

# An updated Economic Review

## Southern Water Done Well

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# Water services are changing

## Government requirement

**Needs to be financially sustainable and compliant with rising regulations – set above previous levels**

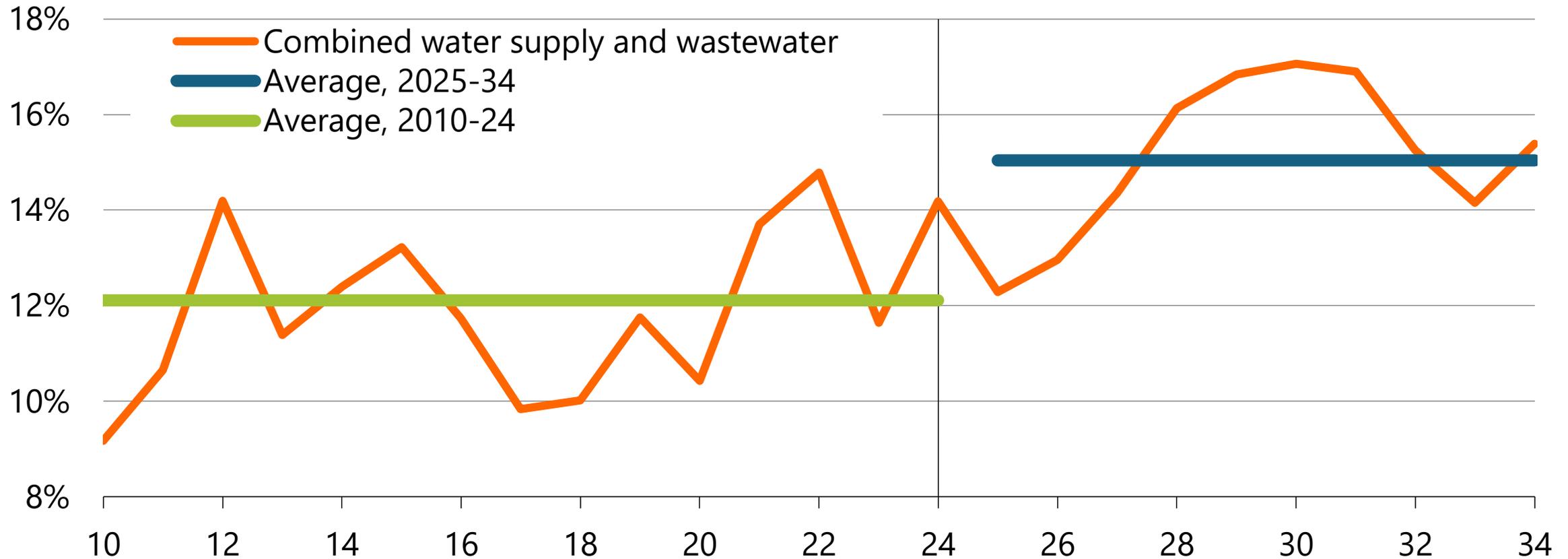
**Rates affordability is getting stretched**

**Costs are rising to deliver**

# Stronger water spending forecast

Water is becoming a larger part of the infrastructure task

Water infrastructure investment, % of total infrastructure investment



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- **Long term funding for a long term asset**

