



# LOCAL WATER DONE WELL UPDATE

September 2024

**ROTORUA**  
LAKES COUNCIL

# Purpose of this Discussion

1. Highlight key points of the proposed reforms.
2. Update Elected Members on the status of Rotorua Lakes Council.
3. Seek elected member endorsement of Rotorua Lakes Council proposal to formulate its own Water Services Delivery Plan.

# Local Water Done Well Legislation

**Water Services Acts Repeal Act 2024** repealed the proposed 10 water services entities and confirmed that Council's will continue to own and be responsible for water services.

**Local Government (Water Services Preliminary Arrangements) Bill** will require Council to submit a Water Services Delivery Plan within 12 months of the Bill's enactment and will provide for streamlined consultation and decision-making processes for setting up new water organisations

**Local Government Water Services (Transitional Provisions) Bill** will make enable:

- An expanded range of water services delivery models
- New financing options including the ability to leverage up to 500% of operating revenues (around twice that of existing councils)
- New economic regulation regime that will ensure revenue collected by water service providers is being spent on the level of water infrastructure needed.

# Service Delivery Plans

- Financial and asset information
- Investment required
- Service delivery arrangements.

# Economic Regulation

- Consumers pay efficient, cost-reflective prices for water services
- That those services are delivered to an acceptable quality, and
- That water services providers are investing sufficiently in their infrastructure.

# Local Government Water Services (Transitional Provisions) Bill

Policy decisions announced August and the Bill is expected to be introduced December and passed mid-2025.

Expanded range of water services delivery models

- Financially independent from council from a credit rating perspective.
- Must meet regulatory standards, financial sustainability requirements such as ringfencing of water services, and restrictions against privatisation

New financing options for councils.

- LGFA will provide financing to water council-controlled organisations that are financially supported by their parent council/s
- Leverage for water organisations up to 500% of operating revenues subject to meeting prudent credit criteria.

New economic regulation regime for water service providers

- Ensure revenue collected by water service providers is being spent on the level of water infrastructure needed.

# Service Delivery Models

Internal business unit or division	<ul style="list-style-type: none"> <li>• Status quo for many councils</li> <li>• Minimum requirements for water service providers will apply</li> <li>• New financial sustainability, ringfencing rules, and economic regulation will apply</li> </ul>
Single council-owned water organisation	<ul style="list-style-type: none"> <li>• New company established, 100% owned by the council</li> <li>• Financial sustainability rules will apply, but retains a financial link to the council</li> </ul>
Multi-council owned water organisation	<ul style="list-style-type: none"> <li>• New company established with multi-council ownership</li> <li>• Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement</li> <li>• Option to access LGFA finance with the provision of parent support</li> </ul>
Mixed council/consumer trust owned	<ul style="list-style-type: none"> <li>• Consumer trust established to own majority of shares</li> <li>• Mixed ownership, with one or more councils owning minority of shares</li> <li>• Structure enables financially independent organisation to be established while retaining minority council ownership</li> </ul>
Consumer Trust owned	<ul style="list-style-type: none"> <li>• Council transfers assets to consumer trust owned organisation</li> <li>• Consumers elect trustees to represent their interests in the organisation</li> <li>• Most financially independent of the available models</li> </ul>

