Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki
District Council

# Rārangi Take Kaunihera Whanokē

# Extraordinary Council Agenda

To make a decision on the preferred option for Water Services Delivery

## Monday 14 October 2024 at 3 pm

Council Chamber, Albion Street, Hāwera

# Pūrongo Whaitikanga
# Governance Information

## Ngā Mema o te Komiti / Committee Members

Phil Nixon
*Mayor*

Andy Beccard
*Councillor*

Mark Bellringer
*Councillor*

Celine Filbee
*Councillor*

Te Aroha Hohaia
*Councillor*

Robert Northcott
*Deputy Mayor*

Leanne Horo
*Councillor*

Aarun Langton
*Councillor*

Steffy Mackay
*Councillor*

Tuteri Rangihaeata
*Councillor*

Bryan Roach
*Councillor*

Brian Rook
*Councillor*

Diana Reid
*Councillor*

Racquel Cleaver-Pittams
*Councillor*

## Apatono / Delegations

The Full Council's role is to carry out responsibilities under the Local Government Act 2002. It is the final decision-making authority within the Council and generally ratifies recommendations made by other committees.
It is made up of all Councillors and the Mayor.

**Powers that cannot be delegated**
The powers that cannot be delegated by the Council are:

(a) the power to make a rate
(b) the power to make a bylaw
(c) the power to borrow money, or purchase or dispose of assets, other than in accordance with the long-term plan
(d) the power to adopt a long-term plan, annual plan or annual report
(e) the power to appoint a chief executive
(f) the power to adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the long-term plan or developed for the purpose of the Local Governance Statement.
(g) the power to adopt a remuneration and employment policy

Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki District Council

# Pūrongo Whaitikanga
# Governance Information

## Huinga Tāngata / Attendance Register

| Date | 03/04/24 | 13/05/24 | 20/05/24 | 22/05/24 | 04/06/24 | 12/06/24 | 24/06/24 | 08/07/24 | 05/08/24 | 02/09/24 | 04/09/24 | 04/09/24 | 16/09/24 | 25/09/24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Meeting** | O | O | E | E | E | E | O | E | O | E | E | E | O | E |
| Andy Beccard | √ | √ | √ | √ | √ | A | √ | √ | √ | A | AO | AO | A | A |
| Mark Bellringer | A | √ | √ | √ | √ | A | A | √ | √ | √ | √ | √ | √ | A |
| Celine Filbee | √ | √ | A | A | √ | √ | √ | A | √ | √ | √ | √ | √ | √ |
| Te Aroha Hohaia | A | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| Leanne Horo | A | √ | √ | AO | √ | A | √ | √ | √ | √ | A | A | A | AO |
| Aarun Langton | √ | √ | A | A | A | √ | √ | A | √ | A | A | A | √ | √ |
| Steffy Mackay | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| Phil Nixon | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| Robert Northcott | √ | √ | √ | √ | √ | √ | √ | A | √ | √ | √ | √ | √ | √ |
| Tuteri Rangihaeata | X | X | √ | X | X | √ | A | √ | √ | X | A | A | √ | √ |
| Diana Reid | √ | √ | √ | √ | √ | A | √ | √ | √ | √ | √ | √ | √ | √ |
| Bryan Roach | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| Brian Rook | X | √ | √ | √ | √ | √ | A | √ | √ | √ | √ | √ | √ | √ |
| Racquel Cleaver-Pittams | √ | √ | √ | √ | √ | A | √ | AO | √ | √ | √ | √ | √ | √ |

### Key

| | |
|---|---|
| √ | Attended |
| AO | Attended Online |
| - | Was not required to attend |
| A | Apology |
| Y | Attended but didn't have to attend |
| X | Did not attend - no apology |

**Types of Meetings**

| | |
|---|---|
| I | Inaugural |
| O | Ordinary Council Meeting |
| E | Extraordinary Council Meeting |

## He Karere Haumaru / Health and Safety Message

In the event of an emergency, please follow the instructions of Council staff.
If there is an earthquake – drop, cover and hold where possible. Please remain where you are until further instruction is given.

## He Pānga Whakararu / Conflicts of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected member and any private or other external interest they might have.

Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki District Council

# Rārangi Agenda

## Extraordinary Council

**To make a decision on the preferred option for Water Services Delivery**

Monday 14 October 2024 at 3 pm

### 1. Karakia

### 2. Matakore / Apologies

### 3. Tauākī Whakarika / Declarations of Interest

### 4. Pūrongo / Report



### 5. Karakia

Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki
District Council

# Karakia

## 1. Karakia

Ruruku Timata – Opening Prayer

| | |
|---|---|
| (Kia uruuru mai ā-hauora, | *(Fill me with vitality)* |
| ā-haukaha, ā-hau māia) | *strength and bravery)* |
| Ki runga | *Above* |
| Ki raro | *Below* |
| Ki roto | *Inwards* |
| Ki waho | *Outwards* |
| Rire rire hau | *The winds blow & bind us* |
| Paimārire | *Peace be with us.* |

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South Taranaki
District Council

# Matakore
# Apologies

## 2. Matakore / Apologies

***Leave of Absence:*** *The Board may grant a member leave of absence following an application from that member. Leave of absences will be held in the Public Excluded section of the meeting.*

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South Taranaki District Council

# Ngā Whakaputanga
# Declarations of Interest



## 3. Tauākī Whakarika / Declarations of Interest

Notification from elected members of:

a) Any interests that may create a conflict with their role as an elected member relating to the items of business for this meeting; and

b) Any interests in items in which they have a direct or indirect pecuniary interest as provided for in the Local Authorities (Members' Interests) Act 1968.

***Declarations of Interest:*** *Notification from elected members of: Any interests that may create a conflict with their role as an elected member relating to the items of business for this meeting; and Any interests in items in which they have a direct or indirect pecuniary interest as provided for in the Local Authorities (Members' Interests) Act 1968*

Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki District Council

# Pūrongo Report

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| | |
|---|---|
| To | Extraordinary Council |
| From | Tumu Whakahaere / Chief Executive, Fiona Aitken |
| Date | 14 October 2024 |
| Subject | **Local Water Done Well – Options for further investigation** |

(This report shall not be construed as policy until adopted by full Council)

## Whakarāpopoto Kāhui Kahika / Executive Summary

1. The government has repealed the previous Affordable Waters legislation and has commenced its own water reform programme known as Local Water Done Well (LWDW). The second piece of new legislation has now been enacted, which requires councils to develop, and submit for approval, Water Services Delivery Plans (WSDPs) by 3 September 2025.

2. The WSDP requires councils to identify a financially viable pathway to delivering water services. The draft legislation requires that Councils are to:

   - Consider a minimum of two options – status quo, forming a Council Controlled Organisation (CCO - noting that there are many different varieties of CCO) and/or a consumer trust; and
   - Consult with their community on the options.

3. While the legislation was being developed, and to maintain momentum, the Taranaki Mayoral Forum approved the first step in a "Water Services Delivery for Taranaki – Project Mandate", to develop an Indicative Business Case (IBC) which explored various options for water services delivery and recommends a preferred option. This work has been completed by consultants, GHD. This work built on the previous work undertaken by the region's three local authorities which largely focussed on a regional entity for service delivery.

4. To ensure that the South Taranaki perspective was fully investigated, officers engaged an independent consultant, Rationale, to undertake an assessment of water service delivery options. Both the Rationale and GHD assessments are being presented to Council with this report (Appendix I and Appendix II).

5. This report presents the options for developing a WSDP and asks the Council to decide on which service delivery models should be further investigated. It should be noted that any decision the Council makes at this stage to continue investigating a regional model does not preclude the Council from 'opting out' at a later date.

6. The Council could also choose to continue investigating more than one model of service delivery. This would result in greater workload for officers, could present increased risk of central government enactment of step-in powers and could extend consultation and/or

Council decision-making into Local Body election timeframes. However, it also allows greater certainty for the Council when they make their final decision on method of delivery as data quality is improved and more detailed information is available. Therefore, in order for the Council to make the most informed decision possible, it is recommended that the Council approve continuing to look at both a regional model and a standalone model (either in-house business unit and/or CCO).

## Taunakitanga / Recommendation(s)

THAT the Council;

a) Receives the Local Water Done Well – options for further investigation report; including the GHD Indicative Business Case and the Rationale Independent Assessment of Delivery Options;

b) Agrees to further investigate both a regional service delivery model for water services and a standalone service delivery model (in-house business unit or standalone CCO);

c) Notes that there is no government funding available to the Council for any investigation work or to develop a Water Services Delivery Plan; and

d) Authorises the Chief Executive to engage the necessary resources to undertake further investigation on the three service delivery models (regional CCO, standalone CCO and in-house business unit) with unbudgeted expenditure of up to $250,000 in the 2024-25 financial year.

## Kupu Whakamārama / Background

7. The government has repealed the previous Affordable Waters legislation and has commenced its own water programme known as LWDW. LWDW will be implemented in three stages. Stage 1 to repeal previous water services legislation was enacted in February 2024, Stage 2 to establish a framework and preliminary arrangements for the new water services system was enacted in August 2024. This piece of legislation requires councils to develop WSDPs within 12 months (by 3 September 2025). Stage 3 will be legislation that sets out a range of changes to the water services delivery system and water services regulatory system which is expected to be presented as a Bill in December 2024.

8. In March 2024 the Taranaki Mayoral Forum approved the first step in a “Water Services Delivery for Taranaki – Project Mandate”, to develop an indicative business case which explored various options for water services delivery and recommended a preferred option. This work has been completed by consultants, GHD.

9. At the same time, officers also engaged an independent consultant, Rationale, to undertake an initial assessment of water service delivery options from a South Taranaki perspective. Rationale’s approach was to understand the issues and opportunities based on South Taranaki’s current state; identify possible options for the delivery of three waters; an assessment of the options and an analysis with a recommended way forward.

**Local Government Purpose**

10. The purpose of local government is to enable democratic local decision-making on behalf of communities. The government has repealed the previous Affordable Waters legislation that mandated councils to become part of a larger water entity. The LWDW legislation that has now been enacted provides for local decision making.

11. The Local Government Act requires councils to promote the social, economic, environmental and cultural well-being of the community now and for the future. The efficient delivery of three waters to the community is crucial for the economic and environmental well-being of the community.

## Ngā Kōwhiringa / Options – Identification and analysis

12. The Local Government (Water Services Preliminary Arrangements) Act establishes the Local Water Done Well framework and preliminary arrangements for the new water services system. It gives Councils five options for water services delivery arrangements:

| | In house business unit | Water organisations | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| **Ownership variations** | **Not applicable** Structure is part of council | Single council owned | Multi-council owned | Mixed council/ consumer trust owned | Consumer trust owned |
| **Council financial support** | **Not applicable** Structure is part of council | **Council provides support** (e.g. guarantees or uncalled capital) | | **No council financial support** (can borrow from banks and/or capital markets) | |

13. Options four and five in the table above are not considered practicable options for South Taranaki and in fact the Taranaki region, so no further investigation of these options is being recommended.

14. Option 1: In-house business unit, Option 2: single council owned CCO and Option 3: multi-council owned CCO are the three options that have been broadly considered as viable options up to this point. It should also be noted that the GHD IBC and Rationale independent assessment were both completed prior to the delivery models enabled in the legislation being known. This has resulted in some of the options considered in the original analysis no longer being relevant. Both the GHD and Rationale analysis has been updated to reflect only these three options as being viable.

**GHD Indicative Business Case**

15. An IBC is indicative by nature. It provides an early opportunity to consider which option/s are viable for further analysis in a detailed business case. The IBC was developed to consider the Regional Water Outcome Statements that were agreed by the Project Working Group:

a. A sustainable funding mechanism
b. An attractive market for investment and growth
c. Informs Te Mana o te Wai
d. Well-maintained and compliant water systems
e. Sufficient capability and a robust talent pipeline to support its water activities

16. The high-level financial modelling in the IBC was completed on a cost per connection basis only and a better understanding of the different revenue sources (eg water by meter) is necessary. Our own high level analysis of the cost per cubic metre consumed gives a different picture to the IBC.

17. The IBC doesn't state a preferred option as the decision-making remains with the elected members of each of the three councils.

**Rationale independent assessment**

18. Several options were initially identified but these were reviewed and reduced to reflect the options provided through the Local Government (Water Services Preliminary Arrangements) Act:

- Option 1 – Inhouse Business Unit (status quo)
- Option 2 – Single Council CCO
- Option 3 – Multi Council CCO

19. The analysis of the options identified option 1 as the preferred option, with options 2 and option 3 as a close second and third. This analysis reflected the fact that the Council is in a financially stable position. Sensitivity analysis further shows that option 1 consistently ranked highest when weightings of the various objectives are changed. The only time when this was not the case was when investment objectives were doubled to 50%. Option 2 then becomes the preferred option.

| | MCA Weightings | | | |
|---|---|---|---|---|
| | Equal Weighting | Current Weighting | Cost Weighting | Investment Weighting |
| | Investment Objectives 25<br>Costs 25%<br>Risks 25<br>Business Needs 25% | Investment Objectives 30%<br>Costs 30%<br>Risks 20%,<br>Business Needs 20% | Investment Objectives 17%<br>Costs 50%<br>Risks 17%<br>Business Needs 17% | Investment Objectives 50%<br>Costs 17%<br>Risks 17%<br>Business needs 17% |
| 1st | Option 1<br>New Business Unit | Option 1<br>New Business Unit | Option 1<br>New Business Unit | Option 2<br>Single Council CCO |
| 2nd | Option 2<br>Single Council CCO | Option 2<br>Single Council CCO | Option 2<br>Single Council CCO | Option 3<br>Multi Council CCO |
| 3rd | Option 3<br>Muti Council CCO | Option 3<br>Muti Council CCO | Option 3<br>Muti Council CCO | Option 1<br>New Business Unit |

## Risks

**a) Inability to comply with regulations.**
The entity delivering water services for the Council will be required to comply with all regulation including water quality, wastewater discharge standards (which are unknown at present) and economic regulation. There is a risk that the delivery model the Council decides on is unable to meet these.

b) **Potential loss of control over delivery of service (including capital programme, priorities)**
If a larger entity (e.g. regional CCO) is the future service delivery method, there is a risk that the higher growth, or larger council/s will have greater control over what the priorities are. This risk could be mitigated through the Statement of Expectations that must be developed by the shareholding councils.

c) **Inability to attract and retain skilled staff**
There is a risk, no matter which delivery method is agreed on, that existing staff may not wish to remain in their roles and prefer to seek work elsewhere. There is also the risk of losing staff due to uncertainty around which model of delivery will be chosen and the fear of job losses in a larger regional entity. A smaller entity may also struggle to attract skilled staff if they cannot offer attractive salary packages or conditions of employment.

d) **Iwi partnership**
There is a risk that our Iwi partners are not supportive of the direction the Council determines is the most appropriate for South Taranaki and disengage from the process. This risk is being mitigated by involving our Iwi partners in all levels of the project structure – there are two representatives on the regional Steering Group, Taiao staff from Iwi Post-Settlement Governance Entities (PSGEs) have been part of the project working group and Council's Te Kāhui Matauraura members were invited to the first Council workshop on the IBC.

e) **Short term decision-making vs long term potential benefits**
There is a risk that the Council (and the region) base a decision on the relatively short-term data (10 years) and therefore the financial viability of an entity without considering the longer term potential benefits (30-50 years). The current data may be relatively accurate and information on asset quality and renewals is likely to be more accurate than the information for future years. This risk is being mitigated by working on improving asset information as much as possible. However, considerable time may be needed to improve all asset data quality.

f) **Political pressure (national, regional, local) driving decision-making**
There is a risk that there will be pressure for the Council to make a decision to join a regional entity based on politics rather than our communities' feedback and financial viability as a standalone entity. This is being mitigated by providing the Council with as much information and independent advice as possible.

g) **Long-term affordability**
The risk that costs for both a standalone service delivery model and rates (paid to the Council) could become more expensive for the community. However, this risk can be mitigated to some degree by leveraging existing Council resources to deliver some services for a standalone entity (e.g. finance, billing, customer contact etc). In contrast, this may not be feasible for a regional entity, potentially leading to stranded overheads for all three councils.

h) **Data Quality**
LTP 2024-34 projections for water services are based on our infrastructure assets database and current asset conditions. All three councils in Taranaki agree that the condition ratings within their databases do not necessarily accurately reflect the true state of these assets. Consequently, additional borrowing could become necessary.

i) **Insufficient time and resources to complete the Water Services Delivery Plan by 3 September 2025.**
If the WSDP is not completed by the deadline there is a risk that the government will use the powers within the legislation to step in and appoint a crown facilitator and/or a crown water services specialist.

This risk is being mitigated by the establishment of an in-house project team with the project sponsor being the Chief Executive. This team is developing a timeline for development of the WSDP, liaising with the DIA for advice and support and ensuring the work required for the WSDP is undertaken in a timely manner. It is also possible to request an extension, however there is a risk that an extension is not given.

**Option(s) available**

20. Option One: Continue to investigate both a regional method of service delivery and standalone methods of service delivery (standalone CCO and in-house business unit). This is the preferred option.

21. Option Two: Continue to investigate a regional method of service delivery only. This option would mean that no further work is done on investigating any South Taranaki only methods of service delivery.

22. Option Three: Continue to investigate the South Taranaki only methods of service delivery (standalone CCO and in-house business unit). This would mean that the Council does not contribute to any further work on a regional service delivery model and would be a clear indication to Stratford and New Plymouth District Councils that South Taranaki does not want to enter into any kind of regional service delivery.

## Whaiwhakaaro me ngā aromatawai / Considerations and Assessments

**Assessment of Significance and Engagement**

23. South Taranaki District Council's general approach to determining the level of "significance" will be to consider:

| Criteria | Measure | Assessment |
|---|---|---|
| Degree | The number of residents and ratepayers affected and the degree to which they are affected by the decision or proposal. | All residents will be affected by the way water services are delivered in the future. |
| LOS | The achievement of, or ability to achieve, the Council's stated levels of service as set out in the Long Term Plan. | The Council will need to ensure that the option/s selected for further investigation will be able to continue to provide the stated levels of service in the LTP and meet any stated levels of |

| Criteria | Measure | Assessment |
|---|---|---|
| | | service set out in water legislation or regulations. |
| Decision | Whether this type of decision, proposal or issue has a history of generating wide public interest within South Taranaki. | Ownership and delivery of water infrastructure has previously generated wide public interest. |
| Financial | The impact of the decision or proposal on the Council's overall budget or included in an approved Long Term Plan and its ability to carry out its existing or proposed functions and activities now and in the future. | The Council's overall budgets will be impacted. Further analysis of the selected option/s will need to be undertaken to gain a full understanding of what the financial implications will be. |
| Reversible | The degree to which the decision or proposal is reversible. | The decision on which models of service delivery should be investigated further can be reversed at future decision points. |
| Environment | The degree of impact the decision will have on the environment. | The management and delivery of three waters has a significant impact on the environment and these impacts will be examined in the Water Services Delivery Plan. |

24. In terms of the Council's Significance and Engagement Policy the decision on the future service delivery model for water services is of high significance.

25. Under the Act councils must consult on the anticipated or proposed model for delivering water services in the WSDP. The Council must ensure that its consultation and decision-making complies with Section 51-54 (Part 3 of the Act).

26. The legislation only requires councils to identify and assess the advantages and disadvantages of two options – status quo and a preferred option. However councils may identify and assess additional options for delivering water services. Councils are only required to consult once in relation to an anticipated or proposed model/s for delivering water services in its WSDP. However councils can decide to undertake further consultation before making their final decision.

**Legislative Considerations**

27. The coalition government's second stage of Local Government Water Services Bill to establish a framework and preliminary arrangements for the new water services system was enacted in August 2024. The third Bill, which sets the economic regulatory framework is expected to be introduced to Parliament before the end of 2024.

