Local Water Done Well

Future for Water Service Delivery

Indicative Business Case

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Acronyms

- **ACL** – Ashburton Contracting Limited
- **BERL** – Business and Economic Research Limited
- **CCO** – Council Controlled Organisation
- **CCTV** – Closed Circuit Television
- **ComCom** – Commerce Commission
- **CV** – Capital Value
- **DIA** – Department of Internal Affairs
- **DTR** – Debt to Revenue ratio
- **DWQAR** – Drinking Water Quality Assurance Rules
- **FFO** – Funds From Operations
- **FTE** – Full Time Equivalent
- **LGA** – Local Government Act
- **LGFA** – Local Government Funding Agency
- **LTP** – Long Term Plan
- **LWDW** – Local Water Done Well
- **O&M** – Operating and Maintenance
- **RMA** – Resource Management Act
- **SABU** – Standalone Business Unit of Council
- **SCADA** – Supervisory Control and Data Acquisition
- **UV** - Ultra violet
- **WSCCO** – Water Services Council Controlled Organisation
- **WSDP** – Water Services Delivery Plan
- **WSP** – Water Services provider

Executive Summary

This document outlines the potential **Future for Water Service Delivery in Ashburton District** focusing on the Local Water Done Well (LWDW) reform introduced by the Coalition Government in 2024. This reform emphasizes local decision-making, financial sustainability, and regulatory compliance for water services, aiming to meet economic, environmental, and water quality regulatory requirements.

Councils across New Zealand face significant challenges in funding and delivering essential water services. Major reviews, such as the Havelock North Drinking Water Inquiry and the Three Waters Review, highlighted difficulties in maintaining and renewing ageing infrastructure. The Government responded with legislative reforms, including the establishment of the Water Services Regulator Act 2020 and the Water Services Act 2021, which introduced stricter compliance standards.

LWDW introduces two key legislative acts: the Local Government (Water Services Preliminary Arrangements) Act enacted in September 2024 and the Local Government (Water Services) Bill introduced in December 2024. These acts establish new water service management approaches and financially sustainable delivery models, requiring all councils to develop a Water Services Delivery Plan (WSDP) to be lodged with the Department of Internal Affairs by September 2025.

Ashburton District Council must change its water service delivery model to comply with LWDW reforms. These reforms aim to improve the quality, resilience, and sustainability of water services, reflecting evolving community expectations and the need to future-proof vital water infrastructure. Council sees this as an opportunity to redefine its approach and tackle current challenges.

In October 2024, Council focused its analysis on three options for water service delivery: a Stand-alone Business Unit (SABU), a Single Council-Controlled Organisation (WSCCO), and a Single Council WSCCO governed by shared arrangements with EA Networks. By March 2025, the latter option was removed from consideration, as the Council wanted to retain strong control and oversight of water services.

The multi-criteria assessment evaluates both options based on strategic and community impact, financial viability, and management efficiency. The SABU option is closest to the current delivery model, while the Water Services Council Controlled Organisation (WSCCO) model offers potential long-term benefits through specialized governance and increased borrowing capacity.

The Business Case includes a comprehensive analysis of financial and non-financial criteria for the two remaining options for the Ashburton District, considering legislative requirements, financial sustainability, and community impact. The Council must decide between the SABU and WSCCO models to ensure the long-term resilience and efficiency of water services.

1.0 The Current State

1.1 National Context

Councils across New Zealand are grappling with significant challenges in funding and delivering essential water services, including drinking water, wastewater and stormwater infrastructure. Major reviews, such as the Havelock North Drinking Water Inquiry (2016-17) and the Three Waters Review (2017-19), have highlighted the difficulties councils face in maintaining and renewing ageing infrastructure and delivering safe and high quality water services to regulatory standards.

To date, Government has undertaken a significant programme of work which resulted in:

- Updates to the drinking water standards
- The establishment of a water services regulator (Water Services Authority - Taumata Arowai)
- Identification of a range of systemic issues relating to the sustainable provision of three waters services across the country

Following the serious campylobacter outbreak in 2016 in Havelock North and the Government Inquiry into Havelock North Drinking Water, central government has considered the issues and opportunities facing the system for regulating and managing the Three Waters (drinking water, wastewater and stormwater). The result of those investigations has led to considerable reform.

The first stage of legislative reform was the Taumata Arowai-the Water Services Regulator Act 2020. This established Taumata Arowai as a new Crown entity to regulate water services. The next legislative reform was the Water Services Act 2021, which replaced parts of the Health Act 1956 with a stricter compliance standard, particularly for drinking water. The Government also brought in the National Policy Statement for Freshwater Management 2020 under the Resource Management Act 1991 which, while more broadly aimed than three water services, has significant impact on the environmental regulation of three water service delivery.

Between 2020 – 2023, the Government of the time established the Three Waters Reforms Programme, which assessed various options for the future management of three waters services. This included passing legislation to enable the establishment of ten new Water Services Entities for New Zealand.

Following the national election in October 2023, a new direction for water services delivery was announced – Local Water Done Well (LWDW) - and in February 2024 the Coalition Government introduced and passed legislation to repeal all legislation relating to the previous Government's reform approach, via the Water Services Repeal Act.

1.2 Coalition Government Direction

The Coalition Government's Local Water Done Well (LWDW) policy aims to address the service delivery model challenges by emphasising local decision making, financial sustainability and regulatory compliance. There is strong emphasis on meeting economic, environmental and water quality regulatory requirements.

A key feature of Local Water Done Well is providing councils with the flexibility to determine the optimal structure and delivery method for their water services. To support this, the Coalition Government has introduced two Bills.

The Local Government (Water Services Preliminary Arrangements) Act was enacted in September 2024, and established the foundation for a new approach to water services management and financially sustainable delivery models that meet regulatory standards. It requires all Councils

develop a Water Services Delivery Plan (WSDP), including an adopted service delivery model and implementation plan. The WSDP must be submitted to the Secretary for Local Government by 3 September 2025 for approval.

The Local Government (Water Services) Bill was introduced in December 2024 to establish the enduring settings for the new water services system. It expands the range of local government water service providers by enabling the establishment of new, financially separate water organisations. It also introduces a new economic regulation and consumer protection regime to apply to water services, to be overseen by the Commerce Commission.

More details on the coalition government reforms can be found here – Water Services Policy and legislation.

These new water organisations are intended to enable enhanced access to long-term borrowing for water infrastructure – supporting infrastructure development, while managing costs for consumers. Councils will continue to be able to deliver water services directly (through inhouse business units), or they can establish new water organisations that are financially and operationally independent of councils.

These models also make it easier for councils (who wish to) to enter joint arrangements to achieve cost savings, improve efficiency and improve affordability. Councils will be able to design their own alternative delivery arrangements, as long as these arrangements meet the minimum requirements set out in legislation.

Councils will have choices about which water services are provided through different service delivery arrangements. For example, they may wish to provide drinking water and wastewater services through a water organisation but retain stormwater services in-house.

Under LWDW, the Government has committed that water services will remain in public ownership. Councils and water organisations will not be able to privatise water services.

1.3 The Case for Change

The way the Council delivers water services must change to meet central government LWDW reforms, which are designed to improve the quality, resilience, and sustainability of water services across New Zealand. These reforms reflect evolving community expectations for safe, reliable, and efficient water services, while addressing the critical need to future-proof vital water services infrastructure.

While this change is driven by legislative requirements, it also presents a strategic opportunity for Ashburton District to redefine its approach to water service delivery. It enables the Council to tackle current challenges and establish a model that ensures long -term sustainability, resilience, and efficiency. Key drivers for change include:

- ***Legislative Requirements:*** The LWDW framework is being implemented through three key legislative stages, restoring council ownership of water services, requiring the development of WSDPs by September 2025, and establishing enduring regulations and standards for sustainable water services.
- ***Regulatory Requirements:*** New standards set by Taumata Arowai and the Commerce Commission place heightened demands on water quality, environmental compliance, and economic regulation.
- ***Opportunity for Ashburton District:*** LWDW presents an opportunity for Council to re-define and reshape water services for the benefit of current and future generations. In particular:
    - To deliver services though a model that is financially sustainable and enduring

- To deliver responsive services to the community
- To enable economic growth while being responsive to natural events and climate change
- To provide efficient and effective services through a model that delivers value

1.4 Council's Previous Decisions

In October 2025, Council decided to focus LWDW analysis on three options, as follows:

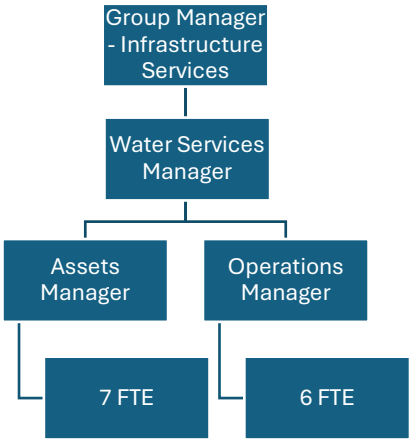
- Stand-alone Business Unit of Council (SABU)
- Single Council CCO
- Single Council CCO governed and managed by shared arrangement with EA Networks

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 wanting to retain strong control and oversight of the delivery of water services into the future.

2.0 Our Three Waters - Overview

Council currently delivers the management and planning for the Drinking Water, Wastewater and Stormwater activities (collectively known as Water Services) in-house, with external consultants contracted on an as needed project basis. The maintenance and operation of each activity is outsourced to local contractors.

Water Services sit within the service delivery group of Council, with two specific teams focused on Asset Management and Projects & Operations of water services.



2.1 Key Functions

Council recognises that effective management of water services is possibly the single biggest challenge and opportunity facing our community.

The table below summarises Council's existing operational model for the delivery of water services:

	Asset Management & Planning	Operations and Maintenance	Capital Delivery	Contractor	Consultancy
Drinking Water	In-house	Outsourced but managed in-house	Outsourced but managed in-house	ACL – O&M Various - Capital	Beca – Design, specialist supervision
Wastewater	In-house	Outsourced but managed in-house	Outsourced but managed in-house	ACL – O&M Various - Capital	Beca – Design, specialist supervision
Stormwater	In-house	Outsourced but managed in-house	Outsourced but managed in-house	ACL – O&M Various - Capital	Beca – Design, specialist supervision

2.1.1 Drinking Water

We operate 10 community drinking water supplies across our district, which service more than 10,800 homes and businesses.

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.

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.

We ensure the quality and availability of Council-supplied drinking water to the community through the following:

- Operations, repair and maintenance of the water supply network.
- Ensuring the supplies are safe and meet community health needs.
- Monitoring drinking water quality.
- Renewing, upgrading and extending supplies where necessary.

We operate community water supplies to provide safe and clean drinking water that promotes a healthy community.

