

Ashburton District Council

AGENDA

Notice of Meeting:

A meeting of the Ashburton District Council will be held on:

Date: Wednesday 19 March 2025

Time: 1pm

Venue: Hine Paaka Council Chamber
Te Whare Whakatere, 2 Baring Square East, Ashburton

Membership

Mayor	Neil Brown
Deputy Mayor	Liz McMillan
Members	Leen Braam
	Carolyn Cameron
	Russell Ellis
	Phill Hooper
	Lynette Lovett
	Rob Mackle
	Tony Todd
	Richard Wilson

8. Local Water Done Well: Service Delivery Models for Consultation

Author *Mark Low: Strategy & Policy Manager*
Toni Durham: GM Democracy & Engagement

Executive Team Member *Hamish Riach: Chief Executive*

Summary

- The purpose of this report is to support the Council in progressing Ashburton District's compliance with the Local Water Done Well (LWDW) framework.
- Specifically, this report outlines the steps required to determine a proposed delivery model for water services as part of developing and adopting its Water Services Delivery Plan (WSDP).
- The report provides:
 - A summary of the legislative context, including the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 (Preliminary Arrangements Act) and the Local Government (Water Services) Bill (Water Services Bill).
 - An evaluation of two water service delivery models: Stand-Alone Business Unit (SABU) within Council and a Water Services Council-Controlled Organisation (WSCCO).
- This report is structured to summarise key findings and recommendations. The basis for these conclusions is provided in the attached *ADC LWDW Business Case*, which contains detailed financial modelling, evaluation and methodology. The Indicative Business Case (Appendix 1) should be read in conjunction with this report.

Recommendation

- 1. That** Council receives the information in the Local Water Done Well: Service Delivery Models for Consultation Report.
- 2. That** Council confirms water services for Ashburton Districts Local Water Done Well to be three waters, specifically the drinking water, wastewater and stormwater activities.

- 3. That** Council consults the community on the following two delivery models in the public consultation process:
 - a. Stand-Alone Business Unit
 - b. Water Services Council-Controlled Organisation (WSCCO) Model
- 4. That** Council selects the Stand-Alone Business Unit within Council as its proposal for public consultation.

Attachment

Appendix 1 Section 61-64 Preliminary Arrangements Act

Appendix 2 Morrison Low Financial Modelling

[Supplemental documents]

Appendix 3 Ashburton District Council Local Water Done Well Business Case

Appendix 4 ADC Local Water Done Well Proposal Consultation Document

Background

The current situation

1. The LWDW reforms require Council to develop a Water Services Delivery Plan (WSDP). This must detail the current state of water infrastructure, identify future investment needs, and outline the financial and operational strategies required to comply with current and anticipated regulatory standards set out under the LWDW reforms.
2. The WSDP must also include detail on Council's proposed or anticipated model for delivering water services. This is a statutory requirement under the Preliminary Arrangements Act, with Council required to submit its WSDP to the Department of Internal Affairs (DIA) by September 2025.
3. The Water Services Bill also establishes specific criteria and financial oversight mechanisms that delivery models must comply with, including information disclosure and economic regulation under the Commerce Commission and water quality regulation under Taumata Arowai.
4. To prepare a WSDP, Council first needs to undertake a consultation process as part of making a decision on the anticipated or proposed model or arrangement for delivering water services that will be included in its WSDP.

Overview of the Local Water Done Well Reform

5. New Zealand's water services have been the focus of significant reform since the Government's Three Waters Review in 2017, which was prompted by the 2016 Havelock North contamination incident. This review highlighted critical issues in water safety, management, and infrastructure. Initially addressed through the previous Government's Three Waters Reform Programme, the approach was revised in 2023 with the introduction of the Local Water Done Well (LWDW) framework.
6. LWDW replaces the Three Waters Reform Programme and aims to ensure safe, reliable, and financially sustainable water services nationwide, while retaining local asset ownership and decision-making.
7. LWDW responds to several systemic issues identified in water service delivery across the country, including aging infrastructure, underinvestment, inconsistent service levels, and gaps in regulatory oversight. The framework establishes a pathway for councils to assess and adopt delivery models that meet stricter quality, financial, and environmental standards.

Key Objectives of LWDW

Fit-for-Purpose Service Delivery Models

8. Councils are required to select delivery models that ensure sustainable and efficient management of water services.
9. These models must be tailored to meet the specific needs of local communities, considering factors such as population growth, environmental challenges, and existing infrastructure conditions.

Financial Sustainability

10. LWDW prioritises the financial sustainability and economic viability of water services, requiring councils to ringfence water finances and implement robust revenue, investment, and cost-recovery mechanisms.
11. Clear financial management standards are mandated to ensure long-term infrastructure maintenance and upgrades.

Enhanced Oversight and Regulation

12. The framework strengthens the role of central regulators, including Taumata Arowai (water quality) and brings in the Commerce Commission (responsible for the new economic regulation).
13. Councils must comply with stringent water quality, environmental, and pricing standards to protect public health and environmental integrity.
14. The framework also includes financial ringfencing, ensuring water service funds are transparently managed and not used for other council activities.

Why is LWDW being implemented?

15. LWDW is designed to address regional inconsistencies in water service quality and systemic weaknesses across New Zealand, including:
 - **Aging Infrastructure:** Decades of underinvestment have left some councils with deteriorating water assets in need of urgent upgrades.
 - **Health Risks:** Events like the Havelock North water contamination highlighted the risks posed by poorly managed drinking water systems.
 - **Environmental Concerns:** Inadequate wastewater and stormwater management have led to significant environmental degradation, including polluted waterways and ecosystems.
 - **Inconsistent Service Levels:** Smaller councils often lack the resources to deliver safe and reliable water services, leading to inequities across regions.

16. LWDW aims to ensure that water services are sustainable, equitable, and aligned with modern regulatory and environmental expectations, while maintaining councils' ability to make decisions tailored to their local communities.

What are our water services?

17. Water services delivery involves managing three essential areas: water supply, wastewater, and stormwater. Council is responsible for planning, funding, building and maintaining the infrastructure and processes that supports providing these services. This includes ensuring they meet community needs, comply with environmental and quality standards, and address challenges such as population growth and climate change.
18. For the purpose of Local Water Done Well, Council has prepared this work on the basis that all three waters will be included in the assessment and evaluation of delivery models. The rationale for this being that there will be significant challenges in uncoupling drinking water and wastewater from stormwater. Currently there are strong synergies between all three waters, particularly with regard to asset management, resource consents and the regulatory framework.

Water supply

19. We operate 11 community drinking water supplies across our district, which service more than 10,800 homes and businesses.
20. We have over 520 kilometres of reticulated drinking water infrastructure that services Ashburton (including Tinwald, Lake Hood and Fairton), Methven (including Methven-Springfield), Rakaia, Hinds, Mt Somers, Mayfield, Chertsey, Hakatere, Dromore, and Montalto.
21. Water sources for our drinking water include groundwater bores, infiltration galleries, and surface water intakes. Environment Canterbury (as the Regional Council) allocates water to us via resource consents, which set upper limits on the volume of water that can be taken from the various water sources. The Water Services Authority - Taumata Arowai sets drinking water standards, quality assurance rules and environmental performance measures that we are required to follow, to meet our duties as a water supplier under the Water Services Act 2021.

