



# 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     |

© Morrison Low Advisory

Except for all client data and factual information contained herein, this document is the copyright of Morrison Low. All or any part of it may only be used, copied or reproduced for the purpose for which it was originally intended, except where the prior permission to do otherwise has been sought from and granted by Morrison Low. Prospective users are invited to make enquiries of Morrison Low concerning using all or part of this copyright document for purposes other than that for which it was intended.

# Content

Introduction

---

Context and background

---

Assessment process

---

Options and criteria overview

---

Option 1(a): Mackenzie +  
Timaru

Option 1(b): Waitaki +  
Southern Waters

---

Option 2: Joint model

---

Option 3: Join Southern  
Waters

---

Financial analysis

---

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

---

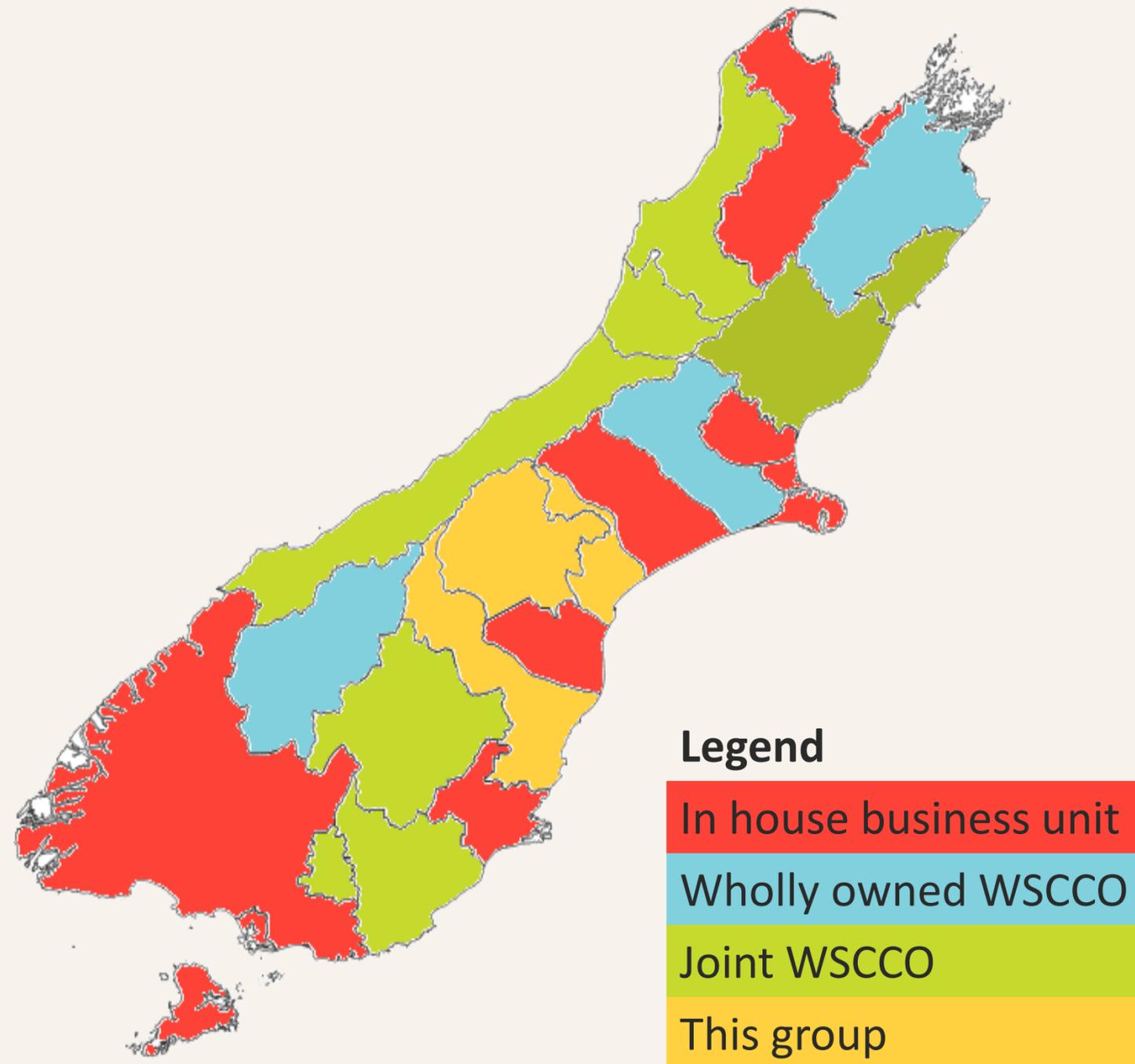
Mackenzie District Council passed a resolution to enter into a commitment agreement with Timaru District Council

---

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<br>Drinking water achieved 100% compliance<br>Firefighting capacity sufficient              | Investment plan addresses requirements.  |
| Mackenzie       | Meets requirements<br>Firefighting capacity insufficient   | Investment plan budgets to address specific compliance requirements.<br>Smart metering.  |
| Waitaki         | Meets requirements<br>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.<br>Water metering.   |
| Southern Waters | Meets requirements<br>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. |

WSSCO 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. |

WSCCO 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. |

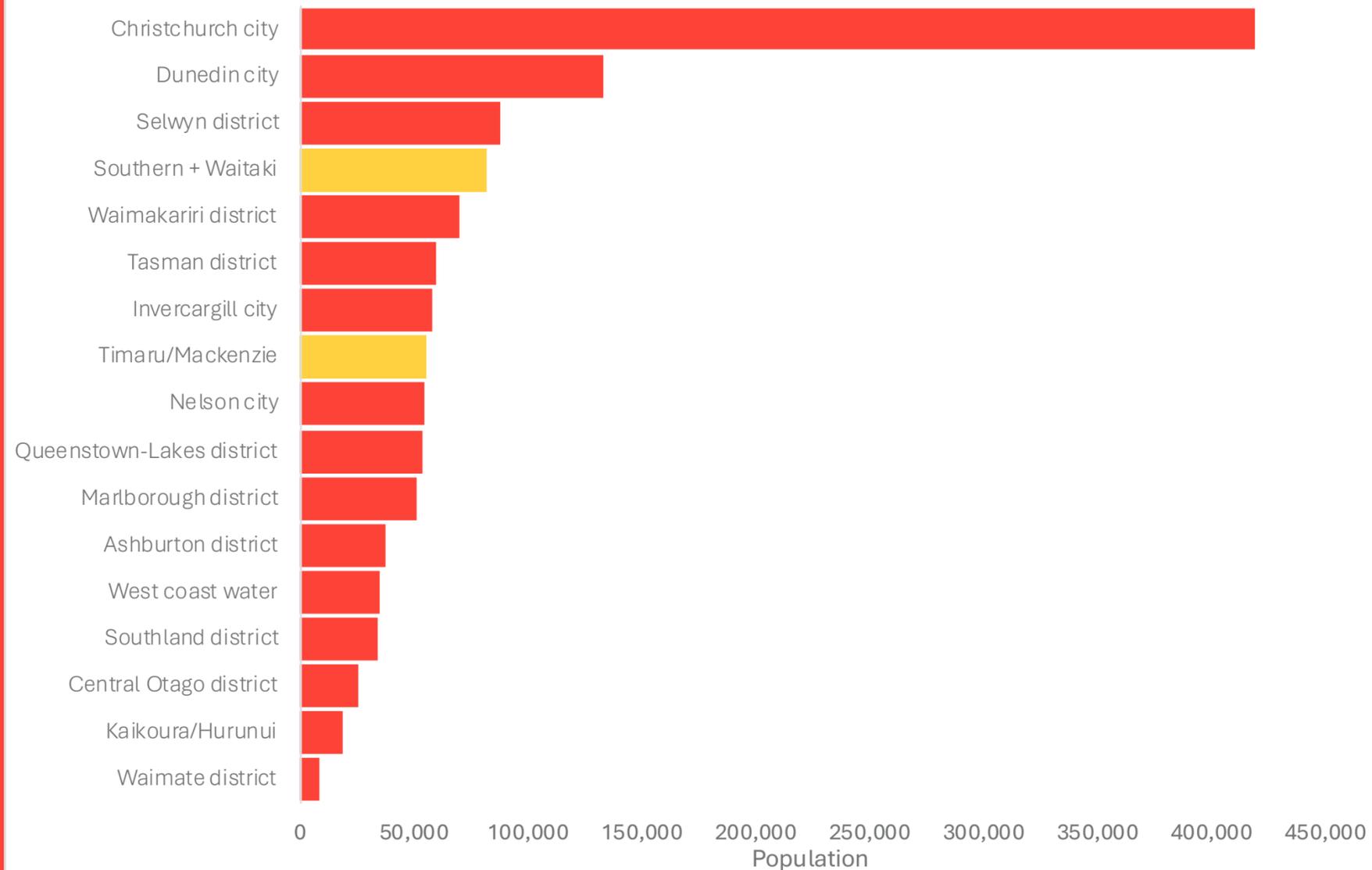
# Option 1(a): Mackenzie + Timaru

# Key features

1(a): Mackenzie + Timaru

- Geographic area: 10,076m<sup>2</sup> (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

Relative scale of future water providers in South Island



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.<br>Other water organisation transitions have already recruited and filled key roles.<br>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