**Water assets are long-term assets – usually lasting 40-100 years.**

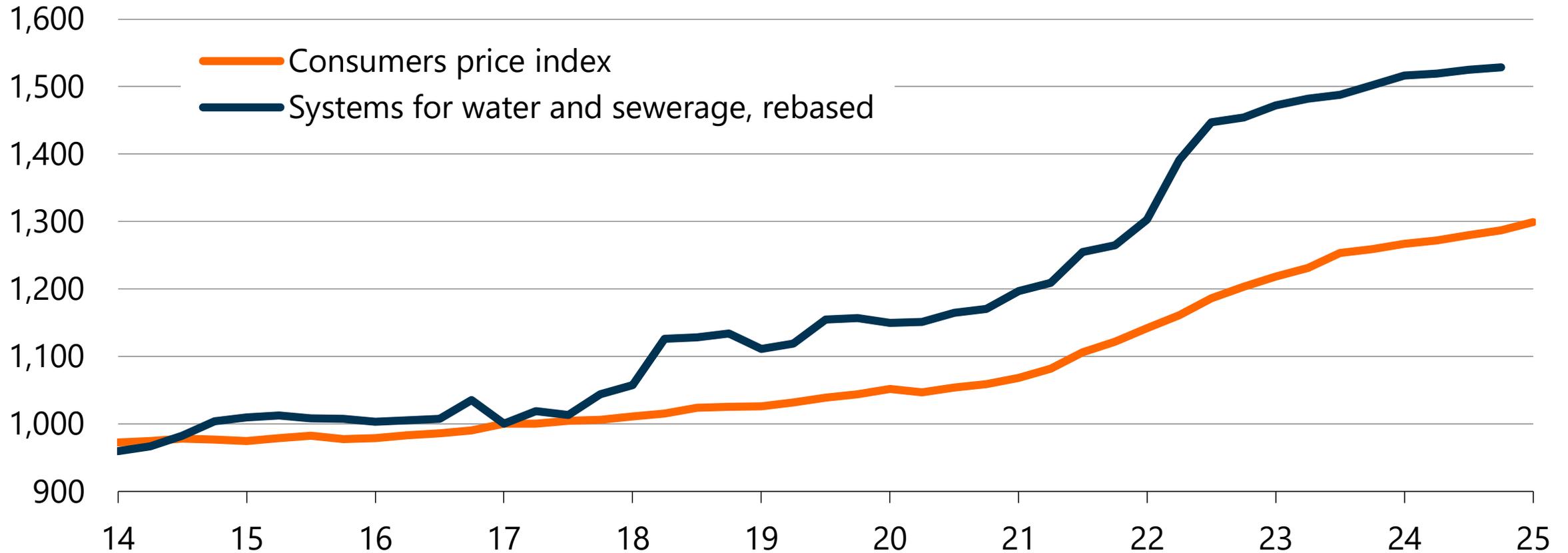
**For inter-generational equity, these assets should be funded over time by users, rather than paid up-front by current users**

**Debt-funding most appropriate, as it spreads the cost over time (and users over time)**

# Water investment costs rising faster than household costs

## Water infrastructure costs rise faster than household costs

Price indexes, re-based to Mar-17 = 1,000



## Costs

	<b>Consumers price index (CPI)</b>	<b>Systems for water and sewerage</b>
<b>Increase over 10 years</b>	<b>32%</b>	<b>52%</b>
<b>Annual average increase</b>	<b>2.8%</b>	<b>4.3%</b>

## **What's possible**

**Separate water entities enable greater borrowing capabilities – up to 500% of revenue**

**Higher than individual councils in-house**

**Spreads fixed costs, enabling lower per-household costs**

**Higher debt ceiling means more debt available from same revenue**

## Bargaining power

**The shrinking from four to three councils lessens the bargaining power able to be achieved, which will limit assumptions of efficiencies able to be achieved.**

**However, bargaining power together as a group of three (Central Otago, Clutha, and Gore) remains higher than standing independently.**

**The following table and graphs profile the implied relative bargaining power under the various groupings discussed over time.**

