

**Notice of Meeting:**

I hereby give notice that an ordinary meeting of the Dunedin City Council will be held on:

**Date:** Monday 20 September 2021  
**Time:** 12.00 noon  
**Venue:** via Zoom Audio Visual Link

Sandy Graham  
Chief Executive Officer

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**Council**  
**PUBLIC AGENDA**

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**MEMBERSHIP****Mayor  
Deputy Mayor  
Members**

Mayor Aaron Hawkins  
Cr Christine Garey  
Cr Sophie Barker  
Cr Rachel Elder  
Cr Carmen Houlahan  
Cr Mike Lord  
Cr Jules Radich  
Cr Lee Vandervis  
Cr Andrew Whiley

Cr David Benson-Pope  
Cr Doug Hall  
Cr Marie Laufiso  
Cr Jim O'Malley  
Cr Chris Staynes  
Cr Steve Walker

**Senior Officer**

Sandy Graham, Chief Executive Officer

**Governance Support Officer**

Lynne Adamson

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Lynne Adamson  
Governance Support Officer

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Lynne.Adamson@dcc.govt.nz  
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**Note:** Reports and recommendations contained in this agenda are not to be considered as Council policy until adopted.

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**1 PUBLIC FORUM**

At the close of the agenda no requests for public forum had been received.

**2 APOLOGIES**

At the close of the agenda no apologies had been received.

**3 CONFIRMATION OF AGENDA**

Note: Any additions must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.



## DECLARATION OF INTEREST

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### EXECUTIVE SUMMARY

1. Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.
2. Elected members are reminded to update their register of interests as soon as practicable, including amending the register at this meeting if necessary.
  - 1.
3. Staff members are reminded to update their register of interests as soon as practicable.

### RECOMMENDATIONS

That the Council:

- a) **Notes/Amends** if necessary the Elected Members' Interest Register attached as Attachment A; and
- b) **Confirms/Amends** the proposed management plan for Elected Members' Interests.
- c) **Notes** the proposed management plan for the Executive Leadership Team.

### Attachments

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Councillor Register of Interest - Current as at 13 September 2021				
Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
Aaron Hawkins	Trustee	West Harbour Beautification Trust	Potential conflict WHBT work with Parks and Reserves to co-ordinate volunteer activities	Withdrawal from all West Harbour Beautification Trust/ DCC discussions involving this relationship.
	Trustee	St Paul's Cathedral Foundation	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Owner	Residential Property Owner - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Thank You Payroll	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	ICLEI Oceania Regional Executive	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Hospital Local Advisory Group	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Green Party	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Connecting Dunedin (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Board Member	Otago Museum Trust Board (Council appointment)	Duties to Trust may conflict with duties of Council Office. Recipient of Council funding	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Otago Theatre Trust (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Member	Otago Polytech's Research Centre of Excellence	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	LGNZ National Council	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee	Alexander McMillan Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee	Cosy Homes Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chair	LGNZ Policy Advisory Group	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Local Government New Zealand Zone 6 Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Sophie Barker	Director	Ayrmed Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Ocho Newco Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Various publicly listed companies	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Property Owner	Residential Property Owner - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Beneficiary	Sans Peur Trust (Larnach Castle)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chairperson	Dunedin Heritage Fund Trust (Council appointment)	Duty to Trust may conflict with duties of Council Office	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Trustee	Dunedin Midwinter Carnival	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Committee Member	Otago Anniversary Day Dinner	No conflict Identified	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Member	Dunedin Gas Works Museum Trust (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
David Benson-Pope	Owner	Residential Property Ownership in Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee and Beneficiary	Blind Investment Trusts	Duty to Trust may conflict with duties of Council Office	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Yellow-eyed Penguin Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	New Zealand Labour Party	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Heritage Fund Trust (Council appointment)	Duty to Trust may conflict with duties of Council Office	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Connecting Dunedin (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Tertiary Precinct Planning Group (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Delegation holder	Second Generation District Plan (2GP) Authority to Resolve Appeals on behalf of Council (Council appointment)	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Hospital Local Advisory Group	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Otago Regional Transport Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Commissioner (Community Representative)	District Licensing Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Rachel Elder	Owner	Residential Property Ownership - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Greater South Dunedin Action Group	Decisions may be considered on the future of South Dunedin.	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Host Parent	Otago Girls High School	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Advisor/Support Capacity	Kaffelagic	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Trails Networks Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chair	Southern Urban Dunedin Community Response Group	Decisions about emergency response recovery may be conflicted	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Craigieburn Reserve Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Keep Dunedin Beautiful (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Okia Reserve Management Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Toitu Otago Settlers Museum Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chairperson	Disability Issues Advisory Group	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Christine Garey	Trustee	Garey Family Trust - Property Ownership - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chair	Creative Dunedin Partnership (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Member	Dunedin Symphony Orchestra Foundation Board of Trustees (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Theomin Gallery Management Committee (Olveston) (Council appointment)	No conflict identified	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Chair	Grants Subcommittee (Council Appointment)	No conflict identified	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
		External family member is a Principal Security Consultant	Major supplier to DCC	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Local Government New Zealand Zone 6 Committee (Council Appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Doug Hall	Director/Owner	Hall Brothers Transport Ltd	May contract and provide service to DCC	Withdraw from discussion and leave the table. If in confidential leave the room. Seek prior approval from Office of the Auditor General when required.
	Director/Owner	Dunedin Crane Hire	May contract and provide service to DCC	Withdraw from discussion and leave the table. If in confidential leave the room. Seek prior approval from Office of the Auditor General when required.
	Director/Owner	Wood Recyclers Ltd	May contract and provide service to DCC	Withdraw from discussion and leave the table. If in confidential leave the room. Seek prior approval from Office of the Auditor General when required.
	Director/Owner	Dunedin Concrete Crushing Ltd	May contract and provide service to DCC	Withdraw from discussion and leave the table. If in confidential leave the room. Seek prior approval from Office of the Auditor General when required.
	Director/Owner	Anzide Properties Ltd - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	The Woodshed 2014 Limited	May contract and provide service to DCC	Withdraw from discussion and leave the table. If in confidential leave the room. Seek prior approval from Office of the Auditor General when required.
	Owner	Property Ownership - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Farmlands	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Ravensdown Fertiliser	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	PGG Wrightson	Currently no likely conflict	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Silver Fern Farms	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	Valley View Development Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Geekfix Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Milburn Processing Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Donor of the use of a building free of charge to the group	Fire Brigade Restoration Society	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Appellant	2GP	Appellant to the 2GP	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Financial Donor	Dunedin North Community Patrol	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Donor of the use of a building free of charge to the group	North Dunedin Blokes Shed	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Partner	Highland Helicopters	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Supplier	Southweight Truck and Weights for testing Weighbridges Otago & Southland	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Craigieburn Reserve Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Chinese Garden Advisory Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Toitu Otago Settlers Museum Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Carmen Houlahan	Owner	Residential Property - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Owner	Rental Property - North Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Part Owner	Adobe Group Ltd, Wanaka	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Rotary Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Institute of Directors	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Otago Property Investors Association	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Company Owner/Sole Director	Shelf Company - RU There	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Startup Business	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Toitu Otago Settlers Museum Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Public Art Gallery Acquisitions Committee (Council appointment)	Possible grants recipient	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Member	Dunedin Public Art Gallery Society (Council appointment)	Possible grants recipient	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Member	Mosgies Taieri Community Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Marie Laufiso	Property Owner	Residential Property	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee	Community Building Trust - Trust Owner of Property 111 Moray Place	Duty to Trust may conflict with duties of Council Office	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Board Member	Otago Mental Health Support Trust	Potential grants applicant which would result in pecuniary interest. Duty to Trust may conflict with duties of Council Office	Do not participate in consideration of grants applications. If the meeting is in confidential, to leave the room.
	Trustee	Brockville Community Support Trust	Potential grants recipient	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Trustee	Corso Ōtepoti Dunedin Trust	Potential grants recipient	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Member	Dunedin Manufacturing Holdings Inc	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	National Communications Officer	P.A.C.I.F.I.C.A Inc	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Dunedin Branch Treasurer	P.A.C.I.F.I.C.A Inc	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Dunedin Branch delegate to Arai Te Uru Marae Council	P.A.C.I.F.I.C.A Inc	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Member	Green Party of Aotearoa New Zealand	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Age Concern (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Abrahamic Interfaith Group (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chair	Dunedin Refugee Steering Group (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Otago Settlers Association (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Fair Trading Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Deputy Chair	Grants Subcommittee	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chair	Social Well Being Advisory Group (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Mike Lord	Trustee	ML Lord Family Trust - Owner of Residential Properties - Dunedin	Duty to Trust may conflict with duties of Council Office	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Fonterra	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Federated Farmers	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Mosgiel Rotary Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Mosgiel RSA	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	National Party	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chairperson	Federated Farmers Charitable Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Various publicly listed companies	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chairperson	Otago Rural Support Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee	Otago Youth Adventure Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Strath Taieri Community Board (Council Appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Hereweka Harbour Cone Trust (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	District Licensing Committee (Council Appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Jim O'Malley	Owner	Biocentrix Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Mosgiel Association Football Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Ocho Newco Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Owner	Residential Property Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Owner	Ayrmed Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Member	Ice Sports Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Manufacturing Holdings	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Ice Sports Dunedin Incorporated (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If in confidential leave the room. Seek advice prior to the meeting.
	Member	Connecting Dunedin (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Okia Reserve Management Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Tertiary Precinct Planning Group (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Waikouaiti Coast Community Board (Council Appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Jules Radich	Shareholder	Izon Science Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Taurikura Drive Investments Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Golden Block Developments Ltd	The Auditor General has issued a declaration under section 6(4) of LAMIA allowing Cr Radich to participate on the grounds that it is in the interests of the electors and inhabitants of the area that he be allowed to do so. The declaration applies to the Council meeting on 25 May 2020 and to discussion and deliberations on the Annual Plan 2020/21 up to and including the adoption of the Annual Plan	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Cambridge Terrace Properties Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	Southern Properties (2007) Ltd	The Auditor General has issued a declaration under section 6(4) of LAMIA allowing Cr Radich to participate on the grounds that it is in the interests of the electors and inhabitants of the area that he be allowed to do so. The declaration applies to the Council meeting on 25 May 2020 and to discussion and deliberations on the Annual Plan 2020/21 up to and including the adoption of the Annual Plan	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Arrenway Drive Investments Limited	The Auditor General has issued a declaration under section 6(4) of LAMIA allowing Cr Radich to participate on the grounds that it is in the interests of the electors and inhabitants of the area that he be allowed to do so. The declaration applies to the Council meeting on 25 May 2020 and to discussion and deliberations on the Annual Plan 2020/21 up to and including the adoption of the Annual Plan	Seek advice prior to the meeting if actual or perceived conflict of interest arises.



Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Director	Golden Centre Holdings Ltd	The Auditor General has issued a declaration under section 6(4) of LAMIA allowing Cr Radich to participate on the grounds that it is in the interests of the electors and inhabitants of the area that he be allowed to do so. The declaration applies to the Council meeting on 25 May 2020 and to discussion and deliberations on the Annual Plan 2020/21 up to and including the adoption of the Annual Plan	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	IBMS Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	Raft Holdings Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	Otago Business Coaching Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Effectivise Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Athol Street Investments Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	Allandale Trustee Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Aberdeen St No2 Ltd	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Public Art Gallery Acquisitions Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Public Art Gallery Society (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Road Safety Action Plan	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	100% Shareholder/Director	Panorama Developments Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Tertiary Precinct Planning Group (Council appointment - alternate)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Saddle Hill Community Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Chris Staynes	Chairman	Cargill Enterprises	Contractor and service provider to DCC	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room.
	Director	Wine Freedom	Supplier to DCC	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room.
	Patron	Otago Model Engineering Society	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Balmacewen Lions Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee	Otago Southland Manufacturers Association Trust	Possible co-funder of ED project. Duties to the Trust may conflict with duties of Council	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
	Life Member	Otago Chamber of Commerce	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Deputy Chair	Cancer Society of Otago/Southland	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Board Member	NZ Cancer Society	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Member	Patearoa Golf Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	President	Balmacewen Lions	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Trustee	CJ and CA Staynes Family Trust - Property Owner - Dunedin and Patearoa	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	George Street Wines Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director/Shareholder	Saddle Hill Investment Trust Limited	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	NZ Association of Amateur Radio and Transmitters	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Board Member	Otago Museum Trust Board (Council appointment)	Duties to Trust may conflict with duties of Council Office. Recipient of Council funding	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Trustee	Theomin Gallery Trust (Council appointment)	Duties to Trust may conflict with duties of Council Office. Recipient of Council funding	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Chairman	Grow Dunedin Partnership (Council appointment)	Duties may conflict with duties of Council Office. Recipient of Council funding	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Dunedin Shanghai Association (Sister City Society) (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Trustee	For Trades Appreclnticeship Training Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Social Well Being Advisory Group (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Local Government New Zealand Zone 6 Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Lee Vandervis	Director	Lee Vandervis, Antonie Alm-Lequeux and Cook Allan Gibson Trustee Company Ltd - Residential Property Ownership - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Director	Bunchy Properties Ltd - Residential Property Ownership - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Owner	Vandervision Audio and Lighting - Hire, Sales and Service Business	May contract and provide service to DCC	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
Steve Walker	Chairperson	Dunedin Wildlife Hospital Trust	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
	Chairperson	West Harbour Beautification Trust	Potential conflict WHBT work with Parks and Reserves to co-ordinate volunteer activities	Withdrawal from all West Harbour Beautification Trust/ DCC discussions involving this relationship.
	Member	Orokonui Ecosanctuary	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
	Member	Port Chalmers Golf Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Keep New Zealand Beautiful	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
	Member	Society of Beer Advocates	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	New Zealand Labour Party	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Port Chalmers Historial Society	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Owner	Residential Property - Dunedin	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Shareholder	Various publicly listed companies	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	NZ Sea Lion Trust	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Edinburgh Sister City Society (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Connecting Dunedin (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Te Ao Turoa Partnership (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Keep Dunedin Beautiful (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Tertiary Precinct Planning Group (Council appointment - alternate)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	West Harbour Community Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Andrew Whiley	Owner/Operator	Whiley Golf Inc and New Zealand Golf Travel Ltd	No conflict identified	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
	Director/Shareholder 22 May 2017	Estate of Grace Limited	No conflict identified	Withdraw from discussion and leave the table. If the meeting is in confidential leave the room. Seek advice prior to the meeting.
	Trustee	Japek (Family Trust) - Property Ownership - Dunedin	Duties to Trust may conflict with duties of Council Office.	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Otago Golf Club	No conflict identified	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Dunedin South Rotary Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Board Member	New Zealand Professional Golfers Assn	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Institute of Directors	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	National Party	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Chairman	Volunteering Otago	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Otaru Sister City Society (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Dunedin Public Art Gallery Society (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Grow Dunedin Partnership (Council appointment - alternate)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	NZ Masters Games Trust Board (Council appointment)	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Acting Chair	Dunedin Community House Executive Committee	Potential grants recipient	Withdraw from discussion and leave the table. If the meeting is in confidential, leave the room. Seek advice prior to the meeting.
	Member	Puketai Residential Centre Liaison Committee (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Otago Property Investors Association	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Name	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	Member	Chisholm Links Golf Club	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	Member	Otago Peninsula Community Board (Council appointment)	No conflict identified	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Executive Leadership Team - Register of Interest - current as at 14 September 2021					
Name	Date of Entry	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
Sandy Graham		Owner	Residential property Dunedin	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	19/09/2018	Trustee	Trustee of the Taieri Airport Facilities Trust	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	25/07/2019	Member	Otago Golf Club	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Simon Pickford		Owner	Residential property, Dunedin	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	16/08/2017	Member	SOLGM Regulatory Reference Group	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	21/02/2020	Wife	Owns residential properties, Dunedin	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	18/09/2020	Member	Kotui Board	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
John Christie		Wife is a member	Taieri Community Facilities Trust	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Investor/Director	Saddle Hill Investment Trust	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Shareholder	Clocktower	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Owner	Residential Properties Mosgiel	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	15/09/2017	Trustee	Diversity Works NZ	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	09/07/2018	Member	Society of Local Government Managers	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	19/02/2020	Daughter is a member	Youth Council	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Simon Drew		Trustee	Sister Cities New Zealand	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Owner	Residential property Dunedin	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Chartered Member	Engineering New Zealand	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	17/04/2019	Judge	ACENZ (Association of Consulting Engineers NZ) Innovate Awards Judge	ACENZ have own conflict of interest policies.	Would not be allowed to judge a DCC project.
	17/04/2019	Member	Society of Local Government Managers	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Robert West			South Coast Builders engaged to carry out work on property	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Owner	Residential property Dunedin	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Gavin Logie		Trustee	Caselberg Trust	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Owner	Residential property Dunedin	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

Executive Leadership Team - Register of Interest - current as at 14 September 2021					
Name	Date of Entry	Responsibility (i.e. Chairperson etc)	Declaration of Interests	Nature of Potential Interest	Member's Proposed Management Plan
	17/07/2020	Owner	Residential property Wanaka	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Minority shareholder	Southern Hospitality	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Director	Golden Block Investments Limited	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	17/07/2020	Director	Five Council-owned non-trading companies	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
	14/01/2021		Wife works in a senior financial position in the Finance Department, University of Otago	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
			Son works for Tregaskis Brown who provide consultancy services to Central Government	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
Jeanette Wikaira		Trustee	Dunedin North Intermediate School	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Member	Otago Institute of Arts and Science	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.
		Trustee	Hone Tuwhare Charitable Trust	No conflict identified.	Seek advice prior to the meeting if actual or perceived conflict of interest arises.

## REPORTS

### THREE WATERS REFORM

Department: 3 Waters

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#### EXECUTIVE SUMMARY

- 1 This report updates the Council on the Government's three waters regulatory and service delivery reform proposals. It also updates the Council on independent analyses of the aspects of the reform proposals commissioned by the Otago-Southland Three Waters Office.
- 2 A draft letter to the Minister of Local Government providing feedback from the Dunedin City Council on the proposed reforms is attached to this report as Attachment A.
- 3 The draft letter to the Minister provides feedback on the following:
  - a) Council requests adequate time and appropriate accessible information to engage meaningfully with the community on three waters service delivery reform;
  - b) Council requests the Government to continue working constructively and in partnership with councils and iwi/Māori to resolve the following issues prior to engagement with communities:
    - i) the design of mechanisms to enable local influence in the new water services entities;
    - ii) improvements to the modelling of the financial impacts of the proposed reforms; and
    - iii) the design of three waters workforce development initiatives to help ensure the objectives of any reforms can be achieved; and
  - c) Council must be able to control the strategic direction of land use planning. Council is best placed to balance the wide variety of considerations that inform land use planning decisions, of which three waters service provision is but one part.
- 4 This report also outlines legislative considerations that may be relevant to any future Council decisions and consultation on three waters reform. Council is not currently able to make any decisions on a future model for three waters service delivery in Dunedin as there is insufficient information and time available to meet the moral and legal requirements of council decision-making.

## RECOMMENDATIONS

That the Council:

- a) **Notes** the updates on the three waters reform proposals.
- b) **Notes** the updates on independent analyses of aspects of the reform proposals commissioned by the Otago-Southland Three Waters Office.
- c) **Approves**, with any amendments, the draft feedback letter to the Minister of Local Government at Attachment A.
- d) **Authorises** the Chief Executive to make any minor editorial changes to the letter
- e) **Authorises** the Mayor or his delegate to speak to the Minister and/or her officials in support of the letter if offered the opportunity.
- f) **Notes** the Council cannot make a formal decision to adopt an alternative model for three waters service delivery without first amending the 10 Year Plan 2021-31 and undertaking commensurate community consultation.
- g) **Notes** a decision to provide feedback to the Minister of Local Government by 1 October 2021 does not commit the Council to a particular position on a future model for three waters service delivery or to continued participation in the Government's reform programme.
- h) **Notes** the Dunedin City Council is committed to consulting with the community on three waters reform in a meaningful way once the Council has further information from the Government on the next steps in the reform programme.
- i) **Notes** the Government intends to make further decisions about the three waters service delivery model after 1 October 2021.

## BACKGROUND

- 5 The Government has initiated changes to three waters regulatory and service delivery arrangements to address challenges highlighted by the Government Inquiry into Havelock North Drinking Water and the Three Waters Review.
- 6 In June and July 2021, the Government made several substantial announcements and information releases in relation to the three waters reform proposals
- 7 On 2 June, the Government published financial modelling and analyses it commissioned from the Water Industry of Scotland and other consultancies to advance the evidence base that informs the case for nationwide three waters service delivery reforms. Documents published as part of the 2 June 2021 information release are available on the Department of Internal Affairs website at <https://www.dia.govt.nz/three-waters-reform-programme-national-evidence-base>. The documents are listed in Attachment B.



- 8 On 30 June, the Government announced its proposed new water services system for New Zealand. Documents published as part of the 30 June announcement are available on the Department of Internal Affairs website at <https://www.dia.govt.nz/three-waters-reform-programme-cabinet-decisions-and-reform-proposals>. The documents are listed in Attachment B.
- 9 In conjunction with the 30 June announcement, the Government also launched a new website to publicise three waters reforms: <https://threewaters.govt.nz/>.
- 10 On 15 July, the Government announced a \$2.5 billion package to support the transition to the new water services system.
- 11 The support package is made up of two components:
  - a) A \$2 billion component to invest in the future of local government and community well-being; and
  - b) A \$500 million component to ensure that no council is left financially worse off as a direct result of the three waters service delivery reforms.
- 12 The \$2 billion component will be allocated to councils on the basis of a nationally consistent formula. The Dunedin City Council's allocation is \$46.172 million.
- 13 Documents published as part of the 15 July announcement are available on the Department of Internal Affairs website at <https://www.dia.govt.nz/three-waters-reform-programme-reform-support-package>. The documents are listed in Attachment B.
- 14 Following these announcements, the Government initiated an eight-week period for Councils to provide feedback on the potential impacts of the proposed reforms and how they could be improved. The deadline for feedback is Friday 1 October 2021.
- 15 Further Government announcements on implementation measures and transition arrangements are expected after 1 October 2021.

### Three waters regulatory reform update

- 16 The Water Services Bill, if passed, would replace Part 2A (Drinking Water) of the Health Act 1956 and implement system-wide reforms to the regulation of drinking water and source water.
- 17 At the Council meeting on 23 February 2021, the Council considered the Water Services Bill and approved a joint submission to Parliament's Health Committee. The joint submission was prepared by the Otago-Southland Three Waters Office on behalf of all of the Otago and Southland councils, including the DCC.
- 18 The Health Committee delivered its report on the Water Services Bill on 10 August 2021. The Bill's second reading in Parliament has been delayed by the recent COVID-19 lockdown. The Government intends for the Bill to be passed in 2021.
- 19 The Ministry of Health remains New Zealand's drinking water regulator until the Water Services Bill passes through Parliament and comes into effect. At that point, Taumata Arowai will become the drinking water regulator.

- 20 The Ministry for the Environment intends to amend the National Environmental Standard for Sources of Human Drinking Water 2007 to align it with the Water Services Bill. Public consultation on the proposed amendments is expected in the near future.
- 21 **Other Government reform initiatives**
- 22 In addition to the three waters reform, the Government has announced further wide-ranging reforms related to freshwater, resource management, climate change and zero carbon, all of which have potential to have significant impacts on the delivery of three waters services.
- Resource management system reform:
    - proposed Natural and Built Environments Act
    - proposed Strategic Planning Act (30-year spatial plans)
    - proposed Climate Change Adaptation Act
  - National Policy Statement for Freshwater Management
  - National Policy Statement on Urban Development
  - New Zealand Coastal Policy Statement
  - National Environmental Standards for Sources of Human Drinking Water
  - Review of the Future of Local Government
  - Zero Carbon Act and Climate Change Commission initiatives
- 23 The linkages and impacts between three waters reform and other Government reform is unclear, but these reform initiatives have potential overlapping regulatory, operational and cost impacts.

## **DISCUSSION**

### **Proposed new water services system**

- 24 The reports and other documents published on 2 June and 30 June contain information about estimated potential three waters investment requirements for New Zealand, scope for efficiency gains from transformation of the three waters service delivery system, and the potential economic (efficiency) impacts of various three waters service delivery aggregation scenarios.
- 25 In summary, modelling done for the Government indicated a likely range for future three waters investment requirements at a national level in the order of \$120 billion to \$185 billion. This translates to an average household cost of between \$1910 and \$8690 by 2051 if councils continue to deliver three waters services on a standalone basis. The modelling also estimated these average household costs could be reduced to between \$800 and \$1640 per household and efficiencies in the range of 45% over 15-30 years if the proposed service delivery reforms go ahead. An additional 5,800 to 9,3000 jobs and a GDP increase of between \$14 billion to \$23 billion in Net Present Value (NPV) terms over 30 years were also forecast.

- 26 Independent reviews by Beca and Farrierswier of the Government information noted the modelling gives reasonable estimates of the direction and order of magnitude of the impacts of three waters reform, but the difference in household cost estimates between the status quo and delivery reform options could be substantial.
- 27 As a result of this modelling, the Government has decided to:
- a) establish four statutory, publicly-owned water services entities to deliver drinking water, wastewater and stormwater services to communities across New Zealand;
  - b) provide for local authority ownership of the new water services entities on a non-shareholding basis, with balance sheet separation between councils and the new entities;
  - c) provide protections against future privatisation of the entities in the entities' establishing legislation (including a prohibition on paying dividends to owners, and a legislative requirement to put any future privatisation proposal to a referendum);
  - d) provide mechanisms for councils and mana whenua to influence the strategic objectives and priorities of the entities through regional representative groups that will set expectations and select the independent panels that appoint the entity boards;
  - e) establish independent, competency-based boards to govern the new entities;
  - f) set a clear national policy direction for the three waters sector, including integration with any new spatial / resource management planning processes;
  - g) establish an economic regulation regime; and
  - h) develop an industry transformation strategy.
- 28 As shown in the graphic below, Dunedin has been placed in water services entity D, which would service most of the South Island. The boundaries of Entity D broadly coincide with the Ngāi Tahu takiwā. The Government remains open to discussion on the precise boundaries of the proposed entities.

## Entity A



Auckland  
Far North  
Kaipara  
Whangarei

### Entity A

Connected population (2020)	1.7m
<b>Average household cost (2051, real)<sup>1</sup></b>	
With reform	\$800
Without reform	\$2,170

## Entity B

### Entity B

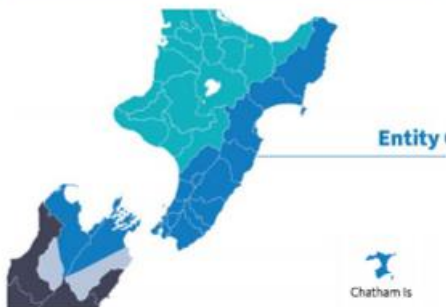


Hamilton  
Hauraki  
Kawerau  
Matamata-Piako  
New Plymouth  
Opoiki  
Rotorua Lakes  
Rotorua  
South Taranaki  
South Waikato  
Stratford  
Taupo  
Tauranga  
Thames-Coromandel  
Waikato  
Waipara  
Waitomo  
Western Bay of Plenty  
Whakatane  
Whanganui

### Entity B

Connected population (2020)	0.8m
<b>Average household cost (2051, real)<sup>1</sup></b>	
With reform	\$1,220
Without reform	\$4,300

## Entity C



### Entity C

Carterton  
Central Hawke's Bay  
Chatham Islands  
Gisborne  
Hastings  
Horowhenua  
Kapiti Coast  
Lower Hutt  
Manawatu  
Marlborough  
Masterton  
Napier  
Nelson  
Palmerston North  
Porirua  
South Wairarapa  
Tararua  
Tasman  
Upper Hutt  
Wairoa  
Wellington

### Entity C

Connected population (2020)	1.0m
<b>Average household cost (2051, real)<sup>1</sup></b>	
With reform	\$1,260
Without reform	\$3,730

## Entity D



### Entity D

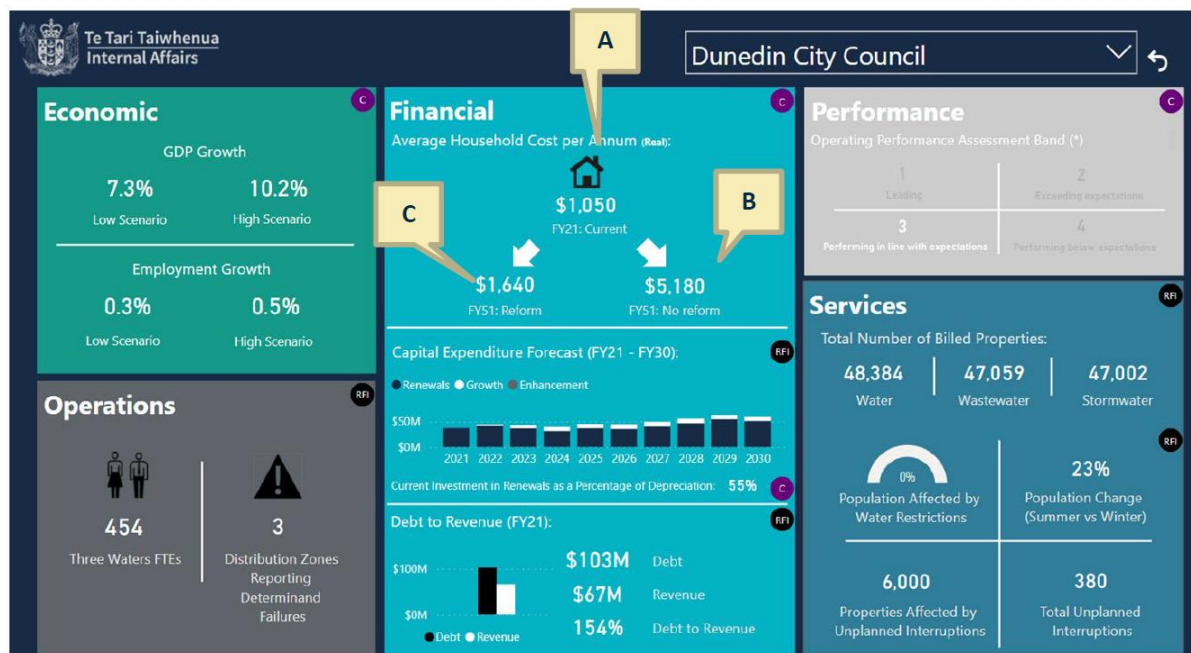
Ashburton  
Buller  
Central Otago  
Christchurch  
Clutha  
Dunedin  
Gore  
Grey  
Hurunui  
Invercargill  
Kaikoura  
Mackenzie  
Queenstown  
Lakes  
Selwyn  
Southland  
Timaru  
Waimakariri  
Waimate  
Waitaki  
Westland

### Entity D

Connected population (2020)	0.9m
<b>Average household cost (2051, real)<sup>1</sup></b>	
With reform	\$1,640
Without reform	\$4,970

## Financial considerations

- 29 In respect of the Government's published information on financial impacts, the 'local dashboard' developed for Dunedin City Council shows the following:



- 30 In the dashboard graphic above:
- A is an estimate of current (2021) annual household charges for water services;
  - B is an estimate of future annual household charges for water services in 2051 under delivery by a new water services entity; and
  - C is an estimate of future annual household charges for water services in 2051 under continued council delivery of three waters services.

