Quarterly monitoring report - water services delivery plan

In-House Business Unit

Southland District Council

1 April – 30 June 2026

Council plans that are retaining water service delivery (In-house Business Unit)

Part A: Progress updates

Guidance on completing this table
The purpose of this section is to: • *Identify each of the key activities, deliverables and milestones involved in implementing the arrangements in an accepted water services delivery plan;* • *Identify the expected date for completing each of the identified activities, deliverable and milestone* • *State whether the activity, deliverable and milestone is on track or off track, and if off track provide commentary for why.* • *Describe any significant issues and risks associated with achieving each activity, deliverable and milestones – and the mitigations in place to overcome these issues and risks* • *Identify activity expected in the next quarter towards completion of milestones or deliverables*
Some examples of activities, deliverables and milestones that might be included
• *Complete any required service level agreement and operational handover from council* • *Financial and treasury arrangements finalised (including LGFA access if amendments are required)* • *Address financial separation / ringfencing requirements* *Note that even if your implementation plan did not cover these activities, any progress made in the last quarter should be reported here.*

1. Executive Summary

This report provides a quarterly update on implementation of Southland District Council's Water Services Delivery Plan (WSDP), following acceptance of the Plan by the Department of Internal Affairs (DIA).

The report outlines progress against:

- implementation milestones;
- capital delivery and compliance programmes;

- financial sustainability actions;
- organisational capability improvements;
- affordability and pricing strategy monitoring; and
- key risks and mitigation actions.

Quarterly reporting period: 1 April to 30 June 2026

Activity / milestone / deliverable	Expected completion date	On track to meet timeframe? (Yes/No)	Issues, risks and mitigations (if any)
Stage 2 implementation – strengthen internal systems and capability	December 2025	Yes	Stage 2 implementation activities are now substantially complete, including continued refinement of project management processes, procurement planning, and operational capability improvements. Ongoing risks relate to contractor availability and delivery capacity across multiple concurrent capital projects. Mitigation measures continue: improved sequencing of projects, early contractor engagement, and prioritisation of compliance-related works. Stage 2 is confirmed as substantially complete. The main outstanding item is the appointment of remaining staff (approval to recruit has been granted and recruitment is actively underway); O&M contract processing is also progressing through procurement of 3-4 new contracts.
Stage 3 implementation – refine financial systems and compliance tools	June 2026	Yes	New FMIS went live 1 July 2026, on schedule and with no issues in the quarter that impact water services . The depreciation funding to be collected as indicated in the Water Services Delivery Plan is included in the 2026-2027 Annual Plan, with 100% depreciation funding to be included in 2027-2028. The 2026/2027 Annual Plan has been adopted, with these depreciation funding assumptions unchanged.

Water services financial separation / ringfencing arrangements	June 2027	Yes	The accounting ring-fencing of water activities is in place, reflecting Council's historic practice of tracking income, operating costs, capital costs, reserves, and loan funding through separate business units and separately identified reserves and internal loans. Further enhancements to the ring-fencing principles will be implemented once the Commerce Commission releases its amendments to the ring-fencing principles recently consulted on, which will include a review of allocated overheads from corporate support business units. Work continues to streamline identification of receivables and payables relating to water services.
Delivery of priority capital renewals programme	June 2027	Yes	DIA identified delivery of the capital programme as a key monitoring area. Delivery of the renewals and compliance capital programme has continued across water supply, wastewater, and stormwater activities through to the end of the 2025/2026 financial year. The interim capital spend position to 30 June 2026 is $9.6 million against the $23.6 million 2025/2026 Annual Plan programme, noting that additional June invoices are yet to be accrued and internal delivery costs are yet to be added, so the final year-end figure is expected to be higher. The Manapouri wastewater project is well into construction, with the pipeline approximately 50% complete and the treatment plant approximately 15% complete. The Wyndham stormwater renewal (SP1) is approximately 90% complete, with a reduced SP2 programmed for completion by October 2026. District-wide AC watermain renewals have been postponed by 4 weeks to accommodate contractor commitments but remain on track for completion within the 2026/2027 budget; 18 separate renewal sites were completed in 2025/2026.