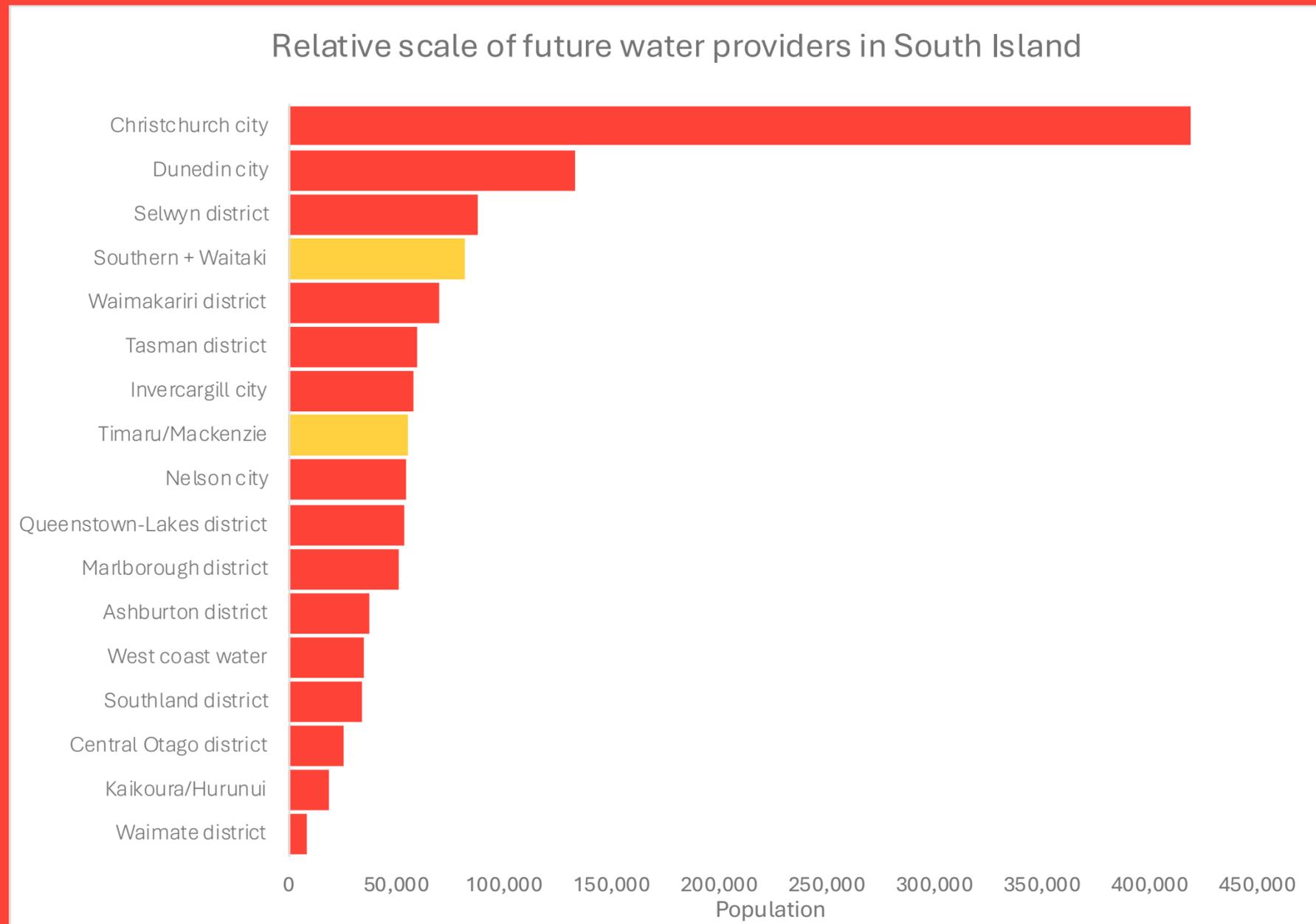
| Option                              | Score | Rationale   |
|-------------------------------------|-------|---|
| Efficiencies                        |       | Efficiency gains largely only relate to improved governance structure as no material increase in scale compared to Timaru |
| Capital structure                   |       | 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 km<sup>2</sup>
- 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



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

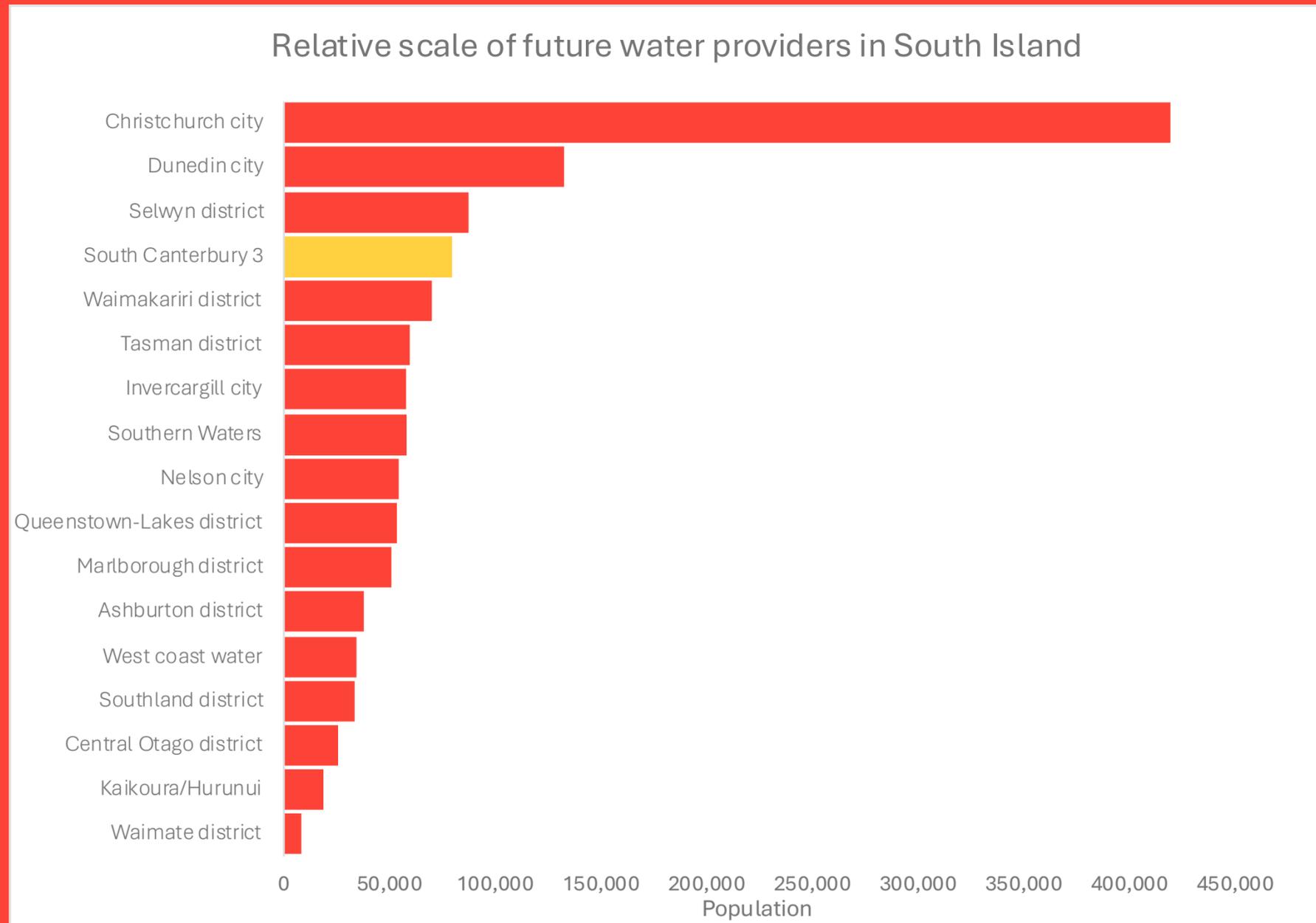
1 (b): Waitaki + Southern Waters

| 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

- Geographic area: 17,184 km<sup>2</sup>
- 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



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                      |       |  |

|                      | 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              |       |   |

| 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

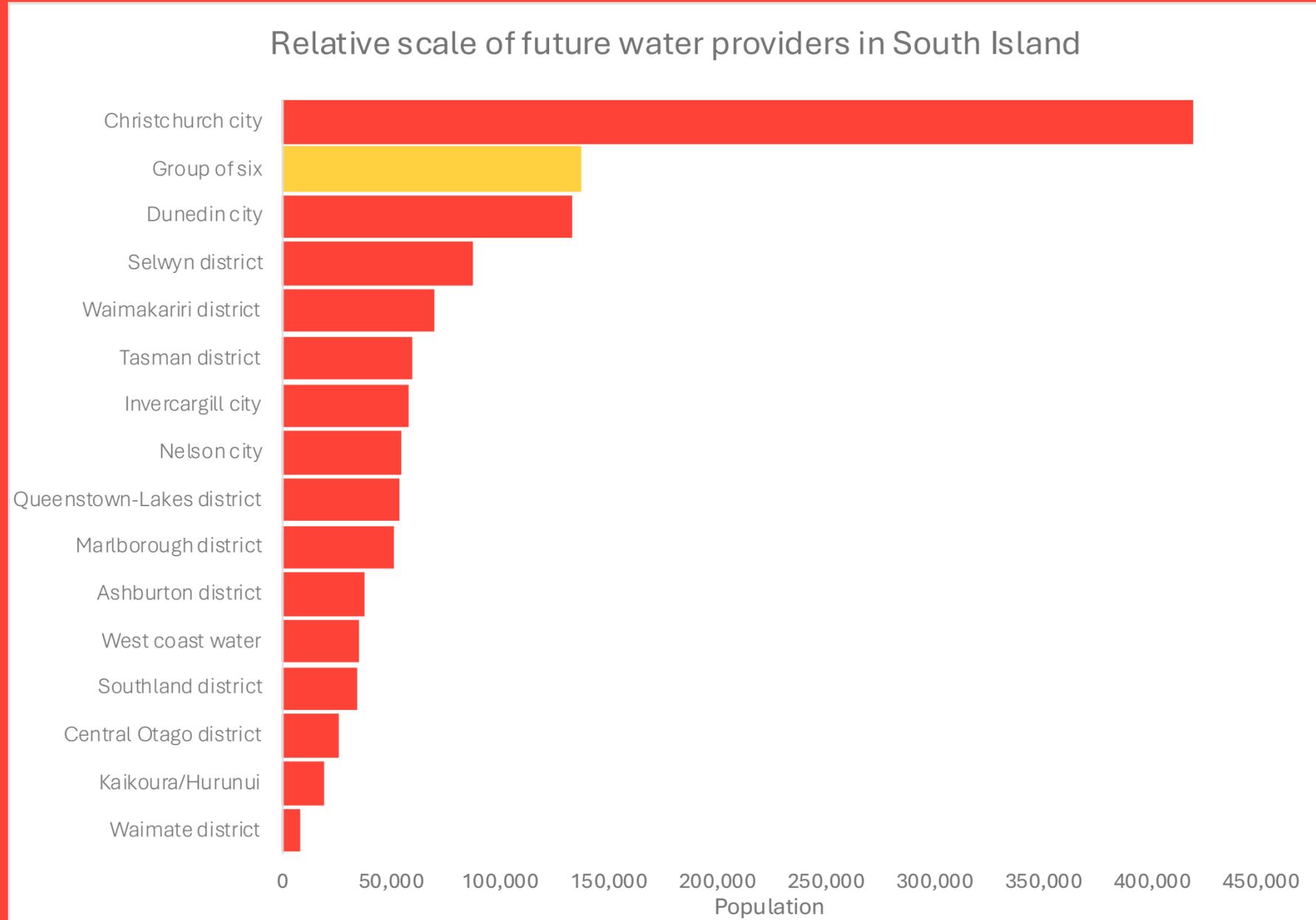
| Option                              | Score | Rationale   |
|-------------------------------------|-------|---|
| Efficiencies                        |       | Efficiency gains are moderate and reflect an increase in scale.                     |
| Capital structure                   |       | FFO requirement 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 km<sup>2</sup>
- 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



The 2nd largest water provider in the South Island

# Strategic fit and business need

## 3: Join Southern Waters

|                              | Score | Rationale   |
|------------------------------|-------|---|
| Compatibility                |       | 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                   |       | Service resilience is significantly enhanced. Size allows for disruptions to be more easily addressed.  |
| Meet regulatory requirements |       | 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      |       | Material improvement in workforce resilience from scale. Connection back to Christchurch is a key issue to consider.  |
| Overall                      |       |   |

|                      | 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.<br>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            |       |  |

