

Notice of Meeting:

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

Date: Monday 25 November 2024
Time: 9.00 am
Venue: Council Chamber, Dunedin Public Art Gallery, The Octagon,
Dunedin

Sandy Graham
Chief Executive Officer

SEPARATELY CIRCULATED ATTACHMENT – ITEM 21

**LOCAL WATER DONE WELL – DECISION ON MODEL SHORTLIST FOR WATER
SERVICES DELIVERY PLAN**

ATTACHMENT

22 Attachment - Local Water Done Well - Decision on Model Shortlist for Water Services Delivery
Plan 2

REPORTS

ATTACHMENT - LOCAL WATER DONE WELL - DECISION ON MODEL SHORTLIST FOR WATER SERVICES DELIVERY PLAN

Department: Civic

An additional attachment to the Local Water Done Well – Decision on Model Shortlist for Water Services Delivery Plan Report is attached for your information.

Attachments

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Phase 3: Detail required for public consultation on a Water Services Delivery Plan for an Otago Southland asset owning waters entity

Document Information

Report To:	Council
Meeting Date:	Tuesday, 26 November 2024
Author:	Debbie Lascelles
Author Title:	Chief Executive
General Manager Lead:	
Report Date:	Friday, 8 November 2024
Confidentiality:	Public excluded

Reason for Confidentiality

This report is **CONFIDENTIAL** in accordance with section 46A (8) and 46A (9) of the Local Government Official Information and Meetings Act 1987, being a report that the Chief Executive of the South Waikato District Council reasonably expects will be discussed with the public excluded.

To enable the council to carry out, without prejudice or disadvantage, commercial activities (s 7(2)(h)).

Purpose

1. To inform the Council on the outcomes of the *Local Water Done Well Review*.
2. To seek approval for Gore District Council's participation in the next stage of work required to consult with the public on a Water Services Delivery Plan with an option for an Otago Southland asset owning waters entity.

Recommendation

3. That the Council:
 - a) Receives and notes *Phase 3: Detail required for public consultation on a Water Services Delivery Plan for an Otago Southland asset owning entity*
 - b) requests the Chief Executive to engage Morrison Low in partnership with other participating Otago Southland Councils to further develop the detail required to support a consultation document and a Water Services Delivery Plan that has an option for a shared asset owning entity.
 - c) delegates authority to the Chief Executive to release or withhold Resolution No. XXXX as publicly available information when appropriate.

Executive Summary

4. The Water Services Preliminary Arrangements Act 2024 requires Councils who are responsible for three waters service delivery to submit a Water Services Delivery Plan (WSDP) to the Department of Internal Affairs (DIA) by 3 September 2025.
5. The WSDP must set out at least two options for the future delivery of water services.
6. Councils must produce a consultation document with details of these options to seek the views of the public who are affected by the proposed options.
7. A joint asset owning entity has been recommended by Morrison Low based on a recent review of water services provision across Otago & Southland.
8. For those Councils wanting to seek public views on a joint asset owning entity as one of their options to consult, a decision needs to be made to start the next phase of work before Christmas in order to meet the September 3rd deadline.
9. Staff recommend option 2 – proceed to phase 3 of the Morrison Low work, as detailed in paragraphs 52-57 below.
10. Staff consider the matters in this report have high significance and that the recommendations comply with the Council's legal requirements.

Context

11. Local government has been grappling with rising costs and the affordability of aging infrastructure. Rates increases during the past term have increased markedly across the country.
12. After some analysis, the previous Labour government concluded that the country's future three waters programme was unachievable for Councils to deliver without intervention.
13. On 27 October 2021, the Labour government unveiled their three waters reform programme and on 7 December, the Water Services Entities Bill passed into legislation. This established four asset owning water entities for New Zealand.
14. Following a wave of negative public attention, the four entities were amended to 10 entities on 13 April 2023, following regional council boundaries.
15. On 23 August 2023, another two pieces related pieces of legislation were passed, the Water Services Economic Efficiency & Consumer Protection Act and the Water Services Legislation Act.
16. On 27 November 2023, the new National government announced their plans to scrap the Labour led reforms and on 14 February 2024, the new Three Waters laws were repealed.
17. To replace Labour's reforms, the Water Services Preliminary Arrangements Act 2024 was enacted on 2 September and this sets out the requirements for a Council to develop a WSDP that must be submitted to the DIA by 3 September 2025.
18. The WSDP must set out the model for delivery of a Council's water services with 10 years of supporting financial information, demonstrating that the activity is financially sustainable no later than 2028.
19. It requires each Council to consult with the public on their preferred option and at least one other option and formally adopt the WSDP before it is submitted.

20. There are a range of options that Councils can consider. The government has announced new financial arrangements which would enable council-controlled organisations (CCOs) to independently borrow up to 500% of their water revenue from the Local Government Funding Agency (LGFA)
21. Councils in the Otago-Southland regions have a long history of working together and have been considering collaboration in some form since May 2020.
22. On 7 February 2024, the Otago-Southland Mayoral Forum directed their Chief Executives to form a working group that should consider:
 - regional collaboration and shared services;
 - regional delivery models;
 - national collaboration.
23. Morrison Low were engaged to work on a business case to explore regional delivery models. *Local Water Done Well Review* (see attachment one) was finalised in October 2024.
24. Councillors from Otago-Southland were invited to hear the findings from the Morrison Low review at a meeting in Balclutha on 1 November 2024.
25. The review clearly demonstrates that without change, delivery of future water services and infrastructure investment will become progressively more unaffordable for our ratepayers. 76% of residential water users will see their current bills doubling within the next 10 years.
26. In addition to the affordability issues, the need for skilled workforce and contractors who can deliver the considerable infrastructure programme that is currently forecast will require careful planning and rationalisation across the region to avoid competition and inefficiency, something that a single water entity is better placed to tackle.
27. The report explores a range of options, but clearly demonstrates that a joint asset owning entity is the best solution for the issues that the Otago and Southland regions face.
28. It is now appropriate that each Council consider whether it wants to commit to the next stage of work required to produce options that can be consulted on with the public and ultimately inform each Council's WSDP.

