Date:	**Tuesday, 29 April 2025**
Time:	**1:30 pm**
Location:	**Council Chamber, Wairoa District Council, Coronation Square, Wairoa**

Late Report

Ordinary Council Meeting

29 April 2025

MEMBERSHIP: His Worship the Mayor Craig Little, Cr Denise Eaglesome-Karekare, Cr Jeremy Harker, Cr Melissa Kaimoana, Cr Chaans Tumataroa-Clarke, Cr Benita Cairns, Cr Roslyn Thomas

The agenda and associated papers are also available on our website: www.wairoadc.govt.nz

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Order Of Business

1 LATE ITEM

L.1 LOCAL WATER DONE WELL - PROPOSED WATER SERVICES DELIVERY MODELS FOR CONSULTATION

Author: **Juanita Savage, Pouwhakarae - Rātonga Hapori me te Whakawhanake | Group Manager Community Services & Development**

Authoriser: **Malcolm Alexander, Interim Chief Executive**

Appendices:
1. **Summary of Water Reform History** ⇩
2. **Modelling and Criteria Assessment - Wairoa DC** ⇩

1. PURPOSE

1.1 For Council to approve the options for water service delivery models that will be included in the public consultation required under the Local Government (Water Services Preliminary Arrangements) Act 2024.

RECOMMENDATION

The Pouwhakarae - Rātonga Hapori me te Whakawhanake | Group Manager Community Services & Development RECOMMENDS that having considered all matters raised in the report, Council:

1. **Note** that the Local Government (Water Services Preliminary Arrangements) Act 2024 requires Council to produce and submit a Water Services Delivery Plan to Central Government no later than 3 September 2025.
2. **Note** that Council is required by Government to:
   - 2.1. Consider and consult with the community on at least two options for future delivery of water services one of which must be a modified status quo
   - 2.2. Demonstrate, as part of its water services delivery plan, that it will meet requirements that the delivery water services will be financially sustainable by 30 June 2028
   - 2.3. Moving forward, ring-fence revenue for three waters so that is separate from other Council activities.
3. **Approves** that Council consult on three delivery models for consultation:
   - 3.1. Option 1 – Internal Business Unit - Modified Status Quo (also referred to as In-House and Council Delivered Service), the current delivery model with needed changes as required by legislation; and in particular the new economic regulation regime.
   - 3.2. Option 2 – A Single-council Owned Water Organisation (WO), also know as Wairoa Water Services Council Controlled Organisation (WWSCCO); and
   - 3.3. Option 3 – A Regional Hawke's Bay Multi-owned Water Organisation (HBWSCCO). This would include Central Hawke's Bay District Council (CHBDC), Hastings District Council (HDC), Napier City Council (NCC) and Wairoa District Council (WDC).
4. **Agrees** to identify Option 3 – Joint Hawke's Bay WSCCO as the preferred delivery model for consultation, pending approval of the other member councils of CHBDC, HDC, and NCC.
5. **Note** that officers are currently preparing a consultation document to be known as Local Water Done Well for Wairoa and **agree** to delegate approval for that document to Mayor Little

on advice from the Interim Chief Executive.

6. **Instruct** Officers to proceed with a consultation month from 12 May 2025 to 15 June 2025.

7. **Note** that officers will summarise the outcomes of consultation considering community feedback, submissions, and hearings and provide a final advice via a report to Council on 22 July 2025 to confirm the delivery model to be identified in the Water Services Delivery Plan.

2. BACKGROUND

Hawke's Bay Councils have a long history with water reform, pre-dating the various reform agendas of the last two Governments. It has been considered through multiple reports and Council workshops.

The current Government has repealed the previous Government's Three Waters legislation and developed a replacement model under its Local Water Done Well policy. A summary of the history is attached – Appendix 1. Summary of Water Reform History.

3. LOCAL WATER DONE WELL LEGISLATIVE AND POLICY FRAMEWORK

Local Water Done Well is the Government's plan to address New Zealand's long-standing water infrastructure challenges. It recognises the importance of local decision making for communities and provides councils with a framework to determine how their water services will be delivered in the future. There is a strong emphasis on meeting economic, environmental and drinking water quality regulatory requirements.

The Local Government (Water Services Preliminary Arrangements) Act 2024 ("the Act") was enacted on 2 September 2024. The Local Government (Water Services) Bill ("the Bill") was introduced in early December 2024 and builds on the foundations set in the Act. The Bill is currently with the Select Committee, so there remains a degree of uncertainty as to the final form of the Bill.

On the assumption these matters will not change, the combined legislation sets minimum requirements for service delivery models that include:

1. New economic, environmental and water quality regulations
2. A new planning and accountability framework
3. Financial sustainability objectives
4. New statutory objectives consistent for all water providers
5. Restrictions against privatisation

All Councils are required under this legislation to consider options and determine a preferred water service delivery model. There are five options for new water service delivery entities that can be considered:

1. In-house business unit / council delivered service
2. Single council-owned council-controlled organisation (CCO)
3. A council-controlled organisation (CCO) owned by the council and one or more of our neighbours
4. Mixed council / consumer trust – a consumer trust established as the majority shareholder

with one or more councils owning a minority of shares

5. Consumer trust – council assets would transfer to a consumer-trust owned organisation.

This paper and recommendations before Council focuses on consideration of the first three options. The last two options do not currently have access to Local Government Funding Agency (LGFA) enhanced financing and are therefore not considered to be financially viable.

Irrespective of the model chosen - there are legislative restrictions against privatisation, the existing responsibilities, commitments and obligations under the Local Government Act (LGA) and Treaty settlement legislation continue to apply, and all revenue, assets, expenses and debt for water services must be separated or ring-fenced from all other Council services. The envisaged legislative regime allows councils to retain ownership and a measure of control of their water infrastructure assets but requires them to adhere to new investment, borrowing, and pricing rules. The Commerce Commission, as economic regulator, will enforce compliance.

4. FINANCIAL SUSTAINABILITY

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. This is defined in the Act as:

- *"…in relation to a territorial authority's delivery of water services, that-*
- *(a) the revenue applied to the authority's delivery of those water services is sufficient to ensure the authority's long-term investment in delivering water services; and*
- *(b) the authority is financially able to meet all regulatory standards and requirements for the authority's delivery of those water services".*

DIA guidance states that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services. This same 'revenue sufficiency' concept appears in one of the financial principles in the Bill. In addition, it is expected that the costs of delivering water services will include costs associated with meeting all regulatory standards, and long-term investment requirements in water services.

There are three key factors to how financial sustainability will be assessed:

1. Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
2. Investment sufficiency – is the projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?
3. Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?

The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA by September 2025 is designed to get Councils to prepare a full stocktake of their current water assets, investment planning, and growth strategies – and demonstrate how financially sustainable water services provision will be achieved from 30 June 2028 at the latest.

Under Local Water Done Well, the LGFA has committed to Water CCOs being able to utilise debt from the LGFA, if they are financially supported (through a guarantee) by their parent council or councils.

The LGFA is the lowest cost provider of financing to local government and is already utilised by Council.

Water organisations will be able to assess, set and collect water services charges from consumers and will be able to use the development contributions regime in the Local Government Act 2002 to charge developers where additional demand or growth is created. Councils will still be able to use rates, charges and development contributions if they retain delivery of water services.

The LWDW legislation does not specifically embed price harmonisation e.g. where every water user within a regional CCO would move to paying the same cost-per-connection at a point in the future. It is still unknown as to whether the economic regulator will allow for price harmonisation, or specific types of harmonisation options, but the current view (given its general approach to economic regulation in other industries) is that it will not allow harmonisation.

The intention of providing a specific lending facility is to better enable councils via a WSCCO to address water infrastructure investment needs (and spread costs on an inter-generational basis) and enable ‘balance sheet separation’ with the advantage of reducing ex-water Council debt, potentially freeing-up debt ‘headroom’ for other Council activities if desired, or keeping pressure off other Council rates.

Under the CCO model (single or joint), LGFA will not ‘consolidate’ a water services CCO’s debt back to its view of the overall Council’s debt position. However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a water CCO which is more than 50 percent owned by a single Council back to that Council’s balance sheet when it reviews the Council’s credit-worthiness. This means the parent Council under a Single CCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council CCO option (see below).

For a multi-council, or Regional CCO where no council owns a majority of the organisation, both LGFA and S&P will treat the debt of the water CCO separately to the parent Council. Credit rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils, but assess the Council’s stand-alone debt position without the water debt held by the Regional CCO.

If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's books, despite the ring-fencing provisions in the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and rating agency perspective.

