Local Water Done Well Progress

5 December 2024

Section 1

Water Services Delivery Plan – Financial Sustainability Assessment WIP

Overview

QLDC must prepare a Water Services Delivery Plan ('Plan')

The Local Government (Water Services Preliminary Arrangements) Act 2024 requires QLDC to prepare a Plan that:

> Identifies the current state of QLDC's water services.

> Demonstrates publicly QLDC's commitment to deliver water services in a way that:

- ensures all relevant regulatory quality standards for water services will be met,
- is financially sustainable for QLDC (by June 2028),
- ensures all drinking water quality standards will be met, and
- supports QLDC's housing growth and urban development, as specified in the Long-Term Plan.

DIA has provided criteria to determine whether Plans meet requirements

To assist Councils in determining whether their investment in water services delivery meets the requirements of the Act, DIA have identified three "sufficiency tests".

These tests are designed to demonstrate whether planned investment will deliver on regulatory standards, Levels of Service, renewal and growth obligations in a financially sustainable way.

The three tests are:

1. Revenue sufficiency
2. Investment sufficiency
3. Financing sufficiency

QLDC's 2024 Long-Term Plan is being tested against the sufficiency tests

The 2024 Long-Term Plan was developed with these concepts of financial sustainability in mind as these represent good practice, prudent financial planning.

However, looking at water services in isolation from the rest of QLDC's investment could result in some of these tests not being met.

As such water services needs to be financially ring-fenced and test the 2024 LTP against the sufficiency measures. This will then confirm whether QLDC's current planned investment meets the sufficiency tests and whether the 2024 LTP can be used as the basis for the Plan.

The financial sustainability assessment outlined in this section assumes that water services are retained within QLDC. Other options are explored in the following section.

Confirmation of financially sustainable delivery of water services for in house water services

Assessment of financial sustainability of water services is underway

DIA has provided a modelling template to assist councils in determining whether financial sustainability tests are met.

This template has been populated with information from QLDC's 2024 LTP and has modelled what financially ringfenced water services looks like for QLDC. This is currently being worked through with relevant managers across and the results to date are set out in this report.

Revenue Sufficiency

Investment Sufficiency

Financing Sufficiency

Revenue sufficiency is defined as having sufficient revenue to cover the costs (including servicing debt) of water services delivery.

Investment sufficiency is defined as having sufficient projected investment to meet levels of service, regulatory requirements and provide for growth.

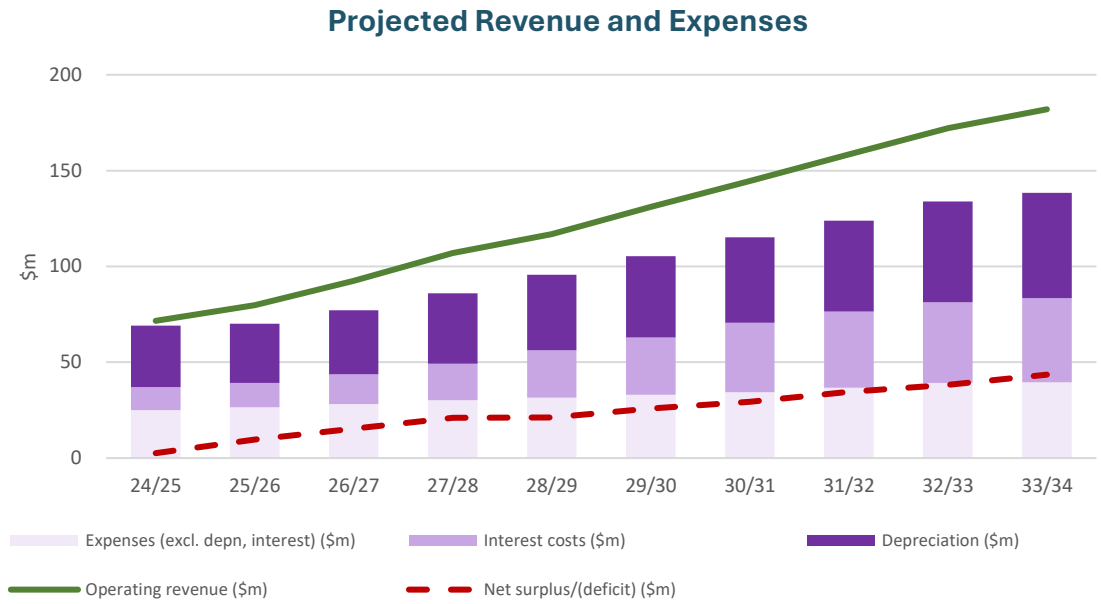
Financing sufficiency is defined has having sufficient funding and financing to meet investment requirements.

Actions are required to achieve financially sustainable delivery of water services by 2028

If water services were to remain in-house, QLDC would need to take the following actions to deliver financially sustainable water services:

1. Agree that capital revenues should be included in consideration of whether revenue covers costs.
2. Investigate alternative funding approaches to reduce pressure on debt and rates.
3. Review post 2028 renewals investment in line with deterioration modelling.
4. Request bespoke LGFA covenant to increase QLDC's debt limit to 350%.
5. Agree a notional borrowing limit for water services.

Revenue Sufficiency Assessment



Projected revenues are sufficient to cover the costs of water services delivery

Projected revenues are sufficient to finance the required level of investment

All capital revenues (government grants, subsidies, development, and financial contributions) have been included as revenue in this assessment. Since QLDC relies on these to fund water infrastructure, they are appropriately considered as revenue.

ACTION

QLDC's heavy reliance on DCs comes with some risk. As such QLDC aims to source alternative funding for significant growth related investments in our priority development areas (see investment sufficiency section).

Subsidies and grants are provided where QLDC partners with Government to deliver on projects that contribute to mutual priorities. Without co-funding, these projects would not proceed.

As over 40% of QLDC's capital investment programme relates to growth, delivery of the investment programme is heavily dependent on Development Contributions. While DCs are not considered operating revenue for borrowing purposes with LGFA, they do make up a material proportion of the revenue that QLDC collects to cover the costs of delivering water services.

