

1 October 2021

Hon Nanaia Mahuta  
Minister of Local Government  
Parliament Buildings  
**WELLINGTON**

Tēnā koe Minister,

## **RESPONSE TO GOVERNMENT'S PROPOSED THREE WATERS REFORM**

Selwyn District Council has spent considerable time discussing and analyzing Government's proposed three waters reform programme over many months. Our review is aimed at understanding Government's proposal for a national case for change, the implications of those changes for our community, and transition and future engagement requirements should the proposals proceed.

We are particularly interested in understanding where any perceived benefits may accrue to our respective communities over and above the cost and quality of service delivery currently provided for our three waters activities.

### **Council's Position**

Council has held a number of meetings to receive staff reports and discuss Government's three waters proposals. We have also taken the opportunity to engage with representatives from both DIA and LGNZ on numerous occasions.

Council's publicly-stated position on the three waters proposals is that it will not agree to transfer any water, wastewater or stormwater assets to any proposed new entity without undertaking a full engagement and feedback process with the Selwyn community.

Council is currently seeking more information from Government on its three waters proposals. It is also committed to consulting with the community before the end of the year on these proposals. Along with other members of the Canterbury Mayoral Forum, we have called for a pause in the Government's reform process to enable those outstanding issues that we need to consult with our community on, to be formally addressed.

There are a significant number of unanswered questions that we have posed to Central Government officials. Until we receive definitive response to these, it will not be possible for us to consult with our communities in a meaningful way.

Council's three waters assets are clearly identified in our Significance Policy and to make decisions about their future ownership or operation without full community engagement could potentially mean we are in breach of our statutory obligations.

## **The Selwyn Story**

### *Water*

Over the past ten years, Selwyn District has undertaken considerable work to improve all of our 27 water supplies to a high level of compliance. This has included a significant number of plant upgrades including risk based chlorination residual disinfection, filtration systems and UV disinfection. Consolidation of our schemes continues with 5 small schemes decommissioned and now served by larger schemes. We have structured our rating district-wide so that all consumers pay the same targeted access charge.

All of our urban schemes are fully metered (99.3%), and consumers are charged on a volumetric charge which is one of the lowest in the country at \$0.60 per m<sup>3</sup>. This is a key part of our water demand strategy which has allowed Council to match the requirements as one of the fastest growing district in the country.

We have undertaken and submitted 20 water safety plans to the Canterbury District Health Board, and have one of only a few nationally approved WSP which is for the Hororata Rural water Supply scheme. The process of review /approval has appeared to have stalled with the District Health Board.

### *Wastewater*

In 2013 we commissioned the Eastern Selwyn Sewerage Scheme which now serves six major communities with a Rolleston based treatment plant which discharges high-quality treated wastewater to land. Designed for a population equivalent of 60,000, plans are underway to upgrade to 120,000.

This will not only meet our growth demands for the future but will allow five more communities to join in the coming years. Two of those communities Darfield and Kirwee are possibly the largest communities in the country without reticulated sewage with a combined population of approximately 5,000 residents.

With the welcome assistance of the three waters stimulus funding (\$10.66m), council has funded the construction of a 26.5km pipeline which will be commissioned in mid-2022 to meet development demand with progressive connection of the Darfield / Kirwee communities over the next 10 years.

## **Council Services and Delivery**

Selwyn District Council manages three waters assets valued at \$610 million on behalf of its community, categorized as follows:

### Drinking water

- Asset value \$202.3 million
- 1,356km of pipes
- 8.8 million m<sup>3</sup> of drinking water supplied to households annually

### Wastewater

- Asset value \$329.8 million
- 573km of pipes
- 3.4 million m<sup>3</sup> of wastewater treated annually

### Stormwater

- Asset value \$78.4 million
- 89 stormwater basins / wetlands

Independent assessments show that Selwyn's water services and costs compare very well with other districts. Some key facts:

- Low cost to ratepayers – volumetric charge for water per 200m<sup>3</sup> is the lowest in Aotearoa.
- \$882 – average total household rates paid for drinking and waste water in 2020.
- Good condition – some of the newest drinking and wastewater infrastructure in Aotearoa.