			Approximately $7 million of wastewater consent-related projects remain re-phased into future years. Re-phasing continues to align with the evolving implementation requirements of the Water Services Environmental Performance Standards (WEPS); the first two WEPS consent applications have been lodged with Environment Southland, with a direct focus on the Balfour wastewater treatment plant to finalise an economical solution. No further projects have been re-phased at this stage, pending direction on these schemes. Risks to programme delivery continue to include contractor and consultant availability, procurement lead times, affordability pressures, and coordination across multiple concurrent projects. Mitigation measures include revised project sequencing, early contractor engagement, prioritisation of compliance-related works, and ongoing programme monitoring and reporting.
Delivery of drinking water compliance upgrades	June 2027	Yes	Drinking water compliance upgrade projects have continued across several schemes, with a focus on treatment resilience, UV replacement, chlorine dosing improvements, monitoring capability, and future compliance with drinking water standards. Tuatapere UV replacement works and Manapouri water treatment upgrades are 100% complete. SCADA/monitoring upgrades are 100% complete for the 2025/2026 programme (noting this is a multi-year project). Both the Riverton water treatment plant design and Eastern Bush compliance works are in the final stages of procurement finalisation.

			Risks remain around procurement lead times for specialist treatment equipment, contractor capacity, and evolving compliance requirements, managed through staged delivery planning, early procurement of specialist equipment where possible, and prioritisation of higher-risk schemes.
Wastewater treatment plant compliance and consent renewal programme	June 2028	Yes	Wastewater compliance and consent renewal activities remain ongoing across the district. Design for the Manapouri wastewater treatment plant upgrade was completed in the previous quarter. Physical works on the Manapouri WWTP upgrade have commenced and are well into construction, with the treatment plant approximately 15% complete (pipeline component approximately 50% complete). Winton infiltration and inflow reduction works continue to progress. Stewart Island pond desludging is 100% complete and the Riversdale upgrade is complete. Edendale/Wyndham and Gorge Road discharge consents have been lodged with Environment Southland; the Edendale/Wyndham plant upgrade itself is on hold following confirmation that the existing plant is compliant with the new WEPS standards. Discussions continue with the Water Services Authority regarding implementation pathways and timing associated with the WEPS, with several projects re-phased to ensure future investments align with confirmed regulatory requirements and long-term consent strategies. Key risks include affordability pressures associated with large-scale treatment upgrades, contractor and consultant availability, consenting complexity, and uncertainty around future regulatory interpretation. Mitigation measures include phased delivery, prioritisation of highest-risk compliance matters, and continued engagement with regulators and technical advisors.

Procurement and contract delivery improvements	June 2026	Yes	A dedicated three-waters procurement workshop was held on 6 May 2026 to progress the operations and maintenance (O&M) contract review under section 17A. Key matters considered included splitting the contract between treatment (district-wide) and reticulation (potentially split geographically), procurement approach and evaluation methodology, contract type (NZS3917:2025) and transition requirements, and integration with the in-house business unit. The Procurement Plan was approved by Council on 24 June 2026 (following sign-off by the Finance and Assurance Committee on 17 June 2026). An advance notice of opportunity was issued via GETS in June 2026 to generate early market interest, attracting 10 potential contractors registering interest. The RFP is due to go to market on 3 August 2026 for 3-4 contracts, with tenders due 30 September 2026, ahead of contract award targeted for December 2026 and a contract start date of 1 July 2027. The timeline is tight but considered achievable. Operation contracts are intended to be tendered over the next 12 months, with a new contract in place by 1 July 2027. Contractor and market capacity across Southland continue to present challenges to programme delivery, particularly for specialist three waters infrastructure and treatment plant works; no significant procurement failures occurred during the reporting period.
Asset management maturity improvements	June 2027	Yes	SDC continues to implement improvements identified through its asset management maturity assessment process, including improvements to asset data quality, renewals forecasting, lifecycle planning, and financial integration.

			The reporting from the new FMIS has been developed, though further enhancements are expected as reports are generated using live data that is only now starting to be captured. Work will continue to modify the FMIS reporting capability to capture the sub-categories required by the Commerce Commission. Note that the FMIS is a financial system only, and not a full project management module - this capability remains within CAMMs. Resourcing and competing operational priorities remain a challenge to progressing all improvement initiatives simultaneously. Improvements continue to be prioritised toward compliance, financial sustainability, and critical infrastructure planning requirements. The proposed Water & Waste restructure (see below) is expected to strengthen resourcing in this area.
Affordability and pricing strategy monitoring	Ongoing	Yes	DIA identified affordability and pricing strategy as an ongoing monitoring area due to the significant future investment requirements associated with water services delivery and regulatory compliance. The year-end financial position is still being finalised; on a draft basis it remains consistent with the previous quarter's comment: the year-to-date operational position remains broadly within Annual Plan assumptions, with the exception of additional storm-related response and recovery costs associated with the October 2025 weather event. These storm-related costs for wastewater and water supply totalled $266k. As insurance cover could not be secured for this shortfall, and no alternative funding sources were identified, the costs will be funded through a combination of additional rental income and a short-term loan.

