



**I, Matthew Lawson, Tumu Whakarae | Chief Executive, hereby give notice that
an Extraordinary Meeting of Council will be held on:**

Date: Tuesday, 2 September 2025
Time: 1:00 pm
Location: Council Chamber, Wairoa District Council,
Coronation Square, Wairoa

AGENDA

Extraordinary Council Meeting

2 September 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

For further information please contact us 06 838 7309 or by email info@wairoadc.govt.nz

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- 1 KARAKIA**
- 2 APOLOGIES FOR ABSENCE**
- 3 DECLARATIONS OF CONFLICT OF INTEREST**
- 4 PUBLIC PARTICIPATION**

A maximum of 30 minutes has been set aside for members of the public to speak on any item on the agenda. Up to 5 minutes per person is allowed. As per Standing Order 14.14 requests to speak must be made to the meeting secretary at least one clear day before the meeting; however this requirement may be waived by the Chairperson.

5 GENERAL ITEMS

5.1 DRAFT WATER SERVICES DELIVERY PLAN

Author: Gary Borg, Tumu Whakarae Tuarua | Deputy Chief Executive & Group Manager - Finance and Corporate Support

Authoriser: Matthew Lawson, Tumu Whakarae | Chief Executive

Appendices: 1. WSDP [↓](#)

1. PURPOSE

1.1 This report presents the draft Water Services Delivery Plan for Wairoa district.

RECOMMENDATION

The Tumu Whakarae Tuarua | Deputy Chief Executive & Group Manager - Finance and Corporate Support RECOMMENDS that Council

- A. Adopts the Water Services Delivery Plan subject to finalisation following receipt of feedback from DIA and,
- B. Instructs the Chief Executive to
 - a. Submit the finalised plan to DIA no later than 3 September 2025, and
 - b. Subject to the Minister's approval, including any amendments that do not alter the intent of the plan, implement the plan and initiate the establishment of a Water Services Council Controlled Organisation to which water services and assets, in accordance with the plan, shall transfer on or before 1 July 2027.

EXECUTIVE SUMMARY

Since the inception of Local Water Done Well Council has participated in a Hawke's Bay collaboration to deliver a regional Water Services Delivery Plan. This was largely based on meeting the LGFA/DIA investment, debt and revenue sufficiency criteria whilst delivering the Councils' LTP programmes.

With the statutory deadline for submission of WSDP rapidly approaching the regional discussion had not progressed sufficiently beyond financial modelling to reassure Council that the Wairoa community would be better catered for in the regional framework.

Council began developing its own WSDP as a backup option. On 29 July 2025 Council resolved to proceed with a Wairoa Water Services CCO. This report highlights the key stages of the journey over the past year and presents the draft Wairoa WSDP for Council's consideration.

2. NATIONAL BACKGROUND

2.1 Following the repeal of the Water Services Entities (WSE) Act 2022, via the Water Services Repeal Act 2024, the Government initiated the Local Water Done Well (LWDW) programme; a range of legislation and transitional arrangements to set about the transfer of water services and infrastructure out of the direct control of councils into separate entities dedicated exclusively to the delivery of sustainable water services.

- 2.2 One of these transitional enactments is the Local Government (Water Services Preliminary Arrangements) Act 2024 (the Act). One of the requirements of this Act is that all councils delivering water activities (Drinking Water, Wastewater and Stormwater) must submit a Water Services Delivery Plan (WSDP) to the Minister for Local Government, via the Department of Internal Affairs (DIA), by no later than one year after the Act came into force, i.e. 3 September 2024.

3. HAWKE'S BAY BACKGROUND

- 3.1 In 2019 the Hawke's Bay councils were at the forefront of the move to reorganise water services, collaborating effectively over eighteen months to produce a compelling business case for the establishment of a Hawke's Bay 3 Waters Council Controlled Organisation (CCO). Ultimately this case was received so positively by the Government that the WSE and related legislation was enacted, and Hawke's Bay was subsumed into a much larger prospective region that would have been serviced by a single WSE.
- 3.2 When LWDW was announced the Hawke's Bay councils immediately resumed their collaborative efforts and began working towards a business case to establish a regional Water Services CCO (WSCCO).
- 3.3 Previously modelling was refreshed and the assumptions used from the 2021 Infrastructure Strategies and Long-term Plans were updated with the 2024 versions in a process initially coordinated by the Regional Recovery Agency and latterly led by Napier City Council. This modelling indicated that, while all options acknowledged significant increases in costs of delivery over the next 10 years, a regional WSCCO could deliver greater economies of scale that would mitigate these impacts considerably more than other [local] options considered.
- 3.4 Consequently, all the councils consulted with their communities with this as the preferred option. In all territories the regional WSCCO option received the most favour in community submissions. This was marginal in a very small number of responses in Wairoa, but overwhelming in the other territories. Therefore, the work towards a regional WSDP continued, including presentation of an early draft to DIA for comment.
- 3.5 In May 2025 an emerging risk was highlighted that the key components of forming a new entity, being such documents as a Shareholders Agreement and a Constitution had yet to be drafted, let alone agreed upon. All four HB Councils also met with Hon. Steven Joyce, to discuss the pitfalls and opportunities of the process.
- 3.6 At this point Council engaged Castalia to examine the potential viability of a Wairoa WSCCO. Receipt of this modelling indicated that this was a viable alternative to the regional model, and Council began preparing its own draft WSDP centred around this delivery model.

4. CURRENT SITUATION FOR WAIROA

- 4.1 At the Ordinary Council Meeting of 22 July 2025, the Chief Executive presented to Council a comprehensive view of the state of play with the regional WSDP programme and the Wairoa local alternative, outlining the risks and opportunities with both. Council adjourned this item to fully consider all the information presented and a week later resolved to proceed with a WSDP based on a Wairoa WSCCO.
- 4.2 Following this decision staff continued the development of the draft Wairoa WSDP. During this period, it was observed that the modelling undertaken for the regional model

employed some arbitrary assumptions that themselves were based on previous modelling that predated WSE.

- 4.3 This presented the opportunity to write a more specific and detailed plan that emphasises a range of opportunities and recognises specific risks and challenges particular to Wairoa and how they might be addressed.
- 4.4 An initial draft plan was sent to DIA for review on 18 August 2025 and feedback was received on 22 August 2025 with a follow up discussion on 26 August 2025. The clarifications obtained in these exchanges were incorporated into an update of the plan, which was then reshaped by the Chief Executive to demonstrate clear compliance with the Act and provide greater clarity of message. This update was sent to DIA on 29 August 2025, with a follow up review discussion scheduled for 1 September 2025.

5. OPTIONS

- 5.1 Subject to DIA feedback on the updated draft plan, the options identified are:
 - a. Adopt the draft Water Service Delivery Plan
 - b. Adopt a modified plan
 - c. Seek further guidance from DIA
- 5.2 Option a: the draft WSDP meets the requirement set by legislation and demonstrates that a Wairoa WSCCO can deliver water services sustainably within the prescribed timeframe and within parameters imposed by the Local Government Funding Agency.
- 5.3 Option b: Council may wish to change the emphasis of the plan, or the rollout of the implementation, or even some of the assumptions, such as revenue. Editorial updates can be incorporated within 24 hours.
- 5.4 Option c: Although the Act does contain provisions for an extension of time, Council has been previously advised that this would have been unlikely and the statutory deadline for application has now passed. Nevertheless, the DIA WSDP team is responsive and able to provide clarity in several areas.
- 5.5 The preferred option is *a) Adopt the draft Water Service Delivery Plan*, this contributes to the following community outcomes

Cultural wellbeing	Economic wellbeing	Social Wellbeing	Environmental Wellbeing
Valued and cherished community.	Strong and prosperous economy.	Safe, supported and well-led community.	Protected and healthy environment

6. CORPORATE CONSIDERATIONS

What is the change?

- 6.1 As outlined in the draft WSDP the governance of the delivery of water services will change significantly, as will Council's balance sheet. However, a local WSCCO will mean the reliability of service to the Wairoa community will remain within the control of Wairoa.

Compliance with legislation and Council Policy

- 6.2 The adoption of a WSDP has no consequence for the Annual Plan 2025/26.
- 6.3 When the Long-term Plan (LTP) 2024-27 was written this matter was recognised as significant but was not sufficiently advanced for the implications to be considered. The recommended transition date of 1 July 2027 coincides with the beginning of the next LTP.
- 6.4 The draft plan discusses alignment with existing relevant Council policies and the likely need to develop bespoke policies in the future.
- 6.5 The draft WSDP meets the requirement of the Local Government (Water Services Preliminary Arrangements) Act 2024, specifically s8 and s13

What are the key benefits?

- 6.6 The key benefit of adopting this plan is that Council will be able to continue to set the roadmap for the future delivery of water services in Wairoa.

What is the cost?

- 6.7 The costs of preparing the plan have been absorbed in staff time. To date external costs in the order of \$25,000 have been incurred in consultancy and legal fees.
- 6.8 The cost of establishing a WSCCO, given the WSDP emphasises the benefits of leveraging off existing arrangements, is not considered significant. This will be detailed in full as part of implementation.

What is the saving?

- 6.9 Costs for delivering water services in a compliant, safe and sustainable manner have been escalating for years. The draft WSDP presents the most efficient model identified that meets the new range of requirements.

Consultation

- 6.10 As mentioned in 3.4 consultation has been undertaken with the community and community views have been reflected in Council's decision making.
- 6.11 This kaupapa is of great significance to Māori and engagement with mana whenua has been an important part of the process.
- 6.12 At this stage further consultation is not required but will likely be needed in the future as policy matters and representation are addressed.

Service delivery review

- 6.13 By its nature LWDW and its predecessor is one of the most significant service delivery reviews ever undertaken in New Zealand.
- 6.14 Future reviews will take a different form and will likely be prescribed by the Commerce Commission or similar.

Māori Standing Committee

- 6.15 The Māori Standing Committee, through the participation of the Chair has been kept informed of progress on this matter.

7. SIGNIFICANCE

- 7.1 Based on the analysis below, this matter is assessed as being of high significance.
- 7.2 This matter affects every member of the Wairoa community to varying degrees.
- 7.3 There is a high degree of public interest.
- 7.4 The transfer reduces Council's net assets by \$70 million and annual revenues by \$5 million. It releases debt headroom of about \$8 million.
- 7.5 Under current provisions this decision cannot be reversed.
- 7.6 Service levels will not change until they are reviewed by the WSCCO.
- 7.7 Water assets are strategic, and thus the transfer of ownership is highly significant.
- 7.8 This decision will change how 3 significant activities are delivered.
- 7.9 Water is as significant as anything to Māori. However, this matter concerns the management of infrastructure and delivery of services relating to people's use of water.

8. RISK MANAGEMENT

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

Health and Safety	Environmental Contamination	Statutory Obligations	Image & reputation
Extreme	Extreme	Extreme	Extreme
Loss of Service	Project Delay	Financial Loss	
Low	Low	Extreme	

Who has been consulted?

Community consultation conducted in March 2025

Further Information

Stuff, Bay Buzz, DIA website

References (to or from other Committees)**Council**

27/08/2024 LOCAL WATERS DONE WELL (UPDATE FROM THE RRA)

07/11/2024 Local Water Done Well Update

29/04/2025 Local Water Done Well - Proposed Water Services Delivery Models for Consultation

27/05/2025 Local Water Done Well - Terms of Reference Review

22/07/2025 Local Waters Done Well

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.

Sensitivity: General

Water Services Delivery Plan

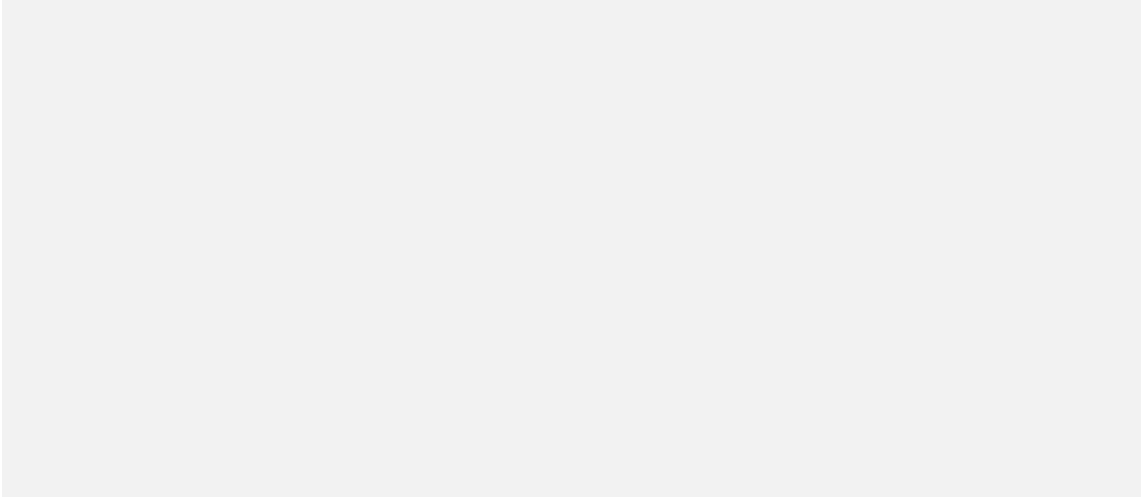
Wairoa District Council
September 2025

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Introduction

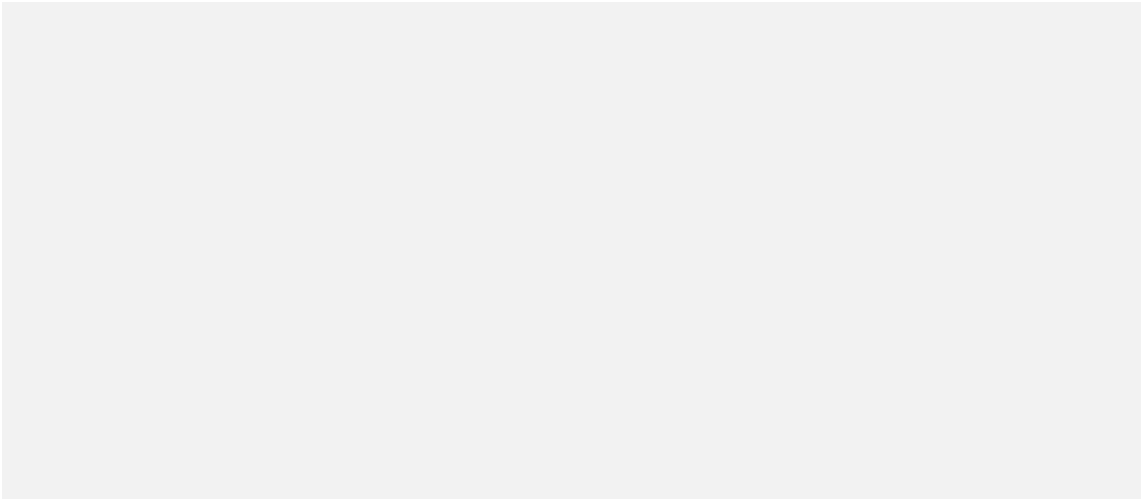
In addition to internal assurance processes, this plan has been legally reviewed against the requirements in the Act. It has been prepared using independent analysis of financial sustainability by *Castalia*.

DIA feedback was sought on a draft WSDP and that feedback has been integrated into this Final WSDP.

Council resolution to adopt the WSDP

The Water Services Delivery Plan was adopted by Wairoa District Council at the meeting of 20september 2025.

Certification of the Chief Executive of Wairoa District Council



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I certify that this Water Services Delivery Plan:

- complies with the Local Government (Water Services Preliminary Arrangements) Act 2024, and
- the information contained in the Plan is true and accurate.

Signed: Matthew Lawson
Chief Executive, Wairoa District Council
Date: 2 September 2025

Sensitivity: General

Statement that water services delivery is financially sustainable

Financially sustainable water services provision

Background

This Water Services Delivery Plan (WSDP) sets out the plan for the delivery of water services in Wairoa District following Wairoa District Council’s decision to proceed with a standalone Wairoa based Council -controlled organisation.

Wairoa District Council had been party to the extensive investigation of a regional services delivery plan involving regional CCO encompassing Wairoa District, Napier City Council, Hastings District Council and Central Hawke’s Bay District Council. The investigation of the regional option progress to the point where a joint draft WSDP appeared and submitted to the Department of Internal Affairs for preliminary comment.

