

# Southern Water Done Well

## Establishing a Southern Water Done Well CCO is necessary for financially sustainable water services delivery

21 July 2025

*This document has been prepared to provide information to Central Otago District Council, Clutha District Council, and Gore District Council on the merits of establishing a regional Water CCO. The Department of Internal Affairs has relied on information provided by councils and their advisors in the development of the analysis and guidance included in this report, including publicly available information from long-term plans and other council accountability documents.*

*This guidance is not legal advice; and is intended to support council decision-making requirements under Local Water Done Well.*

# Establishing a Southern Water Done Well CCO is necessary for financially sustainable water services delivery

- The establishment of a **Southern Water Done Well water CCO** comprising of the three councils' water services is **likely the only viable option** for delivering a Water Services Delivery Plan that meets the **legislated financial sustainability requirements** for both water services and councils, whilst **managing the affordability impact of required water services charges on household budgets**.
- Each of the three councils is **projecting substantial borrowing requirements for water services investment**, which will be **unsustainable on council balance sheets**.
- A professionally governed and operated Water CCO will:
  - Be subject to **economic and water quality regulation**;
  - Have **better funding and financing arrangements** than councils can secure themselves; and
  - Have **more capacity and capability** to deliver quality water services that meet consumers expectations.
- A larger entity with more connections **improves credit risk and regional diversification**, resulting in **more favourable financing terms** from the New Zealand Local Government Funding Agency.
- A larger entity also provides additional scale, which if managed effectively, will result in **lower costs of service, better procurement and investment decisions and delivery**, and **more efficient and affordable pricing** for consumers for the level of services received. **The Department estimates (conservatively) this will result in 15-19% lower water charges for consumers than in-house or single-council owned CCO models**.
- A **regional Water CCO will provide substantial benefits to consumers** over council in-house delivery or smaller single-council owned Water CCOs which may struggle to be financially viable over the longer term. These benefits are set out on slide 4.
- It will be critical for the three councils to consider water charges and rates bills in cumulative when making planning decisions, as the proposed level of water services investment will impact the affordability of total bills to ratepayers and water services consumers.

# A Regional CCO would deliver lower charges for consumers and reduce council borrowings

A **regional Water CCO** consisting of the three councils' water services will **result in lower charges for communities** than council in-house delivery of water services, or the establishment of individual council-owned Water CCOs.

- A regional Water CCO would have a lower free funds from operations to debt covenant for borrowings from the LGFA than single-council owned CCOs. We consider an appropriate FFO covenant for a regional CCO would be 9% as opposed to 12%. This results in savings for consumers of 3.5% - 10% across the three councils, through more efficient financing arrangements.
- Establishing a **larger regional CCO would benefit from scale**, leading to lower operating costs on a per connection basis. The Department of Internal Affairs' view is that conservatively, a **regional water CCO could deliver water services at a minimum 20% lower operating cost base** than individual council delivery. Should this minimum scale of operating cost reduction be achieved, this would provide a further 9% - 12% savings to consumers.
- In total, a **regional Water CCO can deliver the same level of services for 15 – 19% cheaper** than other delivery options. It also **enables the three councils to cumulatively offload up to \$432 million in water services borrowings to the Water CCO** (being the peak projected water debt over ten years), significantly improving council balance sheets and financial sustainability.

Council	Debt financing savings (FFO 12% v 9%)	Operating savings (regional CCO 20% opex)	Total savings % (regional CCO v single council)	Peak water debt off council books \$m	Peak water debt to revenue in baseline data provided to DIA	Council borrowing limit
Clutha	3.5%	12.2%	<b>15.6%</b>	\$105m	552%	280%
Central Otago	9.9%	9.1%	<b>19.0%</b>	\$237m	499%	280%
Gore	6.8%	9.1%	<b>15.9%</b>	\$90m	466%	175%

Note: Clutha District Council's water services opex remains significantly above the national average and that of the other two Southern councils. Should opex levels be driven down to the weighted average of the other two councils under a regional CCO this would increase opex savings from 12% of charges to up to 26% of charges for Clutha residents.

# Benefits from establishing a Regional Water CCO

There are **substantial benefits to councils, ratepayers and communities from the establishment of a Southern regional Water CCO**, comprising of the three councils water services.

