

Local Water Done Well Elected Member Briefing

Water services delivery plan and
delivery model update

14 November 2024

Purpose of this briefing

- Recap of Local Water Done Well Legislation
- Summary of the Regional WSDP Project status
- Overview of various delivery models
- What is important to Kapiti
- Delivery Model Shortlisting
- High-level assessment of options
- Next steps

Local Water Done Well Legislation

- Local Government (Water Services Preliminary Arrangements) Act 2024
 - Requires a binding **Water Service Delivery Plan** by 2 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 whatever option 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
 - Stormwater services options with Council retaining responsibility
 - Commerce Commission as economic regulator
 - Taumata Arowai strengthened
 - Minister may appoint a Crown Facilitator/Specialist

More legislation, Bill 3, by Dec 2024 – enduring settings

Status Quo is not an Option

The requirements will likely include that all water services providers:



Will be subject to economic, environmental and water quality regulation – further information on economic, environmental and water quality regulation is available in the related factsheets: Economic regulation of water services (refer to the economic regulation factsheet for more information), Drinking water quality regulation, and Standards to help reduce water infrastructure costs.



Will be subject to a new planning and accountability framework for water services, including the need to produce stand-alone financial statements for water supply, wastewater, and stormwater – further information outlined in the factsheet: Planning and accountability for local government water services.



Must be financially sustainable – legislation will include an enduring objective for water service providers to be financially sustainable, including a requirement for the ringfencing of water services, an expectation of revenue sufficiency, and accommodating for maintenance, renewals and growth.



Must act consistently with statutory objectives – legislation will set out a list of statutory objectives that will apply to all water service providers. There will also be several additional statutory objectives that apply to water organisations.

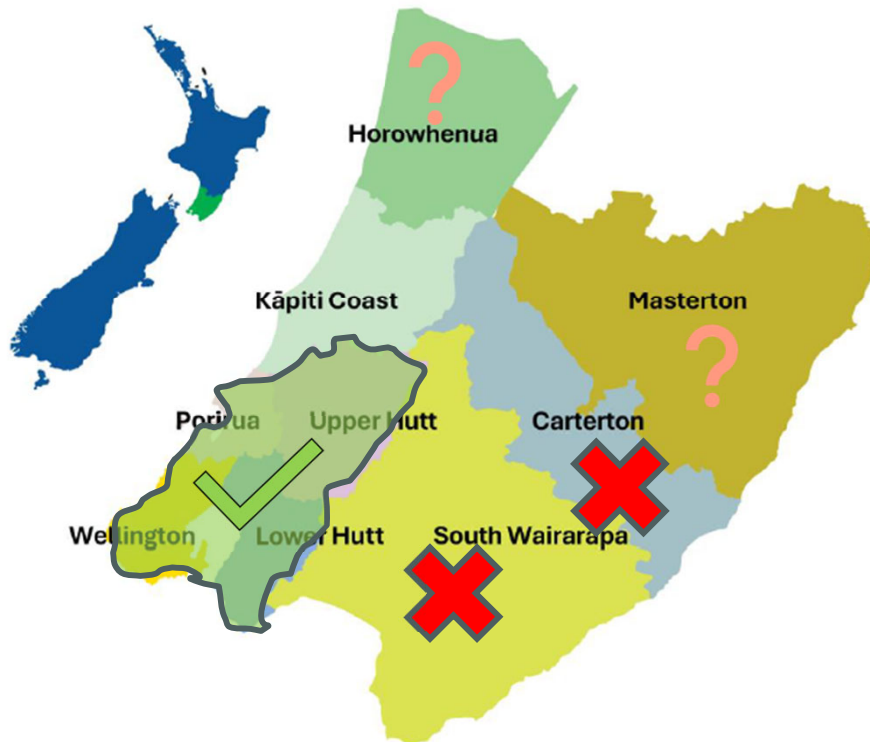


Will be subject to restrictions against privatisation – legislation will include prohibitions on losing control, selling or disposing of significant infrastructure. Further, water services assets cannot be used as security.

