

Full Council

29 May 2025

Report for Agenda Item | Rīpoata moto e Rāraki take [1]

Department: Property & Infrastructure

Title | Taitara: Proposed Future Water Service Delivery Model

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to outline the Council's options for consultation on a future service delivery model for the Queenstown Lakes District, in accordance with Central Government's requirements set out in the Local Government (Water Services Preliminary Arrangements) Act 2024 ("WSPA Act").

Executive Summary | Whakarāpopototaka Matua

Consideration of water reform has been underway in Aotearoa New Zealand for almost a decade, reflecting ongoing efforts by successive governments to ensure safe, reliable and sustainable water services. Local Water Done Well (LWDW) is the current Government's policy to address New Zealand's water infrastructure challenges and seeks to put an increased focus on long term financial sustainability. In focusing on long term financial sustainability, councils are required to consider and consult with their community on at least two arrangements for the future delivery of water services. To ensure the financial sustainability of water services and to improve transparency and accountability, LWDW also proposes to introduce a new planning and accountability framework and economic regulation of water services in addition to the existing water quality regulation framework administered by Taumata Arowai. Continuing to operate under the status quo is not an option under these reforms, given that the changes being introduced will apply to all delivery models.

In accordance with the LWDW legislative framework, Queenstown Lakes District Council (QLDC) identified at a high level a range of possible options, which were then reduced to a shortlist of two reasonably practicable options after considering critical success factors. The shortlisted options are:

1. *QLDC Inhouse*: Water assets continued to be owned and water services continue to be delivered, by QLDC.
2. *QLDC-only Water Services Council Controlled Organisation (WSCCO)*: Water assets are owned, and water services delivered, by a WSCCO wholly owned by QLDC.

The shortlisted options have been assessed against six criteria that describe the key features of a well-functioning water services provider. The assessment showed that for four of the six criteria a WSCCO was likely to perform better than an inhouse model. Testing was undertaken to determine whether placing differing levels of importance (weighting) across the criteria, or adjusting the scoring guidelines or inputs, resulted in a different outcome. In 20 of the 23 tests conducted, a WSCCO was the highest scoring option.

Both options would have access to appropriate levels of borrowing to meet financial sustainability requirements, but as a WSCCO would pay down debt faster than an inhouse model, option 2 (WSCCO) would result in lower debt for water services as well as lower debt for QLDC in the medium term¹. Household charges for water are estimated to be, on average, 5.2% higher in the medium term under option 2 (WSCCO) than under option 1 (Inhouse) but, on average, 10.1% lower in the long¹ term because of the different borrowing requirements imposed by the Local Government Funding Agency (LGFA) on WSCCOs compared to councils. The cost to households for water in the long term has been an essential determinant in Council's assessment and is already projected to increase significantly as outlined in QLDC's Long Term Plan (LTP).

As a result of the analysis, the proposed model for consultation with the community is option 2; establishing a WSCCO that is wholly owned by QLDC. Option 1 must also be included in the consultation information but will not be the Council's proposal.

Recommendation | Kā Tūtohuka

That the Council:

1. **Note** the contents of this report;
2. **Note** that councils are required to consult on their anticipated or proposed model or arrangements for delivering water services, and that this requires the identification of at least two future water service delivery models;
3. **Agree** that Option 2 (Water Services Council Controlled Organisation) is the Council's proposed model for the purposes of the mandatory consultation required by the Local Government (Water Services Preliminary Arrangements) Act 2024;
4. **Note** consultation will take place from 2 – 29 June 2025 and, consistent with the WSPA Act, is not subject to a hearing;
5. **Approve** the Local Water Done Well Statement of Proposal for consultation (Attachment G); and
6. **Delegate** to the Chief Executive approval of the final print version of the consultation document, subject to minor changes.

Prepared by:



Name: Pennie Pearce
Title: Strategy & Reform Manager
19 May 2025

Reviewed and authorised by:



Name: Tony Avery
Title: GM Property & Infrastructure
19 May 2025

¹ Medium term is defined as the period covered by the LTP (July 2024 – June 2034). Long term is defined as the ten years following the period of the LTP (July 2034 – June 2044).

Context | Horopaki

Consideration of water reform has been underway in Aotearoa New Zealand for almost a decade, reflecting ongoing efforts by successive governments to ensure safe, reliable, and sustainable water services.

1. A major catalyst for water services reform was the 2016 Havelock North contamination incident, which exposed serious deficiencies and led to a comprehensive government inquiry. This prompted the Three Waters Review (2017-2019), and the subsequent Three Waters Reform Programme launched in 2020, which sought to centralise water services management in regional water entities. The establishment of Taumata Arowai in 2021 marked a key step in regulating drinking water quality. In 2024, the current National-led coalition government repealed the previous legislation, replacing it with the Local Water Done Well (LWDW) policy programme which places greater emphasis on local council decision-making and council ownership of water assets.

Local Water Done Well is the current Government's plan to address New Zealand's water infrastructure challenges through an increased focus on long term financial sustainability

2. LWDW aims to deliver a future water services system that emphasises balance between economic, environmental and water quality outcomes, while enabling local communities and councils to determine how water services will be delivered.
3. The first piece of legislation to support LWDW, the Local Government (Water Services Preliminary Arrangements) Act 2024 (WSPA Act), was enacted in September 2024. The WSPA Act sets out several transitional provisions, including a requirement for all councils to prepare and submit a Water Services Delivery Plan (WSDP) to the Government. A WSDP must describe the current state of water assets and services as well as the future arrangements for delivery of water services and must demonstrate how financial sustainability of water services will be achieved.
4. In requiring WSDPs to be developed (which have to be adopted and submitted to the Government for approval by early September), the WSPA Act also requires consultation on potential water service delivery arrangements. This provides an opportunity for councils to review current arrangements and to consider whether there are preferable alternative arrangements to provide sustainable and efficient water services, addressing current challenges and laying the foundation for future improvements.

In focusing on long term financial sustainability, councils are required to consider and consult with their community on at least two arrangements for the future delivery of water services.

5. The WSPA Act requires councils to explore and consult on at least one alternative to their existing approach for water service delivery. That alternative must be either a Water Services Council Controlled Organisation (WSCCO) or a joint local government arrangement. Councils can also consider a consumer trust model, but at a minimum must consider the existing approach (i.e. inhouse or CCO) and one of either a WSCCO or joint arrangement. Councils must consult on their options before submitting WSDPs on 3 September 2025.

To ensure the financial sustainability of water services, and to improve transparency and accountability, Local Water Done Well also introduces a new planning and accountability framework and economic regulation of water services.

