Ōtorohanga District Council

Notice is hereby given that an **extra-ordinary** meeting of the Ōtorohanga District Council will be held in Waikōwhitiwhiti (Council Chambers), Ōtorohanga District Council, 17 Maniapoto Street, Ōtorohanga on Tuesday, 8 April 2025 commencing at 10.00am.

Tanya Winter, Chief Executive 4 April 2025

OPEN TO THE PUBLIC AGENDA

Ōtorohanga District Council membership

Chairperson	His Worship the Mayor, Max Baxter
Deputy Chairperson/Kāwhia Tihiroa Councillor	Deputy Mayor, Annette Williams
Kāwhia Tihiroa Councillor	Kit Jeffries
Kio Kio Korakonui Councillor	Rodney Dow
Ōtorohanga Councillor	Katrina Christison
Ōtorohanga Councillor	Steve Hughes
Rangiātea Councillor	Jaimee Tamaki
Rangiātea Councillor	Roy Willison
Waipā Councillor	Roy Johnson
Wharepūhunga Councillor	Cathy Prendergast

All attendees at this meeting are advised that the meeting will be electronically recorded (audio and video) for the purpose of webcasting to the ŌDC's YouTube channel. Every care will be taken to maintain individuals' privacy however attendees are advised they may be recorded as part of the general meeting proceedings.

For use in both opening and closing meetings

A Member will provide the words of their preference or may choose to use the following:

Mā te whakapono	*By believing and trusting*
Mā te tūmanako	*By having faith and hope*
Mā te titiro	*By looking and searching*
Mā te whakarongo	*By listening and hearing*
Mā te mahi tahi	*By working and striving together*
Mā te manawanui	*By patience and perseverance*
Mā te aroha	*By all being done with compassion*
Ka taea e tātou	*We will succeed*

For use in blessing food

A Member will provide the words of their preference or may choose to use the following:

Nau mai e ngā hua o te wao	*I welcome the gifts of food from the forest*
O te ngakinga	*From the cultivated gardens*
O te wai tai	*From the sea*
O te wai māori	*From the fresh waters*
Hei oranga mō tātou	*For the goodness of us all*
Tūturu whakamaua	*Let this be my commitment to all!*
Kia tina! Tina! Hui e! Tāiki e!	*Drawn together and affirmed!*

This Open Agenda was prepared by Manager Governance, Kaia King and approved for distribution by Chief Executive, Tanya Winter on 4 April 2025.

Commencement of meeting — Te tīmatanga o te hui

The Chairperson will confirm the livestream to YouTube is active then declare the meeting open.

Opening prayer/reflection/words of wisdom — Karakia/huitao/whakataukī

The Chairperson will invite a member to provide opening words and/or prayer/karakia.

Apologies — Ngā hōnea

A Member who does not have leave of absence may tender an apology should they be absent from all or part of a meeting. The meeting may accept or decline any apologies. For clarification, the acceptance of a Member’s apology constitutes a grant of ‘leave of absence’ for that specific meeting(s).

Should an apology be received the following is recommended: *That Ōtorohanga District Council receive and accept the apology from … for …. (non-attendance, late arrival, early departure).*

Late items — Ngā take tōmuri

Items not on the agenda for the meeting require a resolution under section 46A of the Local Government Official Information and Meetings Act 1987 stating the reasons why the item was not on the agenda and why it cannot be dealt with at a subsequent meeting on the basis of a full agenda item. It is important to note that late items can only be dealt with when special circumstances exist and not as a means of avoiding or frustrating the requirements in the Act relating to notice, agendas, agenda format and content.

Should a late item be raised, the following recommendation is made: *That Ōtorohanga District Council accept the late item …. due to …. to be heard ….*

Declaration of conflict of interest — Te whakapuakanga pānga taharua

Members are reminded to stand aside from decision making when a conflict arises between their role as an elected member and any private or external interest they may have.

A conflict can exist where:

- The interest or relationship means you are biased; and/or
- Someone looking in from the outside could have reasonable grounds to think you might be biased.

Should any conflicts be declared, the following recommendation is made: *That Ōtorohanga District Council receive the declaration of a conflict of interest from …. for item … and direct the conflict to be recorded in Ōtorohanga District Council's Conflicts of Interest Register.*

Decision reports Ngā pūrongo whakatau

DISCLAIMER: The reports attached to this Open Agenda set out recommendations and suggested resolutions only. Those recommendations and suggested resolutions DO NOT represent Ōtorohanga District Council policy until such time as they might be adopted by formal resolution. This Open Agenda may be subject to amendment either by the addition or withdrawal of items contained therein.

Item 225	Local Water Done Well options analysis & identification of Preferred Option
To	Ōtorohanga District Council
From	Mark Lewis, Group Manager Engineering & Assets
Type	**DECISION REPORT**
Date	8 April 2025

1. Purpose | Te kaupapa

1.1. To receive the analysis of options for the delivery of water services (refer Appendix 1) and accompanying supporting information (refer Appendices 2 and 3) and confirm Council's preferred option for consultation with the community.

2. Executive summary | Whakarāpopoto matua

2.1. Council has analysed two options deemed viable for the delivery of water services under the LWDW framework, namely an Enhanced Status Quo model and a model co-designed by seven councils including ŌDC known as Waikato Water Done Well (WWDW).

2.2. After having applied a three-step process to analyse these options, the WWDW model demonstrates range of qualitative benefits for the district. Examples include better borrowing capacity for unexpected events such as plant failures and other emergencies, greater ability to attract and retain staff, more effective service delivery and a stronger community voice on water delivery matters of regional and national interest

2.3. From a financial perspective our analysis is less conclusive. Financial modelling for WWDW offers a spectrum of potential outcomes and, while comfortable with the likely outcome, a worst-case scenario would be less acceptable.

2.4. On balance, WWDW is our preferred option due to its clear benefits for the district. From the entity's inception, it would be our intention to participate as a Stage One shareholder enabling us to continue to have influence in the co-design process. However, transitioning to Stage Two in 2027/28 would be on the proviso that we should be no worse off under this model as compared to Enhanced Status Quo.

3. Staff recommendation | Tūtohutanga a ngā kaimahi

That Ōtorohanga District Council:

3.1 Receive the following reports –

a. 'Water Services Option Analysis' (document number 815433);

b. 'Assessment of Viability and Sustainability of Water Services Delivery' dated December 2024 and 'Progress Update and Options Discussion' dated February 2025 from BECA, MARTINJENKINS & mafic (Document numbers 815434 and 815435);

c. 'Proposal for Waikato Water Done Well' dated 20 March 2025 and 'Supplementary Financial Analysis for Ōtorohanga District Council' dated 20 March 2025 (Document numbers 815436 and 815437);

3.2 Note that following consideration of the water services arrangement options available to Council, only two options were deemed likely to meet the legislative requirements, these being an Enhanced Status Quo option and a multi council CCO option – Waikato Water Done Well (WWDW);

3.3 Endorse Waikato Water Done Well (WWDW) as the preferred option for community consultation noting that –

a. It is Council's intention to initially become a Stage One shareholder

b. Transition to becoming a Stage Two shareholder in 2027/28 is on the proviso that the district is no worse off - financially and operationally - under WWDW than it would be under the Enhanced Status Quo Model;

3.4 Make available, as part of the community consultation process, information relating to the analysis of the Enhanced Status Quo as the other 'reasonably practicable option(s)' identified under the Local Government (Water Services Preliminary Arrangements) Act 2024 [S64(2)(b)(i)].

4. Context | Horopaki

4.1. Under the Local Water Done Well (LWDW) framework, local authorities are required to prepare a Water Services Delivery Plan (WSDP) [1]. A one-off, the WSDP is a transitional requirement outlining a council's intended water services delivery and implementation arrangements for their district. Consultation is not required on the draft or final WSDP, but councils must consult before deciding on the anticipated or proposed model for delivering water services. In doing so, information must be provided on:

a. The model or arrangement proposed

b. An analysis of at least two options (including their proposed arrangements/ model) but the legislation is silent on the method for carrying out this analysis

[1] Local Government (Water Services Preliminary Arrangements) Act 2024, S13(k).

c. Potential impacts of proceeding or not proceeding with the proposal.

4.2. In anticipation of the enactment of the LWDW legislation in September 2024, Council had already begun investigating options for water services delivery to identify the best long term delivery model for the district going forward. This work has included:

a. An independent assessment of the viability and sustainability of ŌDC's existing water services delivery arrangements has been prepared by BECA, MARTINJENKINS & mafic (refer Appendix 2). BECA et al have subsequently modelled an option for Council based on the delivery of water services in-house with some refinements to comply with the LWDW legislation referred to as Enhanced Status Quo.

b. Under the banner of 'Waikato Water Done Well' (WWDW) seven councils including ŌDC have been investigating the merits of aggregating water services, regionally or sub regionally. This collaboration of councils, coordinated by CoLAB[2], has co-designed a model for a multi council owned council controlled organisation (CCO) for the delivery of water and wastewater services on a sub-regional basis. WWDW has developed a proposal for ŌDC for its consideration (refer Appendix 3).

4.3. In addition to the work described above, Council has undertaken its own three-step analysis to compare and analyse the differences and similarities between the water service models investigated (refer Appendix 1). The three-step process filtered the water service delivery options available under the Local Government (Water Services Preliminary Arrangements) Act 2024 (WSPAA) on the basis of ability to comply with the viability thresholds in the legislation (step 1) then analysed the viable options against a set of weighted criteria (step 2). The third step in the process was analysing the viable options from a financial perspective.

4.4. Both the Enhanced Status Quo and WWDW options were considered likely to meet the legislative thresholds in step 1 and were taken forward for further analysis, as outlined above (steps 2 and 3).

4.5. This report briefly outlines the results of the options analysis using the three-step process and recommends a preferred option for consultation with the community.

5. Considerations | Ngā whai whakaarotanga

Significance and engagement

5.1. Selection of a preferred arrangement for the delivery of water services is significant. Under normal circumstances the decision would require use of the special consultative procedure (Local Government Act (LGA), S83) particularly since the decision may involve transferring the ownership or control of a strategic asset(s) to another entity. In addition, an analysis of all reasonably practicable options would also normally be required.

5.2. The WSPAA makes provision for councils to step away from the LGA and its own Significance and Engagement Policy providing it complies with sections 61 to 64 of the Act. It is intended that the

[2] CoLAB is a council controlled organisation for the delivery of shared services

'streamlined' process provided for under the WSPAA will be relied upon by Council to both decide on and consult on its preferred water services delivery arrangement.

Impacts on Maori

5.3. Council acknowledges the significance of water for Iwi/Māori and consequently the interest its partners may have in the delivery of water services.

5.4. Council has endeavoured to keep its Iwi partners abreast of the work it has been involved in relation to this kaupapa. Most recently an Iwi Leaders workshop was held on 27 March 2025 to brief mana whenua on progress to date with its investigation of water service delivery options.

5.5. At a regional level, iwi leaders from Raukawa and Ngāti Maniapoto (Te Nehenehenui) have joined with other iwi leaders, and Mayors/Chair of WRC for quarterly updates on LWDW and the investigations into an aggregated council-controlled organisation (CCO) water services delivery model. The most recent hui was 25 November 2024.

Risk analysis

5.6. As part of ŌDC's investigation of future water services arrangements a risk assessment has been undertaken and reported to Council's Risk and Assurance Committee.

5.7. Key findings of the analysis have also informed the Option Analysis[3] and the recommendations in this report relating to a preferred water services delivery model for the district.

Policy and plans

5.8. Council must prepare a WSDP which must include the anticipated or proposed model or arrangements for delivering water services. The plans are a one-off requirement and must be submitted to the Minister of Local Government no later than 3 September 2025. Selection of a preferred model for the delivery of water services for community consultation – the subject of this report - is a key element of preparing the WSDP.

Legal

5.9. The WSPAA specifies that when making its decision, councils must assess the advantages and disadvantages of all options identified (WSPAA S61(2)(c)). Certain information must also be made available to the public when undertaking consultation. This information includes an analysis of the reasonably practicable options (WSPAA S64(2)). The Options Analysis attached in Appendix One covers these legislative requirements and forms part of the documentation that will be made available to the public during consultation on the preferred option for the district.

Financial

5.10. Costs associated with LWDW are being met utilising monies from the Department of Internal Affairs to assist councils to prepare their WSDPs and transition to the new water services delivery framework. There are no new financial costs associated with applying the processes outlined in this report in addition costs already identified and previously reported on[4].

[3] Refer Appendix 1, Water Services Options Analysis, Section 2: Options Consideration - Risk
[4] Most recently February 2025 Council Meeting, Item #211.

6. Discussion | He kōrerorero

6.1. The attached Water Services Delivery Options Analysis report (Appendix 1) provides a detailed analysis of our two options – Enhanced Status Quo and WWDW - applying the methodology agreed at the Council meeting on 25 February 2025 (Resolution #C333)[5].

6.2. In summary, our analysis found that the two options were close. However, the conclusion we have reached is that long term WWDW best meets our objectives for water services for our district from a qualitative perspective. In particular the model gives ŌDC:

a. Greater resilience with better borrowing capacity for unexpected events such as plant failures, civil defence and other emergencies

b. Increased debt headroom allowing for greater financial flexibility

c. Greater ability to attract and retain staff.

d. Opportunities for more effective service delivery including, for example, better buying power, reduced duplication coupled with opportunities to rationalise items such as equipment and leases, improved operational and asset management systems

e. A stronger community voice on water delivery matters of regional and national interest.

6.3. Furthermore, the CCO model brings together councils who represent communities with rural and provincial interests. We understand each other's needs and challenges and this helps promote collaboration and create a coalition of the willing.

6.4. Our findings from the financial analysis were less conclusive. The two options both have to account for different variables and consequently the underlying assumptions between the two models differ. Furthermore, WWDW's forecast is a spectrum and while we are comfortable with the base forecast, the worst-case scenario at the other end of the spectrum paints a less acceptable picture for our district. ŌDC would need to be assured that it is no worse off under this arrangement than it would be under Enhanced Status Quo[6].

6.5. The design of WWDW provides for two types of shareholders:

a. Stage One shareholders[7] have the ability to influence the direction and design of the entity and may receive agreed water services (noting that water assets remain with Council)

b. Transitioning to becoming a Stage Two shareholder involves the transfer of assets to the CCO and the entity assuming responsibility for delivering drinking water and wastewater services.

6.6. It is in Council's interest to continue to be involved in helping shape WWDW by becoming a Stage One shareholder. However, before transitioning to Stage Two, currently scheduled for 2027/28, it is recommended that Council 'take stock' and check that it is no worse off than it would be under Enhanced Status Quo.

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5 Note: Only key findings of the Analysis are discussed in this report. Please refer to the full Options Analysis should further information be required.
6 Currently scheduled to occur in 2027/28.
7 Only available for a period of time at the inception of the CCO.

Recommended option and rationale

6.7. Council has two options – either adopting WWDW as its preferred option for community consultation or the Enhanced Status Quo model.

6.8. Based on the benefits for the district identified via the qualitative analysis undertaken in Council's three step process for assessing its options, staff recommend that WWDW be endorsed as the preferred model for community consultation and that information on the Enhanced Status Quo model also be made available to the public, as required under the legislation.

6.9. In confirming WWDW as the preferred option for community consultation, staff also recommend that this endorsement is provisional on the district being no worse off prior to becoming a Stage Two shareholder in 2027/28 – financially and operationally - under WWDW than it would be under the Enhanced Status Quo Model.

7. Appendices | Ngā āpitihanga

Number	Title	Document number
51	Water Services Option Analysis	815433
2	BECA, MARTINJENKINS & mafic: Assessment of Viability and Sustainability of Water Services Delivery dated December 2024 and Progress Update and Options Discussion dated February 2025	815434 & 815435
3	CoLAB: Proposal for Waikato Water Done Well dated 20 March 2025 and Supplementary Financial Analysis for Ōtorohanga District Council dated 20 March 2025	815436 & 815437

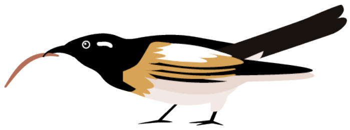
TE KAUNIHERA Ā-ROHE O ŌTOROHANGA DISTRICT COUNCIL

WATER SERVICES DELIVERY

OPTIONS ANALYSIS

ŌTOROHANGA DISTRICT COUNCIL

APRIL 2025



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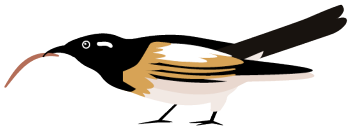


ABBREVIATIONS

CCO	Council Controlled Organisation
DWQAR	Drinking Water Quality Assurance Rules
HoA	Heads of Agreement
LGFA	Local Government Funding Agency
LTP	Long Term Plan
LWDW	Local Water Done Well
ŌDC	Ōtorohanga District Council
RoC	Rest of Council
SLA	Service Level Agreement
WSDP	Water Services Delivery Plan
WTP	Water Treatment Plant
WWDW	Waikato Water Done Well
WWTP	Wastewater Treatment Plant

EXECUTIVE SUMMARY

This analysis is to assist Ōtorohanga District Council's (ŌDC) decision-making on the selection of a preferred option for the future delivery of water services. It is also intended to provide supporting information for public consultation on the option selected.

Preparation of this analysis has drawn on information from a range of sources including council workshops, forums and consultation with our partners and key stakeholders. At the heart of the analysis, we have applied the three-step process outlined below to identify our preferred option.

STEP ONE	Critical Success Factors (CSFs) were used in the first instance to filter options for further investigation. After a preliminary review of available options and applying the CSFs, two delivery arrangements were identified for further exploration. These being: • Delivery of water services on a standalone basis (referred to as Enhanced Status Quo) • A sub-regional aggregated water services delivery model (referred to as Waikato Water Done Well or WWDW). Models were developed for both the Enhanced Status Quo[1] and the WWDW[2] options which we then assessed applying steps two and three below.
STEP TWO	Criteria based on Council's objectives for the delivery of water services were used to evaluate and compare our options (qualitative analysis).
STEP THREE	The financial information used in the two models was interrogated to give us, as close as possible, a like for like comparison of our options (quantitative analysis).

Overall, the results of our assessment the Enhanced Status Quo option and WWDW were close. However, the conclusion we have reached is that long term <u>WWDW is the better option</u> for our district. Benefits include:

- Greater resilience with better borrowing capacity for unexpected events such as plant failures, civil defence and other emergencies
- Increased debt headroom allowing for greater financial flexibility
- Opportunities for more effective service delivery
- Enhanced ability to attract and retain staff.
- A stronger voice on matters of regional and national interest in relation to water.

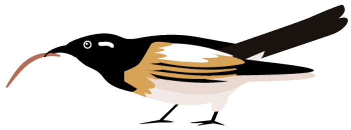
Although a better option from a qualitative perspective, our findings from the financial analysis (step three) were less definitive. The two options both have to account for different variables and consequently the underlying assumptions between the two models differ. Furthermore, WWDW's forecast is a spectrum. While we are comfortable with WWDW's base forecast, the worst-case scenario at the other end of the spectrum paints a less acceptable picture for our district. While this analysis recommends WWDW be endorsed as the preferred option for community consultation, it is suggested that agreements are put in place to ensure that district ratepayers are no worse off under this arrangement than it would be under the Enhanced Status Quo option.

1 Work on the Enhanced Status Quo model was undertaken for Council by BECA, MARTINJENKINS & mafic.
2 Modelling for WWDW was coordinated by CoLAB on behalf of seven councils, including Ōtorohanga.

SECTION ONE:

STRATEGIC CASE

- CONTEXT
- WHY CHANGE?
- METHODOLOGY



CONTEXT

The provision of safe, sustainable, and affordable water services[3] is a growing issue across New Zealand, necessitating urgent reforms. The Havelock North campylobacteriosis outbreak in August 2016 was a clarion call for both central and local government highlighting not only the safety of drinking water supplies but also concerns that had been building for some considerable time around ageing infrastructure and water services in general.

Following the previous government's initiatives to bring wide reaching change to the sector via the Three Waters Reform programme, the current Coalition Government instigated Local Water Done Well (LWDW) to address New Zealand's long-standing water infrastructure challenges. LWDW repealed the previous government's water services legislation relating to water services entities and in September 2024 established a framework for a new water services delivery system.

Under the LWDW framework, local authorities are required to prepare a Water Services Delivery Plan (WSDP). A one-off, the WSDP is a transitional requirement outlining a council's intended water services delivery and implementation arrangements for their district. The plans can be done individually or in conjunction with other councils and must be submitted to government for approval by 3 September 2025. Further legislation implementing the new water service delivery models and other enduring settings for LWDW was introduced to parliament in December 2024 and is expected to be passed by mid-2025.

This section outlines the current strategic context and the reasons for needing to change our water service delivery arrangements by:

- Overviewing what we deliver and the challenges we experience
- Detailing our objectives for water
- Outlining the method we have applied to determine our preferred option for the delivery of water services for the district.

WHAT WE DELIVER & OUR CHALLENGES

Investment in three waters infrastructure is one of the most significant of all our activities second only to land transport (refer Figure 1). Over the past three to four years there has been considerable and ongoing investment in both the water supply and wastewater networks and an expectation of increasing investment in stormwater services over the next ten years[4].

Our approach continues to be one of ensuring that we manage existing infrastructure assets efficiently and effectively and invest in new infrastructure assets wisely. However, like other councils we face a range of challenges, in particular[5]:

- Resourcing constraints, retention of experienced staff and ability to recruit new talent
- Changing standards including regulations for rural water supplies, stormwater discharge consents, and future wastewater standards
- Understanding of asset condition and critical assets
- Resilience and climate change
- Affordability
- Growth/unserviced communities.

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3 The term water services is defined by legislation to mean services in relation to a territorial authority's water supply, wastewater and stormwater networks.

4 Ōtorohanga District Council, *Infrastructure Strategy 2024-2054*, pages 29-33

5 BECA, MARTINJENKINS & mafic, *Assessment of viability and sustainability of water services delivery*, Report prepared for Ōtorohanga District Council, November 2024, page 3.

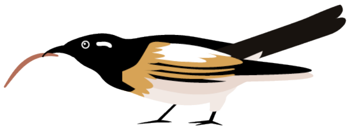
These challenges will be discussed in turn. Stormwater also has some unique features which also warrant specific discussion.

Figure 1

Snapshot of water services

	Water supply	Wastewater	Stormwater
Contribution to local community outcomes:	To ensure a reliable supply of safe drinking water to our communities.	To ensure efficient and reliable wastewater treatment that meets environmental outcomes.	To ensure efficient stormwater network capacity that protects from flood events.
Services:	2306 serviced properties in 2023/24	1270 wastewater connections in 2023/24	Urban areas of Ōtorohanga and Kāwhia serviced
Assets:	There are two urban water supply schemes for Ōtorohanga and Kāwhia, and four Rural Water Supply (RWS) schemes (Arohena, Tihiroa, Ranginui and Waipā), mainly for agricultural purposes.	Wastewater is provided to Ōtorohanga urban area.	Stormwater services are provided to assist in minimising environmental and flooding impacts.
Replacement asset value (RC 2023):	$40.6 m	$21.1m	$18.6m
Drinking water compliance:	Yes – Ōtorohanga, No – Kāwhia and RWS		
Resource consent compliance:	Yes	No	Yes
Levels of service achieved:	Yes	Yes	Yes
Asset Condition and Renewal requirements:	Based on age, few pipes are due for replacement over the next 10 years. Limited condition information is available for pipe assets. Treatment plant assets are regularly condition assessed and programmed for renewal.	Based on age, few pipes are due for replacement over the next 10 years. Treatment plant and pump station assets are regularly condition assessed and programmed for renewal.	The stormwater network has few pipes due for renewal over the next 10 years based on age. Condition of stormwater assets has not been assessed.

Source: BECA, MARTINJENKINS & mafic, Assessment of viability and sustainability of water services delivery, November 2024, page 6



RESOURCING CONSTRAINTS

Currently, operations and maintenance services for all the three waters are primarily delivered in-house supplemented by contractual arrangements for specialist services such as water sampling and mechanical and electrical repairs. Capital works are typically outsourced but with in-house project management.

An ongoing issue for ŌDC is the retention of experienced staff and ability to recruit new talent. This issue is not unique to the district as other local authorities in the Waikato Region report similar difficulties with workforce availability for servicing both operational and capital works. In the future this issue may be compounded for Council should other employers in the region become more competitive (eg. CCOs established for the delivery shared services with respect to water).

To remain attractive, smaller councils such as Ōtorohanga may have to look at additional incentives, both financial and non-financial to attract staff from the major centres.

CHANGING STANDARDS

We operate within a complicated legislative and policy environment, with increasing environmental, safety and compliance expectations with respect to all three waters. LWDW will add a further overlay of regulation to this already complex picture through new economic regulations to ensure appropriate investment in infrastructure and transparency in the management of costs, revenue and cost recovery.

In recent years we have invested heavily in improvements to both our water supply and wastewater networks. Overall, our assets are compliant with the following exceptions:

- An abatement notice has been received for the Ōtorohanga WWTP and an improvement plan has been prepared for works to reliably meet consent conditions and manage sludge levels
- Compliance of rural water supplies and Kāwhia supply with Drinking Water Quality Assurance Rules (DWQAR).

Currently there are three resource consents that we are in the process of renewing – one water supply consent and two stormwater consents – and further seven water supply consents are scheduled to expire over the next ten years. Compliance with the new stormwater consents may require a change in our management approach taking into account stormwater quality and quantity, and potentially more monitoring.

In summary, long term, we anticipate our plans for all water services are likely to require further work and investment to meet regulatory compliance.

UNDERSTANDING OF ASSET CONDITION & CRITICAL ASSETS

Considerable effort has been undertaken in recent years to update and improve ŌDC's asset management database and information systems. This information is important for understanding both what and when assets will need to be replaced and required investment.

Wastewater assets are assessed and tested regularly to determine the condition of the infrastructure. However, condition information available for water supply assets is more limited. There is also some missing information on the condition and material for the stormwater assets.

RESILIENCE AND CLIMATE CHANGE

Mindful of the challenge drought is expected to pose for the district, ŌDC has invested in an additional 500m^3 reservoir on Mountain View Road and two additional 400m^3 reservoirs on the Waipā RWS to increase local resilience. In the future other climate change related work may also be needed as sea level rise and an increase in the frequency of high rainfall events are expected to place pressure on urban stormwater networks and water and wastewater networks in low-lying areas. The financial implications of these effects are not yet fully understood[6].

6 BECA et al, *Assessment of viability and sustainability of water services delivery*, cit. op., page 52.

AFFORDABILITY

Nationally, the cost of water services is expected to rise in the future. Drivers for the anticipated increases relate to:

- The additional capital investment in water infrastructure that will be needed in to meet regulatory compliance
- Levies associated with national monitoring regime that will be applied to water service providers
- New accountability requirements for water strategies and reporting.

These additional costs must be accommodated whist ensuring services remain affordable.

GROWTH/UNSERVICED COMMUNITIES

In the short term our existing three waters assets can absorb the amount of growth we are anticipating within serviced areas (including infill)[7].

Like other local authorities, ŌDC is required to assess community water and sanitary services every three years including unserviced communities with the first due 1 July 2026[8]. If problems are identified, we may be required by Taumata Arowai to work with the community/supplier to identify a solution[9]. Extending services beyond these areas would place pressure on existing capacity. A community wastewater scheme in Kāwhia, for example, is not something ŌDC could commit to unless there was substantive assistance to make such a scheme affordable for the community.

APPROACH TO STORMWATER

Stormwater systems are different from water and wastewater networks and may require a different approach when considering arrangements for the delivery of water services. The LWDW legislation does not include stormwater services relating to transport corridors nor is the cross over between river flood control schemes and stormwater schemes explicitly recognised.

Ōtorohanga's stormwater network is interconnected with the Waipā River flood protection assets with the majority of stormwater passing through the three flood pump stations. Although separate activities they are maintained as one activity by the water services team. ŌDC has a Service Level Agreement (SLA) with Waikato Regional Council and receives annual funding for the work it undertakes as part of Project Watershed.

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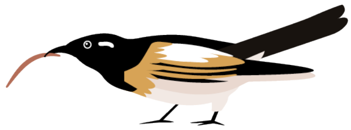
7 ŌDC, *Infrastructure Strategy cit. op.*, pages 45-51

8 BECA et al, *Assessment of viability and sustainability of water services delivery*, cit. op., page 17.

9 Ibid., page 52.



WHY CHANGE?

Recent improvements to our existing infrastructure and with plans for addressing current outstanding compliance issues, ŌDC has capacity <u>in the short term</u> to deliver water services that meet regulatory standards with some adjustments. Looking further out the picture is somewhat less certain.

With the establishment of Taumata Arowai as the national water regulator and the introduction of the LWDW framework, our approach to the delivery of water services must change – this is not a matter in which we have a choice. The new legislation and the increasingly complex regulatory environment combined with the challenges we face as a district necessitate finding a way to ensure that water services are viable and sustainable. We need new approach to water services delivery; the question for us is - to what extent do we need to change and what will serve the district best in the long term.

Our objectives for the delivery of water services are detailed below along with the method we have used to support our decision making for selecting our preferred arrangement for the delivery of public consultation.

OBJECTIVES

The following objectives for water services delivery for Ōtorohanga District were workshopped by Council in February 2025 (refer Figure 2). These objectives draw on our legislative obligations[10] whilst being informed by our specific regional and local circumstances. Furthermore, the objectives reflect targeted, ongoing consultation undertaken with elected members, iwi and our rural scheme committees on the matter of water reforms[11].

Figure 2

ŌTOROHANGA DISTRICT COUNCIL

WATER SERVICES OBJECTIVES

Delivery of <u>integrated</u> water services for the Ōtorohanga community that:

Financially Sustainable	• Are efficient and financially sustainable and affordable, now and into the future
Compliant	• Meet regulatory standards and requirements for public health and the environment whilst fulfilling community expectations with respect to quality
Resilient	• Are resilient to natural hazards including climate change
Community Connectedness	• Publicly owned with provision for community input on local matters and bespoke solutions catering for the rural nature of our district
Uphold Partnerships	• Gives effect to Te Ture Whaimana[12] as it relates to the district and honours and upholds relationships and agreements with our hapū and iwi partners
Regional Leverage	• Supports inter regional collaboration to achieve efficiencies and enables coordinated, boundaryless planning and investment
Maintain Viablity	• Ensures remaining council operations are viable and capable of delivering cohesive services to meet community expectations.

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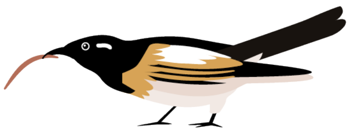
[10] Albeit anticipated as we await the enactment of the Local Government (Water Services) Bill 2024, cl. 15. Refer Appendix 1 for Objectives of water service providers.

[11] Refer to Appendix 2 for ŌDC's position statement on the 3 waters reform.

[12] Te Ture Whaimana is the primary direction setting document for the Waikato River and activities which affect it. It sits ahead of all other subordinate legislation or planning documents under the Resource Management Act (1991). Its foundation was set from the Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010, clause 19 the Vision & Strategy. In 2012 the Ngaa Wai o Maniapoto (Waipa River) Act was enacted extending boundaries for the Vision and Strategy to include all of the Waipa River (Source: Waikato River Authority).



METHODOLOGY

This high-level options analysis is to assist with Council's decision-making on the selection of a preferred option for the future delivery of water services. It is also intended to provide supporting information for public consultation on the option(s) selected.

Where relevant we have also provided commentary on the implications of the various options for ŌDC's non-water related activities – the unintended consequences of our decisions.

SCOPE EXCLUSIONS

As noted above, this options analysis is high level and does not have the detail that would typically be required if following the Better Business Case methodology.

ANALYSIS METHOD

Preparation of this analysis has involved the following activities:

- An independent assessment of the viability and sustainability of ŌDC's existing water services delivery arrangements has been prepared by BECA, MARTINJENKINS & mafic.
- ŌDC is one of seven councils working under the banner of 'Waikato Water Done Well' investigating the merits of aggregating water services, regionally or sub regionally. This work is being coordinated by CoLAB – a CCO for the delivery of shared services. Following preliminary work, in December 2024 the councils signed a Heads of Agreement (HoA) to progress the co-design of the aggregated model including drafting of the formal documentation to establish a CCO for water services.

Other work undertaken in support of this options analysis has involved:

- Targeted and ongoing consultation with iwi and our rural scheme committees since water reforms were first mooted involving reaffirmation of Council's and key stakeholders' position on the arrangements for water and key local concerns.
- Participation in various regional forums (Waikato Joint Mayors and Chairs Forum and Waikato Iwi Chairs Forum) to inform and canvass regional views on the shape and scope of an aggregated water services model.
- Council workshops and meetings to consider the findings of the various workstreams being undertaken to consider components of the business case. In total, ten workshops/meetings [13]have been held as shown in the table below.

Table 1: Council Workshop/Meetings

WORKSHOP/MEETING		PURPOSE
Date	Type	
27/08/2024	Council Mgt	• Waikato Water Done Well - Proposal for Regional Council Controlled Organisation (CCO) for the Delivery of Water Services
22/10/2024	Workshop	• Preliminary Findings - Assessment of viability and sustainability of ŌDC's water services delivery
12/11/2024	Workshop	• Waikato Water Done Well – Draft Heads of Agreement
10/12/2024	Council Mgt	• Final - Assessment of viability and sustainability of ŌDC's water services delivery • Waikato Water Done Well – Final Heads of Agreement
11/02/2025	Workshop	• Recap of objectives for water service delivery and criteria for options analysis
25/02/2025	Council Mgt	• Adoption of objectives and criteria assessing for water service delivery options
25/02/2025	Workshop	• Enhanced Status Quo Model – Option details • Waikato Water Done Well – Option details

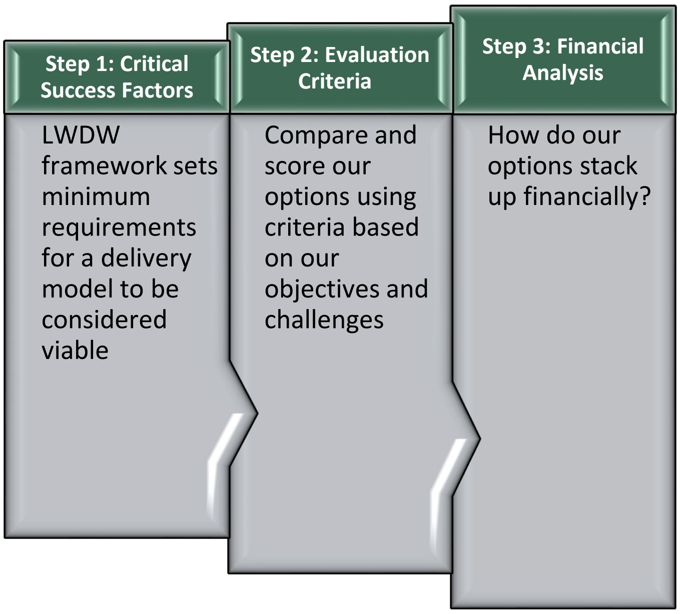
[13] Includes the Council meeting on 8 April to decide on the preferred option for consultation.

11/03/2025	Workshop	• Options Analysis – Qualitative Criteria and Financial Comparisons
25/03/2025	Workshop	• Options analysis and scoring
8/04/2025	Council Mgt	• Adoption of options analysis and selection of preferred option for consultation

OPTION ANALYSIS

There are three steps to the options analysis we have undertaken (Refer Figure 3).

Figure 3: Three Step Analysis Process



STEP 1

While local authorities have a range of water service delivery arrangements available to them, the LWDW framework sets minimum requirements that must be met in order for a delivery model to be considered viable. These requirements include:

- Economic, environmental and water quality regulations - some of which have been set while others are pending
- A new planning and accountability framework
- Financial sustainability (with ring-fencing of water services, revenue sufficiency and investment sufficiency)
- Consistently with statutory objectives
- Restrictions preventing privatisation.

These requirements are described in this analysis as critical success factors (CSFs) which we have used as a first filter to exclude arrangements unlikely to reach these thresholds (refer Section Two).

STEP 2

Based on our objectives and the challenges we face, we have then applied various criteria to evaluate, compare and score our options to provide a qualitative (measure of quality) assessment of our selected water service arrangements (refer Section Two). A risk analysis of the options has also been undertaken for completeness (refer Section Two and Appendix 3 for details).

STEP 3

Section Three of this business case provides a high-level financial analysis of the options. Within limitations, the financial analysis provides quantitative (measure of data) information for comparing the options.

SECTION TWO:

OPTIONS CONSIDERATION

- CURRENT DELIVERY ARRANGEMENTS
- EVALUATION APPROACH
- OUR OPTIONS
- ANALYSIS

SECTION TWO: OPTIONS CONSIDERATION

CURRENT DELIVERY ARRANGEMENTS

As noted in the previous section, operations and maintenance services for all the three waters are currently delivered in-house supplemented by contractual arrangements for specialist services such as water sampling and mechanical and electrical repairs. Capital works are typically outsourced but with in-house project management (Refer Figure 3).

Figure 4

Activity	Planning & Management	Operations & Maintenance	Capital Delivery
Water supply	Inhouse	Inhouse Water sampling and Laboratory services are carried out by CoLab shared services Mechanical and electrical repairs, CCTV inspections and Backflow testing external delivery	Outsourced (Inhouse project management) Minor projects can be delivered internally (fitting, mechanical and electrical)
Wastewater	Inhouse		
Stormwater	Inhouse		

Source: BECA, MARTINJENKINS & mafic, Assessment of viability and sustainability of water services delivery, November 2024, page 7

WATER SERVICES TEAM

INHOUSE RESOURCES

The Water Services team located within the Council's Engineering and Assets Group is led by the Manager Waters to deliver:

- Operations and maintenance
- Asset management
- Compliance
- Project Delivery.

The Water Services Team in conjunction with Community Facilities staff also take responsibility for maintaining the Waipā River flood protection assets located adjacent to Ōtorohanga Township. Although owned by ŌDC, annual funding via a SLA is received from Waikato Regional Council as the scheme is part of part of Project Watershed.

OUTSOURCED DELIVERY

The following services are outsourced:

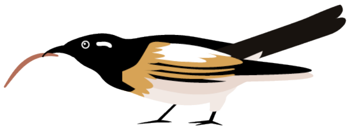
- CoLAB shared services provides sampling and analysis for water, wastewater and stormwater
- Specialist services are utilised for electrical and mechanical repairs, backflow testing and CCTV inspection services and the like.
- Contractors carry out asset renewals and upgrades.

INTEGRATED SERVICE DELIVERY

The Water Services Team both supports and is supported by other teams[14] within Council. Working from the main office in Ōtorohanga, the Team are part of the ŌDC whanau – staff know one another and have pride in delivering to their community.

[14] For example, assets, project delivery and finances.

Separate cost centres are maintained for each of the three waters which attract overhead charges for support functions such as HR, IT, accounting and customer service. The role of the Water Services Team has already been discussed with respect to flood protection and they also support the delivery of other Council activities when their expertise and advice is required (eg. roading, parks and reserves).



EVALUATION APPROACH

A three-step process has been applied to identify our preferred option. Set out below are the CSFs used to filter options for further investigation (step one). The criteria to evaluate and compare our options is also outlined (step two). The next section of this options analysis compares and assesses financial information used to model the options (step three).

CRITICAL SUCCESS FACTORS

The LWDW framework identifies a range of possible arrangements for the delivery of water services[15]. As noted in the methodology, the framework also sets minimum requirements – a litmus test for determining whether a delivery model can be considered viable. Applying the LWDW framework, we have identified the following CSFs to assist with selection options for our district.

Table 2: Critical Success Factors

CRITICAL SUCCESS FACTORS	DESCRIPTION
Regulatory Compliance	• Has the capacity and capability to achieve compliance with all applicable regulations for the safe and lawful operations of the district's water services.
Financial Sustainability	• Provides for ring-fencing of water services (ie. no cross subsidisation of or for other services). • Generates sufficient income to cover all operational and funding costs in the long term. • Projected level of investment is sufficient to maintain assets, meet regulatory requirements and provide for growth.
Transparency & Accountability	• Has the capacity to provide the public and consumers access to reliable information about the different components of the water services being delivered (including quality and other matters related to public safety) and water charges.
Consistency with Legislative Objectives & Customer Expectations	• Ensures the health and safety of the community with respect to water service provision remains paramount. • Acts in the best interests of current and future consumers.
Ownership	• Remains in public ownership.

EVALUATION CRITERIA

As well as being legislatively compliant, it is important that our preferred water services delivery model is tailored to our district's needs. To this end, we have identified other considerations to be taken into account alongside the CSFs determining the best arrangement for Ōtorohanga. These considerations align with the objectives we set out in the Strategic Case and our challenges,

Set out below are the qualitative criteria - financial and non-financial - we have used to evaluate and compare our selected options[16]. The criteria have been weighted based on the level of importance to ŌDC and then applied in the assessment of each option[17].

[15] The Local Government (Water Services) Bill introduced into the House in December 2024 and currently with Select Committee, offers a slightly broader range of options for the delivery of water services than those proffered through the Local Government (Water Services Preliminary Arrangements) Act 2024. These options have not been considered as the Bill is not expected to be passed into law until June 2025 leaving little time for councils to prepare their respective WSDPs.

[16] It should be noted that there is a cross-over between the evaluation criteria and the CSFs due to the likelihood that, although the minimum requirements are expected to be met, there will be variations in the levels of impact the options will have on the CSFs.

[17] Council agreed on the weightings at its meeting on 25 February 2025. Refer: www.otodc.govt.nz/assets/Documents/Meetings/Council/2025/Open-agenda-ODC-25-February-2025.pdf

Table 3: Evaluation Criteria

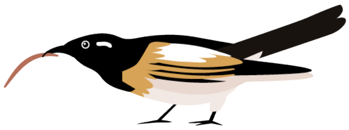
Criterion	Description	Weighting %
	How well does the option ….	
Financial Sustainability	• Improve the financial efficiency of delivery by: – Creating sufficient funding to meet investment required (Debt headroom) – Generate savings that can be sustained savings – Maximise economies of scale – Consider consumer affordability – Optimise value for money and minimise associated risk	22
Community Connectedness	• Maintain the local voice and allow for influence in strategy development and delivery of water services • Deliver consistent, seamless levels of service to all consumers regardless of location • Allow for consistent pricing aligned with level of service	17
Operational Effectiveness	• Attract and grow a highly skilled workforce • Provide for: – All aspects of legislative compliance – Improve delivery of capital programmes – Improve asset management systems and processes • Create a stable and secure operating environment (supports long-term decision-making, is resilient against fluctuations in political cycles, withstands changes in the ability or willingness of partner councils to collaborate, and respond to emergency situations)	19
Uphold Partnerships	• Give effect to Te Ture Whaimana as it relates to the district • Maintains the ability for ŌDC to uphold relationships and agreements with our hapū and iwi partners	13
Regional Leverage	• Support inter-regional collaboration to achieve efficiencies and enables catchment-based planning and investment	11
Maintains Viablity	• Ensure remaining council operations are viable and can continue to deliver on community expectations including: – Maintaining integration with council's land use and non-water infrastructure plan – Mitigating potential stranded costs that could arise through structural separation	17
TOTAL		**100%**

A five-point scale was used to score the criteria as follows:

Table 4: Scoring Scale for Evaluation Criteria

SCORE	DESCRIPTION

Strongly Enables Criteria + Benefits (Score 5)	Aligns with all aspects of the evaluation criteria and provides additional benefits.
Strongly Meets Criteria (Score 4)	Aligns to the evaluation criteria, with no additional benefits.
Moderately Meets Criteria (Score 3)	Moderately aligns to the evaluation criteria but has some deficiencies.
Meets Criteria (Score 2)	Only somewhat aligns to the evaluation criteria and has substantial limitations.
Fails to Meet Criteria (Score 1)	Option fails to align to the evaluation criteria.



OUR OPTIONS

After a preliminary review of available options and applying the CSFs (see Figure 5), two delivery models were identified for further exploration. These being:

- Delivery of water services on a standalone basis (referred to as Enhanced Status Quo)
- A sub-regional aggregated water services delivery model (referred to as Waikato Water Done Well or WWDW).

A description of the two models including key characteristics is provided below.

NOTE:
As discussed in the previous section, our approach to the management of the stormwater network differs to that for water supply and wastewater due to the network being inextricably linked with other Council functions. The Local Government (Water Services) Bill released prior to Christmas 2024 and currently with Select Committee makes some specific provisions for stormwater. Whilst we need time to fully understood the implications of the Bill, we need to be able to identify a preferred option now for the delivery of water services. We have therefore, for the purposes of this analysis, assumed that we will continue to own and deliver stormwater services alongside our responsibility for flood control under Project Watershed.

ENHANCED STATUS QUO MODEL

This option involves the creation of a business unit within ŌDC[18].

KEY CHARACTERISTICS

ŌDC:

- Retains ownership and governance oversight of all water services assets
- Delivers:
  - Water services to communities
  - Capital works including procurement and project management.
- Ring fences and funds all expenditure relating to all waters services - including corporate and other support service costs - using separate targeted rates, water specific charges and financial/development contributions.
- Maintains connectivity with other functions of council with clear lines of responsibility to the community.

Other points to note:

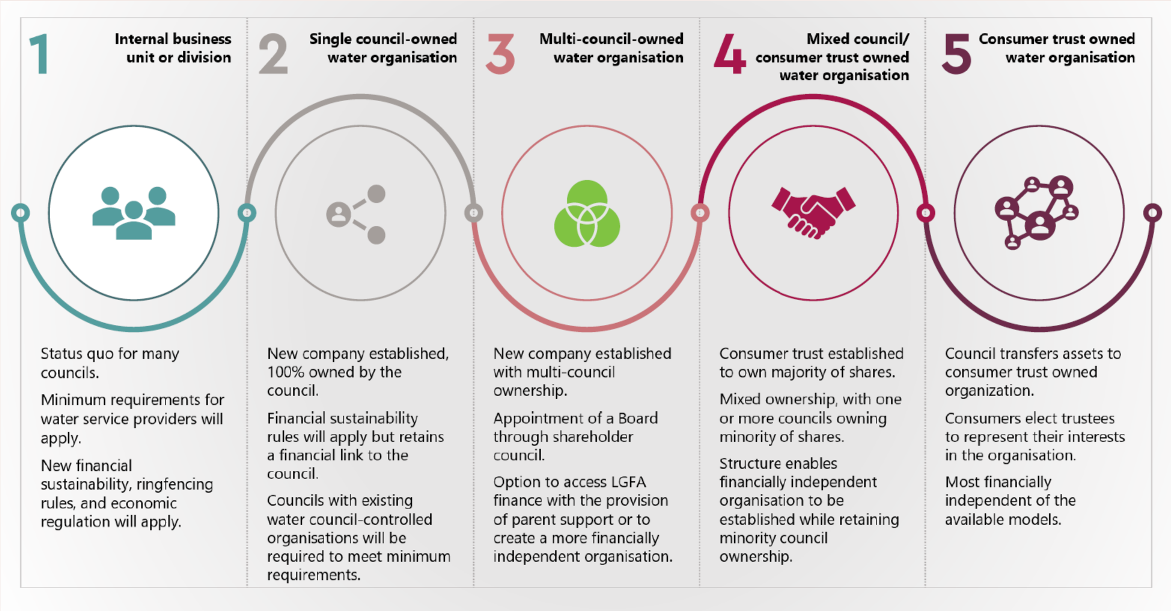
- Debt will be limited to a debt to revenue ratio of 285% (up from the current 175% threshold)
- We will be subject to the full impact of economic regulation and may be required to charge more (or less) for waters services to meet these requirements.

[18] The exact form of this unit would need to be determined.

Figure 5: Water Service Delivery Options Excluded from Analysis After Applying the Critical Success Factors

WATER SERVICE OPTIONS

Under LWDW, councils have five options to choose from for the delivery of water services. These are:



Applying the CSFs outlined on page 16, options 2, 4 and 5 have been not been taken forward for further anaysis for the following reasons:

Standalone ŌDC Water Services CCO (Option 2):

- Given the scale of the Council's water operations, its demographics, and the limited number of connections, establishing and operating a standalone water services organisation is likely to be inefficient.
- The additional overheads, compliance requirements, reporting, and monitoring costs would add significant financial and administrative burdens. Significant efficiencies are likely to be limited due to a lack of scale, and there may even be diseconomies of scope. Additionally, this option could result in some loss of oversight and control by elected members, along with potential implementation risks.
- It is considered unlikely that this approach would deliver benefits equal to or greater than those of continuing in-house water service delivery or joining Waikato Water Done Well.

Trust models (Options 4 and 5)

Similarly, the community trust models would likely result in higher financing costs due to their inability to access the Local Government Funding Agency, along with added complexity.

Source: BECA, MARTINJENKINS & mafic

WWDW MODEL

This option is for a compliant, financially sustainable, asset-owning entity that provides drinking water and treats and disposes wastewater (water services) for various Waikato councils[19]. The entity will be a CCO and may also, if requested by individual shareholders, provide stormwater services under contract.

KEY CHARACTERISTICS

CCO:

- Takes the form of a limited liability company jointly owned by its council shareholders
- Is overseen by an independent, professional board of directors who are appointed by shareholders through a shareholders' forum.
- Is asset owning[20] noting that stormwater assets will remain under ŌDC ownership.
- Delivers:
  - Water supply and wastewater services to communities[21]
  - Customer service (ie. service requests and customer complaints)
  - All consenting and consent monitoring pertaining to water services applying a whole of catchment investment approach
  - Capital works including procurement and project management.
- Will:
  - Undertake asset management planning and network mapping for water services
  - Under delegation prepare and review a drinking water catchment plan and a trade waste plan and, if deemed necessary, recommend to ŌDC the making of any associated bylaws[22]
  - May work collaboratively with ŌDC to prepare a joint stormwater risk management plan and any stormwater bylaws deemed necessary to manage the network[23]
- Will provide technical input into shareholders' growth strategies and other regulatory planning instruments (district plans and plan change processes) on matters relating to water services
- Has the ability to set charges and funds all expenditure relating to water supply and wastewater.

Other points to note:

- Operational decisions about water services will be the responsibility of the CCO Board, based on a Statement of Expectations prepared by the shareholding councils
- In time the CCO will be able to borrow up to a debt to revenue ratio of 500% provided the respective council underwrites that debt.
- The CCO will be subject to the full impact of economic regulation and may be required to charge more (or less) for waters services to meet these requirements.
- The role of Iwi in relation to shareholder decision making has been left as a matter for the Shareholder Representative Forum to lead with the Joint Waikato Mayors/ Iwi Chairs Forum.

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19 At the time of writing, seven councils, including ŌDC, were investigating the suitability of the WWDW Model for their respective districts.

20 WWDW HoA provides for a staged approach for council participation in the CCO. ŌDC would enter initially as a Stage 1 shareholder with the intention of transitioning its water supply and wastewater services and assets (Stage 2 shareholder) to the CCO in 2027/28.

21 Stormwater could be delivered at a later date via a SLA.

22 Drinking water catchment plans are a new requirement under the Local Government (Water Services) Bill (refer cls 143-148). The first plans must be adopted with two years of this section coming into force (circa June 2027) and reviewed every ten years.

23 Stormwater risk management plans are a new requirement under the Local Government (Water Services) Bill (refer cls 165-169). The first plan must be adopted with two years this section coming into force (circa June 2027) and reviewed every five years.

KEY FEATURES SUMMARISED

For ease of comparison, the table below summarises the key structural features of the two models.

Table 5: Summary of Structural Features of Selected Service Delivery Models

FEATURE	ENHANCED STATUS QUO MODEL	WWDW MODEL
Ownership	Wholly council owned business unit	Shared ownership with other councils – a CCO[24]
Legal Status	Business unit does not have a separate legal identity but falls under Council's status as a statutory corporation established under the Local Government Act 2002	Limited liability company established under the Companies Act 1993
Governance	Internal business unit responsible to Council via the Chief Executive and Group Manager Engineering and Assets	Councils appoints members to a shareholders' representative forum, which appoints a board and oversees performance[25]
Strategy[26]	Council prepares water services strategy (every three years)	Shareholders issue a combined statement of expectations to the board[27]. The CCO board prepares a draft water services strategy and a final after considering the shareholders comments on the draft.
Accountability	Prepares and adopts a water services annual report and associated financial statements. Council may include the water services annual report in its annual report[28].	CCO board reports on the its operations to shareholders at least half yearly and annually in a form that meets legislative requirements.
Revenue	<u>Ring fences</u> and funds all expenditure relating to all waters services - including corporate and other support service costs - using separate targeted rates, water specific charges and financial/ development contributions	CCO has the ability to set charges and will fund all expenditure relating to water and wastewater.
Borrowing	Council borrows, with water business unit meeting its share of financing costs (on internal and external borrowing). Debt will be limited to a debt to revenue ratio of 285% (up from the current 175% threshold)	CCO will (in time) be able to borrow up to a debt to revenue ratio of 500%. Shareholding councils will underwrite the debt in favour of the Local Government Funding Agency (LGFA). Such underwrite will be in proportion to their shareholding in the CCO.
Te Tiriti o Waitangi	Must act in a manner that is consistent with Treaty settlement obligations.	Must act in a manner that is consistent with Treaty settlement obligations.

Adapted from Department of Internal Affairs, Water Service Delivery Models: Guidance for Local Authorities, August 2024

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24 Within the meaning of section 6 of the Local Government Act 2002

25 The Local Government (Water Services) Bill (cl. 40) requires boards of water organisations to be made up of professional directors. Neither staff nor elected members of a shareholding council can be appointed to boards. Directors must act in the best interests of a company.

26 Water Service Providers must prepare and have in place at all times a water services strategy which sets out how the activities it intends undertaking will achieve the objectives and any other outcomes of the, yet to be finalised, Local Government (Water Services) Act. Levels of investment, accountability measures and financial matters must also be covered in the strategy. Essentially, the strategy is a long term plan for water services.

27 Every three years and at least six months prior to the CCO preparing the draft water services strategy Local Government (Water Services) Bill (cl. 184).

28 Local Government (Water Services) Bill, cl. 205(4).

SECTION TWO: OPTIONS CONSIDERATION

ANALYSIS

The table on pages 23 to 25 outlines the advantages and disadvantages of both the Enhanced Status Quo and WWDW models. Using the five-point scoring scale, ŌDC Councillors rated both models and the collective scores were averaged before applying the agreed weighting for each criterion.

FINDINGS

Although results were close for a number of the criteria, WWDW was assessed as the highest scoring of the two models on the qualitative measures with a weighted score of 68% (cf. 60% for Enhanced Status Quo). This indicates that WWDW meets all the evaluation criteria and offers additional benefits in some areas to that of the Enhanced Status Quo model.

The specific criteria WWDW scored higher than Enhanced Status Quo on include:

- Financial sustainability (this was viewed as a particular strength)
- Operational effectiveness
- Uphold partnerships
- Regional leverage
- Maintains viability

Enhanced Status Quo scored higher that WWDW on the criterion of community connectedness.