- A regional regional Water CCO could deliver water services at **lower cost to consumers** than can be achieved by individual councils.
- A regional Water CCO can **access more debt financing** than councils through LGFA. This enables an **immediate uplift in access to funding**, enables the **costs of assets to be spread over their useful lives** (through debt financing new assets), and providing **additional cash reserves and flexibility**.
- A **regional Water CCO could meet expected borrowing covenants** as signalled by LGFA, and access debt financing on improved terms against status quo council borrowing arrangements.
- A regional Water CCO would **ensure financially sustainable water services provision** to consumers, provide resilience, and enable uplifts in water services infrastructure investment over time.
- A regional Water CCO, with improved access to debt financing, enables the **adoption of fit-for-purpose investment, asset management and financing strategies** for water services delivery, which will be more efficient than council in-house delivery.
- Separating water services delivery into a separate organisation will **ensure compliance with ringfencing, financial sustainability and other financial principle requirements** under Local Water Done Well.
- A regional Water CCO would be the regulated party for water quality regulation and economic regulation. **By establishing a water CCO, councils become beneficiaries of the regulatory regime**.
- Establishing a water CCO enables the refinancing of water services borrowings off council balance sheets, resulting in a **material improvement in the financial sustainability and resilience of councils**. This **creates substantial borrowing headroom for councils**, which can **allow general rates to be reduced**.

# **Annexes**

**Observations on council-provided water  
services financials**

# Observations and recommendations: Central Otago District Council

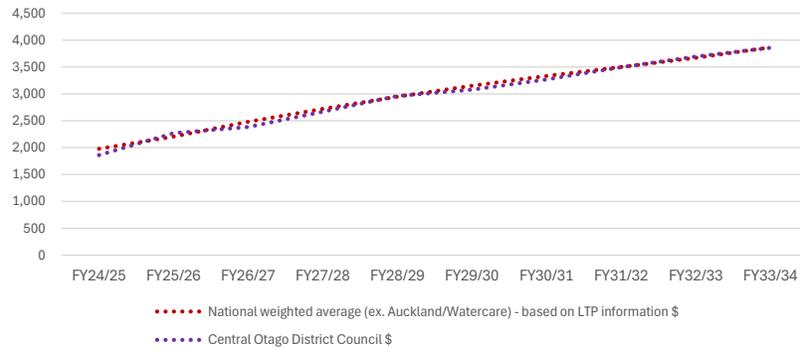
## Observations on financial projections provided to the Department:

- The projected charges and revenues included in the modelling provided to the Department are insufficient to meet the financial sustainability requirements for Water Services Delivery Plans, as they funds from operations to debt ratio drops significantly below the acceptable range.
- Central Otago District Council's projected operating expenses are projected to increase at a substantially higher rate than the national average. This when combined with an ambitious capital programme, and high borrowings required to deliver this projected capital expenditure, results in projected charges that exceed the Department's affordability benchmarks.
- Central Otago District Council's water services debt is projected to reach \$237m, with a debt to revenue of 500% for water services (against the council's borrowing limit of 280%). Establishing a water CCO would enable this debt to be refinanced off council books and picked up by the Water CCO.

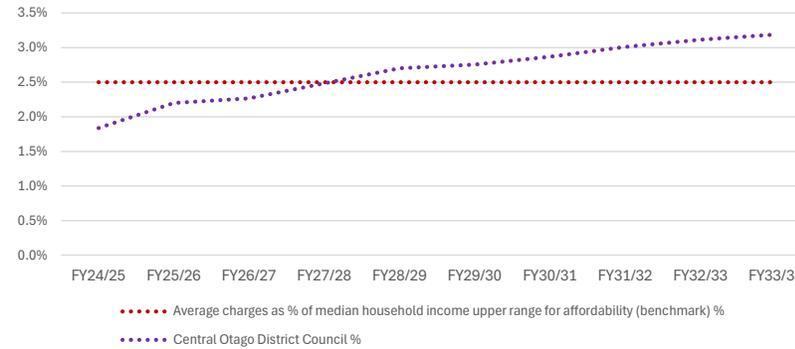
## Recommendations / suggested next steps:

- Central Otago District Council's commitment to establishing a regional Water CCO is critical to ensuring the council's financial viability. Establishing a water CCO would significantly improve the council's balance sheet.
- Modelling for a regional Water CCO should assume a minimum 20% reduction to projected opex, as a larger water-specific entity will be able to deliver services at lower cost (through improved ways of working, removal of duplicated overheads, and more efficient delivery).
- After updating operating expenditure projections, charges and revenues should be reset to maintain a minimum 'FFO to debt' of 9%. If this still results in charges above the affordability benchmark then consideration should be given to investigate whether the capital programme is appropriately scaled, or whether prioritisation or rephasing could improve the affordability of charges and financial sustainability of water services.