While we source, own, control and manage the water supplies, the daily operation and maintenance of the systems is contracted out.

Under the Health Act 1956, Council is obligated to improve, promote and protect public health within the district (s.23). The provision of safe and reliable water supply services, which meet applicable legislation and standards, promotes public health. This obligation remains under the new framework, and the Council remains ultimately responsible for providing water services in the district, either directly or through agreements with a CCO, community trust or other water organisation.

2.1.2 Wastewater

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. Details of these schemes are shown in the table below.

	Population (approx.)	Network length	Treatment	Disposal	Consent expiry
Ashburton	18,750	160 km	Wilkins Rd 0.7ha aeration pond and three oxidation ponds (15.6 ha)	Ocean Farm 9ha wetlands, 282 ha grass irrigation	2039
Methven	1,700	20.4 km	Two oxidation ponds (0.7 ha with aerators and 1.2 ha)	Three rapid infiltration basins (0.4 ha combined)	2034
Rakaia	1,100	14.7 km	Package plant with clarifiers, trickling filter and ultra violet (UV) disinfection (1999)	10.6 ha of grass irrigation for effluent, and sludge drying beds	2033

Most 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.

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.

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.

The provision of the Wastewater activity involves:

- Operating and maintaining wastewater schemes, including collection, treatment and disposal of wastewater.
- Ensuring the wastewater system is safe and meeting community health needs.
- Monitoring discharge water quality.
- Renewing, upgrading and extending schemes, where required.

While we source, own, control and manage the wastewater supplies, the daily operations and maintenance of the system is contracted out to Ashburton Contracting Limited (ACL).

We operate wastewater schemes to help protect the health and safety of the community and environment.

Removal and mitigation of the adverse impacts of wastewater on the environment benefits current and future generations. It safeguards our waterways and the environment from direct discharges and helps protect their life-supporting capacity. Safe treatment and disposal of sewage are of vital importance to the protection of the quality of life and public health of district residents.

The provision of sewer services is a core service under the Local Government Act 2002. We also have a responsibility under the Health Act 1956 to improve, promote and protect public health within the district.

2.1.3 Stormwater

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 ensure property, and the environment are protected from flooding, and that roads and footpaths continue to be accessible during rain events.

Scheme	Length of network	Manholes
Ashburton	37.5 km	651
Methven	2.9 km	49
Rakaia	1.3 km	14

In Ashburton, stormwater from residential, commercial and industrial properties is collected via kerb and channel, 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.

Ashburton has the only system where there are historical stormwater discharges to the kerb and channel from private dwellings. New houses typically dispose of stormwater to ground on site via soakpits. From the kerb and channel, the stormwater enters the system.

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. Rakaia stormwater is being discharged to soakpits or to the Rakaia River. System capacity is adequate with no significant flooding issues, although there is some nuisance flooding.

Outside of areas served by public stormwater systems, dwellings are reliant on on-site disposal of stormwater – usually via ground soakage systems. These are generally single property solutions and not the responsibility of Council.

Stormwater schemes underpin the safety of our communities, people and property via collection and redirection of rainwater. These systems ensure rainfall is quickly and efficiently removed and prevent ongoing economic damage because of extreme weather events.

With the increasing frequency and intensity of rainfall events predicted due to climate change, stormwater management and treatment is becoming increasingly important.

We have a responsibility under the Health Act 1956 and the Resource Management Act 1991 to deliver stormwater services.

2.2 Governance Arrangements

The Water Services activities are reported regularly to the Three Waters Committee, one of two standing committees of Council. The Committee's membership is made up of six Councillors. The purpose of the Three Waters Committee is to provide oversight of the district's drinking water, wastewater and stormwater infrastructure programme and services in a manner that promotes the current and future interests of the community. Final decisions relating to water services are made by the full Council.

2.3 Our assets

Our Infrastructure Strategy covers the core asset groups of drinking water, wastewater, stormwater, roads and footpaths. According to the July 2023 asset valuation, we have depreciated replacement value of $312 million (after depreciation) in our drinking water, wastewater and stormwater assets.

Asset group	Description and highlights	Depreciated replacement value[1]
Drinking Water	10 drinking water schemes with 14 water treatment plants 520 km of water mains	$114.1 million
Wastewater	4 wastewater treatment and disposal facilities serving 3 schemes 18 wastewater pump stations 202 km of wastewater mains - most is gravity, but there are some isolated areas of pressure sewer reticulation	$152.3 million
Stormwater	42 km of stormwater mains 7.5 ha of stormwater detention and infiltration basins	$43.8 million

2.3.1 How well do we know our assets?

We have good information on our assets, which continues to improve. Some assets were built over a hundred years ago.

In the last five to ten years, we have worked hard to improve our knowledge and understanding of our assets. We have implemented a new asset database for the three waters and have thoroughly checked and corrected the information we hold on all our assets. We also added more data captured from inspections, repairs and routine maintenance visits.

The ongoing work associated with various reforms of the three waters has been an opportunity to examine our asset information but has also restricted development work we have done on our own systems due to the uncertainty surrounding the future of the service.

An asset management maturity assessment has been completed, and an update of the Three Waters maturity assessment is in progress. This will provide a road map for developing our asset management policies and practices, including extending the use of our asset management data systems.

We carry out regular condition assessments on our assets. We undertake a closed-circuit television (CCTV) survey of a selection of our wastewater pipes each year to assess their condition and refine our renewals programme.

These asset groups are generally assessed as having good quality data depending on the type of asset. Other assets are more difficult to inspect, such as underground pipes. Replaced or new assets come with high-quality data, which improves our overall knowledge.

The tables below list the qualitative data confidence grades given to each of our asset classes. We have given a grade to various pieces of information:

- the location of those assets,
- the amount or number of assets in each class (e.g. the length of pipe),
- the cost to replace those assets, and
- the life remaining in them.

On the whole, this gives us reasonable confidence that the information we're using in our planning is correct and that our plans represent good use of funds.

[1] *Depreciated replacement value taken from Annual Report 2023/24, page 188.*

Utilities assets' data confidence

Asset group	Asset	Location	Quantity	Replacement cost	Life expectancy
Drinking Water assets	Pipes and reticulation	B	B	B	C
	Facilities	A	A	B	C
Wastewater assets	Pipes and reticulation	B	B	B	B
	Facilities	A	A	B	C
Stormwater assets	Pipes	B	B	B	B
	Treatment, retention and outfall structures	B	B	B	B

Key:

A: The data is accurate and based on reliable documentation
B: Data is based on some supporting documentation but is less certain
C: There is a fair amount of assumption and local knowledge used to reach the conclusion
D: A reasonable informed guess, where there is no formal documentation to base an assessment on

2.3.2 Key issues

The 2024 Infrastructure Strategy identified the following key issues for our water services:

- **Drinking Water Standards Compliance** - A new regulator, Taumata Arowai, is in place and has published new rules and standards. However, there are signals that further rules and scrutiny will be introduced over the coming years and decades. We must be able to adapt to the future. This means considering all reasonable options, working with authorities, and preparing to respond as new information arises.

  At present, only two of our eleven drinking water supplies have the equipment in place to comply with the treatment requirements of the new Drinking Water Quality Assurance Rules (DWQAR). This does not necessarily mean that our drinking water supplies are unsafe. To achieve compliance, water supplies must have treatment that is able to treat any bacteria (such as E. coli) and protozoa (such as Giardia and Cryptosporidium) that may be present in the water supply. We test for bacteria and do not find any present in our groundwater supplies. We do not routinely test for protozoa because it is very expensive. We have done some testing in Ashburton which found no protozoa present.

  Methven (and Methven-Springfield) and Mt Somers had new treatment plants come online in 2023 and 2024 Upgrades to install new filters, UV disinfection systems and monitoring equipment started in the second half of 2024.

- **Ashburton Wastewater Consent Compliance** – The resource consent covering the Ashburton wastewater treatment and disposal system at Wilkins Road and Ocean Farm is due for renewal in 2039. However, there are some areas of non-compliance that need to be addressed sooner.

The irrigation system has limitations around discharge quantity and coverage and needs to be improved or replaced in the short term. Options have been considered and it appears that a capital renewal will be needed. This is related to poor performance of the surface flow wetland. The wetland is intended to provide polishing treatment and improve the final effluent quality, but in practice needs workarounds and is not improving water quality. A decision is also needed on the future of this aspect of the plant.

- **Stormwater system capacity** - Nuisance flooding occurs on a regular basis in several locations, largely due to undersized pipes, culverts and reliance on soak-pits. In recent years, urban development has also put pressure on the stormwater system and there is no spare capacity to accept additional flows from further development or intensification.

  Developers of new sites are required to manage stormwater onsite as far as possible, with discharges to our network limited to the same or less than pre-development levels.
  One way in which network capacity can be maximised is through altering stormwater catchments to share the load more evenly. The proposed capital programme begins to do this, and further work may identify other opportunities.

  Stormwater management in Methven and Rakaia will be covered in future by network-wide stormwater discharge consents with associated management plans, similar to Ashburton, albeit on a scale more appropriate to the size of the communities and the infrastructure. Other small communities will be considered in the future.

- **Stormwater quality and treatment** - Historically stormwater networks have focused on collection and disposal of water, rather than the treatment and quality of the water being discharged into waterways. However, we expect that this balance is changing. The new three waters regulator, Taumata Arowai will have an impact on our management of stormwater services, due to the likelihood of higher standards and expectations, both around performance and reporting.

- **Rural stormwater** - There has been an increasing interest in rural stormwater management in recent years, particularly as land use patterns change and irrigation and stockwater races are closed or moved. This may lead to an expansion of the scope of the stormwater services to include more than the traditional concentrated networks.

As a result of the introduction of LWDW, we have reassessed work likely to be required in the next ten years to meet the expected requirements of the new regulatory framework. These have been captured in the financial information under each option and represent the 'likely' delivery scenario for water services.

These projects include:

- Source and treatment upgrades at Tinwald and Montalto;
- Upgrades for future fluoridation mandates;
- Water meter rollout;
- SCADA system replacement and upgrades;
- Allowances for upgrades to wastewater treatment plants to add additional treatment in anticipation of consent renewal; and
- Expansions of service areas, both existing area schemes and the development of a Hinds wastewater scheme

2.4 Long Term Plan 2024-34 (LTP) Expenditure

The Long-Term Plan 2024-34 (LTP) allocates around $133M to be run daily water services and $136M to improve water services infrastructure over the next decade.

2.5 Funding

Under the Long -Term Plan 2024-34, and the Revenue & Financing Policy 2024, each of the three waters activities is funded individually, as shown below:

Activity	General Rate (CV)	Targeted Rate (CV)	Uniform Targeted Rate	Fees & Charges
Drinking Water			95-100%	0-5%
Wastewater			95-100%	0-5%
Stormwater	10%	90%		

If the SABU model is chosen, this system will likely continue in the short term. In the future, the Council might explore alternative charging methods, like fixed charges or charging based on water usage, to ensure fairness and affordability.