CRITERION	DESCRIPTION	ENHANCED STATUS QUO			WAIKATO WATER DONE WELL		
	How well does the option ….	ADVANTAGES	DISADVANTAGES	WEIGHTED SCORE	ADVANTAGES	DISADVANTAGES	WEIGHTED SCORE
FINANCIAL SUSTAINABILITY	• Improve the financial efficiency of delivery by: – Creating sufficient funding to meet investment required (Debt headroom) – Generate savings that can be sustained savings • Maximise economies of scale • Consider consumer affordability • Optimise value for money and minimise associated risk•	• .Easy to implement for minimal cost. • Continued access to low-cost debt funding via .LGFA (up to 285%). •	• Council will need to manage all financial risk & meet all financial demands incl. unexpected repairs or regulatory changes. • Potential for competing priorities for funding & borrowing from other Council services. • Borrowing structures may not be as efficient as a water services entity leading to higher costs for consumers. • Future affordability & capital delivery challenges (eg. significant capital works) • Does not achieve economies of scale • Lower debt ceiling may restrict long-term investments in asset maintenance, drinking water standards, climate initiatives & other regulatory requirements.	11%	• Ability to borrow up to 500% of operating revenue via LGFA. • Access to increased debt headroom allows for investment in infrastructure without delay. • Opportunity for delivery improvements due to scale (eg. consolidating capital & maintenance procurement & workforce optimisation) • Long term capital cost will be shared across over 129,000 connections thereby reducing the total cost of water & wastewater to consumers.	• Short term (up to 10 years) uncertainty, until the CCO is fully established, harmonisation is in place & savings can be fully realised. • Limited control over pricing except through the statement of expectation (SOE) and transition strategy (part of the Shareholders Agreement)	17%
COMMUNITY CONNECTEDNESS	• Maintain the local voice and allow for influence in strategy development and delivery of water services • Deliver consistent, seamless levels of service to all consumers regardless of location • Allow for consistent pricing aligned with level of service	• Retains Council's ability to prioritise & tailor solutions to local conditions. • Allows for oversight of day-to-day operations, ensuring alignment with council-wide values & goals. • Provides community visibility of water service decisions & how funds are spent. • Direct channels for public concerns & complaints to elected members. • Being able to control the entire growth/development process. • Ability to service non-potable water services without much change (ie. Rural Water Schemes will continue to have a voice & expected LoS)	• Limited responsiveness to challenges due to smaller scale (incl. long-term water service investments). • Slower decision making compared to a professional CCO board structure. • Ability to react to emergency or unplanned work due to capacity constraints.	13%	• Through both legislation and councils' agreement, there are a suite of mechanisms to ensure local influence (e.g. Shareholders' Agreement; Transfer Agreements; SOE; Shareholders Representative Forum; Water Services Strategy (WSS); and a decision-making framework (where consensus is the default and decision making is not determined purely on number of shares). • Brings together like councils (ie. district councils who represent communities with rural & provincial interests). • Ability to specify in the SOE that the LoS is equal to or better than current service (eg. water leaks, waste overflows are dealt too immediately).	• Smaller communities may feel their voice is diminished as shares will be allocated on the number of connections. • While WWDW does not intend to hold back local development, plans may be delayed due other regional priorities. • Rural schemes may be unsupported under WWDW as the focus will be on potable water.	11%

CRITERION	DESCRIPTION	ENHANCED STATUS QUO			WAIKATO WATER DONE WELL		
	How well does the option ….	ADVANTAGES	DISADVANTAGES	WEIGHTED SCORE	ADVANTAGES	DISADVANTAGES	WEIGHTED SCORE
OPERATIONAL EFFECTIVENESS	• Attract and grow a highly skilled workforce • Provide for: – All aspects of legislative compliance – Improve delivery of capital programmes – Improve asset management systems and processes • Create a stable and secure operating environment (supports long-term decision-making, is resilient against fluctuations in political cycles, withstands changes in the ability or willingness of partner councils to collaborate, and respond to emergency situations)	• Limited transitional requirements to new delivery arrangement. • Provides for all three waters. • Aligns with other Council policies (eg. Council as an Anchor Institution). • Connection with other Council functions & the ability for staff to provide integrated service.	• Difficulty with attracting & retaining specialist skills (water management, engineering, environmental compliance). • Less access to shared expertise & solutions that larger organisations or partnerships might offer. • Meeting new or enhanced regulatory standards (economic, environmental, water quality) will require additional capacity & resources. • Fewer cost-saving opportunities than larger multi-council collaborations. • Additional strategic documents required by the new legislation will need to be sufficiently resourced. • Vulnerability of the organisation to loss of key staff (ie. critical mass of expertise). • Limited opportunity for specialist waters staff to work together sharing knowledge, building capability & having clear career paths.	11%	• Potential as an attractive employer with an ability to offer geographic reach, scale & vision for existing & prospective employees. • Specialist waters staff working together sharing knowledge, building capability with clearer career paths. • Ability to provide staff cover to meet emerging needs/emergencies (eg. staff able to move between treatment plants to cover for sickness/leave etc.). • Opportunity to standardise processes & establish best practice processes/protocols.	• Provides for two waters & may require Council to retain inhouse expertise for stormwater in addition to contracting services from WWDW. • May create challenges for integrated service delivery which may result in inefficiencies (eg. co-ordination of work across various utilities).	12%
UPHOLD PARTNERSHIPS	• Give effect to Te Ture Whaimana as it relates to the district • Maintains the ability for ŌDC to uphold relationships and agreements with our hapū and iwi partners	• Maintains existing mechanisms and channels tailored to meet obligations arising from local Treaty Settlements.	• Influence over the wider catchment is limited.	8%	• Ability to influence/support a whole of catchment approach. This aligns with Te Ture Whaimana which is based on a whole of river approach that also benefits communities.	• Complexity of relationships as there will be more partners in the room. • Manawhenua may feel that local interests are not well represented	9%
REGIONAL LEVERAGE	• Support inter-regional collaboration to achieve efficiencies and enables catchment-based planning and investment	• Council retains its own voice to advocate for District interests.	• Influence over the wider catchment is limited.	7%	• Ability to represent regional interests & implement plans that benefit the wider catchment (ie. smart consenting) while ensuring localised effects are still addressed. This will improve environmental outcomes locally and at a catchment level.	• A catchment focus may detract from local water concerns making water services not as affordable for small communities (eg. smart consenting may be better as an exception rather than the rule).	8%

CRITERION	DESCRIPTION	ENHANCED STATUS QUO			WAIKATO WATER DONE WELL		
	How well does the option ….	ADVANTAGES	DISADVANTAGES	WEIGHTED SCORE	ADVANTAGES	DISADVANTAGES	WEIGHTED SCORE
MAINTAINS VIABILITY	• Ensure remaining council operations are viable and can continue to deliver on community expectations including: – Maintaining integration with council's land use and non-water infrastructure planning – Mitigating potential stranded costs that could arise through structural separation	• Integrates well with existing council functions & infrastructure planning. • Unlikely to create stranded costs or adverse impacts on 'rest of council' from an operations perspective. • Provides for all three waters & non potable schemes.	• Council must manage all debt associated with water services, potentially constraining financial resources for other services over the long term to tackle challenges such as funding renewals, climate investments, & maintaining affordability amidst changing demographics.	10%	• The seven councils can take advantage of their collective strengths and capability, working together with the CCO to develop inter-council arrangements that support each council's individual viability (eg. sharing services between councils and/or the CCO). • Through the SOE and WSS, councils can influence the direction and priorities of the CCO so that it continues to align with council's landuse and non-water infrastructure planning[29]. • By having a transfer date of over 2 years away council has given itself ample opportunity to establish a fit for purpose structure and thereby mitigate/eliminate stranded costs	• Stranded costs may be incurred, potentially affecting wider council services. • Provides for two waters with the potential for some duplication as Council will have to retain inhouse expertise for stormwater in addition to contracting services from WWDW.	11%
TOTAL				**60%**			**68%**

[29] Bill#3 introduces a framework to incentivise the alignment of council's landuse planning and other responsibilities, in particular those that impact stormwater outcomes.

RISK[30]

As part of ŌDC's investigation of future water services arrangements a risk assessment (refer Appendix 3) has been undertaken and reported to Council's Risk and Assurance Committee. For completeness, a summary of the main findings of this analysis are provided below.

Local Water Done Well (LWDW) is a substantive change for the local government sector and we need to understand and prepare for the associated impacts whilst managing our response to the uncertainty of the wider business context. Of the five 'Extreme' risks identified in our risk assessment:

- Two relate to the Enhanced Status Quo option, noting financial and compliance as the driver of risk
- Two relate to the residual ŌDC following the transfer of the water and wastewater activities to a CCO. Specifically, these risks are financial and people's health, safety and wellbeing due to the change in resource allocation and requirements.
- The remaining extreme risk relates to the WWDW option and, similar the impact on the residual ŌDC, concerns the people's wellbeing.

As discussed on the next section (Financial Analysis), adopting the WWDW option does hold an element of risk for ŌDC should the extreme end of the financial spectrum modelled by CoLAB eventuate (worst case scenario). Pending a decision on the future water service arrangements for the district, prior to transitioning to the CCO, ŌDC would need to be satisfied that council is no worse off under WWDW compared to the Enhanced Status Quo option.

A high risk identified is Community Engagement and Council reputation. There is potential for a lack of understanding within the community of LWDW and what it means for current and future consumers. The Communication and Engagement Team has put in place a Communication Strategy which includes an education component. Ōtorohanga staff are also working closely with other local Waikato Councils to ensure there is consistent messaging going out across the region, including understanding the reasons for change, and the anticipated benefits for consumers.

This project has inter-dependencies with other areas of Council's business, especially the Long Term Plan (LTP). The LWDW and the LTP Project teams are working closely together to ensure that there is alignment between these two projects.

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30 Once ŌDC confirmed its preferred option for the Water Services Delivery Plan scheduled for June 2025; risks will be reviewed and updated accordingly.

SECTION THREE:

FINANCIAL ANALYSIS

- INTRODUCTION
- HEADLINE FINANCIALS
- OPERATING EXPENDITURE COMPARISON
- CAPITAL EXPENDITURE COMPARISON
- NET DEBT COMPARISON
- RATES PROFILE
- CONCLUSION

INTRODUCTION

This section looks at the financial modelling undertaken for both the Enhanced Status Quo and WWDW and seeks to compare these two options on a like for like basis. Both models are based on the same underlying financial information drawn from ŌDC's 2024/34 LTP and updated as new information has come to hand[31]. In order compare like with like, the information presented excludes stormwater.

Specifically, the following forecast financials and commentary has been provided for both models:

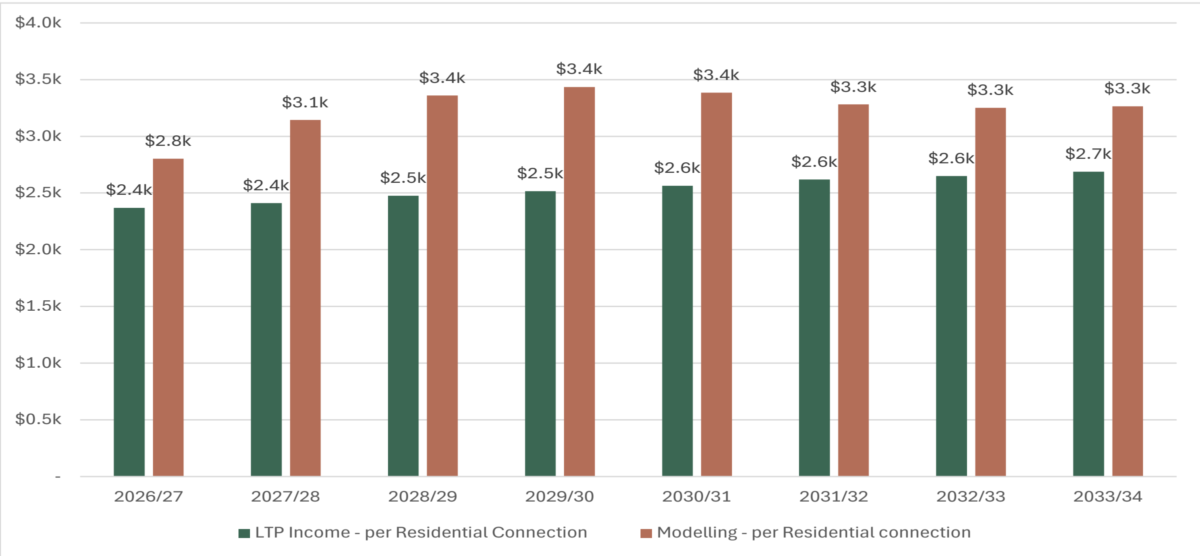
- Headline financials
- Operating expenditure comparison
- Capital expenditure comparison
- Net debt comparison
- Rates profile.

ANTICIPATED RISE IN WATER DELIVERY COSTS

Before comparing the two options it is important to note that regardless of the option chosen, the cost of delivery water services to communities will increase (refer Figure 6). These cost increases will be driven mainly by:

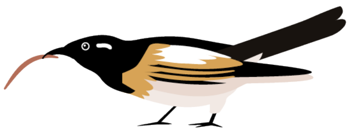
- Levies associated with national monitoring regime
- New accountability requirements for water organisations (eg. strategy development and annual reporting)
- Additional capital investment required to ensure water services are safe and legislatively compliant.

Figure 6: Anticipated Increases in Water Services Costs per Residential Connection



[31] Based data supplied to Beca and CoLAB for the modelling of the options included the LTP Funding Impact Statements for each of the 3 Waters plus:

a. Costs of regulator levies
b. Additional capital expenditure for Arohena RWS to comply with standards
c. Associated operating expenditure (interest, depreciation and maintenance costs) of additional capital expenditure
d. Additional operating expenditure for desludging of Ōtorohanga Sewerage ponds
e. Adjusted income figures to comply with financial sustainability requirements where necessary.



A NOTE OF CAUTION

- The models are hypothetical based on different assumptions that may not come to pass (refer to Appendix 4)
- The figures in this section have been based on the best information to hand at the time of preparation.
- While staff are confident that the numbers represent the likely outcome if all assumptions occur as expected, any minor change could have an impact on the overall results.

HEADLINE FINANCIALS

The table below provides a comparison of the two options for the key financial information. With the Waikato Water Done Well model, there are two different versions of the model with regards to revenue. One model is based on increases in revenue staying the same as in the 2024/34 LTP, while the other model uses a prescribed revenue percentage increase each year. Both these versions of the model have been reflected below, alongside the Enhanced Status Quo model.

Table 6: Headline Financials (Totals for the period 2026/27-2033/34)

	ENHANCED STATUS QUO $000	WWDW BASE $000	WWDW PRESCRIBED INCREASED $000
REVENUE:			
Rates/Charges	48,000	46,000	46,000
Fees & Other Revenue	1,000	1,000	1,000
Total Revenue	49,000	47,000	47,000
EXPENDITURE			
Operating Costs	29,000	30,000	30,000
Depreciation	14,000	14,000	13,000
Interest	8,000	5,000	4,000
Operating Surplus/Deficit	(2,000)	(2,000)	-
Capital Expenditure	19,000	19,000	19,000
Closing Debt	20,000	21,000	22,000
Peak Debt	20,000	23,000	24,000

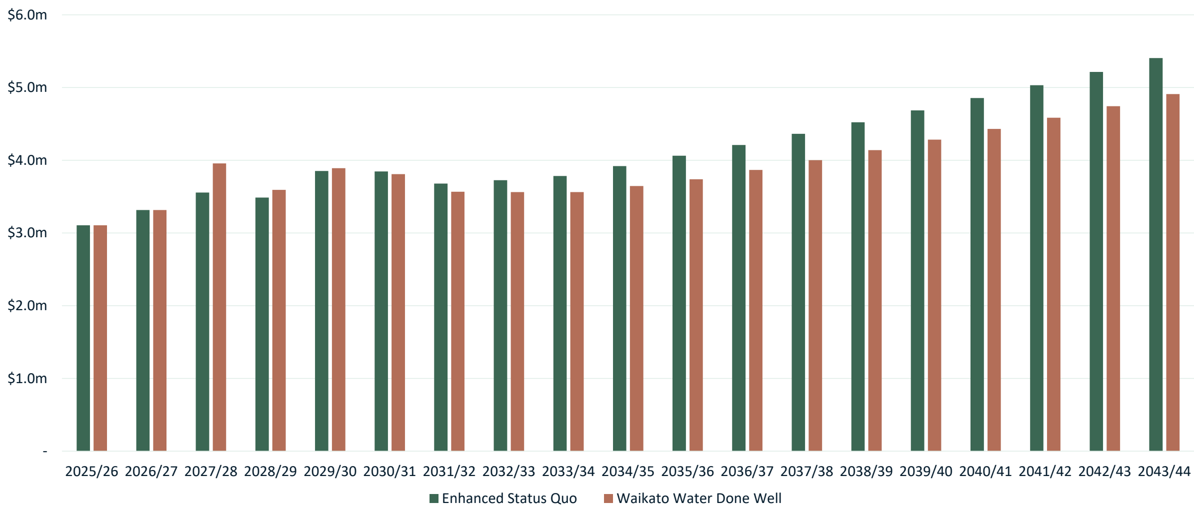
As can be seen in Table 6, the total income required from 2026/27 to 2033/34 (eight years) is slightly lower for both the Base and Prescribed Increase WWDW models to that of the Enhanced Status Quo.

Operating costs are only slightly lower under the Enhanced Status Quo model, as ŌDC's share of the set-up costs for the WWDW CCO are included within Council's operating costs. There is also capital expenditure associated with setting up the CCO, which will be debt funded by the CCO. This accounts for the additional closing and peak debt figures for the both the WWDW models being higher than the Enhanced Status Quo.

OPERATING EXPENDITURE COMPARISON

The operating expenditure included in the comparison below excludes depreciation and financing costs. It is also important to note that under both versions of the WWDW model there is no difference in the operating expenditure.

Figure 7: Operating Expenditure Comparison

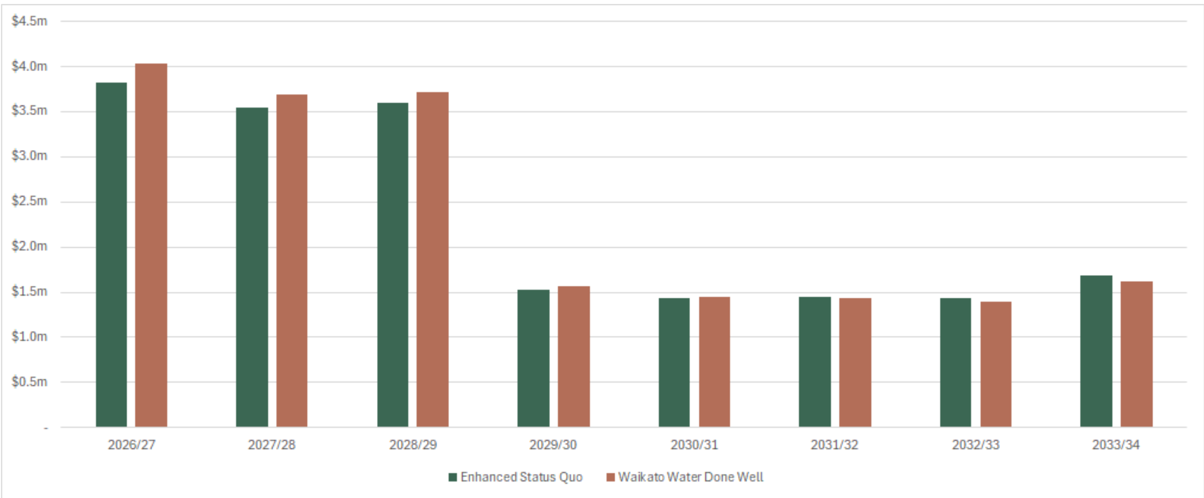


During the initial years of both models, the Enhanced Status Quo provides savings compared to the WWDW model. This is due to the initial setup costs of the CCO being included within the operating expenditure calculations. As operating efficiency savings kick in in the later years, the operating costs of WWDW become less than the costs of the Enhanced Status Quo model.

CAPITAL EXPENDITURE COMPARISON

Capital expenditure includes renewals of existing assets, new assets to accommodate growth and new assets related to improving levels of service. It is important to note that, as with operating expenditure, there is no difference in the capital expenditure under both versions of the WWDW model.

Figure 8: Capital Expenditure Comparison

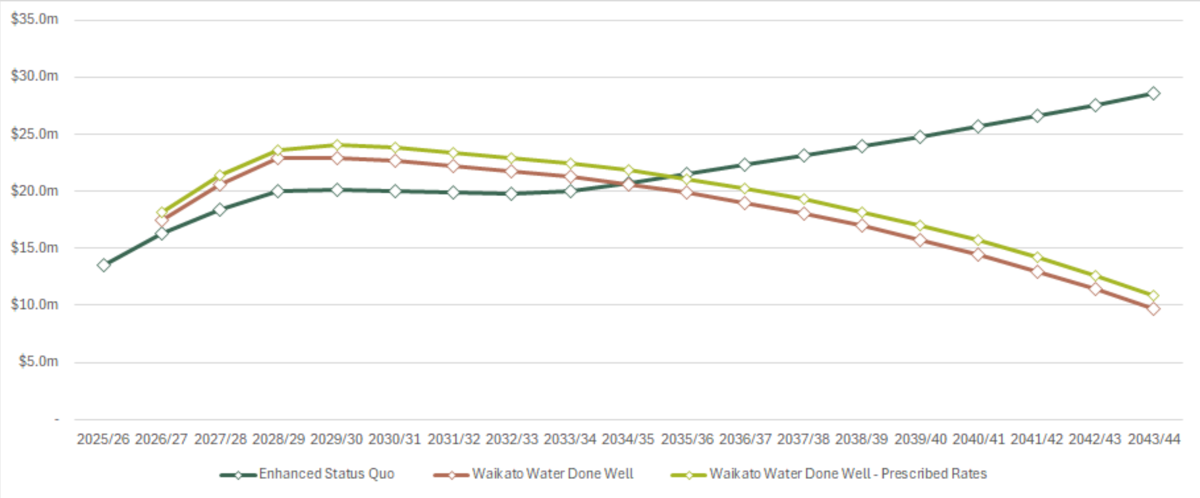


As with operating expenditure, capital expenditure for WWDW model is higher in the initial years than the Enhanced Status Quo model due to the set-up capital costs associated with WWDW. While these are included in part in ODC's operating costs prior to transitioning to the CCO, the costs will ultimately be covered by WWDW, and funded through borrowings. As efficiency savings kick in in later years, the capital costs are lower for WWDW than under the Enhanced Status Quo model.

NET DEBT COMPARISON

Net debt represents the total borrowings less cash held. The models have been compared using this interpretation, with cash held representing the depreciation reserves held. WWDW net debt is based on the ŌDC share of the overall net debt of the WWDW entity, while the Enhanced Status Quo is the net debt that the Council if it was operating under this model.

Figure 9: Net Debt Comparison



Net debt is higher for both WWDW models at the start of the entity, which is due to the share of capital costs involved in setting up the entity, as well as spreading the debt from capital expenditure across other councils within the entity. Under both WWDW models, the assumption has been made to adjust the borrowings figures to ensure a consistency in revenue, and this is reflected in the net debt, which drops off over the 20 years of the modelling. For Enhanced Status Quo, the assumption of inflation adjusting the borrowings means that there is increasing net debt over the remainder of the 20 years.

RATES PROFILE

The rate profiles below show the rates revenue anticipated for the two models, including the average rates increase expected between 2026/27 and 2033/34.

Figure 10: Forecast Rates Profile for Enhanced Status Quo

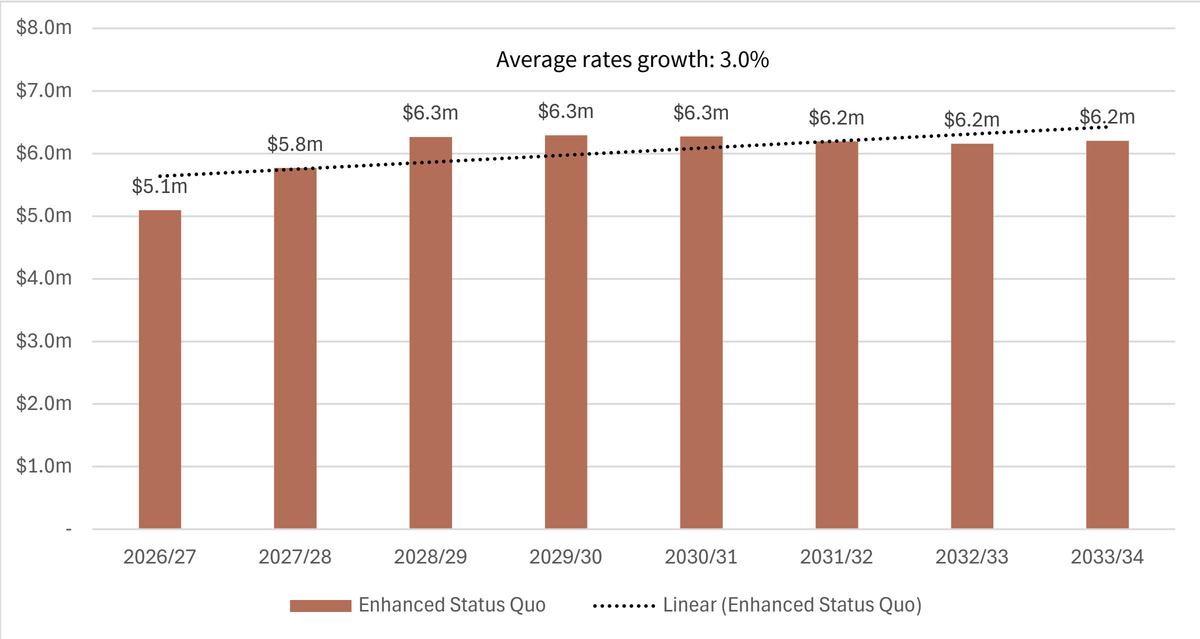
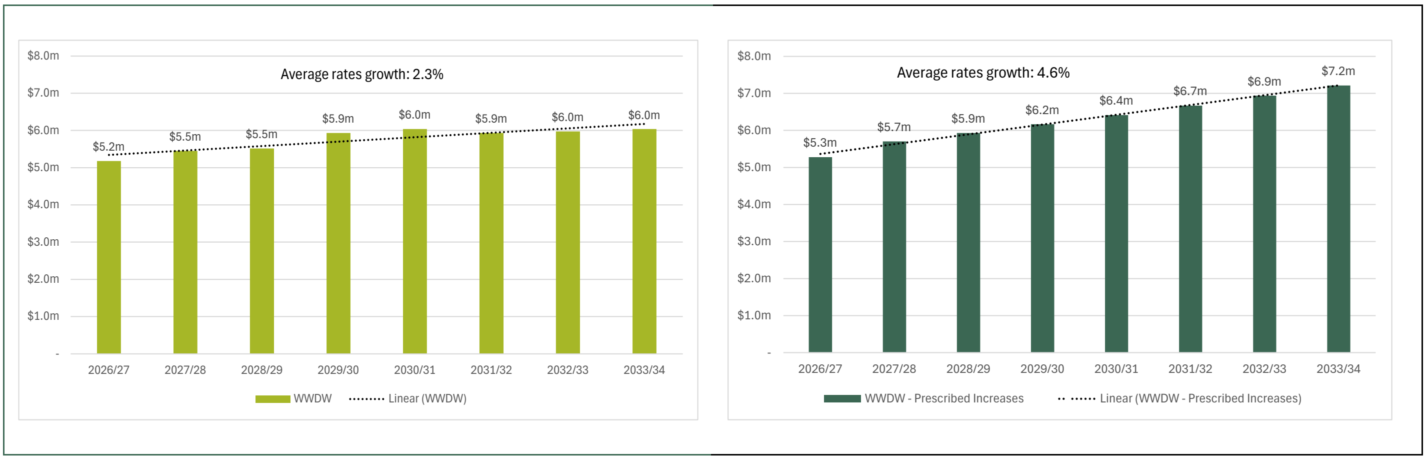


Figure 11: Forecast Rates Profiles for WWDW Base & WWDW Prescribed Models



The analysis of the above graphs shows that there is likely to be an average increase in rates revenue of between 2.3% and 4.6%, depending on which option is chosen. Under the base WWDW model, this increase is lower than under the Enhanced Status Quo, due to efficiency savings in later years. However, under the Prescribed WWDW model, a set increase of 4.6% per annum is forecast which would leave ŌDC in a worse position should this model be applied. This analysis highlights that agreements should be sought prior to joining WWDW to ensure ŌDC customers are not worse off than they would otherwise be under the Enhanced Status Quo model.

CONCLUSION

This analysis suggests that long term ŌDC ends up financially better off under the WWDW model, particularly as it relates to expenditure and debt. On the revenue side, under certain circumstances, WWDW is the better option but, if the prescribed increases model is followed, then ŌDC ratepayers may be negatively impacted. For this reason, it is suggested that agreements be put in place to ensure that ŌDC ratepayers are not negatively impacted by a decision to join WWDW.

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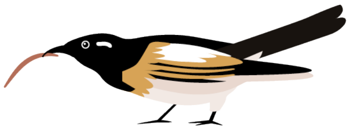
SECTION FOUR:

PREFERRED OPTION

- DISCUSSION
- PREFERRED OPTION



DISCUSSION

As discussed in Section One, LWDW requires councils to deliver water services differently to how things have been done in the past. While councils can choose, within limits, a delivery option that best suits the needs of their communities, under LWDW:

- Additional investment in water services will be required
- Services will be monitored
- There will be new accountability requirements.

These changes mean that water services will cost more and ŌDC needs a long-term solution for the district that is efficient, effective and meets the legislative compliance requirements.

Sections Two and Three of this analysis have examined the two options available to Council that are most likely meet the thresholds in the legislation – namely Enhanced Status Quo and WWDW. This has involved assessing the two options against a set of criteria centred on Council's objectives for water services as well undertaking a financial comparison on a like for like basis.

FINDINGS

The results of our assessment of the two options were close. However, the conclusion we have reached is that long term <u>WWDW is the better option</u> for our district.

When assessed against the criteria we set for water services, WWDW was the more likely of the two options to deliver the benefits we sought for our community. Key benefits identified included:

- Greater resilience with better borrowing capacity for unexpected events such as plant failures, civil defence and other emergencies
- Increased debt headroom allowing for greater financial flexibility
- Enhancement of opportunities for more effective service delivery. Economies of scale gives use better buying power and potentially the chance to rationalise items such as equipment and leases
- Greater ability to attract and retain staff. Training and upskilling opportunities are enhanced and expertise sharing and specialist employment can occur across multiple sites.
- Less duplication and improved operational and asset management systems
- A stronger voice for the community on matters of regional and national interest in relation to water.

Furthermore, the WWDW brings together councils who represent communities with rural and provincial interests. We understand each other's needs and challenges and this helps promote collaboration and create a coalition of the willing

Our findings from the financial analysis were less conclusive. Both Enhanced Status Quo and WWDW have to account for different variables and, as a consequence, the underlying assumptions between the two models differ. Furthermore, WWDW's forecast is a spectrum. While we are comfortable with the base forecast, the worst-case scenario at the other end of the spectrum paints a less acceptable picture for our district and prior to fully transitioning the WWDW, ŌDC would need to have the assurance that it is no worse off under this arrangement than it would be under Enhanced Status Quo[32].

The design of WWDW provides for two types of shareholders:

- Stage One shareholders[33] have the ability to influence the direction and design of the entity and may receive agreed water services (noting that water assets remain with Council)

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32 Currently scheduled to occur in 2027/28.
33 Only available for a period of time at the inception of the CCO.

- Transitioning to becoming a Stage Two shareholder involves the transfer of assets to the CCO and the entity assuming responsibility for delivering drinking water and wastewater services.

It is in Council's interest to continue to be involved in helping shape WWDW by becoming a Stage One shareholder. However, before transitioning to Stage Two, currently scheduled for 2027/28, it is recommended that Council 'take stock' and check that it is no worse off than it would be under Enhanced Status Quo.

PREFERRED OPTION

THE CONCLUSION AND RECOMMENDATION OF THIS OPTIONS ANALYSIS IS THAT:

ŌDC endorse WWDW as its preferred option for the delivery of water service for community consultation signaling its intention to –

- *Initially become a Stage One shareholder*
- *Transition to becoming a Stage Two shareholder in 2027/28, on the proviso that the district is no worse off - financially & operationally - under WWDW than it would be under Enhanced Status Quo.*

SECTION FIVE:

APPENDICES

- LOCAL GOVERNMENT (WATER SERVICES) BILL, CL. 15
- ŌTOROHANGA DISTRICT COUNCIL – POSITION STATEMENT - 3 WATERS REFORM
- RISK ASSESSMENT
- MODELLING ASSUMPTIONS

APPENDIX 1

LOCAL GOVERNMENT (WATER SERVICES) BILL

CLAUSE. 15: Objectives of water service providers

(1) The objectives of a water service provider are—

(a) to provide water services that—
- provide safe drinking water to consumers; and
- do not have adverse effects on the environment; and
- are reliable; and
- are resilient to external factors, for example, climate change and natural hazards; and
- are of a quality that meets consumer expectations; and
- meet all applicable regulatory standards and requirements; and

(b) to ensure that it provides water services in a cost-effective and financially sustainable manner, including by—
- planning effectively to manage assets used to provide water services in the future; and
- sharing the benefits of efficiency gains with consumers, including when setting charges for water services; and

(c) to perform its functions as a water service provider—
- in an open, transparent, and accountable manner; and
- accordance with sound business practice; and

(d) to act in the best interests of current and future consumers; and

(e) to be a good employer.

APPENDIX 2

ŌTOROHANGA DISTRICT COUNCIL – POSITION STATEMENT

3 WATERS REFORM

This Position Statement was intially prepared in September 2021 and confirmed with stakeholders in subsequent years.

Ōtorohanga District Council acknowledges the reasons behind water service delivery reform and the challenges that it faces into the future with infrastructure renewals and staying up to date with new levels of compliance to supplying safe compliant drinking water and protect the natural receiving water bodies from human activity. Couple that with the increasing threat of climate change, increasing environmental challenges and skills shortages, it is not a simple road ahead.

Ōtorohanga District is moving into a considerable growth phase not seen for many years, and this is putting more strain on the existing aging infrastructure, all of which was constructed during the 50's and 60's and coming to the end of its useful life. That being said, Ōtorohanga has embarked on a robust planning process, particularly through the 2021 Long Term Plan, and is well positioned to meet the challengers it may face in the coming years.

Ōtorohanga like other rural Councils has a mix of urban networks and rural water supply schemes servicing both residents and stock. This presents additional issues to that of urban communities. In particular, a wider range of needs and expectations.

The reform proposals to date has shown that it will be far reaching and include or capture a lot of smaller rural water supplies, not necessarily Council schemes, that were not subject to any compliance in the past. This very much makes the water reform more than an urban issue. How far reaching this will be, is still unknown, as we wait for the water services bill to be enacted. There is every likelihood that small rural Councils will inherit a considerable number of smaller schemes, as result of new regulation. With or without reform Councils will most likely need to cover the extra costs with maintaining these supplies.

Our Position

We Support:

- The case for change – everyone in Aotearoa deserves to have access to safe drinking water, and to have water bodies that are safe for recreational, environmental and cultural activities
- That investment in infrastructure is complex and intergenerational
- Water service delivery to remain in public control
- The environmental regulator – Taumata Arowai
- Bespoke solutions for Rural Water Schemes
- Funding for marae to enable compliance
- Greater collaboration to achieve efficiencies (even if the reforms do not proceed)
- Water reform providing security for existing water staff to keep their jobs and remain local.

We are concerned about:

- Lack of information has made it difficult to assess how the reforms will impact on our ratepayers.
- Loss of control of our community's assets.
- How we can influence service outcomes and other issues of importance to our community.
- How we ensure there is appropriate integration between our needs, planning and priorities (representing our local community) and the planning and priorities of Water Service Entities.
- Where will the skilled workforce come from?
- Rural Water Scheme resource consents – who "owns" them if they go it alone?
- The affordability of water, waste water and stormwater services.
- Concerns regarding engagement with the community, particularly Iwi.
- Want to retain the option of opting in or out and the Councilors would be guided or take cognisance of community consultation outcomes.
- How debt or surpluses in operational accounts/reserves be considered.
- The pace of the reforms and how this reform interfaces with RMA and LG reforms.

- Water rates – will they be equalised across the regional entity? i.e. everyone pays the same.
- Affordability for marae to achieve compliance.
- The new entity structures look cumbersome and expensive.
- How do we communicate the change to our community?
- How will people be selected for the regional representative group (RRG) we need a local voice.
- Community will still hold Councils accountable for water service delivery.
- All Councils should have a seat on the RRG.
- Entities must "give effect" to the LTP/AMPs/IS.
- How will the entities engage with the community?
- How will complaints be dealt with? Ombudsman?
- How will the entity interface with Council planners who are engaging with developers?
- Is there a mechanism for Councils to challenge the priorities of the entity?

Iwi are concerned about:

- The speed in which the reform is taking place and whether they can work within the time frames.
- Not resourced enough to engage properly, and have not had all the information presented to them.
- Wish to be part of the design not just the governance.
- Would like to see some tangible opportunities for upskilling and providing work for their people.
- Education in schools around the importance of water.
- Being involved in the monitoring of water consents.
- Implications for existing JMAs and Treaty settlements.
- Impact on marae.
- Will this lead to small Council amalgamation?

Rural Water Schemes (RWS) are concerned about:

- Limited understanding how the reform will affect the schemes.
- Guaranteed supply of water is critical to business and animal welfare.
- Governance – existing scheme committee needs representation at the decision making.
- Expect clarity and consultation on any proposed change.
- Increase in resilience and continued access to capital investment.
- Affordability – what happens if people leave the scheme and the remainder carry more cost, will town upgrades be burden on schemes?
- How does future growth in towns affect rural supplies, town take priority over the Rural scheme?
- Will the owners get a fair value for the scheme if taken over by the entity? It was paid for by the farmers originally.
- Price of water services has to be affordable realising 90% goes to stock.
- Concerned about the compliance that will be placed on the scheme.
- Ownership of the scheme, possible unified body for all schemes.
- Rural communities concerned they will subsidise urban users, especially wastewater.
- Different service expectations of RWS
- How can RWS own their schemes under the new model, i.e. outside of the entity?
- Concerns around the initial capital expenditure associated with point of use treatment and ongoing operational expenditure.

Conclusion

Ōtorohanga District Council will continue to be actively involved in the 3 waters reform process. The points above have been documented from targeted consultation with Elected Members, Iwi and our rural water scheme owners. Many of the points listed demonstrate the need for greater clarity on how the reforms will impact on the various users of three water services. We look forward to seeing what direction the reform takes next.

APPENDIX 3

RISK ASSESSMENT

Option 1, Enhanced Status Quo

The risk assessment is based on the organisations current Strategic Risk Summary. Essentially should Otorohanga District Council continue to be viable under this option there is no change the risk profiles to that already assessed for the council. However should the Beca analysis suggest the Enhanced Status Quo option is not viable on financial grounds, new risks will result.

Option 2, Establishment of a Waikato Waters Done Well (WWDW) Council Controled Organisation (CCO)

Should the water and wastewater activities be transferred away from Otorohanga District Councils management and control to a WWDW CCO the risk assessment assumes the new entity takes full responsibilty for these risks once established. The risk for Otorohanga is having confidence in the ability for the CCO to manage these risks prior to making their decision to adopt option 2 as their preferred delivery option

Otorohanga District Council Residual Organisation

With option 2, the transfer of water and wastewater activies to a CCO will result in stranded services and costs. In particular back-office support teams that has a significant;y reduces workload as the waters activities shift to a CCO. Additional risk assessment has been included in the table below.

New specific risks relating to the considering of the two options, specifically governance, economies of scale, community enagement and council reputation have been included in the risk table.

Risk Category	Water delivery option	Description	Consequences	Mitigation	Inherent Risk	Current Mitigated Risk
Iwi Liaison and obligation to honour Te Tiriti o Waitangi	Enhanced Status Quo	No change to the ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Extreme	Moderate
	WWDW	The Strategic Risks transfer to the new entity	The assumption is that once a WWDW CCO is formed, these risks transfer to the CCO and not the responsibility of ODC. As long ODC is confident the CCO proposal adequately manages these risks.	ODC confidence that the CCO model intends to capture this risk during their establishment phase.	N/A	N/A
.						
Organisational Capability/Capacity	Enhanced Status Quo	Same as the ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	High	Moderate
	WWDW	The Strategic Risks transfer to the new entity	The assumption is that once a WWDW CCO is formed, these risks transfer to the CCO and not the responsibility of ODC. As long ODC is confident the CCO proposal adequately manages these risks.	ODC confidence that the CCO model intends to capture this risk during their establishment phase.	N/A	N/A
	ODC Residual Organisation	Should stormwater activity be retained withing ODC	Stormwater is currently manged within ODC's waters activity. Therefore it becomes an orphan such only water and wastewater activities be managed by a regional CCO.	ODC establishs a stormwater activiity (alongside land drainage) within the residual organisation or have it report to another council department such as Transportation or Parks.	High	Moderate

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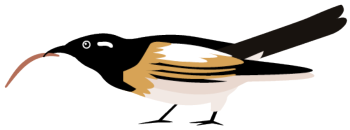
Capital programme delivery failure	Enhanced Status Quo	In addition to risks identified in the ODC Strategic Risk Summary, retaining the waters activity in house will result in additional capital works and some exisiting projects to be brought forward to meet new compliance standards.	Need to increase organisational capacity to deliver increased capital works programme	ODC increases its capacity in-house capacity within engineeringservices and support eg procurement, as well as the likely need for additional consultant and contractor services.	High	Moderate
	WWDW	The Strategic Risks transfer to the new entity	The assumption is that once a WWDW CCO is formed, these risks transfer to the CCO and not the responsibility of ODC. As long ODC is confident the CCO proposal adequately manages these risks.	ODC confidence that the CCO model intends to capture this risk during their establishment phase.	N/A	N/A
	ODC Residual Organisation	Should stormwater activity be retained within ODC	Need to deliver the stormwater capital programme	Project delivery is added to capital works within the transportation and parks projects	High	Moderate
.						
Financial loss (internal)	Enhanced Status Quo	In addition to risks identified in the ODC Strategic Risk Summary, retaining the waters activity in house will result in increased debt and higher operational costs due to meeting new compliance standards.	Increased debt and protentially exceeding council debt cap. Increased rates to fund additional debt servicing and operational costs.	Seek government approval to defer projects to smooth out capital costs.	Extreme	Extreme
	WWDW	Based on confidence in the forecasts provided by CoLab, ODC makes an informed decision to change to a WWDW delivery model.	Loss of trust and confidence by councillors and the community in the WWDW model being able to deliver on the promises made. In particular community affordability.	CoLab report on the WWDW option provides sufficient information to understand the likely impacts in Otorohanga communities and confidence in the assumptions and forecasts. Also councillor workshops where elected members engage with WWDW proponates to get clarity and understanding	Extreme	moderate
	ODC Residual Organisation	The waters activity makes up a significant portion of council business and therefore contributes to organisational overheads.	The residual organisation will have significant stranded costs. From the support services within council potentially resulting in higher rates and/or organisational restructuring.	Work is underway to understand the impact of stranded costs. Should this analysis show that ODC is not viable under this scenario, rates may need to increase or ODC would need to share services (eg IT, customer services etc) with other council or consider council amalgamations.	Extreme	Extreme

.						
Effects of climate change	Enhanced Status Quo	Same as the ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Extreme	Moderate
	WWDW	The Strategic Risks transfer to the new entity	The assumption is that once a WWDW CCO is formed, these risks transfer to the CCO and not the responsibility of ODC. As long ODC is confident the CCO proposal adequately manages these risks.	ODC confidence that the CCO model intends to capture this risk during their establishment phase.	N/A	N/A
	ODC Residual Organisation	As it relates to stormwater, the same as the ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Extreme	Moderate
.						
Health, safety and wellbeing of our people	Enhanced Status Quo	Same as the ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Extreme	Moderate/High
	WWDW	The Strategic Risks transfer to the new entity	Potentially a lot of uncertainty, concern about job security, new working arrangements etc	ODC confidence that the CCO model intends to capture this risk during their establishment phase.	Extreme	Extreme
	ODC Residual Organisation	This is a major change to the organisation and therefore all staff are likely to be impacted directly or indirectly.	Potentially a lot of uncertainty, concern about job security, new working arrangements etc	Good communication, where possibly job assurances/guarantees.	Extreme	Extreme
.						
Compliance to changes to governmental legislation	Enhanced Status Quo	In addition to risks identified in the ODC Strategic Risk Summary, retaining the waters activity in house will result in new and additional compliance requirement to meeting water and wastewater standards within tighter timeframes.	Meeting new and additional compliance requirements will result in additional costs and need for additional resources to deliver the larger capital works programme and subsequent operational costs.	As above, ODC will need to increase its resource capacity and increase rates to cover increased costs	Extreme	Extreme
	WWDW	The Strategic Risks transfer to the new entity	The assumption is that once a WWDW CCO is formed, these risks transfer to the CCO and not the responsibility of ODC. As long ODC is confident the CCO proposal adequately manages these risks.	ODC confidence that the CCO model intends to capture this risk during their establishment phase.	N/A	N/A
	ODC Residual Organisation	As it relates to stormwater, the same as the ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Refer to ODC Strategic Risk Summary	Extreme	Moderate

Additional risks directly relating to establishment of a WWDW CCO						
Governance	WWDW	With a large number of councils forming the CCO there is a greater emphasis needed on the council "CCO Owners" working collaboratively and supporting the CCO	Potentially tensions and a breakdown in the relationships, poor communication and coordination between CCO and other council activities.	Maintaining relationships between each of the Council owners as well as effective leadership and communication with the CCO board and TLA councillors/Executive.	High	Moderate
Economies of Scale	WWDW	The basis of the current WWDW model is based on seven of the Waikato Councils forming the CCO	Should fewer councils opt in the costs to each council increase to cover fixed overheads and establishment costs.	Having the ability to review the viability of the WWDW option should the economies and scale suggest the WWDW option is not viable.	Extreme	High
Community engagement and Council reputation	Enhanced Status Quo and WWDW options	This is a major change to how ODC does business and is likely to impact the community with increased costs and different water service delivery model.	Importance of messaging that informs and gives the community confidence that the Council is making the best decision for the Ōtorohanga community. Failure to do so has reputational risks and may result in the community rejecting Council's decision. This is of particular concern in a LG election year.	Provision of a high level of clarity on the options being considered by councillors. A robust methodology of the options analysis and selection process. Good communication and engagement theough the community consultation process.	Extreme	High



APPENDIX 4

MODELLING ASSUMPTIONS

WWDW & ENHANCED STATUS QUO

The following assumptions were consistent in both WWDW and Enhanced Status Quo:

ASSUMPTION	**SOURCE/NOTES** If applicable
Number of connections	ŌDC
Inflation rates	Berl
Household median income	StatsNZ
Arohena RWS upgrades required for compliance	ŌDC

MODEL SPECIFIC ASSUMPTIONS

Assumptions specific to each of the models are set out below.

ENHANCED STATUS QUO

ASSUMPTION	**SOURCE/NOTES** If applicable
Interest rates	LGFA
Asset revaluation rates	Bi-annual revaluation
Maximum net debt to operating revenue	300%

WWDW

ASSUMPTION	**SOURCE/NOTES** If applicable
Efficiency savings	See Underlying Assumptions below
Interest rates	Average across all councils with LGFA
Asset revaluation rates	Annual revaluation
Maximum net debt to operating revenue	475%

UNDERLYING ASSUMPTIONS

The assumptions outlined below have been drawn taken from a proposal prepared for ŌDC by CoLAB on behalf of the collective of councils investigating WWDW[34].

NOTE: The assumptions detailed in this Appendix are not full list of assumptions made when modelling WWDW. For additional information, please refer to – *Waikato Water Done Well Supplementary Financial Analysis for Ōtorohanga District Council*, dated 20 March 2025, Appendix 1.

Council involvement: It is assumed that all Participating Councils will remain involved in the Waikato Water Done Well CCO and will transfer their water services business into the CCO. If a lesser number of councils are involved, depending on the size and debt profile of those that remain, at some point the reduced scale of operations will mean that the assumed efficiencies become unrealistic and/or the capacity to borrow is diminished.

[34] *Proposal for Waikato Water Done Well as a Water Service Delivery Option*, 3 March 2025, pages 45 – 47.

Assumptions have been made regarding when each council will transfer its water services business to the CCO. Currently, it is assumed some will transfer effective 1 July 2026 with the remaining Councils transferring by 30 June 2028[35].

BASE DATA: It is also assumed that the financial forecasts and other data provided by each of the councils is correct. The base financial data is that included in councils' latest Long-Term Plans. This data has been updated to reflect any material change in forecast projects since the Plan was adopted. This data has not been independently verified by the Waikato Water Done Well Programme Team although we know that several councils have directly engaged consultants to develop a standalone position (and to that extent it has been independently interrogated).

CCO-SPECIFIC 'UPFRONT' AND 'SPEND TO SAVE' COSTS: Assumptions are made CCO-specific 'upfront' and 'spend to save' costs: Assumptions are made about the capital and operational expenditure required to establish and operationalise the Waikato Water Done Well CCO. This includes one-off capex for corporate infrastructure, on-going operational spend and spend-to save (see further below).

EFFICIENCIES: Operational cost savings are assumed to start being realized from 2026/27 (ie. as councils start to transfer their water services business). Cost savings on capital works are assumed a year later and increase at a slower rate, only reaching the peak assumption of 15%[36] in FY2041-42. Cost savings are also assumed in relation to the catchment-based approach to consenting. These particular savings are in addition to the general assumption about capex savings. We consider the assumed efficiencies are achievable. Examples of where efficiencies have actually been achieved in the context of TasWater include:

1. Strategic procurement program – Buying in bulk, reducing the number of providers, improving control over purchasing.
2. Reduction in executive and management head count – This has been an area of significant early gains in similar aggregations but may simply 'evolve' and be realised through natural attrition.
3. Targeted waste reduction program
4. Opex associated with capital reduction – Can be achieved in the early years by looking at opex solutions which can often obviate the need for the capex program and better control over projects which reduces average over-runs and time delays.
5. Business case process – A well-structured process will deliver significant savings if the reviewers (particularly board and executive team) know enough about the business to challenge proposals in a meaningful way.
6. Operating losses - Identifying the cause of operating losses and the impact on the bottom line (ie. unnecessary pumping, water losses etc.)
7. Store and depot aggregation - To reduce leases.
8. Bundling electricity
9. Reducing the number of after-hours call outs – By reducing number of bursts and breaks (but takes a lot of time and capital).
10. Overtime reduction – getting assurance that the work outside 'normal hours' is really needed.
11. Rationalisation – Shutting down obsolete assets and not replacing them or replacing them with a common more modern facility that serves a larger area. There is the opportunity for some early gains but most of these gains will be in later years and flow from developing the 30 to 50-year strategic program.
12. Extending the life of some assets
13. Plant optimisation – process improvement to improve plant performance and reduce operating costs
14. New capex delivery model – if done well. this will reduce over-runs, but initial estimates will go up as they become more realistic.

35 The model can easily be modified to adjust the 'start date' for each council.

36 This is to say that at peak efficiency the CCO will be able to operate at 85% of what the councils could do on a standalone basis.

Assessment of viability and sustainability of water services delivery

Final report

December 2024

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This Disclaimer supplements and does not replace the Terms and Conditions of our engagement contained in the Engagement Letter for this assignment.

Introduction

Ōtorohanga District Council has engaged Beca, MartinJenkins, and Mafic to undertake a high-level assessment of the viability and sustainability of continuing to deliver water services on a standalone basis.

In alignment with the requirements for local authorities to prepare Water Services Delivery Plans, the Council wishes to understand whether it will be viable and sustainable for it to continue to deliver water services by itself into the future.

This assessment will inform council's decision on whether to prepare its own Water Services Delivery Plan (and continue to delivery services on a standalone basis) or, alternatively, whether to work with neighbouring councils to explore joint service delivery arrangements.

Local Water Done Well will increase expectations on councils to demonstrate their delivery of water services is sustainable

The Government's Local Water Done Well policy means councils across New Zealand will need to assess whether their water services delivery arrangements are, and will continue to be, financially sustainable over the medium- to longer-term.

Councils will also need to consider whether existing service delivery arrangements will continue to meet community expectations regarding levels of service and affordability.

Future legislation is expected to require that councils demonstrate their water services can stand on their own two feet. This means that:

- Rates and water charges are ring-fenced and only used to pay the costs of water services
- Rates and water charges generate sufficient revenue to fully-fund operating, depreciation and financing costs over the medium-term
- Investment to maintain and renew assets, meet regulatory requirements, and provide for growth can be funded and financed on a sustainable basis.

Assessing the viability and sustainability of current service delivery arrangements requires a holistic approach

We have undertaken a holistic, high-level assessment of the viability and sustainability of current service delivery arrangements, taking account of network performance, levels of service, asset condition, regulatory compliance, investment needs, financial projections, and affordability of water rates and charges.

We have undertaken this assessment against the backdrop of inflationary pressures, population changes, impacts of climate change, and the council's financial position and borrowing capacity. Councils also need to anticipate likely future requirements from economic regulation, including the additional compliance costs this is expected to bring.

This report presents the findings from our assessment and makes some suggestions regarding matters to further consider as part of preparing a Water Services Delivery Plan for Ōtorohanga District Council.

What this report covers

01

Overview of council water services

Snapshot of water services

	Water supply	Wastewater	Stormwater
Contribution to local community outcomes:	To ensure a reliable supply of safe drinking water to our communities.	To ensure efficient and reliable wastewater treatment that meets environmental outcomes.	To ensure efficient stormwater network capacity that protects from flood events.
Services:	**2306 serviced properties in 2023/24**	**1270 wastewater connections in 2023/24**	**Urban areas of Ōtorohanga and Kāwhia serviced**
Assets:	There are two urban water supply schemes for Ōtorohanga and Kāwhia, and four Rural Water Supply (RWS) schemes (Arohena, Tihiroa, Ranginui and Waipā), mainly for agricultural purposes.	Wastewater is provided to Ōtorohanga urban area.	Stormwater services are provided to assist in minimising environmental and flooding impacts.
Replacement asset value (RC 2023):	**$40.6 m**	**$21.1m**	**$18.6m**
Drinking water compliance:	Yes – Ōtorohanga, No – Kāwhia and RWS		
Resource consent compliance:	Yes	No	Yes
Levels of service achieved:	Yes	Yes	Yes
Asset Condition and Renewal requirements:	Based on age, few pipes are due for replacement over the next 10 years. Limited condition information is available for pipe assets. Treatment plant assets are regularly condition assessed and programmed for renewal.	Based on age, few pipes are due for replacement over the next 10 years. Treatment plant and pump station assets are regularly condition assessed and programmed for renewal.	The stormwater network has few pipes due for renewal over the next 10 years based on age. Condition of stormwater assets has not been assessed.