We set our work programme through the annual and long-term plans, which include consulting with the community. The work programme is funded by a mix of development contributions (payments made by developers to provide infrastructure) and rates.

In the past 10 years the Council has made significant investment in maintaining and upgrading these water assets – including more than \$60 million in maintenance and upgrades in the past five years alone:

- \$31.95 million in drinking water
- \$28.86 million in wastewater
- \$2.51 million in stormwater

We continue to plan and invest for future growth and improvements to our water services:

- \$104 million – budgeted in the current Long-Term Plan for major three waters projects over the next 10 years.
- \$440 million – forecast assets to be built by developers and vested to the Council for future management over the next 30 years.

### **Community Engagement**

Council has taken an approach based around informing our community of what is being proposed, what the reform would mean for Selwyn, and identifying some of the matters that we are still seeking clarification on to allow both Council and our community to better understand what the future for Selwyn might look like in respect to three waters asset ownership and service delivery.

A copy of Council's information package is *attached* to this letter together with an analysis sheet prepared at high level from WICS figures. It is clear from community response received thus far that the potential loss of a local voice is a significant issue for our community.

Based on the information received so far, the community is overwhelmingly voicing its disapproval of the Government's proposals and wishes Council to continue three waters asset ownership and asset delivery.

There is concern about the impact of the reforms across our rural sector both in the loss of local knowledge, and the control on how water services are provided. This impacts particular on smaller contractors who not only employ local people, but who are often key sponsors for local events and activities.

The following feedback was received from one of our rural schemes:

*"SDC has been doing a good job of building and maintaining our local water assets. Sometimes, the economic arguments of supply costs are less important than responsive supply and reliability. This applies especially to the farming community where water is critical for livestock welfare."*

Currently, ratepayers have a direct link through elected members who are available to hear community views. The proposed governance structure will result in less connection to local decision makers, and therefore mean our community has less of a say in how three waters services are provided. The lack of connection to decision-makers, and the loss of a democratic say, was one of the key concerns raised by the community in the feedback that was received.

### **Financial Considerations**

Over many years, the ratepayers of Selwyn have significantly invested, through their rates, funds to maintain and provide for replacement of three waters assets. In many instances there are reserve funds held for future investment in asset replacement. It is imperative to ensure that these funding pools are retained for use across the area from which funding has been received.

Currently ratepayers in Selwyn pay an average annual rate contribution per property of \$1,190 for three waters services. The WICS proposal is that this increase to \$3,480 in 2051 without reform, and to \$1640 with reform. However, of concern is that financial comparisons are being made between costs of today against those which will be paid in 30 years' time. In addition the WICS analysis has made assumptions relating to future water standards being the same as European standards.

The Council estimates reflect the current standards. It is extremely difficult - indeed probably impossible - to accurately forecast any financial projection 30 years from now.

Selwyn has for a number of years been a very high growth district enhanced in no small way by the ability of developers to have a single point of contact in respect to infrastructure provision for their proposed development.

It is uncertain from the proposed model how that continued advantage will be afforded to developers in the future as it would appear as if conversations would be required with Council for roading and reserve development and the Entity for three waters development. This conversation may be with either the developer or with staff of the Entity.

Projections through the WICS model are that through balance sheet separation, and the removal of debt from local authority balance sheets, the sector will have greater ability to borrow and potentially at a cheaper rate. This is subjective on two counts: firstly any proposal by a local authority to borrow funds will be subject to the Annual Plan / Long Term Plan consultation process as there will be cost implications. Secondly; it fails to recognise the credit rating of a strong performing Council such as Selwyn which has maintained an AA+ Fitch Rating for the past three years. That rating in itself affords Selwyn significant borrowing cost advantage.

Contained within the Government projections are assumptions that project the new entities will achieve savings and efficiencies over the next 30-year period. This is heavily assumption based and focuses on a 30-year projection which is largely impossible to predict, but is very light on front-end savings.

We also acknowledge that there will be potential changes to standards for water quality and safety. There will be additional costs of compliance, but as we do not yet know what these standards will be, it is difficult to factor associated costs into the model.

### **Governance**

Council is familiar with the proposed governance model, although it is still asking questions relating to the power of the local voice, and particular local decision-making for our respective communities – particularly in respect to the prioritisation of projects and maintenance activities.

