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 term[1]. 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 long[1] 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.

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19 May 2025

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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. *High level assessment of longlist of options:* 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. *Shortlist Assessment:* 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. *Shortlist Assessment Testing:* 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. *Debt Levels*	Paragraphs 24 – 30
ii. *Household water charges*	Paragraphs 31 – 37
iii. *Levels of Service*	Paragraphs 38 – 39
iv. *Advantages and disadvantages*	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.

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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.

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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.

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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	• 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. *Stranded costs are recurring operating expenses associated with shared functions that will remain with QLDC if a WSCCO were established.*
People and Capability: Attract and retain the best people to govern and provide water services	• 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	• 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	• 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	• 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	• 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?

  <u>This did not change the assessment for an inhouse function positively or negatively,</u> 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. <u>If inhouse is selected as the model to be implemented, establishing a standalone directorate will be explored further.</u>

- *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. <u>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.</u>

- *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. <u>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.</u>

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 QLDC[2].

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 requirements[4]. 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.

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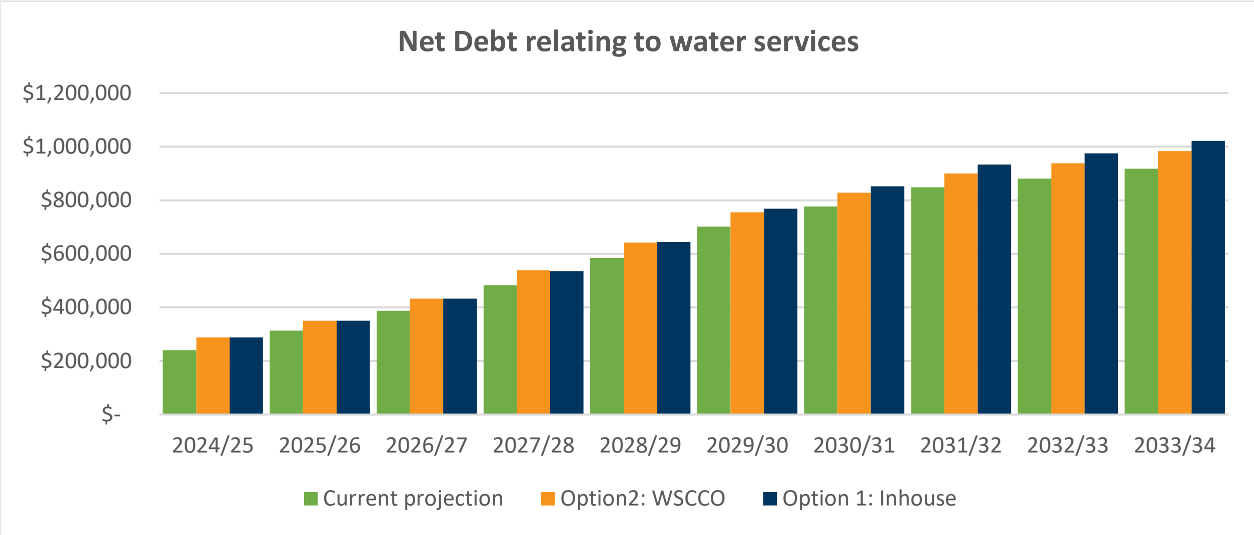
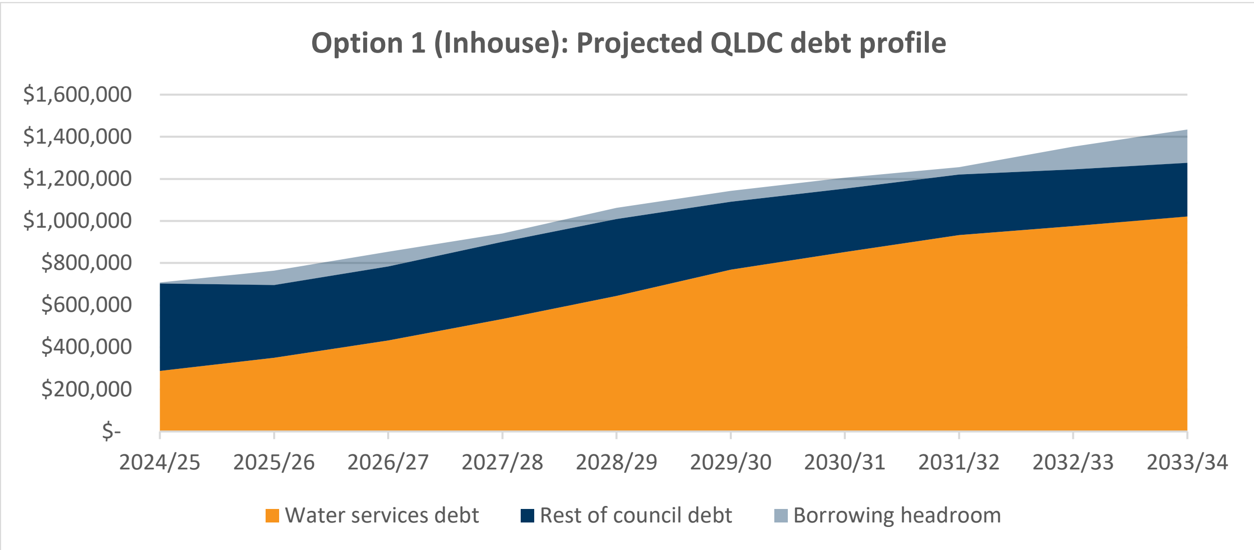
[2] For comparative modelling purposes it has been assumed that for option 2 a WSCCO would be implemented by the beginning of the 2027/28 financial year. However, a separate decision will need to be made about the implementation date if option 2 is selected.

[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%.

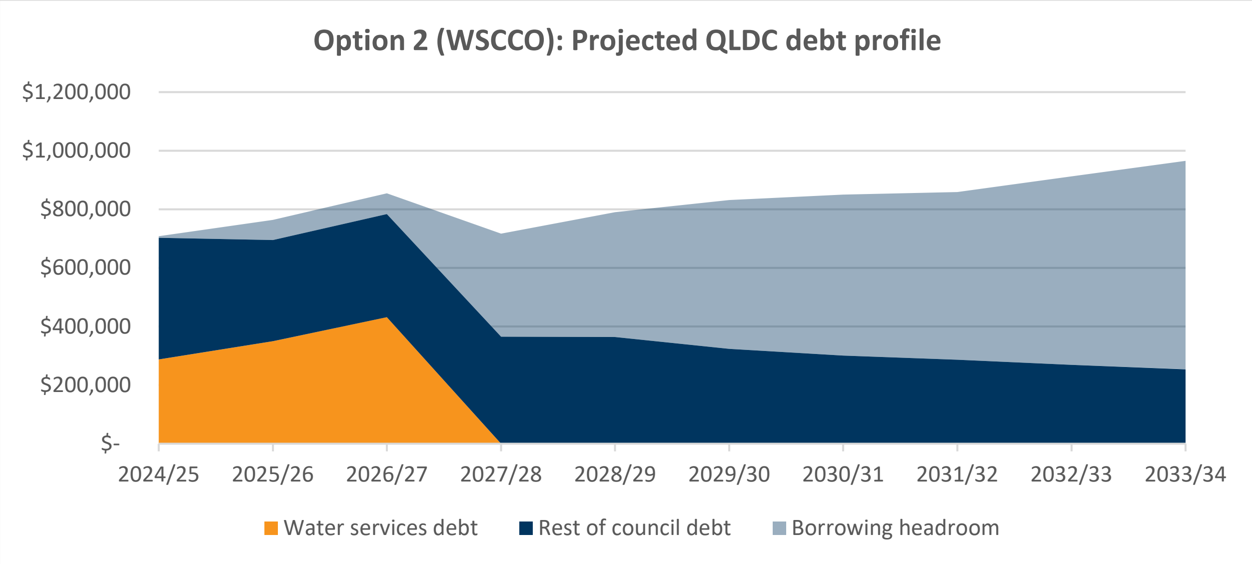
[4] It is expected that WSCCOs will have to meet a Free Funds from Operations (FFO) to debt ratio of 9%. The FFO ratio measures the percentage of debt balance that is generated in free cash flow each year. FFO = operating revenue LESS expenses (minus depreciation and non-cash items).



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.

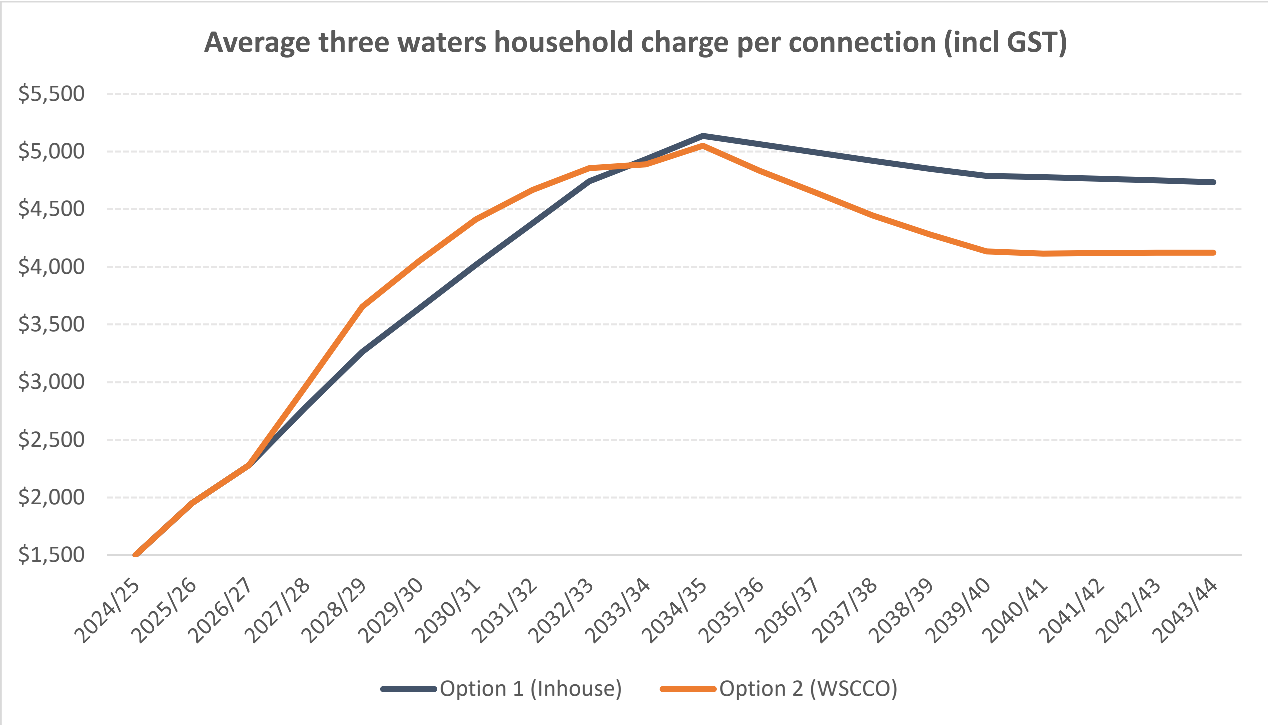
33. Water services are currently funded through specific water related rates that are set, and spent, separately to rates for other activities. Under option 1 (inhouse), this would continue to be the case. Under option 2 (WSCCO), water services would be funded through a water charge that would be billed by the WSCCO[5]. 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:
• 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 projections[6].	• 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 WSCCO[7] 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 in[8], 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.

WSPA Act Section 61 – Alternative requirement: decision making *Applies in place of section 77(1)(a) and (b) of the LGA.*	• 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.

WSPA Act Section 62 – Alternative requirement: consultation *Applies in place of section 56(1) of the LGA*	• 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.
WSPA Act Section 63 – Alternative Requirement: Consultation on amendment to long term plan *Applies in place of sections 93(5) and 97(2)(b) of the LGA*	• 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: o Consultation on the proposed future service delivery model has already taken place. o Council is satisfied that its community has a good understanding of the implications of the proposed model. o 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.
WSPA Act Section 64 – Alternative requirement: Information requirements for consultation *Applies in place of section 82(2) of the LGA*	• In consulting on the future water service delivery model, a council must make the following information publicly available: o The proposal, an explanation of the proposal and the reasons for the proposal (where the proposal is the proposed future service delivery model). o An analysis of the reasonably practicable options, including the proposal, which must be those options identified under section 61. o How proceeding with the proposal is likely to affect council's rates, debt and levels of service as well as charges for water services. o 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. o 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-Kīaka

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.