6. A further piece of legislation, the Local Government (Water Services) Bill (LGWS Bill), is currently before parliament, and will (once enacted) provide a structured framework for managing and delivering water services in New Zealand.
7. The LGWS Bill sets out a new framework for planning and accountability within which strategic and investment priorities, and performance settings, will be developed, explained and reported:
 - *Water Services Strategy*. This document will set out – in a single, comprehensive, water focused document – how the water service provider is proposing to perform and respond to local expectations and priorities, and meet statutory objectives and regulatory requirements, including those related to the National Policy Statement on Urban Development’s expectation that population growth is adequately planned for. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. This will replace the requirement to include information about water services in a LTP and Infrastructure Strategy. The Water Services Strategy is not subject to mandatory review by auditors.
 - *Water Services Annual Report*. This document will report on QLDC’s actual performance against the expectations in the Water Services Strategy and includes financial reporting.
8. The LGWS Bill also enables economic regulation of water services by the Commerce Commission. This will provide regulatory oversight to ensure water charges are fair and cost reflective and revenue is sufficient to meet investment requirements. The Commerce Commission will have a range of regulatory tools to help achieve this outcome. The mandatory base level of regulation is Information Disclosure, and this will apply to all water service providers in the first instance. The Commerce Commission would only move to implement a higher level of regulation if individual water service providers consistently demonstrate through Information Disclosure that they are not complying with regulatory expectations and have been unresponsive to discussions with the Commerce Commission to resolve concerns.
 - *Information Disclosure (mandatory)*. Water service providers will be required to publicly disclose information in a prescribed form set by the Commerce Commission. The Commerce Commission will analyse information provided and identify whether further regulatory intervention is necessary. It is expected that the Commerce Commission will first focus on monitoring whether water service providers are collecting sufficient revenue for their investment needs, while promoting increased efficiency and cost reflective charges in the long term. The Commerce Commission has indicated this will include ensuring that Council’s do not implement more expensive solutions than required by regulations unless their communities are prepared to pay more. The Commerce Commission has recently consulted on the foundational Information Disclosure requirements, but these cannot be finalised until the Bill is enacted.
 - *Revenue thresholds*. The Commerce Commission will have new powers to set minimum and maximum revenue thresholds to issue clear expectations to providers regarding what level of revenue needs to be collected for investment in, and operating of, water

infrastructure. If the Commerce Commission finds that a water service provider is not recovering enough revenue to invest sufficiently in water infrastructure over time, it will be able to recommend further tools are deployed, based on its specific needs.

- *Financial ringfencing.* The Commerce Commission will monitor and enforce the requirement that revenue from regulated water services is spent on regulated water services. If necessary, the Commerce Commission will be able to require that specific amounts of revenue from regulated water services are ringfenced for investment back into the regulated water service.
- *Quality regulation.* The Commerce Commission will be able to set infrastructure and service quality standards and quality incentives to incentivise improvements in quality. These standards and incentives can drive outcomes related to resilience and reliability, such as frequency and duration of network interruptions and leakages. The legislation will include a regulation-making power that enables the Minister of Commerce and Consumer Affairs to give the Commerce Commission this tool.
- *Performance requirement regulation.* The Commerce Commission will be able to require water service providers to take certain actions to improve performance, such as to make certain types of investments, to consult or seek approval from the Commerce Commission on investment programmes, or to undertake cost-benefit analysis. The legislation will include a regulation-making power that enables the Minister of Commerce and Consumer Affairs to give the Commerce Commission this tool.
- *Price quality regulation.* Depending on performance, the Commerce Commission may be given the power to set, for specific providers, maximum and/or minimum revenues, and/or maximum and/or minimum prices, alongside minimum quality standards and performance requirements. This would follow an assessment by the Commerce Commission of actual revenues against any Commerce Commission-set threshold.

Analysis and Advice | Tatāritaka me kā Tohutohu

9. This section describes the process followed, and analysis undertaken to identify the proposed future water service delivery model for consultation with the community. This section is set out as follows:

A. Identification and analysis of options for future water service delivery models:	
i. <i>High level assessment of longlist of options:</i> A longlist of possible options was identified, considered and refined at a high level using critical success factors, resulting in the narrowing of options for assessment to a shortlist.	Paragraphs 10 – 13
ii. <i>Shortlist Assessment:</i> Shortlisted options were subject to a detailed assessment against six criteria that represent the key features of a well-functioning water services provider.	Paragraphs 14 – 19
iii. <i>Shortlist Assessment Testing:</i> Further analysis was undertaken to understand whether the shortlist assessment result was sensitive to a change in variables.	Paragraphs 20 – 23
B. Consideration of the following requirements of the WSPA Act:	
i. <i>Debt Levels</i>	Paragraphs 24 – 30
ii. <i>Household water charges</i>	Paragraphs 31 – 37
iii. <i>Levels of Service</i>	Paragraphs 38 – 39
iv. <i>Advantages and disadvantages</i>	Paragraphs 40 – 44
C. Summary of the proposed model for consultation	Paragraphs 45 – 47

A longlist of possible options was identified and considered at a high level against critical success factors, resulting in the narrowing of options to a shortlist of reasonably practicable options.

10. The approach to developing and assessing the longlist is outlined below. At each step of the process the options were assessed at a high level (pass / fail) against the following two critical success factors to ensure only reasonably practicable options were advanced for further consideration:

- *Economic Viability:* Whether the option offers economic benefits (e.g. access to financing, economies of scale, delivery efficiencies) relative to the status quo.
- *Achievability:* Whether the option can be successfully designed and understood to enable informed decision making within the time available.

WHERE could a future water services provider deliver services?

Local Water Done Well aims to ensure the future financial sustainability of water services and provides for this to be achieved either by councils on their own or for groups of councils to join.

Queenstown Lakes District

Joint – Aligned geographically

Joint – Aligned by non-geographic factors

Options were assessed against the Critical Success Factors. This assessment determined that joining with others was not practicable at this time. Accordingly, subsequent option development and assessment steps were completed in relation to district-level water services provision only.



WHAT combination of three waters services would a future water services provider deliver?

Water supply, wastewater, and stormwater are all water services that must comply with the new regulatory and legislative regime. However, the legislation acknowledges that some councils may wish to transfer ownership of only their water supply and wastewater assets to an alternative service provider, retaining the ownership and management of stormwater networks inhouse.

Keep all water services together

Separate Stormwater from Wastewater and Water Supply

Separate all three water services

Options were assessed against the Critical Success Factors. This assessment determined that separation of stormwater from water supply and wastewater is not a practicable option for the district at this time. Accordingly subsequent option development and assessment steps were completed in relation to a combined three waters model only.



WHO could be the district's water services provider?

Local Water Done Well provides a for a range of delivery models including retaining services within councils, transferring responsibilities to a Water Services Council Controlled Organisation (WSCCO) or transferring responsibilities to a Consumer Trust.

QLDC Inhouse

QLDC owned WSCCO

Consumer Trust owned WSCCO

Based on assessment against the Critical Success Factors, only options to either (a) retain water services within QLDC, or (b) establish a WSCCO, were deemed to be reasonably practicable.



Shortlisted Options:

Option 1: QLDC Inhouse. Water assets continued to be owned, and water services continue to be delivered, by QLDC.

Option 2: QLDC Wholly Owned WSCCO. All water assets are owned, and all water services delivered, by a WSCCO wholly owned by QLDC.