Council notes the proposals for a Regional Representation Group and a variety of Working Groups who will provide advice to the Establishment Board. We also understand how the proposed Establishment Board will be appointed, and the number of appointees.

Councils will continue to retain ownership of the infrastructure transferred, through its equity ownership of Entity D. However, the level of equity investment will be influenced by debt that is both transferred to the new entity and which will be taken onto the balance sheet of the entity in response to Government's \$1.5bn funding package. This will need to be appropriately accounted for and will require an equity adjustment on our balance sheet at 1 July 2024.

The proposed model however is extremely resource and finance-hungry and will potentially add significant time to decision-making processes. This is contrary to the current Local Government model which allows community requests (and Council proposals) to be subject to business cases, financial modelling and direct consultation with affected communities through Annual Plan / Long Term Plan processes.

### **Infrastructure Investment Funding**

The financial model applicable to Selwyn District's residents, the current accumulated cost of that model to households, and more importantly, the future annual cost together with the drivers for that cost, have recently been discussed with the community through the Long Term Plan consultation process.

The cost of providing three waters services to the Selwyn community have been identified earlier in this paper along with future planned investment.

Selwyn is a very fast-growing district and we have invested heavily in our three waters assets. We have a successful development contribution funding model and an excellent communication and engagement process with the developers in our community.

There are significant outstanding questions in relation to the continuity of Development Contribution funding, firstly for projects which have already been constructed and are to be funded over a lengthy (20-30 year) period. Our question is in respect to the ability to continue to levy contributions for those projects, and whose responsibility collection will be.

The second part of this equation is in respect to levies which have been collected for future deliverable projects and the responsibility to ensure this action does take place. The Government has indicated that those funds raised will transfer to the new entities and will be ring-fenced to deliver the projects that the funds were raised for, but this still lacks clarity.

We believe there is an opportunity for Councils to hold Development Contribution money in Trust for the new Entity, thus protecting proposed investments in our local community on behalf of those developers who have paid money to Council for a specific purpose.

There have been projections contained within Government modelling proposals in regard to the future average property cost of three waters services. Noting again that it is extremely difficult to project with any degree of accuracy, 30 years in advance. The missing piece of that equation is the proposed funding methodology, for example, for water, will be this volumetric, property-value based or lump sum? Until this is understood, any attempt at comparison is impossible.

It is important, at least in the initial years, that the activity programme for any proposed Entity is directly aligned with the Long Term Plans of respective Councils – which have recently been consulted on and agreed to be respective communities.

### **Stormwater and Land Drainage Assets**

The release of the Stormwater Working Report in the past weekend was too late for most Councils to add this into the current conversations. The report recommends that stormwater forms part of the three waters reform, largely due to concern over future investment and local staffing capacity/capability.

However the report notes that unbundling stormwater responsibilities is complex, will take time and requires much more future work. That work stream would include, regulatory and legal review, development of national standards and require interface agreements with a plethora of owners and agencies.

The complexity of stormwater (and for council water races and land drainage) would suggest that any initial transformation of the sector would be best served by a two waters approach.

## Matters Requiring Further Consideration

As noted in the introductory paragraphs of this letter, Council's concerns centre on an increasing number of questions which are being raised within our community – and we have in turn raised these with Officials – for which there is no answer at this time. One of the key reasons that we asked for a pause in proceeding was to allow for consideration of these matters which are not just localized issues for Selwyn, but rather are of a national concern.

These matters are identified as follows:

- The impact on Local Authorities' ability to deliver its three waters services, particularly during the latter part of the transition timeframe (2023/2024 financial year in particular).
- How the local voice will be given effect in decision-making to ensure a current communication lines enjoyed by community members is not lost.
- How will climate change communities be handled? Will it drive investment decisions (or lack of investment)? Our example is Upper Selwyn Huts.
- Inter-Council equity is an issue with some Councils getting substantial balance sheet relief (and lower ratepayer debt burden) for similar amount of asset transfer.
- Councils will - on the reform timetable - have to provide water services through to July 2024. There is a strong risk to the sector of key staff being snapped up by new entities, Taumata Arowai, consultants and contractors.
- The impact of spatial planning, aligning with both Council's Long Term Plan and the investment prioritisation of Entity D.
- The depth of relationship between Entity D and Council.
- A detailed understanding of assumptions that are built into the WICS model and the deliverable timeframe against those assumptions.
- Understanding what new water standards will be to enable accurate costing to be completed.
- Consideration of the impact of stripping a significant part of the Council asset base (up to 40% for most Councils) from respective balance sheets, acknowledging financial impact on other activities through additional overhead allocation.
- The timeframe and process for the transition of assets.
- Clarity around the annual cost of three waters services to our communities. All the WICS model has done is identify stay in / opt-out cost of service provision. That is not the same as the revenue that will be received from property owners for service provision.
- Clarity around the responsibility for funding and maintaining rural supplies.
- The impact of stormwater proposals, acknowledging the view that the discussion paper has been released far too late in the process and has degrees of extreme complexity that simply add weight to the request to pause the discussion.
- Consider reverting to the initial position of two waters acknowledging the stormwater comments above.
- How will the partnership with manu whenua work?
- When will local communities get to have their say on the proposals?
- Further clarity around the blue / green boundary is required. This is the area where three waters infrastructure merges into reserve areas and will require an understanding of respective role and responsibilities at the point of connection.
- Has the DIA quantified the real transfer costs of consents and assets?
- Ensuring that reform creates a platform to attract, develop and retain talent and enhance local expertise.



- How is the reform going to add 6000 – 9,000 jobs in 30 years?
- An understanding of the planning framework to influence decisions.
- Potential for 'grandfathering' investment plans.
- An understanding of the due diligence process for transitioning to the new entity.
- The role of the economic regulator and the assurance that they will be providing to both Council and our local community.

## Alternative Models

When Councils commenced discussions around alternate delivery models for three waters, we considered clusters of neighbouring Councils, then a Canterbury-wide model acknowledging current areas of interest and stakeholder / community areas of common ground.

Given the concerns that have been raised about Governments four entity proposal model and the unanswered questions in respect to the effectiveness of the proposed governance model, charging regimes, priority of projects and activities, it may be more prudent during the 'pause' request period to review these models, aligning them firstly against the WICS, and secondly against current Council projections.

If the outcome to alternative models, particularly Council cluster or regional models is not seen to be significantly worse-off than the Government proposal (which contains a significant number of unsubstantiated assumptions) and has cleaner lines of governance – most importantly preserving the local voice – then would that not be a better starting place for the sector?

## Conclusion

Minister, Council thanks you for the opportunity to provide these thoughts. In summary, we are seeking a pause in the process to allow outstanding issues to be better understood by Councils, and thus being able to provide better information to the community to allow them to understand and formulate decisions on the future of three waters asset ownership and service delivery.

Given the significance of this decision for our nation, we believe pausing would be a more prudent cause for action, rather than heading into the unknown with a range of unanswered questions.

There is a significant amount of reform work being undertaken in the country at the moment which will have impact wider than just the local government sector. However, it is our view that progress on the Future for Local Government project should be prioritized as this will give greater clarity to the role and responsibility of local government should the three waters proposal proceed.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'S Broughton'.

Sam Broughton  
**Mayor Selwyn District**

cc: [threewaters@dia.govt.nz](mailto:threewaters@dia.govt.nz) and [feedback@lgnz.co.nz](mailto:feedback@lgnz.co.nz)



# Three Waters Reform – what's it about?

## 1 What's being proposed?

Last year the Government announced a proposal to change the way three waters services are managed across New Zealand.

### What are the three waters?



**Drinking water** – safe, potable water supplied to households for drinking, personal and general household use



**Wastewater** – water from bathrooms, laundries etc that's taken away through the sewerage network for treatment and discharge



**Stormwater** – runoff from rainfall that's collected from roofs, roads and hard surfaces, piped away and discharged to the environment

For most households, these services are currently owned and operated by the 67 local councils. Privately-owned water supplies and schemes are not included in the reform proposals.

The Government is now proposing to transfer responsibility for these services into the hands of four new water services agencies or 'entities'.

Each entity would be owned by the councils in its area, and Iwi/Māori would also participate in the governance structure.

Selwyn would become part of Entity D which covers most of the South Island.

