

LOCAL WATER DONE WELL - DECISION ON WATER MODELS FOR CONSULTATION

Department: Legal Services, Finance and 3 Waters

EXECUTIVE SUMMARY

- 1 The purpose of this report is to provide information and analysis so that Council can decide, for the purposes of consultation, on:
 - a) its preferred water services delivery model (Preferred Option); and
 - b) what other option(s) it will consult on (Alternative Option(s))
(together, referred to as “the Water Consultation Options”).
- 2 Staff recommend the following two options as the Water Consultation Options:
 - a) in-House delivery of 3 Waters (In-House Option); and
 - b) an asset owning council-controlled organisation for 3 Waters, with Council as the sole shareholder (CCO Option).
- 3 It is for Council to decide whether it prefers the In-House Option, the CCO Option or any other option. This will require careful weighting by Council of financial and non-financial considerations.
- 4 This report provides detailed information to help inform Council’s decision, including information on:
 - a) Financial and non-financial considerations;
 - b) the Local Government (Water Services Preliminary Arrangements) Act 2024 (Preliminary Act); and
 - c) the Local Government (Water Services) Bill 2024 (December Bill).
- 5 There are a lot of acronyms and definitions used in the context of water reforms. A glossary is attached as Attachment A.

RECOMMENDATIONS

That the Council:

- a) **Decides** to consult on the following two options under the Local Government (Water Services Preliminary Arrangements) Act 2024:
 - i) In-House delivery of 3 Waters (the In-House Option); and
 - ii) An asset owning CCO for 3 Waters, with Council as the sole shareholder (the CCO Option).
- b) **Decides** that its Preferred Option for consultation is the In-House Option.
- c) **Notes** that there will be a report to Council on 18 March 2024 asking Council to approve the water options consultation document.

BACKGROUND

Water Services Reform

Local Water Done Well

- 6 The Government is now in the final stage of their three-stage process implementing its “Local Water Done Well” (LWDW) reform programme.
- 7 The first stage of LWDW saw the repeal of legislation relating to large water services entities. This was in February 2024.
- 8 The second stage of LWDW was implemented with the passing of the Preliminary Act on 2 September 2024. As a result, Council is required to prepare and submit a WSDP to the Secretary for Local Government by 3 September 2025.
- 9 The third stage of LWDW is now underway with the introduction of the December Bill on 10 December 2024. The December Bill provides the enduring settings for LWDW including the framework for economic regulation as well as the more detailed powers and duties for service delivery models.
- 10 Further information on the Preliminary Act and the December Bill is included later in this report.

Requirement for a Water Services Delivery Plan

- 11 Council’s immediate action resulting from the Preliminary Act is to prepare and submit a WSDP to the Secretary for Local Government by 3 September 2025.
- 12 As reported to Council in earlier reports, the WSDP requires information on the WSDM including:
 - a) the anticipated or proposed WSDM or arrangements for delivering water services;

- b) a summary of consultation undertaken as part of developing the WSDM; and
 - c) an implementation plan for delivering the WSDM.
- 13 If Council decided to enter a joint arrangement with one or more other territorial authorities, it could choose to prepare and submit a joint WSDP.
- 14 There is an opportunity to amend a WSDP within a specified timeframe if the proposed amendments are significant and necessary due to exceptional circumstances.
- 15 Council is required by law to give effect to the proposals or undertakings specified in the WSDP. Not doing so could be a ground for appointing a Crown facilitator.

Timeline and Process

- 16 DIA's implementation roadmap for LWDW is shown at Attachment B.
- 17 DIA has also provided a high-level roadmap for Council's planning and delivery, as shown at Attachment C.
- 18 Staff have presented on the WSDP (including on possible WSDMs) to Council at various workshops and meetings since the passing of the Preliminary Act on 2 September 2024. Council adopted a shortlist of three WSDM options at its Council meeting on 25 November 2024: https://infocouncil.dunedin.govt.nz/Open/2024/11/CNL_20241125_AGN_3009_AT_WEB.htm

An overview of the December Bill

- 19 The December Bill is currently going through the Parliamentary process and will be subject to amendment. It is anticipated that the December Bill will be enacted in mid-2025 and that most of the content will come into effect the day after Royal Assent.
- 20 Staff have prepared a draft submission on the December Bill. Councillors have had the opportunity to provide feedback through a workshop. Adoption of the submission is the subject of another Council Report on 26 February 2025.
- 21 It is expected that the December Bill will be divided during the Parliamentary process into two separate Bills (perhaps intended to separate the standalone provisions of the December Bill and the amendments to several other Acts). The two likely names of the separate Bills are:
- a) Local Government (Water Services) Bill; and
 - b) Local Government (Water Services Repeals and Amendments) Bill.
- 22 DIA has now updated its guidance materials given the introduction of the December Bill (Guidance). A copy of the updated Guidance can be found at <https://www.dia.govt.nz/Water-Services-Policy-Future-Delivery-System#Financing>. Specific factsheets have also been referred to through this report. Further general information on LWDW is also available on the DIA website: <https://www.dia.govt.nz/Water-Services-Policy-and-Legislation> .
- 23 As expected, the December Bill is comprehensive covering all aspects of the new water services delivery system and delivery entities. Specific impacts on the options presented in this report are discussed throughout this report. A Summary of the key themes of the December Bill (as previously provided to Councillors) is included at Attachment D.

Preliminary Act

- 24 As presented to Council in earlier reports, the Preliminary Act prescribes the process that Council must use for decision making and consultation on the WSDM.
- 25 Council is not required to comply with the corresponding requirement in the Local Government Act 2002 (LGA 2002) where an alternative process under the Preliminary Act applies.
- 26 The options presented in this report comply with the Preliminary Act.

Requirement to identify at least two potential options

- 27 The Preliminary Act specifies that, during decision making, the Council:
 - a) Must identify both of the following two options for delivering water services:
 - i) Remaining with the existing approach for delivering water services; and
 - ii) Establishing, joining, or amending (as the case may be) a water services CCO (WSCCO) or a joint local government arrangement.
 - b) May also identify additional options for delivering water services and must assess the advantages and disadvantages of all options identified.

Information to be included in Consultation Document

- 28 During consultation, Council must make the following information publicly available:
 - a) The proposal (being the Preferred Option), an explanation of the proposal and the reasons for the proposal.
 - b) An analysis of the reasonably practicable options, which must include:
 - i) the option to remain with the existing approach for delivering water services; and
 - ii) the option to establish, join or amend (as the case may be) a water services CCO (WSCCO) or a joint local government arrangement.
 - c) How proceeding (or not) with the proposal is likely to affect Council's rates, debt, levels of service and water services charges.
 - d) Community implications (if joint) and accountability/monitoring arrangements (if assets transferred).
 - e) Any other relevant implications of the proposal that Council considers will be of interest to the public.

Potential for shared services

- 29 Under either the In-House or CCO Options, there is the potential to add shared water services. There is a separate report to Council on 26 February 2025 regarding a proposed memorandum of understanding between the Dunedin City Council and the Christchurch City Council to investigate the possibility of shared water services.

Overlapping consultation with the 9 Year Plan

- 30 Council is only required to consult once but may decide to undertake further consultation before deciding on a WSDM.
- 31 Consultation on the Water Consultation Options is a separate process from the 9YP consultation process. Consultation on the Water Consultation Options will be under the Preliminary Act whereas consultation on the 9YP will be under the LGA 2002.
- 32 There will be one consultation document for the 9YP and another consultation document for the Water Consultation Options. Each consultation document will cross reference the other.
- 33 Given that a decision on the Water Consultation Options has the potential to impact the 9YP, there will be combined Hearings in May for both the 9YP and the Water Consultation Options.

Consultation requirements with mana whenua

- 34 Council is required to consult with mana whenua under both section 77(1)(c) and section 81 of the LGA 2002 given both references are included under section 60 of the Preliminary Act. Further, section 14(1)(d) of the LGA 2002 also provides that a local authority should provide opportunities for Māori to contribute to its decision-making processes.

Decision Making on a Change Proposal (after enactment of the December Bill)

- 35 The December Bill, as currently drafted, includes new decision-making requirements if there is a “Change of Proposal”. This would only apply following enactment of the December Bill (mid-2025).
- 36 A Change Proposal includes things like establishing a council-controlled organisation (CCO) or agreeing on shared services with another territorial authority.
- 37 If a Change Proposal is triggered, Council would need to consult on three options; being the existing approach, the change proposal and at least one further reasonably practicable option, if available.
- 38 This contrasts with the minimum of two options under the Preliminary Act.
- 39 There is some uncertainty on whether Council would be required to re-consult if Council decided on the CCO Option for its WSDP and the CCO was not established until after enactment of the December Bill. However, DIA has indicated by e-mail to staff that the new decision-making requirements in the December Bill are intended to apply to future decisions by Council outside current decision making required to inform the WSDP. Staff are hoping that the December Bill will be amended to clarify this.
- 40 If Council decided on the In-House Option for its WSDP and then later (for example, in 2 years’ time) decided that it wanted the CCO Option then, based on the current drafting of the December Bill, Council would need to go through a fresh consultation process.

Legal Requirements for Water Service Providers

- 41 As noted in earlier reports:
 - a) A ‘water organisation’ means the separate organisation that territorial authorities may establish or be shareholders in, and which provides water services in accordance with transfer agreements. A water organisation does not include the in-house model. An example of a water organisation is a CCO.

- b) A 'water service provider' is a wider term and means water organisations and territorial authorities. In other words, a water service provider includes both the in-house model and models such as the CCO model.
- 42 Legislative requirements are set out in the December Bill for all water service providers. Additional requirements are included for water organisations. Both sets of requirements are described below.

All Water Service Providers

- 43 The requirements for all water service providers (including in-house delivery) broadly follow earlier DIA guidance with some updates.
- 44 The following summary of these core requirements is taken from the DIA Guidance. Staff have provided further detail on each requirement at Attachment E:

The requirements in the Bill include that all water services providers:



Will be subject to economic, environmental and water quality regulation – further information is available in the factsheets: *Economic regulation and consumer protection*; *Drinking water quality regulation*; and *Wastewater and stormwater environmental performance standards*.



Will be subject to a new planning and accountability framework for water services, including preparing financial statements for water supply, wastewater, and stormwater – further information is in section 3 of this slide pack, and in the factsheet: *Planning and accountability for local government water services*.



Must act in accordance with statutory objectives and financial principles – which include ensuring water services are provided in a cost-effective and financially sustainable manner; that providers must spend the revenue received from providing water services on providing water services; and ensuring the revenue applied to the provision of water services is sufficient to sustain the provider's long-term investment in the provision of water services.



Have a statutory obligation to continue to provide water services – but may enter into a contract with a third party relating to the provision of water services, or a joint arrangement with other water service providers. The Bill includes specific provisions that apply to contracts, including requirements relating to significant contracts.



Will be subject to restrictions against privatisation. For example, the Bill includes prohibitions on losing control, selling or disposing of significant infrastructure, and water services assets cannot be used as security.

Additional Requirements for Water Organisations

- 45 Additional requirements also apply to those councils forming a water organisation e.g., a CCO. These are set out in the Guidance as below including a new requirement relating to a transfer agreement:



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



Current council staff and elected members cannot be appointed to boards (except where the water organisation is wholly owned by trustees of a consumer trust).



Water organisations **must be companies**.*



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



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



Each territorial authority that establishes or becomes a shareholder in a water organisation must prepare a transfer agreement, setting out which responsibilities and other matters (such as assets and liabilities) are being transferred to the water organisation, and which are being retained by the territorial authority.

- 46 It is possible to apply for exemptions from the marked (*) requirements on a case-by-case basis through a legislated process.

DISCUSSION

PART A: WHICH BASE MODELS DOES COUNCIL WANT TO CONSULT ON?

- 47 At Council's meeting on 25 November 2024, Council decided to shortlist three base WSDMs:

- a) In-House Delivery;
- b) Single CCO; and
- c) Regional Multi-Council Entity

(the "shortlist").

- 48 Some initial explanations and comparative analysis on the Shortlist were discussed in the November Report and included some advantages and disadvantages for each: https://infocouncil.dunedin.govt.nz/Open/2024/11/CNL_20241125_AGN_3009_AT_WEB.htm
- 49 Following Council's decision on the Shortlist, there have been discussions with staff at Christchurch City Council regarding the potential for shared water services. This is discussed in a separate report to Council, also on the agenda for 26 February 2025. The intention is to manage shared services through contracts rather than a multi-council entity.

- 50 There have also been discussions with other territorial authorities, but those discussions have not progressed to the stage where there is an identified practicable option suitable for consultation. Without knowing who the participants would be in a Regional Multi-Council Entity, it is difficult to provide any further analysis than what has already been provided through the Morrison Low Report dated 24 October 2024. The Morrison Low report was attached to the [November Report](#).
- 51 As part of considering the Shortlist, staff have considered whether a two waters CCO may be a reasonably practicable option or whether it would be reasonably practicable to use one of Council's existing CCOs for the delivery of water services. For a variety of reasons, these two variations on the CCO Option have not been considered further because they are not seen as being reasonably practicable options.
- 52 Staff consider that the "reasonably practicable options" under the Preliminary Act are:
- a) the In-House Option; and
 - b) the CCO Option.

PART B: WHICH IS COUNCIL'S PREFERRED OPTION?

- 53 Council will need to carefully weigh a variety of financial and non-financial considerations before deciding on its preferred WSDM.

Summary of Financial Considerations

Financially Sustainable

- 54 A WSDP needs an explanation of:
- a) How revenue from and delivery of water services will be separated from the territorial authority's other functions and activities; and
 - b) How Council proposes to ensure delivery of water services will be financially sustainable by 30 June 2028.
- 55 The December Bill specifies the financial principles for water service providers. The financial principles support the ringfencing objectives of LWDW and are supported by DIA guidance: "Ensuring compliance with financial principles for water service providers" (Attachment F). The December Bill also includes objectives to ensure water services are provided in a cost-effective and financially sustainable manner.
- 56 Ringfencing of water services is critical for financial sustainability and revenue sufficiency. The DIA guidance states that ringfencing requires:
- a) Water revenues be spent on water services; and
 - b) Water services charges and expenses be transparent and accountable.
- 57 The Preliminary Act defines 'financially sustainable', in relation to a council's delivery of water services, as:

- a) The revenue applied to the council's delivery of those water services is sufficient to ensure the council's long-term investment in delivering water services; and
 - b) The council is financially able to meet all regulatory standards and requirements for the council's delivery of those water services.
- 58 The DIA Guidance suggests three components to assessing financial sustainability. How councils approach achieving financial sustainability can be different depending on local circumstances and requires councils to consider the balance between the three components:
- a) Revenue sufficiency - having sufficient revenue to cover the costs (including servicing debt) of water services delivery.
 - b) Investment sufficiency - having a sufficient level of investment to meet levels of service, regulatory requirements and provide for growth.
 - c) Financing sufficiency - having sufficient funding and financing arrangements to meet investment requirements.
- 59 The DIA Guidance makes further recommendations about how councils can demonstrate ringfencing. It also provides further information about financial sustainability as well as providing a template for financial projections and a financial sustainability test (See DIA link [https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/Guidance-for-preparing-Water-Services-Delivery-Plans-September-2024.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/Guidance-for-preparing-Water-Services-Delivery-Plans-September-2024.pdf)).
- 60 Further DIA guidance: "Financing water services delivery through establishing new water CCOs" (Attachment G) provides advice on financing options for councils considering the CCO model for water services delivery. The guidance outlines criteria for accessing higher borrowing from the Local Government Funding Agency (LGFA).

Financial Analysis

- 61 The following financial analysis has been prepared to support Council's decision making in preparation of the WSDP. The analysis does not provide the level of detail required in the WSDP but does provide a level of analysis and information that demonstrates the financial impacts of each option being considered.
- 62 Two sets of forecast financial statements for the 10 year period 2024-34 have been prepared:
- a) The In-House Option - as per the approved 2024/25 Annual plan and draft 9 year plan 2025-34 (9 year plan) (Attachment H) and
 - b) The CCO Option – a 3 Waters CCO, as at 1 July 2025 (Attachment I).
- 63 A series of tables comparing the two options have been included in Attachment J.
- 64 Although in practice a CCO probably would not be established until 1 July 2027, the modelling assumes a date of 1 July 2025 to provide financial comparison over the longest period possible.
- 65 The WSDP requires a minimum of ten years of financial projections for water services, covering the financial years 2024/25 - 2033/34. Due to the inherent uncertainties with forecasting, the financial forecasts provided do not go beyond the 2033/34 year.

- 66 As mentioned above, DIA provided a template to use for the financial sections of the WSDP. This includes financial projections, measures and charts required in the financial sustainability assessment. Staff have used these templates for the financial analysis of the two options.

Assumptions

- 67 Key assumptions underlying both options are:
- a) 1 July 2024 opening balance sheet to ringfence 3 Waters for modelling purposes.
 - b) The 2024/25 Annual Plan is year 1 (due to the 9 year plan only being 9 years).
 - c) The starting point is the draft 9 year plan 2025-34.
 - d) Total operating expenditure of \$1.568 billion and total capital expenditure of \$1.095 billion is forecast over the 9 year plan.
 - e) No allowance is made for savings as a result of efficiencies.
- 68 Each option assumes additional operating costs as follows:
- a) An increase in staff resourcing to meet new regulatory requirements, customer service, finance and billing.
 - b) Additional levies to Taumata Arowai (Water Services Authority) and the Commerce Commission.
 - c) Additional audit fees for additional financial reporting requirements.
- 69 The CCO Option attracts further operational costs, in particular governance and leadership.
- 70 Some corporate costs, including fleet, would shift from Council to the CCO, however some internal costs could remain as stranded costs within Council and need to be managed over time. Further work on this is required and will be underway in the coming months. An update on this work will be provided to Council in May.
- 71 LGFA have agreed in principle to lend up to 500% of operating revenues to a 3 Waters CCO, creating additional borrowing capacity. The CCO Option assumes access to this borrowing limit. It also assumes a Funds From Operations (FFO) of 10% of debt. LGFA has advised that most water CCOs will have a minimum FFO to debt ratio of between 8% and 12%, depending on credit profile. These will be negotiated with each water CCO.
- 72 Transitional costs need to be accounted for but these are yet to be determined.
- 73 In order to ensure compliance with the financial principles and financial sustainability provisions, current systems (including finance and asset management) are likely to need investment, for either option. A provisional amount for this has been included in the 9 year plan.

Funding Approach

- 74 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.

75 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.

76 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.”

77 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.