Current service delivery model

Inhouse resources

Water services operations are primarily managed by the Water Services team located within the Council's Engineering & Assets Group.

A Water Services Manager leads a team delivering

- Operations and maintenance
- Asset management
- Compliance
- Project Delivery

Challenges

- Resourcing constraints, retention of experienced staff and ability to recruit new talent
- Changing standards including regulations for rural water supplies, stormwater discharge consents, and future wastewater standards
- Understanding of asset condition and critical assets
- Asset data quality
- Planning for growth

Outsourced delivery

- Co-Lab shared services provides sampling and analysis for water, wastewater and stormwater
- Specialist services such as electrical and mechanical repairs, backflow testing and CCTV
- Contracts for renewals and upgrades

Progress over the last three years

- Water meters were installed in Kawhia in 2023
- Council has built an additional 500m3 reservoir on Mountain View Road and 2 additional 400m3 reservoirs on the Waipā RWS to increase resilience in weather events
- Old watermains (c1930s) have been replaced
- Significant investment in Ōtorohanga wastewater began in 2021 and will continue into 2025 with 3 major wastewater network upgrades

Activity	Planning & Management	Operations & Maintenance	Capital Delivery
Water supply	Inhouse	Inhouse Water sampling and Laboratory services are carried out by CoLab shared services Mechanical and electrical repairs, CCTV inspections and Backflow testing external delivery	Outsourced (Inhouse project management) Minor projects can be delivered internally (fitting, mechanical and electrical)
Wastewater	Inhouse		
Stormwater	Inhouse		

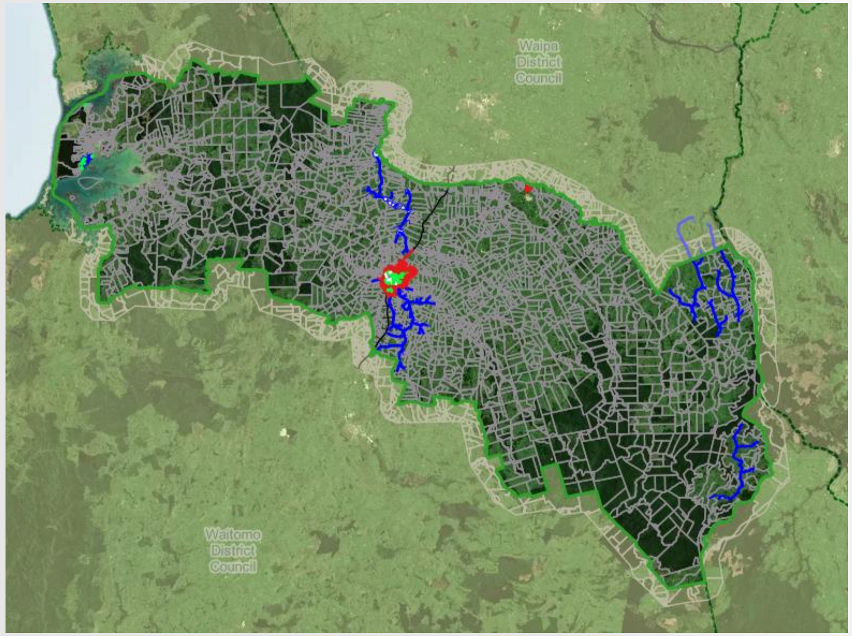
Council water networks

Water supply

The urban areas of Kāwhia and Ōtorohanga have their own water schemes – around 1500 connections in Ōtorohanga and 470 in Kāwhia – a total of 114.2 km of pipeline and 7 reservoirs (capacity 4,100m³). The Ōtorohanga water supply is drawn from the Waipā River and treated. The Kāwhia water supply is drawn from local springs and treated. The four rural water schemes collectively supply 232 properties, comprise 165 km of pipeline, and 11 reservoirs with a total capacity of 2,993m³. As water is supplied on a controlled ('trickle-feed') basis. The Waipā Scheme is supplied via the Ōtorohanga town supply, with the other schemes drawing water from local rivers/streams.

Wastewater

There are about 1400 connected properties serviced by 32km of pipeline and 16 pump stations. Wastewater is piped to the treatment plant (aerated oxidation pond) at the northern end of the town, with the treated water being discharged into the Mangaorongo Stream via a 2-hectare wetland. The Council has resource consents from the Waikato Regional Council that require the treated effluent from the wastewater system to not pollute the waterways. 53 Commercial and industrial operations that generate much larger and/or concentrated quantities of wastewater are subject to trade waste permits. Provision is available at the treatment plant for taking and treating septic tank waste.



Stormwater

The stormwater systems comprises of 12.5km of pipes and 4kms of open drains. Stormwater is directed away from properties and roads to local streams and rivers, and the harbour in the case of Kāwhia. Directing stormwater from/under roads is managed under the land transport activity area.

Asset condition

Renewals planning for pipes is determined mostly on the theoretical end of life of the asset and CCTV inspections for wastewater.

Water supply

Condition information available for the water supply assets is limited. Operations teams identify any poor condition above ground assets such as pump stations, reservoirs, pipe bridges and treatment plants. Many of the treatment plant assets are reaching the end of their useful lives and have been programmed for renewal in the next 10 years.

Based on age, very few water mains need to be replaced in the next 10 years as much of the pipework was installed in the 70's and 80's. Most pipes requiring replacement in next 30 years are made from Asbestos cement (AC). AC pipes pose a resilience problem for council as they become brittle with age and are prone to longitudinal cracking making repairs difficult.

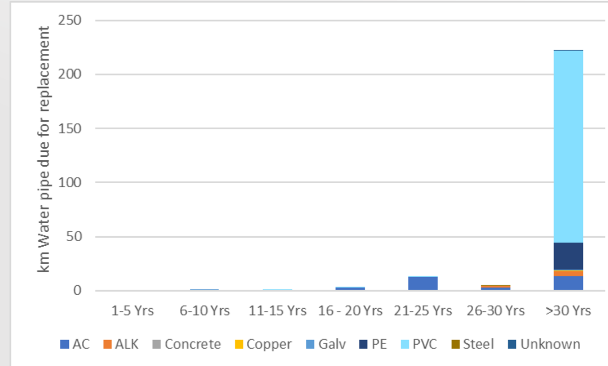
Wastewater

Most of the wastewater pipes have been condition assessed with CCTV. Critical assets such as pipe bridges, pump stations and treatment plants have condition assessments completed regularly. Within the network few wastewater pipes are due for replacement based on age but 15km of Earthenware (GEW), steel and AC pipe are expected to require replacement in 11-15 years time.

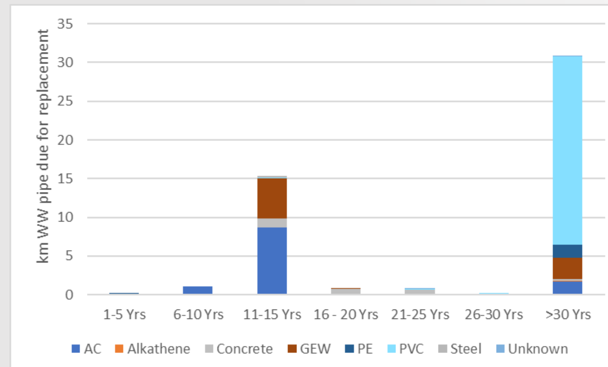
Stormwater

The stormwater network is the newest of the three waters, with minimal pipe reaching the end of its life over the next 10 years. There is some missing information on the condition and material for the stormwater assets. Most of the pipe network is concrete.

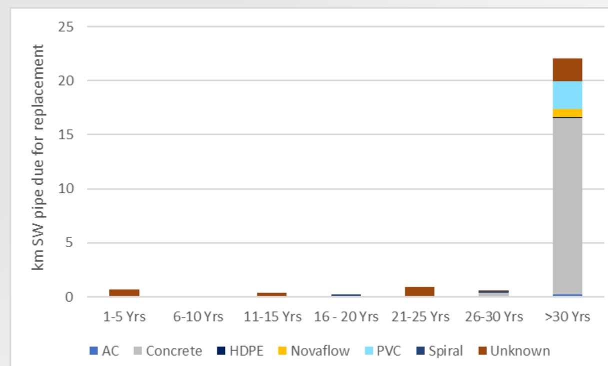
Water supply Pipes



Wastewater Pipes



Stormwater Pipes



Asset maintenance and renewals

Renewals strategy

Renewal is major work which does not increase the asset's design capacity but restores, rehabilitates, replaces or renews an existing asset to its original capacity. Council developed a process to prioritise and programme asset renewals. Key information considered and key steps undertaken in this process are summarised below:

The information within AssetFinda (e.g., the remaining life)

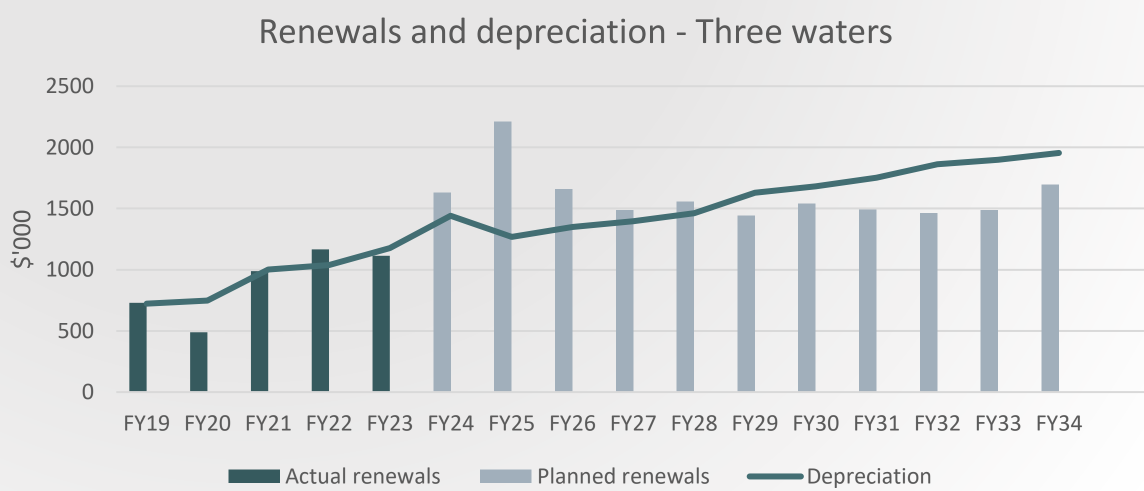
- Site inspection
- Condition assessment
- Risk and criticality assessment
- Develop a renewal list
- Develop renewal budgets using replacement values in AssetFinda

Verifying, correcting and improving the data contained in the AssetFinda programme has enabled staff to align renewal budgets with long run averages in a scientific manner this improving budgeting accuracy and confidence levels.

In the longer term, it is expected that the renewal profile will increase as assets built in the 1960's and 70's require replacement. Detailed forecasting ceases in the longer term around FY35, defaulting to a financial allowance for renewals.

Renewals and depreciation

While renewals investment requirements are lumpy over time, reflecting the uneven pattern of historic development and specific treatment plant renewals, over the longer-term it is expected that renewals investment should be in line with the level of depreciation expense. An increased level of water and wastewater mains renewals is budgeted in FY25 for Otorohanga related to the water and wastewater mains programme.



Drinking water standards compliance

Council has invested into getting the urban drinking water plants capable of meeting compliance with the Drinking Water Quality Assurance Rules. Further investment is needed into 2 rural plants to meet Protozoal requirements. Registered supplies must provide evidence that they are meeting the rules which involves collecting data from water treatment plants and samples from plants and the networks.

Ōtorohanga/Waipā and Kāwhia Water Treatment Plants: Continual improvement on the operations and monitoring of the plants to meet compliance. There are occasional non-compliance with Water Quality Assurance Rules for the plants and zones generally due to operational issues and monitoring not meeting requirements. For the 2023/24 year, Otorohanga WTP was reported as complying with Part 4 Bacterial and Part 5 Protozoal requirements of the Drinking Water Quality Assurance Rules and Kawhia WTP was reported as non-compliant with both Part 4 and Part 5.

Arohena Rural Water Scheme : Council has been directed by Taumata Arowai to get the Arohena scheme Huirimu and Kahorekau water treatment plants up to Protozoal compliance as currently they are not able to comply. Council cannot afford major upgrades at this time and will leave the schemes under permanent boil water notice until some further investigation is carried out to see how the plants can reach compliance. An estimated capital cost for the upgrades is $1-2M and higher operational costs are expected due to additional chemicals and operator input.

Tihiroa Rural Water Scheme: Council is completing improvements to meet compliance.

Ranginui Rural Water Scheme: Scheme de-registered as for stock water only

Resource consent compliance

Ōtorohanga currently has 15 consents across the district for three waters.

There are 2 consents associated with the stormwater activity which are in the process of being renewed. The new stormwater consents may require a more holistic management and consideration of stormwater quality and quantity, and potentially more monitoring.

There are 5 consents associated with the treatment of wastewater including the discharge of treated wastewater to land and water, odour and other civil works. An abatement notice was recently received for the WWTP. As required by the Regional Council an improvement plan has been prepared and is funded within the 2024/34 LTP. Work includes investing in desludging of the main pond, installation of a grit removal system on the inlet structure and mechanical clarification to replace the coagulation ponds.

There are 8 consents associated with the abstraction of water and discharge of treated backwash water (created from the treatment processes), 1 water consent is currently being renewed. 7 water consents are due for renewal in the next 10 years and budgets are allocated for this. Non-compliance with consent conditions relates mostly to low risk matters such as recording of data.

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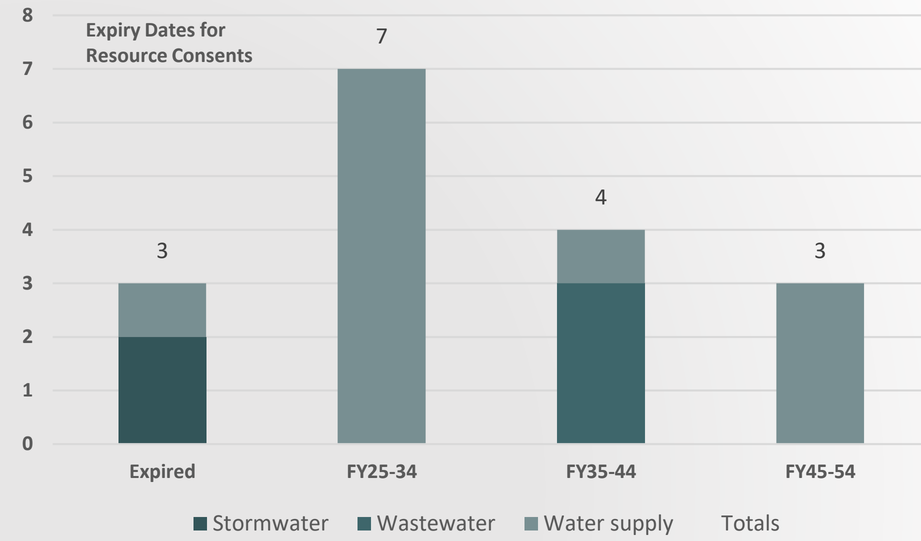


	Non-compliant (low risk)	Non-compliant (moderate risk)	Partial compliance	Compliant	Total
Water supply	4	2	0	2	8
Wastewater	0	1	0	4	5
Stormwater	0	2	0	0	2
Total	**4**	**5**	**0**	**6**	**15**

Service levels —customer complaints

Service levels are measured across each activity by recording the number of complaints per year alongside the time it takes for Council to respond and resolve service issues.

Customer complaints

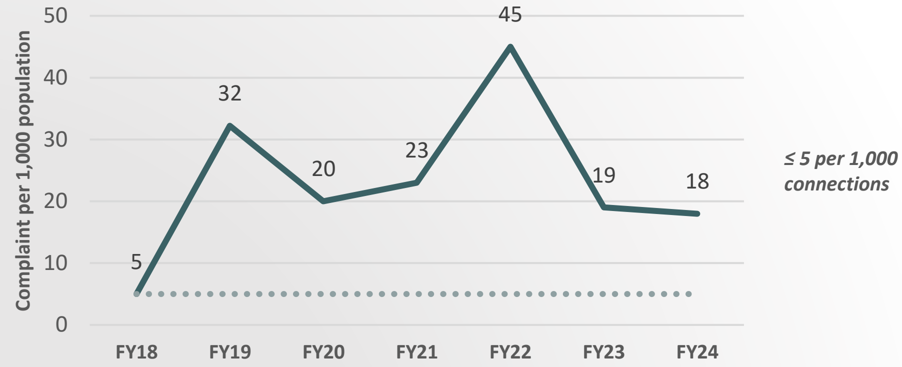
Customer complaints are measured by the total number of complaints received per 1,000 connections.

Water supply: Overall customer complaint levels are consistently higher than the target. Investment in mains renewals is underway to reduce complaints related to breaks. Many of the complaints are related to water quality and pressure which are often resolved via flushing or repairs.

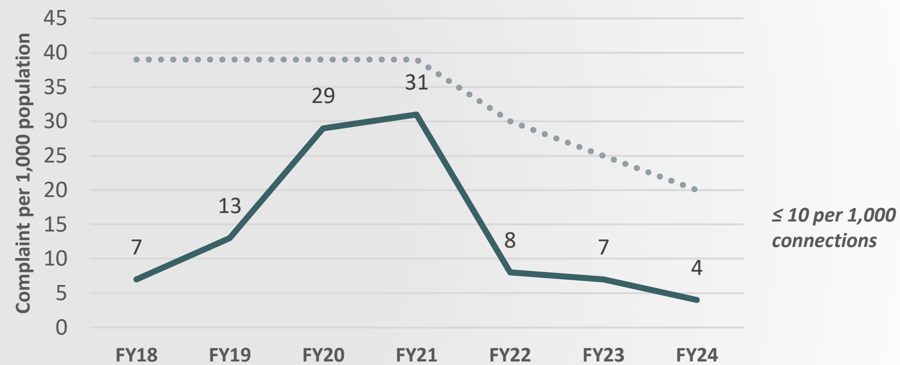
Wastewater: Odour, system faults and response to issues were all within the target acceptance levels and improved in recent years.

Stormwater: The number of complaints are within the target acceptance levels.

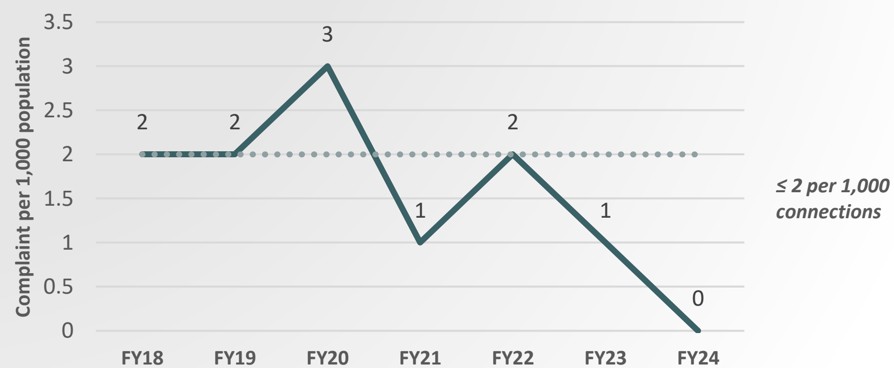
Water Supply: Customer complaint rate vs target



Wastewater: Customer complaint rate vs target



Stormwater: Customer complaint rate vs target



Service levels —customer resolutions

Response times

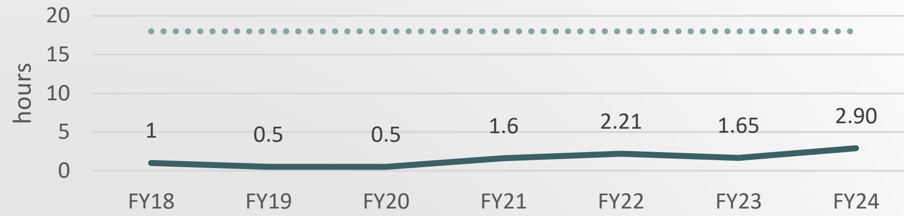
Response times are measured by the time it takes for Council to respond, attend and resolve service issues. Many faults can be resolved immediately such as minor repairs, removing blockages or flushing to resolve water quality issues.

Water supply: Response and resolution times are measured for both urgent and non-urgent callouts. Urgent callout resolution times are relatively stable. Non-urgent call outs remain variable reflecting the large area covered by the rural water supplies.

Wastewater: Wastewater urgent fault resolution times are well within the target.

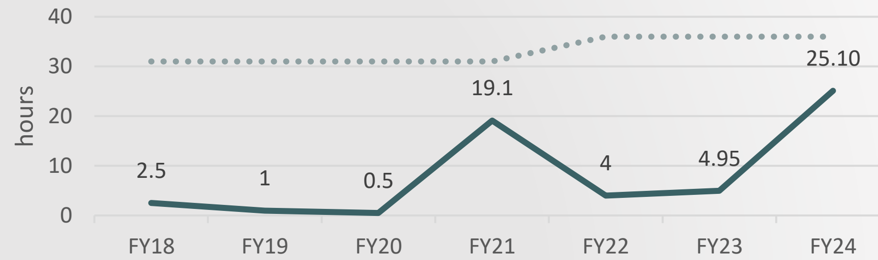
Stormwater: Stormwater attendance response times are only reported during flooding events, of which there has been none recorded over the last six years.

Water Supply (urgent): Resolution time vs target



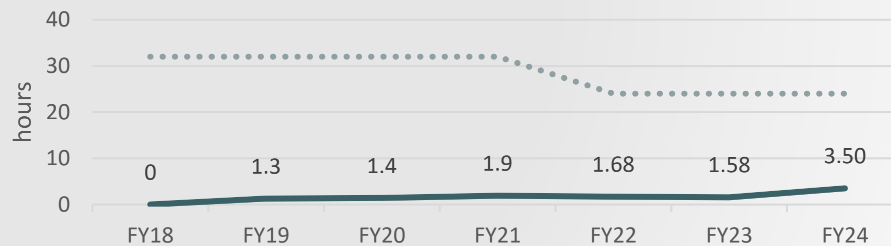
Target: 18 hours

Water Supply (non-urgent): Resolution time vs target



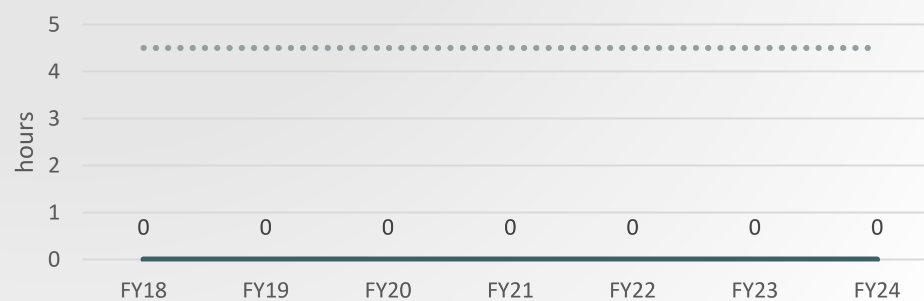
Target: FY18-FY21 31 hrs, FY22-FY24 36 hrs

Wastewater (urgent): Resolution time vs target



Target: FY18-FY21 32 hrs, FY22-FY24 24 hrs

Stormwater: Resolution time vs target



Target: 270 min (4.5 hrs)

Network performance and usage —water supply

Water supply performance

Performance of the water supply network is measured by unplanned service interruptions, leakage and water usage.

Unplanned interruptions to supply

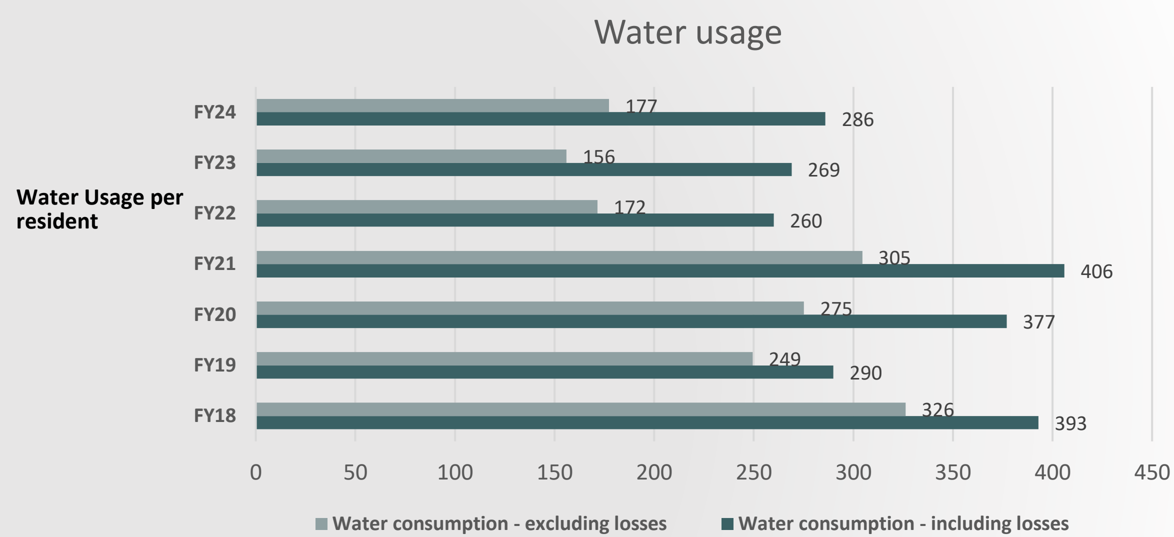
These are not currently recorded by ODC.

Water usage

Water meters were installed in 2016 in Otorohanga and 2023 in Kawhia. Water usage in Otorohanga is showing a significant reduction in the last 3 years. This is good performance compared to other communities in New Zealand. Kawhia water consumption is expected to fall with the metering change. Rural water supplies are not included in this parameter.

Water loss

Water loss is measured by % real water loss. The calculated real water losses are only calculated for urban areas and have been variable. Leakage in Otorohanga was calculated as 38% in Otorohanga for 2023/24 while only 11% for Kawhia. Leak detection is planned to identify what is causing the high water loss in Otorohanga.



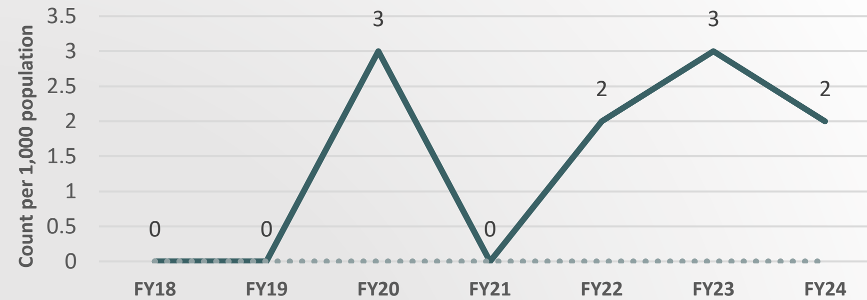
Network performance —wastewater and stormwater

Wastewater and stormwater network performance are measured in terms of overflows, blockages and flooding:

- **Wastewater overflows:** Overflows remain low but above the zero target.
- **Wastewater blockages:** The number of complaints about wastewater per 1,000 connections has improved in recent years and remains within targeted levels.
- **Stormwater flooding:** There have been no stormwater flooding events within the last six years.

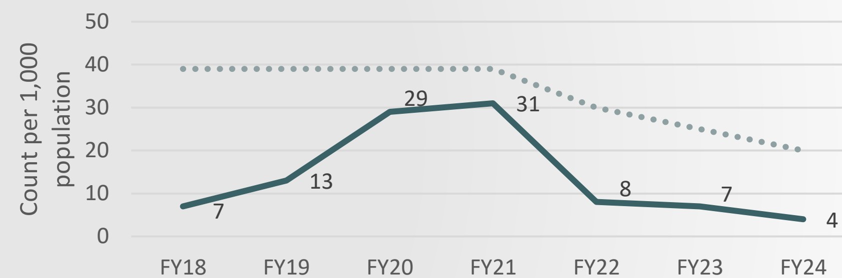
Wastewater: Overflows

Number of dry weather sewerage overflows per 1,000 connections



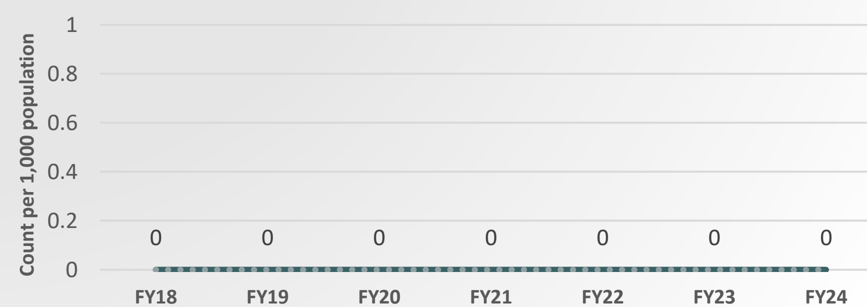
Wastewater: Blockages

Total number of complaints about wastewater per 1,000 connected properties



Stormwater: Flooding

Habitable floors flooded in the occurrence of a flooding event (FY18 and FY23)



Community supplies—obligations of local authorities

Councils are required to assess water services in its district, and to ensure safe drinking water is provided

Part 7 of the Local Government Act 2002 requires local authorities to undertake assessments of water and sanitary services every three years. The first assessment is required by 1 July 2026.

Assessments are required to cover both council and non-council water supplies (excluding domestic self-suppliers).

Each water supply assessment must:

- Identify each community that receives a drinking water service
- Describe the nature of existing drinking water services to the community
- Describe the safety and quality of drinking water currently being supplied
- Identify and assess any public health risks
- Assess the consequences if the community loses access to drinking water services in the future, or is provided with services that are deficient
- Outline a plan to provide for the community's ongoing access to drinking water services.

For wastewater, stormwater and other sanitary services (public toilets and cemeteries), the assessment relates to services available to communities within the district but does not relate to individual properties. The sanitary assessment includes assessing the adequacy of these services from a public health perspective and includes risks from absence or deficiency of services; service quality, current and estimated future demands and actual and potential consequences of wastewater and stormwater discharges within the district.

Responsibilities if community supplies develop problems

If a private or community supplier faces a significant problem with any of its drinking water or sanitary services, and if required by Taumata Arowai, the council must work with the supplier, the community, and Taumata Arowai to identify a solution to the problem.

Community supplies in the South Waikato District

There are no large-scale community supplies within the Ōtorohānga District. Assessments for marae, papakainga, etc may be required. The Kawhia community has provided feedback that a community scheme is unaffordable.

Risks and challenges over the next 10 years –

Understanding condition of water network to optimise renewals, consistently meet levels of service and reduce water loss

Continuing the programme to reduce unaccounted for water (including leakage)

Stormwater resource consents renewals – potentially increased requirements to improve quality or monitor effects

Abatement notice for Otorohanga WWTP – identifying and implementing a cost effective solution to reliably meet consent conditions and manage sludge levels

Compliance of Rural Water supplies and Kawhia supply with NZDWS and Water Quality Assurance Rules

Ability to attract and retain key resources, particularly if other employers in the region become more competitive e.g. future shared delivery organisations / CCOs

Improving resilience to climate change through renewals and capital programme

02

Assessment framework

Key elements of Local Water Done Well

The Government's Local Water Done Well policy will significantly change the operating environment for water services in New Zealand.

New regulatory requirements, coupled with new structural and financing tools, will lead to significant changes in service provision over time, including the adoption of new service delivery models.

WATER SERVICES PLANS

Plans will need to show how councils will meet water quality and infrastructure rules, while being financially sustainable

Plans need to include asset and financial information, investment required and proposed service delivery arrangements

FINANCIAL SUSTAINABILITY

Plans will need to show that:

- Water revenue is sufficient to cover maintenance, financing costs and depreciation
- Planned capital investment is sufficient to meet regulatory requirements and provide for growth
- Available financing does not constrain investment required to support service delivery

NEW STRUCTURAL AND FINANCING TOOLS

Future legislation, to be introduced later in 2023, is expected to provide for a range of structural and financing tools, including a new type of financially independent council-owned water organisation.

NEW REGULATION

Legislation will set out long-term requirements for financial sustainability and provide for economic regulation. This will include requirements for councils to ring-fence their water services from other council activities and will include new information disclosure and reporting requirements.

Legislative timeline

New requirements are being progressively brought in over the next 12 months, beginning with the requirement for Councils to develop Water Services Delivery Plans

Pave the way for local water done well

Water Services Acts Repeal Act 2024
Enacted February 2024

- Repeal water services legislation to restore council ownership and control of water services
- Disestablish the Northland and Auckland Water Services Entity
- Provide options for how councils incorporate water services into their 2024-34 long-term plan

Lay foundations of the new system

Local Government (Water Services Preliminary Arrangements) Act
Enacted September 2024

- Requires councils to prepare Water Services Delivery Plans
- Includes a definition of financial sustainability
- Establishes foundational information disclosure
- Streamlines the process for establishment of CCOs
- Provides for financial separation of Watercare

Establish enduring system for water services delivery

Future legislation
Introduced December 2024, to be enacted mid-2025

- Long-term requirements for financial sustainability
- Establishing new classes of council-controlled water organisations and service delivery models
- Accountability, planning, and reporting regimes for water services
- Providing for comprehensive economic regulation
- Refinements to water services delivery system regulatory settings:
- Changes to the Local Government Act 2002 and other legislation to strengthen the delivery of water services

Water Services Delivery Plans

Expected August 2025

Due 12 months after enactment of the Local Government (Water Services Preliminary Arrangements) Bill

Feb 2024 | Jun 2024 | Aug 2024 | Late 2024 | Mid 2025 | Aug 2025

Water Services Delivery Plans

Required content

Water services delivery plans will be required to include a description of:

- The current state of the water services network, including current levels of service, asset condition and lifespan, the asset management approach being used, and any issues, constraints or risks impacting on the delivery of water services
- The water infrastructure needed to meet regulatory requirements and provide for population growth
- The operational and capital expenditure required to delivery water services
- Financial projections including:
  - — The operating costs and revenue required to delivery water services, including how that revenue will be separated from the territorial authority's other functions and activities
  - — Projected capital expenditure on water infrastructure
  - — Projected borrowing to finance the delivery of water services.
- The anticipated or proposed model for delivering water services, including what the local authority proposes to do to ensure water services delivery will be financially sustainable by 30 June 2028.

Planning horizon

Water services delivery plans will be required to cover a period of not less than ten financial years, starting with the FY25 financial year.

Local authorities are not restricted to covering only 10 years in their plan.

Many local authorities have submitted that a 30-year horizon is more appropriate for assessing sustainability of water services given the long-asset lives and investment cycles. Future regulatory requirements are expected to drive higher costs, with many of these costs likely to be faced beyond the current LTP period. It is therefore prudent to also viability and sustainability over both a 10 year and 30-year time horizon.

Assessing viability and sustainability

Two concepts in the Bill are central to the assessment of viability and sustainability:

- Ring-fencing
- Financial sustainability

Ring-fencing

Ring-fencing rules will require revenue from water services to be separated from the territorial authority's other functions and activities, with the expectation that water services will 'stand on their own two feet'.

The requirement to ring-fence revenues is expected to be accompanied by a requirement for local authorities to prepare a full set of financial statements for each water activity group, and for water activities combined, in addition to the current requirements to prepare prospective and actual funding impact statements.

Financial sustainability

The Local Government (Water Services Preliminary Arrangements) Bill defines financial sustainability as meaning:

- The revenue applied to the delivery of water services is sufficient to ensure the local authority's long-term investment in delivering water services, and
- The local authority is financially able to meet all regulatory standards and requirements for the delivery of water services.

The first part of that test relates to revenue sufficiency and the second part relates to investment sufficiency.

In addition, councils should also consider financing sufficiency and affordability when considering the viability and sustainability of their current service delivery model.

How we approached the assessment

Operating context

- In-house service delivery for operations and maintenance and some projects
- All water supplies metered
- Limited growth
- Relatively stable renewals profile, with most assets half-way through useful life
- Performance generally stable and meeting targets
- Project to address Otorohanga WWTP non-compliances
- Upgrades required for Arohena RWS to provide Protozoal barrier and meet DWS

Service levels

- Network performance
- DWS compliance
- RM consent compliance
- Customer service

Cost drivers

- Asset age and condition
- Improved levels of service
- Growth
- Asset revaluations
- Borrowing
- Operating costs

Financial projections

- Revenue and expenses
- Investment
- Borrowing
- Other capital funding

Viability and sustainability assessment

- Revenue sufficiency
- Investment sufficiency
- Financing sufficiency
- Resource sufficiency
- Affordability

Criteria for assessing viability and sustainability

Revenue sufficiency
Is the projected revenue sufficient to cover the costs of water services delivery?

- Operating surplus (deficit)

Investment sufficiency
Is the projected level of investment sufficient to maintain assets, meet regulatory requirements and provide for growth?

- Asset sustainability
- Capital delivery

Financing sufficiency
Can the council raise the borrowing required to finance investment while remaining within financial limits?

- Net debt to operating ratio
- Free funds from operations (FFO) to debt

Resource sufficiency
Does the council have the resources to operate water services sustainability?

- Operational capability
- Capital delivery

Affordability
Is the projected increase in water charges affordable for the community?

- % change in real water charges per connection
- Water charges as % median household income

Viability and sustainability measures

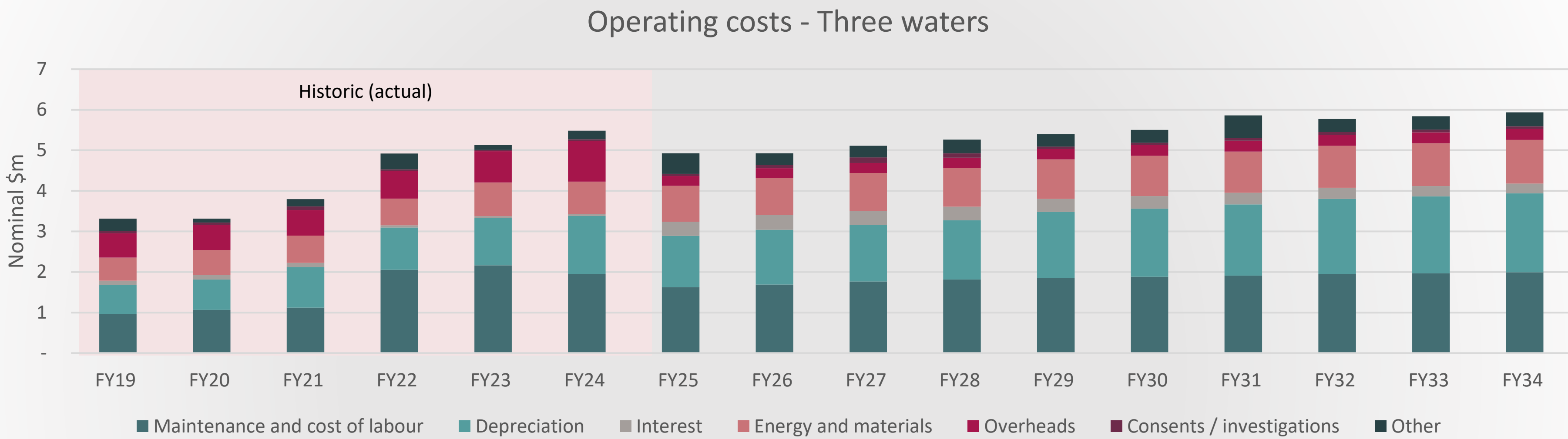
Measure	Description
Operating surplus (deficit)	**Operating surplus (deficit)** measures the surplus (deficit) remaining after deducting all operating costs (including depreciation and interest) from operating revenues. Operating revenues include general and targeted rates, fees and charges but excludes sources of capital funding (e.g., financ ial and development contributions and any capital subsidies).
Asset sustainability	**Asset sustainability** measures the ratio of capital expenditure on renewals to depreciation, which indicates whether assets are being adequately maintained (when assessed over the long-term).c
Capital delivery	**Capital delivery** is an historical measure of the gap between actual and planned capital expenditure, which is a proxy for whether future capital expenditure is likely to be delivered.
Net debt to operating ratio	**Net debt to operating revenue** measures the level of debt (net of any cash reserves) relative to operating revenue, which is an indication of the degree to which borrowing is supported by revenue over time. Local authority debt limits and financial covenants usually refer to this ratio.
Free funds from operations (FFO) to debt EBITDA to debt	**FFO to debt and EBITDA are** two of the core financial ratios used by credit rating agencies when assessing the financial strength and credit quality of standalone water organisations. **FFO to Debt:** This ratio shows how much of the council's cash flow from operations (FFO) is available to cover its debt, indicating its ability to repay. **EBITDA to Debt**: It compares the council's earnings (before interest, taxes, depreciation, and amortisation) to its debt, helping to assess how comfortably it can manage its debt payments.
Real charges per water connection	**Real charges per connection** indicates the extent to which water charges are required to increase over time to achieve revenue sufficiency, measured in today's dollars.
Water charge % median household income	**Charges as a percentage of median income** indicates the proportion of median household income required to pay for water charges, which can be assessed with reference to affordability benchmarks.

3a

Three waters services

Revenue sufficiency | Investment sufficiency | Financing sufficiency | Affordability

Three waters operating expenditure



Last six years

Over the past six years, the cost of operating water services has increased by 65%, rising from $3.3 million to $5.5 million. Key factors include escalation in maintenance and labour costs (+103%), depreciation (+99%), overheads (+69%), and energy and materials (+39%).

Despite higher borrowing and rising interest rates, finance costs fell by 55%. This appears to be driven by internal borrowing costs being subsidised, with the implied interest rate moving down from 6.57% in FY19 to 1.38% in FY24.

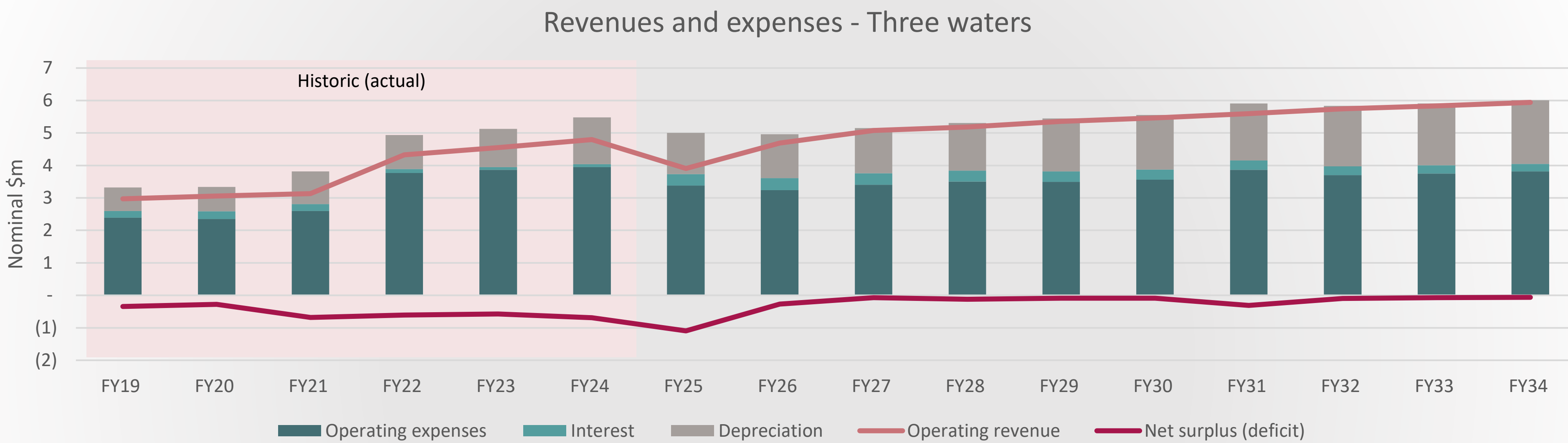
Outlook

Looking ahead, operating costs are expected to decrease by an average of 1.6% per year over the next decade. However, interest costs are set to rise sharply between FY24 and FY25. This is due to a 35% increase in debt and a rise in interest rates from 1.38% to 3.87% which remain below LGFA borrowing rates. As a result, interest costs are projected to grow by 14.9% per year, after adjusting for inflation. Despite this, the interest rate for FY34 is expected to fall to 2.1%, suggesting that subsidised interest continues.

The council should carefully consider this outlook in light of the incoming ringfencing requirements. Ongoing interest subsidies would result in financial trade-offs for other council activities, which should be weighed carefully and are unlikely to be consistent with future ring-fencing requirements. Operating expense projections should be reassessed during the development of the Water Services Delivery plan to ensure long-term sustainability.

Three waters revenues and operating balance

Revenue sufficiency



Revenues

Revenues for water services are projected to grow by 24% over the next ten years, from $4.79 million to $5.94 million. However, in real terms, this represents an annual decrease of -0.3%. This indicates that the council is expecting its cost base for three waters to grow at a rate slower than anticipated inflation. This assumption should be tested as there are more assets (with consequential operating costs implications) being added to the three waters network.

Operating surpluses (deficits)

Operating surpluses are expected to persist throughout the forecast period, with a substantial deficit in FY25 of around -28%, which moderates to a smaller deficits of around -1% to -2% of revenue for the remainder of the forecast period.

Cumulative losses are expected to reach $2.28 million over the next decade, equivalent to 4% of revenue. This should be considered further by council as part of its Water Services Delivery Plan, as the base year for this analysis (FY25) is lower than any year in the FY22-FY24 period.

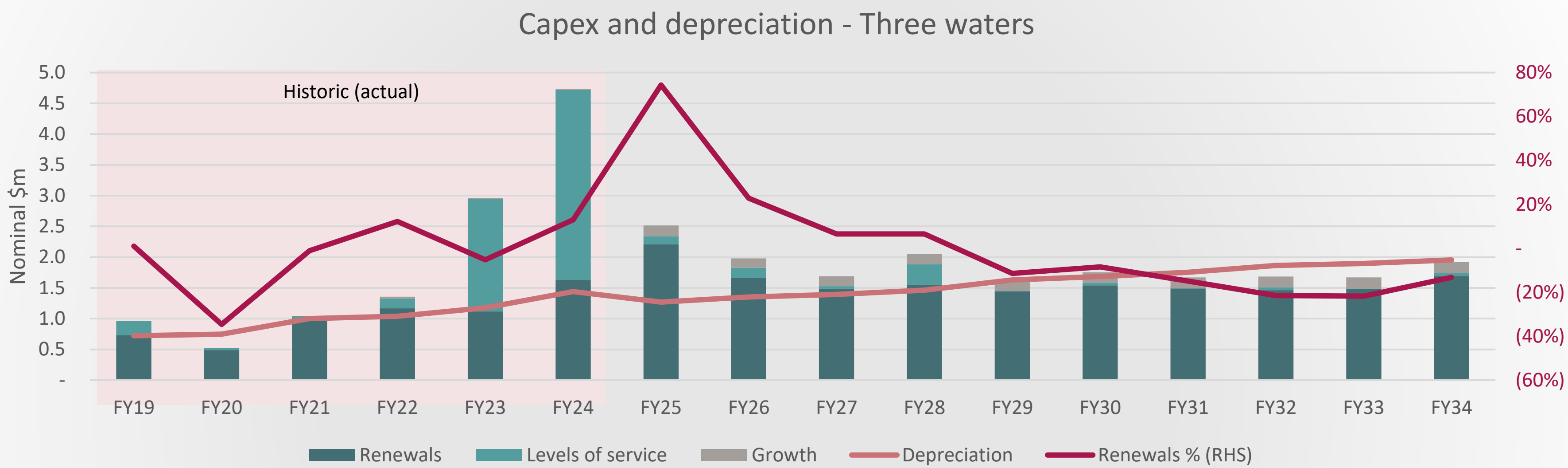
Revenue sufficiency

The council's long-term plan financial projections appear proximate to the expected future requirement for revenue sufficiency over the LTP period. However, adjustments will be needed to address ongoing deficits, and the likely need to increase operating and capital expenditure as additional operating and capital cost pressures noted elsewhere will place further downward pressure on revenue sufficiency.

This conclusion is preliminary, based on our high-level assessment of the long-term plan projections, and should be further examined as part of preparing the Water Services Delivery Plan.

Three waters capital expenditure

Investment sufficiency



Capital delivery

The council has invested $11.6 million in three waters assets over the past six years, compared to a planned investment of $16.2 million, achieving an overall delivery rate of 72%. Notably, 41% of the capital was delivered in FY24 alone. The increased expenditure on levels of service was part of the 2021-31 LTP accelerated investment profile to address non-compliance with drinking water standards; risk of water/wastewater system failure; and insufficient water/wastewater infrastructure capacity to support growth.

Capital expenditure plans

Over the next ten years, the council plans to invest $18.5 million in three waters assets. While this is similar to the average investment level over the past six years, it represents a reduction in real terms when inflation is considered.

Investment remains relatively stable over the LTP period, but may be insufficient. For instance, the wastewater treatment plant is non-compliant, and additional expenditure may need to be included in future capex plans to address this, and may have operating cost and revenue implications to service additional borrowings.

Depreciation and renewals

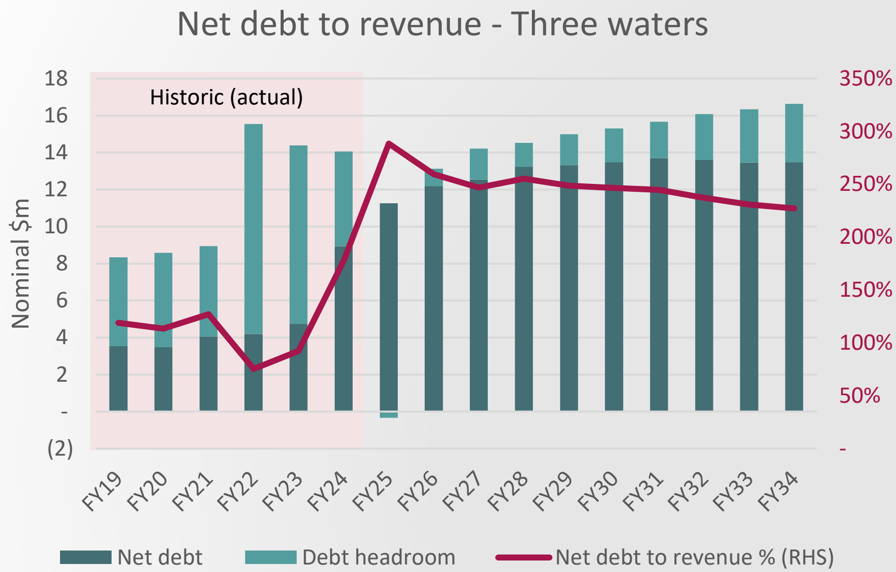
Over the past six years, actual renewal spending aligned with depreciation expense, although the spending was inconsistent. Over the next decade, the council plans to spend $16 million on renewals, which represents a marginal shortfall of 1% compared to the depreciation expense.

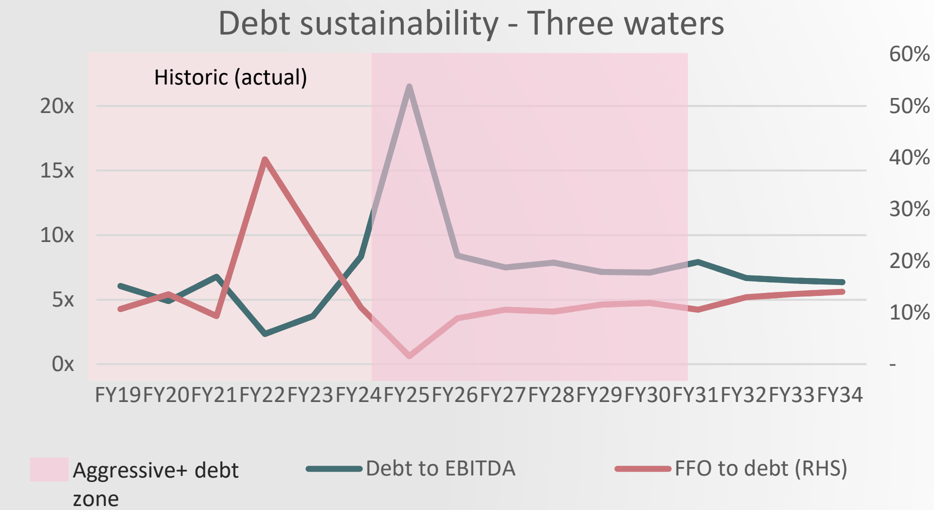
Increased spending on renewals in FY25-FY26 reflects a 'catch-up' on deferred investments from the prior LTP period.

Wastewater renewals investment is projected to exceed depreciation by 24%, while stormwater renewals investment falls short, covering only 63% of the $2.4 million depreciation expense but is due to few stormwater assets being due for replacement in the next 30 years based on age.

Three waters borrowing and financing sufficiency

Financing sufficiency





Borrowing

Water services borrowing (both internal and external) has increased from $3.1 million to $6.7 million over the last six years. Borrowing is expected to grow by another 35% in FY25, reaching $9 million, and peak at $11.5 million in FY31. Cash reserves are forecast to stabilise, though in deficit, at $2.2 million, affecting net debt.

Net debt to revenue

Net debt to revenue rose from 119% in FY19 to 178% in FY24, despite dipping to 75% in FY22. Over the next decade, this ratio is expected to peak at 288% in FY25, before decreasing to around 227% by the end of the LTP period. Water activities generally operate with higher leverage due to their capital-intensive nature, and the current level of net debt appears within a typical range. However, debt sustainability may come under pressure with additional capex and if water charges are not increased.

