# Recommended regional approach to a joint Water Services Delivery Plan and delivery model

## Council elected member briefings

**October 2024**

Horowhenua District Council | Kāpiti Coast District Council | porirua city | Masterton District Council | Carterton District Council | South Wairarapa District Council | Upper Hutt City Council | Hutt City | Wellington City Council | Greater Wellington

Photo credit: WellingtonNZ

# Purpose

## Purpose of today's presentation

**To provide information on the recommended regional approach to a joint Water Services Delivery Plan (WSDP) and Water Services Council-Controlled Organisation (WSCCO) including:**

- legislative requirements,
- how the recommended regional model was developed,
- key elements of the model including governance and accountability,
- financial sustainability,
- benefits of the model, and
- next steps to develop a WSDP and implementation plan.

Photo credit: Destination Wairarapa

# Recap - Legislative requirements and increased regulation

## Councils <u>must</u> develop a WSDP

### Local Government (Water Services Preliminary Arrangements) Act 2024

- Requires a binding WSDP by September 2025.
- The WSDP must include:
  - Information disclosure: current delivery arrangements, state of assets and regulatory compliance, estimate of investment required to meet new regulatory standards (asset condition, public health and environmental regulation). This does not change regardless of the option that is adopted.
  - Delivery model: description of proposed arrangements, assessment of revenue, investment and financing sufficiency and the implementation plan process, timelines and milestones.
- Provides for simpler alternative consultation and decision-making methods.
- New Commerce Commission arrangements.
- Taumata Arowai oversight strengthened.
- Minister may appoint a Crown Facilitator/Specialist.

### More legislation by December 2024

- Enduring settings including new WSCCO model.

# How the regional model was developed

**Objective: to support councils in their decision on whether to develop a joint WSDP with joint delivery model**

**Staged process and workshops to consider:**

- Legislative requirements of a WSDP.
- What success will look like – key requirements.
- Drivers for change and scale of the challenge.
- Delivery model options.
- Governance and accountability.
- Financial sustainability.
- Implementation.

Photo credit: WellingtonNZ

# Goal

**The goal of the regional approach is…**

***…to ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai, and enable new homes and the well-being of communities.***

**Collaborative and non-binding approach:**

- 10 councils signed an MoU in May 2024
- Advisory Oversight Group including Iwi / Māori representation
- Chief Executive group
- Officer group
- Joint project team

## The Councils

Nine territorial authorities and Greater Wellington Regional Council

# Key requirements

**The process identified a set of 'key requirements' – what is important for the region**

**Key requirements include:**

- Consumers: public ownership, affordable, local service.
- Iwi/Māori: Te Mana o te Wai, meaningful influence, Treaty obligations honoured.
- Councils: financial sustainability, local influence including growth planning, clear accountabilities, level of service.
- Government: minimum requirements – financially sustainable, compliance, enable housing.
- Future entity: empowered, professional skills-based Board, can meet new regulatory requirements.