However, attempts to reach a finalised shareholders agreement detailing issues that were fundamental to Wairoa District Council led to WDC developing a “Plan B” involving the development of a standalone, Wairoa based CCO. *Castalia* was engaged to model the standalone option. That modelling resulted in the conclusion by Castalia that:

WaterCO will need to meet the financial requirements set out by the Local Government Funding Agency (LGFA) to borrow from LGFA for its capital programme. We modelled tariffs to ensure compliance with LGF’s financial covenants, including a Funds From Operations FFO -to-Gross Debt ratio averaging 12.5% from 2029 (above the 12% minimum), and an FFO-to-Cash Interest ratio averaging 2.1 (exceeding the 2.0 requirement). These outcomes reflect financial headroom and indicate that WaterCo can be creditworthy and financially sustainable

The issues that were of fundamental importance to Council and which it wanted addressed in a shareholders’ agreement were:

1. Voting rights in the new company structure. WDC was of the view that the Regional Water CCO involved four Councils of equal legal standing, all with the same imperative of making decisions for and on behalf of its community.¹ In the absence of agreed “reserved matters” on which unanimous, or at the very least special resolution type voting requirements were mandated, the ‘simple majority Vote” approach had the potential to impinge on any Council’s ability to make decisions in the best interests of its community. Agreement was not reached as to what matters should be reserved for special resolution.
2. While there was agreement that it “made sense” for a depot to be maintained in Wairoa, there was no commitment as to what that depot would entail. The potential for major centralisation of services and support was of concern to WDC given its potential isolation in severe weather events arising from the, at times tenuous, roading links. In 2023 Cyclone Gabrielle closed all roading links from Gisborne to Wairoa for a week, with SH2

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to the south (i.e. to any potential resources in a HB CCO) being impassable for 13 weeks. Given that weather events that close state highways are likely to impact water services, maintaining comprehensive services capable of reinstating and operating water services in periods of isolation was a fundamental issue for Wairoa District Council.

3. The ability to maintain some flexibility and Local autonomy in negotiating water supply agreements with key users. The Affco Freezing works is the major employer in Wairoa and has a high water consumption. Affco has been a strategic partner in the development of the Wairoa reticulated water supply, contributing capital toward infrastructure development. Wairoa District Council wanted some autonomy/discretion to be retained by individual councils to pursue key strategic relationships.

Agreement on these fundamental issues could not be reached.

The existence of a viable option for a Wairoa based CCO and the absence of a shareholders agreement addressing the fundamental concerns held by WDC lie at the heart of the WDC decision to pursue a standalone CCO. This also reflects the reality that, in the absence of agreed harmonisation and/or cross subsidisation between Councils participating in a regional model, the reality is that Wairoa water service users were paying the full cost of those services. The WWSCCO allows those services to be delivered in a more cost-effective way.

A further major consideration is that the Wairoa township water treatment process involves a river take with chemical flocculation to remove silt and contaminants before chlorination. This water treatment process is not replicated in any of the Napier, Hastings or Central Hawke's Bay water supplies (which are predominantly artesian water supplies with limited use of springs), limiting the potential for efficiencies or economies of scale. In contrast, Gisborne District Council has the same type of river take, utilises the same water treatment processes and has a water treatment plant that replicates the equipment utilised by WDC. A co-operation arrangement already exists with Gisborne District Council at an operational level, with combined purchasing/direct importing of flocculating agents and chemicals required for the respective treatment plants in each District. Staff from each council already provide operational and management back-up to each other as required.

It is the intention to formalise these arrangements in a High-Level Heads of Agreement with Gisborne District Council

Similarly, the wastewater treatment processes operated Wairoa are completely different to those operated by Napier, Hastings and Central Hawke's Bay but the potential exists to work with other council's operating similar wastewater plants to achieve efficiencies and economies of scale through targeted cooperation.

Being stand alone and small focuses attention on Wairoa's operations, but also provides an opportunity for Council to be flexible and nimble in pursuing future opportunities for cooperation, sharing of information and expertise, and the development of economies of scale with Water Operations undertaking similar operations (such as Gisborne District Council) and/or with other entities that are not necessarily geographically adjacent. As noted in the analysis undertaken by *Costalila*:

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Strategic benefits and flexibility

Setting up WaterCo as a financially sustainable, standalone CCO gives WDC more flexibility and more control over how it delivers water services in the future. Specifically:

- WaterCo’s structure allows for future integration into a regional water entity, should an agreement with other councils be reached. This could be with Hawkes Bay councils, but it also gives WDC options to work with other councils such as Gisborne or Whakatane
- WDC could contract out day-to-day operations to a specialist service provider, while retaining strategic oversight via the WaterCo board.

Section 13 of the Local Government (Water Services Preliminary Arrangements) Act 2024

Section 13 of the Local Government (Water Services Preliminary Arrangements) Act 2024 sets out the information that must be included in a water services delivery plan. Those matters are:

Provision	Requirement	Location in this Plan
Section 13(1) _	A territorial authority’s water services delivery plan must contain the following information in relation to the water services delivered in the authority’s district:	
(a)	a description of the current state of the water services network;	Page 10 and Part B page 22 et seq
(b)	a description of the current levels of service relating to water services provided;	Page 10 and Part B page 22 et seq
(c)	a description of— (i) the areas in the district that receive water services (including a description of any areas in the district that do not receive water services); and (ii) the water services infrastructure associated with providing for population growth and development capacity;	Page 10 and Part B page 22 et seq
(d)	whether and to what extent water services— (i) comply with current regulatory requirements: (ii) will comply with any anticipated future regulatory requirements	Part B at Page 22 et seq
(e)	if any water services do not comply with current regulatory requirements or will not comply with any anticipated future regulatory requirements,— (i) a description of the non-compliance; and (ii) a description of how the	Part B at Page 22 et seq

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	anticipated or proposed model or arrangements provided under paragraph (k) will assist to ensure water services will comply:	
(f)	details of the capital and operational expenditure required— (i) to deliver the water services; and (ii) to ensure that water services comply with regulatory requirements:	Part B Page 28 et seq
(g)	financial projections for delivering water services over the period covered by the plan, including— (i) the operating costs and revenue required to deliver water services; and (ii) projected capital expenditure on water services infrastructure; and (iii) projected borrowing to deliver water services:	Part C page 32 et seq
(h)	an assessment of the current condition, lifespan, and value of the water services networks:	Part B page 22 et seq
(i)	a description of the asset management approach being used, including capital, maintenance, and operational programmes for delivering water services:	Part B page 25-28
(j)	a description of any issues, constraints, and risks that impact on delivering water services:	Page 11 and Part C page 45-47
(k)	the anticipated or proposed model or arrangements for delivering water services (including whether the territorial authority is likely to enter into a joint arrangement under section 10 or will continue to deliver water services in its district alone):	Page 14 and Part B page 25
(l)	an explanation of how the revenue from, and delivery of, water services will be separated from the territorial authority's other functions and activities:	Page 15 - 16 and Part C at page 35 et seq
(m)	a summary of any consultation undertaken as part of developing the information required to be included in the plan under paragraph (k):	Page 19
(n)	an explanation of what the territorial authority proposes to do to ensure that the delivery of water services will be financially sustainable by 30 June 2028:	Part C at page Xx and Part D at page XX
(o)	an implementation plan— (i) for delivering the proposed model or arrangements described under paragraph (k); and (ii) if a territorial authority is proposing to deliver water services itself and not as part of a	Part A Page XX

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(p)		any other information prescribed in rules made by the Secretary under section 16	N/A
(2)(a)		For the purposes of subsection (1)(o), an implementation plan must include the following:	
(a)		a process for delivering the proposed model or arrangements:	Part A
(b)		a commitment to give effect to the proposed model or arrangements once the plan is accepted:	Part A
(c)		the name of each territorial authority that commits to delivering the proposed model or arrangements:	Part A
(d)		the time frames and milestones for delivering the proposed model or arrangements	Part A

Water services delivered in Wairoa District

The water services currently provided by WDC are detailed in the three aerial photos attached. Water supply is depicted by blue lines, stormwater in green and wastewater depicted by red lines.

The services reflect the low density patterns of settlement with water supply, wastewater and stormwater services being available in Wairoa township and Tuai, a non-potable water supply being provided in Mahanga, and wastewater schemes being provided in the settlements of Opoutama and Mahia Beach. As can be seen from the aerial photographs, the areas serviced are quite limited with the vast majority of the district not receiving water services and therefore relying on on-site provision being made using systems such as septic tanks/on-site wastewater disposal, and collection and storage of rainwater.

Historically, there has been limited population growth in Wairoa district and with the exception of wastewater at Mahia Beach, foreseeable population growth and development capacity can be accommodated within existing infrastructure. At Mahia Beach there is a planned extension to the land based effluent disposal fields to accommodate development pressure at this seaside settlement.

As detailed below, opportunities exist for cooperation and coordination with other water service authorities however due to the limited nature and isolation of Wairoa District's water services, it is likely that Wairoa District Council will continue to deliver water services in its district alone.

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Issues, Constraints or risks

Regarding water supply, the issues, constraints and risks arise from aging reticulation leading to water loss, compliance uplifts in Tuai and Mahanga and incorporating resilience into the infrastructure to provide for resilient communications between plants and pump stations in extreme weather events such as cyclone Gabrielle. These issues are addressed by leakage management and the ongoing programmed maintenance and renewal of water mains and reservoirs. Compliance uplifts will be achieved by introducing chlorination/ UV treatment of the Tuai water supply (currently under consultation and planning) and further assessment of the sustainability of providing a non-potable water supply at Mahanga.

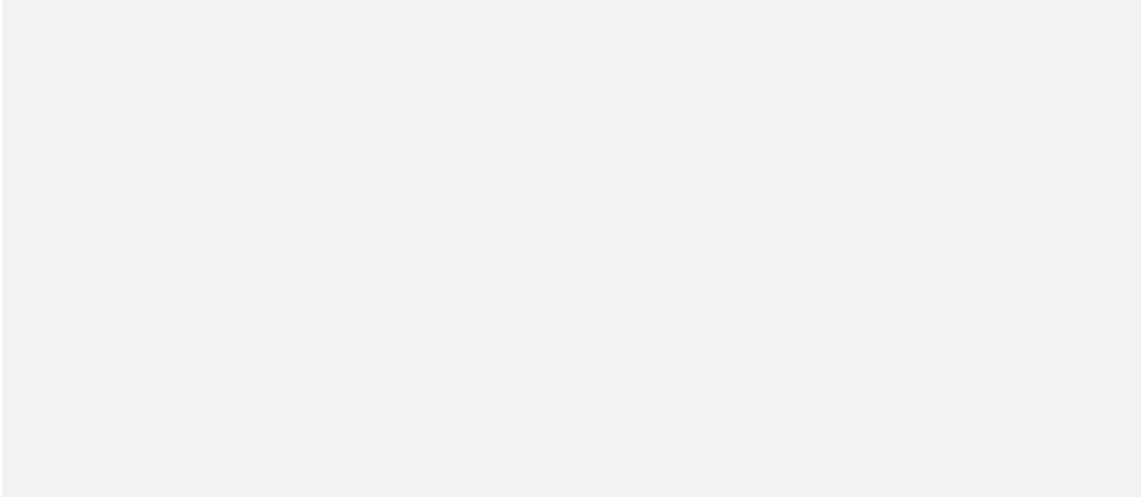
For wastewater, the issues, constraints and risks are infiltration and ingress into the Wairoa reticulated system leading to surcharging during wet weather conditions. These are addressed through programmed network renewals and targeted pump station capacity upgrades. Like water supply, establishing resilient communication links to ensure continued operation in extreme weather events is ongoing.

Stormwater issues, constraints and risks are focused on the application for global consents for the discharge of stormwater from the Wairoa township drainage reticulation. This is not seen as a significant issue except in locations where septic tanks remain in use and where making provision for climate change requires capacity upgrades. Minor matters such as inclusion of litter traps and interceptors before final discharge to the river will be incorporated as part of ongoing maintenance. Removal of septic tanks within Wairoa Township where reticulated services are available is ongoing.

All these issues, constraints and risks would be considered relatively normal, business as usual activities for any authority undertaking water services.

Financial Sustainability

The assessment of Financial Sustainability of the WWSCCO has been undertaken on the basis that all water services are provided by the WWSCCO on a standalone basis without subsidisation from general rates revenue. Upon establishment of the CCO, Wairoa District Council would transfer water assets with a replacement value of \$216,832,878 (valuation 31 March 2025) and immediately embark on an investment programme that will replace, improve and extend these assets to the equivalent of 1/3 of this total asset value in a period (10 years). Borrowing by WDC will be required, which borrowing will be on-lent to the WWSCCO to meet the capital costs of this infrastructure investment programme. This investment is required irrespective of the options available for water service delivery. Importantly, there is no double charging. Every dollar charged for water services by the WWSCCO will be a dollar not charged for current or prospective water related rates.



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Despite the challenges arising from the financing of improved water services, the analysis in parts C and D demonstrate that the WWSCCO will be able to deliver water services in a financially sustainable manner, with all prescribed metrics being achieved by 2028.

As ever, this will be achieved by prudent financial management, sound policy and equitable decision making. In pursuing the option of a WWSCCO, Council has the precedent of its very successful CCTO, Quality Roading Solutions (Wairoa) Ltd (QRS) to demonstrate the advantages of tailored strategic governance and management to establish successful and profitable business units. While the WWSCCO may not have the same profit imperatives, sound, commercially savvy governance and management will promote efficiencies and cost savings.

Modelling undertaken to support this plan promotes the WWSCCO becoming financially self-reliant with council involvement being injections of working capital (via borrowing) as required and provision of management and administrative support via shared service arrangements between council, QRS and the new WWSCCO. This will leave sufficient capacity across the group to manage risk and improve procurement outcomes. It also provides opportunities for efficiencies and synergies which have not been apparent in other options.

These canons have sustained the delivery of water services by Council over the years and means that the following provisions can be made to ensure continuing sustainability:

- i. Council has significant debt headroom that can be made available to support the investment programme, particularly as these activities were driving 80% of the debt loading included in the council's long-term plan. The investment programme will be substantially funded by new borrowings, and the use of Council's debt headroom will assist with treasury planning and efficiency, whilst managing interest rate risk. In our modelling Council only provides working capital of \$3 million to support a business that commences operations from a zero base. This is repaid after year 5.
- ii. A shared service model will provide a lean operation with low operating costs, with functions provided for the WWSCCO and charged via a managed service fee and partitioned access to Council systems and facilities. As a result, the only additional costs relate to the Board of Directors and new compliance and monitoring costs. The WWSCCO will operate from a far lower cost base and reduce the \$1 million annual allocation of 'stranded' overheads identified as part of the regional model. Shared service arrangements are currently being implemented in arrangements between QRS and WDC covering basic administrative services, financial reporting, health and safety, traffic management, HR and Payroll. These moves minimise overhead costs, maximise coverage and backup, and promote the pursuit of excellence while maintaining the benefits of separate financial accountability and focused operations.
- iii. The quantum of the capital investment over 10 years means that the average remaining useful lives of the assets will increase significantly. In combination with a commitment to continuing investment sufficiency this justifies a significant reduction in the annual

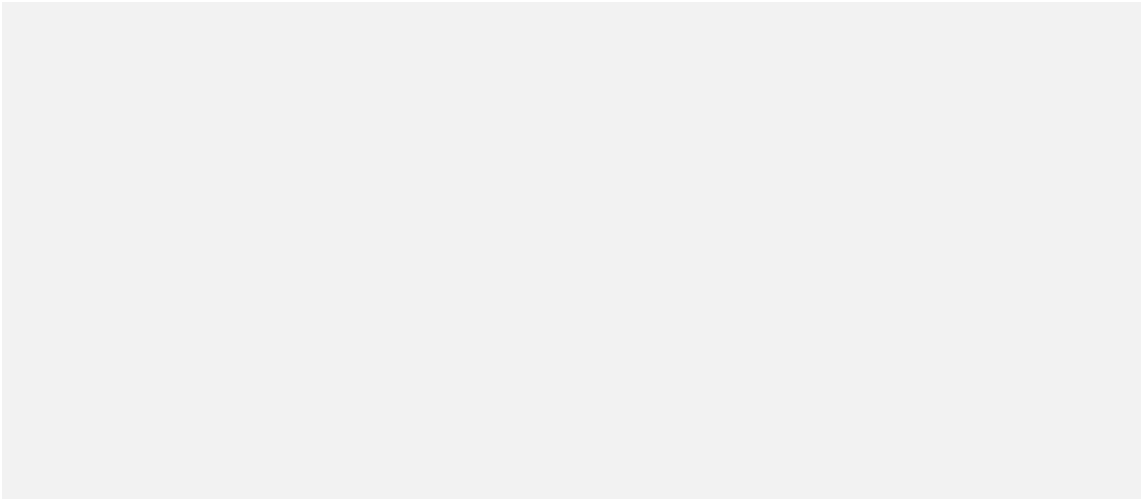
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depreciation charge, at least in the first 10 years, which will still be covered in full in the tariffs and thus reducing the borrowing requirement. Further, the term of borrowing in this period is set to 10 years, which ensures the regeneration of headroom to support further investment and maintains adherence to financing sufficiency thresholds. In this scenario resetting and spreading depreciation over a longer period reduces the perception of double charging and maintains a level of intergenerational equity.

