

# Assessment of viability and sustainability of water services delivery

## 1 INTRODUCTION

Anticipating future requirements to prepare a Water Services Delivery Plan, TCDC wished to understand whether it will be viable and sustainable for it to continue to deliver water services by itself into the future.

## 2 OVERVIEW OF WATER SERVICES

### 2.1. The council is responsible for:

Providing continuous supply of safe potable water that complies with New Zealand Drinking Water Quality Assurance Rules. **20,200** Serviced properties in 2022/23.

Providing wastewater treatment and disposal services to safeguard public health and the environment. **23,151** Wastewater connections in 2022/23.

Protecting people and property from the effects of flooding and the environment from stormwater contaminants. **25,028** Serviced properties in 2022/23.

### 2.2. The provision of services is underpinned by:

Drinking water treatment plants, intakes and reticulation assets. **\$240m** Estimated replacement cost.

Wastewater treatment plants, pumping stations, reticulation networks and disposal facilities. **\$445m** Estimated replacement cost.

Stormwater assets in nine major stormwater areas. **\$205m** Estimated replacement cost.

Water services operations are primarily managed by an inhouse Water Services team located within the council's Infrastructure Group. The team works closely with asset planning and finance staff in the Operations and Corporate Services Groups.

The council contracts operations and maintenance services to Veolia, with the current contract expiring on 31 March 2025.

Capital delivery is managed and overseen by the asset planning team, with capital works contracted out to engineering and civil construction contractors.

## 3 PLANNED INVESTMENT

The council plans to invest \$275 million in its three waters assets over the next 10 years.

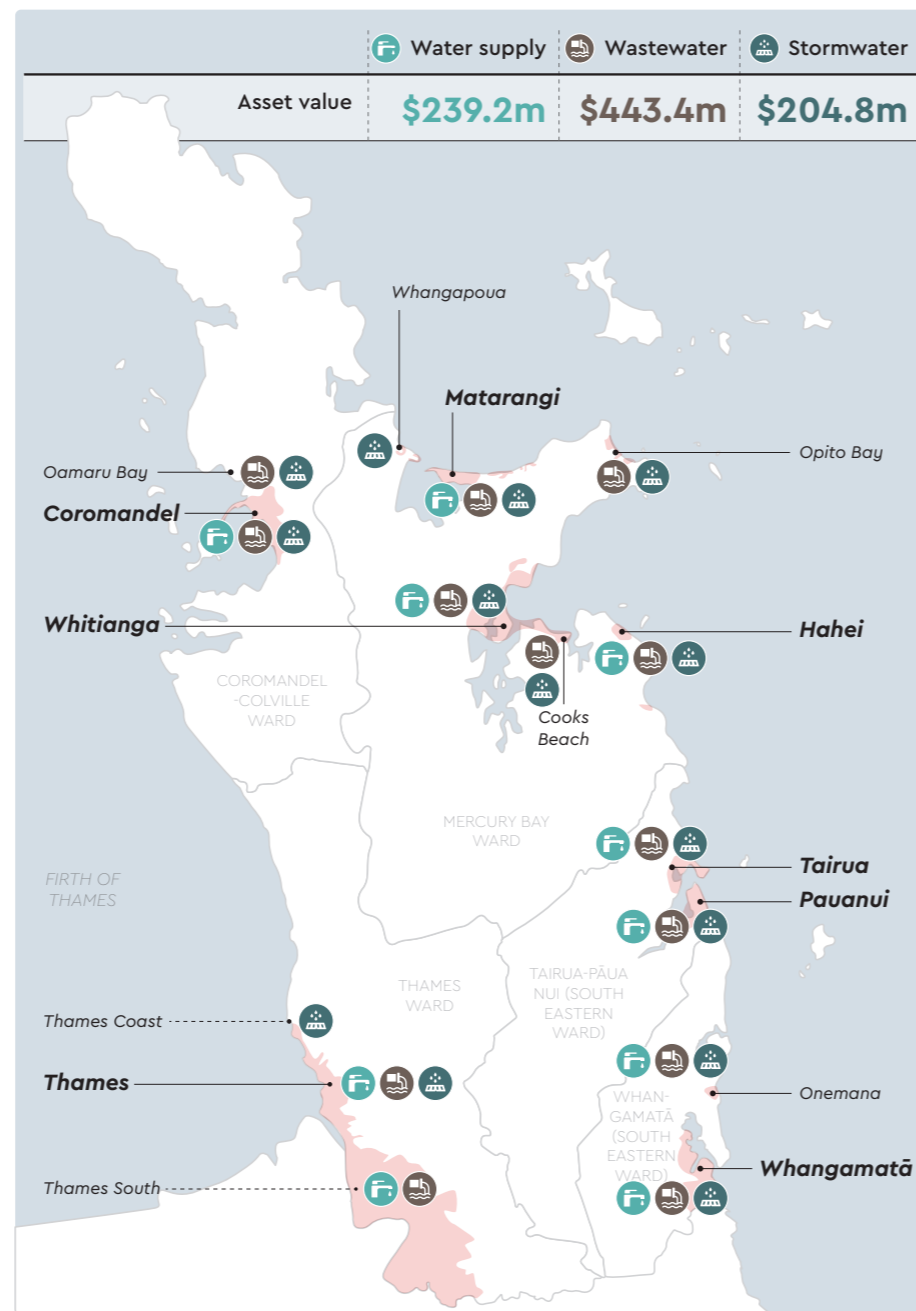
This represents a significant increase on the average level of investment over the past six years.

