Service Delivery Committee Workshop - 19 November 2024

19 November 2024 10:00 AM

Waipā DISTRICT COUNCIL

MEMO

To:	Elected Members	**Cc:**	
From:	Manager Delivery Performance		
Date:	19 November 2024	**File Ref:**	166.07
Subject:	Assessment of Viability and Sustainability of Water Services Delivery and High-Level Options Analysis		

PURPOSE

To outline the content and findings of the assessment and options analysis undertaken by Beca, MartinJenkins and Mafic.

BACKGROUND

As part of Waipā DC's requirement to prepare a Water Services Delivery Plan, Beca, MartinJenkins and Mafic were engaged to undertake a high-level assessment of the viability of, and sustainability of continuing to deliver water services on a standalone basis, and a high-level option analysis of alternative options.

This assessment will inform Council's decision on whether to prepare its own Water Services Delivery Plan (WSDP), or alternatively whether to work with neighbouring Councils to explore joint service delivery arrangements.

The Local Waters Done Well (LWDW) requirements mean Council needs to assess whether our water services delivery arrangements are, and will continue to be, financially sustainable over the medium and longer term. Council also needs to consider whether existing service delivery arrangements will continue to meet community expectations regarding levels of service and affordability.

This assessment has been prepared based on the 2024/25 Enhanced Annual Plan and the draft Long Term Plan (LTP) financial projections as at the end of September 2024, although noting that this has subsequently been updated with the additional capital budgets required for the Te Awamutu Wastewater Treatment Plant Upgrade (years four and five) and the Cambridge Wastewater Pipe Upgrade (years three, four and five) and consequential operational costs (interest and depreciation).

The assessment considers each of the water activity groups separately (water, wastewater and stormwater) and in aggregate on a standalone basis, as if the new ring-fencing and financial sustainability requirements were applied.

The aggregate analysis is based on three waters rather than two, reflecting the requirements for Water Services Delivery Plans – note that the draft 2025-34 LTP modelling shared with Elected Members to date has been done on two waters (water and wastewater). The analysis in this Beca,

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MartinJenkins and Mafic assessment is a different way of presenting financial information for water services, which does differ from the Funding Impact Statements that are considered as part of the Long Term Plan.

The presentation of the financial information in this assessment is consistent with the requirements for the Water Services Delivery Plan.

OVERVIEW OF THREE WATERS ACTIVITY

The first part of the report looks at the current state of water networks, assets, service levels and compliance with drinking water and resource consent requirements.

All three activities are compliant with the relevant standards and consents, and the levels of service targets set by Council are consistently achieved.

Constrained investment in renewals in the first part of the draft LTP will potentially create a deliverability issue in the later part of the plan with investment moving from around $10M per annum to a peak of over $25M per annum.

Waipā is similar to other Councils in New Zealand, whereby improvements in asset information can be made, however asset condition information is available for all critical assets.

There is currently significant regulatory uncertainty regarding wastewater discharge requirements, with expiring resource consents driving significant increases in cost for wastewater treatment plant. National wastewater environmental standards are under development by Taumata Arowai, which may help to provide much needed clarity. However, this needs to be considered alongside Waipā's commitments to Te Ture Whaimana (the Vision and Strategy for the Waikato River).

THREE WATERS 10-YEAR OUTLOOK

The full report presents analysis for each of the three water activities. The presentation from Beca, MartinJenkins and Mafic will focus on the aggregate three waters picture.

Operating Expenditure

- Total operating costs have increased by 63% over the past five years, from just under $26 million to $42.3 million.
- Drivers of the cost increase include higher depreciation, due to asset revaluations and investment, higher interest costs reflecting increased debt and higher interest rates, and higher maintenance, energy and labour and material costs.
- Looking ahead, annual operating costs are projected to grow by 5.4% per annum for the next 10 years, from $42.3 million to $71.5 million.

Capital Expenditure

- The historical capital programme has been delivered slower than planned, with actual capital expenditure around 84% of budget. A large underspend against planned stormwater investment

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in the 2021/22 financial year was partially offset by over-delivery in 2023/24 financial year; this was associated with the timing of developer led infrastructure for growth.

- 2024/25 Enhanced Annual Plan and draft LTP projections contain planned investment of $531 million in three waters assets over the next 10 years. This level of investment represents a decrease on the average level of investment over the last six years. In today's dollars, investment averaged $54.3 million per annum over the last six years, compared with $46.4 million per annum planned for the next 10 years. This was driven in part by large investment in Parallel Rd water treatment plant (providing a more resilient water supply), and Cambridge wastewater treatment plant (to meet compliance requirements).

- Council is midway through a programme of investing in expanding its network capacity across each of the three water services. Based on recent delivery, there remains a degree of risk surrounding the delivery of this programme (particularly growth-related infrastructure) at the expected pace.

- Over the next 10 years Council is planning to spend $240.4 million on renewals – 11% more than the projected depreciation expense. There are significant differences across each of the water activities. The renewals investment profile reflects current asset age profile and condition.

Revenues and Operating Surpluses

- A notable feature of the draft 2025-34 LTP financial projections is the significant increase in targeted rates in 2025/26 and 2026/27, for both water supply and wastewater.

- Driven by both rates increases and population growth, water revenues are projected to grow by 165% over the next 10 years, or 6.3% per annum above the expected rate of inflation and projected population growth of 2.7% per annum.

- Water services have returned both surpluses and deficits over the past six years, ranging from an operating deficit of 16% (2023/24) to a 10% operating surplus (2021/22).

- Council is currently projecting an operating deficit in 2024/25, but then projects significant surpluses in each of the following nine years, averaging 14.9% of operating revenue over the full 10 year period.

- These surpluses indicate revenues are higher than required to meet financial sustainability requirements and indicates over-recovery of the cost of water services. This level of charging may be questioned by a future economic regulator.

- Under ringfencing rules, this build-up of cash reserves through operating surpluses would need to be available for future water investment.

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BORROWING AND FINANCING SUFFICIENCY

- Net waters debt increased by $145 million over the last six years, from $10 million to $155 million.
- Borrowing is projected to more than double over the next five years, increasing by $157.3 million, to around $312 million and then steadily decrease over the rest of the LTP period, reaching $135.4 million in 2033/34.
    - This represents an aggressive level of borrowing in the short-term and is high by local government standards. It is noted in the report that the increase in borrowing exceeds the level required to fund investment.
    - Overall, the debt trajectory over the LTP period is aggressive for three waters on a standalone basis, owing to the reliance on debt in the short-term.
    - The projections assume development contributions averaging $23 million per annum over the LTP period, which is five times the average annual amount received over the past six years. This represents a risk to the forecasts.

AFFORDABILITY

- Total water charges per connection are projected to increase by $1,816 per connection, from $1,751 in 2023/24 to around $3,567 per connection in 2033/34. When expressed in today's dollars, this represents a real increase of $762 per connection, or 3.6% per annum above the projected inflation rate.
- The increase in water charges is estimated to increase average spending on water services per connection from 1.5% of the median household income in 2023/24 to 2.2% by 2033/34.
- Based on the Council's draft 10 year financial projections, this level of water charges remains within international benchmarks for three-waters affordability.

VIABILITY AND SUSTAINABILITY - SUMMARY OF ANALYSIS

- Overall, the draft 10 Year Plan projections are partially consistent with financial sustainability requirements under Local Water Done Well (LWDW).
- Key area of concern relates to the significant planned increases in water and wastewater targeted rates in 2025/26 and 2027/28. The second year of increase results in a large operating surplus, which indicates over-recovery of water revenues.
- Borrowing is projected to exceed five times revenue in FY25 and FY26 before decreasing steadily over the rest of the LTP period. This represents an aggressive level of debt for the next few years.

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- The reduction in debt balances over time is heavily reliant on developer contributions, which represents a risk to the forecasts.

- Potential risks that could impact on viability and sustainability include quality of asset information, higher capital price inflation, uncertain future regulatory requirements, confidence about resource consenting, higher frequency extreme weather events, and ability to attract and retain resources are relevant strategic risks.

HIGH LEVEL OPTIONS ANALYSIS

The second part of the report provides a high-level analysis on options for future delivery of water services under LWDW.

The options analysed are:

- Internal business unit or division (enhanced status quo/regulated current arrangements)
- Standalone water services Council Controlled Organisation (CCO)
- Sub-regional water services CCO (Waipā, Waikato, Hamilton)
- Waikato region water services organisation based on shared services (Waikato Water Done Well - WWDW, Stage 1)
- Waikato region water services CCO, that is asset owning (WWDW, Stage 2)

Noting that the last two options are the subject of a workshop planned for Wednesday 20 November 2024, where the Stage 1 CCO would provide some waters services (capital project delivery, asset management, compliance/consenting), whilst Stage 2 is a full asset owning, water services delivery CCO.

These options have all been analysed against the following strategic objectives:

- Efficient and financially sustainable delivery of water services for Waipā district communities, now and into the future.
- There is investment at a level that protects and promotes public health and the environment.
- The right workforce capability and capacity is available.
- The model enables and supports future growth and change and builds system resilience.
- Water services are affordable and meet the needs and expectations of the Waipā district community.
- Responsibilities to hapu and iwi are met.
- Remaining Council operations are viable and continue to deliver on community expectations.

The outcome of this analysis provides a 'choose option if' – this shows that two of the options should not be progressed; these are the internal business unit or division (enhanced status quo) on the basis that it is unlikely to fully meet financial sustainability requirements, and the shared services water organisation (WSCCO – WWDW, Stage 1) due to it not providing sufficient financial headroom and adds significant additional transition costs respectively.

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The single Council-owned water organisation is a 'maybe' – this is a feasible option but would require rephasing of investment activity and provides limited scale benefits, with some additional cost and implementation risk. It is noted as being a reasonable backstop option.

The two options that the report recommends to progress are growth Council option, sub-regional water services CCO, and Waikato region water services CCO that is asset owning (WWDW, Stage 2). The sub-regional option looks to provide strong future benefits aligned to growth challenges, but it is noted that it will require careful transition management. The Waikato region water services CCO (WWDW, Stage 2) shows that there are positive future benefits, but would need to ensure other Councils share aspirations to move to Stage 2 quickly. The extent of benefits is dependent on entity scale, that is, which Councils participate.

OPTIONS ANALYSIS – RECOMMENDATION FROM REPORT

The report recommends further investigation in some key areas in the next phase of work, specifically to:

- Sensitivity test anticipated costs associated with renewing consents over the next 30 years to assess the extent to which any escalation in associated costs or restrictions in conditions (similar to the Watercare consent arrangements) might challenge affordability.
- Consider the degree to which Council is concerned about growth pressure versus the ability to negotiate transition arrangements with Councils under:
    - Options 3 (growth Council option: sub-regional water services CCO (Hamilton City Council, Waikato, Waipā)
    - Option 5 (Waikato region water services CCO that is asset owning (WWDW Stage 2).

In summary, the report recommends Options 3 and 5 as the most credible options for active consideration, noting that Council can do this under either the Waikato Water Done Well process or by direct discussions with both Hamilton City Council and Waikato District Council. A standalone water services CCO (Option 2) does remain a viable back-stop option.

NEXT STEPS

Waipā District Council	Relevant considerations: Option 3 Growth Option	Expected Date	Relevant considerations: Option 5 Waikato Water Done Well	Expected Date
EM Workshop	Workshop invite the CE to initiate discussion with Hamilton City Council and Waikato District Council	TBC	EM Workshop – WWDW – Heads of Agreement – Vaughan Payne	20 November 2024
Council Committee meeting	Review draft Record of Agreement and consider resolution	TBC	WWDW – Heads of Agreement decision. Note Agreement is non-binding, good	26 November 2024

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Waipā District Council	Relevant considerations: Option 3 Growth Option	Expected Date	Relevant considerations: Option 5 Waikato Water Done Well	Expected Date
			faith commitment and not yet informed by financial analysis	
	Engagement with mana whenua			
LWDW PGG meeting	Consider current draft Record of Agreement and any relevant updates to financial analysis	TBC	Consider update on any financial analysis undertaken	29 November 2024
	Three-monthly update on progress of Water Services Delivery Plan to DIA			3 December 2024
Service Delivery Committee meeting – Phase One of Project Plan completed – preferred option of the Water Services Delivery Plan confirmed by Elected Members	Consider Option 3 informed by draft Record of Agreement and any further information obtained from Hamilton City Council	TBC	Consider Option 5 informed by Heads of Agreement	10 December 2024
EM Workshop – engagement and consultation approach – LWDW legislation or LGA		TBC	TBC	17 December 2024
	Water Services Bill 3 introduced			December 2024
WSDP – Parts B & D drafted and presented to PGG meeting		TBC		28 January 2025
WSDP – Pars A, C & E drafted and presented to PGG meeting		TBC		February 2025
	Public Consultation (under special consultation provisions in Local Government Water Services Preliminary Arrangements Act 2024)			March/April 2025
WSDP adopted – pre LTP sign-off		TBC		June 2025
	Submission of WSDP to DIA			August 2025

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ATTACHMENT

Document number	Title
11338254	Waipā District Council Water Services Viability and Sustainability Assessment

Sherryn Paterson
MANAGER DELIVERY PERFORMANCE

Waipā District Council Water Services Delivery

Viability and sustainability of the current model and high-level assessment of future options

Final report

November 2024

Commercial in Confidence

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Introduction

Waipā 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 and a high-level option analysis of alternative options.

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 then considered the main options available to Waipā District Council informed by the broader strategic context being faced by the Waipā community.

We have undertaken this assessment against the backdrop of cost 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 Waipā District Council.

What this report covers

1 Strategic context

2 Overview of Waipā District Council water services

3 Assessment framework

4 Analysis against assessment framework

5 High level options analysis

6 Implications and recommendations

A Technical appendices

01

Strategic 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, with significant implications for council service delivery.

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 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 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, will provide for a range of structural and financing tools, including a new type of council-owned water organisation. Financing changes announced by LGFA will enable new water organisations to increase borrowing beyond existing council debt limits.

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.

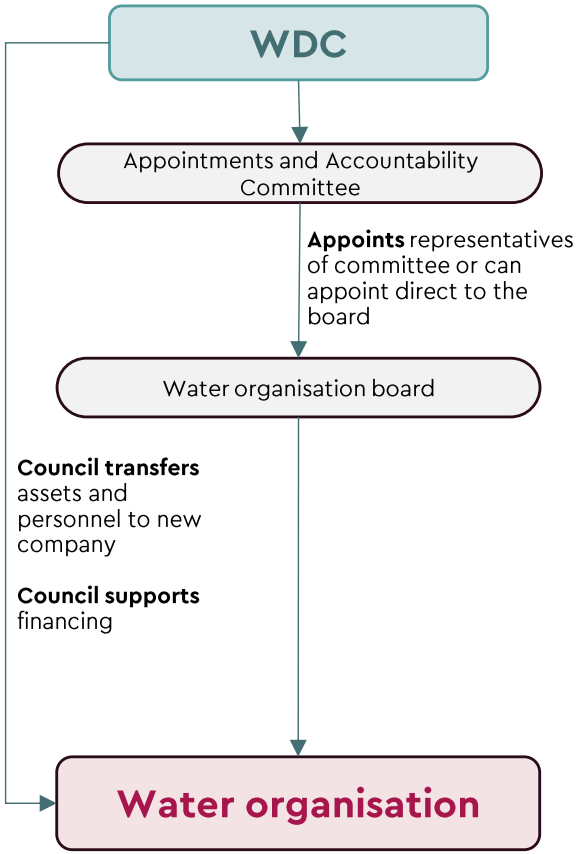
Government has identified a range models available to Councils

Internal business unit

WDC

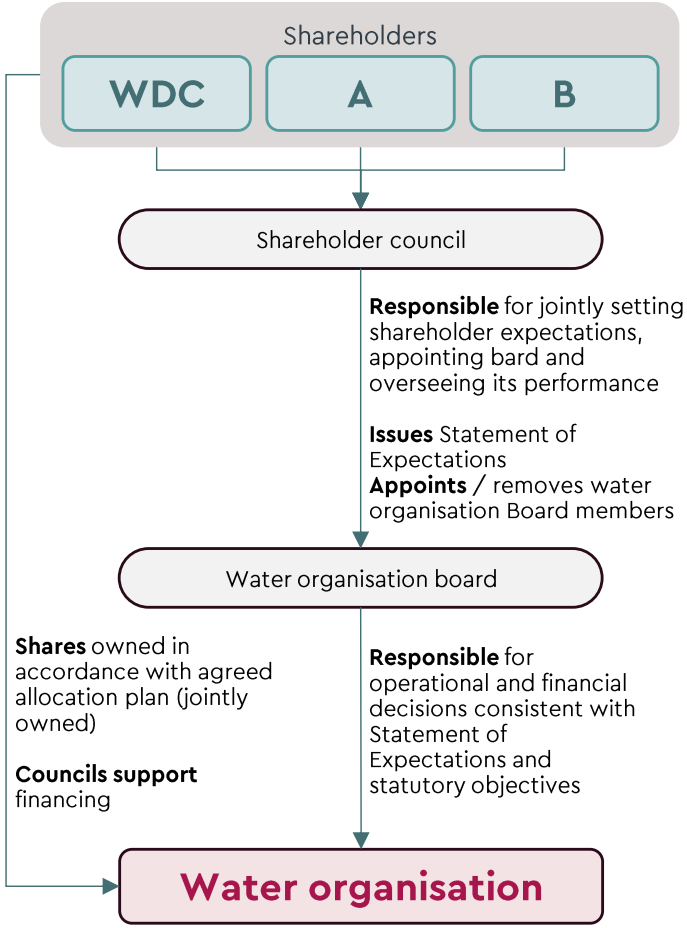
Water services delivered through internal business unit or division, with ring-fencing of revenue and expenditure. New planning and reporting framework for water service providers will apply.

Single council water organisation (CCO)



Multi-council water organisation

(for example under Waikato Water Done Well or with other neighbouring councils)



Additional requirements for water organisations

In addition to the minimum requirements that apply to all water services providers, the legislation will also look to include additional requirements that apply to water organisations – affecting their ownership, governance, and structural arrangements.

These requirements will apply to all water organisations, including any existing council-controlled organisations and council-controlled trading organisations that deliver water services.

These features are not relevant where councils continue with direct service delivery.

The following additional requirements apply to water organisations:

Current council staff and elected members cannot be appointed to boards.

Water organisations **must be companies.**

Activities of water organisations will be **limited to the provision of water services** and directly-related activities.

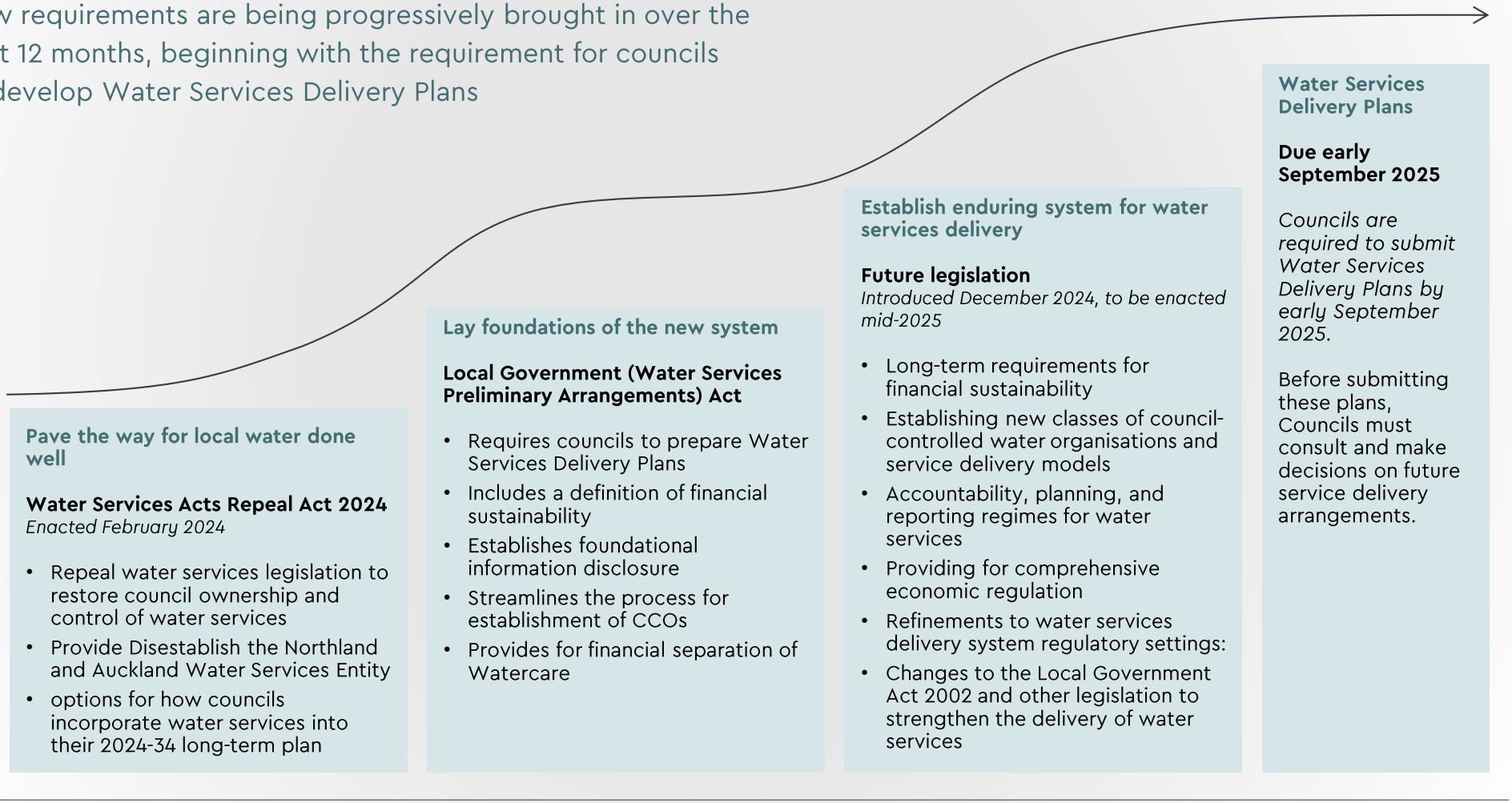
Only councils or consumer trusts can be shareholders of a water organisation.

Board appointments must be competency-based and have the appropriate mix of skills, knowledge, and experience.

There will be a range of protections against privatisation.

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



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 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 that 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.

02

Overview of Waipā District Council Water Services

Waipā – strategic context

Shifting demographics change what your communities expect of you

1

22,000 new people will call Waipā home by 2055 and will need places to live, work, learn, shop and play.
12,000 new more affordable dwellings will be needed by 2055.
Residents aged over 65 will double to 30 percent by 2050.
For example, SL1 Consortia fastrack arrangement for North Waipā alone is expected to provide an additional 7,500 homes and 10,000 jobs.

Relatively strong economic performance will continue, however economic activity will diversify

2

While dairy is the largest single industry (and largest user of water), Waipā's economy is expected to continue steadily diversifying including a shift to horticulture. 9 percent of the country's highly productive land is in Waipā.
Your economic geography is distinct, your communities of interest are strongly connected, and overtime you have a much more significant urban population.

Treaty of Waitangi settlement obligations in the region are distinct

3

Waipā District Council must give effect to Te Ture Whaimana o Te Awa o Waikato (the vision and strategy for the Waikato River). This awa is critical to your future water services requirements and also viewed as a tupuna (ancestor) and taonga (treasure) to mana whenua (Waikato-Tainui, Raukawa, Ngāti Tūwharetoa and the Te Arawa iwi). The same applies to the Waipā River for Ngāti Maniapoto.

*Adapted from Ahu Ake, Waipā Community Spatial Plan 2024

Snapshot of water services

	Water supply	Wastewater	Stormwater
Contribution to local community outcomes:	To ensure our community benefits from the ongoing provision of potable water. Water is supplied to Cambridge, Te Awamutu, Kihikihi, Pirongia, Ōhaupō, Pukerimu and Karāpiro.	To ensure the community and the environment are protected from the adverse effects of wastewater. Wastewater services are provided to the Cambridge, Hautapu, Karapiro, Te Awamutu and Kihikihi Communities, Waikeria Prison, as well as tankering of waste from the airport precincts. Waikeria prison pipeline provides for a future connection to Tokanui Village.	To ensure the adverse effects of stormwater run-off and flooding on the community and the environment are minimised. Urban stormwater services is provided to the Cambridge, Te Awamutu, Karapiro, Kihikihi, Ohaupo and Pirongia communities. A reduced service is also provided to some rural areas, e.g., the airport and associated industrial environs.
Services:	**17,958 serviced properties in 2023/24**	**18,474 wastewater connections in 2023/24**	**13,891 serviced properties in 2023/24**
Assets:	Council owns seven water treatment plants, 16 reservoirs, 665km of pipes and approximately 50,000 meters. There are 17 consents associated with the abstraction of water , discharge of treated backwash water (created from the treatment processes), maintenance of reservoirs and other associated works.	Council owns two wastewater treatment plants, 67 pump stations and 304 km of pipes. There are 11 consents associated with the treatment of wastewater including the discharge of treated wastewater to land and water, odour and other civil works.	Council 199 km of pipes, 222 km of rural drains, and 48 ponds and wetlands. The existing consents associated with the stormwater activity are in the process of being relaced with a comprehensive stormwater discharge consent.
Replacement asset value:	**$416.3 m**	**$324.9m**	**$246.0m**
Challenges:	• Impacts of climate change, resulting in an increase in peak demand, poorer quality source water and minimum abstraction levels being reached more often. • Not all areas meet current performance levels for pressure, water quality security and firefighting capacity and storage. • Private plan changes have changed the long-term planning for infrastructure. • Growth demand is increasing beyond existing network capacity in Cambridge and Te Awamutu. • Treatment plant asset data is poor.	• Impacts of climate change, resulting challenging discharge receiving environment conditions, increasing contaminant concentrations and odour and a higher frequency of overflows. • Growth demand is increasing beyond treatment plant network capacity. • Treatment plant asset data is poor. • Hamilton Southern WWTP engagement, investment and benefits.	• Impacts of climate change, increased temperatures could contribute to odour issues in drains/swales, increased rainfall could increase flooding and reduced treatment quality from treatment devices. • Not all existing areas of the stormwater network meet performance measures in terms of pipe capacity and expected water quality. • Operational funding gap for maintenance and inspections of the stormwater network. • The new comprehensive stormwater discharge consent will require additional investment in infrastructure, operations and maintenance.

Current service delivery model

Inhouse resources

Water services operations are primarily managed by the Water Services team located within the council's Service Delivery Group. A Water Services Manager leads a team of approximately 50 staff delivering:

- Operations and maintenance
- Asset management
- Compliance.

Capital delivery is undertaken by the project delivery team within the Service Delivery Group

Outsourced delivery

Co-Lab shared services provides:

- Sampling and analysis for water, wastewater
- Implementation and administration of the trade waste bylaws
- Smart Water brand and water education.

Progress over the last three years

- Urban flood mapping.
- Cambridge wastewater treatment plant consent and commencement of a $105 million upgrade.
- Infrastructure planning informed by a 3 Waters Master Plan.
- Improving fire flows in Cambridge and Te Awamutu.
- Reconfiguration of Te Awamutu's water supply to provide security of supply.

Challenges

- Construction of new infrastructure to service growth meeting the appropriate standards.
- Changing standards, including the new comprehensive stormwater discharge consent, wastewater standards, economic regulation.
- Funding of renewals, programme is available and deliverable, currently financially constrained.
- Asset data quality.
- Availability of new systems and processes to enable efficiencies.
- Resourcing constraints, retention of experienced staff and ability to recruit new talent.

Activity	Planning & Management	Operations & Maintenance	Capital Delivery
Water supply	Inhouse	In-house Water sampling and Laboratory services are carried out by Waikato LASS shared services	Outsourced (Inhouse project management)
Wastewater	Inhouse	In-house	Outsourced (Inhouse project management)
Stormwater	Inhouse	In-house	Outsourced (Inhouse project management)

Asset condition

Renewals planning for pipes is determined mostly on the theoretical end of life of the asset. A review is undertaken to determine if an asset is required to be upsized to account for growth. The documented information around asset performance in the form or breaks or blockages is poor and only intermittently used.

There are known errors in the asset data. Approximately 10-20% of network assets have an assumed asset installation date, with gaps particularly noticeable for older assets.

Water supply

Around 70% of the piped network has no condition information, however condition information is available for critical assets such as pump stations, reservoirs, pipe bridges and treatment plants.

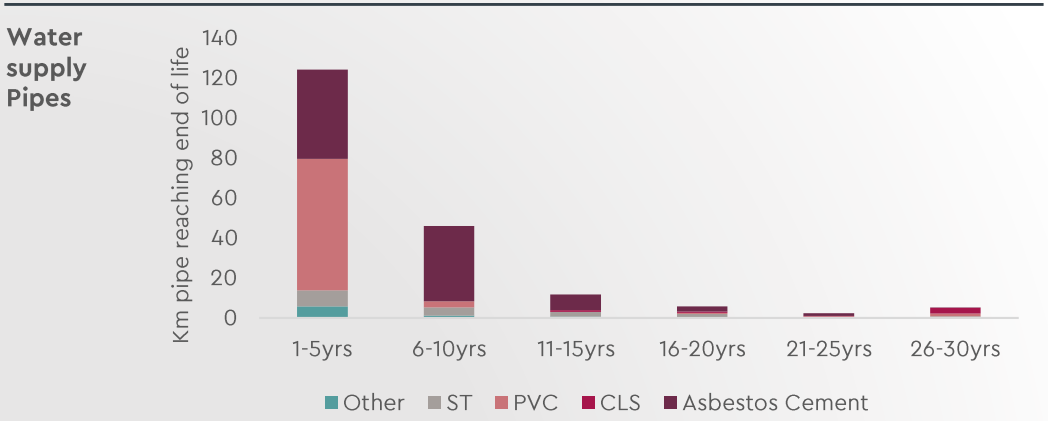
Based on age, over 120km of water main pipe need to be replaced in the next 5 years, with another 46 km by year 10. Most pipes requiring replacement are made from PVC or asbestos cement. Asbestos cement pipes pose a resilience problem for council as they become brittle with age and are prone to longitudinal cracking making repairs difficult.

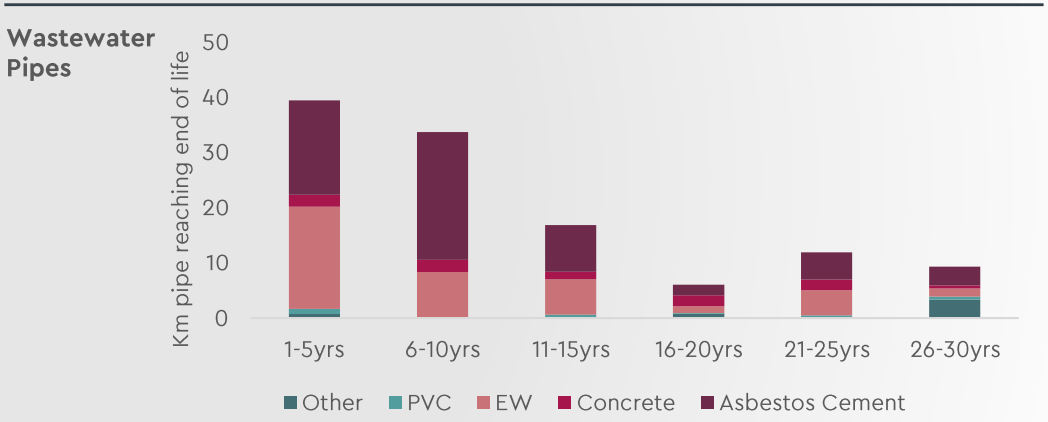
Wastewater

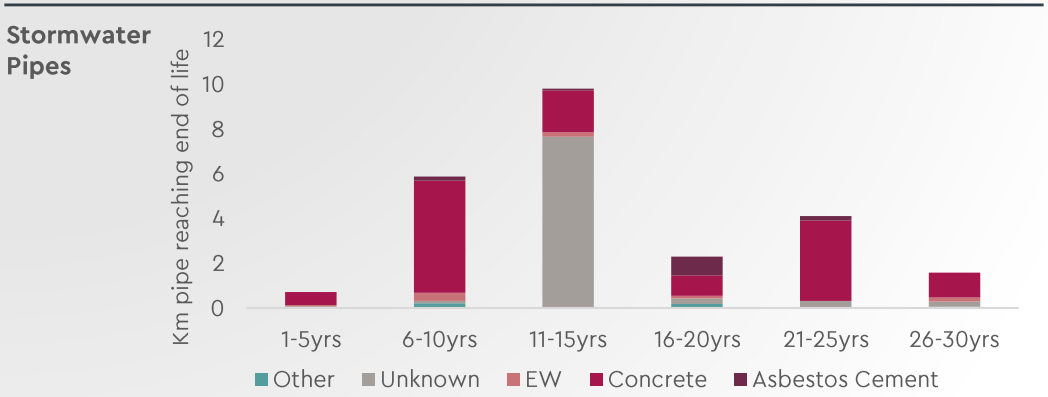
Over 70% of the wastewater pipes have been conditionally assessed, critical assets such as pipe bridges, pump stations and treatment plants have condition assessments completed regularly. Within the network, 40km of pipe is likely to require replacement within the next 5 years, with anther 34 km by year 10.