## Otago-Southland Three Waters

- 31 In 2020, the DCC and nine other councils from across Otago and Southland (including the two regional councils) established the Otago-Southland Three Waters Office to support collective participation by the councils in the Government's Three Waters Reform Programme.
- 32 In late-2020, the Otago-Southland Three Waters Office commissioned Morrison Low to assess council three waters infrastructure and services across Otago and Southland. The purpose of the assessment was to inform discussions within the two regions about options and future decisions relating to the Government's reform programme.
- 33 In early-2021, Morrison Low completed a 'Regional Situation Analysis', which focused on challenges and opportunities at a regional scale.
- 34 Morrison Low's draft 'Cross-regional current state assessment', which presented findings at the individual territorial authority level, was provided to the Council meeting on 25 May 2021.

- 35 In July 2021, Morrison Low provided each council with an individualised 'Impacts assessment' report. The DCC's 'Impacts assessment' report is attached to this report as Attachment C.
- 36 The 'Impacts assessment' report assesses the impacts of three potential future scenarios for three waters service delivery in Dunedin:
  - a) Continue participation in Government-led service delivery reforms.
  - b) 'Opt out' of Government-led service delivery reforms: establish Otago-Southland entity.
  - c) 'Opt out' of Government-led service delivery reforms: continue Dunedin City Council delivery model.
- 37 The purpose of the 'Impacts assessment' report is to provide information to support future Council decision making on participation in the Government's Three Waters Reform Programme. The report highlights the differences between each of the options in terms of governance, future investment, financial considerations, resources, and risks and challenges.
- 38 The 'Impacts assessment' report concluded there are expected to be some efficiencies and benefits from a combined regional entity compared to Dunedin delivering three waters services alone.
- 39 In August 2021, Morrison Low provided each council with an individualised review of the Water Industry of Scotland (WICS) data as it applied to each specific council. The report provided commentary on how to interpret the WICS calculations and how those relate to Dunedin, as well as a comparison of the approaches adopted by WICS and Morrison Low in the analysis of potential future costs with and without water reform. The DCC's individualised review from Morrison Low is attached to this report as Attachment D.
- 40 Morrison Low's review highlighted a range of areas where the WICS financial modelling and thus the Government's case for change, from a financial perspective, has been overstated. The WICS's assumptions about debt to revenue ratios and efficiency savings have significant impact on modelled household costs under two different service delivery scenarios (continued council delivery, and delivery by a new water services entity). The difference between Morrison Low and WICS's household cost estimates is substantial.
- 41 The Morrison Low conclusions were that overall, while the projected household charges from the WICS analysis may be the subject of some contention, they are likely to be directionally accurate. That is, household charges will increase in the new regulatory environment, and DCC ratepayers are likely to have lower household charges under the proposed entity delivery model than through continued council service delivery.

#### **Opportunity to provide feedback on the proposed three waters reforms**

- 42 The Government has asked for feedback on the potential impacts of the proposed reforms and how the reforms could be improved.
- 43 Specifically, councils have been asked to provide feedback on:
  - a) how to ensure all communities have both a voice in the new three waters service delivery system and influence over local decisions;

- b) how to ensure there is effective representation on the new water services entities' oversight boards; and
  - c) how to ensure councils' plans for growth, as reflected in spatial plans, district plans or LTPs, are appropriately integrated with water services planning.
- 44 The draft DCC feedback letter at Attachment A focusses on the following subjects related to the Governments three waters reform agenda:
  - a) Council requests adequate time and appropriate accessible information to engage meaningfully with the community on three waters service delivery reform;
  - b) Council requests the Government to continue working constructively and in partnership with councils and iwi/Māori to resolve the following issues prior to engagement with communities:
    - i) the design of mechanisms to enable local influence in the new water services entities;
    - ii) improvements to the modelling of the financial impacts of the proposed reforms; and
    - iii) the design of three waters workforce development initiatives to help ensure the objectives of any reforms can be achieved; and
  - c) Council must be able to control the strategic direction of land use planning. Council is best placed to balance the wide variety of considerations that inform land use planning decisions, of which three waters service provision is but one part.
- 45 The draft letter also affirms the DCC's broad support for reform of the three waters regulatory system, and for reforms that enable Ngāi Tahu to meaningfully participate in decision making about water services in the Ngāi Tahu takiwā.
- 46 The draft letter endorses a joint letter from the Mayors and Chairs of the LGNZ Zone 6 councils to the Minister. The letter, which is dated 25 August 2021 and is signed by the Mayor of Dunedin, requests that the reform programme is paused to provide communities with adequate time to clearly understand the implications of the three waters proposals. The Zone 6 letter is attached to this report as Attachment E.

#### **Implementation of the new water services system and transition arrangements**

- 47 It was previously understood that every council would make its own decision about participating in the reforms before any service delivery changes were implemented or transition arrangements begun. At this stage, the Government has not ruled out introducing legislation that would mandate an "all-in" approach to reform. Council decisions on continued participation in the service delivery reforms, if required, were previously scheduled to take place in December 2021.
- 48 The Government is expected to announce next steps after 1 October 2021. Next steps are likely to include details on implementation of the proposals, including the timeframes and responsibilities for any community or public consultation, and transition arrangements.

- 49 Legislation will be required to implement aspects of the proposal. Introduction of a Water Services Entities Bill to Parliament is expected to occur this in 2021.
- 50 The Government has indicated that the new water services entities would 'go live' in 2024. The Government is working on the assumption that council long-term plans for the 2024-2034 period will no longer include water services.
- 51 The Government has acknowledged that the transition of stormwater functions to the new entities is likely to take longer than the transition of drinking water and wastewater functions. A technical reference group established to consider the future management of stormwater systems was due to advise Ministers on an approach to transition stormwater to the new water services entities in July 2021. No updates on this advice have been provided at this stage.

#### **Council decision making and consultation**

- 52 The current request from the Government is an optional request for feedback. Councils have not been asked for any formal decisions about continued participation in the reform programme at this stage. Rather, the Government has provided councils an opportunity to review the data and information behind the reform proposals and to provide feedback on both the proposals and the evidence base they have been built on.
- 53 Part 6 of the Local Government Act 2002 (LGA), sections 76 to 90, provides the requirements for local government decision making and consultation. This includes the principles of consultation and the information that needs to be provided, including the reasons for the proposal and the reasonably practicable options. In particular:
  - a) Section 76 requires that in making a significant decision, which a decision on the future management and or ownership of three waters assets would be, councils must comply with the decision-making provisions.
  - b) Section 77 states that councils must seek to identify all reasonably practicable options and then assess the advantages and disadvantages of each option.
  - c) Section 78 requires that in the course of making a decision a Council must consider community views, but section 78(3) explicitly says that consideration of community views does not require consultation, which is reinforced by case law.
  - d) Section 79 gives councils discretion to decide how the above Part 6 requirements are met, including the extent of analysis done and other factors.
- 54 A decision to provide feedback to the Minister of Local Government by 1 October 2021 does not commit the Council to a particular position on a future model for three waters service delivery or to continued participation in the Government's reform programme. No specific Council engagement or consultation with the community is required prior to providing this feedback.
- 55 However, despite section 79 of the LGA, a decision to transfer the ownership or control of a strategic asset from the Council (or to it) would need to explicitly be provided for in the Council's Long Term Plan and have been consulted on specifically in its consultation document.
- 56 Dunedin's 10 Year Plan 2021-31 did not include detailed information on three waters reform options and their implications when consultation on the draft 10 Year Plan was undertaken earlier this year because detailed information was not available at that time. An amendment to



the 10 Year Plan and a commensurate consultation process would be necessary to alter three waters ownership and governance arrangements and transfer assets to a new entity.

- 57 At this stage, no Council decision is required on future three waters service delivery arrangements.
- 58 Council is not able to consult with the community at this time as there is insufficient information and time available to meet the moral and legal requirements of council decision-making. Further advice regarding any future consultation requirements will be provided following future Government announcements.
- 59 Any future Council decisions required on participation in the Government's Three Waters Reform Programme will be of high significance and trigger a full special consultative procedure. Council will need adequate time to meaningfully engage with the community.

## **OPTIONS**

- 60 The Government has provided an opportunity to give feedback on the three waters reform programme. It is recommended the Council takes this opportunity by writing to the Minister for Local Government as presented in Attachment A, with any amendments.
- 61 Alternatively, the Council may elect not to provide feedback to the Government at this point.

## **NEXT STEPS**

- 62 If the Council approves the draft letter, with any amendments, it will be sent to the Minister of Local Government by the 1 October deadline.
- 63 Staff will develop an analysis of options (based on further information from the Government, advice on next steps, and regional discussions) prior to community consultation and Council decision making on future water services delivery to ensure sufficient information is available to meet the moral and legal requirements of council decision-making. Whether this will ultimately be required will be dependent on Government decisions after 1 October 2021.
- 64 Staff will update the Council following further Government announcements on implementation of the three waters service delivery reform proposals.
- 65 Staff will provide further information to Council on three waters reform-related matters as necessary.

## **Signatories**

Author:	Scott Campbell - Policy Analyst
Authoriser:	Tom Dyer - Group Manager 3 Waters Simon Drew - General Manager Infrastructure and Development

## **Attachments**

<b>Title</b>	<b>Page</b>
Three Waters Reform	Page 29 of 146

<a href="#">↓A</a>	Draft letter to the Minister of Local Government (Dunedin City Council feedback on three waters reform programme)	33
<a href="#">↓B</a>	Three Waters Reform: Lists of documents published on Department of Internal Affairs websites (June-July 2021)	39
<a href="#">↓C</a>	Impacts assessment: Dunedin City Council (Morrison Low)	41
<a href="#">↓D</a>	Review of WICS data: Dunedin City Council (Morrison Low)	117
<a href="#">↓E</a>	Zone 6 letter to Minister of Local Government (25 August 2021)	145

## SUMMARY OF CONSIDERATIONS

### *Fit with purpose of Local Government*

This report supports democratic local decision making and action by, and on behalf of communities, and promotes the social, economic, environmental and cultural well-being of communities in the present and for the future.

### *Fit with strategic framework*

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Economic Development Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environment Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3 Waters Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Spatial Plan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Integrated Transport Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Parks and Recreation Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other strategic projects/policies/plans	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

This report has been prepared with reference to Dunedin's strategic framework.

### *Māori Impact Statement*

The Government has undertaken extensive high level engagement with iwi/Māori in relation to three waters reforms, including with Te Rūnanga o Ngāi Tahu. Central Government officials have worked closely with Ngai Tahu to develop the boundary for the South Island water services entity.

Iwi/Māori engagement has been guided by Crown/Māori partnership objectives, which have included a focus on enabling greater strategic influence; integration within a wider system; reflective of a Te Ao Māori perspective and improving outcomes at a local level.

A consistent guiding principle throughout the three waters regulatory and service delivery reforms has been to ensure that the Treaty of Waitangi and Te Mana o te Wai are referenced appropriately within the legislative framework. Feedback from engagement with iwi/Māori at a high level, indicates that Te Mana o te Wai is exercised at a localised hapū and whanau level through Kaitiakitanga. It is at this level that Council will need to engage with mana whenua in the provision of water services and water service delivery. Council will engage with mana whenua upon further announcements from Government about how three waters reform will progress.

### *Sustainability*

The Government's Three Waters Reform Programme aims to enhance the economic and environmental sustainability of three waters infrastructure and services across New Zealand.

## **SUMMARY OF CONSIDERATIONS**

### ***LTP/Annual Plan / Financial Strategy /Infrastructure Strategy***

This report and a decision to approve a letter to the Minister of Local Government has no direct implications for these plans and strategies.

However, this report notes that the Government is working on the assumption that council long-term plans for the period 2024-2034 will no longer include water services (subject to any individual council decisions on continued participation in the three waters service delivery reforms). It also notes the Council cannot make a formal decision to adopt an alternative model for three waters service delivery without amending the 10 Year Plan 2021-31 and ensuring the amendment meets section 130 of the Local Government Act 2002.

### ***Financial considerations***

There are no financial implications directly associated with this report and a decision to approve a letter to the Minister of Local Government.

However, this report provides updates on analyses of the financial impacts of the proposed three waters reforms commissioned by the Government and the Otago-Southland Three Waters Office.

### ***Significance***

This report and a decision to approve a letter to the Minister of Local Government does not commit the Council to a decision on a future model for three waters service delivery. The decision in this report is considered low in terms of the Council's significance and engagement policy.

Any future Council decisions required on participation in the Government's Three Waters Reform Programme will be of high significance and trigger a full special consultative procedure. Government direction on next steps for the reform programme is expected in the coming weeks/months.

### ***Engagement – external***

DCC staff regularly engage with staff of the other Otago and Southland territorial and the Otago-Southland Three Waters Office on matters relating to three waters reforms.

### ***Engagement - internal***

This report was prepared by the 3 Waters Group. There has been broad internal engagement on the preparation of this report including with finance, legal, city planning and policy staff.

### ***Risks: Legal / Health and Safety etc.***

There are no known risks associated with this report.

### ***Conflict of Interest***

There are no known conflicts of interest.

### ***Community Boards***

Community Boards are likely to be interested in three waters reform updates and staff will consider how to update the Community Boards in future.



XX September 2021

Hon Nanaia Mahuta  
Minister of Local Government  
Parliament Buildings  
Wellington  
[n.mahuta@ministers.govt.nz](mailto:n.mahuta@ministers.govt.nz)

Tēnā koe e te Minita

**DUNEDIN CITY COUNCIL FEEDBACK ON THE THREE WATERS REFORM PROGRAMME**

1. Thank you for opportunity to provide feedback on the three waters reform programme.
2. The Dunedin City Council has watched the development of the programme closely since its inception. While we have felt challenged by the scale of the proposed reforms and the uncertainty that still surrounds some aspects, we accept there is a case for changing the way three waters services are delivered in New Zealand.
3. This letter provides our feedback on how the reform proposals – in terms of both process and outcomes – can be improved.
4. We offer this feedback with the acknowledgement that we share common goals with the Government. We too are motivated to ensure New Zealanders get safe, reliable and affordable water services that support good public health and environmental outcomes, and that changes to the three waters service delivery system are undertaken in a way that enables local communities to participate meaningfully in discussions about issues that affect them.

**Summary of feedback**

5. We submit that councils need adequate time and appropriate information to engage meaningfully with their communities on service delivery reform – communities deserve good engagement.
6. To enable councils to have meaningful engagement with their communities, the Government must continue working constructively and in partnership with councils and iwi/Māori to:
  - a. design mechanisms to enable local influence in the new water services entities;
  - b. improve modelling of the financial impacts of the proposed reforms; and

- c. design three waters workforce development initiatives to help ensure the objectives of the reforms can be achieved.
- 7. Resolving these issues is essential prior to engagement with communities so that communities know what they are being asked to commit to.
- 8. In addition, a key element of any reform is that councils must retain the balance of power for setting the strategic direction for land use planning.
- 9. Finally, we take this opportunity to affirm our broad support for reform of the three waters regulatory system, and for reforms that enable Ngāi Tahu to meaningfully participate in decision making about water services in the Ngāi Tahu takiwā.

**Councils need adequate time and appropriate information to engage meaningfully with their communities on service delivery reform**

- 10. Since the beginnings of the three waters reform programme, the Council has expected community consultation will precede any substantial changes to New Zealand's three waters service delivery system. We are concerned that recent timelines and approaches signalled by the Government preclude councils meaningfully engaging with their communities on the proposed reforms.
- 11. We submit that communities deserve meaningful engagement with before any decisions are made. Meaningful engagement requires two fundamental inputs: adequate time and an appropriate level of information.

*Time*

- 12. In August, you received a joint letter from the Mayors and Chairs of the councils that make up LGNZ Zone 6 (Otago and Southland). The letter requested communities be given adequate time to clearly understand the implications of the three waters proposals. We endorse the Zone 6 letter.
- 13. If the Government was to make a proposal to Council and require a decision on continued participation in the reform programme, the Council would need at least 20 weeks to engage meaningfully with the community and make an informed decision.
- 14. This would involve 6 weeks to assess the information, 4 weeks to develop engagement materials, 6 weeks to run a consultation process, and 4 weeks to analyse feedback, deliberate and make final decisions.
- 15. This timeframe would be similar to the 10 Year Plan engagement timeframe councils work to every 3 years. Yet the proposed three waters reforms are set to be the biggest changes to the form and function of councils, including ours, in over 30 years.

*Information*

- 16. The letter from Zone 6 Mayors and Chairs also drew your attention to the substantial gap between the Government's highly simplified three waters reform advertising campaign and the technical information provided in reports, Cabinet papers and other sources published on the Department of Internal Affairs website. This – as stated in the Zone 6 letter – is

leaving individual councils doing their best with limited resources to inform the public about the proposed reforms.

17. We request the Government works with councils to develop more detailed, but accessible, information that councils can use to engage meaningfully with their communities on the reforms.
18. In particular, we encourage the Government to develop accessible information that explains the process it undertook to arrive at the proposed model for water services delivery. At this stage it is not clear to us how, either quantitatively or qualitatively, the Government arrived at the establishment of four public multi-regional entities as its preferred reform option. Nor is it clear why the Government has discounted alternative models that would provide for continued council delivery of water services – for example, a Waka Kotahi-style model, or a model in which council three waters debts were guaranteed by the Government.
19. We submit that communities need to understand all the options considered and how those options were assessed for meaningful engagement to occur.
20. Furthermore, we also encourage the Government to develop accessible information that explains the relationships between the three waters reform programme and other major reform initiatives, including timeframes and sequencing of changes, dependencies, and resourcing considerations. There are substantial overlaps between the three waters reform programme, the reform of the resource management system and the future for local government review that councils and communities need to understand in order to consider the reforms holistically.

**The Government needs to undertake further engagement with councils and iwi/Māori on mechanisms to enable local influence in the new water services entities**

21. We welcome the detail recently provided on the proposed entities' ownership and governance structures.
22. However, the substantial separation between individual councils (as owners) and the proposed entities' governance boards leaves it unclear how much ability local communities, through their councils, will have to influence the new entities' decision making.
23. The Council submits that the new water services entities must have strong mechanisms to enable local influence. To help achieve this outcome, we encourage the Government to undertake further work in partnership with councils and mana whenua on:
  - a. the composition of the regional representative group, including an assessment of the feasibility and desirability of establishing permanent positions for representatives of the largest councils that make up each entity;
  - b. how a consumer forum would work in practice at the local level;
  - c. specific community reporting requirements that could be provided for through the new entities' establishing legislation; and
  - d. specific requirements to engage with councils and communities about their priorities (which, again, could be provided for through the new entities' establishing

legislation). Prescribed engagement could, for example, provide an opportunity for councils to regularly brief the water entities on their strategic direction for land use planning, and for communities to discuss issues like continued public access to land used for water services purposes that also has recreation or amenity values.

24. The Council also encourages the Government to undertake further engagement with councils and mana whenua on measures to strengthen the proposed protections against future privatisation of the water services entities.
25. Maintaining the asset base in public ownership is a bottom line for us. At this point, we are concerned that the creation of the new entities creates a pathway to future privatisation of water services and remain unconvinced that the measures proposed provide sufficient protection against the actions of future governments (central and/or local) that may pursue a privatisation agenda.

**The Government needs to undertake further engagement with councils to improve the modelling of financial impacts**

26. We encourage the Government to work with councils and the Water Industry Commission for Scotland (WICS) to refine the assumptions and analysis behind the modelling of household cost impacts under the proposed new service delivery model and the status quo.
27. Our independent analysis of the modelling done by WICS found it provides a reasonable indication of the direction and scale of impacts of the two service delivery systems assessed. However, the independent analysis also showed that the modelling was particularly sensitive to assumptions about:
  - a. the scale of future investment required;
  - b. debt to revenue ratio; and
  - c. operating efficiencies.
28. Some of the assumptions WICS made for Dunedin City Council are inaccurate.
29. In addition, our independent analysis found WICS's modelling did not consider the ongoing stranded costs that could be incurred by councils following the removal of three waters service delivery functions from their organisations.
30. We submit that communities deserve detailed, nuanced information about the likely financial impacts of different water service delivery models under consideration. We urge the Government to undertake a further process to refine and/or justify the assumptions made about items like operating efficiency savings under different future service delivery models.

**The Government needs to undertake further engagement with councils on three waters workforce development initiatives to help ensure the objectives reforms can be achieved**



31. The Council acknowledges the Government's commitment made to post-reform continuity for the existing three workforce based in councils. However, further work is needed to support the existing workforce and continue to grow it.
32. Councils are currently experiencing difficulty recruiting and retaining three waters staff. In addition to a general sector-wide skill shortage, councils have been grappling with challenges including:
- a. uncertainty about the future of council-based three waters services;
  - b. competition with other organisations like the Ministry for the Environment, Taumata Arowai and regional councils, who are resourcing-up in relation to three waters, resource management and freshwater reforms; and
  - c. the impact of COVID-19 on the ability to recruit staff from overseas and to fund staff training.
33. We submit that a nationwide three waters workforce development initiative could be established as a meaningful parallel workstream to both service delivery and regulatory reforms. Without the support of the workforce, these reforms will be at a real risk of not meeting their objectives.
34. In particular, we would like to see the Government fund training and/or incentives that could be applied both to upskill and retain in the sector both the existing workforce and future members of the workforce.

**Councils must retain the balance of power for setting the strategic direction for land use planning**

35. The Council urges the Government to ensure legislation that establishes any new water services entities requires the entities to give effect to councils' land use strategies, policies and plans.
36. The balance of power for setting the strategic direction for land use planning must stay with councils.
37. Councils are best placed to balance the wide variety of considerations that inform land use planning decisions, of which three waters service provision is but one part. The Council does not want to see these reforms create a situation where the costs of putting pipes in the ground or upgrading treatment plants dictate where and how an urban area grows.
38. Ensuring local decision making is maintained through the reforms in this area is a bottom line for us. The Council requests assurances, through legislation, that any new water services entities will be guided by councils in relation to the provision of three waters infrastructure to support growth and increased housing capacity.

**We support reform of the three waters regulatory system**

39. High-performing drinking water, wastewater and stormwater services are essential to the protection of public health, the health of the environment, and overall community well-being.

40. The Council has supported the establishment of Taumata Arowai and introduction of the Water Services Bill. The creation of a dedicated water services regulator for New Zealand recognises the critical importance of ensuring our water services perform to high standards.
41. The Council expects Taumata Arowai and the new regulatory system established through the Water Services Bill will provide much-needed consistency and certainty for water services providers across New Zealand. We look forward to seeing the Water Services Bill complete its passage through Parliament and to working with Taumata Arowai when it assumes its regulatory functions.

**We support reforms that enable Ngāi Tahu to meaningfully participate in decision making about water services**

42. The Council acknowledges the work the Government and iwi/Māori have done to date to design a water services system that supports the exercise of rangatiratanga in relation to water services delivery.
43. In relation to proposed Entity D, we encourage the Government to continue engaging with Ngāi Tahu to ensure the system gives effect to Treaty principles, Treaty legislation (including the Ngāi Tahu Claims Settlement Act 1998) and enables Ngāi Tahu to participate in water services decision making in the Ngāi Tahu takiwā.
44. The Council also notes the progress many councils have made towards providing for mana whenua representation in local government. In Dunedin, we recently made changes to the Council's committee delegations to provide for representatives of the two Papatipu Rūnaka to sit on the Infrastructure Services Committee and the Planning and Environment Committee.

**Concluding remarks**

45. The Council thanks you once again for the opportunity to provide feedback on the proposed three waters reforms. We would welcome the opportunity to engage further with you and your officials on the matters we have raised.

Kā mihi

Aaron Hawkins  
**MAYOR OF DUNEDIN**

**THREE WATERS REFORM: LISTS OF DOCUMENTS PUBLISHED ON DEPARTMENT OF INTERNAL AFFAIRS WEBSITES (June-July 2021)**

**National evidence base – 2 June announcement**

- 1 The following documents, published as part of the 2 June 2021 national evidence base information release, are available on the Department of Internal Affairs website at <https://www.dia.govt.nz/three-waters-reform-programme-national-evidence-base>:
  - a) The Minister of Local Government's 2 June 2021 media release: Reports prove case for urgent water infrastructure reform.
  - b) Advancing the evidence base: background and FAQs.
  - c) Local Government briefing: Three Waters Review: Release of second stage evidence base.
  - d) Water Industry Commission for Scotland (WICS) final report (Phase 2) – Economic analysis of water services aggregation (and supporting material).
  - e) Farriersweir report – Review of WICS methodology and assumptions underpinning economic analysis of aggregation.
  - f) Beca report – Review of WICS Modelling Phase 2.
  - g) Deloitte report – Industry Development Study & Economic Impact Assessment (plus A3 summary).
  - h) Standard and Poor's Rating Evaluation Service.

**Proposed new water services system for New Zealand – 30 June announcement**

- 2 The following documents, published as part of the 30 June proposed new water services system announcement, are available on the Department of Internal Affairs website at <https://www.dia.govt.nz/three-waters-reform-programme-cabinet-decisions-and-reform-proposals>:
  - a) The Minister of Local Government's 30 June 2021 media release: Government water reforms build economic resilience and save ratepayers money.
  - b) A Three Waters Reform Programme Overview (A3).
  - c) FAQs – Transforming the system for delivering three waters.
  - d) An overview of the proposed water service entities.
  - e) A report: 'Transforming the system for delivering three waters services – the case for change and summary of proposals'.
  - f) A 'Local Dashboard' – an online tool that allows the user to view summaries of the data provided by councils in early-2021 as part of the Three Waters Reform Request for

Information. The Local Dashboard and associated FAQs are also available from [www.dia.govt.nz/Three-Waters-Reform-Rfi](http://www.dia.govt.nz/Three-Waters-Reform-Rfi).

- g) A suite of three Cabinet papers and associated regulatory impact analysis, which provide the detailed background to the proposals.
- i) *A new system for three waters service delivery*, which summarises the case for change and the overall reform package;
  - ii) *Designing the new three waters service delivery entities*, which describes the core design features of the new water services entities, including ownership and governance structures, protections against privatisation, planning and accountability mechanisms, funding and financing arrangements, and mechanisms for consumer and community influence;
  - iii) *Protecting and promoting iwi/Māori rights and interests*, which describes mechanisms that provide for iwi/Māori rights and interests in the new water services system; and
  - iv) *Regulatory Impact Analysis – Decision on the reform of three waters service delivery arrangement* (Attachment I).

**Support package – July announcement**

- 3 The following documents, published as part of the with the 15 July three waters support package announcement, are available on the Department of Internal Affairs website at <https://www.dia.govt.nz/three-waters-reform-programme-reform-support-package>:
- a) The Prime Minister and Minister of Local Government's 15 July 2021 media release: Government to provide support for water reforms, jobs and growth.
  - b) Three Waters Reform Programme support package – funding allocation information and FAQs.
  - c) Heads of Agreement (Crown and LGNZ) – Partnering commitment to support three waters service delivery reform.
  - d) The Government and Local Government New Zealand's joint position statement on Three Waters Reform.



## Impacts assessment

Dunedin City Council

July 2021



**Document status**

Job #	Version	Approving Director	Date
257801	DRAFT	D Bonifant	12 May 2021
257801	V1	D Bonifant	31 May 2021
257801	V2	D Bonifant	14 July 2021

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## **Executive summary**

### **About this report**

This report was written by Morrison Low and commissioned by the Otago Southland Three Waters Office on behalf of Otago and Southland councils. Each territorial authority in the area has received a similar report.

The report is the output of a wider review, the overall purpose of which is to provide Otago and Southland councils and their communities with the information they need to understand the impact of three waters reform.

The report assesses the impact of three potential future scenarios for three waters service delivery in Dunedin City. It also provides a recommended way forward. The recommendation is in the opinion of Morrison Low, and is based on its evaluation of the evidence and wider experience of the sector and the reform process.

### **Why undertake a review?**

The New Zealand Government is reforming how drinking water, wastewater and stormwater (three waters) services are delivered across New Zealand. In a Cabinet paper released on 20 November 2018, the Government indicated that alongside regulatory changes there may be major structural reform of the water sector. It described a system facing significant issues where:

***“the scale of the challenge indicates that the status quo is not sustainable in the long term”.***

Among the key issues identified were weak regulation, capability challenges (particularly for smaller councils) and funding and financing issues for upgrading infrastructure.

Since then the reform has continued at pace. A new regulatory authority to oversee, administer and enforce a revised three waters regulatory system, Taumata Arowai, has been created. The Water Services Bill has been introduced to the House and will reform the regulation of New Zealand’s three waters networks. Over the last 12 months the Government has further revitalised the three waters reform programme engaging with the sector on a timetable for change, developing a preferred delivery model and announcing funding for councils that enter into structural change.

It is in that context the councils of Otago and Southland commissioned a series of reports seeking to understand the impact of three waters reform on their communities and their organisations. This report provides each council with that information and in doing so draws upon aspects of previous reports provided to the councils by Morrison Low.



### Change is inevitable

Significant changes will flow from the three waters reform that has already taken place and will take place regardless of whether councils opt in or opt out of the proposed water entities. Legislative, regulatory and community expectations of standards are changing. There is therefore no status quo option. Three waters service delivery will change and every council in New Zealand must change in some way. The only means by which the future standards can be complied with is investment.

**Investment to meet  
changing standards will be  
required in infrastructure,  
people, process and  
systems**

The question for Dunedin City Council (DCC) is whether that challenge is best met through the current service delivery model or through a dedicated three waters entity.

The case for change is made more complex in that each council must make its own decision about whether to opt out of the government process to create regional water entities. Each council must make that decision based on what is best for its community. However it is evident that the national and regional context still remains relevant to the local decision.

### What did the review consider?

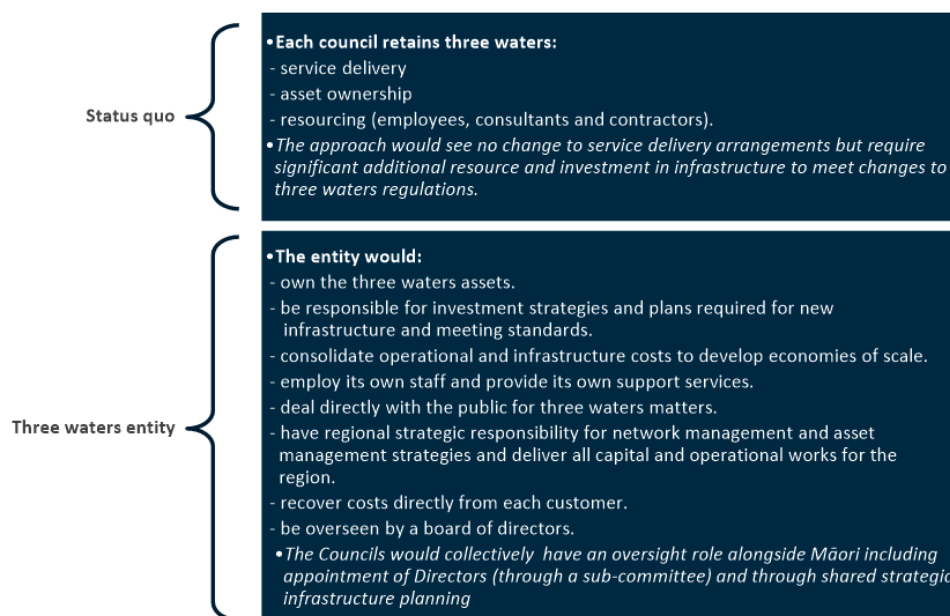
While there may be alternative options available to address some of the challenges outlined in this report, as a result of increasing clarity from the Government the review ultimately focussed on two options. The current model and a regional water entity.

