



3 Waters – Why costs are increasing?

Why are costs increasing?

This presentation has been prepared to help rate payers understand why 3 Waters rates are projected to increase over the next 10 years using the LWDW 10-year financial modelling. It demonstrates the following:

- A table comparison of costs from year 2 to year 10 of the In-house option and the CCO option. This corresponds with the draft 9YP.
- Summary explanation as to what drives the rates increase under the In-house option and expense analysis.
- Summary explanation as to what drives the rates increase under the CCO option and expense analysis.
- A table comparison of year 10 (year 9 of the draft 9YP) summarised revenue and expenses.
- A comparison of the differences between the two options.
- A comparison of indicative household charges between the two models.
- A comparison of indicative commercial charges between the two models.
- Assumptions for both models.

Comparison of year 2 vs year 10 revenue and expenses

Income Statement	2025/26			2033/34		
	In House	CCO	Difference	In House	CCO	Difference
Operating revenue	108,670	101,038	(7,632)	197,829	194,415	(3,414)
Other revenue	2,887	2,887	-	2,559	2,559	-
Total revenue	111,557	103,925	(7,632)	200,388	196,974	(3,414)
Operating expenses	53,720	55,320	1,600	77,326	78,307	981
Finance costs	12,932	12,790	(142)	29,758	37,357	7,599
Depreciation & amortisation	62,354	62,354	-	90,745	90,745	-
Total expenses	129,006	130,464	1,458	197,829	206,409	8,580
Net surplus / (deficit)	(17,449)	(26,539)	(9,090)	2,559	(9,435)	(11,994)

Rate increase – In-house Option

- 3 Water rates are projected to increase from \$85 million in FY25 to \$187 million in FY34.
- Operational costs (including interest) increase by \$45 million - 71% over the 10 years.
- Depreciation increases by \$27 million - 42% over the 10 years. Depreciation is fully funded by year 3, following 3 years of 15% increases.
- A total capital programme of \$1.1 billion is being funded through depreciation funding, debt and development contributions.
- Increase in debt over the 10 years is \$390 million

Expense analysis – In-House option

- Operational expenses increase as a result of:
 - Inflation– impact of \$57million over the 10 years
 - Allowance for increased maintenance spend on the network and growth (as a result of the capital programme) – impact of \$37million over the 10 years
 - Higher regulatory costs recognised in year 2 (year 1 of the draft 9YP) - \$900k
 - Additional maintenance costs in year 2 (year 1 of the draft 9YP) - \$1.8 million
- Interest costs increase from \$13 million to \$30 million. This is as a result of more debt to fund the \$1.1 billion capital programme plus a slightly higher interest rate from FY29/30. Total increase in Debt is \$390 million over the 10 years.
- Depreciation increases due to the increased capital spend and depreciation on the revaluation of the network.

Rates increase – CCO Option

- 3 Water rates are projected to increase from \$85 million FY25 to \$183 million FY34. This is \$114 million less than the In-House option.
- Operational costs increase by \$53 million - 85% over the 10 years.
- Depreciation increases by \$27 million - 42% over the 10 years. However, this is not fully funded and is replaced by the 10% FFO requirement.
- A total capital programme of \$1.1 billion is being funded through debt and development contributions.
- Increase in debt over the 10 years is \$547 million (\$157 million more than the In-House option).