Wastewater

22. We manage wastewater collection, treatment and disposal services for our communities across the district. We have three community-based wastewater schemes that service approximately 64% of our population.
23. The majority of the reticulated network operates on gravity, with 18 pump stations used to service defined subdivisions. The largest pump stations serve Lake Hood and the Ashburton Business Estate.

24. Wastewater is collected and then transferred to wastewater treatment plants. Ashburton and Methven use aeration and oxidation ponds for treatment, while Rakaia uses clarifiers, a trickling filter and UV disinfection. In all cases, treated wastewater is discharged to land.
25. The Wilkins Road treatment plant also accepts septage waste from private septic tanks, transported by private liquid waste carriers, enabling safe treatment and handling of residual waste from customers not connected to the reticulated networks. There are also caravan waste dump stations on each network to handle this waste stream.

Stormwater

26. We provide urban stormwater collection and disposal networks in Ashburton, Methven and Rakaia. Lake Hood and Hinds have small systems of swales and open drains. These networks and systems aim to ensure property and the environment are protected from flooding, and that roads and footpaths continue to be accessible during rain events.
27. In Ashburton, stormwater from residential, commercial and industrial properties is collected via gravity pipelines and open drains before being discharged to soakage pits and watercourses. Some stormwater is held in detention and infiltration basins. There is also a retention pond adjacent to Mill Creek for flood control.
28. Ashburton has the only system where stormwater discharges to the kerb and channel from private dwellings. From the kerb and channel the stormwater enters the system. New houses typically dispose of stormwater to ground on site via soakpits.
29. Methven and Rakaia have limited piped stormwater networks, with most Methven stormwater being disposed, via kerb and channel, to the main stockwater race or to the 'Garden of Harmony', which functions as a stormwater detention and soakage area, and Rakaia stormwater being discharged to soakpits or to the Rakaia River. System capacity is adequate with no significant flooding issues, although there is some nuisance flooding.

Previous Council decisions

30. In October 2024, Council decided to focus Local Water Done Well analysis on three options, as follows:
 - Stand-alone Business Unit of Council (SABU)
 - Single Council CCO
 - Single Council CCO governed and managed by shared arrangement with EA Networks
31. At the 5 March 2025 Council meeting, Council removed the Single Council CCO governed and managed by shared arrangements with EA Networks from further analysis and consideration. This decision was driven by Council deciding to focus on retaining as much control and oversight of the future water service delivery model as possible.

Water Service Delivery Model Options

32. Two models have been evaluated in detail:

Stand-Alone Business Unit (SABU) Delivery Model

33. The SABU Model keeps water services governance and management directly with the Council. The Council oversees all aspects of water supply, wastewater, and stormwater services, ensuring alignment and coordinated service delivery with other Council functions like parks, transport, and urban planning.

34. The key characteristics of this model are:

SABU Key Characteristics	
Ownership	<ul style="list-style-type: none"> • 100% council owned, as it is a stand-alone business unit within Council. • No new organisation is created.
Governance	<ul style="list-style-type: none"> • Internal business unit or division responsible to the elected councillors, with other usual council governance oversight or additional oversight to meet LWDW requirements
Strategic Oversight	<ul style="list-style-type: none"> • Council retains strategic oversight of water services • Councils will need to prepare and adopt a Water Services Strategy
Accountability	<ul style="list-style-type: none"> • Water business unit reports to Council as per established processes • Water services delivery will be accountable to the public through usual local democracy practices • Council will need to prepare a Water Services Annual Report (separate to current Annual Report) – including new financial statements on water supply, wastewater and stormwater – will be completed to enhance current requirements
Funding & Financing	<ul style="list-style-type: none"> • Borrowing undertaken by Council with water activity group meeting its share of financing costs (on internal and any external borrowing) • Funding from existing revenue streams (e.g. water rates) ring-fenced for transparency
Operations	<ul style="list-style-type: none"> • Operational control remains with Council • Council determines how services charged for with flexibility to use general rates, targeted rates or volumetric charging, ring-fenced for transparency • Compliance responsibility remains entirely with Council for Taumata Arowai, Regional Council and Commerce Commission current and anticipated requirements.

Single Council Water Services Council Controlled Organisation (WSCCO) Model

35. A WSCCO is an independent entity established to govern and manage water services, with the Council retaining ownership of the entity and strategic oversight. This model focuses exclusively on water services and operates under its own governance and financial framework.

36. The key characteristics of this model are:

WSSCO Key Features	
Ownership	<ul style="list-style-type: none"> • New limited liability company, 100% owned by the council • Ownership rights are outlined in the company constitution, subject to compliance with legislation
Governance	<ul style="list-style-type: none"> • Appointments could be made directly by Council or via an Appointments Committee (or similar body). Flexibility to design governance (e.g. involvement of community, iwi etc.) and appointment arrangements Board of Directors are comprised of independent, professional directors, with directors required to have “an appropriate mix of skills, knowledge, and experience in relation to providing water services”. Board cannot contain Council Elected Members or staff.
Strategic Oversight	<ul style="list-style-type: none"> • Council must issue statement of expectations to WSSCO • WSSCO prepares water services strategy and consults the Council.
Accountability	<ul style="list-style-type: none"> • Board is accountable to council shareholders and reports regularly on performance e.g. quarterly (shareholders are accountable to community) • WSSCO required to give effect to statement of expectations in its water services strategy and meet statutory requirements • WSSCO prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy.
Funding & Financing	<ul style="list-style-type: none"> • If it is the asset owner, WSSCO has the ability to borrow directly from council or from LGFA up to approximately 500% of revenue (but likely supported by council, e.g. by Council guarantee). Increased borrowing capacity through LGFA compared to the SABU option. • WSSCO determines the charges required annually. Charges must move from rates to fixed fees or volumetric pricing within 5 years.
Operations	<ul style="list-style-type: none"> • Operational control sits with WSSCO • Asset ownership could remain under Council ownership or transfer to WSSCO • WSSCO determines how services charged for • Compliance responsibility remains entirely with WSSCO for Taumata Arowai, Regional Council and Commerce Commission current and anticipated requirements.

Water Service Delivery Model Options Analysis

37. An evaluation of the two delivery models is detailed in the attached Business Case (appendix 1). This document outlines the methodology, criteria, and analysis used to assess how each model aligns with Ashburton District’s strategic priorities, regulatory requirements, and financial sustainability.

38. Financial modelling has been undertaken by Morrison Low and is attached in Appendix 2. This found that each option is financially viable and will achieve financial sustainability, as required under the LWDW reforms.

Options analysis

39. Council must select a delivery model to present as its proposal during the public consultation process.
40. Identifying a delivery model as its proposal for consultation is a requirement of Preliminary Arrangements Act. It also provides clarity to the community on the Council's preferred position.

Option one – Council approves the Stand-Alone Business Unit within Council as the proposal for consultation (recommended option).

41. Under this model, the Council retains full governance and operational responsibility for water supply, wastewater, and stormwater services.

