

Alex Parmley
Chief Executive



Agenda

Council Meeting
Tuesday 24 February 2026

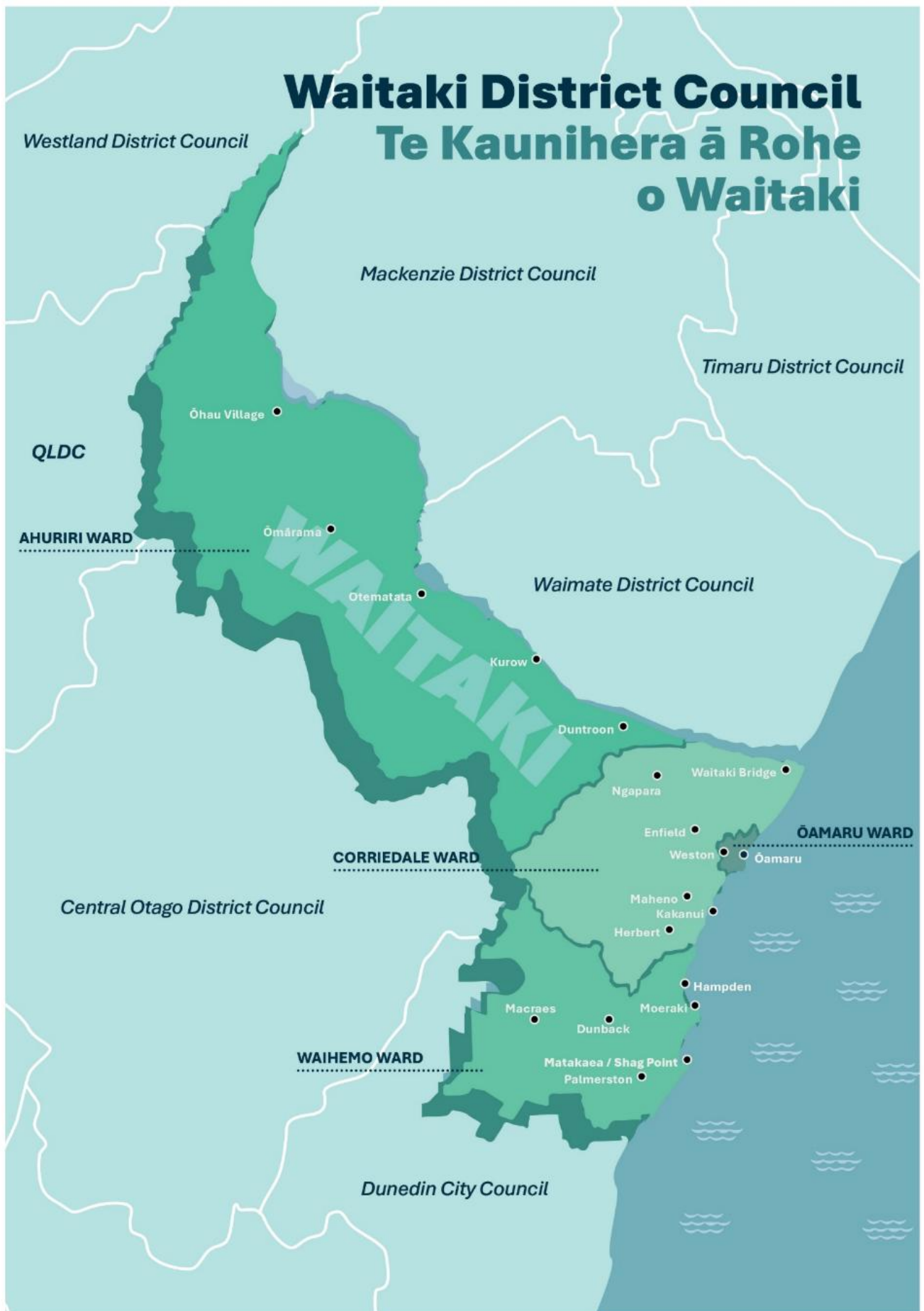
I hereby give notice that the Council Meeting
will be held on:

Date: Tuesday 24 February 2026

Time: 9:00 am

Location: Council Chamber, Third Floor
Office of the Waitaki District Council
20 Thames Street, Ōamaru





CONTENTS

1 Welcome.....4

2 Apologies4

3 Declarations of Interest4

4 Public Forum4

5 Reports of the Chief Executive and Staff for Decision5

 5.1 Water Services Delivery Options5

1 WELCOME

The Mayor welcomes everyone to the meeting.

This meeting will be livestreamed at

<https://www.youtube.com/live/aMAV3pZQZeU?si=xxjhfG9-RRIUuQIE>

2 APOLOGIES

3 DECLARATIONS OF INTEREST

Members are reminded of the need to be vigilant and to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

4 PUBLIC FORUM

5 REPORTS OF THE CHIEF EXECUTIVE AND STAFF FOR DECISION

5.1 Water Services Delivery Options

Author:	Paul Hope, Director, Support Services
Authoriser:	Alex Parmley (Chief Executive)
Attachments:	1. Water Services Delivery Options report 0226 [5.1.1 - 84 pages]

PURPOSE

The consider and decide on a water service delivery arrangement following the rejection of the Water Service Delivery Plan and decision to explore joint options with both northern and southern neighbouring Councils. The selected arrangement will form the basis of a revised Water Service Delivery Plan to be submitted by 30 June 2026.

EXECUTIVE SUMMARY

Following rejection of its Water Services Delivery Plan by the Government and the appointment of a Water Facilitator, at its meeting of 9 December 2025, Council resolved to investigate alternative options for the delivery of water with a focus on a Timaru/Waitaki based arrangement and rejoining the Southern Water collaboration (see WDC 2025/132 below). Analysis has been undertaken and discussions held focussed on three potential options:

1. Waitaki joining Southern Waters (and Timaru DC and Mackenzie DC separately forming a water services entity or WSE) and
2. Waitaki DC, Timaru DC and Mackenzie DC forming a WSE.
3. A Water Services Entity of 6 councils with Waitaki, Timaru DC and Mackenzie DC all joining Southern Water;

Mackenzie DC was included in the considerations as they had resolved to join Timaru DC in December. The 6 Council option was added after the first joint councillor workshop with Timaru DC and Mackenzie DC where the three Councils agreed to investigate this option.

Morrison Low Advisory were engaged to provide analysis of the options. Input was also received from the Department of Internal Affairs and the Waitaki's Crown Facilitator the Hon. Amy Adams. The result of this analysis is included in the report along with commentary on various other matters. This work indicates strong benefits to all parties of a 6 Council arrangement which has led to the recommendations set out below.

RECOMMENDATIONS

That Council:

1. Supports the forming of a six Council Water Service Entity with Waitaki DC, Timaru DC and Mackenzie DC joining Southern Waters, this being the option that offers the most affordability for all communities and the lowest risk.
2. Acknowledges that each Council needs to make decisions in the best interests of their community.
3. Resolves to request to join Southern Water to deliver water services, this resolution being irrespective of other councils' decisions.
4. Instructs the Chief Executive to engage with Southern Waters to finalise the joining arrangements and for these to be presented Council for approval as quickly as practical.
5. Nominates the Mayor and Councillor Schlack to participate in Steering Groups or similar as necessary.

CONTEXT, ANALYSIS AND ADVICE

Background and Current Situation

Council last considered this matter at its' meeting of 9 December 2025. The report supporting this decision outlined in detail the previous matters considered and decisions made. Given how recent this information was supplied it has been summarised rather than duplicated in the following section.

Council has been considering matters related to water reform for several years. These considerations became more focused with the previous governments two proposals (Three Waters Reform and Affordable Water) and the current government's Local Water Done Well regime.

Over 2024-25, Council explored and consulted on three potential arrangements, an in-house option, a Southern Water Done Well (SWDW) grouping and a South Canterbury (SC) arrangement. Due to a strong alignment and sense of partnership combined with the SWDW grouping building on work undertaken for all of Otago and Southland, the proposals developed further in the time that was available. The SC arrangement was not as well advanced, being restricted to some preliminary modelling, in part due to lack of certainty around alignment and direction of the councils.

Following the consultation process, on 8 July 2025, Council made the decision to prepare its' Water Service Delivery Plan (WSDP) based on an in-house arrangement. Given this decision, there were no further discussions with other parties.

On 6 October 2025 the Secretary of Local Government rejected the Waitaki WSDP for several reasons and urged the Council to consider an alternative delivery model. Shortly after this decision, on 4 November 2025, the Minister of Local Government appointed the Hon. Amy

Adams as a Water Facilitator to work with WDC on a revised WSDP. In his letter the Minister also encouraged the Council to consider other delivery models.

Council subsequently began the process of addressing the key issues identified by the Secretary. It commissioned work to address concerns about asset condition assessments and began to consider the wider issues raised in the communications from the Secretary and Minister. These were formally considered by Council on 9 December 2025.

At the meeting the decisions of the Secretary of Local Government and the Minister of Local Government were received and the following was resolved:

RESOLVED WDC 2025/132

Moved: Mayor Mel Tavendale

Seconded: Cr Rebecca Ryan

3. **Agrees** to conduct further investigations of alternative service delivery models with a focus on a Timaru/Waitaki based arrangement and rejoining the Southern Water collaboration.

CARRIED UNANIMOUSLY

Since the decision various actions and briefings have occurred to implement the resolution. Discussions have been held with Mackenzie District Council (MDC) and Timaru District Council (TDC) regarding future delivery arrangements. These discussions also involved Waitaki's Water Facilitator the Hon Amy Adams. As part of these discussions, it was agreed that Waitaki would lead in the process and would contract a project management resource (Geoco) and engage Morrison Low Advisory (ML) to provide financial modelling and other analysis to support the decision process. Waitaki also reopened communications with Southern Waters, the new name for the SWDW Grouping.

During the time since the matter was considered both MDC and TDC have made decisions in relation to the delivery of water services. On 18 December MDC resolved to join TDC (subject to their acceptance) to jointly provide water services. On 27 January 2026 TDC agreed to this joint approach. TDC also resolved to investigate other delivery arrangements including with WDC. Waitaki were not directly involved in these discussions.

A briefing was held for all Waitaki, MDC and TDC councillors and Mayors on 21 January 2026 to share the information that was available to date and get acceptance of the process that would be undertaken to allow decision to be made in terms of future service delivery by wider groupings of Councils. Given the very tight timeframes that this process is operating under, it was accepted that the most effective way forward was to form a Council Steering Group (CSG) to consider the more detailed information that would be required and provide direction to officers and external advisors. The CSG consists of the mayor plus one councillor from each

council. A programme of work, a decision timeline and as desire to investigate wider service delivery opportunities with Southern Water was also agreed.

Closed workshops were undertaken by the CSG on 4 February, 5 February (with a focus on Southern Water information and developments) and 12 February to finalise the information to be developed by ML. The Hon. Amy Adams was present at some of these briefings, along with representatives of the Department of Internal Affairs. A further all councillor workshop was held on 18 February to allow a question-and-answer session on the ML report and any other matters.

PRIORITY AND STRATEGIC CONTEXT

This matter is both urgent and critical.

Council is required to collect all the necessary information to update its' Water Service Delivery Plan by 30 June 2026. It has already approved and commissioned asset condition assessment work required by the Secretary of Local Government and this is expected to be completed in time to meet the timeframes.

Council has already made the decision to move to a joint water services delivery arrangement, but it is now necessary to agree which partnership arrangement to join. Once this decision is made, work will be required to formalise these arrangements with the other parties. This will likely take several weeks to negotiate and formally agree to which ever arrangement is selected. It is therefore urgent for Council to select an arrangement to allow time to formalise arrangements ahead of finalising the WSDP. It is also important for the other five councils involved that a decision is made as quickly as possible as all are working to very tight timeframes.

It also needs to be recognised the ongoing impact this process is having on other workstreams Council must undertake. A decision on this matter is also critical to the development of the 2026-27 Annual Plan. Whatever decision is made, it will take time to implement and a delay in deciding will likely impact on the Council's 2027 Long Term Plan. Further, Council is also subject to numerous other reforms which require priority attention if Council is to ensure Waitaki's interests are considered.

There is also an ongoing impact on officers across Council, particularly those involved in the planning and delivery of water services. Officers involved in water services have been uncertain about their future for several years. With other water service entities starting to establish, continued uncertainty may impact staff retention and the ability of the Council to provide water services and its investment programme in water assets and compliance.

In terms of the importance of this decision, this has been outlined in previous reports. This is a fundamental service critical to the health and wellbeing of the Waitaki Community.

If Council does not develop a compliant WSDP by the revised deadline set by the Secretary of Local Government, the opportunity for council and community input into the final decision will diminish and decision making with rest with the Minister.

Analysis and discussion

The primary analysis and supporting information are provided in the attached report from Morrison Low Advisory (ML). Rather than repeat the contents in the body of the report only key matters relevant to the decision will be highlighted in this and the following sections.

The key information ML has provided includes an updated financial analysis and a Multi-Criteria Analysis (MCA) of the various options. The MCA has been selected as the most appropriate tool to consider the non-financial factors of the selected options, of which there are many. This analysis is based on the “Better Business Case” methodology with a focus on the following four key matters, with each matter having several sub considerations:

- Strategic fit and business need
- Value for money
- Affordability
- Achievability

The MCA was selected as it was considered that it would provide the best comparison between the various options given the information and time that was available. It is designed to provide a comparison between options however it does not provide the level of benefit for each Council.

The options selected for analysis and MCA score for each are as follows:

1a. MacKenzie and Timaru in a new entity	0.83
1b. Waitaki and Southern Water	1.33
2. Waitaki, MacKenzie and Timaru in a new entity	1.33
3. Waitaki, MacKenzie and Timaru joining Southern Water	1.69

The overall conclusion of the MCA is that the expanded Southern Water option is most likely to create the greatest range of benefits to the parties concerned, including the greatest level of affordability. Being the second largest water entity in the South Island it is expected to create financial advantages and points of difference in terms of procurement, efficiencies and attraction of talent. This option ranks second in terms of achievability, having some

complexity in three councils joining Southern Water, an established partnership of three other councils.

The MCA show that the benefits of 1b. Waitaki and Southern Water and 2. Waitaki with Mackenzie and Timaru are similar levels, with 1b. being slightly more advantageous. However, 1b. presents a much higher level of deliverability given the advanced nature of Southern Water, compared to 2. where no development work has progressed. From a risk perspective, option 2 provides the highest risk option for Waitaki as the basis of the CCO would need to be negotiated and there are risks around timelines and their impact on the rest of Council, given the establishment process has not commenced.

Consultation and Option Development

It has been determined that Council is not required to consult on this issue. There are a variety of reasons for this determination, most notably that it is not possible to conduct a meaningful consultation and meet the deadline set for decision in the process. However, it is important to note that Council did include joint delivery options in the original consultation, so most of what is proposed is not a new proposition. Although it was not the preferred option of the community, the plan based on the preferred option has been rejected so alternatives need to be explored.

Financial Considerations

A fundamental feature of all the proposed delivery arrangements is that each component district or supply area will continue to be charged based on the costs to supply and service that area and that there will be no short-term objective of harmonising prices across all consumers. This is described as price ring fencing and means that no district will be subsidising another district. Agreement on this approach has eliminated the greatest variances in pricing between the current delivery approach and price structure, and all alternatives being put forward.

The key features in the models that drive pricing difference are:

- Cost of debt / finance margin
- Efficiency assumptions
- Entity size, sharing of common cost and avoidance of duplication

It is important to note that the purpose of this financial analysis is to provide a basis of comparison between options for each Council in the time available. The limitations, caveats and assumptions are set out in the report. The key point to note is that this work had to be based on WSDP data where each Council made its own assumptions. Every practical attempt has been made to align the information, but full alignment is not possible. This effort to align

this data also means that a direct comparison to some of the earlier financial models is not possible.

There is a range of financial information provided in the ML report. Staff from ML will be able at the meeting to answer any specific questions on this information. In officers' opinion the key matters to take away from this analysis is that all option will achieve the required financial standards expected by regulators and the Local Government Funding Agency. This information is useful but limited. These are expected to develop as arrangements mature and the entities develop their Water Strategies which replace the WSDP.

The overall conclusion of this analysis in terms of Waitaki is that there is little difference between options 1b. and 2. Although option 2 leads to a slightly better expected cost per residential connection in 2034, at a 1.2% difference this is well within the range driven by assumption differences. Option 4 is the only option that is expected to produce a real price and financial position benefit.