Regional Project Status

The Councils

Nine territorial authorities and Greater Wellington Regional Council



Collaborative and non-binding approach

- 10 councils signed an MoU in May 2024 to examine options to prepare a joint WSDP and joint delivery model
- A joint full-breadth council-owned water utility company vested with ownership of all regional water assets, revenues and liabilities was recommended as the “best for region” delivery model.
- Porirua, Upper Hutt, Lower Hutt, and Wellington City Councils and Greater Wellington Regional Council have chosen to continue developing a joint WSDP based on the recommended delivery model.
- Masterton will include the option in consultation
- Carterton and South Wairarapa have exited the regional project.
- Horowhenua has yet to decide.

What is important to Kapiti?

- Relationships and trust
 - Water assets remain in public ownership
 - Iwi / Maori te mana o te wai, has meaningful influence
 - Ability to influence local priorities and build on work to date
- 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
- Operational
 - Resilient operations model
 - Transition arrangements – Fair and seamless

Delivery Model Types

- NEW Council In-house Business Unit
 - Establish a fully ringfenced and resourced Internal Business Unit
- Council-owned - Service and advisory organisation
 - Stand alone Kapiti Coast District Council WSCCO
 - Joint WSCCO – Northern Councils
- Council-owned – Full-service and asset-owning organisation
 - Single Council - Kapiti Coast District Council WSCCO
 - Multi Council – Joint WSCCO
 - Kapiti Coast / Horowhenua
 - Kapiti Coast / Horowhenua / Manawatu / Palmerston North
 - Wellington Regional + Horowhenua
- Consumer Trust
 - Mixed Council and Consumer trust
 - Full Consumer Trust ownership

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.

Delivery Model Options

- NEW Council In-house Business Unit
 - Establish a fully ringfenced and resourced Internal Business Unit
 - Option for a referendum as per standing orders not required
- Single Council WSCCO – Full service/asset-owning organisation
 - Option for a referendum as per standing orders becomes a consideration
- Joint Council WSCCO – Full service/asset-owning organisation
 - Option for a referendum as per standing orders becomes a consideration
 - Kapiti Coast / Horowhenua
 - Kapiti Coast / Horowhenua / Manawatu / Palmerston North
 - Wellington Region + Horowhenua

NEW In-house Business Unit

Under this option, water services would be delivered directly by the council 'inhouse' through an internal business unit or division, with planning and budgeting integrated into council planning and budgeting processes. This option will be subject to new ring-fencing and financial sustainability requirements, and economic regulation.

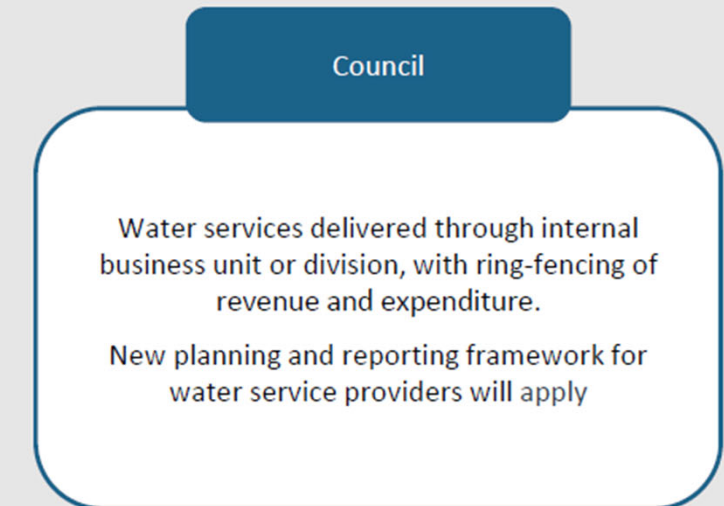
This option represents a continuation of the existing inhouse service delivery model used by many councils.

Revenue continues to be generated through a combination of general and targeted rates and financial/development contributions.