<p>Advantages:</p> <ul style="list-style-type: none"> • Council elected members remain directly accountable for the governance of water services. • Builds on existing systems and processes, avoiding disruptions associated with transitioning to a new governance structure. • Avoids establishment and transition costs associated with creating new governance and operational structures under a CCO model. • Retains Council authority over funding mechanisms, such as general rate, targeted rates, or volumetric pricing. 	<p>Disadvantages:</p> <ul style="list-style-type: none"> • New rules and expectations, and more stringent and detailed regulation, may mean that elected members' ability to influence and guide the activity is diminished, leaving a risk of elected members being held accountable for aspects of the service that they can't influence / change. • The Bill introduces a new legislative framework for operating which will require upskilling of staff to ensure compliance with new legislation and additional staffing resource which may be difficult to recruit for in a provincial town (particularly in the pricing & regulation, financial/business analyst and general finance areas).
<p>Risks:</p> <p>Operational Risk – While this option will have the least impact on Council operations, it will still require a significant change to operations and governance that will need adaptation.</p>	

Option two – Council approves the Single Council Water Services Council Controlled Organisation (WSCCO) Model as the proposal for consultation

42. This model involves establishing an independent legal entity to manage water services, with the Ashburton District Council as its sole shareholder and Council having strategic oversight. The CCO operates autonomously, focusing exclusively on water service delivery.

<p>Advantages:</p> <ul style="list-style-type: none"> • The CCO has an increased borrowing capacity, increasing the potential capacity to fund large-scale infrastructure investments. • Independent governance allows for focused attention on water service delivery, potentially improving efficiency. • Well-suited to scale and accommodating future growth 	<p>Disadvantages:</p> <ul style="list-style-type: none"> • Establishing a new governance structure and transitioning operations to the CCO involves substantial costs, including IT, legal, administrative, and staffing expenses. • Transferring operational control to an independent entity reduces the Council’s direct oversight of water services, potentially reducing consideration of local priorities and community expectations. • Strategic decisions made by the CCO may not fully reflect Ashburton District’s broader priorities
<p>Risks:</p> <p>Operational Risk – Council will need to adapt its approach from being operationally-focused to governance-focused to ensure that the directors, who are accountable to Council, ensure the accountability of the WSCCO.</p>	

Legal/policy implications

Legislation

43. The Government is implementing the LWDW framework in three legislative stages, each outlining specific requirements and providing councils with the tools to transition to the new water services environment.

Water Services Acts Repeal Act 2024

44. Enacted in February 2024, this Act repealed previous water services legislation, including the *Water Services Entities Act 2022*. It restored council ownership and responsibility for water services delivery, allowing councils to continue managing water services locally.

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

45. Enacted in September 2024, this Act provides the establishment framework for LWDW. It requires councils to develop and submit a Water Services Delivery Plan (WSDP) to the Department of Internal Affairs (DIA) by September 2025 (unless an exemption is granted). The WSDP must set out the Council’s proposed service delivery model, and include baseline infrastructure and financial data, and strategies for meeting financial, operational, and regulatory obligations.

Local Government (Water Services) Bill (Water Services Bill)

46. Introduced in December 2024, this Bill sets enduring legislative framework for water services delivery. It sets out the options available for service delivery models, establishes a new economic regulation and consumer protection regime regulated by the Commerce Commission, and implements changes to water quality regulations, including enhanced standards for wastewater and stormwater.
47. The Water Services Bill is currently at Select Committee stage. The Finance and Expenditure Select Committee report is due by 17 June 2025, with the Government intending to enact the Bill into law in mid-2025.

Water Services Delivery Plan

48. The WSDP is a core requirement of the LWDW reforms. Mandated under the Preliminary Arrangements Act, the WSDP ensures that water service providers can meet enhanced regulatory standards while demonstrating financial sustainability in the delivery of water services.
49. The Council is actively developing its WSDP. This plan will detail the current state of Ashburton's water infrastructure, identify future investment needs, and outline the financial and operational strategies required to comply with current and anticipated regulatory standards set out under the LWDW reforms. The WSDP must be finalised and submitted to the DIA by September 2025.
50. Central to the WSDP is the selection of the anticipated or proposed service delivery model for water services. This model will shape how the Council meets its obligations under the LWDW framework, ensuring water services are efficient, financially sustainable and meets regulatory requirements.

Selection of a Water Services Delivery Model

51. The Water Services Bill establishes a framework requiring councils to select a compliant delivery model to ensure water services are provided effectively, sustainably, and complies with legislative requirements. While the Bill offers flexibility in choosing the most appropriate model, councils are limited to selecting from a defined set of delivery options outlined in the Bill.
52. Councils must choose one of the below models:
 - Deliver services directly.
 - Transfer responsibility to a water organisation (Water Services Council-Controlled Organisation) through a transfer agreement.
 - Contract with third parties for service delivery on behalf of the Council (the Council retaining governance and pricing control).
 - Enter into joint arrangements with other councils.

- Become shareholders in water organisations established by other councils.
 - Explore other compliant arrangements.
53. If a water organisation is used, it must (or subject to certain exemptions):
- Be a company under the *Companies Act 1993*.
 - Be owned by councils, consumer trusts, or a combination of both.
 - Operate exclusively in water services or related activities.
 - Have independent, competency-based boards, excluding elected members or council employees.

Evaluation Requirements for Selecting a Service Delivery Model

54. In determining which of these models to adopt, Council must comply with the requirements of the Preliminary Arrangements Act. This includes undertaking a comparative assessment of the proposed delivery model alongside any alternative options to be included in the consultation process.
55. The assessment must include:
- A clear explanation and reasoning for selecting the proposed model as its proposal and presenting alternative options.
 - An evaluation of the advantages, disadvantages, and trade-offs associated with each model identified.
 - A detailed assessment of how proceeding with each model would likely affect key factors, including:
 - rates;
 - Council debt;
 - service levels; and
 - any charges for water services.
 - For any proposal involving the transfer of control of strategic assets, a description of the mechanisms that will ensure effective monitoring or accountability to assess performance regarding the asset.
56. This comparative assessment is provided in the Business Case in Appendix 1.

Consultation Requirements

57. Council is required to undertake a consultation process as part of making a decision on the anticipated or proposed model or arrangement for delivering water services that will be included in its WSDP. This process ensures that the community has an opportunity to provide feedback on the proposed model and any alternative options under consideration.

58. Council can choose to follow the standard consultation principles and requirements under the *Local Government Act 2002* (LGA). Alternatively, the Preliminary Arrangements Act provides a tailored consultation process, designed to streamline procedural requirements and focus consultation on the statutory requirements of the Act.
59. Officers have prepared this report, and process to date, on the basis of the Preliminary Arrangements Act consultation process. This means that Council:
- **Must Evaluate at Least Two Models:** As required by the Preliminary Arrangements Act, the Council must assess and present a minimum of two delivery models for consultation. These must include:
 - The current approach to delivering water services (In-House Model), and
 - Either a Water Services Council-Controlled Organisation (WSSCO) Model or a joint local government arrangement.
 - **Can Consider Additional Models:** Council may include other delivery models in the consultation if these align with the options outlined in the Water Services Bill and support Ashburton's unique priorities or conditions.
 - **Must Identify a Proposal:** Council must clearly specify its preferred water services delivery model as the "proposal" for consultation.

Climate change

60. The decisions of this report will have a minor impact on climate change, however the water services activities are all impacted by changing weather patterns.

Review of legal / policy implications

Reviewed by In-house Counsel

Tania Paddock; Legal Counsel

Strategic alignment

61. The recommendation relates to Council's community outcomes of 'A prosperous economy built on innovation, opportunity and high quality infrastructure' and 'A balanced and sustainable environment'.