Photo credit: Carterton District Council

# The need for change

**Wellington Region water services face serious challenges due to insufficient investment over a period of decades.**

**The need for change**

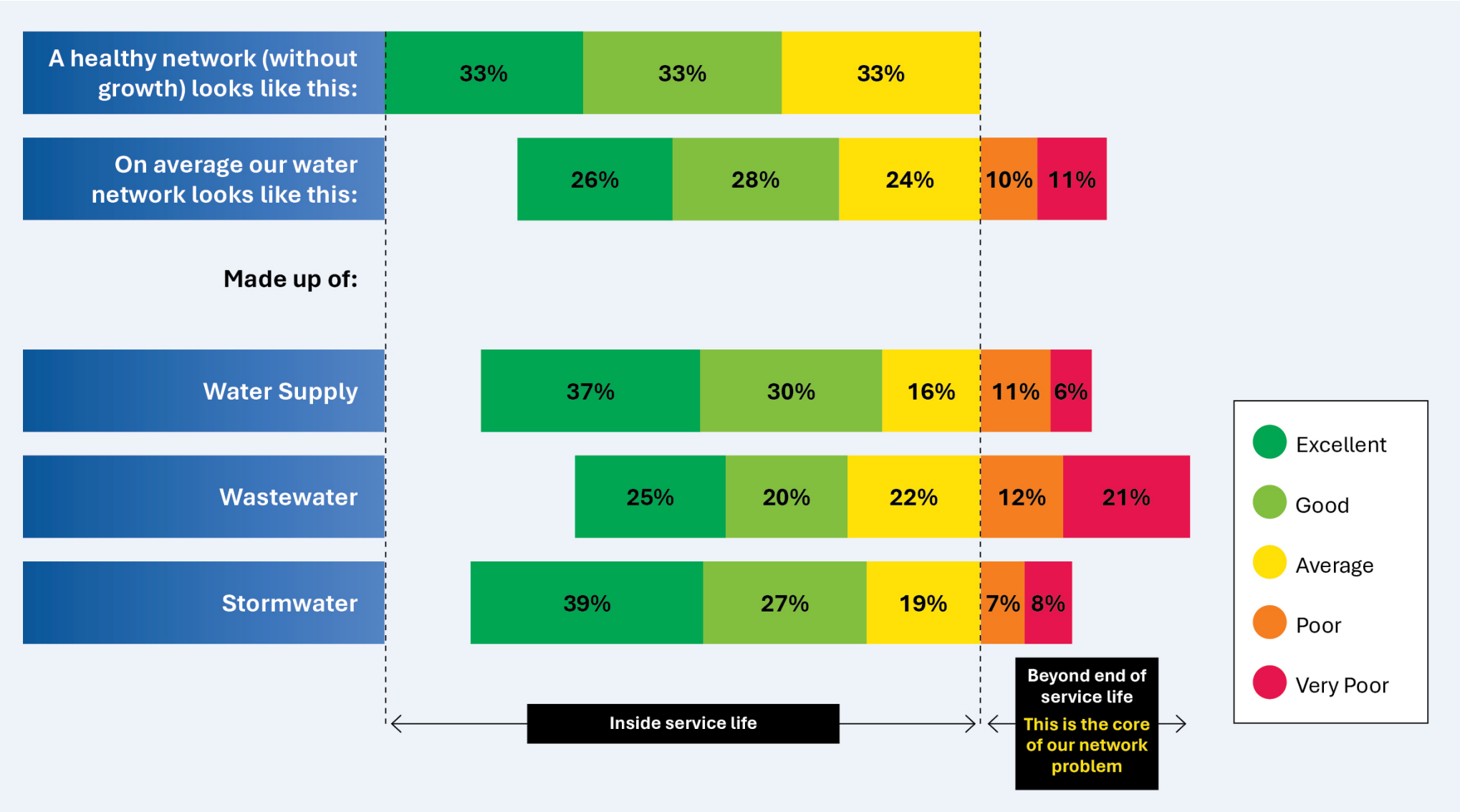
- All councils face similar, but different issues.
- Transformational reform is needed, requiring significant and sustained investment over the coming decades.

**Major challenges include:**

- Network failure – about 21% of the network is assessed as worn out.
- Significant constraints to growth and housing in many areas.
- New regulatory standards and compliance requirements for water.
- Summer drinking water shortages.
- 45%+ of metropolitan drinking water lost to leaks.
- Need to build better seismic, network and climate resilience.
- Need to build workforce skills and capacity.
- Affordability and low revenue compared with actual costs.

Photo credit: WWL

# Regional network condition



# Delivery model options considered

## A range of options was considered

**Options for a regional delivery model that were considered include:**

- In-house delivery models
- Joint CCO – service delivery only
- **Joint CCO – full breadth, asset owning (recommended)**
- Consumer trust
- Private sector

Photo credit: WellingtonNZ

# Recommended model

## ‘Best for region’ Water Services Council-Controlled Organisation (WSCCO)

**A joint council-owned company that is a full-breadth, water utility vested with ownership of all regional water assets, revenues and liabilities.**

**Key aspects:**

- Well-aligned with Government legislative requirements.
- Responds to new regulated operating environment.
- Focuses on assurance, quality, delivery and value for money.
- Local service delivery direct to customers.
- Good compliance, response times and supply.
- Financially sustainable by June 2028.
- Able to raise significant long-term debt.

Councils will also need to consider other options such as council alone or provincial models.

