

Local Water Done Well Options

FINAL REPORT - Kapiti District Council

November 2024



Prepared for:

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2935	v1	Dan Bonifant	Dan Bonifant	Dan Bonifant	22 October 2024
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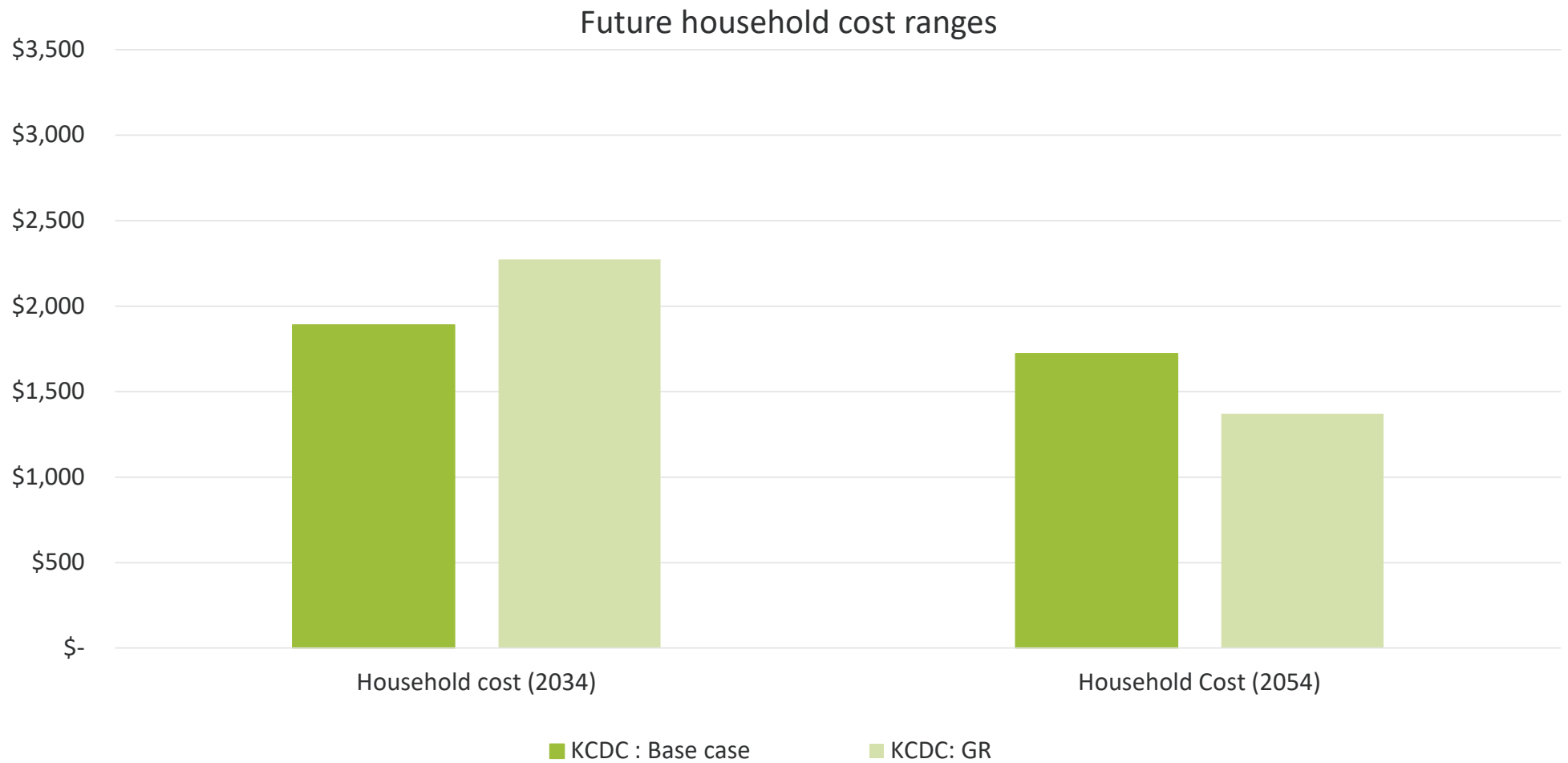
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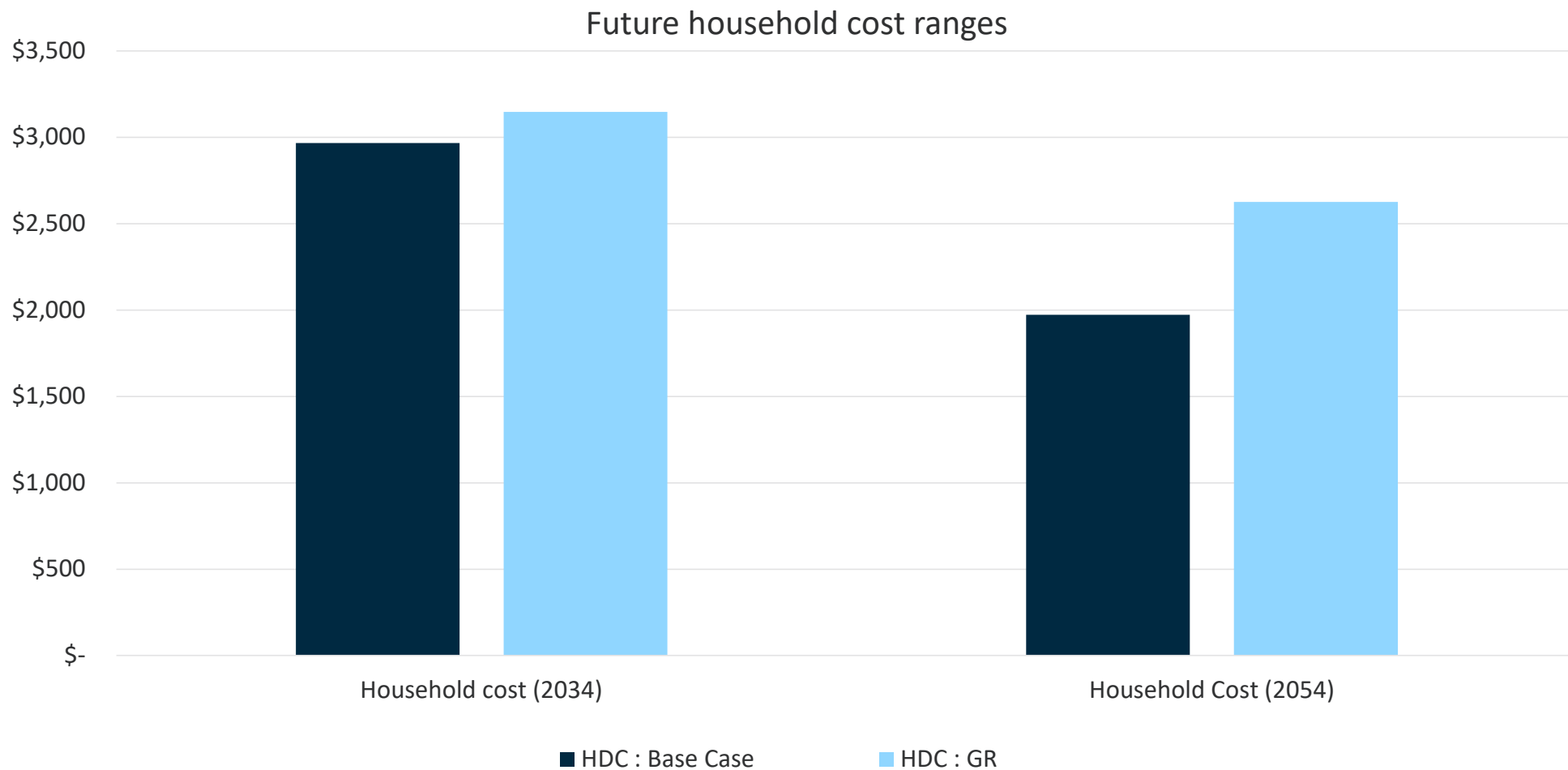
Introduction