Water service delivery is fully integrated into council strategy, planning, and service delivery.

Key features	
Ownership	• 100% council owned as a business unit or division within the organisation • No new organisation is established
Governance	• Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	• Councils will need to prepare a Water Services Strategy
Accountability	• Water division reports to council per established internal processes • Water service delivery will be accountable to the public through usual local democracy practices • Water-focused annual report and stand-alone financial statements on water will be completed to enhance current requirements
Borrowing	• Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

Illustrative example



Single Council WSCCO

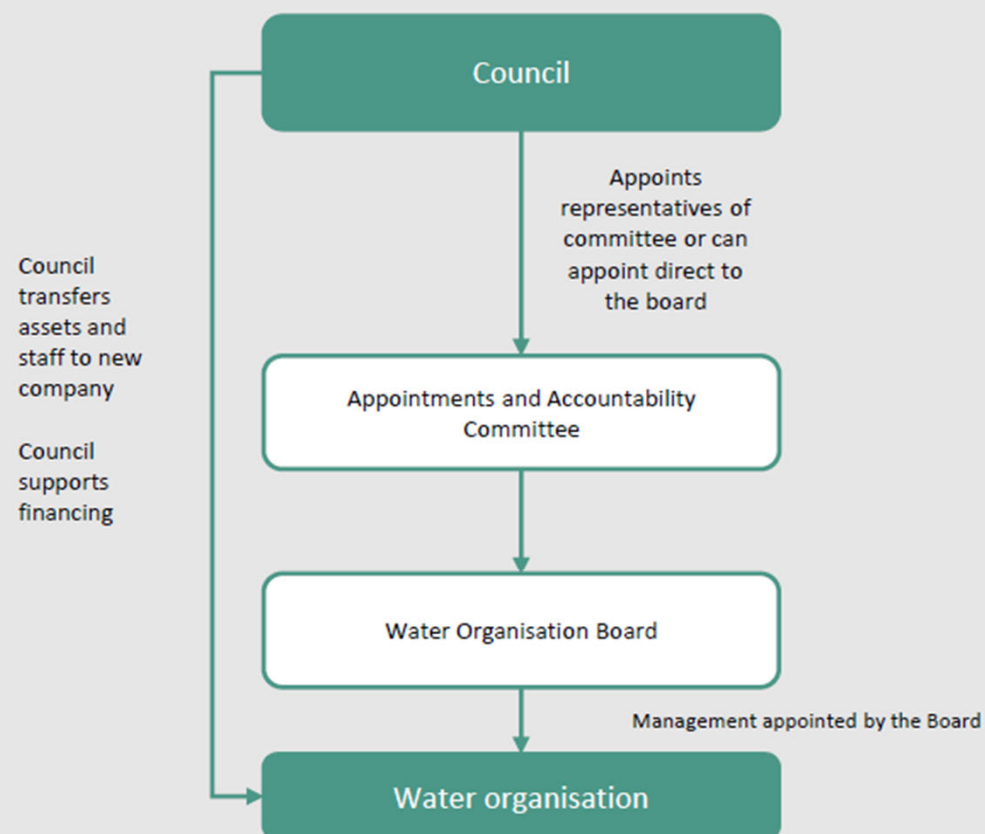
New company established to deliver water services, with ownership by a single council. Council can transfer or retain ownership of assets, subject to transfer of asset use rights.

The council has flexibility to design governance and appointment arrangements, including to consider whether and how they involve mana whenua, consumers or community representatives (for example via an appointments and accountability body). The council can also choose to appoint board members directly without roles for other groups.

