Regional Delivery Model Roadmap results

Otago and Southland Local Water Done Well working group

30 October 2024

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Approach and methodology

- Understand current issues and opportunities
- Develop investment objectives
- Identify potential responses (options)
- Assess and refine options
- Complete financial modelling
- Report back

Current state overview

Over $4.1 billion of planned investment over 10 years

76%

of population will have water bills double by 2034

Combined councils' three waters debt to revenue over 400% by 2034

3x

Three waters debt triples from $1,950 per capita to $6,700 per capita by 2034

Over $800 million just to service growth over 10 years

Disparity in population, density and urbanisation

Over $1.3 billion of renewals across 4 councils over 10 years

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Why change?

- Scale provides resilience, career development opportunities, specialization
- Reduce competition between districts
- Ability to attract large contractors
- Dedicated focus
- Financial separation
- Economies of scale

	Reflect importance of water	Responsive to change in demand	Responsive to local needs	Enduring capability and capacity	Financially sustainable
Status Quo					
Joint Contracts					
Shared services entity					
Management CCO					
Otago Southland WSE					

Standardisation

- Don’t want differences to be the result of different interest rates, depreciation rates, funding/financial policies
- Standardised:
  - Depreciation
  - Interest
  - Debt calculations
  - Depreciation funding
- Minor adjustments to capital works programmes to reflect anticipated regulatory changes

What’s in an entity?

- We don’t want an outcome that’s driven by inflated benefits or heroic assumptions
- Additional costs include:
  - Governance, stakeholder management and executive leadership $1.9million
  - IT systems and infrastructure $12.5 million
  - Additional resources, accommodation, office overheads $4.8 million
  - Council rates $3.4 million
  - Audit, regulatory compliance $3 million
  - Transitional costs of $50 million
- Efficiencies:
  - ¼ of those estimated by WICS.
  - Reconciled to our bottom up estimates.
  - 14 - 15% that are realised over 10 years (starting after 2 years)
- Approach to borrowing:
  - Aligned to Moodys’ credit rating approach for regulated water utilities.
  - Consistent with LGFA guidance and comments
  - 10% FFO to debt (between 400% - 480% debt to revenue)

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Dealing with an uncertain regulatory environment

- Wastewater standards are changing – these will likely result in lower cost options
- Drinking water compliance enforcement may also change with direction to Taumata Arowai to take a more balanced approach
- An economic regulator will introduce new compliance costs and may also set performance/level of service standards
- We've assumed standards will reduce in our base case. This is reflected in all councils' base cases other than DCC and QLDC.
- We approach uncertainty with sensitivity testing – the overall conclusions of the modelling hold up to this.