- There are two base case comparisons provided initially for context:
 - Both KCDC and HDC Morrison Low base case projections are compared with Gravel road (Wellington). These generally show a degree of consistency with Council LTPs projections showing the councils understand their assets and the investment requirements associated with them
- The second comparison provided for context is KCDC continuing to provide services under the current delivery model and a KCDC CCO:
 - This highlights the impact of KCDC transferring water debt to any water CCO and the immediate impact that has on household costs
 - Currently the wider revenue of the Council supports water debt (as is the case for many councils) but the extent of that at KCDC would mean the transfer of water debt would require a water CCO to increase its charges to create the revenue that would support that level of borrowing covenants. Over that time, that impact is reduced and is partly why a CCO would have lower costs over the longer term.

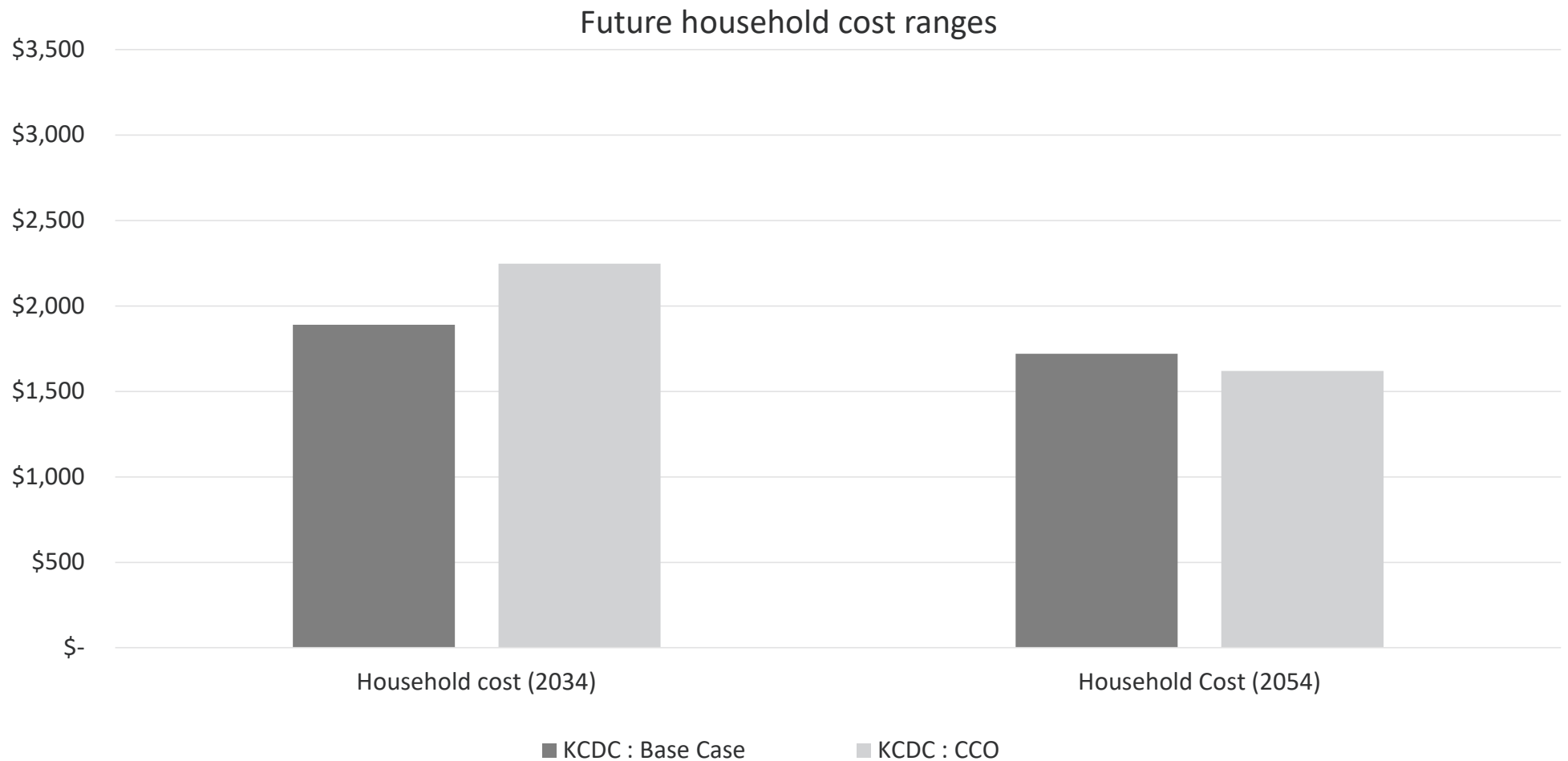
Base case comparisons – KCDC



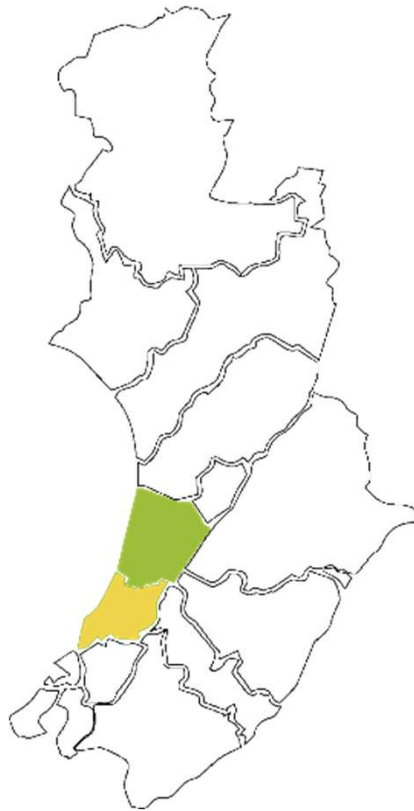
Base case comparisons – HDC



Base case comparisons – KCDC V KCDC CCO



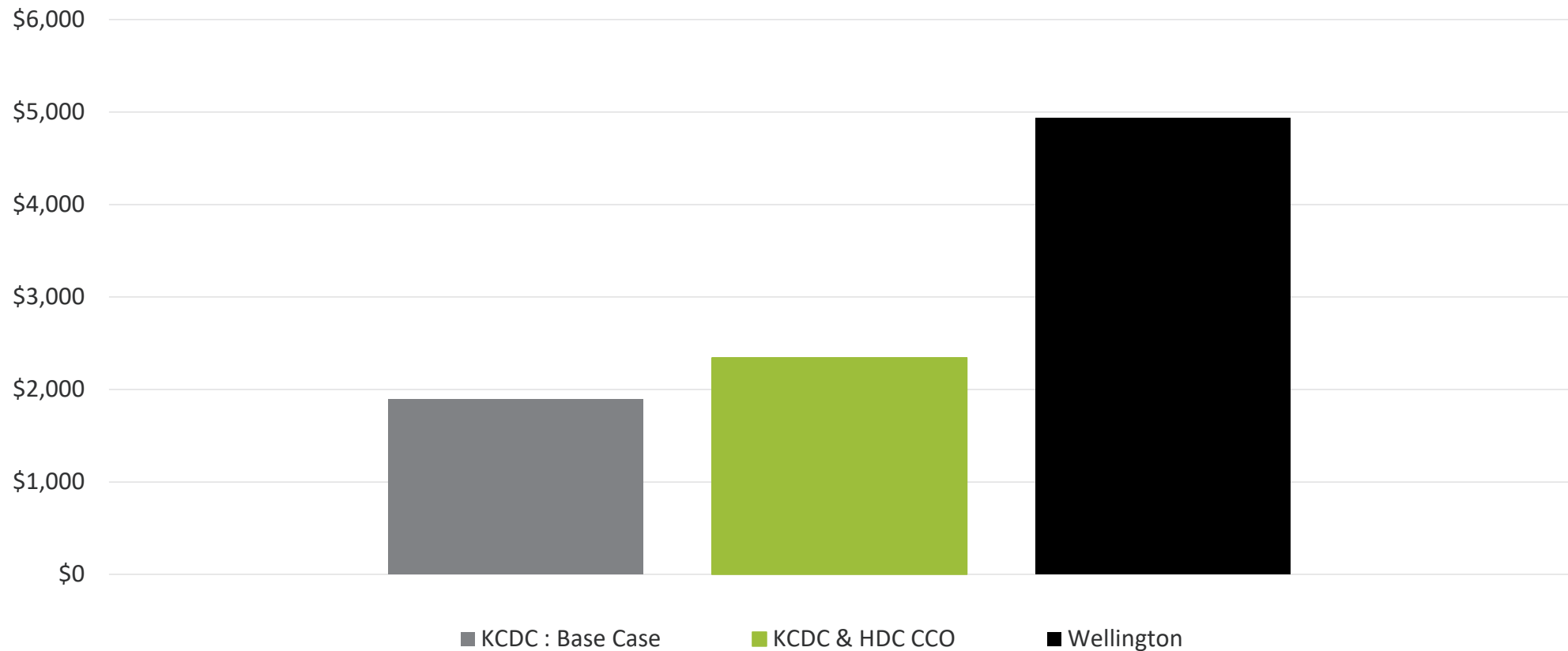
KCDC & HDC (CCO)