Wellbeing		Reasons why the recommended outcome has an effect on this wellbeing
Economic	✓	The future delivery of water services will impact on all wellbeing's for our community.
Environmental	✓	
Cultural	✓	
Social	✓	

Financial implications

Requirement	Explanation
What is the cost?	Preparing the material presented and undertaking consultation has largely been met from within existing staff resource, with \$30,000 spent on financial modelling and preparation.
Is there budget available in LTP / AP?	Yes
Where is the funding coming from?	Strategy & Policy, Treasury and Communications cost centres
Are there any future budget implications?	Yes – both options presented will have implementation costs. These have been included in the financial modelling but not in future budgets. These will need to be included ahead of implementing either option.
Reviewed by Finance	Helen Barnes: GM Business Support

Significance and engagement assessment

Requirement	Explanation
Is the matter considered significant?	Yes
Level of significance	Medium
Rationale for selecting level of significance	N/A
Level of engagement selected	3. Consult
Rationale for selecting level of engagement	Council is required to undertake a consultation process as part of making a decision on the anticipated or proposed model or arrangement for delivering water services that will be included in its WSDP. Council can choose to follow the standard consultation principles and requirements under the <i>Local Government Act 2002</i> (LGA). Alternatively, the Preliminary Arrangements Act provides a tailored consultation process, designed to streamline procedural requirements and focus consultation on the statutory requirements of the Act. Officers propose that the consultation is undertaken in accordance with the Preliminary Arrangements Act.
Reviewed by Strategy & Policy	Mark Low; Strategy and Policy Manager

Next steps

Date	Action / milestone
27 March – 27 April	LWDW Consultation period
15-16 May	LWDW Submitter Hearings
21 May	Council deliberations & decision on delivery model

Appendix One: Section 60-64 Water Services Preliminary Arrangements Act

Alternative requirements

60 Alternatives to requirements in Local Government Act 2002

- (1) When a territorial authority complies with an alternative requirement specified in [sections 61 to 64](#), it need not comply with the corresponding requirement in the LGA2002.
- (2) However, except as specified in this Part, all other relevant requirements in the LGA2002 continue to apply. For example, the requirements in [sections 77\(1\)\(c\)](#), [81](#), and [82](#) of the LGA2002 continue to apply.
- (3) In the circumstances described in [section 58\(a\)\(i\)](#), a territorial authority may decide to rely on none, any, or all of the alternative requirements set out in [sections 61 to 64](#).
- (4) A territorial authority that does not rely on an alternative requirement must comply with the corresponding requirement in the LGA2002.
- (5) [Section 76](#) of the LGA2002 does not apply to the extent that a territorial authority complies with an alternative requirement.

61 Alternative requirement: decision making

- (1) This section applies if a territorial authority—
 - (a) is deciding whether or not to establish, join, or amend—
 - (i) a water services council-controlled organisation; or
 - (ii) a joint local government arrangement under [section 137](#) of the LGA2002; or
 - (b) before adopting its water services delivery plan, is making decisions in relation to an anticipated or proposed model or arrangement for delivering water services in its water services delivery plan (*see* [section 13\(1\)\(k\)](#)).
- (2) In the course of that decision-making process, the territorial authority—
 - (a) must identify both of the following 2 options for delivering water services:
 - (i) remaining with the existing approach for delivering water services; and
 - (ii) establishing, joining, or amending (as the case may be) the WSCCO or the joint local government arrangement; but
 - (b) may identify additional options for delivering water services; and
 - (c) must assess the advantages and disadvantages of all options identified.
- (3) For the purpose of [section 60\(1\)](#), the corresponding requirement for this section is in [section 77\(1\)\(a\) and \(b\)](#) of the LGA2002.

62 Alternative requirement: consultation

- (1) This section applies if a territorial authority—
 - (a) is deciding whether or not to establish, join, or amend—
 - (i) a water services council-controlled organisation; or
 - (ii) a joint local government arrangement under [section 137](#) of the LGA2002; or
 - (b) when adopting its water services delivery plan, is making decisions in relation to an anticipated or proposed model or arrangement for delivering water services in its water services delivery plan (*see* [section 13\(1\)\(k\)](#)); or
 - (c) decides to consult on a part of its water services delivery plan, other than a model or arrangement described in paragraph (b).
- (2) Before a territorial authority makes a decision described in subsection (1), it is required to undertake consultation only once.

- (3) A territorial authority that makes a decision described in subsection (1)(a) is not required to undertake any further consultation before making a decision described in subsection (1)(b).
- (4) Despite subsections (2) and (3), a territorial authority may decide to undertake further consultation before making the decision.
- (5) When deciding whether to undertake further consultation, a territorial authority must have regard to—
- (a) the requirement in [section 78\(1\)](#) of the LGA2002; and
 - (b) the extent to which the authority already knows the views and preferences of persons likely to be affected by, or to have an interest in, the decision; and
 - (c) the nature and significance of the decision, including its likely impact from the perspective of the persons who will or may be affected by, or have an interest in, the decision.
- (6) This section applies despite anything to the contrary in the authority’s significance and engagement policy adopted under [section 76AA](#) of the LGA2002.
- (7) A territorial authority that defers adopting its 2024–2034 long-term plan under [clause 48](#) of Schedule 1AA of the LGA2002 may, to satisfy the requirement to consult on the decision under this section, combine—
- (a) the consultation under this section; and
 - (b) the authority’s consultation on its 2025–2034 long-term plan.
- (8) For the purpose of [section 60\(1\)](#), the corresponding requirement for this section is in [section 56\(1\)](#) of the LGA2002.

63 Alternative requirement: consultation on amendment to long-term plan

- (1) This section applies if a territorial authority is required to amend its long-term plan for the purpose of—
- (a) a proposal to give effect to an anticipated or proposed model for delivering water services under a water services delivery plan (*see* [section 13\(1\)\(k\)](#)); or
 - (b) a proposal to establish, join, or amend a WSCCO or a joint local government arrangement under [section 137](#) of the LGA2002.
- (2) The territorial authority is not required to consult on the proposal if the authority—
- (a) has already consulted its community in relation to the proposal; and
 - (b) is satisfied that its community has a good understanding of the implications of the proposal; and
 - (c) is satisfied that it understands its community’s views on the proposal.
- (3) This section applies despite anything to the contrary in the authority’s significance and engagement policy adopted under [section 76AA](#) of the LGA2002.
- (4) For the purpose of [section 60\(1\)](#), the corresponding requirements for this section are in [sections 93\(5\)](#) and [97\(2\)\(b\)](#) of the LGA2002.