In-House Option

78 Under this option, 3 Waters remains in-house. This option is consistent with the draft 9 year plan. The key financial outcomes are:

Table 1

	In-house Option Year 10 Amount	In-house Option 10 Year Total
Operating revenue (\$ billion)	0.198	1.506
Operating expenditure incl interest (\$ billion)	0.198	1.568
Interest expense (\$ million)	30	196
Capital expenditure (\$ billion)	0.162	1.095
3 Waters debt (\$ billion)	0.630	
Council debt (\$ billion)	1.092	
LGFA debt limit (%)	280% for overall council	

- a) Operating revenue (excludes development contributions of \$26 million) over the 10 years is \$1.506 billion.
- b) Rate increases of 15% per annum for the first three years, followed by an average of 6% for the remaining years.
- c) The average customer charge per connection (including GST) increases from \$2,024 in 2024/25 to \$4,280 in 2033/34.
- d) Operating expenditure over the 10 years is \$1.568 billion, including interest costs of \$196 million.
- e) Net surplus is achieved in the 2027/28 year.
- f) Capital expenditure over the 10 years is \$1.095 billion.
- g) 3 Waters debt is \$630 million by 30 June 2034.
- h) Total Council debt is \$1.092 billion by 30 June 2034. Council debt remains within the 250% debt limit throughout the period. By year 10, debt reaches 174% of revenue. Council debt remains within the LGFA net debt limit of 280%. By year 10, net debt reaches 156% of revenue.

CCO Option

- 79 Under this option, a 3 Waters CCO is established. As indicated above, operating revenue covers cash operating expenses plus an FFO margin of 10%. The key financial outcomes are:

Table 2

	CCO Option Year 10 Amount	CCO Option 10 Year Total
Operating revenue (\$ billion)	0.194	1.392
Operating expenditure incl interest (\$ billion)	0.206	1.613
Interest expense (\$ million)	37	231
Capital expenditure (\$ billion)	0.162	1.095
3 Waters debt (\$ billion)	0.788	
Council debt (\$ billion)	0.463	
LGFA debt limit (%)	500% for CCO only	

- a) Operating revenue (excludes development contributions of \$26 million) over the 10 years is \$1.392 billion.
- b) Annual increases in water charges range from 5.8% in 2025/26 to 13.1% in 2029/30. The average price increases over the 9 year plan timeframe is 8.5%.
- c) The average customer charge per connection (including GST) increases from \$2,024 in 2024/25 to \$4,202 in 2033/34.
- d) Operating expenditure over the 10 years is \$1.613 billion including interest costs of \$231 million.

- e) The CCO Option does not achieve a balanced budget during the 10 year period because operational revenues cover operational cash expenses only (not depreciation) plus the FFO requirement (modelled at 10%). Over time, as debt and therefore the FFO requirement increases, the deficit reduces.
- f) Capital expenditure over the 10 years is \$1.095 billion.
- g) Debt is \$788 million by 30 June 2034. This is within the 500% LGFA net debt limit. By year 10, debt reaches 405% of revenue.
- h) Council debt excluding 3 Waters is considered in paragraphs 80-83 below.

In-House Option compared to the CCO Option

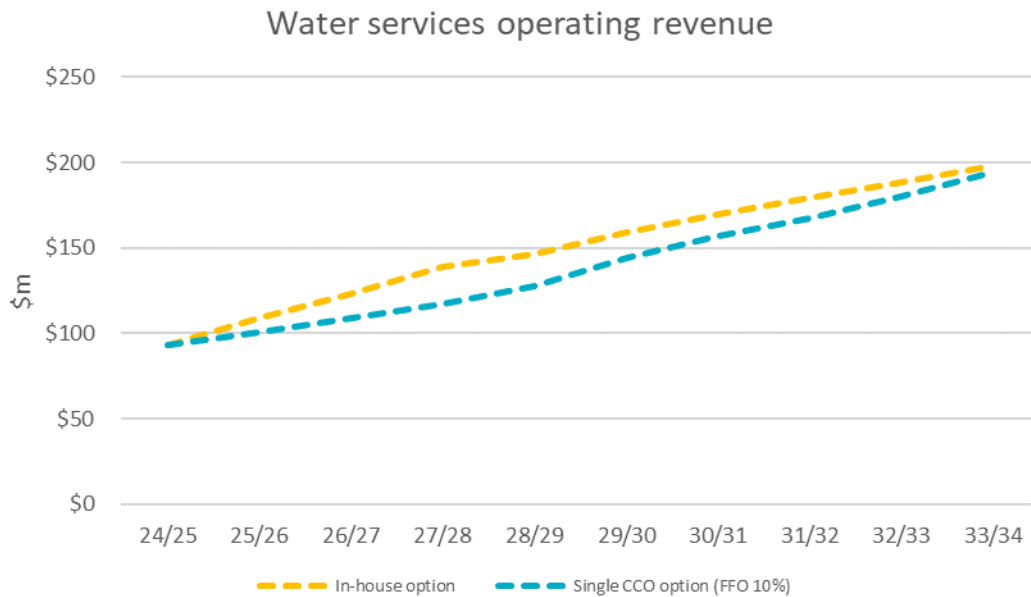
80 The key financial differences between the two options are discussed below. Table 3 summarises financial information for year 10 (2033/34) and the 10 year total for each of the options.

Table 3

	In-house Option Year 10 Amount	In-house Option 10 Year Total	CCO Option Year 10 Amount	CCO Option 10 Year Total
Operating revenue (\$ b)	0.198	1.506	0.194	1.392
Operating expenditure incl interest (\$ b)	0.198	1.568	0.206	1.613
Interest expense (\$ m)	30	196	37	231
Capital expenditure (\$ b)	0.162	1.095	0.162	1.095
3 Waters debt (\$ b)	0.630		0.788	
Council debt (\$ b)	1.092		0.463	
LGFA debt limit (%)	280% <i>for overall council</i>		500% <i>for CCO only</i>	

- a) Over the 10 year period, operating revenue under the CCO Option is \$114 million less than the In-House Option. As discussed in paragraph 76 above, charges to customers are lower. More debt is used to pay for capital expenditure than under the In-House Option, where more rates funding is used to fund capital expenditure. The CCO Option would debt fund an additional \$157 million over the 10 year period. Chart 1 below shows the profile of operating revenue under each option over the 10 year period. By the 2033/34 year, operating revenue is \$198 million in the In-House Option and \$194 million in the CCO Option.

Chart 1

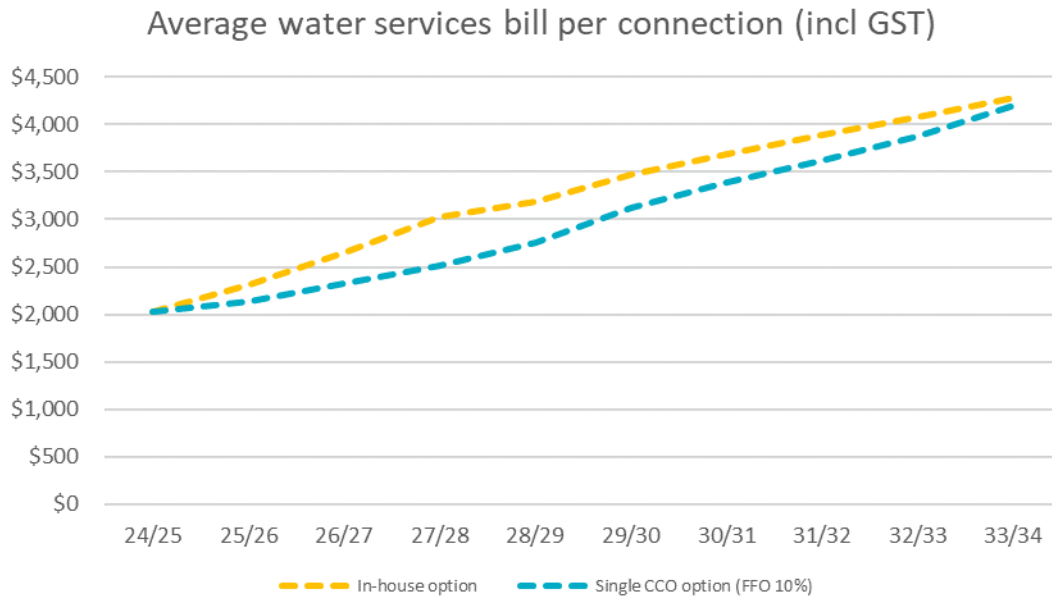


- b) The average charge per connection under both options is provided in Table 4 and Chart 2 below. The average charge per connection is lower in the CCO Option, however the difference (saving) reduces as more debt is raised. While this does not reflect the current charging model, it provides a comparison:

Table 4

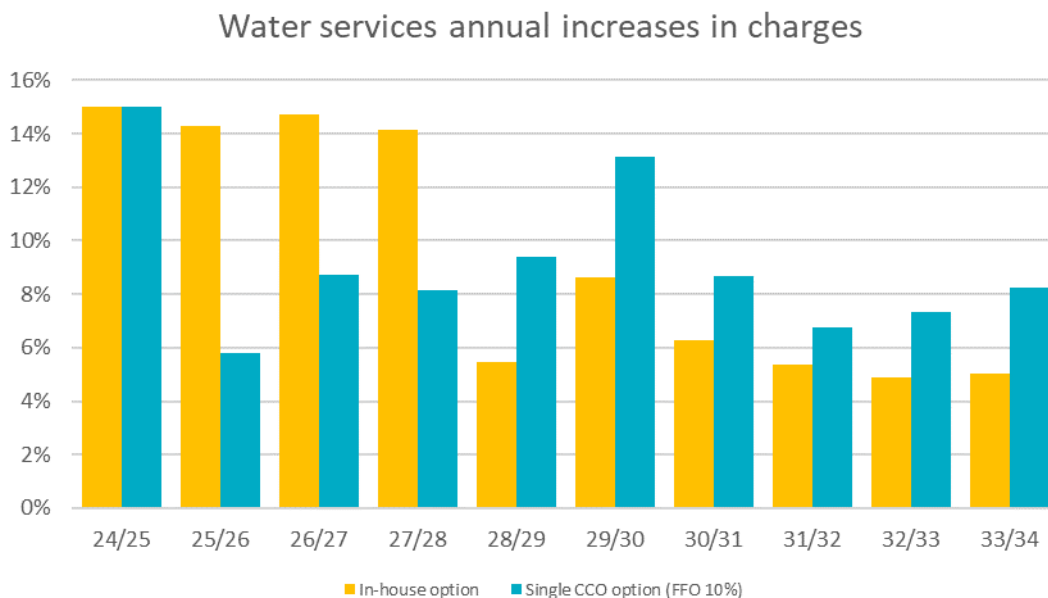
Average charge per connection per year (including GST)	In-house	CCO	Difference
2024/25	\$2,024	\$2,024	\$0
2025/26	\$2,314	\$2,142	\$172
2026/27	\$2,654	\$2,329	\$325
2027/28	\$3,029	\$2,519	\$510
2028/29	\$3,194	\$2,755	\$439
2029/30	\$3,469	\$3,117	\$352
2030/31	\$3,687	\$3,388	\$299
2031/32	\$3,885	\$3,617	\$268
2032/33	\$4,076	\$3,882	\$194
2033/34	\$4,280	\$4,202	\$78
Total	\$32,611	\$29,975	\$2,636
Average connection charge	\$3,261	\$2,998	\$263

Chart 2



- c) Annual increases in charges for water services are higher for the In-House Option for the first three years of the 9 year plan period (2025/26 – 2027/28), reflecting Council fully funding depreciation by 2027/28. From the 2028/29 year, the annual increases are higher in the CCO Option. This is illustrated in the Chart 3 below:

Chart 3

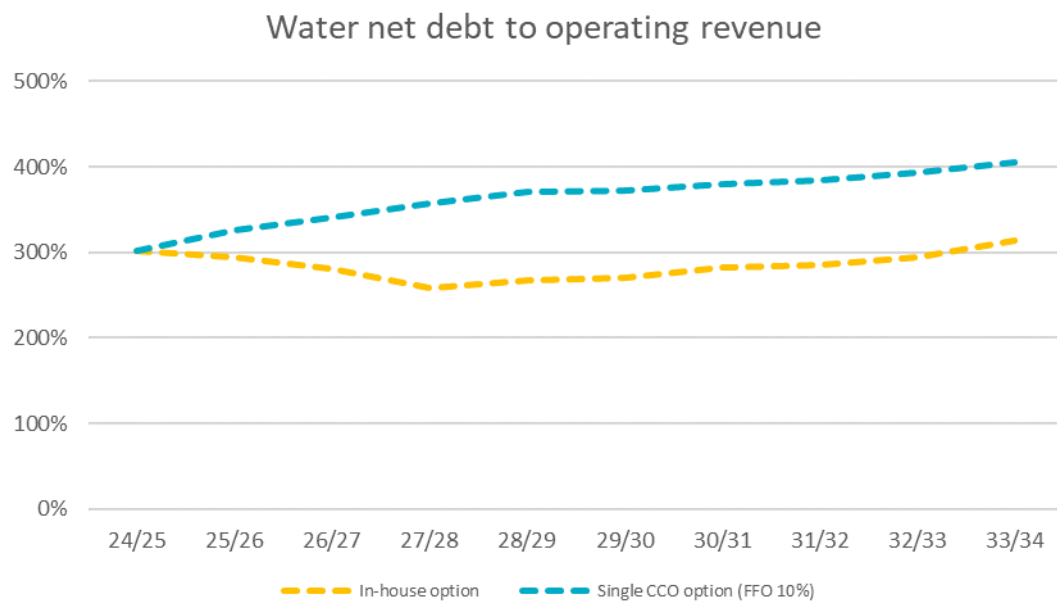


- d) Operating expenditure under the CCO Option is \$44 million higher than the In-House Option due to additional interest (\$35 million) and CCO related operational costs (\$9 million).
- e) Net surplus/(deficit) is different in each option and this reflects the different funding approaches. The In-House Option achieves a balanced budget in the 2027/28 year. The CCO Option does not achieve a balanced budget during the 10 year period because

operational revenues cover operational **cash** expenses only (not depreciation) plus the FFO requirement (modelled at 10%). As debt increases so does the FFO requirement therefore the deficits will reduce.

- f) Capital expenditure over the 10 year period is the same for each option.
- g) Under the CCO Option, 3 Waters debt is \$157 million higher than the In-House Option due to the reduction in operating revenue and the additional interest and operating costs. By year 10, net debt reaches 405% of revenue in the CCO Option and 314% in the In-House Option. The graph below shows the debt to revenue metric for each option:

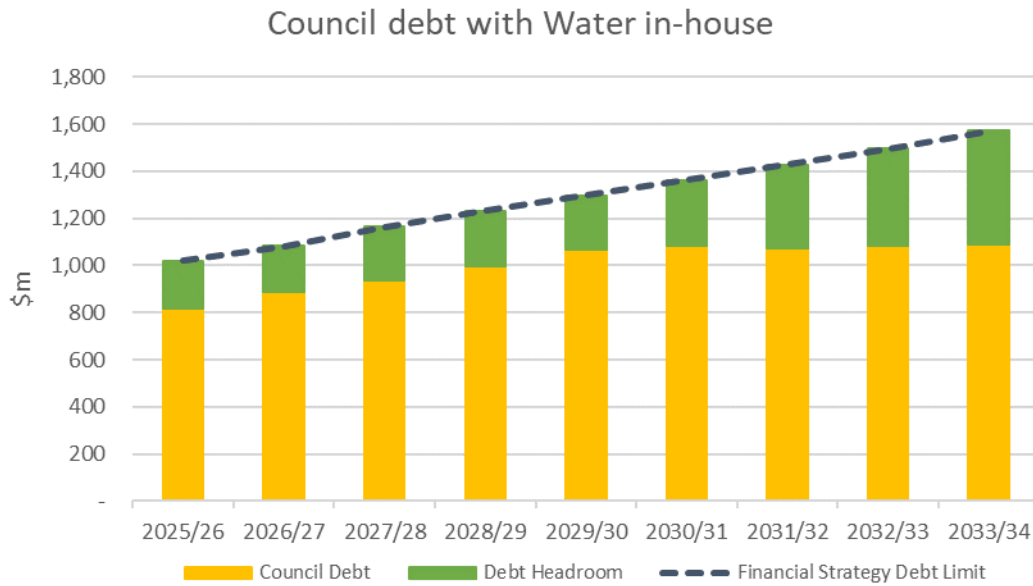
Chart 4



Council excluding 3 Waters

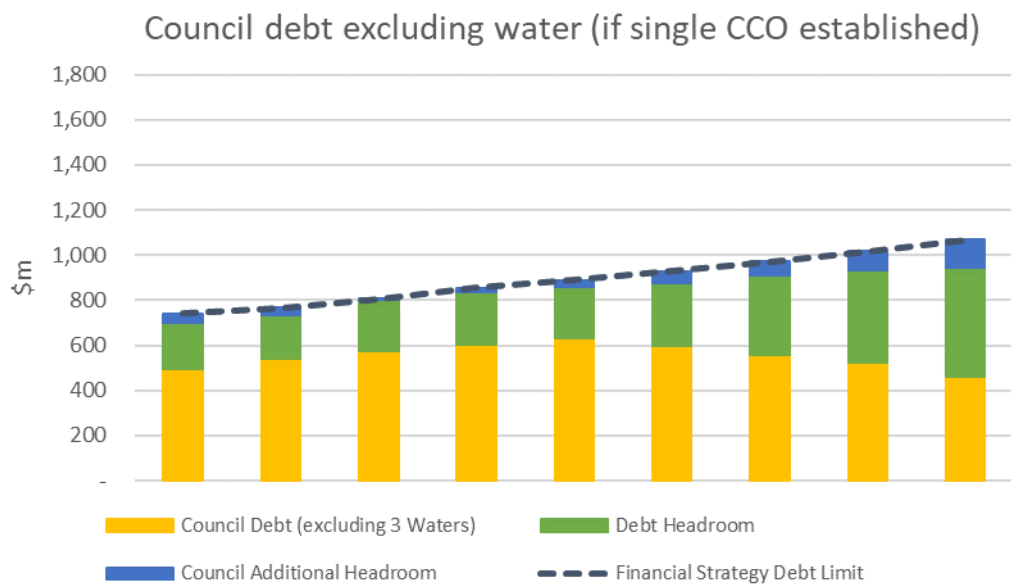
- 81 The establishment of a CCO for 3 Waters results in Council having less debt. This would create additional debt headroom compared to the in-house option, as shown in the two charts below, due to the ratio of revenue to debt improving without 3 waters. The debt limit indicated on each chart is the Council 250% limit.
- 82 Chart 5 shows the in-house option. The headroom in the 2033/34 year is \$480 million.

Chart 5



- 83 Chart 6 shows Council excluding 3 Waters. The headroom in the 2033/34 year is \$603 million, \$124 million higher than the In-House Option.

Chart 6



- 84 The debt forecast for both options, for Council companies and the total Council group have been summarised in Attachment J. This attachment also provides associated financial metrics. Group debt under the In-House Option reaches \$2.26 billion by 2033/34 and under the CCO Option group debt reaches \$2.42 billion by 2033/34.