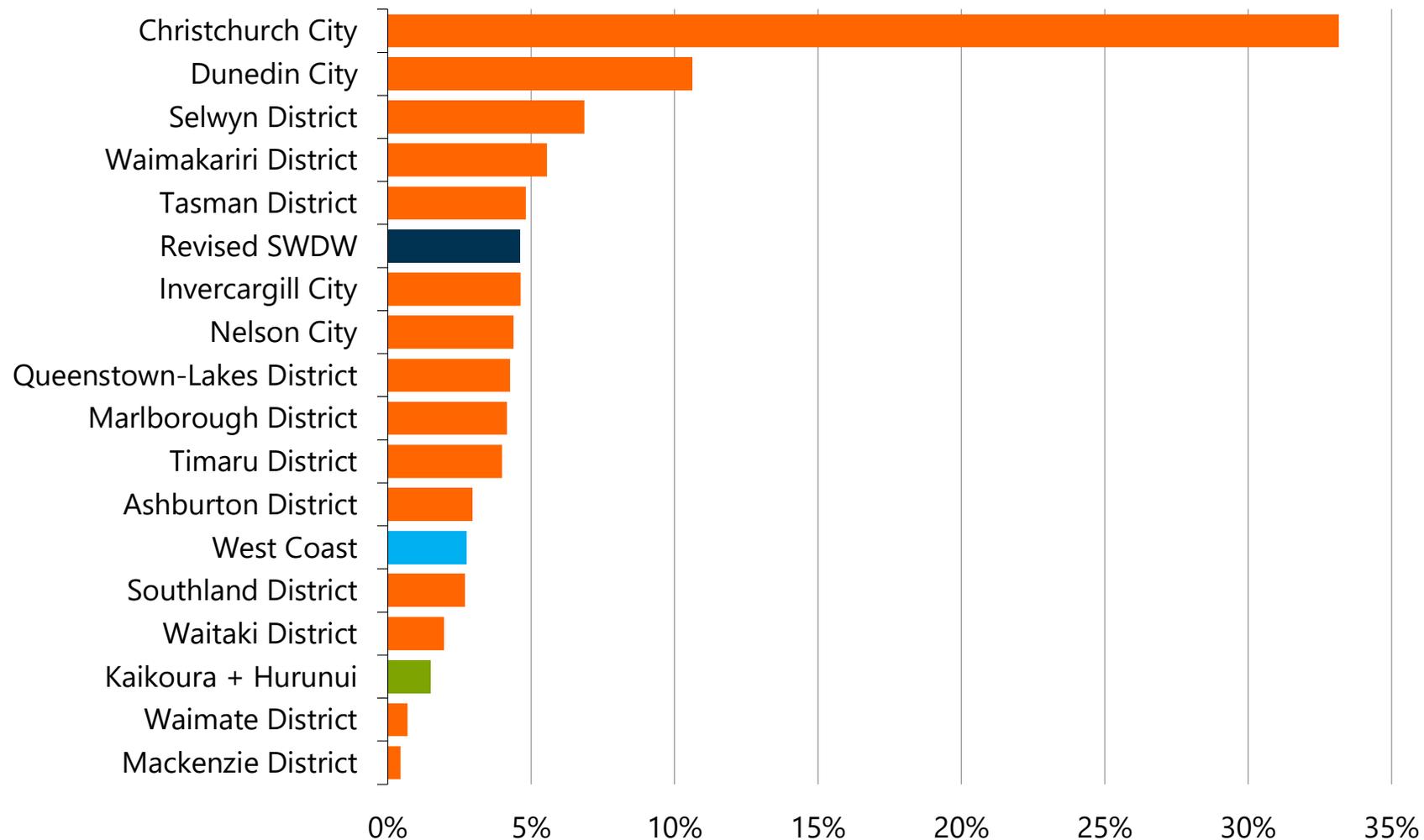
## Bargaining power

<b>2024</b>	<b>Revised SWDW</b>	<b>Original SWDW</b>	<b>SWDW + TDC &amp; MDC</b>
<b>Population</b>	<b>57.2k</b>	<b>81.5k</b>	<b>136.5k</b>
<b>% of SI Population</b>	<b>4.6%</b>	<b>6.6%</b>	<b>11.0%</b>