Each entity would be responsible for operating and maintaining the three waters networks, and would charge users for the services – in the same way that councils currently charge through a combination of rates and water charges.

The Government says the reform would save ratepayers money in the long term and would result in better quality and safer water services.

The new entities would also be responsible for meeting the water quality and safety standards set by the new water regulator, Taumata Arowai.

At this stage the Government says it will be optional for councils to be part of a new entity – they can opt in or out. But it has not ruled out making the new system compulsory.

### The four entities

Assumed connected population 2020

**Entity A** 1,725,850

**Entity B** 799,610

**Entity C** 955,150

**Entity D** 864,350



### Why – and why now?

The Government believes the current arrangements aren't sustainable for many councils and their communities around the country. Some of the reasons they have given include:

- Many councils have underspent on infrastructure in the past – this means they are left with old, unreliable infrastructure.
- These councils will face large costs to upgrade their infrastructure – which would be difficult for many smaller councils.
- Councils will also have to meet the rising future costs associated with water quality and safety, environmental standards, climate change and community expectations.

The reform proposals suggest that because of their size, the new entities would be better able to borrow the funds needed to invest in the necessary upgrades.

The Government also suggests the entities would be better able to meet Iwi/Māori aspirations, build resilience to natural hazards and climate change, and support growth.

Responsibility for water services would transfer to new entities.

## 2 What's the situation in Selwyn now?

The Council is responsible for planning, building, operating and maintaining the three waters services in the Selwyn district.

Here's a snapshot of what we provide for our residents:

### \$610.5 million

in total assets managed on behalf of the community

Drinking water  
**\$202.3m**

Wastewater  
**\$329.8m**

Stormwater  
**\$78.4m**

### Drinking water



**1,356 km** pipes

**8.8 million m<sup>3</sup>** of drinking water supplied to households

**78%** of Selwyn residents supplied by 30 public schemes

### Wastewater



**573 km** pipes

**3.4 million m<sup>3</sup>** wastewater treated

### Stormwater



**21** urban stormwater schemes

**89** stormwater basins/wetlands



Independent assessments show that Selwyn's water services and costs compare very well with other districts. Some key facts:

- Low cost to ratepayers – volumetric charge for water per 200m<sup>3</sup> is the lowest in Aotearoa\*
- \$882 – average total household rates paid for drinking and waste water in 2020\*
- Good condition – some of the newest drinking and wastewater infrastructure in Aotearoa\*.

\* Water New Zealand National Performance Report 2019/20

The Council's role includes:

- assessing the network for improvements or work needed
- consulting with the community on plans and costs
- considering relevant legislation and standards
- planning and developing infrastructure for the district's growth.

We set our work programme through the annual and long-term plans, which include consulting with the community. The work programme is funded by a mix of development contributions (payments made by developers to provide infrastructure) and rates.

In the past 10 years the Council has made significant investment in maintaining and upgrading these water assets – including more than \$60 million in maintenance and upgrades in the past five years alone:

- \$31.95 million in drinking water
- \$28.86 million in wastewater
- \$2.51 million in stormwater

We continue to plan and invest for future growth and improvements to our water services:

- \$104 million – budgeted in the current Long-Term Plan for major three waters projects over the next 10 years
- \$440 million – forecast assets to be built by developers and vested to the Council for future management over the next 30 years

**Our water services are among the cheapest and newest in the country.**

## 3 What would the reform mean for Selwyn?

The Government's reform proposals would mean significant changes for the Council and residents, in the way that water services are managed in Selwyn.

### ► Here's some of what we know so far:

#### Assets and operations

- Control of the Council's three waters infrastructure (all the pipes, pumps, treatment plants etc) would transfer to the new Entity D.
- Councils would retain ownership of this infrastructure, through the entity.
- The new entity would operate and maintain these assets, and charge residents for the services (at the moment these services are charged directly by the Council).
- The Council's water services staff would transfer to the new entity.

#### Future costs

- The Government is predicting that long-term costs to residents would be lower under the new entity, than under Council control – but we have not yet seen sufficient evidence to support this.
- Costs to users are expected to increase as a result of the demand for higher water quality standards.