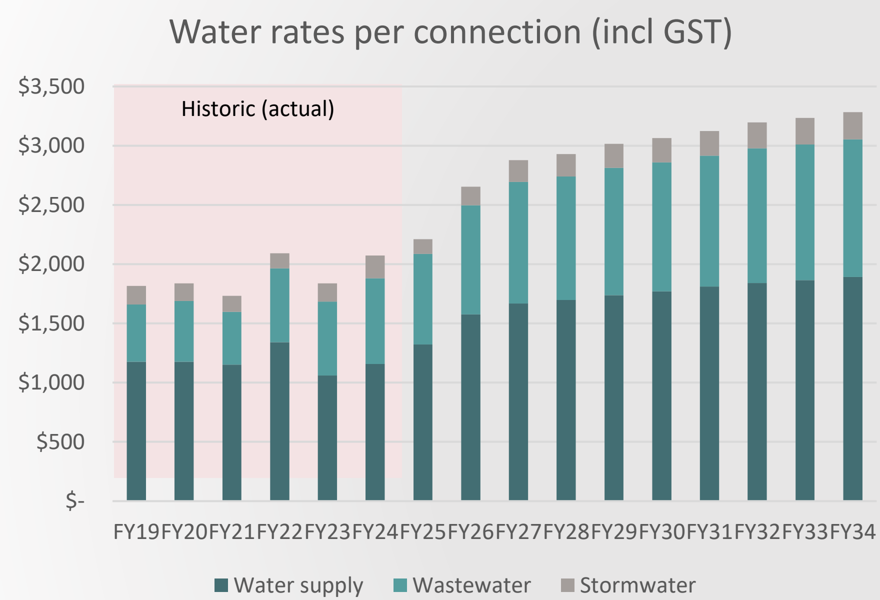
Debt sustainability

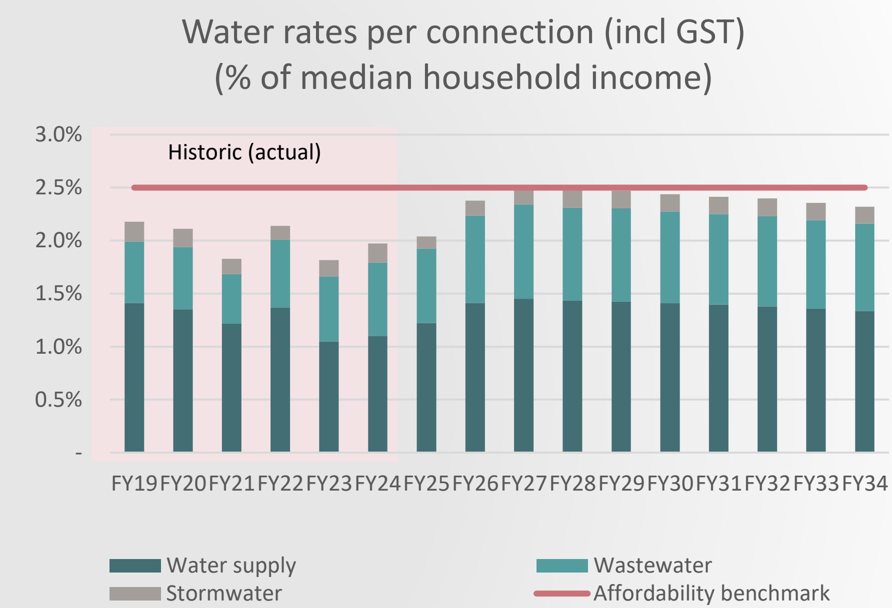
The Funds from Operations (FFO) to net debt ratio has fluctuated between 9% and 40% over the past six years, with a projected drop to 2% in FY25, before recovering to 14% by FY34. Industry benchmarks suggest that a ratio between 9% and 13% reflects aggressive leverage, while 23% to 35% indicates a more moderate debt level.

The Debt to EBITDA ratio is expected to spike from 8.3x to 21.5x this year, then decline to 8.4x in FY26 and gradually reduce to 6.3x by FY34. A ratio above 5.5x is generally considered highly leveraged. Overall, the council's debt profile reflects a highly leveraged position throughout the LTP period, requiring ongoing attention to ensure long-term debt sustainability.

Three waters affordability

Affordability





Average water rates per connection

Total water charges per connection are projected to increase by $1,208 per connection, from $2074 in FY24 to around $3,282 per connection by FY34.

When expressed in today's dollars, this represents a real increase of $517 per connection.

Water rates as a % of median household income

The increase in water charges is estimated to increase average spending on water services per connection from 1.97% of the median household income in FY24 to 2.32% by FY34.

Affordability of water charges

A common international benchmark for water affordability is total annual user charges divided by median household income. Using this measure, a threshold value of 2.5% of median household income is typically used to indicate when water charges are beginning to become unaffordable.

Based on the financial projections in the council's long-term plan, this threshold is not expected to be breached over the LTP period.

Ōtorohanga Water Activities credit rating (S&P)

Credit rating

Overview

The credit rating of the water activities when looked at on a standalone basis will be determined by the scale of the entity, the newness of the economic regulation, the entity's financial metrics and the links to the parent council(s)

LWDW structures

There is a trade-off between structures where the financial position of the water entity continues to impact council's credit rating (inhouse, single-council water organisation or multi-council water organisation with parent guarantee) and structures that no longer impact council's credit rating, if established and managed appropriately (ie multi-council water organisation without parent guarantee or Consumer Trust owned)

1 Competitive position

Uncertainty regarding the incoming economic regulatory regime means it is likely that S&P would assign a strong/adequate regulatory advantage assessment (rather than strong) - as a result, the medial volatility table would apply (which requires higher core ratios)

2 Business risk

Although other NZ regulated utilities are considered to have an 'excellent' business risk profile, a new water entity is expected to be assessed as 'strong' until regulation is established

3 Financial risk

Financial risk profile is assigned based on where a new water entity is expected to sit within core financial ratios over the next 3-5 years – the FFO/debt ratio is in the 'aggressive' band initially

4 Government support

The government support assessment shown assumes the water entity is structured as a multi-council water organisation without parent guarantee or Consumer Trust owned and the potential uplift is based on links to the Crown

	Scenario	1	2	3	4
	Country risk	Low risk			
	Industry risk	Very low risk			
1	Competitive position	Strong		Satisfactory	
2	**Business risk**	**Excellent**		**Strong**	
3	**Financial risk**	**Significant**	**Aggressive**	**Significant**	**Aggressive**
	Modifier	None			
	Standalone rating	**a-**	**bbb**	**bbb**	**bb+**
4	Government support	Very high			
	Issuer credit rating	**AA-**	**A**	**A**	**BBB+**

In order for the water entity to achieve an investment grade standalone credit rating (i.e., before notching for government support), the water entity needs to achieve either an "Excellent" business risk profile or remain within the "Significant" financial risk profile core ratio bands

Ratio	Significant	Aggressive
FFO/Debt (%)	13 - 23%	9 - 13%
Debt/EBITDA (x)	3.5 - 4.5x	4.5 – 5.5x

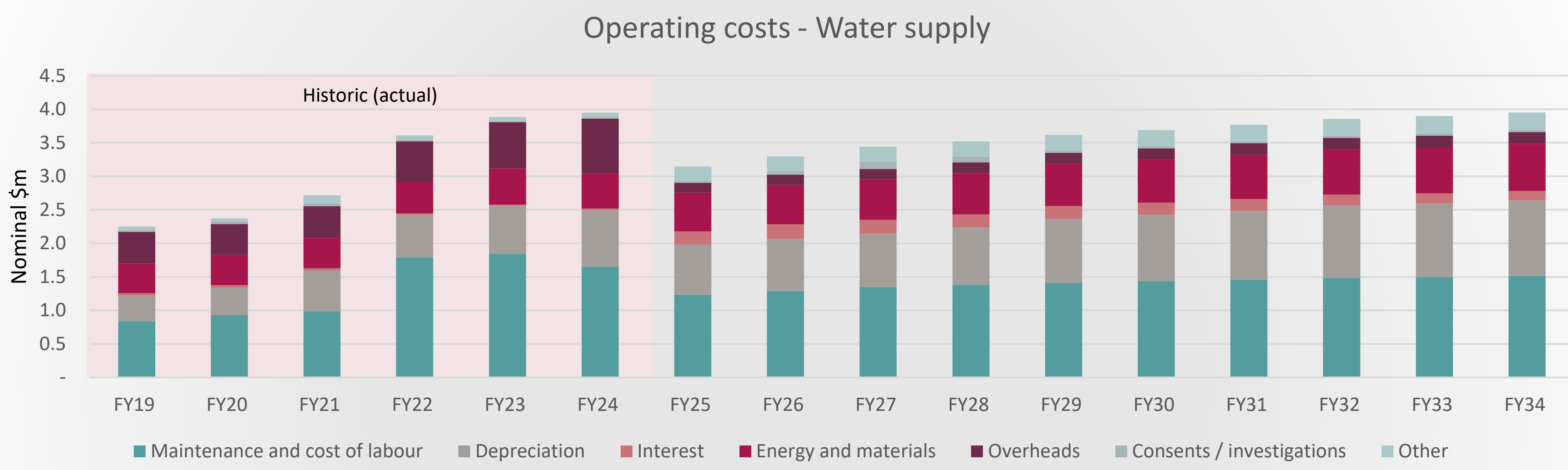
Otorohanga 3W entity	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
FFO / Debt	2%	9%	11%	10%	12%	12%	11%	13%	14%	14%
Debt / EBITDA	21.5x	8.4x	7.5x	7.9x	7.2x	7.1x	7.9x	6.7x	6.5x	6.3x

3b

Water supply services

Revenue sufficiency | Investment sufficiency | Financing sufficiency

Water supply operating expenditure



Last six years

The cost of operating water supply services increased by 75% over the last six years – from around $2.25 million to $3.95 million. Significant drivers of this included depreciation (up 117%), costs of labour and maintenance (up 97%), and overheads (up 73%).

The cost of labour increased significantly in FY22, as well as overheads, which includes council staff. These have remained high. Similarly, depreciation jumped in FY21 and has continued to remain at higher levels.

10-year outlook

Operating costs are projected to drop around 20% ($0.8m) in FY25. We understand that the drop in operating expenses in FY25 is due to a change in how internal staff costs are allocated. Further investigation into these reductions is warranted. Looking over the forecast period, operating spend is contracting real terms by around 2.4% per annum.

Notably exceptions are interest costs, which are growing in real terms, at a rate of around 16.5% per annum, and ‘other’ expenses (which includes the leak detection programme) are growing at 11.8% per annum on average for the next 10-years.

Water supply—revenues and operating balance

Revenue sufficiency

Revenues

Revenues for water supply are expected to increase by 16% over the next ten years – from $3.4 million to $3.9 million. This represents a real decrease of around $0.32 million, and follows a sharp decline in revenues of nearly 20% in FY25.

Targeted rates increase rapidly in each of FY25, FY26 and FY27, before stabilising from FY28. It is understood that this is due to changes in charging for specific rural supplies that the council manages.

Operating surpluses (deficits)

Water supply services has historically seen moderate operating losses over the last six years, with losses reaching around 16-17% of revenue.

The council plans to continue running operating losses over the next ten years, albeit smaller losses at around (3%) of operating revenue.

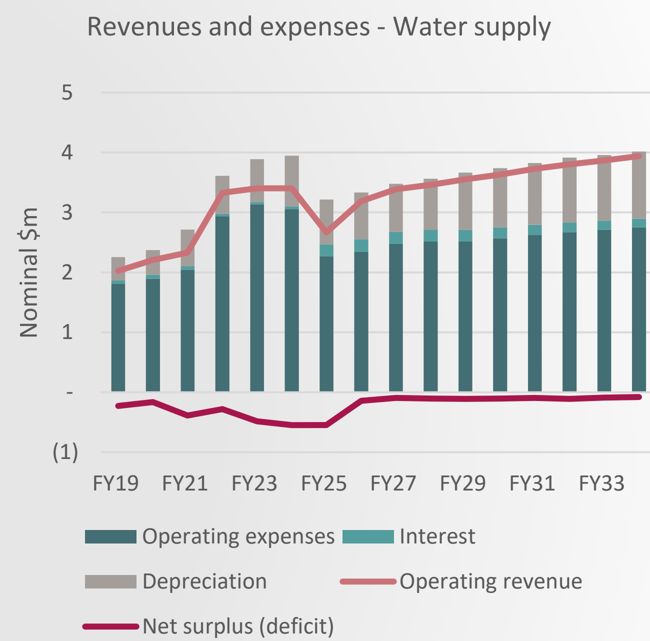
Revenue sufficiency

Revenue sufficiency requires that operating revenues are sufficient to meet the costs of operating water services and generate cash surpluses for investment or debt repayment. This includes that revenues recover the full cost of depreciation so that assets can be maintained into the future.

The council's long-term plan financial projections are proximate to this requirement but will require a lift in revenue to avoid persistent losses and meet additional operating and capital spend requirements (noting capital spend will require additional revenue to service debt).

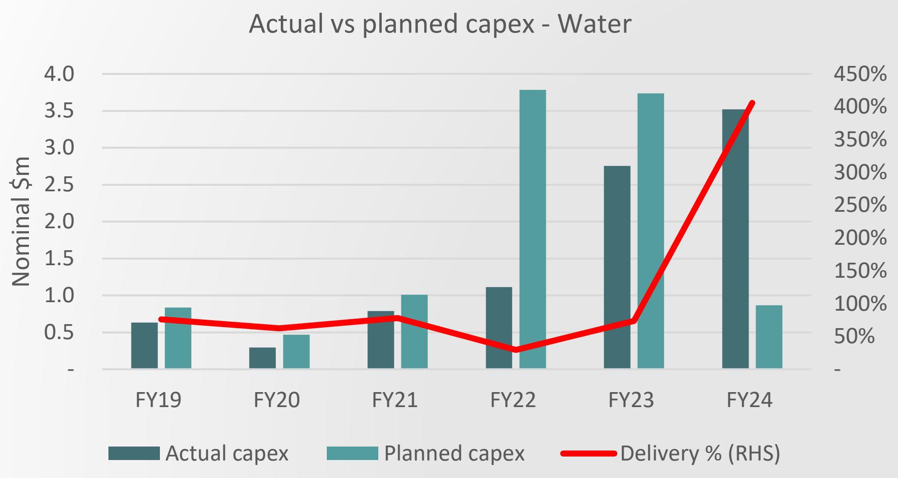
We recommend the council review its revenue projections, and cost allocation model to ensure that costs are fairly reflected, and allocated, with appropriate adjustments to revenue considered.

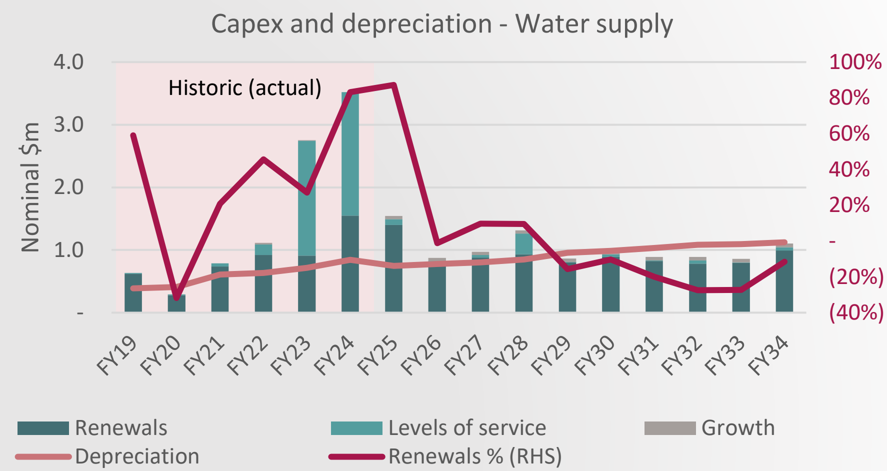
This conclusion is preliminary, based on our high-level assessment of the long-term plan projections, and should be further examined as part of preparing the Water Services Delivery Plan.



Water supply—capital expenditure

Investment sufficiency





Capital delivery

The council has invested $9.1 million in water supply assets over the last six years compared with planned investment of $10.7 million (an overall delivery rate of 85% against forecast capital spend).

We note that capex was boosted by $1.5 million in subsidies over FY21 - FY23.

Capital expenditure plans

The council is planning to invest $10.3 million in its water supply assets over the next ten years. This level of investment represents a material slowing compared to the average level of investment over the last six years.

However, FY23 and FY24 represented new investment in levels of service which was significantly higher than planned due to projects being carried forward into the next financial year. Capex included additional reservoir storage and upgrades to water treatment plants.

The capital investment profile over the forecast period is relatively smooth. However, FY25 sees a spike in renewal investment due to projects being carried forward. The council also sees a small increase in levels of service investment in FY28. The asset improvement ratio averages 1.13 over the period.

Depreciation and renewals

The council spent $5 million on water supply renewals over the last six years compared with depreciation expense of $3.6 million.

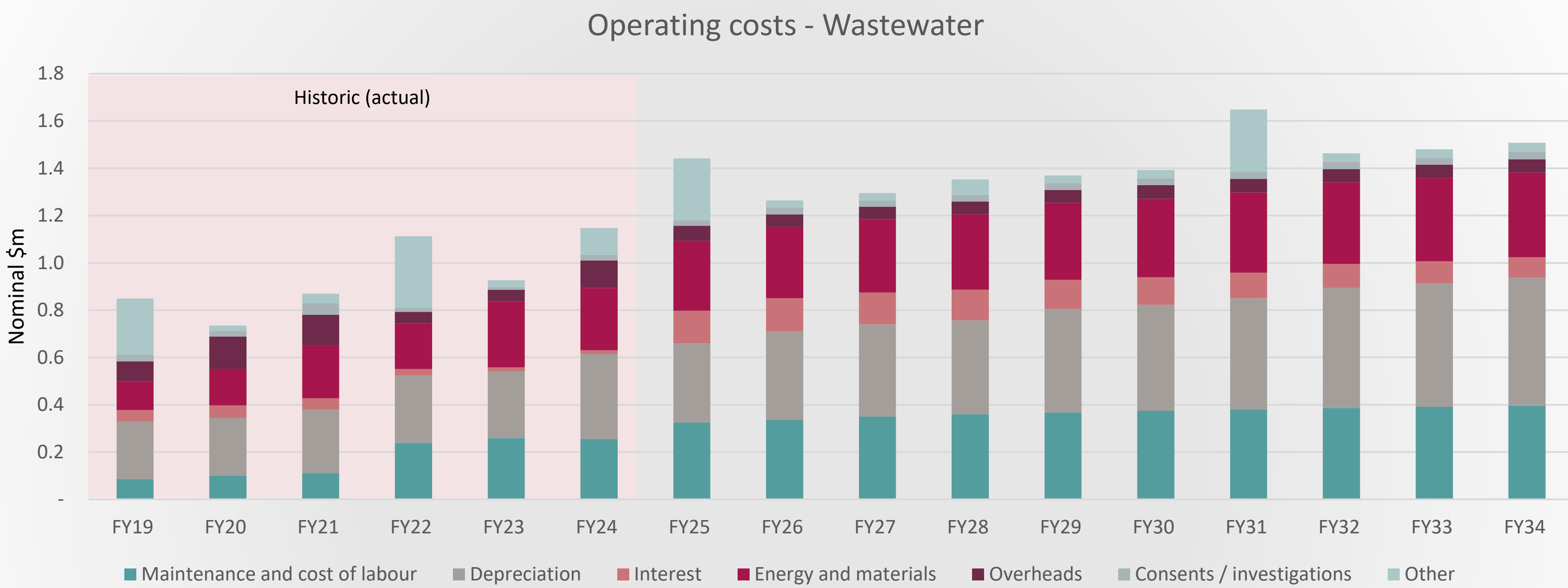
Going forward, planned renewals comprise most of the forecast capital spend. However, renewals are not expected to keep up with depreciation, with a minor shortfall of 4% over the ten-year period. This is being driven by low delivery rates from FY29 onward. This is expected given the current age of the assets.

3c

Wastewater services

Revenue sufficiency | Investment sufficiency | Financing sufficiency

Wastewater operating expenditure



Last six years

The cost of operating wastewater services has risen by 35% over the last six years, increasing from approximately $0.85 million to $1.15 million. Key drivers of this growth include:

- **Labour and maintenance costs**, which escalated by 194%
- **Energy costs**, which grew by 117%
- **Depreciation**, which increased by 49%

In contrast, other operational costs have contracted over the same period. Both interest expenses and overheads have decreased, as have consenting costs.

Outlook

Operating costs are projected to grow from $1.15 million to $1.51 million over the next ten years. In real terms, this is roughly keeping pace with inflation.

Interest is expected to experience the largest percentage increase, with a compounded annual growth rate of 15.9% over the next decade.

Labour and maintenance costs are projected to rise in real terms, at 2.1% above the rate of inflation.

Overheads and other expenditure are expected to contract 12.6% and 9.2% per year, respectively.

Wastewater revenues and operating balance

Revenue sufficiency

Revenues

Wastewater revenues are projected to grow by 52% over the next ten years, increasing from $1.0 million to $1.5 million. This represents an average annual real growth rate of 1.8%.

Operating surpluses (deficits)

Wastewater services operated moderate to significant deficits for the last six years, ranging from -54% to -11%. This appears to have been driven by fluctuating payments to staff and suppliers.

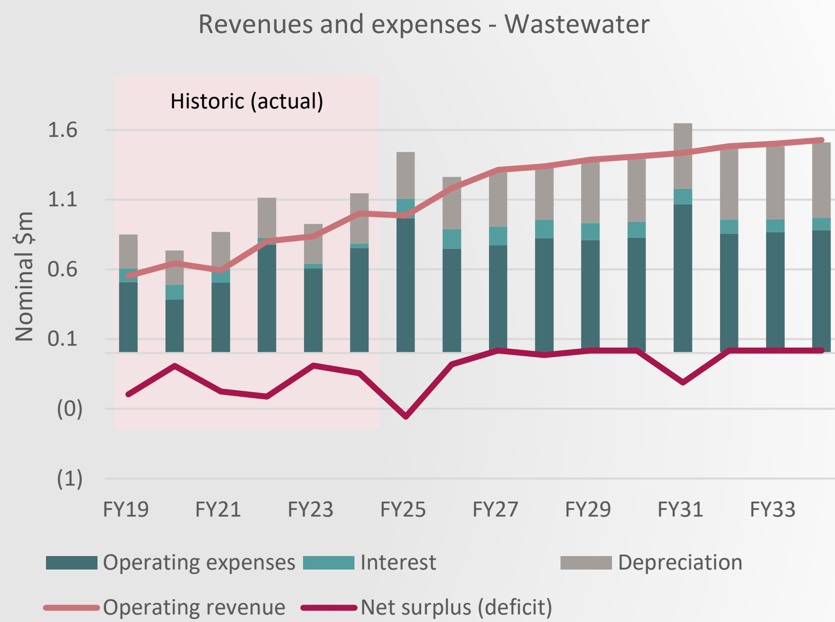
The council expected to run a substantial deficit this year of -46% (FY25) and a more minor deficit of -7% in FY26. The deficit spikes again in FY31. Overall, the council is running an average deficit of 5% over the LTP period.

Deficits appear to be driven by increasing finance costs (compared with the historic period) and payments to suppliers fluctuating with desludging expenses.

Revenue sufficiency

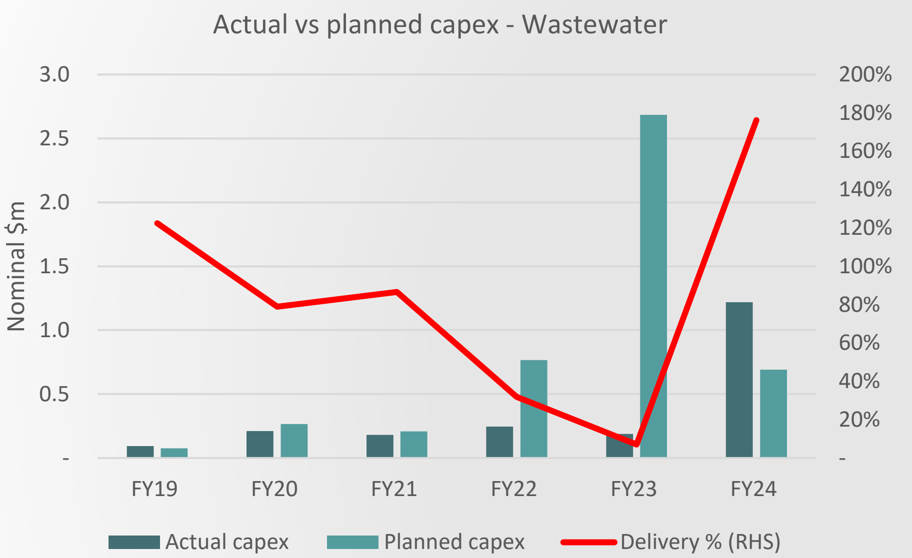
The council should review revenue and investment requirements to ensure there is sufficient provision for operating costs (including variable costs like desludging) as well as capital investment to maintain assets, meet regulatory requirements, and provide for growth.

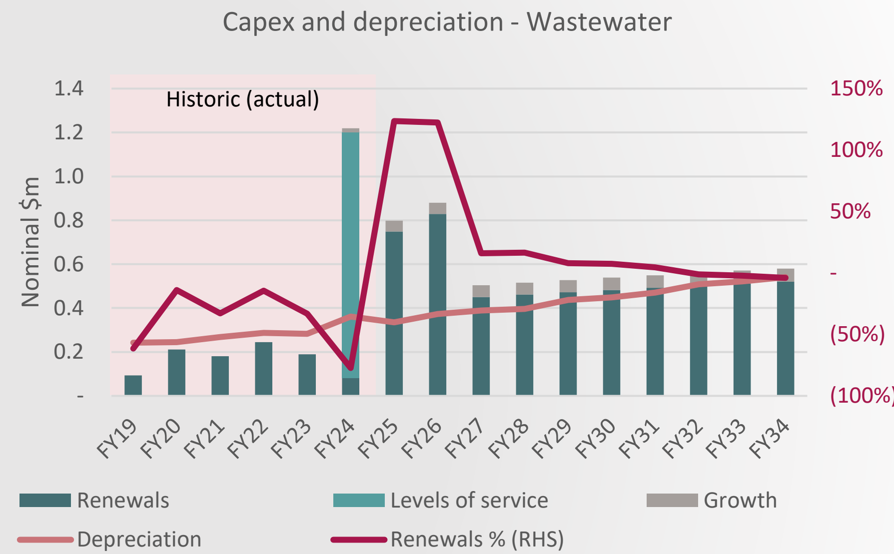
This conclusion is preliminary, based on our high-level assessment of the long-term plan projections, and should be further examined as part of preparing the Water Services Delivery Plan.



Wastewater capital expenditure

Investment sufficiency





Capital delivery

Over the past six years, the council has invested $2.1 million in wastewater assets, significantly below the planned $4.7 million, resulting in a delivery rate of just 46%. Some of this under-delivery appears to have been carried over into the current LTP, with substantial renewals scheduled for FY25 and FY26.

Capital expenditure plans

The council plans to increase its investment in wastewater assets to $6 million over the next ten years, marking a 69% increase (on an annual basis) compared to the previous six-year period. The capital expenditure profile shows a sharp rise in investment for renewals during FY25-FY26, as part of efforts to improve network performance.

Depreciation and renewals

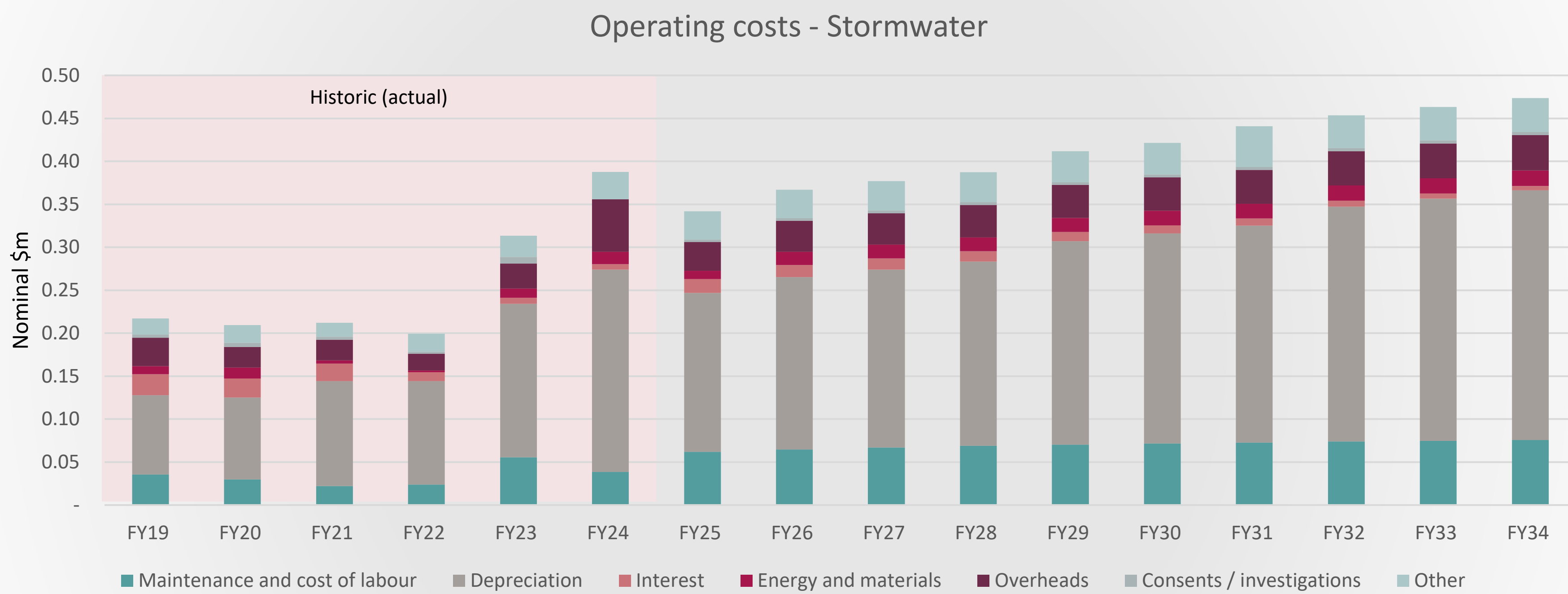
Over the last six years, the council spent $1 million on wastewater renewals, which represents 59% of the total depreciation expense of $1.7 million. However, looking forward, the council plans to invest $5.4 million in renewals over the next ten years, equating to approximately 124% of the projected depreciation expense. This increase reflects a more proactive approach to maintaining and renewing critical wastewater infrastructure.

3d

Stormwater services

Revenue sufficiency | Investment sufficiency | Financing sufficiency

Stormwater operating expenditure



Last five years

The cost of operating stormwater services increased by 79% over the last five years – from just under $0.22 million to $0.39 million. Significant drivers of this include depreciation expense (+155%), overheads (+86%), other (+69%), and energy and materials (+53%). Interest costs fell by 74% over the period as debt was gradually repaid.

Outlook

Operating costs are projected to continue to fall in real terms by about 0.4% per annum over the next ten years.

Stormwater revenues and operating balance

Revenue sufficiency

Revenues

Revenues for stormwater are expected to increase by 22% over the next ten years – from $0.39 million to $0.47 million. After accounting for expected inflation, this represents a contraction -0.4% per annum in real terms.

Operating surpluses (deficits)

Stormwater services have operated with a moderate deficit for three years from FY20 to FY22. In each of FY23 and FY24 stormwater revenues matched expenses.

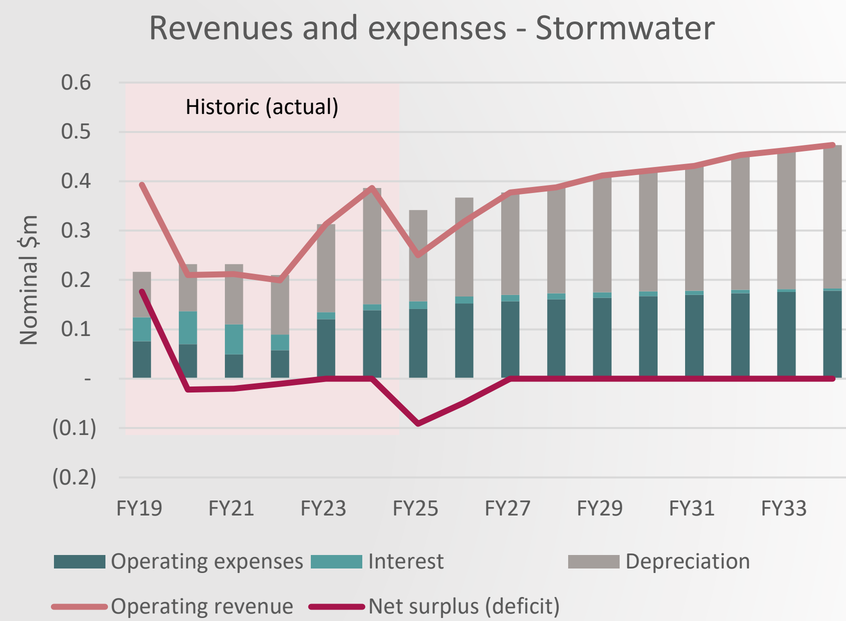
While the operating balance is expected to remain neutral from FY27, a deficit of 36% of operating revenues is forecast in FY25, and 16% in FY26. This results in an average deficit of around -3.5% over the forecast period, which does not provide headroom for any unanticipated costs, or cost escalation. The operating losses appear to be driven by a substantial general rates decrease for stormwater in FY25 of 35% compared to FY24 and 15% in FY26 compared with FY27.

Revenue sufficiency

The council's long-term plan financial projections are close but not quite consistent with the expected future requirement for revenue sufficiency.

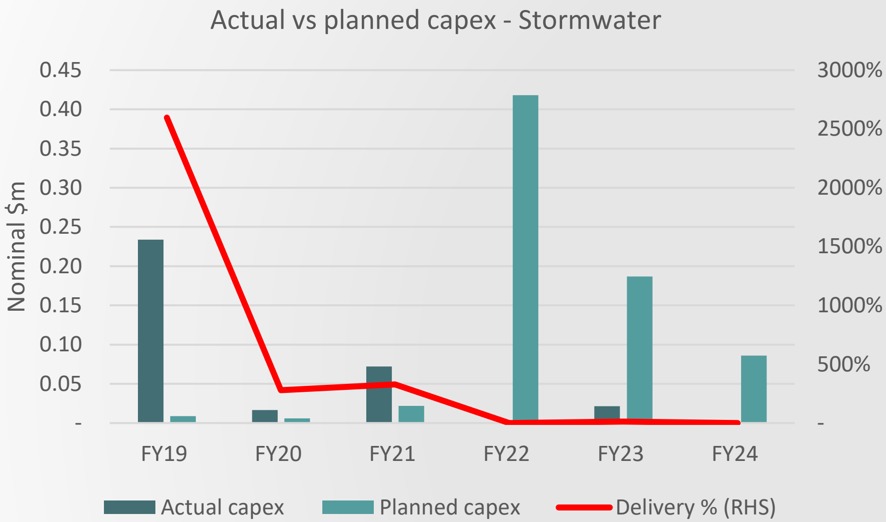
It is unclear whether there is sufficient provision for capital investment to maintain assets, meet regulatory requirements, and provide for growth.

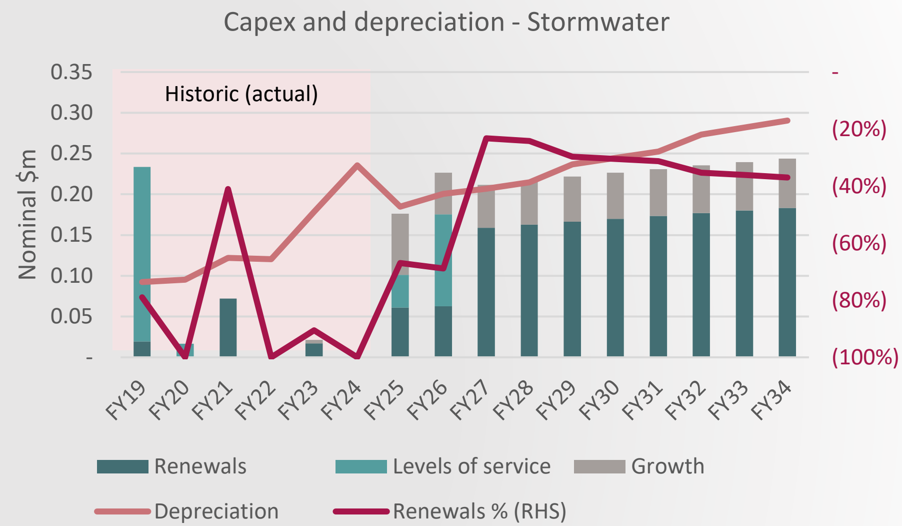
This conclusion is preliminary, based on our high-level assessment of the long-term plan projections, and should be further examined as part of preparing the Water Services Delivery Plan.



Stormwater capital expenditure

Investment sufficiency





Capital delivery

The council has invested $0.34 million in stormwater assets over the last six years compared with planned investment of $0.73 million, a shortfall of 53%.

Capital expenditure plans

The council is planning to invest $2.2 million in its stormwater assets over the next ten years.

This level of investment represents a near trebling in the annual average investment over the last six years.

There remains a low level of investment in renewals over the next two years, with the focus being on levels of service. Renewals dominates investment over the remainder of the LTP period (FY27 onward).

Depreciation and renewals

The council spent $0.1 million on stormwater renewals over the last six years compared with depreciation expense of $0.84 million, a shortfall of 85%.

Over the next ten years, the council is planning to spend $1.5 million on renewals, or just 63% of the projected depreciation expense. This level of investment will likely need to increase in the long-term to ensure that assets are adequately maintained. We understand there is a challenge with identifying network condition, which is needed to support more robust renewals spend projection

4

Remaining Council Entity

Revenue sufficiency | Investment sufficiency | Financing sufficiency | Affordability

Council (excluding water) operating expenditure

Historic costs

Council operating costs excluding three waters expenditure increased by 63.5% over the last six years – from $15 million to $24.7 million.

A material driver of this increase is operating expenses, with an increase of 76%, albeit the council had higher finance costs over FY23-FY24, reflecting increased borrowing and higher interest rates.

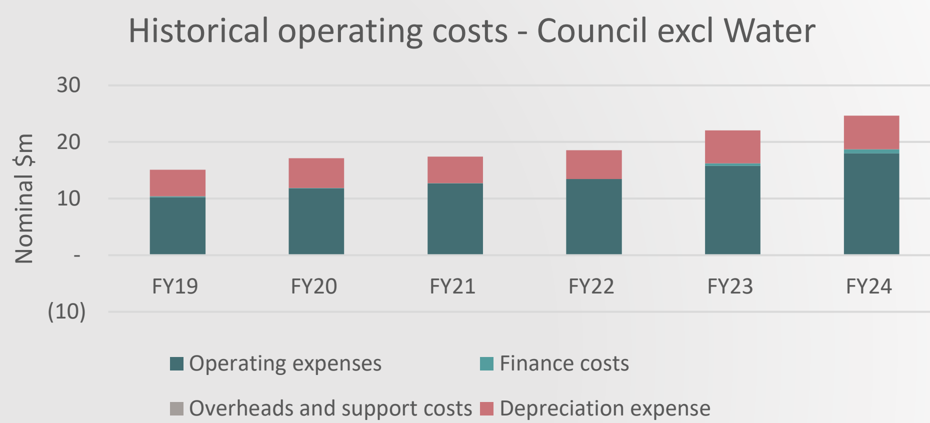
Outlook

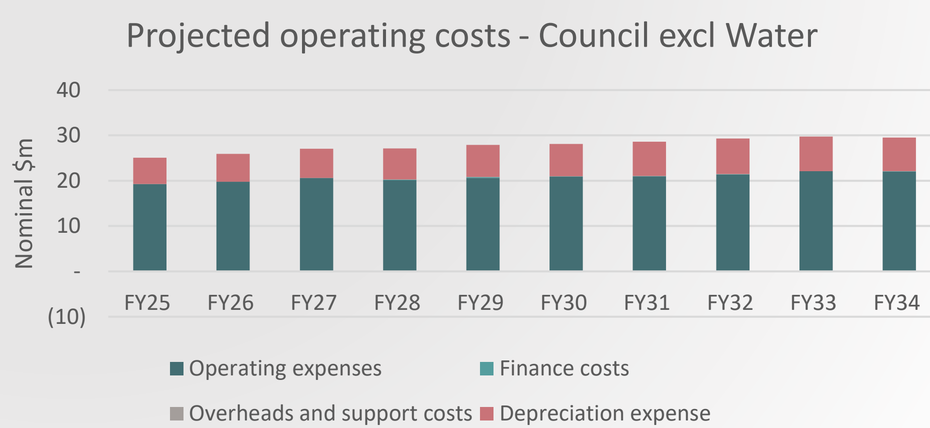
Operating costs are projected to continue to increase over the next ten years, albeit at a slower rate, from $24.6 million in FY24 to $30.4 million in FY34.

The most significant driver of this is an increase in operating expenses from $18.0 million to $22.9 million (a 27.4% increase).

Depreciation is forecast to increase by 25.0%. Depreciation and operating expenses comprise 99.6% of the Council's projected total operating costs.

There are no overheads charged for Council excluding water.





Council (excluding water) capital expenditure

Investment sufficiency

Capital delivery

The council has spent $33.7 million on the delivery of non-water assets over FY19-FY24.

- Renewals $31.5 million (93.6%)
- Levels of service $2.1 million (6.1%)
- Growth $0.1 million (0.3%).

Capital expenditure plans

The council is planning to continue to invest $91.1 million in non-water assets over the next ten years.

Renewals $89.3 million (98.0%)

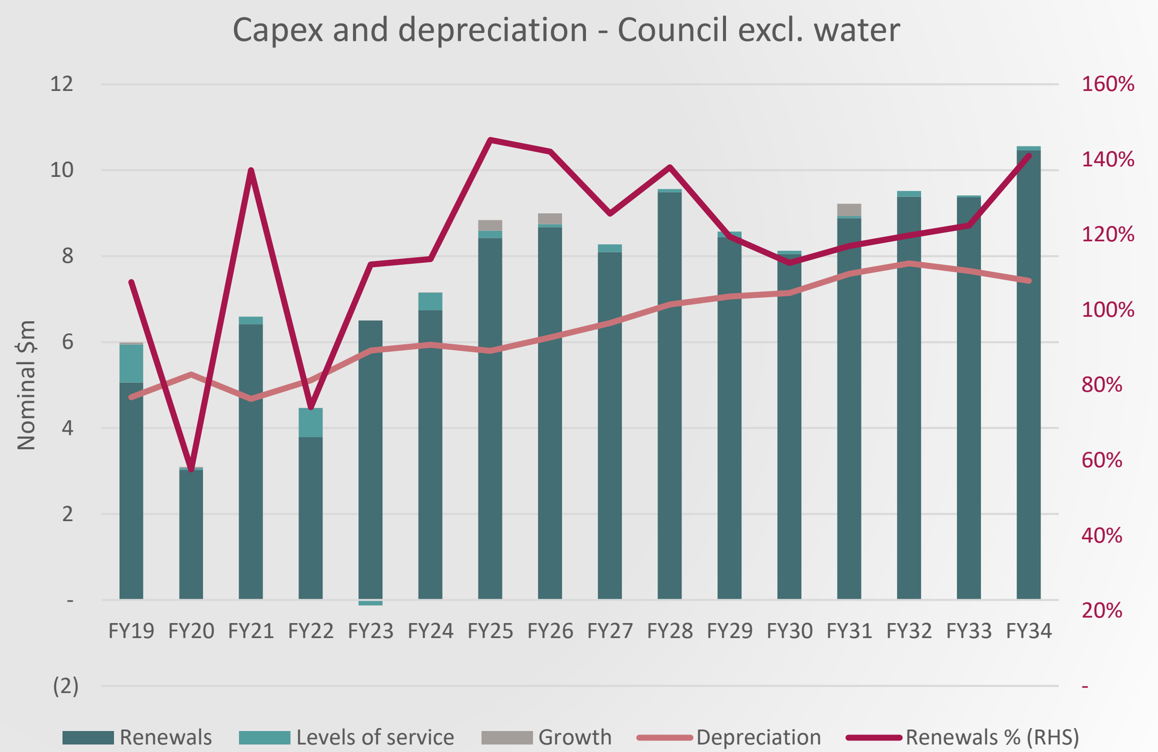
Levels of service $1.0 million (1.1%)

Growth $0.8 million (0.9%).

Depreciation and renewals

Over FY19-FY24, expenditure on renewals was $31.5 million and depreciation expense of $31.5 million.

Over the next ten years, the council is planning to spend $89.3 million on renewals, above the forecast depreciation of $69.9 million.



Council (excluding water) revenues and operating balance

Revenues

Revenues for non-water services are expected to increase by 42% over the next ten years – from $19.1 million in FY24 to $28.6 million in FY34.

Operating surpluses / deficits

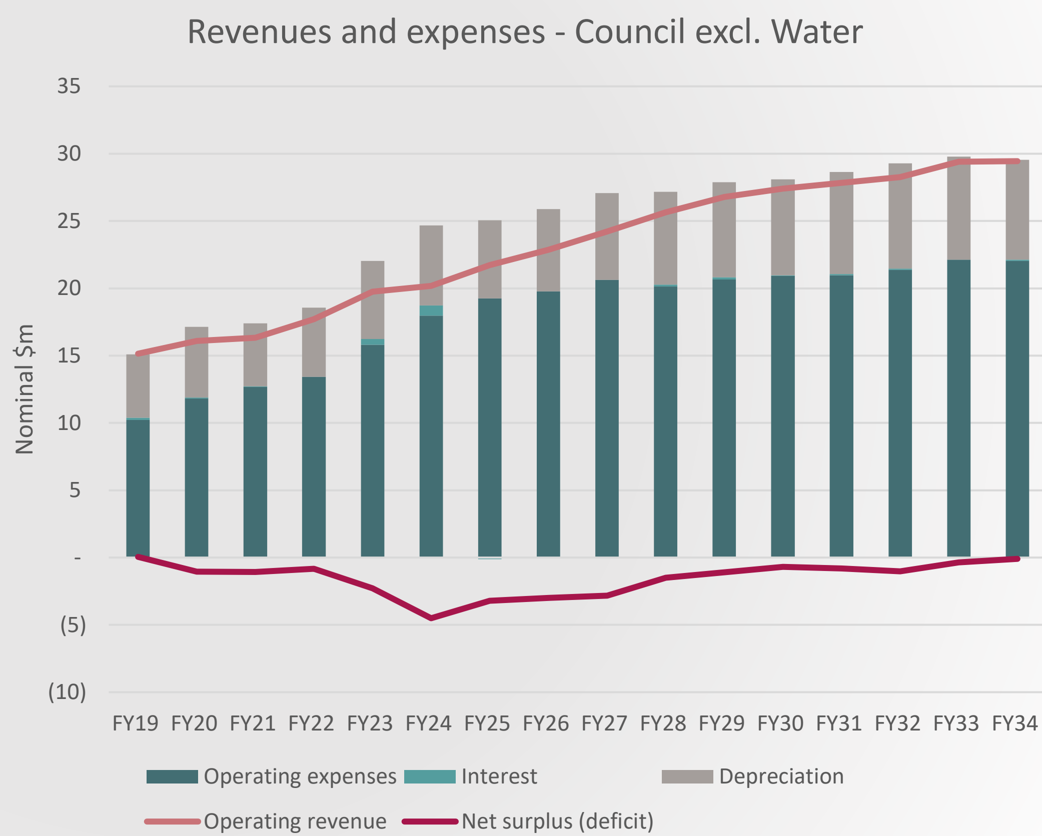
Non-water council services have operated with a deficit over the period FY20-FY24.

This deficit is expected to narrow from FY25-FY34 with a small deficit of $1.8 million forecast by the end of the forecast period.

The narrowing deficit is a result of the operating revenues increasing at a faster rate than projected expenses which are forecast to increase by 39.1% from FY24-FY34.

Revenue sufficiency

The trajectory towards lower operating deficits implies that there is an increasing degree of revenue sufficiency, albeit the council has little contingency for unplanned expenditure.



Council (excluding water) borrowing and financing sufficiency

Borrowing

Net debt (internal and external) is expected to increase by $2.8 million over the next ten years, from the current level of -$4.6 million in FY24 to -$1.9 million in FY34.

The council will maintain a large cash balance over the forecast period from FY24-FY34 resulting in some periods with negative net debt.

Net debt to revenue

Net debt to revenue for non-water activities is projected to increase from -20% in FY24 to -5% in FY34.

The negative metric arises from a negative net debt position, reflecting strong financial health for the Council excluding 3W.

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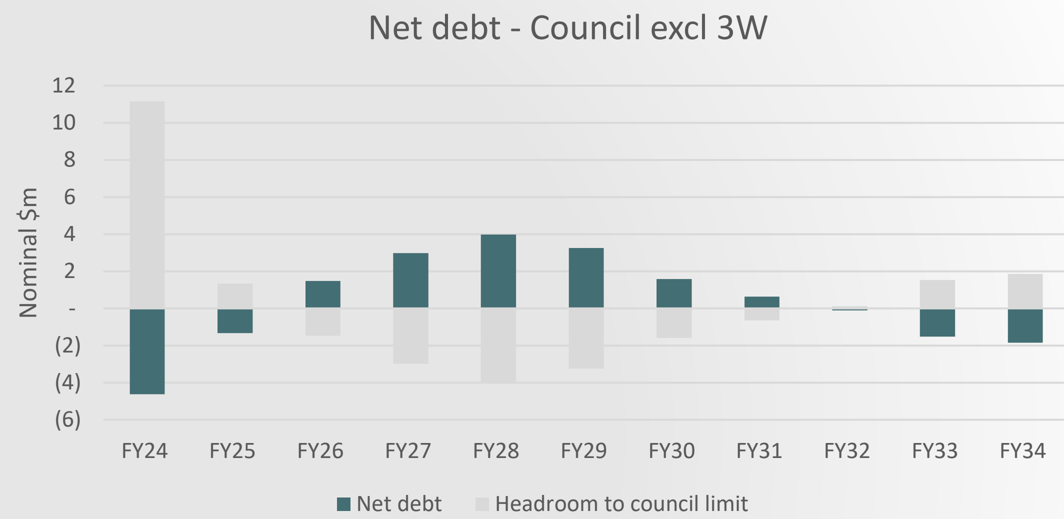

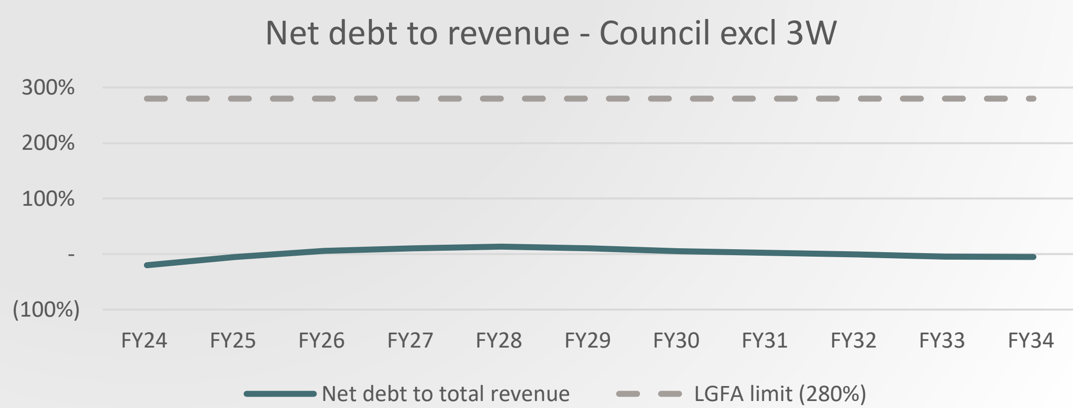

Summary of findings

01

Overall, adjustments to the LTP projections will need to be made to ensure consistency with the financial sustainability requirements under LWDW. **It should be noted that due to the scale of numbers, small changes will have a disproportionate influence on the assessment.**

- **Investment sufficiency**: Overall, the council is expecting to renew its assets at a rate just shy of depreciation. However, this is largely due to higher renewal spend in early years, with the second half of the LTP period showing a declining rate of investment in renewals. We note that provision for the Ōtorohanga WWTP may need to increase and no provision has been made for Arohena rural water supply treatment improvements to achieve compliance.
- **Revenue sufficiency**: The council is operating a loss of around 4% of revenues over the next decade. This figure could be challenged if underlying interest assumptions, for interest and other OPEX costs are underestimated. We note that several cost areas are expected to shrink in real terms over this period, and that operating costs in relation to rural water supplies is expected to increase.
- **Financing sufficiency**: Whilst the council is maintaining a healthily debt position, however debt metrics for three waters indicating an aggressive leverage position. This will need to be reviewed through the development of the WSDP.
- **Affordability:** The forecast price path for water services is around 2.3% of household income, against a standard benchmark of 2.5%, indicating that the current investment and spend profile is affordable.

02

This conclusion is preliminary and subject to further work. Areas to further investigate as part of preparing a Water Services Delivery Plan include:

- adequacy of renewals programme given backlog and old age of some parts of the pipe network
- implications of the significant number of expiring resource consents for the adequacy of the capital programme
- adequacy of internal budgets and resources to deliver the capital programme (i.e., people resources to plan, design, consent, procure and project manage capital projects)
- provision for higher compliance costs associated with economic regulation.

03

Other potential risks that could impact on viability and sustainability include quality of asset information, higher capital price inflation, uncertain future regulatory requirements, higher frequency extreme weather events, and non-compliant community supplies.

05

Implications and recommendations

Further considerations

Water Entity

The Council's long-term plans for water services likely require further work and investment to be consistent with anticipated financial sustainability requirements, including ensuring capital investment will meet regulatory requirements.

This conclusion is preliminary, as we have identified several areas that require further investigation. Specifically, we suggest the council undertakes further work as part of preparing its Water Services Delivery Plan to:

- Assess the adequacy of the revenue profile.
- Assess the adequacy of the planned renewals programme.
- Confirmation that the investment programme is sufficient to meet regulatory requirements, particularly given existing non-compliance of wastewater treatment plants.
- Assess the adequacy of internal resources required to deliver the 10-year capital programme, which represents a significant increase on recent levels of investment
- Consider the additional costs associated with future regulatory requirements, including the costs of complying with economic regulation.

As a result of this further work, adjustments to the Council's planned operating and capital expenditure projections may be required, and our preliminary conclusion may need to be reassessed.

Our high-level assessment has identified a number of risks and challenges to sustainability and affordability over the longer term. These include:

- **Water supply compliance** – the Council has made good progress in recent years with upgrading water treatment plants to achieve compliance with the Drinking Water Quality Assurance Rules, however further work is required to achieve and maintain 100% compliance particularly for the Arohena RWS.
- **Environmental compliance** – the Council has a compliance issue currently at Ōtorohanga WWTP. Renewal of consents could present a risk to future capital expenditure projections, especially those relating to stormwater discharge requirements.
- **Ageing assets** – the Council has recorded larger than targeted complaints and water loss in the Ōtorohanga water network. Continuing with the programme to investigate leakage and condition and maintaining renewals investment at an adequate level will be important to avoid further deterioration in asset performance.
- **Climate change** – sea level rise and an increase in the frequency of high rainfall events is expected to place pressure on urban stormwater networks and water and wastewater networks in low-lying areas. The financial implications of this are not yet fully understood
- **Unserviced communities** – local authorities have obligations to assess community water supplies and wastewater schemes and unserviced communities and, if problems develop, can be required by Taumata Arowai to help find solutions to those problems. This may manifest over time in pressure on councils to become more involved in the provision of water services beyond their existing supply areas. The Kawhia community has recently provided feedback that servicing their community for wastewater is unaffordable.

Further considerations

Water Entity

The Council should continue to explore a range of options, including further examining standalone service delivery as well as considering potential joint arrangements with other councils, such as Waikato Water Done Well.

We note that establishment of a standalone water organisation would add costs to existing service delivery arrangements (e.g., board fees and additional administrative costs) and may generate stranded costs for council. A separate water services organisation is unlikely to generate significant benefits unless undertaken jointly with other councils to achieve economies of scale.