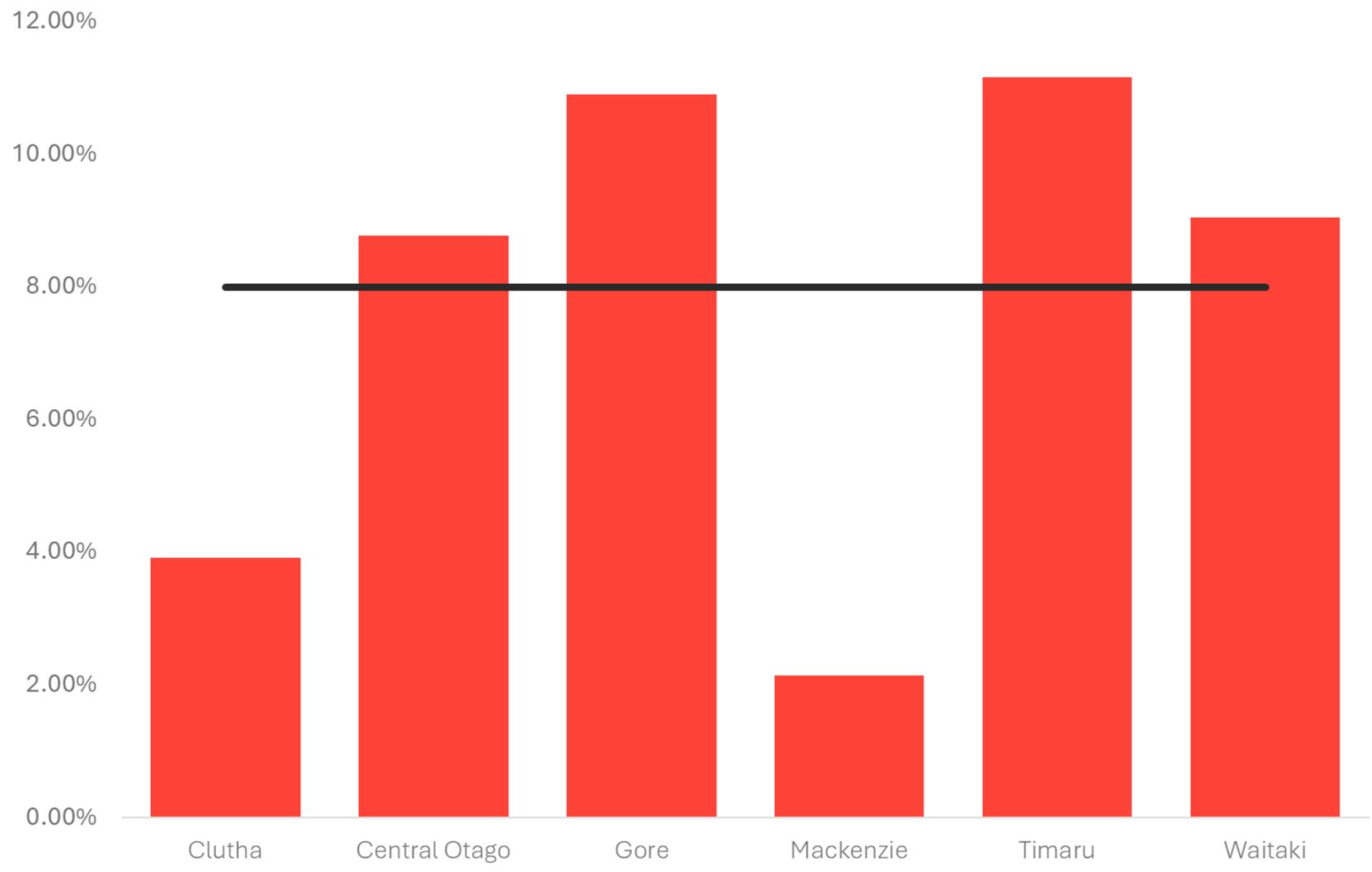
|                                     | Score | Rationale   |
|-------------------------------------|-------|---|
| Efficiencies                        |       | Efficiency gains are good and reflect significant increase in scale.                    |
| Capital structure                   |       | FFO 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)<br>Mackenzie + Timaru<br>CCO | 1(b)<br>Waitaki + Southern<br>Waters | 2<br>Joint model | 3<br>Join Southern<br>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                        |

FFO to debt ratio by council (2026/27) per WSDP



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

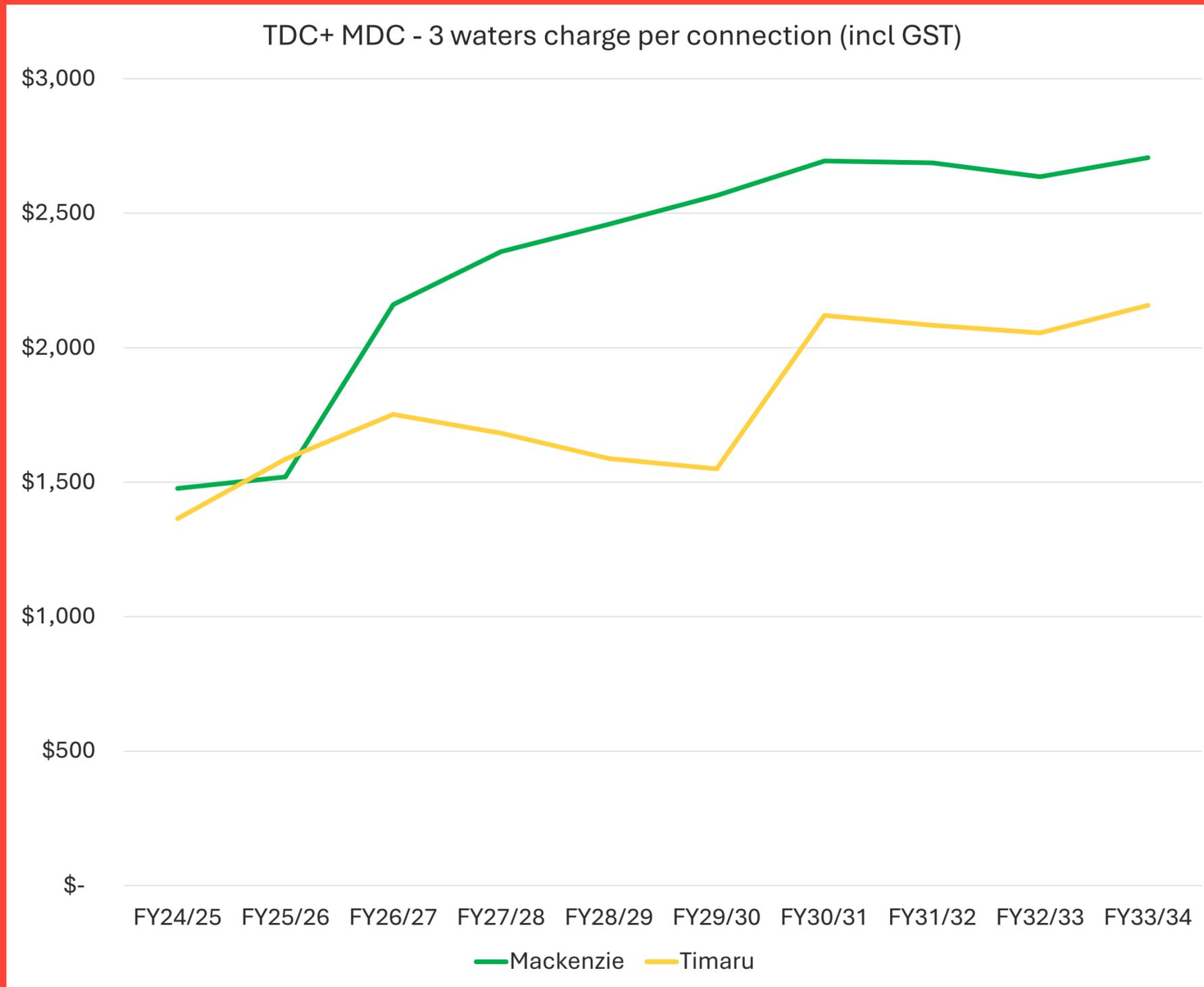
# Financial modelling – caveats and assumptions

- 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

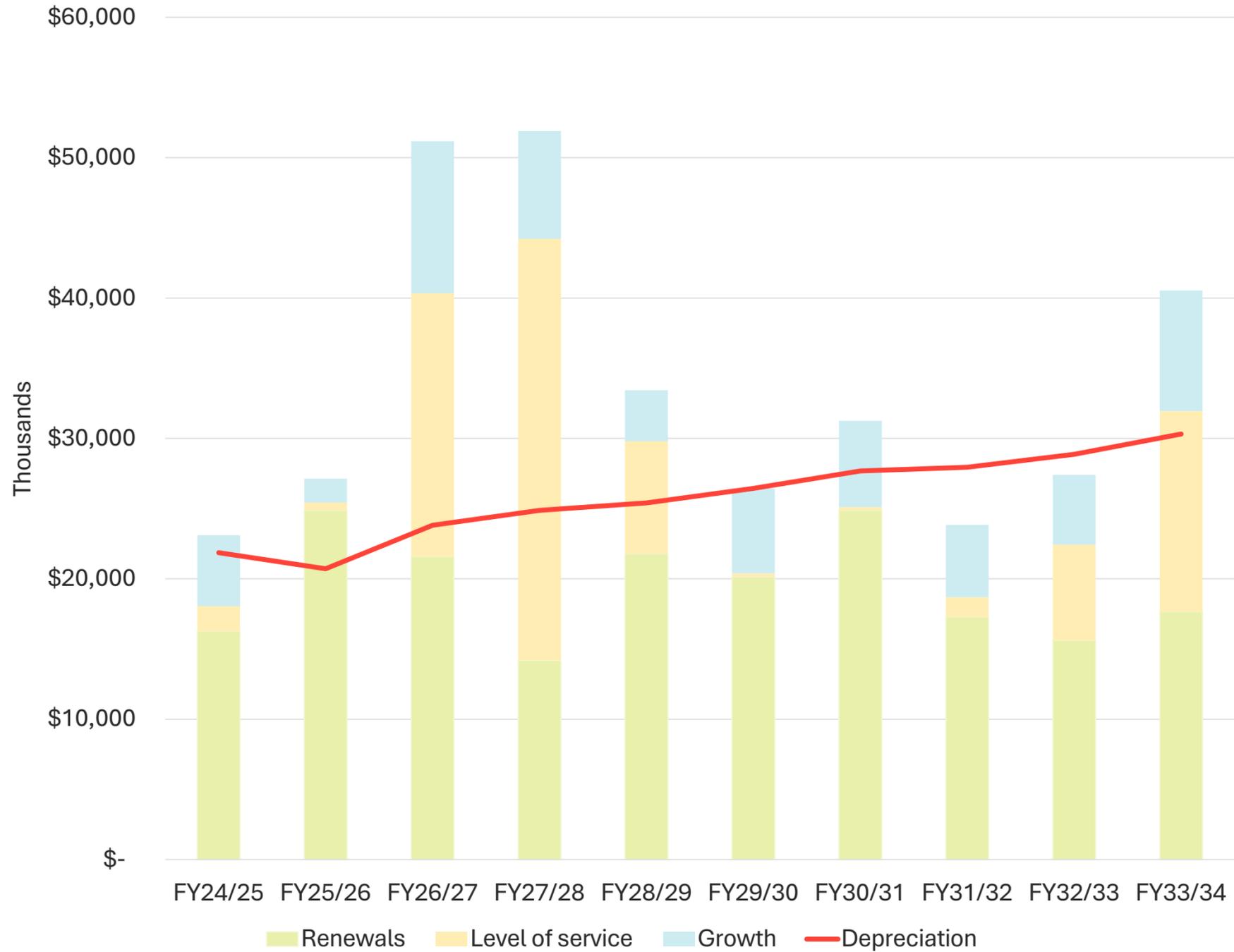
- WSDP data may have different assumptions – Southern Waters and Waitaki WSDP include additional operating allowance for levies and regulatory support
- Interest rates based on latest LGFA 10 year bond rate plus weighted margin per LGFA methodology
- Assumes all models seek to achieve debt headroom of 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)