LGFA has issued guidance on how it will assess its lending to Water CCOs. This will not be controlled by a specific net debt/revenue limit (which is currently applied to generic LGFA lending to Councils). Rather, a combination of cashflow covenants will apply:

1. A Funds from Operation (FFO) to Gross Debt ratio of between 8% and 12%
2. A Funds from Operation (FFO) to Cash Interest Coverage of between 1.5 times and 2.0 times.
3. Water CCOs will have up to five years to comply with the covenants
4. Water CCOs will be able to recognise a percentage of development contributions as operational revenue for the purposes of determining the above covenants.

LGFA stresses that the covenants it has published are just for guidance; negotiations will still be held with Councils. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional CCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an equivalent of 500% net debt/revenue to water CCOs. In the absence of more specific guidance before an LGFA announcement on 20 December 2024, this ratio was being applied in modelling (for Hawke's Bay Councils and others across the country) as a 'control' on debt from 2028, which in turn required pricing to be lifted in the model to keep debt positions down. Removing a net debt/revenue limit from the CCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

5. STORMWATER

Under the Bill, councils retain legal responsibility and control of stormwater services. However, they retain the flexibility to choose arrangements that best suit their circumstances.

If a new water organisation is established, the new entity could provide stormwater services under contract, or stormwater assets and debt may be transferred in full to the new water organisation.

Given the challenges associated with managing Wairoa's stormwater network, including its capital-intensive needs, in evaluating and assessing the options asset ownership and management of stormwater services has been assumed to transfer to a Water Organisation.

6. WATER SERVICES DELIVERY (WSDP) PLANS

Council must submit a WSDP no later than 3 September 2025, which explicitly shows its preferred proposed water services delivery model. Decisions that must be made include:

1. Proposed water services delivery model
2. Whether to transfer (or not) its water services and/or assets
3. Financial separation of its water services from the rest of Council activities
4. Demonstrations that financial sustainability will be achieved by 30 June 2028.
5. The plan must be adopted and certified as being correct by the Chief Executive, before being submitted to Government.

The WSDP must be accompanied by an Implementation Plan for the preferred delivery model and submitted to the Secretary of Local Government (Secretary) - via DIA, by 3 September 2025. The WSDP is then either:

1. Accepted by the Secretary, who can only accept a WSDP if it complies with the Act (as above)
2. Not accepted by the Secretary, who may make a recommendation to the Minister of Local Government (the Minister).

In the event that a joint arrangement (or multi-council CCO) is preferred by more than one council, the PA Act provides for the preparation of a joint WSDP, which must satisfy the requirements of section 13 (as above), and section 14 of the PA Act. The additional content for a joint WSDP includes:

1. The identity of all councils who will be parties to the arrangement;
2. Explanation of what services will be provided to the councils involved;
3. The form of the arrangement (i.e. a CCO or another type of entity/arrangement);
4. Information about the ownership, governance and control structures.

The Minister has the power to appoint a Crown Facilitator and/or Water Services Specialist if a council or group of councils, are failing in delivering or implementing a WSDP. This includes not meeting an accepted measure of financial sustainability. A council can also request the appointment of a Crown Facilitator and/or Crown Water Services Specialist.

7. PLANNING AND ACCOUNTABILITY FRAMEWORK

The Government is also proposing a new planning and accountability framework for water services. The framework is intended to improve transparency and accountability for future delivery of water services.

There are three documents (set out below) that form the framework within which each water service provider's strategic and investment priorities, and performance settings, will be developed, explained and reported.

1. A statement of expectations, for service delivery arrangements that include separate water organisations (prepared by shareholders)

   A statement of expectations is prepared by shareholders and issued to the water organisation they own, relating to a period of at least ten financial years. It will set out the shareholders' expectations, priorities, and strategic direction for the water organisation. It will inform and guide the decisions and actions of the organisation's board. Water organisations must give effect to these statements.

2. A water services strategy (prepared by water service providers)

   A water services strategy is prepared by water service providers every three years and supported by an annual budget in the other years. This document will set out how the provider is proposing to perform, respond to local expectations and priorities, and meet statutory objectives and regulatory requirements for water. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy. An annual budget will also be prepared for each financial year, consistent with the provider's intended approach to funding, revenue, and pricing.

3. A water services annual report (prepared by water service providers)

   A water services annual report is prepared by water services providers every year, reporting on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting.

   Under the options where a water organisation is responsible for providing water services instead of a council, the council will not include information about water services in its long-term plan, infrastructure strategy, or annual report.

8. STATEMENT OF EXPECTATIONS

The statement of expectations provides an important opportunity for council, as the shareholder, to communicate with the water organisation. The Bill sets out in detail what a statement of expectations must include, covering:

1. The shareholders' expectations of the water organisation
2. The shareholders' strategic priorities for the water organisation
3. The outcomes the shareholders expect the water organisation to achieve by delivering water services
4. Requirements relating to the TA's resource management planning and land-use planning

The Bill also includes a range of matters that shareholders may choose to include in a statement of expectation, including:

1. How the shareholders require the water organisation to conduct its relationships with the shareholders, the shareholders' communities, hapū, iwi, and other Māori organisations, consumers, and other specified consumers.
2. Performance indicators and measures that the shareholders may use to monitor the water organisation.
3. A requirement that the water organisation act in accordance with an obligation that a shareholder may have (including with hapū, iwi or other Māori organisation) and undertake a specified obligation on behalf of a shareholder.
4. A requirement to undertake community or consumer engagement and the contents of that engagement.
5. Expectations in relation to collaborating with shareholders and other parties when providing water services.
6. A requirement that part or all of the water organisation's water services strategy must be independently reviewed.

9. CONSULTATION REQUIREMENTS

The Act specifies that consultation is mandatory on the Council's proposed model or arrangement for its water services delivery, but optional on the balance of the WSDP. However, a streamlined consultation is outlined in the Act, simplifying the process to assist with the preparation, consultation and adoption of a WSDP. This consultation process replaces Part 6 of the LGA provisions.

The Act also specifies the information that must be provided about the proposed delivery model during consultation. These include:

1. Specifying the proposed model or arrangements for delivering water services and the reasons for it
2. An analysis of the advantages and disadvantages of at least two options (including the proposed arrangements/model) that have been considered; one of these is expected to be a status quo approach. Council may decide to include analysis of additional options.
3. Potential impacts of proceeding or not proceeding with the proposal, including on rates, debt, levels of service, and any charges for water services.
4. For a joint model, the implications for communities and accountability arrangements for communities throughout the joint service area.

10. STOCKTAKE ACROSS THE COUNTRY

As at 11 April 2025, the below summarises the number of councils around the country who have identified a preferred option and started their consultation process:

1. 32 North Island councils have stated a preferred option and started their consultation process, with 11 councils – including four Hawke's Bay TAs, yet to confirm their approach publicly. Of the councils who have stated a preferred option, the breakdown of this is:
   1.1. Joint Council CCO - 26
   1.2. Single Council CCO - 0
   1.3. In-House Model – 6
2. 12 South Island councils have stated a preferred option and started their consultation process, with 12 councils yet to confirm their approach publicly. Of the councils who have stated a preferred option, the breakdown of this is:
   2.1. Joint Council CCO - 4
   2.2. Single Council CCO - 2
   2.3. In-House Model – 6

11. FINANCIAL CRITERIA

The below financial criteria were developed by council officers across the four Hawke's Bay TA Councils as part of the financial modelling process to assess and compare potential water services delivery model options. (The expectation is that all options will meet the financial sustainability requirements set out in the legislation under the LWDW framework, therefore this requirement is excluded from the criteria.)

- **Average cost of delivering water services annually through to FY34**

  This models the average cost per connected property for drinking water, wastewater, and stormwater services each year through to 2034 – the tenth year of current LTPs.

- **Council balance sheet and debt position**

  This measures council's debt position under each shortlisted delivery option against the limits imposed by itself or by regulators/LGFA. In-House and Council CCO options include

3Ws debt, while the regional option assumes 3Ws debt shifts off balance sheet. All other Council operations are modelled to continue 'as is' – i.e. any headroom created is not assumed to be spent elsewhere

12. DEVELOPMENT OF NON-FINANCIAL CRITERIA

Alongside the financial criteria, a set of non-financial criteria were developed to assess the different delivery models. These criteria were developed with the legislative requirements in mind, as well as to align with the shared principles the region has agreed on to guide the decisions on water service delivery.

The shared principles were first developed for the Morrison Low work. These were re-tested with councils, mana whenua and other stakeholders in Hawke's Bay in September 2024, where they were updated to reflect the current circumstances.