11. Refer to Attachment A for detail supporting the longlist assessment process and Attachment B for a more detailed description of the features of the two shortlisted options.
12. A WSCCO established under the water legislation has a bespoke oversight and accountability model that reflects the reform intent of councils retaining control of water assets. In particular:
 - Councils are required to prepare a Statement of Expectation (SOE) for a WSCCO, this must include strategic priorities and outcomes, and WSCCOs must give effect to it.
 - WSCCOs are required to prepare (and publish) a Water Services Strategy that includes full financial forecasts, and Annual Budgets and councils are at minimum required to review and provide comment on these. Councils can choose to require the WSCCO to incorporate their feedback or to be the ultimate approver.
 - Councils can require the WSCCO to consult with the community on its Water Services Strategy and to undertake other specific community consultation.
13. Refer Attachment C for more detail on the specific governance and oversight requirements for WSCCOs.

The shortlisted options were then assessed against six criteria that represent the key features of a well-functioning water services provider.

14. The assessment criteria were developed based on the objectives of water reform, and of water service providers, communicated by the Government. The criteria were deliberately designed to focus on those features of an organisation that would give a future water service provider the greatest opportunity for success within the future regulated environment, while will responding to the Council's desire to be able to influence the priorities and direction of water services.
15. The criteria recognise that household water costs are an essential component in determining the appropriate future service delivery model, and that there are a range of interdependent factors required to ensure a provider can continue to deliver financially sustainable and reliable water services.

16. The shortlist assessment criteria are outlined in the following table.

Criteria	Key Considerations (asks “how likely is the model to...”)
Costs to Consumers: Minimising the total cost to households resulting from the new three waters regime	<ul style="list-style-type: none"> Minimise the impact on household water charges in the medium term. Minimise QLDC's exposure to stranded costs that need to be recovered from ratepayers. <i>Stranded costs are recurring operating expenses associated with shared functions that will remain with QLDC if a WSCCO were established.</i>
People and Capability: Attract and retain the best people to govern and provide water services	<ul style="list-style-type: none"> Appeal to high-quality governance candidates with the best skills and experience to oversee water services Achieve a high-performing and resilient resourcing model across all aspects of the asset management lifecycle
Operational Efficacy: Provide for the effective and efficient conduct of all aspects of water services management and delivery	<ul style="list-style-type: none"> Ensure reliable delivery of water services to a standard consumers can reasonably expect Enable alignment and integration of interdependent activities (e.g. urban development planning, holistic engineering assessments for new developments, roading network operations and improvements, emergency response, etc) Readily enable requirements to be fulfilled to a high standard (e.g. ringfencing of costs, information disclosures, long term work planning and financial forecasting etc) - minimising ongoing administrative complexity associated with these activities.
Economic Efficiency: Optimise the utilisation of finite resources, maximising public value and minimising waste across the 3W asset lifecycle	<ul style="list-style-type: none"> Maximise outputs with available inputs – do more for the same (effectiveness) or the same for less (efficiency). Achieve certainty and clarity of long term investment priorities, enabling the optimal allocation of resources to maximise benefits Be positioned to leverage cost efficiencies through commercial partnerships and contracting models

Criteria	Key Considerations (asks “how likely is the model to...”)
Community Interest: Enable community interests and priorities to be meaningfully recognised and reflected in the ongoing provision of water services	<ul style="list-style-type: none"> • Provide for transparency and accountability to the community • Enable community priorities and views to be reflected through water services planning and delivery
Agility and Adaptability: Prepare/enable successful responses to changing external circumstances without major disruption	<ul style="list-style-type: none"> • Adapt/respond to changing conditions, emerging opportunities, and arising challenges related to the provision of 3W services - particularly to further changes in the 3W legislative and/or regulatory environment • Enable Council to respond to existing/emerging non-water community priorities and needs

17. Note that all financial information that informed the assessment, as is outlined in this report, is based on modelling and is therefore only an estimate. The modelling is based on the currently projected costs as outlined in the LTP, and updated through the Annual Plan, as such if those costs were to change in future the debt and household costs outlined in this report may be different. The assumptions informing the modelling are outlined in Attachment D.

The assessment showed that for four of the six criteria a WSCCO was likely to perform better than an inhouse function.

18. The table below outlines the results of the shortlist assessment. The criteria were weighted equally, and options were assessed against them using a combination of qualitative and quantitative information; as the assessment considered theoretical future models, the assessment was necessarily subjective. The scoring guide used to assess the options and further detail supporting the assessment is included in Attachment E.

Criteria	Option 1: Retain Inhouse	Option 2: Establish WSCCO
Costs to Consumers		
People and Capability		
Operational Efficacy		
Economic Efficiency		
Community Interest		
Agility and Adaptability		

19. Some permutations of each option were tested during the assessment of the shortlist to determine whether they had any impact on the assessment:

- *Inhouse function with Water Services Committee:* Would establishing a Water Services Committee, with responsibility for overseeing water services performance, with independent members appointed based on their competency to perform the role have any impact on the assessment?

This did not change the assessment for an inhouse function positively or negatively, predominantly because of the political influences that remains and the mismatch of liability and decision making for independent members under the Water Services Act (a sub-committee cannot make substantive decisions on investment, but independent members are liable for decisions under the Water Services Act).

- *Inhouse function with standalone water function:* Would establishing a separate water services directorate with a General Manager reporting to the Chief Executive have any impact on the assessment?

An inhouse function with a standalone water function performed better than the existing structure, but not as well as a WSCCO. If inhouse is selected as the model to be implemented, establishing a standalone directorate will be explored further.

- *WSCCO with QLDC exerting a high level of control over the WSCCO:* Would establishing a WSCCO where QLDC is the approver of the Water Services Strategy (and therefore of the investment programme and pricing) and instructs the WSCCO to undertake community consultation in the same way that QLDC is required to have any impact on the assessment?

A WSCCO where QLDC exerts a high level of control performed worse than a WSCCO where QLDC only provides direction to the minimum level required by the legislation (option 2) and an inhouse function (option 1). The advantages of establishing a WSCCO would be significantly undermined by the need for investment, pricing and resourcing decisions being made by Council, inserting a high level of political influence and competing priorities into decision making. If a WSCCO is selected as the model to be implemented, it is not recommended that QLDC consider exerting this level of control over the WSCCO.

- *WSCCO with support services purchased from QLDC:* Would establishing a WSCCO and instructing it to purchase certain services from QLDC have any impact on the assessment?

A WSCCO that purchases services from QLDC performs worse than a WSCCO that does not (option 2), but better than an inhouse function (option 1). The ability of a WSCCO to perform well in a regulated environment will depend heavily on support functions such as Knowledge Management and Finance, but under this scenario the WSCCO would have limited ability to influence resourcing or priorities of those functions. If a WSCCO is selected as the model to be implemented, it is recommended that services be purchased for a transitional period to assist with managing QLDC's stranded costs.

Further testing was undertaken to determine whether weighting the criteria, altering scoring guidelines, or changing specific scores resulted in a different outcome.

20. The shortlist assessment applied equal weight to all criteria, recognising each as a key consideration in selecting a future water service delivery model; Option 2 performed the best. Respecting all criteria are important, but not necessarily of equal importance, a wide range of tests were run to determine how sensitive the shortlist assessment was to a change in assumptions or variables, as outlined below. For completeness, all option permutations described above were also tested.