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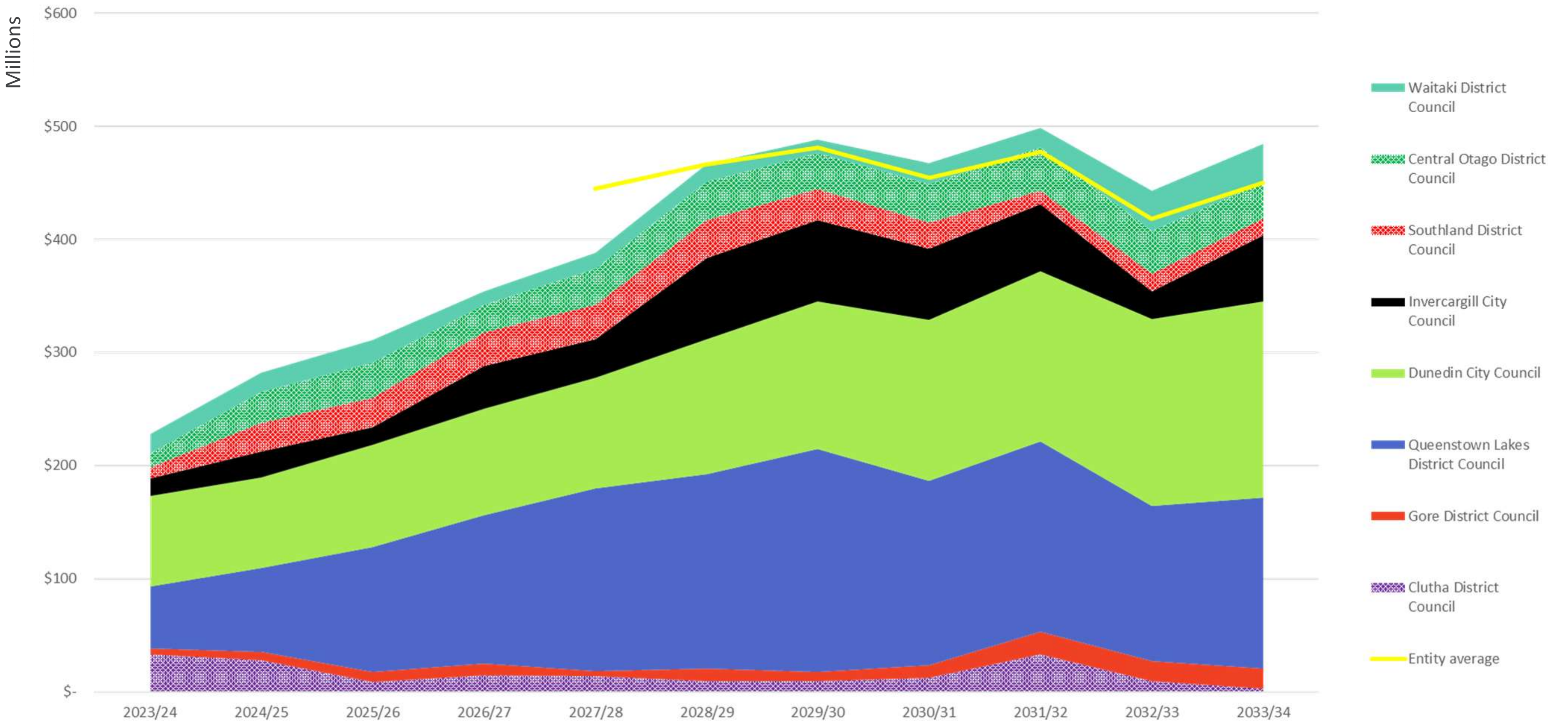
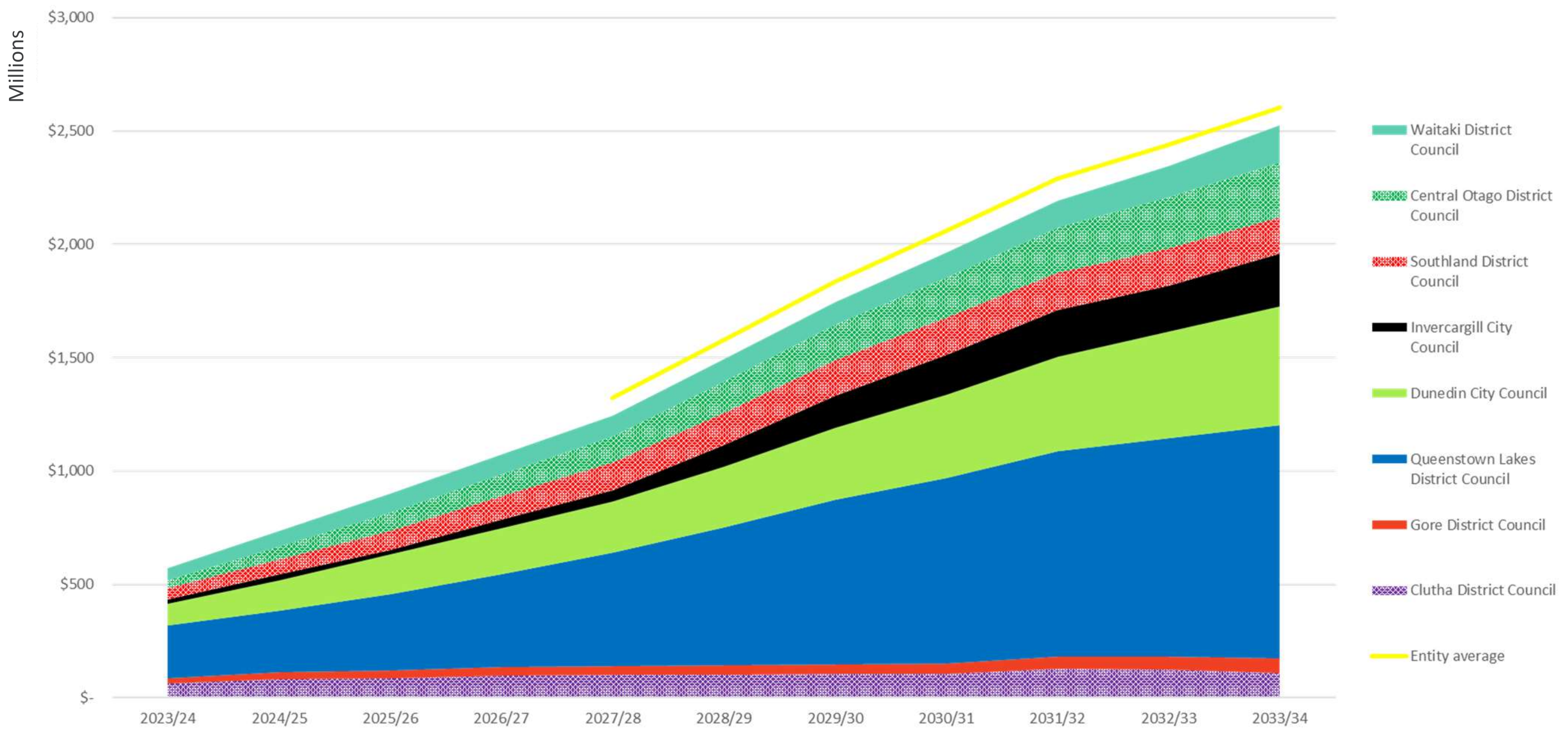