Annual average investment over last six years (in today's dollars) **\$14.5m**

Annual average investment planned over next 10 years (in today's dollars) **\$24.2m**

Map: Thames Coromandel District—existing council services

Key: Water supply Wastewater Stormwater Combined service area



Planned investment over the next 10 years:	Water supply	Wastewater	Stormwater
District-wide	\$55.0m	\$63.6m	\$24.5m

### What this planned investment looks like across key areas:

Thames Valley (south of Thames)	\$20.2m	\$0.5m	\$4.5m
Thames	\$4.7m	\$5.0m	\$16.1m
Thames Coast (north of Thames)	-	-	-
Coromandel	\$1.7m	-	-
Oamaru Bay	-	-	-
Whangapoua	-	-	-
Matarangi	\$1.9m	\$22.0m	\$3.2m
Opito Bay	-	-	-
Whitianga	\$10.6m	\$3.9m	\$3.0m
Cooks Beach	-	\$1.1m	\$1.9m
Hahei	-	\$3.3m	-
Tairua	-	-	-
Pāuanui	\$1.6m	\$2.1m	\$1.2m
Onemana	\$1.3m	-	-
Whangamatā	\$1.2m	\$2.5m	\$9.2m

## 4 PROGRESS OVER THE LAST THREE YEARS

- Establishing a well-resourced inhouse water services operations team.
- Improving real-time monitoring of water and wastewater treatment systems.
- Water treatment improvement programme.
- Continued development of asset management processes and practices.
- Detailed investigations into underground assets to help renewals planning.

## 5 FUTURE CHALLENGES

- Improving **asset data** information to prevent asset failure.
- Ageing assets**, in particular pipe networks in Thames and Coromandel.
- Complexity in planning due to unpredictable **natural events and hazards**.
- Contracted service **delivery issues**.
- Bow wave of **resource consents expiring** in next 10 years.
- Maintaining BAU while facing **changes in government policy**.
- Cost pressures** and affordability of future investment.
- Pressure to become more involved in **community supplies**.

# Long-term outlook

## 6 10-YEAR OUTLOOK

The cost of operating water services increased by 38% over the last three years, from \$29 million to \$41 million. Significant cost drivers included asset revaluations, which drive depreciation expense, operations and maintenance costs and interest costs.

The outlook is for operating costs to continue to increase by 5% per annum over the next ten years, reaching \$66 million by 2033/34. The O&M contract with Veolia is up for renewal in March 2025 and could lead to further cost increases.

The council plans to invest \$275 million in three waters assets over the next ten years. The capital profile is very lumpy, with a step change in investment planned over the FY27-31 period. Based on recent under-delivery of capital budgets, and internal and market capacity constraints, there is a high degree of uncertainty that the 10-year capital programme can be delivered.

The council has also under-invested in renewals in recent years and is forecasting this to continue despite an estimated renewals backlog of more than \$30 million. As a result, the average age of assets is expected to increase, leading to a higher risk of asset failure.

Revenues for water supply are expected to increase by 88% over the next ten years—from \$36.7 million to \$69.0 million. This represents a real increase of 54%, or 4.4% per annum above the rate of inflation.

The council's long-term plan financial projections is consistent with the expected future requirement for revenue sufficiency over the LTP period, provided that the provision for capital investment is sufficient to maintain assets, meet regulatory requirements, and provide for growth.