The original scope for the Otago and Southland three waters collaboration efforts was to review the merits of a regional water entity. As the review progressed it became apparent that the Governments preferred option is for an entity covering either the Ngāi Tahu Takiwā, or possibly the entire South Island. Further, as part of evolving discussions via LGNZ 'Zone' meetings across neighbouring regions, the Ngāi Tahu Takiwā option was identified as a preferred option should there be an opportunity to influence Government's proposal. As such, throughout this report, where possible consideration of the impacts of this option has been integrated.



The differences in delivery model between a three waters entity (irrespective of its size) and the status quo are outlined below:

**Figure 1 Comparison of different delivery models**



### How was the review carried out?

The eight territorial authorities of Otago and Southland (the Council's) jointly commissioned a review of three waters service delivery in December 2020. The review was in response to the government three waters reform programme and in commissioning the review, the Council's acknowledged the existing reform programme:

*"Both central and local government acknowledge that there are broader challenges facing the delivery of water services and infrastructure, and the communities that fund and rely on these services. There has been regulatory failure, underinvestment in three waters infrastructure in parts of the country, and persistent affordability challenges, and additional investment is required to increase public confidence in the safety of drinking water and to improve freshwater outcomes...<sup>1</sup>."*

<sup>1</sup> Excerpt from Otago Southland three waters office RFP for three waters service delivery review



Ultimately the purpose of the review was to provide the councils and their communities with the information they need to understand the impact of three waters reform. Over the course of the review the nature, direction and timeframe of reform became increasingly clear.

A series of workshops were held by DIA during March 2021 which provided some new information regarding Government's proposed entity design and structure. The draft governance model for regional water entities includes input from constituent councils and iwi representatives within a Governance Representative Group. This group is responsible for appointing an independent selection panel (who are in turn responsible for appointing a board of directors), as well as for the development of strategic and performance expectations that are used as guiding documents for the entity.

While no official boundaries for an entity have been formally proposed, there have been suggestions that either a single three waters entity covering the entire South Island, or an entity covering the Ngāi Tahu Takiwā (with Nelson, Marlborough and Tasman being part of the lower North Island) is likely.

The review was structured with multiple concurrent workstreams:

- Work Stream 1 - Network and Service Delivery Analysis
- Work Stream 2 - Financial Assessment
- Work Stream 3 – People and Capability Assessment
- Work Stream 4 - Options Development and Evaluation
- Work Stream 5 - Shortlist Options Impact Assessment for each of the Member Participants

As the nature of the three waters reform became clearer some amendments were made to the process and scope. For example, there was little point progressing the "options development" work stream when the options were significantly reduced with the evolution of the government option. As the work and programme of reforms progressed it became evident for the Otago and Southland three waters collaboration that the options were essentially limited to opting in or opting out. Whilst opting out has the potential to involve a number of variants, including enhanced status quo, or an alternative unfunded entity design, ultimately the decision for each Council remains whether or not to opt in.

- Workstreams 1 – 3 were reported in the Regional Situational Analysis dated February 2021 and the Current State dated March 2021.
- Workstream 4 and 5 are set out in this report.

### **The decision to be made**

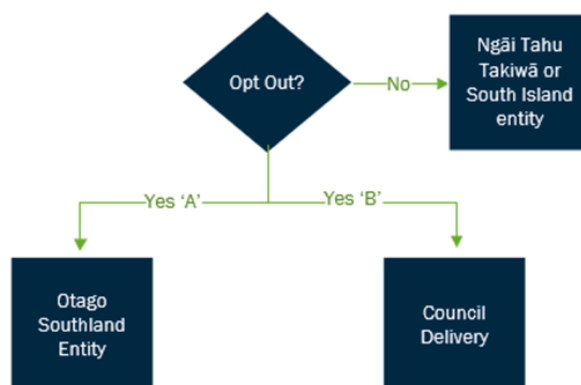
In late 2021 councils are expected to be asked to either opt out of the three waters reform programme or by deciding not to opt out, opt in to the reform process. At this stage, we anticipate that by not opting out a council will be agreeing to transfer the ownership of its three waters assets, and the consequential transfer of its service delivery responsibilities, human resources, debt, and revenue relating to the three waters in 2023.

While the boundary maps for the proposed three waters entities have not yet been formally publicised, it is likely that as part of that decision process the councils in the Otago and Southland regions will be presented with an entity that covers either the entire South Island, or the Ngāi Tahu Takiwā.



The choices that are likely to be faced by councils in Otago and Southland are outlined in the below chart.

**Figure 2 Council's decision point**



Analysis within this report is predominantly focussed on the three options identified in the diagram above.

### Three waters at Dunedin City Council

Dunedin City Council manages the delivery of its three waters services through its three waters team that is part of the wider infrastructure and networks group. Within the team are Asset Management, Engineering Services, Capital Delivery and operational resources. There are approximately 100 FTE working in the three waters team including 9 current vacancies. Professional services and physical works are also provided by consultants and contractors.

Dunedin's wastewater levels of service are varied however, with all wastewater treatment plants providing only secondary level treatment, and 92% of treated wastewater being discharged to the ocean. This may create significant future investment challenges as increasing environmental standards and cultural expectations may drive costs higher than what is currently provided for.

DCC has an average number of wastewater pipe blockages and the third highest rate of stormwater collapses in the Otago and Southland regions, though it has the second highest incidence of unplanned drinking water interruptions in the combined regions. Unplanned interruptions appear to be related to the age of the water network, which, with 38.3% of remaining useful life remaining, is the oldest in the combined regions. The age of Dunedin's network is a challenge for the city.

The required future investment for three waters services in DCC will see three waters debt exceed \$485 million by 2031 with total Council debt exceeding \$1B. Council's debt to revenue ratio rises to over 230%, almost reaching the 280% LGFA threshold driven largely by the three waters debt. Three waters will therefore start to impact the extent to which other activities and services can use debt and overall Council debt will need to be carefully managed.



Our forecasts anticipated that the increased investment requirements, and associated impact on annual operating expenditure may result in three waters charges being as high as \$2,217 (uninflated) by 2031 which is a 213% increase on current charges.

### Comparing the options

A comparison of the benefits, risks, challenges, and opportunities for three waters service delivery for Dunedin City Council under each of the proposed options are presented in the table below.

The table highlights differences between each of the options around:

- Governance
- Compliance and levels of service
- Infrastructure investment
- Financial considerations
- Capability and capacity
- Risks of councils opting out
- Challenges with the transition process





	Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
<b>Governance</b>	<p><b>Governance of three waters generally</b> Governance of three waters in Dunedin is provided by elected members through the Infrastructure and Networks committee.</p> <p><b>Embedding of Te Tiriti o Waitangi and Te Ao Māori</b> Dunedin City Council has recently appointed two rūnaka representatives (one from each rūnaka – Kāti Huirapa ki Puketeraki Rūnaka and Ōtākou Rūnaka) to the Planning and Environment and the Infrastructure Services Committees with voting rights.</p> <p><b>Local representation</b> Water services are currently provided through a model with elected council representative and elected community boards. Residents of Dunedin can approach Council about any issues regarding the levels of service that they receive.</p>	<p><b>Governance of three waters generally</b> Governance of three waters would be provided by a skills and merit-based board of directors who have a sole focus on the delivery of three waters services and subject to different liabilities than Councilors.</p> <p><b>Embedding of Te Tiriti o Waitangi and Te Ao Māori</b> The model provides the opportunity to deliver on treaty principles and co-governance with Māori from the outset within a new purposely built framework reflecting Te Mana o te Wai.</p> <p>The development of a co-governance model will require Councils and Māori to participate in what may be a resource intensive process and this needs to be supported by external funding.</p> <p><b>Local representation</b> A potential loss of community influence over priorities and service levels by removing governance from the democratically elected Council into a board of professional directors.</p> <p>The relationship between water 'customers' and the service provider as an Otago Southland water entity would essentially become similar to an electricity company.</p>	<p><b>Governance of three waters generally</b> Governance of three waters would be provided by a skills and merit-based board of directors who have a sole focus on the delivery of three waters services.</p> <p><b>Embedding of Te Tiriti o Waitangi and Te Ao Māori</b> Alignment of the entity with the Ngāi Tahu Takiwā provides a greater ability to embed Te Ao Māori within the governance of three waters services.</p> <p>The costs to develop a fit for purpose co-governance model are unlikely to be significantly higher with a larger entity.</p> <p><b>Local representation</b> This issue will likely be magnified if the entity was responsible for the entire Ngāi Tahu Takiwā, as DCC would be a smaller part of a much larger entity.</p> <p>Again, if the entity was responsible for the entire Ngāi Tahu Takiwā this perception of a lost connection and of lost community assets would likely be greater.</p>
<b>Compliance and Levels of service</b>	<p><b>Regulatory compliance</b> DCC's current levels of service are typically good.</p>	<p><b>Regulatory compliance</b> A regional water entity is able to provide improved asset management, improved</p>	<p><b>Regulatory compliance</b></p>





Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
<p>DCC is compliant with water treatment standards but 92% of treated wastewater is discharged to the ocean and only undergoes secondary treatment.</p> <p>Environmental standards are likely to increase in the near future for wastewater discharge and in order to meet these standards in the future DCC may need to make significant investments in its three waters assets.</p> <p><b>Private schemes</b> DCC is a predominantly urban council, and in our experience, is less likely to have a large number of private supplies.</p> <p>Council is currently the supplier of last resort under the Water Services Bill. This means that Council may be obligated to ensure continued water supply if schemes fail.</p>	<p>management of risk and will be better placed to meet any increased compliance requirements or increased environmental standards than the Councils can individually.</p> <p>It will allow for consistency between the levels of service provided to residents of neighbouring districts.</p> <p>An entity's financial, human, and contracting resources will still be limited and investment will need to be prioritised across its service area.</p> <p><b>Private schemes</b> The transfer of responsibility for three waters services entity from Council reduces the future liability for and costs of addressing the private supplier risk.</p> <p>These risks remain but transfer to the entire region rather than being concentrated on just DCC.</p> <p><b>Rural water schemes</b> There is limited guidance about whether the government is proposing to transfer ownership of rural schemes to new entities or not, however from a risk perspective we would suggest that councils seek to also transfer such schemes.</p> <p>A new water entity will need to understand the nuances of providing water to such schemes however, including differences in charging</p>	<p>A larger entity covering all, or most, of the South Island will allow for a greater degree of consistency of levels of service between districts.</p> <p>However with a larger service area comes a greater need to prioritise where investment occurs first.</p> <p><b>Private schemes</b> The transfer of responsibility for three waters services entity from Council reduces the future liability for and costs of addressing the private supplier risk. These risks transfer to the entire region rather than being concentrated on just DCC.</p> <p><b>Rural water schemes</b> There would be no substantial difference in the treatment of rural water schemes between a Ngāi Tahu Takiwā sized entity, a South Island entity, or indeed an Otago-Southland entity.</p> <p>The incidence of rural water schemes in the rest of the South Island is high enough that the schemes will require a similar level of attention in any entity model.</p>



	Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
		regimes and potential price differentiation.	
<b>Infrastructure investment</b>	<p><b>Scale</b> We have projected that DCC will need to invest approximately \$1.3 billion on three waters infrastructure over the next 10 years.</p> <p><b>Delivery of capital works</b> DCC delivered over 200% of its capital works program in 2020.<sup>2</sup> but to meet the forecast capital expenditure over the next 10 DCC must deliver double its programme again each year.</p> <p>Capital works delivery may be harder if DCC is competing with a large water entity for contractors.</p> <p><b>Renewals</b> DCC plans to invest \$433 million in renewals over the next 10 years but our review identified \$1.2 million of assets that have less than 10 years of remaining life. DCC's network is the oldest in Otago and Southland.</p> <p><b>Growth</b> DCC forecasts over 3,00 additional connections in the next 10 years but when compared to renewal investment, growth is not significant for DCC.</p> <p>Council has control over the timing and location of its investment in growth infrastructure to attempt to facilitate or respond to growth when</p>	<p><b>Scale</b> Between \$2.3 – 4.7 billion needs to be invested in three waters infrastructure in Otago and Southland over the next 10 years.</p> <p><b>Delivery of capital works</b> Will still be challenging with the regions needing to increase capital delivery by over 130% compared to the amount delivered in 2020.</p> <p>However, an entity may have an improved ability to coordinate a long-term sustainable program of works which may enable the contractor market to confidently scale up its resources and may reduce inter-district competition for contracting resource.</p> <p>Any improvement in capital works delivery under an entity model will take some time to transpire.</p> <p><b>Renewals</b> Planned renewals investment across Otago and Southland is substantially lower than our estimates indicate it should be based on age alone.</p> <p>However, differing age profiles across the two regions mean that there may be opportunities to smooth the renewals programme better at a regional level.</p>	<p><b>Scale</b> Between \$8 – 9 billion needs to be invested in three waters infrastructure in the Ngāi Tahu Takiwā.</p> <p><b>Delivery of capital works</b> Delivery is still likely to be challenging until such time as the labour market is able to respond.</p> <p>Would have an enhanced ability to send strong market signals and long term, significant capital works programs that would provide contractors with sufficient certainty of work that they are able to scale up appropriately.</p> <p>Any improvement in capital works delivery under an entity model will take some time to transpire.</p> <p><b>Renewals</b> Planned renewals investment across the Ngāi Tahu Takiwā is about equal to our estimates based on age, however there are shortfalls and surpluses at district level.</p> <p>A Ngāi Tahu Takiwā sized entity would have a large enough renewals budget to address the needs of each district.</p> <p><b>Growth</b> The challenges of coordinating and managing competing growth and investment priorities</p>

<sup>2</sup> Note that delivery of the capital works programme in the 2020 financial year was impacted by Covid-19 restrictions



	Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
	<p>it occurs.</p> <p>District planning activities currently consider a range of factors to determine new areas for development, with infrastructure being only part of this equation.</p>	<p><b>Growth</b></p> <p>DCC no longer has control over timing and location of investment in growth infrastructure.</p> <p>There will be a need to ensure that the foundation documents and governance structures retain an appropriate balance between the individual priorities of each council with regional priorities including planning and supporting growth.</p> <p>An entity may have different priorities or timeframes over growth investment in DCC. District planning will require interface with a three waters entity which may have different motivations when identifying new development areas.</p>	<p>across a larger number of councils may be increased.</p> <p>However, the entity will also have increased capacity to be able to address these issues and challenges.</p> <p>An entity may have different priorities or timeframes over growth investment in DCC. District planning will require interface with a three waters entity which may have different motivations when identifying new development areas.</p>
<b>Financial assessment</b>	<p><b>Debt and borrowing capacity</b></p> <p>DCC is forecast to have three waters debt exceeding \$485 million and total Council debt exceeding \$1.3 billion by 2031. The extent of the three waters debt will mean Council's debt to revenue ratio is over 230% and approaching the LGFA limit of 280%. Three waters debt will constrain the ability of other activities and services to use debt and Council will need to carefully manage debt.</p> <p><b>Estimated household three waters charge</b></p> <p>DCC has an estimated household three waters charge in 2031 of \$2,217 (or a 213% increase).</p>	<p><b>Debt and borrowing capacity</b></p> <p>Without three waters debt in 2024 (the presumed year of transition) Councils total borrowing would reduce from \$544 million to \$335 million although due to the loss of three waters revenue its additional borrowing capacity would reduce from \$491 million to \$329 million.</p> <p>A three waters entity for Otago and Southland would have over \$1.9 billion of total debt and a debt to revenue ratio of 465% (which exceeds the limits for a Baa/Ba credit rating). This would result in a credit downgrade leading to increased</p>	<p><b>Debt and borrowing capacity</b></p> <p>Initial high-level estimates indicate a three waters entity covering the Ngāi Tahu Takiwā would have debt between \$6 – 6.5 billion and would exceed the debt to revenue lending covenants that are required for a Baa/Ba credit rating.</p> <p>This would result in a credit downgrade leading to increased costs of borrowing. It will also likely require further prioritization of investment between districts.</p> <p><b>Estimated household three waters charge</b></p>



	Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
	<p>Water and wastewater charges would equate to approximately 2.9% of median household income in 2031.</p> <p><b>Financial resilience</b> The forecast investment required in three waters across in all councils in Otago and Southland has grown significantly since the 2018 LTPs and with the increasing focus brought by three waters reform there is risk that these costs will continue to change and increase further.</p>	<p>costs of borrowing and possibly the need to prioritise investment between districts.</p> <p>A voluntary Otago-Southland entity would still have a balance sheet that is consolidated with its constituent councils without legislative change.</p> <p><b>Estimated household three waters charge</b> A three waters entity would have an estimated three waters charge of \$2,001 in 2031.</p> <p>Water and wastewater charges would equate to approximately 2.7% of median household income in 2031.</p> <p><b>Financial resilience</b> This option addresses the risk that the scale of investment required to meet new standards and community expectations is greater than forecast.</p> <p>A larger entity is better able to address the risk of future investment requirements being underestimated as it distributes costs over a larger customer base.</p>	<p>A three waters entity covering the Ngāi Tahu Takiwā would likely have an average three waters household charge between \$1,700 and \$1,900.</p> <p><b>Financial resilience</b> This option addresses the risk that the scale of investment required to meet new standards and community expectations is greater than forecast.</p> <p>A larger entity is better able to address the risk of future investment requirements being underestimated as it distributes costs over a larger customer base.</p>
<b>Capability and capacity</b>	<p>DCC currently has 9 vacancies in its three waters team (8.7% of three waters roles).</p> <p>There is a shortage of specialist resources for three waters across New Zealand and internationally.</p> <p>As water reforms occur across New Zealand there is likely to be increased competition to</p>	<p>13% of all three waters roles are currently vacant in the Otago and Southland regions.</p> <p>A three waters entity would have sufficient scale to create strategic capacity and capability across the region and support the areas where that is currently lacking.</p> <p>Scale, strategic capacity and capability gives a level of expertise and resilience in three waters</p>	<p>Increasing size and scale creates greater opportunities for staff and improves its capacity to train and develop expertise. Larger entities are also further insulated from ebbs and flows in the size of the workforce.</p>



	Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
	attract and retain the specialist skills in water that are necessary to enhance delivery.	that can be applied regionally, benefitting all ratepayers of the region rather than only some.  Greater depth in planning and programming is also expected to help deliver the increased capital programme required to implement change in three waters.	
<b>Risk</b>	A number of the challenges highlighted with the current and emerging service delivery will be exacerbated.  If DCC “opts out”, while other councils “opt in” to reform, DCC is likely to be competing with a large water entity for contractors and internal resources and capability.	There are a significant number of unknowns with the government proposal including: <ul style="list-style-type: none"><li>– Entity design.</li><li>– Council’s roles as owner and governor.</li><li>– Mechanisms to prioritise local investment.</li><li>– Coordination of planning and investment.</li><li>– Interfaces with stormwater and the extent to which stormwater assets and functions will be transferred.</li><li>– Community input and role.</li><li>– Allocation of liabilities, land ownership.</li></ul> Without the critical mass of all councils there is a danger that the benefits of change will be substantially reduced or lost. That is particularly the case if the population centres of Dunedin, Invercargill and Queenstown were not involved.  Ability to form an Otago Southland entity is a significant risk (unless it emerges as the governments option) as Councils must opt out of reform, and then subsequently engage, commit and fund a voluntary reform process without a	There are a significant number of unknowns with the government proposal including: <ul style="list-style-type: none"><li>– Entity design.</li><li>– Council’s roles as owner and governor.</li><li>– Mechanisms to prioritise local investment.</li><li>– Coordination of planning and investment.</li><li>– Interfaces with stormwater and the extent to which stormwater assets and functions will be transferred.</li><li>– Community input and role.</li><li>– Allocation of liabilities, land ownership</li></ul> A larger entity would be more resilient to some councils opting out of the process. However, the absence of the population centres of Christchurch and Dunedin would still create some challenges.  In order to make an informed decision about the benefits or otherwise of opting into reform, it would be helpful to understand the likely position of each council, which will be more challenging with a larger proposed entity.



	Council delivery model	Otago Southland	Ngāi Tahu Takiwā or South Island entity
		suitable structure to do that.	
<b>Impact of transition</b>	There would be no transition, however Council may lose resources to new water entities or transitional bodies in areas where councils have opted into the reform process.	<p>Uncertainty created by the potential change can and will affect existing staff. Attraction, recruitment, and retention of key staff is a particular concern for the councils.</p> <p>As this option entails opting out of reform, it is likely that any transition costs (which are likely to be significant) will need to be met by councils.</p>	<p>The issues regarding transition do not differ for a larger water entity.</p> <p>Enforcement of standards during the transition period will need to be carefully managed by Taumata Arowai if council's have a reduced workforce due to staff accepting roles with transition entities.</p> <p>It is anticipated that any costs of transition would be funded by the Government.</p>

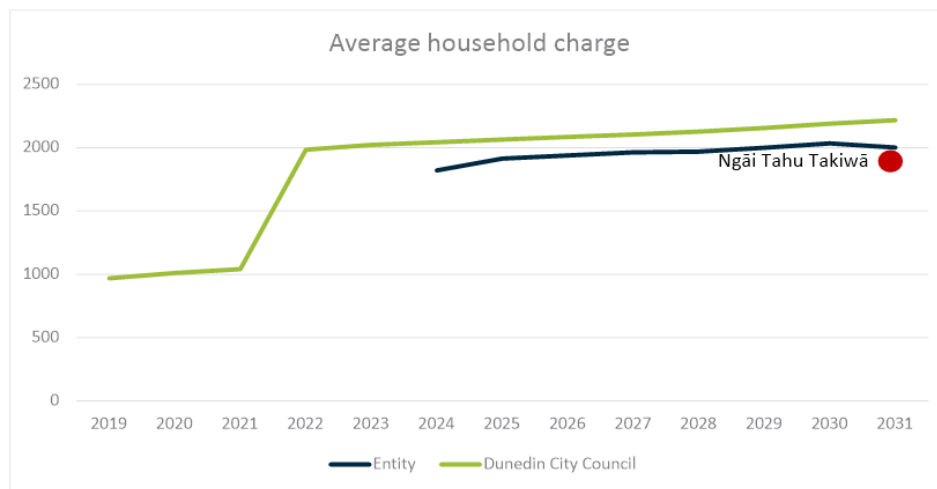


### Comparison of household charges

The impact of future investment requirements on household charges has been projected over the ten year long term plan period and is outlined in Figure 3 below. The chart shows household three waters charges reaching:

- \$2,217 under a continued council service delivery model
- \$2,001 in an Otago-Southland three waters entity, and
- Between \$1,700 - \$1,900 in a Ngāi Tahu Takiwā entity.

**Figure 3 Average annual household charge – three waters entity**



### A Council without three waters

The removal of three waters from Council itself would impact Council but due to the size of DCC the impact is much less than other councils. Some of the key issues that may arise from the removal of three waters services from Council are outlined below:

- There would be a reduction in Council's resources of around 105 roles equating to approximately 13% of Council FTE. Due to the size and breadth of the three waters service that means it affects not only staff involved in the direct delivery of the service, and may affect other parts of the business such as customer services.
- The formation of large well-resourced water entities across New Zealand may exacerbate the resourcing challenge for Council. While most engineers involved in three waters will transfer to a new entity, councils will still require skilled engineers to deliver roading, waste, and other major capital works. In many cases, engineers in councils are involved in many different projects and activities and if councils are no longer responsible for three waters, these staff may no longer find their roles are appealing or challenging.
- If three waters asset and service were transferred to a regional water entity, then while Council's





debt would reduce so would its borrowing capacity.

- Stranded overheads for DCC in 2020 are estimated to be around \$116 per property. This is around 11% of current three waters and due to the high levels of organisational growth it is likely that these costs could be re-absorbed as the organisation and its resources grows.
- The full extent of the impact on Council will not truly be understood until the outcomes of the Resource Management Act and Future of Local Government reviews are complete.

## Summary

Due to increasing standards and requirements a change to the way three waters services are delivered is inevitable. The form that this change takes is a decision for DCC to make, and this report presents information to assist with making this decision.

The arguments for and against the opt in or out decision are presented below, alongside the relevant risks of each decision. For simplicity, we note that the opt out decision discussed below relates to DCC opting out of reform and continuing with its existing service delivery arrangements.

The option to opt out of reform and pursue voluntary change into an Otago Southland three waters entity in our view has a very low chance of success and risks Council being left as the service provider. The option requires a coordinated and consistent approach across all of the councils in Otago and Southland. All eight councils in the two regions must opt out of the Government's reform process but have a desire to aggregate three waters services at a more local level. They must then go through a detailed entity design process, fund the transition and entity design process themselves, consult with their communities on the same proposals and ultimately agree. There are limited examples of this being successful in New Zealand and none where asset owning has been part of the model.

In the event that an Otago-Southland water entity emerges as the Government's preferred option, most of these challenges will disappear.

## Opting in

### Arguments for

- A regional water entity will have increased capability and capacity of three waters staff, depth of expertise and increased organisational resilience to changes in staffing levels.
- A three waters entity would have a skills based board with a single focus on three waters issues and would have an enhanced ability to embed the principles of Te Tiriti o Waitangi and Te Ao Māori within its governance framework. There would be no competing interests for investment requirements and funding.
- A three waters entity would have greater financial and technical resources to be able to address compliance issues and make the investment required to comply with new environmental, health, and cultural standards. A three waters entity would also assume most of the risk associated with rural water supplies and private water schemes.
- Average household charges for three waters services are likely to be lower for Dunedin ratepayers under a regional water entity than if DCC continued to provide the services itself.
- A regional water entity would also have significantly improved financial resilience.





- The required level of future investment in infrastructure will be a challenge for DCC as it requires Council to double the amount of capital works delivered in 2020 (which itself was double what was planned) and deliver that consistently each year for 10 years. Equally, delivery of the full capital works programme at an Otago Southland level, or even with a larger entity would appear challenging.
- Government financial incentives are expected for council who opt in to the reform process.

#### **Arguments against**

- DCC may experience some increased challenges to recruit engineering staff and asset managers to support its remaining activities due to increased competition with a three waters entity and a reduction in variety of work although the effects of this may be limited to certain roles within the organisation.
- There will be a number of new challenges introduced relating to the prioritisation and coordination of investment in three waters infrastructure across the region. DCC will no longer control the timing and location of investment. Instead it will be a shared responsibility.
- Interfaces between the roading and stormwater networks may be challenging to manage and may result in the imposition of additional costs within council (either for relationship management or in terms of impacts on road design and urban planning).
- There may be a loss of local representation, which would be worse with an entity covering the South Island or the Ngāi Tahu Takiwā.
- A three waters entity would face higher borrowing costs, and a potential credit downgrade, if it were to deliver the full capital works programme for the areas that it covers. We believe this to be a national problem, which is more likely to be able to be solved with a small number of water services providers.

#### **Risks**

- Delivery of the full capital works programme at an Otago Southland level, or even with a larger entity would appear challenging. There is a risk that a larger three waters entity may not be able to generate improvements in terms of capital works delivery.
- Without critical mass of all councils there is a danger that the benefits of change will be substantially reduced or lost. This is particularly the case if the other population centres of Invercargill, Christchurch, and Queenstown were not involved. A Ngāi Tahu Takiwā would be more resilient to this.
- As a three waters entity may have limited access to sufficient debt to fund its full investment programme, it may need to manage competing investment demands from different districts (and to achieve different outcomes, e.g. servicing growth versus improving compliance). There is a risk that these priorities may not align with local priorities.
- There are still a number of unknown factors about entity design which may have a significant bearing on the comparison of an “opt in” option with an “opt out” option. These include issues regarding:
  - Entity design.
  - Council’s roles as owner and governor.
  - Mechanisms to prioritise local investment.



- Coordination of planning and investment.
- Interfaces with stormwater and the extent to which stormwater assets and functions will be transferred.
- Community input and role.
- Allocation of liabilities, land ownership.

### Opting out

#### Arguments for

- When compared to all other Otago and Southland Councils, DCC will see the smallest benefit from an increase in scale that a regional water entity would deliver due to its current size. Regionally however, the delivery of three waters services will benefit from increased capability and capacity of three waters staff, and increased organisational resilience to changes in staffing levels.
- A three waters entity would not have the borrowing capacity to be able to deliver the full capital works programme for the areas that it covers without suffering a credit rating downgrade and higher costs of borrowing. DCC is **currently** projected to have sufficient financial headroom to be able to fund its forecast capital works programme but only just. The extent of the three waters debt will impact the ability of all other services and activities to use debt.
- DCC is able to determine the timing and level of investment it makes into its three waters infrastructure if it retains control of its three waters assets. Increasing regulatory enforcement and standards will still be a significant driver for determining the timing and type of investment.
- There may be alternative options available to council to address many of the potential challenges with continued council service delivery of three waters. These options were not explored as part of this review.
- Dunedin City Council's governance of three waters has recently changed to reflect the principles of Te Tiriti o Waitangi with the appointment of two rūnaka representatives (one from each rūnaka – Kāti Huirapa ki Puketeraki Rūnaka and Ōtākou Rūnaka) to the Planning and Environment and the Infrastructure Services Committees with voting rights.
- Household charges are likely to be higher under a continuation of Council led service delivery, however DCC has a number of tools at its disposal to address affordability issues within the district (such as the use of rating differentials, UAGCs, rates postponement policies, and rates remissions) which may not be available to a water service entity.

#### Arguments against

- Council is making its opt out/opt in decision within the context that every other council in New Zealand is also making that decision. In many cases there is a strong and very strong case for change. The ratepayers of six of the eight councils in Otago Southland would, in our view, have lower water charges under a regional water entity, but this reduces to five when stranded costs are taken into account. The ratepayers of all eight would be better off in a Ngāi Tahu Takiwā.
- The scale of investment required in Dunedin over the next ten years requires a substantial uplift in capital works delivery which will be difficult to achieve. While a larger three waters entity may also struggle to deal with this uplift in delivery requirements, it will have an increased level of resourcing which may be able to improve lead times and coordination of capital works between districts which



may improve delivery.

- While DCC is likely to be able to borrow enough to fund the required investment in three waters infrastructure, the amount that it will be required to borrow will impact on its ability to borrow to fund other activities, or to respond to emergencies.

#### **Risks**

- If DCC opts out while other councils opt in, the ability to attract staff or deliver its capital works programme will be further diminished as it will be a small organisation competing with much larger entities. This may also impact on the cost of completing work in Dunedin.
- Any incentives that come with the current reform process will not be available to councils if they opt out of the process. Further, while the costs of transition to the new entities will be covered by the government as part of the current reform process, it is possible that councils that later opt to join any three waters entities may face costs to join or transition to these entities.
- The risks and challenges with future water service delivery in Dunedin would be significantly increased if the other councils in Otago Southland and the South Island more generally opt in to the reforms.



## Introduction

### Background

The New Zealand Government is reforming how drinking water, wastewater, and stormwater (three waters) services are delivered across New Zealand. The reforms began in response to the issues identified following the Havelock North drinking water contamination in 2016 and culminated in a Cabinet paper released on 20 November 2018 where the Government indicated that alongside regulatory changes there may be major structural reform of the water sector. It described a system facing significant issues where:

*“the scale of the challenge indicates that the status quo is not sustainable in the long term”.*

Since that initial cabinet paper in November 2018, the Government has further progressed regulatory reform for the delivery of drinking water, including through the establishment of *Taumata Arowai- the Water Services Regulator* and the progression of the Water Services Bill to select committee in December 2020. A cabinet paper of December 2020 also confirmed the above reform objectives and the Government’s desire to proceed. That cabinet paper also recommended that participation in further reform discussions be based on an “opt-out” decision process for councils with that decision to be made in mid-late 2021.