#### Governance

- The new entity would be collectively owned by the councils in the entity area – which covers most of the South Island (corresponding to the Ngāi Tahu takiwā).
- The entity would be responsible for planning, funding, building, operating and maintaining all three waters services.
- Entities would be required to consult with communities on key planning decisions.
- Iwi would be invited to participate in the entities, but would not have an ownership role or right of veto.

But there's still a lot we don't know about the Government's proposals – we're asking for more information on key details, and for more time to understand the implications for our communities.

### ► Some key things we don't know yet:

#### Future costs

- The Government's projections assume that the new structures will generate savings and efficiencies over the next 30 years. However the information we've been given so far doesn't include any detailed analysis to back up these projections.
- Water quality and safety standards are likely to be tightened in the future – we don't yet know what those standards will be, and what extra costs there would be as a result.

#### Governance/local voice

- How much say will local communities have under the new structure? At present communities have a strong local voice through consultation on annual and long-term plans. How will that local voice be maintained?
- How will the new entity be accountable to our local communities?

#### Planning for growth

- Selwyn continues to be one of the fastest-growing districts in the country – and we have been successful in coordinating the provision of water infrastructure with the district's growth and development. How will that coordination be maintained under the new structure?

**There's a lot we don't know yet – we're asking for more information.**



### What is the Council doing now?

Selwyn residents have told us that having access to safe, secure and high quality water services is a top priority. We want to make sure our communities continue to have that access – and that future services are to the same quality standards that they currently enjoy, or better.

There are too many unknowns right now for us to be able to make an informed decision on whether or not to support the Government's reform proposal.

We're committed to giving our residents a say in that decision – but first we need to know more. So we're asking for more information from Government – about things like:

- Future costs to our communities and how they've been calculated
- Ensuring continued access to services
- When will our communities get the opportunity to see the detail of the proposal – and have a say?
- How will our communities' local voice be safeguarded?
- How will the partnership with mana whenua work?
- Who will set the priorities for investment decisions?

We've also taken the lead in asking the Government to pause the reform process until more detail is available and other critical reforms are further down the track – including the reform of the wider local government sector, and of the Resource Management Act.

We're also working collaboratively with the other councils in the proposed Entity D area, along with Ngāi Tahu, to better understand the potential impacts of the Government's reform proposals.

## 4 Timeline and next steps

### Government engaging with local councils

We are currently in an eight-week engagement period with the Government, through to the end of September 2021. This stage is to seek more information so that we can better understand the proposal, and what it means for Selwyn. This isn't a decision-making period as the Government hasn't finalised the reform proposals.

At the end of this period, the Council will go back to the Government with questions and initial feedback.

Before any decision is made the Council will consult with the Selwyn community.

### Public consultation – councils consult their communities

From October the Government will consider the next steps for the reform programme and a timeframe for decision-making, including public consultation with communities.

We will be making it clear in our feedback to the Government that we fully expect to consult with our community before we make any decision. At this stage, provided the Government keeps the option for councils to opt in or out of the proposals, we expect this consultation to take place later this year, probably in November.

**We all want to know what happens next – and that's in the Government's hands.**

### Key dates

WE ARE HERE

July 2020	June 2021	Aug–Sept 2021	Oct–Nov 2021	December 2021	January 2022 to June 2024	1 July 2024
Government launches three waters reform programme	Government announces proposal to create four water entities	Engagement with local councils	Government to decide on next steps and final proposals and councils to conduct public consultation	Councils to decide if they are opting in or out of the proposal	Transition phase	Entities fully operational

### For more information

- Department of Internal Affairs [www.dia.govt.nz/Three-Waters-Reform-Programme](http://www.dia.govt.nz/Three-Waters-Reform-Programme)
- Selwyn District Council: [www.selwyn.govt.nz/threewaters](http://www.selwyn.govt.nz/threewaters)



## Notes:

- For ease of comparison, all the information in this summary is based on 2021/22 prices and excludes GST
- The information in this summary has not yet been subject to peer review (it may contain errors)