Average projected charges for water services

Average charge per connection including GST	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average charge per connection	1,275	1,488	1,705	2,055	2,474	2,900	3,213	3,544	3,839	4,110	4,247
Projected average household income	129,745	132,729	135,384	138,091	140,853	143,670	146,543	149,474	152,464	155,513	158,623
Water services charges as % of household income	1.0%	1.1%	1.3%	1.5%	1.8%	2.0%	2.2%	2.4%	2.5%	2.6%	2.7%

Annual electricity costs per household are estimated at $3,253 (year ending March 2024), which is 2.5% of the average household income. Comparison to household charges for electricity are a reasonable proxy to determine whether water charges are appropriate.

This means that current average cost to households of water services is less than half the average cost of electricity services. While water costs are projected to increase significantly, the projected average cost in ten years is still less than the current average annual cost of electricity.

Projected operating surpluses/(deficits) for water services

Operating surplus/(deficit) incl capital revenues	2,563	9,692	15,337	21,070	21,114	25,786	29,418	34,590	38,291	43,535
Total operating revenue incl capital revenues	71,616	79,774	92,449	106,996	116,801	131,113	144,604	158,479	172,176	182,014
Operating surplus ratio	3.6%	12.1%	16.6%	19.7%	18.1%	19.7%	20.3%	21.8%	22.2%	23.9%

The *operating surplus ratio* is an indicator of whether operating revenue is sufficient to cover operating expenses. Where the ratio is negative, this shows the increase required for revenues to cover costs.

The *operating surplus ratio* is is positive throughout the period covered, demonstrating that projected operating revenues generate surpluses and are sufficient to cover costs.

Projected operating cash surpluses for water services

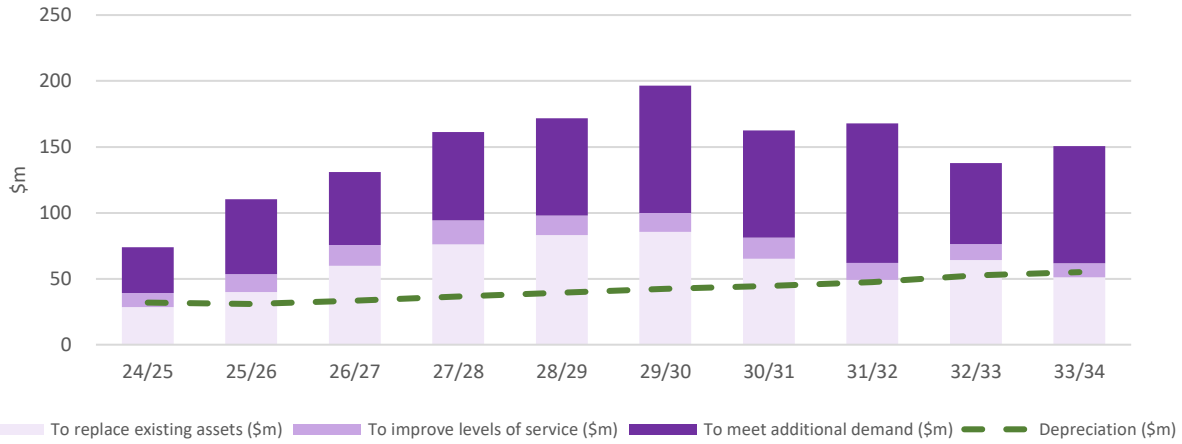
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	15,671	21,686	31,694	44,270	58,438	69,996	83,193	94,471	105,703	114,715
Total operating revenue	40,627	48,152	59,966	74,442	89,908	102,971	117,622	131,246	144,908	154,338
Operating cash ratio	38.6%	45.0%	52.9%	59.5%	65.0%	68.0%	70.7%	72.0%	72.9%	74.3%

The *operating cash ratio* is an indicator of whether cash surpluses are generated from operations.

The *operating cash ratio* is positive throughout the period covered, demonstrating that cash surpluses are generated.

Investment Sufficiency Assessment

Projected water services investment requirements



Proposed level of investment is sufficient to meet regulatory requirements

Proposed level of investment is sufficient to maintain assets

Proposed level of investment is sufficient to meet levels of service requirements

Proposed level of investment is sufficient to provide for growth

Proposed level of investment is fully funded by projected revenues and access to financing

QLDC's investment programme is fully funded by LGFA funding and funding required falls within QLDC's borrowing capacity. However, the extent of growth investment pushes debt levels, and rates, to a higher level than the Council are comfortable with.

ACTION

QLDC is actively investigating four alternative funding approaches to reduce pressure on debt and rates:

> Third-party funded & delivered infrastructure (Developer Agreements, PPPs, etc.)

> Upfront contributions from developers in priority development areas

> Funding water infrastructure required to enable priority development areas through the IFFA

> Accommodation Levy to fund the portion of the programme attributable to visitors

Total Water Services Investment Required over 10 Years

Asset Investment Ratio ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total capital expenditure	62,567	73,810	110,260	130,909	161,332	171,654	196,484	162,562	167,763	137,673
Total Depreciation	26,649	31,977	30,877	33,368	36,656	39,430	42,409	44,535	47,416	52,529
Asset investment ratio	134.8%	130.8%	257.1%	292.3%	340.1%	335.3%	363.3%	265.0%	253.8%	162.1%

The *asset investment ratio* compares total investment to projected depreciation. Where the ratio is positive, this means that there is more projected investment than projected depreciation. Where this ratio is negative, this means that projected investment is less than projected depreciation.

The *asset investment ratio* is positive throughout the period covered, demonstrating that QLDC's projected depreciation is appropriate for the level of investment.

This assessment has been completed based on the investment programme adopted in QLDC's 2024 Long-Term Plan, which is also reflected in the 2024 Infrastructure Strategy and Asset Management Plans.

QLDC's foundational priority for the LTP was "getting the basics right first". This means making sure essentials are delivered before investing in other strategic investment priorities that are considered more discretionary, aspirational or where timing is more flexible.

> Getting the basics right means investment was prioritised in: *Protecting human and environmental health:* Ensuring our infrastructure, facilities and services meet legislative and regulatory requirements.