64 Alternative requirement: information requirements for consultation

- (1) This section applies when a territorial authority consults—
- (a) in relation to whether or not to establish, join, or amend—
 - (i) a water services council-controlled organisation; or
 - (ii) a joint local government arrangement under [section 137](#) of the LGA2002; or
 - (b) before adopting its water services delivery plan, in relation to an anticipated or proposed model or arrangement for delivering water services in its water services delivery plan (*see* [section 13\(1\)\(k\)](#)); or
 - (c) on a part of its water services delivery plan, other than a model or arrangement described in paragraph (b).
- (2) When a territorial authority consults in the circumstances described in subsection (1), the authority must make the following information publicly available:

- (a) the proposal, an explanation of the proposal, and the reasons for the proposal;
 - (b) an analysis of the reasonably practicable options (including the proposal), which must,—
 - (i) if the authority relies on the alternative requirement in [section 61\(2\)](#), be the options identified under [section 61\(2\)\(a\) and \(b\)](#); or
 - (ii) in all other cases, be the options identified under [section 77\(1\)](#) of the LGA2002;
 - (c) how proceeding with the proposal is likely to affect—
 - (i) the authority's rates, debt, and levels of service; and
 - (ii) any charges for water services;
 - (d) how not proceeding with the proposal is likely to affect—
 - (i) the authority's rates, debt, and levels of service; and
 - (ii) any charges for water services;
 - (e) if the proposal involves establishing, joining, or amending a joint WSCCO or a joint local government arrangement, the implications for communities throughout the joint service area of the joint WSCCO or the joint local government arrangement;
 - (f) if the proposal involves transferring ownership or control of a strategic asset to the WSCCO or the joint local government arrangement, a description of any accountability or monitoring arrangements the authority will use to assess the performance of the WSCCO or the joint local government arrangement in regard to the asset;
 - (g) any other relevant implications of the proposal that the authority considers will be of interest to the public.
- (3) For the purpose of [section 60\(1\)](#), the corresponding requirement for this section is in [section 82A\(2\)](#) of the LGA2002.
- (4) In this section,—

publicly available means that the territorial authority must take reasonable steps to—

- (a) ensure that the information or a copy of it is accessible to the general public in a manner appropriate to the purpose of the information, including, where practicable, on the territorial authority's internet site; and
- (b) publicise, in a manner appropriate to the purpose and significance of the information, both the fact that the information (or a copy of it) is available and the manner in which the information (or the copy) may be accessed

strategic asset has the meaning set out in [section 5\(1\)](#) of the LGA2002.

Ashburton District Council

Local Water Done Well Financial Modelling

March 2025

Executive Summary

This report presents financial modelling for Ashburton District Council's (ADC) three waters functions under two service delivery models:

- Standalone Business Unit (BU)
- Standalone Council-Controlled Organisation (CCO)

The modelling evaluates each model's financial performance under two scenarios: a "Base Case" reflecting ADC's current Long-Term Plan (LTP) and a "plus 25% Capex" scenario incorporating higher capital investment requirements.

Key Findings

Item	Description
Household charges	The standalone business unit consistently provides the lowest household charges over 10, 20, and 30 years. In contrast, the CCO requires slightly higher upfront charges due to borrowing constraints during establishment.
Debt management	The standalone business unit benefits from greater access to debt, as Council's low debt profile for non-water activities offsets higher water-related debt requirements. The CCO, however, faces debt constraints due to the isolation of waters debt, requiring revenue increases to stay within debt limits.
Broader considerations	Modelling results generally indicate that the standalone business unit is the most resilient and cost-effective option for households. However, the choice of a preferred service delivery model should also consider the broader implications, including risk profiles and non-financial factors. Particular factors to consider include: <ul style="list-style-type: none"> • The level of risk associated with the provision of three waters services • The extent to which investment in three waters assets will dominate Council decision-making • The ability for Council to respond to increased scrutiny from economic and quality regulation, and the impacts on the wider organisation.

Introduction

This report outlines the initial results of our financial modelling of ADC’s three waters functions under alternative service delivery models and capital investment programmes.

Delivery Models

The delivery models and modelling assumptions applied to each are summarised in the table below.

Service delivery	Description	Modelling assumptions
Standalone Business Unit	An in-house service delivery model encompassing the current structure of three waters teams within ADC’s wider infrastructure group.	<p>Source data provided by ADC forms the foundation of the modelled outcomes, with specific adjustments applied for the following:</p> <ul style="list-style-type: none"> • Progressive depreciation funding to 100% fully funded by FY2028¹. Adjustments are applied to targeted rates. • Debt movements and financing costs aligned to targeted rates movements. • Depreciation calculated based on global rates and alternate capital investment profiles. • Where required, increase revenue to maintain total council net debt-to-revenue below 250%. • Additional cost allowance for increased reporting and monitoring to respond to economic and water quality regulators.
Standalone Council-Controlled Organisation (CCO)	Establishment of a newly formed CCO to deliver water services from 1 July 2027.	<p>Modelling inputs are aligned to the standalone business unit model above, with separate adjustments to allow for:</p> <ul style="list-style-type: none"> • Establishment costs and ongoing additional overheads. • Efficiencies as a result of the service delivery model. • Where required, increase revenue to maintain a funds from operations (FFO) to net debt ratio above 10%².

An alternate scenario is incorporated into the results to illustrate a capital investment program exceeding the ‘Base Case’ LTP inputs. This scenario is labelled as the ‘+25% Capex’ result, offering insights into the performance of alternate models under a higher spending framework.

¹ The 2024 ADC LTP currently allocates funding below the level required for 100% depreciation of water assets. However, to demonstrate best practices in water services management for modelling purposes, it is projected that water services will achieve financial sustainability (100% depreciation funding) by 2028.

² In the case of ADC, funds from operations represent operating profit minus depreciation (a non-cash expense).

Results

Average household charges

The charts below compare average residential household waters charges (GST inclusive) for the two service delivery models. For comparative purposes, all costs are nominal (i.e. they include inflation). Based on modelling performed for other councils nationally, a range of household charges (excluding ADC) have been included on each chart for comparative purposes (labelled as 'Range').