- *Adjusting weighting of criteria:* Tests were run to determine the impact of adjusting criteria weightings to reflect differing levels of importance for the following considerations:
 - Costs
 - Effective water services provision and management
 - Community interest
 - Future-readiness
 - Commercial performance
 - Cost-based impacts to households over the 10-year period assessed

A test was also run to reverse engineer the weightings to understand what conditions need to apply for an inhouse model to rank highest.

- *Equalise scoring for any given criterion:* Tests were run to determine whether the results would change if it was assumed the models performed as well as each other in any given criterion.
- *Adjust scoring guidelines:* Tests were run based on changes to the scoring guide to place different emphasis on:
 - minimising household charges (various adjustments including maximising emphasis)
 - Council opting not to utilise additional headroom released under option 2.

In 20 of the 23 tests conducted, option 2 (WSCCO) remained the highest scoring option

21. In tests where emphasis was placed on different considerations, a WSCCO consistently performed better than an inhouse model. The only tests where an inhouse model performed as well as, or better than a WSCCO were those where maximum emphasis was placed on Costs to Consumers in the medium term and where the test was reverse engineered to generate the outcome of inhouse being ranked first.

22. It should be noted that the water charges for both options are not significantly different in the medium term. The differentiating factor for Costs to Consumers between the two options is the stranded costs QLDC is left with upon establishment of a WSCCO. This can be managed through a staged implementation where a WSCCO purchases services from QLDC for a transitional period. In this scenario Costs to Consumer for the two options would score the same. This is discussed further in the section below on household costs for water services.

23. Further detail supporting the testing is included in Attachment F.

Both options will have access to appropriate levels of borrowing to meet financial sustainability requirements, but as a WSCCO would pay down debt faster than an inhouse model option 2 (WSCCO) would result in lower debt for water services as well as lower debt for QLDC².

24. QLDC currently has a high level of debt and has planned a significant capital programme over the medium term. QLDC has planned to finance this capital programme through borrowing at levels near to the maximum debt to revenue ratio of 280% allowed by the Local Government Funding Agency (LGFA)³.

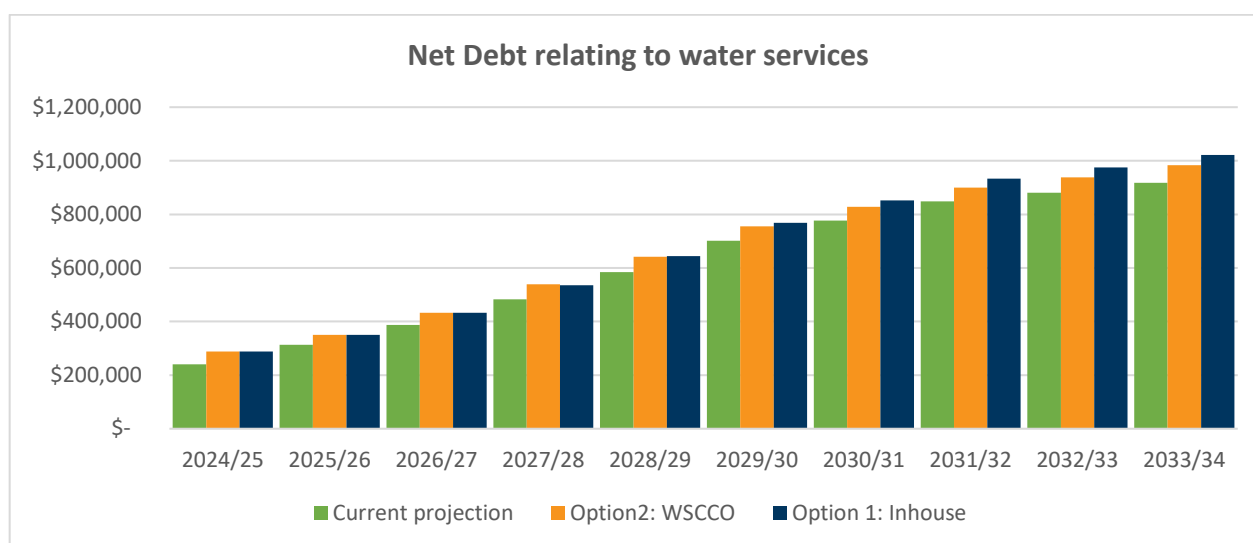
25. Under either option, debt levels would be higher than currently projected over the medium term, to enable compliance with the new financial sustainability requirements and to operate in a new, more complex regulatory environment regardless of the delivery model in place.

26. The LWDW policy provides WSCCO's with an ability to access borrowing from the LGFA based on requirements that are different from those applying to councils. A WSCCO would have to increase water charges in the medium term to meet the LGFA requirements⁴. However, the WSCCO would be delivering the same services and same capital programme as is currently planned (and would be delivered if services were retained inhouse). This means that the WSCCO will have higher revenue, but the same costs, so the revenue can be used to repay debt. This means the WSCCO is estimated to have \$37 million less debt by 2034 than under the inhouse model.

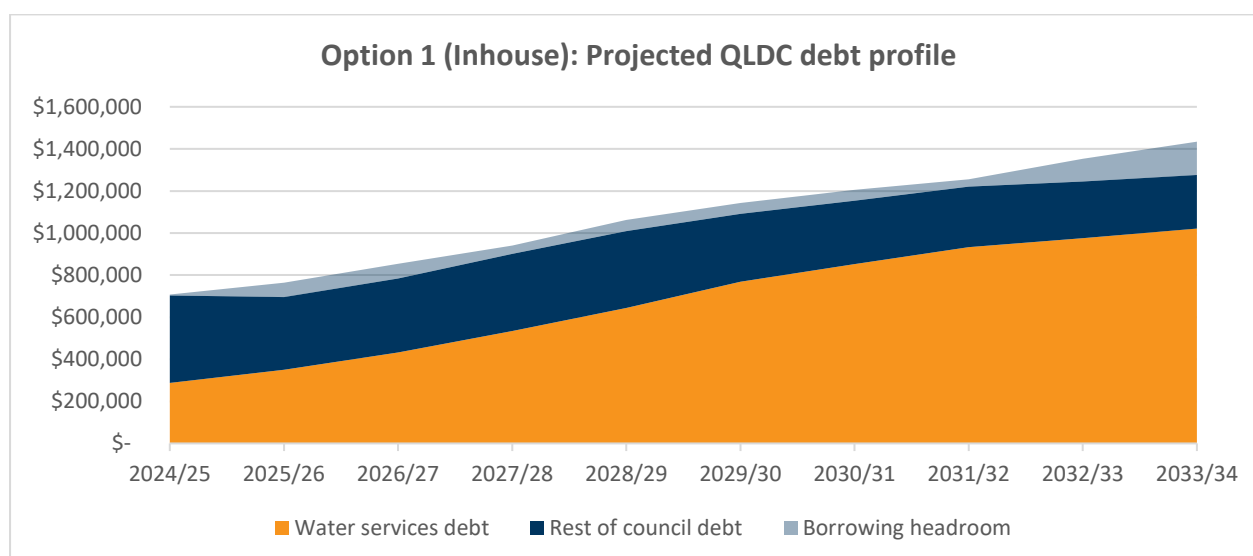
² For comparative modelling purposes it has been assumed that for option 2 a WSCCO would be implemented by the beginning of the 2027/28 financial year. However, a separate decision will need to be made about the implementation date if option 2 is selected.