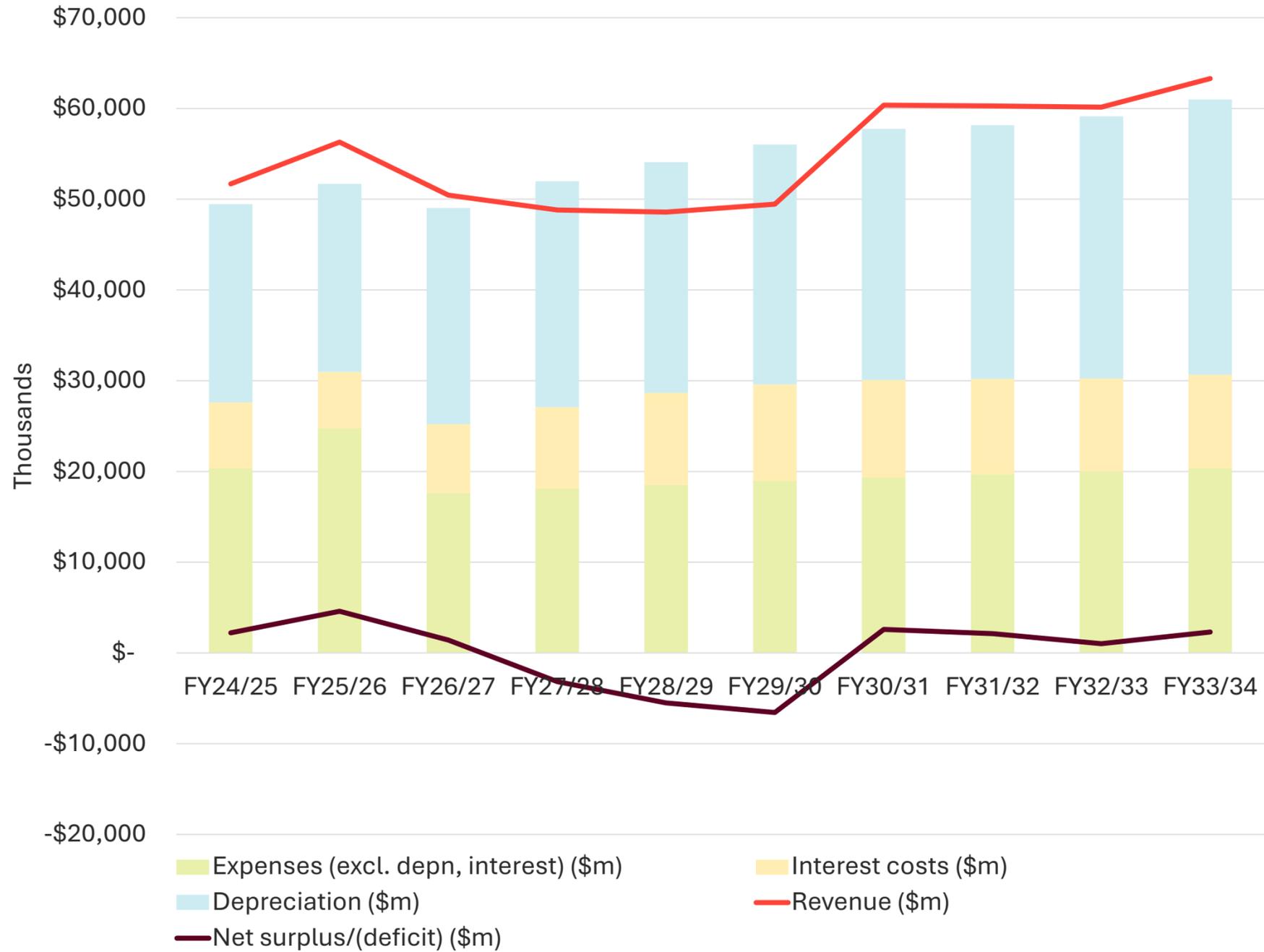
Charges reach  
 \$2,706 (MDC)  
 and \$2,158 (TDC)  
 in 2034

TDC+ MDC - combined capital programme



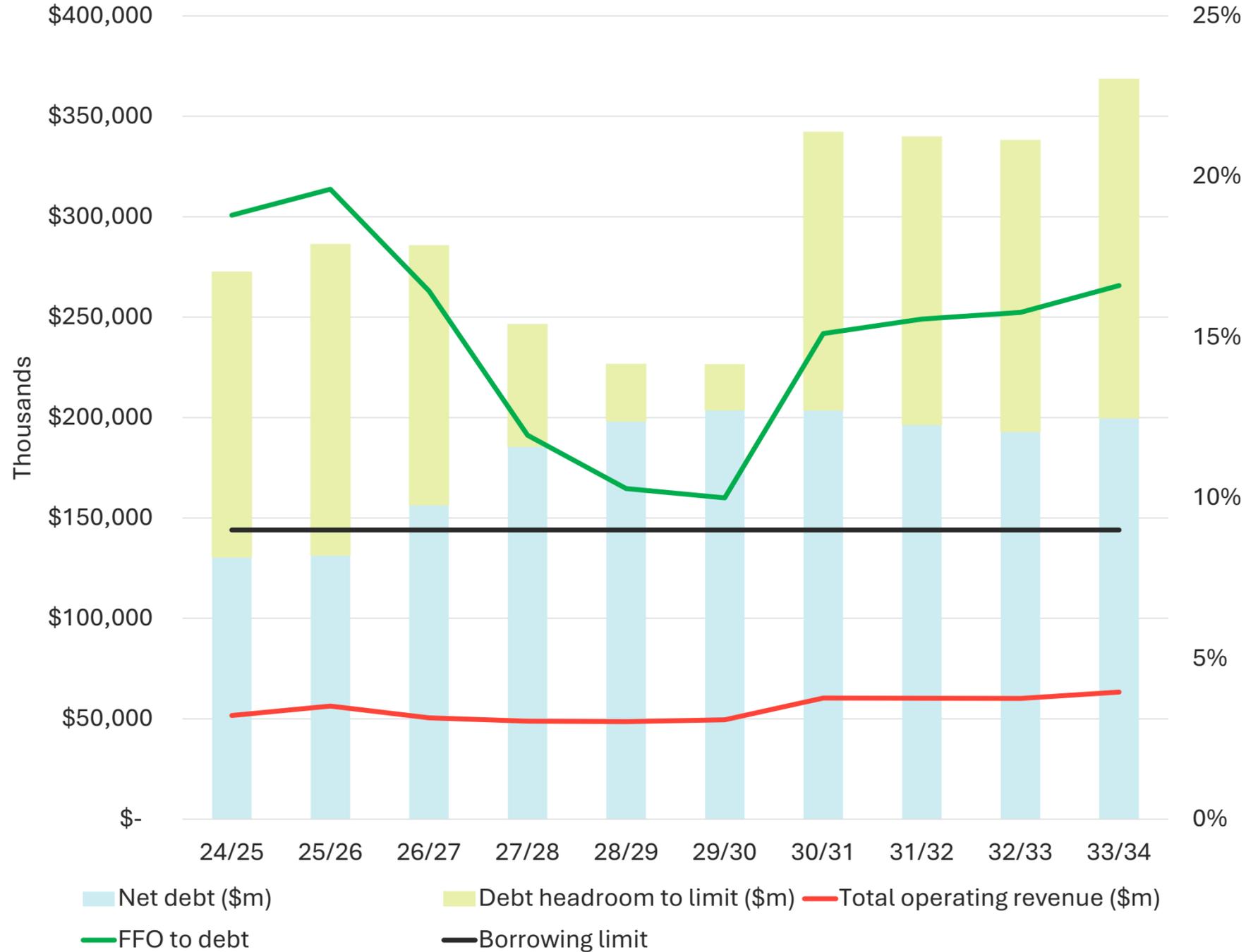
Renewals at 75%  
of depreciation  
\$336 million  
capital programme

TDC+ MDC - financial performance



Surplus at 4% of revenue in 2034

TDC+ MDC - debt position



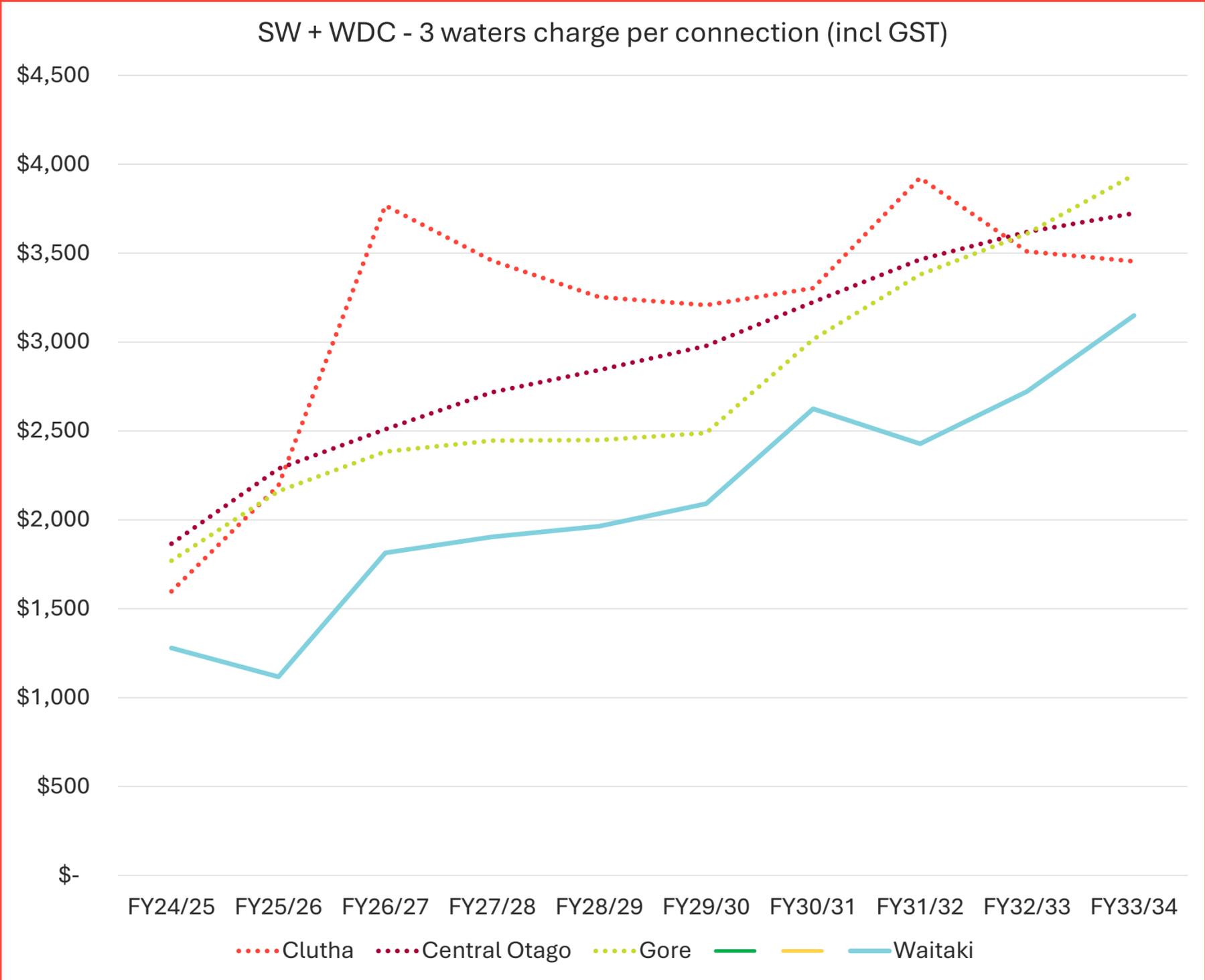
\$168 million of debt headroom in 2034 – that’s 416% of the annual capital programme programme

