Attachment D

Options Analysis

1. This attachment provides an overview of the options available to Council and is followed by an analysis of the options (excluding the Do Nothing option, which is essentially discounted). This analysis was prepared by Morrison Low.

Option A – Government's Proposal – Entity D and the new regulator, Taumata Arowai

2. Under this option, QLDC is in Entity D, a publicly owned water services entity that owns and operates three waters infrastructure on behalf of councils, mana whenua and communities.
3. The ownership and governance model is a bespoke model, with councils listed in legislation as owners, without shareholdings or financial interests, but with an advocacy role on behalf of their communities. Iwi/Māori rights and interests are also recognised and representatives of local government and mana whenua will sit on the Regional Representative Group, issue a Statement of Strategic and Performance Expectations and receive a Statement of Intent from the Water Services Entity. Entities must also consult on their strategic direction, investment plans and prices /charges.
4. The law currently prohibits Councils from deciding to opt-in to the current proposal, due to section 130 of the LGA, which prevents councils from divesting their ownership or interest in a water service except to another local government organisation such as a Council Controlled Organisation.
5. A summary of benefits, risks and issues with the Entity approach was set out in the Morrison Low impacts report as listed below
    - Alignment of the entity with the Ngāi Tahu Takiwā provides a greater ability to embed Te Ao Māori within the governance of three waters services.
    - A larger entity covering all, or most, of the South Island will allow for a greater degree of consistency of levels of service between districts.
    - However, with a larger service area comes a greater need to prioritise where investment occurs first.
    - Would have an enhanced ability to send strong market signals and long term, significant capital works programs that would provide contractors with sufficient certainty of work that they are able to scale up appropriately.
    - This option addresses the very real risk that the scale of investment required to meet new standards and community expectations is greater than council's have forecast (evidenced from WICS estimate forecasting also).

Option B - continued delivery of three waters services by QLDC under the new regulator, Taumata Arowai

6. This option represents a modified version of Council continuing to deliver services to reflect the anticipated regulatory environment for three waters delivery.
7. This option requires making assumptions about:
    - the future regulatory requirement (potentially using the assumptions underpinning the WICS modelling and the Government's proposal and draft/emerging standards and compliance regimes e.g. those coming from Taumata Arowai)
    - the ability of non-Council water supplies to meet standards and requirements and the subsequent risks to Council

    This option would ideally include the production of business cases for investment and enhanced activity and asset management planning (above and beyond what is currently produced) to be robust.

8. Council staff have assessed the ability to do this work in the current operating environment (delivering business as usual, stimulus projects, other Government reform workloads, consultant availability etc) and concluded that only a very high level of analysis of this option could be done in the available timeframe. As such, as to whether Council and the local three waters sector has the capacity to deliver an enhanced status quo option is not yet well understood.
9. Whilst the Morrison Low forecasting suggests that QLDC has the capacity to borrow sufficient funds to meet the required investment programme over the next 10-years, it is as yet unclear whether this remains the case beyond this point.
10. A summary of benefits, risks and issues with the Council service delivery approach was set out in a Morrison Low impacts report provided at Attachment E
11. Any changes to levels of service or material changes to the cost of service would require consultation and an LTP amendment (or consultation on those changes as part of the next LTP 2024-34 and potentially later ones).

Option C - combined delivery of three waters services by an Otago-Southland Three Waters Office, again subject to the new regulator, Taumata Arowai

1. A review has been undertaken by Morrison Low of an Otago Southland combined option. This is included in the "QLDC Post Impacts Report", attached at Appendix F.
2. Otago Southland would include the territorial authorities with Otago and Southland, and most likely would need to be the result of a voluntary process that would take place outside of the current government driven reform.
3. Previous work indicates that that a regional three waters entity covering the Otago and Southland region will breach both the LGFA lending covenant, and the debt to revenue covenants that would likely be imposed by the credit agency Moody's if the agency was to seek a Baa/Ba credit rating. This means that a regional water entity would have to rely on Government subsidies or higher user charges to be able to afford the current investment programme.
4. The challenges for an Otago Southland regional water entity to be able to borrow sufficient funds to meet the required investment programme is considered a major impediment to the viability of an Otago Southland three waters entity.
5. A summary of benefits, risks and issues with the Otago Southland approach was set out in the Morrison Low impacts report at Attachment F.
12. The development of a co-governance model will require Councils and Māori to participate in what may be a resource intensive process and this needs to be supported by external funding.
13. The relationship between water 'customers' and the service provider as an Otago Southland water entity would essentially become similar to an electricity company.
14. A regional water entity is able to provide improved asset management, improved management of risk and will be better placed to meet any increased compliance requirements or increased environmental standards than the Councils can individually.
15. Delivery of capital works will still be challenging with the regions needing to increase capital delivery by over 130% compared to the amount delivered in 2020.
16. Ability to form an Otago Southland entity is a significant risk (unless it emerges as the governments option) as Councils must opt out of reform, and then subsequently engage, commit, and fund a voluntary reform process without a suitable structure to do that.
17. By 2031 an Otago Southland three waters entity is forecast to have debt totalling $1.9 billion, or 465% of its annual revenue.