Stormwater

The stormwater network is the newest of the three waters, with only 7 km of pipe reaching the end of its life over the next 10 years. There is very little information on the condition of these assets. Missing asset data is also apparent.







Asset maintenance and renewals

Renewals strategy

Council's renewal strategy aims to maintain levels of service by identifying the most cost-effective time to renew individual or groups of assets.

Financial constraints on the renewal programme restricts the opportunity to source efficiencies that long-term renewal contracts can provide. Waipā has in the past engaged with neighboring councils to achieve this.

Renewals backlog

The renewals backlog based on end-of-life is considerable, with 250 km of pipes requiring replacement within the next 10 years, 170km of which is water.

Financial constraints in the first three years of the draft 10-year plan restricts the level of renewals investment that can delivered. An increase in investment has been allowed for in the later part of the draft 10-year plan to mitigate the impact of this.

The implications of the constraints and financial re-forecasting has created an unstainable level of construction works that the local supply chain may not be able to deliver in the later years.

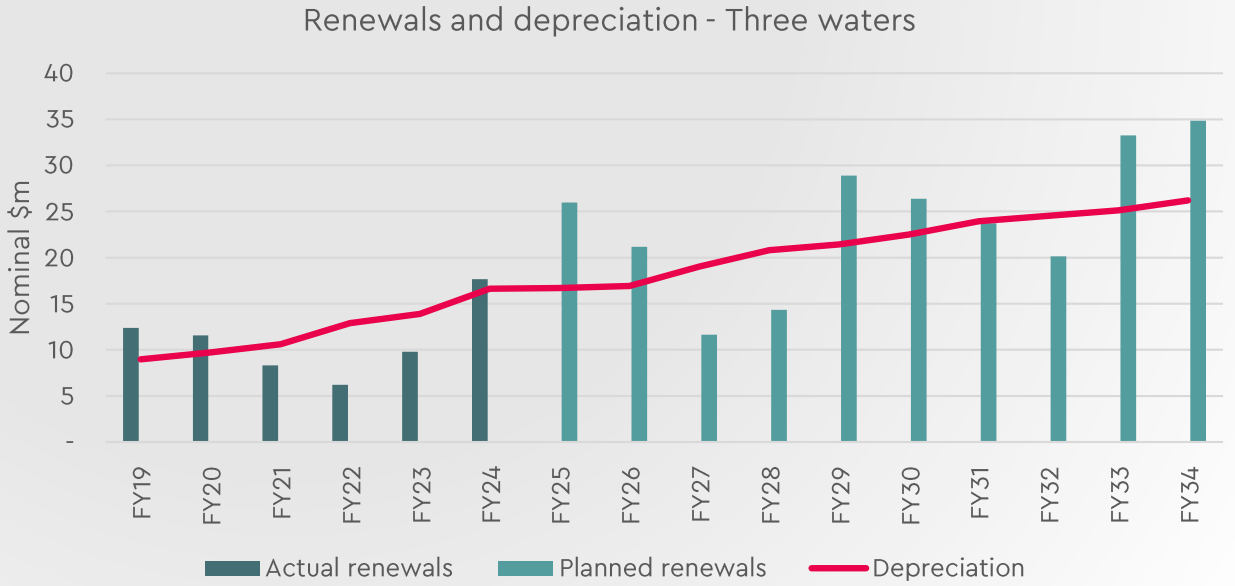
In the longer term, it is expected that the renewal profile will increase as assets built in the 1950's and 60's require replacement. Detailed forecasting ceases in the longer-term around FY39, defaulting to a financial allowance for renewals.

Renewals and depreciation

Across the 3 waters there is an upward investment trend over time for renewals, investment in the next 10 years is dominated by water. Over the longer-term renewals investment is in line with the level of depreciation expense.

Over the last six years, $65.9 million has been spent on renewals capex, compared with $72.7 million in depreciation expense, averaging 88% of the depreciation for the period.

The council is planning to spend approximately $240 million in renewals over the next ten years over three waters, compared with $217.2 million in depreciation expense, or 11% more than the depreciation expense. However, the majority of this expenditure relates to water supply. Both wastewater and stormwater renewals spend is significantly less than depreciation expense.



Compliance

Drinking Water Compliance

All supplies and networks are compliant with the drinking water standards.

Resource Consent Compliance

Waipā currently has 44 consents across the district for three waters, the majority of the expired consents are in the process of being combined into a District Wide Comprehensive Stormwater Consent. Two consents relate to infrastructure that is no longer required.

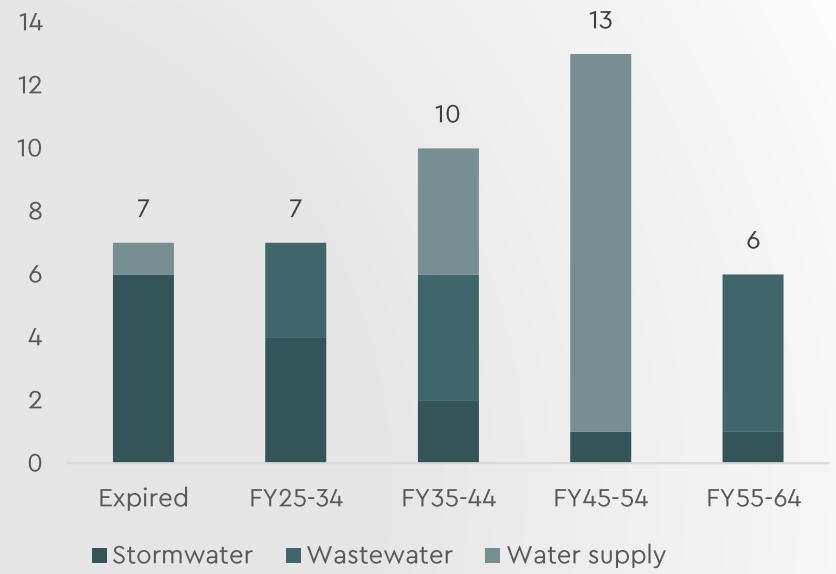
There are only minor non-compliant issues for the three waters against current conditions.

For the Cambridge WWTP, the site is currently fully compliant against the short-term consent conditions.

Since the submission of Waipā's new application for a Comprehensive Stormwater Discharge Consent (CSWDC) for the urban areas of Waipā to Waikato Regional Council (WRC), Council received a section 127 reply from WRC in August 2023. Staff worked through these comments and have agreed a time extension until October 2024. Following this WRC will likely start the limited notification process in late 2024. Limited notification being indicated as being primarily to iwi groups.

The new consent will require a more holistic management and consideration of stormwater across all Council departments and require greater scrutiny of private devices operating as intended, so they do not add load or water quality concerns to the public network.

Expiry Dates for Resource Consents



	Non-compliant (low risk)	Non-compliant (moderate risk)	Partial compliance	Compliant	Total
Water supply	3			14	17
Wastewater	1			12	13
Stormwater	1	1		12	14
Total	**5**	**1**	**0**	**38**	**44**

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.

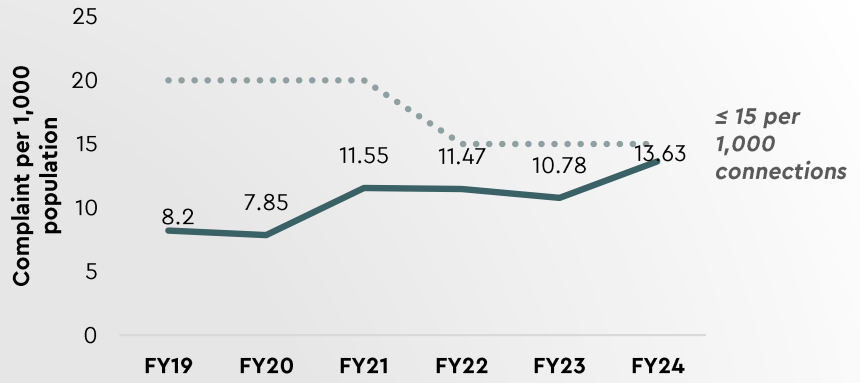
Water supply: Overall customer complaint levels are trending upwards, however there no corresponding changes in supply performance metrics to understand what is driving the additional complaints. Anecdotally the increase in media interest in the water services has led to more customer enquires.

In 2022 the target range was reduced to ≤ 15 per 1000 connections.

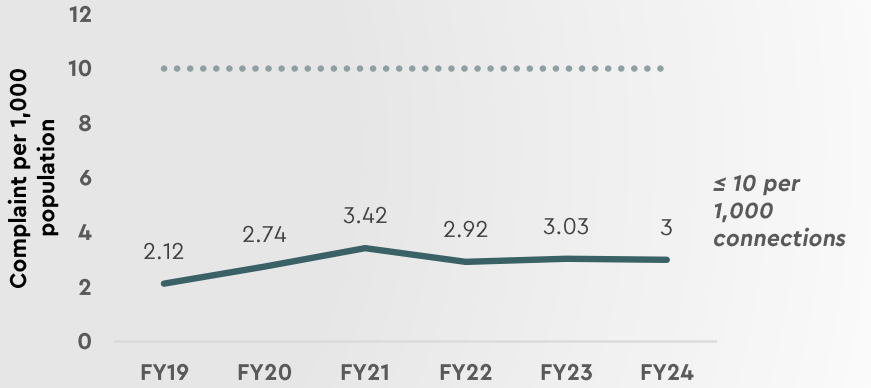
Wastewater: Odour, system faults and response to issues were all within the target acceptance levels.

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

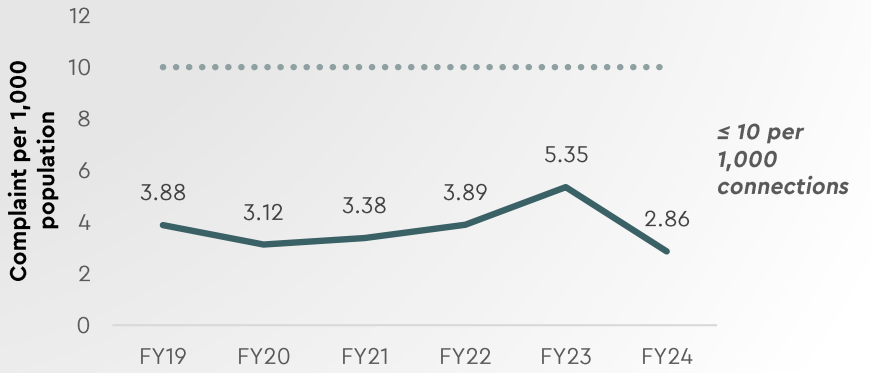
Water Supply: Customer complaint rate vs target



Wastewater: Customer complaint rate vs target



Stormwater: Customer complaint rate vs target



Service levels —customer resolutions

Response times

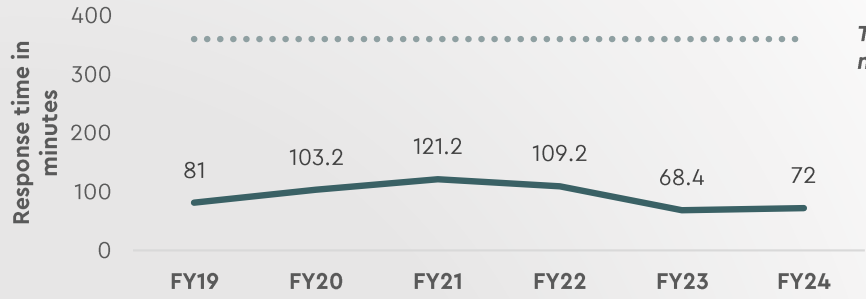
Response times are measured by the time it takes for Council to respond, attend and resolve service issues.

Water supply: Response times are measured for both urgent and non-urgent callouts. Urgent callout resolution times have decreased since 2021 and are now relatively stable. Non-urgent call outs remain stable.

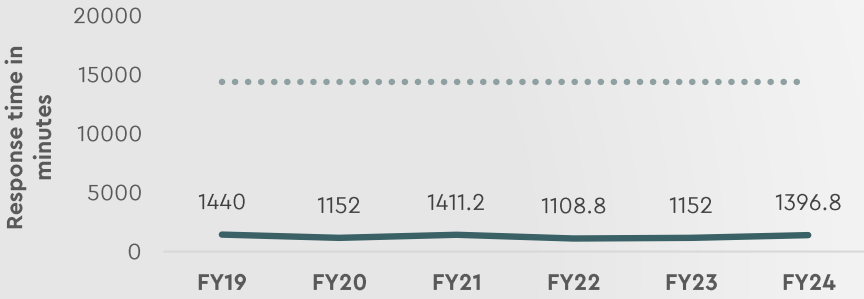
Wastewater: Wastewater attendance times are variable with no overall downward trend.

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

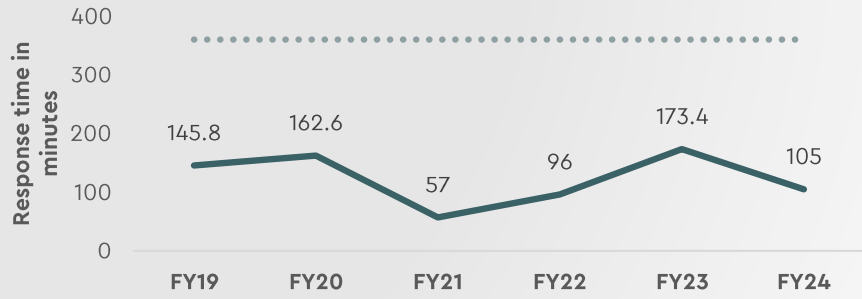
Water Supply (urgent): Resolution response time vs target



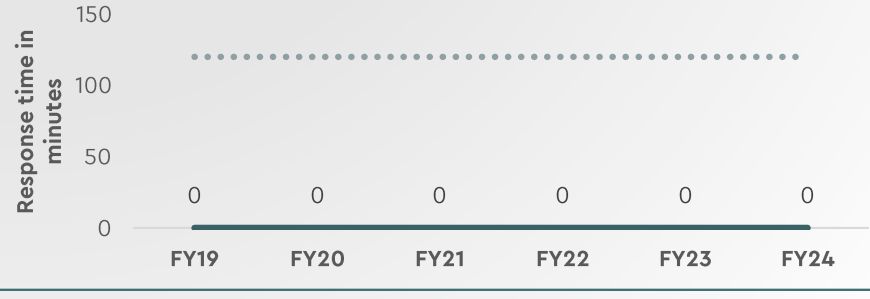
Water Supply (non-urgent): Resolution response time vs target



Wastewater: Resolution response time vs target



Stormwater: Resolution response time vs target



Network performance and usage —water supply

Water supply performance

Performance of the water supply network is measured by leakage and water usage.

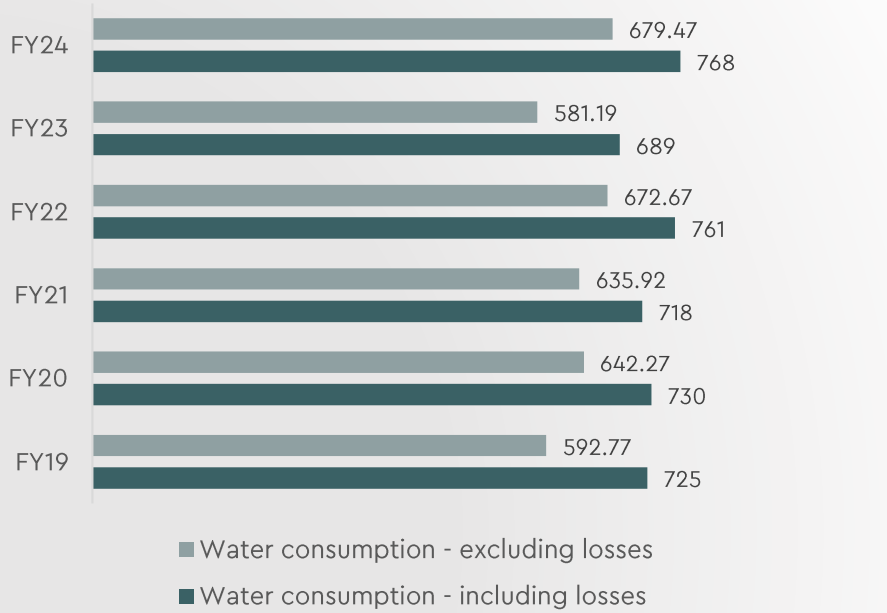
Water usage

Water meters were installed in 2018, since this time water usage has been reasonably consistent, with dry summers driving peak demand. The average consumption across the district is of 634 per day per resident, which is similar on average to other councils in NZ.

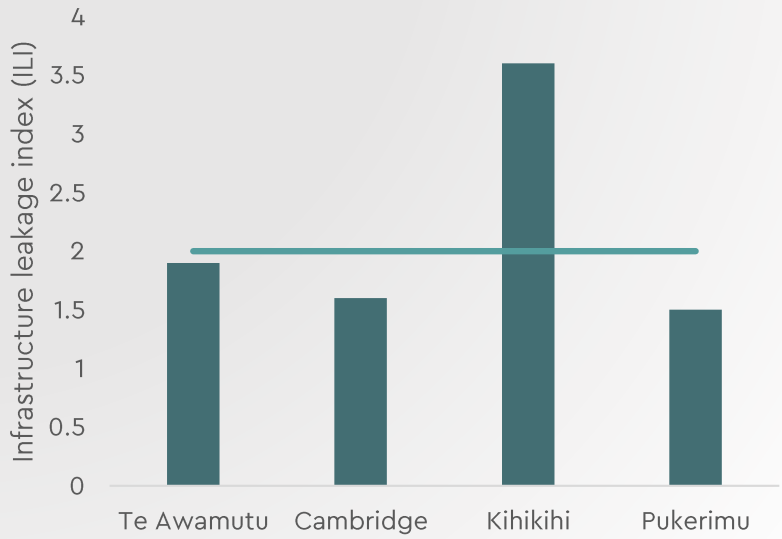
Water loss

Water loss as measured by the infrastructure leakage index (ILI) for Te Awamutu, Cambridge and Pukerimu shows that these systems are performing well. In Kihikihi there was two significant leaks in the network, which as temporary driven water loss in this area. There is limited economic benefit in reducing leakage where the score is below 2.

Water Usage



Water Loss



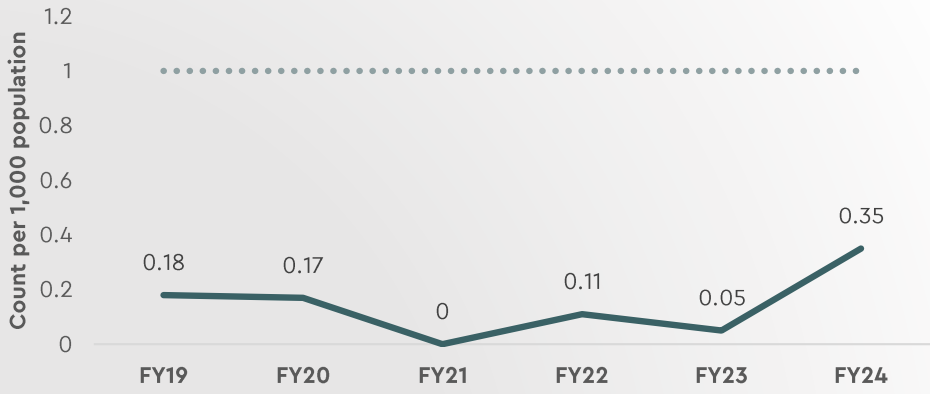
Network performance —wastewater and stormwater

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

- **Wastewater overflows:** Overflows have and remain within targeted levels. There is no network performance evidence to determine why there has been an increase in dry weather overflows. Improvements in data quality may be the cause.
- **Wastewater blockages:** The number of complaints about wastewater per 1,000 connections remains constant and within targeted levels.
- **Stormwater flooding:** There has been no stormwater flooding events within the last six years.

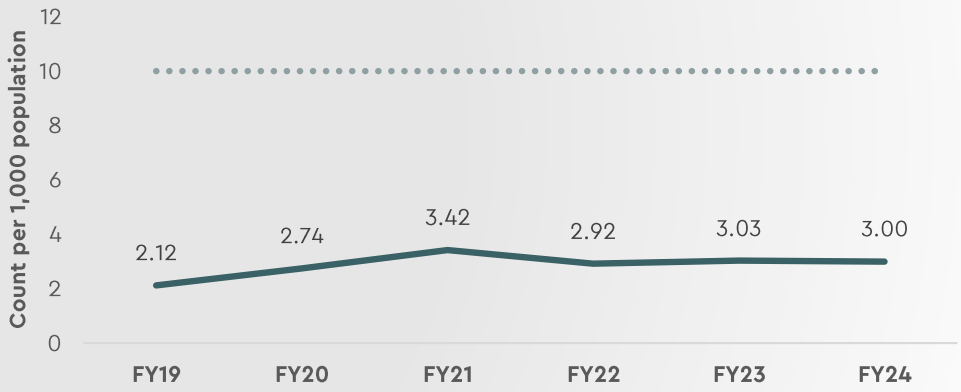
Wastewater: Overflows

Number of dry weather sewerage overflows per 1,000 connections



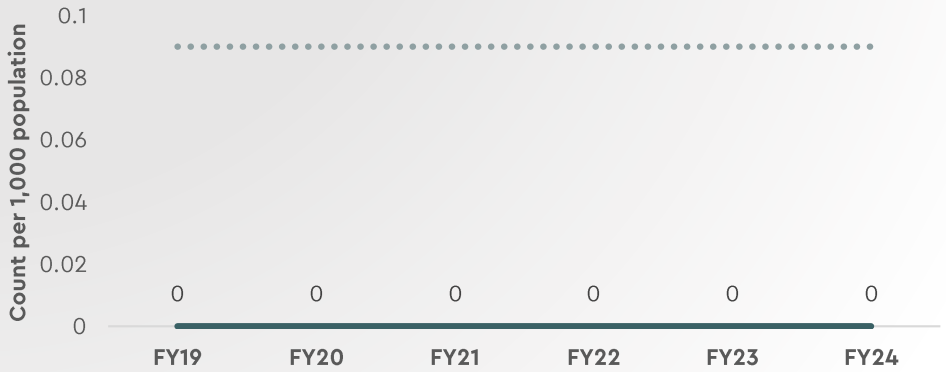
Wastewater: Blockages

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 services every three years. The first assessment is required by 1 July 2026.

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

Each 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.

Responsibilities if community supplies develop problems

If a private or community water supplier faces a significant problem with any of its drinking water 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.

The council also has a statutory obligation to ensure that safe drinking water is provided to the affected consumers on a temporary or permanent basis, if the supplier is unable to continue to provide a service that meets the statutory requirements, or if an alternative solution is not readily available or cannot be agreed by the parties within a timeframe set by Taumata Arowai.

A significant problem can include where:

- A drinking water supplier persistently fails to comply with legislative requirements
- There is a serious risk to public health relating to the drinking water service, or
- A drinking water supplier has ceased to operate a service or, in Taumata Arowai's opinion, is at serious risk of doing so.

Options available to councils

If a council is required to get involved in helping to identify a solution to a problem with a community supply, there are a range of options available to the council including:

- Taking over the management and operations of the service, on a temporary or permanent basis
- Ensuring drinking water continues to be provided through alternative supply arrangements.

In these circumstances, a territorial authority may charge for any drinking water services provided to affected consumers, and may recover its costs from the previous supplier but, when making decisions about future charges and funding arrangements, the territorial authority must take reasonable steps to consider the financial circumstances facing the affected consumers, and the range of funding sources provided for in its revenue and financing policy, including the potential use of general rates.

Community supplies in the Waipā District

There are no large-scale community supplies within the Waipā District. Assessments for marae, papakainga, should be actively considered.

Treatment of Stormwater

WATER SERVICES PLANS

Water supply, Wastewater and Stormwater activities are to be included in the Water Service Delivery Plan (WSDP).

NEW REGULATION

Council will retain legal responsibility and control of stormwater and will have flexibility to choose arrangements that best suit them.

Council will be able to:

- Continue to deliver stormwater services; or
- Contract a new water organisations to deliver aspects of those stormwater services; or
- Transfer aspects of stormwater service delivery to a water organisation.

Council will retain responsibility for funding stormwater and will need to do so in a transparent manner.

MANAGEMENT OF URBAN OVERLAND FLOW PATHS AND WATERCOURSES

Government is proposing changes to improve management of overland flow paths and urban watercourses:

- Specifying council and private landowner statutory roles and responsibilities to management of overland flow path and urban watercourses
- Enabling new planning and regulatory tools
- Enable councils, transport corridor managers to agree to service agreements to support integrated stormwater management

Note: All financial analysis in this report includes stormwater

Key risks and challenges over the next 10 years

Meeting the demands of growth across the current ratepayer base

Constrained investment in systems and processes to improve operational efficiencies and advancement in asset management practices

Asset information quality requires improvement

New stormwater discharge consent and associated investment to improve stormwater quality

Ability to attract and retain key resources, particularly if other employers are more competitive and provide attractive career pathways

Revenue risk with high dependence on demand from high use commercial users and development contributions

A significant amount of water assets require replacement, constrained investment has presented a delivery challenge, and this is likely to continue

03

Assessment framework

How we approached the assessment for Waipā District

Operating context

- Pressures from growth
- Full compliance for drinking water
- All water supply metered
- Wastewater growth planned, including new Cambridge wastewater treatment plant
- Stormwater growth underway, including Cambridge growth cell and Hautapu industrial areas
- Specific Treaty settlement responsibilities including under Te Ture Whaimana o Waikato
- Single user consumes 30% of water supply
- No differential pricing but some targeted rates e.g. for the airport
- Significant increases in asset replacement costs and future revaluations
- Significant increases in borrowing

Service levels

- Network performance
- Drinking water compliance
- Resource consent compliance
- Customer service

Cost drivers

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

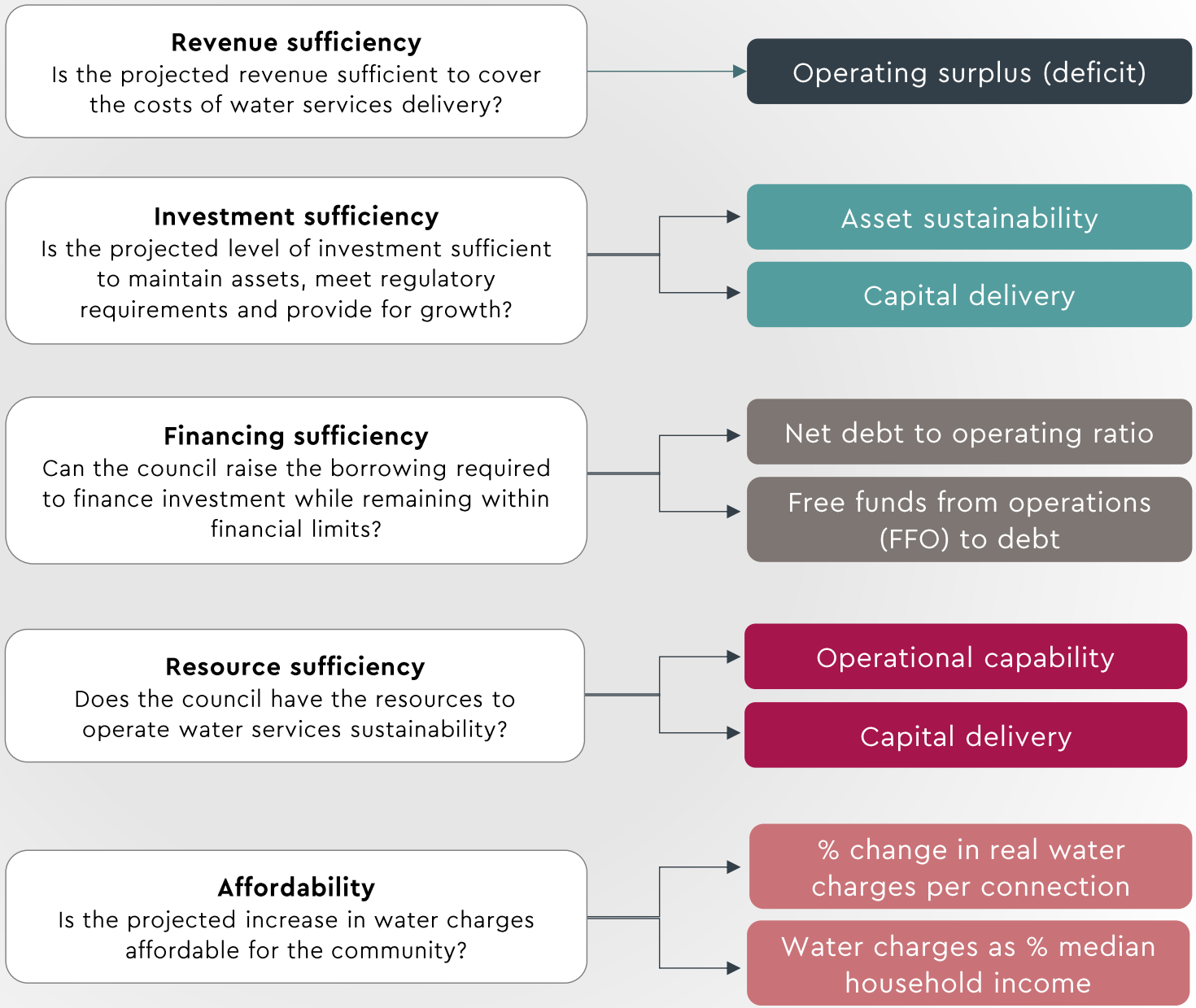
Financial projections

- 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



Viability and sustainability measures

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., financial 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	**FFO to debt and EBITDA to debt are** two of the core financial ratios used by credit rating agencies when assessing the financial strength and credit quality of standalone water organisations.
EBITDA to debt	
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.

4a

Three waters services – Water Entity

Revenue sufficiency	Investment sufficiency	Financing sufficiency	Affordability

Three waters operating expenditure

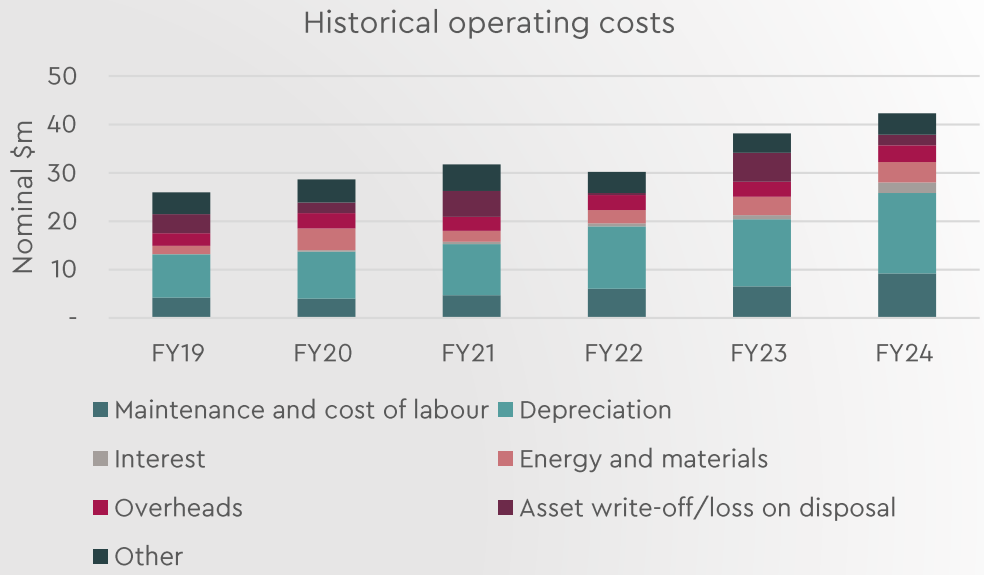
Last five years

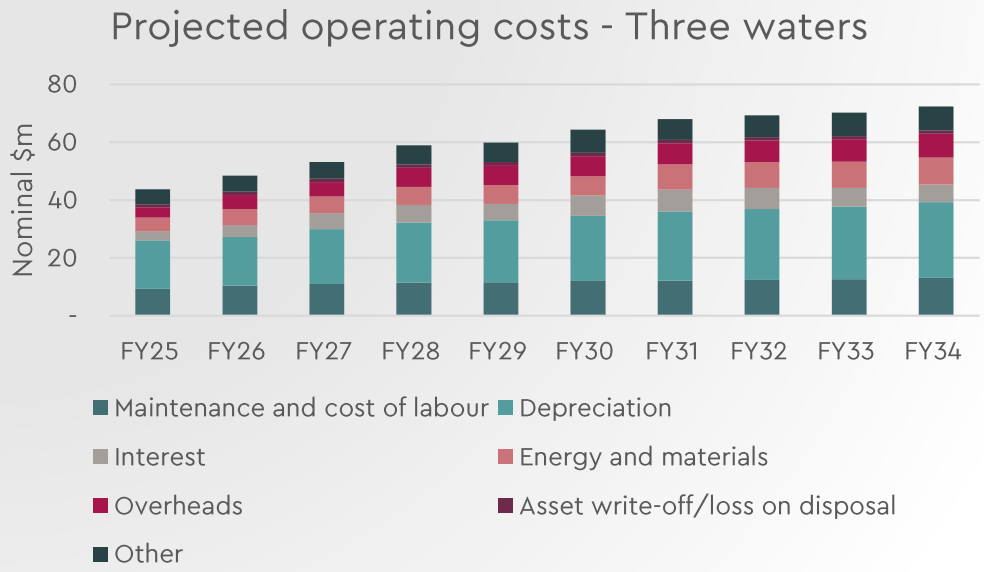
The cost of operating three water services increased by 63% over the last five years – from just under $26.0 million to $42.3 million. Significant drivers of this included depreciation costs (+85%), interest costs (+4,680%), maintenance and labour costs (+119%), and energy and materials (+147%). Increases in depreciation relate to asset revaluations, with higher replacement costs driving higher depreciation expense. Higher finance costs reflect both increased borrowing and higher interest rates.

