

Department feedback on Waitaki District Council Draft Water Services Delivery Plan

This is feedback on the draft Water Services Delivery Plan (Plan) you have provided and does not constitute formal assessment or acceptance of the Plan. Once your final Plan is submitted, the Secretary for Local Government holds responsibility for accepting or not accepting Plans.

The document that has been reviewed is named “*WDC WSDP 31 July Working Draft final*” and was provided to the Department on 31 July 2025. We have also considered the information provided on 1 August 2025 in the spreadsheet titled “*Copy of Final 3W projects listing 20250731*”.

We appreciate the opportunity to provide feedback and trust this is helpful guidance as you consider the next steps. Our assessment is that there are several material challenges with the draft Plan.

Financial Sustainability

Financially sustainable means, in relation to delivery of water services, that:

- the revenue applied to the authority’s delivery of those water services is sufficient to ensure the authority’s long-term investment in delivering water services; and
- the authority is financially able to meet all regulatory standards and requirements for the authority’s delivery of those water services.

General comments

It is our assessment, based on the issues identified in this draft, the final Plan may struggle to demonstrate financial sustainability. Some of the core issues relate to the fundamental viability of Waitaki’s water services delivered through an in-house business unit. We are also aware that the Council has received qualified audit opinions which is of concern when considering future sustainability of operations. The particular issues are summarised below.

Investment sufficiency

This plan does not provide enough information for us to determine whether WDC has the proposed level of investment that is sufficient to meet all levels of service, regulatory requirements and provide for growth. In addition, with the information provided, we are unable to confirm that the proposed level of investment is fully funded by projected revenues and access to financing, which may impact our ability to accept the plan. Also, the draft Plan does not demonstrate how intended investments are linked to existing and future compliance. Some of the information gaps include:

- How the proposed investments are linked to achieving drinking and wastewater compliance, including setting out the specific project budgets allocated to address specific compliance and regulatory requirements.
- How growth requirements will be met and funded and the costs associated with supporting growth. We note there is no capital expenditure provisioned for new growth demand across water, wastewater and stormwater, yet there is growth shown in the connection projections.

- Approximately 40% of planned investments occur in the final two years of the Plan. In view of the various compliance issues and a stronger compliance approach being taken by Taumata Arowai – the Water Services Authority, the Plan would need to specifically outline how investment is matched with achieving full compliance and financial sufficiency within the required timeframes of 30 June 2028.

Revenue sufficiency

- The draft Plan indicates that revenue for three waters is marginally sufficient to cover three waters' operating costs from 2026/27. However, there are significant increases in charges from \$1,468 to \$3,146 over 10 years. The planned 61% increase in 2026/27 may not be sustainable and affordable for the community. The increase in annual charges could be spread more evenly over 10 years to support improved affordability and potentially reduce from 3.3% of median household income in 2033/34 to be closer to the benchmark of 2.5%.
- Given our feedback on *investment sufficiency*, there is a risk that the level of revenue in the Plan is understated to meet the level of investment required. If this is the case, revenue sufficiency challenges would be compounded.
- When assessing the projected operating surpluses/(deficits) for water services we noted that the revenue is modelled to break even or maintain a balanced budget (including fully funding depreciation) from 2027/28. This means, over time, renewals are funded through depreciation recoveries. Operating cash surpluses grow as full funding of depreciation is introduced. However, we note that this is only achievable through the significant price increases mentioned above. We also note from your Annual Reports there has been decreasing cashflows from operations, uncollected revenue and unbalanced budgets. This adds to the concern in terms of ongoing sustainability.

Financing sufficiency

- The projected water services net debt to operating revenue increases from 354% to over 500%. As Waitaki has opted for an In-house Business Unit, financing sufficiency is assessed on projected whole of council borrowings against LGFA's borrowing limits and legislation ring-fencing requirements. LGFA lending covenants for councils with no external credit rating are measured on a net debt to operating revenue ratio up to 175%.
- We note references to securing a credit rating by the council as a critical step to attaining financing sufficiency and providing debt headroom. However, without further information on the whole of Council position and the above investment and revenue sufficiency information, we do not have confidence that this is achievable. In addition, even if a credit rating can be obtained and if LGFA agrees to increase debt to 280% this would further increase concerns regarding affordability. Accordingly, we are concerned that water services as a ring-fenced activity will not be sustainable.
- Engagement with a rating agency and the LGFA on the matters we have noted is strongly recommended if this has not already occurred. We would welcome receiving information on the outcome of those discussions as soon as possible.

Additional comments and feedback on the Plan

The below points were noted by our reviewers as additional concerns that have been identified as not being included or clear in the draft Plan. These include:

- The absence of complete information on asset condition information, the implications this has for robust forward planning and how this information deficit will be remediated and when.
- the assumptions, risks and mitigations including those that may be associated with changes in inflation, legislation, regulation, natural disasters, and political risks.
- the expected future lifespan and an estimate of the quantity of backlog of renewals and maintenance.
- the priority to update the Asset Management Policy 2009 and intended improvements in asset management practices and outcomes.
- whether the programme/renewals/upgrades are adequate to address water losses and ensure firefighting standards are achieved.
- the proposed delivery model and how this will ensure that water services fully comply with regulatory requirements for water supplies.
- provision for additional regulatory costs.

We appreciate that our feedback identifies challenges for the council. Our team is available to discuss it and next steps.