Other Considerations

- 85 There are a number of possible scenarios. For example, in the CCO Option, expenditure could be increased if customer charges are maintained at the in-house level. Noting that all scenarios will be subject to the regulatory compliance.
- 86 The FFO margin is required to meet revenue sufficiency requirements and ensure debt is appropriately serviced. Financial modelling for the single CCO option has used a 10% FFO, the mid-point of the LGFA's suggested range of 8-12%. Attachment K compares the In-House Option against the CCO option with the FFO margin set at 8% and 12%. Generally:
- a) A higher FFO margin increases operating revenue, resulting in higher customer charges, lower debt and lower interest expense.
 - b) A lower FFO margin decreases operating revenue, resulting in lower customer charges, higher debt and higher interest expense.

Summary of Non-financial Considerations

- 87 There are a wide range of considerations that are non-financial considerations, including the following:
- **Regulatory Compliance:** The capacity to meet current and future water quality, environmental, and economic regulations.
 - **Service Delivery and Operations:** The effectiveness and efficiency of day-to-day operations, including resource allocation and infrastructure management. Includes ease in modernising the customer experience, access and leveraging specialist skills/staff as well as digital systems.
 - **Governance and Control:** The degree of Council oversight, including through development of the water services strategy.
 - **Implementation Feasibility:** The practicality, cost, and risk of transitioning to the model, ensuring minimal disruption to services.
- 88 Staff set out below an analysis of these non-financial considerations.

Regulatory Compliance:

- 89 Regulatory compliance is non-negotiable for water services delivery in both the In-House Option and CCO Option. Whether Council establishes a CCO or decides on an In-House Option, it will be subject to:
- a) economic regulation; and
 - b) environmental and infrastructure regulation.
- 90 The second page of the Implementation Roadmap (Attachment B) shows the different types of economic, environmental and infrastructure regulation.
- 91 Regarding economic regulation:
- a) The Commerce Commission will have a range of tools to promote sufficient revenue recovery, and efficient investment and maintenance so that water services meet regulatory requirements. These are summarised in the DIA Guidance called "Economic regulation and consumer protection": <https://www.dia.govt.nz/diawebsite.nsf/Files/>

[Water-Services-Policy/\\$file/LWDW-Bill-3-factsheet-Economic-regulation-and-consumer-protection.pdf](#)

- b) The expected timelines for economic regulation tools are set out in the table below:

Milestone	What this means for providers
Early 2025	Stakeholders will be asked to provide feedback on Commerce Commission consultation on information disclosure under the Local Government (Water Services) Preliminary Arrangements Act 2024.
Mid-2025 Full economic regulation regime comes into effect	All regulated providers will be subject to a requirement for all revenues from regulated water services to be spent on regulated water services. The Commerce Commission will monitor compliance, with the ability to enforce any breaches that occur post 1 July 2027.
Sep 2025	Through their Water Services Delivery Plans, councils provide baseline information about their water services operations, assets, revenue, expenditure, pricing, and projected capital expenditure, as well as necessary financing arrangements. This information is shared with Commerce Commission to inform the development of the economic regulation regime.
Late 2025	Stakeholders will be asked to provide feedback on Commerce Commission consultation on potential information disclosure requirements.
From 2026, when necessary Revenue thresholds	Providers could be subject to revenue thresholds. This means they will receive a clear direction from the Commerce Commission about the level of revenue they should collect.
From 2026, if required, after designation Quality regulation	Under quality regulation, providers could be subject to quality standards or quality incentives to improve services.
From 2026, if required, after designation Performance requirement regulation	Under performance requirement regulation, providers could be required to perform certain actions to improve performance.
From mid-2026, if required, after designation Price-quality regulation	Under price-quality regulation, providers could be subject to minimum and/or maximum prices, and/or minimum and/or maximum revenues, alongside quality and performance requirements.
Late 2026	Providers are expected to make the first information disclosures under the new regime, based on the 2026/27 financial year.

- c) If Council decides on the CCO Option for its WSDP, then the Commerce Commission would regulate the CCO.
- d) If Council decides on the In-House Option for its WSDP, then:
- i) the Commerce Commission would regulate those parts of the Council that directly and indirectly deal with water services; and
 - ii) there will be a significant amount of work required (in a short period of time) to ensure that Council complies with the regulatory framework, particularly the requirement to ringfence water services from the finances of the rest of Council.

92 Regarding environmental and infrastructure regulation:

- a) Council already has established governance frameworks that facilitate strong compliance with water quality and environmental regulations.
- b) A CCO would focus solely on water services, which creates a dedicated focus. However, the CCO Option would require significant work to establish compliance management during a transition period and would require strong ongoing collaboration with Council to ensure alignment with broader environmental and community goals.

Service Delivery and Operations:

93 At present:

- a) Water services are integrated with other Council functions, as there are a lot of interdependencies. For example, flood management, parks, urban planning, resource consenting and the transport network. This enhances co-ordination and efficiency.
- b) The three waters team routinely co-ordinates with other teams within Council.

94 If there was a CCO for water services, then there is a risk of a “silo-type” approach. This would particularly be the case if the CCO offices were not co-located within the Council’s offices. While there is provision in the December Bill for a stormwater network service agreement between those entities having a role, function or interest in the operation of stormwater infrastructure in the area (including the Council and a CCO), there is a risk that the approach would be less co-ordinated than the In-House Option.

95 There is a perception within parts of the water sector that the CCO Option may be better able to attract and retain specialised expertise in water management, engineering, and compliance. It is difficult at this stage to know whether that is true. If Council proceeds with shared services (eg with Christchurch City Council), then it is likely that Council staff would get the opportunity to work with their peers.

96 Systems will need to be upgraded to ensure financial separation in both the In-House and CCO Options. The cost of these systems is expected to be substantial.

Governance and Control:

97 This topic is covered under the DIA’s factsheet called: Planning and accountability for local government water services: [https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/LWDW-Bill-3-factsheet-Planning-and-accountability-for-local-government-water-services-updated-Dec-2024.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/LWDW-Bill-3-factsheet-Planning-and-accountability-for-local-government-water-services-updated-Dec-2024.pdf).

98 Under the In-House Option, Council would remain as the governing body for water services, and it would retain control (subject to regulatory requirements) over how water services are funded and charged to the community, including rates and the possibility of volumetric charging.

99 Under the CCO Option:

- a) Strategic oversight would remain with Council, but operational control would be transferred to the CCO’s board and management.

- b) Staff expect that, if Council chooses the CCO Option as its WSDM, then the most likely date that it would be established would be 1 July 2027 although it could in theory be earlier.
 - c) Council (as shareholder) would prepare a statement of expectations setting out the expectations, priorities, and strategic direction for the water organisation to inform and guide the decisions and actions of the board. Water organisations must give effect to these statements.
 - d) Council would be the sole shareholder. The shareholding would not be through Dunedin City Holdings Limited (DCHL). This is because the legislative framework specifies that a water organisation must be wholly owned by one or more local authorities (or trustees of consumer trusts).
 - e) Council could appoint directors to a board directly (or could appoint a committee) and ensure that relevant perspectives were brought to the director appointment process (flexibility to appoint mana whenua, community or consumer representatives) subject to statutory requirements including competency, collective skills, knowledge and experience.
 - f) The CCO would have less flexibility in how it charges for water being restricted from using property value-based charges and requires transition to specific water charges, such as fixed fees or volumetric billing within five years.
- 100 Under both the In-House Option and the CCO Option, there is a requirement to prepare:
- a) a water services strategy; and
 - b) a water services annual report.
- 101 The water services strategy is a single comprehensive water focused document which must be prepared every three years. There will be an annual budget in the intervening years.
- 102 The first water services strategy is to be adopted so it takes effect from 1 July 2027 (or an earlier date as determined by the water service provider) and ending on the 30 June 2030. Likewise, the first water services annual report would start on 1 July 2027 (or earlier in line with the water services strategy) and end on 30 June 2028.
- 103 The water services strategy will set out how the provider is proposing to perform, respond to local expectations and priorities, and meet statutory objectives and regulatory requirements. It will include financial forecasting information over 10 years, and infrastructure and investment information over more than 30 years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy.
- 104 Under the In-House Option, Council would be required to consult communities in relation to its proposed water services strategy. Under the CCO Option, the CCO would be required to consult with Council (as its shareholder).
- 105 Under the CCO Option, the Council would determine the nature of its involvement in preparing and finalising the water services strategy. Council would ensure that information on its preparation and finalisation of the water services strategy is included in the CCO's constitution, or elsewhere.

- 106 The water services annual report is a document reporting on the water service provider's actual performance against the expectations and proposals in water services strategy and, if applicable, in the statement of expectations.

Implementation Feasibility

- 107 The In-House Option is expected to have the least initial setup costs and to be the most straightforward to implement. However, there will be significant costs and changes required to meet the regulatory regime. For example, there will need to be new systems for ring-fencing and water billing.
- 108 The CCO Option provides an opportunity to invest in a new fit for purpose entity within the new water services framework. However, the CCO Option has a higher initial cost to implement as well as being potentially more disruptive in the short term due to transition.
- 109 There is a perception in parts of the water sector that the CCO Option may offer long-term efficiencies (assuming a successful transition, operational integration, a robust implementation plan and resource allocation).
- 110 Shared services could be added to either the In-House Option or the CCO Option (noting that shared services may trigger a requirement for further consultation).

OPTIONS

- 111 The Preliminary Act requires Council to choose its future WSDM.
- 112 There are a range of advantages and disadvantages for both the In-House Option and the CCO Option. In essence, the In-House Option provides Council with direct control over water services, ensuring residents can participate in decision making through usual local democracy practices, and there is alignment with broader Council strategies and Council functions. However, the CCO has access to higher borrowing and operates under different financial arrangements.
- 113 The Council's financial modelling is over a 10-year period (2024-2034). It is not possible to accurately model beyond this period, but the models prepared show that the option to reduce charges to customers decreases towards the end of the modelled period when there is increased debt.
- 114 Although it is finely balanced, staff recommend that Council:
- a) Consult on the In-House Option and the CCO Option; and
 - b) Decides its Preferred Option for consultation is the In-House Option.
- 115 This recommendation is set against the context that:
- a) Council's decision on its Preferred Option will be subject to public consultation.
 - b) The draft 9YP supports the ability of Council to retain 3 Waters.
 - c) Council has a proven ability to deliver water services to a high standard. Council over the last 5 years has invested in the capital programme and has accelerated investment in both planning and delivery. This means the 3 Waters Team and Council's contractor base are well positioned to continue delivery at pace.

- d) Council is in the process of investigating shared services with Christchurch City Council. It would be helpful to have time to see how and to what extent the shared services, in practice, assist Council to achieve cost reductions and enhance water services.
 - e) Subject to changes in legislation or Government direction, if Council chooses the In-House Option now it would still be open to Council to later decide that it wants to establish a CCO. For example, Council could decide as part of its next long term plan process in 2027 that it would like to re-consult the public on the Council's WSDM.
 - f) If Council chooses the CCO Option, then this may be difficult to unwind in the future.
 - g) It is unclear what the long-term benefits or risks would be after the end of the modelled period.
- 116 It is possible that there will be future water reforms. Without knowing what those reforms may be, it is not clear whether Council would be in a better position for legislative change under the In-House Option or the CCO Option. The potential for legislative change has not therefore been discussed as an advantage or a disadvantage under the options.
- 117 Similarly, it is likely that there will be systems, staff and technology costs under both the In-House and CCO Options, so these have not been discussed as an advantage or disadvantage.
- 118 The governance arrangements under the In-House Option and the CCO Option are different, but there are mechanisms available to ensure that each entity has specialist advice available.
- 119 The impact on emissions and zero carbon is likely to be similar whether the Preferred Option is the In-House Option or the CCO Option. Should Council decide on the CCO Option, then the Statement of Expectations for the CCO could include provisions regarding emissions and zero carbon.

Option One – Recommended Option - In-House Delivery as the Preferred Option, and CCO is the additional reasonably practicable option

- 120 Under this option, Council would:
- a) Decide to consult on the following two options under the Local Government (Water Services Preliminary Arrangements) Act 2024:
 - i) In-House delivery of 3 Waters (the In-House Option); and
 - ii) An asset owning CCO for 3 Waters, with Council as the sole shareholder (the CCO Option).
 - b) Decide that its Preferred Option for consultation is the In-House Option.
 - c) Note that there will be a report to Council on 18 March 2024 asking Council to approve the water options consultation document.

Advantages

- Retains local control and accountability.

- Strong integration with other Council functions (e.g., flood management and urban planning) which supports operational efficiencies and aligns with Council's broader strategies and city-wide priorities (subject to regulation).
- Builds on Council's successful delivery of water services.
- Financial modelling indicates that the Council Group would take on less debt under the In-House Option.
- Avoids the costs of establishing a CCO and minimises transition costs (noting however that the In-House Option will have significant costs associated with setting Council up so that it can comply with the new regulatory regime).
- Council's draft 9YP retains water while remaining within Council's debt-to-revenue limit of 250% and the LGFA net debt limit of 280%.
- This option would allow Council time to test how the In-House Option works under the new regulatory regime, and to see the effects of any shared services arrangements (such as those currently being investigated with Christchurch City Council).
- This option does not prevent Council from reconsidering its WSDM later, such as in 2027 as part of the next Long Term Plan process and developing a Water Services Strategy.

Disadvantages

- Financial modelling shows this option as having fewer potential savings to households.
- Council does not have access to the 500% debt to revenue ratio that is available under the CCO Option.
- The In-House Option could constrain Council's ability to spend in areas other than water and/or to deal with large-scale infrastructure investments not already budgeted for in the draft 9YP.
- Council will need to establish new mechanisms for ringfencing water revenue and costs.
- The Commerce Commission will have wide powers, with the ability to consider matters relating directly and indirectly to water services.
- Lacks single focus on delivering water services and does not ringfence legal liability to within the CCO.
- Arguably, less commercial and/or agile due to the legislative framework for councils.
- Does not capture scale benefits and may not attract specialist staff, although this may be mitigated through shared services arrangements.

Option Two – CCO is the preferred option and In-House Delivery is the additional reasonably practicable option, with the option of any add-ons, subject to further analysis

- 121 This option is the same as option one, except Council's Preferred Option would be a CCO instead of In-House. Therefore, under this option, Council would:

- a) Decide to consult on the following two options under the Local Government (Water Services Preliminary Arrangements) Act 2024:
 - i) In-House delivery of 3 Waters (the In-House Option); and
 - ii) An asset owning CCO for 3 Waters, with Council as the sole shareholder (the CCO Option).
- b) Decide that its Preferred Option for consultation is the CCO Option.
- c) Note that there will be a report to Council on 18 March 2024 asking Council to approve the water options consultation document.

Advantages

- Financial modelling shows this option as having potentially greater savings to households -\$114 million over the 10 years modelled.
- LGFA will allow a debt to revenue ratio of 500% (compared to 280% for Council under the In-House Option).
- Does not constrain Council's ability to spend in areas other than water.
- The Council would not be subject to the new regulatory regime, and the associated compliance costs associated with that regime.
- The CCO's single focus would be on delivering water services.
- Legal liability would be ringfenced to within the CCO (at least to some extent).
- The CCO must give effect to statement of expectations (if consistent with CCO's purpose and statutory objectives).
- A director of a CCO must be appointed based on their competency to perform the role, and the directors of a CCO must collectively have an appropriate mix of skills, knowledge, and experience in relation to providing water services.
- Accountability to the Council as shareholder via regular reporting and annual reporting.
- Arguably, a CCO may be more commercial and/or agile due to it not operating under the same legislative framework as councils.

Disadvantages

- Potential for higher debt, with the associated risk and cost of servicing higher debt. Council Group will have an extra \$157 million of debt.
- Risks reduced co-ordination with Council functions if not adequately managed.
- Independent governance introduces risks of misalignment with Council priorities (unless effectively managed through governance arrangements and key accountability documents).
- Potential for reduced community input.

- Accountability to consumers for service delivery potentially blurred.
- Establishment and transition costs reduce immediate value.
- If Council found that the CCO Option was problematic, it would be difficult to unwind the arrangements.

NEXT STEPS

- 122 The next steps are currently being discussed with Audit New Zealand, who are currently in the process of auditing Council's 9YP CD. The Water Options CD does not need to be audited.
- 123 Although the 9YP process and the WSDP process are two separate processes undertaken under separate legislation, the 9YP CD and the Water Options CD will need to be cross-referenced and the processes will need to run in parallel.
- 124 Staff expect that the process will be essentially as follows (although this is subject to change depending on the approach taken by Audit New Zealand):
- a) Staff will report back to Council on 18 March 2025 with a draft Water Options CD for approval by Council.
 - b) The Water Options CD and 9YP CD will be released and open for submissions from 31 March 2025 to 30 April 2025.
 - c) There will be combined Hearings in the week commencing 5 May 2025 on the Water Options and the 9YP.
 - d) As soon as possible after the Hearings (mid-May), Council will decide on its WSDM. A decision on the WSDM would need to be made in mid-May so that staff can update the 9YP to reflect the WSDM, as required, and to allow time for the Audit Report on the 9YP.
 - e) Council will adopt its 9YP prior to 30 June 2025, and will submit its WSDP to the Secretary for Local Government before 3 September 2025.

Signatories

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Attachments

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SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This report enables democratic local decision making and action by, and on behalf of communities and promotes the social, economic environmental and cultural well-being of communities in the present and for the future.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Economic Development Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Environment Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
3 Waters Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Future Development Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Integrated Transport Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Parks and Recreation Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Other strategic projects/policies/plans	✓	<input type="checkbox"/>	<input type="checkbox"/>

This report has been prepared with reference to the Dunedin strategic framework.

Māori Impact Statement

Council will be consulting on the models directly with iwi Māori through Te Pae Māori.

Sustainability

Financial sustainability of local government water services is a key objective of the Government's 'Local Water Done Well' policy. The Preliminary Act and December Bill are designed to implement this policy and ensure delivery of water services is financially sustainable.

Zero carbon

The impact on emissions and zero carbon is likely to be similar whether the Preferred Option is the In-House Option or the CCO Option. Should Council decide on the CCO Option, then the Statement of Expectations for the CCO could include provisions regarding emissions and zero carbon.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

There are significant implications for the LTP, and associated documents. Audit New Zealand expects Council's 9YP CD to reflect the Preferred Option and Council's 9YP to reflect either the Preferred Option or the WSDM (depending on timing).

Financial considerations

The financial considerations are discussed in depth in this report.

Significance

The matters discussed in this report are considered high in terms of the Council's Significance and Engagement Policy. There will be public consultation on the water services delivery models in accordance with legislation.

SUMMARY OF CONSIDERATIONS

Engagement – external

There is engagement with other territorial authorities, mana whenua and Audit New Zealand as discussed in the report.

Engagement - internal

Staff from Legal, Finance, 3 Waters, and the Executive Leadership Team have contributed to this report.

Risks: Legal / Health and Safety etc.