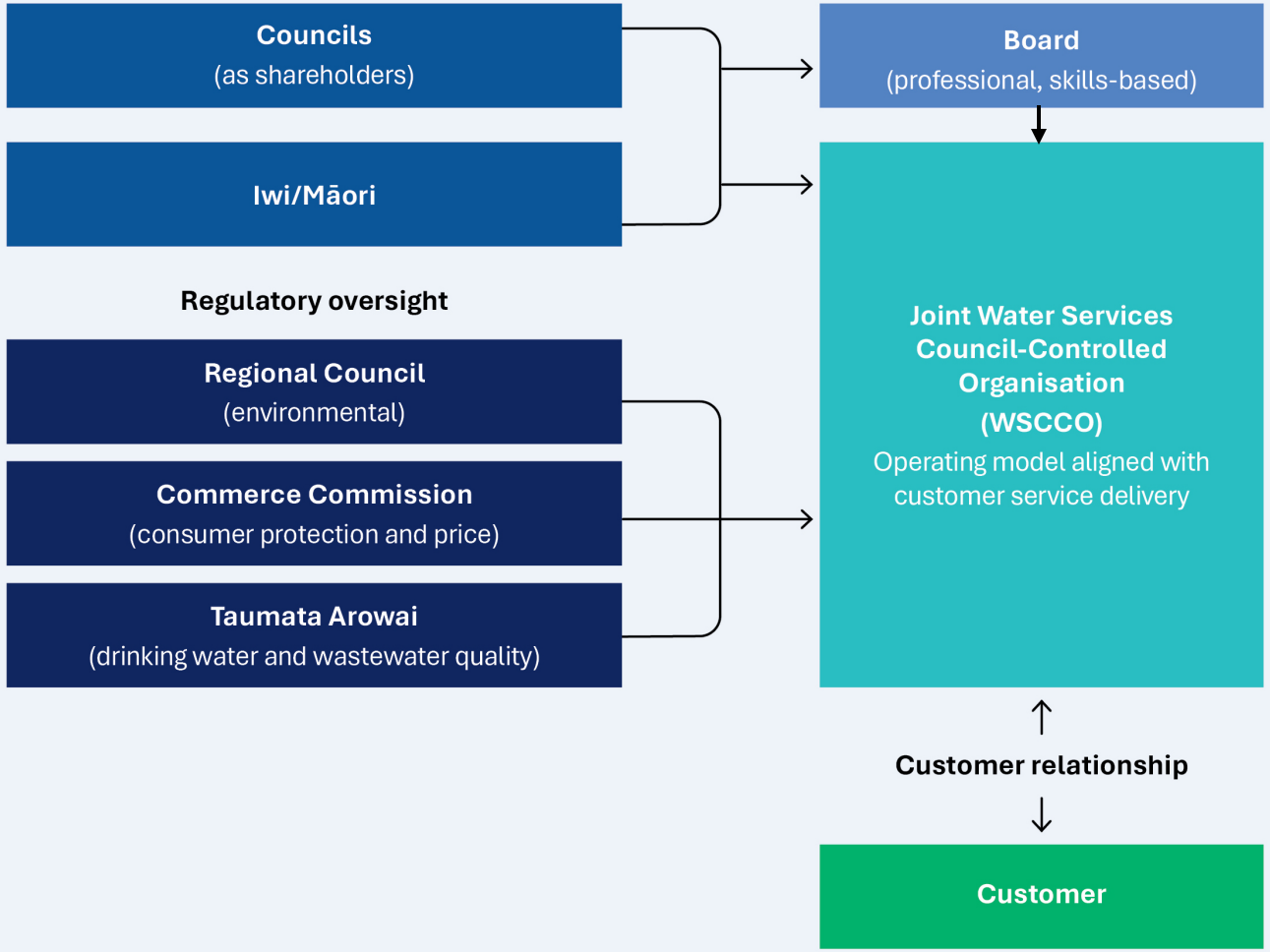
Photo credit: WellingtonNZ

# Recommended model

## ‘Best for region’ Water Services Council-Controlled Organisation (WSCCO)

### Key elements

- Councils and ownership
- Governance
- Iwi/Māori
- Customer
- Strategy
- Accountability and regulation
- Borrowing



# Financial sustainability

## A key requirement for Local Water Done Well and legislation is financial sustainability

**A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028.**

This requires confirmation of:

- **Investment sufficiency** – the projected level of investment is sufficient to meet levels of service, regulatory requirements and provide for growth;
- **Revenue sufficiency** – there is sufficient revenue to cover the costs (including servicing debt) of water services delivery; and
- **Financing sufficiency** - funding and financing arrangements are sufficient to meet investment requirements.

# Investment sufficiency

**Investment must be sufficient to meet levels of service, regulatory requirements and provide for growth**

**The recommended investment strategy to ensure investment sufficiency is to:**

- ‘keep up’ with network maintenance,
- ‘catch up’ on the backlog of worn-out infrastructure,
- ‘build up’ network capacity to enable growth, and
- ‘clean up’ wastewater and stormwater.

Estimated investment over a 20-25-year period is ~$15-$17 billion at an average of ~$700-750 million per year.