An initial strategic assessment of the benefits, costs and risks of the long-list of options should be undertaken as a first step towards narrowing the options down to a viable short-list. This should be undertaken in close coordination with work on Waikato Water Done Well to ensure the assessment of future delivery options (and financial modelling) is done on a like-for-like basis.

The council should commence preparing work on its Water Services Delivery Plan, taking into account the findings of this report.

Remaining Council Entity

Local Water Done Well has implications for council's non-water activities

Ensuring water services stand on their own feet also means that councils should ensure water services meet their share of council's fixed or overhead costs. This may require the council to reassess its current overhead allocation model.

When considering future delivery options that may involve structural separation of water services, the council should consider how to:

- Maintain local voice and influence over the strategy and planning for water services
- Maintain integration with council's land use and non-water infrastructure planning
- Mitigate potential stranded costs that could arise through structural separation
- Ensure the council can continue to deliver non-water services to the community sustainably and affordably.

A full assessment of alternative service delivery models should consider not only the viability and sustainability of water services, but also the viability and sustainability of the council's other (non-water) activities.

MARTIN JENKINS | 30 YEARS
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Progress update and options discussion

Final

February 2025

Commercial in Confidence

Local Water Done Well Context

Key elements of Local Water Done Well

The Government's Local Water Done Well policy will significantly change the operating environment for water services in New Zealand.

New regulatory requirements, coupled with new structural and financing tools, is expected to lead to significant changes in service provision over time, including the adoption of new service delivery models.

WATER SERVICES PLANS

Plans will need to show how councils will meet water quality and infrastructure rules, while being financially sustainable.

Plans need to include asset and financial information, investment required and proposed service delivery arrangements.

FINANCIAL SUSTAINABILITY

Plans will need to show that:

- Water revenue is sufficient to cover maintenance, financing costs and depreciation.
- Planned capital investment is sufficient to meet regulatory requirements and provide for growth.
- Available financing does not constrain investment required to support service delivery.

NEW STRUCTURAL AND FINANCING TOOLS

Future legislation, to be introduced later in 2024, is expected to provide for a range of structural and financing tools, including a new type of financially independent council-owned water organisation.

NEW REGULATION

Legislation will set out long-term requirements for financial sustainability and provide for economic regulation. This will include requirements for councils to ring-fence their water services from other council activities and will include new information disclosure and reporting requirements.

Legislative timeline

New requirements are being progressively brought in over the next 12 months, beginning with the requirement for councils to develop Water Services Delivery Plans.

Pave the way for Local Water Done Well

Water Services Acts Repeal Act 2024
Enacted February 2024

- Repeals water services legislation to restore council ownership and control of water services
- Disestablishes the Northland and Auckland Water Services Entity
- Provides options for how councils incorporate water services into their 2024-34 long-term plan

Lay foundations of the new system

Local Government (Water Services Preliminary Arrangements) Act 2024

- Requires councils to prepare Water Services Delivery Plans
- Includes a definition of financial sustainability
- Establishes foundational information disclosure
- Streamlines the process for establishment of WSCCOs
- Provides for financial separation of Watercare

Establish enduring system for water services delivery

Future legislation
Introduced December 2024, to be enacted mid-2025

- Sets out long-term requirements for financial sustainability
- Establishes new classes of council-controlled water organisations and service delivery models
- Sets out accountability, planning, and reporting regimes for water services
- Provides for comprehensive economic regulation
- Includes refinements to water services delivery system regulatory settings:
- Changes the Local Government Act 2002 and other legislation to strengthen the delivery of water services

Water Services Delivery Plans

Councils are required to submit Water Services Delivery Plans by early September 2025

Councils must consult and make decisions on future service delivery arrangements before submitting these plans

Feb 2024 | Jun 2024 | Aug 2024 | Late 2024 | Mid 2025 | Aug 2025

Consultation – Engaging your communities

Councils must consult on the proposed model for delivering water services. The Local Government (Water Services Preliminary Arrangements) Act 2024 (**the Act**) requires the council to consult prior to determining the proposed model for delivering water services.

Consultation must:

- **Identify at least two options for delivering water services. Additional options may be identified. An assessment of the advantages and disadvantages of all options identified is required.**
- Consult with its communities on its proposed model, including analysis of the impact of the proposed option on the council's rates, debt, levels of service, and charges for water services.
- If the council is proposing a joint WSCCO option (whether establishing, or joining), it must also describe the implications for communities throughout the joint service area, and a description of any accountability or monitoring arrangements the council will use to assess the performance of the WSCCO.

Note, if an amendment is required to the Council's LTP to give effect to the proposed option, it will not be required to consult on the LTP amendment if certain conditions are satisfied through the above consultation (c.f. s63 of the Act).

What options are available:

1 Internal business unit or division

Status quo for many councils.

Minimum requirements for water service providers will apply.

New financial sustainability, ringfencing rules, and economic regulation will apply.

2 Single council-owned water organisation

New company established, 100% owned by the council.

Financial sustainability rules will apply but retains a financial link to the council.

Councils with existing water council-controlled organisations will be required to meet minimum requirements.

3 Multi-council-owned water organisation

New company established with multi-council ownership.

Appointment of a Board through shareholder council.

Option to access LGFA finance with the provision of parent support or to create a more financially independent organisation.

4 Mixed council/ consumer trust owned water organisation

Consumer trust established to own majority of shares.

Mixed ownership, with one or more councils owning minority of shares.

Structure enables financially independent organisation to be established while retaining minority council ownership.

5 Consumer trust owned water organisation

Council transfers assets to consumer trust owned organization.

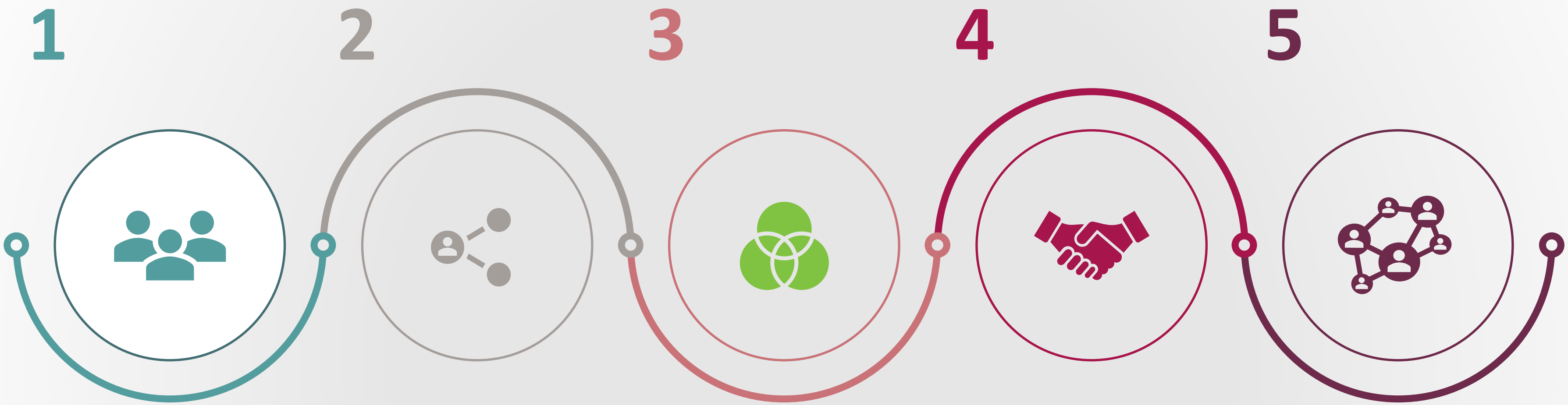
Consumers elect trustees to represent their interests in the organisation.

Most financially independent of the available models.

Key characteristics of the options

	Internal business unit or division	Single Council owned water organisation	Multi-Council owned water organisation	Mix Council / consumer trust-owned water organisation	Consumer trust-owned water organisation
Ownership	Council-owned (internal division)	100% owned by the council	Owned by the council plus others	Part-owned by Council, part owned by trust	100% owned by trust
Governance	Council oversight (option of independent committee)	Council appointed or committee (Council officers and elected members cannot be on board)	Shareholder Council	Shareholder Council (trust + Council)	Trustees appoint the board
Accountability	Water-focused annual reports and financial statements	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives
Borrowing	Council borrows (LGFA limits up to 175% debt to revenue ratio)	Borrow via LGFA (up to 500% debt to revenue), if there is Council support	Borrow via LGFA (up to 500% debt to revenue), if there is Council support	Independent, likely via banks (more expensive)	Independent, likely via banks (more expensive)
Planning	Council prepares a Water Services Strategy, fully integrated with overall Council strategy and budgeting	Water organisation prepares its own Water Services Strategy, guided by a Council-issued Statement of Expectations	Multi-Council shareholders jointly issue a Statement of Expectations; the water organisation prepares a Water Services Strategy	Shareholders (councils and trust) issue combined expectations; water organisation prepares its strategy to meet both councils and trust goals	Trustees issue a Statement of Expectations, with the water organisation preparing a strategic plan aligned with community goals
Operations	Integrated with Council operations	New independent water organisation	Joint Council ownership	Mixed ownership; community involvement	Full independence from Council

What options are available (continued)



Standalone ODC WSCCO (Option 2)

Given the scale of the Council's water operations, its demographics, and the limited number of connections, establishing and operating a standalone water services organisation is likely to be inefficient.

The additional overheads, compliance requirements, reporting, and monitoring costs would add significant financial and administrative burdens. Significant efficiencies are likely to be limited due to a lack of scale, and there may even be diseconomies of scope. Additionally, this option could result in some loss of oversight and control by elected members, along with potential implementation risks.

Officers consider it unlikely that this approach would deliver benefits equal to or greater than those of continuing in-house water service delivery or joining Waikato Water Done Well.

Trust models (Options 4 and 5)

Similarly, the community trust models would likely result in higher financing costs due to their inability to access the Local Government Funding Agency, along with added complexity.

Key dates

Feb 2025

High-level options assessment

Agree assessment framework (council-led / internal)

Feb to March 2025

Decision on options for consultation

Council to agree preferred options to consult with community.

Mar to Apr 2025

Possible timing for public consultation

Council likely seek to commence public consultation during this period.

May 2025

Decision on preferred option

Council to determine preferred option based on analysis and community consultation

Jun 2025

Council approves WSDP

Sep 2025

Water service Delivery Plans submitted

Oct 2024 to Jun 2025

Develop WSDP

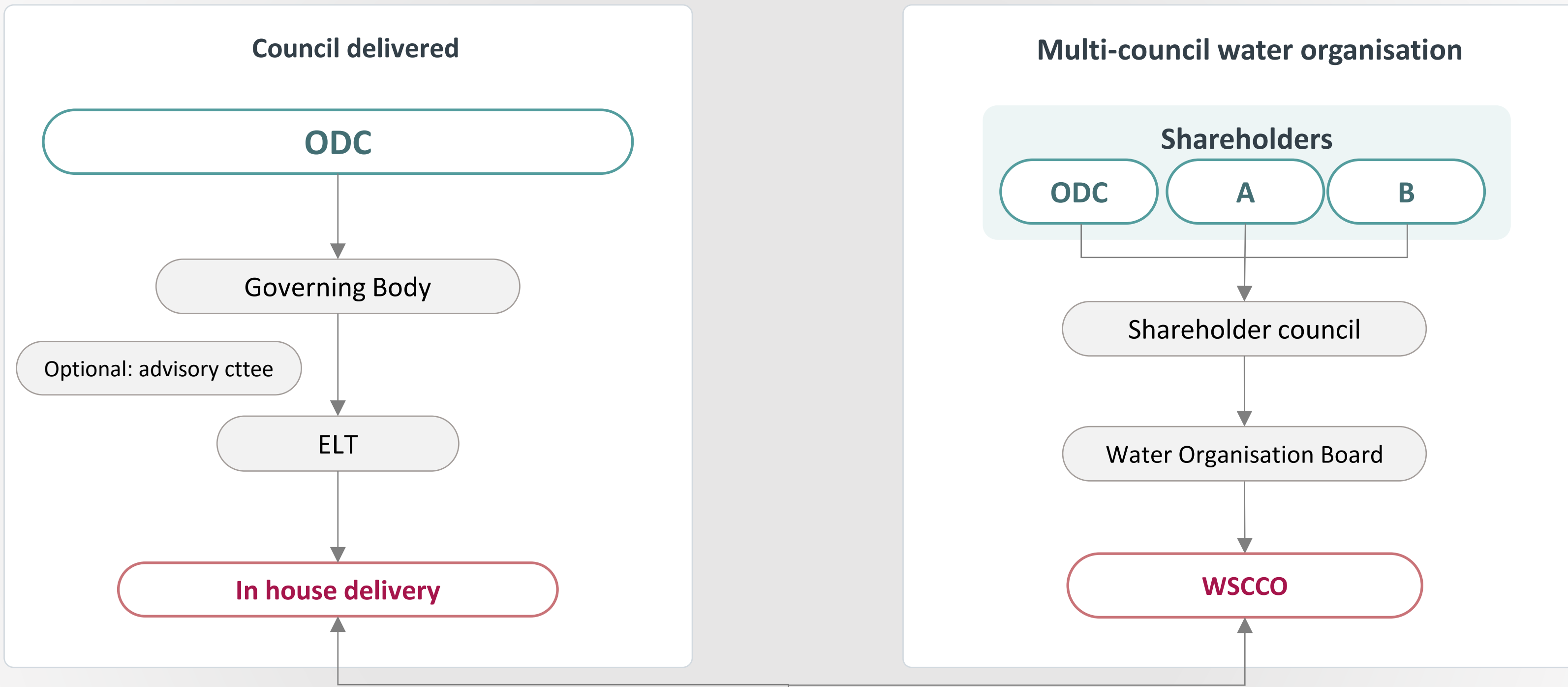
Develop Water Services Delivery Plan on basis of guidance and templates issued by DIA.
Consider investment needs and price paths to ensure regulatory compliance

Late 2025

Local government elections.

Understanding the options

Main structure and delivery options



Requirements / obligations that will apply to future water services arrangements:

- Subject to economic, environmental and water quality regulation
- Must act consistently with statutory objectives
- New planning and accountability framework & standalone financial statements
- Meet financial sustainability requirements

Council delivered

Operational functions

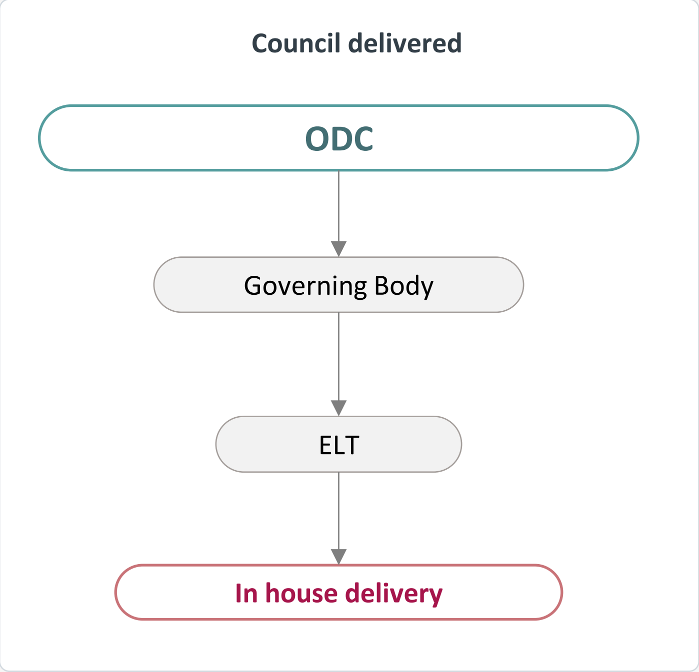
The council would manage all aspects of water services delivery, including:

- **Water supply**: Ensuring safe, reliable drinking water in compliance with national standards.
- **Wastewater** : Treating and disposing of wastewater to meet environmental performance standards.
- **Stormwater**: Developing and maintaining stormwater infrastructure to meet environmental performance standards.
- **Asset management**: Conducting lifecycle management of water infrastructure, including maintenance, upgrades, and replacement. *The council may utilise service contracts with external providers for specialised needs*.

Integrated strategic functions

An internal business unit for water services would be integrated with wider council strategic functions, particularly as they relate to coordinated infrastructure planning and delivery.

- **Long-term Planning:** Aligning water services with district planning and infrastructure delivery as outlined in the council's district plans, long-term plan and other strategic documents.
- **Sustainability initiatives:** Implementing green infrastructure solutions and reducing the environmental impact of water services.
- **Community engagement:** Conducting consultation processes, aligning with existing council processes, to reflect community priorities in water services delivery.



Council delivered

Factors	Advantages	Disadvantages
Ownership, decision making and community involvement	• **Council decision-making**: Retains all decisions within the council, enabling it to prioritise community needs and tailor solutions to local conditions (including emergency readiness).Community • **Consultation**: mandates community consultation on the proposed water services strategy. • **Operational oversight**: Allows the council to oversee day-to-day operations, ensuring alignment with council-wide values and goals. • **Transparency**: Provides communities with clear visibility into how water service decisions are made and how funds are spent. • **Direct representation**: Offers direct channels for public concerns and complaints to elected members. • **Treaty responsibilities**: Maintains existing mechanisms and channels tailored to meet obligations arising from local Treaty Settlements.	• **Reduced flexibility:** The smaller scale may limit responsiveness to challenges, including long-term water service investments. • **Limited access to shared expertise:** Less access to shared expertise and solutions that larger organisations or partnerships might offer. • **Compliance demands:** Meeting new or enhanced regulatory standards (economic, environmental, water quality) will require additional capacity and resources. • **Slower decisions:** Decision-making may be slower compared to a professional CCO board structure.
Effective and efficient delivery of water services	• **Minimal change:** more limited transitional arrangements for delivery arrangements as delivery responsibility is retained by council	• **Limited scale efficiencies:** May miss out on cost-saving opportunities available to larger multi-council collaborations. • **Expertise challenges:** A smaller operational scale could make it harder to attract and retain specialist skills (water management, engineering, environmental compliance). • **Investment constraints:** A lower debt ceiling may restrict long-term investments in asset maintenance, drinking water standards, climate initiatives, and other regulatory requirements.

Council delivered

Factors	Advantages	Disadvantages
Financing water services *Council is may be able to meet financial sustainability requirements in a stand-alone water services function over the short to medium term.* *Requires minimal cost to implement.*	• **LGFA:** Water services financed via LGFA, meaning the community continues to access low cost debt to fund water services.	• **Financial risk:** Council will need to manage all financial risk and meet all financial demands, including unexpected infrastructure repairs or regulatory changes. • **Competing priorities:** There is a risk of competing priorities for funding and borrowing. • **Borrowing structures:** Council borrowing structures may not be as efficient as a water services entity, potentially leading to higher costs for consumers.
Impact on other council services *Keeping water service delivery in-house may impact your other activities.*		• **Debt management:** Council must manage all debt associated with water services, potentially constraining financial resources for other services over the long term to tackle challenges such as funding renewals, climate investments, and maintaining affordability amidst changing demographics. • **Potential stranded costs:** Resolving longer-term financial sustainability by joining a regional WSCCO may incur stranded costs, potentially affecting wider council services.

When could this option work?

CHOOSE OPTION IF	KEY ADVANTAGES	KEY DISADVANTAGES
Analysis confirms this is financially achievable, Council wants least change to status quo and is confident it can meet new LWDW requirements in the short- to medium-term. Option remains to join a regional / sub-regional CCO in future.	▪ Ease of implementation, and ongoing flexibility. ▪ Integrates well with existing council functions and infrastructure planning. ▪ Unlikely to create stranded costs or adverse impacts on 'rest of council' from an operations perspective.	▪ Potential future affordability and capital delivery challenges. ▪ Additional investment to meet regulatory obligations, or in climate and resilience initiatives likely to present affordability challenges. ▪ Potential workforce attraction and retention risks, exacerbated if neighbouring councils from a larger entity. ▪ Does not achieve scale economies.

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Proposal for Waikato Water Done Well

As a Water Service Delivery Option

20 March 2025

Te Mana o Te Wai,

Te Mana o Te Tangata

Healthy Water,

Healthy People

Waikato Water Done Well

Contents

Executive Summary

Background

Over the last 18 months Waikato councils have demonstrated leadership by working together to identify common challenges and opportunities for water services delivery. Under the banner, *Waikato Water Done Well*, councils have reflected on how they can strategically approach the delivery of water services to maximise both local and regional benefits.

Concurrently, under Local Water Done Well, all councils in New Zealand have been mandated to develop a financially sustainable and regulatory-compliant model for delivering water services to their communities. The focus is on addressing long-standing issues with water infrastructure across the motu.

Against this background, the Waikato councils engaging in Waikato Water Done Well identified workforce availability and the ability to deliver large capital infrastructure projects as common challenges. An additional challenge for many councils is the ability to fund the growing need for water services infrastructure (be it to meet growth or other requirements). For a mixture of reasons, councils are having to increase rates significantly to do what needs to be done. This is leading to affordability concerns across councils for their communities.

Common objectives

To address these challenges, Waikato councils have co-designed a proposed model for the delivery of water services. This model is centred around the vision of *Te Mana o Te Wai, Te Mana o Te Tangata | Healthy Water, Healthy People*. The vision establishes a foundation for strategic, results-oriented water services governance and delivery under which everyone benefits in the long term. To achieve it, Waikato Water Done Well focuses on delivering five strategic outcomes:

1. Financial sustainability – to address the access to funding challenge and create efficiency savings by working together
2. Leading workforce – to address the workforce availability challenge by offering the vision, scale and geographic reach to be a compelling proposition for existing and prospective employees and third-party contractors
3. Customer focus – to improve services to customers by delivering water services more efficiently and thereby addressing the affordability challenge
4. Local influence – to address community and council concerns about lack of control and influence in local matters
5. Delivering on expectations - to address concerns about meeting treaty settlement obligations and delivering on council expectations and those of key partners.

The proposed model is documented in a non-binding Heads of Agreement (**HoA**) that has been signed by seven councils:

1. Hauraki District Council

2. Matamata-Piako District Council
3. Ōtorohanga District Council
4. South Waikato District Council
5. Taupō District Council
6. Waipā District Council
7. Waitomo District Council

At the time of writing, Waipā District Council has unanimously identified the Waikato Water Done Well model as its preferred option. The remaining councils are considering whether this is their preferred option at various dates over March 2025 and early April 2025. Before deciding to formally adopt the model, councils will consult with their communities. To support decision making, this proposal sets out how Waikato Water Done Well can deliver on its vision and achieve the strategic outcomes sought by councils.

What is proposed

It is proposed that a water services company owned by councils is established. The initial name of the company will be Waikato Waters Limited. As the company will be council owned, it will be a council-controlled organisation (**CCO**) and is referred to as the **Waikato Water Done Well CCO** in this proposal document.

This model will mean responsibility for providing drinking water and wastewater services will transfer from councils to the Waikato Water Done Well CCO. This will involve the transfer of specified infrastructure, related assets and liabilities together with offers of employment to identified employees. A detailed transition plan will support the transfer from each council to the Waikato Water Done Well CCO to ensure seamless service delivery for customers in the short term and better outcomes for customers in the long term. Stormwater will remain with individual councils but the Waikato Water Done Well CCO will provide management services to those who wish to receive them.

The transfer of responsibility does not mean councils will no longer be involved in water services. Council will continue to set the strategic priorities and direction for the Waikato Water Done Well CCO and, under developing legislation, will retain responsibility for matters such as drinking catchment plans and by-laws. The Waikato Water Done Well CCO will be the water services provider and, as such, will be the regulated party under new regulation which includes safeguards for consumer interests and protection.

At the core of the model is a move towards a catchment-based approach to the health of water. This is referred to as Smart Consenting in this proposal. By working together, there is the opportunity to get a better return on financial investment and achieve better outcomes in terms of the health of water bodies.

A significant factor in the design of the model has been its ability to address local concerns and to be customer focused – this includes making water services comparatively more affordable for the community. Two key components to managing affordability are:

1. the long-term efficiencies that can be generated across operating and capital costs by aggregating several councils' water activities together. The efficiencies that can be achieved from scale are greater than those that a standalone council can generate
2. the ability of the Waikato Water Done Well CCO to access greater borrowing and so unlock additional financing over and above what a standalone council can unlock. The access to higher debt levels enables the cost of investments to be spread over long life assets (some of which have a lifespan of 75-100 years) and across the generations who use them. This is like paying your mortgage off over 30 years rather than 20 years - it is cheaper per month. Forecasts show that the Waikato Water Done Well CCO can be financially sustainable with operating revenue increasing by 4.0% per annum once all councils have transferred their water services business into the CCO[1]. This is less than that proposed by most of the councils acting alone.

Achieving statutory objectives is expected of all water services providers (whether it be a council or a CCO). The design of the Waikato Water Done Well CCO aligns with the new water service delivery model under Local Water Done Well. This means the Waikato Water Done Well CCO is well positioned to meet the statutory objectives of a water service provider and operate under the new water services system in a transparent and accountable manner.

All councils will have to invest in operational change to align with the new water services system. The Waikato Water Done Well CCO allows councils to strategically plan for this change in a way that meets regulatory requirements but more so, enables the councils to collectively borrow more[2], combine long-term work programmes to create efficiency and invest in infrastructure that is needed now without having to increase rates significantly.

Despite varying needs, all Participating Councils will benefit from the Waikato Water Done Well CCO.

The Waikato Water Done Well CCO provides a future-focused opportunity that transcends boundaries, allowing Councils to show leadership in water services delivery for generations to come, with a unified voice and scale. This strategic opportunity to work together for the benefit of communities and the wider region was recognised during negotiations with reference to the whakatauākī by King Tāwhiao:

"Ki te kotahi te kākaho, ka whati; ki te kāpuia,
e kore e whati."

When a reed stands alone it is
vulnerable, but a group of reeds together is
unbreakable.

[1] The model is based on all councils having transferred their activity by 1 July 2028. The increase in charges is greater than this in the first two years. The increase in **average water charges** (cf revenue growth) will be less than 4% because the population is growing (~$1.8k increasing to ~$2.8k per residential connection by 2034)

[2] A water company with council financial support will be able to borrow up to the equivalent of 500% of operating revenue (around twice that of existing councils) through the Local Government Funding Agency (**LGFA**), subject to prudent credit criteria.

Wider Waikato context

Hamilton City Council, Waikato District Council and Thames Coromandel District Council are not part of the Waikato Water Done Well model.

Hamilton City Council and Waikato District Council have formerly resolved to set up a separate CCO (subject to public consultation). This is to respond to specific challenges and timings they face. Notwithstanding this, both councils have acknowledged that a single regional model will be of benefit to all councils in the future. It will be a matter for each council to decide whether any further consolidation of water services creates long-term benefits. By coming together now, the seven councils position themselves to unlock short to medium benefits while also creating a strong foundation to investigate long-term opportunities.

Purpose of this document

This proposal is presented to councils to support decision-making on how water services should be supplied in the future. As such, it forms the first key milestone decision for councils to make as part of Local Water Done Well.

The focus of this proposal is the Waikato Water Done Well CCO and so it does not address the separate analysis of existing council arrangements (or other any other options councils may be considering).

Terms are defined in bold throughout this proposal document. However, to assist the reader, a glossary of key terms is also included at the end.

Proposal

1. Why Waikato Water Done Well?

1.1. Since mid-2023, under the banner of *Waikato Water Done Well*, Waikato councils have been working together to find a pragmatic solution to common challenges in delivering water services[3]. These common challenges include:

a) workforce availability
b) responding to an increasingly regulated environment
c) delivering capital works on time and within budget

1.2. Guided by the vision of Te Mana o Te Wai, Te Mana o Te Tangata | Healthy Water, Healthy People, **Participating Councils** have worked together to identify and co-design a water services delivery option that can achieve the following agreed strategic outcomes (further detail on each is included in sections 7 to 11 below).

Financial sustainability	Create scale & change to enable significant investment required to deliver efficient and financially sustainable services that comply with regulatory requirements & enable urban development.
Leading workforce	Create the conditions to build and sustain a highly skilled, adaptable and world-leading water workforce that can innovate and collaborate to drive outcomes for Waikato.
Customer focus	Be customer focused, leveraging new technologies, while also building customer awareness of their role in the water system and the value of water.
Local influence	Ensure local voice is represented in critical decision-making around water investment and management across the region, including decisions in relation to water takes and water discharges.
Delivering on expectations	Meet the expectations of key partners and stakeholders including those represented in Treaty settlements. Protecting public health and the environment.

1.3. The output of the above mahi is the proposed Waikato Water Done Well CCO. This CCO option aligns with and leverages the water service delivery model of a water organisation made available under Local Water Done Well. As such, the Waikato Water Done Well CCO is well placed to meet the statutory objectives of a water services provider (as currently set out in the Local Government (Water Services) Bill (**Bill#3**)). These objectives are listed in **Appendix 1**. The joined-up approach will enhance resilience for the benefit of communities.

1.4. Despite varying needs, all councils will benefit in some way from the Waikato Water Done Well CCO.

[3] The challenges particular to each Participating Council are set out in section 6 of this Proposal.

2. What is proposed

2.1. The proposal is that each Council adopt the Waikato Water Done Well CCO as their future water services delivery model and include this in the water services delivery plan due to be submitted to the Department of Internal Affairs (**DIA**) by 3 September 2025.

2.2. In summary, Waikato Water Done Well proposes:

a) The establishment of a water services company owned by councils as shareholders (**Shareholding Councils**). As a council owned and controlled company, the water services company will be a CCO. It will have the initial name of Waikato Waters Limited.

b) The establishment of the Waikato Water Done Well CCO will provide the legal structure into which the relevant people, processes and systems will transfer from each council and start working together to operationally deliver water services.

c) The transfer of council businesses into the Waikato Water Done Well CCO will be staggered in a manner that will be pre-agreed by the Shareholding Councils in formal governance documents (**Agreed Transfer Date**).

d) On the Agreed Transfer Date, a council will transfer responsibility for its drinking water and wastewater services into the CCO (see below re stormwater). The transfer of responsibility will be implemented through a transfer agreement setting out the infrastructure, related assets and liabilities (including debt) transferring from the council. There is also a process to transition identified employees.

e) To ensure a smooth and safe transition of each council's business into the CCO, planning for each transfer will be undertaken in accordance with agreed principles and processes.

f) Assets and debt associated with stormwater will remain with councils but it is expected that the Waikato Water Done Well CCO will undertake stormwater management functions under a service agreement with those councils who seek this.

g) The transfer of responsibility does not mean that councils will no longer be involved in water services. Although the Waikato Water Done Well CCO will become the provider of drinking water and wastewater services in the service area of a council from the Agreed Transfer Date, councils will still owned the CCO and will set the strategic priorities and direction for it. These matters will be captured in the Shareholding Councils' Statement of Expectations.

h) The Waikato Water Done Well CCO will have the following structural requirements (which also align with legislative requirements):

- Shares in the Waikato Water Done Well CCO can only be held by a council: they cannot be sold or transferred and so the CCO cannot be privatised.
- A visual of the ownership structure and how Shareholding Councils will hold the Waikato Water Done Well CCO to account is included in **Appendix 2**, together with further information on the shareholding arrangements.
- The Waikato Water Done Well CCO will be governed by a professional board of directors with the necessary skills, knowledge and experience to guide the CCO and contribute to the achievement of its strategic outcomes and objectives.

- All board appointments will be competency based informed by a board skills matrix. A copy of the matrix agreed by councils in the HoA[4] is included at **Appendix 3**.
- The Chair of the Board will be appointed by the Shareholding Councils and will then support the Shareholding Councils in appointing the remaining directors.
- Directors cannot be an elected member or a member of staff of any of the Shareholding Councils[5].
- All decisions of the board must be made in accordance with the Waikato Water Done Well CCO constitution and informed by the Statement of Expectations. The board will also be guided by each council's long-term planning. The board will be accountable to shareholders.
- A Shareholder Representative Forum will be established at which each council has a voice. This forum will also work with Iwi chairs to develop a proposal regarding their role in shareholder decision-making for each council's approval.
- A decision-making framework has been developed to ensure there is clarity on:
  a. decisions that will be brought to Shareholding Councils for decision making
  b. how the shareholders will make those decisions at the Shareholder Representative Forum. Further detail on this is included in **Appendix 2**.
- The Waikato Water Done Well CCO sees the value in working with others at the right time. There is an agreed process for other councils to join the CCO as shareholders where all existing Shareholding Councils agree.

2.3. Activities of the Waikato Water Done Well CCO must be carried out in accordance with the new planning, reporting and financial management requirements which apply to all water services providers. This includes providing annual and half-yearly reports to Shareholding Councils and responding to the new economic regulatory regime that will be progressively introduced from January 2026.

2.4. The overarching purpose of the Waikato Water Done Well CCO is to:

a) achieve the water service delivery objectives of the Shareholding Councils, both commercial and non-commercial

b) enable Shareholding Councils to ensure the strategic outcomes for water services are collectively achieved in their respective service areas in the long term. These strategic outcomes are addressed individually in section 7 to 11

c) be the vehicle through which Shareholding Councils can ensure the delivery of water services in their service area complies with legislative requirements, including meeting water and wastewater standards (Taumata Arowai), and economic regulation (Commerce Commission).

[4] Schedule 7 to the HoA

[5] Nominal directors may be appointed for a very short period pending the professional board being in place and well before the CCO is operational. It is possible that nominal directors will be staff or elected members.

3. Which councils are part of the proposal

3.1. Waikato councils have co-designed a model for the delivery of water services and documented this in a HoA. This is a non-binding document that captures the good faith intention of the parties. The status of each council's involvement in Waikato Water Done Well as at 28 February 2025 is as follows:

Council	Signatory to Heads of Agreement	Waikato Water Done Well considered as an option
Hauraki District Council	✓	✓
Matamata-Piako District Council	✓	✓
Ōtorohanga District Council	✓	✓
South Waikato District Council	✓	✓
Taupō District Council	✓	✓
Waitomo District Council	✓	✓
Waipā District Council	✓	✓
Thames-Coromandel District Council	X	Being considered as an option but no decision made
Waikato District Council	X	Considered as option but not consulted on (referenced only)
Hamilton City Council	X	X

3.2. By signing the HoA, the seven councils agreed to continue to be part of the development of the Waikato Water Done Well CCO option. These seven councils are the **Participating Councils**.

3.3. Hamilton City Council and Waikato District Council have formerly resolved to set up a separate CCO (subject to public consultation) due to specific challenges and timings these Councils are responding to. However, the position of Hamilton City Council and Waikato District Council has been clear that they see a single regional model being of benefit to all councils in the region at some point in the future. This will be a matter for the shareholding councils of each CCO to negotiate at the relevant time.

4. Proposed timing

4.1. **Decision making on preferred option**: On 26 February 2025, Waipā District Council unanimously voted on the Waikato Water Done Well CCO as its preferred option for consultation with its communities. The remaining Participating Councils are due to make a formal decision on their preferred option over the course of March 2025 and early April 2025.

4.2. **Formal decision making**: Councils will consult with their communities on the preferred option; some councils will commence consultation in March 2025 and others in April 2025. Councils considering this option must confirm their commitment to it by June 2025. This is to ensure the scope of the delivery option and implementation plan is finalised in advance of water services delivery plans being submitted to DIA in September.

4.3. **Implementation**: it is proposed that the Waikato Water Done Well CCO will be created as a legal entity on 1 July 2025. This is referred to as **Day Zero**. However, the earliest date any council will transfer its business into the CCO will be 1 July 2026 (this is referred to as **Day One**). To mitigate risk, it is proposed that the transfer of each council's business will be staged with the 'first movers' transferring on 1 July 2026 and the remaining councils transferring in tranches that are pre-agreed in the formal documentation establishing the Waikato Water Done Well CCO. It is proposed that all councils who wish to adopt this option will have transferred within 5 years of the Waikato Water Done Well CCO becoming operational.

Context

5. What is Local Water Done Well?

5.1. Local Water Done Well is the Government's policy to address New Zealand's long-standing water infrastructure challenges. This policy replaces the previous three waters reform and instead requires councils to decide how they will deliver water services to their communities in a way that is financially sustainable and meets increased regulatory requirements (economic, public health and environmental)[6].

5.2. The aim of the Local Water Done Well water services system is to ensure water services are safe, reliable, environmentally resilient, customer responsive and delivered at the least cost to consumers and businesses[7].

5.3. When considering how to do local water well, the Government is encouraging councils to work together and create jointly owned water organisations. As stated in a Ministerial announcement in August 2024:

> *"The new water service delivery models will also ensure sustainable water services across New Zealand by providing councils with the flexibility and tools they need to meet their unique needs. **By working together, councils can achieve greater efficiency and access the borrowing they need to keep water services affordable for their communities.** Our expectation is that councils will now use this certainty and the additional borrowing capacity to reduce pressure on ratepayers while being able to invest in the critical water infrastructure New Zealand needs."*[8]

What does Local Water Done Well mean for councils?

5.4. Every New Zealand council is required to provide water services in its service area in accordance with applicable legislation.

5.5. Councils must choose a fit-for-purpose delivery model that best positions the supply of water services under the new settings. The model that they choose will be included in a one-off water services delivery plan (**WSDP**) that is then submitted to the DIA by 3 September 2025 for approval. Options that are open to councils include:

a) **Option 1**: in-house i.e. providing water services itself directly to customers
b) **Option 2**: transferring responsibility to a water organisation (owned by the council, together with other councils or a consumer trust)
c) **Option 3**: under a contract for services with a third party or other a joint water service provider arrangement

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[6] Local Government (Water Services Preliminary Arrangements) Act 2024 (**Preliminary Arrangements Act**)

[7] The enduring settings for Local Water Done Well are set out in the Local Government (Water Services) Bill which was introduced into Parliament in December 2024. This Bill is working its way through the legislative process and the intention is for it to be passed into law mid-2025.

[8] Unlocking Local Water Done Well: New water service delivery models | Beehive.govt.nz

d) **Option 4**: becoming a shareholder in a water organisation established by another council
e) **Option 5**: some other form of arrangement

5.6. The option chosen must meet stipulated minimum requirements[9]. These include:

a) meeting a set of statutory objectives, including that water services are managed in a cost-effective and financially sustainable manner;
b) complying with financial principles, including a requirement that revenue received from providing water services must be spent on those services[10];
c) operating within the new planning and reporting framework that will apply to water services; and
d) restrictions against privatisation.

5.7. Before finalising its WSDP, each council must publicly consult on the delivery model it intends to choose. Before making the decision on what it will consult on, councils (as a minimum) must:

a) assess the advantages and disadvantages of at least two options. One of these must be retaining existing arrangements (as restructured to meet the new water services settings), and the other option must be joining, establishing or amending a CCO or another form of joint arrangement
b) compare the two options against each other having regard to the impact of each on rates, debt, levels of service and water charges
c) from the above, identify a **preferred option** and consult with the public on that option. As part of the consultation process, the analysis of the other option must be made publicly available
d) take into account the feedback from public consultation in order to make a final decision on the future model to include in its WSDP

5.8. This proposal sets out the analysis for establishing the Waikato Water Done Well CCO as a service delivery option.

6. Common challenges of Waikato councils

6.1. Participating Councils have identified the following challenges in being able to comply with the requirements of Local Water Done Well over the next 10-year period:

Council / key problem	Debt capacity	Community affordability	Workforce availability	Capital works delivery	Business continuity	Compliance	Consenting
Waipā	✓	✓	✓	✓			
Taupō		✓	✓	✓		✓	✓

[9] Additional requirements apply where a water organisation is established including that it has an independent, competency-based board, be a company and limit its activities to the provision of water services (exemptions apply for some of these)

[10] This 'ring- fencing rule' will be monitored and enforced by the Commerce Commission under the new economic regulation regime

Council / key problem	Debt capacity	Community affordability	Workforce availability	Capital works delivery	Business continuity	Compliance	Consenting
Matamata-Piako		✓	✓	✓		✓	✓
Hauraki		✓	✓	✓	✓	✓	✓
South Waikato		✓	✓	✓		✓	✓
Waitomo		✓	✓	✓		✓	
Ōtorohanga		✓	✓	✓		✓	✓

6.2. The interconnection between all the above challenges has been summarised in the diagram below. For water services to be delivered effectively, all component parts of the circle must be functioning. To focus on one alone (e.g. financial sustainability without regard to ability to attract and retain key workforce) does not create an ecosystem for long-term water services delivery success.

6.3. Based on the analysis of the challenges prepared by councils, every one of the seven councils has a challenge in completing the circle. Change is necessary to address this and deliver the best outcome for ratepayers and the wider community.

Advantages of proposed CCO

The Waikato Water Done Well CCO provides a future-focused opportunity that transcends boundaries, allowing councils to show leadership in water services delivery for the benefit of generations to come, with a unified voice and scale.

The focus of the Waikato Water Done Well CCO in the first decade will be on building capability, capacity, resilience and stability for future success. This CCO option positions councils to work smarter for customer and environmental benefits by changing how things are currently done to achieve better outcomes for their communities.

The purpose of the Waikato Water Done Well CCO is to deliver on the agreed strategic outcomes (while also meeting the objectives required by legislation). In the following sections, we set out how the Waikato Water Done Well CCO can achieve the strategic outcomes agreed by Participating Councils.

In summary, the Waikato Water Done Well CCO is better for our people, our places and our communities:

1. better water and wastewater delivery
2. better environmental outcomes
3. better affordability
4. better data and analysis
5. better value for investment
6. better work planning

7. Financial Sustainability

Waikato Water Done Well strategic outcome sought: *Create scale and change to enable the significant investment required to deliver efficient and financially sustainable services that comply with regulatory requirements and enable urban development.*

Creating scale

7.1. Water services can be delivered more cost-effectively if councils leverage scale. Together, the scale of the seven councils is significant with:

a) Over 205,000 people or 41% of the region's population

b) Growth over the last five years ranging from 3% to 10.2%, higher than the national average of 2.07%

c) About 129,000 water and wastewater connections (40% of the region's connections)

d) About 45% of the region's water services annual revenue (excluding development contributions).

7.2. By multiple councils transferring their water services business into the Waikato Water Done Well CCO, offers the collective opportunity (through the proposed CCO) to:

a) have greater access to finance at efficient interest rates[11]

b) invest in infrastructure that is needed now, efficiently and without delay

c) combine long-term work programmes across the total service area (supporting longer-term procurement arrangements), plan for long-term financing and so stablise financing costs, reduce risks and provide a more consistent pipeline to infrastructure contractors.

Delivering efficient and financially sustainable services

7.3. As noted above, DIA must approve all WSDP that are submitted. When assessing the service delivery model identified by a council in its WSDP, the key measures that DIA will apply are:

a) financing sufficiency: is there sufficient financing to meet the investment required?

b) revenue sufficiency: is the projected revenue enough to cover costs?

c) investment sufficiency: is the projected level of investment sufficient to maintain assets, meet regulatory requirements and provide for growth?

7.4. The way the Waikato Water Done Well CCO is projected to perform against these measures is set out in detail in **Appendix 4**. In short, the Waikato Water Done Well CCO is projected to be able to meet all the above measures and operate in a financially sustainable manner while delivering comparable or better levels of service at, for most Participating Councils, relatively lower charges than a standalone council. This means waters services can become (comparatively) more affordable, for some in the short-term but for others in longer term.

7.5. The findings in relation to affordability are set out in paragraphs 9. 5 to 9.10 below. These are based on the period out to 2034. Because expected efficiencies of the Waikato Water Done Well CCO are not projected to be fully realised until 2042, the impact of the Waikato Water Done Well CCO on affordability needs to be considered through a long-term lens. While some may think that deferring joining the Waikato Water Done Well CCO until affordability becomes an issue for a council is a solution, it needs to be kept in mind that any deferral of joining the CCO also defers the timeframe in which the full efficiencies from scale can be realised.

7.6. **Appendix 5** explains the Waikato Water Done Well financial model and the underlying assumptions used to project the financial position of the Waikato Water Done Well CCO. The model recognises that upfront costs will be incurred in setting up the CCO reflecting:

a) an initial spend to get the right infrastructure in place for the CCO to operate effectively (e.g. IT systems)

b) the additional operating costs the CCO must carry (e.g. board fees, executive and support team members and premises)

c) early work to realise savings in subsequent years (i.e. ~$4.4m annual spend to save). This recognises that savings will not materialise without a concerted effort and investment to realise them.

11 A water company with council financial support will be able to borrow up to the equivalent of 500% of operating revenue (around twice that of existing councils) through the Local Government Funding Agency (**LGFA**), subject to prudent credit criteria

7.7. There are also assumed efficiencies created from the scale of the Waikato Water Done Well CCO. These efficiencies are achievable when supported by an operating model and a board that is held to account to achieve them. **Appendix 5** provides details of the assumed efficiencies together with examples of how efficiencies have been realised overseas.

7.8. Based on the above, the model projects net cost savings by the Waikato Water Done Well CCO compared to the cost across councils going alone[12].

7.9. The financial projections, including the impact of this on charges to water users, are in part dependent on how the Waikato Water Done Well CCO will utilise these net savings. As savings continue to grow, they provide the Waikato Water Done Well CCO with options on how to apply the savings. It could choose to:

a) bank the savings;

b) use the savings to bring forward planned infrastructure investment; and/or

c) 'return' the savings to customers by keeping water charges comparatively lower than a council could on a standalone basis.

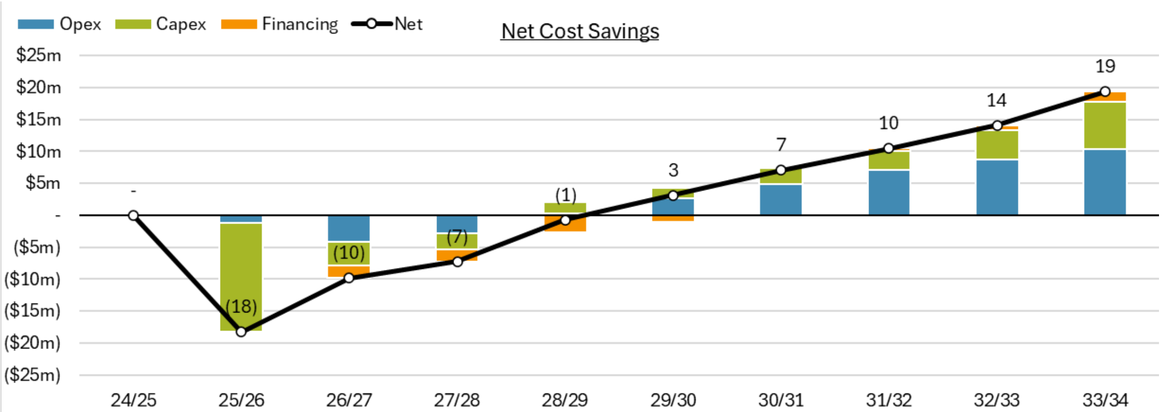
7.10. The next section explains the impact of the first option of using savings to pay down debt.

Using savings to pay down debt

7.11. The below charts show the net cost savings (in nominal dollars) over the forecast period if profits are used to pay down debt.

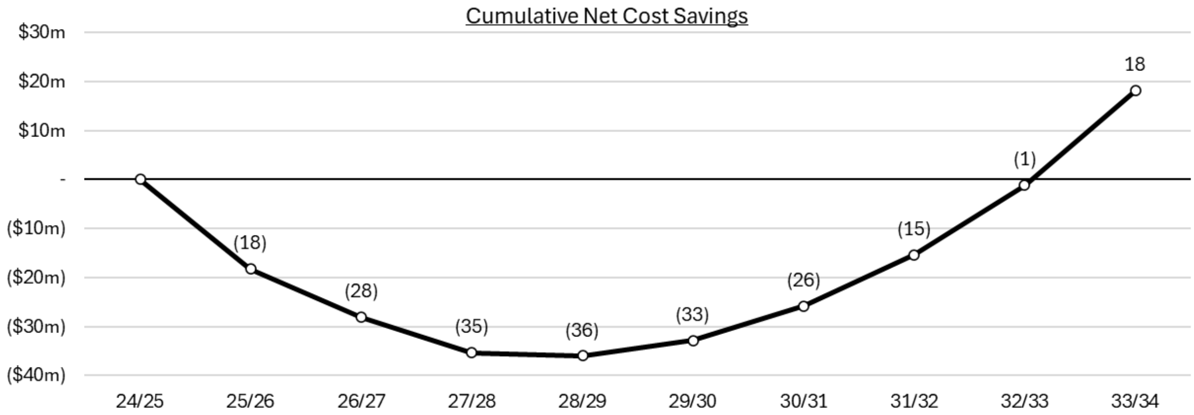
7.12. As the Waikato Water Done Well CCO is assumed to be incorporated on 1 July 2025 and not be operational until 1 July 2026, it will not derive any income from waters charges in the financial year 2025-2026. The 'first mover' councils will transfer their water services business with effect from 1 July 2026 and so the Waikato Water Done Well CCO will only be operational and entitled to water charges from 1 July 2026.

7.13. From the end of its first operational year (FY2026-27), the Waikato Water Done Well CCO is projected to start realising savings. This may occur earlier but conservatively has been assumed not to. As these efficiencies are progressively realised, from FY2029-30 savings start to outweigh the additional costs.

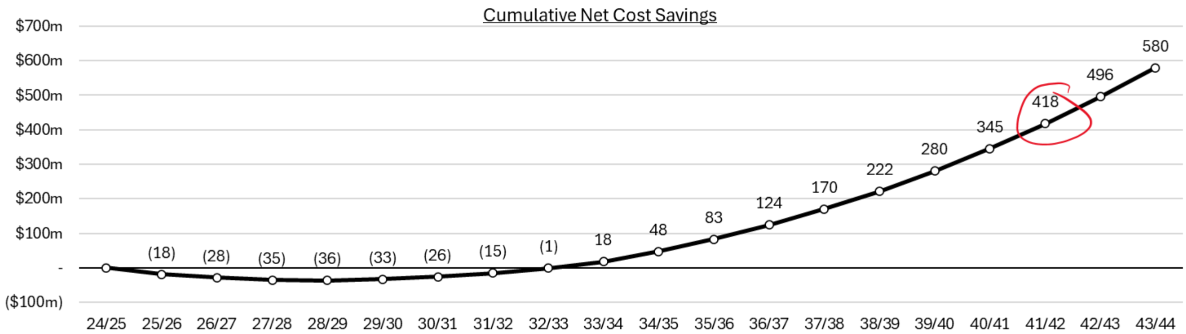


[12] The financial forecast of 'Councils going alone' is based on the aggregation of their 2024 LTPs, in some cases updated to reflect latest estimates of capital works. It **may not** be the financial forecast of councils' cost of an 'enhanced business unit'. We are aware several councils are doing work to identify the costs of these units, which may be greater than what is reflected in their LTPs (meaning the relative financial benefit of the proposed CCO will be greater than what is shown here)

7.14. Because of the upfront costs and 'spend-to-save' incurred in the early years (refer paragraph 7.6 above), the cumulative net cost savings during the forecast period to 30 June 2034 are modest at only $18m (see below). The payback period for these costs is eight to nine years.



7.15. The financial model reflects savings only peaking in FY2041-42. At this time, the cumulative net cost savings is projected to be approximately $418m (in nominal dollars), split between operating, financing and capital costs.



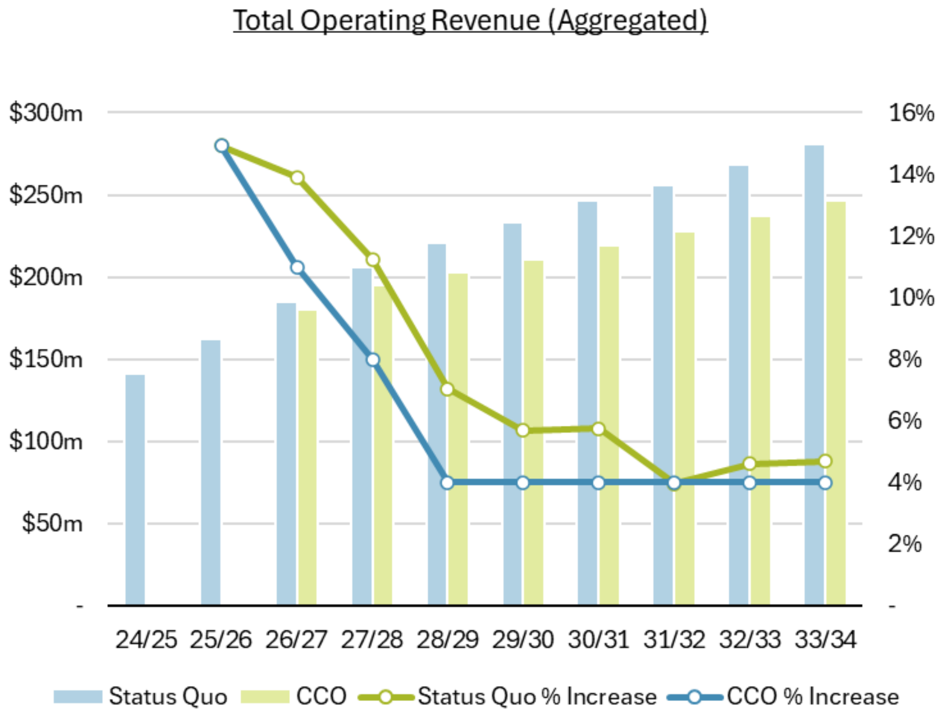
Leveraging borrowing capacity to keep water charges lower

7.16. The Waikato Water Done Well CCO will operate at arm's length from the Shareholding Councils. Under this structure, LGFA has confirmed a water services CCO will be able to access debt up to 500% of its annual revenue, subject to prudent credit criteria[13]. This creates significant debt capacity for the Waikato Water Done Well CCO if it wanted (or needed) to utilize it.

7.17. When several councils with different debt profiles come together, the increased borrowing capacity available to the CCO can be leveraged. Councils on a standalone basis do not have access to such high debt ceilings and must retain lower debt to revenue ratios. The debt headroom available to the Waikato Water Done Well CCO means it does not have to raise revenue as high as a council to access the same amount of debt. Because of this, the CCO can keep water charges comparatively lower to that currently projected by councils. When using greater debt

[13] For example, Funds from operations (FFO) to debt ratio. The FFO applicable to a CCO will be negotiated on a bespoke basis. LGFA has stated that it expects most water CCOs will have a minimum FFO to debt ratio of between 8% and 12%.

capacity to fund infrastructure over the forecast period is modelled, it projects a reduced *need* for water charges revenue (compared to status quo) of approximately $176m.



7.18. What this shows is that once councils transfer their water services business into the Waikato Water Done Well CCO, even with very modest increases in charges, it will be able to operate within expected debt covenants. That is not to say it *will* set charges as low as it can. More likely, charges will be set higher than the 4% p.a. revenue increase to give greater financial security so the CCO, councils and communities, are assured it will have the bandwidth to invest in what districts need (based on data provided by councils). The CCO will also have the resilience to respond in the event of an emergency (e.g. natural hazard).

7.19. The model attributes the financial impact of the Waikato Water Done Well CCO to each of the councils as a proxy for the financial benefit their communities will receive. This is set out in a supplementary financial report specific to each council which has been shared separate to this proposal and includes detail on each council's 'share' of the benefits of aggregation.