There are no identified health and safety risks related to this report. Legal considerations are discussed in the body of this report.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

There are no specific implications for Community Boards, although the LWDW reform will affect all areas.

Glossary

Acronym/Term	Definition
9YP	9 Year Plan
9YP CD	9 Year Plan Consultation Document
Alternative Option(s)	Other options that Council will consult on in addition to the Preferred Option
CCO	Council-Controlled Organisation
CCO Option	As defined in the report: asset owning CCO for 3 Waters with Council as the sole shareholder
Change Proposal	New decision-making requirements under December Bill for territorial authorities proposing to make a change to the provision of water services in their district eg establishing a CCO, agreeing on shared services with another territorial authority etc.
December Bill	Local Government (Water Services) Bill introduced to Parliament on 10 December 2024
DIA	Department of Internal Affairs
DCHL	Dunedin City Holdings Limited
Economic Regulation	The regulation of the price and quality of goods or services in markets with monopoly characteristics is covered by the Commerce Act 1986 and is implemented by the Commerce Commission (for relevance to water services ahead refer DIA Factsheet: Economic Regulation and Consumer Protection)
Financially Sustainable	Means, in relation to a territorial authority's delivery of water services, that— (a) the revenue applied to the authority's delivery of those water services is sufficient to ensure the authority's long-term investment in delivering water services; and (b) the authority is financially able to meet all regulatory standards and requirements for the authority's delivery of those water services
FFO	Funds from Operations
In-House Option/Delivery	In-house delivery of 3 Waters
Joint Local Government Arrangement	Refer s137 LGA 2002 – currently tagged for repeal under December Bill (but note JWSPA term introduced in December Bill as referred to below).
Joint Water Service Provider Arrangement (JWSPA)	A JWSPA is an arrangement entered into by two or more water service providers for the purpose of providing water services or any aspect of water services in the provider's combined service area, or any matters relating to the provision of water services e.g., a shared service agreement for technical or administrative support.
LGA 2002	Local Government Act 2002

Acronym/Term	Definition
LGFA	Local Government Funding Agency
LWDW	Local Water Done Well
Morrison Low Report	Attached to the November Report (Morrison Low Report dated 24 October 2024)
Preferred Option	Preferred water services delivery model
Preliminary Act	Local Government (Water Services Preliminary Arrangements) Act 2024
Regional Multi-Council Entity	Two or more councils would establish a jointly owned water entity for delivering water services
Secretary for Local Government	Secretary for Internal Affairs (currently Paul James).
Taumata Arowai (Water Services Authority)	New Zealand Water Regulator
Three-waters CCO	A CCO that covers drinking water, wastewater and stormwater
Two-waters CCO	A CCO that covers drinking water and wastewater
Water Consultation Options	Preferred Option and Alternative Option(s)
Water Options CD	Water Options Consultation Document
Water Organisation	A water organisation is a separate organisation that territorial authorities may establish or be shareholders in, and which provides water services in accordance with transfer agreements. An example is a CCO.
Water Service Provider	Means water organisations <u>and</u> territorial authorities. In other words, a water service provider includes both the in-house model and models such as the CCO model.
WSCCO	Water Services Council-Controlled Organisation
WSDM	Water Services Delivery Model
WSDP	Water Services Delivery Plan

December 2024

LOCAL WATER DONE WELL

Implementation roadmap



Te Tari Taiwhenua
Internal Affairs

This document provides an overview of key activities and milestones for the implementation of Local Water Done Well. It outlines the key steps in the overall Local Water Done Well programme to help councils and other stakeholders understand the timing of the programme. It is not intended to be comprehensive or cover related agency workstreams. All information and timeframes are indicative and subject to change, in line with legislative processes.

Workstream	December 2024	January to June 2025	July to December 2025	January to June 2026	July to Sep 2026	Nov 2026 onwards
LEGISLATION						
Local Government (Water Services Preliminary Arrangements) Act 2024 (Prelim Arr Act)	Department of Internal Affairs (DIA) continues to provide guidance to support implementation of Prelim Arrangements Act					
Local Government (Water Services) Bill (Bill 3)	Bill 3 introduced (Dec 2024)		Bill 3 enacted (mid-2025); DIA provides guidance to support Bill implementation			
COUNCIL WATER SERVICE DELIVERY ARRANGEMENTS						
Water service delivery arrangements	Councils can establish new water organisations allowed under existing legislation		Councils can establish new water organisation models provided through Bill 3			
	DIA/Crown Infrastructure Partners (CIP) support councils on delivery model considerations		New legislative requirements for local government water service providers in effect			
	CIP and Local Government Funding Agency (LGFA) support councils on structuring and financing for new water organisations (Dec 2024 – Jun 2025)					
Water Services Delivery Plans (WSDPs)	Councils to develop WSDPs with support from DIA as required. Indicative timeline: <ul style="list-style-type: none">- Sept – Oct 2024: Financial viability assessment- Nov 2024 – Jan 2025: Financial sustainability and delivery model- Feb – Apr 2025: Community consultation- May – Jul 2025: Finalise plans for submission		WSDP extension deadline (3 Aug 2025)	Councils publish WSDPs (Dec 2025)		
			Councils submit WSDPs to DIA for review and acceptance (by 3 Sep 2025)	Published plans available to Commerce Commission and the Water Services Authority		
			DIA monitor WSDPs Implementation Plan (Nov 2025 until complete)			
PLANNING & REPORTING FRAMEWORK FOR WATER SERVICES						
New planning and reporting framework for water service providers (councils and water organisations)	Councils plan and design for ringfencing as part of WSDPs		Water service providers begin to apply new financial (ringfencing) principles as part of financial operations and policies	Shareholders in water organisations prepare statements of expectations to inform first water services strategy	Water service providers prepare first water services strategy – for adoption by 30 Jun 2027 (including forecast financial statements for water supply, wastewater and stormwater)	
					Councils include ‘standalone’ financial statements for water supply, wastewater and stormwater in annual report for FY 2026-27	

Workstream	December 2024		January to June 2025		July to December 2025		January to June 2026		July to Sep 2026		Nov 2026 onwards	
ECONOMIC REGULATION												
Crown monitor for Watercare (interim economic regulator for Watercare)	Crown monitor quarterly reporting and annual reporting (first report for year ending 30 Jun 2025, due 30 Nov 2025)											
	Watercare develops business plan and submits to DIA											
	Watercare Charter under development				Watercare Charter in place (to Jun 2028)							
Information disclosure (ID)			Commerce Commission consultation on ID under Prelim Act		Commerce Commission consultation on a draft ID requirements for all suppliers (following enactment of Bill 3)		Commerce Commission sets ID requirements under Bill 3 (within 6 months of enactment)				ID requirements under Bill 3 in force from July 2026 for all suppliers	
			Councils/CCOs can be subject to foundational ID under Prelim Act, subject to Ministerial approval (providers can no longer be designated after Bill 3 commences)									
Ringfencing					Commerce Commission begins monitoring ringfencing requirements relating to water supply and wastewater (i.e. requirement for revenue from regulated water services to be spent on those services from enactment of Bill 3)							
Revenue thresholds									Revenue thresholds can apply (if required)			
Quality standards and performance requirements									Quality regulation and performance regulation can apply following designation (if required)			
Price-quality regulation											Price-quality regulation can apply following designation (if required)	
ENVIRONMENTAL & INFRASTRUCTURE REGULATION												
Drinking water												
Drinking water quality regulatory environment	Regulatory changes to ensure regulation is proportional to risk for drinking water suppliers											
Wastewater												
Wastewater environmental performance standards (and infrastructure design solutions)	Water Services Authority engages on development of wastewater standards		Authority consults on standards		Development of standards		Wastewater standards in place (Aug 2025)					
							Development of infrastructure design solutions		Infrastructure design solutions for modular plants in place			
Stormwater												
Stormwater management roles and responsibilities							New stormwater network risk management provisions take effect (following enactment of Bill 3)					
Water service bylaw alternatives							Alternative options to bylaws available to councils (e.g. drinking water catchment plans, trade waste plans and rules, water supply and waste management enforcement)					
Infrastructure												
National Engineering Design Standards (NEDS)			Water Services Authority develops draft NEDS				Water Services Authority consultation on draft NEDS. Transition to NEDS from making of final NEDS.					
Water service providers infrastructure powers							Modernised powers to access land and control connections apply in place (from enactment of Bill 3)					

December 2024

LOCAL WATER DONE WELL

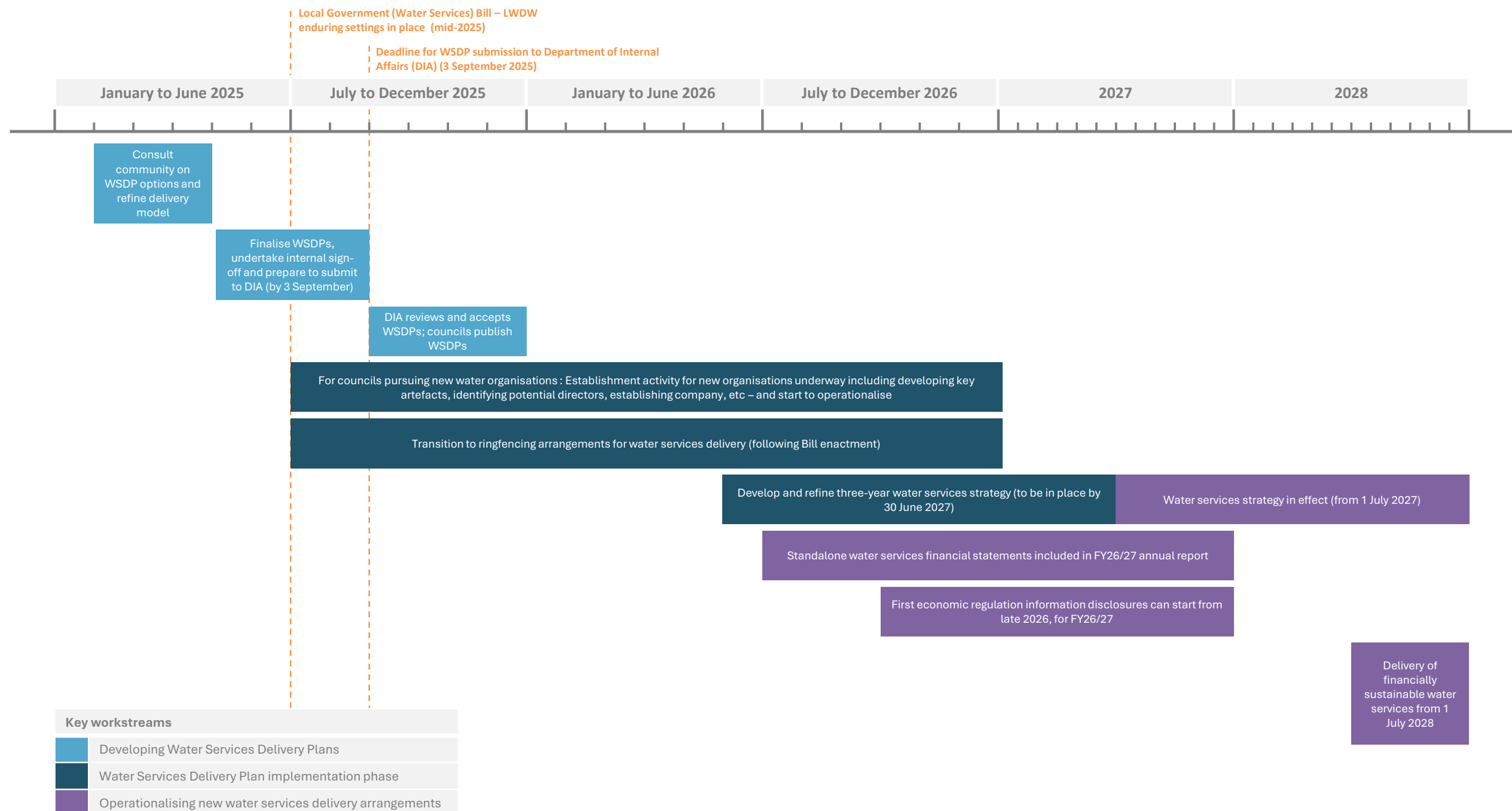


Te Tari Taiwhenua
Internal Affairs

Planning for future water services delivery (2025-2028)

This document provides a high-level roadmap for councils' planning and delivery of future water services arrangements under Local Water Done Well. It is indicative only and has been prepared to support councils as they develop their Water Services Delivery Plans (WSDPs). It includes key milestones and an indication of key workstreams for councils, which may be required to achieve councils' delivery of financially sustainable water services to their communities from 1 July 2028.

The Government has set out the foundations and preliminary arrangements for the new water services system, including tools and a new framework for councils. Legislation covering the enduring settings for the future water services system is expected to be in place by mid-2025.



Local Government (Water Services) Bill - Key Themes

Delivery Models	<p>Further clarifies that there are many ways to deliver water services and that territorial authorities (TA) may use one or a combination of the following:</p> <ul style="list-style-type: none"> • Providing water services themselves directly. • Transferring responsibility for providing water services to a 'water organisation' e.g., CCO (through a transfer agreement, such that the organisation becomes the water service provider in respect of those services – noting that cl 10 prevents the transfer of responsibility for 'transport corridor stormwater infrastructure'). • Contracting with a person or body to provide water services on behalf of the TA (TA still remains responsible as the water service provider). • Entering into a joint water service provider arrangement with other territorial authorities (TA still remains responsible as the water service provider). • Becoming a shareholder in a water organisation established by another territorial authority. • Entering another type of arrangement (other than a franchise or concession agreement) (TA still remains responsible as the water service provider). <p>Introduces further consultation requirements when a change process is triggered.</p> <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Water-service-delivery-arrangements.pdf</p> <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-guidance-Water-services-delivery-models-(updated-December-2024).pdf</p>
Core Requirements	<p>All water services providers must:</p> <ul style="list-style-type: none"> • meet a set of 'objectives' in cl 15, including that each provider must manage and provide water services in a cost-effective and financially sustainable manner; • comply with financial principles in cl 16, including a requirement that revenue received from the provision of water services must be spent on those services;

	<ul style="list-style-type: none"> operate within the planning and reporting framework for water services in the Bill; and comply with restrictions against privatisation (cl 18). <p>There are additional requirements for water organisations including must be a company, independent competency-based board and limit activities to the provision of water services. Exemption process for some requirements.</p> <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-guidance-Ensuring-compliance-with-financial-principles-for-water-service-providers.pdf</p>
Operational Matters / New Powers for Water Organisations (Part 3 – including a range of powers similar to those currently held by local authorities)	<p>Include:</p> <ul style="list-style-type: none"> Set and charge customers for water supply services, stormwater services and wastewater (including trade waste) services. Charges can be set and collected for the initial connection, contribution to the capital costs of infrastructure, serviceability, and meeting the costs incurred in exercising the organisation’s duties, functions, and powers under the Bill. When setting a charge, the water organisation may determine how the charge is assessed, when its due, how it is to be collected, and how it may be paid. The Bill precludes council rates and water charges being charged for the same water service. Require <u>development contributions</u> for growth-related capital costs through a modified version of the development contributions regime in the LGA 2002. This would enable water organisations to recover a ‘fair and equitable portion of the total cost of capital expenditure necessary to service an additional or increased demand on water services infrastructure over the long term’. If a water organisation requires a development contribution, then a territorial authority cannot require a development contribution or financial contribution (under the RMA) for the same purpose. Formally propose that TAs create, amend, or revoke <u>water services bylaws to regulate connections</u> to water services networks. A bylaw would have to provide for a 3-step process: approval of concept plans, approval of engineering plans, and sign-off. Further, <u>a territorial authority would be able to delegate any of its functions or powers that relate to the administration or enforcement of a water services bylaw to a water service provider</u>, but not the function or power to make, amend, or revoke a bylaw. Water service providers that are responsible for stormwater network management in its service area will also be required to prepare <u>stormwater network risk management plans</u> to identify any hazards and assess risk

	<p>relating to the network. They may also make <u>stormwater network bylaws</u> to support this plan, including imposing requirements in relation to critical infrastructure and private land (relating to management of overland flow paths and watercourses).</p> <ul style="list-style-type: none"> • <u>Access private land</u> to carry out water services infrastructure work, subject to notice and other requirements (generally comparable to those which apply to territorial authorities entering land to construct works under section 181 LGA 2002). Include watercourses etc. • Sets out requirements relating to drinking water catchment plans, trade waste plans, and discharge of sewage and trade wastes. <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Future-arrangements-for-stormwater.pdf</p>
New Planning and Accountability Framework (Part 4)	<p>The new framework includes three core documents:</p> <ul style="list-style-type: none"> • Statement of Expectations: Issued by shareholders to a water organisation, this document outlines the strategic and performance expectations for the organisation. Water organisations must give effect to these statements. • Water Services Strategy: Prepared by all water service providers every three years and supported by an annual budget in other years. Single comprehensive document including response to local expectations, statutory objectives, regulation, financial forecasting over 10 years and infrastructure/investment over 30+ years. Pricing and charging will be set in accordance with proposals in strategy. Shareholders can decide their level of involvement in the preparation process of the strategy. Content required set out at Schedule 3. Not subject to mandatory review by auditors unless required by Commerce Commission or Secretary for Local Government. Subject to community consultation if TA delivers water. • Water Services Annual Report: This report is prepared by water service providers to ensure transparency about their performance over the past financial year. It includes detailed financial statements related to water services. Content required set out at Schedule 4. <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Planning-and-accountability-for-local-government-water-services-updated-Dec-2024.pdf</p>

Economic Regulation and Consumer Protection	<p>Regulation is a key requirement with many regulators and tools available and will be introduced in a staged approach.</p> <p>The Bill provides for economic regulation of water supply and wastewater services, with the flexibility to include stormwater later.</p> <p>The regime, introduced through amendments to the Commerce Act 1986, includes a range of regulatory tools such as information disclosure requirements, revenue threshold regulation, quality regulation, performance requirement regulation, and price-quality regulation. It will apply to water service suppliers (including councils and water organisations) who are responsible for making core decisions about capital and operating expenditure; and/or revenue recovery or charging levels. Initially, community suppliers, private schemes, Crown providers, and private third-party contractors will be excluded, but may be included later.</p> <p>The Bill will amend the Commerce Act 1986 to provide a pathway for the Commerce Commission to recommend regulations to the Minister, after considering whether doing so would better promote the long-term benefit of consumers in competitive markets, the nature of the water services delivery structure, and the extent of regulated suppliers' performance against each revenue threshold that applies.</p> <p>Revenue threshold regulation will enable the Commission to specify the minimum or maximum revenues that should be recovered by a supplier, with the intention that minimum levels of water services revenue will have to be set for water services investment and operating purposes.</p> <p>The Commission will be required to set initial information disclosure requirements within six months of the Bill's enactment.</p> <p>The Bill further introduces a consumer protection regime, allowing the Commerce Commission to monitor and enhance consumer protections based on gathered information.</p> <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Economic-regulation-and-consumer-protection.pdf</p>
Ministerial Powers	<p>Extends the Ministerial powers to act in relation to local authorities, to apply to all water service providers and shareholders of water organisations. With these increased powers the Minister of Local Government could intervene in the operation of a water service provider, and appoint two new ministerial bodies:</p> <ul style="list-style-type: none"> • A Crown facilitator – water services: To assist and advise the body to which it is appointed, to monitor the body, to