# Timeline

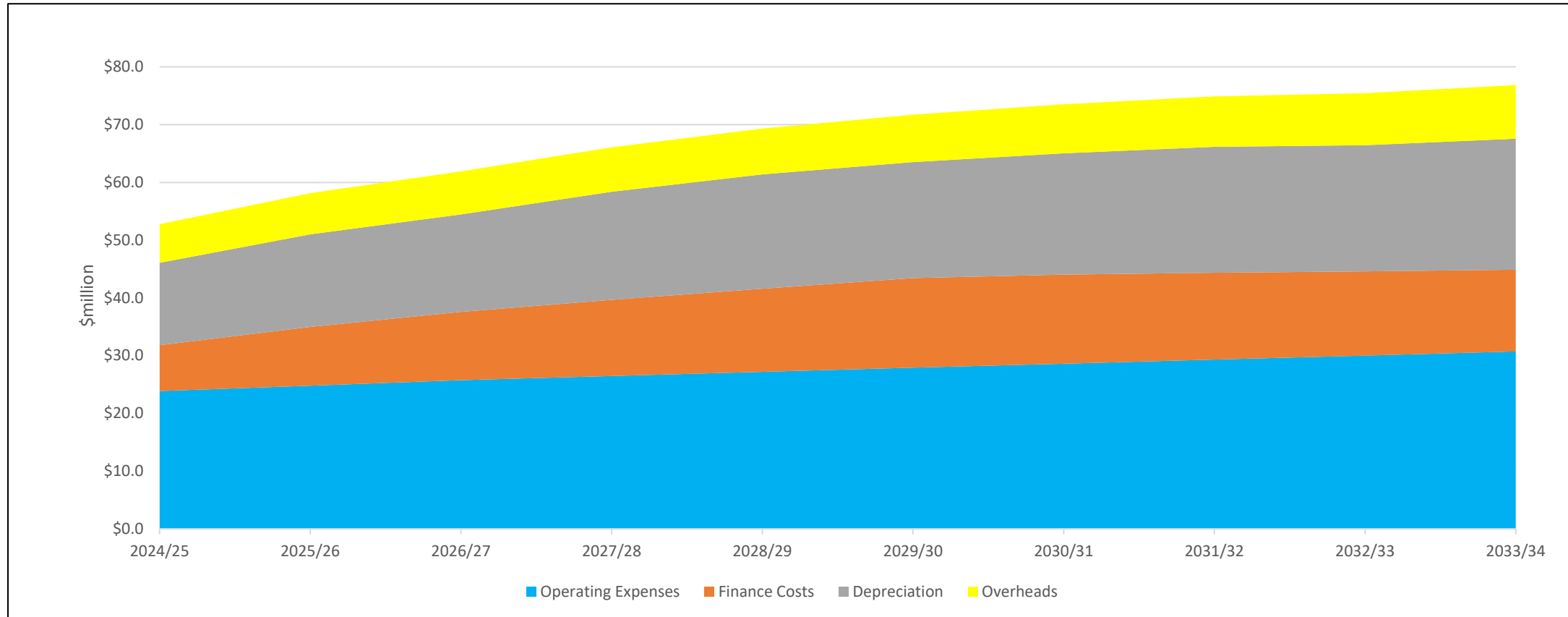
	Next 6 months (Jul-Dec 2024)	Jan-Jun 2025	Jul-Dec 2025	Jan-Jun 2026	Jul-Sep 2026	
Water service delivery arrangements	Councils can establish new water organisations allowed under existing legislation		Councils can establish new water models through legislation			
			Minimum requirements for local government water services providers in effect			
Water Services Delivery Plans (WSDPs)	Councils develop WSDPs		Submit WSDPs to DIA for review and acceptance (Aug-Nov 2025)	Councils publish accepted WSDPs (Nov 2025)		
				DIA shares accepted WSDPs with Commerce Commission and Taumatua Arowai		
				DIA monitor WSDPs Implementation Plan (Nov 2025 until complete)		