The council would provide financing to the water organisation or provide financial support to enable it to borrow from Local Government Funding Agency

Key features	
Ownership	- Limited liability company, 100% owned by the council - Ownership rights spelled out in a constitution, subject to compliance with legislation
Governance	- Appointments made directly or via an Appointments and Accountability Committee (or similar body) - Board comprised of independent and professional directors
Strategy	- Shareholding council issues Statement of Expectations - Water organisation prepares Water Services Strategy and consults the council
Accountability	- Water organisation reports regularly to shareholding council on performance (for example quarterly) - Water organisation prepares annual report containing audited financial statements, including reporting on actual performance, and other matters outlined in the water services strategy. - Water organisation required to act consistently with statutory objectives
Borrowing	Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital

Illustrative example



Joint Council WSCCO

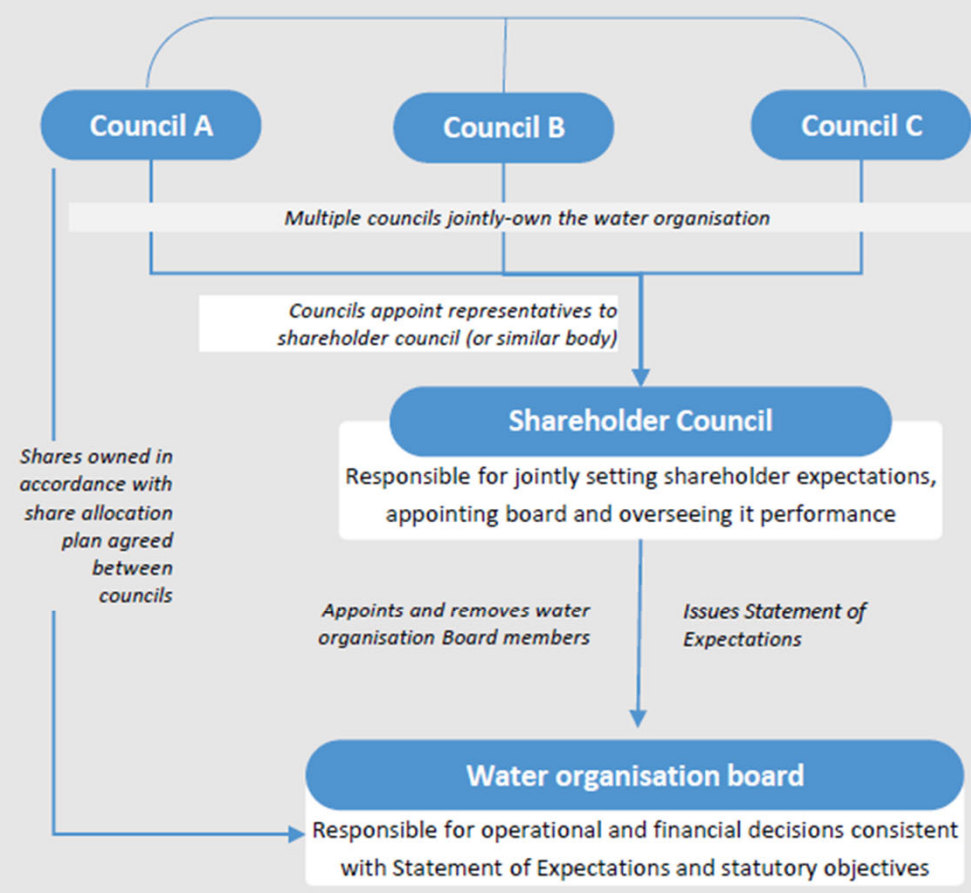
Under this option, two or more councils would establish a jointly-owned water organisation.

Councils will have flexibility to establish shareholder rights and interests through a company constitution and/or shareholder agreement, subject to compliance with the legislation.

Financing options and credit rating impacts will be dependent on whether shareholding councils choose to provide financial support or not.