Additional Considerations

ML identified two other matters that could be considered in the decision-making process but due to their highly subjective nature, they believe it was up to each council to consider and put a weighting on. These two factors were “Trusted relationship” and “Alignment with simplifying local government reforms”. Officers agree that these are important consideration and that they are subjective so will not make specific comments on these matters in this report.

The decision-making process in relation to this matter is complex. There are four different entities making related but different decisions, with the options available being determined by decisions being made by each of the other parties. The recommendations developed have tried to accommodate this complexity and have placed an emphasis on the matters Council can control.

The decision is further complicated by the position each council is in as it relates to their water services delivery plan. As Waitaki's WSDP has been rejected in part because it was based on a standalone delivery arrangement, it has the greatest need to find an alternate arrangement. However, it needs to be understood that even when Waitaki has made a decision, it will still be subject to the other parties accepting this decision and agreeing to a new / revised delivery arrangement. This will be discussed further in the decision section and risk section.

Council has accommodated the advice and guidance it has received from the Hon. Amy Adams during this process and has appreciated the approach she has taken in her role as a Crown Facilitator.

Risks*Decision Risk*

The most significant risk is different decisions being made by the three other parties which could lead to a poor final outcome for Waitaki. To assess this further a summary of each of the other party's position and the related decisions are as follows:

Southern Water included provisions in its' approved WSDP to allow Waitaki and TDC to join the grouping. This was included in the plan even though both Councils had joined and then withdrew from this arrangement. This, along with the recent comments by the three Mayors would indicate that a request to join is high likely to be accepted. However, there would still need to be a formal decision by each of the three Southern Waters councils to accept another council into the arrangement, including Waitaki.

MDC was involved in the four South Canterbury Councils option and have subsequently resolved to join TDC to deliver water services. It does not appear that it has previously contemplated joining Southern Water, so there is no current indication on their position other than comments at the various briefings.

TDC applied to join Southern Water and then changed their position prior to their consultation process and the drafting of the WSDP. There is comment in their WSDP regarding joint arrangements but noting they did not believe there were viable alternatives to a stand-alone approach at the time the WSDP was submitted. In TDC's public discussion prior to making the decision to join with MDC at least one member expressed concerns about wider groupings involving southern Councils. Whilst Timaru DC and Mackenzie DC have both already formally agreed to work together, any decision by Waitaki to join them in a joint arrangement would need to be formally agreed to by both councils.

Agreement with parties' risk

The next most significant risk is that even after Council agrees is preferred arrangement, an agreement is not deliverable by the stipulated deadline. The risk is higher with the South Canterbury option as there is limited work undertaken that could form the basis of an agreement and so this would take time to develop and at this stage its final form is unknown. Although it is recognised that there will be agreements and other matters that have been agreed by other entities will assist this process, the differences in terms of the size and service mix of the three South Canterbury councils may create some issues. These issues could include how to properly recognise the importance of industrial consumers to TDC, the growth pressures faced by MDC and the importance of rural mixed-use schemes to Waitaki.

The risk is lower with Southern Waters. These councils are more similar to Waitaki. The partnership is established, the terms are known, Waitaki was involved in developing the terms before it left the partnership and those terms have not changed significantly in that time.

Establishment Risk – resources, timetable and impact on the rest of Council

There is a very significant amount of work required to implement whichever option is chosen. This work not only involves the integration of other councils' water services into a new organisation, and in the case of the South Canterbury option, establishing and forming an organisation from scratch, but also involves internal change to Council as a result of the transfer of functions, assets and staff.

A further risk therefore is in relation to establishment of a new entity and then transfer of services and the impact on the rest of Council. Establishing a WSE and transferring staff, services and assets is a major undertaking and will therefore take resources and time to work through. If Waitaki joined with MDC and TDC, that work has not yet started and therefore is considerably behind the establishment of other WSEs. This may impact the retention of existing staff as well as the ability to attract Board Members and senior staff required to ensure the success of the WSE. At this point, with the work that would need to be completed, it is difficult to see how services could transfer at the end of June 2027. That being the case, water services would need to be factored into the early part of the 2027 Long Term Plan, potentially impacting the Council's financial position and rates. Further, given there has been no work to date on progressing the establishment of a WSE for South Canterbury, this option would take more resource than the Southern Waters option from WDC and this will need to be considered in terms of the capacity to deliver other aspects of the Council's ambitions and programme.

Given the advanced nature of Southern Waters establishment, this option presents a lower risk to delivery and there is a higher likelihood of water services being able to be transferred by the end of June 2027. There is still a great deal to do and Waitaki joining Southern Water will generate additional work for the partnership which may impact their programme.

If Waitaki, TDC and MDC were to join Southern Waters, this would represent considerable additional work for the partnership on top of their existing programme but still be lower delivery risk than establishing a South Canterbury WSE. Joining Southern Waters will still require resource from WDC to support the programme, establish the entity and transfer services, staff and assets. However, this is likely less resource than establishing a South Canterbury WSE due to the progress already made in Southern Waters.

Overall Risk Assessment

Whichever option Council chooses, there are risks. It is officers view that the risks to WDC are significantly higher for the South Canterbury option in several aspects. This is not a reflection of the willingness of the parties, but a reflection of the current position and the work undertaken to date.

Significance and Engagement

The significance of this decision is high. Engagement has occurred with the five other Councils involved, with the Department of Internal Affairs and the Water Facilitator. Council will be informing rather than engaging with the community as this was previously consulted on but the decision by the Secretary of Local Government has made further engagement impractical as discussed earlier in the report.

Summary of Options Considered**Option 1 - Waitaki joins Southern Water**

Under this option Waitaki would most clearly demonstrate it believes the Southern grouping is the best option. This still allows MDC and TDC to make independent decisions on which arrangement they prefer.

Option 2 – Waitaki joins the MDC and TDC Grouping

Under this option Waitaki asks to join the existing MDC / TDC grouping. This group may or may not join with Southern Water.

Option 3 – Waitaki, MDC and TDC all join Southern Water (preferred)

Under this option all three councils join the existing Southern Water grouping. It is important to note that this does involve three separate decisions therefore Waitaki does not fully control this option

It should be noted there is no “Status Quo” to consider.

Assessment of Preferred Option

Option 3 is the preferred option as this is likely to produce the most affordable outcomes for Waitaki. The analysis performed clearly indicates that the larger grouping of six Councils would provide the greatest benefit to all the component Councils and the communities they serve. However, each of the three Councils currently considering this option has a different mix of factors to consider.

It is considered that Council deciding to join Southern Water is the most likely option to achieve this desired result. It gives a clear direction to the other Councils making decisions later in the day and therefore should help with their decision-making process.

In addition to this overall factor, the MCA indicates that even if TDC and MDC make other decisions, joining Southern Water is the next best option for Waitaki. As described above, the MCA is designed to compare the options as neutrally as possible but acknowledges each Council will have a different perspective. As set out in detail in the risk section, officers have formed a different view on the deliverability of the options. It is considered that the Southern Waters option in any form is far more likely to be achieved by the set deadline than a South Canterbury option and is likely to require significantly less council resource than other

options. Given the other matters Council must address and the ongoing strain on the organisational resources, this is viewed as a significant consideration.

Option 3 should be the preferred option if the most critical component of the decision is that Waitaki is in the same grouping as Timaru and Mackenzie and there is less emphasis placed on joining the Southern Water grouping. Whether this group then joins Southern Water will be driven by the decisions of the other Councils later in the day.

Next Steps

Whatever decision is made, there is considerable work ahead to give effect to the decision. Officers will need to act quickly to formalise the preferred arrangement to bring back to Council and start making arrangements and securing resources to implement the decision. Being able to act quickly in this space is why recommendations 4 and 5 have been added. The next formal step is likely to be acceptance of various establishment documents and reflecting these and other information in a revised WSDP. This likely to occur in late March and the middle of April.



Water Services Delivery Options report

Mackenzie District Council, Timaru District Council and
Waitaki District Council

February 2026



Prepared for:

Job #	Version	Written	Reviewed	Approved	Report Date
295101	FINAL 4.0	J.Williams-Shigeeda	S.Cross, C.Anich	S. Cross	20/2/26

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Content

Introduction

Option 1(b): Waitaki +
Southern Waters

Context and background

Option 2: Joint model

Assessment process

Option 3: Join Southern
Waters

Options and criteria overview

Financial analysis

Option 1(a): Mackenzie +
Timaru

Overall comparison

Introduction

Timaru, Mackenzie and Waitaki District Councils (the three councils) are working together over a defined period to assess reasonably practicable water services delivery models.

This report serves to assist the joint process by providing evidence and analysis to inform the respective three councils' decision making for their water delivery model.

Context and background

Context

Each council must reach a timely, well-informed decision that meets its statutory, financial, and community obligations.

There is a short time frame for decision making as only Timaru has had its Water Service Delivery Plan (WSDP) approved.

Previous work

The three councils explored options for a joint Water Services Organisation, with Waimate District Council in mid-2025

Following that work:

- Mackenzie District Council voted to deliver services through an in-house business unit
- Timaru District Council voted to establish a two waters WSCCO and indicated a willingness to work with others
- Waimate District Council voted to deliver service through an in-house delivery model
- Waitaki District Council pursued the Southern Waters option and ultimately voted for an in-house delivery model

Where are we now



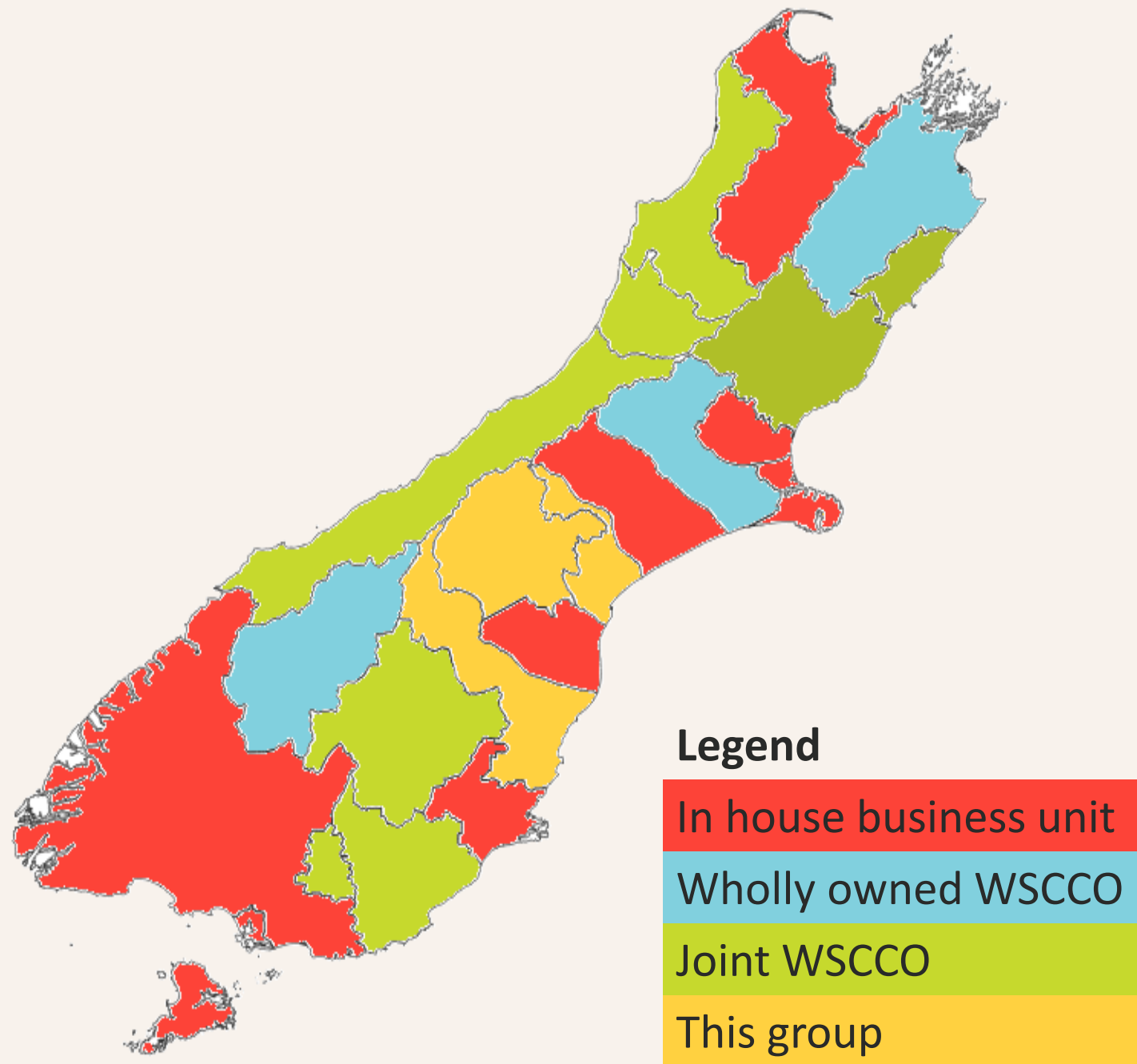
Waimate District Council has had its plan approved and is not part of this discussion

Timaru District Council has had its plan approved and continues to demonstrate willingness to work with other councils

Mackenzie District Council has been invited to resubmit its WSDP and Waitaki District Council has had its plan rejected

Mackenzie District Council passed a resolution to enter into a commitment agreement with Timaru District Council

Southern Waters has met with the three council Steering Group and is open to expanding their joint model



South Island Context

- 3 jointly owned Water Services Organisations (Southern Waters, West Coast Water, Kaikoura-Hurunui)
- 4 wholly owned Water Services Organisations (Queenstown, Timaru, Selwyn, Marlborough)
- 9 in-house business units (Nelson, Tasman, Waimakariri, Christchurch, Ashburton, Waimate, Dunedin, Invercargill, Southland)
- 2 to be determined (Mackenzie, Waitaki)

Current compliance snapshot

Council	WSDP	Planned investment
Timaru	Meets requirements Drinking water achieved 100% compliance Firefighting capacity sufficient	Investment plan addresses requirements.
Mackenzie	Meets requirements Firefighting capacity insufficient	Investment plan budgets to address specific compliance requirements. Smart metering.
Waitaki	Meets requirements Three of fifteen water supplies compliant	Projects in place to address non-compliance for drinking water quality which will be completed and achieve compliance by 2026/27. Water metering.
Southern Waters	Meets requirements However significant levels of non-compliance. Most drinking water supplies not compliant	Significant investment in place including 2025/26 and 2026/27 to address drinking water non-compliance. All anticipated future regulatory requirements are expected to be met based on planned investment.

Southern Waters

- Agreement of establishment principles through WSDP process
- Establishment Chair appointed and independent members appointment process confirmed
- Programme Director in place to direct and lead the transition phase
- Five cross council workshops held to inform workstreams
- Treasury advisors engaged and LGFA accession in early stages
- Legal support engaged
- Shareholders' agreement and constitution process underway
- People and Capability, and Digital/IT advisors providing support
- Engagement, communication and brand strategy established

Capital programme prioritisation

- All models presented here assume that the new water entity will deliver the **full capital programme** included in each council's WSDP
- All models include sufficient financial capacity, and lending headroom to deliver this
- A prioritisation matrix will be required under all models to ensure each district sees its fair share of investment
- There will be opportunities to give direction to this through the statement of expectations
- Most drinking water compliance investment is scheduled to take place *before* the water entity is established

Decision making process

Process to date

- Steering Group agreed priorities and importance for delivery model
- Steering group considered multi criteria analysis of options against criteria
- Steering group met with Southern Waters
- Desktop analysis and review of financial information
- Report produced to be considered by each of the respective three councils to confirm preferred delivery model

Hard deadlines

- A decision on the future delivery model is needed for each council by the end of February
- The decision allows for the redrafting of WSDPs for Mackenzie and Waitaki
- Formal acceptance by Southern Waters (if model selected) would occur in March and April
- Mackenzie District Council must submit its revised plan by 31 March 2026
- Consequential amendments are required to other impacted plans (Timaru and Southern Waters)
- Waitaki District Council must then submit its revised plan by 30 June 2026

Options and criteria overview

The options

- 1(a) Mackenzie + Timaru
- 1(b) Waitaki + Southern Waters
- 2 Mackenzie, Timaru, and Waitaki joint model
- 3 Mackenzie, Timaru and Waitaki join Southern Waters

Investment criteria

Agreed to use Better Business Case critical success factors as criteria:

- Strategic fit and business need
- Value for money
- Affordability
- Achievability

Strategic fit and business need

Sub criteria	Considerations
Compatibility	Degree of alignment for operational harmony. Not the same thing as similar districts and identical needs. The level of current familiarity based on existing relationships between grouping of councils.
Resilience	Ability of the proposed model to provide service resilience. Consider degree to which WSCCO can anticipate, absorb and adapt to, and recover from disruptions while ensuring the continued delivery of services. Supported through increased scale.
Meet regulatory requirements	Ability of group to become and continue to be compliant with its regulatory requirements through scale and specialisation. Consideration is given to increased suite of requirements including economic and performance reporting . Consideration given to current challenges as a potential barrier for future compliance.
Capability and capacity of workforce	The degree to which the workforce pool is increased by the proposed model. Considerations include skills and expertise of workforce and governance and management maturity. Impacts on ability to meet regulatory, technical and performance requirements.

