

Local Water Done Well Elected Member Briefing

Water services delivery plan and
delivery model update

28 January 2025

Purpose of this briefing

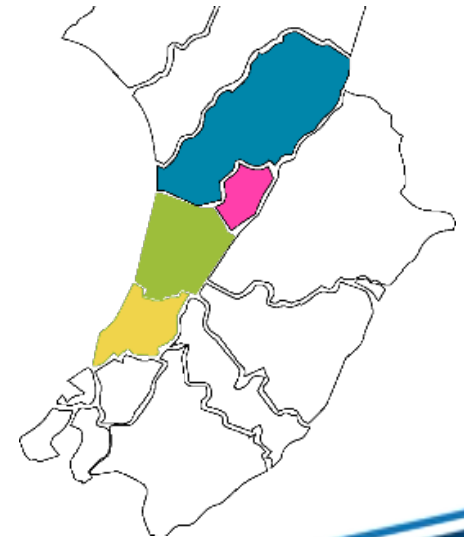
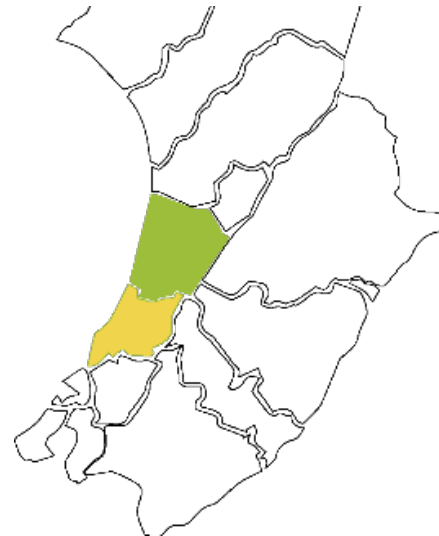
- Recap of the three delivery model options
- Update on options assessment
- Delivery model preferences
- Proposed approach to consultation
- Standing orders matters
- Other work underway
- Next steps

Water Delivery Model Options

	"One" Council IBU New KCDC IBU
Population	58,750
Connections	24,500

	"Two" Council CCO KCDC / HDC
Population	96,450
Connections	34,825

	"Four" Council CCO KCDC, HDC, MDC & PNCC
Population	223,750
Connections	71,212



Delivery Model Options

- “One” Council In-house Business Unit
 - Establish a fully ringfenced and resourced Internal Business Unit
 - Debt to be managed within Council limits (revenue x 280%, LGFA Board have the discretion to approve up to 350% for high growth councils)
 - Consideration of referendum, as per standing orders, not required
- “Two” Council Water Services CCO
 - Kapiti Coast / Horowhenua shareholder Councils
 - Limited liability company owned by shareholder councils
 - Independent board and CE. Board cannot comprise elected members or any staff
 - Asset-owning full-service CCO
 - Access to increased debt limits for water services (revenue x 500%)
 - Consideration of a referendum as per standing orders
- “Four” Council Water Services CCO (or variance thereof)
 - Kapiti Coast / Horowhenua / Manawatu / Palmerston North City shareholder Councils
 - Limited liability company owned by shareholder councils
 - Independent board and CE. Board cannot comprise elected members or any staff
 - Asset-owning full-service CCO
 - Access to increased debt limits for water services (revenue x 500%)
 - Consideration of a referendum as per standing orders

Key future challenges



Financial sustainability: ability to fund operating and investment requirements within applicable debt limits



Resourcing to meet the economic and environmental regulatory demands



Stormwater capacity and quality upgrade programme duration



Timely servicing growth



Attractiveness for staff and the contracting market

What is important to Kapiti?

- Relationships and trust
 - Water assets remain in public ownership. (A requirement of the new Bill)
 - Iwi / Maori te mana o te wai, has meaningful influence
- Financial
 - Financially sustainable future investment, revenue levels, and financing arrangements
 - Transparent and equitable customer charging
- Cost of service
 - Average cost to customer
- Levels of service
 - Safe, reliable and regulatory-compliant water services.
 - Efficient and effective water service delivery
- Strategy
 - Responsive to housing growth demands
 - Environmentally sustainable water services
 - Ability to influence local priorities and build on work to date
- Operational
 - Resilient operations model
 - Transition arrangements – Fair and seamless

Local Government Water Services Bill

CCO Council direction setting

- The proposed Statement of Expectation contains broad CCO direction-setting provisions
- Providing additional controls and direction to:
 - Set out shareholders' expectations.
 - Set priorities and strategic direction
 - Inform and guide the decisions and actions
- It must also set out:
 - Shareholders' strategic priorities
 - The expected outcomes from providing water services
 - How the CCO meets the legislative objectives
 - How it will perform its duties, and functions and exercise its powers
 - Resource management and land planning requirements
 - Information required in half-yearly reporting

Consumer protections and the role of the Commerce Commission

- The economic regulation and consumer protection regime aims to give communities confidence that water service providers are providing quality water services
- The Commerce Commission will begin by monitoring how consumers are treated by water service providers through a mandatory information disclosure regime
- The Commission also has a range of tools to strengthen consumer protections if issues are discovered
 - Financial ringfencing
 - Revenue thresholds
 - Quality (LoS) regulation
 - Performance requirement regulation
 - Price-quality regulation
 - Complaints and dispute resolution regulations
- The tools promote sufficiency of revenue, and efficient investment and maintenance so that water services meet regulatory requirements and are delivered at a quality that communities expect.