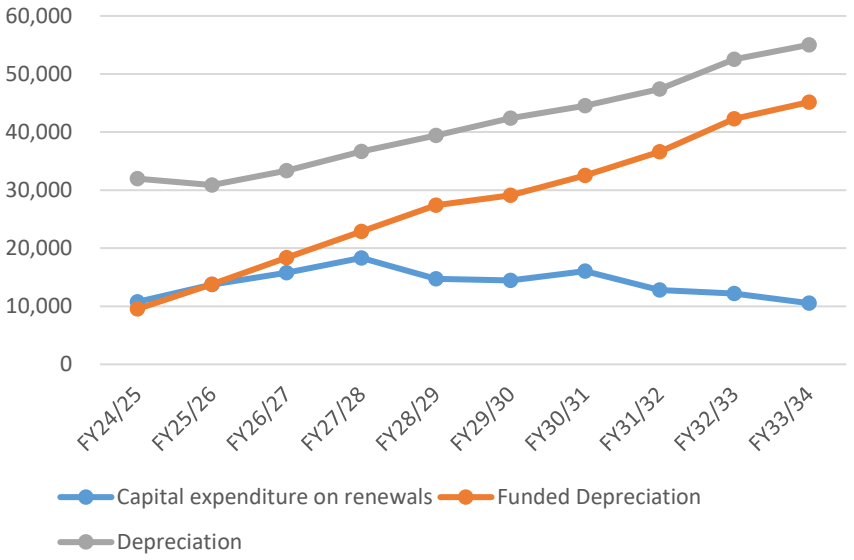
> *Maintaining levels of service:* We need to prevent a material deterioration in the quality and accessibility of our services.

> *Undertaking essential renewals:* Maintaining our existing assets will assist in ensuring there is no material degradation in our service offerings, resilience will improve, risks can be maintained at acceptable levels, and more expensive interventions are avoided in future.

> *Ensuring we're ready for the future:* We will continue planning to provide for projected growth; well-developed structure and master plans, asset management plans, and project designs will ensure we have a clear investment roadmap and scoped projects that can be progressed if funding becomes available.

Providing for growth was considered a more discretionary strategic investment priority which means projects that are primarily driven by growth do not enter the investment programme until year 3 (although many of the projects including in years one and two do also provide for growth). However, from year three there is significant investment in growth, with 60% of the investment programme over the ten years being growth related.

Asset Sustainability



Whether projected renewals investment is more or less than projected depreciation is an indicator as to whether the renewals programme is replacing network assets in line with the rate of asset deterioration.

QLDC's Finance Strategy sets out the agreed proportion of depreciation that will be funded and available to finance renewal projects and repay debt. QLDC will fund 47% of depreciation in 2025-2026, increasing this percentage to 67% by 2033-2034.

Funded depreciation exceeds the currently forecast renewals spend for water infrastructure which may indicate that renewals investment is not enough to replace network assets in line with asset deterioration.

Renewals investment will be reviewed in early 2025 using deterioration modelling to ensure that the level of renewals investment is appropriate. This will forecast the renewals budget using the condition of the assets, alongside the depreciation. If required, renewals investment will be increased through the next LTP.

ACTION

Average Remaining Useful Life of Network Assets

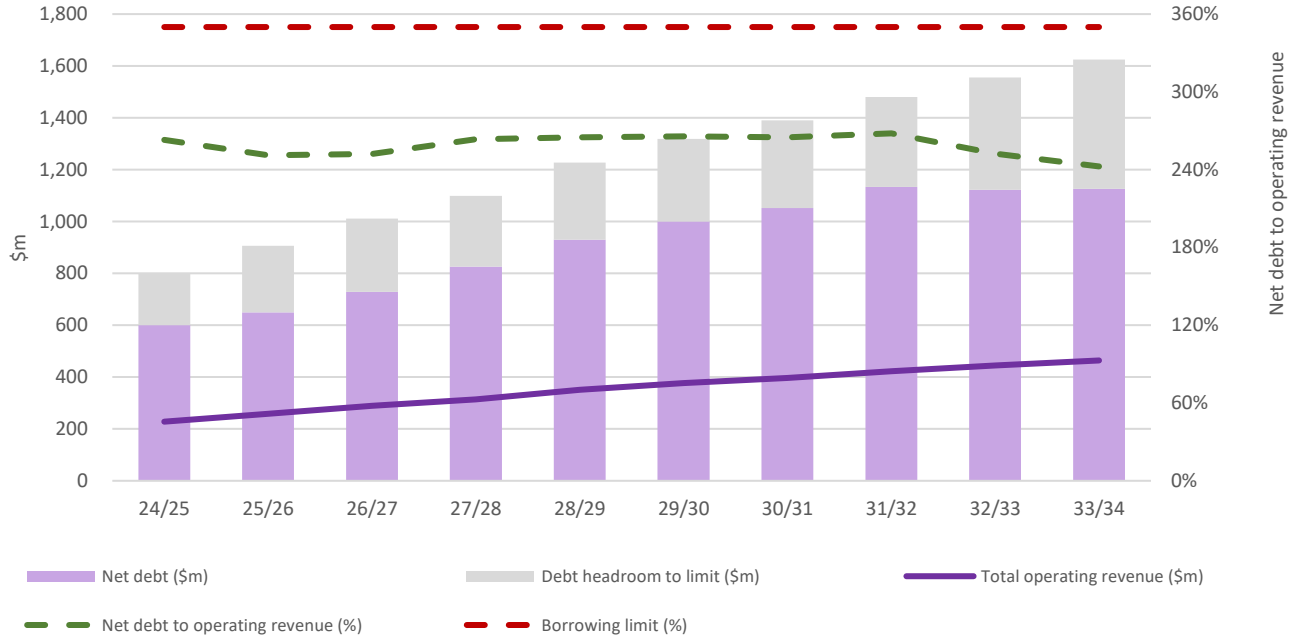
Asset Consumption Ratio ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Book value of infrastructure assets	1,522,969	1,635,376	1,772,868	1,941,741	2,120,947	2,327,087	2,500,152	2,680,383	2,827,221	2,988,787
Total estimated replacement value of infrastructure assets	2,164,826	2,322,025	2,509,677	2,733,611	2,971,461	3,240,944	3,480,206	3,731,372	3,954,980	4,197,955
Asset consumption ratio	70.4%	70.4%	70.6%	71.0%	71.4%	71.8%	71.8%	71.8%	71.5%	71.2%

The *asset consumption ratio* compares the book value of water infrastructure assets to total replacement value of water infrastructure assets. The ratio percentage represents the average remaining useful life of network assets. If this ratio materially reduces over time, then this means that the burden on future consumers to replace network assets is increasing.

The *asset consumption ratio* is remains around the same value throughout the period covered, demonstrating that replacement of network assets is being appropriately spread across current and future consumers.

