

Levels of Service

As part of Morrison Low's analysis, we looked at how each of the three options would affect the water services that people in our Districts receive.

In the short term (the next five to 10 years), we expect that water users will continue to get the same quality, amount, and pressure of water, no matter which option is chosen.

Over the longer term, a larger water services organisation would likely have some key advantages. It would be easier to hire and keep staff, including people with specialised skills. It would also be better placed to borrow money, manage assets more effectively, and focus fully on water services.

These strengths should lead to better investment in the network - meaning fewer breakdowns, quicker repairs, and better overall service for everyone.

A larger, jointly owned, council-controlled organisation could also work more efficiently. It would have access to a broader range of expertise than the other options, which could improve resilience and reduce the need to hire outside consultants.

Money Matters

Understanding Water Service Costs

Water Services costs are going to increase whatever the service delivery option adopted.

Why costs will increase

Several key factors driving these increases are:

- Expiring wastewater treatment resource consents
- Ageing infrastructure that needs renewal
- Significant local population growth (may not be applicable for all 4 councils)
- Stricter environmental regulations

What's the cheapest option?

The preferred jointly owned CCO option helps keep these cost increases more manageable than if each council continued to handle services separately. By working together, costs are shared and operations become more efficient over time.

The jointly owned CCO model also supports local pricing. That is, the debt and investment needs of each District would be reflected in the water services prices for that area and the benefits distributed across the four councils' communities.

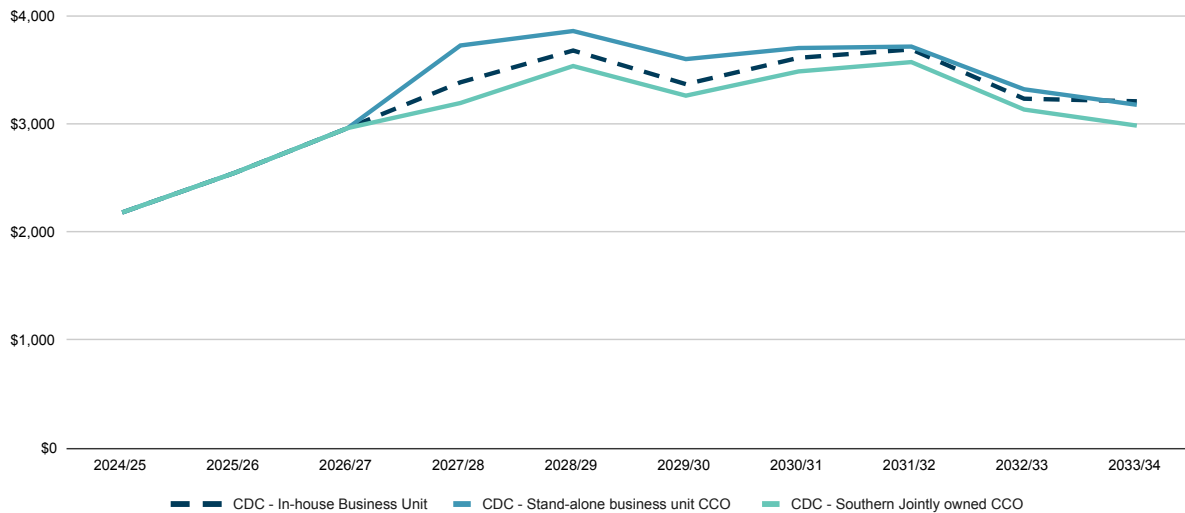
Three waters rates across Southern Water Done Well (SWDW) councils are predicted to rise significantly over the next 10 years. Based on Long-Term Plans, by 2034 some councils' three water rates will be more than double what they are now.

In Morrison Low's report, the modelling predicts consumers in our District will save \$191 a year in water charges with a jointly owned CCO compared to an in-house business unit in 2027/28. The savings increase to \$226 a year in 2033/34.

This table shows our predicted future water charges, per household, under the three delivery models.