28. Ultimately the Council is required to decide on the model for water service delivery and develop a WSDP which must be presented to the government by 3 September 2025 for their

approval. The WSDP must show how water service delivery will be financially sustainable by 30 June 2028.

29. There are minimum requirements which are likely to be set out in the third proposed Bill which will include that all water services providers are subject to:

- economic, environmental and water quality regulation
- new planning and accountability framework for water services including the need to produce standalone financial statements for water supply, wastewater and stormwater
- must be financially sustainable, including a requirement for the ringfencing of water services, an expectation of revenue sufficiency and accommodating for maintenance, renewals and growth
- must act consistently with statutory objectives (there will be additional statutory objectives that apply to water organisations)
- restrictions against privatisation (prohibitions on losing control, selling or disposing of significant infrastructure)

**Financial/Budget Considerations**

30. The government has confirmed that it will provide financing to support water CCOs that are supported by their parent council or councils, subject to prudent criteria. The establishment of new water organisations will enable additional debt financing to fund capital investment with one of the benefits being an increased proportion of capital expenditure financed by debt rather than operational budgets.

31. Councils will retain the ability to borrow through the Local Government Funding Authority (LGFA) if they choose to keep water services 'in house'. The LGFA are also reviewing whether it can provide additional flexibility to councils to meet future challenges. CCOs will also be able to borrow from the LGFA if they meet set criteria.

32. The borrowing limits for a CCO will be 500% of water revenue and for an in-house business unit, the Council limit of 280% of all revenue remains.

33. Undertaking further investigation on options for service delivery prior to making a final decision will require resources. The Council has approximately $118,000 of remaining transition funding that can be utilised for this purpose, however that is unlikely to be sufficient. This report recommends that Council approve unbudgeted expenditure of up to $250,000 for the more detailed investigation work that is required.

**Environmental Sustainability**

34. Whatever method of service delivery is implemented in the future, the entity (either the Council or a CCO) will be required to meet environmental standards for both water quality and wastewater discharge.

35. Taumata Arowai are currently developing national standards for wastewater discharge so it is unknown at this time what these regulations will require of Council. However, the Council has budgeted for additional treatment of wastewater as part of the 2024-34 LTP. It is intended that work will be undertaken as consents become due.

36. The entity will also need to consider the resilience of water and wastewater infrastructure as climate change affects sea level rise and more severe weather events potentially put infrastructure at risk (eg infrastructure close to eroding cliffs).

37. Making a decision on what options for waters service delivery should be further investigated has minimal impact on the environment.

**Consistency with Plans/Policies/Community Outcomes**

38. The three Taranaki local authorities had previously commenced a study in 2021 looking at the "Options for 3 Waters Delivery for the Taranaki Region". This was not progressed from the draft stage as it was overtaken by the Labour government reforms. The Indicative Business Case builds on this work incorporating learnings and improved data from the previous government's reform process.

39. Whether the Council proceeds with a regional CCO, standalone CCO or continues delivering the service in-house will be a strategic decision for the Council to make within the next six to 12 months.

40. Progressing the development of a WSDP will meet recent LWDW legislation enacted by the government in September 2024. It will also enable us to meet our future statutory responsibilities anticipated in Bill 3, December 2024.

41. This matter contributes to the following community outcomes as detailed below:

- Mana Oranga/Economic Well-being – Flourishing communities with a diverse economy, innovative people and resilient infrastructure.
- Mana Taiao/Environmental Well-being – Sustainable communities that manage resources in a way that improves our environment for future generations.

**Consideration for Iwi/Māori**

42. The Council's Iwi partners have been involved in all levels of the project structure to date with two representatives on the regional Steering Group, Taiao staff from Iwi Post Settlement Governance Entities (PSGEs) have been part of the project working group and Council's Te Kāhui Matauraura members were invited to the first Council workshop on the IBC.

43. Iwi partners will continue to be involved in the development of the WSDP as this work progresses.

## Whakakapia / Conclusion

44. The Council has until 3 September 2025 to develop and submit a WSDP which must show how the Council will deliver water and wastewater services to the community in a financially sustainable way while meeting environmental, economic and water quality regulations by 30 June 2028.

45. A key component of the WSDP is to consider the models for service delivery allowed for in the legislation and decide on a preferred option. At this early stage, officers consider that more investigation on three options is needed – regional CCO, standalone CCO and in-house business unit (enhanced status quo) and recommends the Council agree to further investigate these options.

Fiona Aitken
**Tumu Whakahaere /**
**Chief Executive**

Appendix I: Taranaki Three Waters Indicative Business Case
Appendix II: Local Water Done Well Presentation

Appendix 1



# Water Services Delivery for Taranaki

## Indicative Business Case

26 September 2024

→ **The Power of Commitment**

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| Project name | Water Services Delivery for Taranaki Indicative Business Case | | | | | |
|---|---|---|---|---|---|---|
| Document title | Water Services Delivery for Taranaki \| Indicative Business Case | | | | | |
| Project number | 12597702 – TO-13 | | | | | |
| File name | Indicative Business Case | | | | | |

| Status Code | Revision | Author | Reviewer | | Approved for issue | | |
|---|---|---|---|---|---|---|---|
| | | | Name | Signature | Name | Signature | Date |
| S4 | | Logan Peck<br>David Walker | Andrew Smith | | Tim Eldridge | *Tim Eldridge* | 26/09/24 |

**GHD Ltd**
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# Executive Summary

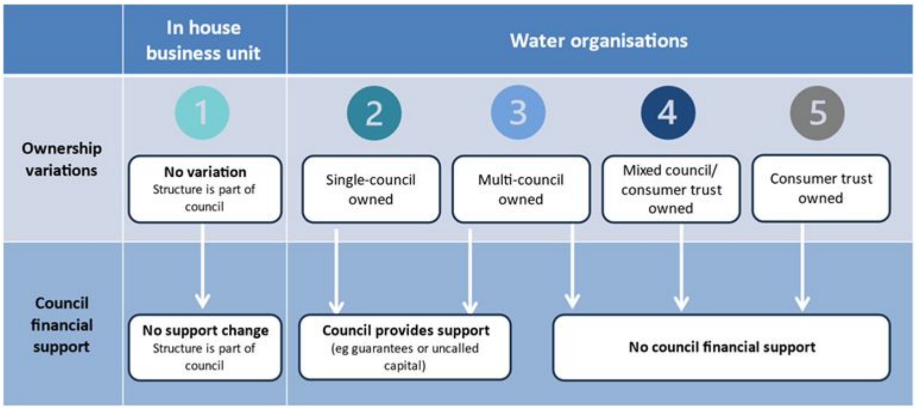
New Plymouth, South Taranaki, and Stratford District Councils have agreed to jointly undertake this Indicative Business Case (IBC) and have dedicated a Project Working Group and Waters Steering Group to help manage the project, alongside the Mayoral Forum and Iwi Chairs. Elected members in each Council retain decision-making power.

This IBC responds to the New Zealand Government's desire for reform in the water sector, which is being implemented through the Department of Internal Affairs' "Local Water Done Well" Programme. The purpose is to assess the case for change with regard to the establishment of a Water Services Council-Controlled Organisation (WSCCO) regionally.

**Legislative Environment**

While there have been many changes over the last few years in the legislation around water service delivery, the latest Bill Three has helped solidify the available options, and the requirements for Water Service Delivery Plans.

The following shows the list of confirmed service-delivery options from Bill Two - Preliminary Arrangements Bill




The main points of significance to come from the precursory advice from the DIA that was released in anticipation of Bill 3:

- Confirmation of the debt caps being up to 500% of operating revenue for both single-council and regional WSCCOs
- Stormwater was confirmed to continue as the legal responsibility of the councils but with the option to be outsourced to another organisation.
- Current funding arrangements for stormwater are retained in council. Accordingly, stormwater debt limits will continue to be managed under existing council limits, and CCO debt limits will be based on operating revenues for wastewater and drinking water only.
- Guidance around what a Water service delivery plan is expected to contain. It is a plan to demonstrate how councils can, separately or jointly, provide water services, and additionally:
  - meet level of service requirements
  - meet all regulatory and drinking quality standards
  - be financially sustainable by 30 June 2028
  - demonstrate how it will unlock housing growth and urban development as specified in the LTP.
  - Undertake an affordability assessment for water service delivery
- with a due date of the end of August 2025.
- The introduction of consumer trusts as an operating model, including mixed council / consumer trust (regional scenario only) owned vs 100% consumer trust owned (single-council scenario only) entities.

**Strategic Alignment**

Further to the legislative requirement to address water services delivery, there are several synergies with other strategic documents, including the National Policy Statement for Freshwater Management, Taumata Arowai, Tapuae Roa, Taranaki 2050, iwi management plans, and the councils' LTPs and District Plans.

The strategic context was further established for this project and are set out below.

### Problem Statements

–Funding gap and affordability
–Ageing assets
–Commercial inefficiencies
–Compliance shortfall
–Partner expectations
–Community expectations
–Resilience
–Building and retaining talent/capability
–Legislation / regulation uncertainty
–Asset data
–Government programme integration
–Non- serviced areas coverage

### Key Requirements

–Economies of scale
–Ratepayer affordability
–Improved service quality
–Sustainable resource management
–Regulatory compliance
–Community engagement

### Benefits

- Protection of receiving environments
- Reduced costs and improved efficiencies
- Clear accountability and strategic decision-making
- Resourcing efficiencies
- Improved regulatory compliance
- Proactive management and sustainable practices
- Improved resilience

### Risks

- Changing Legislation
- Political Unacceptability
- Cross-Subsidisation Untenable
- Ongoing Demand for Higher Standards/Levels of Service
- Intergenerational Equity
- Protection of the Sources
- Renewals Backlog
- Sustainability of WSCCOs
- Insurance Outlook with Increasing Cycle of Climatic Events
- Iwi Engagement Vacuum
- Debt Ceilings
- Increased Cost of Future Water Service Delivery

### Constraints

- Lack of Certainty Regarding Asset and Investment Quality Information:
- Changing Legislation:

### Dependencies

–Councils coming together
–Legislation
–Meeting regulatory requirements
–Community expectations

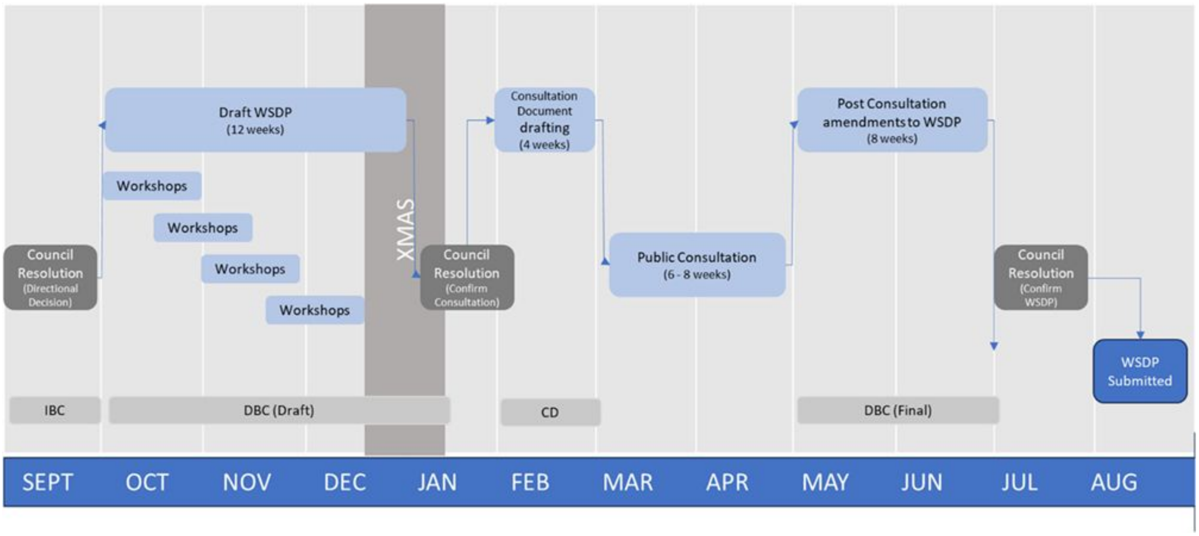
### Planning Assumptions

- Councils having comparable LTP numbers
- Timetable
- Councils being able to create their own funding streams through revenue and debt

4

### Timetable

To produce the water service delivery plans and potential structural changes, the timetable below is assumed to be correct. Changes to this timetable will impact the reliability of the findings of this business case.



**Regional Water System Outcome Statements**

The following statements were agreed to reflect the requirements for any regional water system and form the basis for the investment objectives in the options analysis.


**Critical Success Factors**

In addition to the above investment objectives, a set of critical success factors has been used to assess the mechanics of each option and form part of the Multi-Criteria Analysis (MCA). These are:

– Achievability
– Value for money
– Optimal scale and structure
– Long term flexibility

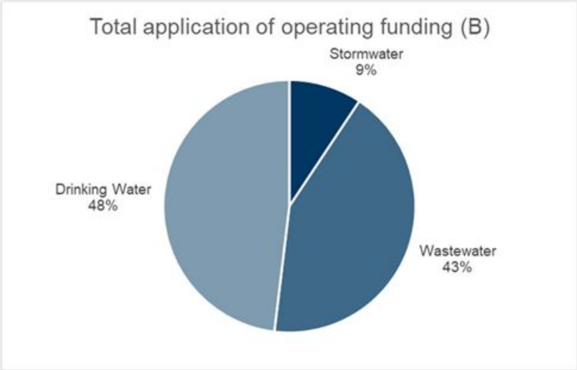
**Long list of Options**

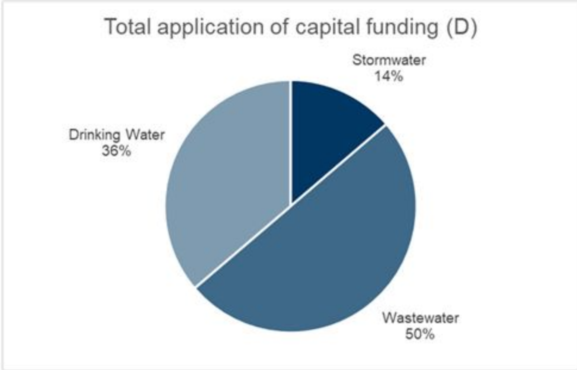
Initially the long list was drafted by GHD and agreed with the Project Working Group before being endorsed by the Mayoral Forum and Iwi Chairs. Changes have since been made to reflect the shifting legislative environment, resulting in the following long list of options:

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **Enhanced Status Quo** | **Enhanced Status Quo + Shared Services** | **Taranaki Regional WSCCO** | **Single-Council WSCCO** | **Outsourced to private sector** | **Outsourced to other council** | **Regional consumer trust** |

**Stormwater inclusion in a WSCCO**

Stormwater makes up 9% of operational expenditure, and 14 percent of capital expenditure across the three councils.




The impact of this being excluded entirely, or being included in the WSCCO expenses without contributing to the revenue and debt limits was also assessed.

The results of the MCA indicate that the strengths and weakness of each option are relatively even when averaged across all the considerations. However, the following factors also need to be considered regarding Taranaki's unique characteristics:

– Local preferences in the 'strategic' consideration areas of legislation, iwi, funding, and environment
– The integrated three waters regulatory overlay within the context of a smaller region

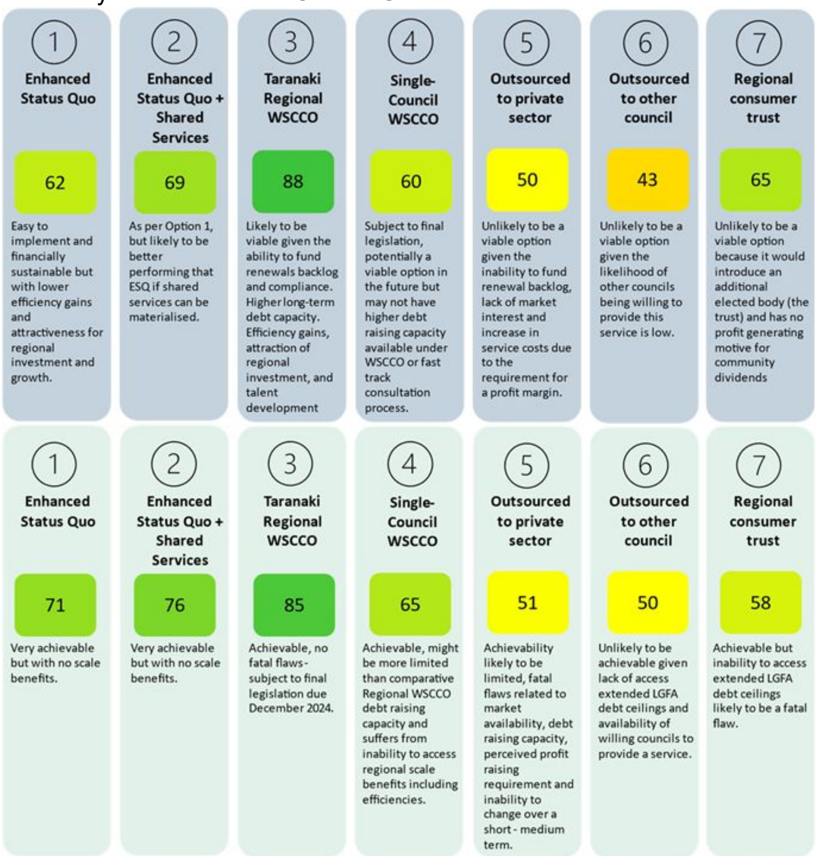
These additional factors may influence the final decision.

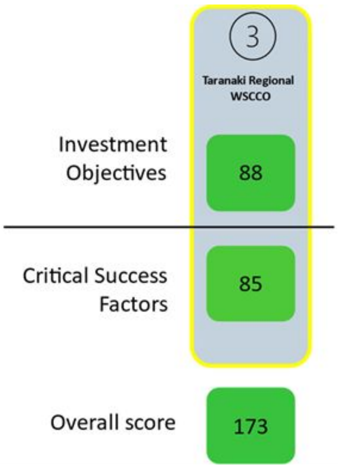
**MCA Assessment**

Option 3, which involves the establishment of a Regional WSCCO, received the highest scores with regards to both the IOs and CSFs. This option aligns with key objectives around funding for the renewal backlog and increased compliance. It is also expected to deliver significant benefits in terms of value for money, and is considered to be achievable from a political standpoint and could eventually merge into a larger entity.

Three options without fatal flaws scored within 20 points of each other, but still below the Regional WSCCO model. Options 1, 2 and 4 scored well on achievability, and Option 4 also scored well for supporting an attractive market for regional investment and growth. Options 5, 6 and 7 were subject to fatal flaws, particularly around funding restraints.

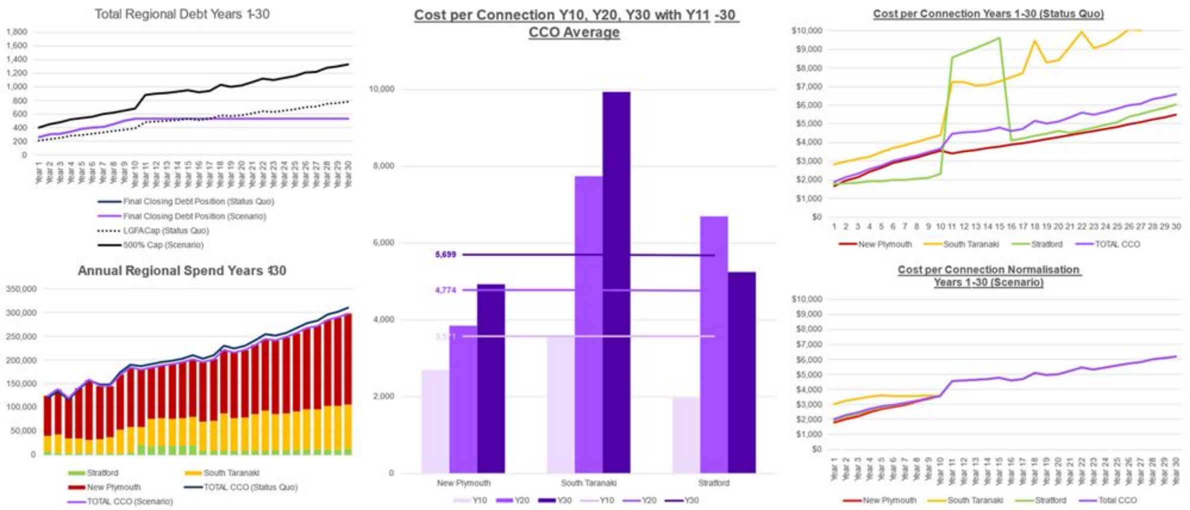
A more detailed summary of the MCA Assessment is provided in Appendix B that contains a breakdown of the scores by each individual IOs and CSFs.



