

19 May 2025

John Ryan
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RE: Request for audit of Local Water Done Well consultation document of Waitaki District Council [Public Audit Act, Section 16(1)(a&b)]

Dear Mr. Ryan:

Territorial authorities are required to give “fair representation” of issues in their consultation documents. As a practical matter, they have wide discretion in determining what is “fair” and the Auditor-General is constrained in your ability to monitor every consultation document.

But should the discretion granted to local Councils be so great as to allow outright dishonesty, clearly calculated to mislead the public into endorsing a predetermined result that is favoured by Council officials?

Unless some respect for truth is imposed on territorial authorities, the entire consultation process mandated by New Zealand law will lose any value.

Your attention is requested to the consultation document issued on 9 May 2025 by the Waitaki District Council(WDC) for Local Water Done Well. Under the Local Government (Water Services Preliminary Arrangements) Act 2024, WDC is required to conduct a consultation, and this one takes place 9 May through 6 June.

WDC states a preferred option of transferring its water, wastewater and stormwater (three waters) assets to a new regional company to be formed with Clutha, Gore and Central Otago districts. This would be a radical change in the council which would be losing 30-35% of its rates revenue, together with the ability to set water charges and determine three waters investments.

The consultation also offers the option of keeping three waters within Council in an in-house business unit. Two other options are described but correctly dismissed as too expensive or speculative.

This is a monumentally important decision for the Waitaki District. Facts and arguments can legitimately be advanced for either option. But rather than fairly present those views, the consultation document features dishonest statements which are contradicted by WDC’s own consultant reports. Overall, the document appears to be

written to scare the public into accepting the regional company option without a “fair representation” of the facts.

The dishonesty isn’t trivial. It is central to the choice that the public is asked to make.

1. “Financial sustainability”

The most astounding instance of the dishonesty appears at the end of the document (p. 39), where the public is offered the options and directed to rank them, 1 to 4, by their preference.

☐ **Option 3: In-house business unit to deliver water**
(this option is close to the Council’s existing approach, but with some significant differences. It is unlikely to meet legal requirements for financial sustainability. The Government says we must include an existing approach option in our consultation.)

By the insertion of the false statement, “It is unlikely to meet legal requirements for financial sustainability,” the Council puts the public in the position of advocating illegality if they favour this option.

What is meant by “financial sustainability”? In the rest of the document, there is only one statement (p. 33) which discusses “financial sustainability:”

If councils keep managing water services in-house (Option 3)

This option may not meet legislative requirements for financial sustainability as councils would be forced to breach their debt caps to fund three waters investment in either the short or long term. It would also force significant and untenable cost increases onto ratepayers.

So the concern for “financial sustainability” is whether the council would breach its debt cap, which the Local Government Finance Agency presently sets at 280% of total revenue for the 40 councils with a credit rating and 175% for the others.

Although WDC hasn’t yet obtained a credit rating, WDC’s own consultant, MorrisonLow, stated in a December, 2024 report (p. 3) that for the entire period until 2054 “there is no point at which Council’s debt headroom is fully utilised.”

While it has never felt the need in the past, it is a routine procedure for WDC to obtain a credit rating, which automatically increases its debt limit to 280%. Furthermore, rates rises serve to increase WDC’s total revenue, and therefore the debt limit, but this effect is never acknowledged in the document.

Far down on p. 34, the consultation document contradicts itself in a graph that recognises the availability of a 280% debt cap, labelling it “maximum borrowing limit.” The graph shows that the Council never exceeds this limit. Many readers can’t understand graphical representation.

There is simply no credible reason to assert that the in-house option would be “unlikely to meet legal requirements for financial sustainability”unless the intention is to scare people away from checking that box.

2. Ability to fund other investment

A persistent theme in the consultation document is that continued in-house operation would starve the Waitaki District of the ability to borrow for other purposes besides three waters.

On p. 22, we are told that under the in-house option, “over time, water-related borrowing would take up an increasing share of the Council’s total debt, leaving less money to fund other projects like roads or community facilities.”

On p. 23, we are told that in-house option means “We would struggle to fund other important council projects because we would need to borrow heavily for water infrastructure.”

On p. 29, we are warned that in-house “Could severely impact other services due to the level of investment in water services pushing Council’s debt up to or through its debt-to-revenue limit, and new legislation requiring ring-fencing for water services revenue.”

And on p. 33, “Significantly increasing infrastructure investment would likely see less investment in community assets.”

But a regional company would solve the problem, we are told, because “Removing three waters debt from the books means Council would have the capacity to continue investing in parks, roads, community facilities, and other important services if it wanted to.”(p. 29)

With statements like this, the document is deliberately concealing from and confusing the readers over the effect of rates rises on the borrowing capability of Council. As noted in section 1 above, Council won’t exceed its debt cap and the debt cap is based on Council’s total revenue. As rates income rises, so does the debt cap. Council can fund any level of borrowing it believes necessary by increasing rates. There is no denial of future services that necessarily results from choosing the in-house three waters option.

The document lies by omission because it fails to acknowledge that any rates rise under the in-house option wouldn’t necessarily exceed what the *combined cost* to ratepayers would have been from a regional company’s water charges *plus* the residual rates from Council. If three waters stays in-house, the ultimate rates bill won’t

necessarily (or even likely) exceed what the combined cost would be in rates from Council and water charges from a regional company.

Ratepayers (as water customers) will be forced to support all borrowing for any purpose by either Council or a regional water company. There is simply no basis for trying to scare the public by imagining an inability of Council to borrow for other purposes.