Sensitivities

7.20. A sensitivity analysis in relation to some of the assumptions for the purpose of the Waikato Water Done Well financial model is included in **Appendix 6**.

Target operating model

7.21. The establishment target operating model refers to the operating model that will be in place on the day the Waikato Water Done Well CCO becomes operational (1 July 2026). What needs to happen to ensure this operating model is in place is part of the detailed transition planning to ensure councils can transfer their water services business into the Waikato Water Done Well CCO in a way that lands safely for the CCO and each council alike. In the short to medium term, it is likely that the CCO will contract with councils for services the CCO is not yet mature enough to carry out itself.

7.22. Ensuring the Waikato Water Done Well CCO and each remaining council is successful requires collective leadership to navigate the transition. A pillar of Waikato Water Done Well transition work is to understand the interdependencies of the future Waikato Water Done Well CCO operating model and the remaining council so both are sustainable and operationally optimised. The way the CCO will interact with each council after the Agreed Transfer Date for that council will be set out in an interface agreement between the two parties.

Enabling significant infrastructure investment

7.23. In addition to financing, significant infrastructure investment requires resources to be in place that can deliver. The Waikato Water Done Well CCO can address the capital works delivery challenge all councils face by:

a) **Efficient and cost-effective capital works delivery**: having a single combined capital works programme driven by a professional board and single management team. This will remove an otherwise 'peaky' capital works programme, placing a more evenly distributed demand on the market and softening pricing pressure. Through a single team focused on water services, procuring contractors and delivering projects on time and in budget, the Waikato Water Done Well CCO will have greater bargaining power to obtain better pricing than multiple councils engaging separately with the same service provider. While Waikato councils have been able to progressively increase capital work delivery over the last decade[14], this does not necessarily reflect better value and outcomes[15]. Capital delivery by dollar amount is not necessarily the same as capital delivery of outcomes.

b) **Resilience**: enabling infrastructure to be planned through a single Asset Management Plan (**AMP**) informed by a long-term infrastructure strategy. The strategy will reflect council spatial plans and also the relevant content of the Statement of Expectations agreed to by Shareholding Councils and their strategic priorities.

c) **Greater ability to identify opportunities for additional cost savings**: by having a line of sight across the region, rather than district-by-district (for example, management of water allocation across councils), a more holistic planned approach to delivery can be taken (again, reference is made to **Appendix 5** and the opportunities outlined there).

d) **Smart consenting**: evolve from ad hoc consent applications to integrated consents that address the health of the whole of an awa or waterbody. More detail is included in **Appendix 7**.

e) **Better data**: a consolidated system capturing standardised data will enable better decision-making regarding infrastructure investment as there will be a better understanding of the challenges and opportunities across the region.

Enabling urban development and responding to growth

7.24. The Waikato Water Done Well CCO will be required to provide water infrastructure to help deliver spatial plans prepared by councils, including the Future Proof strategy. Councils will remain plan

[14] In the three years ending 20/21, an average of 78% of actual capex budgets was spent. More recent reports on capex budgets versus actual spend indicate this gap continues to close.

[15] Water services infrastructure is estimated to cost 30% more to build than three years ago (Infometrics).

makers. It will be important that councils continue to work well together to plan for future growth, providing clear direction to all infrastructure providers (e.g. electricity, transport, water, health, education). To the extent further investment is required to support growth, the additional borrowing capacity of the Waikato Water Done Well CCO will allow it to better respond to this.

7.25. The ability to respond to growth and community needs transgresses not just water services but also includes the ability to work with central government in their initiatives, including the current Regional Deals Strategic Framework. The intention is for such deals to address a regions' most pressing needs, from infrastructure to economic development and housing affordability, while promoting long-term sustainability. By working together, councils can unlock Regional Deals as these deals are predicated on waters being sorted.

7.26. The Waikato Water Done Well CCO enables a single development contribution policy to be developed over the service area over time. During the transition period it is expected that existing development contribution policies will continue to be applied, and revenue collected by the CCO or relevant council[16]. This will ensure that growth pays for growth and that the consequences of growth are considered without boundaries and planned accordingly.

8. Leading Workforce

Waikato Water Done Well strategic outcome sought: *Create the conditions to build and sustain a highly skilled, adaptable and world-leading water workforce that can innovate and collaborate to drive outcomes for Waikato*.

8.1. Workforce availability is a challenge for all Participating Councils. In terms of attracting and growing a highly skilled workforce, the following is noted:

a) The Waikato Water Done Well CCO brings together like councils i.e. rural and provincial councils. The fact the Chief Executives of the seven councils have successfully negotiated a non-binding HoA between them, and the support and direction from the Waikato Water Done Well Mayoral Governance Group, demonstrates existing leadership and commonality. This is critical in the establishment of the multi-council owned CCO.

b) The Waikato Water Done Well CCO will be a completely new entity with a freshly appointed board and Chief Executive. The entity has the golden opportunity to create the right culture from the outset and attract the best people to deliver on the agreed strategic outcomes.

c) Specialist waters staff across the region will work together in the Waikato Water Done Well CCO, sharing knowledge, building capability, enhancing future service delivery and better local career paths for the waters workforce. A continued local presence to support local delivery is an expectation of the establishment target operating model.

d) The Waikato Water Done Well CCO gives staff across the councils line of sight of councils' collective intentions and so confidence as to their future career pathway. This is important as uncertainty created by various reforms has gone on for too long. This also makes service delivery more resilient, particularly for smaller councils where operations can be highly dependent on a few individuals. The need to create an attractive proposition for staff remains even more important as other CCOs are established and engage in a recruitment drive to

[16] Part of the Joint Submission in relation to Bill#3 is to seek clarification on this.

attract the most skilled. A newly created CCO with an inspiring vision and having the geographic reach and scale to achieve that vision is likely to be a compelling proposition for personal growth for prospective employees.

8.2. In addition to internal staff, it is also necessary that any proposed CCO is an attractive business partner from a supply chain perspective. The aggregated approach to capital works through a single focused team, together with the creation of a consolidated AMP informed by spatial plans and strategic AMP, will provide the supply chain with longer term certainty of pipeline and give it confidence to invest in resources to support the Waikato Water Done Well CCO. This will both lower and smooth costs as councils will no longer be competing for the same suppliers.

9. Customer Focus

Waikato Water Done Well strategic outcome sought: *Be customer focused, leveraging new technologies, while also building customer awareness of their role in the water system and the value of water.*

Customer experience

9.1. All references to customers are to those who consume, use, or are provided with water supply and / or wastewater services across the service area of the Waikato Water Done Well CCO[17].

9.2. A fundamental expectation of the councils participating in Waikato Water Done Well is that the transfer of responsibility for water services to the Waikato Water Done Well CCO from each council will be seamless for customers. As the CCO will be the provider of water and wastewater services, its primary relationship will be with its customers and so, in time, it will bill them directly for this. However, in the early days of the CCO, there is likely to be a transition period (particularly for 'first movers') during which councils will bill on behalf of the CCO. However, regardless of who issues the bill, the customer will have full visibility of how much they are paying for water.

9.3. Councils will continue to have input into the relationship they expect the CCO to have with customers as although the management of the Waikato Water Done Well CCO will be overseen by the board, councils will set the strategic direction via the accountability framework. This includes preparation of a combined Statement of Expectations which can include expectations regarding community or consumer engagement, and the contents of that engagement.

New technology

9.4. Significant investment to demonstrate compliance with information disclosure requirements under economic regulation will be needed through robust data and asset management systems. In addition, Taumata Arowai has identified the need to improve the quality of data (particularly for network performance) and completeness of reporting. By aggregating, there is the opportunity to work together to leverage new technologies to achieve this outcome.

[17] It is noted that the Waikato Water Done Well CCO may provide stormwater management services to certain councils. The customers of these services will be the relevant councils. Councils will remain responsible for stormwater from a ratepayer perspective.

Affordable Water Service Delivery

9.5. There is no official definition of unaffordable water in New Zealand, but international indicators suggest that there is an affordability challenge if water services are more than 2% of household income. Taking this measure, some Waikato communities increasingly face unaffordable water services. The tables below have been completed based on:

a) median household income across the entire district (connected and non-connected households) of each council for FY25[18]

b) median household income for FY34 based on information provided by councils[19]

c) average water charges, based on estimated residential connections

d) all councils coming together on 30 June 2026 (for comparative purposes).

9.6. The **first table** below is the position under the Waikato Water Done Well CCO. The **second table** reflects the status quo across councils *based on LTP data*. The financial model for the Waikato Water Done Well CCO applies the same revenue increases to all councils using an assumed price path. However, each council's LTP will show different revenue increases. This means that there are different affordability benefits across councils when compared to the Waikato Water Done Well CCO.

9.7. Although on the face of it some councils' water charges are considered affordable (using the 2% measure) all seven Participating Councils have told us community affordability is an issue for them (whether now or in the future).

9.8. In summary the findings are:

a) A Waikato Water Done Well CCO is more affordable. When taking an aggregated viewpoint (i.e. through the lens of a Waikato Water Done Well CCO), there is a meaningful improvement in the average water charge and affordability by mid-2034. At the end of the 30 June 2034 financial year, the weighted average water charges across the region are less by about $480 or 16% (from about $3,230 to $2,750)

b) When considering a council viewpoint, the extent of the benefit can vary widely based on each council's status quo

c) Because expected efficiencies of the Waikato Water Done Well CCO are not assumed to be fully realised until 2042 (and the table is limited to 2025 to 2034), it is expected that the affordability gap between the Waikato Water Done Well CCO and standalone council businesses will continue to widen beyond 2034. In the long term, the Waikato Water Done Well CCO can manage the cost of water charges in a manner that will be more stable and more affordable for customers.

[18] It should be noted that the median income of households connected to water services may be lower than that set out in the below table. If median household incomes are lower than that projected, the implication is that affordability is even more of a challenge.

[19] An average annual growth rate of 4.37% has been assumed if information has not been provided

Waikato Water Done Well CCO and affordability

CCO	2025			2034		
Council	**Average Water Charges ($)**	**Median Household Income ($)**	**Affordability**	**Average Water Charges ($)**	**Median Household Income ($)**	**Affordability**
Hauraki	2,675	72,074	3.7%	4,361	90,273	4.8%
Matamata-Piako	1,391	96,165	1.4%	2,133	141,319	1.5%
Ōtorohanga	2,106	93,879	2.2%	4,002	127,084	3.1%
South Waikato	1,695	84,974	2.0%	2,753	115,030	2.4%
Taupō	1,837	111,384	1.6%	2,702	173,150	1.6%
Waipā	1,485	107,501	1.4%	2,260	157,977	1.4%
Waitomo	2,812	76,190	3.7%	4,721	111,964	4.2%
Weighted Average	**1,789**	**99,488**	**1.8%**	**2,754**	**147,367**	**1.9%**

Status quo (LTP) and affordability

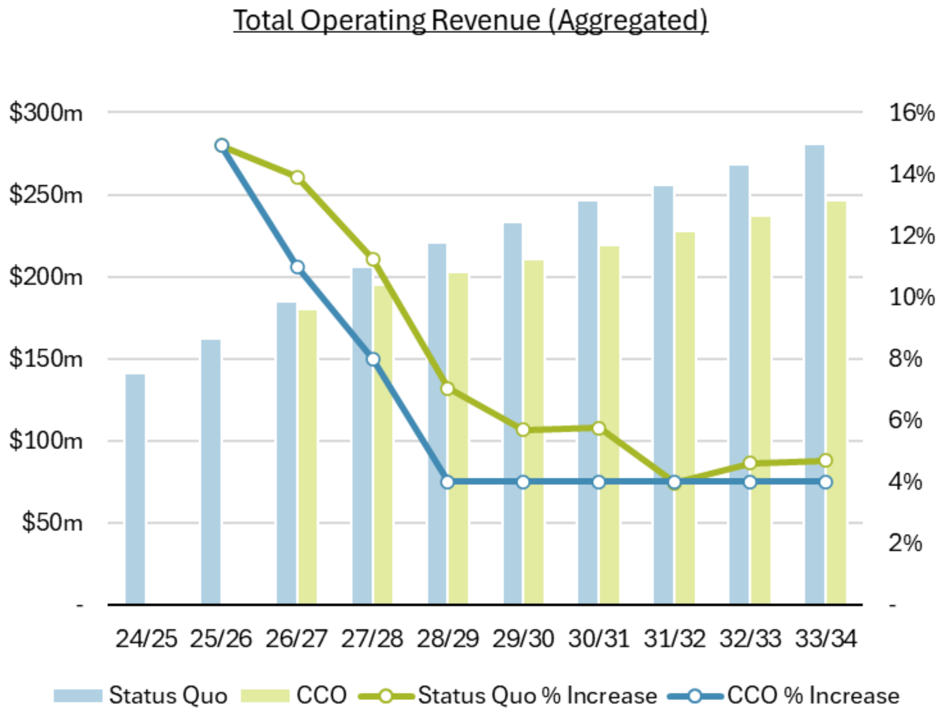
Status Quo	2025			2034		
Council	**Average Water Charges ($)**	**Median Household Income ($)**	**Affordability**	**Average Water Charges**	**Median Household Income ($)**	**Affordability**
Hauraki	2,675	72,024	3.7%	6,259	90,273	6.9%
Matamata-Piako	1,391	96,165	1.4%	1,941	141,319	1.4%
Ōtorohanga	2,106	93,879	2.2%	3,350	127,084	2.6%
South Waikato	1,695	84,974	2.0%	4,152	115,030	3.6%
Taupō	1,837	111,384	1.6%	2,933	173,150	1.7%
Waipā	1,485	107,501	1.4%	2,745	157,977	1.7%
Waitomo	2,812	76,190	3.7%	4,907	111,964	4.4%
Weighted Average	**1,789**	**99,488**	**1.8%**	**3,231**	**147,367**	**2.2%**

9.9. The Waikato Water Done Well CCO can achieve improved affordability in the short term, largely by using its additional debt capacity to finance infrastructure (compared to councils having to increase charges to access the same level of debt). The Waikato Water Done Well CCO can spread the cost of financing infrastructure over the life of the asset and share the costs across current and future customers (who will benefit from the use of that investment).

9.10. As the chart below shows:

a) the forecast operating revenue of the Waikato Water Done Well CCO is less than the sum of the councils' revenue on a standalone basis

b) revenue increases within the CCO can be held at 4% p.a.[20] once all councils have transferred their water services business into the CCO.



10. Local influence

Waikato Water Done Well strategic outcome sought: *Ensure local voice is represented in critical decision-making around water investment and management across the region, including decisions in relation to water takes and water discharge.*

10.1. The transfer of water services into a multi-council owned company governed by a competency-based board raises the question as to how local communities can continue to influence the delivery of water services in their area. Specific matters of concern are addressed in section 12

[20] Part of that increase is simply attributable to the growth in connections so the percentage increase in water charges is actually less than 4%. It should also be noted that the Waikato Water Done Well CCO's financial strategy may be not to hold revenue increases to this level, but rather collect slightly more to enable additional infrastructure investment (or repay debt). This will be a matter for the Board of the CCO, having regard to the expectations of shareholders.

below (as part of the perceived disadvantages of the Waikato Water Done Well CCO). This section addresses how local voice is represented in critical decision making.

10.2. Under the Waikato Water Done Well CCO, the operations and management of water services will be arm's length from elected members. However, the structure of the Waikato Water Done Well CCO ensures that local voice continues to be heard at a strategic and planning level. The mechanisms for local voice include:

a) each Shareholding Council having at least one representative on the Shareholders Representative Forum. As previously noted, this is the forum at which shareholders will meet to co-ordinate decision making among themselves. Unless councils advise otherwise, the Mayor of each Shareholding Council will be on this Forum

b) each Shareholding Councils having an equal number of shares in the CCO from Day Zero (1 July 2025), giving all shareholders equal influence

c) when councils transfer their water business (including relevant staff) into the Waikato Water Done Well CCO in accordance with its transfer agreement (refer paragraph 2.2(a) above), further shares will be issued to that council based on the number of connections. The allocation of shares based on connections was agreed to by councils because:

- Shares in the CCO cannot be sold or transferred by councils
- No dividend is attached to shares
- The relevance of the number of shares is the ability to influence decisions
- As influence is exercised on behalf of customers and communities, the number of connections best reflects community interests and local voice. **Appendix 2** sets out the share allocation between all seven councils based on the current number of connections provided by councils.

d) to ensure the allocation of shares remains current, the allocation of shares will be reviewed periodically. This review will be triggered if a new shareholder is to join. A five yearly review of connections will also be carried out unless the shareholders determine otherwise.

e) a visual of the ownership structure and how Shareholding Councils will hold the Waikato Water Done Well CCO to account is set out in **Appendix 2**.

f) shareholding councils will apply best endeavours to make decisions by consensus. However, a default is required to ensure the CCO can operate effectively. The shareholder decision-making framework sets out the matters shareholders must make decisions on, and in the absence of consensus the votes required for the decision to be made. Further detail on these is also included in **Appendix 2**. The decision-making framework is designed to ensure that a few large shareholders cannot unduly dominate decision making

10.3. As previously noted, Shareholding Councils will document their expectations of the board of the Waikato Water Done Well CCO in a combined Statement of Expectations. This will guide and inform decisions of the board of directors. This statement will include strategic outcomes, priorities and any other general guidance shareholders wish to include. This will also capture the strong local voice heard by Shareholding Councils and set the expectation that the CCO gives effect to the spatial plans of each council (which also capture local voice).

10.4. A key change of Local Water Done Well implementing legislation is that water services will no longer be included in councils' long-term plans. Instead, whether it be a council or a CCO that is responsible for delivering water services, a new document called a water services strategy will be required. In the context of the Waikato Water Done Well CCO, the water services strategy will be prepared by the board and will set out the board's strategic priorities, how it will meet regulatory requirements, and how it is responding to the combined Statement of Expectations. Shareholding

Councils will have the opportunity to review and comment on this before the water services strategy is finalised.

10.5. In relation to the shareholders as between themselves, a Shareholders Agreement will be entered into before the Waikato Water Done Well CCO is established. The purpose of the Shareholders Agreement is to ensure clarity on how shareholders engage with each other. The agreement will specify the decisions that are to be brought to the Shareholder Representative Forum for decision-making by Shareholding Councils, the process for making decisions and the resolution process that will apply should there be a dispute between the Shareholding Councils.

10.6. The ability to respond to emergencies will be an operational matter that will be guided by the policies and procedures adopted by the board in relation to the management of the Waikato Water Done Well CCO. The Waikato Water Done Well CCO will have greater resourcing and specialist capability which will enable it to better handle emergency events than Councils alone. This includes co-ordination with other lifeline utility operators and the Waikato CDEM group.

11. Delivering on expectations

Waikato Water Done Well strategic outcome sought: *Meet the expectations of key partners and stakeholders including those represented in Treaty settlements*

Treaty settlements

11.1. The Waikato Water Done Well CCO will be responsible for meeting the expectations of key partners including those represented in Treaty settlements (e.g. the Waikato River Settlement Act). This includes maintaining and enhancing existing relationships councils have with local hapū and Iwi as they relate to water services and forming effective relationships with current and proposed entities (Waikato River Authority, Hauraki Gulf Forum and Waihou, Piako, Coromandel Catchment Authority).

11.2. As noted above, the Shareholder Representative Forum is the forum at which Shareholding Council representatives will meet to co-ordinate decision making across councils. In the early months of the CCO being in existence, this forum will engage with Waikato Iwi Chairs (or relevant Iwi Chairs) to prepare a proposal on how best to partner with Iwi, and other existing arrangements, in relation to shareholder decision-making. The proposal will be brought to each Shareholding Council for approval.

11.3. In addition to the above, expectations will be met by ensuring the board of directors includes in its number those who have a strong knowledge of relevant settlements within the relevant service area and specialist experience of integrating Te Ao Māori and Tikanga Māori in a professional board environment. **Appendix 3** sets out in full the skills matrix that will apply to the full Board of directors.

Regulation

11.4. A key expectation of any CCO, including the Waikato Water Done Well CCO, is that it will comply with the law.

11.5. A key component of Local Water Done Well is the introduction of economic regulation which will shift the focus from delivery against budget to outcomes, quality service delivery and customer benefits. The Commerce Commission will be the economic regulator. As an independent body, the Commerce Commission will independently set expectations around the cost of delivering the outcomes expected by the community and monitor progress. By pooling resources in the Waikato Water Done Well CCO, councils create an entity that will be better positioned to build systems and processes that efficiently respond to and meet the requirements of economic regulation, when compared to councils doing it alone.

11.6. Shareholding Councils propose to take a more strategic and cost-effective approach to infrastructure planning and consenting requirements (noting one third of all water consents in the region expire in the next five years). Consenting is a significant driver of capital works programme. Details of the smart consenting initiative of Waikato Water Done Well are set out in **Appendix 7**.

Perceived disadvantages of proposed CCO

As noted at paragraph 5.7 above, when assessing options for water services delivery options, councils are required to assess the advantages and disadvantages of a minimum or two options. In the context of Waikato Water Done Well, significant time has been invested in identifying matters likely to be of concern to communities. These matters are included under the heading 'disadvantages' to demonstrate compliance with the legislative analysis required. However, in real terms, the Waikato Water Done Well CCO has been designed by councils to proactively address these local concerns.

12. Addressing local concerns

12.1. Previous government reform and other attempts at establishing fully operational water services entities have been unsuccessful. This is largely due to local concerns or 'showstoppers' not being addressed in any proposal. In the context of Waikato Water Done Well, the key concerns that have been captured go to the operating impact on customers across the services area. These are:

a) **Pricing:** Will some communities have to subsidise others and will prices increase?

b) **Prioritisation:** How do communities have confidence that their needs will be prioritised?

c) **Community assets:** Are community assets that have been invested in over the years being given away?

d) **Local influence:** Will elected members and communities be able to influence decisions of relevance to them?

e) **Cost of establishment:** Who will pay for the establishment of the Waikato Water Done Well CCO?

f) **Certainty of establishment:** The number of councils seeking to come together in the Waikato Water Done Well CCO increases the complexity. Until all are committed, it is not clear what the scale of the CCO will be. How is this being managed?

g) **Transition risk:** There are two sides to transition risk; what is the impact on water services during transition and what is the impact on council after water has transferred?

12.2. Each of these is addressed under separate headings below.

Pricing

12.3. Local Water Done Well does not require prices to be harmonised across communities. Differences in prices across service areas can be maintained to reflect differences in investment, borrowings and costs of service. From a transitional perspective, the intention is for charges to be "jam-jarred" in the short-term with the current local community-based approach to pricing retained. In the Waikato Water Done Well CCO Shareholders Agreement, Shareholding Councils will agree the pricing principles for charging and the pathway to long-term pricing subject to economic regulation.

12.4. Economic regulation is being introduced in stages from January 2026. A core requirement of this is that the true cost of the service is reflected in the price. When looking at the true cost, regard will be had to whether customers in specific regions should pay charges for delivering services in that region, with overheads shared equally across the service area (as is the case in the electricity sector) or whether customers across the entire service area (and of the same category and usage) will pay the same charges.

Prioritisation

12.5. Shareholding Councils will agree a prioritisation framework which will inform and guide decisions of the Waikato Water Done Well CCO Board. Councils can also include their expectations in the Statement of Expectations they issue to the board. The perception of some councils subsidising other councils' historic underinvestment has been discussed amongst Participating Councils as part of the HoA development, with it being agreed that they will develop a process for addressing this once the extent of any underinvestment is clearly understood. Any underinvestment will become clearer as Councils sign off on their Water Services Delivery Plans due in September. The process will be confirmed as part of the formal Shareholders Agreement negotiations.

Community assets

12.6. Where water services are transferred to the Waikato Water Done Well CCO, the assets owned by councils which are necessary to provide the water service will also transfer. This will be documented in a transfer agreement required under legislation. The assets will be owned by the CCO which is owned by the Shareholding Councils. There are strict rules that ensure community assets will remain as such. This includes that assets cannot be given as security and that shares can only be held by councils (which is the case for the Waikato Water Done Well CCO) or by a consumer trust.

Local Influence

12.7. The way local influence will be exercised is set out under strategic outcome 4 above. Councils will continue to have significant input into the strategic direction and priorities of the Waikato Water Done Well CCO and the board will be fully accountable to the Shareholding Councils. Bill#3 also provides for a significant degree of decision making to remain with councils including decisions in relation to drinking catchment plans, tradewaste and bylaws.

Cost of establishment

12.8. All water services delivery models will require investment to ensure they meet legislative requirements and community expectations. Due to cost sharing arrangements, the more councils involved the less investment is likely to be required by each district. The total costs (post signing the HoA) of establishing the proposed CCO as a legal entity (i.e. to Day Zero) are currently estimated to be $2million. Further costs will be incurred in implementing the transition plan to get from Day Zero to Day One. This cost can only be confirmed once the plan is approved, resources agreed and budgeted for. It is intended that the Waikato Water Done Well CCO will be able to access financing for some of these costs once it can borrow in its own name.

12.9. The key point of note to councils is that Shareholding Councils can agree to pass the cost of establishment across to the CCO by capitalising it as a loan to the CCO. This option will only be available for councils who commit to being shareholders. Accordingly, all establishment costs will eventually be funded against the balance sheet of the CCO. There will need to be clarity between all councils and the CCO as to what costs constitutes "establishment costs" so there is transparency on what can be passed to the CCO.

Certainty of establishment

12.10. The risk of councils not being able to reach agreement on key matters between now and the Waikato Water Done Well CCO being formalised is being managed by:

a) Implementing the signed HoA which provides a strategic framework to establish the Waikato Water Done Well CCO. The council CEs, guided by their elected members, are continuing to meet regularly (noting point (c) below).

b) Ongoing engagement with the Mayors of Participating Councils to keep them informed and to seek direction where appropriate.

c) Balancing the need to not get ahead of public consultation against the need to give clarity to the public as to what transition planning looks like so there is confidence in both the service delivery option and the implementation plan.

Transition Risk

12.11. Transition risk is being managed by ensuring there is a robust transition plan that is developed together by councils, with input from key operating staff to achieve the target operating model for Day One. This involves identifying the key elements that need to transfer or be in place to ensure the transition is seamless, with no negative impact on the delivery of water services nor disruption to capital works programmes.

12.12. To further de-risk transition, it is proposed that councils will transfer their water services business into the Waikato Water Done Well CCO in a staged manner, rather than many businesses coming together on Day 1.

12.13. From a council perspective, the impact of transferring water on the remaining council business needs to be considered together with the target operating model. This is to ensure all parties fully understand the services the Waikato Water Done Well CCO will require from the council from Day One and afterwards, whether on a transitional basis or otherwise.

12.14. To ensure a safe transition, the transition planning will be undertaken in accordance with the following transition principles:

a) **Sustainability**: focussing on long term financial and non-financial benefits

b) **Pragmatic**: balanced and pragmatic approach to reach end goal; each stage of planning must be fit for purpose and achievable in the circumstances

c) **Simplicity**: people understand what is proposed and why

d) **Flexibility**: design and timing are flexible to cater for different needs

e) **Commercial robustness**: independent professional board accountable to shareholders and clarity as to respective roles

f) **Equitable:** everyone wins at some stage based on taking a long-term view

g) **Value for money**: choices made as part of transition using sound procurement to get the best public value and affordable services for customers

h) **Work smart**: to the extent appropriate, the work programme will leverage off previous relevant work rather than reinvent the wheel

i) **Safe transition**: focus during establishment is on safe transition with transformational outcomes being a long-term objective

j) **Manage expectations**: maintain confidence of key stakeholders

k) **Customers**: create seamless transition from a service delivery viewpoint

l) **Employees**: certainty, opportunity, fairness and consistency – feel valued

12.15. As stated previously, ensuring the Waikato Water Done Well CCO and each remaining council is successful requires collective leadership to navigate the transition. A pillar of the Waikato Water Done Well transition work is to understand and integrate the future Waikato Water Done Well CCO establishment target operating model with that of the remaining council. The success of the Waikato Water Done Well CCO and the success of remaining councils are intrinsically linked and so success is the sum of the two parts.

Next steps

13. Preferred option and consultation

13.1. Councils will determine their preferred water services delivery option over the next 6 weeks (noting that Waipā District Council identified the Waikato Water Done Well CCO as its preferred option on 26 February 2025).

13.2. Councils will consult with their communities on the preferred model. In preparation for this, the communication specialists across councils (supported by a central specialist resource in the Waikato Water Done Well programme team) have developed the following to support consultation (on the assumption the Waikato Water Done Well CCO is the preferred option):

a) a summary of this proposal for community consideration

b) a joint consultation document for each council to use (so there is consistency). This can be tailored by each council (in terms of introductory comments and explanations) to suit its consultation process

c) the development of a website to ensure all information about Waikato Water Done Well is readily available to those who wish to understand more

d) questions and answers

13.3. This material will be brought to each council for approval in accordance with its own internal process.

14. Formal decision-making

14.1. The next critical step and milestone for councils who wish to be part of the Waikato Water Done Well CCO is to ensure there is clarity on the formal documentation that will apply if the CCO is to be established.

14.2. The key establishment documents are a company constitution and a Shareholders' Agreement. Parallel to consultation, work will commence to prepare these documents. Although this pre-dates the completion of consultation, it will not pre-determine the outcome of consultation. The purpose of advancing this work is to ensure there is clarity on what councils are agreeing to at the time they make a formal decision on Waikato Water Done Well, after considering feedback from consultation.

14.3. The Shareholders' Agreement will formalise the matters agreed to in the HoA and any additional matters councils agree to include. This will include the agreed transition strategy to get to Day One (1 July 2026) and the timing for when each council will transfer its business into the CCO. This will also confirm the terms of reference for the Shareholders Representative Forum which is critical to co-ordinated decision-making across councils on matters such as the appointment of the board and the adoption of a statement of expectations.

Glossary

Agreed Transfer Date	The date on which a council has agreed to transfer its water services business into the Waikato Water Done Well CCO. For some councils this will be Day One, for others it will be a date after this
AMP	Asset Management Plan. A document that outlines an organisation's asset management strategy and objectives, including maintenance schedules, risk management, and financial planning
CCO	Council-controlled organisation owned by one or more councils. The proposed CCO will be a limited liability company
Day Zero	Forming the CCO as a legal entity (estimated to be 1 July 2025)
Day One	Establishing the CCO so that it is operational, delivering water services to customers (estimated to be 1 July 2026)
DIA	Department of Internal Affairs
Establishment target operating model	The operating model agreed with Council CEs for Day One
Participating Councils	The seven district councils who have signed the Heads of Agreement: Hauraki, Matamata-Piako, Ōtorohanga, South Waikato, Taupō, Waipā, Waitomo
Shareholders Agreement	The purpose of the Shareholders Agreement is to ensure clarity on how shareholders engage with each other. The agreement will specify the decisions that are to be brought to the Shareholder Representative Forum for decision making by Shareholding Councils, the process for making decisions and the resolution process that will apply should there be a dispute between the Shareholding Councils
Shareholding Councils	The councils who formally adopt the governance documents to form the proposed CCO and who will own the CCO

Shareholder Representative Forum	A forum to enable all Council Shareholders to engage with the board and make decisions together. This includes appointing the board of the water organization
Smart Consenting	The strategic approach to resource consents that is proposed in Appendix 7
Statement of Expectations	Issued by shareholders to a water organisation, this document outlines the strategic and performance expectations for the organisation. Water organisations must incorporate these expectations into their water services strategy
Taumata Arowai	The water services regulator for New Zealand, responsible for ensuring communities have access to safe drinking water, and for protecting the environment from the impacts of wastewater and stormwater
Transformation	The water organisation changing from the establishment target operating model to an operating model that will deliver on the vision and strategic outcomes of the CCO. Transformation is long term
Transition	Safely transferring a council's water business into the CCO in accordance with an agreed Transition Plan. Transition is short term but is a critical step to transformation
Water services annual report	A report prepared by the CCO to ensure transparency about its performance over the past financial year. It includes detailed financial statements related to water services.
Water services strategy	A document that is legislatively required to be prepared by all water service providers, with the first being due on 1 July 2027. This is the primary document for strategic, financial, and infrastructure planning and accountability. Shareholders can decide their level of involvement in the preparation process. The board must set out how it intends to respond to the Statement of Expectations
WSDP	Water Services Delivery Plans are a one-off document that each council needs to submit a plan to DIA by 3 September 2025 (alone or jointly with other councils) to demonstrate their commitment to deliver water services that meet regulatory requirements, support growth and urban development and that are financially sustainable

Appendices

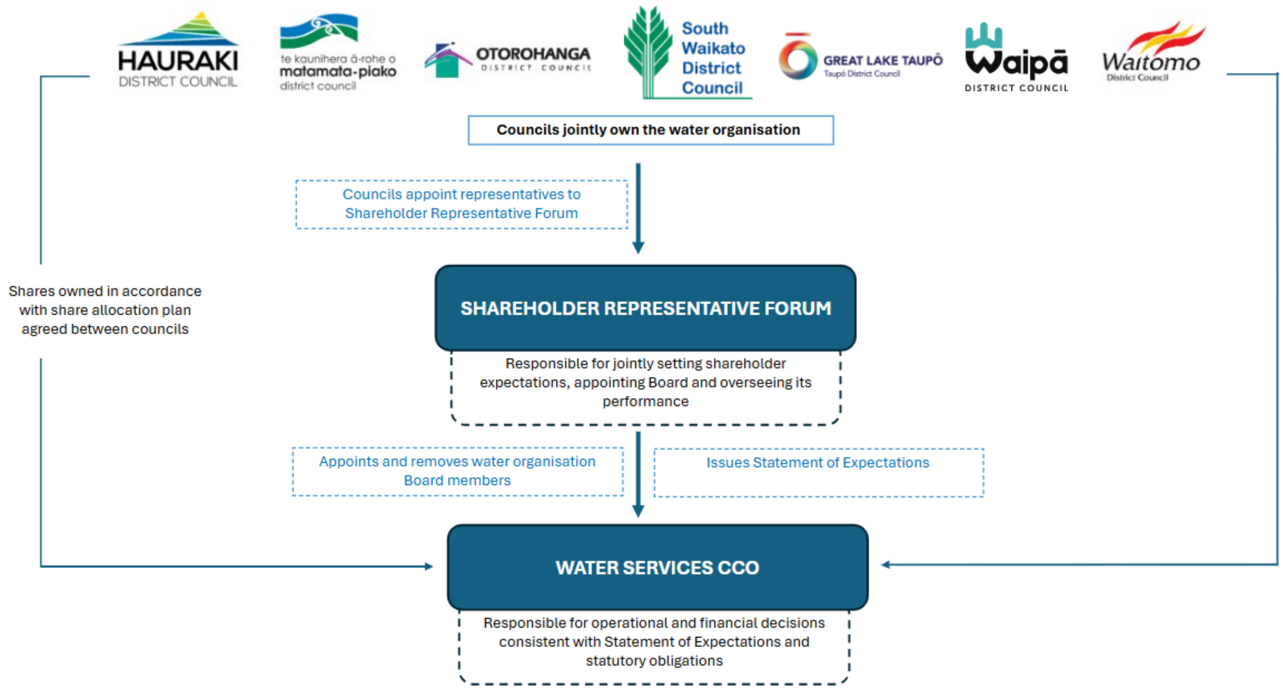
Appendix 1 - Statutory Objectives

Bill#3, as introduced into Parliament in December 2024, sets the following statutory for all water services providers (i.e. Councils and water services organisations alike):

1. to provide water services that:
    a) provide safe drinking water to consumers; and
    b) do not have adverse effects on the environment; and
    c) are reliable
    d) are resilient to external factors, for example, climate change and natural hazards; and
    e) are of a quality that meets consumer expectations; and
    f) meet all applicable regulatory standards and requirements; and
2. to ensure that it provides water services in a cost-effective and financially sustainable manner, including by:
    a) planning effectively to manage assets used to provide water services in the future; and
    b) sharing the benefits of efficiency gains with consumers, including when setting charges for water services; and
3. to perform its functions as a water service provider—
    a) in an open, transparent, and accountable manner; and
    b) in accordance with sound business practice; and
4. to act in the best interests of current and future consumers; and
5. to be a good employer.

Appendix 2 - Ownership of proposed CCO

Ownership & Accountability Diagram



Shareholding allocation

1. All shareholders must be party to a shareholders' agreement. This agreement will include the agreed transition strategy, setting out when councils will transfer their business into the CCO
2. On the date the CCO is created as a legal entity (Day 0), councils will hold shares equally
3. When councils start to transfer their water services business into the CCO, shares will be issued according to connections - one share for every 1,000 full connections (rounded up) within a council's service area
4. Based on current connections, the allocation of shares once all councils have transferred their business into the CCO will be:

Council	Shareholding %
Hauraki	10
Matamata-Piako	13
Ōtorohanga	3
South Waikato	11
Taupō	39

Waipā	21
Waitomo	3

Shareholder decision-making

5. The decision-making framework captured in the Heads of Agreement (which will apply when all Councils have transferred their business into the CCO) is set out below. Best endeavours will be applied for decisions to be made by consensus. The following (which is subject to review to ensure it is fit for purpose as part of the formal governance documentation negotiation) is the position that applies in the absence of consensus.

<table>
<tr><th>Reserved matter</th><th>Votes</th></tr>
<tr><td>Changes to constitution</td><td rowspan="5">75% votes (and number) shareholders</td></tr>
<tr><td>Admitting new shareholders</td></tr>
<tr><td>Any changes to the rights attached to shares</td></tr>
<tr><td>Any winding up or restructuring (includes any merger or amalgamation)</td></tr>
<tr><td>Any major transactions</td></tr>
<tr><td>Appointment of Directors</td><td>75% (number) shareholders</td></tr>
<tr><td>Statement of expectations</td><td>75% votes shareholders</td></tr>
</table>

Appendix 3 - Board matrix of skills

Matrix of Skills

Each Director of the Company must have the skills, knowledge, or experience to:

- guide the Company, given the nature and scope of its activities; and
- contribute to the achievement of the objectives of the Company.

In making all Director appointments, the Shareholding Councils must ensure that all directors have the essential attributes and core competencies set out in the Institute of Directors Competency Framework and that the Board collectively has the following attributes:

COLLECTIVE BOARD ATTRIBUTES

Candidates with the ability and willingness to:		Desirable but not mandatory	At least one director	Multiple directors	All directors
1.	Chair the Board		√		
2.	Participate fully in the life of the Board and on subcommittees as required				√
3.	Demonstrate the individual attributes outlined below				√
Relevant knowledge and experience in/of:					
4.	Governance and leadership experience				√
5.	Commercial strategic and business acumen (with experience to oversee commercial negotiations)			√	
6.	Board member suitable to chair the Finance and Assurance committee, likely with a Chartered Accountant or equivalent background		√		
7.	Relationship management skills and experience, particularly in the Local Government context and with previous public sector experience Proven track record of high EQ and leading through complex change processes			√	
8.	Understanding of governance delivering community good civil infrastructure assets		√		

Candidates with the ability and willingness to:		Desirable but not mandatory	At least one director	Multiple directors	All directors
9.	Governance experience in industries delivering other utilities (such as electricity, telecoms)		√		
10.	A strong understanding of the Waikato region and contemporary local government context, including appreciation of public accountability			√	
11.	Practical, and preferably governance leadership experience in Water Services		√		
12.	Resource and environmental management and the RMA - – demonstrating a commitment to kaitiakitanga and stewardship of the natural environment		√		
13.	Experience integrating Te Ao Māori and Tikanga Māori in a professional board environment Understands how to lead, impact and influence to maintain, uphold, and proactively engage with the principles of the Treaty of Waitangi		√		
14.	Demonstrates a strong knowledge of relevant settlements in the region, for example, Te Ture Whaimana			√	

Appendix 4 - Financial Measures

Sustainability measures: Revenue sufficiency

Average charge per connection including GST	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average drinking water bill (including GST)	929	1,062	1,168	1,250	1,280	1,310	1,351	1,374	1,406	1,440
Average wastewater bill (including GST)	860	969	1,066	1,141	1,168	1,196	1,234	1,254	1,284	1,314
Average stormwater bill (including GST)										
Average charge per connection including GST	1,789	2,032	2,235	2,391	2,448	2,506	2,585	2,627	2,690	2,754
Projected increase		13.6%	10.0%	7.0%	2.4%	2.4%	3.1%	1.6%	2.4%	2.4%

Projected number of connections	91,560	92,387	93,247	94,137	95,530	96,950	97,890	99,843	101,327	102,833

Projected median household income	99,488	103,862	108,493	113,328	118,435	123,745	129,471	135,172	141,097	147,375
Water services charges as % of household income	1.8%	2.0%	2.1%	2.1%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%

Rates revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
General and targeted rates	131,153	151,442	168,101	181,549	188,811	196,363	204,218	212,386	220,882	229,717
Projected increase		15.5%	11.0%	8.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating surplus/(deficit) excluding capital revenues	(14,476)	(14,557)	(42,963)	(40,033)	(35,417)	(32,831)	(26,772)	(17,779)	(11,120)	(6,503)
Total operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Operating surplus ratio	(10.2%)	33.4%	(23.8%)	(20.5%)	(17.5%)	(15.6%)	(12.2%)	(7.8%)	(4.7%)	(2.6%)

Operating cash ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	54,037	66,244	78,050	88,502	97,324	104,221	112,625	121,740	128,890	136,727
Total operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Operating cash ratio	38.2%	40.8%	43.3%	45.4%	48.0%	49.4%	51.4%	53.4%	54.4%	55.5%

Sustainability measures: Investment sufficiency

Asset sustainability ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Capital expenditure on renewals	51,526	60,906	49,166	57,217	66,530	62,930	63,267	59,163	67,727	61,864
Depreciation	50,086	54,292	78,636	80,385	82,734	83,285	83,638	83,682	84,009	84,763
Asset sustainability ratio	2.9%	12.2%	(37.5%)	(28.8%)	(19.6%)	(24.4%)	(24.4%)	(29.3%)	(19.4%)	(27.0%)

Asset investment ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Capital expenditure	204,569	219,587	128,681	128,614	147,505	98,464	93,371	84,916	93,004	105,565
Depreciation	50,086	54,292	78,636	80,385	82,734	83,285	83,638	83,682	84,009	84,763
Asset investment ratio	308.4%	304.5%	63.6%	60.0%	78.3%	18.2%	11.6%	1.5%	10.7%	24.5%

Asset consumption ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Book value of infrastructure assets	1,960,449	2,190,062	2,314,030	2,437,852	2,575,199	2,662,910	2,739,459	2,806,469	2,877,404	2,959,069
Total estimated replacement value of infrastructure assets										
Asset consumption ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sustainability measures: Financing sufficiency

Net debt	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total borrowings										
Less: cash and financial assets										
Net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548

Net debt to operating revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt (gross debt less cash)	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Net debt to operating revenue	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%

Borrowings headroom/(shortfall) against limit	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	707,204	812,755	902,158	974,331	1,013,304	1,053,837	1,095,990	1,139,830	1,185,423	1,232,840
Total net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Borrowing headroom/ (shortfall) against limit	200,780	114,383	120,305	117,599	74,021	91,060	123,032	173,868	224,408	271,291

Free funds from operations (FFO) to debt ratio										
Operating revenue (minus interest income)	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Less Expenses (minus depreciation and non-cash items)	105,830	122,816	144,759	154,515	155,344	160,314	162,333	162,063	164,196	168,308
Free funds from operations	35,610	39,735	35,673	40,351	47,317	50,454	56,865	65,903	72,889	78,260

Free funds from operations (FFO) to debt ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Funds from operations	35,610	39,735	35,673	40,351	47,317	50,454	56,865	65,903	72,889	78,260
FFO to debt ratio	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
Debt to FFO ratio	14.2	17.6	21.9	21.2	19.9	19.1	17.1	14.7	13.2	12.3

Appendix 5 - Financial Model and Assumptions

Model build

The model underpinning the financial analysis of the Waikato Water Done Well CCO is built to show the financial benefits of aggregating water services activity into a CCO. The model has been built by Boberg Advisory and independently reviewed by the Department of Internal Affairs.

In broad terms the model:

- Takes the financial forecasts of each council's waters activity for the period to 30 June 3034
- Aggregates these forecasts together
- Applies some assumptions about the operating and capital spend savings to be realised from aggregation, as well as the additional costs of setting up and running the CCO
- Attributes the net savings back to each council to get a proxy for the financial benefit their communities will receive from being involved in the Waikato Water Done Well CCO.

The process to arrive at the financial analysis in this proposal has been:

- Obtaining the financial forecasts for water activity for the period to 30 June 2034 from each council
- Developing assumptions to underpin the model (these are set out under separate heading below)
- Testing the assumptions with council CFOs (or equivalent) and modifying as required
- Testing the efficiency assumptions against other cases of water services aggregation
- Initial model build
- Obtaining from each council other data required to support the metrics/other outputs that are to be presented as part of the financial analysis (e.g. additional forecast capex and opex)
- Sensitivity analysis on key assumptions including establishment costs and benefits (refer to Appendix 6)
- Obtaining independent assurance that the model has been built in a way that achieves its purpose and operates correctly under a variety of tested scenarios
- Developing the model to present additional outputs requested by councils
- Preparing the financial narrative

The model cannot compare the aggregated position with 'status quo' because we are not privy to, for example, council's assessment of stranded overheads that may arise from transferring their water services business.

Underlying assumptions

Council involvement: It is assumed that all Participating Councils will remain involved in the Waikato Water Done Well CCO and will transfer their water services business into the CCO. If a lesser number of councils are involved, depending on the size and debt profile of those that remain, at some point the reduced scale of operations will mean that the assumed efficiencies become unrealistic and/or the capacity to borrow is diminished.

Assumptions have been made regarding when each council will transfer its water services business to the CCO. Currently, it is assumed some will transfer effective 1 July 2026 with the remaining Councils transferring by 30 June 2028[21].

Base data: It is also assumed that the financial forecasts and other data provided by each of the councils is correct. The base financial data is that included in councils' latest Long-Term Plans. This data has been updated to reflect any material change in forecast projects since the Plan was adopted. This data has not been independently verified by the Waikato Water Done Well Programme Team although we know that several councils have directly engaged consultants to develop a stand-alone position (and to that extent it has been independently interrogated).

CCO-specific 'upfront' and 'spend to save' costs: Assumptions are made about the capital and operational expenditure required to establish and operationalise the Waikato Water Done Well CCO. This includes one-off capex for corporate infrastructure, on-going operational spend and spend-to-save (see further below).

Efficiencies: Operational cost savings are assumed to start being realized from 2026/27 (i.e. as councils start to transfer their water services business). Cost savings on capital works are assumed a year later and increase at a slower rate, only reaching the peak assumption of 15%[22] in FY2041-42. Cost savings are also assumed in relation to the catchment-based approach to consenting. These particular savings are in addition to the general assumption about capex savings.

We consider the assumed efficiencies are achievable. Examples of where efficiencies have actually been achieved in the context of TasWater include:

1. **Strategic procurement program** – Buying in bulk, reducing the number of providers, improving control over purchasing.
2. **Reduction in executive and management head count** – This has been an area of significant early gains in similar aggregations but may simply 'evolve' and be realised through natural attrition.
3. **Targeted waste reduction program**
4. **Opex associated with capital reduction** – Can be achieved in the early years by looking at opex solutions which can often obviate the need for the capex program and better control over projects which reduces average over-runs and time delays.
5. **Business case process** – A well-structured process will deliver significant savings if the reviewers (particularly board and executive team) know enough about the business to challenge proposals in a meaningful way.
6. **Operating losses** - Identifying the cause of operating losses and the impact on the bottom line (i.e. unnecessary pumping, water losses etc.)
7. **Store and depot aggregation** - To reduce leases.
8. **Bundling electricity**
9. **Reducing the number of after-hours call outs** – By reducing number of bursts and breaks (but takes a lot of time and capital).
10. **Overtime reduction** – getting assurance that the work outside 'normal hours' is really needed

[21] The model can easily be modified to adjust the 'start date' for each council.

[22] This is to say that at peak efficiency the CCO will be able to operate at 85% of what the councils could do on a standalone basis.

11. **Rationalisation –** Shutting down obsolete assets and not replacing them or replacing them with a common more modern facility that serves a larger area. There is the opportunity for some early gains but most of these gains will be in later years and flow from developing the 30 to 50-year strategic program.
12. **Extending the life of some assets**
13. **Plant optimisation –** process improvement to improve plant performance and reduce operating costs
14. **New capex delivery model –** if done well. this will reduce over-runs, but initial estimates will go up as they become more realistic.

Appendix 6 - Sensitivity analysis

The sensitivity analysis set out below compares the assumed financial forecasts for the Waikato Water Done Well CCO (base case) with the position where a key assumption is modified, namely:

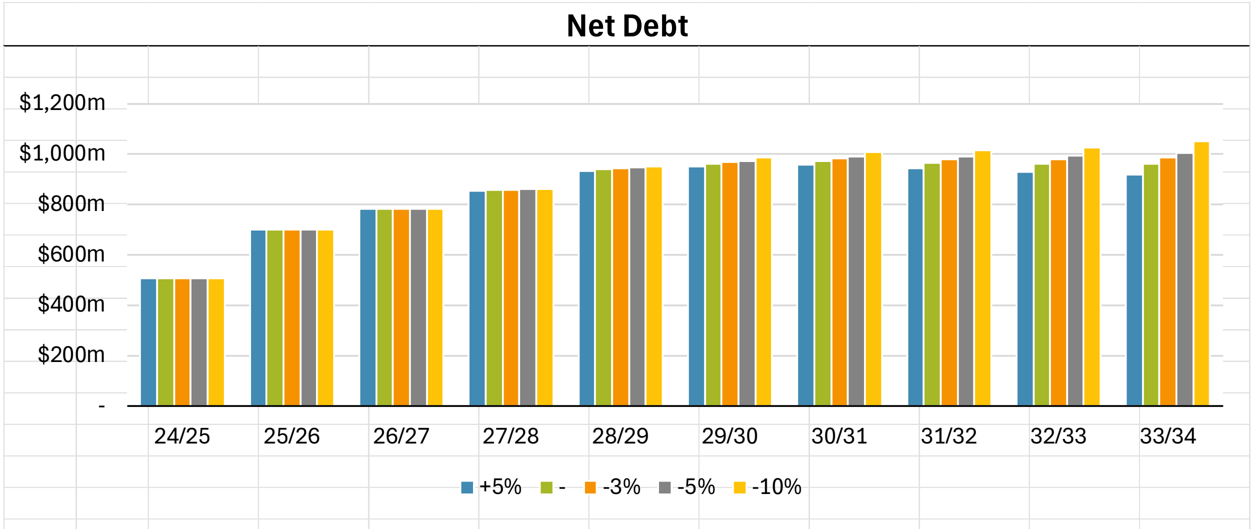
1) Where peak efficiency varies from the assumed 15%
2) Where the CCO establishment costs vary

Note: sensitivity analysis has *not* been undertaken in relation to changes in inflation, interest rates or increased costs of delivering the planned capital works programme. This is because these macro conditions apply equally to a council's 'status quo' position and so will not affect the comparative position with the Waikato Water Done Well CCO.

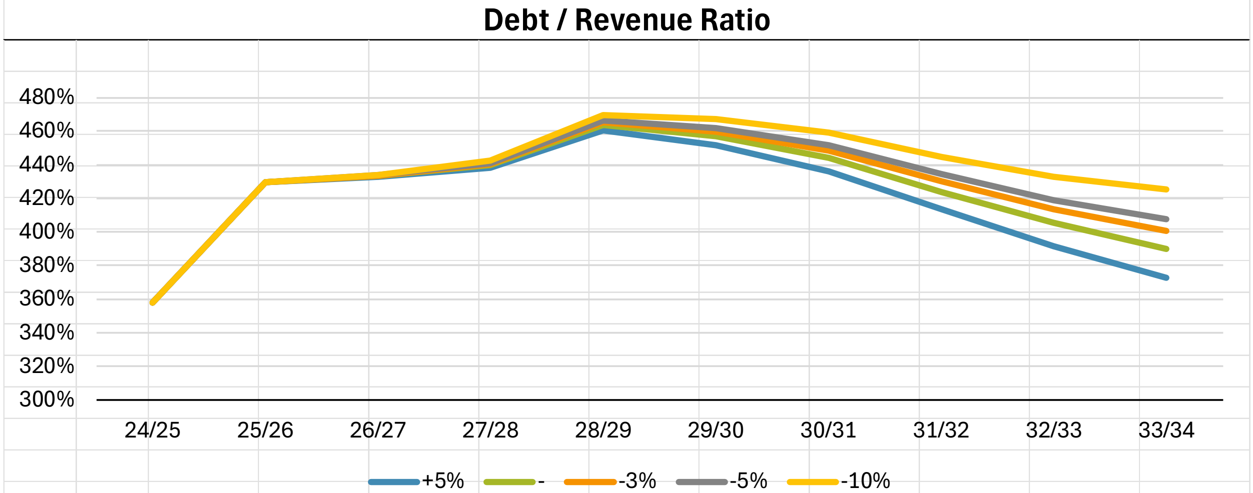
Sensitivity 1: Peak efficiency differs from the base case by +5%, -3%, -5%, -10%

To the extent less cost savings are realised than anticipated, debt will correspondingly go up. The charts below show the impact on debt if the assumed efficiency changes.

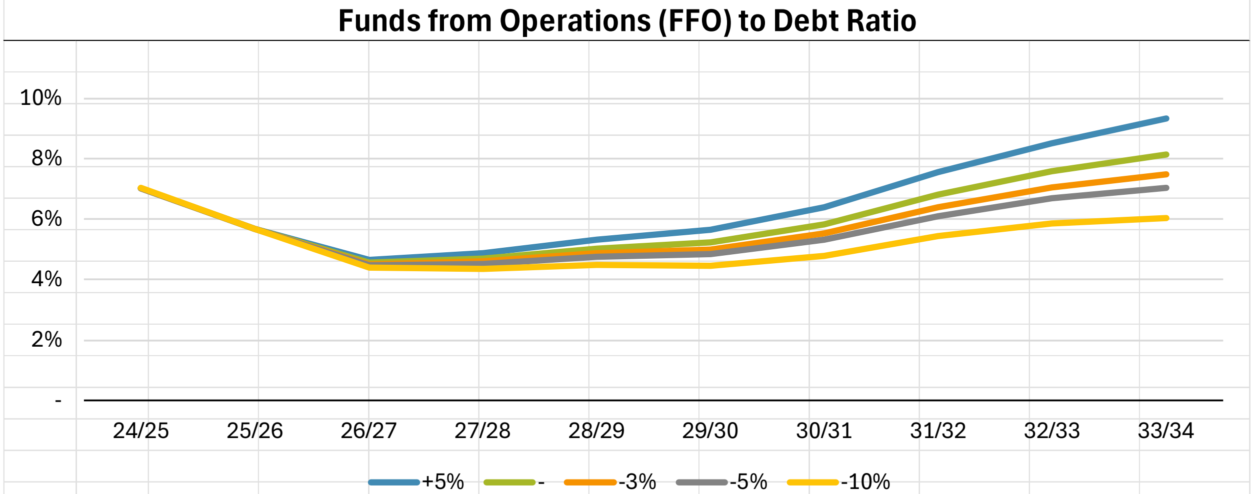
While under each scenario debt to revenue ratios are maintained within the expected limit of 500%, a reduction in achieved efficiencies does place a strain on the FFO to Debt ratio, sitting below what we understand the long-term minimum ratio is likely to be during the forecast period (but improving).