In the financial modelling all revenue is charged to connected customers on volumetric or fixed charge bases. Since 2021, Council's Revenue and Financing Policy has allowed for a contribution from the whole community via the general rate. This has not been applied in our modelling but remains an option to reflect the environmental and societal benefits to the wider community of having settlements that are provided with water services. This plan seeks to present the base financial information in the most transparent way possible, and in a way that highlights the true cost of provision. This reflects the fact that, notwithstanding the mitigations and opportunities discussed above, significant investment is required to meet safety, quality and environmental standards and this means significant increases in revenue requirements under any model. The impact of this tariff is shown in the table below alongside expected revenue as set out in the Funding Impact Statements contained in Wairoa District Councils Annual Plan 2025/26. (note: figures in this table do not include any capital contributions).

	Annual Plan 2025/26	Tariff Revenue (2025/26)	Tariff Revenue (2033/34)
Drinking Water	\$3,101,000	\$3,110,000	\$4,343,000
Stormwater	\$911,000	\$1,470,000	\$2,385,000
Wastewater	\$3,472,000	\$5,319,000	\$8,474,000
Total Revenue	\$7,484,000	\$9,899,000	\$15,202,000

As a CCO, WWSCO would have the ability to leverage favourable borrowing terms via its relationship with Council and the Local Government Funding Agency. As 100% shareholder in the proposed entity Wairoa District Council would retain overall responsibility for ensuring repayment of debt, as guarantor, and the WWSCO would be accountable to the Council for continuity of supply of water services to the community of Wairoa.



Sensitivity: General

Part A: Statement of financial sustainability, delivery model, implementation plan and assurance
Proposed delivery model

Sensitivity: General

Proposed model to deliver financially sustainable water services

The proposed model to deliver water services

Wairoa District Council has had a successful experience with a Council Controlled Organisation in Quality Roading Services (Wairoa) Ltd (QRS) and this model will be used to develop a Wairoa Water Services Company with responsibility for delivering Drinking Water, Stormwater and Wastewater services to the residents of the Wairoa District Council boundaries. The proposed CCO has been given a working title of WWSCCO.

WWSCCO would be set up as a company which would be 100% owned by Wairoa District Council (as is QRS) but with governance being provided by three directors with relevant experience in waters service delivery/ engineering, financial/business acumen (possibly in common with QRS) with the third director being representative of community.

Directors may be engaged in partnership with other water service entities anywhere in the country, achieving synergies and economy.

As already noted, existing Drinking Water, Stormwater and Wastewater assets held by Wairoa District Council will be transferred to the new company along with staff currently dedicated to these services from within the council's infrastructure group. Engineering oversight of water services will be provided by the WDC General Manager Assets & Infrastructure via shared service/job splitting arrangements with protocols to ensure that all management of water services is under the governance and direction of the WWSCCO board, ensuring that prerogative of bringing specific expertise and skill to the directorship of water entities is achieved. It also ensures that water services are not burdened by overheads, that stranded overheads are minimised and that any synergies with other non-water related functions of WDC are exploited. Currently the water activities are charged a share of the Council overhead based in large part on asset value and total expenditure, which are second only to roading. In our WSCCO model we have estimated a management fee on a consumption basis, which will be considerably lower because it is removed from the complexity of the council structure.

Notwithstanding the use of shared service arrangements, the WWSCCO will operate as an independent, standalone company in the same way as QRS has for many years. The revenues from water services will be revenues of the WWSCCO. Full financial accounts will be maintained ensuring that revenues from water services will be separated from council's other functions. The successful operation of QRS since June 1994 demonstrates Wairoa district councils experience and expertise in this regard.

Any additional staff would be recruited as required thus creating employment opportunities within the district.

It is expected that all service and maintenance contracts and subcontracts currently held by Wairoa District Council for water services will be transferred to this new entity and the financial analysis has been prepared on this basis.

Implementation Plan

Implementing the proposed service delivery model

Sensitivity: General

The Water Services Delivery Plan outlined in this plan only applies to current and future services which fall within the boundaries of Wairoa District Council. This Water Services Delivery Plan will be implemented through the setting up of a new company (current working title is WWSCCO), this company would be 100% owned by Wairoa District Council making it a Council Controlled Organisation. Establishment costs will be paid by Council, as owner, and are expected to be a maximum of \$100,000. Water services related assets (Drinking Water, Stormwater and Wastewater) currently held by Council would be transferred to this company along with currently held Water Services Related Debt. The new entity will be initially staffed by transferring WDC Water Services Staff, shared services agreements between Council, QRS and the new WWSCCO will be developed to provide administrative functions (finance, human resources, payroll services etc) in a similar way as these functions are currently performed by WDC and QRS teams and shared service arrangements. Options for the housing of staff for this new entity will need to be agreed upon with initial investigations suggesting either utilisation of available space in the current Council Infrastructure Building or space in the newly developed QRS offices and depot, thereby minimising overhead costs and stranded overheads. The changes in structure will be incorporated into the Wairoa District Councils Long Term Plan 2027-37, avoiding the need for and cost of additional special consultative procedures. The proposed implementation plan is set out below.
IMPLEMENTATION PLAN Wairoa Water Services CCO - Draft Purpose This plan outlines the activities, responsibilities, and timelines for transitioning Wairoa District Council's drinking water, wastewater, and stormwater services into a Council-Controlled Organisation (CCO). It ensures a structured, legally compliant, and well-communicated process that maintains service continuity. Objectives • Ensure a smooth transfer of assets, staff, and functions. • Maintain full compliance with Taumata Arowai and other regulators during the transition. • Protect service continuity for the community. • Provide timely, transparent communication to stakeholders. • Minimise operational and reputational risk. Scope

Sensitivity: General

<u>In Scope:</u> • Transfer of operational responsibilities for water, wastewater, stormwater. • Transfer of asset and infrastructure ownership. • Staff transfer (Employment Relations Act 2000 compliance). • Integration of WWSCCO into newly established shared service arrangements. • Contract novation (e.g., Fulton Hogan, QRS, laboratory services). • Governance structure establishment (board recruitment, constitution, SOI). <u>Out of Scope:</u> • Changes to other council services (e.g., roading, solid waste). • Changes to private water suppliers. <u>Transition Steering Group</u> • A Transition Steering group will be set up to oversee this project with the project led by an experienced project manager. Steering group members will be determined by the CEO of Wairoa District Council.															
Timeline <table><tr><th>Step</th><th>By When</th></tr><tr><td>CCO Established</td><td>July 2026</td></tr><tr><td>CCO Office Location identified</td><td>November 2026</td></tr><tr><td>Staff Transfer</td><td>March 2027 (dependent upon HR Change Management Processes)</td></tr><tr><td>Service and Maintenance Contract Transfer,</td><td>Begins March 2027 – may need a notice period</td></tr><tr><td>Debt and Asset Transfer</td><td>1 July 2027 (start of financial year)</td></tr><tr><td>Service and Maintenance Contract Transfer</td><td>1 July 2027 – to avoid a LTP amendment</td></tr></table>		Step	By When	CCO Established	July 2026	CCO Office Location identified	November 2026	Staff Transfer	March 2027 (dependent upon HR Change Management Processes)	Service and Maintenance Contract Transfer,	Begins March 2027 – may need a notice period	Debt and Asset Transfer	1 July 2027 (start of financial year)	Service and Maintenance Contract Transfer	1 July 2027 – to avoid a LTP amendment
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Sensitivity: General

Identified Dependencies	
Dependencies	Control
Governance Members required for new WWSCCO	3 board members covering 3 water expertise/experience, finance/business experience and Māori /community representation
CCO housing	The housing of the proposed WWSCCO at either WDC or QRS facilities will be undertaken so as to reduce establishment costs.
Asset Management Systems and other Information Technology requirements	The WWSCCO will use the existing and operational asset management and IT systems operated by Council. Future development of asset management and IT systems will be under the governance of the WWSCCO Board.
Transfer of Staff from Council to WWSCCO	Human Resources Change Management Process will be required as this change involves the transferring of current council staff. The legislation provides for the seamless transfer of staff.
Debt and Asset Transfer	Assets and debt related to those assets will be transferred to the WWSCCO. Future borrowing will be accommodated within WDC existing debt headroom. Impacts on Council's financial framework for future years will need to be incorporated into the LTP 2027-37.
Service and Maintenance Contract Transfer	Current Service contracts have been extended out to 30 September 2027. With 1 July 2027 proposed as the establishment date of the new entity, service contracts will need to be established before this date.
Wairoa District Council Long Term Plan 2024-27	The current Long-Term Plan expires 30 June 2027. A change of this nature would trigger a Long-Term Plan amendment process, to avoid this an establishment date of 1 July 2027 is proposed.

Sensitivity: General

Consultation and engagement

Consultation and engagement
Consultation and engagement undertaken Wairoa District Council (WDC) opened a consultation period from 12 May to 15 June 2025 to engage with the Wairoa community on the options before us for how we deliver our water services for the future. Three options were presented – a Regional CCO (preferred choice), a Wairoa District Council CCO, and an in-house delivery option. A series of community meetings and drop-in sessions with staff and elected members were held at various locations across the district. Meeting notices were published on Council’s website, Facebook page and in the weekly publication of the local newspaper (Wairoa Star). A total of 12 submissions were received. Six submissions favoured a regional CCO, four favoured a Wairoa District Council CCO and two submissions appeared to favour both the regional CCO and WDC CCO options. Hearings and deliberations were held 24 June 2025. One submitter spoke to their submission, and another was to attend but delivered a written statement instead.

Sensitivity: General

Assurance and adoption of the Plan

Assurance and adoption of the Plan
As evidenced by the success of QRS over the past 30 years, Wairoa District Council is well experienced in utilising a Council Controlled Organisation to maximum advantage. Over this time the organisation has grown into one of the region's largest employers and consistently returns dividends to Council. There is an opportunity to leverage off this success and build a successful water supply service for the people of the Wairoa District.
The establishment of a Water Services Council Controlled Organisation will potentially provide another employer in Wairoa, a district lacking in employment opportunities and will also help to ensure the resilience of water services to our region. Given the isolated nature of the district, it is important we maintain the skills and knowledge to maintain a safe and secure water supply to our people.
Modelling of the potential success of a Wairoa District Council Water Services CCO has been undertaken by an external agency Castalia Advisors which supports Councils view to establish a Local Water Services company.
Council resolution to adopt the Plan
2 September 2025

Sensitivity: General

Part B: Network performance

Investment to meet levels of service, regulatory standards and growth needs

Investment required in water services												
Served population												
Projected served population- Waitoa District	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34		
Served population	6,024	6,114	6,206	6,299	6,394	6,490	6,587	6,686	6,786	6,888		
Residential connections	2,310	2,311	2,312	2,313	2,314	2,315	2,316	2,317	2,318	2,319		
Non-residential connections	397	397	397	397	397	397	397	397	397	397		

Sensitivity: General

Serviced areas			
The water services currently provided by WDC are detailed in the three aerial photos attached with drinking water depicted by blue lines, stormwater in green and wastewater depicted by red lines.			
Serviced areas (by reticulated network)	Water supply # schemes	Wastewater #schemes	Stormwater # catchments
Residential areas serviced	Wairoa: 1,748 Tuai: 59 Mahanga: 40	Wairoa: 1,630 Tuai: 60 Opoutama: 50 Mahia: 440	Wairoa: 1,600 Tuai 60
Non-residential areas	397	Not specified as residential and non-residential	Not specified as residential and non-residential
Areas that do not receive water services	As can be seen in the aerial photos, the vast majority of Wairoa District does not receive water services		
Proposed growth areas		Mahia - plan to expand the wastewater irrigation fields.	Mahia – limited stormwater network is a series of open drains with a small amount of pipework.
- Planned (as identified in district plan) - Infrastructure enabled (as identified and funded in LTP)			
Assessment of the current condition and lifespan of the water services network			
Parameters- Wairoa Township	Drinking Water Supply - Wairoa	Wastewater Services - Wairoa	Stormwater Services - Wairoa
Average age of Network Assets	70 years	65 years	60 years
Critical Assets			
Above ground assets - Treatment plant/s - Percentage or number of above ground assets with a condition rating - Percentage of above –ground assets in poor or very poor condition	1 Treatment plant situated at Frasertown involving chemical flocculation and chlorination Storage includes Boundary Reservoirs 3,000 m³, Tawhara Reservoirs 5,780 m³, Frasertown 13 m³, Tuai 3x13 m³, Mahanga 13 m³. Nuhaka Domain 25000L	Wairoa treatment plant at Kopu Road Wairoa involving one oxidation pond and one facultative pond with river/estuary discharge N/A N/A – Kopu Road PS poor condition	0 N/A N/A

Sensitivity: General

Below ground assets	95.5km 100%	36.9km 100%	41.86km 100%
• Total Km of reticulation			
• Percentage of network with condition grading	45%	20%	53%
• Percentage of network in poor or very poor condition			
Parameters - Tuai	Drinking supply - Tuai	Wastewater - Tuai	
Average age of Network Assets	55 years	47 years	
Critical Assets			
Above ground assets			
• Treatment plant/s	1	1	
• Percentage or number of above ground assets with a condition rating	N/A	N/A	
• Percentage of above –ground assets in poor or very poor condition	N/A	N/A	
Below ground assets			
• Total Km of reticulation	10km	4.5km	
• Percentage of network with condition grading	100%	100%	
• Percentage of network in poor or very poor condition	40%	80%	
Parameters - Mahanga	Drinking supply - Mahanga		
Average age of Network Assets	47 years		
Critical Assets			
Above ground assets			
• Treatment plant/s	1		
• Percentage or number of above ground assets with a condition rating	N/A		
• Percentage of above –ground assets in poor or very poor condition	1 Reservoir very poor condition. This is currently a non-potable water supply, the continuation of which will be reviewed.		
Below ground assets			
• Total Km of reticulation	2.0km		
• Percentage of network with condition grading	100%		
• Percentage of network in poor or very poor condition	50%		

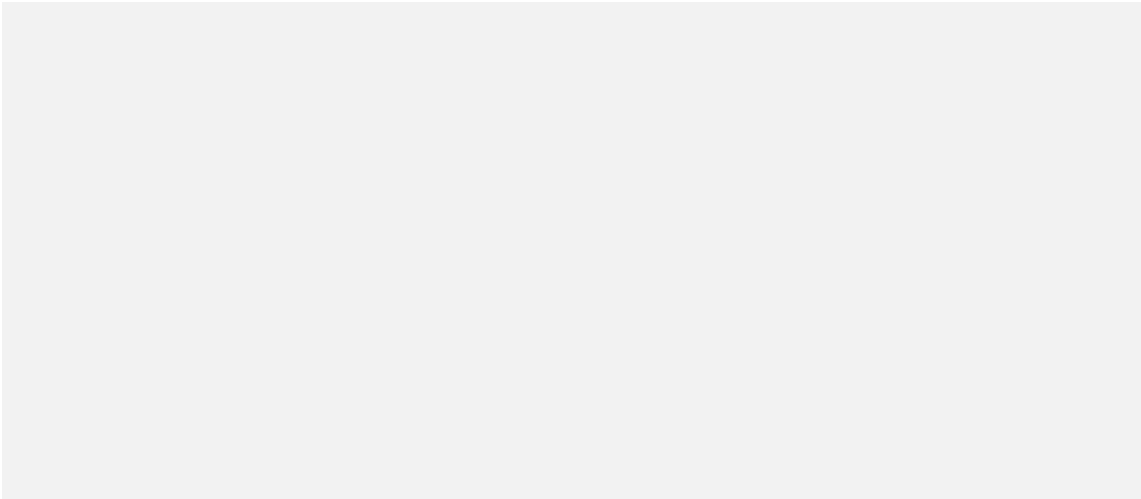
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Sensitivity: General