Agreed Principles:

- To deliver water services in a way that is affordable, effective and allows for equitable access
- To deliver water services that are safe, resilient and balance cost-effectiveness with high standard
- To deliver water services through a model that enables a meaningful role for Māori through governance and outcome-setting
- To deliver water services through a model that has the value of water at the centre in addressing both current and future needs
- To deliver water services in a way that supports out urban and rural communities ensuring targeted solutions that develop local capabilities for effective support and service delivery
- To deliver water services that builds enduring capability and capacity
- To deliver water services informed by meaningful community engagement and collaboration

The above principles were then used to develop a set of agreed non-financial criteria to assess options against – alongside any financial modelling:

Agreed Non-financial Criteria

Criteria	Explanation and Measures
Service provision	• The extent to which a delivery model would be able to provide and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes. • The ability to identify and manage risks in alignment with industry best practices.
Resilience	• The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and

	respond to climate adaptation and emergencies. • The ability to respond to increasing demand and managing that demand effectively.
Capital delivery and asset management	• Ability to deliver the capital programme and improve asset management maturity.
Capability and capacity	• Ability to build sustainable regional capability in three water development and operations. • Ability to build a long-term stable pipeline of work at scale and build regional supplier capacity and capability.
Scale and opportunities for efficiency	• Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations.
Mana whenua involvement	• The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua.
Community influence and engagement	• The extent to which each option enables the ability for communities to engage with water decision-making.

13. FINANCIAL MODELLING

Hawke's Bay councils have undertaken scenario modelling and analysis to understand the implications of the new requirements and what these would mean for the different delivery models.

Initial indicative modelling was undertaken over the second half of 2024 to understand the financial sustainability of each council's water services under different LWDW delivery options. This assessed whether each water service delivery option could be financially sustainable, where water services revenue and costs are 'ring-fenced' and meet the financial sustainability criteria of the new Local Water Done Well requirements. A number of financial outcomes were modelled across a 10-year period and assessed, including indicative costs for delivering water to a property connected to all three waters under the delivery models allowed for under Local Water Done Well. Resulting Council debt and financial positions were also modelled and assessed to determine how they might be affected by the characteristics of different delivery models.

The modelling presented in the report attached to this paper – Appendix 2, has been updated from the initial indicative modelling. It has utilised further guidance from the Department of Internal Affairs (DIA), the Local Government Funding Agency (LGFA) - where most New Zealand Councils source their borrowing from - and the legislative requirements under Local Water Done Well to determine a set of inputs and assumptions for the modelling. The latest Long-

Term Plan or updated Annual Plan data of each council was inputted to create a set of central scenarios for each delivery option, for each council.

The data includes financial information from each council - like asset valuation, depreciation, funding approach and financing costs - as well as their key statistics like their population size, number of connected and non-connected properties, and the length and age of the reticulated network.

This provides for a clear, standardised and comparable assessment of what each delivery model would look like for each council across key metrics like debt and cost per connection for a property with all three waters. It builds off modelling carried out for the region previously.

Financial modelling can only provide indicative projections at a point in time, but provides a useful guide for the direction for costs and Council debt under the different delivery models being analysed. The analysis is based on several assumptions about how the new economic regulation regime will be applied by the Commerce Commission, as well as final financial assessments by entities including the LGFA and credit rating agencies. Establishment and ongoing costs have been estimated using previous analysis and benchmarking.

As such, it does not consider detailed implementation arrangements, such as organisational design (e.g. which particular staff from each council shift to a joint entity) or commercial agreements (e.g. whether contracts will be entered into with different construction firms). If councils agree to progress the development of a regional CCO, then further work would be undertaken on detailed operational design, including shareholding splits between the parent councils. The modelling assumes no one Council holds a majority stake in a Regional CCO.

14. OPTIONS ANALYSIS

<u>Wairoa District Council Critical Success Principles / Strategic Assessment</u>

To help support Wairoa District Council through the decision-making process, Council developed critical success principles for incorporation into the regional work and to help analyse options locally. These principles describe successful future water infrastructure services for the Wairoa district, and include:

1. There should be Downward Pressure on Costs

   Water infrastructure services that are led, created, managed and operated in a way that is more cost effective and financially enabling for Wairoa district households and future investors, than if Council was to operate services alone.

2. Safe and Healthy Water

   Safe and healthy drinking water is delivered and the impacts of our wastewater and stormwater services are minimised, through the operation and management of assets that are fit for purpose and safe for suppliers, people and residents.

3. Environmental Responsibility

Water infrastructure services are managed to optimise resource use, improve efficiency, and address the interconnectedness of these services for the good of the natural and built environment.

4. Resilient Infrastructure Responsive to Growth

   Local Infrastructure is appropriately prioritised and invested in a long-term view of sustainability, to ensure resilience against climate change, population growth and location, and natural disasters.

5. Community Ownership and Empowerment

   That communities continue to have a meaningful role in the decision-making processes, management and operation of their local water services, with policies, outcomes and investment decisions reflective of the community's values, needs and local expertise.

Analysis of these principles against each of the three options being analysed has been provided in this report – see Appendix 2. Modelling and Criteria Assessment – Wairoa DC. Further financial and non-financial analysis has been undertaken of each option.

<u>The Three Potential Options / Models of Delivery</u>

The options technically available to Council are as follows:

1. **Internal Business Unit**

   This model maintains the current delivery method where Council retains responsibility and governance of all water services (water supply, wastewater, and stormwater), albeit in a form that meets legislative requirements (e.g. revenue and expenditure separation). Ultimate decision-making will continue to remain with Council.

2. **Single Council CCO**

   Wairoa District Council establishes a Water Organisation in which it is the sole shareholder. Ownerships of assets would transfer to this new organisation along with the responsibility for delivering water services. A competent independent board, as outlined in legislation, will be established and will be responsible for the governance of the organisation. Council will set strategic direction of the organisation through a Statement of Expectations issued to the board along with the role of approving a Water Services Strategy that the organisation must prepare and present to Council as the shareholder.

3. **Joint Council CCO (Preferred)**

   Wairoa District Council, along with the Central Hawke's Bay District Council, Hastings District Council, and Napier City Council, together establish a Water Organisation and transfer all three waters assets and responsibility of delivering services to the organisation. At this stage, shareholding position has not been considered and is a key task to be undertaken once a substantive decision is made in July. All Councils have supported the notion of no major shareholder. Council's ability to set strategic direction of the organisation remains through the State of Expectations issued to the board.

Although the legislation requires council to include an in-house model as an option, the operating reality of the new economic regime will make this model unviable (notwithstanding that modelling indicates that it is more affordable than a single council CCO model). Economic regulation will induce significant regulatory risk for governors and management of water organisations. For example, strict ring-fencing of costs and revenues for a small council such as Wairoa will be challenging and costly to maintain. Failure to adhere to the requirements specified by the Commerce Commission may constitute an offence with, in turn, may result in the imposition of significant organisational and personal pecuniary penalties. Regulatory risk of this kind is better managed by a dedicated and professional water infrastructure company Board and management team.

Modelling of anticipated connection costs through to 2034 shows an appreciable and significant difference between a single council CCO model and a regional model. Based on modelled costs to the consumer, the regional CCO model will be significantly cheaper that the single council CCO model. For this reason, the draft consultation document indicates that, currently, the regional CCO model is likely to be more affordable for Wairoa's water infrastructure consumers than a single council CCO model. That said, the regional council CCO model is dependent on all Hawke's Bay territorial authorities ultimately choosing to adopt that model. At the time of writing this looks to be more likely than not, but it is not certain. If the regional council CCO model did not proceed, then the single council CCO model would become the default option.

Development of a Preferred Option

As per the detailed analysis completed to date, a Joint Hawke's Bay WSCCO model best meets the Strategic Investment Objectives and presents the most affordable price path for water infrastructure consumers of the three options assessed. It is expected to deliver the most benefits and leverage the non-financial benefits discussed above.

- The In-House (Council Delivered) option is the second most affordable, with Single Council CCOs being the least affordable.
- Council's debt position can handle all three options within existing limits, however residual debt/revenue position better for all with off-balance-sheet Regional CCO option.
- Removal of 500% net-debt revenue limit gives Regional CCO greater headroom than previously thought.

It is recommended that the Joint Hawke's Bay WSCCO be identified as the present preferred delivery model in consultation materials.

15. CONSIDERATION OF MĀORI PARTNERS

While the Local Water Done Well policy and legislation directly impact and apply to Local Government authorities, the region has been committed to a collaborative approach with iwi/Māori throughout in this work.

Iwi/Māori were involved in the early stages of the Hawke's Bay water journey, to develop financial and non-financial assessment criteria for any future model or water service delivery organisation.

The Matariki Governance group of which the region's PSGE and Iwi Chairs are members, get regular updates on this work.

16. SIGNIFICANCE AND ENGAGEMENT POLICY

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of great importance.

The law requires that public consultation is required before these decisions are taken. This will be undertaken in line with the streamlined approach provided for in the Act.

While the ultimate decision around water service delivery for the district will involve strategic assets, and has implications for Council's purpose and obligations, and will include financial costs for Council and the community; this meeting/report is not the final decision-making juncture.