## Financial Modelling

High-level financial modelling was subsequently undertaken to evaluate the two highest scoring options, to determine the impact of increased costs as well as efficiency savings on each council, should they decide to pursue either option. A list of the assumptions used in the model is available in Appendix A




### Summary Findings

New Plymouth is a net contributor to the CCO throughout the thirty-year modelling.

South Taranaki is a net beneficiary of the CCO throughout the thirty-year modelling[1].

Stratford is a net contributor in the first ten years, and a net beneficiary from year 11 to 20 and a net contributor in years 21 to 30.

*Joint Regional CCO vs Single-Council WSCCO*

The cost to establish a regional WSCCO looks less expensive for South Taranaki and Stratford than establishing a standalone, single-council WSCCO. New Plymouth pays more in a regional WSCCO model than in their standalone scenario.

There are significant initial costs for establishing a WSCCO which are indicated by the gap between the Year 10 bars and the Year 10 lines in the cost per connection graph (centre).

*Implications for amalgamation*

Large capital expenses, such as those experienced by Stratford in years 11-16, are able to be smoothed across the whole CCO. For each council, this means potential for increased peace of mind that when unexpected costs arise, there is a larger ratepayer base to spread the costs across.

### Preferred Option

No preferred option has been stated, as the decision-making remains with elected members of each council.

### Note regarding Commercial and Management Cases:

These have not been developed as agreed between GHD and the councils, as they would subsequently form part of the Water Services Delivery Plan.

[1] South Taranaki have indicated that they have a significant number of water-by-meter users that are not contributing to the number of connections used for this analysis. Hence, the numbers for South Taranaki are likely be overstated in this model as the water-by-meter rates would likely be increased in line with the fixed and targeted rates in the LTP.

# Contents

# Table index



# Figure index



# Appendices

# 1. Strategic Case

This Indicative Business Case (IBC) has been prepared by GHD for New Plymouth District Council, as coordinator for the three Taranaki territorial authorities of New Plymouth, Stratford, and South Taranaki District Councils[2]. It responds to the New Zealand Government's desire for reform in the water sector, which is being implemented through the Department of Internal Affairs (DIA) Local Water Done Well Programme. The IBC discusses options for three waters service delivery in the Taranaki region which are consistent with the Programme.

The evidence expected of an IBC is indicative by nature. It provides the decision-makers with an early opportunity to consider change and confirm the preferred option being considered before more detailed evidence is gathered in a detailed business case (DBC). The Taranaki Water Service Delivery IBC stemmed from the agreed on Regional Water Outcome Statements that were developed. Activity to date has also involved developing the IBC building blocks (financial and non-financial) and engaging through a series of informal workshops including staff, executives, iwi engagement reps and elected members to gain inputs and provide insights.

## 1.1 Organisational Overview

The way in which the three waters are currently delivered is through each council's internal departments separately, directly to rate payers. Councils collect the revenue through various streams, including general rates, targeted rates, user pays and development contributions. It is not currently ring-fenced, so the revenue is shared between different departments.

The three councils have agreed to jointly undertake the IBC and have dedicated a Project Working Group and Waters Steering Group to help manage the project, alongside the Mayoral Forum and Iwi Chairs. Elected members in each Council retain decision-making power. The organisational structure of this engagement is outlined in Figure 1 below.

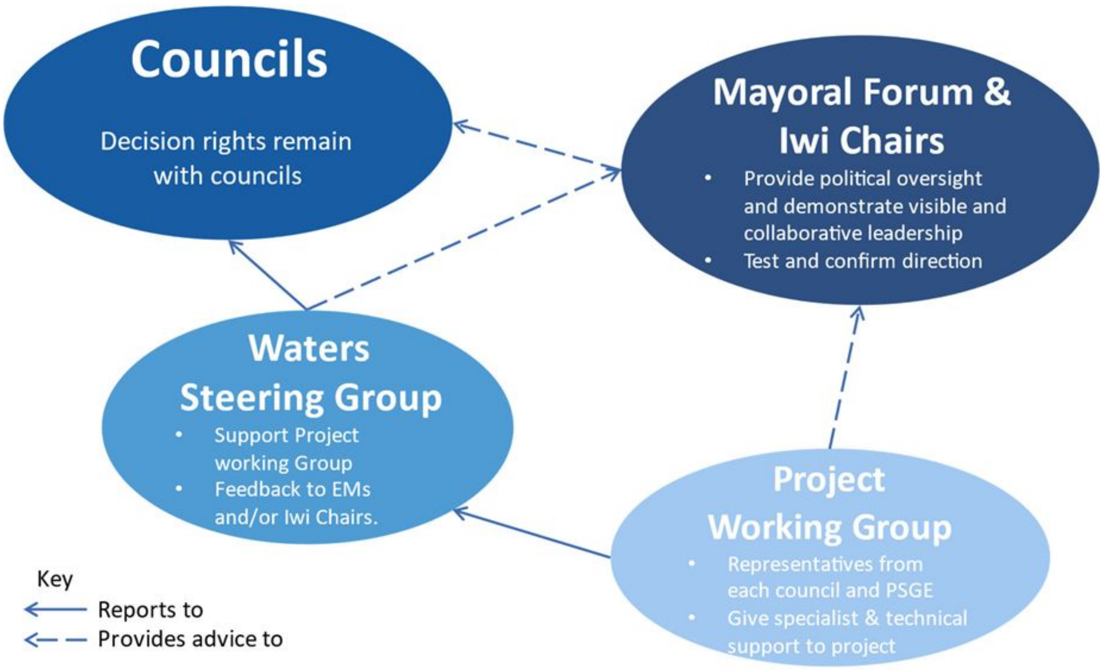



*Figure 1 Taranaki Region Three Waters IBC Organisation Structure*

[2] GHD has been onboarded as the partner for the Taranaki Councils in developing the IBC through to the first decision gate (and through to Detailed Business Case as/if agreed).

## 1.2 Brief History Of Reform

In **Mid-2017**, following the Government Inquiry into Havelock North drinking water, the Government established the Three Waters Review to look at how to improve the regulation and service delivery arrangements of drinking water, wastewater and stormwater.

In **July 2020**, the Three Waters Reform Programme was announced in response to mounting evidence of the challenges facing three waters service delivery nationally. Subsequent key dates included:

**March 2021**, Taumata Arowai established as the new independent water regulator.

**March 2021**, the three Taranaki territorial authorities commissioned GHD to develop an Indicative Business Case (IBC) that discussed options for three waters service delivery in the Taranaki region. The assessment of options at the time showed a preference for Option 2, a Taranaki region asset owning entity. An interim report was developed but not progressed following the decision of the Government to centralise the reform process.

**June 2021**, the Government decided to progress the reforms, including announcing the proposal to create four Water Services Entities of which Taranaki would be part of ‘Entity B’.

**April 2023**, the Government decided on changes to the water services reform programme. These changes included increasing the number of new water services entities from four to ten and strengthen local representation and voice.

**November 2023**, off the back of the national election, a ‘stop work’ notice was issued to the DIA and new direction for waters services delivery announced. This new direction includes repealing the previous Government’s water services legislation and restoring council ownership and control of water infrastructure and services.

**December 2023**, the Taranaki region recommissioned GHD to revisit and complete the IBC as a result of the reform mandate being returned to local government.

**February 2024**, Parliament passed the Water Services Acts Repeal Bill 12-1 (2024) that repeals previous legislation to establish 10 publicly owned Water Services Entities and restores local council ownership and control of water services, and responsibility for service delivery.

**May 2024,** The Local Government (Water Services Preliminary Arrangements) Bill (Bill Two) introduced by the Government requiring the development of Water Service Delivery Plans and other related requirements.

**August 2024** – The details of Bill Three and guidelines were announced containing details relating to water entities, funding and financing, regulation, stormwater arrangements and other accountability requirements. The main points of significance to come from the precursory advice from the DIA[3] in anticipation of Bill 3 were:

- Confirmation of the debt caps being up to 500% of operating revenue for both single-council and regional WSCCOs
- Stormwater was confirmed to continue as the legal responsibility of the councils but with the option to be outsourced to another organisation
- Current funding arrangements for stormwater are retained in council. Accordingly, stormwater debt limits will continue to be managed under existing council limits, and CCO debt limits will be based on operating revenues for wastewater and drinking water only
- Guidance around what a Water service delivery plan is expected to contain. It is a plan to demonstrate how councils can, separately or jointly, provide water services, and additionally:
  - meet level of service requirements
  - meet all regulatory and drinking quality standards
  - be financially sustainable by 30 June 2028
  - demonstrate how it will unlock housing growth and urban development as specified in the LTP.
  - Undertake an affordability assessment for water service delivery

  This plan has a due date of the end of August 2025.

[3] Department of Internal Affairs. (2024). *Local Water Done Well legislation*. https://www.dia.govt.nz/Water-Services-Policy-legislation-and-process

– The introduction of consumer trusts as an operating model, including mixed council / consumer trust (regional only) owned vs 100% consumer trust owned (single council only) entities.

The following shows the list of confirmed service-delivery options from Bill Two - Preliminary Arrangements Bill

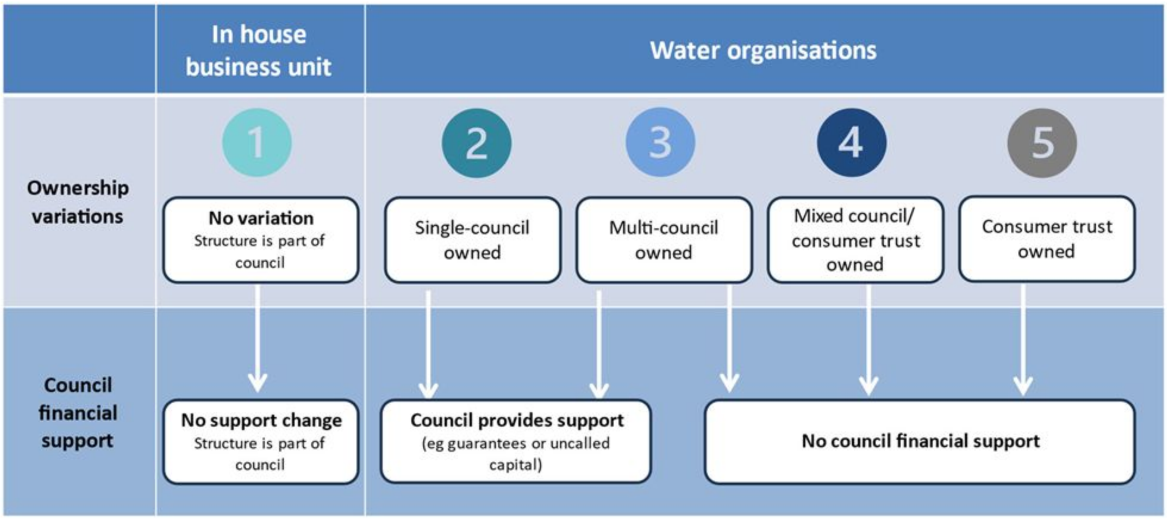



*Figure 2* *List of confirmed service-delivery options*

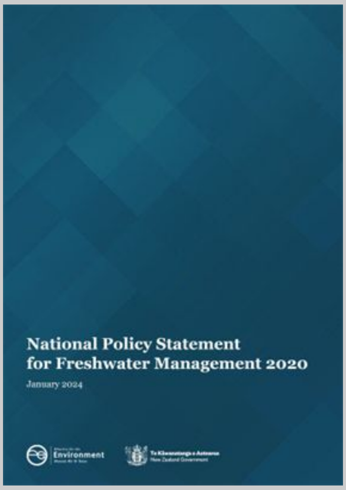
# 1.3 National Strategies

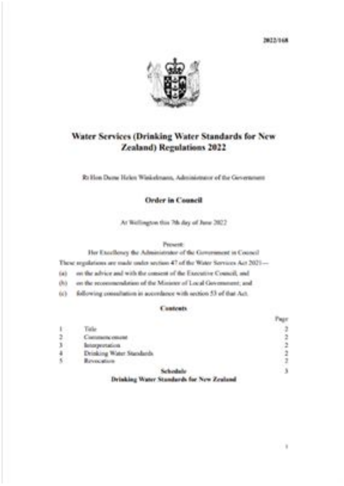
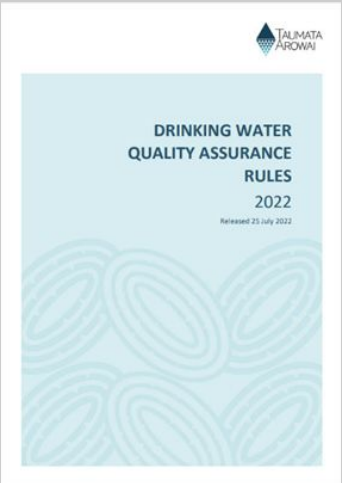
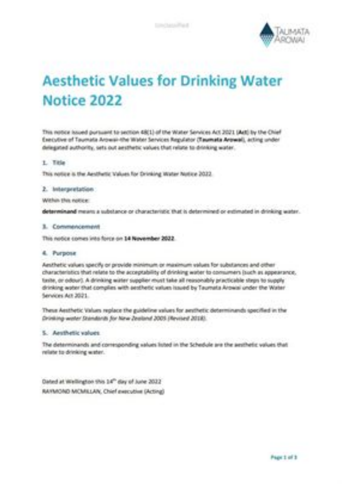
There are several national strategies to which the development of either a single-council or a joint regional WSCCO would be strategically aligned. These include the National Policy Statement for Freshwater Management (NPS-FM), Various regulation from Taumata Arowai, and the parliamentary bills themselves.

## 1.3.1 Environmental Regulation

The environmental regulation that covers freshwater management is included in Table 1.

*Table 1* *National Environmental Regulations*

| Strategy | Alignment |
|---|---|
|  | **National Policy Statement for Freshwater Management 2020**<br>The National Policy Statement for Freshwater Management sets the environmental standards for freshwater, including the setting of bottom lines for indicators such as E. coli.<br>Approaches to implementing the National Policy Statement include:<br>**Integrated Management**: CCOs can facilitate the integrated management of water services, ensuring that freshwater management objectives are met in a coordinated manner.<br>**Regulatory Compliance:** CCOs can streamline consultation and decision-making processes, helping councils meet the NPS-FM requirements more efficiently. |

| | |
|---|---|
|   | **Water Services (Drinking Water Standards for New Zealand) Regulations 2022**<br>**Regulatory Compliance:** The Bill requires councils to develop Water Services Delivery Plans that ensure water services meet regulatory standards, including drinking water quality.<br>**Transparency and Accountability:** The Bill mandates councils to provide detailed information about their water services operations, promoting transparency and accountability in meeting drinking water standards.<br>**Streamlined Processes:** The Bill includes provisions for streamlined consultation and decision-making, helping councils establish CCOs that comply with drinking water regulations. |
|   | **Drinking Water Quality Assurance Rules 2022**<br>The Drinking Water Quality Assurance Rules have been prepared by Taumata Arowai in accordance with section 49 of the Water Services Act 2021, including the public consultation requirements set out in section 53 of the Act.<br>**Compliance and Oversight:** The CCO supports all drinking water suppliers to comply with the new rules, providing consistent oversight and management.<br>**Modular Approach:** The rules allow the CCO to apply them proportionately based on the scale, complexity, and risk profile of each water supply.<br>**Sector Collaboration:** The CCO can work closely with various stakeholders, reflecting the input and perspectives of technical and sector reference groups. |
|   | **Aesthetic Values for Drinking Water Notice 2022**<br>Aesthetic values specify or provide minimum or maximum values for substances and other characteristics that relate to the acceptability of drinking water to consumers (such as appearance, taste, or colour)<br>**Compliance**: A CCO sees that drinking water meets the aesthetic values set by Taumata Arowai, such as appearance, taste, and odour, enhancing consumer satisfaction.<br>**Quality Control:** By centralising water services, a CCO can implement consistent quality control measures to maintain the aesthetic standards.<br>**Efficiency:** A CCO can streamline operations and resources, making it easier to monitor and address any issues related to the aesthetic values.<br>**Public Trust:** Adhering to these values helps build public trust in the water supply, demonstrating a commitment to providing high-quality drinking water. |

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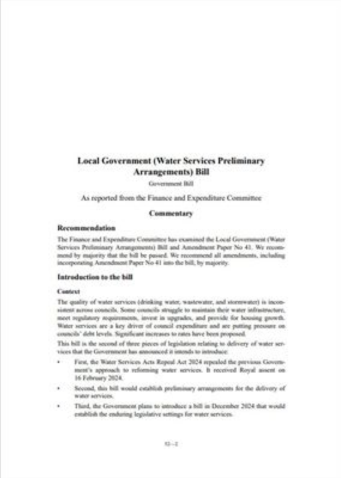
### 1.3.2 Economic Regulation

Key economic regulation is included in the Local Government Bill as outlined in Table 2 below.

***Table 2 Economic regulation***

<table>
<tr><th></th><th></th></tr>
<tr><td>

**Local Government (Water Services Preliminary Arrangements) Bill**<br>
Government Bill<br>
As reported from the Finance and Expenditure Committee<br>
**Commentary**<br>
**Recommendation**<br>
The Finance and Expenditure Committee has examined the Local Government (Water Services Preliminary Arrangements) Bill and Amendment Paper No 41. We recommend by majority that the bill be passed. We recommend all amendments, including incorporating Amendment Paper No 41 into the bill, by majority.<br>
**Introduction to the bill**<br>
**Context**<br>
The quality of water services (drinking water, wastewater, and stormwater) is inconsistent across councils. Some councils struggle to maintain their water infrastructure, meet regulatory requirements, invest in upgrades, and provide for housing growth. Water services are a key driver of council expenditure and are putting pressure on councils' debt levels. Significant increases to rates have been proposed.<br>
This bill is the second of three pieces of legislation relating to delivery of water services that the Government has announced it intends to introduce:<br>
• First, the Water Services Acts Repeal Act 2024 repealed the previous Government's approach to reforming water services. It received Royal assent on 16 February 2024.<br>
• Second, this bill would establish preliminary arrangements for the delivery of water services.<br>
• Third, the Government plans to introduce a bill in December 2024 that would establish the enduring legislative settings for water services.<br>
52—2</td>
<td>

**Local Government (Water Services Preliminary Arrangements) Bill**

**Streamlined Processes:** The Bill provides streamlined processes for councils to establish, join, or amend a WSCCO, making it easier for councils to collaborate and manage water services efficiently.

**Financial Sustainability:** Councils can choose financially sustainable configurations for water service delivery, ensuring long-term viability and compliance with regulatory standards.