Outlook

Operating costs are projected to increase by 5.4% p.a. over the next ten years – from $42.3 million to $71.5 million. Significant drivers of this include anticipated increased costs associated with depreciation (+4.7%), overheads (+9.1% p.a.), energy and materials (+8.4% p.a.), interest (+9.2% p.a.), and maintenance and labour costs (+3.6% p.a.).

Higher depreciation costs reflects anticipated further increases in replacement costs of existing assets, as well as the flow on impact of capital investment on depreciation.





Three waters capital expenditure

Investment sufficiency

Capital delivery

The council invested $275.1 million in three waters assets over the last six years compared with planned investment of $328.5 million (a delivery rate of 84%). The $60 million planned investment in stormwater network growth is the reason for the spike in FY22, of which only $16.3 million was delivered.

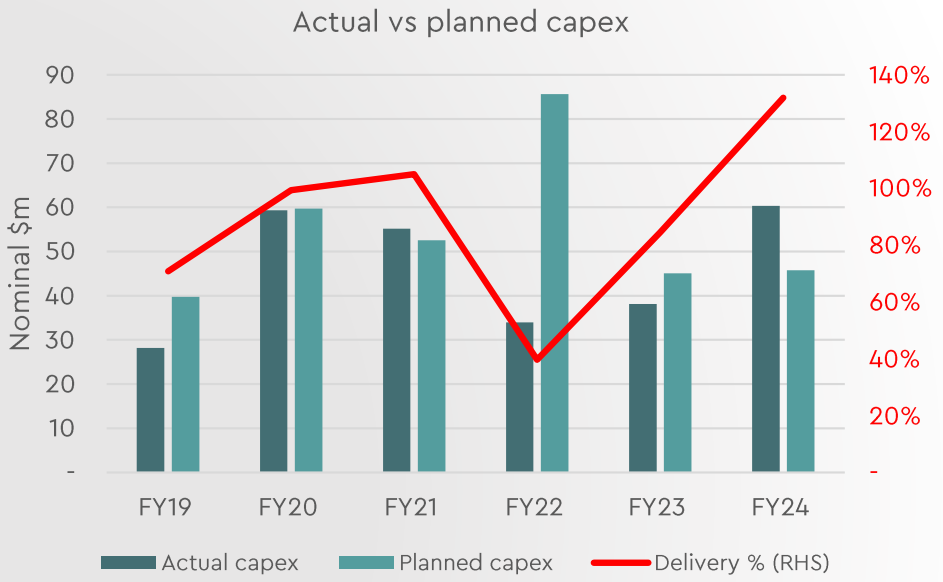
Capital expenditure plans

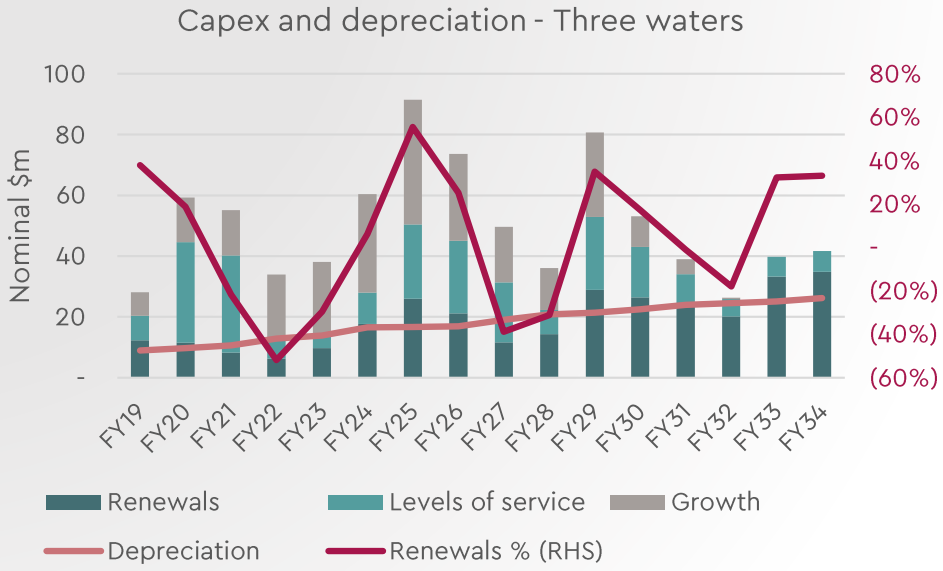
The council is planning to invest $531 million in its three waters assets over the next ten years. This level of investment represents a decrease on the average level of investment over the last six years. In today's dollars, investment averaged $54.3 million per annum over the last six years, compared with $46.4 million per annum planned for the next ten years.

The council is midway through a programme of investing in expanding its network capacity to provide for future growth, which is forecast to continue until FY27. This period sees coincident timing of peak investment across each of the three waters activities. Based on a combination of recent delivery of the capital programme and the scale of investment being undertaken concurrently, there is some degree of uncertainty whether this capital programme can be delivered efficiently and on schedule.

Depreciation and renewals

The council spent $65.9 million on three waters renewals over the last six years compared with depreciation expense of $72.7 million (renewals comprising 91% of depreciation expense). Over the next ten years, the council is planning to spend $240.4 million on renewals, 11% more than the projected depreciation expense. There are significant differences between each of the water activities, with renewals comprising 82% in excess of depreciation expense for water supply but under-investment in renewals for both wastewater (14% less than depreciation) and stormwater (76% less than depreciation). This reflects the condition of assets in the respective water service.





Three waters revenues and operating balance

Revenue sufficiency

Revenues

Revenues for three waters services are projected to increase in the draft LTP by 165% over the next ten years – from $34.4 million to $91.3 million. This represents a real increase of 6.3% per annum above the projected rate of inflation and projected population growth of 2.7% p.a., or an extra 5,200 water supply connections over the LTP period. The large increases in revenues are driven in FY26 and FY27 are driven by proposed increases in targeted rates for water supply and wastewater.

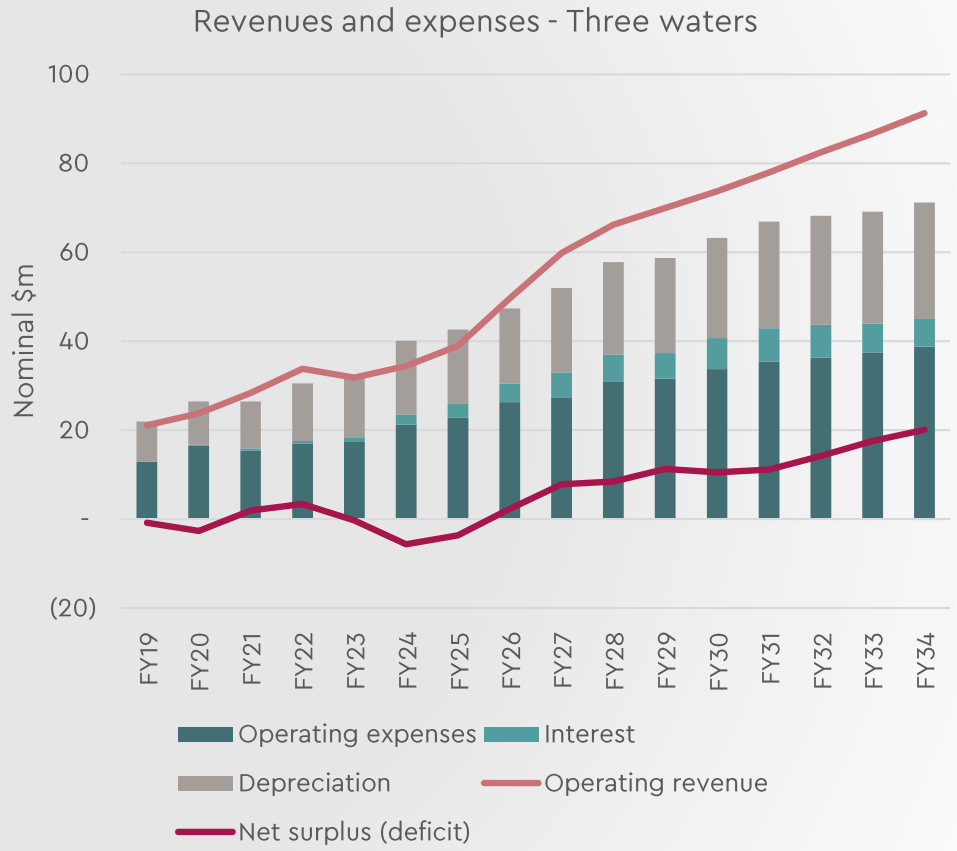
Operating surpluses (deficits)

Water services have returned both surpluses and deficits over the past six years, ranging from an operating deficit of 16% (FY24) to a 10% operating surplus (FY22). Council expects to remain in deficit in FY25 but then projects surpluses in each of the following nine years, averaging 14.9% of operating revenue over the full ten-year period. As noted below, these surpluses indicate revenues are higher than required to meet financial sustainability requirements.

Revenue sufficiency

The council's long-term plan financial projections exceeds the expected future requirement for revenue sufficiency over the LTP period and indicate over-recovery of the cost of water services.

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 borrowing and financing sufficiency

Financing sufficiency

Net borrowing

Net water services borrowing (internal and external) increased by $145.4 million over the last six years, from $9.7 million to $155.1 million. Borrowing for water services is expected to more than double over the next five years, increasing by $157.3 million, to around $312 million. From the high in FY29, net debt is forecast to decrease, reaching $135.4 million by FY34.

The reduction in debt balances is heavily reliant on developer contributions, averaging $23 million annually over the LTP period. This is nearly more than 5 times the average annual amount received over the past 6 years. This level of developer contributions should be viewed in the context of overall economic conditions and may be subject to volatility.

Net debt to revenue

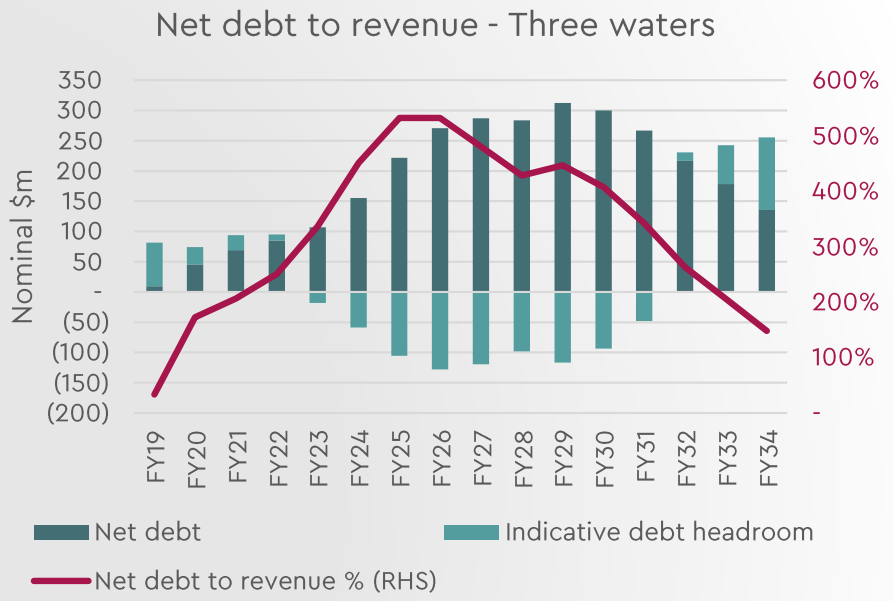
Net debt to revenue has increased from 33% in FY19 to 451% in FY24. Over the next ten years, this is projected to increase to 532% in FY25 and FY26 before decreasing back to 144% by FY34. Water activities are typically operated with higher leverage than non-water council activities, due to their capital-intensive nature. The proposed level of borrowing in the near term is very high but borrowing returns to very conservative levels by the end of the 10-year period.

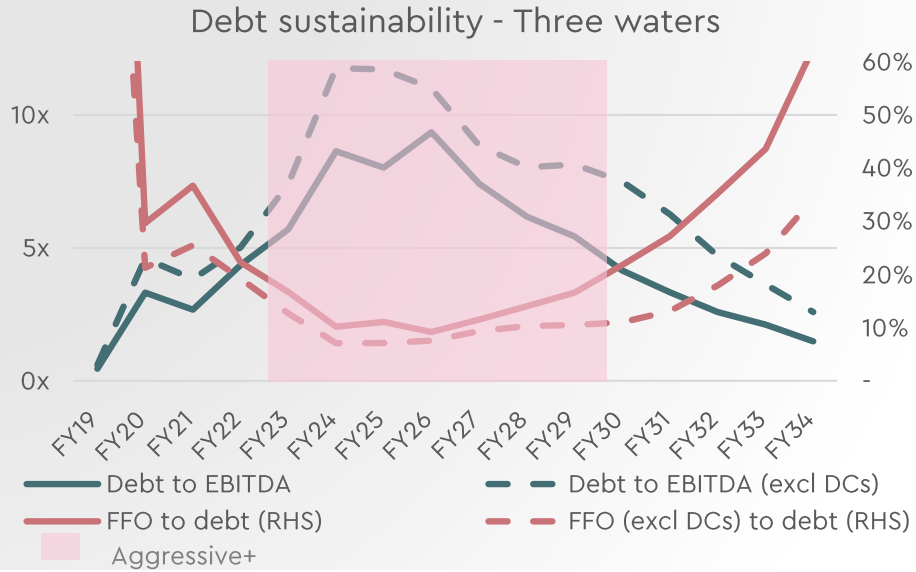
Debt sustainability

Funds from operations (FFO) to net debt has been decreasing since FY21, from 37% to 10% in FY24. It is projected to remain at these low levels through until FY27, before increasing over the remainder of the LTP period. A range of 9-13% represents an aggressive level of leverage, while a range of 23-35% represents an intermediate level of debt.

Debt to EBITDA increased from 0.5x to 8.6x over FY19-24, and is projected to remain elevated, but below 9.5x (including development contributions), until FY26, before decreasing to 1.4x by FY34. A level greater than 5.5x represents a highly leveraged position, while a level below 3.5x corresponds to an intermediate or less level of debt.

Overall, the debt trajectory over the LTP period is aggressive for three waters on a standalone basis, owing to the reliance on debt in the short-term. Under ringfencing rules, this build-up of cash reserves would need to be available for future water investment and could be used for water debt repayment.





Three waters affordability

Affordability

Average water rates per connection

Total water charges per connection are projected to increase by $1,816 per connection, from $1,751 in FY24 to around $3,567 per connection by FY34.

When expressed in today's dollars, this represents a real increase of $762 per connection, or a real increase of 3.6% per annum above the projected annual rate of inflation.

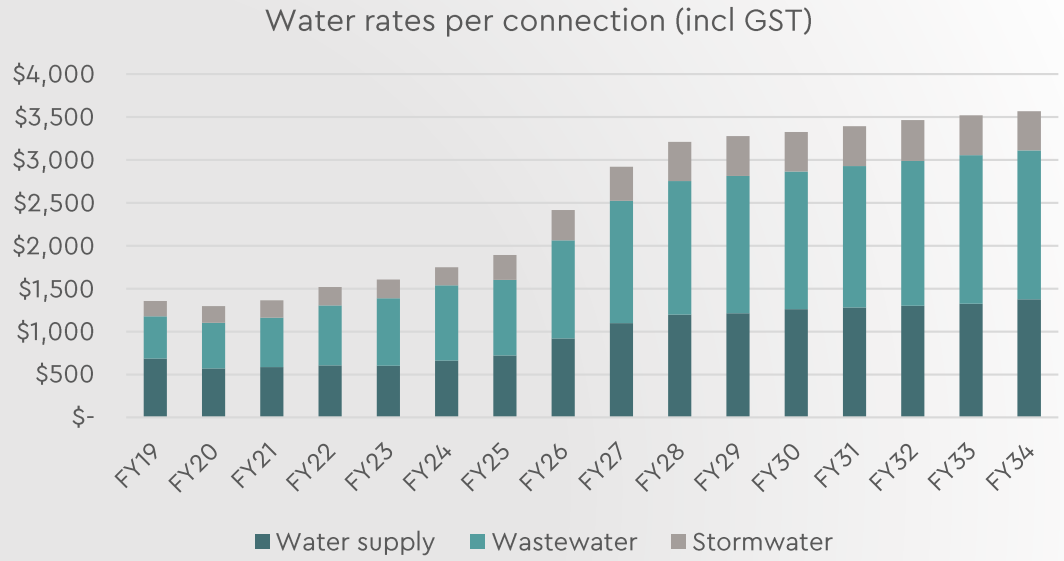
Water rates as a % of median household income

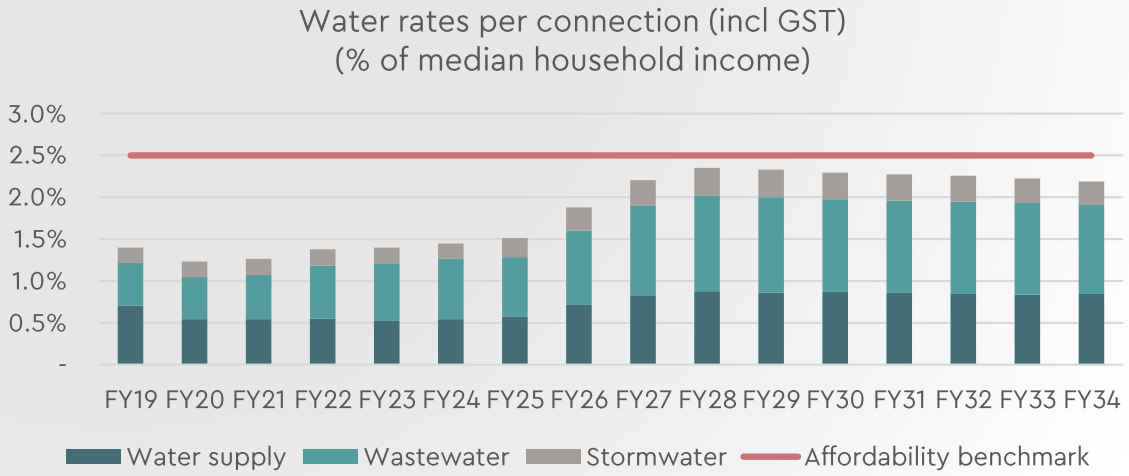
The increase in water charges is estimated to increase average spending on water services per connection from 1.5% of the median household income in FY24 to 2.2% by FY34.

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 council's draft 10-year financial projections, this threshold is not expected to be breached over the LTP period.





Waipā Water Entity credit rating (S&P)

Credit rating

Overview

The standalone rating for water activities would be determined by the scale of the entity, the newness of the economic regulation, the 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).

Competitive position 1

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

Business risk 2

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

Financial risk 3

Financial risk profile is assigned based on the financial ratios for water activities over the next 3-5 years – the FFO/debt ratio is in the 'aggressive' band initially.

Government support 4

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.

The financial profile ('aggressive') and business profile ('strong') mean the water activities are not likely to achieve an investment grade standalone credit rating (i.e., before notching for government support) in the short term based on current forecasts

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

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

Waipā water activities	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
FFO (incl DCs) / Debt	11%	9%	12%	14%	19%	27%	35%	48%	65%	113%
Debt / EBITDA (incl DCs)	8.0x	9.4x	7.4x	6.2x	4.8x	3.5x	2.7x	1.9x	1.5x	0.8x

4b

Rest of Council

Revenue sufficiency	Investment sufficiency	Financing sufficiency	Affordability

Rest of council (excluding water) operating expenditure

Last five years

Council operating costs excluding three waters expenditure increased by 54% over the last five years – from $59 million to $91m million.

The most significant driver of this increase is operating expenses, with an increase of $22 million.

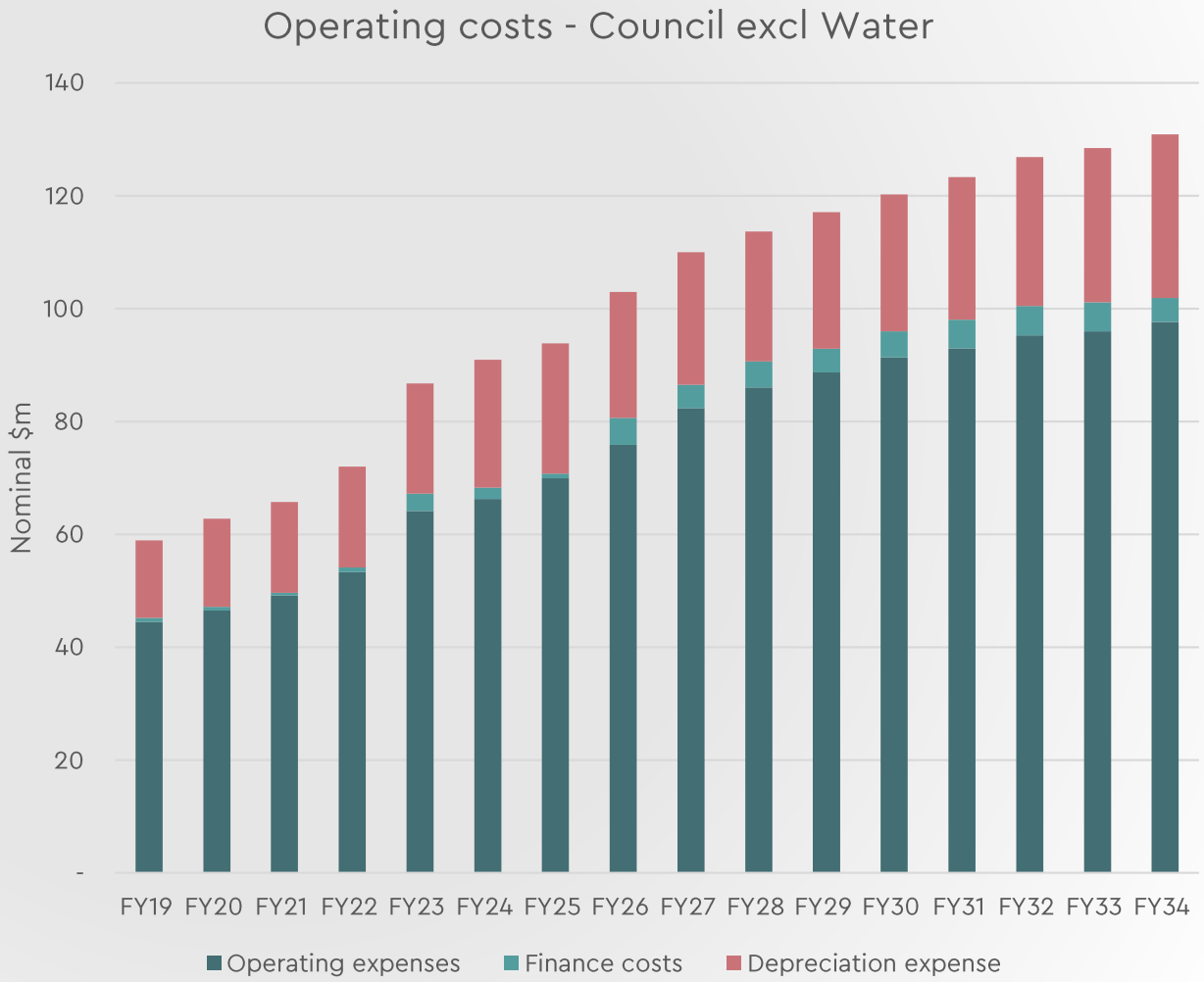
Growing finance costs over FY23-FY24 reflect both increased borrowing and higher interest rates.

Outlook

Operating costs are projected to continue to increase over the next ten years from $89 million in FY24 to $131 million in FY34.

The most significant driver of this is an increase in operating expenses from $66 million to $98 million (a 47% increase).

Depreciation expense and finance costs also increase over the 10-year period, peaking in FY24 and FY32 respectively.



Note: Finance costs is presented net of interest related to development contributions.

Council (excluding water) capital expenditure

Capital delivery

The council spent $262 million on the delivery of non-water assets over FY19-FY24:

- Renewals $63 million (24%)
- Levels of service $107 million (41%)
- Growth $92 million (35%).

Capital expenditure plans

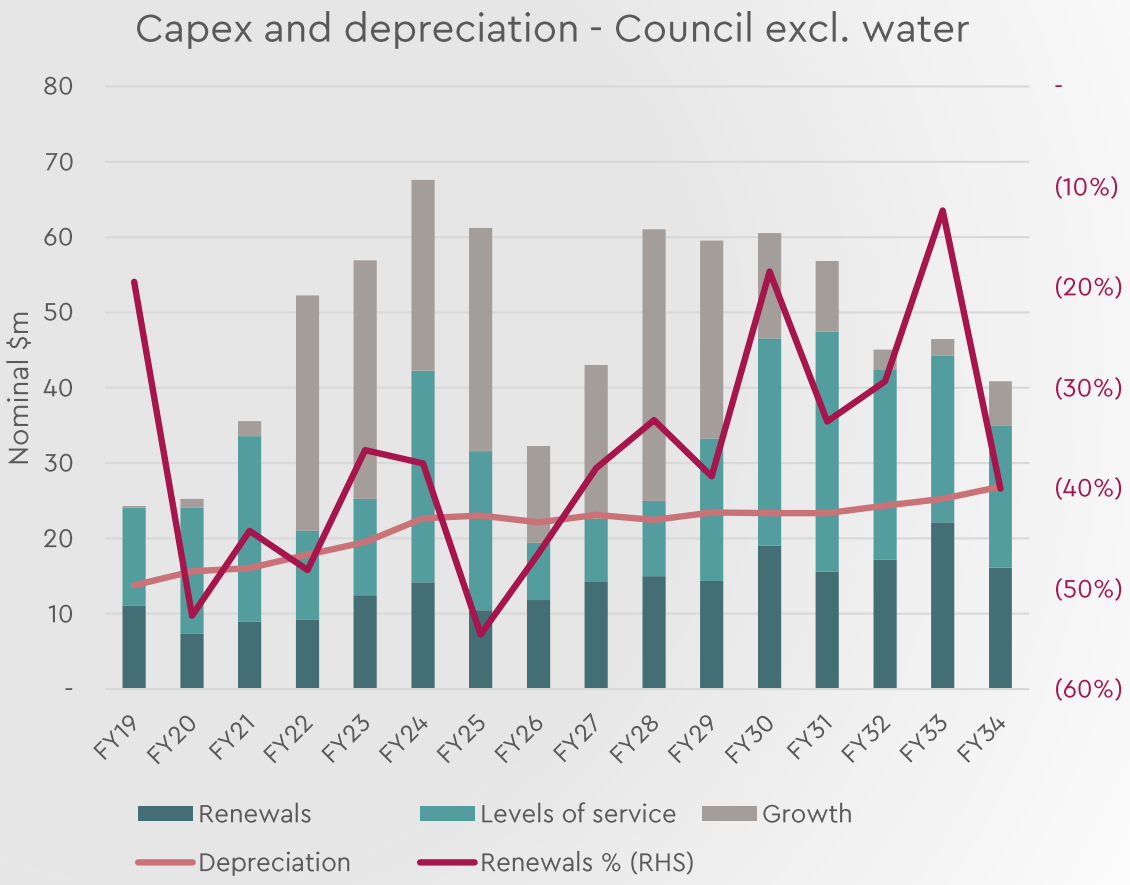
In its draft LTP, the council is planning to invest $506 million in non-water assets over the next ten years:

- Renewals $156 million (31%)
- Levels of service $191 million (38%)
- Growth $159 million (31%).

Depreciation and renewals

Over FY19-FY24, expenditure on renewals was less than the depreciation expense of $106 million (renewals % of -40%).

Over the next ten years, the council is planning to spend $156 million on renewals, below the forecast depreciation expense of $237 million (renewals % of -34%).



Council (excluding water) revenues and operating balance

Revenues

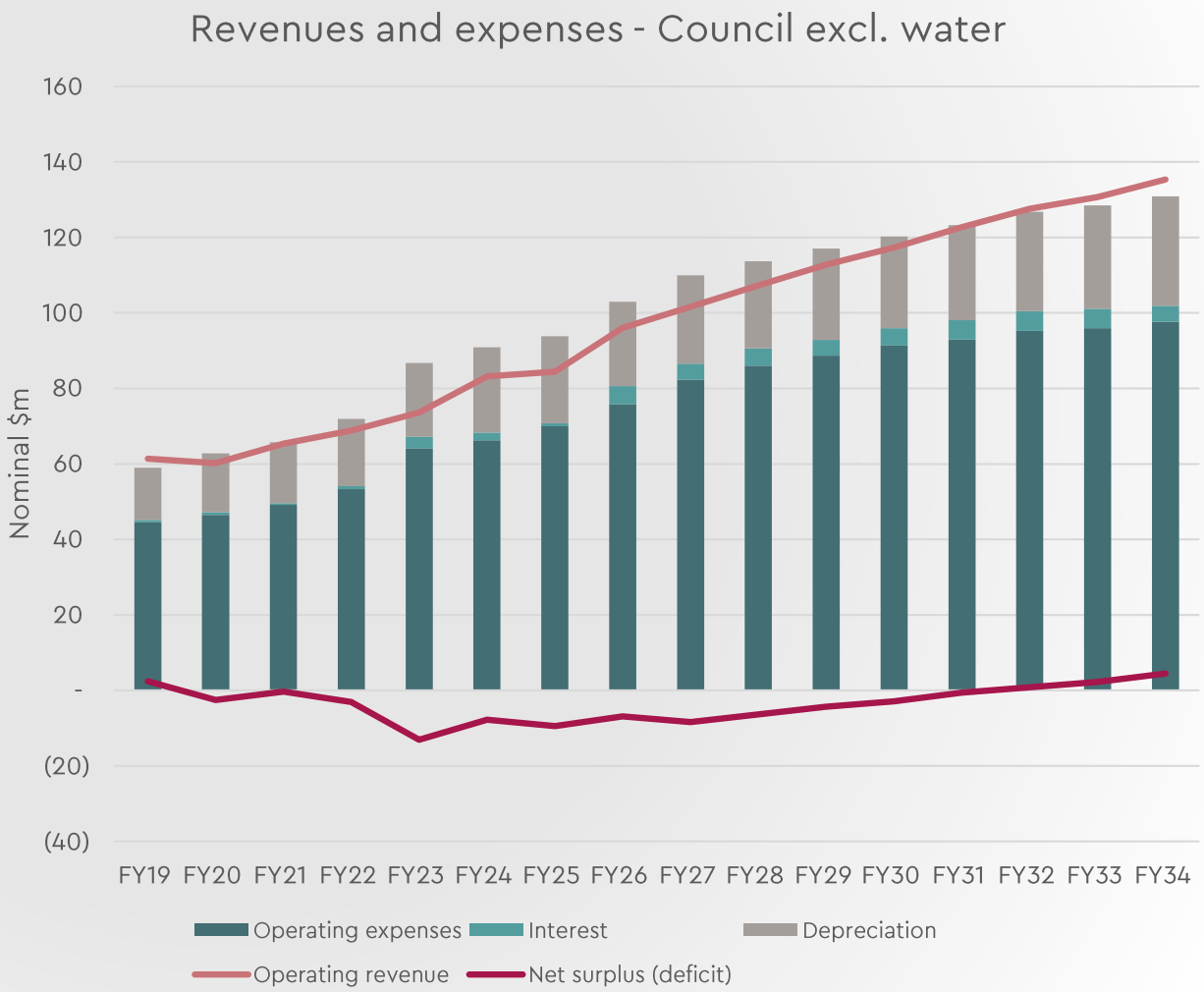
Revenues for non-water services are expected to increase by 63% over the next ten years – from $83 million in FY24 to $135 million in FY34.