17. RISK MANAGEMENT

17.1 In accordance with the Council's Risk Management Policy the inherent risks associated with this matter are:

Human	Financial	Regulatory
The present uncertain nature of the reform model may create uncertainty in the minds of employees. However, the functionality of the water infrastructure tasks will not change, although it is possible delivery efficiencies may ultimately be pursued. Uncertainty will be greatly reduced once a WSDP is approved.	There are costs associated with the move to a new operating model. However, the process is imposed by legislation which specifies requirements which must be complied with on an ongoing basis into the future.	The introduction of economic regulation will create new significant regulatory risk. Managing that risk will require dedicated resourcing by the new water organisation, or by council directly if an in-house model was adopted.
Operations	**Employees**	**Image & Reputation**
Other than the employee risk point, nothing else has been identified at this time.	See above.	There will be reputational costs if council fails to submit a compliant WSDP which is likely to prompt intervention by the Crown.

18. CONSULTATION

While the analysis of the advantages and disadvantages of at least two delivery models is required for streamlined consultation under the Act, Council may decide to include analysis of additional delivery models.

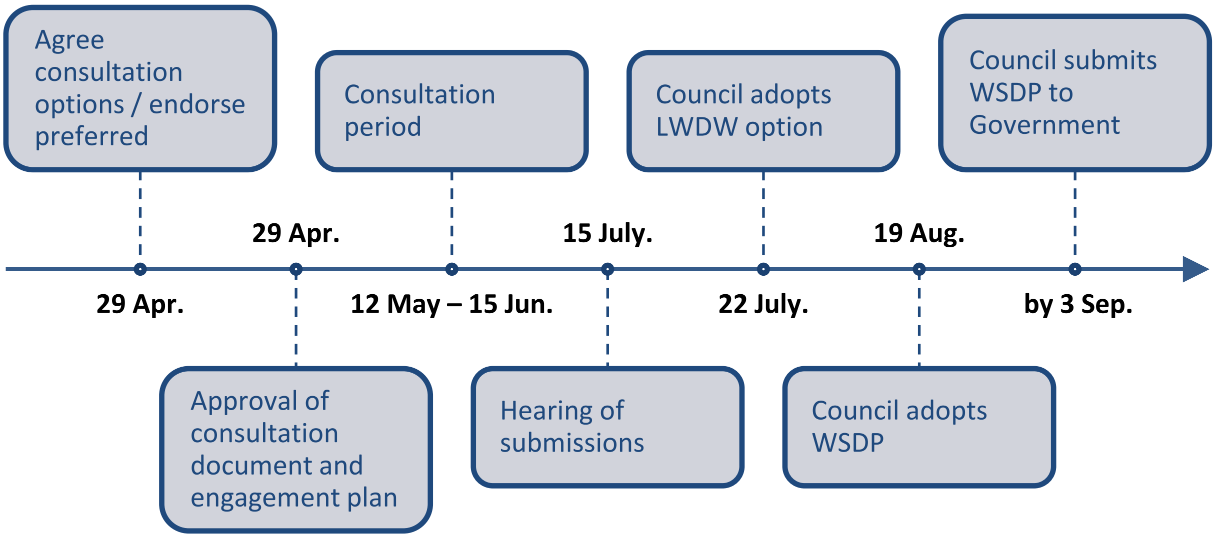
As detailed analysis has been completed on three delivery models 1) In-House/Council Delivered Service, 2) Wairoa District Council WSCCO, 3) Joint Hawke's Bay WSCCO - it is recommended that all three delivery models are included in consultation materials, with one of those identified as the proposed option.

Including all viable delivery models also ensures we receive feedback on the full scope of reasonably practicable options, in the circumstance that any regional partners opt out or select alternative preferred options to the Joint Hawke's Bay WSCCO.

19. NEXT STEPS

Officers will finalise the consultation material based on today's recommendations and adoption.

Summary of key dates and milestones:



Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

LOCAL WATER DONE WELL – PROPOSED WATER SERVICES DELIVERY MODELS FOR CONSULTATION

APPENDIX 1: Summary of the Hawke's Bay water services reform journey

Hawke's Bay councils have a long-standing history with water, pre-dating the various reform agendas of the last two Governments. It has been considered through multiple reports and Council workshops. Being the centre of the initial water outbreak that triggered inquiry and water reform across the country, Hawke's Bay has been invested in being at the forefront of this change – commissioning a business case and modelling before the Government announced any updates on water standards and reform.

As a region, we have kept financial modelling up to date through the various changes within Government to ensure we are best placed to make the right decisions for our communities. We have continued to advocate for a localised model with local decision making.

The current Government has repealed the previous Three Waters legislation and developed a replacement model under the Local Water Done Well policy. As a result of previous work and investment to date, Hawke's Bay councils and elected members were in a strong position with much greater understanding than many other local authorities.

We have been working together a region from the beginning – irrespective of the different positions of member councils at various times, and there has always been a common agreement that the status quo is no longer an option. As a result, our most recent financial modelling to support the current reform and public consultation, is some of the most comprehensive across the country – and has been developed in partnership (with agreed inputs and assumptions) across all member councils.

BACKGROUND SUMMARY – PRE-LOCAL WATER DONE WELL REFORM

1. 2016 – Havelock North water outbreak.
2. 2017 – Havelock North water outbreak Government inquiry finding released. Highlighted widespread systematic failures and triggers regulatory changes, structural reforms and establishment of a regulator.
3. 2019 – First regulatory reform proposed. Adoption of Health (Drinking Water) Amendment Act.
4. July 2020 - Hawke's Bay Councils received a commissioned business case prepared by Morrison Low, to assess delivery options for three water services in Hawke's Bay. Through this process, workshops were held in partnership with mana whenua representatives to establish initial principles and investment objectives. On completion of this business case, this process was paused as the Government announced the Three Waters reform programme.
5. 2020 – Regulator (Taumata Arowai) established, water services bill introduced to the House, revitalised Three Waters reform announced.
   - 5.1. This reform had all Hawke's Bay councils as part of 'Entity C'. This included the local government areas stretching from Gisborne, down the east coast of the North Island through to Wellington, the local government areas from Manawatu south on the west coast and either the entire Nelson, Tasman and Marlborough areas or parts of them.
   - 5.2. There was a strong regional opposition to the Entity C delivery model, with leaders advocating to Central Government for a localised Hawke's Bay standalone model – as assessed in the business case developed above.
6. August 2021 - Hawke's Bay Councils received an updated financial analysis section of the initial

business case prepared by Morrison Low, to assess the impact of Entity C model and incorporate new parameters/guidance received from DIA under new reform.

7. December 2021 - Hawke's Bay Councils received an updated 30-year debt projection, prepared by Morrison Low. This was to update the existing financial analysis to meet further reform updates by Central Government.
   7.1. Particularly, answering key debt constraint and borrowing capacity questions – and bridging the gap between the WICS (Water Industry Commission of Scotland) analysis that the Government was using as a basis for Three Waters reform – and financial analysis completed for Hawke's Bay to date.
8. April 2023 – Government announced changes to water services reform programme. These changes included increasing the number of new water service entities from four to ten in order to strengthen local representation and voice.
   8.1. Out with 'Three Waters' terminology, and in with 'Affordable Water'
   8.2. Increase of the number of water service entities from four to ten
   8.3. Hawke's Bay moved from Entity C, to Model F. The new model included all four Hawke's Bay councils and Gisborne District Council
   8.4. Financial modelling was updated to incorporate Gisborne – to assess 'East Coast Water' against the initial 'Hawke's Bay Water'
9. May 2023 onwards – Hawke's Bay councils supported Model F, however continued to advocate for improvements. The model as is was not going to work.
   9.1. Key advocacy areas included balance sheet separation (with a heightened importance post-Cyclone), equivalent of Watercare legislation, and streamlined process for formation that protected against delay and judicial review

BACKGROUND SUMMARY – LOCAL WATER DONE WELL REFORM

10. November 2023 – New Government sworn in and repeal of Three Waters reform
11. September 2024 - Local Government (Water Services Preliminary Services Arrangements) Act passed, establishing the Local Water Done Well (LWDW) framework and starting the 12-month timeframe for local councils to develop Water Services Delivery Plans (WSDP)
12. October 2024 – Hawke's Bay councils engaged Price Waterhouse Coopers (PwC) to undertake financial modelling for the new LWDW reform parameters, and with updated council LTP numbers to support decision making, public consultation and WSDP requirements.
   12.1. Hawke's Bay councils continued to meet with DIA, Commerce Commission, LGFA and the Minister for Local Government – to share feedback on the current parameters and highlight policy ambiguity that was creating uncertainty
   12.2. In March 2025, LGFA responded – officially, providing the debt ratios and parameters required to fine tune inputs and complete modelling
13. April 2025 – financial modelling and outputs complete, councils began workshops and council meetings to respond to legislation and meet Government's deadlines.
   13.1. The detailed financial modelling showed that for all councils, the Regional CCO option presents the most affordable price path for water users of the three options assessed. The In-House option is the second most affordable, with Single Council CCOs being the least affordable.