Option D - Do-nothing

18. Doing nothing is not an option and is not considered further. In essence, "Do Nothing' is Option B as this is the status quo along with the issues presented in the Morrison Low reporting.

Options analysis

For simplicity, the table below presents the analysis of the Options undertaken by Morrison Low in the QLDC Impacts report (full report included as Attachment E). Note this also includes an Otago Southland options that was considered previously and is retained for completeness.

	Council delivery model	Otago Southland	Government Proposal - Entity D
Governance	**Governance of three waters generally** Governance of three waters in Queenstown is provided by elected members through the Planning and Strategy, and Infrastructure committees and in the case of the Wānaka ward, through the Wānaka Community Board. **Embedding of Te Tiriti o Waitangi and Te Ao Māori** Governance of three waters service delivery at Queenstown Lakes District Council currently does not involve any formal participation from Iwi or local Rūnanga. There is no legislative restriction to enabling this at a later date. **Local representation** Water services are currently provided through a model with elected council representative and elected community boards. Residents of Queenstown Lakes can approach Council about any issues regarding the levels of service that they receive.	**Governance of three waters generally** Governance of three waters would be provided by a skills and merit-based board of directors who have a sole focus on the delivery of three waters services and subject to different liabilities than Councilors. **Embedding of Te Tiriti o Waitangi and Te Ao Māori** The model provides the opportunity to deliver on treaty principles and co-governance with Māori from the outset within a new purposely built framework reflecting Te Mana o te Wai. The development of a co-governance model will require Councils and Māori to participate in what may be a resource intensive process and this needs to be supported by external funding. **Local representation** A potential loss of community influence over priorities and service levels by removing governance from the democratically elected Council into a board of professional directors. The relationship between the water 'customers' and the service provider as an Otago Southland water entity would essentially be similar to an electricity company.	**Governance of three waters generally** Governance of three waters would be provided by a skills and merit-based board of directors who have a sole focus on the delivery of three waters services. **Embedding of Te Tiriti o Waitangi and Te Ao Māori** Alignment of the entity with the Ngāi Tahu Takiwā provides a greater ability to embed Te Ao Māori within the governance of three waters services. The costs to develop a fit for purpose co-governance model are unlikely to be significantly higher with a larger entity. **Local representation** This issue will likely be magnified if the entity was responsible for the entire Ngāi Tahu Takiwā, as QLDC would be a smaller part of a much larger entity. Again, if the entity was responsible for the entire Ngāi Tahu Takiwā this perception of a lost connection and of lost community assets would likely be greater.
Compliance and	**Regulatory compliance** QLDC's current levels of service for wastewater	**Regulatory compliance**	**Regulatory compliance** A larger entity covering all, or most, of the South

Levels of service	are typically good; with the majority of treated wastewater receiving tertiary level treatment and being discharged to land. However, none of QLDC's drinking water treatment plants currently meet the parasitic protozoa requirements of the Drinking Water Standards. Regulatory standards will increase in the near future, and in order to meet these standards in the future QLDC will need to make significant investments in its three waters assets. **Private schemes** QLDC is largely urban Council but has a number of disconnected and remote settlements that are not connected to a reticulated council drinking water network, and accordingly it may have a high level of risk of private supplies. Council is currently the supplier of last resort under the Water Services Bill. This means that Council may be obligated to ensure continued water supply if schemes fail. **Rural water schemes** We are not aware of any rural water schemes in QLDC.	A regional water entity is able to provide improved asset management, improved management of risk and will be better placed to meet any increased compliance requirements or increased environmental standards than the Councils can individually. It will allow for consistency between the levels of service provided to residents of neighbouring districts. An entity's financial, human, and contracting resources will still be limited and investment will need to be prioritised across its service area. **Private schemes** The transfer of responsibility for three waters services entity from Council reduces its future liability for and costs of addressing the private supplier risk. These risks remain but transfer to the entire region rather than being concentrated on just QLDC. **Rural water schemes** There is limited guidance about whether the government is proposing to transfer ownership of rural schemes to new entities or not, however from a risk perspective we would suggest that councils seek to also transfer such schemes. A new water entity will need to understand the nuances of providing water to such schemes however, including differences in charging regimes and potential price differentiation.	Island will allow for a greater degree of consistency of levels of service between districts. However with a larger service area comes a greater need to prioritise where investment occurs first. **Private schemes** The transfer of responsibility for three waters services entity from Council reduces its future liability for and costs of addressing the private supplier risk. These risks remain but transfer to the entire region rather than being concentrated on just QLDC. **Rural water schemes** There would be no substantial difference in the treatment of rural water schemes between a Ngāi Tahu Takiwā sized entity, a South Island entity, or indeed an Otago-Southland entity. The incidence of rural water schemes in the rest of the South Island is high enough that the schemes will require a similar level of attention in any entity model.
Infrastructure investment	**Scale** We have projected that QLDC will need to invest approximately $1.1 billion on three waters infrastructure over the next 10 years. **Delivery of capital works**	**Scale** Between $2.3 – 4.7 billion needs to be invested in three waters infrastructure in Otago and Southland over the next 10 years. Our modelling includes $3.9 billion.	**Scale** Between $8 – 9 billion needs to be invested in three waters infrastructure in the Ngāi Tahu Takiwā. **Delivery of capital works**