Operating surpluses / deficits

Non-water council services have operated with a deficit over the period FY20-FY24. This is forecast to continue (albeit narrow) over FY25-FY31 as a result of projected revenues increasing at a faster rate than operating expenses and interest costs stabilising from FY26.

Operating deficits are a result of two key drivers:

- Transport activities receive capital subsidies from Waka Kotahi (NZTA) that reduce the level of rates revenue required. These capital subsidies are not included in the view presented.
- Over the short term, some activities (for example environmental activities and community facilities) are utilising reserves that were previously accumulated. Reserves are not included in the view presented.



Note: Interest is presented net of interest related to development contributions.

Council (excluding water) borrowing

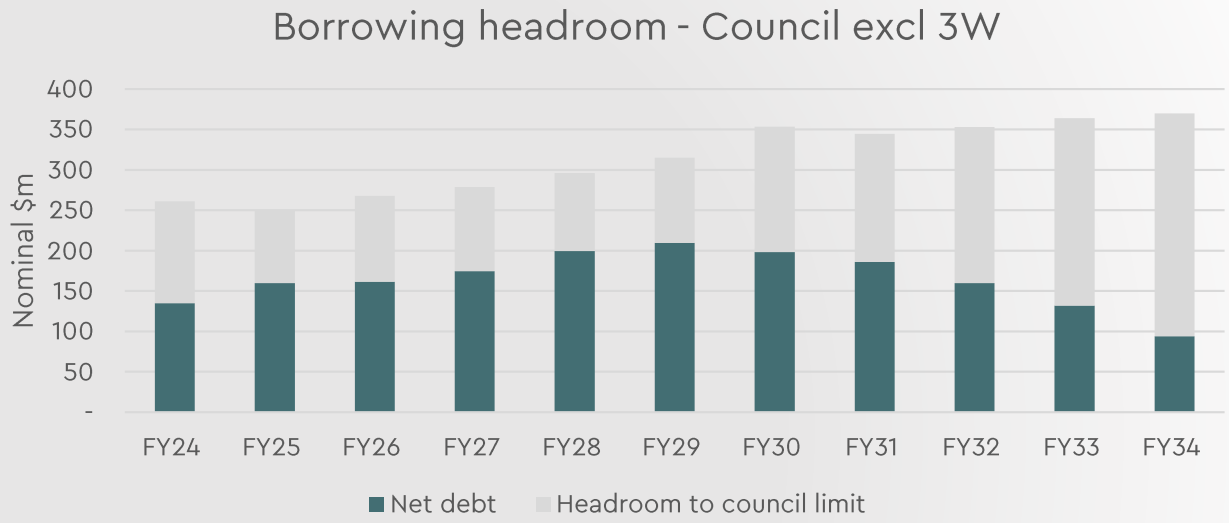
Borrowing

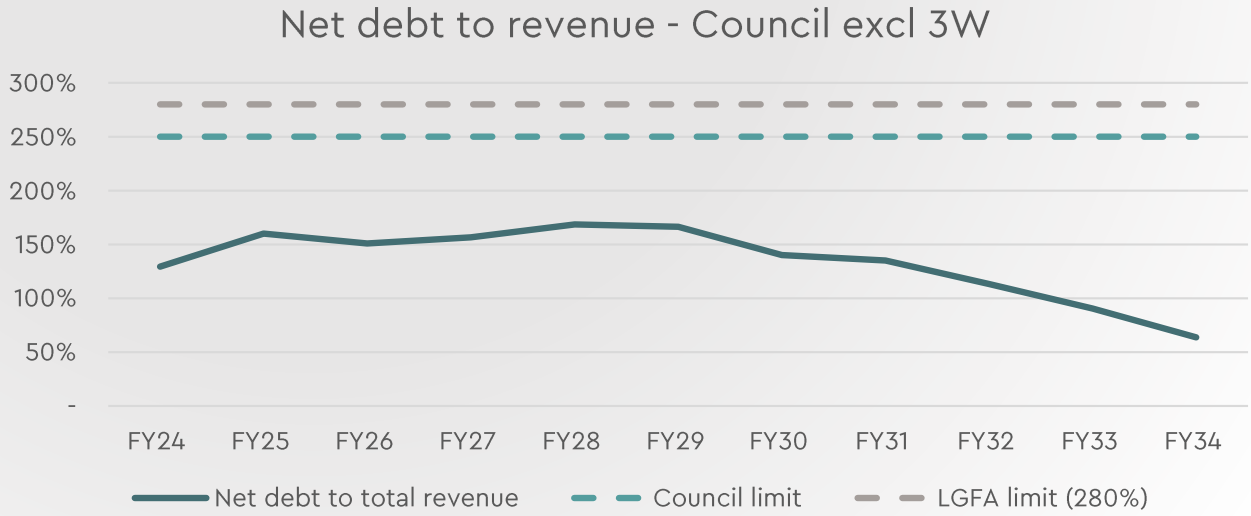
Borrowing (internal and external) is expected to decrease by $41 million over the next ten years, from the current level of $135 million in FY24 to $94 million in FY34.

Over the forecast period, council maintain debt headroom (relative to the council internal limit, 250%) ranging from $126 million in FY25 to $276m in FY34.

Net debt to revenue

Net debt to total revenue for non-water activities is projected to decrease from 129% in FY24 to 64% in FY34, peaking at 169% in FY28.





Council (including water) borrowing

Borrowing

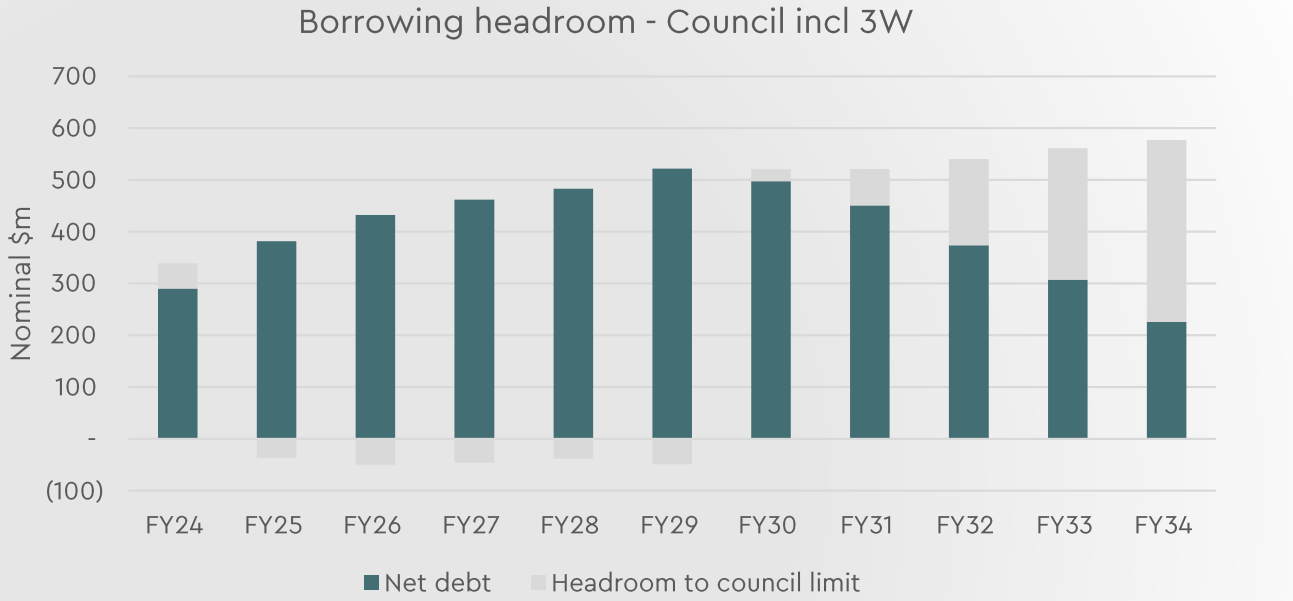
Borrowing (internal and external) is expected to increase by $194 million over the next five years, from $290 million in FY24 to $522 million in FY29. Borrowings then decrease to $226 million over the following five years.

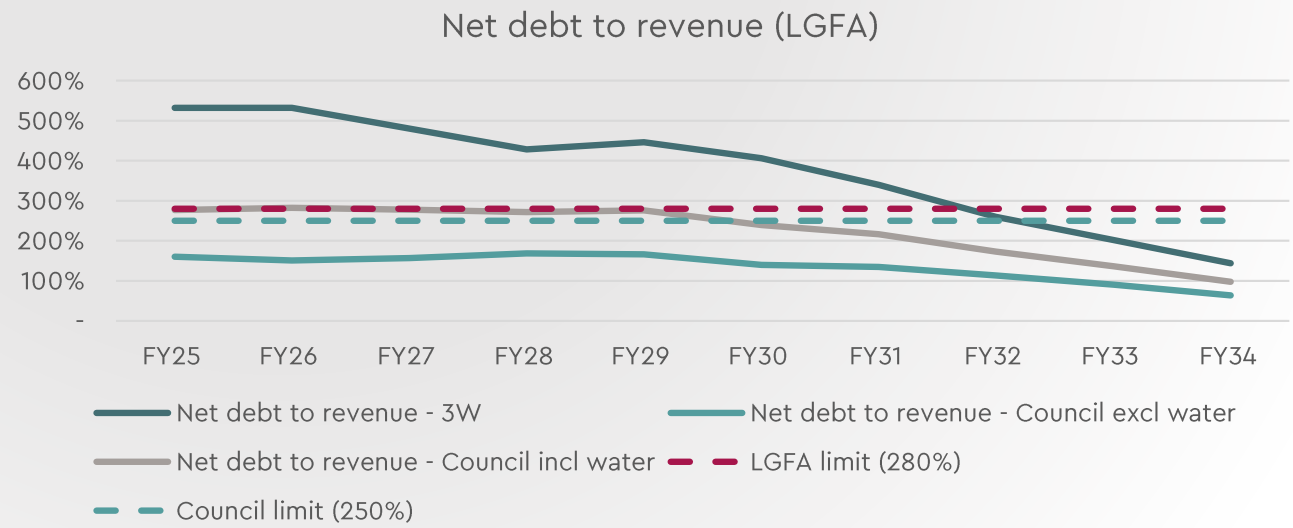
Net debt to revenue

Water activities are typically operated with higher leverage than non-water council activities, due to their capital-intensive nature. As a result, removing water activities results in an improvement in the debt to revenue ratio when water activities are excluded. This is the case for council over the forecast period (but the impact/difference reduces).

Council including 3W - From FY25 to FY29 the net debt to revenue ratio is above the council's internal limit (250%), resulting in negative borrowing headroom. Council remains at/below the LGFA limit (280%). The ratio falls to 98% by FY34.

Council excluding 3W - Net debt to revenue for non-water activities is well below the council and LGFA limits.





Council credit rating (Fitch)

Risk profile

Fitch assess the robustness and adjustability of revenue, expenditure and liabilities to derive the risk profile.

Waipā score favourably in these categories due to the institutional settings NZ local governments operate within (eg the ability to set rates) and Waipā's financial management (eg expenditure controls, treasury policies and access to capital through the LGFA)

Debt sustainability score

The primary metric used by Fitch to assess 'debt sustainability' is the payback ratio (net adjusted debt / operating balance). In May 2024, Fitch forecast Waipā's payback ratio to be in the 5x-9x range or 'aa' rating band out to FY28.

Secondary metrics include a synthetic debt-service cover ratio (DSCR), and a fiscal debt burden, which were aligned to 'bbb' and 'bb' rating categories, respectively. However, the secondary metrics, although weaker, do not affect the 'aa' debt sustainability score indicated by the primary payback ratio metric.

Council incl. three waters

Waipā's forecast operating balance declines to $27m in FY25 before increasing to $82m in FY34. When combined with net debt (which peaks at $453m in FY29), this results in the payback ratio ranging between 23x-4x.

Debt is materially higher than the assessment undertaken by Fitch in May 2024, which forecast net debt of $340m in FY28.

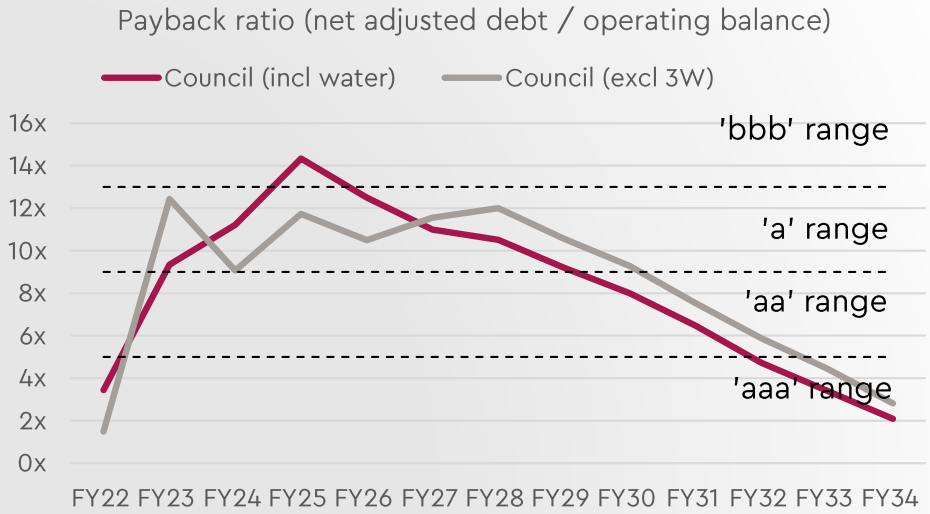
A payback ratio above 9x risks a credit rating downgrade being applied by Fitch, although this may be offset by the improving profile

Council excl. three waters

The removal of water, wastewater and stormwater activities results in a lower operating balance and debt balance for the residual council (the net impact is a lower payback ratio in the short term.

The risk profile assessment is not expected to change with the removal of three waters activities.

The payback ratio is in the 'a' ranges, creating a risk of a credit rating downgrade being applied by Fitch.



Council credit rating (Fitch)

Rating component	Current rating	S1: Incl 3W	S2: Excl 3W
Risk profile	High midrange	High midrange	High midrange
Revenue robustness	Stronger	Stronger	Stronger
Revenue adjustability	Stronger	Stronger	Stronger
Expenditure sustainability	Midrange	Midrange	Midrange
Expenditure adjustability	Stronger	Stronger	Stronger
Liabilities and liquidity robustness	Stronger	Stronger	Stronger
Liabilities and liquidity flexibility	Midrange	Midrange	Midrange
Debt sustainability	aa	a	a
Issuer Default Rating (IDR)	**AA- (stable)**	**A+ (stable)**	**A+ (stable)**

Summary of analysis

01

Overall, the draft 10 Year Plan projections **appear to be partially consistent** with financial sustainability requirements under LWDW:

Investment sufficiency

- Future renewal investment matches forecast depreciation expense, but this masks significant renewals of water supply (82%), and an **under-investment in both stormwater and wastewater services** (-76% and -14%, respectively), reflecting current asset conditions.
- All water and wastewater schemes are compliant with the relevant standards. A new comprehensive stormwater consent is likely to be issued in 2025, the LTP provides funding allocation for anticipated works.

Revenue sufficiency

- The large cumulative surpluses, averaging 14.9% of operating revenue, mean the projections exceed the expected future requirement for revenue sufficiency over the LTP period and **indicates over-recovery of the cost of water services.**

Financing sufficiency

- Borrowing is projected to reach 532% of revenue for FY25 and FY26 before decreasing steadily over the rest of the LTP period putting the Council in an **aggressive level of debt for the next few years.**
- The reduction in debt balances is heavily reliant on developer contributions and this projected revenue is nearly 5 times the average annual amount received over the past 6 years.

Affordability

- Total water charges per connection are projected to increase 3.6% per annum above the projected annual rate of inflation.
- Based on the council's draft 10-year financial projections, **the international benchmark for water affordability threshold is not expected to be breached over the LTP period**.

02

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

- Applying the principles of ringfencing of water services to LTP preparation.
- Levels of borrowing and what is required to fund investment.
- The level of surpluses generated through over-recovery of the cost of water services.
- Sufficient provision for growth including provision including those related to fast-track growth pressures.
- Provision for higher compliance costs associated with economic regulation and changing expectations from resource consents.

03

Other potential risks that could impact on viability and sustainability include quality of asset information, higher capital price inflation, uncertain future regulatory requirements, confidence about resource consenting, higher frequency extreme weather events, and ability to attract and retain resources are relevant strategic risks.

See appendices for technical analysis by water service activity

05

High level option analysis

Drivers and opportunities for considering alternative water service delivery models

The drivers and opportunities take into account the findings and recommendations from the viability and sustainability assessment and future needs and regulatory requirements.

Maintaining good levels of service in a manner that values and protects the Waipā District's unique landscapes, and health of the natural environment

- Our viability and sustainability assessment shows all three activities are compliant with the relevant standards and consents and the levels of service targets set by council are consistently achieved.
- It is noteworthy that WDC (like other Council in the Waikato) has a specific set of responsibilities set out under Te Ture Whaimana o Waikato and other specific relationship agreements and settlement responsibilities for iwi/hapū within the community. This includes recognising the unique relationship that tangata whenua have with their whenua, awa and moana.

Ensuring access to finance to fund investment in a manner that delivers best value for ratepayers (financing sufficiency)

- Ensuring that the financing of investment including to meet increased regulatory requirements can be met without undue burden on current or future ratepayers.

Having the capability and capacity for delivery (resourcing sufficiency)

- Ability to attract and retain resources, particularly over the transition and into the future

Responding to future growth pressures and system resilience

- Ensuring that future investment requirements driven by growth and increased climate change risk are properly anticipated and in a manner that ensures that Waipā is a great place to live, work and play well into the future.

Ability to sustainably deliver other Council services

- Ensuring rest of council viability and ability fund investment in and delivery of non-water services on a sustainable basis and consistent with the Council's intention to remain an anchor institution within the district.

Preliminary intervention logic

Drivers and Opportunities

Maintaining good levels of service in a manner that values and protects the Waipā District's unique landscapes, and health of the natural environment

Ensuring access to finance to fund investment in a manner that delivers best value for ratepayers

Having the capability and capacity for delivery

Responding to future growth pressures and system resilience

Ability to sustainably deliver other Council services

Inputs

Systems, strategies, and processes

- Future Proof Partnership and Implementation Plan
- LTP and Ahu Ake Waipā
- Asset management strategy
- Pricing and financing policies
- Regulatory compliance activity
- Quality information on asset condition and levels of service.

Funding

- General rates
- Targeted rates
- Volumetric charging
- Development contributions
- Financial contributions

Workforce

- Elected members
- Board directors
- General community expertise
- Technical expertise
- Water service provision expertise.

Treaty partnership

- Iwi
- Hapū
- Responsibilities under specific Treaty settlement deeds and legislation

Interventions

Water service delivery placed on a viable and sustainable footing

- Sufficient investment to maintain assets, strengthen resilience, and meet growth and regulatory pressures
- Access to finance and prudent use of debt
- Skilled workforce to deliver water services
- Affordable increases in water charges.

Effective mechanisms for local voice and influence

- Consumer contracts
- Consumer panels
- Complaints, dispute resolution and escalation.

Ability to meet commitments and obligations to iwi and hapū including those set out in Treaty settlement deeds and legislation and responsibilities (including Te Ture Whaimana o Waikato) under specific relationship agreements.

Outputs

Selection of preferred delivery model and transition commences.

Development of relevant plans and policies to support delivery model.

Workforce planning commences to support preferred model.

Development of necessary mechanisms to provide for local voice and influence over water services.

Iwi and hapū actively participate to shape the strategy, planning and delivery of water services.

Short-term outcomes

Asset management plan and infrastructure strategy that support growth and are well-integrated with land use and non-water infrastructure planning

Funding decisions reflect long-term strategy and planning, with costs distributed equitably across different user types.

Council has good access to the capital for both water and non-water infrastructure investment.

Proactive planning and investment enables local workforce and supplier market to be strengthened.

Consumers aware and make use of mechanisms for influence.

Capital programmes developed to address identified iwi/ hapū needs and give effect to Te Ture Whaimana

Medium-term outcomes

Water charges generate sufficient revenue to meet the full costs of service delivery including opex, interest and depreciation.

Water is safe to drink and clean to swim in. and sufficient to sustain the environment.

There is sufficient investment to maintain existing assets, meet regulatory requirements, and provide for future growth.

There is a strong workforce with the capabilities required to deliver high quality water services.

The infrastructure and community can withstand the effects of climate change and other natural hazards.

Consumers benefit from quality service and an ability to influence that service.

Hapū and iwi have confidence that the wai is well looked after.

Long-term outcome

Stronger, healthier, more resilient communities, waterways and environment for current and future generations.

Socially resilient | **Cultural champions** | **Economically progressive** | **Environmental champions**

Strategic objectives

STRATEGIC OBJECTIVES	ASSESSMENT APPROACH / MEASURE
Efficient and financially sustainable delivery of water services for Waipā District communities, now and into the future.	• Financially sustainable – revenue, financing and investment sufficiency, and ring-fencing. • Resource sufficiency – sufficient resource to operate water services sustainability, and that the management of those resources is effectively and efficiently undertaken.
There is investment at a level that **protects and promotes public health and the environment**	• Investment sufficiency – to meet public health and environmental regulatory requirements and that these regulatory requirements are likely to increase.
The right **workforce capability and capacity** is available	• Ability of the future delivery model to attract and retain people with the skills to plan, manage and deliver water services.
The model enables and supports **future growth and change** and builds **system resilience**	• Investment sufficiency – to meet future growth needs, including those set out in the Future Proof Partnership and Implementation Plan as well as Ahu Ake, ensure water services are resilient to natural hazards and climate change. • Ability of the future delivery model to support integrated planning and decision-making around spatial, district and regional planning with water infrastructure planning.
Water services are **affordable and meet the needs and expectations** of the Waipā District communities.	• Affordability of the projected increase in water charges for communities. • Strength of mechanisms for local voice and influence provided for in the model. • Ability to act in the best interests of present and future consumers and communities.
Responsibilities to hapū and iwi are met	• Strength of processes and mechanisms to meet Treaty settlement responsibilities and have the confidence of iwi/hapū partners. • The degree to which the model supports the Council to give effect to Te Ture Whaimana o Waikato and other specific Treaty settlement deed and legislative responsibilities.
Remaining council operations are viable, and continue to deliver on communities' expectations	• Ability of council to continue to deliver it core services and deliver on communities' expectations sustainably and affordably. • The degree to which the model can/will support Waipā as "Anchor Institution".

Options considered

	Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
	Description:	Creation of dedicated ring-fenced unit within Council. Note, ring-fencing requires financial separation not structural separation.	Council establishes a water organisation to deliver water services.	Council partners with other Councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures	Council joins a non-asset owning CCO with other Waikato councils that would be responsible for service delivery.	Council partners with other Councils to establish a regional asset owning water services organisation.
Design choices	***Who decides levels of service and investment intentions?***	Elected members make decisions, with new financial sustainability and economic regulation requirements. Option to include independent experts.	Elected members issue Statement of Expectations; governed by a competency-based board.	Shareholding councils issue statement of expectations, guided by ownership rights set out in constitution / shareholders agreement. Likely that shareholder will be proportional to asset base.	Service levels would be determined by the council, likely via service level agreements with WWDW.	Shareholding council issue statement of expectations, guided by ownership rights set out in constitution / shareholders agreement. Likely shareholding will be proportional to number of connections.
	Who undertakes strategic planning and delivery?	Council staff responsible for planning and delivery, working with private suppliers and contractors.	WSCCO plans and delivers services, but required to consult the council.	Water organisation responsible for planning and delivery, likely with a requirement to consult with shareholding councils.	WWDW leads strategic planning with a catchment-based approach. The council will remain responsible for ensuring planning and delivery meets regulatory requirements.	Water organisation responsible for planning and delivery, likely with a requirement to consult with shareholding councils.
	What are the mechanisms for mana whenua representation and influence?	Existing relationships and council processes will continue.	Council would be able to determines representation mechanisms in WSCCO design in partnership with iwi/hapū within the Waipā district.	Shareholding councils can decide what mechanisms are included in the design of the water organisation but it could take advantage of existing Future Proof mechanisms such as the Tainui Waka Alliance.	Mechanisms are currently unclear, and will be determined through negotiations, depending on participating / member councils .	Shareholding councils can decide what mechanisms are included in the design of the water organisation.
	What are the mechanisms for local voice and influence?	Access to councillors through current mechanisms, consultation on LTPs and Annual Plans. Council oversight of performance through regular reporting.	Council appoints directors and sets local engagement mechanisms during design and establishment of WSCCO.	Shareholding councils can appoint and remove directors. If the council is involved in establishment, it can influence what mechanisms are included in the design of the water organisation.	Leveraging of existing arrangements of participating councils.	Shareholding councils can appoint and remove directors. If the council is involved in establishment, it can influence what mechanisms are included in the design of the water organisation.
	Who owns the assets?	Councils continue to own the assets.	Council may choose to retain or transfer ownership of assets.	Councils transfer ownership of assets. Potentially an opportunity to contract for stormwater.	Councils continue to own the assets. However, likely a requirement to transition to 'Stage 2' within 5-years (option to leave and access shared services as non-shareholder).	Councils transfer ownership of assets. Potentially an opportunity to contract for stormwater.
	Who employs staff?	Staff remain employed by council.	Water staff transition to WSCCO.	Some water staff may transfer to WSCCO.	Some water staff may transfer to WSCCO.	Some water staff may transfer to WSCCO.
	How is investment funded / financed?	Council funding and debt via LGFA, capped at 280% debt to revenue. As a high growth Council, Waipā is seeking an ability to increase debt levels to 350%.	Water organisation charges water users, borrowing via council or directly from LGFA supported by council guarantee or uncalled capital. Up to 500%.	Water organisation charges water users, borrowing directly from LGFA with financial support from shareholding councils. Up to 500%.	Council funding and debt via LGFA, capped at 280% debt to revenue.	Water organisation charges water users, borrowing directly from LGFA with financial support from shareholding councils. Up to 500%.

Assessment of options

Legend: *Does not meet objective* | *Partially meets objective* | *Meets objective*

Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
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Efficient and financially sustainable delivery of water services	• Council has managed its water networks efficiently. • Unlikely to meet new financial requirements over the short- and medium-terms. • Long-term challenges with efficiencies in operational and asset management under current LTP. • Economic regulation expected to bring sharper focus on level of charging and use of revenue.	• Balance sheet constraints would require a rephasing of capital expenditure. • Potential for efficiencies driven by commercial practices (Board) but scale benefits in asset management and procurement limited by a lack of scale. • Ability to leverage council shared services (WSCCO-lite), mitigates stranded costs. • Greater access to debt, to meet future challenges or growth pressures will be constrained.	• Scale efficiencies likely, including with involvement of a large metro council. • Likely to deliver greatest long-term efficiencies. • Would require long transition period including to accommodate investment requirements of other districts and and metering in Hamilton (5 years minimum)	• Only small efficiencies are likely under a shared service arrangement, compared with a (sub)-regional asset-owning CCO. • May be diseconomies of scope associated with responsibilities for pricing, investment and financing being separated from responsibility for asset management, operations and maintenance.	• Efficiencies anticipated under WWDW S2 relatively smaller than under an option that involves a large metro council. • Opportunity for service improvements from consolidating operations and maintenance. • Likely to deliver greatest long-term efficiencies. • Scale benefits material would be improved if Hamilton was included.
Protects and promotes public health and the environment	• All three waters activities are compliant with the relevant standards and consents and the levels of service targets set by council are consistently achieved. • Potential investment challenges relating to environmental regulatory standards increasing in the future	• Greater debt capacity may make it possible to enhance investment in public health and environment. • Stronger ability to meet regulatory requirements. • Potential investment challenges relating to environmental regulatory standards increasing in the future though less risks that option 1.	• Greater debt capacity available to the organisation to invest. • Stronger ability to meet regulatory requirements. • Opportunity to take a catchment-based approach. • Potential for funding to be prioritised towards needs of other councils.	• Opportunity to take a catchment-based approach, depending on other shareholding councils. • No additional debt capacity to meet regulatory requirements.	• Greater debt capacity available to the organisation to invest. • Stronger ability to meet regulatory requirements. • Opportunity to take a catchment-based approach, depending on other shareholding councils. • Potential for funding to be prioritised towards needs of other councils.
Workforce capability and capacity	• Attractive option for staff who are averse to change • Challenges to attraction and retention if larger scale water organisations are created • Potentially less attractiveness/ influence in supplier market	• As for option 1	• Scale improves ability to attract and retain – be competitive and provide attractive career pathways • Improved influence/ attractiveness to suppliers (larger scale contracts)	• Scale improves ability to attract and retain – though option may not be as attractive as asset owning entity with full investment and balance sheet influence.	• Scale improves ability to attract and retain – be competitive and provide attractive career pathways • Improved influence/ attractiveness to suppliers (larger scale contracts)

Assessment of options

Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
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Supports future growth and builds system resilience	• Simple and efficient integration of planning functions across infrastructure types. • Potential challenge to long-term investment for growth.	• Greater debt capacity available to the organisation to invest. • Ability to develop mechanisms and provide direction through SPE. • Risk of losing integration and coordination with land use planning and roading, but mitigations exist.	• Greater debt capacity available to the organisation to invest. • Potential for integration with other growth councils to better manage spatial planning and climate change challenges - aligns with established Futureproof planning mechanisms • Can easily respond to future boundary changes or reduce the need for boundary changes	• Potential for integration with other councils to better manage spatial planning and climate change challenges (partner dependent). • No additional debt capacity • Some uncertainty about design of functions.	• Greater debt capacity available to the organisation to invest. • Potential for integration with other councils to better manage spatial planning and climate change challenges • Would require HCC to be included to maximise growth pressures and investment requirements. • Would likely require boundary changes in North Waipā driven by southern WWTP (if HCC not included)
Water services are affordable and meet the needs and expectations of the Waipā District communities.	• Projected water charges meet affordability benchmarks under current LTP • Levels of service targets set by council are consistently achieved. • Strong community voice mechanisms and direct accountability to communities.	• Possible for longer-term debt financing, leading to greater ability to spread cost of investment across generations, and meet future needs. • Community voice through setting of state of performance expectation	• Possible for longer-term debt financing, leading to greater ability to spread cost of investment across generations, and meet future needs. • Opportunity for service improvements from consolidating operations and maintenance. • Community voice mechanisms would need to be determined • Would require long transition path and would be dependent on approach to harmonisation of charges.	• As for option 1	• Possible for longer-term debt financing, leading to greater ability to spread cost of investment across generations, and meet future needs. • Opportunity for service improvements from consolidating operations and maintenance. • Community voice developed using a shareholder representative forum • Across the region, other councils have greater debt sustainability/affordability challenges • Would require long transition path and would be dependent on approach to harmonisation of charges.

Assessment of options

Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO (HCC/Waikato/Waipā)	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
Description:	Creation of dedicated ring-fenced unit within Council. Note, ring-fencing requires financial separation not structural separation.	Council establishes a water organisation to deliver water services.	Council partners with other Councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures	Council joins a non-asset owning CCO with other Waikato councils that would be responsible for service delivery.	Council partners with other Councils to establish a regional asset owning water services organisation.
Responsibilities to hapū and iwi are met (Note specific engagement has not informed this analysis in the time available)	• Ability to make use of existing mechanisms and channels for engagement and partnership including under Te Ture Whaimana and existing JMAs.	• As for option one but would likely require additional resourcing or SLA	• Greater investment capacity likely welcomed • May utilise existing Future Proof partnership mechanisms. • Would likely require additional mechanisms where iwi/hapū interests are not reflected in Future Proof arrangements. • Existing Te Ture Whaimana and relevant JMA's would need to be reflected in arrangements.	• Would likely utilise existing mechanisms and channels for engagement and partnership. • Potentially new mechanisms for cross-boundary engagements. • Existing Te Ture Whaimana and relevant JMA's would need to be reflected in arrangements.	• Greater investment capacity likely welcomed • Existing Te Ture Whaimana and relevant JMA's would need to be reflected in arrangements.
Remaining council operations are viable	• Debt headroom improved with removal of water services. • Remaining council functions broadly viable subject to work on overhead allocation model and approach. • More direct influence in relation to aspirations under Anchor Institution framework – local procurement, employment and training	• Debt headroom improved with removal of water services. • Potentially some impact on wider council functions, depending on level of integrated planning, and level of stranded costs and cost allocation/shared service arrangements.	• Debt headroom improved with removal of water services. • Stranded cost impact dependent on transition/implementation approach.	• Stranded cost impact dependent on transition/implementation approach. • Would require Council to retain capability to manage assets and community expectations of service levels.	• Debt headroom improved with removal of water services. • Stranded cost impact dependent on transition/implementation approach.