Significant changes will flow from the three waters reform that has already taken place and will take place regardless of whether councils opt in or opt out of the proposed water entities. Legislative, regulatory and community expectations of standards are changing. There is therefore no status quo option. Three waters service delivery will change and every council in New Zealand must change in some way and the only means by which the future standards can be complied with is investment.

**Investment to meet  
changing standards will be  
required in infrastructure,  
people, process and  
systems**

The question for DCC is whether that challenge is best met through the current service delivery model or some other solution.

- **Opting in** to the government process will include financial and other incentives (that are not currently defined) and agreeing to transfer responsibility for the service, assets, responsibilities, duties and liabilities for three waters to a dedicated water entity that is not currently defined but expected to cover the Ngāi Tahu Takiwā and look similar to the proposed structure that the Government has presented to local government over March and April 2020
- **Opting out** of the government process means that either Council retain responsibility for three water service delivery or some other arrangement.



### Scope of this report

In late 2020 the Otago-Southland Three Waters office commissioned Morrison Low to undertake a review to examine the impacts and options for three waters reform for the combined Otago and Southland regions. The review has been carried out within the context of the Government's reform programme and has been designed to ensure that it is best able to respond to the recommendations from that programme. In order to ensure that the review focuses on providing decision-makers with the evidence and information that they need to actively participate in conversations with the Government and their communities, this review has:

- Relied primarily on the same information set as is being used by the Government to develop its own recommendations and analysis.
- Been dynamic and responsive to the Government's timeframes such that the agreed deliverables for the review have changed in order to provide decision-makers with relevant information as quickly as possible.
- Compares the status quo (i.e. continued three waters service delivery by territorial authorities) with the Government's preferred option (i.e. transfer of three waters service delivery and asset ownership to a new three waters entity) and a voluntary reform option covering the Otago and Southland regions (which requires councils to "opt out" of the current reform process).

This is the third report by Morrison Low as part of its work assisting the councils of the Otago and Southland regions to further understand the challenges and opportunities facing the local government sector in their regions for the continued delivery of three waters services. The previous reports included:

- Our regional situational analysis – which outlined the high-level challenges with continued service delivery at a regional level based on high-level analysis of each council's response to the Government's Request for Information (RFI).
- Our cross-regional current state assessment – which examined the challenges and opportunities for three waters service delivery at a disaggregated level across the two regions.

This report has been tailored for Dunedin City Council (DCC) and examines the benefits and challenges of both retaining and transferring the service delivery of three waters as well as the impacts such a decision would have. It therefore provides the advice to DCC to help determine whether it should opt in or opt out of the government three waters reform programme.

To do so, this report draws on findings of the earlier two reports, and insights gained from our onsite visits to DCC and the other councils in the Otago and Southland regions (as relevant).

While the report attempts to assess the impact of the transfer of ownership and service delivery of three waters into an aggregated entity, we are unable to predict the extent to which the activities and services provided by local government may change (either statutorily or organically), and therefore only compare the immediate impact of the transfer of functions.

The information within this report should be considered to form only part of the total suite of evidence and information available to support decision makers.



## Approach

This is the third report as part of our review of three waters service delivery for the Otago-Southland regions. This report builds on analysis undertaken in our earlier *Regional situation analysis* and *Cross regional current state assessment* reports and has been developed based on:

- A review of asset, service performance, and financial information provided in each council's completed RFI responses and asset registers.
- A review of organisational charts provided by councils to assist with the identification of affected roles and functions.
- Our findings from onsite interviews and meetings held at DCC.
- Detailed financial modelling of each council and an aggregated three waters entity.
- Consideration of impacts of community, governance and levels of service.

The financial information within this report should be considered to be directional only and assumes that councils increase their planned investment to levels that we consider are necessary and are able to deliver that planned investment. It also ignores the political environment in which rates are set and borrowing is drawn down and the trade-offs that must be made between affordability and levels of service.

## Differences between data

The financial analysis set out in this report may differ (but is directionally consistent) with our earlier financial analysis, as the analysis presented herein relies on the results of detailed financial modelling which includes the use of standardised assumptions across the councils, and debt and investment optimisation. The full set of assumptions used in the modelling are outlined in Appendix B, and high-level sensitivity analysis is included in Appendix A.

It is also consistent with our analysis in the *Cross regional current state assessment*, which highlighted significant differences in asset unit rates. In that report we highlighted Dunedin's unit rates as being substantially higher than the other councils, and that Dunedin had a valuation completed as recently as late 2020. The impact of this assumption is outlined in Appendix A.

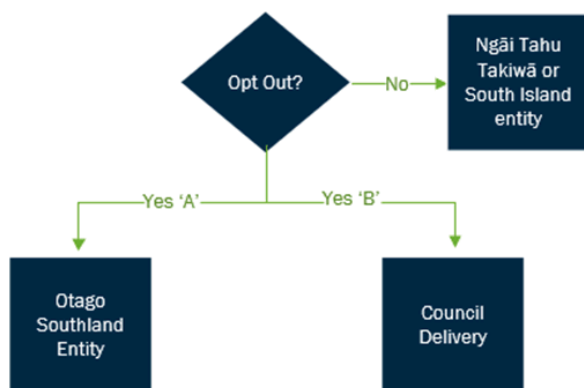
## Alignment of report with three waters reform

The key question facing DCC is whether to opt out of the reform process or continue to opt in. There is a lot of uncertainty for Council. Chief of which is that the Government has yet to advise DCC (or any council) exactly what the option they are faced with is.

This report has been structured to give the best possible information to Council to support that decision. The figure below sets out our assumption for how the options considered in this report match with a decision to opt out of the reform or opt in.



Figure 4 Council's decision point







## Current situation – Dunedin City Council

### Three waters services

The delivery of three waters services in the future will be in an environment with increased health, environmental, and economic regulation. These regulations will require changes in services and service delivery. Meeting these changes is likely to be challenging for any provider of three waters.

Dunedin City is situated in the Otago region of New Zealand and has an estimated population (as at June 2018) of 130,700 people. Dunedin experiences peaks in its population during University term dates, as the university attracts a large number of students from outside of the City.

Dunedin is the oldest city in New Zealand, having been established in 1848. A gold rush in the Otago province during the 1860s caused Dunedin's population, and wealth, to increase dramatically and it was for several years New Zealand's largest and most prosperous city. During the 20th century the city's growth slowed significantly, leaving behind a rich tapestry of Edwardian and Victorian architectural heritage.

This history is reflected in the age of Dunedin's water, wastewater and stormwater networks, which are the oldest in the Otago and Southland regions (at least).

Dunedin City has six community boards. Each board is comprised of six members, plus one Councillor that is appointed by the City Council. The community boards' follow the same election cycle as the Council and are elected every three years.

The role of the boards is to provide advice to the Council on matters affecting their communities and to advocate for the interests of their communities. Community Boards may make submissions to the Council and other organisations on matters affecting the Community Board.

**Table 1 Financial summary of three waters service delivery**

	Council total	Three waters	Net of three waters
<b>Debt (2021)</b>	\$275 million	\$103 million (37%)	\$172 million
<b>Operating Revenue (2021)</b>	\$279 million	\$68 million (24%)	\$211 million
<b>Infrastructure assets (book value)</b>	\$2,089 million	\$999 million (48%)	\$1,090 million

According to its completed RFI, in 2021 DCC is forecast to have \$275 million of external borrowings, of which \$103 million (or 37%) is related to the three waters infrastructure. As outlined in our *Cross regional current state assessment* DCC currently has more three waters debt in 2021 than any of the other councils in the Otago and Southland regions.





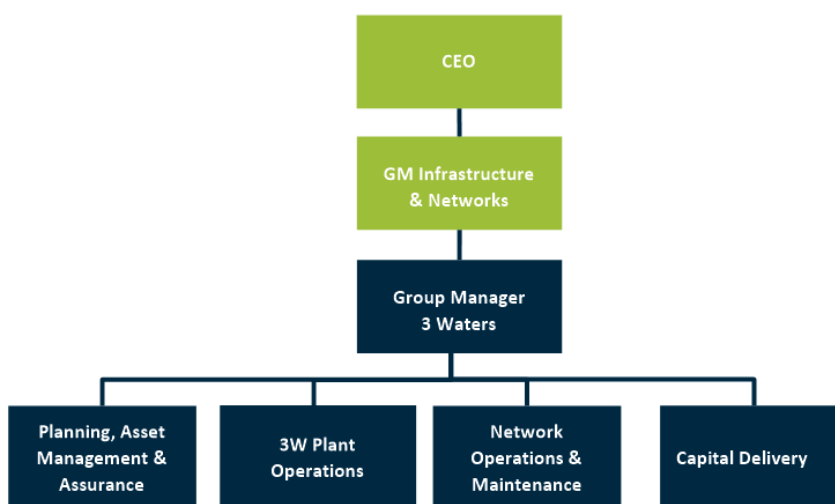
In our *Cross regional current state assessment* report, we noted that DCC currently has the second highest average household charge for combined three waters services in the Otago and Southland regions. This is largely reflective of the relatively high costs of treatment and distribution of a cubic metre of water and wastewater in the city.

Shortly after our on-site visits in January, Dunedin received a high level of national publicity regarding lead contamination in some of its drinking water supplies. The findings of any reviews undertaken by DCC, or any other entity, into this incident have not been reflected in this report. Additionally, any costs associated with rectifying the issue have also not been included.

### Structure and resourcing

Dunedin has a dedicated three waters group that looks after three waters services. The group includes water and wastewater operations teams and a maintenance delivery team that complete physical works relating to the operation and maintenance of Dunedin's three waters networks. There is less overlap with other infrastructure than most of the other councils. There are 105 FTE across water including the Group Manager.

**Figure 5 Dunedin City Council three waters team structure**



We have assumed that in the event that Council chooses to retain three waters services that it is unlikely to change its overall delivery structure.

Support for the three waters team is also currently provided by:

- Human Resources – who have around 1 FTE supporting the three waters team, Health and Safety is also part of Human Resources, and while there is no dedicated Health and Safety officer for three waters, this is a large portion of their workload.
- Finance – who have one FTE solely allocated to the three waters team, and some additional support (around 0.5FTE) in the account payable and receivables areas.



- Communications and Marketing who provide one FTE to support the three waters team.
- The call centre currently takes calls relating to both water and broader council issues, and currently support 25 – 28 FTE roles.
- There are also a number of task related interactions with the property and planning/regulatory teams which use resources from both three waters and planning/regulatory. The removal of three waters would not be likely to have any impact on these roles but may create issues around process (discussed later in this report).

We would not anticipate any significant growth in the level of resources provided by these areas of Council without any significant changes to levels of service provided to ratepayers.

DCC operates out of one office within Dunedin itself and has limited ability to lease space within this building or reduce its accommodation costs without three waters.

### Key issues

Dunedin's wastewater levels of service are varied however, with all wastewater treatment plants providing only secondary level treatment, and 92% of treated wastewater being discharged to the ocean. This may create significant future investment challenges as increasing environmental standards and cultural expectations may drive costs higher than what is currently provided for.

DCC has an average number of wastewater pipe blockages and the third highest rate of stormwater collapses in the Otago and Southland regions, though it has the second highest incidence of unplanned drinking water interruptions in the combined regions. Unplanned interruptions appear to be related to the age of the water network, which, with 38.3% of remaining useful life remaining, is the oldest in the combined regions. The age of Dunedin's network is a challenge for the city.

The required future investment for three waters services in DCC will see three waters debt exceed \$485 million by 2031 with total Council debt exceeding \$1B. Council's debt to revenue ratio rises to almost reach the 280% LGFA threshold driven largely by the three waters debt. Three waters will therefore start to impact the extent to which other activities and services can use debt and overall Council debt will need to be carefully managed.

Our forecasts anticipated that the increased investment requirements, and associated impact on annual operating expenditure may result in three waters charges being as high as \$2,217 (uninflated) by 2031 which is a 213% increase on current charges.

### Wider context

The nature, extent and pace of the three waters reform is now widely documented and understood. It will be far reaching and change service provision for three waters at a national level. This is relevant because Council's opt out/opt in decision will not be made in isolation. The decision of all other councils in New Zealand and particularly Otago and Southland has flow on impacts for DCC, its communities and the decision Council makes.

In July 2020 the government announced a \$500M three waters stimulus package to encourage councils to be part of the reform programme. There is expected to be incentives for councils to remain in the three waters reform programme, although at this stage we do not know what those are.



Equally, the government through Taumata Arowai, Regional Councils and the new economic regulator that will be established is expected to increase relevant standards and requirements and with greater resource and focus on compliance, create a regime that will hold the service providers to account far more strongly than in the past.



## What options were considered?

### Status Quo

Under this option Dunedin City Council would continue to retain responsibility, duties, obligations and liabilities for three waters:

- service delivery
- asset ownership
- resourcing (employees, consultants and contractors).

While this approach would see no change to service delivery arrangements, it will still require significant additional resource and investment in infrastructure to meet changes to three waters standards, regulations and the new regulatory framework where there is increased environmental, health, service and economic regulation of three waters.

### Three water service delivery entities

The Government's three waters reform programme has a clear and open objective of transforming the delivery of three waters services through structural reform. This will involve the establishment of publicly owned, asset owning three waters service delivery entities and, should a council choose not to "opt out" of the process, the transfer of council's assets and liabilities into such entities.

If the delivery of three waters services and the consequential asset ownership is transferred to a new water entity, then any related funding, assets, resources, and liabilities are likely to be transferred with it. This would mean that Council would no longer be responsible for setting charges, managing investments, and borrowing or operating any of its current three waters services. The obvious, most immediate effects of this will be a reduction in revenue, operating expenses, assets, and debt.

Staff directly involved in the delivery of three waters services will also be transferred into a new entity, while some staff that support three waters may also transfer (predominantly those that are 100% supporting the delivery of three waters).

In our view, staff that spend only part of their time supporting three waters are likely to retain their roles within DCC, and there is sufficient workload within the organisation to ensure a continued meaningful role for these staff in the absence of three waters. One exception to this is call centre staff, as the total required resourcing for the call centre is likely to reduce. We understand that the call centre has a relatively high turnover rate, and it is likely that any reduction in staff levels here can be addressed through attrition.

The two dedicated water entity options considered are

- Otago Southland - would include the territorial authorities with Otago and Southland, and most likely would need to be the result of a voluntary process that would take place outside of the current government driven reform.
- Ngāi Tahu Takiwā would include the areas encompassed by all South Island territorial authorities except Nelson, Tasman and Marlborough. This option is considered to be the most likely option under the government driven reform and is the "opt in" option.



The table below sets out high level information comparing potential aggregated water entities for Otago and Southland and the Ngāi Tahu Takiwā.

**Table 2 Comparison of options for three water entities (2021)**

	Otago Southland	Ngāi Tahu Takiwā
Number of Territorial Authorities	8	21
Replacement cost of infrastructure assets	\$11.2 billion	\$28 – 30 billion
Debt	\$1.93 billion	\$6 – 7 billion
Annual revenue	\$415 million	\$0.9 – 1 billion
Annual operating expenditure	\$383 million	\$0.9 – 1 billion
Water connections/ratepayers	About 141,000	About 420,000
FTE	Around 240	Over 500

### Assumptions

The government has provided limited detail about the ultimate structure and design of the proposed three waters entities, and the mechanisms that will be put in place to ensure that they will deliver on the government's stated objectives and principles of reform. It is unclear whether this detail will be available at the time that councils will need to make their decisions.

For the purposes of this report we have assumed that the proposed entities will be able to deliver on these principles. The key assumptions about council service delivery, an Otago-Southland region entity and a Ngāi Tahu Takiwā regional entity are set out in Appendix B and C.

- **Appendix B – Data and financial modelling including treatment of:**
  - Asset values
  - Planned capital investment
  - Renewals
  - Depreciation
  - Use of RFI data
- **Appendix C –entity design including:**
  - Governance
  - Ownership
  - Assets and debt
  - Stormwater
  - Revenue and charging



## Assessment of the options

This section of the report presents an assessment of the options using a range of non-financial and financial criteria so that both the benefits and the challenges of each option in the future delivery of three waters services are considered. The section largely draws on analysis undertaken in our *Cross regional current state assessment* report, with additional information from our on-site visit of DCC and detailed financial modelling included.

Its aim is to provide a comparison of the impacts of three waters service delivery under aggregated delivery models, and under the status quo, to allow decision-makers to assess the impacts of reform on their council, and for their ratepayers.

Due to time constraints and the later emergence of the option we have not analysed the Ngāi Tahu Takiwā option to the same extent. Where appropriate and relevant we have provided high level commentary on how the impacts of a larger entity would differ from that of one based around Otago and Southland.

Key outcomes achieved, and the impacts on councils, are discussed through both the qualitative and quantitative lens. While the financial performance of a new entity is not the only relevant consideration, it is an important one, with affordability and the ability to fund and deliver the potential required investment in three waters infrastructure being cited as two of the main investment drivers for the Government's three waters reform programme. We have focused on these details as they are typically easily understood and demonstrate the scale of the challenge for the Otago and Southland regions.

However, a three waters entity is also likely to deliver increased capability and capacity to the delivery of three waters in the two regions, as it will have sufficient scale, and dedicated focus on the delivery of three waters services. It is this scale, capability, and capacity benefit that will likely give rise to longer term efficiencies and improvements to customer levels of service.

Many of the local issues identified here are common to all of the councils in Otago and Southland as well as those across New Zealand. In many respects, it is that similarity that is driving the Government's reform programme and their proposed solution to aggregate services to address these common issues. Each council is however unique in the way the mix of different risks and opportunities arise and their impact on their community and where this is the case, we have highlighted those different considerations.

For example, Dunedin has a potential challenge relating to climate change low lying suburbs and private water courses. Dealing with these issues means that continued delivery of three waters services by DCC is likely to be challenging, with investment needs driving high levels of potential borrowings, and the impacts of increased regulatory costs being passed on to ratepayers.

## Capability and capacity

### Council

Capacity and capability give an organisation an appropriate level of expertise and resilience. In relation to three waters an organisation needs strategic, technical, and operational capacity and capability. Strategic capacity is important to ensure good long-term asset investment decisions are made.

The entire three waters sector is facing capability constraints at a national level. 13% of all existing three waters roles in the Otago and Southland regions are currently vacant. DCC has nine current vacancies in its three waters (or 8.7% of its three water roles).





The competition for human resource will increase throughout the sector as in many cases other councils are also planning to increase the size of their three waters teams and will effectively be competing with each other to attract resource. This could be further exacerbated by the establishment of large, multi-regional three waters entities which will have the size and scale to attract a high level of talent and offer clear career progression pathways and a diverse range of challenges.

These recruitment challenges are common across the Otago and Southland regions and are broadly a reflection of a nationwide skills shortage. However, our conversations with the Human Resources, Three Waters and Infrastructure and Networks groups within Council did not indicate that there were any specific challenges for Dunedin in recruiting high quality staff to fill vacancies in the three waters teams.

This is likely reflective of the differences in size and scale in Dunedin and elsewhere in the Otago and Southland regions (whereby most other councils reported challenges in recruiting and retaining quality staff). We did note however, the Council indicated that in order to respond to the increasing standards and compliance regime it may create an additional \$1 - \$2M in operational costs and recruiting and retaining those additional resources will be a challenge.

Additionally, the size of the three waters team in Dunedin means that the team is more resilient to staff turnover, with vacancies having a lower impact on the overall function of the team.

#### **Regional water entity**

If a single three waters entity covering either the Ngāi Tahu Takiwā or the Otago and Southland regions entity was created, then it would remove any competition between councils for resources. There is a shortage of specialist resources for three waters across New Zealand and internationally, and while a regional entity will not in and of itself create new resources, it will be able to make better use of the specific skills and expertise of its existing resources across the region in which it operates for the benefit of all areas within the region. So, unlike now, resource constraints would not disproportionately impact any individual district.

A larger entity and the staff, contractors and consultants involved in it would provide sufficient scale to create strategic capacity across the region and support the areas where there is currently a gap. Scale, capacity and capability give a level of expertise, depth of resources and resilience in three waters that can be applied regionally, benefitting all ratepayers of the region rather than only some as is the case now. Importantly the capacity and capability is shared across the region in an ongoing and sustainable way and the burden on smaller communities would be reduced.

A regional water entity would provide greater opportunities for career development and progression than an individual council can offer., although we note that these advantages are not likely to be as significant compared to DCC as they may be for other councils in the Otago and Southland regions.

These benefits would be expected to increase if the entity was across the Ngāi Tahu Takiwā compared to an Otago-Southland entity.

There are however challenges with the creation of regional water entities and the potential for resources to be centralised and pulled away from rural communities. In our view there is likely to be an overall increase in resources if a regional water entity was formed and there will always be a need for some roles to remain disbursed but until the Government model is finalised this is a risk that the Councils must continue to manage through ongoing engagement with Government.



## Governance

### Council

Governance of three waters infrastructure investment in Dunedin is through the Infrastructure and Networks committee of Council. The Infrastructure Services and Networks Committee provides for the effective maintenance and operation of Council's infrastructure and networks by making decisions on strategy, policy and service delivery in respect to:

- Transportation assets
- Three Waters asset management and service delivery
- Solid waste management
- Property
- Cemeteries and Council-owned crematorium.

In addition to the Infrastructure Services and Networks Committee, Council also has a number of community boards which may also varyingly consider issues relating to three waters.

Dunedin City Council's governance of three waters has recently changed to reflect the principles of Te Tiriti o Waitangi with the appointment of two rūnaka representatives (one from each rūnaka – Kāti Huirapa ki Puketeraki Rūnaka and Ōtākou Rūnaka) to the Planning and Environment and the Infrastructure Services Committees with voting rights. Permanent rūnaka members of these committees is unique across Otago and Southland as no other Council has made similar appointments.

### Regional water entity

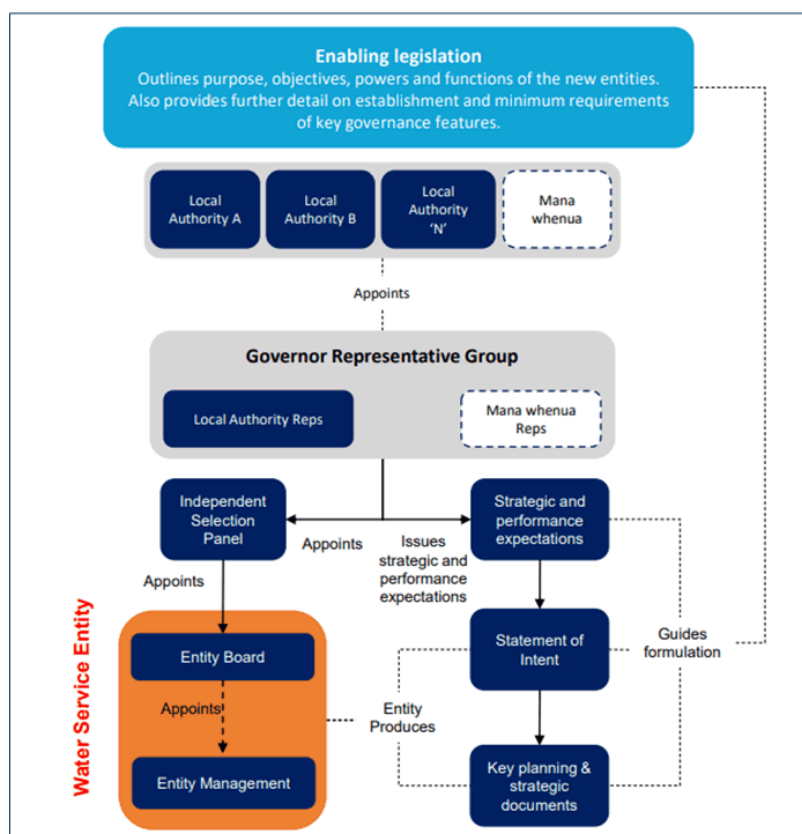
We have assumed that the same governance model would exist in both the Otago Southland and Ngāi Tahu Takiwā options. We recognise that ultimately this may not be the case as the Government will dictate the option that is presented under this model.

A key goal of Government in the reform process is to provide mechanisms for enabling Iwi/Hapū input so that Māori rights and interests are considered in the new service delivery system. In December 2020, Cabinet agreed to a high-level principle of partnership with Iwi/Māori, which will be followed throughout the reform programme, and reflected in the new service delivery plan, and in the proposed model (shown below) and in particular the Governor Representative Group.





Figure 6 Governments “Emerging structure” for proposed three waters entities...<sup>3</sup>



While the new model provides a better recognition of a partnership with Iwi/Māori than the current approach it increases the separation between the community and the service provider. Currently there is a direct democratic connection but the new model changes that, deliberately. The sense of separation from the community is only likely to increase the larger an entity was. The communities role and how they exercise it will fundamentally change.

While the draft model proposed by the DIA as part of their consultation process is not a CCO, we note that it has become accepted practice that an integral element of creating effective service delivery entities is establishment of a new governance framework, including the appointment of independent competency-based boards. The Auditor General has reinforced that by saying that appointing elected

<sup>3</sup> Source: “Department of Internal Affairs: Three waters reform programme – March 2021 Local Government and Iwi/hapū engagement” retrieved from [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/Three-Waters-Reform-Programme-March-Engagement-slides.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/Three-Waters-Reform-Programme-March-Engagement-slides.pdf) on 3 May 2021



members to Boards of CCOs should be the exception—<sup>4</sup>.

In our view there will be an improvement to risk management processes and practices that are driven by the Board because they will bear all the associated duties, obligations and liabilities of company directors (or equivalent) rather than having the current statutory protections of councillors.

### Compliance and levels of service

#### Council

In general, DCC's levels of compliance and levels of service are high with all water in the territorial area being subject to multiple stage or complex treatment. Dunedin's wastewater levels of service are varied however, with all wastewater treatment plants providing only secondary level treatment, and 92% of treated wastewater being discharged to the ocean.

DCC has an average number of wastewater pipe blockages and the third highest rate of stormwater collapses in the Otago and Southland regions, though it has the second highest incidence of unplanned drinking water interruptions in the combined regions. Unplanned interruptions appear to be related to the age of the water network, which, with 38.3% of remaining useful life remaining, is the oldest in the combined regions. The age of Dunedin's network is a challenge for the city.

**Oldest network in  
Otago and  
Southland**

If three waters service delivery remains with Council, then DCC will need to continue to fund the required level of service investment directly (as it is forecast to within its Long-Term Plan). This will require a sustained period of investment that will require water charges to double over 10 years. Cost increases like this will come with community pressure and if Council deviates from that path it will need to accept the additional risk associated with continued non-compliance.

During our review, DCC had a highly publicised incident whereby the drinking water supplies to Waikouaiti, Karitane and Hawksbury residents was found to have levels of lead that were up to 40 times higher than is considered acceptable. The incident highlights the health and reputational risks that come with being a public drinking water supplier. The event created significant additional pressure on Council, and also highlighted how a single event can have the potential to create capability and capacity constraints; many of the councils in Otago and Southland are significantly smaller than DCC and may have found it challenging to respond.

#### Private schemes

Under the draft Water Services Bill councils are considered to be the supplier of last resort for drinking water services provided within their territorial boundaries. This means that in the event that a private drinking water scheme fails or ceases to provide drinking water, Council may be responsible for ensuring continuity of supply to households serviced by that scheme.

The risk of this occurring is a significant concern for most councils that we spoke to during our on-site visits, particularly given the increased enforcement of drinking water standards that has been proposed and the

<sup>4</sup> Governance and Accountability of council-controlled organisations, Office of the Audit General, September 2015



increased levels of personal liability associated with non-compliance.

In the event that three waters reform proceeds, we understand that the Government would most likely transfer the obligation to act as the supplier of last resort to the new water entities. It is not yet clear whether this would extend to giving the new entities the powers to forcibly takeover the management of schemes, or to act as the supplier of last resort in districts where councils have not opted into the reform process.

While the number of private schemes in DCC is unknown the proportion of population that is connected to a water supply scheme provides a proxy for the scale of the risk. DCC has the third highest (82%) proportion of its population connected to a council owned drinking water scheme, and as a predominantly urban council is likely to have a lower level of risk of private schemes than other councils in the Otago and Southland regions.

#### **Regional water entity**

An aggregated water entity would have the ability to concentrate on three water challenges and prioritise investment decisions across the region, leading to improved environmental and community outcomes than the councils can individually achieve when considered regionally. An entity could prioritise investment into the areas where the greatest benefit could be achieved.

The organisation would have a single focus. It would not be faced with trade-offs as is the case now where councils must juggle multiple competing priorities for investment and resources. It would not be subject to the same political pressure over rate increases. Pricing will be regulated by the economic regulator, not through the annual planning process.

The particular risks for the Otago Southland region include:

- Compliance risks in the current system: thirty five percent (35%) of the regions drinking water (by volume) does not meet protozoa requirements of the Drinking Water Standards.
- Seventeen percent (17%) of the resource consents for wastewater treatment in the region have already expired, and a further twelve percent (12%) are due to expire within the next 5 years, this creates a legal, regulatory and financial risk for the region.
- Eighty two percent (82%) of the three waters pipe network across Otago and Southland is in an unknown condition and therefore there must be uncertainty about the future investment requirements and risks that these could be greater than estimated.
- Under a status quo approach the future cost of three waters services that comply with the increased standards could be unaffordable in some communities.
- A larger aggregated entity should be in a better position to undertake the actions required to address these risks through opportunities to realise economies of scale, improved asset management and management of risk enabling funding and delivery of larger scale investment programmes. This should allow an entity to better meet any increased compliance requirements or increased environmental standards than the councils can.

These increasing service levels and compliance requirements are driving investment into systems, processes, resources and infrastructure. Our view is that it is unlikely that all councils in the regions have sufficiently allowed for all of the increased operating costs that these will create. There is therefore a risk that the compliance cost increases currently projected by the councils (including DCC) will be greater than forecast. A



regional entity with greater depth of resources will be better placed to respond to system wide compliance requirements and the administrative workload of dealing with the regulators and regulatory regime.

## **Infrastructure assessment**

### **Future investment requirements**

The Government's three waters reform programme that is being managed by the Department of Internal Affairs conducted a series of workshops across the country in March 2021. These workshops presented some of the preliminary findings from analysis of the responses to its request for information to the local government sector. The workshops highlighted the national investment challenge as being one of the major drivers for reform.

The workshops noted:

- A total investment requirement over the next 30 – 40 years of between **\$110 – \$170 billion** across the country.
- Current national investment of only \$1.5 billion per year across the country (equating to \$45 billion over the same 30 year time frame).

Our assessment of the future three waters investment is that DCC requires a total of **\$1.3B** over 10 years with an average annual spend of approximately \$130 million per year (real, 2021 uninflated). The primary driver for capital investment in DCC is renewals with some investment in levels of service and growth but that it is dwarfed by the renewal investment.

Dunedin has the highest proportion of three waters assets (by length) that are more than 60 years old in all of Otago and Southland. In fact over 10% of DCC's stormwater network, and over 20% of DCC's wastewater network is over 100 years of age.

The relative age of DCC's three waters infrastructure has created the need for a strong focus on the renewals of underground infrastructure in DCC's long term plan.

DCC's RFI outlined \$433 million of three waters renewals being required between 2022 and 2031, however in our analysis of asset registers, we identified \$1.2 billion of three waters underground assets that have a residual useful life of 10 years or less which, in the absence of condition or performance data, would need to be replaced in that time period, or risk increased rates of pipe failure.