			SDC continues to monitor affordability impacts on the community while balancing the need to maintain sufficient revenue to support long-term financial sustainability and compliance delivery.
Transition to full depreciation funding	2027/2028	Yes	The WSDP includes staged increases toward full depreciation funding to support long-term financial sustainability. The depreciation funding value planned for Year 3 of the LTP/WSDP was collected in the 2026/2027 Annual Plan. The actual depreciation funding percentage adopted was 80% for both wastewater and drinking water supply, higher than the planned 75%, reflecting lower capital delivery in the prior year. Stormwater depreciation funding will move from 0% to 100% in 2027/2028. Council remains on track for 100% depreciation funding across water services in 2027/2028.
Organisational capability and resourcing improvements	December 2026	Yes	The proposed Water & Waste Department restructure was consulted on with staff, with consultation closing 15 May 2026 – within this reporting quarter. Following consultation, the Water & Waste restructure was confirmed and is now live. Recruitment is currently underway for 4 positions, with reassignment of a further 3 positions to follow shortly. New structure is expected to be in place by the end of the 2026 calendar year.

Expected activity in next quarter (1 July – 30 September 2026)

Milestone / deliverable	Expected activity
Stage 3 implementation – refine financial systems and compliance tools	Continue bedding in the new FMIS following go-live and associated financial reporting improvements to support water services ring-fencing, capital programme reporting, and long-term financial monitoring. The main activities over the next few months will be around reporting out of the system. Now that both actual and planned live data are in the system, reports will be modified and improved for both operational and project reporting.
Capital programme delivery	Progress delivery of the 2026/2027 capital programme, including continuing Manapouri water and wastewater infrastructure works, district-wide wastewater renewals, Wyndham and Edendale stormwater renewals, remaining AC watermain renewal sites, and drinking water treatment upgrade projects. The 2026/2027 capital programme is valued at approximately $32.0 million. Priority projects for the quarter include the Manapouri wastewater treatment plant upgrade, the Balfour and Edendale/Wyndham wastewater treatment plant consent renewal works, and the Manapouri Water Supply reticulation extension to the Kepler Block. Approximately $1.6 million of minor works (15 projects) have been postponed, pending resolution of contractor capacity constraints associated with the current Downer operations and maintenance contract.
Drinking water compliance upgrades	Continue treatment upgrade works and compliance improvements for identified schemes including Eastern Bush, Tuatapere UV replacement, Manapouri treatment upgrades, chlorine dosing improvements, and SCADA/monitoring upgrades. Progress design for the Riverton water treatment plant upgrade.
Wastewater compliance programme	Continue wastewater consent renewal activities and progress planned wastewater upgrade projects, including Manapouri wastewater treatment plant works (subject to confirmed commencement), Winton infiltration and inflow reduction works, and planning/design activities associated with Edendale, Wyndham, Riversdale, Lumsden, and Otautau wastewater upgrades. Continue engagement with the Water Services Authority regarding WEPS implementation requirements.

Procurement improvements	Finalise and sign off the three-waters Procurement Plan following the 6 May workshop; progress market engagement and evaluation planning for the treatment/reticulation O&M contract split. Following Council approval of the Procurement Plan on 24 June 2026, key milestones for the quarter include the advance notice of opportunity issued via GETS, the RFP released to market on 3 August 2026, and proposals due by 30 September 2026, with tender evaluations commencing 5 October 2026.
Financial sustainability implementation	Continue monitoring revenue sufficiency, borrowing requirements, and affordability impacts under the newly adopted 2026/2027 Annual Plan. The Q1 2026/2027 financial position will not be available until at least the end of October 2026 and will be reported in the next quarterly update.
Asset management improvements	Continue implementation of asset management maturity improvement actions, supported by the new FMIS and the outcome of the Water & Waste restructure consultation.