³ As a high growth council, QLDC can apply for an increase to 350%, however the modelling for this decision has been completed assuming the limit remains at 280%.

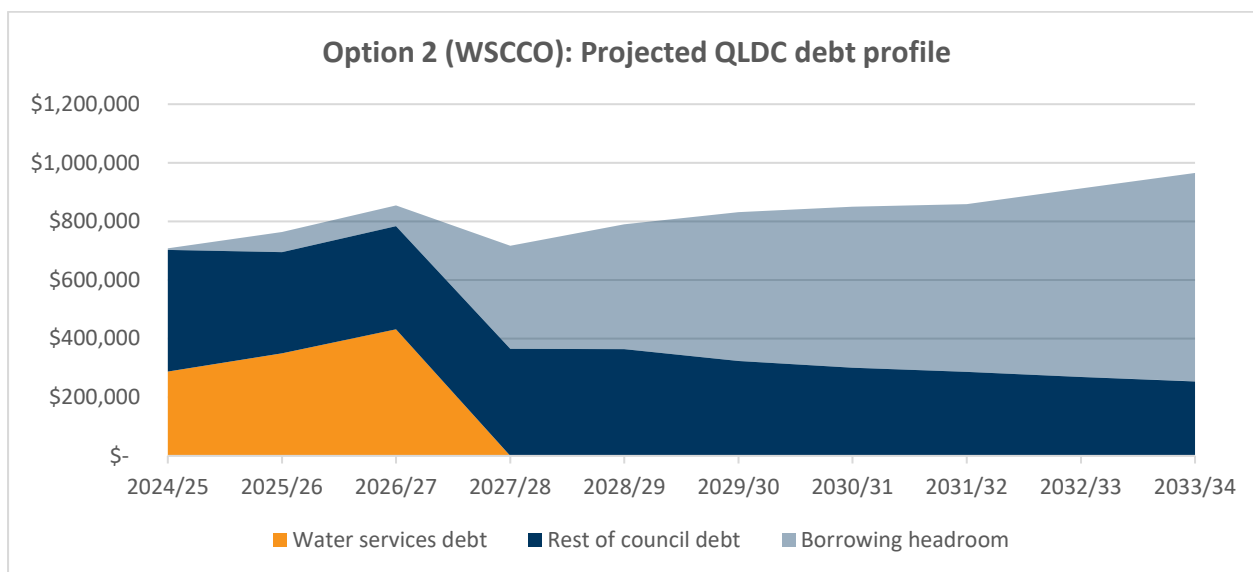
⁴ It is expected that WSCCOs will have to meet a Free Funds from Operations (FFO) to debt ratio of 9%. The FFO ratio measures the percentage of debt balance that is generated in free cash flow each year. FFO = operating revenue LESS expenses (minus depreciation and non-cash items).



27. A significant proportion of QLDC's existing debt, and projected future debt requirements, relate to water services. QLDC currently leverages the revenue across all activities to access debt to fund water services. While this debt is repaid using water specific rates, it means that QLDC uses debt capacity for water activities that is then not available for the balance of QLDC's activities. Under option 1 (inhouse), this would continue to be the case.



28. Under option 2 (WSCCO), ownership of water assets and responsibility for delivering water services would sit with a WSCCO, and so would the associated debt. This means that the amount of debt carried by QLDC would decrease significantly and there would be significantly more debt capacity available to QLDC for non-water investment. The impact of having significantly more headroom available for non-water activities was considered under 'Agility and Adaptability' in the shortlist assessment.



29. It is anticipated that the WSCCO will be eligible to raise finance from the LGFA. LGFA offers finance to the local government sector, including Councils and CCOs. As part of LGFA’s financing arrangements for CCOs, QLDC would be required to provide either a guarantee or uncalled capital to the WSCCO. It is anticipated that QLDC would provide a guarantee and that QLDC would disclose this via a contingent liability note in our financial statements. It is not anticipated that QLDC would record the guarantee as a liability on the balance sheet because it isn’t “probable” that default would occur to invoke the guarantee. This isn’t probable because a WSCCO could increase water charges to cover any costs required to repay the loan and will be regulated to ensure they do so.
30. LGFA will measure financial covenants at the parent level and will not consolidate the debt of a WSCCO with that of the Council. However, external credit rating agencies may consolidate WSCCO and Council debt for a wholly owned WSCCO. Our modelling estimates total debt across QLDC and the WSCCO as less than projected for inhouse. However, if QLDC utilised the available headroom and increased debt for non-water activities in future, or the WSCCO increased its debt, this could result in a rating downgrade. This would not affect availability of borrowing with the LGFA but would affect the interest rate at which QLDC could borrow. For example, if QLDC’s credit rating were downgraded from its current AA to either A or A+, this would increase the interest rate by 5 basis points (this doesn’t apply to commercial paper and only applies to new debt) for both QLDC and the WSCCO and lead to ~\$300,000 per annum more interest over the medium term.

Household charges for water are estimated to be higher in the medium term under option 2 (WSCCO) but lower in the long term because of the different borrowing requirements imposed by LGFA on WSCCOs compared to councils.