The main driver for our uplift in planned investment in DCC, as compared to its own RFI, relates to the difference between the renewals programme outlined within its RFI, and the replacement cost of assets that are likely to reach the end of their useful lives within the next ten years. Our assessment therefore includes an uplift in planned renewals investment for DCC from the \$433 million they had forecast to \$1.2 billion over the ten years based on a comparison with rates of depreciation and the remaining useful life of assets.

Our analysis of RFIs completed by the councils of Otago and Southland, as well as our review of information provided in asset registers, was presented in our earlier *Cross-regional current state assessment* report (March 2021) and identified between **\$2.3 – 4.7 billion** of capital expenditure across the two regions over the next 10 years. Our modelling assumes a total of \$3.9 billion.





The issue is whether Council or a regional water entity is better able to plan, deliver and fund the requirement level of investment.

### Delivery

#### Council

The ability to deliver on a capital works programme may have a significant impact on debt projections, rates and operational risk. As a sector, local government in New Zealand has historically been unable to deliver its full capital works budget.

DCC bucked this trend in 2020 and managed to deliver 212% of its budgeted capital works programme (by value), (based on budget and actual expenditure)<sup>5</sup>. Despite this, in our view DCC must further increase the amount of three waters infrastructure that it delivers annually by over double that again, in order to be able to meet the required level of investment.

**Council needs to  
double capital  
works delivery**

There is a risk around the councils, individually or collectively, being able to deliver the increased infrastructure investment required. The Otago and Southland councils, like most New Zealand councils, have generally struggled to deliver their capital programmes each year. Yet, the forecast investment required in three waters for the eight councils will more than double from \$101M in 2020 to an average of \$230M per annum each year over the next ten years.

#### Dedicated water entity

A larger aggregated entity should be better able to develop a coordinated programme and enable effective working relationships with service providers to ensure that the operation of three waters conforms to contracted services and performance levels across the region. This includes improving transparency and accountability for the delivery and costs of three waters services, including the ability to benchmark the performance of service suppliers. The greater depth in capacity, in particular in strategy, planning and programming should help support delivery of such a large programme of work.

However, the challenges with delivering the increased capital works programmes are likely to continue for some time until the industry prepares to increase its capacity, and long-term coordinated capital works programmes are developed and finalised.

There is also a risk around the ability of an individual council to meet the investment requirements if it was competing for scarce resources with a regional water entity (locally) and entities (nationally).

### Providing for growth

#### Council

Under the current model DCC has control over the growth in its district and largely dictates the timing of growth through the provision of three waters and other supporting infrastructure. This may be directly through construction or through vested assets built by developers in accordance with DCC standards and

<sup>5</sup> We note that capital delivery in the 2020 financial year was impacted by Covid-19 restrictions





passed over to Council.

Despite an additional 3,170 water connections being forecast over the next ten years, growth is not a significant driver for investment in DCC.

District planning, including the identification of new areas for housing, commercial and industrial activities, is currently an activity that looks across Council's activities and roles. The process considers factors such as, but not limited to, placemaking, transportation (including public transport), supply of greenspace, and availability of infrastructure.

#### **Regional water entity**

**Shared responsibility for growth infrastructure creates risks for individual councils**

One of the most significant changes introduced through an aggregated water entity is the change from the current full council control over providing for growth and investment priorities into the broader regional mandate of the water entity. Councils have control over broader growth planning and infrastructure provision for their areas but for three waters that will largely transfer to the water entity. Growth planning and the provision of infrastructure will effectively be shared between councils and the water entity. Shared responsibility can create duplication, gaps and has potential risks.

There will be a need to balance regional priorities with local in order to achieve best overall outcome for the region. There is a risk that DCC's priorities do not match the entities priorities for investment, either in timing or absolute terms. If the entity was covering the Ngāi Tahu Takiwā then the issues are only likely to be more complicated and balancing individual communities' priorities with the needs of the region more difficult.

The Government's consultation programme has indicated the development of a regional spatial planning process to guide that, but without the detail of how that operates it is an important risk as there will be change. It is an area council's must work with government on in order for communities, councils and a water entity to be successful.

District planning will require additional interfaces with the new water entity. In some cases a water entity may have different motivations than council, and is likely to place a greater focus on the provision (and cost of providing) infrastructure.

If considered regionally then the development of a single set of standards and a consistent approach to their application across the region will simplify things for developers and community.

#### **Financial assessment**

The financial analysis presented in this section builds on the previous work undertaken to support our *Cross regional current state assessment*, and our *Regional situation analysis* reports. The analysis uses our financial models to optimise debt and standardise forecasting assumption across each council and the proposed entity itself. These assumptions, which are outlined in Appendix B, are based on our experience and understanding of the Government's reform objectives but are unlikely to match Council's own projections.



In this regard, the forecast should be considered to be directional only, noting that any change to underlying assumptions will impact both the entity and Council.

In our view, the most significant financial issues arising from meeting the total investment challenge are likely to be the impact on a council's debt, and the impact on ratepayers. These issues are covered below.

### Impact on household charges

#### Council

We estimate that three waters charges for DCC households may increase by 213% in real terms from approximately \$1,041 per property in the 2021 financial year to around \$2,217 in 2031 (in 2021 dollars). When an allowance for inflation is included (using BERL LGCI cost index) this figure is as high as \$3,100.

In some cases, ratepayers may only receive one or two of the three waters services. In this case, a comparison of the three waters rate may not be helpful. The table below sets out the estimated current<sup>6</sup> and future household charges for each of the three waters.

**Water charges  
increase 213%  
(before inflation)**

**Table 3 Comparison of water, wastewater and stormwater charges**

	2021 charge (ML adjusted)	2031 estimated charge
Water	\$496	\$1,125
Wastewater	\$457	\$731
Stormwater	\$88	\$362
<b>Three waters</b>	<b>\$1,041</b>	<b>\$2,217</b>

Affordability of these water charges should not be measured in absolute terms and should also consider the costs that a community can bear. In the Water NZ 2017-18 National Performance Review it considered relative affordability of water and wastewater services. It referred to varying international water affordability metrics for water and wastewater services ranging from 2 - 5% of household income<sup>7</sup>.

By this metric DCC exceeds the lower threshold for affordability issues in 2022 and by 2031, water and wastewater charges equate to approximately 2.9% of median household income.

An affordability metric that considers only the median household income in a district masks the impacts that increasing water and wastewater charges may have on the more vulnerable populations that are on fixed incomes. 7% of DCC's population receives benefit support of some kind, and a further 16% receives a pension.

<sup>6</sup> For comparison purposes we have estimated 2021 water charges using the same approach as our estimates for 2031. Importantly, this means the 2021 charges shown here may not match the charges set by council. The 2021 charges shown here are intended to provide a useful baseline to demonstrate the scale of uplift in costs.

<sup>7</sup> 2018-18 National Performance Review, Page 7



Projected water and wastewater charges in 2031 for DCC reach

- 8%, the jobseeker support for a sole parent.
- 7% of the pension rate for a single person living alone under the status quo.

We note that this analysis may not be fully representative of affordability for these groups however, as many pensioners will have the ability to draw on retirement savings or equity and may have additional income streams. Similarly, beneficiaries are less likely to be directly liable for paying these charges, and our analysis also excludes any additional allowance by way of the accommodation supplement.

#### **Regional water entity**

The Water Industry Commission of Scotland (WICS) noted, in their report to the New Zealand Government (the WICS report), that a three waters service delivery entity could be expected to achieve operating efficiencies of between 10 - 40% over a time period of 10 years (after adjusting for inflation and level of service improvements)<sup>8</sup>. It also indicated potential capital works savings in the order of 45% over a period of 30 years.

Our own work has indicated savings of a similar (albeit slightly less ambitious) scale may be achievable (we estimated 11% operating savings in 10 years, and 10% capital savings in 10 years). In our experience, these savings typically relate to:

- efficiency – doing things right, with less inputs, e.g. a reduction in the costs of contracted services.
- effectiveness – doing the right thing, e.g. reduction in re-active maintenance from improved asset management practices.
- efficacy – setting the right objectives (as it relates to three waters, e.g. asset management).

It is important to note that establishment of a new entity will likely take time to deliver benefits and will not necessarily solve all existing issues, for example, addressing capital investment backlog or affordability. An early Frontier Economics report commissioned by DIA concludes however, there is considerable international evidence to suggest that reform, when accompanied by a suite of other governance and regulatory reforms, has led to improvements in performance<sup>9</sup>.

The impact of the modelled capital and operating savings are outlined in the table below with 2031 highlighted in the table as it is not until that point that a regional water entity begins to deliver savings through to the ratepayers.

<sup>8</sup> This assumes that an economic regulator is also established. WICS made no attempt to attribute benefits between regulation and aggregation.

<sup>9</sup> [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-documents/\\$file/Frontier-Economics-review-of-experience-with-aggregation-in-the-water-sector.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-documents/$file/Frontier-Economics-review-of-experience-with-aggregation-in-the-water-sector.pdf)





**Table 4 Potential savings**

	Three waters entity	Saving
Capital expenditure 2024 – 2035	<b>\$2.9 billion</b>	4%
Operating expenditure 2024 - 2031	<b>\$2.86 billion</b>	2.7%
Annual operating expenditure 2031	<b>\$383 million</b>	6.6%

We have not undertaken detailed modelling or analysis on a Ngāi Tahu Takiwā entity to complete the above table, however, we note that we would expect such an entity to have 2 – 3 times the level of capital and operating expenditure of an Otago-Southland entity. Similarly, we would expect savings within a larger entity to be larger, or more likely to be able to be achieved.

Our modelling focusses on the ten year period outlined in DCC's responses to the Government's RFI and covered by DCC's latest (draft) long-term plan. Our analysis shows that the potential operating and capital savings only begin to have an impact on household charges at the end of the modelling period. These efficiencies could be expected to have an increasing effect on household charges beyond that.

Three waters charges are likely to be higher under the status quo (Council delivery model) than under a regional water entity covering Otago Southland for ratepayers in Dunedin in most scenarios.

**\$2,001 – average  
household water  
charge in 2031  
(uninflated)**

**Table 5 Comparison of three waters charges in 2031**

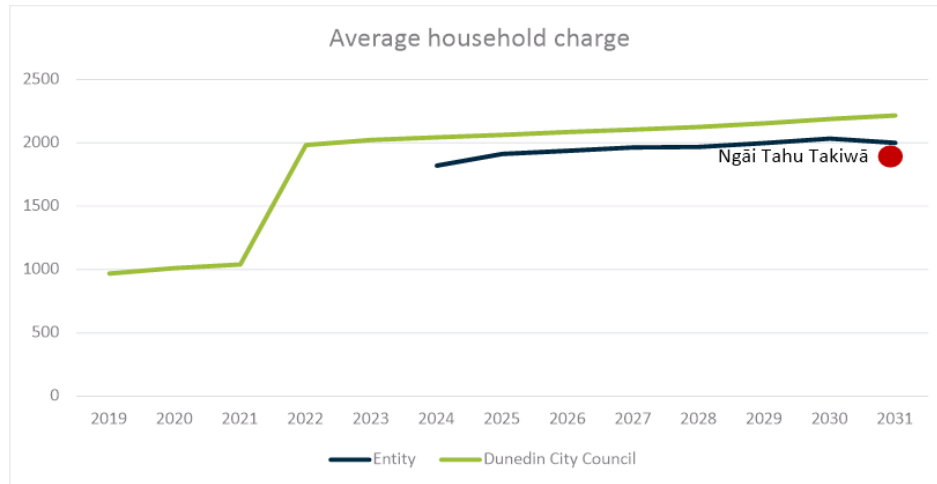
	Water charge	Wastewater charge	Stormwater charge	Three waters charge	Increase (%) vs 2021	2031 range
<b>DCC</b>	\$1,125	\$731	\$362	\$2,217	213%	\$2,010 – \$3,087
<b>Otago Southland Water Entity</b>	\$841	\$882	\$277	\$2,001	192%	\$1,785 – 2,216
<b>Ngāi Tahu Takiwā<sup>10</sup></b>	\$600 - 700	\$800 - 850	\$300 - 350	\$1,700 - \$1,900	173% <sup>11</sup>	No information

<sup>10</sup> The estimate of household three waters charges for the Ngāi Tahu Takiwā has been prepared based on limited information and contains a number of assumptions and high level estimates.

<sup>11</sup> Based on midpoint.



Figure 7 Average annual household charge – three waters entity



The three waters entity breaches 2% of household income threshold on establishment but has an improved outcome over time when compared to Council alone. Projected water and wastewater charges in 2031 for DCC ratepayers under an Otago Southland regional water entity reach:

- 7.4% of the jobseeker support for a sole parent,
- or 6.5% of the pension rate for a single person living alone.

Given the likely reduction in three waters charges in a larger entity covering the Ngāi Tahu Takiwā we would expect household affordability for water and wastewater service to be further improved for DCC ratepayers under such a model.

However, with the water services entity it is likely that charging mechanisms for renters may change. Under the current council delivery model, water charges are incorporated into rates bills and are covered by landlords in the first instance (and recovered in rental income). A water services entity would likely have a direct billing approach meaning tenants in rented properties may have to cover these costs directly (and there is unlikely to be a complimentary reduction in rent).



Table 6 Comparison of affordability of three waters charges

	Three waters Estimated charge (2031)	Two waters estimated charge (2031)	Two waters % of average household income (2031)	Two waters % of pension (2031)	Two waters % of job seeker support (2031)
DCC	\$2,217	\$1,856	2.9%	7%	8%
Otago Southland Water Entity	\$2,001	\$1,723	2.7%	6.5%	7.4%
Ngāi Tahu Takiwā Entity	\$1,700 - \$1,900	\$1,400 - \$1,700 <sup>12</sup>	2.2% - 2.7%	5.3% - 6.5%	6% - 7.3%

#### Resilience

A key benefit of a regional water entity is the larger population base it serves. This provides the entity with more financial resilience. Potential future price shocks within the Otago and Southland regions may include:

- The costs to meet increasing drinking water and wastewater standards.
- The valuation of assets, and in particular, the potential under-valuation of underground assets, and the consequential impact of that on planned capital investment.
- The significant level of investment in renewals that is required in the district and in the wider region.

#### Debt

The scale of the capital investment required will need to be funded by debt. This is an entirely appropriate funding mechanism for three waters infrastructure. However, debt is also a significant driver of cost, with financing costs accounting for an increasing proportion of total operating cost as investment requirements grow, and a need for the eventual repayment of that debt.

The question is whether there are differences with either a regional water entity or with Council and if so whether those are benefits or challenges.

<sup>12</sup> We have not assessed two waters charges for a Ngāi Tahu Takiwā entity, and this range assumes that two waters charges in such an entity would be similarly lower than three waters charges as we have observed in Otago and Southland.



### Council

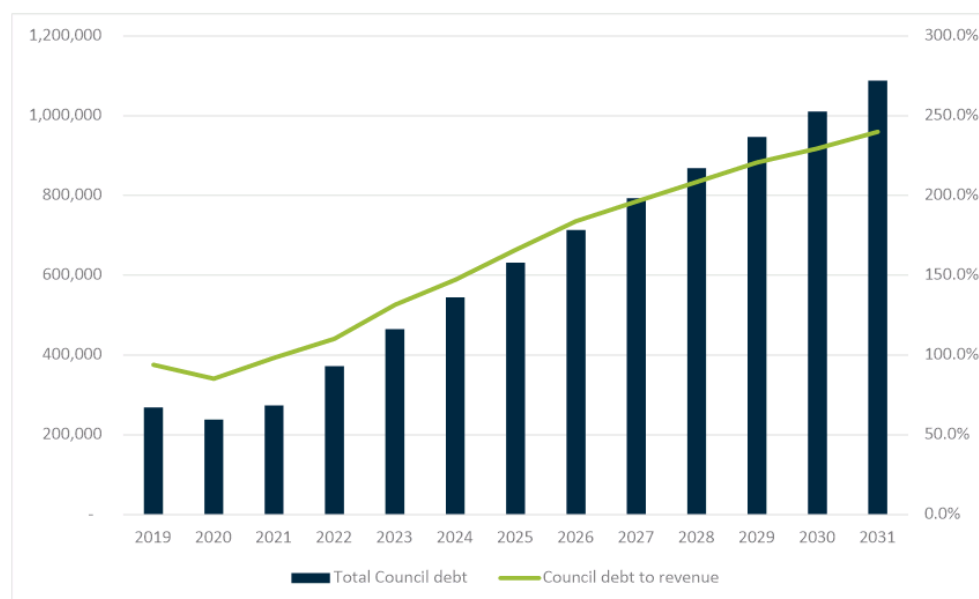
The forecast debt position and debt to revenue ratio for the three waters is for three waters debt to exceed \$485 million (or 319% of three waters revenue) in 2031. Given the local government funding agency's borrowing covenant of 280% of revenue, the serviceability of three waters debt in DCC will become dependent on revenues from other activities (thereby constraining the ability of those other activities to borrow).

**\$485 million of  
three waters debt  
in 2031**

While we are unable to predict what the impact of our increased investment programme would be on planned borrowing for other Council activities, we have attempted to predict total Council debt in the chart below. This assumes that Council does not alter the amount of debt, or revenue, that it requires to fund its other activities in response to the increasing funding requirements for three waters (although we would anticipate that such adjustments would be inevitable).

This shows an increase in debt, peaking at \$1.08 billion in 2031, and a debt to revenue ratio that peaks at 234% for DCC as a whole. At that level Council debt will need to be managed carefully and the ability to borrow for other activities and services will be significantly constrained.

**Figure 8 Whole of Council debt and debt to revenue ratio (\$'000)**





### Regional water entity

By 2031 a three waters entity is forecast to have debt totalling:

- Between \$6 – 6.5 billion, and exceeding 600% of its annual revenue, in a Ngāi Tahu Takiwā entity
- \$1.9 billion, or 465% of its annual revenue, in an Otago Southland entity

This represents a small reduction compared to simple aggregation which is achieved through efficiency improvements.

However, we estimate that a regional three waters entity covering the Otago and Southland region or at the Ngāi Tahu Takiwā will breach both the LGFA lending covenant, and the debt to revenue covenants that would likely be imposed by the credit agency Moody's if the agency was to seek a Baa/Ba credit rating.—<sup>13</sup>

This means that either regional water entity would have to rely on Government subsidies or higher user charges to be able to afford the current investment programme.

Sensitivity testing outlined in Appendix A shows that this is likely to be the case regardless of the assumptions adopted in our modelling.

Alternatively, the three waters entity could delay or stage investment to ensure that it remains within the borrowing limits, but delayed investment is one of the many potential causes of the current issues with three waters service delivery within the local government sector.

The challenges for an Otago Southland regional water entity or Ngāi Tahu Takiwā entity to be able to borrow sufficient funds to meet the required investment programme is considered a major impediment to the viability of an Otago Southland three waters entity. It appears from a recent newspaper article "Water reforms hit an expensive snag, as cost estimate rises to \$185b"—<sup>14</sup> that this situation may be replicated across the country which could provide for further incentives or changes.

The issues regarding the total debt for proposed water entities should not be underestimated as they are likely to be an impediment to the overall effectiveness of the proposed entities if they are unable to be resolved.

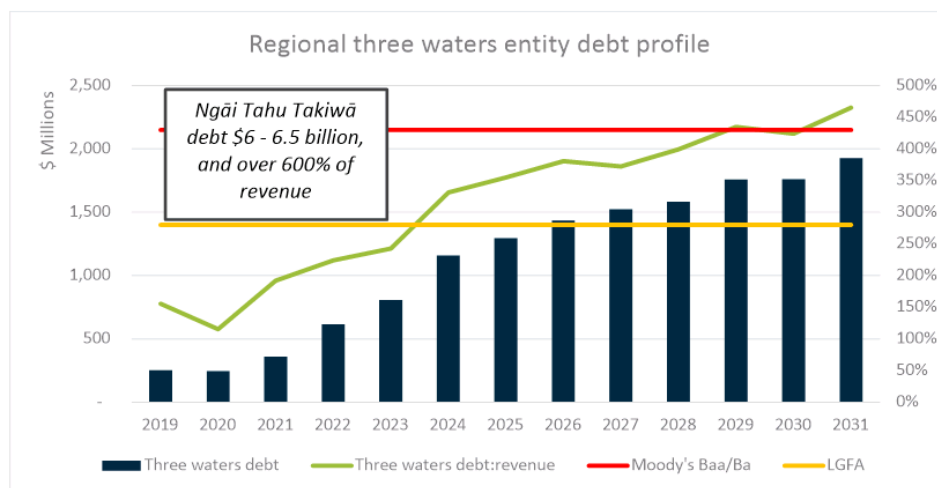
**Borrowing will exceed  
lending covenants or  
investment  
constrained**

<sup>13</sup> Per the WICS report. Note that the LGFA currently has an AA+ rating for foreign currency lending from Standards and Poors – equivalent to an Aa1/Aa2 rating from Moody's. A Baa/Ba rating would likely result in higher borrowing costs than can be obtained through the LGFA.

<sup>14</sup> <https://www.stuff.co.nz/national/politics/300309952/water-reforms-hit-an-expensive-snaq-as-cost-estimate-rises-to-185b>



Figure 9 Debt to revenue ratio versus LGFA and Moody's benchmarks – three waters entity





## **What would the impact of change be?**

### **A change in role for Dunedin City Council**

If three waters was transferred out of Council, then in our view it will have a minor impact on the ability of Dunedin City Council to maintain the current level of service across the remaining Council functions. In fact, it should be considered an opportunity for advancement and job enrichment for staff already working in three waters and will provide new challenges for staff elsewhere in council.

Many Council teams have resources at or close to capacity. As discussed above, several roles outside of three waters are currently 100% focussed on supporting three waters, with a number of other roles either providing a portion of their time supporting three waters or interfacing with the three waters team to obtain information or advice (for example in relation to LIMs/PIMs and building and resource consents). As part of any transition process towards a new three waters entity, Council will need to undertake a focussed review of this resourcing to identify whether it wishes to retain the resource and increase levels of service to other parts of the business, or to transfer the resource to the new entity (most of these support roles will be required in a new entity and will otherwise need to be engaged through a separate recruitment process).

Transfer of responsibility for delivering water to a new entity will mean the Council (from the Councillors, through its leadership and operational staff), will have the opportunity to reassess the ways in which it can effectively deliver on other issues for its community with its remaining resource. For example, the removal of three waters roles may provide an opportunity to evolve the remaining organisation structure to respond to the wellbeing of their communities as detailed in The Local Government (Community Wellbeing) Amendment Act 2019.

The Frontier Economics report addresses the potential concerns with aggregation leading to loss of economies of scope with other council functions and concludes that such issues do not appear to have emerged in practice as a major problem in the jurisdictions examined in the study.

The true impact on Council, and the exact nature of its future role is, however, uncertain. In addition to three waters reform, reform of the Resource Management Act, which may alter the responsibilities and obligations of councils, and the recently announced "Future of Local Government" review, will also have a significant impact on the broader impacts for a council that cannot be ignored.

### **Impact on Council as an organisation**

In DCC's current organisation structure, the three waters group has around 100 roles that are entirely dedicated to three waters. Almost half of these FTEs relate to operations and maintenance staff who are responsible for the day to day running of water, wastewater and stormwater networks within the region. As depicted in Figure 9, groups outside three waters do also provide some support, and in some cases there is sufficient additional capacity in these functions to enable some of these support staff to also transfer to a new three waters entity. The exact structure and ongoing resourcing of those support roles will require particular consideration through any transition process.

In absolute terms the actual transfer of resources from Council to the water entity would be significant, with Council's three waters team likely to account for almost half of the three waters technical staff in a new three waters entity. Our analysis shows up to 14% of Council's FTEs are solely or significantly focussed on



water related activities and may be transferred to a new water entity. Before and after functional structure charts of DCC are set out on the following pages to demonstrate the extent of change within Council. In all cases vacancies have been included.

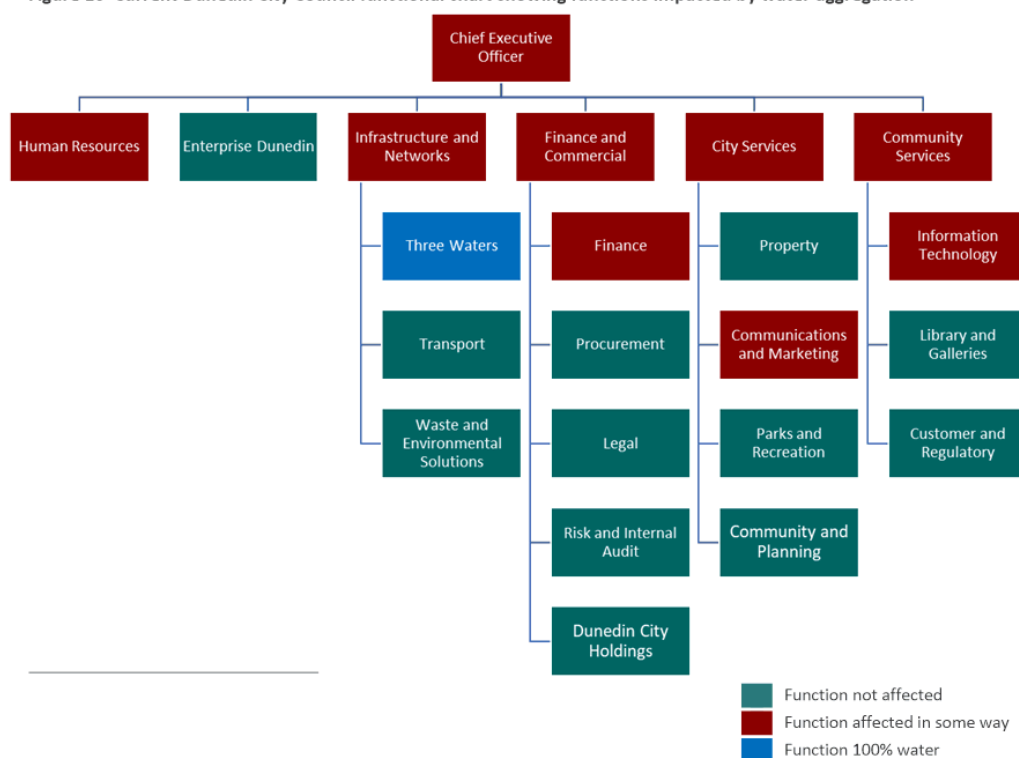
In some cases the level of support provided by the wider Council to three waters may be such that the transfer of three waters services to a new entity would result in the transfer of support staff as well, however this is not consistent across all support services in the organisation, and in some areas the removal of three waters activities will simply create additional capacity which can be applied elsewhere.

DCC operates out of one office within Dunedin itself and has limited ability to lease space within this building or reduce its accommodation costs without three waters.

**Table 7 Pre and post change Council FTEs**

Pre water entity FTE	Post water entity FTE
819 <sup>15</sup>	~ 714

**Figure 10 Current Dunedin City Council functional chart showing functions impacted by water aggregation**

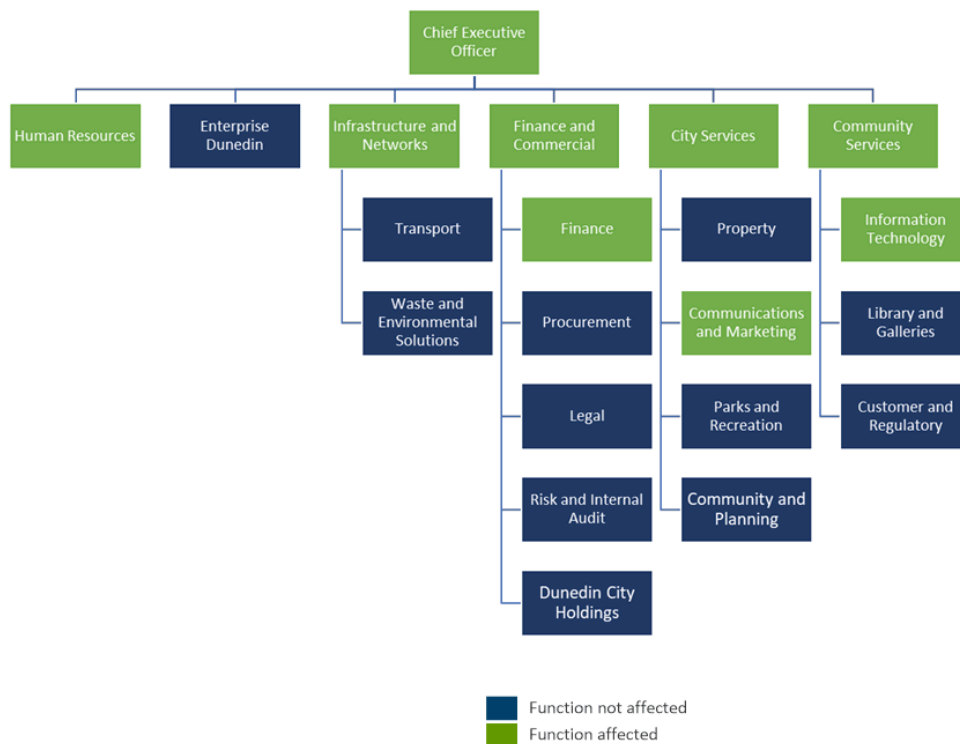


<sup>15</sup> As at January 2021





Figure 11 Indicative functional chart for Dunedin City Council post creation of water entity





### Financial impacts

The transfer of three waters service delivery into a new three waters entity would give rise to a reduction in the overall revenue of Council.

Three waters accounted for an average of 24% of Council's total revenue between 2019 and 2021, and 24% of its total operating expenditure in the same period. The removal of both the revenue and expenditure would therefore likely have a minimal impact on the overall financial performance of Council outside of the stranded overhead charges.

The anticipated impact on Council's total revenue from the transfer of three waters service delivery is shown in the table below.

**Table 8 Comparison of Council revenue after transfer of three waters service delivery**

	With three waters (ML adjusted) (2021)	Without three waters (2024)
Council revenue	\$278 million	\$237 million

That is, the overall size of DCC will be somewhat smaller than it is currently, although staff and costs will also transfer. With over \$237 million of revenue still being collected, DCC is likely to continue to have a meaningful role within its community.

### Balance sheet impacts

We have assumed that the transfer of three waters assets from councils to new three waters entities would be accompanied with an equivalent transfer of debt. The impacts on DCC's balance sheet, assuming three waters debt is transferred in 2024 is shown below.

**Table 9 Impacts on Dunedin City Council's balance sheet**

	With three waters (ML adjusted) (2024)	Without three waters (2024)
Total Council debt	\$545 million	\$336 million
Debt to revenue ratio	147.2%	141.4%
Debt capacity (\$)	\$491 million	\$329 million

Despite a decrease in DCC's debt to revenue ratio from 147% to 141% following the removal of three waters debt and revenue, DCC would have a reduced total borrowing capacity following the transfer of three waters to a new water entity. This is because the debt that is removed from Council's balance sheet is accompanied by a reduction in total revenue (which is a key consideration in lending covenants).



With \$329 million of debt headroom remaining, Council would still be able to almost double its projected net borrowings in 2024. We note that by 2031, assuming no changes in investment approach, Council would have more debt capacity remaining without three waters than it would have if it retained it.

### Stranded overheads

The delivery of three waters services in DCC is heavily supported by other areas of the business including the wider Infrastructure and Networks team and most corporate support functions. Most of this cost is charged to three waters activities through an allocation of corporate overhead, that uses an allocation system which broadly reflects the use of those services by the three waters team.