Figure 1 Average annual waters charge per residential household – Base Case

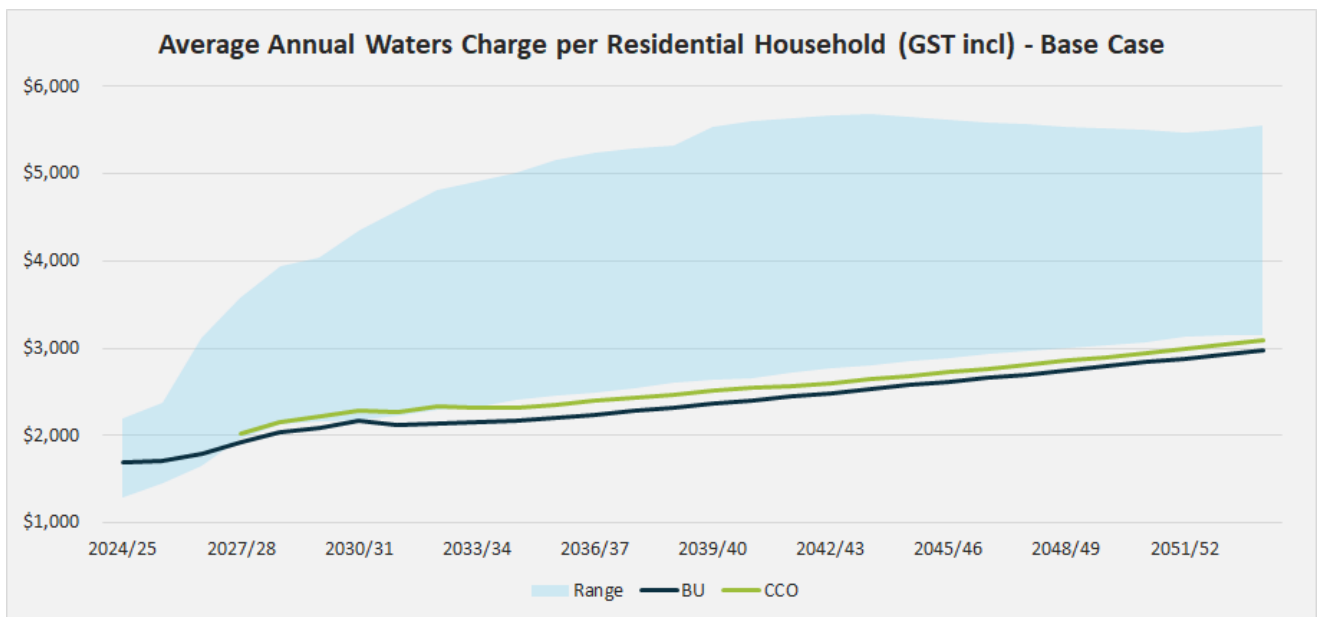
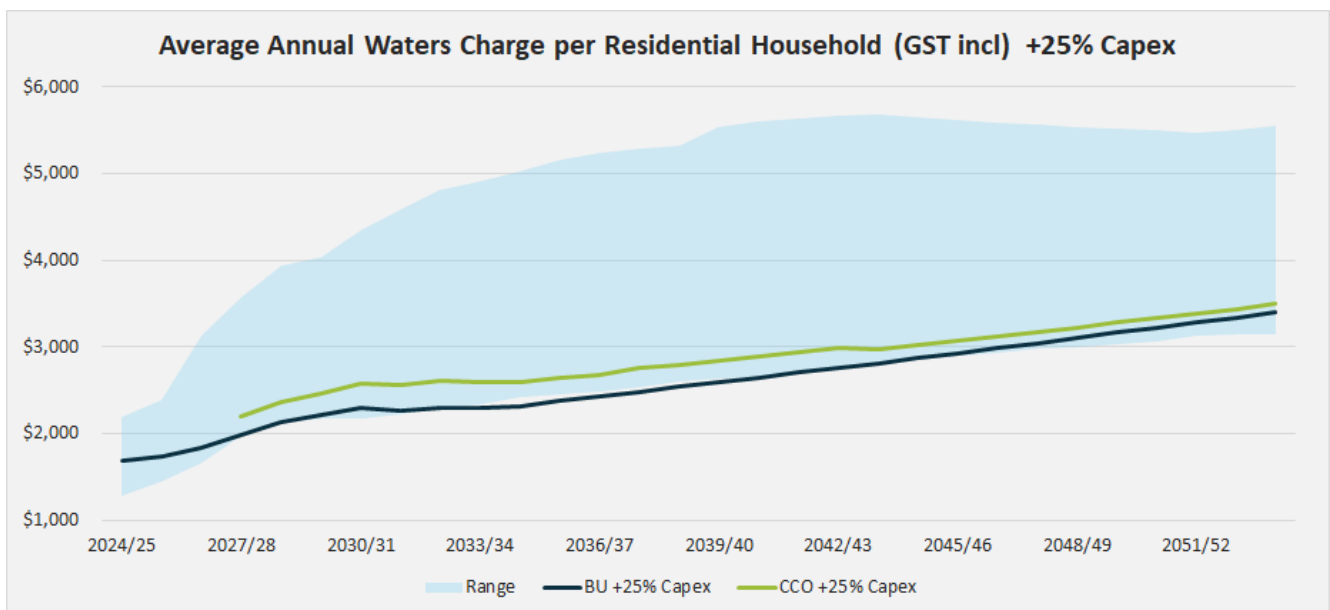


Figure 2 Average annual waters charge per residential household – Plus 25% Capex



Household costs under the CCO model differ slightly from those of the standalone business unit from the outset. This divergence is primarily driven by the CCO's need to increase revenue and household charges to remain within borrowing limits, as detailed in the 'Three Waters Debt' section below. Additionally, the CCO

requires capital investment during setup and incurs higher ongoing operational expenses than the standalone business unit. While the CCO model is projected to deliver some efficiencies over time, these are modest at the size and scale of ADC and are not fully realised until more than a decade into operation.

Long-term averages

Figure 2 shows that over time the CCO option achieves near parity with the standalone business unit. This shortening is not driven by increasing efficiencies but rather by the requirement of front-loading charges during the earlier, debt-constrained years. Consequently, the cost of servicing the debt in later years is reduced (this concept is further discussed in the ‘Three Waters Debt’ section below).

To further illustrate the higher costs overall for the CCO, the following tables present the average household charges over various periods within the model:

Table 1 Average Household Charges - Base Case

Average Household Charge: Base Case	10-Year	20-Year	30-Year
Standalone Business Unit	\$1,984	\$2,166	\$2,368
CCO	\$2,082	\$2,283	\$2,483

Table 2 Average Household Charges - +25% Capex

Average Household Charge: +25% capex	10-Year	20-Year	30-Year
Standalone Business Unit	\$2,076	\$2,322	\$2,593
CCO	\$2,261	\$2,536	\$2,776

Three Waters Debt

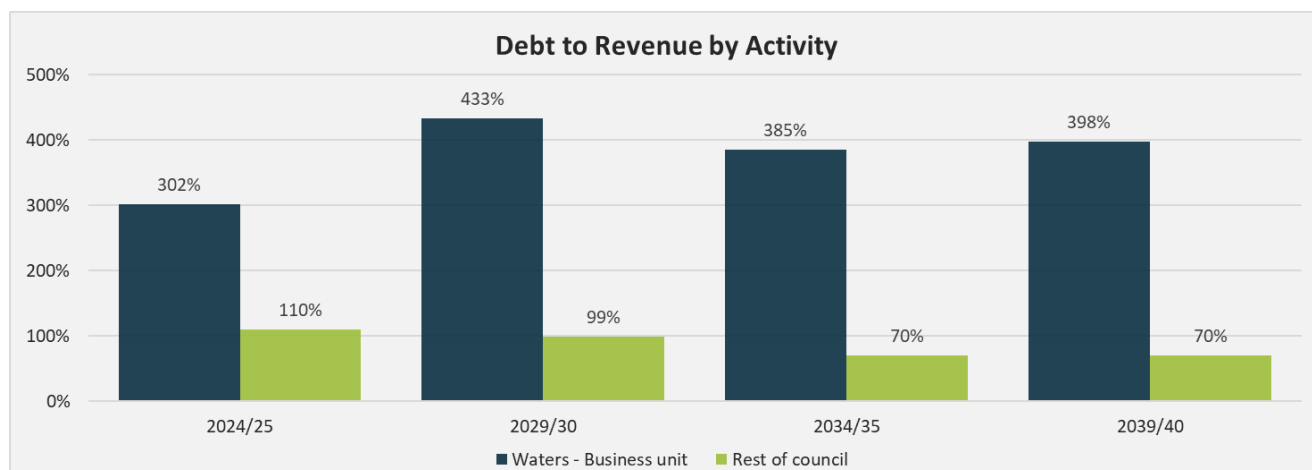
A key difference between the CCO and the standalone business unit models is debt. More specifically, the different borrowing limits that apply and the practical impact those differences have on household charges. This is further explained for each model below and shown in the corresponding charts.