Additional considerations

Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone council-owned water organisation (WDC CCO)	3 Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)	4 Shared services water organisation (WSCCO - Waikato Water Done Well, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2 excluding HCC)
Description:	Creation of dedicated ring-fenced unit within Council, with an independent expert committee.	Council establishes a water organisation to deliver water services.	Council partners with other Councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures	Joining a non-asset owning CCO with other Waikato councils that would be responsible for service delivery.	Council partners with other Councils to establish [or join] a regional or sub-regional asset owning water services organisation.
Implementation and transition considerations and risks	▪ Easiest option to implement and transition to / from. ▪ Limited risks in short-term but may be greater challenges in retaining required workforce in medium- to longer-term.	▪ Higher barriers to entry compared to option 1, but lower than options 3 and 5. ▪ Some implementation risk, and potential challenges in identifying an appropriate board.	▪ Transition will need to recognising different starting points including Metering cost for HCC and addressing issues like Southern Wastewater Treatment Plan. Likely to require long price path and delay benefits (if any) of price harmonisation ▪ Positions Future Proof partnership well for other forms of support including city/regional deals. ▪ May be preferred by Treaty partners. Requires testing.	▪ Requirement to move to S2 within 5-years, with limited off-ramps. Staged process may be more costly than single-step. ▪ Widespread participation is required to yield efficiency benefits, and this is currently uncertain. ▪ Potential for penalties for 'late joiners'	▪ Approaches to asset, debt and staff transfer arrangements would need to be carefully considered, including considering stranded cost impact. ▪ May be preferred by Treaty partners. Requires testing. ▪ Implementation and timing uncertainties. ▪ WWDW S2 - Potential for penalties for 'late joiners'
Timing and durability of benefits	▪ Likely to yield small benefits early. ▪ Benefits yielded would be enduring, but potentially less than other options	▪ Limited additional benefits relative to option 1 subject to confirmation of debt capacity.	▪ Growth and spatial planning benefits realised early ▪ Other benefits will be realised over time ▪ Benefits would be durable and expected to be greatest under this option.	▪ Limited short-term benefits. ▪ Benefits likely to be realised over the long-term but would require CCO transition to fully asset owning. ▪ Benefits would be durable.	▪ Benefits likely to be realised over the medium- to long-term. ▪ Growth and spatial planning benefits only realised when/if HCC joins ▪ Benefits would be durable and expected to be greatest under this option.
Future option value preserved?	▪ Yes, can easily transition to any other option. ▪ Viable back stop option.	▪ Yes, can easily transition to any other option. ▪ Most costly backstop option subject to debt capacity considerations	▪ Yes, could move into regional model over time. ▪ Staged process may be more costly than single-step.	▪ Least. Requirement to move to S2 within 5-years. ▪ Off-ramps are unknown and would likely be complex (once transition plan is agreed).	▪ Would require a future decision to join (except for WWDW S2). ▪ Off-ramps are unknown, although would likely be complex.
Certainty of implementation and outcomes	▪ Most certain.	▪ High-level of certainty.	▪ Existing governance and management relationships may support certainty of outcome	▪ Least certain.	▪ Greater uncertainty and less easily reversed.

Summary of potential benefits

Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
Description:	Creation of dedicated ring-fenced unit within Council. Note, ring-fencing requires financial separation not structural separation.	Council establishes a water organisation to deliver water services.	Council partners with other Councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures	Council joins a non-asset owning CCO with other Waikato councils that would be responsible for service delivery.	Council partners with other Councils to establish a regional asset owning water services organisation.
Strategic	Strategic focus is broad, with elected member and executive leadership focus distributed across all council functions.	Benefits from a singular focus on water services. May create 'interface issues' with other council functions that need to be managed and have the potential to give rise to problems (e.g., relating to land use planning, provision for growth).	Benefits from a singular focus on water services. May create 'interface issues' with other council functions that need to be managed and have the potential to give rise to problems (e.g., relating to land use planning, provision for growth).	Benefits from a singular focus on water services. However, pricing, investment and funding decisions distributed between council and CCO can lead to a 'strategic disconnect' between the council and the CCO.	Benefits from a singular focus on water services. May create 'interface issues' with other council functions that need to be managed and have the potential to give rise to problems. (e.g., relating to land use planning, provision for growth).
Governance	Elected members continue to have decision-making responsibility.	Asset-owning models, where responsibility for investment, pricing and financing decisions rest with the board, aligns decision making and incentives for asset stewardship and effective and efficient operations. Clarity for Board of having single shareholder.	Introduction of multiple shareholders requires careful consideration of ownership and shareholder decision rights, with greater scope for divergence of shareholder interests as the number of owners increases and/or with greater diversity in the underlying communities of interest.	Board of CCO does not have full set of levers to run the company. Risk of incentive misalignment, with council retaining responsibility for investment, pricing and financing decisions, but CCO being seen to be responsible and held to account for asset condition, network performance.	Introduction of multiple shareholders requires careful consideration of ownership and shareholder decision rights, with greater scope for divergence of shareholder interests as the number of owners increases and/or with greater diversity in the underlying communities of interest.
Accountability	Accountability to elected members and through existing mechanisms under LGA (council and council committee structures) and management reporting lines. Bill 3 will introduce new strategy, planning and accountability mechanisms. These will be uniform across all service delivery models.	Oversight of performance by single council. Enables a direct relationship between the regulator, board and management, supporting effective regulation. Easier to regulate than Option 1, enabling greater scrutiny of performance and strengthened incentives for board and management. Well established frameworks for setting customer service levels, network performance standards, compliance requirements.	Similar to Option 2 but success of this model requires additional shareholder coordination mechanisms (e.g. shareholder forum or similar). There are good models to draw on here, for example TasWater.	Added complexity from distributed accountabilities between council and CCO. Accountability mechanisms for CCO likely to be a mix of ownership levers (SoE) and contractual agreements (SLA). With distributed decision making and responsibility, it will be challenging to specify performance measures for a CCO that are solely within the CCO's discretion (e.g., responsibility for network performance, customer service levels, regulatory compliance is not independent of investment decisions).	Similar to Option 3, noting that more shareholders can add complexity including in relation to shareholder decision rights.

Summary of option analysis

OPTIONS	CHOOSE OPTION IF:	SHORTLIST?
1 ***Internal business unit or division (enhanced status quo)***	Council wants least change to status quo and is fully confident it can meet new LWDW requirements and growth pressures faced by Waipā. This would require Council to be confident that the current investment requirements are certain, and strategic risks will not fully materialise. Based on current financial information this option is not a sustainable option for Waipā.	**NO** – unlikely to fully meet financial sustainability requirements
2 ***Single council-owned water organisation***	Council can meet LWDW requirements on its own but needs additional debt capacity offered through LGFA. This option would still place pressure on the CCO's balance sheet capacity and council's credit rating and may require rephasing of investment activity. Does not offer benefits of scale and adds additional costs.	**MAYBE** – While a feasible option but would require rephasing of investment activity and provides limited scale benefits with some additional cost and implementation risk. Reasonable backstop option.
3 ***Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)***	Council's main concern is about managing long term growth pressures and managing these risks most effectively way. This option would require a strong focus on strategic capability to put arrangements in place that protect Waipā community interests in the near term.	**YES** – Strong future benefits aligned to growth challenges. Note would require careful transition management.
4 ***Shared services water organisation (WSCCO - Waikato Water Done Well, Stage 1)***	Council values the prioritising scale in service delivery, but is not concerned about balance sheet capacity. Based on current financial information, this option is not likely to meet the financial sustainability requirements in the near term and would require confidence that all partner Councils transition to option 5 in a timely manner. This option is not likely to meet the needs of the Waipā community.	**NO** – Does not provide sufficient financial headroom and adds significant additional transition costs.
5 ***Waikato region water services CCO that is asset owning (WWDW, Stage 2 excluding HCC)***	Council wishes to leverage scale efficiencies (including balance sheet capacity) but is less concerned about the impact of growth pressures. In this model Council also needs to be confident the process for prioritising investments will meet the needs of Waipā communities in a timely manner.	**YES** – Positive future benefits but would need to ensure other Council's share aspirations to move to Phase 2 quickly. Extent of benefits dependent on entity scale (i.e., which councils participate).

Additional considerations – CCO model

The CCO model has inherent benefits relative to inhouse delivery, provided the entity is set up well and that governance and management risks are avoided

A single-council CCO has the potential to generate benefits in terms of strategic focus (singular focus on water services delivery), governance (independent, professional board), and strengthened accountability (e.g., customers performance framework and greater scrutiny of performance). These benefits are inherent to the CCO model and are the reason why corporate forms of water services utility have been adopted in many jurisdictions.

The additional benefits of a multi-council CCO relative to a single-council CCO are dependent on scale. A larger, multi-council CCO can (theoretically) attract a more capable, skilled board and workforce (e.g., by offering more pathways for future development, greater scope for specialisation etc). However, the benefits of multi-council CCO (at least in terms of strategic focus, governance and accountability) shouldn't be overstated if the options you are comparing are not substantially different in terms of scale.

The role of the economic regulator is yet to be determined, and this may have an impact on benefit realisation

A key question will relate to the extent of attention a water CCO gets from the Commerce Commission under the future economic regulatory regime. This is an unknown as there is limited detailed information currently on the approach the Commerce Commission will take, and the threshold for when they will move from a predominantly Information Disclosure-based regime to stronger forms of regulation (e.g., Price-Quality regulation).

There are two plausible scenarios here:

1. Most water services providers (including inhouse council business units) are subject to information disclosure-only, with only the largest metropolitan entities subject to a stronger form of regulation.
2. All inhouse council business units are subject to ID-only, with all independent water CCOs subject to some form of stronger regulation (see for example the PREMO model in Victoria).

What about implementation costs?

All options will require additional costs of implementation. These implementation costs need to be assessed against the value of long-term benefits.

The more complex the transition, the longer the benefits will take to realise and the greater the transition costs. For that reason, there is a value in acting strategically and quickly if a stand-alone approach is not financially viable.

Relevant implementation considerations for Waipā will include:

- Establishment: Board establishment, establish reporting and accountability processes, and manage transfer of assets, relevant contracts and resource consents
- Workforce and Operations Shift: Determining workforce impacts, relevant systems and processes and maintain service delivery
- Mana Whenua and Community Engagement: Create engagement approaches for staff, Treaty partners, and ratepayers
- Risk and Performance Systems: Identify key transition risks, set clear performance measures, maintain environmental compliance, and monitor service levels

Specific implementation considerations – Council Controlled Organisations

There are risks associated with CCO options but in general a water CCO is less likely to be prone to problems if it is set up appropriately and subject to regulation.

GOVERNANCE FAILURE

- Appointing board members that, individually or collectively, do not have the skills and experience required to effectively set the strategy and performance targets, and monitor management's performance against that strategy
- Ineffective scrutiny of performance and/or failure to act on performance issues, whether through councils' ownership control mechanisms (i.e., board appointments) or ministerial or regulator oversight.

1

INSUFFICIENT BALANCE SHEET

- There is a risk that the transfer of assets, liabilities, revenues and costs to a new water company may result in it having low credit quality and/or unable to adequately fund the level of ongoing investment required (limited headroom for new investment).
- This risk is not inherent to the CCO model but attention still needs to be paid to how the new entities are structured financially, including the amount of debt and revenues that are transferred to it.

3

STRATEGIC CAPABILITY AND WORKFORCE

2

- Strategic capability to support any structural change and set up any new arrangements for success in a timely manner.
- The ability to attract and retain a high-quality management team and a qualified workforce is a key determinant of success. This risk is not inherent to a CCO model and also exists with inhouse delivery.

LACK OF ALIGNMENT OF SHAREHOLDERS' INTERESTS

4

- In a multi-council ownership situation if different councils have different interests or priorities, then the board and management of the entity can be pulled in different directions.
- The legislative requirement for a single Statement of Performance Expectations aims to mitigate this. Structures such as shareholder councils as proposed in WWDW can also mitigate this

Recommendation for Council

Waipā is in a good position to consider a range of options that will likely satisfy financial sustainability requirements anticipated under Local Water Done Well

This conclusion is based on information provided to date. We recommend further investigation in some key areas in the next phase of work. Specifically, we suggest the Council undertakes further work as part of preparing its Water Services Delivery Plan to:

- sensitivity test anticipated costs associated with renewing consents over the next 30 years to assess the extent to which any escalation in associated costs or restrictions in conditions (similar to the Watercare consent arrangements) might challenge affordability
- Consider the degree to which the Council is concerned about growth pressures vs the ability to negotiate transition arrangements with Councils under options 3 and option 5.

The Council should continue to explore a range of options, including prioritising potential joint arrangements with other councils

The Council should continue to explore a range of options for future services delivery. Based on the balance of judgements, the most credible options for active consideration are options 3 and 5. This can be done under the Waikato Water Done Well process as well as through direct discussions with other councils specifically HCC and WDC. Council should consider the resource demands or operating two processes in parallel. If the Council is concerned about strategic capacity and capability, then it should make a strategic choice on a preferred option. A standalone CCO (option 2) remains a viable back-stop option.

This report represents a first step towards narrowing down options to a viable short-list to inform community engagement. Council may wish to share this work with potential partners.

The analysis and recommendations of this report should position Council well for the next phase of work it will need to undertake to meet the requirements of a Water Service Delivery Plan.

Next steps and indicative timing

Waipā District Council	Relevant considerations: Option 3 Growth Option	Expected Date	Relevant consideration: Option 5 Waikato Water Done Well	Expected Date
EM Workshop	Workshop invite the CE to initiate discussion with Hamilton City Council and Waikato District Council	To be advised	EM Workshop – WWDW – Heads of Agreement	20 November 2024
Council Committee Meeting	Review draft record of agreement and consider resolution		WWDW – Heads of Agreement Decision. Note agreement is non-binding, good faith commitment and not yet informed by financial analysis	26 November 2024
Opportunity for engagement with mana whenua				
LWDW PGG Meeting	Consider current draft Record of Agreement and any relevant updates to financial analysis		Consider update on any financial analysis undertaken	29 November 2024
Three-monthly update on progress of WSDP to DIA				3 December 2024
Service Delivery Committee Meeting - Phase One of Project Plan completed – preferred option of the Water Services Delivery Plan confirmed by Elected Members	Consider Option 3 informed by draft record of agreement and any further information obtained from Hamilton CC		Consider Option 5 informed by Heads of Agreement	10 December 2024
EM Workshop – Engagement and consultation approach – LWDW legislation or LGA			Note: Timing currently appears to be out of step with LWDW requirements (i.e., council required to consult prior to making a decision on future service delivery arrangements)	17 December 2024
Water Services Bill 3 introduced				December 2024
WSDP – Parts B & D drafted and presented to PGG meeting				28 January 2025
WSDP – Parts A, C & E drafted and presented to PGG meeting				February 2025
Public Consultation (under special consultation provisions in Local Government Water Services Preliminary Arrangements Act 2024)				March/April 2025
WSDP Adopted – pre LTP sign-off				June 2025
Submission of WSDP to DIA				August 2025

Appendices

Technical analysis by water service activity

A1

Water supply services

Revenue sufficiency

Investment sufficiency

Financing sufficiency

Water supply operating expenditure

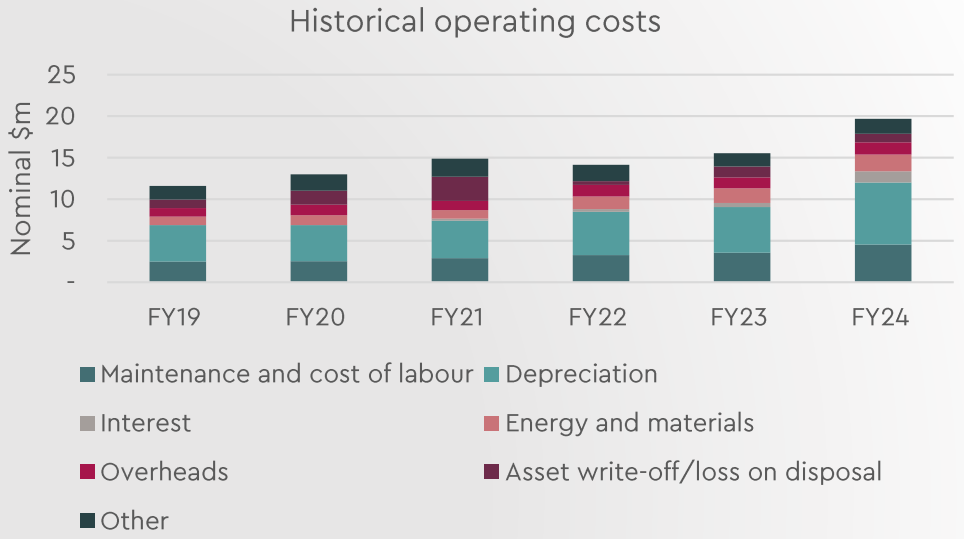
Last five years

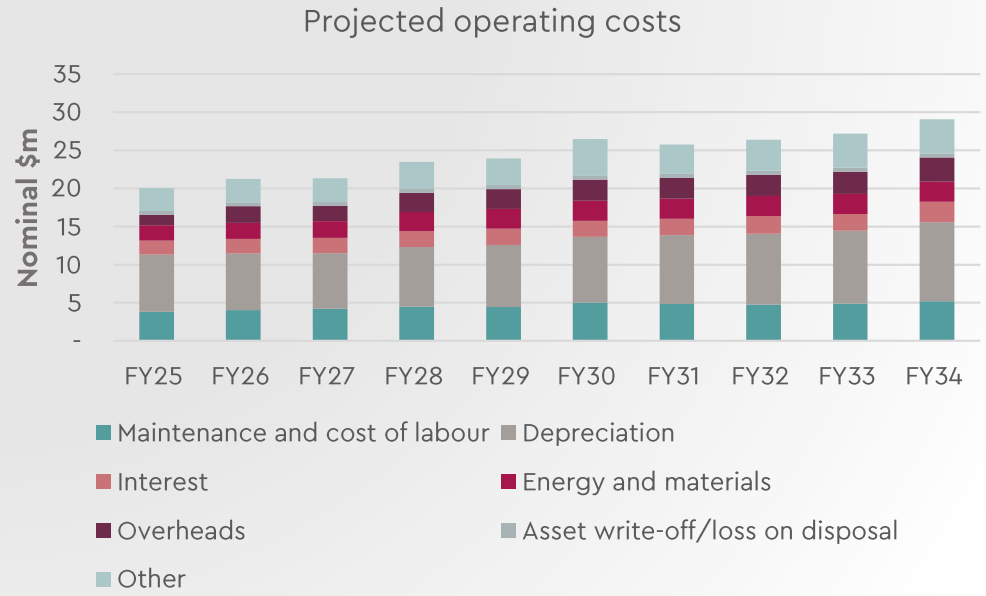
The cost of operating water supply services increased by 70% over the last five years – from $11.6 million to $19.7 million. Significant drivers of this included depreciation (up 71%), interest costs (up from nil to $1.4 million), maintenance and labour costs (+82%), and energy and materials (+97%).

10-year outlook

Operating costs are projected to continue to increase by 4.0% per annum over the next ten years – from $19.7 million to $29.1 million. Significant drivers of this include anticipated increased interest costs (7.1% p.a.), depreciation expense (3.4% p.a.), and overheads (+8.0% p.a.).

Higher interest costs reflect a projected $30.7 million increase in net debt by FY29, increasing from $48.5 million in FY24 to $79.2 million in FY29 before decreasing to $72.3 million in FY34. Higher depreciation costs reflect anticipated further increases in replacement costs of existing assets, as well as the flow on impact of capital investment in new assets.





Water supply—capital expenditure

Investment sufficiency

Capital delivery

The council has invested $90.8 million in water supply assets over the last five years compared with planned investment of $90.4 million (an overall delivery rate of 100%. We note that capex was boosted by $3.8 million of operating subsidies from the Government over FY21 - FY23.

Capital expenditure plans

The council is planning to invest $216.7 million in its water supply assets over the next ten years. This level of investment represents no material change to the average level of investment over the last six years in real terms. In today's dollars, investment averaged $18.4 million per annum over the last six years, compared with $18.1 million per annum planned for the next ten years.

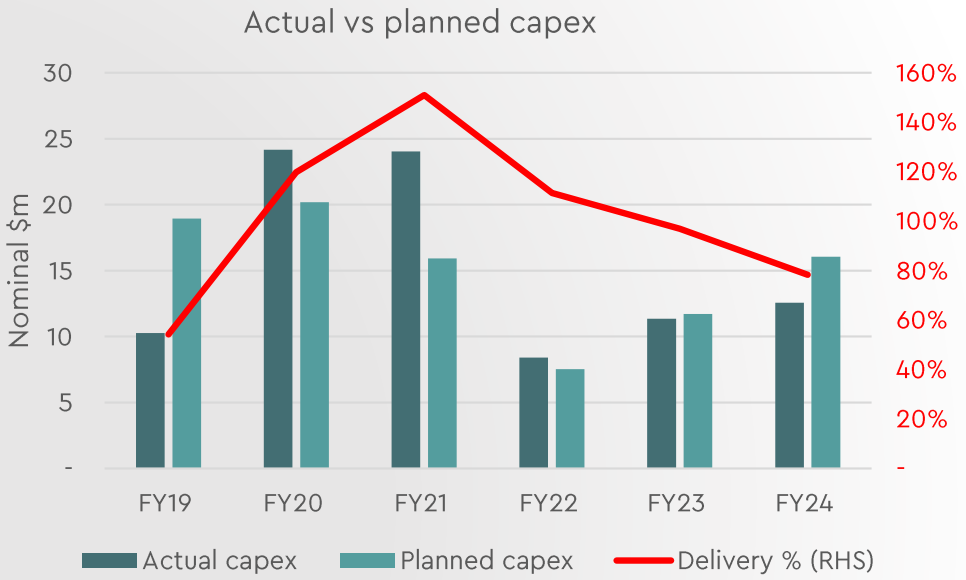
The capital profile shows a lumpy investment profile, with a significant increase in investment planned in FY25 and then again in FY33-34. There is no growth capex forecast to occur from FY30 onwards.

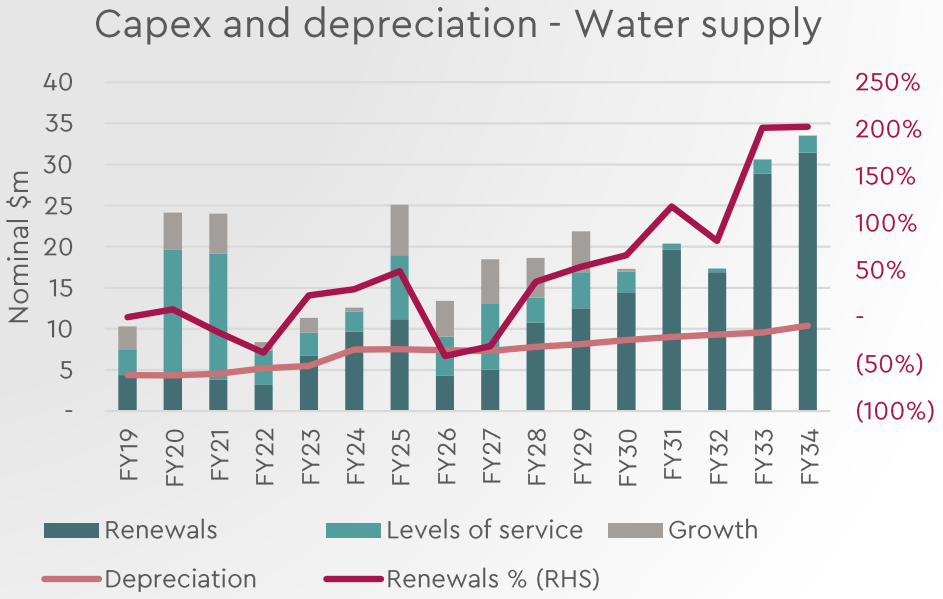
The Hautapu East water development project accounts for $7.8 million of investment in growth over FY25/26-26/27.

Planned renewals comprise most of the forecast spend from FY30 onwards, and renewals comprising an average 181% of depreciation over the whole ten-year period and are particularly high over the last five years of the LTP period.

Depreciation and renewals

The council spent $32.6 million on water supply renewals over the last six years compared with depreciation expense of $31.5 million (4% more than depreciation expense). Over the next ten years, planned renewals comprise an average 82% in excess of the projected depreciation expense over the ten-year period. Projects include renewing the aging district-wide water mains, district-wide reservoir renewals, and replacing and installing water meters.





Water supply—revenues and operating balance

Revenue sufficiency

Revenues

Revenues for water supply are projected in the draft LTP to increase by 184% over the next ten years – from $14.5 million to $41.1 million. This represents a real increase of 7.0% per annum above the rate of inflation.

Water charges per connection are projected to increase from $660 in FY24 to around $1,376 per connection by FY34 ($985 in current prices). The increase in water charges is estimated to increase water supply charges from 0.6% of the median household income in FY24 to 0.8% by FY34.

Planned increases in targeted rates in the draft LTP are particularly significant in FY26 and FY27, with revenues forecast to increase by 58% over 2 years.

Operating surpluses (deficits)

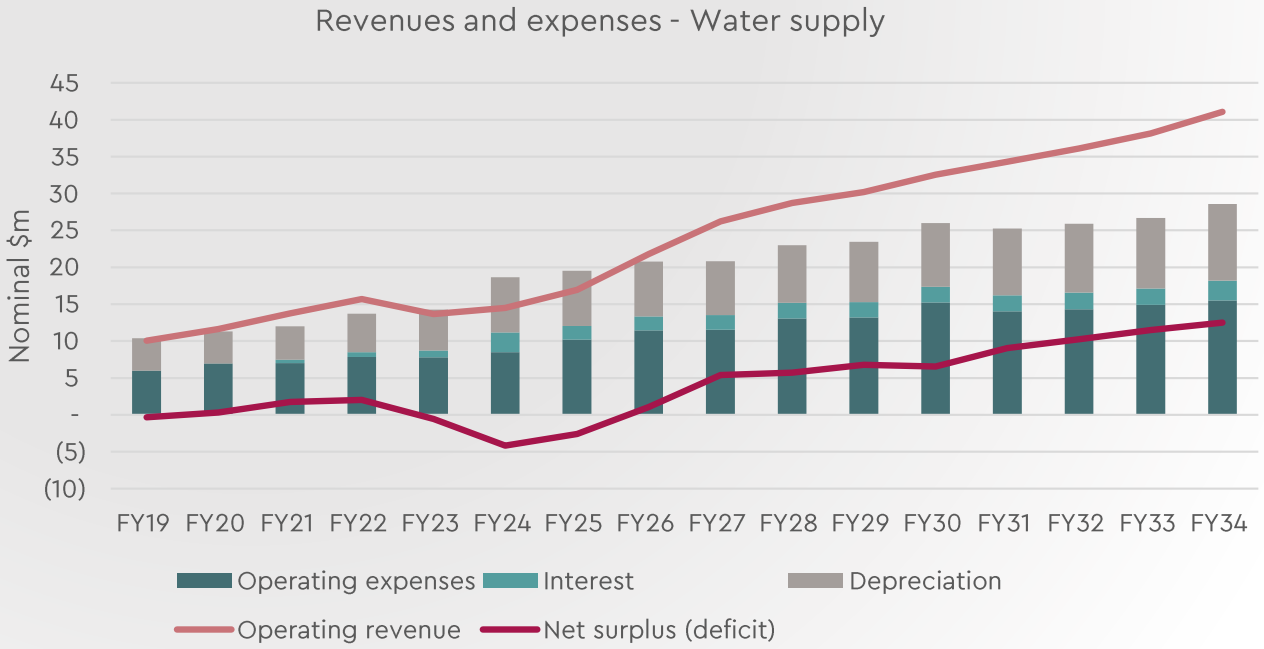
Water supply services has operated close to within financial balance over the last six years, except for modest deficits in FY23 and a $4.2 million deficit in FY24. Based on the draft LTP, the council plans to run operating surpluses over the next ten years, averaging 19% of operating revenue.

Revenue sufficiency

Revenue sufficiency requires that operating revenues are sufficient to meet the costs of operating water services and generate operating cash surpluses (EBITDA) sufficient to service any borrowing. 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 exceed the expected future requirement for revenue sufficiency, indicating a potential over-recovery of the costs of service delivery. As noted overleaf, this generates significant cash surpluses that are used to aggressively pay down debt.

On a ring-fenced basis, this suggests the growth in targeted rates from FY27 may not need to be as high as currently forecasted. The process of finalising the LTP provides an opportunity to reconsider this. Alternatively, this could be re-examined as part of preparing the Water Services Delivery Plan.



Water supply—borrowing and debt sustainability

Financing sufficiency

Borrowing

Water supply borrowing (internal and external) increased by $47.3 million over the last six years, from $1.2 million to $48.5 million. Net debt (after accounting for reserves) is projected to increase from $48.5 million in FY24 to $79.2 million in FY29 before decreasing to $72.3 million in FY34.

Net debt to revenue

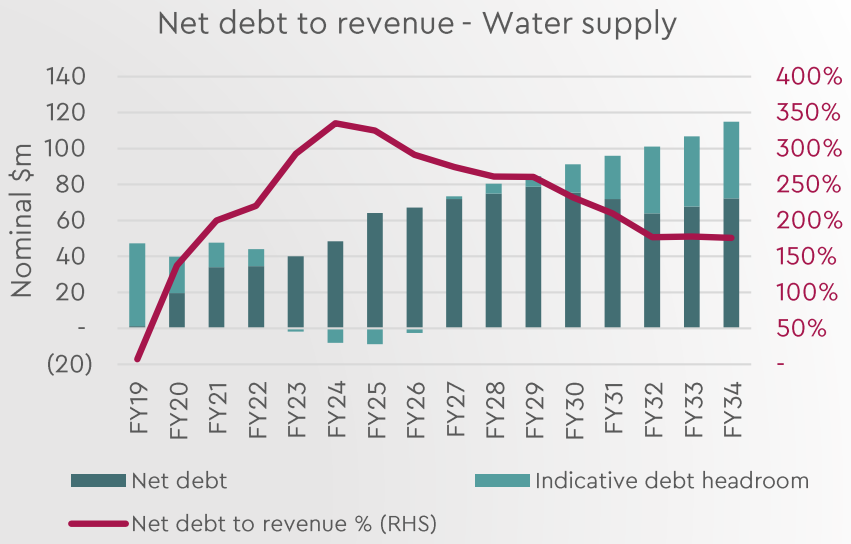
Net debt to revenue increased from 7% in FY19 to 335% in FY24. It is expected to remain above 280% for the next two years before decreasing to 176% by FY34. Water activities are typically operated with higher leverage than non-water council activities, due to their capital-intensive nature. The proposed level of borrowing for water supply is within the bounds of what would be expected and is not excessive by New Zealand local government standards.

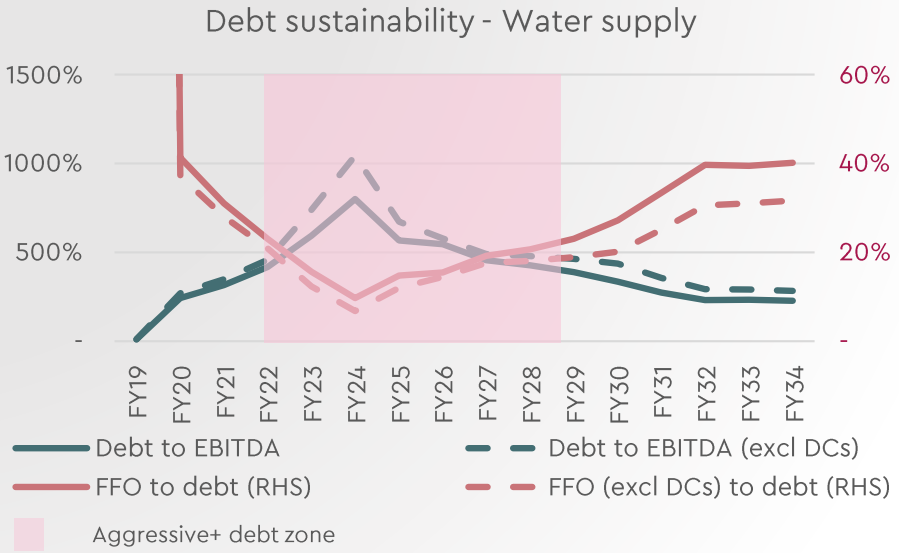
Debt sustainability

Funds from operations (FFO) to net debt, including development contributions, reduced from almost 1,000% to 10% over FY19-24 and is projected to climb back up to 40%. A range of 9-13 percent represents aggressive levels of debt, while 13-23 percent represents significant levels, and a range between 23-35 percent represents an intermediate level of debt.