The WSCCO demonstrates alignment with organisational strategy and identified need

Sub-criteria that was removed

Other criteria that is material but is highly subjective and best assessed at an individual council level. This includes:

- **Trusted relationship** – a high degree of trust is required given tight timeframes, and increasing complexity. Without trust, delivery risk is heightened.
- **Alignment with simplifying local government reforms** – There is a broader local government reform programme proposed which may impact future delivery models across all council services.

These criteria should still be considered by councillors when making a decision.

Value for money

Sub criteria	Considerations
Establishment cost	The relative costs of establishing a new entity, measured on a per water connection basis for comparability.
Overhead costs	The relative costs of the corporate overhead structure for a new entity, measured on a per water connection basis.
Risk of future costs	Degree to which the model is at risk of occurring future costs due to merger or absorption of further current council water services.

WSCCO delivers optimal long term value, which is not the same as lowest cost.

Achievability

Sub criteria	Considerations
Timing	Ease of individual council pathway and that of other parties to establish or join exiting model. Consideration is given to the extent of any existing work underway which impacts on establishment timeframe.
Workforce capacity	The ability of an organisation to deliver its transition programme within required timeframes and at the expected standard using people it has access to now and into the future. Considerations include bandwidth and scale – the ability of resources, ability to absorb additional load and headroom to respond to increased work.
Complexity	The degree of difficulty involved in establishing and transitioning to the proposed water services organisation, having regard to the number of parties involved, the extent of change required, the maturity of existing arrangements, and the level of coordination and sequencing needed to achieve an operational entity within the required timeframes.

WSSCO is deliverable considering available management capability and risk

Affordability

Sub criteria	Considerations
Efficiencies	The extent to which the model delivers operating, capital, and financial efficiencies that reduce long-term costs and support affordable water services for communities.
Capital structure	The ability of the model to finance required investment in a way that limits long-term costs for communities. Considerations include borrowing headroom and lending covenants.
Financial sustainability and resilience	The ability of the model to withstand financial shocks and maintain affordable services over time. Considerations include size of revenue and customer base, available borrowing headroom.

Water services charges will be within the community’s capacity to pay over the long term

Scoring approach

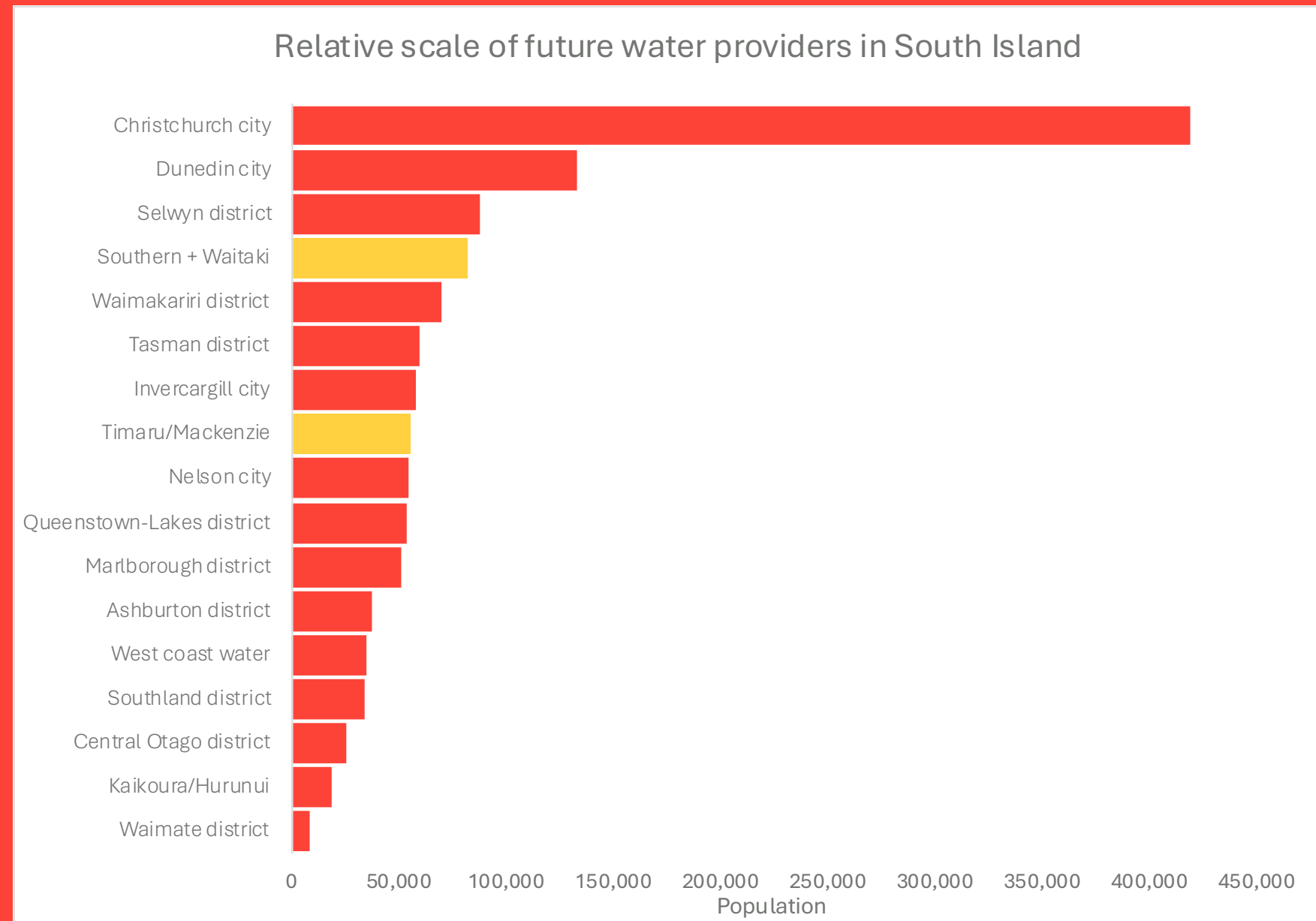
Magnitude	Definition
Large Positive	Major positive impacts resulting in substantial and long-term improvements or enhancements.
Moderate Positive	Moderate positive impact, possibly short, medium- or long-term duration. Positive outcome may be in terms of new opportunities and outcomes of enhancement or improvement.
Slight Positive	Minimal positive impact, possibly only lasting over the short term. May be confined to a limited area.
Neutral	Neutral – no discernible or predicted positive or negative impact. May be because benefits and risk of negative impact cancel each other out.
Slight Negative	Minimal negative impact, possibly only lasting over the short term, and definitely able to be managed or mitigated. May be confined to a small area.
Moderate Negative	Moderate negative impact. Impacts may be short, medium or long term and are highly likely to respond to management actions.
Large Negative	Impacts with serious, long-term and possibly irreversible effect leading to serious damage, degradation or deterioration, service delivery, staff health and safety/retention.

Option 1(a): Mackenzie + Timaru

Key features

1(a): Mackenzie + Timaru

- Geographic area: 10,076m² (2,737 + 7,339)
- Population: 47,547 in Timaru and 5,115 in Mackenzie
- Number of councils: 2
- Water connections: 25,234
- Head office location: to be determined
- Share holding model: to be determined
- Other:
 - Still a live question of two waters or three waters
 - Rural water and mana whenua roles to be determined



The 8th largest water provider in the South Island

Strategic fit and business need

1(a): Mackenzie + Timaru

	Score	Rationale
Compatibility		The relative size of the councils is very different: 47,547 in Timaru and 5,115 in Mackenzie. Live issue of three or two waters for Timaru. Mackenzie needs a model to deliver three waters.
Resilience		No material change from current state. Borrowing power addressed in finance section. Improved resilience for Mackenzie.
Meet regulatory requirements		A higher score not given as may be impeded by the capability of the workforce to meet new requirements. High level of existing compliance.
Capability of workforce		As graph on the slide above shows, the model would be competing with much bigger delivery organisations in the South Island. Not materially better than Timaru as the bigger council working alone.
Overall		

Value for money

1(a): Mackenzie + Timaru

	Score	Rationale
Establishment costs		Assessed at approximately \$215/connection, assumes streamlined process with low resourcing.
Overhead costs		Highest across options but no material difference. \$190/connection.
Risk of future costs		Highest risk of potential future amalgamation or revisitation of delivery model
Overall		

Achievability

1(a): Mackenzie + Timaru

Option	Score	Rationale
Timing		Pathway is enabled by resolution to work together. Still key details to work through between councils, including agreement on foundational principles.
Workforce capacity		Competing with private sector and new entities for workforce, pay and career development opportunities. Other water organisation transitions have already recruited and filled key roles. Score improved because transition may be able to be delivered on a low cost/low impact approach given relative scale of councils.
Complexity		Less complicated to establish.
Overall		

Affordability

1(a): Mackenzie + Timaru

Option	Score	Rationale
Efficiencies		Efficiency gains largely only relate to improved governance structure as no material increase in scale compared to Timaru
Capital structure		FFO requirement and DC recognition lower than large model.
Financial sustainability/resilience		Little change. Noting that for Mackenzie there is a material benefit here.
Overall		

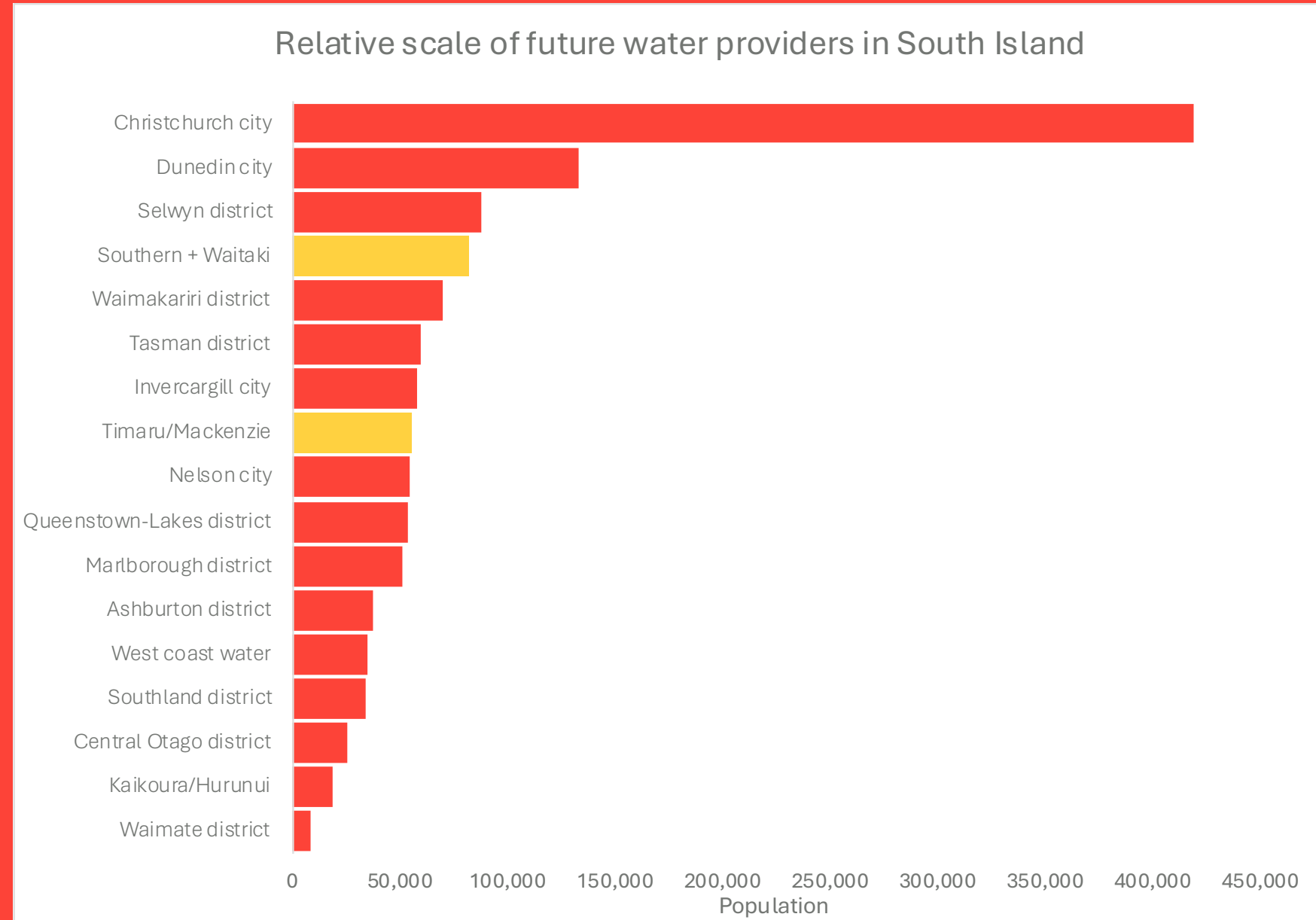
Option 1(b): Waitaki + Southern Waters

Key features

1(b): Waitaki + Southern Waters

- Geographic area: 26,673.53 km²
- Population: 82,484
- Number of councils: 4
- Water connections: 35,824
- Head office location: decentralised model
- Share holding model: equal vote through shareholders' committee.
- Other:
 - Rural water recognised as a distinct service and as a fourth water
 - Agreed role for mana whenua on SRG
 - Three waters model agreed

1(b): Waitaki + Southern Waters



The 4th largest water provider in the South Island

Strategic fit and business need

1(b): Waitaki + Southern Waters

	Score	Rationale
Compatibility		Good compatibility. Established relationship with proven ability to work together. Southern Waters believes more is better than less. Broadly similar in delivery model and challenges.
Resilience		Some enhancement of service resilience due to increased geographic area (limiting impact of localized events), and potential access to an increased workforce.
Meet regulatory requirements		Increased workforce scale, specialisation, and combined experience improves ability to deal with compliance issues and attract economic regulation specialist. Higher score not given as may be impeded existing compliance issues.
Capability of workforce		As fourth largest WSCCO in South Island, becomes materially easier to attract a workforce which to date has been difficult.
Overall		

Value for money

1(b): Waitaki + Southern Waters

	Score	Rationale
Establishment costs		Establishment costs assessed at \$280 per connection, largest across group.
Overhead costs		Overheads per connection equal with 1(a), no material difference across options.
Risk of future costs		Low risk of future costs of merger. Small chance another party wishes to join down the track.
Overall		

Achievability

1 (b): Waitaki + Southern Waters

Option	Score	Rationale
Timing		Score highly as clear pathway for Waitaki to join Southern Waters in the current agreement with financials already previously shared and understood. Significant work underway on no regrets basis.
Workforce capacity		Better able to compete for workforce, offer competitive pay and career development opportunities. Key roles already filled/appointed. Proven ability to attract talent from overseas.
Complexity		Southern Waters organisational foundation already completed. A further council joining existing grouping reasonably easy to consume now.
Overall		

Affordability

1(b): Waitaki + Southern Waters

Option	Score	Rationale
Efficiencies		Efficiency gains are moderate and reflect an increase in scale.
Capital structure		FFO requirement and DC recognition lower than large model.
Financial sustainability/resilience		Moderate improvement on current state with increase in connections and revenue base
Overall		