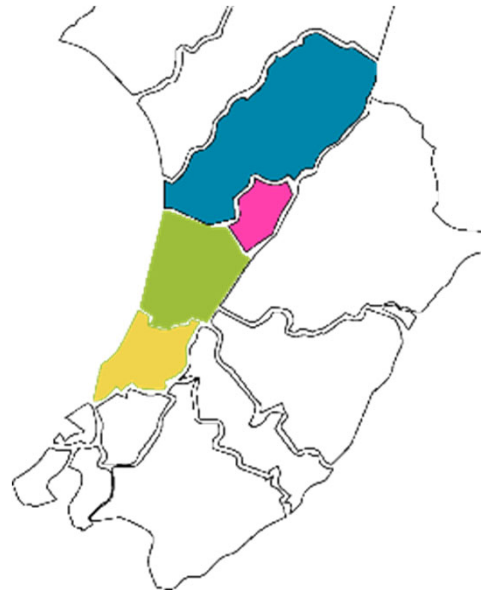
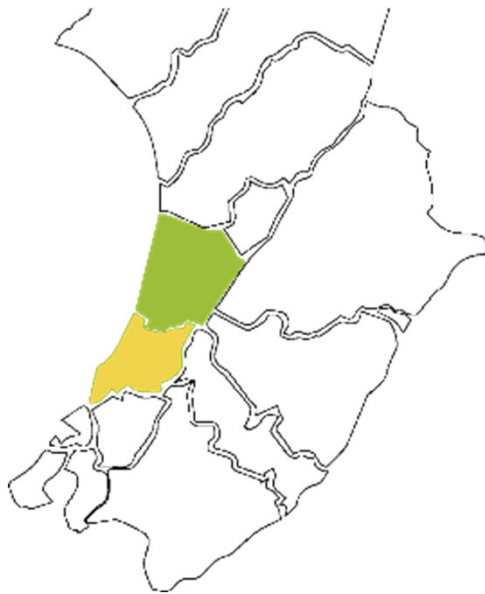
Key features	
Ownership	- Limited liability company owned by two or more councils - Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation
Governance	- Councils agree how to appoint and remove directors, for example through a shareholder council or similar - Board comprised of independent and professional directors
Strategy	- Shareholding councils agree the process for issuing a combined Statement of Expectations - Water organisation prepares Water Services Strategy and consults shareholding councils
Accountability	- Water organisation reports regularly to shareholding councils on performance (for example quarterly) - Water organisation prepares annual report containing audited financial statements, including reporting on actual performance and other matters outlined in the Water Services Strategy. - Water organisation required to act consistently with statutory objectives
Borrowing	Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support

Illustrative example:



Joint WSCCO options

	KCDC / HDC	KCDC, HDC, MDC & PNCC	Regional + HDC
Connections	34,825	71,212	256,307
Pop density	53	46	65



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

Financial sustainability

- A WSDP needs to demonstrate how water services will be financially sustainable by 30 June 2028.
- This requires confirmation of:
 - Investment sufficiency (Water Systems)– 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.

Financial Overview

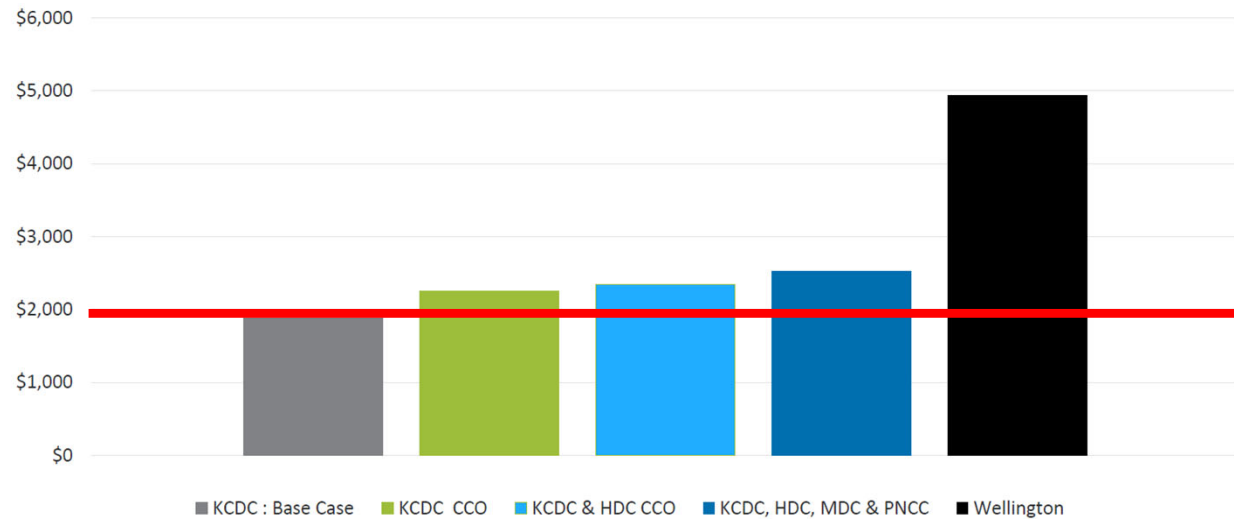
	New Council IBU	Stand alone WSCCO	Joint WSCCO HDC	Joint WSCCO HDC/MDC/PNC C	Wellington Regional WSCCO
Revenue sufficiency*	Council revenue is used to meet Debt / Revenue ratio. Revenue can be increased over time	Requires an early increase in water revenue to achieve Debt / Revenue limits.	Requires an 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