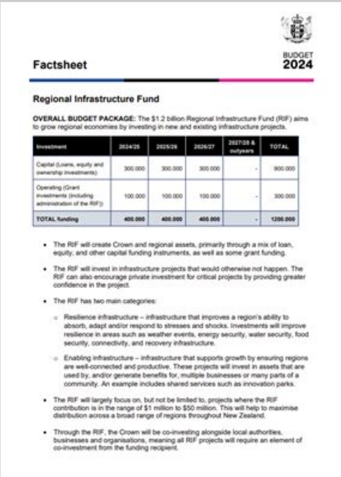
**Joint Arrangements:** The Bill requires that councils prepare Water Services Delivery Plans (WSDPs) and allows these to be joint plans which promotes collaboration and shared responsibility in water service management.

**Regulatory Compliance:** WSCCOs must meet relevant regulatory quality standards for stormwater, wastewater, and water supply networks, ensuring high-quality service delivery.</td></tr>
</table>

### 1.3.3 Linkage With Other Government Programmes

The WSCCO is also aligned to the Regional Infrastructure Fund which is summarised in Table 3.

***Table 3 Linkage with other Government programmes***

<table>
<tr><th></th><th></th></tr>
<tr><td>

**Factsheet** BUDGET 2024

**Regional Infrastructure Fund**

**OVERALL BUDGET PACKAGE:** The $1.2 billion Regional Infrastructure Fund (RIF) aims to grow regional economies by investing in new and existing infrastructure projects.

<table>
<tr><th>Investment</th><th>2024/25</th><th>2025/26</th><th>2026/27</th><th>2027/28 & outyears</th><th>TOTAL</th></tr>
<tr><td>Capital (Loans, equity and ownership investments)</td><td>300.000</td><td>300.000</td><td>300.000</td><td>-</td><td>900.000</td></tr>
<tr><td>Operating (Grant investments (including administration of the RIF))</td><td>100.000</td><td>100.000</td><td>100.000</td><td>-</td><td>300.000</td></tr>
<tr><td>TOTAL funding</td><td>400.000</td><td>400.000</td><td>400.000</td><td>-</td><td>1200.000</td></tr>
</table>

• The RIF will create Crown and regional assets, primarily through a mix of loan, equity, and other capital funding instruments, as well as some grant funding.<br>
• The RIF will invest in infrastructure projects that would otherwise not happen. The RIF can also encourage private investment for critical projects by providing greater confidence in the project.<br>
• The RIF has two main categories:<br>
○ Resilience infrastructure – infrastructure that improves a region's ability to absorb, adapt and/or respond to stresses and shocks. Investments will improve resilience in areas such as weather events, energy security, water security, food security, connectivity, and recovery infrastructure.<br>
○ Enabling infrastructure – infrastructure that supports growth by ensuring regions are well-connected and productive. These projects will invest in assets that are used by, and/or generate benefits for, multiple businesses or many parts of a community. An example includes shared services such as innovation parks.<br>
• The RIF will largely focus on, but not be limited to, projects where the RIF contribution is in the range of $1 million to $50 million. This will help to maximise distribution across a broad range of regions throughout New Zealand.<br>
• Through the RIF, the Crown will be co-investing alongside local authorities, businesses and organisations, meaning all RIF projects will require an element of co-investment from the funding recipient.</td>
<td>

**Regional Infrastructure Fund**

The $1.2 billion Regional Infrastructure Fund (RIF) aims to grow regional economies by investing in new and existing infrastructure projects.

The fund consists of $900k allotted for Capital investment and $300k allotted for Operating costs.

The RIF has two main categories:

- Resilience Infrastructure – infrastructure that improves a region's ability to absorb, adapt and/or respond to stresses and shocks
- Enabling Infrastructure - infrastructure that supports growth by ensuring regions are well-connected and productive.

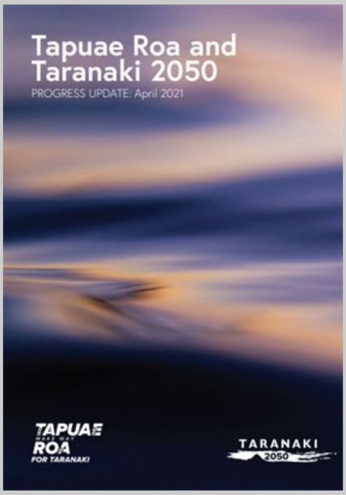
While three waters assets on the councils' networks are not able to be funded through the RIF, there is an opportunity for water assets that are "not 'business as usual' assets and are directly critically enabling for eligible RIF projects" to be funded through the RIF. Additionally, rural, community-owned water assets are also eligible for funding through the RIF.</td></tr>
</table>

4

## 1.4 Regional Strategies

The regional strategy that applies in this instance is outlined in Table 4 below.

***Table 4 Regional Strategies***

| | |
|---|---|
|  | **Tapuae Roa and Taranaki 2050**<br>The regional strategies are designed to achieve a high value and low emissions future based on inclusivity and sustainability.<br>**Sustainability:** By promoting sustainable water management practices, the CCO aligns with the goal of harnessing natural resources in a more sustainable way, contributing to environmental stewardship and long-term sustainability.<br>**Efficient Resource Allocation:** The CCO can enable better allocation of funds towards resilient, self-sustaining water infrastructure, supporting the focus on efficient and sustainable infrastructure development.<br>**Innovation and Investment:** The CCO's separation from the council political system can better support a shift in approach from traditional water management methods to more innovative and adaptive practices that allows for better allocation of funds toward long-term focused projects.<br>**Māori Futures:** CCOs can serve as a designated body that facilitates partnerships with iwi and other stakeholders that align with the Tapuae Roa actions |

## 1.5 Local Strategies

Based on the goals and values outlined in local strategies and plans, the development of a WSCCO fulfils the outcomes specified in the following documents included in Table 5

***Table 5 Local Strategies***

| | |
|---|---|
|  | **South Taranaki Long Term Plan 2024-2034**<br>The South Taranaki LTP outlines the strategic direction and work program for the next ten years as guided by their community outcomes. The establishment of a CCO aligns with the outcomes as listed below:<br>**Cultural:** CCOs can serve a designated body that facilitates partnerships with iwi and other stakeholders focused on three waters projects that reflect local priorities, values, and mauri.<br>**Social:** By consolidating the region, the CCO enables a more connected community<br>**Economic:** The CCO can allow better allocation of funds toward resilient, self-funded water infrastructure.<br>**Environmental:** The CCO promotes a regional perspective on sustainable resource management. |

4

| | |
|---|---|
|  | **New Plymouth District Council Long Term Plan 2024-2034**<br>The CCO must align with NPDC’s strategic vision for a Sustainable Lifestyle Capital and their four key goals:<br>**Trusted:** The CCO can serve a designated body that facilitates partnerships with iwi and other stakeholders focused on three waters projects that reflect local priorities, values, and mauri.<br>**Thriving Communities and Culture:** By consolidating the region, the CCO enables a more connected community<br>**Prosperity:** Streamlined regional water management will enhance local and wider business performance through efficient operation of essential services<br>**Environmental Excellence:** The CCO allows a dedicated focus on three waters quality and meeting the safety requirements. |
|  | **Stratford Long Term Plan 2024-2034**<br>The LTP contains the community outcomes necessary to deliver the vision for the district. The outcomes below guide the development of strategies, policy and procedures and how the CCO aligns.<br>**Welcoming:** The establishment of a joint regional CCO brings together a diverse range of people which allows a more inclusive community.<br>**Resilient:** The improved allocation of funds through a CCO can be directed toward supporting resilient infrastructure while respecting Te Ao Māori values<br>**Connected:** By consolidating the region, a CCO enables a more connected community Providing opportunities for community connection, engagement in democratic processes, partnerships with Mana Whenua, and advocating for necessary services.<br>**Enabling:** Encouraging a diverse business community to support economic growth and business development |
|  | **Council District Plans**<br>Council District Plans are the main document that sets the framework for managing land use and development within each district. They contain objectives, policies, and rules to address resource management issues. The establishment of a joint regional CCO considers the district plans across the three councils.<br>**Efficient Resource Management:** The CCO can streamline water resource management across the three councils, ensuring consistent application of best practices and efficient use of resources.<br>**Ensuring Compliance:** The CCO will oversee adherence to the rules, standards, and conditions set out in the district plans when developing programmes of work<br>**Environmental Protection:** The CCO can implementing policies to protect and enhance the natural resources as stated across the district plans. |

## 1.6 Iwi Management Plans

Iwi management plans reflect their cultural values and priorities and are developed by iwi to address resource management issues of significance within the Taranaki region. Establishing a WSCCO can strategically align with these plans by enabling water management practices to respect and incorporate iwi perspectives, fostering collaborative governance and sustainable resource use.

The local iwi in the Taranaki region have developed environmental management plans that aim to protect, restore and sustain the natural environment and its freshwater bodies.

| Iwi | Environmental Management Plan |
|---|---|
| Ngā Ruahine Rangi | Te Korowai o Ngāruahine Trust Annual Report [4] |
| Ngaa Rauru | Puutaiao Management Plan[5] |
| Ngāti Maniapoto | Maniapoto Environmental Management Plan[6] |
| Ngāti Maru | TBC |
| Ngāti Mutunga | Environmental Management Plan[7] |
| Ngāti Ruanui | TBC |
| Ngāti Tama | Ngāti Tama ki Te Tauihu Environmental Protection Plan |
| Taranaki iwi | Rautaki Tiaki Whenua – Reserves Management Plan[8] |
| Te Ātiawa | Tai Whenua, Tai Tangata, Tai Ao – Te Atiawa Iwi Environmental Management Plan[9] |

Together these documents highlight key areas of significance that have been identified by the iwi which include:

| | |
|---|---|
| **Rangatiratanga** (Right to exercise authority over enviro & cultural resources) | **Balancing** environmental & cultural values with economic efficiency |
| **Kaitiakitanga** (Guardianship) requiring environmental protection for future generations | Preventing the **loss of water bodies** e.g. wetlands |
| Promoting **agency** understanding and recognition of kaitiaki role | Contribution to **climate change mitigation** |
| **Active engagement**, advice, direction and encouragement in resource management | **Stormwater** capture, treatment and management |
| Restoration of **'Taiao'** healthy environment including water bodies | Avoiding the cross-catchment **mixing of waters** |
| Opposition to direct receiving environment of **'wastewater'** | Minimising the level of **water extraction** |
| Promotion of active enviro resource **monitoring** | Endorsement of **Te Mana o Te Wai** – hierarchy of water use |

[4] https://www.ngaruahine.iwi.nz/all-documents
[5] https://www.rauru.iwi.nz/resources/resouces-single-page/puutiao-management-plan
[6] https://tenehenehenui.iwi.nz/3d-flip-book/maniapoto-environmental-management-plan-emp/
[7] https://www.ngatimutunga.iwi.nz/environment/
[8] https://taranaki.iwi.nz/our-environment/
[9] https://teatiawa.iwi.nz/tai-whenua-tai-tangata-tai-ao/

## 1.7 Regional Water System Outcome Statements

The regional water system outcome statements were developed and agreed upon by the Project Working Group and the Waters Steering Group on 13/05/2024. These outcome statements are included in Figure 3.


***Figure 3 Regional Water System Outcome Statements***

One of the key intended outcomes of WSCCO is that it provides a sustainable funding mechanism, resulting in improved investment into three waters assets. An entity like this can deliver operational efficiencies and scale economies allowing common goals to become more attainable.

Another key intention is for WSCCO to create an attractive market for regional investment and growth, aligning with overarching strategic direction of the region.

Thirdly, while acknowledging the treatment/application of Te Mana o Te Wawi has been altered, this outcome signals an intent to continue working with Te Tiriti Partners on how we are consistent with or guided by Te Mana o Te Wai principles. These principles are about "restoring and preserving the mauri of the wai…the balance between water, the environment and the community[10]". The project working group and Waters Steering Group have also highlighted the need for well maintained and regulatory compliant water systems as a key outcome.

Lastly, they would like to achieve sufficient staff capability and talent pipeline, and to support local accountability and responsiveness.

The outcomes noted in Figure 3 form the Investment Objectives (IOs) for the options evaluation. The IOs provide the metrics for evaluating successful return on investment. Understanding how effective an option is likely to be is based on critical success factors. In this case, the critical success factors are used to assess the mechanics of the options, particularly relating to identifying any fatal flaws that make the options infeasible.

[10] Ministry for the Environment. (2022). *Clause 1.3: The fundamental concept of Te Mana o te Wai and its use in the NOF*. **https://environment.govt.nz/publications/guidance-on-the-national-objectives-framework-of-the-nps-fm/clause-1-3**

4

# 1.8 Current Water Services Problem Statements

The following problem statements were agreed by the project working group on 06/06/2024.

*Table 6 Problem Statements*

| # | Problem | Problem Evidence |
|---|---|---|
| 1 | Funding gap and affordability | Project mandate statement: Funding mechanisms and pressure to keep rates affordable has resulted in historic under investment and limited ability to fund for growth. |
| 2 | Ageing assets | Project mandate statement: Many, predominantly network, assets are assessed as requiring replacement, or the true condition of the asset is unknown. |
| 3 | Commercial inefficiencies | Project mandate statement: Multiple contracts, level of service and engineering standards across the region contributing to suboptimal financial and service delivery outcomes. |
| 4 | Compliance shortfall | Project mandate statement: Compliance with standards is difficult to achieve due to both the increasing water quality and environmental requirements and the capabilities for existing assets. |
| 5 | Partner expectations | Project mandate statement: Iwi/hapu have an overriding mission to protect the environment for future generations requiring sustainable environmental management to maintain water quality. |
| 6 | Community expectations | Project mandate statement: Community expectations of environmental performance, particularly relating to water bodies, have been rising and are expected to increase further over time. |
| 7 | Resilience | Project mandate statement: Some assets are vulnerable to the impact of natural hazards. Climate change may challenge the capacity of some assets such as stormwater. |
| 8 | Building and retaining talent/capability | Project mandate statement: The scale of operations spread across three councils, and the services they deliver directly makes it difficult to attract and retain talent/capability. |
| 9 | Legislation / regulation uncertainty | Project mandate statement: Legislation/regulation is still in progress with Government leaving a degree of uncertainty about the final operating model for delivery. |
| 10 | Asset data | Project mandate statement: AM confidence levels in asset information low per AMP disclosure which will challenge the accuracy underlying asset investment plans. |
| 11 | Government programme integration | Project mandate statement: The Government is separately mandating other infrastructure investments such as the Regional Infrastructure Fund which the Region needs to engage with given the linkage to component problems such as resilience and growth. |
| 12 | Non- serviced areas coverage | Project mandate statement: Current Council asset and investment plans focus on existing infrastructure which do not take account of a number of smaller non reticulated settlements requiring sanitary assessment. |

# 1.9 Key Requirements

Based on the above outcome statements and problem statements, the following list of requirements have been identified relating to what a successful water service delivery system would achieve.

- **Economies of Scale**: By consolidating water services, the region can achieve cost savings through bulk purchasing, shared infrastructure, and streamlined operations. This reduces overall expenses and improves efficiency
- **Ratepayer Affordability:** Consolidation helps distribute costs more evenly across a larger customer base, making water services more affordable for individual ratepayers. This is particularly beneficial in ensuring that all communities, including those in rural areas, have access to affordable water services

- **Improved Service Quality**: A consolidated approach allows for better resource allocation and investment in advanced technologies, leading to enhanced service quality and reliability. This includes better maintenance, quicker response times to issues, and improved water quality
- **Sustainable Resource Management**: Consolidation supports more effective management of water resources by enabling comprehensive planning and coordination across the region. This ensures sustainable use of water resources, protecting them for future generations
- **Regulatory Compliance**: A unified water service entity can more efficiently meet regulatory requirements and standards, ensuring compliance with environmental and health regulations. This reduces the risk of penalties and enhances public trust
- **Community Engagement:** Consolidated water services can foster stronger relationships with local communities by providing a single point of contact for water-related issues. This improves communication, transparency, and responsiveness to community needs

# 1.10 Benefits of Increased Focus on Three Waters

Improving the governance and operations of Councils' Three Waters delivery can yield the following benefits:

- **Protection of receiving environments:** The receiving environments are protected through better wastewater management and pollution control, leading to healthier ecosystems. Additionally, it assists with drinking water meeting stringent safety standards, providing communities with reliable access to clean water
- **Reduced costs and improved efficiencies:** The region can also reduce costs and improve efficiencies by leveraging economies of scale. This means that resources can be pooled to achieve efficiency savings
- **Clear accountability and strategic decision-making:** Provision of clear accountability and strategic decision-making, aligning with the needs of the community and regulatory requirements. Economies of scale also contribute to maintaining assets more effectively, ensuring they are well-managed and resilient
- **Resourcing efficiencies:** Allows for better allocation of funds, supporting growth and development. A larger rating base spreads costs more evenly, making it easier to fund necessary improvements and expansions. This financial stability also makes the entity more attractive to investors, improving debt/equity ratios and enabling off-balance-sheet financing
- **Improved regulatory compliance:** Achieving Water Service Delivery Plans for example, becomes more manageable with a unified approach. Entities can meet legal standards and respond to changes in regulatory frameworks. Meeting the needs of mana whenua and Te Mana o te Wai (TMOTW) can also be prioritised, ensuring that water management respects cultural values and rights
- **Proactive management and sustainable practices:** Community and customer expectations are met through consistent levels of service, reducing vulnerability and risk. Healthy waters and positive environmental outcomes are achieved. Additionally, the consolidation reduces the risk of losing skilled personnel, retaining institutional knowledge and expertise
- **Improved resilience:** Increased job attractiveness and opportunities for training and development make the sector more appealing to potential employees. This not only helps retain talent but also ensures that the workforce is skilled and capable of meeting future challenges

# 1.11 Potential Risks

The potential risks were developed and agreed upon by the Project Working Group and the Waters Steering Group and workshopped with councils on 13/05/2024. To address the risks associated with consolidated water services, it's important to consider the following factors:

- **Changing Legislation:** The regulatory landscape for water services is constantly evolving. New laws and regulations can impact operational practices, requiring ongoing adaptation and compliance efforts.
- **Political Unacceptability:** Consolidation efforts may face resistance from political stakeholders who are concerned about losing local control or the perceived disadvantages of a centralised system.
- **Cross-Subsidisation Untenable:** Balancing the financial contributions from different areas can be challenging. Ensuring that wealthier regions do not disproportionately subsidise less affluent ones requires careful financial planning and transparent policies.

- **Ongoing Demand for Higher Standards/Levels of Service:** As communities grow and expectations rise, there will be continuous pressure to improve service quality and infrastructure. Meeting these demands requires significant investment and innovation.
- **Intergenerational Equity:** Planning for the long-term sustainability of water services is crucial. This involves making projections over 30 years rather than the traditional 10 years to ensure that future generations are not burdened with unsustainable practices.
- **Protection of the Sources:** Safeguarding water sources from contamination and overuse. This includes implementing robust environmental protection measures and sustainable resource management practices.
- **Addressing Renewals Backlog:** Many regions face a backlog of infrastructure that needs renewal or replacement.
- **Sustainability of WSCCOs:** Ensuring that a single region-based Water Services Council-Controlled Organisation (WSCCO) remains financially and operationally sustainable is a significant challenge requiring strategic planning and efficient resource management.
- **Insurance Outlook with Increasing Cycle of Climatic Events:** The increasing frequency and severity of climatic events pose risks to water infrastructure. Securing adequate insurance coverage and implementing resilient infrastructure designs will help mitigate these risks.
- **Iwi Engagement Vacuum in Current Water Service Legislation:** The break in the linkage with Te Mana o Te Wai has reduced the provisions for meaningful engagement with iwi. Ensuring that iwi perspectives and rights are incorporated into water management practices is essential for equitable and culturally respectful governance.
- **Managing Within Existing Debt Ceilings:** Council Business units must operate within existing debt limits, which can constrain their ability to finance necessary improvements and expansions.
- **Minimising the Increased Cost of Future Water Service Delivery:** As costs rise, finding ways to minimise the financial burden on ratepayers is crucial. This includes optimizing operations, leveraging economies of scale, and seeking alternative funding sources.