	QLDC delivered 51% of its capital works program in 2020.[1] The forecast capital expenditure over the next 10 years for QLDC would require annual capital works delivery that is almost three times the amount it was able to deliver in 2020. Capital works delivery may be harder if QLDC is competing with a large water entity for contractors. **Renewals** QLDC's planned investment in the renewal of its network is low when compared to annual depreciation. However, QLDC's network is relatively young with many assets not yet at the end of their useful lives. **Growth** Growth is a significant driver of investment in QLDC with plans to add over 9,000 new connections (an increase of 38%) in the next ten years. The level of growth in QLDC is such that it is a topic of national interest, and is the primary driver of investment, and a primary focus of general council efforts, within the Queenstown Lakes District. Council has control over the timing and location of its investment in growth infrastructure to attempt to facilitate or respond to growth when it occurs. District planning activities currently consider a range of factors to determine new areas for development, with infrastructure being only part of this equation.	**Delivery of capital works** Will still be challenging with the regions needing to increase capital delivery by over 130% compared to the amount delivered in 2020. However, an entity may have an improved ability to coordinate a long-term sustainable program of works which may enable the contractor market to confidently scale up its resources and may reduce inter-district competition for contracting resource. Any improvement in capital works delivery under an entity model will take some time to transpire. **Renewals** Planned renewals investment across Otago and Southland is substantially lower than our estimates indicate it should be based on age alone. However, differing age profiles across the two regions mean that there may be opportunities to smooth the renewals programme better at a regional level. **Growth** QLDC no longer has control over timing and location of investment in growth infrastructure. There will be a need to ensure that the foundation documents and governance structures retain an appropriate balance between the individual priorities of each council with regional priorities including planning and supporting growth. An entity may have different priorities or timeframes over growth investment in QLDC. District planning will require interface with a	Delivery is still likely to be challenging until such time as the labour market is able to respond. Would have an enhanced ability to send strong market signals and long term, significant capital works programs that would provide contractors with sufficient certainty of work that they are able to scale up appropriately. Any improvement in capital works delivery under an entity model will take some time to transpire. **Renewals** Planned renewals investment across the Ngāi Tahu Takiwā is about equal to our estimates based on age, however there are shortfalls and surpluses at district level. A Ngāi Tahu Takiwā sized entity would have a large enough renewals budget to address the needs of each district. **Growth** The challenges of coordinating and managing competing growth and investment priorities across a larger number of councils may be increased. However, the entity will also have increased capacity to be able to address these issues and challenges. An entity may have different priorities or timeframes over growth investment in QLDC. District planning will require interface with a three waters entity which may have different motivations when identifying new development areas.

[1] Note that delivery of the capital works programme in the 2020 financial year was impacted by Covid-19 restrictions