LOCAL WATER DONE WELL - WAIROA DISTRICT COUNCIL MODELLING AND CRITERIA ASSESSMENT

Background

This document provides an overview of the financial modelling and analysis of non-financial criteria undertaken as a part of the work in Hawke's Bay to assess delivery models for implementing the Local Water Done Well requirements.

Local Water Done Well

The Government's Local Water Done Well has several new requirements for water service providers, including:

- **water services delivery system changes**, including new delivery models and structural arrangements, financial principles and financing options, and reporting and planning requirements
- a **new economic regulation and consumer protection regime** for water services, with tools available to the Commerce Commission as the regulator, including information disclosure, revenue thresholds, quality regulation and financial ring-fencing
- **changes to the water quality regulatory framework** including arrangements for stormwater, drinking water quality regulation, and wastewater and stormwater environmental performance standards

These requirements mean significant changes to the way that water services are delivered, regardless of delivery model. As a first step, councils (or groupings of councils) are required to submit Water Services Delivery Plans to central Government by 3 September 2025.

These plans are a way for councils to demonstrate their approach and commitment to providing water services that meet new regulatory requirements, support growth and urban development, and are financially sustainable.

Through the development of the plans, councils need to provide an assessment of their water infrastructure, how much they need to invest, and how they plan to finance and deliver it. To do this, councils need to understand what that will look like under the different delivery models available.

From the long list of options provided by central Government, the work in Hawke's Bay has focused on analysing the pros and cons of three delivery models:

Shortlisted options - delivery models
Internal business unit or division (enhanced council delivered services)
Single council-owned water organisation
Multi-council owned water organisation

Further information on these delivery model options is outlined in Tables 1, 2 and 3.

Two further models - consumer trust and mixed council/consumer trust - were discounted at this time as they create significant additional financial complexity, particularly because they are currently unable to access Local Government Funding Agency (LGFA) financing and would have to source alternative finance, requiring an operational track record.

Modelling

Hawke's Bay councils have undertaken scenario modelling and analysis to understand the implications of the new requirements and what these would mean for the different delivery models.

Initial indicative modelling was undertaken over the second half of 2024 to understand the financial sustainability of each council's water services under different LWDW delivery options. This assessed whether each water service delivery option could be financially sustainable, where water services revenue and costs are 'ring-fenced' and meet the financial sustainability criteria of the new Local Water Done Well requirements. A number of financial outcomes were modelled across a 10-year period and assessed, including indicative costs for delivering water to a property connected to all three waters under the delivery models allowed for under Local Water Done Well. Resulting Council debt and financial positions were also modelled and assessed to determine how they might be affected by the characteristics of different delivery models.

The modelling presented in this report and the consultation document has been updated from the initial indicative modelling. It has utilised further guidance from the Department of Internal Affairs (DIA), the LGFA - where most New Zealand Councils source their borrowing from - and the legislative requirements under Local Water Done Well to determine a set of inputs and assumptions for the modelling. The latest Long-Term Plan or updated Annual Plan data of each council was inputted to create a set of central scenarios for each delivery option, for each council.

The data includes financial information from each Hawke's Bay council - like asset valuation, depreciation, funding approach and financing costs - as well as their key statistics like their population size, number of connected and non-connected properties, and the length and age of the reticulated network.

This provides for a clear, standardised and comparable assessment of what each delivery model would look like for each council across key metrics like debt and cost per connection for a property with all three waters. It builds off modelling carried out for the region previously from 2018-2023.

These inputs and assumptions are detailed further in the Financial Modelling section of this report.

Financial modelling can only provide indicative projections at a point in time but provides a useful guide for the direction for costs and Council debt under the different delivery models being analysed. The analysis is based on several assumptions about how the new economic regulation regime will be applied by the Commerce Commission, as well as final financial assessments by entities including the LGFA and credit rating agencies. Establishment and ongoing costs have been estimated using previous analysis and benchmarking.

Given this, it does not consider detailed implementation arrangements, such as organisational design (e.g. which particular staff from each council shift to a joint entity) or commercial agreements (e.g. whether contracts will be entered into with different construction firms). If councils agree to progress the development of a regional CCO, then further work would be undertaken on detailed operational design, including shareholding splits between the parent councils. The modelling assumes no one Council holds a majority stake in a Regional CCO.

Financial Sustainability

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. DIA guidance is that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services.

The costs of delivering water services includes meeting all regulatory standards, and long-term investment requirements in water services**.**

There are three key factors to how financial sustainability will be assessed:

1. Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
2. Investment sufficiency – is the projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?
3. Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?

The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA in September 2025 is designed to get Councils to demonstrate how financially sustainable water services provision will be achieved from 30 June 2028 at the latest.

Under Local Water Done Well, the LGFA has committed to Water CCOs being able to utilise debt from the LGFA, if they are financially supported (through a guarantee) by their parent council or councils.

The LGFA is the lowest cost provider of financing to local government and is already utilised by Council. While the LWDW model opens-up borrowing capacity, Council is still concerned over affordability issues for our ratepayer base.

Water organisations will be able to assess, set and collect water services charges from consumers and will be able to use the development contributions regime in the Local Government Act 2002 to charge developers where additional demand or growth is created.

The LWDW legislation does not specifically embed price harmonisation, e.g. where every water user within a regional CCO would move to paying the same cost-per-connection at a point in the future. It is still unknown as to whether the economic regulator will allow for price harmonisation, or specific types of harmonisation options if at all.

The intention of providing a specific lending facility is to better enable councils via a WSCCO to address water investment needs and enable 'balance sheet separation' with the advantage of reducing ex-water Council debt, potentially freeing-up debt 'headroom' for other Council activities if desired, or keeping pressure off other Council rates.

Under the CCO model (single or joint), LGFA will not 'consolidate' a water services CCO's debt back to its view of the overall Council's debt position. However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a water CCO which is more than 50 percent owned by a single Council back to that Council's balance sheet when it reviews the Council's credit-worthiness. This means the parent Council under a Single CCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council CCO option (see below).

For a multi-council, or Regional CCO where no council owns a majority of the organisation, both LGFA and S&P will treat the debt of the water CCO separately to the parent Council. Credit rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils.

If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's balance sheet, despite the ring-fencing provisions in the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and rating agency perspective.

LGFA has issued guidance on how it will assess its lending to Water CCOs. This will not be controlled by a specific net debt/revenue limit (which is currently applied to generic LGFA lending to Councils). Rather, a combination of cashflow covenants will apply:

- A Funds from Operation (FFO) to Gross Debt ratio of between 8% and 12%
- A Funds from Operation (FFO) to Cash Interest Coverage of between 1.5 times and 2.0 times.
- Water CCOs will have up to five years to comply with the covenants
- Water CCOs will be able to recognise a percentage of development contributions as operational revenue for the purposes of determining the above covenants.

LGFA stresses that the covenants it has published are just for guidance; negotiations will still be held with Councils. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional CCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an 'equivalent' of 500% net debt/revenue to water CCOs. In the absence of more specific guidance before an LGFA announcement on 20 December 2024, this ratio was being applied in modelling (for Hawke's Bay Councils and others across the country) as a 'control' on debt from 2028, which in turn required pricing to be lifted in the model to keep debt positions down. Removing a net debt/revenue limit from the CCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

Further detail - short-listed delivery model options:

The delivery models are designed to ensure communities receive enhanced water services without placing undue financial pressure on ratepayers and are intended to give flexibility to choose a model that is financially independent or can become financially independent from the council's credit rating over time.

Based on the options available, Hawke's Bay shortlisted three for further consideration:

- Internal business unit (in-house/enhanced council delivered services)
- Single CCO
- Regional CCO

The Department of Internal Affairs describes the shortlisted delivery models as follows:

Table 1: Key features – Internal business unit (in-house/council delivered services)

Internal business unit	
Overall	• Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	• 100% council owned as a business unit or division within the organisation • No new organisation is established
Governance	• Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	• Councils will need to prepare a water services strategy
Accountability	• Water division reports to council per established internal processes • Water services delivery will be accountable to the public through usual democracy practices • Water services annual report - including new financial statements on water supply, wastewater and stormwater - will be completed to enhance current requirements
Borrowing	• Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

Table 2: Key features – Single council-owned water organisation

Single council-owned water organisation (Single CCO)	
Overall	• Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	• Limited liability company, 100% owned by the council • Ownership rights spelled out in a constitution, subject to compliance with the legislation • Council can transfer or retain ownership of assets, subject to transfer of asset use rights
Governance	• Council has flexibility to design governance and appointment arrangements • Appointments made directly or via an Appointments and Accountability Committee (or similar body) • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards
Strategy	• Shareholding council issues statement of expectations • Water organisation board prepares a water services strategy and consults the shareholding council
Accountability	• Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to statement of expectations and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	• Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital

Table 3: Key features – Multi-council-owned water organisation

Multi-council-owned water organisation (Regional CCO)	
Overall	• Two or more councils establish a jointly-owned organisation • Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ringfencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	• Limited liability company owned by two or more councils • Ownership arrangements and rights set out in a constitution and/or shareholder agreement, within legislative requirements • Each council prepares transfer agreement setting out matters being transferred to water organisation and those retained
Governance	• Councils agree how to appoint and remove directors, for example through a shareholder council or similar • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards
Strategy	• Shareholding councils agree the process for issuing a combined statement of expectations • Water organisation board prepares a water services strategy and consults shareholding councils
Accountability	• Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to statement of expectations and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	• Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support • Water organisation could access LGFA financing, subject to meeting LGFA financial metrics and with shareholding councils providing proportionate guarantees to the CCO • The CCO will be entirely self-funded, without financial support or revenue from shareholding councils

Financial Modelling

This section analyses the two key financial criteria established to assess and compare the three options for water services delivery models under Local Water Done Well.

