due to small-scale. - Ability to respond highly dynamically	- Resilience vulnerabilities of small-scale across the combined areas. - Opportunity for shared staff development.	- Larger resource pool improved resilience - Optimised systems and processes - Opportunity for shared staff development

(As at 28 January 2025, uninflated costs). The assessment was revised to reflect the comparative differences of the remaining options.

Financial overview

	New Council IBU	Joint WSCCO HDC	Joint WSCCO KCDC/HDC/MDC/PNCC
Revenue sufficiency*	Council revenue is used to meet Debt / Revenue ratio. Revenue can be increased over time	Requires an early increase in water revenue to achieve Debt / Revenue limits	Requires a progressive increase in revenue to maintain Debt / Revenue limits
Investment sufficiency*	Enhanced LTP investment based on KCDC priorities	Future investment directed by combined strategic priorities of shareholders through SoE	WS Strategy investment based on strategic priorities of shareholders
Financing sufficiency*	Debt / Revenue ratio remains below LGFA 280%** limit over all of Council.	Operates within LGFA 500% Debt to revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.
Price (Ave cost to customer) 2034*	\$1,890	\$2,350	\$2,520
Price (Ave cost to customer) 2054*	\$1,720	\$1,650	\$1,670

*Economic performance will be regulated by the Commerce Commission

** Potentially for 350% Debt / Revenue ratio for high-growth councils

***Price projections as per Morrison Low analysis November 2024. This is currently being updated under the CCO options workstream but is not expected to materially change.



(As at 28 January 2025, uninflated costs).