Funding Approach

1. The funding approach for the In-House Option aligns with Council's draft Financial Strategy and draft 9 year plan as follows:
    a. Balanced budget - the LGA 2002 requires councils to have a balanced budget unless it is prudent to do otherwise. This means fully funding depreciation, which in turn is used to pay for capital expenditure. For 3 Waters, the draft 9 year plan provides 15% per annum rate increases for the first three years leading to a balanced budget (for 3 Waters) by the 2027/28 year.
    b. Debt limit – Council's gross debt limit is 250% of revenue. The LGFA financial covenants limit net debt to 280% of revenue.
2. The funding approach for the CCO Option follows DIA guidance as follows:
    a. Operating revenues pay for operating costs - DIA guidance indicates that financial sustainability and ringfencing requirements mean that operating revenues should be set to a level that covers the operating cost (including debt) of water services. This ensures sufficient operating cashflows are secured to support borrowing and investment requirements (including staying below borrowing limits). Operating revenues, including 3 Waters rates, should cover all cash operating costs plus a minimum FFO.
    b. Capital sources pay for capital investment - DIA guidance indicates that capital expenditure should be funded by capital revenues (such as development contributions) and debt financing.
3. The DIA guidance on CCO funding states:

    "This approach could replace current council approaches to funding of depreciation to generate cash reserves to fund capital investment. Depreciation funding in effect pre funds capital investment and results in a higher cost to consumers than using effective debt financing for investment."

4. The difference in funding approaches means that under the CCO Option, over the 10 year period modelled, charges to customers could be lower and debt higher. This is because more debt is used to pay for capital expenditure. For the In-House Option, more rates income is used to pay for capital expenditure.