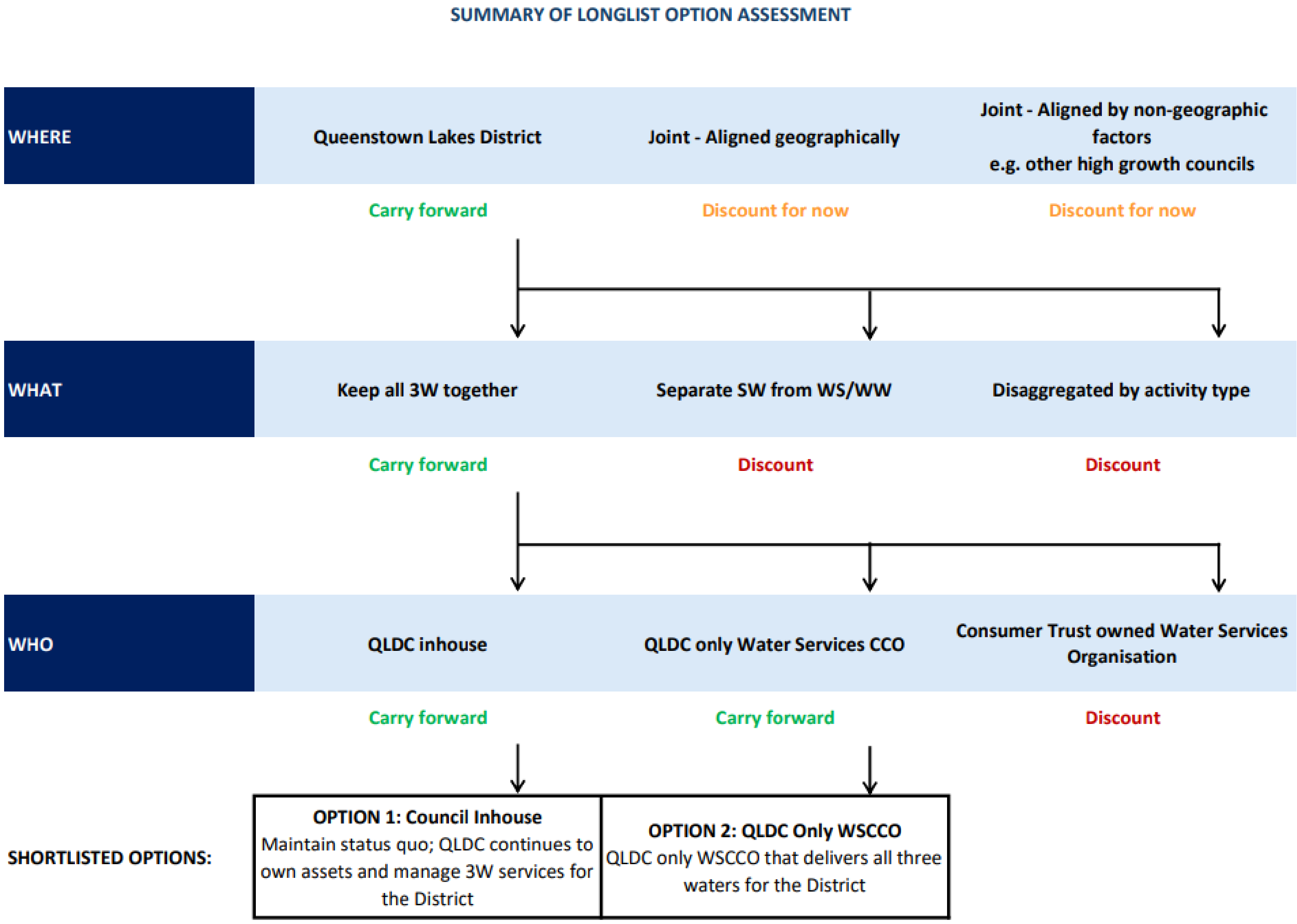
- Would impact QLDC plans and policies; a comprehensive review of these would need to be undertaken if the proposal is adopted to identify the changes required. For example, the Revenue and Financing Policy and Development Contribution Policy would need to be updated to reflect the transfer of the strategic 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

ATTACHMENT A: LONGLIST ASSESSMENT



WHERE	
What are we asking?	Future water service provision could be delivered at varying scales, from our status quo of service provision across the QL district to a broader arrangement that may offer some economies of scale. Any broader scale would ultimately be reflected in the location a provider delivers services to (be that geographically aligned or otherwise). Here were are asking **where could service provision be viable and potentially beneficial?**
Why are we asking this?	Local Water Done Well aims to ensure the future financial sustainability of water services, and provides for this to be achieved either by territorial authorities on their own, or for groups of territorial authorities to join together. It is important to consider whether joining with others could be beneficial for our district's future water services, and if so, whether that is viable at this time.

Critical Success Factors	Options		
	(1) Queenstown Lakes District	**(2) Joint - Aligned geographically**	**(3) Joint - Aligned by non-geographic factors e.g. other high growth councils**
Economic viability Considers: whether the option offers economic benefits (e.g. access to financing, economies of scale, delivery efficiencies) relative to the status quo.	Pass	Possible	Possible
	Represents the status quo	Joining together the water services of multiple councils would be reasonably expected to match or improve the economic benefits of the status quo. However, the geographic location and financial performance of the other councils could undermine this. This would be dependent on the specific partners.	Joining together the water services of multiple councils would be reasonably expected to match or improve the economic benefits of the status quo. However, if these councils were geographically dispersed these benefits could be undermined. This would be dependent on the specific partners.
Achievability Considers: whether the option can be succesfully designed and understood within the time available.	Pass	Fail	Fail
	Provision of district-wide 3W services is already in place and well understood.	Partnering could deliver a range of benefits to the district's residents and ratepayers. To leverage these benefits, QLDC needs to find the right partners and take time to robustly work through how an enduring and successful partnership would be structured and implemented. Some key principles underpinning any partnership should include: • There is strong alignment of objectives and priorities between parties • The partnership would be beneficial for our district's current and future residents and ratepayers • Meaningful scale would be achieved • The partnership is likely to be enduring There is insufficient time to robustly identify all possible, and willing, partners and assess the potential benefits. Within the timeframes available there were three potential groupings identified. None of these groupings are considered reasonably practicable for the purposes of taking them forward into the assessment process: 1. All of Otago Southland: This was initially modelled but as some councils opted out it is not an option that is available. 2. Smaller grouping with Central Otago, Clutha, Gore, Waitaki: Initial modelling for QL's inclusion showed that a joint entity with QL would be more expensive for other districts. The group faces different challenges, with QL's assets being newer and investment focused on growth, while other councils deal with older assets and compliance issues. Aligning investment priorities would be difficult, and the combined entity wouldn't achieve significant efficiencies, as 65% of the capital program would be QL's investment. 3. Joint entity with other growth councils: some early exploration of this approach occured in recognition of potential benefits, but there are no viable partnerships available at this time. Council may wish to proactively explore potential partnerships into the future with a view to joining or sharing services at a later date - proceeding with a district-level scale for now does not preclude a future partnership model.	
Results	Carry forward	Discount for now	Discount for now

WHAT	
What are we asking?	Our assessment of potential scale has determined that, at this time, the only reasonably practicable options for QLDC's consideration are at a district level. In this context, we need to understand whether it makes sense to keep the provision of the district's three waters services together (managed by one party) or if there are benefits in separating the provision of some or all of these services. Here we are asking **what combination of 3W services could work for our district?**
Why are we asking this?	While water supply, wastewater, and stormwater are all deemed to be types of water services and must comply with associated legislative and other requirements, the legislative and regulatory environment acknowledges that it may be beneficial for some territorial authorities to transfer ownership of only their water supply and wastewater assets into an alternative service provision arrangement, retaining the management of stormwater networks in house.

Critical Success Factors	Options		
	(1) Keep all 3W together	**(2) Separate SW from WS/WW**	**(3) Disaggregated by activity type**
Economic viability Considers: whether the option offers economic benefits (e.g. access to financing, economies of scale, delivery efficiencies) relative to the status quo.	**Pass** Represents the status quo	**Fail** Separating SW from WW and WS would reduce scale of both services, add complexity and cost relative to options that keep three waters provision together. Given the size of QLDC's three waters function, the scale of SW on its own could not be resourced as efficiently or cost-effectively relative to the status quo (the full suite of asset management lifecycle capabilities and accompanying management structure would need to be established for both WS&WW and SW - creating local competition for limited expertise and duplicating costs/capabilities across 3W services). Additionally, there would be high interface burden and administrative effort in maintaining alignment between the activities, which could otherwise be directed towards improving performance. Separation of the services requires both providers to be inherently more responsive to the actions/decisions of each other - increasing the risk of diverting resources away from long-term investment plans & intentions.	**Fail** As per option 2, but further resourcing inefficiencies and greater administrative burden and inefficiency in managing three separate activities.
Achievability Considers: whether the option can be succesfully designed and understood within the time available.	**Pass** 3W assets and services are currently owned/managed together.	N/A - failed previous CSF	N/A - failed previous CSF
Results	**Carry forward**	**Discount**	**Discount**

WHO	
What are we asking?	Our assessment of potential scale and scope has determined that, due to the district's relatively small size and the strong interdependence between wastewater and stormwater network planning/management, the only reasonably practicable option is to retain the ownership and management of all three waters services together. Here we are asking **who could be the district's water services provider?**
Why are we asking this?	Local Water Done Well provides a for a range of delivery models including retaining services within territorial authorities, transferring responsibilitie to a Water Services Council Controlled Organisation (WSCCO) or transferring responsibilities to a Consumer Trust. We need to understand which of these models makes sense for the future delivery of the district's water services.

Critical Success Factors	Options		
	(1) QLDC inhouse	**(2) QLDC only Water Services CCO**	**(3) Consumer Trust owned Water Services Organisation**
Economic viability Considers: whether the option offers economic benefits (e.g. access to financing, economies of scale, delivery efficiencies) relative to the status quo.	**Pass** Represents the status quo	**Pass** The scale of a single Council WSCCO, that includes all three waters, would be the same as that of an inhouse function. As such it is reasonable to assume that a WSCCO would offer at least the same economic benefits as the status quo. Whether this option delivers greater economic benefits can only be determined through a more detailed assessment.	**Fail** A new water organisation, owned by a new Consumer Trust, would not have access to LGFA borrowing and would lack a track record of financial performance and creditworthiness. These factors would make it considerably harder to access financing options as favourable as those available through other models, including the status quo. In addition, ability to secure borrowing would require detailed financial planning and negotiations with potential funders and DIA.
Achievability Considers: whether the option can be succesfully designed and understood within the time available.	**Pass** Represents the status quo	**Pass** As a joint WSCCO has been discounted (for now), work to design and understand the implications of a WSCCO is required under the Local Government (Water Services Preliminary Arrangements) Act.	N/A - failed previous CSF
Results	**Carry forward**	**Carry forward**	**Discount**

ATTACHMENT B: OPTION DESCRIPTION

	Option 1: QLDC Inhouse	Option 2: WSCCO
Governance Arrangements	Existing Council sub-committees remain (Infrastructure Committee, Assurance, Finance and Risk Committee) and responsibilities / Term of Reference reviewed to take account of new economic regulation and planning and accountability requirements. *Sensitivity test: Water Services Committee. Determine the impact of establishing a Water Services Committee with responsibility for overseeing water services performance, that has independent members appointed based on their competency to perform the role.*	WSCCO is governed by an Independent Board of Directors, appointed by QLDC as the shareholder. Directors are appointed based on their competency to perform the role and do not include QLDC Councillors or staff.

Decision Making and Control	QLDC makes decisions, including the decision of what level of decision making is delegated to Committees, the Chief Executive, General Managers and officers.
	
	The Water Services Strategy must be aligned with the LTP, publicly consulted, and adopted by the Full Council. This means Council (elected members) are the decision-makers about water services priorities, performance, funding, financing, and expenditure.
		QLDC establishes a WSCCO based on retaining the minimum amount of control allowable within the legislative and regulatory framework, as set out below:
		• The Statement of Expectations covers minimum requirements only:
		  ○ QLDC's strategic priorities for the WSCCO.
		  ○ the outcomes that QLDC expect the WSCCO to achieve by delivering water services.
		  ○ requirements relating to QLDC's resource management planning and land-use planning.
		  ○ the information that the WSCCO must include in its water services half-yearly report.
		• The Water Services Strategy will be approved by the Board and will not be consulted on. The Constitution will define that QLDC is able to provide comments on the draft water services strategy but will not have the power to require changes or approve the final strategy.
		