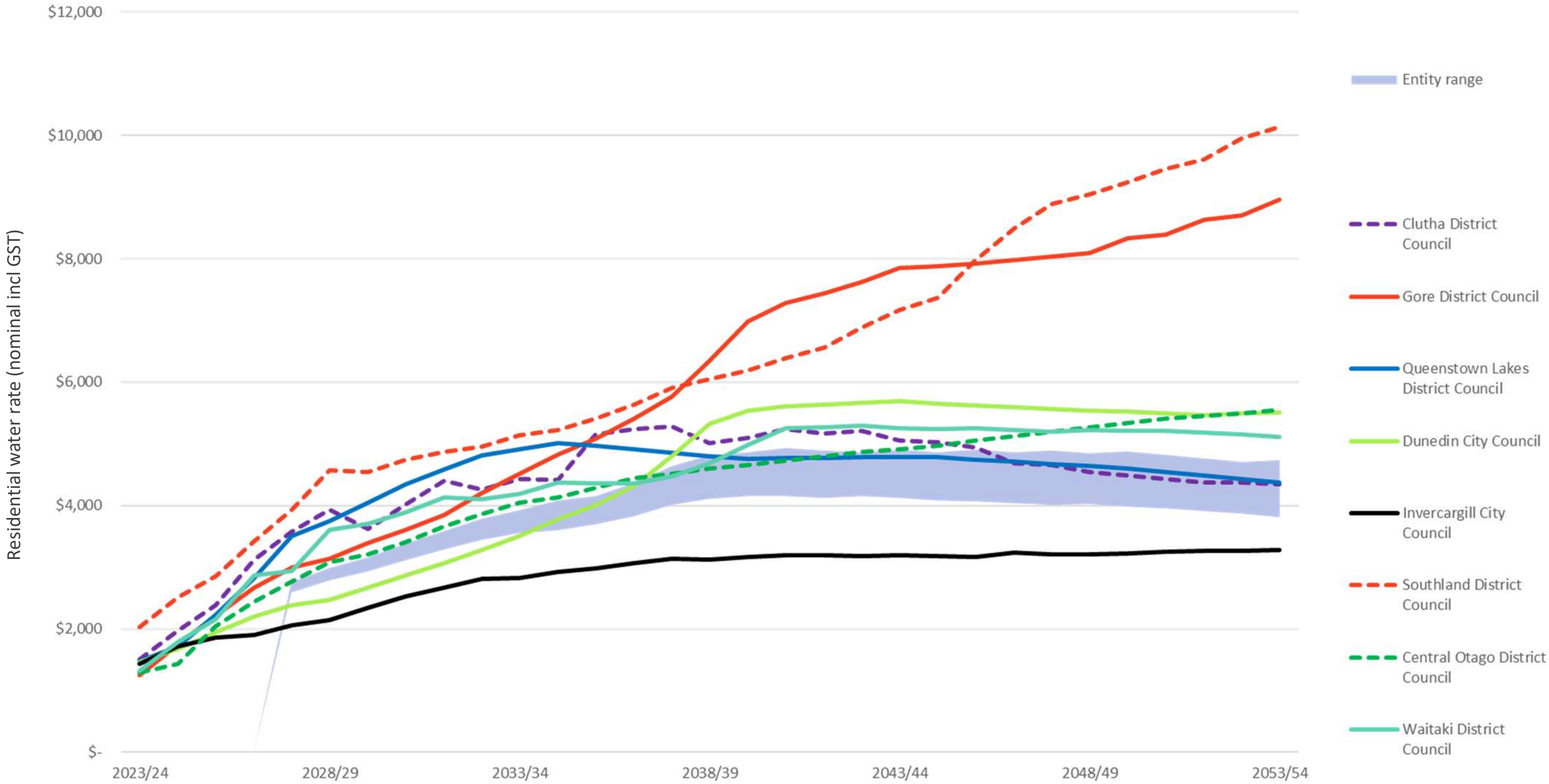
What needs to be done?