# Debt headroom and impact of modelling assumptions

## Option 1(a): Mackenzie and Timaru

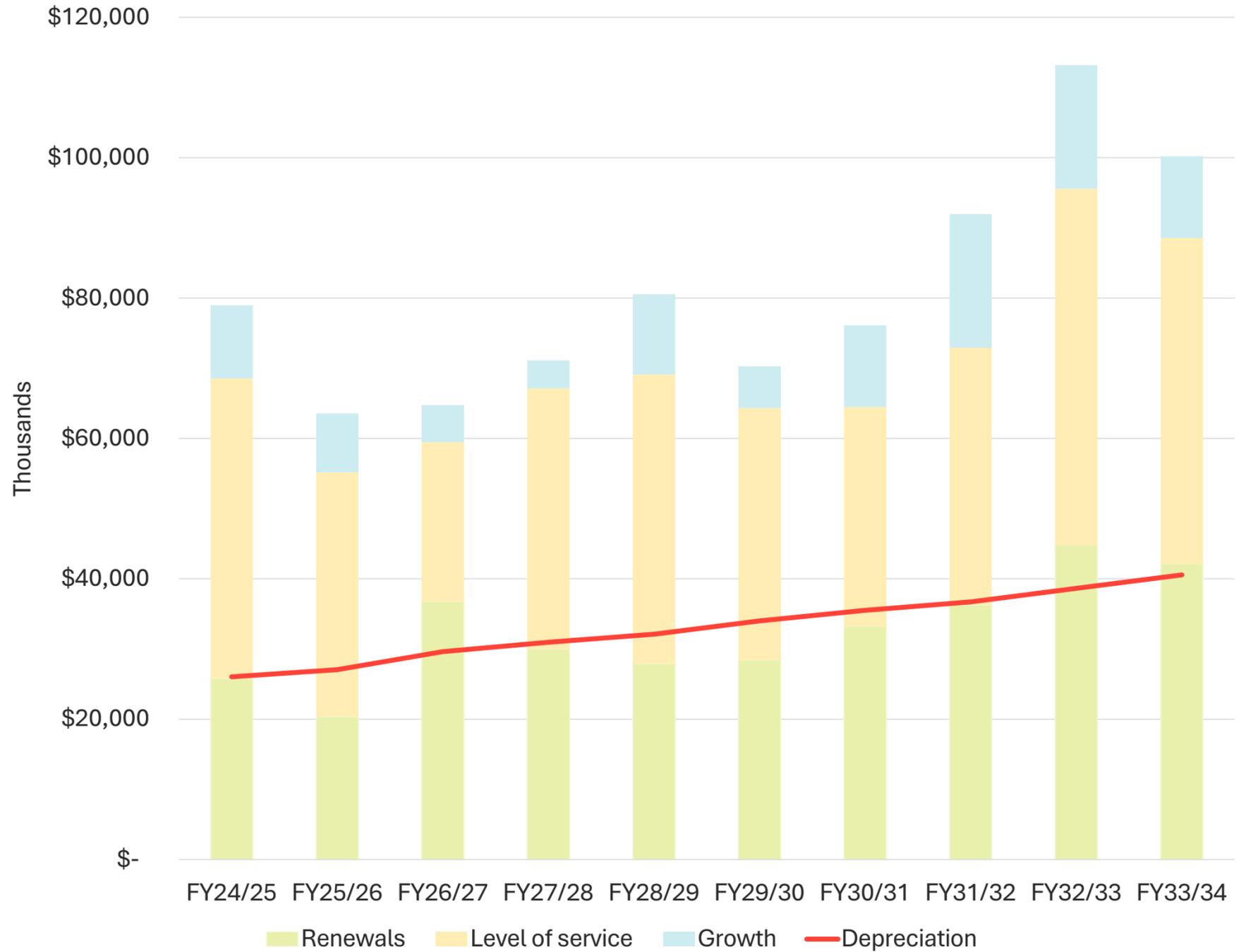
- This option shows debt headroom reaching more than 400% of the capital programme, and FFO to debt exceeding 16% in 2034.
- This is the result of:
  - The option having a comparatively small capital programme, with depreciation exceeding total capital investment in some years.
  - The model setting 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



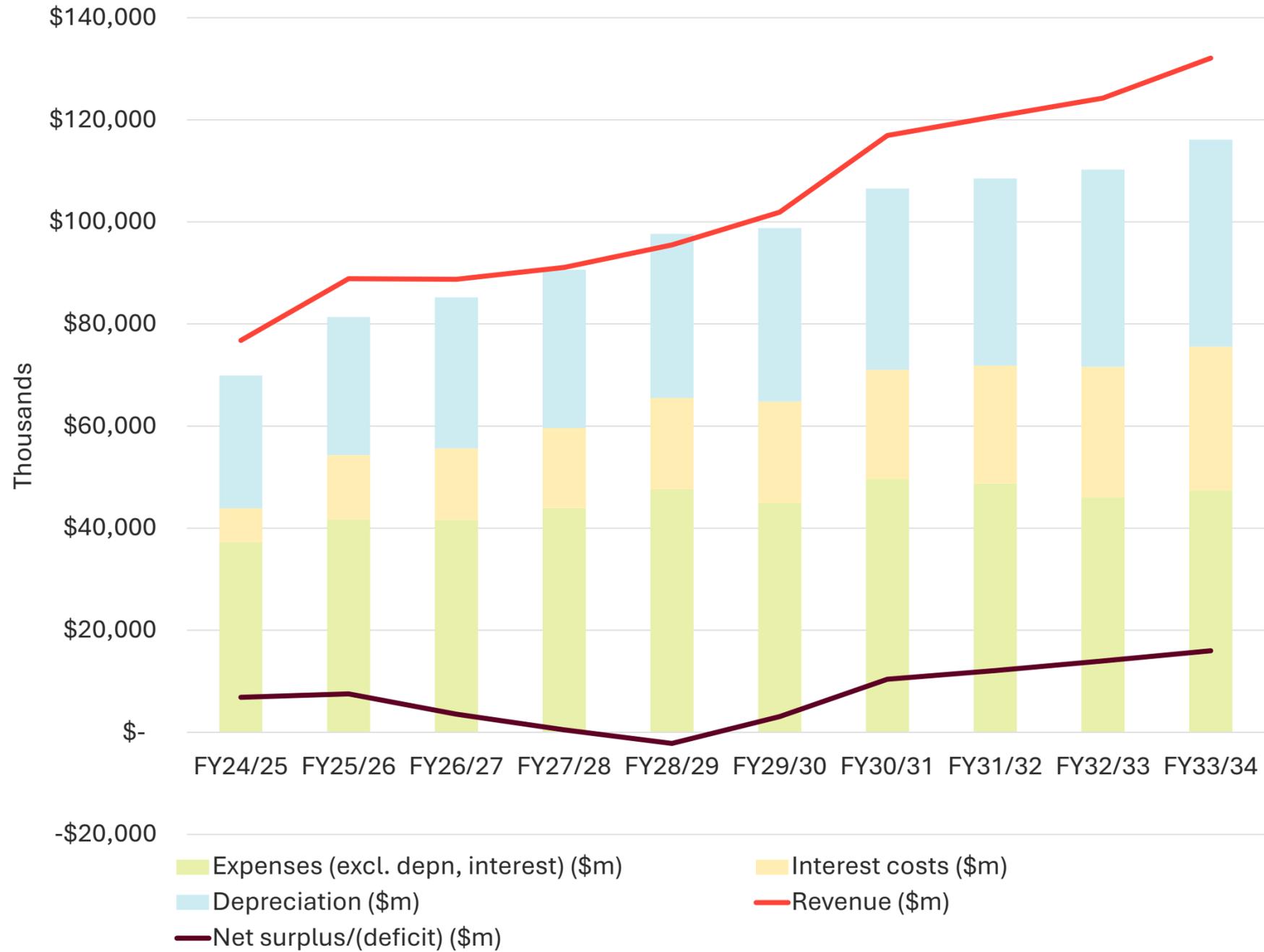
Charges reach \$3,149 (WDC) in 2034

SW + WDC- combined capital programme



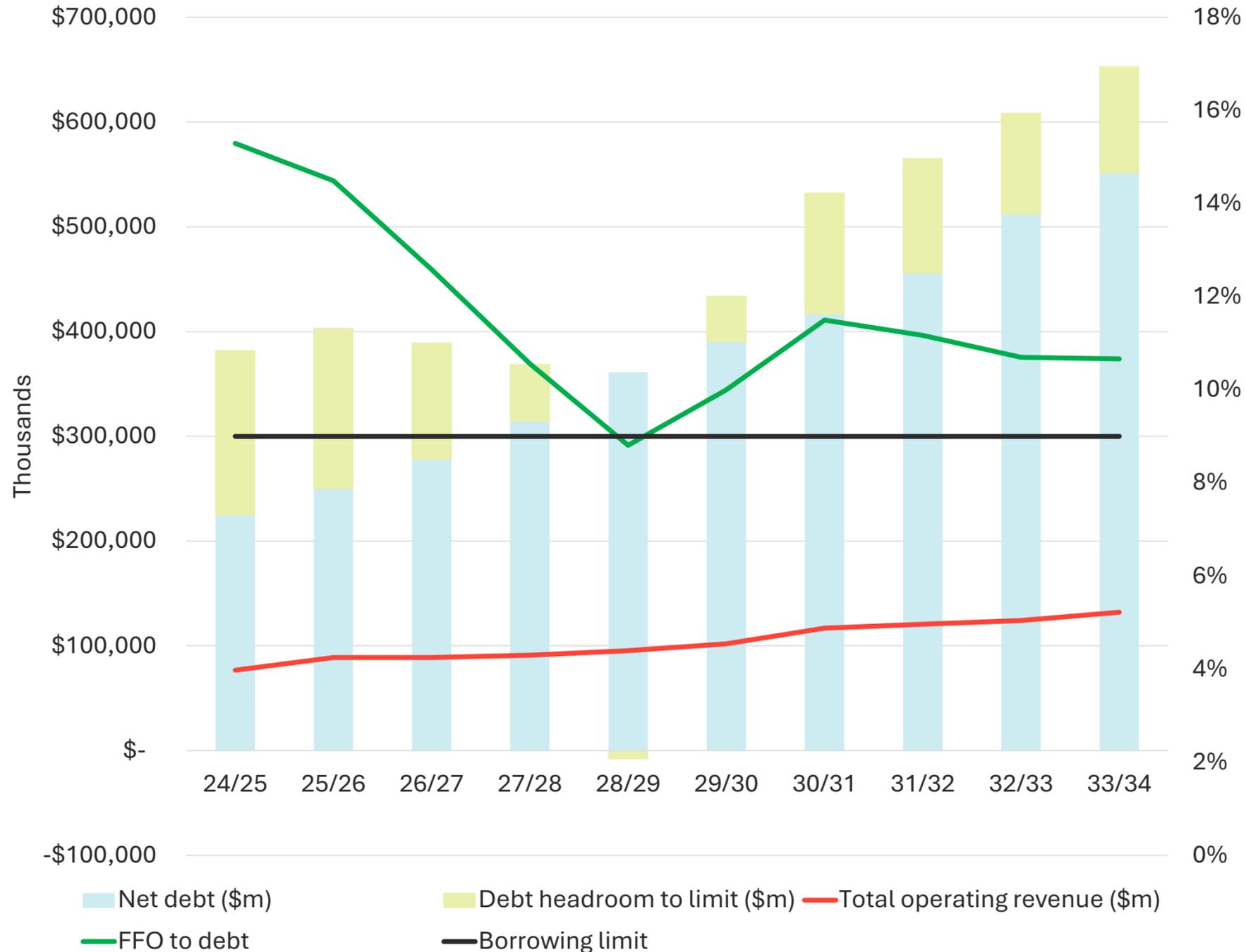
Renewals at 98%  
of depreciation  
\$810 million  
capital programme