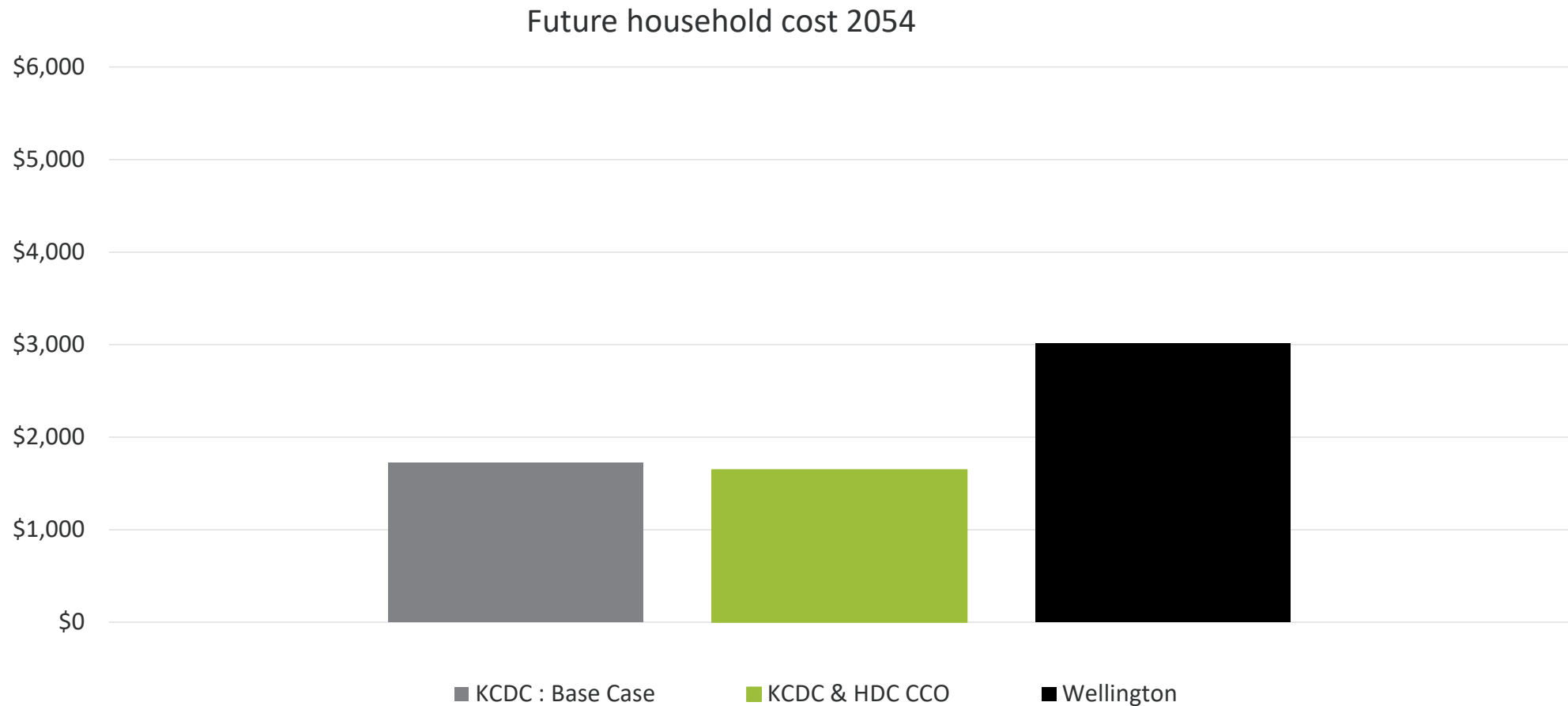
- Connections: 34,825
- Population density: 53
- Key features/risks
 - Smaller scale, efficiencies primarily around the ‘model’ rather than from scale
 - Overtime household cost beneficiaries ebb and flow
 - HDC capital investment falls beyond year 10 to well below the average of the first 10 years. To address the impact of this being under forecast we have used the mid-point between initial capex projections and continued investment at the average of the first 10 years
 - Including Electra in a community trust model has little benefit as the only opportunity is around ‘shared services’ for management