High Level Assessment of options

	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 Iwi relationships maintained	- Assets owned by Water Services CCO in which Council has shareholding. - Iwi relationships relating to water services with Water Services CCO.	- Assets owned by Water Services CCO in which Council has a shareholding. - Iwi 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

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

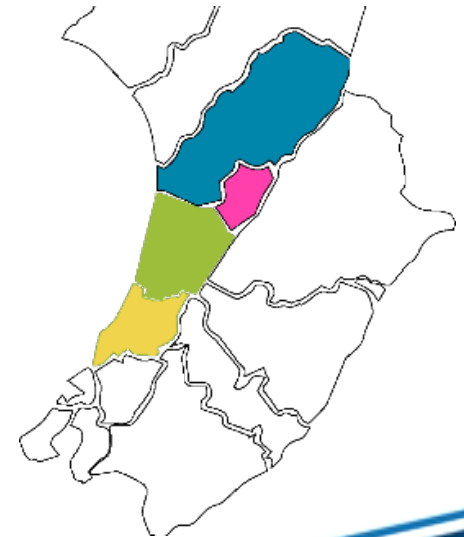
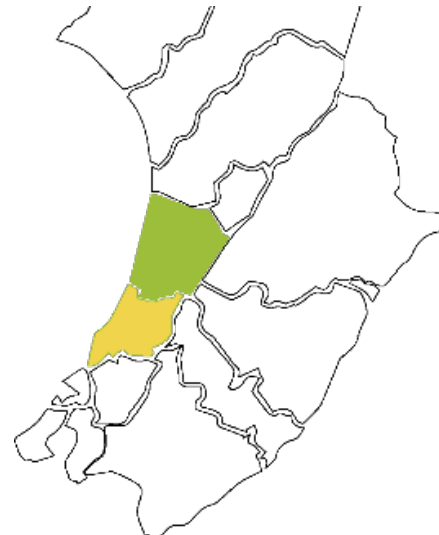
***Price projections as per Morrison Low analysis November 2024. This is currently being updated under the CCO options workstream but is not expected to materially change.

Delivery Model Preference

	"One" Council IBU New KCDC IBU
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Approach to Consultation

- Consultation set down for 10 March–6 April
 - Hearings will follow for those that wish to speak to their submissions.
- To make it easy for people to access clear and accurate information and have their say.
- Key tactics will involve:
 - 'Have your say' webpage plus hard copies for libraries/service centres
 - Call to action via Council channels – includes direct email/mail communication to ratepayers/stakeholders, Everything Kāpiti, social media, Antenno, media screen, press releases, radio, webinar(s)
- 'Pop-ups' in our communities

Standing order clause 9.16

- The Standing Order 9.16 relates to decisions about moving away from in-house ownership, operations and control of water services.
- Includes a 75% majority vote to make any decision
- A referendum requirement introduced in March 2011
- The referendum was introduced to address concerns water metering was a step towards privatisation and that the council would lose control of water services

Local Government Water Services Bill introduces Privatisation Protections

- Water organisations **MUST**
 - be owned by one or more territorial authorities or consumer trust
 - not do anything other than provide water services or related activities
 - have an independent competency-based board
- Franchises and concession contracts are prohibited

Approach to Standing Orders

- Alternative consultation arrangements considered to take precedence over standing orders
- The new legislation has restrictions against privatisation
- There remains a risk that if the Standing Orders were not followed or changed, any decision may be challenged and/or a Judicial Review sought.



Options available re SO 9.16

Option 1 – Implement a referendum

- Proceed with consultation on the delivery options and plan to implement a referendum if WSCCO established as the preferred option.
- Initial estimates are that a referendum would cost around \$150,000 to implement and take four months to execute, which leads to timing challenge (inability to meet 3 September date)

Option 2 – Suspend SO 9.16

- Retain SO 9.16 but suspend it for the course of decision-making on the water delivery model.
- This may be subject to challenge if a CCO becomes the chosen delivery model.

Option 3 – Update SO 9.16 to remove referendum requirement

- Update SO 9.16 to remove referendum requirement, and instead require 75% majority decision before any of the relevant decisions can be made
- Resolves timing issue, and provides opportunity to clarify scope of SOs and interplay with relevant legislation

Option 4 – Remove SO 9.16

- Similar to Option 3, but would involve complete removal of SO. Would remove 75% majority requirement for certain decisions and referendum requirement
- Provides opportunity to acknowledge that the new legislation includes restrictions against privatisation.
- Could be subject to challenge if a CCO becomes the chosen delivery model, but careful explanation of reasons for removal would assist.

Other work underway

- Further due diligence of options.
- Coordination with the other three Councils on the four council option matters.
- Legal advice on the Consultation Process
 - legislative compliance
 - management of uncertainties arising from the third Bill

Next steps

- 18 February - Elected member briefing
- 24 February - Elected members briefing optional
- 6 March - Council adopt the Consultation Document and associated matters.
- Consultation Process
 - Consultation period early March to early April 2025
 - Hearings in late April 2025
 - Feedback analysis
- Further Council briefings through the consultation period
- May Council decision on the Water Services Model
- Water Services Delivery and Implementation Plan CE Certification and adoption by the end of June
- The Water Services Delivery Plan must be lodged with DIA by 3 September 2025

Discussion and questions