Figure 1. Actual vs. Planned Capex

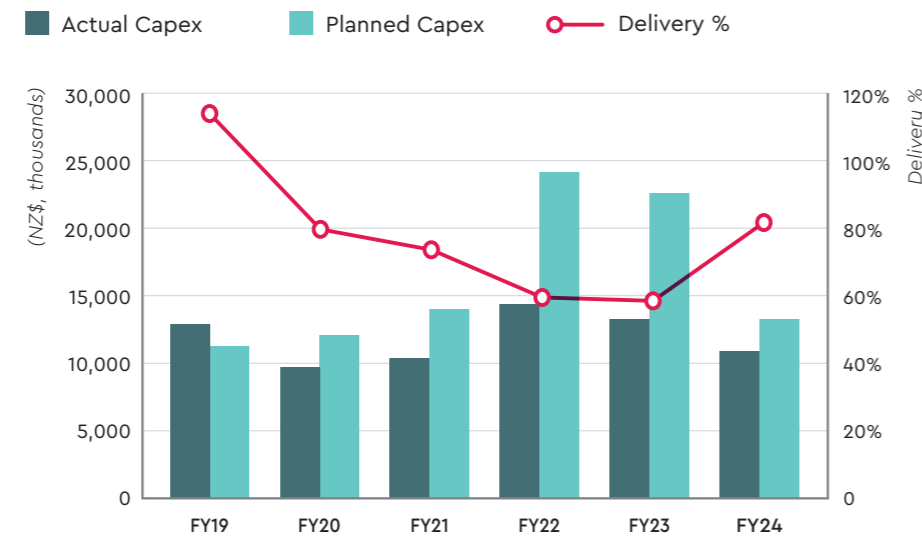


Figure 2. Three waters capex and depreciation

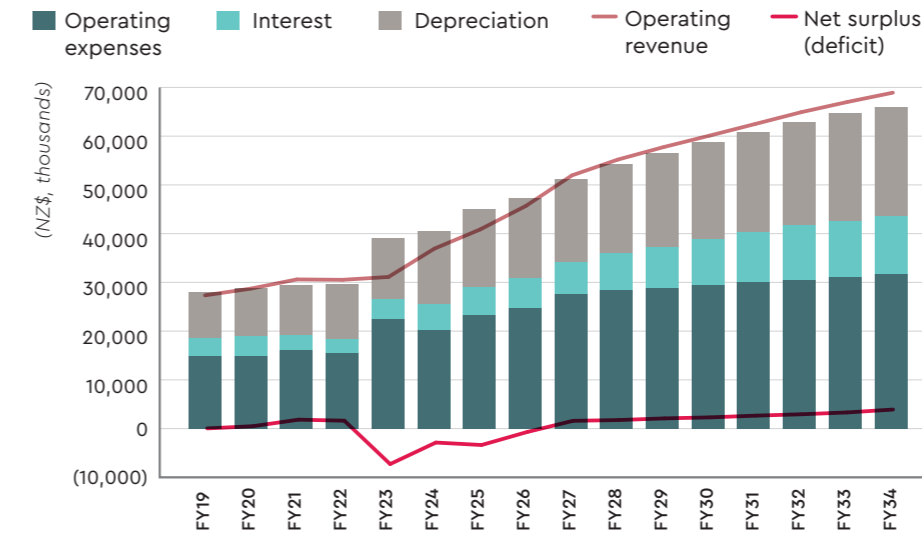


Figure 3. Three waters revenue and expenses

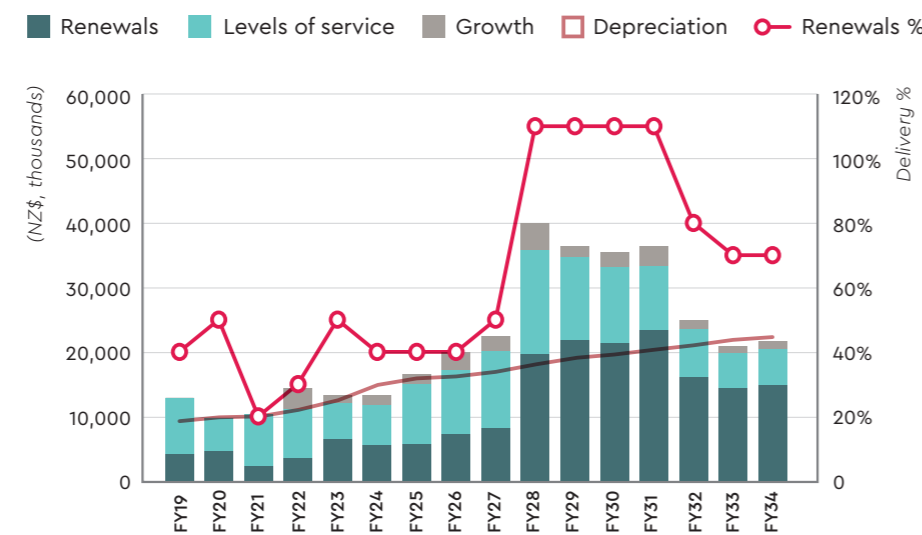
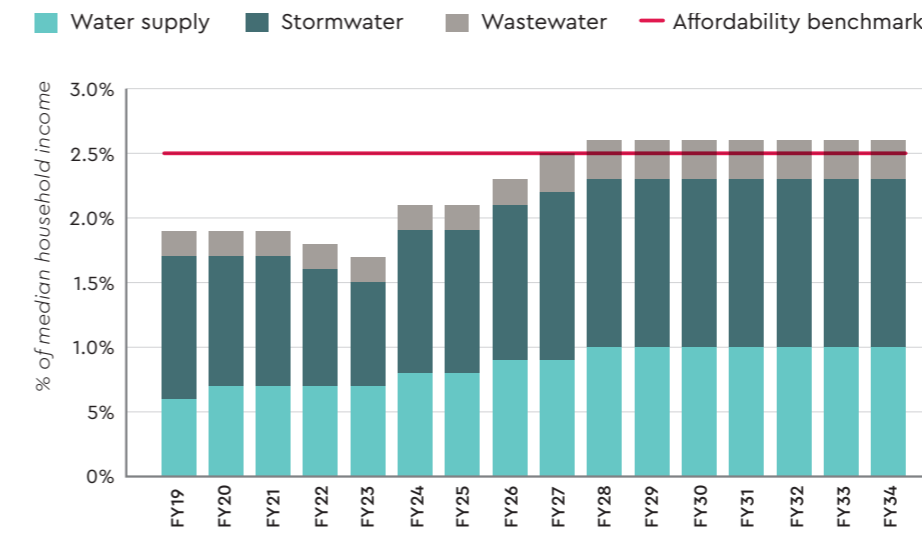


Figure 4. Water rates per connection (% of median household income)



### 6.1 Borrowing

Borrowing for water supply is expected to increase by \$93 million over the next ten years, to around \$200 million. At the same time, reserves are projected to increase by \$44 million.

The three waters debt trajectory over the LTP period appears sustainable on a standalone basis. However, this assumes reserves built up will be available for future water investment when required.

### 6.2 Affordability

Water charges per connection are projected to increase from \$1,600 in FY24 to around \$2,845 per connection by FY34.

This represents a real increase of 46% over ten years (3.4% p.a. above the annual rate of inflation).

Spending on water services is expected to increase from 2% to 2.7% of median household income by FY34. This is higher than a commonly used threshold for affordability (2.5% of median household income).

## 7 LONG-TERM PERSPECTIVE

Over the next 30 years, average water charges per connection are projected to continue to increase to around \$3,200 in current prices. This represents an increase of 82% in real terms (2.1% per annum above the rate of inflation).

Net borrowing for water services is projected to increase by a further \$130 million in real terms, from \$80 million to \$374 million. This represents an increase of 163% in real terms.