Parameters - WDC		Wastewater - Mahia	
Average age of Network Assets		10 years	
Critical Assets			
Above ground assets		1	
• Treatment plant/s		N/A	
• Percentage of number of above ground assets with a condition rating		N/A	
• Percentage of above –ground assets in poor or very poor condition			
Below ground assets		11.3km	
• Total km of reticulation		100%	
• Percentage of network with condition grading		0%	
• Percentage of network in poor or very poor condition			
Parameters - WDC		Wastewater – Opoutama	
Average age of Network Assets		15 years	
Critical Assets			
Above ground assets		1	
• Treatment plant/s		N/A	
• Percentage of number of above ground assets with a condition rating		N/A	
• Percentage of above –ground assets in poor or very poor condition			
Below ground assets		5.0km	
• Total km of reticulation		100%	
• Percentage of network with condition grading		0%	
• Percentage of network in poor or very poor condition			

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Sensitivity: General	
Asset management approach	Wairoa District Council undertook an Asset Management Maturity review in 2023. This review found that all areas of asset management have progressed into either the Developing or Competent levels of maturity. These results provide a level of assurance that the assets being transferred from council to WWSCCO are of acceptable quality and which are not in need of immediate replacement which in turn would allow for sufficient borrowing against those assets. Systems and Standards Wairoa District Council currently use an asset management system called Univerus (formerly AssetFinda). It is proposed that the new entity continue using this system. Any change in asset management system would be the prerogative of the WWSCCO Board. Current and Proposed Service Delivery Model – 3 Waters Maintenance Wairoa District Council currently contracts Fulton Hogan to deliver 3 Waters network maintenance services, including mechanical, civil, and electrical components. Operation of the Water Treatment and Wastewater Treatment Plants remains an in-house function, with maintenance services provided by Fulton Hogan and technical support for wastewater from external specialists. Network maintenance services contracts and existing asset management contracts currently in place will be transferred to the new CCO. Given the predominance of stormwater services being located in road reserves, management of Councils current Stormwater Assets will continue to be managed jointly by the WWSCCO waters team and the WDC Transport services teams. This allows the coordination of stormwater works with planned roading work and/or for the minimisation of disruption to the roading network arising for stormwater infrastructure.



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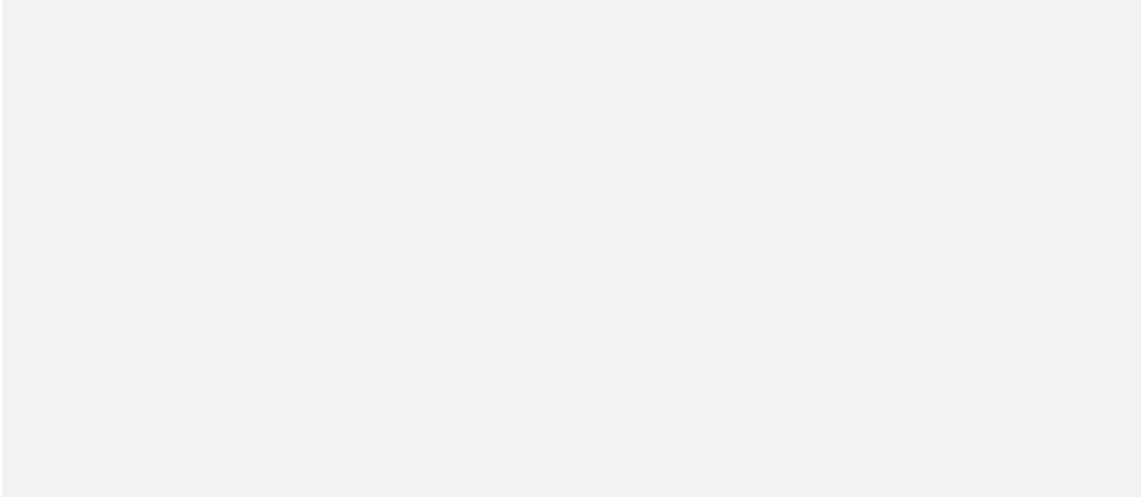
Sensitivity: General

Statement of regulatory compliance

Sensitivity: General

Parameters - WDC	Drinking supply schemes	Wastewater schemes	Stormwater Schemes/catchments
Drinking water supply - Bacterial compliance (E. coli) - Protozoa compliance - Chemical compliance - Boiling water notices in place - Fluoridation - Average consumption of drinking water - Water restrictions in place (last 3 years) - Firefighting sufficient	The Wairoa, Frasertown and Tuai drinking water supplies currently meet the <u>Drinking water Standards – Part 4 bacterial compliance criteria</u>. The Wairoa and Frasertown networks also meet the <u>part 5 protozoal compliance criteria</u>. We currently have 2 boil water notices in place at Tuai and Mahanga. The tuai Boiled water notice arises from the absence of any chlorination or other treatment of the supply. The Mahanga water supply is a non-potable supply. No, the Wairoa Water Supply is not currently fluoridated Drinking water consumption rates in Wairoa average 431.67 litres per person per day over the past 3 years (355 in 2021/22, 405 in 2022/23 and 535 in 2023/24). Mahanga water usage has been restricted over summer. Wairoa restrictions when river NTUs are up or when the wastewater system starts being overwhelmed (don't rush to flush notices etc) Yes, the firefighting water supply capacity remains sufficient to respond to emergency events.	n/a	n/a
Resource Management - Significant consents (note if consent is expired and operating on S124) - Expire in the next 10 years - Non-compliance: - Significant risk non-compliance - Moderate risk non-compliance - Low risk non-compliance - Active resource consent applications - Compliance actions (last 24 months): - Warning - Abatement notice - Infringement notice - Enforcement order - Convictions	Tuai and Mahanga consents have expired. HBRC have granted a two-year extension so engagement with iwi can commence 2 0 0 0 2 0 0 0 0 0 0	Tuai (AUTH-107267-02), Opoutama (AUTH-118685-03), Wairoa (AUTH-123608-02) and Mahia (AUTH-118701-04). Network 0 2 0 1 (Wairoa) 1 (Opoutama) 0 0 0 0 0 0	Wairoa District Council currently has no stormwater resource consent in place. N/A N/A N/A N/A N/A N/A N/A N/A N/A N/A

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Sensitivity: General

Capital expenditure required to deliver water services and ensure that water services comply with regulatory requirements

The table below outlines the proposed capital expenditure over the next ten years to sustain current service levels across the three waters services in the Wairoa District. These projections are based on the asset review conducted in 2023.

Investment in drinking water services is exclusively allocated to the replacement of existing assets, as anticipated growth in the Wairoa District remains within the capacity of the current infrastructure. An average annual expenditure of approximately \$2 million is forecasted for drinking water infrastructure.

For wastewater services, an average of \$4.6 million per year is proposed to support necessary upgrades to existing systems. A significant increase in expenditure—estimated at \$10.4 million—is projected for the 2031/32 financial year, driven by the need to replace assets reaching the end of their operational life.

Stormwater investment is primarily focused on enhancing service levels, with funding allocated to meet increased demand and asset renewal requirements over the next decade. The average annual investment proposed for stormwater improvements across the Wairoa District is approximately \$1.4 million.

In total, the projected capital investment across all water services over the ten-year period amounts to \$83,838,279. Of this, 26% is designated for maintaining drinking water assets, 57% for upgrading the wastewater network, and 17% for stormwater enhancements. These figures reflect the necessary upgrades and replacements required to maintain existing service levels.

Capital expenditure is a key area where a dedicated water services Council-Controlled Organisation (CCO) is expected to focus efforts and deliver efficiencies.

Sensitivity: General

Projected investment in water services	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Drinking Water										
Capital expenditure - to meet additional demand	0	498	509	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	273	0	0	0	0	0	0	0	0	0
Capital expenditure - to replace existing assets	5,326	2,917	2,742	1,630	1,776	1,347	1,138	840	1,002	1,159
Total projected investment for drinking water	5,599	3,415	3,251	1,630	1,776	1,347	1,138	840	1,002	1,159
Wastewater										
Capital expenditure - to meet additional demand	0	498	509	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	1,850	83	0	0	0	0	0	0	0	0
Capital expenditure - to replace existing assets	1,060	5,054	3,779	2,950	3,914	3,553	3,483	8,611	2,445	3,885
Total projected investment for wastewater	2,910	5,635	4,288	2,950	3,914	3,553	3,483	8,611	2,445	3,885
Stormwater										
Capital expenditure - to meet additional demand	0	498	509	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	1,411	1,257	1,291	10	10	10	10	10	0	0
Capital expenditure - to replace existing assets	65	470	482	1,067	960	1,385	1,415	962	982	1,000
Total projected investment for stormwater	1,476	2,226	2,282	1,077	970	1,395	1,426	973	982	1,000
Total projected investment in water services	9,985	11,276	9,822	5,656	6,659	6,295	6,046	10,424	4,429	6,044

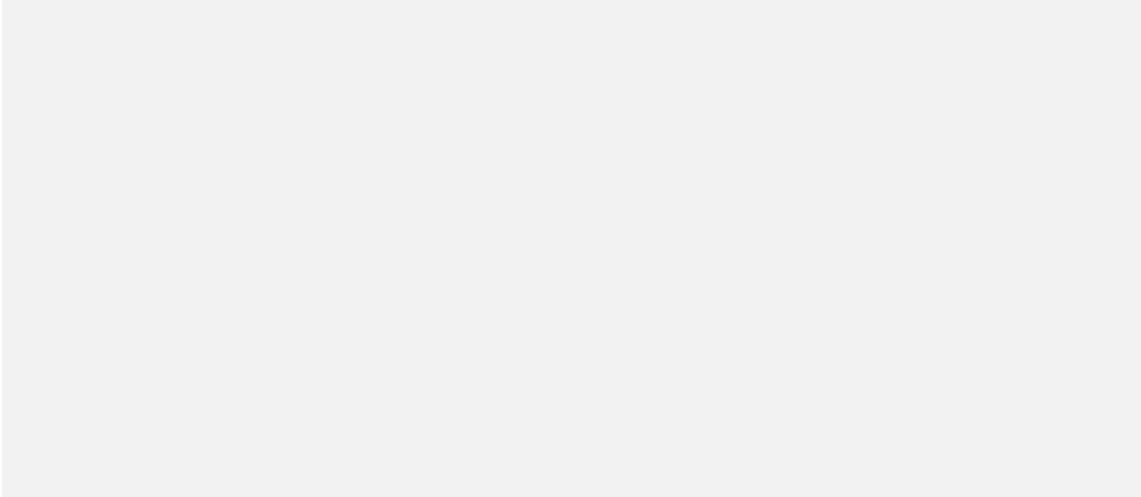
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Sensitivity: General

Historical delivery against planned investment									
Delivery against planned investment	Renewals investment for water services				Total investment in water services				
	FY2024/25	FY21/22 - FY23/24	FY18/19 - FY20/21	Total	FY2024/25	FY21/22 - FY23/24	FY18/19 - FY20/21	Total	
Total planned investment (set in the relevant LTP)	\$9,228	\$6,234	\$5,532	\$20,994	\$9,984	\$12,018	\$7,305	\$29,307	
Total actual investment	\$2,905	\$4,551	\$4,750	\$9,301	\$2,973	\$8,889	\$7,011	\$15,900	
Delivery against planned investment (%)	0%	73%	86%	44%	0%	74%	96%	54%	

The actual investment in FY 21/22 - FY 23/24 disclosed above relates to capital expenditure only. Total expenditure was in fact very close to budget but included a significant amount relating to a wastewater consenting process that was not capitalised.

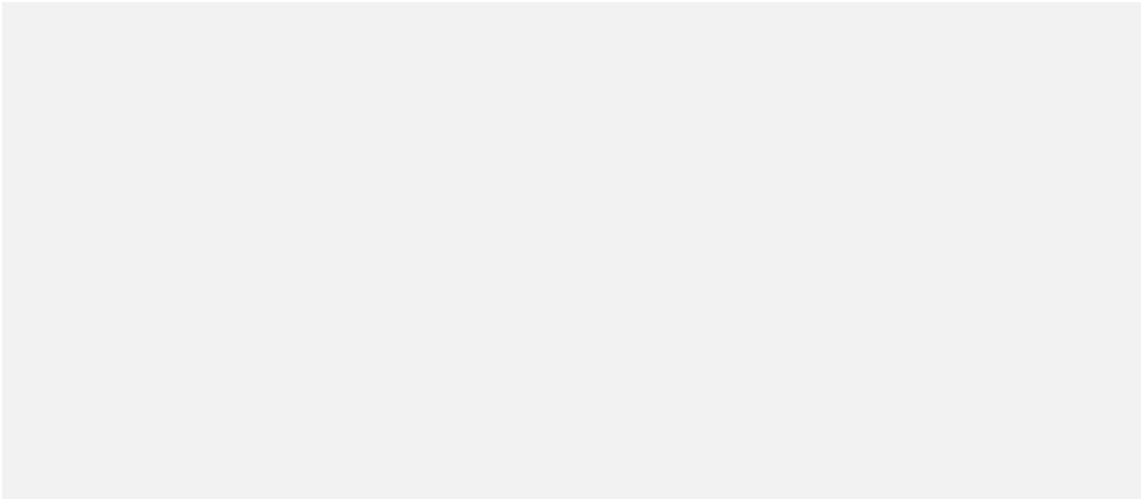
Investment in 2024/25 has been partially compromised by the recovery from 2 significant weather events in the district, with expenditure and effort concentrated on flushing silt filled pipes and treatment ponds, and reinforcing intakes, and clearing drains. The impacts on the water assets however were not as severe as the roading network, which has required an augmented repair, reinstatement and rehabilitation programme whilst in the waste management activity the landfill neared capacity, meaning and the plans to transport some waste out of the district were brought forward and the rollout of council's waste minimisation plan was deferred. The most notable difference is that the council received significant amounts of external subsidies for the roading and waste management recovery programmes, and this was not the case. For the water activities.



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Sensitivity: General

Part C: Revenue and financing arrangements



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Sensitivity: General

Revenue and charging arrangements
Charging and billing arrangements

Sensitivity: General

WWSCCO water charges have been modelled on the basis that the existing WDC rating regime for water services will be transitioned into water services charges payable to the WWSCCO. The current rating regime is as follows.

Water Supply

The Wairoa township currently has approximately 650 metered delivery points with volumetric billing accounts. At present, around half of these accounts appear to be inactive. The township is equipped with Smart Meters, facilitating streamlined management and supporting future growth.

AFFCO Limited benefits from a bulk supply agreement that includes a substantial discount. The primary term of this agreement is set to expire on 30 June 2028. Rating units that are connected but not metered in Wairoa, the Wairoa Urban Periphery, and Frasertown are charged a uniform rate per connection. Units within the scheme catchment that are not connected are rated at 50% of the connected rate.

In Tuai and Mahanga, connected rating units are also charged a uniform rate per connection, specific to each location. Non-connected units within these scheme catchments are rated at half the connected rate. These rates are calculated based on historical estimates of the relative costs associated with operating each scheme.

Wastewater

All connected rating units across the district are charged a uniform rate per connection, except for land used for temporary accommodation that includes multiple connections.