How will we pay for it?



What will it cost?



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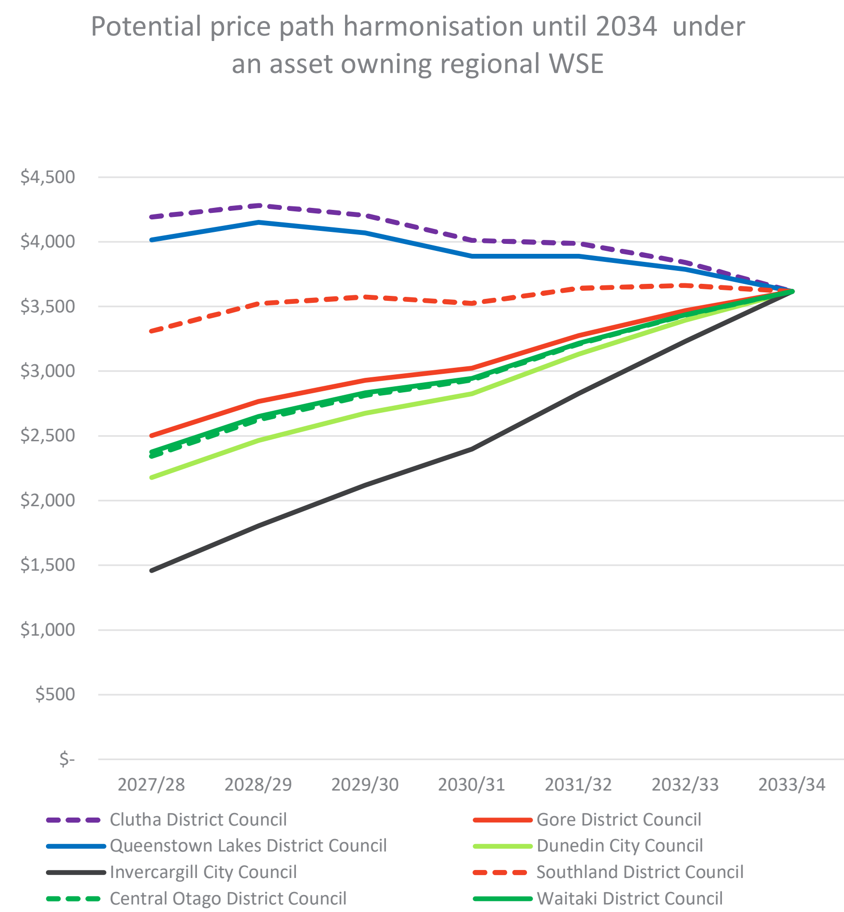
Will there be a single price?