Net debt to revenue remains within a range of 1.9 to 2.7 over the 30-year period and is sustainable for water services on a standalone basis. However, borrowing for water infrastructure may begin to constrain council's financial flexibility over this period.

**There are risks that cause projected outcomes to become worse than anticipated, if:**

- Asset revaluations and capital price inflation increase at more than the rate of general inflation.
- Sea level rise and more frequent extreme weather events driving higher costs.
- Wastewater discharge requirements driving higher than planned capital cost.
- Council becomes more involved in small and rural community supplies.

If civil construction costs grow by 1% more than inflation, then average water charge per connection would increase to \$3,590 by FY54.

This would represent a more than doubling of water charges in real terms over the next 30 years.

# Summary of findings and recommendations

## 8 LOCAL WATER DONE WELL

The Government is progressively implementing its Local Water Done Well policy over the next 12–18 months.

Local Water Done Well will increase the compliance and reporting requirements on councils. This includes the need to comply with new planning and accountability requirements for council supplied water services and with economic regulation by the Commerce Commission.

## 9 WATER SERVICES DELIVERY PLANS

**Councils will be required to prepare and submit to the Government a Water Services Delivery Plan covering:**

Current state of water services network, including current levels of service, asset condition and lifespan, asset management approach being used, and any issues, constraints or risks impacting on water services delivery.