3. Water charges

No-one knows with any confidence whether it would cost customers more or less by establishing this regional company. But the consultation document pretends that it does. On p. 23, a prominent headline about the in-house option proclaims:

This option would lead to much higher water bills on top of rates, fewer services, and a significant drop in investment across all infrastructure.

The claim of higher water costs under an in-house option is repeated at least 10 times in different contexts in the document. This claim is refuted by WDC's own consultant, MorrisonLow.

In the December, 2024 report, MorrisonLow observed (p. 2) that a WDC in-house unit alone would have lower water charges (collected through rates) than the average charges that would be levied by a regional company. The difference is substantial—about \$1000 per year per customer by 2038. MorrisonLow noted in this report (and again in March 2025) that “price harmonisation,” or setting water charges the same throughout the regional company, is a likely objective for a regional company.

Apparently this forecast didn't make WDC happy, so MorrisonLow produced a new report in March, 2025 which assumed that different water charges would be levied for each district. However, MorrisonLow felt it necessary to state: “we consider that it is likely that a Southern WSE will, over time, seek to move towards a pricing model where there is a consistent price for the same level of service received.” (p. 29) This was accompanied by a chart that showed WDC in-house charging about \$500 per year less than the regional company by 2030. (p. 30)

Dutifully, MorrisonLow also provided projections that assumed individual pricing for each district. This showed an almost identical charges for WDC in-house vs. the regional company (p. 42). MorrisonLow commented that for the regional company water charges, “the range of outcomes is similar to the internal business unit.”

So the claim in the consultation document of “much higher water bills” for in-house is contradicted by WDC's own consultant.

The possibility that the regional company would actually be the more costly option is concealed from the readers of the consultation document. But a close reading of MorrisonLow's March report reveals that the projection of the regional company charges is based on the arbitrary assumption that its operation would be 12% more efficient than in-house operation (p. 50).

The justification for this assumption is a claim of greater efficiency by Scottish Water, which serves 2.46 *million* people, 70% of whom live in urban areas. By comparison, the proposed "Southern Water Done Well" regional company would serve a total population of 84,100, dispersed over a huge rural area in towns of less than 15,000 population, with 42 water treatment plants, 29 wastewater plants and 5,889 km of pipes. There is no precedent for a regional water company with these obstacles to operational efficiency.

In fact, there is substantial evidence that the regional company would cause higher water charges for WDC, because of the large establishment costs, the demands of LGFA for 9% profit above operating costs to fund debt, and the loss of low-cost administrative support that the council currently provides for water/wastewater operations. Not a word of these concerns is shared with the public.

4. Decisions by other councils

The document leads people to believe that the regional company will expand when other councils join: "If we do this right, more Councils will join and the benefits to each increase." (p. 6)

Since the document is bringing up the choices of other nearby councils, it should have acknowledged that Dunedin, Invercargill, Southland, Queenstown-Lake, Waimate and Timaru Districts were all invited to join the proposed regional company but declined to do so, usually emphatically.

5. Risk

The document claims that "By joining with Central Otago, Clutha, and Gore, we reduce our collective risk." (p. 6) This claim is contradicted by an admission at the end of a long column on p. 18: "the Council would have to provide a guarantee or issue uncalled capital to the water services delivery organisation." In other words, risk would actually increase.

6. Local control

The fundamental change from a regional company would be loss of local control over water charges and investments to an independent entity, with WDC holding only a 25% shareholding interest. A key fact omitted from the document is the legal prohibition on any elected official or employee of any of the councils serving on the regional company's board of directors.

To confuse and cover up this issue, the document falsely claims of the regional company: “This model keeps decision-making local while benefitting from shared expertise, cost savings, and improved service delivery.” (p. 19)

7. Baseless comparisons

The document repeatedly leads readers to believe an in-house operation is disadvantaged compared to a regional company, when this is untrue.

The document states: “Keeping water services in-house will still see a loss of control as the water and economic regulators direct Councils on what they must do and charge.” (p. 6) The truth is that the regulatory oversight from the Commerce Commission, Minister of Local Government, and Taumata Arowai would be exactly the same between in-house operations and regional companies.

On p. 16, we are told that “Most importantly, this model [regional company] ensures that the money collected for water services will be spent on maintaining and improving the system. It gives consumers confidence that water infrastructure is properly funded, meets all public health and environmental protection regulatory standards, and secures long-term service delivery.” The truth is that an in-house operation would be subject to the identical requirements.

Summary

I request that your office conduct a Performance Audit pursuant to Public Audit Act 2001, Section 16(1)(a&b), of the Waitaki District Council’s consultation document for Local Water Done Well. The requirement for “fair representation” in this consultation document is set forth in Local Government (Water Services Preliminary Arrangements) Act 2024, Section 60(2), incorporating by reference Local Government Act 2002 Section 83AA(a).

I realise that the Auditor-General’s audit of consultation documents has focused on Long Term Plans. But the Local Water Done Well program is, in effect, a major amendment to all Long Term Plans. It has been described by Waimate’s mayor as the most important local government decision in 60 years.

When a consultation document is issued like WDC’s, and used as the basis for extensive advertising and outreach, the integrity of the public consultation process is destroyed. Will this become a standard practice of councils? Will public consultation degenerate into a cynical sales pitch, designed not to elicit public opinion but instead to mislead, confuse and misinform?

Your office has the opportunity in this matter to reaffirm for all New Zealand that truth still matters in public discourse.

Sincerely,

Michael Sweeney

Link to WDC consultation document:
from <https://www.letstalk.waitaki.govt.nz/swdw>