



Clutha District Council
Supplemental report on rural and urban household charges

September 2021

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Introduction

Morrison Low has previously provided advice and support to Clutha District Council (Council) on issues relating to the current proposals for three waters reform through the Otago Southland Three Waters Office. That work produced a number of reports regarding the challenges and opportunities for the future delivery of three waters services in Clutha and the broader Otago and Southland regions and culminated in the report titled “*Impacts Assessment*” of June 2021.

Subsequently, the Government released information packs for all councils in New Zealand which provided high level analysis of information disclosed in responses to the Government’s request for information (RFI). As part of this information release, the Government provided projections of future household costs under both the opt in (i.e. transfer water service delivery to a new water services entity servicing the Ngāi Tahu Takiwā – “Entity D”) and opt-out (Council continues to deliver three waters services on its own) scenarios. Following the release of this information Morrison Low prepared an additional report entitled “*Review of WICS data*” which outlined the differences in approach taken by Morrison Low and the Water Industry Commission of Scotland (WICS).

Both the Morrison Low reports, and the government’s own analysis, did not specifically address the differences in service delivery, governance, ownership and funding mechanisms that relate to rural water supply schemes. In Clutha, many rural water schemes are owned and operated by Council, with governance provided through rural water supply boards, who are able to make recommendation to (but not formal decisions) elected members regarding levels of service and investment. The schemes are characterised by having the primary function of providing water for agricultural and horticultural purposes, while also providing water for household consumption and in this report that is what is meant by ‘rural water customers’

This means that the future approach to rural schemes of this nature (service delivery, treatment and compliance) is unlikely to be the same as for urban supplies and that the costs are therefore also likely to be different.

This report is intended to supplement both of the earlier reports prepared by Morrison Low by including further analysis on the potential cost impacts specifically for rural¹ and urban schemes. Accordingly, it should be read in conjunction with those earlier reports, as the additional analysis and commentary outlined in those reports is not repeated herein.

¹ For reference, rural schemes in the context of this report refers to the Balmoral, Clydevale, Glenkenich, Moa Flat, North Bruce, Richardson, South Bruce, Tuapeka, Waipahi, Waitahuna, and Wangaloa rural water schemes.

Summary of findings

Morrison Low has undertaken a comparison of the financial impacts of service delivery reform on rural and urban three waters customers using two separate methodologies:

- Utilising the financial model used for the Otago-Southland three waters collaboration work.
- Utilising the financial modelled produced by the WICS.

Both approaches show that future charges for water for both rural and urban customers will increase significantly over the next 10 – 30 years and they both highlight differences in the potential future household costs for rural and urban ratepayers. In particular:

- The disparity between the potential benefits of reform for rural and urban ratepayers highlights the need for any new service delivery model to have bespoke pricing and charging mechanisms in place for rural water supplies which would need careful consideration when implemented.
- Increases for urban water customers are likely to be larger than the increases for rural water customers (on a per unit basis and percentage basis), with urban water customers facing increases exceeding 100% (before inflation) over the next ten years.
- While service delivery reform is likely to have positive impacts on future household charges for urban water customers, it is unlikely that rural customers would see similar benefits over the next ten years, and unclear whether any benefits would exist over a 30 year time period.
- In our view these differences are likely to be driven by the difference in estimated future costs associated with the provision of water to rural and urban customers, and the application of volumetric pricing for rural water customers (i.e. the costs have a spread over a large number of water “units” such that the impact on an individual unit is lesser).

Approach and analysis

In order to assist Clutha District Council to understand the impact of future water service delivery on its rural and urban ratepayers, Morrison Low has undertaken high level modelling using two different approaches:

Using the same methodology applied as part of our three waters work undertaken for the Otago and Southland regions. This modelling uses Council’s investment plans and revenue sources, with a number of standard adjustments applied by Morrison Low². The modelling covers a ten year period and in this report compares only the impact on drinking water charges. The analysis in this report also relies on more up to date information, which includes a larger investment programme than used in the earlier work undertaken for the Otago and Southland Councils.

² The details of this modelling approach are outlined in the report titled “Clutha District Council – Impact Assessment” of June 2021

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- Using the modelling undertaken by WICS which applies a top-down approach to assessing future household costs. In assessing future investment requirements Morrison Low used WICS' assumption regarding future investment, with adjustments to reflect the relative proportion of investment between rural and urban three waters that has been observed in Clutha's own investment plans. This analysis compares three waters charges in 2051. Because there are no rural wastewater or stormwater schemes in Clutha, no analysis is provided for rural schemes. Instead, projected three waters charges have been presented for Clutha for urban ratepayers and for a combined network to demonstrate the impact that including rural water customers has on the projections and on that basis make some assumptions about the potential impact on rural water customers.

Morrison Low modelling

The results from modelling using the Morrison Low approach are outlined in the table below. Note that average charges for 2021 as presented in the table below may not reconcile to actual charges levied by Council, as the calculation of charging has been standardised in the Morrison Low model to ensure comparability between 2021 and 2031 charges.

Table 1 Comparison of rural and urban water charges and earlier analysis

	2021	2031	% Increase
Urban water (per household)	\$596	\$1,218	104%
Rural water (per unit)	\$257	\$406	58%
Average water charge per Morrison Low report of June 2021	\$606	\$772	27%
Average three waters charge in Morrison Low report of June 2021	\$1,252	\$2,549	104%
Projected water charge under entity model per Morrison Low report of June 2021	N/A	\$841	N/A

The comparison shows that the proposed impacts of water reform will be more significant for urban ratepayers than they will for rural ratepayers, although both groups will see increases in water charges that exceed 50% of current charges before inflation.