## WHAT IS THE VALUE OF SDCs THREE WATER ASSETS?

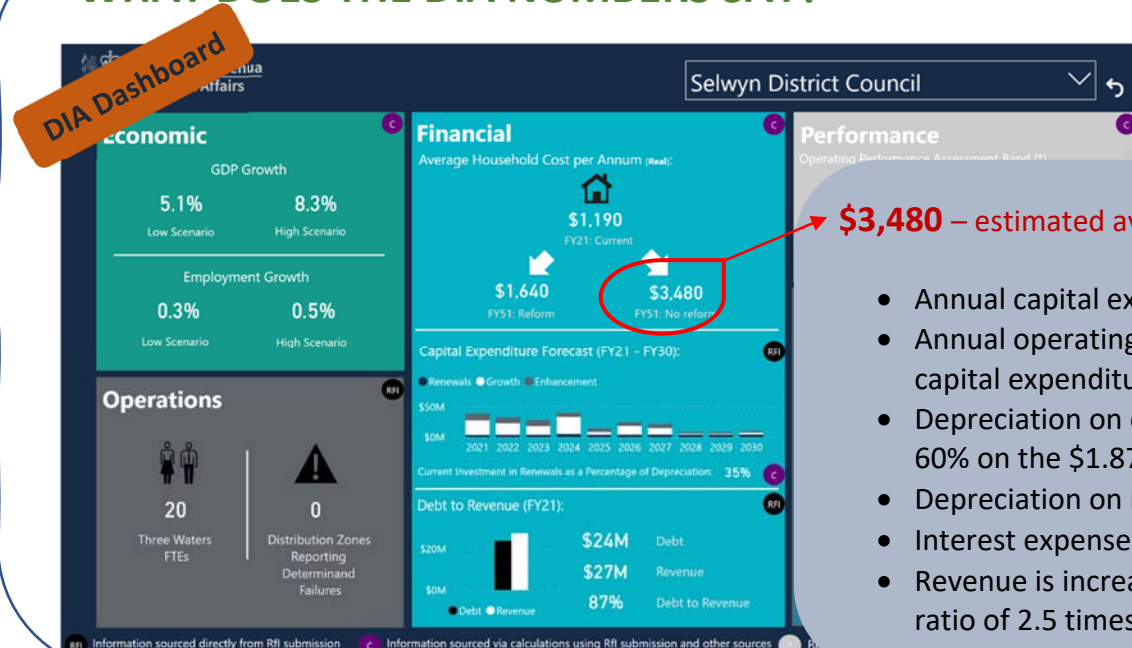
### SDC THREE WATERS ASSET VALUATION

**\$610.5m**

(as at 30 June 2020)

Water supply \$202.3m  
Waster water \$329.8m  
Stormwater \$78.4m

## WHAT DOES THE DIA NUMBERS SAY?



**\$3,480** – estimated average cost per household in 2051

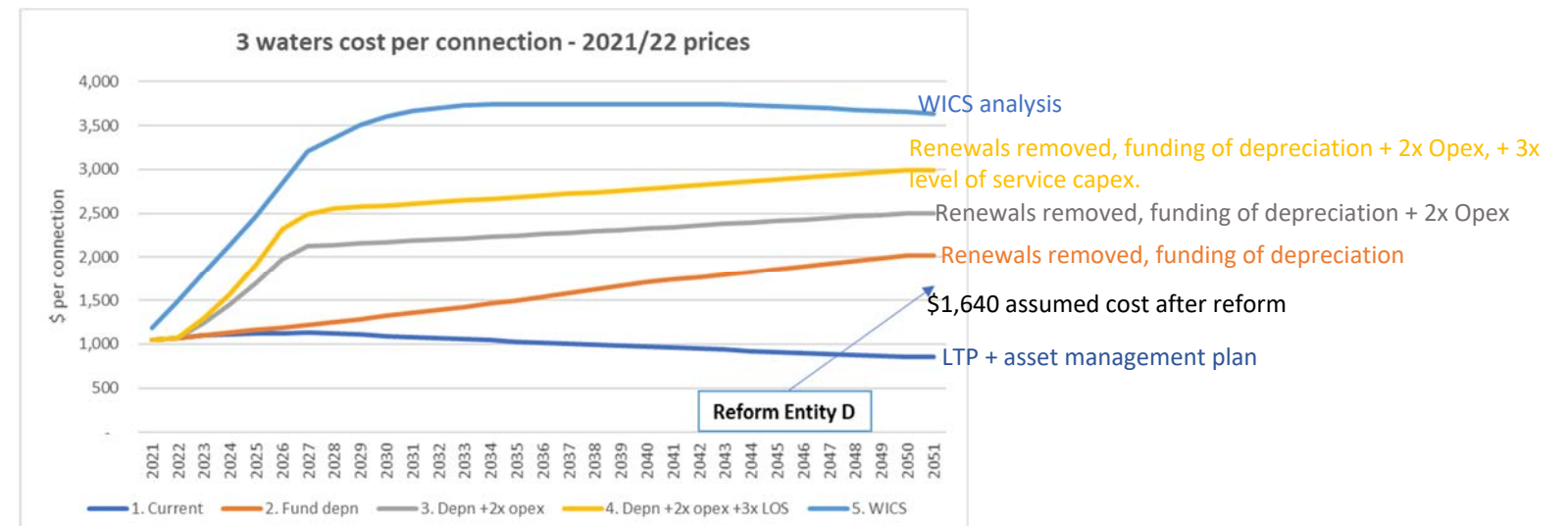
- Annual capital expenditure for 30 years of \$62m per year (\$1.87bn)
- Annual operating expenditure increases proportionately with growth, plus 3% of the new capital expenditure
- Depreciation on existing assets and new assets is fully funded – with the assumption that 60% on the \$1.87bn capital expenditure will have an asset life averaging 30 years
- Depreciation on new assets has been reflected is a cash outflow In their model
- Interest expense is at 3.5%pa
- Revenue is increased to ensure the three waters activity stays within a debt to revenue ratio of 2.5 times