Delivery Model	2027/28 Financial Year	2033/34 Financial Year
 Option 1 Joint-council CCO <i>(preferred option)</i>	\$3,195	\$2,985
Option 2 Stand-alone CCO	\$3,727	\$3,178
Option 3 In-house business unit	\$3,386	\$3,211

Average Three Waters household charge including GST



Rural Water Schemes and pricing

Given the complexity of Clutha’s different rural water schemes, we are unable to provide indicative pricing like we have for our urban users.

As work progresses on further developing arrangements for the Southern Water Joint CCO, decisions will need to be made in consultation with rural water scheme boards and their users including:

- Pricing principles and methodology for rural and urban water. The Joint CCO is currently proposed to be able to set different charges based on the level of service received and geographic location. This may see rural schemes continue to be ring-fenced (kept separate) with a different fee structure.
- Rural water schemes will need to be worked through and engaged with on a scheme-by-scheme basis.

Investment and Borrowing

Councils borrow money to pay for new infrastructure for growth, replace failing old infrastructure, and increase service levels. This ensures future generations (including new properties) pay their share of the cost of the new assets they will use.

Impact on Residents

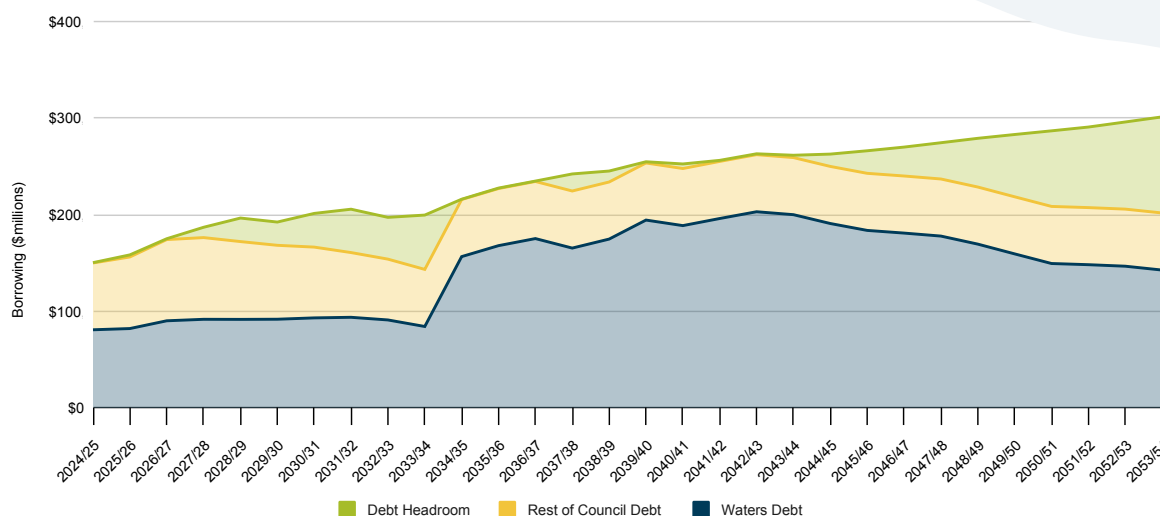
Water infrastructure combined debt across four SWDW councils is expected to increase substantially on a per-person basis under each council’s existing delivery model.

- **Current average debt across four councils: \$2,843 per person**
- **Projected (2034): \$6,926 per person**

Irrespective of the delivery model, we have to borrow significantly to upgrade and maintain our water infrastructure to meet the new legal standards.

SWDW councils will need to collectively borrow \$598 million over the next 10 years to fund a combined investment programme of \$760 million.

Total Council debt breakdown and remaining borrowing capacity (@ 250%)



New rules for borrowing

Local Water Done Well legislation sets clear rules on how councils can borrow money for water services. The borrowing limits depend on whether councils form a council-controlled water organisation or stay with an in-house model.