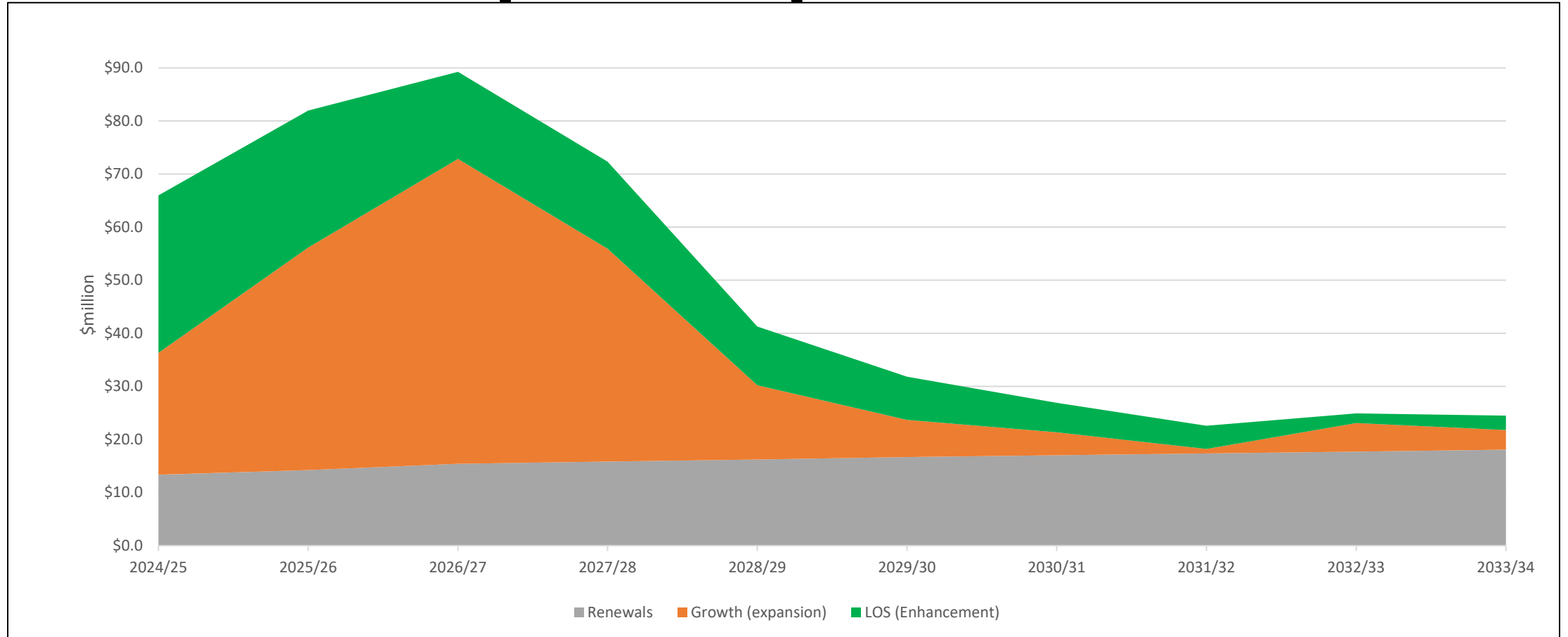
# What are RLC Problems/Issues?

- Meeting regulatory and compliance standards (ok so far)
- Attracting/retaining and developing skills and competence (ok so far but a risk)
- Reliable and cost effective services provision/contracts (ok but we can improve)
- Appropriate and reliable funding sources to satisfy economic regulator (all phases/fees, rates, borrowings etc)