		Sensitivity test: QLDC retains maximum control of the WSCCO. Determine the impact of QLDC establishing a WSCCO based on retaining the maximum amount of control allowable within the legislative

	Option 1: QLDC Inhouse	Option 2: WSCCO

		and regulatory framework, as set out below:
		• *Statement of Expectations additionally covers:*
		  ○ *how QLDC requires the WSCCO to conduct its relationships with QLDC, the community or specified stakeholders within the community, iwi, and consumers*
		  ○ *performance indicators and measures that QLDC will use to monitor the WSCCO*
		  ○ *a requirement to undertake community or consumer engagement, and the contents of that engagement*
		  ○ *expectations in relation to collaborating with QLDC and other parties when providing water services*
		  ○ *a requirement that part or all of the water organisation's water services strategy must be independently reviewed.*
		• *QLDC will retain decision making on the Water Services Strategy. The Constitution will define that QLDC is able to provide comments on the draft water services strategy, will require the WSCCO to amend the draft strategy, and will approve the final strategy.*

Accountability	Accountability remains the same: • Water Services Act: Councillors are exempt from the duty to exercise due diligence and therefore are exempt from any liability under this Act. Councillors are the decision makers under this model, but do not carry the liability for the consequences of decisions. • Commerce Act: Councillors are liable for inaccurate information disclosures made to the Commerce Commission i.e. there is no carve out for Elected Members like is the case under the	• Water Services Act: Directors can be held liable for the consequences of decisions that do not reflect the duty to exercise due diligence. In this case the Directors are the decision makers and carry the liability for the consequence of decisions. • Commerce Act: Directors are liable for inaccurate information disclosures made to the Commerce Commission. As Council has delegated all decision making to the WSCCO Councillors have no liability. The base level of economic regulation (Information Disclosure) requires annual regulatory reports,

	Option 1: QLDC Inhouse	Option 2: WSCCO
	Water Services Act. The base level of economic regulation (Information Disclosure) requires annual regulatory reports, including regulatory financial statements using alternative financial reporting principles, and annual demonstration of financial ringfencing of three waters (including method of overhead cost allocation). The Commerce Commission has the power to consider information on wider Council operations if they think that this is impacting on decisions relating to water services. • Local Government Act: Councillors are accountable to their communities for decision making through the election process. • Local Government (Water Services) Bill: QLDC is required to consult with the community on the Water Services Strategy. *Sensitivity test: Water Services Committee. Determine the impact on accountability under indicated legislation of having independent members on a Water Services Committee.*	including regulatory financial statements using alternative financial reporting principles. Demonstration of financial ringfencing only occurs once, upon establishment of WSCCO. The Commerce Commission's powers are limited to considering the performance of the WSCCO. • Local Government Act: LGA does not apply to the WSCCO and there are no alternative mechanisms for direct community engagement or accountability, but the regulatory regime is designed to protect the interests of consumers. • Local Government (Water Services) Bill: A WSCCO is not required to consult with the community on the Water Services Strategy. *Sensitivity Test: QLDC retains maximum control of the WSCCO.* • *Water Services Act: Determine the impact of Council retaining responsibility for key decisions on the Directors' duty to exercise due diligence under the Water Services Act. In this case the Directors are not the decision makers but carry the liability for the consequence of decisions. Councillors are exempt from this liability.* • *Commerce Act: Determine the impact of Council retaining responsibility for decisions about capital and operating expenditures and the level of charges or revenue recovery (as would be the case if Council is approving the Water Services Strategy). This will consider the impact on Councillor and Director liabilities and the impact of the ability of the Commerce Commission to consider wider Council operations.* • *Local Government (Water Services) Bill: Determine the impact of QLDC requiring the WSCCO to consult with the community on the Water Services Strategy.*

	Option 1: QLDC Inhouse	Option 2: WSCCO
Management Structure	The structure remains the same; water services continue to be delivered by the Property and Infrastructure directorate, which integrates water and other infrastructure services, reporting to the Chief Executive. *Sensitivity test: Separate water services directorate. Determine the impact of creating a separate water services directorate that reports directly to the Chief Executive.*	To be set out by the Chief Executive and Board of the WSCCO. Will likely take the functional approach of a typical water services provider business; planning (strategic, asset, investment), delivery (project, operations), corporate / support services.
Support Services	The structure remains the same; water services continue to be supported by other services from across QLDC (including finance, risk, assurance, legal, human resources, information technology and management, communications).	To be set out by the Chief Executive and Board of the WSCCO. Will likely take the functional approach of a typical "self-contained" water services provider business; planning (strategic, asset, investment), delivery (project, operations), and support services. *Sensitivity test: Purchase support services from QLDC. Determine the impact if the certain services were purchased from QLDC.*
Funding	Borrowing arrangements remain unchanged; QLDC can access LGFA financing of up to 280% of Council's revenue (covenant can be updated to increase this to 350%). While repayment of debt is ringfenced, LGFA does not consider revenue:debt for individual services. This means that QLDC can decide to utilise a higher proportion of available debt for water services, if this borrowing is not needed for non-water services. This impacts on Council's ability to access lending for other activities. Continuing the status quo would require a decision on the appropriate level of revenue:debt for three waters, and this is required to be disclosed in the Water Service Delivery Plan.	A WSCCO can access LGFA financing based on a Free Funds from Operating to Debt ratio, assumed to be 9%. Council would need to provide a guarantee for that borrowing or issue uncalled capital to the value of borrowing. Three waters debt would not be part of Council's overall borrowing.

ATTACHMENT C: WSCCO GOVERNANCE AND OVERSIGHT REQUIREMENTS

Outlined below are the key elements of the legislative framework set out in the Local Government (Water Services) Bill that relate to a shareholding council's influence and control of a WSCCO. The Local Government Act prescribed CCO model relies on principles of trust, integrity and strong stakeholder relations. The WSCCO model aspires to the same principles but is more prescriptive around the binding nature of Council's expectations.

Strategic Direction:

- The council must prepare a Statement of Expectation (SOE), and this must include the council's expected outcomes and strategic priorities for water services. The SOE is binding on a WSCCO.
- A WSCCO must prepare a Water Services Strategy and must reflect the council's expectations, as stated in the SOE, in its Water Services Strategy.
- The council may choose to approve the final strategy or require a WSCCO to amend the draft strategy based on its comments, in which case a WSCCO must do so. At a minimum the council must review the draft WSS and annual budgets and provide comments to the WSCCO.

Oversight and Monitoring:

- The SOE must state what information is to be included in the WSCCO's half yearly report and may include performance indicators and measures that the council will use to monitor the WSCCO
- The council must include in the SOE that the WSCCO is required to act in accordance with any relevant statutory obligation that applies to the council.
- The council must include in the SOE how it expects the WSCCO to meet objectives and perform its duties and functions and exercise its powers.
- Any expectations stated in the SOE are binding on the WSCCO.
- The WSCCO must include in its Water Services Strategy the measures and targets by which the council will assess its performance.
- The council must undertake an annual review of the WSCCO's performance in giving effect to the SOE and the priorities, objectives and outcomes specified in the Water Services Strategy.

Relationships and Engagement:

- The council may state in the SOE how it requires the WSCCO to conduct its relationships with the council, communities, other stakeholders, hapū, iwi, and other Māori organisations, and consumers. Any expectations stated in the SOE are binding on the WSCCO.
- A WSCCO is not required to consult with the community on its Water Services Strategy. However, the council can choose to require the WSCCO to consult on any proposals contained in the draft Water Services Strategy as well as other community or consumer engagement.

Resource Management and Land Use Planning:

- The council must state in the SOE the requirements relating to the council's resource management planning and land-use planning that will be relevant to the WSCCO', and these are binding on the WSCCO.

Budget and Price Setting:

- A WSCCO must prepare a Water Services Strategy, and this must include a complete set of financial statements for the period covered. A WSCCO must prepare an annual budget for each year that is not the first year to which the WSS relates.

- The council may choose to approve the final WSS and annual budget or require a WSCCO to amend the draft strategy based on its comments, in which case a WSCCO must do so. At a minimum the council must review the draft WSS and annual budgets and provide comments to the WSCCO.

ATTACHMENT D: FINANCIAL MODELLING ASSUMPTIONS

Outlined below are the assumptions used for the financial modelling included in this report. All financial information that informed the assessment, and that 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 Long Term Plan, 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.

Assumptions supporting financial modelling:

- Financial sustainability requirements are met from 2027/28 on.
- WSCCO is implemented in the 2027/28 financial year.
- WSCCO must meet 9% FFO to debt ratio from the first year of operation.
- WSCCO does not purchase any services from QLDC ongoing or during a transitional period.
- Inflation based on BERL adjusters.
- NPV rate is 2%. Real (4.04% nominal including inflation)
- Depreciation funding is consistent with QLDC base data.
- Interest rate is consistent with QLDC base data.
- Both options include additional costs for two economic regulatory reporting specialists.
- A WSCCO would achieve operating efficiencies of 0.36% and capital efficiencies of 0.38% year on year. Efficiencies have been assumed to be minimal as they arise only from structural changes and there are no economies of scope or scale.
- WSCCO establishment costs are debt funded.

Estimated costs for WSCCO establishment:

Outlined below are the cost assumptions for establishing a standalone WSCCO that does not purchase services from QLDC (option 2). These costs have been built into the cost, and therefore debt and household cost, projections for option 2 (WSCCO) based on these costs all occurring in 2027/2028.

Note that this is not a proposal on what the costs will be, it is a very high level estimate to enable modelling to be undertaken. The estimate was provided by Morrison Low, who undertook the modelling and is consistent with establishment cost assumptions they have used for other similar modelling.

Transition team: Develop and implement an initial transition plan, ensuring it is adequately resourced. Appoint a transition lead and workstream leads, allocate internal staff time, and provide additional backfill resources as needed.	$880,000
WSCCO established and resourced: Establish a shell WSCCO, appointing a CEO, Tier 2 executives, and a Board six months prior to commencing operations. The CEO and two General Managers be engaged at 70% capacity for the initial six months.	$380,000
Operating model design: Design a new operating model and associated organisation structure.	$400,000

Communications and engagement: Targeted engagement with stakeholders throughout process.	$400,000
Brand establishment: New logo and brand creation in different formats.	$150,000
Restructuring: Assume existing three waters staff and support roles to be similar enough to transfer to new organisation, allow for some restructuring costs as some staff may choose not to transfer and role description may change enough to justify technical redundancy.	$250,000
Finance & funding: Establish a comprehensive financial structure for the new entity, including the balance sheet, debt arrangements, and pricing strategies. Secure legal and financial support to facilitate debt novation and transfer.	$400,000
Legal & compliance: Facilitate the transfer of all titles, duties, rights, and obligations, ensuring legal advice is sought at various stages of the process.	$360,000
Office set up: Floor area based on $15m^2$ per staff member x fitout allowance of $1200 per m^2.	$745,000
Contingency: 25% of estimated costs	$991,250
Total:	$4,956,250

In addition to the establishment costs for the entity outlined above the modelling also includes a provision for the establishment of new IT systems of $3 million, spread over two years.

ATTACHMENT E: ASSESSMENT RESULTS

1. ASSESSMENT – RATIONALE AND SCORING

This section sets out the considerations and scoring guideline for each criterion, the result of the scoring undertaken by QLDC and the rationale supporting that scoring.

A. Costs to Consumers: How likely is the model to minimise the total cost to households arising from the new 3W regime?

Assessment considered how well the model will…	Inhouse	WSCCO
Minimise the impact on household 3W charges **Scoring guideline:** Prescribed (scored relative to the lowest NPV of household 3W charges over a ten-year horizon) 1 = 68-100% higher than the lowest NPV; 2 = 34-67% higher than the lowest NPV; 0-33% higher than the lowest NPV	3	3
Minimise QLDC's exposure to stranded costs that need to be recovered from ratepayers **Scoring guideline:** Prescribed (scored relative to the highest value of stranded costs) 1 = 68-100% of the highest value; 2 = 34-67% of the highest value; 0-33% of the highest value	3	1
Cost to Consumers Score	**3.00**	**2.00**
Model design sensitivities?	-	✓

Inhouse

- ✓ Lowest NPV and annual household water charges until FY34.
- ✓ Nil/negligible stranded costs
- × In the long term annual household water charges will be higher than a WSCCO.

WSCCO

- ✓ Lowest household water charges in the long term
- × Highest household water charges in the medium term ($77 more per year on average).
- × Leaves QLDC with stranded costs of ~$1.9M per annum after WSCCO establishment

B. People and Capability: How likely is the model to attract and retain the best people to govern and provide water services?