# Revised outcome for bargaining power

Revised SWDW still 6th largest for SI population, at 4.6%

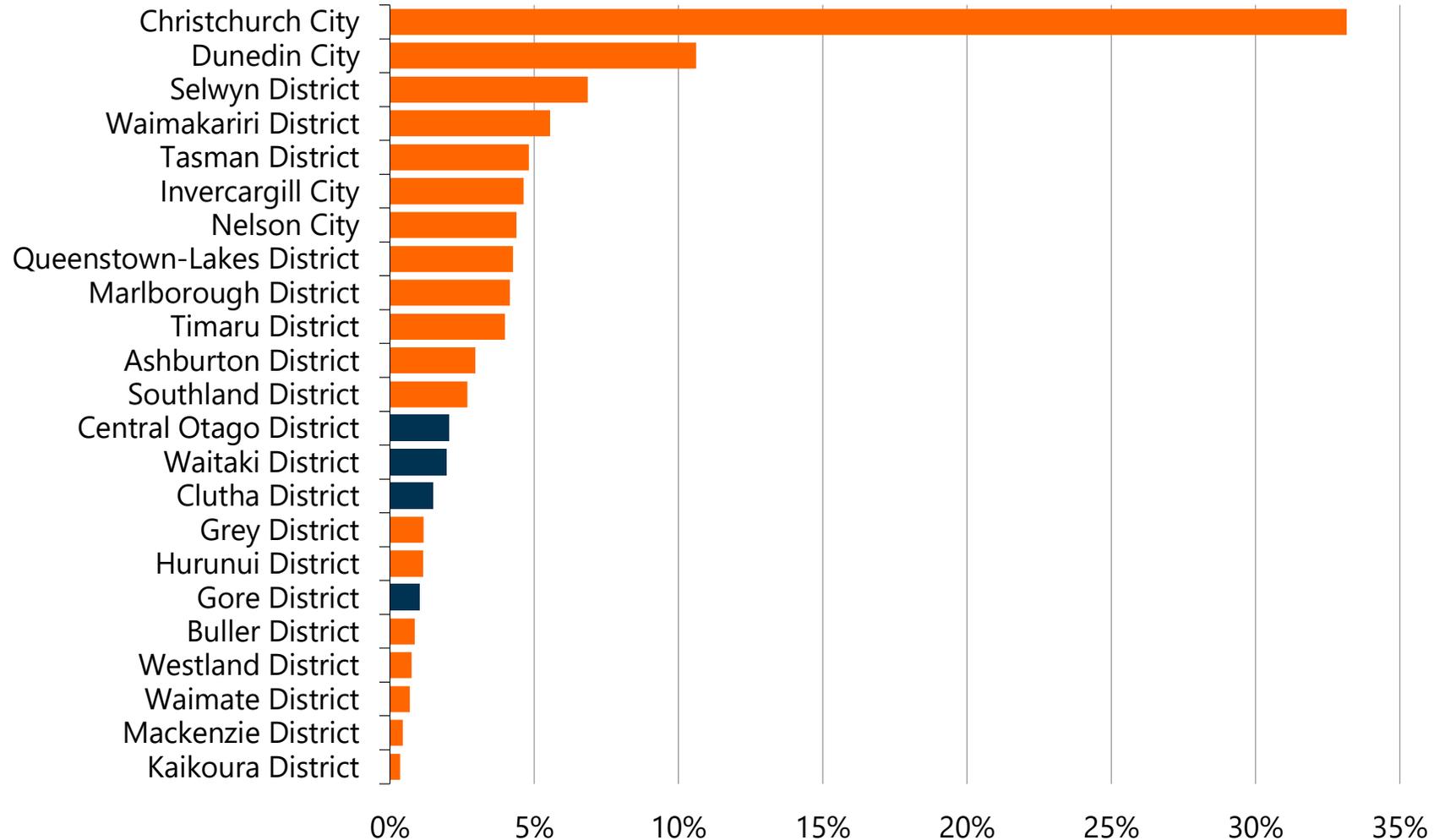
% of South Island population, potential proposed water groupings



# Current situation...

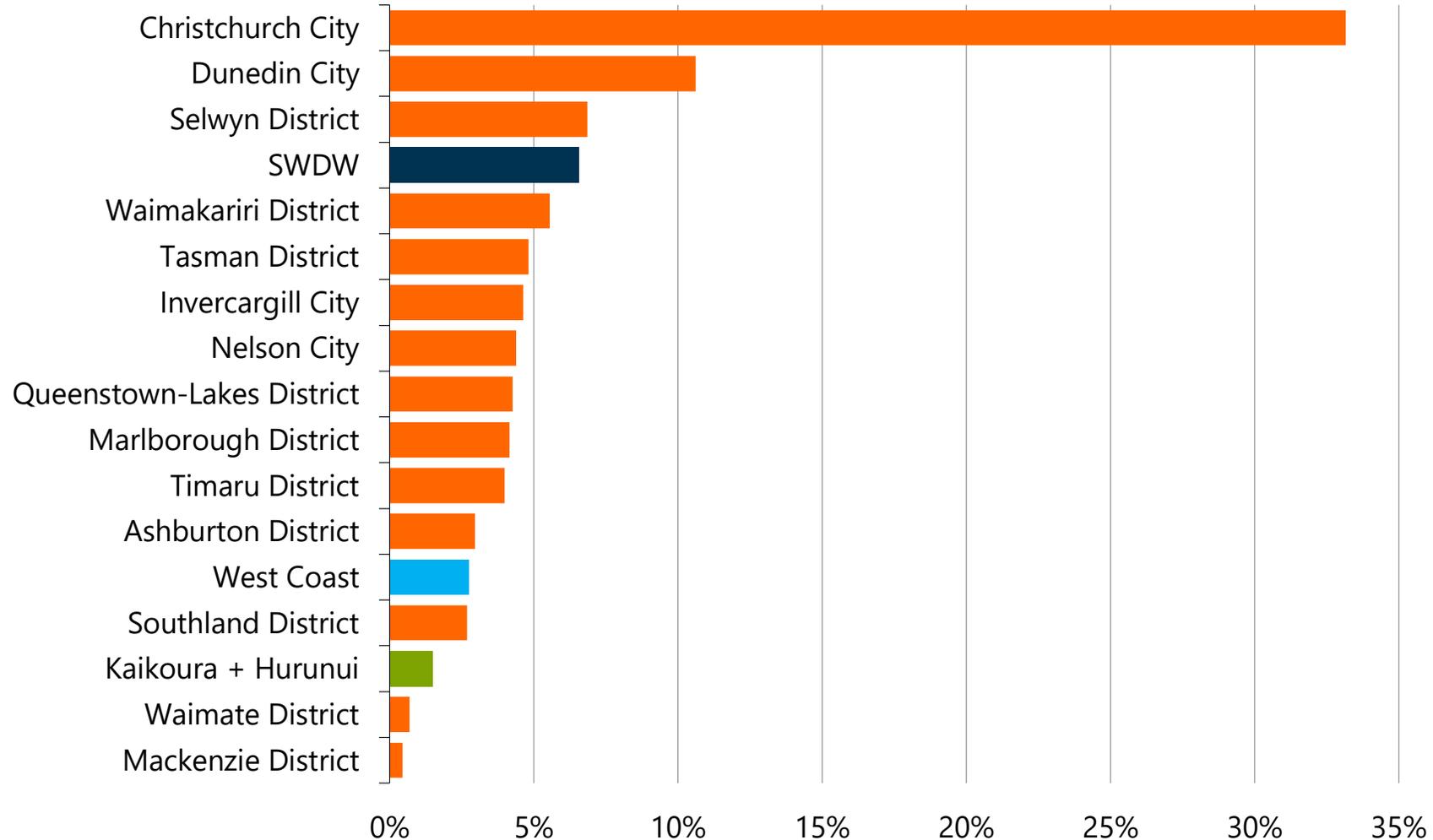
SWDW areas have 1-2% of SI pop each, 13<sup>th</sup> to 18<sup>th</sup> spots