The water infrastructure needed to meet regulatory requirements and provide for future population growth.

The operational and capital expenditure required to deliver water services.

Financial projections including:

- Revenue required to delivery water services
- Projected operating and capital expenditure
- Projected borrowing to finance the delivery of water services.

The anticipated or proposed model for delivering water services, including what the local authority proposes to do to ensure water services will be financially sustainable.

Implementation plan setting out a commitment to give effect to the proposed delivery model or arrangements, including timeframes and milestones.

## 10 NEW RULES ARE COMING

Ring-fencing rules will require revenue from water services to be separated from the council's other activities, with the expectation that water services 'stand on their own two feet'

This requirement is expected to be accompanied by a requirement for local authorities to prepare a full set of financial statements for each water activity group.

Councils will also be required to demonstrate that their water services are financially sustainable. This means:

- A. The revenue collected for delivery of water services is sufficient to ensure the local authority's long-term investment in delivering water services.
- B. The local authority is financially able to meet all regulatory standards and requirements for the delivery of water services.

## 11 KEY QUESTIONS FOR COUNCIL TO CONSIDER IN ASSESSING VIABILITY AND SUSTAINABILITY

Is the projected revenue sufficient to cover the costs of water services delivery?

Is the projected level of investment sufficient to maintain assets, meet regulatory requirements and provide for growth?

Can the council raise the borrowing required to finance investment while remaining within prudent borrowing limits?

Does the council have the resources to operate water services sustainably?

Is the projected increase in water charges affordable for the community?

## 12 FINDINGS AND RECOMMENDATIONS

**12.1** Water services 10-year projections appear consistent with anticipated financial sustainability requirements, provided capital investment will meet regulatory requirements and provide for growth. This conclusion is preliminary as we have identified several areas that require further investigation.

As a result of this further work, adjustments to the Council's planned operating and capital expenditure projections may be required, and our preliminary conclusion may need to be reassessed.

**12.2** Over the longer-term, the Council will find it challenging to maintain sustainability of the existing service delivery arrangements due to identified risks and challenges.

If these risks manifest, this will place upward pressure on future investment requirements and the costs of service delivery, presenting increasing affordability challenges for the community.

**12.3** The Council should continue to explore a range of options for future services delivery.

**12.4** An initial strategic assessment of the benefits, costs and risks of the long-list of options should be undertaken as a first step towards narrowing the options down to a viable short-list.

**12.5** The council should **commence preparing work on its Water Services Delivery Plan taking into account the recommendations of this report.**

**Further work should be undertaken to:**

**1. Assess the adequacy of the renewals programme given the backlog,** particularly in the ageing Thames and Coromandel pipe networks.

**2. Confirm the investment programme is sufficient to meet regulatory requirements,** particularly given the number of expired and soon-to-expire resource consents.

**3. Assess the adequacy of internal resources required to deliver the 10-year capital programme,** given it represents a significant increase on recent investment levels.

**4. Review the provision for future O&M costs** given the existing contract expires in March 2025.

**5. Consider the additional costs** associated with future regulatory requirements.

**Identified risks and challenges:**

**Water supply compliance**  
The Council has made good progress upgrading water treatment plants, however further work is required to maintain 100% compliance.

**Environmental compliance**  
Council faces challenges to maintaining environmental compliance due to the number of consents expiring over the next 10 years. Renewal of resource consents could present a risk to future capital expenditure projections.

**Ageing assets**  
The Council faces a renewals backlog in parts of its networks. Maintaining renewals investment at an adequate level is important for mitigating risk of asset failure.

**Climate change**  
Sea level rise and increased frequency of high rainfall events will place pressure on urban stormwater networks and water infrastructure in low-lying areas.

**Small community supplies**  
Council may face pressure to become more involved in small community supplies.

**For example:**

**A.** Internal business unit within council (ring-fenced to comply with future LWDW requirements).

**B.** Internal business unit overseen by independent expert committee (enhanced status quo).

**C.** Shared services arrangements with neighbouring councils.

**D.** Sub-regional water services organisation.

**E.** Waikato region water services organisation.

**When considering future delivery options, the council should consider how to:**

**Maintain local voice and influence** over the strategy and planning for water services.

**Maintain integration** with council's land use and non-water infrastructure planning.

**Mitigate potential stranded costs** that could arise through structural separation.

**Ensure the council can continue to deliver non-water services** to the community sustainably and affordably.