SW + WDC - financial performance



Surplus at 12% of revenue in 2034

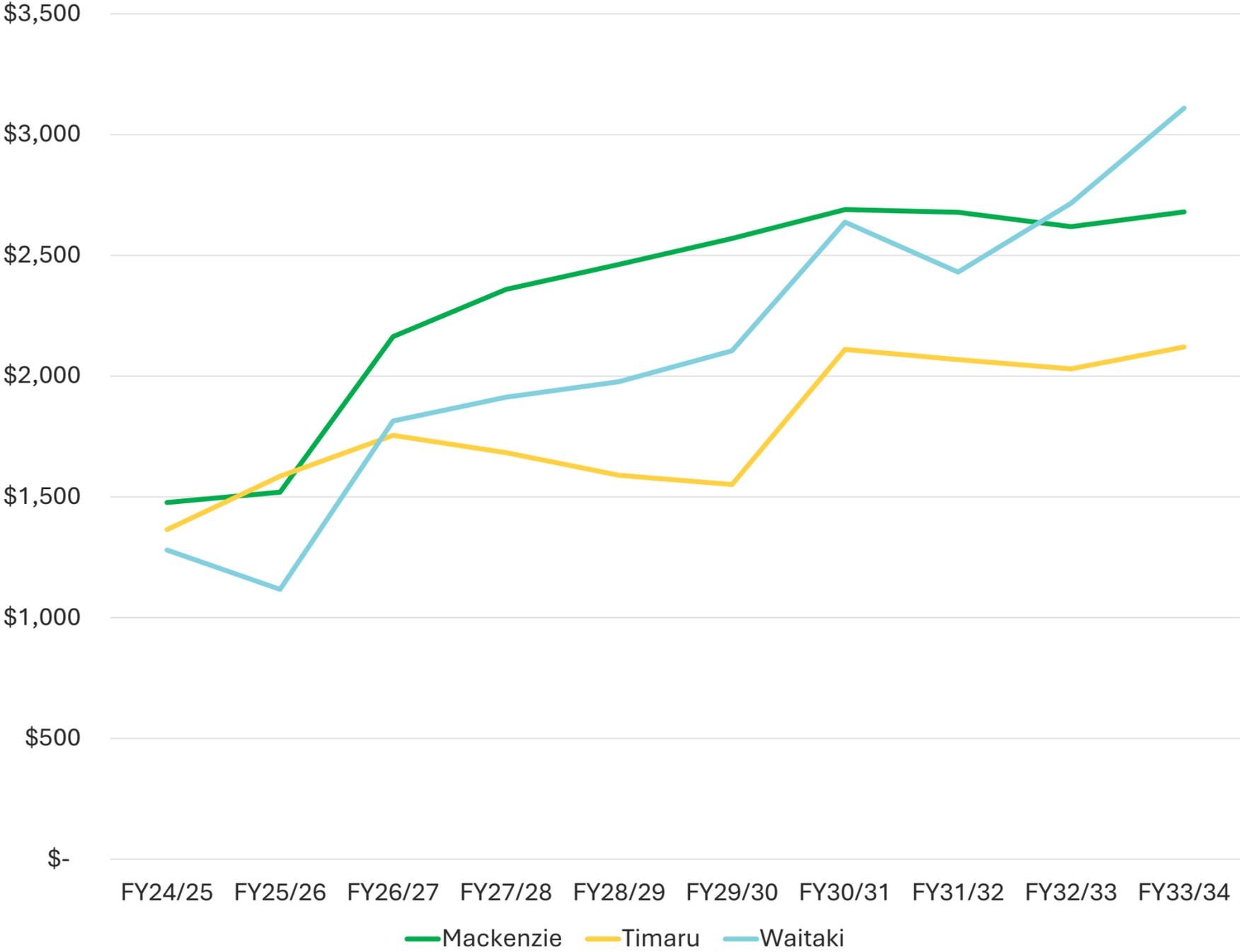
SW + WDC- debt position



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

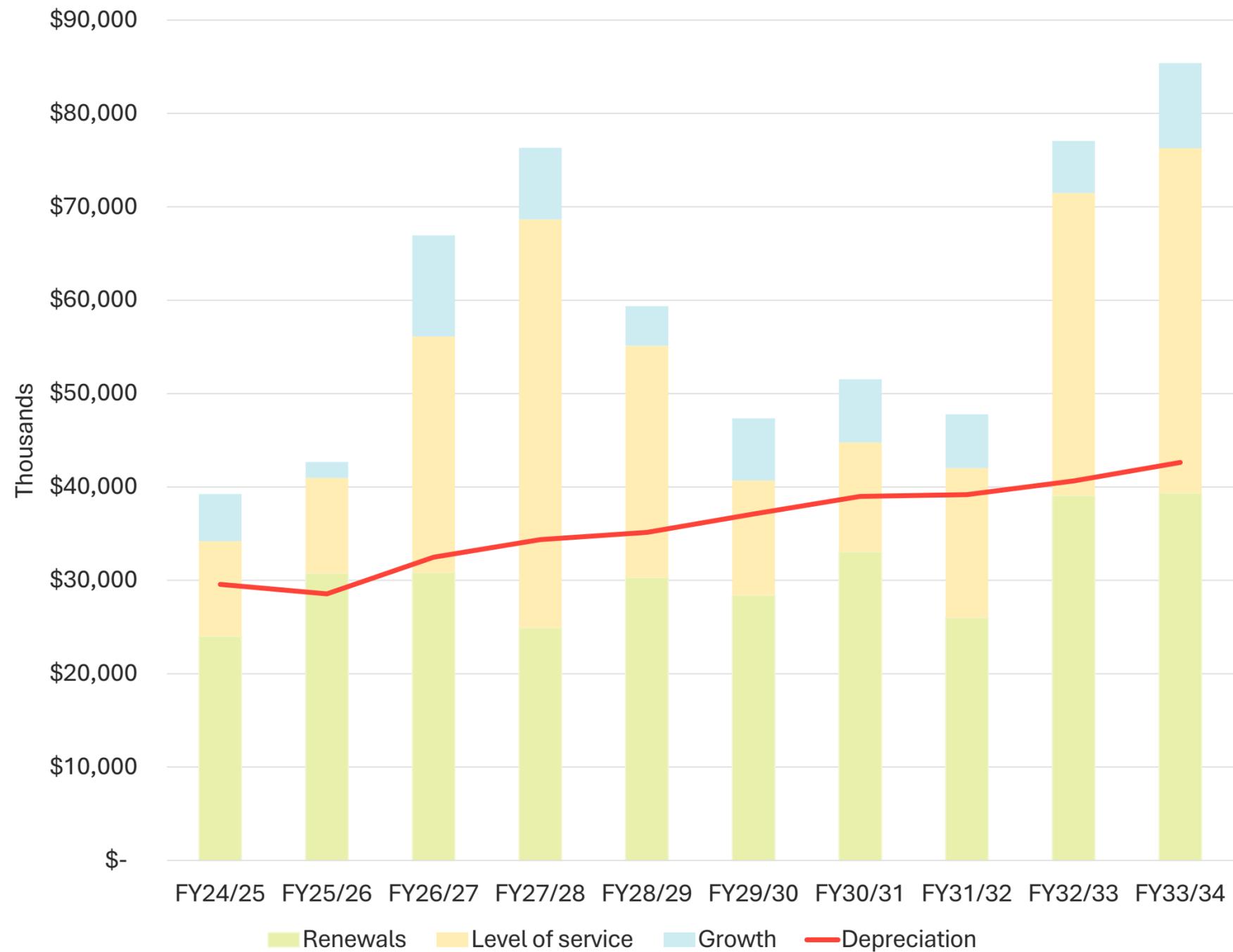
# Option 2

South Canterbury - 3 waters charge per connection (incl GST)