Addressing these risks requires a proactive approach to work towards water services that remain reliable, sustainable, and equitable for all communities involved. This approach should also work to minimise the increased cost of future water service delivery.

# 1.12 Constraints

To address the constraints associated with consolidated water services, it’s important to consider the following factors:

- **Lack of Certainty Regarding Asset and Investment Quality Information:** One of the primary challenges is the uncertainty surrounding the quality and value of existing assets and investments. This lack of reliable data makes it difficult to perform fair comparisons and assessments. To mitigate this, comprehensive asset audits and evaluations are necessary to establish a clear understanding of the current state of infrastructure and investments. This will enable more accurate planning and decision-making.
- **Changing Legislation:** The regulatory environment for water services is subject to frequent changes, which can impact the timing and completion of assessments and projects. Staying aware of legislative developments and maintaining flexibility in planning are important steps in working within this constraint. Additionally, engaging with policymakers and stakeholders can help anticipate and influence legislative changes, ensuring that the water services strategy remains compliant.

# 1.13 Dependencies

Dependencies of this project that may influence or be influenced by the success of the project include:

- **Councils coming together**: The Taranaki Councils are looking at their current situation and a range of possibilities regarding the future of water services. The level of cooperation in the exploration of joint models will influence the outcomes of the project, and the decisions made by each council will impact the outcomes of a potential joint model.

- **Legislation:** The legislative environment for three waters is continually evolving. Major changes to the legislation or its interpretations may significantly impact the process and outcomes of the project.
- **Meeting regulatory requirements:** The ability of the Taranaki Councils to meet the requirements of existing and upcoming regulation (including environmental and economic regulation), will both influence and be affected by the outcomes of the project.
- **Community expectations:** The communities of each council will have a significant role in determining the acceptability of any proposed water services council-controlled organisation, joint or otherwise. This may impact the decisions regarding proceeding with a joint regional model or a standalone model.

# 1.14 Planning Assumptions

Several Assumptions have been made at this early stage, including:

- **Councils having comparable LTP numbers:** It is fundamental to the modelling of any future scenarios that the LTP Funding Impact Statement (FIS)s are an apples-to-apples comparison. Any differences in the underlying assumptions used to create these FISs will impact the reliability of the findings of the high-level financial model.

  **Timetable:** To produce the water service delivery plans and potential structural changes, the timetable below is assumed to be correct.

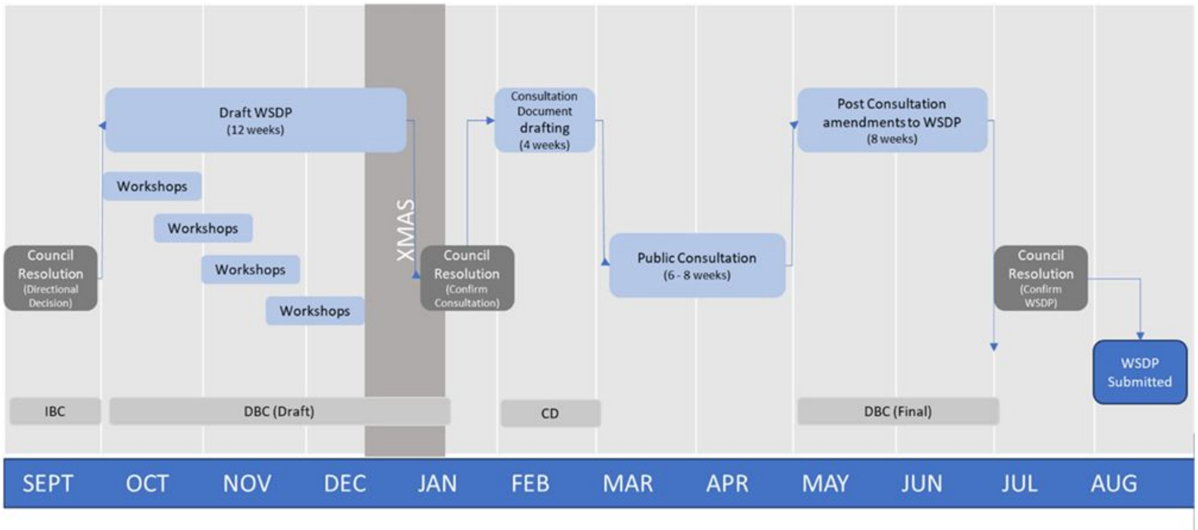



*Figure 4 Timetable for production of WSDP*

- **Councils being able to create their own funding streams through revenue and debt:** It is important for the reliability of the options assessment that councils are able to fund their involvement in any CCO, whether standalone or joint, through revenue and debt. The inability to access these funding mechanisms will impact the reliability of the findings of this business case.

# 2. Economic Case

The economic case focuses on the evaluation of financial and economic benefits for the proposed investment. Usually, a long list of potential options is explored and then narrowed down to a short list of options that can be assessed in more detail using an analysis framework. This process aims to uncover a clear pathway forward implementing a solution that will provide the best outcomes possible.

## 2.1 Critical Success Factors

In addition to the investment objectives in Section 1.7, a set of critical success factors has been used to assess the mechanics of each option and form part of the Multi-Criteria Analysis (MCA). These are:

– Achievability
– Value for money
– Optimal scale and structure
– Long term flexibility

These critical success factors were drafted by GHD and agreed upon by the Project Working Group and subsequently endorsed by the Mayoral Forum and Iwi Chairs in a workshop dated 15/07/2024.

## 2.2 Long List Of Delivery Options

The long list of options was drafted by GHD and agreed upon by the Project Working Group and subsequently endorsed by the Mayoral Forum and Iwi Chairs in a workshop dated 15/07/2024.

**Removed Options**

Initially, workshopped options included:

1. An ordinary Asset-owning CCO and
2. A non-asset-owning CCO.

These have both since been removed from the options assessment. The asset-owning CCO was removed once some details of the upcoming Bill Three were announced in August 2024, indicating that it will not have access to the increased debt ceilings. The non-asset-owning CCO has been removed as an option as the assessment of asset ownership is set to take place in the next phase of work, once a directional decision has been made by each council.

**Additional Options**

A single-council WSCCO was also included when the option was announced in August 2024, indicating that it would have access to the increased debt ceilings.

Further, the announcement of the Consumer trust models resulted in an additional option that is assessed below. The mixed-ownership consumer trust is the only option that can be taken at a regional level, and therefore has been included rather than the consumer trust option which occurs under a single-council scenario only.


*Figure 5 Long List of Delivery Options*

4

## 2.3 Considerations Regarding Asset Ownership

The following table includes the key considerations regarding whether an entity should be asset-owning or non-asset-owning.

*Table 7 Asset Ownership Considerations*

| Consideration | Asset Owning | Non-Asset Owning |
|---|---|---|
| **Ownership** | Assets are jointly vested in the CCO and divested from each Council. Ownership is secured through the agreed shareholding model. | The assets remain in Council books. Ownership through agreed shareholding model. |
| **Governance** | In this case, Councils appoint Director, direct the CCO through an annual letter of intent. | Councils appoint Directors, direct CCO through the annual letter of intent, but retain control of district asset funding plans. |
| **Strategy** | The CCO is guided by regional/district plans but own a 'region-wide' operational strategy that is implemented according to the CCO. | Councils direct the CCO by individual asset management investment plans. This is a 'local' approach that can pre-empt the regional approach |
| **Funding & Financials** | This arrangement relies on fully integrated financials and the ability to borrow independently (WSCCO tbc) of Council constraints. | In this case the CCO would have to maintain individual records to maintain separate Council information for integrity. Borrowing is constrained by Council balance sheet constraints. |
| **Iwi and stakeholder engagement** | Asset ownership would be regionalised, as the CCO consults on broader 'regional' plans and operations. | The CCO retains District focus and the Council consults on broader plans including Asset Management Plans (AMPs) at an individual district level. |
| **Regulation** | The asset-owning CCO is a single entity, more efficient & uphold more effective response capabilities. | The CCO has to account for each individual Council. |
| **Operations** | The CCO can run efficiently as a single regional utility operator. | Non-asset owning CCOs are not as efficient from an operations perspective and have to take account of individual districts. |
| **Customer** | This case stipulates that the CCO can collect revenue from the customer and can make commercial decisions for the benefit of the overall region. Is this case the CCO owns the investment prioritisation. | Individual councils can collect revenue from the customer and the CCO cannot make overall commercial decisions i.e. tariff and investment plans. The councils retain their individual investment prioritisation. |

# 2.4 Stormwater Inclusion Or Exclusion In A WSCCO

Current legislation allows stormwater to be vested in WSCCO, be retained by Council but delivered by WSCCO, or to be retained and delivered by Council. This section reviews the background and assesses these three options.

## 2.4.1 Background

A key decision within the context of the business case process relates to the ownership and responsibility for stormwater. Management of water activities today highlight that local government water operations can be operated as a 'two plus one' model water model or as three waters. Watercare Services Limited is an example of the former, with responsibility drinking and wastewater only, with stormwater retained in Auckland Council. Wellington Water Limited by contrast operates all three waters.

There are valid arguments for both models, starting with the fact that water supply and wastewater systems are effectively part of the same water management system; most water used by consumers is discharged via the sewerage system. Stormwater drainage networks by contrast are not physically connected to those for water and wastewater, and ordinarily comprise of a combination of open waterways, constructed green assets and hard assets such as pipes and culverts. In this regard these stormwater assets have a very strong linkage to both the transport and parks networks.

Despite this, ultimately all three water systems are connected as part of the wider water environment. Given the inter connectivity, how councils chose to manage them is potentially best assessed against the relative conditions in each locality.

Although under the previous Government Water Reform model, it was decided to only operate a three-water model, the current reforms allow a choice. In this regard Auckland Council and Watercare Services Limited have opted for the two plus one model which is currently being executed.

## 2.4.2 Three Waters Legislative Integration

The Department of Internal Affairs provided updated information on stormwater provisions in August 2024 in anticipation of Bill Three[11].

The factsheet provided on Future arrangements for stormwater states that:

1. Councils will retain legal responsibility and control of these services
2. Councils will be able to continue to deliver stormwater services or contract a new water organisation to deliver stormwater services
3. Transfer aspects of stormwater delivery, including assets, to a water organisation

Accordingly, these sections mean that the entity may or may not engage in stormwater services.

clause that will readily enable charging for stormwater services outlined in Section 340, with allocation on a similar value basis to existing rating schemes.

## 2.4.3 Stormwater Spend As Part Of Three Waters

Stormwater makes up 9% of operational expenditure, and 14 percent of capital expenditure across the three councils. The impact of this being excluded entirely, or being included in the WSCCO expenses without contributing to the revenue and debt limits is assessed in the following sections.

[11] Department of Internal Affairs. (2024). *Factsheet: Future arrangements for stormwater.* https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/04.Factsheet-Future-arrangements-for-stormwater.pdf


*Figure 6 Stormwater Spend as a Percentage of Three Waters Spend*

### 2.4.4 Stormwater Structure Options

Given the legislative flexibility relating to the stormwater activity ownership and delivery arrangements, councils if they chose to establish a WSE are able to adopt the approach that best suits their local needs. Generally, this would comprise the following two models:

1. Three waters model (Water, Wastewater and Stormwater together)
2. Two plus one model (Water & Wastewater together with Stormwater separate)

In addition, stormwater could be retained in the council, but operated by the WSCCO.

### 2.4.5 Options Assessment For Stormwater

The following table illustrates both the considerations and merits for the location of the stormwater activity across each of the three options. The green or amber assessment provides a high-level indication about the relative strength of the option against consideration.

*Table 8 Stormwater Ownership and Operation MCA*

| Consideration | COMMENTARY | 1. Entity Ownership & Operation | 2. Council Ownership/ Entity Operation | 3. Council Ownership & Operation |
|---|---|---|---|---|
| **Governance** | Stormwater has a better fit as a public good (e.g. flooding, rate funding), connection to roading and land-use planning, stormwater has a better fit with Council governance | **Average** | **Good** | **Good** |
| **Legislation** | The new legislation has a requirement that entities co-ordinate stormwater strategy whether they or the Council run the stormwater function | **Good** | **Average** | **Average** |
| **Operating model** | From a commercial perspective, water/wastewater tends to suit an entity better given the narrower utility focus, the operational connection between the two functions and clear revenue streams. Stormwater also has stronger linkages to other activities particularly transport and broader land use | **Average** | **Average** | **Good** |
| **Iwi** | Iwi preference is for fully integrated water management as outlined and approached through their environmental management plans | **Good** | **Average** | **Average** |
| **Efficiency** | Given the smaller size of a Taranaki entity, there is likely efficiency in managing the three waters together. This is tempered by complexities relating to land ownership for stormwater operations | **Good** | **Good** | **Average** |
| **Financing** | Given the smaller size of a Taranaki entity, there is likely to be debt capacity/borrowing ceiling benefits in | **Good** | **Good** | **Average** |

| Consideration | COMMENTARY | 1. Entity Ownership & Operation | 2. Council Ownership/ Entity Operation | 3. Council Ownership & Operation |
|---|---|---|---|---|
| | managing the three waters together – this needs to be tested once the details of the third bill are announced | | | |
| **Funding** | Water and wastewater are suitable for direct charging which also has a significant positive benefit for demand management and has a better fit with economic regulation. Stormwater due to its land use linkage, is better aligned with rates and its land/capital value base. However, under S340 the entity is permitted to utilise this approach, probably necessitating access to council rating systems | **Average** | **Good** | **Good** |
| **Customer** | Water/wastewater customers are limited to those connected to closed networks. Stormwater customers are all property owners. | **Average** | **Good** | **Good** |
| **Environment** | Environmental planning trends emerging technology i.e. water recycling tend to reinforce an integrated approach to waters is a stronger option. | **Good** | **Average** | **Average** |
| **Regulation Investment Drivers** | Regulation both environmental and economic will apply to all scenarios | **Good** | **Good** | **Good** |
| **Resourcing** | For a smaller region, including stormwater will better enable the recruitment of specialist staff, noting there may be a need for some residual water expertise in the transport functions. | **Good** | **Average** | **Average** |
| **Emergency Management** | Arguably, emergency stormwater/flooding management (e.g. flooding) is likely to be directly managed by the council EM functions, although these functions now co-ordinate with other lifeline operators anyway | **Average** | **Average** | **Good** |

The results indicate that the strengths and weakness of each option are relatively even when averaged across all the considerations. However, the following factors also need to be considered regarding Taranaki's unique characteristics:

– Local preferences in the 'strategic' consideration areas of legislation, iwi, funding, and environment

– The integrated three waters regulatory overlay within the context of a smaller region

These additional factors may influence the final decision.

## 2.5 MCA For Options

Using the IOs and the CSFs outlined above in Section 1.7 and Section 2.1 respectively, the three councils jointly assessed the options presented in the figure below subject to the caveats in Section 2.2

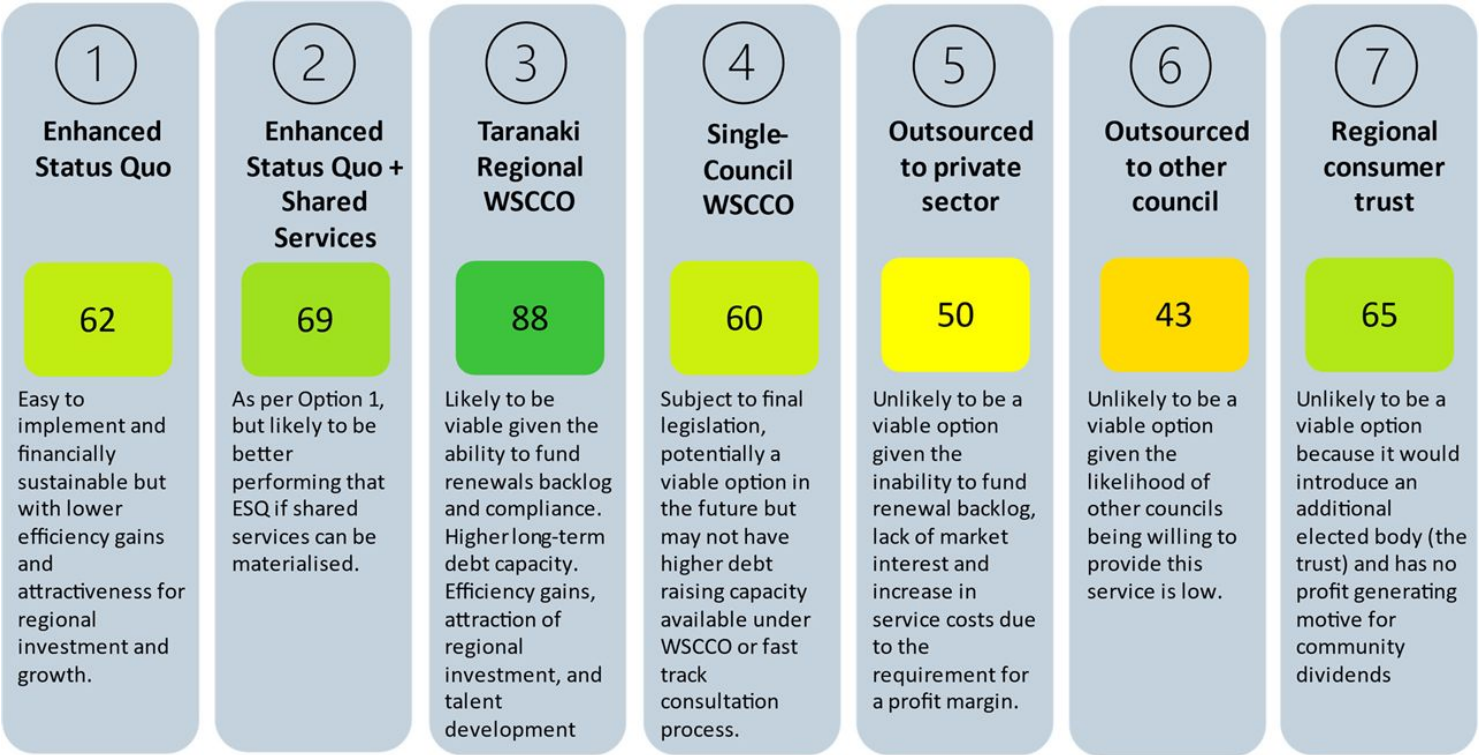



***Figure 7 Investment Objectives Score***


***Figure 8 Critical Success Factors Score***

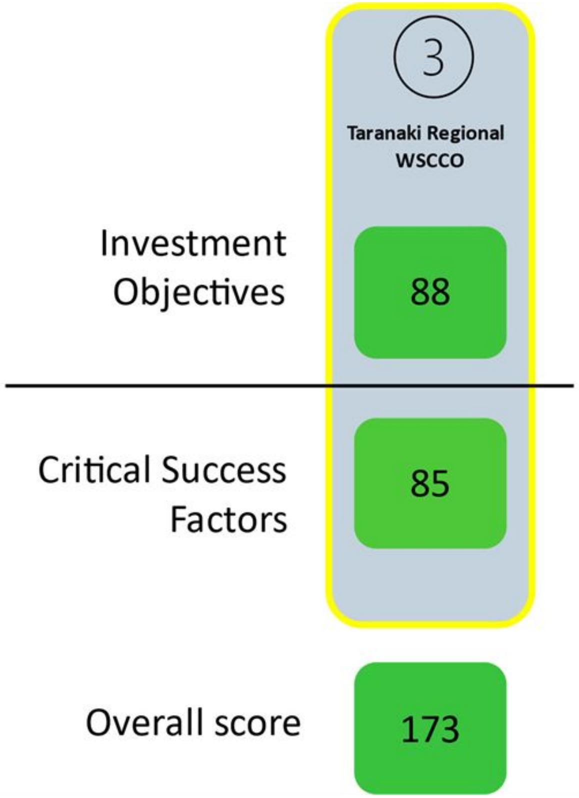



*Figure 9 Combined score of highest-scoring option*

**Highest score**

Option 3, which involves the establishment of a Regional WSCCO, received the highest scores with regards to both the IOs and CSFs. This option aligns with key objectives around funding for the renewal backlog and increased compliance. It is expected to also deliver significant benefits in terms of value for money, is considered achievable from a political standpoint and could eventually merge into a larger entity.