Part B: Additional monitoring information – items noted in letters of acceptance

Guidance on completing this table
The purpose of this section is to: • *Identify each of the items noted in the letter of acceptance for a water services delivery plan – where the Secretary indicated the Department would be monitoring these items;* • *Describe progress with addressing the item(s) raised – including any significant issues and risks*

Items noted in letters of acceptance	Progress update
Delivery of the capital programme and regulatory compliance projects	DIA identified delivery of the capital programme and compliance-related investment as a key monitoring area. During the reporting period SDC continued delivery of priority renewal and compliance projects across water supply, wastewater, and stormwater activities, through to the end of the 2025/2026 financial year. The interim capital spend position to 30 June 2026 is $9.6 million against the $23.6 million 2025/2026 Annual Plan programme, noting that additional June invoices are yet to be accrued and internal delivery costs are yet to be added, so the final year-end figure is expected to be higher. The Manapouri to Kepler Block pipeline and Manapouri wastewater treatment plant upgrade are both well into construction, with the pipeline approximately 50% complete and the treatment plant approximately 15% complete. Some wastewater consent-related works remain re-phased to align with the evolving interpretation and implementation of the Water Services Environmental Performance Standards (WEPS) and associated discussions with the Water Services Authority. Procurement and contractor availability continue to present challenges across the Southland market, particularly for specialist treatment and pipeline works. Mitigation measures include earlier procurement engagement, revised programme sequencing, packaging of works where appropriate, and prioritisation of higher-risk compliance projects. Weekly and monthly capital programme reporting and independent project reviews continue to support delivery oversight and programme monitoring.

Affordability and pricing strategy	DIA identified pricing strategy and affordability as an ongoing monitoring area to ensure sufficient revenue is available to support financially sustainable water service delivery while balancing affordability impacts on the community. Planned rates increases for 2026/2027 are intended to address inflationary pressures, increasing borrowing costs, compliance-related investment requirements, and long-term asset sustainability. SDC continues to monitor affordability impacts on ratepayers while ensuring sufficient revenue is available to maintain levels of service, support regulatory compliance, and meet long-term infrastructure investment requirements.
Historical delivery performance against planned investment	DIA noted historical delivery challenges relating to renewals delivery and procurement market capacity. During the reporting period SDC continued strengthening programme management, procurement planning, and delivery oversight processes to improve capital delivery performance, including through the three-waters procurement workshop held 6 May 2026 reviewing the operations and maintenance contract structure. Council approved the proposed Procurement Plan (to separate contracts) on 24 June 2026. The confirmed indicative timeline is: advance notice issued June 2026; RFP released to market 3 August 2026; deadline for proposals 30 September 2026; tender evaluations commence 5 October 2026; contractor presentations (if needed) 26 October 2026; preferred contractor(s) identified 9 November 2026; Council meeting to approve award of contracts and contract award December 2026; mobilisation and transition December 2026 – January 2027; contract commencement 1 July 2027. While contractor and consultant availability continues to constrain aspects of delivery across Southland and neighbouring regions, no significant procurement failures occurred during the reporting period. Continued implementation of asset management maturity improvements and the new FMIS platform are also expected to strengthen long-term programme planning and reporting capability.
Delivery of compliance-related capital projects	Delivery of compliance-related projects continues across drinking water, wastewater, and stormwater activities. Tuatapere UV replacement works and Manapouri drinking water treatment upgrades are 100% complete. SCADA and monitoring upgrades are 100% complete for the 2025/2026 programme (a multi-year project). Chlorine dosing improvements have been postponed 12 months due to skilled contractor availability. Winton infiltration and inflow reduction works continue to progress. Planning for the Edendale/Wyndham upgrade has been postponed indefinitely following confirmation the existing plant is compliant with the new WEPS standards; Riversdale is 100% complete; progress on Lumsden and Otautau is pending confirmation of National Infrastructure Funding and Financing (NIFF) and related infrastructure design legislation. Discussions continue with the Water Services Authority regarding future implementation pathways for the WEPS, with several projects re-phased to ensure alignment with confirmed regulatory requirements and consent strategies. Risks remain around specialist contractor availability, procurement lead times, affordability pressures, and evolving regulatory interpretation. Mitigation actions include staged project delivery, prioritisation of higher-risk schemes, early procurement planning, and ongoing engagement with regulators and technical advisors.

Financial sustainability and revenue sufficiency	DIA noted that projected revenues only just cover forecast expenditure and that planned revenue increases are important to maintaining long-term financial sustainability. The 2026/2027 Annual Plan incorporates the planned increases in water service revenues required to support operational expenditure, capital investment, inflationary cost increases, and borrowing costs, noting that 2026/2027 remains a transitional year on the path to full depreciation funding for water services (see Transition to full depreciation funding above). Progress on financial ring-fencing arrangements is set out under Water services financial separation / ringfencing arrangements above. Implementation of the new FMIS platform is expected to further strengthen financial reporting and monitoring capability. SDC continues to monitor borrowing requirements, affordability impacts, and the long-term sustainability of water service funding while balancing community affordability considerations and regulatory investment requirements.