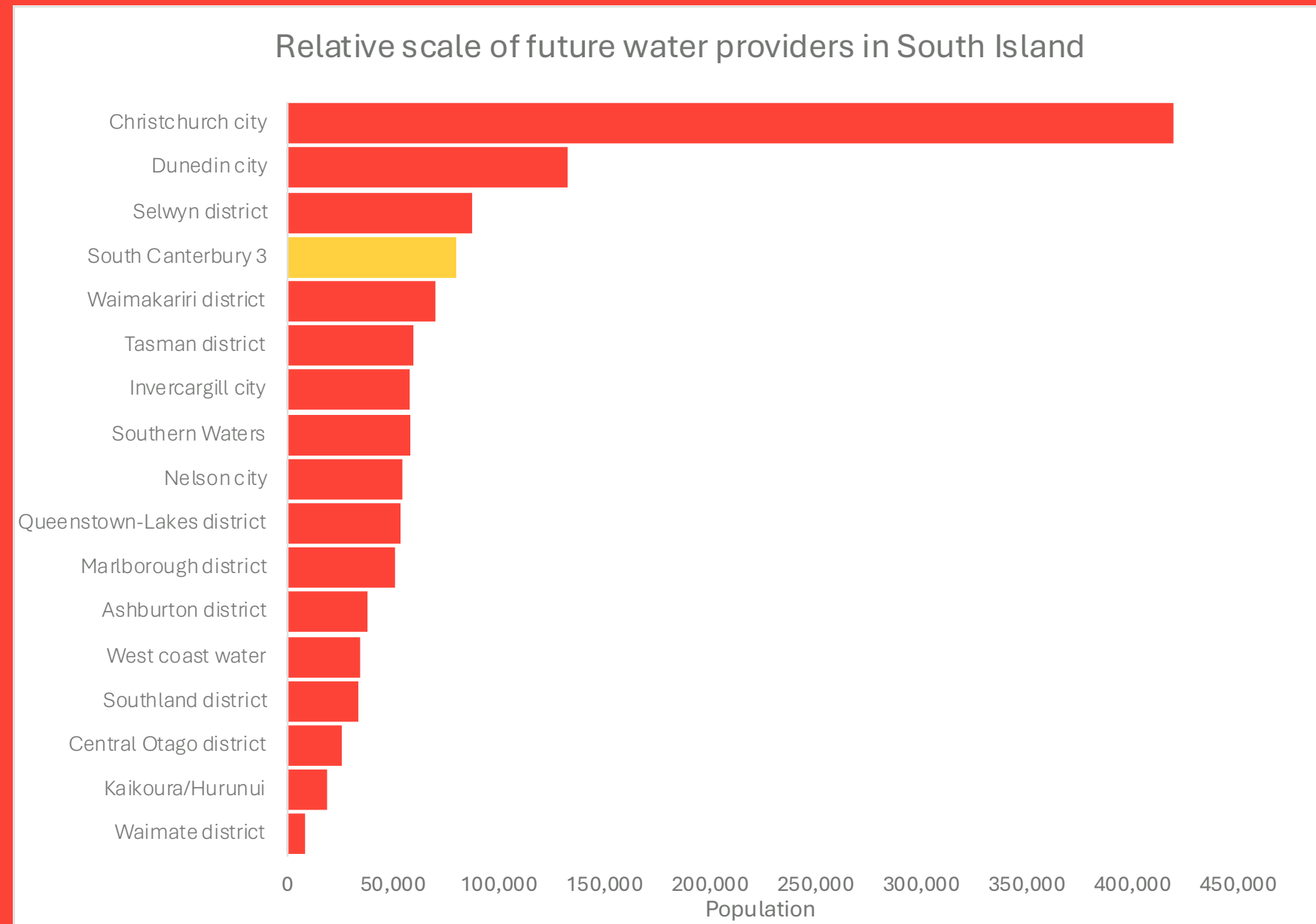
Option 2: Mackenzie, Timaru, and Waitaki

Key features

2: Joint model

- Geographic area: 17,184 km²
- Population: 77,596
- Number of councils: 3
- Water connections: 37,209
- Head office location: to be determined
- Share holding model: to be determined
- Other:
 - Still a live question of two waters or three waters
 - Rural water and mana whenua roles to be determined

2: Joint model



The 4th largest water provider in the South Island

Strategic fit and business need

2: Joint model

	Score	Rationale
Compatibility		Good compatibility and geographical grouping. Established relationship and proven ability to work together as evidenced through this undertaking.
Resilience		Some enhancement of service resilience due to increased geographic area (limiting impact of localised events), and potential access to an increased workforce.
Meet regulatory requirements		Increased workforce scale, specialisation, and combined experience improves ability to deal with compliance issues and attract economic regulation specialist. Higher score not given as may be impeded by existing compliance issues.
Capability of workforce		Improvement in workforce resilience material but perhaps not as good as the group of six. Better ability to attract talent due to scale.
Overall		

Value for money

2: Joint model

	Score	Rationale
Establishment costs		Establishment costs assessed at \$245 per connection, second lowest across options.
Overhead costs		Overheads per connection \$180, no material difference across options
Risk of future costs		Low risk of future costs of merger. Small chance another party wishes to join down the track.
Overall		

Achievability

2: Joint model

Option	Score	Rationale
Timing		Pathway is resolved for two council to work together. Past that any new structure is in its infancy and will require further development.
Workforce capacity		Scale (three councils) means equivalent ability to attract key resources as option 1b. Scored reduced because key resources yet to be appointed.
Complexity		Scores slightly better than option 3 because of greater understanding and knowledge of each other across the three councils. However, this is a ground up establishment with nothing underway yet.
Overall		

Affordability

2: Joint model

Option	Score	Rationale
Efficiencies		Efficiency gains are moderate and reflect an increase in scale.
Capital structure		FFO requirement and DC recognition lower than large model.
Financial sustainability/resilience		Moderate improvement on current state with increase in connections and revenue base
Overall		

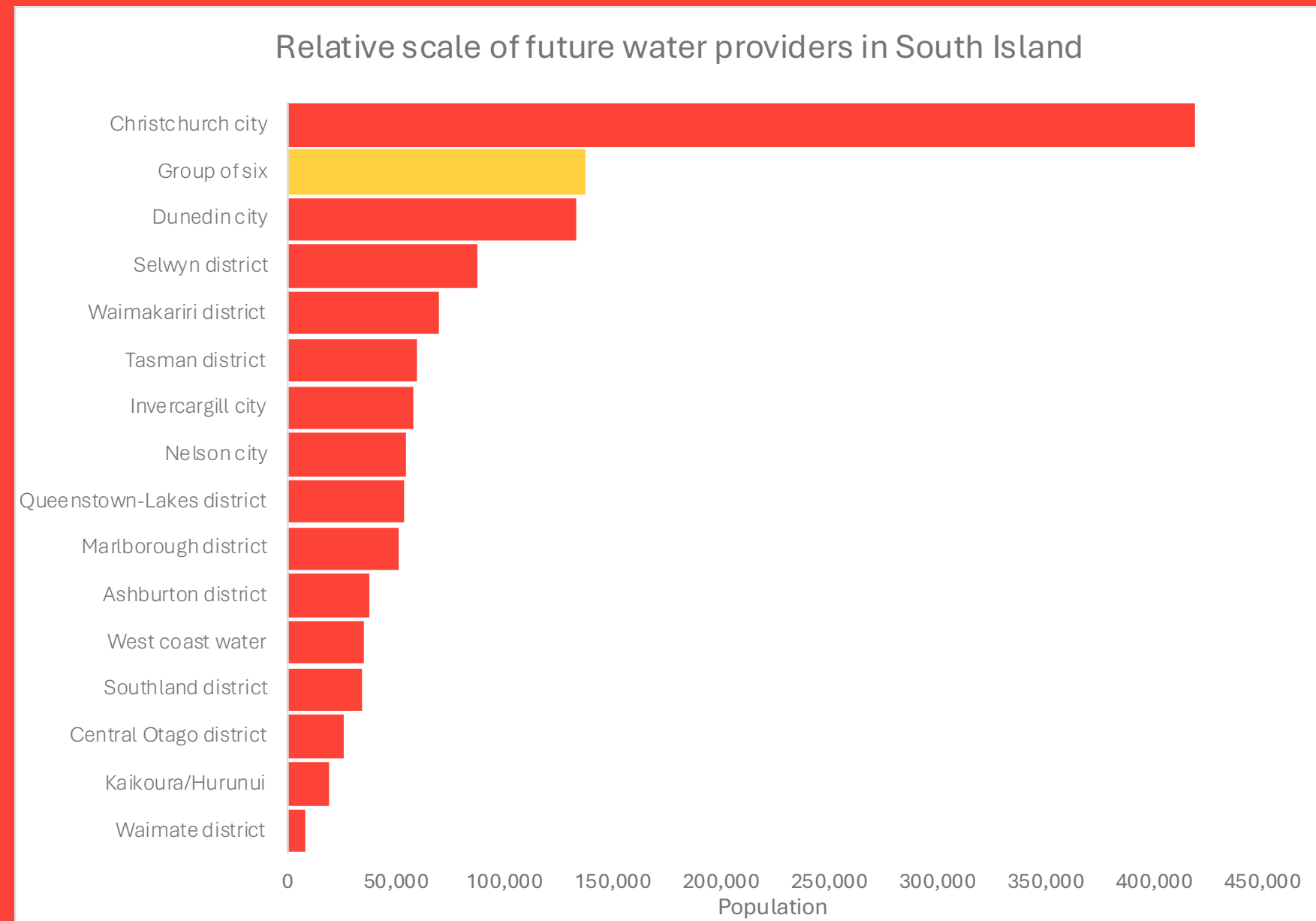
Option 3: Mackenzie, Timaru and Waitaki join Southern Waters

Key features

3: Join Southern Waters

- Geographic area: 34,705.59 km²
- Population: 135,146
- Number of councils: 6
- Water connections: 61,058
- Head office location: decentralised location
- Share holding model: equal vote through shareholders' committee
- Other:
 - Three waters model (provision for Timaru to only transfer two waters)
 - Rural water recognised as a distinct service and as a fourth water
 - Agreed role for mana whenua on SRG

3: Join Southern Waters



The 2nd largest water provider in the South Island

Strategic fit and business need

3: Join Southern Waters

	Score	Rationale
Compatibility	High	Size provides for a greater degree of alignment within the group across the spread of issues and opportunities for service delivery. Timaru and Mackenzie do not have an established relationship with Southern Waters. However Southern Waters believes that a bigger group is beneficial.
Resilience	High	Service resilience is significantly enhanced. Size allows for disruptions to be more easily addressed.
Meet regulatory requirements	Medium	Similar to above, size has advantages for compliance primarily through attracting talent. Investment provisioned to address issues but score moderated to reflect current compliance issues.
Capability of workforce	High	Material improvement in workforce resilience from scale. Connection back to Christchurch is a key issue to consider.
Overall	High	


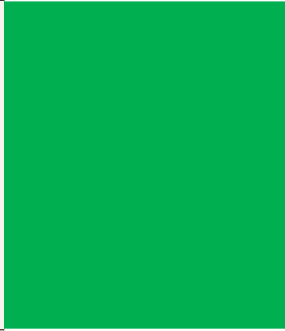

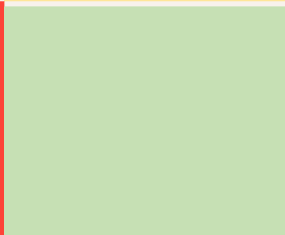
Value for money

3: Join Southern Waters

	Score	Rationale
Establishment costs		Establishment costs assessed at \$205 per connection, lowest across options.
Overhead costs		Overheads per connection \$175, no material difference across options.
Risk of future costs		Unlikely to incur costs of merger in the future. Would be the second largest group in the South Island.
Overall		

Achievability

3: Join Southern Waters

	Score	Rationale
Timing		Agreement across the six councils is required as part of the decision making process. There is pathway for Timaru and Waitaki to join group. Does not score more highly because Mackenzie is an unknown entity for Southern Waters group. Timing is helped by work underway to establish WSCCO including governance arrangements and appointment of key resources.
Workforce capacity		Significant scale would likely attract top quality candidates for remaining governance and management roles which supports those working in the WSCCO including from overseas. Some key resources already appointed.
Complexity		Doubling of Southern Waters programme is more complex. Initial establishment complicated with the number of parties/stakeholders involved. Impacts some work and decisions such as location of offices and appointments.
Overall		

Affordability

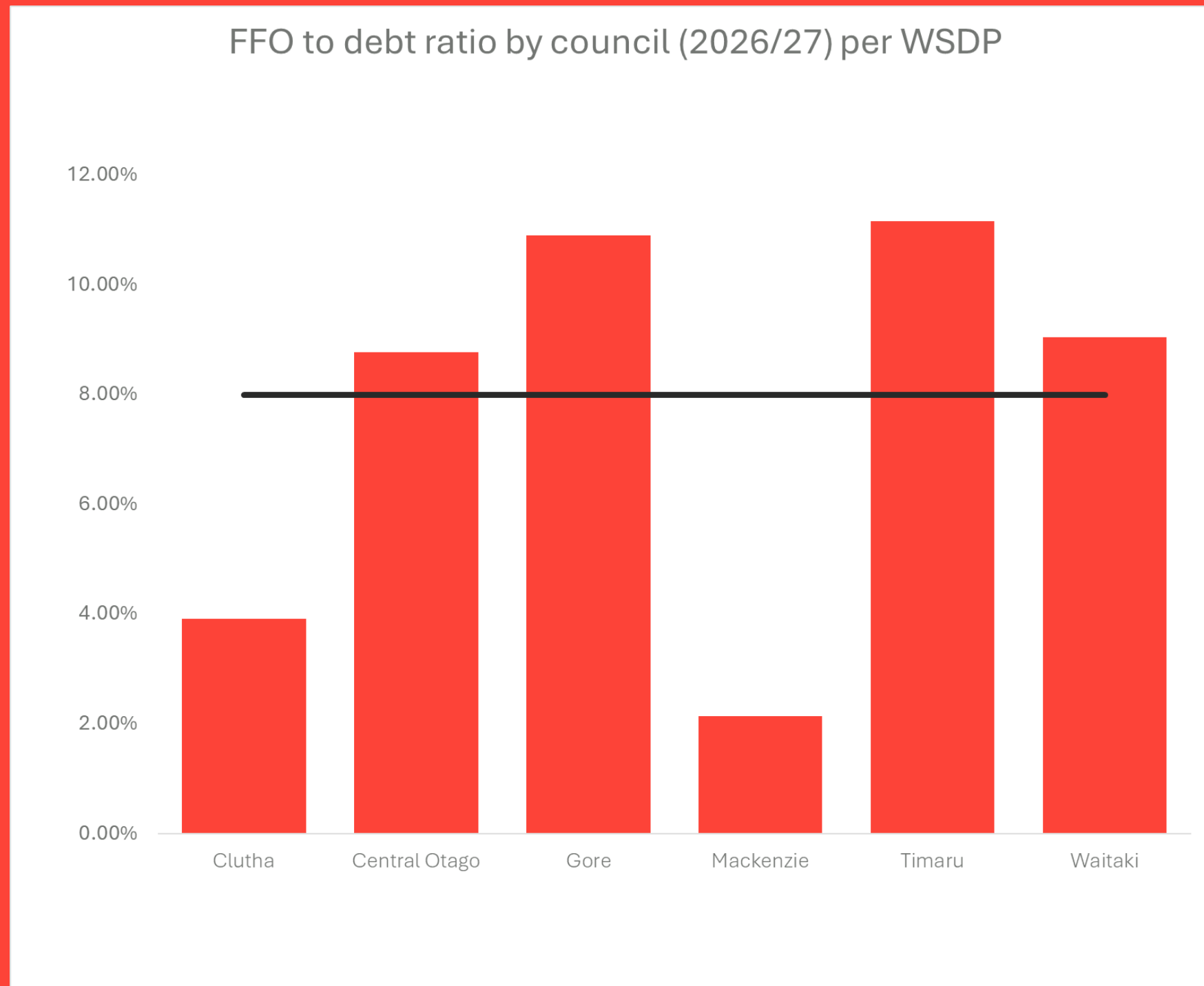
3: Join Southern Waters

	Score	Rationale
Efficiencies		Efficiency gains are good and reflect significant increase in scale.
Capital structure		FFO requirement and DC recognition best available from LGFA.
Financial sustainability/resilience		Significant improvement on current state with increase in connections and revenue base.
Overall		

Financial information

Key financial performance differences

Option	1(a) Mackenzie + Timaru CCO	1(b) Waitaki + Southern Waters	2 Joint model	3 Join Southern Waters
Capital efficiencies (total 10 years)	3.6%	8%	8%	15%
Operating efficiencies (total 10 years)	3.8%	9%	9%	16%
FFO: debt covenant	9%	9%	9%	8%
% Development contributions included	50%	50%	50%	75%
Establishment costs (per connection)	\$215	\$280	\$245	\$205
Corporate overhead (per connection)	\$190	\$190	\$180	\$175