*Economic performance will be regulated by the Commerce Commission

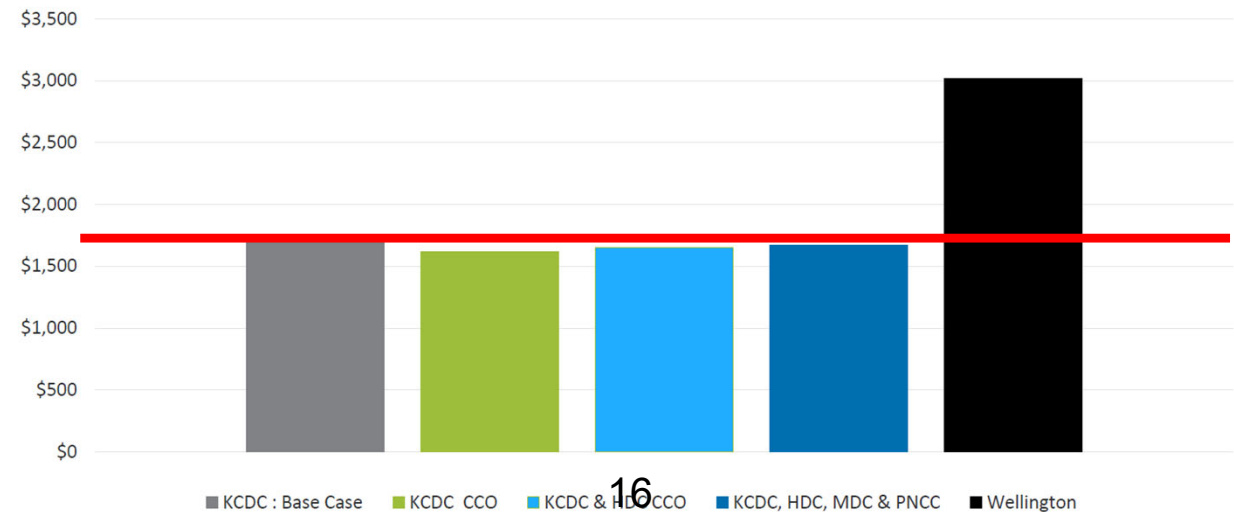
** Potentially for 350% Debt / Revenue ratio for high-growth councils