Financing Sufficiency Assessment

Projected council net debt to operating revenue



Projected total council borrowings are within council borrowing limits

If water services are managed in-house, QLDC's overall lending capacity can be leveraged for water services borrowing. This is possible because non-water investments make up a significantly smaller proportion of borrowing than water investments and are individually lower value, have shorter useful lives and are quicker to pay off, making them easier to fund directly from rates rather than debt.

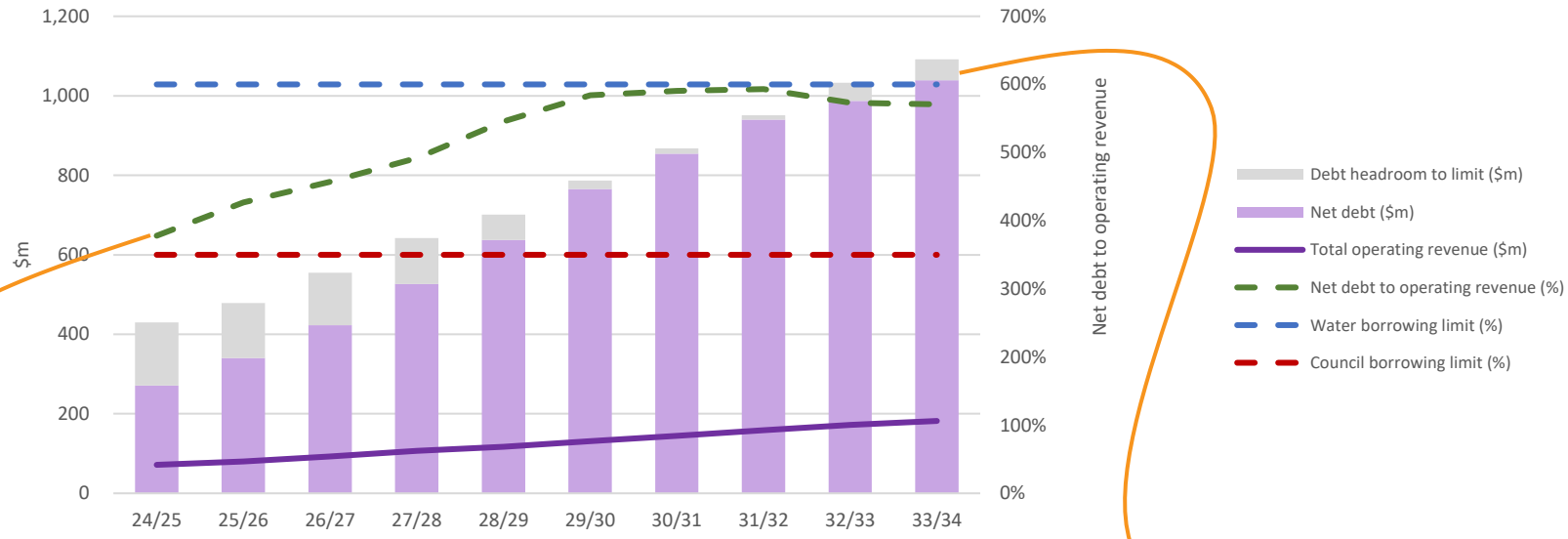
Borrowing required for water services can be sourced

ACTION

Analysis has assumed that a bespoke covenant is put in place with LFGA to raise QLDC's debt limit to 350%.

Borrowing required for projected water services investment would not result in QLDC debt limits being exceeded. This test is still met if QLDC's borrowing limit remains at 280%, but there is very little headroom in some years.

Projected water services net debt to operating revenue



ACTION

Water services borrowings are within the council-determined limit for water services (if limit set at 600%)

The *net debt to operating revenue* ratio compares projected borrowings to projected operating revenues. For the purposes of the Plan, operating revenues for water services includes capital revenues. Considering QLDC's significant investment in growth and its reliance on Development Contributions, this measure better indicates whether water services can cover its debt with the revenue it generates from water services. DIA has indicated that this is appropriate.

DIA recommends that all water services delivery arrangements have a specified borrowing limit for water services if delivered inhouse. This borrowing limit, and associated debt to revenue ratio, does not affect actual access to borrowing. If QLDC retains water services internally a notional debt limit will need to be set. The chart above has been modelled assuming 600%.

The *debt headroom to limit* identifies whether projected borrowings are within borrowing limits, as well as the ability to borrow for unforeseen events. A positive number equates to the additional borrowings that could be taken on without exceeding borrowing limits. A negative number means borrowings exceed the borrowing limit.

Projected net debt to operating revenue is within notional borrowing limit of 600%. Headroom is limited in the latter half of the investment programme. However, over the same period QLDC's headroom increases and, if necessary, the notional borrowing limit for water services could be exceeded without compromising QLDC's overall borrowing limit.

Free Funds From Operations

Free funds from operations ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Projected net debt attributed to water services	270,703	340,394	422,598	526,204	637,314	765,603	854,212	939,969	986,822	1,038,880
Projected free funds from operations – water services	3,551	8,947	16,222	25,172	33,651	40,053	46,971	54,773	63,552	70,884
Free funds from operations to net debt ratio	1.3%	2.6%	3.8%	4.8%	5.3%	5.2%	5.5%	5.8%	6.4%	6.8%

The *Free Funds from Operations* ratio measures the percentage of debt balance that is generated in free cash flow each year and is key leverage indicator for financiers.

LGFA is expected to use FFO to debt ratio to determine borrowing levels for separate Water Service Entities, rather than the traditional debt to revenue ratio. LGFA is expected to require separate water services entities to maintain an FFO to debt ratio of 8-10% . While this won't apply to LGFA borrowing for QLDC if waters services are managed internally, it is likely that DIA will consider this as a measure of financial sustainability.

DIA has indicated that FFO to debt ratios do not need to be at the same level for Council managed water services as for separate water service entities and that the levels above are likely to be appropriate for QLDC.

Section 2

Service Delivery Model Options

Service Delivery Model Options

QLDC are required by the Act to consider the relative benefits of retaining water services inhouse versus (at least) separating water services into a standalone water services entity.

Once a decision has been made about which future delivery model will be taken forward, we are required to consult with the community on the preferred option.

This section compares three options for future service delivery models by considering:

a) DIA's financial sustainability criteria, and

b) the strategic investment objectives agreed by the Mayoral Forum and used to assess the combined Otago Southland entity model.