Both Mackenzie and Clutha are projected to contribute a low FFO to debt ratio

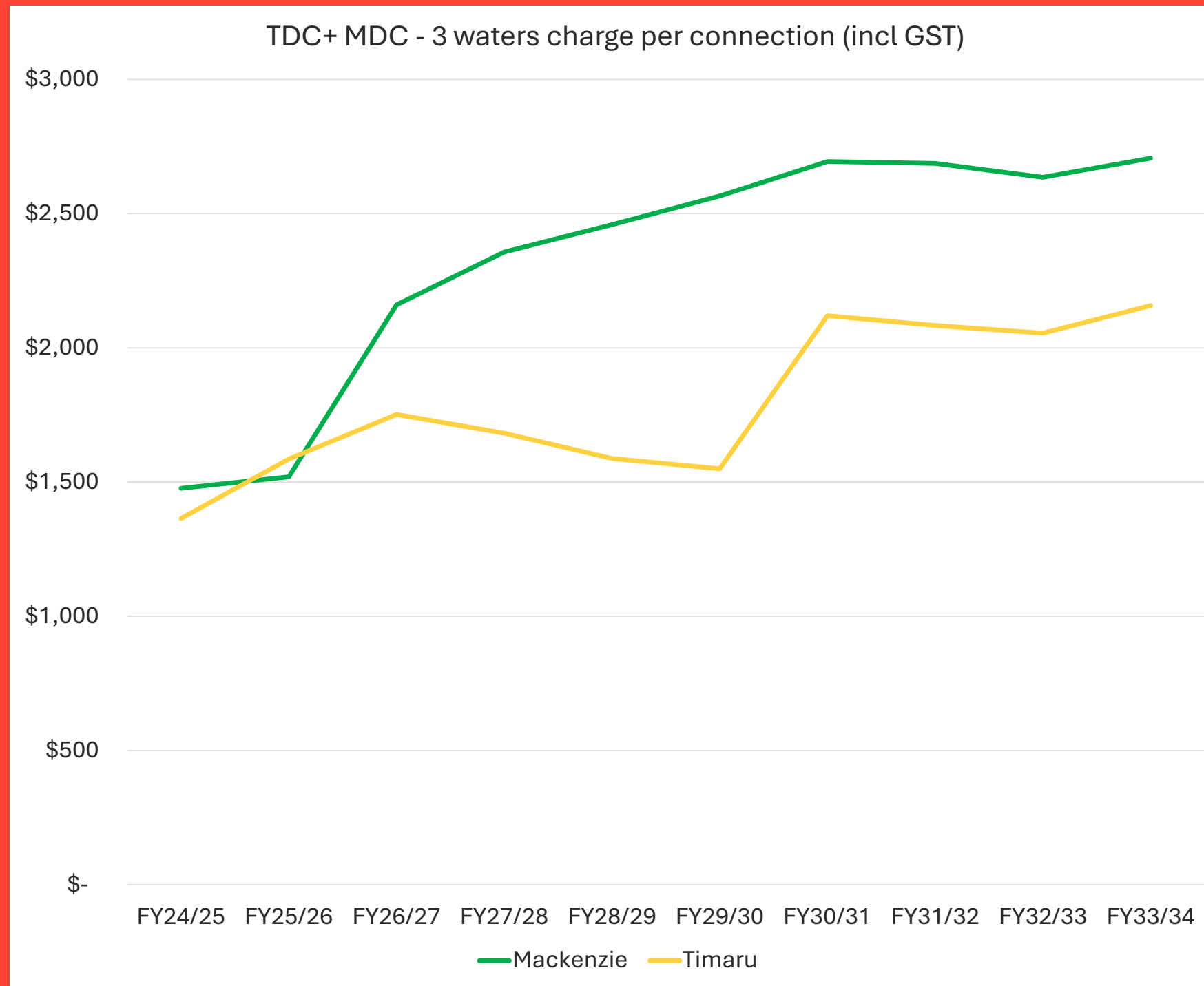
Financial modelling – caveats and assumptions

- Revenue requirement for all scenarios modelled to achieve:
 - FFO to debt compliance by end of third year of operations
 - Revenue set at maximum of fully funding depreciation or maintaining FFO compliance thereafter
- FFO calculations are completed at an individual council level in all models
- Relies on submitted WSDP data – no adjustments have been made to base data other than to remove “Internal charges and overheads” and add WSCCO overhead

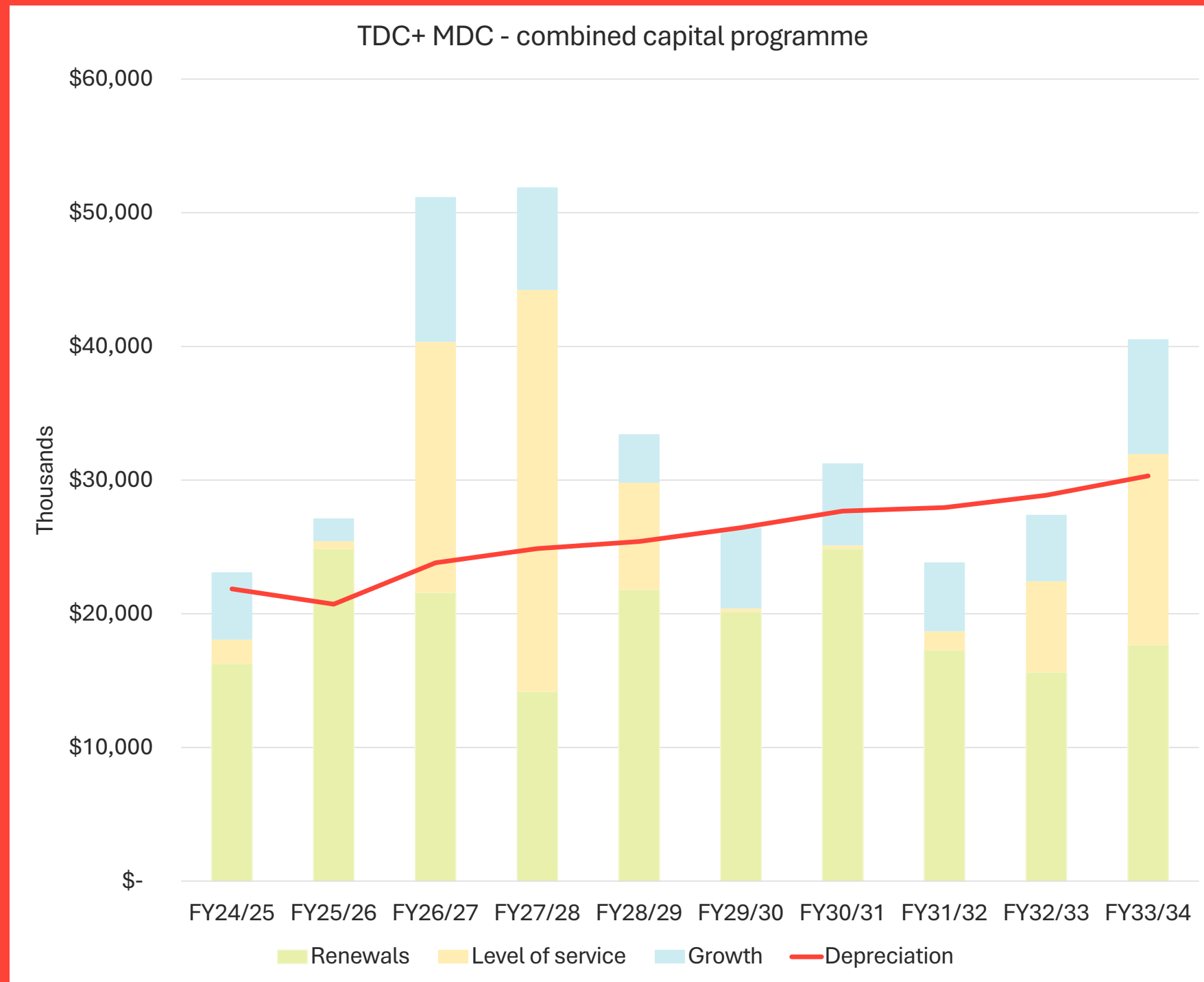
Financial modelling – caveats and assumptions

- WSDP data may have different assumptions – Southern Waters and Waitaki WSDP include additional operating allowance for levies and regulatory support
- Interest rates based on latest LGFA 10 year bond rate plus weighted margin per LGFA methodology
- Assumes all models seek to achieve debt headroom of 1% over LGFA FFO covenant
- Efficiencies and overheads applied per previous slide and are not fully realised until 2040 – this means the gap between options will increase further by 2040

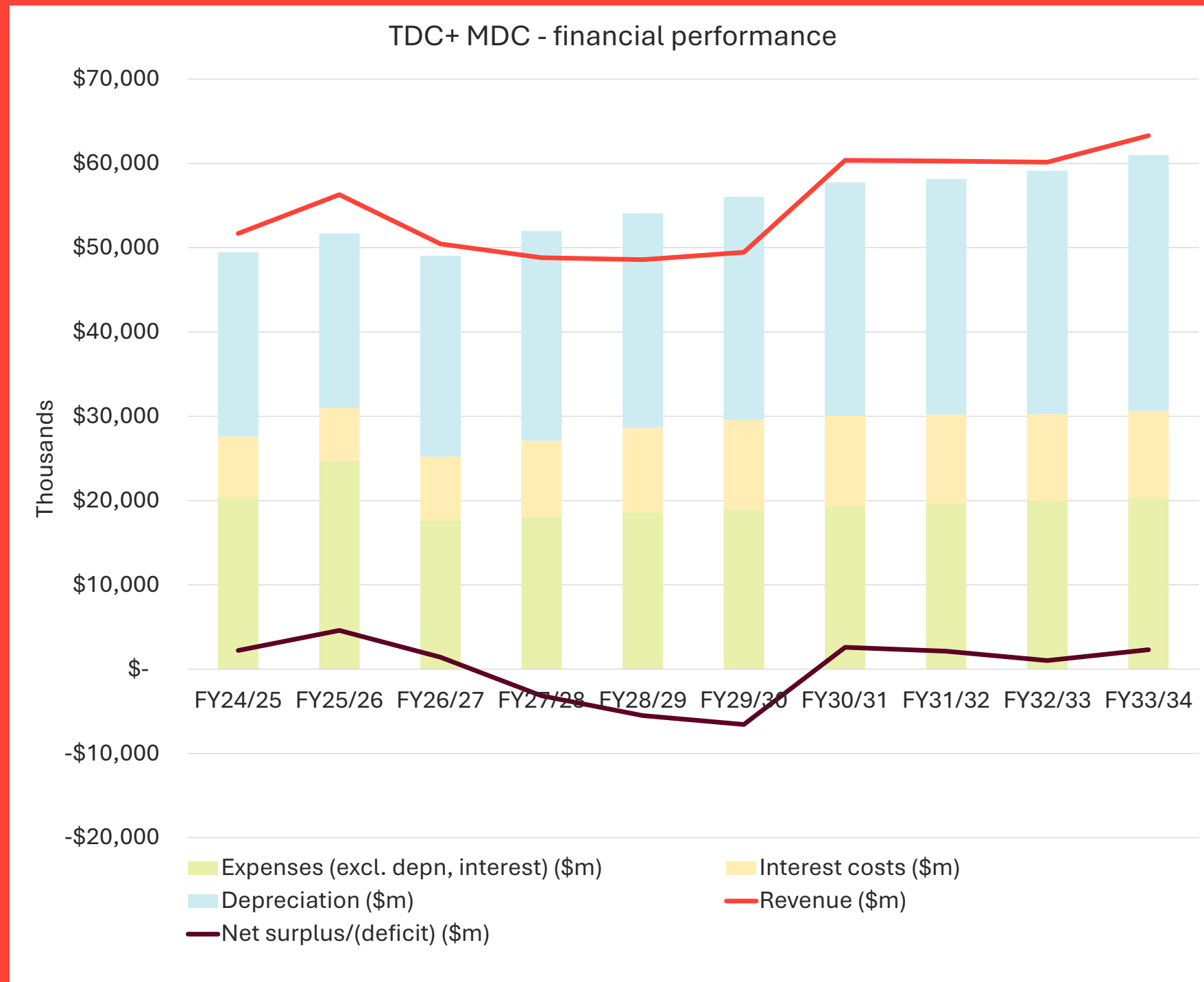
Option 1(a)



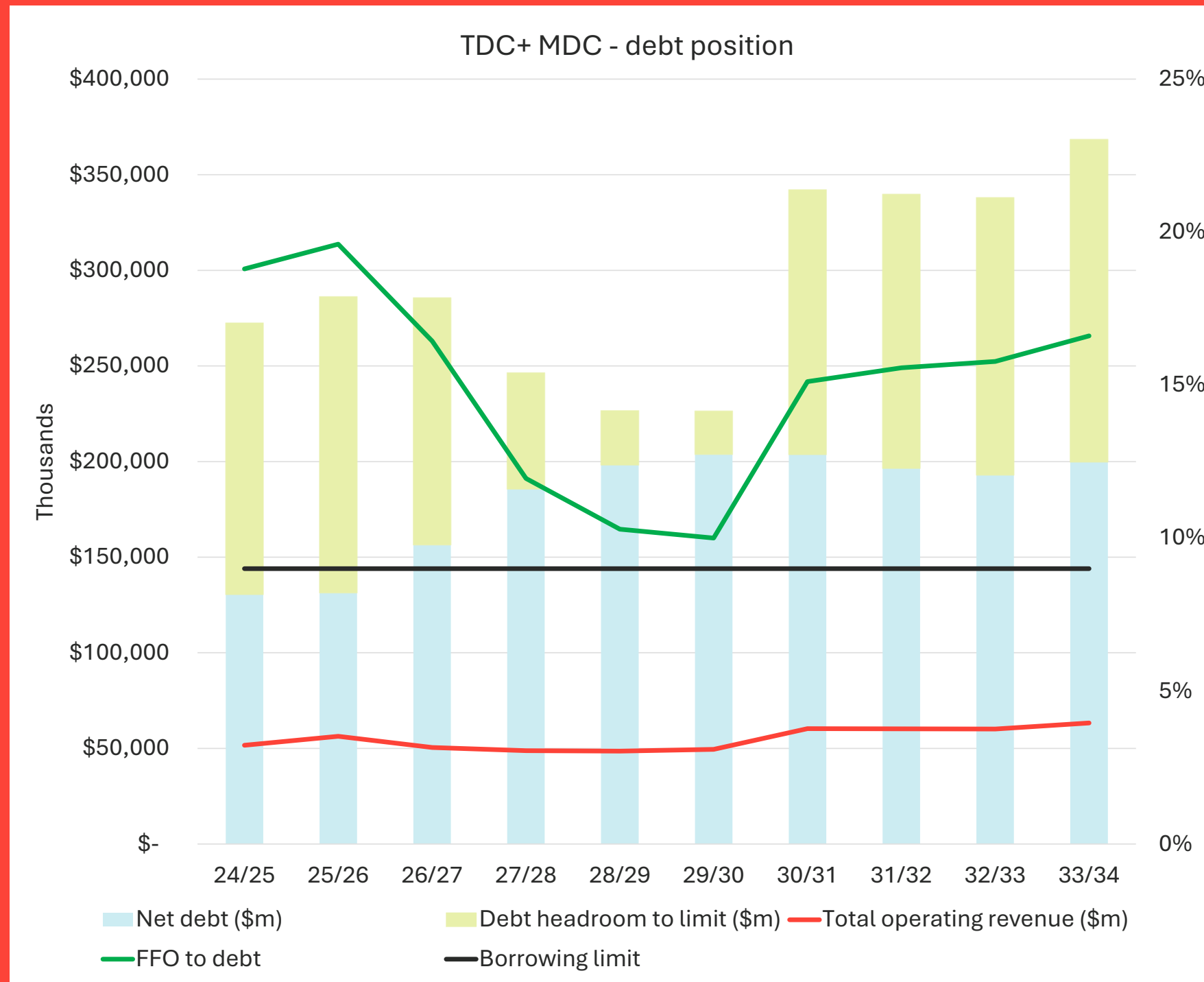
Charges reach \$2,706 (MDC) and \$2,158 (TDC) in 2034