Assessment considered how well the model will…	Inhouse	WSCCO
Appeal to high-quality governance candidates with the best skills and experience to oversee water services **Scoring guideline:** Subjective - Appeal is expected to be higher where (a) control and accountability are aligned, (b) organisational reputation and sector visibility are positive, (c) there is good ability to influence organisational direction and performance, and (d) remuneration is competitive. 1 = Low appeal; 2 = Moderate appeal; 3 = High appeal	1	2
Achieve a high-performing and resilient resourcing model across all aspects of the asset management lifecycle. **Scoring guideline:** Subjective - Likelihood of achieving this is expected to be higher where (a) staff have a good ability to influence direction of water services and performance, (b) professional development for individuals is prioritised, (c) workforce development is prioritised, (d) there are opportunities for advancement and broadening of experience, and (e) remuneration is competitive. 1 = Low likelihood of achieving; 2 = Moderate likelihood of achieving; 3 = High likelihood of achieving	2	2
People & Capability Score	**1.50**	**2.00**
Model design sensitivities?	-	✓

Inhouse:

- ✓ Governance and workforce appeal: Council retain strategic control through Water Services Strategy and Long Term Plan approval, and staff can influence performance through operations and advice. Governance and career opportunities are attractive due to broad impact and the district's rapid growth.
- ✓ Development opportunities: Being part of QLDC offers staff cross-departmental collaboration and diverse development pathways, especially valuable for leadership growth beyond water services.
- ✗ Accountability gap: Council makes key decisions, but liability rests with staff under the Water Services Act. This misalignment may discourage staff and weakens incentives for water-focused decision-making.
- ✗ Workforce development constraints: Few dedicated water roles hinder succession planning and technical growth. QLDC's scale restricts tailored development for individual disciplines, and budget pressures may reduce future investment in staff development.

WSCCO:

- ✓ Aligned accountability: A WSCCO aligns decision-making with accountability, ensuring Water Services Act liability also rests with decision-makers.
- ✓ Expert governance: Directors would be selected for their expertise, focussed solely on water service performance and sustainability, and free from political influence.
- ✓ Attractive pay and development: Director roles offer strong pay with lighter workloads than Councillors. A WSCCO could provide more flexible staff salaries and targeted water sector training, guided by technically informed directors.
- ✗ Governance and reputation risks: While the Board may operate independently, Council retains reputational exposure and influence, which can limit true autonomy and deter prospective board members and staff.
- ✗ Talent attraction challenges: The WSCCO's small scale and narrow focus may limit its appeal to governance and professional candidates seeking broader scope and complexity – especially amid high sector-wide demand.

C. Operational Efficacy: How likely is the model to provide for the effective conduct of all aspects of water services management and delivery?

Assessment considered how well the model will…	Inhouse	WSCCO
Ensure reliable delivery of water services to a standard consumers can reasonably expect **Scoring guideline:** Subjective - Likelihood of achieving this is expected to be higher where (a) there is a core focus on three waters with few competing priorities, (b) there is a strong emphasis on leadership, performance, and risk management, and (c) there is a direct and proportionate relationship between control and accountability. 1 = Low likelihood of achieving; 2 = Moderate likelihood of achieving; 3 = High likelihood of achieving	2	3
Enable alignment and integration of interdependent activities **Scoring guideline:** Subjective - Ability to align interdependent activities is expected to be higher where there is a (a) clear mandate for alignment, (b) clear understanding of the interdependencies and why they are important, and (c) clear delineation between (and definition of) interdependent functional responsibilities. 1 = Low ability to align; 2 = Moderate ability to align; 3 = High ability to align	3	1
Readily enable requirements to be fulfilled to a high standard - minimising ongoing administrative complexity associated with these activities. **Scoring guideline:** Subjective - Ability to enable this is expected to be higher where (a) there is a clear understanding of the ongoing requirements, (b) staff do not have to work under multiple sets of requirements or expectations, and (c) the administrative complexity is lower compared to other options. 1 = Low ability to enable; 2 = Moderate ability to enable; 3 = High ability to enable	1	3
Operational Efficacy Score	**2.00**	**2.33**
Model design sensitivities?	✓	✓

Inhouse

- ✓ Organisational capability: QLDC's scale offers strong access to leadership development and specialist functions (e.g. finance, assurance, investment, infrastructure delivery).
- ✓ Integration: Keeping water services inhouse enables better coordination with related functions like planning, consenting, and infrastructure delivery, overseen by one governing body and senior leadership team.
- × Competing priorities: Water decisions must be balanced against broader community and political priorities, creating tension as water is regulated while other services are not. These competing needs reduce incentives to consistently prioritise water investment.
- × Fragmented responsibility: Responsibility for water service requirements is spread across multiple teams, increasing the risk of misalignment, misunderstanding, and rework. This fragmentation will require staff to navigate complex, overlapping requirements across regulated water and unregulated non-water functions.
- × Additional obligations: Inhouse models have obligations like consultation and ringfencing, unlike WSCCOs. They must handle various water regulation requirements, such as regulatory accounts and a separate Water Services Strategy, necessitating new systems for efficient compliance and reporting.

WSCCO

- ✓ Singular focus: A WSCCO is dedicated solely to water services, enabling decisions without competing non-water priorities, though still influenced by broader planning contexts. All staff are focused on water, ensuring clear ownership and understanding of requirements.
- ✓ Aligned accountability: Decision-makers are incentivised to act in the best interest of water services, ensuring a focus on effectiveness.
- ✓ Less administrative complexity: WSCCOs face less administrative burden than in-house model; ringfencing is a one-time setup, and ongoing requirements (e.g. Water Services Strategy development) are lighter.
- × Limited capacity: Due to the WSCCO's small scale, key functions like finance, assurance, and HR would be lean, potentially limiting organisational resilience despite its water-only focus.
- × Reduced integration: Separation from QLDC's planning and infrastructure functions may hinder alignment and complicate processes e.g. splitting Development Engineering could become inefficient, increase costs, and create delays for developers.

D. Economic Efficiency: How likely is the model to optimise the utilisation of finite resources, maximising public value and minimising waste across the 3W asset lifecycle?

Assessment considered how well the model will…	Inhouse	WSCCO
Maximise outputs with available inputs – do more for the same (effectiveness) or the same for less (efficiency). **Scoring guideline**: Subjective - Ability to maximise outputs with available inputs is expected to be higher where there is (a) efficient distribution and utilisation of resources, (b) adoption of advanced technologies and innovative practices, (c) streamlined decision making processes, and (d) clear alignment of operations with organisation objectives and priorities. 1 = Low ability to maximise; 2 = Moderate ability to maximise; 3 = High ability to maximise	1	3
Achieve certainty and clarity of long-term investment priorities, enabling the optimal allocation of resources to maximise benefits **Scoring guideline:** Subjective - Likelihood of achieving this is expected to be higher where there is (a) a clear and well-defined strategic vision and long-term objectives that are not vulnerable to political cycles, (b) comprehensive understanding and forecasting of future risks, issues, opportunities and trends, (d) clear linkage between investment priorities and resource allocation, and (e) regular evaluation against, and review of, investment outcomes. 1 = Low likelihood of achieving; 2 = Moderate likelihood of achieving; 3 = High likelihood of achieving	2	3
Be positioned to leverage cost efficiencies through commercial partnerships and contracting models **Scoring guideline:** Subjective (scored relative to other options) - in relation to the number of steps/obligations associated with contracting any aspect of wate service provision. 1 = Most steps/obligations; 2 = Fewer steps/obligations; 3 = High degree of flexibility/ autonomy	1	2
Economic Efficiency Score	**1.33**	**2.67**
Model design sensitivities?	✓	✓

Inhouse

- ✓ The proposed regulatory regime and planning and accountability framework will improve focus on effectiveness, efficiency, as well as certainty and clarity on long-term investment priorities under all models.
- × Inefficient processes and higher compliance burden: Political influence, competing priorities, and broad stakeholder engagement slow decision-making and reduce efficiency. Council faces more complex legislative and procurement obligations than a WSCCO, creating extra administrative overhead.
- × Limited innovation: Low investment in water-specific tech and a preference for enterprise-wide solutions hinder adoption of advanced or emerging practices.
- × Uncertain investment: Broad organisational goals don't directly reflect water services. QLDC's wide focus, political cycles, and shifting priorities undermine long-term certainty of water investment and resource allocation.

WSCCO

- ✓ Strategic alignment: A WSCCO ensures direct alignment between organisational goals and water service delivery, guided by a skilled, sector-experienced Board.
- ✓ Efficient governance: A professional, politically independent Board will enable faster, more commercially focused decision-making with less bureaucracy.
- ✓ Innovation-driven: Sector expertise on the Board is expected to increase openness to advanced technologies and innovative practices.
- ✓ Reduced compliance burden: WSCCOs face fewer procurement and contracting obligations compared to Council-run services.

E. Community Interest: How likely is the model to enable community interests and priorities to be meaningfully recognised and reflected in the ongoing provision of water services?

Assessment considered how well the model will…	Inhouse	WSCCO
Provide for transparency and accountability to the community Scoring guideline: Subjective - Transparency and accountability is likely to be higher where (a) there is regular, clear and comprehensive communication with the community about decisions and strategic direction, (b) there is good access to detailed financial, operational performance and regulatory reporting, and (c) there are robust mechanisms for the community to hold decision makers directly accountable. 1 = Low quality; 2 = Moderate quality; 3 = High quality	3	2
Enable community priorities and views to be reflected through water services planning and delivery **Scoring guideline:** Subjective (scored relative to other options) - Community views and priorities are most meaningfully reflected when there are requirements or other mechanisms in place to ensure (a) standards and quality of water services are aligned to community expectations, (b) key water services plans and decisions are aligned with the district's guiding strategic documents e.g. VB2050, QLSP/FDS, CBAP, and (c) water services plans and service standards are consistent with local iwi expectations and aspirations for the district. 1 = Little to no opportunity or requirement for alignment; 2 = some requirements/safeguards for alignment and/or meaningful opportunities for participation; 3 = Range of meaningful opportunities/mechanisms available	3	2
Community Interest Score	**3.00**	**2.00**
Model design sensitivities?	-	✓

Inhouse

- ✓ Transparency: Council conducts its business publicly, ensuring open decision-making.
- ✓ Community representation: Council must consult the community on the Water Services Strategy. Elected members can directly reflect community views in setting long-term water service priorities.
- ✓ Integrated decision-making: Being part of Council allows water planning to incorporate feedback from Long Term Plan / Annual Plan consultations and other engagement.
- ✓ Established partnerships: Council's strong relationships, especially with iwi, support collaborative district-wide goal setting.
- ✓ Community accountability: Public Council Meetings / Workshops and elections allow communities to hold decision makers to account.

WSCCO

- ✓ Council viewpoint is reflected in water planning: A WSCCO must follow Council's Statement of Expectations and can be directed to amend its Water Services Strategy.
- ✓ Enhanced accountability: the WSCCO remains accountable to Council and must meet Council's expectations on behalf of the community. Council can directly intervene in cases of poor WSCCO performance, including removing Board members—potentially offering more responsive oversight than an inhouse model. Board members are also directly accountable for their decisions under the Water Services Act.
- ✗ Limited community input: Water service organisations aren't required to involve iwi or the public in long-term planning and don't need to consult on the Water Services Strategy.
- ✗ Indirect community accountability: the WSCCO is accountable to Council, not directly to the community.
- ✗ Public pressure: WSCCO directors may lack community ties, leading the public to seek Councillor intervention on unpopular decisions.

F. Agility and Adaptability: How likely is the model to prepare/enable successful responses to changing external circumstances without major disruption?

Assessment considered how well the model will…	Inhouse	WSCCO
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 **Scoring guideline:** Subjective (scored relative to other options) - Nimbleness is considered to be highest when (a) organisational structures and processes provide for quick and effective responses to change/opportunity, and (b) responsiveness, innovation, and flexibility is balanced with appropriate controls to ensure potential risks and consequences are appropriately contemplated before acting. 1 = Least nimble of any option; 2 = Some nimbleness; 3 = High nimbleness	1	3
Enable Council to respond to existing/emerging non-water community priorities and needs **Scoring guideline:** Prescribed (scored relative to the lowest residual QLDC borrowing capacity at time of implementing the option) 1 = option with lowest residual borrowing capacity, and any options within 20% of this value; 2 = 20-50% more borrowing capacity than the lowest value; 3 = >50% more borrowing capacity than the lowest value	1	3
Agility & Adaptability Score	**1.00**	**3.00**
Model design sensitivities?	✓	✓

Inhouse

- ✓ Can call on QLDC's debt headroom to respond to unplanned water investment needs without needing to immediately uplift revenue to access it.
- × Limited QLDC borrowing capacity: QLDC's average debt headroom over the medium term is $64M; ranging from $5M to 158M in any given year.
- × Organisational complexity: multi-disciplinary focus of P&I and distribution of support functions across the organisation reduce agility to respond to future water changes. Any water-related change will also need to be revalidated through ringfencing processes.