OPTION 1: Retain water services within QLDC

Water services remain part of QLDC and are financially ringfenced.

Analysis in this report is based on whether a financially ringfenced, inhouse water service can deliver the 2024 LTP in a financially sustainable way.

OPTION 2: Standalone, single council water services entity

Water services are separated from QLDC into a standalone water services entity, established as a Council Controlled Organisation.

From a financial perspective, a separate Water Services Entity would look substantially the same as ring fenced services within QLDC. The major difference is that a standalone entity would not be able to leverage QLDC's wider borrowing capacity and would have to independently meet LGFA borrowing requirements.

OPTION 3: Combined Otago Southland water services entity

QLDC water services, along with water services from all other Councils across the Otago and Southland regions, are separated into a standalone water services entity, established as a Council Controlled Organisation.

Service Delivery Model Options Analysis

OPTION 1: Retain water services within QLDC

Based on preliminary assessment of the 2024 LTP, this option would be able to deliver financially sustainable water services.

- Revenue Sufficiency
- Investment Sufficiency
- Financing Sufficiency
- Strategic Objectives

? Do you agree that this is the preferred option based on analysis done to date?

OPTION 2: Standalone, single council water services entity

Based on preliminary assessment of the 2024 LTP, this option would only be able to delivery financially sustainable water services if rates revenue were increased by, on average, 40% per year above that required by a QLDC in-house model.

- Revenue Sufficiency
- Investment Sufficiency
- Financing Sufficiency
- Strategic Objectives

This option has not been fully explored as it is assumed that the significant rates increases mean it is not a viable option

OPTION 3: Combined Otago Southland water services entity

Based on analysis done by Morrison Low, on behalf of the seven Otago and Southland Councils, a combined water services entity would be able to deliver financially sustainable water services, with rates revenue requirements lower than a QLDC in-house model.

- Revenue Sufficiency
- Investment Sufficiency
- Financing Sufficiency
- Strategic Objectives

As other Councils have already opted out, this is not a realistic option. Further work for a sub-group is being considered

Analysis completed to date indicates that retaining water services in house is the preferred option. While there are household cost benefits of a combined entity there are also disbenefits, particularly in relation to ability for QLDC to ensure that the activities of the entity are aligned with other infrastructure, Spatial Plan outcomes as well as wider community expectations.

Revenue Sufficiency Assessment – Standalone, Single Council Water Services Entity

Projected revenues are sufficient to cover the costs of water services delivery

Projected revenues are sufficient to finance the required level of investment

To meet these requirements, a standalone entity would need to increase revenue above current projections by, on average, 40% per annum over the next ten years.

This means that while these two sustainability tests are met, in order to meet these tests, household charges become increasingly unaffordable.

Affordability

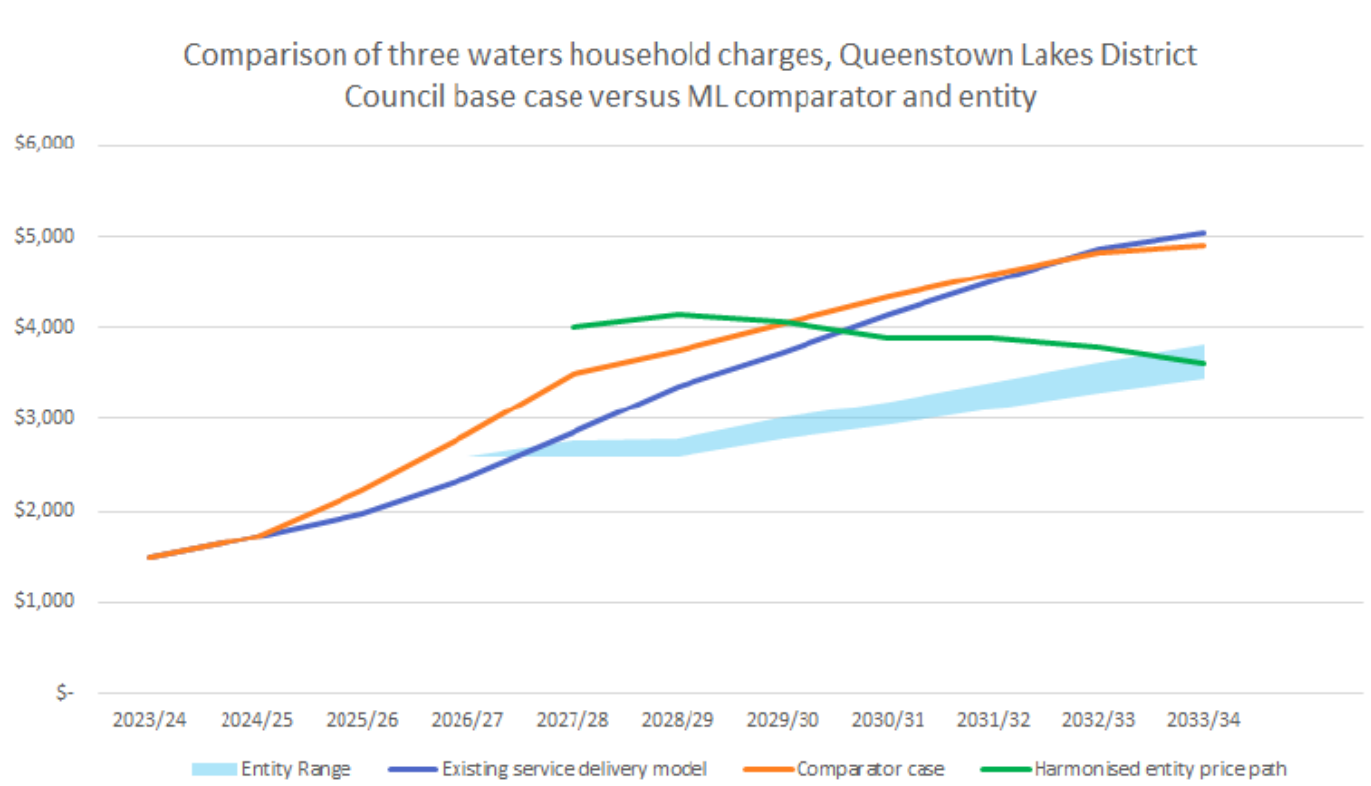
DIA has not provided a specific sufficiency measure that relates to "affordability" of water services for ratepayers, as this is not a feature of the Act. However, this is likely to be a feature of future economic regulation.