Renewals at 75%
of depreciation
\$336 million
capital programme



Surplus at 4% of revenue in 2034



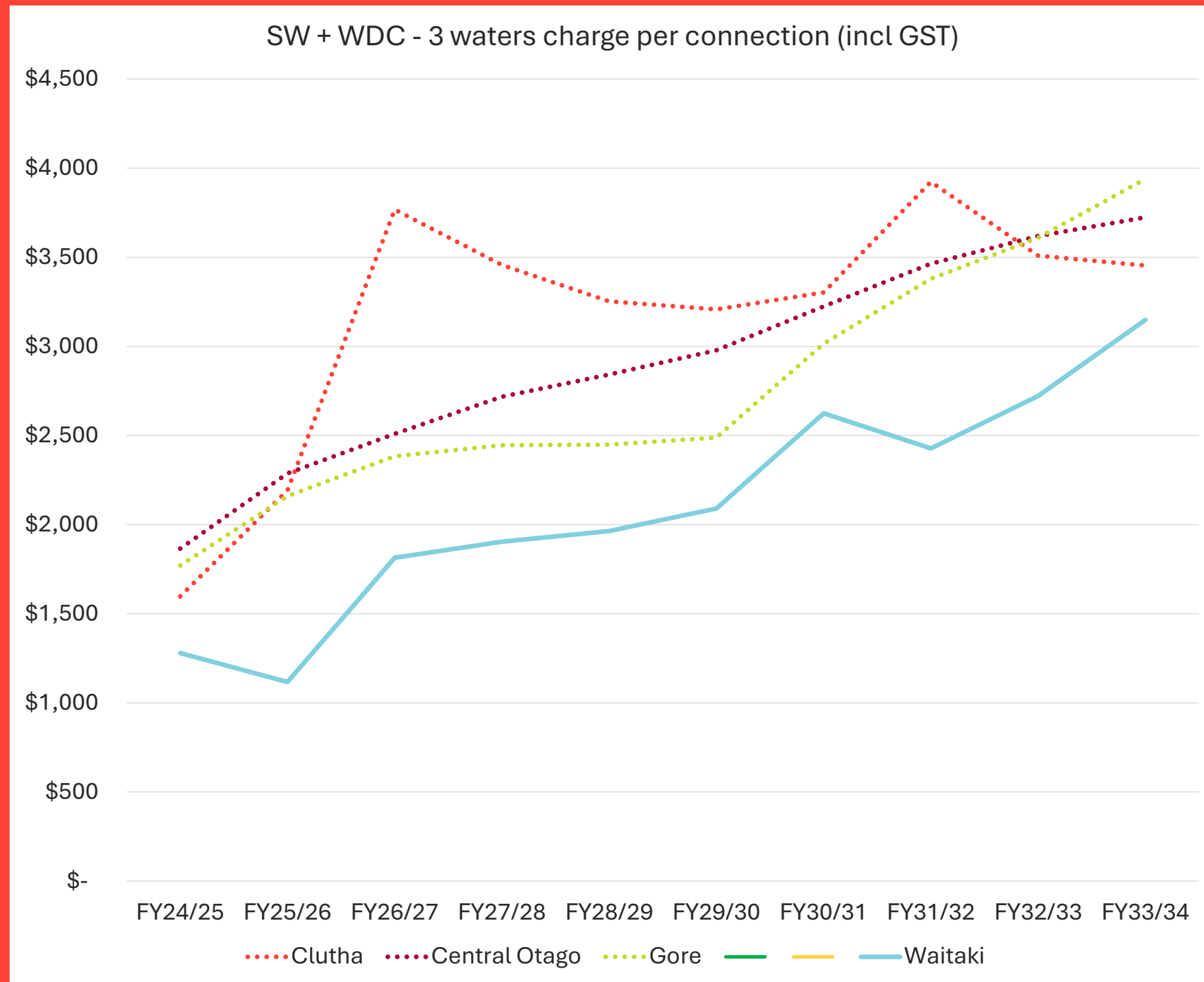
\$168 million of debt headroom in 2034 – that’s 416% of the annual capital programme

Debt headroom and impact of modelling assumptions

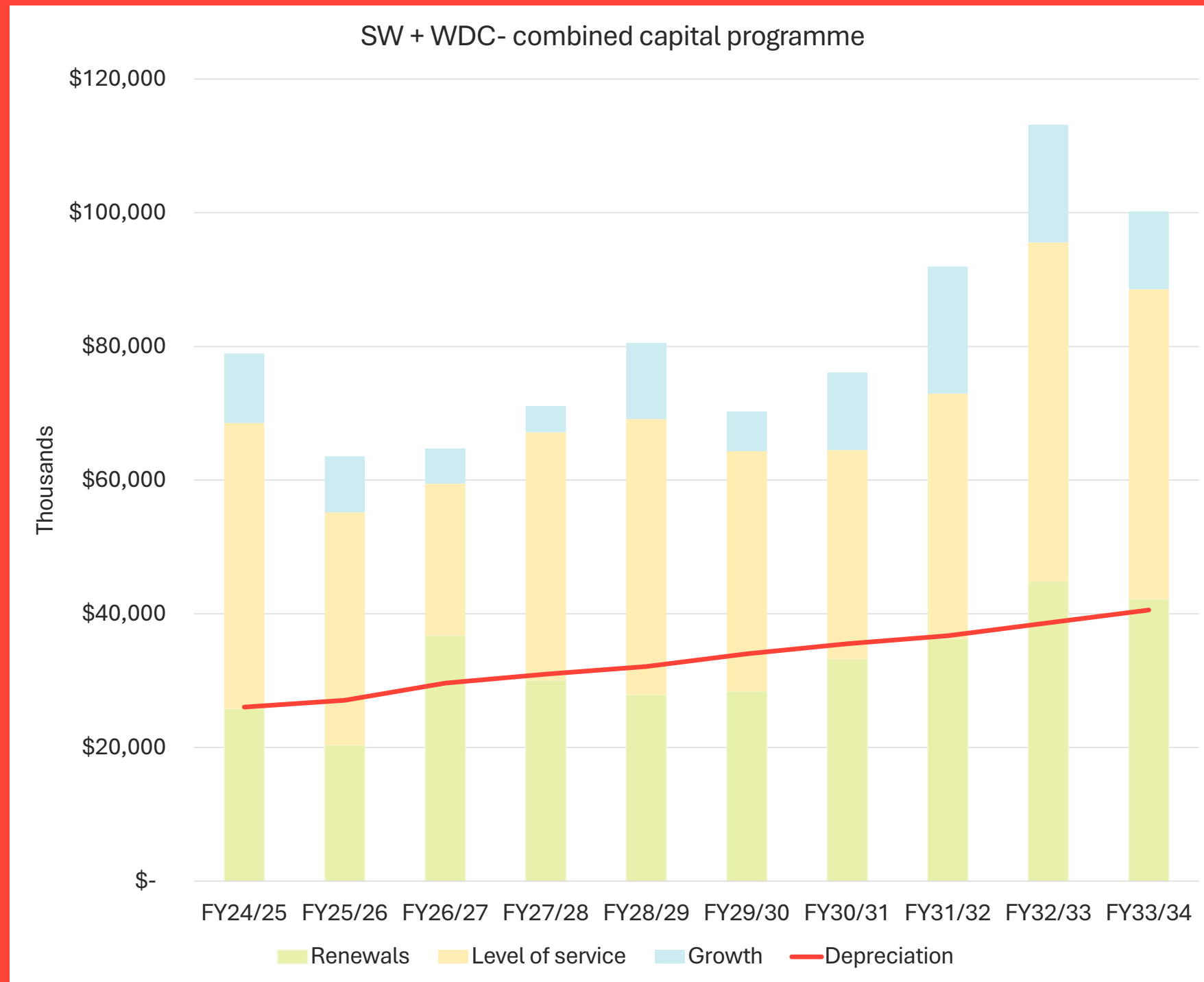
Option 1(a): Mackenzie and Timaru

- This option shows debt headroom reaching more than 400% of the capital programme, and FFO to debt exceeding 16% in 2034.
- This is the result of:
 - The option having a comparatively small capital programme, with depreciation exceeding total capital investment in some years.
 - The model setting funding requirements at *the greater of* full funding of depreciation or FFO compliance.
- It is likely that a water entity would adopt a more aggressive position than this, resulting in less debt headroom and lower household charges than presented. A more aggressive modelling approach would benefit Timaru to a greater extent than Mackenzie.
- This option also has a surplus of only 4% of revenue. Significant reduction in revenue from the modelled amount (including removing the requirement to fund depreciation) may result in operating deficits.