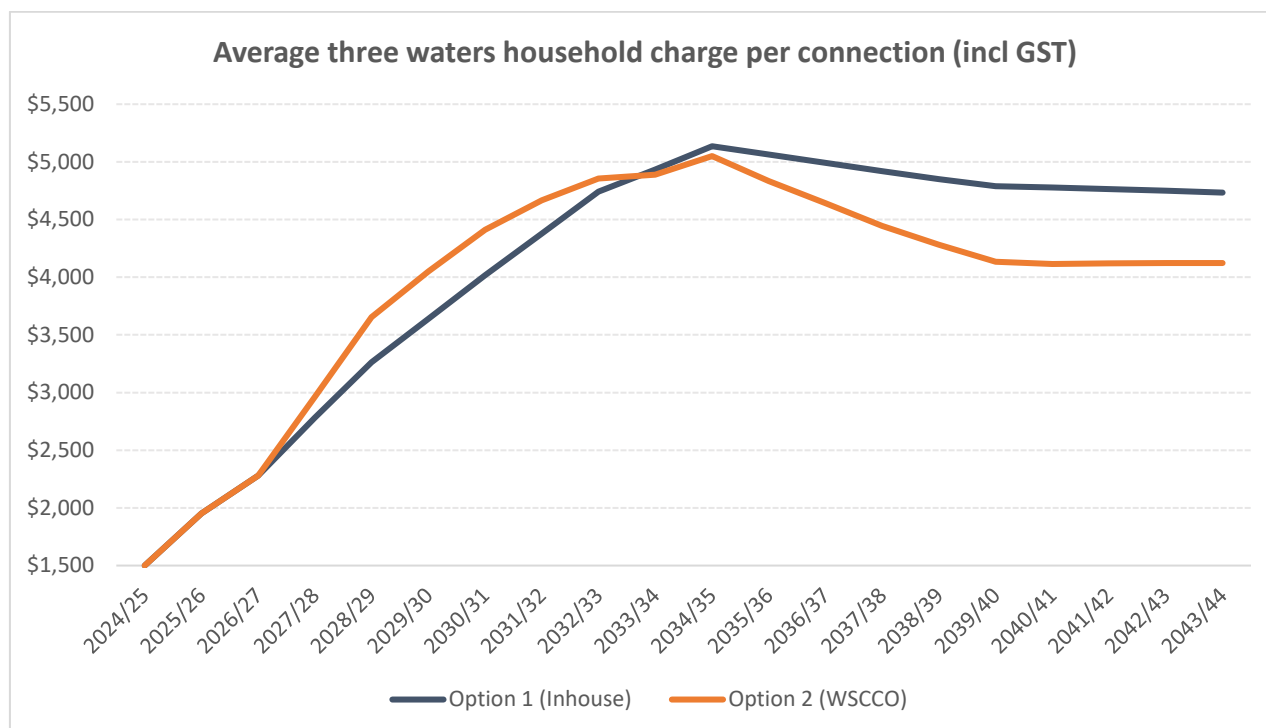
31. Water reform has been driven by the underinvestment in water infrastructure across local government. The focus on “catching up” to the infrastructure deficit has already led to significant projected increases in household charges for water across the motu. This is true for QLDC as it is for many councils, and this led to a significant proportion of the projected rates increases indicated in QLDC’s 2024-34 LTP.

32. Based on the expenditure outlined in the LTP, taking into account adjustments from the 2025 Annual Plan, QLDC is already projecting that average annual household costs for water would increase from ~\$1,500 today to ~\$4,500 by 2034. Under either option, household costs would increase further to enable new financial sustainability requirements and to operate in a new, more complex regulatory environment regardless of the delivery model in place. This report does not cover what measures could be taken to reduce water expenditure and therefore household costs for water. The scope of this report is only to consider the differences between an inhouse model and a WSCCO assuming a consistent, financially sustainable cost base.
33. Water services are currently funded through specific water related rates that are set, and spent, separately to rates for other activities. Under option 1 (inhouse), this would continue to be the case. Under option 2 (WSCCO), water services would be funded through a water charge that would be billed by the WSCCO⁵. QLDC rates would reduce by the value of the water related rates.
34. Modelling indicates the following about average annual household charges for the two options:

Medium term:	Long term:
<ul style="list-style-type: none"> Over the medium term, on average, households would pay ~\$174 pa more under option 2 (WSCCO) than option 1 (inhouse). In 2034 households would pay approximately the same under either option: ~\$4,900. Households would pay ~\$221 pa more under option 1 (inhouse) and ~\$394 pa more under option 2 (WSCCO) than current projections⁶. 	<ul style="list-style-type: none"> Over the long term, on average, households would pay ~\$491 pa less under option 2 (WSCCO) than option 1 (inhouse). In 2044 households would pay ~\$4,730 pa under option 1 (inhouse) and ~\$4,120 pa under option 2 (WSCCO). The annual household cost for water is ~\$600 lower for option 2 (WSCCO) by 2044.

⁵ There would be a transitional period where QLDC would still charge residents on a rates basis to allow the WSCCO time to establish an appropriate charging method and billing system

⁶ Note that QLDC does not currently complete detailed rating calculations at the level required for this analysis past the period of the LTP. As such there are no current long term projections for household charges.



35. Water charges are higher under option 2 (WSCCO) in the medium term and lower under option 2 (WSCCO) in the long term due to LGFA borrowing requirements for WSCCOs. A WSCCO must increase revenue in the medium term to meet the LGFA requirement, but it isn't spending any more, so the additional revenue repays debt. The WSCCO then has less debt and therefore lower interest and debt repayments in the longer term requiring less revenue. Water charges were considered under 'Costs to Consumers' in the shortlist assessment.
36. Option 2 (WSCCO) will result in ~\$1.9 million per annum in stranded costs to QLDC, which translates to, on average, an additional cost per rating unit of ~\$51. Stranded costs can be reduced to ~\$545,000 per annum (or ~\$15 per rating unit) through the WSCCO purchasing support services from QLDC through a transition period. Stranded costs were considered under 'Costs to Consumers' in the shortlist assessment.
37. Modelling for option 2 (WSCCO) assumes that the cost of establishing a WSCCO is ~\$8 million. There is a general expectation from Central Government that a WSCCO would drive efficiencies in operating costs as well as efficiencies that could result in deferral of investment. The modelling has assumed that there is insufficient scope and scale to drive significant operating efficiencies; incorporates operating efficiencies of 0.36% and capital efficiencies of 0.38% year on year. The assumptions supporting this are outlined in Attachment D.

Both options would deliver a similar level of service, as the quality and economic regulatory regimes are designed to ensure this.

38. The LGWS Bill, when enacted, will provide a structured framework for managing and delivering water services in New Zealand. This includes a new planning and accountability framework as well as a new economic regulation regime that will impose common requirements aimed at driving a minimum level of performance regardless of the delivery model chosen.

39. Both options would deliver services that meet nationally set quality and economic performance requirements, as the quality and economic regulatory regimes are designed to ensure this.

Advantages and disadvantages of each option were considered in the shortlist assessment process with option 2 (WSCCO) assessed as being the more advantageous option.

40. Key advantages and disadvantages associated with each option are outlined below, with a summary of the wide range of comprehensive considerations that informed the shortlist assessment process.

41. Option 1 (Inhouse)

Advantages:

- *Alignment of, and responsibility for, interdependent activities:* Retaining water services in house provides the greatest opportunity for two-way integration with a range of dependent/related activities under QLDC control, with one elected body and senior leadership team responsible for ensuring that integration and alignment occurs.
- *Organisational scale and capability:* Water services will be supported by QLDC's established assurance and administrative functions, scaled to the breadth and complexity of the organisation and its activities and appealing to a wide range of potential staff and governance candidates.
- *Broad community reach and participation:* Council will consider community views in setting long term objectives and priorities through direct community consultation on the Water Services Strategy, and the community can directly influence who governs water services through local elections. The typical practice of conducting Council business in public forums provides for transparency beyond prescribed reporting and accountability for water service organisations. Water services will benefit from Council's well-established relationships that will readily enable a constructive and partnered approach to setting aspirations for the district and priorities for the district's water services.
- *Lower household water charges in the medium term:* Compared to a WSCCO, annual household water charges are expected to be lower under an inhouse model until 2033/34.
- *No stranded costs:* Council will have nil or negligible stranded costs to be addressed under an inhouse model.