If the WSCCO model is selected, you would eventually pay water services charges directly to the WSCCO. Within five years, the WSCCO is required to transition to a direct charging system, like a fixed charge or usage-based system, changing how costs are distributed amongst users. This change would likely result in a reduction to your current rate bill but you would still receive a separate invoice from the WSCCO.

2.6 Price

The average Ashburton township ratepayer in 2024/25 will pay around $1,450 for water services, broken down as follows:

- $706 for drinking water (targeted rate – meaning this is a fixed charge regardless of the value of your property)
- $604 for wastewater (targeted rate - meaning this is a fixed charge regardless of the value of your property)
- $144 for stormwater (as part of the urban amenity rate/general rate, based on the capital value of your property)

Stormwater charges vary across the district, depending on your location and property value. The LTP forecasts these charges to rise over the next 10 years.

The LTP 2024-34 forecasts an increase in water services charges over the next ten years. Whatever model is chosen, there will be higher costs to delivering these services, both to meet the increased costs of a new regulatory environment and to deliver the expected capital expenditure.

2.7 Affordability

Internationally, developing a water affordability indicator has been the basis of much research. A common approach has been to calculate the water services costs against the median household income[2]. While there isn't a single agreed upon measure, an annual cost of drinking water services of 2.5 per cent of median household income has been used by Martin Jenkins[3] in other New Zealand assessments. It is important to note that this is based on water supply only and therefore it would be appropriate for a higher proportion when wastewater and stormwater services are included.

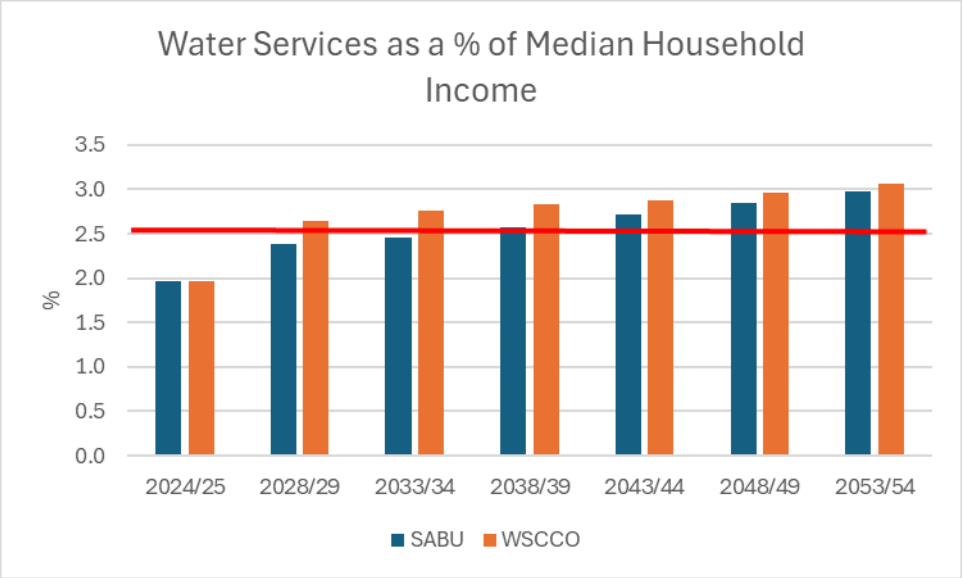
[2] Source: https://newibnet.org/
[3] Source: https://westernbayofplenty.infocouncil.biz/open/2024/09/CL_20240926_AGN_2828_AT.PDF

Some research has a maximum threshold of 4.5 – 5% of median income for water and wastewater services[4].

The table below provides some context of what these indicators could look like noting that price is assessed against the current 2024/25 operating costs as set through the Long-Term Plan 2024-34.

	Median Household income	Number of properties	2024-25 3Waters Opex ($000)	2024-25 Spend	2024-25 median income spend	H'hold spend at 2.5%	H'hold spend at 5%
Ashburton District	**$85,800**		**$11,809**	**$944.60**	**1.09%**	**$2,145**	**$4,290**
Drinking Water		11,809	$5,543	$469.40	0.54%		
Waste Water		9,962	$3,845	$385.90	0.45%		
Stormwater		9,962	$ 890	$89.30	0.10%		

The following graph shows the cost of water services under each model over 30 years as a percentage of median household income. The red line shows the common international benchmark for water affordability of 2.5% of median household income.



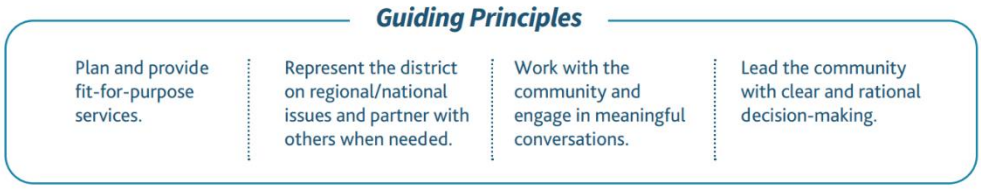
- The SABU will reach 2.5% of median household income in 2030/31 and then fluctuates in and around that level until 2036/37 when it consistently sits above it.
- The WSCCO will reach 2.5% of median household income in 2028/29
- Modelling shows water services charges increasing by 136% over ten years under SABU (an average annual increase of 3.6%) and 153% under the WSCCO (an average annual increase of 5.3%)

[4] Source: https://graham.umich.edu/system/files/pubs/Water-Affordability.pdf

3.0 ADC Overarching Water Services Model Objectives and Assessment approach

Council's strategic vision is **Ashburton – the district of choice for lifestyle and opportunity**

Underpinning this vision are Council's Community Outcomes and Guiding Principles. These sit above and apply to Council's consideration of Local Water Done Well and Water Service Delivery options.



The delivery of three waters service in the future looks very different to previous and current requirements. Council is tasked with important decision-making now that considers delivery, growth and affordability for the future.

3.1 Ashburton District Council Overarching Water Services Model Objectives

To navigate these challenges and ensure that decision-making considers the multi-dimensional complexity of delivering three waters services in the future, key objectives have been developed, which have informed the three lenses used in the multi-criteria assessment.

The overarching objectives are:

- To deliver services through a model that is financially sustainable and enduring
- To deliver responsive services to the community
- To enable economic growth while being responsive to natural events and climate change
- To provide efficient and effective services through a model that delivers value

Each objective has broader explanations, as follows:

To deliver services through a model that is financially sustainable and enduring

- Enough funding is raised (through charges, grants, debt or other means) to cover costs, invest in needed infrastructure and service debt
- Allows for the ongoing, sustainable provision of services and is scalable and adaptable
- Meets the requirements of the economic regulator
- Services will be compliant with all consents, regulatory standards and drinking water standards
- Asset management drives investment requirements
- Investments reflect the long-term impacts to reduce whole of life costs
- Enables network management and service provision that care for the health of land and water
- The community receives a service that is fairly delivered and charged for

To deliver responsive services to the community

- The community receives a responsive service that is accountable to the community
- Allows for effective engagement with stakeholders
- Investment planning and service delivery recognises the differences in the local environment of our communities
- Local voices are heard and the ability to influence is protected
- The rights of future generations are protected

To enable economic growth while being responsive to natural events and climate change

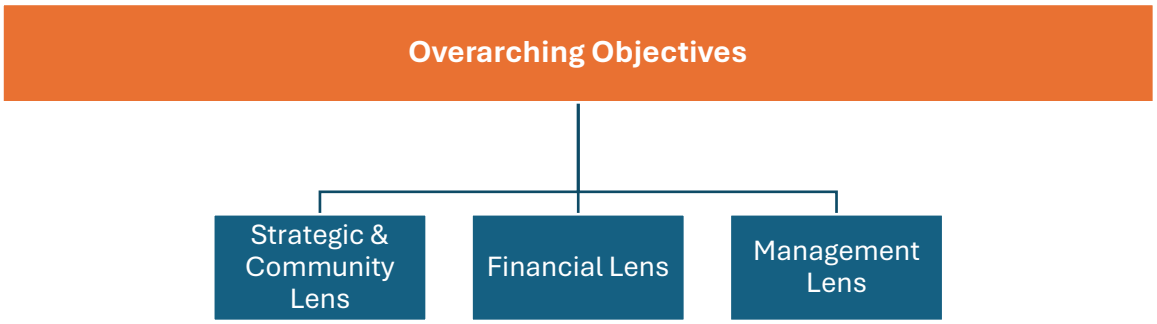
- Services and infrastructure are resilient
- Population growth is enabled and supported through the provision of infrastructure and services
- Enables effective investment planning
- User pays for development
- Investment is considered intergenerationally
- Investment decisions balance growth demands against environmental outcomes
- Improvements enhance resilience to environmental impacts
- The services meet needs and are reliable and continuous for communities
- Supports a highly co-ordinated emergency management response and recovery capability

To provide efficient and effective services through a model that delivers value

- Meets the requirements of the new water and wastewater standards and regulatory framework
- Seen to provide reliable, continuous service
- Optimises available efficiencies and encourages effective investment planning
- Supports the retention and recruitment of the skilled resources required
- The financial capacity of Council to invest in community infrastructure is enhanced
- Public health is at the heart of decision-making
- The health and safety of our workforce, and the public, is protected

3.2 Assessment Lenses

The overarching objectives are supported by three lenses to help assess the different models selected by Council.



These are described further below.

3.2.1 Strategic & Community Lens

The strategic and community lens refers to the broader environment which will impact on the success or otherwise of a given water service delivery model. This includes ensuring water services are managed in a sustainable, community-focused, and integrated manner that supports public health, environmental protection, and economic growth. The key focus areas for this lens are:

- Meeting legislative requirements
- Accountability to the Council, local community, mana whenua and stakeholders
- Resilience and sustainability
- Governance and oversight
- Long-term growth enabler
- Achievability

Legislative Requirements

The Local Government (Water Services) Bill (the Bill) establishes that a council may use different models for delivering water services or different aspects of a water service (i.e. transferring responsibility for water and wastewater services to a Water Organisation (WO), while retaining stormwater in-house). While the Bill is still progressing through the parliamentary process, it is expected to become law in mid-2025.

It is inherent that any service delivery model will fulfil the regulatory requirements for water services as required by Taumata Arowai, Environment Canterbury and the Commerce Commission. Taumata Arowai has already established a new regime for regulating drinking water supplies, which includes a range of drinking water standards and rules. A monitoring and reporting framework for wastewater and stormwater has been set up, and further environmental and supply standards are likely to be introduced in the near future.