WSCCO

- ✓ Greater QLDC borrowing capacity: QLDC's average debt headroom in the medium term under a WSCCO model is $454M
- ✓ High adaptability: a WSSCO is best positioned to respond to future reforms and regulatory changes due to its streamlined decision-making and strong alignment with government policy direction.
- × Will not have debt headroom to call on if an unbudgeted need arises; to maintain the FFO ratio, revenue will need to be increased to access additional borrowing.

2. COMBINED RESULTS

This section outlines the overall results of the assessment based on the unweighted scoring reflected in the previous section.

Criteria	Inhouse	WSCCO
Costs to Consumer	3.00	2.00
People & Capability	1.50	2.00
Operational Efficacy	2.00	2.33
Economic Efficiency	1.33	2.67
Community Interest	3.00	2.00
Agility & Adaptability	1.00	3.00
Total Score (average of all criteria)	**1.97**	**2.33**

3. MODEL DESIGN SENSITIVITIES

This section outlines the permutations of each option that were tested during the assessment to determine whether they had any impact on the assessment result.

Options →	**Inhouse**				**WSCCO**		
	Base Case	**Variable 1**	**Variable 2**	**Variable 3**	**Base Case**	**Variable 2**	**Variable 3**
↓ Criteria	**Status Quo**	**+ Water Committee**	**Separate 3W Directorate**	**9% FFO Applied**	**Minimum control**	**Maximum control**	**Buy QLDC services**
Cost to Consumers	**3.00**	3.00	3.00	3.00	**2.00**	2.00	3.00
People & Capability	**1.50**	1.50	1.50	1.50	**2.00**	1.50	2.00
Operational Efficacy	**2.00**	2.00	1.67	2.00	**2.33**	1.67	1.00
Economic Efficiency	**1.33**	1.33	1.67	1.33	**2.67**	1.67	2.00
Community Interest	**3.00**	3.00	3.00	3.00	**2.00**	2.50	2.00
Agility & Adaptability	**1.00**	1.00	1.50	1.00	**3.00**	2.00	2.50
Total	**1.97**	1.97	2.06	1.97	**2.33**	1.89	2.08

Inhouse Models
Inhouse Variable 2 (Separate Water Directorate)
↓ **Operational Efficacy:** A separate 3W directorate is assessed as negatively impacting the integration and alignment benefits of retaining water services in house as it would increase the number of parties that need to align and/or participate in processes, and would remove some of the alignment already occurring across activities within P&I. ↑ **Economic Efficiency:** Increased focus of a 3W directorate will improve effectiveness & efficiency by reducing managerial context switching, increasing visibility, aligning KPIs with requirements, and enhancing operational focus on water-specific priorities. ↑ **Agility and Adaptability:** A 3W directorate will be simpler to adapt if further changes in govt. direction occur; however, transferring services will still require significant effort and change across the organisation.
WSCCO Models
WSCCO Variable 1 (Council retains 'maximum control' over WSCCO)
↓ **People and Capability:** A 'maximum control' model is assessed as reducing appeal to high-quality governance candidates and would dilute/complicate the alignment of decision-making and accountability that would be achieved under a lesser-control model. ↓ **Operational Efficacy:** Reliability may suffer under a maximum control model as the Board is liable for Council decisions under the WSA while Councillors are exempt – creating a disconnect between authority and accountability. Maximum control would require the WSCCO to develop the WSS, and Council to consult on and approve it (each with their own requirements). This will demand extensive coordination across both entities and external parties. ↓ **Economic Efficiency:** More Council involvement may complicate decision-making, blur accountability, and prioritise other interests over water. Council will make decisions but have less information (when compared to inhouse) due to limited operational insight. More Council control will risk continuity of long-term investment priorities and resource allocation due to the influence and uncertainty resulting from political cycles. ↑ **Community Interest:** It is assumed under a 'maximum control' scenario Council would impose the same requirements on the CCO as are in place for the Council. ↓ **Agility and Adaptability:** A 'maximum control' scenario will involve more bureaucratic processes than other models as significant changes would require additional layers of approval (both Council and WSCCO governing bodies and executives).
Variable 2 (WSCCO purchases support services from QLDC)
↓ **Costs to Consumers:** Purchasing support services from QLDC would reduce stranded costs to around $108,000 p/a. ↓ **Operational Efficacy** Reliability may suffer under a purchased service scenario due to support functions lacking a water focus, generic systems not being tailored to water/WSCCO needs, and split control and accountability between the two entities. Purchasing services from QLDC would spread responsibilities across functions and organisations, create overlapping demands for staff, and require ongoing ringfencing disclosures – reducing efficiency and clarity. ↓ **Economic Efficiency:** Purchasing services from QLDC will limit effectiveness by reliance on external information/input, lack of Board influence over core support functions, and lessen engagement of support service teams that may feel detached from the WSCCO. ↓ **Agility and Adaptability:** Reliance on support services from Council is less aligned with government's preferred model and may require further changes in future. Purchasing corporate services from QLDC under a minimum control model complicates decision-making as regulatory changes would require coordination across both organisations.

ATTACHMENT F: ADDITIONAL TESTING RESULTS

TEST TYPE 1: Adjusting weightings

TEST IDENTIFIER	WEIGHTED BASE CASE		WEIGHTING ADJUSTMENT #1			WEIGHTING ADJUSTMENT #2			WEIGHTING ADJUSTMENT #3			WEIGHTING ADJUSTMENT #4		
Summary description of the test's focus	Even weightings applied across all criteria		Increase 'Economic Efficiency' and 'Cost to Consumer' weightings to reflect increased focus on costs			Increase 'Operational Efficacy' weighting to reflect increased focus on effective 3W service provision and management			Increase 'Community Interest' and 'Agility & Adaptability' weightings to reflect increased focus on community interest/ responsiveness (both 3W and non-3W)			Increase 'People & Capability', 'Operational Efficacy', 'Economic Efficiency', and 'Agility & Adaptability' weightings to reflect increased focus on future-readiness		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.33**	·	**1**	**2.33**	·	**1**	**2.35**	·	**1**	**2.43**
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	·	2	2.29	↓	6	1.87	↓	3	2.13	·	2	1.96
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	·	3	2.19	·	2	1.98	↑	2	2.19	↓	4	1.77
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↓	4	2.07	↑	2	1.98	↑	4	2.07	↓	5	1.66
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	·	4	2.07	↑	2	1.98	·	4	2.07	↓	5	1.66
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	·	4	2.07	↑	2	1.98	·	4	2.07	↓	5	1.66
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	·	7	1.86	·	7	1.84	·	7	2.05	↑	3	1.78

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
- 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
- **Minimum control WSCCO model is the highest ranked.**

Weighting adjustment #1:
- Weightings for Economic Efficiency and Cost to Consumer increased (+100%) to place greater priority on minimising costs to consumers.
- Weightings of remaining criteria reduced proportionately to maintain 100% total.
- **Minimum control WSCCO model remains highest ranked**; however, there is little difference in scoring (<0.15) relative to 2nd and 3rd ranked models.

Weighting adjustment #2:
- Weighting for Operational Efficacy increased (+100%) to place greater emphasis on water services provision & performance.
- Weightings of remaining criteria reduced proportionately to maintain 100% total.
- **Minimum control WSCCO model remains highest ranked.**

Weighting adjustment #3:
- Weighting for Community Interest increased (+100%) to place greater emphasis on community interests and priorities.
- Weighting for Agility & Adaptability increased (+50%) to place greater empahsis on availability of QLDC debt headroom to support investment in other non-3W emerging priorities/needs.
- Weightings of remaining criteria reduced proportionately to maintain 100% total.
- **Minimum control WSCCO model remains highest ranked.**

Weighting adjustment #4:
- Weightings for People & Capability, Operational Efficacy, Economic Efficiency, and Agility & Adaptability increased (+30%) to place greater emphasis on future-readiness and likelihood of being enduring.
- Weightings of remaining criteria reduced proportionately to maintain 100% total.
- **Minimum control WSCCO model remains highest ranked.**

TEST IDENTIFIER	WEIGHTED BASE CASE		WEIGHTING ADJUSTMENT #5			WEIGHTING ADJUSTMENT #6			WEIGHTING ADJUSTMENT #7		
Summary description of the test's focus	Even weightings applied across all criteria		Increase 'Economic Efficiency', 'People & Capability', and 'Operational Efficacy' weightings to reflect increased focus on commercial performance			Cost to Consumer' is the only criterion tested to reflect a singular focus on cost-based impacts to households over the 10-year period assessed.			Reverse engineer test to understand what conditions need to apply for an in-house model to rank highest.		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.36**	↓	6	2.00	↓	5	2.24
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	·	2	1.83	↑	**1**	**3.00**	↓	6	2.20
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	·	3	1.76	↑	**1**	**3.00**	↑	**1**	**2.32**
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↓	4	1.71	↑	**1**	**3.00**	↑	2	2.26
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	·	4	1.71	↑	**1**	**3.00**	↑	2	2.26
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	·	4	1.71	↑	**1**	**3.00**	↑	2	2.26
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	↑	4	1.71	↑	6	2.00	·	7	1.99

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
- 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
- **Minimum control WSCCO model is the highest ranked.**

Weighting adjustment #5:
- Weighting for Economic Efficiency increased (+100%) and weightings for People & Capability and Operational Efficacy increased (+50%) to place greater emphasis on key commercial performance elements of the model.
- Weightings of remaining criteria reduced proportionately to maintain 100% total.
- **Minimum control WSCCO model remains highest ranked.**

Weighting adjustment #6:
- The only criterion assessed is 'Cost to Consumer' with a total weighting of 100% to place emphasis exclusively on impact to households over the ten-year period assessed.
- All other weightings reduced to 0% to maintain 100% total.
- **All in-house variants and a WSCCO that purchases support services from QLDC become the highest ranked.**
- *NB: This test gives equal importance to household 3W charges and stranded costs. Test Type 4 category runs further analysis around relative importance of household charges.*

Weighting adjustment #7:
- Weightings are adjusted to achieve conditions in which an in-house model ranks highest. This involved reducing People & Capability, Operational Efficacy, Economic Efficiency, and Agility & Adaptability to a weighting of 12% or less (-28%).
- Community Interest and Cost to Consumer weightings increased proportionately to maintain 100% total.
- **In-house standalone business unit becomes highest ranked**; however, there is little difference in scoring (<0.15) relative to 2nd-6th ranked models.

TEST TYPE 2: Equalise scoring for any given criterion

TEST IDENTIFIER	WEIGHTED BASE CASE		SCORING ADJUSTMENT #1			SCORING ADJUSTMENT #2			SCORING ADJUSTMENT #3			SCORING ADJUSTMENT #4		
Summary description of the test's focus	Even weightings applied across all criteria		Scores equalised to reflect consistent People & Capability results across models			Scores equalised to reflect consistent Operational Efficacy results across models			Scores equalised to reflect consistent Economic Efficiency results across models			Scores equalised to reflect consistent Community Interest results across models		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.33**	·	**1**	**2.33**	·	**1**	**2.33**	·	**1**	**2.50**
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	↓	3	2.08	·	2	2.31	↓	6	2.20	·	2	2.25
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	↑	2	2.14	·	3	2.17	·	2	2.22	·	3	2.06
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↑	4	2.06	↓	4	2.03	↑	3	2.20	·	4	1.97
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	·	4	2.06	·	4	2.03	↑	3	2.20	·	4	1.97
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	·	4	2.06	·	4	2.03	↑	3	2.20	·	4	1.97
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	·	7	1.97	·	7	2.00	·	7	2.06	↑	4	1.97

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
• 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
• **Minimum control WSCCO model is the highest ranked.**

Scoring adjustment #1:
• People & Capability scores equalised to the highest score of any given option (2.00) to test whether the highest rank option changes if all options achieve the best assessed People & Capability result.
• All other scores remain as per the base case.
• Weightings from the base case apply.
• **Minimum control WSCCO remains highest ranked.**

Scoring adjustment #2:
• Operational Efficacy scores equalised to the highest score of any given option (2.33) to test whether the highest rank option changes if all options achieve the best assessed Operational Efficacy result.
• All other scores remain as per the base case.
• Weightings from the base case apply.
• **Minimum control WSCCO remains highest ranked**; however there is little difference in scoring (0.02) relative to 2nd ranked model.