# Expenditure



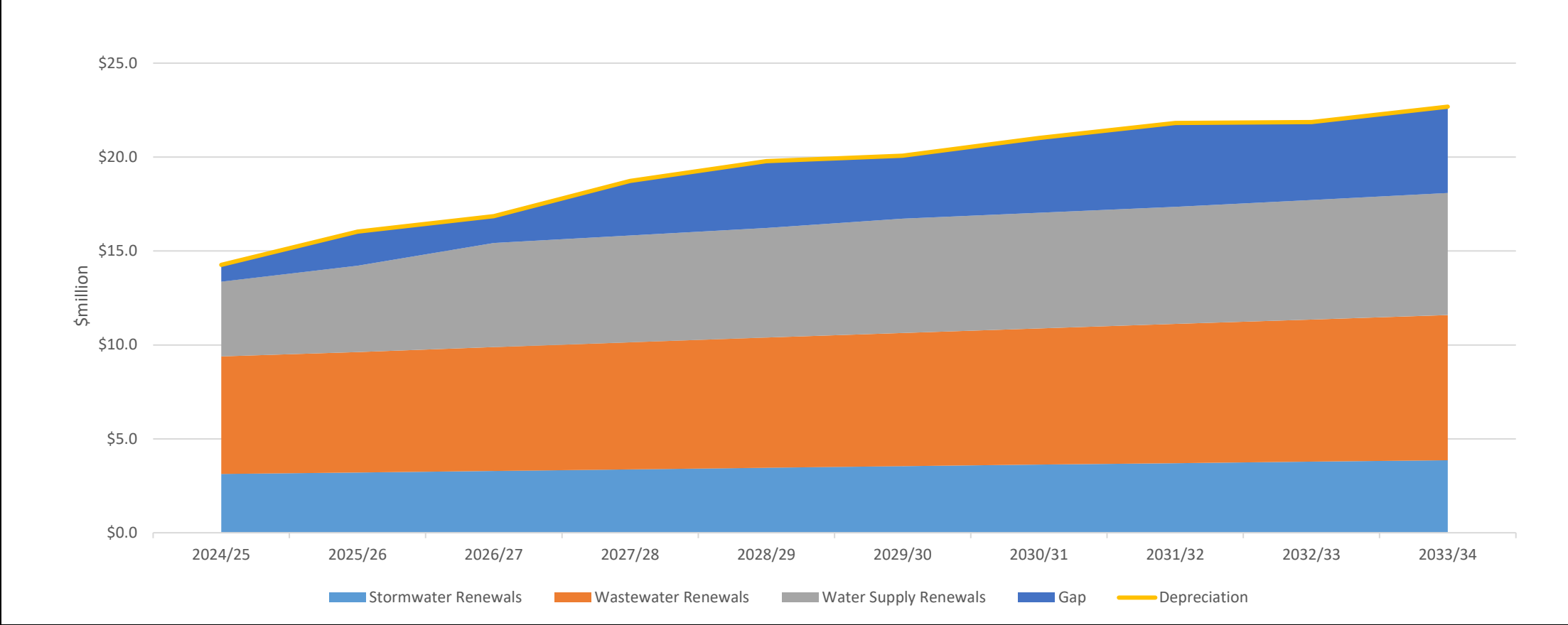
# Capital Expenditure



**THREE WATERS REFORM**

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# Renewals Expenditure v Depreciation