The new regime proposed under LWDW will introduce a range of new standards for consumer water quality and infrastructure investment. We also expect to meet increased stormwater standards that will likely necessitate additional investment in stormwater treatment systems over time.

Accountability

Accountability is an important aspect in considering the delivery model but under LWDW this is fundamentally different than current practice. Water Service Providers (WSPs), whether delivered as an inhouse model or water organisation (e.g. WSCCO) are to be structured and operated like corporatised utilities, rather than public services. WSPs will change to look more like electricity or

telecom utilities. This will require a fundamental change in how WSPs behave and think. WSPs will be directly accountable to customers, regulators, and councils. WSPs' accountability to councils will differ from current systems – focusing on accountability of strategic vision and leadership rather than daily operations and funding.

Accountability includes how Council would hold a WSCCO accountable for delivering water services (if not delivering the service itself), how the water organisation would be accountable to the community and maintain key relationships with iwi and stakeholders such as Environment Canterbury.

The Bill requires Water Service Providers to act in a manner that is consistent with Treaty settlement obligations and requirements under the LGA and RMA.

Resilience and Sustainability

Systems need to be designed that are not only efficient but also resilient to long-term environmental pressures. For instance, this can be achieved through investment in water-saving technologies, wastewater reuse systems, and green infrastructure to manage stormwater, reducing the overall environmental footprint of the community.

In the event of natural disasters, flooding, or infrastructure failure, it is important the water services provider is positioned to respond swiftly and effectively, minimising disruption and ensuring rapid recovery. This can also help address emerging threats such as the risk of groundwater contamination from wastewater systems or the impact of untreated sewage on local water bodies.

Water services are a critical lifeline, therefore during natural events and emergency management situations, the WSP will need to be closely connected and working alongside Civil Defence Emergency Management during response and recovery.

Governance and Oversight

The Government's underlying view of the need for LWDW is that the provisions in place for transparency and accountability in the LGA, have resulted in sub-optimal outcomes for the management of water services and associated infrastructure. The view they hold is that the current arrangements have failed in adequate levels of investment, or charges that reflect the costs of providing water services. As such, the Department of Internal Affairs (DIA) has stated that *"the new economic regulation and consumer protection regime will play a vital role in safeguarding the interests of consumers, including through providing incentives and regulatory oversight to ensure sufficient investment is made in water infrastructure and water service providers have efficient management and operational practises."*

While the current delivery model has governance oversight from the elected members of Council, the Bill proposes delivery arrangements that at a minimum are in-house and ring-fenced through to contracts with other parties, to ultimately transferring responsibility to a water organisation established by Council. The intention of this is to mitigate the competing priorities that Councils consistently face to invest regularly in critical infrastructure and providing minimal rate increases to the community, essentially leading to underinvestment over successive terms of Council. An independently operated water services entity would have the sole focus of delivering the water services required to meet the regulatory standards of the time.

This aspect will consider if each delivery option provides for independent governance and decision-making on a water services strategy, investment, financing, revenue, service delivery and operations. Governance should focus on what is best for the water services, independent of other aspects of Council business.

Long Term Growth Enabler

Any option should be a positive growth enabler for the Ashburton District and provide strong support to enable the ongoing economic growth of its businesses and industries. In addition the option should be the best long term economically positive option for the district. It should ensure positive synergies between key partners, shared services and seek both to maximise skills and expertise while also minimising costs for the consumer within the regulatory framework it will be required to operate within.

Achievable

The assessment of the viability of each of the water service delivery options will be considered against a framework of achievability. The key questions underpinning achievability are:

Complexity -How complex is the option?

-How time-consuming and expensive would establishment be?

Timeliness -Can the option be implemented in a timely way that meets statutory deadlines for financial sustainability?

Flexibility -Is the option flexible enough to evolve over time to meet changing circumstances?

-Does the option support possible future transition into an alternate delivery model such as a multi-council WSCCO?

3.2.2 Financial Lens

The Financial Lens is focused on the financial viability of each model. The key focus of the LWDW reform is to ensure that whichever model is chosen to deliver water services is financially sustainable. Financial sustainability means water services revenue is sufficient to meet the costs of delivering water services. The costs of delivering water services include meeting all regulatory and environmental standards, and long-term investment in water services.

Water services are to be financially sustainable by 30 June 2028 and are to meet statutory requirements for investment, financing and revenue sufficiency. Revenue from water services is to be ring fenced and only applied to water activities. Further, if water services continue to be delivered by an in-house business unit, the financial performance of waters services is to be reported separately (in a separate Annual Report) from the remainder of council activities.

Morrison Low undertook financial modelling for Council to understand the financial viability, or otherwise, of options. Costs were indexed using Business and Economic Research Limited (BERL) inflation rates for water services through to 2034 and 2% per annum.

We have assessed the financial sustainability of the two options using the following criteria:

- Revenue sufficiency
- Investment sufficiency
- Financing Capability
- Debt Sufficiency

Financial Model Assumptions

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.	Source data provided by ADC forms the foundation of the modelled outcomes, with specific adjustments applied for the following: • Progressive depreciation funding to 100% fully funded by FY2028[1]. 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.	Modelling inputs are aligned to the standalone business unit model above, with separate adjustments to allow for: • 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.

For the WSCCO option, corporate overheads from Council have been replaced with best estimates of ongoing support costs alongside establishment-related expenses. At a high level, this encompasses the following:

- Increased compliance costs associated with regulatory reforms (recognising the role and requirements to report to both a service and economic regulator)
- Transitional costs to establish the WSCCO (further detail can be found in the Morrison Low analysis)
- Additional resources required or additional costs for resources
- Any change is assumed to occur on 1 July 2027 for modelling purposes.

Revenue sufficiency

This criterion assesses if the model will be able to generate sufficient revenue from water charges to meet its operating expenditure and debt repayments over the next 10 years. The other side of this equation is to understand the impact this will have on households in the charges they pay for water services.

Investment sufficiency

The criterion for investment sufficiency will consider if the projected level of investment for each model will be sufficient to maintain standards, meet regulatory requirements and provide for growth.

Regulatory requirements remain uncertain and there is a risk further investment will be required to maintain regulatory compliance. The future model will need to have flexibility to scale investments to meet any new regulatory requirements.

Financing capability

The financing capability criterion will assess the leveraging availability of finance for each of the options. This means ensuring that the funding and finance arrangements will be sufficient to meet investment requirements. Forecasts are expected to raise enough borrowing to finance investment while remaining within financial limits.

Debt sufficiency

The criterion for debt sufficiency will consider if the option enables the levering of funds available to the maximum benefit. Both the SABU and WSCCO options will have access to loan funding through Local Government Funding Agency (LGFA), and the extent of borrowing will depend on the legislative restrictions, financial covenants imposed by LGFA and any internal policies of the water services provider, such as Council's Treasury Management Policy. The SABU model will have debt limits of net debt not exceeding 250% of total revenue[5], compared with the WSCCO option which is likely to have increased borrowing capability through LGFA. While LGFA will negotiate financial covenants with WSCCOs on a case by case basis, initial indications from LGFA are that WSCCOs will be required to operate under a Funds From Operation (FFO) to debt ratio of between 8%-12% - by way of comparison, a 10% FFO to debt ratio corresponds to a debt to revenue ratio of around 400%-500%.

Debt financing allows the entity delivering water services to spread the cost of large investments over years or decades. By using debt to fund capital expenditure, critical services are not being compromised or traded off to fund large projects. Operating revenues can be set to an appropriate level to cover the operating cost of service (including servicing debt) and operating cash margins required to access debt financing.

3.2.3 Management Lens

The management lens focuses on the operational detail of the water services delivery options being considered. LWDW intends to promote efficiency, improve the governance and management of financially sustainable water services, and ensure greater accountability within the sector. Water services will have to operate more like sophisticated, independent utility businesses. This means that the structure and accountability will differ from the current approach, with the water services being delivered akin to a corporatised utility instead of a public service.

As this is a fundamental change, we have assessed the management aspect of the options using the following criteria:

- Asset Management
- Resources
- Service
- Organisational Impact on Council

Asset management

The management of water services going forward requires comprehensive asset management and associated funding to deliver on the investment needs for each service. When done well, asset management allows business to optimise the usage and performance of assets, improving

[5] With the potential ability to extend up to 280% through LGFA financial covenants

operational efficiency, reducing the risk of asset failure and ensuring an excellent understanding of the condition of assets throughout their life cycle.

Comprehensive asset management is a key driver of the reform, as the Government's view is essentially that the sector has not undertaken asset management well historically and that funding decisions have not clearly aligned with asset management needs.

This parameter will consider how well the water services delivery option will enable comprehensive asset management.

Resources

This criterion considers the range of resources required to deliver water services as required by the LWDW reform. Included in this are the workforce, systems and processes of the water services provider and consideration of how scalable and adaptable each option is.

The retention and recruitment of a skilled workforce is an integral part of any successful business. High turnover rates can be costly and disruptive, leading to decreased productivity, increased recruitment expenses and a loss of important knowledge. A stable workforce, on the other hand, can deliver efficiencies, have depth of expertise and continually improve systems, processes and procedures. Recruitment and retention of specialists for water services will likely be more challenging in a competitive environment, with wider employment opportunities open to water services staff across New Zealand as a result of the LWDW reforms. Separate or combined WSCCOs could be a more attractive proposition for recruitment than a SABU.

The systems and processes required to deliver water services to meet the asset management, financial and regulatory requirements of the reform will be more complex from those currently used. The current systems and processes will underpin future developments.

Service

The service criterion will consider the quality and responsiveness of the delivery of water services for each option. Currently, the non-financial quality and responsiveness results for water services in 2023/24 are detailed in Appendix One. Many of these are mandatorily set by government. In summary:

- Drinking water – No Council schemes were compliant with Drinking Water Quality Assurance Rules in 2023/24 as infrastructure and associated compliance monitoring were still being developed. High customer and resident satisfaction with the drinking water supplies.
- Wastewater – Response times to callouts for wastewater faults or unplanned interruptions met all targets. Council received abatement and infringement notices for breaching resource consent conditions at the Rakaia Wastewater Treatment Plant (now remedied through the installation of sludge drying beds) and customer satisfaction with wastewater services was below target.
- Stormwater – All performance targets were met, including resource consent compliance and customer satisfaction.

Organisational Impact on Council

Each option being considered will have an impact on the rest of the Council organisation. This criterion will evaluate each delivery option for the complexities associated with implementation, the likely changes to the organisation as a result, how well the option will respond in emergency event situations and the details of stranded overheads (if any).

4.0 Assessment of Options

4.1 Option 1 - Stand-Alone Business Unit (SABU) with ring fencing

This option is the closest to the status quo delivery model for Council, with the addition of:

- New statutory requirements for water service providers will apply – including statutory objectives, financial principles and sustainability requirements, new planning and reporting framework
- Economic regulation will apply (including monitoring and enforcement of ringfencing rules).