Scoring adjustment #3:
• Economic Efficiency scores equalised to the highest score of any given option (2.67) to test whether the highest rank option changes if all options achieve the best assessed Economic Efficiency result.
• All other scores remain as per the base case.
• Weightings from the base case apply.
• **Minimum control WSCCO remains highest ranked**; however there is little difference in scoring (<0.15) relative to 2nd - 6th ranked models.

Scoring adjustment #4:
• Community Interest scores equalised to the highest score of any given option (3.00) to test whether the highest rank option changes if all options achieve the best assessed Community Interest result.
• All other scores remain as per the base case.
• Weightings from the base case apply.
• **Minimum control WSCCO remains highest ranked.**

TEST IDENTIFIER	WEIGHTED BASE CASE		SCORING ADJUSTMENT #5			SCORING ADJUSTMENT #6		
Summary description of the test's focus	Even weightings applied across all criteria		Scores equalised to reflect consistent Agility & Adaptability results across models			Scores equalised to reflect Cost to Consumer results across models		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.33**	·	**1**	**2.50**
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	↓	6	2.17	·	2	2.08
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	↑	2	2.31	·	3	2.06
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↑	2	2.31	·	5	1.97
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	↑	2	2.31	↓	5	1.97
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	↑	2	2.31	↓	5	1.97
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	·	7	2.06	↑	3	2.06

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
• 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
• **Minimum control WSCCO model is the highest ranked.**

Scoring adjustment #5:
• Agility & Adaptability scores equalised to the highest score of any given option (3.00) to test whether the highest rank option changes if all options achieve the best assessed Agility & Adaptability result.
• All other scores remain as per the base case.
• Weightings from the base case apply.
• **Minimum control WSCCO remains highest ranked**; however, there is little difference in scoring (0.02) relative to 2nd ranked options (all in house variations)

Scoring adjustment #6:
• Cost to Consumer scores equalised to the highest score of any given option (3.00) to test whether the highest rank option changes if all options achieve the best assessed Cost to Consumer result.
• All other scores remain as per the base case.
• Weightings from the base case apply.
• **Minimum control WSCCO remains highest ranked.**

TEST TYPE 3: Adjust assessment to reflect potential overlaps identified in Morrison Low's independent review of the assessment framework

TEST IDENTIFIER	WEIGHTED BASE CASE		POTENTIAL OVERLAP ADJUSTMENT #1			POTENTIAL OVERLAP ADJUSTMENT #2			POTENTIAL OVERLAP ADJUSTMENT #3		
Summary description of the test's focus	Even weightings applied across all criteria		People & Capability score matched to highest contributing consideration score for each option to test for potential overlap between considerations.			Operational Efficacy and Economic Efficiency combined into a single criterion to test for potential overlap between considerations.			Overlap adjustment tests 1 & 2 combined to test for sensitivity to all potential overlapping considerations.		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.33**	·	**1**	**2.30**	·	**1**	**2.30**
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	↓	3	2.08	·	2	2.20	↓	3	2.20
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	↑	2	2.14	·	3	2.13	↑	2	2.23
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↑	4	2.06	·	4	2.03	↑	4	2.13
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	·	4	2.06	·	4	2.03	·	4	2.13
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	·	4	2.06	·	4	2.03	·	4	2.13
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	·	7	1.97	·	7	1.93	·	7	2.03

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
- 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
- **Minimum control WSCCO model is the highest ranked.**

Potential overlap adjustment #1:
- Matched total People & Capability score for each option to the highest score given to either of the contributing considerations. This is to test for potential overlap between the two contributing considerations.
- All other scores remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked.**

Potential overlap adjustment #2:
- Operational Efficacy and Economic Efficiency criteria combined into single criterion. The average of each options Operational Efficacy and Economic Efficiency scores was used as the each option's score for the combined criterion.
- All other scores remain as per the base case.
- Weightings were adjusted proportionately to maintain 100% (even weightings across all criteria maintained).
- **Minimum control WSCCO remains highest ranked;** however, there is little difference in scoring (0.10) relative to 2nd ranked model.

Potential overlap adjustment #3:
- Potential overlap adjustment tests 1 & 2 combined. This tests for the combined effect of adjusting for potential overlaps within People & Capability and across Operational Efficacy and Economic Efficiency.
- All other scores remain as per the base case.
- Weightings adjusted proportionately to maintain 100% (even weightings across all criteria maintained).
- **Minimum control WSCCO remains highest ranked;** however, there is little difference in scoring (<0.15) relative to 2nd - 4th ranked options.

TEST TYPE 4: Adjust scoring guidelines

TEST IDENTIFIER	WEIGHTED BASE CASE		SCORING GUIDELINES ADJUSTMENT #1			SCORING GUIDELINES ADJUSTMENT #2			SCORING GUIDELINES ADJUSTMENT #3			SCORING GUIDELINES ADJUSTMENT #4		
Summary description of the test's focus	Even weightings applied across all criteria		Household charge component of Cost to Consumer scoring guidance changed to emphasise importance of minimising household charges.			Residual QLDC debt headroom consideration removed from Agility & Adaptability to test for impact of Council opting not to utilise.			Scoring guidelines adjustments #1 and #2 combined to test for combined impact of emphasising household charges and Council opting not to utilise residual debt headroom.			Stranded costs consideration removed from Cost to Consumer to emphasise importance of minimising household charges.		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.17**	·	**1**	**2.33**	·	**1**	**2.17**	·	**1**	**2.50**
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	↓	5	1.92	↓	3	2.00	↓	6	1.83	·	2	2.08
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	↑	2	2.06	↑	2	2.14	↑	2	2.14	·	3	2.06
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↓	6	1.89	↓	4	1.97	↓	5	1.89	·	5	1.97
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	↑	3	1.97	↑	4	1.97	↑	3	1.97	↓	5	1.97
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	↑	3	1.97	↑	4	1.97	↑	3	1.97	↓	5	1.97
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	·	7	1.72	·	7	1.72	·	7	1.56	·	3	2.06

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
- 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
- **Minimum control WSCCO model is the highest ranked.**

Scoring guidelines adjustment #1:
- Scoring guidelines for the household charges component of 'Cost to Consumer' changed as follows:
  3 = lowest household charge or within 2%
  2 = 2-5% greater than lowest household charge
  1 = >5% greater than lowest household charge
- All other scores remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked;** however, there is little difference (0.11) relative to 2nd ranked model.

Scoring guidelines adjustment #2:
- Scoring guidelines adjusted to remove QLDC residual debt headroom from Agility & Adaptability criterion.
- All other scores and definitions remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked.**

Scoring guidelines adjustment #3:
- Scoring guidelines for the household charges component of 'Cost to Consumer' changed as per Scoring Guidelines Adjustment #1.
- Scoring guidelines adjusted to remove QLDC residual debt headroom from Agility & Adaptability criterion.
- All other scores and definitions remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked**; however, there is little difference in scoring (0.03) relative to 2nd ranked option (in-house standalone business unit).

Scoring guidelines adjustment #4:
- Scoring guidelines changed to remove stranded costs from Cost to Consumer criterion.
- All other scores and definitions remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked.**

TEST IDENTIFIER	WEIGHTED BASE CASE		SCORING GUIDELINES ADJUSTMENT #5			SCORING GUIDELINES ADJUSTMENT #6			SCORING GUIDELINES ADJUSTMENT #7		
Summary description of the test's focus	Even weightings applied across all criteria		Scoring guidelines adjustments #1 and #4 combined to further emphasise importance of minimising household charges.			Scoring guidelines adjustments #3 and #4 combined to maximise importance of minimising household charges.			Increase 'Cost to Consumer' weighting and apply Scoring Guidelines Adjustment #6 conditions to reflect increased focus on minimising household charges, and decreased focus on all other criteria.		
Options	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**	**Change**	**Rank**	**Score**
Option 2 - WSCCO minimum control (WSCCO core model)	1	2.33	·	**1**	**2.17**	·	**1**	**2.17**	↓	4	1.93
Option 2 - WSCCO purchases services from QLDC (WSCCO variation 2)	2	2.08	↓	6	1.75	↓	6	1.67	↓	6	1.53
Option 1 - IN-HOUSE standalone business unit (IN-HOUSE variation 2)	3	2.06	↑	2	2.06	↑	2	2.14	↑	**1**	**2.31**
Option 1 - IN-HOUSE 9% FFO applied (IN-HOUSE variation 3)	4	1.97	↓	5	1.81	↓	5	1.81	↓	5	1.84
Option 1 - IN-HOUSE status quo (IN-HOUSE core model)	4	1.97	↑	3	1.97	↑	3	1.97	↑	2	2.18
Option 1 - IN-HOUSE with water services committee (IN-HOUSE variation 1)	4	1.97	↑	3	1.97	↑	3	1.97	↑	2	2.18
Option 2 - WSCCO maximum control (WSCCO variation 1)	7	1.89	·	7	1.72	·	7	1.56	·	7	1.44

Note:
Rank reflects the relative ranking of each option based on the total score under each test. An indicator shows whether the option's overall ranking has moved when compared to the evenly weighted base case:
↓ Option ranks lower under the test conditions
↑ Option ranks better under the test conditions.
· Option ranking doesn't change under the test conditions.

Weighted base case:
- 100% total weighting split equally across all six criteria - giving each criterion a weighting of 16.7%.
- **Minimum control WSCCO model is the highest ranked.**

Scoring guidelines adjustment #5:
- Scoring guidelines for the household charges component of Cost to Consumer changed per Scoring Guidelines Adjustment #1.
- Scoring guidelines changed to remove stranded costs from Cost to Consumer criterion.
- All other scores and definitions remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked;** however, there is little difference in scoring (0.11) relative to 2nd rnaked model.

Scoring guidelines adjustment #6:
- Scoring guidelines for the household charges component of Cost to Consumer changes as per Scoring Guidelines Adjustment #1.
- Scoring guidelines changed to remove stranded costs from Cost to Consumer criterion.
- Scoring guidelines adjusted to remove QLDC residual debt headroom from Agility & Adaptability criterion.
- All other scores and definitions remain as per the base case.
- Weightings from the base case apply.
- **Minimum control WSCCO remains highest ranked**; however, there is little difference in scoring (0.03) relative to 2nd ranked option

Scoring guidelines adjustment #7:
- Scoring guidelines of Cost to Consumer and Agility & Adaptability changes as per Scoring Guidelines Adjustment #6.
- Weighting for Cost to Consumer increased (+100%) to place greatest emphasis on direct 3W household charges.
- Weightings of remaining criteria reduced proportionately to maintain 100% total.
- All other scores and definitions remain as per the base case.
- **Inhouse standalone business unit becomes the highest ranked;** however, there is little difference in scoring (0.13) relative to 2nd ranked models.

OUR WATER DONE WELL

Consultation Document – June 2025

SECTION 1: PROPOSED MODEL FOR FUTURE DELIVERY OF WATER SERVICES

NOTES FOR COMMS:

- Italicised sections should be accentuated / called out.

As required by central government's Local Government (Water Services Preliminary Arrangements) Act 2024 (WSPA Act), Queenstown Lakes District Council (QLDC) considered the following future service delivery models for water services:

> *Set up a Water Services Council Controlled Organisation (WSCCO) to deliver water services (proposed).*

> *Continue to deliver water services in-house.*

Water reforms have already led to significantly increased investment and correspondingly significantly increased water related rates, as outlined in the Council's approved LTP. The cost to deliver water services will be significantly more into the future and will continue to rise to meet government expectations. This consultation is about what is the best model to govern and deliver water services under these evolving expectations.

While QLDC could continue to deliver financially sustainable water services through an in-house function, the singular focus of a dedicated water organisation, 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 our communities on the provision of water services.

Please provide feedback on the proposal to establish a WSCCO for the management and delivery of wastewater, drinking water and stormwater services (collectively referred to as "water services" throughout this document). If, following community consultation, Council decides to set up a WSCCO, we will then design an establishment operating model, set an implementation date and develop a transition plan.

Legislation to introduce new planning and accountability requirements and a new regulatory regime is currently being considered by parliament, and our assessment of options for future delivery of water services in the Queenstown Lakes District has considered how each of these may be impacted. The proposed regulatory regime, together with the existing legislative requirements, will set a baseline level of performance regardless of the delivery model chosen. Our assessment of the two options mentioned above focused on which one would perform better in Aotearoa New Zealand's future regulated environment.

Things that will remain constant across both models include:

> Financial sustainability: To meet the financial sustainability requirements of the WSPA Act, both options would deliver financially sustainable water services that result in higher water charges than what QLDC has currently projected.

> Levels of service: Both options would deliver services that meet nationally set quality and economic performance requirements.