Keep up with sustaining investment **$250m pa**

Catch up to clear the renewal backlog **$200m pa**

Build up to enable growth of 1.3% pa **$150m pa**

Clean up to address compliance with wastewater and stormwater **$90m pa**

Faults **$25m pa**

# Revenue and financing sufficiency

**Sufficient revenue to cover costs (including servicing debt) of water services; and**

**Funding and financing arrangements are sufficient to meet investment requirements**

## A focus on affordability

- Key requirement from councils and for consumers.
- Currently the costs of water services are not fully covered by what people pay or council LTP planned investment.
- To deliver on the required level of investment will need a careful balance of price increases and use of debt.
- WSCCO will need significant focus on efficiency gains and economies of scale.

## Price

- Economic regulation is key to ensure focus on quality and price.
- Water prices based on the cost to provide services to the relevant group of customers.
- WSCCO will work with the economic regulator to develop and agree a pricing and revenue strategy that will balance price and quality.
- Existing price differentials will be locked in for a three-year transitional period to help ensure that consumers do not receive a major price shock.

## Debt

- The WSCCO will use Local Government Funding Agency (LGFA) financing arrangements and additional debt headroom to manage rate of cost increases.
- Parent councils guarantee or uncalled capital will be required.
- WSCCO will inherit significant opening debt from councils.

# Benefits of the proposed regional joint model

## Key potential benefits include:

- ✓ Well-aligned with Government announcements and Bill 3
- ✓ Well-aligned with council key requirements.
- ✓ Ongoing public ownership through shareholding councils.
- ✓ Clarified accountability and strengthened governance.
- ✓ Access to finance from Local Government Funding Agency and increased debt headroom
- ✓ Replacement of about 44% of the network over 20 years.
- ✓ Enables new homes and growth.
- ✓ Scale to enable efficiency and continuous improvement.
- ✓ Better resilience.
- ✓ Pathway to financial sustainability and a focus on affordability.
- ✓ Relieves rates burden.
- ✓ Ability to meet regulation and compliance.
- ✓ Customer focus and local delivery.
- ✓ Improved council financial  metrics and credit rating outcomes.
- ✓ Long-term approach to planning and investment.

**Longer term:** A joint WSCCO will have significant ability to manage network and investment risks due to scale, capacity and capability.

Photo credit: WellingtonNZ

# Development of a WSDP and implementation plan

**Next phase of work will focus on the WSDP and plan to establish a new WSCCO**

**WSDP**

- **Information disclosure:** current delivery arrangements, state of assets and regulatory compliance, estimate of investment required to meet new regulatory standards.
- **Delivery model:** description of proposed arrangements, assessment of revenue, investment and financing sufficiency and the implementation plan process, timelines and milestones.

*Implementation planning will consider the potential establishment of a large full-service, multi-council-owned WSCCO, which would be entrusted with the stewardship of critical regional assets with a replacement value of about $19 billion.*

*This will also have a significant impact on councils including future role, operating model, financial arrangements and scale.*

**Implementation plan – including:**

- Governance and shareholding arrangements – transition and steady state
- Ownership rights and entry / exit
- Operating model, organizational design, accountabilities, resourcing
- Local service model
- Strategy and principles for debt and asset transfer, financing, pricing, people transition, customer experience
- IT requirements
- Legal requirements

# Specific issues to work through in next phase

**There are also a number of detailed issues that require further consideration**

- **Consultation:** timing and coordination across multiple councils.
- **Stormwater:** optimal arrangements and legislative requirements including ownership, accountability and investment.
- **Financing:** arrangements with LGFA, timing and debt transfer.
- **Council debt, revenue and asset transfer**: principles, timing and quantum.
- **Details of Bill 3**: including of new WSCCO model, powers and functions.
- **Change impacts**: on people, councils and WWL.

Photo credit: WellingtonNZ

# Next steps

## Delivering a regional WSDP within the required timelines will require ongoing progress and decisions

**In order to have a WSDP in place by September 2025 councils need to:**

- by late 2024 consider the recommended Wellington regional model and decide whether to continue with this approach, including development of a joint WSDP with other councils,
- assess the regional approach against status quo, and if your council chooses, any other alternative models for public consultation,
- consult on the draft WSDP (at least on proposed delivery model options) in early 2025,
- consider the implications for your council, including the need to amend the LTP,
- draft an implementation plan in 2025 (especially if new model adopted), and
- adopt the WSDP,
- submit the WSDP to DIA for consideration and acceptance.

Photo credit: WWL