In many cases these costs reflect the cost of staff time (for example, it may include a portion of the employment costs for an accounts payable officer). Where this is the case, it is unlikely that the removal of three waters services will result in a reduction in these employment costs (as the role is still required within Council). These costs are therefore considered “stranded” as they remain with Council despite the loss of the activity which funds them.

Our estimate of the amount of corporate overhead charge that would be stranded in DCC is between \$6.0 – 6.5 million. This reflects potential reductions in FTEs for some service areas and a reduction in employment costs for staff whose time is unlikely to be able to be fully charged to projects.

The stranded overhead equates to approximately \$116 per rateable property in DCC in 2020.

The typical range for stranded overheads within the Otago and Southland regions is between \$70 – 200 per ratepayer, Dunedin’s estimated stranded overhead is in the middle of this range.



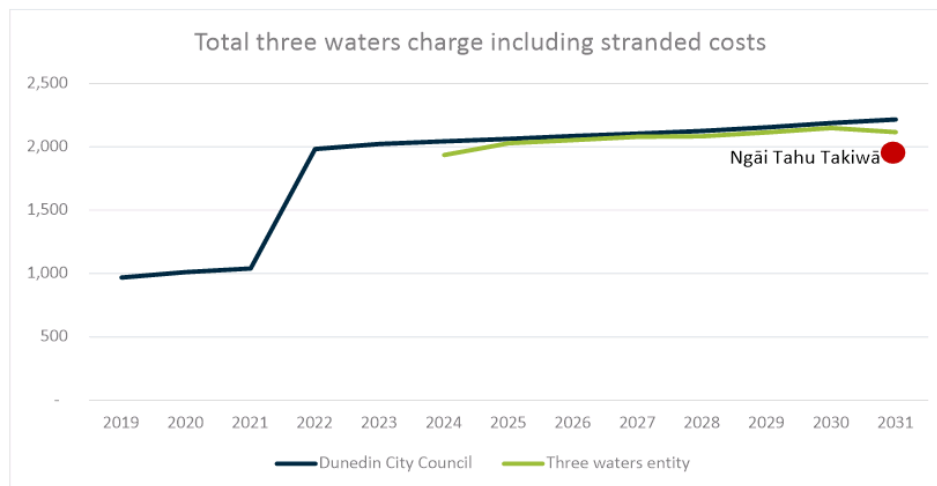
### Total cost impacts for ratepayers

If three waters assets were transferred out of Council, the net impact on ratepayers would be the combined cost of the three waters charges imposed by the new entity and the additional component of DCC rates that is required to fund the stranded overhead of Council.

To identify the potential impact on ratepayer from the transfer of three waters assets to a new entity, we have therefore compared the combined entity charge with the average household charge that would otherwise be paid if DCC retained responsibility for the delivery of three waters services.



**Figure 12 Comparison of total household cost for three waters services council versus three waters entity**



This comparison shows that when the cost of stranded overheads is considered and passed on to ratepayers, the overall cost of three waters services for DCC ratepayers will be:

- Between \$1,815 and \$2,015 by 2031 (or 9% - 18% cheaper) with a Ngāi Tahu Takiwā entity.
- Around 5% less expensive by 2031 with a regional water entity.



## Summary

Due to increasing standards and requirements a change to the way three waters services are delivered is inevitable. The form that this change takes is a decision for DCC to make, and this report presents information to assist with making this decision.

The arguments for and against the opt in or out decision are presented below, alongside the relevant risks of each decision. For simplicity, we note that the opt out decision discussed below relates to DCC opting out of reform and continuing with its existing service delivery arrangements.

The option to opt out of reform and pursue voluntary change into an Otago Southland three waters entity in our view has a very low chance of success and risks Council being left as the service provider. The option requires a coordinated and consistent approach across all of the councils in Otago and Southland. All eight councils in the two regions must opt out of the Government's reform process but have a desire to aggregate three waters services at a more local level. They must then go through a detailed entity design process, fund the transition and entity design process themselves, consult with their communities on the same proposals and ultimately agree. There are limited examples of this being successful in New Zealand and none where asset owning has been part of the model.

In the event that an Otago-Southland water entity emerges as the Government's preferred option, most of these challenges will disappear.

## Opting in

### Arguments for

- A regional water entity will have increased capability and capacity of three waters staff, depth of expertise and increased organisational resilience to changes in staffing levels.
- A three waters entity would have a skills based board with a single focus on three waters issues and would have an enhanced ability to embed the principles of Te Tiriti o Waitangi and Te Ao Māori within its governance framework. There would be no competing interests for investment requirements and funding.
- A three waters entity would have greater financial and technical resources to be able to address compliance issues and make the investment required to comply with new environmental, health, and cultural standards. A three waters entity would also assume most of the risk associated with rural water supplies and private water schemes.
- Average household charges for three waters services are likely to be lower for Dunedin ratepayers under a regional water entity than if DCC continued to provide the services itself.
- A regional water entity would also have significantly improved financial resilience.
- The required level of future investment in infrastructure will be a challenge for DCC as it requires Council to double the amount of capital works delivered in 2020 (which itself was double what was planned) and deliver that consistently each year for 10 years. Equally, delivery of the full capital works programme at an Otago Southland level, or even with a larger entity would appear challenging.
- Government financial incentives are expected for council who opt in to the reform process.



#### Arguments against

- DCC may experience some increased challenges to recruit engineering staff and asset managers to support its remaining activities due to increased competition with a three waters entity and a reduction in variety of work although the effects of this may be limited to certain roles within the organisation.
- There will be a number of new challenges introduced relating to the prioritisation and coordination of investment in three waters infrastructure across the region. DCC will no longer control the timing and location of investment. Instead it will be a shared responsibility.
- Interfaces between the roading and stormwater networks may be challenging to manage and may result in the imposition of additional costs within council (either for relationship management or in terms of impacts on road design and urban planning).
- There may be a loss of local representation, which would be worse with an entity covering the South Island or the Ngāi Tahu Takiwā.
- A three waters entity would face higher borrowing costs, and a potential credit downgrade, if it were to deliver the full capital works programme for the areas that it covers without suffering a credit rating downgrade and, consequently, higher costs of borrowing. We believe this to be a national problem, which is more likely to be able to be solved with a small number of water services providers.

#### Risks

- Delivery of the full capital works programme at an Otago Southland level, or even with a larger entity would appear challenging. There is a risk that a larger three waters entity may not be able to generate improvements in terms of capital works delivery.
- Without critical mass of all councils there is a danger that the benefits of change will be substantially reduced or lost. This is particularly the case if the other population centres of Invercargill, Christchurch, and Queenstown were not involved. A Ngāi Tahu Takiwā would be more resilient to this.
- As a three waters entity may have limited access to sufficient debt to fund its full investment programme, it may need to manage competing investment demands from different districts (and to achieve different outcomes, e.g. servicing growth versus improving compliance). There is a risk that these priorities may not align with local priorities.
- There are still a number of unknown factors about entity design which may have a significant bearing on the comparison of an “opt in” option with an “opt out” option. These include issues regarding:
  - Entity design.
  - Council’s roles as owner and governor.
  - Mechanisms to prioritise local investment.
  - Coordination of planning and investment.
  - Interfaces with stormwater and the extent to which stormwater assets and functions will be transferred.
  - Community input and role.
  - Allocation of liabilities, land ownership.



## Opting out

### Arguments for

- When compared to all other Otago and Southland Councils, DCC will see the smallest benefit from an increase in scale that a regional water entity would deliver due to its current size. Regionally however, the delivery of three waters services will benefit from increased capability and capacity of three waters staff, and increased organisational resilience to changes in staffing levels.
- A three waters entity would not have the borrowing capacity to be able to deliver the full capital works programme for the areas that it covers without suffering a credit rating downgrade and higher costs of borrowing. DCC is **currently** projected to have sufficient financial headroom to be able to fund its forecast capital works programme but only just. The extent of the three waters debt will impact the ability of all other services and activities to use debt.
- DCC is able to determine the timing and level of investment it makes into its three waters infrastructure if it retains control of its three waters assets. Increasing regulatory enforcement and standards will still be a significant driver for determining the timing and type of investment.
- There may be alternative options available to council to address many of the potential challenges with continued council service delivery of three waters. These options were not explored as part of this review.
- Dunedin City Council's governance of three waters has recently changed to reflect the principles of Te Tiriti o Waitangi with the appointment of two rūnaka representatives (one from each rūnaka – Kāti Huirapa ki Puketeraki Rūnaka and Ōtākou Rūnaka) to the Planning and Environment and the Infrastructure Services Committees with voting rights.
- Household charges are likely to be higher under a continuation of Council led service delivery, however DCC has a number of tools at its disposal to address affordability issues within the district (such as the use of rating differentials, UAGCs, rates postponement policies, and rates remissions) which may not be available to a water service entity.

### Arguments against

- Council is making its opt out/opt in decision within the context that every other council in New Zealand is also making that decision. In many cases there is a strong and very strong case for change. The ratepayers of six of the eight councils in Otago Southland would, in our view, have lower water charges under a regional water entity, but this reduces to five when stranded costs are taken into account. The ratepayers of all eight would be better off in a Ngāi Tahu Takiwā.
- The scale of investment required in Dunedin over the next ten years requires a substantial uplift in capital works delivery which will be difficult to achieve. While a larger three waters entity may also struggle to deal with this uplift in delivery requirements, it will have an increased level of resourcing which may be able to improve lead times and coordination of capital works between districts which may improve delivery.
- While DCC is likely to be able to borrow enough to fund the required investment in three waters infrastructure, the amount that it will be required to borrow will impact on its ability to borrow to fund other activities, or to respond to emergencies.

### Risks



- If DCC opts out while other councils opt in, the ability to attract staff or deliver its capital works programme will be further diminished as it will be a small organisation competing with much larger entities. This may also impact on the cost of completing work in Dunedin.
- Any incentives that come with the current reform process will not be available to councils if they opt out of the process. Further, while the costs of transition to the new entities will be covered by the government as part of the current reform process, it is possible that councils that later opt to join any three waters entities may face costs to join or transition to these entities.
- The risks and challenges with future water service delivery in Dunedin would be significantly increased if the other councils in Otago Southland and the South Island more generally opt in to the reforms.





## **Preparing for change**

### **Challenges and opportunities**

The transfer of three waters assets to a new three waters entity in Otago-Southland (or a larger geographical region to be determined) will not be without challenge for DCC, or any of the other councils. Many of these challenges will be consistent across all of the existing councils, and these are outlined in the section on “common issues”. These issues primarily relate to the need to establish new processes and relationships to ensure investment planning and Council’s regulatory functions continue to operate smoothly.

DCC also has some unique challenges which will likely need to be addressed prior to any transition. These primarily relate to responding and adapting to climate change and private water races.

#### ***Adaptation and response to climate change***

Dunedin is home to perhaps one of the most publicised suburbs impacted by climate change in New Zealand, being South Dunedin. South Dunedin is a low lying suburb which is home to over 10,000 people as well as being a destination retail area for the city.

The land that South Dunedin is constructed on however is reclaimed coastal wetland, and as a consequence it has high ground water and can be prone to flooding. In addition to the issues regarding flooding, it has a high proportion of poor quality housing.

The issues with South Dunedin are well documented, with flood events being a regular occurrence. It is anticipated that, without intervention, flooding in South Dunedin is likely to get worse, with rising ground water due to climate change meaning the soil is less able to absorb rainfall, and increased frequency of heavy rain events.

The level of investment in infrastructure, and the amount of work regarding community resilience and urban planning to address the future for South Dunedin is substantial. In order to attempt to address some of these issues, Dunedin City Council and Otago Regional Council are working together on a South Dunedin Futures programme.

We understand that this joint focus has, at times, being challenging to manage. The transfer of three waters responsibilities to a new water entity is likely to increase the extent of these challenges, as it will introduce a third party into any discussions. DCC will need to continue to be involved in any discussions, as the issues also impact transport, community facility and urban planning in the City (to name a few).

#### ***Private water courses***

Dunedin City Council’s RFI disclosed that it owns approximately \$985 million of stormwater reticulation assets (by gross replacement cost). A large portion of these assets are particularly old and are likely to need replacing or upgrading in the near future due to either their age, or their service performance (as may be the case for stormwater infrastructure servicing South Dunedin for example).

Based on our discussions, we understand that it is likely that this represents only around half of the actual stormwater network within Dunedin, with the remainder of the stormwater network being in the form of private water courses running throughout the city.



Currently the operations and maintenance of these private watercourses is the responsibility of the homeowner, with that responsibility beginning and ending on the property boundaries. This is often not well understood by property owners, and additionally results in significant differences in the standards to which this large part of the stormwater network is maintained.

A lack of maintenance of private watercourses can lead to issues not only for the homeowner, but also for properties further downstream in the water catchment.

We understand that Council has debated whether or not to bring the management of private water courses under its ambit for some time, and that this could have a significant bearing on the total cost of stormwater in the city (and likely for any water entity). Currently approximately \$3.5 million per annum has been allocated towards resolving issues for the worst of the private watercourses.

### Common themes

Through our various onsite visits to councils to identify the impacts of water reform on each organisation, we have identified the emergence of a number of consistent themes that apply to all councils (although some may apply to DCC more than others) which are listed herein.

Typically these are issues which we consider can, and should, be addressed as part of any transition process, but which are sufficiently large to warrant specific discussion herein.

### Ensuring investment in small communities is maintained

One of the key concerns that emerged through our early conversations with stakeholders, and our subsequent site visits to councils in the Otago and Southland regions was the need to ensure that small communities continue to see a fair share of investment. This concern is particularly pertinent when considering an entity that encompasses a larger geographical area than the Otago and Southland regions on their own.

This is a key entity design consideration that we believe should be addressed before a council agrees on whether or not it wishes to opt into the wider reform. At the time of writing, the Government has not made it clear what specific mechanisms will be introduced to ensure that this occurs, however we understand that:

- Proposals include the establishment of a Governor Representative Group, which will include representatives from Iwi and Councils and will influence the overall governance of the entity and will set strategic and performance objectives for the entity.
- New planning regulations may be introduced to require a level of coordination between councils and the proposed entities in the planning process. These may address issues regarding the timing and quantum of investment in growth infrastructure, though it is unclear how these may relate to renewal or level of service investment.

Councils may wish to further investigate other potential mechanisms to ensure small communities get a fair share of investment. This may include the development of enforceable KPIs or investment quotas for regions, although care needs to be taken to ensure that the new entity is still empowered to make its own investment decisions and obtain efficiencies.



### Operating model considerations

The operating model of any three waters entities established through the Government's reform programme will be determined by the Government after consultation with the sector, and accordingly, we have not suggested or proposed an operating model here. However, in engaging with the Government through this process, we consider it important that Council considers the following key features of any such proposed model.

- The governance structure and the mechanisms in place to ensure that councils have some say in the management and governance of the entity, and that planning and investment decisions are coordinated.
- The mechanisms in place to ensure investment is fairly distributed between small and large communities.
- How the entity may ensure that expertise remains local, whether through flexible workplaces, or district offices.
- How relationships between councils will be established to ensure that there is open sharing of information and to encourage collaboration and coordination of activities and investment.

It is clear from our discussions with councils in the Otago and Southland regions, as well as from the information released from the Government to date, that in addition to three waters technical expertise, a new three waters entity will need to establish functions or roles relating to:

- District and spatial planning to the extent that the new entity will most likely be involved in spatial planning within the regions in which it operates.
- Consents to the extent that the new entity would likely need to be involved in the process for issuing and granting resource and building consents, particularly in the case of residential development and connection to infrastructure, development agreements, and the potential vesting of assets.
- Council relationship managers or partners to ensure coordinated responses and ongoing working relationships are maintained.
- Customer services.
- Human resources.
- Property and fleet management.
- Legal and regulatory roles.
- Finance and business reporting.
- Health and safety and risk management.
- Communications, engagement, and marketing.
- OIA/LGOIMA responses.

Importantly, from our onsite interviews to date, we consider that it is unlikely that many of the roles discussed above will be able to be filled by existing council resources (that is they are predominantly new, rather than transferred, roles). However, the process for transferring the three waters service delivery functions, and everything that goes with that, will likely be protracted and will need to be carefully managed.



### Competing with large water entities for resources

The Otago-Southland region, and New Zealand at large, is currently facing a shortage of skilled engineers, with most councils in the two regions having to offer a premium above market rates to attract skilled staff. The Otago-Southland regions currently have approximately 12.8% of positions in three waters vacant.

While most engineers involved in three waters will transfer to a new entity, councils will still require skilled engineers to deliver roading, waste, and other major capital works. In many cases, engineers in councils are involved in many different projects and activities. If councils are no longer responsible for three waters, these staff may no longer find their roles are appealing or challenging.

Large water entities may be able to offer more career opportunities, choices in work location, and more challenges for engineers. This additional competition may make recruiting and retaining skilled engineering staff harder for councils than it already is. However, larger entities are also more likely to be able to develop expertise within the sector, which may ease the longer term skills deficit.

### Systems and processes that need replicating

The delivery of three waters services typically supports, or is supported by, a range of Council systems and processes that are likely to need to be replicated into a new three waters entity. The processes that we have identified to date have been listed below, however it is unlikely that this list is comprehensive.

- Building and resource consent applications where it is essential to identify where underground services exist in relation to the proposed development/construction. Currently it is common for developers or builders to meet with Council staff (which may include three waters engineers) to discuss applications.
- Building and resource consent applications where the installation of infrastructure is involved and needs to be consented to by Council typically draws on expertise from the three waters staff.
- Access to GIS data and asset information held by the engineering teams/three waters engineers by other parts of Council will need to be preserved. Planning and consents typically need to access this information from time to time and it is not uncommon for these teams to have direct access to this information.
- Customer services needs to be managed, including consideration of whether there can/should be a single point of contact for a ratepayer, and if not the development of a clear information campaign.
- Processes for obtaining LIM and PIM reports from councils and three waters entities will need to be developed, as councils may no longer hold up to date information (or institutional knowledge) about properties or may not have the expertise to be able to assess that information.
- If stormwater assets are transferred, there will be a need to develop relationships and processes for the roading and urban planning teams to work with the three waters entity in stormwater design and hydraulic modelling. These may also require the inclusion of other areas of Council such as parks and open spaces.



### Approval for vested assets

When developers install infrastructure to service a new development area they will typically “vest” that infrastructure in the council once title has been granted for the development (and the development is complete).

As part of this process, resource consent applications, and some building consent applications require the proposed infrastructure to be reviewed by Council’s engineers to receive “engineering approval”. This is a formal sign off to certify that the proposed infrastructure is of an appropriate size and standard to be connected to Council’s network and to service the proposed development.

Once the infrastructure has been installed (and during its installation) councils will also typically carry out inspections to ensure that the infrastructure is consistent with the engineering approvals that were granted. These inspections may be carried out by at the same time, and by the same people, that are undertaking inspections of other infrastructure in the development.

In the event that a new water entity takes ownership of any vested three waters assets, processes will need to be developed to transfer the responsibility to grant engineering approval for three waters asset to the new water entity. This may result in delays to the granting of resource consents or additional costs for developers.

### Mixed use or strategic property

If three waters assets are transferred to a new service delivery entity, one of the key pieces of work that will need to occur as part of the transition will be the identification of which assets should transfer to the entity. Any such transfer will clearly involve the underground pipe network and above ground treatment assets that can be easily identified as being critical to the provision of three waters services.

However, in many cases councils may have assets that are designated as being used for three waters activities, but which have either a mixed use, or have little to no use in the delivery of three waters services. Such assets may include reserve land used for water catchment, or land upon which treatment plants (current, decommissioned, or earmarked for the future) are sited.

There may be strategic reasons why councils may wish to retain some of these assets even when the three waters activity is transferred. In some cases this may mean that land may need to be formally subdivided into separate titles or redesignated for an alternative use. In addition, councils may need to seek legal advice regarding the future use of land acquired under the Public Works Act or bequeathed.

### Civil defence and emergency management

Councils are responsible for coordinating civil defence responses within their districts and communities. Engineers are typically heavily involved in the civil defence and emergency management teams within a council and are highly valued for their knowledge of the networks and potential areas of risk.

If the staff that are responsible for the delivery of three waters services are transferred to a new three waters entity, it will be essential that a level of expertise remains local to each district to maintain emergency response capability. While civil defence operates in a consistent manner nationally, and uses a common response framework, local knowledge of networks is critical in ensuring an efficient and effective response.





Joint training between the three waters entity and councils should also occur to facilitate closer relationships and a more coordinated response. We understand that territorial authorities already undertake joint regional civil defence training which includes regional councils and would anticipate that three waters entities would take part in this.

### Council as a water user

In many cases councils can be high users of water in their districts. Councils often use large volumes of water to fill and operate swimming pools, or to irrigate sports fields or public parks. While some councils charge themselves for the consumption of this water (effectively through an internal transfer from a parks budget to a water budget) this charging usually involves no actual transfer of cash out of the council.

When a new water entity is established, councils will have to pay the new three waters entity for any water that they consume. This cost, particularly for the irrigation of fields and reserves, could be significant. Councils may therefore wish to consider other options for the supply of water to their parks and reserves (such as the installation of private bores).

### Transition planning

We anticipate that the transition process to the Government proposed option will be through a centrally lead and prescribed process. We would expect that it would require resourcing from the councils and contain workstreams that are likely to include the following:

- Transition management
- Assets & Infrastructure
- Service Delivery
- Communications & Engagement
- Iwi/Māori
- Governance
- ICT
- Finance
- People & capability

There are however a number of actions that it would be useful to undertake in the event that Council (and its regional partners) wishes to “opt in” to the reform programme, or alternatively to “opt out” but move into an Otago-Southland entity that would benefit Council regardless of the Government programme. These include:

- Complete a strategic review of property held by the three waters team to identify property that should remain with the organisation and property that could transfer to a new entity. This may include subdivision of parcels of land.
- A review of long term plans to reprioritise projects both within and outside of the three waters space and consideration of whether any projects should be advanced or delayed to ensure that they get completed by a new entity.
- Developing processes and systems that will be needed to enable effective working relationships with a new water entity.



- Managing communications with staff and ensuring that staff have a clear understanding of the transition process and what it may mean for them.
- Consideration of short and long term resourcing, including a post three waters operating structure, and the resourcing of three waters during the transition to a new entity.
- Preparing an engagement and communications plan to communicate the impact of the change to the community.



## Appendix A Sensitivity testing

Our financial modelling relies on a number of different assumptions which may alter the comparative performance of each entity. While we believe that the assumptions used are appropriate, this appendix examines the impact of these assumptions on the debt and household charge profiles for both DCC and the three waters entity.

### Asset values and capital delivery

#### Minor impact

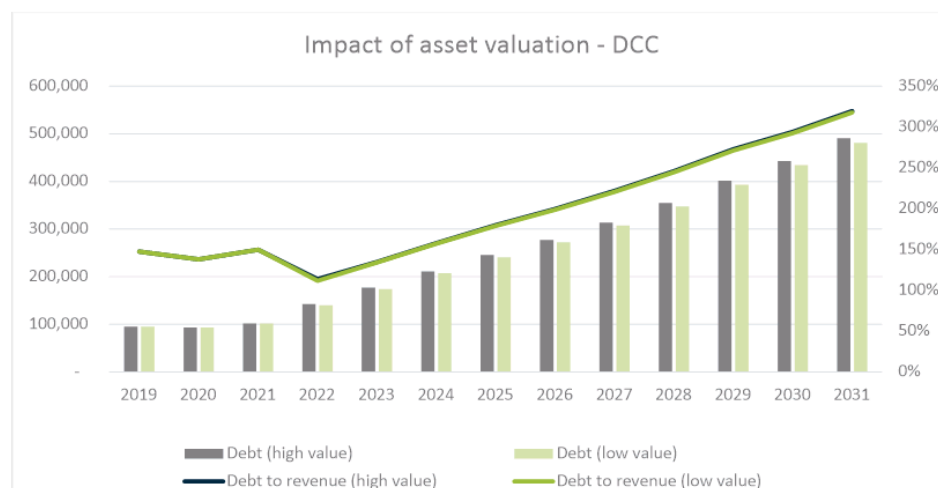
Our modelling adopts asset values at the mid-point of the valuation scale provided in completed RFIs. Our decision to use the high end valuations is based on:

- Comments in the WICS report that New Zealand's assets are typically under-valued by international standards.
- Corroborating evidence based on the difference in Dunedin's unit rates for asset replacement values when compared to unit rates for the same assets elsewhere in Otago-Southland. Dunedin's asset valuation is the most recent in the group, and Dunedin City Council have suggested a high level of confidence in their asset valuations through the RFI process.

The sensitivity analysis compares the outcomes if valuations at the low end of the scale are used.

The analysis here can also be used to understand the impact of under-delivery of planned capital works at a council or entity level (the "low valuation scenario").

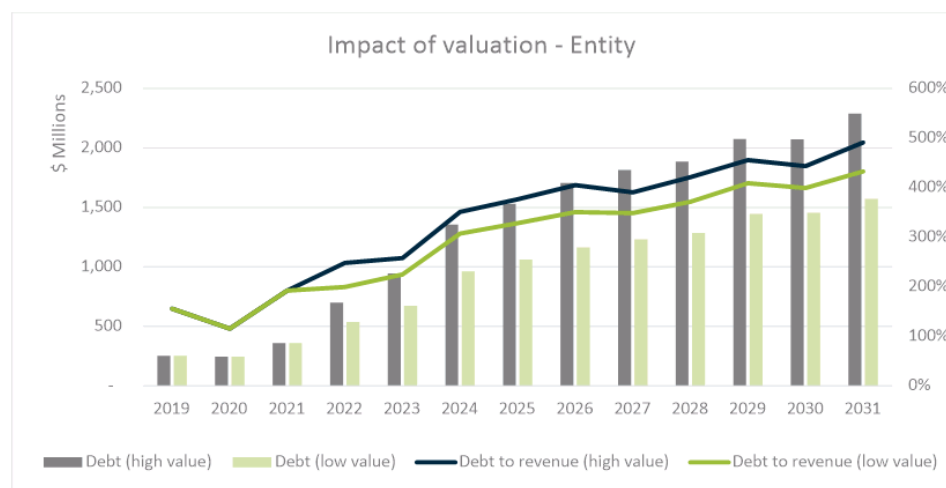
As shown in the figure below, there would be no significant impact arising from a difference in asset valuations for Dunedin. This is primarily due to the high level of confidence expressed by Dunedin in the valuation of its assets (with only a 1% uplift between its low-end and high-end valuations).



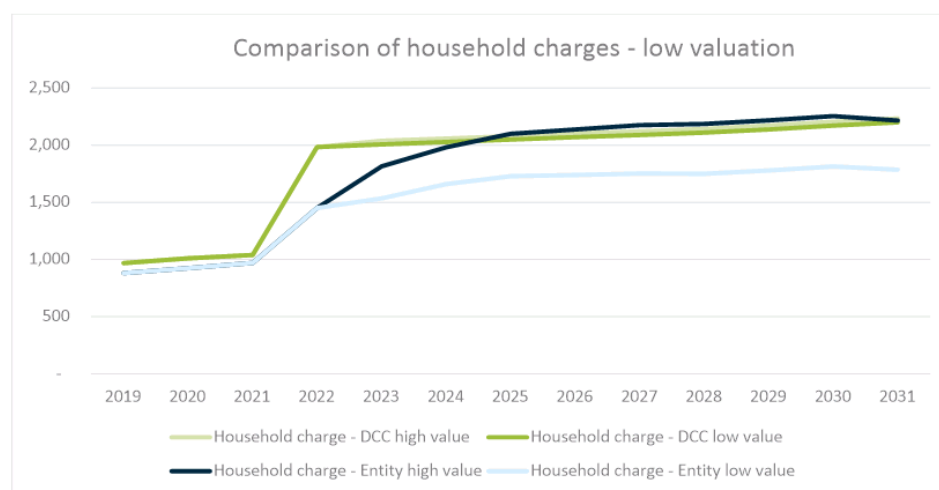




However, due to the wide range in confidence in asset valuations outside of DCC there is less certainty with a three waters entity. A three waters entity's debt would fall between \$1.57 billion and \$2.3 billion, and its debt to revenue ratio between 491% to 433% if assets across the Otago and Southland councils should be more correctly valued at the low end of the scale. Debt still remains a constraint for a three waters entity under this scenario, with the debt to revenue ratio exceeding even the Moody's debt to revenue requirement of 430% (which would result in a credit downgrade from the current LGFA credit rating).



The difference in valuation used also has a limited impact on whether the three waters entity presents as the most affordable option or not for Dunedin. Under the scenario where all asset valuations in the Otago and Southland regions are understated (and the high end valuations are correct), three waters services may be cheaper to be provided by DCC under the status quo, however there is a broad range of scenarios (including our base case mid-point) where the three waters entity presents as being potentially more affordable for DCC ratepayers than DCC continuing to provide three waters services itself.





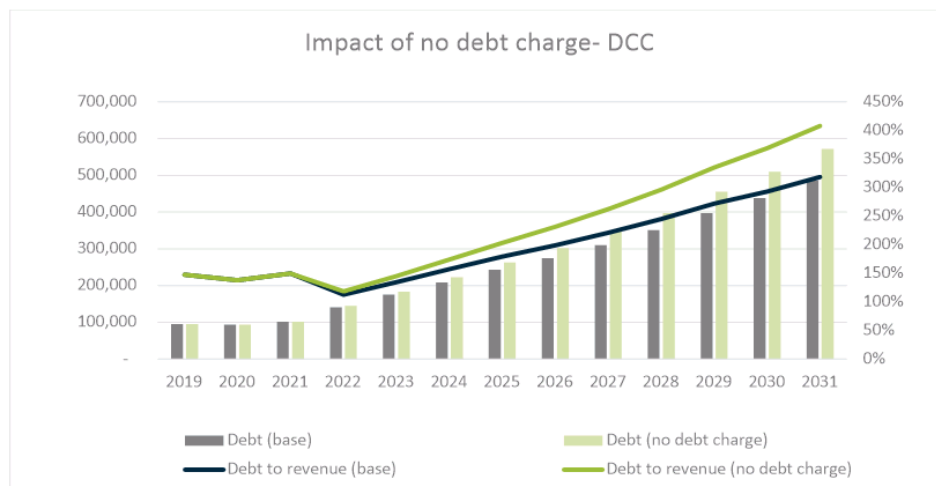
### Debt repayment

#### Moderate impact

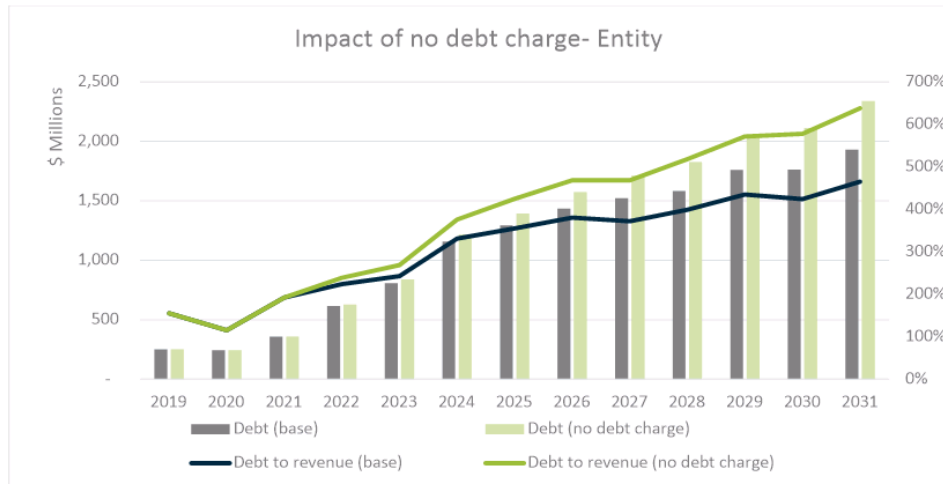
Our modelling includes an annual recovery from customers for the repayment of debt over a 30 year term. This is unusual in local government, particularly when depreciation is fully funded, however it has been adopted to try and ensure that a three waters entity (or indeed a council) continues to maintain a certain level of borrowing capacity.