Debt to EBITDA broadly follows an inverse pattern, growing from 2.4x to 8.0x from FY20 to FY24. It is forecast to remain above 4.3x until FY29 before decreasing to 2.3x by FY34. A level above 5.5x is highly leveraged, while 4.5-5.5 corresponds to aggressive levels of debt and 2.5-3.5x equates to intermediate levels of debt.

Looking at debt balances at the end of the ten-year period, the debt trajectory over the LTP period appears sustainable for water services on a standalone basis. But this masks the aggressive levels of debt being used in the short-term.





A2

Wastewater services

Revenue sufficiency

Investment sufficiency

Financing sufficiency

Wastewater operating expenditure

Last five years

The cost of operating wastewater services increased by 69% over the last five years – from around $9.1 million to $15.4 million. Key contributors include depreciation costs (+104%), maintenance and labour costs (+143%), energy and materials costs (224%), and interest (from $47,000 to $873,000).

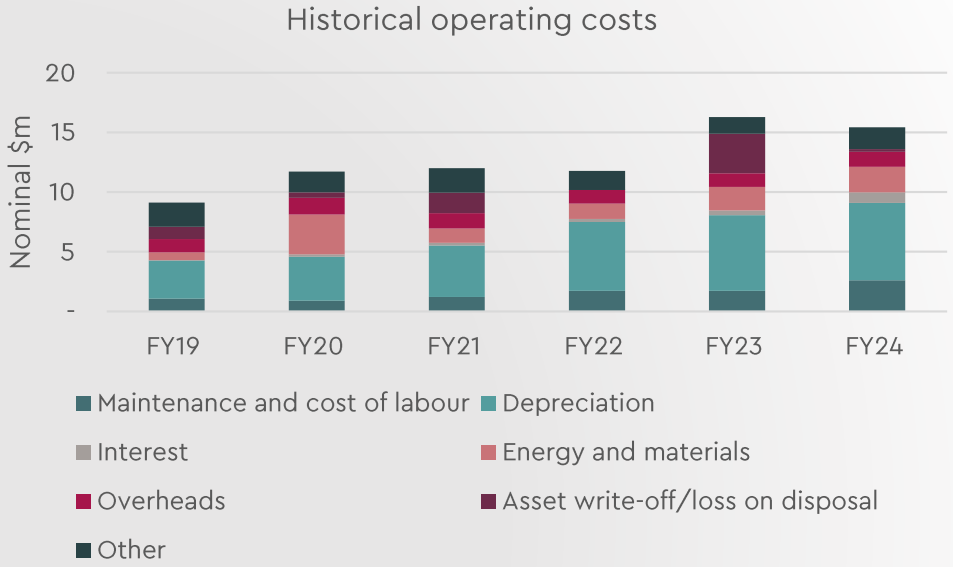
Significant drivers of increased cost include asset revaluations, with higher replacement costs driving higher depreciation expense, and higher finance costs reflecting higher borrowing and interest rates. Asset write-offs and disposals account for the majority of the higher expenses in FY23.

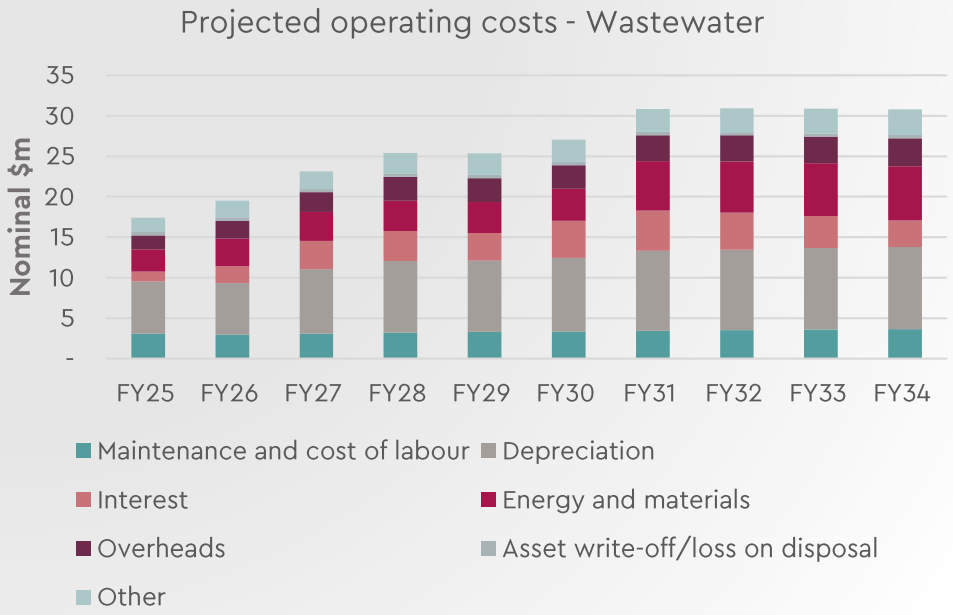
Outlook

Operating costs are projected to continue to increase by 6.9% per annum over the next ten years – from $15.4 million to $30.0 million. Significant drivers of this include anticipated increased costs associated with energy and materials (+12.0% p.a.), depreciation (+4.6% p.a., internal overheads (+10.5% p.a.).

Depreciation expense increases significantly, reflecting a larger asset base due to both the capital program ($217.0 million over the 10-year period) and revaluations occurring in line with projected inflation.

Decreasing finance costs predominantly offset increasing depreciation and operating expenses from FY31 to FY34, explaining the static operating expenditure profile.





Wastewater capital expenditure

Investment sufficiency

Capital delivery

The council invested $110.8 million in wastewater assets over the last six years compared with planned investment of $91.7 million (a delivery rate of 121%). Capital delivery has exceeded budget for four of the five past years.

Capital expenditure plans

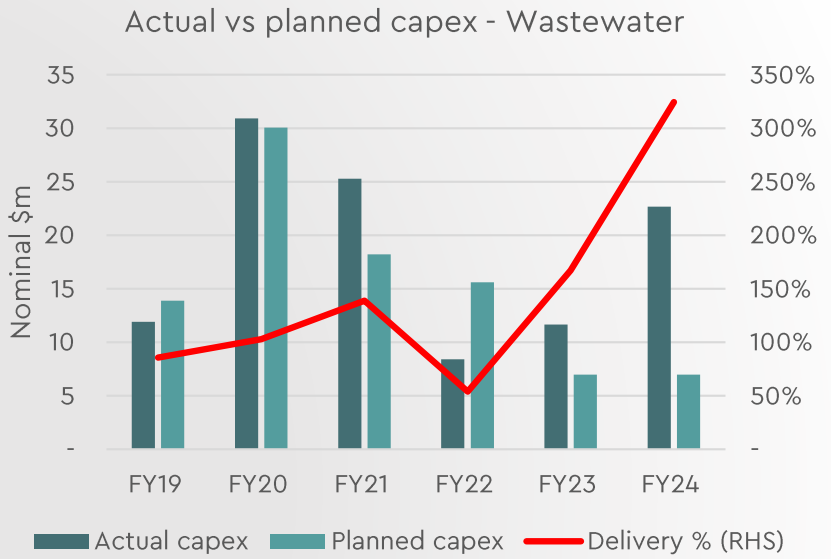
The council plans to invest $217.0 million in its wastewater assets over the next ten years. In today's dollars, investment averaged $22.3 million p.a. over FY19 - FY24, compared with $19.7 million p.a. planned for the next 10 years. This represents a 12% decrease on the rate of investment compared to the last six years.

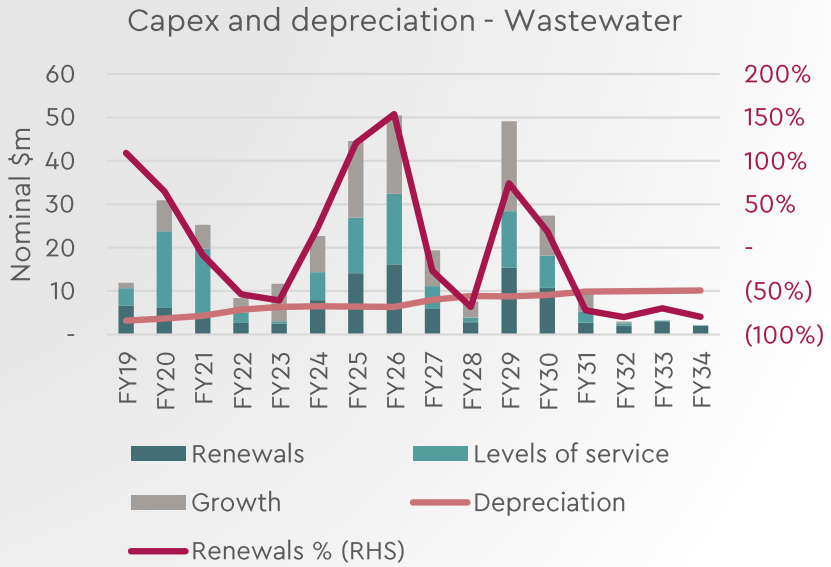
The capital profile shows a steep increase in investment over FY25-FY26, driven by the $92 million in the Cambridge wastewater treatment plant consents and upgrades.

Another peak in growth investment occurs over FY29-FY31 for the Te Awamutu wastewater treatment plant consents and upgrades.

Depreciation and renewals

The council spent $29.8 million on wastewater renewals over the last six years compared with depreciation expense of $29.8 million (renewals matched depreciation expense). Over the next ten years, the council is planning to spend $74.9 million on renewals, which is 14% less than the projected depreciation expense.





Wastewater revenues and operating balance

Revenue sufficiency

Revenues

Revenues for wastewater in the draft LTP are expected to increase by 144% over the next ten years – from $15.5 million to $37.8 million. This represents a real increase of 5.5% per annum above the projected rate of inflation. The main contributor to this is large increases of 30% and 26% in water targeted rates in FY26 and FY27.

Wastewater charges per connection are projected to increase from $877 in FY24 to around $1,733 per connection by FY34 ($1,240 in current prices). The increase in wastewater charges is estimated to increase wastewater charges from 0.7% of the median household income in FY24 to 1.1% by FY34.

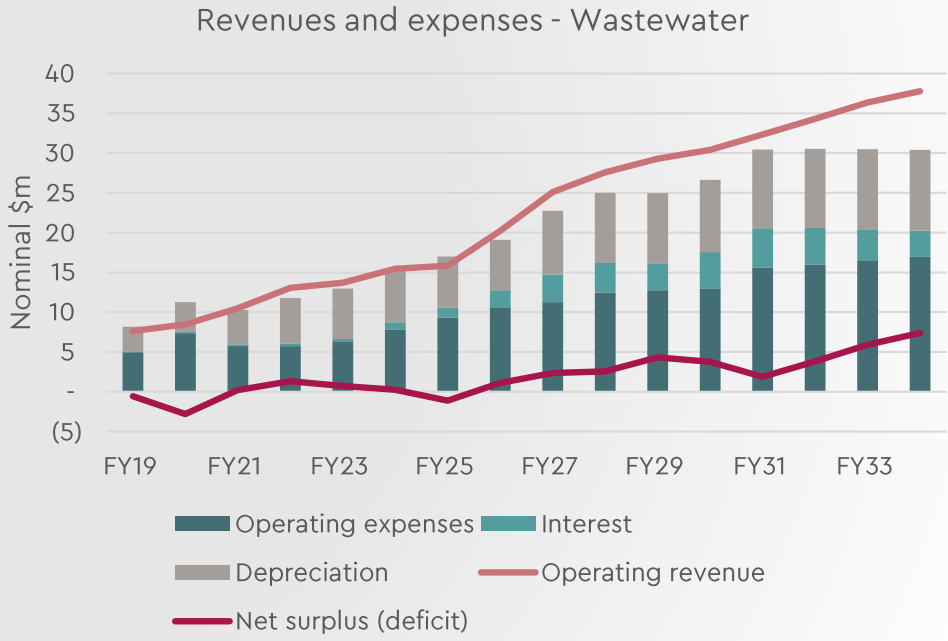
Operating surpluses (deficits)

Wastewater services operated in financial balance over the most recent four years after operating at a deficit in FY19 and FY20. The council plans to run a deficit of 7% in FY25 but operating surpluses over the remainder of the nine years, with cumulative surpluses totalling 11% of operating revenue over the LTP period.

Revenue sufficiency

The large increases in targeted rates in FY26 and FY27 lead to large operating surpluses, which means the council's long-term plan financial projections exceed the expected future requirement for 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.

On a ring-fenced basis, this suggests the planned increases in targeted rates from FY27 may not need to be as high as currently forecast. The process of finalising the LTP provides an opportunity to reconsider this. Alternatively, this could be re-examined as part of preparing the Water Services Delivery Plan.



Wastewater borrowing and debt sustainability

Financing sufficiency

Net borrowing

Net wastewater borrowing (internal and external borrowing less reserves) increased by $43.2 million over the last six years, from $4.0 million to $47.2 million. Borrowing for wastewater is expected to increase by $109.9 million over the next five years, to around $157.0 million before reducing to $65.4 million by FY34.

The reduction in debt balances is heavily reliant on developer contributions, totalling $79.3 million over the LTP period.

Net debt to revenue

Net debt to revenue increased from 46% in FY19 to 305% in FY24. It is expected to continue to increase over the next few years, rising to 621% in FY26 and then having a second peak of 525% in FY29 before decreasing to 173% by FY34.

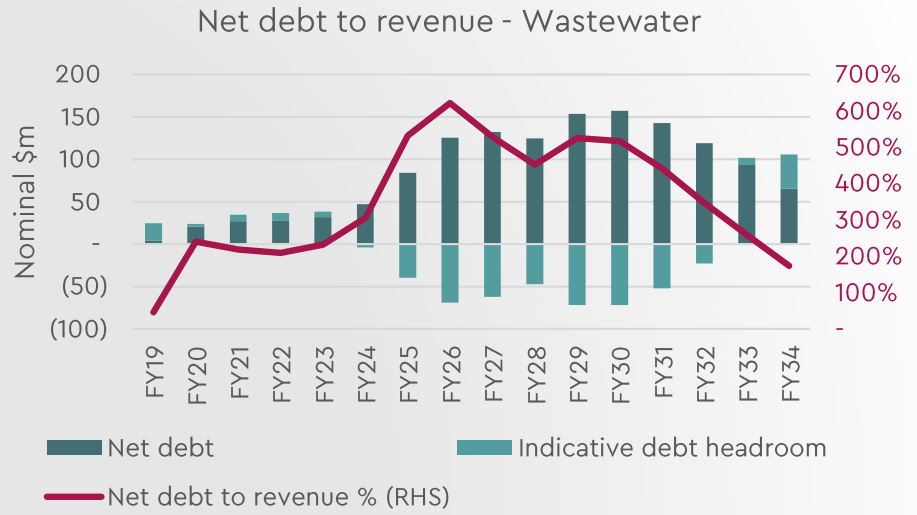
Water activities are typically operated with higher leverage than non-water council activities, due to their capital-intensive nature. The proposed level of borrowing for wastewater is aggressive by water industry standards in the immediate future but conservative in later years.

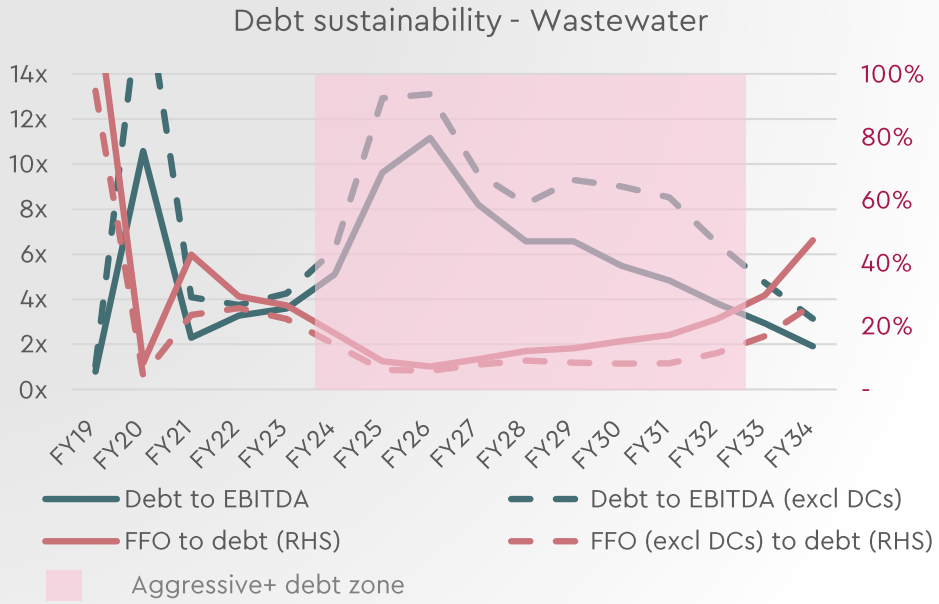
Debt sustainability

Funds from operations (FFO) to net debt reduced from 125% in FY19 to 18% in FY24 (including development contributions). It is projected to decrease to 7% by FY26, and then increase steadily as debt levels decrease, reaching 47% by FY34. A ratio of 7% represents a highly leveraged position in FY26, with intermediate levels of debt being achieved from FY32 (22%).

Debt to EBITDA broadly follows an inverse pattern, increasing from 0.8x in FY19 to 5.1x in FY24, before increasing to a projected 11.2x in FY26, and decreasing to 1.9x by FY34. A range exceeding 5.5 is commensurate with a highly leveraged position, whereas a ratio between 2.5 and 3.5 (achieved from FY33) represents an intermediate level of debt.

Overall, the debt trajectory over the LTP period has significant risk in the immediate future but then becomes very conservative for wastewater services on a standalone basis. Under ringfencing rules, this build-up of cash reserves would need to be available for future water investment, and can be used for water debt repayment.





A3

Stormwater services

Revenue sufficiency

Investment sufficiency

Financing sufficiency

Stormwater operating expenditure

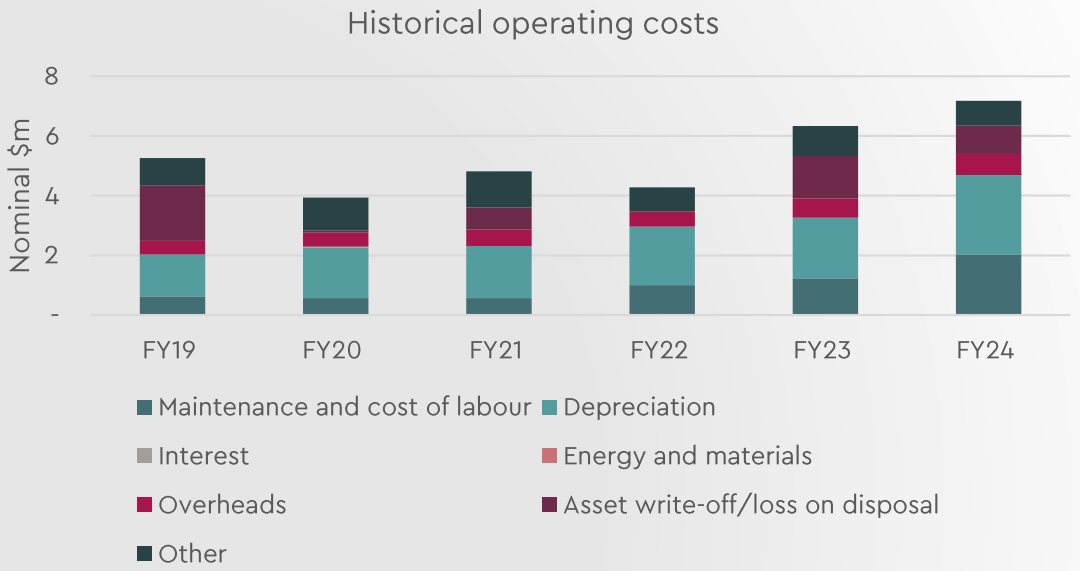
Last five years

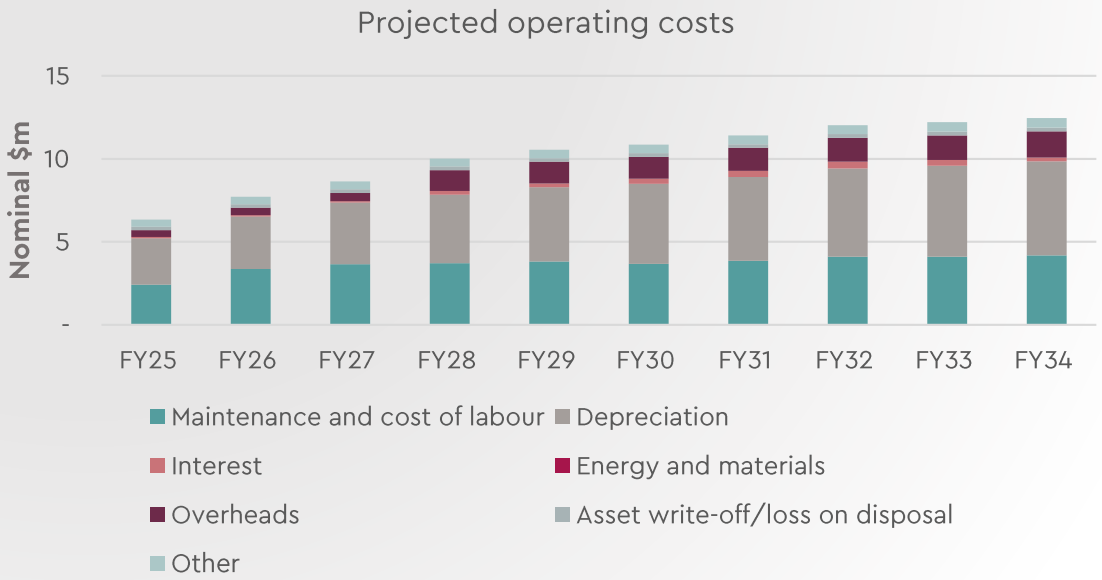
The cost of operating stormwater services increased by 36% over the last five years – from just under $5.3 million to $7.2 million. Significant drivers of this include depreciation expense (+89%), maintenance and labour costs (+225%), partially offset by smaller asset write-offs/losses on disposals.

Outlook

Operating costs are projected to continue to increase by 5.7% per annum over the next ten years – from $7.2 million to $12.5 million. Significant drivers of this include depreciation costs (+7.8% p.a.), maintenance and labour costs (+7.5% p.a.), and internal overheads (+8.4% p.a.).

Higher depreciation costs reflect anticipated further increases in replacement costs of existing assets, as well as the flow on impact of capital investment on depreciation.





Stormwater capital expenditure

Investment sufficiency

Capital delivery

The council has invested $73.5 million in stormwater assets over the last six years compared with planned investment of $146.4 million (a delivery rate of 50%). More than $60 million of growth / additional demand capital spend was planned in FY22, but only $16.3 million was achieved.

The current peak in investment to meet additional demand totals $9.8 million over FY25-FY26 and relates to the Cambridge growth cell and Hautapu industrial areas.

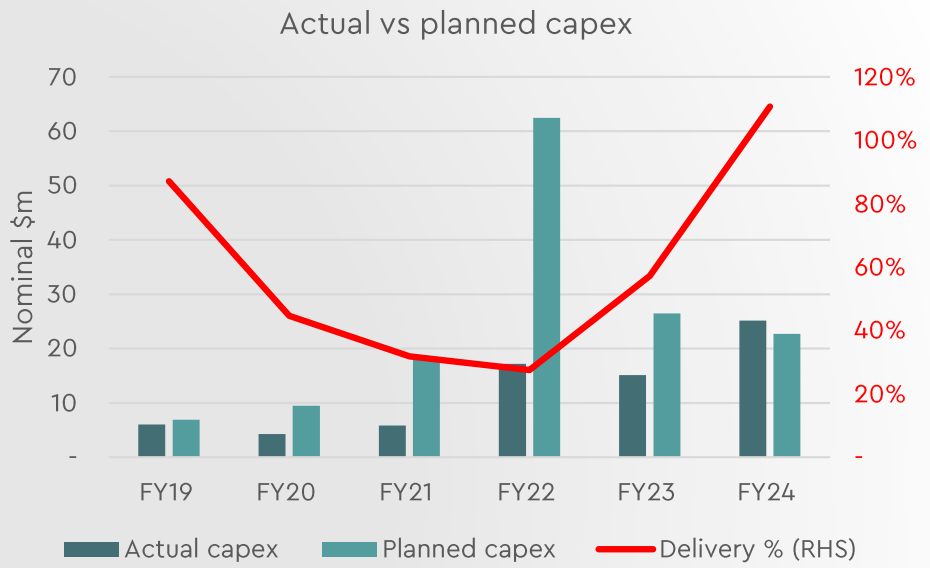
Capital expenditure plans

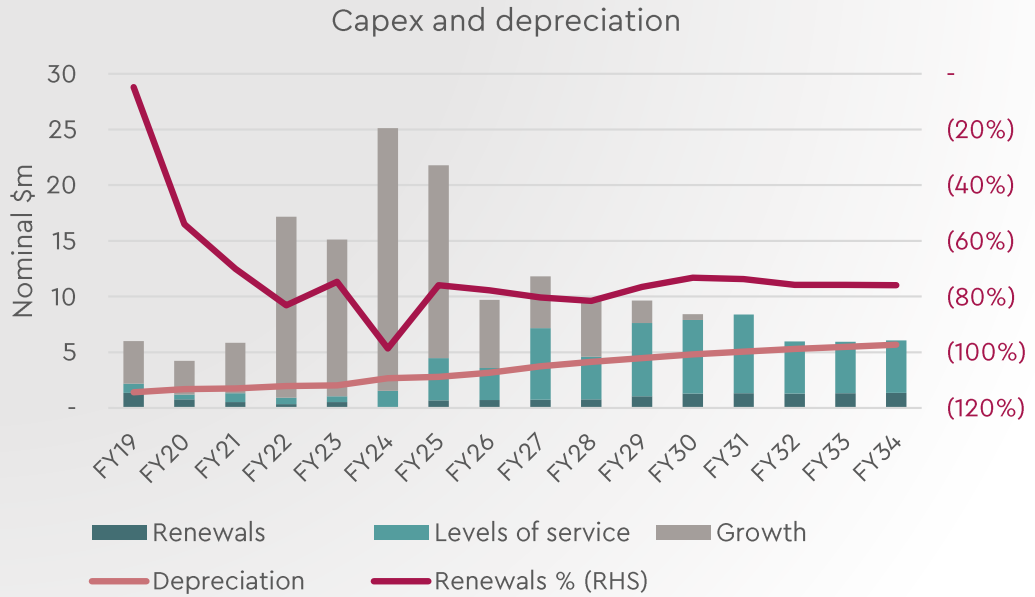
The council is planning to invest $97.6 million in its stormwater assets over the next ten years. This level of investment represents a decrease on the average level of investment over the last six years in real terms. In today's dollars, investment averaged $13.6 million per annum over the last six years, compared with $8.6 million per annum planned for the next ten years.

The capital profile shows investment decreasing once the peak over the FY22-FY25 period is completed.

Depreciation and renewals

The council spent $3.5 million on stormwater renewals over the last six years compared with depreciation expense of $11.5 million (31% of depreciation expense). Over the next ten years, the council is planning to spend $10.5 million on renewals, or 76% below the projected depreciation expense.





Stormwater revenues and operating balance

Revenue sufficiency

Revenues

Revenues for stormwater are projected to increase by 177% over the next ten years – from $4.5 million to $12.4 million. This represents a real increase of 6.8% per annum above the projected rate of inflation.

Stormwater rates per connection are projected to increase from $214 in FY24 to around $458 per connection by FY34 ($328 in current prices). The increase in stormwater rates is estimated to increase the costs of stormwater from 0.2% of the median household income in FY24 to 0.3% by FY34.

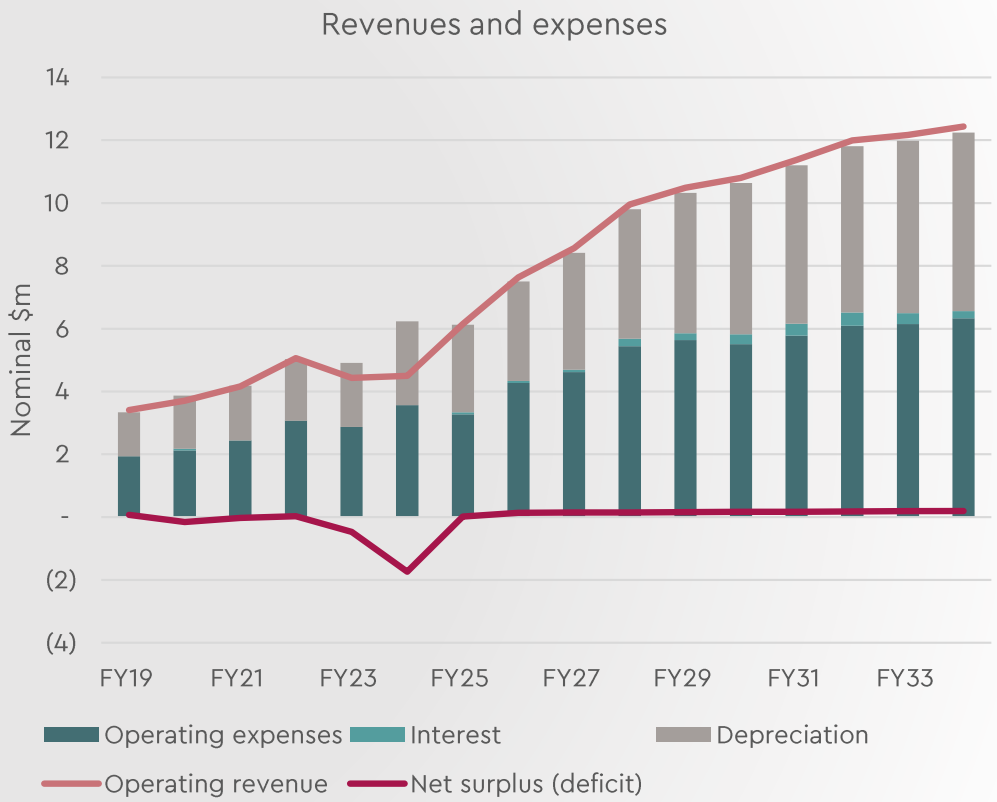
Operating surpluses (deficits)

Stormwater services have operated with operating deficits for four out of the last six years. The $1.7 million deficit in FY24 was the largest in the analysis period and was due to an increase in depreciation expense, an Infrastructure Works Agreement (IWA) for Houchens Ponds, and small changes in operating revenues. The cumulative deficit over this period represented 9% of total operating revenues, with the FY24 deficit 39% of that year's operating revenues. The council plans to run a balanced account over the LTP period, with a surplus averaging 1.5% of operating revenue.

Revenue sufficiency

The council's draft 10-year financial projections for stormwater are broadly consistent with the expected future requirement for revenue sufficiency, provided that the provision for capital investment is sufficient 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 borrowing and financing sufficiency

Financing sufficiency

Borrowing

Stormwater borrowing (internal and external) increased by $56.9 million over the last six years, from $5.8 million to $62.7 million. Borrowing for stormwater is expected to increase by $24.9 million over the next four years, to around $87.7 million, before reducing to nil by FY34. At the same time, reserves are projected to first decrease by $25.0 million over the next four years before increasing by a net $65.7 million by FY34. Net debt (after accounting for reserves) is projected to increase to $84.3 million in FY28 before decreasing over the remainder of the ten-year period to -$6.3 million.

The reduction in debt balances is heavily reliant on developer contributions, totalling $113 million over the LTP period, or more than 5 times the average annual amount received over the past 6 years.

Net debt to revenue

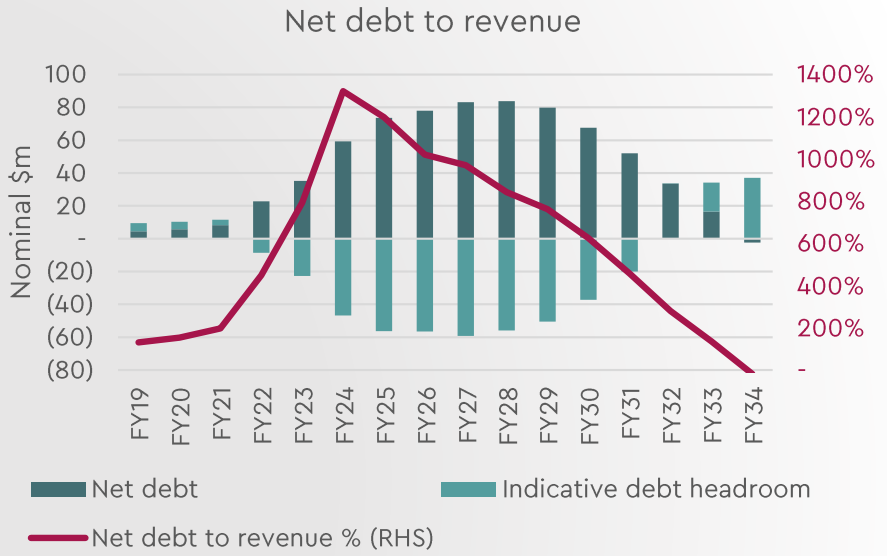
Net debt to revenue increased from 131% in FY19 to 1,321% in FY24. Over the next ten years, this is projected to reduce annually, to -18% by FY34. Water activities are typically operated with higher leverage than non-water council activities, due to their capital-intensive nature. Levels above 350% are considered relatively high by New Zealand local government standards. Council does not expect to be below this 350% level until FY32.