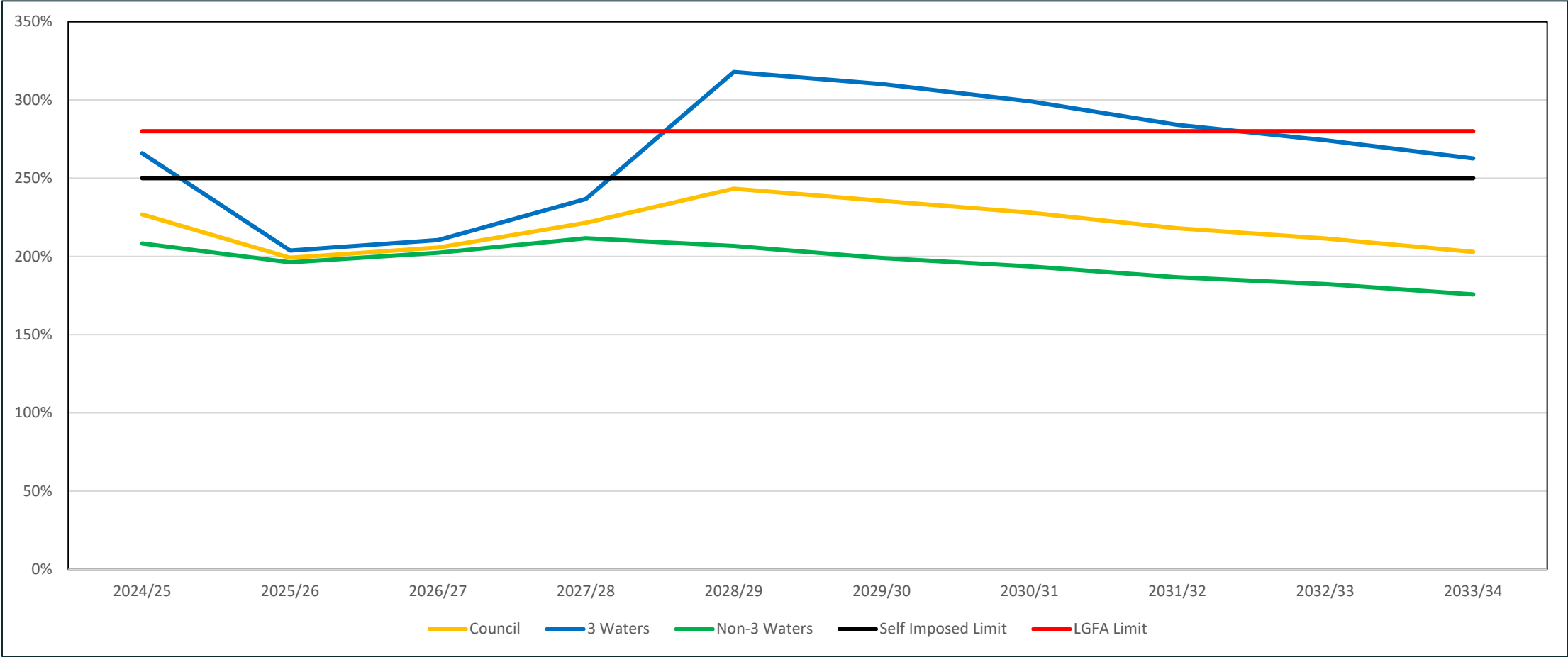
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# Debt

Long Term Plan 2024-2034	Year 1			Year 10		
	Total \$M	3W only \$M	Non 3W \$M	Total \$M	3W only \$M	Non 3W \$M
Debt	\$479	\$180	\$299	\$560	\$227	\$333
Income	\$211	\$53	\$158	\$276	\$82	\$194
Expenses	\$190	\$39	\$152	\$268	\$54	\$214
Asset Value	\$2,051	\$953	\$1,098	\$2,803	\$1,190	\$1,614
Debt to income ratio	227%	340%	189%	203%	278%	171%
Debt to asset ratio	23%	19%	27%	20%	19%	21%

# Debt



**THREE WATERS REFORM**

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# Service Delivery Models

Option	Pros	Cons
Internal business unit or division	Retain control Better links to other Council planning i.e. district development	May not achieve benefits of scale
Single council-owned water organisation	Increased debt leverage	
Multi-council owned water organisation	Scale advantage Procurement Staff recruitment and retention Increased debt leverage	Loss of control Further removed from mana whenua and community Disconnection from other council planning
Mixed council/consumer trust owned		
Consumer Trust owned	Most financially independent	

# Higher Debt Opportunities

- LGFA will support leverage for water organisations up to 500% of operating revenues (around twice that of existing councils), subject to water organisations meeting prudent credit criteria
- Using increased borrowings to solve infrastructure deficit (current and future) is not risk free.
- The “off-balance sheet” notion without guarantees is not feasible (so Councils will continue to incur the liability and credit rating impacts)



# The requirement to achieve “Financially Sustainable Models”

- The core objective here is to avoid the need for a Council or the Crown to be called to inject additional funds or bail out a water services provider.
- The most viable path towards “financially sustainable models” would appear to be realistic revenue settings/projections (through the water rates/charges etc) that reduce the need to borrow and suppress the debt/revenue ratio.
- Provision in these rates and charges can be made to allow for debt servicing and debt levels management.

# What is required of Elected Members

- Note:
  - the key points of the proposed reforms.
  - the timeline for the reform.
  - the status of Rotorua Lakes Council.
- Endorsement of Rotorua Lakes Council proposal to formulate its own Water Services Delivery Plan.