## HOW DOES THIS COMPARE TO SDC ANALYSIS?

### DIA / WICS COST PER CONNECTION SIGNIFICANTLY HIGHER THAN SDCs MOST CONSERVATIVE ASSUMPTIONS

30 Year Summary (\$Ms)	Selwyn Modelled				5. DIA / WICS	Difference (WICS to 4.)
	1. Current	2. Fund Depn	3. Fund Depn + 2x Opex	4. Fund Depn + 2x Opex + 3x LoS Capex		
Ratepayer Revenue	867.2	1,399.4	1,943.7	2,304.6	3,230.1	925.5
Opex	540.9	540.9	1,081.8	1,081.8	1,691.9	(610.1)
Depreciation	NA	647.9	647.9	745.8	1,213.1	(467.3)
Renewals	140.2	NA	NA	NA	NA	NA
Capex - level of service	109.3	109.3	109.3	327.9	1,650.6	(1,322.7)
Capex - Growth	168.5	168.5	168.5	168.5	216.9	(48.4)
Vested Assets	440.6	440.6	440.6	440.6	NA	NA

Growth is not funded by ratepayers. DIA/WICS have assumed 70% of gross costs are met by households  
It is not clear how DIA/WICS has addressed vested assets – this makes up is a large part of Selwyn's asset base  
Information on the new entity is not yet available.



## WHAT ARE SDCs BORROWING LEVELS?

Forecast Borrowings \$Ms	June 2021	June 2022	June 2023	June 2024
External	21.5	49.9	66.3	87.3
Internal	20.4	14.2	15.7	32.6
<b>Total</b>	<b>41.9</b>	<b>64.1</b>	<b>82.0</b>	<b>119.9</b>

DIA has indicated that 'associated debt' will be transferred to the new entity along with the assets.

'Associated debt' has not yet been clearly defined, but councils typically hold a mix of external loans directly borrowed for a specific purpose, loans borrowed as part of a loans pool and allocated to projects, internal loans utilising balances from other activities, rate account balances and special fund balances.

The definition of 'associated debt' is therefore important.

## WHAT OVERHEAD COSTS BECOME STRANDED?

	<b>\$3.4m</b>	Councils apportion the cost of their support costs - IT, finance, people and capability, communications, customer services, asset management etc. - to their front-line activities.
less	<b>\$1.3m</b>	Directly attributable costs that will transfer to the new water entity
=	<b>\$2.1m</b>	Estimated costs that are 'stranded'. Initially these costs will be apportioned to other activities and will continue to be funded by ratepayers. It is not easy to make savings of this magnitude in the short term, but it is possible over the longer term, particularly for a growth council.