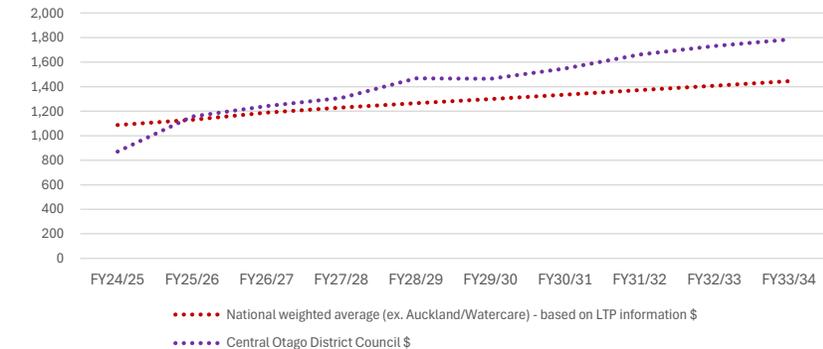
Average water services bill per connection (incl GST)



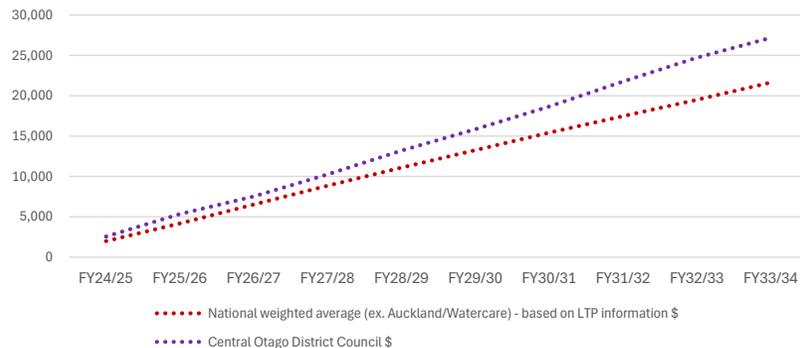
Average charges as a % of median household income



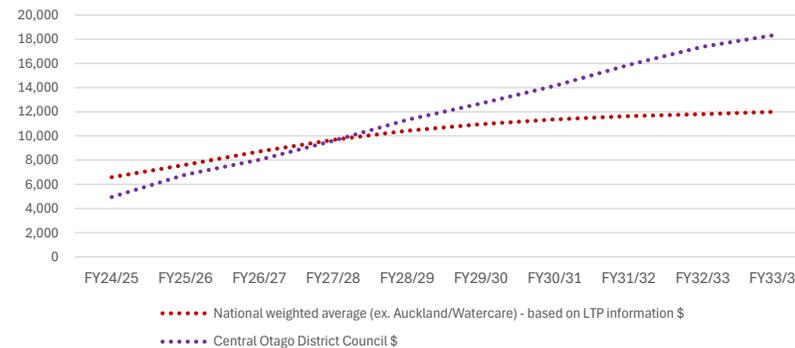
Operating expenses per connection (excluding interest, depn)



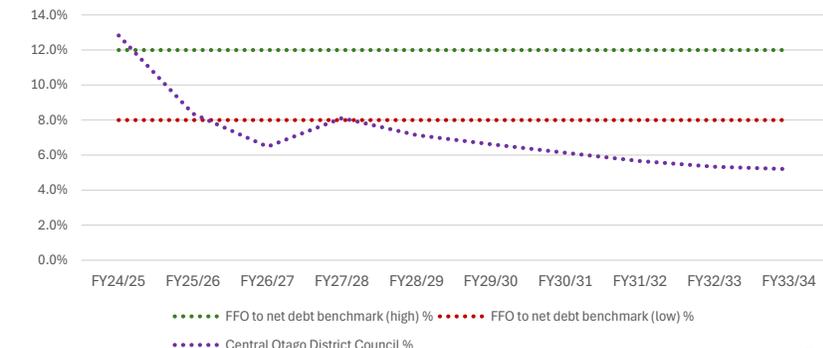
Cumulative investment per connection



Net debt per connection



Funds from operations to net debt (DW & WW)