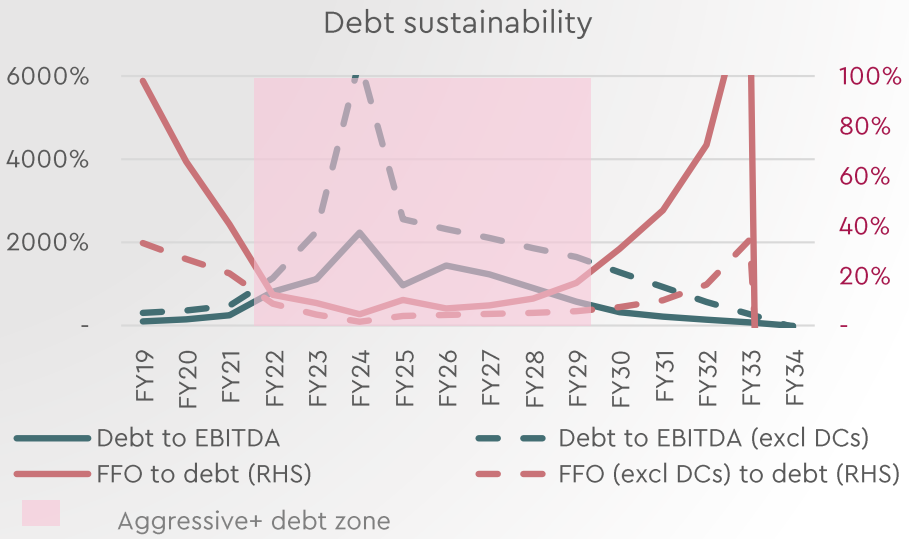
Debt sustainability

Funds from operations (FFO) to net debt has been decreasing over the last six years as debt levels have grown. Despite borrowing forecast to increase, the ratio is projected to improve from its current level of 4% owing to improved FFO. It is forecast to reach 11% by FY28 and then continue to improve. A level below 9% represents a highly leveraged position, while a range of 9-13% represents aggressive levels of debt.

Debt to EBITDA increased from 1.0x in FY19 to 22.3x in FY24. It is projected to reach 14.5x in FY26 and then decrease annually as debt is repaid over the ten-year period. Levels above 5.5x are regarded as highly leveraged by rating agencies, while a range of 4-5 corresponds to an aggressive level of leverage.

Overall, the debt trajectory over the period to FY32 is aggressive for stormwater on a standalone basis.





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Waipā District Council Water Services Delivery

Waipā District Council

Presentation

14 November 2024

Commercial in Confidence

What this presentation covers

1. Introductions and strategic context
2. Overview of Waipā District Council water services
3. Assessment framework
4. Analysis against assessment framework
5. High level options analysis
6. Implications and recommendations

01

Strategic 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, with significant implications for council service delivery.

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 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 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, will provide for a range of structural and financing tools, including a new type of council-owned water organisation. Financing changes announced by LGFA will enable new water organisations to increase borrowing beyond existing council debt limits.

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.

Government has identified a range models available to Councils

Internal business unit

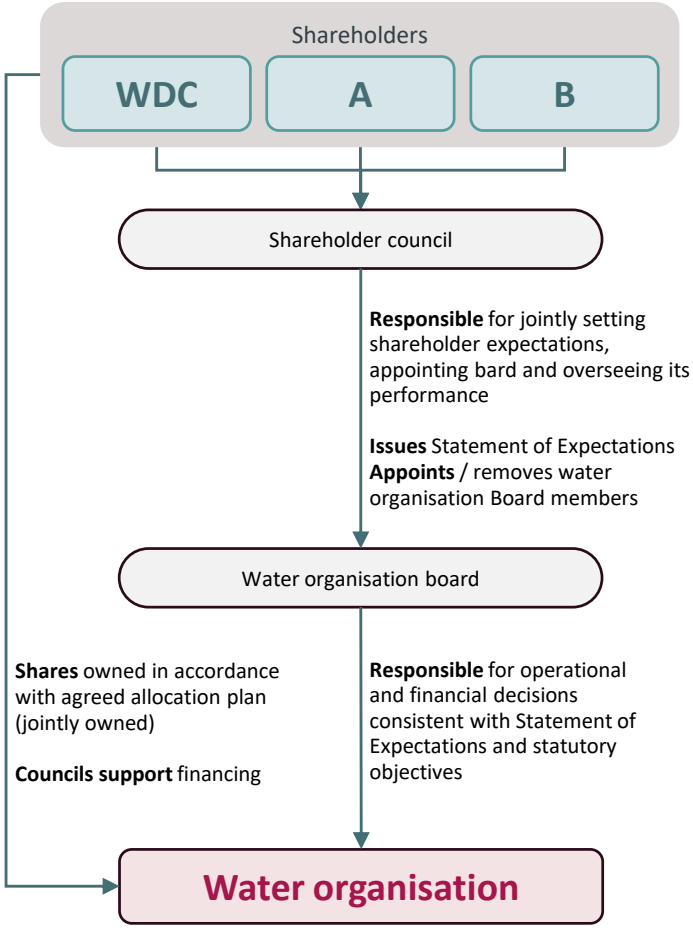
WDC

Water services delivered through internal business unit or division, with ring-fencing of revenue and expenditure. New planning and reporting framework for water service providers will apply.

Single council water organisation (CCO)

Multi-council water organisation

(for example under Waikato Water Done Well or with other neighbouring councils)



Additional requirements for water organisations

In addition to the minimum requirements that apply to all water services providers, the legislation will also look to include additional requirements that apply to water organisations – affecting their ownership, governance, and structural arrangements.

These requirements will apply to all water organisations, including any existing council-controlled organisations and council-controlled trading organisations that deliver water services.

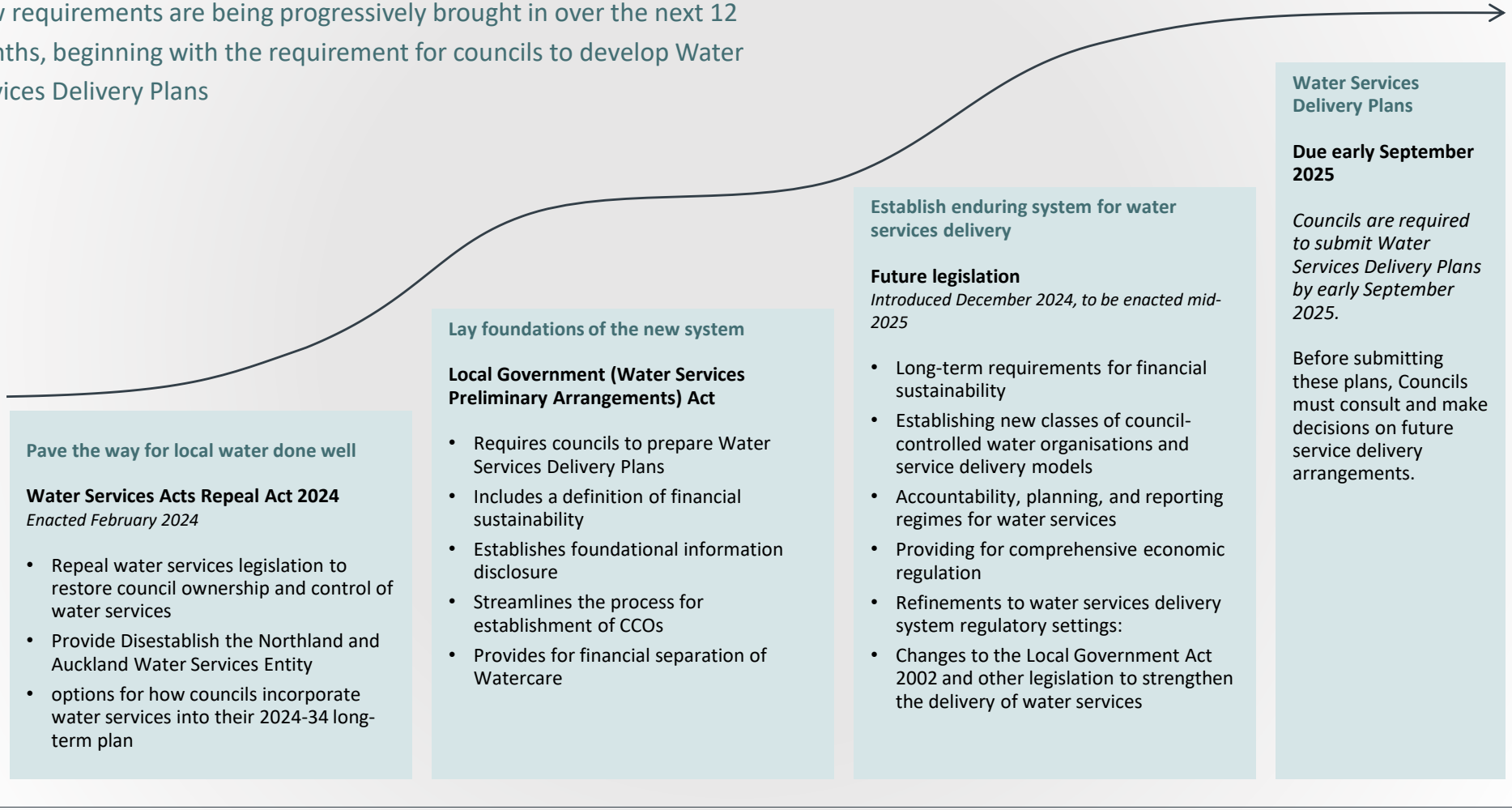
These features are not relevant where councils continue with direct service delivery.

The following additional requirements apply to water organisations:

- **Current council staff and elected members** cannot be appointed to boards.
- Water organisations **must be companies.**
- Activities of water organisations will be **limited to the provision of water services** and directly-related activities.
- **Only councils or consumer trusts** can be shareholders of a water organisation.
- **Board appointments must be competency-based** and have the appropriate mix of skills, knowledge, and experience.
- **There will be a range of protections against privatisation.**

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



Waipā – strategic context

Shifting demographics change what your communities expect of you

1

22,000 new people will call Waipā home by 2055 and will need places to live, work, learn, shop and play. 12,000 new more affordable dwellings will be needed by 2055.
Residents aged over 65 will double to 30 percent by 2050.
For example, SL1 Consortia fastrack arrangement for North Waipā alone is expected to provide an additional 7,500 homes and 10,000 jobs.

Relatively strong economic performance will continue, however economic activity will diversify

2

While dairy is the largest single industry (and largest user of water), Waipā's economy is expected to continue steadily diversifying including a shift to horticulture. 9 percent of the country's highly productive land is in Waipā.
Your economic geography is distinct, your communities of interest are strongly connected, and overtime you have a much more significant urban population.

Treaty of Waitangi settlement obligations in the region are distinct

3

Waipā District Council must give effect to Te Ture Whaimana o Te Awa o Waikato (the vision and strategy for the Waikato River). This awa is critical to your future water services requirements and also viewed as a tupuna (ancestor) and taonga (treasure) to mana whenua (Waikato-Tainui, Raukawa, Ngāti Tūwharetoa and the Te Arawa iwi). The same applies to the Waipā River for Ngāti Maniapoto.

*Adapted from Ahu Ake, Waipā Community Spatial Plan 2024

02

Overview of Waipā District Council Water Services

Snapshot of water services

	Water supply	Wastewater	Stormwater
Contribution to local community outcomes:	To ensure our community benefits from the ongoing provision of potable water. Water is supplied to Cambridge, Te Awamutu, Kihikihi, Pirongia, Ōhaupō, Pukerimu and Karāpiro.	To ensure the community and the environment are protected from the adverse effects of wastewater. Wastewater services are provided to the Cambridge, Hautapu, Karapiro, Te Awamutu and Kihikihi Communiites as well as tankering of waste from the airport precincts.	To ensure the adverse effects of stormwater run-off and flooding on the community and the environment are minimised. Urban stormwater services is provided to the Cambridge, Te Awamutu, Karapiro, Kihikihi, Ohaupo and Pirongia communities. A reduced service is also provided to some rural areas, e.g., the airport and associated industrial environs.
Services:	**17,958 serviced properties in 2023/24**	**18,170 wastewater connections in 2023/24**	**23,393 serviced properties in 2023/24**
Assets:	Council owns seven water treatment plants, 16 reservoirs, 665km of pipes and approximately 50,000 meters. There are 17 consents associated with the abstraction of water , discharge of treated backwash water (created from the treatment processes), maintenance of reservoirs and other associated works.	Council owns two wastewater treatment plants, 67 pump stations and 304 km of pipes. There are 11 consents associated with the treatment of wastewater including the discharge of treated wastewater to land and water, odour and other civil works.	Council 199 km of pipes, 222 km of rural drains, and 48 ponds and wetlands. The existing consents associated with the stormwater activity are in the process of being replaced with a comprehensive stormwater discharge consent.
Replacement asset value:	**$416.3 m**	**$324.9m**	**$246.0m**
Drinking water compliance	✓	✓	✓
Resource Consent Compliance	✓	✓	✓
Levels of Service Acheived	✓		
Asset Condition and Renewal Requirements	Around 70% of the piped network has no condition information, however condition information is available for critical assets such as pump stations, reservoirs, pipe bridges and treatment plants. Based on age, over 120km of water main pipe need to be replaced in the next 5 years, with another 46 km by year 10.	Over 70% of the wastewater pipes have been conditionally assessed, critical assets such as pipe bridges, pump stations and treatment plants have condition assessments completed regularly. Within the network, 40km of pipe is likely to require replacement within the next 5 years, with anther 34 km by year 10.	The stormwater network is the newest of the three waters, with only 7 km of pipe reaching the end of its life over the next 10 years. There is very little information on the condition of these assets. Missing asset data is also apparent.

10

Key risks and challenges over the next 10 years

- Meeting the demands of growth across the current ratepayer base
- Constrained investment in systems and processes to improve operational efficiencies and advancement in asset management practices
- Asset information quality requires improvement
- New stormwater discharge consent and associated investment to improve stormwater quality
- Ability to attract and retain key resources, particularly if other employers are more competitive and provide attractive career pathways
- Revenue risk with high dependence on demand from high use commercial users and development contributions
- A significant amount of water assets require replacement, constrained investment has presented a delivery challenge, and this is likely to continue

03

Assessment framework

How we approached the assessment for Waipā District

Operating context

- Pressures from growth
- Full compliance for drinking water
- All water supply metered
- Wastewater growth planned, including new Cambridge wastewater treatment plant
- Stormwater growth underway, including Cambridge growth cell and Hautapu industrial areas
- Specific Treaty settlement responsibilities including under Te Ture Whaimana o Waikato
- Single user consumes 30% of water supply
- No differential pricing but some targeted rates e.g. for the airport
- Significant increases in asset replacement costs and future revaluations
- Significant increases in borrowing

Service levels

- Network performance
- Drinking water compliance
- Resource consent compliance
- Customer service

Cost drivers

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

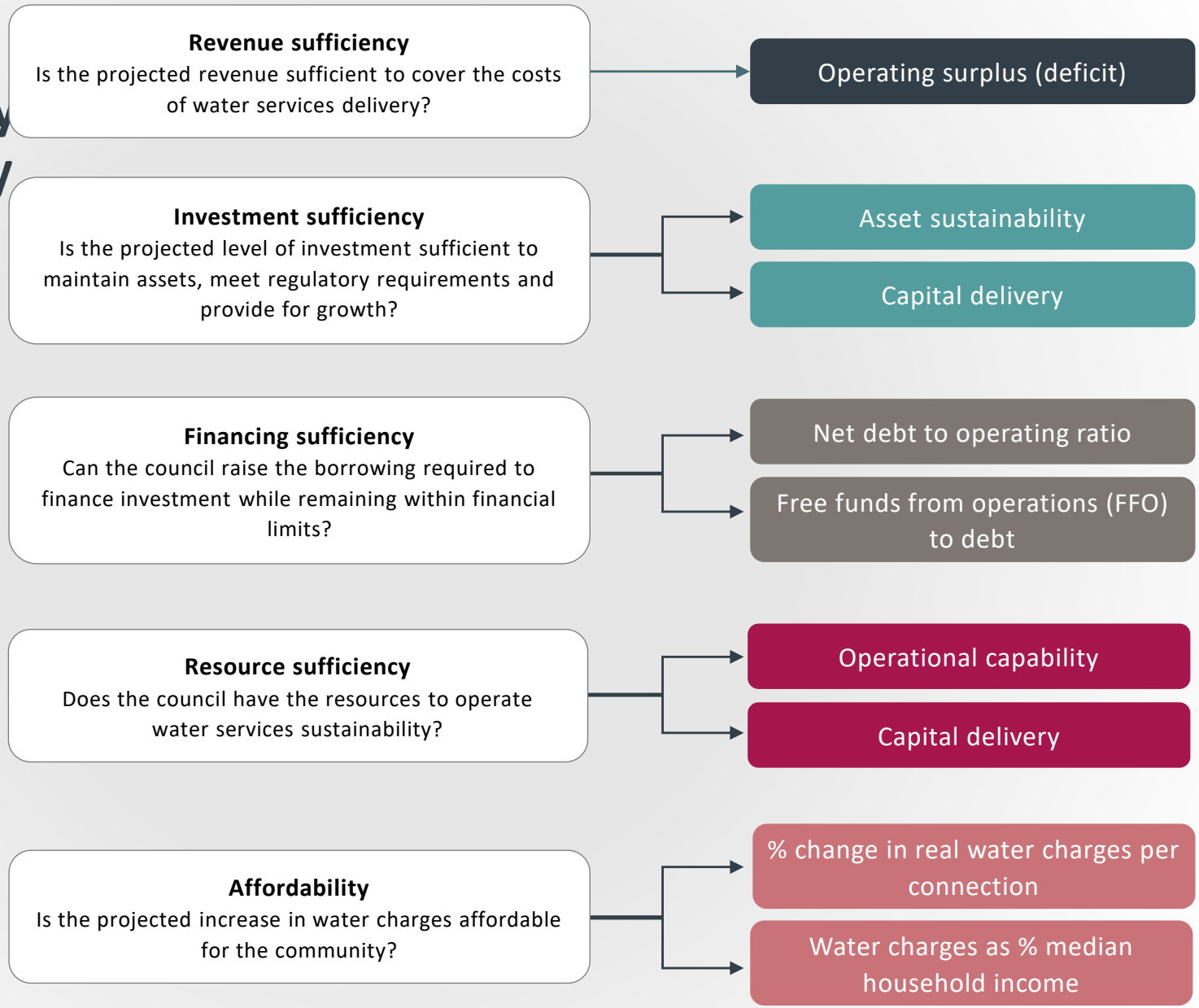
Financial projections

- 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



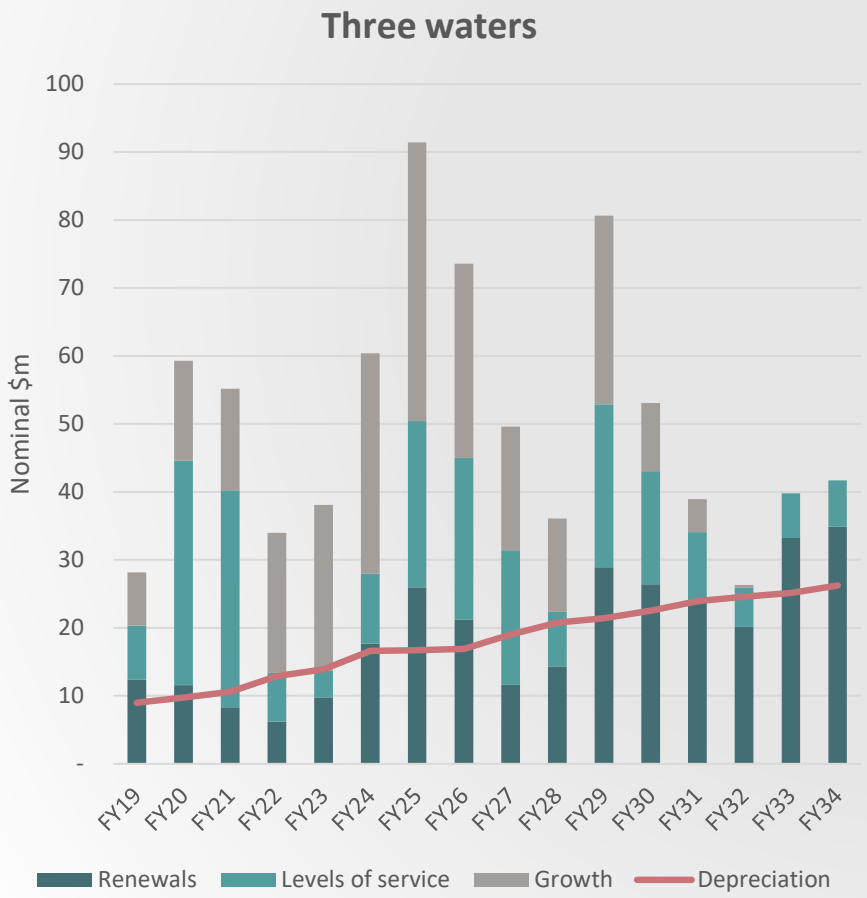
04

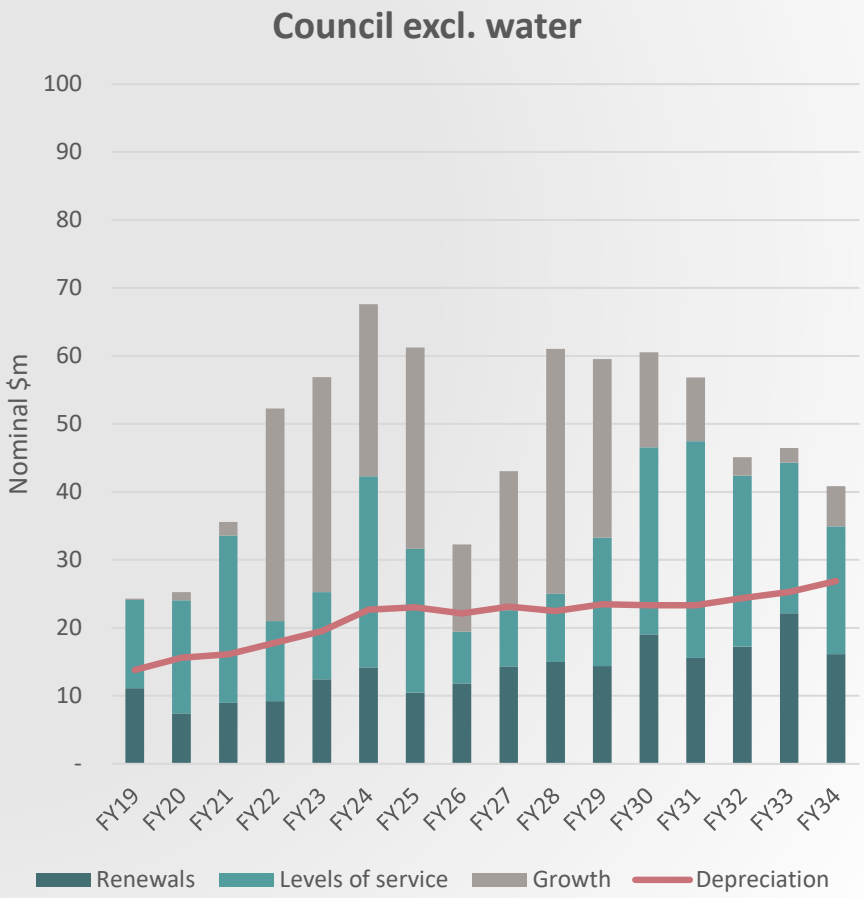
Financial analysis

Capital expenditure

Investment sufficiency

Over the next ten years renewal expenditure exceeds depreciation for three waters, however non-water renewal expenditure is below depreciation

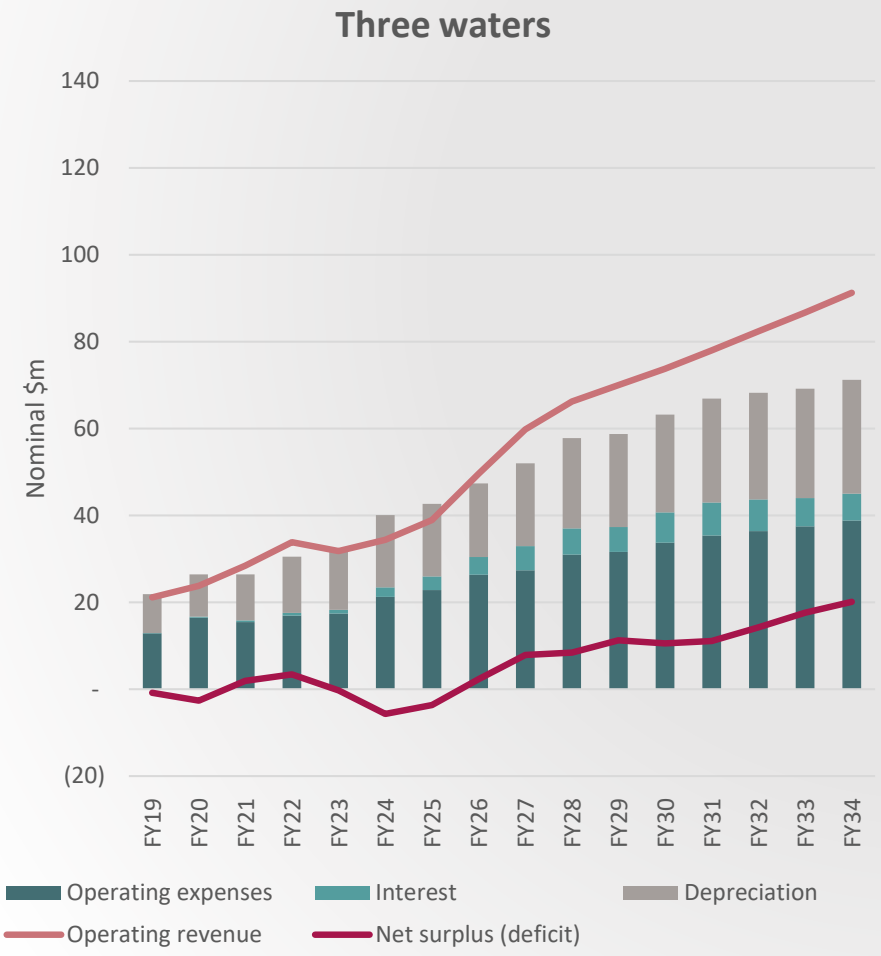


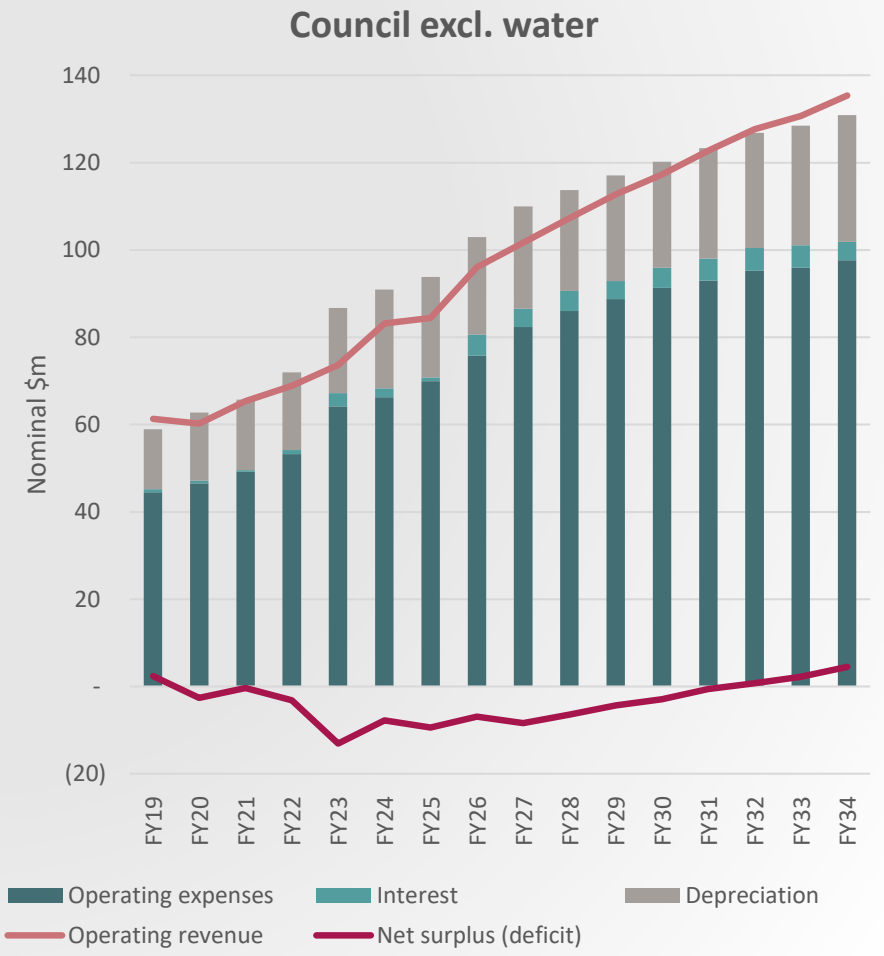


Net surplus (after depreciation)

Revenue sufficiency

Small deficits in FY24 and FY25 in three water activities improve to increasing operating surplus over the forecast period underpinned by moderately high price increases

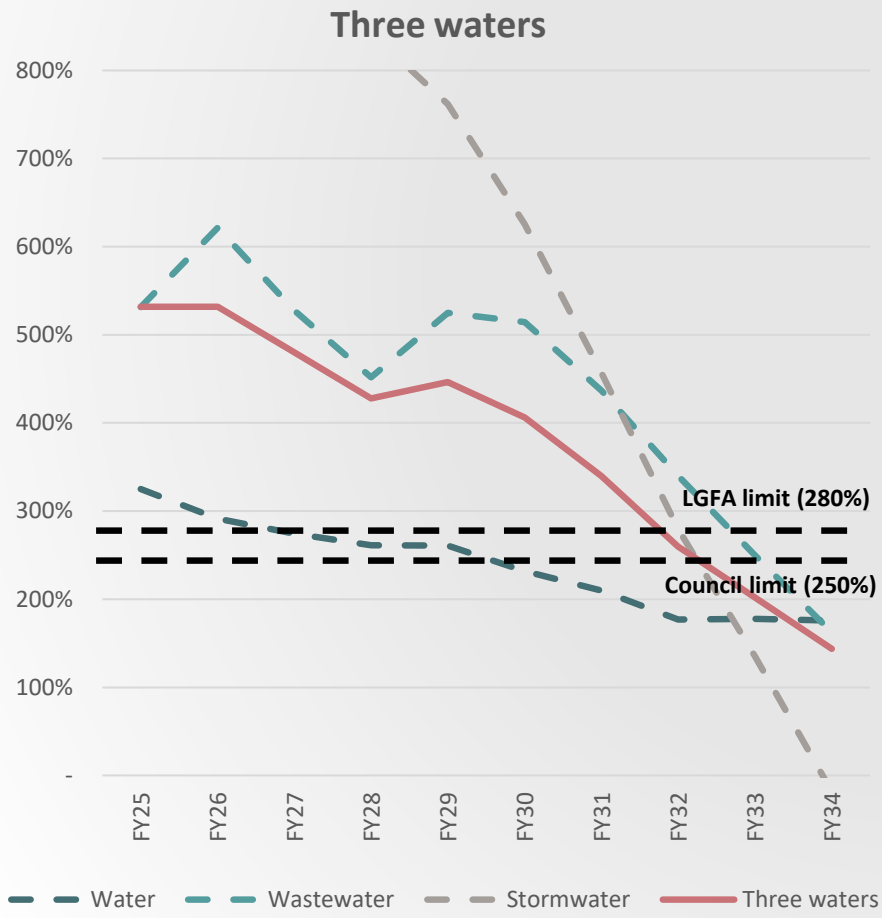


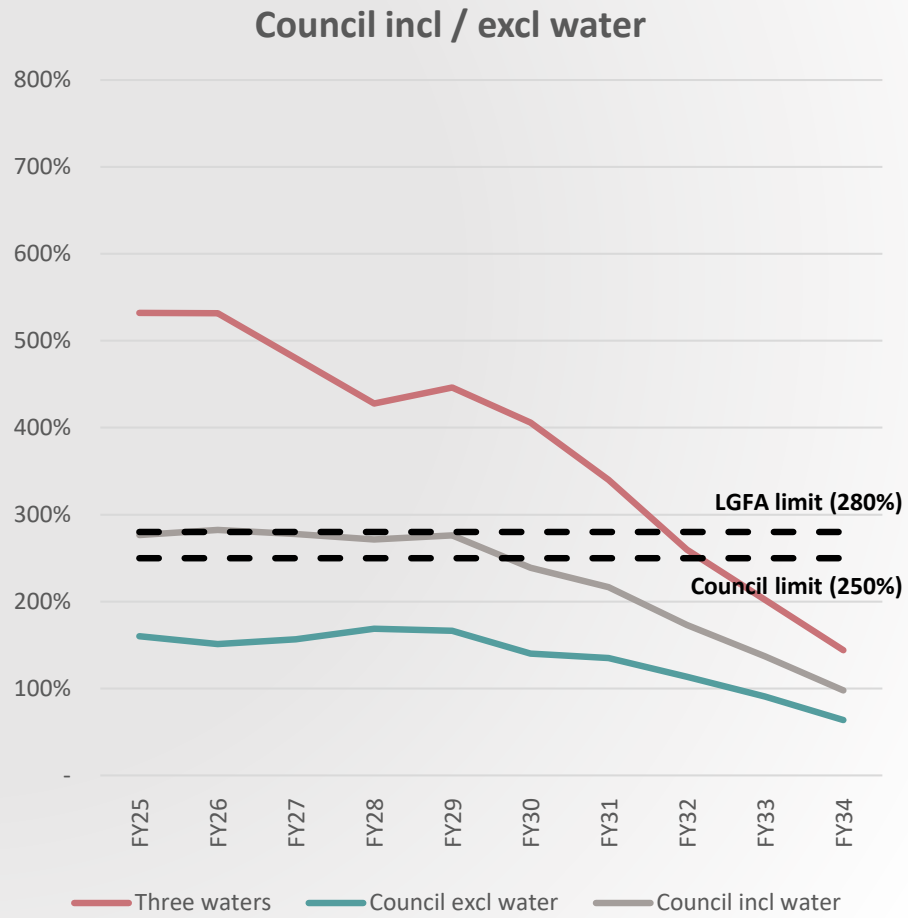


Net debt to revenue

Financing sufficiency

Overall, the debt trajectory over the LTP period is “aggressive” for three waters on a standalone basis, owing to the reliance on debt in the short-term