The assessment follows the Department of Internal Affairs (DIA) guidance on available water service delivery models under LWDW, potential financing arrangements, and key financial sustainability indicators.

Financial Criteria

The table below outlines the two key financial criteria developed to assess and compare potential water services delivery model options, through the process of financial modelling. The expectation is that all options will meet the financial sustainability requirements set out in the legislation under the LWDW framework, therefore this requirement is excluded from the criteria.

Table 4: Two key financial criteria to assess and compare delivery models

Criteria	Explanation	Evaluation
Cost of delivering water services at FY34	This models the average annual cost per property to deliver water services, for a property connected to all 3-waters at the end of the current forecast period in 2033/34. This is an indicative, nominal cost path for standardised assessment of the attributes of each delivery option, and comparison across TAs. Note, numbers are rounded to the nearest $100. Analysis includes the difference in cost-per-connected property per delivery option, nominally and proportionately, and cumulative savings under the most affordable option compared to the other two over the 10 years to 2034.	Option is the most affordable to the rate payer

Council balance sheet and debt position	This measures a council's debt position through the ten-year period to 2034 against the limits imposed on it by itself or by regulators, including likely treatment by credit ratings agencies.	✔✔ Option allows for modelled three waters investment and contributes to best Council balance sheet and debt position. ✔ Option allows for modelled three-waters investment, with resulting Council debt position able to be within covenants, but with caveats, for example meets LGFA covenant but Council debt to be considered higher by rating agency. **-** As with ✔ but least amount of balance sheet capacity **X** Option does not have sufficient balance sheet capacity at FY34 and exceeds the current LGFA limit, with no option for mitigation (e.g. securing a credit rating).

Options evaluation: Financial

The following tables present the results of the quantitative assessment of each of the shortlisted options. Numbers are to the nearest $100.

Wairoa District Council

Criteria	Council delivered services	Single CCO	Regional CCO
Cost of delivering water services at FY34	$6,400	$6,800	$5,400
Council balance sheet and debt position	- Least amount of Council balance sheet capacity of the three options from LGFA point of view.	✓ LGFA to consider water CCO debt separate to Council; Ratings agencies to assess combined debt	✓✓ LGFA to consider water CCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Current Modelling Assumptions

Parameter	Assumption
FFO/Gross Debt	• Pricing (revenue) is adjusted to ensure that the FFO / Gross Debt ratio remains at a minimum of 11% for the Council Delivered Service and Single CCO options, and 8% for the Regional CCO option, from FY30 to 2034.
Cash interest ratio	• Single CCO and Regional CCO option: Funds from operation to cash interest coverage of a minimum of 1.5 times from FY30
Debt covenants	• Five years to meet key LGFA metrics (LGFA finance covenants).
Capex	• CAPEX delivery factors to be reduced to 80% from current plans, given historical underinvestment, DIA guidance. • Subsequent reduction in depreciation, through standardised method across councils.
Debt/revenue covenant	• Existing Council debt/revenue covenants are used to assess balance sheet capacity. Previous modelling imposed a 500% debt/revenue constraint on 3-waters finances due to previous central Government guidance; this measure does not appear in LGFA's guidance anymore and so has been removed as a control. • No changes to Council Delivered Service debt limits: o Wairoa: Current LGFA: 175% Net Debt/Revenue

Parameter	Assumption
Regional CCO efficiencies	• Conservative modelling assumes the joint CCO capital efficiencies will start at 1% **in year 3**, growing 1% per annum (5% by FY34). • Conservative modelling assumes operating efficiencies of 2% **in year 3**, growing to 12% by FY34
Establishment costs	• Regional CCO and Council Delivered Services: The indicative estimated cost is based on the figures provided in the 2020 Morrison Low business case for Hawke's Bay Councils, adjusted for inflation. • Single CCO: As above, but costs are adjusted to 50% of the estimates of establishing a Regional CCO.
Ongoing operational costs	• Regional CCO and Council Delivered Services: The indicative estimated cost is based on the figures provided in the Morrison Low business case, adjusted for inflation. • Single CCO: As above, but costs are adjusted to 50% of the Morrison Low estimates.
Stranded costs	• Councils provided guidance on potential stranded costs (see below).

Establishment and additional Operational/Capex costs as a result of the change

The costs in the following indicative estimate are variable and will depend on the level of activities that can be completed by any new CCO, at their own cost, after establishment. All figures are based on analysis conducted by Morrison Low during the previous reforms.

The costs below are shown indexed to FY25 values from the FY20 values using historical inflation. The forecast has been indexed using NZIER inflation rates through FY28 and 3% thereafter.

Establishment Costs ($000s)	Council Delivered Services	Single CCO	Regional CCO
Operating costs	1,373	1,769	3,538
Capital costs	1,507	2,174	4,347

Stranded Costs

All figures are based on analysis conducted by the council.

Council	Updated modelling ($000s)
Wairoa	902

Ongoing operational costs created as a result of the change

Ongoing Operational Costs ($000s)	Council Delivered Services	Single CCO	Regional CCO
Directors	49	92	183
Tier 1 additional costs	305	214	427
Tier 2 additional costs	0	305	610
ICT - extra operating	61	61	122
Harmonisation of salary	177	89	177
Audit remuneration	18	101	201
Regulatory auditing	18	101	201
Accommodation - office rent	549	275	549
Office overheads	33	24	47
Staff overheads	81	148	295
Additional resources	418	833	1,665

Modelling overview

In the charts below, previous council cost and pricing projections have not been included as these projections are not considered viable options, given the new regulations and financial sustainability requirements mandated by the LWDW framework legislation.

The financial modelling covers a ten-year horizon, based on latest LTPs, and in Napier's case new Annual Plan numbers. For modelling purposes, a capex delivery factor of 0.8 and an accompanying depreciation reduction has been applied across Councils, given historical under-delivery of capex plans. This also follows guidance from DIA to Councils that forward-looking plans, while acknowledging the scale of investment required, need to be realistic regarding delivery capacity. The lower capex delivery factor is not a proposal to reduce capex, but rather used to present what might be more realistic debt and cost-per-connection outputs from the modelling to what ratepayers and Councils might face expenditure-wise over the timeframe modelled. A combined regional capex programme of $1.32 billion is modelled out to FY34.

Modelling of 100% of current capex plans was conducted through this process, although with slightly different assumptions regarding the LGFA covenants which would apply. A high-level observation across this previous modelling and the current modelling outputs is that a Regional CCO may be able to deliver 100% of current capex plans at a similar or lower cost-per-connection than each individual Council would have to charge to deliver 80% of their current capex plans through either In-House or the Single CCO delivery options.

A Hawke's Bay regional CCO will be able to utilise its financial resources to borrow more efficiently and effectively than individual councils. It requires less additional revenue compared to the other options because less stringent financial metrics will be imposed on it by the LGFA than individual Councils.

The regional CCO option considers non-harmonised pricing for each shareholding council, given strong central Government statements against harmonisation and guidance that the economic regulator may not allow for price harmonisation. The purpose of the modelling was to assess the relative benefits of the different delivery models allowed for under Local Water Done Well, assessed across the region's Councils.

More cost-effective service delivery

With increased scale, the region can achieve operational and capital investment savings. The freed-up funds can be reinvested to complete more projects within the same budget. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants.

A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and workforce within their operations and balance them effectively. These benefits of the Regional CCO should endure as efficiency gains improve over time and as a focussed workforce grows in terms of capability and capacity to deliver the required water investment across the region.

NOTE – other Councils in the Hawke's Bay region have been excluded until all Council's have held their public meetings.