The SABU Model retains water service management directly with Ashburton District Council, who remains responsible for all aspects of water supply, wastewater, and stormwater services. This represents a water service provider under the legislation. However, there are key differences to the current approach of delivering water services inhouse.

Key Characteristics	
Ownership	• 100% council owned, as it is a stand-alone business unit within Council. • No new organisation is created.
Governance	• 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	• Council retains strategic oversight of water services • Councils will need to prepare and adopt a Water Services Strategy
Accountability	• 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	• 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	• 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.

4.1.1 Advantages

In summary, key advantages are:

- **Adaptability:** Ashburton District Council's existing organisation allows for the efficient integration of the new requirements.
- **Direct local accountability:** Accountability and transparency remain with democratically elected members.
- **Integrated services:** Existing relationships and structures in place within the Council including planning, asset management, property, strategy, civil defence emergency

management, and external relationships with key stakeholders including mana whenua and Environment Canterbury.

- **Affordability:** The SABU model is financially viable, with modelling indicating a lower household cost compared to the alternative model.
- **Pricing:** Council maintains full control over charging mechanisms but would be subject to oversight from the Commerce Commission.
- **Funding capacity:** Maintains current borrowing capacity provide by the Local Government Funding Agency (LGFA) of 250%, with sufficient debt headroom.

This option is the closest to Council's current in-house management and delivery of water services and will mean that the accountability and transparency remains directly with democratically elected members.

Existing relationships and structures are in place within Council, including planning, asset management, property, strategy, civil defence / emergency management, and external to Council with key stakeholders critical to water services management including iwi and Environment Canterbury.

The SABU option is financially viable, with modelling indicating this will have the lowest household charges based by a small margin. Council maintains full control over charging mechanisms.

4.1.2 Disadvantages

In summary, key disadvantages are:

- **Funding limitations:** Since the Council has low debt for non-water services activities, it can handle higher debt for water services. However, this could limit investment in other Council services, as most new debt funding will go towards water services.
- **New requirements:** New rules around financial ringfencing and increased regulatory oversight will put additional scrutiny and pressure on Council resources.
- **Resourcing:** New requirements and industry competition may make it challenging to recruit or retain staff and will require changes to current Council systems.
- **Competing priorities:** May lack the specialised focus of CCOs with competing demands across other Council functions.

If the SABU water services option is pursued, Council's maximum ability to borrow for water and non-water will be set by the Council's borrowing limits. This means that all council business (in cumulative) would need to stay within borrowing covenants, as is the case currently. This could lead to a situation where required water investment restricts Council's flexibility to invest in other community priorities.

New rules and expectations, and a 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.

While the SABU option will have the least initial impact on Council operations, there is still significant change to operations and governance needed even under this option. Adapting to meet the new requirements (such as financial ring-fencing) will challenge Council under current resourcing. The risk of losing key resources due to greater industry competition and lack of scale is a real risk.

4.1.3 Impact on rest of Council

Alongside other changes referenced above, to ensure appropriate financial management to achieve 'ring-fencing', Council will need to develop a set of internal financial policies that:

- Set out what an appropriate upper leverage limit for water services is, based on the investment requirement and relative leverage levels of non-water activities, which does not put Council at risk of breaching its covenants at an all-of council level.
- Ensure that there is sufficient cash flow generated from water revenues to cover interest costs and eventual repayment of water debt (i.e. ensuring that water revenues are set appropriately to avoid situations where non-water revenues are used to service of pay down water debt).
- Enable water services related transactions and balances to be identified separately from non-water activities in Council's general ledger and accounting systems to enable compliance with ring-fencing, water services reporting requirements and future information disclosure requirements (once in force).

4.2 Option 2 – Council owned Single CCO (WSCCO)

This option would see Council establish a Water Services Council-Controlled Organisation (WSCCO) to deliver water services to the community. This represents a Water organisation under the LWDW legislation. The WSCCO is a separate legal entity (company) established to manage and deliver water services independently, with the Council as its sole shareholder. The WSCCO operates with its own governance and management structure, focusing exclusively on water services. Board appointments must be competency based, and Council staff and elected members cannot be appointed to this Board[6].

If Council establishes a WSCCO, Council decides whether or not to transfer its water assets to the WSCCO. This choice includes Council deciding whether it transfers the infrastructure and related assets for providing water services (for example, its wastewater treatment plant and water supply pump stations) or whether the Council would continue to retain the infrastructure and assets and the CCO manages the assets on its behalf.

If the water services infrastructure and assets are transferred to a WSCCO:

- The WSCCO would have full management of all water services assets, which means it would deal with all matters around contracting, maintenance, repair, replacement of assets/infrastructure without having to ask Council to undertake these works. This would likely generate greater efficiencies, for example, in time/ cost/processes/delivery as the WSCCO would own all the assets needed for the running of the business.
- It would be anticipated that the associated water services debt would also transfer to the WSCCO.
- As the water services infrastructure involves strategic assets, transfer to the WSCCO would require an amendment to the Council's Long Term Plan.

If the water services infrastructure and assets are not transferred to the WSCCO:

- Council would retain ownership of essential water services assets and infrastructure.
- The WSCCO effectively becomes a 'management only' company, which is likely to be operationally less efficient.
- LGFA has indicated it will only lend to an asset owning WSCCO, therefore Council will be required to borrow any debt for the WSCCO at Council's lower borrowing capacity (that is, up to 280% revenue).

It is important to note that regardless of who owns the infrastructure assets, the Water Services Bill prohibits the privatisation or sale of water services assets. Further, assets of water service networks cannot be used for security for any purpose. Even if owned by a WSCCO, the ownership of water services infrastructure or of any interest in a water service cannot be transferred, except to another water service provider if the transfer is a necessary part of a contract or a joint water service provider arrangement. Therefore, ownership of these assets is protected against privatisation.

Key Features	
Ownership	• New limited liability company, 100% owned by the council • Ownership rights are outlined in the company constitution, subject to compliance with legislation
Governance	• 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

[6] Section 40(3) Local Government (Water Services) Bill

	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	• Council must issue statement of expectations to WSCCO • WSCCO prepares water services strategy and consults the Council.
Accountability	• Board is accountable to council shareholders and reports regularly on performance e.g. quarterly (shareholders are accountable to community) • WSCCO required to give effect to statement of expectations in its water services strategy and meet statutory requirements • WSCCO prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy.
Funding & Financing	• If it is the asset owner, WSCCO 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. • WSCCO determines the charges required annually. Charges must move from rates to fixed fees or volumetric pricing within 5 years.
Operations	• Operational control sits with WSCCO • Asset ownership could remain under Council ownership or transfer to WSCCO • WSCCO determines how services charged for • Compliance responsibility remains entirely with WSCCO for Taumata Arowai, Regional Council and Commerce Commission current and anticipated requirements.

4.2.1 Advantages

It has been assumed that all water services infrastructure and assets are transferred to WSCCO to maximise benefits and efficiencies. In summary, key advantages are:

- **Water focused governance:** Professional, competency-based, independent board dedicated to water services with access to specialist skills, offers greater potential for improved water services delivery.
- **Funding capacity:** Offers borrowing limit of up to 500% of total revenue supported by Council guarantee.
- **Sustainable:** The water-focused nature of WSCCO eliminates the competing priorities scenario, which is inherent in the SABU model, offering greater potential for long-term sustainable growth.

This option could realise a higher level of governance with specialist skills and knowledge than under current arrangements. The WSCCO and its board would be solely focused on water services with Council as the sole shareholder acting in a strategic capacity.

Council's role would become focused on the recruitment and appointment of independent directors to the Board of the WSCCO (no Council Elected Members or staff can be on the Board) and oversight and accountability through issuing the Statement of Expectations and reviewing and commenting on the WSCCOs Water Services Strategy.

A key difference between the CCO model and the SABU model is debt, and specifically, the different borrowing limits that apply to each model. If it is the asset owner, the WSCCO would be financially independent from Council with additional borrowing capacity given it would have the ability to use LGFA funding within the financial covenants agreed between LGFA and the CCO. The CCO also has

the ability to borrow from overseas (that is, in foreign currency)[7], while Council (as a SABU) is specifically prohibited from borrowing in any currency other than New Zealand currency[8] .

In the long-term, the WSCCO option is likely to achieve improved long-term sustainable growth than a SABU, given the entity's ability to focus solely on water services without other competing priorities.

The operational, management and governance changes required to transition to operating more like a sophisticated, independent utility business may be easier to achieve in a separate entity with a professional board, rather than within the existing structures.

4.2.2 Disadvantages

In summary, key disadvantages are:

- **Accountability:** Less direct accountability to the community, but WSCCO will be accountable to Council
- **Affordability:** Establishing and transitioning to the WSCCO will incur costs, and financial modelling indicates a slight increase in household costs compared with a SABU.
- **Industry competition:** Although existing staff can transfer to the WSCCO, the organisation's small scale may not be sufficient to retain or attract staff or expertise.
- **Setup costs:** Initial setup costs to establish the organisation and governance
- **Transition period:** Transferring staff and existing relationships (e.g. Environment Canterbury, Mana whenua) to the WSCCO will take time to achieve and transition risks would require strong collaboration with Council

Primary governance for the WSCCO will be provided by the Board of Directors, appointed by the shareholder (Council). 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.

The WSCCO will have less direct accountability to the community, as the directors are not directly elected. However, they are appointed by Council and will be required to give effect to Council's strategic goals; Council, as shareholder, is still able to set the ultimate direction for the WSCCO. Existing relationships with key stakeholders, including iwi and Environment Canterbury, will be transferred to the WSCCO.

While existing staff can transfer to the new WSCCO, there is an inherent risk that the scale may not be suitable to alleviate the risk of industry competition.

4.2.3 Impact on rest of Council

The establishment of a WSCCO will impact the wider ADC organisation and moving to the WSCCO will incur transition costs. Arrangements will need to be established to ensure a smooth transfer, which could include Council undertaking some work on behalf of the WSCCO for a transition period to alleviate the initial impact on Council. This allows time for questions like stranded overheads to be resolved without significant upheaval.