Options comparisons – KCDC, HDC & Wellington

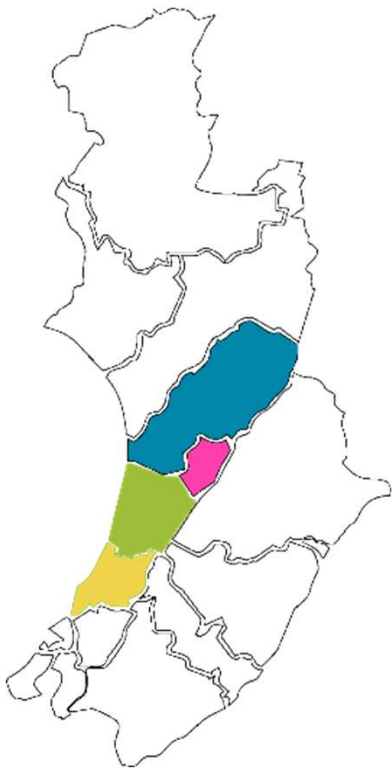
Future household cost 2034



Options comparisons – KCDC, HDC & Wellington



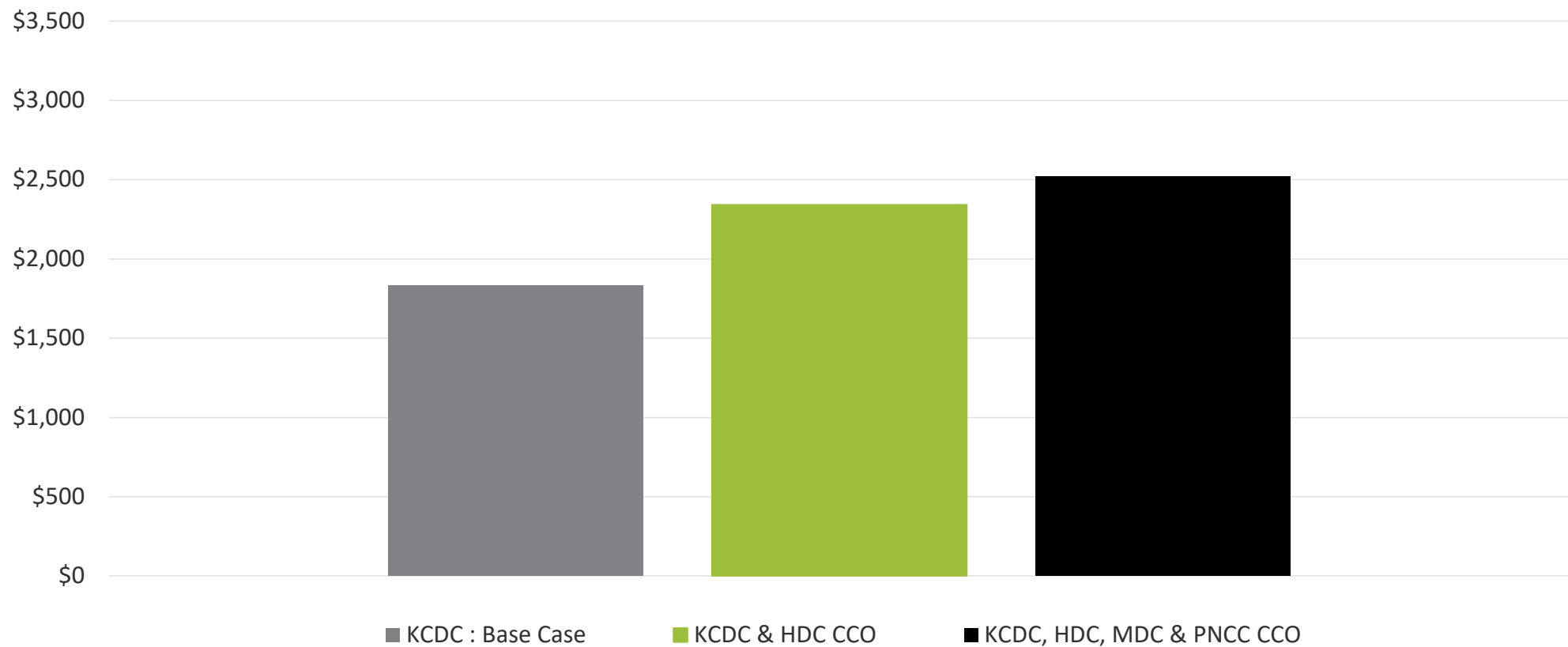
KCDC, HDC, MDC AND PNCC (CCO)



- Connections: 71,212
- Population density: 46
- Key features/risks
 - Investment built up from council LTPs, plans and estimates
 - Moderate scale, moderate influence over establishment and ongoing, some efficiencies generated from model change and scale
 - Includes nature calls investment
 - HDC capital investment falls beyond year 10 to well below the average of the first 10 years. To address the impact of this being under forecast we have used the mid-point between initial capex projections and continued investment at the average of the first 10 years
 - Requires all four councils to agree