	<p>direct the body to take a particular action, and to make recommendations to the Minister on further action.</p> <ul style="list-style-type: none"> • Two or more Crown commissioners – water services: To work with, direct, and oversee the body, and to make recommendations to the Minister on further action. Unlike a Crown facilitator, Crown commissioners have the functions, duties, and powers of the board of a water organisation, the trustees of a consumer trust, or the shareholders of a water organisation (as applicable), to which they have been appointed. Crucially, the water organisation must co-operate with the Crown commissioners and comply with their requests. <p>In addition, the LGA definition of a ‘problem’ (the trigger for considering ministerial intervention) will be expanded to include new situations relevant to water services delivery, such as matters or circumstances that could prevent the provision of water services being financially sustainable, or complying with regulatory requirements and standards, and so on.</p>
Water Services Authority – Taumata Arowai	<p>Changing the name of Taumata Arowai to ‘Water Services Authority – Taumata Arowai’ (the Authority). The Bill also amends the operating principles in the Taumata Arowai – the Water Services Regulator Act 2020 in an effort to “reduce regulatory burden” and “improve proportionality”.</p> <p>Notable changes to the Taumata Arowai–the Water Services Regulator Act 2020 include:</p> <ul style="list-style-type: none"> • Removing the requirement to give effect to Te Mana o te Wai from the list of objectives of the Water Services Authority. • Expanding the functions of the Water Services Authority to include developing National Engineering Design Standards (essentially, technical and design standards for water services infrastructure), and supporting education and training for domestic self-suppliers and shared domestic drinking water suppliers, and • Reducing the number of members of the Māori Advisory Group (from 5-7 down to 3-5) and narrowing the group’s role. <p>Changes to the operating principles will require the Authority to consider the costs of regulatory compliance for drinking water suppliers, in particular mixed-use rural water suppliers, and ensure the regulatory framework is proportionate to the scale, complexity, and risk profile of the relevant water services.</p>

	<p>The Authority will also be required to proactively engage with suppliers and network operators to ensure that there is a path to compliance that takes into account the risk profile and capacity of each supply. Finally, the Bill also amends the Water Services Act 2021 to require the Authority to include specific information on mixed-use rural water suppliers in its annual drinking water regulation report and its drinking water compliance, monitoring, and enforcement strategy.</p> <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Drinking-water-quality-regulation.pdf</p> <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-National-Engineering-Design-Standards.pdf</p>
Singular standards for wastewater and stormwater environmental performance and consenting	<p>The Water Services Authority – Taumata Arowai (the Authority) can make <u>environmental performance standards for activities related to wastewater and stormwater systems</u> (eg. discharges to land, air or water).</p> <p>The standards would operate like an RMA planning instrument and override any equivalent rules or policies in current RMA planning instruments (eg. a NPS, a NES, or a regional plan).</p> <p>Regional councils would implement the standards through conditions of resource consents i.e., if the activity (e.g., the discharge) is subject to a standard, the resource consent could not impose conditions that are more or less stringent than the requirements of the standard.</p> <p>Standards could prescribe circumstances in which a consent application is precluded from public or limited notification.</p> <p>Standards could prescribe activity status for different activities covered by the standards (e.g., permitted, controlled, discretionary, non-complying etc etc).</p> <p>The consent term for an activity subject to a standard would be 35 years.</p> <p>The Authority must consult before recommending the Minister approve standards.</p> <p>The Authority can make <u>Infrastructure Design Solutions</u> (IDS) that set out design and operating requirements for wastewater treatment plants (or components of wastewater treatment plants) that – if implemented – would meet the wastewater standards. In other words – if a plant complies with the IDS, it is deemed to meet the relevant standard for activities related to wastewater and stormwater systems (eg. discharges to land, air or water).</p>

	https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Wastewater-and-stormwater-environmental-performance-standards.pdf https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\$file/LWDW-Bill-3-factsheet-Infrastructure-design-solutions.pdf
Compliance and enforcement regime	<p>Includes a compliance and enforcement regime, including offences and penalties that cover new functions, and graduated enforcement tools for water service providers. Water organisations could propose that territorial authorities make bylaws to specify infringement offences and prescribe fees. A territorial authority may authorise a compliance officer to issue infringement notices to persons alleged to have committed an offence, resulting in fees. The Bill also introduces a range of offences, including in relation to drinking water, wastewater and stormwater networks (e.g., unauthorised connection or disconnection).</p>

Core Requirements for all Water Services Providers

Regulation

- 1 The Guidance states that while the Coalition Government recognise the importance of local decision making and flexibility for communities and councils to determine how their water services will be delivered in the future, it will do this while ensuring a strong emphasis on meeting economic, environmental and water quality regulatory requirements.
- 2 An overview of the roles and responsibilities under the new regulatory system is shown in the DIA Guidance. This emphasises the wide-ranging regulatory entities and tools available and that water service delivery no matter what model chosen will be subject to. Of note, is the ability for the Commerce Commission to request information on non-water services provided by a water service provider.
- 3 A summary is provided below of some key points (which includes references to specific factsheets for further information):

Regulation (Regulator)	Brief Description and Tools
Economic Regulation (Commerce Commission) Drinking Water Wastewater Stormwater (may in future)	Commerce Commission will have a range of regulatory options including: Information disclosure (key tool) Revenue thresholds Financial ringfence Quality regulation Performance requirement regulation Price-quality regulation Regime flexible and proportionate in lines with providers' different needs and situations.
Consumer Protection (Commerce Commission)	Enable collection and analysis of information relating to consumer protection including service quality and customer engagement. Refer Guidance "Economic Regulation and Consumer Protection".
Drinking Water (Water Service Authority – Taumata Arowai (WSA))	Required to consider the costs of regulatory compliance for drinking water suppliers, in particular mixed-use rural water suppliers, and ensure regulation is proportionate to the scale, complexity, and risk profile of each supply. The Authority will also be required to proactively engage with suppliers and network operators to ensure there is a path to compliance that takes into account the risk profile and capacity of each supply. Refer Guidance "Drinking Water Quality Regulation".
National Engineering Standards (WSA)	Provides WSA with new powers to develop a mandatory set of NEDS for water services network (reticulation) infrastructure for greater consistency and standardisation. Refer Guidance "National Engineering Standards".
Wastewater and Stormwater Environmental Performance and Infrastructure Design Standards (WSA)	New single standard to ensure that regional councils implement a single approach to resource consents with a mechanism for exceptions. Regional Councils will be unable to set additional requirements either higher or lower than the standard. Refer Guidance "Wastewater and Stormwater Environmental Performance Standards" and "Infrastructure Design Solutions".
Environmental Regulation	Water services providers must obtain resource consent (as required) for wastewater and stormwater networks.

Regulation (Regulator)	Brief Description and Tools
(Consent authorities e.g., regional councils)	

- 4 Regulation will be introduced in a staged manner. An indication of likely timing for regulation is set out in the DIA Implementation Timeline shown in the Guidance.

Planning and Accountability Framework

- 5 The December Bill provides for three core documents under the new planning and accountability framework as shown below:

Document	Overview
Statement of expectations (applicable where there are separate water organisations) <i>Prepared by shareholders and issued to the water organisation they own</i>	This document will set out the expectations, priorities, and strategic direction for the water organisation. It will inform and guide the decisions and actions of the organisation's board. Water organisations must give effect to these statements.
Water services strategy <i>Prepared by water service providers, every three years – and supported by an annual budget in the other years</i>	This document will set out – in a single, comprehensive, water-focused document – how the provider is proposing to perform, respond to local expectations and priorities, and meet statutory objectives and regulatory requirements. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy. An annual budget will also be prepared for each financial year that is not the first financial year of the strategy – consistent with the provider's intended approach to funding, revenue, and pricing for the relevant year of the strategy.
Water services annual report <i>Prepared by water service providers</i>	This document will report on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting.

- 6 Schedules 3 and 4 of the December Bill set out the detailed content of the water services strategy and water services annual report. Further templates and guidance are also provided in the DIA Guidance on the DIA website.
- 7 This new framework replaces the equivalent requirements in the Local Government Act 2002 (LGA), for councils who will continue to provide water services directly, and the CCO accountability regime in the LGA, in the case of water services CCOs. The decision-making process for councils relies on existing LGA provisions, including in relation to consultation, but the December Bill does make several modifications to streamline requirements.
- 8 The December Bill includes transitional arrangements that require the first water services strategy to be adopted so it takes effect from 1 July 2027 (or earlier if determined by provider). The first water services annual report would be for the 2027/28 financial year. The Bill also

includes provisions that deal with the first statement of expectations and water services strategy for newly established water organisations and reflect that timeframes for the first set of documents may need to be varied, depending on when the water organisation is established and commences operations.

- 9 Further information can be found in the DIA Guidance “Planning and Accountability for Local Government Water Services” and in the December Bill.

Act in Accordance with Statutory Objectives and Financial Principles

- 10 Under the requirements in the Bill, each water service provider must act in accordance with the following financial principles:
 - a) the provider must spend the revenue it receives from providing water services on providing water services (including on maintenance, improvements, and providing for growth);
 - b) the provider must ensure that the revenue it applies to the provision of water services is sufficient to sustain the provider’s long-term investment in the provision of water services;
 - c) the provider’s revenue (including from charges) and expenses must be transparent to the public;
 - d) the provider must be accountable for its revenue and expenses:
 - i) if it is a territorial authority, to its communities; or
 - ii) if it is a water organisation, to its shareholders.
- 11 Water service providers will also be subject to an economic regulation regime implemented by the Commerce Commission. As part of this role, the Commission will enforce a new “ringfencing” rule, under which regulated providers will be required to spend the revenue they receive from providing water services on providing those services (see clause 3 of new Schedule 7 of the December Bill). Pecuniary penalties will be available if the rule is breached.
- 12 Staff encourage Councillors to also read the further Guidance “Ensuring Compliance with Financial Principles for Water Service Providers”.

Statutory Obligation to Continue to Provide Water Services

- 13 While there is a statutory obligation to continue to provide water services, a water services provider may enter a contract with a third party relating to the provision of water services, or a joint arrangement with other water service providers.
- 14 The Bill includes specific provisions that apply to contracts, including requirements relating to significant contracts.
- 15 Water service providers may enter into contracts with third parties for up to 50 years (instead of the current 35 year maximum). However, there are also provisions designed to improve the nature of these contractual arrangements and procurement processes, particularly for significant contracts. These include that:

- consultation will be required for significant contracts, and providers will need to include details on how the contracted party has performed during the year in their water services annual report;
 - each water service provider must adopt a policy setting out the matters it will consider when determining whether a contract is significant (such as the value of the contract and if it involves a public-private partnership);
 - before entering into contract that will create a public-private partnership, water service providers will be required to have regard to any relevant procurement rules and guidance issued by central government, and seek advice from a relevant central government agency or private sector experts;
 - when negotiating a contract, a water service provider must consider whether compliance with current and anticipated regulatory requirements should be provided for in the contract.
- 16 Additionally, a territorial authority must include the significant contract policy within its significance and engagement policy. A water organisation must consult its shareholders and incorporate their directions and expectations in the policy.
- 17 Staff encourage Councillors to also read the further Guidance - "Water Service Delivery Arrangements".

Protections against Privatisation

- 18 The Guidance provides the following summary of the December Bill's statutory protections against privatisation of water services by councils or water organisations:

The Bill includes the following statutory protections:

- A water service provider must not:
 - use the assets of its water services networks as security for any purpose;
 - transfer its ownership of water services infrastructure or of any other interest in a water service – except to another water service provider, if the transfer is a necessary part of a contract or a joint water service provider arrangement;
 - lose control of, sell, or otherwise dispose of the significant infrastructure necessary for providing water services in its service area, unless it retains its capacity to meet its statutory obligations.
- Only local authorities and/or trustees in consumer trusts will be permitted to own shares in a water organisation.
- Shares in water organisations cannot give any right, title or interest in the assets, security, debts, or liabilities of the entity, and cannot be sold or transferred.
- Shares and assets in a consumer trust-owned water organisation can only be transferred to the territorial authority (or authorities) that established the trust.

In addition, the Bill carries over provisions in the Local Government Act that prohibit water service providers from entering into any contract or arrangement that involves a franchise or concession agreement. (These are agreements under which a contracted third party would be entitled to receive a payment from a person other than the provider for the provision of the water services.)



Te Tari Taiwhenua
Internal Affairs

December 2024

LOCAL WATER DONE WELL

Guidance: Ensuring compliance with financial principles for water service providers

This guidance provides suggested approaches and considerations to ensuring compliance with the financial principles for water service providers, as set out in the key aspects of the Local Government (Water Services) Bill.

It is based on the provisions of the Bill as introduced in December 2024.

The Bill sets out the enduring settings for the new water services system. It is the third piece of legislation in the Government's three-stage process for implementing Local Water Done Well.

This guidance provides suggested approaches to how water service providers¹ can ensure their financial and operating policies and procedures enable adherence to the financial principles for water service providers as set out in the Bill.

This guidance should be read alongside other Local Water Done Well factsheets, especially *Planning and accountability for local government water services*.

Financial principles for water service providers

What are the ringfencing requirements and financial principles?

Ringfencing is a critical requirement for revenue sufficiency and financial sustainability. Water Services Delivery Plans are required to demonstrate how water services will be ringfenced from other council activities.

Stand-alone projected financial statements will need to be developed for each water service in Water Services Delivery Plans. This requires ringfencing of water services from other council activities.

In the longer-term, water service providers will be required to include financial statements on each water service they provide, in the water services strategy and water services annual report provided for under the Bill. These documents will contain:

- a statement of comprehensive revenue and expenses;
- a statement of cash flow; and

¹ Water service providers is a term used in the Bill that includes council providers and water organisations (including existing water services council-controlled organisations that become water organisations).

Local Water Done Well guidance (December 2024)

- a statement of financial position.

The Bill includes financial principles, which support the ringfencing objective of Local Water Done Well. The Bill also includes a set of objectives that apply to all water service providers, including the objective to ensure water services are provided in a cost-effective and financially sustainable manner.

The Bill requires each water service provider to act in accordance with the following financial principles:

- the provider must spend the revenue it receives from providing water services on providing water services (including on maintenance, improvements, and providing for growth);
- the provider must ensure that the revenue it applies to the provision of water services is sufficient to sustain the provider's long-term investment in the provision of water services;
- the provider's revenue (including from charges) and expenses must be transparent to the public; and
- the provider must be accountable for its revenue and expenses to communities and shareholders (as relevant).

Water service providers will also be subject to an economic regulation regime implemented by the Commerce Commission. As part of this role, the Commission will enforce a new "ring-fencing" rule, under which regulated providers will be required to spend the revenue they receive from providing water services on providing those services (see clause 3 of new Schedule 7). Pecuniary penalties will be available if the rule is breached.

What does financially sustainable water services mean?

Financial sustainability means water services revenue is sufficient to meet the costs of delivering water services. The costs of delivering water services include meeting all regulatory standards, and long-term investment in water services.

How councils approach achieving financial sustainability can be different depending on local circumstances and requires councils to consider the balance between three key factors.

These factors are:

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

Each council is required to develop a Water Services Delivery Plan that demonstrates financially sustainable water services provision will be achieved by 30 June 2028 at the latest.

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Why are the financial principles needed?

Local Water Done Well intends to promote efficiency, improve the governance and management of financially sustainable water services, and ensure accountability within the sector. Local Water Done Well requires water service provision to be financially sustainable and for the ringfencing of water services revenues from other council activities.

The financial principles included in the Bill are intended to provide direction on how water service providers can ensure that water services will be financially sustainable and meet the ringfencing objective of Local Water Done Well.

A significant shift in financial operations, management and governance arrangements may be required for councils and/or other water service providers to comply with these principles.

What do I need to consider to be able to comply with these financial principles?

Water Services Delivery Plans are a critical early step to compliance with these financial principles. Water Services Delivery Plans require councils to consider, decide on and communicate how water services will be delivered in a financially sustainable manner and ringfenced from other council activities.

Developing Water Services Delivery Plans, and assessing preferred delivery models, should set councils up well to understand what financial and operating policies will be required to comply with the financial principles set out in the Bill.

Councils should consider the financial principles, financial sustainability and ringfencing in the development of Water Services Delivery Plans, with the following considerations material to ensuring future compliance with financial principles:

- Whether water services have access to sufficient revenues and debt financing required to deliver required levels of operating and capital expenditure.
- Whether water services have sufficient cash balances and working capital for operations.
- Whether revenues for water services are separately identifiable from other revenues and transparent to ratepayers and consumers.
- Whether sufficient internal controls are in place to ensure that revenues generated for water services are spent on water services, not other council business.
- Whether cashflows relating to water services can be tracked and reconciled, with cash surpluses for water services are retained for future expenditure on water services².

² Establishing separate bank accounts for water services could assist compliance with and auditing of ringfencing, tracking water services related transactions, and demonstrating that cash revenues and surpluses are attributed transparently to water services expenditure.

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- Whether accounting systems and general ledgers can identify entries and transactions relating to water services separately from entries and transactions that do not relate to water services.
- Whether a water services trial balance and financial statements could be produced, separate from other council activities from accounting systems.
- Whether financial policies for attributing overheads, finance costs and other internal charges are cost-reflective and transparent, and comply with ringfencing objectives, which could be done by:
 - Maintaining clear financial policies regarding overhead and finance cost attribution to water services³;
 - Implementing appropriate cost allocation methodologies that follow conventional cost recovery principles⁴; and
 - Including appropriate disclosures and assumptions in financial strategies and accountability documents (such as annual reports).
- Whether internal borrowings and other financial transactions between water services and other council activities are on an arms-length commercial basis and governed by transparent financial policies⁵.
- Whether debt balances attributed to water are verifiable, appropriate and transparently demonstrated to have been incurred in the delivery of water services⁶.

Next steps

There will be an opportunity to provide submissions on the Local Government (Water Services) Bill at select committee.

The Department of Internal Affairs will prepare further guidance material to support the implementation of Local Water Done Well, following the enactment of the Bill. This is expected to be in mid-2025.

³ Consideration should be given to attributing finance costs to water services based on an effective interest rate calculation on the verified debt balances attributed to water services, as opposed to some other indirect allocation methodology with no clear link to cost incurrence for water services provision.

⁴ Implementing costed resource and activity-based calculation methodologies will assist with transparency and accountability for charges, ensuring that the 'full cost' of water services provision is appropriately measured and understood.