**Runners-up**

Three options without fatal flaws scored within 20 points of each other, but still below the Regional WSCCO model. Options 1, 2 and 4 scored well on achievability, and Option 4 also scored well for supporting an attractive market for regional investment and growth.

However, these options all scored low on operational efficiency, informing te mana o te wai principles, staff capability and talent pipelines. Options 1 and 2 also scored low on supporting a market for regional investment and growth.

While scoring well, Options 1 and 2 may be subject to long-term challenges relating to future mergers and debt capacity.

**Fatal flaws**

Options 5, 6 and 7 were subject to fatal flaws, particularly around funding restraints. Additionally, Option 5 lacked the market interest and was subject to increased costs due to private sector requirements for profit margins and Option 6 relies too much on other councils being willing to provide a service which is unlikely.

A more detailed summary of the MCA Assessment is provided in Appendix B that contains a breakdown of the scores by each individual IOs and CSFs.

# 2.6 Financial Modelling

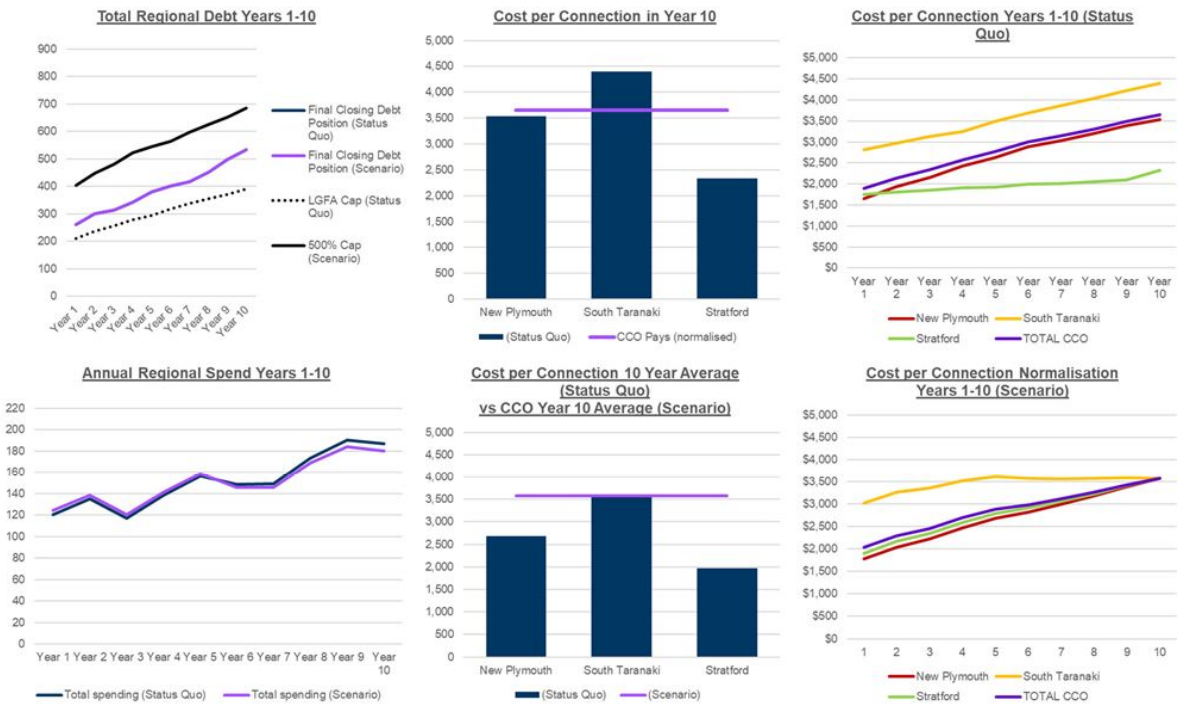
High-level financial modelling was subsequently undertaken to evaluate the two highest scoring options, to determine the impact of increased costs as well as efficiency savings on each council, should they decide to pursue either option. A list of the assumptions used in the model is available in Appendix A

This section shows the output of the financial modelling, followed by a summary of the findings.

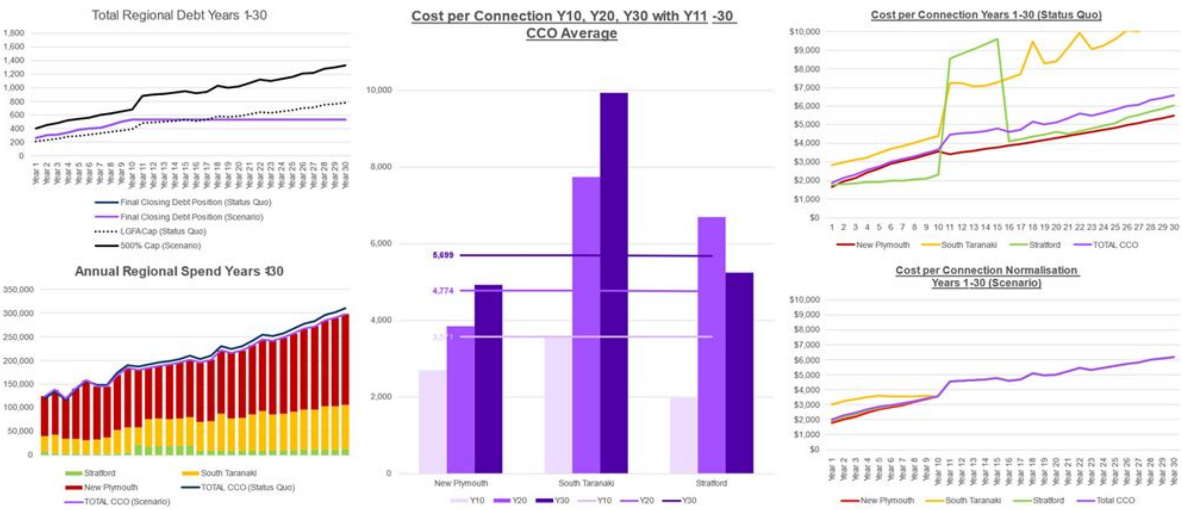
## 2.6.1 Financial Modelling Inputs

### 2.6.1.1 Taranaki Regional WSCCO – Conservative Assumptions

**Ten-Year Model**




**Thirty-Year Model**



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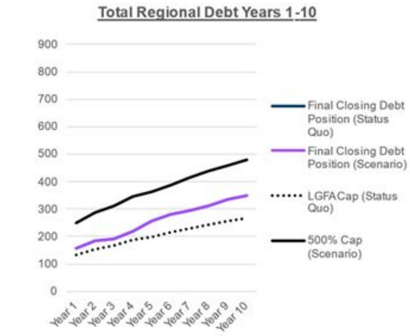
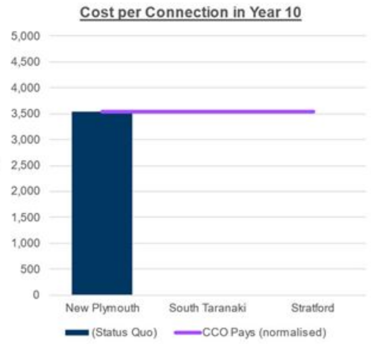
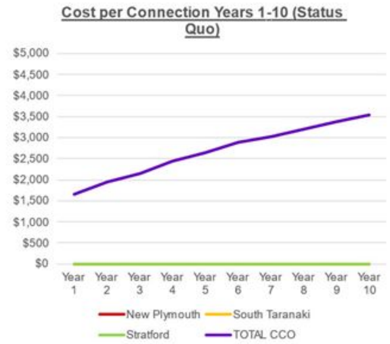
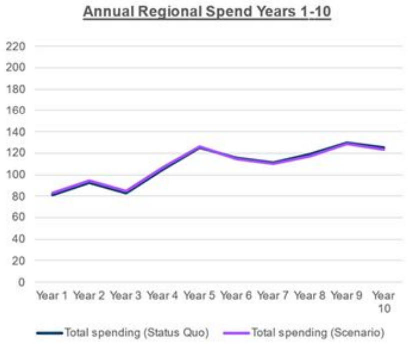
### 2.6.1.2 New Plymouth Single-Council WSCCO – Single-Council Assumptions

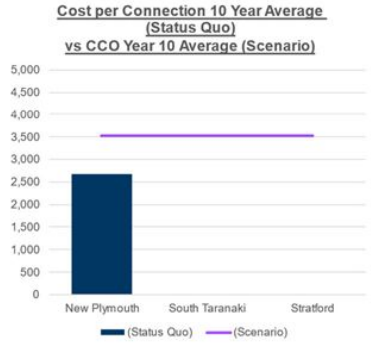
#### Ten-Year Model

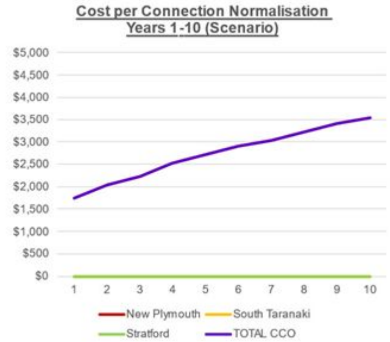


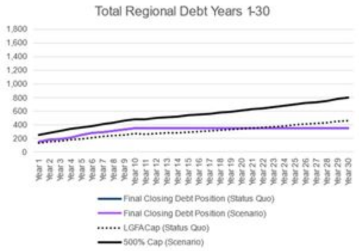



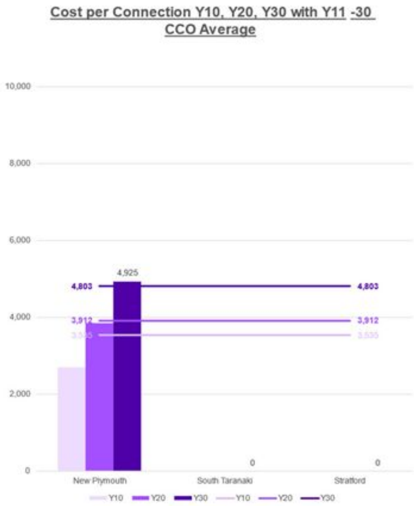



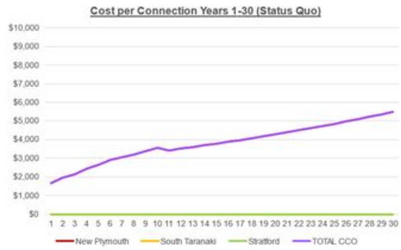



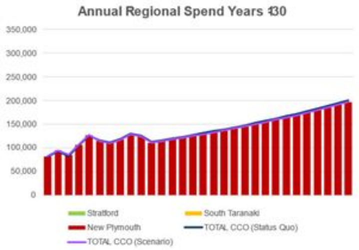




#### Thirty-Year Model

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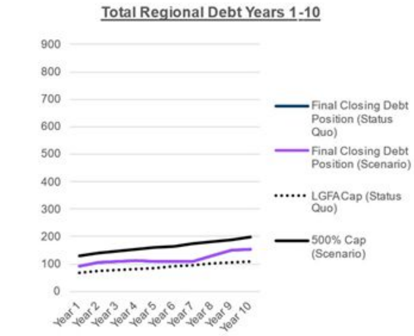
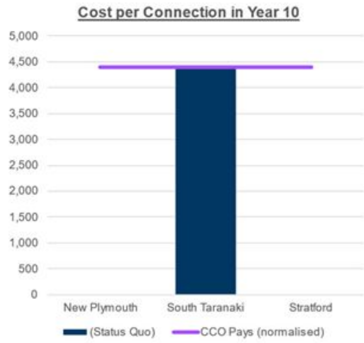
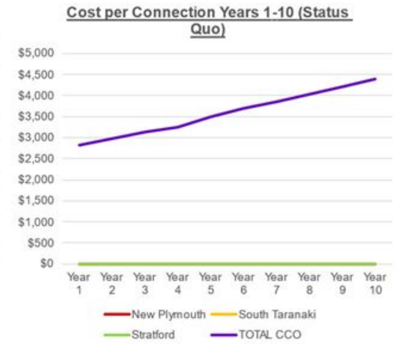
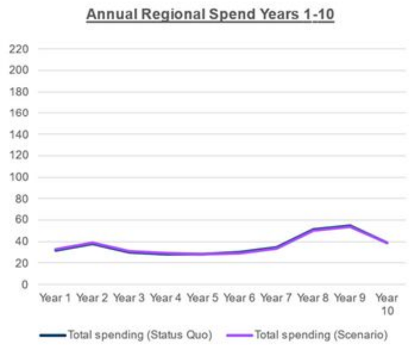
### 2.6.1.3 South Taranaki Single-Council WSCCO – Single-Council Assumptions

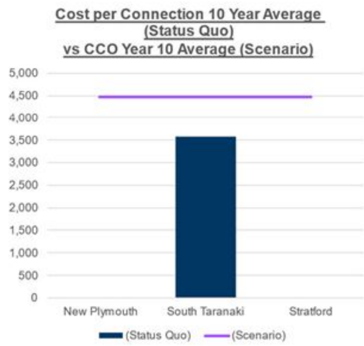
#### Ten-Year Model

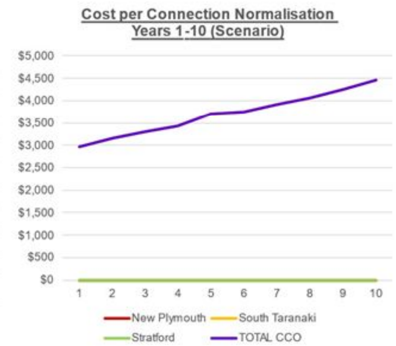


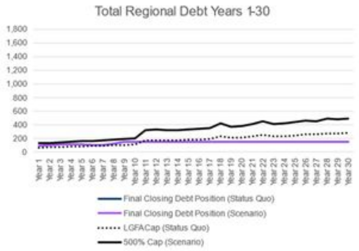



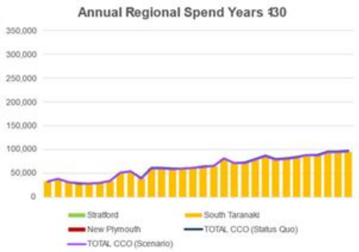



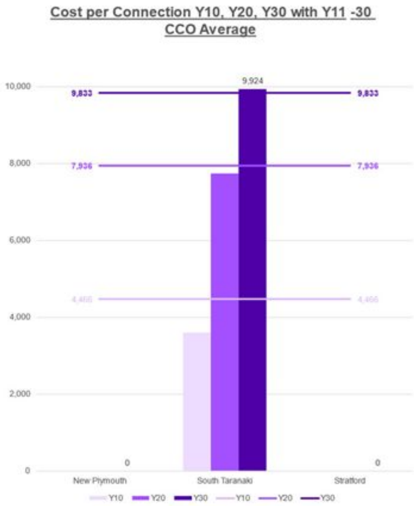




#### Thirty-Year Model





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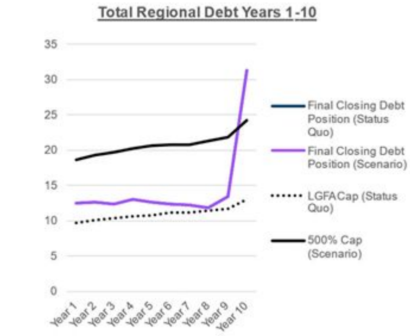
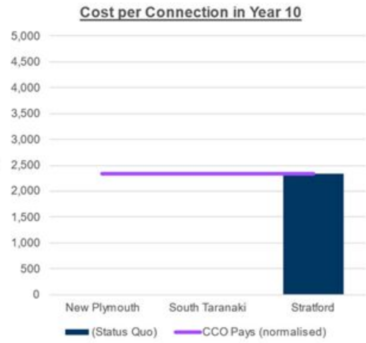
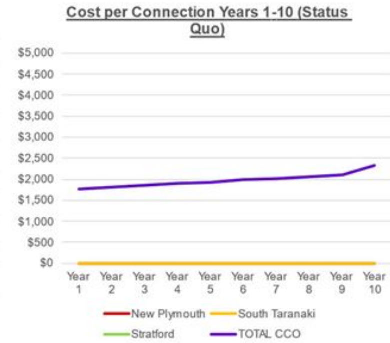
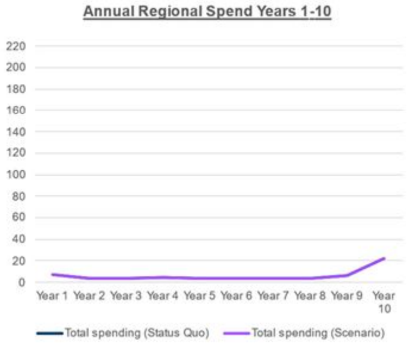
### 2.6.1.4 Stratford Single-Council WSCCO – Single-Council Assumptions

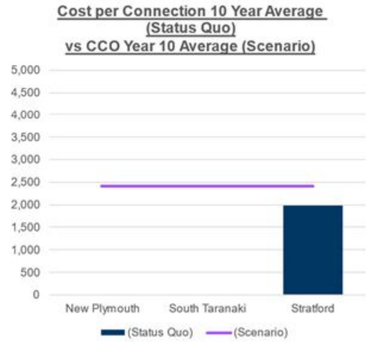
**Ten-Year Model (debt axis adjusted for scale)**

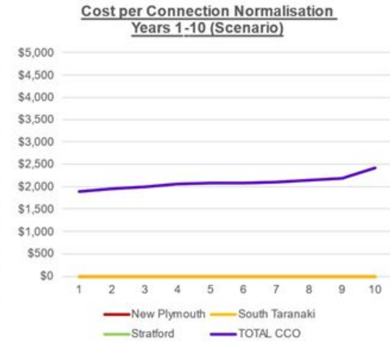


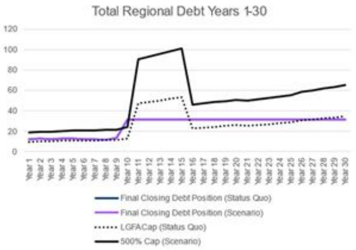



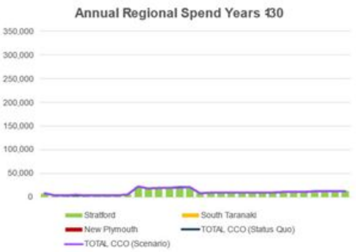



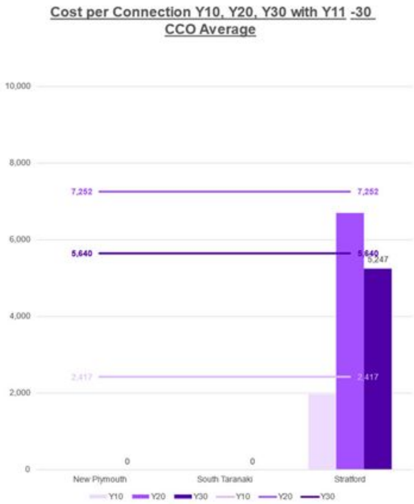



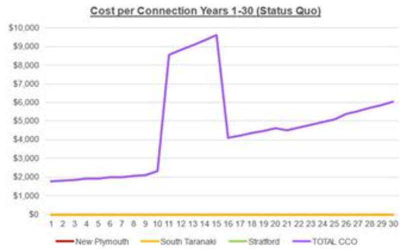




**Thirty-Year Model (debt axis adjusted for scale)**

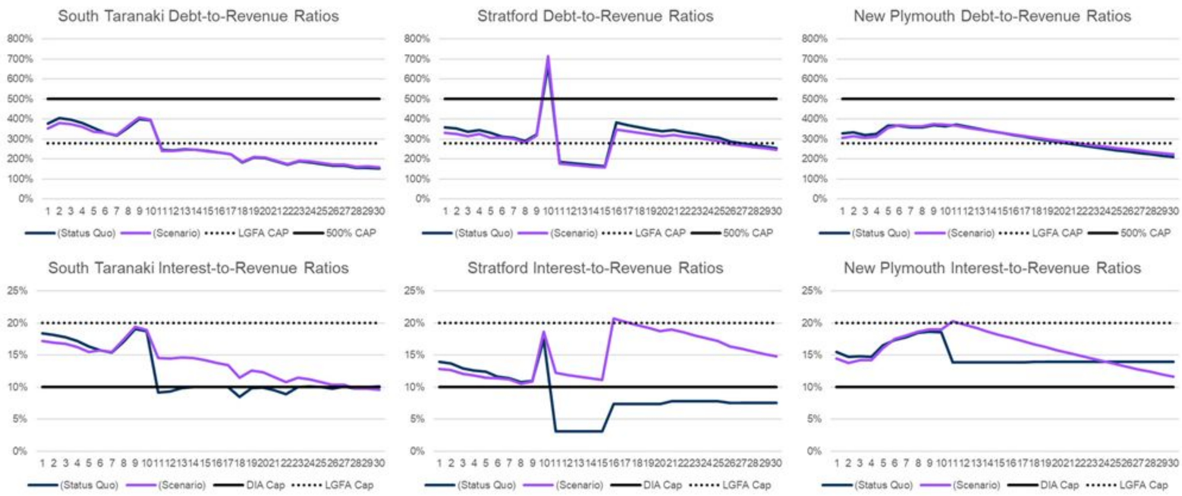



#### 2.6.1.5 Debt-to-Revenue and Interest-to-Revenue Ratios (regional WSCCO model)




### 2.6.2 Summary Findings

**Beneficiaries and Contributors**

New Plymouth is a net contributor to the CCO throughout the thirty-year modelling.