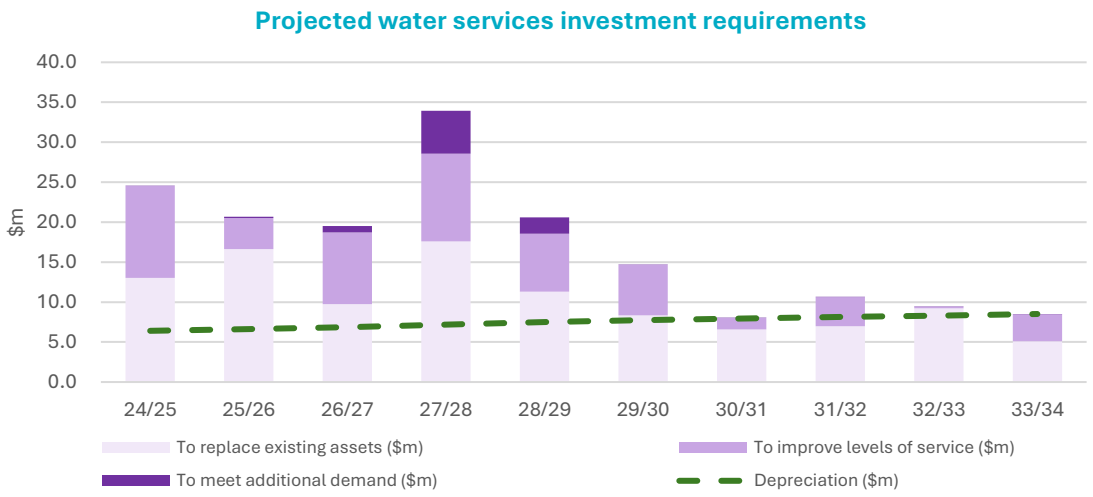
[7] Section 212 of the Bill

[8] Section 113(1) Local Government Act 2002

4.3 Financial Comparison of Options

Council commissioned Morrison Low to prepare financial modelling to evaluate the delivery of water services under each model. Operating expenditure is based on assumed requirements to meet the cost of delivering water services under LWDW and include additional anticipated costs - for example for increased monitoring and reporting to meet regulatory requirements.

The cost assessment uses the *'likely'* expenditure scenario (as outlined under Section 2.3) for water services over the next decade based on upcoming capital investment needs and meeting new regulations from LWDW. The likely scenario builds on the base case from the LTP 2024-34, adding an extra 25% to capital investment to cover potential upgrades, remedial actions, or network expansions expected over the next decade. The graph below summarises projected capital investment over the next ten years.

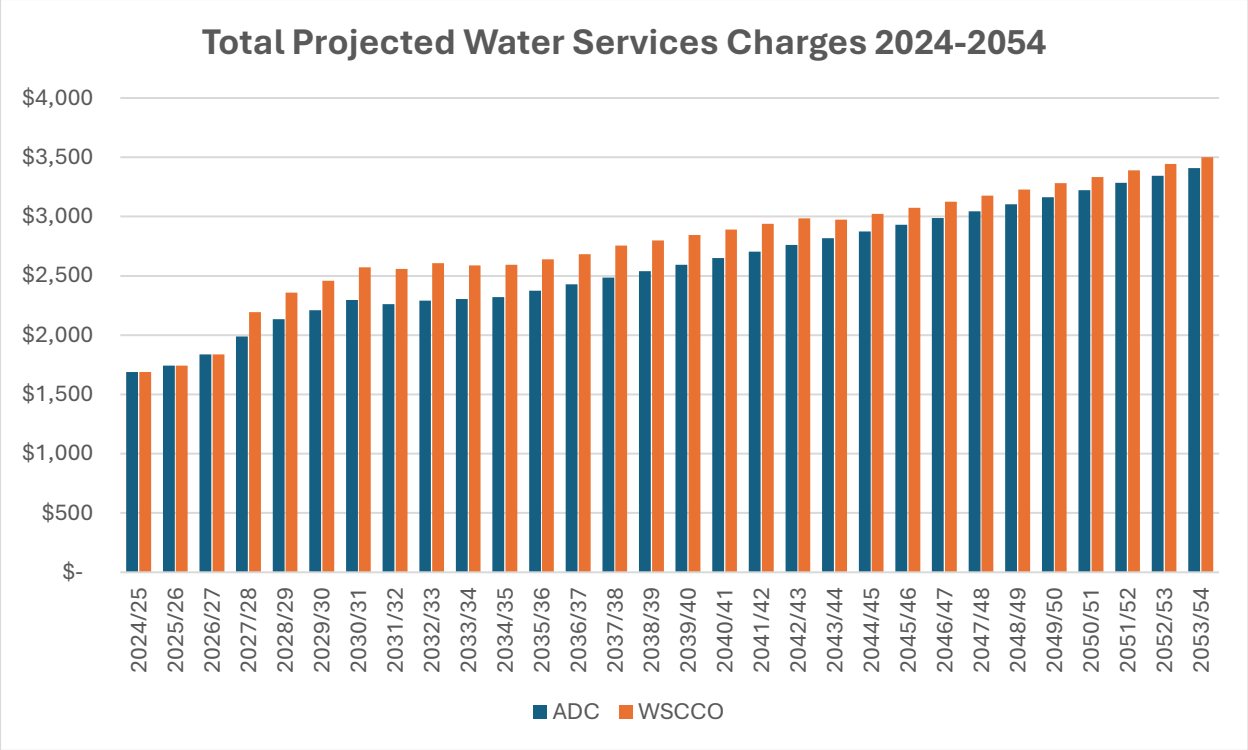


4.3.1 Price

Based on the Morrison Low modelling completed using the likely scenario, average household charges for water services for the two models are summarised below:

	Average over 10 years	Average over 20 years	Average over 30 years
SABU	$2,076	$2,322	$2,593
WSCCO	$2,261	$2,536	$2,776

The table presents the average charges for water services over three distinct periods: 10, 20, and 30 years, based on the completed modelling. The graph illustrates these charges on an annual basis over a 30-year span, comparing the two models:



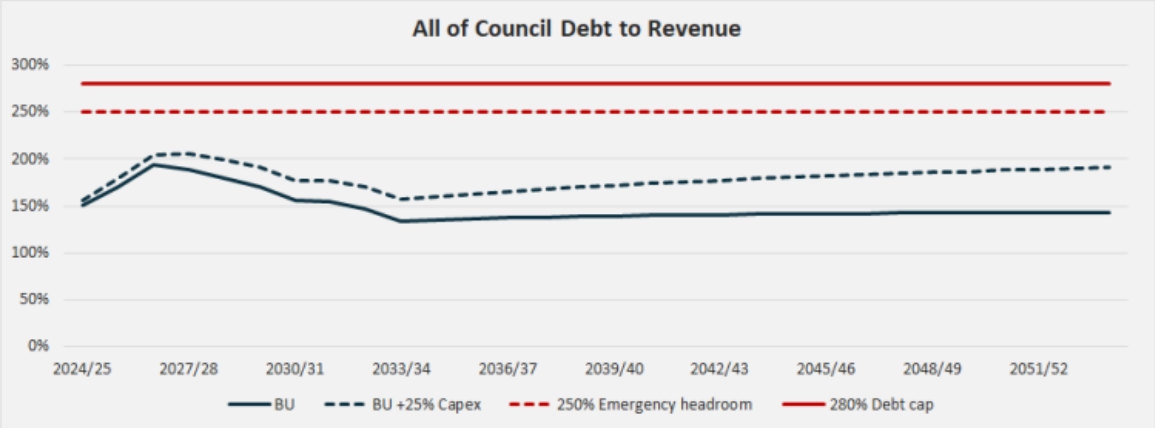
4.3.2 Debt

SABU Model

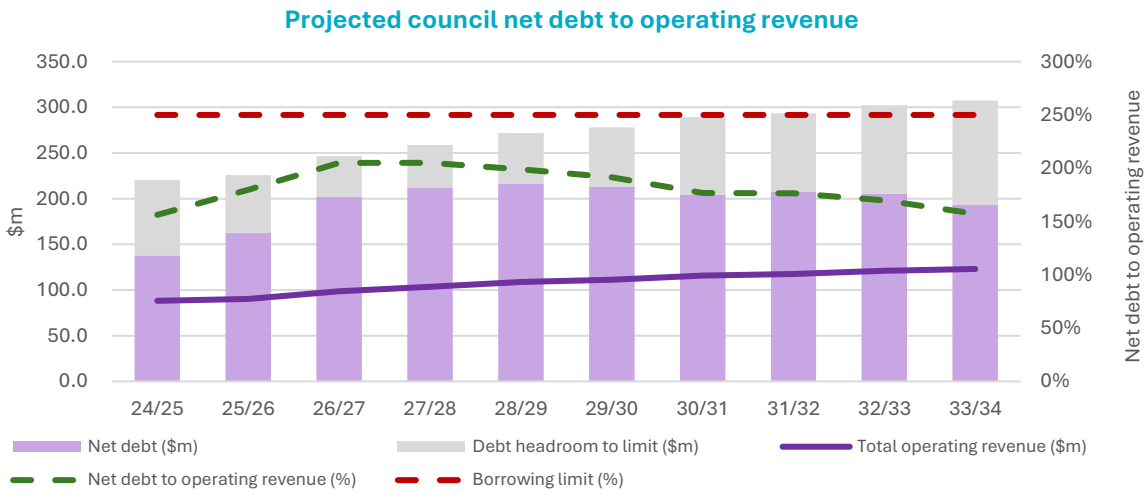
Under the SABU model, debt is managed at the total council level, with a consolidated net debt-to-revenue (DTR) limit set at 250% as per Council's Treasury Policy. No specific debt parameters are set at the individual activity level, which means that as long as the council-wide DTR limits are not exceeded, individual activities can operate with unrestricted DTR percentages.

This balance benefits water-related activities by providing relatively unrestricted access to debt, although it could also, in some cases, limit a council's ability to borrow for unforeseen needs in other non-water-related areas. However, based on the financial modelling undertaken, retaining water activities in-house is unlikely to significantly restrict Council's ability to manage debt for its other activities.

The graph shows this for both the base case model and likely scenario (+25% increase in capital investment) used as the basis for this business case.



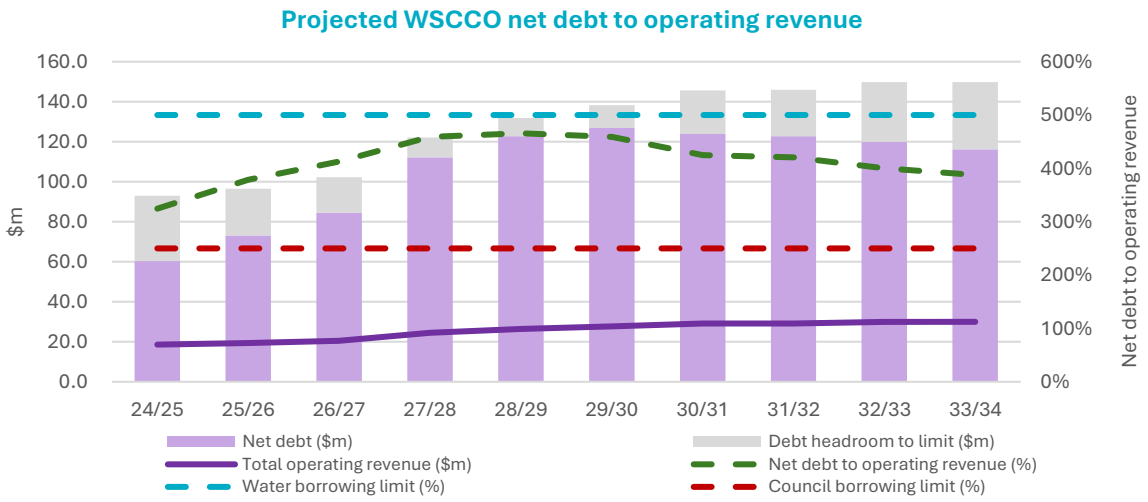
Under the SABU model, the Council's strong debt position allows more use of debt for water services expenditure while staying within the net Debt to Revenue 250% limit. We also maintain debt headroom to fund other activities of Council. However, this may limit the Council's ability to borrow in emergencies. The graph outlines the net debt to operating revenue and available debt headroom of this model.