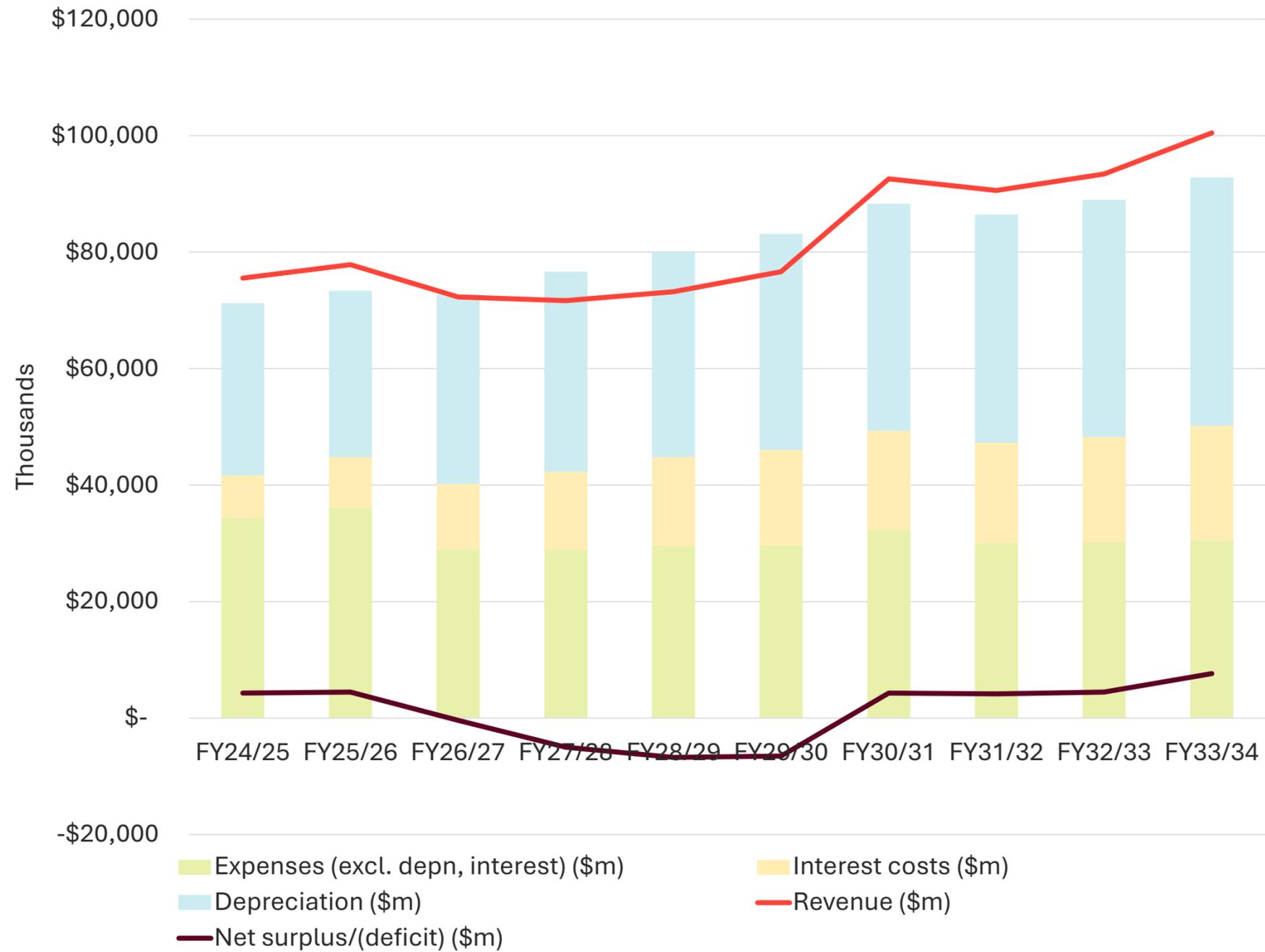
Charges reach \$2,680 (MDC), \$2,121 (TDC) and \$3,110 (WDC) in 2034

South Canterbury- combined capital programme



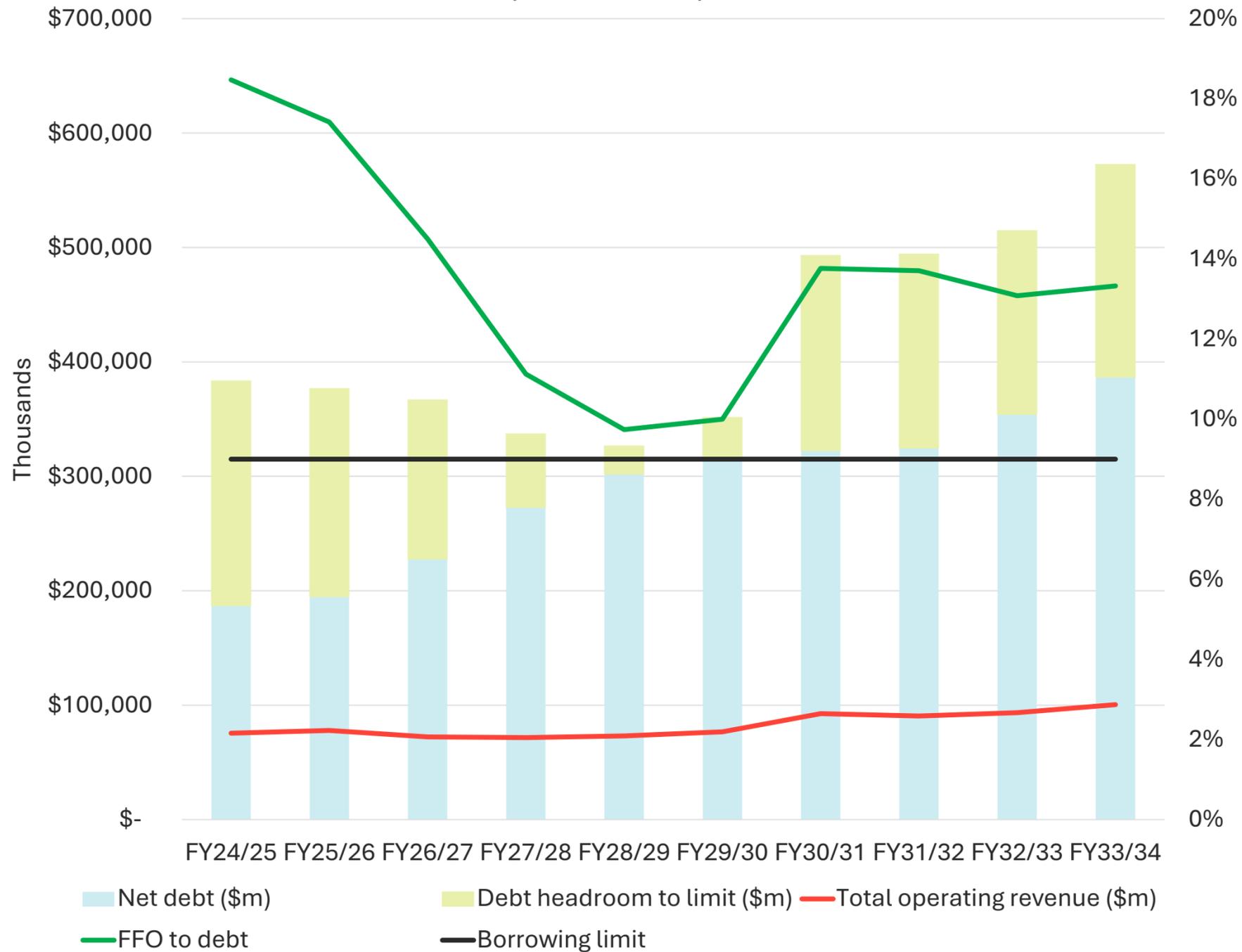
Renewals at 86%  
of depreciation  
\$593 million  
capital programme

South Canterbury - financial performance



Surplus at 8% of revenue in 2034

Group of six - debt position



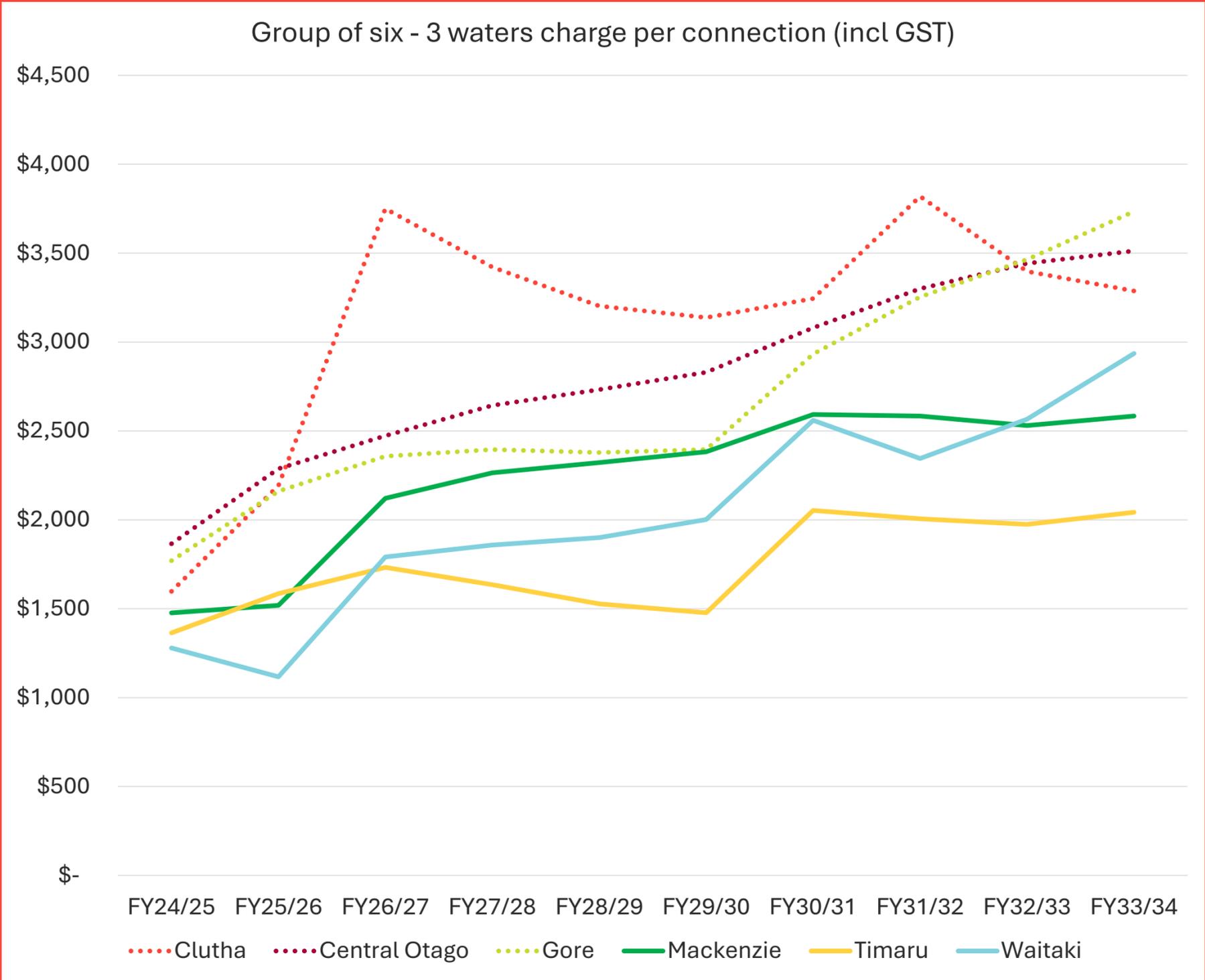
\$185 million of debt headroom in 2034 – that’s 218% of the annual capital programme programme