SECTION 2: SETTING THE SCENE

NOTES FOR COMMS: • Could the text be broken up with some pictures? • The bold sentences are the key points with the following text supporting these statements.

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.

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. This led to the introduction of higher environmental quality standards for water services and an associated quality regulation regime to enforce them. These higher standards have required a significant investment across Aotearoa New Zealand and in large part have contributed to the increasing cost of water services already indicated by local government.

Local Water Done Well is the current Government's plan to address Aotearoa New Zealand's water infrastructure challenges through an increased focus on long term financial sustainability. The plan 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 these services are delivered.

The Local Government (Water Services Preliminary Arrangements) Act 2024 (WSPA Act) is the first legislation to support Local Water Done Well and 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 a council's 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. The WSPA Act provides an opportunity for councils to review current arrangements and to consider whether there are better alternatives to provide sustainable and efficient water services, addressing current challenges and laying the foundation for future improvements.

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.

Further draft legislation, the Local Government (Water Services) Bill (LGWS Bill), is currently before parliament, and will provide a framework for managing and delivering water services in Aotearoa New Zealand once enacted. This includes a different mechanism for planning for the long-term needs of water services and economic regulation by the Commerce Commission. The Commerce Commission will use various regulatory tools to ensure fair and cost-reflective water charges and adequate revenue for investment. Initial requirements will be "light touch" with more stringent regulations, including price setting, if water service providers consistently fail to meet expectations and remain unresponsive to the Commission's efforts to address concerns.

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.

The WSPA Act requires councils to consult on at least one alternative to their existing approach to delivering water services. That alternative must be either a Water Services Council Controlled Organisation (WSCCO) or a joint local government arrangement.

Council is not consulting on a joint WSCCO as no viable option currently exists to join with other councils. If the establishment of a QLDC WSCCO proceeds and other councils express an interest in integrating later, this would be considered and worked through at that time.

Water in Queenstown Lakes District

NOTES FOR COMMS: • 1 -2 pages of infographics representing the data below.

> Drinking water: Average age of assets 18.8 years, 15 treatment plants, 710km of pipes, 10 schemes, 41 pumps, 44 reservoirs, 21,365 connections, 13,809,892.71m^3 of water supplied.

> Wastewater: Average age of assets 21.1 years, 4 treatment plants, 563km of pipes, 11 schemes, 74 pumps, 23,378 connections, 7,448,670 m^3 wastewater treated.

> Stormwater: Average age of assets 15.8 years, 410km of pipes, 11 schemes, 21,606 connections.

> Our district is a high user of water: Households in Queenstown Lakes use, on average, 565 litres per day, compared to the national average of 211 litres per day.

> Queenstown Lakes is a high growth district:

- Our resident population grew from 42,500 in 2018 to 51,500 in 2023, averaging 3.9% annually. The national population grew by 1.2% p.a. over the same period.
- Our resident population is projected to increase by 85% by 2053, reaching 94,440. The national population is forecast to grow 21% over the same period.
- Our district consistently builds the highest number of new houses per 1,000 residents in NZ (29 in 2024 compared to the NZ average of 5). Over the past five years, more than 1,300 new residential dwellings have been consented per year, which is more than double the national average.
- 49% of QLDC's capital programme for water services relates to investment in water infrastructure to support growth.

> Queenstown Lakes has high visitor numbers and infrastructure to support visitors is paid for by ratepayers:

- There are, on average, 0.5 visitors per resident in the district on any given day, and at peak times this increases to 1.25 visitors per resident.
- Around $75 million per year of QLDC's expenditure is attributable to visitors and this is funded by ratepayers.

> QLDC is investing heavily in water services: Total capital investment in water services over the ten years of the Long Term Plan 2024-2034 is $1.49 billion, which accounts for 60% of overall QLDC capex. This will result in a significant increase in household charges related to water services, regardless of whether any changes are being made to how water services are delivered or not. Water related rates are projected to be approximately $4,500, on average, by 2034.

SECTION 3: PROPOSED MODEL – A WATER SERVICES COUNCIL CONTROLLED ORGANISATION

NOTES FOR COMMS:

- Items where an infographic would be good are identified in <angled brackets>
- The advantages and disadvantages have been summarised from the council report; if this is too high level they can be expanded.

We are proposing a new Water Services Council Controlled Organisation (WSCCO) as our delivery model for future water services.

A WSCCO is a Council Controlled Organisation specifically established to manage and deliver wastewater, drinking water, and stormwater services. A WSCCO established under the water legislation has a bespoke oversight and accountability model that reflects the reform intent of councils retaining ownership 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.

The proposed WSCCO would be fully owned by QLDC, and legislation specifically prevents it from being privatised or paying a dividend, but the organisation would operate independently with its own specialist board and management. QLDC would be the only shareholder and would appoint board members based on skills and experience specific to the needs of the new organisation and governance of regulated water services.

The WSCCO would be responsible for delivery of all elements of water services and would own water assets and associated debt and liabilities. As these are currently strategic assets of QLDC, the transfer of these assets to the WSCCO would need to be provided for in a Long-Term Plan amendment. In accordance with the WSPA Act, this consultation will cover the consultation requirements for that amendment.

It is expected the WSCCO would receive funding from the Local Government Funding Agency (LGFA), which provides finance to the local government sector. QLDC would back this loan with a guarantee. This guarantee would be identified in our financial notes but not listed as a debt because it's unlikely the WSCCO would default. If needed, the WSCCO would increase water charges to repay the loan, in line with legislative financial sustainability requirements.

If this option is adopted, we will then design an establishment operating model, set an implementation date, and develop a transition plan.

<u>Advantages of a WSCCO:</u>

> INDEPENDENT EXPERT GOVERNANCE: A skilled, professional board would govern water services, ensuring decisions are made in the best interest of water management, free from political influence.

> FOCUSED WATER SERVICES ORGANISATION: The WSCCO would prioritise water services, ensuring consistent and long-term planning and resource allocation.

> STREAMLINED PROCESSES: Tailored systems and processes would simplify decision-making and service provision, with fewer regulatory obligations compared to council-managed services.

> INCREASED QLDC BORROWING CAPACITY: QLDC's borrowing capacity would be 606% higher than current limits if water services are managed by the WSCCO.

> LOWER LONG-TERM WATER CHARGES: Over the longer term (2035 – 2044), household water charges are expected to be on average $491 (11.2%) lower each year that with an in-house model.

> ADAPTABILITY TO CHANGE: The WSCCO would be more adaptable to future government reforms and emerging opportunities as it is most closely aligned with Government's likely future direction.

Disadvantages of a WSCCO:

> SEPARATION OF SERVICES: Splitting water services from other QLDC functions (like land use planning) would require more coordinated efforts, increasing complexity compared to an in-house model.

> REDUCED COMMUNITY INVOLVEMENT: The WSCCO wouldn't be required to involve the community or iwi in long-term planning, relying instead on the Council to set priorities.

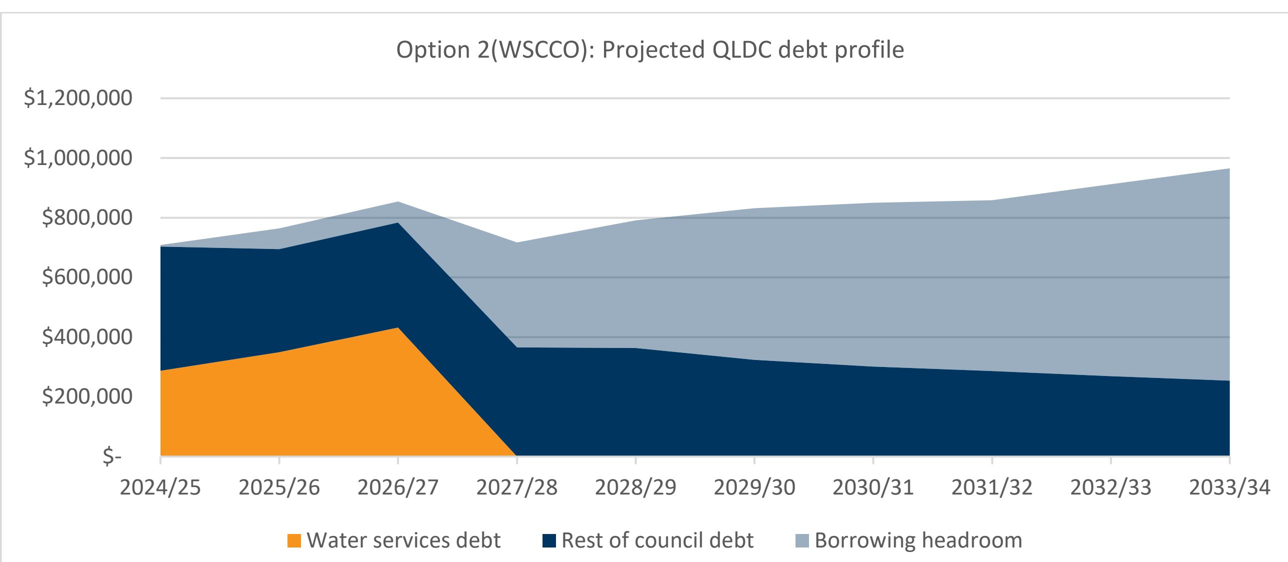
> HIGHER SHORT-TERM WATER CHARGES: Until approximately 2034, household water charges are expected to be on average $174 (5.2%) higher each year than with an in-house model.

> STRANDED COSTS FOR QLDC: Moving water services to a WSCCO would leave some ongoing costs related to currently shared functions, like Human Resources and Finance. These costs could be managed by gradually transitioning affected functions to the WSCCO and having the WSCCO purchase these services from QLDC in the meantime.

Impact on debt:

A large portion of QLDC's current and future debt is tied to water services. This proposal suggests transferring ownership of water assets and the responsibility for water services to a WSCCO, along with the associated debt. Currently, QLDC uses revenue from all activities to secure debt for water services, which is repaid through water-specific rates. This limits the debt capacity available for other QLDC activities. By moving water services to a WSCCO, QLDC would have significantly more debt capacity for non-water related investments.

<create an infographic representing the information in the chart below>



WSCCOs have different borrowing requirements from the LGFA compared to councils, which would require higher water charges initially. As the WSCCO would still deliver the same services and capital projects as currently planned, this means it would generate more revenue while costs remain the same, meaning debt can be repaid more efficiently. By 2034, the WSCCO is estimated to have $37 million less debt than the in-house model, reducing the combined debt of QLDC and the WSCCO by $37 million.

<net debt of $918m for current projection, $1,022m for inhouse option, $984m for WSCCO option>

Whether QLDC delivered water services with the proposed WSCCO or inhouse, debt levels would be higher than currently projected over the next ten years. This is to enable us to comply with new financial sustainability requirements and to operate in a new, more complex regulatory environment regardless of the delivery model in place.

Impact on rates and charges for water services:

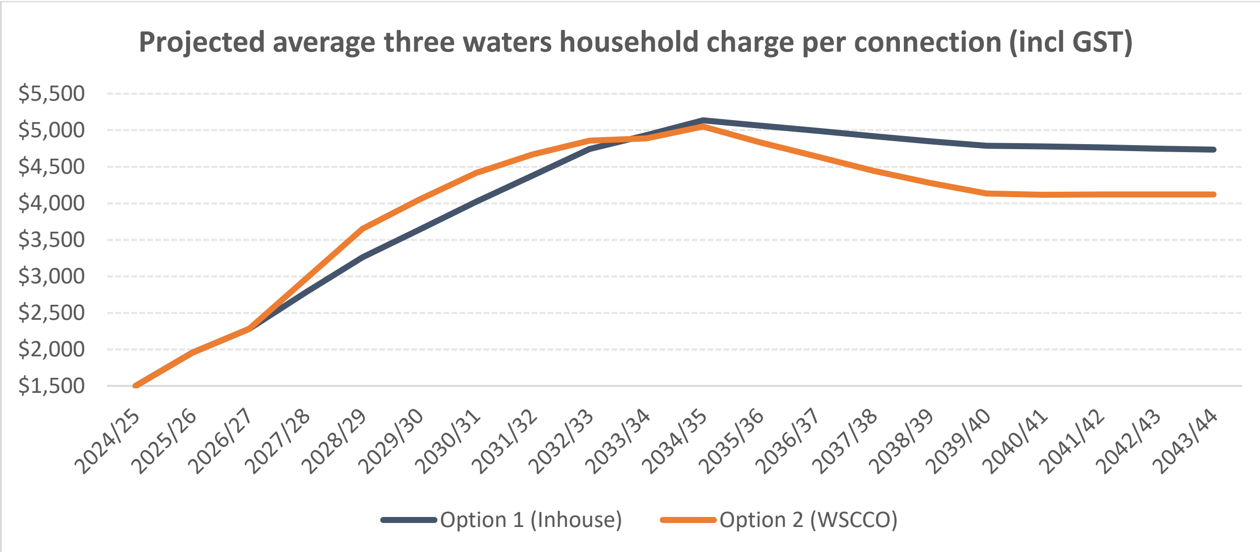
Water reform has been driven by underinvestment in water infrastructure across local government. The focus on meeting this infrastructure challenge has already led to significant projected increases in household charges for water across Aotearoa New Zealand. This is true for QLDC as it is for many councils, and led to a significant proportion of the projected rates increases indicated in QLDC's Long Term Plan 2024-2034.