WSCCO Model

Under the WSCCO model, all existing water services debt would transfer to the WSCCO. The ability to raise debt is more limited, as the WSCCO is only able to borrow against its own revenue. This transfer, which is only supported by waters revenue, means the WSCCO is likely to have to raise household water charges to raise sufficient revenue and stay within its debt limits.

The graph shows the WSCCO operating within a 500% debt limit, including the expected work programme and operating costs of the WSCCO. The model assumes what's needed for financial sustainability and additional regulatory and operating costs. If the WSCCO was selected as the service delivery model, it would set its own capital programme and operating model, so actual costs may vary from the model.

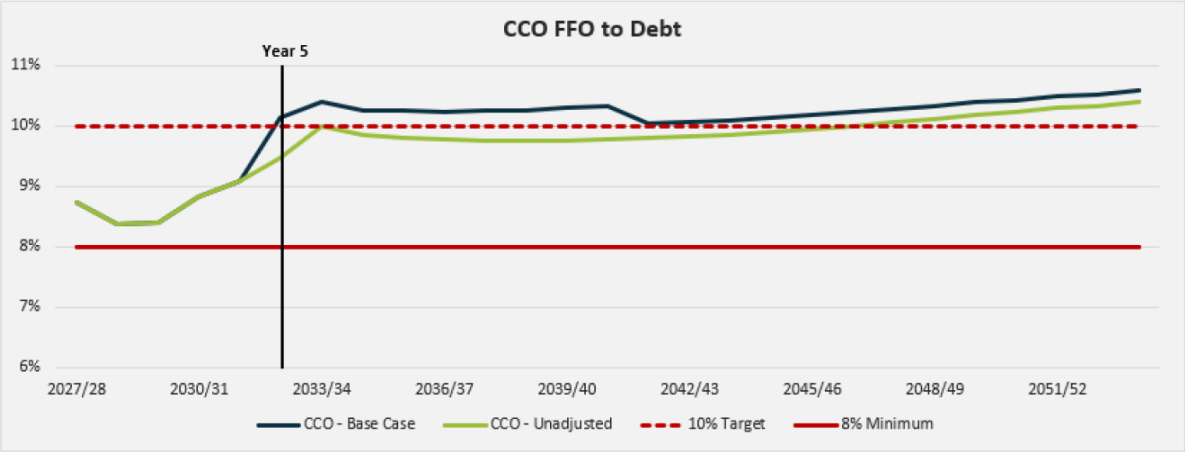


The modelling uses the FFO to debt measure, assuming a 10% FFO to debt ratio, as the minimum threshold for an ADC WSCCO. For ADC, FFO essentially represents its net operating cash flows.

FFO focuses on free cash flows relative to the net debt balance rather than operating revenue to debt.

Financial modelling indicates that under a CCO model, the average household waters charges will likely be slightly higher when compared with a SABU. These higher charges are in part explained by the impact of debt, and FFO to debt ratios. While the CCO model is associated with higher debt limits, the high proportion of waters debt (including current Council waters debt) means that when ADC's waters debt is transferred to a CCO and supported solely by waters revenue, the CCO is required to increase household charges to stay within borrowing limits (and avoid breaching FFO-to-debt ratio targets). This highlights the constrained debt headroom faced by the CCO model, particularly during its establishment phase.

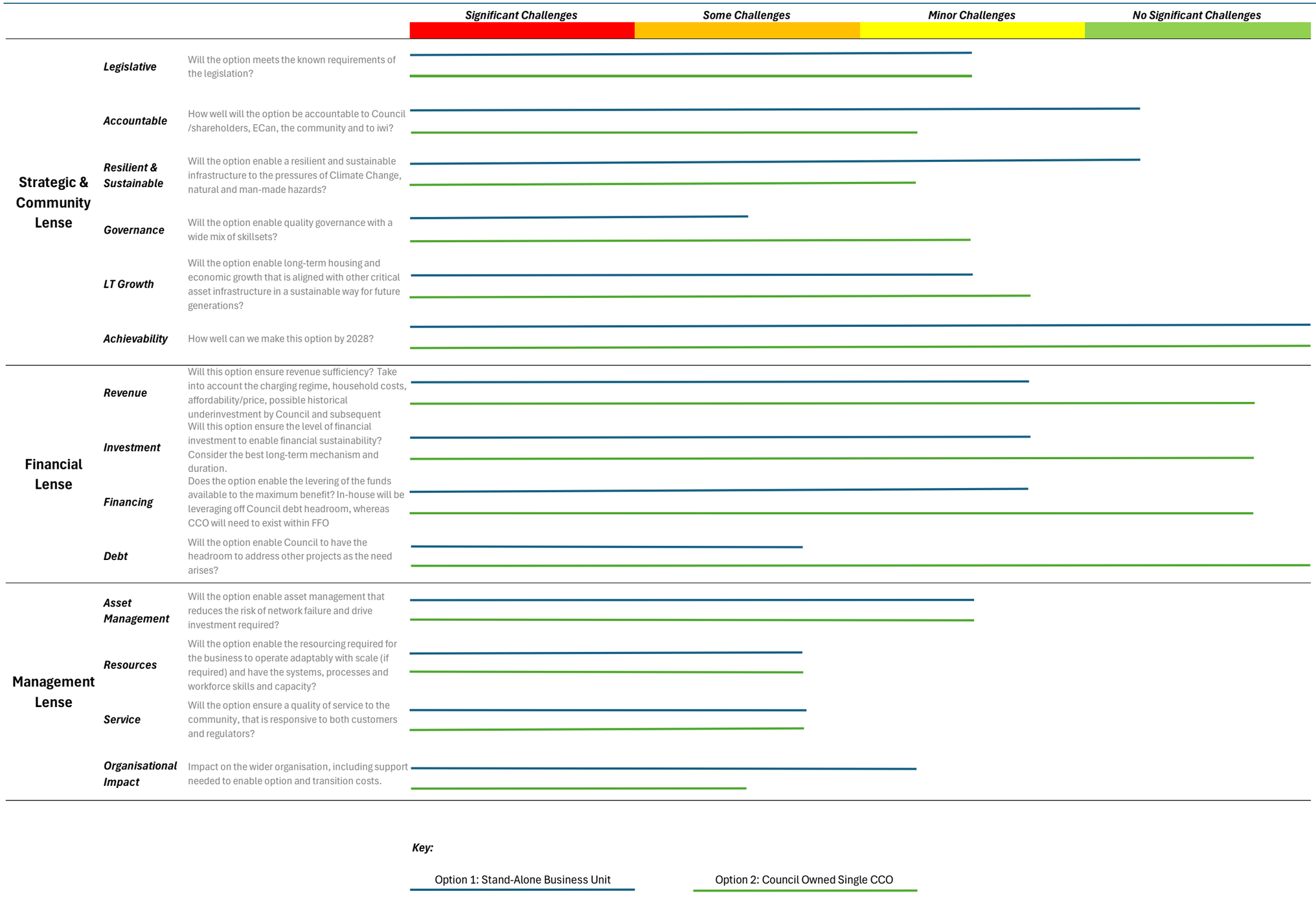
The chart below illustrates this effect, comparing the CCO base case (staying within FFO to net debt limits) to an unadjusted version where no specific increases in household charges are modelled (no FFO debt limits). In the unadjusted base case, the FFO to net debt ratio stays marginally below the 10%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



Note: FFO ratio must remain above the red line

The higher charges under the CCO model does however lead to reduced waters debt over the 30 year period shown in the financial modelling. The modelling suggests that this results in lower annual household charges for the CCO from near 2045 onward, as reduced debt translates to lower financing costs for the CCO (in comparison to the SABU model which may continue to borrow to fund CAPEX, rather than increase household charges).

5.0 Multi-Criteria Assessment



6.0 Explanation of Multi-Criteria Assessment

Option 1: Stand-Alone Business Unit

Strategic & Community Lens	**Legislative**	Adaptation will be required in some areas to meet requirements
	Accountable	Existing accountability and relationships in place, including with the community
	Resilient & Sustainable	Could meet these requirements but may need to be strengthened depending on government and community direction
	Governance	Governance reliance upon right skills, knowledge and experience being provided via the electoral cycle. Expertise could be brought in to meet any gaps. Oversight challenged by competing priorities.
	Long-term growth	Retains existing in-house partnerships to facilitate growth and development
	Achievability	Existing structure well understood but would need to be adapted to enable compliance
Financial Lens	**Revenue**	SABU has a slightly lower predicted household charges in the short term, but final price level will be dependent on ComCom. In-house model may find some changes more challenging (e.g. water metering) given political considerations and legislative requirements
	Investment	Risk that identified investment needs are not funded due to other considerations, e.g. rate rises. This risk exists whether or not Council has available borrowing headroom. Final investment expectations will be dependent on ComCom.
	Financing	Council will continue to access funding through the LGFA and will recoup financing costs of water services
	Debt	Sufficient debt headroom to meet base and likely investment cases. May constrain investment in other areas of Council. SABU may have higher long term debt levels (compared to CCO) if it raises debt rather than increasing household charges to fund investment.
Management Lens	**Asset Management**	Water services asset management delivery has always been undertaken by Council. Existing approach could be enhanced through greater scale, focus and resourcing.
	Resources	While Council has a capable water services workforce, skills in other areas would need to be acquired e.g. regulation
	Service	Council would continue to provide the service, would retain associated reputation but would be subject to new regulations to maintain quality
	Organisational Impact	Minimises disruption to rest of Council but efficiency improvements may take longer to achieve compared to sole-focus model

Option 2: Council owned Water Services CCO (WSCCO)