# Observations and recommendations: Clutha District Council

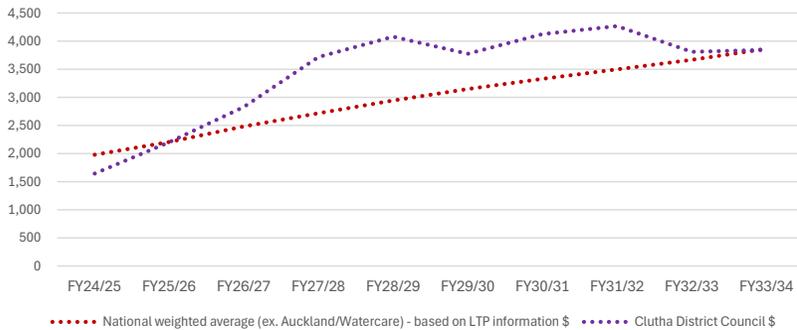
## Observations on financial projections provided to the Department:

- Clutha District Council’s projected charges on a per connection basis for residential consumers significantly exceed the national average (excl Watercare) and the Department’s affordability benchmarks.
- This is primarily due projected operating expenses being more than double the national average over the ten year projected period. Clutha District Council’s per connection opex is the highest of any council in the country.
- Clutha District Council’s water services debt is projected to reach \$105m, with a debt to revenue of 552% for water services (against the council’s borrowing limit of 280%). Establishing a water CCO would enable this debt to be refinanced off council books and picked up by the Water CCO.

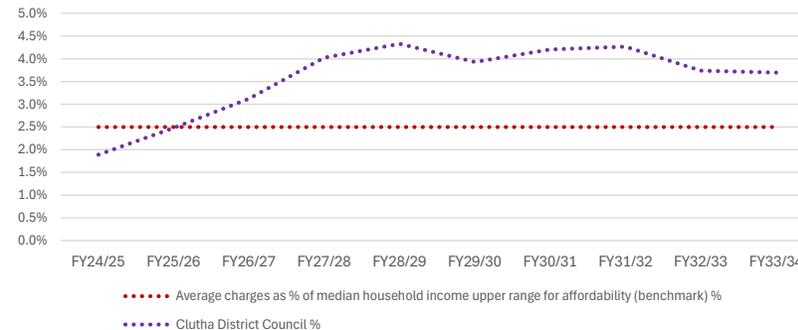
## Recommendations / suggested next steps:

- Clutha District Council’s commitment to establishing a regional Water CCO is critical to ensuring the council’s financial viability. The council is heavily indebted due to water services borrowings. Establishing a water CCO would significantly improve the council’s balance sheet.
- It is more appropriate for a regulated water services CCO to hold these levels of borrowings than a council, as LGFA borrowing covenants will require revenues to be sufficient to provide enough operating cashflow to manage and pay down borrowings in an orderly manner.
- Modelling for a regional Water CCO should assume a minimum 20% reduction to projected opex, as a larger water-specific entity will be able to deliver services at lower cost (through improved ways of working, removal of duplicated overheads, and more efficient delivery). This will reduce revenue requirements and projected water charges, and improve affordability.