In the absence of an affordability measure QLDC has considered the average household charge for water alongside the average household charge for electricity to determine whether water charges are reasonable.

If overall revenue must increase by, on average, 40% over each of the next ten years, it has been estimated that household charges would also increase by this amount. The result is that by year 10 water charges as a percentage of average household income is 3.7% for a standalone entity compared to 2.7% for water services managed by QLDC, compared to 2.8% for current electricity charges.

Average water services charge per connection	FY23 /24	FY24 /25	FY25 /26	FY26 /27	FY27 /28	FY28 /29	FY29 /30	FY30 /31	FY31 /32	FY32 /33	FY33 /34
Standalone, single Council WSE	1.6%	1.8%	2.1%	2.5%	2.8%	3.1%	3.1%	3.3%	3.5%	3.7%	3.7%
Water services delivered by QLDC	1.0%	1.1%	1.3%	1.5%	1.8%	2.0%	2.2%	2.4%	2.5%	2.6%	2.7%

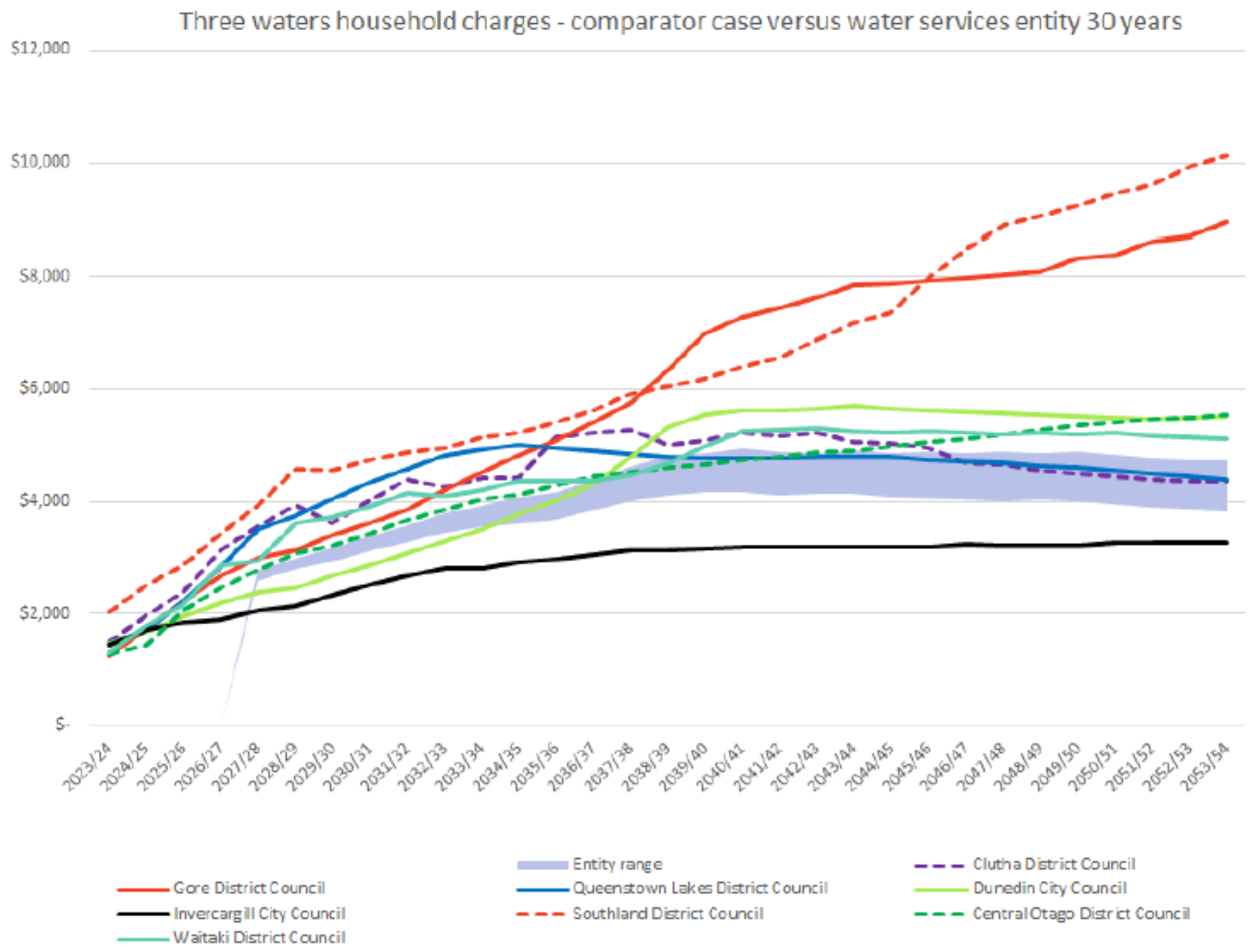
Revenue Sufficiency Assessment – Combined Otago Southland Water Service Entity



- **Projected revenues are sufficient to cover the costs of water services delivery**
- **Projected revenues are sufficient to finance the required level of investment**
- **Affordability**

The proposed combined entity has been designed to meet the required financial sustainability tests. The proposed combined entity results in lower household charges over the first ten years when compared to water services delivered by QLDC. However, projections indicate that the combined entity reaches the same household cost level as a QLDC managed entity by 2038.

The indicative savings to households compared to QLDC retaining water services in house is approximately $8,000 between 2026 and 2033, if prices were harmonised. If prices were not harmonised there would likely be very little difference in cost to households. In the scenario shown above where there is a path to harmonised prices the savings to households for QL over the period of the LTP is approximately $2,000.