Strategic & Community Lens	**Legislative**	Can meet requirements but the CCO entity will need to be set up from scratch including the governance structure.
	Accountable	Directly accountable to Council, but would need to build some relationships to ensure accountability with community and key stakeholders
	Resilient & Sustainable	Could meet these requirements but may need to be strengthened depending on government and community direction
	Governance	Competency-based Board appointed based on skills, knowledge and experience. Sole focus on oversight of water services.
	Long-term growth	Retains partnerships via transfer to facilitate growth and development
	Achievability	Model establishment approach well understood, but will take at least 18 months to establish. In the interim services and activities would transition from Council to the WSCCO.
Financial Lens	**Revenue**	CCO has a slightly higher household price per annum in the short term, but the final price level could end up lower due to efficiencies and the dedicated focus. The final price will be dependent on ComCom requirements. CCO would be directly responsible for the setting of water charges, removing this responsibility from Council. It may be easier to implement water metering and charging via a CCO mechanism.
	Investment	Ability under modelling to borrow more, and not constrained by political considerations or competition with other Council activities. Final investment expectations will be dependent on ComCom.
	Financing	Model enables higher ability for debt funding (under FFO to debt approach), but must be matched by increasing water charges if the ratio is breached.
	Debt	Sufficient debt headroom to meet base and likely investment cases. Model is separated from Council balance sheet.
Management Lens	**Asset Management**	Transfer to new CCO would ensure continuity including reputation for delivery.
	Resources	Existing water services workforce would transfer to CCO, but skills would still need to be acquired in other areas (e.g. ComCom regulation)
	Service	Service provided likely to continue to be high-quality but would be subject to new regulations to maintain quality
	Organisational Impact	Potential for disruption to wider Council organisation but likely to be mitigated through transfer agreement and transitional arrangements

Appendix One: Three Waters Non-Financial Performance

The following information has been sourced from Council's 2023/24 Annual Report.

Our Performance Drinking Water|

NON-FINANCIAL PERFORMANCE MEASURES

WHAT WE'RE WORKING TOWARDS (LEVEL OF SERVICE)	**HOW WE MEASURE PROGRESS** (PERFORMANCE MEASURE)	**2022/23 RESULTS**	**2023/24 TARGET**	**2023/24 RESULTS**
We provide quality drinking water to connected properties	All Council drinking water schemes achieve bacteria compliance	50%	100%	*New DIA water supply compliance.* *Reported in column below*[9]
	All Council drinking water schemes achieve protozoal compliance	0%	100%	
	New target as issued by DIA August 2024. The extent to which the local authority's drinking water supply complies with the following parts of the drinking water quality assurance rules: (a) 4.4 T1 Treatment Rules; (b) 4.5 D1.1 Distribution System Rule; (c) 4.7.1 T2 Treatment Monitoring Rules; (d) 4.7.2 T2 Filtration Rules; (e) 4.7.3 T2 UV Rules; (f) 4.7.4 T2 Chlorine Rules; (g) 4.8 D2.1 Distribution System Rule; (h) 4.10.1 T3 Bacterial Rules; (i) 4.10.2 T3 Protozoal Rules; and (j) 4.11.5 D3.29 Microbiological Monitoring Rule	N/A	100%	[10]Ashburton X 18.18% Methven 88.70% Rakaia 49.07% Chertsey 48.75% Dromore 49.17% Fairton 45.83% Hakatere 71.04% Hinds 53.33% Mayfield 50.21% Montalto 47.92% Mt Somers 89.38%

[10] *Results are a percentage of each supply's compliance with the applicable Drinking Water Quality Assurance Rules (DWQARs) for the 2023-2024 year.*
- Ashburton Methven & Rakaia must comply with the level 3 DWQARs (h), (i) & (j)
- Chertsey, Dromore, Fairton, Hakatere, Hinds, Mayfield, Montalto & Mt Somers must comply with the level 2 DWQARs (c), (d), (e) & (f)
- DWQARs covered by this measure are not all the rules relevant to each supply. This measure is focused on Treatment performance rules & Distribution water quality rules only.

WHAT WE'RE WORKING TOWARDS (LEVEL OF SERVICE)	HOW WE MEASURE PROGRESS (PERFORMANCE MEASURE)		2022/23 RESULTS	2023/24 TARGET	2023/24 RESULTS	
Council contractors respond to drinking water failures and requests with median response times	Median response time (in hours) to urgent and non-urgent callouts	Urgent call-out attendance	0.98 hours (59 minutes)	1 hour	0.82 (49 minutes)	✓
		Urgent call-out resolution	4 hours	4 hours	1.58 hours	✓
		Non-urgent call-out attendance	1.83 days (44.0 hours)	1 day	2 days (48 hours)[11]	x
		Non-urgent call-out resolution	2.04 days (49.1 hours)	5 days	2.81 days (67.5 hours)	✓
We provide efficient and sustainable drinking water services	Reduction in real water loss from the reticulated systems* The percentage of real water loss from Council's networked reticulation system is estimated using Minimum Night Flow (MNF) analysis, following an approach similar to Appendix A of the Water NZ Water Loss Guidelines and Section 2b of the Water Loss Guidance from the National Performance Framework.		59%	34%	59%[12]	x
	Reduction in average consumption / resident / day* The average consumption of drinking water per day per resident within Ashburton District.		790 L	≤706 L	838 L[13]	x
The majority of residents are satisfied with our drinking water services	Customer satisfaction with drinking water services	a) Clarity b) Taste c) Odour d) Pressure or flow e) Continuity of supply Council's response to any of these issues	4.96 complaints / 1,000 connections	≤ 10 complaints / 1,000 connections	8.38 complaints / 1,000 connections	✓
	Residents are satisfied with Council's drinking water supplies		80%	80%	86%	✓

[11] *For non-urgent call-outs, the contractor focuses on resolution on first visit to site. This reduces the average resolution time but does result in average call-out attendance being longer.*

[12] *Not all properties on Council supplies are metered and so the approved water loss calculation yields a coarse figure and includes losses on private reticulation.*

[13] *This result is also impacted by higher losses on schemes. No universal metering across Ashburton district means it is not possible to determine whether the increase is due to increased resident consumption or increased network leakage.*

Our Performance Wastewater

NON-FINANCIAL PERFORMANCE MEASURES

WHAT WE'RE WORKING TOWARDS (LEVEL OF SERVICE)	HOW WE MEASURE PROGRESS (PERFORMANCE MEASURE)		2022/23 RESULTS	2023/24 TARGET	2023/24 RESULTS	
We provide an efficient and sustainable wastewater system	Dry weather overflow incidents* *The number of dry weather sewerage overflows from the Council's sewerage systems, expressed per 1000 sewerage connections to that sewerage system.*		1.00 / 1000 connections	≤1.0/1000 connections	1.88 / 1000[14] connections	x
	Compliance with resource consents* Compliance with Council's resource consents for discharge from its sewerage systems measured by the number of the following received by Council:	Abatement notices	0	0	1[15]	x
		Infringement notices	0	0	1[16]	x
		Enforcement orders	0	0	0	✓
		Convictions	0	0	0	✓
Council contractors respond to wastewater failures and requests with median response times	Median response time to callouts* *Where contractors attend a call-out on Council's behalf to a fault or unplanned interruption to a Council networked reticulation system, the median response times are measured, from the time Council receives the notification to the time that service personnel reach the site, and to the time that Council received notification of resolution of the problem.*	Call-out attendance time	0.78 hours (47 minutes)	1 hour	0.45 hours (27 minutes)	✓
		Call-out resolution	1.83 hours (110 minutes)	4 hours	2.47 hours (149 minutes) [17]	✓

** Mandatory performance measure set by the Department of Internal Affairs*

[14] *It is difficult to provide a definitive reason for the increase in dry weather overflow events. It is speculated that lower network flows during the extended dry period may be a contributing factor.*

[15] *Rakaia WWTP issued with an abatement notice on 27 November 2023 and 8 January 2024. These abatements are considered as one as they are for the same issue –sludge disposal non-compliance. This has now been addressed with the sludge drying beds project.*

[16] *Infringement received on 30 November 2023 for sludge discharge from Rakaia Wastewater Treatment Plant.*

[17] *The increase in dry weather overflow incidents may have impacted resolution timeframes.*

WHAT WE'RE WORKING TOWARDS (LEVEL OF SERVICE)	HOW WE MEASURE PROGRESS (PERFORMANCE MEASURE)		2022/23 RESULTS	2023/24 TARGET	2023/24 RESULTS
The majority of residents are satisfied with our wastewater services	Customer satisfaction with wastewater services * *The total number of complaints received by Council expressed per 1000 connections about:*	a) Sewage odour b) Sewerage system faults c) Sewerage system blockages d) Council's response to issues with our sewerage system	8.23 complaints / 1000 connections	≤ 10 complaints / 1000 connections	11.64 complaints / 1000 connections [18] x

** Mandatory performance measure set by the Department of Internal Affairs*

Our Performance Stormwater

NON-FINANCIAL PERFORMANCE MEASURES

WHAT WE'RE WORKING TOWARDS (LEVEL OF SERVICE)	HOW WE MEASURE PROGRESS (PERFORMANCE MEASURE)		2022/23 RESULTS	2023/24 TARGET	2023/24 RESULTS
We provide protection from flooding for private properties	Flooding events from stormwater overflows* *The number of flooding events resulting from stormwater overflows, and for each flooding event the number of habitable floors affected, expressed per 1000 properties connected to the stormwater system*	The number of flooding events	0	0	0 ✓
		The number of habitable floors affected for each flooding event	0	0	0[19] ✓
	Median response time (in hours) to callouts* *Where contractors attend a call-out on Council's behalf to attend a flooding event, the median response times are measured from the time Council receives the notification to the time that service personnel reach the site.*		0	1 hour	0 [20] ✓

[18] *This is related to a spike in the number of blockages attended to. We speculate that this may be due to lower infiltration and inflow resulting in less flushing flows through the network.*

[19] *Not applicable as there were no relevant weather events during this period*

[20] *Not applicable as there were no relevant weather events during this period.*

We provide efficient and sustainable stormwater services	Compliance with resource consents* *Compliance with Council's resource consents for discharge from its stormwater systems measured by the number of the following received by Council:*	Abatement notices	0	0	0	✓
		Infringement notices	0	0	0	✓
		Enforcement notices	0	0	0	✓
		Convictions	0	0	0	✓
The majority of residents are satisfied with our stormwater services	Customer satisfaction with stormwater services (complaints per 1000 connections)* *The total number of complaints received by Council about the performance of its stormwater system, expressed per 1000 connections to the stormwater systems.*		1.81	≤ 5	3.47 [21]	✓

* Mandatory performance measure set by the Department of Internal Affairs

[21] *There was a slight increase in 2023/24 compared with the previous year – an expected fluctuation often to do with the amount of rain across the year and people's increased awareness of stormwater.*