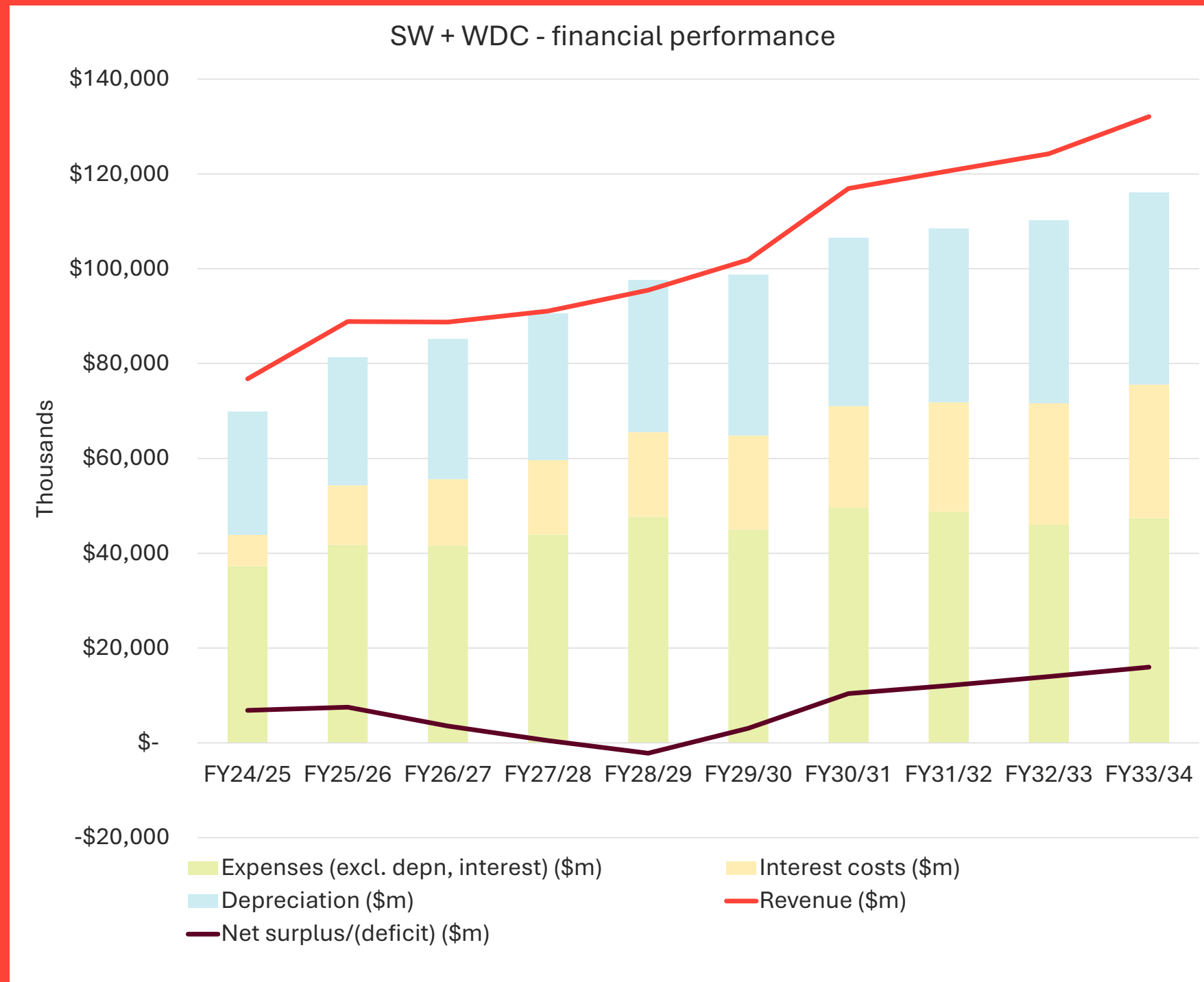
Option 1b



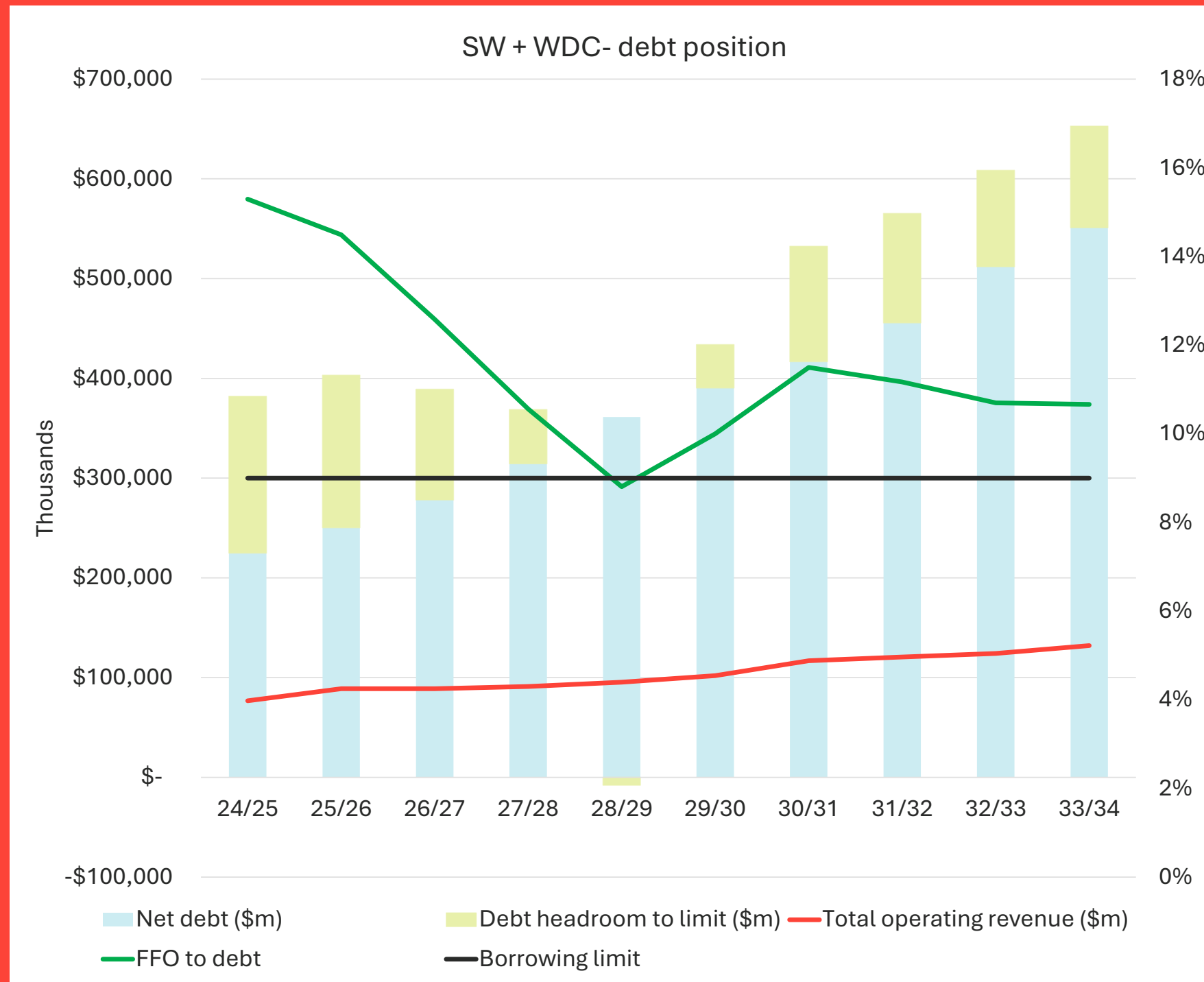
Charges reach \$3,149 (WDC) in 2034



Renewals at 98%
of depreciation
\$810 million
capital programme

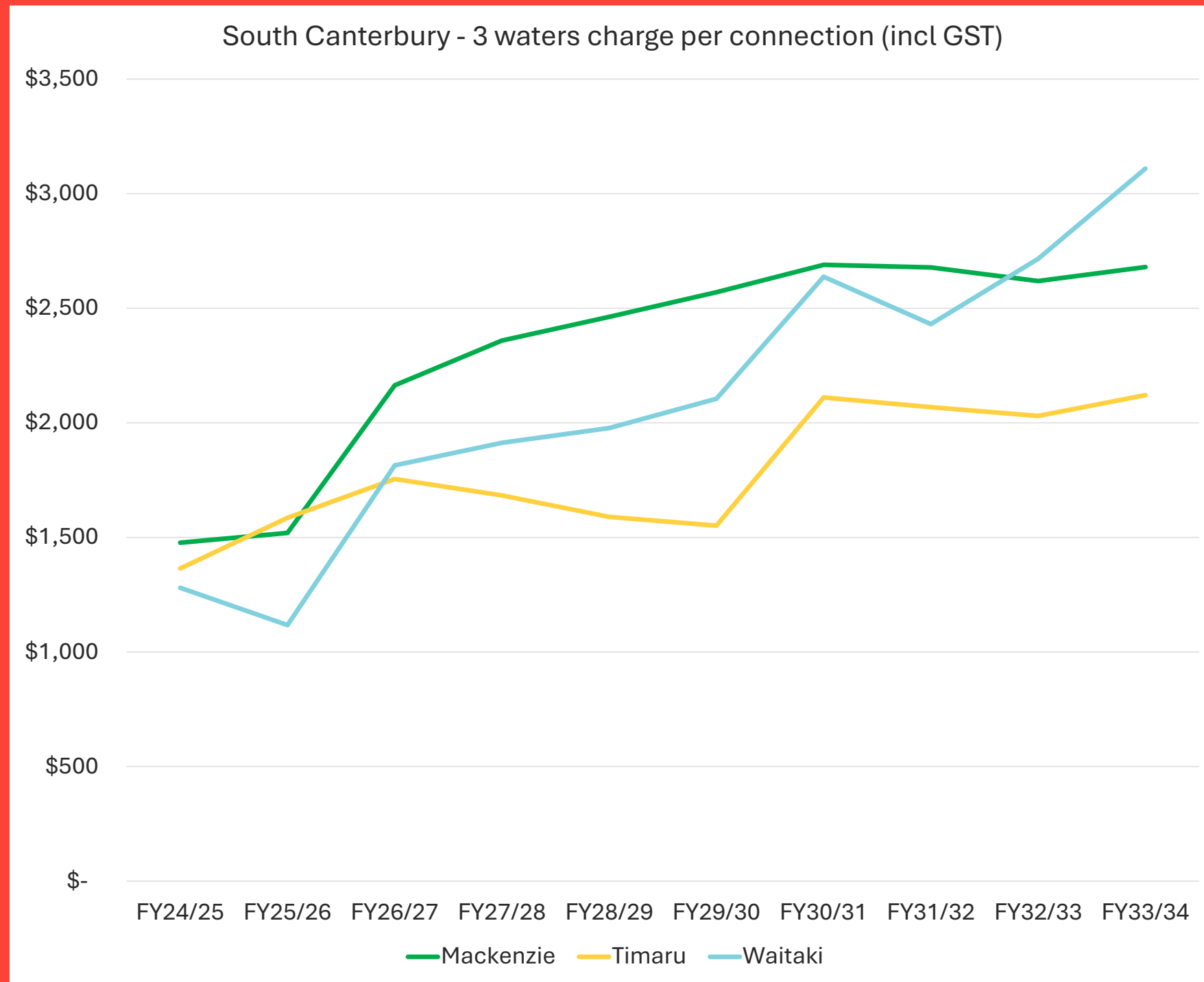


Surplus at 12% of revenue in 2034

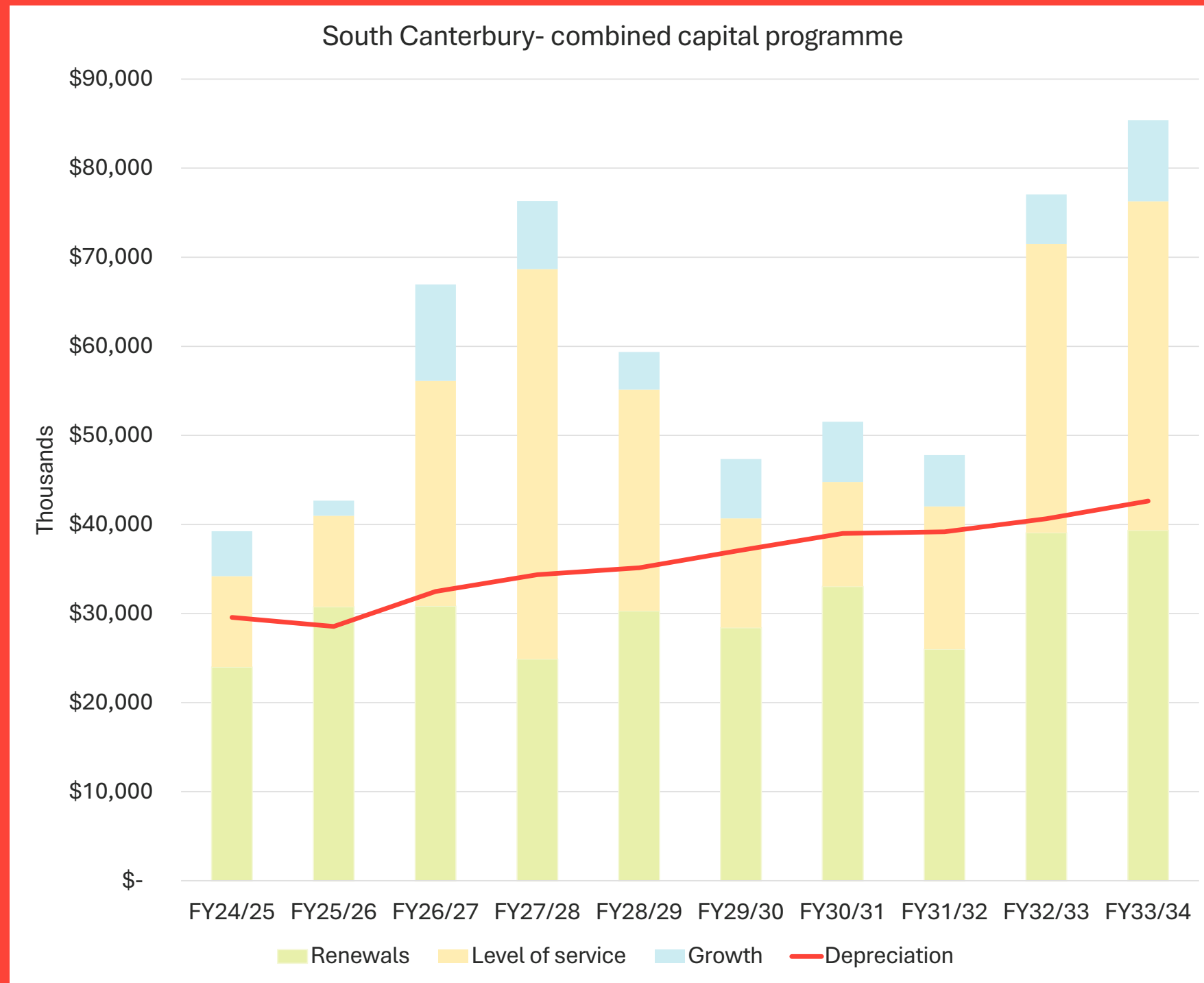


\$101 million of debt headroom in 2034 – that’s 102% of the annual capital programme

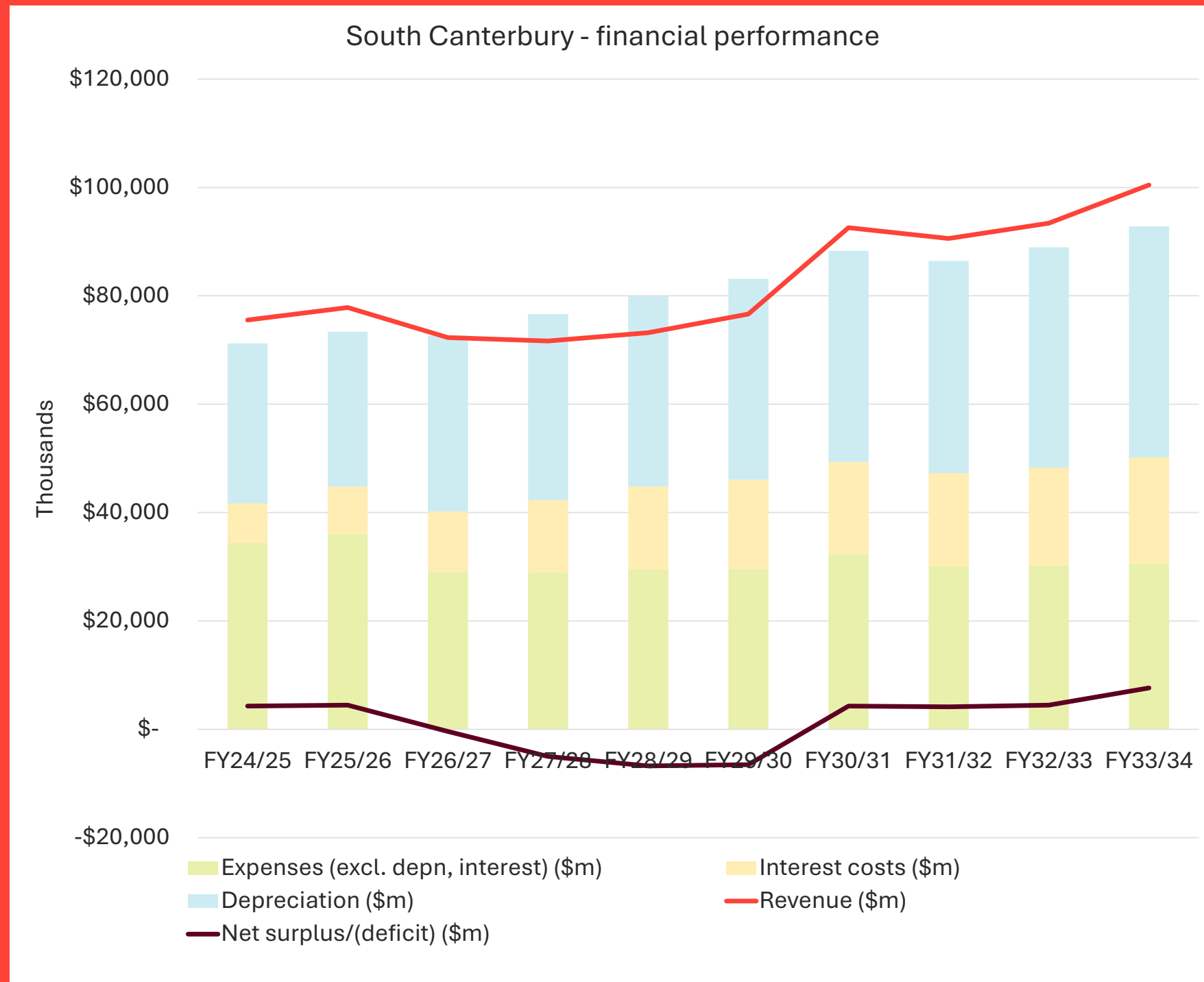
Option 2



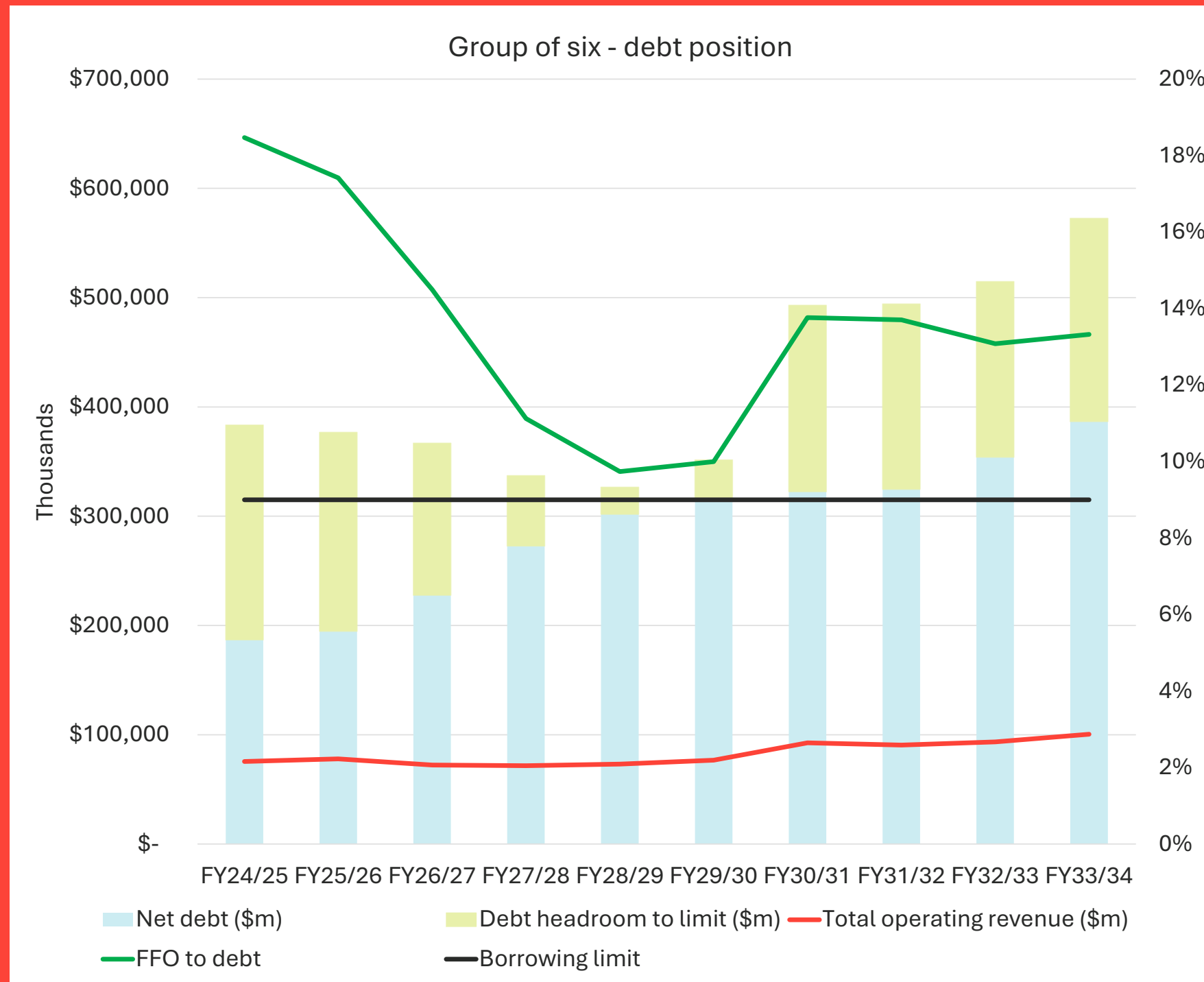
Charges reach
\$2,680 (MDC),
\$2,121 (TDC) and
\$3,110 (WDC) in
2034