42. Option 1 (Inhouse)

Disadvantages:

- *Misaligned control and accountability:* Council will continue to make decisions about water services prioritisation and investment but remains exempt from the liability associated with the consequences of those decisions (which instead sit with staff) due to an exemption for Elected Members under the Water Services Act. This weakens an imperative for decision-making to be on a 'best-for-water' basis.

- *Diluted focus across many priority areas:* Councillors and staff are required to be across a broad range of QLDC activities, with no one at a senior staff or governance level fully focussed on performance and delivery of water services. Other activities of QLDC will continue to compete with water services for investment and resources, continuing to put performance under pressure.
- *Distributed responsibility and administrative complexity:* Responsibility for, and understanding of, water services requirements will remain distributed across a wide range of QLDC functions and directorates. This is likely to create significant administrative complexity and interface burden to manage. As an inhouse water services provider, QLDC will have additional obligations to meet that do not exist for a WSCCO, particularly around Information Disclosure and Water Services Strategy preparation.
- *Higher household water charges in the long term:* Compared to a WSCCO, annual household water charges are expected to be higher beyond 2033/34 under an inhouse model.
- *Limited QLDC capacity to invest in emerging non-water activities:* Retention of water services on QLDC's balance sheet means there is limited debt headroom accessible for emerging non-water investment needs and opportunities due to the large amount of water debt.

43. Option 2 (WSCCO)

Advantages:

- *Expert governance with greater independence and appropriate accountability:* A professional board will be appointed based on skill and expertise best suited to governing water services in a regulated environment and would focus exclusively on the performance and enduring sustainability of the district's water services. Clear and proportionate alignment of control and liability will ensure 'best-for-water' decision-making, and a degree of independence will mean decisions are less vulnerable to political influences and competing priorities from non-water activities.
- *Dedicated water services organisation:* The singular focus of a WSCCO will ensure water services requirements are comprehensively understood and met. Direct alignment between organisational priorities and water services activities is expected to achieve greater consistency and continuity of long term service planning and the corresponding allocation of resources.
- *Streamlined processes and lower administrative complexity:* Systems, processes, and workforce composition will be tailored specifically to the needs of water services - providing for more streamlined decision-making and service provision. Relevant legislation and regulation impose fewer ongoing requirements and obligations on a WSCCO relative to those where services are provided directly by a council.
- *Increased QLDC borrowing capacity:* Residual borrowing capacity available to QLDC is 606% higher than if water services are retained inhouse.

- *Lower household water charges in the long term:* By 2034, household water charges are expected to be similar across both models, with a WSCCO then delivering lower household water charges relative to an inhouse model in the long term.
- *Agility to respond to emerging opportunities and future changes:* A WSCCO is expected to be the most-readily adaptable to any further reform directions from current or future government (such as establishing joint WSCCOs), and more streamlined processes and decision-making is expected to support better uptake of emerging opportunities.

44. Option 2 (WSCCO)

Disadvantages:

- *Separation of water services from other related activities:* The separation of water services from dependent and interrelated functions within QLDC (e.g. land use planning, consenting, development engineering, etc) will require more purposeful interaction to ensure objectives remain aligned, creating a greater interface burden than that of an inhouse model.
- *Less direct iwi and community participation:* The planning and accountability framework in which the WSCCO would operate under the LGWS Bill does not require community or iwi involvement in setting the priorities for long term planning. While a WSCCO will have the ability to gather community views, it will not in all cases be required to consult with the community on the Water Services Strategy. The community will rely on its elected Council to provide direction to the WSCCO on water services priorities.
- *Higher household water charges in the medium term:* Until 2033/34, average annual household water charges will be slightly higher than that of an inhouse model.
- *QLDC will have stranded costs to manage:* It is estimated that shifting water services into a WSCCO will leave recurring stranded costs that QLDC will need to address.

The proposed model for consultation with the community is option 2, establishing a WSCCO that is wholly owned by QLDC.

45. While QLDC could continue to deliver financially sustainable water services through an in-house function, the singular focus of a WSCCO governed by a Board made up of experts would provide the greatest opportunity to deliver high quality, resilient, sustainable and reliable water services and provide certainty for the district's communities on the provision of water services.
46. The advantages provided by a WSCCO are considered to outweigh the disadvantages, and the additional cost of a WSCCO⁷ is not deemed to be material enough to drive a decision that is heavily weighted by cost.

⁷ The cost to households is estimated to be, on average, \$173 per year higher under a WSCCO model than an inhouse model, including consideration of the estimated cost of establishing a WSCCO.

47. The disadvantages of an inhouse model are inherent in the design of an inhouse model and would be difficult to mitigate. The key disadvantages to establishing a WSCCO are outlined below, careful planning can ensure that the risks associated with these are managed:

- *Cost of shared functions “stranded” with QLDC.* The separation of water related functions into a separate WSCCO would result in QLDC being left with some costs for shared functions. This can be managed by transitioning affected functions to the WSCCO over time and having the WSCCO purchase these services from QLDC in the interim. This will need to be considered when developing the establishment design for the WSCCO, developing the WSCCO’s Constitution, and setting the Statement of Expectations.
- *Lack of integration of interdependent strategic activities.* There is significant risk related to the separation of water strategy and planning from other key urban and infrastructure planning functions. The legislation will require QLDC to put in place appropriate accountability and monitoring arrangements to ensure a WSCCO performs as expected. This risk, and other concerns about “loss of control” can be managed by deliberately designing mitigation into:
 - the *Statement of Expectations*, which would detail expectations for strategic priorities, desired outcomes, resource management and land use planning, collaboration with QLDC, and engagement with the community and consumers. It would also emphasise the Council’s commitment to partnering with Ngāi Tahu in delivering water services. The WSCCO would be legislatively required to adhere to these expectations.
 - *performance indicators and measures*, which would be aligned with the Statement of Expectation
 - an *annual performance review*, which would consider the WSCCO’s performance in implementing the Statement of Expectation and Water Services Strategy using the agreed performance measures.
- *Less direct iwi and community participation:* Based on the proposed LGWS Bill, a WSCCO is not directly required to engage with the community or iwi in setting the Water Services Strategy. This can be managed by the Council (a) requiring the WSCCO to build an ongoing, collaborative relationship with iwi that enables their views to inform future direction (b) reflecting community viewpoint in the priorities and outcomes that it sets for the WSCCO through the Statement of Expectations or (c) requiring the WSCCO to undertake community or consumer engagement through the Statement of Expectations.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

48. The WSPA Act (sections 61-64) prescribes the consultation process that must be followed for decision-making regarding the future water service delivery model (as set out in the *Legal Considerations and Statutory Responsibilities* section below). These obligations, rather than those

of the Local Government Act 2002 (LGA) and QLDC's Significance and Engagement Policy, have been applied in determining the consultation approach for this proposal.

49. The WSPA Act requires councils to identify and assess future water service delivery model options, and to consult with persons affected by, or interested in⁸, those options. The WSPA Act requires councils to undertake consultation only once.

50. This report outlines the process QLDC undertook to identify options for assessment, the results of that assessment and the proposed future service delivery model for water services. The proposed option, and analysis on the other option considered are set out in the attached consultation document.