South Taranaki is a net beneficiary of the CCO throughout the thirty-year modelling[12].

Stratford is a net contributor in the first ten years, and a net beneficiary from year 11 to 20 and a net contributor in years 21 to 30.

**Debt-to-Revenue and Interest-to-Revenue Ratios**

Under the status quo, ringfenced debt-to revenue ratios exceed the LGFA Cap[13] of 280% at some point in every scenario, especially in years one to ten. Similarly, the interest-to-revenue ratio set in schedule five of the Local Government (Financial Reporting and Prudence) Regulations 2014[14] are exceeded at some point in the status quo. However, an in-house business unit may borrow based on all-of-council revenue, meaning this option is still considered to be sustainable financially.

**Joint Regional CCO vs Single-Council WSCCO**

The cost to establish a regional WSCCO is less expensive for South Taranaki and Stratford than establishing a standalone, single-council WSCCO. New Plymouth pays more in a regional WSCCO than in their standalone scenario.

There are significant initial costs for establishing a WSCCO which are indicated by the gap between the Year 10 bars and the Year 10 lines in the cost per connection graph (centre).

**Likely Implications**

Large capital expenses, such as those experienced by Stratford in years 11-16, are able to be smoothed across the whole CCO. For each council, this means an increased peace of mind that when unexpected costs arise, there is a larger ratepayer base to spread the costs across.

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[12] South Taranaki have indicated that they have a significant number of water-by-meter users that are not contributing to the number of connections used for this analysis. Hence, the numbers for South Taranaki are likely be overstated in this model as the water-by-meter rates would likely be increased in line with the fixed and targeted rates in the LTP.

[13] LGFA. (2024). *Risk management* **https://www.lgfa.co.nz/about-lgfa/risk-management**

[14] Local Government (Financial Reporting and Prudence) Regulations 2014 **https://www.legislation.govt.nz/regulation/public/2014/0076/latest/DLM5941575.html#DLM5941575**

# 3. Financial Case

The financial case relates to the funding requirements and affordability of the preferred option. These funding requirements and affordability of options in this business case are an intrinsic part of the options themselves. This will require substantial further work to model the required investment levels and the plan to replace and upgrade assets to meet new and significantly higher standards.

Further and more detailed financial assessment will be undertaken during the next phase of work.

# Appendices

4

# Appendix A

## Financial Model

# Financial Model Assumptions

The High-Level Financial Model has several assumptions

The numbers in the FISs are accurate and comparable between councils.

The interest cost in the FIS as a proportion of the provided opening debt figures accurately represent the interest rate being paid.

From year eleven onwards, all costs and expenses increase at the same rate as the number of connections.

From year eleven onwards, additional Capex is added from the infrastructure strategy to account for varying spend profiles in the model.

From year eleven onwards, the number of connections increases at a steady rate, based on previous period growth.

All costs incurred must be paid in the period in which they occur – this does not represent the intricacies of debt-funded options where payments occur over several years to ensure intergenerational equity but is suitable for the purposes of a high-level comparison between councils given the treatment of each council is the same.

Costs per connection are normalised across the ten-year timeframe to slowly converge until each council pays the same amount from year ten onwards.

Efficiency savings are straight-line allocated starting in the second year and reaching full efficiency in year ten. This remains constant each year beyond year ten.

The total cost increases in each year are allocated entirely across the number of connections. Again, this is suitable for comparison as it provides a number that can be easily understood and is treated the same across all councils, regardless of the real distribution of the costs (to debt, rates, user-pays, development contributions etc.)

Regulation and Compliance Costs in the Scenario assumed to be 1.0% of opex based on national benchmark from the electricity sector, plus a 50k annual audit fee shared between all councils.

Regulation and Compliance Costs in the Status Quo assumed to be 1.5% of opex plus a 50k annual audit fee per council

Using a conservative set of assumptions:

Transition Costs assumed to be 9% of opex for each of the first five years (6% for single-council and moderate sensitivity testing)

Opex efficiency savings in the scenario assumed to be zero in year one, growing linearly to 5% in year ten and then remaining at 5% from year 11 onwards (2% for single-council, and 11% for moderate sensitivity testing)

Capex efficiency savings in the scenario assumed to be zero in year one, growing linearly to 3% in year ten and then remaining at 3% from year 11 onwards (1% for single-council, and 6% for moderate sensitivity testing)

Interest rate in the scenario assumed to be +25 basis points on the weighted average interest rate from the status quo (+50 basis points for single-council, and no change for moderate sensitivity testing)

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# Financial Model Levers

1. Number of councils included/excluded for scenario testing

| Council | Include |
|---|---|
| New Plymouth | TRUE |
| South Taranaki | TRUE |
| Stratford | TRUE |

2. Level of opex/capex efficiency and transition costs and interest rates

| Efficiency Assumptions | |
|---|---|
| Opex Efficiency Savings | Conservative |
| Capex Efficiency Savings | Conservative |
| Transition Costs | Conservative |
| CCO Interest Assumption | Conservative |

| | Single-Council | Conservative | Moderate |
|---|---|---|---|
| Opex Efficiency Savings | 2% | 5% | 11% |
| Capex Efficiency Savings | 1% | 3% | 6% |
| Transition Costs | 6% | 9% | 6% |
| CCO Interest Assumption | +50 basis points | +25 basis points | Weighted Average |

4. Whether to apply efficiencies to rates or debt, and level of DCs to collect

| New CCO Scenario | |
|---|---|
| Goal | Keep Debt Equal |
| DCs collection policy | Keep the same |

4

# Difference Tables

The following tables represent the difference between the status quo and the scenario, with a negative number representing an increase in cost, and a positive number indicating a saving.

## Whole CCO

| 0 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Opening Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Operating Revenues, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Operating Expenses excluding Finance Costs, consisting of | (3,670) | (3,814) | (3,750) | (3,733) | (3,274) | 1,857 | 2,175 | 2,516 | 2,952 | 3,400 |
| 3A. Payments to staff and suppliers | 0 | 162 | 354 | 583 | 716 | 916 | 1,118 | 1,332 | 1,624 | 1,930 |
| 3B. Internal charges and overheads applied | 0 | 106 | 213 | 330 | 449 | 573 | 687 | 809 | 940 | 1,070 |
| 3C. Other operating funding applications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3D. Implementation Costs for new CCO | (3,987) | (4,424) | (4,671) | (5,021) | (4,801) | 0 | 0 | 0 | 0 | 0 |
| 3E. Regulation and Compliance Costs | 318 | 341 | 355 | 374 | 362 | 368 | 371 | 375 | 388 | 400 |
| 4. Non-debt Capital Funding, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Capital spending, consisting of | 0 | 311 | 495 | 912 | 1,296 | 1,381 | 1,540 | 2,367 | 3,053 | 3,157 |
| **6. Pre finance net change in debt position (2.-3.)+(4.-5.)** | **(3,670)** | **(3,503)** | **(3,255)** | **(2,821)** | **(1,978)** | **3,238** | **3,715** | **4,883** | **6,005** | **6,557** |
| 7B. Finance costs without subsidy | (1,271) | (1,432) | (1,575) | (1,680) | (1,798) | (1,809) | (1,875) | (1,866) | (2,074) | (2,267) |
| 8. Closing Debt Position (1.+6.+7.) | (5,852) | (6,189) | (5,286) | (5,283) | (4,823) | 882 | 1,462 | 2,016 | 2,747 | 3,469 |
| 9. Debt Change (8. - 1.) PLUS FIS Change in Debt | (5,852) | (6,189) | (5,286) | (5,283) | (4,823) | 882 | 1,462 | 2,016 | 2,747 | 3,469 |
| 10. Final Closing Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **11. New rates burden** | **5,852** | **6,189** | **5,286** | **5,283** | **4,823** | **(882)** | **(1,462)** | **(2,016)** | **(2,747)** | **(3,469)** |
| 12. Rates per connection RAW | 141 | 148 | 126 | 125 | 114 | -21 | -34 | -47 | -63 | -80 |
| 13. Rates normalisation per connection ALL CCO Pays OR Subsidy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15. Connections | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## New Plymouth

| 0 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Opening Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Operating Revenues, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Operating Expenses excluding Finance Costs, consisting of | (2,420) | (2,612) | (2,590) | (2,627) | (2,232) | 1,215 | 1,424 | 1,651 | 1,960 | 2,196 |
| 3A. Payments to staff and suppliers | 0 | 107 | 239 | 406 | 471 | 605 | 734 | 872 | 1,086 | 1,226 |
| 3B. Internal charges and overheads applied | 0 | 75 | 147 | 229 | 312 | 397 | 476 | 561 | 646 | 740 |
| 3C. Other operating funding applications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3D. Implementation Costs for new CCO | (2,595) | (2,991) | (3,184) | (3,487) | (3,226) | 0 | 0 | 0 | 0 | 0 |
| 3E. Regulation and Compliance Costs | 175 | 197 | 207 | 224 | 210 | 214 | 215 | 218 | 228 | 230 |
| 4. Non-debt Capital Funding, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Capital spending, consisting of | 0 | 213 | 368 | 698 | 1,128 | 1,123 | 1,150 | 1,548 | 1,987 | 1,961 |
| **6. Pre finance net change in debt position (2.-3.)+(4.-5.)** | **(2,420)** | **(2,399)** | **(2,222)** | **(1,929)** | **(1,105)** | **2,339** | **2,574** | **3,199** | **3,947** | **4,156** |
| 7B. Finance costs without subsidy | (1,149) | (1,074) | (1,005) | (831) | (762) | (1,059) | (1,281) | (1,765) | (1,819) | (1,551) |
| 8. Closing Debt Position (1.+6.+7.) | (3,771) | (3,977) | (3,256) | (3,182) | (2,643) | 1,012 | 1,281 | 1,391 | 1,961 | 2,725 |
| 9. Debt Change (8. - 1.) PLUS FIS Change in Debt | (3,771) | (3,977) | (3,256) | (3,182) | (2,643) | 1,012 | 1,281 | 1,391 | 1,961 | 2,725 |
| 10. Final Closing Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **11. New rates burden** | **3,771** | **3,977** | **3,256** | **3,182** | **2,643** | **(1,012)** | **(1,281)** | **(1,391)** | **(1,961)** | **(2,725)** |
| 12. Rates per connection RAW | 122 | 128 | 104 | 101 | 84 | -32 | -40 | -43 | -61 | -84 |
| 13. Rates normalisation per connection ALL CCO Pays OR Subsidy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15. Connections | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## South Taranaki

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Opening Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Operating Revenues, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Operating Expenses excluding Finance Costs, consisting of | (133) | (124) | (121) | (112) | (103) | 103 | 116 | 129 | 145 | 158 |
| 3A. Payments to staff and suppliers | 0 | 8 | 16 | 24 | 33 | 42 | 52 | 61 | 71 | 82 |
| 3B. Internal charges and overheads applied | 0 | 3 | 6 | 10 | 13 | 17 | 20 | 23 | 29 | 32 |
| 3C. Other operating funding applications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3D. Implementation Costs for new CCO | (176) | (177) | (186) | (190) | (192) | 0 | 0 | 0 | 0 | 0 |
| 3E. Regulation and Compliance Costs | 43 | 43 | 43 | 43 | 44 | 44 | 44 | 44 | 45 | 45 |
| 4. Non-debt Capital Funding, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Capital spending, consisting of | 0 | 11 | 7 | 54 | 13 | 19 | 27 | 26 | 87 | 613 |
| **6. Pre finance net change in debt position (2.-3.)+(4.-5.)** | **(133)** | **(113)** | **(114)** | **(59)** | **(90)** | **122** | **143** | **154** | **232** | **772** |
| 7B. Finance costs without subsidy | (164) | (227) | (203) | (214) | (258) | (238) | (244) | (285) | (262) | 83 |
| 8. Closing Debt Position (1.+6.+7.) | (329) | (335) | (305) | (278) | (333) | (104) | (90) | (116) | (55) | 333 |
| 9. Debt Change (8. - 1.) PLUS FIS Change in Debt | (329) | (335) | (305) | (278) | (333) | (104) | (90) | (116) | (55) | 333 |
| 10. Final Closing Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **11. New rates burden** | **329** | **335** | **305** | **278** | **333** | **104** | **90** | **116** | **55** | **(333)** |
| 12. Rates per connection RAW | 149 | 152 | 138 | 126 | 150 | 47 | 40 | 52 | 25 | -149 |
| 13. Rates normalisation per connection ALL CCO Pays OR Subsidy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15. Connections | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

4

## Stratford

| 0 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Opening Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Operating Revenues, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Operating Expenses excluding Finance Costs, consisting of | (1,117) | (1,078) | (1,039) | (993) | (939) | 539 | 635 | 736 | 847 | 1,046 |
| 3A. Payments to staff and suppliers | 0 | 48 | 99 | 153 | 211 | 269 | 332 | 398 | 467 | 622 |
| 3B. Internal charges and overheads applied | 0 | 28 | 59 | 92 | 124 | 159 | 191 | 225 | 264 | 298 |
| 3C. Other operating funding applications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3D. Implementation Costs for new CCO | (1,216) | (1,256) | (1,300) | (1,345) | (1,383) | 0 | 0 | 0 | 0 | 0 |
| 3E. Regulation and Compliance Costs | 100 | 102 | 104 | 107 | 109 | 110 | 112 | 113 | 116 | 125 |
| 4. Non-debt Capital Funding, consisting of | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Capital spending, consisting of | 0 | 86 | 120 | 160 | 156 | 239 | 363 | 793 | 979 | 583 |
| **6. Pre finance net change in debt position (2.-3.)+(4.-5.)** | **(1,117)** | **(992)** | **(918)** | **(833)** | **(783)** | **777** | **998** | **1,529** | **1,826** | **1,629** |
| 7B. Finance costs without subsidy | 42 | (131) | (367) | (635) | (779) | (512) | (349) | 183 | 8 | (799) |
| 8. Closing Debt Position (1.+6.+7.) | (1,752) | (1,876) | (1,725) | (1,823) | (1,847) | (26) | 272 | 741 | 841 | 411 |
| 9. Debt Change (8. - 1.) PLUS FIS Change in Debt | (1,752) | (1,876) | (1,725) | (1,823) | (1,847) | (26) | 272 | 741 | 841 | 411 |
| 10. Final Closing Debt Position | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **11. New rates burden** | **1,752** | **1,876** | **1,725** | **1,823** | **1,847** | **26** | **(272)** | **(741)** | **(841)** | **(411)** |
| 12. Rates per connection RAW | 207 | 220 | 201 | 210 | 214 | 3 | -31 | -85 | -96 | -47 |
| 13. Rates normalisation per connection ALL CCO Pays OR Subsidy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15. Connections | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

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# Appendix B

## Multiple-Criteria Analysis

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| Option title | | Option 1 - Enhanced Status Quo | | Option 2 - Enhanced Status Quo with additional shared services | | Option 3 - Taranaki WSCCO | |
|---|---|---|---|---|---|---|---|
| **Investment objectives** | **Weighting** | **Score** | | **Score** | | **Score** | |
| Sustainable funding - Improved investment in three waters assets | 25% | 5 | Would be a financially sustainable option as debt caps to be based on all of Council revenue rather than 2-waters revenue only providing greater headroom. | 5 | Would be a financially sustainable option as debt caps to be based on all of Council revenue rather than 2-waters revenue only providing greater headroom. | 4 | Would increase the ability to invest due to anticipated balance sheet separation and confirmed availability of 500% debt cap ex LGFA, likely higher interest rates than in house |
| Delivers operational efficiencies and scale economies | 15% | 1 | Better scale economies in a larger entity. | 2 | Some scale economies but better in a larger entity. Likely to require formal commitment through MOU to drive shared services. | 4 | Scale would enable greater efficiency through a range of factors including contract and consent consolidation, uniform standards etc. Arguably Region not large enough for optimum scale. |
| Supports an attractive market for regional investment and growth | 15% | 2 | Limited ability to increase investment to change current attractiveness. | 2 | Limited ability to increase investment to change current attractiveness. | 5 | Proposed funding arrangements will substantially increase funding availability to provide future growth capacity. |
| Informs Te Mana o te Wai hierarchy of priorities - 1. Water 2. People 3. Communities | 10% | 1 | Capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities will be more limited compared to options with greater capacity and ability to fund specialist positions. | 2 | Shared services have the potential to provide some capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities. | 5 | Capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities will be able to be maximised given the WSCCO has the greatest capacity to fund specialist positions to develop and drive understanding and ability to inform TMOTW priorities. |
| Well maintained and regulatory compliant water systems | 15% | 4 | Currently deliver reliable service, have some plants with the same treatment systems. IT duplicated across plants. | 4 | Currently deliver reliable service, have some plants with the same treatment systems. IT duplicated across plants. | 5 | Reliability and repeatability likely to be enhanced with a regional entity. |
| Supports sufficient staff capability and talent pipeline | 10% | 2 | Capacity and staff numbers to warrant this not available. | 3 | Capacity and staff numbers to warrant this not available. | 4 | Capacity and staff numbers will provide the platform for excellence and capability enablement. |
| Supports local accountability and responsiveness | 10% | 5 | We know our communities, local issues, locations etc. Team can respond in timely manner. Well capable of this. | 5 | We know our communities, local issues, locations etc. Team can respond in timely manner. Well capable of this. | 4 | Would maintain a regional identity with good local connectivity. |
| Total for Investment Objectives | **100%** | **62** | Easy to implement and financially sustainable but with lower efficiency gains and attractiveness for regional investment and growth. | **69** | Easy to implement and financially sustainable but with lower efficiency gains and attractiveness for regional investment and growth. Likely to be better performing that ESQ if shared services can be materialised. | **88** | Subject to final legislation likely to be a viable option in the future given the ability to fund renewal backlog and increased compliance with higher debt raising capacity, as well as efficiencies, attractive market for regional investment and growth, ability to inform TMOTW |
| **Critical Success Factors:** | **Weighting** | **Score** | | **Score** | | **Score** | |
| Achievability | 30% | 5 | The most politically achievable option and easy to implement | 5 | The most politically achievable option and easy to implement | 4 | Political achievability due to regional focus. |
| Value for money | 25% | 3 | Easy to implement but low efficiency gains. | 2 | Shared services across councils often slow and inefficient to get in place. | 5 | Would deliver significant benefits. |
| Optimal scale and structure | 25% | 2 | No scale benefits. | 4 | Limited scale benefits. | 4 | Still relatively small. |
| Long term flexibility | 20% | 4 | Does not preclude change to other options in the future. | 4 | Does not preclude change to other options in the future. | 4 | Could eventually merge into a larger entity. |
| Total for Critical Success Factors | **100%** | **71** | Very achievable but with no scale benefits. | **76** | Very achievable but with no scale benefits. | **85** | Achievable, no fatal flaws - subject to final legislation due December 2024. |