If councils form CCOs (Options 1 and 2)

New water organisations will be allowed to borrow more for infrastructure.

While the graph shows 250% currently we (Clutha District Council) can borrow up to 2.8 times our revenue (a 280% debt-to-revenue ratio).

Under a CCO water services delivery organisation, the limit increases to around five times revenue (a 500% debt-to-revenue ratio), subject to meeting prudent credit criteria. This would make it easier to fund significant water projects.

If councils keep managing water services in-house (Option 3)

This option may not meet legislative requirements for financial sustainability as councils would be forced to breach their debt caps to fund three waters investment in either the short or long term. It would also force significant and untenable cost increases onto ratepayers.

Significantly increasing infrastructure investment would likely see less investment in community assets.

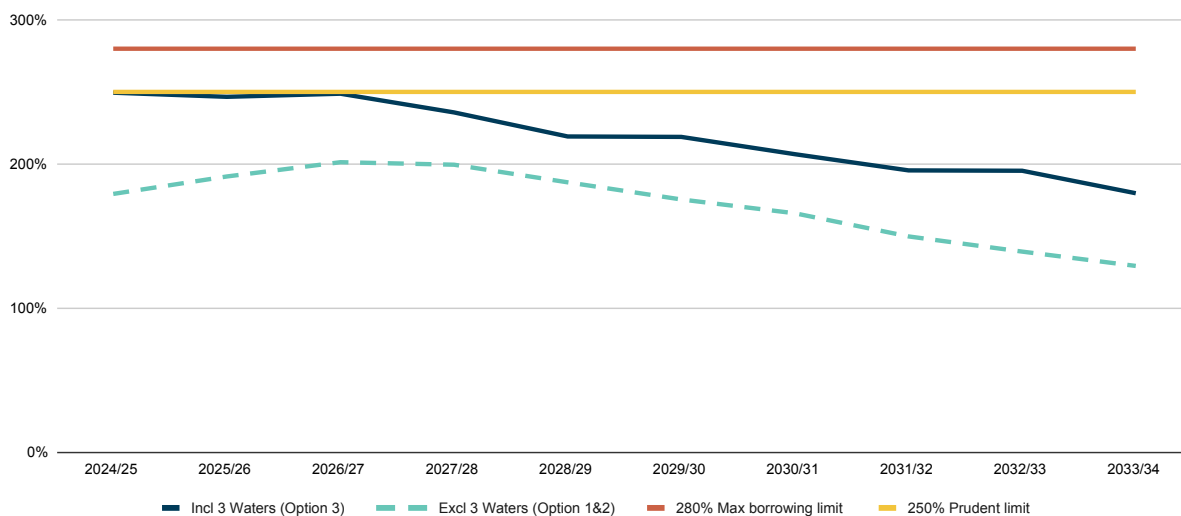
The SWDW councils current combined Three Waters debt is \$236 million.

The Government requires that all water-related assets, revenue, expenses, and debt be kept separate (or ‘ring-fenced’) from other council services.

This benefits ratepayers as it frees up more investment capacity for each council, should it wish to use it.

The graph below shows how much debt would be taken off our books without three waters debt and the additional investment capacity we would have.

Council debt to revenue ratio without 3 Waters



We'd have to spend some money to set up a new organisation

The initial costs of setting up a new water services organisation would be high as the organisation needs to be well-resourced to ensure efficiencies, better service delivery, and improved asset management for the long term.

Establishment costs would include transferring legal responsibilities and assets, setting up an office, buying software, hiring staff, work vehicles, billing processes, customer service, and much more. Estimates are around \$13.8 million for a jointly owned CCO, which would be shared among the partner councils.

Estimates for a Stand-alone CCO range between \$3 million and \$4.5 million, which would be carried by each council alone.

It's important to understand that these estimates are for financial modelling purposes and are not a formal budget. Actual costs are likely to be refined as work progresses.

For a Joint CCO, water charges are lower for all ratepayers, even with these establishment costs.