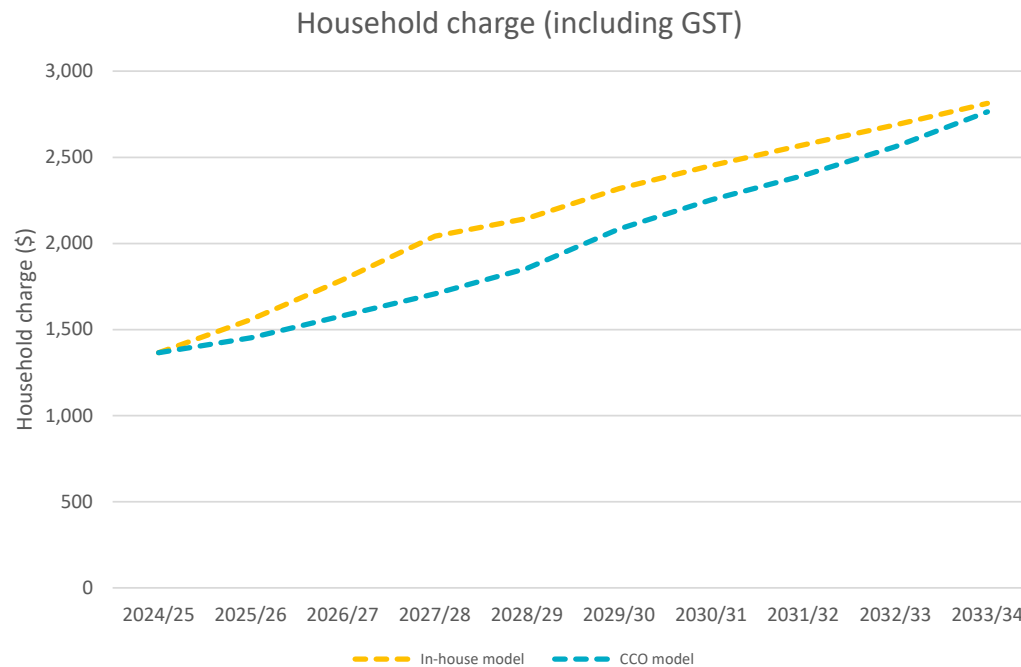
Expense analysis – CCO option

- Operational expenses increase as a result of:
 - Inflation– impact of \$57million over the 10 years
 - Allowance for increased maintenance spend on the network and growth (as a result of the capital programme) – impact of \$37million over the 10 years
 - Higher regulatory costs recognised in year 2 (year 1 of the draft 9YP) - \$900k
 - Additional maintenance costs in year 2 (year 1 of the draft 9YP) - \$1.8 million
 - CCO specific costs (i.e. governance, operating and administration) - \$9 million
- Interest costs increase from \$13 million to \$37 million. This is a result of debt funding \$1.033 billion of the \$1.1 billion capital programme plus a slightly higher interest rate from FY29/30 – Total increase in Debt is \$547 million over the 10 years.
- Depreciation increases due to the increased capital spend and depreciation on the revaluation of the network. This is equivalent to the In-House option however is not fully funded.

Comparison of Total 10 year revenue and expenses

Income Statement	In-House (\$000)	CCO (\$000)	Difference (\$000)
Operating revenue	1,505,784	1,391,807	113,977
Other revenue	26,331	26,331	0
Total revenue	1,532,115	1,418,138	113,977
Operating expenses	576,110	601,226	(25,116)
Finance costs	195,666	230,879	(35,213)
Overheads and support costs	58,191	42,268	15,923
Depreciation & amortisation	738,386	738,386	0
Total expenses	1,568,353	1,612,759	(44,406)
Net surplus / (deficit)	(36,238)	(194,621)	158,383

Household Charges



Household charges (including GST)	In-house	CCO
2024/25	\$1,366	\$1,366
2025/26	\$1,559	\$1,453
2026/27	\$1,790	\$1,580
2027/28	\$2,043	\$1,708
2028/29	\$2,146	\$1,856
2029/30	\$2,318	\$2,085
2030/31	\$2,452	\$2,253
2031/32	\$2,572	\$2,395
2032/33	\$2,688	\$2,562
2033/34	\$2,814	\$2,765

- While this does reflect the current charging model for residential properties, it may not be the charging model used by the CCO. This provides a comparison of the direction charges are likely to go.

Commercial Charges

- Commercial properties have components of their water bill that are based on the capital value of the property. The below schedule provides 3 sample property valuations. \$2,155,224 is the current average property capital value.

Capital value	2025/26			2033/34		
	In-house	CCO	Difference	In-house	CCO	Difference
690,000	3,579	3,177	(403)	6,876	6,727	(149)
2,155,224	9,297	8,296	(1,000)	17,975	17,593	(382)
6,740,000	27,186	24,316	(2,871)	52,705	51,594	(1,111)

Assumptions

In-House Option

- As per the draft 9YP.
- Includes additional audit costs from 2027/2028.
- Includes additional staffing costs for finance and administration.

CCO option

- As per the draft 9YP assumptions above.
- Includes costs for governance – Board of Directors.
- Includes stakeholder governance costs for accountability framework.
- Includes additional costs for Chief Executive and Chief Financial Officer.
- Annual software/IT system costs.
- Office rent and overheads if not maintained in council offices.
- A reduction in “internal costs” from council included in costs above (under review during draft 9YP consultation).
- Establishment costs have yet to be included.