- No requirement for a WSE to charge just one price
- A detail to be worked out through the entity design process
- Many approaches available, including rural/urban price differentials, full ringfencing, ringfencing of debt, or harmonisation over time
- May also play a different role for different councils, for example by providing services to councils that don't transfer assets



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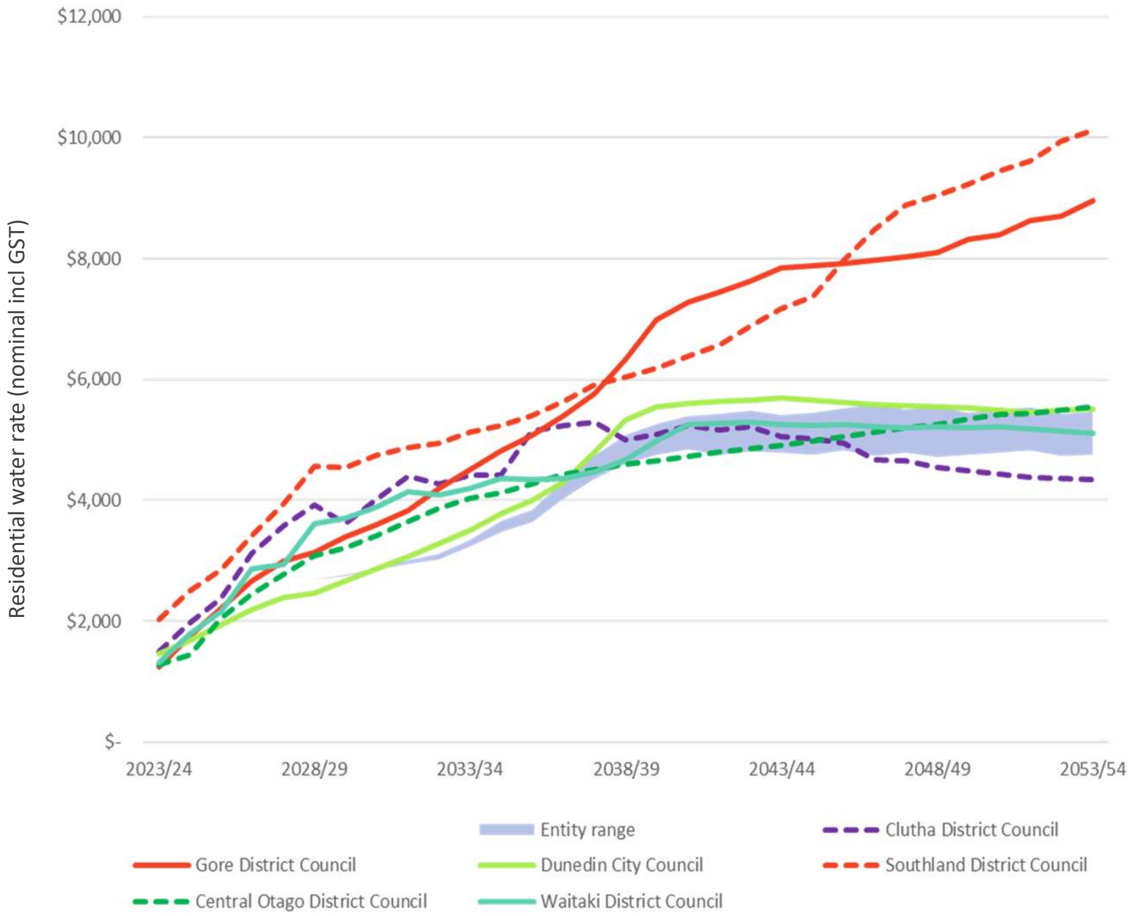
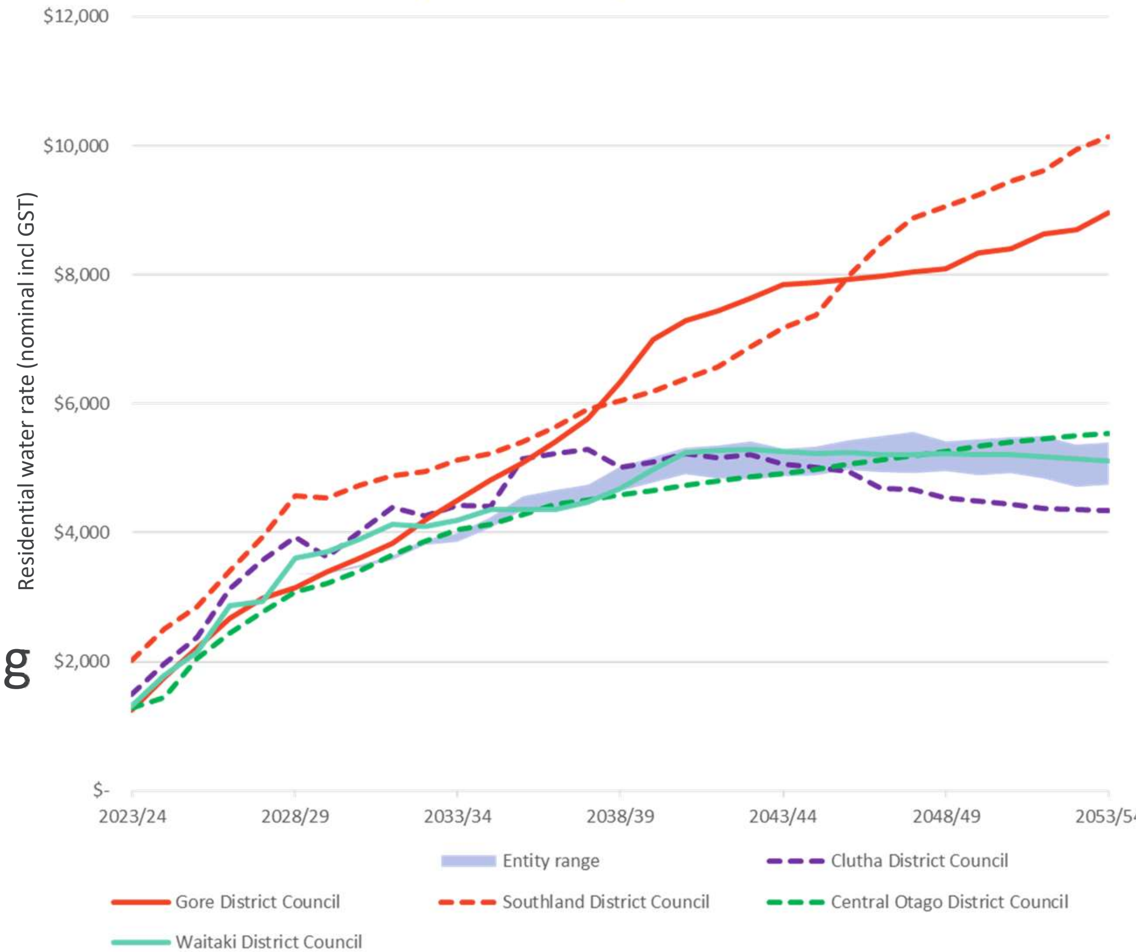
What if ICC and QLDC don't participate?



- Reasonable scale
- A large portion of debt removed over the short term
- May have scale to provide services to remaining councils

What if none of the urban councils participate?