Cost to customer

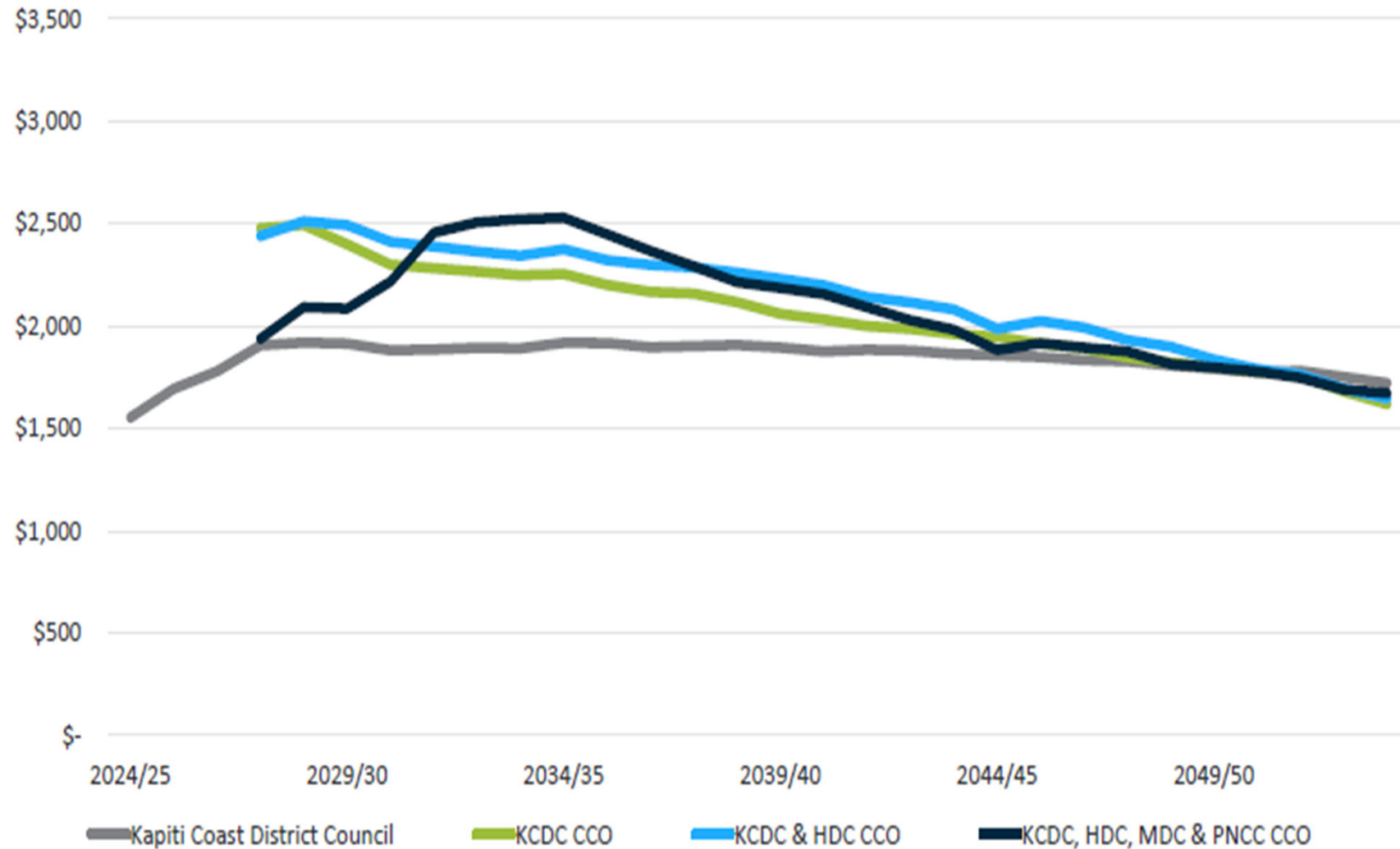
Future household cost 2034



Future household cost 2054



Cost to customer over time



Next steps

- 28 November decision to continue or exit the regional project.
- From December begin the development of consultation documents including Council briefings through to March 2025
- Communications planning
- Consulting on the draft delivery model around April 2025
 - Option to use the streamlined consultation process in the Water Services Preliminary Arrangements Act.
 - Option to run within the Annual Plan process through April.
 - The inclusion of a referendum increases costs, extends the timeline closer to elections, and likely exceeds the September 2025 WSDP submission deadline.
- The Water Services Delivery Plan and Implementation Plan must be lodged with DIA by 3 September 2025

Discussion and questions