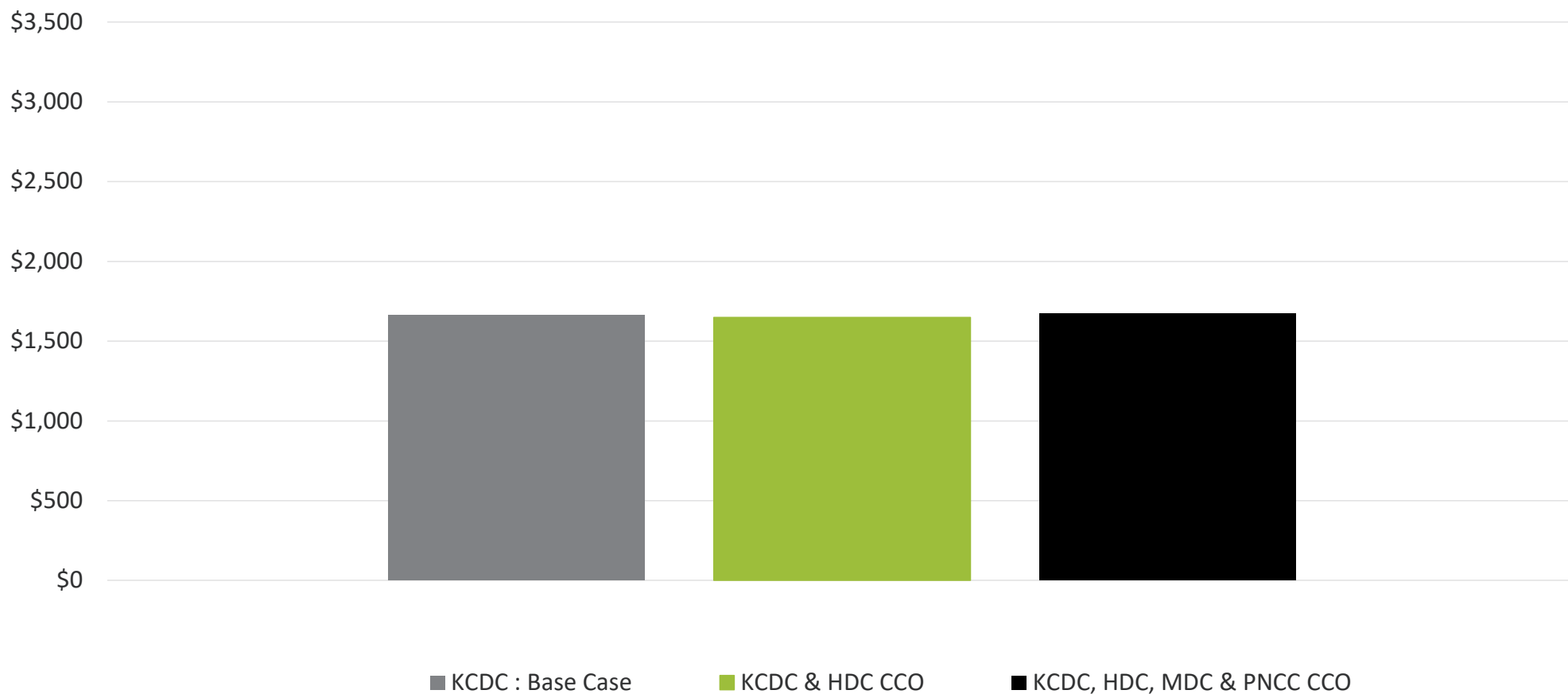
Options comparisons – KCDC, HDC & Northern Grouping