$millions	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
+5%	506	698	781	854	933	952	956	942	929	918
-	506	698	782	857	939	963	973	966	961	962
-3%	506	698	782	858	943	969	983	980	981	988
-5%	506	698	783	859	946	974	990	990	994	1,005
-10%	506	698	783	862	952	985	1,007	1,014	1,027	1,049



%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
+5%	358%	430%	433%	438%	460%	452%	436%	413%	392%	372%
-	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%
-3%	358%	430%	434%	440%	465%	460%	448%	430%	414%	401%
-5%	358%	430%	434%	441%	467%	462%	452%	434%	419%	408%
-10%	358%	430%	434%	442%	470%	467%	459%	445%	433%	425%

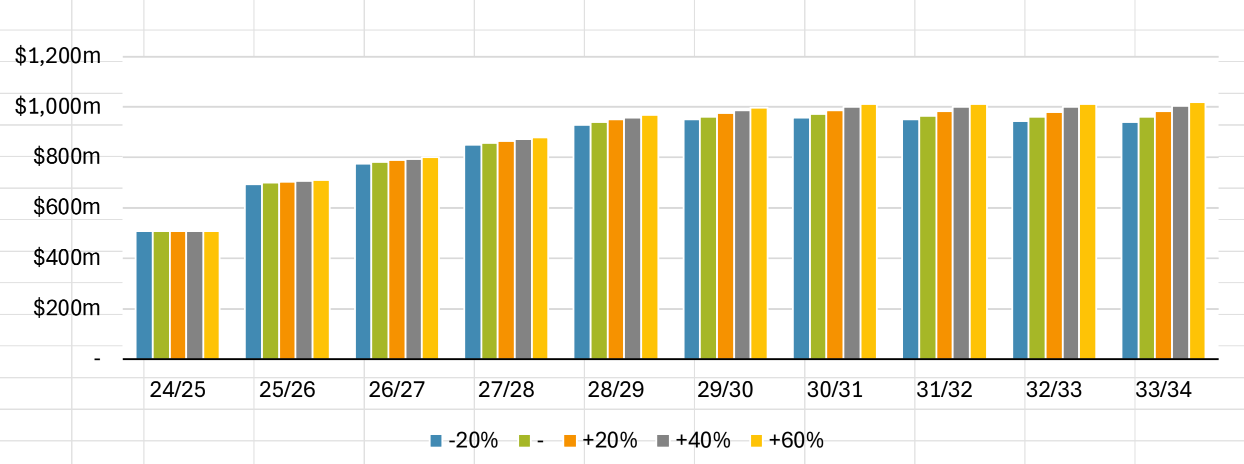


%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
+5%	7.0%	5.7%	4.6%	4.9%	5.3%	5.6%	6.4%	7.6%	8.5%	9.3%
-	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
-3%	7.0%	5.7%	4.5%	4.6%	4.9%	5.0%	5.5%	6.4%	7.0%	7.5%
-5%	7.0%	5.7%	4.5%	4.5%	4.8%	4.9%	5.3%	6.1%	6.7%	7.0%
-10%	7.0%	5.7%	4.4%	4.3%	4.5%	4.5%	4.8%	5.4%	5.9%	6.0%

Sensitivity 2: CCO costs differ from the base case by -20%, +20%, +40%, +60%

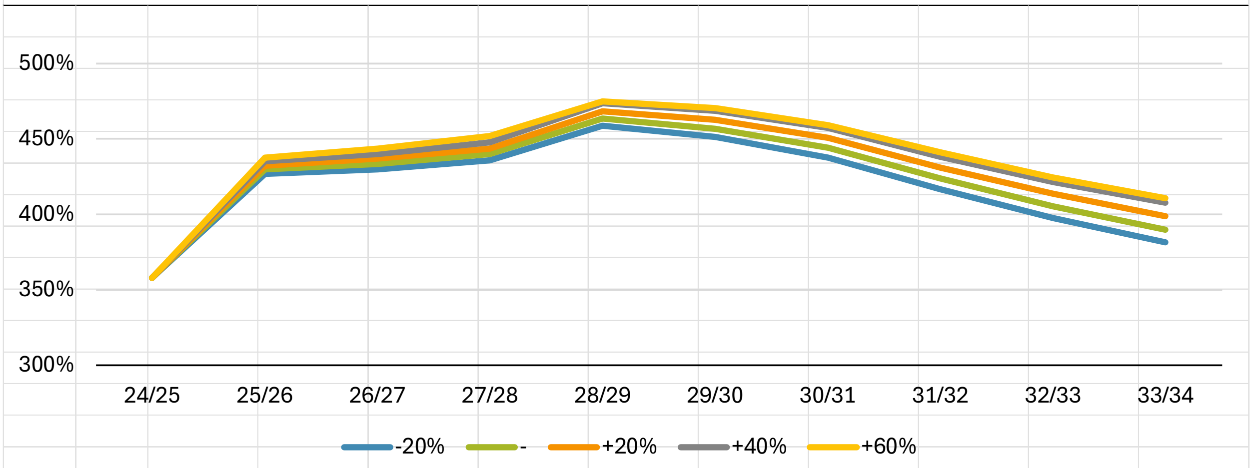
The key takeaway from the graphs below is that the company can readily absorb significantly greater ‘CCO specific’ costs.

Net Debt

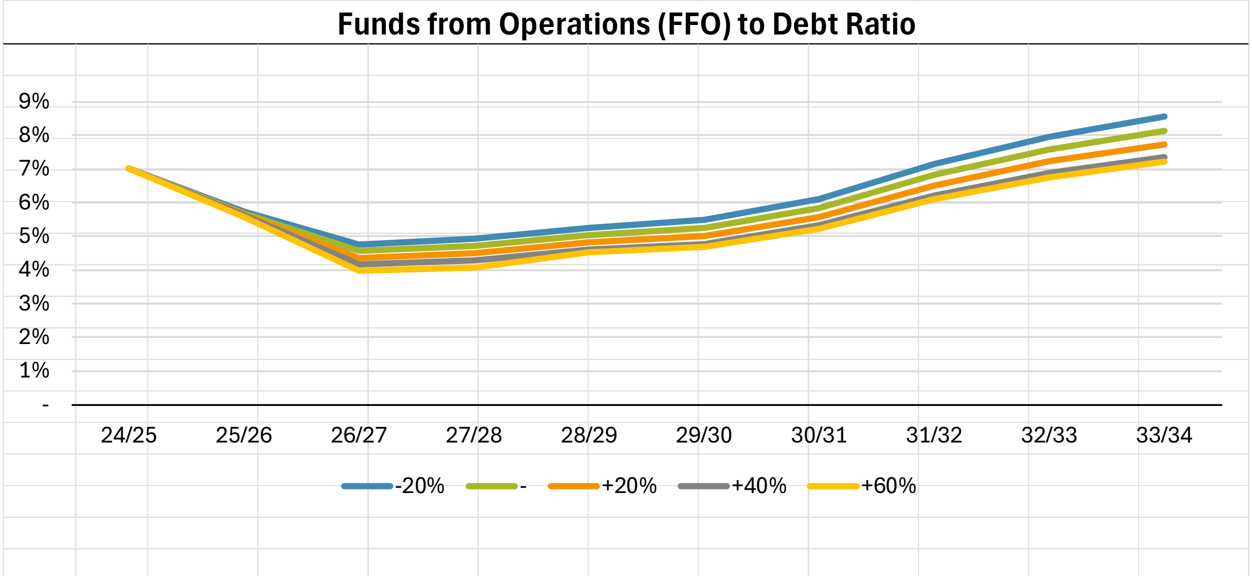


$millions	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
-20%	506	694	776	849	929	951	959	949	942	940
-	506	698	782	857	939	963	973	966	961	962
+20%	506	703	788	865	949	975	987	983	980	983
+40%	506	707	794	873	959	987	1,001	999	999	1,005
+60%	506	711	800	881	968	997	1,012	1,011	1,011	1,018

Debt / Revenue Ratio



%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
-20%	358%	427%	430%	436%	459%	451%	437%	416%	397%	381%
-	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%
+20%	358%	432%	437%	444%	468%	463%	450%	431%	413%	399%
+40%	358%	435%	440%	448%	473%	468%	457%	438%	421%	408% 49
+60%	358%	438%	443%	452%	475%	470%	459%	441%	424%	411%



%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
-20%	7.0%	5.7%	4.8%	4.9%	5.3%	5.5%	6.1%	7.1%	8.0%	8.6%
-	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
+20%	7.0%	5.7%	4.4%	4.5%	4.8%	5.0%	5.6%	6.5%	7.2%	7.7%
+40%	7.0%	5.6%	4.2%	4.3%	4.6%	4.8%	5.3%	6.2%	6.9%	7.4%
+60%	7.0%	5.6%	4.0%	4.1%	4.5%	4.7%	5.2%	6.1%	6.8%	7.2%

Appendix 7 - Smart Consenting

1. The Waikato Water Done Well CCO will have scale and relationships (including with multiple Iwi within a water catchment) to achieve a more strategic approach to resource consents and compliance. Through Waikato Water Done Well, Participating Councils are currently scoping the merits of taking a whole of catchment approach to the consenting of water services (water, wastewater and stormwater). This applies particularly to wastewater as the most significant infrastructure cost.
2. The issue is:
   a) in the region, overall water quality continues to decline, including the Waikato River

   b. significant improvements to point source discharges have occurred. However, their contribution to overall water quality is now minor (e.g. between 2011 and 2020 council wastewater treatment plants only contributed 0.5% of the total load of nitrogen in the Waikato River)

   c. despite the diminishing returns on investment, billions of dollars are proposed to be invested by councils and industry on improving point source discharges. The Resource Management Act 1991 (**RMA**) currently promotes ad hoc investments to improve environmental outcomes, without flexibility to enable strategic investments to improve such outcomes.

3. As New Zealand water service providers assess the best way to deliver water services in their area, there is a real opportunity to assess the way consent applications are granted.

4. Part of the Waikato Water Done Well initiative is to work with the Waikato Regional Council and agree the draft objectives / outcomes sought and the methodology to achieve these objectives. Waikato Regional Council is highly supportive of this initiative and the technical leadership provided to date around a catchment-based approach to land use planning, infrastructure services and consenting is acknowledged.
5. Waikato Water Done Well, as a service delivery model, proposes a shift to consents that take a whole of catchment investment approach and to work smarter by seeking the best return on investment for the lakes and rivers concerned. A joint submission by Participating Councils in relation to Bill#3 has been made to the Select Committee explaining how the proposed "one size fits all" standards in the Bill are not consistent with a catchment investment approach (if they are to apply with exception). Although standards may reduce the cost on providers, there may still be wasted investment in terms of improving water quality outcomes in a catchment. The proposed standards are focused on a single point of discharge without having regard to the overall receiving environment. Integration with RMA reform needs to occur to achieve a shift from ad hoc to strategic investments that can significantly reduce costs but also have a significant impact on the overall health of the water body.
6. Once councils commit to Waikato Water Done Well as a service delivery option, it is intended that those within the same water catchment will get together (with Iwi partners and perhaps with industry) and form a substantive strategy which sets out:
   a) facts relevant from a catchment context

   b) relevant data for each plant: existing systems, contaminant loads, issues, and any upgrade objectives

   c) the findings and recommendations to address:

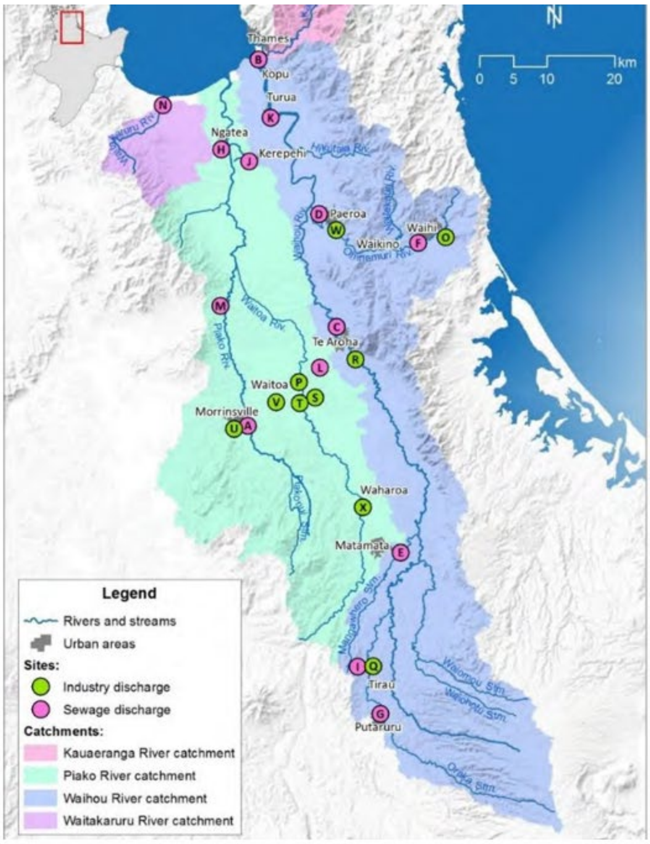
      - localised impacts/near field effects e.g. current compliance issues

- nutrient balancing between wastewater treatment plants g. investing upstream where a need exists
- offset mitigations e.g. land purchase to both address diffuse charges and generate ongoing income stream which can be used to offset water charges for CCO customers[23]
- partnership opportunities between all parties: Iwi, river authorities, industry, farmers and the CCO

d) the agreed actions that will be included in the Waikato Water Done Well CCO investment strategy (both soft and hard infrastructure).

7. Developing and implementing a strategy that achieves the above will greatly reduce/assist in prioritising the investment in wastewater treatment plants. These are the most expensive to consent and upgrade. There are currently 20 consented discharges (12 councils) in the Waikato and Waipā river catchment and 24 consented discharges (14 councils) in the Hauraki River catchment. A visual of where wastewater treatment plants are located is included below.

Wastewater Treatment Plants in the Waikato and Hauraki river catchments



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[23] Note that the experience with offset mitigations is that a 1:2 offset ratio (i.e. for every tonne of nitrogen from a point source two tonnes of nitrogen need to be removed from diffuse sources) may be required to provide stakeholders with the necessary confidence that the offset mitigation will be sufficiently effective.

Waikato Water Done Well

Supplementary Financial Analysis for Ōtorohanga District Council

20 March 2025

This document is supplementary to the "Proposal for Waikato Water Done Well" document dated 20 March 2025 (WWDW Proposal). This document sets out additional information about the financial forecasts for Waikato Water Done Well, a service delivery option premised on the establishment of a jointly owned CCO ("Waikato Waters Limited") to deliver water services on behalf of councils.

It should be read in conjunction with the WWDW Proposal. Where relevant, parts of the commentary (and appendices) in the WWDW Proposal have been replicated in this document so that it incorporates the entire financial analysis and supporting material. However, the description of the Waikato Water Done Well CCO and the glossary of terms are all in the WWDW Proposal.

The WWDW Participating Councils are:

Hauraki
Matamata Piako
Ōtorohanga
South Waikato
Taupō
Waipā
Waitomo

Waikato Water Done Well

Table of Contents

Financial analysis summary

The Waikato Water Done Well CCO model offers the opportunity for communities to financially benefit from their Council's leadership in aggregating water activity.

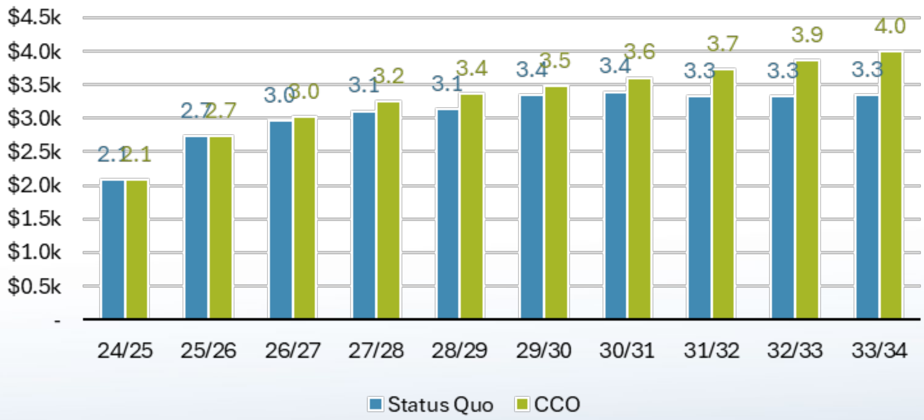
The financial modelling assumes that efficiencies from scale take time to materialise. That assumption, and the need for upfront investment to establish and operationalise the CCO, means that the payback period is ~9 years (i.e. the savings generated cover the initial up-front costs). While there is nominal financial benefit in the short term, the returns in the medium to long-term are very meaningful.

Although savings will take time to generate, by bringing together several councils with different debt profiles, the CCO has the opportunity in the short term to leverage the debt headroom available to it, to keep charges for water lower than could be the case for most councils on a standalone basis. **The CCO is financially sustainable with annual revenue increases of ~4% once all councils have transitioned.**

Potential impact on household rates (at a glance)

For your council

Residential Rates / Residential Connections (incl. GST)



The CCO's financial position

Leveraging debt to plot a stable and more affordable price path forward

Figure 1. shows a potential operating revenue profile through to FY2033-34 **for the CCO** based on the model financial forecasts, as compared to 'status quo', which is based on a simple aggregation of the individual councils' forecasted water and wastewater revenue.

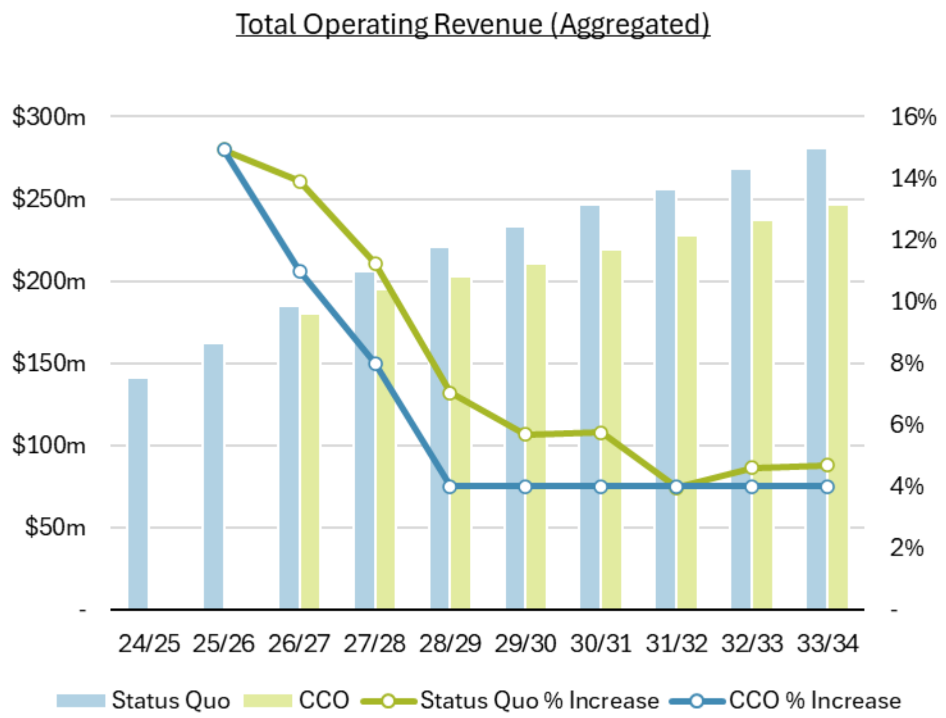


Figure 1

It is evident that:

- The Waikato Water Done Well CCO can hold increases in operating revenue to 4% p.a.[1]. It can do this by leveraging its increased debt capacity in the short term.
- This price path is lower than the aggregation of what Councils are forecasting individually for most of the forecast period.

[1] Once councils have transitioned their water services business into the CCO.
Note that when discussing a possible price path (e.g. Figure 1), within the model it has been necessary to assume that all Councils transition effective 1 July 2026.

- By FY2033-34 that means revenue[2] of the Waikato Water Done Well CCO is significantly lower (by $34m or 12.9%), than what Councils are forecasting in aggregate.
- Across the forecast period total CCO revenue is forecast to be $176m lower than the aggregated projections of the Councils.
- Because the CCO retains debt headroom, if unexpected infrastructure is required communities will be less exposed to short-term fluctuations in water charges than might be the case with a stand-alone Council.
- Collectively, that translates to more affordable water charges.

Debt capacity

The Waikato Water Done Well CCO will operate at arm's length from the shareholding councils. Under this structure, LGFA has confirmed a water services CCO will be able to access debt up to 500% of its annual revenue, subject to prudent credit criteria. This creates significant debt capacity for the CCO.

Modelling shows that the Waikato Water Done Well CCO can operate within expected debt covenants, has the bandwidth to invest in what districts need and the resilience to respond in the event of an emergency (e.g. natural hazard). Coupled with cost savings and options as to how to apply these savings, the CCO provides a mechanism to manage the risk of unforeseen events that could quickly adversely affect councils' communities.

Figure 1 above shows what could be possible *if* the proposed CCO seeks to minimise water charges in the forecast period. Under that scenario debt at the end of that period (June 2034) sits at $962m[3].

Alternatively, the Waikato Water Done Well CCO could hold water charges in line with that currently forecast by Councils (in which case the debt at the end of the forecast period would be $656m[4]). Retaining water charges at these levels gives the Waikato Water Done Well CCO options.

Investing to create value in the medium to long term

Figure 2 shows the **net** cost savings each year over the forecast period.

There are upfront costs reflecting:

---

2 Excluding development contributions
3 The aggregate forecast debt at June 2034 based on councils' LTPs is $674m
4 The difference between this and the $674m in footnote 4 is the cumulative cost savings realised by the CCO to that point (see Figure 3).

- The initial spend to get the right infrastructure in place for the CCO to operate effectively (e.g. IT systems),
- The additional operating costs the CCO must carry (e.g. executive staff, premises), and
- Early work to realise savings in subsequent years (spend-to-save).

In FY2025-26, the Waikato Water Done Well CCO is not projected to derive any income, with the first of the Councils transferring their waters activity into the CCO from 1 July 2026. It is therefore only from this date that the CCO will have responsibility for water services and be entitled to water charges in its own right.

From FY2026-27 savings start to be realised. These efficiencies are able to be created in large part because of the scale of the Waikato Water Done Well CCO. As they are progressively realised, from FY2029-30 savings start to outweigh the additional CCO costs.

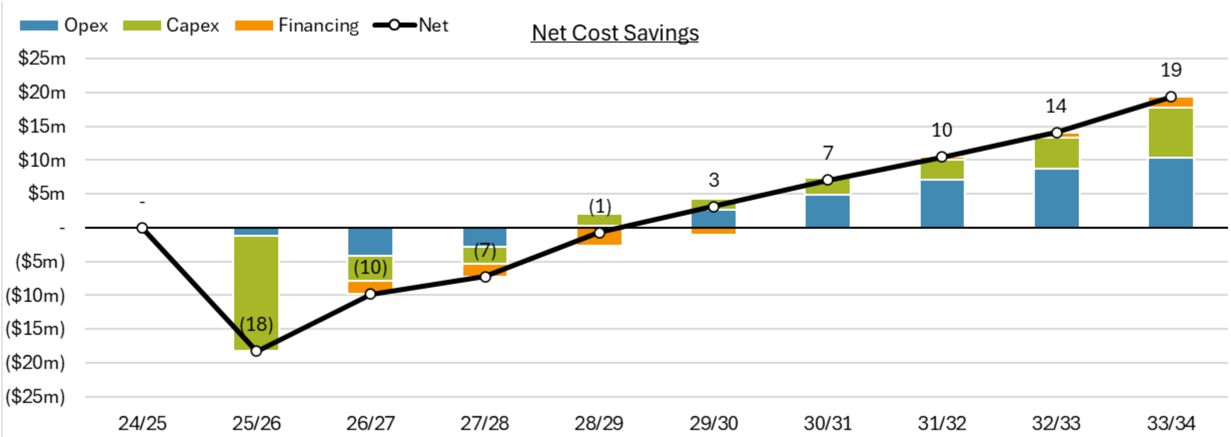


Figure 2

With the upfront infrastructure investment and 'spend-to-save', the cumulative net cost savings during the forecast period to 30 June 2034 are modest at only $18m (Figure 3). The payback period is nine years.

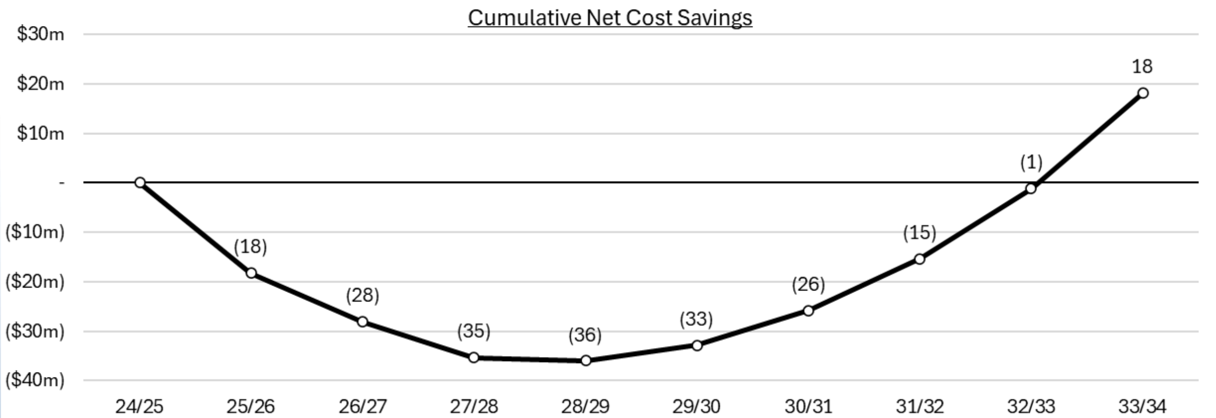


Figure 3

But savings (in percentage terms) are only modelled to peak in FY2041-42, at which point cumulative net cost savings are projected to be ~$418m (Figure 4).

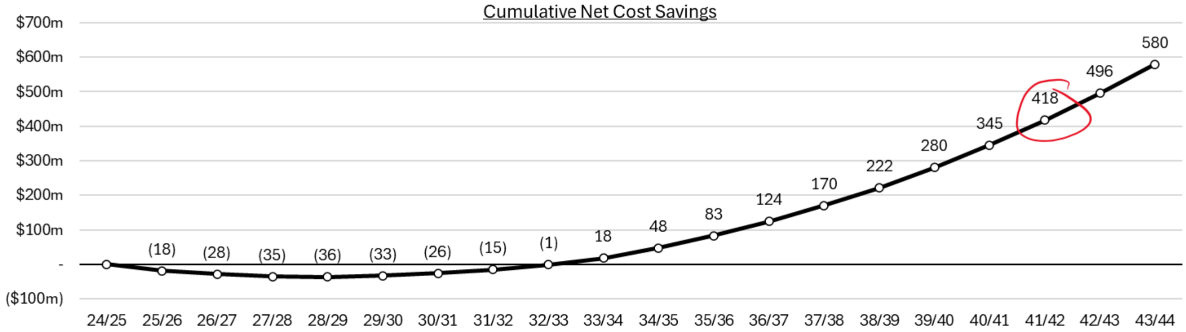


Figure 4

It is in the years beyond 2034 that the true benefit of scale becomes apparent, and the relative affordability of water services delivery will be felt.

Key messages

The key messages you should take away from the financial forecasts are:

- By leveraging the additional debt capacity the Waikato Water Done Well CCO will have access to once councils have transitioned, it will quickly be able to limit the annual increase in water charges should it wish to, meaning **water services are more affordable**.
- The additional debt capacity creates debt headroom to allow the Waikato Water Done Well CCO to invest in infrastructure. This means that it can better respond to unforeseen infrastructure requirements (e.g. from a natural disaster), and that means **water charges can be held comparatively stable** (i.e. they will not need to fluctuate to meet short-term investment needs).
- We expect that the scale created by several councils coming together will **realise savings in the capital work programme and day-to-day operations** over the medium to longer-term.
- **Efficiencies will not materialise without investment**. The financial forecasts allow for significant investment ($37m over nine years) into identifying and delivering those savings.
- The **assumed efficiencies are realistic**. This is not the first-time aggregation of water services activity has occurred, and the extent of savings (in percentage terms) has been estimated with reference to previous examples.
- **Savings in operating costs and capital expenditure are significant over the medium to long term**. Savings (in percentage terms) are only modelled to peak in

FY2041-42, at which point cumulative *net* cost savings are projected to exceed $418m.

- Throughout the forecast period **the company can operate within its debt covenants, even while having only modest increases in water charges**.
- The savings realised from a smarter approach to work at scale means **the CCO will have greater flexibility** in how it carries out its activities.

DIA Measures

The DIA will be using various quantitative measures to test the sustainability of a proposed water services delivery model. Those measures for the CCO, as we currently understand them to be, are included in Appendix 2.

Aggregation: what it means for your communities

Basis for attributing the benefit of aggregation

The financial model attributes the overall benefit of the Waikato Water Done Well CCO (as set out above) to each council. It does this to provide a proxy for how each Council's communities will benefit from the Council delivering water services via the proposed CCO.

It is a proxy only. Your communities won't directly pay for the upfront investment required. Similarly, the Waikato Water Done Well CCO Board and Executive will ultimately decide the price path of water charges (for example), having regard to regulatory requirements, although shareholders will be able to direct the CCO on this through the Statement of Expectations.

However, recognising various assumptions must be made, the proxy is a reasonable guide to the estimated quantitative value of the aggregated water services delivery model to water users in your district.

Detail on how the financial model has been built is set out in Appendix 1.

The basis of allocating the efficiencies and the upfront investment made by the CCO to each council changes over the forecast period. Currently[5], in FY2025-26 the basis of allocation is a blended rate, with a component (25%) of the investment shared equally and

5 The allocation basis can be changed within the model.

the remainder apportioned based on connections[6]. This allocation basis shifts over the following two years so that by FY2028-29 the efficiencies are attributed based on the Opex/Capex profile in Councils' Long-Term Plans[7]

Impact of Waikato Water Done Well

Impact on water charges

The table below sets out what the water charges (and overall operating revenue), could be under the Waikato Water Done Well CCO model compared to what would be the case if water services continue to be delivered by the council (based on its current forecasts). It assumes that the CCO makes use of debt to keep water charges lower, but in a way that can be sustained long-term. It also assumes that water rates under the CCO increase by the same amount across each district year-on-year (i.e. there isn't a shift toward price parity). For your council that means that the projected rates in FY2023/24 are ~$4k. However, the average rates in that year across the entire CCO is only $2.8k. We think it is therefore likely that the charges for Ōtorohanga would be as forecast (i.e. there would be some move toward parity). But ultimately, that will be fore the CCO Board to decide under the direction of shareholder expectations.

	Water charges per residential connection (incl. GST)			**Total forecast operating revenue[1]**
	2024/25	**2029/30**	**2033/34**	
Waikato Waters Ltd (CCO)	$2,089	$3,483	$4,002	$51.0m
Council[2]	$2,089	$3,351	$3,350	$46.7m
Difference – additional cost/ (saving)	$0	$132	$652	$4.3m

1 To June 2034
2 Based on latest financial information provided by the Council

Impact on your Council's rates

Under Local Water Done Well, charges to customers for water services must be transparent and ring-fenced from what is being charged for non-water related activity. At all times, Council will continue to rate for activities other than drinking water and wastewater.

Once water activity is transferred into the Waikato Water Done Well CCO, the CCO will assume responsibility for the delivery of drinking water and wastewater services to your

[6] It is the same basis as that agreed by councils to fund the Waikato Water Done Well project.

[7] This is a reasonable basis given the efficiencies are an assumed percentage of these amounts.

Council's communities. Stormwater will remain the responsibility of the Council, although management of stormwater may be outsourced to the CCO.

Currently, the expectation is that shareholding councils will transfer their water activity to the Waikato Water Done Well CCO in a staggered manner between 1 July 2026 and 30 June 2028. The transfers are to be staggered to ensure that they are well managed and bedded in, before the next group of councils shift their water activity across.

The financial modelling currently assumes that your Council's drinking water and wastewater activities will be transferred on 1 July 2027. This is still to be agreed by the Councils.

Based on the above:

a) At all times, Council will continue to charge for stormwater services and other public services activities
b) Council will continue to charge for water services (in a transparent manner) until the date its water activity is transferred into the Waikato Water Done Well CCO
c) Once water services are transferred to the Waikato Water Done Well CCO they come under the control of the CCO's Board. Those activities include the setting of water charges. This means:
    a. in terms of amount being charged, as the Board will determine the price path it is not possible to say with certainty what the water charges from the Waikato Water Done Well CCO might be. What we can say is that, as noted earlier, the ability of the CCO to leverage additional debt, coupled with the efficiencies expected to be realised by bringing the water activities of several councils together, means that in the medium-term water services delivered by the Waikato Water Done Well CCO should be comparatively more affordable (and certainly so, longer-term).
    b. in terms of invoicing, it may be that Council will continue to charge for water services on behalf of the Waikato Water Done Well CCO in the short-term. However, long term, the Waikato Water Done Well CCO will charge directly for water and so customers will receive a rates invoice from Council and a separate invoice for water services from the CCO.

Impact on your Council's debt

The transfer of drinking water and wastewater activities to the Waikato Water Done Well CCO includes the transfer of debt the Council has that relates to those activities. That means that Council's debt will be less than it is right now, and this provides the opportunity for it to borrow more, should it wish, to deliver other non-water activities / assets to communities.

Impact on levels of service

A key principle guiding transition planning is that the transition will be seamless from a customer perspective. The Waikato Water Done Well CCO Board will be accountable for ensuring that transferring the water activities to the Waikato Water Done Well CCO will not have a detrimental impact on levels of service. If anything, the investment in identifying efficiencies in operational and capital expenditure should improve levels of service. It will be important that service levels are maintained by the Waikato Water Done Well CCO. Shareholders will have the opportunity to make that clear in their Statement of Expectations.

Arrangements for the funding, pricing, invoicing and collection of water charges

As noted earlier the Waikato Water Done Well CCO will assume responsibility for delivering drinking water and wastewater services. To do so, it will be required to establish its own funding arrangements. It is expected that required debt funding will come from the LGFA.

While setting water charges will be the responsibility of the Waikato Water Done Well CCO, it is likely that for a period after the transfer, the Council will continue to invoice for and collect payment of those charges on behalf of the CCO[8]. This is an interim arrangement to ensure that the CCO can focus on the delivery of capital works and ensuring levels of service are maintained (or improved) while also taking the time to identify the optimal financial systems and processes to support long-term operations.

Attributed benefits for your Council

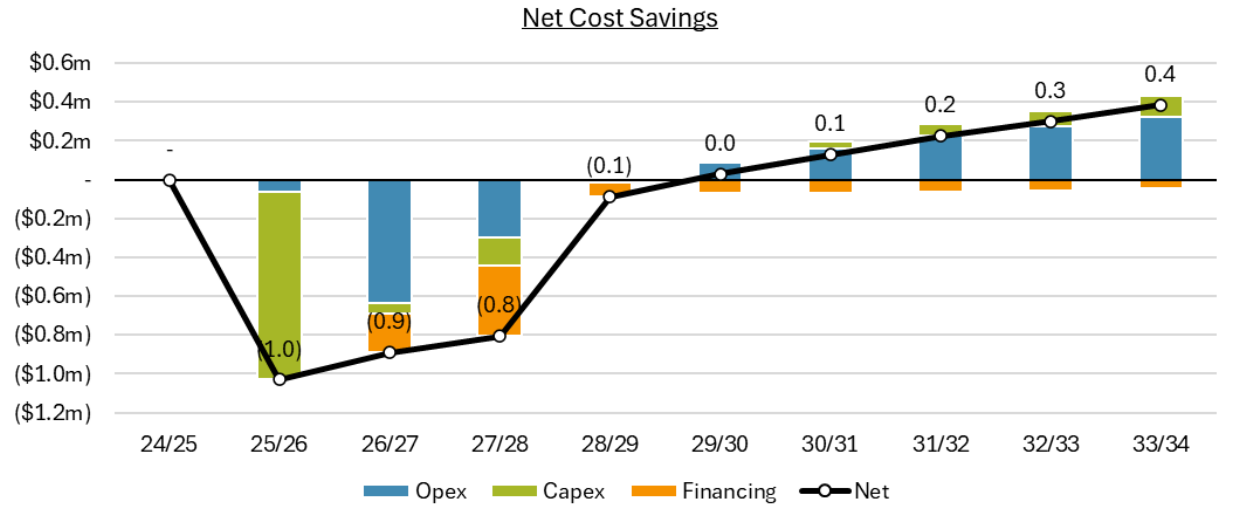


Figure 8

[8] This is a matter that will ultimately be agreed between the shareholding councils and the CCO.

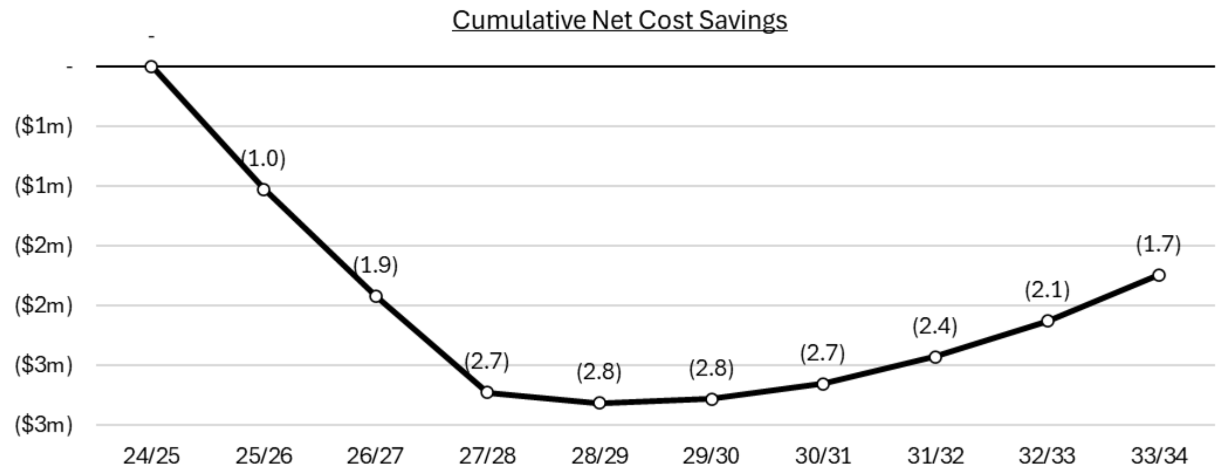


Figure 9

Figures 8 and 9 respectively show the annual and cumulative net cost savings (or investment) attributed to your Council. As noted previously, early-stage set-up costs plus the deliberate investment into finding medium to long-term efficiencies means that on an aggregated basis there is little return on investment in the short term. As shown, for your Council there is in fact a cumulative net cost over the forecast period. **That does not mean your communities will pay more**, because the cost saving profile does not take into account the additional debt capacity, but focuses solely on the net effect of the assumed investment and efficiencies particular to the CCO. Further, the investment is borne by the CCO and it is able to do so by utilising debt capacity. Figure 1 shows that a price path reflecting a 4% p.a. increase in operating revenue is achievable, and that can be applied to every district.

Figure 10 shows that across a 20-year horizon your communities can directly benefit from the Waikato Water Done Well CCO.

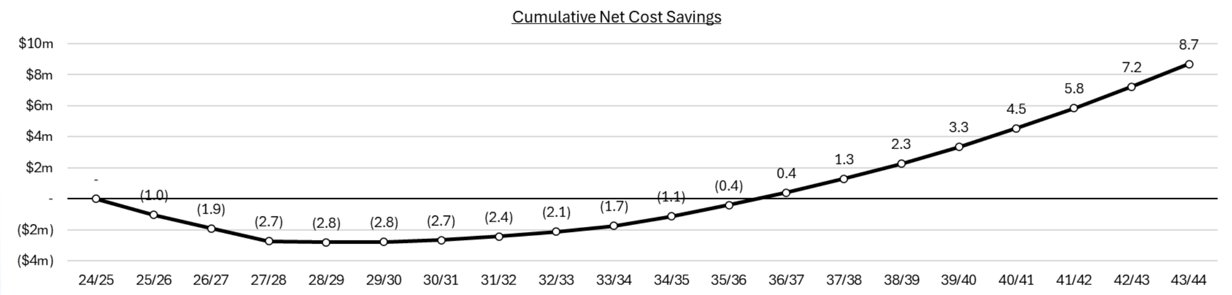


Figure 10

Sensitivity analysis: forecast risks particular to the CCO

The sensitivity analysis set out below compares the assumed financial forecasts for the Waikato Water Done Well CCO (base case) with the position where a key assumption is modified, namely:

1) Where peak efficiency varies from the assumed 15%
2) Where the CCO establishment costs vary

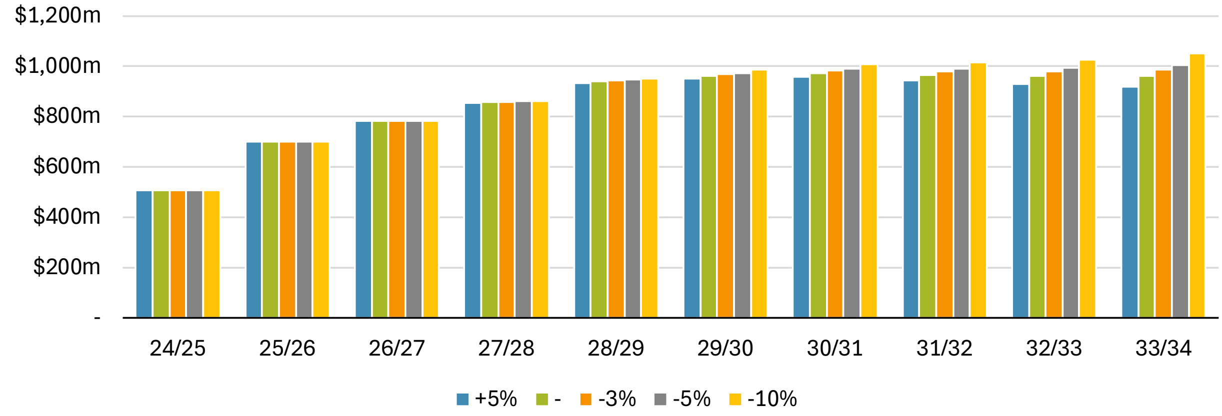
Note: sensitivity analysis has not been undertaken in relation to changes in inflation, interest rates or increased costs of delivering the planned capital works programme. This is because these macro conditions apply equally to a council's 'status quo' position and so will not affect the comparative position with the Waikato Water Done Well CCO.

Sensitivity 1: Peak efficiency differs from the base case by +5%, -3%, -5%, -10%

To the extent less cost savings are realised than anticipated, debt will correspondingly go up. The charts below show the impact on debt if the assumed efficiency changes.

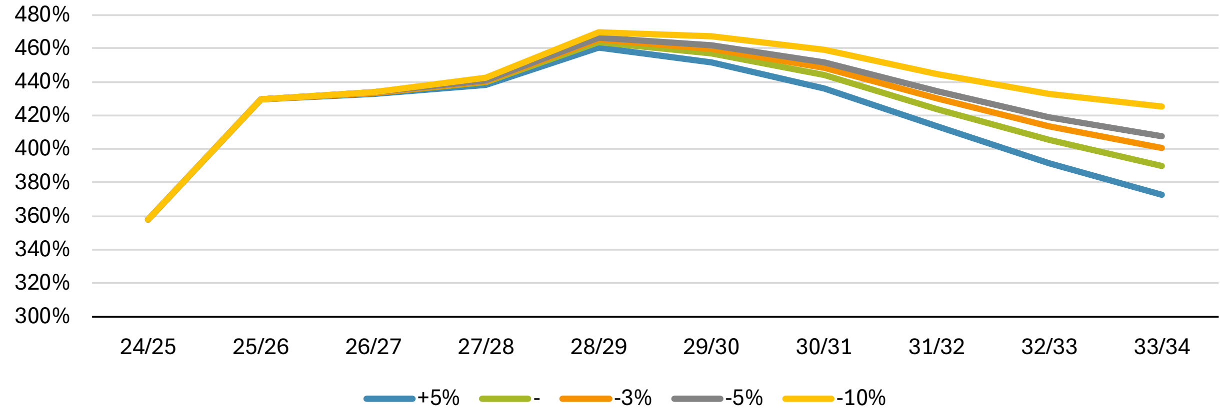
While under each scenario debt to revenue ratios are maintained within the expected limit of 500%, a reduction in achieved efficiencies does place a strain on the FFO to Debt ratio, sitting below what we understand the long-term minimum ratio is likely to be during the forecast period (but improving).

Net Debt



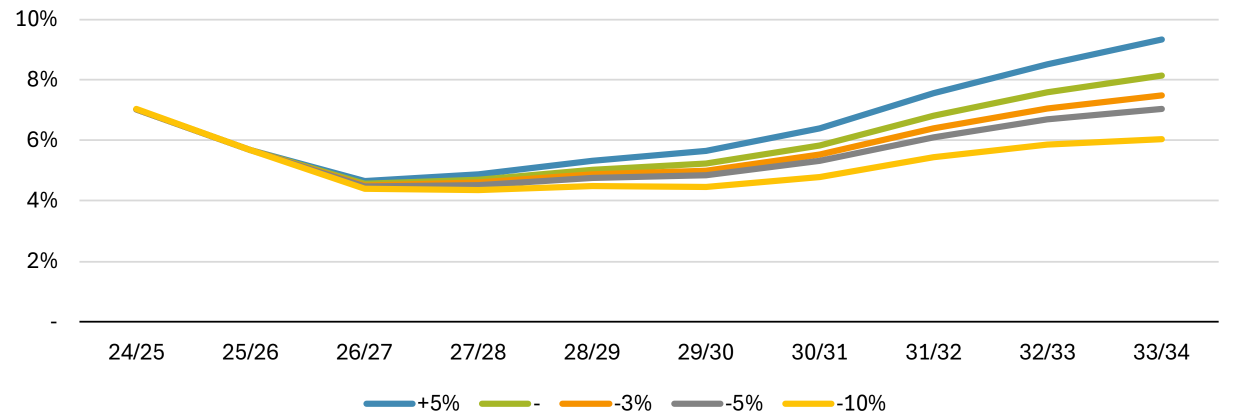
$millions	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
+5%	506	698	781	854	933	952	956	942	929	918
-	506	698	782	857	939	963	973	966	961	962
-3%	506	698	782	858	943	969	983	980	981	988
-5%	506	698	783	859	946	974	990	990	994	1,005
-10%	506	698	783	862	952	985	1,007	1,014	1,027	1,049

Debt / Revenue Ratio



%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
+5%	358%	430%	433%	438%	460%	452%	436%	413%	392%	372%
-	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%
-3%	358%	430%	434%	440%	465%	460%	448%	430%	414%	401%
-5%	358%	430%	434%	441%	467%	462%	452%	434%	419%	408%
-10%	358%	430%	434%	442%	470%	467%	459%	445%	433%	425%

Funds from Operations (FFO) to Debt Ratio

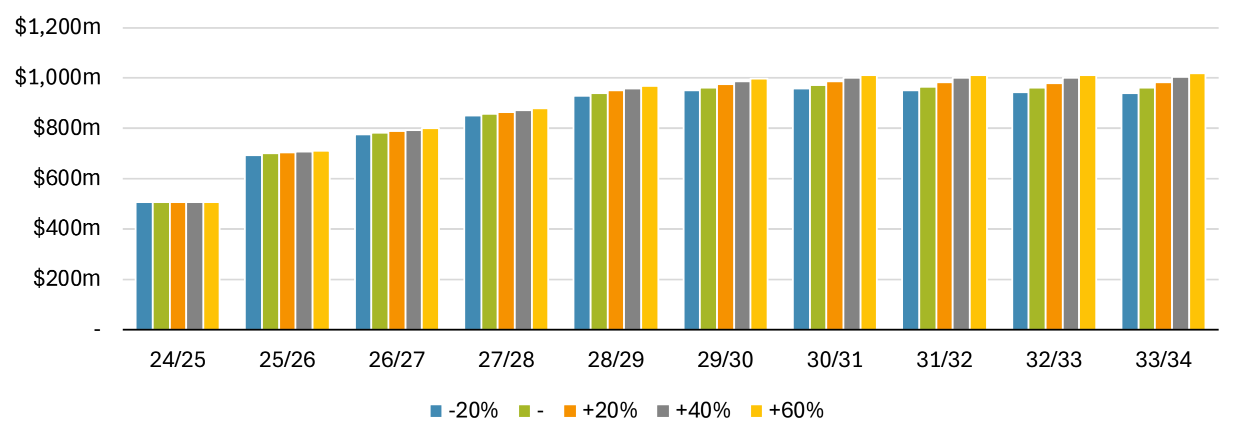


%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
+5%	7.0%	5.7%	4.6%	4.9%	5.3%	5.6%	6.4%	7.6%	8.5%	9.3%
-	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
-3%	7.0%	5.7%	4.5%	4.6%	4.9%	5.0%	5.5%	6.4%	7.0%	7.5%
-5%	7.0%	5.7%	4.5%	4.5%	4.8%	4.9%	5.3%	6.1%	6.7%	7.0%
-10%	7.0%	5.7%	4.4%	4.3%	4.5%	4.5%	4.8%	5.4%	5.9%	6.0%

Sensitivity 2: CCO costs differ from the base case by -20%, +20%, +40%, +60%

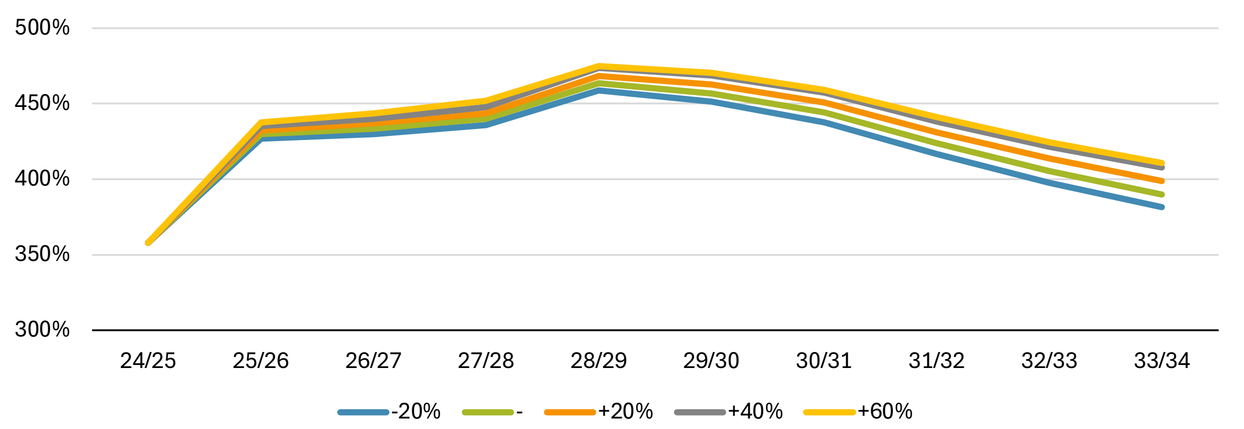
The key takeaway from the graphs below is that the company can readily absorb significantly greater 'CCO specific' costs.

Net Debt



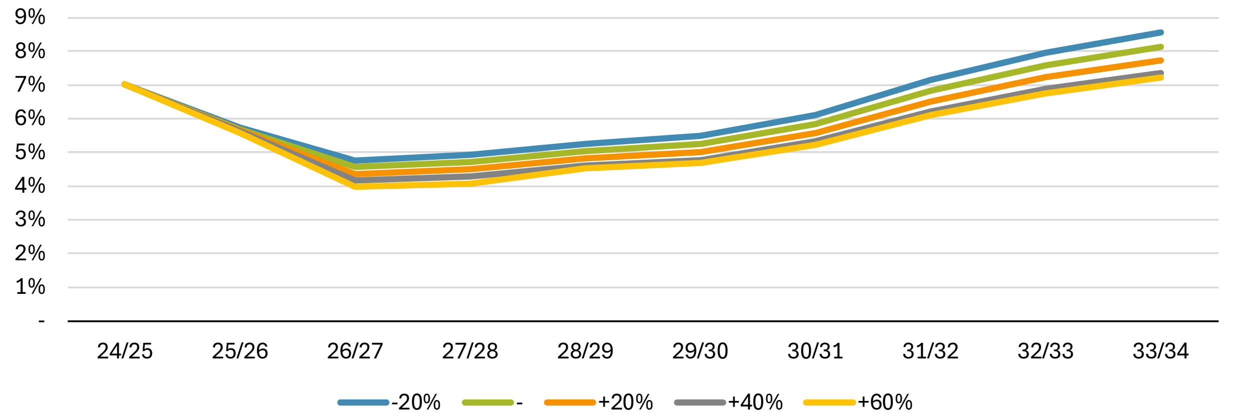
$millions	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
-20%	506	694	776	849	929	951	959	949	942	940
-	506	698	782	857	939	963	973	966	961	962
+20%	506	703	788	865	949	975	987	983	980	983
+40%	506	707	794	873	959	987	1,001	999	999	1,005
+60%	506	711	800	881	968	997	1,012	1,011	1,011	1,018

Debt / Revenue Ratio



%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
-20%	358%	427%	430%	436%	459%	451%	437%	416%	397%	381%
-	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%
+20%	358%	432%	437%	444%	468%	463%	450%	431%	413%	399%
+40%	358%	435%	440%	448%	473%	468%	457%	438%	421%	408%
+60%	358%	438%	443%	452%	475%	470%	459%	441%	424%	411%

Funds from Operations (FFO) to Debt Ratio



%	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
-20%	7.0%	5.7%	4.8%	4.9%	5.3%	5.5%	6.1%	7.1%	8.0%	8.6%
-	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
+20%	7.0%	5.7%	4.4%	4.5%	4.8%	5.0%	5.6%	6.5%	7.2%	7.7%
+40%	7.0%	5.6%	4.2%	4.3%	4.6%	4.8%	5.3%	6.2%	6.9%	7.4%
+60%	7.0%	5.6%	4.0%	4.1%	4.5%	4.7%	5.2%	6.1%	6.8%	7.2%

Appendix 1 – Understanding the financial model

Model build

The model underpinning the Waikato Water Done Well financial analysis is built to show the financial benefits of aggregating water services activity into a CCO. In broad terms the model:

- Takes the financial forecasts of each council's waters activity for the period to 30 June 3034,
- Aggregates these forecasts together,
- Applies some assumptions about the operating and capital spend savings to be realised from aggregation, as well as the additional costs of setting up and running the CCO, and then
- Attributes the net savings back to each council to get a proxy for the financial benefit their communities will receive from being involved in the CCO.