Debt under the standalone business unit model

Under the standalone business unit, debt is managed at the total council level, with a consolidated net debt-to-revenue (DTR) limit set at 250%. No specific debt parameters are set at the individual activity level, meaning that as long as the council-wide DTR limits are not exceeded, individual activities can operate with unrestricted DTR percentages.

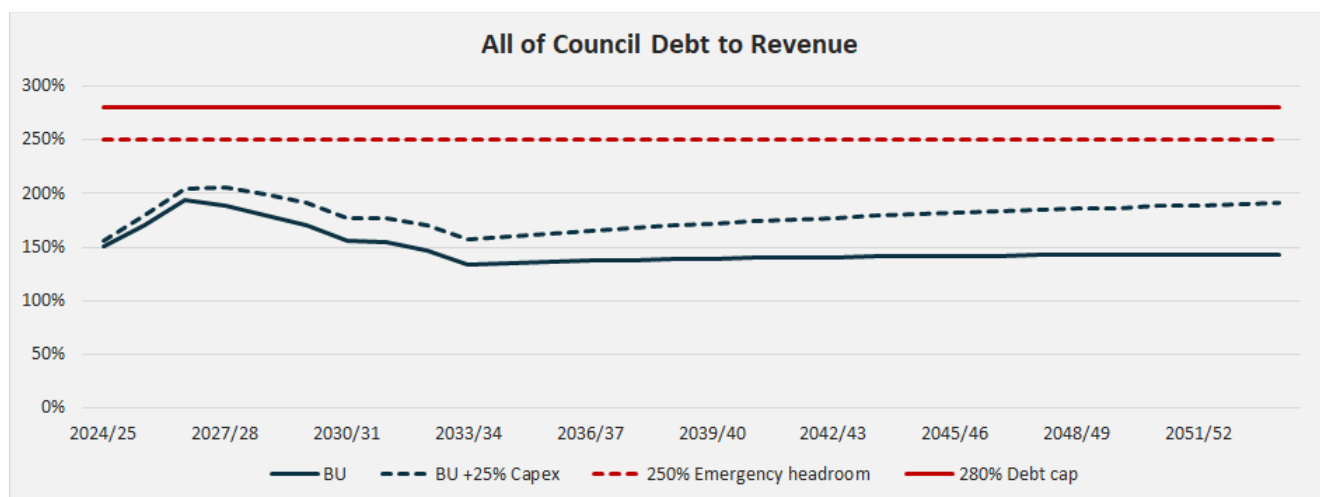
As shown in Figure 3, ADC's DTR for water-related activities is projected to increase significantly, rising from approximately 300% in FY25 to nearly 400% by FY35 and remaining at that level thereafter. In contrast, the DTR for non-water-related activities is expected to steadily decline over the same timeframe, dropping from approximately 110% in FY25 to around 70% by FY35.

Figure 3 Base case standalone business unit debt to revenue by activity



The mix of a high DTR for water-related activities and a low DTR for the rest of the Council’s operations results in a net balance within the 250% threshold overall. This remains true even under the ‘+25% Capex’ investment program, as shown in Figure 4 below.

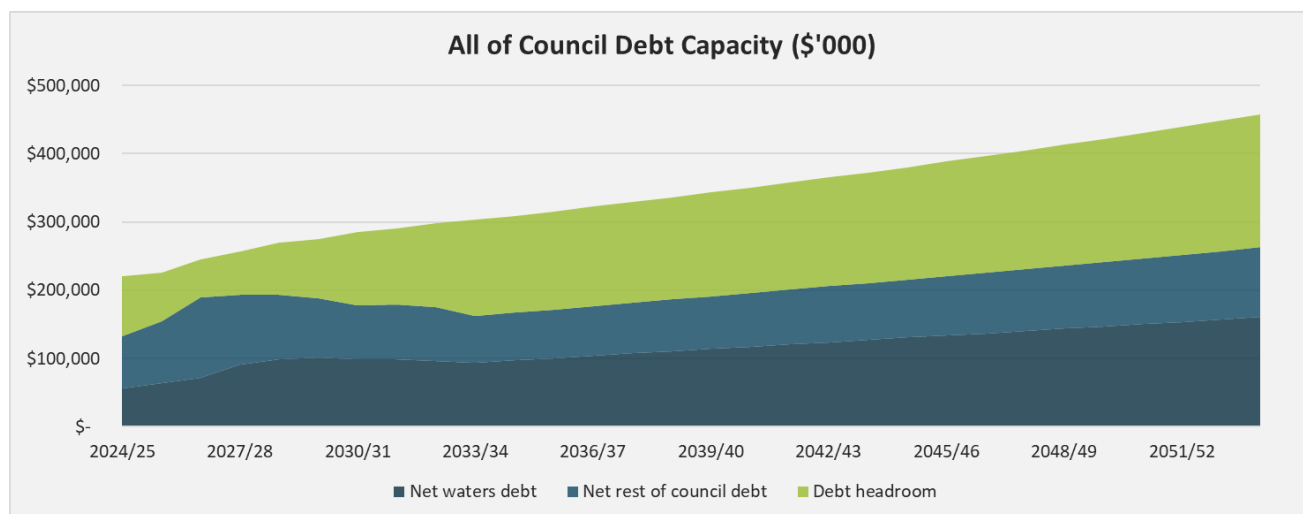
Figure 4 All of Council debt to revenue %



While this balance benefits water-related activities by providing relatively unrestricted access to debt, it can, in many cases, limit a council's ability to borrow for unforeseen needs in other non-water-related areas. Figure 5 below illustrates ADC’s debt headroom under the base case modelling scenario, showing only minor constraints during the first 3–5 years. This suggests that retaining water activities in-house is unlikely to significantly restrict ADC’s ability to manage debt for its other activities.

Sensitivity testing to determine the conditions under which the debt ceiling would be reached identified that the rest of the Council’s debt to revenue would need to remain at the FY26 level of 125%, and capital investment would need to increase by an additional 30% above the current ‘+25% Capex’ scenario for debt limits to be breached.

Figure 5 Base Case standalone business unit debt capacity



Debt under the CCO model

The following key requirements for Water CCO lending were defined per the Local Government Funding Agency (LGFA) December 2024 update.

- **Funds from Operations (FFO) to Debt Covenant:** Water CCOs are expected to maintain an FFO to debt ratio between 8% and 12%.
- **Transition Period for Debt Covenants:** The LGFA recognises that not all Water CCOs will meet debt covenant requirements immediately and allows a transition period of up to five years for compliance.