- Roughly the size of Dunedin in terms of revenue, asset base
- Significantly larger land area
- How would this entity actually work?
- Does it work over the long term?



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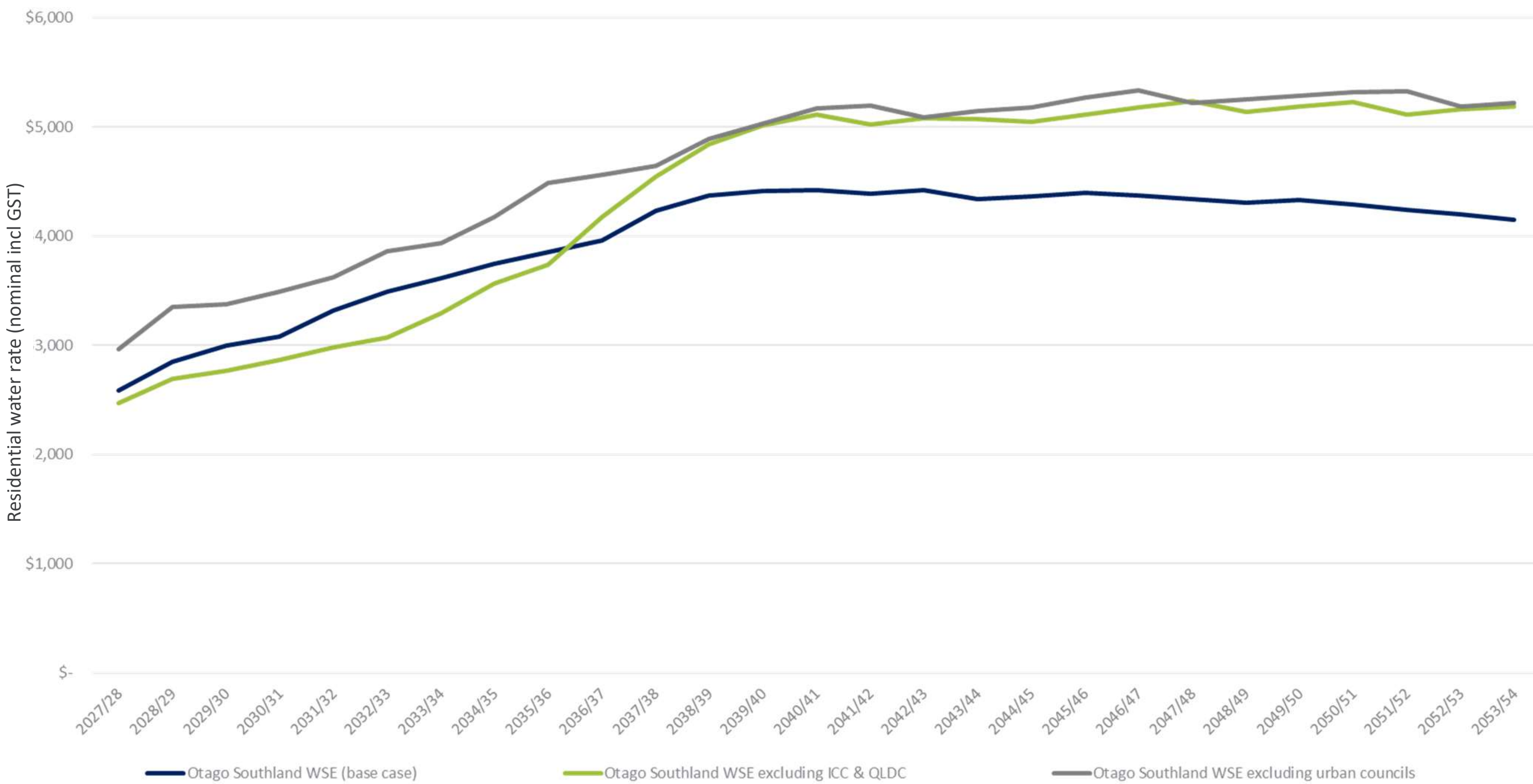
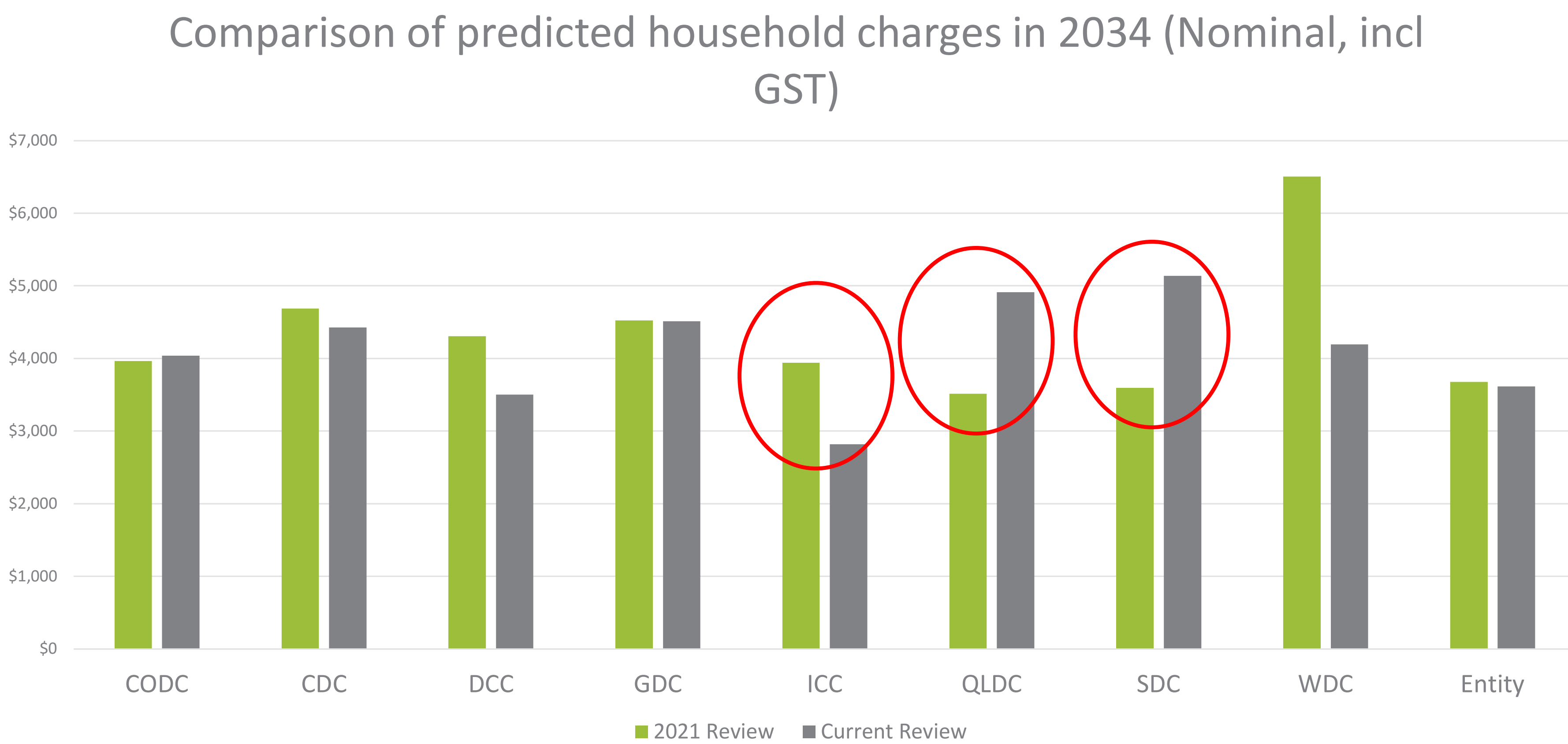
How do the scenarios compare?



Comparison to our previous work

Projections are consistent for many councils



Changes in borrowing since 2021 review