Based on expenditure outlined in the Long Term Plan and considering adjustments from the Annual Plan 2025, QLDC is already projecting average annual household costs for water could increase from approximately $1,500 today to $4,500 by 2034, regardless of which delivery model for water services is selected. Household costs would increase further under both delivery models to meet new financial sustainability requirements and for either model to operate in a new, more complex regulatory environment.

Ratepayers in the Queenstown Lakes District currently pay specific water rates that are set, and spent, separately to rates for other activities. Under the proposed model of a WSCCO, your rates bill would reduce by the amount of the water rates, and the WSCCO would charge you that amount instead.

Water charges are anticipated to be higher under a WSCCO in the near term and lower under a WSCCO in the longer term due to LGFA borrowing requirements for WSCCOs. As mentioned above, a WSCCO must increase revenue in the short term to meet the LGFA requirement, but because it isn't spending any more, 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.

<create infographic representing the information in the charts below>



In 2025:

Average annual household cost: $1,500

In the medium term (now - 2034)

> Average annual household cost: $3,522

> Total cost to households: $35,224

In the long term (2035 – 2044):

> Average annual household cost: $4,386

> Total cost to households: $43,864

Delivery of water services through the proposed WSCCO would additionally result in approximately $1.9 million per annum in ongoing costs to QLDC, which translates to, on average an additional cost to households of $51 per annum. These recurring costs relate to shared functions and can be reduced significantly if the WSCCO purchased support services from QLDC.

<u>Establishment considerations:</u>

Under this proposal QLDC is required to put in place appropriate accountability and monitoring arrangements to assess the performance of the WSCCO, including at a minimum:

> STATEMENT OF EXPECTATIONS: QLDC would outline its expectations for the WSCCO in a Statement of Expectation. This document will detail expectations around strategic priorities, desired outcomes, resource management and land use planning, collaboration with QLDC, and engagement with the community and consumers. It will also emphasise the Council's commitment to partnering with Kāi Tahu in delivering water services. The WSCCO will be required to adhere to these expectations.

> PERFORMANCE INDICATORS AND MEASURES: QLDC would establish performance indicators and measures to monitor the WSCCO's performance aligned with the Statement of Expectation.

> ANNUAL PERFORMANCE REVIEW: QLDC would conduct an annual review of the WSCCO's performance in implementing the Statement of Expectation and Water Services Strategy. This review will use specific performance indicators and measures to assess progress.

Please note: As mentioned above, the Commerce Commission will use various regulatory tools to ensure water charges are fair, cost-reflective, and transparent.

Alternative model considered: QLDC retains water services inhouse

NOTES FOR COMMS: • Items where an infographic would be good are identified in <angled brackets>

Under this alternative option QLDC would continue to deliver water services inhouse. However, this model will be subject to all the requirements in the Bill that apply to water service providers – including meeting statutory objectives and financial principles (ringfencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to a new economic regulation regime.

Changes would have to be made to maximise our ability to respond to the new legislative and regulatory frameworks for water services. This could include establishing a separate water services directorate with a General Manager that reports directly to the Chief Executive. Our analysis of this option, and comparison to the WSCCO option, has assumed that changes to optimise our performance are made.

Advantages of retaining water services inhouse:

> INTEGRATED ACTIVITIES: Keeping water services in-house would allow better coordination with other QLDC functions, managed by one elected body and leadership team. Functions where integration is critical include strategic growth and land use planning, transport infrastructure planning and delivery, and consenting for new subdivisions.

> ORGANISATIONAL SCALE: Water services would benefit from QLDC's established administrative functions, attracting a wide range of staff and governance candidates.

> COMMUNITY INVOLVEMENT: Council would directly consult the community on water services, with local elections influencing governance. Public forums ensure transparency and accountability.

> LOWER SHORT-TERM WATER CHARGES: Household water charges are expected to be lower under an in-house model until around 2034.

Disadvantages of retaining water services inhouse:

As well as the advantages noted, there are several disadvantages associated with this model, including:

> MISALIGNED ACCOUNTABILITY: Council makes water service decisions but isn't liable for their outcomes, weakening decision-making incentives.

> DILUTED FOCUS: Councillors and staff juggle many QLDC activities, affecting focus on water services and competing for resources.

> COMPLEX ADMINISTRATION: Water service responsibilities are spread across QLDC, increasing administrative complexity and obligations. QLDC staff and Councillors would need to continue to manage and have a comprehensive understanding of the different and changing requirements that apply to water services as well as those that apply to the rest of QLDC’s services.

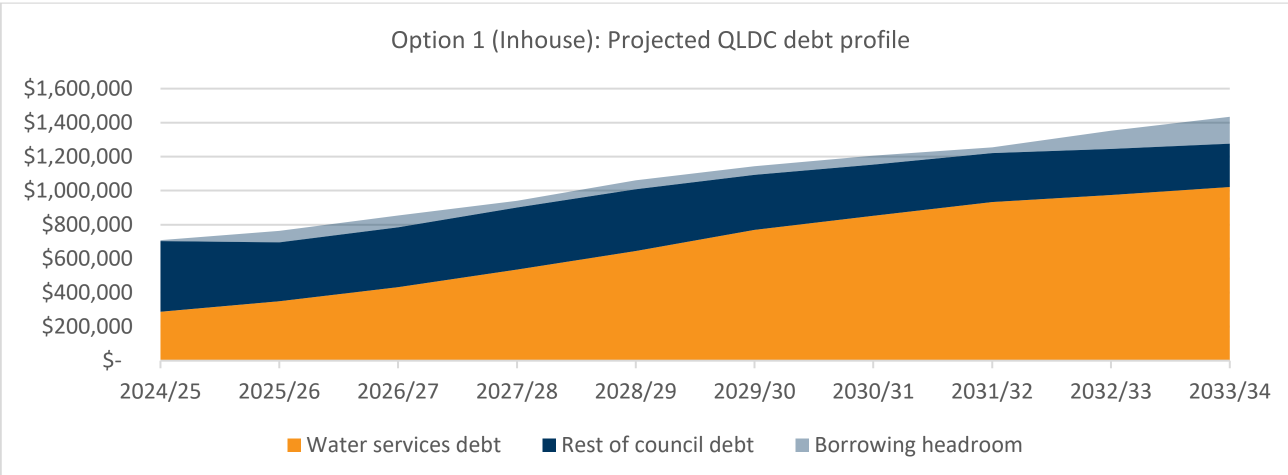
> HIGHER-LONG TERM CHARGES: Household water charges are expected to be higher from 2034 compared to a WSCCO model.

> LIMITED INVESTMENT CAPACITY FOR OTHER SERVICES: Keeping water services in-house would limit QLDC's ability to invest in new non-water related projects due to existing water debt.

Impact on debt:

We currently have a high level of debt and plan to finance a significant capital programme over the next ten years through borrowing, close to the maximum allowed by LGFA[1]. If QLDC keeps water services in-house, we can secure enough debt for necessary water investments. However, this would limit our ability to invest in other non-water services.

<create an infographic representing the information in the chart below>



Impact on rates and charges for water services:

Under this scenario ratepayers in the Queenstown Lakes District would continue to pay specific water rates that are set, and spent, separately to rates for other activities. Modelling shows that from 2024/25 to 2033/34, households will save approximately $1,738 on water services with an in-house model. By 2034, the annual cost for water will be similar for both options. However, from 2034/35 to 2043/44, households would pay approximately $4,906 more for water services with an in-house model.

<create an infographic representing the information below>

In 2025:

> Average annual household cost: $1,500

In the medium term (now - 2034)

> Average annual household cost: $3,349

> Total cost to households: $33,488

In the long term (2035 – 2044):

> Average annual household cost: $4,877

> Total cost to households: $48,770

[1] We can currently have debt with LGFA of up to 280% our revenue in any given year. As a high growth council QLDC is able to apply to have this limit increased to 350%, but we have not yet done so, and all modelling outlined in this document is based on 280%

Comparing the two options

NOTES FOR COMMS:

- Can you find some visually interesting way of presenting this using graphics to show for each element whether the WSCCO or inhouse performed better; green shaded cells show the model that performed best for each element.

	WSCCO:	**Inhouse:**
Advantages:	Independent Expert Governance Focused Water Services Organisation Streamlined Processes Increased QLDC Borrowing Capacity Lower Long-Term Water Charges Adaptability to Change	Integrated Activities Organisational Scale Community Involvement Lower Short-Term Water Charges Borrowing Capacity for Unexpected Water Costs
Disadvantages:	Separation of Services Reduced Community Involvement Higher Short-Term Water Charges Stranded Costs for QLDC Limited Borrowing Capacity for Unexpected Water Costs	Misaligned Accountability Diluted Focus Complex Administration Higher Long-Term Charges Limited Investment Capacity for Other Services
Headroom available for non-water expenditure:	Over the period 2024-2034 QLDC would have debt capacity of $3,906 million to invest in non-water services.	Over the 2023-2034 period QLDC would have debt capacity of $643 million to invest in non-water services or unplanned water services expenditure.
Level of debt:	By 2034 QLDC would have debt of $254 million and the WSCCO would have debt of $984 million, resulting in total debt across the two entities of $1,238 million.	QLDC would have water debt of $1,022 million and overall debt of $1,276 million.
Rates and Water Charges 2024 – 34:	Average annual household cost: $3,522 Total cost to households: $35,224 2034 annual household cost: $4,889 In 2034 households would pay approximately the same under either option.	Average annual household cost: $3,349 Total cost to households: $33,488 2034 annual household cost: $4,933 On average households would pay ~$174 pa less than under a WSCCO, and ~$221 pa than current projections
Rates and Water Charges 2034 – 44:	Average annual household cost: $4,386 Total cost to households: $43,864 2044 annual household cost: $4,120 On average households would pay ~$491 pa less than under an inhouse model. In 2044 households would pay ~$600 pa less that under an inhouse model.	Average annual household cost: $4,877 Total cost to households: $48,770 2044 annual household cost: $4,730

SECTION 4: SHARE YOUR FEEDBACK

NOTES FOR COMMS:
• I took the below content from a recent Statement of Proposal Naell provided; happy to change.
• The first set of bullets should be the questions on let's talk.
• Italicised paragraphs should be accentuated / called out.
• Items where an infographic would be good are identified in <angled brackets>

We would like to know:

> *If you support the proposal to establish a Water Services Council Controlled Organisation for the management and delivery of wastewater, drinking water and stormwater services.*

> *Or, if you prefer that we retain water services inhouse, recognising that changes would need to be made to enable us to respond to the new regulatory environment.*

> *And any other comments you may have on the proposed model outlined in this consultation document.*

How to provide feedback

Any person or organisation can share feedback on this proposal, and we encourage everyone with an interest to do so.

Feedback can be shared in any of the following ways:

> Online: Using the feedback form available at https://letstalk.qldc.govt.nz.
> By post: Sent to Queenstown Lakes District Council, Private Bag 50072, Queenstown 9348, Freepost 191078, *Attention: Your Water Done Well*.
> By email: Sent to letstalk@qldc.govt.nz, *subject line: Your Water Done Well.*

Copies of this consultation document will be available at no cost from either of the Council offices at 10 Gorge Road, Queenstown, 47 Ardmore Street, Wānaka, or any public library.

Feedback must be received digitally or in writing by Sunday 29 June 2025.

All written feedback received by QLDC will be acknowledged and made available to the public. Any personal contact details will not be published.

Decisions about the proposal will be made in a Council meeting on Thursday 31 July 2025. This meeting will be open to the public.

Timeline and next steps

<Infographic accompanying the below to show progress toward the final decision>
Below is the timeline for consultation:

> 29 May 2025: Council adopted the proposal for consultation
> 2 June 2025: Public consultation period starts
> 27 June 2025: Public consultation period ends
> 31 July 2025: Council considers consultation feedback and decides on the future service delivery model