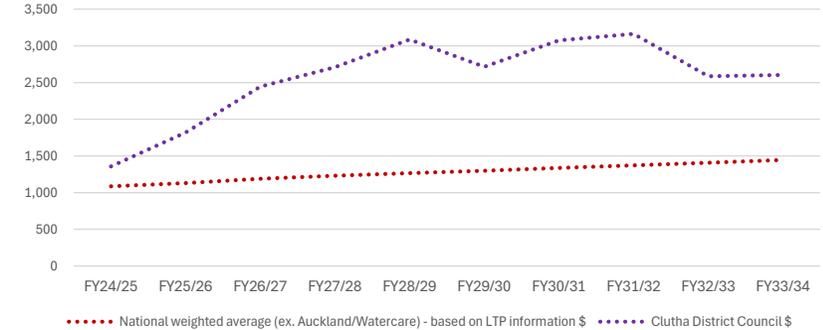
Average water services bill per connection (incl GST)



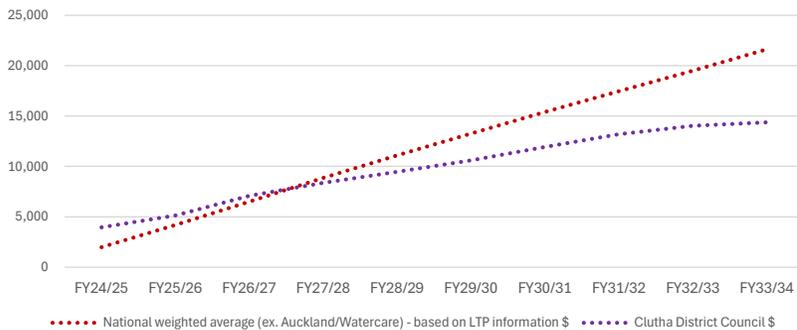
Average charges as a % of median household income



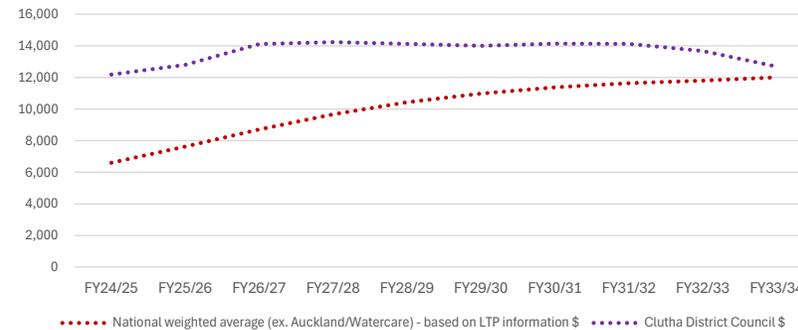
Operating expenses per connection (excluding interest, depn)



Cumulative investment per connection



Net debt per connection



Funds from operations to net debt (DW & WW)



# Observations and recommendations: Gore District Council

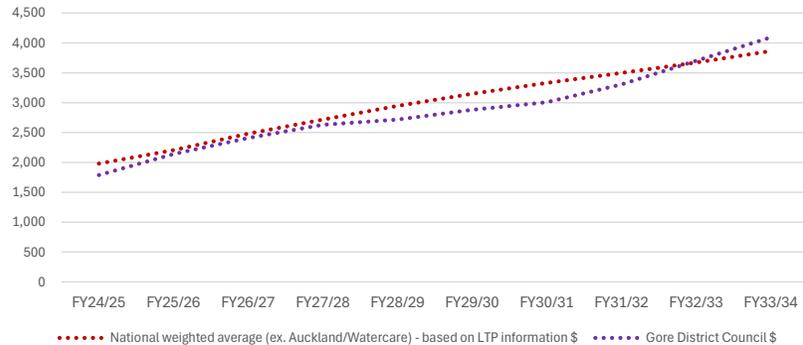
## Observations on financial projections provided to the Department:

- Gore District Council's financial data provided sets charges and revenues appropriately for the levels of operating expenditure, investment and debt profiles.
- While it is clear that significant work has gone into right-sizing the capital investment requirements following the Government's changes to regulatory standards, projections show water services debt growing substantially over the ten year period.
- Gore District Council's water services debt is projected to reach \$90m, with a debt to revenue of 466% for water services (against the council's borrowing limit of 175%). Establishing a water CCO would enable this debt to be refinanced off council books and picked up by the Water CCO.