Three waters household charges - comparator case versus water services entity 30 years
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
2034/35
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2036/37
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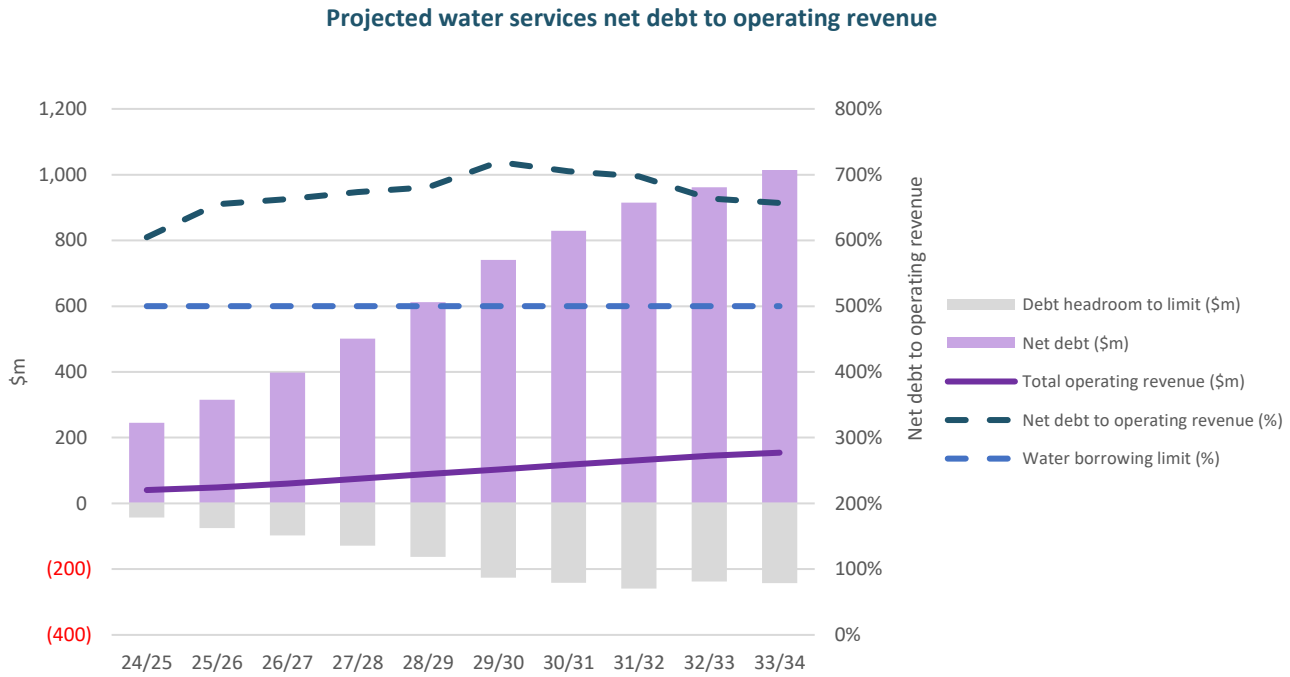
2038/39
2039/40
2040/41
2041/42
2042/43
2043/44
2044/45
2045/46
2046/47
2047/48
2048/49
2049/50
2050/51
2051/52
2052/53
2053/54
Entity range
Clutha District Council
Gore District Council
Queenstown Lakes District Council
Dunedin City Council
Invercargill City Council
Southland District Council
Central Otago District Council
Waitaki District Council

Financing Sufficiency Assessment – Separate Water Services Entity



Projected borrowings are NOT within the maximum LGFA borrowing limit of 500%

If water services were transferred to a standalone water services entity that entity would need to comply with the LGFA's borrowing limits for water service entities.

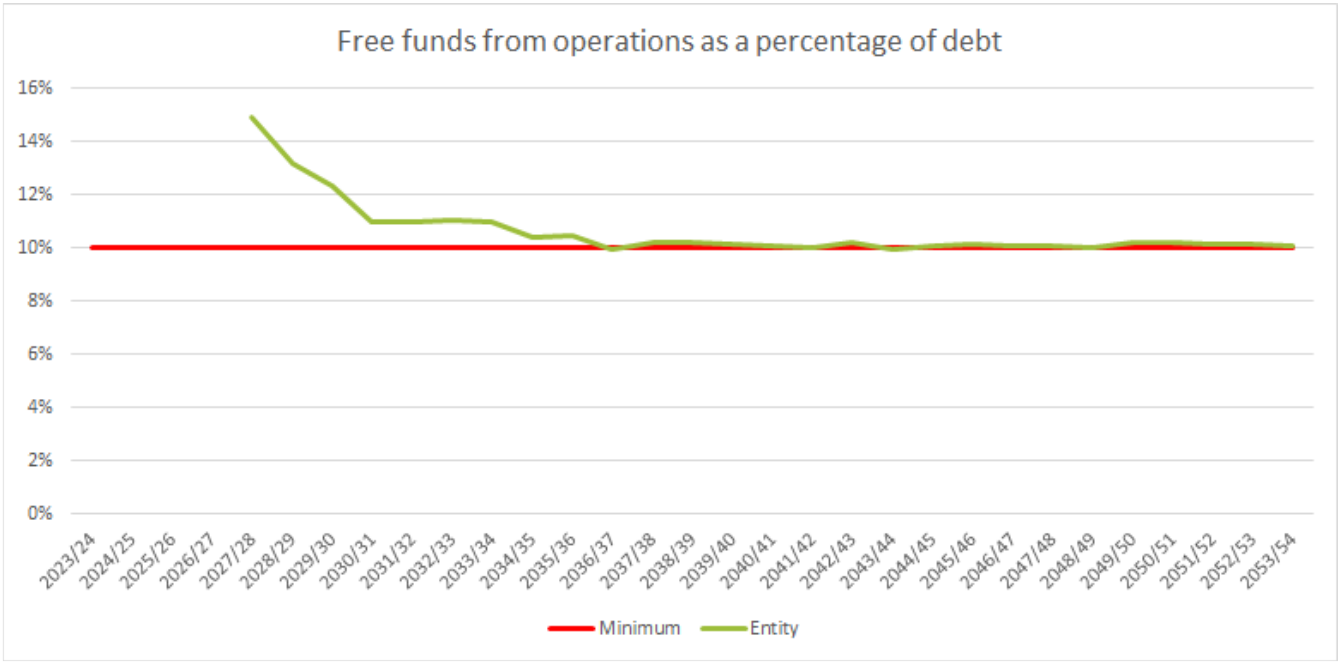
The entity would indicatively have a maximum borrowing limit of 500% and would not be able to include capital revenues in its debt to revenue ratio.

This means that to deliver the 2024 LTP water services investment programme, based on the currently projected rates, the projected *net debt to operating revenue* for separate entity would significantly exceed the 500% borrowing limit in every year.

This option would allow separation of three waters debt from other council debt, allowing QLDC to more freely access debt to fund investment in community facilities, roads or other activities.