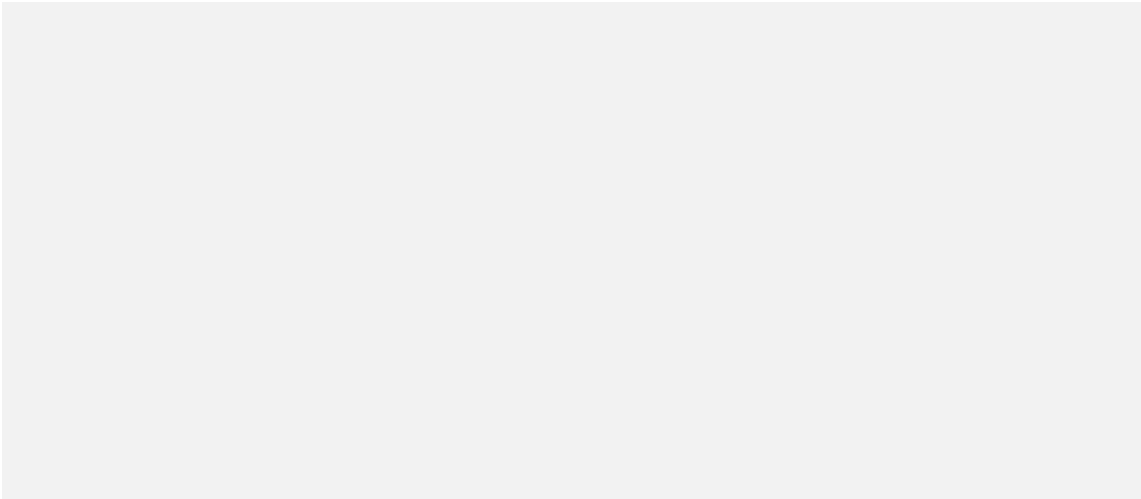
Non-connected rating units within scheme catchments are rated at 50% of the connected rate.

Rating units with septic tanks that are not connected to a scheme are charged a 'rural wastewater' rate, which reflects the estimated cost of treatment—approximately 12.5% of the connected rate.

Stormwater

Rating units located in Wairoa and Mahia that fall within the catchment areas of the stormwater schemes are charged a uniform rate per unit. These rates are location-specific and based on estimated cost recovery.

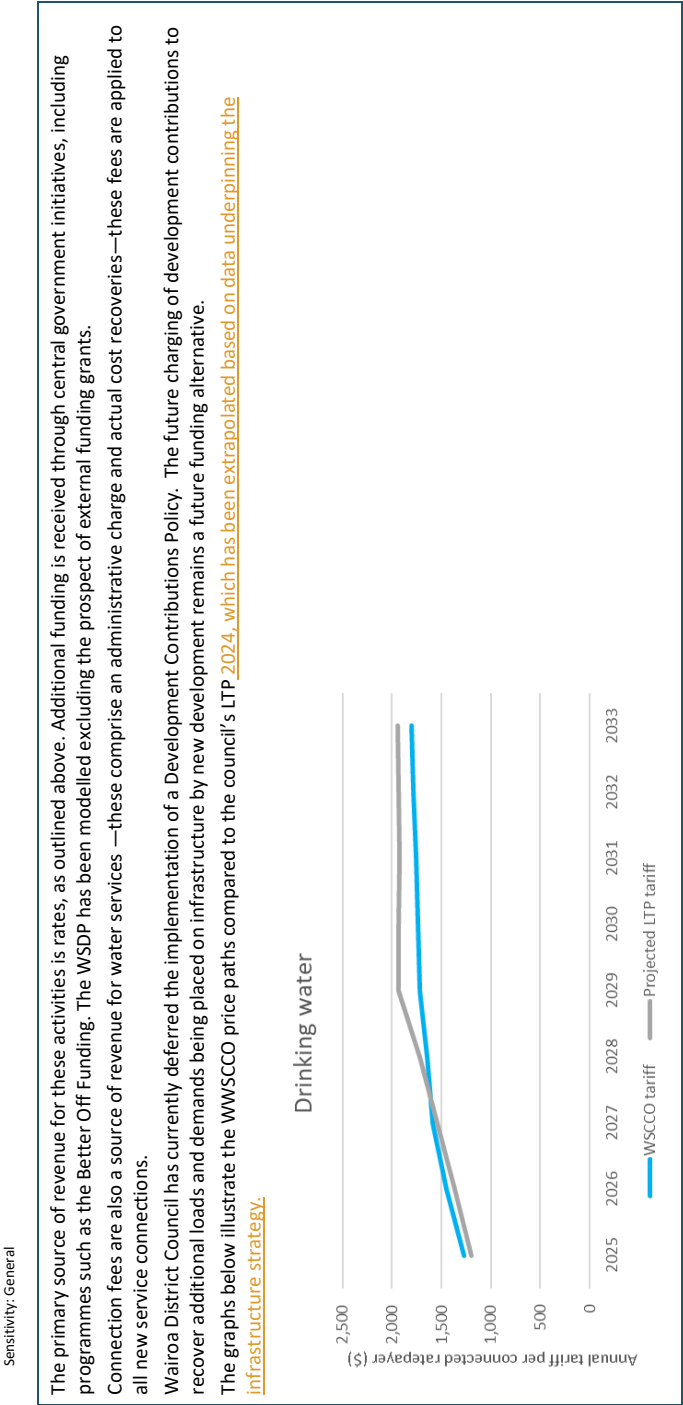
Based on current legislation it is likely that these mechanisms will remain in place for the foreseeable future. It is noted that Council's Revenue and Financing Policy provides for a contribution from the wider community, and this will be a matter for policy going forward however the WSDP analysis has proceeded on the basis that there is no general rate subsidisation of WWSCCO income streams, providing flexibility and tools to mitigated high water services charges.

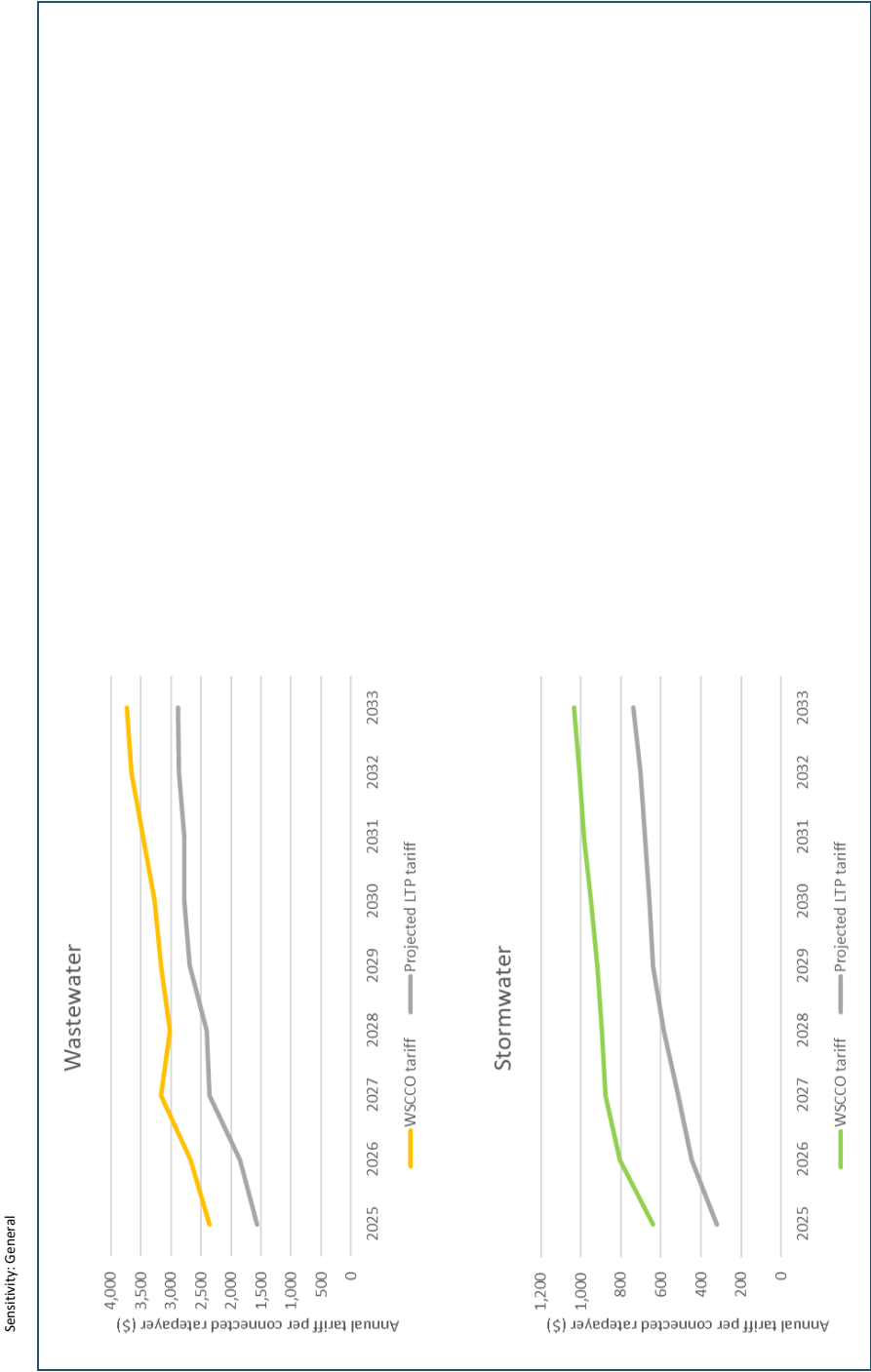
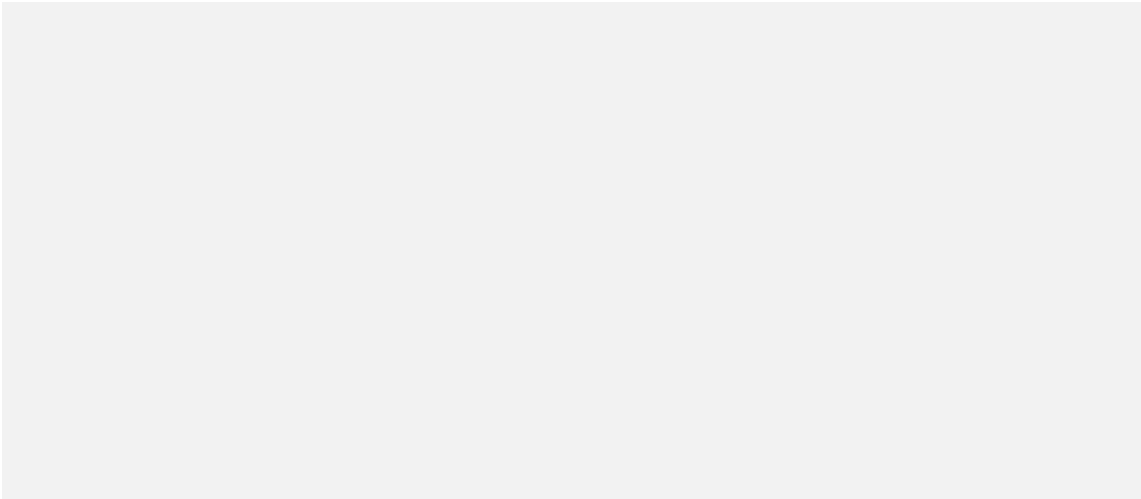


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Sensitivity: General

Water services revenue requirements and sources





Sensitivity: General

Existing and projected commercial and industrial users' charges
160 (140 active) of the rating units with metered water identified above have land use coded as Commercial, Industrial or Utility. 144 rating units coded as Commercial, Industrial or Utility are assessed for a water rate on a uniform basis. In 2024 Council adopted a high user policy and it is likely that these customers will be prioritised for conversion to metered billing.
The affordability of projected water services charges for communities
Current Water costs per household in the Wairoa District (based on median income) are 4% of household annual income. Based on the current income growth rates this is projected to peak at <u>87.97%</u> of household income in year 2027/28, and gradually trending down <u>then level out</u>. This is unsurprising and has more to do with income levels and size of population than cost of delivery, but Wairoa's remoteness and geography are factors in the latter. Wairoa median household income is ⅓ of the Hawke's Bay median and less than ⅔ the national level, of which the average cost would be 5.5%. Also, the substantial increase in revenues is needed to meet the prescribed revenue and investment sufficiency metrics and make the WWSCCO financially sustainable. Much of this related to the accelerated expenditure and debt repayment schedules which start to slow down after year 7 and will do so even further after year 10, presenting opportunities for the services to be more affordable.

Funding and financing arrangements

Funding and financing arrangements
Water services financing requirements and sources

Sensitivity: General

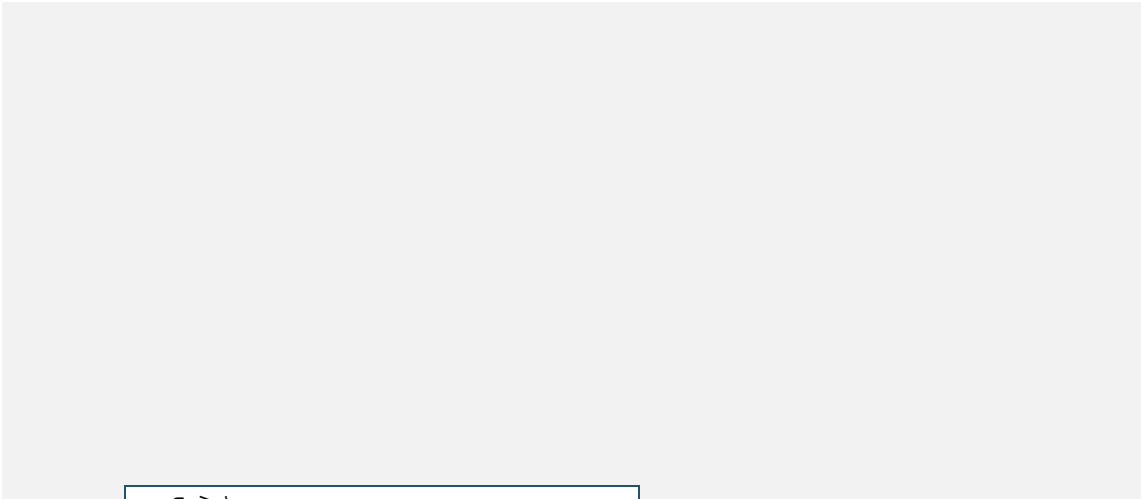
- Historically Wairoa District Council has rated for a proportion of depreciation and balanced its investment requirements through borrowing, particularly where compliance, growth and inflation have required more than like for like replacement. In the Council's long-term plan, it was estimated that total debt attributable to water infrastructure would be \$23.3 million, relating expenditure funded from borrowing less any amount recovered through rates.
- Investment over the following 10 years has been forecast at \$66.6 million. Of this \$12 million will be covered by a return of capital, being cash inflows generated from the inclusion of depreciation expense in the tariffs and the remainder (\$54.6 million) will be funded by new borrowing along with an additional \$8 million of refinancing to cover working capital requirements.
- To keep within the Debt to Revenue Covenant a repayment tenor of 10 years has been planned. To meet this obligation a return on capital averaging 3.5% has been included in the tariff structure.
- By 30 June 2033 gross debt will have more than doubled to \$49.2 million

Financial year starting in	2025	2026	2027	2028	2029	2030	2031	2032	2033
Opening debt balance	23,392	31,273	38,118	39,436	41,686	43,310	44,452	49,801	48,550
Refinancing	-	1,460	789	917	938	916	930	919	1,156
Debt borrowed to finance CAPEX	10,220	8,659	4,419	5,368	4,948	4,648	8,957	2,902	4,478
Debt repayment	-2,339	-3,273	-3,891	-4,035	-4,262	-4,423	-4,538	-5,072	-4,971
Closing balance	31,273	38,118	39,436	41,686	43,310	44,452	49,801	48,550	49,213

- The business will generate sufficient cash revenues to pay its operating expenses and contribute to capital expenditure. Some refinancing will be required to meet working capital requirements due to an accelerated debt repayment tenor. This balances affordability pressures on tariffs. Internal loan mechanisms will be available in the early stages, particularly if quarterly billing cycles are retained.