⁵ Ensuring internal borrowing arrangements are repayable, commercial arrangements will ensure that costs are appropriately allocated and enable water services revenues to be set to an appropriate level that reflects the 'full cost' of service.

⁶ Transparency of debt attribution to water services could be achieved through demonstrating that balances align to confirmed movements in borrowings set out in water services funding impact statements included in historical audited annual reports.

Local Water Done Well guidance (December 2024)

Further information

The Local Government (Water Services) Bill is available at www.legislation.govt.nz.

Information about the parliamentary process and timeline for the Bill, including how to make a submission to the select committee, is available at www.parliament.govt.nz.

For further information about Local Water Done Well, including guidance and information for councils, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

Financing water services delivery through establishing new water council- controlled organisations (CCOs)

LOCAL WATER DONE WELL

December 2024

This guidance provides advice on financing options for councils that are considering adopting the CCO model for water services delivery. It outlines criteria for accessing higher borrowing from LGFA and the benefits of this for financially sustainable water services delivery, and includes worked examples showing the impact of utilising the additional debt headroom made available to CCOs by LGFA. Please note that this guidance does not constitute legal advice.

Te Kāwanatanga o Aotearoa
New Zealand Government



Te Tari Taiwhenua
Internal Affairs

Local Water Done Well: A new approach to water services delivery

- The Coalition Government believes **communities are best placed** to make decisions about the future of their water assets.
- Local Water Done Well places **obligations on local authorities** to demonstrate their service delivery arrangements are fit for purpose.
- This includes setting out how their **delivery models** will ensure high-quality, financially sustainable services in the long run. Delivery model options include the establishment of new single-council or multi-council owned water organisations, and water organisations owned by consumer trusts.
- The Government expects councils will work together to address **financial sustainability and affordability challenges**.
- All councils are required to **develop Water Services Delivery Plans**, which will outline how **water services will be delivered in a financially sustainable manner** by 30 June 2028.







Purpose of Water Services Delivery Plans

The Local Government (Water Services Preliminary Arrangements) Act 2024 sets out the content requirements, timeframe, and process for developing and accepting Plans.

Plans are intended to be a strategic decision-making tool for councils to consider current and future delivery of water services, and will:

- Set out how councils will deliver high-quality, financially sustainable water services in the long run; and
- Include information on councils' water services, how much they need to invest, and how they plan to finance and deliver it through their preferred water service delivery model.

Most information required for the Plans is expected to come from councils' existing documents, such as long-term plans, financial accounts and asset management plans.

	One-off, transitional documents
	Cover drinking water, wastewater and stormwater
	Information to support development of economic regulation
	Can be developed by individual or joint councils
	Streamlined approach to consultation
	10-year timeframe; may cover up to 30 years, with detailed info on first three

Council-controlled water organisations and consumer trust owned water organisations are among the delivery models proposed under Local Water Done Well

The LGFA financing solution is currently available for these two delivery models, and is the focus of this guidance	1	Internal business unit or division	<ul style="list-style-type: none"> Status quo for many councils New legislative requirements for water service providers will apply Financial sustainability and ringfencing rules, and economic regulation will apply
	2	Single council-owned water organisation	<ul style="list-style-type: none"> New company established, 100% owned by the council Financial sustainability and ringfencing rules will apply, but retains a financial link to the council Councils with existing water council-controlled organisations will be required to meet new legislative requirements for water organisations/water service providers Can access LGFA financing up to the equivalent of 500% of operating revenues with the provision of parent support (through guarantee or uncalled capital)
	3	Multi-council owned water organisation	<ul style="list-style-type: none"> New company established with multi-council ownership Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement Can access LGFA financing up to the equivalent of 500% of operating revenues with the provision of parent support (through proportional guarantee or uncalled capital) New legislative requirements for water organisations / water service providers will apply
Consumer trust models have different financing considerations and are not currently able to borrow from LGFA	4	Mixed council/consumer trust owned	<ul style="list-style-type: none"> Consumer trust established to part-own a water organisation One or more councils own the remainder of the shares Structure enables financially independent organisation to be established while retaining some council ownership
	5	Consumer trust owned	<ul style="list-style-type: none"> Council transfers assets to consumer trust owned organisation Consumers elect trustees to represent their interests in the organisation Most financially independent delivery model

LGFA have agreed to lend to council-controlled water organisations up to the equivalent of 500% of water services operating revenues

In August 2024, the Local Government Funding Agency (LGFA) confirmed that it will provide financing to support water council-controlled organisations (CCOs) established under Local Water Done Well and look to assist high growth councils with additional financing.

LGFA will extend its existing lending to CCOs to new water organisations that are CCOs and are financially supported by their parent council or councils. The ability for councils to establish water organisations will be provided for by the Local Government (Water Services) Bill.

- LGFA will support leverage for water organisations up to a level equivalent to 500% of operating revenues (around twice that of existing councils), subject to water organisations meeting prudent credit criteria. LGFA will treat borrowing by water organisations as separate from borrowing by parent council or councils.
- LGFA will lend to multi council-owned water organisations, who are supported by the parent councils.
- LGFA will make available to water organisations its existing suite of financial products that are currently made available to councils and CCOs.

Councils will also retain the ability to borrow through LGFA should they choose to keep water services ‘in house’ rather than establish a water organisation.

Criteria for accessing higher borrowing from LGFA

LGFA will require a water CCO to have the following in place to access higher borrowing:

- Limited liability company, with ownership rights described in a constitution and/or shareholder agreement.
- Parent council guarantee or uncalled capital that is proportionate amongst shareholders. The proportionate share is for shareholders to agree.
- Asset ownership established for the CCO through transfer agreement.
- Board comprised of independent and professional directors.
- Powers for the water CCO board to assess, set, and collect water services charges.
- 10-year asset management plan (and can be longer).
- 10-year finance plan (including revenue and financing).
- Borrowing documents agreed with LGFA.
- All shareholders of a water CCO must be councils or central government, and if a council they must be a guarantor of LGFA.

Other credit considerations:

- Financial covenants will be agreed between Councils and LGFA, with a FFO to debt ratio the most likely covenant*
 - The FFO to debt ratio to be set up to an equivalent level of 500% of water revenues.
 - The level of the ratio will be different between water CCOs.
- An interest servicing covenant such as FFO to Interest expense.
- LGFA will require standard reporting / covenant testing for CCOs on an annual basis.
- LGFA would expect to see water CCOs projected financial position move to an equivalent standalone investment grade credit rating (BBB- minimum) within 10 years of establishment.
- LGFA encourages water CCOs to obtain a credit rating but not required.
- LGFA will lend to the water CCO based on the financial support of the parent council(s).

If councils wish to test a proposed CCO structure that requires variations to LGFA's criteria, they should reach out to discuss with DIA and LGFA.

* The Department advises councils to target an FFO range of 8% - 10% when investigating service delivery models. Multi-council owned CCOs and single metro council owned CCOs could set minimum FFO requirements to the lower end of this range, with single (non-metro) council owned CCOs targeting the upper end of the range.

Accessing higher levels of borrowing from LGFA can improve the financial sustainability of water service delivery

LGFA have agreed in principle to lend up to an equivalent of 500% of operating revenues to council-controlled water organisations.

This creates additional debt borrowing capacity for both the water organisation and for owning councils.

There are significant benefits for councils that establish water CCOs to access the additional debt financing LGFA can provide. We encourage councils to consider what a water CCO could achieve for your council and communities.

Potential to reduce to cost to ratepayers

Utilising debt financing for capital investment reduces the requirement to generate operating revenues and surpluses to direct fund capital expenditure. This has the potential to reduce the cost to ratepayers.

Spreading the cost over time

Debt financing allows the CCO to spread the cost of large investments over years or decades. By using debt, the council ensures that the cost of the asset is shared across those who will benefit from it in the future.

Immediate access to funding

Debt provides immediate access to capital, enabling necessary investment to be funded and delivered, without having to wait years to accumulate sufficient rates revenue. For water infrastructure assets, enabling timely investment reduces the risk of further network degradation.

Maintaining service levels

Debt financing allows councils to avoid steep rate hikes, while still being able to fund important projects and maintain or improve service levels for the community.

Utilising rates for operating costs and debt servicing

By using debt to fund capital expenditure, critical services are not being compromised or traded off to fund large projects. Operating revenues can be set to an appropriate level to cover the operating cost of service (including servicing debt) and operating cash margins required to access debt financing.

Cash reserve and flexibility

Debt financing can allow the council to preserve financial reserves for emergencies or other priority areas.

Increased access to financing enables the adoption of a fit-for-purpose financing strategy for water services delivery

An efficient financing strategy for water services enabled by a water CCO that can borrow through LGFA

- **Operating revenues pay for operating costs plus provide minimum operating cash margins required to access debt financing.**
- **Capital investment requirements funded by capital sources - i.e., capital revenues (such as development contributions) and debt financing.**
- It is highly inefficient to fund capital investment for long-lived water services infrastructure through operating revenues.
- In LTPs, councils are proposing approximately \$40 billion of capital investment for water services over ten years. Only \$13.4 billion of this investment is proposed to be debt funded on a net basis over ten years (34% of the total); with operating revenues proposed to fund \$20.7 billion worth of investment (53% of the total).
- Establishing a water CCO that can access additional debt financing from LGFA enables councils to increase the proportion of infrastructure investment that is debt financed, reducing the incidence of operating revenues paying for capital investment, leading to lower charges to consumers.

'Operating revenues pay for operating costs'

- Financial sustainability and ringfencing requirements mean that operating revenues should be set to a level that covers the operating cost (including servicing debt) of water services.
- Operating revenues should cover all cash operating expenses plus a minimum FFO requirement (indicatively equivalent to 8 – 10%+ of net debt each year, depending on credit profile).
- This ensures that sufficient operating cashflows are secured to support borrowing and investment requirements (including staying below borrowing limits).
- Setting operating revenues to levels higher than needed to cover cash operating costs and debt servicing/support requirements is inefficient when there is available debt capacity to fund investment requirements.
- Operating cashflows can be used to manage or repay existing debt, rather than fund new capital expenditure.

'Capital sources pay for capital investment'

- Capital expenditure should be funded from capital sources – i.e., capital revenues (such as development contributions) and debt financing.
- New debt drawdowns for capital investment reduces the cost burden on current ratepayers and consumers; and enables this cost to be spread over the useful life of the asset.
- Capital inflows (including new borrowings) and capital outflows (i.e., investment) should balance, once accounting for any free operating cash flow generated from revenues that is used to pay down existing debt.
- Utilising capital sources of funding for capital investment limits the operating revenues needed to what is required from a FFO to debt covenant requirement, and to prudently pay down existing debt over time.
- 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.

How utilising additional borrowing capacity enables financially sustainable water services provision – a worked example

This slide and the slides following illustrate a worked example to demonstrate the benefits from establishing a council owning water CCO.

This is a hypothetical example which has been designed to match the current state of water services delivery for a typical council.

Additional debt financing can enable existing investment programmes to be delivered at a lower cost to ratepayers.

Higher borrowing limits means that investment programme can be significantly scaled or accelerated if needed

Establishing a water services CCO creates additional borrowing headroom for the parent council



Worked example – Council ‘X’ water services

The hypothetical Council ‘X’ has a 2024-34 Long-Term Plan which:

- Ensures the council remains within its borrowing limit of 175% of revenues. Borrowings are used to fund investment to Year 6 of LTP, then revenues are used to repay debt.
- Delivers \$187 million of water services investment over ten years. There are 12,000 water connections and growth in connections of 1% per annum.
- Sees water services revenues increase by 109% over ten years, with consumer charges increasing by 89% over the ten-year period (the difference being new connections over ten years).

Council ‘X’ is considering establishing a water CCO. Water services are higher leveraged than other council activities. Council ‘X’ has 15,000 ratable properties, of which 12,000 receive connected water services.

Council ‘X’ Financial Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Total revenue	\$m	75.0	80.0	85.0	90.0	95.0	100.0	105.0	110.0	115.0	120.0
Net debt	\$m	80.0	100.0	120.0	140.0	160.0	170.0	160.0	150.0	130.0	110.0
Net debt to revenue	%	107%	125%	141%	156%	168%	170%	152%	136%	113%	92%
Borrowing limit	%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%
Average rates bill	\$	4,917	5,206	5,490	5,767	6,038	6,303	6,563	6,817	7,065	7,307
Average rates bill increase	%	10%	6%	5%	5%	5%	4%	4%	4%	4%	4%

Council ‘X’ Water Services Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Revenue	\$m	25.0	27.5	30.0	32.5	35.0	37.5	40.0	42.5	45.0	47.5	362.5
Operating expenses	\$m	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	145.0
Finance costs	\$m	2.3	2.7	3.2	3.6	4.1	4.3	4.1	3.8	3.4	2.9	34.2
Operating cash margin	\$m	12.8	13.8	14.9	15.9	17.0	18.2	20.0	21.7	23.6	25.6	183.3
Investment	\$m	20.0	25.0	25.0	22.5	17.5	17.5	15.0	15.0	15.0	15.0	187.5
Net debt	\$m	50.0	60.0	70.0	80.0	90.0	95.0	90.0	85.0	75.0	65.0	
Net debt to revenue	%	200%	218%	233%	246%	257%	253%	225%	200%	167%	137%	
Revenue increase	%	10%	10%	9%	8%	8%	7%	7%	6%	6%	6%	109%
Price incr for consumers (1% growth)	%	9%	9%	8%	7%	7%	6%	6%	5%	5%	5%	89%

Council ‘X’ Non-Water Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Revenue – other council business	\$m	50.0	52.5	55.0	57.5	60.0	62.5	65.0	67.5	70.0	72.5	612.5
Net debt – other council business	\$m	30.0	40.0	50.0	60.0	70.0	75.0	70.0	65.0	55.0	45.0	
Net debt to rev – other council business	%	60%	76%	91%	104%	117%	120%	108%	96%	79%	62%	

A water CCO could reduce projected water charges for consumers by more effectively utilising debt to fund infrastructure investment

Projected water charges could be reduced by 21% over ten years with a water CCO, delivering savings to each household of \$6,173 + GST, whilst still delivering the same level of investment and service levels.

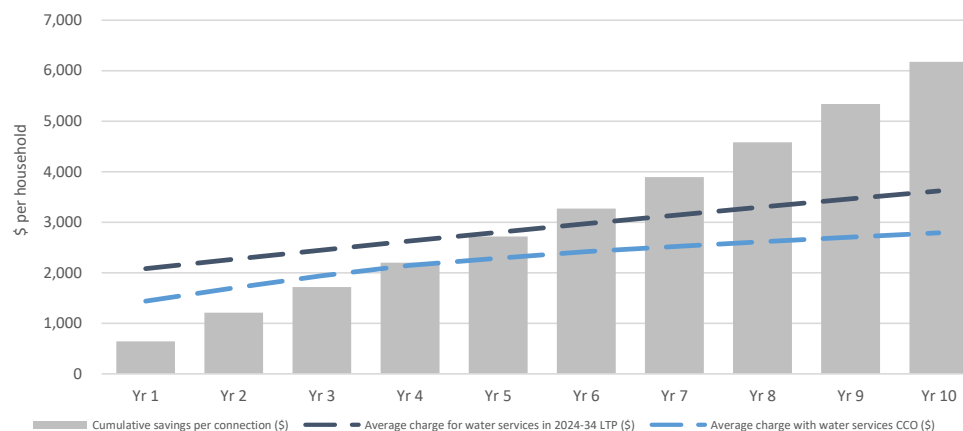
The establishment of a council owned water CCO under Local Water Done Well will create additional borrowing headroom for water services (up to the equivalent of 500% of water services revenues).

This additional borrowing headroom could be used to debt-finance capital investment and reduce the charges required to fund the investment over the LTP period.

Council 'X' could deliver its proposed \$187.5m of water services investment over ten years at significantly lower prices to consumers.

Additional debt financing is utilised – with net debt to revenue peaking at 408% (compared to 257% in LTP due to council borrowing constraints and existing financing strategies).

A water services CCO could deliver the same level of investment for lower charges to consumers



Water CCO Price/Revenue Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Average charge: water services in LTP	\$	2,083	2,269	2,451	2,629	2,803	2,973	3,140	3,303	3,463	3,619	28,734
Average charge: water CCO	\$	1,439	1,701	1,944	2,146	2,287	2,418	2,519	2,614	2,704	2,789	22,561
Savings per connection: water CCO	\$	645	568	507	483	516	555	621	689	759	830	6,173
Cumulative savings per connection	\$	645	1,213	1,719	2,202	2,718	3,273	3,894	4,584	5,343	6,173	
Net debt to revenue	%	337%	373%	397%	408%	408%	407%	401%	396%	390%	385%	
Free funds from operations to debt	%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	
Water revenues – per 2024-34 LTP	\$m	25.0	27.5	30.0	32.5	35.0	37.5	40.0	42.5	45.0	47.5	362.5
Water revenues – water CCO	\$m	17.3	20.6	23.8	26.5	28.6	30.5	32.1	33.6	35.1	36.6	284.7
Revenue reduction	\$m	7.7	6.9	6.2	6.0	6.4	7.0	7.9	8.9	9.9	10.9	77.8
Revenue reduction %	%	31%	25%	21%	18%	18%	19%	20%	21%	22%	23%	21%
Number of connections	#k	12.0	12.1	12.2	12.4	12.5	12.6	12.7	12.9	13.0	13.1	

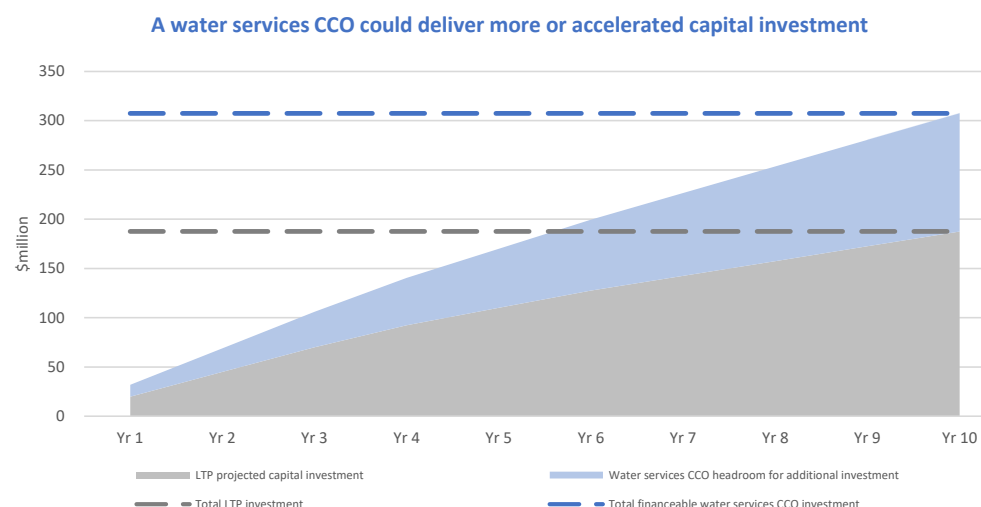
A water CCO could increase or accelerate investment at currently projected water charges

At currently projected revenues, an extra \$120m of investment could be delivered (64% more); or proposed investment could be accelerated.