Along with lower future investment costs being projected for rural water supplies, the lower future increases in unit costs for rural customers is also related to the particularly high number of water units sold to rural customers. This means that while the increases for rural customers are lower, per unit, in percentage terms, the actual cost impact on rural customers that buy multiple units of water could be significant.

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If a universal water charge was implemented, water charges for rural water supply customers are likely to increase more under a revised service delivery model (including an Otago-Southland entity) than they would under continued council service delivery. This emphasises the need for any future service delivery reform to be sympathetic to the impacts on rural water customers, and for separate pricing/charging arrangements to be implemented for rural water supply.

The disaggregated analysis presented in this report also shows a larger increase in water charges than was highlighted in Morrison Low's report of June 2021 due to the larger investment programme than used in the earlier work undertaken for the Otago and Southland Councils.

WICS modelling

As outlined in Morrison Low's report entitled "*Review of WICS data*", WICS have undertaken high level analysis of potential future household costs under the reform (i.e. Entity D) and no reform (i.e. Council alone) scenarios. That modelling uses a top-down approach that determines future household costs based on investment and borrowing requirements.

The approach adopted by WICS does not attempt to separate future water, wastewater or stormwater costs. Neither does it attempt to separate future household charges between rural or urban communities.

In order to provide additional context when comparing the reform and no reform scenarios, Morrison Low has attempted to model the impact of the proposed reform on Clutha's urban three waters alone. To do this the WICS investment projections have been adjusted according to Clutha's own split between projected rural and urban investment needs (urban three waters accounts for 66.6% of planned future investment) from its RFIs as well as the number of connections.

The results of this analysis are demonstrated in Figures 1 and 2 below and show that:

- In both the combined network and urban three waters scenario it is likely that household charges would be higher under continued Council service delivery than under an entity model by 2051.
- However, future household charges for urban customers in Clutha are likely to increase more than they would for rural customers because:
 - WICS modelling assumes that rural customers will pay for all three waters, whereas they only receive drinking water
 - Future investment in rural drinking water for rural schemes is lower, particularly when considered on a per unit basis, than investment in urban drinking water schemes.

This suggests that the benefits of three water reform for rural customers are not likely to be as large as they may be for urban customers.

- The WICS analysis is directionally consistent with that undertaken by Morrison Low. That is, under both models, urban ratepayers are likely to see larger increases in future three waters charges than rural ratepayers, and that the benefits of a change in service delivery model for rural water users are likely to be much lower than the benefits for urban water users.

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Figure 1 Summary of sensitivity analysis – combined network

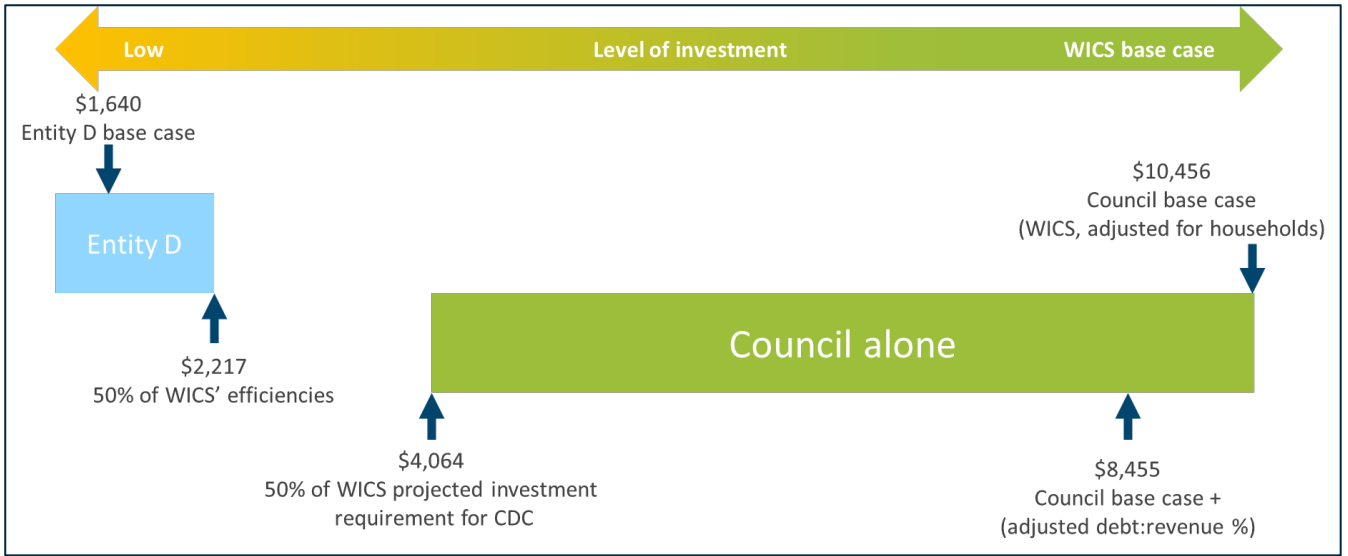


Figure 2 Summary of sensitivity analysis – urban three waters