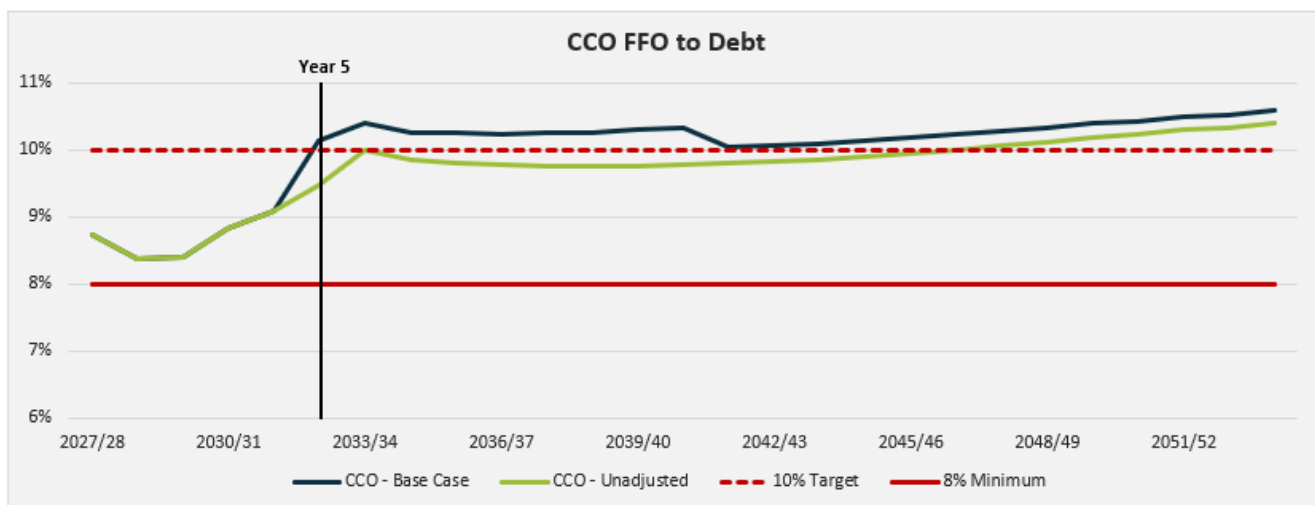
For financial modelling purposes, it has been assumed that a 10% FFO to debt ratio, representing the mid-point of the LGFA range, will be the minimum threshold for an ADC Waters CCO. However, during the initial five years of its operation, a lower threshold of 8% has been modelled as the minimum requirement. This gradually increases to the target of 10% by the end of the fifth year, reflecting the transition period outlined by the LGFA.

For ADC, FFO essentially represents its net operating cash flows. While the 10% FFO-to-debt ratio often corresponds to a DTR in the 400–500% range, it focuses on free cash flows relative to the net debt balance rather than operating revenue to debt.

Although the CCO model is often associated with higher debt limits, the high proportion of waters debt means this is not the case for ADC. When this debt is transferred to a CCO and supported solely by waters revenue, increases in household charges are required to stay within borrowing limits. While only minor adjustments were needed to avoid breaching FFO-to-debt ratio targets, this highlights the constrained debt headroom faced by the CCO model, particularly during its establishment phase.

The chart below illustrates this effect, comparing the CCO base case (staying within FFO to net debt limits) to an unadjusted version where no specific increases in household charges are modelled (no FFO debt limits). In the unadjusted base case, the FFO to net debt ratio stays marginally below the 10% target until FY45.

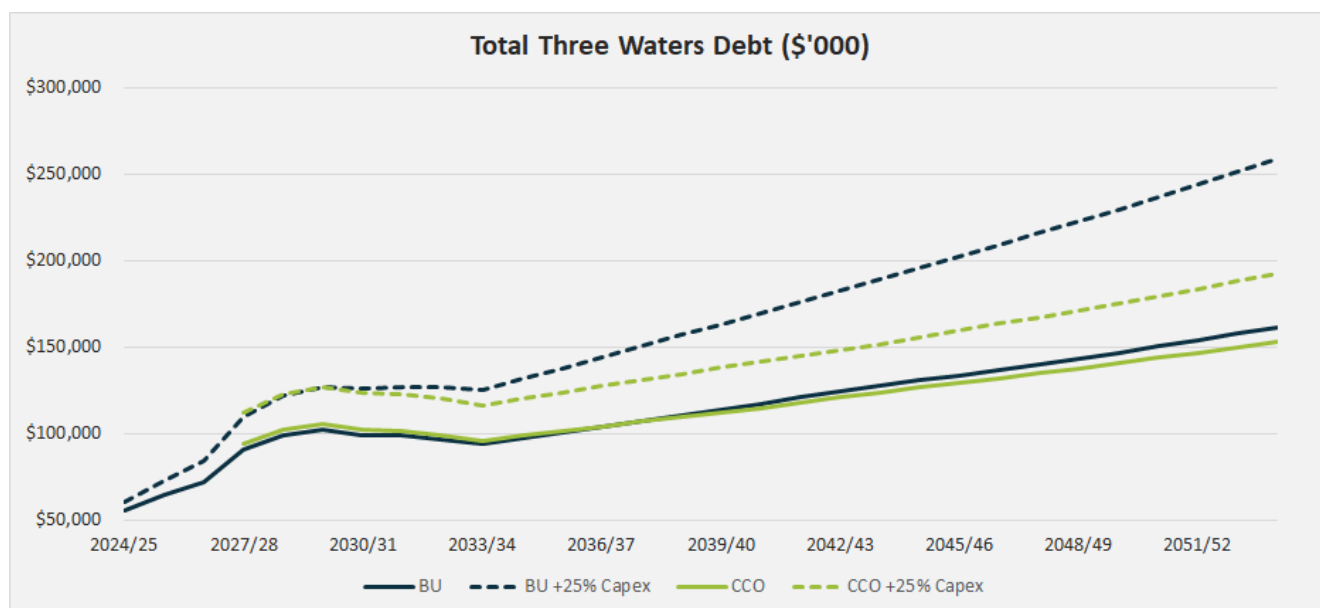
Figure 6 CCO FFO to debt – note that the FFO ratio must remain above the red line



Impact on Three Waters debt

As shown in Figure 7 below, the higher charges under the CCO models lead to reduced waters debt over the 30 years. The compounding effect of this reduced debt level results in near parity for annual household charges between the standalone business unit and CCO in the outer years, as reduced debt translates to lower financing costs.

Figure 7 Total three waters debt



While lower long-term charges may appear near neutral between options, they are at the cost of higher charges in the near term for the CCO. With the CCO, this outcome is not a strategic choice, but a requirement imposed by debt limits. In contrast, the standalone business unit could theoretically achieve a similar debt profile and household charges as a deliberate decision rather than a forced requirement.

Methodology

Data Sources

The foundation of our financial modelling is the information provided by ADC in response to our request for information for the financial years 2025-2034 (except capital investment detailed below). Results beyond this period have been modelled based on high-level trends over the 10 years provided.

The 'Rest of Council' debt profile used in calculating the DTR for the standalone business unit scenarios has been adjusted upward by \$32 million. This adjustment reflects the additional investment required to develop a second bridge starting in FY27.

Capital Investment

Capital investment and its funding and financing are material components of financial modelling. The capital investment programme in the modelled results was determined as follows:

Base Case

- **FY25-34:** Remains in line with ADC's LTP inputs, with only minor adjustments made to stormwater to align the renewal programme with the asset replacement register.
- **FY35/54 – Growth and Upgrades:** Spend over this period is evenly spread based on the average over the LTP period (adjusted for inflation).
- **FY35/54 – Renewals:** Inputs are taken from the Infrastructure Strategy, which is also based on the average over the LTP period, with minor adjustments for one-off projects.

Plus 25% Capex

To illustrate how the two service delivery methods react to varying investment scenarios, the plus 25% capex scenario has been included within all modelling. This is a direct 25% uplift from the base case capital investment each year. The cumulative difference between the two scenarios is presented in Figure 8 below.

Figure 8 Cumulative Capex Scenarios