51. QLDC will take the following approach to consultation:

- A consultation document will be prepared and made publicly available, and capture all of the information required by section 64 of the WSPA Act (refer Attachment G).
- Consultation will begin at 9.00am on Monday 2 June 2025 and submissions will be open until 5.00pm Friday 27 June 2025.
- The consultation document will be made available on QLDC's "Let's Talk" online engagement platform and be available in hard copy (at no cost) from QLDC's Gorge Road and Ardmore Street offices, as well as at all QLDC public libraries.
- The consultation will be promoted through QLDC social media channels and radio, as well as more direct-to-household communications.
- Council will be asked to make a final decision on the service delivery model in a Council meeting on 31 July 2025; submissions and a report summarising the feedback received will be provided to inform this decision. Note that the WSPA Act does not require hearings to be held. Due to the dependency of the WSDP on this future service delivery model consultation, and the WSDP's due date of 3 September, there will be no hearings on this matter.

Māori Consultation | Iwi Rūnaka

52. QLDC will engage with mana whenua during the consultation period to obtain their views on the proposal and this will be considered alongside wider community feedback prior to the Council decision on the future service delivery model.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

53. This matter relates to the Regulatory/Legal/Compliance risk category. It is associated with RISK10021 Ineffective operations and maintenance of property or infrastructure assets within the QLDC Risk Register. This risk has been assessed as having a very high residual risk rating.

⁸ The persons affected by and interested in the future water service delivery model are the ratepayers and consumers of water services in the Queenstown Lakes District.

54. The changes to the regulatory environment for water services are designed to mitigate this risk. While both options set out in this report can deliver to the new regulatory requirements, and therefore can assist in mitigating this risk, the implementation of the proposed option (a WSCCO) is likely to be more successful in doing so.

Financial Implications | Kā Riteka ā-Pūtea

55. Estimated financial implications, as they are currently understood, are covered in the *Analysis and Advice* section above.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

56. The proposal supports QLDC's ability to deliver on the outcomes and priorities set out in QLDC's strategic framework, and the objectives and actions to address significant issues set out in QLDC's Infrastructure Strategy.
57. The proposal would require additional funding to implement and would require the transfer of a significant asset to a WSCCO as such an amendment to the LTP would be required if the proposed option is adopted. The consultation outlined in this report meets the consultation requirements for a potential amendment to transfer the strategic asset.

Legal Considerations and Statutory Responsibilities | Ka Ture Whaiwhakaaro me kā Takohaka Waeture

58. The WSPA Act sets out a modified process that councils must comply with when they consider future delivery models for water, and adopt their WSDPs, as set out in the table below. These obligations apply instead of equivalent obligations under the Local Government Act 2002 (LGA).
59. There are further obligations that may yet apply in the LGWS Bill, if future changes are considered by the Council. The Select Committee considered this Bill earlier this year but have not yet released their report and it has not yet been enacted. Any additional, or different, obligations imposed by the LGWS Bill will only apply after the LGWS Bill is passed into law, which is expected to be after the Council has made its decision on its future water service delivery model and adopted its WSDP.
60. This report sets out QLDC's approach to meeting these obligations by identifying future water service delivery model options, assessing these options and setting out the proposed approach to consulting with the community on these options.

<p>WSPA Act Section 61 – Alternative requirement: decision making</p> <p><i>Applies in place of section 77(1)(a) and (b) of the LGA.</i></p>	<ul style="list-style-type: none"> • Council must explicitly make a decision on the future service delivery model for water services. • In making this decision, Councils must consider both remaining with the existing approach and establishing or joining a WSCCO or joint local government arrangement. • Council may identify additional options for delivering water services. • Council must assess the advantages and disadvantages of all options identified.
--	---

<p>WSPA Act Section 62 – Alternative requirement: consultation <i>Applies in place of section 56(1) of the LGA</i></p>	<ul style="list-style-type: none"> • Councils are required to undertake consultation on the future service delivery model only once. • This applies despite anything to the contrary in the council's significant and engagement policy.
<p>WSPA Act Section 63 – Alternative Requirement: Consultation on amendment to long term plan <i>Applies in place of sections 93(5) and 97(2)(b) of the LGA</i></p>	<ul style="list-style-type: none"> • Applies if the council is required to amend its long term plan to give effect to an anticipated or proposed future water services delivery model. • Councils are not required to consult on the amendment if: <ul style="list-style-type: none"> ○ Consultation on the proposed future service delivery model has already taken place. ○ Council is satisfied that its community has a good understanding of the implications of the proposed model. ○ Council is satisfied that it understands the communities view on the proposed model. • This applies despite anything to the contrary in the council's significance and engagement policy.
<p>WSPA Act Section 64 – Alternative requirement: Information requirements for consultation <i>Applies in place of section 82(2) of the LGA</i></p>	<ul style="list-style-type: none"> • In consulting on the future water service delivery model, a council must make the following information publicly available: <ul style="list-style-type: none"> ○ The proposal, an explanation of the proposal and the reasons for the proposal (where the proposal is the proposed future service delivery model). ○ An analysis of the reasonably practicable options, including the proposal, which must be those options identified under section 61. ○ How proceeding with the proposal is likely to affect council's rates, debt and levels of service as well as charges for water services. ○ How not proceeding with the proposal is likely to affect council's rates, debt and levels of services as well as charges for water services. ○ If the proposal involves transferring ownership and control of a strategic asset to a WSCCO, a description of the accountability and monitoring arrangements council will use to assess performance of the WSCCO.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kiaka

61. Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

62. One of the core drivers of Local Water Done Well is to provide communities and councils flexibility to determine the most appropriate delivery model for water services, rather than having this mandated by central government. This report outlines the analysis of different options for delivering water services in the future, and the consultation process to obtain community views on those models, to inform Council's decision on which model will be adopted. As such, the recommendations of this report clearly align with local government's purpose to enable democratic local decision-making and action by, and on behalf of, communities.

63. The other core driver is to enable financially sustainable water services that balance economic outcomes with environmental and water quality outcomes. As such, the recommendations of this report clearly align with local government's purpose to promote economic and environmental well-being of communities in the present and for the future.

64. The proposed option:

- Would require additional funding to implement and would require the transfer of a strategic asset to a WSCCO, as such an amendment to the LTP would be required if the proposed option is adopted. The consultation outlined in this report covers the consultation requirements to amend the LTP for the transfer of the strategic asset.
- Would impact QLDC plans and policies; a comprehensive review of these would need to be undertaken if the proposal is adopted to identify the changes required. For example, the Revenue and Financing Policy and Development Contribution Policy would need to be updated to reflect the transfer of the strategic water assets to the WSCCO.
- Would not significantly impact the intended level of service provision for water services; both options would deliver services that meet nationally set quality and economic performance requirements, as the quality and economic regulatory regimes are designed to ensure this.

Attachments | Kā Tāpirihaka

A	Longlist Assessment
B	Option Description
C	WSCCO Oversight and Governance Requirements
D	Financial Modelling Assumptions
E	Assessment Results
F	Additional Testing Results
G	Statement of Proposal