Council 'X' is proposing to deliver \$187.5m capital investment into water services infrastructure over ten years.

The additional borrowing headroom for a water CCO means that at current projected revenues, Council 'X' could fund a total of \$307.5m over ten year, an increase of \$120m (+64%).

This additional fundable investment is shown in blue in the chart opposite, which represents potential investment uplift headroom. Alternatively, Council 'X' could theoretically finance its entire LTP capex requirement of \$187.5 million by Year 6 – an acceleration 4 years (almost twice as fast).



Water CCO Investment Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Water services revenues per LTP	\$m	25.0	27.5	30.0	32.5	35.0	37.5	40.0	42.5	45.0	47.5	362.5
Investment per LTP	\$m	20.0	25.0	25.0	22.5	17.5	17.5	15.0	15.0	15.0	15.0	187.5
Net debt per LTP	\$m	50.0	60.0	70.0	80.0	90.0	95.0	90.0	85.0	75.0	65.0	
Net debt to revenue per LTP	%	200%	218%	233%	246%	257%	253%	225%	200%	167%	137%	
Incremental investment for CCO	\$m	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	120.0
Total funded investment for CCO	\$m	32.0	37.0	37.0	34.5	29.5	29.5	27.0	27.0	27.0	27.0	307.5
Uplift in investment achievable	%	60%	48%	48%	53%	69%	69%	80%	80%	80%	80%	64%
Net debt for CCO if incremental investment is delivered	%	248%	302%	345%	380%	407%	416%	398%	382%	355%	331%	

Establishing a water CCO would increase the owning council's borrowing headroom

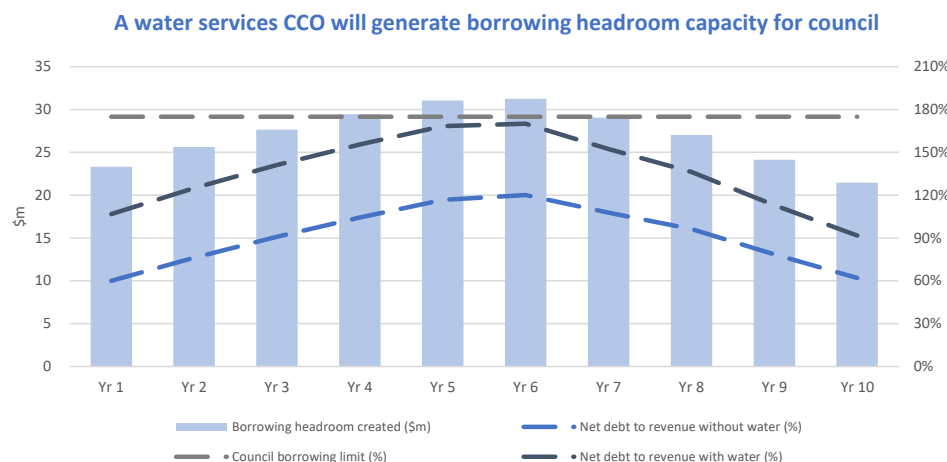
The establishment of a water CCO would enable Council X to pay down its current water services debt. This will create up to \$30m of new borrowing headroom for Council 'X' against the status quo.

This new headroom could allow general rates to be reduced, using this new borrowing capacity to fund non-water infrastructure investment that is currently projected to be rates funded.

The water CCO will borrow through LGFA to pay Council 'X', enabling Council 'X' to repay its debt attributable to water services activities.

This reduces Council 'X's leverage, creating initial 'day 1' borrowing headroom of \$23.3m.

As the water CCO's debt is treated as separate by LGFA, Council 'X' is also unburdened by future water services borrowing requirements (covered by a guarantee or uncalled capital only).



Council 'X' Borrowing Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Council 'X' borrowing limit	%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%
Net debt to revenue including water	%	107%	125%	141%	156%	168%	170%	152%	136%	113%	92%
Net debt to revenue excluding water	%	60%	76%	91%	104%	117%	120%	108%	96%	79%	62%
Net debt including water	\$m	80.0	100.0	120.0	140.0	160.0	170.0	160.0	150.0	130.0	110.0
Less: CCO water borrowings	\$m	(50.0)	(60.0)	(70.0)	(80.0)	(90.0)	(95.0)	(90.0)	(85.0)	(75.0)	(65.0)
Council 'X' net debt post transfer	\$m	30.0	40.0	50.0	60.0	70.0	75.0	70.0	65.0	55.0	45.0
New borrowing headroom created	\$m	23.3	25.6	27.6	29.4	31.1	31.3	29.0	27.0	24.1	21.5
Water CCO net debt	#k	50.0	60.0	70.0	80.0	90.0	95.0	90.0	85.0	75.0	65.0

Council 'X' has opted to utilise new headroom to fund investment and decrease projected rates rises

The new borrowing headroom can be used to fund non-water capital investment, which decreases the amount of rates funding required for this investment.

This results in a lower rates requirement and enables a reduction in planned rates increases.

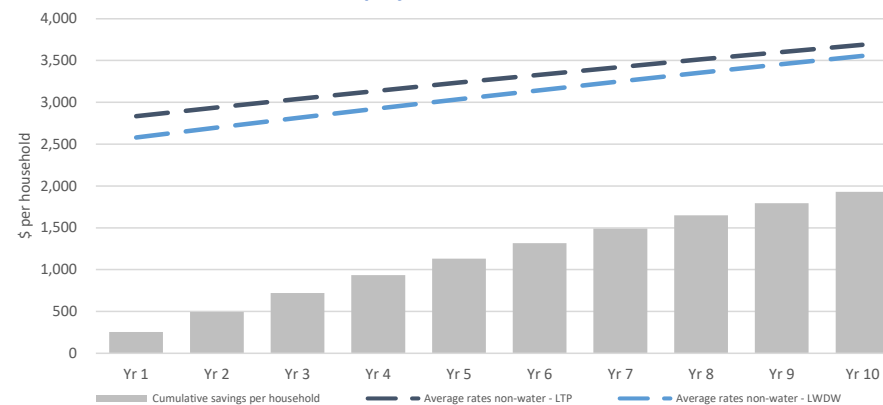
Council 'X' has opted to utilise the new borrowing headroom to fund its non-water investment in the LTP.

Council 'X' has determined that \$40m of non-water capital investment that is currently rates funded can now be debt funded.

This leads to a corresponding decrease in non-water rates required.

Ratepayers will save on average \$1,929 + GST over ten years on their rates bills.

New council borrowing headroom used to fund capital investment, reducing projected rates rates



Council 'X' Non-Water Projections		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Total non-water council revenues LTP	\$m	50.0	52.5	55.0	57.5	60.0	62.5	65.0	67.5	70.0	72.5
Total non-water rates (90%) LTP	\$m	42.5	44.5	46.5	48.5	50.5	52.5	54.5	56.5	58.5	60.5
Average non-water rates bill LTP	\$	2,833	2,937	3,039	3,138	3,235	3,330	3,423	3,513	3,602	3,688
Net debt to revenue excl. water LTP	%	60%	76%	91%	104%	117%	120%	108%	96%	79%	62%
Total non-water council revenues NEW	\$m	46.2	48.9	51.5	54.2	56.9	59.6	62.3	64.9	67.6	70.3
Total non-water rates (90%) NEW	\$m	38.7	40.9	43.0	45.2	47.4	49.6	51.8	53.9	56.1	58.3
Average non-water rates bill NEW	\$	2,579	2,697	2,813	2,926	3,037	3,145	3,251	3,354	3,455	3,554
Net debt to revenue excl. water NEW	%	74%	98%	120%	140%	158%	166%	157%	149%	135%	121%
Savings to average household	\$	255	240	226	212	199	185	172	159	147	134
Cumulative savings to ave household	\$	255	495	721	933	1,132	1,317	1,489	1,648	1,795	1,929
Savings % of current rates projections	%	9%	8%	7%	7%	6%	6%	5%	5%	4%	4%

Savings to Council 'X' ratepayers enabled through the establishment of a water CCO

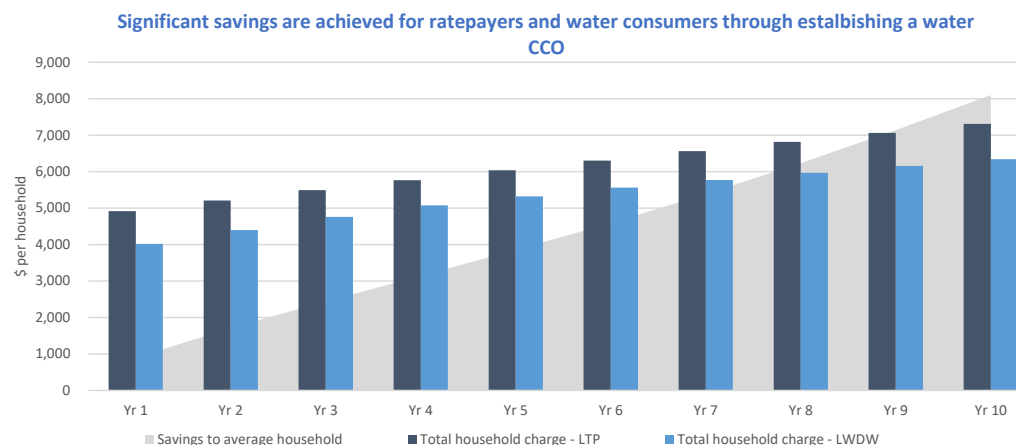
Council 'X' has reset its water charges and rates requirements, delivering savings of \$8,102 per household over ten years, against LTP projected rates.

This saves each household 12-18% off their rates bill every year.

Council 'X' has determined that its existing water investment profile is appropriate and will pass on savings to ratepayers/water consumers. Council 'X' has also utilised new debt headroom to reduce non-water rates.

This means that both water charges and council rates can be reduced, saving ratepayers 12-18% each year over ten years, and \$8,102 per household in total over ten years.

In Year 1, rates can be decreased by 10% to provide immediate rates relief. This then requires increases of 9%, 8% and 7%, before reducing to 3% per annum towards the end of the LTP period.



Next steps for councils

Even if current water services delivery settings are financially viable, councils should **continue to investigate their water services financial projections and financial strategies to realise the full set of benefits** that Local Water Done Well and the LGFA financing solution for water CCOs can provide.

Each council should look to **strike an effective balance between levels of investment, debt financing and affordability** for consumers when developing a Water Services Delivery Plan, confirming financial projections and developing implementation plans.

Based on a review of published LTP information, there is **significant scope for debt financing to be more effectively utilised to increase and/or accelerate investment, or to reduce charges for consumers.**

Each council should also review the projected water services investment included in their 2024-34 LTP (or other council projections) against the minimum requirements required in Water Services Delivery Plans guidance and look to identify any potential savings or efficiencies that could be gained to reduce the total investment requirement.

Savings to investment programmes could be identified through:

- Councils working together on joint investment programmes, including identifying new opportunities to deliver regional solutions at lower cost, rephasing of investment, or developing efficient joint procurement approaches to lower costs; and/or
- Working through the impact that expected changes to regulatory standards signalled by the Government will have on water services investment requirements.

To learn more

The Department can support you with financial projections and modelling to demonstrate the impact of additional borrowing on your water services delivery. We are currently providing this support to both individual councils and groups of councils investigating multi-council owned delivery model options.

Please contact us at wmdp@dia.govt.nz.

The LGFA are available to discuss any questions you have, including credit criteria requirements for water CCOs. Please contact Andrew Michl (andrew.michl@lgfa.co.nz).

In-House Option - Financial Forecasts 2024-34

Funding impact statement (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Sources of operating funding											
General rates	0	0	0	0	0	0	0	0	0	0	0
Targeted rates	85,129	97,896	112,801	129,477	136,917	149,281	159,270	168,373	177,147	186,507	1,402,798
Subsidies and grants for operating purposes	41	38	39	41	42	43	44	45	46	47	426
Internal charges and overheads recovered	635	1,988	1,400	0	0	0	0	0	0	0	4,023
Fees and charges	7,629	8,748	9,115	9,480	9,840	10,175	10,480	10,774	11,021	11,275	98,537
Total operating funding	93,434	108,670	123,355	138,998	146,799	159,499	169,794	179,192	188,214	197,829	1,505,784
Applications of operating funding											
Payments to staff and suppliers	44,685	48,383	50,607	52,305	55,300	58,669	62,059	65,147	68,088	70,867	576,110
Finance costs	12,881	12,932	13,851	14,726	15,670	20,819	23,011	25,031	26,987	29,758	195,666
Internal charges and overheads applied	4,953	5,337	5,497	5,646	5,788	5,927	6,062	6,196	6,326	6,459	58,191
Other operating funding applications	0	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	62,519	66,652	69,955	72,677	76,758	85,415	91,132	96,374	101,401	107,084	829,967
Surplus/(deficit) of operating funding	30,915	42,018	53,400	66,321	70,041	74,084	78,662	82,818	86,813	90,745	675,817
Sources of capital funding											
Subsidies and grants for capital expenditure	240	328	173	0	0	0	0	0	0	0	741
Development and financial contributions	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	25,590
Increase/(decrease) in debt	46,409	36,857	28,455	14,000	31,792	40,338	47,293	33,556	44,650	66,206	389,556
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	49,208	39,744	31,187	16,559	34,351	42,897	49,852	36,115	47,209	68,765	415,887
Applications of capital funding											
Capital expenditure - to meet additional demand	8,245	11,315	9,855	12,882	13,205	15,806	14,343	13,739	17,894	22,045	139,329
Capital expenditure - to improve levels of services	37,104	18,071	28,967	40,738	65,012	68,298	57,936	56,894	52,430	37,665	463,115
Capital expenditure - to replace existing assets	34,774	53,125	44,541	35,560	28,454	34,612	49,629	44,089	65,519	102,354	492,657
Increase/(decrease) in reserves	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in investments	0	(749)	1,224	(6,300)	(2,279)	(1,735)	6,606	4,211	(1,821)	(2,554)	(3,397)
Total applications of capital funding	80,123	81,762	84,587	82,880	104,392	116,981	128,514	118,933	134,022	159,510	1,091,704
Surplus/(deficit) of capital funding	(30,915)	(42,018)	(53,400)	(66,321)	(70,041)	(74,084)	(78,662)	(82,818)	(86,813)	(90,745)	(675,817)
Funding balance	0	0	0	0	0	0	0	0	0	0	0
Statement of comprehensive revenue and expense (\$000)											
Operating revenue	93,434	108,670	123,355	138,998	146,799	159,499	169,794	179,192	188,214	197,829	1,505,784
Other revenue	2,799	2,887	2,732	2,559	2,559	2,559	2,559	2,559	2,559	2,559	26,331
Total revenue	96,233	111,557	126,087	141,557	149,358	162,058	172,353	181,751	190,773	200,388	1,532,115
Operating expenses	44,685	48,383	50,607	52,305	55,300	58,669	62,059	65,147	68,088	70,867	576,110
Finance costs	12,881	12,932	13,851	14,726	15,670	20,819	23,011	25,031	26,987	29,758	195,666
Overheads and support costs	4,953	5,337	5,497	5,646	5,788	5,927	6,062	6,196	6,326	6,459	58,191
Depreciation & amortisation	63,522	62,354	63,025	66,323	70,041	74,084	78,661	82,818	86,813	90,745	738,386
Total expenses	126,041	129,006	132,980	139,000	146,799	159,499	169,793	179,192	188,214	197,829	1,568,353
Net surplus / (deficit)	(29,808)	(17,449)	(6,893)	2,557	2,559	2,559	2,560	2,559	2,559	2,559	(36,238)
Revaluation of infrastructure assets	0	0	67,293	63,929	57,199	50,470	47,105	38,694	38,694	37,011	400,394
Total comprehensive income	(29,808)	(17,449)	60,400	66,486	59,758	53,029	49,665	41,253	41,253	39,570	364,156
Cash surplus / (deficit) from operations (excl depreciation)	33,714	44,905	56,132	68,880	72,600	76,643	81,221	85,377	89,372	93,304	702,148

In-House Option - Financial Forecasts 2024-34

Statement of cashflows (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Cashflows from operating activities										
Cash surplus / (deficit) from operations	33,714	44,905	56,132	68,880	72,600	76,643	81,221	85,377	89,372	93,304
[other items]			492	(328)	598	642	633	575	538	507
Net cashflows from operating activities	33,714	44,905	56,624	68,552	73,198	77,285	81,854	85,952	89,910	93,811
Cashflows from investment activities										
Capital expenditure	(80,123)	(82,511)	(83,363)	(89,180)	(106,671)	(118,716)	(121,908)	(114,722)	(135,843)	(162,064)
Net cashflows from investment activities	(80,123)	(82,511)	(83,363)	(89,180)	(106,671)	(118,716)	(121,908)	(114,722)	(135,843)	(162,064)
Cashflows from financing activities										
New borrowings	46,409	36,857	28,455	14,000	31,792	40,338	47,293	33,556	44,650	66,206
Repayment of borrowings										
Net cashflows from financing activities	46,409	36,857	28,455	14,000	31,792	40,338	47,293	33,556	44,650	66,206
Net increase/(decrease) in cash and cash equivalents	0	(749)	1,716	(6,628)	(1,681)	(1,093)	7,239	4,786	(1,283)	(2,047)
Cash and cash equivalents at beginning of year	4,500	4,500	3,751	5,467	(1,161)	(2,842)	(3,934)	3,305	8,091	6,808
Cash and cash equivalents at end of year	4,500	3,751	5,467	(1,161)	(2,842)	(3,934)	3,305	8,091	6,808	4,762

Statement of financial position (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Assets										
Cash and cash equivalents	4,500	3,751	5,467	(1,161)	(2,842)	(3,934)	3,305	8,091	6,808	4,762
Other current assets	1,436	1,436	1,217	858	876	893	910	925	940	955
Infrastructure assets	1,808,475	1,828,632	1,916,263	2,003,049	2,096,878	2,191,980	2,282,332	2,352,930	2,440,653	2,548,983
Other non-current assets	150,533	151,956	153,379	154,802	156,225	157,648	159,071	160,494	161,917	163,340
Total assets	1,964,944	1,985,775	2,076,326	2,157,548	2,251,137	2,346,587	2,445,618	2,522,440	2,610,319	2,718,040
Liabilities										
Borrowings - current portion	0	0	0	0	0	0	0	0	0	0
Other current liabilities	12,583	12,583	12,852	12,159	12,772	13,429	14,075	14,664	15,214	15,733
Borrowings - non-current portion	287,087	323,944	352,399	366,399	398,191	438,529	485,822	519,378	564,028	630,234
Other non-current liabilities	301	301	306	312	315	318	321	324	326	329
Total liabilities	299,971	336,828	365,556	378,870	411,278	452,275	500,218	534,365	579,568	646,296
Net assets	1,664,973	1,648,947	1,710,770	1,778,678	1,839,859	1,894,311	1,945,400	1,988,075	2,030,751	2,071,744
Equity										
Revaluation reserve	638,446	638,446	705,739	769,667	826,866	877,336	924,442	963,135	1,001,829	1,038,840
Other reserves	1,026,527	1,010,501	1,005,031	1,009,011	1,012,993	1,016,975	1,020,958	1,024,940	1,028,922	1,032,904
Total equity	1,664,973	1,648,947	1,710,770	1,778,678	1,839,859	1,894,311	1,945,400	1,988,075	2,030,751	2,071,744