This scenario tests the impacts on debt and household charges if the debt repayment charge is removed.

As shown in the figure below, DCC's forecast three waters debt would increase from \$485 million to \$571 million, and its three waters debt to revenue ratio would rise from 319% to 408% if it did not introduce a debt repayment charge. This would create additional pressure on investment.

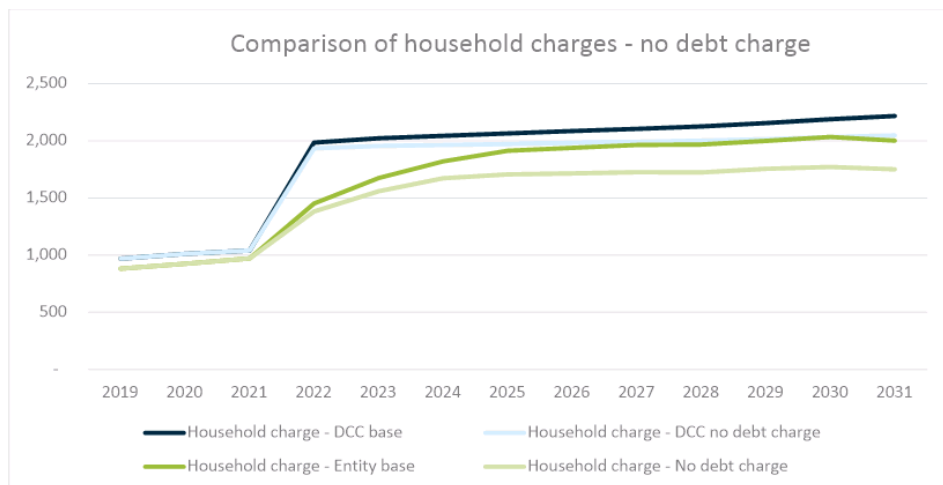


Similarly, a three waters entity's debt would increase from \$1.9 billion to \$2.3 billion, and its debt to revenue ratio from 465% to 638%. While our base case shows debt being a major constraint on the ability for a three waters entity to invest in infrastructure, without the introduction of a debt repayment charge of some description these problems would be further exaggerated.



The introduction of a debt repayment charge does have a significant impact on household three water charges. The introduction of such a charge will result in charges that are 8% higher for DCC, or 14% higher in the three waters entity than they would otherwise be. Importantly though, over time this difference decreases as the debt repayment charge results in a reduction in interest costs.

Importantly, our sensitivity analysis shows that even with the introduction of a debt repayment component to its charging, it is likely that a three waters entity would have lower average household charges than DCC would if it did not introduce such a charge.





## **Appendix B      Methodology**

### **Review of RFIs and asset registers**

As a consequence of signing the Government's Memorandum of Understanding in July 2020, all councils in the Otago and Southland regions were required to return a request for information regarding the delivery of three waters services. The completed responses were provided to the Government, and Morrison Low at the end of January 2021.

Morrison Low and WSP reviewed the content of the RFI responses to identify challenges and opportunities for service delivery in the regions.

The content of the RFIs was predominantly investment and financially driven, with additional information also provided about compliance to various regulatory standards and asset performance. Most information was quantitative in nature, with only limited qualitative data included.

Councils were asked to apply confidence grades to most of the information contained within their RFIs. These confidence grades ranged from A1 being extremely reliable, through to D5 which is effectively a guess. The level of confidence that councils expressed for different pieces of information varied widely between councils, and it was also clear that each council adopted a different approach to applying a confidence grade to information (this was an exercise in subjective judgement). Where we have relied on information from RFIs in our analysis, we have made no adjustments to reflect varying levels of confidence in the underlying data.

Asset registers were reviewed, standardised and cleansed to reduce errors. Data from asset registers was analysed and used on various reports and queries of the combined asset register database.

### **On site interviews**

Morrison Low conducted on site interviews at each council in the Otago and Southland regions during the course of our three waters review. On site interviews were conducted at DCC on 19 January 2021, with additional follow up video conferences taking place in February 2021.

During the onsite visits and subsequent video-conferences, we interviewed:

- Sandy Graham (Chief Executive Officer)
- Simon Drew (General Manager Infrastructure and Networks)
- Gavin Logie (General Manager Finance and Commercial)
- Tom Dyer (Group Manager 3 Waters)
- Simon Pickford (General Manager Community Services and Development)
- Robyn McLeod (Head of Human Resources)
- Nicola Pinfold (Group Manager Community and Planning)
- David Bainbridge-Zafar (Group Manager Property Services)

During the onsite interviews we sought to understand what the qualitative impacts of three waters reform would be on Council. This included understanding where three waters services provided services to, or received services from, other parts of the organisation, and what the major challenges and opportunities are for the district. We also sought to identify the processes and interaction points that may need to be replicated in the event that three waters services are provided by an aggregated delivery model.



## Financial modelling

Our modelling has used the mid-point between the “low” and “high” estimates for asset replacement cost that were included in each council’s RFI responses. This is consistent with commentary from the Water Industry Commission of Scotland, who in their report for the New Zealand Government (the WICS report)<sup>16</sup>, indicated that they believed assets in New Zealand to be significantly under-valued.

Our financial model predicts the potential future household charge based on the total funding requirements under our standard modelling assumptions, and assumes that:

- The proportion of revenue collected from households, commercial businesses, fees and charges, or other revenue remains the same throughout the modelling period (i.e. if 75% of total water revenue is collected from households in 2019, then it is assumed that 75% of water revenue will be collected from households in 2031 as well).
- Any new connections to the water network will also connect to the stormwater and wastewater networks (or at least pay the same charge as a connected property).

## Assumptions

- Planned capital investment has been determined by reference to the investment plans set out within DCC’s completed RFI. We have used the “constrained” investment plans, and where appropriate have adjusted these to reflect:
  - Potential under-valuation of assets and unit prices for asset replacement (as outlined below).
  - Additional renewals investment as outlined below.
  - Additional costs for the upgrade of wastewater treatment plants to meet future discharge standards.
- Asset values - we have applied the mid-point replacement costs for asset values from each council’s completed RFI. This reflects an uplift in values compared to those used in annual reports or asset management plans. This uplift has also been applied to the estimated cost of future capital expenditure, and depreciation charges.
- Savings – operating and capital savings derived by the entity are based on the WICS report which estimates potential capital expenditure efficiencies of 45% after 30 years, and between 10 – 40% operating efficiencies in 10 years (we use 20% over 10 years). This has been turned into annualised capital and operating efficiencies of 1.25% and 1.84% respectively.
- Compliance costs – we have included a 16% uplift in operating expenditure for the delivery of drinking water based on our previous experience and analysis of post-havelock north incident costs within Hawke’s Bay.
- Renewals – we have assumed that all councils will have a renewals spend that is the greater of:
  - The estimated renewals spend from completed RFIs.
  - Our estimated required renewals based on remaining useful life of pipes.
  - 80% of annual depreciation expense.

<sup>16</sup> Water Industry Commission of Scotland, *Economic analysis of water services aggregation: Report prepared for the Department of Internal Affairs*. Retrieved from [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/Economic-analysis-of-water-services-aggregation-Stage-One-Report.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/Economic-analysis-of-water-services-aggregation-Stage-One-Report.pdf) on 6 April 2021



This helps provide a like for like comparison across options and between Councils, and also as we expect that an economic regulator would bring greater focus to areas such as depreciation and renewal expenditure.

- Depreciation – depreciation is calculated based on the average depreciation rate used across the councils of the Otago and Southland regions for each water type. Depreciation is fully funded in our model in order to provide a like for like comparison across options and between Councils, and also as we expect that an economic regulator would bring greater focus to areas such as depreciation and renewal expenditure.
- Timing – we have assumed that a new entity would take over operations from 1 July 2024. We have assumed that compliance upgrades will not commence before the earlier of:
  - 2024
  - Two years prior to the expiration of the resource consent for the underlying plant.
  - 2031
- Interest – we have assumed an interest rate of 3% in our modelling.
- Debt repayment – we have assumed that an additional charge will be levied for the repayment of debt, as the entities (or indeed councils) would otherwise reach debt limits rapidly. We have assumed that this charge is based on a 30 year repayment period for debt.
- Stranded costs have been estimated using Council's disclosed overheads charges to three waters activities and are based on our high-level estimates of costs which may be released if three waters activities are removed from councils. These estimates are based on discussions with councils and do not include detailed financial analysis of overhead allocations.

#### **Ngāi Tahu Takiwā**

In comparing the future household charges for the Ngāi Tahu Takiwā against the projections for Otago and Southland it should be noted that we have not undertaken detailed modelling of the costs and benefits of either Ngāi Tahu Takiwā model:

- The projections for Ngāi Tahu Takiwā do not include additional costs for compliance with increased enforcement of drinking water standards – in Otago Southland we allowed for 16% of existing drinking water operating costs as an additional cost.
- The projections for Ngāi Tahu Takiwā also do not include additional costs for the repayment of debt over time (without which a three waters entity was constrained in its ability to invest in Otago and Southland) – household charges in Otago Southland would be \$1,750 if this debt charge was not imposed.
- The projections for Ngāi Tahu Takiwā do not include organisational costs or efficiencies from three waters aggregation. In Otago Southland, the net impact of this was a 6% reduction in operating costs by 2031 when compared to simple aggregation and we would expect the savings to be greater for a Ngāi Tahu Takiwā model

Our estimate is that the net impact of the above is that a Ngāi Tahu Takiwā model will have a lower average household charge than an Otago Southland entity by approximately the amount of savings that the entity could generate due to efficiencies.



## Appendix C Assumptions regarding entity design

This report has adopted the following assumptions regarding entity design. These are based on communications from central government, along with the principles and objectives for reform from the Otago and Southland councils. In addition to outlining what the assumption is, we have also described below the impact on our modelling of that assumption being wrong, and the source of the assumption.

In some cases, we would anticipate that if the proposed entity does not address the key assumption, or the underlying problem that our assumption is seeking to address, then it would not be an acceptable model for the councils.

Issue	Assumption	Source for assumption
<b>Ownership</b>	The entities will be publicly owned. Any ownership in the entities by councils will be unlikely to have any beneficial rights associated with it.	Government information
<b>Governance</b>	Entities will be governed by professional, competency based boards. Mechanisms will be put in place to ensure that Council and mana whenua have a role in governance.	Government information
<b>Assets</b>	The entity will be asset owning, and three waters infrastructure currently owned by councils will be transferred to the new entity.	Government information
<b>Debt</b>	All existing three waters related debt will be transferred to the new entities.	Morrison Low assumption based on asset transfer. Would undermine proposals if this was left out.
<b>Stormwater</b>	The provision of stormwater services, and associated assets (other than roads or regional council flood protection assets) will be transferred to the new entity.	Latest advice from Government, also a clear desirable outcome based on conversations with councils
<b>Revenue and charging</b>	A single charging mechanism/approach to be applied to all customers of the water entities (e.g. a single rate).	Implied in latest Government communications "Cost sharing across communities"





Issue	Assumption	Source for assumption
<b>Economic regulation</b>	An economic regulator will be established (or set up within an existing agency) to regulate the water sector and seek operating and capital investment efficiencies.  Based on similar organisations in other jurisdictions and industries in NZ it will not only regulate prices, but also investment and investment planning	Implied in latest Government guidance "Economic regulation"
<b>Investment planning</b>	Legislative mechanisms to require entities to work with councils. Required to invest in infrastructure that supports spatial plan.  Entity will be empowered to make its own decisions regarding investment for compliance or renewal of infrastructure but may have to adopt LTP investment plans (particularly for growth) on establishment.	Morrison Low assumption
<b>Investment returns (dividends, interest, or overhead reimbursement)</b>	We have assumed that there will be no dividends to owners, or any other return to council owners (whether to compensate for stranded overheads or otherwise).	Morrison Low assumption
<b>Borrowing</b>	We have assumed that the entity would not be able to obtain borrowing at a rate that is any more favourable than the current rates afforded to councils that are members of the LGFA	Morrison Low assumption (note Government correspondence assumes a more favourable rate is available).
<b>Taxation</b>	We have assumed that the three water entities would have the same tax status as local authorities (i.e. they would be exempt from income tax)	





## Review of WICS data

Dunedin City Council

August 2021



**Document status**

Ref	Approving Director	Date
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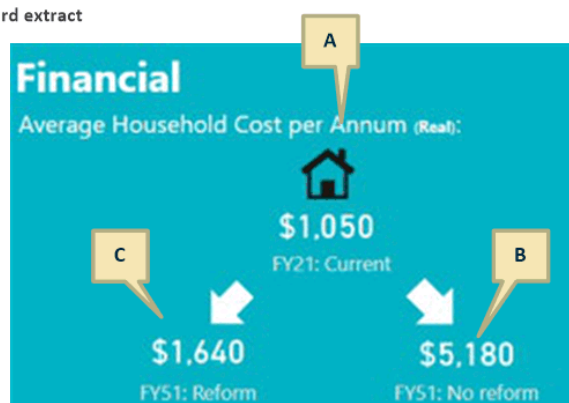


## Executive Summary

This report provides commentary to provide councils support to interpret WICS calculations and how those relate to your existing council information, as well as a comparison of the approaches adopted by WICS and Morrison Low in the analysis of potential future costs with and without water reform. The key analysis of your council dashboard is of items A, B and C in Figure 1 below.

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges
- **B** – represents the projected future household charge in 2051 without reform
- **C** – represents the projected future household charge in 2051 for **Entity D** (which is the entity that Dunedin City Council has been grouped into under the proposed reform), with water reform.

Figure 1 WICS dashboard extract



Given differences in the size and design of water services entities, we have not compared projected three waters charges for water services entities under the Morrison Low and WICS models.

Our review of the modelling completed by WICS, which informs items A, B and C of Dunedin City Council's ("DCC") dashboard identified a number of key assumptions that have been applied by WICS as having a significant impact on the projected household charges under each scenario, specifically these are:

- The assumptions used by WICS regarding the proportion of three waters revenue that is received from households, which has been assumed by WICS to be 70%, but which is 66% for DCC.
- The approach WICS has taken to determine the number of household connections, which has been to divide the connected population by 2.7. WICS assumes that there are only 44,994 household connections in DCC, compared to the 44,332 water connections disclosed in its completed RFI.
- The level of investment that WICS has assumed is required over the next 30 years. WICS has assumed a ten-year investment requirement of \$1.86bn, which is over double DCC's own estimates.
- The approach used by WICS to estimate future revenue requirements. WICS determined future revenue requirements by reference to the amount of debt that DCC would need to borrow to fund its full investment programme. Revenue is determined based on the amount needed to maintain a three waters debt to revenue ratio of 250%. Councils debt capacity is not measured at an activity level, given the lower borrowing requirements of other activities, a ratio of at least 500% is likely more appropriate.

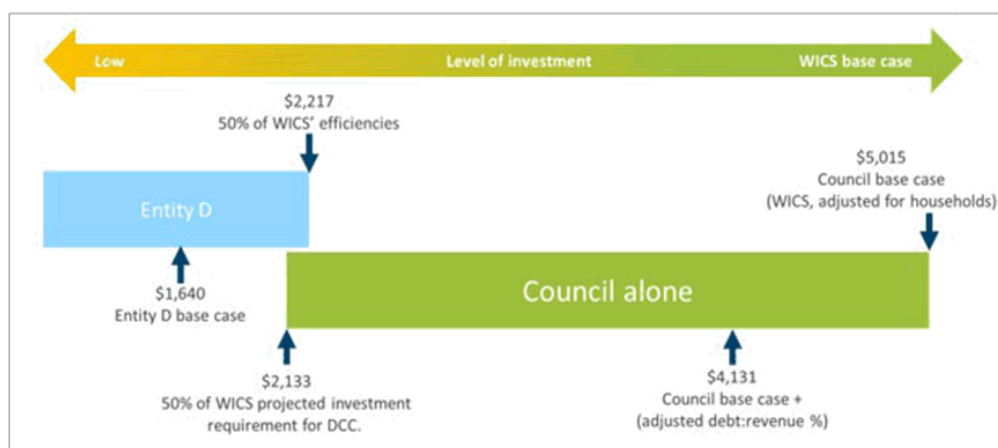


- WICS have assumed that Entity D will be able to achieve operating and capital efficiencies totalling 53.3% and 50%, respectively, over a 20 year period (from today).

To test the impact of these assumptions on the household cost projections, we have undertaken high level sensitivity analysis using the WICS models, as shown in Figure 2 below. This included:

- Adjusting the revenue from households and household connection values in all scenarios tested.
- 50% of the projected investment requirement in both the DCC and Entity D models.
- A higher (500%) debt to revenue ratio in the DCC model.
- 50% of the projected operating and capital efficiencies in the entity D model.

**Figure 2 Summary of sensitivity analysis**



In summary, the sensitivity testing showed that:

- When the underlying assumptions regarding percentage of revenue from households and number of connected properties are adjusted, the forecast charges for Dunedin are likely to be similar to those included in the WICS reports for Council.
- The scale of the difference between the entity and council scenarios may be somewhat less than WICS analysis indicates.
- While there may be instances where DCC's projected household charges are lower than those that may arise under an entity, these instances occur when DCC's investment is less than the investment requirement estimated by Morrison Low in its work for the Otago-Southland councils.

Overall, we note that while the projected household charges from the WICS analysis may be the subject of some contention, in our view they are directionally accurate. That is, household charges will increase in the new regulatory environment, and DCC ratepayers are likely to have lower household charges under the proposed entity delivery model than through continued council service delivery. This is consistent with Morrison Low's earlier analysis undertaken for the Otago and Southland councils.



## **1 Introduction**

The Department of Internal Affairs (DIA) has commissioned specialist economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and inform policy advice to ministers.

In mid-2020, a first stage of evidence was commissioned on the potential economic benefits of aggregating water service delivery entities in New Zealand. This was produced for DIA by the Water Industry Commission for Scotland (WICS) using publicly accessible council information and was released in December 2020. Between October 2020 and February 2021 a nationwide Request for Information (RFI) took place across all 67 councils.

This data has been used to inform several workstreams including the second stage of economic analysis found in the WICS Phase 2 report. This latest information has now been released to councils through the 'Council dashboard' and supporting reports.

This report is based upon Morrison Low's review of public WICS reports and the DCC model provided by WICS. In some cases, the approach or assumptions used by WICS are unclear; this report focuses solely on the information we were able to access and interpret.

It is also important to highlight that there is no connection between the WICS analysis and the government's wider support package including calculation or allocation of the 'no-worse off' and 'better off' parts of the package.

### **1.1 Three waters reform**

While this report concentrates on the financial analysis recently provided in the DCC dashboard, it is important to highlight that this is only one part of the wider suite of information that councils need to consider when looking at the proposed reforms. The impacts, benefits, issues and risks of reform are wider ranging than just the financial impacts.

In Morrison Low's impact assessment report, it outlined a range of broad factors that also need to be considered in making decisions about three waters reform. At a high level, these include:

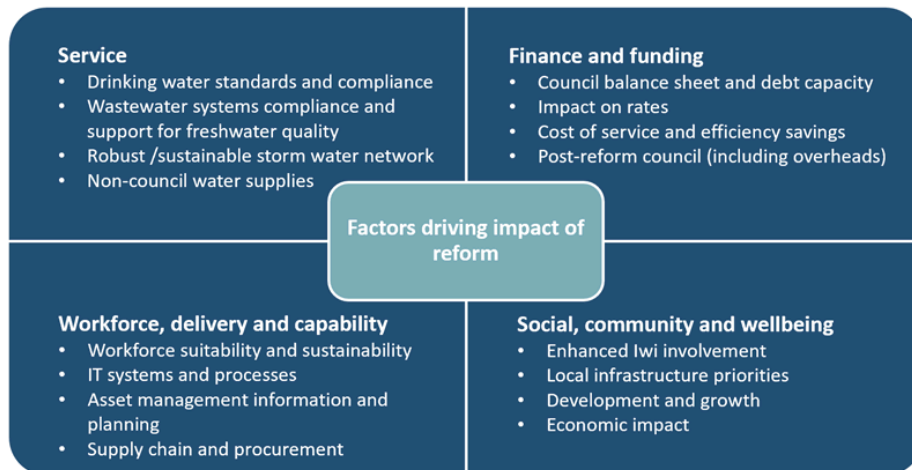
- Governance
- Compliance and levels of service
- Infrastructure investment
- Financial outcomes and resilience
- Capability and capacity
- Risks of opting in and out of reform
- Challenges with transition

Additionally, LGNZ has developed an impact matrix shown in Figure 3 below which echoes these considerations.



Figure 3 Understanding the impacts (LGNZ)

## 3W impact matrix



Considering these wider aspects of water reform helps to ensure that benefits, issues and risks around levels of service, capability & capacity, prioritisation of investment and impacts in communities and councils are also considered alongside the financial aspects. In some cases, there are compelling arguments for reform that are not purely financial, and similarly, there are a number of challenges associated with reform that do not transpire under a continuation of the current service delivery models.

Importantly however, the work previously undertaken by Morrison Low and the work undertaken by WICS are consistent in the message that a step change in investment is required for three waters service delivery across the country, and that this will require a change in the way that services are delivered.

As a result of the three waters work Morrison Low has undertaken across New Zealand over the last 18 months, including the work that Morrison Low has undertaken for Otago and Southland Morrison Low's view is that the likely future household costs for three waters will increase significantly for all councils as a result of meeting increased standards, regulations and satisfying a more rigorous compliance regime. Morrison Low's view of future costs may not be as high as modelled by WICS, but the direction is the same.

### 1.2 WICS Analysis

#### Scenarios

Broadly, WICS compares two scenarios:

- Aggregation of three waters services into four water services entities and the associated reforms to the regulatory, governance, management, resourcing, and policy direction that support improvements ('the whole reform package').





- No aggregation of three waters services and although in this scenario some reform takes place, for example, decisions already made to introduce a drinking water regulatory system and environmental standards, the wider reforms are not as extensive as in the former scenario.

#### *Assumptions*

The assumptions WICS have used to quantify the inputs are determined through benchmarking against the UK experience. Whilst there has been some adjustment based on council feedback the potential investment requirements and ability to deliver the same efficiency gains, both key drivers of the analysis, may not be comparable in the New Zealand context. The following material factors have not been considered in their analysis:

- funding arrangements,
- national standards,
- three waters systems (% underground, pipe material etc.),
- Treaty of Waitangi and giving effect to Te Mana o te Wai,
- population density,
- geography, location and extreme rurality and
- supply chain limitations given New Zealand's remoteness.

#### *Timeframes*

WICS have undertaken the analysis over the 30 year time horizon. Responses to the RFI across the country were not consistent, where councils did not provide 30 year information, ongoing investment in growth infrastructure is assumed at the level of the final year in the data set. Undertaking future economic analysis based on a 30 year forecast is notoriously difficult especially in the context of the quality of the existing asset data. Additionally, this assumes capital expenditure follows a linear trend however we know that investment in three waters infrastructure tends to be lumpy.

More detail of the WICS analysis including methodology, impacts and assumptions is provided in Section 2 of this report along with a comparison to the relevant council based information or data.

### **1.3 Impact on Household Bills**

WICS have used an average household charge as the key piece of information for councils and communities.

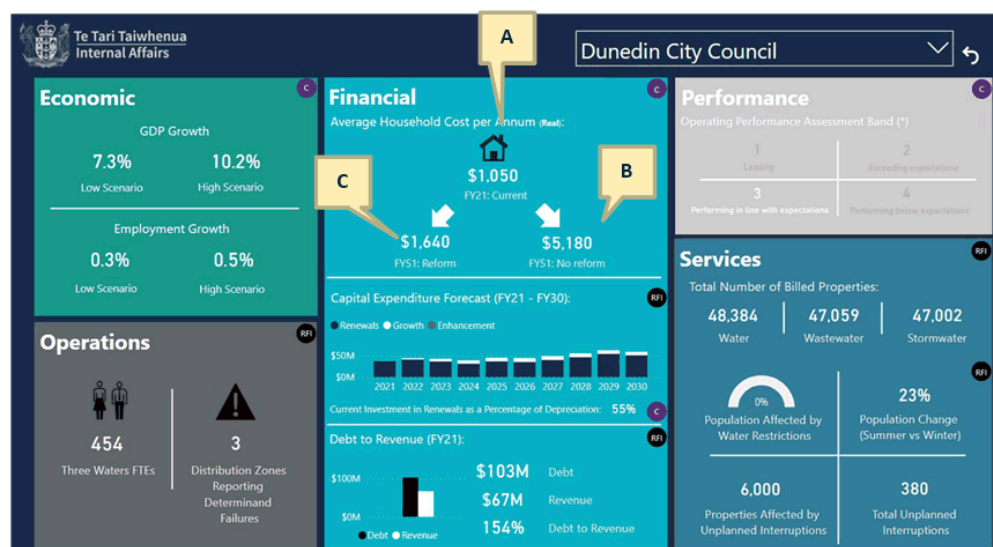
The dashboards provided by DIA present three different average household costs, represented as A, B and C in Figure 4 below:

- **A** – represents the estimated average household cost using WICS modelling approach, this is not representative of actual charges
- **B** – represents the projected future household charge in 2051 without reform
- **C** – represents the projected future household charge in 2051 under the proposed entity for your council, **Entity D**, with water reform.

These numbers are expressed in real terms, they are uninflated and expressed in today's dollars. The approach used by WICS to determine these values is outlined below.



Figure 4 DIA Dashboard



A

To estimate current household charges for each council, WICS have (A):

- Taken the starting total three waters revenue collected by the council (including development contributions but excluding grants and subsidies)
- Multiplied that figure by 70% - which is their assumed percentage of revenue derived from households. We have noted that the 70% does generally align with majority of councils, however some councils' revenue from households is higher and some lower
- Divided that figure by the estimated number of household connections, which in turn is derived from:
  - The average of the connected drinking water and wastewater populations. The model does not use actual household connection as identified in the RFI or use stormwater connections.
  - Divided by a standard "household density" multiplier of 2.7

B

The process used by WICS to estimate future household charges (B) is the same as outlined above, using estimated future revenue requirements and estimated future household connections (which allows for growth in connections).

In order to determine the future household charge WICS have:

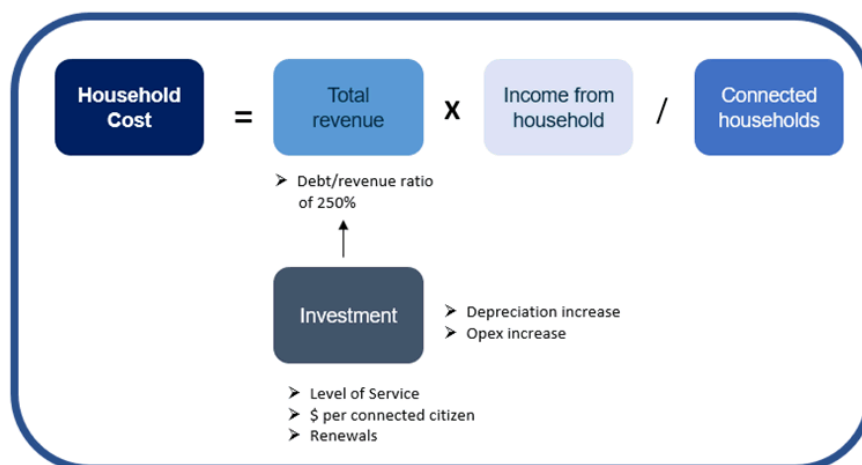
- Calculated the future required investment in growth, level of service enhancement, and renewal of assets.
  - Growth investment is assumed to be the same as disclosed in each council's RFI, with the same annual average expenditure applied across the full 30 year period if a council only disclosed 10 years of projected investment.



- Renewal investment is assumed to be 100% of the economic depreciation of assets. WICS have undertaken their own calculation of economic depreciation based on assumed asset values and lives.
- Level of service enhancement investment has been calculated using a standard approach across the country that has regard to population, land area and density. It does not reflect each council's actual investment set out in the RFIs.
- WICS have recalculated depreciation, this has increased council figures.
- Determined the impact of new investment on operating expenditure. WICS has assumed that for every \$100 of capital investment there is \$3 of additional operating costs. WICS have also included additional depreciation and financing costs for new assets.
- Determined the amount of new borrowings required to finance their modelled investment profile.
- Determined the amount of revenue that needs to be collected to ensure that councils are able to maintain a three waters debt to three waters revenue ratio of less than 250% over the modelling period. **This is the revenue number that is divided by WICS' estimated future household connections to reach the household charges at B above.**
- This revenue number typically results in operating surpluses being generated which are applied toward debt reduction.

This process is explained in Figure 5 below.

Figure 5 Household cost calculation





**C**

WICS have undertaken the same modelling to estimate the future household charges for rate payers of a council area if water reform entities were formed. The result reported in each council's dashboard (**C**) matches the projected future household charges for all councils in **Entity D** (of which the Otago and Southland councils are a part) in 2051.

Morrison Low has been provided with the economic models for the proposed water services entities. The approach used to project future household charges for water services entities is closely aligned to that used to project future household charges for individual councils. Key differences:

- Entities have been modelled with no limit on the debt to revenue ratios (or no discernible limit). This means that WICS reports show the projected debt level for **Entity D** is allowed to reach 640% of revenue by 2051. This accounts for a substantial part of the difference between the projected three waters rate for each council and **Entity D** in 2051.
- Entities have been assumed to be able to generate efficiencies amounting to 53.3% for operating costs and 50% for capital expenditure within 20 years from today. By way of contrast, within the Otago and Southland councils only Dunedin City Council has been allowed any operating or capital efficiencies and these have been modelled at a modest 2.2%. This accounts for most of the remaining difference between the projected three waters rates.
- Finally, the entity will benefit from the scale of aggregation. That is, the total revenue needs will be spread over a larger population base. The extent to which this scale benefit applies to a particular council will vary depending on population and land area.
- The total investment requirements for **Entity D**, including depreciation and renewals investment, have been derived by adding the constituent parts of each council.

The various elements of the above approach are outlined in more detail in Section 2.



#### 1.4 Comparison of key data from WICS

The following section compares data from the WICS model to that within councils RFI.

##### Dunedin City Council

The comparison highlights that WICS has modelled level of service and growth investment that is over nine times larger than the investment requirements identified by Dunedin in its completed RFI, and renewals expenditure that is 30% higher than estimated by Dunedin in its RFI. For Dunedin, this is the most significant driver of the household charge calculations produced by WICS. The assumption of staying below a three waters debt/revenue ratio of 250% also drives a higher three waters household charge than if debt/revenue was viewed at the total Council level.