Wairoa

Financial modelling – Wairoa affordability

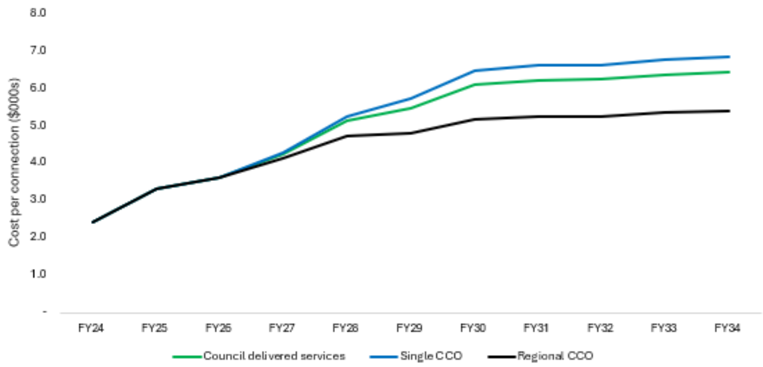
The regional CCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a regional CCO model, the average ratepayer in Wairoa will pay c.$1,000 less in annual water charges in 2034 than under the Council Delivered Services option and c.$1,400 less than under the Single Council CCO option.

At 2034, cost per connection under the CDS option is 19% more expensive than under the Regional CCO cost path, and 26% more expensive under the Single Council CCO option than the Regional CCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to $6,237 under the Regional CCO option compared to the Council Delivered Services option, and $8,559 compared to the Single Council CCO option.

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Council delivered services	2.4	3.3	3.6	4.3	5.1	5.5	6.1	6.2	6.2	6.4	6.4
Single CCO	2.4	3.3	3.6	4.3	5.2	5.7	6.5	6.6	6.6	6.8	6.8
Regional CCO	2.4	3.3	3.6	4.1	4.7	4.8	5.2	5.2	5.2	5.3	5.4



Financial modelling – Wairoa balance sheet

For Wairoa District Council all options are within existing LGFA covenants, indicating ability to finance modelled three-waters investment. Combined net debt under the Council Delivered Services Option (and Single CCO option) is above WDC's internal debt-revenue limit. The regional CCO results in lower all-of-council debt due to water debt under this option being a contingent liability to council, and not 'on balance sheet'.

Wairoa District Council can borrow up to 175% net debt to revenue under the LGFA foundation covenant, and has an internal limit of 100%.

Under the Council Delivered Services option

- 3-waters net debt held by WDC is modelled to increase from $27.8 million in FY26 to $55.6 million in FY34, representing 89% of total Council net debt at FY34. Ringfenced 3-

waters net debt/revenue will increase over that time from 349% in FY26 to 389% in FY27 before fluctuating and ending at 388% in FY 34.

- Council net debt excluding three waters is modelled to rise from $13.7 million in FY26 to $14.9 million in FY27, before falling to $7.1 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 47% in FY26 to 48% in FY27, before falling to 19% in FY34.
- **Combined**, **Council net debt is modelled to rise from $41.5 million in FY26 to $63.8 million in FY32 before falling to $62.7 million in FY34. Combined council net debt/revenue is modelled to rise from 112% in FY26 to 127% in FY29, before falling to 120% in FY34.**

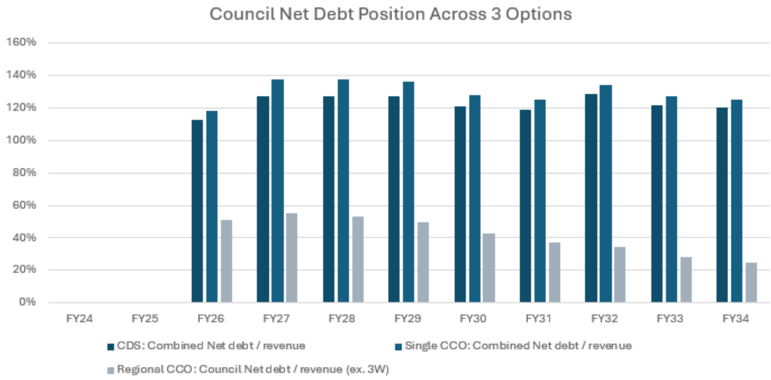
Under the Single CCO option,

- 3-waters net debt held by the CCO is modelled to increase from $28.9 million in FY26 to $57.0 million in FY34. Three-waters net debt/revenue will rise from 363% in FY26 to 409% in FY2, before falling to 375% in FY34.
- Council net debt excluding three waters is modelled to rise from $14.8 million in FY26 to $17.2 million in FY27, before falling to $9.3 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 51% in FY26 to 55% in FY27, before falling to 25% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from $43.7 million in FY26 to $67.9 million in FY32, before falling to $66.4 million in FY34. Combined council net debt/revenue is modelled to rise from 118% in FY26 to 137% in FY28 before falling to 125% in FY34** (rating agency focus).

Under the Regional CCO option,

- Combined three-waters debt across the four Councils under a Regional CCO is modelled to increase from $489.2 million in FY26 to $912.7 million in FY34. The Regional CCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. WDC's contribution to the combined three-waters debt of a regional entity will rise from $26.7 million in FY26 to $58.1 million in FY34.
- WDC's Council debt (excluding three-waters) under a Regional CCO option is modelled to rise from $14.8 million in FY26 to $17.2 million in FY27, before falling to $9.3 million in FY34. **With three-waters debt off balance sheet under a Regional CCO option, WDC's Council net debt/revenue will rise from 51% in FY26 to 55% in FY27, before falling to 25% in FY34**.

WDC	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
CDS: Combined Net debt / revenue	-	0%	112%	127%	127%	127%	121%	118%	128%	121%	120%
Single CCO: Combined Net debt / revenue	0%	0%	118%	137%	137%	136%	128%	125%	134%	127%	125%
Regional CCO: Council Net debt / revenue (ex. 3W)	0%	0%	51%	55%	53%	49%	42%	37%	35%	28%	25%



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Non-financial analysis

Alongside the financial criteria, a set of non-financial criteria were developed to assess the different delivery models.

These criteria were developed with the legislative requirements in mind, as well as to align with the shared principles the region has agreed on to guide the decisions on water service delivery.

The shared principles were first developed for the Morrison Low work. These were re-tested with councils, mana whenua and other stakeholders in Hawke's Bay in September 2024, where they were updated to reflect the current circumstances.

The updated principles are:

- To deliver water services in a way that is affordable, effective and allows for equitable access
- To deliver water services that are safe, resilient and balance cost-effectiveness with high standard
- To deliver water services through a model that enables a meaningful role for Māori through governance and outcome-setting
- To deliver water services through a model that has the value and water at the centre in addressing both current and future needs
- To deliver water services in a way that supports out urban and rural communities ensuring targeted solutions that develop local capabilities for effective support and service delivery
- To deliver water services that builds enduring capability and capacity
- To deliver water services informed by meaningful community engagement and collaboration

Non-financial criteria

Criteria	Explanation and Measures
Service provision	• The extent to which a delivery model would be able to provide and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes. • The ability to identify and manage risks in alignment with industry best practices.
Resilience	• The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies. • The ability to respond to increasing demand and managing that demand effectively.
Capital delivery and asset management	• Ability to deliver the capital programme and improve asset management maturity.
Capability and capacity	• Ability to build sustainable regional capability in three water development and operations. • Ability to build a long-term stable pipeline of work at scale and build regional supplier capacity and capability.
Scale and opportunities for efficiency	• Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations.
Mana whenua involvement	• The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua.
Community influence and engagement	• The extent to which each option enables the ability for • communities to engage with water decision-making.

High-level option evaluation - Non-financial criteria:

The table below provides a high-level overview of the results of the option evaluation results against the non-financial criteria. For further commentary on each of these criteria, please see the following pages.

Criteria	Council delivered Service	Council CCO	Regional CCO
Service Provision	✓ Levels of service will need to meet new government requirements, regional variation remains	✓ Levels of service will need to meet new government requirements, regional variation remains	✓✓ Equity of service levels, combining networks / infrastructure, lowering the cost to serve
Scale and Efficiencies	- No efficiency gains (noting councils could opt to work together via agreements)	✓ Potential to achieve some efficiency gains through new competency-based board appointment and key performance indicators	✓✓ Maximum efficiency gains due to scale and potential to standardised / share resources
Resilience	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓✓ Greatest resilience improvements due to scale and diversification revenues
Capability and capacity	- No improvements beyond existing arrangements	✓ Potentially some improvements due to focus on water services. Potential to offer clear career pathways	✓✓ Can scale, offering clear career pathways and specialisation in water services

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Capital delivery and asset management	✓ New requirements drive potential to improve capital delivery but limited by scale	✓ Water focus drives potential to improve capital delivery but limited by scale	✓✓ Potential for broader network considerations and efficient capital works planning
Mana whenua involvement	✓ Mana whenua engaged by councils directly through current arrangements	✓ Opportunity for dedicated mana whenua governance role, regional variation remains	✓✓ Opportunity for dedicated mana whenua governance role, regional consistency more likely
Community Engagement	✓✓ Direct community engagement and accountability to council	✓ CCO responsible to one community, engagement via LTP process and consumer panels	✓ CCO responsible to multiple communities, engagement via LTP process and consumer panels

Detailed option evaluation - Non-financial criteria:

SERVICE PROVISION

The extent to which a delivery model would be able to meet and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes.