The process to arrive at the financial analysis in this report has been:

- Obtain from each council the financial forecasts of their water activity for the period to 30 June 2024,
- Develop assumptions to underpin the model (see below),
- Test the assumptions with Council CFOs (or equivalent) and modify as required,
- Test efficiency assumptions against other cases of water services aggregation,
- Initial model build,
- Obtain from each council other data required to support the metrics/other outputs that are to be presented as part of the financial analysis,
- Obtain independent assurance that the model has been built in a way that achieves its purpose and operates correctly under a variety of tested scenarios,
- Further develop the model to present additional outputs, and
- Prepare financial narrative.

The model ***cannot*** compare the aggregated position with 'status quo' because we are not privy to, for example, council's assessment of stranded overheads that may arise from transferring the water activity.

The model has been built by Boberg Advisory and independently QA'd by the Department of Internal Affairs.

Underlying assumptions

The key assumptions can be grouped as follows:

Council involvement: Assumptions have been made about which councils are involved in the CCO and when they will transfer their water services delivery to the CCO. This is based on discussions across Chief Executives as to what they consider the position is likely to be. Currently, it is assumed some will transfer effective 1 July 2026 with the remaining Councils transferring by 30 June 2028[9].

Critically, it is assumed that seven councils transfer their water activity into the CCO. If a lesser number of councils are involved, depending on the size and debt profile of those that remain, at some point the reduced scale of operations will mean that the assumed efficiencies become unrealistic and/or the capacity to borrow is diminished.

Base data: It is also assumed that the financial forecasts and other data provided by each of the councils is correct. The base financial data is that included in councils' latest Long-Term Plans (or similar if a 2024 LTP was not prepared). It has however been updated to reflect any material change in forecast projects since the Plan was adopted. This data has not been independently verified by the Programme Team although we know that several councils have directly engaged consultants to develop a stand-alone position (and to that extent it has been independently interrogated).

CCO-specific costs:
Assumptions are made about the capital and operational expenditure required to establish and operationalise the CCO. This includes one-off capex for corporate infrastructure, on-going operational spend and spend-to-save (see further below).

Efficiencies:
Operational cost savings are assumed to start being realized from FY2026-27 (i.e. as councils start to transfer their activity). Cost savings on capital works are assumed a year later and increase at a slower rate, only reaching the peak assumption of 15%[10] in FY2041-42. Cost savings are also assumed in relation to the catchment-based approach to

[9] The model can easily be modified to adjust the 'start date' for each council.
[10] This is to say that at peak efficiency the CCO will be able to operate at 85% of what the councils could do on a standalone basis.

consenting. These particular savings are in addition to the general assumption about capex savings.

Full list of assumptions

	Category	Assumptions / data currently built into financial model	Source	Notes
	General			
	Base financial data	The forecast data covering the period FY25 to FY34 provided by councils is the current best estimate of their financial projections for water activity on a stand-alone basis. Councils have adequately budgeted for vested assets as part of their financial forecasts.	The information most recently provided by councils to support their 'status quo' including assumed inflation rates For most councils, this is the data contained in the DIA's Water Services Delivery Plan financial templates	
	Inflation | Opex	Opex inflation rate fluctuates between 3.8% and 2.1% during the forecast period. Average opex inflation rate across FY25 to FY34 is 2.75%.	Berl inflation rates by cc	
	Inflation | Capex & Revaluation	Capex & revaluation inflation rate fluctuates between 3.8% and 2.1% during the forecast period. Average capex inflation rate FY25 to FY34 is 2.86%	Berl inflation rates by cc	

	Category	Assumptions / data currently built into financial model	Source	Notes
	Debt interest rates	Interest rates for the 10-year period have been assumed as: The weighted average interest rate for Water Supply and Wastewater across all councils. (i.e. total aggregated financing cost over total aggregated average debt for each year); plus 20 bp This sees interest rates range between 4.00% and 5.56% during the forecast period. Financing Cost is allocated between councils in the same manner as cost efficiencies.		We need to build a scenario where interest rates are higher
	Development contributions	Base data re accumulated DCs is adequate and there is no need to build in further amounts		
	Revenue	Water and wastewater operations, assets and debt are transferred to CCO under Stage 2. Stormwater remains with each council, but management of the stormwater assets are outsourced to the CCO and the CCO charges each council a fee for this (cost recovery).		
	Cashflow	For simplicity, everything is paid or received within the period		
	Tax	Entity will be exempt for income tax purposes under the Income Tax Act 2007 and is therefore not liable to pay income tax		

	Category	Assumptions / data currently built into financial model	Source	Notes
	Transition			
	Stage II transition dates	Councils transition to Stage 2 on the following dates: Hauraki 30 June 2027 Matamata-Piako 30 June 2027 Ōtorohanga 30 June 2027 South Waikato 30 June 2026 Taupō 30 June 2028 Waipā 30 June 2026 Waitomo 30 June 2026		
	Transferred asset and debt values	As provided by councils as part of the base data Value is the forecast position at the time a council is assumed to move to Stage 2		
	Variation in asset conditions	No adjustment made to account for variation in asset conditions.		
	Employees	Staff are employed by the CCO on a like-for-like basis as the councils who currently employ them		This has been identified as a potentially significant assumption. There is a risk that the assumption understates or overstates the cost of employment within the CCO. It warrants further discussion in due course.

	Category	Assumptions / data currently built into financial model	Source	Notes
	Additional cost of CCO operations			
	Board	FY26 Annual board fees are $348k 4 members plus Chair	Calculated with reference to Watercare Board fees.	
	Operational staff	FY26 CE remuneration is $450k FY26 remuneration of other staff totals $345k (assumed 6 month's employment during the year) EA 2x Exec level staff (e.g. CFO, EPMO lead) A further two exec level staff are appointed from FY28 (additional $600k in total)		These positions reflect roles over and above the positions within councils that will be transferred across. Conservatively, it is assumed that these additional roles remain in place throughout the forecast period. In practice the financial effect of the executive roles is likely to phase out as the new organisational structure is bedded in.
	Other operational costs (ex-licence costs)	P.a. occupancy costs are $129k 6 months assumed in FY26 Consultancy services are $100k p.a. An additional $2m of programme support costs are budgeted for FY26 Other expenses assumed to be $100k	Occupancy calculated with reference to occupancy costs for Co-Lab (which caters for ~ 20-25 staff and is a relatively new lease)	
	IT licence costs	Based on a SAAS model the annual licence fee is $1m Beyond this, fees will be materially similar to existing costs (i.e. there will be no other additional opex costs relating to digital services).		

	Category	Assumptions / data currently built into financial model	Source	Notes
	Upfront capex for laptops desk etc.	$1.89m, based on a cost per staff of $6,000. Headcount assumed to be ~315.	Staff numbers arrived at based on pro-rating the total staff number (per Rowan's original model = 779 (refer "Staffing" worksheet)), to reflect the participating councils, based on population numbers.	Headcount arrived at as: Total headcount (all of Waikato) x Popn (participating councils)/ Popn (all of Waikato) = 779 x 206,798 / 512058
	Upfront capex for IT infrastructure	Assumption is that as Councils come together, the software and systems in the background will not be fit for purpose. Additional cost will be required for IT upgrades and integration. Capex relating to IT implementation including data migration is $12.0m in FY26, with a further $1m in each of FY27 and FY28.	Calculated with reference to Infor implementation	This capex is over and above the spend-to-save amounts noted below (under efficiencies)
	Consequential opex	Assumption that Council base data already contains consequential opex arising from additional capital expenditure, so nothing further required on aggregation. No consequential opex required for new CCO-specific capex as already adequately covered by spend-to-save opex.		

	Category	Assumptions / data currently built into financial model	Source	Notes
	Efficiencies			
	Spend-to-save (enhanced opex/capex)	To facilitate and realise organisational efficiencies, a 'spend to save' budget is included. Current assumption is that this is broadly 50% opex / 50% capex. The budgeted amount is $37m • Capex $19.6m ($2.18m p.a. from FY26) • Opex $17.4m ($2.18m p.a. from FY27) Derived from a base assumption of a $1b spend if it was a nationwide CCO, pro-rated (based on population) to reflect the Waikato councils involved. The spend is spread evenly over the first 9 years	Stats NZ population (2018 census) NZ popn is 5,271,100 Popn of participating council is 206,798 (3.9%)	
	Opex efficiencies	Efficiency is driven by any number of opportunities, but many will be underpinned by a move to consistent systems and processes. Opex efficiencies start to be realised from FY27 onwards Opex saving is ~2% in FY27, increasing by a further ~2% each year for the next 5 years thereafter Rate of opex savings reduces from FY33 but total savings %age continues to grow, peaking at 15% in FY36.		In relation to efficiency targets, evidence from overseas supports the statement that scale does lead to efficiency and that a 15% rate is achievable. It is recommended that 15% is applied but reviewed once the scale of aggregation is more apparent.

	Category	Assumptions / data currently built into financial model	Source	Notes
	Capex efficiencies	Capex efficiencies are realised from FY28 onwards. Capex saving is 1% in FY28, increasing by 1% thereafter, peaking at 15% in FY42 There are further efficiencies on wastewater capex from a catchment approach to consenting. These efficiencies materialise in line with capex savings generally and peak at 10% (of the 85% of base capex spend)	Based on recent council experience with seeking multiple consents at once.	Some discussion between CFOs that this efficiency projection is too conservative based on past modelling undertaken.
	Allocation of efficiencies to councils	In FY27 (the first year of assumed efficiencies) 75% of the savings is allocated to councils according to their proportion of total capex / opex based on the data provided. The remaining 25% reflects a blend of equal share and number of connections		

Appendix 2 – DIA measures

Note: Some of the measures are not currently quantified pending receipt of additional information from Councils

Sustainability measures: Revenue sufficiency										
Average charge per connection including GST	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average drinking water bill (including GST)	929	1,062	1,168	1,250	1,280	1,310	1,351	1,374	1,406	1,440
Average wastewater bill (including GST)	860	969	1,066	1,141	1,168	1,196	1,234	1,254	1,284	1,314
Average stormwater bill (including GST)										
Average charge per connection including GST	1,789	2,032	2,235	2,391	2,448	2,506	2,585	2,627	2,690	2,754
Projected increase		13.6%	10.0%	7.0%	2.4%	2.4%	3.1%	1.6%	2.4%	2.4%
Projected number of connections	91,560	92,387	93,247	94,137	95,530	96,950	97,890	99,843	101,327	102,833
Projected median household income	99,488	103,862	108,493	113,328	118,435	123,745	129,471	135,172	141,097	147,375
Water services charges as % of household income	1.8%	2.0%	2.1%	2.1%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%
Rates revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
General and targeted rates	131,153	151,442	168,101	181,549	188,811	196,363	204,218	212,386	220,882	229,717
Projected increase		15.5%	11.0%	8.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating surplus/(deficit) excluding capital revenues	(14,476)	(14,557)	(42,963)	(40,033)	(35,417)	(32,831)	(26,772)	(17,779)	(11,120)	(6,503)
Total operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Operating surplus ratio	(10.2%)	33.4%	(23.8%)	(20.5%)	(17.5%)	(15.6%)	(12.2%)	(7.8%)	(4.7%)	(2.6%)
Operating cash ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	54,037	66,244	78,050	88,502	97,324	104,221	112,625	121,740	128,890	136,727
Total operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Operating cash ratio	38.2%	40.8%	43.3%	45.4%	48.0%	49.4%	51.4%	53.4%	54.4%	55.5%

Sustainability measures: Investment sufficiency

Asset sustainability ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Capital expenditure on renewals	51,526	60,906	49,166	57,217	66,530	62,930	63,267	59,163	67,727	61,864
Depreciation	50,086	54,292	78,636	80,385	82,734	83,285	83,638	83,682	84,009	84,763
Asset sustainability ratio	2.9%	12.2%	(37.5%)	(28.8%)	(19.6%)	(24.4%)	(24.4%)	(29.3%)	(19.4%)	(27.0%)

Asset investment ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Capital expenditure	204,569	219,587	128,681	128,614	147,505	98,464	93,371	84,916	93,004	105,565
Depreciation	50,086	54,292	78,636	80,385	82,734	83,285	83,638	83,682	84,009	84,763
Asset investment ratio	308.4%	304.5%	63.6%	60.0%	78.3%	18.2%	11.6%	1.5%	10.7%	24.5%

Asset consumption ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Book value of infrastructure assets	1,960,449	2,190,062	2,314,030	2,437,852	2,575,199	2,662,910	2,739,459	2,806,469	2,877,404	2,959,069
Total estimated replacement value of infrastructure assets										
Asset consumption ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sustainability measures: Financing sufficiency

Net debt	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total borrowings										
Less: cash and financial assets										
Net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548

Net debt to operating revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt (gross debt less cash)	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Net debt to operating revenue	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%

Borrowings headroom/(shortfall) against limit	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	707,204	812,755	902,158	974,331	1,013,304	1,053,837	1,095,990	1,139,830	1,185,423	1,232,840
Total net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Borrowing headroom/ (shortfall) against limit	200,780	114,383	120,305	117,599	74,021	91,060	123,032	173,868	224,408	271,291

Free funds from operations (FFO) to debt ratio

Operating revenue (minus interest income)	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Less Expenses (minus depreciation and non-cash items)	105,830	122,816	144,759	154,515	155,344	160,314	162,333	162,063	164,196	168,308
Free funds from operations	35,610	39,735	35,673	40,351	47,317	50,454	56,865	65,903	72,889	78,260

Free funds from operations (FFO) to debt ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Funds from operations	35,610	39,735	35,673	40,351	47,317	50,454	56,865	65,903	72,889	78,260
FFO to debt ratio	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
Debt to FFO ratio	14.2	17.6	21.9	21.2	19.9	19.1	17.1	14.7	13.2	12.3

Item 226	Local Water Done Well consultation document
To	Ōtorohanga District Council (ŌDC)
From	Nardia Gower, Group Manager Strategy and Community
Type	**DECISION REPORT**
Date	8 April 2025

1. Purpose | Te kaupapa

1.1. Approval is sought on the proposed consultation document (CD) for responding to the national water directives under the Government's policy known as 'Local Water Done Well (LWDW)'.

2. Executive summary | Whakarāpopoto matua

2.1. ŌDC has been investigating two water service delivery models – an enhanced status quo model and an aggregated council controlled organisation (CCO) model known as Waikato Water Done Well (WWDW) and is soon to consult on its preferred model for the district.

2.2. Council confirmed[1] at its February meeting that it would be applying the streamlined 'alternative' process for consultation provided for in the Local Government (Water Services Preliminary Arrangements) Act 2024 (WSPAA)[2]. Although streamlined, ŌDC is still required to fulfil the information requirements set out in Section 64 of the WSPAA.

2.3. A CD titled `*Kōrero Wai – Let's Talk Water, Local Water Done Well*' has been drafted for approval that outlines ŌDC's proposed arrangements for water services delivery (refer Appendix 1). The CD needs to be seen as part of a package of tools being used to seek feedback from the community on the preferred delivery option.

3. Staff recommendation | Tūtohutanga a ngā kaimahi

> That Ōtorohanga District Council approve 'Kōrero Wai – Let's Talk Water, Local Water Done Well Consultation Document' (document number 815027).

4. Context | Horopaki

4.1. Over the past year ŌDC has been developing its approach to Central Government's LWDW framework for the delivery of water services to communities.

[1] ŌDC resolution C334.
[2] Note: Councils complying with these 'alternative' processes, do not need to comply with the corresponding requirements in the Local Government Act 2002 (LGA).

4.2. Following a detailed investigation of options, ŌDC is now ready to consult on its preferred option using the streamlined ‘alternative’ process for consultation provided for in the WSPAA.

4.3. The timeframes for consulting on ŌDC’s preferred water services delivery arrangement are very tight due to this information being needed for inclusion in the water services delivery plan (WSDP) that must be submitted to the Secretary for Local Government no later than 3 September 2025. Consultation is not required on the draft or final WSDP, but it is required on ŌDC’s proposed arrangement for delivering water services.

4.4. ŌDC confirmed its communication plan and intended consultation process at its meeting on 25 February 2025[3] (Resolution #C334). Key elements of the agreed process include:

a. A consultation period of one month (9 April to 6 May 2025)

b. Use of a range of engagement tactics including Mayoral and Elected Member led ‘in person’ opportunities with support from staff (public meetings scheduled for 9, 10 and 15 April 2025)

c. Provision for formal hearings as part of the submission process, ensuring that those who wish to present their views to Council in person are able to do so (hearings scheduled for 27 May 2025).

4.5. ‘Kōrero Wai – Let’s Talk Water, Local Water Done Well’ is an important component of the consultation process and ŌDC needs to approve this document prior to it being formally released.

5. Considerations | Ngā whai whakaarotanga

Significance and engagement

5.1. Significant decisions, particularly those that may involve transferring the ownership or control of a strategic asset(s) to another entity, normally require use of the special consultative procedure[4]. An analysis of all reasonably practicable options would also normally be required.

5.2. The WSPAA makes provision for councils to step away from the Local Government Act 2002 (LGA) and its own Significance and Engagement Policy providing it complies with sections 61 to 64 of the WSPAA. Public consultation is still required under the WSPAA but the Act makes provision for a more streamlined process and giving councils more flexibility in aspects of their approach to consultation.

5.3. Section 64 of the WSPAA sets out the information that must be provided when consulting the public on its options. The CD is an important mechanism for conveying the necessary information to the public in a digestible form as well as directing readers to more detailed information sources, where required.

Impacts on Maori

5.4. ŌDC acknowledges the significance of water for Iwi/Māori and consequently the interest its partners may have in the delivery of water services.

3 https://www.otodc.govt.nz/assets/Documents/Meetings/Council/2025/Open-agenda-ODC-25-February-2025.pdf
4 LGA, S83.

5.5. ŌDC has endeavoured to keep its Iwi partners abreast of the work it has been involved in relation to this kaupapa. Most recently a hui was held on 27 March 2025 to brief mana whenua on progress to date with its investigation of water service delivery options – ahead of formal consultation with the wider community.

5.6. At a regional level, iwi leaders from Raukawa and Ngāti Maniapoto (Te Nehenehenui) have joined with other iwi leaders, and Mayors/Chair of WRC for quarterly updates on LWDW and the investigations into an aggregated council controlled organisation (CCO) water services delivery model. The most recent hui was 25 November 2024.

Risk analysis

5.7. A range of internal and external risks have been identified for ŌDC when consulting on its preferred model for water service delivery[5]. External risks include, amongst other matters, public concern and potential misinformation over the proposed changes to water services delivery and the associated financial impacts and implications for levels of service. To mitigate these concerns, the Plan proposes a range of tactics including clear, transparent messaging to ensure the community have sufficient information.

5.8. As noted in 5.3 above, the CD is an important vehicle for conveying key information to the public and for directing people to other information sources, where required.

Policy and plans

5.9. Preparation of a WSDP is a one-off requirement for councils. While consultation is not required on the WSDP itself, the plan must include information on ŌDC's proposed model or arrangements for delivering water services and it must have consulted on that proposed model or arrangement (WSPAA S13(1)(k) and S17(2)).

Legal

5.10. As discussed in 5.2 and 5.3 above, under the WSPAA councils must consult before deciding on their proposed arrangement for delivering water services and the Act sets out streamlined 'alternative' processes for both decision making and undertaking this consultation. Compliance with these 'alternative' processes replaces the corresponding requirements under the LGA. However, Sections 77(1)(c) and 81 relating to decision making affecting Māori and the principles of consultation (LGA, S82) continue to apply.

Financial

5.11. Communication and consultation costs for LWDW will be met utilising monies from the Department of Internal Affairs (DIA) to assist councils to prepare their WSDPs and transition to the new water services delivery framework.

[5] Refer to Local Water Done Well Communication and Engagement Plan dated February 2025 (document number 805826).

6. Discussion | He kōrerorero

6.1. Councillors and staff have carried out a detailed examination of water service delivery arrangements for the district. This work has culminated in the preparation of a comparative analysis of two viable options – WWDW and an Enhanced Status quo model.

6.2. A CD has been drafted (refer Appendix 1). The CD aims to convey simple, clear information to readers on what is a very complex and substantive decision for the district.

6.3. The CD is supported by a range of other communication tools for readers who wish to take a deeper dive into the reasons behind ŌDC's selection of its preferred option. These tools include:

a. ŌDC's website which will provide links to the Comparative Analysis undertaken and other documentation used to reach Council's decision on its preferred option

b. A set of Frequently Asked Questions (FAQs) for succinct answers to common questions on LWDW and ŌDC's proposed water service delivery arrangements

c. Three public meetings in different parts of the district to inform, answer questions and listen to community feedback on ŌDC's preferred delivery option

d. Links to other websites for specific information, notedly WWDW and DIA.

6.4. As a package, the various communication tools listed above fulfil ŌDC's legislative requirements under the WSPAA (S64).

Option 1:

6.5. Approve 'Kōrero Wai – Let's Talk Water, Local Water Done Well Consultation Document'.

Option 2:

6.6. Approve 'Kōrero Wai – Let's Talk Water, Local Water Done Well Consultation Document' with minor amendments noting that consultation is scheduled to commence 9 April 2025.

Recommended option and rationale

6.7. Every effort has been made to present ŌDC's preferred option for the delivery of water services in a clear format noting that that this is a substantive, complex issue. Staff recommend that ŌDC approve the draft CD in its current form. The CD will be supported by a range of other communication tools including making available documentation used to decide on ŌDC's preferred option.

7. Appendices | Ngā āpitihanga

Number	Title	Document number
1	Local Water Done Well consultation document	815028

TE KAUNIHERA Ā-ROHE O
ŌTOROHANGA
DISTRICT COUNCIL

KŌRERO WAI
LET'S TALK WATER

LOCAL WATER DONE WELL CONSULTATION DOCUMENT

9 APRIL – 6 MAY 2025

CONTENTS

KŌRERO WAI – LET'S TALK WATER

THE WHY

We, alongside our communities, face an important decision about the future of our water and wastewater services. This isn't just about the water you drink or what goes down the drain - it's about ensuring our water services remain sustainable and well-managed for generations to come.

Water reforms have been a hot topic for about a decade now. In 2016, the Havelock North water crisis (where an estimated 5,500 people became ill with campylobacteriosis after drinking the town's water supply) and the rising cost of maintaining infrastructure raised concerns about water management in New Zealand - prompting the need for change.

The Government has now introduced its Local Water Done Well (LWDW) policy, replacing the previous government's Three Waters reform programme.

LWDW AIMS TO:

- Address how waters infrastructure across New Zealand is funded and delivered in a financially sustainable manner
- Introduce a new regulatory regime for water services delivery, which sets out increased environmental, economic and human health standards and regulations
- Support a sustainable workforce that is able to deliver on the forward investment programme and governance requirements.

Under the policy, all councils need to develop water services delivery plans by 3 September 2025. These plans must provide a current and long term assessment of councils' water infrastructure, outline the necessary investment required to deliver on projected population growth and development needs, and detail how they plan to finance and deliver these plans through their preferred water services delivery model.

Like all councils, we are facing a number of complex issues when it comes to delivering Ōtorohanga's drinking water and wastewater services. The reality is the LWDW policy means water is going to get more expensive, regardless of what option we choose. This is due to new monitoring fees, stricter regulations, and the need for additional investment in infrastructure and upgrades.

WHAT ABOUT STORMWATER?

Stormwater is the water that runs off surfaces when it rains.
Council operates and maintains stormwater infrastructure across the district to limit the impact of flooding and to ensure that stormwater discharges to waterways safely. Our stormwater assets are linked to and maintained across various council activities such as transportation and parks and reserves. Our stormwater and flood protection systems help drain the water away. Stormwater is not currently included in the Waikato Water Done Well option.

LWDW TIMELINE

SEPTEMBER 2024

legislation introduced to direct councils on next steps Local Government (Water Services Preliminary Arrangements) Act 2024 (Preliminary Arrangements Act)

DECEMBER 2024

the Water Services Bill

MARCH-MAY 2025

councils consulting on preferred options

BY 30 JUNE 2025

councils adopt preferred option

BY 3 SEPTEMBER 2025

Water Services Delivery Plans submitted to Department of Internal Affairs for approval

BY 1 JULY 2026

start operating under the Water Services Delivery Plan

LOCAL WATER DONE WELL CONSULTATION

WE'VE DONE OUR HOMEWORK

We want what is best for Ōtorohanga. We know Local Water Done Well will significantly change the way water services are delivered in New Zealand, and who we are as a council too. The fact of the matter is – Central Government has told us we can't keep things as they currently are.

We have done a lot of work and analysis, obtained expert advice, and undertaken the due diligence needed to understand our options for water services delivery, and what is required to satisfy the requirements for a water services delivery plan. The Government identified these models for councils to consider:

1. A multi-council controlled (CCO) water organisation
2. A single council controlled (CCO) water organisation
3. An internal business unit
4. A consumer trust

We explored all available options and identified only two that were viable for Ōtorohanga. We then conducted a more in-depth investigation of the following options:

- **A Waikato Water Done Well asset-owning CCO**, with other rural/provincial councils in the region (Option 1 above). You can find out more on page 8
- An **internal business unit**, referred to as **"Enhanced Status Quo"** (Option 3 above). You can find out more on page 14

Following further work and careful consideration of the options, Waikato Water Done Well has emerged as the Council's preferred option.

You can find out more about our options analysis here engage.otodc.govt.nz/local-water-done-well

WHAT'S A CCO?

A CCO is an organisation owned by participating councils that delivers services on their behalf – like Watercare in Auckland. Ōtorohanga District Council is a shareholder in Waikato Regional Airport Ltd – this is a CCO.

AFFORDABLITY

In the options within this consultation document, we refer to affordability. The legislation requires us to consider affordability as one of the things that prove the financial sustainability of our options. In other words – we need to prove we will be able to pay for our water not just now, but over the years and generations to come.

We recognise that affordability means different things to different people. There's no official definition of affordable water costs in New Zealand, but international guidelines suggest affordability can become a challenge when the cost of drinking water and wastewater services exceeds 2.5% of a household's income. The Waikato Water Done Well and the Enhanced Status Quo options are modelled on this basis.

To measure affordability, we use median household income instead of average household income. Median income is the middle number when all incomes are sorted from lowest to highest. This means half of the households earn less than this amount, and half earn more.

This is especially important in Ōtorohanga District, where our rural and urban incomes can vary. Many of our rural households aren't on metered water, so their costs and affordability concerns are different from those in town.

BORROWING

Borrowing is one of the few financing tools councils can use to fund big infrastructure projects and, like a mortgage, it helps spread the cost over the generations that will benefit from them. There are clear rules for borrowing money depending on whether councils keep their water services in-house or join up to form a multi-council water organisation.

Water organisations can borrow more money to fund infrastructure projects than what councils can now. Currently we can borrow up to 175% of our total revenue. Water organisations will be able to borrow up to 500% of total revenue for water construction projects.

WHAT ABOUT THE RURAL WATER SCHEMES?

If you are on a Rural Water Scheme, what happens next depends on your type of supply. If your supply provides drinking water, you will be looked after by WWDW if we go with that option. If your supply is for stock only, ŌDC will continue to manage it. As for Rural Water Scheme committees, they will no longer be required under WWDW. However, under ESQ, they will continue to exist but will no longer have the ability to influence rates.

LOCAL WATER DONE WELL CONSULTATION

LET'S TAKE A LOOK AT THE OPTIONS

OPTION ONE

WAIKATO WATER DONE WELL

OUR PREFERRED OPTION

OPTION ONE **OUR PREFERRED OPTION**

WAIKATO WATER DONE WELL

In 2023, Waikato councils identified some common waters issues they were facing. This included ageing infrastructure, population growth, rising costs, new regulations and limited funding options.

Their response to this was to co-design a unified approach for water and wastewater services – now known as Waikato Water Done Well (throughout this document we will often refer to this as “WWDW” or “the CCO”). This is a way for councils to collaborate on sustainable, high-quality waters services while still keeping a local voice. There are six other district councils who have signed a Heads of Agreement (a non-binding document outlining key terms of a deal before a formal contract is signed) for this option. They are: Matamata-Piako, Hauraki, Waipā, Waitomo, South Waikato and Taupō.

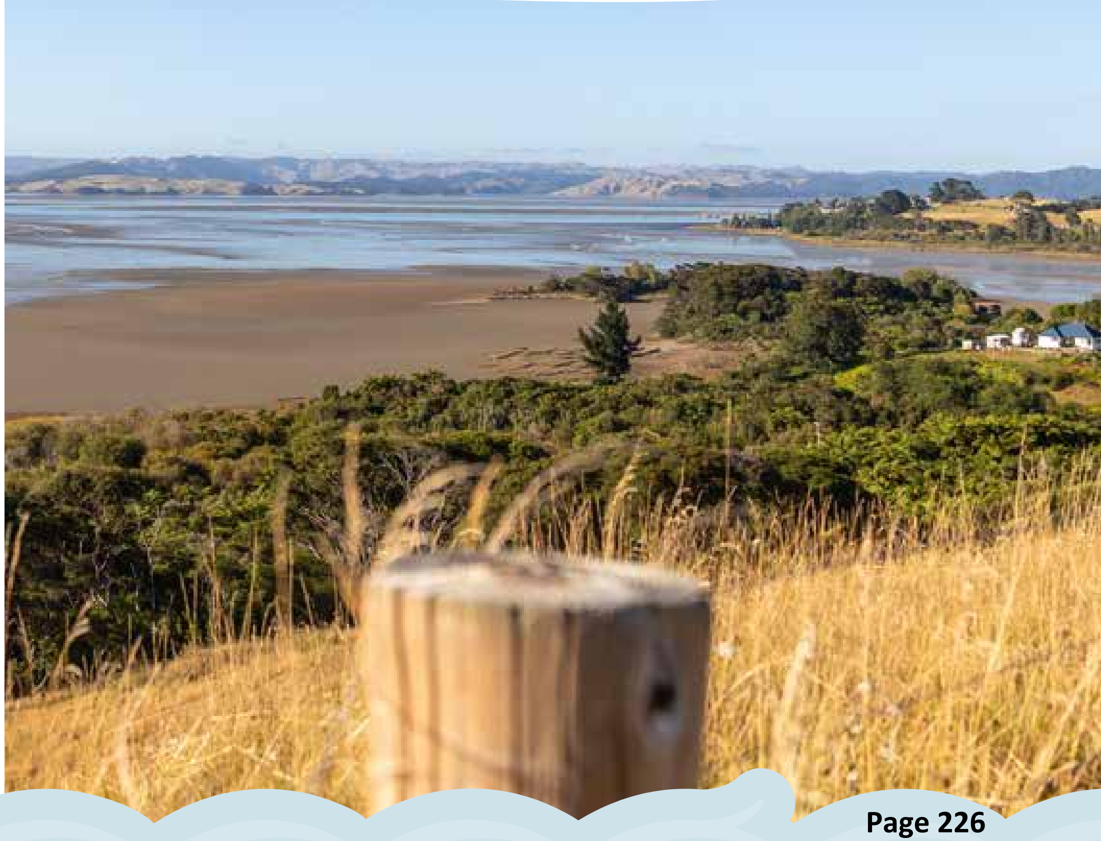
HAVE YOUR SAY

Share your feedback and help us shape the future of local water.

FEEDBACK WILL CLOSE 9AM **6 MAY 2025**

“Council strongly supports Waikato Water Done Well as the most beneficial option long term for our community. By improving service efficiency, building a stronger workforce, and enhancing our ability to tackle ongoing issues like infrastructure upgrades and climate change, this approach will help secure a sustainable and prosperous future for Ōtorohanga.”

– MAYOR MAX BAXTER



KEY WATER ASSETS

TOGETHER THESE 7 COUNCILS HAVE:

GROWTH HIGHER THAN THE NATIONAL AVERAGE OF 2.07%

ranging between 3% to 10.2% over the last five years

41%

OF THE REGION'S POPULATION

(205,000 people)

40%

OF THE REGION'S WATER AND WASTEWATER CONNECTIONS

45% **OF THE REGION'S WATER SERVICES ANNUAL REVENUE**

(excluding development contributions)

Page 227

PEOPLE, PLACE, AND THE ENVIRONMENT

Healthy Water, Healthy People | Te Mana o Te Wai, Te Mana o Te Tangata – this is the vision of Waikato Water Done Well.

Under this model, the CCO would manage drinking water and wastewater. The CCO would be responsible for everything from sourcing and treating water to maintaining infrastructure, planning for future upgrades, and ensuring high environmental standards are met.

The CCO would be a separate legal entity, owned by the shareholding councils and operated by an independent board. While councils would no longer be directly involved in water service delivery, they would set a statement of expectations, which lays out responsibilities and performance standards, to guide the CCO's decisions, with regular monitoring and reporting.

KEY POINTS OF WAIKATO WATER DONE WELL

OWNERSHIP & CONTROL

The CCO would own and manage drinking water and wastewater assets, but the people of Ōtorohanga would remain the ultimate beneficiaries.

IWI INVOLVEMENT

We believe iwi should play a strong role in water management. It is essential that Treaty Settlements, Joint Management Agreements, and existing partnerships are upheld and strengthened.

CATCHMENT-BASED APPROACH

In this context "catchment" refers to a geographical area where water is collected by the natural landscape, typically including rivers, lakes, and groundwater systems. Managing water at a large, regional scale allows for a more holistic approach to improving water quality, protecting our natural resources, and enabling innovative solutions for resource consents and service delivery.

GOVERNANCE & DECISION MAKING

The CCO would be led by a board of independent directors, appointed by the shareholding councils. Councils would influence key decisions through their statement of expectations and oversight role, ensuring accountability.

LONG TERM VISION

Initially, councils may provide some support services during the transition, but the goal is a fully independent and efficient organisation, focused on delivering high-quality water services.

CIVIL DEFENCE

In the event of an emergency, councils and the CCO would work together to ensure water services are maintained. The CCO would manage the water network, while councils focus on supporting and protecting the community.

This model ensures that our water services are reliable, and environmentally responsible, while keeping councils involved in key decisions and giving our communities a strong voice in the future of water management.

OWNERSHIP AND ACCOUNTABILITY DIAGRAM OF THE PROPOSED CCO

Hauraki District Council · te kaunihera ā-rohe o matamata-piako district council · Te Kaunihera ā-Rohe o Ōtorohanga District Council · South Waikato District Council · Great Lake Taupō Taupō District Council · Waipā District Council · Waitomo District Council

COUNCILS JOINTLY OWN THE WATER ORGANISATION

Councils appoint representatives to Shareholder Representative Forum

SHAREHOLDER REPRESENTATIVE FORUM

Responsible for jointly setting shareholder expectations, appointing Board and overseeing its performance

Shares owned in accordance with share allocation plan agreed between councils

Appoints and removes water organisation Board members

Issues Statement of Expectations

WATER SERVICES CCO

Responsible for operational and financial decisions consistent with Statement of Expectations and statutory obligations

ADVANTAGES OF WAIKATO WATER DONE WELL

- **Shaping the future:** Ōtorohanga, as a founding council, is well-positioned to shape (with other shareholder councils) the establishment and transition of the CCO.
- **Value alignment:** this CCO is made up of primarily rural/provincial councils, this means doing what is best for our communities will remain a top priority.
- **Resilience through shared resources:** by partnering with larger councils, we can pool resources and share the financial burden of major unforeseen events, ensuring quicker recovery and minimising the impact on water services, costs, and rates.
- **Treaty alignment:** this model provides an opportunity to align with and give effect to multiple Treaty settlements, including Te Ture Whaimana, the vision and strategy of the Waikato and Waipā Rivers, as well as honouring our Joint Management Agreements with iwi in our rohe.
- **Iwi engagement:** this model provides opportunity for development of economic partnerships, investment, and workforce opportunities.
- **Civil contracting sector:** scale will provide greater certainty and consistency for the civil contracting sector, which is a vital partner in water service delivery.
- **Legal compliance:** complies with the water legislation.
- Community affordability: this is the most affordable option in the long term.
- **Scale:** achieving efficiencies of scale is a key objective of the CCO. This includes opportunities for service and delivery improvements through the consolidation of operations and maintenance, procurement, workforce optimisation, and enhanced relationships.
- **Climate change mitigation:** with enhanced efficiencies and increased borrowing capacity, there is greater potential for improving climate change mitigation.
- **Debt capacity:** the CCO has the greatest debt capacity of either option.
- **Workforce:** sustainability, attraction, and retention issues of skilled staff are expected to be better with a regional model compared to rural and provincial councils standing alone.

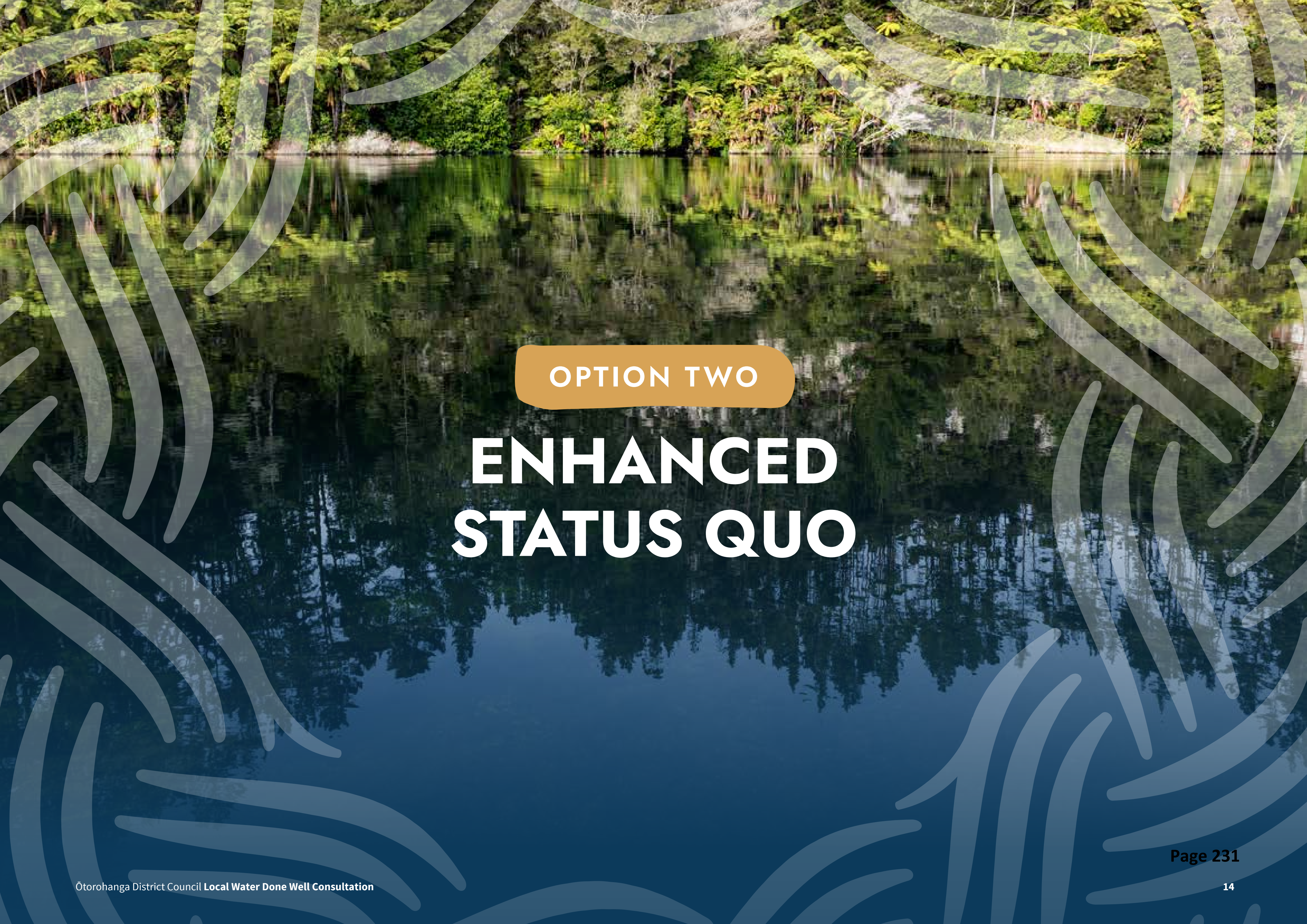
DISADVANTAGES OF WAIKATO WATER DONE WELL

- **Perception of a loss of control:** Residents may feel they no longer have a say in how assets, funded by their rates, are managed.
- **Stranded costs:** These are costs for essential services like IT, finance, and communications that Council still needs to pay for. Currently, these costs are shared across different areas of council, including water services. If water services are transferred to the CCO, we will lose that portion of funding, but the costs for the essential services will remain.
- **Service delivery challenges:** Coordinating work could become more difficult. For example, if one council team is laying new wastewater pipes and another is responsible for road improvements, it's easier to time the work when they're part of the same organisation. If they aren't, we risk digging up the same road twice. This isn't an impossible problem to solve, but different organisations may have different priorities, which can make coordination more challenging.
- **Conflicting priorities:** Regional goals may compete with local council needs, leading to potential disagreements.
- **Limited Scope of WWDW:** WWDW will only manage drinking water supply and wastewater services. Council will still be responsible for other water-related activities not included in the WWDW model, such as flood protection, stock water-only schemes, and stormwater management. This means Council will need to continue funding and overseeing these services separately.

YOU CAN CHECK OUT MORE ABOUT THE FINANCES ON PAGE 17

WANT TO KNOW MORE ABOUT WAIKATO WATER DONE WELL?

Head to www.waikatowaters.co.nz



OPTION TWO

ENHANCED STATUS QUO

OPTION TWO

ENHANCED STATUS QUO

HAVE YOUR SAY
Share your feedback and help us shape the future of local water.

FEEDBACK WILL CLOSE 9AM
6 MAY 2025

The Enhanced Status Quo (ESQ) option means Ōtorohanga District Council will continue to provide water, wastewater and stormwater services, but in a different way to what we are doing now. Under this model, water services would be financially ring-fenced from general council operations.

This is one of the viable options we considered for Ōtorohanga, and while this approach offers continuity and familiarity, it comes with significant financial and regulatory challenges. The costs of maintaining infrastructure, meeting compliance standards, and investing in water services may exceed what the district can afford in the long term, and because of this – Enhanced Status Quo is not our preferred option.

KEY POINTS OF ENHANCED STATUS QUO

OWNERSHIP & GOVERNANCE:
Council retains full ownership and oversight of all water service assets.

DECISION-MAKING:
Council remains responsible for decisions, with regulatory oversight.

SERVICE DELIVERY:
Council provides water services to the community while managing capital works, procurement, and project management.

FINANCIAL STRUCTURE:
All water service expenditures are ring-fenced and funded separately through targeted rates, water-specific charges, and financial/development contributions.

IWI INVOLVEMENT:
Council will continue to be committed to maintaining and strengthening relationships with iwi and mana whenua.

CIVIL DEFENCE:
Emergency response and resilience planning remain unchanged.

DEBT LIMITATIONS:
The debt-to-revenue ratio will increase from the current 175% threshold to 285%, subject to full economic regulation that may require price adjustments.

COMMUNITY ENGAGEMENT:
Public input will be gathered through legislative consultation procedures, the Water Services Strategy will be reviewed every three years.

ADVANTAGES OF ENHANCED STATUS QUO

- **Ownership**: Council maintains full responsibility for day-to-day decision-making, although economic regulation will restrict some council decisions.
- **Community input:** Having your say on water services would continue to happen through our current consultation processes.
- **Familiarity:** Familiar and well-understood model.

DISADVANTAGES OF ENHANCED STATUS QUO

- **Vulnerability to major events:** As a small council, a major event like a natural disaster could overwhelm our water services, causing costly infrastructure damage and forcing sudden rate hikes or debt increases to fund emergency repairs.
- **Workforce issues:** Attracting and retaining skilled staff may become harder as regional water service entities are formed that offer more attractive career development opportunities.
- **Environmental outcomes:** Limited ability to achieve enhanced environmental outcomes due to a lack of scale and ability to take a catchment-based approach.
- **Lost influence:** If we choose to join the CCO later or are required to by Central Government, we may face significantly higher costs and miss the opportunity to help shape its establishment and operations of the CCO.

While the Enhanced Status Quo option allows Council to retain direct control, it presents financial and regulatory risks that could impact long term service affordability and environmental sustainability.

YOU CAN CHECK OUT MORE ABOUT THE FINANCES ON PAGE 17

LOCAL WATER DONE WELL CONSULTATION

ABOUT THE FINANCES

ABOUT THE FINANCES

We’ve talked a lot about the non-financial benefits, but we know that cost is an important factor too. No matter which option we choose, the cost of water services will go up, this is due to new government rules. These rules are in place to keep our drinking water safe and to ensure our wastewater is properly treated in order to protect the environment.

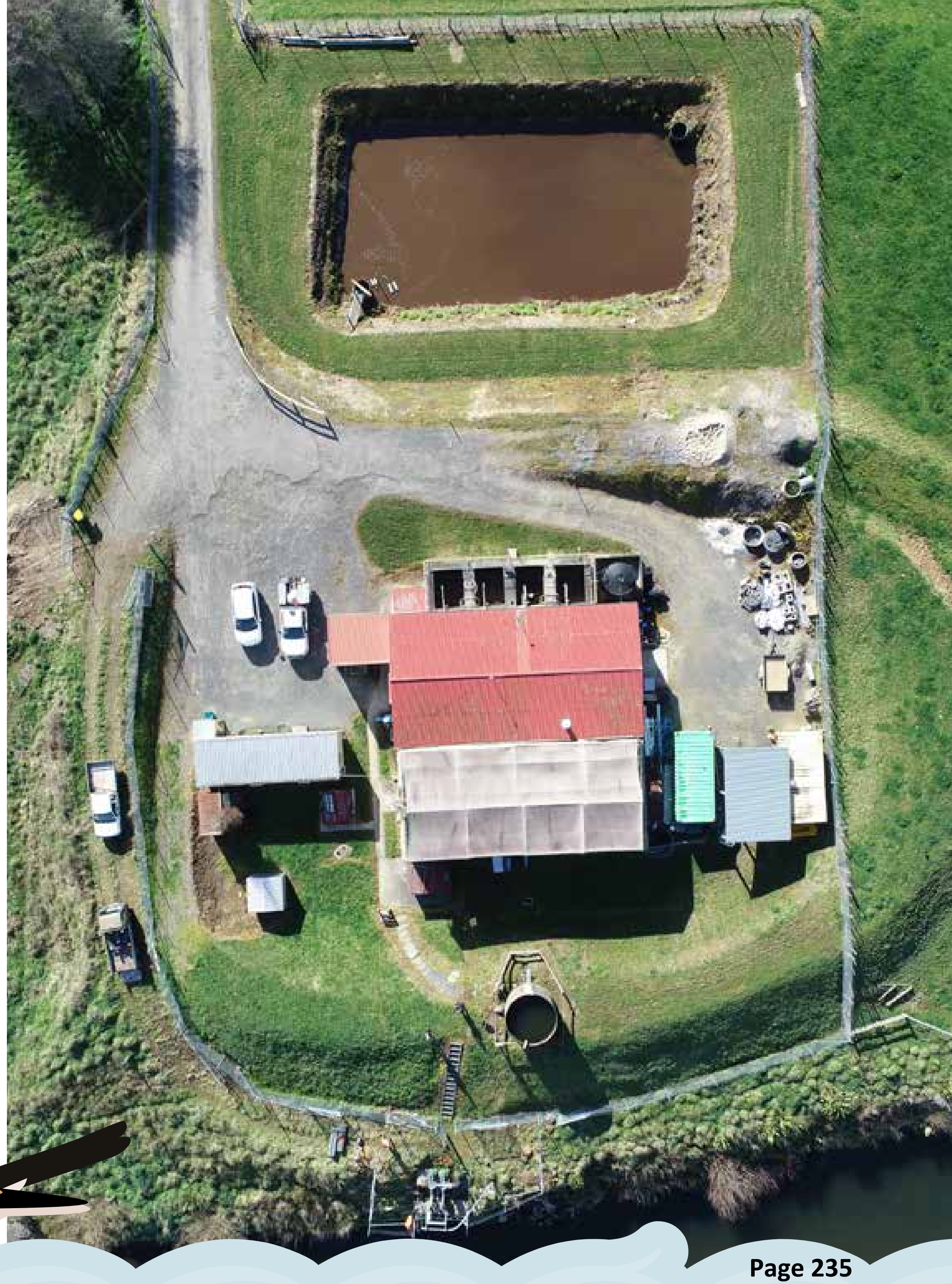
Our cost estimates are based on different assumptions, so the results can vary. In some cases, WWDW seems like the cheaper option, while in others, ESQ comes out ahead.

What we do know is that we don’t want our community to be worse off financially if we go with WWDW - especially since it offers more non-financial benefits.

So, how do we move forward with so much uncertainty? If we choose WWDW, we’ll make sure our agreement includes a condition that guarantees our community won’t be worse off financially than they would be under the ESQ model. That way we get to have our cake and eat it too. We get the benefits of WWDW, as well as the assurance that financially our people get the best deal possible.

YOU CAN FIND OUT MORE ABOUT OUR OPTIONS ANALYSIS HERE

engage.otodc.govt.nz/local-water-done-well



LOCAL WATER DONE WELL CONSULTATION

WHAT DOES EACH OPTION MEAN FOR ME?

	OUR PREFERRED OPTION UNDER THE CCO MODEL	UNDER THE ESQ MODEL
Who provides the water from my tap?	Water services would be provided by WWDW.	Water services are delivered by Ōtorohanga District Council.
Who looks after wastewater (the stuff that goes down the sink and through the toilet)?	Wastewater services would be provided by WWDW.	Wastewater services are delivered by Ōtorohanga District Council.
Who looks after stormwater?	Stormwater is not part of WWDW, it will remain with Ōtorohanga District Council.	Stormwater services are delivered by Ōtorohanga District Council.
Our household is not connected to water services, what does this mean for us?	There is little to no impact on residents who are not connected to water or wastewater services. Stormwater will continue to be charged through ŌDC rates.	There is little to no impact on residents who are not connected to water or wastewater services. Stormwater will continue to be charged through your rates as it is now
Who do I call if I have a problem?	Eventually WWDW – once this part of the business it is up and running. The changes will occur over time but you will always be able to call us if you are unsure.	Ōtorohanga District Council.
Who would make decisions on what infrastructure is needed?	The Board of the CCO (independent, professional and qualified directors approved by the Mayors and Elected Members of the shareholding councils).	The Mayor and Elected Members.
What will it cost?	Costs will increase – these costs are going up no matter what. But under the CCO model, savings begin to be made after 10 years.	Costs will increase – While this option will be slightly less expensive in the short term costs and infrastructure upgrades will likely become unaffordable as prices increase.
Will I get charged differently?	Yes. There will be a separate invoice for drinking water and wastewater services.	Yes – if you don't already receive a separate charge for water. The full costs of drinking water and wastewater services will need to be ring-fenced and charged separately to rates.
Will I be able to have a say on water and wastewater services?	Yes – through a new Water Services Strategy prepared by the CCO.	Yes – through our current consultation processes.

WHEN WOULD ALL THESE CHANGES TAKE PLACE?

If Council decides to proceed with WWDW following the consultation period, the transfer of assets and responsibility of delivery would not take place until 1 July 2027. This means that for the next two years, Council will continue to be responsible for water service delivery.

LOCAL WATER DONE WELL CONSULTATION

TELL US WHAT YOU THINK

HAVE YOUR SAY

TELL US WHAT YOU THINK

SUBMISSIONS CLOSE 9AM **6 MAY 2025**

Your feedback on our preferred option will help inform the final decision on what the future of water services delivery looks like for Ōtorohanga.

Now that you've read our consultation document, we would like to hear what you think!

Public consultation is open from 9 April through to 6 May 2025.

HAVE YOUR SAY BY USING ONE OF THE FOLLOWING:

- **Online** – go to engage.otodc.govt.nz/local-water-done-well
- **Hard copy** – use the submission form included in this document and drop it off to our council office or one of our libraries
- **Visit** – one of our Public Meetings. See details in the green box on the right.

Submissions close at 9am, 6 May 2024.

SCAN THE QR CODE TO HAVE YOUR SAY ONLINE

WHAT HAPPENS NEXT?

9 April to 6 May 2025 - You tell us what you think. You can submit your feedback to us during this time.

27 May- You can present your submission to us (optional)
The Council meets to listen to people who want to present their submission in person.

10 June - We consider your feedback
The Council meets to consider all of the submissions received.

24 June - We make final decisions and adopt the model for our water services.
The Council meets to formally approve the model for our water services – including any potential changes made as a result of the submissions received.

WANT TO KNOW MORE? LET'S TALK!

Come along to one of our Public Meetings, here you will get the opportunity to talk to our Elected Members and staff in person about any further information or question you may have:

ŌTOROHANGA
Ōtorohanga Club, 107 Maniapoto Street, Ōtorohanga
Wednesday, 9 April 2025, 7pm

AROHENA
Arohena Hall, 18 Pukewhau Road
Thursday, 10 April 2025, 7pm

KĀWHIA
Kāwhia Hall, 141 Jervois St, Kāwhia
Tuesday, 15 April 2024, 7pm

HAVE YOUR SAY

SUBMISSION FORM

Full Name:

Organisation: (if applicable)

Address:

Email:

Do you want to speak to your submission? Yes No

If you would like to speak to councillors about your submission, please provide your phone number so we can contact you with the date and time.

Phone:

Is there anything else you would like us to know?

DO YOU AGREE WITH OUR PREFERRED OPTION OR DO YOU SUPPORT ANOTHER OPTION?

OUR PREFERRED OPTION

OPTION ONE

WAIKATO WATER DONE WELL

Asset-owning CCO, with other rural/provincial councils in the region

Learn more on page 8

OR

OPTION TWO

ENHANCED STATUS QUO

Internal business unit

Learn more on page 14

Take note: For your submission to be valid, you must include your full name, a postal address or email address. All submissions (including your name, address and contact details) are provided to Council staff and Elected Members for the purpose of analysing feedback. Your personal information will also be used for the administration of the engagement and decision-making process. Submissions (with the individual's name and organisation only) will be available online. If requested, submitter details may be released under the Local Government Official Information and Meetings Act 1987 unless there are grounds to withhold this information. If there are good reasons why your name and/or submission should be kept confidential please contact us by emailing info@otodc.govt.nz.

WEAVING THE FUTURE, TOGETHER

KOTAHITANGA

TE KAUNIHERA Ā-ROHE O
ŌTOROHANGA
DISTRICT COUNCIL

Information only reports Ngā pūrongo mōhiohio anake

There are no reports.

Public excluded Take matatapu

There are no reports.

Closing prayer/reflection/words of wisdom Karakia/huritao/whakataukī

The Chairperson will invite a Member to provide the closing words and/or prayer/karakia.

Meeting closure Katinga o te hui

The Chairperson will declare the meeting closed.