QLDC would still need to consider overall cost to ratepayers when considering whether expenditure was increased under this model.

Financing Sufficiency Assessment – Combined Otago Southland Water Service Entity



Free Funds from Operations to Debt Ratio is within indicative expectations

LGFA is expected to use FFO to debt ratio to determine borrowing levels for Water Service Entities, rather than the traditional debt to revenue ratio. LGFA is expected to require water services entities to maintain an FFO to debt ratio of 8-10%.

The combined Otago Southland Water Services Entity that has been modelled by Morrison Low has been designed to ensure that FFO expectations are met. As such the FFO ratio remains at or above 10% throughout the period of the Plan.

Service Delivery Model Options – Benefits Analysis

The status quo assessment done by Morrison Low considered councils in aggregate, rather than individually. The status quo assessment in the following table has been updated from Morrison Low's assessment to reflect QLDC's specific circumstances.

The assessment for a single council water services entity has been done qualitatively by the group of responsible managers from across QLDC.

Significant effort has not been put into detailed assessment of the single council option due to the failure of this model to deliver sustainable water services without significant increases to projected rates.

The benefits analysis incorporates the sufficiency assessments outlined earlier in this section.

Supporting narrative is on the following page.

	Deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy	Deliver three waters services that sustainably respond to change in population, economic activity and climate change	Deliver three waters services through a model that is responsive to the local needs of our communities	Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	Ensure that three waters services are delivered through a model that is enduring and financially sustainable
OPTION1 QLDC in house					
OPTION 2 Single Council					
OPTION 3 Combined Otago Southland					

	Deliver three waters services in a way that reflects the importance of water to the health of our residents, visitors, environment and economy	Deliver three waters services that sustainably respond to change in population, economic activity and climate change	Deliver three waters services through a model that is responsive to the local needs of our communities	Provide efficient and effective services through a model that supports robust decision making and the development of enduring capability and capacity	Ensure that three waters services are delivered through a model that is enduring and financially sustainable
OPTION1 QLDC in house	Analysis of the 2024 LTP investment programme has confirmed that sufficient investment has been projected to ensure current and future regulatory compliance requirements are met.	The 2024 LTP provides significant growth infrastructure over the next decade within debt limits. QLDC is exploring alternative funding to reduce the burden on rates and debt.  Validating whether the 2024 LTP meets growth needs is currently underway.	Councils, governed by elected councillors, have strong community ties and make local decisions reflecting community needs, budget permitting.	Decision-making must balance community needs across various activities competing for limited resources. For QLDC this has resulted in water services being prioritized at the expense of other community infrastructure. Councils compete for key skills in the same job market but offer fewer career development opportunities compared to larger water entities.	 Analysis of the 2024 LTP completed to date indicates that QLDC can deliver financially sustainable inhouse water services. However, this is at a higher cost to the community than under a combined model.
OPTION 2 Single Council Water Services Entity	Would be managed by a professional board and team focused solely on delivering three waters services. It will have the necessary resources to make compliant investment decisions. With control over its funding (regulated economically), it can invest as needed.	Separation from councils' urban planning, economic development and climate / resilience activities would require more interaction to align objectives.	There would only be an indirect link between QLDC and the water services entity, however strong expectations could be set through the Statement of Intent.	Would be focused solely on delivering three waters services, without having to make trade offs. However, decisions could be made without considering other infratructure or spatial plan outcomes. Would lose the scale of being part of a larger organisation.	Based on preliminary assessment of the 2024 LTP, this option would only be able to deliver financially sustainable water services if rates revenue were increased by, on average, 40% per year above that required by a QLDC in-house model.
OPTION 3 Combined Otago Southland Water Services Entity	Would be managed by a professional board and team focused solely on delivering three waters services. It will have the necessary resources to make compliant investment decisions. With control over its funding (regulated economically), it can invest as needed.	Separation from councils' urban planning, strategic growth, infrastructure planning, economic development and resilience activities would require more interaction to align objectives.	There will only be an indirect link between councils and the water services entity, with limited ability for individual communities to have their views heard.	Decision making would be independent of decisions made by councils and competing priorities of communities. Would have scale and breadth of services to attract specialist skills and, as the single employer, would reduce competition. Would enhance network efficiencies, utilizing infrastructure across council boundaries. Would likely focus on compliance for the first few years, which would not work in QLDC's favor.	Would be able to deliver financially sustainable water services at the lowest future cost of three waters services for 84% of the population of the Otago and Southland regions in 2034 and beyond (including QLD).

Section 3

Next Steps – Indicative Timeline

Consultation requirements

There are specific consultation requirements in the Act relating to a decision on whether to establish or join a separate water services entity

> Council is not required to consult on the WSDP itself, only on the future service delivery model.

> Council is only required to undertake consultation on the service delivery model once.

> Council may decide to undertake further consultation before making the decision.

> These requirements apply despite anything to the contrary in the significance and engagement policy adopted under section 76AA of the LGA2002.

When undertaking consultation Council must make certain information publicly available

The proposal must include an analysis of the reasonably practicable options (including the proposal), which must:

> Outline how proceeding with the proposal is likely to affect rates, debt, and levels of service.

> Outline how not proceeding with the proposal is likely to affect rates, debt, and levels of service

> if the proposal involves establishing, joining, or amending a joint WSCCO or a joint local government arrangement, the implications for communities throughout the joint service area of the joint WSCCO or the joint local government arrangement

QLDC will consult on its proposed service delivery model in early 2025

Once analysis has been finalised and decisions made by Council about future service delivery models, QLDC will consult with the community on the proposed future option, and share the analysis of reasonably practicable options.

Indicative timeline for next steps

September 2024: Act passed and guidance provided to Councils by DIA

Sept – Dec 2024: Modelling and validation of 2024 LTP against sufficiency assessment criteria + modelling of single council and combined Otago Southland water services entities

December 2024: Council discussion of progress on financial sufficiency assessment and options for future service delivery model (this workshop)

March 2025: Council decision on future water services delivery model to consult on + finalised validation of 2024 LTP against financial sufficiency criteria

March – April 2025: Public consulation on future water services delivery model

May 2025: Council decision on future water service delivery model

August 2025: Internal audit to confirm compliance of WSDP to requirements of the Act

August 2025: CE to certify final WSDP

August 2025: Council to adopt final WSDP

September 2025: QLDC to submit certified WSDP to DIA