Council Delivered Service ✓	• Levels of service are set by the council but must be consistent with all legislative and regulatory requirements. • Council will need to fund and prioritise recovering the full cost of services to meet financial sustainability requirements, with regulation driving investment decisions.
Single CCO ✓	• Council staff can remain local and continue delivering existing service levels. The council will hold the CCO accountable for the delivered service levels via a Statement of Expectations (SoE). However, service levels and standards will ultimately be set by the CCO and regulators. • The board will have the flexibility to determine the necessary pricing and allocation of funding to meet the required service levels, driven by compliance with economic, service and consumer regulation.
Regional CCO ✓✓	• Shareholding councils will influence district service levels through a joint SoE. • The boards will have the flexibility to determine pricing and allocate funding to meet these service levels, driven by economic, service and consumer regulation. • Centralising investment planning, service delivery, and customer engagement may lead to efficiencies and improved customer service. • The CCO can work towards standardising service levels across districts over time.

COMMUNITY INFLUENCE AND ENGAGEMENT

This criterion measures how effectively a delivery model enables communities and councils across Hawke's Bay to engage with the delivery of water services and influence outcomes through that engagement. Mana whenua are also included within this criterion in their role as community members.

Council Delivered Service ✓✓	• Councils will continue to regularly consult communities on water services delivery planning and infrastructure development through processes such as the LTP which determine council's strategic direction as well as how it sets budgets and prioritises projects. • Economic regulation and consumer protection will require providers to increase level of engagement to confirm levels of service and evidence that investments are being made. • Communities will still be able to express their views on decisions related to future water services, but councils will be subject to economic regulation, which will set prices and minimum investment levels, driving prioritisation decisions.
Single CCO ✓	• Each CCO can establish and maintain a direct relationship with its respective community and will be solely accountable to its independent board. • The council will engage with the CCO to understand and align financial impacts on ratepayers and influence in the governance of the CCO via the SoE and the LTP requirements. Provisions are likely to need to be put in place to ensure that consumers' voices are heard through a consumer panel and/or advocacy council, a disputes resolution process, and through public consultation requirements. • Mana whenua will engage with the CCO as well as the council as per pre-existing arrangements.
Regional CCO ✓	• The CCO can establish and maintain a direct relationship with customers and will be accountable to its independent board and to all communities within Hawke's Bay. • Shareholding councils will engage with the CCO to understand and align financial impacts on ratepayers and influence the governance of the CCO via the SoE and the LTP requirements.

RESILIENCE

The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies.

Council Delivered Service ✓	• Operating within a single district on a smaller scale reduces geographic diversification, limiting the ability to share costs and resources across districts. • Each council will apply resilience differently, with less collective emphasis on funding resilient options across the region. • Opportunities to build financial and operational resilience against economic or environmental shocks are limited. Funding will come from the entire council's balance sheet, requiring decision-making to balance community needs across various activities competing for limited resources and funding.
Single CCO ✓	• Similar to Council Delivered Services, operating within a single district and on a smaller scale results in less geographic diversification, limiting the ability to share costs and resources across districts. • The CCO model is expected to have greater autonomy for efficient decision-making, e.g. to better respond to severe weather events.
Regional CCO ✓✓	• Joint service delivery across district boundaries has the potential to improve climate resilience, providing greater geographic diversification. • A regional entity has the scale and potentially greater financial capacity to manage severe weather events. It also has the flexibility to divert operational resources providing additional operational resilience. • Developing a shared workforce among neighbouring councils would provide more workforce resilience, and potentially enable operational efficiencies.

CAPABILITY AND CAPACITY

The ability to build sustainable and enduring capability in the development and operations of three waters services across the region.

Council Delivered Service -	• Water services are delivered by council teams focused on operations and maintenance across their individual water networks. • Employees / staff will need to be shared with non-water services, with workforce capability and capacity currently constrained within all councils. • Operating within a single employment market can limit recruitment of new staff and capability.
Single-Council CCO ✓	• Similar to Council Delivered Service, the entity's scale may limit the ability to attract talent and develop enduring capability due to competition among districts for staff. • However, a competency-based board may enable greater focus on recruitment and retention of high-quality staff who might not typically join a local authority. • May lead to greater capability and specialisation among operational and maintenance staff (compared to a council delivered service model, where teams may have wider functions).
Regional CCO ✓✓	• Increased scale creates opportunities for more specialised roles and builds enduring capability, alongside a larger market of suppliers. • Operating as a single employer in Hawke's Bay region attracts a diverse range of skills and reduces competition for staff. • Improved capability and capacity provide clear career pathways and opportunities for professional development and specialisation in water services delivery.

CAPITAL DELIVERY AND ASSET MANAGEMENT

This criterion assesses the ability of a delivery model to support the efficient and effective delivery of a council's capital programme and improve their asset management maturity.

Council Delivered Service ✓	• The council retains control over investment prioritisation in water services, in line with the water services strategy provided that they are consistent with all economic and water regulations. Ring-fencing requirements will mandate a certain level of investment that cannot be avoided by a council. • Capital delivery and asset management, including any required trade-offs, continues to be undertaken by councils themselves within existing financial constraints. • The council delivers its capital works programme using existing / local suppliers. Potential to collaborate with other districts in joint procurement strategies.
Single CCO ✓	• The CCO board can focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. • The CCO can maintain / share procurement arrangements with the council as well as participate in joint procurement arrangements with other neighbouring districts to improve capital delivery. However, this is not guaranteed.
Regional CCO ✓✓	• The CCO board will determine the approach to investment prioritisation, with input from shareholding councils on priorities. • A dedicated focus on delivering three waters services enables broader regional outcomes and efficient capital works planning across the network. • Aligning procurement and project management approaches, along with coordinating large-scale work programmes, can help attract contractors to the regions. • The scale of the operations is likely to also lead to procurement and operational efficiencies.

SCALE AND EFFICIENCIES

This criterion assesses the delivery model's ability to lower the unit cost of infrastructure through standardisation, scale in procurement and a modular approach to infrastructure development and operations.

Council Delivered Service **-**	• Assumed that this option will not provide efficiencies or resilience benefits above and beyond assumptions in the 2024-34 LTPs. • Note that there could be some efficiencies gained if Councils worked collectively on a single water services procurement strategy, single professional services and contractor construction panel arrangements.
Single CCO **✓**	• CCO operates with increased commercial focus, a dedicated board and performance metrics which could provide some minor efficiency improvements and potentially operating cost reductions associated with CCO establishment.
Regional CCO **✓✓**	• The entity can focus on optimising operations and processes to reduce overall costs. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants. • A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and labour within their operations and balance them effectively.

MANA WHENUA INVOLVEMENT

For the purpose of this document, the term 'mana whenua' refers to the Post-Settlement Governance Entities (PSGE) and Taiwhenua. This criterion measures how well a delivery model ensures that existing partnership arrangements (which may include Treaty settlement commitments) and commitments to mana whenua are maintained and enhanced by ensuring that they have a meaningful role in water services decision-making and outcome setting into the future.

It is important to emphasise that mana whenua hold dual roles across and are entitled to all the rights and privileges afforded to the wider community. Therefore, in addition to the 'community influence and engagement' criteria outlined earlier, the subsequent criteria are also pertinent to mana whenua.

Council Delivered Service ✓	• Council engagement with Māori on water is guided by the Local Government Act and existing Treaty settlement commitments. • Governance of water services remains within existing council and regional structures, preserving any pre-existing governance arrangements with mana whenua and other Māori partnership groups. • Non-governance arrangements between councils and mana whenua also remain unchanged. The role of mana whenua may differ across the region
Single CCO ✓	• The single-council CCO model could enable new and innovative approaches to collaborating with mana whenua, providing new opportunities for representation and input. • The CCO model may offer opportunities for the inclusion of mana whenua at a governance level that are not as deliverable under Council Delivered Service, though this would depend on organisational design. • The role of mana whenua will likely continue in the same manner as with Council Delivered Services.
Regional CCO ✓✓	• The new entity offers the opportunity to leverage innovation through the CCO model while also ensuring to engage with mana whenua in a consistent manner across the region. This prevents engagement and influence differing across multiple different councils, resulting in different outcomes across the region. • There is an opportunity for councils and mana whenua to have a role in governance and outcome setting. This may involve jointly appointing a competency-based board and management team. • The final details of any such arrangements will need to be determined following the decision to establish a regional CCO in consultation with mana whenua and other stakeholders.