Future household cost 2034

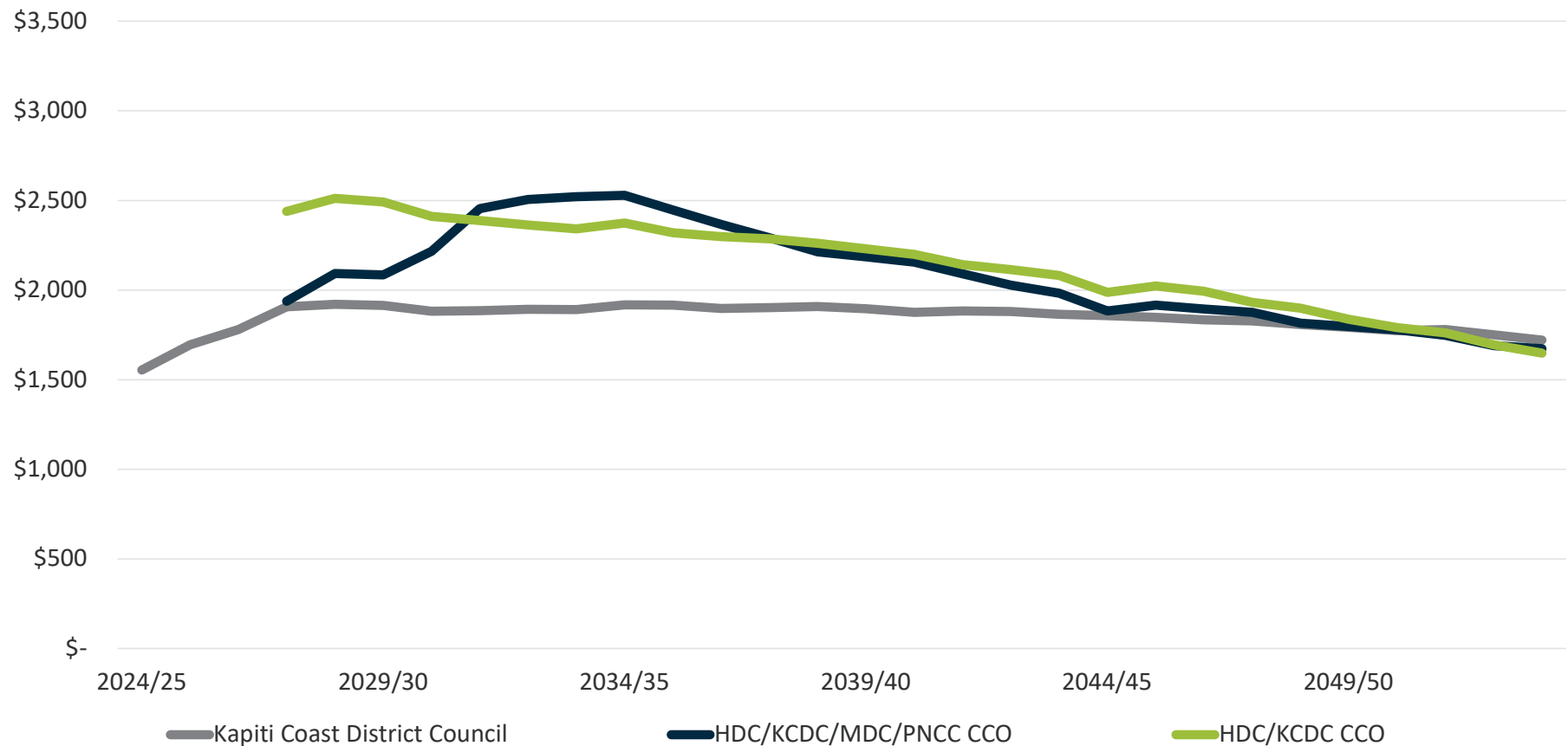


Options comparisons – KCDC, HDC & Northern Grouping

Future household cost 2054



Three waters household charges over time



Observations

- Projections over 30 years should be treated with some caution.
- The high-level modelling suggests that future household costs for KCDC three waters customers are projected to be higher under either the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO initially, and consistently through the modelling until about year 25 when household costs are projected to be lower under both of the CCO models. However, the differences between all three projections over the long term are so small as to be essentially the same.
- The high-level modelling suggests that future household costs are similar under both the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO and that these are significantly lower than the Wellington CCO option. Projected household costs:
 - At 10 years under the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO are half the cost of the Wellington CCO
 - At 30 years under the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO are 45% less than the cost of the Wellington CCO
- While we acknowledge that costs under the Wellington Region approach are not intended to be regionalised and compared like this, there is a 33% difference between the base case for KCDC and the Gravel Road base case for KCDC and a 160% difference between the base case for KCDC and the regionalised cost figure. Assuming that some costs would be regionalised then even under a cost to serve approach in the Wellington model the costs for KCDC three waters customers are likely to be higher, and significantly higher under that model.

Modelling approach

Costs and Benefits of CCO models

Costs

- Transition costs estimated using a population based sliding scale, derived from NTU estimates for national transition costs. That estimate was halved to account for local transitions being more cost effective. This approach results in estimates that are broadly consistent with costs allowed for in Wellington
 - KCDC : \$9M
 - KCDC and HDC : \$15M
 - KCDC, HDC, MDC & PNCC : \$35M
- Ongoing addition costs allowed for based on corporate costs, governance, additional resources, IT infrastructure & systems
 - KCDC : \$4M
 - KDCD and HDC : \$7M
 - KCDC, HDC, MDC & PNCC : \$15M
- All models include additional costs for complying with new regulatory regime

Modelling approach

Costs and Benefits of CCO models

Benefits

- Benefits allowed for are from improvements in asset management, programming and delivery of capital works, procurement and scale. These are estimated using a population based sliding scale, derived from WICS estimates for potential benefits from large scale water utilities.
- Morrison Low have assumed only 10% - 20% of that amount is achievable in NZ context based on comparison with other estimates in previous work and considering the scale of the CCOs proposed:
 - KCDC : 3% of opex, 3% of capex
 - Begins in years 3 and progressively introduced until year 12
 - KCDC and HDC : 8% of opex, 8% of capex
 - Begins in years 3 and progressively introduced until year 12
 - KCDC, HDC, MDC & PNCC : 14% of opex, 13% of capex
 - Begins in years 3 and progressively introduced until year 12

Modelling approach

Debt

- All options utilise significant debt to fund three waters investment and manage household costs so comparing debt/revenue or other ratios has no value to making decisions:
 - Council options stay within debt/revenue ratio of 250%
 - CCO options stay below a conservative FFO ratio of 10% (approx. 400% - 450% debt/revenue)

Comparison with other work

- To make the results consistent we have adjusted the outputs of the Wellington results as set out below:
 - Wellington
 - Add GST
 - We note that the Gravel Road model includes an additional \$125M investment for HDC & \$17 million less investment for KCDC over the first 10 years