% of South Island population



# Previously...

SWDW has 6.6% of South Island population, 4<sup>th</sup> largest % of South Island population, current proposed water groupings



## **Collaboration means**

- **Being big enough to attract the right staff – and enough of them**
- **Assets retained under community control, as a CCO, but have the scale to achieve better outcomes**
- **Costs spread over time (and households), lowering rates impact, and allows better use of and investment into assets**

## **Approach to revised SWDW remains sound**

**I have examined the revised Southern Water Done Well analysis, and it appears a reasonable approach to take.**

**Despite the smaller grouping, higher FFO requirement, and resulting lower efficiencies and savings, the revised SWDW joint CCO approach still delivers savings relative to other options over the long term.**

**The savings are smaller than before, and smaller in the early years of comparison, but become larger and more material over time.**

## **Approach to revised SWDW remains sound**

**We haven't undertaken a line-by-line model review, but have reviewed the prior and updated reports provided, by Morrison Low and others.**

**The assumptions appear reasonable and robust, and have been reduced to account for changes in the grouping.**

**Although some assumptions appear conservative, a conservative approach is reasonable, and the Southern WSE remains financially beneficial even under these conservative assumptions.**

## Approach to revised SWDW remains sound

**The Southern WSE remains the best of all options – with a standalone CCO often the worst option.**

**Although an IBU can appear viable under some conditions, over a longer period of time this approach still may not deliver viable outcomes, and savings are still achieved in the Southern WSE option.**

## Efficiencies adjusted for changes to SWDW

**Efficiencies have been scaled back considerably to account for a partial loss of scale.**

**Efficiencies for the revised SWDW now range from 6.3%-6.6% (capital and operating), compared to 11%-12% under the original SWDW (including Waitaki)**

**The smaller efficiencies are reasonable given the partial loss of scale – the drop in efficiencies assumed is larger than the drop in Waitaki’s scale, highlighting how much scale supports efficiencies being reached.**

## Efficiencies appear reasonable

**Assumes peak of efficiency takes 10 years**

**Isn't immediate – takes some time for operations to bed in**

**10 years sounds like a lot, but not over a 40 year asset**

**Efficiencies adjusted to not overly assume better outcomes in IT,  
insurance, etc**

## Assumptions

**Reasonable – borrowing rates based on 500% debt to operating revenue limit (for implied LGFA limits for a joint CCO approach)**

**+ FFO-to-debt rate of 9% for a joint CCO (up from 8% assumption in prior work – still a lower requirement than a 12% rate for a standalone CCO.**

**Better long term financial outcomes for Southern WSE are still able to be achieved under revised scenario.**