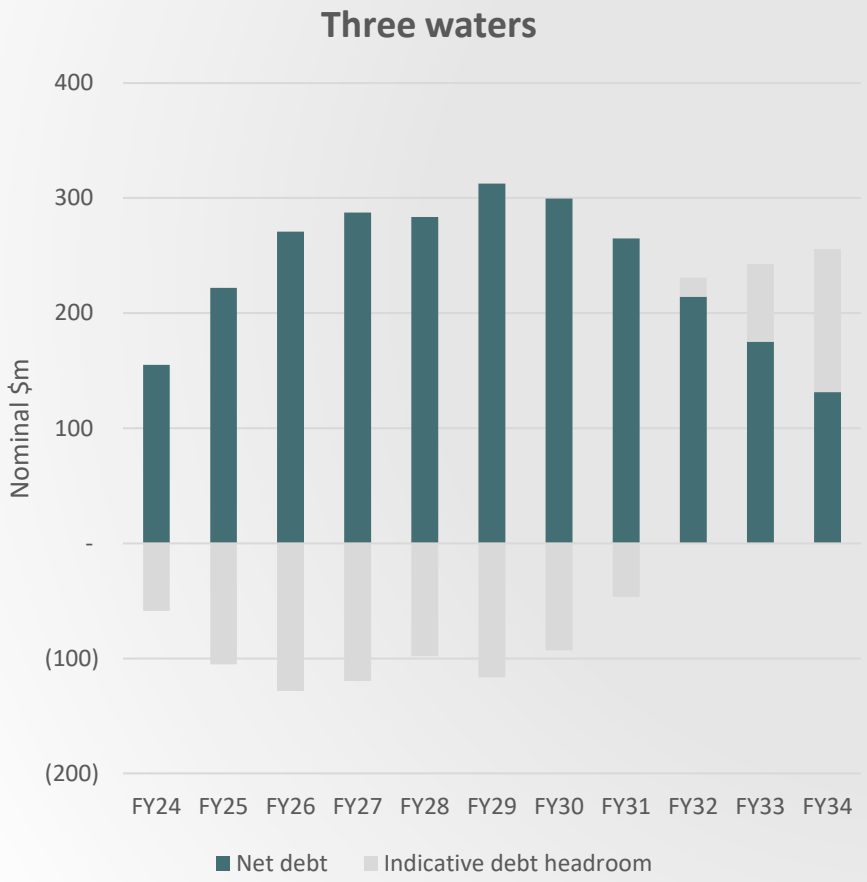


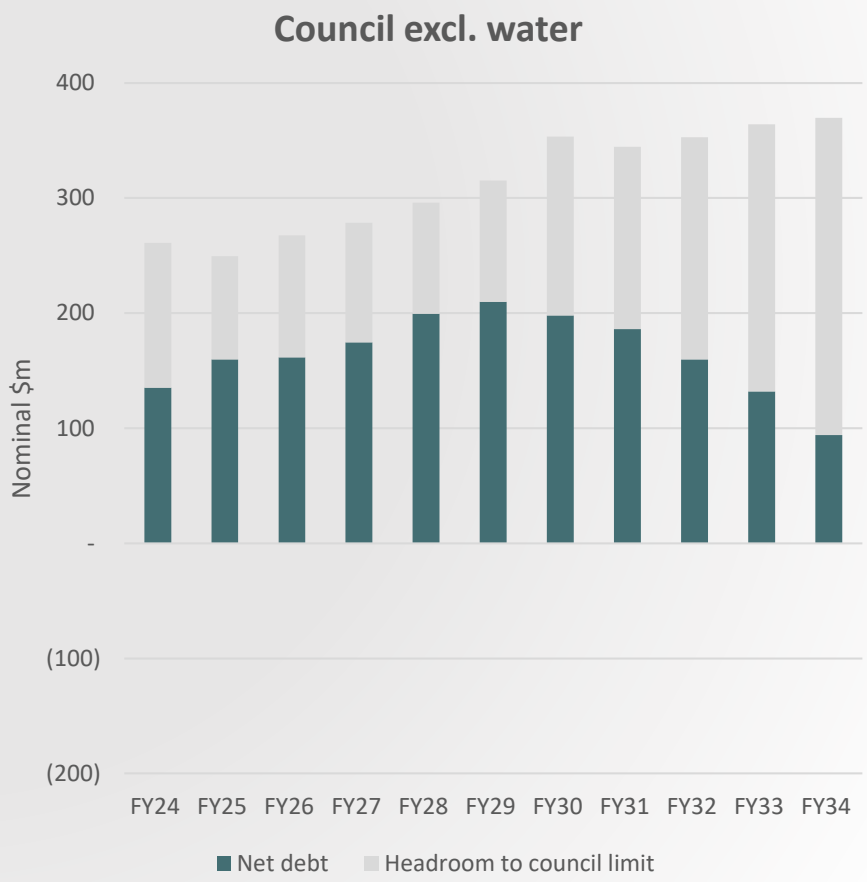


Debt headroom

Financing sufficiency

Negative headroom in water activities is offset by lower leverage in non-water council activities, this is common due to the capital-intensive nature of water activities

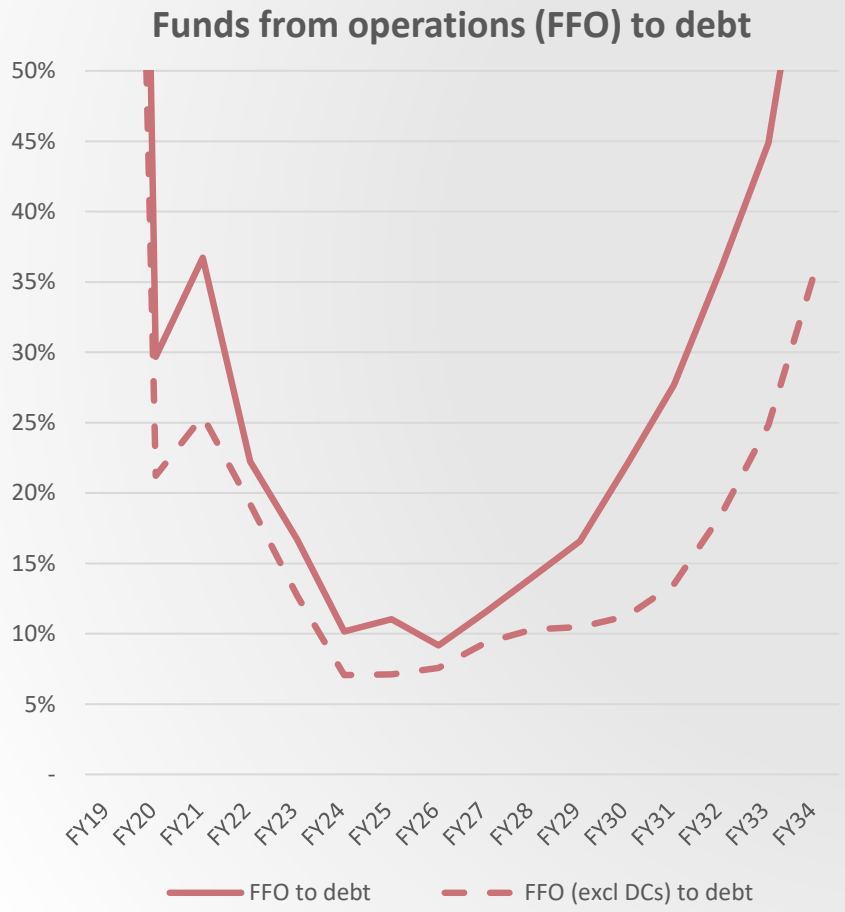


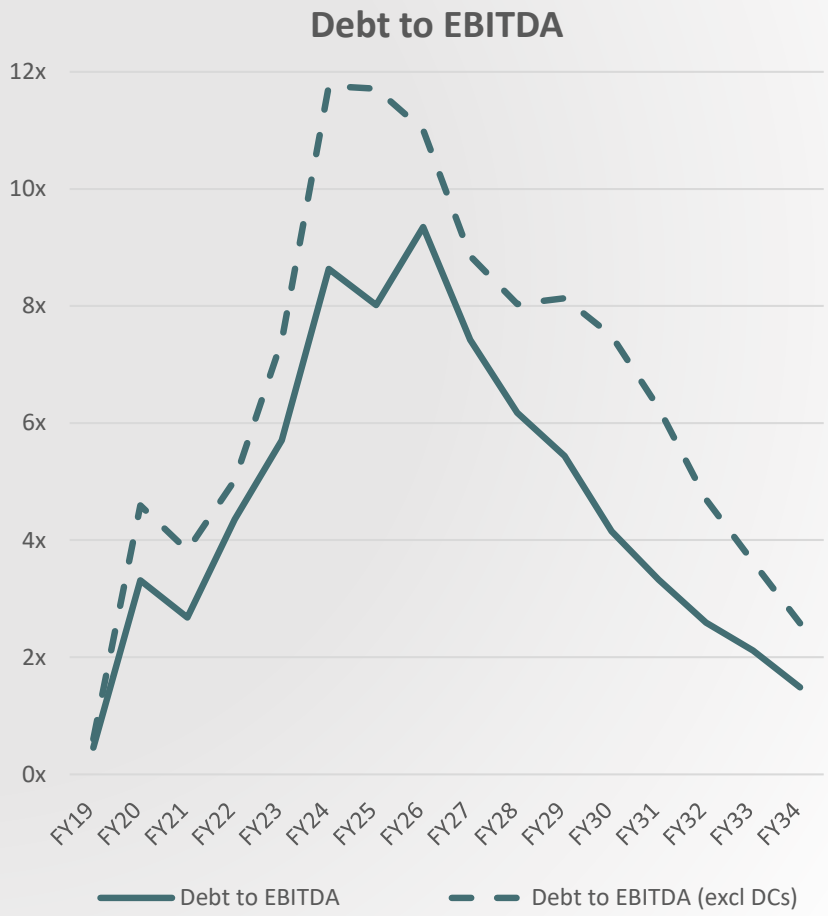


Water utility specific metrics

Financing sufficiency

The FFO to debt ratio is the key metric for water utilities looking to access capital directly from markets - council support is likely required initially to provide access

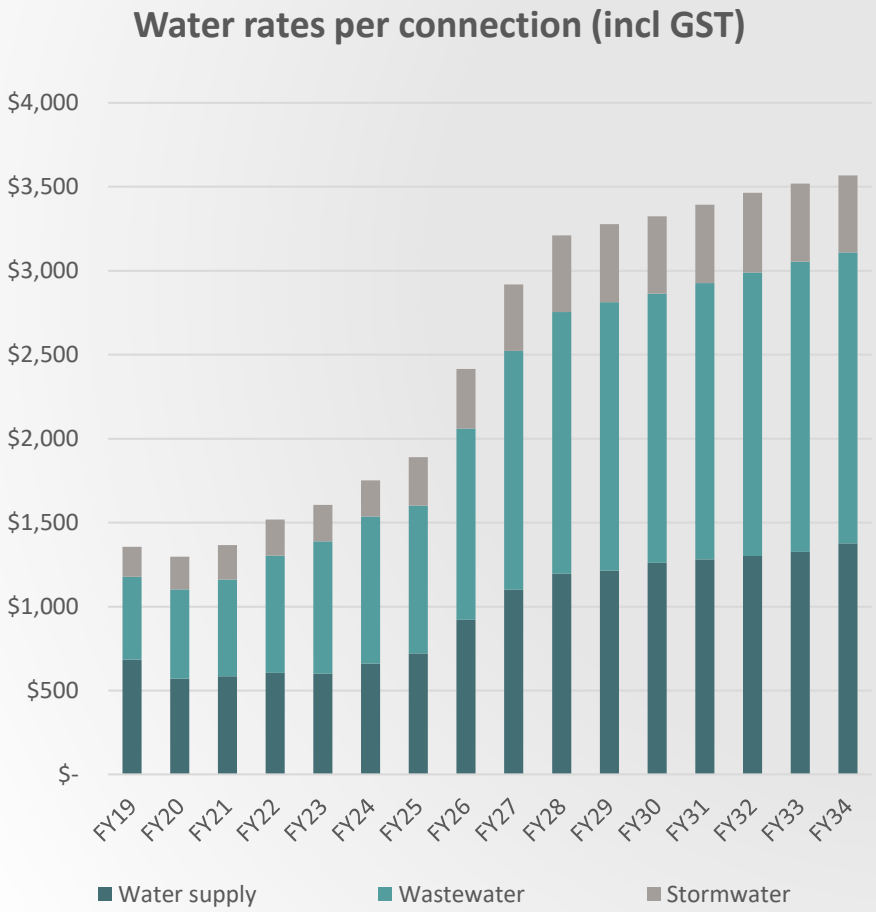


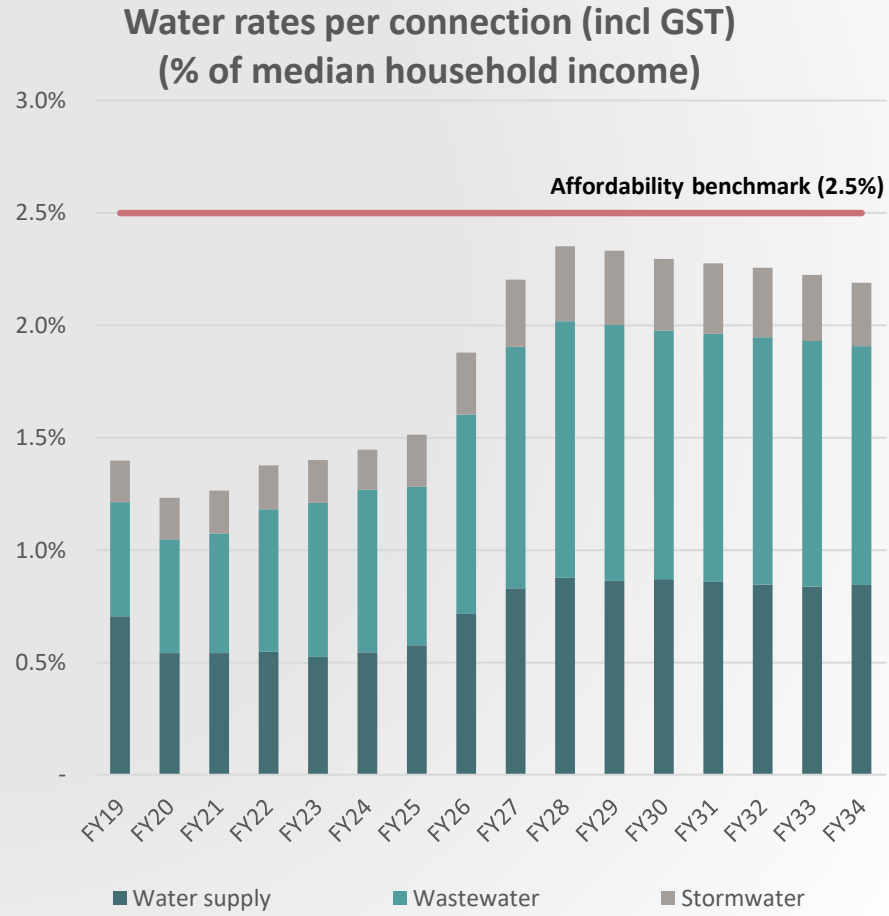


Three waters affordability

Affordability

Average water charges are projected to increase from ~$1,750 in FY24 to over~$3,600 per connection by FY34, charges are below the affordability benchmark





Summary of analysis

- Overall, the draft 10 Year Plan projections appear to be partially consistent with financial sustainability requirements under LWDW
- **Investment sufficiency -** Future renewal investment matches forecast depreciation expense, but this masks significant renewals of water supply and an under-investment in both stormwater and wastewater services
- **Revenue sufficiency -** The large cumulative surpluses mean the projections exceed the expected future requirement for revenue sufficiency over the LTP period and indicates over-recovery of the cost of water services
- **Financing sufficiency -** Borrowing is currently up against external limits, before decreasing steadily over the rest of the LTP period as development contributions are forecast to be received
- **Affordability -** Based on the council's draft 10-year financial projections, the international benchmark for water affordability threshold is not expected to be breached over the LTP period

05

High level option analysis

Strategic objectives

STRATEGIC OBJECTIVES	ASSESSMENT APPROACH / MEASURE
Efficient and financially sustainable delivery of water services for Waipā District communities, now and into the future.	• Financially sustainable – revenue, financing and investment sufficiency, and ring-fencing. • Resource sufficiency – sufficient resource to operate water services sustainability, and that the management of those resources is effectively and efficiently undertaken.
There is investment at a level that **protects and promotes public health and the environment**	• Investment sufficiency – to meet public health and environmental regulatory requirements and that these regulatory requirements are likely to increase.
The right **workforce capability and capacity** is available	• Ability of the future delivery model to attract and retain people with the skills to plan, manage and deliver water services.
The model enables and supports **future growth and change** and builds **system resilience**	• Investment sufficiency – to meet future growth needs, including those set out in the Future Proof Partnership and Implementation Plan as well as Ahu Ake, ensure water services are resilient to natural hazards and climate change. • Ability of the future delivery model to support integrated planning and decision-making around spatial, district and regional planning with water infrastructure planning.
Water services are **affordable and meet the needs and expectations** of the Waipā District communities.	• Affordability of the projected increase in water charges for communities. • Strength of mechanisms for local voice and influence provided for in the model. • Ability to act in the best interests of present and future consumers and communities.
Responsibilities to hapū and iwi are met	• Strength of processes and mechanisms to meet Treaty settlement responsibilities and have the confidence of iwi/hapū partners. • The degree to which the model supports the Council to give effect to Te Ture Whaimana o Waikato and other specific Treaty settlement deed and legislative responsibilities.
Remaining council operations are viable, and continue to deliver on communities' expectations	• Ability of council to continue to deliver it core services and deliver on communities' expectations sustainably and affordably. • The degree to which the model can/will support Waipā as "Anchor Institution".

Options considered

	Options: 1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
Description:	Creation of dedicated ring-fenced unit within Council. Note, ring-fencing requires financial separation not structural separation.	Council establishes a water organisation to deliver water services.	Council partners with other Councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures	Council joins a non-asset owning CCO with other Waikato councils that would be responsible for service delivery.	Council partners with other Councils to establish a regional asset owning water services organisation.
Design choices: Who decides levels of service and investment intentions?	Elected members make decisions, with new financial sustainability and economic regulation requirements. Option to include independent experts.	Elected members issue Statement of Expectations; governed by a competency-based board.	Shareholding councils issue statement of expectations, guided by ownership rights set out in constitution / shareholders agreement. Likely that shareholder will be proportional to asset base.	Service levels would be determined by the council, likely via service level agreements with WWDW.	Shareholding council issue statement of expectations, guided by ownership rights set out in constitution / shareholders agreement. Likely shareholding will be proportional to number of connections.
Who undertakes strategic planning and delivery?	Council staff responsible for planning and delivery, working with private suppliers and contractors.	WSCCO plans and delivers services, but required to consult the council.	Water organisation responsible for planning and delivery, likely with a requirement to consult with shareholding councils.	WWDW leads strategic planning with a catchment-based approach. The council will remain responsible for ensuring planning and delivery meets regulatory requirements.	Water organisation responsible for planning and delivery, likely with a requirement to consult with shareholding councils.
What are the mechanisms for mana whenua representation and influence?	Existing relationships and council processes will continue.	Council would be able to determines representation mechanisms in WSCCO design in partnership with iwi/hapū within the Waipā district.	Shareholding councils can decide what mechanisms are included in the design of the water organisation but it could take advantage of existing Future Proof mechanisms such as the Tainui Waka Alliance.	Mechanisms are currently unclear, and will be determined through negotiations, depending on participating / member councils .	Shareholding councils can decide what mechanisms are included in the design of the water organisation.
What are the mechanisms for local voice and influence?	Access to councillors through current mechanisms, consultation on LTPs and Annual Plans. Council oversight of performance through regular reporting.	Council appoints directors and sets local engagement mechanisms during design and establishment of WSCCO.	Shareholding councils can appoint and remove directors. If the council is involved in establishment, it can influence what mechanisms are included in the design of the water organisation.	Leveraging of existing arrangements of participating councils.	Shareholding councils can appoint and remove directors. If the council is involved in establishment, it can influence what mechanisms are included in the design of the water organisation.
Who owns the assets?	Councils continue to own the assets.	Council may choose to retain or transfer ownership of assets.	Councils transfer ownership of assets. Potentially an opportunity to contract for stormwater.	Councils continue to own the assets. However, likely a requirement to transition to 'Stage 2' within 5-years (option to leave and access shared services as non-shareholder).	Councils transfer ownership of assets. Potentially an opportunity to contract for stormwater.
Who employs staff?	Staff remain employed by council.	Water staff transition to WSCCO.	Some water staff may transfer to WSCCO.	Some water staff may transfer to WSCCO.	Some water staff may transfer to WSCCO.
How is investment funded / financed?	Council funding and debt via LGFA, capped at 280% debt to revenue. As a high growth Council, Waipā is seeking an ability to increase debt levels to 350%.	Water organisation charges water users, borrowing via council or directly from LGFA supported by council guarantee or uncalled capital. Up to 500%.	Water organisation charges water users, borrowing directly from LGFA with financial support from shareholding councils. Up to 500%.	Council funding and debt via LGFA, capped at 280% debt to revenue.	Water organisation charges water users, borrowing directly from LGFA with financial support from shareholding councils. Up to 500%.

Summary of option analysis

OPTIONS	CHOOSE OPTION IF:	SHORTLIST?
1 ***Internal business unit or division (enhanced status quo)***	Council wants least change to status quo and is fully confident it can meet new LWDW requirements and growth pressures faced by Waipā. This would require Council to be confident that the current investment requirements are certain, and strategic risks will not fully materialise. Based on current financial information this option is not a sustainable option for Waipā.	**NO** – unlikely to fully meet financial sustainability requirements
2 ***Single council-owned water organisation***	Council can meet LWDW requirements on its own but needs additional debt capacity offered through LGFA. This option would still place pressure on the CCO's balance sheet capacity and council's credit rating and may require rephasing of investment activity. Does not offer benefits of scale and adds additional costs.	**MAYBE** – While a feasible option but would require rephasing of investment activity and provides limited scale benefits with some additional cost and implementation risk. Reasonable backstop option.
3 ***Growth council option: Sub-regional water services CCO (Waipā, Waikato, Hamilton)***	Council's main concern is about managing long term growth pressures and managing these risks most effectively way. This option would require a strong focus on strategic capability to put arrangements in place that protect Waipā community interests in the near term.	**YES** – Strong future benefits aligned to growth challenges. Note would require careful transition management.
4 ***Shared services water organisation (WSCCO - Waikato Water Done Well, Stage 1)***	Council values the prioritising scale in service delivery, but is not concerned about balance sheet capacity. Based on current financial information, this option is not likely to meet the financial sustainability requirements in the near term and would require confidence that all partner Councils transition to option 5 in a timely manner. This option is not likely to meet the needs of the Waipā community.	**NO** – Does not provide sufficient financial headroom and adds significant additional transition costs.
5 ***Waikato region water services CCO that is asset owning (WWDW, Stage 2 excluding HCC)***	Council wishes to leverage scale efficiencies (including balance sheet capacity) but is less concerned about the impact of growth pressures. In this model Council also needs to be confident the process for prioritising investments will meet the needs of Waipā communities in a timely manner.	**YES** – Positive future benefits but would need to ensure other Council's share aspirations to move to Phase 2 quickly. Extent of benefits dependent on entity scale (i.e., which councils participate).

Additional considerations – CCO model

The CCO model has inherent benefits relative to inhouse delivery, provided the entity is set up well and that governance and management risks are avoided

A single-council CCO has the potential to generate benefits in terms of strategic focus (singular focus on water services delivery), governance (independent, professional board), and strengthened accountability (e.g., customers performance framework and greater scrutiny of performance). These benefits are inherent to the CCO model and are the reason why corporate forms of water services utility have been adopted in many jurisdictions.

The additional benefits of a multi-council CCO relative to a single-council CCO are dependent on scale. A larger, multi-council CCO can (theoretically) attract a more capable, skilled board and workforce (e.g., by offering more pathways for future development, greater scope for specialisation etc). However, the benefits of multi-council CCO (at least in terms of strategic focus, governance and accountability) shouldn't be overstated if the options you are comparing are not substantially different in terms of scale.

The role of the economic regulator is yet to be determined, and this may have an impact on benefit realisation

A key question will relate to the extent of attention a water CCO gets from the Commerce Commission under the future economic regulatory regime. This is an unknown as there is limited detailed information currently on the approach the Commerce Commission will take, and the threshold for when they will move from a predominantly Information Disclosure-based regime to stronger forms of regulation (e.g., Price-Quality regulation).

There are two plausible scenarios here:

1. Most water services providers (including inhouse council business units) are subject to information disclosure-only, with only the largest metropolitan entities subject to a stronger form of regulation.
2. All inhouse council business units are subject to ID-only, with all independent water CCOs subject to some form of stronger regulation (see for example the PREMO model in Victoria).

What about implementation costs?

All options will require additional costs of implementation. These implementation costs need to be assessed against the value of long-term benefits.

The more complex the transition, the longer the benefits will take to realise and the greater the transition costs. For that reason, there is a value in acting strategically and quickly if a stand-alone approach is not financially viable.

Relevant implementation considerations for Waipā will include:

- Establishment: Board establishment, establish reporting and accountability processes, and manage transfer of assets, relevant contracts and resource consents
- Workforce and Operations Shift: Determining workforce impacts, relevant systems and processes and maintain service delivery
- Mana Whenua and Community Engagement: Create engagement approaches for staff, Treaty partners, and ratepayers
- Risk and Performance Systems: Identify key transition risks, set clear performance measures, maintain environmental compliance, and monitor service levels

Specific implementation considerations – Council Controlled Organisations

There are risks associated with CCO options but in general a water CCO is less likely to be prone to problems if it is set up appropriately and subject to regulation.

GOVERNANCE FAILURE

- Appointing board members that, individually or collectively, do not have the skills and experience required to effectively set the strategy and performance targets, and monitor management's performance against that strategy
- Ineffective scrutiny of performance and/or failure to act on performance issues, whether through councils' ownership control mechanisms (i.e., board appointments) or ministerial or regulator oversight.

1

INSUFFICIENT BALANCE SHEET

- There is a risk that the transfer of assets, liabilities, revenues and costs to a new water company may result in it having low credit quality and/or unable to adequately fund the level of ongoing investment required (limited headroom for new investment).
- This risk is not inherent to the CCO model but attention still needs to be paid to how the new entities are structured financially, including the amount of debt and revenues that are transferred to it.

3

STRATEGIC CAPABILITY AND WORKFORCE

2

- Strategic capability to support any structural change and set up any new arrangements for success in a timely manner.
- The ability to attract and retain a high-quality management team and a qualified workforce is a key determinant of success. This risk is not inherent to a CCO model and also exists with inhouse delivery.

LACK OF ALIGNMENT OF SHAREHOLDERS' INTERESTS

4

- In a multi-council ownership situation if different councils have different interests or priorities, then the board and management of the entity can be pulled in different directions.
- The legislative requirement for a single Statement of Performance Expectations aims to mitigate this. Structures such as shareholder councils as proposed in WWDW can also mitigate this

Recommendation for Council

Waipā is in a good position to consider a range of options that will likely satisfy financial sustainability requirements anticipated under Local Water Done Well

This conclusion is based on information provided to date. We recommend further investigation in some key areas in the next phase of work. Specifically, we suggest the Council undertakes further work as part of preparing its Water Services Delivery Plan to:

- sensitivity test anticipated costs associated with renewing consents over the next 30 years to assess the extent to which any escalation in associated costs or restrictions in conditions (similar to the Watercare consent arrangements) might challenge affordability
- Consider the degree to which the Council is concerned about growth pressures vs the ability to negotiate transition arrangements with Councils under options 3 and option 5.

The Council should continue to explore a range of options for future services delivery. Based on the balance of judgements, the most credible options for active consideration are options 3 and 5. This can be done under the Waikato Water Done Well process as well as through direct discussions with other councils specifically HCC and WDC. Council should consider the resource demands or operating two processes in parallel. If the Council is concerned about strategic capacity and capability, then it should make a strategic choice on a preferred option. A standalone CCO (option 2) remains a viable back-stop option.

This report represents a first step towards narrowing down options to a viable short-list to inform community engagement. Council may wish to share this work with potential partners.

The analysis and recommendations of this report should position Council well for the next phase of work it will need to undertake to meet the requirements of a Water Service Delivery Plan.

The Council should continue to explore a range of options, including prioritising potential joint arrangements with other councils

Next steps and indicative timing

Waipā District Council	Relevant considerations: Option 3 Growth Option	Expected Date	Relevant consideration: Option 5 Waikato Water Done Well	Expected Date
EM Workshop	Workshop invite the CE to initiate discussion with Hamilton City Council and Waikato District Council	To be advised	EM Workshop – WWDW – Heads of Agreement	20 November 2024
Council Committee Meeting	Review draft record of agreement and consider resolution		WWDW – Heads of Agreement Decision. Note agreement is non-binding, good faith commitment and not yet informed by financial analysis	26 November 2024
Opportunity for engagement with mana whenua				
LWDW PGG Meeting	Consider current draft Record of Agreement and any relevant updates to financial analysis		Consider update on any financial analysis undertaken	29 November 2024
Three-monthly update on progress of WSDP to DIA				3 December 2024
Service Delivery Committee Meeting - Phase One of Project Plan completed – preferred option of the Water Services Delivery Plan confirmed by Elected Members	Consider Option 3 informed by draft record of agreement and any further information obtained from Hamilton CC		Consider Option 5 informed by Heads of Agreement	10 December 2024
EM Workshop – Engagement and consultation approach – LWDW legislation or LGA			Note: Timing currently appears to be out of step with LWDW requirements (i.e., council required to consult prior to making a decision on future service delivery arrangements)	17 December 2024
Water Services Bill 3 introduced				December 2024
WSDP – Parts B & D drafted and presented to PGG meeting				28 January 2025
WSDP – Parts A, C & E drafted and presented to PGG meeting				February 2025
Public Consultation (under special consultation provisions in Local Government Water Services Preliminary Arrangements Act 2024)				March/April 2025
WSDP Adopted – pre LTP sign-off				June 2025
Submission of WSDP to DIA				August 2025