CCO Option - Financial Forecasts 2024-34

Funding impact statement (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total	LTP	Difference
Sources of operating funding													
Targeted rate reduction in CCO	0	(7,632)	(14,159)	(22,110)	(18,886)	(15,092)	(12,803)	(11,488)	(8,394)	(3,414)	(113,977)	0	(113,977)
Targeted rates	85,129	97,896	112,801	129,477	136,917	149,281	159,270	168,373	177,147	186,507	1,402,798	1,402,798	0
Subsidies and grants for operating purposes	41	38	39	41	42	43	44	45	46	47	426	426	0
Internal charges and overheads recovered	635	1,988	1,400	0	0	0	0	0	0	0	4,023	4,023	0
Fees and charges	7,629	8,748	9,115	9,480	9,840	10,175	10,480	10,774	11,021	11,275	98,537	98,537	0
Total operating funding	93,434	101,038	109,196	116,888	127,913	144,407	156,991	167,704	179,820	194,415	1,391,807	1,505,784	(113,977)
Applications of operating funding													
Payments to staff and suppliers	44,685	51,579	53,512	54,783	57,932	61,311	64,774	67,933	70,937	73,780	601,226	576,110	25,116
Finance costs	12,881	12,790	14,565	16,396	18,503	25,273	28,328	31,014	33,773	37,357	230,879	195,666	35,213
Internal charges and overheads applied	4,953	3,741	3,854	3,957	4,057	4,154	4,249	4,342	4,434	4,527	42,268	58,191	(15,923)
Other operating funding applications	0	0	0	0	0	0	0	0	0	0	0	0	0
Total applications of operating funding	62,519	68,110	71,931	75,136	80,492	90,738	97,351	103,289	109,144	115,664	874,373	829,967	44,406
Surplus/(deficit) of operating funding	30,915	32,928	37,265	41,752	47,421	53,670	59,640	64,415	70,676	78,751	517,434	675,817	(158,383)
Sources of capital funding													
Subsidies and grants for capital expenditure	240	328	173	0	0	0	0	0	0	0	741	741	0
Development and financial contributions	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	2,559	25,590	25,590	0
Increase/(decrease) in debt	46,409	42,196	43,366	44,869	56,691	62,487	59,709	47,748	62,608	80,754	546,836	389,556	157,280
Gross proceeds from sales of assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Other dedicated capital funding	0	0	0	0	0	0	0	0	0	0	0	0	0
Total sources of capital funding	49,208	45,083	46,098	47,428	59,250	65,046	62,268	50,307	65,167	83,313	573,167	415,887	157,280
Applications of capital funding													
Capital expenditure - to meet additional demand	8,245	11,315	9,855	12,882	13,205	15,806	14,343	13,739	17,894	22,045	139,329	139,329	0
Capital expenditure - to improve levels of services	37,104	18,071	28,967	40,738	65,012	68,298	57,936	56,894	52,430	37,665	463,115	463,115	0
Capital expenditure - to replace existing assets	34,774	53,125	44,541	35,560	28,454	34,612	49,629	44,089	65,519	102,354	492,657	492,657	0
Increase/(decrease) in reserves	0	(4,500)	0	(0)	(0)	(0)	0	(0)	0	0	(4,500)	0	(4,500)
Increase/(decrease) in investments	0	0	0	0	0	0	0	0	0	0	0	(3,397)	3,397
Total applications of capital funding	80,123	78,011	83,363	89,180	106,671	118,716	121,908	114,722	135,843	162,064	1,090,601	1,091,704	(1,103)
Surplus/(deficit) of capital funding	(30,915)	(32,928)	(37,265)	(41,752)	(47,421)	(53,670)	(59,640)	(64,415)	(70,676)	(78,751)	(517,434)	(675,817)	158,383
Funding balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Statement of comprehensive revenue and expense (\$000)													
Operating revenue	93,434	101,038	109,196	116,888	127,913	144,407	156,991	167,704	179,820	194,415	1,391,807		
Other revenue	2,799	2,887	2,732	2,559	2,559	2,559	2,559	2,559	2,559	2,559	26,331		
Total revenue	96,233	103,925	111,928	119,447	130,472	146,966	159,550	170,263	182,379	196,974	1,418,138		
Operating expenses	44,685	51,579	53,512	54,783	57,932	61,311	64,774	67,933	70,937	73,780	601,226		
Finance costs	12,881	12,790	14,565	16,396	18,503	25,273	28,328	31,014	33,773	37,357	230,879		
Overheads and support costs	4,953	3,741	3,854	3,957	4,057	4,154	4,249	4,342	4,434	4,527	42,268		
Depreciation & amortisation	63,522	62,354	63,025	66,323	70,041	74,084	78,661	82,818	86,813	90,745	738,386		
Total expenses	126,041	130,464	134,956	141,459	150,533	164,822	176,012	186,107	195,957	206,409	1,612,759		
Net surplus / (deficit)	(29,808)	(26,539)	(23,028)	(22,012)	(20,061)	(17,855)	(16,462)	(15,844)	(13,578)	(9,435)	(194,621)		
Revaluation of infrastructure assets	0	0	0	63,929	57,199	50,470	47,105	38,694	38,694	37,011	400,394		
Total comprehensive income	(29,808)	(26,539)	44,265	41,916	37,138	32,615	30,644	22,850	25,116	27,577	205,773		
Cash surplus / (deficit) from operations (excl depreciation)	33,714	35,815	39,997	44,311	49,980	56,229	62,199	66,974	73,235	81,310	543,765		

CCO Option - Financial Forecasts 2024-34

Statement of cashflows (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Cashflows from operating activities										
Cash surplus / (deficit) from operations	33,714	35,815	39,997	44,311	49,980	56,229	62,199	66,974	73,235	81,310
[other items]			0	0	0	0	0	0	0	0
Net cashflows from operating activities	33,714	35,815	39,997	44,311	49,980	56,229	62,199	66,974	73,235	81,310
Cashflows from investment activities										
Capital expenditure	(80,123)	(82,511)	(83,363)	(89,180)	(106,671)	(118,716)	(121,908)	(114,722)	(135,843)	(162,064)
Net cashflows from investment activities	(80,123)	(82,511)	(83,363)	(89,180)	(106,671)	(118,716)	(121,908)	(114,722)	(135,843)	(162,064)
Cashflows from financing activities										
New borrowings	46,409	75,124	80,631	86,621	104,112	116,157	119,349	112,163	133,284	159,505
Repayment of borrowings	0	(32,928)	(37,265)	(41,752)	(47,421)	(53,670)	(59,641)	(64,415)	(70,676)	(78,752)
Net cashflows from financing activities	46,409	42,196	43,366	44,869	56,691	62,487	59,709	47,748	62,608	80,754
Net increase/(decrease) in cash and cash equivalents	0	(4,500)	0	(0)	(0)	(0)	0	(0)	0	0
Cash and cash equivalents at beginning of year	4,500	4,500	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Cash and cash equivalents at end of year	4,500	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

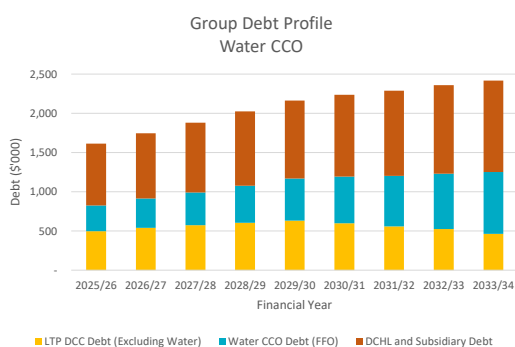
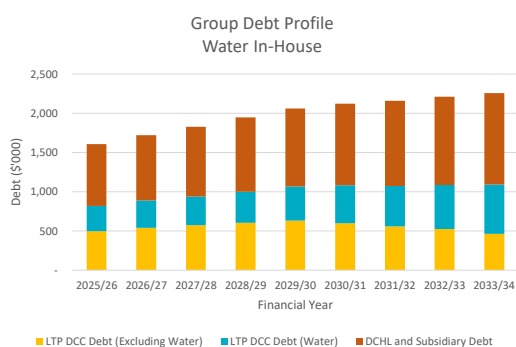
Statement of financial position (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Assets										
Cash and cash equivalents	4,500	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other current assets	0	0	0	0	0	0	0	0	0	0
Infrastructure assets	1,809,025	1,829,182	1,916,813	2,003,599	2,097,428	2,192,530	2,282,882	2,353,480	2,441,203	2,549,533
Other non-current assets (land assets)	150,533	151,956	153,379	154,802	156,225	157,648	159,071	160,494	161,917	163,340
Total assets	1,964,058	1,981,138	2,070,192	2,158,401	2,253,653	2,350,178	2,441,953	2,513,973	2,603,120	2,712,873
Liabilities										
Borrowings - current portion	0	0	0	0	0	0	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0	0	0	0
Borrowings - non-current portion	287,087	329,283	372,649	417,518	474,209	536,696	596,405	644,153	706,761	787,514
Other non-current liabilities	0	0	0	0	0	0	0	0	0	0
Total liabilities	287,087	329,283	372,649	417,518	474,209	536,696	596,405	644,153	706,761	787,514
Net assets	1,676,971	1,651,855	1,697,543	1,740,883	1,779,444	1,813,481	1,845,548	1,869,821	1,896,359	1,925,359
Equity										
Revaluation reserve	638,446	638,446	705,739	769,667	826,866	877,336	924,442	963,135	1,001,829	1,038,840
Other reserves	887,992	861,454	838,426	816,413	796,352	778,497	762,035	746,192	732,614	723,179
Other reserves - land assets	150,533	151,956	153,379	154,802	156,225	157,648	159,071	160,494	161,917	163,340
Total equity	1,676,971	1,651,855	1,697,543	1,740,883	1,779,444	1,813,481	1,845,548	1,869,821	1,896,359	1,925,359

CCO Option - Comparison Tables 2024-34

Next LTP											
Average charge per connection including GST	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	Total
1. In-House Option	\$2,024	\$2,314	\$2,654	\$3,029	\$3,194	\$3,469	\$3,687	\$3,885	\$4,076	\$4,280	\$32,611
2. CCO Option (FFO 10%)	\$2,024	\$2,142	\$2,329	\$2,519	\$2,755	\$3,117	\$3,388	\$3,617	\$3,882	\$4,202	\$29,975
Difference	\$0	\$172	\$325	\$510	\$438	\$352	\$299	\$268	\$194	\$78	\$2,635
Not replicating household charging model. Provided for comparison.											
FFO	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
1. In-House Option	10.9%	13.2%	15.4%	18.4%	17.9%	17.1%	16.4%	16.2%	15.6%	14.6%	
2. CCO Option (FFO 10%)	10.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Debt to revenue	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
1. In-House Option	302%	294%	280%	259%	267%	271%	282%	285%	295%	314%	
2. CCO Option (FFO 10%)	302%	326%	341%	357%	371%	372%	380%	384%	393%	405%	
Council Debt to revenue	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
1. In-House Option	188%	199%	202%	196%	197%	200%	195%	186%	178%	172%	
2. CCO Option (FFO 10%)	147%	163%	168%	166%	164%	166%	152%	137%	122%	103%	
Borrowing limit	280%	280%	280%	280%	280%	280%	280%	280%	280%	280%	
Operating revenue (\$m)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
1. In-House Option	\$93	\$109	\$123	\$139	\$147	\$159	\$170	\$179	\$188	\$198	
2. CCO Option (FFO 10%)	\$93	\$101	\$109	\$117	\$128	\$144	\$157	\$168	\$180	\$194	
Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
1. In-House Option	15.0%	14.3%	14.7%	14.1%	5.4%	8.6%	6.3%	5.4%	4.9%	5.0%	
2. CCO Option (FFO 10%)	15.0%	5.8%	8.7%	8.2%	9.4%	13.1%	8.7%	6.8%	7.3%	8.3%	
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
1. In-House Option	15.0%	31.4%	50.8%	72.1%	81.5%	97.1%	109.5%	120.7%	131.6%	143.2%	
2. CCO Option (FFO 10%)	15.0%	21.7%	32.3%	43.1%	56.5%	77.1%	92.5%	105.5%	120.6%	138.8%	

Dunedin City Council
Group Level Metrics
for the years ended 30 June 2026 - 2034

	Year 1 Budget 2025/26 \$000	Year 2 Budget 2026/27 \$000	Year 3 Budget 2027/28 \$000	Year 4 Budget 2028/29 \$000	Year 5 Budget 2029/30 \$000	Year 6 Budget 2030/31 \$000	Year 7 Budget 2031/32 \$000	Year 8 Budget 2032/33 \$000	Year 9 Budget 2033/34 \$000
Local Government Funding Agency (LGFA)									
Debt to Revenue Metric									
Council with Water in-house LGFA Debt to Revenue	178%	183%	180%	182%	186%	179%	169%	163%	156%
Council excluding Water LGFA Debt to Revenue	133%	142%	144%	144%	146%	131%	114%	100%	81%
Group with Water in-house LGFA Debt to Revenue	194%	196%	196%	197%	200%	198%	194%	192%	188%
Group excluding Water LGFA Debt to Revenue	177%	180%	183%	184%	185%	180%	175%	170%	161%
Water Single CCO LGFA Debt to Revenue	331%	345%	357%	371%	372%	380%	384%	393%	405%
Interest to Revenue Metric									
Council Water in-house LGFA Interest to Revenue	8%	8%	8%	8%	10%	10%	10%	9%	9%
Council excluding Water LGFA Interest to Revenue	7%	7%	7%	7%	9%	8%	8%	7%	6%
Group with Water in-house LGFA Interest to Revenue	9%	8%	9%	9%	10%	10%	9%	9%	9%
Group excluding Water LGFA Interest to Revenue	9%	8%	8%	8%	9%	9%	9%	8%	8%
Water Single CCO LGFA Interest to Revenue	13%	13%	14%	14%	18%	18%	18%	19%	19%
FFO Metric									
Water Single CCO LGFA FFO to Debt	10%	10%	10%	10%	10%	10%	10%	10%	10%
Water Single CCO LGFA FFO Interest Cover	2.6	2.6	2.5	2.6	2.1	2.1	2.1	2.1	2.1
Council Financial Strategy (CFS)									
Council with Water in-house CFS Debt to Revenue	200%	206%	201%	203%	206%	198%	188%	181%	174%
Council excluding Water CFS Debt to Revenue	167%	176%	177%	176%	177%	161%	143%	128%	109%
Council Financial Strategy Limit (%)	250%	250%	250%	250%	250%	250%	250%	250%	250%
Council Water in-house CFS Limit (\$)	1,021	1,083	1,165	1,233	1,297	1,363	1,430	1,497	1,571
Council excluding Water CFS Limit (\$)	743	768	807	856	888	929	972	1,017	1,067
Council Water in-house CFS Headroom (\$)	203	192	228	234	230	281	355	413	480
Council excluding Water CFS Headroom (\$)	248	227	235	253	258	331	415	494	603
Council Additional Debt Headroom (\$)	44	35	7	19	28	49	59	82	124
Debt									
Council Debt Water In-House	817	891	937	999	1,066	1,082	1,074	1,085	1,092
Council Debt excluding Water	495	540	573	603	630	598	557	523	463
Water CCO Debt	329	373	418	474	537	596	644	707	788
Group Debt Water in-house	1,606	1,723	1,828	1,947	2,061	2,122	2,161	2,212	2,257
Group Debt Water as a Single CCO	1,614	1,745	1,881	2,024	2,161	2,235	2,288	2,357	2,416
Annual Rate Increases									
Council annual rate increase excluding Water	8%	7%	7%	8%	4%	6%	6%	6%	7%
Council annual rate increase Water only	15%	15%	15%	6%	9%	7%	6%	5%	5%
Overall annual rate increase (per draft 9 year plan)	10%	10%	10%	7%	6%	6%	6%	6%	6%



*The group (DCHL and Subsidiaries) metrics are based on previous modelling and assumptions used for the Aurora Energy Limited Options Report in September 2024.

FFO margin comparison

In comparison to the In-House Option:

At 10% FFO:

- Operating revenue is lower by \$114 million.
- Total debt is higher by \$157 million.
- Interest expense is higher by \$35 million.
- By 2033/34 the In-House option has a higher average charge than the CCO option, but the gap is closing.

At 8% FFO:

- Operating revenue is lower by \$171 million.
- Total debt is higher by \$228 million.
- Interest expense is higher by \$49 million.
- By 2033/34 the In-House Option has a higher average charge than the CCO Option.

At 12% FFO:

- Operating revenue is lower by \$65 million.
- Total debt is higher by \$95 million.
- Interest expense is higher by \$26 million.
- By 2033/34 the CCO Option has a higher average charge than the In-House Option.

Comparative average charges under each option with FFO sensitivity.

Average charge per connection (including GST)	In-House	CCO 10% FFO	Difference vs. In-House	CCO 8% FFO	Difference vs. In-House	CCO 12% FFO	Difference vs. In-House
24/25	\$2,024	\$2,024	\$0	\$2,024	\$0	\$2,024	\$0
25/26	\$2,314	\$2,142	\$172	\$1,999	\$314	\$2,280	\$34
26/27	\$2,654	\$2,329	\$325	\$2,184	\$469	\$2,463	\$191
27/28	\$3,029	\$2,519	\$510	\$2,374	\$655	\$2,650	\$379
28/29	\$3,194	\$2,755	\$439	\$2,606	\$588	\$2,887	\$307
29/30	\$3,469	\$3,117	\$352	\$2,968	\$501	\$3,245	\$224
30/31	\$3,687	\$3,388	\$299	\$3,238	\$450	\$3,515	\$173
31/32	\$3,885	\$3,617	\$268	\$3,471	\$414	\$3,737	\$148
32/33	\$4,076	\$3,882	\$194	\$3,735	\$341	\$4,000	\$75
33/34	\$4,280	\$4,202	\$78	\$4,048	\$232	\$4,326	(\$46)
Total	\$32,611	\$29,975	\$2,636	\$28,647	\$3,963	\$31,127	\$1,484