Financial year starting in	2025	2026	2027	2028	2029	2030	2031	2032	2033
Cash revenue	8,609	9,755	11,161	10,955	11,449	11,779	2,206	12,736	13,067
Opex	-5,043	-5,199	-5,872	-5,436	-5,566	-5,667	-5,773	-5,884	-6,036
Cashflow from operations	3,567	4,555	5,289	5,519	5,883	6,112	6,433	6,852	7,031
Capital expenditures	-11,276	-9,822	-5,656	-6,659	-6,295	-6,046	-10,424	-4,429	-6,044
Cashflow from investing	-11,276	-9,822	-5,656	-6,659	-6,295	-6,046	-10,424	-4,429	-6,044
Interest cost	-1,632	-2,071	-2,315	-2,421	-2,537	-2,620	-2,813	-2,936	-2,918
New borrowings	10,220	9,822	5,656	6,659	6,295	6,046	10,424	4,429	6,044
Debt repayment	-2,339	-3,273	-3,891	-4,035	-4,262	-4,423	-4,538	-5,072	-4,971
Net equity injection (dividends)									
Cashflow from financing	6,249	4,477	-550	202	-504	-996	3,072	-3,579	-1,845
Refinancing	1,460	789	917	938	916	930	919	1,156	857

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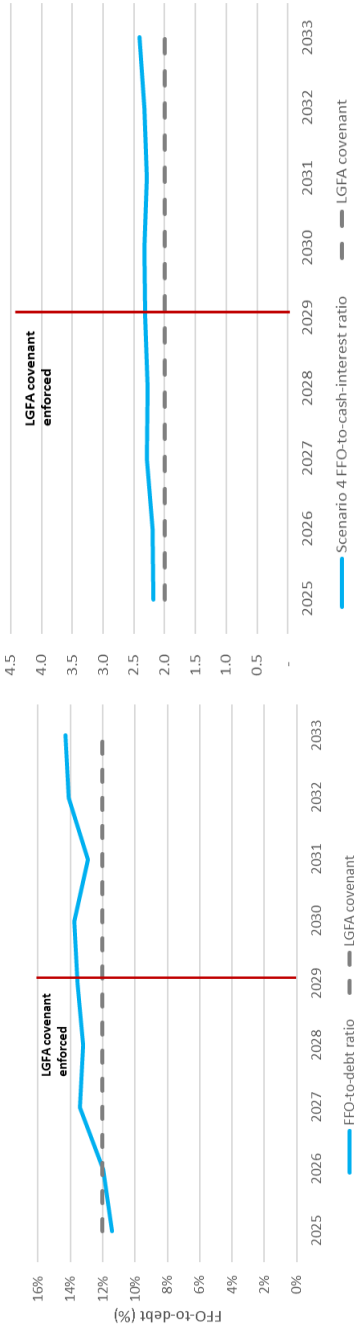
Borrowing limits for water services and all council business.

- To date the council has maintained its borrowings within its financial strategy limits and within the LGFA non guarantor limit of \$20 million. This position provides sufficient headroom for any debt that the council may need to underwrite in the future, and the transfer of water revenues and debt will significantly increase this. Based on the forecast revenue for the year ending 30 June 2026 Council's debt limit would become \$109 million after it becomes a guarantor with LGFA.
- There are two main covenants with which a WWSCCO will be required to comply and with fewer than 5,000 connections the Wairoa WWSCCO will need to achieve a FFO to Cash Interest Coverage Ratio of 2.0 and a FFO to Gross Debt Ratio of 12%.

Whether projected borrowings are within borrowing limits.

Sensitivity: General

- Over the 10 years the council's combined total borrowing would be comfortably within its guarantor borrowing limit, reaching \$70 million in year 10. Noting that 70% of this relates to water infrastructure, the graphs below illustrate that quickly meets and then maintains its covenants.



Financial strategy for financing water services investment and operating expenditure.

- Council rarely draws down borrowings in advance of a project commencement so there will be limited surplus funds to transfer to the WWSCCO. Any cash available will likely be needed for initial working capital and an on-lending mechanism will allow for further liquidity coverage. As such it is assumed that all initial investment will be financed by borrowing and that tariffs, in the form of the equivalent of targeted rates and volumetric charges, will be priced to cover all operating expenses and servicing of the debt utilised for ongoing investment in infrastructure.

Expected tenor of new borrowings and how interest rate and refinance risk will be managed

- Historically when Council has borrowed to invest in infrastructure it has rated for the servicing of those borrowings over the lives of the corresponding assets. However, the refinancing of that debt has typically taken place at intervals of five years or fewer, subject to interest rates. Council has calculated that even a modest sum of debt refinanced on shorter tenors can make a material difference to total finance costs. However, with more significant sums the risk of adverse movements could be damaging and this must be managed. Council has a liability management policy which prescribes limits for debt maturities and types and similar suitable policy settings will be applied to the WWSCCO to ensure it is not exposed to significant adverse impacts of interest rate movements.

Debt repayment strategy.

- To meet the investment requirements over the next 10 years an accelerated debt repayment strategy will be employed. This can be relaxed in the longer term as prudence allows.

Sensitivity: General

Internal borrowing arrangements

Any current internal borrowing arrangements between water services and other council business, including whether finance costs are charged on these arrangements and repayment mechanics.

- Debt will be managed as a portfolio. Focus on a clearly defined delivery plan will enable a structured financing and treasury programme. Internal borrowings will be used where appropriate, and where it meets economic and policy objectives. Any internal lending will be at the council's WACC, with a management fee for processing.

Whether it is proposed that internal borrowing arrangements will be used up to 30 June 2028.

- It is most likely that internal borrowings will be required to support working capital and to continue to fund projects that are already in progress at the time of transition, whether or not external debt has been drawn down in respect of those projects.

Whether it is proposed that internal borrowing arrangements will be used beyond 30 June 2028

- It is expected that the WWSOCO will be self-funding before the end of 30 June 2028. Internal borrowing facilities will still be available beyond this date as a mechanism for managing group capital efficiently.

How internal borrowings will be managed to ensure compliance with ringfencing requirements.

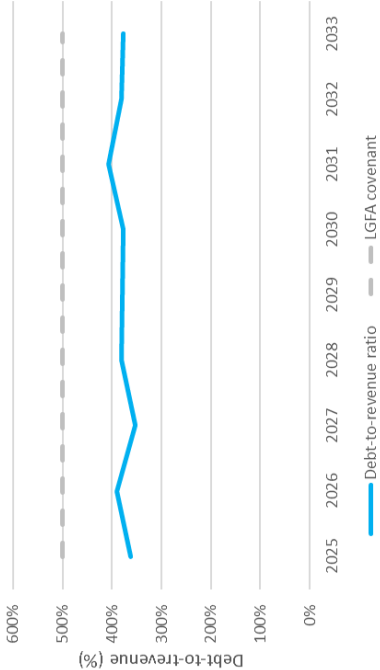
- An inter-entity agreement will be established along with drawdown schedules that documents the terms of any internal borrowings. These borrowings will be recorded as internal receivables in the books of the council and as internal borrowings in those of the CCO.

Sensitivity: General

Determination of debt attributed to water services

As with all Local authorities Water related debt has been identified and has been earmarked for transfer to the water entity set out in this plan. Total current gross debt levels relating to water is around \$17 Million with this debt forecast to reach \$51 Million in the next 10 years in the LTP. This is currently 229% of operating revenue.

These figures are based on Wairoa District Council's LTP using the Annual Report 2023 as the starting position, which itself is derived from the accumulation of capital expenditure funded by borrowings in Council's funding impact statements and any operating deficits. Modelling shows this debt level to remain within acceptable borrowing headroom levels. For the WWSCCO debt will be maintained at below 400% of revenue.



Sensitivity: General

Insurance arrangements

Confirm that the asset owning organisation in the proposed service delivery arrangement will hold the necessary insurance policies;

- Council currently purchases material damage and business interruption (MDBI) insurance for above ground assets as a member of a local authority shared service (LASS) and it is envisaged that this relationship will continue with the WWSCCO effectively becoming a new member of the LASS group. There will be the option of the WWSCCO sourcing its own insurance if that is shown to be the more economical and practical. For underground network assets it is assumed that existing arrangements with the National Emergency Management Agency that cover 60% of losses resulting from an event will continue. For the remaining 40%, Council is a member of the Local Authority Protection Programme (LAPP) and it has been confirmed that WWSCCO will be eligible to become members of this programme as at the date of transfer. It is likely that the entity will be required to hold its own liability and other policies.

Describe whether annual insurance risk assessments are undertaken – and if not annually, when the last review of insurance cover was completed.

- Annual insurance risk assessments are conducted internally and as part of the renewals process with the LASS and main broker.

Describe whether risk evaluation and assessment identifies probability of loss and cost under scenarios (distinguishing between above and below ground assets)

- MDBI insurance is purchased collectively by the Hawke’s Bay Councils group and is subject to group loss limits. LAPP purchases reinsurance on a Probable Maximum Loss basis. In both areas these assessments include risk evaluation using local knowledge and informed by modelling undertaken by the Hawke’s Bay CDEM agency and Aon.

Describe the level of insurance cover for the network, including the basis for valuation of water assets and how insurance cover is calculated for insurable water services assets.

- All of council’s water assets are included in insurance schedules at 100% of estimated replacement cost based on most recent independent valuations and fair value assessments with allowances for indexation and additions.

Briefly summarise the insurance management policy for water services, including Insurance review policy and asset identification standards

- Council has a low risk tolerance for its lifeline assets, which is why the full portfolio is insured in full. This has been reinforced following two significant weather events in Wairoa in 18 months.

Any link with Council’s disaster policy response to mitigate insurance losses; and Delegations and reporting on insurance

- Insurance is administered for the council by the Group Manager: Finance and Corporate Support who reports regularly to Council and its Finance Assurance and Risk Committee. Risk management for the assets is undertaken by the utilities team within the Assets and Infrastructure group.

Sensitivity: General

Part D: Financial sustainability assessment

Confirmation of financially sustainable delivery of water services

Financially sustainable water services provision
Confirmation of financially sustainable delivery of water services by 30 June 2028
The proposed establishment date for WWSCCO is 1 July 2027 which would mean achieving financial sustainability by 30 June 2028, its first year of operation. The graphs and tables set out in this plan show WWSCCO to achieve an operating surplus and positive cashflow ratios from establishment. The financial plan for the WWSCCO is based around a lean cost base, prudent investment and a tariff mechanism that ensures obligations are met. The level of capital expenditure identified by Wairoa District Council for the next 10 years will allow for the upkeep of existing assets and purchasing of replacement assets where required. Council as sole shareholder may provide support to WWSCCO in its early stages. Contributions may take the form of funding assistance, borrowing assistance or non-monetary contributions such as low-cost office rentals.
Actions required to achieve financially sustainable delivery of water services
To summarise the measures described earlier in this document, financial sustainability will be achieved through: i. Low administration and support costs via shared services model ii. Accelerated debt repayment schedule iii. Targeted rates increases for ring fenced Water Services charges, retaining ability to supplement via general rates iv. Prioritised transition to metered billing for high volume users, including potential applications for wastewater v. High asset investment in infrastructure allowing depreciation expense to be spread over a longer period vi. Treasury and Revenue and Financing policy development and alignment vii. Utilisation of Council resources and debt headroom
Risks and constraints to achieving financially sustainable delivery of water services

Sensitivity: General

The following sets out known risks and constraints that may prevent the delivery of a financially sustainable water services entity for the Wairoa District.

1. Initial Financial Viability of the Proposed CCO

As noted earlier in this plan modelling by Castalia shows that the proposed Council-Controlled Organisation, will require financial assistance from Wairoa District Council for at least the first five years of operation. The level to which early-stage capital contributions from its shareholder is required will depend on the level of capital expenditure savings an entity solely focused on water services can deliver.

2. Tariff Sufficiency and Affordability

The current water-related rates are insufficient to meet the financial performance benchmarks. Significant increases in these tariffs are required to ensure positive cash flow. As with the risk above any savings the CCO can make in reducing required capital expenditure would be expected to reduce the level of tariffs/rates paid by Wairoa Water Consumers.

It is emphasised that this plan is drafted to demonstrate how the Wairoa WWSCCO can quickly achieve all the prescribed parameters towards sustainable delivery of water services on a standalone basis, and it is acknowledged that this comes with price pressure that would cause affordability challenges. However, these challenges are present in all practicable models and a plan that promotes a Wairoa WWSCCO comes with opportunities that are not present in other models, whilst retaining options for effective combinations with other providers in the future. Discussions continue in those areas.

With regards to immediate affordability challenges, these may appear to be a deeper concern based on the impairment of receivables reported by Council in its Annual Report (2024). This reported a provision of \$4 million against total receivables \$21 million. Of this \$3.7 million relates to the rates debtor balance of \$5.4 million. Out of the \$3.7 million, \$2.3 million is the accumulation over 8 years of rates arrears pertaining to Māori freehold land which is predominantly not serviced and therefore has nothing to do with water activities. Overall, the reported balance of \$5.4 million includes an estimated \$0.66 million relating to accumulated water rates. Wairoa District Council provides for 70% of all outstanding rates balances on an aged weighting, and this equates to \$0.46 million of rates relating to water activities over 8 years. In practice, the actual annual write off is less than \$0.4 million and 90% of this relates to unactionable debt on Māori freehold land and the annual write off relating to water rates is barely \$10,000.

By taking a prudent approach, we have written a plan that is comparatively low-risk and can withstand surprises. From a tariff sufficiency and affordability perspective Council retains options for mitigation:

- Our model assumes that all borrowings related to water services (\$23 million forecast) will transfer to the WWSCCO. Should Council retain this debt the WWSCCOs immediate revenue requirement would reduce by 11% and substantially decelerate the increase in tariffs. This option would also create significant debt headroom within the WWSCCO and enable an extended repayment tenor if desirable.

Sensitivity: General

- This plan has been modelled on the assumption that all revenue will be sourced independently by the WWSOCO via targeted rates. Council’s current Revenue and Financing Policy provides that 10% of such revenue be sourced from the wider community via general rates, on the basis that the entire community benefits from safe, compliant water services and waterways. This revenue source is not included in our baseline, and it would make a significant difference to tariff paths for the WWSOCO. Council may choose to include this in its future budgets as a contribution to economic and community development.

These two factors alone would significantly reduce the prospective average charge per connection:

Average charge per connection including GST	FY24/5	FY25/6	FY26/7	FY27/8	FY28/9	FY29/30	FY30/1	FY31/2	FY32/3	FY33/4
Baseline per Revenue Sufficiency Assessment	2,643	4,268	4,926	5,627	5,558	5,802	5,957	6,193	6,450	6,568
Council retains Opening Debt	2,643	3,797	4,492	5,223	5,189	5,465	5,650	5,915	6,199	6,342
Revenue transferred from General Rate	2,643	3,417	4,043	4,700	4,670	4,918	5,085	5,323	5,579	5,708

- Council has a bespoke supply agreement with AFFCO which expires in 2028. Revenue from these volumetric charges is included in this plan at current rates. There is significant potential for upside with regards to the revenue received from this arrangement, but we have not modelled any increase beyond CPI, because we are not able to pre-empt a commercial negotiation.
- Finally, we acknowledge that our ‘go-hard’ approach to ensuring our WWSOCO achieves and sustains revenue and investment sufficiency whilst keeping within prescribed borrowing parameters culminates in rapid growth of the organisation’s FFO in the last 3 years of this plan, culminating in a FFO / debt ratio well in excess of the prescribed 12%, as shown in the assessment of revenue sufficiency on page 52. This presents the opportunity, even before the applying the measures above, to reduce the revenue requirements and reduce the growth in tariffs. In our modelling a return on capital rising to 3.8% has been applied to ensure the WWSOCO generates sufficient cash surpluses to continue to invest and sustain an accelerated debt repayment programme. Our sensitivity modelling shows that this can be reduced to 3.5% while extending the debt repayment tenor from 10 years to 15; this still meet the thresholds. The effect of this adjustment would be to bring the year 10 FFO / Debt ratio down to 12%, slightly increase average debt and reduce year 10 forecast tariff by \$270.

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14%

12%

10%

8%

6%

4%

2%

0%

2025

2026

2027

2028

2029

2030

2031

2032

2033

FFO-to-debt ratio

LGFA covenant

600%

500%

400%

300%

200%

100%

0%

2025

2026

2027

2028

2029

2030

2031

2032

2033

Debt-to-revenue ratio

LGFA covenant

Average charge per connection including GST

FY24/5

FY25/6

FY26/7

FY27/8

FY28/9

FY29/30

FY30/1

FY31/2

FY32/3

FY33/4

Baseline per Revenue Sufficiency Assessment

2,643

4,268

4,926

5,627

5,558

5,802

5,957

6,193

6,450

6,568

Reduce ROC and Extend Debt Term

2,643

4,268

4,926

5,576

5,507

5,696

5,850

6,085

6,278

6,398

3. Climate and Infrastructure Resilience

Recent events like Cyclone Gabrielle and subsequent flooding have severely impacted water infrastructure. These climate-related disruptions increase operational costs and complicate long-term planning.