| ption title | | Option 4 - Single Council owned WSCCO (replaced CCO asset-owning entity) | | Option 5 - Outsourced to private sector | | Option 6 - Outsourced to other council | |
|---|---|---|---|---|---|---|---|
| vestment objectives | Weighting | Score | | Score | | Score | |
| Sustainable funding - Improved investment in three waters assets | 25% | 3 | Enhanced ability to increase investment due to recently announced access to new council debt cap ex LGFA. Indications from LGFA are that these ceiling limits may be more restrictive than regional WSCCO. | 1 | Limited ability to increase investment due to capture within current council debt ceiling limits. | 1 | Limited ability to increase investment due to capture within current council debt ceiling limits. |
| Delivers operational efficiencies and scale economies | 15% | 1 | Better scale economies in a larger entity. | 3 | Scale would enable greater efficiency through a range of factors including contract and consent consolidation, uniform standards etc, but potentially limited subject to individual council agreement i.e. standards currently locked in District Plans. | 3 | Scale would enable greater efficiency through a range of factors including contract and consent consolidation, uniform standards etc, but potentially limited subject to individual council agreement i.e. standards currently locked in District Plans. |
| Supports an attractive market for regional investment and growth | 15% | 4 | Proposed funding arrangements will substantially increase funding availability to provide future growth capacity. | 2 | Limited ability to increase investment to change current attractiveness. | 2 | Limited ability to increase investment to change current attractiveness. |
| Informs Te Mana o te Wai hierarchy of priorities - 1. Water 2. People 3. Communities | 10% | 2 | Capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities will be more limited compared to options with greater capacity and ability to fund specialist positions. | 3 | Capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities will more limited than the WSCCO. | 1 | Capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities will be more limited compared to options with greater capacity and ability to fund specialist positions. |
| Well maintained and regulatory compliant water systems | 15% | 4 | Currently deliver reliable service, have some plants with the same treatment systems. IT duplicated across plants. | 4 | Reliability and repeatability likely to be enhanced with a utility service provider. | 3 | Reliability and repeatability likely to be enhanced with a larger council operation. |
| Supports sufficient staff capability and talent pipeline | 10% | 2 | Capacity and staff numbers to warrant this not available. | 3 | Capacity and staff numbers will provide improved the platform for excellence and capability enablement. Likely to be more limited than WSCCO due to requirement to run duplicate systems for individual Councils and less flexibility in hiring specialist cross council resources. | 3 | Capacity and staff numbers will provide improved the platform for excellence and capability enablement. Likely to be more limited than WSCCO due to requirement to run duplicate systems for individual Councils and less flexibility in hiring specialist cross council resources. |
| Supports local accountability and responsiveness | 10% | 5 | We know our communities, local issues, locations etc. Team can respond in timely manner. Well capable of this. | 3 | Regional identity would not necessarily be guaranteed with a national or global utility service company. | 3 | Regional identity would not necessarily be guaranteed with an interregional service. |
| Total for Investment Objectives | **100%** | **60** | Subject to debt ceiling legislation, potentially a viable option in the future but may not have higher debt raising capacity available under WSCCO or fast track consultation process. | **50** | Unlikely to be a viable option in the future given the inability to fund renewal backlog, lack of market interest and likely increase in service costs given requirement for a profit margin. | **43** | Unlikely to be a viable option given the likelihood of other councils being willing to provide this service is low. |
| itical Success Factors: | Weighting | Score | | Score | | Score | |
| Achievability | 30% | 4 | Politically very achievable. | 2 | Unlikely to be politically achievable. | 2 | Unlikely to be politically achievable. |
| Value for money | 25% | 3 | Easy to implement but low efficiency gains. | 3 | Would deliver benefits but less capacity to do so than WSCCO. | 3 | Would deliver benefits but less capacity to do so that WSCCO. |
| Optimal scale and structure | 25% | 2 | No scale benefits. | 4 | Could provide scale through national/international coverage. | 3 | Could provide scale through larger inter council service. |
| Long term flexibility | 20% | 4 | Could eventually merge into a larger entity. | 1 | Outsourcing likely to be a long term contract, providing little flexibility for change. | 2 | Outsourcing likely to be a medium term contract, providing minimal flexibility for change. |
| Total for Critical Success Factors | **100%** | **65** | Achievable, might be more limited than comparative Regional WSCCO debt raising capacity and suffers from inability to access regional scale benefits including efficiencies.. | **51** | Achievability likely to be limited, fatal flaws related to market availability, debt raising capacity, perceived profit raising requirement and inability to change over a short - medium term. | **50** | Unlikely to be achievable given lack of access extended LGFA debt ceilings and availability of willing councils to provide a service. |

| Option title | | Option 7 - Regional Consumer Trust | |
|---|---|---|---|
| **Investment objectives** | **Weighting** | **Score** | |
| Sustainable funding - Improved investment in three waters assets | 25% | 2 | Limited ability to increase investment due to capture within current council debt ceiling limits, but is likely to drive revenue raising ability harder. |
| Delivers operational efficiencies and scale economies | 15% | 3 | Scale assuming a regional community trust entity would enable greater efficiency through a range of factors including contract and consent consolidation, uniform standards etc, but potentially limited subject to individual council agreement i.e. standards currently locked in |
| Supports an attractive market for regional investment and growth | 15% | 3 | Existing Council funding arrangements provides limited ability to increase investment for future growth capacity. |
| Informs Te Mana o te Wai hierarchy of priorities - 1. Water 2. People 3. Communities | 10% | 3 | Capacity to develop policies, methods and reporting to assess and inform hierarchy of priorities will more limited than the WSCCO. |
| Well maintained and regulatory compliant water systems | 15% | 5 | Reliability and repeatability likely to be enhanced with a regional entity. |
| Supports sufficient staff capability and talent pipeline | 10% | 4 | Capacity and staff numbers will provide the platform for excellence and capability enablement. |
| Supports local accountability and responsiveness | 10% | 4 | Would maintain a regional identity with good local connectivity. |
| Total for Investment Objectives | **100%** | **65** | Unlikely to be a viable option given lack of access to new LGFA enhanced debt ceiling and constitutionally more restrictive if other inter-regional consolidation opportunities arise. |
| **Critical Success Factors:** | **Weighting** | **Score** | |
| Achievability | 30% | 4 | Political achievability due to regional focus. |
| Value for money | 25% | 3 | Would deliver benefits but less capacity to do so that WSCCO and Asset Owning CCO. |
| Optimal scale and structure | 25% | 3 | Still relatively small and Community Trust model likely to be less flexible than WSCCO. |
| Long term flexibility | 20% | 1 | Community Trust models are very difficult to change once established. |
| Total for Critical Success Factors | **100%** | **58** | Achievable but inability to access extended LGFA debt ceilings likely to be a fatal flaw. |

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# MCA Results

The following table represents the summary and total scores for each of the options assessed in the above detailed assessments. Red text indicates options which are subject to fatal flaws.

| Option | IO | | CSF | | TOTAL |
|---|---|---|---|---|---|
| Option 1 - Enhanced Status Quo | 62 | *Easy to implement and financially sustainable but with lower efficiency gains and attractiveness for regional investment and growth.* | 71 | *Very achievable but with no scale benefits.* | 133 |
| Option 2 - Enhanced Status Quo with additional shared services | 69 | *Easy to implement and financially sustainable but with lower efficiency gains and attractiveness for regional investment and growth. Likely to be better performing that ESQ if shared services can be materialised.* | 76 | *Very achievable but with no scale benefits.* | 145 |
| Option 3 - Taranaki WSCCO | 88 | *Subject to final legislation likely to be a viable option in the future given the ability to fund renewal backlog and increased compliance with higher debt raising capacity, as well as efficiencies, attractive market for regional investment and growth, ability to inform TMOTW principles, and support staff capabilities and talent pipeline* | 85 | *Achievable, no fatal flaws - subject to final legislation due December 2024.* | 173 |
| Option 4 - Single Council owned WSCCO (replaced CCO asset-own | 60 | *Subject to debt ceiling legislation, potentially a viable option in the future but may not have higher debt raising capacity available under WSCCO or fast track consultation process.* | 65 | *Achievable, might be more limited than comparative Regional WSCCO debt raising capacity and suffers from inability to access regional scale benefits including efficiencies..* | 125 |
| Option 5 - Outsourced to private sector | 50 | *Unlikely to be a viable option in the future given the inability to fund renewal backlog, lack of market interest and likely increase in service costs given requirement for a profit margin.* | 51 | *Achievability likely to be limited, fatal flaws related to market availability, debt raising capacity, perceived profit raising requirement and inability to change over a short - medium term.* | 101 |
| Option 6 - Outsourced to other council | 43 | *Unlikely to be a viable option given the likelihood of other councils being willing to provide this service is low.* | 50 | *Unlikely to be achievable given lack of access extended LGFA debt ceilings and availability of willing councils to provide a service.* | 93 |
| Option 7 - Regional Consumer Trust | 65 | *Unlikely to be a viable option given lack of access to new LGFA enhanced debt ceiling and constitutionally more restrictive if other inter-regional consolidation opportunities arise.* | 58 | *Achievable but inability to access extended LGFA debt ceilings likely to be a fatal flaw.* | 123 |

# Scope and limitations

*This report: has been prepared by GHD for New Plymouth District Council as the coordinator for the three Taranaki district councils and may only be used and relied on by the three Taranaki district Councils. GHD otherwise disclaims responsibility to any person other than the three Taranaki district Councils arising in connection with this report. GHD also excludes implied warranties and conditions, to the extent legally permissible.*

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*The Model is a representation only and does not reflect reality in every aspect. The Model contains simplified assumptions to derive a modelled outcome. The actual variables will inevitably be different to those used to prepare the Model. Accordingly, the outputs of the Model cannot be relied upon to represent actual conditions without due consideration of the inherent and expected inaccuracies. Such considerations are beyond GHD's scope.*

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# Assumptions

### Note regarding Commercial and Management Cases:

These have not been developed as agreed between GHD and the councils, as they would subsequently form part of the Water Services Delivery Plan.

### Financial Modelling

Financial Modelling assumptions are listed in Appendix A

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# Local Water Done Well

Appendix 2

## Evaluating Options for South Taranaki

rationale IMPROVING INFRASTRUCTURE OUTCOMES

# Overview

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- Rationale have been commissioned to help South Taranaki District Council understand the options for delivering three water services under the Governments plan for Local Water Done Well.

- An Investment Logic Map (ILM) was developed to identify the problems and opportunities, and a Multi Criteria Analysis (MCA) was used to assess the water service delivery options.

- Initial findings presented in August showed that keeping water service delivery within Council control is the preferred way forward.

- Since then, additional cost information has become available, and a high-level cost comparison has been incorporated into this analysis.

- This presentation presents the updated findings of this analysis.

# Options Assessed

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- A total of eight options were originally assessed against investment objectives, risks and business needs.
- Five of these options have been discarded based on their score results or achievability within the current environment.
- Delivery options focused on included New Business Unit, Single Council CCO and Multi Council CCO and considered in this analysis.

| Option 1 | Option 2 | Option 3 |
|---|---|---|
| **New Business Unit** | **Single Council CCO** | **Multi Council CCO** |
| Vertical integration for STDC.<br><br>Internal teams for design and can do physical works in future for waters services. | STDC standalone CCO to own and manage the assets.<br><br>Internal teams for design and can do physical works in future for waters services. | The three Councils create a CCO to own and manage the assets.<br><br>Funding and debt is still created through the LTP process.<br><br>E.g., Watercare Model |

# Cost Assumptions

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To support direction setting a high-level cost comparison of the options has been made based on STDC's 2024 LTP & AMP over 30-years. The intention is to provide an indicative comparison of the options based only on potential efficiencies at this time, no work has been undertaken to develop a full financial model for each option including 30-year debt and revenue optimisation.

**So, this analysis in its current state provides a baseline for discussion to inform internal Council decision making on next steps, engagement with Council staff is needed to progress with detailed financial and commercial planning.**

Key assumptions:

- Net Present Value (NPV) of 30-year opex and capex is forecast using Treasury's 5% annual discount rate.
- No operational efficiency, relative to the status quo, is assumed for Option 1 New Business Unit and Option 2 Single Council CCO.
- Medium operational efficiency is assumed for Option 3 Muti Council CCO. Annual efficiencies commence in Year 4 and progressively increase up to a maximum 11.2% per annum at Year 17 onward

# Multi Criteria Analysis

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| | | | Activity options | | |
|---|---|---|---|---|---|
| | | | **Option 1** | **Option 2** | **Option 3** |
| | | | New Business Unit | Single Entity CCO | Multi Council CCO |
| | | | **Vertical integration for STDC.<br><br>Internal teams for design and can do physical works in future for waters services.** | **STDC standalone CCO to own and manage the assets.<br><br>Internal teams for design and can do physical works in future for waters services.** | **The three Councils create a CCO to own and manage the assets.<br><br>Funding and debt is still created through the LTP process.<br><br>E.g., Watercare Model** |
| **Investment Objectives** | | Relative Importance of objective | **59%** | **69%** | **70%** |
| **Investment Objective 1** | Improved aset mangeemnt operations & maintenance, and network efficinecy | 40% | 50% | 70% | 80% |
| **Investment Objective 2** | Increased deivery to achieve the forward invetsment programme | 30% | 65% | 70% | 70% |
| **Investment Objective 3** | A fiancially sustainble entity | 20% | 70% | 70% | 50% |
| **Investment Objective 3** | Enhancing resilience, being prepared. | 10% | 50% | 60% | 70% |
| | | **100%** | | | |
| **Cost** | | | | | |
| **Total Cost (NPV 30 years)** | | | **$ 743,381,742** | **$ 743,381,742** | **$ 715,591,349** |
| Water Supply | | | $ 430,363,383 | $ 430,363,383 | $ 414,537,079 |
| Wastewater | | | $ 273,056,100 | $ 273,056,100 | $ 262,509,726 |
| Stormwater | | | $ 39,962,259 | $ 39,962,259 | $ 38,544,545 |
| **Risks** | | | | | |
| Technical - can we set up and deliver this entity? (Change Management - skills/governance/business systems (revenue), delivery BAU during change) | | 13% | L | M | M |
| Operational - how easy will it be to manage / operate going forward? Includuing the relationship with the parent TLA? | | 13% | L | M | M |
| Political - will it be supported by the elected members / STDC politicians? | | 13% | L | M | H |
| Economic - Economic benefits are achiceved or inequitable | | 13% | L | M | M |
| Social - will it be supporte by the public? (trust, percieved loss of control) | | 13% | L | M | M |
| Cultural - diminished partnership with Maori | | 13% | L | M | M |
| Envionmental | | 13% | L | L | L |
| Legal | | 13% | L | L | L |
| Financial - see IO 4. | | | | | |
| | | **100%** | | | |
| **Business Needs** | | | | | |
| 2021 to 2051 Infrastructure Strategy | | 11% | H | H | M |
| 2016 Stormwater Policy - management of public and private drains. | | 11% | H | H | M |
| 2018 Water and Wastewater Connections Policy | | 11% | H | H | M |
| 2022 Water Supply Agreement Policy - includes formal water supplier arrangemnts with large non-domestic users. | | 11% | H | H | M |
| Iwi relationship strategy | | 11% | H | H | M |
| Procurement strategy | | 11% | H | H | M |
| Healthy supplier market - competitive market, industry capability and capacity | | 11% | M | M | H |
| Current Government legislation - Local Government Act, Local Water Done Well Act. | | 11% | H | H | H |
| Current Government direction | | 11% | L | L | H |
| | | **100%** | | | |
| **Ranking** | | | | | |
| **Final Ranking** | | | **1** | **2** | **3** |

Each option was assessed against:

- Investment objectives (30%)
- Costs (30%
- Risks (20%)
- Business requirements (20%)

To the left is a screenshot of the MCA of option. It is appendix to this presentation.

# Multi Criteria Analysis Results

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- The MCA identifies Option 1 'New Business Unit' as the preferred option for South Taranaki, with Option 2 'Single Council CCO' and Option 3 'Multi Council CCO' as a close second and third.
- This reflects the fact that STDC is in a financially sustainable position, and there are some potential risks moving to a different model.

| Option 1 | Option 2 | Option 3 |
|---|---|---|
| **New Business Unit** | **Single Council CCO** | **Multi Council CCO** |
| Vertical integration for STDC.<br><br>Internal teams for design and can do physical works in future for waters services. | STDC standalone CCO to own and manage the assets.<br><br>Internal teams for design and can do physical works in future for waters services. | The three Councils create a CCO to own and manage the assets.<br><br>Funding and debt is still created through the LTP process.<br><br>E.g., Watercare Model |
| **1** | **2** | **3** |

# Sensitivity Analysis

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- Sensitivity analysis shows that 'Option 1 New Business Unit' is not influenced heavily by changes in criteria weightings.
- The only time 'Option 1 New Business Unit' does not score the highest is when the investment objective weightings are doubled – when this happens 'Option 2 Single Council CCO' scores highest.

| | MCA Weightings | | | |
|---|---|---|---|---|
| | Equal Weighting | Current Weighting | Cost Weighting | Investment Weighting |
| | **Investment Objectives 25<br>Costs 25%<br>Risks 25<br>Business Needs 25%** | **Investment Objectives 30%<br>Costs 30%<br>Risks 20%,<br>Business Needs 20%** | **Investment Objectives 17%<br>Costs 50%<br>Risks 17%<br>Business Needs 17%** | **Investment Objectives 50%<br>Costs 17%<br>Risks 17%<br>Business needs 17%** |
| 1st | Option 1<br>New Business Unit | Option 1<br>New Business Unit | Option 1<br>New Business Unit | Option 2<br>Single Council CCO |
| 2nd | Option 2<br>Single Council CCO | Option 2<br>Single Council CCO | Option 2<br>Single Council CCO | Option 3<br>Multi Council CCO |
| 3rd | Option 3<br>Muti Council CCO | Option 3<br>Muti Council CCO | Option 3<br>Muti Council CCO | Option 1<br>New Business Unit |

# Summary

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- The sensitivity analysis demonstrates that **the preferred way forward is still to keep water service delivery within the control of South Taranaki.**
- Option 1 New Business Unit is acceptable water service delivery, and it comes with low risk compared to a regional model.
- However, it is still recommended that STDC continue to investigate the benefits of a Multi Council CCO that are difficult to capture in this analysis, for example:
    - Professional board
    - Technological advancements
    - Staff Capacity / Retention
- STDC must also consider the disbenefits of Option 1 New Business Unit, for example:
    - Can Council compete for staff and contractors if the region enters a CCO without them?

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# Karakia

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## 5. Karakia

Ruruku Whakakapi – Closing Prayer

| | |
|---|---|
| Unuhia, unuhia | *Draw on, draw on,* |
| Unuhia ki te uru tapu nui | *Draw on the supreme sacredness* |
| Kia wātea, kia māmā te ngākau, te tinana, te wairua i te ara takatū | *To clear, to free the heart, the body and the spirit of mankind* |
| Kia wātea, ka wātea, āe rā, kua wātea | *To be clear, will be clear, yes is cleared.* |
| Rire rire hau pai marire! | *Deeply in peace!* |