		three waters entity which may have different motivations when identifying new development areas.	
Financial assessment	**Debt and borrowing capacity** QLDC is forecast to have three waters debt exceeding $589 million and total Council debt exceeding $684 million by 2031. QLDC's additional borrowing capacity in 2024 (the estimated year of transition) would be $334 million. **Estimated household three waters charge** QLDC has an estimated household three waters charge in 2031 of $1,952 (or a 244% increase). Water and wastewater charges would equate to approximately 1.6% of median household income in 2031. **Financial resilience** The forecast investment required in three waters across in all Councils in Otago and Southland has grown significantly since the 2018 LTPs and with the increasing focus brought by three waters reform there is considerable risk that these costs will continue to change and increase further.	**Debt and borrowing capacity** Without three waters debt in 2024 (the presumed year of transition) Councils total borrowing would reduce from $439 million to $15.6 million and its additional borrowing capacity would increase to $514 million. A three waters entity for Otago and Southland would have over $1.9 billion of total debt and a debt to revenue ratio of 465% (which exceeds the limits for a Baa/Ba credit rating). This would result in a credit downgrade leading to increased costs of borrowing and possibly the need to prioritise investment between districts. A voluntary Otago-Southland entity would still have a balance sheet that is consolidated with its constituent councils without legislative change. **Estimated household three waters charge** A three waters entity would have an estimated three waters charge of $2,001 in 2031. Water and wastewater charges would equate to approximately 1.6% of median household income in 2031.C **Financial resilience** This option addresses the risk that the scale of investment required to meet new standards and community expectations is greater than forecast. A larger entity is better able to address the risk of future investment requirements being underestimated as it distributes costs over a	**Debt and borrowing capacity** Initial high-level estimates indicate a three waters entity covering the Ngāi Tahu Takiwā would have debt between $6 – 6.5 billion and would exceed the debt to revenue lending covenants that are required for a Baa/Ba credit rating. This would result in a credit downgrade leading to increased costs of borrowing. It will also likely require further prioritization of investment between districts. **Estimated household three waters charge** A three waters entity covering the Ngāi Tahu Takiwā would likely have an average three waters household charge between $1,700 and $1,900. **Financial resilience** This option addresses the risk that the scale of investment required to meet new standards and community expectations is greater than forecast. A larger entity is better able to address the risk of future investment requirements being underestimated as it distributes costs over a larger customer base.

		larger customer base.	
Capability and capacity	Queenstown Lakes District Council currently has 2 vacancies in its three waters group (10% of three waters roles). There is a shortage of specialist resources for three waters across New Zealand and internationally. As water reforms occur across New Zealand there is likely to be increased competition to attract and retain the specialist skills in water that are necessary to enhance delivery.	13% of all three waters roles are currently vacant in the Otago and Southland regions. A three waters entity would have sufficient scale to create strategic capacity and capability across the region and support the areas where that is currently lacking. Scale, strategic capacity and capability gives a level of expertise and resilience in three waters that can be applied regionally, benefitting all ratepayers of the region rather than only some. Greater depth in planning and programming is also expected to help deliver the increased capital programme required to implement change in three waters.	Increasing size and scale creates greater opportunities for staff and improves its capacity to train and develop expertise. Larger entities are also further insulated from ebbs and flows in the size of the workforce.
Risk	A number of the challenges highlighted with the current and emerging service delivery will be exacerbated. If QLDC "opts out", while other councils "opt in" to reform, QLDC is likely to be competing with a large water entity for contractors and internal resources and capability.	There are a significant number of unknowns with the government proposal including: – Entity design. – Council's roles as owner and governor. – Mechanisms to prioritise local investment. – Coordination of planning and investment. – Interfaces with stormwater and the extent to which stormwater assets and functions will be transferred. – Community input and role. – Allocation of liabilities, land ownership Without the critical mass of all councils there is a danger that the benefits of change will be substantially reduced or lost. That is particularly the case if the population centres of Dunedin, Invercargill and Queenstown were not involved.	There are a significant number of unknowns with the government proposal including: – Entity design. – Council's roles as owner and governor. – Mechanisms to prioritise local investment. – Coordination of planning and investment. – Interfaces with stormwater and the extent to which stormwater assets and functions will be transferred. – Community input and role. – Allocation of liabilities, land ownership. A larger entity would be more resilient to some councils opting out of the process. However, the absence of the population centres of Christchurch and Dunedin would still create some challenges.

		Ability to form an Otago Southland entity is a significant risk (unless it emerges as the governments option) as Councils must opt out of reform, and then subsequently engage, commit and fund a voluntary reform process without a suitable structure to do that.	In order to make an informed decision about the benefits or otherwise of opting into reform, it would be helpful to understand the likely position of each council, which will be more challenging with a larger proposed entity.
Impact of transition	There would be no transition, however Council may lose resources to new water entities or transitional bodies in areas where councils have opted into the reform process.	Uncertainty created by the potential change can and will affect existing staff. Attraction, recruitment and retention of key staff is a particular concern for the councils. As this option entails opting out of reform, it is likely that any transition costs (which are likely to be significant) will need to be met by councils.	The issues regarding transition do not differ for a larger water entity. Enforcement of standards during the transition period will need to be carefully managed by Taumata Arowai if councils have a reduced workforce due to staff accepting roles with transition entities. It is anticipated that any costs of transition would be funded by the Government.