Discussion

29. The decision to participate in a joint asset owning entity is a significant decision and will require consultation, as set out in the legislation, with the public.
30. Once the Council agrees in principle to move into phase three of the project, there are a number of difficult decisions and agreements that will need to be reached between all parties before a WSDP can be prepared for public consultation.
31. The next phase of the project should not be underestimated in terms of complexity and the time that will be required to reach consensus on a range of issues.
32. If the recommendation in this report is approved before Christmas, work is likely to begin on the next phase in February. Morrison Low have indicated that they would require 2-3 months to work up options on how a water services entity should be structured and each Council's relationship to that entity. Negotiations and an approval process for each Council would then need to be factored into the timeline.
33. Critical issues that would ideally need to be resolved in order to have productive conversations with each community are:

- the accountability or monitoring arrangements between each Council and the CCO to ensure performance and that local voice is preserved;
 - an agreed pathway and timeline for harmonisation of pricing so that a financial comparison between the status quo and the CCO option demonstrates the differing impact on rates;
34. These issues are potentially more difficult to resolve politically than the decision to participate in a joint entity or not.
 35. The legislation **requires** these issues and any others that the Council consider the public would be interested in are part of the consultation.
 36. The Councils will also need to determine if they want to appoint a joint committee to develop a consultation document, undertake the consultation and recommend a final decision to each local authority. Each local authority must consider the views of all the public that are affected across the whole area being considered, not just the views of their own residents.
 37. The development and approval of a consultation document, consideration of public views and final decision making can only occur after the consultants have prepared their options and even under an extremely expedited timeline is likely to take at least three months.
 38. Having a final WSDP by 3 September requires a decision to participate in the next phase as soon as possible.
 39. There has been some discussion about requesting an extension to the due date from DIA in order to align the plans with the revised water regulations coming out from Taumata Arowai.
 40. However, the complication of local body elections in 2025 means that there will be no momentum on Council decision making in the latter part of 2025. Realistically the new Council would not be able to start work on this body of work until early 2026 and the same time constraints already detailed will then apply. A minimum extension of 12 months will therefore be required.
 41. There is also a risk that a new Council post elections will require significant induction to understand all the background issues and that political decision making is further stalled.

Options

42. Staff have assessed that there are two reasonable and viable options for the Council to consider. The options are set out below.
43. Option one: decline participation in phase three of the work
44. This would allow the Council more time to consider if the financial information modelled by Morrison Low will be altered significantly by the new regulations.
45. Waiting for further certainty about the financial impact on the credibility of a shared asset owning entity does allow a more informed proposal to be put before the Council for decision making.
46. It would also ensure that the consultation document that goes to the public has the most accurate financials within it.
47. There are already concerns from some segments of the public about local government pushing on ahead of reforms that have been signalled by central government.

48. However, this approach relies on getting an extension from DIA of at least 12 months. There is a risk that a 12-month extension may not be palatable to central government because of the timing of the general elections in 2026.
49. Declining participation at this stage would mean that the other Councils would proceed without Gore District Council, and it will be difficult to join this body of work once it is underway.
50. If an extension from DIA is not approved, the Council will have to consider alternative solo options to consult with the public on.
51. Option two: proceed to phase three of the Morrison Low work
52. Given the considerable complexity of the political decisions that have to be made before a consultation document can be produced, starting the work as soon as possible means that the Council will be well placed to meet a deadline of September or manage an extension of less than 12 months.
53. Moving to the next phase is not a final decision about how the Council should proceed as this cannot be done until the views of the public have been considered.
54. While there is a chance that the financial information will be tweaked once the final regulations from Taumata Arowai are released in August 2025, there will be impact on all Councils across the board, so while overall costs may come down, the benefits of a joint entity are likely to remain.
55. Councils regularly consult with the public using cost estimates based on the best information at the time. If consultation were to stall until there was cost certainty (which realistically is not until design and tendering for capital work occurs), Councils would not be able to produce ten year budgets.
56. There is likely to be time for Council to consider revised costs before a final decision is made in parallel to public consultation.
57. For this reason and the pressing timeframes, staff recommend option two to proceed with phase 3 of the Morrison Low work.

Financial Considerations

58. The total cost for the next stage of the project has yet to be determined. This will be divided evenly between the participating Councils in phase three.
59. The cost for this next phase of work will be covered by transition funding provided by DIA.

Risks

60. There is a risk that the number of participating Councils for phase three is small and the economic viability of a joint model is therefore compromised. This is unknown until the numbers of participating Councils are known and modelling for the next stage is complete.

Significance & Engagement Policy

Significance

61. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation in this report is significant and consultation with the public must occur.
62. There is a statutory requirement detailed in Section 62 of the Water Services Preliminary Arrangements Act 2024 to consult with the public on the proposal that informs a final WDSP.

Attachments

Local Water Done Well Review. Otago & Southland three waters. October 2024