4. Regulatory Compliance and Reform Uncertainty

The evolving regulatory landscape requires councils to meet higher standards for water quality, environmental protection, and financial transparency. Uncertainty around the final shape of these reforms adds complexity to financial planning

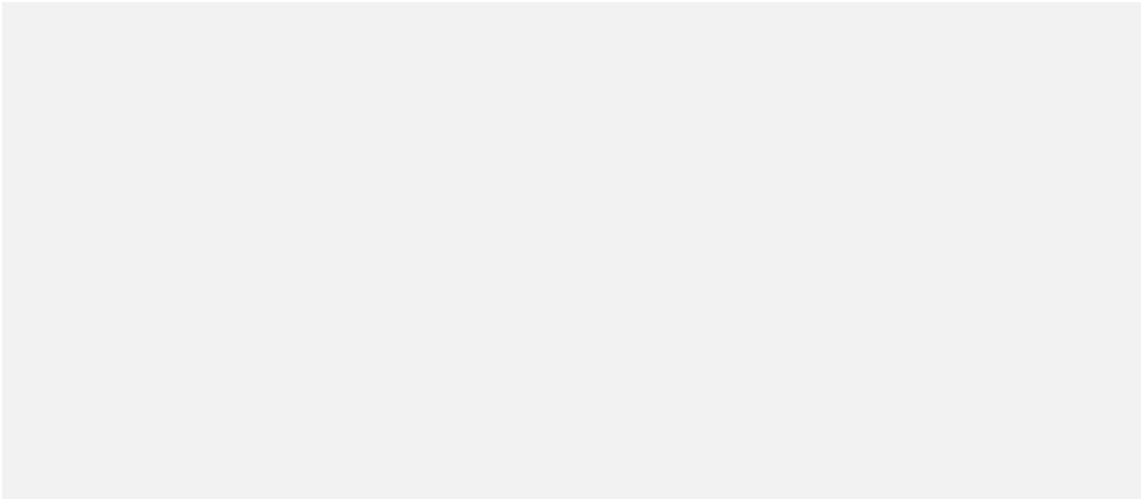
5. Reliance on External Funding

Wairoa District Council's financial strategy and long-term plans acknowledge a high dependency on external subsidies (e.g., from the Provincial Growth Fund or central government). Any reduction or delay in these funds could jeopardise planned investments and service levels

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Item 5.1- Appendix 1

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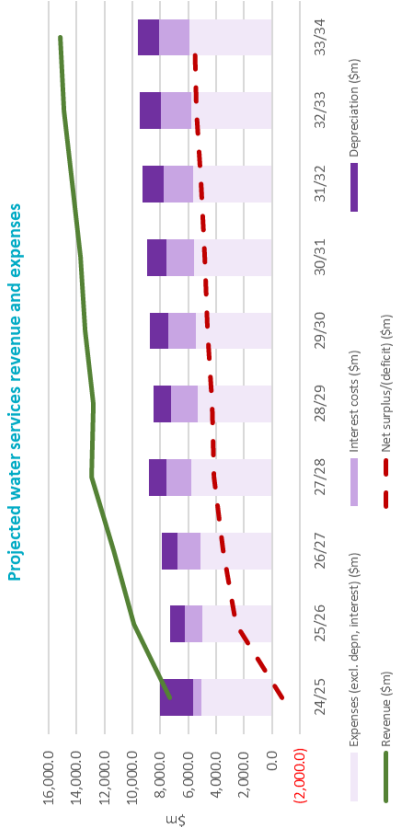
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Financial sustainability assessment - revenue sufficiency

Assessment of revenue sufficiency

Projected water services revenues cover the projected costs of delivering water services

The financial projections below for a Wairoa District Council Controlled water services entity show a positive financial outlook for the period 2024/25 to 2033/34 period. Modelling suggests revenue is projected to increase consistently and reach \$15 million in 2033/34. As expected, expenses including operating costs, interest and depreciation are all modelled to increase however at a lower rate than revenue pointing to a financially sustainable model.



Sensitivity: General

Average projected charges for water services over FY2024/25 to FY2033/34 (Baseline without Council / Ratepayer input)										
Projected average charge per connection / rating unit (including GST)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Drinking water	1,129	1,269	1,444	1,589	1,645	1,722	1,735	1,752	1,780	1,802
Wastewater	1,234	2,360	2,677	3,160	3,016	3,162	3,271	3,457	3,661	3,733
Stormwater	280	639	805	877	897	918	951	984	1,008	1,033
Average charge per connection / rating unit	2,643	4,268	4,926	5,627	5,558	5,802	5,957	6,193	6,450	6,568
Increase in average charge	0.0%	61.5%	15.4%	14.2%	-1.2%	4.4%	2.7%	4.0%	4.1%	1.8%
Water services charges as % of median household income	4.0%	7.06.2%	7.70%	7.47%	7.54%	7.5%	7.65%	7.6%	7.6%	6.27.6%
Projected operating surpluses/(deficits) for water services										
The Table below shows the projected operating surplus for WWSCCO to be steadily increasing over the next 10 years. The operating surplus ratio is projected to average 29% across the 10-year period shown below. These projections indicate that the establishment of a Wairoa Water Services entity is a viable financial option.										
Operating surplus ratio (whether revenues cover costs) (\$'000)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating surplus/(deficit) excluding capital revenues – combined water services	-686	2,593	3,477	4,138	4,316	4,626	4,805	5,059	5,420	5,563
Operating revenue – combined water services	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915	15,203
Operating surplus ratio	-9.4%	26.2%	30.5%	31.9%	33.6%	34.6%	34.9%	35.3%	36.3%	36.6%

Sensitivity: General

Projected operating cash surpluses for water services											
The table below shows WWSOCO to be projected to have a retain a positive operating cash ratio across the first 10 years of its operation. These positive ratios provide assurance that a CCO is a financially viable option to deliver water services to the people of the Wairoa District.											
Operating cash ratio (whether revenues cover costs) (\$000)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34	
Operating surplus/(deficit) + depreciation + interest costs - capital revenues	2,246	4,940	6,271	7,182	7,478	7,913	8,185	8,634	9,126	9,264	
Operating revenue – combined water services	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915	15,203	
Operating cash ratio	30.7%	49.9%	55.1%	55.4%	58.3%	59.1%	59.5%	60.3%	61.2%	60.9%	

Sensitivity: General

Financial sustainability assessment - investment sufficiency

Assessment of investment sufficiency

Projected water services investment is sufficient to meet levels of service, regulatory requirements and provide for growth

This graph shows an expected annual spend of around \$6.7 million will be required over the next 10 years to maintain current levels of service across the three water areas.

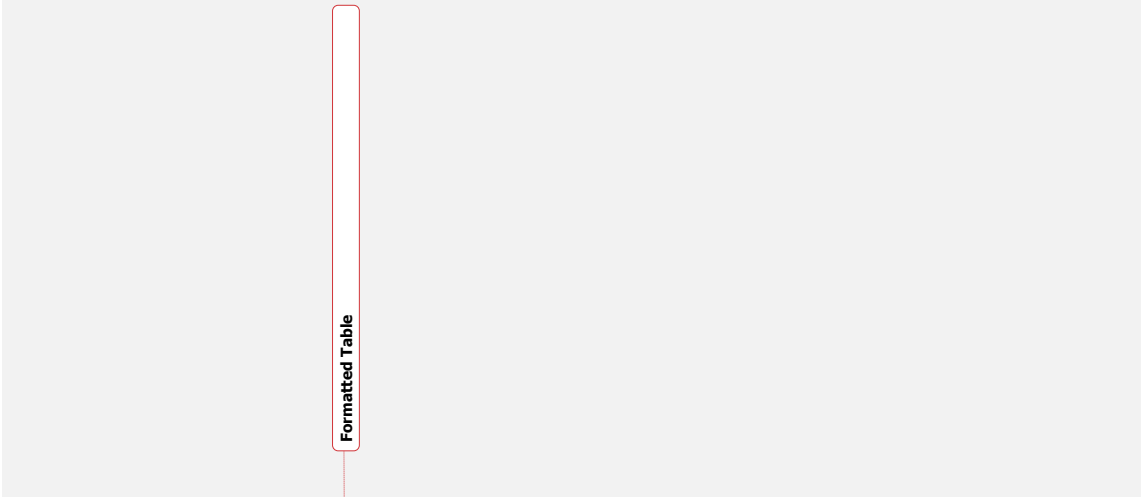
No specific spend to meet additional demand has been identified as been required in the Wairoa District as the current capacity levels of our 3 water networks are deemed sufficient to handle the low levels of demand increase predicted across the region.

Projected water services investment requirements

Year	To replace existing assets (\$m)	To improve levels of service (\$m)	To meet additional demand (\$m)	Depreciation (\$m)
24/25	1000	5000	1000	1500
25/26	1500	7000	1000	1500
26/27	1000	6000	1000	1500
27/28	500	5500	1000	1500
28/29	500	5000	1000	1500
29/30	500	4500	1000	1500
30/31	500	4000	1000	1500
31/32	500	3500	1000	1500
32/33	500	3000	1000	1500
33/34	500	2500	1000	1500

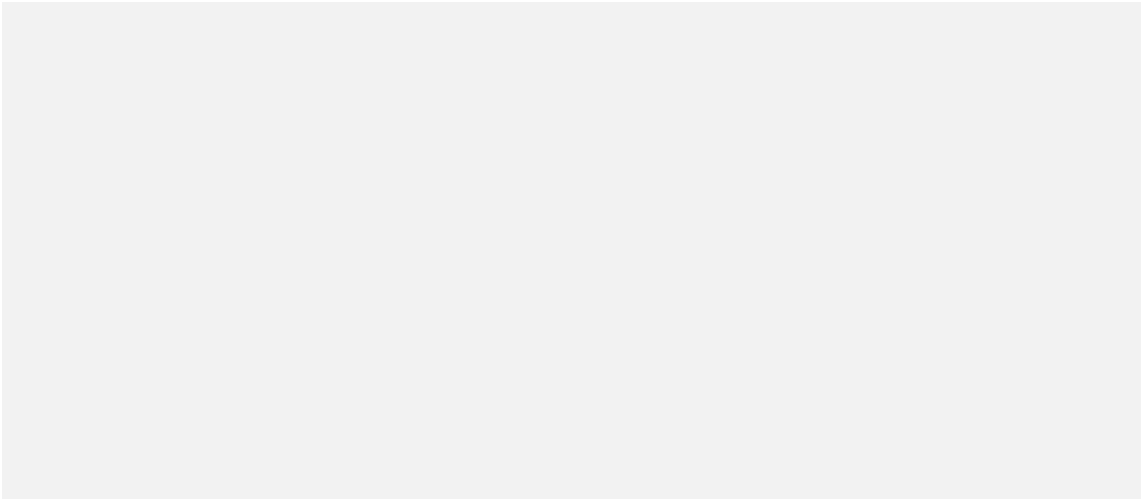
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Renewals requirements for water services										
This table compares capital expenditure on renewals with depreciation. This ratio helps assess whether assets are being renewed at a rate that sustains their long-term functionality. Calculated ratios for spend across the Wairoa District demonstrate a strong reinvestment across most years. Years with a negative ratio tend to be those years where significant reinvestment to replace water assets at the end of their usable life. It is expected that these ratios will be smoothed out with the transferring of these assets to a water services CCO with a sole focus on these areas.										
Asset sustainability ratio (\$000)	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Capital expenditure on renewals – all water services assets	6,451	8,441	7,004	5,646	6,650	6,285	6,036	10,414	4,429	6,044
Depreciation – all water services assets	2,320	1,056	1,163	1,237	1,291	1,347	1,398	1,467	1,527	1,566
Asset sustainability ratio	178.1%	699.5%	502.4%	356.5%	415.1%	366.6%	331.8%	609.9%	190.0%	285.9%
Total water services investment required over 10 years										
This table compares total capital expenditure with depreciation of these assets over the next 10-years. The ratio reflects the level of investment in new or upgraded assets relative to the rate at which existing assets are wearing out. Years with ratios above 100% indicate that the level of investment required will exceed depreciation, suggesting replacement or improvements have been scheduled to be made to the assets. The current projected investment rates show a strong commitment to asset development. It is expected this ethos will be continue by the proposed CCO.										
Asset investment ratio	FY2024/5	FY2025/26	FY2026/27	FY2027/28	FY2028/9	FY2029/30	FY2030/1	FY2031/2	FY2032/3	FY2033/4
Total capital expenditure – all water services assets	9,985	11,276	9,822	5,656	6,659	6,295	6,046	10,424	4,429	6,044
Depreciation – all water services assets	2,320	1,056	1,163	1,237	1,291	1,347	1,398	1,467	1,527	1,566
Asset investment ratio	330.4%	968.0%	744.7%	357.3%	415.9%	367.4%	332.5%	610.6%	190.0%	285.9%



Sensitivity: General

Average remaining useful life of network assets											
This table compares the book value of current water infrastructure assets to their replacement value over a 10-year period.											
The calculated asset consumption ratios for Wairoa Water Services infrastructure over the next 10 years show a gradual increase over time as would be expected with ageing infrastructure, it is expected that these ratios would change with a dedicated water services CCO having a sole focus on investment in waters services infrastructure.											
Asset consumption ratio	FY2024/5	FY2025/6	FY2026/27	FY2027/8	FY2028/9	FY2029/30	FY2030/1	FY2031/2	FY2032/3	FY2033/4	
Book value of water infrastructure assets	91,464	101,684	110,343	125,157	130,525	135,473	149,228	158,185	161,087	175,356	
Replacement value of water infrastructure assets	220,367	223,202	226,019	246,371	246,380	246,391	268,576	268,587	268,587	292,760	
Asset consumption ratio	41.5%	45.6%	48.8%	50.8%	53.0%	55.0%	55.6%	58.9%	60.0%	59.9%	



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Financial sustainability assessment - financing sufficiency

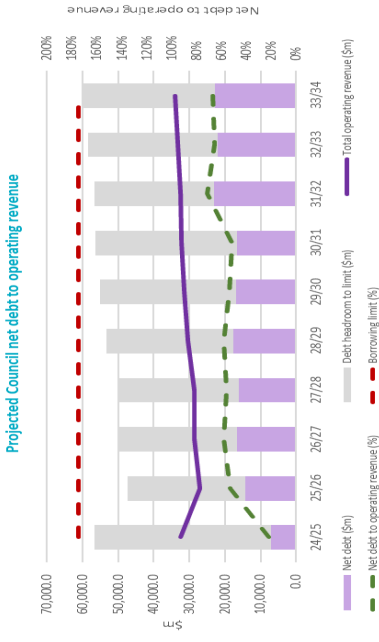
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Assessment of financing sufficiency

Confirmation that sufficient funding and financing can be secured to deliver water services

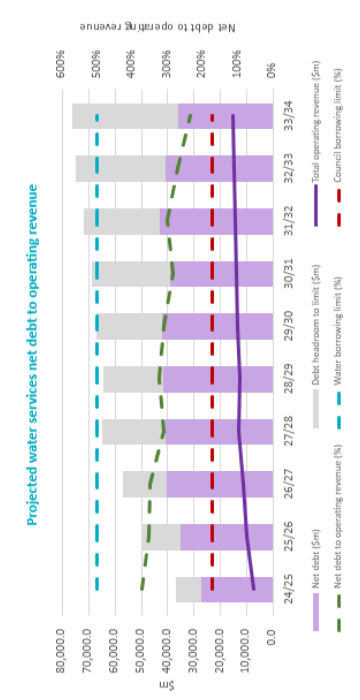
Projected council borrowings against borrowing limits

The graph below shows projected council net debt to remain within the prescribed debt headroom based on modelling of operating revenue increasing and net debt falling over the 10 years shown below.



Projected water services borrowings against borrowing limits

The graph below shows projected net debt for WWSCCO over the next 10 years. As can be seen below total borrowings are projected to remain well within the prescribed debt headroom.



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The table below shows the projected debt to operating revenue for WWSCCO. As can be seen in the table below both net debt and operating revenue are projected to increase over the next 10 years however net debt levels are projected to outpace the projected increased revenue.

The net debt to operating revenue ratio is projected to remain under the 500% debt ceiling for water entities showing a Wairoa Water services entity to be a financially viable option. The board and management of this entity would be expected to make decisions on how best to ensure the debt to operating revenue ratio remains within acceptable debt ceilings.