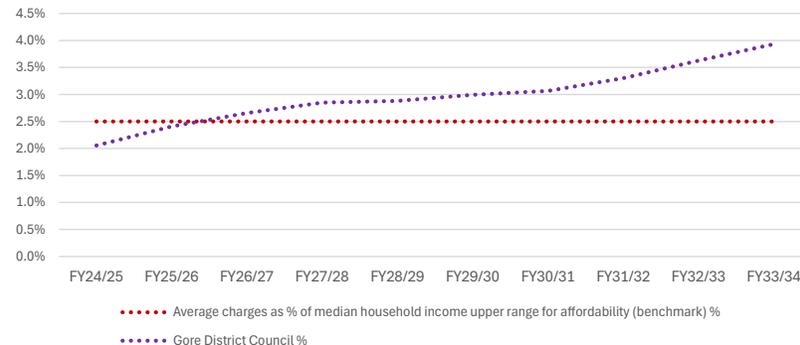
## Recommendations / suggested next steps:

- Gore District Council's commitment to establishing a regional Water CCO is critical to ensuring the council's financial viability. Establishing a water CCO would significantly improve the council's balance sheet.
- The capex programme over ten years (\$124m) is 2.5x depreciation charges over ten years (\$50m), which is driving projected increases to water charges in years 8-10. There is a clear trade-off decision for the council to consider as incremental investment drives higher charges.
- Further consideration could be given to whether the proposed capital programme over years 8 – 10 could be further scaled, or whether prioritisation or rephasing could improve the affordability of charges for consumers.

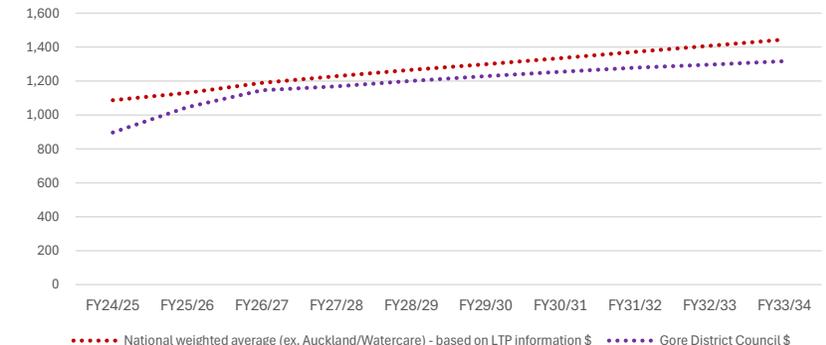
Average water services bill per connection (incl GST)



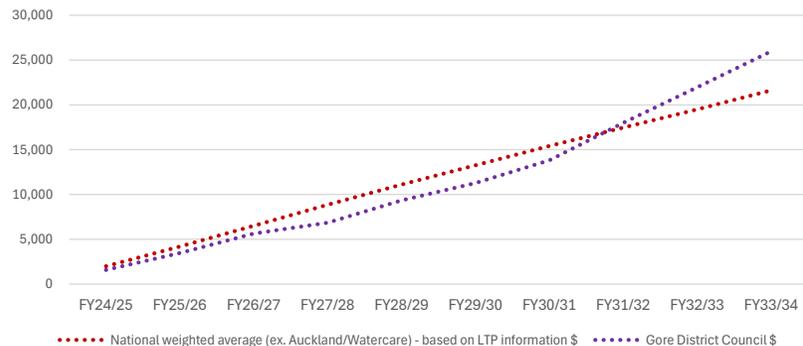
Average charges as a % of median household income



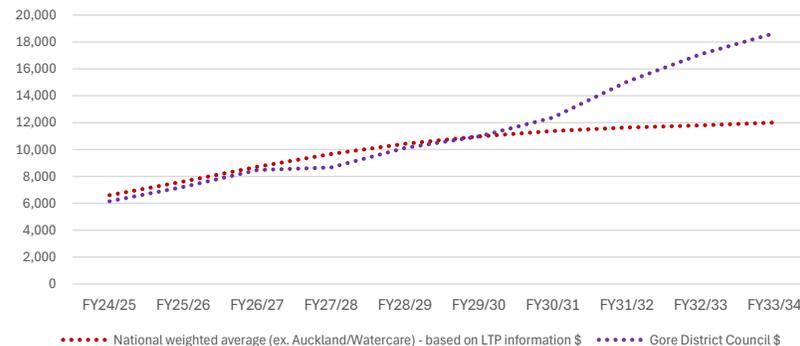
Operating expenses per connection (excluding interest, depn)



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Funds from operations to net debt (DW & WW)