Renewals at 86%
of depreciation
\$593 million
capital programme



Surplus at 8% of revenue in 2034



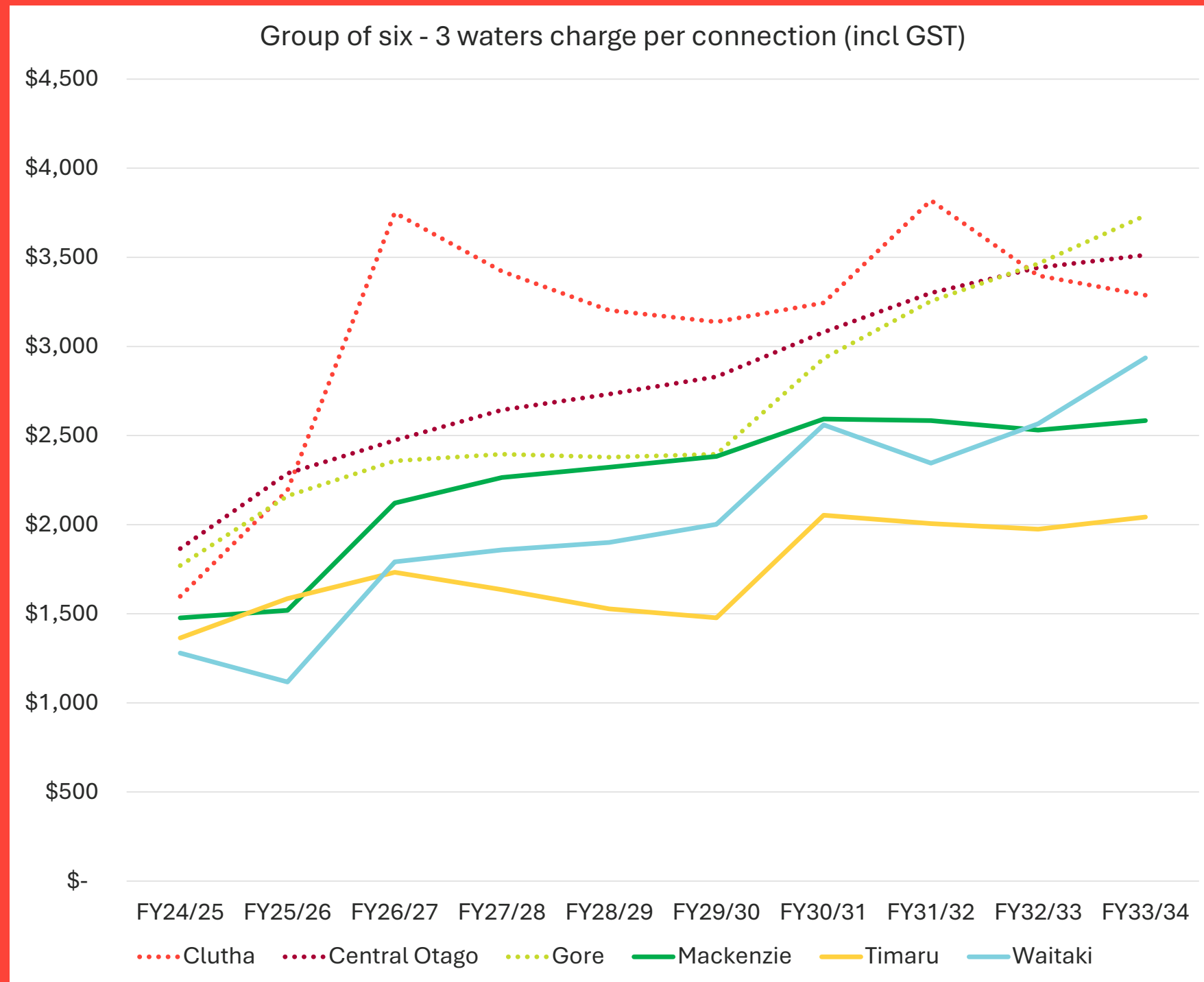
\$185 million of debt headroom in 2034 – that’s 218% of the annual capital programme

Debt headroom and impact of modelling assumptions

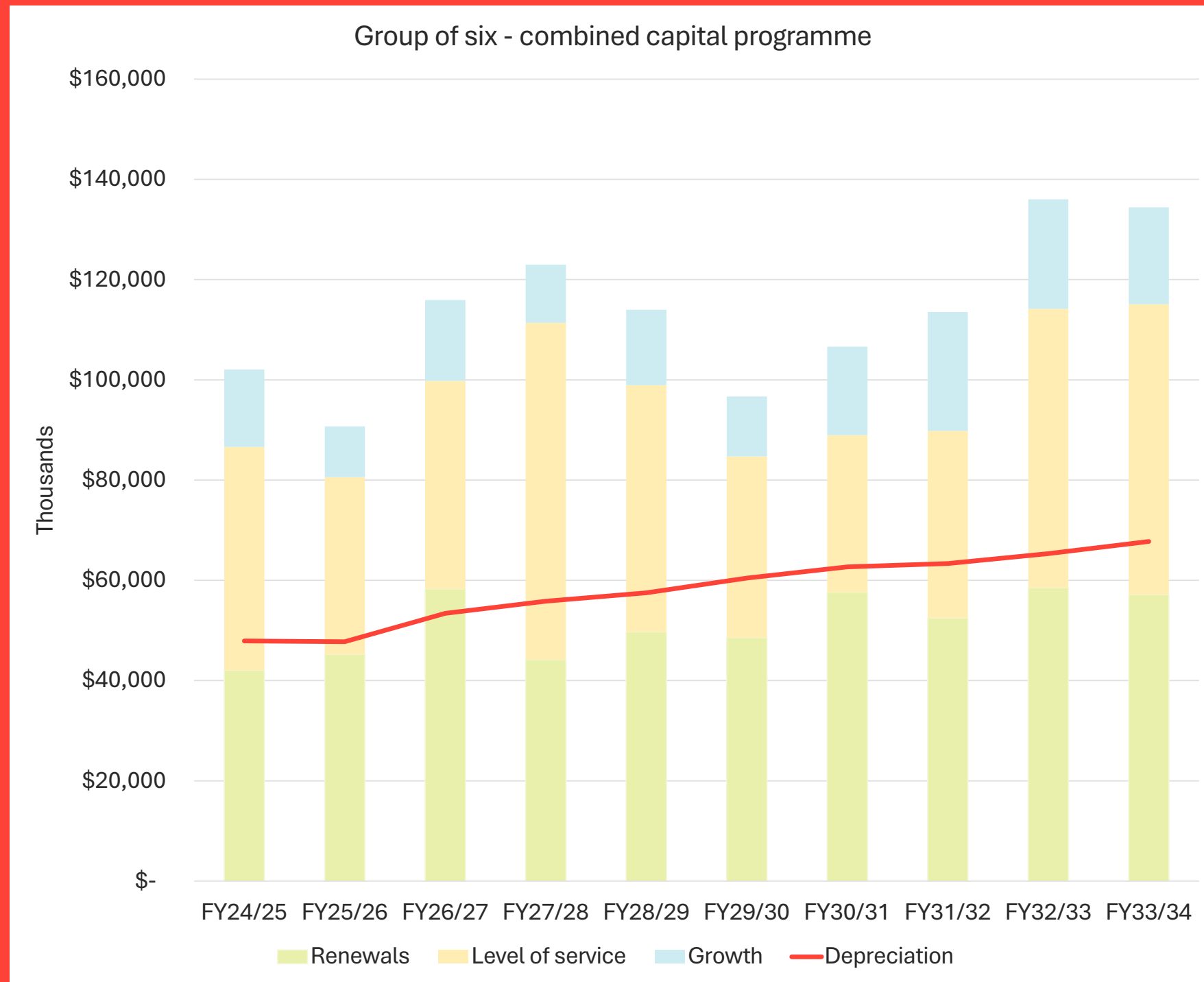
Option 2: South Canterbury

- This option shows debt headroom reaching more than 218% of the capital programme, and FFO to debt exceeding 13% in 2034.
- This is the result of the model setting funding requirements at *the greater of* full funding of depreciation or FFO compliance.
- It is likely that a water entity would adopt a more aggressive position than this, resulting in less debt headroom and lower household charges than presented.
- A more aggressive modelling approach would primarily benefit:
 - Timaru (who contribute a 16.5% FFO to debt ratio), and
 - Mackenzie (who contribute a 10.7% FFO to debt ratio)
 - Waitaki contribute an FFO to debt ratio that is equivalent to the Water Entity's target position so would not experience a reduction in household charges in this model under revised modelling assumptions.

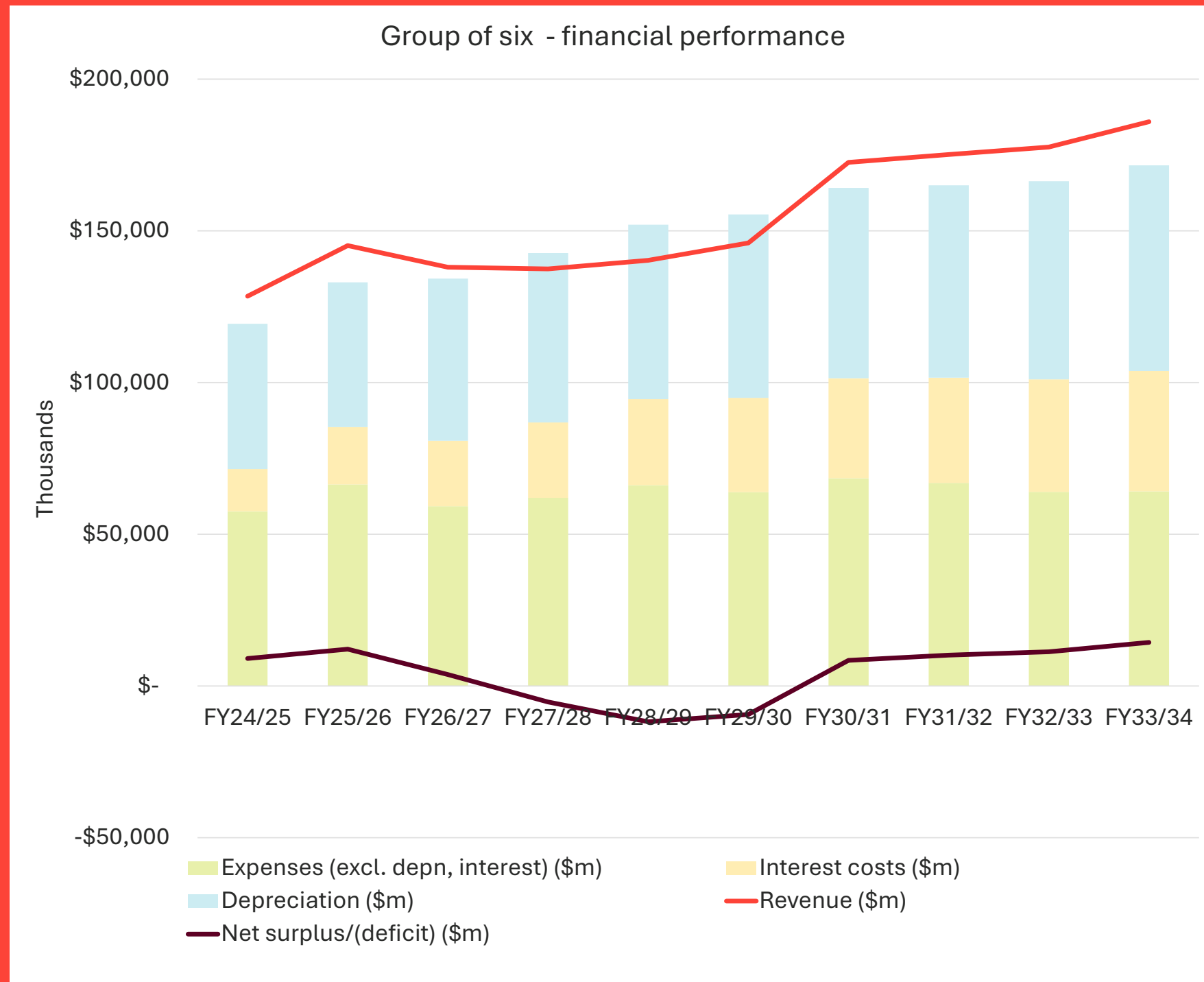
Option 3



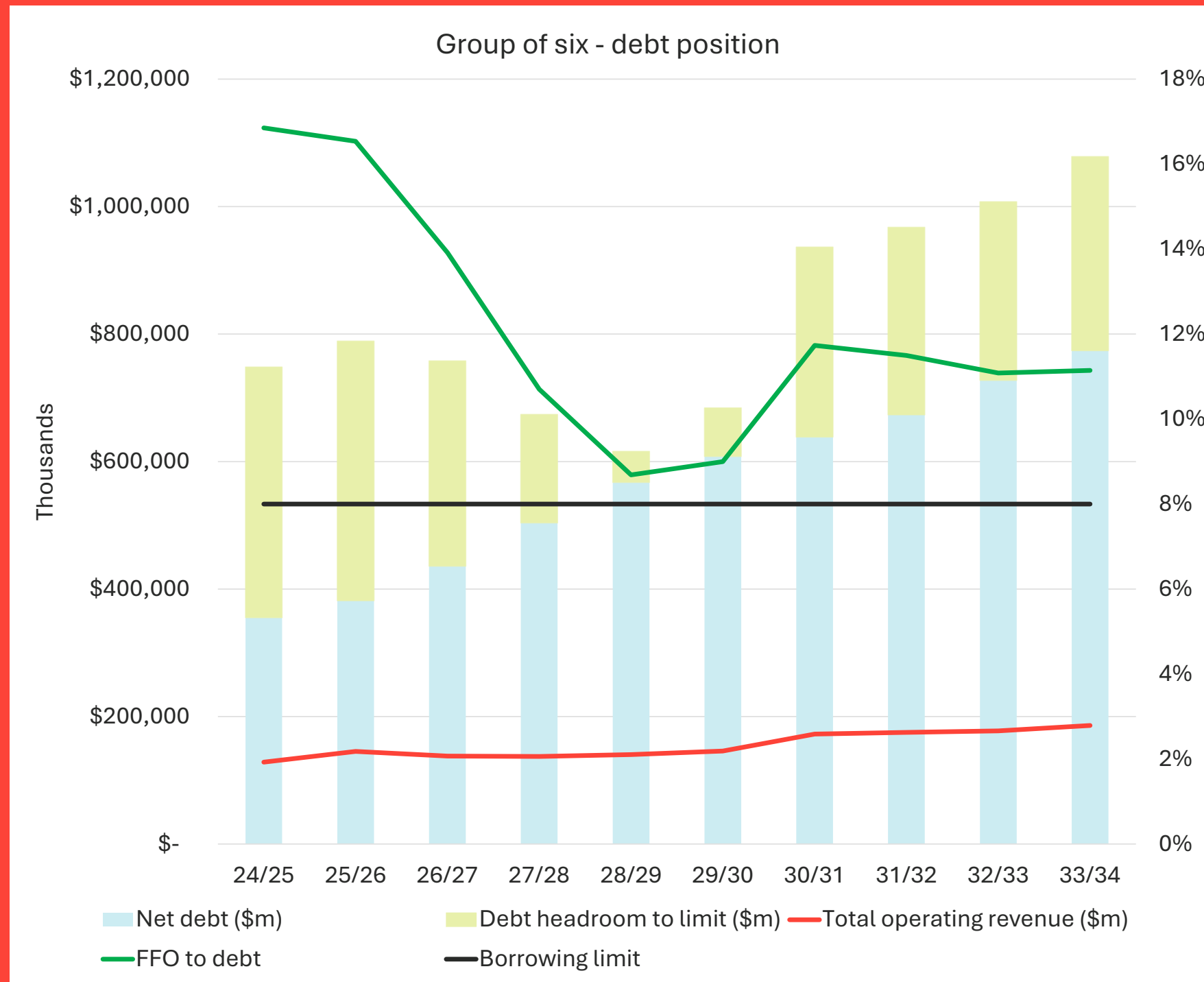
Charges reach \$2,583 (MDC), \$2,042 (TDC) and \$2,936 (WDC) in 2034



Renewals at 88%
of depreciation
\$1,132 million
capital programme



Surplus at 8% of revenue in 2034



\$304 million of debt headroom in 2034 – that’s 226% of the annual capital programme

Overall comparison

Multi criteria analysis assessment

	1(a) Mackenzie + Timaru CCO	1(b) Waitaki + Southern Waters	2 Joint model (3 councils)	3 Join Southern Waters
Strategic fit and business need				
Value for money				
Achievability				
Affordability				
Overall score	0.83	1.33	1.33	1.69

Charge per residential connection (incl GST) in 2034

Council	Mackenzie + Timaru	Southern Waters + Waitaki	South Canterbury grouping	Group of six
Mackenzie*	\$2,706	N/A	\$2,680	\$2,583
Timaru	\$2,158	N/A	\$2,121	\$2,042
Waitaki	N/A	\$3,149	\$3,110	\$2,936

* Mackenzie charges reflect charge per connection, not residential connection, and therefore are overstated for residential customers.

Comparison of debt position in 2034 with WSDP

Differences in the approach to managing the affordability, debt and FFO requirements are driving some differences in overall revenue requirements and charges.

Council	WSDP	MDC plus TDC OR SW plus WDC	South Canterbury grouping	Group of six
Mackenzie	8.4%	11.3%	11.3%	10.7%
Timaru	9.6% (excl stormwater)	17.9%	17.9%	16.5%
Waitaki	7.9%	10%	10%	9%

Thank you

If you have any enquiries or need more information about the services we provide, don't hesitate to contact us. We look forward to helping you succeed.

6 MEETING CLOSE