##### Household Cost per Annum

Item	WICS - Council		WICS - Entity		Comments on assumptions
	2031	2051	2031	2051	
Household Charge (uninflated)	\$3,843	\$5,179	\$1,543	\$1,640	<ul style="list-style-type: none"> <li>Water Services Entity option shows a significantly lower charge per household.</li> </ul>

*Note that comparison of Council and Entity household charge projections in 2031 may be unreliable as WICS' modelling for the entity "backloads" capital investment whereas it does not apply the same approach to individual councils.*



**Investment**

Item	WICS - Council		RFI (2031)	Comments on assumptions
	2031	2051		
<b>Total investment requirement</b>	\$1,863,072,308	\$6,242,0603,292	\$763,087,440 (G1.3+G1.6+G1.9) <sup>1</sup>	<ul style="list-style-type: none"> <li>WICS model projects a significantly higher Investment need.</li> </ul>
<b>Levels of Service Enhancement &amp; Growth</b>	\$921,142,467	\$2,763,427,400	\$104,302,000 (G1.3+G1.6)	<ul style="list-style-type: none"> <li>WICS model projects significantly higher LoS Enhancements and Growth needs.</li> </ul>
<b>Renewals</b>	\$941,929,492	\$3,478,635,892	\$658,785,440 (G1.9)	<ul style="list-style-type: none"> <li>WICS model projects significantly higher Renewals requirement is needed.</li> </ul>
Item	WICS - Council		RFI	Comments on assumptions
<b>Asset Value</b>	\$6,152,235,779		\$5,958,370,000 (Low) \$6,092,500,000 (High) (J1)	<ul style="list-style-type: none"> <li>Higher asset values becomes more relevant over time.</li> </ul>
<b>Depreciation</b>	<b>\$82,064,831</b> (Assumption C75)		<b>\$22,433,020</b> (E1.25+E2.24+E2b.24)	<ul style="list-style-type: none"> <li>Depreciation is over four and a half times higher in the WICS model and continues to rise over the life of the model. Depreciation becomes more material as investment in assets increase.</li> <li>Implied depreciation rate WICS = <b>1.35% increasing to 1.75% over time. RFI = 0.37%</b></li> </ul>

<sup>1</sup> Reference to data in Council RFI spreadsheet



**Revenue**

Item	WICS - Council			RFI	Comments on assumptions
	2021 <sup>2</sup>	2031	2051	2031	
<b>Total debt</b>	\$103,000,000	\$824,908,034	\$1,981,023,474	\$266,897,264 (F3.14)	<ul style="list-style-type: none"> <li>WICS projects debt to be significantly higher than in the RFI.</li> </ul>
<b>Total Revenue</b>	\$67,000,000	\$335,253,781	\$796,931,636	\$133,714,000 (F10.62)	<ul style="list-style-type: none"> <li>WICS projects revenue to be significantly higher than in the RFI.</li> </ul>
<b>Debt to Revenue</b>	154%	246%	249%	199%	<ul style="list-style-type: none"> <li>Charges increase to bring ratio back within 250% under the WICS model so comparison not relevant.</li> </ul>
<b>Operating Surplus</b>	N/A	\$81,981,151	\$109,238,144	N/A	<ul style="list-style-type: none"> <li>Only exists under WICS model.</li> </ul>
Item	WICS - Council			RFI	Comments on assumptions
<b>Revenue from household</b>	70%			66% (F10.4+F10.19+F10.54) / (F10.62-F10.61+F10.70)	<ul style="list-style-type: none"> <li>Dunedin collects a slightly lower percentage from household charges compared to the WICS model assumption.</li> </ul>
<b>Connected household properties</b>	44,994			Water = 44,332 (A1.1+A1.4) Wastewater = 43,294 (A3.1) Stormwater = 42,248 (A3b.1)	<ul style="list-style-type: none"> <li>Number of connected properties is slightly higher in the WICS model, the charges are likely to be slightly higher than reported by WICS.</li> <li>Not as material as other assumptions.</li> </ul>
<b>Development Contribution</b>	WICS assumes that development contributions, when combined with revenue from commercial and industrial users account for less than 30% of total three waters revenue			Development contributions in 2031 equate to 1% of total three waters revenue	<ul style="list-style-type: none"> <li>Assumption not material</li> </ul>

<sup>2</sup> From DIA dashboard



### 1.5 Sensitivity testing key WICS assumptions

The impact of the key assumptions used by WICS outlined in section 1.4 has been outlined in the tables below:

- Table 1 shows the impacts on projected household charges in 2051 once the following adjustments have been applied:
  - Adjusted to the number of household connections to adopt the average of water and wastewater billed properties from Council's completed RFI.
  - Adjusted to the percentage of revenue from households to match the percentage disclosed in Council's RFI.
  - Sensitivity testing around the debt to revenue ratio assumption, to show the impact of applying a 500% ratio instead.
  - Sensitivity testing around the projected investment requirement, showing the impact of halving the amount of investment projected by WICS.
- Table 2 shows the impacts of adjusting the level of required investment and assumed efficiencies for Entity D in 2051.

**Table 1 Sensitivity testing of projected household charges in 2051 for Council**

Investment	Three waters debt to revenue	
	250%	500%
100%	\$5,015	\$4,131
50%	\$2,304	\$2,133

**Table 2 Sensitivity testing of projected household charges in 2051 for Entity D**

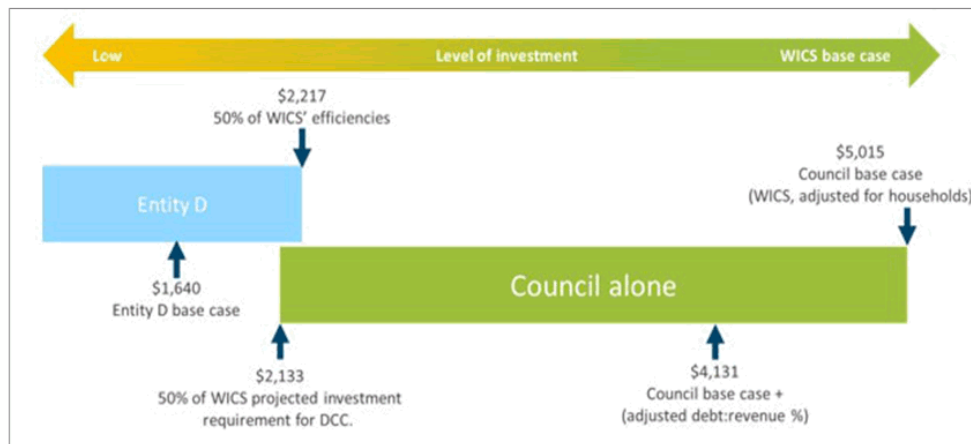
Investment	Efficiencies	
	100%	50%
100%	\$1,640	\$2,217
50%	\$927	\$1,190

The results of the sensitivity testing are represented visually in Figure 6 below.





Figure 6 Summary of sensitivity analysis



In summary, the sensitivity testing showed that:

- When the underlying assumptions regarding percentage of revenue from households and number of connected properties are adjusted, the forecast charges for Dunedin are likely to be similar to those included in the WICS reports for Council.
- The scale of the difference between the entity and council scenarios may be somewhat less than WICS analysis indicates.
- While there may be instances where DCC's projected household charges are lower than those that may arise under an entity, we note that these instances occur when DCC's investment is less than the investment estimated by Morrison Low in its work for the Otago-Southland councils.



## 2 Differences in approach – Morrison Low versus WICS

Since the production of our Impacts Assessment Report in June 2021 the Government has released the information from the Water Industry Commission of Scotland's ("WICS") review and analysis of water reform opportunities in New Zealand. At the time of writing, DIA has proposed four Water Services Entities and has released the WICS analysis that supports that proposition. This includes estimated household charges in 2051 for each Council and in comparison, under the proposed Water Services Entity which would include Otago and Southland (Water Services Entity D).

The WICS analysis has been completed using a different approach to that used by Morrison Low. We note that despite the differences, our analysis and the WICS analysis are directionally consistent. That is, in both cases, it is anticipated that there are significant future three waters investment requirements to meet new standards and that this will lead to substantial increases in the cost of services. In our high level analysis of a Ngāi Tahu Takiwā entity (effectively Entity D), we observed that all councils in Otago and Southland would be financially better off – this is consistent with WICS modelling.

There is however a large variation between our estimates and that of WICS in the future estimated household costs for each Council. There is also a significant variation in terms of which councils are more or less severely impacted by the projections, with Queenstown Lakes and Southland being the least affected in our modelling but the second and third most effected under WICS' modelling.

**Table 3 Comparison of Morrison Low and WICS forecast household costs (uninflated)**

Council	2031 WICS	ML 2031
Central Otago District Council	\$6,466	\$2,200
Clutha District Council	\$8,976	\$2,549
Dunedin City Council	\$3,843	\$2,217
Gore District Council	\$4,267	\$2,022
Invercargill City Council	\$3,705	\$2,144
Queenstown Lakes District Council	\$8,422	\$1,952
Southland District Council	\$8,032	\$1,953
Waitaki District Council	\$7,958	\$2,881
Water Services Entity	\$1,543 <sup>3</sup>	\$2,001 (Otago Southland) \$1,700 – 1,900

<sup>3</sup> While we have used the 2031 rates from WICS analysis to compare to the modelling results of our own analysis, we note that comparison of the WICS numbers between the entity and councils in 2031 is of limited value because WICS heavily backloads investment in its entity model which has a significant impact on projected household costs in earlier years.



The table below summarises key differences in approach between our analysis and that completed by WICS and the implications of those differences. We have discussed the impact of those and how they drive estimated future household costs in more detail in the next section.

**Table 4 Differences in approach**

	Morrison Low approach	WICS approach	Difference/Impact
<b>Modelling period</b>	We have adopted a 10 year modelling period that aligns with each council's draft long term plan.	WICS have adopted a thirty year modelling period which reports household costs in 2051. The thirty year investment requirement is assumed to fall evenly over the 30 year modelling period.	Most councils have signalled a large amount of investment planned beyond the ten year planning period which is likely to increase costs further over time. Estimating 30 year investment requirements is challenging.
<b>Efficiencies</b>	We have assumed annual efficiencies for a three waters services entity of 1.25%, reaching a total of 12.9% savings by 2031. These savings occur after the application of additional organisational costs. We would not anticipate these savings to continue for 30 years.	WICS appear to have assumed that under Entity D, savings of 50% or more could be achieved by 2051 within 20 years of today. The efficiencies are progressively introduced from 2025.	Our annual savings would equate to 45% if they were able to be achieved consistently for 30 years.
<b>Capital investment</b>	We have adopted Council's planned capital investment and adjusted it to include additional enhancement costs relating to WWTP and WTP upgrades that are known to be required, and to increase the cost of planned upgrades to reflect low asset unit rates.	WICS have capital investment scenarios based on population, land area and population density. It results in a significant uplift in expenditure at a national and in most cases at an individual council level.	Significant as capital expenditure drives operating costs, interest costs, and depreciation in the WICS model.
<b>Operating costs</b>	Our modelling relies on councils estimates for operating costs, with adjustments to standardise depreciation, and include additional compliance costs to meet drinking water standards and operate new treatment plants.	WICS have estimated future operating costs based on connection growth, additional depreciation, financing on growth, enhancement capital expenditure, and an additional operating cost equating to 3% of growth.	It is likely that WICS have estimated operating costs to be higher than we have allowed for within our modelling. In most cases operating costs have little bearing on WICS projections of future household charges however.



	Morrison Low approach	WICS approach	Difference/Impact
<b>Debt</b>	Our modelling includes sufficient debt to meet the forecast investment needs. Debt for an individual council is considered at total council debt level.	WICS modelling includes sufficient debt to meet the forecast investment needs. Debt to revenue is considered at three waters level and the debt/revenue ratio for each council is limited to 250%.	WICS' approach increases projected household costs as the total revenue requirement is driven by the need to keep a three waters debt/revenue ratio below 250%.
<b>Inflation</b>	Our modelling excludes inflation to enable better comparison with WICS data.	WICS average household charges are expressed in real terms (i.e. net of inflation).	No impact.
<b>Growth</b>	We have assumed that growth in the number of connections and investment to support that growth is consistent with council projection.	WICS has assumed that connection growth, and the investment required to support that growth will be consistent across the full 30 year modelling period. WICS have relied on each councils own forecasts for growth investment and population growth.	No impact over 10 year time frame. In some cases it may not be appropriate to assume high rates of growth are sustained for 30 years.
<b>Connections</b>	We project household charges and determine these using actual number of billed households for each of the three waters. Charges are calculated for each "water" separately and combined to reach a three waters charge.	WICS charges are "household charges" and assume household connections based on population projections and a household density of 2.7.	Differences in approaches are likely to have resulted in our charges appearing lower than WICS, particularly where household density is lower than 2.7.
<b>Revenue from households</b>	We have assumed that the percentage of revenue derived from households will be consistent throughout the modelling period and is aligned with the actual percentage of revenue derived from household for each council individually.	WICS have assumed 70% of total revenue is derived from households.	Councils with lower reliance on households for three waters revenue will have higher projected household charges under the WICS analysis than they will under ours.



	Morrison Low approach	WICS approach	Difference/Impact
<b>Development Contributions</b>	We have relied on councils projections for development contributions receipts. Development contributions are ringfenced to be used to fund capital expenditure or debt repayment only.	WICS model treats development contributions the same as other operating revenue. Development contributions are not appropriately addressed if they exceed (when combined with other non-household revenue) 30% of total three waters revenue.	Significant for high growth councils.
<b>Asset values</b>	Morrison Low applied the mid-point asset values across all three waters assets.	WICS have adopted the high-end asset values for short lived assets (assets with less than 30 years of life) and the mid-point asset values for long lived assets.	Minor impact as approaches are similar and short lived assets are a small proportion of total asset value. Difference in asset values for DCC is minor.
<b>Depreciation</b>	We have used the average depreciation rate for assets in Otago-Southland in our modelling. We have assumed that the useful lives of new assets will be proportional to existing assets.	WICS have assumed 24 years asset life for short lived assets, and 98 years for long lived assets, with a 10%/90% split in favour of long life assets.  WICS assumed that new assets will comprise 60% short lived assets and 40% long lived assets. This increases the effective depreciation rate over time.	Significant, review of models indicates that depreciation has increased for all councils in the baseline as a result of WICS assumptions, then continues through the sustained capital investment forecast.



### **3 Water Industry Commission for Scotland Commentary**

#### **3.1 Investment Projections**

Investment is the single biggest driver of cost in the WICS model. WICS estimates potential investment requirement over 30 years for each council. This is considered for:

- (a) Renewals (Replacement and Refurbishment)
- (b) Levels of Service (Enhancement)
- (c) Growth investment

These three values are combined to determine a total investment programme for each council.

##### **3.1.1 Renewals**

In their various reports, WICS noted that based on a review of completed RFI's and comparison to their international benchmarks:

- Asset values reported by New Zealand Councils were typically low.
- Useful lives appeared to be optimistic.
- The split of asset value between short lived (less than 30 years) and long lived (estimated lives of around 100 years) was more heavily weighted toward long lived assets.
- Using the low range for asset values and the high range for asset lives (i.e. the two extremes) disclosed in RFI would increase the risk that there is insufficient resources available for asset replacement.

Based on their observations WICS therefore recalculated the depreciation for each council's asset base, assuming:

- 90% of existing assets are long life assets with an estimated life of 100 years.
- 10% of existing assets are short life assets with an estimated useful life of 30 years.
- Long life assets were assumed to have a valuation at the mid-point of the low and high end valuations disclosed in RFIs.
- Short life assets were assumed to have a valuation at the upper range of the valuations disclosed in RFIs.
- New investment is assumed to comprise 60% short life assets and 40% long life assets to enable the long/short life split of assets to eventually reach the international benchmark of 30% short life and 70% long life assets.

WICS has then modelled investment in renewals at 100% of depreciation throughout the modelling period. There has been no adjustment to planned renewals investment to reflect that some investment in level of service enhancement or growth is likely to also have a renewals component.

The modelled renewals investment is likely to differ substantially to renewals programmes that have been calculated by each council.



WICS have modelled an effective starting average depreciation rate of 1.35% of the revised asset value. This depreciation rate increases over the modelling period to eventually reach 1.75%. These depreciation rates translate to an average useful life for three waters assets of 81 and 59 years, respectively.

#### Comments on the underlying assumptions

We note that WICS calculation of renewals expenditure and depreciation does not consider:

- The relative age profile of each councils network, and each councils stage in the asset lifecycle.
- The amount of investment in level of service enhancing infrastructure or growth infrastructure which may also have a renewals component.
- The actual split of long life and short life assets within each council, and the specific circumstances that give rise to that split (e.g. water networks with large distribution zones and therefore a higher proportion of reticulation assets which are typically long life, or the inclusion of stormwater assets which typically have longer lives and do not form part of the Scottish water asset base).

We note that the depreciation rate of 1.35% is broadly within the high end of the range observed in New Zealand already. However, the longer term depreciation rate of 1.75% is much higher than most councils in New Zealand (although this is intended by WICS).

While the rate of depreciation may be consistent with the New Zealand average, the valuation of assets is not. In our experience, councils typically value their assets at the low end of the valuation range provided in their completed RFIs. This means WICS has typically increased the total depreciation charge above those that are likely to be included in long term plans.

We are aware of a number of recent examples where councils that have had recent asset valuations have experienced substantial uplifts in assets value. This may support WICS assumptions around asset valuations.

#### Potential impact of assumption

Overstatement of the renewals requirement will result in an overstatement of debt and revenue projections for the entity.

This assumption is likely to affect the entity and council projections equally, so will likely have limited bearing on the comparative outcomes of household charges. However, it will have a significant impact on the projected household charges for councils in 2051 if reform does not occur.

#### 3.1.2 Levels of Service and Growth Investment

The various reports produced by WICS outline three different approaches used to determine the future required investment in level of service enhancement (and in some cases growth expenditure):

- Based on relationships between historical enhancement and growth investment in the UK (same approach as Phase 1 but updated using council RFI information)
- Based on relationships between historical enhancement and growth in Scotland only (i.e. using the same approach as in Phase 1 but with Scottish data only); and
- Based on the observed gap in asset values per connected system between New Zealand and the UK – this approach does not take into account growth.





While the approaches differ in how they arrive at their estimates they deliver broadly consistent results in terms of the magnitude of investment that is likely to be required over the next 30+ years. It indicates that in order to meet quality and growth outcomes, spending will need to more than double from current levels over the next 30 years.

WICS note these figures could ultimately be even higher, as they do not take account of investment uncertainty associated with the need to provide for seismic resilience, climate change, or responding to changing societal standards around environmental impacts (including iwi/Māori expectations).

It is unclear which of these approaches was used to identify the potential amount of level of service enhancement investment needed. However, we understand that the outcome under all three approaches is broadly similar.

WICS also applied two further adjustments:

- It appears that planned investment in growth infrastructure was effectively removed from the results in favour of using council's own projections for investment in growth infrastructure. Where councils only reported forecast investment for a 10 year period, this was assumed to be representative of the next 20 years as well.
- Applied a cap of NZ\$70,000 per head for combined investment in level of service enhancement and growth infrastructure across any council area, this limits the modelled potential exposure of most rural councils.

WICS does disclose some of the formulas that it has used to identify potential investment requirements, although without knowing the source of the variables used within the formulas, we have been unable to replicate the results. We note however that the formulas (at least at a national level) do include length of waterways and coastline, so may make some attempt at incorporating relevant environmental factors.

However, at an individual council level, the investment numbers produced by WICS are based on population, land area, and density alone and have no relationship to each council's:

- Type, quality, or number of water sources
- Receiving environment for wastewater discharges
- Current treatment approach
- Current levels of service
- Asset age
- Asset performance
- Asset condition

#### Comments on the underlying assumptions

Investment is the single biggest driver of cost in the WICS model. It is what drives the future borrowing requirement, which in turn determines the amount of revenue that needs to be collected. That means that if the future investment requirements in the WICS modelling are under or overstated the future household costs are likely to be similarly impacted.

Despite this it is worth recognizing that predicting future investment requirements is notoriously difficult. This is particularly true over long time frames, such as the 30 year period that has been modelled by WICS.





While predicting investment over a 10 year period is more certain, even this is challenging, as demonstrated by the long term plans of almost every council in New Zealand. Long term plans often have significant uplifts in their ten year capital works programs despite being only 3-year cycles.

We have not attempted to make an alternative assessment of 30 year investment requirements, and therefore have no view on whether the projected investment by WICS is appropriate. However, as it appears that a different approach may have been used to determine investment at a national scale than that used at a council level, even if the national, or regional investment projections are correct, the distribution of where that investment falls in relation to each council may not be correct (i.e. it is possible to accept that the entity investment estimate is correct while still disputing the council value).

### Potential impact of assumption

WICS have used the derived future investment numbers in the stand alone financial analysis provided to councils as well as in the analysis completed for each water services entity. The higher numbers have a flow on effect to a number of assumptions, most importantly, the future revenue required by councils. This is then reflected in the calculated household charge.

We also note that for the purposes of their modelling WICS have assumed that this investment is evenly spread across the modelling period, however it is likely that this will be weighted further toward future years in practice. This results in a sharp increase in projected future household charges.

In the event that the future investment requirements are understated or overstated, there is likely to be a consistent impact on both the council and entity household charge projections. While this assumption may change the scale of the difference in projections it is unlikely to change the overall outcome of their analysis.

## 3.2 Revenue

Projected revenue is ultimately the main input into the WICS model that is used to determine household charges. The way in which future revenue is projected is therefore critical.

### 3.2.1 Three water debt to revenue ratio

The total three waters revenue that is needed to be collected by councils in the WICS model has been determined by reference to each council's total borrowing.

Revenue projections have been calculated by identifying the amount of revenue needed to ensure that each council maintains a three waters debt to revenue ratio below 250% over the entire modelling period. Revenue increases are front-loaded in the WICS model, with revenue increases typically stabilizing to match inflation over time (or at least reducing).

The WICS modelling results in forecast future revenue requirements which typically result in the council generating a significant operating surplus for its three waters activity. This surplus is applied toward debt management/repayment.

Water services entities appear to not have been subject to this restriction with Entity D's debt to revenue ratio reaching almost 640% by 2051. We understand that the Government has received advice to suggest that a debt to revenue ratio of this magnitude would not adversely impact on water services entities' credit ratings.



### Comments on the underlying assumptions

We note that councils are not typically financed on an activity basis. That is, councils are not required to maintain a three waters debt to three waters revenue ratio of 250%, and in fact a number of councils already exceed this ratio when looking only at three waters debt to revenue.

Three waters typically makes up between 20 – 30% of a council's total revenue, with most other activities typically requiring only low levels of debt. While three waters charges may increase at a much higher rate than other areas of council's business, we would still anticipate that a three waters debt to revenue ratio of around 500% would be within most council's future borrowing capability.

### Potential impact of assumption

The revenue numbers directly translate into household charges for councils and the water services entities.

As councils are likely to be able to borrow more than 250% of their three waters revenue, the projected household charges are likely overstated.

Because no such cap has been applied to the water services entities, and we understand that there is official advice to support water services entities maintaining large debt to revenue ratios, this assumption has limited bearing on the projected household charges for the water services entity itself.

When viewed together, the application of this assumption by WICS is likely to overstate the size of the difference in charges between council and the water services entity.

### 3.2.2 Revenue from Households

WICS has used the split of revenue between households and non-households of 70% as observed in the UK. This has been applied to the total revenue figure above.

The 70% figure represents the total amount of three waters revenue derived from household water charges, and effectively does not include any revenue from development contributions, grants and subsidies, or commercial and industrial water use (or indeed irrigation/stock water schemes).

### Comments on the underlying assumptions

In our view the assumption that 70% of revenue comes from household water charges appears to be fair at a national or water services entity level. However, this assumption is less likely to be applicable at an individual council level, noting that:

- Councils that have high levels of urban growth may receive a substantial portion of water revenue from development contributions, and in some cases this may account for the entire remaining 30% (or more) on its own.
- Highly rural councils may receive a large proportion of their three waters revenue from irrigation or stock water schemes, meaning much less than 70% of total three waters revenue is derived from households.
- Some territorial authorities receive large amounts of three waters revenue from large water users. This is particularly true in rural and provincial councils, which often have high water users in the agricultural and horticultural industries.



### Potential impact of assumption

This assumption may impact on the size of the difference between the projected household charges under the council and entity scenarios because it is likely to be more accurate at an entity level than it may be for individual councils.

Councils which receive a lower proportion of their three waters revenue from households than is assumed in the WICS analysis will have higher projected household charges under the WICS analysis than they may otherwise have.

WICS analysis is also presented at a three waters level, which means it is difficult to see the impact for customers which may only receive one or two of the services provided. This is likely to be particularly relevant for councils with large rural areas.

### 3.2.3 Household connections

WICS have determined the number of household connections in their modelling by:

- Averaging the connected water and wastewater populations from each council's RFI
- Dividing the number by 2.7 (which is the average household density in New Zealand).

This value is used as the denominator in WICS' projections of average household charges. The higher this number is, the lower the projected household charge is.

WICS does not appear to have used any data regarding stormwater connections/charges within its analysis.

### Comments on the underlying assumptions

Household density varies significantly between territorial authorities within New Zealand. This is particularly prevalent in the comparison of rural and urban councils. According to Statistics New Zealand, in 2018 the council with the highest occupancy rate has an average of 3.0 residents per household, compared to the least dense council having an occupancy rate of 2.1.

We understand that there are now councils that have significantly lower occupancy rates than that still (with some reporting occupancy rates of less than 2 residents per household).

### Potential impact of assumption

This assumption may result in a difference between the projected council and entity values (i.e. it will affect the entity and council differently) because the household density number varies significantly between council areas but is likely to be more accurate at an entity level.

For councils with low household density, it is likely that the application of this assumption will have resulted in the WICS analysis overstating the potential household charges in 2051 for individual councils. The projected household charges for the water services entity are less likely to be affected by the application of this assumption.

## 3.3 Capital and Operating Efficiencies

WICS looks separately at capital and operating efficiency expenditure. In both cases, WICS undertook econometric modelling (using the reworked Ofwat 2004 and 2009 models) of the potential for operating efficiency from each council using tools and techniques applied and fitted to UK water entities and tested this against New Zealand.



### 3.3.1 Efficiencies

WICS have applied efficiencies adjustments in some cases for individual councils. These efficiencies have been based on council size. The observed experience from United Kingdom demonstrates that only entities of a scale of more than 60,000 connected citizens could be expected to achieve any reductions in operating costs, even if they were subjected to robust governance and regulatory frameworks.

In the models provided, the scale efficiencies increase on a diminishing (logarithmic) basis above the minimum size threshold. This means there is no inclusion for efficiency improvement for councils with less than 60,000 population served. For councils above this threshold, efficiency gains are realisable (albeit at a diminishing rate) up to a maximum of 800,000 population served, after which no further returns to scale have been included in WICS modelling.

In determining the scale of efficiencies modelled for the Water Services Entities, WICS assesses the New Zealand Three Waters sector to be in a broadly similar position as Scotland in 2002, in terms of relative operating efficiency and levels of service. In just under two decades, Scottish Water has lowered its unit costs by 45% and closed the levels of service gap on the best-performing water companies in the United Kingdom. This has been used as evidence to support the efficiencies modelled by WICS.

WICS modelling includes a capital efficiency challenge of 50% and an operating efficiency challenge of 53.3% for Entity D, with an assumption that this efficiency gap is able to be closed within 20 years from today.

### Comments on the underlying assumptions

We note that Entity D is projected to have around 900,000 customers on formation. This is comparable in size (but much less densely populated) to Bristol Water and South Staffordshire Water, who were cited as achieving efficiencies of 25% and 20% respectively in the WICS reports.

### Potential impact of assumption

If modelled efficiencies from service delivery reform are overestimated, or underestimated, then this will have a direct impact on the projected household charges for the water services entities. That is, overestimation of the potential operating efficiencies will result in WICS' projections of household charges for water services entities being lower than they may otherwise be if those efficiency targets are unable to be met.

## 3.4 Sensitivity

WICS undertook detailed sensitivity analysis (Monte Carlo analysis) of their projected household charges to demonstrate whether there are any instances where household charges would be lower under continued council led service delivery versus the reform, scenario. Across the country, this analysis shows only a very limited number of cases where household charges have any potential to be lower without reform than with it. In these cases, WICS typically notes that the levels of service received by customers without reform would be significantly lower than they would be under the reform scenario.

Importantly, while this sensitivity analysis does consider different levels of investment requirements, it does not consider the impact of the debt to revenue assumption, or assumptions regarding the percentage of revenue from households, or the number of connections. We have not attempted to recreate the sensitivity analysis completed by WICS but would anticipate that correction of these assumptions prior to undertaking the sensitivity analysis would result in more instances where future household charges crossover under the reform and no reform scenarios.

**We are.  
LGNZ.**

## **Zone Six**

25 August 2021

Hon Nanaia Mahuta  
Minister of Local Government  
Parliament Buildings  
Wellington

**n.mahuta@ministers.govt.nz**

Tēnā koe e te Minita

### **Three Waters reform – engaging with our communities**

At a zoom meeting on Monday 23 August, all Mayors and Chairs of Otago & Southland (Zone 6) discussed the pace of the Government's three waters reform and the need to engage appropriately with our communities to inform council decisions. As well as engaging with our communities, you will also be aware that important conversations about the reform are continuing between Te Rūnanga o Ngāi Tahu and South Island councils within the takiwā.

The three waters reform process is a once-in-a-generation decision for councils and communities. It is also being undertaken at the same time as resource management reform and a review into the future for local government. As such, it is imperative that communities be given adequate time to clearly understand the implications of the three waters proposals that affect them so directly.

The ten Mayors and Chairs of Otago & Southland (Zone 6) are deeply concerned about the lack of information provided to the public regarding the reforms, especially when that is placed alongside the timeframe for a decision to opt out (if a Council chooses to do so) needing to be made some time before the end of this year.

Presently the information provided by Government to the broader community consists of television advertisements that provide virtually no information and a Department of Internal Affairs website that has an overload of highly technical information in a format that is very difficult for a layperson to navigate.

This is leaving individual councils doing their best with limited resources to inform the public about the reforms and the complexity of the choice before us.

We request that the Government pause the reform process to allow communities sufficient time to better understand the significant amount of complex information on which the Government has based its case for change and to allow councils to engage with our communities about it. Without this pause, there is a very real risk that communities will not be able to make informed decisions about the merits of the proposed reform. Rushing the engagement process will simply not provide for good decision-making, and the decisions made as a result could see adverse and costly consequences for communities, councils and the Government for many years to come.

It is very clear to Zone 6 that more time is needed to ensure our communities are as informed as they can be about the shape of the three waters service delivery reform in totality.

We urge the pause to be advised to the public now and remain in place until such time as Councils are satisfied that the reform issue is clearly understood. We believe this is essential in order to properly and authentically engage with our communities on this incredibly important decision.

To ensure we are demonstrating our collective leadership and reflecting the voice of our communities, we will be making a public statement that we have written to you to formally request a pause in this process.

Zone 6 looks forward to your consideration of our request. We would welcome a meeting or other form of engagement with you to further discuss our concerns.

Ngā mihi



Bryan Cadogan  
Mayor, Clutha District  
Chair, Zone 6



Tim Cadogan  
Mayor, Central Otago District



Aaron Hawkins  
Mayor, Dunedin City




Nicol Horrell  
Chair, Environment Southland



Tracy Hicks  
Mayor, Gore District



Tim Shadbolt  
Mayor, Invercargill City



Andrew Noone  
Chair, Otago Regional Council



Jim Boulton  
Mayor, Queenstown Lakes



Gary Tong  
Mayor, Southland District



Gary Kircher  
Mayor, Waitaki District

CC: Local Government New Zealand Zone 5 and 6 Mayors  
Dr Te Maire Tau, Ngāi Tahu