# Debt headroom and impact of modelling assumptions

## Option 2: South Canterbury

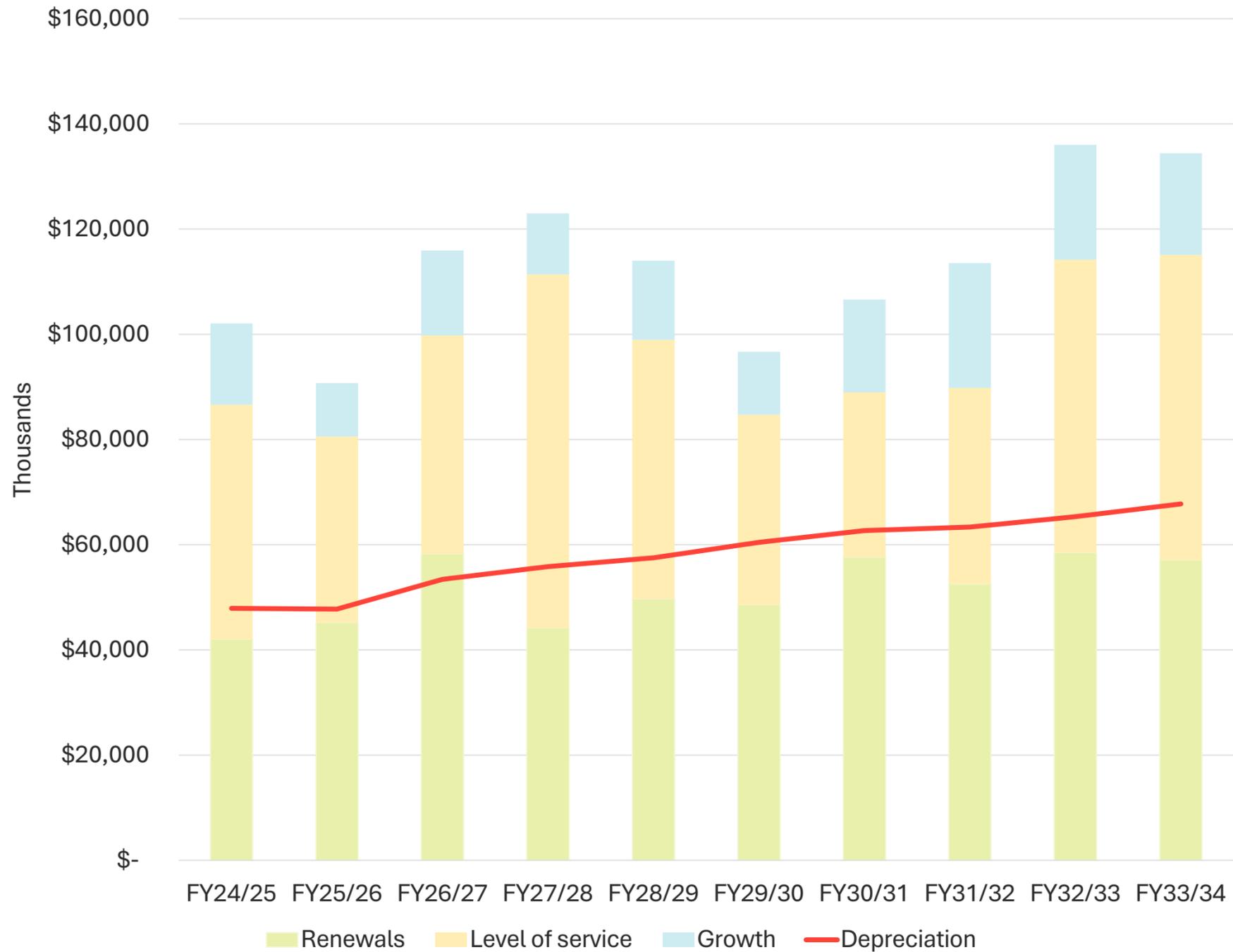
- This option shows debt headroom reaching more than 218% of the capital programme, and FFO to debt exceeding 13% in 2034.
- This is the result of the model setting funding requirements at *the greater of* full funding of depreciation or FFO compliance.
- It is likely that a water entity would adopt 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



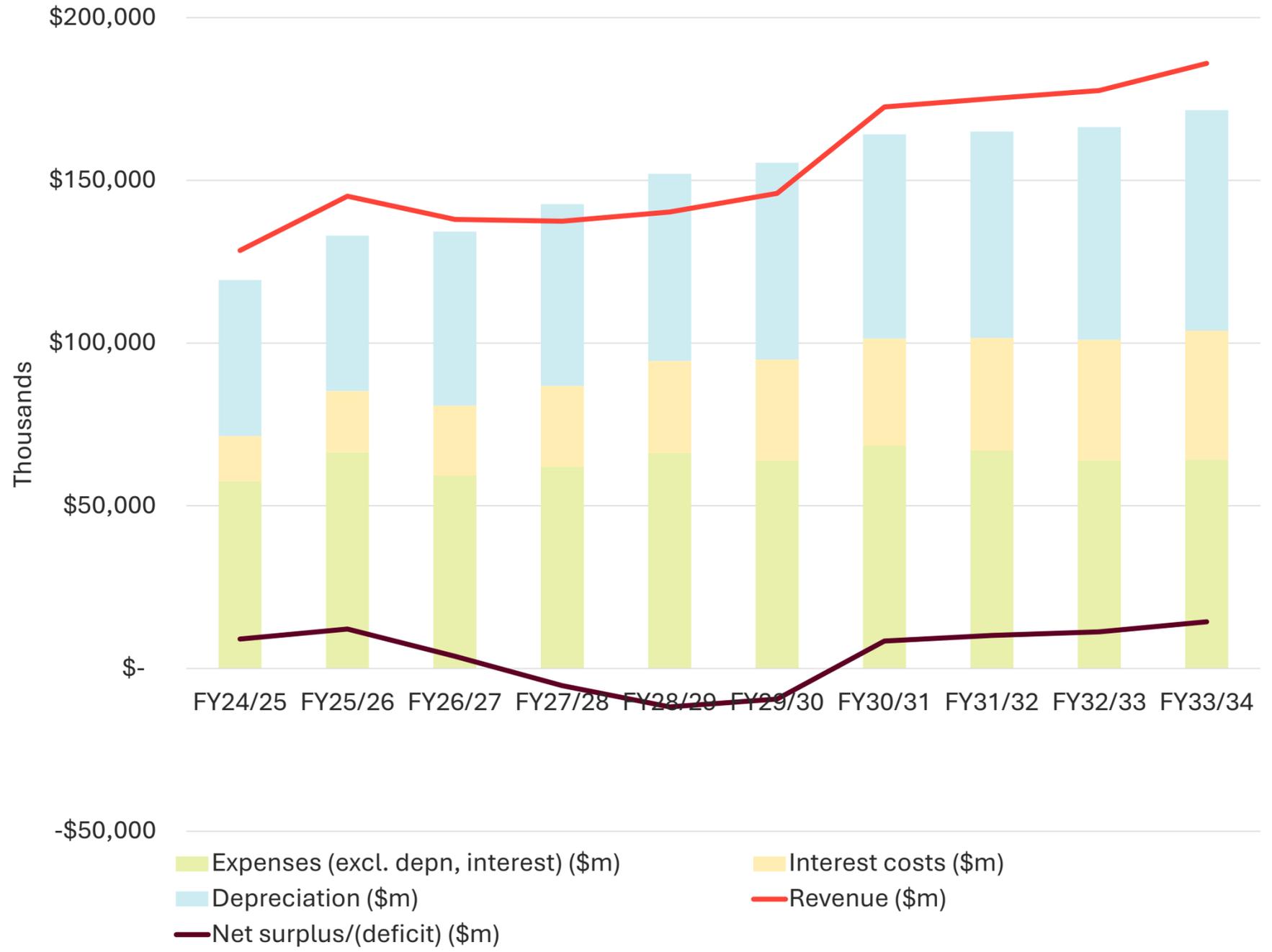
Charges reach  
 \$2,583 (MDC),  
 \$2,042 (TDC) and  
 \$2,936 (WDC) in  
 2034

Group of six - combined capital programme



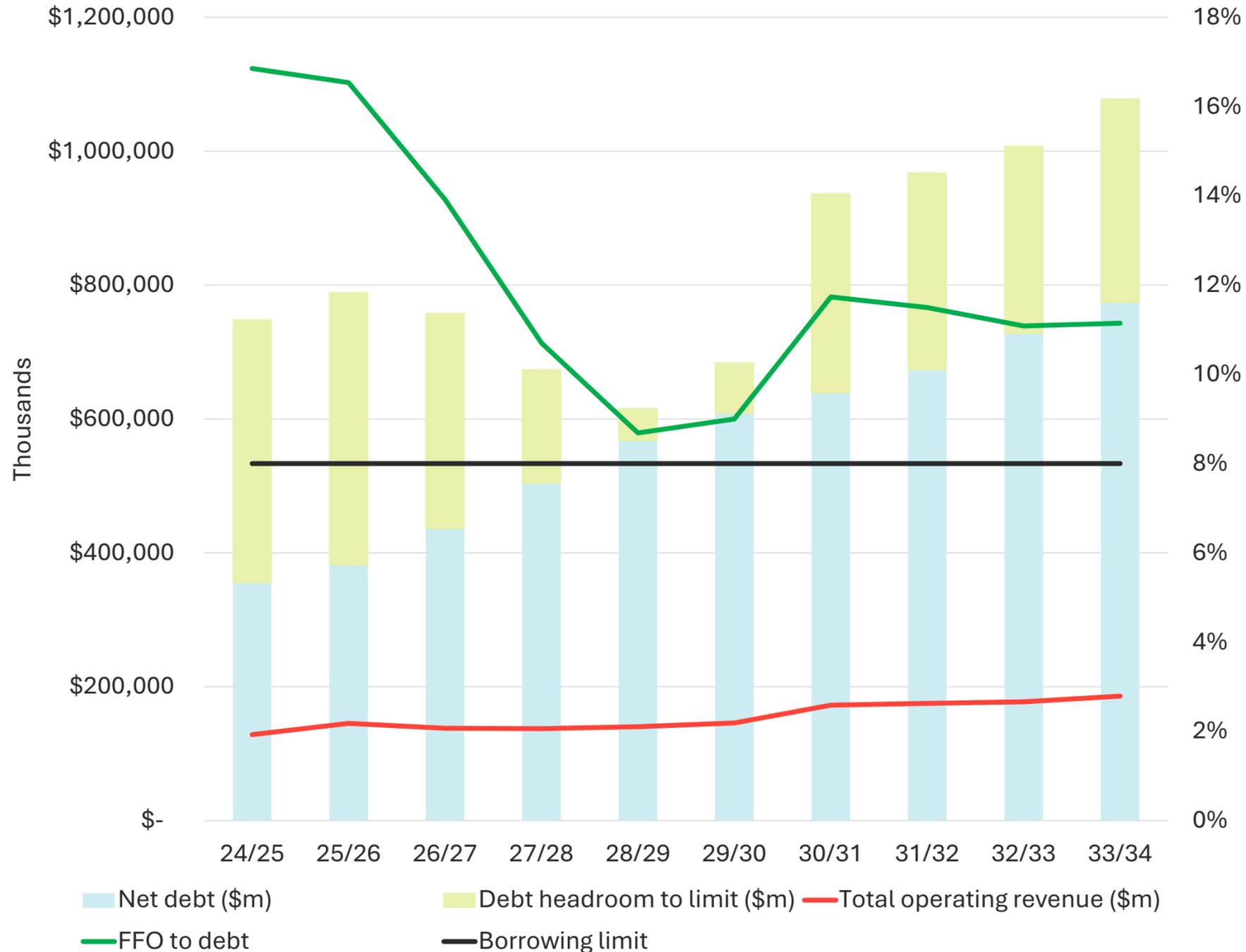
Renewals at 88%  
of depreciation  
\$1,132 million  
capital programme

Group of six - financial performance



Surplus at 8% of revenue in 2034

Group of six - debt position



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

# Overall comparison

# Multi criteria analysis assessment

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

# 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<br>OR<br>SW plus WDC | South Canterbury<br>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.