Net debt to operating revenue	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Net debt attributed to water services (gross debt less cash)	27,252	34,878	40,060	40,407	41,460	41,782	39,056	42,954	40,436
Operating revenue – combined water services	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915
Net debt to operating revenue %	373%	352%	352%	312%	323%	312%	284%	300%	271%

Sensitivity: General

Borrowing headroom/(shortfall) for water services										
As can be seen in the table below borrowings will be required to ensure WWSCCO remains a financially viable operation. Projections show a doubling of operating revenue in the first 10 years of operation of the new entity. As operating revenues increase the maximum allowable borrowings also increase and projections show the expected borrowings for this entity to also be required to increase but remain within the acceptable debt ceiling. Projections also show this entity to retain an acceptable level of borrowing headroom to allow it to respond to emergency situations as they occur.										
Borrowing headroom/(shortfall) against limit	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Operating revenue	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915	15,203
Debt to revenue limit for water services (%) *	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt at borrowing limit	36,535	49,500	56,929	64,842	64,132	66,946	68,800	71,569	74,573	76,013
Projected net debt attributed to water services	27,252	34,878	40,060	40,407	41,460	41,782	39,056	42,954	40,436	35,996
Borrowing headroom/(shortfall) against limit	9,283	14,621	16,868	24,435	22,672	25,164	29,744	28,615	34,137	40,017

*500% debt to revenue limit for water services has been taken from: [https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/LWDW-guidance-Water-services-delivery-models-\(updated-December-2024\).pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/LWDW-guidance-Water-services-delivery-models-(updated-December-2024).pdf)-page 13

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Free funds from operations											
The Free Funds from Operations to Net Debt Ratio for water services is projected to remain steady over the next 10-years. It is expected that the Water Services CCO would address this by improving operational performance of the services to increase its free funds and reduce or better manage debt levels. A CCO has traditionally been seen as the most favoured option of Councils to achieve better outcomes when faced with issues of this nature.											
Free funds from operations	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34	
Projected net debt attributed to water services	27,252	34,878	40,060	40,407	41,460	41,782	39,056	42,954	40,436	35,996	
Projected free funds from operations – water services	1,634	3,567	4,555	5,289	5,519	5,883	6,112	6,433	6,852	7,031	
Free funds from operations to net debt ratio	6.0%	10.2%	11.4%	13.1%	13.3%	14.1%	15.6%	15.0%	16.9%	19.5%	

Part E: Projected Financial Statements for Water Services

Sensitivity: General

Projected financial statements – for drinking water, wastewater, stormwater and combined water services													
Projected funding impact statement													
Funding impact statement (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34			
Sources of operating funding													
General rates	695	0	0	0	0	0	0	0	0	0			
Targeted rates	6,256	9,476	10,953	12,527	12,375	12,929	13,290	13,834	14,424	14,702			
Subsidies and grants for operating purposes	0	0	0	0	0	0	0	0	0	0			
Local authorities fuel tax, fines, infringement fees and other receipts	0	0	0	0	0	0	0	0	0	0			
Fees and charges	356	424	433	442	451	460	470	480	490	500			
Total operating funding	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915	15,203			
Applications of operating funding													
Payments to staff and suppliers	4,063	5,043	5,199	5,872	5,436	5,566	5,667	5,773	5,884	6,036			
Finance costs	612	1,291	1,631	1,807	1,871	1,940	1,981	2,108	2,178	2,135			
Internal charges and overheads applied	998	0	0	0	0	0	0	0	0	0			
Other operating funding applications	0	0	0	0	0	0	0	0	0	0			
Total applications of operating funding	5,673	6,333	6,831	7,680	7,308	7,506	7,648	7,881	8,062	8,171			
Surplus/(deficit) of operating funding	1,634	3,567	4,555	5,289	5,519	5,883	6,112	6,433	6,852	7,031			
Sources of capital funding													
Subsidies and grants for capital expenditure	0	0	0	0	0	0	0	0	0	0			
Development and financial contributions	0	0	0	0	0	0	0	0	0	0			
Increase/(decrease) in debt	5,170	7,881	5,632	670	1,528	920	496	4,736	(1,802)	(43)			
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0			
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0			
Total sources of capital funding	5,170	7,881	5,632	670	1,528	920	496	4,736	(1,802)	(43)			

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Applications of capital funding												
Capital expenditure - to meet additional demand	0	1,495	1,526	0	0	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	3,534	1,340	1,291	10	10	10	10	10	0	0	0	0
Capital expenditure - to replace existing assets	6,451	8,441	7,004	5,646	6,650	6,285	6,036	10,414	4,429	6,044		
Increase/(decrease) in reserves	(3,181)	172	365	303	388	507	562	745	622	945		
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0		
Total applications of capital funding	6,804	11,447	10,187	5,959	7,047	6,803	6,608	11,169	5,051	6,989		
Surplus/(deficit) of capital funding	(1,634)	(3,567)	(4,555)	(5,289)	(5,519)	(5,883)	(6,112)	(6,433)	(6,852)	(7,031)		

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Projected statement of comprehensive revenue and expense											
Projected statement of profit and loss - water services	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34	
Revenue											
Operating revenue	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915	15,203	
Other revenue											
Total revenue	7,307	9,900	11,386	12,968	12,826	13,389	13,760	14,314	14,915	15,203	
Expenses											
Operating expenses	4,063	4,735	4,883	5,548	5,102	5,223	5,315	5,411	5,512	5,653	
Finance costs	612	1,291	1,631	1,807	1,871	1,940	1,981	2,108	2,178	2,135	
Overheads and support costs	998	225	232	239	246	253	261	269	277	285	
Depreciation & amortisation	2,320	1,056	1,163	1,237	1,291	1,347	1,398	1,467	1,527	1,566	
Total expenses	7,993	7,307	7,909	8,830	8,511	8,763	8,955	9,255	9,494	9,640	
Net surplus/(deficit)	(686)	2,593	3,477	4,138	4,316	4,626	4,805	5,059	5,420	5,563	
Revaluation of infrastructure assets	0	0	0	10,329	0	0	11,676	0	0	13,146	
Total comprehensive income	(686)	2,593	3,477	14,467	4,316	4,626	16,481	5,059	5,420	18,708	
Cash surplus/(deficit) from operations (ex-non-cash items)	1,634	3,649	4,640	5,375	5,607	5,973	6,203	6,526	6,947	7,129	
Projected statement of cashflows											

Sensitivity: General

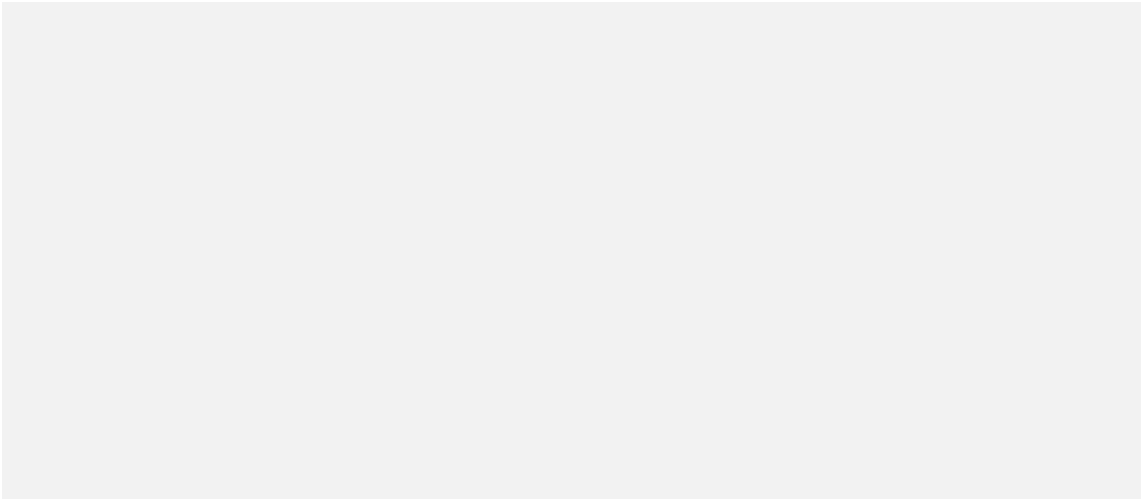
Projected statement of cashflows - water services	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Cashflows from operating activities										
Cash surplus/(deficit) from operations	1,634	3,649	4,640	5,375	5,607	5,973	6,203	6,526	6,947	7,129
[Other items]										
Net cashflows from operating activities	1,634	3,649	4,640	5,375	5,607	5,973	6,203	6,526	6,947	7,129
Cashflows from investing activities										
Capital expenditure – infrastructure assets	(9,985)	(11,276)	(9,822)	(5,656)	(6,659)	(6,295)	(6,046)	(10,424)	(4,429)	(6,044)
[Other items]	0	0	0	0	0	0	0	0	0	0
Net cashflows from investing activities	(9,985)	(11,276)	(9,822)	(5,656)	(6,659)	(6,295)	(6,046)	(10,424)	(4,429)	(6,044)
Cashflows from financing activities										
New borrowings	4,541	10,489	9,925	5,180	6,137	5,635	5,190	9,352	3,119	4,635
Repayment of borrowings	0	(2,339)	(3,239)	(3,813)	(3,906)	(4,078)	(4,179)	(4,231)	(4,703)	(4,526)
Net cashflows from financing activities	4,541	8,149	6,686	1,367	2,230	1,557	1,011	5,121	(1,585)	109
Net increase/(decrease) in cash and cash equivalents	(3,810)	523	1,504	1,086	1,178	1,235	1,168	1,223	934	1,193
Cash and cash equivalents at beginning of year	3,850	40	563	2,067	3,153	4,331	5,565	6,733	7,956	8,890
Cash and cash equivalents at end of year	40	563	2,067	3,153	4,331	5,565	6,733	7,956	8,890	10,084

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Projected statement of financial position												
Projected statement of financial position	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34		
Assets												
Cash and cash equivalents	40	563	2,067	3,153	4,331	5,565	6,733	7,956	8,890	10,084		
Other current assets												
Infrastructure assets	91,464	101,684	110,343	125,157	130,525	135,473	149,228	158,185	161,087	175,356		
Other non-current assets												
Total assets	91,504	102,247	112,410	128,309	134,855	141,038	155,961	166,142	169,977	185,440		
Liabilities												
Borrowings – current portion	3,900	6,508	7,555	8,640	9,171	9,771	7,709	8,107	8,797	5,392		
Other current liabilities												
Borrowings – non-current portion	23,392	28,934	34,572	34,920	36,620	37,576	38,081	42,803	40,529	40,688		
Other non-current liabilities												
Total liabilities	27,292	35,441	42,127	43,560	45,791	47,348	45,790	50,911	49,326	46,080		
Net assets	64,212	66,805	70,282	84,749	89,065	93,691	110,172	115,231	120,651	139,360		
Equity												
Revaluation reserves				10,329	10,329	10,329	22,004	22,004	22,004	35,150		
Other reserves	64,212	66,805	70,282	74,420	78,736	83,362	88,168	93,227	98,647	104,210		
Total equity	66,805	70,282	84,749	89,065	93,691	110,172	115,231	120,651	139,360	64,212		

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Water Services Delivery Plan: additional information

The Information set out in this section has been taken from the 2024-27 Long Term Plan. This section refers to renewal or capital projects and does not include ongoing maintenance to existing water assets.

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Significant capital projects

Significant capital projects – drinking water										
Significant capital projects – drinking water										
Significant capital projects – drinking water - WDC	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34
Projects to meet additional demand										
Miscellaneous Growth Related	0	0	0	0	0	0	0	0	0	0
Total investment to meet additional demand - WDC	0	0	0	0	0	0	0	0	0	0
Projects to improve levels of services										
Watermain Renewals	2,213,104	10,920	0	0	0	0	0	0	0	0
Total investment to meet improve levels of services - WDC	2,213,104	10,920	0	0	0	0	0	0	0	0
Projects to replace existing assets										
Watermain Renewals	3,385,000	3,634,004	3,428,280	2,036,790	2,220,190	1,683,686	1,421,874	1,046,559	1,252,767	1,448,750
Total investment to replace existing assets - WDC	3,385,000	3,634,004	3,428,280	2,036,790	2,220,190	1,683,686	1,421,874	1,046,559	1,252,767	1,448,750
Total investment in drinking water assets - WDC	5,598,104	3,644,924	3,428,280	2,036,790	2,220,190	1,683,686	1,421,874	1,046,559	1,252,767	1,448,750

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Significant capital projects – wastewater												
Significant capital projects – wastewater – WDC												
	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34		
Projects to meet additional demand												
Miscellaneous	1,650,000	2,454,400	2,723,400	1,372,500	1,746,850	346,200	353,700	1,599,990	404,910	1,250,000		
Total investment to meet additional demand – WDC	1,650,000	2,454,400	2,723,400	1,372,500	1,746,850	346,200	353,700	1,599,990	404,910	1,250,000		
Projects to improve levels of services												
Miscellaneous	200,000	1,352,000	1,110,720	1,701,900	338,100	2,313,770	2,004,300	37,293	0	0		
Total investment to meet improve levels of services – WDC	200,000	1,352,000	1,110,720	1,701,900	338,100	2,313,770	2,004,300	37,293	0	0		
Projects to replace existing assets												
Miscellaneous Renewals	1,060,000	741,600	692,064	365,634	2,773,547	1,734,462	1,960,677	8,840,796	2,338,662	3,350,000		
Total investment to replace existing assets - WDC	1,060,000	741,600	692,064	365,634	2,773,547	1,734,462	1,960,677	8,840,796	2,338,662	3,350,000		
Total investment in wastewater assets – WDC	2,910,000	4,548,000	4,526,184	3,440,034	4,858,497	4,394,432	4,318,677	10,478,079	2,743,572	4,600,000		

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Significant capital projects – stormwater												
Significant capital projects – stormwater												
	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32	FY2032/33	FY2033/34		
Projects to meet additional demand												
Miscellaneous	500,000	1,560,000	1,602,000	0	0	0	0	0	0	0		
Total investment to meet additional demand	500,000	1,560,000	1,602,000	0	0	0	0	0	0	0		
Projects to improve levels of services												
Miscellaneous	411,000	11,440	11,748	1,274,778	1,139,397	1,166,694	1,191,969	1,216,233	1,227,000	1,250,000		
Total investment to meet improve levels of services	411,000	11,440	11,748	1,274,778	1,139,397	1,166,694	1,191,969	1,216,233	1,227,000	1,250,000		
Projects to replace existing assets												
Miscellaneous	565,000	587,600	603,420	71,370	73,255	0	0	0	0	0		
Total investment to replace existing assets	565,000	587,600	603,420	71,370	73,255	0	0	0	0	0		
Total investment in stormwater assets	1,476,000	2,159,040	2,217,168	1,346,148	1,212,652	1,166,694	1,191,969	1,216,233	1,227,000	1,250,000		

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Risks and assumptions

Disclosure of risks and material assumptions for water services delivery				
The risks and assumptions in the table below have been taken from risks already identified by the Wairoa District Council 3 waters team. This list is not intended to be an exhaustive list. Operational risks have been identified and are currently being managed by the Water Services Team of Wairoa District Council. Those risks and mitigations have not been included in this plan due to their operational nature. It is expected WWSCCO will regularly review and update risks on a business-as-usual basis.				
Parameters	Drinking supply	Wastewater	Stormwater	
Key Risks - Future water service delivery - Network performance - Regulatory compliance - Delivery of Capital Programme - Organisational capacity - Long term issues e.g. providing for growth, climate change	Small team may struggle to meet increased compliance and reporting demands.	Risk that large projects are delayed, affecting system resilience.	Limited capital planning may delay essential upgrades, increasing flood exposure.	
Significant assumptions - Future water service delivery - Network performance - Regulatory compliance - Delivery of Capital Programme - Organisational capacity - Long term issues e.g. providing for growth, climate change	Assumes WDC can attract contractors and manage delivery within allocated budgets.	Assumes staged renewals will proceed on schedule with support from external delivery partners.	Assumes stormwater upgrades will be incorporated into wider infrastructure or roading works.	
Risk Mitigation	Pre-plan procurement: break works into deliverable packages.			Monitor project milestones; apply for co-funding; manage scope effectively.
	Include stormwater in renewal programmes			